

It's A Question of 'When' the Economy Capsizes

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The day was 18 October 1961.

New York's Museum of Modern Art (MOMA) opened its new exhibition — 'The Last Works of Henri Matisse'.

One of the more noted works from the late French artist was *Le Bateau* (The Boat).

The work, made from paper cuttings, depicts a sailing boat on a gusty day. The lower half of the painting is a reflection of the boat a



Source: French Institute SA
[\[Click to open in new window\]](#)

For 47 days, more than 100,000 people filed in to MOMA to view Matisse's exhibition.

On the 48th day, Genevieve Habert — on her third visit to the exhibition — looked at the catalogue and noticed the picture was hang

This is how the artwork should have looked:



Source: French Institute SA
[\[Click to open in new window\]](#)

What's so amazing about this story is that the art critics, the museum curators, the exhibition's director and even Matisse's own son

'The Boat' was capsized for nearly two months before it was turned right-side up.

This story is a real life version of the fabled 'The Emperor's New Clothes'.

Everyone nods in agreement out of fear or ignorance or apathy.

Then one person asks 'why?' and the embarrassment is revealed.

The other day I listened to Foreign Minister Julie Bishop speaking at the arrival of Qantas' new Boeing 787 Dreamliner.

Ms Bishop spoke with obvious pride about [Australia's](#) 26-year run of uninterrupted economic growth. In her opinion, this is an achievement.

Her comments on our so-called economic success were made out of fear or ignorance or apathy.

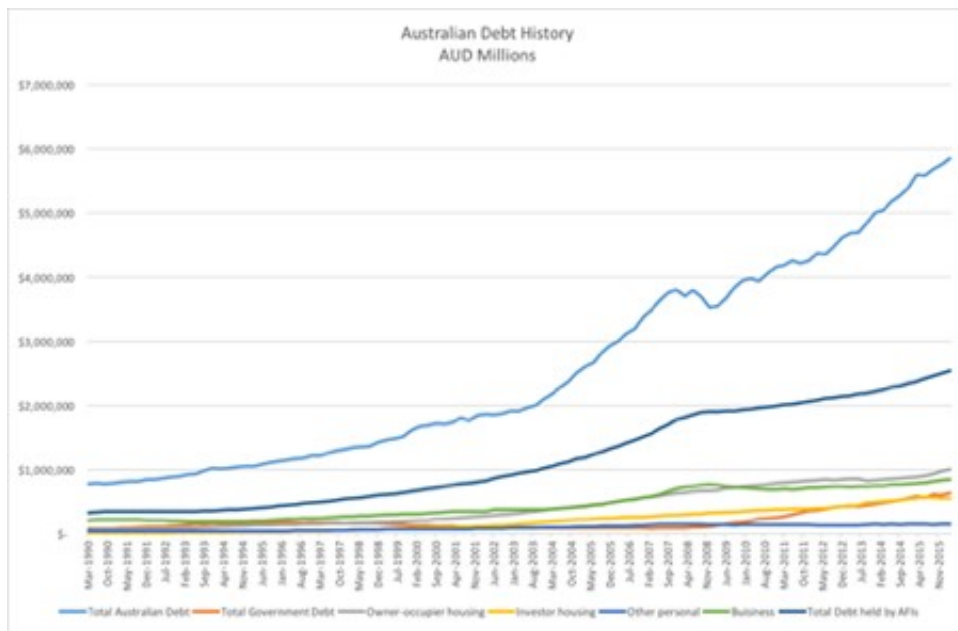
Was she too scared to tell the truth about the link in record household indebtedness and GDP growth?

Was she ignorant of it?

Or was it just apathy?

All that seemingly matters is that the GDP needle is moving into the positive — forget about the cause.

This picture is what's hanging in front of us — for a clearer view, click [here](#).



Source: Australia's Debt Clock
[\[Click to open in new window\]](#)

Elected officials, economists, banking executives, investment professionals, financial commentators and the majority of the public obviously see this as an object of beauty.

Something wondrous to behold. A picture that warrants a puffing of our national chest.

I see something entirely different.

If you could flip this chart over, it would show the extent of the hole we've dug for ourselves.

Extracting ourselves from this crater is not possible without great pain, loss and personal sacrifice.

We know this from the experiences of those other countries — Japan and Ireland — that were once heralded as economic successes.

Our Economy is at Risk of Capsizing

Our trumpeted economic success is fake.

Understanding this will save you the embarrassment (and heartache) of gaining enlightenment after the event.

The [debt](#) history chart was included in the following edited extract from my latest book, *How Much Bull Can Investors Bear?*:

'In 2010/11, Australia's GDP was \$1.32 trillion. Five years later, in 2015/16, our economic output has grown to \$1.67 trillion.

'Australia's economy has expanded \$350 billion over the past five years. On the surface it looks like a cause for celebration. But

'In 2010, Australia's national debt (public, corporate and private) totalled around \$4 trillion. The latest national debt tally is slightl

'We've added \$2 trillion to our national debt to create economic growth of \$350 billion. It's taken nearly \$6 of debt to generate \$

'The need for more and more debt to produce GDP is a trend that's been ongoing since 1990.

'The numbers on the debt chart are a little fuzzy, but they happen to start back in 1990 — when the so-called miracle economy b

'In 1990, Australia's GDP was \$400 billion. Over the past 25 years, it's taken \$5 trillion of debt to generate an additional \$1.27 tr

'Notice the trend?

'Over 25 years the debt accumulated to GDP growth ratio is 4:1...over the past five years that ratio has jumped to 6:1. There is

'The prospect of this is not great — unless interest rates go even lower to further reduce the cost of debt.

'Even then, the trend is unsustainable. Yet, as a nation, we are told to celebrate our economic success, when in reality that succ

'People genuinely believe our economy is some sort of miracle, when it is nothing more than a debt-hazed mirage. Based on tha

'Stability creates instability. The greatest risks are when people do not perceive risk. 'More and more debt accumulation over the

'All this added debt comes with more than just the cost of an interest payment. According to property site Domain:

"Australians are failing to pay off their homes by retirement and facing their twilight years with growing sums of mortgage del

"Those in the 65 to 80 age bracket owed an average \$158,500 on their mortgage in 2015, according to ING Direct figures ba

'The cost is carrying debt into your golden years.

'This simply did not happen a generation ago. Banks did not permit borrowing beyond your working years. These days, in the dr

'It may be that some of the debt burden has been accumulated since retiring — from a reverse mortgage facility.

'Whatever the composition of the debt, the fact remains that we, as a nation, are addicted to debt to finance lives we cannot affo

'This should be cause for national shame — not celebration.'

Oblivious to the Dangers

Unfortunately, most people are oblivious to the dangers that lie in wait.

In a recent Bloomberg interview, Dr Richard Thaler (Nobel Prize winner in Economic Science) made this statement:

'We seem to be living in the riskiest moment of our lives, and yet the stock market seems to be napping. I admit to not understanding it.'

When the [market](#) eventually asks why valuations are so high when economic activity is so lacklustre, millions of people are

going to be woken from their slumber.

And when they do, they'll be asking those that should have known better why they let this happen.

It is not a matter of *if* but *when* the economy capsizes.

To obtain your place in the life raft provided by *The Gowdie Letter*, please [go here](#).

Regards,

Vern Gowdie,

Editor, *The Gowdie Letter*

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Vern Gowdie Editor at Markets %26amp; Money

Vern Gowdie has been involved in financial planning in Australia since 1986. In 1999, Personal Investor magazine ranked Vern as one of the top 100 financial planners in Australia.

His previous firm, Gowdie Financial Planning, was recognized in 2004, 2005, 2006 %26amp; 2007, by Independent Financial Adviser magazine as one of the top 100 financial planners in Australia.

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