

TULLETT PREBON STRATEGY INSIGHTS: 002

BRAVE NEW WORLD? ISSUES IN THE NEW DECADE

London, New York 2 March 2010: The universal assumption that economic growth will take care of the developed world's debts and population growth may be fundamentally flawed, says Dr Tim Morgan, Global Head of Research at leading inter-dealer broker Tullett Prebon.

Resource scarcity, and in particular the rising cost of extracting fossil energy, could eat into wealth creation and gradually reduce the relative cost of human labour, he argues.

In his second Tullett Prebon Strategic Insights note, *Brave New World? Issues in the New Decade*, Tim looks at the issues that will shape the world economy in the coming decade and offers pointers for investors seeking a new road-map for a fast-changing world.

Tim warns that:-

- An economic system predicated on perpetual growth might be about to collide with the realities of a finite physical world
- A blended model Keynesianism and 'liberal' Anglo-Saxon capitalism may assume dominance: the European Social Model
- The advance of globalisation may have already been reversed due to more state intervention in shaping markets and protecting national champions

Today, global imbalances and the exposed failings of the financial system leave the world exposed to a series of 'dangerous exponentials', he says. These include excessive debts in some developed economies, notably the US and UK, where governments have been 'printing money' under the new label of quantitative easing, as well as population growth, energy usage and resource depletion.

Many of the problems we face today require global collaboration to achieve the required regulatory solutions. Without them there is little hope of ending 'sequential bubbles'. But simultaneously, emerging economies, especially China, are joining a scramble for resources that may only intensify.

Meantime, investors will face the consequences of higher taxes in developed economies, often designed to slow capital flows or focus available resources upon environmental challenges in both developed and emerging economies. 'Investors should, then, factor both resource transfer and environmental taxes into their composite view of the future', Tim says.

Mixing history, economics and energy expertise to present ground-breaking long-term analysis, Tim is taking investors on a journey towards 2020 and the ways in which the investment climate will change after the financial crisis of 2008-2009.

His next report will look in more detail at the need for fundamental structural reform of the financial system, and for an enduring solution in place of the short-term 'patch-and-mend' ways in which governments have – for now – stalled financial meltdown.

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