

## The failed market economy

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There is [an extraordinary article in the FT today](#). It's extraordinary because of what it says and who says is.

Let me deal with the second point first. The author is Dominic Rossi is global chief investment officer for equities at Fidelity Worldwide Investment. This is no left winger, I suspect, and I am, sure he does not intend the analysis to support a left wing viewpoint. Rather, he clearly thinks the status quo will last forever, and that he is offering a way to profit from it. And yet his analysis reveals precisely why that status quo cannot be maintained.

He begins by saying:

*We are working through a curious period in financial history during which neither capital nor labour has pricing power. Neither can generate much income. Average earnings in nominal and real terms have barely grown, while capital sits idly in cash deposits or in government bonds yielding next to nothing. Whether you are working or investing, income is hard to come by.*

He admits in a paragraph that the economy is blown apart, before adding:

*We know the reasons why. The power of labour to command a greater share of the economic pie has been undone around the world by policy initiatives focused on labour mobility. In most developed countries, labour's share of GDP has been falling. Even in the US economy, which added a record 3m jobs last year, labour's share sits at 50-year lows. Employment growth has been offset by weak wage growth. Productivity gains have passed to the owners of capital, allowing operating margins to rise.*

So supply side market reforms have, in other words, destroyed prosperity for the vast majority of people. The blame is clear, as is the consequence. But that consequence has also meant that the removal of the social safety net has meant that:

*Concurrently, the propensity of developed nations to accumulate savings faster than income growth compresses yields everywhere. Wealthy nations with excess savings*

*and little growth, such as Japan, Germany and Italy, can only export capital, lowering yields. Central banks' quantitative easing programmes exaggerate the yield compression. Their bond-buying further crowds these countries out of their own domestic sovereign and credit markets compounding the effects abroad.*

There is no crowding out, by the way: there is just an excess of savings as people are too frightened to invest. QE is the money creation programme that has to fill the void left by the banks.

Rossi's argument is that in this case only dividends from stock markets have any chance of growing and so people should invest in the shares he has to sell. He goes so far as to say of dividend growth:

*Is this set to continue? We think so. We can find no other asset class that offers this level of income growth in dollar terms.*

It's hard to see how someone can set out the case that markets have totally failed and yet believe they can still deliver, but he does.

And he is wrong. His description of what is wrong is fair. His suggestion that this can continue is absurd. This is a system on the brink of falling over. If he can't see that I strongly suggest you do not follow his advice. I do suggest that you think about what will happen when he has to realise how mistaken he is, because the scenario of falling labour returns and capital sitting idle doing nothing cannot persist. Change has to happen.

And right now only the state can break the log jam.

But that's the possibility people like Rossi cannot even imagine.