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Short-Termism II: From Flash Wealth to Better Values

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5:30 p.m., Thursday, May 29th, 2008

Toronto Board of Trade

Toronto Ontario

There is a flow to history and culture. This flow is rooted and has its wellspring in the thoughts of people. People are unique in the inner life of the mind, what they are in their thought world determines how they act. This is true of their value systems and it is true of their creativity. It is true of their corporate actions, such as political decisions, and it is true of their personal lives. The results of their thought world flow through their fingers or from their tongues into the external world. This is true of Michelangelo's chisel, and it is true of a dictator's sword. – Francis Shaeffer, How Should We Then Live.

Introduction

Francis Schaeffer argues that we have basic presuppositions that drive the way we think and live more than we realize. Presuppositions are the basic grid through which a person looks at the world which are founded on what a person considers to be the truth of what exists. People's presuppositions form the framework for what they bring into the external world and provide the basis for all their values. Wisdom literature reminds us that "as a man thinks so he is". This is also true of a culture. What the culture thinks and believes is ultimately what drives the decisions of that particular culture.

As I discussed in my first address on short-termism, over the past several decades the preoccupation in our culture with short-term results over long-term impact has intensified. We can see it in the capital markets and other areas of social life as well. Anyone who has followed the debates on family, education, government social and fiscal policy can draw the conclusion that short-termism has seeped into all aspects of our culture.

Why has our culture become so short-sighted when we know that optimal decisions require a long-term context? Why doesn't our culture seem to care about the long-term?

Upon greater reflection perhaps the better question is why should we expect people to think long-term and make self-sacrificing, truly intergenerational decisions? This question is especially pressing given the reality that in the moral and philosophical realms there is very little consensus left in Western countries over the proper foundation for moral behaviour, moral authority, our theory of knowledge, and, ultimately, one's purpose for even existing. In this context, why think beyond the current generation? Our culture even has the audacity to tell us that truth does not exist, despite the self-refuting nature of that statement.

But as many astute thinkers and observers of history have pointed out, a culture that does not and cannot make moral judgments and which has jettisoned both its willingness to discern truth and its agreed answer to the question of the purpose of life, is surely living under the shadow of nihilism.

Christopher Dawson summarizes the issue in bold terms: "A secular society that has no end beyond its own satisfaction is a monstrosity – a cancerous growth which will ultimately destroy itself."

It is with this backdrop in mind that I want to discuss a serious issue facing not just the capital markets but also our Western world and the ownership of our world's capital. The issue has to do with the current wealth transfer that is taking place from much of the developed world to significant portions of the developing world. How much of this transfer in wealth is rooted in our cultural short-termism? Can wealth be created and maintained in a secular culture saturated in short-termism which lives under the shadow of nihilism?

Statement of Case: The New Wealth Transfer

As is often the situation in history events are propelled forward when there is a confluence of events that come together to create a tipping point. Let me briefly lay out my position and then subsequently develop the key thoughts.

The current transfer of wealth begins with the serious demographic challenges facing much of the world, particularly the developed nations where currently the majority of the world's assets are owned. An aging population is compounded by the globalization of capital flows that enable and pressure corporations to move substantial manufacturing interests from the developed world to the developing world.

The result of this is much of the world's goods and services are increasingly produced in developing countries with the lowest cost structure. This has lead to the substantial financial imbalances seen in the large and growing foreign currency reserves held by a small number of key countries. These trading imbalances have been exacerbated by the recent increases in commodities, such as oil.

The rapid escalation in oil prices alone is driving what many have identified as the largest transfer of wealth in history to OPEC states. Collectively, the financial imbalances from global trade, including the trade in oil, has led a number of national governments to set up massive savings accounts referred to as Sovereign Wealth Funds to capture excess savings and reinvest back in the capital markets. However, trading imbalances between countries ultimately means that those countries running surpluses are increasing their ownership claims at the expense of the countries running the deficits. The countries with the largest surplus accounts are either low cost manufacturing countries such as China or countries with substantial oil reserves that are experiencing windfall cash flows as a result of the rise in oil prices.

All of these factors taken together, coupled with the escalation of debt throughout the developed world as it attempts to hang on to an unsustainable level of spending, are contributing to an ongoing transfer of capital ownership from the developed world to the developing world.

If this transfer continues over the next 10-20 years it could amount to the largest and fastest "peace time" transfer of wealth in history. Regrettably, a large portion of this wealth is leaving the hands of "many" investors through more democratized holdings in traditionally Western countries and is being increasingly concentrated in the hands of super wealthy families and less than democratic and freedom loving governments.

Let's briefly look at the major factors driving the current wealth transfer one by one.

A. Demographic Suicide

One of the most serious and pressing economic issues facing the developed world is aging demographics. When one takes a serious look at the rising life expectancies and falling retirement ages throughout the developed world one cannot help but be shocked. In 1950, life expectancy in the US was just under 69 with an average retirement age of about 67. This meant that the expected period of retirement was a mere 1.6 years. As of 2005, the average life expectancy was almost 78 years, but the average age of retirement had dropped to approximately 62, which led to an expected period of retirement of 15.9 years. For the first time in history, a large portion of the population is facing a significant retirement period during which it will try to live off the wealth it previously accumulated. Can the twin trends of rising life expectancy and falling retirement age continue without serious economic problems? The answer is obvious; no.

What makes these trends worse is the large drop off in births over the past 30 years which is leading to a declining number of workers per retiree. In 1950 in the US there were about 7 workers for every retiree. In 2005, there were about 5 workers for every retiree. but over the next 20 years, those numbers will fall to about 2.5 workers per retiree.

With a vanishing labour supply and far less money to invest in critical infrastructure (such as roads, ports, airports, bridges, rapid transit links, and electrical grids, to name a few) to provide the economy with the most efficient and productive foundation upon which to build wealth, countries that now control the vast majority of the world's capital will be under increasing pressure to sell off their wealth. While investing in nursing homes, hospital beds, entertainment facilities and other social services demanded by an aging population might sound fine, it does little to increase the long-term competitiveness of developed countries. This means that our aging population will be transferring less to the next generation and instead selling a large portion of their wealth.

These factors have combined to create what analysts call "demographic suicide", a phenomenon that is sweeping through the developed world. For a global financial system that has assumed economic growth in perpetuity into its financial structure, we are in for a rude awakening over the next 10-25 years. Economists who seem to make anything work on paper will have a tough time realistically showing us how wealth can be increased in a world with a shrinking population and growing pension and health care liabilities.

How could this work itself out in stock ownership over the next few years? In terms of stock market capitalization, data from 2006 indicated that 92.7 percent of the world's equity capital is in the developed world, with the US alone holding almost half of the world's equity capital. By contrast, the developing world holds only 7.3 percent of the world's equity capital, but based on the projections developed by economists including Jeremy Seigel, ownership of equity capital will have changed dramatically by 2050. By that time, the developed nations' share of market capitalization will have shrunk to 33 percent and the developing world's share will have risen to 67 percent, with China holding 20.3 percent of the world's equity capital and the US holding only 16.6 percent.

It's important to point out that countries like Russia and Japan are already in absolute declines; deaths already outnumber births. A recent report by The Japan Center for Economic Research predicts that Japan will lose 70 percent of its workers by mid-century. For Japan, the second largest economy in the world, this will be devastating. Important countries such as India and China are also on crash courses with population declines given government policies, lack of interest in bearing children by those living in the cities, high abortion rates, and, to make matters even worse, infanticide cultures directed towards female babies. This will lead to serious forthcoming gender imbalances.

The most important economic and social institution in the world has always been and will continue to be the family unit which produces the next generation. A nihilistic culture dominated by selfishness and lack of meaning doesn't have the desire to form families or pass on heritage and responsibility through procreation; however, our culture's bent towards selfishness has further economic outcomes. It is to one of these outcomes that I now turn.

B. The Trade Deficit

Our insatiable appetite for things and the overall pressure to keep costs down on the part of corporations has dramatically increased the total global cross-border investments over the past three decades. Specifically, cross-border investments have expanded at a more rapid rate than international trade in goods and services which in turn has expanded at almost twice the rate of global GDP. From 2001 to 2006, global GDP at current prices and exchange rates increased 53%, and global trade in goods and services increased 93%. These broad trends reflect the increased integration of the global economy and the significant level of trading that is going on throughout the world. The problem with much of the trading is that it is neither balanced nor, in many cases, fair. This leads to a large increase in foreign currency reserves on the part of countries that are net exporters.

Total official foreign currency reserves were more than US$5.6 trillion at the end of 2007. The net increase has been 140% over the past five years. Recorded holdings of non industrial countries have reached US$3.5 trillion, a net increase of 180% over the same period. Official holdings of international assets in addition to official reserves can be estimated between US$1.5 trillion and US$2.5 trillion. This means that there is effectively up to US$10 trillion in foreign currency reserves held by a handful of countries that are massive exporters.

These assets are becoming a major focus of economic and financial policy because of their size, lack of transparency, potential to disrupt financial markets, and the risk that political objectives might influence their management. Given current trends, the foreign reserves of China alone are expected to increase by at least US$200 billion annually. How will these reserves be used?

C. Commodity Boom and Petrodollars

With oil prices now comfortably above US$100 a barrel, the global capital flows into petrodollars will be staggering. Investment decisions, both physical investment and financial investment, made by the owners of petrodollars will obviously be more important the higher oil prices are.

At US$100 per barrel, which I will be using in my numbers as my base case, the value of total proven oil reserves in the world is US$121 trillion, US$48 trillion of which belongs to the Gulf Cooperation Council (GCC). It is also important to note that approximately 80% of oil reserves are controlled by national governments, many of which do not share traditional Western democratic values. (This is an important point since much of the wealth that is being created and transferred as a result of high oil prices, accrues to the benefit of centrally controlled governments. I will return to this point later.) On a flow basis, annual oil export receipts of OPEC countries total some US$1.3 trillion at US$100 per barrel. The bottom line is that high oil prices will lead to a significant transfer of financial power to the petrodollar holders.

Such a large windfall in profits/receipts could be invested in a number of ways including domestic physical infrastructure which is the case in countries like Qatar and Saudi Arabia. But, the reality is that the vast majority of increased receipts will end up in global financial markets.

The likely impact on financial markets will be enormous. In GCC countries alone, the cumulative oil export receipts could reach US$5 trillion by 2013 and more than US$10 trillion by 2020. The total global petrodollar flows would be roughly three times this size US$15 trillion for the next five years, and US$30 trillion by 2020 before some non-OPEC countries start to experience output declines.

Two important points should be noted. First, the financial arguments for transforming underground oil wealth into above-ground financial wealth (investments in capital and business ownership) are extremely compelling. Many oil rich countries realize that it is essential that they diversify their economies and investment holdings since oil revenues are not infinite.

Second, probably half of the cumulative receipts will be recycled through sovereign wealth funds (SWFs). The ability of many SWFs to buy more and more assets and, in some cases, strategic assets are directly tied to high oil prices.

While the world struggles to find new low cost energy reserves, learn more about conservation, and develop alternative energy sources, many of these countries will be buying up increasing portions of the world's leading multinationals investing in real estate and making private equity investments. This brings us to the topic of sovereign wealth funds.

D. Sovereign Wealth Funds (SWFs)

In an era where oil prices and financial imbalances are at record levels, sovereign wealth funds could be viewed as the poster child for the ongoing financial and economic power shift that is taking place. An acceleration of financial flows since the 1990's has made geographic borders less relevant, enabling capital and trade to flow more freely from one region or continent to another. Given high oil prices and extreme trading imbalances, we have experienced a phenomenal growth in government-owned funds.

Today SWFs are growing rapidly in both number and size. Approximately 40 SWFs now control an estimated US$3.5 trillion of wealth, with assets expected to grow US$1 trillion per annum and reach US$10-$US12 trillion by 2015. In comparison, approximately 9,000 hedge funds managed roughly US$1.6 trillion in 2007.

Since 2005, many SWFs have shifted assets into non-traditional and uncorrelated asset classes such as alternative investments, private equities, and real estate. At the end of 2007 the total market value of funds held between SWFs and foreign currency reserves was approximately US$11 trillion, approximately 7% of the value of the world's capital markets. More importantly, this number is expected to more than double over the next decade.

E. A Culture of Credit

Charlie Munger wrote that "a modest amount of liquidity will serve the needs of a society; too much brings out the worst in human nature." The explosion of liquidity has done much to cultivate a short term'ist financial and social culture. The financial crisis that erupted in the US in the summer of 2007 and then spread across much of the world, owes its origin to the short-termism of our culture and its lack of discipline in allocating capital responsibly.

The severity and persistence of the current financial crisis can be broken into three different crises that are each capable of severe damage in their own right. These crises started as the basic credit shock in the US sub prime mortgage market, resulting from the loosening of lending standards, amplified by heavy balance sheet leverage in the asset securitization markets which turned into a global liquidity crisis through their increased reliance on short-dated funding. This ultimately led to the mismatching of maturities and improper risk ratings. Each crisis relates to a type of risk and all are anchored in short-term thinking, rooted in bad math and sleazy lending practices.

Let's briefly look at the first and most talked about risk, the sub prime crisis. The sub prime crisis started as a credit problem in the lower quality section of the market for US housing finance. It was triggered by a combination of rising borrowing costs and falling housing prices, themselves brought on by overbuilding and unsustainable levels of consumer leverage or debt. Rapid price gains fuelled by record low interest rates provided home buyers with substantial capital gains from home ownership despite their inability in many cases to actually afford the home based on their income levels. In order to cover their monthly costs, as well as other personal living expenses, many home owners simply refinanced their homes, steadily reducing the amount of equity in their homes. In effect consumers were taking equity gains in their homes and spending them on non-capital items—they were "dis-saving". Clearly this type of short-term folly could not continue.

Lenders lowered their standards and sub prime loans were financed in record levels. Everything from improper documentation, to no verification of borrower income, to no down payments made their way into the financial syste, but. lenders were not alone in creating the housing bubble. US households themselves eagerly used the easy credit availability to pile on the debt. In fact, debt to assets at the household level reached record levels in 2007 with debt rising much faster than US household assets, which consists largely of equities and residential real estate.

It's amazing how people will follow bad ideas en masse. Remember the story of the teacher that asked her 6 year olds how many sheep you have in the pen when you start with 9 and 1 jumps out? All the kids but one yell 8. Johnny yells out 0. The teacher says Johnny you don't understand your math, but Johnny shoots back, "No ma'am you don't understand sheep!"

Using excessive leverage in order to prop up an unsustainable standard of living will always end in a very nasty fashion. We should never forget that when financial market bubbles burst, a transfer of assets from the weak and undercapitalized to the strong and liquid invariably follows. The process of transferring wealth from the liquid to illiquid is well under way. So far, SWFs (national governments with trading surpluses) have mopped up more than US$60 billion worth of equity in Credit Suisse, Citigroup, Merrill Lynch, UBS, Morgan Stanley, HSBC Banks, and many others. In early May, Royal Bank of Scotland announced that they would have to issue up to US$24 billion in equity to shore up their balance sheet. Overall the equity infusions into the leading investment and commercial banks on the part of SFWs or state-controlled funds will easily top

US$100 billion. It's safe to assume that these financial crown jewels are being sold at a song and the dilution to existing shareholders is nothing short of extreme. We should call it what it is: a massive wealth transfer from the debtors to the creditors.

But isn't that what happens when you let short-term greed dominate an economic system? Throughout many of our developed economies we have simply become addicted to spending and consuming beyond our capacity to produce.

Worldviews and the Conditions for Creating Wealth

It is important to highlight that there are massive differences in wealth between the rich and poor nations. These differences have not always been as pronounced as today. In 1750 the per capita income differences between the richest and poorest nations was on the magnitude of 5:1; in 2001 that magnitude had expanded to 400:1. What happened? In essence the rich countries developed at an unprecedented rate underpinned by the Industrial Revolution in Britain and emulated in other Western countries--particularly the U.S.. Many poor countries, by way of contrast, stood stagnant for years and to this day have made very little progress in creating wealth.

Many acknowledge that the takeoff to sustained economic growth occurred in the context of large Christian influence in the cultures and economies of the West. Max Weber's The Protestant Ethic and the Spirit of Capitalism (1905), while widely debated, lays out many of the vital conditions in the West that led to the unprecedented level of wealth creation. What is important to note is that these conditions found their source and foundation in the culture's worldview. Given the current nihilistic culture of the developed world, it should not surprise us that the conditions that gave rise to such unprecedented wealth creation no longer exist to the extent they once did. This has undermined the ability of developed countries to maintain existing levels of wealth in the face of the challenges presented by global competition.

According to Weber, some of the critical conditions necessary for the creation and maintenance of long-term wealth include the following:

1. All work is viewed as a divine calling and should be performed in such a way as to bring honour and glory to God.

2. The earth is stewarded by human kind. As a result, cultivating the earth is a given task, and inventions that make this easier are to be valued and fully utilized. In this framework, the world is viewed as rational ordered which can be investigated and understood. In the past, this perspective led to discoveries and inventions many of which were labour saving and productivity enhancing inventions.

3. Time is linear and valuable since it is moving from a beginning to an end; it is not circular and therefore things will either get better or worse. This encouraged people to make the most out of every moment and spurred on further the desire for greater efficiency and productivity. It also led to a greater willingness to take risks, because of a hope that things could be better in the future.

4. Knowledge is valuable and should be universally shared by men and women which, even today, is still not the case in many countries. The high value placed on knowledge encouraged inquiry and investigation. Openness to discovery and truth from a variety of sources along with argument and debate produced learned societies.

5. Personal character traits were critical and people in aggregate must be honest, diligent, thrifty, and not spend too much on themselves. Living a moral and productive life was valued and encouraged. These qualities led to an emphasis on capital accumulation within the society as a whole, leaving more money to invest. This resulted in sustained economic development through prudent reinvestment. Up to this point in history many individuals had been hard working, honest, thrifty, creative, but never before had any nation or religion made these the expected qualities of all the people in the society.

6. Governance principles including the limitation of government, the protection of human liberty and agency, and the ownership of property all flowed from these common cultural values. A high value was placed on the freedom to work and accumulate wealth within a rule of law. The government's task was to protect the space for holding property, including patents and copyrights. Finally, the introduction of radical notions of equality provided greater opportunity for economic mobility driven by a meritocracy and not by privileges of tradition or hereditary nobility.

These factors helped to create the greatest growth in wealth in the history of the world. If these traits are prerequisites for the creation and maintenance of wealth, do they exist in many of the developing countries that are receiving much of the capital flows from the developed world?

Where the Money Goes: Cultural Characteristics of Transfer States

One of the major concerns we should have is that the factors that have typically hindered economic development in so many countries over the last four centuries seem to be prevalent in many of the countries today that are experiencing the effects of the wealth transfer. In most cases systemic, cultural, organizational, and governmental factors hindered wealth creation. It's one thing to transfer existing wealth from economies that are culturally weakened by short-termism, but it's quite another thing to maintain the level of wealth and grow it responsibly and fairly over time. Many of the countries today that are running the largest trading surpluses do not have the characteristics necessary to steward and grow the capital assets they are acquiring.

Let's look very briefly at the key impediments to long-term wealth creation.

1. Lack of Private Property

Private ownership of property is either minimized or prevented. Preventing private property has always condemned a nation to poverty because it severely hinders economic development because people cannot borrow using land as collateral and cannot build significant businesses or enterprises.

2. Large Government

Any culture that views the government as the master rather than servant of the people will be severely limited in wealth creation. In many countries around the world the government is viewed as a means of personal enrichment. Given human nature, this has and will lead to abuses, including misallocation of capital, lack of long-term stewardship and lower required rates of return on capital which over time reduces wealth. Totalitarian control of life simply undermines wealth creation.

3. Arbitrary Law

Arbitrary law functions to protect those in power and not to enforce justice. As a result, ventures cannot depend on the "rule of law." The characteristics of this type of system are that the police and court systems are arbitrary, biased, and unpredictable. In this environment copyrights and patents are not protected or rewarded, hence stifling creativity; contracts are not enforced and justice can be "bought"; crime is not punished or prevented since much crime is protected by the police and the courts; and privileged leaders and their friends are above the law. The economic results when there is no rule of law are always minimal investment resulting in minimal economic development.

4. Economic system

Any economic system that prevents freedom and productivity in the market will minimize wealth creation. This can often be seen in the lack of free market for goods such as monopolies, regulations, allowing extortion or unreasonable barriers on trade. Wealth gained by taking rather than producing is hard to hold on to. This is most often seen with resource wealth, especially if controlled by either the government or a small elite. Where ever you have a small and very wealthy ruling class controlling all the wealth, with a large majority of people trapped in poverty, there will be little wealth creation. The government must not control significant levels of wealth and property in an economic system since it is not an efficient producer of wealth.

5. Cultural values, including:

a. Low value placed on productive work, creativity, and inventions.

b. Low value placed on the creation of wealth.

c. Restrictions placed on knowledge. This includes limitations on information flow and using education as a means of power and control. Societies that do not value universal literacy do not create sustained wealth, nor, societies that place undo limitations on the freedom of inquiry.

d. The earth seen as master not as servant.

e. Time is viewed as cyclical, therefore little hope for progress and less focus on valuing time.

g. Discrimination: different national, racial, cultural, and religious groups discriminated against or excluded.

h. Low view of importance of individual choice and actions. Societies bound by fatalistic and deterministic ideologies where there is little to no hope for change do not create sustained wealth.

i. Devotion to wars of conquest where a high value is placed on destructive behavior.

I find it very concerning that countries such as Russia, India, China and many of the Middle Eastern countries that are receiving much of the new wealth suffer from many of these long-term impediments to wealth creation. What does this mean for the world's wealth?

Further Capital Concentration within States

If the trends I have been discussing continue, we will witness not only one of the largest transfers of wealth from developed countries to developing countries but also one of the largest concentrations of wealth in history, since much of the wealth transfer is being aggregated into fewer hands. The recent Forbes billionaires list confirms this trend. In 2003 there were

18 Americans in the top 25 wealthiest people in the world, by 2008 this number had dropped to only 4! The new faces on the Forbes list are largely from the developing countries. Much of the "new" wealth is ending up in the hands of one of the following:

1. Super Wealthy Families with strong ties to the government.

2. National Governments who will invest the money in their SWFs or centrally allocate into their local economy.

In either case wealth will not be maximized over time whether it works its way into the hands of large governments or falls into the hands of super wealthy families.

There are at least two areas that will inevitably suffer as a result of this concentration of wealth:

1. Corporate Governance

Where governments are in control, and wealthy families operate in close relationship to governments there are simply not the same incentives or checks and balances to govern the affairs of the business for the broader population. For example, neither the environmental damage that has gone on in China would not be allowed in a freer more democratized country, nor would the abusive ongoing associations in countries such as the Sudan.

2. Long-term returns on capital

Without the discipline of a free market where you have many participants impacting how capital is to be allocated, returns on capital will decrease over time. Concentrated wealth in the hands of a few or in the hands of the government will never be managed efficiently over extended periods. This should be a concern to the global community since at any moment in time there is a finite level of wealth, and if it is not being managed carefully with many checks and balances it will be diminished and managed for the very few. We should never forget that wealth in aggregate will not grow over extended periods of time without the discipline to generate an economic return, self-sacrifice, creativity, and enterprise. These characteristics are not often aligned in situations where wealth is controlled by a few and upward mobility seems unlikely.

Conclusion: Reversing the Trends

It is important to end this paper on a positive but realistic note. The reality is that despite the current confluence of events that are facilitating this massive transfer of wealth many of these events can and probably will be reversed at some point. Economics are fluid and constantly changing, simply because culture itself is in constant flux. Let me briefly outline a number of areas we need to focus on in order to slow down the transfer of wealth and eventually reverse this transfer over time.

1. Currency Adjustments

Over time the trading imbalances as a result of offshoring and high commodity pricing will put large downward pressures on the currencies of countries that are running large deficits. This alone improves the overall competitiveness of a country and begins the process of improving the trading imbalances. The prime example of this is the US dollar which, due to the extreme pressure it has recently come under, has helped to make the US more competitive than their trading partners. Chinese currency has been allowed to appreciate slowly which, over time, must continue in order to shrink the outsized trading imbalances that China has with the world--particularly the US.

2. Fair Trading Practices

Trading is important to the global economy, but it must be done on balanced and fair terms. We cannot be naive in terms of the parties we trade with. While global trade can be a positive force and important to economic development for the countries that trade, it must be done on equal footing with all parties involved respecting the rule of law and the value of each other's intellectual capital as well as physical capital. Nationalization of foreign assets as well as the stealing of technology should not be tolerated in the global community.

3. Relative Demographic Profiles

Over the next 40 to 50 years one of the largest determinates of financial prosperity will boil down to willingness of our culture to see value in producing the next generation. As I referred to previously, this willingness or reluctance will be rooted in the basic faith commitments of the underlying culture. The secularization of China, India, Russia and even parts of the Middle East will eventually weaken these economies, leaving little enthusiasm on the part of the population to produce the next generation. The US still remains one of the most dynamic economies with some of the best prospects due to a higher birth rate rooted in faith commitments and a much higher level of freedom within its economy.

4. Commodity Prices and Substitution

Higher commodity prices will encourage importing countries to find and develop their own supplies, learn and implement better conservation techniques, and find alternatives to fossil fuels. Overtime this will significantly reduce many of the imbalances in the global markets and reduce the wealth transfer. Developed economies must take this issue seriously and begin to minimize energy dependence, particularly when that dependence is on rogue states.

5. Longer-Term Allocation of Capital

Over time the wealth creation game is won by those who allocate their capital most efficiently and generate optimal rates of return on that capital. This has always proven to be very difficult apart from a democratized market mechanism that involves many players and holds all participants accountable to their actions. Countries like Russia, China and most Middle Eastern countries can grow for a time but unless they can demonstrate exceptional discipline over time and minimize corruption, it will be difficult for them to avoid misallocating capital. Ultimately misallocation of capital leads to the reduction of capital and wealth. In order to reverse the current wealth transfer we must maintain our vigilance in managing our capital, both financial and human, to the highest standards. This will mean substantial ongoing investment in physical infrastructure and in the education of the next generation so that they can truly compete on the world stage.

6. Government Stability and Involvement in the Economy

Countries that create and maintain their level of wealth must have honest and stable governments protecting the rights of its population and maintaining the rule of law. The future, in terms of economies, will be dominated by those that demonstrate creativity and characterized by a high degree of freedom in the marketplace. Centralized governments that control large portions of the economy are seldom honest with maintaining a consistent rule of law, and over time they will misallocate capital and hamper the ability of its citizens to create wealth in any sustainable manner.

7. Moral and Ethical Fabric of Populations

We must never forget that a national economy, like an individual business or a specific product, is the sum of the spiritual and mental qualities of its people; its output of value will only be as strong as the values held in the society. Without the civilizing force of universal moral standards and the firm conviction in the existence and practice of truth, a culture bereft of honesty, trust, self-respect, integrity, and loyalty, will quickly degenerate. A society that has no values will not produce much of value; a nation whose values are declining should not be surprised at a declining economy and declining levels of wealth. As Ralph Waldo Emerson postulates, "A dollar is not value, but representative of value, and, at last, of moral values."

The spiritual and metaphysical are more basic to our economic progress and prosperity than the physical and political. Spiritual values are fundamental to economic values and moral virtues have everything to do with the ability of a country to increase its GDP over time. The most successful countries and cultures will be those that are populated with citizens that reflect high ethical and moral standards.

8. True Leaders

It has been said that "leadership means drawing lines in the sand. If an individual wants to be a leader and isn't controversial that means he never stood for anything." We desperately need strong leadership throughout our culture. The developed world is full of panderers rather than principled leaders. A panderer is a person who is attuned to polling and focus groups and demonstrates a leadership style that is co-dependent on followership.

True leadership is standing on fixed principles and never wavering from these. A leader must be a person of character, vision, integrity, courage, understanding, have the power of articulation, a high degree of decisiveness, and a strong sense of providence. Such leadership must see itself as part of a higher purpose and meaning that transcends the temporal. Each of us today needs to decide whether we are going to take a stand and make a difference by standing for that which is right, true, and just and change the flow of history or, by default, continuing to simply move with the flow of our short-term'ist culture. Which will it be?