Denturism Practice in Economic Down Turns

- 2010 Denturism Magazine

In October 2008 I wrote an article on how to succeed in denturism in a bad economy. In that article I discussed how I felt denturism is largely recession proof. I know from working with denturists across Canada that many denturists have been very busy the past two years. In general, denturists have done extremely well through a recession (whoops, strained my shoulder patting myself on the back for that clairvoyance). So what just happened? Are we in a recession? Are we over a recession? What exactly is a recession? What does all this mean for the denturist clinic?

Recession 101

To answer the question if we are in a recession or not, one has to look at economic indicators. Although many people talk about the stock market, the stock markets are not good economic indicators. Stock markets are just a betting pool. The price I am willing to buy or sell my shares for will not affect whether people will actually buy more or less shampoo, nor if management does a good job or not. The public perception really has little to do with whether Proctor & Gamble is or will be profitable. So let's look at some data and see what's going on.

I've chosen 3 countries to look at:

1) **Canada** - because we live here
2) **USA** - because our economy and the world's economy is very much affected by the United States
3) **Greece** - as a representative of some over spending European countries such as Portugal, Spain, and Ireland.

I have chosen 5 basic economic indicators to look at:

1) **GDP % Change** - This is the percentage change of the country's Gross Domestic Product (GDP). Gross Domestic Product is the total market value of all the goods and services produced within the borders of a nation during a specified period. Looking at the percentage change each year will show us if the country is becoming more or less productive.

2) **Government Net Lending as % of GDP** - Net lending (+)/ borrowing (−) is calculated as revenue minus total expenditure for the given year. Negative values would mean the country borrowed more than it made that year. We're going to express it as a percentage of that country's GDP so it can be relatively compared to other countries.

3) **Net Debt as % of GDP** - Net debt is calculated as the total money a country owes less the assets backing up those debts, then expressed as a % of current GDP for relative comparison to other countries.

4) **Unemployment %** - This is the percentage of the employable population that is not employed.

5) **Inflation % Change** – The average percent change of that country's consumer prices.

I have created these charts based on data from the International Monetary Fund organization (IMF). Values above the current date are projections from the IMF.

A recession is a general slowdown in economic activity over a period of time. Most economists define a "recession" as at least half a year of significant downturn in Gross Domestic Product. Some economists define a "recession" as at least a 1.5% increase in unemployment over one full year. In either definition, 2009 met both criteria. Canada's GDP was growing at an average rate of 2.9% between 2000 and 2007. GDP started to fall in 2008 and 2009 posted a decrease of 2.6%. Unemployment in Canada averaged 6.9% between 2000 and 2007 and increased from 6.2% in 2008 to 8.2% in 2009. Therefore 2009 was definitely a recessed economy in Canada but it didn't last long. Technically speaking, at the time of this writing we are out of the recession in Canada.

Economics 101

To understand the economic issues facing government one must understand the two main tools a government has: **Monetary Policy** (how much money it creates) and **Fiscal Policy** (taxation and government spending).

Monetary Policy - Adjustments to the amount of money available in an economy and there are two ways to do that:

1) Adjust the "Discount Rate": the discount rate is the rate at which the government loans money to banks. Decreasing this rate will allow banks to borrow more money from the government and in turn be able to have more money to loan out, thus increasing the money supply.
2) Open-Market Operations: The government can also increase the money supply more directly through selling more government bonds or treasury bills. For example, government creates a bond then sells it to itself and deposits the money in a bank - thereby increasing the money supply because the bank can now lend more. Conversely, the government can buy back that bond, withdrawing the money from the bank and putting it back in the federal reserve thereby reducing the money supply, so banks can lend less.

Fiscal Policy - Taxation and Government Spending. This is "The Budget" - this is how government gets money from the people and how it spends it.

Monetary policy is not as often discussed in the media, although monetary adjustments are regarded as a quicker way to stimulate the economy than fiscal adjustments. Fiscal Policy is slower and more controversial. Some economists and policymakers argue for a BALANCED BUDGET others say that a persistent DEFICIT (public spending exceeding revenue) is acceptable provided, in accordance with the golden rule, the deficit is used for INVESTMENT.

Understanding these tools is important as citizens. For example, WWII is what most people credit to ending the depression. However, the most widely accepted view among economists is the depression was ended by abandoning gold as the monetary standard to back currency. Nowadays most countries have what is called "fiat" currency which is Latin for "let it be done" which is literally a license to print money. That sounds bad, but this allows governments to effectively use monetary policy to easily increase or decrease the money supply. So long as that increase in the money supply is used for production, rather than consumption, then that is generally regarded as a good way to get out of a recession. If it is used for consumption then it can cause inflation, but if inflation does start, the government can quickly decrease the money supply and effectively halt inflation. So fiat currency is a handy tool which enables monetary policy. In the case of the great depression, WWII provided an outlet for production and definitely aided the recovery that was already happening in all nations that had abandoned the gold standard. At the same time the US initiated a very aggressive fiscal policy. They started spending like crazy and ran the debt to 120% of GDP (compared to approx 60% today). There is a lot of debate of whether that much spending was helpful or not, but the bottom line is that the lenders had high confidence in the US's ability to pay it back; so the interest rate was inexpensive and the US's GDP kept rising and they were able to pay down that debt eventually.

So now that we have a good background on economics, let's look at the arguments for our future.

Bear Forecast – Doom and Gloom

Here are the point-form arguments that have some very real merit on down-turning the world economy.

- Geopolitical risk: Conflicts involving Korea or Iran and continued or escalated strife in Iraq.
- China's property bubble could burst instead of gradually deflate.
- America's stimulus fueled rebound runs out.
- Europe's debt crisis: Greece, Spain, Portugal, and Ireland each have a debt crisis and unemployment crisis and lenders are losing confidence. If one of the these countries defaults on debt payments then that will send the rest of the world in a panic, raising interest rates and decreasing the money supply and consequently making production and growth harder. The problem here is that we have basically broke countries lending to other broke countries. So where does the money come from? The buck has to stop somewhere.
- Concerns of governments spending too much. The "Stimulus" packages are going to stop stimulating soon so what next? More Stimulus? And more? And more?
- Some believe we have only seen the tip of the iceberg on the US Mortgage crisis – no one really knows how many more bad mortgages will default.
- US banking system is still incredibly unregulated
- Even if there are clever monetary and fiscal strategies that could help, politicians may not listen to the smart people.

Bull Forecast – Don't Panic

- The world's output had an average growth of 3.2% between 2000 and 2007. The world dropped to 1.7% growth in 2008 and decreased by 2% in 2009. However the world is back growing at 3.25% so far in 2010. This is a really good indicator that we are currently doing ok.
- We have better monetary policy tools now than we did before the great depression, when were tied to the gold standard, and we have smarter economists to advise on their use.
- The International Monetary Fund and other lenders (countries) have decided to bail out Greece for now. This solves the initial domino effect that could have happened and also shows confidence, which is important.
- Looking at the graphs provided, the data after today are estimates by the International Monetary Fund. This is positive news that a group of really smart people have faith in the world

economy because you can see the graphs estimate continued recovery, with Canada leading the way!

- Canada, once ridiculed for uncreative and repressive banking policies, is now the envy of the world. We have one of the most regulated banking systems.
- Overall, the bull forecasters have faith that while countries go into greater debt the production levels of GDP will climb and eventually the world will be able to start repaying that debt and pay it down to acceptable levels just as it has in the past. All the while governments need to work together keeping lending rates low between each other and maintain confidence.

How does all this pertain to denturism and your clinic?

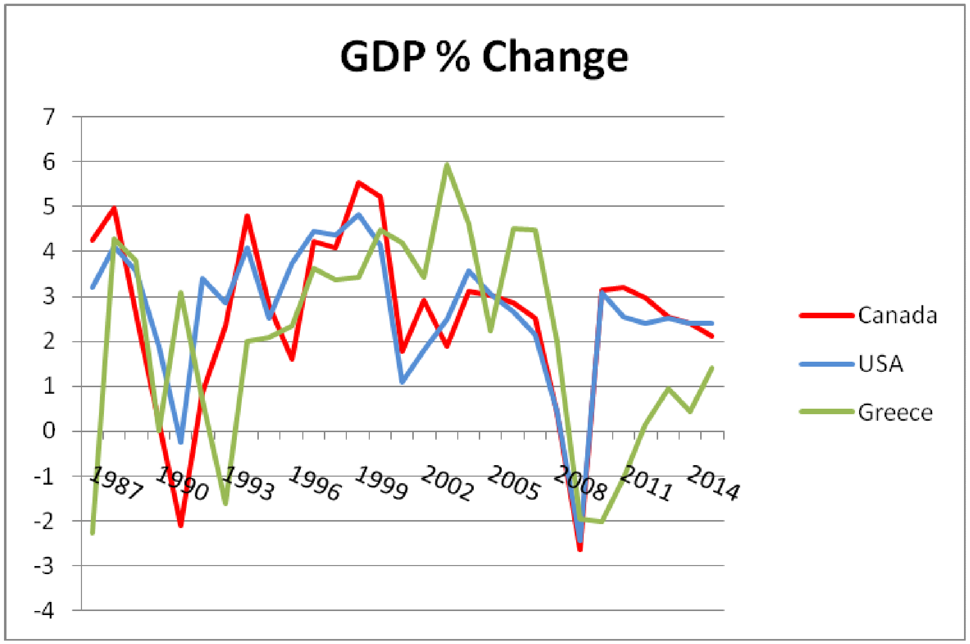
First of all, it's good to review these economic foundations so we can be active and informed citizens. Discussions like this will prevent us from falling in the ridiculousness of the "whatever gets our attention is news" culture. We need to be aware.

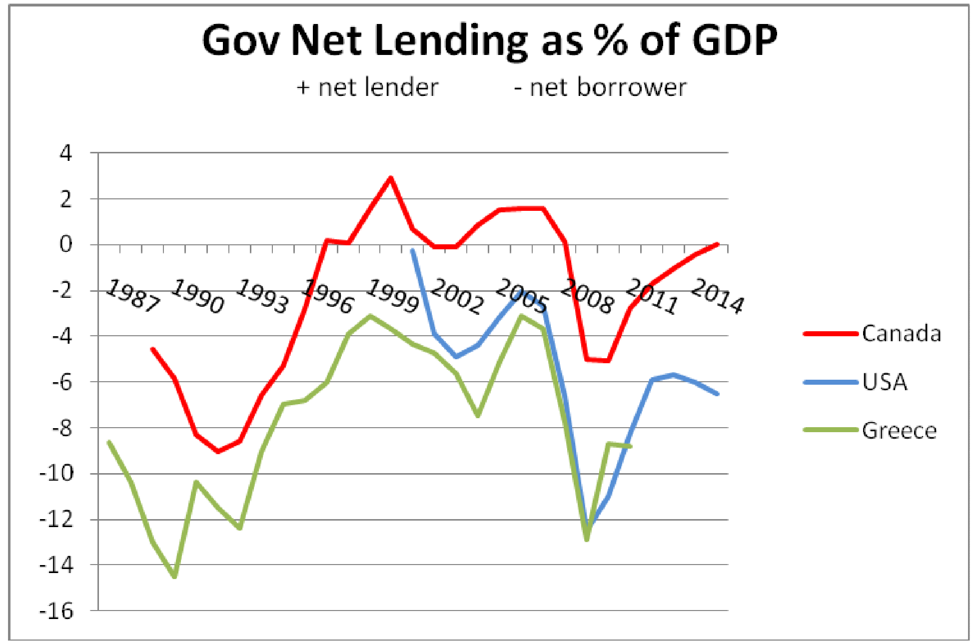
Secondly, the only real thing that causes an economy to grow is entrepreneurs\business owners. Governments can make it easier or harder for us to borrow money to invest, but ultimately we have to get creative and manage our businesses.

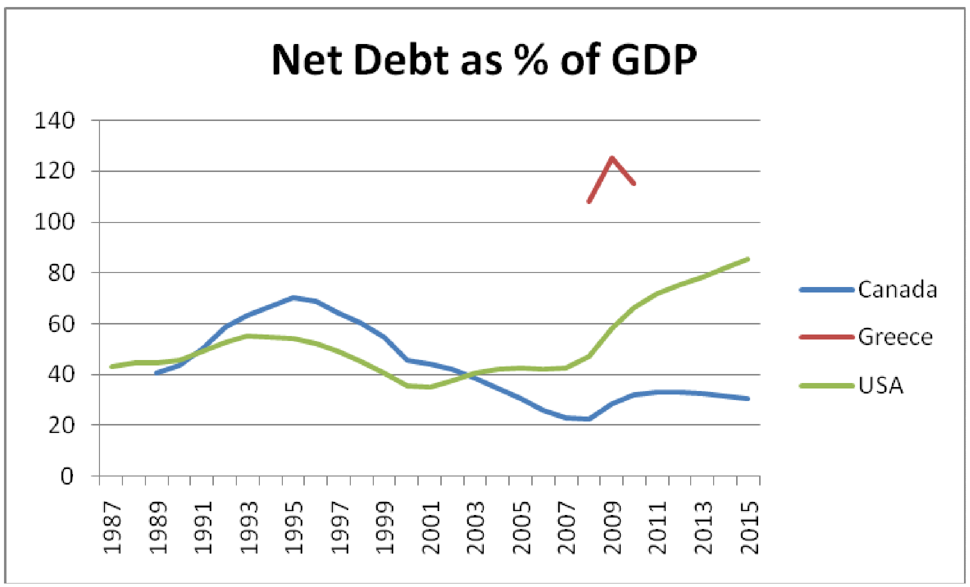
Here's a quick litmus test for your clinic.

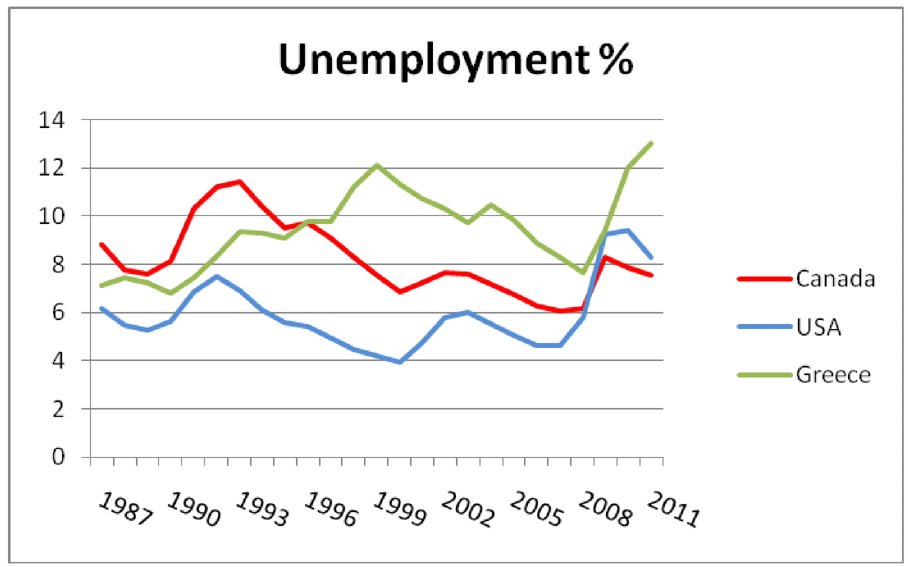
1. Are you waiting for the economy to change before taking steps to improve your business?
2. Do you have employees who are not productive and not paying for themselves?
3. Have you changed your marketing Strategies significantly to adapt to today's economy? (*look back at the winter issue of 2008 BC Denturist Magazine*).
4. Do you make your staff follow up on reminders?
5. Is 50% or more of your revenue coming from existing patients?
6. Do you have patients rejecting services based on price? Are patients getting multiple payment options?
7. Do you contact your existing patients at least once per year?
8. Are you engaging in managing your practice? This means Measure -> Plan -> Take Action and then repeat.

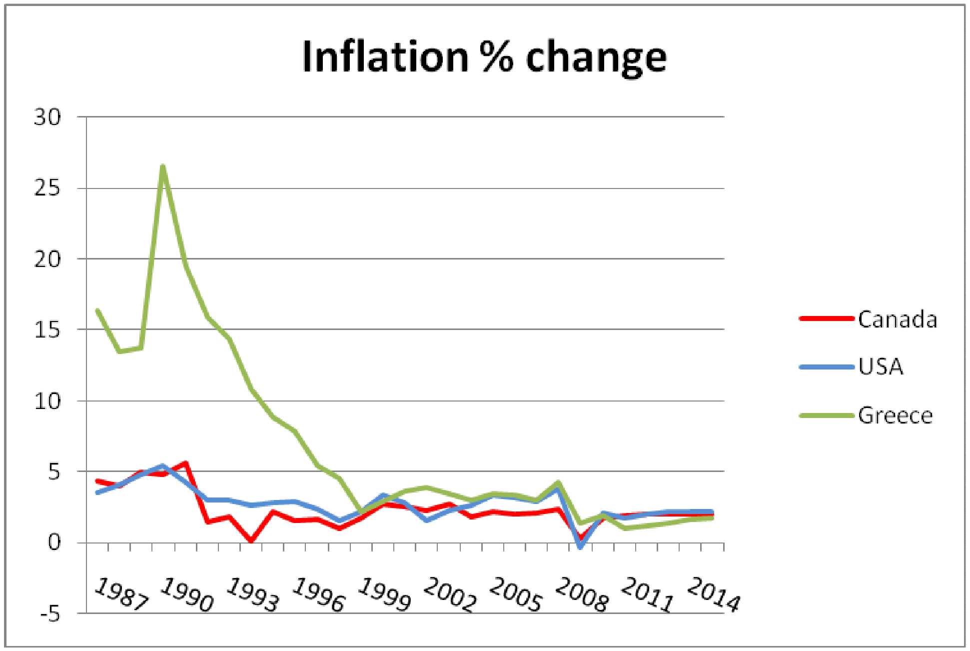
In summary, most media focuses on whatever gets our attention, which economy-wise is the stock market and fiscal policy (tax and spending). The stock market is about as useful as a roulette wheel, less the free drinks. It is more useful to look at GDP and unemployment as examples of good economic indicators. And while fiscal policy is important, we should also examine the monetary policy which is at least equally, if not more, important. As economically aware citizens we are in a better position to affect policy and as entrepreneurs it is up to us to be creative, productive, and aggressively manage our businesses. It's all about awareness and action – let's do it!


GDP % Change
7
6
5
4
3
2
1
0
-1
-2
-3
-4
1987
1990
1993
1996
1999
2002
2005
2008
2011
2014
Canada
USA
Greece


Gov Net Lending as % of GDP
+ net lender
- net borrower
4
2
0
-2
-4
-6
-8
-10
-12
-14
-16
1987
1990
1993
1996
1999
2002
2005
2008
2011
2014
Canada
USA
Greece

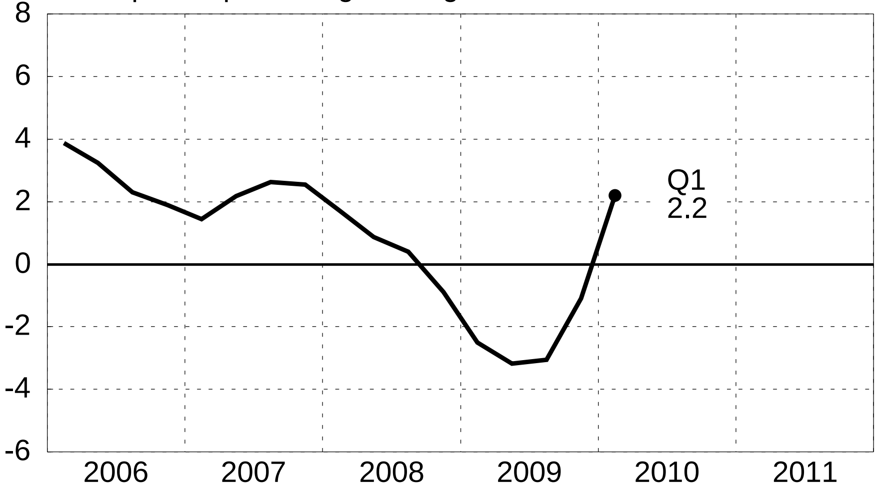

Net Debt as % of GDP
140
120
100
80
60
40
20
0
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
Canada
Greece
USA


Unemployment %
14
12
10
8
6
4
2
0
1987
1990
1993
1996
1999
2002
2005
2008
2011
Canada
USA
Greece


Inflation % change
30
25
20
15
10
5
0
-5
1987
1990
1993
1996
1999
2002
2005
2008
2011
2014
Canada
USA
Greece

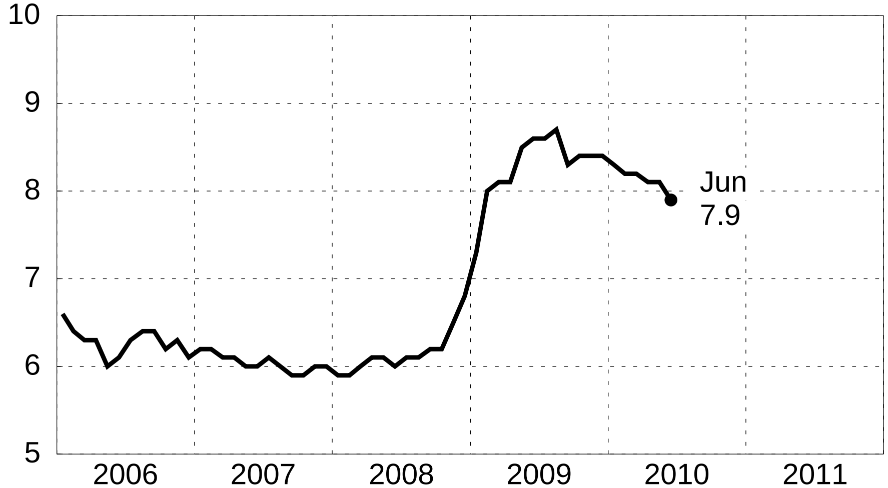
CANADA
Summary Indicators

Gross Domestic Product
Four-quarter percentage change

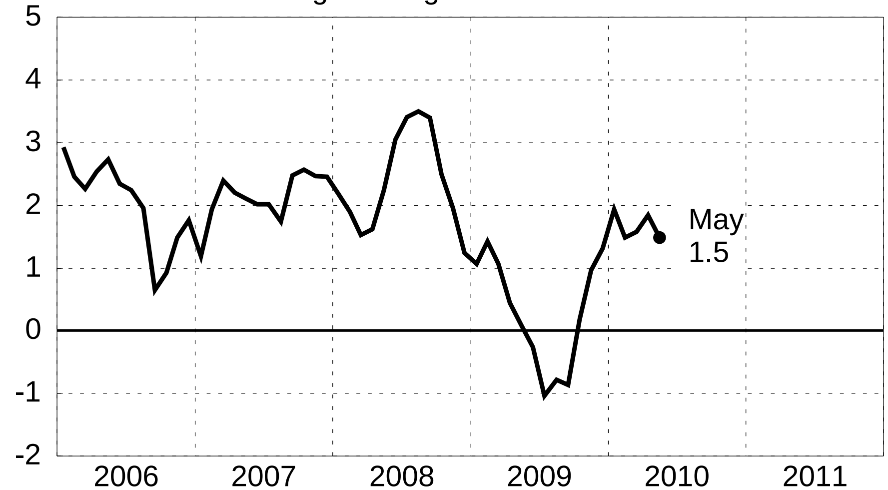


Industrial Production
Percent change over year-ago level

Unemployment Rate
Percent



Consumer Price Index
12-Month Percentage Change



Source: National Sources

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