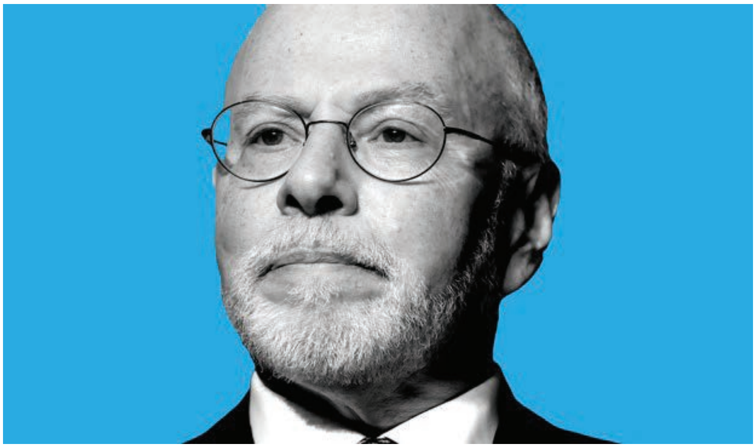
Institutional Investor

ASSET MANAGEMENT

Billionaire Paul Singer Accuses Central Banks of Thwarting Growth

The founder of hedge fund firm Elliott Management Corp. argues that "monetary extremism" in the developed world hinders economic expansion.

By Michael Peltz



PAUL SINGER, FOUNDER OF ELLIOTT MANAGEMENT CORP.
(PHOTO CREDIT: JACOB KEPLER/BLOOMBERG)

Few investors obsess more about risk management than Paul Singer, the billionaire founder of New York-based Elliott Management Corp. Since launching his flagship Elliott Associates hedge fund in 1977, Singer, 71, has been drawn to strategies like activism and distressed investing that enable him to manage the risk by influencing the outcome. One of the keys to Elliott's success has been Singer's ability to avoid losing money during market dislocations. "If you break even in a bear market or crash or financial crisis, you're way ahead of the game," he says. The legendary investor, who will be receiving a Lifetime Achievement Award at our annual Hedge Fund Industry Awards dinner on June 23 at the Mandarin Oriental in New York, recently spoke with *Institutional Investor* Editor Michael Peltz about the challenges he sees in the current global macroeconomic environment.

Why have developed economies been unable to achieve the growth they had prior to the global financial crisis?

I believe the reason is a bad policy mix due to an unwillingness on the part of all of the governments of the developed world to take the normal and obvious fiscal steps to increase growth. Instead, in the absence of pro-growth policies on the fiscal side, the sole support in the developed world has been monetary policy. There's been a more or less universally practiced set of monetary policies consisting of zero and now negative interest rates and so-called quantitative easing — various forms of asset buying. It started out as all bond buying, but now it's leaked into equities. The result of all that — I call it monetary extremism — is that the economies have held up and had some growth, but that growth has been tepid, with the biggest gains going to those who own financial assets while wage growth has been stagnant.

What has been the biggest impact of monetary extremism?

The major impact has been this exacerbating effect on inequality. The large rise in asset prices in conjunction with continued sluggish growth is a terrible mixture, and it is part of the equation of why you have this bubbling-up edginess in society among the middle and working class in the developed world because of underemployment. The cure for the crisis — for the debt crisis, the financial crisis — has been deemed by the developed world governments to be more debt. There has not been a deleveraging. And after seven and a half years and counting of this mix of policies, at the moment we're either in a stage of stagnation or rollover, possibly in the early stages of a global recession. So I think it's a very dangerous time in the financial markets.

Have policymakers relied too much on central banks to fix the global economy post-GFC?

Well, that's a great question, because I'd go further. The lack of humility among central bankers — which is proven by the combination of no apology and no understanding of the financial system precrisis, and by continuously, significantly erroneous projections postcrisis — is incredible. At the same time, presidents and prime ministers have been perfectly willing, desirous even, of letting the central bankers continue their emergency policies. They are grateful to the central banks for holding up the world, which gives them — the presidents and prime ministers — the excuse not to engage in pro-growth policies. So they can stand there and bash capitalists or bankers and get votes that way, because it distracts attention from their own failures. But bashing capitalism is ultimately dangerous. The reason policymakers think it works is because seven and a half years and counting, the world hasn't fallen apart and they haven't been called to task.

What can policymakers do to avoid another crisis?

Policymakers can transition the financial system into being sounder and more transparent, and transition macro policy away from quantitative easing. Stop the bond buying, stop the equity buying, but only while simultaneously implementing pro-growth policies in the tax, regulatory and structural areas. If not actually cutting taxes, making business formation easier and making their regulatory environments attractive to business location and expansion — including improvements in trade policy, education policy and job training and retraining. Raising interest rates and stopping QE without structural, pro-growth reforms would be negative, creating an instant recession. So you have to do both, together.

What can investors do?

We're very bullish on gold, which is the anti–paper money, of course, and is underowned by investors around the world. And we are very skeptical about markets. We hedge every equity position. We're not in the mood to be surprised — surprised in the sense of losing large amounts of money — ever, but in particular now with this extraordinary and unprecedented situation where the stability of financial markets is so dependent on confidence in policy makers and central bankers.