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# ARE THINGS REALLY DIFFERENT THIS TIME?

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## 1. INTRODUCTION: FALSE EMPIRES

First of all, I would like to say thank you to Nancy and Adlai Stevenson for inviting me here today to speak with all of you. The Adlai Stevenson Center on Democracy has an even more vital role than when it was first founded in 2008. Democracy and the ideals of democracy such as free speech are in real danger today. As Adlai's esteemed father once said, "A free society is a society in which it is safe to be unpopular." My aim today is not to be unpopular, but iconoclastic, that is to question the conventional wisdom about the way we see the world today.

One of my favorite bands is the National, and there are some lyrics in one of their songs that have been reverberating with me for some time: "we are all awake in a false empire." Because of our prejudices and assumptions, I fear we are failing to see the world as it really is. And speaking of assumptions, that brings me to economists and why they have been struggling since the great financial crisis to regain their footing, and the reputation of their profession.

The question that many have asked, including famously the Queen of England, is why economists did not foresee the housing crisis and the financial catastrophe that followed. The answer is simple. Although the world sees economists as forecasters, they are actually better quantitative historians. They are terrific at analyzing data that has already occurred, and inferring patterns. But the world is not a static place. Politics, technology, natural disasters—there are so many other factors that they cannot possibly foresee. So today I am not going to try to tell you what will happen, but what might be different, this time.

## 2. HISTORY

Back in 1992, one of our most famous public intellectuals Frank Fukuyama proclaimed the end of history and the triumph of liberal democracy. He was wrong, or perhaps just ahead of his time. The truth is, history is very much in process, and we are living sometimes catastrophically with the results of history, especially the events leading up to World War II, and the decisions that took place in its immediate aftermath. To give you but one example, Korea did not become a divided state as a result of the Korean War. That occurred in 1946 when the United States and Russia, which borders Korea, decided to divide the country into two, as happened with Germany. China was not consulted at all at the time. Had that not happened, North Korea would not exist today.

The lesson to take away from this is that borders and the nation state still matter. For a while, we began to dream of a borderless world, globalized in all respects, including the frictionless movement of people, cultures, goods, and communications. That has not been the reality of the 21<sup>st</sup> century. Niall Ferguson has a wonderful article [Borders Are Back and a New Great Game Looms](#) in the Times of London, which goes into some detail on this bouleversement. He describes the current environment, which is creating fractures within and between nations, and cites the examples of Brexit, and the Catalan and Kurdistan elections which are creating more rather than fewer borders. The ultimate border guard? Nuclear weapons, which are in my opinion, bound to proliferate.

Raghuram Rajan, the former central bank governor of India who is a professor at the Booth School, has talked about the desire for localized, more accountable governments that is behind this trend. Worth watching this video of his lecture at the Spring IMF meeting: [Populist Insurrections: Causes, Consequences, and Policy Reactions](#)

Brexit is a wonderful example of this--the desire of people to control their own destinies, not entrusting their lives to far off extranational entities that don't know enough about their local issues and culture. Even efforts that appear to be cross national, are not in reality, for example the Paris Climate Change agreement has sub-agreements for each country: <http://unfccc.int/focus/items/10240.php>. Russia for example, is exempted from any environmental controls over its energy industry. So how else have we been hoping to achieve globalization? The World Health Organization for example, is dangerously underfunded. Laurie Garrett is the writer I follow on these issues: <https://www.foreignaffairs.com/articles/west-africa/2015-08-18/ebolas-lessons>

### 3. TRADE AND BUSINESS

Trade and global supply chains might have created access to more goods, but now economists and politicians are debating the costs. Economic studies show that those affected by loss of manufacturing jobs that have gone elsewhere, never recover their economic or even their former health status. Labor mobility has plummeted. There has been a cost to some number of our fellow citizens of the cheap availability of goods at Walmart. And for those who think that strong trade links prevent war, I ask who were Germany and Great Britain's largest trading partners prior to World War I? Each other. Countries like people, sometimes commit suicide.

When I talk about a false empire, one of the clearest examples to me is that despite increasing nationalism, the truth is overall, governments are not as powerful as they have been. Luigi Zingales at the University of Chicago has recently written a paper

[Towards a Political Theory of the Firm](#) that discusses the true power of multinational firms in the world today. He cites the powerful effect of lobbying on the regulatory and legal framework of the United States. Does their ascendancy explain the incredible rise of the stock market since the financial crisis? I'll talk more about markets later.

#### 4. MEDIA AND TECHNOLOGY

The Internet was seen as a way to erase physical borders. My own company at the time, China Online, was mentioned in one of Tom Friedman's books as an example of how technology could help to create freedom of expressions and cross-global transparency. The truth however is that the Internet, more specifically the companies that have grown up around it, have created the perfect environment for a totalitarian state to track its citizens.

A reaction is occurring to this centralization: blockchain technology and cryptocurrencies which promise anonymity even if performance is dismal. I'm not sure if blockchain will succeed, or if cryptocurrencies will be destroyed by regulation. But the desire for privacy and security is going to create opportunities for companies that can deliver on this promise.

As a member of the media, I am not however joining the chorus of those blaming the media for everything that is wrong with our world. It is simply another case of a diminuendo of centralization and authority that I feel is inevitable. Newspapers pile up on my desk for my weekly Sunday review, but I use Twitter to create a feed of information from media outlets and individuals from around the world-many of whom hold views counter to my own that I find challenging.

#### 5. TWO PUZZLES FOR ECONOMISTS

So back to economics, from politics. There are two big puzzles today for economists. One is the continued low levels of productivity improvement. This is a complex subject, and I highly recommend Northwestern economist Robert Gordon's recent masterwork, *The Rise and Fall of American Growth*. Basically, his argument is that the productivity gains created by example by railroads and electrification were transformative in economic terms compared to say Facebook, which some say might actually hampers productivity. But just because the next real technological leap hasn't happened, it doesn't mean that this condition will be true forever. Looking at health care, I truly believe that there is no political solution, and no amount of money that can solve our current conundrum. But medical technology, from diagnostics to telemedicine, will radically improve our planet. We need to devote more investment to R&D in this particular area, as fast as we can.

The other puzzle, the one that has stumped central bankers around the world, is inflation or rather the lack of inflation, in spite of extremely stimulative monetary policy. And as historic easing has continued not to work over the last decade, the central bankers kept piling on, not just with lower and sometimes even negative interest rates, but with unprecedented new policies such as quantitative easing. QE simply means that central banks bought both debt and equities, inflating markets if not prices. The current balance sheets of central banks worldwide now contain \$20T of assets. Fed Chair Janet Yellen has just announced that she will begin unwinding, or selling US assets. Depending on the rate chosen, the result could be either ineffective or could negatively affect markets. It is an experiment without precedent in economic history and the risks of policy failure by at least one of the world's major central banks are extraordinarily high.

[Karen Petrou](#), an analyst who heads up Federal Financial Analytics in Washington, is very worried about the inequality that asset inflation has created. In 2007, about 65% of Americans owned equities; the figure is now 52%. I did some calculations after reading her research, and found that the increase in market valuation has created an average increase in wealth of \$50,000 per person for those who own equities since the crisis. Housing, the major source of wealth for most Americans, is another story except for small pockets of extreme increases in value in places like Silicon Valley. And now figures show that because of the lack of increase in wages, where there has been appreciation, people are once again using their homes as ATM's to pay off credit card and other debts. Low interest rates are wonderful for those who have good credit, who can borrow and invest, but of no value to someone with a private student loan or credit card debt with rates determined by companies and not the Federal Reserve. Perhaps the Fed should concentrate on ceilings, not floors, for borrowing.

And a word about debt as a risk overall: China's debt, and US corporate debt, have doubled since 2008. There is a debate between economists over whether debt matters, and here I would point you to our website [EconVue](#) to read a range of views from a panel of experts on this topic.

## 6. DEMOGRAPHICS

My final point about what might be different this time is about demographics, as immutable as it is forecastable. By 2050, Nigeria will surpass the population of the United States, which will then become the 4<sup>th</sup> largest country in the world. Only 1.2B people will live in the developed world. Absent war, pestilence or other disasters, world population will be at almost 10 billion people, peaking by 2100 according to present models. Africa will then be home to 39% of the world's population, and is the only continent that will not be affected by a negative demographic age curve.

By that time, it could be a whole new world, with geographically gifted Africa as the world's data center, driverless electric cars, content controlled by its creators, extreme political decentralization and localization, on-demand manufacturing, and all of our devices attached to the Internet of Things.

## CONCLUSION

So, wrapping up--new forces visible today have already begun driving our future. Geopolitical and economic risks are increasing, and keeping track of this is not an easy task.

For those of you who attended hoping to learn more about the stock market, 83% of CFO's of major companies think that the stock market is overvalued, as does Robert Schiller, the Nobel Prize winning economist from Yale. You might enjoy (or not) reading his recent article [The Coming Bear Market?](#)

I'd be happy to answer any questions you may have about these or other matters.

For links to all the papers I have mentioned you can find them on our website, EconVue.com or you can follow me on Twitter @lyrichues