

Why is the World in such an Economic Mess?

Petros G. Doukas Lecture at the «Capital Link 7th Annual Greek Shipping Forum» (16/02/2016) @ The Divani Caravel Hotel

Have you wondered why the Central Banks of Japan, Switzerland, and other countries have brought their lending rates to negative levels and economic activity is not picking up?

It's because global debt levels are around \$250 trillion, whilst global GDPs add up to only \$80 trillion!

70 years of no World Wars, 70 years of relative peaceful coexistence, coupled with the human eagerness to be creative, take risks and accumulate wealth (what Keynes termed "animal spirits") have given rise to unprecedented levels of credit creation!

The EBIDA that all the assets, factories, real estate, know-how, labor, etc., generate is just not adequate to service such huge levels of debt!

Still, over-indebted entities need funds to finance their own working capital needs, service their own debts, and to extend credit terms to their clients who are also already over-indebted, and who need credit for similar reasons and so on and so forth!

Pumping more loanable funds to economies that are already over-indebted is NOT going to do the trick! It's like throwing buckets of gasoline to an engine that has stalled!

We are in a DEBT-death TRAP something sort of akin, but also very different to what KEYNES described as a LIQUIDITY TRAP situation!

{And all of the above without taking into account the quasi-insolvent social security systems! Maybe a \$20 trillion projected cash deficit for the US Social Security System?}

We are indeed in the middle of an evolving world-wide economic crisis! Lets review briefly the nature and the essence (φύση και ουσία, as Aristotle put it) of the four "situations" the world economy is faced with, that lead to lower economic growth and retard job creation!

If we don't understand what is really going on, we won't be able to design more appropriate policies!

1. Hyper-indebtedness

As discussed, above! No easy way out! Maybe by financing projects by printing money which would tend to reduce the market value of the outstanding debts!

2. Global Income & Wealth Inequalities and the compression of the Middle Classes.

I. The "RICHEST 1%" holds about 40-45% of the World's Wealth!

II. The 62 richest billionaires have a combined wealth equal to the total wealth of the poorest 50% of the people of this planet (=3.3 billion fellow-humans)!

But even between these super rich, there had been a continuous concentration of wealth!
In 2010, it took the richest 388 individuals to have as much wealth as the poorest 50% of the planet!

2010 - 388

2011 - 177

[2012 - 159](#)

2013 - 92

2014 - 80

2015 - 62

Such concentration actually is NOT historically unprecedented!

The greatest lawmaker, LYCURGUS of Sparta, around 820 BC divided the land of the Spartans into about 9000 equal plots! By 350 BC King Agis II, faced a situation where the total original 9000 free-holdings were held by only 100 Spartan families!

The great lawmaker Solon of Athens (594-593 BC), also faced strife in Athens because of the over-indebtedness of the many (οί πολλοί) and instituted a major debt-absolution program (= Σεισάχθεια)! Still the poorer Athenians were not grateful, as they expected that Solon would also enact a land redistribution scheme (which he didn't)!

Both Lycurgus and Solon had to leave their home towns and travel to Egypt, as they could not take the nagging and bickering of their fellow-citizens!

[read Xenophon and Aristotle and Plutarch on these stories]

Lessons:

- *"INSTITUTE REFORMS & LEAVE THE COUNTRY" and*
- *"CANT BE A TRUE REFORMER WITHOUT TAKING A HUGE PERSONAL COST"*

Of course the wealthier face progressive income tax rates and pay a very high percentage of the total income taxes and of consumption taxes, etc!

Maybe if we have more high-income generators, the poorer 60% of the population may not need to pay ANY income taxes!!

Nevertheless, income and wealth inequalities have other side-effects; they cause a sense of alienation, dissatisfaction, insecurity, and envy!

In the absence of a wide, strong and healthy middle class (which historically -as Aristotle detailed- acted as a buffer between the aggressiveness of the very rich and the aggressiveness of the very poor), and the lack of credible prospects to improve one's 'predicament', these inequalities lead to:

- Higher crime rates
- A general sense of insecurity
- A more leftist or populist domestic political orientation
- A general sense of instability

This explains the rise of SYRIZA in Greece from 4% to 36% within 6 years, and the rise of more nationalist Presidential hopefuls in the USA!

3. Geopolitical Disturbances

Such disturbances cause frictions, a wide-spread sense of insecurity and call for increases in defense spending!

As a result they retard commercial and business activity!

Lets review a few:

3.1. The rise of jihadism with the brutal executions even of muslim kids, causing a wide-spread of insecurity and the destruction of a number of countries.

3.2. The increase in the number of *"failed states"*, that is of Countries that have ceased to operate as functioning administrative entities. They have become hives of lawlessness, fanaticism and chaos and have caused millions of their inhabitants to flee their borders! Take a look at Iraq, Afghanistan, Yemen, Syria, Libya, Somalia, possibly regions in Nigeria, Mali, NW Pakistan and elsewhere.

3.3. The destruction of Syria, with an untold human, social and economic cost, adds to the sense of instability and insecurity, feeding the refugee problem and secretly having Jihadi agents pretending to be innocent refugees seeking to gain access to Europe!

3.4. Russia's actions in Crimea, Eastern Ukraine and Syria have caused the imposition of heavy sanctions that have isolated Russia from mainstream economic and business transactions, adding to the weakness of overall global economic activity!

3.5. China's active claims on the whole South China Sea and the creation of military bases on land-reclaimed reefs has caused tensions with Taiwan, the Philippines, Indonesia, Vietnam and the USA! Keep an eye on this conflict that is also closely watched by Malaysia, Singapore, Cambodia, India and Australia!

4. WINNER TAKES ALL

While the global economy is facing "that sinking feeling", money tends to flow to those countries that are safe havens and 'winners'!

And who are the winners?

1. The USA
2. The UK
3. Switzerland
4. Germany

And why are they winners?

They are winners because they meet some core criteria:

1. Stable political environments, without mid-term over-throwing of their Governments ,
2. Well-functioning public Administration, with minimal Government day-to-day interference and control,
3. Respectable Judiciary that dispenses justice in a timely manner and with acceptable and acknowledgeable professionalism,
4. Solid infrastructure systems that include monetary and fiscal policies, transportation systems, etc.,
5. Positive attitude towards new ideas and individualism.

Nevertheless, even those "winners" have to face the harsh global realities, but they get that extra "winner" cushion!

This what I think is going on and explains what is going on!
There is NO quick remedy!

- This is why global stock-markets are so skiddish (downwardly)
- This is why I disagree with Professor Olivier Blanchard, xChief Economist tou IMF who wrote: "***I think the explanation is largely elsewhere. I believe that to a large extent, herding is at play. If other investors sell, it must be because they know something you do not know. Thus, you should sell, and you do, and so down go stock prices. Why now? Perhaps because we have entered a period of higher uncertainty. The world economy, at the start of 2016, is a genuinely confusing place.***" -No, there is no confusion and no "herding"! Just too much debt!
- This is the cause of the decline in the price of oil (energy savings and the introduction of alternative energy sourced, of course have also contributed to this) and of coal!
- This also explains the decline in the price of iron, steel and copper and of almost all agricultural commodities!
- This is what has caused the collapse of bulk carrier bulk rates with disastrous consequences of the Greek marine sector and the Greek economy!

Of course analysts and investors need to consider a host of other developments: climate change, the aging of the population in some regions, the situation with the weapons of mass destruction, the behavior of North Korea, etc.

And also, more immediately,

- 1. The state of the European banks*
- 2. The state of the Chinese banking system, given that "loan-to-value" ratios are continuously deteriorating*
- 3. Russia's economic situation, given the multi-billion costs of supporting Crimea, its involvement in eastern Ukraine and Syria, the collapse in the value of commodities that provided huge foreign exchange revenues, and the huge cost of the international sanctions! The Western powers need to help find solutions to these issues and get Russia back into the mainstream!*

On the plus column

- 1. Most predictions don't get realized*
- 2. As Aristotle pointed out, the human desire for income and wealth is insatiable! There is no diminishing marginal utility in accumulating wealth! «Ἀπειρος ἡ τῆς ἐπιθυμίας φύσις» [Polit. 1267b].*
- 3. The gradual re-introduction of Russia, Iran and Cuba into the world economic web, will support global demand and economic activity!*
- 4. Technology is continuously improving, helping make things faster and better, but also allowing faster and cheaper access to knowledge for billions of our fellow-humans!*
- 5. Humanity has survived even worst situations: World Wars, Cold Wars, nuclear terror, genocides, bubonic plagues!*

There are plenty of top brains around!
Solutions will be found!