

All change: destination not yet known

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Wellington Club winter lecture series

6 June 2012

Greece is insolvent and voting whether to stay in the eurozone or not as its economy implodes. Spain has unemployment of 24% overall and 51% for young people. Ireland's gross domestic product is 11% below its peak. Japan is flat for the 22nd year running. The United States' "recovery" is either elusive or illusory, still not generating more jobs than the growth in working age numbers. There is some commentary which draws a parallel between current conditions in Europe and the 1931-32 banking collapses in the United States which tipped a deep recession into a world depression.

The backdrop to this economic turmoil is a tectonic shift in global politics and economics as China muscles in, with India and a raft of other countries following: China is planning for "only" 7% GDP growth henceforth and Indonesia is running about that speed. Add in the rapid, sometimes bewildering innovations in cyberspace, radical changes in the production of goods and services, shifts in how and where we live and a scramble for resources to get rich or stay rich. We are living through what some historians call a disjunctive event. We are in uncharted territory, headed towards a new world order in politics and economics, the shape of which we can't yet define.

For a parallel go back to August 1914. Europe's empires went to war, expecting a fist-fight and "home by Christmas". Four and a-quarter years and millions of deaths later four empires lay dead and a fifth mortally wounded and the map of Europe was redrawn. Fascism rose from the ashes of two of the dead empires and communism from a third. That precipitated another devastating war covering vast areas of the globe. By any measure, 1914 was a disjunctive event.

The United States emerged pre-eminent on our side of that contest — but then it generated and climbed unsteadily out from another disjunctive event, the 1929 stockmarket crash, stoked by inventions in finance and, through electrification, in production. Out of that disjunctive event came the welfare state.

Business as usual in 1949 was unpredictably different from business as usual in 1914, just 35 years earlier.

Of course, there was much continuity. In hindsight, historians distilled subterranean changes in the German, Austro-Hungarian, Russian, Ottoman and British Empires which pointed to their likely decay and demise; war ripped away the protective veil. Some seeds can be seen in the revolutions of 1848 across Europe which at the time appeared unsuccessful but under the surface reflected societal changes which eventually changed political orders from below. These changes were fuelled by fast and big changes in industry and the ways it was funded (shares and debt) and in the nature of work which spawned middle class and working class political consciousness and organisation. (I think there is a parallel in the Arab spring — by 2030 or 2050 the Arab world will look very different.) Historians have also traced fascism back to the French enlightenment via a warp of political thinking coupled with national myth, which depression hardship made irrationally attractive. Communism came via a different warp coupled with a myth about a "proletariat". The link between them is anti-democratic authoritarianism.

The buildup to the 1914-18 war was like the buildup to an earthquake: intensifying pressures, suddenly released. Earthquakes happen in society, politics and economies as well as in geology. They are times of upheaval and disorientation when the usual fixes don't work.

That is what we are living through now: an earthquake and its many years of aftershocks. Where this fetches up nobody yet knows. All we can know is that we are heading into a different way of doing things from what we did before 2007. The new normal will not be the same as the old normal. The good news, if that is the right phrase, is that this global human earthquake was triggered by a financial event, not a war — though we perhaps should not breathe easily on that score yet.

The pressures were visible: China's rise, huge global economic imbalances, changes in production methods, finance and debt. China's rise, I have argued since 2003, will end the 500-year European/North American dominance of the ideas that drive science and the organisation of societies, politics and economies. A contest of ideas generated in widely differing cultures will replace the contest of ideas within one closely aligned set of cultures. Thus, for example, China is asserting that its version of state capitalism is superior to the United States' liberal version. China's injection of a huge, cheap labour force into the global economy in the 1990s, coupled with computerisation of manufacturing and services in developed economies, radically cut costs and prices. In 2001 I asked Murray Sherwin, then deputy governor of the Reserve Bank, why prices were still going up and not down. Murray suggested I write a column along those lines but, not being an economist, I didn't. I also puzzled at the steep rise in debt and widening trade deficits in our sorts of countries and eventually wrote a column in January 2006 arguing Alan Greenspan had massively increased money supply, thereby stoking a huge mountain of debt and an unsustainable trade deficit. In a future scan I did with Statistics New Zealand that year I rated as a 25 per cent possibility a severe global recession as a result of a disorderly unwinding of the imbalances.

I don't claim any prescience. After all, I rated that global slump at 25 per cent, not 75 per cent. I was applying commonsense, not complex algorithms and mathematical formulae of the sort that informed Alan Greenspan and Ben Bernanke who provided the intellectual underpinning for Greenspan's monetary party and who now seems to think it is proper for central banks to print money furiously. But when the edifice built on derivatives (which brilliant algorithms "proved" were safe) began to disintegrate in 2007 and then collapsed in 2008, I was sure there could be no "recovery" to "business as usual".

Like the historians wise after the 1914-18 war, we might detect the origins as far back as the 1960s when my generation, the baby-boomers, challenged settled notions of how our society and economy should be ordered and how we should live — Americans have called it a "values revolution". We demanded "freedom". It is no accident that when our generation came to power it adopted and enshrined a much freer market liberalism in economics. In addition, in this country we shucked off the empire: the 1970s and 1980s were our "independence revolution", which intensified the neoliberal sea change imported from elsewhere. The freedom phenomenon was not confined to "western" societies. Baby-boomers in the Soviet empire were wearing jeans (when they could get them) and listening to the Beatles and Simon and Garfunkel and in doing that were subversive but not in an overtly political sense. In 1989, when they reached their 40s, the Berlin wall came down and so did the Soviet empire. There were many other factors, of course, not least the unsustainability of the command economy, but the new generation was of a mind to break out of the chrysalis and make a new economy and society.

Then came globalisation 2, the Uruguay free trade round and the rise of the internet and the capacity to move money and investment around the world faster and in unimaginable quantities. People began to move in large numbers. Production shifted to where it was cheapest. Computerisation reworked manufacturing and services.

Tom Friedman of the *New York Times* called this the "flat earth". Now call centre wages are the same in the United States as in India. If you are taken on as a new employee in a General Motors or General Electric factory in the United States right now you are paid \$US15-\$US20 an hour less than existing workers alongside you. (A distant version of this is going on in Ports of Auckland.) Apple's iPhone contributes \$US2 billion to the United States' trade deficit with China — but the profits to Apple are many times that \$US2 billion.

Along with that global flattening went three other major shifts.

One was into cities. The world's population has been urbanising for two centuries — a bit longer in Britain. Now more than half of all people live in large cities. (For the record, Sydney barely qualifies.) Some 600 of those cities produce 60% of the world's GDP. McKinsey and Co reckons around a quarter of those top cities, all in Europe and the United States, will drop out by 2025 to be replaced by rising cities, almost all in Asia.

There is a subset of those cities: places where the "creative class" (as Richard Florida calls them) live and work and which Phil McCann (ex Waikato University, now at Groningen in Holland) calls "spikes" of people engaged in non-routine, high-knowledge-intensive activities. Silicon Valley is the archetype. McCann — and now Friedman — say that the world isn't flat after all. There are wide disparities of income between the creative class' innovators, their financiers and owners and the rest.

The second big shift in globalisation 2 was the rise of finance. Computers enabled far faster transactions. Computers also enabled complex algorithms to be written which, coupled with a new reticence to regulate, led to those brilliant innovations that came adrift from reality: the Black-Scholes algorithm proved that mortgages lent to people who could not pay the interest somehow were safe bets. Coupled with Greenspan's orgiastic monetary party and other central bankers' belief that prices should always go up (just should not go up too much), that generated mountains of credit which people in our sorts of countries borrowed with abandon. The Treasury thought there had been a structural economic change. Now that we have sobered up, Bill English and Treasurers in our sorts of countries are trying to remedy the damage. Getting debt down is a 10-to-20-year project and it will be hard going. The 2010s feel very different from the 1990s and 2000s.

The third big shift was in production. The *Economist* a few weeks back published a rather gushy supplement on "the third industrial revolution", a world in which computerised machines are programmed to make items from raw materials, dispensing with the need for hands, that is, workers. The material gains could be stupendous, as in the first industrial revolution. But, as in that first revolution, there is a social cost: the shredding of what the Americans call the "middle class", people paid good wages, owning their houses and expecting their children to do well. Add that to the transplanting of routine manufacturing and services jobs to cheap-labour countries and the result is the hollowing out of that "middle" in our sorts of societies. The displaced workers, mostly male, end up on the dole or in much-lower-paid service jobs. That has widened income and wealth disparities.

We know about that. It started here in the late 1980s. We are now in the third generation

of those who lost their well-paying jobs and whose grandchildren either don't have work or are poorly paid and don't see a better life unless they go to the mines in Australia.

This is not socially or politically sustainable. The GFC has stripped away the veil of debt. The disorientation, confusion, disillusion, resentment and anger are finding a political voice in populist and extremist parties. In 2010 the Tea Party scored remarkable successes in the United States mid-term elections and it is still winning Republican nominations for the Congress in this year's elections. The Tea Party promulgates a mystical and mythical version of the origins and modern essence of United States society. In the French presidential election last month the Popular Front of Marine le Pen, a right-wing populist movement, scored 18%, a far more important development than the election of a 1980s-Socialist President. In Greece a populist movement of the left soared in the May elections and a fascist movement got 8%. In Germany a nerdy bunch calling itself the Pirates is polling 10%-12%. These represent a popular rejection of orthodox left and right politics. That is common in times of great social and/or economic stress: we last saw it here in the 1930s. Where it might lead we can only guess but it would be unwise to think it will go away soon. Only when we get to the "new normal" can we expect stable politics again. Meantime, hold tight. It could get bumpy.

That's just in our sorts of countries. Look around. China is in hot transition, with no certainty its politics, domestic and external, will stay manageable and peaceable. The United States is edgy about its diminished primacy. Add into that mix increasing global competition for water, resources and fuel as China and other "emerging" economies push for their citizens to be as rich as Europe's, Japan's and North America's. Toss in climate change, which is the prisoners' dilemma writ global. It might all go swimmingly and peacefully. But the potential for it to go bad, even seriously bad, cannot be discounted. And, as in 1914, it could be something quite small that sets off mayhem. As if we don't have enough economic mayhem to keep us on edge.

What does all that mean for us here — a tiny, defenceless orphan in a rapidly changing, quite likely unstable and possibly hostile world?

First, count up our blessings: abundant water in a water-constrained world; abundant energy in an energy-constrained world; the capacity to grow, catch and process high-quality food in a food-constrained world which will increasingly afford high-quality protein; less impact from climate change than most other countries; distance from mayhem (boat people don't come here); a great fresh-safe-natural brand; political and legal institutions that are up with the world's best; a good education system by world standards; a generally tolerant people who are inventive and adaptive; and on most broader rankings of prosperity, as distinct from GDP per capita, up in the top 10. We manage all this suboptimally but, seen from the outside, this is a desirable place and I think we are likely to become a highly desirable place — to foreigners, if not to ourselves.

But now note we no longer do what used to be the rule when I grew up in Presbyterian Southland and Otago: learn hard, work hard and save hard. Or rather, many of us do but many of us don't. Chinese and Koreans and Indians do. And they have money, particularly the Chinese. Twenty years ago I used to say we would be Chinese by the end of this century and people would look around for men in white coats to take me to a quiet place with padding. I think 20 years from now our Asianisation will be a big talking point. By choosing high debt instead of high earning, we have in essence said we don't want to own our own country. Well, there are people who do want to own our country and they have the money, enterprise and desire. The median population projection for this country in 2030 is 5 million. What if it is 10 million and majority Asian?

What is the alternative?

Actually, there is one. Vangelis Vitalis, arguably our top diplomat, now in Brussels, points to the tiny state of Plataea, which was one of the few to survive intact the tricky, shifting politics of the Peloponnesian Wars in Greece two and a-half millennia ago. If we work out how to be strategic and nimble, as David Skilling argues we can be, and don't get locked into one great power or another as they jockey for supremacy, we could do very well.

But we have become defensive. We are a rich, developing country, rich by global measures but developing because we sell water and landscape much more than brain-products. We are still essentially a "quarry economy" and we see a large part of our salvation in more quarrying — of minerals, coal, oil and gas, cows and tourists — which on our track record of the past 20 (some would say 50) years we are unlikely to turn into lasting, high-income productive investment or even squirrel away in a sovereign wealth fund.

We focus on the "rich" part of "rich, developing" and get morose when yet another country goes past us and when Australia is so much richer (on minerals, oil and coal). That makes us defensive. If we focused instead on the "developing" we might see and act on opportunity. We might put back in our everyday vocabulary the word "progress" which a century ago was the byword for an upwardly mobile colony. And we might build the sort of mentality that could make us the Plataea of the twenty-first century — resilient, nimble, strategic and confident in the "new normal", whatever that turns out to be when we are through this swarm of global aftershocks.

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