

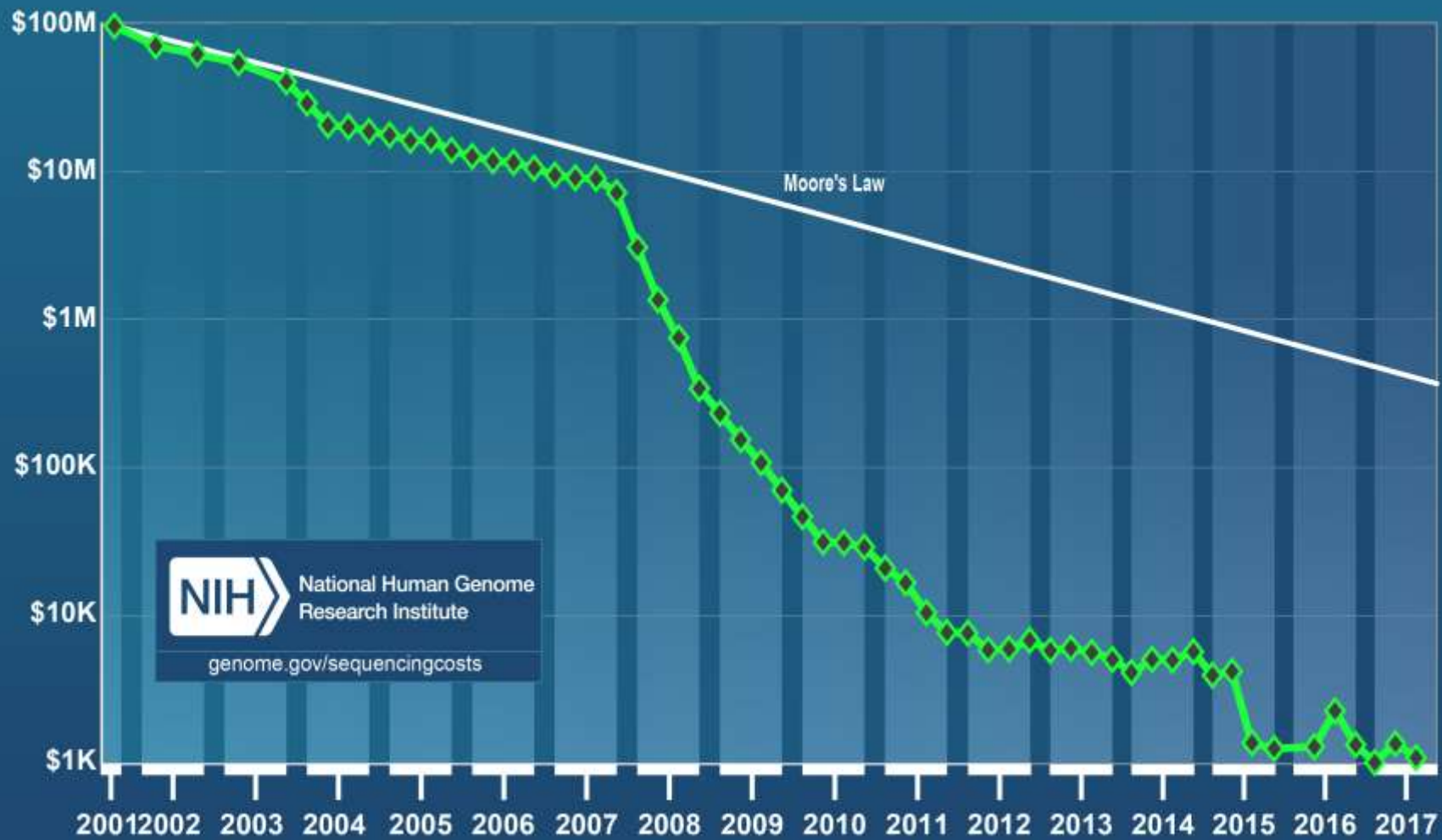
# EUPHORIA & FOREBODING

Global financial challenges and political risks

PAUL MASON



## Cost per Genome



**STRUCTURAL PROBLEM**

## CAN CAPITALISM ADAPT?

- Falling costs
- Automation
- Network externalities
- Information asymmetry

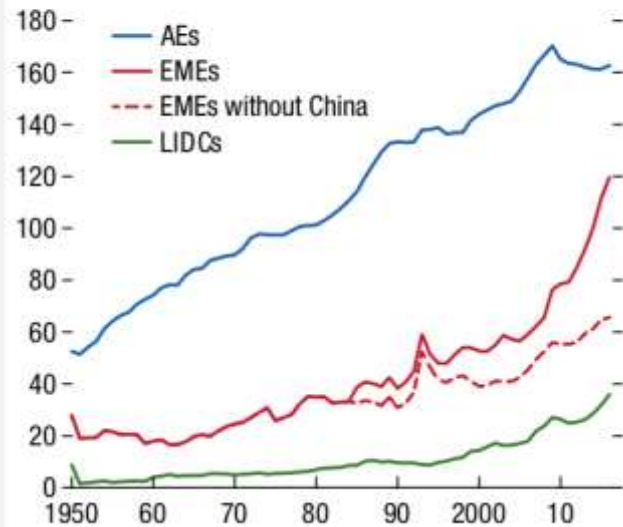
## CAN CAPITALISM ADAPT?

- Falling costs | **Monopoly pricing**
- Automation | **Precarious work**
- Network externalities | **Rent-seeking**
- Information asymmetry | **IP+++**

**DELEVERAGING?**

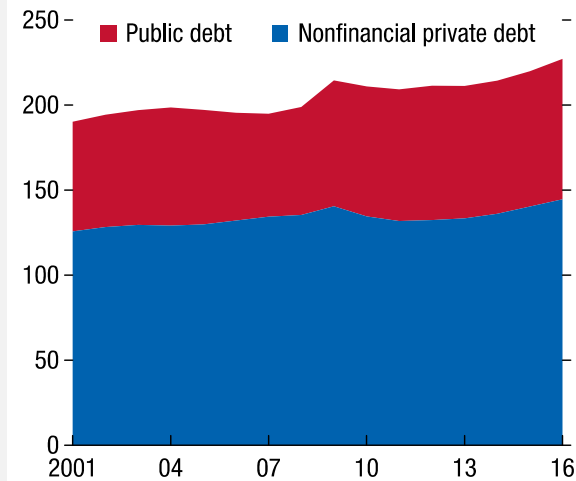
**\$164TR DEBT = 225% GLOBAL GDP**

**Figure 1.1.2. Nonfinancial Private Debt, by Income Group**  
*(Weighted average percent of GDP)*



Source: IMF Fiscal Monitor April 2018

**Figure 1.1.1. Global Debt**  
*(Weighted average percent of GDP)*



Sources: Mbaye, Moreno Badiá, and Chae forthcoming-a; Global Debt Database; and IMF staff calculations.

Note: Data refers to the gross debt of the nonfinancial sector—comprising the government, households, and nonfinancial firms. The weighted average is calculated separately for public and nonfinancial private debt using an unbalanced sample comprising 190 countries.



## MARK CARNEY – 2016

“Has exceptional monetary policy merely **bridged** two low-growth equilibria?

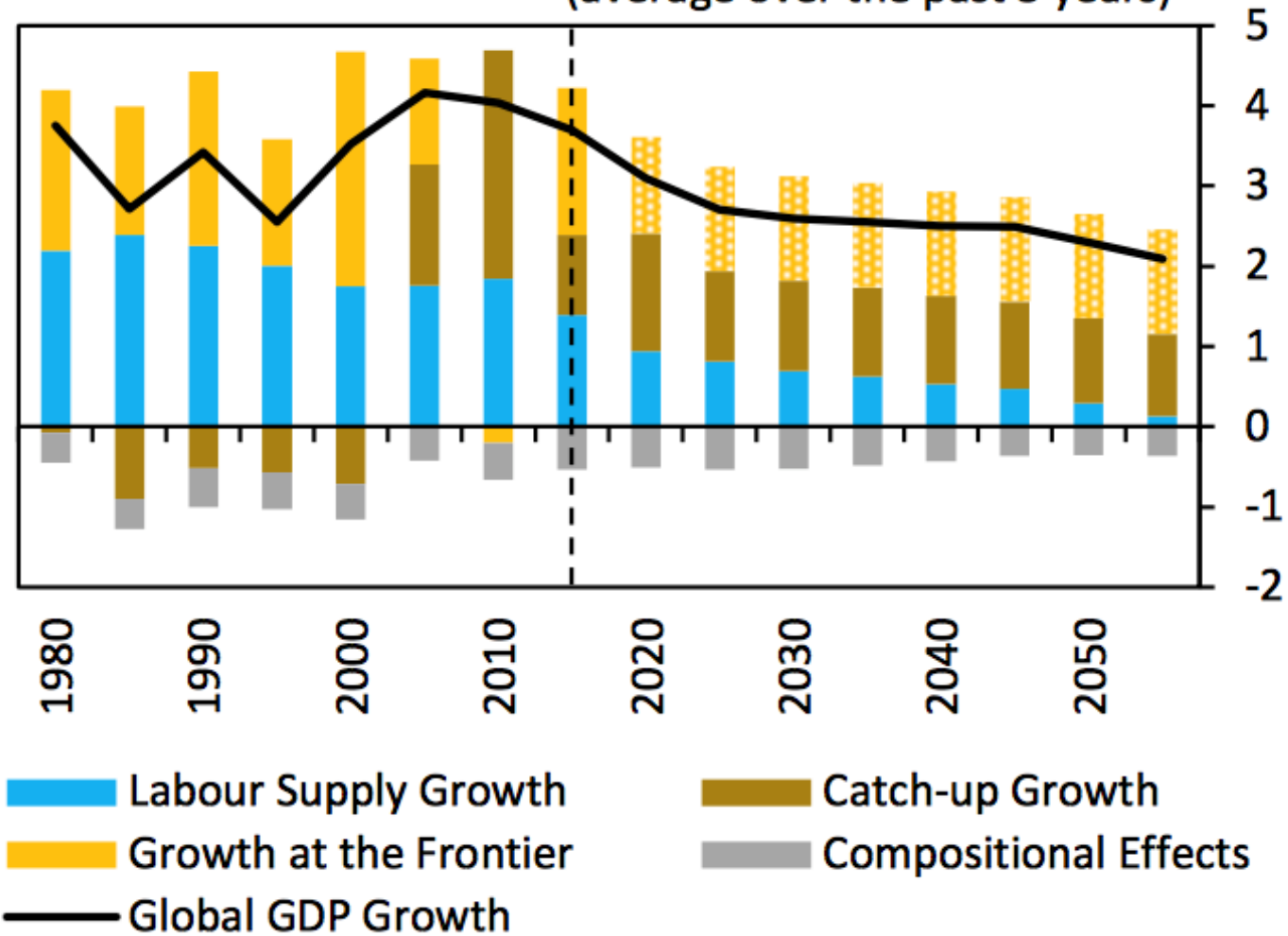
Or, even worse, **has it been a pier**, leaving the global economy facing a global liquidity trap?

Can more time be purchased? If so, at what cost and, most importantly, how would that time be best spent?”

*Shanghai February 2016*

## Chart C24: Global Growth Accounting

Contributions to global GDP growth, percentage points  
(average over the past 5 years)

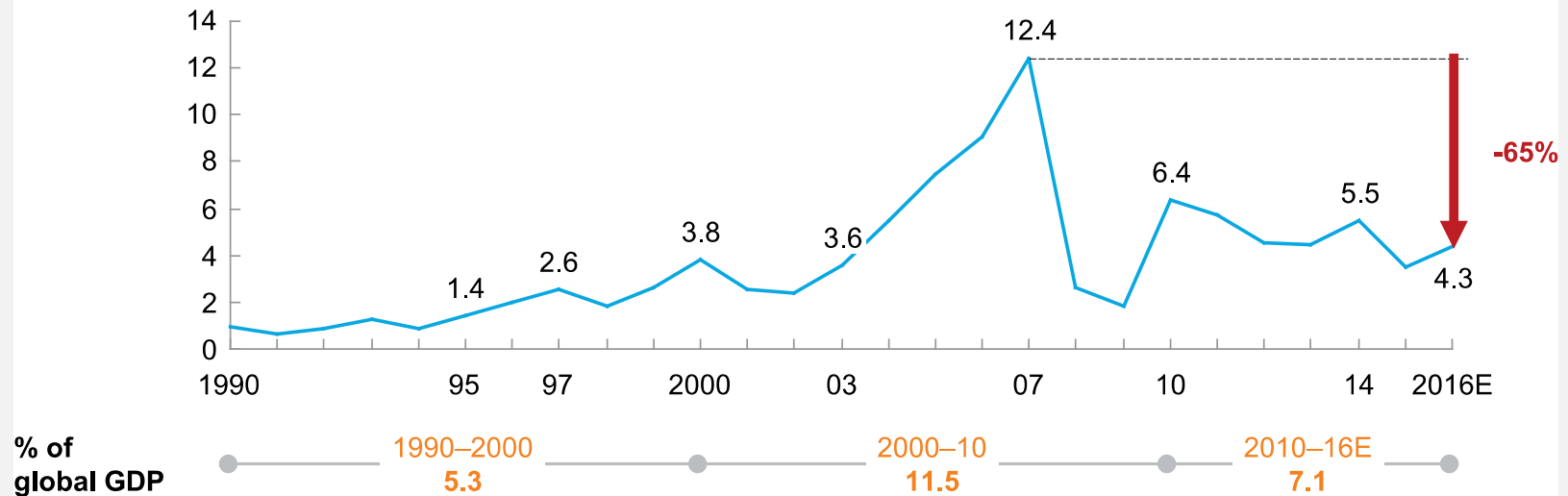


**DEGLOBALISATION?**

# CROSS-BORDER CAPITAL FLOWS

Global cross-border capital flows have declined 65 percent since the 2007 peak

Global cross-border capital flows<sup>1</sup>  
\$ trillion

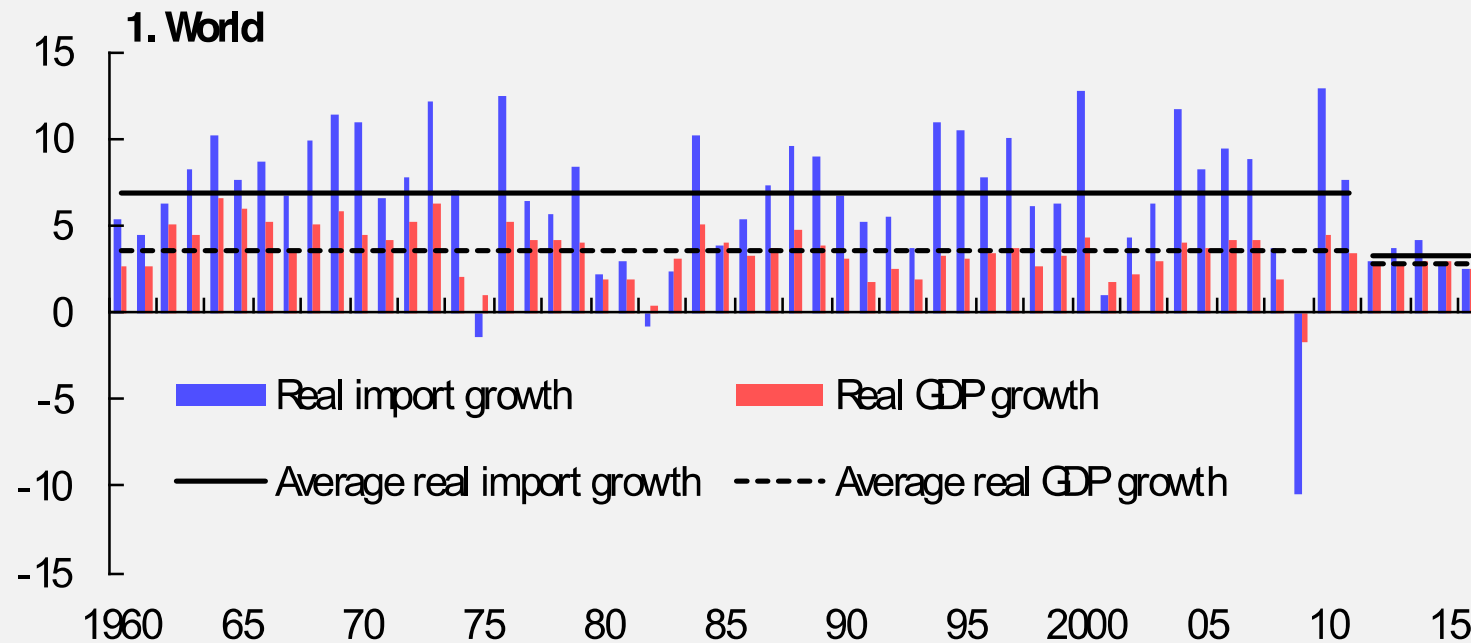


1 Gross capital inflows, including foreign direct investment (FDI), debt securities, equity, and lending and other investment.

SOURCE: International Monetary Fund (IMF) Balance of Payments; McKinsey Global Institute analysis

# CROSS-BORDER TRADE/GDP GROWTH

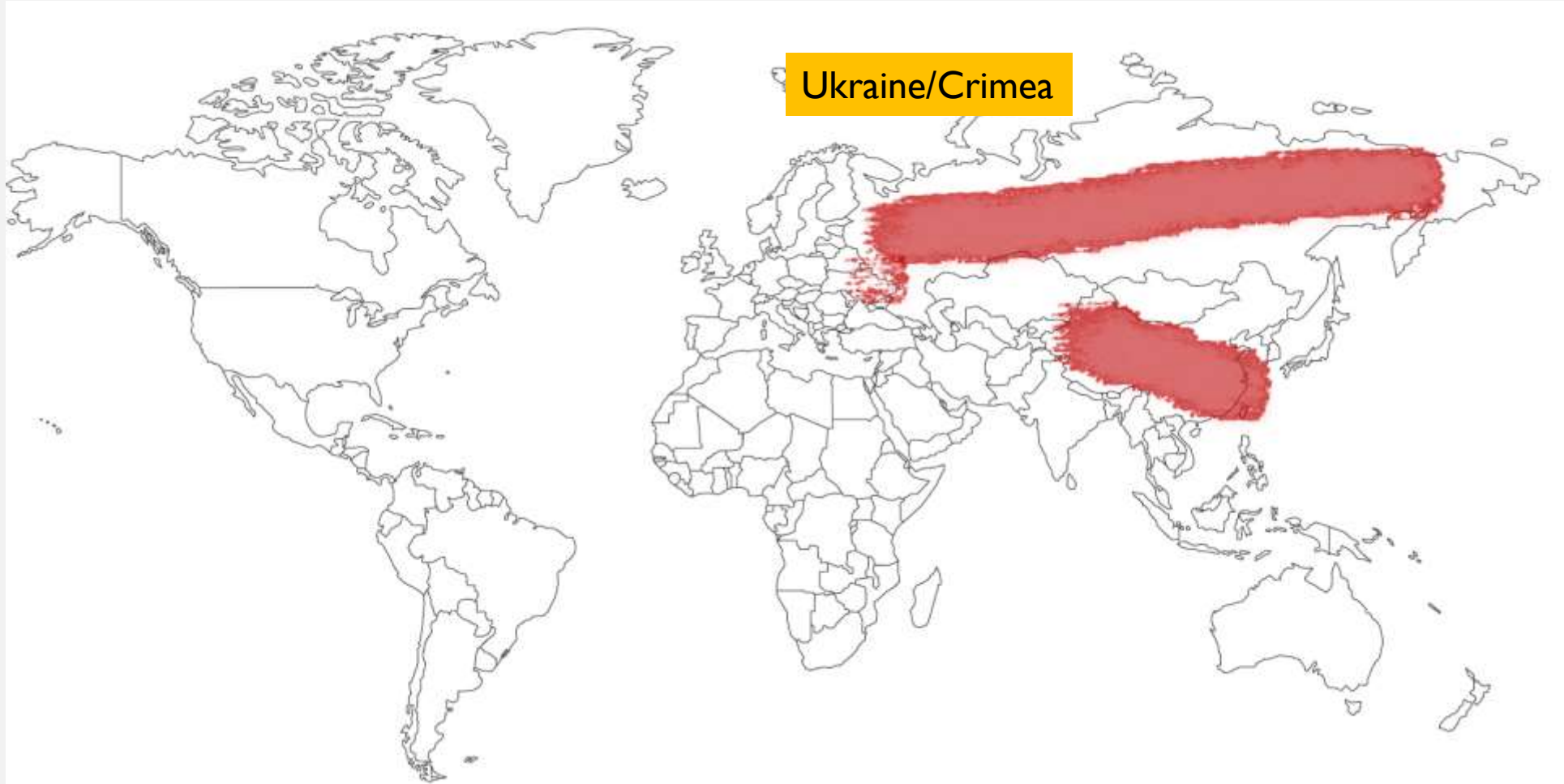
**Figure 1. World Real Trade and GDP Growth in Historical Perspective**  
(Percent)



**GEOPOLITICAL STRESS?**

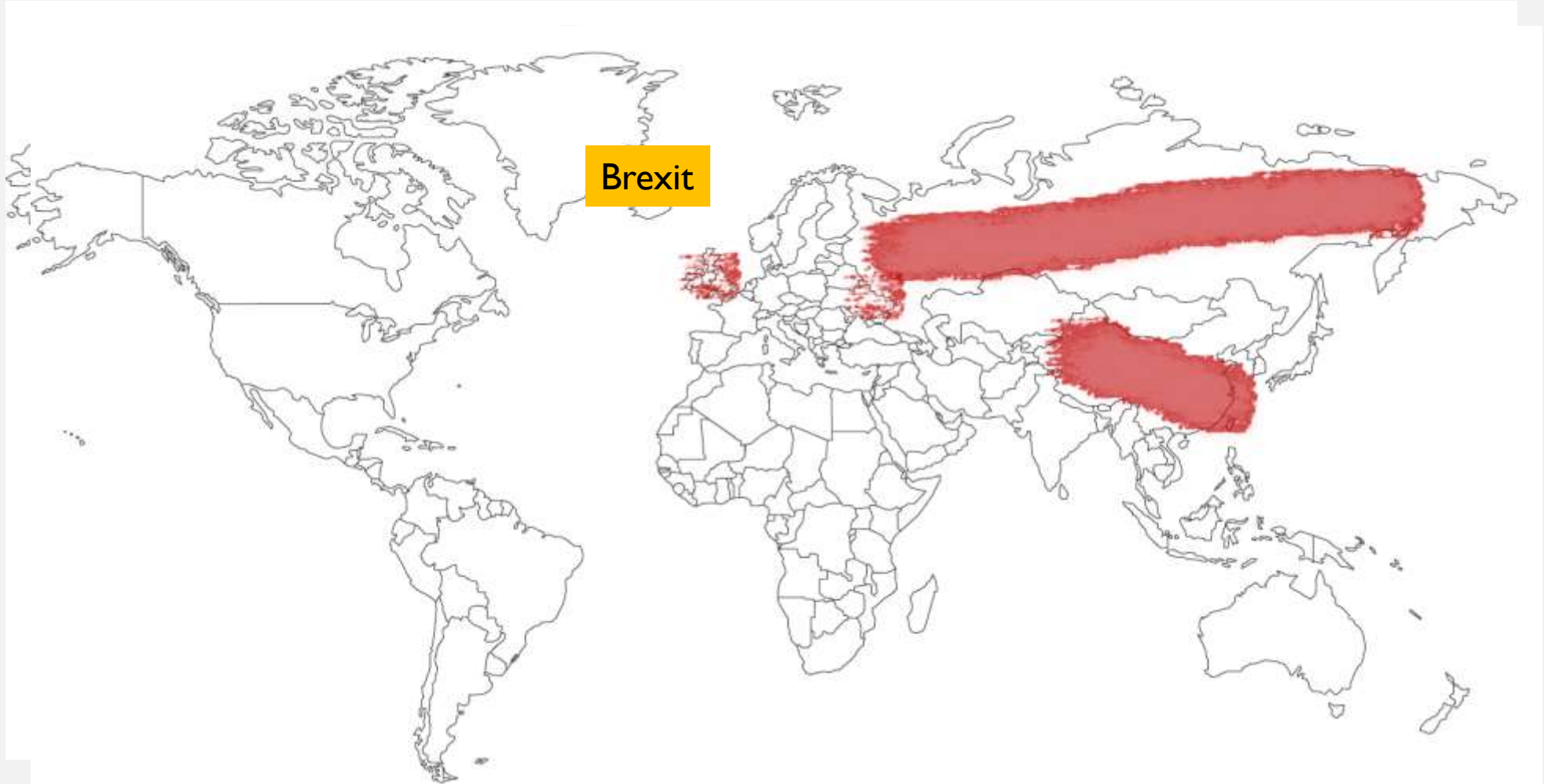


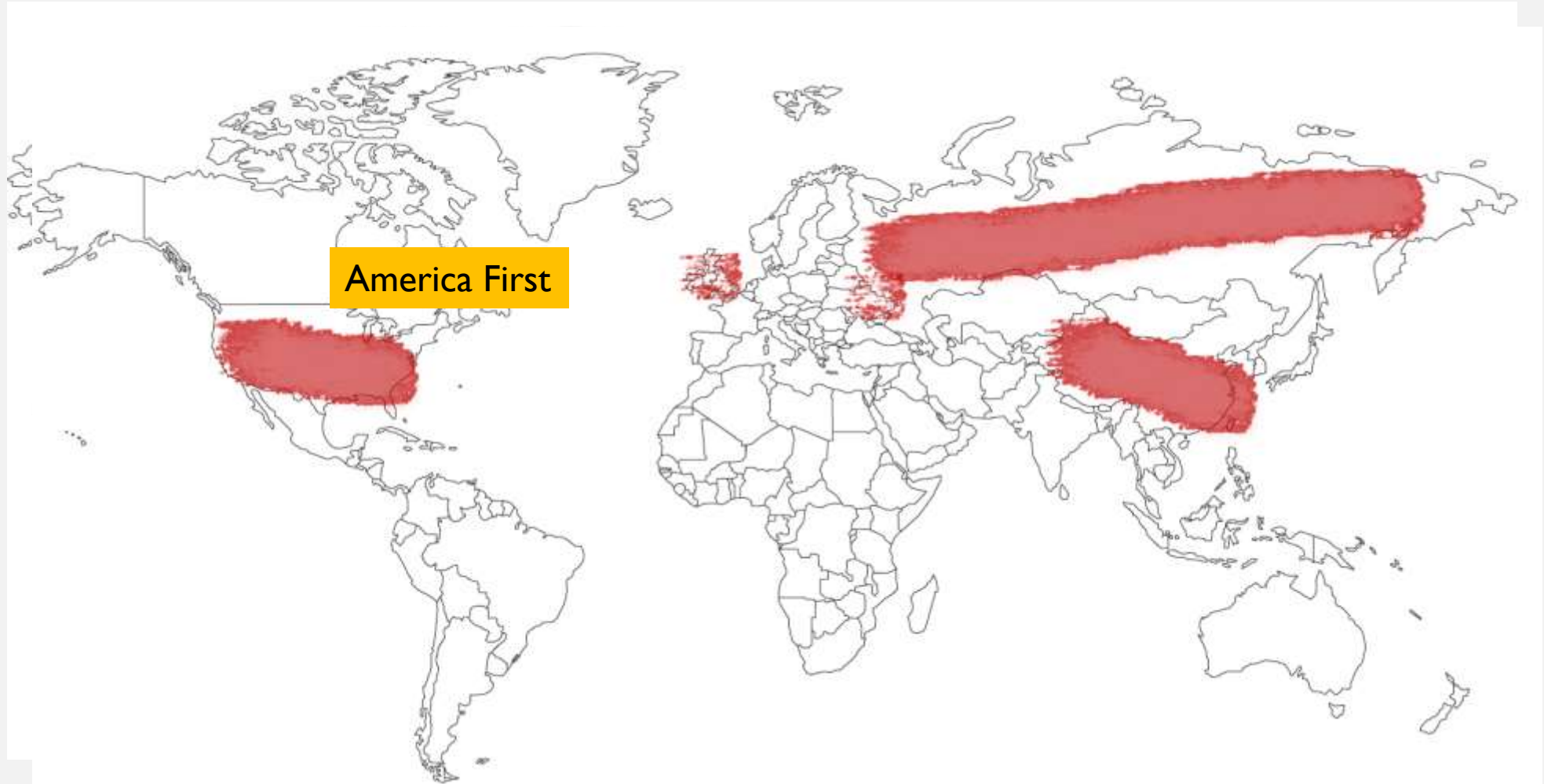
Belt & Road

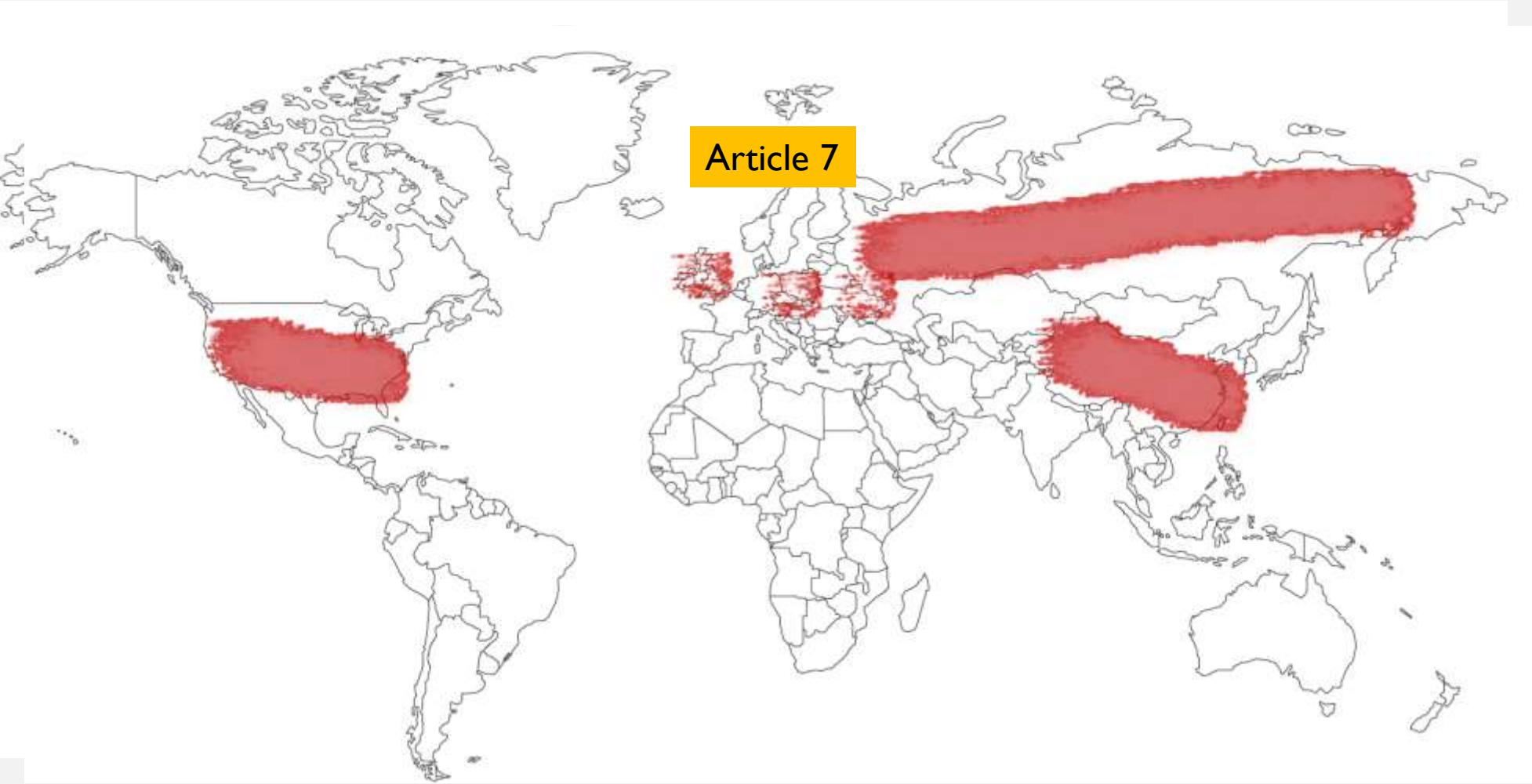


Ukraine/Crimea









Article 7

## KINDLEBERGER THESIS

“The international economic and monetary system needs **leadership**, a country that is prepared... to set **standards of conduct** for other countries... to take on an undue share of the **burdens** of the system... by **accepting its redundant commodities**, maintaining a flow of **investment capital** and **discounting its paper.**”

*The World in Depression, 1973 p11*

TECH BALKANISATION?

# PHASES OF FRAGMENTATION

- Everyone can read everything everywhere (except China) (2000)
- ... and Russia, Egypt, Turkey and India (2011+)
- ... and China has separate AI, social networking + social credit dynamics
- ... and India has state ID registry
- ... and China mandates private sector data/AI shared with state
- ... and all states demand protection against Facebook/Twitter/Google
- ... and many cities suppress Uber/AirBnB...
- ... AI developers stop publishing peer-reviewed research...

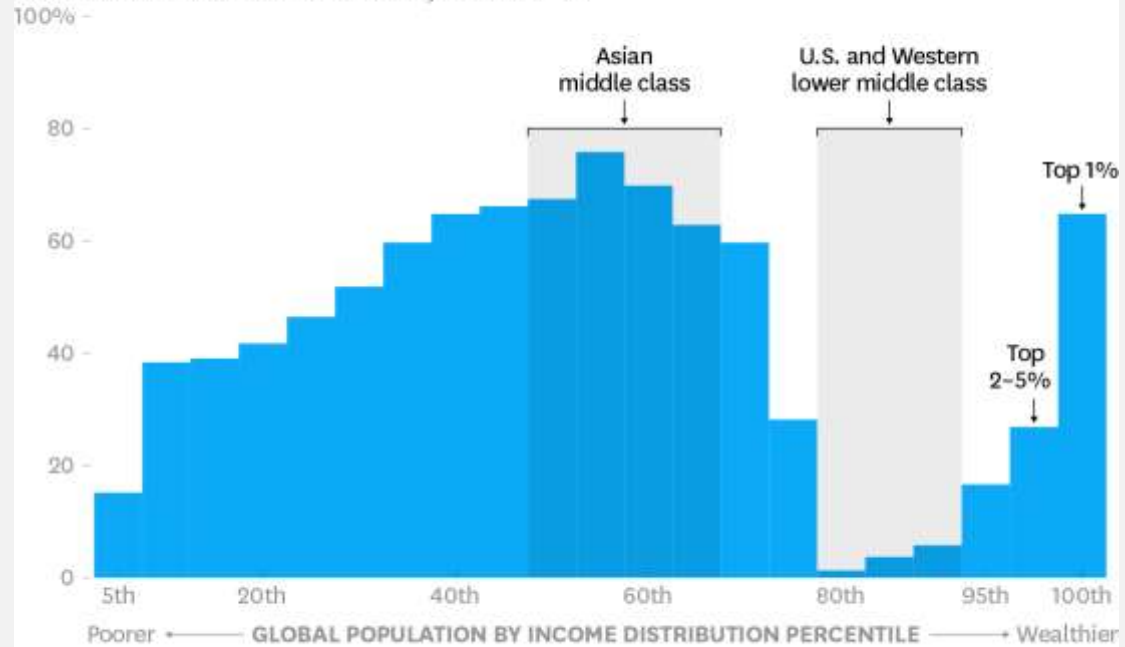
POLITICAL RISK

# ELEPHANT GRAPH

## Who Has Gained from Globalization

The global 1% and the Asian middle class.

REAL INCOME GAINS IN PERCENTAGE, 1988 TO 2008



NOTE: INCOMES ARE REAL, PPP-ADJUSTED, IN 2005 DOLLARS.  
SOURCE: BRANKO MILANOVIC

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## LIMITS ON 'POPULISM'

- Multilateral system [Greece]
- Pressure release valves [Brexit]
- Rule of Law [USA]
- Self-preservation instinct [Germany, Italy]
- Central banks [Scotland]
- Public broadcasters/ free internet

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