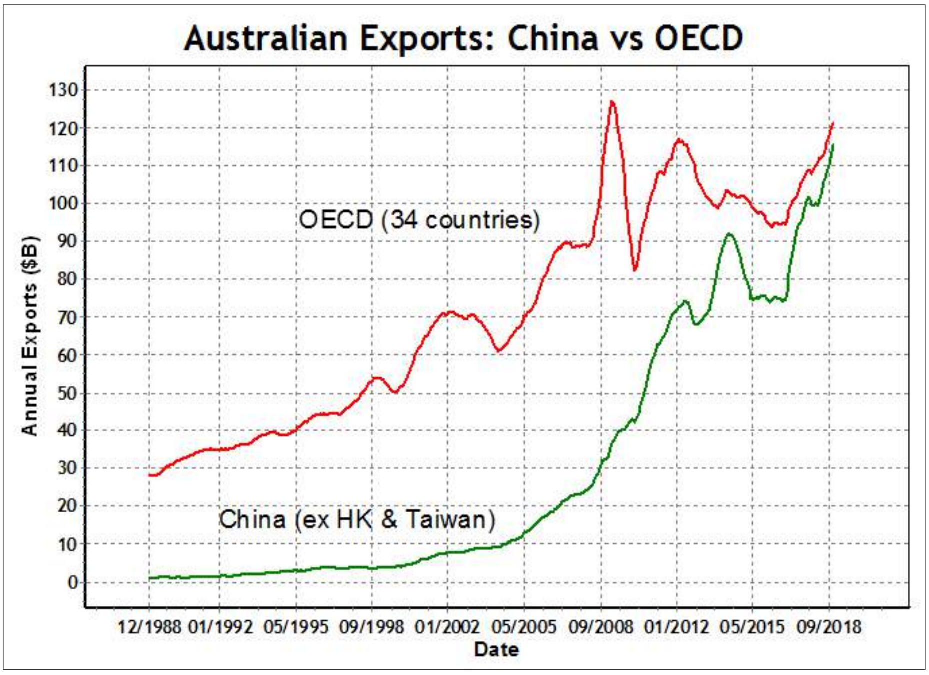
Rise of populism upsets Davos

By Elisa Barwick

The theme of the 2019 Davos World Economic Forum, held 22-25 January in Switzerland, was "Globalisation 4.0"—the digital revolution—but it is increasingly looking like the cumulative impact of all orders of globalisation is finally catching up with its makers.

An article in the 23 January *Guardian*, by senior economics writer Aditya Chakrabortty, summed up the state of affairs as world leaders and financiers gathered in the Swiss mountain town: "Pity the poor billionaire, for today he feels a new and unsettling emotion: fear. The world order he once clung to is crumbling faster than the value of the pound. In its place, he frets, will come chaos. Remember this, as the plutocrats gather this week high above us in the ski resort of Davos: they are terrified."

Citing the latest report from nonprofit Oxfam, which reveals that the equivalent wealth of around half the world's population is concentrated in the hands of just 26 people, Chakrabortty identified "economic polarisation" as the cause of a growing "social and political divide" shaking the political world.



This graph shows the narrowing export gap between what Australia exports to China (green) and the 34 nations that comprise the Organisation for Economic Cooperation and Development (OECD—red). Our reliance on China has grown even more since the 2008 global financial crisis. Despite the fall in Chinese growth to 6.6 per cent, down from 6.8 per cent a year ago and the 8-9 per cent mark in the early 2010s, Australia's "goods exports to China [are] up 14.6 per cent over the past year and services up 17.2 per cent", according to the *Sydney Morning Herald* on 21 January. Source: Dr Wilson Sy

In fact, so fragile is the situation in the trans-Atlantic sector that neither US President Donald Trump, UK Prime Minster Theresa May nor French President Emmanuel Macron could attend the Davos gathering. Be it the US government shutdown, the UK's exit from the European Union or the "yellow vest" rebellion over French policy, the political turmoil is only set to grow as a new global financial crisis looms.

The catalytic factor which can transform politics in such a crisis, is the presence of a real alternative; that is, real leadership. In his address to the September 2017 UK Labour Party conference, Jeremy Corbyn declared: "A new consensus is emerging from the great economic crash and the years of austerity, when people started to find political voice for their hopes for something different and better. 2017 may be the year when politics finally caught up with the crash of 2008—because we offered people a clear choice."

Where the 2008 crash created that opening, the next one can be definitive in effecting real and long-lasting change.

China poses the choice

One of the clear alternatives today is the strengthening economic paradigm forged by China over the last forty years. China borrowed some of the best economic policies from world history, among them key elements of the American System of Political Economy, which included industrial policy to foster national industries and national credit creation to fund infrastructure; and President Franklin Roosevelt's 1933 Glass-Steagall banking separation, to prevent the commercial banking sector having any exposure to speculation. But between hype about China's "slowdown" and the growing threat of "populism"—i.e. governments responding to the wishes of the people—China has become a major target of "Davos men" trying to hold back the tide of change, like international mega-speculator George Soros.

Naming China as the "most dangerous enemy of open societies" alongside Russia, and adding that "the most dangerous scenario is one in which these enemies conspire with, and learn from, one another", Soros told a gathering on the Davos sidelines that Trump had been largely superseded on China policy by advisers and bureaucrats, and advocated that agencies outside of government should call the shots: "Those of us who want to preserve the open society must work together and form an effective alliance. We have a task that can't be left to governments", he said. Soros's Open Society Foundations fund regime-change operations, Colour Revolutions and digital uprisings worldwide, always to the benefit of the Anglo-American financial elite. (In 2015 Russia banned two Soros-run Open Society organisations from running foreign interference through their Russian partners.)

Soros slammed China's desire to "dictate the rules" that govern the digital economy, given it has the most developed capabilities in the arena, saying it comprised "a threat to the freedom of the internet and open society itself". He opined, however, that if the economic decline in China is severe enough, President Xi Jinping would lose support among the population and his flagship Belt and Road Initiative would peter out for lack of funding.

Many others decried the fact that the masses are getting behind non-establishment candidates. The proposal of freshman US Congresswoman Alexandria Ocasio-Cortez for a 70 per cent tax rate for the super-rich, for instance, had numerous Davos billionaires in conniptions, including in panel discussions.

Ray Dalio, founder of the world's biggest hedge fund, Bridgewater Associates, pointed to "greater political and social antagonism" as a concern in a new crisis, saying these political issues are "very connected to economic issues in policy". He pointed to "parallels with the late 1930s", including the debt crisis, zero interest rates and money printing. "It creates also a polarity, a populism and an antagonism", he said.

Seth A. Klarman, a billionaire value investor who runs the Baupost Group hedge fund, issued a letter to investors prior to Davos which became a hot topic at the summit. Klarman warned of a new financial crisis, the seed of which is to "be found in today's sovereign debt levels". Already it is difficult for investors to pursue "business as usual" amid the growing social frictions challenging democracies across the world, characterised by "constant protests, riots, shutdowns and escalating social tensions", he wrote, but this could worsen. "It is not hard to imagine worsening social unrest among a generation that is falling behind economically and feels betrayed by a massive national debt that was incurred without any obvious benefit to them."

The First Deputy Managing Director at the International Monetary Fund (IMF), David Lipton, expressed fears at a Davos working group about dealing with a new major financial shock. It is by no means assured that under the Trump Administration the US Federal Reserve would stand behind European banks by extending "swap lines" as it did during the GFC, he worried. "I fear that if at any time we have a worse than garden-variety recession there will be anger and limitations in the way governments can respond", due to the shifting political climate.

Ahead of Davos, IMF head Christine Lagarde had posed the question, "Is the world prepared for the next financial crisis?", in an article for *Foreign Policy* on 22 January. Non-financial-company debt has increased by almost 60 per cent since 2007, most of which is highly leveraged with "worryingly" loose lending standards, she wrote—but went on to demand more of the policies that are alienating the masses. In spite of the proclaimed "bigger and better capital buffers" supposedly amassed since the global financial crisis, Lagarde admitted that "the revamped architecture remains untested". Therefore, policymakers "must complete financial regulatory reforms and, just as important, resist pressure to roll them back". Too-Big-To-Fail remains a problem, she admitted, and indicated there would be a crackdown on enforcement of resolution (a.k.a. bail-in) regimes around the world: "More progress is needed on procedures for resolving, or winding down, failing banks, especially those that are active across borders."

Transforming economic fortunes

More countries, however, are looking at the China model instead. Chinese Vice President Wang Qishan told the Davos forum that rather than engaging in futile debate about how to divide the economic "pie", we need to work together to "make the pie bigger while looking for ways to share it in a more equitable way".

With the media line circulating that China is facing a "downturn", despite its growth rate still far surpassing those of most other nations, Wang assured the delegates that China's growth will continue and be sustainable. "There are all sorts of views, some are saying that China is approaching the end of its growth or we have already reached the end of our growth. If you ask us, we believe that we have not reached the end, we are actually pursuing more sustainable growth." Wang later clarified in a response to a question from Davos Executive Chairman Klaus Schwab, that "With a 6.6 per cent growth, we can definitely reach our target of delivering 'modest prosperity' for all Chinese people by 2020. ... There is no question about it. We can definitely make it."

Likewise, China's Premier Li Keqiang on 25 January told a group of prominent foreign experts working in China that "China's economy has enough resilience, potential and ample room for growth, especially with a huge domestic market and rich human resources of nearly 1.4 billion people. Therefore, we are fully confident and capable of keeping the economic growth rate within an appropriate range in spite of multiple risks and challenges in 2019." As when President Xi warned that China should be wary of "black swan" (improbable and unforseen) or "grey rhino" (probable but neglected) threats recently, Li was speaking with the entire global financial system in mind—Chinese officials have been warning for some time of a new global crisis.

Asked during the Q&A about the dangers of a new crisis, Wang said that the "crisis" could also be a means of finding new solutions. "The driving force of the economy today is science and technology. So the world must move to the 4th Industrial Revolution. This will bring about tremendous changes that can be of immense benefit for humanity. But it will also demand new rules and standards, and we must work to develop those rules. But the rules can't be set before we can see how the new situation develops."

Wang referred to the crisis of 2008, saying that it did not reach the levels of the Great Depression because the "rise of the emerging economies" had blunted the impact of the crisis which originated in Wall Street. "And the decisions taken by the Chinese government at the time, allowed the world to gradually recover", he said. "People were telling me, the disease had accumulated in Wall Street, but China is taking more medicine than the Wall Street people. This reflects the fact that the Chinese government is a responsible government. The resolute decisions of the Chinese government and the role of the emerging economies more generally helped to put the crisis behind us in a speedy fashion."

China is forging the pathway to reverse the Davos divide, so obvious at this year's forum. Wang stressed in his speech that China's growth is no miracle: "Four or five generations have gone through many difficulties ... but have succeeded in transforming an agricultural nation into the world's largest industrial producer.... The advances in China in the past 70 years are not a godsend, nor a gift from others. Rather, they are made by the Chinese people through vision, hard work, courage, reform and innovation."

A simple contrast may be made with nations like Greece which have been destroyed by the economic-rationalist model still upheld by the trans-Atlantic powers. While Greece's debt keeps increasing, its population has seen a net reduction of 355,000 individuals in nine years. Since the EU/IMF bailout, Greece's ratio of debt to GDP increased from 100 to 182 per cent. In Ukraine, which has adopted the IMF approach in its bid to join the EU, mortality continues to be nearly double the birth rate (p. 8). And after the IMF named Italy as a global risk, ranking it as such only behind a trade war and Brexit, Italian Sen. Alberto Bagnai, head of the Senate Finance Committee, showed an understanding of the issue, saying the real cause of the coming global recession is the imbalanced structure of national economies encouraged by "the insane monetary policy adopted during the crisis". Claudio Borghi, head of the Chamber of Deputies Budget Committee added that an economic slowdown "should be the stimulus for a more expansionary policy, not for cuts in the budget".