

The Global Economy Must Change its Ways

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'People are usually afraid of change because they fear the unknown. But the single greatest constant of history is that everything changes.'

Yuval Noah Harari, *Homo Deus: A Brief History of Tomorrow*

We know that change is the only constant in our lives. Yet, paradoxically, most people act as if tomorrow will be a repeat of today, expecting nothing to change.

There's a broad belief that growth is a constant. Growth in population. Growth in living standards. Growth in wages. Growth in asset values. Growth in lifespans. Growth in GDP.

But what happens if we experience growth in population and lifespans, but wages, asset values, economic activity and living standards all decline?

That's a world we have no knowledge of.

Homo Deus: A Brief History of Tomorrow is a thought-provoking book about where we have come from and where we might be ed.

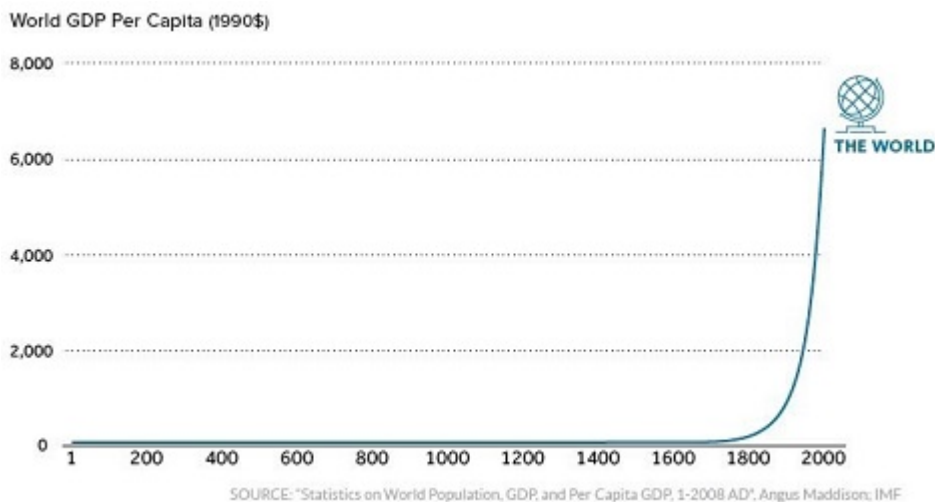
The author, Yuval Noah Harari, makes you think outside the square. The world is multi-faceted...not one dimensional.

The political and business mantra of 'growth, growth and more growth' plays well to the electorate and shareholders. But are we putting far too much pressure on ourselves, [the economy](#) and our ecological system?

According to Harari:

'Centuries ago human knowledge increased slowly, so politics and economics changed at a leisurely pace too. Today our knowledge is increasing at breakneck speed, and theoretically we should understand the world better and better. But the very opposite is happening.'

The following chart shows how the global economy has evolved over the past 2000 years.



Source: Visual Capitalist
[\[Click to enlarge\]](#)

Looking at this chart bought back memories of Ernest Hemmingway.

When asked 'How did you go bankrupt?' Hemmingway famously responded with,

'Two ways. Gradually, then suddenly.'

The exponential growth of the past 150 years has conditioned us to believe that this is normal. When in fact it's not normal. In particular, the last 30 years or so of that growth has been decidedly abnormal.

Decades of future consumption have been brought forward with all sorts of creative debt instruments.

Trying to keep up with this growth curve is why the world is in such a mess. We've created a monster that cannot be tamed without severe repercussions.

Politicians, central bankers, business leaders and households are all slaves to the growth monster. We stop growing...and it is game over.

While our knowledge has increased exponentially, our decision making does not reflect this collective wisdom.

Trying to cure the 2008 debt crisis (the worst economic downturn since the Great Depression) with more debt has to be **the** dumbest policy decision in living memory...and that's saying something.

Smart people — at least by academic standards — doing blatantly stupid things is a product of conditioning and/or entrapment.

Harari identifies how conditioning traps us into thinking 'what has been, will continue to be so':

'Each and every one of us has been born into a given historical reality, ruled by particular norms and values, and managed by a unique economic and political system. We take this reality for granted, thinking it is natural, inevitable and immutable. We forget that our world was created by an accidental chain of events, and that history shaped not only our technology, politics and society, but also our thoughts, fears and dreams.'

The economic elites have grown up with an economic model based on continual growth.

Initially, this growth was organic — a result of genuine productivity improvements and population growth. When that natural growth waned, artificial stimulants were introduced.

Hitting that magical 4% per annum GDP growth figure was all that mattered. How we got there or what damage was being done was of little consequence.

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[China](#) has taken this GDP growth obsession to another level.

The government directive is 'We will achieve 6.7% growth each and every year'.

And, miraculously, that's the number they produce...within days of the quarter ending.



Fake news anyone?

Since 2007, China has increased its debt load nearly five-fold — from US\$7 trillion to over US\$30 trillion. This *minor* fact appears to be of little consequence to the academic elite. Growth was achieved. That's all that matters.

Decade after decade, the dependency on the artificial stimulants — low interest rates and money printing — has increased exponentially.

Our elected officials warn us of the harmful effects of drug dependency.

Yet they encourage society — with accommodative interest rates and fractional banking — to indulge in the debt drug. In my opinion, the dependency on debt is probably more destructive to the health of households. Suicides. Depression. Broken marriages. Business foreclosures. Latchkey children.

Enough is enough

The obsession with growth at all costs has taken us to a point where there are no good outcomes.

We simply cannot continue to rely on unbridled debt accumulation to underwrite our economic advancement. It is mathematically impossible.

At what point does the economic break down and begin rejecting debt?

People look at Japan and say 'Well, this could continue for longer than we think.'

Possibly. But I am not so sure.

Why?

[Japan's economy](#) has been a beneficiary of the Western world and the Middle Kingdom still being in debt-funded consumption mode.

However, when the next, more severe, global debt crisis hits, who or what is going to save us?

Is China going to burden its economy with another US\$30–40 trillion of debt? Central bankers are already pushing on the interest rate string.

Where is the next saviour coming from? The artificial stimulus cupboard is all but bare.

Without that saviour, Japan, along with the rest of us, will face a new reality. One that our conditioning has not prepared us for.

The premise of continual growth will be seriously questioned.

Can Australia afford to maintain an immigration program while so many of our own people are out of work?

How can we increase wages in a world of less demand and more automation?

How do we maintain social welfare payments when government revenues are falling?

These are questions that are not to be asked. People are not seriously expecting change...even though change is the one constant throughout history.

In my opinion, we are on the cusp of one of those historical transformations.

Harari offered this insight into our future...

'While the industrial revolution created the working class. The next big revolution will create the useless class.'

There are challenging times ahead that will have serious ramifications for you, your family and your wealth.

Questioning assumptions is what we do each week in *The Gowdie Letter*. Nothing is taken for granted. To learn more, [go here](#).

Regards,

Vern Gowdie,
Editor, *The Gowdie Letter*

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Vern Gowdie has been involved in financial planning in Australia since 1986. In 1999, Personal Investor magazine ranked Vern as o

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