

Reflections on the Economic Prospects

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Abstract

This article emphasizes the fact that we are living exceptional times, because some data regarding the global economy puzzle us. A question arises more and more amidst analysts, business environment and leaders of national economies or economic entities: 2016 is the beginning of a new economic and financial crisis? More and more voices reply that a new crisis is likely to happen. These voices are frequent in Europe, also in the USA, while in China some phenomena signal a new crisis. Other voices claim this is only turbulence and we cannot speak (yet) about a global crisis, and turbulence is the new normality. From another perspective, they see it as a prolongation of the 2007-2008 crisis. Others claim it is a prolonged recession.

Key words: raw materials cycle, turbulences, social inequality, poverty, recession risk

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1. Introduction

It's been a few years since we started wondering how a global crisis was possible and it fundamentally changed economic theories. We still have guesses at who and/or what caused the financial and economic collapse. We refuse to blame each of us, because of an absurd race of consumerism and prosperity on loans! Basically, human society, at the beginning of the 3rd millennium, behaved like in an eschatological scenario (apocalyptic): now or never! By adding up small errors, we generated apocalyptic process in economy. What is worse, 8 years after the beginning of the crisis, we show no sign that we have learned something. The United States are stuck in the decision to print money endlessly to stimulate consumption, while Europeans are focused on strategies that lead to bankruptcy as these strategies capitalize banks (private!) to stimulate loans to individuals and companies (the same consumption!). When you have knowledge of economic history, you notice dangerous similarities with the events in Europe between 1925-1940. Pundits who draw attention upon the likelihood of a new strong crisis are mocked at. In 2012, professor Bilge Erten from Columbia University (USA), was warning that within 3-4 years the raw material prices would fall as a result of the global consumption. This would lead to the fall of the minerals oil and gas exporting countries. Professor Bilge Erten proved that, during the last century, there have been 3 full super cycles of 30-40 years each, the first reaching its maximum in 1917, the second in 1951 and the last in 1973. Erten claims that we are currently in the middle of the fourth super-cycle that started at the beginning of this century, driven especially by China. „It is not clear how long this super-cycle will last. We have discovered that super-cycles last between 15 - 20 years of expansion. Since 2000, we have had about 10 years expansion, so we still have five“, explained Erten. This theory is based also on China's declining growth rate.

The volatility of the raw materials markets had catastrophic effects upon economies in the past. During the crisis of the '80s, countries in South America and Africa faced financial, social and political instability as a result of their development on raw materials. Economists describe this model in which prices hike for several decades, then plunge, as a super-cycle of the raw materials.

Signs regarding the decline of the GDP and economic activity are more and more visible: China no longer has for whom to produce. Markets are saturated or blocked. The price of the oil dramatically plunged and its trend is no longer foreseeable. Oil and gas industry has debts of more than 3,000 billion USD. The raw materials quotations declined with 2/3. China's economic growth

is slowing down, Russia and Brazil get worse. South Africa is flirting with recession. Economic growth engines in the US and Europe start squeaking. Growth paces of big economies are reconsidered as having a downward trend.

Pessimistic statistical data do not scare Marcelo Giugale, director for economic policies in the World Bank. He claims that loss in countries that lived well on raw materials exports will mean gain for developing countries that will be able to raise their life standards with small costs. In accounting terms, this is the new „tsunami” on investment markets.

For a few decades, there has been less gain in productivity in the US and other economies, which made Robert Gordon (Gordon, 2016), Lawrence Henry (“Larry”) Summers and others to suggest the beginning of a new period of “secular stagnation”, a concept used by Alvin Hansen in 1938 (Taylor, 2013). This hypothesis looks strange if we associate it to the discussions regarding “The fourth industrial revolution” (see the Forum in Davos), but it makes sense if we think that the new technologies, at least in the first stage, seem to eliminate rather than create jobs. Let us not forget J. M. Keynes’ forecasting that in 2030, due to scientific and technical progress, transposed into productivity growth, only workaholic people will work more than 15 hours per week.

2. Methodology of research

We started from the assumption that research is a systematic process of collecting and analysing information (findings) to improve our understanding of an aspect. To achieve our goal, we have used a mixed research methodology, typical of social sciences, that consists in reading the specialized bibliography, articles and studies on this topic. We have tried to comply with the principle of unity between quantity and quality, between theory and empirical, between ascertaining and evaluative judgments. We relied on the following methods: analysis, synthesis, comparison, deduction and induction.

3. Are we approaching the storm?

During the most important event at the beginning of each year, traditionally taking place in Davos, this year’s debates no longer covered 1-2 major issues, but a long list of potential problems that may become a very dangerous puzzle.

The fiercest seemed George Soros, who claimed that China’s economy would have a tough landing, which would worsen the global deflationist trend, and pull down the equity quotations and increased the governmental bond prices in the US. „A tough landing is inevitable. I am not expecting it, I am witnessing it“, told Bloomberg Soros, the man who has built a wealth exceeding 20 billion USD out of speculations on financial markets. Over the time, through his bets, Soros managed to defeat the British pound at the beginning of the ‘90s, and did the same with the Thai currency later in the ‘90s. Keeping that in mind, the Chinese took action, warning Soros, through an opinion published by a governmental official in a local paper, not to try to pull down the Chinese currency because he „undoubtedly stands no chance”.

In this context, the (apparent) optimism of the participants in Davos seems the least suspect, taking into account the wide range of issues on the agenda: Chinese economy decline, financial markets plunge, refugees’ crisis in Europe or the EU division.

Maybe the best summary of the current global situation was presented by Thomas L. Friedman, in an opinion published in New York Times: „Just get me talking about the world today and I can pretty well ruin any dinner party. I don’t mean to, but I find it hard not to look around and wonder whether the recent turmoil in international markets isn’t just the product of tremors but rather of seismic shifts in the foundational pillars of the global system, with highly unpredictable consequences” (Friedman, 2016). Practically, the American author who also wrote the bestseller „The World Is Flat: A Brief History of the Twenty-First Century”, an essay on the topic of globalization published more than a decade ago, considers that the current time is likely to be the simultaneous end of several epochs.

Year 2016 may bring conditions for a new unfavourable time that we may call crisis. Accepting the idea of a cyclic approach, we can consider this period of time as transitory, lasting as long as

the unfavourable conditions (above mentioned) last, and hoping that, when these conditions disappear, economy will get re-launched, according to the principle: „crisis comes, goes, returns...etc., etc., etc.”.

There is another approach that we should not underestimate, according to which we cannot speak of a „cyclic crisis”, but of a „decadence” (as decline, regress) of the global economy generated by depletion of the current model of economic development to make efficient the production factors (labour, natural resource, capital). It is a generalized, long term state that can be attenuated only by changing the current development model. ”The foundation of economy on progress has reached its limits. Pluriform current economic crises are increasingly clear signs of the lagoon. The working hypothesis is that successful open economy managed to deny the idea of science of wealth and to recharge with other contents the ideas of competition and economic growth” (Barbu, 2015).

A recent book by Robert J. Gordon, „The Rise and Fall of American Growth” (Gordon, 2016), bestseller, shows how we can explain the beginning of decadence of an economy, also clarifying that in the long run, global economy will suffer gradual decline. The crisis, in its cyclic sense, will become a permanent phenomenon with various amplitudes from one economic area to another. It is a terrifying theory, but omnipresent across the global economy. It denies the possibility of return, on long term, to the growth rates of the years 2000-2005. What are the arguments of this theory?

An argument is the prolonged trend of degradation of the global productivity index of the production factors, explained through the declining trend of the technical progress potential to make efficient use of the production factors. A French author who also embraces this theory, Patrick Artus, famous chief economist of Natixis, professor and co-author of ”La folie des banques centrales” (Artus and Virard, 2016), shows that „smartphone or the ipad have dramatically changed our life style, but have not influenced, statistically, the global productivity index”. The conclusion is clear in the analyses of the „decadence” supporters: the third industrial revolution has had little effect upon global productivity compared with the 1st and 2nd phases of the industrial revolution. This may block the economic growth of countries such as Germany, France, Italy, US or UK to 0% for the future 20-25 years.

Another argument is the perverse effects that the prolonged process of indebtedness reduction has upon economic growth. Before 2000-2005, banks granted oversized amount of loans for investments which led to real estate bubbles, stock exchange bubbles and financial bubbles. Inevitably, they exploded, causing the subprime moment. Hence, the need of a process to cut the indebtedness which is prolonged and considerably diminishes the investment potential. Analysts also prove with historical references (1929-1933), claiming that during the prolonged stages of indebtedness reduction, economic stagnation is impossible to avoid.

Another argument is the long-time „vital need” to invest in environment and climate global policies. These are considered to be vital investments for mankind, but not efficient on short term. Effects appear in time, can create jobs, but reduce and even limit the real economic growth, increasing the descending trend. The issues discussed during COP21 (COP - Conference of Parties; COP21 - also known as the 2015 Paris Climate Conference) are seen as ultimate arguments.

To emphasize however that ”Until recently, each snapshot of the global economy could be analysed in terms of winners and losers, easily to identify geographically: countries, groups of countries, regions, continents. For the first time, geography seems helpless – everybody is in the same situation: economies limp, money is rather a burden than the fuel... Geography becomes irrelevant or unimportant when it comes to drawing a map of the global economy” (Davidescu, 2016, pp. 30-31).

4. Inequalities and poverty. Illusionary solutions

The progress of global economy during the last half century, the economic and financial crises, regional and global crises, the accelerated globalization process and the dynamic development of national civil societies and their global coagulation under the impact of the development of social networks cause a reconsideration of strategies, policies and tools to curb poverty. New theories, concepts and tools have been integrated into the approach of the poverty issue, in order to increase efficacy in implementing global strategies and policies to curb poverty. Although developed and

known for several decades, concepts such as social and financial exclusion and inclusion, as well as the impact of deepening inequalities in the distribution of incomes upon poverty created, in time, packages of policies and tools to curb poverty.

The understanding of the concepts of global strategies to curb poverty requires placing the fight against poverty in the context of dramatic statistical surveys made by the main global stakeholders such as the OXFAM (Oxford Committee for Famine Relief), the EU, OCDE, IMF-WB, UN, UNDP, FAO, WHO:

- almost half of the world's population – over 3 billion inhabitants – live on less than 2.5 USD per day, and almost 80% of the population lives on less than 10 USD per day;
- there are over 500 million family farms in the world, that ensure food for more than 2.5 billion people who live on less than 2 USD per day;
- more than 1.3 billion inhabitants of our planet live in extreme or absolute poverty characterized by lack of bare necessities;
- 1 billion children live in poverty; according to UNICEF, every day 22,000 children die of poverty and hunger;
- 805 million people suffer from chronic hunger and malnutrition;
- over 750 million people have no access to drinkable water, according to minimal sanitary standards; diseases caused by daily use of bad water and lack of hygiene result into death of 2,300 people daily, which means 840,000 people per year;
- 165 million under 5 years old have been affected in 2011 by malnutrition chronic diseases with impact upon the development of their bodies;
- curable diseases, such as pneumonia or diarrhoea, cause death of 2 million children every year, as the living standard of their families does not allow proper treatment;
- almost 25% of the inhabitants of the planet (about 1.6 billion) live without electricity;
- estimations made by international NOGs all over show that in order to eradicate poverty in the world, 60 billion USD are needed every year, that means the annual income of the first 100 billionaires of the world;
- according to World Food Programme, the poor of the world suffer from hunger, and this is one characteristic of the „hunger trap“; chronic hunger is the main cause that lead to the death of so many people that exceeds the number of deaths caused by AIDS, malaria and tuberculosis.

In parallel with the invigoration of the efficacy of anti-poverty strategies by including the concepts of financial inclusion, with results that are visible during the last decade, a new strategic approach opens, that may become a complex concept to tackle the issue: combination of elements of social and financial inclusion with reduced inequality resulted from income distribution. The new topic that attracted attention during the last 2-3 years and became global is connected to the permanent and excessive growth of inequality in income distribution, quicker than the pace to reduce poverty. A deteriorated situation in this respect leads, according to OXFAM forecast, cited by the chief of the IMF, Christine Lagarde, to annual growth of the wealth owned by 1% of the world's population (billionaires 'group) who, in 2016, will exceed the cumulated wealth of the 99% of the rest of the population. In 2014, for the first time, the IMF statistically proved the negative impact of the increased income inequalities upon economies. A 1% increase of the income of the 1% of the world's population – billionaires – leads to 0.08% reduction of the global GDP. The explanation is the fact that the richest spend less than they earn, compared to the rest of 99% of the world's population, which diminishes the aggregated demand, thus affecting negatively the economic growth. This is a change in IMF's attitude toward the deepening inequality in the income distribution and the negative impact of this process upon economic growth and fight against poverty.

The studies on the fiscal heavens done by international NOG alliances show that the 1% – billionaires – hid huge wealth estimated to about 18.5 trillion USD, not taxed and withdrawn from the economic circuit. A major actor of contemporary world, G20, started since 2013-2014 to consider the conceiving of strategies to curb deepening income inequalities as one of the main threats to inclusive economic growth, financial inclusion and curbing poverty.

The topics connected to the deepening of inequalities have been constantly tackled by the Economic Forum in Davos in the last 3 years. This year, in Davos, OXFAM's report entitled „Economy for 1%“ warns that inequality in the world has escaped control and the fight to curb

poverty is questioned due to huge imbalances such as deepened inequality. The first 62 billionaires had in 2015 the same wealth like half of the poor world's population of 3.6 billion people. The wealth of these 62 billionaires has increased with 45% since 2010, which represents a cumulated growth of 542 billion USD, reaching 1.76 trillion USD.

During the same time, the wealth owned by half of the poor world's population decreased with more than 1 trillion USD, meaning a 38% reduction. Global inequality, on the rise, says OXFAM report, jeopardizes the positive results obtained in curbing poverty during the last decade. Global NGO alliances, requested international community to conceive and propose urgent measures to limit potential negative effects on the favourable process initiated within the extensive program of financial inclusion launched by the WB for the 2 billion people who are financially excluded, „Universal Financial Access”. By 2020, we are expecting an accelerated coordination among the main stakeholders of the process of curbing poverty: OCDE, IMF, WB Group, EU. OCDE is the stakeholder with the strongest financial impact, giving a strong anti-poverty character to the funds invested in economic growth, in coordination with the other stakeholders. The WB Group will be the main drive of financial inclusion, assumed almost entirely by 2020, the end of completion of the program entitled „Universal Financial Access”.

Historically, poverty has always affected mankind. After „Das Kapital” written by Karl Marx, economist and philosopher, followed by „Progress and Poverty” by Henry George, sociologist and economist, „The General Theory of Employment, Interest and Money” by John Maynard Keynes who loved tight deadlines, „Capital in the Twenty-First Century”, by the French professor Thomas Piketty brings new contribution to the fight against unequal distribution of wealth, income inequality and poverty. While Marx gave the „final solution” – socialization of property – so that the proletariat could enjoy the integral product of labour, Henry George found (the value of) land to be the most appropriate object of a inequality-repairing fiscal design: since land could not be created or destroyed, fiscalizing the land would not affect social wealth or the production incentive. On the contrary, putting tax only on land to fund the public expenses would release labour and capital toward value-added uses, „unjust” people's enriching would be eased down, capitalism would be saved and democracy safeguarded. While Keynes preferred the perpetual inflation to assist „occupation” (not necessarily productive) as a mark of social equity, budgetary-fiscal modelled inflation, depending on the stages of economic cycle, to stir up or to calm down the economic dynamics, Piketty get inspired again by Henry George's knowledge, „modernizes it” and orients the fiscal „harpoon” to what escaped control and is no longer only maintenance land fiscalization: „rents”. Piketty uses the extended meaning of the idea of rent, defined as income disconnected from productivity, and finds solution in a possible progressive global tax on wealth, „penalising” the cheeky wealth, inherited or multiplied by inertia, thus resulting into a more equal, more productive society, purified by parasite rent extractors which would make outdated all inter-nation protectionist actions.

Irrespective of the original or re-arranged theories, it is certain that a poor man can be helped in two ways: by giving him either what remains or what sustains. The difference between alimony given from what exceeds and aid given to facilitate self-support is seen in the type of incentives and support we produce in a community, but the difference becomes more sensitive when the „curbing of poverty” is requisitioned by the state: creation of a right of the poor over the rich who is not guilty of the poor's becoming poor challenges the concept hypocritically invoked: social solidarity.

The problem of poverty is at the same time individual and communitarian, national and global, and the assorted solution divided the tools between voluntary and voluntary. Once in the landscape, the state risks working clumsily, beyond the left-wing approach which is natural, thus undermining its chance of sustainable solutions. Forced transfers of resources, namely, via fiscal means, from the rich to the needy, or for their social inclusion risks altering morals along the entire route: at the „source” (lack of interests for private efforts), and at the „flowing into”, namely the hand, and especially along the route, where fierce rent extractors are watching. The legislative packages of „minimal” salaries and „decent” pensions cannot produce more than cynical social tranquilizers, and a hungry person may feel as if has eaten only by reading them. Also, multiple monetary and banking manipulations create only boom-bust spasm and social deprivation..

5. Conclusions

”Signs of an economic crisis, at least as brutal as the first one in 2016, are sure... There is a set of circumstances not met before, which make analogies impossible, and any prognosis unsure. It is not clear yet if we can speak of a traditional reduction of the engine speed or on the contrary of a more efficient gear” (Davidescu, 2016, pp. 30-31).

Irrespective of the interpretation of the trend seen by the engine- economies in Europe, US or China, we are witnessing phenomena that may lead to a new potential global crisis.

The crisis may be cyclic, or any kind, but it will definitely appear in the second half of 2016. Ordinary people will not care about the explanation, but they will definitely be affected by the consequences of the crisis. Political decision-takers should pay attention to explanations as it is the only way for them to understand what to do.

Discussions about pauperization and social polarization are more than ever of the agenda of the „civilized world” which watches, worried, these phenomena. What makes in these years, port- (but also ante-?) crisis capitals and capital cities i of the world to be so alert about aspects regarding curbing extreme poverty and flagrant inequality: native empathy or instinctual fear toward the hungry and thirsty?

6. References

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