

# Megathreats

**Nouriel Roubini**

Nouriel Roubini predicted the 2008 global financial crisis. When he first predicted it he was labelled Dr Doom. Dr Roubini is professor Emeritus at the New York Stern School. He is also the Chief Economist at the Atlas Capital team.

# The 10 Megathreats

1. Debt accumulation and debt traps
2. Easy money and financial crises
3. Artificial intelligence and workplace automation
4. Deglobalization
5. Geopolitical clashes among great powers
6. Inflation and Stagflation
7. Currency meltdowns
8. Income inequality and populism
9. Global pandemics
10. Climate change

**No one should pretend to have answers to all the problems. Experience is a poor teacher.**

Argentina defaulted on its debt for the fourth time since 1980 in 2020. Hope springs eternal in countries that try to avert financial disasters.

Global debt at the end of 2021 was 350 % of global GDP. It was 220 % of GDP in 1999. US debt to GDP is higher today than it was in the great depression.

A bias in human thinking is that we never want to imagine the worst. We are optimists by nature.

Consensus group think rules amongst the worlds elite.

Borrowing to invest makes sense when the return on the investment is higher than the cost of borrowing. Households, corporations, governments do this all the time.

Overborrowing to pay for overpriced assets also imposes hefty risk.



When they mobilize to fix problems,  
government policy makers often lay the  
groundwork for future crises.

Thanks to low rates and trading apps that resemble video games, uninformed investors have new reasons and new ways to borrow.

History does not repeat itself, but it often rhymes.

China is vulnerable to a string of global defaults. In the past rapid Chinese growth has kept debt under control. A severe recession will shrink China exports and bring protectionism in every country vs China leading to a debt crisis.

Despite the fact that the total wealth in the world today is vastly greater than at anytime in the past, robust help is harder to find since the large powers are themselves burdened with debt.

As individual and household debt skyrocket, many workers in advanced economies suffer under a global wage race to the bottom.

Easing the gap between sagging incomes and rising consumer aspirations look different in lavish social welfare European economies.

The ratio of debt to equity has a large impact on households that pay interest on homes that earn no income.



There is one controversial but popular solution to high debt problems – take on more debt to stimulate growth.

Wiping out debt sounds good news for debtors, but then you are wiping out the creditor also. The government public debt is owned by households directly or indirectly.

Without access to capital, economies contract. Local currency becomes worthless, printing more money invites inflation. Poverty proliferates.

Default and deadly weapons ownership make  
for dangerous bedfellows – Russia and  
Pakistan

Across developed nations, an increasing share of capital that should go to young workers is actually going to preserve the living standards for retirees.

Ample evidence suggests that white collar workers outlive blue collar workers.

Success on wall street requires two components – a rising market and a short memory.

Winning the battle vs inflation invariably leads to overconfidence.



A stream of innovations, globalization, immigration, weak labor unions, and billions of workers coming from India and China helped improve productivity and put a lid on consumer prices.

Misery index for a country is a simple addition of unemployment% and inflation %. As an example if inflation is 5 % and unemployment is 5 %, then the misery index is 10 %.

**‘Inflation is like alcoholism’ said Milton Friedman, the good effects come first and then the bad effects come only later.**

# 11 global negative supply shocks

1. Rapid ageing of populations
2. Migration global poor south to global rich north
3. Protectionism
4. Reshoring
5. USA vs China trade war
6. Geopolitical shocks
7. Global climate change
8. Global pandemics
9. Income and wealth inequality
10. Cyberattacks
11. Weaponisation of the US dollar

In the private sector, innovation has reinvented finance. Private digital systems challenge the vitality of banks, central banks etc.

Successful currency unions like the European Union need a shared political framework too, which means central bank policies can overrule national authorities when necessary.

Blockchain technology , a database system shared across a large number of servers makes it possible to define the ownership of any single element of the data.

The rush to DeFi is premature and ultimately misguided.



Crypto assets are energy hogs.

Between 1836 and 1864, America had different banks issuing different currencies and there was no central bank. It failed miserably. Crypto will be much like that. You need a financial system with some central node.

Globalization reduced poverty in the developing world and reduced consumer priced in the developed world.

The US lost close to a million manufacturing jobs between 2000 and 2011 due to manufacturing moving to Asia.

Capital crosses global borders with less friction than people, goods or services.

**Secure trade and friend shoring is the latest in globalization.**

Free trade by itself doesn't produce an equitable world. There will always be winners and losers.

When a rich country trades with a poor country , each will pursue its own comparative advantage.

Between 1990 and 2015, a period of 25 years,  
China's share of global manufacturing rose  
from 2.8 % to 18.5 %

Contrary to popular belief globalization did not take out jobs, it was much more technology led.



A 3 D printed house cut in half the cost of producing a house. The first house was done in Calverton, New York.

AI is transforming society 10 times faster and at 300 times the scale, that's a 3000 times impact.

When the wealthy get wealthier and the workers get less, then the economy suffers from a consumption problem.

As a human being I root for people, as an economist, I ask what's the best and most efficient use of resources?

A rising power has always resulted in a war with the supreme power of the time. Russia didn't go to war with the USA, America didn't go to war with UK.

China has given \$ 843 billion in the belt and road Initiative between 2000 and 2017. This is twice what America and the big western countries have spent in the same period.

China edged past USA in GDP on a purchasing power parity basis in 2017. China economy that year on a PPP basis was \$19.6 Trillion

An authoritarian state can slash red tape, but it can't create the space for freedom that sustains innovation and growth.



The direction of the US-China rivalry will depend on growth trends in the next decade.