

The Entropy of Debt

The Need for a
Kondratieff A –Phase Expansion
:New Demand and Investment Driven
Economic Order

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Structural Reasons for Global Economic Crisis: Rising Costs

1. Raw Materials
2. Labor
3. Food
4. Energy

Short-Run Reasons Financial Crash & Austerity in Europe

- Causes in Europe:
 - Maturing capitalism and reduced investment opportunities
 - Development asymmetries in EU (rich & poorer nations mixed in union)
 - Insufficient mechanisms for recycling capital between rich and poor countries in EU (structural funds the strongest)
 - Euro and lack of national monetary (currency) adjustment tools
 - Opportunism: using crisis and Lisbon goals to roll back Social Welfare states

Robbing Thomas Malthus, Industrialization and Defeating the Law of Diminishing Returns: 1780 1980



50 Years, Entropy and End of Bretton Woods: The Crisis of Sustainability

1. Overcapacity: Bretton Woods too successful
2. Rising demands from labor
3. North/South Crisis: Che Guevara's exhortation for 1, 2, 3 & more Vietnams
4. Resource Crisis
5. The Kondratieff A-Phase Expansion that never arrived

How Profitability was restored?

Remove or minimize all the above.

The return of cheap Inputs

- Drive down wage growth and deregulate
- Open up former Soviet bloc: market for Western consumer goods, and more importantly, flood world with cheap energy and metals. Process ends in 2000s

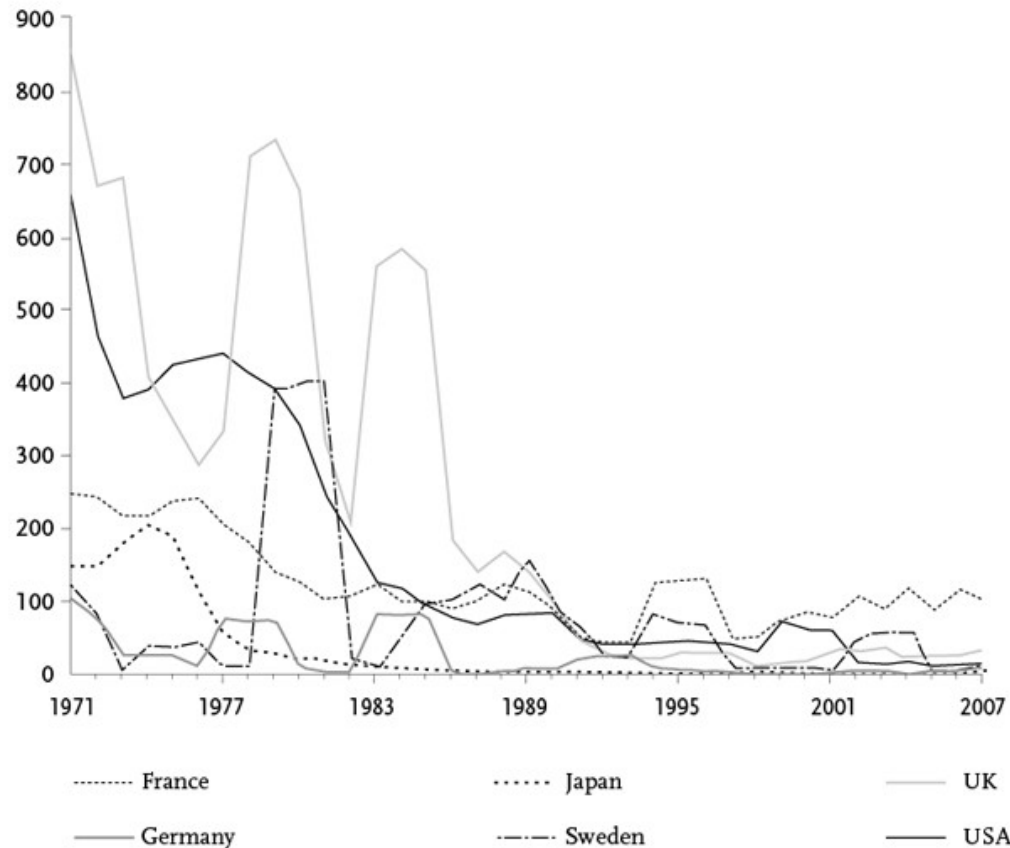
Problems Created by the “Solutions”

- Inflation of the 1970s:
Governments thought this acceptable for a while, as growing debts could be inflated away. Investors hated and saw as risk to fixed investments.
 - Respond with war on inflation, labor costs, and taxes to restore profits.
 - Profits are indeed restored, but with problem of how to purchase what economy can



Labor Discipline Restored

FIGURE 3. *Strike Days per 1,000 Employees, 1971–2007*



Source: Author's calculations of three-year moving averages based on ILO Labour Statistics Database and OECD Labour Force Statistics

Government Debt:

- War on inflation and labor creates new problems: Public Debt
- Public Debt: Reduced purchasing power of labor and lowered taxation to soak up demand from the real economy
- Creates debt overhang and government moves to tackle it in 1990s
- Moreover, finance sector wants governments to borrow (e.g.,

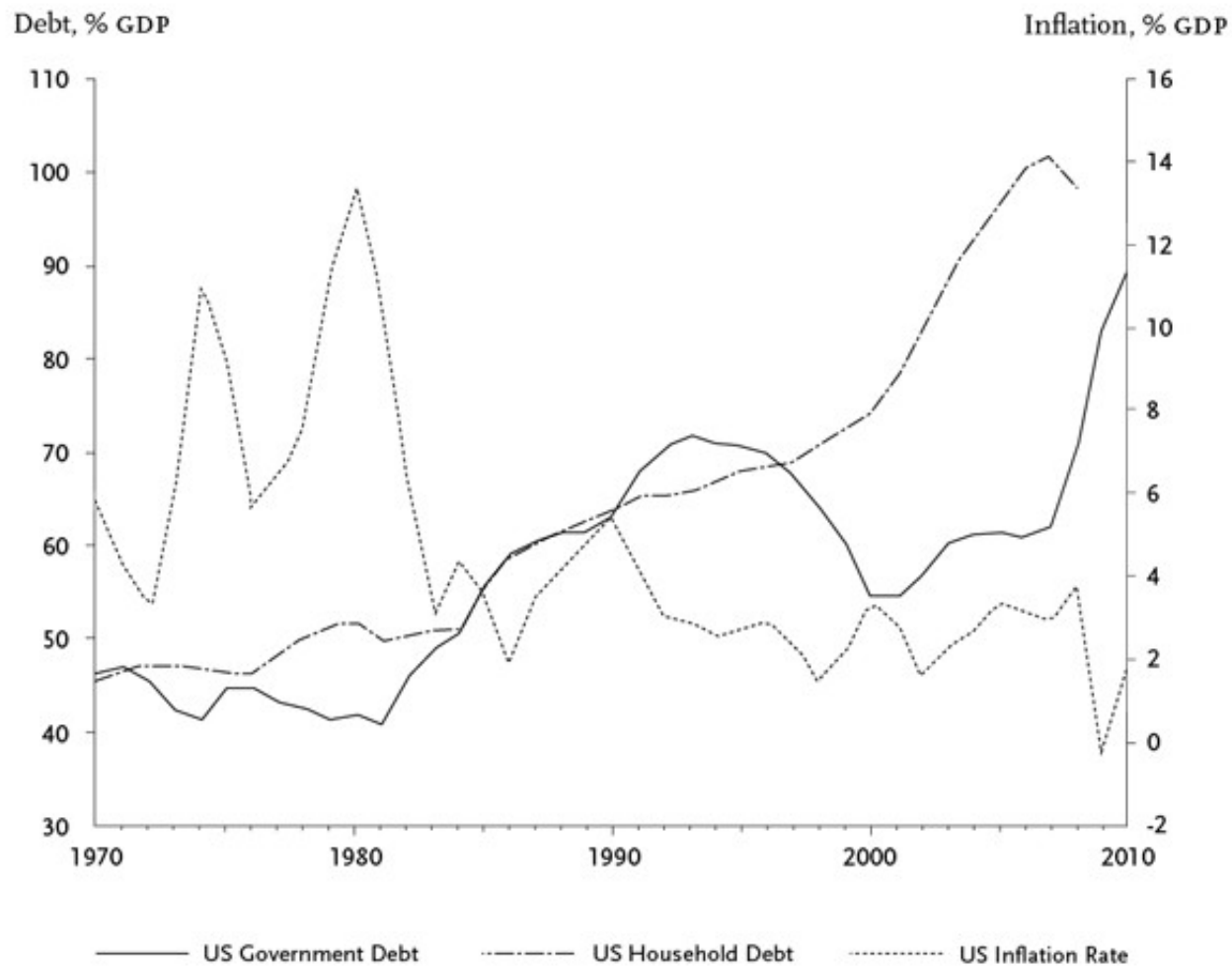


Government Debt Slain: *The Rise of Private Debt*

- With reduced government debt and wages low economies turn toward cheap money and private debt to sustain demand in the 1990s. Begins in Japan. Then US, global spread.
- Sustains demand, but generates asset inflation and interest compounds, ultimately making it



FIGURE 5. *Four Crises of Democratic Capitalism in the US, 1970–2010*



Source: OECD Economic Outlook Database No. 87

Solutions for Russia

- 1. Modern Monetary Theory: Minsky and the end of Welfare and the return of Work**
 1. Rebuild infrastructure: corruption aside, in principle easy for Russia to do given raw materials

Solutions

2. **Space:** Russia should capitalize on the recent Chelyabinsk meteor incident to push for a global fund
 1. (nation's contributing on a weighted per capita income basis) dedicated to meteor earth defense.
 2. Russia's space infrastructure would give it a prime spot in designing the system

Solutions

3. Wheat export: Prices likely to remain high

1. Demand from China & India likely to increase
2. Climate change removing lands from grain production
3. Biofuel production is taking much land out of food production, especially in US

Conclusion

We Risk Returning to the World of Pre-1800, if not pre-1500:
A world of debt serfdom and diminished productivity