Viktor Shvets: The Inflation-Deflation Pendulum

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Erik: Joining me now is Viktor Shvets who heads up Asia-Pacific and global equity strategy for Macquarie Investments in Hong Kong. Viktor, it's great to have you on the program. As a first time guest, I've been asking all of our guests to tell me about inflation versus deflation, which it seems like it's just the big debate in finance that keeps coming back. How do you see this? Are we as many of us think headed into secular inflation or is it just a false alarm?

Viktor: Well, it's neither of those things. I personally say the inflation-disinflation pendulum. In other words, swinging from one side to the other and returning very quickly back to disinflation will be the story of almost the rest of our lives. If you have a career that is going on for at least the next 10 years, that's going to be your story. And the reason for that Erik is very simple. The last 20 years was very straightforward. From my perspective, this was a period of extreme financialization, a period of extreme digitalization, and also extreme globalization. All of those forces were incredibly disinflationary. And so the only time inflation had any chance was during recoveries like when you recover suddenly from global financial crisis or dotcom. But otherwise, inflation really had no chance at all.

Now, the next 10, possibly 20 years will be different. We're not going back to 1970s. Today's world is so dramatically different. Demographics is different, debt levels, financialization are different, government policies are different, technology and its impact is different. So we're not going back to 1970s. But, whatever is going to happen in next 10-20 years will be different to the previous period. Why is that? Well, we still have a lot of disinflation, the backdrop remains disinflationary. 20 years from now, everything will be at zero. And where does it come from? Well, demographics is mildly disinflationary, you have financialization and debt, which is highly disinflationary. And of course, we have technology and information age.

But unlike the previous 20 years, going forward, there are some inflationary elements. What are they? Well, essentially three. Number one, unlike the previous 20 years, where we essentially just manipulate digits of information and data. The next 10 to 20 years will be much more capital intensive. In other words, we'll be starting to manipulate physical matter, atoms. It's example of that will be alternative energy and transportation platform, elimination of factories on a global basis, and supply and value chains. It's going to be infotech merging with a biotech, it's going to be a robotics, automation. So it's a completely different environment. Now, it requires a lot more investment. The last 20 years, there was no need to invest much money other than into intangible assets. The next 20 years actually requires more investment. Now that investment which we're going to make in this digital age, creating physical things, so I touched as I said elimination factories, supply chains, robotics, automation. That investment ultimately will be very disinflationary. But initially, it could actually be inflationary. So that's number one.

Number two, fiscal policies. Remember, the last 20 years fiscal policy was playing second fiddle. It really didn't play a major role. Going forward, essentially, society is demand that the government takes the excess capital that we have accumulated. And today we have at least 5-10 times more capital than we need, and put it exactly where people want it, rather than sort of remaining in the cloud of finance the way it had been over the last 20 years. So the government will be more aggressive in fiscal policy, whether it's universal basic income guarantees, whether it's going to be healthcare spending, whether it's going to be some infrastructure spending, whether it's going to be basic research and fundamental research. They're going to be spending money in a number of areas. Again, that's more inflationary.

And the third element is a deglobalization and localization that's going to continue to strengthen. So what you have in the next 10 to 20 years, two very powerful forces are going to struggle. One is very strong, long term disinflationary force, which ultimately is going to win. And the other one is more inflation created from various things we're going to do over the next 10 to 20 years. Now, the interesting question, Erik is who is going to decide whether inflation or disinflation wins at any given point in time? Now, my personal view for quite some time has been that private sector will never walk again on this system. That is velocity of money will never be, will never improve through private sector. Now we can debate why I think private sector will never walk again. But if you take it for granted then that only leaves the public sector as an arbiter, as a determiner, whether inflation or disinflation will win in any given six months or three months period. So if you were to ask me, do I believe there is systemic inflation? No. Do I believe there is systemic disinflation? Yes. Do I believe that there will be times when inflation will be stronger than disinflation? Yes. And the swings in a pendulum from one to the other, in the next 10-20 years will be much stronger in my view, than what we experienced in a previous 20 years.

Erik: You made some really excellent points, and I'm going to want to come back to several of them in a minute. But first was something you said in there. Maybe I misheard you. But I thought at one point, you said, in the next 20 years because of disinflation, I thought you said everything goes to zero.

Viktor: Yes

Erik: What exactly do you mean by that? I mean, assets all cost nothing. I mean, what do you mean?

Viktor: Now well, essentially, what I mean, one of the things technology does very successfully. And remember what we've done with financialization that we've met with that we embarked on in 1980s, and carried on to today and will continue to carry on. One of the things financialization does is massively reduces cost of capital, and technology itself as a human spirit. But the pace, the speed with which technology propagates really depends on the cost of capital. So if one agrees with me, that cost of capital must fall forever, then it's like pouring a kerosene on a bonfire of technological age. And what technology does incredibly well is reducing marginal pricing power of both labor and capital, and corporates, and brands. And so what happens over time, those reduction in marginal pricing power converges into average pricing power, which also declines. And eventually, almost everything becomes free. There is no prices, just like information today is almost entirely free. Just like publications today, almost entirely free, just like trading on the New York Stock Exchange quite, not quite, but almost entirely free. Just like a lot of music is almost entirely free. So we already have massively reduced marginal pricing power in a lot of industries. We've already reduced marginal pricing power of labor.

Part of the reason why Phillips Curve doesn't work is that every day you sit in the chair, your price, marginal pricing power declines Eventually those declines and marginal pricing power will translate into average pricing power, and so almost every single gravitate towards zero. Now at that point, you don't need corporates, why do you need corporates for? They're there in order to reduce transaction costs. They're there in order to mobilize resources. But if transaction costs are next to zero, and we have excess capital, which I said earlier, at least 5 to 10 times larger than what we require. Why do we need corporations that live in their own names for hundreds of years?

So all I'm saying is, everything goes eventually to zero. And that's, you can call it communism, if you want. One of the ideas of Karl Marx back from 1850s, was that eventually will come to the stage that what he would describe as a slavery of labor, or capital, which has disappeared. And the reason it disappears, not because you have a socialist revolution, but simply because productivity rates are so incredibly high, that basically, there is nothing to do. John Maynard Keynes in the 1930s, was discussing something very similar that was in four generation. Our sort of future generations, the biggest test they will have is what to do with themselves and how to feel satisfied and valuable in a world where they contribute very little. If you think of Peter Drucker in 1980s-90s, they were discussing the same thing. So what is Karl Marx of 1850s, John Maynard Keynes in 1930, and Peter Drucker in 1990s. The idea was similar that eventually productivity will mushroom to a stage that neither capital nor labor are required in the same magnitude, neither they are priced the same way. The jobs are such evaporate.

And I think we're within two decades, maybe three decades of reaching it. But that progression is incredibly tough. The way I describe it in one of my books is to say, if you landed in London in the early 1800s, and fire Luddites just about to smash a loom. And if you came to those Luddites and said, You know what, please don't do it. Within 30-40 years, everything is going to be fine. There probably will smash your head because for them that 30-40 years was the entire lifespan. And so when people say those sorts of transition to in capital, in labor that we are experiencing have been experienced many times before. Very true. But number one, we don't feel the pain of people who physically have to go through it and yet it just happens to be alive that we will experience now. And number two, the waterfront of changes is so dramatically wider. So we don't just reduce marginal pricing power of cotton or steam for railways. We're not just reducing marginal pricing power of chemicals or pharmaceuticals, we're reducing marginal pricing power of everything.

That's why McKinsey in their review, was estimating that the impact of information age could be 3000 times the impact of industrial age. In other words, much broader and much faster, 300 times broader, 10 times faster. And so when I say everything goes to zero, eventually, the productivity growth rates will be so high, that there will be no need to value any of that stuff. And the economists are not going to function the same way as I've done over the last two or 300 years. But that is decades away. In the meantime, we're living in a twilight zone. We still have our old fashioned liberal capitalism ideas, what the markets supposed to be like, what the corporates are supposed to be like, what the industry is supposed to how they're supposed to function, and the New World. And the New World already making its impact felt. For example, as I said, look at what happened to all the digital industries and what they've done to marginal pricing power of labor, and capital over the last 20 years.

Just imagine what manipulation of physical matter and atoms will do over the next 20 years. And so to me, that's what I meant by zero. It's a society of incredibly high productivity. Prior to first Industrial Revolution, productivity only grew by 10 bps per annum. After the first Industrial Revolution, call it 1850s-1860s, it increased about 100 basis points. After the second industrial revolution, it increased to 200 basis points. Today, we're back down to only about 50 basis points. And the reason for that, when you are at an earlier to middle stage of that evolution. Whether it's first Industrial Revolution. Second with information age, productivity actually goes down, not up. And the reason for that is very simple. Part of the economy becomes so efficient, so productive., so at the front of everything, that they effectively caught everybody in the economy down one piece at a time. And you have to wait for the overall economy to get to a certain stage before aggregate productivity will start accelerating again. And to me that's probably 10-20 years out, but eventually we're going to get to the point.

Erik: Okay, I see a theme in what you're saying that I'd really like to understand. Because in your answer, just now, you said a number of things about a trend that we're going to see toward much less independence of private business, and much much more centralization. And then earlier, you said, you made a prediction that the private sector will never, I think you said walk unassisted ever again. So we're describing a change from a type of society that focuses on individual responsibility, and self sufficiency and moving in the direction of collectivism and more social support programs, more in the direction of socialism, I totally, completely agree with you that that's exactly what's happening. It's the big trend. I can't figure out what it is that drives this. I mean, when I was a kid, it seemed like individualism was in. Now, all of a sudden everybody wants collectivism. And when when I was a kid, no American would say, Hey, you know, we'd be better off to really look at socialism being better than capitalism. What is causing the change in I don't know if it's economic behavior, or just social attitude that suddenly all of a sudden, you know, right now socialism is in, communism might be the next.

Viktor: Yeah, you're totally, you're totally correct Erik. There is quite a few influences, very powerful influences that drive it. You have to remember that in the second half of 1940s- 1950s, and called the first half of 1960s, there was a very strong consensus in the US and most other Western societies. And that consensus was essentially about the government. That the government has a very special role to perform. The private sector generally should be mistrusted. And that you as an individual is prepared to sacrifice certain freedoms in order to see whether it's middle class creation, healthcare, opportunity, educational opportunity, and the rest of it. And so US was not a liberal society. You have to remember that the 1950s, if you're deviant in any form, whether it's political, socially, sexually, you're going to go to prison very easily if you weigh against the ideology of the United States and some states that would have led to capital punishment. If you were found to be a member of certain on desirable groups, you would lose your job. I mean Secretary of State in 1950s proudly declared that they fired one homosexual every day.

And society as a whole accepted certain limitations. And the reason they accepted certain limitations because those societies remembered 1920s and 30s. And they remembered how bad private sector can be. How misallocation of capital can be so horrible in a private sector driven world. And so the first macro economist comes through, including John Maynard Keynes, including Galbraith. They never believed that a public sector is always necessarily not as good at allocating capital. They never believe that public sector necessarily always inferior to private sector. And then around 19, mid 1960s, the baby boomers started the uprising. And basically what they've done is ushered the New World, the way I describe it, the world of freedom, choice, and efficiency.

And they basically were saying, look, you don't tell me who I should marry or who I shouldn't marry. You can't tell me what job I should take. You can't just keep me down and not allow me to immigrate or move from country to country or take my money with me. And so baby boomers are a different age. Now between 1965 and 1980, complete chaos ruled. And the reason you had chaos is because society couldn't agree. They were part of society that wanted a baby boomer agenda. But there was another part of society which was extremely conservative, and still look back to the 1950s. In 1940, rather than in the 1970s. Around 1980, a new consensus was formed. And it's really on baby boomers shoulders, that Milton Friedman and roll cost become very famous. On their shoulders, Ronald Reagan Maggie Thatcher, and all the rest of them got elected. And the new consensus form.

And the new consensus was basically baby boomers consensus, choice, efficiency, freedom. And that was the age when suddenly public sector was the enemy. Government was the enemy. It was also that if there is any problem, private sector solution to that problem is always better than a public sector solution. Now that consensus started to break down around global financial crisis, and we're really been living in a chaotic times are for at least in that last 12 years, 13 years. And we have another at least 10 years to go. And the reason we have this chaotic stage is that millennials and Z generations basically reject the baby boomers bargain. They argue much more in favor of what I described as fairness, equality, and no waste. This is a very different way of looking at compared to freedom, choice, and efficiency. And millennials and Z generations increasingly have electoral pool. So for example, in the US, about 20% of the votes in the latest election is what is caused by those people. But if you wait another eight years or so they will become a plurality. And at that point, and AOC style presidency will be almost guaranteed.

And so do you have this generational change? Yes, very similar to what happened in 40s, 50s, 60s, and then the baby boomers from 80s onwards. We have another major shift. Now part of the reason why younger generations feel like that, because just like people in 1940s, who remembered 1920s and 30s, younger generation have seen global financial crisis. They saw unwinnable wars, they saw dotcom crisis, they saw pandemics. And so for that younger generation, government is not an enemy. It's a guardrail that actually helps you, that actually supports you. Whereas private sector, they understand is not always best in solving the problems. Now, part of the reason we have all of this as well is that in 1980s we decided to financialize. In 50s, 60s, and 70s, even into early 80s, the US only needed and pretty much any other country in the world only needed about $1, 1.50 of debt and liquidity for every dollar of GDP and then we decided to financialize. It started was Paul Walker, and then the real push forward was a Greenspan put, which was put in after Black Monday in 1987.

And after that, we've gone berserk. Money supply has been growing much faster than nominal GDP everywhere around the world. And so today, in some countries, we need $5 of debt and liquidity for every dollar of GDP. If see the financialization, even in the US, it's almost 10 times are unique. And so part of the problem we experiencing is that we've decided to inflict on ourselves a sort of a self inflicted wound. Financialization is not something that ee should have done. But we never really debated that the 1980s and 90s. We just stumbled into it. Now, why is it that? Well financialization massively distort income and wealth inequalities. If you happen to have assets, you're doing incredibly well, particularly if they are digital assets. If on the other hand, you're basically relying on nominal GDP wages and household chapels, you're doing very, very poorly. And the gap between the two are rising.

The other thing which financialization does not only income and wealth inequality, it crushes the cost of capital. That by itself starts accelerating massively technological innovation, not inventiveness. Innovation two very different things. And as technological innovation started to proliferate. Technology started to have a massive disintermediated impact on labor, on capital, on products, on brands. And so what the new generation they see is a negative impact of financialization. What they're seeing is a negative impact of technology and information age. What they're seeing is massively distorted labor markets, where there is no clarity of professions, jobs, progression paths, what they're also seeing is your political and social pressures. Because when income and wealth inequality increased dramatically, and when you have the problems of disintermediation, that creates more slavery and disappointment. In other words, people within the same country move at different speeds. it's your Ohio versus New York, or Sydney versus Brisbane, or London versus Birmingham, and also different countries move at different speed.

Viktor cont'd: Now, that basically creates geopolitical and social tensions at the same time. And so this younger generation is basically saying, oh my God, we're facing so much stuff. The only party that can actually make a difference in this game is the government. And that is why the role of the government will continue to increase. And by the way, I think the younger generation is correct. We will know ultimately, how inefficient or efficient it's going to be. But there's no question that the government role will rise.

Erik: I'm very curious whether you're familiar with Neil Howe's in the fourth turning the book that he wrote in 1998, which I'm a big fan. Seems to me, there's a lot of echoes here and that he says things are mostly about generational cycles. His prediction has been that the 2020s would basically be the decade where people lose faith in and tear down old and dated institutions. And the younger generation rebuilds a new future very similar to what happened after WW2, where a lot of both social and business norms were kind of abandoned, and we invented new ways of doing things. Is that consistent? Is that a kind of how you see this? And are there any differences in the way Howe looks at this versus how you see it?

Viktor: Yeah, I know the book and absolutely! A generational change make dramatic difference. But to me, what makes generational change count is really finance, economy, and technology. Those things don't necessarily move at the same speed as generations. It's very easy to sort of to rationalize it and looking backwards. But to me, those are the drivers, those are the key components. So for example, even in 1980s, I've come out and said, you know what, US productivity has been falling since 1970s. You really don't deserve the money you're making and you really don't deserve to have the wealth you have. But believe me by not insisting on the gross rates that you insisting on, we all going to be better off. Now, how many votes would I have attracted? It's probably myself and my mother. That's about it.

And so the easiest thing back in those days, was to say there is a solution. And a solution is financialization, its assets. We're going to hook ourselves to an asset train. Now that's a decision that didn't have to be made. It's a decision that we've decided to make. And so the question always becomes what would have happened if we didn't make the choice? Or maybe that was already predisposed by baby boomers, because they insisted on forever, grossly insisted on forever wells. So I always have a difficulty necessarily spacing it like how does and saying, well, there are periods that are this period, there is that period, because there is I think, quite a lot of freewill involved as well. And things could have been different. The timings could have been different, but the basic essence that as economists fluctuate, there are times of massive significant shifts.

On the other hand, there are times when everything is incredibly placid and we are going into much stronger change. I think it's, as I said, I think it's 3000 times the impact of industrial revolution. And so what happens to generations after Millennium and Z generation, I don't think that can be predicted because societies will be so fundamentally different. Economies will be so fundamentally different. Think of it this way, the essence of capitalism is capital and labor. If neither capital or the labor function the same way, it's no longer capitalism, it's something else. And the only question is, what is it? You can put a label of socialism, you can put a label of communism, you can put a label of enlightenment. They are many labels that can put together. But it certainly is not going to be something that we've experienced over the last 300 years. So I'm not totally sure how that will change what the following generations actually will experience.

Erik: Viktor, something that's always fascinated me. I'm in my mid 50s and most of my peers in my age group and finance, you know, they roll their eyes. And they just how you stupid kids, they don't understand anything. They don't appreciate the importance of capitalism. That's what made Americans strong and they'll learn someday. And I just listen to them and I think, you know, I happen to agree with the capitalistic vi2ew. But I think they're kind of missing the story. What's going on here is the younger generation is sick of this, and they're going to rebuild things, whether old guys like me, like it or not.

And it's fascinating to me how much of the finance community I think, underestimates the willpower of millennials and younger generations to just say no to the status quo. Now, Viktor, you are known as a thematic outlook kind of guy. With this backdrop that we've talked about, where there's kind of a new generation that's not in power yet that we both think is headed into power. It's a very different social attitude of what kinds of institutions they would like to implement. Where does it take us both in terms of capital markets, as well, as you know, something like Fed policy. Most people are still in a waiting game. Okay, when are they going to start the taper, to normalize their balance sheet back down to zero? And I think about, you know, when does it hit infinity? I'm not sure there's a reason it never goes the other way.

Viktor: That's right. That's right. The way I basically describe it. People say, when is it going to be comeuppance we've done so many terrible things, the price must be paid. Why? Why should it be paid? Well, we can't just carry debt, it must be repaid. I basically say to those people, have you ever heard of BoJ? Have you heard of Federal Reserve? We accumulated in various financial instruments well, over $400, one could argue $500 or $600 trillion piece of paper globally. Do you ever think any of that ever going to get repaid? The answer is absolutely no.

And so what Federal Reserve and other central banks have gone through is a process of just using financialization to spice up gross rates, and deliver what societies want to be delivered to understanding that now we're hooked on asset prices. That household decision whether to consume or to save. Investment decisions by corporate whether to invest or do share buybacks are much more driven by asset prices, rather than anything else. And so the more you hook yourself on asset prices, the less volatility of asset prices you can tolerate. So when I was a younger man, and I'm older than you, but I'm when I was a younger man, you know, moves of 100-200 basis points were very common. Today, we can't even survive 20 basis points, forget anything else.

And so central banks are caught in a system that they have created. But nevertheless, something that baby boomers asked them to create. So when people say, who is the guilty party? I usually say, look yourself in the mirror, it's you. And so they've created a system, that essentially cannot be unhooked. And the more we relied on asset classes, the less volatility central banks can tolerate. Eventually, on that pass, the only acceptable answer is zero volatility. There is no other acceptable answers that you can find. And so central banks have to continuously generate more liquidity and capital forever diminishing returns, which means that the cost of capital must continue to fall forever. Now people say, well, it can't go on, well, why it can't go on? It can go home, and it will go on.

And so the question then becomes, okay, so what happens to asset prices? And I say, look, it's very simple. If you have zero risk free rate and zero risk premium. What is the value of an asset? Well, theoretically, it's infinite. And I said, well just keep that in the back of your mind and think of asset classes. Now there will be however, a significant differentiation in performance. And what I mean by that, I don't like gross label. I don't like value label. I don't like quality label. I think all of that is obsolete. Because something that you think is gross could become value something which is value could become gross, etc. But what is important is it whether you're new economy driven, or whether you are old economy driven. And some of the old economy companies can do much much better by embracing the new economy, but most companies don't have a capability of doing that. They fossilized or that everything they do is so big that whatever new comes in is it doesn't move the needle.

And so the interesting thing to me is in all of that, is that it's highly disinflationary what I've just described. A government occasionally will step in and more and more as we go forward, and governments sort of variety of things they do will generate more inflation, but then it will fall off again, and disinflation will get stronger and stronger and stronger. At the end of this process, there is no capital markets effectively, because everything is either infinite or zero. You're either worse everything or you're worse nothing. Corporates will no longer be 100 year institutions, but they will be like flashes in the sky. A good idea come up, burn out in 6-12 months, off you go. The next one comes on. So it's going to be a very different market.

But having said that, as I said, in the shorter term, if you start looking more like 6 months, 12 months, two years, three years out. It is still the case that whatever government does, will switch you between different asset classes. But if you don't want to try to anticipate what the government will do. If you feel you don't have any edge, there is a way of investing in not necessarily just cutting edge technology, but in companies that embrace the new age, embrace the new economy.

The other thing to highlight I think, is important whenever people say I think we need to rebase the economy. My answer to them, okay, do you understand that your 401k then will be worth nothing? Are you okay with that? Because the whole idea of money supply growing so much faster than nominal GDP is a difference between those two numbers is really assets. So are you okay? If we tried to converge those two lines. That your 401k is worth nothing? Most people will say they're not okay with that. Are you okay, that your house that you might have bought for $100?. Probably is not worth more than $30. Are you okay with that? Most people will argue No.

So everybody who argues about resetting the economy, basically need to confront the fact that social, economic, and political consequences of doing it's just astronomic and cannot even be contemplated in any rational sense. So to me, ultimately, capital markets will be nationalized in various forms. They are already too dangerous to be left to private sector to regulate itself or to even participate. Think today, the Federal Reserve fix the price of money, and they don't like the quantity that private sector gives them. They just create quantity. If they create quantity, they don't like the price, they fix the price. So if you fix both price and quantity, why do we need the prime dealers for? Well, the answer is they are still some private sector signals we want to maintain.

The same applies to a fiscal policy. Why fiscal policy generates debt? Does it need to generate debt in any in any meaningful form.? And so we can go through the list and basically argue that a lot of those private sector signals that already atrophied in the last 15 or 20 years will continue to atrophy. And other signals atrophy, who will take the place of private sector? Well, the answer is public sector will take the place. Now, is it going to be a disaster? And people say it's going to be like 1970s? Well, it could be. But on the other hand, it doesn't have to be. And so one of the things that keep on discussing whether we need freedom in order to be wealthy, prosperous, innovative? The answer over the last 500 years, absolutely, yes. But is it still the answer as we go forward?

Erik: Viktor, you did such a great job of answering a question that was about it can't go on forever, that I just can't resist asking you the big question. So many people in macro will tell you look Viktor you've been in this game a long time. You remember 15% Treasury yields in the early 80s. We've gone from 15% to 0%. Well, almost zero was the low. What was it 35 basis points or something? Surely, this has got to be the time to just back up the leverage truck and massively short treasuries, because the only possible direction for interest rates is up. Now, I personally don't agree with that at all, but a lot of people do. What do you think?

Viktor: Well, it reminds me what people were saying about Japan. Remember in 1990s and early 2000. The view was that if God forbid Japan ever ignites inflation, they immediately go bankrupt because the government will be spending 50, 60, 70% of their budget just servicing the debt. Now, how much do you think Japanese Government today is spending on servicing debt 4%. Not 50, not 40, not 80, 4%. And the debt burden is much, much larger than what it used to be. Now a lot of people say, well, you know, Japan is unique. Okay, let's look at Eurozone. How unique is Eurozone? Look at the UK? How unique is the United Kingdom? And if you think of the US. One of the things that is becoming very clear, is that what happened in Japan since early 90s. What happened in Eurozone since global financial crisis over the last five or six years started to happen in the US as well. And a basic sort of signal that the US is sending now, just like the other economies do, it's not about supply of money. It's about demand for money. It's not about supply of credit. It's about demand for credit. And increasingly, the more we leverage, the more we financialize, the more we erode marginal demand for credit.

Now, what that implies is that interest rates not only they cannot go up, but they will not go up. And by the way, if they do, remember, we always have perpetuals, which have no value at all, because they're never redeemable. On the horizon, we have MMT or modern monetary theory. We already have BoJ. Remember the has been monetizing more debt that the Government of Japan has been issuing. That's why they're sitting on 50 to 53% of JGB market. Eventually, you don't need the JGB market at some point in time. Why do you need? Why do you need the bond market at all? And so to me, when people say that surely it must break out? Yes, if we live in a liberal capitalist economy, absolutely. The way I looked at people in 1990s, who are projecting that yen will balloon to 300-400 as the only way to reflate. The way I look at them is to say your prescription or your view, what yen is going to do or interest rates are going to do it was absolutely appropriate for 1960s, 70,s 80s. We do not live in 1960s, 70s 80s.

And to assume that this is immutable truths. That is true in any era is just wrong. So my answer is look at Japan. And if you look at Japan, ask yourself how different is the US to Japan? Now a lot of people say the US have a younger demographics. Well, actually, the US demographics today is equivalent to Japan of 1990s when Japan had huge deflationary bust. Also by 2030, US demographic is deteriorating so fast that it will be equivalent to Japan's demographics in 2010. And Eurozone is only slightly worse than the United States. So demographic is not the question.

Secondly, people say debt level. Yeah, fair enough. Japan had four times that debt to GDP in 1990s. US only had two. But today's US at four times. And remember US has a lot of unfunded liabilities. If you include that the US is actually closer to six times. So that's not really the argument. The third thing people say. What about public versus private sector? The US is much more private sector oriented. Well, actually, the US public sector spending is now 48% of GDP. Higher than in Japan, higher than the UK, and only slightly lower than the likes of France, or Germany have. A lot of people say the US is more productive. Well, not true. Multifactor productivity in the US of the last 10 years was lower than either in Germany or in Japan.

And it's sort of if look at its inventiveness, well, the US is much more inventive. But innovation is actually not that dissimilar to what you have in Eurozone and Japan. So I can't see why the US will be so much different to either Japan or Eurozone. And it's not even clear, how do you fix a problem. Because if fiscal spending was a way to fix the problem, then Japan would have done it right? They had 30 supplementary budgets. A lot of people say mixing fiscal and monetary aggressively is a way to go forward. Well, if that was the case, Japan again has been doing it for quite a period of time. Paul Krugman has been arguing the incredibly irresponsible as a way to go forward. Well, since 2012, the Eurozone was fairly responsible. Again, that did not fix the problem.

So to me, I understand what people say and I myself lived through the ages when interest rates were 15% or even higher in some of the countries I lived in. And that's why I was saying, a 100 basis points move or 200 basis points were okay. But that is not our world and that world is not going to return. The only way to try to reset the economy is either you have to have understanding that we're going to bust it up and have a massive deflationary bust, irrespective of the consequences, or we have a war. That's the only way you can actually do it.

Erik: Viktor, I can't thank you enough for a terrific interview. Before I let you go though, I know you basically head up the Asia-Pacific and global equity strategy at Macquarie in Hong Kong. For our institutional audience, how can they follow your work and get in contact with you and so forth.

Viktor: The best way Erik is of course, Macquarie. I publish a variety of documents. Some of them are reasonably well known and regular. "What Caught my Eye?" comes out a couple of times a month. I publish "Rights, Wrongs, and Returns" three or four times a year, which looks more at portfolio allocation and strategy. We also do a lot of ad hoc pieces, so Macquarie Bank will be the best way to follow it.

Erik: And of course, the research products that Viktor just described are institutional research only available to institutional investors. For our retail audience, I cannot strongly enough recommend Viktor's books "The Great Rupture - Three Empires, Four Turning Points and The Future of Humanity", which is available on Amazon and other booksellers. Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.