IMCO FORUM

EVENTS, TRENDS, AND “TREVENTS”

OPINION

Niall Ferguson

October 2022

Back in the summer, former Treasury Secretary Larry Summers and I were discussing the global economic and political situation. Just how bad were things going to get? Larry came up with a characteristically pithy formulation: “Events are 75 percent bad,” he said. “Trends are 75 percent good.”

I could see what he was getting at. His aphorism is in fact a distillation of the argument of another old Harvard friend, the psychologist Steven Pinker. “Journalism by its very nature hides progress,” Pinker argued in a recent interview, “because it presents sudden events rather than gradual trends. … the press is an availability machine. It includes the worst things to happen on Earth at any given time.” But “human progress is an empirical fact.” This is a view Pinker has propounded in several books: *Rationality (2021), Enlightenment Now (2018), and The Better Angels of our Nature (2011).*

It’s certainly true that the mainstream media have a preference for bad news over good news. “If it bleeds, it leads,” is an old newsroom adage for good reasons. Steven Pinker isn’t the only academic who has studied the cognitive biases that attract us to adverse events. Even the BBC on occasion admits that the media have a preference for negativity. As for the newer forms of social media, it seems that our demand for “doom-scrolling” is so enormous that it cannot be satisfied by the supply of real disasters. Much fake news consists of imaginary calamities.

A good example was last week’s flurry of Internet interest in the idea of a coup against Xi Jinping in Beijing. Beginning on Friday, my inbox was filled with inquiries about a political upheaval that wasn’t in fact happening. Was it true that Xi had been arrested? It was hard to trace the origin of this story. My first glimpse of it was a tweet by a Chinese journalist I had never heard of named Jennifer Zeng:

> #PLA military vehicles heading to #Beijing on Sep 22. Starting from Huanlai County near Beijing & ending in Zhangjiakou City, Hebei Province, entire procession as long as 80 KM. Meanwhile, rumor has it that #XiJinping was under arrest after #CCP seniors removed him as head of PLA

The supporting evidence was a 55-second video of military vehicles.

Zeng has a website called “Inconvenient Truths.” However, the really inconvenient feature of her story was that in the subsequent 48 hours not a shred of corroboration could be found for it by any of the China experts I consistently read, such as Bill Bishop of Sinocism. On the ground in central Beijing, Georg Fahrion, the China correspondent of Der Spiegel, had some fun with the whole farrago.

Of course, you might say that a military coup against Xi Jinping would be classified as good news, not bad news. But that would be to forget the entire history of military coups in all the countries of the world. In any case, it wasn’t true.

The real issue I have has to do with the trends, not the news. To put it bluntly, I am struggling to see that good trends outnumber bad ones in the way that Summers and Pinker suggest.

The planet keeps getting warmer and that trend is almost certain to continue, according to the Intergovernmental Panel on Climate Change. Try reading its Sixth Assessment Report if you want to see how hard it will be to avoid rising average temperatures in the next thirty years. The world’s population keeps growing, per the United Nations World Population Prospects, thanks mainly to elevated fertility and improving mortality in Africa. It is not easy to see the combination of climate change and rising population in Africa as a benign one.

In America, meanwhile, life expectancy is declining, especially because of opioid deaths, as John Burn-Murdoch recently showed in the *Financial Times*. Anne Case and Angus Deaton have been making this point about “deaths of despair” for some years. Meanwhile, the mental health of young people is a disaster. As Derek Thompson reported in a recent Atlantic essay, The share of American high-school students who say they feel “persistent feelings of sadness or hopelessness” rose from 26% to 44% between 2009 and 2021. More than a quarter of girls reported that they had seriously contemplated attempting suicide during the pandemic.

Aside from the adverse effects of Covid lockdowns, Thompson offered four explanations for the plight of Generation Gloom: social media addiction, declining “sociality” (which I translate as sociability), the perception that the world is a stressful place, and excessively protective modern parenting. The third of these raises the possibility that negative news contributes to a negative trend.

Meanwhile, in American politics, Donald Trump could well be the Republican nominee in 2024, which would give him a decent chance of being re-elected. Trump’s net approval is better today (-13) than it was on Nov. 8, 2016 (-21). The soon-to-disappear political prediction markets have the Republican candidate as the likely winner in 2024. And Trump has only recently fallen behind Ron DeSantis as the most likely GOP nominee.

OK, I know, there are some good trends. For example, the unit costs of photovoltaics and batteries for electric vehicles have fallen substantially over the past two decades. In most of the world except South America there has been a significant gain in tree canopy cover since 1982. And whenever I sit down with my friend the venture capitalist Vinod Khosla, he always cheers me up. The last time I saw him, in 2019, we were all going switch from real meat to impossible burgers. This year he has high hopes of nuclear fusion.

But those are moonshots, not trends. Meanwhile, how is the trend in inflation around the world in any sense good? Thirty-seven countries have double-digit inflation rates already, according to International Monetary Fund’s April World Economic Outlook, and the energy price shock shows no sign of fading in either gas or coal prices. How about the trend in U.S. public finance? According to the Congressional Budget Office, the federal debt held by the public will be 98% of gross domestic product this year, just below the level it reached in World War II. By 2052 it could hit 185%, as the federal deficit is projected to rise almost every year from now until mid-century.

You think we can grow our way out from under this debt mountain? Allow me to show you the downward trends in productivity growth in all the world’s developed economies, courtesy of the Organization for Economic Cooperation and Development. Whenever I am told that the 2020s can’t possibly be as inflationary as the 1970s, I point out how much higher the growth rate of GDP per hour worked was back then.

Last weekend, I asked an eminent financier long enough in the tooth to have served in Jimmy Carter’s administration why he thought this decade would be better than that one half a century ago, when we all had more hair. He replied that the 2020s would be less inflationary for two reasons: the labor force was less unionized today and globalization is at a higher level today. True. But let’s consider some other differences.

Not only is productivity growth lower today. Judged in terms of the growth rate of the money supply, the Federal Reserve made a bigger mistake last year than at any point between 1968 and 1979. The demographic situation and outlook are worse in every major economy. The fiscal position is much worse today. Then we had worries about pollution; now we have the existential threat of climate change.

Then the war that exacerbated the inflation problem—the 1973 Arab-Israeli war—was short, lasting just 19 days. Our hot war (in Ukraine) just entered its eighth month, with no obvious end in sight. Then we had Watergate, which seemed like the nadir of American democracy. Today significant majorities—more than two thirds of Republicans and Democrats—believe “the nation’s democracy is in danger of collapse,” according to a late August Quinnipiac poll. As for geopolitics, at least the 1970s had détente, which certainly reduced the risk of World War III. Despite my warnings of the dangers of a showdown between the United States and China over Taiwan, I see little sign of that today.

For all these reasons, today’s trends feel to me more like 75% bad than 75% good. I would argue that the Summers-Pinker view might have been plausible ten years ago. But in 2012 we were still in the interwar period, between Cold War I and Cold War II—a period undoubtedly characterized by rising global living standards, advances in democracy, and relatively low levels of conflict. That period is now clearly over. We have entered a new and more dangerous era, in which a new superpower rivalry is likely to be associated with economic crisis, a “democratic recession” (in my colleague Larry Diamond’s phrase), and increased conflict, ranging from proxy wars such as the one currently raging in Ukraine to the risk of a full-blown nuclear Armageddon over Taiwan.

And yet there may just be a different and more positive way to look at the world today. Perhaps, on reflection, there is a conceptual error at the heart of the distinction between “events” and “trends.” To the historian, many of the trends that contemporaries discern turn out, many years later, to have been an illusion. Karl Marx believed he had discovered the ultimate trend of industrial capitalism: that the combination of the iron law of wages and the tendency towards the concentration of capital would create unsustainable inequality and ultimately explosive revolution. That turned out to be wrong.

Other trends that have fooled smart people in the past include the idea, originating with Thomas Malthus, that population growth would outstrip food production, leading to famine and starvation; and the recurrently vogueish idea that the United States is in terminal decline. The most recent version of this theory is Ray Dalio’s book *Principles for Dealing with the Changing World Order: Why Nations Succeed and Fail*, which argues that China’s rise is inexorable and the dollar will eventually be displaced as a reserve currency.

“Cash is trash,” is how Dalio has summed up his view in interviews. But the U.S. dollar has been one of the big winners of the past year. The DXY dollar index is up 18% year to date. Relative to the dollar, gold is down 10% this year, the Chinese yuan 13%, the euro 15%, the pound and the yen 20%, Bitcoin 60% and Ethereum 65%.

The appreciation of the dollar is more a trend than an event—or, to be precise, it is one of those sustained multi-year moves that lies somewhere in between the two. Looking at the real effective exchange rate, the U.S. currency has been strengthening since 2011. We have not seen such a surge since the period between late 1978 and early 1985—a time we associate with Paul Volcker’s term as Fed chairman. It remains to be seen if Jay Powell really is the reincarnation of Big Paul. But we have known since Powell’s Jackson Hole hastily re-written speech last month that this is what he wants us to believe.

What else happened between 1978 and 1985? The answer is of course that the Cold War came to a head. The Carter administration went out on a tide of “malaise” and geopolitical crisis (the Iranian Revolution, the Soviet invasion of Afghanistan). Ronald Reagan was elected partly for rubbishing détente. As president he openly challenged the “evil empire.” U.S. defense spending was ramped up. The gauntlet of the Strategic Defense

Initiative was thrown down. The world came once again to the brink of nuclear war in 1983. Then, with Mikhail Gorbachev’s appointment as Soviet leader in the spring of 1985, the great thaw began. By the time of the Reykjavík Summit in October 1986, Reagan and Gorbachev were doing détente on steroids, coming close to agreeing on a proposal for a “global zero” for all nuclear weapons.

The decline and fall of the Soviet Union was not a trend in the Summers-Pinker sense. Very few experts appreciated how fragile the Soviet system had become and how disruptive Gorbachev’s domestic policies of perestroika and glasnost would prove to be in both the USSR and its East European satellite states. Just two years before the fall of the Berlin Wall, the Yale historian Paul Kennedy published his best-selling *Rise and Fall of the Great Powers*. Its takeaway was that the United States was in danger of “imperial overstretch,” like Britain before 1914.

For decades, since its 1961 edition, students of economics had read in Paul Samuelson’s textbook the following sentence: “The Soviet economy is proof that, contrary to what many skeptics had earlier believed, a socialist command economy can function and even thrive”—a sentence that still appeared in the 1989 edition. Samuelson’s hugely influential book also featured a chart projecting that the gross national product of the Soviet Union would exceed that of the United States at some point between 1984 and 1997. The 1967 edition suggested that the great overtaking could happen as early as 1977. By the 1980 edition, the time frame had been moved forward to 2002–12. (The graph was quietly dropped after the 1980 edition.)

Such a trend would have been more than 75% good for the men in charge of Soviet economic planning. Embarrassingly for economics as a discipline, Samuelson was 100% wrong. Yet the Soviet collapse was also much more than a mere event—a news item. Rather, it illustrates the non-linear nature of the historical process. It might therefore be helpful to create a new category for such breaks in a trend that amount to more than a mere blip or one-day wonder. “Evends,” anyone? I think I prefer “trevents.”

So let us consider the following trevents, to which most commentators are giving too little attention. First, as I argued here two weeks ago, Russia is losing Vladimir Putin’s annexationist war in Ukraine. If (and it is a big “if”) the United States and its allies supply more firepower and more finance at this crucial moment, there is a decent chance that Russia’s colonial army in southern Ukraine unravels and Putin finds himself back where he started in February of this year, controlling Crimea and just part of the Donbas.

Putin’s “partial mobilization” has descended into farce, with young Russian men fleeing the country and protests against the press gangs as far afield as Dagestan. Putin has shrunk in stature on the international stage to the extent that not only the Chinese and Indian leaders now treat him disdain, but even the leaders of Kazakhstan, Belarus and Serbia have ceased to bow and scrape. True, Putin is not yet finished. But a leader I have long likened to a mafia godfather is looking less and like Michael Corleone and more and more like Tony Montana in the later scenes of *Scarface*.

My second trevent relates to China. True, last week’s “coup” against Xi was a fantasy. It is highly unlikely he does not consolidate and extend his grip on power at the approaching Party Congress. But the stifling effect of Xi’s zero-Covid policy on the Chinese economy is real, as are the dire demographic trends and the latent financial crisis within the real estate sector. Meanwhile, overseas, One Belt One Road has become Many Debts Many Defaults. The sands in the hourglass are running out for China’s latest dynasty. The Chinese Communist party will not celebrate its centenary in power.

Thirdly, Iran is on the brink of revolt over the killing of Mahsa Amini for violating the sharia dress code. Of course, the murderous police forces at the disposal of the Ayatollahs may once again succeed in repressing popular discontent, as they have done on multiple occasions since 1979. But sooner or later the Iranian people will revolt against the Islamic version of Gilead, Margaret Atwood's imagined theocratic tyranny in *The Handmaid's Tale*.

I do not dare to predict that all three of these authoritarian regimes will fall apart between now and 2024. But I do believe that—even with the life expectancy of a Glaswegian born in 1964—I shall live to see each of them fall.

This is not to say that Larry Summers is right and that trends are, after all, 75% good. It is more than trends are often optical illusions, born of extrapolating lines from the recent past into an uncertain future, or of imagining non-existent cycles of history. In history it is not so much that the trend is your friend; more that you can't prevent the trevent.

And even in the low-probability scenario that my three trevents all go very right very fast—that the regimes in Russia, China and Iran all go down within the next two years—remember that the political consequences will not be as you might imagine. Remember the fate of George H.W. Bush, who won the Cold War with spectacular success, only to fail in his bid for re-election in 1992.

Bush was in many ways the maestro president when it came to foreign policy. With extraordinary dexterity, he handled the fall of the Berlin Wall, the collapse of all the communist regimes in Eastern Europe, German reunification, and then the Soviet disintegration. On his watch, Nelson Mandela was set free and apartheid consigned to the history books. On Bush's watch, Saddam's invasion of Kuwait was reversed.

And yet still the presidency was won by a scandal-prone Southern governor with the banal but brilliant slogan: "It's the economy, stupid."

Warning to Joe Biden: Be careful what you wish for in foreign policy. You may get it—and still be a one-term president. And a one-term president is much closer to being an event than a trend.