

# Printed money won't save us. Nor will China. But refugees just might...

By Merryn Somerset Webb

When Paul Hodges and I last met, I suspect he was starting to get fed up telling people that Chinese growth was slowing very fast and them not really listening to him. I think he feels better now. People finally “seem to have woken up”, says Hodges, the chairman of International eChem. And about time. The stimulus around the word has blown up bubbles everywhere. But in a way these bubbles are really more like hot-air balloons – once you’ve got one off the ground, you’ve got to “keep blowing more air into it” to keep it afloat. Once you stop doing that – which China effectively has – the whole thing falls to earth again.

## China falls to earth

The disaster is not confined to China. China connects to the global economy, particularly through the commodities markets, and commodities have been the third great bubble of our lifetime (after the dotcom and subprime bubbles). The bubble was blown as people came to believe the myth that China and India were on the brink of Western standards of living and would hence need plenty of commodities – oil, copper, iron ore and so on – to fully achieve them. That spell is now broken and that really matters, “because where has all the money come from to finance those expansions? It’s come from the West”.

China’s fall from grace does not mean that China isn’t going to grow at all. Of course it is. But it will be more modest than the sugar rush of huge stimulus would have you believe. The government is aiming for long-term development in the rural areas, where average incomes are still \$1,500 a year. Increase that by 10%-15% and you might not be creating a market for Bentleys, but you are building a more sustainable economy.

“I’ve got a friend in the chemical industry who is selling products into the bedding industry,” says Hodges. “Now, everybody is telling us that China is doing very badly indeed and it clearly is, but if you are getting a wage rise of \$5 or \$10 a month, which is what’s happening,



A Windrush can be a windfall for economies

## “Might it not be a good idea just to open our borders?”

one of the first things you’ll spend your money on is a good night’s sleep. So his sales are actually up 12% this year.” You can see the same thing in the car market. “I wouldn’t want to be selling or supplying new cars in China, for all sorts of reasons, but what you can see is that the used-car market is now poised for take off.” In the UK, the used-car market is three times the size of the market for new cars. In China (where there haven’t been many used cars) it is 50%. As that changes, “the real money in the car market in China in the next four to five years is going to be made in servicing the older cars, in buying and selling new cars and doing it on the internet”.

## A new engine for the global economy

These are all good developments – better than any statistics telling us house prices might have gone up. But nonetheless, they don’t represent the kind of growth that can drive the global economy. And if China isn’t the engine of growth for the world, what is? This brings us to Hodges’

specialist subject – demographics – and to migration. Hodges holds that the main problem with the global economy, albeit one almost entirely ignored by politicians and central bankers, is our ageing populations.

Given this, I say might it not be a good idea for us all just to open our borders to migrants, be they economic migrants or refugees? You could look at the migrant crisis, its general misery aside, as something of a “windfall”, says Hodges. “In the UK we have had migrant influxes before – from the West Indies, from Cyprus, from Hungary, Czechoslovakia, Asians from Uganda and so on.” The long-term effects have been positive. That’s likely to be the case with the sudden arrival of a well-educated Syrian population too. It’s a windfall Hodges thinks a lot of countries really need. Germany and Italy have a median age of 46, 47 – much like Japan. That makes it hard for them to grow (older people spend less).

## We need a new monetary policy

But it also makes old-fashioned monetary policy of less use than central bankers seem to understand. Why? Households headed by someone aged 50-plus (there are now more of these in the UK than households headed by someone under 50) spend and save differently to younger households. Low interest rates, for example, don’t encourage them to spend. They scare them into saving. If central bankers would just try and see this, says Hodges, if they would “talk about this idea that demographics could have an influence on the economy”, it might not only bring policy change, but also change the way we see the refugee crisis. We might stop thinking that printing money will solve our problems and realise that people might solve at least some of them.

So, if he were in charge, would he throw open the borders of Europe and be done with it? If only it were so easy, says Hodges. This needs strategy and political leadership, precious little of which Europe is getting right now. But if we can get that right, migration is not the threat to Europe that most people think it is. Rather, it is “an enormous opportunity”