The world will bounce back from the blues in the loos

Niall Ferguson | Harvard University | 05 May 2016

"It's a bit like reliving your college years, but with each year compressed into a day." That was how one of my friends summed up the 2016 Davos World Economic Forum in early January. "On day one, you are a frisky freshman. There isn't an invitation you don't accept. But by day four, you are ready to graduate and return to the real world."

A certain amount of unfamiliar discomfort reinforces the sensation that all the participants have briefly returned to their student days. A timely report from Oxfam would have us believe that the 62 richest Davos attendees had the same amount of wealth in total as the world's poorest 3.6 billion people.

I have my doubts about their calculations, but it may console the report's authors to know that for the four days of Davos, the world's plutocrats have to slum it. Davos is a small ski resort – with 2,500 participants, and untold numbers of temporary employees, the World Economic Forum has grown too big for it. As the limousines grind to a halt, amid unprecedented security, the people accustomed to sitting in the back seats checking email are forced to take such extreme measures as walking to meetings, slipping and slithering on the ice. Some are even reduced to taking local buses. (Imagine!)

The average Davos hotel room is a monastic cell. The sandwiches in the Congress Centre would dismay a hungry undergraduate. Also reminiscent of university are the lectures people such as me are shipped in to deliver. I helped kick the conference off with a panel discussion on the history of industrial revolutions. It was with difficulty that I restrained myself from setting an exam at the end.

On Friday, I found myself addressing the former president of the European Commission as "professor" and asking him if he would give the Ukrainian government an A, B or C for its efforts to cut corruption.

But that is in large measure a worthy facade behind which the real Davos takes place. The real Davos is about meetings – meetings in specially designated bilateral rooms, meetings in restaurants, meetings in corridors and even meetings in the lavatories. Some are planned weeks in advance. Some happen on the spur of the moment. If you really want to know why people come to Davos, the best answer is "to bump into one another".

Brownian motion – first identified by the Scottish botanist Robert Brown – describes the random movement of particles in a gas or liquid as they are bombarded by flying molecules. I always think of Brownian motion as I struggle through the Congress Centre, bumping and being bumped.

Davos meetings serve three main purposes.

One is a combination of speed dating and networking. In these four days, you have a higher probability of meeting powerful or influential people than in all the rest of the year. Often, Brownian motion evolves seamlessly into brown-nosing.

The second point of it all is to do deals - not only the obvious business variety, but also political deals, as well as the kind of philanthropic deal that transfers resources from oligarchs to mime troupes. Sometimes, these deals are historic. My favourite is the 1992 meeting that persuaded Nelson Mandela to abandon the African National Congress's policy of nationalising the South African economy.

And the third objective of Davos meetings? I have come to the conclusion that it is to establish, by comparing notes all day and all night, an elite consensus - a set of views that, for the rest of the year, will ensure that one doesn't say anything too ludicrous. This is the mythical "mood of Davos" that television anchors love to ask about.

In theory, the mood should be set by the theme of the forum (this year "The Fourth Industrial Revolution"). In practice, it is set by the day-to-day movements in financial markets. This year's gyrations were extreme. Never has a year got off to a worse financial start for investors. The Davos mood was predictably affected. I heard one of America's most eminent political commentators argue that Donald Trump stood a serious chance of winning the US presidency. I heard a renowned financial columnist put the probabilities of British exit from the EU and the return of national borders in the European Union at, respectively, 30% and above 50%.

But the most pessimistic statement came from one of the forum's true oracles - veteran hedge-fund billionaire, George Soros. In a blood-freezing interview, Soros said the world economy is in a similar situation to the *annus horribilis* of 2008, with the difference that today the root cause is China, not American sub-prime mortgages. A "hard landing" in China was "practically unavoidable" because of excessive debt run up after 2008 to mitigate the effects of the US crisis.

So what? Unfortunately, Soros argued, China can pass on that shock to the rest of us by depreciating its currency. Coming on top of the plunge in commodity prices - especially oil - that spells a fresh bout of global deflation. In theory, Americans should be reacting to the drop in energy prices by spending their windfall. In practice, as Soros noted, they are not.

The worst thing about this interview was that, at the time, I found myself in agreement with almost every word.

The only consolation I can offer is that the mood of Davos often turns out to be wrong. In 2009, it was wrong that we were entering a second Great Depression. (I recall only two people correctly telling me that the US crisis was nearing its nadir.) In 2011, too, Davos was wrong that the Arab Spring was the dawn of a wonderful new era. (I was one of a tiny few who foresaw a rising tide of violence.)

So why might even George Soros be wrong about global deflation?

First, there is still a lot of amazing innovation going on in technology. The eye-catching new kids on the Davos block were the Silicon Valley stars Facebook, Palantir and Salesforce. And the various artefacts of the new industrial revolution on show - notably the South Korean robot called Hubo and the virtual-reality gadgets - were impressive.

Second, commodity crashes tend to correct themselves as supply shrinks in response to low prices. That will surely begin to happen in the oil market this year, especially if (as I fear) conflict in the Middle East continues to escalate.

Third, Chinese demand for oil is still rising, albeit more slowly.

Fourth, US consumers seem not to be feeling the Davos blues, to judge by surveys of sentiment.

Of course, if Trump confounds my Republican friends by winning their party's nomination and then the presidency, all bets will be off. Until, that is, President Trump turns up at Davos in 2017 and reminds his fellow billionaires that, when all is said and done, he is really one of them - just another frisky Davos fresher, ready for four days of bumping, doing deals and deciding the next Davos mood.

Now I think of it, I find that scenario even more frightening than Soros's deflationary doomsday.

Professor Niall Ferguson is the Laurence A. Tisch Professor of History at Harvard University, a Senior Fellow at the Hoover Institution, Stanford University, and a Senior Research Fellow at Jesus College, Oxford.

Professor Niall Ferguson is a special guest keynote at PortfolioConstruction Forum Symposium (May 17, 2016).
