

Zombification of Europe

Ross [00:00:28] Welcome to Renegade Inc. Here is an idea: Let's get twenty-eight countries with differing economic output and bind them all together into a single economic union. Once they're tied together, we will then enforce 19 of those countries to use a single currency regardless of their economic differences. Then we'll create a central bank to implement bungling monetary policy that papers over all the deep structural economic issues we've created so we can keep companies and economies on life support. Sound familiar? We went to Cocoa Nomics, the leading economics festival in Norway, to talk to the renegade economist Matthias Weik about the zombification of Europe.

Ross [00:01:21] Matthias, welcome to Norway. It's good having a German here in Norway to talk about Europe. Enjoying it?

Matthias Weik [00:01:26] Yes, I'm enjoying it. It's beautiful here.

Ross [00:01:28] It's like a chocolate box isn't it?

Matthias Weik [00:01:28] It's like living in Disneyworld. It's too perfect. It's too nice. .

Ross [00:01:34] And the customer service - amazing people, very friendly. I keep walking around, having come out of London, really paranoid. You think someone must be watching or do you know the tourist office are kind of stage managing this? But these Norwegian people are genuinely friendly and helpful.

Matthias Weik [00:01:47] Definitely. It's not like at home.

Ross [00:01:50] It's definitely not like London. I'm a bit worried about this interview, if I'm honest, because last time we met a year ago or thereabouts, you walked out of the interview.

[00:01:58] [Clip from previous interview with Weik]:

Matthias Weik [00:01:59] The debts doubled since 2008. Are we shooting already? Are we shooting already?

Ross [00:02:04] Yeah.

Matthias Weik [00:02:07] I'm sorry.

Ross [00:02:22] What did I say?

[00:02:23] [Back to current interview]

Ross [00:02:23] Do you remember that?

Matthias Weik [00:02:23] Yeah. I won't do this because I think he just walked out like we're doing a test and we were already filming.

Ross [00:02:27] No, no, we started. Right. Matthias just walked out. That was it. He just stood up. I asked him a question, and he needed a sweet from his jacket pocket. So here you go, mate. Just so you don't walk out tonight, I got you some salted liquorice because we're here in Scandinavia, of course. So, look, no walking out, right?

Matthias Weik [00:02:49] No walking out tonight.

Ross [00:02:51] The Japanification of Europe, the zombification of Europe, you've thought an awful lot about. Why are you really raising the alarm and why are you saying it in such a fervent way when a lot of economists are saying, 'you know what, everything's gonna be all right'?

Matthias Weik [00:03:06] We did a lot of research for our books and maybe we've got a little bit of a different story in Germany and history than other countries, because we once tried to solve a crisis by printing money and we failed big time. And in the end of the day, in the 1920s, half a pound of butter was like a trillion deutschmarks. And all we're doing now in the eurozone is we're try to solve a problem by printing money. We gained a great ten years, but we did not solve the problem. We just printed it in the future. And at the end of the day, it won't work out. We see now a massive bubble in the real estate market in Germany. We see a massive bubble, globally, at the stock market and we see a massive government bubble. And that is the mother of all bubbles. And if that government bond bubble bursts, we are all in big problems.

Ross [00:03:56] When QE was first thought about just after the 2008 crisis, the idea was that it would buy time. So policy makers would be able to fix structural problems. Have any of those structural problems been fixed or have we just kicked the can? When I say 'we', the ECB, the Bank of England, the central banks, have they just kicked the can down the road?

Matthias Weik [00:04:20] Yes, they did. And the problem is our politicians did not solve the problem - neither in Britain nor in Japan, on the US or in the eurozone. We just increased the problem by printing more money and more debt. And that won't work out in the long run. We didn't solve a single problem. The banks are still big. The economy is really weak. Nothing in Europe. Germany is strong, but the others are weak. We've got far too low interest rates for Germany, far too high for Italy and Greece. That won't work out.

Ross [00:04:50] Who really is to blame or - and let me throw this in - is it the public who are to blame because, actually, we were asleep at the switch and we should have enforced policymakers and elected officials to take meaningful action?

Matthias Weik [00:05:02] We should not always blame the politicians. It's us. I make an example here: Imagine we're two party's. I'm from party A. We have five really tough years and everybody will lose or has to give 30 percent of his assets. And Ross, from party B says, like Angela Merkel, everything will be fine. Who will be voted in? So it's us politicians. And if we have politicians whose job as politicians, is just to get re- elected. And as long as we have that system, there won't be a change. Like Angela Merkel is so long in power and she's still arguing and going on. What's what's the aim? If we as the voters vote politicians, which job is to be a politician? There won't be any change. Neither Norway nor in England or in

Australia and the US. We always have to look who's getting wealthier. And if you look at the rich and the super rich, they get wealthier and wealthier the poor and the hard working get poorer and poorer. So of all the wealth and what we are printing at the moment, that doesn't go down to the major public. Let's go to German capital, Berlin. The rent is increasing and increasing now. The people are spending around 50 percent of their income just on rent. So it's hard to live. So they definitely do not become richer. And one of the results of the ECB policy is that their property prices go through the roof. Some people get incredibly rich. But I'm pretty sure that a lot of people don't benefit from this crazy policy.

Ross [00:06:32] When you look at Super Mario, Mario Draghi, the former ECB governor, if you like. He leaves quite a legacy. What's your take on him specifically and what has he done to steer Europe over the last year?

Matthias Weik [00:06:48] On the one hand side, we can say, OK, he's safe for Europe. He saved Europe, maybe. But he definitely saved the euro. On the other hand, we should think, is it worse to keep a currency, which we always have to save and save and save? That's not a proper currency for me. He was the only ECB president who never raised interest rates. We've now got interest rates of zero percent. So money is free and the interest rate is always a risk indicator. You sell goods, you've got a lower interest rate, and if you're not that stable, financially, you've got a higher interest rate. But now we've got like a crazy scene. For example, Italy, they've got record unemployment. Their industrial production is of the level of 30 years ago and they get cheaper and cheaper and cheaper money. That makes no sense. With the euro, we keep Zombie nations and Zombie companies alive like in Italy and Greece which would be bankrupt without the euro.

Ross [00:07:42] And this is the zombification that you talk of. Instead of having the clear out, getting rid of the deadwood from the system, we keep these organizations and companies on life support. And what you're getting is that is what's taking productive capital and putting it into unproductive places. Is that the general thesis?

Matthias Weik [00:08:01] Yes, it is. If we look like at the major English company which went bust, the travel company, Thomas Cook. This was a zombie company as well. Everybody knew it. And there's so many large companies like this which just survive because we've got those little interest rates. You have to imagine we've had even negative interest rates for companies. How sick is that? Companies get money. For example, the German government, if they lend thousand euros, they get two euros for this. It makes no sense. And in the future with Madame Lagarde, we expect in the next upcoming recession to kind of solve the recession - negative interest rates between minus 4 and minus 5 percent. That's the direction we are heading to.

Ross [00:08:43] And with Christine Lagarde and her tenure at the IMF, what do you see she will do when she comes to Europe and takes her role at the ECB?

Matthias Weik [00:08:54] It will be hard times for the savers. We will see negative interest rates on a big scale. We will probably see a band of gold. We'll have problems to pay with cash. I will go with a nice example: You've got a hundred thousand euros on your banking account and now you can take as much money out as you want. But if we have an interest rate of, let's say, minus 5 percent, you're losing 5000 euros per year. So everybody thinks that

it's cheaper to put in just in a bank safe, but then you can't withdraw it anymore. You're probably be allowed to just withdraw like 15 hundred or five thousand euros per month. And this is what will happen in future. Otherwise, you can't do negative interest rates of minus 4 or minus 5 percent.

Ross [00:09:35] What is the probability of Christine Legarde reversing these policies? Understanding the real world, if you like, that you're talking about and actually getting your hands dirty and saying, you know what, this madness has to stop on several fronts.

Matthias Weik [00:09:47] Zero. She'll do everything to keep the euro alive. Because in the economic way, the euro does not make sense. You can't put Germany on the one side and Greece and Italy on the other side in that same currency union, that makes no sense. And we see it does not work out. We have now 10 great years, but we have always been reducing the interest rates and we doubled the balance. So apparently it does not work out. And what will happen in the crisis? Will we triple the balance? How much money do we want to print? But the politicians believe in the euro and said it's a political project. And if politicians fight economics, it will be tricky.

Ross [00:10:27] If you follow the logical progression of that argument, you just get a persistent ratcheting down. When we talk about Japanification of Europe, is it possible just to transpose what happened in Japan from 1989/1990 for what, two or two and a half lost decades? Is it possible to transpose that economic scenario and just place it on Europe?

Matthias Weik [00:10:47] No. Japan is different. If you look who are the holders of the Japanese bonds, they are Japanese people, mostly. And the holders of our bonds are not Europeans. And we call it a kamikaze policy what the Japanese are doing. And now in Japan, the baby boomers retire and they will withdraw their money as well. So it will be really interesting what will happen in Japan in the next five to 10 years.

Ross [00:11:09] But then what happens across Europe with that same thesis? Because we could have a thing which we've called the Silver tsunami - baby boomers, that generation retiring, coming out of work and then becoming dependent, starting to draw down pensions, wanting to downsize houses, want to get out of as much economic activity as they've been in. What happens then?

Matthias Weik [00:11:30] I think it won't even last that long. We should better ask not what happens when the older people act? What happens if the younger people see, like in Spain and Italy, in Greece, that they don't have a future and they go on the streets? We've burned now like a whole entire generation in southern Europe for the euro project. And it's just a matter of time that those people won't cope with it anymore. And I think that will happen when the next recession will come and the next recession will come probably in winter. We are already in some areas in Germany in a recession. If you look at the leading industries, the numbers don't look good. And the numbers in China for the car industry don't look good as well. So Germany will go into recession if the world economic export champion will go into recession. The eurozone will suffer because if the money is not flowing from Germany anymore to Brussels, the European Union will have a serious problem.

Ross [00:12:26] What then does the European Union look like, just say 3, 5, 10 years out from now, in your opinion?

Matthias Weik [00:12:32] For me, the first important thing to say is Europe is the greatest continent. I am pro Europe. But if the people always say if the euro fails, Europe fails. Like Angela Merkel said, that's nonsense. Europe is much more than the European Union. I don't see a future for the European Union as it is now. I think we need a strong economic union. But the political union won't work out. We have to release the debt for all the southern countries like Greece, like Italy, like Spain. They will never, ever pay that debt back. And to keep the European idea living, then we have to support them like Germany got supported with a Marshall Plan after the Second World War. But if we keep it like this, more and more populists and nationalists will gain into power. And when the recession will be hard in Italy and France, I'm pretty sure the next election will be absolute anti EU parties. And then we've got different problems to solve than we can think about it at the moment.

Ross [00:13:29] Talking about forgiveness and certainly debt forgiveness. I was speaking with Yanis Varoufakis, the former Greek finance minister, and he spoke to your former finance minister, Wolfgang Schäuble. I hope that's the correct pronunciation. But Wolfgang, as I'll refer to him, said to Yanis Varoufakis, 'Look, these are the conditions we've imposed on Greece. And Yanis said to him, 'you know, it is impossible for the Greek people to pay this back. Why do you pursue this policy? And Schäuble said, 'we've invested too much political capital in it. We can't be seen to be rowing back from this decision now'. How on earth do you begin to get political traction if you've got that kind of mindset in the German government who won't have forgiveness or won't have any understanding?

Matthias Weik [00:14:22] No, no, it's not about forgiveness. It's he wants to get re-elected. And if he comes back to the Germans said, sorry, we have to give the Greeks the money, then he won't be elected. Then there's one thing. What the people get wrong in Germany, but also in Europe, we did not save Greece. The Greeks saved our banks. Because if our banks were so stupid and lending bankrupt people some money and wondering that they won't get their money back, it's their problem. So if we wouldn't have saved Greece with our money, basically our banks and the French banks and we would have a lot of a bigger trouble in the eurozone and in the banking system. So the Greek people saved our banks.

Ross [00:15:13] In the first half we talked about the zombification or Japanification of Europe. What I want to talk about in the second half is how that looks globally, because actually it's the developed west that has this zombification problem. But before we talk about that, what I want to talk about is your book. You've just finished it. It's out very soon. This is the German version, which I'm not even going to attempt to pronounce.

Matthias Weik [00:15:34] It's called the Biggest Crash Of All Time. And we say we don't just have a crash in the political world, in the financial world, and also in our society. We are not living together anymore. We are living next to each other. And we have to change that. We explain why the crash will come. And, for example, not just that everything is bad, but we tell its solutions. What can you do with your assets and what do we have to change? But we unfortunately came to the solution. Now we can't solve the big problem anymore. There will be a crash.

Ross [00:16:06] Is that because it's baked in?

Matthias Weik [00:16:07] We are too far. We've gotten over the point of return. And now the crash will come. But if you look in the past, mostly mankind learned after a crash, after big mistake learning by doing.

Ross [00:16:19] Perfect. And the English version?

Matthias Weik [00:16:21] It's called The Greatest Crash.

Ross [00:16:23] Looking forward to it. Thank you very much. When you talk about zombification, whether it be companies, governments, it actually is a deeper problem across the West, isn't it? Because it's not just Europe and the Eurozone. Actually, if we look across to anywhere that's implemented neo liberal policies, they're now reaping the consequences of that economic system.

Matthias Weik [00:16:44] And we see it in Britain. We see it in Japan. We see it in the US.

Ross [00:16:48] Chile?

Matthias Weik [00:16:48] We see it in South America. But the funny thing is we also see it in China. They've got a massive shadow banking system where nobody knows anymore who owns which thing and who lends to somebody. It's crazy. So it's a global problem. We all thought that we can make the world go round much faster by printing money. But then there's a guy in Zimbabwe who tried that as well, Robert Mugabe.

Ross [00:17:10] Why isn't he the richest man in the world?

Matthias Weik [00:17:12] If the system would be so great and if the idea would have been so great, he would be the richest man in the world and Zimbabwe would be the richest country in the world. And think about it. It's not the case.

Ross [00:17:22] We always talk about money, economy and rarely do we talk about society. In the book, you talk about living next to one another, but not living with each other. Just talk more about that as in how as our society become so decimated, so fractured?

Matthias Weik [00:17:38] It's funny. Like when I was travelling around the world backpacking 20 years ago and we were like in the hostel, it was so loud because everyone was talking and comparing and showing. And now you sit there and it's so quiet because it's just like, they don't talk to each anymore. Well, you sit in a train. Everybody is like zombies. That's the zombification. The people don't talk. You're laughing, but I think it doesn't matter if we go to Norway, to Germany, to Britain, to the states, New Zealand, it's everywhere the same. Ten years ago, there was no smartphone and now everybody has it. And that's when we all turned into zombies. What would happen with young people if you said, 'no iPhone, no smartphone for the next two weeks'?

Ross [00:18:23] That's how you start the revolution?

Matthias Weik [00:18:24] That's how you start the revolution. In former times, you would have to cancel cable TV. Now, if you say no Internet for two weeks, I don't want to know how many young people would be out the streets out here.

Ross [00:18:34] They would make the Gilet Jaunes look like modest amateurs.

Matthias Weik [00:18:37] Definitely. They would go nuts. I noticed that more and more people ignore the news. And like a lot of young people live in the fake Instagram world, especially lots of girls, which has nothing in common with the real world. Everything is just perfect, but the world is not perfect. But the problem is, if we ignore problems, we won't solve them and there'll always be there. They will get bigger and bigger and bigger. And the part of society just ignores the problem. But the problem will not disappear. My greatest fear is that we lose democracy because I believe in democracy. But with the next crisis and the next recession, when people have lost a lot of money and even maybe some staff and there's some guy coming and telling all, I've got a great idea. 'We'll all be better'. We had that in Germany in the 1930s. Such things don't happen when the people have a great time and the economy is booming. It's always in a recession. And then the extremist from the right and from the left will come and promise the people something they can't keep. But they still elect them. And so we are very quickly in a dictatorship. Imagine I would have told you 10 years ago, Donald Trump will be the next US president. You would have probably all laughed. We talked this afternoon with Brexit and Boris Johnson is your prime minister. Five years ago, you would have bet everything you had against that. So everything is possible. And that's why we have to look after it. We have to look after our country. But we should not believe in politicians. Change always comes from people. I think we won't change over votes, not the vote of politicians. We've got the much more powerful tool. We are voting every day and we don't even notice it. We're voting with our money. We decide which company will leave and which not. We can support with our money groups and organizations which will change or do not. And if we said, 'no this company does not pay tax, or it pays just little tax in Luxembourg' and we don't order online anything, they will change very quickly.

Ross [00:20:32] How possible is it or how credible is it that you can get an Instagram generation And I don't mean that in a dismissive way, but people who are personally online who don't really want to engage and just want the next thing as quickly as possible. How possibly do you land that message to say, actually, this is having a corrosive effect on liberal democracy?

Matthias Weik [00:20:49] I think that people will learn into recession when the money is running out. And then the young people say, 'oh, this phone costs a thousand euros, but I don't have it. But I want it. So what's going on'?

Ross [00:20:59] And is it the case that credit has been a sort of opiate of the masses, if you like, because all this funny money around from QE to share buybacks, all time highs in the stock market over to house prices going up, did that lull people into a false sense of security and everyone thinks, well, actually, when it comes to liberal democracy, someone else is looking after this?

Matthias Weik [00:21:19] It's tricky for sure at the moment. Like lots of people buy things they can not afford with money they don't have to impress people they do not like. That's the

issue of our problem. We always want to have a more and better and fancier things to impress other people. And I think the change that will go through society when that money is gone. And in the crisis, you see who really has money or who is just living on the credit card. Those people will get shocked and then we get to change. But now with the cheap money, we can all have a rock star lifestyle, the instrument lifestyle. But at the end of the day, it's financed by the bank. And it works so long as we believe in it. And if the first person does not believe in our printed paper money system anymore, it goes like this. And we've seen it in America how quickly it went like that - this huge real estate bubble where people with no money bought one house after another. And then why should it work? I'm just buying houses. And we all know the result. The real estate bubble in America has again higher than it was before 2008. So probably we have not learned enough from 2008.

Ross [00:22:25] When it comes to solutions, what can we start to do and think about?

Matthias Weik [00:22:28] The most important thing when I want to say to young people, doesn't matter where. Don't buy things you can't afford and don't buy expensive flats and houses because the money is so cheap. This will not work out. And then we have to think on a wider scale. Our politicians have to tell us the truth.

Ross [00:22:46] Yeah, but hang on. How are you going to get them to do that?

Matthias Weik [00:22:49] They won't.

Ross [00:22:52] So that's off the list?

Matthias Weik [00:22:52] We need a movement of the people and have to force the politicians. The politicians have just one fear - not to be re-elected. Then imagine what will happen if hundreds of thousands of people ring their MPs and say 'we have to change what's going on. We can't go on like this'. They would say, 'what's going on here'? It's just the power of the people. In relation to the Yellow Vests in France, when the people went on the streets, Macron changed several things. Not much. But imagine it in the whole of Europe, the people would go in the streets. No, we want to have a future in Europe and we demand that it is not destroyed.

Ross [00:23:26] And across the developed west - predominantly neoliberal economies - are you starting to see that now? Are you starting to see people increasingly on the streets from your point of view? Have people been pushed so far now that they can't take it anymore?

Matthias Weik [00:23:38] Not yet. If we see negative interest rates of minus 4 or minus 5 percent and rent will go through the roof and more and more people cannot afford their houses anymore and lose their jobs and the recession will come. Then people will go on strike, as soon as they feel it in their own pocket. But now everything is fine.

Ross [00:23:57] So more practically, we're talking about not overstretching yourself and not trusting the political class and then getting engaged politically because we need to the politicians aren't up to the job, in a more practical sort of everyday sense. how do you protect yourself for the forthcoming storm? And this is not financial advice.

Matthias Weik [00:24:14] No, it's not financial. It was. Or we say it's the time of the real assets because the ECB or the Fed can print unlimited money, but they can't print and seal a single ounce of gold. So you need some gold, which is the insurance of your asset. Like everybody in the room spends a lot of money per month for something we hope we don't need. Is this our health insurance? And you have to see gold as your health insurance for your asset. Then you can invest in silver on top because silver is an industrial metal which will have a great future. Then you can invest in land because what we have here in Europe is land and we've got rain and we will become more and more people. So land in combination with rain will be like the asset of the future. Now we think it's all fine, but in ten years time and with climate change, if you've got a piece of land or a forest, you'll be fine. The next thing is what you can do as well. And there is a 40 percent return. Always you should invest in whisky - single malt scotch whisky.

Ross [00:25:19] Oh, that almost got a round of applause. That got a three clap appreciation.

Matthias Weik [00:25:22] You're laughing, but it's one of the most successful investments over the past 10 years, because the good thing is, if you buy those limited bottles and someone on the other end of the world thinks I'm pretty cool and drinks that bottle, it's use will go up. They'll always be rich people and there are always people who drink. And if the crisis is pretty hard, you probably have to drink it yourself. It's an awesome asset. Then there's another thing where people will go more and more into digital currencies that will go into crypto currencies like 1 until 3 percent of your assets in bitcoins is not a mistake. We see the future in digital assets and we are 100 percent sure the next currency will be digital and probably connected to gold or something.

Ross [00:26:08] So what does the new paradigm look like? Everything falls, there's a big crash. They'll try to save the euro as much as possible. But ultimately fiat currencies. What you're getting at is that they're not worth the paper they are printed on. So what does the next currency look like and how does that look across either the eurozone or the developed west as it's often referred?

Matthias Weik [00:26:30] I think we won't manage to have like a euro currency. I think it would go back to that countries have their own currencies and it has to be backed by anything because the people when the euro crashes and then the crown will crash as well. The Swiss franc and the dollar and they will be a global crash. We are all connected together. The people don't believe in a fiat money system anymore, so they have to do something new. I hope there'll be a fair system based on the block chain. But I don't think so.

Ross [00:26:59] And he who's got the gold makes the rules. Is that broadly the idea?.

Matthias Weik [00:27:02] Gold is the asset. You buy gold in the hope that you'll never, ever use it and give it to your children or to your grandchildren. But I assume we will need it. And the funny thing is the central banks all around the world buy more and more and more gold. Don't they believe in their own product anymore? Why do they buy so much gold? They were selling it 10 years ago. Now they're buying it back when it's expensive. It makes no sense. So I think they're not the greatest bankers.

Ross [00:27:28] Matthias, thank you very much for your time.

Matthias Weik [00:27:30] Thank you.