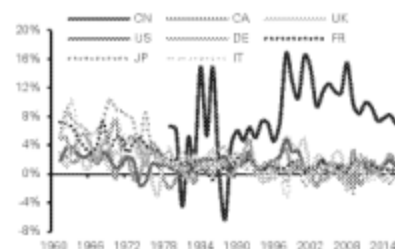




at them by turning on the monetary and fiscal spigots which have arguably allowed each crisis to be solved but only via an increase in global debt and pushing the problem on to someone else in the future.

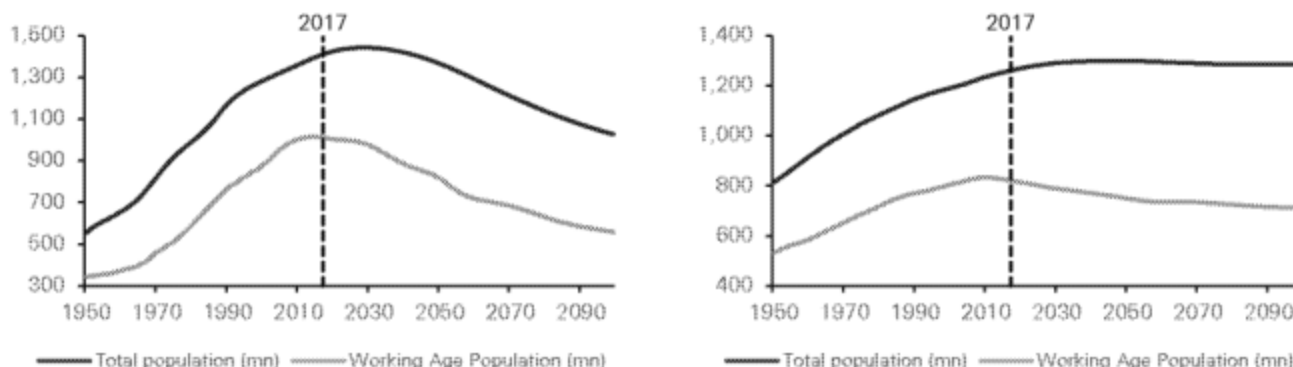
In terms of demographics, the working age share of the population troughed at the end of the 1970s in the large DM economies and we have seen a surge of workers since (Figure 30). At the same time China coincidentally decided to integrate itself into the global economy for the first time in many centuries. The net impact of both these trends was to massively depress DM wage inflation right up to the current day (Figure 29). In turn this helped ensure that inflation was on a naturally downward path over the past 35 years and thus allowing policy makers to aggressively intervene whenever any problems arose in the financial system or global economy. The lack of inflation pressure encouraged intervention rather than creative destruction. This in turn increasingly allowed more and more excess to build up in the system as each crisis ended with the stock of global debt higher relative to output than before it struck.

Figure 29: YoY Real wage growth



Source: Deutsche Bank, Haver

Figure 30: Total and Working Age (15-64) population in millions – China (left) and DM aggregate (right)



Source: Deutsche Bank, Haver (UN Population data)

Had inflation not been controlled by external factors it's debatable whether central banks and governments would have had the same freedom to oil the wheels of excess over the past few decades. So whilst we have laid a large amount of blame for a higher frequency of crises on the collapse of precious metal currency systems, the reality is that a huge surge in the labour force also encouraged the highly unstable environment.

We would stress that the last 45 years has seen tremendous asset price growth, especially in nominal terms, so this is not to say that the period has been a struggle for investors. It's more that finance has generally been more prone to crisis and the eventual intervention and liquidity has led to large asset price inflation across the board and led to an increased likelihood of subsequent crises that also need to be solved thus creating a vicious cycle (or virtuous circle depending on your view) of crises and booms.

We're not advocating a return to the Gold Standard or Bretton Woods System. In reading this note readers could be forgiven for thinking we are advocating a return to a Gold Standard or something resembling the Bretton Woods system. However this is not the case as a return to such a rigid system today would be a disastrous, if understandable reaction to the excesses of the last 45 years. The savage economic hardship of the 1930s, especially for those that stuck to the Gold Standard for too long, and the extreme difficulties that the Euro peripheral countries have experienced post the GFC highlights that economic and policy rigidity are a potential nightmare for nations in need of a big adjustment or outside help.