

## **The Rise and Fall of Nations: Forces of Change in the Post Crisis World - Chapter 1, 2, 3**

The book begins with ever-changing situations of global economies before and after the 2008 crisis. In such an uncertain world, the author suggests ten rules for spotting a country's rise, decline, or stagnation, applicable to both emerging and developed nations. Underlying these rules are two principles; the first one being impermanence, where past trends and predictions often fail to hold true in an ever-changing global landscape. Future prediction is the second principle, in which the author advises against long-term forecasting and encourages focusing on shorter time horizons of five to ten years. As people's disillusionment with the economics profession continues to grow due to its failure to predict major crises and its overreliance on academic models and theories, the ten rules stated in the book are expected to become anyone's practical guide for spotting the rise and fall of nations, in real time.

The first chapter proposes some reasons for economic downturns by looking into the decline of the human labor force in productivity and growth rate, as well as the efforts that have been carried out to tackle this issue. To achieve stable economic growth, it is recommended that a country remains at a 2 percent working-age population growth rate. This can be addressed by either increasing the birth rate or bringing more people into the active workforce.

Baby bonuses—subsidies to encourage childbirth—have been adopted to increase the birth rate, which is below the replacement level of 2.1 in many countries. However, cultural lags and the unpredictability of state interventions in the human reproductive process meant other approaches have been looked into, such as increasing the retirement age. Keeping older people in the workforce can help increase productivity by benefiting from their experience, lower dependency ratio, and relieve current stress on retirement fund budgets. Nonetheless, changing work culture and convincing aging workers to stay on the job present challenges. Moreover, by eliminating barriers and promoting equal opportunities for women, countries can tap into the full potential of their female workforce, leading to increased economic productivity and growth. Migrants are also a major factor in the demographic that countries should encourage, especially in times of declining working-age labor. Migrants' level of skills are also taken into account, but research has shown immigration whether skilled or not, tends to boost productivity and economic growth. However, it is still in one economy's best interest to keep the talents and attract other talents. Despite the fear of "robots" leaving human jobless, it is also a solution to declining working-age labor.

In short, population decline can have significant economic consequences, and countries must proactively respond to leverage workforce potential, attract skilled migrants and advance their technology.

Chapter 2 of "The cycle of life" recounts the author's experience speaking at a conference in Moscow in 2010 where concerns about Russia's economic future were raised. Economic diversification and overreliance on oil and gas, as well as a lack of small and medium-sized businesses, are deemed major challenges for the country. These remarks were met with disapproval from the Kremlin-controlled media, while the author continued to discuss the transformation of Putin from reformer to demagogue, arguing that leaders tend to become stale and arrogant over time, leading to economic consequences. This pattern has been observed in other countries like Indonesia and Malaysia.

The next section, titled "Stale leader," explores the phenomenon of stale leadership and its impact on economic reform. The book examines the negative effects of clinging to power and exhibiting arrogance and complacency on high-impact reforms. Examples of leaders like Lula in Brazil, Erdogan in Turkey, and Putin in Russia illustrate the negative effects of clinging to power. The author concludes that retiring after a successful run is the best way for leaders to secure a respected place in history. The book also examines the limitations and failures of technocratic leadership in both democratic and authoritarian states. Technocrats struggle to sell their ideas to the public and lack the political skills necessary to stay in power. In authoritarian states, technocrats can be more successful when advising autocratic leaders who can command support. However, they can also cause harm when they ignore local sentiment and push reforms that fail to resonate with the population.

The author then discusses the belief that autocracies are better at generating long-term growth than democracies, citing China's rise as a reinforcing factor. While autocratic leaders have the power to accomplish more in terms of economic development, they also face the risk of veering off in the wrong direction without checks and balances. Both democratic and authoritarian systems have advantages and disadvantages in generating strong growth, with a study showing almost equal distribution of strong growth spells between the two types of regimes.

Chapter 3 "The good versus bad billionaire" centers around the question: Does inequality threaten the economy? The author first notices a phenomenon where: The efforts to redistribute wealth against inequality will propel governmental policies that intimidate corporate investment, thus encumbering economic growth. The author cites the prime examples of Chile, Africa, Mexico and Philippines as countries that once represented "self-destructive populism". Next, the author argues inequality only threaten growth when the public becomes resentful of entrepreneurs' dishonorable wealth creation, thus the importance of monitoring "bad billionaires".

To identify and assess "bad billionaires" who may stir inequality conflicts, the author proposes tracking popular media (like Forbes billionaire lists). A scale of over 15% GDP in billionaire wealth may jeopardize an economy, as in Russia, Sweden and the USA; while Poland, South Korea and Australia with lower scales enjoy higher political stability.

In addition to scale of wealth, the author differentiates "bad" billionaires from "good" ones based on two factors: the industry from which their wealth stems and the relationship between such wealth and inheritance. Good industries including technology, manufacturing among others contribute productively to economic growth, thus hardly leading to national backlashes over wealth creation. In contrast, bad ones are deemed "rent-seeking", which revolve around real estate and other natural resources extraction industries and thrive in emerging economies with weak governing institutions. As for the latter factor, a higher proportion of inherited billionaires' wealth tends to negatively affect public outlook on inequality. This rule is not definite since the "inherited" factor has to be assessed in tandem with its two counterparts: the scale and original industry of the billionaires' wealth.

Returning to how inequality kills growth, the author proposes 2 arguments, the second of which involves the aforementioned concept of spotting "bad billionaires". For instance, Latin America often had short growth spells followed by instant economic setbacks, due to high inequality that prompts wealth redistribution policies. The author also discovers a strong link between inequality and corruption, as well as the scale of "the black economy" in each economy. As the billionaire rule grows in importance globally, inequality will continue rising as the looming threat to growth.

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**GROUP 2 – MIDTERM PRESENTATION REPORT  
THE RISE AND FALL OF NATIONS  
CHAPTER 4 – CHAPTER 7**

"The Rise and Fall of Nations" covers a range of topics crucial to understanding economic growth and stability, narrows the thousands of factors that can shape a country's fortunes to 10 clear rules. Chapters 4 to 7 explore 4 rules mentioned in the book, including: the risks posed by government bureaucracy and corruption, how geography affects a nation's economic prospects, the importance of manufacturing for growth, inflation and public investment. These chapters provide valuable insights into the challenges and factors that shape the rise and fall of nations' economies.

Chapter 4 "Perils of the State" examines the negative impact of weak, corrupt, or ineffective state institutions on a nation's economy. It emphasizes the importance of balancing regulation and market freedom, promoting transparency, and ensuring accountability for successful economic outcomes.

Initially, there was enthusiasm for state capitalism, but skepticism arose highlighting bureaucratic problems and the effectiveness of the perspective. The chapter presents evidence of the negative impacts of government meddling, such as losses in emerging markets and declining profitability in state companies. Excessive and inefficient government spending can have long-term consequences. However, weak states with limited authority and inadequate spending could also lead to issues such as inadequate infrastructure and increased risk of unrest. The chapter emphasizes the importance of reducing government meddling and allowing market forces to foster dynamic economies.

It discusses the negative consequences of political abuse of state banks, and the misguided use of state-owned companies. Energy subsidies are seen as self-defeating according to the book. The chapter concludes by emphasizing the importance of wise state investment and stable rules, striking a sensible balance for private enterprises to flourish.

Chapter 5 of "The Rise and Fall of Nations" focuses on the concept of the geographic sweet spot for economic success. It highlights the importance of leveraging geographic advantages, adapting to the changing trade landscape, and maximizing regional partnerships. The chapter emphasizes that geography alone is not enough, and countries need to implement favorable policies to transform their cities into commercially attractive magnets.

It also discusses the rise of cities as centers of service industries and the concentration of service jobs in global cities. The key takeaway is that nations can shape global trade routes to their advantage through strategic policies and political will, and a balanced population distribution can foster economic growth and overall development.

Chapter 6 titled "Factories First", explores the role of investment in economic development and highlights the significance of manufacturing for emerging economies. The chapter emphasizes the importance of investment and suggests an optimal range of investment as a percentage of GDP (25% to 35%). It discusses how manufacturing drives economic growth through infrastructure investments and export revenues.

The chapter also discusses the service sector as a development strategy but emphasizes the importance of manufacturing as a stepping stone for economic transformation. Challenges in entering and sustaining the manufacturing sector are highlighted, including competition, global sector shrinkage, and automation. The positive impact of manufacturing on stability and growth is exemplified.

The chapter also touches on the risks associated with real estate speculation and heavy investment in commodities, emphasizing the importance of diversification and wise investment allocation. The chapter concludes by highlighting the need for adequate and wise investment, with a focus on manufacturing, technology, and infrastructure to drive sustained economic growth.

Chapter 7 "The Price of Onion" delves into the complexities of inflation and deflation in the context of economic growth. The chapter emphasizes the negative consequences of inflation, highlighting how it erodes purchasing power and creates instability. However, it also cautions against overreacting to deflation, as it is not necessarily detrimental and can even be beneficial in certain situations.

The chapter underscores the importance of good public investment as a driver of economic growth. It emphasizes that governments have a crucial role to play in creating an environment conducive to development by implementing effective policies and investing wisely in infrastructure, education, and healthcare. These investments not only stimulate economic activity but also contribute to long-term prosperity.

Moreover, the chapter challenges the notion that inflation can be solely measured by the Consumer Price Index (CPI). It highlights the broader implications of inflation, including its impact on asset prices, wages, and currency values. By understanding these multifaceted aspects, policymakers can better manage inflation and avoid overreactions that may inadvertently lead to high inflation.

The chapter also asserts that inflation is detrimental to the economy, and good public investment is crucial for sustainable growth. It highlights the significant role governments play in shaping economic outcomes. It also cautions against overreacting to deflation, as it can have different implications and should be carefully managed. Finally, the chapter stresses the need to consider various indicators beyond the CPI when assessing inflation's impact.

## **The Rise and Fall of Nations: Forces of Change in the Post Crisis World - Chapter 8,9,10,11**

Chapter 8 shows the determinants of the value of the currency. If a currency becomes overpriced, it can cause a significant and continuous increase in the current account deficit, and money will begin to flow out of the nation. When the current account deficit has been expanding at an average pace of 5% of GDP for the past five years, the danger of an economic downturn and a financial catastrophe is quite high. However, in a world dominated by "deglobalization," the bar for a viable current account deficit may be sliding down, maybe below 3%. Even if the current account deficit is less than 3%, it is critical to determine if money is flowing out to support productive expenditures such as manufacturing equipment or frivolous purchases such as luxury items.

Follow the locals to see when the monetary crisis begins or ends. They are the first to notice whether a country is in crisis or recovery, and they are the first to act. The major global players will mostly follow. When a country's current account is back in surplus and it is bringing in enough money from outside to meet its foreign obligations, it is an indication that the country's fortunes are about to turn around. Typically, a very inexpensive currency is required to support this operation. A currency in free decline is not a positive sign, especially if the country has significant foreign debt and no manufacturing base for exports that might profit from a low exchange rate. The ideal combination is a market-determined cheap currency in a stable financial environment supported by low inflationary expectations: This combination will give local businesses the confidence to build, banks the confidence to disburse loans at reasonable rates, and investors the confidence to make long-term commitments to a nation's rise.

Chapter 9 "The kiss of debt" illustrates the dangers of high levels of debt and how they can negatively impact economies. The warning signal of economic trouble is a period when borrowers and lenders get caught up in a credit mania, and the total amount of private loans grows significantly faster than the economy. The author identifies a point of no return - private credit hits the 40-percentage-point of the GDP threshold, past which private credit has risen so fast over five years that a financial crisis is very likely. The size of debt matters but the pace of increasing the debt matters more. Debt grows much faster than the economy because it reflected the overoptimistic mood and increasingly bad lending and borrowing decisions

Therefore, a country in which private credit has been growing much faster than the economy for five years should be placed on watch for a sharp slowdown in the economic growth rate and possibly for a financial crisis as well, because lending is running out of control. On the other hand, if private credit has been growing much slower than the economy for five years, the economy should be put on watch for recovery, because creditors likely have cleaned up their books and are near ready to lend again.

In the next section "The Private Sector leads, the States follows", the author points out that the private sector is the origin of the credit mania, which spreads to the government sector afterward. At first, innovation does boost economic growth, however, when productivity growth slows down, businesses still continue to borrow because they believe in the growth of demand. The banks then make mistakes because they have to dole out so many loans, especially with the entry of dodgier

private lenders. The market is now crowded with subprime lenders and unqualified borrowers. After private lenders and borrowers get carried away, the government gets involved by trying to rein in the more egregious and manipulative new lenders and lending practices. The Central Bank increases the price of money to slow down excesses, and the debt of the bankrupt owner turns into the government's book, thus increasing government debt.

Chapter 10 focuses on portraying the rules that the author concluded about how praise and ignorance of the media affected an economy. The rules mentioned the “hype”, which was the praise that global media showered on economies during their boom, later leading to their collapse. In other words, economies are most likely to be better when the media ignores them, leaving the crisis-hit country alone to find a way to clean up its mess.

One of the reasons for this is that the media has contributed to attracting more foreign capital than the country can handle, and national leaders are too complacent to keep pushing for reform, which puts pressure on the country. Thus, after appearing on the cover of the well-known press in the world, countries were likely to face a new crisis. Another reason is the tendency to hype the prospect of a hot economy from market researchers, serious academics, and major institutions, which oriented journalists to ignore all negative signs of an economy.

The author also emphasized that many economies, after advancing to a higher level, can cope with the situation of slowing to a more normal pace of growth. In some rare cases, slowdowns can be severe enough to drag newly rich countries back to the middle-income ranks. However, in any five-year economic cycle, the story can change completely due to new technologies and new leaders.

In chapter 11, the pressure of depopulation, the deglobalization of trade and financial flows, and the impending need to reduce debt loads or deleverage lead to slower economic growth in every region of the world and define the new era. Therefore, we cannot apply the standards of the BC era to this era. The sooner we adopt the "10 criteria" for evaluating economic growth, the better for the world.

While depopulation, deglobalization, and deleveraging are all expected to have a negative impact on growth globally, some countries will still see growth despite this, such as America, Germany, or Nigeria. In conclusion, every country will have its periods of growth and decline, but none will rise or fall in prosperity forever.