

# You're not as rich as you think you are

**BY SATYAJIT DAS**  
BLOOMBERG VIEW

The idea that the world is awash in savings — one factor driving the theory of secular stagnation — is, on the surface, a persuasive one. Too bad it may not be true.

Yes, the postwar generation is wealthier than any before it. But the ultimate value of any investment depends upon being able to convert it into cash and generate purchasing power. In fact, the world's accumulated wealth — around \$250 trillion, according to Credit Suisse's Global Wealth Report — is almost certainly incapable of realization at its paper value. The headline number thus vastly overstates the supposed savings glut.

Most of these savings are held in two forms: real estate, primarily principal residences, and retirement portfolios that are invested in stocks and bonds.

Both are rising in value. A combination of population growth, higher incomes, increased access to credit, lower rates and, in some cases, limited housing stock have driven up home prices; those who got in early have done especially well. Meanwhile, increased earnings and dividends, driven by economic growth and inflation, have boosted equity values. So have loose monetary policies designed to counteract the Great Recession since 2009.

Yet the appreciating value of one's own home doesn't automatically translate into purchasing power. A primary residence produces no income. Indeed, maintenance costs, utility bills and property taxes — which often rise along with



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home prices — mean houses are cash-flow negative.

To monetize one's gains would require borrowing against the value of the property. Those loans cost money to service and expose owners to fluctuations in property values. The property can always be sold, of course. But much of the profit is likely to be eaten up by transaction and relocation costs — not to mention the cost of a new home, which also will have risen in value.

High property prices depend on there being enough potential buyers who can afford the increasingly large mortgages that have helped boost real estate values over

the last half a century. Their number may be shrinking: Stagnant incomes, the decline in secure, long-term employment and rise in contracting jobs all undermine the appetite and ability to borrow. Demographic changes and new barriers to immigration will shrink the size of populations as a whole. Similar considerations apply to real estate investment.

Share prices, on the other hand, represent future rather than current earnings streams. Low interest rates, which have to rise eventually, have artificially increased the discounted value of these cash flows.

Much of the gains merely reflect higher PE multiples, not higher revenues and earnings. Slower growth and lower inflation mean future income streams may be weaker.

In recent years, equity valuations have also benefited from the rising share of national income captured by corporate profits, which may be unsustainable. Debt-funded share buybacks and corporate activity that boosts valuations — including mergers — may slow. Companies can't repurchase more than a certain level of outstanding shares if they want to maintain their stock-exchange listing and trading liquidity. Merg-

ers eventually may run up against competition concerns.

Fixed-income instruments don't necessarily offer a safe haven. The credit quality of government and corporate bonds has declined. Regulatory changes mean that bank-issued bonds may be written down in cases of financial distress. With investors having assumed more risk to compensate for falling returns, they face increasingly uncertain returns on capital.

An important factor is changing funds flows. Rising wealth, in part supported by forced or tax-incentivized pension savings, created strong markets for finan-

cial assets in the postwar era. Now, many aging investors are set to draw down on those savings at the same time to fund their retirement. Given fraying safety nets across the developed world, those withdrawals could well be large — indeed, greater than new inflows. That will reduce the funds available for investment, as well as demand for property, equities, bonds and other assets.

All this could set off a vicious cycle. Lower asset prices will shrink tax revenues. At the same time, demand for essential services will increase as many find themselves unable to finance their own needs. Fiscal positions will take a hit, resulting in lower government spending and higher taxes. That will only accelerate disinvestment.

The inability to convert investment into cash at current valuations means that individuals may be a lot less wealthy than they assume. They may have to consume less now in order to ensure sufficient cash for future needs, reducing economic activity. Lower levels of wealth also limit policy options for governments and central banks, which rely on mobilizing savings to boost growth and manage high debt levels.

That's perhaps the final irony. Whether real savings are higher or lower than currently believed, the result may be the same: a global economy mired in a prolonged period of stagnation.

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## Voting

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maries in June, when parties select their candidates for state and federal office. It prevents split voting from affecting the result. It's used in California and a few other states.

In Maine, that system could have yielded an election between LePage and independent Eliot Cutler in 2010 and between LePage and Democrat Mike Michaud in 2014.

**Plural nomination.** A candidate may appear more

than once on the ballot. That could allow a candidate to run as both a party nominee and an independent.

In closely contested elections in recent decades, the candidates for governor were a Republican, a Democrat and a former Democrat running as an independent. These independents were Jim Longley, the 1974 winner, Angus King, who won in 1994 and 1998, and Cutler in the two LePage elections.

Though he ran as an independent for the U.S. Senate, King usually votes with Senate Democrats. Recently, he joined Maine Democrats in welcoming Virginia

Sen. Tim Kaine, the party's vice presidential candidate. He could run as a Democrat in 2018, probably a good idea for the party, which would want a strong Senate candidate on the ballot to help the rest of the ticket.

Right now in Maine, a candidate can only appear once on the ballot. Would King give up his independent line on the ballot?

This alternative, also called "electoral fusion," would require only minor legislative changes and could prove a viable alternative to ranked-choice voting. A candidate like King could run on two different lines on the ballot, Demo-

crat and independent, avoiding a split that LePage might try to exploit.

This procedure is authorized in nine states and has been frequently used in New York. Earl Warren was elected this way as governor of California and went on to be chief justice of the U.S. Supreme Court.

What all these voting methods have in common is they are used in other states, and they are part of the American political tradition, while ranked-choice voting is not used in any American statewide, congressional or state legislative election. They all accomplish the same purpose

sought by ranked-choice advocates.

**Status quo.** The best solution is probably to stick with the current use of plurality elections, also used by the overwhelming majority of states. The person with the most votes is elected. Of course, a candidate lacking a first-round majority may win, but that's also true in ranked-choice voting.

And today's system avoids more than \$910,000 in the added costs of ranked-choice voting. The system imposes an obligation on voters to be aware of the risks of divided opposition. The media and civic groups must do a better job

of educating and informing voters on those risks.

In the current system, the voters must inform themselves and then decide. While there are workable alternative methods, ranked-choice voting — untested in state or federal elections — is an unsatisfactory substitute for widely accepted ways of providing real voter choice.

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Serge Rene, owner of Rene's Security and Training in Orlando, Florida, stands at the counter of his store in August.



RICARDO RAMIREZ BUXEDA | ORLANDO SENTINEL | TNS

## Cianchette

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federally licensed firearm dealer to conduct background checks on their kin. And then they will need to go to the dealer again if they want to give it back, generally paying the dealer for his time and effort completing the check instead of engaging in business.

Or head back to this column's first question. Imagine you have a friend — just retired after 25 years of Army service — who moved to Maine to start the rest of his life. The lucky dog got his name pulled in the moose lottery. The problem? He only owns a .243 — read, small — rifle. So you lend him your .30-06, a firearm sufficient to humanely hunt large game.

If you live in a "shotgun-only" town and Question 3's law was on the books, you and your Army buddy likely just became criminals. Why? The "hunting exception" is limited to transfers "if such activity is legal in all places where the transferee possesses the firearm." Hunting with ri-

fles is illegal in your "shotgun-only" town.

Social media chatterati will claim these examples are unrealistic. And even if they happened, no prosecutor or court would ever implement the law that way. That is a big assumption. After all, no one thought an agricultural burn — even if illegal — would lead to terrorism charges.

Or look at Massachusetts. For 18 years, a law was on the books and consistently enforced one way by successive Democratic attorneys general. Then one day — with no public debate or legislative action — the new AG decided she thought the law meant something different. Poof, licensed, law-abiding gun dealers, you're now all on the cusp of becoming criminals.

When these types of concerns — be they hypothetical or concrete — about Question 3 are offered by opponents, supporters retort, "so, what, we should simply do nothing?"

No one is saying that. Not the sheriffs of Oxford, Franklin or Androscoggin counties who oppose this particular proposal. Not organizations like the Sportsman's Alliance of Maine. Not top Democrats like Reps.

Jeff McCabe or John Martin.

But by any objective measure, Maine is one of the safest states in the nation when it comes to gun violence. And as we saw over the past week, criminals are criminals and will use anything at their disposal — whether firearms, knives, pipe bombs or pressure cookers — to cause harm.

So, if we need to do something, let's first identify the problem. If it is unscrupulous, unlicensed dealers selling guns to criminals, then draft legislation to clarify when someone enters the business of selling firearms and becomes subject to existing federal regulation. But, whether you're firing a firearm or passing a law, responsibility begins with clearly identifying your target.

If you don't know what you're going to hit — whether extended families or hunters — don't pull the trigger. That rule applies equally to a shotgun, a .30-06, or Question 3.

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## Steed

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to be, we don't imagine the respondent answering, "a shallow bully." We don't imagine the response to be "a person whose worth is assessed entirely by what she wears." We don't imagine someone answering "most racist," "the guy who makes women feel unsafe," or "the person with the most clever insults."

When you end up looking back on your life, you remember these people as sad — for the devastation they caused, from sexual assault to eating disorders to suicide, but also because it's likely that these people were struggling with the same crap we all are.

Lashing out is how they dealt with it. This is how they stuffed that unifying struggle down inside of themselves.

"What do you want to do?" is a loaded question.

First of all, it's a pass-fail test for which the stakes are unfairly high. What if you want to become a doctor, then change your mind? Pressure! Failure! Regret! Sadness! Anxiety! It also leaves us open to judge a person's worth — and our own — on a job alone when we know that's an inaccurate measure.

Pay scale and fame become our proxies for value implicit in this question. But we know plenty of prestigious, well-paid people who have proven themselves terrible, and plenty of people in more common professions who change others' lives for the better every day.

Instead, we could be asking: "Do I like the person I have become?"

"How will I be remembered?"

"How can I make things better?"

When our primary concern is which path we'll take to get to which job, we are not checking in with ourselves in these ways.

Life is hard. This is something we share in common. The ways we sort through it shouldn't be the root of our division; they should be something about which we're able to commiserate.

We are all under tremendous amounts of pressure. Some of us are scared. No matter how it looks on the outside, we're dealing with a lot, and we have that in common.

Let's make life better for people like us: reach out and listen. If we need it, let's ask for help. Let's remind ourselves and each other that we are struggling together. Let's not give into those who try to sell us temporary fixes to these feelings. Let's not take it out on other people. Let's be there for people who need us and build an environment in which being ourselves is possible.

I challenge you to rewrite your future around this question, "How do I want to be?" I encourage you to start becoming that person today.

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