Global Economics

Things that may interest you

- Global debt is $164 trillion – 225% of global GDP. Humanity is irredeemably over-indebted.
- Government insolvency could be a serious issue in various countries – including rich ones.
- Economic unions could form in Latin America, the Middle East, West and East Africa, South and SE Asia, due to national insolvency and a need for continent-scale collaboration.
- 10% of the world's companies generate 80% of all corporate profits. Large firms with more than $1bn in annual revenue account for 60% of all global corporate revenues.
- Distributed manufacturing (3D printing, nanotech, *etc.*) will significantly reduce the volume of freight and physical trade by the 2030s, affecting all economies and ending the concentration of production in areas richer in resources, industrial power and skilled labour.
- Cyber sabotage has a very real capacity to undermine the world economic system, its dangers arising as much from isolated brainy teenagers as from organised groups pushing an agenda.
- A world trading currency or a basket of pegged currencies could be closer than we believe.

The picture for the coming decades involves the convergence of quite a large number of important historic trends, and we'll review them here.

- *World economic power has tilted east toward Asia*, particularly its two rising superpowers, China and India. It has moved south from the richer north, with regional economies such as Turkey, Indonesia and Brazil growing in weight. With rising wealth comes geopolitical influence – in 2008 the G8 became the G20. The world's game-plan is increasingly set by the 'developing' world of five to six billion people. Economies that are developing less are the richest (top billion) and poorest (bottom billion) countries.
- *To a degree economics follows demographics*. Countries with rising, younger and urbanising populations generally experience rapid economic growth (the demographic dividend). However, growth bypasses the bottom billion people, hampered by war, drought, bad politics, corruption and disadvantage. In richer economies the population is largely stable and ageing, leading to sinking dynamism (the demographic burden) – rich countries, with 15% of world population, are likely to shrink from a 54% in 2010 to a 30ish% share of the world economy by 2050. Middle-income economies will rise economically and mature demographically, levelling out around mid-century – including China, SE Asia, Turkey, Argentina, Brazil, Iran, Mexico and South Africa. Economies with high birth rates and relative underdevelopment, including Nigeria, Pakistan, the Philippines, Kenya, Tanzania, Angola, Ethiopia and Bangladesh, might rise to prominence later on. Between now and 2050 the fastest economic growth will be in Africa.
- *Women's economic role and influence is growing globally*. The frontline is now everywhere and the momentum of change is unstoppable, even though in parts it still lags behind. Watch Africa and the Middle East, two barometer regions for women's influence in society and politics. This concerns an accelerating shift of values toward economic justice, universal education and healthcare, sustainability and peace. Many men care about these

issues but women have given it new priority and emphasis. Women's views and influence increasingly permeate societies, and this historic trend will continue. At some point it will go geopolitical. However, there is a critical change yet to come: developments of the last fifty years have helped women as individuals, but a feminine influence that changes the nature of our civilisation as a whole is yet to come.

- *Global economic growth and high consumption levels do not square with the ecological and resource limitations we face*. Defining moments are sure to arise when this tension goes critical. It could mean economic crunch-times and contraction, especially in richer, high-consumption countries. Many causes of this problem are systemic, and systems complexity, resource scarcity, declining financial yields, high debt levels, market instability and conflict proliferation will force systemic change. This comes at the same time as economic, environmental, resource and social costs are rising – double trouble. Increased investment in mitigation, remedial and defensive spending in such spheres as renewable energy, city-redesign, social, ecological and climatic issues will be needed. Many economists assume global economic growth of 3% per year up to 2050, but this could be optimistic by the 2030s-40s – it could be lower, zero or negative, affecting our capacity to deal with situations before us. In the richer world, real-economy growth is already low: since 1980ish its growth has been generated largely through *financialisation* – banking and making money out of money itself – not in the real economy.
- *Humanity's economic and resource-consumption footprint is a decisive factor*, especially in richer and middle-income countries. Regional climate change, resource shortage, food insecurity, mass migration, public health issues and political rights will rise higher up the world economic agenda. Environmentally-based economic strategies, re-pricing commodities and business to

account for the full human and ecological costs of production, could become a key mechanism in adjusting consumption to the planet's carrying capacity, but public acceptance of this will be problematic – no one likes higher prices. But higher prices will come anyway.

- *Natural and man-made disasters will affect all countries variously*, leading in places to damage, instability, migration, conflict, downturn, failed nations, food insecurity and added expense. Disasters hit rich economies too, not just directly but indirectly, exposing insurance, debt and supply-chain vulnerabilities. In middle-income and poorer countries disasters undermine economic vigour, making revival, rebuilding and social improvements difficult. Simultaneous multiple disasters are a danger. Raising the world's capacity to absorb such shocks is a priority – this involves rescue and reconstruction mechanisms, setting aside financial contingency reserves, strengthening infrastructure and increasing social, ecological and systems resilience.
- *Economic crises and downturns could increase in scale or regularity* unless strong measures are taken to reduce debt and financialisation levels, break down 'too big to fail' companies, improve government and corporate contingency reserves and address other system-critical issues. The outcome will depend on the boldness of reformers, resistance from vested interests and the willingness of ordinary people to undergo economic change. The undermining effect of offshore banking, organised crime and corruption are key issues too. Failure in reform can lead to periods of negative economic growth, socio-political disruption, food shortage, supply-line problems, international payments breakdowns and other complex consequences. Crucial here is a need to redefine money, anchoring it to real energy, resources, natural capital and ecosystem services.

- *Anti-globalisation trends in USA and Europe will likely subside* as the costs of economic nationalism come clearer, the economic influence of the global South rises further and as world problems demand increased international cooperation. Globalisation trends peaked by 2008 and will reduce somewhat for a variety of reasons. Distributed manufacturing, regulation, instability, reduced consumption, escalating costs in cheap-labour countries, automation in high-cost economies and downsizing of physical trade will increase localised production, yet global interdependency is unlikely to decline fundamentally, more to change in extent and character. Profit maximisation and economic growth will decrease as key drivers of globalisation, while social-cultural, environmental and geopolitical cooperation will become more important. Globalisation's future depends on nations' political decisions, but upcoming nations tend to favour it while some developed nations have their doubts. Global integration is unlikely to wind down because a Euro-American global minority says so, but its style and pace will change.
- *Financial war.* American dollar dominance in world trade is becoming outdated. USA's application of sanctions, financial instruments, trade barriers and military threats is hastening the process. They were applied first against Iran, Russia, Venezuela and North Korea, then to USA's own allies, with the result that, for perfectly sensible reasons, the world is step by step insulating itself against USA and building countermeasures. This will take the form of non-dollar (Yuan and Euro) international trade, institution-building (such as the Shanghai Cooperation Council) and trade shifts. Though USA is acting muscularly it is vulnerable, since its high debt levels (government debt of $18tn or 104% of GDP and private debt of $13tn or 75% of GDP) are propped up by investment from China, Europe, the Gulf States and the rest of the world. Dollar value is maintained through its being used as the world's primary trading currency, even though the Yuan and the Euro are capable of this role and a choice of

currencies would be preferred by most countries. This is heading toward crisis, and financial war eventually most harms the nation waging it. Momentum is also accelerating toward establishing a transnational trading currency in the 2020s, probably in conjunction with the formal integration into the world economy of the offshore sector, currently the platform for one-third of all international transactions.

- *Inequality*. This is system-critical, not solely a moral or economic justice issue. Extremes of inequality lead to stagnation of crucial elements of the real economy – smaller businesses, social provisions, infrastructure, labour skills and social cohesion. Child mortality, disaffection, crime and corruption rise, and public health, general wellbeing and ecosystem care fall. When returns on capital exceed real economy growth, wealth concentrates in ever fewer hands, social mobility declines and the rich increasingly form an impenetrable oligarchy. Money shifts from the real to the financialised and offshore economies, weakening real economies and rendering them susceptible to instability if the financialised economy fails. The gap between richer and poorer people widens unless redistributive policies and philanthropic actions counteract it – redistribution means richer people levelling down as well as poorer people levelling up. If inequality fails to be corrected, then multiple problems ensue, ultimately affecting the rich too.
- *Poverty*. Technically, people are deemed extremely poor if they earn less than \$1.90 per day, and moderately poor people less than \$3.10 (adjusted for local prices), while the 'non-poor' earn over \$10 per day. Some of the poor have non-monetary support systems (smallholdings, families, aid, etc), while many face big health, education and transport costs, with food taking up much of their income. People living above the poverty line can still experience poverty – over 3bn people live on less than \$2.50 per day. But poverty is reducing steeply: people living in extreme

poverty have declined from 84% in 1820 to 55% of world population in 1950, to around 10% in 2015 (or 720m people, according to statistician Max Roser, though the World Bank puts it at 1.4bn). Numbers have declined but they still number around one billion, 50% of them in India and China and 85% in just twenty countries. Poverty will continue declining unless other factors kick in, such as climate change, soil degradation, food and resource price rises and slowing economic growth. Whatever the statistics, poverty is difficult to live with and, for the rest of us, a cause for shame.

- *The offshore sector*. Reintegrating the offshore and shadow economies into the real economy is a core global issue. Offshoring provides a genuinely global investment and transaction platform transcending nations, but for this to benefit the world as a whole, regulation and taxation of international transactions and offshore banking centres (a 'Tobin tax') needs to be introduced. This requires global institutions with powers to enforce compliance, which brings up sovereignty implications. The global economy has thus far been controlled by dominant nations – USA, Europe and Japan – but this dominance is receding, morphing into a more genuinely globally steered system. One third of all international transactions now happen offshore, so reintegrating the offshore economy is vital. With Brexit and London's central position in the offshore economy, London could become the executor of this process, since many offshore centres are under British auspices – Brexit was largely engineered and financed by offshore interests.
- *Automation, artificial intelligence and distributed manufacturing (3D-printing) could change everything*, both for better and for worse. They will cause a fundamental restructuring of real economies, rendering people and customary production processes increasingly redundant and making earned wages and salaries a thing of the past for many people. Automation can

solve many problems in ageing societies with a demographic burden, yet it creates problems in developing economies where a growing population needs gainful employment with decent wages and conditions. There is an uncontrollable race to automate, and its introduction is unlikely to be constrained by concerns for its overall social and economic impacts. The ramifications are large and complex, and complications and social unrest are foreseeable. Also, digital networks are insecure and liable to critical breakdown, making these technologies a source of vulnerability.

- *Resource shortages will impact increasingly*, bringing rising prices, market spikes and times of limited resource availability. This concerns food, energy, critical minerals, viable farmland, clean water, forest products, pollinator insects, fish stocks and ecosystem service-providing forests and wildlands, clean air and, in places, space. Scarcity and downturn – and how societies respond – could be predominant themes in coming decades.
- *There is a probability of fundamental systems change prompted by economic crises*, brought about through financial market failures, clusters of disasters, political and geopolitical shifts and tensions, uncontrollable migration, resource scarcity, government or corporate insolvency, regional ecological collapses, unforeseen events and combinations of these. Lessons from 2008 have not been fully learned, and this makes future financial crises more likely. Contingency planning to address longterm and critical issues in advance would make the world more resilient to economic shocks and sinking growth. Perhaps the world needs to be shocked into such changes but the problem is that the necessary financial resources to invest in contingencies and critical issues will not be as plenteously available as they were before such shocks happen.

Global systems restructuring

To maintain market confidence and stability, many of the above questions are studiously avoided, commuted to the future to become someone else's problem. Large-scale investment is needed in infrastructure, financial provisions and facilities to cater for and mitigate emerging trends which, if not attended to, will lead to increased costs and losses. But the problem is that such investment will yield mostly slow, indirect returns. There could be difficult decades before benefits percolate through. These will come in the shape of circumstantial paybacks, improved conditions and saved costs more than in direct financial returns, though there will be returns and profits in resilience-building lines of business, though not at the profit levels we've known in the past. Times of faltering economic growth could demand sacrifices that few would choose to make – tax and price rises, increased regulation, systemic restructuring and reduced consumption. Economic growth might no longer serve as the glue holding societies together that we have known before.

Soviet Roubles – formerly legal tender, now just paper

While overall global growth may be sluggish, on the whole today's developing economies will grow stronger while richer economies will contract, relative to each other. A key area to watch is Eurasia: the Chinese Belt and Road strategy will put places like Kazakhstan, Siberia, Pakistan, Iran, the Caucasus and Iraq close to the centre of future

Eurasian economic activity. The Eurasian axis binding China, Central Asia, the Middle East, Russia and Europe will become the world's main economic axis. If India joins, this axis will channel 40% of world physical trade.

The most fundamental economic issue for future decades is systemic reform – not only of rules, practices and institutions but also of mindsets. The critical question is cooperation or competition. It concerns the nature of societies, their psycho-social, economic, environmental and climatic resilience, and the very way the world operates. The sustainability that governments and businesses talk about is a form of tweaked competition – same economic fundamentals, with adjusted details and burgeoning regulation. This is questionable, an evasion of the main question.

A more cooperative, systems-thinking, humane and nature-friendly approach is needed, based on economic justice, a more even distribution of resources and wealth, the recognition of natural capital (environmental health) as at least as high a priority as financial capital, and transitioning toward a circular economy. This question pitches two competing paradigms against each other: a social-ecological-systemic view concerned with longer term, wider, global, human-friendly and environmentally-compatible priorities, or a more short-termist, nationalist, business-oriented and military-industrial view, pushed by private, national, sectoral and vested interests. This friction will grow sharper in the 2020s and 2030s as the Millennial generation reaches middle age, eroding the older, nation-state based, top-down pattern of world power and economics to which older generations are accustomed.

To some extent there is also a race between, on the one side, forward technological change and development trends, generating new economic growth and solutions, and on the other side the impacts of ecological, climatic, resource and population-related trends, which bring challenges to economic growth and available capital. At some point the hegemony of economic interests and power dominating the world for 1-2 centuries is likely to retreat in the face of a new configuration and viewpoint that sees the world more in whole-systems terms.

This represents not just a generational shift of values, but also a newly-emergent analysis of the world situation, defined particularly by the need to deal with crises. A clock is ticking and the growing intensity of world events is unlikely to permit delay. Unless, of course, the world defaults into a more chaotic, insecure, crisis-ridden, competitive phase based on international and sectoral squabbling, that fails to address intensifying global issues and to resolve them.

Circular economics

Here we come to the circular economy, a new focus for systemic change. By some observers' definition we have recently passed *peak stuff*, now entering an era of increased pragmatic sharing, recycling and resource-use efficiency. In a circular economy renewable materials are mostly used and non-renewables are intensely recycled, re-used and repaired – waste is an unnecessary cost, a loss of materials from the system at a time when materials are becoming more scarce.

A circular economy supports natural capital by reducing non-renewable resource use, improving ecosystem management and reorganising human living, working, business, production and leisure systems. It optimises resource yields by designing products for re-circulation and sharing, and built to have longer lifecycles. It encourages systemic efficiency by designing out pollution, emissions, toxic, harmful and socially and environmentally depleting materials by reorganising the systems that create these problems. It is thorough and all-round in approach, rearranging everything to achieve optimum benefit with reduced inputs. Civilisation uses less and achieves more.

This demands a period of transition, already in its early stages and further developing in the 2020s-30s, focusing on reducing resource demand, switching to renewable energy, durable products, recycling, re-use and repair, safely replacing hazardous materials and generally increasing efficiency and benefit. Money will be earned from subscriptions more than sales, design more than hardware, outcomes more than hours laboured, and needs served more than quantities consumed.

Values of simplicity and economy are central to this, shifting the focus toward collective wellbeing and mutual benefit. It would reflect a generational shift of values and a tilting of cultural gravity from the West to Asia. New generations increasingly perceive a need for *enough*, not for *more*, for functionality, not ownership – this is the psycho-social ground for an emerging circular economy.

It represents a new economic psychology and the start of a global economy that clashes and grates much less with the natural environment and with human nature than the waste-and-excess system we now live in. The respective priorities of the economy and the ecosystem would start moving toward convergence, especially when a point is reached where there is no alternative but to do so. Whether and how we achieve this transition politically and in terms of social consent is as yet unknown – the world public needs to push for it – but economic circularity represents a direction to head in. Ultimately change happens because older people die off and younger people take over.

Summing up

The days of high growth and plenty that richer economies have seen since the 1950s are winding down, since they are based upon amphetamine economics, over-consumption, resource over-exploitation and inequality. Human consent to maintain this cranked-up economic intensity is weakening as the generations change. The costs of mitigating the world's problems are rising.

Systemic reform is overdue. The right time to start was in the 1970s, but instead we saw the rise of deregulated, financialised and pumped-up economies from the 1980s onwards. Based on neoliberal norms, this proved regrettable when the 2008 banking crisis came along – and reforms following the crisis were weak, so we will see more crises of a similar kind. Systemic reform could also have started around 1990 with the end of the Cold War, the integration of China and the former Soviet bloc into the world economy, the rise of the internet and the ascendancy of new environmental and human values. The price of tardiness in systemic reform will rise to a point where the costs of delay become greater than its perceived benefits. Economic crises will become the mechanism forcing systemic reforms until the world becomes proactive in bringing about systems change.

Such reforms will involve several decades of transition toward a more sustainable world economy. Key to this is a re-pricing of commodities to reflect their true costs and a large reduction of debt levels. Market failures will force the issue. Other keys are legislation and shifts of public consensus and behaviour. The depth of this transition is profound, yet also sensible and overdue.

By 2050, particularly in the stressful 2030s-40s, we face a choice. The global economy will likely be more integrated, with a world trading currency and further development of transnational economic institutions, regulation and sovereignty-pooling, transitioning toward a more sustainable, circular economy – more like a social enterprise than a corporate entity that prioritises profit by any available means.

Alternatively, world GDP will deflate, protectionism, competition, insecurity, conflict and crisis could grow and wider issues affecting the world economy could fail to be properly addressed. Each option will have costs and benefits, but the reform option is more likely to succeed with ecological, climatic, population and social issues than the latter – and these, in the end, are the major longterm determinants of the state of the world economy. Put simply, it all concerns mutuality or self-interest.

Interesting links

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