



What we know and do not know about the world economy

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World economy in a “polycrisis”

“The only function of economic forecasting is to make astrology look respectable.”

J.K. Galbraith

World economy in a “polycrisis”

“A global polycrisis occurs when crises in multiple global systems become causally entangled in ways that significantly degrade humanity’s prospects.”

Cascade Institute.

The world economy in a “polycrisis”

1. Surprises
2. Drivers
3. Shocks
4. Fragilities
5. Scenarios
6. Conclusions

1. Surprises

- History is full of what seemed at the time to be surprises.
- Consider just the last five decades:
 - In January 1970, who thought the next decade would be marked by high inflation and two huge oil price shocks?
 - In January 1980, who thought the Soviet empire would disappear within a decade?
 - In January 1990, who thought China would become an economic superpower by 2020?
 - In January 2000, who thought there would be a global financial crisis within a decade
 - In January 2010, who imagined Donald Trump would become president of the US?
 - In January 2020, who foresaw that a pandemic, high inflation and a war between Russia and Ukraine would de-stabilise the world economy?

1. Surprises

- We cannot forecast, but we can understand what we know and what we do not know
- This does not make the world predictable, even over the short term, but it does make what makes it unpredictable (more or less) comprehensible.

2. Drivers

1. Expect the unexpected. *But not everything is unexpected.*
2. Demography – Ageing, Sub-Saharan Africa & migration
3. Emissions – no decline and rising role of emerging countries
4. Technology – Moore’s law and continuing untapped potential
5. Growth – Positive growth every year, but two, since 1950
6. Rise of the rest, especially Asia – Now at least half the economic size of the “West”

3. Shocks

1. Shocks as “known unknowns”
2. Pandemic –
 1. We closed our economies down because we could
 2. Fiscal and monetary policies
 3. Post-crisis shortages
3. War & energy
4. Inflation – price levels jumped by 20 per cent in three years!
5. Higher interest rates – permanent or temporary? Who knows

3. Shocks as known unknowns

- We are surrounded by risks - further pandemics, social instability, revolutions, wars (including civil wars), mega-terrorism, financial crises, reversals in global economic integration, cyber-disruptions, extreme weather events, ecological collapses, huge earthquakes and so forth
- Yet these are not “unknown unknowns”, but “known unknowns”
- A “shock” should be viewed then as a “realised risk”
- But the likelihood and severity of such possible shocks are unknown – that is a big reason why economies are unforecastable
- “The readiness is all”, as Hamlet tells us

4. Fragilities

1. Temperatures – certain to rise
2. Debt – at close to an all-time high!
3. Politics:
 1. States – rise of the active state and the death of Reaganism (“The nine most dangerous words in the English language are “I am from the government and here to help”)
 2. Politics – collapse of the postwar democratic consensus and of the post-Reagan/Thatcher neo-liberal consensus and the rise of demagogic strongmen
 3. Geopolitics - breakdown of the liberal world order
4. De-globalisation

5. Scenarios

- Back to “normal”
 - Politics:
 - Great power relations stabilize.
 - Yet the world is more divided and fractious than before 2008.
 - Economics:
 - Inflation falls, interest rates decline, globalisation stabilises and AI generates a new upsurge in growth and change.
 - Yet the world economy remains more divided and fractious than before 2008
- Divided world:
 - Politics: A democratic western block confronts a China-Russia block
 - Economics: China and US substantially decouple; countries are forced to choose between them; trade and capital flows substantially weaken

5. Scenarios

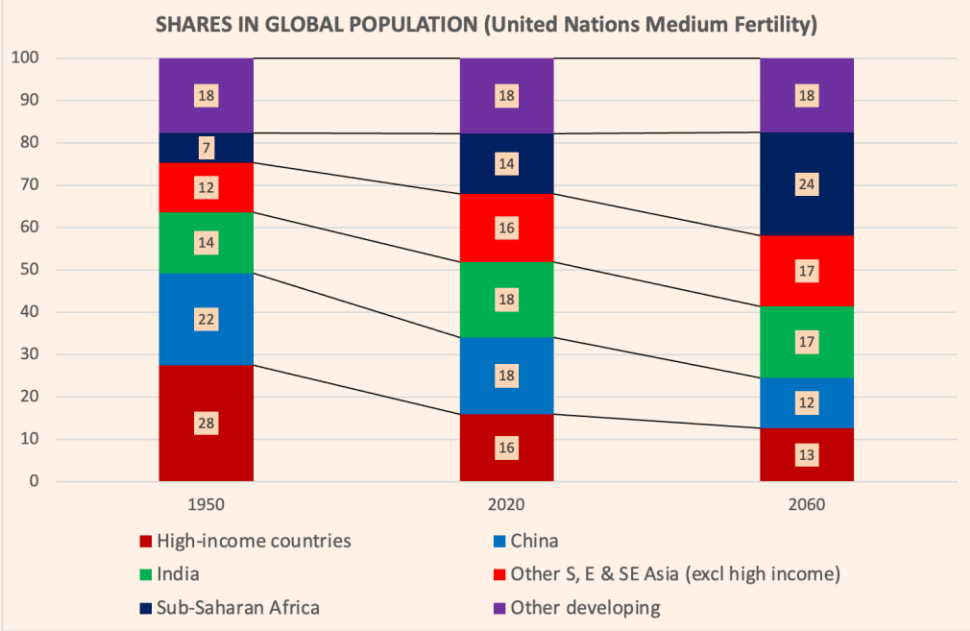
- West divided:
 - Populism, nationalism and protectionism transform the West
 - This even threatens relations between the US and its allies.
- Shocks abound:
 - Financial shocks, huge trade wars, pandemics, climate disasters, mass migration, multiple conflict, mass terrorism, nuclear terrorism, cyber disasters
 - The co-operative global order breaks down
- War among great powers:
 - That would of course change everything

7. Conclusions

- We know quite a bit about what is driving the world economy
- But the future is still highly uncertain
- This is because of our vulnerability to shocks
- And evident economic, social, political and geopolitical fragilities
- We can imagine scenarios for the future. We cannot forecast it.

2. Drivers: demography

The population balance of the world is shifting dramatically, away from the high-income countries, particularly towards Sub-Saharan Africa. Population growth is likely to continue to be fastest in relatively poor countries. By 2060, on these projections, the populations of the current high-income countries, plus China, will account for just 25 per cent of the world total, much the same as the forecast for Sub-Saharan Africa. India's share should be stable.

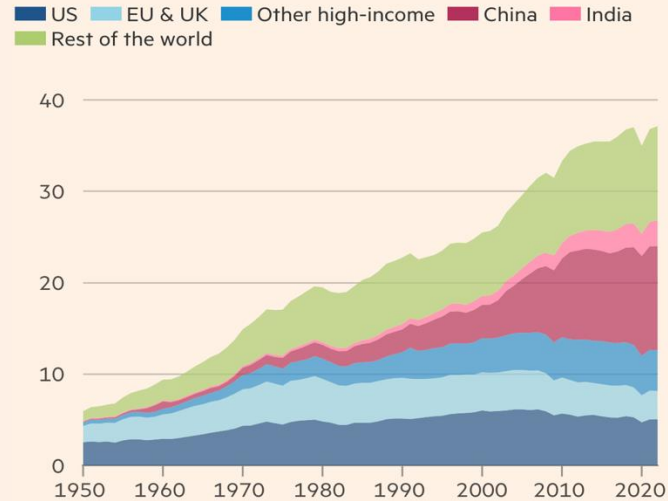


2. Drivers: emissions

The emerging and developing countries are the dominant source of emissions now and this preponderance will grow. Emissions must be stopped there, too. This is a huge challenge. The overwhelming likelihood is that global warming will continue far into the future.

At best, global emissions may have peaked at last

Global CO₂ emissions (bn tonnes), by region



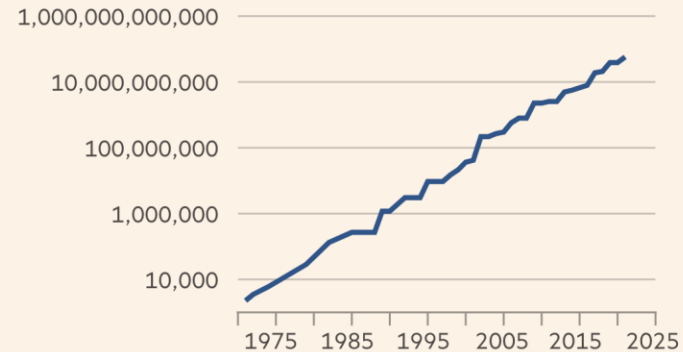
FINANCIAL TIMES Source: Global Carbon Budget; Our World In Data

2. Drivers: technology

In 1965, [Gordon Moore argued](#) that "With unit cost falling as the number of components per circuit rises, by 1975 economics may dictate squeezing as many as **65,000 components on a single silicon chip.**" In 2023, that figure reached **134bn!** This achievement will be exploited for decades, even if the "law" reaches its limits. Artificial intelligence is the product of this revolution. "Quantum computing" might also lie in wait.

Moore's law continues to operate six decades after it was propounded

Transistors per microprocessor (The observation that the number of transistors on an integrated circuit doubles approximately every two years is called Moore's law)

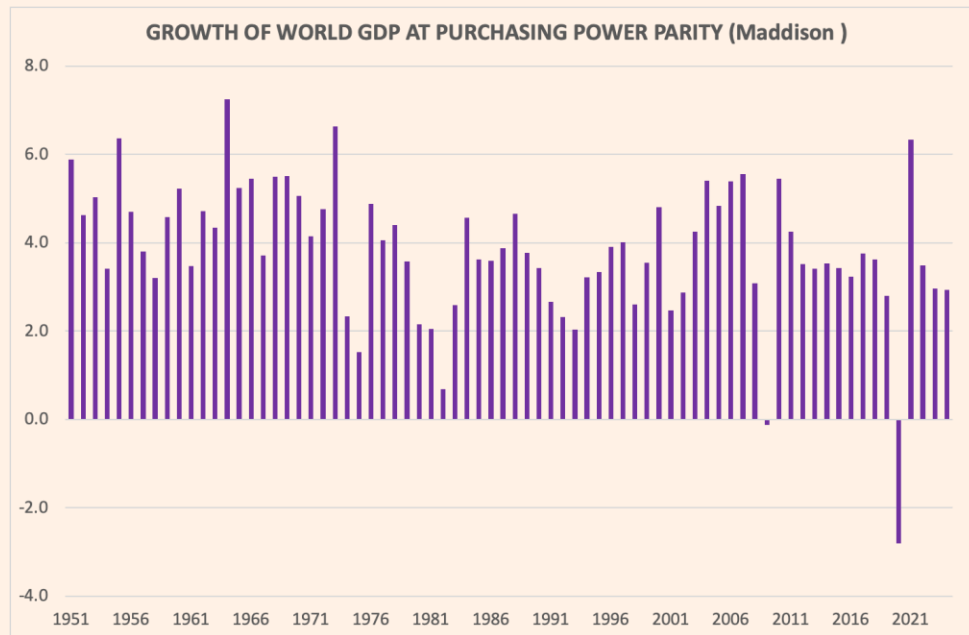


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Source: Karl Rupp, Microprocessor Trend Data (2022); Our World in Data

2. Drivers: growth

In every year but two since 1950, the world economy has grown. The two exceptions were 2009 (the global financial crisis) and 2020 (the Covid pandemic). Growth is normal. It is to be expected, probably at around 2-3 per cent a year. India should grow significantly faster than this. So, its share in global economic output should rise consistently for at least a generation and possibly far longer.

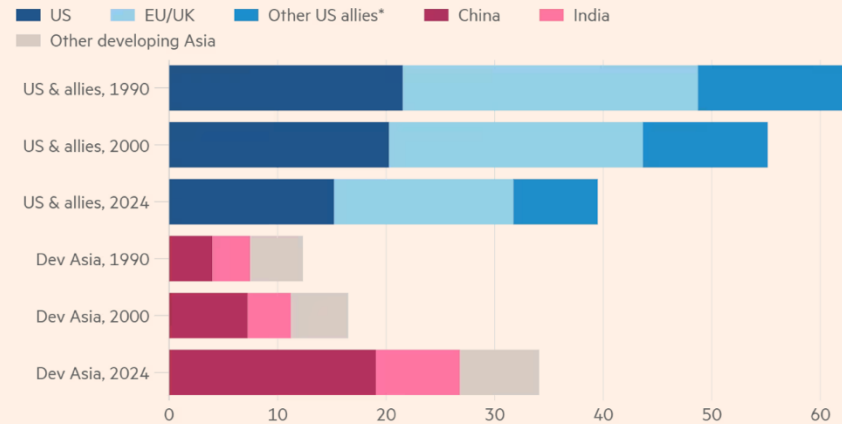


2. Drivers: rise of the East

Measured at purchasing power, the shift of economic power from the alliance of high-income democracies to developing Asia has been dramatic. It will surely continue.

The shift of world output towards developing Asia has been inexorable

Share of global GDP at purchasing power parity (%)



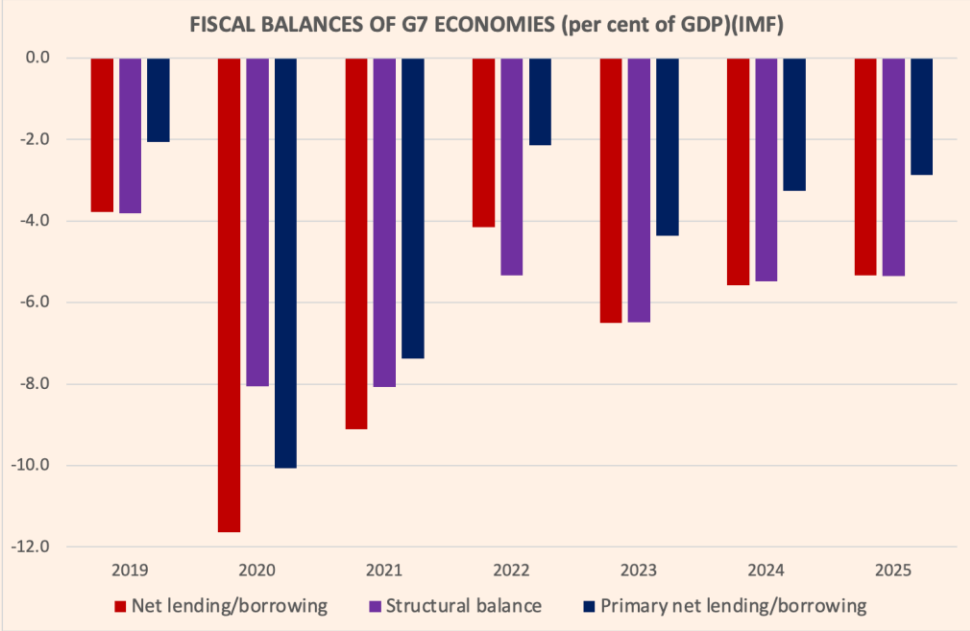
* Japan, Canada, S Korea, Australia, New Zealand

Source: IMF

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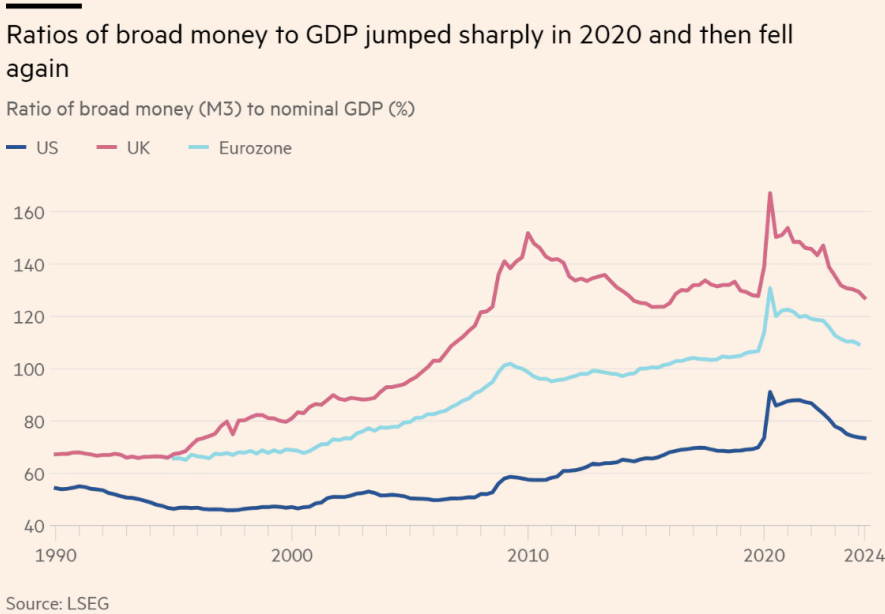
3. Shocks: pandemic

Pandemics are part of human history. Covid was a relatively mild one, far milder than the Spanish flu. But it proved immensely disruptive, essentially because it could be. It also led to hugely supportive fiscal policies.



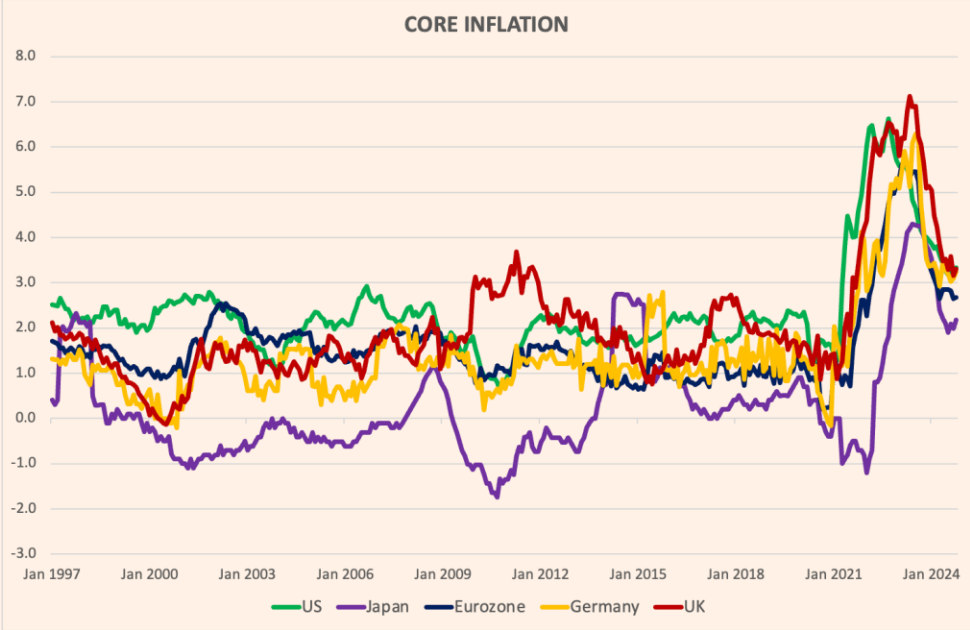
3. Shocks: pandemic

And dramatically expansionary monetary policy: a boom and then bust.



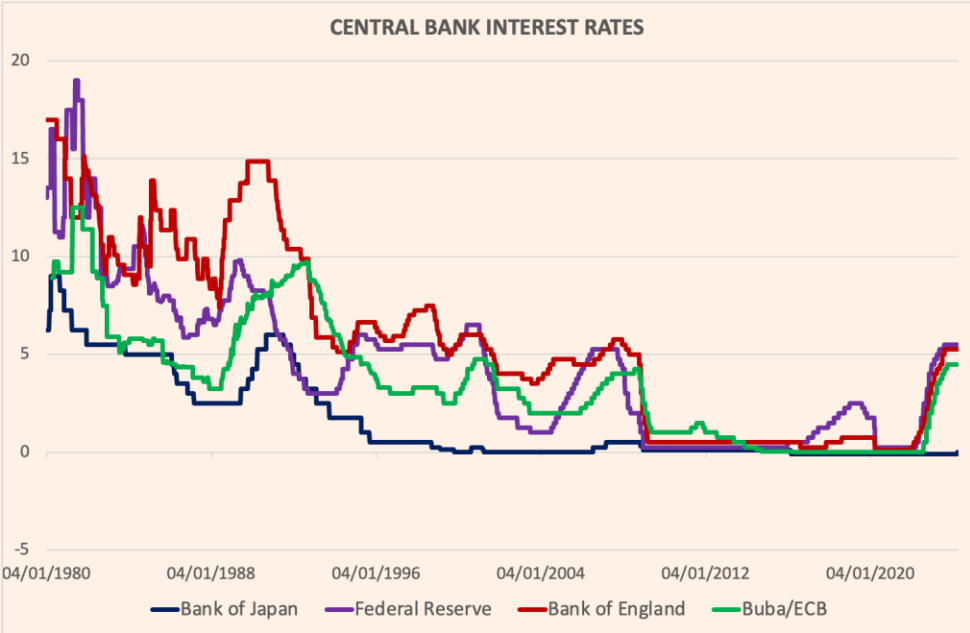
3. Shocks: inflation

Inflation jumped to levels not seen since the 1980s. This is the result of both demand and supply shocks, as was also true in the 1970s.



3. Shocks: interest rates

Central banks have tightened, with rates back to where they were before the global financial crisis. But these rates are going to fall again, as inflation does. This is going to ease global monetary conditions, once again.

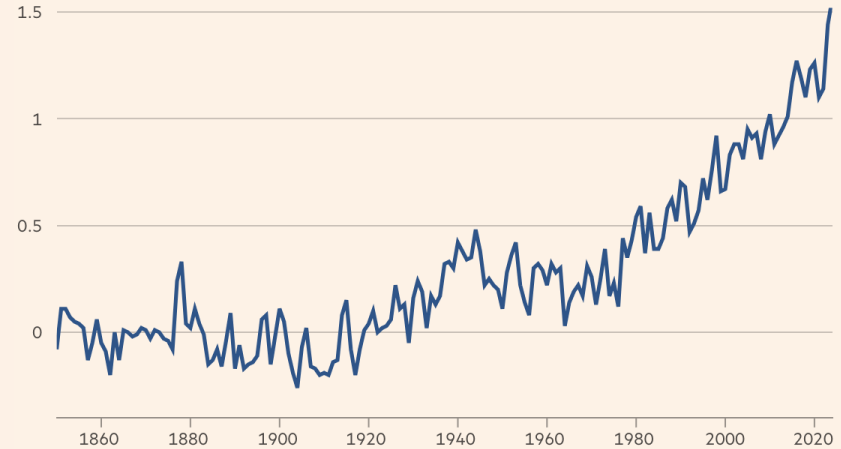


4. Fragilities: temperatures

The planet is continuing to warm and will pass 1.5 degrees above pre-industrial levels quite soon. This will not be stopped, though the peak might be lower than seemed likely a decade ago.

Global temperatures are already close to 1.5C above pre-industrial levels

Global average mean temperature, difference from 1850-1900 average (deg C)

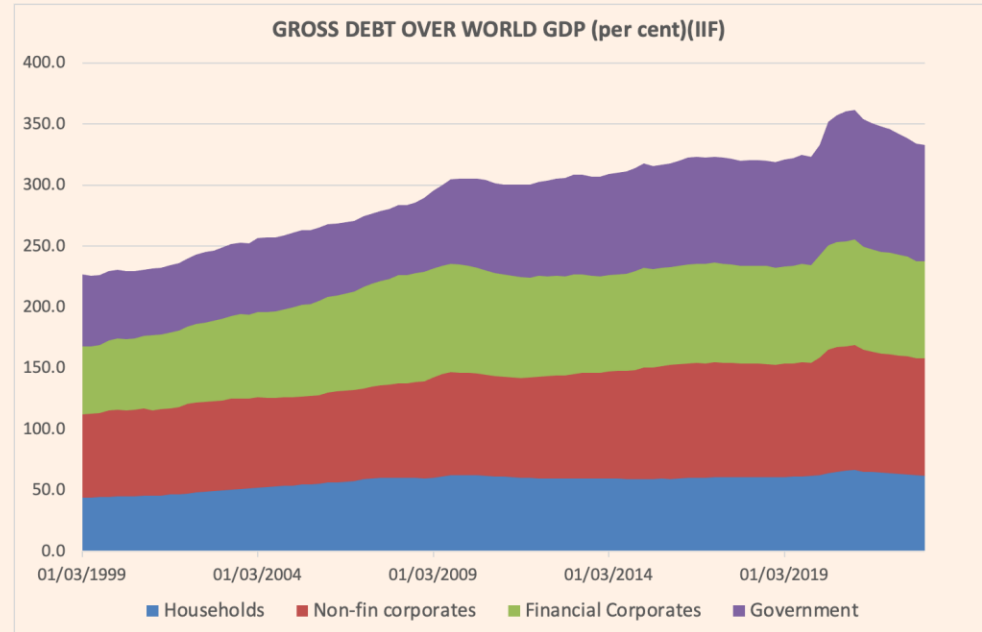


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Source: HadCRUT5 database; Met Office

4. Fragilities: debt

The extremely high levels of global debt is a fundamental fact. The ratio to global GDP reached an all-time high during the Covid crisis.



4. Fragilities: debt

Public debt has reached record levels relative to GDP in both high-income and emerging and developing countries.

Sovereign debt has reached historic levels

General government debt as a % of GDP



Aggregate series based on constant sample of 25 advanced and 27 emerging economies, weighted by GDP in purchasing power parity terms Source: IMF
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4. Fragilities: de-globalisation or “slowbalisation”

The period of growing integration ended in 2008. Now it is a more complex picture, but economies are being separated on several dimensions.

A previous era of globalisation turned into one of deglobalisation

Global merchandise trade as a share of GDP (%)



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Sources: Fouquin and Hugot (CEPII 2016), Our World in Data, IMF