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## 1 – FIVE KNOWN UNKNOWNNS ABOUT THE GLOBAL ECONOMY

Daniel Drezner of the [Brookings Institution](#):

Despite the bevy of powerful actors invested in knowing what the future of the global economy will look like, the quality of such forecasts has been extremely problematic. Even over the short run, both economic and geopolitical predictions have been far from perfect. The quality of long-range projections has been even worse. The result is a market for lemons in predictions: an inadequate supply of low quality forecasts. Despite a strong demand for thinking about the next generation's global economy, the supply has been insubstantial in every meaning of that word.

This paper examines why the ability to forecast the next generation global economy is so difficult, and offers up a different lens to think about the global economy for 2036. Far-range economic forecasting suffers from multiple flaws: the cognitive tendency to extrapolate from recent trends, the incentive to exaggerate the accuracy of predictions, and the failure to consider the possibility of discontinuous shocks. The deeper problem, however, is that many of the key drivers of generational economic change have little to do with neoclassical economics. Long-range projections require some evaluation of non-economic factors. In thinking about what the global economy will look like a generation from now, we need to consider factors that economists take as

“given”—such as the global distribution of power and ideas—as well as the interplay between economics and the grand strategy of great powers.

With so many uncertainties, accurate predictions about the contours of the global economy circa 2036 are impossible to develop in 2016. What can be done, however, is to catalog the known unknowns that will frame the way the world looks a generation from now. Five significant political economy questions stand out:

- the uncertain pace of technological innovation,
- the severity of the middle-income trap for developing economies,
- the resiliency of constraints on great power wars,
- the depth and political effects of economic inequality, and
- the durability of free-market democracy's appeal to the world's governments.

The combined effect of these known unknowns will determine whether the 2036 world economy looks brighter or darker than the world today. ...

The next generation world economy will depend crucially on the answers to the following five questions:

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1. Has the accelerated growth experienced by the developed world since the start of the Industrial Revolution come to an end?
2. Are there hard constraints on the ability of the developing world to converge to developed-country living standards?
3. Will geopolitical rivalries or technological innovation alter the patterns of economic interdependence?
4. Will income and wealth inequality persist going forward, to the point when political externalities cannot be ignored?
5. Will an alternative economic ideology supplant free-market capitalism as a viable universal model for large parts of the world? ...

### **CONCLUSION**

All five of these questions merit much further study in thinking about the next generation economy. Scenario-based planning based around different possible outcomes of these known unknowns could be one way to proceed in forecasting; some geopolitical analysis relies on such scenario-based planning. Of course, even five variables with binary outcomes can generate 32 different possible scenarios. This is far too complex for most consumers of forecasts.

Another possible way of simplifying would be to determine drivers common to more than one of these known unknowns. The pace of technological innovation, for example, clearly affects economic growth, but it also has concomitant effects on interdependence and inequality. This could reduce the number of

scenarios that planners would need to sketch out. Highlighting these known unknowns reveal some questions beyond the scope of this paper. Whether technological innovation will continue to be correlated with robust economic growth affects known unknowns about economic growth in the developed world, inequality, and the viability of free market democracy. Whether China's political system copes with its economic slowdown affects known unknowns about the developing world, interdependence, and the viability of free market democracy. And finally, the ability of the developed world to adapt to demographic and political pressures affects every known unknown listed above.

In conclusion, it is worth stressing the degree to which projecting the next generation economy requires analysis that goes far beyond economics. Of the five known unknowns listed above, only the first one could be considered to be an exclusively economic question. The future of the developing world depends as much on political institutions as it does on economic fundamentals. The probability of great power conflict is the province of international relations, not economics. The effect of inequality on the global political economy is a question that requires sociological and political analysis. And the question of whether liberal democracy will remain uncontested is a question for political theorists and philosophers. The answers to each of these known unknowns depend upon politics and culture as well as economics. This is a fact that both planners and prognosticators should consider as they develop their next round of forecasts.

- Market and industry analysis
- Strategic business direction
- Growth dynamics

- Trend identification and analysis
- Keynotes and presentations
- Proprietary research and reports

*Trend Analysis That Builds Business Decisions*

## 2 – FIVE FACTORS THAT COULD COLLAPSE THE AMERICAN EMPIRE

Todd Buchholz, author of [The Price of Prosperity: Why Rich Nations Fail and How to Renew Them](#):

Many people have written about poor countries that have fallen apart. But rich nations fall apart, too. In fact, nations are just as likely to unravel after periods of prosperity as after periods of depression. The 2016 presidential campaign appears so bitter precisely because so many Americans worry that the “other” party’s candidate will annihilate the nation.

I have found five forces that undermine nations after they achieve economic success — and they are biting down on the U.S. today. We have little time to spare to renew the nation. Whichever candidate wins in November better come up with tough and effective solutions.

### **FALLING BIRTHRATES**

As countries grow rich, people have fewer babies. (The average American woman now gives birth to just 1.89 children.) To keep up their lofty standard of living, citizens need new workers to serve them, whether as neurosurgeons in hospitals or as manicurists. This requires immigrants. But immigrants can splinter the dominant culture. So countries face either declining relative wealth or a fraying cultural fabric. Great empires of the past, from the Roman to the Venetian to the British, have faced this challenge — and failed to surmount it.

### **GLOBALIZED TRADE**

Nations cannot grow and stay rich without trading. Countries that fold themselves into a self-contained bubble grow fetid, like a badly aerated terrarium. Or a dank prison, which

pretty much describes North Korea. South Koreans, who believe in trade, are 17 times richer, live 10 years longer, and stand several inches taller than their neighbors. South Korea produces super-sharp Samsung flat screens, fine Hyundai cars and charismatic K-pop singers.

But there’s a downside to trade. It shakes the customs and character of the nation. Donald Trump has skillfully tapped into this anxiety and is right to ask whether trade deals like the Trans-Pacific Partnership are vigorously negotiated to boost the incomes of typical Americans, or simply to boost the ego of the president.

### **RISING DEBT LOADS**

As countries grow richer, they build bigger bureaucracies and inflate their debts. Here’s a puzzle I call “The Paradox of Theft”: As a family grows wealthier, it is less likely to fall into deep debt, default and bankruptcy. But the opposite is true of individual countries — wealthier nations may pile up proportionately more debt than poorer nations.

Amid the Great Recession of 2010, developing countries like Mexico and Russia had smaller debt burdens than Japan, the U.S. and the eurozone. Why do we borrow more? Because we can! And because today’s politicians aren’t held responsible for the debts they leave for our children and grandchildren.

### **ERODING WORK ETHIC**

When a rich nation shatters, people don’t go hungry. They just stop waking up early. The proportion of adults who want to work has been sliding over the last 17 years. In West

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Virginia, only half of working-age adults have a job. Between 2000 and 2013, disability claims across the country surged 43%. Even though jobs have grown less dangerous, the chances of a judge approving a disability claim has jumped 50% since 1980.

We are seeing a structural shift: Millions have decided they just don't care much for the idea of showing up for work in the morning and staying on the job until the end of the day.

To prod the unemployed back to work, I propose they receive a signing bonus if they accept a new job before their unemployment compensation payments run out.

### **THE CHALLENGE OF PATRIOTISM IN A MULTICULTURAL COUNTRY**

Unless rich nations discover and embrace their national characters, they won't survive. In many schools, the Pledge of Allegiance and "My Country 'Tis of Thee" have been pushed aside in favor of self-esteem chants. Characters like Columbus, the Pilgrims and George Washington have been disdained as

pillagers, rather than as symbols of exploration, religious freedom and courage.

To help ensure that all learn America's story and values, all immigrants and any U.S. student applying for a federal loan should be required to get their passports stamped at no fewer than five historical monuments or museums around the country.

### **IS IT TOO LATE?**

Should the U.S. and European nations simply hold a "going out of business sale" while the wealthiest individuals sneak off to private islands or to New Zealand? The odds are against us, as the Spartans, Romans, Ottomans, and Habsburgs would attest — if they were still around.

But as Bill Murray said in *Stripes*: "We're not Watusi. We're not Spartans. We're Americans, with a capital 'A'...that means that our forefathers were kicked out of every decent country in the world. We are the wretched refuse. We're the underdog. We're the mutts."

And we can win again.

## **3 – TECHNOLOGY TRENDS TO WATCH**

From the [Consumer Technology Association](#):

- Drones
- Virtual reality
- Smart devices
- Retail tech
- Smart homes
- Hollywood tech
- Smart cities

Dave Smith on [techinsider](#):

1. Cars are becoming smarter, cleaner, and more independent.
2. Wearables are maturing and getting more useful.
3. Virtual reality will enter the mainstream and change everything.
4. Tablets, laptops and desktops will continue to converge.
5. Cord cutting will keep getting easier and better.