# Gloom the theme of Davos conversations

*By Mark Swilling*

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*Pessimism pervaded this year's World Economic Forum. For one thing, the three global dynamics that underpinned optimism in Davos prior to the 2007/8 global financial crisis are gone. These were the firm belief in the triple pillars of globalisation, financialisation and migration, which used to be considered fundamental to growth but which now face a backlash. In their place is, for example, climate change, which creates a real sense of doom.*

Seasoned participants in the World Economic Forum (WEF) in Davos earlier this year referred quite a few times to the fact that there was a sense of gloom, compared to the atmosphere of optimism in previous years.
The Secretary-General of the United Nations summed up the reasons for this in his address when he said, "as the challenges become more integrated, the world is becoming more fragmented". Christine Lagarde, head of the International Monetary Fund, echoed this when she said the single biggest risk facing the global economy is the growing trade war between the two largest economies, China and the USA. She predicted a slow-down in global growth if this trade war gets worse, with major implications for developing economies.

However, as argued by Adair Turner, current head of the Institute for New Economic Thinking (INET) and former head of the UK financial regulator, the real underlying cause for gloom has more to do with the fact that the three global dynamics that underpinned optimism in Davos up until the 2007/8 global financial crisis are no longer in play. These were the rock solid belief that globalisation was good for development (access to capital, markets and cheaper labour); that financialisation (i.e. faster growth of the financial sector relative to the traditional primary and secondary sectors) is good for growth; and that migration will follow suit and won't be such a problem.

Today, there is a backlash against globalisation, financialisation led to the global financial crisis and migration is triggering racist reactions while millions float around the world stateless, homeless and precarious. Nothing has replaced the triple pillars of globalisation, financialisation and migration. Brexit, the China-US trade war and the anti-globalisation of Trump are reactive responses, rather than a reflection of a coherent strategic alternative.

The new dynamics at play that reinforce the sense of gloom are climate change, the potential impact of the so-called 4th Industrial Revolution (4IR), the politics of the 'precariat' and the build-up of financial liquidity in the global financial system because of a fear of investing in case something fundamental goes wrong in the global economy.

As far as climate change is concerned, there was a general acceptance that this is a major threat and it was often referred to as the cause of a sense of gloom. Indeed, in a global threats analysis based on a poll of views of WEF participants, climate change is regarded as the threat that »

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was both "most likely" and having the "highest impact". No-one calls into question the Intergovernmental Panel on Climate Change's conclusion that we have 12 years to trigger large-scale decarbonisation in order to prevent global warming by more than two degrees. That said, the dialogue is totally schizophrenic: sessions devoted to climate change (and related topics like post-Gross Domestic Product) earnestly validated the science and reaffirmed the need for urgent change. However, climate change and its implications were rarely, if ever, mentioned in all the other sessions on finance, economic growth, technology, regional economic dynamics and social change.

Remarkably, a panel of African presidents from South Africa, Ethiopia and Rwanda was all about foreign investment, growth and good governance with no reference to climate change and the green economy. Only the Secretary General of the UN fully integrated economic and environmental analysis in a satisfactory way.

Given that Klaus Schwab, the Founder and Executive chairman of the WEF, wrote the book on the 4IR, it is not surprising that this was a major focus of discussions in Davos. Although no-one can tell you what the 1st, 2nd and 3rd IRs were, and despite the poor definition of the 4IR in Schwab's book, in general the average Davosite would simply say the 4IR is about automation – replacing humans with robots. It is, in reality, far more than this, and it interacts with many other economic, socio-technical and socio-metabolic cycles.

The WEF did research on the jobs impact of the 4IR in 20 developed and developing countries and concluded that while 75 million existing jobs will be lost in the coming years, 133 million new jobs will be created.

The International Labour Organisation (ILO) launched a report on this topic at Davos, but provided no projections of this kind. Instead, ILO head Guy Rydar argued that it is not helpful to provide projections like this because that tends to "define a future as if it is waiting for us". Instead, he said, what will determine the outcome is appropriate policies that are tailored for each context – a much wiser approach.

This has major implications for Africa. African leaders, including Cyril Ramaphosa, repeatedly asserted their faith in industrialisation as the means to create the millions of jobs needed to harness the burgeoning African youth population. To trigger this, they argued, they need massive increases in Foreign Direct Investment (FDI). When pressed on the impact of the 4IR they made very general statements about training and technology development. In reality, if industrialisation means investment in manufacturing, and if those manufacturing sectors are located in globally open, competitive economies like South Africa, then those manufacturing sectors will be forced to be highly automated. So how will industrialisation create millions of jobs?

As we know, President Ramaphosa has set up a Presidential Commission on the 4IR. If this is dominated by South Africa's tech giants, the real challenges will not be addressed. It is like asking an arms company to plan for disarmament. Unfortunately, none of the talks by African leaders – including the star of Davos, Ethiopian President Abiy Ahmed – left me with a feeling that there is some new economic thinking coming out of Africa that is really appropriate to the African context.

This brings us to the third key cause of gloom, namely the politics of the precariat. There was a pervasive sense across many panels that "if only the barbarians were not at the gate, we could get on with the job of really fixing the problem". In general, what this referred to was the growth in electoral support for right-wing populist politicians who were anti-establishment, sceptical of globalisation and disruptive. Brexit, Trump and the rise of the right in Europe were the primary exhibits. The more careful observers did try to explain this phenomenon by referring to the causal links between financialisation, the global financial crisis and the shrinking middle class, and now and again – thanks to the exposure at Davos of the Oxfam report on inequality – to the fact that the wealth of the top 1% since 2007 has more or less doubled. A total of 26 people now own the equivalent of 3.8 billion of the poorest people – down from 43 a year earlier.

Guy Standing, the UK economist who wrote the bestselling book *The Precariat: The New Dangerous Class,* explained at a session devoted to new ideas in economics (of which there were none) that the precariat is a new class that feels highly insecure, anxious and permanently precarious. They feel, in short, one car accident, one health

incident, one job loss in the family away from destitution.

But it is a class comprising three very different groups. The most dangerous is the white male middle- and working-class worker who feels increasingly threatened by worsening economic conditions, a growing number of people of colour who can do their jobs, and a growing number of increasingly better educated women. They are angry, reactionary and misogynistic, but nevertheless shrinking – which is the good news. The second are the migrants – homeless, stateless, mobile, insecure, angry, and prone to outbursts of anger and protest that often turn violent. They are looking for a political home, and obviously feel totally alienated by the right-wing racist parties.

The third are the educated offspring of the middle class who have been promised a better life, but cannot find jobs. They join progressive movements about social justice and an ecologically sustainable environment, and some hive off into social enterprises. They also do not have a clearly defined political home.

What Standing does not refer to is the fourth category: the distinctly African precariat comprising mainly young people who have never worked, are poorly educated, live mainly in informal settlements and are behind the so-called '3rd wave of African uprisings' that have emerged in 40 African countries over the past decade or so.

Finally, there was a lot of hand-wringing about the unprecedented build-up of liquidity in the financial systems of the developed economies. In his ever-so polite but barely disguised disdain for British politicians, the Governor of the Bank of England pointed out that investment in the UK since the referendum has been flat. But don't worry, he said, there is more than enough liquidity in UK banks to withstand even a no-deal hard Brexit. This was a positive spin on a totally bizarre situation caused by poor governance, policy incompetence and demagogic politicians.

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The negative was spoken about often by officials in the multi-lateral system and private sector financial institutions, namely the incredible build-up of unspent cash because of rising fears and uncertainties about the future. As the head of United Building Supplies (UBS) put it, it is about fear that something can go wrong any minute, resulting in an instantaneous drying up of liquidity. Amazingly, these are decision-makers who do not fully understand a system that is too complex for anyone to fathom, but sense that any minute – like in 2007/8 – it can all fall to pieces. But this time, as the International Monetary Fund (IMF) has warned, the banks don't have the wherewithal to engineer another bailout.

Yet, virtually without fail, most of those in charge of the global financial system felt confident that it is far more robust than it was in 2007, and therefore can withstand coming shocks. In particular, they point to the clamping down on the short-term capital flows that caused so much instability; and, ironically, they see high liquidity levels as positive. But of course, high liquidity levels is the flip side of low investment levels, which causes weak growth. The IMF's lower projections for global growth are because investors are reluctant to make long-term investments in fixed assets – the kinds of investments, in short, that catalyse growth.

In one important discussion about the future of the global economy, Adaire Turner addressed head-on how to finance the transition to renewable energy and the green economy. He argued that those who are investing in these infrastructures tend to borrow money at between 8% and 12%, which is high. However, there are trillions of dollars that are invested in so-called safe investments like German government bonds at a negative real interest rate. As the head of UBS suggested, 90% of all financial assets generated negative returns in 2018! In other words, confidence levels are so low that investors are prepared to pay for their money to be kept safe. If, however, you want to redirect these investments into renewable energy to fund the large-scale decarbonisation required by climate science and policy, you will have to find a way to provide guarantees. This is where the European Union's infrastructure investment plan, the Juncker Fund, and similar guarantee funds, could play a crucial role. The same applies to Development Finance Institution (DFIs) and Sovereign Wealth Funds willing to accept subordinated debt in new blended finance structures aimed at redirecting finance into decarbonisation.

There were many discussions about infrastructure, with special reference to the so-called financing gap, which is usually defined as the gap between what is needed and what is being spent. It would be preferable if the gap was defined as that which exists between what is needed and the potential cash available if risk was mitigated by guarantees – what is the magnitude of the latter to leverage more investment? In the absence of any reference to the »

need for another Bretton-Woods-type Conference to fix the global financial system, all these discussions boil down to one simple idea: the need for public-private partnerships to unlock different types of capital in creative ways.

Well and good, but the devil is in the details. The Brazilians want none of this: with a blind faith in neoliberal economics, they are embarking on a large-scale privatisation programme to sell all the state-owned companies that are responsible for infrastructure to the private sector, in particular to foreign investors. Their model is simple: the public sector will fund social expenditure, while the private sector will fund infrastructure via the newly privatised companies. That is, of course, one option but not generally favoured in most places in the world – with China, of course, representing the polar opposite approach. Rather, the focus for most (even the Chinese) is on a creative blend of public and private funding, with DFIs playing a crucial role in packaging these deals. Obviously, the new BRICS Bank is key in this regard.

That said, by far the most interesting session on infrastructure was the one devoted to a discussion of China's mammoth so-called Belt and Road Initiative (BRI). The BRI is the Chinese Government's flagship investment and development project. It is championed by the President, and contributed to his confirmation as 'President-for-life' (to remove constraints on his ability to realise his dream project). It is the largest infrastructure development project in human history. It is the modern day reincarnation of the thinking that resulted in the construction of the Grand Canal to link North and South China to manage droughts. Forty countries have signed up, comprising 4.89 billion people: two thirds of humanity and 34% of global Gross Domestic Product. The total investment is projected to be US$4-8 trillion.

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The panel discussion, however, was quite critical. Firstly, there has been mission creep: any project now is part of BRI, diluting its impact. Secondly, there is growing resistance from participating countries who realise they have to pay in quite a bit, but the returns to them are less clear. Thirdly, there are massive coordination problems – regulatory regimes in each country are different, and it will take decades to harmonise customs and logistics management. What is significant, however, is the sheer audacity of the vision: it projects onto the world the construction-driven logic of economic growth that has been key to China's growth. It is an engineer's vision, but is it appropriate in a world that is shifting from physical capital to digital capital as the primary means of accumulation?

On the last day of the meeting Prof Ngaire Woods from Oxford University shared her reflections on the week's discussions, and struck a more positive note. Firstly, she argued, elites are clearly disconnected from society in general. Instead of really reconnecting experientially to personally experience what the broad mass of society experiences, they remain aloof and distant and voice surprise when society reacts in ways that were not predicted. She urged elites to reconnect with society, citing examples of Chief Executive Officers who did exactly that. I wondered whether this would force them to realise that they should do the unthinkable – 'pay their damn taxes!', and even support increased taxation so that governments can deliver the education and health facilities that can really make a difference – this being the focus of the Oxfam Report.

Secondly, as crisis management has become almost a permanent feature of the post-2007 period and is set to continue, she has observed the decline of the alpha male CEO. The reason, she argued, is obvious: the authoritarian alpha male CEO is not as good as the more inclusive relational women CEO at managing crises. However, crisis and uncertainty also results in a pervasive desire for certainty, something the new populist alpha male political leaders promises and so wins support. So as the alpha male declines in the board room, he becomes more prominent in the cabinet.

Finally, there is a need for a new balance between interests and values. The world today is dominated by China and the USA: the USA is democratic at home (sort of), and authoritarian abroad, while China is the opposite. The rebalancing of global political power dynamics is unlikely if major powers only pursue their own immediate nationalist interests. The values of multilateralism will need to be defended and rebuilt.

To conclude, there were no new grand narratives floating down from the Davos Alps that could enlighten a darkening world. There is a deep sense of fear and uncertainty as the chattering classes go about their business with aplomb and urbane politeness. On the margins here and there, people like Marianna Mazzucato, Adaire Turner, the Prime Minister of New Zealand and Oxfam talk about more radical alternatives. But as long as judgements about the future are conditioned by what is needed to protect financial assets, satisfy the rating agencies and accelerate automation, the real challenges will not be addressed. NA