

An optimistic note

Economists in general, and risk specialists in particular, are often viewed as a gloomy lot. Nevertheless, David Rowe offers a contrarian and basically upbeat view of the long-term outlook

Economists have long been viewed as a rather depressing lot, prone to nitpicking calculation and governed by a dismal view of the human condition. Rather than be professional Cassandras, however, I think economists and risk managers should seek to play the role of a psychological flywheel to those around them. Organisations and larger societies are prone to waves of optimism and pessimism that too easily assume the guise of accepted wisdom. Challenging both views is an important, if often thankless, role for a serious economist.

In the 1920s, Nikolai Kondratiev argued for the existence of a long 50–60-year peak-to-peak cycle in economic activity. A casual reading of history leads me to believe that a similar, and probably related, psychological long-wave cycle also prevails. At the moment we seem to be dominated by the pessimistic phase of this cycle, with two themes playing a leading role. The first is global warming and the second is ageing populations and rising old-age dependency ratios in much of the developed world.

Many argue that rising CO₂ levels will lead to a significant rise in global temperatures, triggering crop failures, wide-spread famine and violent conflicts over land and water resources. Efforts to reduce CO₂ emissions meet determined opposition not just from global warming sceptics, but also from those who are only beginning to enjoy the material fruits of economic development. Campaigns to reduce emissions can and will have some impact, but the limits to how much they can accomplish are becoming increasingly obvious. Only an authoritarian programme likely to rupture the bonds of social harmony, both nationally and internationally, would be likely to prevent a more than two degree Celsius rise in average global temperatures.

The second issue, namely an ageing population, poses other long-term challenges. Birth rates are below replacement levels in many developed parts of the world. At the same time, breakthroughs in geriatric medicine continue to extend life expectancy. The inevitable consequence of this combination is a declining ratio of the working-age population to those 65 and over.¹ This raises particularly difficult questions of how those in their active working years will cope when each is responsible for providing half or more of a retired person's social support.

At the risk of being branded a Pollyanna at this late stage in life, I believe mankind will cope with both these challenges. I think it is

unrealistic to think CO₂ emissions will be reduced dramatically by a drastic curtailment in living standards. Despite much brave talk, when push comes to shove, there simply is not sufficient support to follow through with such short-term deprivation in the interest of an uncertain future benefit.

Looking at the long sweep of economic history, however, I am convinced technological breakthroughs will dramatically upend the energy market well before 2100. Solar energy is already approaching economic

parity in some areas. A great deal of research is currently underway, and immense economic rewards await those who create major improvements in the efficiency of solar-to-electricity conversion. Equally important is improved electricity storage efficiency. If anything, this is a more serious challenge than improving solar conversion rates, but economic incentives are very much in play here as well.

It seems likely to me that important breakthroughs in both areas will arise in the next 20 to 40 years. Taken together, these advances would transform how energy is produced and utilised. Many industries would be profoundly disrupted in unpredictable ways, but one impact is clear – demand for fossil fuels would collapse without the need to impose severe limitations on economic wellbeing.

I also believe the dependency ratio problem will prove tractable. One significant impact of a scarcity of labour will be to lessen political resistance to labour-saving advances such as wider deployment of robotic technology and innovative business models such as Airbnb and Uber. The result is likely to be a political environment increasingly conducive to improved productivity.

Is any of this vision assured? Of course not, but it is useful to recognise that many forces are at work that are likely to mitigate the commonly accepted dire scenarios. Thomas Malthus's predictions in 1798 proved badly mistaken, as were those of *The Limits to Growth* report from The Club of Rome in 1972. I believe humanity's ingenuity and capacity to cope with major challenges is far from exhausted. Flippant disregard for the dangers on the road ahead would be foolish, but it is important to recognise that favourable surprises lay in wait as well. **R**



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¹ For 'more advanced countries', the number of working-age people for each retirement-age person has fallen from 5.6 in 1980 to just under 4.0 today. The UN Population Division expects this to fall to 2.7 by 2030 and 2.3 by 2050. For Germany and Japan, the figures are even more dramatic – by 2050 this ratio is expected to fall to 1.7 in Germany and 1.4 in Japan.