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THE SIX HEADWINDS THREATENING THE GLOBAL ECONOMY

Dambisa Moyo

While public policy has managed to contain the risk of economic destitution in the wake of the financial crisis, there remain manifold long-term, systemic headwinds plaguing the global economy.

Yes, years of stimulus and ultra-low interest rates have finally brought the global economy to a point of rising employment and stronger economic growth.

IMF and World Bank forecasts for global growth increased in January prompting a fresh wave of optimism. This revival in growth prospects is increasingly synchronized across advanced economies—notably in the US, EU, and Japan, and the leading developing countries, such as China, India, and Brazil. At a more granular level, many economies are seeing increases in capital investment and private consumption, as well as notable declines in unemployment.

Yet, 10 years after the crisis, the global economy faces six structural headwinds that, left unchecked, promise to derail economic progress and damage living standards in the years ahead.

First is the threat of technology creating a jobless underclass, with predictions of millions of job losses—particularly for those under skilled for the 21st century, tech-led economy. Second are the worsening population dynamics harming both the quality and quantity of the workforce. Third is the growing risk of natural resources scarcity as the rising world demand for commodities is unmet by the shrinking global supply of arable land, potable water, energy, and minerals. Fourth is widening income inequality and declining social mobility, which public policy—over multiple decades—has proven largely impotent to address. Fifth is chronically unsustainable debt. In the United States, for example, every class of debt—government, corporate, household (including credit card and consumer loans), auto-loans, and student loans—are each over US$1 trillion. At a global level, debt to GDP exceeds 340 percent, up from 280 percent in 2002. Finally, productivity, which accounts for roughly 60% of why one country grows and another does not, has continued to steadily decline over the past decades across most sectors in virtually every major industrialized economy.

Each of these factors have in the past supported and fueled growth, but now they are threatening to hold it back. New technologies, for instance, once powered industrialization and increased production efficiency. Even though workers lost jobs in the transition, they found new work in new regions and new industries. Today, however, jobs are disappearing at an increasing rate due to new technologies without any clear alternatives to absorb the workforce.

And while the demographic forces of the past supported economic growth, the population shifts of today pose a challenge. The baby boom of the 1950's was positive when that cohort was of working age, but is now a drag on growth and contributing to ballooning pension and healthcare costs, and many of that age-group are older and retired.

What follows is a detailed analysis of each of these six obstacles to growth to prevent them from wreaking deep economic damage and a likely global depression. First is the advent of the new technology and its concomitant risk on jobs.

The Threat of Technology and the Jobless Underclass

In 1930, the British economist John Maynard Keynes predicted that economic growth and "technical improvements" would lead to a 15-hour workweek by 2030. Today, less than 15 years from that date, technological innovations continue to increase the possibility that production may be able to take place without requiring human workers at all.

More recently, a 2013 report from Oxford Martin School estimates that 47 percent of jobs in the US will be lost to technology by 2033. While a 2017 report by the Center for Global Policy Solutions expects that more than four million US jobs will likely be lost with a rapid transition to autonomous vehicles. One sector of the US economy particularly vulnerable to automation, in the form of driverless vehicles, is the trucking sector (alone estimated to have 3.4 to 4.5 million drivers), including long-haul truckers, bus drivers, and cab drivers.

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In addition to transportation and storage, the sectors in which jobs are most at risk are manufacturing and retail, according to a 2017 PWC report, which also calculates that by 2040 robots could take 38% of jobs in the US, 35% in Germany and 21% in Japan. Japan's workforce already includes over a quarter of a million robots. China's automation trajectory is similarly daunting in its implications. Reports have suggested that computerization puts more than three-quarters of jobs in China at "high risk" of automation.

Technological advances are, of course, not unambiguously bad. They can have very positive effects on economic growth and living standards. At a macro level, innovation transforms the way we communicate, travel, borrow and lend financial capital, and the way access healthcare and education. Automation ensures faster and better delivery of public goods and can yield considerable economic benefits. Moreover, at a micro level, technology can help a company increase its revenue by enhancing delivery of their goods and services to their customers. It can also help enhance the manner in which a business operates and survives, cutting its operating costs, and thus increasing the company's profitability.

But for every gadget that enables us to process data and information faster and more cheaply, there is a burgeoning social and public policy challenge of rising unemployment that has dire consequences for growth.

In their 2015 report on automation, Carl Benedikt Frey and Michael Osborne report that "the three leading companies of Silicon Valley employed some 137,000 workers in 2014 with a combined market capitalisation of $1.09 trillion. By contrast, in 1990 the three largest companies in Detroit had a market capitalisation of $36 billion while collectively employing about 1.2 million workers." Silicon Valley is generating multiples of value using a fraction of the number of human workers than in Detroit—a hub that was once a manufacturing engine of America's progress.

At a potentially higher risk for disruption in the coming years than other sectors is the financial sector. Through robo advisors and electronic market-making, numerous workers are already being replaced in favor of automated platforms. A 2016 report by Citigroup, the fourth-biggest U.S. bank, said that 40-50% of U.S. and European bank workers could lose their jobs within 10 years, mainly due to retail banking automation.

Automation and new digital technologies do not only threaten job deterioration, they also create new risks of cyber- and bioterrorism that could hamper economic growth. The Government Accountability Office reported that federal data was compromised in "information security incidents" 77,183 times in 2015, compared to 5,503 in 2006.

Historically, technology advances have on balance created economic growth and improved living standards. The US economy has transitioned from being primarily agriculture based (approximately 50 percent of the US population was employed in some aspect of the agricultural sector in the early 1900s), to manufacturing, then to services.

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Today, over 80 percent of America's workforce is in the service sector, around 20 percent work in manufacturing and less than 2 percent of Americans work in farming. Research by Bain, the consulting company, concludes that rapid automation of the US service sector could eliminate jobs two to three times more rapidly than in previous transformations. Moreover, looking ahead, the US economy, and indeed the global economy as a whole, will continue to transition into a more digital economy, implying that the threat to jobs becomes more acute at precisely the time when there is high and rising global unemployment amongst the young—when the International Labour Organization estimates that there are 71 million people aged between 18 and 23 unemployed worldwide.

It is clear that the advent of technology brings with it considerable risks to jobs and cyber security. However, the most successful companies of the future will be the ones that harness and exploit technology, while ably navigating and mitigating digital risks.

The second economic headwind is the rapid shifts occurring in the quantity and quality of the world population.

Demographic Dynamics

In January, 1960, a *Time* Magazine cover story entitled "That Population Explosion" heralded the fact that the world's population had reached 3 billion.

The milestone underscored the unprecedented rate of the world's population growth in just one generation. Whereas it took around 125 years for the human population to increase from 1 billion to 2 billion, the increase to 3 billion took only 35 years.

By current forecasts the world population will top 9 billion people by 2050, expanding by an additional 1.2 billion over the next twenty years—an almost 30 percent increase in the world population in a mere forty years. Today, India alone is adding 1.3 million people a month to its population, and the global populace is rising by 80 million each year—equivalent to adding more than a whole United Kingdom annually. Moreover, the United Nations projects that the world population will to continue to grow apace until 2100 when it will plateau at around 11 billion people.

The pace at which the world population is growing will gradually slow, as the UN projects women almost everywhere will bear fewer children by the middle of the twenty-first century. Already the global average is 2.5 children per woman, down from 4.3 in the 1970s, and is expected to decline to just 2 by 2100. Thus the speed and scale of the population growth spurt pose a unique and unprecedented threat on the global economy. For example, the near term pressures exerted by the rising global population on the limited supply of global resources are meaningful. The resources imbalance will put pressure on commodity prices to rise, and this inflationary pressure could have negative consequences on longer-term economic growth and living standards.

The rising quantity of retirees—who are living longer—versus the working age population also promises strain on the global economy as fewer workers can productively contribute to economic growth. By 2050 there will be 64 countries where more than 30 percent of the population will be over 60 years old. In fact, in Germany, Spain, Italy, and Japan, over 50 percent of their populations will be above 60 years of age. Japan is already combating a negative population growth rate, and the country is expected to lose a third of its population over the course of the next 50 years, with negative consequences for its labor market and economic prospects. Without a young workforce, economic progress will stall. A country populated by fewer young and able-bodied workers will inevitably face the prospect of labor shortages, lower productivity and slowed economic growth.

Global life expectancy is expected to rise to 77 years by 2045 from around 71 years today. As life expectancy grows, so too do the associated costs of old age—notably mounting healthcare and unfunded pension costs, which act as a drag on economic growth. In the US, the social security bill (the federal government's public pension obligation) was close to US$900 billion in 2015, making it the largest single item in the annual federal government budget, and representing approximately 25 percent of federal expenditures (up from 0.22 percent during World War II).

The challenge of ageing populations is not just the bailiwick of the rich, industrialized world. The UN's latest population forecast estimates that the world median age is due to rise from twenty-nine to thirty-eight by 2050. Meanwhile, China risks getting old before getting rich, with some estimates suggesting that half of China's population will be fifty years old or older by 2050. According to the UN's Research Institute for Social Development, "currently, Europe has the greatest percentage of its population aged 60 or over (24 percent) but rapid ageing will occur in other parts of the world as well, so that by 2050, all major areas of the world except Africa will have nearly a quarter or more of their populations aged 60 or over."

It is not just the sheer quantity of people that poses a threat to the global economy and stability, it is also the *quality* of the human workforce that is a problem, and emerging as a further drag on global growth. Decades of underinvestment in quality education have churned out a working-age population ill-equipped to work or contribute effectively to the modern economy.

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The global consulting firm McKinsey summed it up best: "The persistence of these educational achievement gaps imposes on the United States the economic equivalent of a permanent national recession." For the first time in America's history, its next generation of workers will be less educated than its last. The OECD's Programme for International Student Assessment (PISA) is a test administered to 15 year olds throughout the world to compare reading, science, math, and other skills. As of 2015, US students rank 30th among the 35 OECD members in math skills. Without a dramatic course change, a generation of US students will enter the workplace ill-equipped to compete on the world stage. Meanwhile in the UK, approximately 826,000 people are deemed to be "Not in Education, Employment, or Training" (NEETS). These individuals are largely unskilled, unemployable, and increasingly disaffected.

While a young, well-educated workforce should be an asset to developing nation, stalled economic growth makes them a burden on society and a further drag on economic growth.

Natural Resource Scarcity

Commodity resource scarcity is the third headwind threatening the global economy. The burgeoning global population and rapid urbanization around the world are placing supply pressure on arable land, potable water, energy, and minerals—which are all scarce, finite, and depleting. The combination of greater global demand and a shrinking global supply of commodities poses an additional threat to global economic growth.

Today, the greatest proportion of untilled, arable land in the world (60 percent) is in Africa. In comparison, China, with 1.3 billion people, has only an estimated 11.3 percent arable land. Potable water is in increasingly short supply. Although 70 percent of the earth is covered by water, about 97 percent of this water is too salty even to be used to clean toilets.

Water is essential not only for drinking, but also for manufacturing, energy, and food production, thus water shortages pose a risk to economic growth. The risk of shortage is why such countries as China and Saudi Arabia are investing the most in desalination and are at the forefront of efforts seeking a resolution to water scarcity.

Beyond land and water, resources like minerals and energy are becoming ever harder and more expensive to acquire having tapped out more accessible resources. In the quest for mining and energy resources, producers are faced with more politically unstable, hard to navigate and difficult terrain. Moreover, as governments around the world face mounting fiscal challenges, the risk of expropriation of the producing assets also rises.

These supply side constraints of arable land, potable water, energy, and minerals is only half of the equation—demand for natural resources is the other half. There are numerous factors that influence the demand for commodities, such as the weather (hot summer months can increase energy demand to support air-conditioning), and commodity substitutes including innovation, which can add alternatives such as solar and nuclear power to the traditional suite of resources.

To this list are three fundamental factors that place additional pressure on natural resources: the world's growing population, urbanization, and rising global wealth, particularly across emerging markets.

As detailed earlier, population growth over the past 50 years has been uniquely rapid. As demographers attest, this is a phenomenon never seen in history or pre-history, and one never to be seen again once the world's population plateaus at 11 billion in 2100. A swelling global population means more people, more workers, more consumption, and a boost for growth. However, the current population dynamics could entail more commodity scarcity, especially in a world of finite resources.

Urbanization, too, promises to create even greater demand for resources. By 2030, an estimated 60 percent of the world's population will live in cities. The number of cities of 500,000 inhabitants or more is projected to grow by 30 percent in Asia and 80 percent in Africa. More generally, across emerging markets, explicit and managed urbanization policies are underway. For example, the Chinese government has publicly stated policy targets that will increase the number of cities with at least 1 million people from the current total of around 80 to 221 cities, and over 20 cities with at least 10 million people each. To put this in context, Europe and the United States together have only 10 cities with at least 1 million people each.

Urbanization has generally been seen as more efficient for the delivery of goods and services. Larger numbers of people congregating in dense cities is regarded as good for growth, considering the demand for commodities rises as population density increases. Essentially, not only do cities deliver goods and services more efficiently to their inhabitants, but they also demand more natural resources than less densely populated areas, as a city of 1 million people requires more commodities than a town a thousand.

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Furthermore, urban areas are generally associated with higher per capita incomes (for example, urban per capita incomes in India are at least twice as high as its rural areas), which lead to higher consumption of white goods (such as refrigerators and washing machines), food, energy, telecommunications, and water.

Finally, the global population in its entirety has also gotten wealthier over recent decades. This newfound wealth is creating further demand for resources. Rapid economic growth across the emerging world—both on the back of population growth and increasing wealth—has been a catalyst for greater demand for commodities like food, mobile phones, indoor plumbing, and cars.

There is a long history of concerns of how natural resources availability would be unable to keep pace with population demand. This clamor dates as far back as 1798, when Thomas Malthus worried about how the global population growth would outstrip commodity supply. Since then the Club of Rome in the 1970s and Peak Oil proponents have joined this chorus, even as the world has been bailed out of crises, often by technological advancements. Even so, potential new sources of resource supply—for example, shale oil—are subject to volatility. Such innovations may mitigate the risk of commodity scarcity over the longer term, but are unlikely to eliminate fundamental concerns in their entirety, which presents the increasing risk of greater conflict in the future. In the next ten years, water shortages will contribute to social disruptions and political instability, which in turn can fuel conflict.

The United States National Intelligence Council Report, for example, warns that more resource-based conflicts may be on the horizon. The US Director of National Intelligence has warned of water shortages in a number of countries—particularly those that rely on the Nile, Tigris-Euphrates, Mekong, Jordan, Indus, Brahmaputra, and Amu Darya. Over the next decade, many large and significant countries will experience severe water shortages, deteriorating water quality, or floods, and this could fuel political instability and even state failure.

The effort to manage scarce natural resources and address the challenge of climate change creates pressures to restrict growth and has created international disputes over the sort of growth that is appropriate and sustainable. After all, from the lens of many environmentalists, economic growth itself is degrading the planet. Meanwhile, economists on the other side of the debate worry that growth will be damaged by over-prioritization of environmental concerns. There exist compelling arguments for "green growth"—the idea that economic growth can be enhanced by addressing climate change, CO_2 emissions, and water scarcity—yet the debate between environmentalists and economists still rages. Resolving this tension is key to addressing the natural resource headwind and setting the global economy on a trajectory of higher economic growth.

Income Inequality

Worsening inequality is the fourth headwind buffeting the global economy. A 2015 Oxfam report proclaimed that the richest 1 percent in the world owns nearly half of the world's wealth, and their 2017 report announced that the 8 richest people are worth more than the world's poorest 50 percent. Behind the widening gap in wealth is an increase in income inequality between the richest and the poorest, which is harmful for the growth prospects of the global economy.

According to the OECD, the world's leading industrialized economies have lost a combined 8.5 percent of GDP over the last 25 years because of worsening income inequality. By the OECD's estimates, income inequality has accounted for a decline in economic growth of the order of approximately 6 percent for the US, and 9 percent for the UK and Norway, respectively.

To be sure, over the past few decades, inequality between countries' incomes has actually improved, as poorer economies have posted significant economic growth, converging toward average income levels in wealthier countries. However, *within* these countries, income inequality has worsened considerably. In the US, for example, the average income of the top 1 percent is 14 times higher than the average income of the rest of the population. In 1978, it was just 10 times higher. *Forbes* Magazine annually lists the 400 wealthiest people in the US, and analysis shows that the members of the 2015 list had more wealth than the bottom 60 percent of the US population, at US$2.34 trillion.

Worsening income inequality has pernicious effects. Lower living standards for the individual on the lower end of the spectrum are felt by a society as a whole, and widening inequality can lead to mistrust in the system and political instability. It is these aspects of worsening income inequality that hinder growth. Wealth and income inequality eventually seep into differences in educational and health access and attainment, and even political inequality—even in a democratic system. For instance, according to *The New York Times*, just 158 families in the US account for approximately 50 percent of the money that funded the 2016 political campaigns.

Despite the rising importance of income inequality, public policymakers continue to struggle to address it. There are at least three key issues that complicate the income inequality debate: first, that inequality appears to plague both capitalist and non-capitalist economies; second, that social mobility has declined, limiting the ability or people to improve their lot in life; and third, even within market capitalist countries, neither left-leaning tax-and-spend redistributive policies, nor right-leaning low tax policies have curtailed the trend of worsening inequality. Each of these angles warrants consideration in turn.

First, consider the fact the US, the largest economy in the world with a GDP of US$20 trillion, with market capitalism as its economic stance and liberal democracy as its political approach, possesses income inequality fairly similar to that of China, which has deprioritized democracy

and has state capitalism as its economic ethos—with US estimated at 46.1, and China at 42.2. Moreover, although US income inequality has worsened over the last decade, China's has improved, because its political class has deliberately enacted policies targeted at improving it.

Second, the income inequality picture/outlook is further complicated by the fact that social mobility, which has historically been key to improving income inequality, has worsened over past decades. For example, in the US, over the past 30 years the probability that someone born into the bottom quarter (25 percent) can make it to the top quarter has halved. Moreover, if born into the lowest 20 percent you only have 5 percent chance of making it into the top 20 percent without a college degree. Without addressing social mobility, resolving income inequality is nearly impossible.

Finally, despite attempts to combat income inequality by both left-leaning and right-leaning policies, the income inequality debate continues unresolved and income inequality has continued to widen in many countries. In broad terms, left-leaning politicians tend to prioritize redistributing income through (higher) tax-and-spend policies that are designed to reduce the gap in incomes and wealth. In recent discourse, the idea of a universal basic income (UBI) where all citizens of a country receive an unconditional sum of money, from the government, is an approach that has garnered a lot of attention. Meanwhile, more right-leaning policies are guided by the premise that income inequality can be reduced over time as long as the rich are incentivized to create jobs and invest in the economy. After all, they argue, a society's wealthiest do, and should be encouraged to, invest and create opportunities that enhance the living standards of all in society, including the poor. Therefore, their supply-side policies include keeping tax rates low. However, neither of these policy frames have stemmed the tide of widening inequality over time, particularly in developed economies. Worse still, in a recent study covering thousands of years of history, Stanford Professor Walter Scheidel concludes that mass violence and catastrophes are the only forces that can seriously decrease economic inequality.

Unsustainable Debt

Virtually every class of US debt—government, corporate, household, auto loans, and student debt—reached record highs in 2017, with every category now exceeding US$1 trillion. The chronic levels of US debt have led the US Congressional Budget Office to caution that both US debt and deficits will likely double over the next 30 years, ballooning to unsustainable levels.

The US is not alone in its debt spiral. As McKinsey Global Institute has reported, since the financial crisis, "Global debt has grown by USD $57 trillion … raising the ratio of debt to GDP by 17 percentage points." This steep increase reflected, in part, the growing use of debt as a tool to address the financial crisis.

Borrowing money for country or corporate investment in the present can lead to future economic gains, especially if borrowing makes the difference between investing and not investing. Taking on debt can help pay for important public investments in education, healthcare, and infrastructure. In this way, debt can serve as a catalyst for future economic growth.

However, the relationship between debt and growth is not linear, so taking on more and more debt does not translate into higher future growth ad infinitum. With global growth relatively low on a historical basis, countries are taking on debt at a faster rate than their economies can expand, so that the combination of slow growth and fast-rising debt can prove damaging.

Policymakers continue to grapple with the complex relationship between debt and growth, and at what point debt becomes a hindrance rather than a help to economic progress. In "Growth in a Time of Debt," an extensive study covering over 200 years of history, Harvard University professors Reinhart and Rogoff concluded, "when external debt reaches 60 percent of GDP, annual growth declines by about two percent." Debt crises not only crush existing debt holders by rendering their bond holdings worthless, they also discourage new capital from flowing in.

As countries around the world have assumed more debt, the debt debate has moved from the periphery of policymaking to the fore. Even in the case of a country like the US with a global reserve currency, reasonable people agree that amassing unsustainable debt constrains a nation's economic growth.

Ultimately, there is a short list of prescriptions for escaping the precarious situation of unsustainable debt. The majority of those prescriptions, which include outright default, fiscal austerity, and bailouts, all further contract the economy and worsen prospects for economic growth. Only growth itself, including debt-financed growth if managed in a sustainable way, can lift countries out of high indebtedness in a manner supportive of (or at least not harmful to) a country's prospects for long-term prosperity. The risk of global debt today is that few of the world's important economies are pursuing a path of sustainable debt.

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Declining Productivity

Of the three key drivers of economic growth—capital, labor, and productivity—productivity explains roughly 60 percent of why one country grows and another does not. However, despite technological advances, which should speed up productivity, it has declined across most sectors in major industrialized economies over the past decades, thereby creating a sixth headwind for the global economy.

Productivity is equal to a unit of output per worker—that is, output divided by the number of workers. So if one country can generate the same amount of unit GDP output as another can by employing fewer workers, it is regarded as having a relatively higher rate of pure productivity.

Globally, productivity has been on the decline for over 40 years. In the 1960s and 1970s, G-7 economies on average recorded a 4.4 percent increase in output per hour worked every year, according to *Foreign Affairs*. By the 2008 financial crisis it had fallen to 1.8 percent, and fell further to 0.4 percent by 2015.

Reversing the productivity decline is central to resolving the world's economic malaise and improving economic growth prospects. However, fixing the dramatic and persistent collapse in productivity is a puzzle for the economic profession, particularly as there is disagreement as to whether productivity is actually in decline.

There are at least two *bearish* arguments that the decline in productivity is real, and two more sanguine, *bullish* arguments (mainly around measurement) for why productivity, far from declining, may in fact be increasing.

Bearish analysts suggest that fundamental shifts in the structure of developed economies, notably the evolution from manufacturing to services, have forced productivity lower.

As manufacturing has replaced many workers with automation, and declined as a share of the economy, its impact on overall productivity has fallen. Meanwhile, services has become the dominant sector across developed economies utilizing a larger number of workers, dragging down productivity. Given that the service sector is the largest proportion of the US economy, for example, this "mix-shift" problem is a notable factor in the declining trend of overall productivity.

In the US, services accounted for nearly 80 percent of U.S. private-sector gross domestic product (GDP), or US$9.81 trillion in 2009, while services jobs accounted for 84 percent of U.S. private-sector employment in 2010. The share of the service jobs has grown steadily: from 64 percent (46.1 million jobs) in 1970, to 84 percent (112.12 million jobs) by 2010. Conversely, the manufacturing/agriculture economy shrunk from 33 percent of total employment in the post-war period to 12 percent in 2009, down to 8.8 percent in 2013.

In addition to this mix-shift argument, demographic shifts also explain declining productivity. The cohort that is aging out of the workforce has more skills and experience than younger generations, leaving the workforce lower skilled, less experienced, and under-qualified. As a result, greater numbers of employees are necessary to yield the same quantum of unit output, pushing productivity downwards and ostensibly hurting growth.

Despite the persuasive evidence that productivity is falling, others put forward two bullish arguments, suggesting that productivity is not falling, and could in fact rise. Both of these views tend to revolve around claims that productivity is being mis-measured and not adequately capturing productivity gains accruing to the economy.

For instance, technology enhancements that have occurred across many sectors may not be visible in GDP calculations. For example, Wikipedia, whose contributors are not paid, certainly raises productive output for its users, but these contributions would not impact GDP statistics.

There is also a question of timing, and the period over which productivity statistics are calculated. Those who believe that output per unit worker is rising make the point that current GDP has a built-in time lag that does not fully reflect the positive impact of technology. Much in the way that it would have taken industrial factories, and, for that matter, society as a whole, many years to adopt and absorb the scale and reach of the benefits of electricity, the global economy has yet to appropriately absorb the dollar-value benefits of such technological innovations of digitization such as online commerce and social media, which could be considerable. For now this means that the "bulls" believe that productivity numbers, and by extension GDP estimates, are artificially low.

For all of the debate surrounding productivity, it is apparent that productivity has meaningfully declined over the past decade. Even if there is some truth to the notion of mis-measured and underestimated productivity, the difference would not be enough to alter the overall picture of declining productivity.

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The implications for economic growth of slow and slowing productivity are severely negative. According to a McKinsey report on global growth, "even if productivity were to grow at the (rapid) 1.8 percent annual rate of the past 50 years, the rate of GDP growth would decline by 40 percent over the next 50—slower than in the past five years of recovery from recession. The global economy expanded sixfold in the 50 years after 1964 but will grow only threefold between 2014 and 2064, making it more difficult to meet social and debt obligations. To compensate fully for slower employment growth, productivity growth would need to be at least 80 percent faster than it is currently, at 3.3 percent a year."

The threat of these headwinds is heightened by the underlying mismatch between the nature of these economic challenges and the purview of the policymakers. In particular, the economic headwinds are long-term, intergenerational and structural, whereas the horizon of the politicians/policymakers charged with addressing these factors is short term and largely hitched to short electoral cycles.

If unaddressed, the long term economic headwinds will continue to undermine the foundation of the global economy, leaving it increasingly vulnerable to the vagaries of short term policies and their immediate effects on the financial markets. This tension poses serious questions to corporate leadership in how to manage risk and determine the most rewarding capital allocation on a risk-adjusted basis. Specifically, going forward, the most successful companies will be those that recognize the risks of policy myopia, while at the same time identifying, quantifying, and adequately mitigating the longer term economic headwinds.

To be sure, these headwinds have been flagged in the past, but mainly at the periphery—by academics and public policymakers. It is impossible to predict when these headwinds will become powerful enough to trigger a global economic crisis. However, as time passes, their impact on the global economy and business will be more acutely felt.

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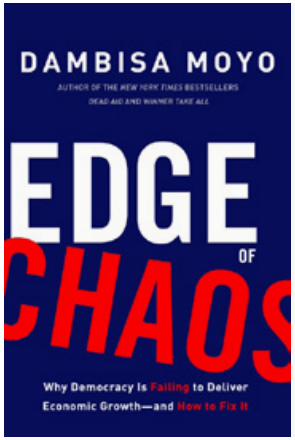

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