AND ANOTHER THING...

A LOOK AT THE NEXT 20 YEARS

Here's the thing. When Frontier was born, the output of the developed G7 economies – the US, Japan, Germany, France, the UK, Italy and Canada – was about twice the size of the output of the emerging E7 – China, India, Indonesia, Brazil, Russia, Mexico and Turkey. Now the two groups are level pegging. By 2040 it is likely that the Es will be producing twice as much as the Gs.

China's GDP, measured in purchasing power parity terms, is already larger than the output of the US. By 2040, the country that has for so long had the world's leading economy will probably only be number three in the pecking order, outgrown by India too. Until this year, the European Union was the biggest single market in the world – the threatened departure of the UK pushes it down the list too.

Economic power is shifting a long way east from Washington DC. Fragmentation of the European project keeps the ball rolling all the way to the Asian economic superstates. During the next 20 years we will quickly move on from knowing that in theory to experiencing it in reality. China will no longer be a set of characters stamped on your latest electronics purchase, but a dominant presence in our economic lives, as it is already in parts of the southern hemisphere.

Our regulators in Europe will belatedly stop obsessing about the market power of American tech titans, and realise Chinese behemoths are in the room too. By 2014, Forbes magazine was already reporting that five of the ten biggest public corporations in the world were Chinese. The list was dominated by energy and banking (Sinopec, the ICBC) but it does not end there. Alibaba is bigger than Facebook, and that is only the beginning. Germany is becoming increasingly concerned at the scale of Chinese investor power, the US has ramped up its powers to block foreign takeovers, and the role of Huawei in the roll-out of 5G has become contentious in the UK.

So it will not be a smooth transition; and the Chinese economy will have its fits and starts from internal causes, too. In 2019, the levels of distressed debt were causing alarm about the industrial and banking sectors. But no longer will it be a matter of watching to see if America sneezes, to know if we will catch an economic cold: we will all have our eyes on China's thermometer, too. And clashes between these two economies, like today's trade war, risk global economic flu.

If disputes damage us all, we have to learn how to deal consistently with an economic force whose approach to economic, political and personal freedom causes us unease, and whose economic and political structures are very different from ours. Of course it won't be the first time, or the last, that western economies have been uneasy in their responses to the human rights abuses of people with whom we are hungry to do business (witness our massive trade with Saudi Arabia). But China is a whole new ball game: the boundary between Chinese companies, the Chinese state and its security services is highly permeable.

We have already been able to accept that the West no longer has the patent on affluence, or can pretend that others are only fortuitously wealthy from natural resources. A different model is, economically at least, showing results. The link between democracy and economic growth is far from straightforward – compare China, Singapore and India and three PhDs later you will still be arguing with yourself.

With what consequences? Well, if we are going to hold China to account for its trading practices, which we have been timorously slow to do, equally we must cede to it its due place in world economic institutions, or see them collapse into irrelevance. They were set up 70 years ago by the victors of the Second World War, with the comfortable understanding that their leadership would be shared between Americans and Europeans. The International Monetary Fund, the World Bank and the World Trade Organisation, if they survive, will soon look very different.

NEW RULES FOR A NEW WORLD

Although, as the chapter on trade policy showed, protectionism has been rising and trade growth stuttered after the financial crisis, it is still markets and market mechanisms that are driving economic growth. While exports accounted for only 4% of global output in 1945, today the share is 25%, and still rising. Globalisation will undoubtedly have gone further in another 20 years, but it will also have changed in form.

"Dematerialised" output – images, ideas, brands, services – will continue to make up an increasing proportion of GDP. The "death of distance" forecast over 20 years ago is rapidly coming about. Economic activity that is monetised in digital markets is footloose, and will move to wherever its instigators both want to live and find government hospitable to their business.

This, as the chapters in this book have shown, is leading to a paradox: increased market concentration, but at the same time increased churn, as one big idea needing little capital to develop topples another. Superstars shoot and die; it is the economic power of networks in the new economy that gives rise to concern. Can we build systems of regulation that protect us from market abuses, or for that matter social manipulation and criminal abuse?

Some will try to hold back the tide of artificial intelligence and foreign suppliers. Others, more sensibly, will accept as inevitable the spread of new technologies and seek ways to ensure that the winners compensate the losers, using the efficiency gains to retrain those left with redundant skills. Countries will perform best if they try to manage the transition rather than stop it.

It won't be easy. Successful management will require interventions that allow time for adjustment, without preventing the adjustment from taking place. It will mean encouraging, not inhibiting, competition, which in turn stimulates innovation. And to be effective, it will require governments and regulators to co-operate across domestic borders.

The EU made huge progress by tearing down many of the regulatory barriers erected by domestic governments and creating an enormous single market. They needed state aid rules to stop each government finding ways to help its failing producers at the expense of more efficient foreign competitors. But this meant pooling sovereignty and some nation states and their electorates found this disturbing.

A winner-takes-all dynamic will also concentrate wealth in the hands of the few, as it is already doing: the income share of the world's top 1% has shot up in the past 20 years and will rise further. Governments will find it increasingly hard to manage the tensions this causes, or to raise tax from these flighty trillionaires, whose "main residence" may be nothing more attachable than a superyacht temporarily moored in the Bahamas. Again, international co-operation will be needed to achieve anything even approaching a fair result.

But globalisation may cause a nation's "identity" to fade; or provoke a reaction, a desire to distance the country from collective endeavours, whatever their merits. Societies need to find ways of expressing or preserving identity – national, local or personal – that do not close the door on innovation, opportunity, and an openness to people and ideas. Nationalism is an expensive folly if it inhibits efforts to protect people and planet that will only work if they operate across borders.

Confident nations co-operate – it is those suffering a crisis of identity that pull apart. "Taking back control" is a fantasy when it is directed towards activities that can only be managed through co-operation – trade rules, environmental pollution. But it behoves governments to have the imagination to deliver as much control of their own lives as possible to citizens bewildered by a changing world.

LES FOR

"SOCIETIES NEED TO FIND WAYS OF EXPRESSING OR PRESERVING IDENTITY"

TALK IS LOCAL, TEXT IS GLOBAL

Language is an example of how a bifurcation may be managed. There will be only one global language for business, air traffic control, international negotiation and the linguistic end of software coding, and that will probably still be American English. But the most spoken languages are as likely to be Mandarin, Hindustani and Spanish, and societies will see the preservation of French or Portuguese, German or Welsh, as critical to their national identity and cultural history. This duality will not be easy, as anybody searching a biblical-length white goods user manual for the three lines in the local tongue can testify. But as for so much else, the internet is providing some answers.

Will the same be true of currencies? Probably not. A world currency looks as far away as ever. For decades it has been argued that globalisation will eventually force the adoption of a single supercurrency, possibly (as with languages) in parallel to national versions (a model favoured by John Maynard Keynes, among others). For the first half-century after the Second World War, the favoured approach was to "peg" currencies to each other, or to the dollar, with the presumption that these links might solidify; instead, these declared rates for freely traded currencies proved hugely attractive to speculators, and the UK's tumble out of the European Monetary System was not the only example of how easy pegs were to break.

Seventeen years ago, Europe moved instead to replace (most) members' currencies with the euro. Economists would generally agree that the absence of a single fiscal policy and other financial rules covering, for example, deposit insurance, make it far from a perfect currency area. However, the euro has proved more durable than many forecast, and since the EU now makes it a requirement that new members eventually join up, over the next 20 years it may even expand its reach.

But meanwhile the world still has one "reserve" currency and several competitors. In particular, the exchange rate between the renminbi and the dollar will continue to be both a point of political tension and a mechanism for economic adjustment. Meanwhile, cryptocurrencies are spreading like a rash; but they still seem more likely to compete than coalesce, becoming a headache for regulators rather than a fulcrum of the global economy.

A more open question is which market rules will become (or stay) global. Access to the largest markets will be permitted only to those meeting certain regulatory standards, and those will be set by the rulers of those markets, either unilaterally or, with luck, co-operatively. And co-operation is more likely if the dominant players are comfortable with their roles in supervisory authorities. If not, the barriers will go up and the authority of the WTO – already shaky – will go down: regulation will become a protectionist tool rather than a safeguard to free trade.

Britain's place in such a world is, in 2019, open to some very big questions. The sentiments that have turned voters against the European Union are conflicting: for some, the world outside offered an opportunity to cast off regulation and act as a champion of free trade, dismantling tariffs, inviting competition and seeking markets in Asia; for others, it offered the opportunity to set up our own barriers and retreat behind them. History tells us that Britain does better with the first approach, but also warns us that it can lead to anger and disappointment among those who lose out from the global game. And as the chapter on trade also showed, the Brexit vote was highest in those constituencies most exposed, not to competition with Europe, but to competition from China.

The onus will be on the UK to demonstrate quality in regulation: making the country "a good place to do business". Given a historic tendency to gold-plate European regulation, the likelihood that it will embark on a race to the bottom is low: the greater risk is that newly independent regulators will seek to earn their stripes by racing to the top. Regulators must prove alive to new business models, the mobility of capital and the importance of fostering new technology clusters, without losing sight of the need for consumer protection.

Digital markets are changing business models in almost every sector. Right across the economy, relationships with customers are shifting online. We are still only in the foothills of the transfer of retail spending from bricks to clicks, with social as well as economic implications. For some, the key opportunities in digital markets are to achieve capital-lite growth to a scale that offers network effects, to establish platform positions and eviscerate competitors who use those platforms — a challenge to regulators, as the chapter on competition policy has demonstrated. For others, it is simply the ability to analyse customer data in detail (and in real time) that has changed the nature of business forever. For yet others, it is the product or service itself that is delivered digitally – in a competitive market for ideas that is a prime source of growth in the new economy.

"IVORY TOWERS ARE UNDER ATTACK"

ATHENS REVISITED

This same shift in interactions is taking place in the political arena. In the next 20 years, it will move far beyond social media campaigning to a real challenge to the model of representative democracy that has prevailed in the West for up to 400 years. The political systems in the G7 grew out of a world in which congressmen or members of a parliament were in the saddle for days or weeks, to reach the capital cities where they would take part in the debates of the nation – taking more days or weeks to ride back to their constituents and tell them what had been done.

Already today the ability to tap instant reactions is leading to government by focus group, online petition and Twitter, or to a paralysis of government when representatives' views conflict with these. Online connectivity offers us the opportunity to shift to – in theory – the Athenian ideal of direct democracy, or to – in practice – a world of adverse selection in politics, a world driven by the views of the politically obsessed. In the next 20 years, ways will have to be found of creating stable constitutional models that allow for, and are not destroyed by, citizens' new ability to have their say instantly and continuously. If we cannot do that – and again, it isn't easy – the likelihood is that one major democracy or other will out of sheer exhaustion and exasperation suffer from one of its periodic lapses into authoritarian rule.

In all democratic societies, governments facing re-election find it hard to take a longer-term perspective, and concentrate on the urgent rather than the important. They need to find ways to deal with long-term pressures that will affect all societies and raise questions for all their rulers.

First, demographics: by 2040, the number of people in the world over the age of 60 will have increased by over half. If 60 is the new 40, with retirement ages increasing, governments should focus instead on the over-80s: by 2050, the number of these will have tripled. Increasing dependency ratios will put a strain on public finances, at a time when the mobility of enterprise is eroding the tax base.

Second, and related, there are huge questions as to the most effective delivery of public services: the long trend towards privatisation and contracting-out has, as chapters in this book make clear, faltered in some of the countries where it was most enthusiastically pursued, such as the UK.

Third, there is strategic debate to be had about use of arm's length bodies to take "expert" decisions, in monetary policy or regulation, free from political intervention. The credibility gains for such distancing may have been significant, and there is more to be gained: recent work by the Institute for Fiscal Studies suggested that borrowing costs could be reduced significantly by putting fiscal policy in the same independent box. But the growth of populism has brought a backlash against "experts" and ivory towers are under attack.

Fourth, all governments face the challenge of the growing digital space in people's lives. They can, indeed must, use it cost-effectively to deliver public service. But the task of protecting citizens from its harms is one on which governments are only just embarked, for which they as yet have no map, and in which they have no hope of being ultimately successful without international co-operation. Freedom may be served by the increasing difficulty governments have in blocking access to digital content outside their jurisdictions: but so are terrorism, crime and social abuse.

And fifth, the fundamental question of what governments should be trying to do: as economies get richer, and their populations move off the breadline, so demands for a more sophisticated measure of success than GDP begin to be heard. Indeed, even in countries as poor as Bhutan, the government has set ambitions to measure and improve the "well-being" of its population, not merely its national income. As governments find themselves delivering less and less satisfaction for more and more money, we will hear more of "well-being" over the next 20 years.

But all this assumes that the world continues to avoid the catastrophe of global war. The "hot spots" remain much where they were 20 years ago: North Korea, the Middle East, the fringes of the old Soviet empire.

It cannot be said that the Middle East enters the next 20 years in a more stable condition than it began the last 20, a period in which Western interventions have been persistently ill-judged. The legacy of terrorism will continue to haunt the world throughout the next 20 years, helping to destabilise societies and hamper social integration. Migration flows from war-torn countries and failing states will also put pressure on Western societies, testing their humanity, sometimes to destruction.

Yet even these dark uncertainties are on the familiar side of the great gap between us and the future. The past 20 years of rapid but not unforeseeable change have created a temptation to see the future as following straight lines from the past. Of course, we accept these lines may cross, the economic leaderboard change; but these are "known" challenges – surely we can deal with them? As for the "unknowns" – well, nothing we can do about them, by their very nature.

How complacent that may seem, only a few years from now. There is already a whole group of "known unknowns" capable of changing the very nature of human life. In the next 20 years they may well make 1999–2019 seem like a quiet pause insufficiently used for thought. Genetics and AI have the potential to transform everything we are as well as everything we do, and if culturally and morally we hesitate to use their full potential, we can be sure that somewhere, somebody – some power – will not be as squeamish.

And of course change, for better or worse, will not all be man-made. Idai, the strongest cyclone on record in the southern hemisphere, which in March 2019 devastated Mozambique, was only the latest example of humanitarian disasters caused by extreme weather. There will be more; in poor Mozambique, there already have been more. The digital world may be driving our politics and our economy, but it is still the physical world that threatens our very existence. Climate change is an existential challenge for our planet.

WORLD

"IF 60 IS THE NEW 40, WITH RETIREMENT AGES INCREASING, GOVERNMENTS SHOULD FOCUS INSTEAD ON THE OVER-80S: BY 2050, THE NUMBER OF THESE WILL HAVE TRIPLED"

PLANET BLUES

The world is set to use more energy, not less, as economies get richer. They will be playing catch up, and not from a good place. The International Energy Agency (IEA) estimates that transition to a low-carbon economy could require investment of $3.5 trillion per year (some 4% of current world GDP) for decades to come. Stabilising emissions by 2050 will require about 95% of electricity generation to be low carbon, 70% of new cars to be electric, and the CO_2 intensity of the building sector to fall by some 80%.

Once again the world order established after the Second World War is woefully inadequate for this 21st century challenge. The silver lining to this very big pollution cloud is that climate change offers a common enemy, with no respect for national borders, against which all governments ought to be glad to unite. And as China and India become the two largest economies in the world, and therefore probably the two greatest emitters of greenhouse gases, their interest in global solutions should increase. Already, some effects of environmental pollution – such as childhood asthma caused by traffic fumes – are worst in Chinese cities. But these new economic superpowers are more likely to bring their weight to bear on the problem globally if policies are formulated and policed in international bodies on which they have proper representation.

The technological solutions – solar cells, wind turbines, hydrogen cells – are multiplying. The economic analysis is straightforward, as our chapter on climate change shows – greenhouse gases, smog-ridden cities and plastic-covered oceans are “externalities” of the economic process – by-products that must be paid for. Economic tools – market mechanisms, incentives, behavioural nudges – are equally well known. To fail to deal with this crisis effectively is a failure of economics driven by a failure of political will.

Twenty years from now, the upcoming generation will certainly be blaming us for doing too little to save the planet. The cigarettes that killed their grandparents harmed only the smokers and their (passive) friends and family. Greenhouse gases and plastics are destroying the planet for everybody. Generation 2040 will watch vintage episodes of *Blue Planet* rather as we watch film actors of the sixties, puffing smoke out from their pre-cancerous lungs. They too will be wondering what – on earth – did we think we were doing?

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