



Even better than predicting the future is picturing it. Using a highly complex photomontage technique, Seoul-based photographer Ho-Yeol Ryu creates provocative images that force the viewer to consider, what if?

BACK TO WHICH FUTURE?

One of the biggest busts in history has wiped unprecedented value from markets and plunged the world into economic crisis. Now what? Will events repeat those of the 1930s and send us into a prolonged depression? Or are factors at play that may shape unexpected outcomes? Futurologists and renowned experts in demographics, mathematics and economics discuss what comes next.



Predicting the future can be a tough business. Take for example the Harvard Economic Society. Formed by prominent economics professors in the late 1920s, the purpose was to help businessmen and investors foretell the future.

In the lead up to 1929, the Society believed a recession was overdue and regularly forewarned of a coming setback. By the summer of that fateful year, when none had occurred, the Society revised its opinion and decided business would remain strong after all.

The change of was ill timed as it slightly preceded the Crash. Yet, as events unfolded, the Society held steadfast to their revised view, maintaining that a severe depression was “outside the range of probability.” It was a view the Society repeated in various forms until it quietly disbanded in 1933.

In our own time, we have become painfully aware of the shortcomings of economic and financial seers. The current global economic crisis eclipses anything experienced since the Great Depression. It has threatened the entire banking system, seen unemployment soar, and international markets shrink for the first time in 60 years. In response, governments are spending or pledging staggering amounts of money and risking the specter of high inflation in an effort to avoid a repetition of the 1930s. What is remarkable is that so many important players within the industry and amongst regulators failed to – or chose not to – see the financial firestorm coming. And this is despite dramatic advancements in analysis and theory and the development of increasingly sophisticated statistical tools driven by truly remarkable computational power.

THIS IS NOT A PREDICTION, BUT ... Few experts now use the word prediction. It has a taint of the crystal ball about it. Instead terms such as forecasts, analysis, anticipation and – that weighty word – probability are preferred. In essence, they are the same. They are an attempt to make a call on the future. And although

fraught with the tyranny of imponderables, forecasting remains a core and valid function of the financial services industry. It is, ultimately, an expression of the mastery of risk that has been a preoccupation of humanity since the Renaissance when desire to control the future was wrested away from the “monopoly of the gods,” as Peter L. Bernstein once phrased it.*

RECENTLY PROMINENT FIGURES have announced that the worst of this crisis has passed. Robert Schiller, a professor at Yale University and one economist credited with having foreseen recent events, preempted Federal Reserve Chairman Ben Bernanke’s announce-

ment that the “recession is probably over.” But, Schiller added, that “four to five tough years could lie ahead” (*Süddeutsche Zeitung*, 7 September).

Such pronouncements were delivered after data hinted a global recovery was imminent. Reports released in September indicated most major economies would experience growth in the third quarter of 2009. Meanwhile, share markets were running hot. Leading indices, such as the Dow Jones and the FTSE 100, showed dramatic growth in the middle of the year – the strongest rebounds since the 1930s. And many experts are calling the markets higher.

ONE CAN ONLY HOPE THEY are correct and that the world has missed an unforgiving 1930s style depression. Still, while the full ramifications of the financial coronary will only become clear in coming years, it is evident that the existing order has changed.

World financial assets fell by \$16 trillion to \$178 trillion in 2008, the largest destruction of wealth on record, according to McKinsey, and financial global-

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... the novelty of our epoch is that innovation is crossing borders to where the unknown is really unknown.

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PIERO BASSETTI

* *Against the Gods: The Remarkable Story of Risk*, Peter L. Bernstein (Wiley & Sons, 1998)


** *Global Capital Markets: Entering a New Era*, Susan Lund and Charles Roxburgh (McKinsey Quarterly, September 2009)

ization has reversed with cross-border capital flows falling dramatically.** The future of globalization (page 22) has been questioned, while the longer term transfer of economic power to emerging markets has been confirmed. This new reality is marked by the demise of the Western-dominated G8 and the rise of the G20, giving countries like China and India a permanent say in the world economy.

Mohamed El-Erian, CEO and co-CIO of PIMCO, the world's biggest fund manager, describes these changes as leading to a "new normal." PIMCO, had the foresight to avoid the subprime crisis, which strengthens his credibility (see pages 16-19 for the full scenario).

Yet, as policy-makers debate how to retool the system to avoid future crises, the question must be asked if the world is really entering a "new normal" or just more of the "same old?" While the parameters may have changed, depressingly familiar patterns are revealed in current behavior. Community outrage at lavish bonuses and pay deals in sectors being under-

written by taxpayers is understandable. Yet, in a way, the controversy is a sideshow to the reforms necessary to put to rights the system of control and to strengthen investor protection. But the financial community is already digging in its heels. As John Kenneth Galbraith noted in his acclaimed work on the Great Depression, *The Great Crash*, "long-run salvation by men of business has never been highly regarded if it means disturbance of orderly life and convenience in the present. So inaction will be advocated in the present even though it may mean trouble in the future."

LONG-TERM INVESTORS should be concerned about trouble that could arise from failure to improve an ill managed, irresponsible and highly undercapitalized financial sector. Yes, bubbles are an integral part of the business cycle. But this does not mean that their excesses cannot be moderated, as Avinash Persaud, a member of the UN Commission of Experts on International Financial Reform, argues (pages 12-14). 



Many learned voices today agree the foundations and infrastructure on which society is based will be greatly altered in our time. Can we predict how everyday living will be different in the future?

Civilization builds on its past, reflecting from where it came and where it is going. Though the bygone image grows hazy with time, seeing the future clearly is even more difficult – but that shouldn't stop us from trying.



STATEMENTS

Putting a price tag and time limit on reversing climate change.



PROF. DR. OTTMAR EDENHOFER on hope for the UN Climate Change Conference 12.2009

"To be very honest, I do not believe we can expect much from Copenhagen. The best outcome from my point of view would be if negotiators paused and resumed discussions in six months. In spite of some promising signals from China, the United States still seems not to be ready for the kind of commitments necessary."

Indeed, there is a moral imperative to do so, even if at times the actions may slightly restrict business. Bubbles have huge social and economic consequences in terms of unemployment, public debt, inequality and poverty. He notes that the effects of the Asian financial crisis can be seen "in the infant mortality rates of Indonesia and Thailand."

YET, WHILE THE CRISIS and its aftermath dominate public perception, it is in a sense nothing that has not been seen before (see PROJECT M 01/08, interview with Professor Franklin Allen). But long-term investors should be aware that in the coming decades we will confront a series of complex and intertwined challenges that extend well beyond the financial sphere and could present challenges unlike anything that has

been seen before. These could not only cause as great a disruption to markets as the financial crisis, but fundamentally change life on the planet.

There is a tendency for every age to see its time as the most profound in history. But there is a strong argument for our period to be a particularly critical one. Piero Bassetti, president of the Giannino Bassetti Foundation (pages 28-31), an organization that researches responsible innovation, describes us as, for the first time, "crossing borders to where the unknown is really unknown." He refers to innovations such as nanotechnology and neuroscience, but his observation is valid for the consequences of our behavior. These include climate change (pages 32-33) and challenges arising from a growing world population (see page 20 for a contribution from Wolfgang Lutz, director of the Vienna Institute of Demography).

John Casti, a renowned author and system theorist, notes (pages 12-14) that such trends are converging and major shifts occurring in the political and ecological structure, even shifts in social values. "I think we are experiencing the early stages of something that may end up in the historical perspective looking like the Great, Great Depression," he argues.

THIS IS THE TYPE OF NIGHTMARE prediction that the world hopes does not come true. The way to prevent it becoming reality is, conversely, not to shy away from efforts to anticipate the future. Professor Casti's view is counterbalanced by the optimism of futurist Markku Wilenius, a member of the Club of Rome. He acknowledges that scientific evidence points to a grim scenario unless patterns of consumption and production change, but believes society is on the point of a transformation that will enable us to save the world while saving money (pages 25-27).

We live in a period of global transformation cast against a background of economic turmoil and substantial ecological and demographic challenges. Such a serious crisis should not go to waste. Today, we are presented with an opportunity to define the future we want for our planet before events race out of control. It is something in all our interests to try and get right as the future is somewhere we'll all spend a lot of time – whether we like it or not.