Davos at 50: a tipping point, a turning point or just a shrug?

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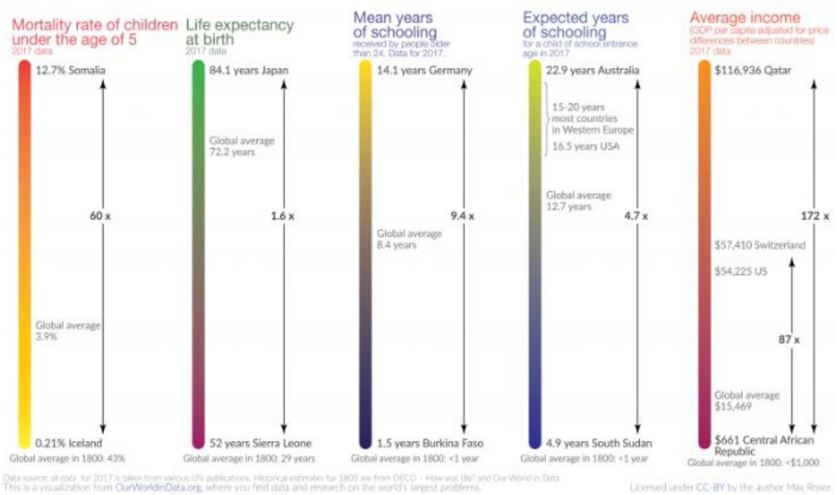
In 1971 hand-picked members of the global business, academic and policymaking elite were invited to the first of a series of annual meetings in the Swiss resort of Davos. During these and subsequent meetings, a small group of developed countries mainly led by the US accounted for the lion's share of global GDP and subsequently they invariably determined the agenda. At the time, Mao was the Chinese premier and nobody had the slightest interest in China's growth rate or its trade policy. That is no longer the case today.[1] This year will mark the 50th Davos that is organised by the World Economic Forum, and in many respects things look worse today than they did at the five decades ago. By the early 70s, the long period of post second world war growth was coming to an end. The Bretton Woods currency system, held together by the link between the US dollar and gold, collapsed in 1971 primarily as a result of the inflationary strains on the American economy caused by the cost of the Vietnam war. This ushered in a global set of problems, with inflation being regarded as particularly debilitating and widespread. According to the dominant view at the time, inflation was caused by governments producing too much money to pay for excessive wage settlements and public spending pledges. Consequently, the answer lay in reducing budget deficits, in curtailing the power of organised labour and in giving control of interest rates to independent central banks. Since the 1970s the dominant form of capitalism involved "a pushback against government, unfettered power to large firms and more power to the financial sector"[2] and this system remained broadly in place until the 2008 financial crash.

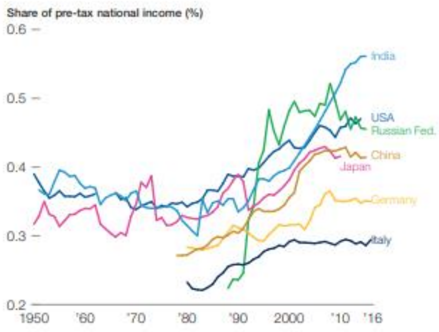
The review which followed this crash resulted in interest rates being slashed while central banks were encouraged to pump money into their economies. Despite this, the anticipated sustained recovery did not materialise and more than a decade later this has remained weak. Despite there being a noticeable decline in the percentage of the world's population living in abject poverty, there is nevertheless an equally noticeable and corresponding increase in the gap between rich and poor within countries, and this gap has been growing over the past five decades. There are three interlinked issues that continues to expose the gap between rich and poor, and developed and undeveloped countries and these provide the backdrop which a 50 year-old Davos must acknowledge.



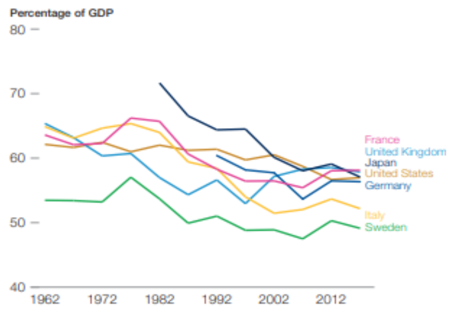
In several African countries, more than one out of ten children born today will die before they are five years old. This differs substantially from the healthiest countries of the world where only 1 in 250 children will die within the first five years of their life. In the countries where people have the best access to education, principally in Europe and North America, school-

[1] https://www.theguardian.com/business/2020/jan/19/davos-2020-should-be-all-about-climate-crisis-but-trump-wont-admit-it
[2] Valodia, I (2020) Austerity will squeeze the life out of our economy in its downward cycle in Business Day

going children today can expect 15 to 20 years of formal education. Children entering school at the same time in countries with the poorest access to education can only expect 5 years. With regards income inequality, the matter is more acute. A cursory comparison of Qatar, whose GDP per capita of almost $117,000 makes it one of the richest countries in the world with the Central African Republic ($661) reveals a 177-fold difference. A similar comparison with Switzerland, (GDP of $57,410) means the Swiss can spend in 1 month what people in the Central African Republic can spend in 7 years.[3] Over the past few decades, income inequality has increased in both advanced and emerging economies. That period of socioeconomic expansion experienced by advanced countries after World War II created the expectation of continued economic growth within advanced and developing economies alike. However, in the 1970s growth and shared prosperity started to decouple and diverged further in the early 2000s. In the United States, for instance, the percentage of children earning more than their parents fell from 92% in the 1940s to only 50% in the 1980s. Similarly, despite pulling millions out of poverty and reducing the gap with advanced economies, growth in developing and emerging economies was accompanied by a significant increase in inequality.[4] Rising inequality, and a lack of social mobility exacerbated by the 2008–2009 collapse has undermined social cohesion and eroded trust in institutions and disenchantment with political processes.[5] This has resulted in disillusionment in the capacity of the liberal international economic model to deliver shared prosperity.

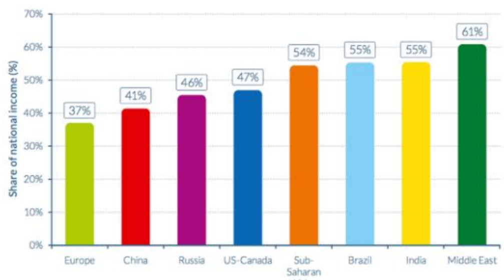


Source: World Inequality Lab, *World Inequality* database.
Notes: Share of pre-tax national income of the 90-100 percentile of adult individuals. Pre-tax national income is the sum of all pre-tax personal income flows accruing to the owners of the production factors.



Source: European Commission, *AMECO* database.
Note: Labour shares are defined as compensation per employee as percentage of GDP at market prices per person employed in the total economy.

The World Inequality report provides a useful illustration of the disparity in wealth distribution which varies significantly from one region to another. [6] In **Europe**, 37% of the national revenue is pocketed by the top 10%, in China it is 41%, Russia (46%), North America (47%), while in in **sub-Saharan Africa, Brazil** and India it is around 55%. The highest value can be found in the **Middle East**, with 61%. According to the latest Oxfam Global Inequality Report, the richest 1% has twice as much wealth as 6.9 billion people and almost half of humanity lives on less than $5,50 per day.[7]



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[3] https://ourworldindata.org/global-economic-inequality
[4] Global competitiveness Report (2019) p31
[5] Global competitiveness report (2019) p25
[6] https://www.lifegate.com/people/news/world-inequality-report-2018
[7] https://www.oxfam.org/en/5-shocking-facts-about-extreme-global-inequality-and-how-even-it

However, and despite this, it is now almost universally accepted that the one thing which differentiates this years' Davos meeting from the very first one, is the threat posed by the climate emergency. Accelerating climate change is already affecting hundreds of millions around the world, and in all likelihood, people under 60 will live to experience its radical destabilizing effects. According to a seminal 2009 **Nature** article, there are ten ecological factors which can potentially destabilize the planet's ecosystem—and three of these have already exceeded their "limit", namely, climate change, nitrogen cycle (pollution from agriculture) and biodiversity loss (extinction of species).[8]

In addition, population growth (the world's population is expected to reach 9 billion by 2050) will counterbalance efforts to reduce per-capita resource consumption (i.e. land use and fresh water use). Based on Global Footprint Network estimates, over the past 50 years, humanity has gone from using one planet's worth of natural resources each year and is on course to using three planets' worth by 2050, thus clearly exceeding environmental boundaries.[9]

Rising temperatures and modified rain patterns, caused by climate change, will reduce crop yields resulting in lower agriculture productivity. The extreme weather events which are now synomous with climate change will cause infrastructural damage and the effects of climate change will disproportionally affect farmers in developing countries. In fact, a FAO report (2018) argued that agriculture in least developed countries has already been adversely affected by climate change, specifically, by a higher frequency of droughts and floods. According to this study, West Africa and India would experience significant reducions in crop yields by 2050 which, combined with significant population growth in these areas, will result in massive food shortfalls.[10]

Perhaps the best example of this is to be found in a report, called the **Limits to Growth** which was issued by the Club of Rome in 1972. The Club of Rome consists of current and former heads of state, UN bureaucrats, high-level politicians and government officials, diplomats, scientists, economists, and business leaders from around the globe. This report argued that the earth's interlocking resources — the global system of nature in which we all live — cannot support present rates of economic and population growth much beyond the year 2100, even with the types of advanced technologies that are currently being punted by 4th Industrial Revolution devotees. Despite this warning, issued almost 50 years ago, the fossil fuel economy is well embedded in the global economy and continues to be funded by banks and pension funds whose revenues, profits and taxes ensure that giant multinationals remain in power together with the governments which they bankroll and endorse.

In 1948 the spread of communism was perceived as capitalism's biggest threat, and by 1971 the threat had shifted to the collapse of Bretton Woods. Now there is the danger that capitalism will be destroyed by the very environment which has nurtured it for so long. Each year the World Economic Forum asks a sample of experts and policymakers at Davos to list the most likely risks the world will face over the next decade. Unsurprisingly, against a backdrop of droughts, hurricanes, bushfires, melting glaciers and a steady heating of the planet, for the first time the top five threats are all environmental. The best illustration of this can be found in the

[8] Global competitiveness Report (2019) p25
[9] Global competitiveness Report p26
[10] Global competitiveness Report p27

devastation that has unfolded in Australia over the past few months; first a drought, then runaway fires and now a flood. Only the churlish will deny the role that climate change has played in this disaster. So far at least 28 people have died in blazes that have swept across the country, more than 3,000 homes have been destroyed and roughly 7.3 million hectares (17.9 million acres) of land has been burnt and 1 billion animals killed. As if to drive the point home, in mid-December Australia experienced its hottest day ever with an average temperature of 41.9 degrees Celsius.[11]

There are, however, some encouraging developments. India and China's commitment to the low carbon economy is evident in their attempts at increasing their investment in renewables to cope with the increasing demand for energy in their dynamic economies. While President Trump urges more use of fossil fuels, the Chinese plan to become a world leader in climate protection, and has invested $132 billion in clean energy technologies.[12] Furthermore, over the last decade, more gigawatts of solar capacity has been installed across the globe than any other generation technology, accounting for $1.3tn of the total $2.6tn invested. Renewable energy capacity was more widely distributed than ever in 2018, with 29 countries investing more than $1bn each,[13] while Christine Lagarde, the President of the European Central Bank has argued that climate change must be written into the bank's mandate. Without doubt though, the most encouraging sign was the announcement at Davos, by Blackrock, the world's biggest asset manager, that it would exit those businesses that present high sustainability related risks.[14] However, before we get too carried away, it is necessary to put these actions and statements into perspective. Despite being regularly pilloried for its carbon emissions, the aviation industry only contributes between 2% and 5% of the global total, while digital technologies accounts for 3.7%, thus making the 4th Industrial Revolution and its associated modern technologies almost as big a culprit as one of the oldest sectors on the planet. [15] There is therefore quite evidently still a lot of work to do.

This paper started with one conference that ended in the northern hemisphere last week and perhaps it is fitting to end it by focusing on another conference at the opposite end of the world. This week Cape Town will host the Mining Indaba. Despite the fact that coal exports are big business and last year contributed 22% to South Africa's foreign exchange reserves, this industry faces an uncertain future. As the global transition to a low carbon and fossil free future gains momentum, countries in the developed north continue to close down coal fired power stations. The resultant dwindling demand for coal puts the world's major producers under immense pressure to secure new markets. Most of South Africa's coal is exported to India but this market will shrink as India intends weaning itself off coal. Our biggest competitors, China and the USA, will pursue these markets aggressively and will consequently eat into South Africa's market share resulting in more mine closures and the haemorrhaging of thousands of jobs at a time when the country can ill afford any more job losses. The global climate change debate should have impacted on last weeks deliberations at Davos but it is too early to tell whether these resulted in clear, tangible recommendations and the extent to which these

[11] https://www.telegraph.co.uk/global-health/climate-and-people/australia-burning-bushfires-bad/
[12] Ibid pg 28
[13] https://www.power-technology.com/news/decade-of-global-renewables-investment-on-course-to-hit-2-6tn/
[14] https://www.businesslive.co.za/bd/opinion/columnists/2020-01-26-lukanyo-mnyanda-team-sa-out-of-step-as-climate-change-dominates-global-agenda/
[15] Skapinker, M (2020) Why single out air travel in global warming debate? In Business Day 29/01/20

would be acted upon in a meaningful way. Failure to do so now could result in a very sombre Davos next year.