

Special Report on the World Economic Forum's Great Reset

Executive Summary:

In the summer of 2020, World Economic Forum founder and executive director Klaus Schwab released a report on what he calls the "Great Reset".

He argues that a macro reset is necessary to remake the global framework. This includes economic, societal, geopolitical, environmental, and technological resets.

The COVID-19 pandemic was a white swan -- an entirely predictable, high likelihood and high impact event -- which will produce many unpredictable, follow-on black swan events. According to Schwab, the Great Reset can prevent these future catastrophic events.

What follows is a summary of the "Great Reset". Unless otherwise noted, none of the following expresses the beliefs or opinions of Forward Observer.

The Macro Reset

Economic Reset

"A seminal paper on the long-term economic consequences of major pandemics throughout history show that significant macroeconomic after-effects can persist for as long as 40 years, substantially depressing real rates of return."

The COVID-19 pandemic will likely last into 2022, but its economic effects will last for decades in the form of government debt, permanent damage to consumer and industrial economies, and continued uncertainty about the future. The economic effects of COVID-19 resulted in an acceleration of artificial intelligence and automation adoption, which will restructure labor markets and increase persistent joblessness. Countries with high youth unemployment will experience a "demographic nightmare" as jobs become more difficult to find.

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by Mike Shelby

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Schwab advocates for three solutions. First, countries should update how Gross Domestic Product (GDP) is measured, to include household and digital work, which are not easily measured and are excluded from current GDP measurements. Next, countries should work to solve income inequality and examine the “distribution of gains” once economies begin growing again. Finally, “institutions, infrastructure, human capital and innovation ecosystems” should be measured in order to determine resilience, another measurement of economic health. The effects of COVID-19 are eroding current social norms, and new social norms during the Economic Reset could include “respect for the environment, responsible eating, [and] empathy or generosity,” along with replacing “take-make-dispose” practices with those “restorative and regenerative by design.” Patagonia, which repairs clothing and gear, is offered as an example of regenerative business practices. Additionally, government investment in care for children and the elderly would create 13 million jobs and account for a 2% rise in GDP.

Schwab cites the “tyranny of GDP growth” and points out that GDP growth no longer accurately reflects productivity and increases in living standards. GDP growth today increasingly accounts for larger increases in distribution to the upper class, so new policies will need to be implemented to solve this problem. A long term solution is to make quality of economic growth more important than GDP growth alone as a measurement of economic health. A concept called “degrowth” is reportedly gaining popularity in some Western countries. Advocates call for a deliberate “downscaling of the economy, leading to a future where we can live better with less.”

Central banks and governments around the world engaged in unprecedented monetary and fiscal programs that should be sustainable for wealthy nations. Emerging and developing nations didn’t have the same options, so “grants and debt relief, and possibly an outright moratorium will not only be needed but will be critical.”

These unprecedented actions have led to a game change in the relationship between politicians and central banks. As a result, governments are likely to desire more control over central banks to solve economic problems, even after the economic effects of COVID-19 have diminished. Schwab shares his concern that coordinated monetary and fiscal cooperation will lead to “uncontrollable inflation” as Modern Monetary Theory becomes more appealing to governments. As a result of the government issuing “helicopter money” -- the tongue-in-cheek practice of throwing money from helicopters -- citizens will demand more of it.

Schwab also warns that wealthy countries like the United States may face a Japanese scenario of “structurally weak demand, very low inflation and ultra-low interest rates.” Some analysts believe that the U.S. will eventually experience a “progressive end” to the U.S. Dollar as the world reserve currency due to unsustainable debt, the cost of carrying that debt, and uncontrollable entitlement spending. If investors are no longer willing to fund this spending, fearing they’ll not be paid back, then they’ll look for better investments, sapping international demand. Additionally, the rise of economic nationalism makes the USD “incompatible” with being the global reserve. Schwab quotes former Treasury Secretary Henry Paulson, who says that the U.S. must “maintain an economy that inspires global credibility and confidence.” Short of that, investors will lose faith in the dollar.

Societal Reset

One enduring societal effect is that citizens will remain angry at their governments for being ill-prepared and ineffective at managing the pandemic. There will be social costs in both developed and emerging countries, which in some cases could lead to social disintegration. The Societal Reset will manifest differently in countries, but reset will have at least two features. The first is “massive wealth redistribution, from the rich to poor and capital to [labor].” The second is the end of neo-liberalism, which favors “competition over solidarity, creative destruction over government intervention and economic growth over social welfare.”

The COVID-19 pandemic has driven two major trends. The first is greater social inequality. Roughly one-third of all American jobs can be done remotely, but only a small percentage of lower class jobs can be done remotely, which put workers at greater risk during the pandemic. The second is that the lockdowns exposed a great disparity between essential and non-essential work, as the most essential workers were often the least economically valuable.

This could produce major social backlash leading to increased class violence. External factors such as “extreme weather events, racial tensions, food scarcity and sentiments of unfairness” could compound unrest. Poor countries are at greater risk, but the U.S. is also vulnerable due to weak social solidarity.

Another feature of the Societal Reset is the return of big government, as “major crises have always further consolidated the power of the state.” Governments tend to raise taxes to pay for response to a crisis. Additionally, expanding social safety nets will be a necessary part of the reset. A renewed focus on trade unions could result in order to facilitate this expansion. Businesses will be expected to become part of the solution and business leaders “will have to adapt to greater government intervention.”

This reset will also lead societies to reconsider the social contract. The inability of the government to control the cost of healthcare, housing, and education are examples of tension points that could lead lower and middle classes, who can least afford these necessary services, to question the viability of the social contract. This is leading to protests and violence, as well as the rise of nationalism and victories for populist parties. In response, governments may institute a new social contract that features universal assistance, such as healthcare, insurance, and other services, and increased safety net and other job protections. Schwab also points out that younger generations tend to be more radical than older ones. Discounting their input will risk greater social unrest in the future, but including their input would clearly spell more radical changes to this new social contract.

Geopolitical Reset

Schwab begins with a quote from economist Jean-Pierre Lehmann, who said, “There is no new global order, just a chaotic transition to uncertainty.” Former Australian Prime Minister Kevin Rudd similarly warned of a “coming post-COVID anarchy” as countries become more nationalist and less cooperative, making a response to the next pandemic more difficult.

The rivalry between China and the United States will further create “global messiness, disorder and uncertainty for years to come.” All this, he says, will lead to a “global order deficit” and that we risk an “age of entropy.” The four main drivers of geopolitical disorder and uncertainty are: “the erosion of globalization, the absence of global governance, the increasing rivalry between the US and China, and the fate of fragile and failing states.”

The problem the world faces can be summed by Dani Rodrik, who postulated that economic globalization, political democracy, and the nation-state cannot all exist simultaneously. Only two of these can exist in the world, which would exclude the third notion. The rise of nationalism will save the nation-state and political democracy, but end economic globalization. As a result, we can already see the disruption of global supply chains as countries begin on-shoring manufacturing, instead leaving it offshore. This will manifest in “regionalism” replacing globalism, as countries will desire to shorten their supply chains by working with nearby trading partners, instead of countries around the world. Schwab cites U.S. trade increasing with Mexico and Canada while trade with China decreased.

Schwab fears that anti-globalization tendencies will lead to protectionism, isolationism, and a decline in global trade. This will lead to a retreat of global governance, increased systemic fragility, and “a world in which nobody is really

in charge.” These “my country first” attitudes will negatively affect the world’s response to the next global emergency, such as another pandemic. Schwab also notes that without foreign intervention and possibly a global effort, fragile and failed states could lead to further unrest around the world, leading to new waves of mass migration into richer, Western countries.

Environmental Reset

The COVID-19 pandemic gives the world a glimpse of climate change and ecosystem collapse catastrophes: supply and demand shocks, supply chain disruption, and more complex geopolitical, societal, and technological problems. Deforestation and ecosystem degradation for natural resources and farming are ‘shaking loose’ unknown animal viruses, which is leading to new outbreaks of virus and disease among humans. Experts “estimate that zoonotic diseases have quadrupled over the past 50 years,” as animals pushed from their habitats are a “wildlife disease reservoir.”

Pollution is also a major threat to planetary health. Schwab fears that countries around the world will stop their work on climate change in order to focus on economic growth to solve their economic problems. This could lead to increased government subsidies to fossil fuels and carbon-emitting industries in order to solve a host of economic problems. Schwab encourages activists and governments to “redesign a more sustainable economy for the greater good of our societies.”

Schwab calls for “enlightened leadership,” and cites examples of leaders who support a transition to clean energy in order to “help kick-start economies.” Schwab wants to see stimulus packages that emphasize the transition to green economies. Activists could also emerge with a renewed sense of urgency, pointing out how much better pollution became during the pandemic with no daily commutes and an overall drop in consumption. Schwab envisions a two-pronged approach to environmental activism: the first is a group of protestors outside a coal plant while activist investors in boardrooms deprive the coal plant of financial support.

Technological Reset

Schwab has written two books on the Fourth Industrial Revolution, which will radically impact all elements of society. He argues that the effects of COVID will lead to more rapid technological change. The economic effects of COVID show the need for a new focus on “remote” technology for everything from work to medicine to shopping and entertainment. Staying at home, consumers turned to

“e-”everything: “e-learning, e-commerce, e-gaming, e-books, e-attendance.” Governments will become more involved in regulating online activity.

Robots will increasingly become a part of our daily lives, but this trend is accelerated by COVID. By 2035, some 85% of restaurant jobs, 75% of retail jobs, and 59% of entertainment jobs could be automated. Some human problems in sanitation in food and entertainment could be solved by robots, which would carry fewer germs and are more easily cleaned. The “contactless economy” is also driving a transition to automation.

But all this technology comes at a cost: we risk a dystopian society as consumers are increasingly surveilled through their online activities. The updates to smart phones, which were used to contact trace COVID-19 patients, is a good example of how technological solutions to difficult problems will erode privacy. Like 9/11 affected personal privacy, so will COVID, as “without realizing it, we will fall victim to new surveillance powers that will never recede and that could be repurposed as a political means for more sinister ends.” This is leading to what Yuval Noah Harari describes as a “fundamental choice... between totalitarian surveillance and citizen empowerment.” As sensors become more common, more biometric data will be harvested, and corporations that receive this data could begin to know humans better than they know themselves. A corporation that knows what makes humans laugh or cry could easily lead to their manipulation.

Conclusion

Analyst Comment: Schwab looks at the pandemic as an opportunity to “reimagine and reset” economic, societal, geopolitical, environmental, and technological risks, and encourages readers to “set in motion the Great Reset.” He wants to replace “failed ideas, institutions, processes and rules with new ones” that will remake most aspects of individual, societal, and governmental existence.

What he outlines above is more of a laundry list of problems than a prescription of specific solutions. Although he offers some ideas, he leaves solutions and policy changes to governments and societies who will need to address specific concerns.

Much of the online commentary I’ve read about the Great Reset includes ideas like resetting global debt. This is not actually the case. While Schwab does advocate for, in some instances, resetting the debt that third world countries will never be able repay, he doesn’t advocate for a reset of, say, the national debt of the United States or China.

Schwab supports a global approach to resetting risks. He strongly advocates for strengthening global governance, increasing globalization to shift the balance and sharing of power and wealth, and wealth redistribution from the rich to poor, among other policies. He argues that these solutions will create more equitable and inclusive societies.

In many ways, these sentiments are echoed in the policies we've seen in the Biden transition team. Biden says he's going to re-establish the U.S. as a global leader, rebuild alliances, and support international cooperation. Biden says he wants a more inclusive, equitable, and fair economy. Although Biden hasn't specifically called for wealth redistribution, some of his advisors and Democratic Party peers have.

In November 2020, former Secretary of State John Kerry participated in a Great Reset panel discussion with World Economic Forum participants. Kerry declared that a Biden administration will firmly support a Great Reset, and that changes "will happen with greater speed and with greater intensity than a lot of people might imagine."

This is why I wrote this summary of the Great Reset. I hope it offers you some insight into what we can expect in a Biden administration, which is likely to attempt to remake major parts of American society. - M.S.