



# The Future of Wealth



## The Global Challenge

The main challenge related to the future of Wealth is how to maintain a high level of growth at global level, while simultaneously tackling the issue of higher wealth inequality. Before the Great Recession, wealth inequality was a topic of discussion and concern mainly in developing countries where inequality was historically high. Nevertheless, in the post-recession era, there is an increasing concern on topics related to wealth inequality in Developed countries, most notably in the USA and the Euro Zone. According to an article by The Economist, 56% of people living in rich countries, believe the most pressing problem of the economy is inequality.

Another challenge is the need to reanalyse and review the role of capitalism in wealth creation and wealth distribution. Capitalism has been the engine behind wealth growth in the large majority of countries in the world since the industrial revolution. But, the model is currently under attack and an increasing proportion of the global population –even in OECD countries– believes capitalism has contributed to the global crisis without contributing to the search for a long-term solution. As a result, trust in capitalist societies (The Economist) as problem solvers, is at an historically low level. Even if the large majority of global leaders would agree that there is no better alternative to the creation and distribution of wealth, there is an increasing pressure to move to a new form of capitalism, one with a more human side to it; one that could probably be more connected to

the roots of capitalism as proposed by Adam Smith himself, but not in his most celebrated book “The Wealth of Nations” but rather the view that he presented in his first book, “The Theory of Moral Sentiments”.

Finally, another major trend that needs to be considered is the rapid growth in wealth which is taking place in developing countries, especially China and India. The increasing proportion of citizens from those massively populated countries who now have access to higher levels of wealth, will have important consequences in terms of global supply chains, global prices, environmental issues, as well as the geopolitical implications, that have already began to become evident. It is clear, for example, that the position of geopolitical importance of China before and after the Great Recession has completely shifted in favour of the Asian giant. But as the importance of China is growing in a large number of global value chains, both as a main producer and consumer, there is increasing concern about how a potential downturn in that economy will affect the rest of world, still feeling the pinch from the last recession.

So, some key questions to consider include: How will the countries equate the need to grow at a higher rate with the increasing inequality that is observed in many countries?

Is there a real trade-off between higher growth and less inequality? Are there any ways in which economies can have both? Is that solution sustainable in the long term?

### Inequality On The Agenda

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### Human Capitalism

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### Influence of China

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## Options and Possibilities

### Increasing Tensions

During the next 5 to 10 years it will be very difficult to revert the trend of stagnant growth and high inequality that is seen in many of the richest economies. This will create increasing political tensions inside the economies where the problem of inequality is seen as an important issue.

### Overseas Ownership

Greater wealth, especially in China also means that there will be more national savings and thus more options to invest large amounts of money in strategic, state-owned projects all over the world.

Looking ahead it's worth considering if Capitalist societies, can revert the pessimist outlook given by Thomas Piketty in his book "Capital in the twenty-first century"? He argues that as population growth slows, economic growth will stagnate with it, leading to increasing inequality. This, in turn, allows the wealthy to exert more control of democracy through monetary contributions.

We know that the concentration of wealth has increased in the last decades, specially in the years following the Great Recession (wealth from the top 0.01% of the population represented roughly 3% of total wealth in the 70's, in 2014 it represented roughly 11% - with a highly positive slope). But is that level of concentration really affecting overall wealth? Is wealth concentration an inevitable result of wealth creation? And, more importantly, how is this concentration in top 0.01%, 0.1% and 1%, affecting the wealth creation in the bottom 1%-10%? The answers to this sort of question are highly important if we are to transform the economic models of the future.

If wealth concentration is reducing the opportunities of the bottom percentile, then something must be done to improve wealth distribution. On the other hand, if concentration on the top is not affecting –cannibalizing- the wealth of the bottom percentile then policy makers and economist

should focus more on the acceleration of wealth creation and not on its distribution.

In the near future, that is during the next 5 to 10 years, it will be very difficult to revert the trend of stagnant growth and high inequality that is seen in many of the richest economies. This will create increasing political tensions inside the economies where the problem of inequality is seen as an important issue.

Increased wealth, resulting in greater consumption, from the biggest countries in the world, namely China and India, will increase the cost of commodities. Depending on the duration of these increases, there will be an economic setback in some of the most important commodity importers in the world (Europe and USA). Greater wealth, especially in China also means that there will be more national savings and thus more options to invest large amounts of money in strategic, state-owned projects all over the world. This process has already begun with the rate of infrastructure investment accelerating rapidly since 2008. China is investing heavily in strategic resources in Latin America and Africa (Energy, Mining, Steel, Public Infrastructure, Crude Oil and refinement, etc.). This will create new challenges in the international relationships, considering that the recent crisis has reduced the level of the same type of investments from European and North American companies.

## Proposed way Forward

We need a thorough historical analysis of wealth creation and distribution since the industrial revolution to establish which are their determinants in different periods. Prof. Piketty's recent book offers a great starting point for this review, since he has compiled one of the most comprehensive datasets on this topic.

We also need to consider the effects of the industrial revolution of wealth, to understand how technological progress combined with a specific set of policies (trade openness, relatively low intervention of the government in the markets, etc.) can influence growth.

The results from the former analysis could then be compared to global wealth creation in the period between 1950 and 2000, which is characterized by a transition from manufacturing to services in more developed countries but also, in the emergence of new global players in Southeast Asia and Latin America that have not followed the same process of wealth creation as the richer countries. It is also important to take into account the different model of wealth creation that was followed by the Scandinavian countries (Finland, Norway, Sweden, and Denmark) that has led to a surge in the overall levels of wealth creation but also holds

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the world's lowest levels of income inequality.

If any lesson from the last recession can be obtained it is that the world is highly unpredictable. The amount of complex linkages at global level makes it very difficult to predict with certainty any scenario. At best, we can analyse the trends and understand how a specific problem in one part of the global network can create a cascading effect in other remote part of the network.

I believe that the policy makers from around the world will have to look at the problems of wealth creation and wealth inequality in a more systemic way, with the use, for example, of a complexity framework. Currently, wealth creation has been frequently analysed only on a case-by-case basis, with the objective of creating more sound policies for each specific country or, at best, for a cross-national region (like the Euro Zone). Nevertheless, we know that wealth in a specific country can be affected by global events that are complex in their nature, for example, the global financial crisis that started in a specific country but then quickly disseminated to other countries and other industries that were not even directly linked to finance. In a globalized and complex world, policies cannot be country-specific. Policies need to be coordinated, and

policy makers need to embrace the concept of complexity and act accordingly.

In the context of the rise of inequality in the world, a potential solution is the one proposed by Michael Porter in his Shared Value concept. According to his view, capitalism needs to rethink the way it approaches its role in society. It is not enough to produce with high efficiency and then redistribute some of the leftovers via corporate social responsibility programmes that usually means charitable or philanthropic giving. The Shared Value idea is to integrate the societal improvement into the economic value itself. Some analysts have dubbed this strategy 'the next stage of capitalism'.

I believe that the option of looking at wealth creation under a complexity framework is an area that could have a larger impact in the long term. However, as this implies that policy makers need to adopt a new paradigm, I believe that in the next 5 to 10 years the most plausible and realistic approach to deal with the issue of global inequality will be the one of Shared Value. I think this allows us to address some of the critiques of capitalism and avoid the costly experiments that are not based on the market system (that are starting to arise as a result of the discontent with traditional capitalism).

#### A Systematic View

Policy makers from around the world will have to look at the problems of wealth creation and wealth inequality in a more systemic way, with the use, for example, of a complexity framework.

## Impacts and Implications

The implementation of the most pragmatic solutions will require a commitment from all different levels of society. As it was argued above, first of all, policy makers need to start looking at the issues of wealth creation not in isolation, looking at specific solutions for each country but to think of solutions to come as part of a system that is interconnected and complex. In that sense, the sources and determinants of global wealth under a complex framework need to be analysed. This is a challenge that requires a commitment from top academics in the world to produce new pieces of research that focus on wealth complexity. This type of research will then inform the policy makers, who then have the

important task to decentralise the decision making process.

If we assume that the wealth problem is complex in nature, then centralised top-down solutions will not work. It will be necessary to adopt both a top-down and bottom-up approach depending on the context and the intended solutions. This means that society as a whole and especially private business, needs to be involved in the process of creating wealth and reducing inequality.

The complex nature of wealth creation and distribution means that governments, business, academics and institutions need to work together in a more stable, long-term

#### Seeing the Bigger Picture

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#### Top-down, Bottom-up

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### Avoiding Unrest

The main consequence of not dealing in a systemic way with the issues of wealth creation and wealth distribution is an increasingly social struggle inside some countries. This may create political pressure that, depending on the context and the history of the country, may result in political instability and even regime change.

and institutionalised way. This is why, new institutions for collaboration that offer an holistic and systemic approach to the problem of global wealth will need to be created. Old institutions may not have the capabilities to embrace the complex nature of the problem at hand, and may resist change of paradigm.

Maybe it is more appropriate to consider what will be the consequences if we don't adopt a new paradigm. The main consequence of not dealing in a systemic way with the issues of wealth creation and wealth distribution that have been described above, is an increasingly social struggle inside some countries. This may

create political pressure that, depending on the context and the history of the country, may result in political instability and even regime change. Not addressing the issues could result in new political experiments that could reject capitalism and reintroduce authoritarian regimes based on a tight and centralized control of the market. As we know from history, these types of regime are not the solution to the problems of wealth and they are certainly not an alternative to capitalism. On the other hand, it is also clear that the way capitalist economies have been handling wealth inequality, often ignoring it, is not sustainable and need to be revisited.

## Conclusion

### Reassessment of Causes and Effects

The causes and the effects of the Great Depression and the Great Recession need to be reassessed in the light of their effect on wealth. It will be especially important to analyse how different policy responses to those crises, also affected wealth creation and distribution.

We need to create an international task force that tackles the issues of wealth creation and wealth distribution under different approaches, embracing new and old paradigms to find the best global solutions for the problems that have become evident in recent years. This task force will be financed over a minimum time of 5 years by governments or multilateral institutions and will produce academic reports on the most pressing issues of global wealth. It will not be dominated by mainstream economists, nor by economist from OECD countries. It is important to incorporate the views from researchers from other parts of the world. It is also important to focus the research of this

task force in pragmatic solutions and not only on theoretical ones. The diversity of the team will be also important; economists should not dominate it, since a true holistic approach to wealth needs to be interdisciplinary.

Finally, the debate over the future of wealth in the world would not be complete without taking into account the effects of the two biggest global crises on wealth creation and distribution. The causes and the effects of the Great Depression and the Great Recession need to be reassessed in the light of their effect on wealth. It will be especially important to analyse how different policy responses to those crises, also affected wealth creation and distribution.

### *Lead Expert – Prof. Julio J. Prado, PhD.*



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*Lead expert on the Future of Wealth.*

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in Management and Economics from Lancaster University Management School and, beyond IDE, is also a consultant to the Ecuadorian Government on projects related to competitiveness and industry analysis. He was recognized by "America Economía" magazine as one of the best lecturers in Latin-American business schools in 2012.

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## About Future Agenda

### *Context – Why Foresight?*

In an increasingly interconnected, complex and uncertain world, many organisations are looking for a better understanding of how the future may unfold. To do this successfully, many companies, institutions and governments are working to improve their use of strategic foresight in order to anticipate emerging issues and prepare for new opportunities.

Experience shows that change often occurs at the intersection of different disciplines, industries or challenges. This means that views of the future that focus on one sector alone have limited relevance in today's world. In order to have real value, foresight needs to bring together multiple informed and

credible views of emerging change to form a coherent picture of the world ahead. The Future Agenda programme aims to do this by providing a global platform for collective thought and innovation discussions.

#### **Get Involved**

To discuss the future agenda programme and potential participation please contact:

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### *Future Agenda 1.0*

The Future Agenda is the world's largest open foresight initiative. It was created in 2009 to bring together views on the future from many leading organizations. Building on expert perspectives that addressed everything from the future of health to the future of money, over 1500 organizations debated the big issues and emerging challenges for the next decade. Sponsored globally by Vodafone Group, this groundbreaking programme looked out ten years to the world in 2020 and connected CEOs and mayors with academics and students across 25 countries. Additional online interaction connected over 50,000 people from more than 145 countries who added their views to the mix. All output from these discussions was shared via the futureagenda.org website.

### *Future Agenda 2.0*

The success of the first Future Agenda Programme stimulated several organizations to ask that it should be repeated. Therefore this second programme is running throughout 2015 looking at key changes in the world by 2025. Following a similar approach to the first project, Future Agenda 2.0 builds on the initial success and adds extra features, such as providing more workshops in more countries to gain an even wider input and enable regional differences to be explored. There is also a specific focus on the next generation including collaborating with educational organizations to engage future leaders. There is a more refined use of social networks to share insights and earlier link-ups with global media organizations to ensure wider engagement on the pivotal topics. In addition, rather than having a single global sponsor, this time multiple hosts are owning specific topics either globally or in their regions of interest. Run as a not for profit project, Future Agenda 2.0 is a major collaboration involving many leading, forward-thinking organisations around the world.

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