

Platform for Shaping the Future of the New Economy and Society

# Chief Economists Outlook 2021

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This quarterly briefing builds on the latest policy research as well as consultations and surveys with leading chief economists from both the public and private sectors, organized by the World Economic Forum's Centre for the New Economy and Society.

It aims to summarize the emerging contours of the current economic environment and identify priorities for further action by policy-makers and business leaders in response to the global economic crisis triggered by the COVID-19 pandemic.

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# Drivers Shaping the New Context

The approval of several COVID-19 vaccines in late 2020 has brightened public health and economic prospects for 2021, and the world economy is expected to continue its recovery out of the pandemic-induced recession, unprecedented in its depth and global scale.

Yet, a year ago, the global economy had “a fragile growth outlook, with social tensions over the evident polarization of economic outcomes and high levels of uncertainty” on the eve of the first COVID-19 related lockdown in Wuhan, China.<sup>1</sup> At this critical juncture, it is less a return to the old economy that policy-makers should seek to target, but rather a shift towards a thriving global economy—where growth is revived, social justice more fully realized, and the climate crisis averted. This road is likely to be long, uneven, and unprecedented. At the same time, there is no lack of ideas for how to make a fresh start, and the actions of 2020 have set a precedent for what is possible when there is political will.

Based on consultations and surveys with the Community of Chief Economists at the World Economic Forum, the January 2021 outlook lays out the key drivers shaping the new context, the policy pathways and trends that

may shape the new year and the resulting expected outlook for 2021.

Among the drivers of the current outlook, the trajectory of the virus and the distribution of vaccines are the most prominent. Beyond its immediate impact on public health and the level of economic activity, the pandemic has set off or accelerated dynamics which will be shaping the global economy in the months and years to come. Among them are new work arrangements, deeper inequality, deglobalization, a bigger role for government and more market power for tech giants.

## **The virus and vaccine trajectory:**

Eleven months into the pandemic and as large-scale vaccination campaigns come into view, the public health situation in many places is more acute than ever. Lockdowns have been punctuated by intermittent re-openings and suffering from a lack of coordination between authorities; in addition, a highly contagious strain of the virus emerged at the end of 2020. One week into the new year, the number of total confirmed cases globally has surpassed 77 million, and there have been at least 1.67 million COVID-related deaths.<sup>2</sup> The global average daily death toll from COVID-19 stood at 11,208 for the week of 28 December to 3 January. The number of

<sup>1</sup> World Economic Forum, 2020a.

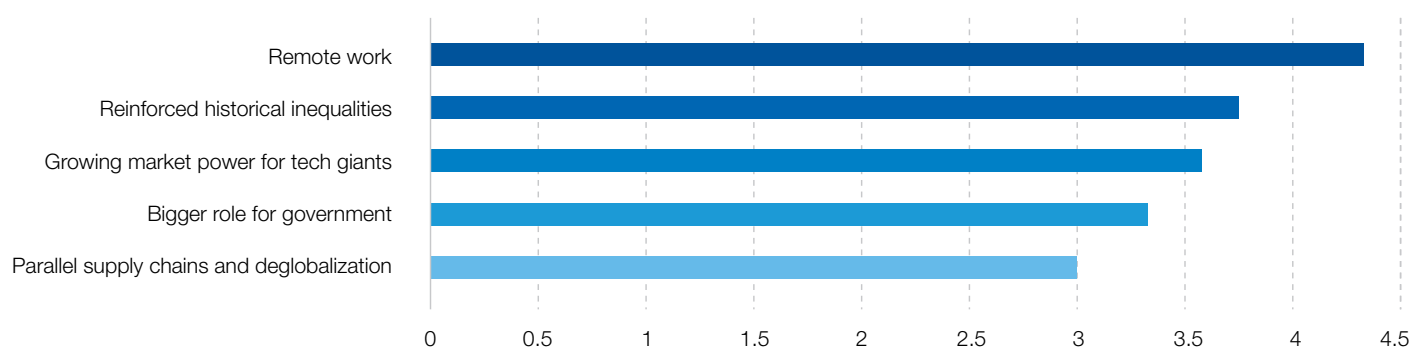
<sup>2</sup> FT Visual and Data Journalism team, 2020.

people mourning each of these deaths are multiples, leaving behind trauma and deep scars in the social fabric.

While the case numbers have been escalating, several different vaccines have been approved and their distribution in a growing number of countries has already begun. Governments of the United States, United Kingdom and Japan are aiming to vaccinate 70% of their populations by Q2 2021, and EU

countries should be able to achieve the same by Q3 2021.<sup>3</sup> Yet at the beginning of 2021, vaccine rollout is extremely uneven. The speed of some vaccination campaigns has been slowed by insufficient availability of doses, missing distribution infrastructure and hesitation among the population to be vaccinated. Out of these factors, supply shortages are currently the biggest bottleneck to ensuring sufficient global vaccine coverage.

**Figure 1:** “In your view, which of the following pandemic-induced/reinforced developments will have the longest lasting impact? (temporary = 1; long-term = 5)”



#### Sources

World Economic Forum, Chief Economists Survey, January 2021 (24 responses).

Availability of the vaccine varies widely across countries of different income levels. For emerging markets and low-income countries, roll-out looks set to be possible much later in the year or possibly only in 2022. China is aiming for 50 million people to be vaccinated by February, and India 300 million people by August this year. High- and middle-income economies in South-East Asia (Hong Kong, South Korea, Singapore, Malaysia and Taiwan, China), MENA (Morocco, Kuwait and UAE) and Latin America (Mexico, Brazil, El

Salvador, Argentina and Dominican Republic) may secure enough vaccines by Q4 2021, whereas other economies may not receive supplies until next year.<sup>4</sup> These delays are highly problematic for the individuals concerned and for the achievement of worldwide herd immunity and avoidance of further mutations. Achieving herd immunity, if treated as a global public good, will urgently require international coordination and adequate global governance mechanisms.

<sup>3</sup> Citi, 2021.

<sup>4</sup> Ibid.

While current growth forecasts hinge critically on the trajectory of the virus and therefore both on future mutations and the success of vaccine rollouts, new work arrangements, deeper inequality, deglobalization, a bigger role for government and more market power for tech giants are also shaping the new context for 2021 and beyond.

**The future of remote work:** Remote work arrangements have provided continuity in workflow for that part of the population whose jobs do not require physical presence and who have internet access. However, the longer-term impact of remote work on workforces and productivity is unclear. Early evidence on the impact of remote office set-ups on productivity and hours worked during the pandemic seems to suggest that, on average, employees worked longer hours from home and were more productive. The argument has also been made that moving interactions online has the potential to make them more inclusive in terms of diversity and disability inclusion.

In a pre-pandemic randomized controlled trial, researchers from Stanford University found that working remotely increased workers' productivity by 13%, 4% due to more tasks being done per minute and 9% due to additional work hours replacing commuting time.<sup>5</sup> It is important to note, however, that participants in the experiment had no children at home, fast internet connections and a room without distraction.

These three factors are not the reality for most workers and the evidence for long-term remote work is limited. Isolation and reduced exchange of ideas are likely to counteract productivity effects if remote work were to continue in the long term. At the start of 2021, employers are considering how best to plan for a hybrid

approach of remote and office work that strikes the right balance between focus and social interaction in the post COVID-19 world.

**Growing income inequality:** While already high before the crisis, income inequality has worsened. More data is emerging about the deeply asymmetric impact the pandemic has had on different groups, exacerbating historical inequalities along lines of race, gender, skills and income, as well as across high- and low-income countries.<sup>6</sup>

The pandemic's diverging impact by income level on the US labour market, for example, is striking, especially when compared to the last three major recessions. While job losses for the 1990, 2001 and 2008 recessions remained under 10% across the income spectrum, a significant gap opened up during the pandemic, where the highest earners saw a trough of around 5% and the lowest earners of more than 30%. High earners have all but recovered lost jobs at this stage, while for workers in the lowest earning quartile, jobs are still more than 20% below pre-pandemic levels.<sup>7</sup> Taking a different cut of the data, the latest US jobs report reveals that women on net suffered 156,000 job losses in the United States in December, while men on net gained 16,000 jobs.<sup>8</sup>

There is concern about worsening inequality even in economies that have fared relatively well thus far on this measure as governments begin to consider phasing out general emergency measures this year.

Among the hardest hit have been the populations of the lowest-income economies who are facing the pandemic with fragile health systems, no room for manoeuvre on government support, and some on the verge

5 Bloom, et al, 2013.

6 Brussevich, et al, 2020, JP Morgan Chase Institute, 2020, UN OCHA, 2020, and World Economic Forum, 2020d.

7 Long, et al, 2020.

8 Kurtz, 2021.



or in the midst of famine and violent conflict. Estimates by the World Bank suggest that without intervention, the pandemic could push 100 million people into extreme poverty by the end of 2020, increasing to 150 million in 2021 under the most severe economic scenario.<sup>9</sup> Food insecurity is estimated to have increased by 121 million to 270 million people by the end of 2020.<sup>10</sup> The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) has estimated that an additional \$90 billion, or less than 1% of OECD stimulus measures, would be needed at this stage to support low-income countries through the duration of the pandemic.<sup>11</sup> G20 countries have signalled that they are supportive of debt relief and moratoria for low-income countries, which were the hardest hit. However, these relief initiatives have yet to be implemented.

**The acceleration and concentration of the digital economy:** In 2020, the expansion of the digital economy was fuelled by prolonged lockdowns, which moved a large proportion of work, consumption and social life online. Digital technology in many ways proved a lifeline. Examples include digital payments platforms such as Ant Financial supporting the Chinese government in distributing emergency funds to millions of households and small businesses.<sup>12</sup> Amazon expanded its workforce by more than 427,000 workers over the course of 10 months to meet the surge in demand.<sup>13</sup> At the height of the first wave of COVID-19 in April 2020, Zoom hosted 300 million meeting participants daily.<sup>14</sup> Technology has been keeping the lights on in the knowledge economy and helped channel emergency relief. Yet the pandemic also sped up the automation of more tasks,

and the digital divide between those with fast internet connections and those with no or low connectivity became ever more apparent.

Some of this will be reversed as face-to-face activities come back. Yet the increased investment by companies in intangibles and automation of tasks will be here to stay. Market valuations by the largest technology companies have been soaring in 2020 at the prospect of an economy which has ratcheted up digitalization during the pandemic. At the end of 2020, the five biggest digital service providers are more valuable than ever and have become the key drivers behind the strong performance of the S&P500.<sup>15</sup>

Some have questioned whether these valuations, which explain a large part of the current stock market/real economy divide, are still linked to fundamentals or to what extent they represent a flight into risky assets by investors in search of returns.<sup>16</sup> Other forces at play are regulatory and technological. Regulators in the United States are starting to bring antitrust cases against some of the large digital service providers. The EU and UK competition authorities presented new regulations for digital platforms, and Chinese regulators intervened in Ant Financial's IPO. At the same time, Tim Berners-Lee's SOLID technology, which aims to tackle data-driven market power by giving consumers back control over their data, is now being trialled in several places.<sup>17</sup>

**Bigger government:** Managing the pandemic has established a larger presence for the state in the global economy. Over the course of 2020, G20 governments have made commitments totalling over \$10 trillion in spending, triple that of what was allocated in the aftermath of the

9 UN OCHA, 2020, World Bank, 2020.

10 World Food Programme, 2020.

11 UN OCHA, 2020.

12 Huang, et al, 2020.

13 Weise, 2020.

14 Iqbal, 2020.

15 Foroohar, 2020.

16 The Economist, 2020b.

17 Thornhill, 2020.

2008 global financial crisis.<sup>18</sup> The money has been going primarily to emergency measures in the form of grants, loans and guarantees for households and businesses, while another portion of funding has been pledged for stimulus spending once economies reopen. In some cases, although not systematically, governments have attached conditions to support measures, such as bans on dividend pay-outs and on lay-offs or conditions related to environmental performance. Pledges of stimulus spending have in some cases been directly geared towards transforming as opposed to rebuilding the economy. Examples include the EU's commitment to spend 20% of its fiscal stimulus to accelerate the transition to a green economy and the pledge by the incoming US government to boost small businesses with a view to achieving diversity and social justice objectives.

While there is a consensus that government responses were impressive in their speed and scope, some have also raised questions around governance and transparency in the distribution of emergency and stimulus measures. The danger of corruption and diversion of funds is present and real and will need to be considered as large amounts of funding are released in the stimulus phase. The challenge for 2021 will be to target both emergency relief and stimulus spending as precisely and transparently as possible.<sup>19</sup>

**Deglobalization:** This was an emerging trend even before the pandemic, as trade and technology policy tensions between the United States and China, as well as the consequences of Brexit, were present through much of 2019, along with a decline in the influence of the World Trade Organization. In this highly uncertain trade environment, the first set of COVID-19 lockdowns led to a collapse in manufacturing and services trade in the first quarter of 2020. In moves towards what their proponents might call self-sufficiency,

2020 saw a proliferation in restrictive trade interventions of a staggering 1,800 measures.<sup>20</sup> A combination of these dynamics has pushed policy-makers and businesses to rethink their place in global value chains.

As trade volumes are picking up again, patterns are likely to adjust to a new long-term trade structure. The fact that 300 of the world's top 500 companies have facilities in the high-tech manufacturing hub Hubei province—where Wuhan is the capital—made the vulnerabilities of geographical specialization in sourcing abundantly clear.<sup>21</sup> Politicians quickly turned to calling for greater diversification of supply chains located in greater regional proximity. Companies started asking themselves how much supply-chain resilience was worth, since parallel supply chains would incur additional fixed costs and move parts of their production out of lowest-cost locations. Yet more localized shocks can be expected as climate change accelerates, making this an important strategic consideration also post COVID-19. One of the reasons why Chinese manufacturing trade recovered much faster than other countries seems to be linked to the fact that Chinese integration into value chains is already one of the most diversified and regionalized.<sup>22</sup>

A second dynamic driving towards greater deglobalization are technology rivalries that are threatening to compartmentalize digital spaces, most prominently into a United States and Chinese sphere of influence. 2020 saw the ban of several Chinese providers from US distribution channels and capital markets. It remains to be seen to what extent a new basis for coexistence and collaboration on these issues can be found with the incoming US administration.

As far as these five major dynamics are concerned, respondents of the Chief Economists Survey believe

18 McKinsey & Company, 2020.

19 Javorcik, 2020b.

20 Seric, et al, 2021, and Evenett and Fritz, 2020.

21 Javorcik, 2020a.

22 Seric, et al, 2021.



that remote work arrangements will be here to stay in some form in the long run. They assess the other four drivers to be medium-term phenomena. Among them, inequality is likely to have the longest

lasting legacy of the pandemic, followed closely by more dominant tech giants and bigger government. Deglobalization was judged to be the most temporary of the five trends, if only by a small margin.

# Emerging Policy Pathways for Recovery and Transformation

Several policy pathways and trends emerge from the drivers mentioned in the section above, both to tackle some of the negative aspects of these dynamics as well as to leverage new opportunities for economic revival and transformation.

## Fiscal policy

The fiscal response to the COVID crisis has been unprecedented with more than \$10 trillion having been pledged by G20 governments in emergency and stimulus measures. Following the emergency funding for the US economy of \$900 billion, passed by Congress in December, the incoming government has signalled that even more generous spending is on the way for struggling individuals and businesses. Two major questions need to be addressed:

### **Are there limits to spending for governments of high-income countries in the current circumstances?**

An important open question is the extent to which governments in advanced economies are justified in minimizing concern about borrowing constraints. Debt-to-GDP ratios have increased by approximately 15-20% of GDP in high-income countries—for the Eurozone, two-thirds of which came from additional spending, one-third from the

collapse in GDP.<sup>23</sup> Debt-to-GDP ratios in several countries have reached post-WWII levels.<sup>24</sup>

While there is a consensus among prominent economists that the mistakes of post-crisis austerity must be avoided, opinions on the limits of spending are diverging. The OECD is warning against a popular backlash in case government spending is retrenched or taxes are raised too soon; instead of focusing on short-term debt and deficit targets, the OECD's Chief Economist advises that governments should pursue long-term sustainability objectives, accepting that debt will temporarily be higher.<sup>25</sup> In the case of Europe, the European Central Bank (ECB) has warned that an abrupt withdrawal of government measures would pose a severe financial stability risk, in addition to ruptures in the social fabric, as significant amounts of lending to SMEs in Europe have been carried by public guarantees and moratoria.<sup>26</sup> Prominent economists have argued that the current environment of extremely low interest rates and significant levels of unemployment allow governments to be less concerned about being able to pay back debt and triggering inflation. Yet others have pointed out that governments will not be able to roll over their debt forever and will eventually need to start thinking about paying both interest and

<sup>23</sup> Tooze, 2020, and Rajan, 2020.

<sup>24</sup> Rajan, 2020.

<sup>25</sup> Giles, 2021.

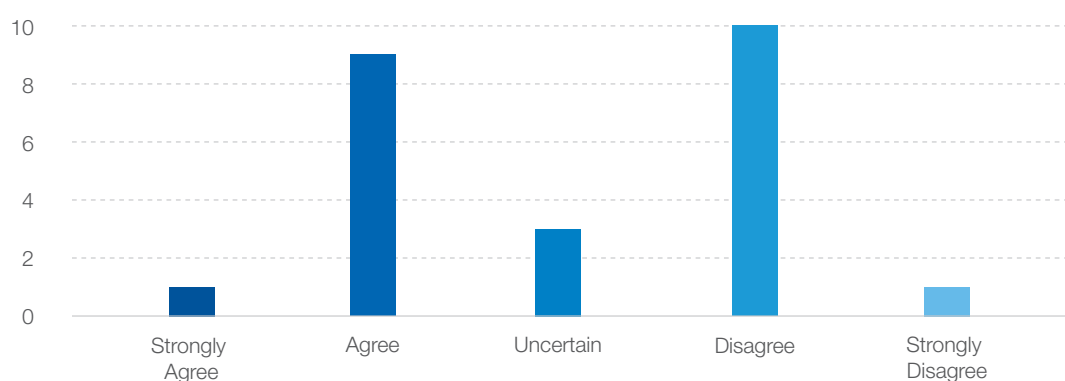
<sup>26</sup> Tooze, 2020.

principal or else face rising risk premiums on future borrowing.<sup>27</sup>

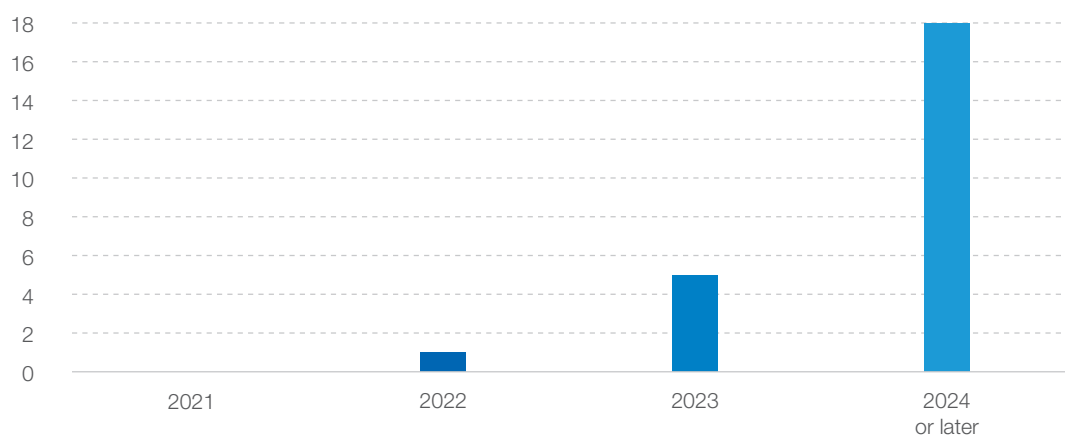
Opinions among survey respondents on the amount of leeway that governments currently have are divided. Almost equal numbers of respondents agreed and disagreed with the statement that governments who can borrow in their own currency can afford to spend as if there were no limits to borrowing. Among those who agreed,

several respondents qualified their agreement, emphasising that the type of spending matters; it should first and foremost be allocated to public investment that supports sustainable growth or to measures that catalyse private investment. As for the timing of transitioning back out of the current high-spending phase, most respondents judged the optimal timing to start paying down public debt to be 2024 or even later, given the current macro environment.

**Figure 2:** “Governments of high-income countries can afford to spend as if there were no borrowing constraints.”



**Figure 3:** “What will be the right point in time to start paying down public debt incurred during the crisis?”



#### Sources

World Economic Forum, Chief Economists Survey, January 2021 (24 responses).

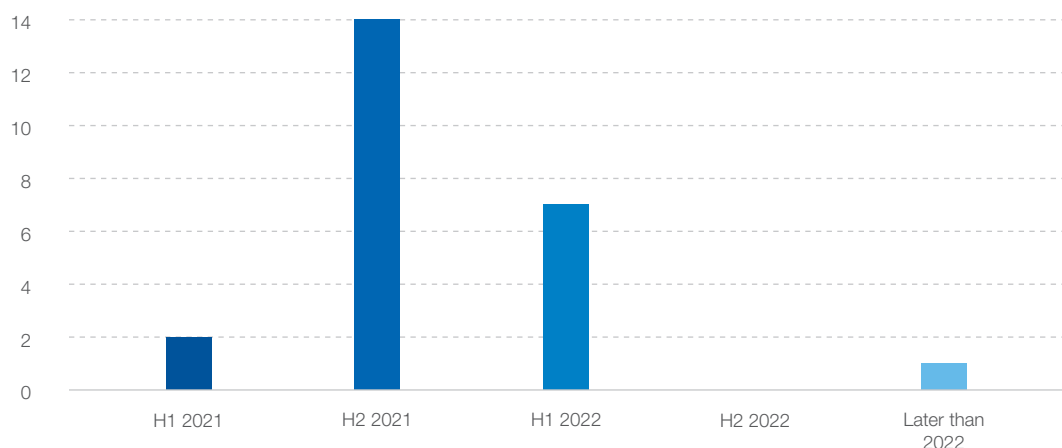
<sup>27</sup> Rajan, 2020.

### How to manage a transition from general emergency support to transformative fiscal stimulus and which elements should be made permanent as part of a new social contract?

Governments in high-income countries stepped in either to support employment directly, as in Europe, or to sustain disposable incomes with more generous unemployment benefits, as in the United States, thereby avoiding the mistakes that were made in the aftermath of the 2008 global financial crisis.

Policy-makers will eventually be challenged to find ways of transitioning from general support measures to more targeted measures that favour sustainable sectors. The majority of survey respondents feel that the second half of 2021 will be the appropriate time to start making the transition, while some feel that governments should wait until the first half of 2022. It has been pointed out that the transition will need to be extremely carefully managed, since there is a significant risk of a delayed wave of bankruptcies, in particular in Europe where initial emergency support was generous.<sup>28</sup>

**Figure 4:** “In light of the recent vaccine availability, what will be the right point in time to phase out general wage support programmes in favour of measures supporting structural change?”



#### Sources

World Economic Forum, Chief Economists Survey, January 2021 (24 responses).

An additional consideration is to what extent innovations in social safety nets will be anchored more permanently. For example, the crisis response in some countries extended coverage of unemployment benefits for freelancers and gig workers. Leaving these measures in place would go some way towards adapting the welfare state to the needs of the new economy and building a new social contract.

### Monetary policy

Monetary policy is currently playing a critical supporting role in providing room to manoeuvre for public spending. Since this is happening in a macro setting that has shifted significantly in recent years, there are two key open questions regarding the implications of current monetary policy action for central bank independence, and whether, in supporting the recovery, the scope

<sup>28</sup> Allianz, 2020b, and Tooze, 2020.

of central bank mandates should extend to contributing directly to a green transformation.

### To what extent will central bank independence emerge weakened from the crisis?

The ever-growing use of quantitative easing (QE) and recent moves to broaden central bank mandates point to a coming paradigm shift in monetary policy and its interconnection with government spending. Central bank financing of public debt in the form of QE has become an important part of central banks' toolboxes. Global QE at the end of last year stood at \$17 trillion and continues to intertwine fiscal and monetary policy ever more closely.<sup>29</sup>

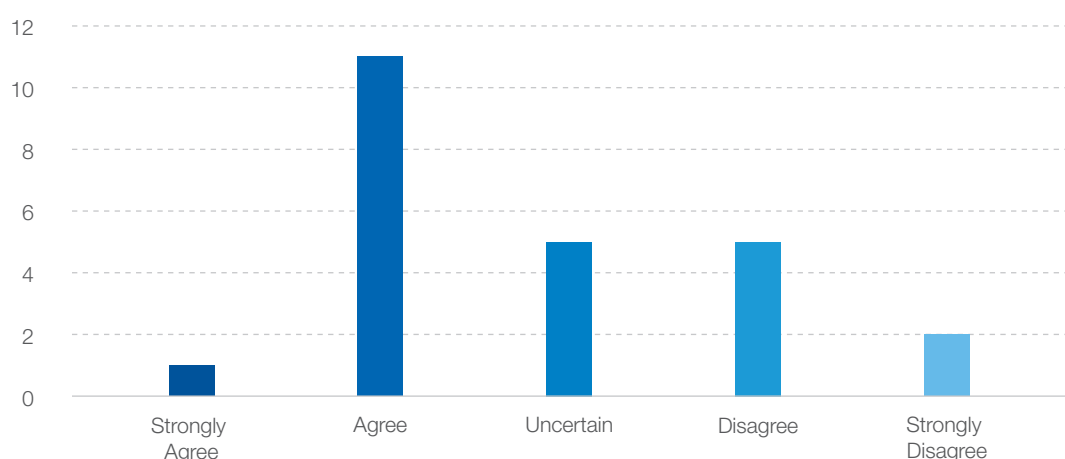
Recent months have also seen significant shifts as far as the primacy of inflation targets is concerned. In August, the US Federal Reserve added maximum sustainable employment as a target to its policy framework, giving itself the dual mandate of ensuring price stability and employment. Others may be following suit. For

example, politicians in Indonesia and South Korea have asked for labour market stability to be included as part of the mandate in their central bank's charter.<sup>30</sup>

In a best-case scenario, stimulus will revive economic growth to such an extent that growth rates remain above interest rates, allowing governments to repay interest and principals. There is, however, also a low-growth scenario, where a retreat of globalization and emerging demographic shortages in the labour force will push inflation beyond 2%, while government exerts pressure on the central bank to prioritize other targets over inflation management.

There is a growing number of voices who feel that we may have reached "peak central bank independence".<sup>31</sup> While opinions were divided, the majority of respondents to the Chief Economists Survey felt that a reduction in central bank independence will indeed be a likely consequence of the crisis.

**Figure 5:** "Central bank independence will emerge weakened from the crisis."



#### Sources

World Economic Forum, Chief Economists Survey, January 2021 (24 responses).

<sup>29</sup> Haldane, 2020.

<sup>30</sup> Moss, 2020.

<sup>31</sup> Haldane, 2020.

### How much should central banks be involved in the transformation to a greener economy?

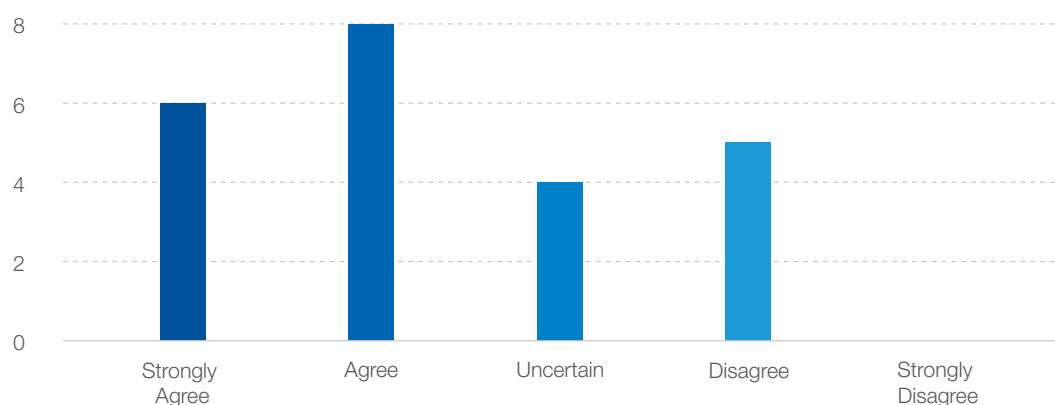
In line with efforts by a growing number of ESG (environmental, social and corporate governance) investors, the European Central Bank has recently started investigating options for greening the asset purchases it is making as part of its monetary policy interventions.

The president of the ECB has suggested that climate change targets have relevance for the

bank's primary mandate to safeguard price stability as opposed to simply for EU economic policies, its secondary mandate. She has therefore suggested that assets bought by the ECB as part of QE interventions should be tilted towards green assets.<sup>32</sup>

Opinions among members of the Chief Economists Community on whether environmental considerations should play a direct role in monetary policy decisions diverge, yet lean in favour of greening.

**Figure 6:** “Central banks should incorporate environmental considerations into their asset buying decisions.”



#### Sources

World Economic Forum, Chief Economists Survey, January 2021 (23 responses).

### Competition policy

While there has been momentum on both sides of the Atlantic on reigning in the growing market power of digital companies, an important open question is whether competition authorities' toolboxes have been sufficiently upgraded to create a more level playing field for the digital economy.

### How effective are current approaches likely to be in curtailing abuse of market dominance in the digital economy?

The EU has been pioneering new approaches to competition policy in the digital economy for some years. Momentum is also gathering in the United States, where authorities last year started looking more closely at new types of data-driven

32 The Economist, 2020a.



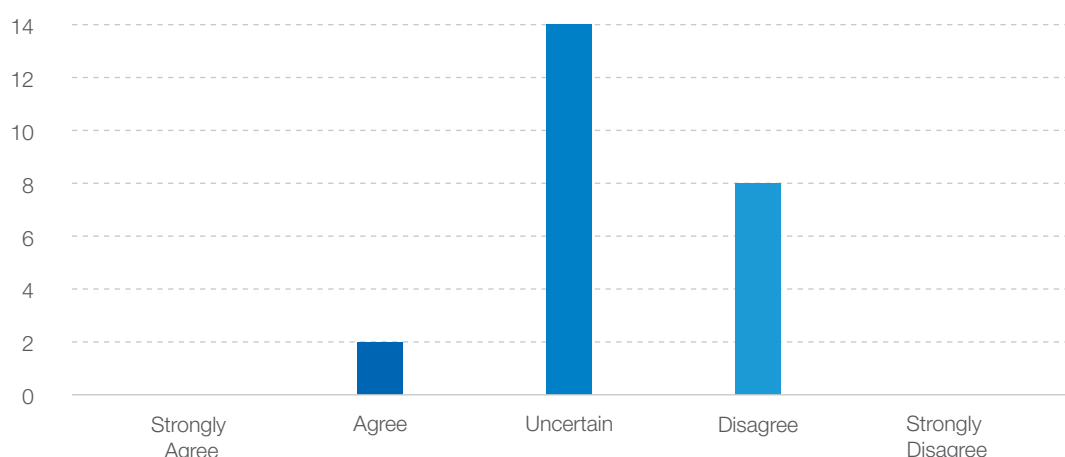
market power and the ways in which it is being exploited. There is reason to believe that the recent momentum in antitrust action against the market dominance of some digital players will be sustained and built out under the new US administration, adding to ongoing and European efforts in the area. A recent report suggests that 2021 will likely see more scrutiny of acquisitions by tech giants and tougher regulation to prevent abuse of market dominance, for example in the form of excluding competitors from access to platforms.<sup>33</sup>

Respondents to the Chief Economists Survey felt that it was too early to tell whether current antitrust

efforts will be sufficient to effectively level the playing field of the digital economy.

Recognizing the size of the challenge, US, UK and EU antitrust authorities have been allocated increased budgets in 2021 and will be dedicating more staff to the investigation of digital economy market power.<sup>34</sup> An additional avenue will be to further foster technological efforts that aim to return control over data to consumers.<sup>35</sup> Building out both approaches should eventually combine into a powerful, two-pronged tool to ensure wide participation in markets and a more equal division of the gains of digitalization.

**Figure 7:** “Recent antitrust action by the EU and US looks set to provide an effective remedy to reign in market dominance in the digital economy.”



#### Sources

World Economic Forum, Chief Economists Survey, January 2021 (24 responses).

## Multilateral cooperation

The outcome of the US election has given a new lease on life to a number of multilateral organizations. In particular, the incoming US administration has signalled a return of the United

States to the World Trade Organization, the World Health Organization, and, importantly, the Paris Climate Agreement.

**Given a revival of multilateral cooperation, what should be top of the agenda?**

<sup>33</sup> Freshfields, 2021.

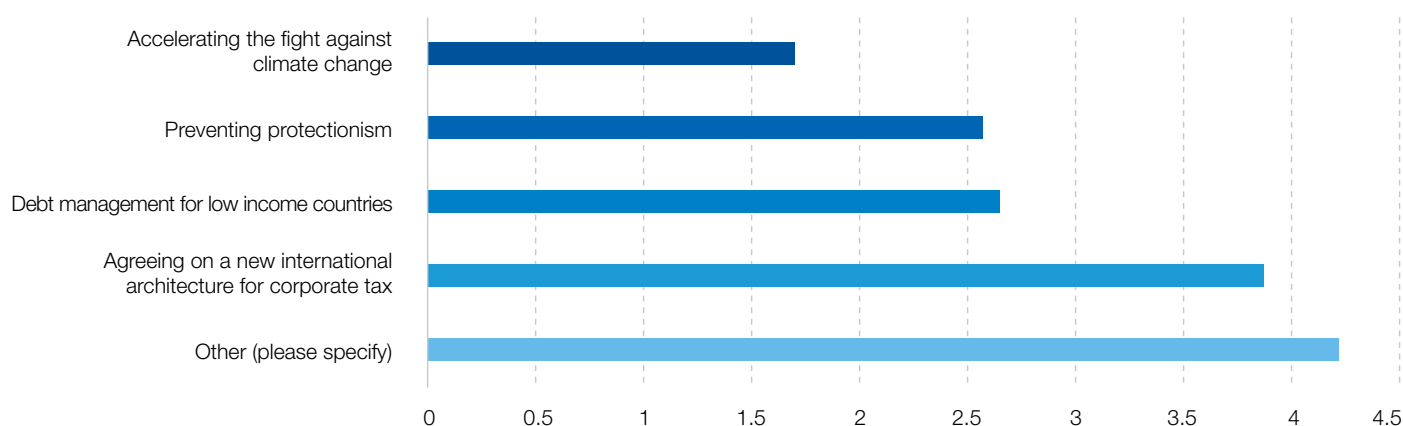
<sup>34</sup> Espinoza, 2021, and Freshfields, 2021.

<sup>35</sup> Thornhill, 2020.

Among the issues on the multilateral agenda that need to be addressed with urgency, survey respondents see by far the greatest urgency in making progress on international efforts to tackle climate change, followed by stemming the tide of rising protectionism and fiscal support to the most vulnerable economies, followed by an agreement on a new architecture for corporate tax.

Other areas that were mentioned as requiring multilateral cooperation and guidance included data management, which could involve surveillance technology, wealth inequality, migration, vaccine distribution, cybersecurity and preparation for future pandemics.

**Figure 8:** “Renewed international cooperation is most urgently needed for” (figure shows rank average).



#### Sources

World Economic Forum, Chief Economists Survey, January 2021 (24 responses).

#### Is there a need for a new multilateral mechanism in the post COVID-19 economy?

Most survey respondents felt that the first order of business on the international agenda should be a revival and, where necessary, reform of existing international organizations and multilateral mechanisms over the creation

of new ones. Additional mechanisms could be needed in future for managing the data economy and surveillance, creating a modern framework for migration and addressing wealth inequality. It was also suggested that additional resources should be allocated for greater international fiscal coordination and to shaping a more equitable form of globalization.

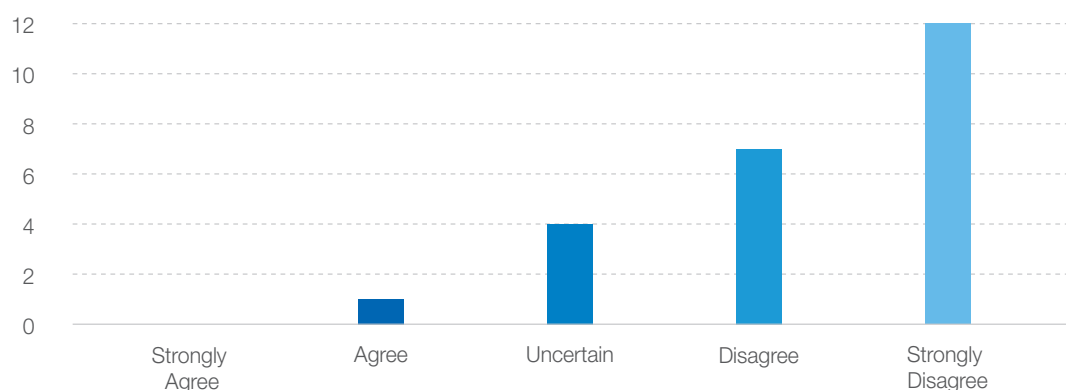
# The Outlook for Prosperity, People, Planet and Institutions in 2021

The drivers of the new context and the policy pathways aiming to address them combine into a complex mix for the 2021 outlook for prosperity, people, the planet and governance.

**Prosperity:** Forecasts for traditional measures of GDP are showing signs of recovery somewhat better than projected a few months earlier thanks to the news of an effective vaccine, with China furthest ahead in the recovery as one of very few economies with positive growth expected for 2020.<sup>36</sup> Yet as we have pointed out previously through a proposal to develop a new dashboard for the new economy, a recovery in GDP will be necessary but not sufficient to declare a recovery or indeed mark a leap to something better.

**People:** The pandemic has caused much trauma from the loss of lives and livelihoods on a global scale. The vast majority of Chief Economists consulted for this edition felt that the social fabric in their country has significantly deteriorated over the course of 2020. People have adapted to new situations with impressive speed; however, they will also be carrying the scars of the pandemic experience for some time. The demands on individuals to continue adapting to a new world of work are immense as the pandemic has further accelerated the automation of tasks. Some relief might come from more flexible work arrangements, but also more pressure from new types of remote competition. A K-shaped recovery continues to be a distinct possibility within economies unless governments manage to shape more inclusive

**Figure 9:** “The social fabric in my country has improved as a consequence of the pandemic.”



#### Sources

World Economic Forum, Chief Economists Survey, January 2021 (24 responses).

<sup>36</sup> OECD, 2020.

job creation and enact major reforms to the structure of their social safety nets and the overall social contract. Between high- and low-income economies too, there is a risk of a diverging, or K-shaped, global recovery in the absence of more support to low-income countries.

**Planet:** Environmental risk looms large, yet by now is firmly at the top of many government and business agendas. Environmental concerns are flowing into an increasing number of policy decisions, breaking new ground in areas such as stimulus packages and monetary policy. After resistance around the wearing of masks, there is a question, however, to what extent behavioural change to avoid climate catastrophe will be an effective approach. The rapid success in finding a vaccine suggests that directed innovation could be a powerful complement. An open question is also to what extent net zero goals and accelerating digitalization are on a collision course.

**Institutions:** After years of neglect and decline,<sup>37</sup> the COVID-19 crisis has made clear the critical importance of both formal and informal, national and global institutions for resilience. Trust in government has been shown to be a critical determinant of compliance with COVID-19 measures and ultimately had a significant impact on infection rates and loss of life. Trust in government and in global institutions will be equally important if measures for an economic transformation are to succeed. Rebuilding this trust will be one of the most difficult challenges post-pandemic, in particular in cases where trust in institutions has been actively destroyed.

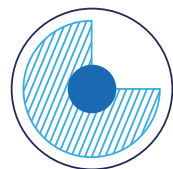
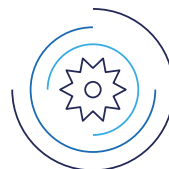
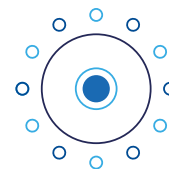
Multilateral institutions, on the other hand, are likely to see a more rapid reset and revival in 2021, with one of the most important players, the United States, back at the table.

Most members of the Chief Economists Community see the biggest risk for 2021 in virus mutations that will slow efforts to contain the pandemic and lead to new lockdowns. There are further policy risks from

not calibrating responses to differentiate between the deep structural impact of the pandemic on some sectors vs the mere intermission of activity in other sectors. In addition, there is concern that fiscal stimulus will be phased out too early, but also that doubts arise over debt sustainability. A further risk lies in longer-term repercussions to social mobility from interruptions to education that have mostly fallen on the least well-off as well as growing cross-country and within country inequality.

Effective leadership by governments will entail addressing short- and medium-term domestic challenges regarding growth, economic transformation, employment, health, education and societal cohesion, as well as engaging in international collaboration on global vaccine distribution, debt relief for low-income countries and climate change. There is momentum in several key areas of economic policy, including fiscal, monetary and antitrust, to shape the direction of economic growth more proactively. There will not be a better time than today for governments to invest in a fair transition to a greener, more inclusive economy and to coordinate across borders. This year, while the challenges are immense, the opportunities to bring about change are also vast.

37 World Economic Forum, 2020e.

**Table 1:** Dashboard for a new economy – Dimensions<sup>38</sup>**Prosperity****Planet****People****Institutions**

<b>Present activity</b>	Updated measure of GDP	GHG emissions; nature health indicators	Education and skills; public health	Institutional context
<b>Distribution</b>	Financial inequality; social mobility	Impact and burden of mitigation	Education and health care access; non-financial dimensions of inequality	
<b>Resilience</b>	Financial capital	Natural capital	Social capital	

38 World Economic Forum, 2020c.

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