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Economic Troubles Cited As the Top Risks in 2012

By ERIC PFANNER

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Severe income disparity and chronic fiscal imbalances are the top two risks facing business leaders and policy makers this year and over the next decade, the [World Economic Forum](#) said in a report Wednesday.

If these problems are not addressed, a result could be a “dystopian future for much of humanity,” according to the report, which was published in preparation for the group’s annual meeting of business leaders, policy makers and academics in Davos, Switzerland, Jan. 25 to 29.

Signs of discontent with growing income gaps and economic problems stemming from the global debt crisis were already on the rise in 2011, as evidenced by the Occupy movement that began on Wall Street and quickly spread to other cities in the United States and around the world. Yet that might be only the beginning.

John Drzik, chief executive of the management consulting firm Oliver Wyman, said that deeper problems could be brewing in much of the developed world, where overextended governments face political, economic and demographic pressures to reduce social protections, pensions and other commitments.

“When it becomes clear that promises can’t be met, you could have social unrest increasing widely,” said Mr. Drzik, who contributed to the report. “People aren’t happy when they think they have something and they’re told that it’s not there anymore.”

Other risks highlighted by the forum include the potential problems stemming from greenhouse gas emissions, computer attacks and water supply disruptions.

The emphasis on economic and social risks is a big shift from the focus of a year ago, when the group’s annual report on potential disruptions highlighted natural disasters, a threat that materialized when a devastating earthquake struck Japan last March.

The earthquake quickly became a human, environmental and economic disaster, spawning a tsunami that killed thousands of people in Japan and setting in motion events that resulted in a meltdown in several reactors at the Fukushima Daiichi nuclear power plant.

The economic ripple effects from the tremor spread throughout the world when manufacturing plants in Japan were shut down, causing widespread supply disruptions. It became a political event when, in the aftermath of the nuclear accident, Germany announced that it planned to shut down its nuclear plants within a decade.

“It was the world’s first trillion-dollar disaster,” said Erwann O. Michel-Kerjan, managing director of the Risk Management and Decision Processes Center at the Wharton School of the University of Pennsylvania, who contributed to the forum’s report. “It’s one of the flip sides of globalization. A local event can become a global event much more quickly.”

As a result, a number of risk analysts — not just those at the forum — are looking less at the specific nature of individual disasters and more at potential connections between them. These have become increasingly evident in a variety of shocks in the last decade or so, including the terrorist attacks of Sept. 11, the global financial crisis that began in 2007 and the eruption of a volcano in Iceland in 2010, which produced a huge ash cloud that disrupted air travel across Europe for about a week.

“It seems like we are facing a lot more disasters,” said Bernice Lee, research director for energy, environment and resource governance at the British research organization Chatham House. “But it may just be that we are feeling their impacts more because they are more globalized.”

In a separate report for Chatham House, Ms. Lee argues that the world has grown more vulnerable to such events in recent years because of various factors, including the rise of the Internet and the popularity of the so-called just-in-time model of supply-chain management in business.

Under this system, many companies stock only enough parts to keep assembly lines running for a few days. In normal times, this cuts costs and makes manufacturers more flexible. When disaster strikes, however, businesses may be more vulnerable than in the days when warehouses stocked months of supplies.

The Internet, meanwhile, can magnify and spread the effects of a disaster in other ways. Rumors, even if incorrect, spread quickly on social networking sites — sometimes more rapidly than emergency services can communicate accurate information. As word of disasters like the terror attacks of Sept. 11 or the earthquake in Japan spreads globally, consumers hunker down in front of their computer screens or televisions, rather than going about their daily lives. This increases the economic effects of a crisis, even in areas far removed from the source.

Howard Kunreuther, professor of decision sciences and business and public policy at Wharton, said that after the earthquake in Japan, researchers noticed an increase in sales of earthquake insurance, even in places at little or no risk of earthquakes.

“Before an event, nobody thinks something will happen to them,” he said. “After an event, people sometimes act equally irrationally.”

While scientists can predict the probability — if not the exact timing or scale — of certain natural disasters, the ability to read a crystal ball may be more helpful than complex calculations in determining risks stemming from human events.

Leading many forecasters’ worries is an escalation of tensions between the United States and Iran. In addition to political turmoil, military action between the United States — or Israel — and Iran could cause a sharp increase in oil prices, especially if the Strait of Hormuz were blocked.

Ed Yardeni, an independent economist in New York, lists this as one of his “four horsemen of the apocalypse” for 2012. The others, cited in a note to clients, are: a severe global credit squeeze stemming from the crisis in the euro zone; social upheaval in China and India; and a severe global [recession](#) emanating from Europe.

Graham Hutchings, director of analysis at Oxford Analytica, adds to these the uncertainty caused by elections in a number of countries, including France, Russia and the United States, as well as a leadership transition in China.

Leadership changes can also come as a surprise, as they did to several heads of state in the Arab world last year, with a speed and suddenness that startled the experts. How the Arab Spring evolves, and how far the protests spread in the Arab world and beyond — as old assumptions about geopolitical alignments are being cast aside — are among the big uncertainties of 2012.

“This is an uncharted world, one that we’re not familiar with, one that is not populated by two or three big powers and the other countries aligning themselves with one or another of those,” Mr. Hutchings said. “It is one that is marked by a dissolving of certainties, one that is more dependent on culture and context.”

And, in what might turn out to be the most accurate prediction of 2012, he added, “Attempts to predict the affairs of humankind are marked by a kind of arrogance and are bound to fail.”

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