

## Top 5 Global Risks for 2012

### Income inequality and shaky government finances top the list

By MEG HANDLEY [mhandley@usnews.com](mailto:mhandley@usnews.com)

January 17, 2012

As if we didn't have enough to worry about with the apocalypse this year, a new report has given us 50 more catastrophic events to fret about.

OK, so the apocalypse (probably) won't happen, but the risks the World Economic Forum outlines in its annual survey aren't that far-fetched, according to Erwann Michel-Kerjan, managing director of the [Risk Management and Decision Processes Center](#) at the University of Pennsylvania's Wharton Business School and co-author of the WEF report.

"We're not talking about small risks here, we're talking about massive potential events," Michel-Kerjan says. "Most of them, if not the majority of them, are pretty likely to happen and this is probably the first year we've really had that recognition that these are not low-probability events."

Planet Earth just can't get a break, can it?

Income inequality, bad government balance sheets, and greenhouse gas emissions top the World Economic Forum's annual list of likely global risks for 2012, which is compiled by interviewing hundreds of business leaders and experts around the world. Cyber attacks and water shortages round out the WEF's top five risks for 2012. Compared to last year's list, the risks the world faces have shifted from environmental to social and economic.

"When most people think about risks, they think about sudden events like a terrorist attack or an earthquake," Michel-Kerjan says. But that's not necessarily the case with the risks outlined in the WEF report, especially this year.

Consider the report's top risk: income inequality. "Income disparity is not something that happens overnight," Michel-Kerjan says, adding that about 50 percent of the world's population survives on only 1 percent of the wealth. "It builds up."

The social instability income inequality produces is where the risk comes in, he says, citing the events leading up to the Arab Spring last year and the social climate in China now. "It's deeper than that, though," Michel-Kerjan says. "It goes to distrust in global institutions," such as banks, which could potentially lead to a breakdown in the financial system.

Income inequality isn't just an issue in emerging and less-developed economies. "These trends are evolving differently," the report says. "In developed countries, such as those of Western Europe, North America, and Japan, the social contract that has in recent decades been taken for granted is in danger of being destroyed."

But the report is no crystal ball, says Michel-Kerjan. While the risks the report identifies are the most likely according to a survey of experts, they are by no means certain to occur. Still, there is value in acknowledging risks and preparing for them. "What we're saying here is that we're seeing risks building themselves over time," he says. "Many people think about risk management in silos, and that's been a big part of our failure to see things coming before they happen."

The global risks report will be presented next week at the World Economic Forum's annual summit in Davos, Switzerland where Michel-Kerjan hopes the 2,500 economists, business leaders, and experts attending can toss around ideas on how best to address these risks.

"The people we are targeting here are people who have the capacity to influence the situation one way or another," he says.

<http://www.usnews.com/news/articles/2012/01/17/top-5-global-risks-for-2012>