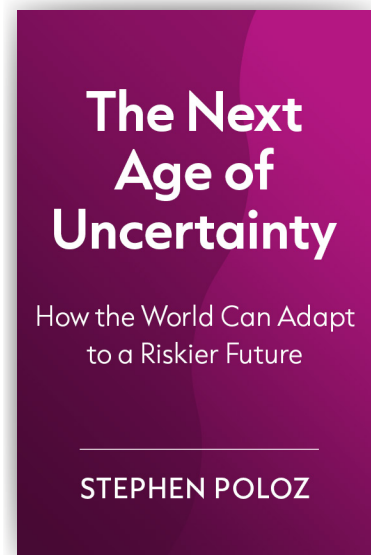


The Next Age of Uncertainty

How the World Can Adapt
to a Riskier Future

Stephen Poloz

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REVIEW

By **KATIE FLEMING**

Over the past decade, we've seen economic growth and economic recession. The stock market has wavered, as have interest rates, home prices, gas prices, employment numbers, the exchange rate, and much more. It's tough to make decisions, both in our personal lives and for our companies, with this economic volatility.

Former Governor of the Bank of Canada Stephen Poloz has seen firsthand how past and current economic uncertainties increase the risks in the decisions we make each day. In **The Next Age of Uncertainty**, Poloz explains that we must constantly scan the status and interactions of a few key economic forces to prepare for what's to come and see how a choice we plan to make will fare in a range of environments. This discussion—and others like it—may help us more effectively navigate our current environment and develop better-formed pictures of our future.

THE ECONOMIC FORCES AT PLAY TODAY

Poloz states that much of the economic volatility we experience results from moving economic forces. He cites five specific forces that can lunge forward, drag, or otherwise impact one another and cause imbalance, uncertainty, and unpredictability. These forces are population aging, technological progress, rising inequality, growing debt, and climate change.

Nations aspire to economic growth, which results from growth in the labor force and productivity. However, each of the five forces, individually or in tandem, can impact our upward momentum. Economists try to account for these impacts through models that seek to pinpoint precise values or rates people can rely on as they look ahead, make decisions, and commit to paths.

Of course, as Poloz says, the reality is far less uncertain, partly because the models tend to be based on statistical averages and are overly simplified. It's difficult for economists and others to take all five of these forces and their possible interactions into account and forecast, with any accuracy, what might occur. Even devoted study to the individual forces rarely prepares forward thinkers for the seemingly incomprehensible or chaotic outcomes we experience.

Poloz theorizes that the five forces can interact in ways outside our understanding and create the random events of crises we experience. He believes it can help to understand them, but doing so doesn't make them forecastable. Instead, our studies can help us improve our risk management and reduce the odds of succumbing to the problems economic instabilities can create.

WHEN THE FORCES INTERACT

Poloz asserts that dynamic forces, including economic factors, never go in a straight line. They drift and bow, resulting in the mathematics of chaos—what we might call the “butterfly effect.” No single factor is complex to describe, but their consequences are, and their interactions and out-of-sync evolutions can create some seemingly inexplicable outcomes. Fold politics into the mix and the uncertainty mounts, resulting in more risk and volatility.

Economists try to capture these shifts by looking at aggregate behaviors and macroeconomic factors. Unfortunately, their work leaves a great deal of room for error. Poloz says that economists aim for reasonable approximations through correlations in data, but both the approximations and correlations are often imperfect.

Still, the imagined relationships at the bedrock of these approximations shape prevailing economic theories. Many government and organizational leaders depend on the latest theories to make important, impactful decisions. Poloz argues that the theories tend to “work until they do not.” The reason is that the relationships are uncertain, but beyond that, the frameworks being applied are incomplete, perfect measurements are nearly impossible to attain, and the concepts they push forward aren't easily applied in practice.

Through events like the Victorian depression, the Great Depression, the Asian financial crisis, and the Global Financial Crisis, we've gained better insights to predict seismic shifts in the five forces. But as Poloz reminds us, we can't predict crises or specific outcomes. Instead, we must learn to manage the risks that may lie ahead and make smarter decisions.

LESSONS LEARNED FROM THE COVID-19 PANDEMIC

Banking committees and policy makers certainly must play a role in studying the economic climate we live in, exploring the risks, and advocating for markets that can endure the ups and downs of various economic impacts. Poloz asserts they must also be ready to take on a crisis-management role to intervene and limit the impacts of emerging crises.

The COVID-19 pandemic taught Poloz and other economic leaders new lessons, including the impact of an immediate, forceful fiscal response, using elastic measures to expand or contract based on the mar-

ket's evolving needs. World leaders' responses were markedly different from the hands-off approaches policy makers in the Great Depression era had used. Many who employed stabilization methods over the past several years helped their countries bounce back in rapid, robust ways. Still, scars remain: Companies closed their doors, worker skills deteriorated, and consumer habits changed, for example.

Leaders must glean lessons of what went right, where they went wrong, and what they could do differently to support better outcomes through future, though possibly dissimilar, crises. This is especially important as economists look outward to inflation, jobs, and housing challenges facing their markets.

GLIMPSES OF THE FUTURE OF INFLATION, JOBS, AND HOUSING

According to Poloz, inflation tends to creep in after large buildups in government debt, making this crisis a bit easier to spot. Still, inflation can have a crushing impact on the economy, and the five economic forces, along with political stressors, require economic leaders to be thoughtful about implementing new monetary policies. Much broader implications must be considered to ensure that economies remain healthy and robust.

Employment matters must also be carefully monitored because the labor market is seldom stable or tranquil. The five economic forces easily sway it. But because employment has an enormous impact on the well-being of people, companies, and the economy as a whole, Poloz says that leaders must monitor job volatility, job disruption, population aging, and future work arrangements to manage risks and prepare for the impacts worsening conditions may have on their companies and markets.

The housing sector also deserves close study. Studying factors such as housing volatility, household debt, the market impacts of renting versus buying, and the debt-equity framework that results from housing decisions can help leaders contextualize housing market stressors and the vulnerabilities they can create on societal well-being, spending power, consumer debt, and personal capacity for investment.

WHAT MUST COME NEXT

Poloz believes there will be higher economic and financial volatility in the future and that it's imperative for leaders to be ready for emerging risks that will impact their business plans. He advocates for alternate planning scenarios, real-time tweaking of strategies, and heftier investments in risk management to boost companies' odds of survival, including maintaining job numbers and delivering favorable returns for shareholders.

BOTTOM LINE

Anyone looking to take a deep dive into the causes and impacts of economic fluctuations will be rewarded by reading **The Next Age of Uncertainty**. Poloz spurs readers to consider risk, correlations, and impacts in ways they otherwise may never have pieced together. He folds in stories from his work as the former Governor of the Bank of Canada and history to add context. This book may be a bit advanced for people with a casual interest in future-oriented thought. Instead, it's best suited for readers with a fundamental understanding of economic principles and a keen desire to understand risk factors and mitigators through this lens.

ABOUT THE REVIEWER

Katie Fleming is a professional writer from Ohio who specializes in content creation for small business leaders. She's also the cofounder of www.owneractions.com, an online platform that helps entrepreneurs work through the challenges of starting, growing, and exiting their ventures.

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