

Uncertainty and economic developments

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The current global situation is very worrisome. The certainties of the last three decades have completely fallen by the wayside. The concerns range from wars and armed conflicts, and economic problems in a stagflationary environment to political eruptions in view of the new migration problems. Against the background of the larger, long-term problems (e.g. climate change and demographic developments, which already require action now), these challenges appear to be virtually unmanageable, even overpowering and threatening. Few are confident that timely solutions will be found to address this wide range of problems.

This creates widespread uncertainty. Investment and consumer hesitancy is the economic result. As the economic problems worsen, so does the outlook. Uncertainty in the market is expressed in the form of higher volatility. There are growing concerns about the prospect of another financial and banking crisis.

And indeed, a lot of developments are converging at the moment. The Russian attack on Ukraine and Hamas' terrorist attack on Israel are happening at a time when western countries are in a difficult situation. The impact from the COVID-19 pandemic is still being felt, and then there is the political polarisation in some countries, which has led to the strengthening of populist parties and movements. The West appears to be vulnerable. More and more questions are being asked as to whether the US can still maintain Pax Americana.

However, from a historical point of view, the current situation is not so different from the past - at least in principle. The Middle East conflict between Israel and Hamas / Hezbollah (but primarily Iran, which is pulling the strings in the background), is not new. Efforts by Russia and China to expand their influence are also not surprising. Moreover, both climate change and demographic change do not harbour any big surprises at the moment. One is suddenly reminded of Louis de Funès and the famous scene from the comedy Camouflage: No - But yes - Oh!

Still: It is the convergence of all of these crises and challenges that appears so unusual and that makes business life so difficult. So what can one expect to see?

1. The war in Ukraine will continue; continued US and European support will be important for a Ukrainian victory. There is uncertainty in this regard.
2. The conflict in the Middle East will continue to escalate. Whether this will threaten Israel's rapprochement with Arab states remains to be seen. It is possible that this will affect oil prices.
3. The rivalry between the West and China will intensify, and this will have a negative effect on economic relations with China. China is also grappling with internal problems at the moment, such as the wave of bankruptcies in the real estate market and the effect on the (shadow) banking system.
4. Central banks are not finished fighting inflation. Particularly the US is expected to continue to streamline its monetary policy. It would be surprising if this did not affect the ECB's monetary policy, and in particular financial markets and the banking system.

All of the above are problematic for the markets and the investment activities in the real economy. There are no indications of a dynamic growth process at the moment. The economic recovery after COVID-19 and the energy price shock has been sluggish. Only the labour markets offer a ray of hope in that context (not only in Germany but also in other EU states in the US). How long that will last is not clear, however.

For investors, higher risks also mean higher opportunities and the associated earnings potential. In such a situation, economic and financial policies require a clear compass. However, it does not appear that the required unity can be forged at the moment. This applies both with regard to the German government, the EU and the transatlantic partnership. It is time that this changes, and that the collaboration between western countries is intensified.

Sincerely yours



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