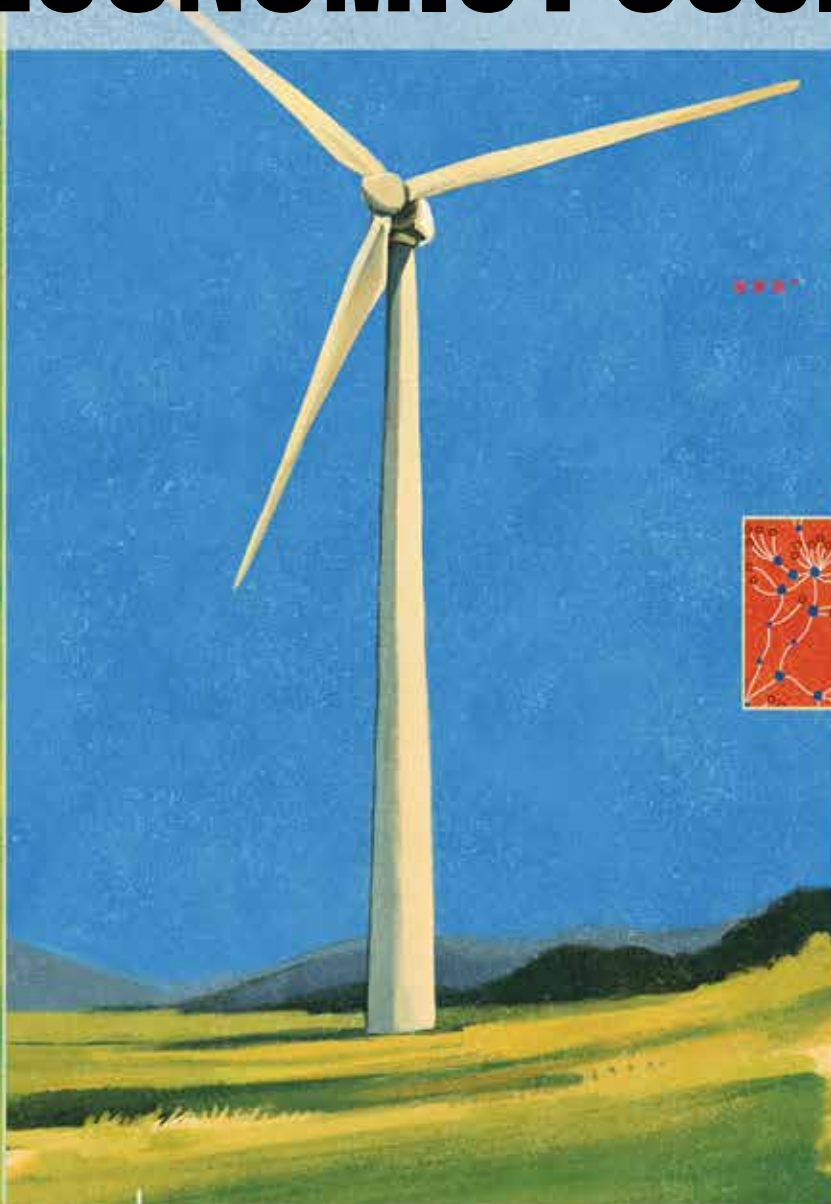


ECONOMIC POSSIBILITIES

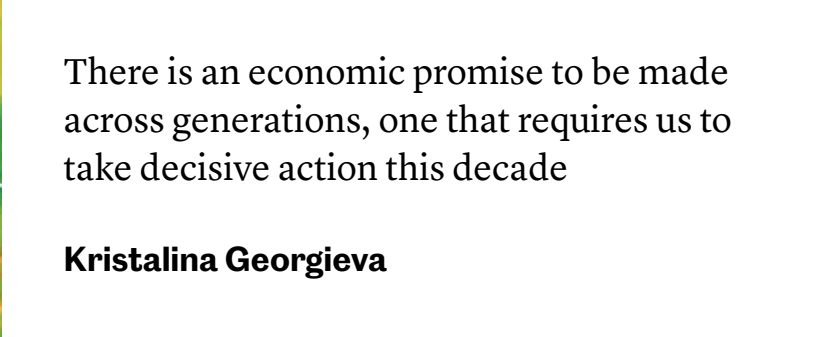


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FOR MY GRANDCHILDREN



There is an economic promise to be made across generations, one that requires us to take decisive action this decade

Kristalina Georgieva

When I recently visited Cambridge University, I raised a simple question: How can we build an economy that benefits not just this generation but also those that follow?

Finding the right answer is more important than ever. Geopolitical tensions are on the rise, and the world economy is facing its weakest medium-term prospects in decades. Young people especially face enormous challenges, from paying for their education, to finding work and buying a home, to grappling with the potentially costly impact of climate change on their lives.

Many people feel that the economy is not working for them. Many are not just anxious but angry. And we are seeing this play out in society and in politics, raising the specter of an “age of anger,” of further polarization and instability.

But it need not be this way. I am inspired by an essay the great economist John Maynard Keynes wrote in 1930: “Economic Possibilities for Our Grandchildren.” This essay has a special place in my heart. Why? Because I think a lot about the future of *my* grandchildren, and because I share Keynes’s relentless optimism. Even in the dark days of the Great Depression, he saw a brighter future.

Keynes predicted that, in 100 years’ time, living standards would be as much as eight times higher, driven by gains from technological innovation and capital accumulation. His forecast proved to be remarkably accurate: even as the global population has quadrupled over the past century, per capita global income has risen eightfold. Keynes’s insight into what drives prosperity holds as true today as it did then.

It is the foundation of a promise of progress that spans the generations. And like Keynes, I want to take the long view in considering it. First, I want to look back to see how that promise played out over the past century. In addition to the massive leap in living standards, the world saw unprecedented poverty reduction. Over the past three decades alone, 1.5 billion people lifted themselves out of poverty, and hundreds of millions entered the middle class. Consider also the dramatic improvements in life

expectancy, infant mortality rates, literacy rates, and education levels—especially for girls—that have taken place.

In short, the world has in recent decades seen more progress for more people than ever before. Two of the drivers of progress—technology and capital accumulation—worked just as Keynes predicted. On top of them came economic integration. Over the past 40 years, we have seen a six-fold expansion in global trade, and global capital flows rose more than tenfold. This has boosted productivity and investment, especially in emerging market economies.

In my own country, Bulgaria, per capita income has quadrupled since the fall of the Iron Curtain, mostly due to the benefits of integration with the EU and from global trade. Bulgaria’s progress also reflects a “special ingredient”: international cooperation, including coordination of economic policy in times of crisis. This cooperation underlies what some scholars have termed the post-1945 “long peace”—an absence of direct conflict between great powers. Put simply: the more we talk, the more we trade, the more we thrive.

But there have been policy errors—especially a failure to share the benefits of growth more widely and a failure to do enough to support those hit hard by dislocations from new technologies and trade. As a result, economic inequality is way too high within and across countries. Some three-quarters of the world’s wealth today is owned by just one-tenth of the population. And too many developing economies are no longer catching up to advanced economy income levels. More than 780 million people face hunger.

High levels of economic inequality have a corrosive effect on social capital and trust—in public institutions, in companies, among individuals. And we see trust diminishing among nations, too. Geopolitical tensions could drive the global economy toward fragmenting into rival blocs, leaving our world poorer and less secure. Tragically, this is

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already happening just when we need cooperation more than ever—to tackle issues that are borderless and cannot be resolved by any individual country, notably climate change.

So where do we go from here? If the past 100 years are a guide, we can be reasonably confident in our ability to achieve astounding progress once again. Add to this a clear understanding of what did not work in the past and we gain the ability to deliver on the promise to our grandchildren.

Power to change course

Here are two scenarios for the next 100 years, developed by IMF staff. In what we might call the “low-ambition scenario,” global GDP would be about three times larger and global living standards twice as high as they are today. In the “high-ambition scenario,” global GDP would be 13 times larger, and living standards would be 9 times higher.

Why the huge difference? The low-ambition scenario is based on the lower-growth experience of living standards in the 100 years before 1920, while the other is based on the much higher average growth rates from 1920 until now. I believe our grandchildren will enjoy the better of the two.

To get there, we will need a continued commitment to placing our economy on sound fundamentals—from price stability to sustainable public debt levels and financial stability—as well as to opening trade and entrepreneurship to boost growth and jobs. But this will not be enough. We will need better international cooperation and a different kind of growth—more sustainable and equitable. IMF research shows that lower income inequality can be associated with higher and more durable growth.

And we must use capital accumulation more wisely. My grandchildren’s prospects will hinge on whether we can allocate capital to where it is needed most and will have the greatest positive impact. So where should capital go? Let me highlight three priority areas of investment.

First, the climate economy: Today climate shocks are hitting economies everywhere—from droughts,

The economist John Maynard Keynes at His Majesty’s Treasury in 1945.



Keynes’s optimistic vision

John Maynard Keynes is remembered most for his 1936 book, *The General Theory of Employment, Interest and Money*, which arguably created modern macroeconomics. Less well known is a short essay he published six years earlier, “Economic Possibilities for Our Grandchildren.” It was based on a lecture he gave to the Anglo-Spanish Friendship Society in Madrid. Keynes argued that the problems of the Great Depression had blinded revolutionary and reactionary pessimists alike to the possibilities of the next 100 years. He predicted that technological change set in motion by the scientific and industrial revolutions would solve humanity’s “economic problem” of daily subsistence forever. Workers might satisfy all their material needs by working just three hours a day. Keynes did not get everything right—only a fortunate few can live lives of leisure. Yet the essay continues to inspire readers today, including Kristalina Georgieva, who used it as the starting point for a lecture this year at King’s College, Cambridge, where Keynes studied and worked.

wildfires, and floods to less visible impacts in areas such as supply chains and insurance markets. Pessimists say humanity faces a disastrous reckoning. But I see a different picture: if we act decisively, especially in this decade, we can reach a carbon-neutral economy and help ensure a livable planet. We must promise to do so.

It will mean mobilizing trillions of dollars in climate investments—for mitigation, adaptation, and transition. And it will mean addressing the terrible market failure that has polluters damaging our planet free of charge. Our research shows that pricing carbon is the most efficient way to accelerate decarbonization.

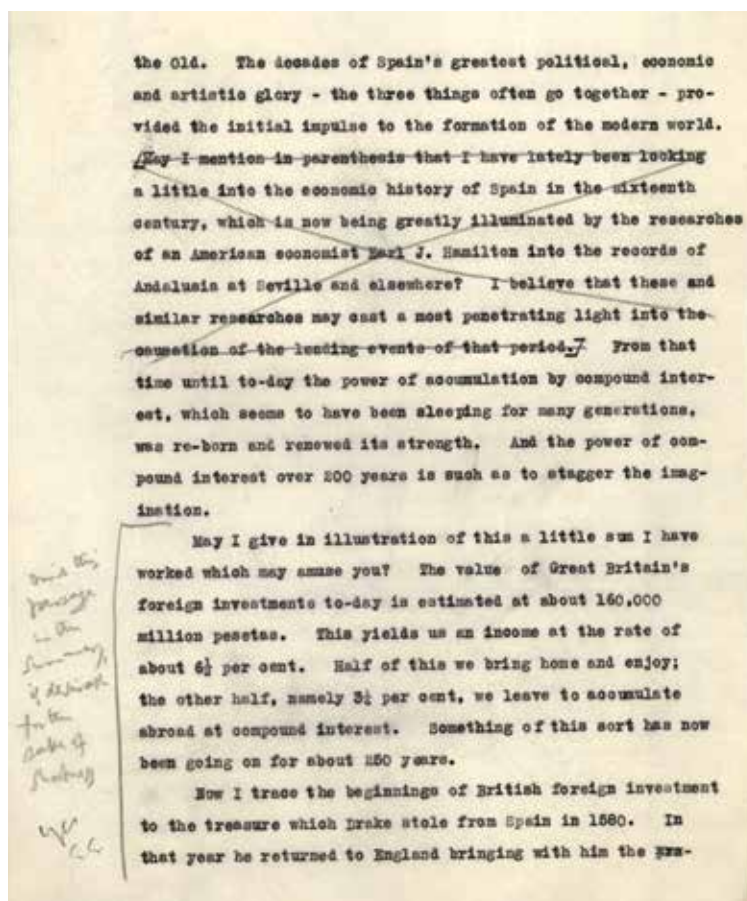
We have a long way to go—the average price per ton of carbon dioxide emissions today is only \$5, way below the \$80 we need to reach by 2030. But there is progress: carbon pricing programs now cover a quarter of global emissions, which represents a doubling since 2015. And investors are responding: for every \$1 spent on fossil fuels, \$1.70 is now spent on clean energy—compared with a ratio of 1:1 five years ago.

More climate investment could create millions of green jobs, increase innovation, and accelerate green technology transfer to developing economies. It could break the historical link between growth and emissions—such that, as countries get richer, people enjoy better living standards without hurting our planet.

Second, investment in the next industrial revolution: from quantum computing to nanotechnology, from nuclear fusion to virtual reality, from new vaccines to gene therapy. Innovation is accelerating, transforming how we live and work.

Take artificial intelligence. It could turbocharge productivity and growth everywhere. And I am especially struck by its potential to shrink gaps in human capital in the developing world, helping income levels catch up with those in advanced economies.

But it also comes with risks. IMF research shows that, in advanced economies, about 60 percent of jobs could be affected by AI. Half of them may see benefits from AI tools, but the other half



Typescript of "Economic Possibilities for our Grandchildren," a lecture given to the Anglo-Spanish Friendship Society on June 10, 1930.

may simply be rendered obsolete. This could drive unemployment up and wages down—Keynes himself warned of this when he wrote about "technological unemployment."

Clearly, we need to ensure that AI serves humanity. Instead of deepfakes and disinformation, we want scientific, medical, and productivity breakthroughs. We want AI to reduce inequality, not increase it.

Countries must start preparing now by scaling up investment in digital infrastructure and expanding access to retraining and reskilling. We also need global principles for the responsible use of AI—guardrails—to minimize the risks and maximize the opportunities for everyone.

Third, investment in people: The greatest dividends are paid here—by investing in health and education and stronger social safety nets and by empowering women economically. This lies at the heart of better and fairer capital accumulation.

Nowhere is this clearer than in Africa—home to the youngest and fastest-growing populations. By the end of this century, Africa's share of the global population is set to reach close to 40 percent. At the opposite end of the spectrum are regions such as Europe and East Asia, where populations are rapidly aging, and some are even shrinking.

How can we better connect Africa's abundant human resources with the abundant capital in advanced economies and major emerging markets? For African countries, the key is to attract long-term investors and ensure stable trade flows. This will mean promoting better growth: from improving the business environment to raising more revenue and weeding out inefficient spending. For countries that are already facing strained budgets and high debt, this would create more room for vital social spending.

Just one example from IMF research: by building tax capacity, low-income countries could boost their annual budget revenues by up to 9 percent of GDP—a big increase that would bring their tax effort in line with that of emerging market economies.

If the right kind of international support can be combined with the right kind of domestic policies, we could see Africa attracting long-term flows of investment, technology, and know-how. This could unlock the full potential of its young people.

It would mean more jobs in and less outward migration from Africa; higher returns on capital that could be used in advanced economies, including to make their pension systems more sustainable; and overall, a more dynamic global economy. In short, a prosperous world in the coming century requires a prosperous Africa.

Investment in these three key areas—climate, technology, and people—is critical. But again, we cannot do it without international cooperation.

Twenty-first century multilateralism

As one of the founding fathers of the IMF and the World Bank, Keynes helped the world draw the right lessons from the Great Depression and World War II. Instead of inward-looking policies that can lead to crises and conflict, countries should rely on a new framework for international cooperation. That vision became reality—a “multilateralism for the 20th century,” which served us well.

Now we must update it for a new era. Think of how “21st century multilateralism” could become

“We need better international cooperation and a different kind of growth—more sustainable and equitable.”

more open to fresh thinking and more representative, with a better balance between advanced economies and the voices of emerging market and developing economies. And think of how we can update multilateral institutions, including the IMF.

Over the decades we have built our financial strength, the scope of our work, and our character. Just since the pandemic, we have injected about \$1 trillion in liquidity and financing into our 190 member countries. We introduced programs for emergency financing and direct debt relief for our poorest members. And our macroeconomic work now includes a focus on climate, gender, and digital money.

We are the institution empowered by our members to carry out regular “health checks” on their economies. Providing impartial analysis and advice is critical, especially in a world of fake news and political polarization. I think Keynes would like what he sees and would encourage us to go even further as a global “transmission line” for sound economic policies, financial resources, knowledge—and as the ultimate platform for global economic cooperation.

We cannot have a better world without cooperation. On this most fundamental of points, Keynes was right again. He is perhaps best remembered for something he wrote in 1923: “In the long run, we are all dead.” By this he meant that instead of waiting for market forces to fix things over the long run, policymakers should try to resolve problems in the short run.

That was a call to action, a vision of something better and brighter. And it's a call to which I am determined to respond—to do my part for my grandchildren's better future. After all, as Keynes put it in 1942, “In the long run almost anything is possible.” **F&D**

KRISTALINA GEORGIEVA is managing director of the IMF.

This article draws on a lecture, “The Economic Possibilities for My Grandchildren,” delivered by the author on March 14, 2024, at King's College, Cambridge.