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The myth of the unprecedented

Shocks are here to stay, and our task is not to predict the next one – although someone always does – but to sharpen our focus on resilience

I have been in the forecasting business for more than 50 years. Over that period, I have heard the constant refrain that the world is in the midst of 'unprecedented changes.' This popular trope frequently resulted in equally hyperbolic corollaries: breathless claims that we have never faced greater risks or such an uncertain future, that forecasting has never been harder. Repeat it enough, and it starts to become believable.

Confession: my crystal ball has been cracked so many times by purportedly unprecedented developments that I have lost count. The 1970s were a decade of extraordinary turmoil: the oil shock of 1973 was swiftly followed by the 'Great Inflation' and a period of stagflation, setting the stage for the first seemingly unprecedented phase of the post-World War II era. The subsequent disinflation of the 1980s allowed the horror movie of the 1970s to run in reverse well into the 1990s, which came to an end with the Asian financial crisis, ushering in what was initially billed as the first crisis of globalisation.

Learn to expect the unexpected.

But today, we look back on these episodes as mere tremors preceding the seismic shocks to come. The information-technology revolution and the dot-com bubble of the late 1990s and early 2000s hinted at the profusion of asset bubbles that afflicted global property markets and many financial instruments, from sub-prime mortgages to broader credit flows and equities. When the music stopped, the resulting cross-border and cross-instrument contagion fuelled the global financial crisis of 2008-09 — another extraordinary upheaval for what had become, at that point, a crisis-battered world.

Just when everyone thought global conditions couldn't get much worse, a once-in-a-century pandemic and extreme weather events fuelled by

climate change turned conventional thinking on its head, as did the rising tide of protectionism, trade and tech wars, and a potential superpower collision between the United States and China. Add to that the outbreak of war in Eastern Europe and the Middle East, and the unprecedented has become the new norm. Books on the 'permacrisis' and the 'polycrisis' now make the bestseller list.

Making sense of an uncertain future

The cynic in me says, 'been there, done that.' But just because I have plied my trade as a forecaster during a half-century of turmoil doesn't mean I have a unique understanding of what comes next. Bearing in mind Mark Twain's observation that history often rhymes, I offer three key lessons from my experience in attempting to make sense of what may lurk in the uncertain future:

First, learn to expect the unexpected. The human species is inherently autoregressive, always looking to the recent past as the best predictor of the future. Policymakers are especially prone to this myopic approach — repairing flaws in systems that led to the last crisis but never considering what could spark the next one. For example, in the late 1990s, Asian economies built up large reservoirs of foreign exchange reserves — a move that would have helped prevent the next Asian financial crisis but did nothing to stop the one that actually occurred, which arose from the bursting of an equity bubble.

Second, there is an unmistakable continuum from one so-called unprecedented era to another. One crisis tends to beget the next. Led by the great Paul Volcker, the US Federal Reserve took tough measures to arrest the Great Inflation (as did other central banks). But despite winning the war, policymakers squandered the peace — taking interest rates far too low to preserve financial stability.

Similarly, as global capital markets seized up during the Asian financial crisis, central banks discovered the miracle drug of near-zero policy interest rates. That, in turn, set the stage for the profusion of asset bubbles to come – not just equities but also bonds and credit – that culminated in the global financial crisis a decade later.

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Third, crises and the 'extraordinary' developments they spawn are now the rule, not the exception. In recent decades, there has been an average of one catastrophe every three or four years. The Latin American debt crisis in 1982 was followed by the 1987 stock-market crash

and the 1986-95 savings and loan crisis in the US; implosions in Japan (1990), Mexico (1995) and Asia (1997); the near-collapse of the hedge fund Long-Term Capital Management (1998); the collapse of the dot-com bubble (2000); Enron's accounting scandal (2001); the sub-prime mortgage disaster (2007); the eurozone's sovereign-debt crisis (2010), the 'taper tantrum' spurred by fear of policy normalisation by the Fed (2013); a Chinese stock-market crash (2015), a US-China trade war (2018), Covid-19 (2020), and deglobalisation (2023).

It is against this background that forecasters face the seemingly impossible task of predicting the future. Of course, public policymakers face an equally profound challenge: while another crisis is coming, probably sooner rather than later, aligning forward-looking policy with the pitfalls of a highly uncertain future is the functional equivalent of balancing a heavy weight on the head of a pin.

But that hardly justifies self-serving excuses for policy mistakes, or portraying asset-market mispricing and economic dislocations as unavoidable accidents arising from so-called unprecedented circumstances. I have run out of patience with policymakers, corporate decision-makers, and investors who collectively throw up their hands and say, 'don't blame me.'

This is largely a cop-out. Shocks are here to stay, and our task is not to predict the next one – although someone always does – but to sharpen our focus on resilience. Staying the course of politically mandated policies while minimising the inevitable dislocations is easier said than done. But that is no excuse to fall for the myth of being victimised by the unprecedented.

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