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Risk Factors of Economic Dystopia

Summary of key risk factors: Income distribution (GINI index); GDP per capita (PPP); Unemployment rate; Poverty rate; Inflation on consumer prices (annual %); Social Expenditure (% of GDP); Central Government debt (% of GDP); Use of IMF credit; Use of EFSF credit (EU only); External debt (% of GDP); Chronic fiscal imbalances

***Aim*:** To assist analysts with the identification of risk factors for the production of risk terrain maps. Specifically, this brief provides an annotated review of the factors related to economic dystopia and the settings and times for which some factors may be most relevant. This information should be especially useful to help choose a time period for creating risk terrain maps (i.e., Step[i] 3), to identify aggravating and mitigating risk factors to include in your risk terrain model (i.e., Steps 5 and 6), and to inform the operationalization of your risk factors to risk map layers (i.e., Step 7).

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The word "dystopia" describes the consequence of what happens when attempts to create a better world involuntarily go wrong. In this case it considers how the recent fiscal downturn can reverse the benefits brought by globalization. Indeed, income disparities have skyrocketed over the past years and have recently been ranked among the main global risks. The recent economic crisis of 2008 and the financial and economic instability the world is suffering as a result have fostered income disparities. Within just two years following the crisis, 27 million people around the world have lost their jobs. An even larger number of people have been forced to accept lower wages or benefits[ii]. Furthermore young people are directly suffering from a lack of career opportunities and an uncertain future (The Economist 2011).

A disappearing middle class is leading to a wider gap between the rich and the poor (Piketty & Saez 2006). This effect is fueling people's discontent with the political and economic system, increasing the likelihood of violent clashes to occur. Growing inequalities are no longer exclusive to developing states since it is affecting OECD countries as well. Indeed the United States has the highest inequality level and poverty rate across the developed countries, excluding Mexico and Turkey (OECD 2008). Income disparities have strong implications in socio political terms. The raising inequalities use to be accompanied by societal corrosion and frictions in the perception of two antagonist societies (Saith 2011). Social movements as "Occupy Wall Street" (U.S.) and the "Movimiento 15-M" (Spain) are two examples of a growing discontent among certain social groups.

These factors prompt the following questions:
- What are the reasons fueling income inequalities? Can states reverse this tendency?
- What are the consequences of a growing number of fragile states[iii]?
- Which data will be useful to calculate the increasing risk of social unrest?

Operational definition: The term dystopia is defined by the World Economic Forum on its Global Risk Report 2012 as:
"The emergence of a new class of critical fragile states in which Formerly wealthy countries descend into lawlessness and unrest as they become unable to meet their social and fiscal obligations. Such states could be developed economies where citizens lament the loss of social entitlements, emerging economies that fail to provide opportunities for their young population or to redress rising inequalities."

Aggravating/Mitigating Risk Factors Based on a Review of Empirical Literature

In this geographic study on critical fragile states, the combined economic indicators will enable us to locate violent outbreaks using risk terrain maps. The GINI index is a powerful tool to estimate income differences between countries. This index elaborated by the World Bank is crucial to measure household income inequalities at national scales. Then the unemployment rate figures will help to understand the actual socio economic situation on each country's economy. It will be also a good indicator of the social unrest of its population. Locations with growing inequalities and rampant unemployment figures will have higher risks to suffer civil disorders (Saith 2011).

Fiscal imbalances will be another crucial factor to determine national stability (Matsaganis 2011). Indeed countries with severe deficits or chronic imbalances will be more likely to fail at addressing their social obligations. An increasing dependency on repayments of external debts or other fiscal obligations will have direct consequences on the social expenditure of the states. This situation will deepen the social fracture and boost instability.

Economic factors: The likelihood of violent episodes increases in areas with lower income and regional inequalities boost the chances of a conflict to occur. Indeed regions with wealth pockets have higher chances of suffering revolts compared to areas where poverty is widespread (Buhaug et al. 2011).

Societal factors: Rampant unemployment has become a major concern. Data shows dramatic figures on highly increasing unemployment rates worldwide (Anthouvan 2005). However youth unemployment is becoming a mayor challenge in the western world (The Economist 2011). Growing civil unrest is becoming the natural reaction of youth populations who suffer the struggle of a jobless market.

Fiscal factors: Countries carrying chronic fiscal imbalances are more likely to be unable to provide enough social services for its population (Matsaganis 2011). Indeed countries suffering from severe fiscal difficulties will see deteriorate their social expenditure. A sharp diminution on social gains will increase the chance of social disorders to occur.

References & Recommended (Publically Available) Readings

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Endnotes

[i] For steps of risk terrain map production, download the RTM Manual at www.riskterrainmodeling.com
[ii] International Labor Organization (ILO) - World of Work Report 2011
[iii] For a list of definitions of fragile states please seehttp://www.gsdrc.org/go/fragile-states/chapter-1--understanding-fragile-states/definitions-and-typologies-of-fragile-states#defs