Uncertainties are a certainty as the global economy remains in a flux

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The future is unknowable. Leo Tolstoy, in his book *War and Peace* remarks: "*All we know is that we know nothing. And that is the sum total of human wisdom."* The inadequate knowledge about the connection between our present actions and their future outcomes gives rise to uncertainty in any sphere of life, including economic policy making.

Economic policy making hinges on certain certainties, while keeping in mind a set of uncertainties in key economic variables feeding into a policy decision. Policy makers having come to live with this understanding, factor in uncertainties in every important decision or course of action. However, the list of uncertainties just got longer, deeper and more problematic with the outbreak of COVID-19. Lives and livelihoods have been in "reset", "start", again "reset" mode in the times of the ongoing pandemic. One variant after another is spoiling any bit of hope that comes in. Hopes are raised and belied.

Succinctly summing up the uncertainty around the virus, Fed Chairman Jerome Powell is quoted to have said, "*We are now experiencing a whole new level of uncertainty, as questions only the virus can answer complicate the outlook*". Undeniably, there is enormous uncertainty about every aspect of the COVID-19 crisis, be it the course ahead, the level of protection vaccination is able to offer, duration and stringency of COVID appropriate behaviour, the quantum and length of regulatory forbearance by governments, the extent of persistence of shifts in consumer spending behaviour caused by the pandemic, impact on businesses, etc. Such primary uncertainty is affecting and will continue, for some more time, to cause secondary uncertainties in private investment, inflationary expectations, trade and overall economic growth. The certainty regarding the demand for agricultural produce too is now riddled with uncertainties. The very basis of global value chains has been undermined by the pandemic. Researchers have found evidence indicating high uncertainty to be associated with delayed and weak recovery from external economic shocks.

Further, global uncertainty is surging again from the Russia-Ukraine conflict, with uncertainties about supply disruptions caused by sanctions and trade restrictions imposed on Russian banks, businesses, and individuals. The conflict has led to an enormous refugee crisis and an end is still not in sight. All of this is only fuelling the already high uncertainty levels in the economy, among businesses, households, and financial markets. The International Monetary Fund (IMF) noted as follows:

"As the war in Ukraine unfolds, global uncertainty has surged, according to the latest reading of the World Uncertainty Index — a quarterly measure across 143 countries. This increase is a bad sign for growth,"

With three waves of the COVID-19 pandemic in India and more recently, the Russia-Ukraine conflict, one cannot but ponder about what is the mankind in for?; how long will this last?; how this will alter the preferences of economic agents and hence the global economy's structural balance? There is a constant fear of the unknown, a gaping uncertainty staring at us, which among other things, is also likely to impact economic policy making. The rise in crude oil prices, inflation and several countries faced with uncertainty regarding food safety, the things just got worse for the global economy. The IMF talks about how the conflict is slowing global economic recovery from the pandemic, in its latest World Economic Outlook.

How damaging is economic uncertainty? Many empirical studies have estimated the impact of uncertainties on economic growth during the Great Depression of 1930s and the 2008 recession. The IMF estimates that a one standard deviation increase in uncertainty is associated with a 0.4-1.3 percentage point decrease in output growth (WEO, Oct 2012).

One impact of uncertainty, as economists such as Keynes and Tobin have pointed out, is the need to compensate the investors for higher risks that these uncertainties entail. COVID-19 and Russia-Ukraine conflict induced surge in uncertainty, too, has effectively raised risk, increasing risk premia and hence the cost of finance. Uncertainty also increases the probability that borrowers might default, again increasing the cost of capital.

Can we do much about such uncertainties? The best the policy makers can do is to placate themselves by labelling them as euphemism for something else, like fear, anxiety and pessimism and live with them or work around them. The principal reason for which a change in any policy is required is to factor in the new uncertainties. The challenge lies in deciphering in the uncertainty the certainty, if any, while formulating policies and dovetailing growth dynamics. A new normal with a set of new uncertainties need to be dealt with through new innovative ways.