

**RECORD OF SOCIETY OF ACTUARIES
1991 VOL. 17 NO. 4A**

THE CHANGING WORLD

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MS. DAPHNE D. BARTLETT: During my international travels this year on your behalf to Scotland, New Zealand, and Australia, I was amazed to discover the similarity of our professional interests and concerns: issues such as solvency, professional conduct, and standards of practice are being discussed everywhere. The international focus of our annual meeting last year in Orlando was an exciting step forward in enlarging our understanding of these and other issues on a global basis, but the world has changed a great deal since October. Our guest speaker will bring us up-to-date. Rupert Pennant-Rea joined the staff of my favorite magazine, *The Economist*, in 1977, and became editor in chief in 1986. He has been associated with the Bank of England and the World Bank. Mr. Pennant-Rea earned a degree in economics and politics from Trinity College, Dublin, and a master's degree in economics from the University of Manchester. To tell us about the changing world is Rupert Pennant-Rea.

MR. RUPERT PENNANT-REA: It's been said rather unkindly that the job of an editor is to separate the wheat from the chaff, and then publish the chaff. I'm going to try to do the opposite about a world that in the past few years has astonished all of us by the scale and the sheer excitement of change. We live, as the cliché must now have it, in momentous times, and those times always breed some uncertainty, some difficulty in interpretation.

Herbert Hoover, an American president of notoriously few words, was traveling one day through the U.S. on a train; his aide was desperate to engage the president in conversation. They passed by a field of sheep and the aide said, "Oh, Mr. President, I see those sheep have been shorn." There was a long silence and then Hoover said, "On one side certainly." I will try to peer over the other side as well to guess at the shape of the changes and how they will, over time, transform our world. And I would divide my remarks broadly into politics and economics, and particularly on the economic side when I look ahead, I will remember the golden rule of all economic forecasting, which is that you give a date or a number but never both.

The political changes in our world produce one unsurprising theme, the theme of power, because we have seen the most extraordinary shifts in this power structure of the world of international relations. It is a shift from a very settled structure 40 years and more in the making, a structure of the Cold War, to something that is far more fluid, far more invigorating certainly, but also of its nature much harder to define. And it would be wrong, I think, for any of us to suppose that the replacement structure is already in place, or even that it soon will be in place. On the contrary, it may take many years for institutions, for alliances, for the habits of geopolitical behavior, to assume some shapes that we could rely on, that we could condense down onto a single sheet of paper. And during that time, we are going to have drama and the

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potential for drama all the time. When Henry Kissinger was Secretary of State, he once said, "I can't have a crisis next week, my schedule's already full." We are going to have to make room in all our schedules for all sorts of unexpected consequences of these extraordinary unexpected few years.

But let's start at least with what we do know, and the first and most obvious point is that the great war of ideas, the war that has dominated international relations and national politics in country after country for the best part of this century, that war has largely been won. Pluralism, the ideas of western democracy, of pluralistic economic institutions, that great idea of pluralism has won. But the essence of pluralism is that futures and outcomes are not preordained. Pluralism is defiantly anti-Marxist in that sense. There is no natural dialectic in the affairs of men. There are free wills and opportunities which people will make of as they will. And if you do not have preordained outcomes, then indeed the future can often disappoint.

A year or so ago, I had a Polish economist in my office, and we were discussing the question of transforming his economy. He said, "Well, you know it's very easy to turn a stallion into a gelding, and it's very difficult to reverse the process." And therefore, occasionally, as the countries of the old communist world adapt to the new freedoms that they desired and eventually won for themselves, there will be setbacks and disappointments.

The second obvious point is that the forces of pluralism were led by the U.S. as a leader of a great western alliance throughout the period of the Cold War, and most recently, the U.S. has reaffirmed its commitment and its ability to give leadership to the world. That fact alone, that there is a super power that it is capable and willing to lead, gives some patent to international relations. During the Gulf War, the U.S., its president, many of its politicians, and many of its institutions showed themselves to be steady, clear-headed, and determined. That is the kind of leadership the world needs. We do not need, have never needed, the kind of leadership that applied to a rather accident-prone officer in the British army whose staff report read, his men will follow him anywhere out of sheer curiosity.

But even as the U.S. showed its willingness to lead during the Gulf War, it also demonstrated another much more perplexing, disappointing phenomenon, but in many ways also a very predictable phenomenon. It showed that it could not lead financially, that it did not have the wherewithal to conduct this leadership on its own. And it also showed through surveys of popular opinion that the American appetite was relatively limited. People indeed came out in favor of the war, numerically by fairly large majorities. But when pressed to test the depth of their commitment to that sort of role being demanded of them again and again, their commitment was shown to be fairly thin. And therefore, the idea that the Gulf War was a model for future international challenges and crises, I'm afraid, was not borne out. Because the U.S. is a democracy, its political leaders will have taken note of the relatively shallow nature of popular commitment to that exercise.

And so we can't look to the U.S. as the single leader under any circumstances anywhere in the world where difficulties arise. Instead I think we should be looking for a security patent that is going to be much more regional in nature. We will have

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the notion of area policemen sometimes, perhaps often, buttressed by an international consensus as expressed through the United Nations.

So, for example, in Europe there will be a bigger role for the European Community, and we are seeing that at the moment in Yugoslavia. America has wisely, in my view, kept out of Yugoslavia. It has left it to the Community to use its diplomatic offices, and whatever economic clout it can bring to bear, to try and act as a sorter-outer of the difficulties in that country. And in large parts of the Pacific, I think we will see a bigger regional role for Japan as paymaster, as negotiator, as arbitrator of disputes and frictions within that region. And in the Indian Ocean, in the Indian subcontinent, we will surely see a bigger role for countries like India. After all, India intervened directly and militarily in Sri Lanka, and it did so again in a small group of islands, the Maltese.

These are the patents of the future. Now this patent becomes possible in a way that wasn't the case because we no longer have in international relations an automatic standoff between the two competing ideologies. We no longer see that whenever any regional conflict arises, the west takes one side and the Soviet Union and its allies take the other. In the Middle East now, we are seeing an extraordinary consensus. It is surely unthinkable that the announcements of the prospect of a Middle East conference could have happened had the Soviet Union had its allies in the region and the U.S. had its.

My next political observation is that the nation-state, a very familiar feature of all international relations, of all our perceptions of political life, is under enormous pressure in country after country around the world, including some very improbable countries. We only have to look at the country we are in now, at Canada, a country which has got by some reckoning the second or third highest standard of living in the world, and yet a country which has deep divisions internally. Its constitutional arrangements are being challenged and may in time break up. These pressures therefore are not confined to small, impoverished countries with rapidly growing populations. They can afflict the largest, apparently most stable democratic societies with a long tradition of democracy and of prosperity. But you go to a poor country, you go to somewhere like India, and you see enormous separatist tendencies there too. Different parts of the country, different ethnic groups, different religions, are deciding that the legitimacy of the center, of the sovereign state, is no longer taken for granted, will be challenged, will be challenged often violently. You look at my own country, the United Kingdom, and you see long-standing pressures there, the unsolved issue of Northern Ireland, the question of whether Scotland remains in the union. These are live issues in the political debate in Britain. And above all, today when we look at the Soviet Union, we see what this pressure means for countries whose integrity, unity, sovereignty had for many years been taken for granted, a given, not something one even spent time thinking about. Somebody once said that Russia is the only country in the world with an unpredictable past, and if that is true, think how difficult it is to describe what is going on today, let alone to imagine what will happen tomorrow.

Now there are reasons for this pressure on the nation-state, and I would highlight two of them in particular. One and most obviously is the pressure from below, the desire for a local entity, the desire for structures that give expression to local cultures, languages, ethnic background, religion, all these things that at first sight do not appear

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to mark a country. But when you ask people and you press a bit, you realize that some of these loyalties, some of these old patents, run very deep indeed. And that goes hand in hand with the belief increasingly expressed that central government is too remote, too far away, too unaccountable, too uninfluenceable and therefore, what is needed are smaller, closer, more accessible units of government.

And the second reason why the nation-state is under pressure comes not from below but from on top. The fact is that on a growing number of issues, bigger units than the nation-state are needed for effective action. I mentioned earlier how it was an alliance of countries, some contributing arms and equipment and men, others contributing money, that was needed in order to push Saddam Hussein out of that tiny, little, fingernail of a country, Kuwait. There are economic reasons, too, why quite often a unit bigger than the nation-state is the appropriate, desirable unit for action, and I will deal with those soon.

And then there is also the environmental reason. It's no good, after all, keeping your bit of a river clean if its source lies in another country and that other country has different standards of pollution control, and therefore, sends its muck downstream to you. It's no good having clean air standards for cars in one country if, in fact, the threat is a global phenomenon, a global greenhouse. That is happening because dozens of other countries elsewhere do not have the same standards of emission controls and so on. So for the environment and all the things that follow under that heading, it's increasingly going to be seen that the nation-state is a singularly inappropriate unit to act as an effective instrument of control and of action. Countries, national governments, are going to have to join together in all sorts of complicated arrangements where incentives to act are not very obvious and not very powerful, and yet where, without some sort of international, super national effort, there might not be any effort at all.

This pressure on the nation-state has only really emerged in a conspicuous way in the past few years. Some of the ingredients have been there longer. If you've asked a lot of politicians, they would say they've been conscious of some of these for a long time, but they've only begun to show themselves as potent forces in political life in the very recent past. And yet I think we will have probably the rest of our lives, dominated by this question of chipping away at the nation-state, expecting it to do more than it was originally conceived to do, asking of it international alliances and so on, not out of some airy-fairy notion of world government, but simply as an effective instrument of action. And when we think of those pressures, we think, if you like, of the microcosm of the Soviet Union, and below that, the microcosm of Yugoslavia because they in extreme form typify what it is I'm talking about. Heaven forbid that any other country should have to face those forces in that extreme way, but recognizedly, some of the forces that are operating in both those countries are going to be seen to be operating in more established, apparently more united, politics than we would ever have guessed a few years ago.

Now let me switch to the economic changes in our world. First, let's just recognize the pace of economic change because for several centuries we have understood how countries can get richer but we perhaps haven't understood fully just how the pace of that process is accelerating all the time. When the industrial revolution first happened in the world, it happened in the United Kingdom. It began in 1780, and it took Britain

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58 years from the start of its industrial revolution, 58 years, to double real per capita incomes. In the U.S., the same process of industrialization or modernization began in 1840, and the doubling of real per capita incomes took nearly 50 years. Japan started the process after 1885, and it doubled its real per capita incomes in 34 years. Turkey, to take one example, began its modernization in 1957, and the doubling took only 20 years. Brazil began in 1961, doubled its per capita incomes in 18 years. And China, which really began the Great Dunc reforms in 1977, took just 10 years to double its real incomes. So from that first British achievement, 58 years, to this most recent example, the Chinese income doubling in 10 years, you can see how the whole process has speeded up to a point where one cannot say about some of the countries of eastern Europe (Czechoslovakia, Poland, or Hungary); it's going to take them an age to sort themselves out. That sequence I just described should make us all conscious of the possibility that they may do this very quickly indeed. And it's worth noting, as I'm sure you all are very aware, how the consequences of economic change feed through terribly quickly to demographic change.

If you take the Chinese example, that country has made this extraordinary leap in its economic growth in just 10 years. If you look at the life expectancy for Chinese women, in 1965, it was only 59 years, but by last year, it had gone up to 71 years. So we've had a 12-year increase in life expectancy inside a generation. That is the scale of the changes that economic development can bring to our world. Now if you're getting this much faster pace in that group of countries that I used as examples, clearly something very big is happening to economic development. It may be that it's just that some countries are quicker at it than others. Once they get the idea, they rush ahead. If you look at it like that, if you keep your eye solely on the nation-state, the names of countries that are doing big things economically, then indeed that is a nice familiar, convenient way of analyzing things. After all, it's what nearly all our economic statistics are based on. It's what governments feel responsible for. It's very often what commentators and business people use as their point of reference, the nation state, that name on a map. Some people say no, that's not right, we shouldn't look at the nation-state, we should look at a region. It's much easier to look at Europe, their European Community, perhaps a white European group, or to look at the Pacific. We've had a great deal of talk about the Pacific as though that was the appropriate entity to analyze what was going on in some of those extraordinarily dynamic economies out there.

To look at North America, some of the things that have happened, the free trade area and so on, does tend to sanctify the notion of a regional grouping as being the appropriate economic unit. Actually, I think both those approaches are wrong. It is not the nation-state, nor is it even the region, that is the defining quantity in economic growth. The right way for us to understand economic issues today is to look at those big driving forces that push economic growth wherever it occurs. Once you do that, once you look only at the underlying forces and not at the veneer on top, you realize that there is nothing uniquely European about 1992, that there's nothing uniquely Pacific about talking of the Pacific basin miracle, there's nothing even uniquely postcommunist about talking about perestroika. When I was a teenager, I visited the U.S. for the first time, and I realized many years later that on that visit, I got my first vague inkling of 1992. I'd only been in America for a couple of days when somebody said to me, "Are you from London, England? I know someone from Athens, Greece." I probably said something very British like, "Oh, how very

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interesting." But actually, that basic mind set, the continental mind set, that Americans have taken for granted for many years was what differentiated America then from Europe then. The 1992 exercise is really nothing more than a belated desire to create some of the economic conditions for continentwide commercial activity. And those conditions are being made possible, made essential, by the big driving forces of deregulation and of technology.

On deregulation, we saw in the 1980s an extraordinary shift in the attitudes of governments, in the assumptions of governments, in their beliefs about what they could and couldn't do about what they should and shouldn't do. Today it's no longer true to say that the private sector is the bit of the economy that is controlled by the government, and the public sector is the bit that's controlled by nobody. That was true by the late 1970s; what has intervened since then has been a huge change in legislation, in behavior, in appetite, on the part of politicians and bureaucrats -- a much greater humility if you like. You see it in its most extreme form obviously in the complete collapse of the notion of central planning, the belief that everything could be handled by Moscow, that a country as huge and diverse and uncontrollable as the Soviet Union could all be reduced to a few equations in a planner's mind in Moscow. But that same humility in much diluted form has happened elsewhere so that in areas like tax rates, state ownership, financial markets, industrial subsidies, general red tape, governments have become much more modest in their ambitions, much more humble in their beliefs, and it has happened pretty much across the world. A few sad examples remain to disprove the point, but they are very much the exceptions. The rule is clear: governments are retreating.

The other big force, indeed arguably the force that has made governments more humble, made governments retreat, is technology. Many of us traveled here by aircraft. In 10 years' time as we get on board our flights, we will look in the cockpit and there will be inside a man and a dog. The man will be there to feed the dog, and the dog will be there to bite the man if he tries to touch the controls. The power of technology has started recently to have its greatest effect in making the world so much smaller. Things can be moved quicker and cheaper.

Obviously, ships and aircraft are bigger and faster than they ever were. Obviously also, things that used to be valuable were usually big, and today many of the things that are valuable are small. If you take the example of world trade in steel, in 1960 the value of world trade in steel was roughly equal in real terms to last year's value of world trade in microchips. It took dozens, scores, hundreds of huge containerships plowing the oceans day after day throughout the year, huge rolling wagons, all those were needed to transport the steel that was traded across borders in 1960.

Today you could carry the entire world trade in microchips in a single jumbo jet. The technology, too, has made the carriage, the transport, of information incomparably quicker than anyone would have imagined 20 or 50 years ago. The power of computers, the power of telecoms, if you think that the first transatlantic telephone cable was laid in 1956 and it could handle 36 calls at a time, the latest version can handle 40,000 at a time. Not merely is transport quicker, but it is also much cheaper. The cost of flying from London to New York return last year for the cheapest ticket was 320£. Using those 1990 pounds, the cost in 1960 was 1,540£. So we have seen a shrinking of roughly 0.75 in the cost of getting across

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the Atlantic and back again. And the decline has been even greater in the transport, not of people, but of their voices.

Last year if you wanted to do a three minute call from London to New York on the telephone, it cost you 2.33£. Again using those 1990 pounds, in 1960 that telephone call would have cost you 30£, and in 1930, it would have cost 30£ you 470£. So we've gone from 470£ down to a commonplace of 2.33£. And these are not changes that are suddenly going to stop in 1991. Indeed, the cost of flying across the Atlantic has come down from those figures I gave you for last year. Why? Because of deregulation, because governments have decided in a limited way to start changing the rules that apply to which airlines can fly to which airport, and as more of that happens, and it will, so those prices will come down again.

And as more telecom companies link up and technology drives opportunities that weren't there before and competition forces prices down, so in 10 years' time we will think that 2.33£ was a very expensive telephone call for three minutes. When you put deregulation and technical change together, you see immediately the scope for globalizing economic activity. If you take the 1980s and what happened to some of the big aggregates of economic life, the gross domestic products of all the Organization for Economic Cooperation and Development (OECD) countries at 24 rich industrial countries rose over the decade as a whole by 35%. World trade rose by 80% in volume terms. Foreign investment, new activity crossing borders, rose in real terms by 135%. And if you take the highly liquid shifts of portfolio capital, those rose by anywhere between 250 and 300% during the 1980s. So every dollar of economic activity has an increasing component of internationalism in it, an increasing component of trade or of investment across borders. And then you get the realization that the appropriate economic unit is the world, that any company can choose where to sell, and by dint of deregulation, by dint of technology, it has now got access to more and more places.

Then inevitably, you are going to get a massive increase in competition. Companies for many years were used to the idea of competition at home coming from the four or five well-established national companies that they all knew about. That is a model from the 1950s, 1960s maybe. There is no relation to commercial life in the 1990s because companies that we may scarcely have heard of 15 years ago are now established competitors in what used to be termed a domestic market. The very notion has virtually disappeared. It's now much harder for anybody, any company, to stand still. If you stand still, you fall back. Competition is the reality. There were a couple of men out hiking one day in the Rockies, and they came across a grizzly bear that was advancing toward them with malicious intent. One of the men quickly took out his knapsack and he took out some running shoes and started putting those on. The other man said to him, "Are you crazy, you won't be able to run faster than that bear." "No," the first chap replied, "but I'll be able to run faster than you." And there is that sense now of enormous pressure all the time, competitive pressure from sources one would never have imagined adding to the requirement to perform, to deliver productivity growth, to deliver a margin, to demand more of people, and that pressure is growing everywhere.

Of course, it's not impossible for any company to have a niche. I remember being at a press conference given by the chairman of BMW some years back, and he was

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asked what he thought was the future of the world motor industry. He said, "I see a worldwide overcapacity for cars, and a worldwide shortage of BMWs." It is a very nice position to be in, and an ambition, a legitimate ambition, for every company to have something that gives them a uniqueness and edge of quality, of image, of service over and above their competitors. But those will be niches of competitive excellence, not of national favoritism or of consumer inertia. A note, it is the consumer again, the consumer who wants more, who is himself much more demanding, much more expecting of quality and service and price. Again, the consumer, the individual woman and man in the shop, the essence after all of pluralism, of devolved part done into the hands of individuals.

Now this world, this freer world, this more pluralistic world, this more competitive world, has enormous opportunities for all of us, but when asked to recognize that some of the changes are made possible by institutional arrangements, by governmental agreement, one area of economic life has not really yet succumbed at all to these sorts of pressures. Government has stood in the way of technology, has stood in the way of consumer demand, has done nothing to deregulate, and that area is agriculture. And now we see agriculture, the last unreformed part of economic life, is a source of enormous friction between the big governmental powers in the world, between the U.S. and the Community most obviously but also Japan. And without a willingness, a determination, to reform agriculture, to bring it under the sway of these same big influences, we could find ourselves involuntarily, unexpectedly, slipping into a trade war on a whole lot of other areas, and that is the threat that overhangs us sitting here now. But it is always a reminder that in order to get international agreement, you have to very often go to the roots in national life of things that seem to matter a great deal, and the differences in agriculture between the European Community and the U.S. run very deep.

A Texan was once on a holiday in the west of Ireland, and he came across a farmer leaning up against a fence. He got out of his car and he said to the farmer, "Where is your farm?" And the Irishman said, "Well, if you run down this fence there to the post and then along the stream there and then up this hedge here, that's my farm." And the Texan pushed his hat back and he said, "You know where I come from, I can get in my car and I can drive for 10 hours, and I still wouldn't have got halfway around my farm." And the Irishman replied, "I once had a car like that myself."

These are big, fundamental, deeply rooted differences, and yet unless governments collectively or individually are prepared to go to the roots, they will leave difficulties and obstacles that could threaten a lot of the optimistic picture that I have been describing. And so we must recognize that in both politics and in economics, we have huge challenges ahead of us, and they are challenges that will often require new forms of internationalism, not old forms of nationalism. If I can end with another bit of wisdom from Ireland. A man was on his death bed, and the priest came to visit him. The priest said, "Now, my son, will you renounce the devil and all his works?" And the dying man laid for a while and then he said, "Father, this is no time to be making enemies," and he was right.