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Global Trends 2030: Alternative Worlds

Report by the National Intelligence Council summary by Jon Deuchler

There is a quote by John Maynard Keynes that reads: "... the idea of the future being different from the present is so repugnant to our conventional modes of thought and behavior that we, most of us, offer a great resistance to acting on it in practice." Many actuaries, this one included, take that to heart in our modeling and pricing. We often lock into one set of best estimates to project expected results and test only minor perturbations in the drivers to come up with a range of results. We forecast mortality improvement, investment returns and interest rates and sometimes do stochastic projections and attach high credibility to our ability to understand the variances.

Global Trends 2030 is a report produced by The National Intelligence Council (NIC) and released in December 2012. This is the fifth such report, the first being produced in 1997 and roughly every four years thereafter. This is really a fascinating report discussing global trends and speculation on demographic, economic, natural resource and power shifts to come in the next 20 years.

The NIC is a coalition of 17 agencies and organizations within the Executive Branch of the U.S. government and is a kind of clearinghouse of gathered intelligence. This report adds the perspective of experts outside the government (and outside the intelligence community) and was presented to policymakers in the Executive and Legislative Branches to aid in long-term planning. This is not meant to be a prediction of the future. It's more like a list of possible situations that deserve attention, thought and discussion. It proposes some approaches for solutions or responses, but strives not to make value judgments as to the "best" solution. I found that I didn't always agree that the issue was as major or minor as proposed in this report, but I also found it very interesting that my view of the world was quite different than presented here.



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The report is a deeply written and detailed document of more than 130 pages. It is both a fascinating read on global politics, societal changes, economic upheavals, technological advances and the future role of current super powers and an almost dry, fact (or accepted as fact) driven discussion of situations deemed certain to happen. I found it extremely interesting and sometimes disappointing or somewhat disturbing that the changes and situations forecast could be accepted almost matter-of-factly.

There are two pieces to this publication. The first is an abstract of four pages and the second is the larger, more complex document (over 130 pages). The abstract summarizes the larger document, separating the major points into a menu like format. The starting courses are the megatrends, items that are considered to be relatively certain of happening. These include individual empowerment, demographic swings, and diffusion of power and natural resource issues (food, energy, climate change and fresh water). Chapter 1 of the larger report is devoted to discussing these items in great detail.

Individual empowerment is the idea that the middle class will grow dramatically over the next 15-20 years due to poverty reduction, education opportunities and better health care (recall the perspective, this is a global analysis report). While the lives of many are expected to improve, the opportunities for individuals and small groups to be very disruptive will also be enhanced, due to cyber weapons, bio-terror or nuclear weapons or other forms of large scale violence.

Demographic swings are four trends that will affect the internal economic and political climates of many countries and how all countries interact with each other. The four trends are: aging, migration, growing urbanization and youthful (or relatively so) states and societies. It's no secret that many countries are faced with an aging population. This presents challenges for many resources, including health care, productivity and housing. At the same time, relatively youthful states will lose population by migration to states with better job opportunities (or simply higher wages). This will put a

strain on both states, on the former to replace or strive to keep their population and on the latter to house and feed the influx. Growing urbanization refers to both of these issues.

Diffusion of power refers to the shift of the major population centers to Asia, China in particular, in addition to the growth of the GDP in Asia countries. Further complicating this is the consideration of what actually constitutes power in an era where the individual becomes more highly prized. Authoritarian governments may not be able to leverage their economic power if their control of their population is lowered or limited.

Natural resources issues seem almost too easy to include. It's obvious to most that food, fresh water and energy needs will continue to grow. If the middle class does dramatically increase, then so will their consumption patterns. Can the existing world economic meet those needs? Are we headed for shortages in critical items? What will be the effect of climate change? All of these questions seem to me to suggest that the growth in the middle class will not be as great as suggested in the first item.

The main courses are called critical game-changers. This is a very broadly drawn list of six items that interact with one another and that will drive the megatrends. The six items are: the global economy, current governments (and current forms of government and their response to the megatrend changes), the potential for increased conflict, regional instability expanding into global instability, the impact of new technologies and the future role of the United States. All of these elements are discussed in Chapter 2 in just about half (66 pages) of the report.

As this is the largest and most detailed section, trying to summarize it would not do it justice. There are many interesting and insightful sections that describe the rationale behind the conclusions. To say that I consider this required reading for all actuaries would not be sufficient: everybody everywhere should read this section. It's that good and that important. And, if it doesn't make you think long and hard

about the future, you're in the wrong business.

The dessert section describes four scenarios (mostly bleak) and how they can affect the game changers. To really destroy the metaphor here, the idea is that the dessert can make or break the dinner. The four scenarios are, "Stalled Engines, Fusion, Gini Out of the Bottle and Nonstate World." Stalled Engines is a scenario where the United States, Europe and China turn inward and retreat from a position of leadership in the world. Thus, slower economic growth leads to more conflicts in lesser-tier countries and there is greater instability in certain regions. This scenario also postulates a pandemic that ravages the poorer countries. Because the richer countries are walled off, they are better able to withstand the pandemic and emerge even further ahead economically. Since this flies in the face of every zombie apocalypse movie or television show that I've seen (even those soon to come), I consider this to be a real Black Swan scenario.

Fusion refers to a scenario where cooperation between the United States and China leads to a more cooperative and prosperous world. The United States and China essentially share the role of policeman to the world and intervene in conflicts so as to limit their impact and cost. This scenario results in a rise in the fortunes of virtually all countries. Since this seemed like the most common sense scenario, I immediately dismissed it as being a fairy tale. It's just too good to be true. However, it's just possible that enough people will read this and realize what potential there is in the world. I wish.

Gini out of the Bottle seems to be a scenario that is pretty much status quo. The inequalities between rich and poor nations continue to grow, leading to increased resentment and conflict. While the global economy grows (better than stalled engine but less than fusion), it's country centric and not even across all countries. I'm not sure I agree that the economy would perform as described in the write-up; it seems to me that more conflict would be more inhibiting of economic growth. But the report concludes that this is an intermediate growth scenario.

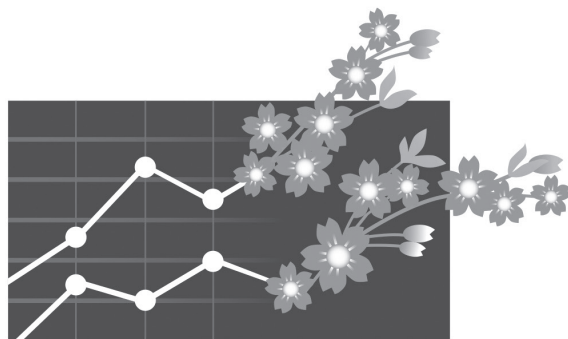
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Nonstate World describes a scenario where nongovernmental organizations take the lead in managing the world and addressing global issues. These organizations include supra-country organizations, multinational business, academic institutions, even wealthy individuals. In some cases, the list might include mega-cities within a single country (crossing state lines) or across country borders. The role of centralized national governments is lessened in this scenario, a surrendering of power and influence that seems far-fetched to me.

Economic growth is expected to be ahead of the Gini scenario but behind Fusion. Criminal and terrorist networks are projected to thrive (given the shift in power and authority for centralized governments), but that would seem to impact economic growth more than reflected in the discussion.

This is a remarkable report and it deserves a very large audience. Regardless of your politics, this report will give you much to think about.

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