



SOCIETY OF ACTUARIES

Article from:

# Forecasting & Futurism

July 2010 – Issue 2

# A New End, A New Beginning

## Preparing for Life as We Don't Know It

By John L. Petersen

**P**redicting the future is a fool's errand. It is fraught with so much complexity and uncertainty that the best one can do with integrity is to array potential alternatives—scenarios—across the horizon, and then try to think about what might be done if one of those alternative worlds materializes.

Scenario planning has certainly been an effective discipline, helping many organizations to imagine potentialities that probably otherwise wouldn't have shown up in their field of view. But as I facilitate organizations going through these exercises, the little, nagging voice in the back of my head is not asking, "What is the array of possible futures?" Rather, it is always wondering, "What is the future really going to be?" We want concreteness. We want predictions.

I think that no one knows for sure what the future will bring, but after some time of being in the "future business," one begins to be able to discriminate between what is substantive and structural and what is largely speculative. For me, at least, some things have an intuitive sense of being real and important, and the rest of the possibilities lack just enough gravitas that I know they're only "ideas." That intuitive sense is supported when it becomes possible to triangulate from a number of independent sources that all point to the same conclusion.

People always ask me after my talks, "With all of these converging trends, what is 2012 really going to look like?" It happened again in a recent radio interview. Mostly I hedge and dance a bit and say that I don't know for sure, but I believe there will be a new world, and a new human will come out of all of the current turmoil. The notion of cooperation will shape the way people see themselves and the rest of the world, and there will be new institutions and functions, etc. Pretty general stuff.

But, over a year ago, the notion that all of this big change could spell a substantial reconfiguration of the familiar country that I have lived in all of my life began to gel in a way that moved that notion beyond being just a possibility—a wild card—into the realm of plausibility. I now have come to believe that such a transformation is likely and will happen—soon.

Ideas like this are so big and disruptive that it is really quite hard to get to the place where we take them seriously. For most of us, our lives are evolutionary—punctuated, perhaps with trauma now and then, but mostly populated by events that are familiar, even if they don't always make personal sense. The concept that everything might change is so foreign to any experience that most of us have ever had that, even if we say the words and talk about the possibility, we really don't internalize what this might mean.

Certain other thinkers jumped to the natural conclusion quite some time ago. Dmitry Orlov, for example, first started to build a theory of superpower collapse that included the United States in 1995. Only in the last few years has he been talking publicly about his ideas and the ultimate direction of U.S. trends.

James Howard Kunstler, a wonderfully entertaining and provocative writer, was very clear about the systemic and structural nature of the larger problem in his 2006 book, *The Long Emergency*. He clearly sees the demise of America coming this way. His always interesting blog is a weekly assessment of where we're going wrong.

My colleague David Martin outlined the financial dominoes that were going to fall in a talk at The Arlington Institute in July 2006. Implicit in his treatise is the collapse of the U.S. and global financial systems, but again, it's one thing to hear such views and quite another to really believe them.

After I listened to such people and pondered what they said, I began telling my friends that I thought we were seeing the beginning of the end of the United States as we've known it. I didn't think they really believed it, at least initially, but recently we have seen Singapore, for instance, reportedly making major leadership changes in its government investment company to reposition the nation away from the United States and the U.S. dollar.

### INDICATORS OF BIG CHANGE AHEAD

There are numerous indicators that suggest the big change is coming:

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- **Multiple trends are converging.** Huge, extraordinary, global trends, any number of which would be enough to derail our present way of life, are converging to precipitate a historic big transition event. A partial list would include:
  - The global financial system is collapsing. During the next few months, it appears that wave after wave of blows will strike the system, raising the very real possibility that it will experience large-scale failure sometime before the end of the year.
  - We have reached the beginning of the end of petroleum. Global production has been flat for the last three years. Senior oil company executives are now saying that they will not be able to pump more. Supply will likely begin to decrease significantly after we move across the peak. Prices will increase again if the demand holds up. This is important because our present way of life is built upon petroleum.
  - The global climate system is changing—some say it is getting much warmer; others now suggest a mini ice age within the next decade. In any case, increased irregularities in local climates will probably result, with attendant problems in agriculture, natural disasters and economies.
  - The cost of food is increasing rapidly as a result of global shortages not seen in 40 or 50 years. This could be exacerbated by increasing energy costs and climate changes. Lester R. Brown of the Earth Policy Institute believes that food shortages may bring down civilizations.
- The effects of larger solar eruptions hitting the earth through tears in the magnetosphere surrounding our planet will likely disrupt global communications, weather, perhaps satellites, and even organic life over the next three to four years.
- **Problems are much larger than government.** Peak oil, climate change, and the financial meltdown all have the potential to significantly overwhelm the capabilities of government to respond to them. If bureaucracies can't deal with the aftermath of a natural disaster like Katrina, something 10 or more times that damaging would leave most people fending for themselves. If these extraordinary, disruptive events end up being concurrent, then the whole system will be at risk.
- **The problems are structural.** They're systemic. Some of these issues, especially the financial, oil, and food problems, are also a product of how we live, our priorities, and our paradigms. We are creating the problems because of our values and principles. Without extraordinary, fundamental changes in the way we see ourselves and the world, we will keep getting what we are getting.
- **Leaders think the old system can be "rebooted."** Almost everyone in leadership positions in the Obama administration and in other countries wants to make the old system well again. Jim Kunstler has said it well:

Among the questions that disturb the sleep of many casual observers is how come Mr. O doesn't get that the conventional process of economic growth—based, as it was, on industrial expansion via revolving credit in a cheap-energy-resource era—is over, and why does he keep invoking it at the podium? Dear Mr. President, you are presiding over an epochal contraction, not a pause in the growth epic. Your assignment is to manage that contraction in a way that does not lead to world war, civil disorder or both. Among other things, contraction means that all the activities of everyday life need to be downscaled including standards of living, ranges of commerce, and levels of governance.

"THE END IS NEAR" HAS ALWAYS BEEN DOOMSAYERS' FAVORITE SLOGAN, BUT IS IT NOW FINALLY TRUE? THE TRENDS SUGGEST THE END OF AN ERA MAY INDEED BE NEAR, AS GROWING COMPLEXITY AND PROLIFERATING CRISES THREATEN TO OBLITERATE "LIFE AS WE KNOW IT." THE TIME IS NOW TO PREPARE FOR THE LIFE WE DON'T YET KNOW.

“Consumerism” is dead. Revolving credit is dead—at least at the scale that became normal the last 30 years. The wealth of several future generations has already been spent and there is no equity left there to refinance.

The above indicators of change suggest the reasons behind the following.

- **We’re not dealing with the structural issues.** All of the biggest efforts are attempts to re-inflate the financial bubble and to keep the mortally wounded institutions alive. The knee-jerk reactions come from the same people who helped to design and feed the present system. These people are also deluded—they think (or act like) they know what they are doing. They don’t realize that ...
- **The situation is so complex that no one really understands it.** The Global Business Network’s Peter Schwartz, reporting on a conversation with the *Financial Times*’s Martin Wolf, said that Wolf’s key point was that the nature and scale of the credit crisis is so novel that it’s not clear we know what we’re doing when we try to stop it. He is deeply worried. Steve Roach of Morgan Stanley said at the World Economic Forum annual meeting at Davos that he agreed with Wolf: We are in uncharted waters. Nassim Nicholas Taleb, author of *The Black Swan: Impact of the Highly Improbable* (Random House, 2007), says the financial system is so complex that it is impossible for anyone to understand it, and because of that complexity it is inevitable that it will exhibit significant, unanticipated behaviors (his Black Swans) that careen across the planet.
- **The issues are global.** Economies are contracting around the world, with a huge rise in unemployment. Japan’s exports are falling, and factories are closing in China, which means that products aren’t being shipped.
- **The system is fundamentally out of balance.** Common sense is largely absent from many big, sweeping U.S. government edicts. The Transportation Security

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Administration, for example, wants to make pilots produce background checks on members of their family (and their business associates) in order to legally give them rides in noncommercial, private airplanes. The Agriculture Department wants all small farmers to put GPS/RFID tags on all of their animals so that chickens, cows, horses and goats can be tracked, on a day-to-day basis, by the government. And most of the U.S. federal budget goes to the military and military-related agencies. This kind of growth, of course, is what brought down the Soviet Union.

#### WHY GOVERNMENT FAILS TO RESPOND TO CHALLENGE

If the natural solutions to these massive issues include innovation, foresight, adaptability, sustainability and resilience, it is unlikely that a thinking American could be found who would suggest that the source for these capabilities would be our government. Those who are in charge have no new ideas about how this all should work. They’re also slow, and this situation needs fast, agile responses. There is an additional problem. Even if it did have good ideas, the government wouldn’t be able to effectively implement them because:

- **It suffers from too much inertia, and too many lawyers and lobbyists.** There is a huge, well-funded effort in place to maintain the status quo or to shift the future to benefit one group at the expense of others. It would be impossible within the present system to initiate dramatic change when the threat was still on the horizon. Every group or organization that might be negatively affected would fight in Congress and the courts to keep themselves alive, regard-

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less of what was at stake for the larger community. Only when the crisis was about to crash down on everyone—when adequate time and resources for effective response were nonexistent—might everyone pull together for the common good.

- **Potential solutions take too long to implement.** These issues are so gigantic that confronting and redirecting them takes a long time. One study, for example, suggested that a national crash program to find alternatives for oil would need to have been started 20 years before the peak in order for there not to be significant disruption of the underlying systems. We do not operate with either that foresight or that resolve.
- **Supply chains are long and thin.** Globalism and just-in-time production have produced supply chains in most areas of commerce that are very long—often to the other side of the earth—and very fragile. There are many places between there and here where something can go wrong. If and when that happens, necessities will not be available. In those situations, people resort to unconventional and/or antisocial behavior.
- **Six hundred trillion dollars in derivatives is a house of cards.** Looming over the whole financial situation is an almost unfathomable quantity of financial instruments—derivatives—which are essentially casino bets with no underlying value supporting the transaction. Warren Buffett calls them “financial weapons of mass destruction,” and they could bring the whole system down. Derivatives only work if there is confidence in the system—you believe the casino will really pay your winnings. If other things in the environment erode that confidence, there is the real possibility that things will rapidly fall to pieces.



John L. Petersen

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- **Cooperation is unlikely; protectionism will prevail.** Instead of countries cooperating with each other to deal with these big transnational problems, we’re seeing a pulling back to protect each country’s perceived short-term interests, regardless of what the implications might be in the longer term. At the same time, we’re all connected to each other in very complicated ways, so if any substantial pieces of the system don’t work, it will affect all of the other ones.

- **History says it’s time.** Perhaps what is most compelling to me is that history strongly suggests that the time is right for an upset—they always happen about now in the historical cycles. Big punctuations in the equilibrium of evolution have produced extraordinary, fundamental reorganizations to life on this planet on a regular, accelerating basis from the beginning of time as we know it. We make progress as a species when we are forced in one way or another to evolve into seeing ourselves and the world in new ways. Necessity is the mother of invention—or should be!

So, it doesn’t look to me like we’re going to be able to do what might be needed to maintain the present system. It is likely that we’re at one of those extraordinary moments in history when each of us gets the opportunity to play an important role in not only transitioning to a new world, but also designing it.

## WHAT TO DO IN THE FACE OF UNPRECEDENTED CHANGE

Two specific actions come to mind that should help individuals and institutions prepare for this change.

1. **Plan for the transition.** Start to think now about how you’re going to provide for yourself and those who are important to you in a time when many things don’t work the way they always have in the past. There are many websites and books on this subject, but the key concept is cooperation. You can’t do this alone. Start to work together with like-minded individuals to sustain yourself, regardless of whether your concerns are food, water, shelter, transportation or finances.

**2. Start thinking about the new world.** Now is the time to begin contemplating the design of the new world. Governments should be doing this. Companies should start skunk works. Big international organizations should put it on their agendas.

Here's the catch. This might not happen. The "system" might not collapse. Personally, I think that if there is any one person that has the potential to at least soften this transition it is Barack Obama. As I've suggested, he will have his hands full just trying to get the underlying people and institutions to think differently and act fast enough, but if anyone has the chance to pull it off, he would be the one. Already, he's getting government to move faster and in more substantive ways than any of his predecessors. It may be, by the way, that he will be the best person to wind down the old system and develop a new one. It's all of the other folks running the government that I'd be concerned about—the ones who continue to see the world as it used to be.

There are any number of reasons why this scenario might not manifest itself, not least of which is that there will be many thousands, if not millions, of people who will be working very hard to assure that the system doesn't come apart (but then, they may be doing the wrong things).

It seems to me, therefore, that flexibility and permeability (allowing new ideas to get through) are of critical importance here. Remember the first law of Discordianism: "Convictions cause convicts." Whatever you believe imprisons you.

So, stay loose. The winners need to transcend, not try to work their way through all of this. Concentrate on building the new world. Don't get emotionally involved in the daily reports of the current global erosion.

## ADDITIONAL RESOURCES

- *America's Defense Meltdown: Pentagon Reform for President Obama and the New Congress*, edited by Winslow Wheeler (Stanford Security Studies, 2009). In

sharp contrast to the political apparatchiks protesting that more money is needed to reverse the shrinking, aging, and declining readiness of the Army, Navy, and Air Force, few seem to understand that budget increases are a primary cause of the problems, a symptom clearly described in this new book.

- "Asymmetric Collateral Damage: Basel II, the Mortgage House of Cards, and the Coming Economic Crisis," a talk by David Martin, CEO of M·CAM, for The Arlington Institute (July 12, 2006), [www.arlingtoninstitute.org/dr-david-e-martin](http://www.arlingtoninstitute.org/dr-david-e-martin).
- Crash Course, a "concise video seminar on how our economy, energy systems, and environment interact, and how they will impact the future," at [www.chrismartenson.com](http://www.chrismartenson.com).
- *Reinventing Collapse* by Dmitry Orlov (New Society, 2008).
- *A Vision for 2012: Planning for Extraordinary Change* by John L. Petersen (Fulcrum Publishing, 2008).
- "Why Obama's 'Rescue' Misses the Mark and the Coming Financial Collapse Just Got Worse" by David Martin of M·CAM (February 15, 2009), <http://invertedalchemy.blogspot.com/>.

(Reprinted from the September October 2009 issue of *The Futurist* [the WFS magazine]. Used with permission from the World Future Society, 7910 Woodmont Avenue, Suite 450, Bethesda, Maryland 20814 USA. Telephone: 301.656.8274; [www.wfs.org](http://www.wfs.org)) ▼