

ORACLE LONG READ

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PROSPERITY, SECURITY, STABILITY

Tom Burke

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These are anxious times. Much that we take for granted in the way the world is ordered is in flux. The brief moment when scholars talked confidently of the 'End of History' has passed. Change is no longer an option, to be welcomed or resisted, as a matter of choice. It is now an imperative: permanent and pervasive; intrusive, disruptive, often destructive. As it accelerates, it favours the strong, the educated and the affluent. For others, it is simply overwhelming, dislocating the familiar patterns of daily life, exposing vulnerabilities, defeating expectations.

Two factors in particular are driving this acceleration of change. In less than a single life time global population has risen from 2.5 billion to nearly 8 billion. All these people are now massively better connected. Everyone can see, moment by moment, what is happening to everyone else. Thus, the explosion in population has been accompanied by an explosion in expectations. The way the most prosperous and secure among us live their lives is now, literally, visible to billions whose lives are neither prosperous nor secure.

Such prosperity as some of us enjoy is built on a virtuous triad of forces that have spiralled ever upwards. Physical security provided the stability necessary to ensure the investment that generated the prosperity that, in its turn, enabled reinforcement of security, enhancing the stability that stimulated further investment to create more prosperity. The prospect that this fundamental engine of rising expectations - prosperity, security and stability - may be faltering is fuelling a deepening global anxiety.

This general anxiety is the fertile substrate on which the more specific anxieties that have led voters to support Brexit, Trump and a growing band of authoritarian national leaders thrive. Such voting choices reflect the defeated expectations of those being left behind by the accelerating pace of change. These elections are, however, only the early symptoms of a much deeper and more dangerous structural malaise.

The defining political challenge of the 21st. Century is that of meeting the rising expectations of more than 8 billion people without destroying the natural resource foundations of the economy. Those expectations are held by an increasingly well educated, more mobile, better connected and, above all, more urban population.

The scale of this challenge is daunting and worth a closer look. Today, just over a billion of us have arrived. We are where everyone else wants to be. We have assets: homes, savings, vehicles, goods. We have secure and relatively high incomes. We live predominantly in the cities of the OECD and increasingly in urban pockets in the emerging economies. We expect life to continue its upward progression much as it does now.

There are about one and a half billion people who are in transition. They are on their way to arriving. They also live in cities throughout the world. They are beginning to acquire assets and have moderately high incomes that are less secure than they were. These are the growing professional and technical populations in emerging economies; the public sector employees in the OECD and service industry employees in the private sector. They expect their lives to get measurably better.

Some two billion people are in motion, literally. They are mostly moving from the countryside to the cities – about 75% of global population is expected to be urban by mid-century. They are also moving from poor countries to rich countries. They have no assets and low and very insecure incomes. They live in informal, often illegal, settlements on the edges of cities. They are to be seen driving rickshaws in Dacca or picking over the waste sites of Manila for things to recycle. They expect life to get materially better and work very hard to make it so.

Perhaps two and a half billion people remain in rural areas. They are subsistence farmers, forest dwellers, coastal fishers, indigenous peoples. They have no significant cash income and such assets as they possess are often communally held. What happens to the world economy has little impact on their lives. Extreme events – floods, droughts, wildfires, storms – however destroy their livelihoods. If this happens those who can, move. The rest suffer and eventually perish. These people expect life to continue much as it is, improving, if at all, only at the margins.

The politics of the 21st Century will be shaped by whether or not we manage to meet the expectations of the three and a half billion city dwellers who are either in transition or in motion. If we fail to grow the economy in a manner that meets their expectations, then the virtuous circle of security, prosperity and stability can quickly become a vicious circle of insecurity, instability and poverty. Put bluntly, failure to meet the expectations of urban populations leads rapidly to political disruption of a scale and magnitude far greater than ever results from failure with rural populations.

Explosive growth in human expectations has happened before. It occurred, primarily in Europe, albeit at a far slower rate than is experienced today. Nevertheless, there are some instructive lessons to be drawn.

From the middle of the 18th Century a debate ran, mostly within Europe, about making the economy grow faster. As the industrial revolution gathered pace under the stimulus of the Napoleonic Wars and the subsequent prolonged period of peace the answer became clear. Individuals freed to pursue their own self-interest, enhanced the interests of all and the economy would grow. As this liberal doctrine gained hold, economies did indeed grow rapidly.

But economic growth corrodes social ligatures. The complex, multi-dimensional relationships of relatively stable communities were replaced in the creative destruction of capitalism by the simpler, transactional relationships of the cash economy. Cultural bonds with their complex patterns of mutual rights and obligations were replaced by economic bonds based simply on the ability to pay.

In the 19th Century rapid economic growth led, then in Europe, as it does today globally, to very rapid social change. This social change, unmediated by any attempt to ameliorate its impacts on the welfare of large numbers of people, led to growing political instability which threatened to undermine the engine of economic growth driving the changes. The consequent rise in mass discontent meant that Marx had written the Communist Manifesto by the middle of the 19th Century.

As the dynamics of what we would now call a negative feedback loop became apparent, a new argument began. This debate was about how to maintain the social conditions necessary to keep the economy growing. The answer emerged over the following century. Some of the proceeds of economic growth must be invested in maintaining the social conditions necessary for that growth to be sustained.

By the middle of the 20th Century this debate, too, was over. It was everywhere accepted that government needed to invest in health, education and social security if the social cohesion necessary for economies to grow was to be maintained. There is now a robust consensus that a primary purpose of public policy is to promote economic development; that is, economic growth plus the public investment needed to support the social conditions for its achievement.

The population bomb went off just at this consensus became firmly established and global population almost quadrupled in less than seventy years. As the implications of meeting the accompanying expectations explosion began to emerge a new debate began. This debate focussed on managing the stresses imposed on the natural resource systems that underpin the economy as governments strive to meet rising expectations.

We are some way from reaching a global consensus on the need to maintain the environmental conditions for the economy to grow. Evidence that environmental stress is beginning to undermine the economy is rapidly accumulating. This is true across a wide range of the natural systems on which we depend from the climate and oceans to freshwaters, forests and soil fertility. For the global economy to continue to grow in the 21st Century we must now maintain both the social and environmental conditions necessary for the economy to thrive. This idea is expressed in the current shift of the focus for public policy from economic development to sustainable development.

Much of the knowledge and technology we need to do so is already available or within reach. But, despite the recent adoption of the United Nations Sustainable Development Goals, there is little sign that the strength of political will necessary to reshape the balance of advantage between incumbents and innovators to deliver the Goals is genuinely present.

The effort to maintain the social conditions for economic growth that began towards the end of the 19th Century was slow to get going. The resultant deterioration in social cohesion culminated in the political stresses that led to the dominant political question in much of the world for the first half of the 20th Century being a choice between Communism or Fascism as the preferred form of totalitarianism. There is little reason to believe that our current failure to make a rapid enough transition to sustainable development will have less significant political consequences.

The industrial revolution made possible the creation of truly national economies. Prior to the construction of the modern canal system and railways the growth of economies was limited by the ability to move large volumes of goods and commodities quickly and cheaply except by sea or navigable rivers. Most economic activity was local or regional. As economies became national so national standards emerged for the first time, starting with the national synchronising of clocks. This led eventually to the creation of the national standards on health, pollution, labour and much else. In effect, the nationalisation of opportunity led in time to the nationalisation of responsibility.

Since the middle of the last century we have reprised the building of national economies on a global scale. By removing barriers to the free flow of capital and information we have globalised opportunity. The result has been the creation and distribution of wealth on a scale unparalleled in history. But this wealth is being bought at a price in global social cohesion and degrading of the economy's natural resource foundations that cannot be sustained. We are experiencing globalisation of opportunity without globalisation of responsibility.

The social and political stresses that culminated in the Second World War fashioned an unprecedented intensity of shared experience. The result was a near universal appetite for institutional innovation, especially in Europe, to avoid its repetition. It led to the creation of the network of global institutions, the United Nations, the Bretton Woods Institutions and the General Agreement on Tariffs and Trade, that were the foundations on which our current security, prosperity and stability are built. In Europe, it led to the formation of the world's first significant, sustained and successful experiment in pooled sovereignty that the European Union is today.

As memories faded and generations changed, the appetite to build global institutions has also faded. Since the seventies, as the world became ever more dependent on the global rules system bred and nurtured by these institutions, the impulse to innovate and invest in them has declined. Meanwhile, the realm of opportunity created by freeing the flow of information and capital was also available for exploitation by malign forces. The new pathways for global goods and services are also available to international terrorists, people and drug traffickers, organised crime, money launderers, tax evaders and pathogens.

None of these problems can be successfully tackled without greater sharing of sovereignty and more political and financial investment in global rules. No single country, no matter how powerful, can protect its economy or citizens from the consequences of climate change. Nearly two billion people already live with absolute water scarcity and almost two thirds of the world's population are already experiencing some water stress. Losing climate security will add to these stresses. Without water security, food security becomes impossible. A government that cannot maintain food and water security cannot maintain internal stability. The climate together with food and water security forms a single system whose integrity must be maintained if we are to have stability and prosperity.

Engineers understand systemic risk. These are the risks that emerge when there is a high degree of interdependence among the component parts of a system. In such systems the failure of a small, and not necessarily vital, component can trigger a cascade of failures that leads to a collapse of the whole system. When this occurs in complex, interdependent systems, such as an aircraft in flight, the results can be catastrophic.

Financiers do now. They did not before the financial crisis of 2008. The liberalisation of financial markets in the late 20th Century stimulated an unprecedented growth in the size and complexity of financial markets. This created a financial system that made credit more widely available to people than ever before. But it also created a landscape of risks that very few in the world of finance understood.

When an important, though not particularly large, bank, Lehman Brothers, collapsed in September 2008 the degree of interdependence between private financial institutions had become so great it triggered a cascade of financial failures that threatened to bring down the whole global financial system. It took vigorous, and untypically swift and coordinated, action by world's governments to prevent an economic cataclysm. A decade later, the social and political consequences are still reverberating around the world.

This was a powerful wake up call. It illuminated the vulnerability of the global financial system on which we depend to enable the global economy to meet the rising expectations of our growing population. There were many lessons to be learnt. Not all of them have been. One of the clearest was of the importance of governments. Left to their own devices the financial markets would have collapsed and with them the global economy. Governments did intervene, and the day was saved – at least for the time being.

We rely on governments to detect and prevent the emergence of economic systemic risks in much the same way as we rely on engineers to keep our aeroplanes safe. It is not anyone else's job. Few, if any, have yet understood that we face the prospect of a set of nested systemic risks as we strive to meet expectations.

We have learnt that the global economy nests within the global financial system. If that fails, the global economy fails. Governments have yet to fully grasp that the global financial system nests within the global political system: the nexus of global rules developed after the Second World War. Without the political stability they provide the financial system is unable to supply the capital to drive prosperity. There is little capital flowing into Syria or Libya or any of the world's growing number of failing states.

What has yet to be widely understood is that both the financial and political systems that support security, prosperity and stability nest within the global climate system. An unstable climate is a stress multiplier. It makes bad situations worse. All of recorded human history has occurred within the climate system we are now disturbing with our burning of fossil fuels. We are on the verge of going beyond any climate we have ever recorded.

The risk we are running is that an apparently small failure to keep the eventual rise in global temperatures below 2°C – say, going to 3°C or 3.5°C instead – could precipitate a cascade of failures through the global political and financial system and with it the security, stability and prosperity required to meet the expectations of all 8 billion of us on the planet. We already have the technologies to prevent this failure. We are more likely to improve rather than wreck our economy if we deploy them. But governments everywhere are a long way from rewriting the balance of advantage between incumbents and innovators necessary to do so.