



Debate

Global Trends

Gerry Holtham

Gerry Holtham unpicks some of the longer term geo-political changes underway in world affairs and finds a glimmer of hope for Wales amid generally grim tidings.

- **A former Director of the IPPR, Gerry Holtham is currently Chief Investment Officer with London-based Morley Fund Management. A member of the IWA's Management Board, he was recently appointed a member of the Assembly Government's Economic Research Advisory Panel.**

There are many issues, problems and urgent policy questions that confront Wales at the present time. Some are unique to this country but most have some links to broader trends in the world at large. From the mass of events that crowd in on us and compete for our attention, this article picks out movements that will inevitably impinge on Welsh issues and constrain our solutions.

Of chief interest here are the longer-run factors that will shape events over the next decades, rather than the shorter term, the recent world recession and the stock market decline that is expected to run its course during the next year.

The longer-run forces at work can be grouped under three headings: demographics, technology and the geopolitical movements to which they give rise. Two other topics are also worth commenting on: the regrettable but undeniable decay in the European Union and the European ideal which presents a challenge to some Welsh intellectuals, and the forces making for a 'greener' more sustainable economy, which offer some hope to the Welsh economy.

Demographic Shifts

The growth of the world population is slowing down and in consequence the world population is ageing. In the world as a whole, the proportion of the population over 60 in 2000 was about 10 per cent. By 2050 it is expected to be 20 per cent. But this global average masks enormous regional differences. In many technically advanced societies, notably Japan, Germany, Italy and Spain, but with Britain a little way behind, the birth-rate has fallen to the point where it does not sustain the population. The average age of the

population is therefore rising and the labour force is set to shrink, assuming there is no large-scale immigration.

In Japan and the large Continental European countries, the proportion of over 60s is currently around 23-24 per cent. By 2050 it is likely to be over 40 per cent. In the UK, the proportion is expected to rise from 21 per cent to 34 per cent. If current patterns of work and retirement are maintained, we are in the process of person compared with four at present. On current trends there will be only slightly more workers than retired people by 2050, implying a huge rise in the tax and transfer burden on those in work.

The 'solutions' are a progressive lengthening of the working life with later retirement - the opposite of what has been happening - or a return to poverty in old age or a huge increase in saving to finance retirement.

Migration Dilemmas

Another possibility is large scale immigration. The problems of Japan and Europe would be solved by accepting about 50 million young or middle-aged immigrants over the coming decades. That is a very modest redistribution of the world's population, less than one per cent of the current global population. The effect on the work forces of the poorer countries would be small. There are plenty of poor people in North Africa, the former Soviet Union and elsewhere who would be ready to come and work in Western Europe.

However, Europe has social difficulty assimilating the immigrants it has been receiving. Currently the trend is for tightening restrictions on immigration and political parties proposing such restrictions are making headway. Immigration on the requisite scale is unlikely to be acceptable in the foreseeable future. Yet economic necessity has a way of breaking down established beliefs and patterns of society. In the longer run, faster immigration into Europe is probably inevitable.

Rural Wales has its own problems with young people leaving and being replaced by an inflow of retired English people. This shortage of the young and surfeit of the old is currently a local problem, the result of attractive scenery, relatively cheap housing and a lack of jobs for the young. In important respects it is different from the problems that will confront the Europe as a whole. One difference is that not all Welsh immigrants are economically active.

Moreover, Wales is small and the rate of immigration is already higher in some areas than that which Europe would need to solve its problems. In Wales it is perceived as threatening Welsh culture and owing to the fragility of the latter, the perception has more justification than similar perceptions elsewhere. After all, being compelled to evolve and accommodate new elements is not the same as being extinguished. This makes all the more disgraceful the accusations of racism that have been levelled at Welsh community activists seeking some preference for local people in the housing market.

For the metropolitan press (in Cardiff as much as London) it is not racist to deplore the immigration of black people into England, but it is racist to disadvantage the immigration of English people into Welsh-speaking Wales. One is not sure whether this inconsistency, indeed perversity, is due to stupidity or hypocrisy.

Decline of Social Democracy

In fact, however, the more serious aspect of the Welsh crisis is the emigration of the young rather than the immigration of the old, leaving many communities struggling to reproduce themselves biologically, economically and culturally. A policy response is needed other than a simple discouragement of immigration. No-one should want a future for Welsh language culture based on exclusion zones like an Indian reservation in the United States.

In the broader European context, at any rate, immigration has a positive role to play in controlling dependency ratios. However, it should be accepted that there will be side-effects. One consequence is likely to be the final collapse of those social democratic values and social aspirations so dear to many in Wales. Social democracy has historically thrived in smaller, reasonably homogeneous countries, such as Sweden, with a strong sense of social identification. That identification enables wealthier citizens to accept high taxes and transfers. Ethnically diverse populations with people coming and going freely cannot generally support such a system. It is no wonder that the United States, for example, with its relatively liberal immigration policy is also the country of self-help with very poor levels of welfare and social protection.

The demographic trends in Europe are highly likely to eliminate social democracy, or what is left of it, as a practicable political creed. While people may come to accept more immigration as a way to ensure their pension claims are met, the extent of inter-personal transfers for retirement, health or simple poverty is likely to decline in a world with social democracy widely viewed as outmoded, the Welsh will need to find something else to believe in.

The United States, incidentally, because it accepts large numbers of young fecund immigrants from Central and South America is not facing the same demographic problems. Its population is set to grow from 250 million to 350 million over the next fifty years, reinforcing its position as the world's only superpower. Average annual growth of population in the United States is expected to be around 0.7 per cent, compared with zero in the United Kingdom, - 0.2 per cent in Japan and Germany, and - 0.5 per cent in Italy.

Meanwhile in countries such as Pakistan and Nigeria, population growth will probably proceed at 2 per cent a year. Tragically the growth of population in some other African countries is likely to be savagely curtailed by the AIDS epidemic. South Africa, for example is likely to see population growth of only 0.2 per cent a year.

Of course, the United States may well become a largely Spanish-speaking superpower, whatever its official language. The language of Cervantes may well overhaul the language of Shakespeare just as the latter is still encroaching on the language of Dafydd ap Gwilym.

Technological Change

We are living through a revolution in information technology and are promised another revolution in life-sciences based on biology and genetics. These things, we were recently being told, will change the world.

The truth is that the rate of technical change for all practical purposes has been rather slow these past three or four decades compared with the previous ones.

If you had asked schoolchildren in 1969, the year men first landed on the moon, what the world would be like in 2000, they would have envisaged colonies on Mars, everyone with their personal flying machine, and housework done by intelligent robots. None of these things has happened. People of my generation have seen very little change compared with the changes that my parents' generation saw. My mother lived as a child in a two-up two-down miner's house in Aberdare with a cold tap and an outside lavatory. She left school at 14, never went abroad before middle age, was chaste until marriage and had only one husband all her life. However, by the end of her life her standard of living had changed hugely – a car, foreign holidays, and all the household appliances (fridge, washing machine, television). Her children all went to University, had completely different sexual mores, were all divorced and remarried. She had listened to choirs at the Cymanfa Ganu, to George Formby and Gracie Fields. We listened to the Beatles and the Rolling Stones.

Thirty years on, our kids are still listening to the Beatles and the Rolling Stones, or at least to groups that imitate them, and are living much as we did, give or take a Sony Walkman and some video games. However, this may be a lull. Technical changes take a very long time to have their effect on society. The technical changes that altered my mother's life – the internal combustion engine, mass production – dated either from the turn of the century or – like penicillin and the birth-control pill – from research beginning during the second world war.

Patterns of Consumption

While the IT revolution has been a damp squib so far, it is possible that it will begin to effect enormous change in the decades immediately ahead of us. The commentators and the stock market which hugely over-hyped the 'digital revolution' and the role of the dot.coms have now decided it was all an illusion. They are probably making the opposite mistake to their earlier one.

The change, though, seems to be different from that of the 1900s. It is more likely to change processes than products. It will mainly be a revolution in the way that things are made and services are provided rather than a revolution in what we consume. As such it will tend to increase the capacity of the economy to produce. Supply will be raised relative to demand. That is why the current period of low inflation may well persist.

The chances are that a period of persistently low inflation and low interest rates lies ahead. Cyclical fluctuations will, of course, occur in both inflation and interest rates. But inflation varying between zero (or even mild deflation – falling prices) and, say, four per cent is a different beast from the variations between 3 and 10 per cent, or more, that we saw in the 1980s.

The experience of the recent boom in IT investment in the United States with the associated stock market bubble is that few people made any money out of it. In the same way few people made money out of railways in the 19th century, although they changed society radically. As a production revolution the new technology will probably benefit consumers more than producers, or benefit those people who use it to produce what consumers want.

Wales does not need to produce computer chips or fancy hardware to be prosperous. The Americans or the Taiwanese will do that for us and sell it cheap. I am a shareholder in the Welsh Whisky company in Penderyn which uses a modern computer-directed still to reinvent a traditional product. A small company, using modern technology to produce something old-fashioned that people want. That may well be a better pattern than LG's large empty factory near Newport, a monument to a misplaced enthusiasm for anything to do with technology – the modern equivalent of what Marx called commodity fetishism.

Work and Wealth

The way things are produced will be different but what will people want to buy? This seems less likely to be driven by technology than by politics in the broad sense – by the way we organise society. Consumption patterns too have evolved in a different way from what was expected in the optimistic mid-twentieth century. Then, all the talk was of 'education for leisure'. The social problem was thought to be the spread of automation. The work week had been steadily declining for two hundred years. How could it fail to continue? The growing wealth of society was expected to be reflected not only in more things to consume but also more time in which to consume them. And this was thought to be appropriate. After all, time is all that we mortals have and the more spent in self-fulfilment, rather than at the daily grind, the better. This implied that the sunrise industries would be those catering for our leisure, for entertainment of either an edifying or purely time-killing kind.

The Economically Inactive

Things did not continue in the way expected. GDP has risen and has required fewer man-hours to produce but the general increase in leisure stopped in the early 1980s. Unlike on the Continent, the British work week ceased to fall and the British government now resists proposals for maximum hours coming from the European Union. What happened was that a lot of people became economically inactive altogether. They became unemployed, prematurely retired, or long-term 'sick'. They have plenty of leisure all right but do not make much of a market for leisure goods because they are also generally very poor. The south Wales valleys, with their low rates of economic activity and their low incomes, have more than their share of this phenomenon.

Meanwhile those in work tended to work longer than in the past – even the more affluent. This meant that the expanding market was not so much for leisure goods (though that market has grown of course) as for time-saving goods. Convenience foods are the fastest growing part of the food market, for example, the kind you can just put in the microwave or heat in the oven. The growth of a dualistic society of the time-poor and cash affluent alongside the time-on-their-hands and cash strapped has led to the re-growth of personal service. The well-to-do middle class have rediscovered the cleaner and the gardener, occupations that seemed on the way out in the fully-employed post World-War II decades.

This dualism remains a challenge to our powers of social organisation and a particular challenge to politicians seeking to bend the capitalist economy to better serve the public interest. The world will be a better place if in future the demand for leisure goods outstrips the demand for time-saving ones.

Pax Americana

At the international level we are in an increasingly uni-polar world. The dominance of the United States militarily and economically is extraordinary. The US spends more on armaments each year than the next nine national spenders put together. And, partly because of the demographic factors mentioned above, this dominance is likely to increase for some decades, perhaps until the rise of China. There will be a Pax Americana but it is not likely to be any more just or reasonable than the pax Britannica or pax Romana of earlier times. Indeed, the US currently shows a complete disregard for international law when not in its interest and repudiates the authority of any super-national court or body.

This is not new. In the 1980s, the United States not only supported but sponsored terrorism in Nicaragua and mined its harbours in defiance of the International Court of Justice at the Hague. The tendency to unilateralism does seem to have increased, however. Currently the US ignores and undermines policies on global warming and denies to the EU the right to exclude genetically-modified foodstuffs. This tendency has become more evident under a Republican administration many of whose members are drawn from the South, where the political ethos is perhaps most remote from that of Europe.

One should not be naïve or demonise the United States. It is only behaving as any dominant power would be likely to do and a good deal better than most powers that have aspired to such a position. Nonetheless, it might appear self-evident that some countervailing power is desirable. No recent British government has taken such a view. Our present government has a policy of aligning itself firmly with American interests and policy in the hope of exerting some influence. This policy has deep roots and is defended passionately by members of HMG. Interestingly, however, American unilateralism has become so extreme that even Tony Blair has not found it possible to remain utterly aligned and has found himself publicly breaking ranks with the US on aspects of the Palestinian crisis and on trade policy, notably the US steel import embargo. These are minor expressions of independence, however, and do not amount to a coherent attempt to forge a counterweight to American monopoly.

European Illusions

Moreover, I think it is now clear that the European Union is unlikely to fulfil such a role. Anyone who has recently spent time in the European Commission knows that it has become a dispirited and dysfunctional organisation. Essentially the British and their allies who sought to emasculate the Union by expanding it have succeeded. As more countries have joined the possibility of supra-national initiatives has dwindled, together with the capacity for reasonably rapid decision-making.

Reform is essential but impossible. National governments are again dominant. The accession of Eastern European countries will complete the process. From a dynamic super-national organisation, the EU is degenerating into ineffectuality, a UN-style talking shop clinging to a customs union and a common currency area – the relics of its former ability to do something constructive. It is clinging in the same way to the Common Agricultural Policy but that, unlike the customs union and the common currency area, surely cannot survive further enlargement. Within a decade, Welsh agriculture will face a very different pricing and purchasing regime, though it is unlikely to be easier.

Meanwhile, any European initiatives will come from discussion among the governments of the larger countries.

This is a shame from a Welsh point of view. There is still a tendency in Wales to look to the EU for the largesse that comes only inadequately from the British government. Enjoy it now; it will not last. And among Welsh intellectuals (though not it seems among the general public) there was a hope that a Europe of the Regions could provide a framework in which Welsh autonomy could painlessly grow and flourish. It would be nice to believe that would happen but only wishful thinking can sustain such a belief. Wales requires more autonomy but it is going to have to find the energy and self confidence to develop it for itself.

Renewable Energy

One area where geopolitics and technology will interact is the physical environment. Many people believe that global warming is one of the biggest dangers facing our world and expect to see effort going into new energy technologies that will alleviate the problem. Now, I think this is very likely to happen and not because people will be particularly far sighted but because geo-political trends will reinforce the tendency.

Cheap oil comes largely from a part of the world which is politically unstable. Saudi Arabia is the key producer of last resort. The Saudi regime is a client of the United States. Yet the current policies of the US are undermining that regime. Many of the terrorists who attacked the World Trade Centre appear to have been Saudi nationals. The fall of the House of Saud in favour of a regime more sympathetic to Arab nationalism cannot be excluded. The formidable power of the US to bribe and intimidate may hold things together for a time but the situation is uncomfortable. Why not promote security and the preservation of the ecosystem by developing renewable energy sources? The logic may become irresistible.

Wales drove an earlier industrial revolution with its endowments of coal and iron ore. It is one of the windiest places in Europe with some of the highest tides in the world. The technology exists or is being developed to exploit these resources to produce energy. If Welsh institutions mastered these technologies it could once again become a world leader. Of course, it would be better to do so sensitively so that wind farms did not become the same sort of visual scars that the slag heaps of old became. Nonetheless, it would be a shame if nimbysim or excessive conservatism prevented Wales from fulfilling its potential in the development of alternative energy.