



# The Creative Society of the 21st Century

FUTURE STUDIES



OECD 

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# **The Creative Society of the 21st Century**



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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## Foreword

In the run-up to the preparations for EXPO 2000 – the World Exposition in Hanover, Germany – the OECD Forum for the Future is organising a series of four conferences to take place beforehand around the theme of “People, Nature and Technology: Sustainable Societies in the 21st Century”. The series will consider four key areas of human activity: technology, economy, society and government. The conferences will explore possible evolutions of key variables and analyse different development paths in order to expose some of the main policy implications and options. Each conference will provide analysis of underlying trends and policy directions. However, the overall aim of the series is to build a comprehensive foundation for assessing the critical choices likely to face citizens and decision makers in the next century.

The entire series is benefiting from special sponsorship by EXPO 2000 and four German banks – Bankgesellschaft Berlin, DG BANK Deutsche Genossenschaftsbank AG, NORD/LB Norddeutsche Landesbank, and Westdeutsche Landesbank Girozentrale (WestLB). Additional financial support is provided by numerous Asian, European and North American partners of the OECD Forum for the Future.

This was the third conference in the series. It was hosted by the Bankgesellschaft Berlin in Berlin, Germany, on 6-7 December 1999. The theme was “21st Century Social Dynamics: Towards the Creative Society”.

After a day and a half of discussion, conference participants concluded that the prospects for prosperity and well-being in the 21st century will probably depend on leveraging social diversity in order to encourage technological, economic and social dynamism. In the coming decades there is a good chance that four simultaneous and powerful societal transformations will give rise to more variety and interdependence: from the uniformity and obedience of the mass era to the uniqueness and creativity of a knowledge economy and society; from rigid and isolated command planning to flexible, open and rule-based markets; from predominantly agricultural structures to industrial urbanisation; and lastly, from a relatively fragmented world of autonomous societies and regions to the dense and indispensable interdependencies of an integrated planet. Policy choices will be the determining factor in encouraging the potential synergies and minimising the friction and risks of conflict that these changes may bring.

The aim of this conference was to assess the trends, challenges and policies that are likely to shape the foundations of future social dynamism. The first session provided a comprehensive global picture of the long-run trends in both conventional and less conventional descriptors of social change, *e.g.* shifting patterns and structures of income, population, wealth, social status, health, and cultural identity. The second session turned to possible outcomes of the interaction between society and the changes likely to be wrought by two interdependent developments: first, the rapid, wide diffusion and deepening of the knowledge economy and society; and second, much fuller global and regional integration, including the markets for goods, services, finance, technology and labour. These two broad trends will certainly shape and be shaped by the nature of the underpinning social foundations. The third session looked at the policy synergies and conflicts, including the cultural cross-currents, that could arise as decision makers attempt to realise the full possibilities of technological, economic and social dynamisms in the 21st century.

This publication brings together the papers presented at the meeting as well as an introductory contribution and summary of the main points of the discussions prepared by the Secretariat. The book is published on the responsibility of the Secretary-General of the OECD.

## Table of Contents

<i>Chapter 1.</i>	<b>Social Diversity and the Creative Society of the 21st Century</b> by <i>Barrie Stevens, Riel Miller and Wolfgang Michalski</i> .....	7
<i>Chapter 2.</i>	<b>Social Capitalism and Human Diversity</b> by <i>David E. Bloom and River Path Associates</i> .....	25
<i>Chapter 3.</i>	<b>Global Inequality, Human Rights and the Challenge for the 21st Century</b> by <i>Richard Jolly</i> .....	79
<i>Chapter 4.</i>	<b>Socio-economic Consequences of the Advance of Complexity and Knowledge</b> by <i>Geoffrey M. Hodgson</i> .....	89
<i>Chapter 5.</i>	<b>Towards Globalism: Social Causes and Social Consequences</b> by <i>Jørgen Ørstrøm Møller</i> .....	113
<i>Chapter 6.</i>	<b>The Prospects for Social Renewal</b> by <i>Geoff Mulgan</i> .....	133
<i>Chapter 7.</i>	<b>Primary Globalisation, Secondary Globalisation, and the Sustainable Development Paradigm – Opposing Forces in the 21st Century</b> by <i>Ruud Lubbers and Jolanda Koorevaar</i> .....	173
<i>Annex 1.</i>	Keynote Address by <i>Donna E. Shalala</i> .....	191
<i>Annex 2.</i>	List of Participants .....	195

Chapter 1

## Social Diversity and the Creative Society of the 21st Century

by

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From the diffusion of information technology and the growth of the knowledge economy to the globalisation of markets and radical managerial innovations, the factors driving and being driven by social change are both wide-ranging and deep. It is a tide of pervasive transformation that is simultaneously washing away and reshaping the social foundations provided by cultural traditions, social symbols and institutions of authority and security. From the family and school to the firm and parliamentary forums, long-standing social reference points are being called into question, reformed and reinvented. This book explores the challenges posed by the transition to new, more dynamic social foundations over the next few decades.

Overall, the consensus view is that the prospects for prosperity and well-being in the 21st century will probably depend on leveraging social diversity in order to encourage technological, economic and social dynamism. A striking confluence of forces over the next twenty years could drive a twofold convergence: first, towards more highly differentiated and complex societies, and second, towards the adoption of a common set of general policy goals that are conducive to both diversity and social sustainability.

Tomorrow's differences in social status are expected to go well beyond the familiar gradations of income, profession and nationality that characterised the relatively stable second half of the 20th century. In the opening decades of the 21st century there is a good chance that four simultaneous and powerful societal transformations will give rise to more variety and interdependence: from the uniformity and obedience of the mass era to the uniqueness and creativity of a knowledge economy and society; from rigid and isolated command planning to flexible, open and rule-based markets; from predominantly agricultural structures to industrial urbanisation; and lastly, from a relatively fragmented world of autonomous societies and regions to the dense and indispensable interdependencies of an integrated planet. In different



ways and in different parts of the world, greater social complexity will in all likelihood accompany these wrenching shifts.

Rather than fearing this increase in social diversity, the authors in this volume welcome the opportunities for learning and sharing that could bring prosperity and well-being. No one, however, neglects the serious risks of heightened conflict due to the possible polarisation that frequently accompanies the passing of old social orders and the emergence of new ones. Policy choices will be the determining factor in minimising this friction and encouraging the potential synergies. The overall goal is to combine flexibility with a renewed sense of security, *i.e.* the establishment of sustainable social foundations.

This chapter offers an analytic synthesis both of the main arguments presented by the authors included in this book and of the discussions that occurred at the conference. The three sections below cover, in turn, the long-run developments in social structure, the driving forces and consequences of social transformation, and the policy implications.

### **1. Long-run social trends: mapping diversity**

Considerable controversy and uncertainty surround the interpretation and implications of trends in social patterns and structures. Some observers see fusion and convergence based on such factors as European integration, the emergence of the Pacific region, the economic catch-up of major developing nations, and the move towards a global economy based on the wide diffusion of knowledge instead of unevenly dispersed natural resource endowments. Others emphasise the growing heterogeneity of societies and their polarisation and fragmentation due to such developments as greater divergences in earned income, the expanding gap between information “haves” and “have-nots”, the worsening plight of the world’s poorest children and the wider schisms that mark religious and cultural fundamentalism. An alternative, plausible assessment is that both of these currents will coexist over the next twenty to thirty years, generating a highly dynamic social tapestry.

These intricate and changing social structures are not easy to discern. From a distance there is often an appearance of uniformity. For instance, today’s world traveller easily finds the identical hotel room, fast-food meal, casual clothing, electronic gadgets and luxury goods in almost every corner of the world. One language, English, pervades commerce and the internet. Everywhere the same “pop star” music can be heard playing on the street corners and in taxi-cabs. Beneath this apparently homogeneous surface, however, the contours and distinguishing landmarks are actually becoming more complex and differentiated. Where once the social cartographer tinted whole swathes of society in one colour, or in variations of a single shade, tomorrow’s social map seems likely to be more multi-hued and multidimensional. This differentiation is expected to occur not only between distinct territorial frames like nation states or major regions, but also within these boundaries.

**Mapping diversity within societies...**

Across the globe, people are living longer. In almost every country in the world, life expectancy has improved significantly, fertility rates are falling and population growth rates are slowing – all trends which are set to continue in the decades ahead. As a result, the age profile of societies is lengthening. In OECD societies, for example, the 80+ and 90+ age groups are expected to expand considerably, with many remaining active, healthy and mobile until very late in life. At the same time, populations in developed and developing countries alike are concentrated more and more in cities, places which are infinitely more heterogeneous – socially, culturally and religiously – than most rural communities. Moreover, as migratory flows have continued, driven by war, famine, or simply the desire for greater economic security and a better life, the ethnic landscape of many countries has become much more varied. The industrialised countries are no exception. It is thought that some 100 million people have migrated to OECD countries since the Second World War (more than three times as many migrants as crossed the Atlantic from the 1880s to 1920). There are few signs of these flows abating. Immigration into OECD countries actually accelerated in the 1980s and early 1990s, and after a brief slowdown is accelerating yet again. Not surprisingly, foreign and immigrant populations have grown and, as a reflection of the widening range of sending countries, have become increasingly diversified.

Partly as a consequence of these changes, partly as a result of broader economic and technological change, family structures in most societies have undergone important transformations. In OECD countries, the traditional nuclear family has been superseded by a mixture of alternative configurations – unmarried couples, single parents, semi-autonomous communal groups, same-sex partners, and – especially among immigrants – extended families. The impact on household structures has been quite remarkable, leading to a mushrooming of different household types and spectacular growth in single-person households. In countries as fundamentally different as Algeria, Cuba, the Netherlands, Peru, Spain and Sri Lanka, the share of economically active women has risen by half since the 1980s. And going hand in hand with these changes within societies has been the emergence of an ever more colourful kaleidoscope of values, cultures, religions and spiritual beliefs. Particularly pronounced in OECD countries has been the spread of “postmodern” values, implying not only greater concern for quality of life and tolerance, but also a greater attachment to individual self-expression and individual value systems.

The heterogeneity of social structures has been matched by equally vibrant diversity in the economic, technological and educational spheres. With rising incomes, broad-based technological progress, dramatically falling transport costs and expanding international trade and investment relations, consumers in many

parts of the world have over the last half-century witnessed a proliferation of choice in goods and services. A multitude of scientific and technological breakthroughs have widened the spectrum of possibilities in such areas as medical treatment, communication, information, energy, transport and housing beyond anything most people ever imagined fifty years ago. Leisure activities and self-expression have also flourished as educational attainment has improved and the number of nonworking hours over a lifespan has increased for many people.

At the same time, however, this growing differentiation within societies has been accompanied by greater inequality, fragmentation and polarisation. This is perhaps most telling in the case of income and wealth. Disparities are huge in developing countries, but even within OECD societies, after a long period of relative stability or even decline, they seem to be growing. Pushed by technological change, higher returns to education and skills, and long-run structural unemployment, wage disparities have widened over the last decades in the more advanced economies. At the one extreme, the low-skilled, poorly qualified have fallen behind the progress of mainstream incomes; at the other, the very wealthy have opened up a yawning divide between their own incomes and those of the vast bulk of employees. In the United States, for example, at the beginning of the 1980s a typical CEO earned 42 times the average salary of his workers; he/she now earns over 400 times as much.

But income and wealth disparities are not the only concerns. Life chances in other domains such as education and technology also continue to be very unevenly distributed within societies. For example, in many parts of the developing world, from India and Iraq to Cambodia and the Congo, enrolment rates for females in secondary education are only two-thirds those for males. In OECD countries, the handicap of low educational attainment is reflected in exceedingly high unemployment rates for underqualified young people, even many years after leaving school. Concern is also mounting about uneven access to new technologies across society, particularly to IT and use of the internet. In the United Kingdom, for example, only 10% of the poorest households own computers, compared with nearly 70% in the top income bracket. As for internet use, it ranges from 3% in the lower half of the income distribution to 32% in the top 10% of income earners.

Added to this in the more advanced societies is the growing scope for the wealthy and mobile to buy their own health care, education and private security. Taken together with rising divorce rates, the breakdown of traditional family structures, the increasingly assertive search among some segments of society for cultural, spiritual or religious identity, and the emergence of individualism, it is small wonder that many people see the future of societal change mainly in terms of disintegration and polarisation.

This would, however, only be part of the picture. In many walks of life the very diversity of social development is fuelling the engine of renewal and regeneration.

Indications are accumulating that families are moving more to networking-type relationships and rethinking the channels and patterns of solidarity between generations and wider family structures. Similarly, it is not everywhere the case that social capital – the civic engagement of individuals – is declining. In many countries there would seem merely to have been a shift from support of traditional organisations and institutions (trade unions, the church, women's guilds, etc.) to newer forms of voluntary association such as environmental organisations, societies for the protection of animals, sport and leisure clubs, and so on.

### *... and across societies worldwide*

A cursory glance at the statistics and at broad economic and political trends conveys, without question, a strong sense of convergence among countries. Global and regional integration of markets, though far from comprehensive, has progressed significantly since the 1950s through successive rounds of trade negotiations and, more recently, through a distinct and widespread shift in stance especially among many developing countries towards greater openness and stronger market orientation of economic policies. Indeed, for many commentators this is part of a broader movement towards the general acceptance of the market economy. Productivity levels and production structures have become a good deal more similar among the advanced countries, and several major developing countries have reached, or are rapidly approaching, OECD levels of production and income. Global communications have shrunk distance and, chiefly through the growing presence of the media, have brought foreign and especially Western cultures and lifestyles into the homes of millions of families. As already noted, among the more advanced economies there is little doubt that there is a convergence towards a common and greater range of family forms: the importance of solitary households is growing, the weight of the traditional nuclear family is diminishing, and fertility is declining.

Equally, however, there is a strong cross-current of diversity that is perhaps most striking at the demographic level. In almost all OECD countries, populations are ageing rapidly and growing only slowly or actually shrinking. Conversely, the population is young and still growing rapidly in the vast majority of developing countries, with some notable exceptions such as China. Economic growth still reveals remarkably different patterns across the globe: annual GNP growth rates for the last quarter-century range, for example, from over 9 per cent in China and Botswana to negative figures in countries as varied as Russia, Guyana and Nicaragua. Even in the OECD area, cross-country disparities in growth of GDP per capita have been on the increase. And notwithstanding OECD countries' universal commitment to the market economy, each country has its own distinct combination of structures, institutions, methods and philosophy for achieving its aims.

Similarly, at the level of living arrangements, heterogeneity remains a persistent feature of inter-country comparisons. Among Western societies, for example, patterns of family ties contrast strongly. While in the United Kingdom and France only one-fifth of men in their late twenties still live with their parents, the corresponding figure in Southern Europe is close to two-thirds. In Spain, over two-fifths of elderly people live with one of their children, while in the United States and in Nordic countries only 10% do so. The point is that while, as was noted earlier, certain indicators of family structure are converging across countries, the relative variability of most of these indicators shows no decline over time.

Diversity across societies should not in itself give rise to concern; indeed its enriching properties are to be welcomed. Where, however, diversity goes hand in hand with unacceptable degrees of inequality, it understandably becomes the subject of vigorous debate. This is especially true with the distribution of income and wealth, addressed by Jolly in his chapter. A few striking statistics illustrate the growing gap between rich and poor. The ratio of the richest country to the poorest was 11 to 1 in 1913, 44 to 1 in 1973, and 72 to 1 in 1992. The assets of the 200 richest people in the world surpass the combined income of over 40 per cent of the world's poorest people. At the same time there has also been a decline in the share of the world's population living in absolute poverty – even as the number of people suffering this plight has increased. Indeed, income inequality *per se* says little about diversity, since a bipolar world with just two camps could be described as fairly homogeneous. Clearer evidence of increasing heterogeneity, both in terms of a broader and finer spectrum of social differences, emerges from indicators that go beyond quantifiable incomes.

As Bloom *et al.* point out in their chapter, the list of other indicators – conventional and less conventional – that underpin the sense of growing global inequality is long. There are crass differences in mortality rates. In some regions of the world, life expectancy at birth has actually decreased since 1970. The worst affected regions are Africa, where AIDS and war have taken an appalling toll, and the area of the former Soviet Union where, among the numerous causes for this trend reversal, suicide rates are the highest in the world. In the developing world, huge segments of the population have no access to health services, sanitation or safe water supplies. Technology is a further illustration. Just 55 countries account for 99 per cent of global spending on information technology. More than a quarter of the US population are internet users, while in Latin America, East Asia, sub-Saharan Africa and South Asia those with access to the internet account for only a fraction of one per cent of the population. Not surprisingly, anxiety is running high that the coming years will see the world split even more definitively into technology and information “haves” and “have-nots”, with those groups and societies that lack the basic equipment, education and skills falling irrevocably behind the rest.

Looked at as a whole, the predominant trend in social structures over the next few decades, both between and within most nations, is likely to be one of

convergence towards greater diversity: a stretching out of the range of social attributes and a finer gradation of categories within this broader spectrum. The next section looks at the two main forces expected to drive this broad trend over the long run, and considers some of the possible consequences.

## **2. The drivers, opportunities and risks of social transformation in the 21st century**

Powering the development of these more heterogeneous social tapestries are two primary factors: first, the dual shift towards a knowledge economy and society in OECD countries and towards market-based mass production in many other parts of the world; and second, the trend towards even greater global economic, social and technological interdependence.

### ***Towards a knowledge economy and society***

At its core, the movement to a knowledge economy and society implies a major dematerialisation of value-added activity and the replacement of the uniformity and homogenisation of mass production, mass consumption and mass government with creative diversity and decentralisation of responsibility. The factors behind this change are by now familiar. Rising wealth allows people to spend more time and effort on non-survival (non-material) related activity. Information technology enables easier and cheaper access to information, the main “raw material” of the knowledge economy. Efficient transportation and communication systems facilitate specialisation and collaboration. Established and stable rules of the game, whether for markets or basic legal rights, facilitate the risk-taking that knowledge creation requires. Open markets, relatively unconstrained by barriers to trade or excessive accumulations of market power (that might stem from regulations, public monopolies, inadequate antitrust), foster the highly competitive conditions that spur innovation and personalisation. Lastly, knowledge as a product forces a reinvention of business models since it differs from most physical products in so far as it is almost costless to reproduce, easy to steal, and hard to explain in advance of being consumed.

As Hodgson makes abundantly clear in his contribution to this book, the knowledge economy can be considered a more complex place to produce, consume and live than yesterday's industrial society. First, as the number of distinct products, producers and consumers increases, the knowledge economy introduces more variety. Second, in addition to this quantitative diversity, there is a wider range of qualitative relationships. Workers are no longer passive cogs in the Taylorist factory. Consumers are no longer couch potatoes accepting uniform products thrust their way. Investors (formerly known as savers) are no longer resigned to an exclusive and unquestioned relationship to their pension fund but supervise their own portfolios. Company managers must contend with new strategic challenges as old products

and methods of production rooted in the industrial era can now be outflanked more quickly and from previously unlikely sources. Governments are withdrawing from cradle-to-grave intervention in people's choices. As a result, relationships in the knowledge society take on a new and broader set of qualities than they did in hierarchical systems of the past. Buyers, employees, initiators of production and citizens can – and often must – forge new types of relationships, many of which are outside familiar legal and cultural frameworks. This brings a greater degree of freedom, but it also creates uncertainty. Seeking to reduce uncertainty tends to further increase the knowledge intensity of economic and social activity.

The complexity and knowledge intensity of a society in which learning is one of the principal activities have led to concern that people will not possess adequate skill levels. Some analysts worry that the knowledge economy will lead to social polarisation that reflects the unequal distribution of skills. Current evidence does point towards a strongly positive correlation between income and high levels of educational achievement. There is, however, another view that does not see a need for more of the technocratic skills associated with the old mass production economy. Proponents of this perspective argue that an intellectual trap is set by the tendency to associate more sophisticated technology, a wider range of choices and more personal responsibility with higher technical skill levels.

The opposite may be true of a society where learning is one of the basic activities, for two reasons. First, the lesson from past technology breakthroughs like electricity or the automobile is that as it advances it gets easier to use. Second, the key to a thriving learning society is the capacity of most people to produce relatively simple living knowledge, even if such knowledge is not new or a “first” – either historically or worldwide. The dependence of the knowledge economy on the production of living knowledge, facilitated by more efficient tools, means it can be hugely productive of value-added. The economic viability of such banal, individual-level creativity is no less plausible or justifiable than the success of many other “luxury” sectors in today's marketplace.

These increases in diversity, creativity and complexity that are at the heart of the transition to a knowledge economy and society are both consequences and causes of social differentiation. Consequences, in the sense that today's society carries a legacy of economic and cultural difference that serves, in part, as a launching pad for creativity. Cause, in so far as the emergence of the knowledge economy and society tends to reinforce social distinctiveness – including a wide spectrum of qualitatively different power relationships. In some ways this is a precarious foundation. A creative learning society must find ways to contain, within the tolerances that are specific to different countries and cultures, the centrifugal forces of inequality and fear that arise when people cultivate their differences. Additionally, the reallocations of decision-making power and initiative that are part of the transition to the knowledge economy and society call into question the legitimacy and utility of many industrial era



institutions that tended to stifle creativity and difference – from the nuclear family and family firm to centralised bureaucracies and uniform schools.

Faced with the disintegration of formerly sustainable social configurations, the challenge becomes the regeneration of appropriate social, legal and cultural underpinnings. Only it turns out that in some parts of the world, the “high-tech clusters” or regions are better equipped to make the transition. These centres end up leaving behind many communities that do not have the necessary endowments of human capital or adaptive capabilities. As a result, both within and between countries there may be a deepening of the gap that separates winners from losers. Globalisation, as examined next, could exacerbate this tendency, or could be used to leverage local knowledge assets. Regions aspiring to become part of the knowledge economy and society might find that global differences are a powerful source of market opportunities and the cross-fertilisation of desires and ideas, which encourage learning and creativity.

### ***Towards a global economy and society***

The movement towards a global economy has gradually gathered speed over the past few decades as both the practical ability (cheaper communication, transportation, etc.) and political willingness (the WTO, the OECD, etc.) to engage in cross-border exchange have increased. As a result, globalisation today is about much more than international trade in goods and services. The process that is currently under way bears a closer resemblance to the difficult and protracted consolidation of national markets that occurred in many countries over the last two centuries. People in OECD countries take for granted the existence within national boundaries of common laws, open labour markets, harmonised regulations, a single currency, a shared set of basic social services in education, health care and income security, and democratic political institutions that can run a national, industrial era infrastructure. These foundations of the national economy emerged from the rough crucible of social adjustment and conflict that accompanied the dual transition from agriculture to industry and from fragmented to integrated national markets.

In a parallel development, the 21st century may witness a dual transition towards globally integrated markets and new socio-economic systems, with some parts of the world ushering in industrial capitalism while other parts make the jump to a knowledge economy and society. Mutually reinforcing developments are plausible. Many technological breakthroughs will serve to further knit the world together. Advances in computing and transportation do serve to shrink distance and facilitate the creation of seamless global transactions for tangible and intangible products, remunerative and non-remunerative activities. Sharing science and seeking innovative applications of biotechnology or new materials also enlarge the web of global connections. On the side of economic change, as already noted



above, the emergence of the knowledge society in OECD countries and the transition to industrial capitalism in much of the rest of the world provide a powerful stimulus to global interdependence and integration. Knowledge workers, modern multinationals and investors – in all parts of the world – are slowly beginning to take a planetary perspective.

Turning to the social causes and consequences of globalisation, as Ørstrøm Møller does in his chapter, reveals similar interaction. One of the primary causes of globalisation is that people seek to escape poverty through trade and migration. Closed national economies are being opened up to the influence of global markets that offer cheaper products, access to consumers in other countries, and new sources of finance, technology and know-how. People are migrating to seek a better life elsewhere. All of this gives rise to the cosmopolitan character of most of today's major cities and economic regions – which in turn provides strong social momentum for continued global integration. These exchanges, combined with the loosening of the social fabric as countries go through profound internal transformations, further encourage distinctiveness.

Out of this process could emerge “world culture”, where a multitude of diverse nodes function within a globally distributed network. One worry is that this trend could bring greater uniformity. An opposing view sees it as a source for nourishing diversity. The ultimate verdict is likely to depend on the frameworks that are established locally and globally. If these frameworks provide the liberty and incentives to use the assets of local history and culture for creative purposes, then it is likely to strengthen the distinct community networks to which the global nodes are attached. If, on the contrary, isolationism and monopoly are allowed to prevail, then there is a good chance that both the global network and the communities that make it up will be less vibrant.

Indeed, the likelihood is that globalisation will continue both to be fuelled by social differences and to give rise to them. This is perhaps its most worrisome attribute for those accustomed to the apparent homogeneity associated with the nation state and mass markets. Globalisation's dependence on and reinforcement of differences is at the origin of much concern about its social consequences. Two problems stand out. First, unlike many nations, the world has no mechanisms that enable those who win because of change to compensate those who lose. Secondly, and this difficulty is related to the first, without the infrastructure needed to overcome exclusion there is a great risk that globalisation's social heterogeneity will turn into destabilisingly high levels of fragmentation and polarisation.

These problems are already significant, and the track record of the 20th century does not offer grounds for expecting spontaneous solutions. The question is, to what extent will fuller globalisation – if it treads a path similar to the one followed by national integration – aggravate or repair the tears in the social fabric

within and between countries? At first blush the expectation is that globalisation will mostly exacerbate social inequality and disruption. After all, the integration of national markets did (and still does) give rise to fiercer competition in all markets (goods, services, labour, finance); to increases in economic specialisation, a more elaborate division of labour; and to changes in the geographical redistribution of economic activities on the basis of locational differences such as the quality of the local labour force, the weight of local transaction costs, specific regulatory burdens, local environmental conditions, etc.

Yet, it is within the boundaries of national markets – and even regional common markets like the EU – that the huge increases in productivity and wealth that are generated by integration have been most effectively used to compensate the losers and redress social insecurity. Not all nations have overcome the barriers to creating “level playing fields” within their borders. Nor have OECD countries, for instance, all pursued the same social model. But, in all cases, the economic upheavals that arose from integrating national markets – as in the example of the unification of East and West Germany – were cause for developing social compromises and compensatory mechanisms. A non-static, non-partial perspective on globalisation could provide a plausibly similar prospect. Success at a global level that is on a par with the nation-building of the past will take effort, time and innovation.

### ***21st century social foundations in transition: opportunities and risks***

Disrupted by the driving forces discussed above, yesterday’s relatively stable and long-lived technological, economic and social orders are giving way to new, partly uncharted ways of sustaining prosperity. One way of identifying the social causes and consequences of these changes, along with the opportunities and risks, is to distinguish four types of transition:

- One widespread transition involves the wrenching process of industrialisation and the introduction of mass production, mass consumption and mass government. Countries like Brazil, Thailand and Peru are all at different stages of putting in place the economic and social systems that were already functional by the middle of the last century in most countries that are now members of the OECD.
- A second transition pertains to the move from centralised command planning to the establishment of rule-based market societies. Here the scale of change, not only in terms of territory and population covered but also in terms of the disjuncture with the past, is huge. China, the former Soviet Republics and formerly closed economies like India are all moving, at different speeds and in different ways, through this complex process.
- A third transition relates to the shift towards a learning-intensive society, in which the production and consumption of knowledge dominate every aspect of

daily life. These countries, mostly members of the OECD, are moving into new territory, with very few precedents to guide or reassure either those who are pioneering change or those who are being given little choice but to go along.

- Finally, a fourth transition concerns the onset of much tighter global integration. Many, particularly smaller, countries have a long history of higher exposure to the outside world. But the scope and depth of the interdependence that is now being forged leave behind many of the reference points and institutions built up by two centuries of nationalism and relative autonomy.

The conjuncture of all four of these transitions at the outset of the 21st century can almost certainly be expected to usher in a period of greater complexity and variety. In part, this is because most countries are actually facing multiple shifts. For example, consideration of all of the different areas of China exposes instances of all four transitions: from a primarily rural and agricultural society to an industrialised market one; from a centrally planned state economy to a privately owned free market one; from large-scale mass production to knowledge-driven decentralised customisation; and, in key areas, from closed-off autarky to global integration.

Mexico provides another particularly illustrative case, this time of an OECD country undergoing multiple transitions. A quarter of the population, some 25 million people, are still largely outside the monetary economy, engaged in self-production and consumption. Half of the population are sustained by the now failing traditional, unmodernised sectors in industry and services. The remaining parts of the nation are tied into the competitive world economy and gradually moving towards more knowledge-intensive, global activity. Other countries are also being buffeted by these cross-winds as different segments of the population are moving at different speeds and sometimes in different directions.

Over the next few decades each of these distinct transformations will produce major social upheavals as people leave behind past ways of ensuring subsistence, hard-earned skills, expectations about work and family patterns, familiar values and institutions, and in many cases the physical location in which their families lived for generations. As pointed out above, much of this social change is being driven by efforts to take advantage of promising technological and economic prospects. A favourable configuration of these technological, economic and social changes, as the 20th century has amply demonstrated, can create virtuous circles that lead to much higher levels of prosperity and improved prospects for well-being. Equally emphatically, the previous century has shown how these interactions can go awry, with terribly destructive consequences.

In the opening decades of the 21st century this exceptional confluence of change presents an extraordinary range of both opportunities and risks. On the positive side, there are precedents for some of these transitions that point towards possible synergies between the old and the new, the leading and trailing parts of society. On the

negative side, such upheaval can greatly increase the chance that abrasive differences, both between distinct parts of the world and between distinct segments of the same society, could lead to serious conflicts and costly societal dissonance. Looking first at the positive side, there is a good chance that the differences and turmoil that accompany major socio-economic transition will open up opportunities to share the knowledge and wealth already gained by leading regions or groups. Today's dramatic disparities between and within countries could be a major source of creativity, specialisation and mutually beneficial interdependence. The dangers emerge when differences lead to incomprehension and conflict. Minimising these risks and boosting the advantages depend, in large part, on being able to learn from differences.

This learning can be broken down into two parts: first, activities that make learning possible (like acquiring a common language) and second, the usually two-way, mutually beneficial transfers of valuable knowledge that occur when learning is actually taking place. The first type of positive interaction between different stages and strata of development depends on the introduction of the common rules, codes of conduct and generally accepted values that make exchange across social and economic boundaries possible. Open exchanges, whether in the marketplace or the "chat rooms" of the internet, require common codes in order to establish the high levels of communication, understanding and trust that make learning possible. Such so-called interoperability standards, to take a recently coined term from computers and the internet, will require the development of institutions and dialogues that continuously seek a workable balance between the constraints of interdependence and the freedoms upon which diversity flourishes.

The second dimension of learning that is crucial for taking advantage of future diversity is akin to mentoring, where one person – usually in possession of hard-won skills and resources – works with another person to pass along knowledge and invest in the future. Particularly important, given the intensity and scale of the multiple transitions that are likely to unfold over the next few decades, will be the learning that comes from joint efforts to build the physical and human capital infrastructures that are essential for diffusing the benefits of technological, economic and social change.

On the negative side, serious conflicts could arise in the early decades of the 21st century because of differences in the capacity or willingness to change, and the timing or speed of change itself. Every period of intense transition has witnessed the explosions that arise when change is associated with polarisation and a loss of common interests. Good examples of the complex tensions likely to arise over the next few decades were on display at the Seattle Ministerial meeting of the World Trade Organisation held in late 1999. Friction was rampant in at least four different arenas. First and perhaps most damaging was the split between a majority of OECD countries and a large number of governments from developing nations. A second distinct set of conflicts pits interest groups in OECD countries against governments from the developing world. For instance, in Seattle there was a clear conflict

involving the rearguard efforts of farmers and industrial workers in the developed world trying to protect their interests against the new assertiveness of governments from the developing nations that want a chance to realise their agricultural and industrial potential through exports.

These divisions can spill over into a third arena where differences among major players, like the United States and European Union over hormone-fed beef, bananas, or the inclusion of new agenda items for negotiation, can effectively bring progress to a standstill. The picture can become further complicated by a fourth set of conflicts that are induced by the transitions taking place within countries. A good illustration of this type of dispute at the Seattle meeting was the common cause made by certain ecologists along with some farmers to oppose trade rules that might encourage breakthroughs in biotechnology. Here the major transitions occurring within a particular society or group generate conflicts between those hoping to preserve the once-dominant regulations and reference points of the past and those trying to live the future. This type of schism, already partly to blame for protectionist and xenophobic reactions, could seriously undermine political stability, global co-operation, and the potential of change to improve productivity and well-being in many different parts of the world.

Two dangers seem most prominent. One – as already noted – is that the winners from change, be they the first movers towards new economic opportunity or the mobile elements of the population that live and profit from globalisation, will ignore the needs of the losers. The second is that nothing will be done to address the serious dissonance between current institutions and the new tasks arising from economic and social transitions. Avoiding the damage that might be done by these “social and democratic deficits” will need to be one of the main priorities for policy makers over the next few decades. At the same time, reaping the positive potential of diversity will require policy frameworks that leverage the potentially powerful synergies – within and between different social groups and territories – that arise during periods of such intense change.

### **3. Social dynamism: leveraging diversity in the 21st century**

Over the next few decades it seems likely that social differences will grow. Coexisting in rapidly developing countries are two or three distinct social systems spanning rural, industrial and global arenas. In OECD countries the new knowledge worker and consumer are leaving behind the old social structures. Globally the march of technology, economic expansion and human curiosity are eroding isolation and often accentuating the social discontinuities within and between countries. In order to make these transitions as painless and quick as possible, policy makers will have to harness the powerful forces arising from the at times conflictual trends towards greater social diversity and interdependence.

From technological and economic perspectives the world stands at the threshold of a potentially exceptional period of worldwide prosperity, if the appropriate social foundations are put in place. Making good on this promise and reducing the possibility of negative outcomes will probably require embracing three basic objectives. The first goal, discussed in depth in the first book in this series (*21st Century Technologies – Promises and Perils of a Dynamic Future*), is that the new tools and products emerging from the frontiers of science both target and reach a broad spectrum of humanity. The second aim, assessed in the second book in this series (*The Future of the Global Economy – Towards a Long Boom?*), is to encourage a global knowledge economy and society capable of provoking a “long boom” – an extended period of wealth creation at a higher rate than the long-run historical average. The third target and major challenge, revealed clearly in this volume, is to enhance the capacities of societies to simultaneously promote change and be sufficiently cohesive to minimise conflict and uncertainty.

These goals are strongly interdependent, largely because technological, economic and social dynamism are mutually contingent. So, it is not surprising to find a strong coincidence in the policy approaches most likely to ensure the attainment of these objectives and thereby turn tomorrow's outstanding prospects into reality. These policies can be grouped – first, according to the level of authority that initiates or manages the policy, either national (sometimes local or regional) or international (sometimes global); and second, according to whether or not the general thrust of the policies exhibits continuity with current ones, innovative reforms of existing approaches, or the need for entirely new directions.

Starting at the national level, there are a number of key policy areas where continuity with existing approaches will probably be an important part of encouraging technological, economic and social dynamism. Maintaining macroeconomic balances by guarding against inflation and excessive public deficits is a way of providing crucial economic stability and predictability in the context of intense change. Flexibility is also an essential ingredient for realising the potential benefits of new technologies, innovative forms of economic organisation and shifts in the social order. This means a continuation of efforts to improve the functioning of product, labour and capital markets through policies that promote greater transparency and strong competition. Ongoing improvements in the scope and methods of government regulation, taxation and spending will be essential to facilitate the resource reallocation that underlies structural change.

There are a series of policy challenges where governments will need to introduce far-reaching reforms to existing activities. As Mulgan underscores in his chapter, there will have to be considerable rethinking of the methods and programmes currently in place, in particular in the fields of social and educational services. The established government programmes were designed to correspond with the patterns of the industrial era, when the majority of people could be expected to conform to the same

allocation of time – first to initial schooling, then to steady employment and finally to retirement at a fixed age. Now, and even more so in the future, learning will be a life-long activity that involves a wide variety of knowledge sources. Social support systems will also have to be transformed in order to encourage risk-taking and experimentation without creating dependency and dead-ends. Overall, the reforms that will help create the dynamic social foundations of the future involve a shift away from the direct provision of mass-based, uniform public sector services to a much more diversified, decentralised and demand-driven approach.

At stake is one of the root sources of technological, economic and social dynamism – empowerment and the overthrow of paternalistic, passivity-inducing rules, incentives and attitudes. Making this happen will, in many cases, mean going beyond the reform of existing policies. Entirely new points of departure will be required in order to significantly improve the capacity of all segments of society, including enterprises and local communities, to break with the rigid and hierarchical methods of the past and embrace solutions based on greater personal accountability, internal motivation and uniqueness. The firm, for example, has served for a long time as the economic and social crucible for the laws, customs and government programmes of the industrial era. Tomorrow's networked economy and society hold out the possibility of a fragmentation of the firm into its component parts – the creation of a society of entrepreneurs. Even in the context of large, strategy-driven multinational enterprises, the freelance, project-by-project nature of employment and supply chains could seriously undermine the applicability of yesterday's legal and cultural frameworks.

Similar transformations of the community sphere, long dominated by the geographic and temporal requirements of the factory or office, also open up new horizons for social reorganisation. In this radically different context it is highly likely that entirely new institutions will have to emerge in order to attain, some twenty years from now, the necessary degrees of transparency and trust adequate for the smooth functioning of such an open, spontaneous and closely connected social order. Methods for ensuring privacy, extending fair ownership rights to intangible property, pooling data, reaping network externalities and setting a wide range of new technical, economic and social standards will most likely emerge from organisations – perhaps federations of local organisations – that do not yet exist. The challenge for policy makers at the national level will be to find the formulas that foster empowerment (such as subsidiarity) while creating legitimate parameters for social cohesion (like access requirements that encourage equality of opportunity). Encouraging the autonomy and freedom upon which diversity flourishes without losing the cohesion and compatibility that are central attributes of a functioning network is also a goal at the international level in order to respect differences while gaining the advantages of broad cross-systems compatibility.



Moving to consideration of policies in the international sphere, there are – once again – numerous areas where continuity offers the best avenue to encouraging technological, economic and social dynamism. For instance, maintaining and extending existing agreements that foster open international trade and investment remain fundamental, not only for technological and economic dynamism but also for the sharing of values and learning that make social diversity an asset rather than a liability. The multilateral institutions and policies of the latter half of the 20th century, including such cornerstones as the 1948 Universal Declaration of Human Rights and the more recent Kyoto Protocol on greenhouse gases, remain major building blocks for creating a future that is simultaneously highly dynamic and broadly sustainable. Effective extension and implementation of these policy frameworks still have a long way to go and there are many aspects where reform of existing approaches will probably be needed. Progress has already been made in modifying many international guidelines, including recent advances by OECD countries on issues like corruption, corporate governance, data privacy, consumer protection, financial transparency, and the monitoring of global threats to health and security.

There is also evidence that the extension of partial, multi-nation agreements like those that reduced barriers to trade in goods will need to be supplemented by more multidimensional arrangements that span a wider range of issues. Policy breakthroughs will be needed in order to adequately address the tensions arising from the asymmetry between, on the one hand, the relatively rapid spread of global markets and, on the other, the slow pace of developments in essential legal, institutional and cultural infrastructure. As the preceding century has made quite plain, markets without the appropriate rules, regulatory institutions and shared values can barely function, much less attain full wealth-creating potential. Planetary issues have gained greater pertinence as the human presence on earth reaches a new scale, and the means for spanning distance improve dramatically.

There is a growing recognition of the need for global approaches to issues like competition, crime prevention, product safety, copyright, and other standards that form the foundations for commercial and non-commercial exchanges. Efforts to find solutions to these problems are pushing forward the global application of rule of law and respect for human rights. Indeed, it is often the extension of market activity and much deeper cross-boundary interdependence that create the incentives for tolerance and openness as well as pointing to the institutional designs appropriate to decentralisation and democracy. Such fully global institutions, capable of balancing the need for local and national independence with the realisation of planet-wide objectives, are essential for creating conditions that are at once hospitable to social diversity and (thereby) likely to nurture a dynamic and sustainable future.

Moving along this path does imply an important convergence of policy goals towards the encouragement of greater liberty, diversity, and responsibility – a



broadly conceived sustainability agenda. Convergence of the general policy goals will also be needed if the public sphere is to attain the requisite high degrees of transparency, accountability and integrity. However, the nature of the specific policy frameworks and particular methods of implementation will certainly vary widely throughout the world. In countries making the transition to a global knowledge economy and society, there is a delegation of certain responsibilities away from the national state to either the local, regional or world level. In most of the countries where this reallocation of power is taking place, the legal, cultural and political norms that make markets function efficiently have generally been entrenched for a long time. The long-standing government focus on establishing norms, rule of law, basic education, market transparency, minimum social security, access to health care, etc. can give way to concentrating on new challenges and new methods for establishing what Lubbers *et al.* identify as sustainable social foundations.

These underpinnings are not in place everywhere. As a result, the role of the central government differs considerably, as does the capacity to integrate with the global economy. In countries that are only now putting in place the basic infrastructure of industrial society, from financial regulations to health, sanitation and education services, governments will largely be implementing roles that are already well practised in most OECD countries. However, taking on a similar role does not mean doing it the same way. This is where tomorrow's ever more heterogeneous world is likely to offer an advantage by presenting a wide diversity of approaches and examples of experiments with new, better-adapted methods for realising the same basic goals. Capitalising on such policy competition and associated learning opportunities is what leveraging diversity is all about. There may even be the potential to avoid some of the inflexible and ultimately counter-productive policies used by many OECD countries in the previous century.

What becomes clear is the extent to which social diversity – arising from the complexity and differentiation of a world in flux – can not only provide a solid social foundation, but act as a powerful driving force for the realisation of tomorrow's technological and economic potential. With the appropriate policies in place, a world of dynamic and diverse social formations could end up being the most effective at improving well-being by developing and deploying tomorrow's more productive technologies and new forms of economic organisation. From a holistic and long-run point of view there are enormous synergies to be realised. Although globalisation is not a new phenomenon, the extent to which humanity both weighs upon the planet and has become interdependent opens up new possibilities and responsibilities. So too does the greater speed of change, if combined with an enhanced capacity to understand and make choices. Indeed, the forthcoming volume in this series, on governance in the 21st century, considers directly the question of people's ability to make the choices that will in large part determine to what extent a more dynamic future meets their aspirations.

Chapter 2

**Social Capitalism and Human Diversity\***

*by*

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**1. Introduction**

We live in a global economy, but with little global vision. So while globalisation continues apace, so do the arguments around it – arguments that threaten to destabilise a positive development in human history.

The globalisation debate pits the pursuit of income against economic security and social justice. For several decades, income growth arguments have prevailed, helping drive the process at an institutional level, most noticeably through the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT).

More recently, concern about the social costs of globalisation has come to the fore. The tension between social and economic factors was forcibly expressed – and achieved global prominence – at the demonstrations surrounding the 1999 WTO meeting in Seattle.

The concept of “social capitalism” brings social and economic strands together. Social capitalism stresses that the process of building richer societies relies on social *and* economic progress. The concept emerges from an understanding that the logic of the emerging global economy places more value on people, rather than less. Human capital is of growing importance to businesses, whether large or small. Business tends to thrive in dynamic, enterprising and adventurous societies – societies that invest in their members and give them the freedom and confidence to

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\* The authors are grateful to the Berlin conference participants for their many helpful comments, and to Jaypee Sevilla for computational assistance.

fulfil their potential. Our most important economic actors, in other words, rely on ongoing human development to survive.

It is in this context that we discuss education, the value of which rose throughout the 20th century as families across the world invested more in educating their children for longer. Universal basic and secondary education is still a tough goal, but one the world can reach in the first half of the 21st century. Access to higher education is also growing across the world, as developing countries continue the process of building wider education systems and the developed world moves towards providing advanced training for the majority of its young people.

The educational revolution has been achieved during a period in which the world's population has climbed steeply. This chapter presents a descriptive analysis of the evolution of that population change, examining both its size and structure. The demographic transition from high fertility and mortality to low fertility and mortality is a pivotal event, rooted in significant improvements in health – another vital element of human capital. In the developed world, the transition was associated with rapid economic progress, and today developing countries have the opportunity to collect a demographic dividend that offers a sizeable boost to living standards. But the dividend can only be collected by countries that have the right policy environment, combining prudent macroeconomic policies, ongoing investment in human capital, and action to build strong societies.

Demography is a powerful predictive tool. It allows us, for instance, to foresee the gradual ageing of the world's population, a process that offers a grave challenge to developed countries over the next fifty years. Demography is not destiny, however, and the policy choices made now will decide whether rising numbers of older people will become the threat that populist writers describe. What is certain is that there will be continued tensions between developed and developing regions, as demographic conditions diverge and make rich and poor feel they live in different worlds. Population movements will continue and may even increase, bringing new opportunities as ideas and energy circulate, but also increasing intergroup tensions and acting as a focus for social conflict, between and within countries. Inequality of outcomes seems to be increasing, a serious threat to a global economic system that seems to rely on equality of opportunity as the main source of its vigour. (The magnitude and rise of inequality are considered in more detail by Richard Jolly elsewhere in this volume.)

Human development enhances individual freedom, but investment in social capital is also a central driver in improving the quality of life. Currently, the world is experiencing two contradictory trends. On the one hand, there is mounting evidence of social breakdown in many countries, reflected in a loss of trust in institutions, the fractured modern family, and rising levels of crime. On the other, new social structures are growing up. The knowledge economy, for example, thrives on rich, high-trust networks – often formed over distances that give a new meaning to the idea of community. Another example is the international “civil society” that is emerging, what one NGO activist calls a “global New Democracy Movement... built from the grassroots up”.<sup>1</sup>

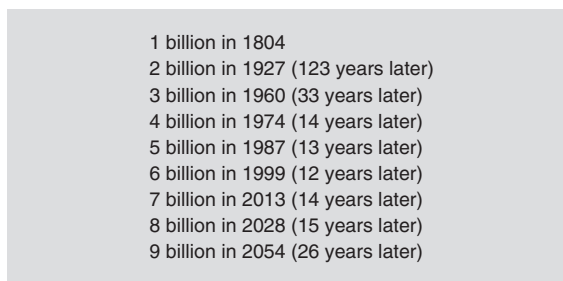
It is not likely that social breakdown will be successfully tackled by an appeal to traditional values. Communities need constant renewal if they are to stay relevant and satisfy the aspirations of their members. And it is often those who are different and do not conform to social norms who trigger new social arrangements. It is in our interest, therefore, to learn to thrive on diversity. Globalisation brings many cultures together. It encourages people to move within and between countries – and, more importantly, provides many routes by which knowledge and values can be communicated from place to place. Comprehending the extraordinary world we live in, and how it might develop, is a daunting task. But an era of change should also be an era of hope and possibility. Economic renewal and human progress go hand in hand. It is therefore in our collective interest to promote social innovation, by harnessing the power of human diversity. Social capitalism will not, we predict, yield a uniform system, but a rich “gene pool” of social forms, adaptive to changing circumstance, human aspiration, and economic realities.

## 2. Population matters

### *Changing people*

In 1798, Thomas Malthus rejected the idea that poverty could be alleviated by “schemes of improvement”. He argued<sup>2</sup> that the “passion between the sexes” was unalterable, and that a fundamental tension between an arithmetic increase in food production and a geometric rise in population would produce inevitable “misery and vice”, as sickness and premature death limited population to the size that could be supported at a subsistence standard of living.<sup>3</sup>

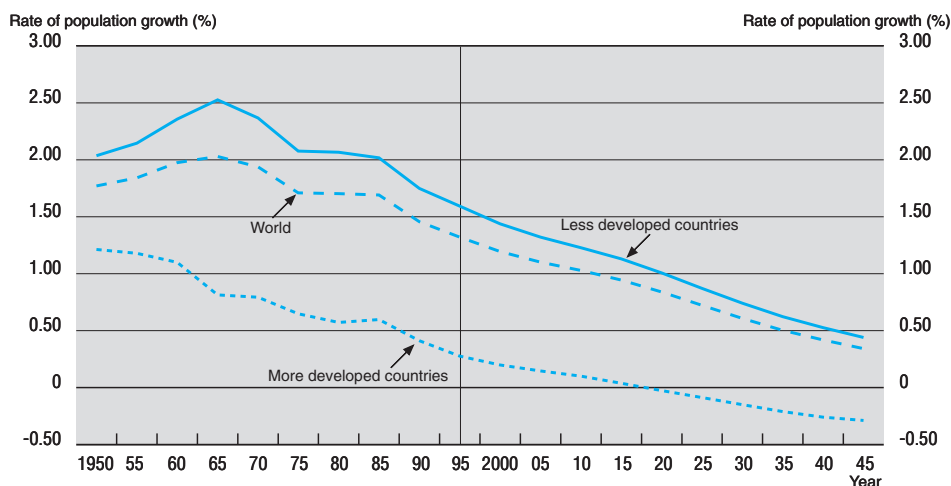
Figure 1. World billions...



Source: Population Division, Department of Economic and Social Affairs, UN Secretariat. *Population Newsletter* No. 66, December 1998 ([www.undp.org/popin/popdiv/news66/news66.htm](http://www.undp.org/popin/popdiv/news66/news66.htm)).

Two hundred years on, there is still concern about overpopulation (Figure 1). In 1968 Paul Ehrlich opened his influential book *The Population Bomb* with the words “The battle... is over. In the 1970s hundreds of millions of people are going to starve to death”. (In fact, the rate of global population growth peaked at 2% in the same year; today it stands at around 1.5% – see Figure 2.) In 1999, the United Nations stoked the debate with its much-hyped *Day of 6 Billion*, an event which Secretary-General Kofi Annan claimed paradoxically was “more than anything else, a reminder that population is not only about numbers”.<sup>4</sup>

Figure 2. Population growth



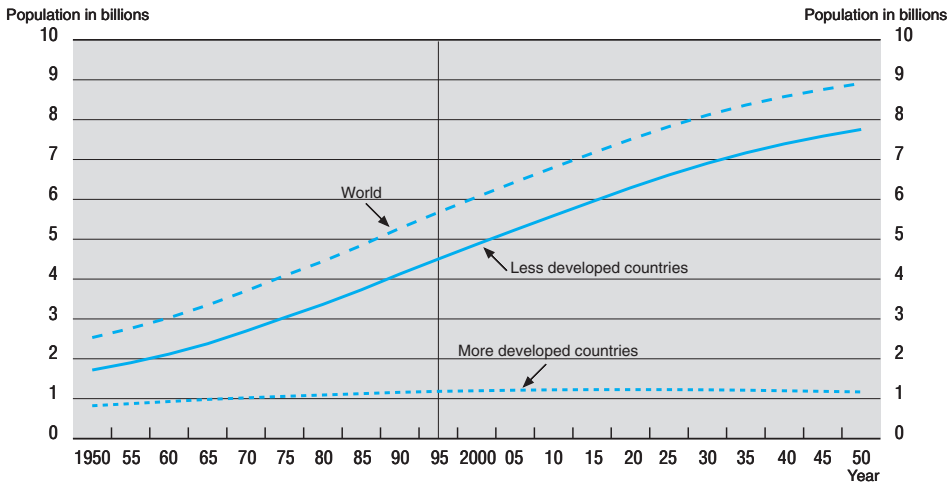
Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

Predictions for population increase are, by necessity, educated guesses. In 1996, the United Nations predicted the world would have 9.4 billion people by 2050. In 1998, it revised this figure down to 8.9 billion, with a low projection of 7.3 billion and a high projection of 10.7 billion (Figure 3 shows the middle estimate). The reduction was due, for the most part, to the fact that fertility rates are dropping faster than expected, although increased mortality in some regions – largely the impact of AIDS – accounts for a third of the fall.

Malthus admitted that his writings were tinged with a “melancholy hue” and were specifically intended to demonstrate that those, like William Godwin, who argued for the future improvement of society were naïve, idealistic and wrong.

Figure 3. Total population by country income group



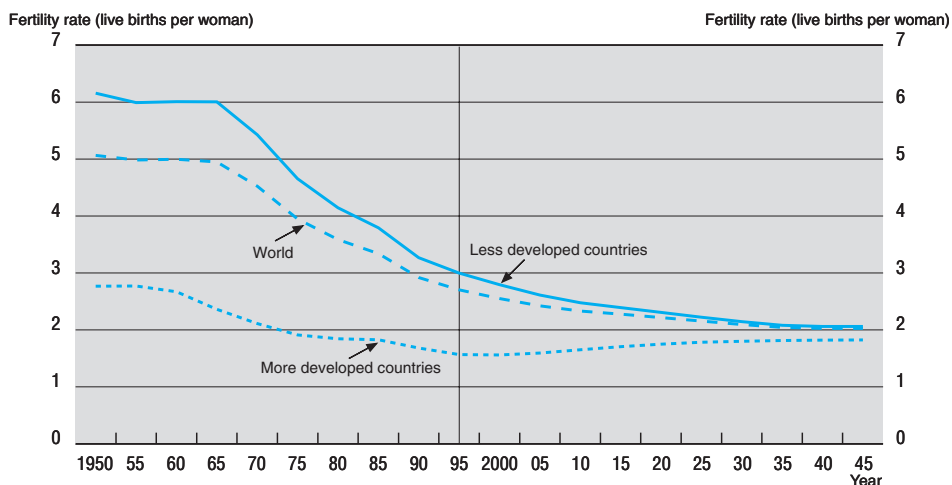
Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

However, what came to be known as Malthusian theory foundered, for two main reasons. First, the “passion between the sexes” has been transformed (though not “extinguished”, as Godwin speculated) as people *choose* to have fewer children (Figure 4). Changes in behaviour can happen extremely rapidly. Worldwide, over half of all couples now use contraception, compared with just 10% in the 1960s.<sup>5</sup> Meanwhile in Kazakhstan, Uzbekistan and Kyrgyzstan, the proportion of married couples using contraception tripled (to 59%) in just ten years (UNFPA, 1999), radically changing the population prospects of these countries. On the strength of many like examples, rapid growth of the world’s population seems certain to abate – human choice will determine when.

The second challenge to Malthus has been the speed with which “the means of subsistence” has increased, as people realise value from quality as against quantity (or, in economist Paul Romer’s metaphor, the power of better recipes, rather than more cooking). So while the world’s population increased by 2.3 billion in the past thirty years alone, real incomes per capita have simultaneously risen by two-thirds. Workers have become more productive as they shift from agriculture to more productive industry and services, and use higher levels of education and technology to increase the value of their work. World prices for natural resources have generally fallen (Figure 5), and abundant natural resources are no longer considered a significant source of competitive advantage (some argue they can even impede

Figure 4. Fertility rates



Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

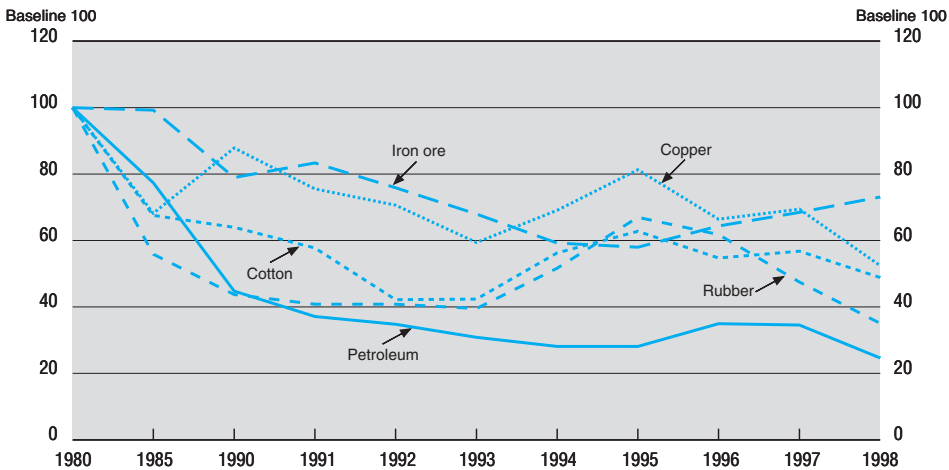
economic progress). The value of knowledge, by contrast, has continued to rise. It is fundamentally different from other forms of capital. As it becomes abundant, it may be further expanded more easily and cheaply, in turn creating especially lucrative returns.<sup>6</sup>

The changing relationship between people, and the wealth they generate, has helped us produce still more people, still more wealth. With numbers now standing at over 6 billion, the question remains how we can manage the relationship between people and wealth more effectively.

### Demographic transition

The developing world's demographic transition highlights how human choice and enterprise drive population change. This transition began with innovation: social and technological changes that improved health and cut mortality drastically (Bloom and Williamson, 1998; Easterlin, 1998; WHO, 1999). In particular, safe water, better sanitation and widespread immunisation conferred major (and quick) gains in public health. New medicines have also played a critical part, especially antibiotics, antimicrobials and insecticides introduced from the 1920s to the 1940s. Delivering public health at this level is inexpensive. With political will, rich and poor can enjoy equal benefits.

Figure 5. Primary commodities



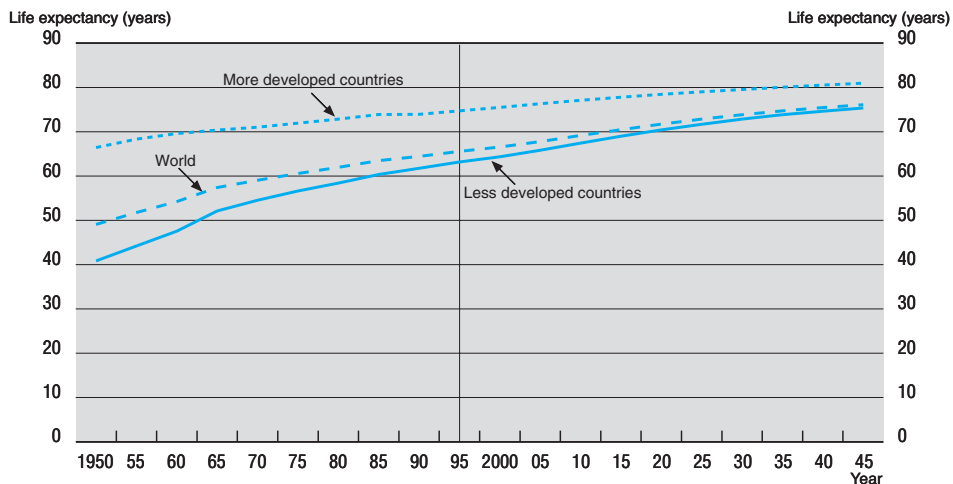
Source: World Bank Development Indicators 1998.

Health improvements have delivered dramatic life expectancy increases in developing countries (Figure 6). The most dramatic – and immediate – impact can be seen on children, with infant mortality now 9 deaths per 1 000 live births in developed countries, 63 in less developed and 99 in the least developed countries (Figure 7). As infant mortality falls, couples react by having fewer children. There is a lag, however, before people perceive the falling mortality as reliable. When it does, the birth rate falls. Economists see this fall as a rational economic choice: children represent direct costs (*e.g.* feeding, clothing, etc.) as well as indirect ones – the opportunity costs of forgoing income and time. All these costs rise as work moves outside the home, and as levels of education and pressures on time (which makes it more valuable) increase. Children in effect become more costly, which makes it optimal to concentrate resources on fewer of them. The trade-off between quantity and quality thus shifts in favour of quality.

Most of the world's countries have undergone (or are undergoing) this transition from high rates of mortality and fertility to low rates of each. According to the UN, birth rates have fallen to replacement level or below in 61 of the world's countries, where 44% of the world's population lives (some are listed in Figure 8). The transition can happen quickly or slowly. In Western Europe, fertility decline started in the mid-18th century, and the transition lasted nearly 150 years, although it was much slower in some countries – in Sweden, it took at least twice as long. Modern



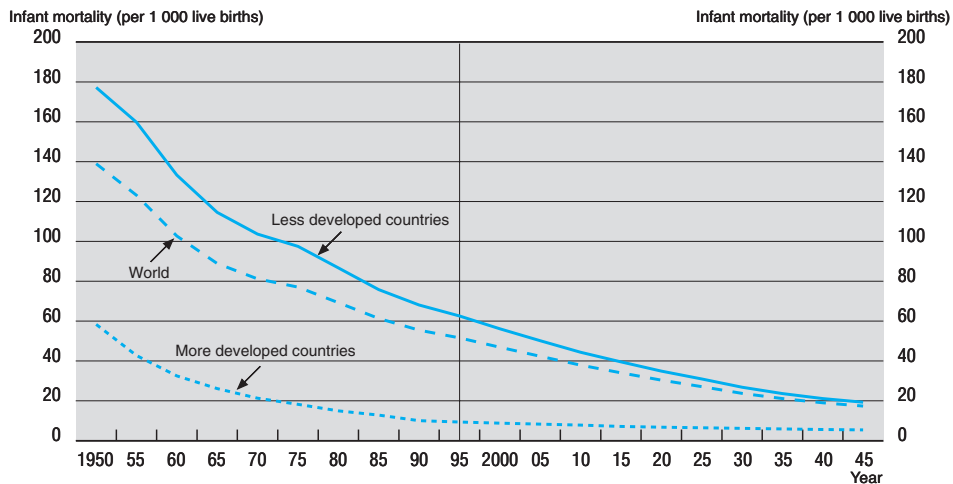
Figure 6. Life expectancy



Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

Figure 7. Infant mortality



Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

transitions have been faster as technology leads to more rapid declines in mortality, and effective contraception and information (about family planning and the benefits of education, for example) speed the changes that lead to low fertility. The rapid expansion of basic and secondary education also increases receptiveness to such information and promotes a more varied outlook and set of values – as well as simply keeping children in school longer – in turn leading to later marriage. East Asia's demographic transition occurred within the space of fifty to seventy-five years, marking it as the fastest known demographic transition to date.

**Figure 8. Selected countries with birth rates below replacement level (2.1 live births per woman) as of 1998**

Sri Lanka	2.10	Singapore	1.68
Dem. People's Rep. of Korea	2.05	Trinidad and Tobago	1.65
United States of America	1.99	Cuba	1.55
Norway	1.85	Poland	1.53
Yugoslavia	1.84	Japan	1.43
China	1.80	Russian Federation	1.34
Australia	1.79	Italy	1.20
Thailand	1.74	Czech Republic	1.19
Finland	1.73	Romania	1.17
United Kingdom	1.72	Spain	1.15

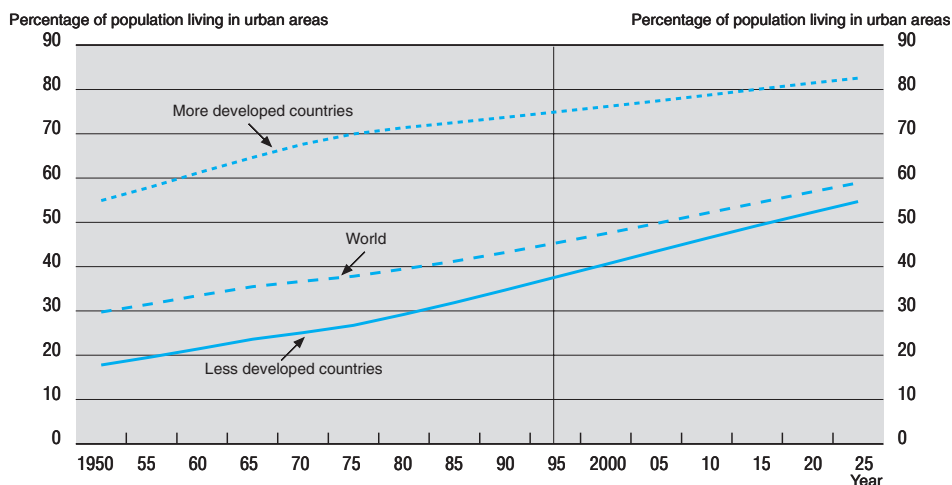
Source: United Nations Population Division, World Population Prospects: The 1998 Revision.

### **Demographic impact**

The demographic transition inevitably leads to fundamental social and economic change, although the nature of that change depends on the speed and magnitude of the transition, and decisions made at all levels of society. For developing countries, currently in the midst of their demographic transition, powerful effects are felt on:

- *Location.* Increased population density forces people from the land into towns and cities. Nearly half the world's people are now urban dwellers, up from 30% fifty years ago. This figure is likely to increase to nearly 60% over the next twenty-five years (Figure 9).

Figure 9. Urban living



Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

- **Lifestyle.** Small families are functionally different from large families, and – although largely due to falling fertility – better-educated individuals have a wider set of options, including marital separation and divorce. The shift from extended to nuclear families will also impact on patterns (and costs) of child-rearing, available social capital (that is, the density and nature of social interactions), and so on.
- **Aspirations.** The modern demographic transition begins with, and is spurred on by, health improvements, which in turn increase *security*. However, it is accelerated and completed through access to education, which enhances *opportunity*.
- **Women.** Education for women is especially important. It has a further impact on the family, via better nutrition and health, higher child survival rates and more family income on the one hand, and higher levels of family breakdown on the other.
- **Work.** As the population grows, the balance of the economy changes. The importance of agriculture as a source of employment inevitably declines, while manufacturing (and, increasingly, services) come to dominate. Productivity increases and a general escape from subsistence is possible – but by no means inevitable.

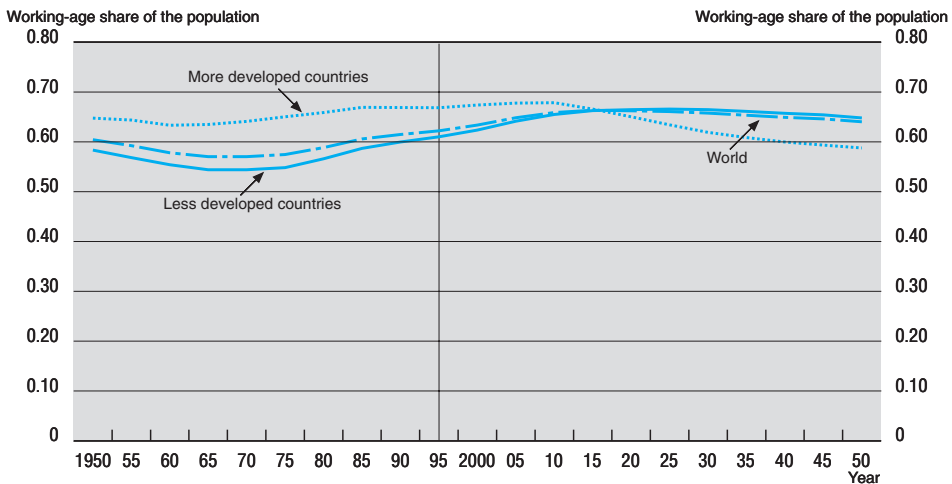
Such changes are, of course, not independent; in fact, they tend to reinforce each other. Urbanisation breaks up traditional rural family structures. Education for women further lowers fertility and draws more women into the workplace. The changing labour market increases the value of more advanced levels of education. Pools of highly educated people are, in turn, better able to drive economic change. Meanwhile, cities have a long history of being economically dynamic.<sup>7</sup>

The demographic transition is thus having a profound impact on developing countries. As its implications are understood and recognised, policy makers are better able to frame decisions that work with, rather than against, population change. This is especially important with respect to the phenomenon known as the *demographic dividend*.

### The demographic dividend

The lag between declining infant mortality and a consequent reduction in fertility causes a “baby boom” generation. As this generation ages, it will have a significant impact on educational systems and, later, on the labour market. While the developed world’s proportion of working people will decline over the next fifty years, developing countries are seeing rapid increases. In 1970, only 54% of the developing world’s population was of working age, compared to 63% today (Figure 10).

Figure 10. Working-age share of the population



Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

The demographic dividend offers developing countries the chance to make a major developmental leap, with more workers (supporting smaller families) engaged in more productive work. Fewer children need education, so that education can be to a higher standard. Saving rates also increase, as there are more people of an age where saving rates tend to be high and as people realise that they are more likely to experience a long retirement. The effect of this demographic dividend can be dramatic. In East Asia, for example, the demographic dividend accounted for more than 0.9% of the region's annual growth in GDP per person between 1965 and 1990. The Asian tigers collected the largest dividend, 1.5% annually, representing a significant proportion of the East Asian miracle.

There is nothing fixed or inevitable about these processes. Mortality rates have tended to decline fairly constantly (although AIDS is rapidly changing the picture). Fertility rates, meanwhile, vary from country to country, and seem to depend on prevailing cultural contexts, rather than any single factor such as income. There is an unmet desire for smaller families in large parts of the world, with UNDP estimating half the world's annual 175 million pregnancies are unwanted or ill-timed (UNFPA, 1999). Ghana and Bangladesh are both poor countries and had roughly equivalent fertility rates in 1975 (6.5 and 6.8 live births per thousand women, respectively). By 1997, Ghana's birth rate had declined only slightly, to 5.2 live births, while Bangladesh's had more than halved to 3.1 live births (UNDP, 1999).

Ghana's figures are indicative of high levels of fertility – and “wanted fertility” in Africa. So while most developing countries have experienced declining mortality as part of the demographic transition, the subsequent fertility response varies in terms of timing and intensity. The need in Africa, therefore, is to *affect* choice, while the need elsewhere is to enable people to realise their choices (Bloom and Sachs, 1998). As the United Nations Population Fund (UNFPA) argues in its latest review of the state of the world population, the next decades are, more than ever, “a time for choices”.

### **Demography and policy**

These choices are not just made at an individual level. The powerful interactions between good policy and the demographic dividend can be seen in the recent experience of East Asia when compared to Latin America. From 1965 to 1990, Latin America experienced broadly similar demographic conditions to East Asia, but its growth rates were far from miraculous. A lack of interaction between policy and demography is to blame.

In order to make the most of the demographic dividend, policy makers need to prioritise:

- *Education*. If the baby boomers are not well educated when young, they are less likely to make productive workers. Education needs to be of sufficient

quantity *and* quality. It also needs to be relevant to rapidly changing economic demands.

- *Labour markets.* A high ratio of working-age to dependent-age people becomes a burden rather than a boon if rising numbers of workers cannot be absorbed into the labour market. Unemployment is costly and leads to social alienation and rising levels of crime.<sup>8</sup>
- *The macroeconomic environment.* Closed economies have performed poorly in recent years. Not only do they lose opportunities for trade and foreign direct investment, they also limit their ability to benefit from new ideas and technologies developed overseas.
- *Openness to outside influence.* Economist Paul Romer argues that it is “ideas, not objects, that poor countries lack”,<sup>9</sup> while the historian and economist David Landes suggests that from the 16th century onwards (and especially following the expulsion of the Jewish community), intellectual isolation led to the economic stagnation of Spain, Portugal and even Sicily.<sup>10</sup> For developing countries, openness allows the quick adoption of ideas generated elsewhere and helps economies to “leapfrog” to a more advanced stage of development.
- *Freedom.* While it is hard to demonstrate a direct correlation between democracy and economic growth, support for the idea that economic reform can only be implemented under dictatorships has declined. Friedrich Hayek’s (1988) description of central planning as a “fatal conceit” is now widely accepted, while Amartya Sen (1999) has recently underlined the importance of participation in markets (which he labels “transactional freedom”). More broadly, perceptions of freedom affect people’s willingness to recognise and seize opportunities, and thus have an impact on uptake of education and levels of entrepreneurship.
- *Social cohesion.* Good government and democratic indicators positively correlate with levels of domestic savings – a crucial source of the capital essential to an expanding economy.<sup>11</sup> Markets, meanwhile, do not exist in a vacuum. Good governance and institutional strength are an essential underpinning to confident exchange, while levels of trust have a critical effect on the capacity of people to work together.

There is plentiful evidence to show the strengths of these interactions. Formal analysis, for instance, shows that in a country with a working-age population growing at 3% a year (and twice the pace of overall population growth), the demographic dividend is three times greater – boosting growth by 1.5% compared to 0.5% if an economy is not open to world trade. In Latin America’s case, analysis shows that its growth rate would have been 0.8% higher if it had institutions of similar quality to those common in the OECD. Overall, 50% of the gap between Latin American and

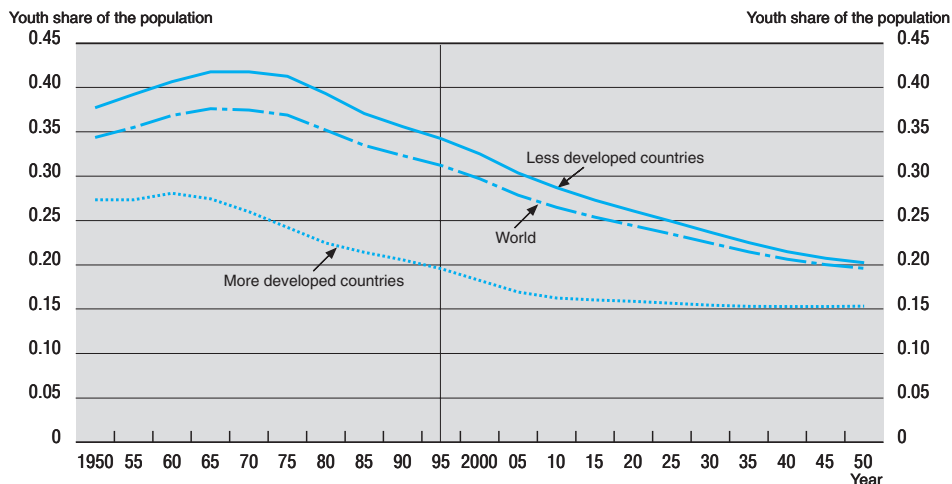
East Asian growth can be explained by the interaction between demography and policy.

This demographic pattern – a boom generation emerging from the lag between declines in mortality and fertility – is a unique, one-off occurrence. The potential economic (and related social) benefits of utilising this generation to achieve major developmental gains across society are profound. So are the costs of failure.

**A new demographic challenge**

Developed countries face a new demographic challenge, as their populations age. While the proportion of young people is decreasing and the proportion of elderly is increasing the world over (Figures 11 and 12), developed countries are seeing their dependency ratio increase, while it decreases in the developing world (Figure 13). This point is clearly illustrated (Figures 14-16) in a comparison of the respective age profiles of rich and poor countries, and how they change over time. The median age in developed countries is rising steadily, from 29 in 1950 to 38 today. It is not expected to peak until 2050 when according to estimates it will be around 46. A disproportionate number of these old people will be women, as women live longer than men across the world.<sup>12</sup>

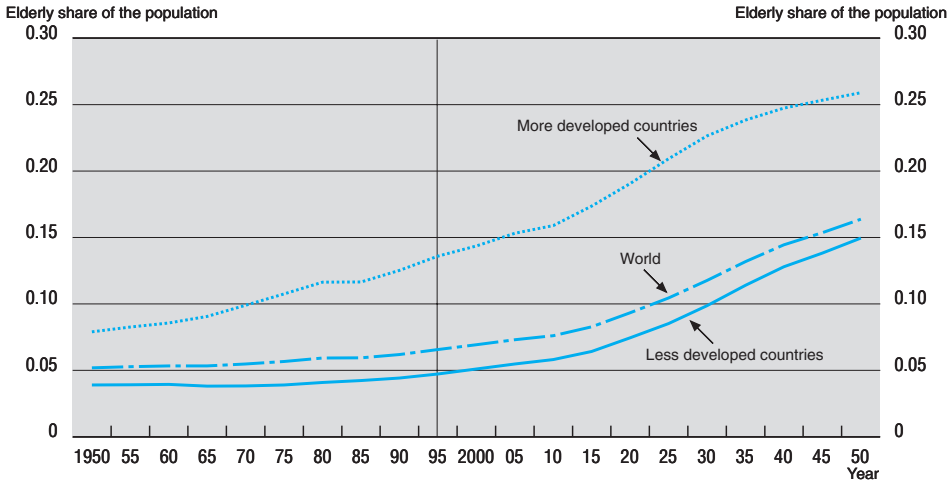
**Figure 11. Youth share of the population**



Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

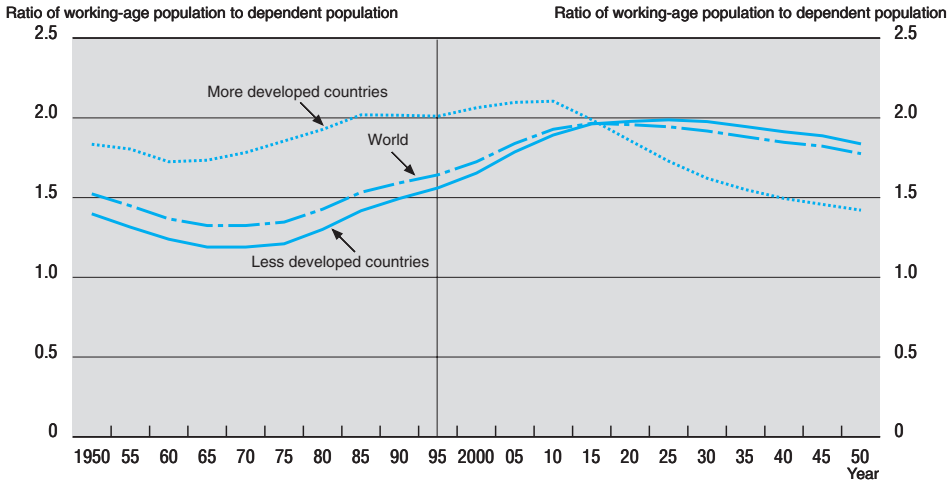
Figure 12. **Elderly share of the population**



Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

Figure 13. **Ratio of working-age population to dependents**

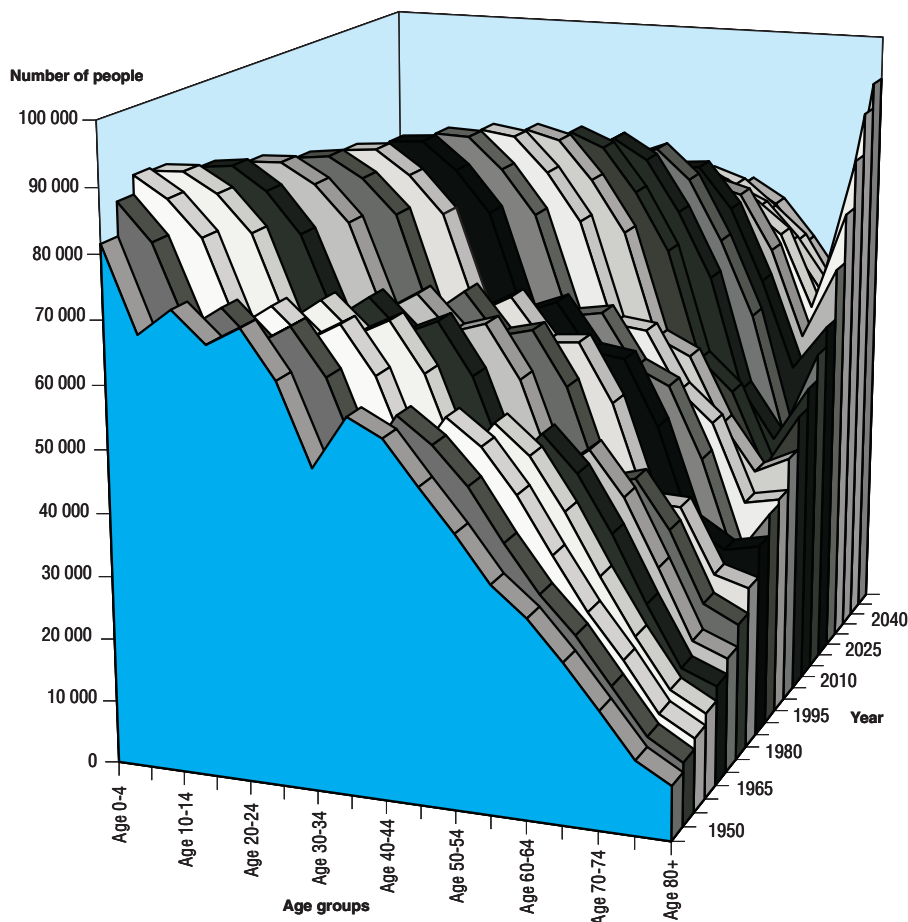


Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.



Figure 14. Age structure of more developed countries



Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

An ageing population could become a serious drag on economic growth in the richer countries. The OECD warns of pressure on living standards from 2010 onwards, predicting that the 1.5% average annual growth in living standards enjoyed since 1973 could be halved. Some countries face especially dramatic rises in pension bills. The OECD estimates that spending on pensions could push Japan's budget deficit up to 20% of GDP by 2030, as the country becomes the oldest in the

world with more than a quarter of its people over the age of 65. As a result, either pension contributions will have to rise to around 35% of salaries (from 16.5% today), or the level of pension benefits will decline dramatically.

Again, demography is not fate; there are significant opportunities for policy makers to work with demographic trends. Pensions are an obvious case for policy initiatives. Across the world, we are witnessing a shift from pay-as-you-go pensions (whether provided by state or employer) towards fully funded schemes. The result of this trend is to transfer the responsibility for saving for old age away from the state or employer, and towards the individual. In the United States, for example, individuals are offered choices about where and how to invest their pension funds, through “401(k) plans” that offer a menu of investment opportunities. Private pensions also facilitate an increasingly important aspect of the modern labour market: job mobility. This is only so if pensions are portable, of course (historically, public pensions have tended to be better in this regard).<sup>13</sup>

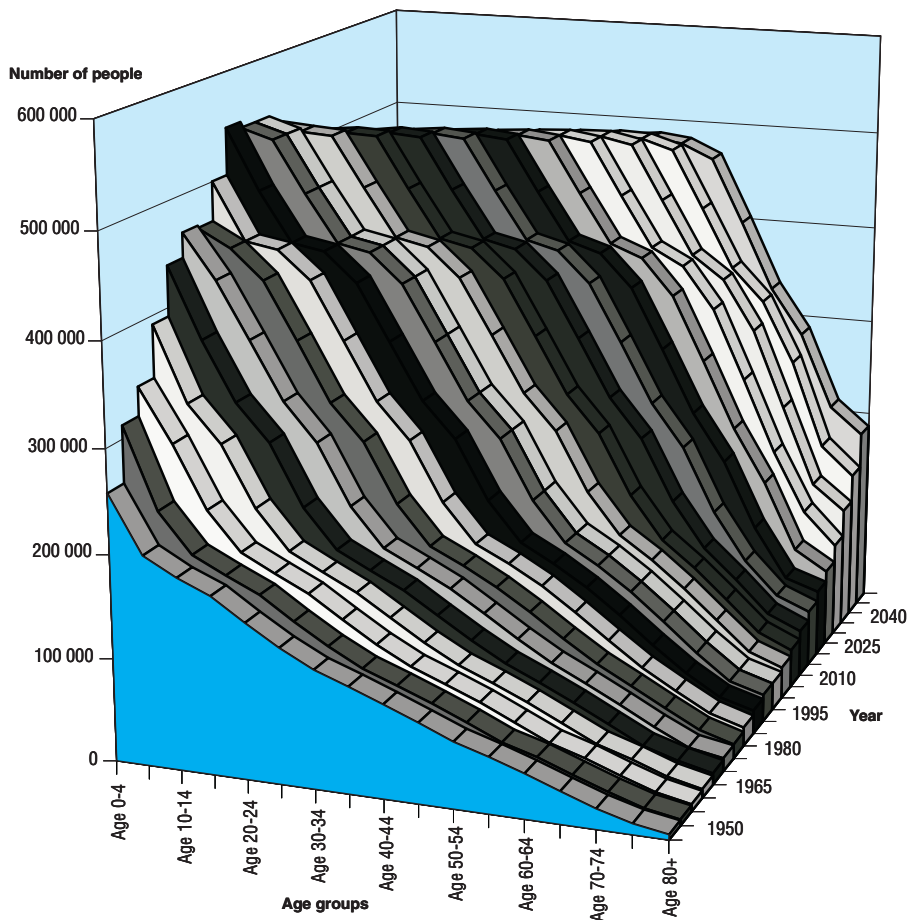
Increased choice (and responsibility) can bring more risk: pension funds can perform badly and the financially unsophisticated are easily misadvised. In the United Kingdom, a multibillion pound pension scandal is still unravelling, after sales representatives lured people off state benefits and into poorly designed private schemes. Raising the sophistication with which people plan for their retirement will not be an easy task. It does, however, form part of a wider trend towards greater individual responsibility, and is consistent with the desire to use ongoing “lifelong” education to equip more people with the skills needed to mediate rapid social change. Eastman Kodak is an example of a company taking an imaginative approach and attempting to use pension choice to empower, rather than confuse, its employees. It offers 36 fund options to invest in, but arranges these in tiers and offers guides aimed at employees who like things “simple”, those who want “choice”, and those who want “lots of choice”.

### **Cultural change**

Action on pensions is essential, but cultural change – aimed at altering the way society sees old people and old people see themselves – may be even more important. Many countries are trying to legislate their pension age upwards: Denmark, for instance, is increasing the age from 60 to 62 and Japan from 60 to 65, and the United Kingdom is discussing plans to move from 65 to 70. Meanwhile, pension disbursements are being inflated by the trend towards early retirement. This can leave rising numbers of older unemployed people stranded in a no man’s land between career and pension. The Andersen Consultancy, for example, recently suggested that it was better placed to face the future than its competition because of the low average age of its staff,<sup>14</sup> while many businesses have run some kind of programme to promote early retirement.

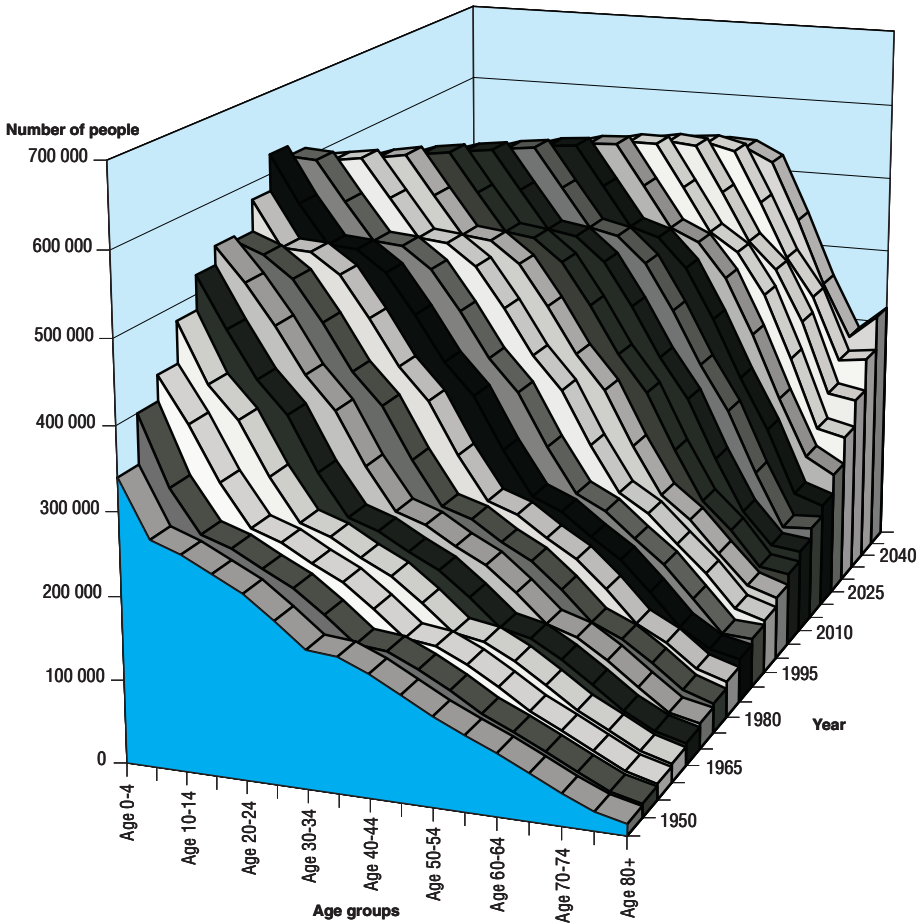
In theory, people should be able to continue to work effectively as they age. Work is much less physically demanding than it was, and standards of health have improved. There will also be an increasingly powerful market for older consumers, which older entrepreneurs will be well placed to serve. Older people sometimes have obsolete skills, and can be slow to adopt new technology.<sup>15</sup> Action to encourage

Figure 15. Age structure of less developed countries



Post-1995 data are projections.  
 Source: UN Population Prospects 1950-2050, The 1998 Revision.

Figure 16. World age structure

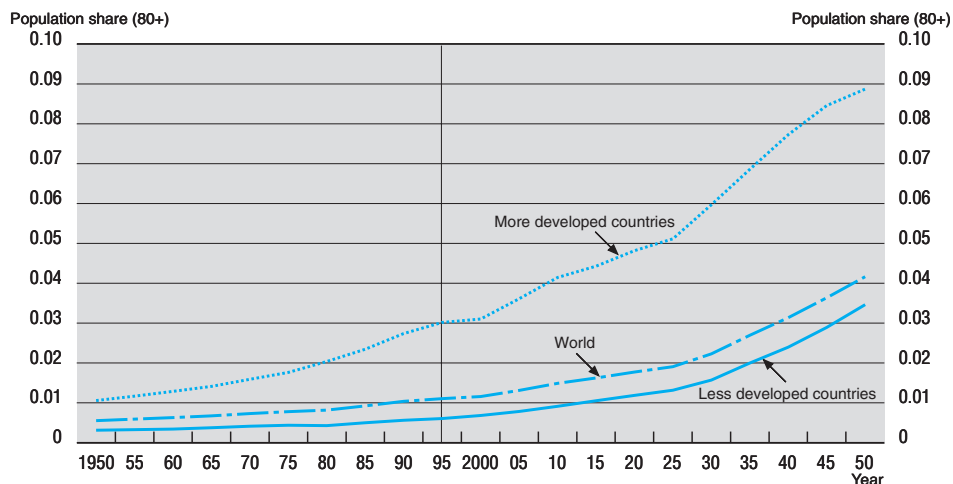


Post-1995 data are projections.  
 Source: UN Population Prospects 1950-2050, The 1998 Revision.

lifelong learning – and market it to a considerably older age group than is currently common – thus becomes exceptionally important, as do measures to help older people back into the labour market.<sup>16</sup> The United Kingdom, for example, has created special provision for helping older people back into work under its New Deal scheme for tackling long-term unemployment.

The ageing population will become increasingly powerful politically. Groups like the American Association of Retired Persons (AARP) in the United States, Grey Power in Australia, the German Grey Panthers and the Japanese “Wonderful Ageing Club”<sup>17</sup> have been growing in size and influence for some while. There are other issues too, in particular related to the growing health costs associated with an ever more aged population, and the growing numbers of the oldest old, with their very different resources and needs (Figure 17).

Figure 17. The oldest old (80+)



Post-1995 data are projections.

Source: UN Population Prospects 1950-2050, The 1998 Revision.

### Moving people

Migration forms the interface between the demography of the developed world, and that of developing countries. Each year, over 2 million people emigrate and over 2% of the world's population are migrants (UNFPA, 1999). In general, developed countries receive migrants while developing countries send them. About 4.5% of the population of a developed country are immigrants (8% in both Germany and the United States), compared to 1.6% in developing countries. Just four countries take the majority of immigrants: the United States, Germany, Canada and Australia. According to the Population Reference Bureau, the United States alone took one million immigrants a year between 1990 and 1997.

Migration offers potential benefits for both migrant-sending and migrant-receiving countries. The World Bank has highlighted the global networks that can develop between migrants from a single ethnic group. The 50 million strong Chinese Diaspora, for example, has been an important source of social capital (*i.e.* the density and nature of social interactions that can be drawn on) across the Asia-Pacific region, creating markets and contributing to the development of a number of national economies. Ethnic Chinese are now substantial investors in the developed world. In 1997, Taiwanese-Chinese firms invested in 44 European computing projects, while there are increasing numbers of Chinese firms in Silicon Valley. The South Asian network is also growing in importance. The World Bank estimates it has a value of between \$150 billion and \$300 billion, spread across South East Asia, the Middle East, the United States and the United Kingdom. The UNFPA, meanwhile, predicts that low-fertility countries will increasingly look to migrants when facing labour shortages, perhaps heralding a new wave of immigration to developed countries.

There are already signs that some countries are beginning to compete for labour. Twenty-three per cent of the United Kingdom's doctors were born overseas, for example,<sup>18</sup> while the United States is attracting increasing numbers of (mostly advanced) students to its educational system. According to International Students Inc., there are now over 532 000 international students studying in the United States. A third of these are not expected to return home and the US economy will therefore gain much of the benefit from their home country's investment in their early training. In return, however, many will send money to their families back home; migrants are believed to send over \$70 billion to their home countries each year.

The Indian software industry, meanwhile, is attracting significant investment from nonresident Indians, especially through a US group called The Indian Entrepreneurs (TIE). Software exports increased from \$1.75 billion to \$2.65 billion in the last year, with the Indian Government expecting exports to grow to \$50 billion by 2008 (a figure that many observers see as conservative).<sup>19</sup> Such computer start-ups tend to go through three main phases: first, exporting labour overseas; second, bringing contracts back to the home country; and finally, shifting to high-value work, such as software production or consultancy. Progress from competing on price to competing on quality is, in some cases, extraordinarily rapid.

Although migration offers an opportunity to distribute labour more effectively around the world, the labour market is perhaps the only market that is becoming less rather than more open. Many developing countries have complained that rich countries are trying to increase rather than decrease restrictions on international labour mobility. Meanwhile, immigration is a political issue in most European countries, and has acted as a "lightning rod" for the rise of the far right in many countries. A survey of European decision makers in 1996 ranked "heavy immigration from non-European Union countries", "increase in ethnic and/or territorial conflicts inside European countries" and "the outbreak of extreme nationalist movements *within* the European Union" as the 4th, 5th and 8th most serious threats to Europe.<sup>20</sup>

### 3. The human perspective

#### *Change and more change*

Migration is one of many issues that reveal deep-seated conflicts about the world we live in, as migrants and receiving societies confront fundamental changes to their way of life. But change is not an unusual condition in the modern world. Technological progress is driving increasing numbers of people into the global village, predicted by Marshall McLuhan in 1962. In this village, people are more rather than less important to economic progress. Paul Romer uses a computing metaphor, replacing the traditional categories of production inputs (physical capital, raw materials and workers), with three classes of inputs: hardware, software, and wetware (computer-buff jargon for humans). People are valued for their knowledge, innovation, commitment, and enterprise – and the well-educated and well-connected (the knowledge-rich) are enjoying increasing economic power and freedom.

The speed at which technology is changing society has been widely discussed. Moore's law (that computing power would double every eighteen months) has held since 1965. Meanwhile Metcalfe's law (that the power of a network grows as the square of the number of connected nodes) captures the growing influence of the networked information device. The world now has 380 radios per thousand people, 280 television sets, 144 telephone lines, 144 mobile telephones and 40 computers (World Bank, 1999). By February 2000, over 275.54 million people were estimated to be on-line.<sup>21</sup> These communication devices are converging rapidly. Radio is moving on-line, digital television promises greater interactivity, and third generation mobile telephony technology will lead to an explosion of mobile and fully networked devices over the next few years. Communication costs have dramatically fallen to create what Frances Cairncross (1997) has called "the death of distance".

In the most advanced e-economies a bandwidth revolution is now under way, with satellite, fibre optic, cable and wireless technologies joining new methods of squeezing more capacity from traditional copper telephone lines.<sup>22</sup> (Meanwhile, some of the world's most remote areas now have better virtual connections to the world economy than they do roads.) The breadth and depth of the network is important. As author James Gleick comments: "even within the computer culture, people tend to overstate the importance of advances in heavy computing: the next leap forward in the megaflop, gigaflop, teraflop calculating performance of a super-computer will not transform your life; the inexorable advances in small-computer connectivity will."<sup>23</sup>

Technological change has led to an explosion of the quantity of information available. Globally, scientists publish twice as many papers as they did twenty years ago, while in countries like China, Hong Kong, Singapore, South Korea, and Chinese Taipei, the publication rate has doubled in a decade. Patent applications

are increasing rapidly, too, with Brazilians, Indians and Americans filing, respectively, 42%, 66% and 71% more patent applications in 1996 than in 1986. The way scientific knowledge is generated and used is also changing fundamentally. Michael Gibbons and his co-authors (1994), for example, argue that knowledge is increasingly produced in the context of its application. Problems are thus addressed based on the types of “real world” solutions required, rather than through the codified practice of a particular discipline: “Such knowledge is intended to be useful to someone”. It is also more likely to be generated by cross-disciplinary teams (often crossing traditional institutional boundaries); and it may well be disseminated dynamically through communication networks of highly mobile problem solvers. Finally, the contextualised nature of their work makes researchers more aware of the potential impacts – positive or negative – of their work. A higher degree of social accountability is therefore built into the process, with a wider recognition that research cannot be judged on scientific and technological terms alone.

These new forms of knowledge are generating quite different kinds of economic structures. Knowledge- or information-based services are growing in value as physical capital becomes less important.<sup>24</sup> Traditional book assets, for example, are thought to explain as little as 20% of the value of US companies.<sup>25</sup> Meanwhile some surprising industries turn out to have an information base. In the United States, for example, about one-third of the value of the health care industry (about \$350 billion) involves the transfer of information, while the SABRE flight booking system, an information service created by American Airlines, is now more valuable than the airline (Evans and Wurster, 2000). As a result, some companies are discovering that their core competency does not lie at the traditional heart of the business. Ford, for instance, has publicly considered pulling out of manufacturing cars, to concentrate on designing, marketing and distributing vehicles (its cars would be built by anonymous suppliers, but badged with the Ford name). Similarly, a Coca-Cola executive has noted that the company could survive the confiscation of all its assets – as long as it could keep the rights to its famous logo.

### ***Busy people***

In the 1920s and 1930s, Alfred P. Sloan took Adam Smith's concept of a “division of labour” to its extreme at General Motors, attempting to remove all enterprise from the production process. Workers were conceived as (unfortunately fallible) machines, and all decision making centralised among a few managers. General Motors paid well, explicitly recognising that the worker must seek his reward outside the workplace, rather than through any pleasure taken in working.

Today in many businesses, decision making (and the expertise it requires) is much more widely distributed, and what Adam Smith called the “dexterity in every particular workman” is seen as a critical business asset. Labour has become



more skilled, with scientists, technologists and inventors driving technological progress, while expertise in disciplines such as management and marketing is also highly prized (technological innovations are worthless without the knowledge of people needed to bring them successfully to market). Businesses need highly skilled, independently minded workers, and are spending more money on finding, training and retaining them.

Businesses increasingly see value concentrated in two areas:

- *Human capital*. Employees with specialised skills are increasingly in demand, as technology becomes more complex and processes become more technological. Innovation is increasingly prized, and those who can generate new ideas are able to exploit more open competition for their skills. Finally, employees with general skills – and the ability to keep learning – are also prized, as flexibility is rewarded by a fast-changing economy.
- *Relationships*. Relationships are increasingly recognised to contain value. Businesses are investing increasing amounts in maintaining good relationships with their employees, their customer base and their suppliers. Consumers continue to show rising concerns about standards of service, safety, and ethics. Brand and reputation are now invaluable assets. Companies rely on demand for their products or services, but they also need to maintain a broad mandate to operate.

The changing world of work is having an effect well beyond the internal organisation of existing firms. Self-employment is now increasingly important across the world (though some countries are seeing decreasing numbers of self-employed people due to declines in the agricultural sector). Many of those making the most of self-employment are women.<sup>26</sup> Self-employment offers the flexibility of more control over time, there are fewer<sup>27</sup> institutionalised prejudices to overcome (the so-called “glass ceiling”), and it can often be financed from the savings of a couple with two incomes (or family and friends), possibly supplemented with a bank loan given under an equal opportunity credit act. Women entrepreneurs are proving highly successful. According to the National Federation of Women Business Owners (NFWBO), in 1999 there were over 9 million women-owned US businesses (38% of all firms), each employing an average of around three people and accounting collectively for total sales of \$3.6 trillion. In 1996, there were over a million businesses owned by women of colour – 13% of all women-owned firms. Globally, women typically comprise a quarter to a third of business owners.

Women-owned businesses also have a growing global presence. In 1998, the NFWBO, backed by IBM, conducted studies among women’s business associations in several countries.<sup>28</sup> Although not exhaustive, these snapshots provide important evidence of the level at which women’s businesses are exporting or importing goods and services in the global marketplace, from a “low” in the United States of 13% (where, of

course, the internal market is large) up to 38% in Ireland.<sup>29</sup> The research further found that women involved in international trade have significantly higher revenues than those confining themselves to domestic markets. For example, in Mexico, 11% of women trading internationally had revenues over \$500 000 compared with 1% of those exclusively operating in the domestic market. American, Canadian and Mexican women entrepreneurs were also more optimistic if involved in international trade, and Brazilian, Canadian and Irish women with a global business outlook were also more growth-oriented.<sup>30</sup>

Additionally, although women (and other marginalised groups) tend to have more trouble securing credit, they are often seen as being more reliable than their male counterparts. The Grameen Bank, for example, concentrates its lending on women – who make up 94% of its clientele.<sup>31</sup> Another gender gap, the technological one, is already fast disappearing. According to Reuters, women now comprise around half of all internet users in the United States.<sup>32</sup>

### ***Small business***

Whoever owns them, small businesses are essential to the success of any economy. Rates of independent entrepreneurship are not constant across countries, however. OECD figures show marked differences in business birthrates between countries with roughly comparable levels of income. In the United States, the stock of small businesses increased by 4.4% per year between 1984 and 1991. In Canada, the figure was 2.8%. In the United Kingdom and Denmark, however – although over slightly different time periods, 1984-89 and 1987-91 – the annual figures were only 0.7% and 0.6% (OECD, 1994). Attitudes to entrepreneurs also vary greatly from country to country. In Japan, for example, only 8% of the population believes that starting a business is a respected occupation, compared to 38% in the United Kingdom and 86% in Canada.

The Global Entrepreneurship Monitor (GEM)<sup>33</sup> – an initiative bringing together some of the world's leading academics to study the relationship between entrepreneurship and economic growth – recently classified ten countries according to their entrepreneurial activity. Italy and the United Kingdom are judged to have a “medium” level of entrepreneurial activity and sit slightly above a “low” entrepreneurial cluster of Denmark, Finland, France, Germany and Japan. Both groups are rated well below a group of high achievers, the United States, Canada and Israel. It has calculated that these variations could account for as much as 36% of the difference in the speeds at which these economies have been growing.

Entrepreneurship has an interesting relationship to risk (and its avoidance), as well as to the tension – present in both the industrial and knowledge revolutions – between individualism and collectivism. So, for example, in one classic index (Hofstede, 1980), the North American component of the highly entrepreneurial

group above scores well on individualism, with the United States at 96 and Canada at 80. Israel, however, scores only 54. The low entrepreneurial cluster lag somewhat, with Denmark at 74, Finland at 63, France at 71, Germany (West) at 67 and Japan at 46. The medium-level United Kingdom scores well at 89, while Italy rates at 76. All of these countries, however, rate highly on individualism relative to others (*e.g.* West Africa, 20; Thailand, 29; Peru, 16; and Guatemala, 6). Clearly several factors are at work, of which one of the most important is culture. (Culture changes slowly, and although the individualism data cited above, from 1980, are a generation out of date, a recent replication broadly supported these findings.<sup>34</sup>)

Recently, management thinker John Kay has described entrepreneurship as “a disciplined form of pluralism”, in that it is a process that offers people the freedom to make their ideas concrete within the constraints of an existing social structure (which will rein them in, economically, if those ideas are unsuccessful). Entrepreneurship, in other words, is an expression of human capital – but has in-built constraints, too. The extent to which people are prepared to enter into this process reflects their sense of independence, their power to affect change, and their confidence in the future. The ability of society to support entrepreneurial activities is thus a measure of its ability to harness the energy of its citizens.

The importance of entrepreneurship is not confined to new businesses. Big businesses see “intrapreneurs” (*i.e.* those expressing an entrepreneurial attitude within a larger organisation) as a frontline defence against nimble new entrants, while it is social entrepreneurs (*i.e.* those whose entrepreneurial efforts are primarily directed to social ends) rather than bureaucrats who are the engines behind efforts to renew social structures and institutions. Nor is entrepreneurship confined to a small number of high-growth companies in exciting new sectors. The majority of small businesses are very small and these “micro-businesses” form a vital route into the labour market for large numbers of people. Enterprise is a vital tool for achieving economic regeneration, providing employment, encouraging people to develop new skills, and helping strengthen social structures (see for instance HM Treasury, 1999).

The success of the small businesses is even more important to developing countries. In El Salvador, micro-enterprises were thought to account for more than a quarter of GDP in 1996 and 31% of employment. Three-quarters of these enterprises are urban, many employing people on the fringe of the labour force (with women running about 65% of them). However, most of these businesses provide only inadequately for their owners. Seventy per cent provide less income than is needed to cover subsistence costs, while less than 5% are producing sufficient revenue for investment and growth. Skills are in short supply. Twenty-three per cent of owner managers have no schooling and 11% are illiterate. Credit is also hard to find. Across Latin America, less than 5% of small businesses receive any credit from the

banking system, even though the sector probably contributes a fifth of the region's GDP.<sup>35</sup>

Improving the quality of small businesses will be vital to achieving sustained rates of economic growth, as well as having a major impact on poverty, inequality, and the prospects of disadvantaged groups, such as women. The public sector, which is chiefly tasked with providing small business support, provides several examples of innovation in the sector.<sup>36</sup> Nevertheless, the public sector – and, in developing countries, the NGO sector – have yet to become renowned for their entrepreneurial energy or understanding. There are clearly interesting opportunities to spread best practice from within the private sector to these other, highly influential, sectors.

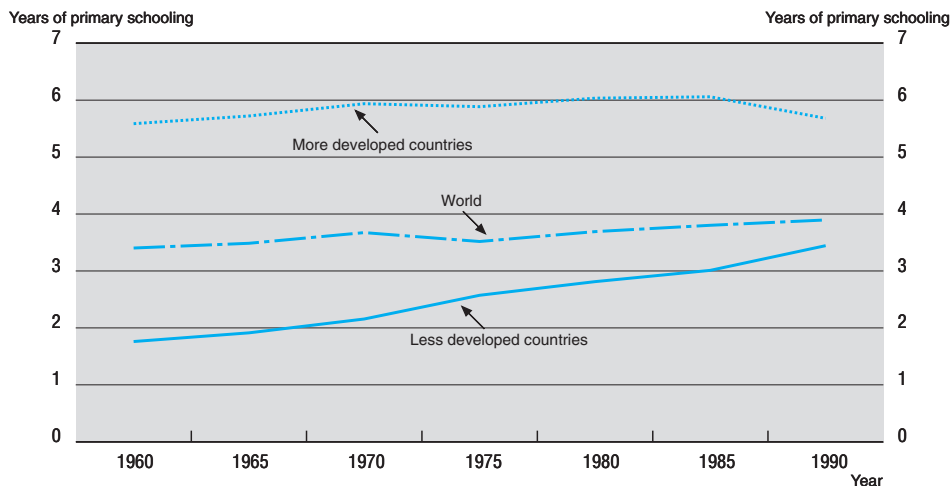
### ***Educated people***

Developing human capital requires investments in two principal areas: education and health. Investment in education offers substantial and, quite possibly, increasing returns. According to the Inter-American Development Bank Annual Report, 1998-1999, a Latin American worker with six years of education (*i.e.* primary) will earn 50% more than someone who has not attended school. This gap rises to 120% for those with twelve years of education (*i.e.* secondary) and exceeds 200% for those with seventeen years of education (*i.e.* tertiary). While these benefits are mainly “private”, education also confers public benefits, with better-trained workers adding to rising tax streams, becoming more effective entrepreneurs, and adding value to their society in a number of intangible ways. East Asia, for example, invested heavily in education at a time when the demographic transition meant it had many children to educate. This investment contributed substantially to the region's economic “miracle”.

Figures 18-20 lay out the quantity of education received globally, in more and in less developed countries. The UNDP's *Human Development Report's* Education Index (on a scale of 0-1) shows a huge disparity between the industrialised nations, at 0.97, and the developing world, at 0.67 – with the least developed countries lagging at 0.46, less than half that of the richer countries. There is some cheer in the progress made by poorer countries over the last thirty years at the primary level. However, the gap between the education-rich and education-poor remains wide at the secondary level, even though there are upward trends.

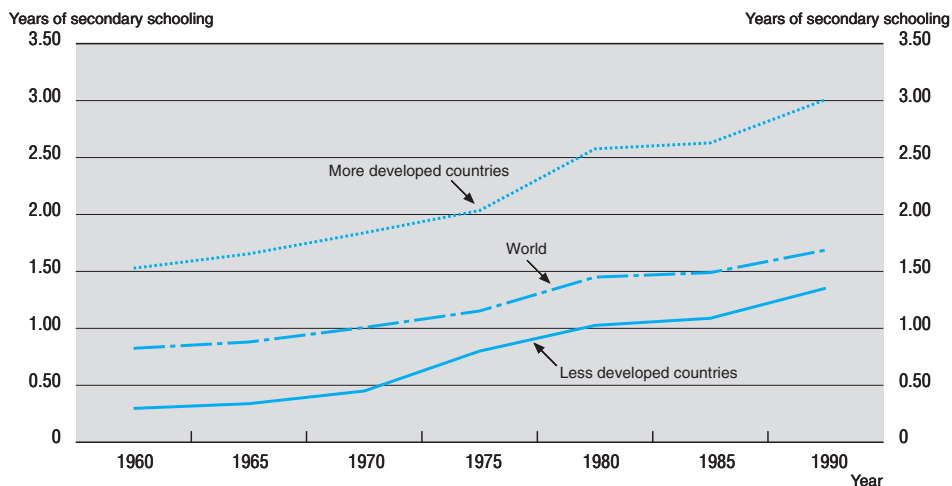
The real concern, however, is higher education. Here, richer countries are continuing to expand access, having taken to heart the idea that higher education will be to the knowledge society what secondary education was to industrial economies (and what primary education was to agrarian economies). Developing countries are being left behind, increasing the likelihood that “knowledge poverty” will depress the pace of their development. It is interesting to note that secondary education

Figure 18. Primary schooling for population aged 15 and up



Source: UN Population Prospects 1950-2050, The 1998 Revision.

Figure 19. Secondary schooling for population aged 15 and up



Source: UN Population Prospects 1950-2050, The 1998 Revision.

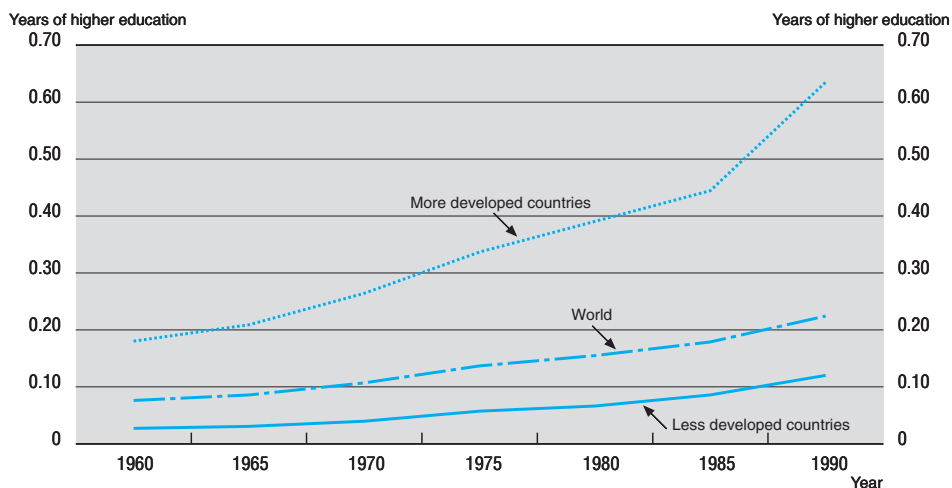
tends to be more highly correlated with economic growth than primary education. In the future, the correlation will probably be strongest with higher education, not secondary – a supposition reflected by the OECD (1997), which has recently given a greater emphasis to higher education in its educational indicators.

Improving access to higher education in developing countries will not be easy. Many donors, and some governments, still consider higher education a “luxury”, especially when compared to other development priorities. Traditional economic analyses have not helped. By measuring returns on educational investment *only* in terms of income improvements, economists have missed the critical impact that higher education has on a modern society. All countries need higher education, not only to provide increasing numbers of students with highly specialised skills, but also to train generalists with the flexibility to innovate in a fast-changing world. Higher education institutions are vital nodes in the new economy, helping generate, select and absorb knowledge and to disseminate ideas and solutions into society. A further compelling reason for countries to invest in higher education lies in the world's increasing complexity. As rafts of international legislation and multilateral agreements emerge, for example, each country will need a cadre of highly intelligent, educated and trained people to look after their nation's interests.

Higher education systems in developing countries are under great strain. Although not expanding as fast as in the developed world, many are coping poorly with increased demand. Fifty per cent of all higher education students are now in developing countries. In Latin America, for example, Argentina, Brazil and Mexico each have an enrolment of 1-2 million students in tertiary education, while “mega-universities” like the National University of Mexico and the University of Buenos Aires each have over 200 000 students.

According to *Higher Education in Developing Countries: Peril and Promise* (World Bank, 2000), an important remedial step is “planned diversification”. Higher education systems should become increasingly differentiated – both vertically, as new players (especially from the private sector) enter the market, and horizontally, as new institutions, programmes and courses develop (in particular, distance learning). However, this diversification should not proceed in a chaotic fashion, as currently happens in many countries – not least because the quality of the education received, which is the central point of tertiary education, can be compromised. Effective debate is needed at the national level to set priorities for the system as a whole. These objectives should then be fulfilled through supervision (but not management) at a systemic level, allowing institutions to play to their strengths and serve different needs; compete for funding, faculty, and students; and innovate to take advantage of the opportunities offered by communications technology.

Figure 20. Higher education for population aged 15 and up



Source: UN Population Prospects 1950-2050, The 1998 Revision.

Higher education is likely to prove to be the latest in a number of industries dramatically transformed by the knowledge revolution. Distance learning has seen enormous expansion in the last ten years, with the five largest programmes (all in developing countries) established since 1978. With an aggregate enrolment of some two million students in 1997, they collectively account for about a tenth of all enrolment growth in developing countries over the past twenty years. New satellite- and internet-based technologies will increasingly transform higher education, and help underpin the growing emphasis on lifelong learning. New entrants have the opportunity to change radically the way that students learn, while exploiting new economies of scale. These institutions will bring renewed competition to the sector, as students enrol across borders without the need to leave their home country.

### Healthy people

Good health is also essential to creating – and maintaining – human capital, and is an especially important challenge to developing countries. Healthy workers are physically more energetic and mentally more robust, and take less time off due to ill health. In turn, their productivity makes companies more profitable, and a healthy workforce is an important way to attract foreign direct investment. (A survey of executives, for example, showed that some already see HIV/AIDS as a reason not to invest in South Africa.<sup>37</sup>) Healthy children miss less school and learn faster when

they do attend. Healthy adults, meanwhile, are likely to save more, both because they expect to enjoy a long retirement and because they have not run down their reserves during bouts of serious illness.

These macroeconomic effects are surprisingly strong. If two countries are compared, identical in all respects except that one has a five-year advantage in life expectancy, real income per capita in the healthier country will grow 0.3-0.5% faster than in its less healthy counterpart. This added spurt of growth is far from trivial, given that countries experienced an average per capita income growth of only 2% per year between 1965 and 1990. Such gains in life expectancy are also in reach of most developing countries, with world life expectancy increasing by around twenty years since 1950 (Bloom and Canning, 2000; WHO, 1999).

Developing countries have seen remarkable improvements in health in recent years. Global public health efforts have seen family planning spread across the world and childhood vaccination shoot up from 5% of the world's children in 1970 to over 80% today. However, there are serious threats. Malaria, far from ceasing to be a menace as the WHO suggested in the late sixties, continues to boost mortality rates, hitting young children particularly hard. Meanwhile the scourge of consumption (TB), which had become almost a historical memory in the West, is also rising fast. The most significant problem, however, is HIV/AIDS. Ninety-five per cent of HIV+ people live in developing countries, with life expectancy in sub-Saharan Africa now falling – reversing the development gains of the past twenty years. Fifty-six per cent of the region's population is not expected to reach 60, compared to 28% for developing countries as a whole. The effects on the global economy are likely to be substantial. Eighty per cent of those infected die in their 20s, 30s or 40s. They are today's workforce, market and parents.<sup>38</sup>

The health concerns of rich countries are somewhat different, as they fight chronic diseases (such as heart disease and cancer) that are enormously expensive to treat. Many health systems are struggling to cope with what seems to be unlimited demand, a situation that will worsen as the population ages. As with pensions, rising demand is forcing governments to explore ways of transferring more responsibility to individuals. Again, this is not just a financial process. It can mean using increased participation as a tool to manage demand. Many countries have experimented with citizens' juries<sup>39</sup> to make decisions about what treatments should be funded by the state when resources are limited, while the United Kingdom has launched a telephone-based health service, NHS *Direct*, which aims to create the "informed health consumer", less likely to make unnecessary trips to their hospital or general practitioner. The service is already receiving 100 000 calls a month and an NHS Direct website has just been launched, in response to research showing that health (after sex) is the most popular subject for searching on the internet.<sup>40</sup>



### **Happy people**

The security conferred by health, the opportunities provided by education and other sources of human capital have important economic benefits. A serious approach to human development requires policy makers to see economic growth as only one element of building richer societies. The Human Development Index (HDI), developed by the United Nations Development Programme (UNDP), reflects this. It measures health, education, and income to produce an indicator reflecting achievements in “the most basic human capabilities – leading a long life, being knowledgeable and enjoying a decent standard of living” (UNDP, 1999).

Interest in measuring people’s quality of life (QOL) has risen in opposition to the tendency to use crude economic indicators as if they reflect the sum of social progress. Quality of life measurement began in the United States in the 1960s, when the National Aeronautics and Space Administration (NASA) tried to measure the effects of the space programme on American feelings of well-being.<sup>41</sup> The “social indicators movement” was explicitly concerned with correcting the assumption that social progress and economic growth were synonymous. Traditionally, economists have used income as a proxy for well-being, but Sen argues that it performs this job poorly: “if we are really to know much about the ‘thriving’ of... citizens, we need to know not only about the money they do or do not have, but a great deal about how they are able to conduct their lives” (Nussbaum and Sen, 1993; Sen, 1999).

The measurement of quality of life is fraught with difficulties (Bloom, Craig and Malaney, forthcoming). QOL indicators can take many forms. First, indicators can be simple or complex. In theory, simple indicators are easy to collect and allow comparisons across time and groups. Simple indicators may simplify, however, while complex indicators, if they can be collected, do not easily yield comparisons.<sup>42</sup> Second, the criteria measured can be determined objectively by researchers, or subjectively by those being researched. Again researchers face a dilemma: if they select what is measured, comparison is made easier, but it may be the researcher’s value system that is being measured. If stakeholders are allowed to decide what is important to their quality of life, comparison across groups, or even between individuals, becomes impossible. Third, measures can be quantitative or qualitative. Quantitative measures either use a proxy or try to measure happiness directly (Erasmus University’s World Database of Happiness provides a Catalogue of Happiness in Nations and a Catalogue of Happiness Correlates, as well as a Directory of Happiness Investigators.) Qualitative techniques assume that QOL cannot be quantified satisfactorily, but that useful results will emerge by listening to what people have to say about what they feel and aspire to. Fourth, the scale on which quality of life is measured is important. QOL measurements may be taken for individuals, for a society as a whole, or for groups within that society. Indeed, for those working in developing countries, QOL indicators have been welcomed to disaggregate the well-being of groups within society, especially poor people and women.

Different ways of measuring QOL reflect, in part, practicalities, but they also reveal significant philosophical differences. Measuring QOL *outcomes*, for example, tends to reflect egalitarian beliefs. Ravi Kanbur, for example, imagines two players gambling for a cake and argues that some of the cake should be given to the loser after the game, as “individuals may not fully appreciate the consequences of their actions... tomorrow’s hunger cannot be felt today”. This position is anathema to those who argue for the importance of *opportunity*. Milton Friedman, for example, argues that the “resultant inequality of income is surely required to permit the individuals in question to make the most of their initial equity”. For Friedman, the whole point of Kanbur’s game is destroyed if the results are changed after the event. Finally, a focus on the *freedom* to participate is possible. Sen agrees with Friedman that the opportunity to play the game is more important than the outcome, but he argues that many people are denied the opportunity to participate. Their lack of agency inhibits both their ability to promote change and to determine what the goals of change should be.

### ***Intelligent agents***

Sen’s concentration on freedom reflects the insight that human development – and investment in human capital – aim to help increase the independence of people.<sup>43</sup> On its own, however, a focus on individual rights and freedoms is inadequate, for the individual cannot be considered in isolation. The links between people – the strength or weakness of social capital – have a critical impact on a society’s prospects. Markets, for example, are a forum for individual economic expression, but they are rule-bound, reliant on a complex system of social norms. A legitimate and sustainable system of “social capitalism” must simultaneously take advantage of the market mechanism and institutionalise mechanisms for promoting public interests that markets cannot. This includes allowing challenges to inflexible social and economic structures, while also ensuring that individualistic attitudes do not prevent the formation of new, relevant and rewarding social and economic forms.

## **4. The social perspective**

### ***Origins of social capital***

There is some dispute as to when the term “social capital” first emerged, though the current leading contender appears to be Lyda Hanifan, in 1916.<sup>44</sup> Social capital has many sources. The most important is undoubtedly the family, with communities, civil society, the public sector, business, and various networks and associations all playing a role in a complex, and dynamic, mosaic.<sup>45</sup> As a term, however, social capital has only recently begun to be taken seriously by economists and policy makers. Writers like Robert Putnam (1993) and Everett Ladd (1993) have

explored in detail why some democracies work and others do not. They argue that social capital is a critical influence, operating through the power of association, trust and co-operation.<sup>46</sup>

More recently, Francis Fukuyama (1999) has explored what he describes as a “great disruption” across many rich countries, caused by declining levels of social capital and rising levels of individualism. He points to rising crime rates and declining levels of trust in institutions as the clearest signs of this disruption. The WHO estimates the global annual cost of injuries from violence at some \$500 billion, while Russia, which has seen a collapse in its social capital, has 1 539 people<sup>47</sup> in prison for every 100 000 of its population (the figure in the United States, commonly thought to have a high prison population, is only 645<sup>48</sup>).

Falling levels of political participation, meanwhile, are having a direct impact on democracy. In the United States, 61% of those who said they trusted politicians had voted in the previous general election, compared to only 25% of those who expressed low levels of trust. In Western Europe, a poll showed that in 1990 confidence was declining in governments and institutions in six countries, stable but low in four more, and rising only in Denmark (Giddens, 1998). Cynicism about politicians’ financial probity is even stronger in less developed countries, as can be seen in evidence from the Global Competitiveness Indicators. On a scale from 1, “strongly disagreeing” that public trust in the financial honesty of politicians is very high, to 7 (“strongly agreeing”), the global mean is weakly negative at 3.31, but more strongly negative in less developed countries at 2.73. Several countries, including Russia (1.71), the Ukraine (1.64), Bolivia (1.6), Venezuela (1.52), Korea (2.1) and Zimbabwe (1.83) show particularly low levels of confidence. Conversely, the weak positive of Chile (4.01) exceeds that of its *alma mater* Spain (3.89).

### **A tale of two revolutions**

The power of social capital is seen in the progress made by countries since the “fall of communism”. This was both a triumph and an embarrassment to the democratic world. Initially pundits looked forward to a “new world order”, but the transformation of the former communist countries to the market economy has been traumatic – and the new order is yet to emerge. The World Bank, ironically, now holds up China as a model, contrasting its “cautious and measured road to market reform, starting with agriculture and small and medium enterprises, versus Russia’s rush into liberalization”. Yet it notes that China, the other great revolutionary country of the 20th century, has now achieved “perhaps the most spectacular poverty reduction in the history of the world”.

Russia’s fate is a challenge to supporters of human development, as much as to purist free marketers. Russia’s people were relatively well educated and healthy as they started to build a liberal democracy, but a lack of social capital was enough to

negate this advantage. Economic and human development indicators have fallen fast following Russia's transition to a market economy. The importance of social capital is dramatically shown through its link to health in Russia. Russians are dying younger and rapidly sinking into poverty. Life expectancy has fallen from 70 in 1989 to 64 in 1995, representing at least 1.3 million extra deaths. The crisis has hit men especially hard, whose life expectancy is now only 57.6 years, 13.6 years less than women's. Most of the extra deaths are concentrated among middle-aged men, due to cardio-vascular disease, accidents, injuries, poisoning, homicide and suicide. The demographic transition is not going into reverse, however, as fertility is sinking even faster (now down to 1.2 live births per woman). High mortality/low fertility is a totally new model, showing a refusal to participate in the most fundamental human and social impulse, having children. A key factor in Russia's modern tragedy is alcohol – life expectancies rose in the brief period when Gorbachev restricted sales – although a deteriorating diet and increased smoking also contribute. Pollution may also be a factor, while the deteriorating medical system has exacerbated the crisis.

Bruce Kennedy, Ichiro Kawachi and Elizabeth Brainard have described the very low levels of confidence in civic structures prevalent among many Russians. They show that levels of trust in *local* government can account for 14% of the variation in total male mortality among Russian regions, with disinterest in politics and lack of voting participation also strongly associated with male mortality. Crime and conflict at work (chosen as factors showing lack of social cohesion) are further predictors of mortality. Interestingly, these local factors were much more important than regional or national ones. Trust in regional government only had a weak effect on mortality, while trust in national government was not significant (Kennedy, Kawachi and Brainerd, 1998). Russian social capital seems to be concentrated in extremely informal networks, with two-thirds of Russians saying they have a friend who would lend them as much as a week's wages if their household was short of money. Unfortunately, this leaves the socially isolated exceptionally vulnerable. Quite simply: "those who have access to social capital get ahead; those who do not get sick and die".

### **Group versus individual?**

The idea of a "great disruption" in social capital, and that individualistic attitudes can differ from the needs of a community, does not imply that individual freedom is undesirable and a particular set of collective values should be reimposed. The long-standing tension is between individuals and organisations, rights and responsibilities. So while individuals have a series of freedoms and opportunities (often hard won), they also have a responsibility to the groups in which they participate. Organisations, meanwhile, exchange a mandate to operate for responsibilities to those who grant that mandate, whether customers, shareholders, taxpayers or voters. Achieving an effective and workable balance is essential, not least

because responsibilities are an effective way to co-ordinate complex behaviours among large groups of interdependent individuals.

Democracy, for example, relies on individual participation and has disrupted many traditional social structures. Some have argued that it should be limited, an opinion strongly associated with Singapore's former Prime Minister Lee Kwan Yew. He argued that so-called "Asian values", with an emphasis on responsibilities rather than individual rights, were fundamental to East Asian growth. However, a long tradition of libertarian thinkers – once again, many dating from the time of the first industrial revolution – has argued that an individual has sovereignty over him- or herself. Furthermore, many staked their "lives, fortunes, and sacred honour" on stating their independence from governmental "tyranny".<sup>49</sup> A generation later, John Stuart Mill rejected the encroachment of society and tradition, arguing that "Human nature is not a machine to be built after a model, and set to do exactly the work prescribed for it, but a tree, which requires to grow and develop itself on all sides, according to the tendency of the inward forces which make it a living thing".<sup>50</sup>

Many educationalists have worked firmly in this tradition and education has often been a disruptive force, especially at times when access is expanding rapidly. In Southern Italy, for example, many children were leaving school around the age of 12 and therefore receiving all their education within the small town in which they were born. Now that the compulsory school-leaving age has been raised, students are bussed to secondary schools in larger towns, representing a decisive challenge to fixed communities. Similarly, the expansion of higher education in the United States in the 1960s was associated with rising student activism and the rejection of social norms. Indeed, the very notion of academic freedom champions the right of the individual over the community, as seen in this definition of academic freedom quoted by the Task Force on Higher Education and Society (World Bank, 2000): "the right of scholars to pursue their research, to teach, and to publish without control or restraint from the institutions that employ them".

Social structures can also act against the social mobility that is essential to a modern society. While loose networks may facilitate mobility and engender trust across a society, tighter groups may do the opposite. Societies with especially strong families may see low trust levels at a community level, for example, while members of fundamentalist religious groups tend to have low levels of trust for other members of society. Carol Graham and Stefano Pettinato<sup>51</sup> suggest upwardly mobile people are less likely than average to belong to neighbourhood or other civil associations. Their individualism is contrasted with the less mobile, who rely heavily on civic associations. In this case, group membership lessens levels of risk, but decreases opportunity. The role of these groups is to "strengthen strong ties – kinship and other close relations – as a coping mechanism that compensates for the absence of ties beyond the neighborhood that can result in new jobs or public goods". In extreme cases, this kind of group can act as a poverty trap.

### *On the margins*

Exclusion is one of the greatest threats to a global economic system that should be based on opportunity and merit. Many of the world's people are currently being left behind by technological progress. According to British Telecom, half the world's people have never made a telephone call, while the example of Albania, Europe's poorest country, shows dramatic exclusion. In 1996, foreigners and foreign companies made nearly 19 000 patent applications in Albania. Only one was made by an Albanian (World Bank, 1999).

Mansoor Murshed<sup>52</sup> argues that there is now direct evidence that the deleterious side-effects of globalisation undermine its overall prospects. "Unlike in the past", he writes, "it is now widely believed that income inequality actually hampers growth prospects". Costs include those of internal conflict, which discourage investment. One high-profile example is soccer's World Cup. South Africa would be the unassailable favourite to host the 2006 competition but for fears about its crime rate. Should it lose out to one of the other bidders – the United Kingdom and Germany – it will miss out on an event that is not only lucrative, but also enormously prestigious.

Income inequality between and within societies is clearly present and, in many cases, seems to be growing. In Mongolia, the poorest fifth share only 7.3% of the country's income, while the richest fifth take 40.9%. The United States is even more unequal, with the poorest fifth sharing 4.8%, against 45.2% for the richest (World Bank, 1999). These figures serve only as a proxy for the real costs borne by the "have-nots", not all of which are susceptible to economic representation.

Two hundred and twenty-five years after Thomas Paine published "African Slavery in America", it is shocking to read that there are up to 30 million slaves in the world today. Slavery is the exact antithesis of mobility, and according to the Index on Censorship, over 27 million people work for no pay as bonded labourers, domestics or sex slaves, solely to escape violence:

To help us see who really is a slave we need to remember that there is an irreducible core to slavery: violence. The control of one person by another through violence (or its threat) is the constant attribute of slavery throughout history. Couple that with an economic exploitation in which someone is paid nothing and you have a good working definition of the new slavery that encompasses about 27 million people around the world...

It costs about US\$2 000 to enslave a young woman into a brothel in Thailand. Once there she will generate as much as US\$75 000 profit each year. She won't be able to keep that up for more than four or five years since HIV is widespread among the men who use her. But the purchase price is low, the profits high and she can be easily replaced if she is ill, injured or just troublesome. Today's slaves are disposable.

At US\$2 000 the young woman in a Thai brothel is one of the world's more costly slaves. People, especially children, can be enslaved today for as little as US\$45. The 11-year-old boy I met in India six weeks ago had been placed in bondage by his parents in exchange for about US\$35.<sup>53</sup>

The new slavery is based on high margins and low costs of ownership: in 1850, the average agricultural slave in Alabama cost around \$40 000 at today's prices. The equivalent slave today can be bought for \$1 000. To quote William Cowper, "Freedom has a thousand charms to show that slaves, howe'er contented, never know".

### ***Social mobility***

Many developed countries have recently seen a shift in focus from welfare politics to policies intended to tackle social exclusion. Expanding choice and increasing opportunity are crucially important. Workers are often seen as bearing the bulk of the costs associated with labour flexibility, while employers are seen as reaping the principal benefits. Flexibility can, however, operate in a more reciprocal way. Here, labour has a responsibility to be flexible to maximise economic opportunities, for which it enjoys a larger share of the accruing benefits. Without this happening, and being seen to happen, there is little reason for people to work in ways that seem more risky. Within this context, well-constructed cushions for the economically vulnerable can actually increase flexibility – they decrease the scale of risk experienced by the wider population and thereby encourage bold and future-oriented action.

Safety nets may encourage risk-taking. There are many mechanisms that can be devised to protect the vulnerable. These range from unemployment insurance, providing income security to be used to finance periods of productive search, to retraining programmes, enabling workers to acquire the new skills they need to adapt to changing work opportunities. Unlike strengthening basic education, whose beneficial impact on labour productivity is enjoyed after a long lag, retraining programmes confer their benefits with far more immediacy. Recent research by National Bureau of Economic Research (NBER) scholars (Blank, 1994) shows that there is no hard evidence in developed countries of an actual (as opposed to hypothetical) trade-off between social protection and labour market flexibility or economic performance. In other words, people's need for security (often threatened by globalisation) can be managed without diminishing profitability. This work explores whether the higher unemployment and slower economic growth rates in western Europe compared with the United States since the late 1980s can be accounted for by cross-country differences in social protection legislation and programmes. Based on eleven studies, the NBER research shows that social programmes do lead to behavioural change, but that these do not account for net declines in the quality of labour market outcomes. In countries with social protection legislation that makes it difficult or costly to lay off workers, for example, labour market responses

to macroeconomic shocks tend to take the form of reductions in hours, rather than job loss. In other words, adjustment successfully takes place – but is spread over a larger pool of workers.

### ***Women and changing communities***

The potential for clashes between individuals and social structures provides a powerful argument for a continual process of social renewal, whereby institutions are constantly being rebuilt to better meet people's changing needs. The importance of this process can be seen when the changing role of women is considered. The increase in women's rights has had consequences for:

- *Individual freedom.* The status of women continues to improve dramatically in most countries, and reversals to this freedom seem inconceivable in the developed world – and unlikely in many developing world countries (the Afghanistans of this world notwithstanding). Indeed, women are likely to be a driving force for development in most countries, as recognised by the priority given to female education by most development organisations and some developing country governments.
- *Economy.* Women now make up 43% of the workforce in high-income countries (up 5% on 1980) and 39% in low- and middle-income countries (up from 1% on 1980). Female labour force participation is associated with lower fertility, which decreases the dependency ratio and has a significant impact on prospects for economic growth. Women have been easily assimilated into the workforce for a number of reasons. Women have: been prepared (though not happy) to work for lower wages than men; been willing to take on part-time, temporary and casual jobs, increasing labour market flexibility; tended to have skills suitable for jobs in the service industry and have become increasingly highly educated, catching up with men in the educational system in many countries. In addition, working mothers have less time for unpaid work in the family, increasing demand for services, and spend less time with their children.<sup>54</sup> The nature of women's paid labour is also becoming more demanding, which provides an additional stress.<sup>55</sup>

However, these changes have also had a (mostly negative) impact on social structures, especially the family. Rising levels of income have allowed women to seek divorce more easily and to raise children on their own. (Many men have been more than willing to take the opportunity to absent themselves from childcare.) Additionally, women tend to be the principal resource of carers in communities. Women therefore face a double and sometimes *triple* burden of work, adding considerable hours of unpaid domestic (and sometimes carer) labour to the demands of a paid job. In one study (cited in UNDP, 1999) in Bangladesh, women in the formal sector were working more than twenty hours' paid and unpaid work each week more



than men. Family breakdown has also had an impact on children. It is a significant cause of poverty and is also a predictor of lower educational achievement. Children’s loss of security is most dramatically illustrated through increases in their vulnerability to child abuse. A study in the United Kingdom found that a child living with natural parents is half as likely to suffer sexual abuse as the average child, while one living with a stepfather is 2.8 to 5 times more likely (Whelan, 1994).

It is impossible – and undesirable – to return to the “traditional family” in most parts of the world. But this does not mean countries can do without the advantages that strong families bring. A process of social renewal is needed to reinvent the family, satisfying the needs of children, women, and men (Figure 21).

Figure 21. **Two centuries, two revolutions**

1775	African Slavery in America (Thomas Paine)
1776	An Inquiry into the Nature and Causes of the Wealth of Nations (Adam Smith) American Declaration of Independence
1777	The State of Prisons (John Howard)
1790	First United States census began
1792	The Rights of Man (Thomas Paine)
1793	Vindication of the Rights of Women (Mary Wollstonecraft)
1798	Essay on the Principle of Population (Thomas Malthus)
1799	Travels into the Interior Districts of Africa (Mungo Park)
1975	First microcomputer
1981	IBM PC
1984	Internet domain names
1989	Microsoft Windows
1991	Tim Berners-Lee at CERN donates the World Wide Web to the world America Online (AOL) starts up
1996	Ted Turner donates \$1 billion to the UN
1997	America Online buys Netscape for \$4.2 billion
1998	First cyberwar accompanies real war between Serbia and Kosovo
1999	275 million online Bill and Melinda Gates Foundation donates \$1 billion for ethnic minority scholarships and \$750 million for vaccines for children in developing countries
2000	AOL and Time Warner \$160 billion merger bid Bill and Melinda Gates Foundation grows by \$5 billion to \$21.8 billion

Sources: A Sociology Timeline from 1600 ([www.ac.wvu.edu/~stephan/timeline.html](http://www.ac.wvu.edu/~stephan/timeline.html));  
Milestones in Computer Development ([www.usouthal.edu/usa/cis/faculty/daigle/project1/timeline.htm](http://www.usouthal.edu/usa/cis/faculty/daigle/project1/timeline.htm));  
Hobbes Internet Timeline v.5.0 ([www.isoc.org/guest/zakon/Internet/History/HIT.html](http://www.isoc.org/guest/zakon/Internet/History/HIT.html));  
Nua Internet Surveys: How many online? ([www.nua.ie/surveys/how\\_many\\_online/index.html](http://www.nua.ie/surveys/how_many_online/index.html)).

### *In whom do we trust?*

Falling levels of trust also create a need for social innovation and renewal. Lack of trust is usually presented as if it is the individual's fault, but in many modern societies declining levels of trust are a *rational* response from the public to their discovery that institutions serve them poorly. On an institutional level, the World Bank points out that successful corporations continually reinvent themselves, “continuously adapting their internal rules, centralizing some functions, decentralizing others, adding discretion where advantageous, and modifying the criteria for rewards when doing so is likely to improve performance”. Public sector organisations have not been relentlessly innovative to anything like the same extent and most countries struggle on with institutions that became outmoded and even counter-productive twenty years ago.

The problem of trust is thrown into sharp relief by controversies over the direction of scientific research. These controversies have serious social and economic consequences. BSE (“mad cow disease”) was the United Kingdom’s most expensive peacetime disaster and led to the collapse of the beef industry, which has in turn had a significant effect on British rural economies. The scale and nature of the problem was repeatedly denied by the government and by government scientists, though it appears that reservations about this line were expressed in private (the public enquiry has yet to report on the issue). Expert reaction to this and other scientific controversies has tended to assert that the public suffers from a deficit of knowledge. Education can therefore be used to ensure that, over time, public opinion converges with scientific orthodoxy. The “deficit model” does not provide a good explanation of the public understanding of science, however. The Wellcome Trust, for example, reports research into public attitudes toward cloning and finds that the more informed the public becomes about cloning research, the more concerned it becomes about the moral and philosophical complexities of scientific advances. (Indeed, the sophistication of the panel’s opinions as they developed surprised Wellcome.)<sup>56</sup>

According to Anthony Giddens, this way of thinking fits with the “essentially sceptical character of science”.<sup>57</sup> By refusing to accept expert advice passively, people accept that they must take decisions “in the context of conflicting and changeable scientific and technological information”. It also accords with the increasingly contextualised nature of knowledge production (as discussed above). As a result, Alan Irwin has identified three models governing the public’s relationship with scientific discourse:<sup>58</sup>

- First, the *enlightenment model* (dating from the 17th century), whereby science gains its legitimacy from the government or the crown; public understanding of science involves diffusion of knowledge from scientists to a narrow elite, with only “trickle down” to a wider public.

- Second, the *economic model* (dating from the late 20th century), by which science gains legitimacy from the industrial sector, and public ignorance is seen as a threat to technological progress. This economic imperative ensures that scientific knowledge is diffused more widely, though communication is essentially one-way, from science to the public.
- Third, the *democratic model* (not yet fully realised), where what Irwin refers to as “the public’s legitimate interest in science” is recognised. Under the enlightenment model, scientists dictate the research agenda. Under the economic model, funding is applied more strategically, with public and private funders attempting to manage the direction that research takes. In theory, the democratic model allows for two-way communication between the public and science, with the consumer influencing the direction of privately funded research and the taxpayer influencing the remit of government-funded science, through new consultative mechanisms (some of which, such as citizen’s juries, are already in use in a growing number of countries).

### **Positive deviancy**

The three scientific models are not exclusive. Rather, each successive model develops alongside the earlier one, but the direction is clearly towards wider diffusion, greater transparency (and accountability), and higher levels of public agency. This direction can be clearly seen in some of the uses to which new technologies – in particular the internet and mobile telephony – have been put. The online auction house Ebay ([www.ebay.com](http://www.ebay.com)), for example, facilitates these processes and trust in general by actively encouraging both buyers and sellers to comment on each other. With a few clicks of the mouse, any bidder or vendor can check the record of the other party. Several hundred positive recommendations of that party – usually with email addresses enabling any queries to be followed up – provide an effective proxy for “word of mouth”. The implications offered by these new technologies are profound. Indeed, Tim Berners-Lee, the inventor of the world wide web, saw his creation “as a powerful force for social change and individual creativity. He has never profited personally from the Web [but saw it as] a new way of thinking and a means to greater freedom and social growth than ever before possible.”<sup>59</sup>

Freeing the individual to facilitate socially is seen in the concept of the “positive deviant” elaborated by development NGO Save the Children. Fieldworkers in Thanh Hoa province in Vietnam, an area with high levels of child malnutrition, looked at families who were avoiding malnutrition despite having the same meagre resources as their neighbours. They found these families supplemented their diet with sweet-potato greens as well as shrimps and crabs from rice paddies, and fed their children at least three times a day, rather than the twice a day customary in the community. Although these food sources were freely available, they were generally

regarded as unsuitable for young children. These “positive deviants” had an extraordinary effect on the rest of the community once a mechanism was set up to diffuse their knowledge. Within two years, 80% of the children participating in the project were no longer malnourished.

The concept of positive deviancy can be applied:

- *Socially.* The late 20th century was distinguished by an explosion of new NGOs. In 1968, there were 577 NGOs affiliated to the UN; thirty years later this figure had reached 2 900.<sup>60</sup> This number represents only a tiny fraction of NGO activity, of course. In the developed world, for example, Canada has 78 000 registered charities and England and Wales over 180 000, while GuideStar<sup>61</sup> has a searchable database of over 120 000 US-based non-profit organisations. The developing world has also seen rapid growth. For example, government-registered NGOs in Nepal stood at 220 in 1990 and 1 210 in 1993, while in Tunisia the number shot up from 1 886 in 1988 to 5 186 in 1991. (This is often a response to an influx of international aid monies.) Many NGOs, especially those in South Asia, have also grown dramatically in size and reach.<sup>62</sup> This has often been helped by the emergence of global networks of NGOs, with considerable reach and effectiveness. The World Bank, for example, is working with the Bretton Woods Project (which co-ordinates a network of NGOs interested in the impact of World Bank and IMF financing on developing countries) to organise a global consultation exercise on its year 2000 World Development Report. At Seattle, meanwhile, a coalition of NGOs succeeded in appearing better co-ordinated and more focused than the world's governments.
- *Politically.* Democratic systems only maintain their legitimacy while they remain open and avoid what Richard Rose has described (1999) as “the circulation of rascals”. Government organisations need to find ways to harness positive deviants in order to demonstrate relevance and accountability. (One might almost think of “positive deviants” as what marketing people call “early adopters”.) Fukuyama advocates both action and inaction by government organisations – action where governments can create new forms of social order, inaction where the government would otherwise block individuals and communities from creating social order for themselves.
- *Economically.* According to Philip Evans and Thomas Wurster (2000), markets have traditionally relied on a trade-off between the “richness” and “reach” of information. Richness refers to the quality of the information, as defined by its “customisation” to each individual user, while reach means the number of people who share the information. Rich information could be shared with small numbers of people, and less rich information with large numbers of people. New knowledge-based industries, however, are eliminating this trade-off as

very large numbers of people exchange very rich information. The results are new economic networks, which (at least in theory) combine individual and group values, in what has been described as “the zone of entanglement of competition and co-operation”. Additionally, the new technology not only reduces barriers to entry, but also creates the possibility of new “microniche” markets for products and services, which in due course bring benefits (social, economic and communicative) to hitherto marginalised groups.

## 5. Conclusion: virtuous spirals

Globalisation is often seen as a flattening force, a threat to the culture and independence of other groups (whether a sovereign nation, an indigenous tribe, or a rural community in a prosperous country). It has been consistently portrayed as being mostly, if not exclusively, about money and the rights of unspecified businesses to make more of it at the expense of individuals and their societies. Diversity is threatened and, ultimately, destroyed.

Globalisation is not an impersonal force, however, and it cannot afford to destroy diversity. The knowledge economy is rooted in choice – not just choices made today, but also those that propelled families to have fewer children and deny the “dark” view of Reverend Malthus, that people were condemned by their base sexual passions to hover forever on the edge of misery and poverty.

Globalisation relies on openness. It relies on people and the rich return from investment in human capital. It also relies on those “positive deviants”, who are necessary to the ongoing process of building societies that serve the needs of their members (rather than the other way round).

We believe that globalisation will continue to increase the value of people. Human, economic, and social development will become ever more intricately intertwined (and essays like this one ever longer). Policy makers will choose between a partisan approach serving narrow interests or a much more diverse project, which addresses a range of issues “in the round”.

This diverse approach will never be the easiest to adopt. But the extra commitment will often bring unexpected results. The synergies between human, social, and economic development are powerful, and can create long-lasting virtuous spirals. It is, we think, only those societies that can lock themselves into these spirals that will experience long-lasting, positive, sustainable change.

Globalisation currently faces a storm of well-organised, grassroots protest. This protest is a natural response to global institutions that have lost connection to the people to whom they are accountable and who express very little vision of the social capitalism we propose. It is time to build – and communicate – a new vision.

## Notes

1. Ronnie Cummins, Director of Biodemocracy, [www.purefood.org](http://www.purefood.org).
2. Thomas Malthus, "An Essay on the Principle of Population, as it Affects the Future Improvement of Society with Remarks on the Speculations of Mr. Godwin, M. Condorcet, and Other Writers", 1798, London.
3. Malthus was fiercely criticised from the moment of publication, but he seems to have softened his position in later writings. Economist Michael Lipton, for example, argues that in his posthumous essay for the 1830 Encyclopedia Britannica, "Malthus anticipated modern demography by showing how, with education and sanitation, the poor can after all retain the benefits from appropriate 'schemes of improvement' by choosing to have smaller families". "Doomsters: Misrepresented Malthus Exorcised His Demon", Letter, *Financial Times*, 11 February 2000.
4. United Nations Press Release, SG/SM/7059, Pop 735, 6 July 1999, "Secretary-General stresses need to use natural resources more wisely and to stabilize world population". The UN declared the Day of Six Billion on 12 October 1999, and "Baby 6 Billion" was "a beautiful boy", born in Sarajevo ([www.unfpa.org/modules/6billion/pages/sg.htm](http://www.unfpa.org/modules/6billion/pages/sg.htm)).
5. *uk@earth.people: Poverty and the Environment*, 1997, Department for International Development, London.
6. See Peter Schwartz, Eamonn Kelly and Nicole Boyer, "The Emerging Global Knowledge Economy" in *The Future of the Global Economy – Towards a Long Boom?*, OECD, 1999. The authors express an important reservation about knowledge's seemingly magical qualities, however, quoting Nobel Prize-winning economist Herbert Simon: "what information consumes is rather obvious: it consumes the attention of the recipient. Hence a wealth of information causes a poverty of attention". Paul Romer, meanwhile, observes that: "The same characteristic that makes an idea so valuable – everybody can use it at the same time – also means that it is hard to earn an appropriate rate of return on investments in ideas. The many people who benefit from a new idea can too easily free-ride on the efforts of others". See "Economic Growth" in *The Fortune Encyclopedia of Economics*, David R. Henderson (ed.), New York: Time Warner Books, 1993. This article is available at [www.stanford.edu/~promer/Econgro.htm](http://www.stanford.edu/~promer/Econgro.htm).
7. See *The Wealth and Poverty of Nations*, David S. Landes, W.W. Norton and Company, 1998. Landes discusses the emergence of the semi-autonomous city in Europe in the Middle Ages. Such communes were economically independent, and offered their inhabitants a great deal of freedom. Their effects were felt throughout the society, as rural dwellers with the choice of moving to a city were less easily oppressed.
8. Crime is likely to be rising anyway. Much of it is committed by young men between the ages of 14 and 25, so a demographic wave tends to lead to a crime wave. Weaker families and the disruption of communities caused by mass migration are also likely to increase

crime levels. Failure to provide young men with a productive role in society, therefore, threatens to ignite a highly combustible mixture. Francis Fukuyama has argued that demography is not enough to explain the rising crime levels recently experienced in Western countries, and suggested that cultural factors, in particular declining levels of social capital, are also significant. See Francis Fukuyama, *The Great Disruption: Human Nature and The Reconstitution of Social Order*, 1999, The Free Press.

9. "Economic Growth" by Paul M. Romer, from *The Fortune Encyclopedia of Economics*, David R. Henderson (ed.) Copyright, Warner Books. Used here by permission of copyright holder.
10. The death penalty was introduced in Spain in 1558 for importing prohibited books and unlicensed printing. Landes traces Sicily's "persistent backwardness" to the intolerance and prejudice of its Spanish rulers, who expelled the Jews in 1492 and were still pursuing the same policy in the 18th century despite the importance of the Jewish community to Sicilian science, trade, and the professions. David Landes, *The Wealth and Poverty of Nations*, New York: W.W. Norton & Company, 1998.
11. Manuel R. Agosin, David E. Bloom, and Eduardo Gitli, *Globalization, Liberalization, and Sustainable Human Development: Analytical Perspectives*, paper presented to the UNCTAD X Conference, Bangkok, 16 February 2000. (Available at [www.riverpath.com](http://www.riverpath.com).)
12. In developed countries, this will lead to older women becoming an increasingly powerful political group in the 21st century. Some of the possible consequences of this are explored by Francis Fukuyama in "Women and the Evolution of World Politics", *Foreign Affairs*, November/December 2000.
13. Actuaries Bacon & Woodrow have estimated that an American or German loses half their pension entitlement from an employer scheme if they switch jobs three times during their working life ([www.bacon-woodrow.com](http://www.bacon-woodrow.com)).
14. "PWC asks 200 Staff to Leave in Drive for e-business", *Financial Times*, 2 December 1999.
15. In a recent UK Government survey, 20% of people between the ages of 50 and 74 said they would refuse to use any technology (including a telephone advice or help line) to get information about the government, apply for benefits or order a licence. This compares with 6% of 16- to 34-year-olds and 7% of 35- to 49-year-olds. This could change quickly, however. The growing popularity of health on the internet will be one of many draws for so-called "grey surfers". *The Views of People Aged 50+ Towards Public Services*, Research Conducted for the Service First Unit, The Cabinet Office, 2000.
16. Lifelong learning is also important for older people in developing countries, though for different reasons. When education levels increase rapidly, vast disparities in educational achievement quickly arise between generations. Eighty-four per cent of young Tanzanian women (20-24 years) have at least a primary education, for example, compared to just 26% of older women (45-49 years). See UNICEF, *The Progress of Nations*, 1995.
17. A full list of such groups can be found on the AARP website at [www.aarp.org](http://www.aarp.org).
18. "Roots of the Future", Commission for Racial Equality, London, 2000, <http://www.cre.gov.uk/ethdiv/ed-roots.html>.
19. India: Information Technology, *Financial Times Survey*, 1 December 1999.
20. Top Decision Makers Survey, European Union, 1996.
21. Nua Internet Surveys, [www.nua.ie/how\\_many\\_online/index.html](http://www.nua.ie/how_many_online/index.html).
22. Hervé Gallaire, "Faster, Connected, Smarter" in *21st Century Technologies – Promises and Perils of a Dynamic Future*, OECD, 1998. Hervé Gallaire is Vice-President of the Xerox Corporation.

23. James Gleick, *Faster – The Acceleration of Just About Everything*, Random House, 1999. The book's website is: <http://fasterbook.com/>.
24. Manuel R. Agosin, David E. Bloom, and Eduardo Gitli, *op. cit.* (Note 11).
25. Charles Leadbeater, *Living on Thin Air – The New Economy*, Penguin, 2000, citing a study by Professor Baruch Levi at New York University's Stern School of Business.
26. Many of these remarks also apply to those from other marginalised groups – ethnic minorities, the elderly, the disabled, etc.
27. Although there can be problems at the interface of a new business and institutions like banks (*e.g.* access to start-up funding, access to capital, etc.). In terms of credit, 52% of female business owners in the United States have bank credit compared with 59% of male owners. Source: National Federation of Women Business Owners ([www.nfwbo.org](http://www.nfwbo.org)).
28. Julie R. Weeks, *International Trade Opens New Doors for Women Entrepreneurs*, Center for International Private Enterprise. See: [www.cipe.org/ert/current/e33\\_5.html](http://www.cipe.org/ert/current/e33_5.html).
29. Other figures: Canada (30%), Sao Paulo, Brazil (25%) and Mexico City (13%).
30. "Between two-thirds and three-quarters of the women who own firms involved in international trade said that their primary business goal is expansion, compared with less than half to two-thirds of those who were not involved in international trade. (Data were not available for Mexico and the United States.)" – Julie R. Weeks (Note 28).
31. Bangladeshi economist Professor Muhammad Yunus, and the Grameen Bank which he set up, have more than convincingly demonstrated the value of microcredit for small businesses. Beginning with less than \$50 and 20 borrowers, Grameen expanded rapidly, and now lends over \$400 million annually to a membership base of over 2 million ([www.grameen.org](http://www.grameen.org)).
32. Reuters: "Women constituted 50 per cent of the US Internet audience for the first time during the holiday shopping season, according to a Nielsen NetRatings report". (25 January 2000.)
33. [www.babson.edu/entrep/research/gem/Gem\\_2.html](http://www.babson.edu/entrep/research/gem/Gem_2.html).
34. A more recent replication, however, found a high correlation with Hofstede's findings. C. Merritt, Replicating Hofstede: A Study of Pilots in Eighteen Countries, Aerospace Crew Research Project, The University of Texas at Austin, 1998 ([www.psy.utexas.edu/psy/helmreich/hofrep.htm](http://www.psy.utexas.edu/psy/helmreich/hofrep.htm)).
35. The Grameen Bank's repayment rate of over 98% is the envy of mainstream banks – and persuasively refutes the argument that the poor are inherently high-risk borrowers. Models of commercially sustainable microfinance are also beginning to emerge elsewhere, such as Bank Rakyat Indonesia (BRI) in Indonesia, Banco Sol in Bolivia and Kalpia in El Salvador. BRI has 2.5 million borrowers and 22 million savings accounts (though fewer individual savers, as many savers have more than one account). For an outstanding guide to the area of microfinance, see Marguerite Robinson, *The Microfinance Revolution*, The World Bank, Washington, DC, forthcoming.
36. See, for example, *Communicating Change: The Best 4 Business 1998 Report* and *All Change: The Best 4 Business 1999 Report*, which detail award-winning small business support schemes in the United Kingdom ([www.riverpath.com](http://www.riverpath.com)).
37. Reuters, 15 October 1999 (citing a *Washington Post* report).



38. Further detail and arguments are developed in *A Moment in Time: AIDS and Business*, David Bloom, Allan Rosenfield and River Path Associates, American Foundation for AIDS Research (amfAR), November 30, 1999 ([www.riverpath.com](http://www.riverpath.com)).
39. "Citizens' juries use a representative sample of voters from different constituencies. The participants are briefed in detail on all the background and current thinking relating to a particular issue (such as health care) and asked to discuss possible solutions, sometimes in a televised group." From: "Citizens' Juries: Theory into Practice", Institute for Public Policy Research (IPPR), London, 1998 ([www.ippr.org.uk](http://www.ippr.org.uk)).
40. "Click Here for Appointment at nhs.uk", *The Observer*, 5 December 1999 ([www.nhsdirect.nhs.uk](http://www.nhsdirect.nhs.uk)).
41. See Kenneth Land's excellent survey of social indicators. The initial work on social indicators, which set out to "to develop a system of social indicators – statistics, statistical series, and other forms of evidence – with which to detect and anticipate social change" was carried out by the American Academy of Arts and Sciences. Kenneth Land, Social Indicators, Edgar F. Borgatta and Rhonda V. Montgomery (eds.), *Encyclopedia of Sociology, Revised Edition*. New York: Macmillan, 2000.
42. The United Kingdom's Department of the Environment, Transport and the Regions admitted that a number of its recently published social indicators are currently "too complicated to collect". The HDI was intended, by its inventor Mahbub ul Haq, to be "a measure of the same level of vulgarity as GNP – just one number – but a number that is not as blind to social aspects of lives as GNP is". And even the HDI is not strictly comparable from year to year. In 1999, the UNDP warned that "if a country ranks higher or lower on the HDI... that does not necessarily mean that its state of human development has deteriorated or improved". Changes could have resulted from refinements of methodology or discrepancies in data collection or quality.
43. It is interesting to note how opposition to globalisation – whether from left or right – crystallises around a loss of agency. US union leader Jay Mazur, for example, has argued that "the forces behind global economic change – which exalt deregulation, cater to corporations, undermine social structures, and ignore popular concerns – cannot be sustained. Globalization is leaving perilous instability in its wake. It is hurting too many and helping too few". Writers David Rooney and Greg Hearn, meanwhile, depict anti-change and anti-globalisation right wingers as "typically poorly educated, middle aged or older... They feel angry, impotent and ignored. Although these people are negatively portrayed in the media as rednecks and other extremists who are out of step with the 'realities' of globalisation, they are nevertheless representatives of a class of people who suffer because of the poor distribution of wealth, knowledge and opportunity". Jay Mazur quotes MIT economist Paul Krugman's claim that the Asian economies were vulnerable because they had "become better free market economies, not worse" (see Jay Mazur, "Labor's new internationalism", *Foreign Affairs*, January/February 2000). Mazur is Chair of the American Foundation of Labor and Congress of Industrial Organizations (AFL-CIO)'s International Affairs Committee, as well as President of the Union of Needletrade, Industrial, and Textile Employees. See also "The Zone of Entanglement – Change, Non-Change and the New Managerial Ideology of Ephemera", David Rooney and Greg Hearn, *Foresight*, April 1999, Camford Publishing, Cambridge, UK.
44. "A social capital referred to those tangible substances [that] count for most in the daily lives of people: namely good will, fellowship, sympathy, and social intercourse among the individuals and families who make up a social unit... If [an individual comes] into contact with his neighbor, and they with other neighbors, there will be an accumulation

of social capital, which may immediately satisfy his social needs and which may bear a social potentiality sufficient to the substantial improvement of living conditions in the whole community.” – Lyda J. Hanifan (1916), “The Rural School Community Center”, *Annals of the American Academy of Political and Social Science* 67: 130-138. (Cited by World Bank website social capital newsletter, which is seeking other contenders for the earliest use of the term: [www.worldbank.org/poverty/scapital/](http://www.worldbank.org/poverty/scapital/).)

45. See for example the World Bank Social Capital website: [www.worldbank.org/poverty/scapital/sources/index.htm](http://www.worldbank.org/poverty/scapital/sources/index.htm).
46. The concept of social capital is not without its critics. Nobel Laureate and economist Robert Solow has described the concept as “an attempt to gain conviction from a bad analogy”. While admitting the importance of the underlying ideas, he asks how one invests in social capital and how that investment depreciates. In other words, what is the value of a given stock of social capital? Such measurement is elusive.
47. 1994 figure (UNDP, 1999).
48. The Russian figure is as reported in the 1999 Human Development Report and is for 1994. The American figure was 645 in 1997. In February 2000, US jails racked up their 2 millionth prisoner. Duncan Campbell, “Anger grows as US jails its two millionth inmate: The land of the free is now home to 25% of the world's prison population”, *The Guardian*, 15 February 2000.
49. A good overview of the history of libertarian thought can be found at [www.libertarian.org](http://www.libertarian.org).
50. *On Liberty* (1859), Chapter 3: “On Individuality, As One of the Elements of Well-Being”.
51. “Assessing Hardship and Happiness: Trends in Mobility and Expectations in the New Market Economies”, CSED Working Paper No. 7, Center on Social and Economic Dynamics at the Brookings Institution, October 1999 ([www.brook.edu/es/dynamics/papers/happiness/happiness.htm](http://www.brook.edu/es/dynamics/papers/happiness/happiness.htm)).
52. S. Mansoob Murshed, Research Fellow, UNU/WIDER, *Globalization and Small Vulnerable Economies: A Survey of the Issues* (31 August 1999).
53. Kevin Bales, *The New Slavery: Throwaway People*, Index on Censorship, 1/00, London. [www.indexoncensorship.org](http://www.indexoncensorship.org).
54. The rise of the child as an avid (and highly valuable) consumer may not be unrelated to the diminishing amount of time parents, and particularly mothers, have available. This may be a function of parental compensation (in terms of presents, “treats” and costed activities) as well as the need to organise children's time while away from their parents – which clearly opens a range of opportunities in the market.
55. Levels of drug abuse, alcoholism and promiscuity are all rising among young women in the West. Whether these will have additional impacts on fertility has yet to become clear.
56. The Wellcome Trust, Medicine and Society Programme (1998) “Public Perspectives on Human Cloning”, The Wellcome Trust, London [[www.wellcome.ac.uk](http://www.wellcome.ac.uk)].
57. The BBC 1999 Reith Lectures [[http://news.bbc.co.uk/1/hi/english/static/events/reith\\_99/default.htm](http://news.bbc.co.uk/1/hi/english/static/events/reith_99/default.htm)].
58. See for example Alan Irwin, “Public Participation and Changing Agendas in Science”, presentation at the UK Committee for the Public Understanding of Science's Forum April 1999: Building Bridges to Science [<http://www.spsg.org/pus/presentation.html>].
59. World Wide Web Consortium, Weaving the Web overview ([www.w3.org/People/Berners-Lee/Weaving/Overview.html](http://www.w3.org/People/Berners-Lee/Weaving/Overview.html)). See Tim Berners-Lee, Mark Fischetti (contributor) and Michael Dertouzos, *Weaving the Web: The Original Design and Ultimate Destiny of the World Wide Web by its Inventor*, Harper: San Francisco, 1999.

60. "The United Nations and Civil Society: The Role of NGOs", Report of the Thirtieth United Nations Issues Conference, Sponsored by The Stanley Foundation, 19-21 February 1998, Convened at Arden House, Harriman, New York.
61. [www.guidestar.org](http://www.guidestar.org).
62. "NGOs such as BRAC and PROSHIKA in Bangladesh, Sarvodaya and SANASA in Sri Lanka, and SEWA and the Working Women's Forum in India, each work with millions of people in thousands of villages. BRAC, for example, has more than 10 000 staff, covers 15 000 villages, and plans to expand still further to work with three million people and with children in over 100 000 schools". Michael Edwards and David Hulme, "Too Close for Comfort? The Impact of Official Aid on Nongovernmental Organizations", *World Development*, Volume 24, pp. 961-973. (1996) Elsevier Science: Oxford.

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Chapter 3

## Global Inequality, Human Rights and the Challenge for the 21st Century

by

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Global inequality has increased over the last two hundred years by orders of magnitude out of all proportion to anything experienced in the world before. In 1820, differences in per capita income between countries were no more than about 3 to 1. They grew over the 19th century, slowly at first, then more rapidly until 1913. Inequalities continued to grow over the 20th century, though also comparatively slowly until well into the post Second World War period. From 1960 onwards they soared: from 30 to 1 in 1960 to 60 to 1 in 1990 and 74 to 1 at present. Inequality is still increasing, in countries and between countries. Even on the basis of the assumptions underlying the high-growth scenario of the 1997 OECD study *The World in 2020: Towards a New Global Age*, the gaps between the OECD countries and the poorest countries will be even larger.

Inequality in a globalised world is a cause of migration, environmental degradation, disease transmission and political instability. Extreme inequality exacerbates all these tendencies. It is ultimately inconsistent with the global fulfilment of human rights, as recognised in the Universal Declaration.

Global inequality should therefore be acknowledged by the OECD countries to be a matter of specific concern and policy action. It should be monitored, reviewed, analysed and discussed – with a view to exploring policy and actions that would moderate the extremes. The OECD countries have an interest in doing this – and this note suggests some specific ways OECD countries could put action to moderate extreme inequality on the global agenda for the 21st century.

This chapter has four brief sections:

- global trends in inequality, 1820 to 2020;

- problems and implications;
- what can be done – ways to moderate extremes of global inequality;
- conclusions for action.

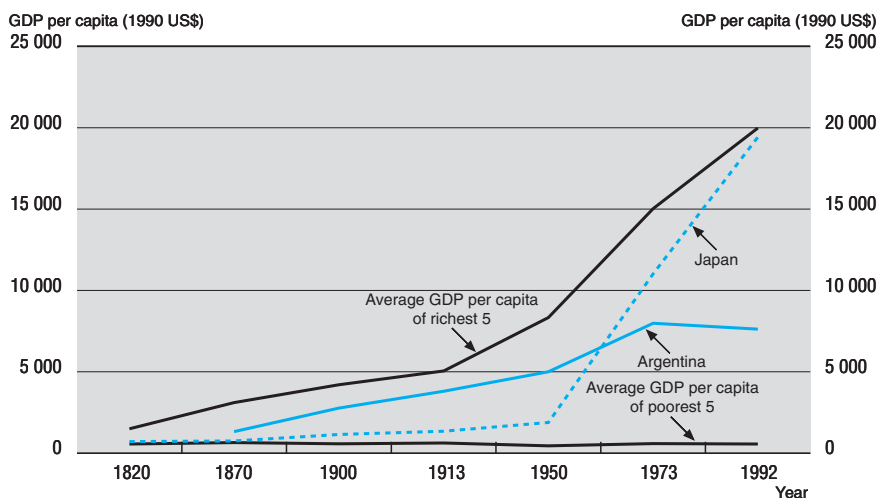
### 1. Global trends in inequality, 1820 to 2020

One of the more interesting pieces of OECD research is that of Angus Maddison who, in two volumes prepared for the Development Centre, documented the evolution of the global economy from 1820 to the 1990s. The report showed the dramatic growth in income and wealth of the OECD countries, the more recent but impressive acceleration of the East Asian region – and the much slower growth (and at times even decline) of other regions. As result of this, the gaps between the richest and the poorest countries have widened dramatically and to unprecedented extremes. Figure 1 summarises the picture and some of the underlying data.<sup>1</sup>

Some of the more striking comparisons are as follows:

- The gap between the richest country (the United Kingdom) and poorest countries (India and China) in 1820 was 3 to 1 in terms of constant price per capita income. This gap grew to 11 to 1 in 1913, 35 to 1 in 1950, 44 to 1 in 1973 and 72 to 1 in 1992.

Figure 1. Widening gaps between rich and poor





- The richest countries – those with a fifth of the world's population – had in 1997 per capita incomes 74 times that of the poorest countries. This proportion had risen from 30 to 1 in 1960 and 61 to 1 in 1990. The richest fifth of the world now control about 85% of the world's income, the poorest fifth 1.1%.
- More detailed data from individual countries reveals equally startling disparities. For instance, post-tax incomes of the richest 2.7 million Americans, the top one per cent, now total about \$620 billion.<sup>2</sup> This is more than the incomes of the 1 340 million people in India, Bangladesh, Pakistan and the other countries of South Asia, and more than the total annual incomes of the 550 million people in sub-Saharan Africa and the 250 million people living in the Middle East and North Africa.
- The assets of the three richest persons in the world now exceed the combined GNPs of all the least developed countries, with 600 million people. The assets of the richest 225 billionaires are about equal to the incomes of the poorest half of the world's population.

Such inequalities on a global scale are unprecedented and extreme. They vastly exceed the income gaps between the richest and the poorest fifth of people within countries, even within highly unequal countries like Brazil, Guatemala and Panama (respectively 32, 30 and 29 to 1) or Lesotho, South Africa and Kenya (respectively 21, 19 and 18 to 1). In Asia, the largest gaps between the top and bottom quintiles are about the same as those found in industrial countries. Malaysia and Singapore show gaps between the top and bottom quintiles of 12 and 10 to 1, respectively. In the OECD countries, the largest gaps by this measure are 9.6 in Australia and the United Kingdom and 8.9 in the United States.

These measures of inequality are based on dollars in constant prices, thus referring to *international* incomes and purchasing power. As such, they considerably overstate the differences in *domestic* living standards within countries, which are better calculated in terms of purchasing power parity dollars. Unfortunately \$PPP estimates on a consistent basis are not available for every country, but using rougher estimates one can calculate global gaps in terms of \$PPPs – these were the measures used in *The World in 2020*. The \$PPP measures are also used for compiling the human development indices in UNDP's Human Development Reports.

The important point is that *in abstracto*, neither US dollar measures nor \$PPP are always best. It depends on the purpose of the comparisons. If the purpose is to measure gaps in terms of living standards or standards of human development, the \$PPP measures are preferable. And using these measures, the gaps in levels of human development are nowhere near as large. Moreover, for many countries, gaps in levels of human development have been narrowing in recent decades – as indicated by measures of life expectancy, literacy rates, access to basic education, etc.

Life expectancy, for example, has increased by almost 10 years on average in developing countries, from 55 years in 1970 to 64 years in 1997. In industrial countries, the increase has been just over 6 years over the same period. Similarly, the gap in literacy rates and school enrolment has narrowed.

But income gaps have grown enormously and if the purpose is to measure international clout, international spending power or incentives for the development of new technologies, US dollars count. An exclusive concentration on \$PPP measures of gaps thus understates the global gaps for many purposes.

Global gaps also have major implications for the over-concentration of technological development on the problems and markets of the industrial countries. Most international research on pharmaceuticals<sup>3</sup> or food crops is concentrated on the markets of the 15% of the population in the OECD world; far too little attention is paid to the problems of the poorer countries.

Access to international goods such as computers is also understated by using PPP dollars. An American can purchase a computer for one month's salary in the United States. A computer costs eight years of an average salary in Bangladesh – one cannot buy a computer with PPP dollars.

Nonetheless, \$PPP measures have important implications for the reduction of global poverty. Notwithstanding the widening gaps, substantial poverty reduction by 2015 is within our grasp, providing poverty is defined and gauged in terms of absolute poverty, for instance using the dollar-a-day or HPI (Human Poverty Index) measures. (Under the latter, human poverty is measured as a multi-dimensional index comprising shortness of life, the percentage of a country's population with life expectancy below 40, the percentage of illiterate and the percentage lacking access to basic health services, clean water and adequate child nutrition.)

## 2. Problems and implications

Global inequality has largely slipped from view over the last two decades. Yet in 1969, the International Commission chaired by the former Canadian Prime Minister Lester Pearson began its report, "Partners in Development", with the memorable lines, "The widening gap between the developed and the developing countries has become the central problem of our times."

The Pearson report argued that these gaps were associated with problems for developed and developing countries, in particular pressures for migration and political instability. Recent evidence shows that in addition, rising inequality increases pressures on the environment and provides a fertile ground in which diseases like HIV/AIDS can breed and spread. All these developments have repercussions on industrial countries.

Internationally, inequality creates other problems. In last year's Human Development Report we put the matter as follows: "Extremes of inequality permeate and poison globalisation and polarise many reasonable and desirable attempts to manage it better."

The Harvard historian David Landes puts it even more sharply: "The old division of the world into two power blocs, East and West, has subsided. Now the big challenge is the gap in wealth and health which separates rich and poor. These are often styled North and South, because the division is geographic; but a more accurate signifier would be the West and the Rest, because the division is also historic. Here is the greatest single problem and danger facing the world of the third Millennium. The only worry that comes close is environmental deterioration and the two are intimately connected, indeed are one."<sup>4</sup>

### 3. What can be done?

The basic remedy for growing inequality is to accelerate the process of internal development and pro-poor growth in the poorer countries. This is not much in dispute. The debate begins with the question of how this can be achieved.

The starting point has to be stronger and more effective policies for growth, human development and poverty reduction in the poorer and least developed countries. Much has been written on this that need not be repeated here. But international action and support are also vital. The present international system lacks almost all of the internal mechanisms established within countries (or within integrated regions) to provide support to marginalised groups or regions and to modify the distributional outcomes of global economic activities. Such mechanisms of internal support and redistribution and other domestic controls can be found within all the industrial countries and very clearly within the European Union.

Lacking such mechanisms – with the exception of aid, at present barely a fifth of one per cent of global income – any tendency to offset rising global inequality must rely upon incentives in the global market. Essentially, this means the incentive for capital to flow to countries with lower costs, thereby increasing production, trade, employment and incomes in these regions.

Something of such a tendency certainly contributed to the rapid growth of the East Asian economies over the last two or three decades. But the flow of private investment has remained heavily concentrated on no more than a dozen developing countries.

Notwithstanding these positive tendencies, there are negative ones: protectionism in the industrial countries, especially in agriculture which has disproportionately held back the export prospects of the poorest countries; the concentration of scientific and technological research on the problems of industrial countries – leading to the development of technologies adapted to high-cost,

labour-scarce situations rather than to the low-cost, labour-surplus environments of poorer developing countries; and the reluctance of investors to channel capital into countries where the economic and political environment is uncertain, underdeveloped and often corrupt.

Whatever the balance of reasons, the fact is that growth rates of 80 or so countries of the world over the last two decades have been low and often negative. More than 80 developing and transition countries today have per capita incomes lower than ten or more years ago. In the case of 25 of these countries, per capita incomes were lower than in the 1980s; with 30, they were lower than in the 1970s; with 9, lower than in the 1960s; and with 20, lower than in 1960 or even before. The population of these countries numbers 1.2 billion people, nearly a quarter of the world's.

Needless to say, no OECD country is among this group.<sup>5</sup> Indeed, in terms of length and/or depth of economic decline, the experience in most of these cases exceeds anything experienced by the industrial countries in the 20th century, even in the depths of the Great Depression.

The comparison with the Depression is a powerful reminder of the nature of the challenge faced by many poor and transition countries. Just as the Depression served as a call for action within the industrial countries, leading to changes that forever marked politics, culture and approaches to economic policy, so changes on such a fundamental scale are needed in but also for these eighty countries today.

What changes? In essence there are five:

- An acceleration of poverty reduction and human development together with pro-poor growth within these countries.
- More flexible and pragmatic support from the international community for these countries, led by the Bretton Woods institutions. The goals should be poverty reduction and human development, with explicit attention to achieving an acceleration of pro-poor growth and a narrowing of global economic gaps.
- In the long run, the creation of new mechanisms of international support and redistribution, akin to those in place within regional communities such as the European Union.
- Support for a better balance in technological research.
- New mechanisms of global security, focused on human insecurity – not just on military insecurity.

These actions would be in line with the international commitments already recognised in Article 28 of the Universal Declaration of Human Rights. The Declaration recognises that “everyone is entitled to a social and international order in which their rights and freedoms set forth in this Declaration can be fully realised”.

Some might question the emphasis on economic growth. Would not an emphasis on poverty reduction and human development be sufficient? The position taken in the Human Development Report on this point is clear. Human development is the end, economic growth a means. This said, as indicated in HDR96, an acceleration of pro-poor growth is needed in the poorer countries. The report stated that "all the least developed countries need to reach a minimum annual economic growth rate of 3% per capita".

There is considerable consensus on these actions – but they are still not centre stage and are far in advance of the international and national actions required to achieve them. Principles of the free market and economic efficiency are important but, as recognised in economic theory, by themselves will not be sufficient to ensure equity.

It is an emphasis on equity that is so missing in the global economy today – not merely in relation to the widening gaps between the richest and poorest countries, but in the relationships that give rise to them. For instance:

- The long-term terms of trade have moved against commodity producers, leading to a situation in which the price of commodities was recently at the lowest level for about 150 years.
- Eighty per cent of the flows of investment from industrial to developing countries get concentrated in just 12 developing countries.
- ODA has been declining, not only in total, but in the share going to the 43 poorest and least developed countries.

Many people find it difficult today to imagine a return to major increases in international transfers after a period in which aid has been declining. But there are alternatives and the OECD should explore them. The case for global public goods has recently been stated with new force – and provides a reinvigorated rationale for transfers – to ensure international support for global public goods and services from which all can benefit.

This is closely aligned with the need to remove perverse subsidies – still totalling some \$700 to 900 billion per year, of which \$500 to 600 billion are in OECD countries and \$200 to 300 billion in developing countries.<sup>6</sup> The replacement of perverse subsidies by charges for pollution and on global scarce resources (*e.g.* under the seabed) would both help achieve more efficient market allocations and generate resources for investing in environmental protection and human development on a global scale.

There is no shortage of ideas on such lines. The challenge is political rather than technical. And perceptions are changing. As the Nobel laureate Jan Tinbergen wrote in arguing the case for measures of redistribution at the international level,

“some of these proposals are, no doubt, far-fetched and beyond the possibilities of today’s political possibilities. But the idealists of today often turn out to be the realists of tomorrow”.

#### **4. Conclusions for immediate action**

The wide global gaps and often growing global inequality need to be put high on the international economic agenda for the 21st century. The OECD should establish a working group to study the situation, the trends, and possible mechanisms and actions which might be taken to deal with it. A start was made with *The World in 2020*, but this study gave little explicit attention to global gaps measured in terms of GNP per capita as opposed to \$PPP measures. It also explored too little the international causes of growth failures in the poorest countries and what can be done to provide a more enabling global environment, more enabling for human development and for accelerating pro-poor growth.

The new attention paid by the OECD, the World Bank and the IMF to poverty reduction is greatly to be welcomed. As part of this, the International Financial Institutions (IFIs) should be asked to monitor and report regularly on both poverty reduction and human development, but also on the per capita growth performance of developing countries, in particular the number of countries achieving 3% per capita over the long term. The IFIs should also be asked to monitor the global gaps between the industrial countries and the main regional groups of developing countries, assessed by various measures including \$GNP and \$PPP.

These issues should be put on the international agenda for review and discussion – for instance as a topic for one of the joint ECOSOC-Development and Interim Committee meetings at Ministerial level.

## Notes

1. Further data are available in the Human Development Report 1999 (Oxford University Press), pp. 38-39.
2. Estimates of the US Centre on Budget and Policy Priorities, *New York Times*.
3. For example, of the 1 223 new drugs licensed worldwide between 1975 and 1977, only 13 were for tropical diseases. Of those 13, two were slight modifications of existing drugs, two were produced by the US military, and five were the result of veterinary research. Thus, private drug companies came up with only four new drugs specifically for tropical diseases in the past two decades. (Cited in Jan Vandemoortele, UNICEF, *Access to Basic Social Services*, paper prepared for Carnegie Council on Ethics and International Affairs, New York, December 1999.)
4. David S. Landes, *The Wealth and Poverty of Nations* (W.W. Norton & Co.), 1999.
5. Except Mexico, whose GDP per capita reached its peak in 1981.
6. Calculations by de Moor and Calamai, *Subsidizing Unsustainable Development: Undermining the Earth with Public Funds*, Institute for Research on Public Expenditure and the Earth Council, San Jose, Costa Rica, 1997.

*Chapter 4*

## **Socio-economic Consequences of the Advance of Complexity and Knowledge**

*by*

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### **1. Introduction: the increase in complexity**

This chapter examines the possible future impact of advances in knowledge and increasing economic complexity, particularly on social patterns and relations of work and leisure. It is assumed that there is a long-run tendency in modern economic systems towards greater complexity, driven by powerful economic forces and leading to the widening of markets and greater product diversification. This long-run tendency is not inevitable. For instance, it can be interrupted by political, economic or environmental catastrophes. However, it is reasonable to explore a scenario of increasing complexity, with its possible implications for the 21st century. Alongside this, an alternative scenario will be considered in which these developments are side-tracked or constrained. Such rival possibilities may structure many policy choices in the future.

Growing socio-economic complexity relates to key issues at the top of the analytical and policy agenda. It may be thought that the growth of modern systems of communication and the development of new techniques of analysis may help us overcome the challenges of an increasingly complex world. In many respects these technological developments will help. But they cannot make the problems of complexity go away. Innovation and change mean that there will always be new analytic problems. Furthermore, the nature and dispersion of knowledge is such that there will always be difficulties in dealing with tacit, context-specific, and idiosyncratic knowledge or skills.

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\* The discussion here relies heavily on arguments elaborated at greater length in Hodgson (1999). The author is grateful to Paul Williams and participants at the December 1999 OECD Forum for the Future in Berlin for helpful comments and discussions.



The scenarios considered here are based on a number of suppositions for the 21st century. The first and most important supposition is as follows.

*Supposition 1:* In core sectors of the economy, the processes of production and their products are becoming more complex and sophisticated. Accordingly, all social activities, in consumption as well as production, are infused with greater complexity.

Clearly, a first task is to examine the meaning of complexity in economic systems. By definition, increasing economic complexity means a growing diversity of interactions between human beings, and between people and their technology (Saviotti, 1996). Complexity is not the same as variety. Variety refers to a diversity of types. Complexity exists only when such variety exists within a structured system. In short, complexity is interconnected variety.

What do *increasing* complexity and *more advanced* knowledge mean? This problem of measurement of skills is discussed in more detail elsewhere (OECD, 1996; Hodgson, 1999, Chapter 10). As complexity increases, more and more “bits” of information are required to specify interactions and changes within the structured system. To cope with increasing complexity in an economy, higher levels of skill and adaptability are required of citizens.

It is not suggested that any of these outcomes are inevitable. Like all complex and open systems in changing environments, modern economies are subject to unpredictable changes and discontinuous structural transformations. However, the importance of the following argument derives largely from the fact that the above supposition has been manifest in capitalist development over the past three centuries. In the last fifty years, the march of complexity has quickened and widened on a global scale, and has gained substantial momentum. There seems to be a strong causal process behind these developments, involving the unceasing creation of new market niches in the corporate drive for profit (Rueschemeyer, 1986).

Supposition 1 is consistent with a number of different scenarios. Two of these differ principally on the question of whether the increase in complexity is associated with increases or decreases in human knowledge or skill. We shall call these, respectively, the knowledge growth scenario and the deskilling scenario. The main discussion below will address the knowledge growth scenario. However, it might be useful first to introduce the alternative deskilling scenario.

## **2. The deskilling scenario**

Questions of specialisation and complexity have preoccupied famous economists such as Adam Smith and Karl Marx. In particular, Marx believed that the growth of machine production, with increasingly sophisticated machines, would lead to a deskilling of the workforce. Harry Braverman later (1974) developed this idea in a famous and highly influential work.

Many writers, of both science and fiction, have considered a technologically sophisticated economy of the future in which human innovation and learning have stagnated. In the place of humans, largely artificially intelligent machines would administer the varied processes of production. Technology would be used extensively, not to enhance human creative powers but, to the extent possible, to replace them. Some economic growth would occur, but it would not result from substantial human learning or innovation. It would emanate largely from a growing output of physical goods and automated services.

In this scenario, the population would generally occupy a life of leisure, with some of them lucky (or unfortunate) enough to have a few hours' work a week in the restaurant or retail sector, serving customers who value human interaction. A few others would be active as the occasional, remaining managers within production, artists, or craft manufacturers of fashionable artefacts. In such a society, power and wealth would emanate largely from ownership of the intelligent machines. Disengaged from productive activity and satiated by an adequate supply of entertainments and material goods, the general culture of aspiration becomes one more of conspicuous consumption than of productive emulation. Status would be conferred on people according to what they consume, rather than what they create or achieve. Notably, the deskilling scenario leads to no significant erosion of employer control of the work process, nor of the system of shareholder ownership of the corporation and its products (Hodgson, 1999).

This brave new world of menial jobs, unemployment and robots is consistent with Supposition 1 above, but it is a scenario quite different from any supposition entailing general increases in knowledge and skill. The deskilling scenario is possible. However, it is not inevitable. For instance, all the evidence suggests that levels of workplace skill have increased rather than decreased in the 20th century, at least in the developed countries (Ashton and Green, 1996; Hodgson, 1999). Historical evidence also suggests that machines can enhance skills rather than reduce them (Goldin and Katz, 1996).

So far, in this respect, Marx's predictions have not been borne out in reality. It is argued elsewhere that Marx's error was to misunderstand the nature and distribution of knowledge in a developed economic system (Hodgson, 1999; Khalil, 1992). Both historical data and conceptual analysis justify pursuing alternative scenarios to that advanced by Marx and Braverman, involving increases in knowledge in work and leisure.

### 3. The knowledge growth scenario

Contrasting possibilities emerge if we add two more suppositions to the first:

*Supposition 2:* Increasingly advanced knowledge or skills are being required in many processes of production. Skill levels in many sectors are being raised to cope with the growing degrees of difficulty and complexity.

*Supposition 3:* Faced with an increased variety of products, the consumer also has an increasingly complex problem of evaluating the quality and suitability of the goods and services on offer.

What are some additional consequences of Suppositions 1, 2 and 3? The following points can all be inferred:

*Supposition 4:* Alongside general skills, there is an increasing reliance on specialist and idiosyncratic skills.

*Supposition 5:* The use and transfer of information is becoming ever more extensive and important in economic and social activities.

*Supposition 6:* Uncertainty is intruding increasingly into economic and social life.

These five suppositions add to the first some crucial ingredients, including the growth of knowledge. Emphatically, knowledge is not the same thing as sense data or information; hence a global availability of information would not necessarily imply a similar distribution of knowledge. Our minds may receive sense data, but sense data are not the same as information or knowledge. Information is data that have been interpreted, and to which some meaning has been attributed. Knowledge is the product of information use. Knowledge is not something “out there” simply to be “accessed” or “discovered”. Many of the cognitive processes involved are tacit and inaccessible. Much knowledge is embedded in a social or other context. The use and distribution of knowledge depends heavily, not simply on technology but also on social institutions.

Increasing complexity in an open and dynamic system brings with it the need for increased organisational and individual flexibility and adaptability. As complexity increases, and the required levels of skill rise, employees need more intensive training. New specialisms emerge to deal with the multiplying facets of the increasingly complex socio-economic system. But it becomes more difficult and costly for a worker to transfer readily from one specialism to another. Workers with advanced and transferable skills, and with enhanced capacities to learn and adapt rapidly, are more and more at a premium. We have a scenario of enhanced skills and growing knowledge-intensity.

The increasing use of information is partly a result of growing complexity within an integrated system, and advances in information and communications technology. Uncertainty increases because calculable estimates of future events are increasingly difficult in a more and more complex and integrated world (Beck, 1992). Democratic institutions also have difficulty coping with the complexity, bringing further uncertainty (Zolo, 1992). Governments have to rely increasingly on expert scientific advice, and misguided judgements are met by political opposition and cynicism. The pace of scientific and technological advance quickens, but brings increasing uncertainty along with its benefits. Examples such as nuclear power and genetic engineering are apposite. They have brought new agricultural products or sources of energy. But they

have also brought many new concerns and uncertainties. Likewise, the consumer faces the problem of assessing and using a growing range of increasingly complex goods and services. We are assured by the promise of future knowledge, but future knowledge will not dispel uncertainty.

Accordingly, increasing complexity is associated with greater “knowledge-intensity” in socio-economic systems. The growing importance of knowledge in the modern world has been marked by the use of terms such as the “knowledge society”. Economic theorists have not yet adequately explored the drivers of greater knowledge-intensity. However, it is clear that modern economies are locked into a competitive, cumulative, global process, where the pursuit of profitability and market share have involved the enhancement of product quality, technological advantage and organisational learning.

Some modern economists and corporate strategists, arguing that much modern competitiveness involves enhancing the corporation’s capacity to learn, stress the importance of rapid learning. Porter and van der Linde (1995, p. 98) summarise the evidence on this issue:

Detailed case studies of hundreds of industries, based in dozens of countries, reveal that internationally competitive companies are not those with the cheapest inputs or the largest scale, but those with the capacity to improve and innovate continually.

In a complex and evolving, knowledge-intensive system, agents not only have to learn, they have to learn how to learn, and to adapt and create anew. Employees and managers require more and more of the sophisticated cognitive abilities identified as essential to the cohesion and operation of the modern corporation (Nonaka and Takeuchi, 1995). The economy becomes relatively less “machine-intensive”, and more and more “knowledge-intensive”.

An important feature of the knowledge-intensive economy is the increasing role of information and symbol manipulation in production. This increase is both absolute and relative to the performance of mechanical work. Visible action is supplemented by activity of a more thoughtful and information-centred kind. Hence, there is a shift from action-centred to intellectual skills. For many people, the nature and form of work change radically: “Immediate physical responses must be replaced by an abstract thought process in which options are considered, and choices are made and then translated into the terms of the information system” (Zuboff, 1988, p. 71). The growing knowledge-intensity of work is expressed in such a shift of emphasis, from physical power and dexterity to the processing and evaluation of ideas. All human activity involves some use of both muscle and brain. But as the balance shifts radically from action to intellect, and from the manipulation of materials to symbols, work undergoes a fundamental transformation.

As noted above, this scenario of declining machine intensity and increasing knowledge-intensity is the reverse of the developments portrayed in *Capital*. There Marx argued that the technical development of machinery within capitalism was leading to deskilling and a reduction in the time taken to acquire the specialist skills of a machine operative. Also, the development of machinery would undermine the division of labour. Notably, Marx inherited from Smith an emphasis on the material and manual aspects of work. Many subsequent economists have also placed exclusive or excessive emphasis on the material and visible character of work and the tangibility of factors of production.

This standard conception of labour, as being engaged first and foremost with material objects, ignores an important point, evident even in the times of Smith or Marx but much more obvious today. The point is that work is not necessarily centred on the materiality of machines, tools and raw materials; it is also engaged with other minds, whether these be human minds or their pale and partial computer surrogates.

Action always takes place in a material and natural context. But both production and consumption today also involve many crucial conversations between actors concerning the interpretations, meanings and uses of information. Production has always been more than the manipulation of material objects. Work requires judgement, and all judgement unavoidably involves the deployment of both tacit and explicit knowledge. And it is a social and cultural process, engaging with the interpretations and judgements of others. Consumption, too, generally takes place in a social and interactive context. In a learning economy, these issues become increasingly important.

#### 4. Limits and trajectories

The suppositions here regarding increasing skill levels concern principally the most knowledge-intensive, technologically advanced and dynamic core of the modern economic system, especially in parts of the manufacturing and service sectors. We are addressing developments at the dynamic core of the economy, not necessarily in its every corner or recess. This does not rule out the possibility, as in reality today, of a substantial underclass of unskilled or unemployed citizens. Today, many employees in developed countries are confined to low-paid, part-time, insecure or menial jobs, often in the service sector. To some degree this may result from, as well as persist alongside, the above developments. Some technological innovations, such as the fork-lift truck, have put thousands of manual workers out of work. Other developments in information technology may enable increased surveillance of – and power over – sections of the workforce, undermining further their flexibility and autonomy: an “information panopticon” (Zuboff, 1988, Chapter 9). Nevertheless, we are considering a knowledge growth scenario where the developments at the dynamic core

overwhelm or dominate other tendencies. Ways in which this dominant scenario could be blocked or undermined can also be considered.

Furthermore, what happens in the dynamic core is not sufficient to determine outcomes in the remainder of the economy. For example, studies of the impact of computers and other technological changes indicate a diverse set of possible outcomes with regard to the overall level of unemployment and the structure of the labour force, depending much on the institutional forms prevailing in the countries involved (Appelbaum and Schettkat, 1990). It must be emphasised, therefore, that although some pressures of convergence exist, the advance of complexity and the growth of the modern learning economy do not imply global convergence on a single type of economic system.

There are several reasons for this judgement. Above all, learning does not start with a *tabula rasa*, but always builds cumulatively on its past. Hence the centrality of learning to technological change renders economic development a path-dependent process. As Saviotti (1996, pp. 199-202) has elaborated, innovation promotes divergence and institutional rigidities restrain convergence. Among others, Storper and Salais (1997) have argued convincingly that different national production systems are embedded in diverse and durable institutional frameworks that endure the growth of world trade. Accordingly, contrary to some pronouncements, globalisation is not about to eradicate national and supra-national boundaries and institutions.

Technology has an effect on the nature, pattern, organisation and context of work, but alone it does not determine them. It can be used in different ways, and lead to different outcomes. For instance, technology can be used to increase automaticity: to routinise human work by making it even more mechanical and inflexible. But this is a precarious and impermanent outcome because it makes the humans more readily substitutable by machines. And it does not use the powers of modern technology to the full.

## 5. Complexity and computer technology

Will increasingly sophisticated computers and artificial intelligence take over some of the functions of the intelligent human in the production process? Possibly, but only to a very limited degree. Computers can mimic some aspects of intelligent behaviour through their data-processing powers. But they cannot yet replicate key features of human intelligence. Crucially, they lack intuition and sophisticated judgement. Such skilled competencies cannot be taken over by existing or foreseeable machines.

Insofar as computers can take over some functions, the overall, net outcome in terms of the balance of skills in the workforce is not necessarily towards deskilling. The knowledge growth scenario discussed here, involving increasing skill levels, is thus compatible with the development of computer technology.

Consistent with this scenario, it is possible that a growing population of intelligent machines will be associated with a growing team of versatile, creative, problem-solving human beings. In the past, the introduction of machines has often meant an increase in skill levels rather than the reverse: machines and skilled workers have often been complements rather than substitutes (Goldin and Katz, 1996). Humans are required to perform the more intuitive, complex and human-interactive tasks for which machines are less suited. But it remains to be seen whether these capacities will be restrained or enhanced. Supposition 2 above assumes the latter rather than the former. That cannot be simply extrapolated from existing data, nor does it necessarily result from technological advance; nevertheless, there is assumed to be a process of “upskilling” in this particular scenario.

In some contexts, the automation of aspects of production can challenge managerial control. Computers may free up skilled workers for tasks of a more evaluative and judgemental character. In turn, critical judgement involves asking questions, and saying “no” when things do not seem right. However, probing questions can be inimical to managerial authority, especially when leading to suggestions that established procedures be changed. As Zuboff (1988, p. 291) has elaborated in her classic study of the impact of computer technology on work and social relationships:

Obedience has been the axial principle of task execution in the traditional environment of imperative control. The logic of that environment is reproduced when technology is used only to automate. When tasks require intellectual effort, however, obedience can be dysfunctional and can impede the exploitation of information. Under such conditions, internal commitment and motivation replace authority as the primary bond between the individual and the task.

In this way, traditional work organisation and managerial authority are displaced:

The explication of meaning that is so central to the development of intellectual skills requires that people become their own authorities. ... Without the consensual immediacy of a shared action context, individuals must construct interpretations of the information at hand and so reveal what they believe to be significant. In this way, authority is located in the process of creating and articulating meaning, rather than in a particular position or function. (Zuboff, 1988, p. 308.)

The developments outlined above present a challenge for the future. However, a generalised failure of organisations to transform their structures to meet these challenges will frustrate the unfolding of the knowledge growth scenario. The developments of the past and coming decades offer alternative paths into the future. As noted above, the deskilling scenario is one possibility; the knowledge growth scenario is another. We explore the latter further below.

## 6. Some peculiarities of information and knowledge

Consider Supposition 5 above, concerning the increasing use of information in modern economies. Attempts to fit information and knowledge into mainstream economic analysis typically treat those things as something “out there” that is costly to obtain or produce. But this is illegitimate, for several reasons. Clearly, each new piece of information must be different from every other; otherwise, it would not be new or useful information. Information is non-homogeneous and consequently cannot be traded on competitive markets, where broadly similar commodities compete on price terms. The intrinsic heterogeneity of knowledge makes it very difficult to think of a price of knowledge as such.

For this reason, it is difficult to rely exclusively on a market- or price-based solution to the economic problems of distributing knowledge. Just as the central planners of the former Soviet system had the impossible task of concentrating all knowledge together, “as if in a single head”, so too is there a problem of identifying a meaningful price for each unit of information. Central planning and pure-market solutions to this problem fail, and for similar reasons. They both fail to deal with the complexities of the existing and future knowledge-based economies (Hodgson, 1999).

Furthermore, the growth of knowledge and information raises questions concerning the nature of property, trade and markets. As knowledge and information become more important in modern economies, the very meaning of core ideas such as property and exchange are challenged, and their continued existence may even be undermined. Some leading economists (such as Nobel Laureate Kenneth Arrow and Richard Nelson) have argued that the development of scientific knowledge is to some extent hindered by too much reliance on private property rights and markets. They may be right. However, the separate point being made here is causally in the reverse direction: that the integrity of property and the full functioning of the market are being qualified by the growth of knowledge. This fact is somewhat ironic, as the very 20th century economists – such as Nobel Laureate Friedrich Hayek – who most persistently emphasised problems of knowledge and uncertainty were among those most wedded to a free market ideology. It seems that they did not know the full content of the Pandora’s Box that they had successfully opened.

Unlike other commodities, the contractual transfer of information has some curious features that challenge and possibly impair the standard contractarian framework. Some of these contractarian oddities were pointed out several years ago by Nelson (1959) and Arrow (1962). First, once acquired, codifiable information often can be easily reproduced in multiple copies by its buyer, and possibly be sold to others. This places the seller at a disadvantage. Accordingly, there may be licences, patents or other restrictions to prevent the buyer from selling it to others.



Second, codifiable information has a peculiar property: once sold, it also remains in the hands of the seller. Information is not a “normal” commodity that changes hands from seller to buyer when it is purchased. Thomas Jefferson allegedly likened knowledge to the light of a candle: even as its flame is passed on to another candle, its own light is not weakened.

Third, and crucially for our purposes here, Arrow (1962, p. 616) wrote that “there is a fundamental paradox in the determination of demand for information: its value for the purchaser is not known until he has the information, but then he has in effect acquired it without cost”. If we knew what we were going to buy then we would no longer need to buy it.

As a result, in an economy involving substantial flows of information, it is not always possible – to use Hayek’s (1948, p. 18) symptomatically possessive phraseology – to establish clear “rules which, above all, enable man to distinguish between mine and thine”. As Arrow suggested, information challenges the bounds of exclusive and individual property, as seen above. Outside the limited restrictions of patent laws, what is possessed as information cannot always be clearly defined, because to define it is to give it away. It is often unclear as to who owns what information. It is not always possible to break up information into discrete pieces and give each an ownership tag. Similarly, it is often difficult to determine who “discovered” the information in the first place, and who can thus claim legal title to its “ownership”. Far from being transparent, in an information- and knowledge-rich society, what is “mine” and what is “thine” may become increasingly mysterious.

## **7. The transformation of industrial relations**

In particular, the crucial problem of not knowing what we are buying until after we have bought it is clearly manifest in many modern employment contracts. This is especially the case with highly skilled employees: note Suppositions 2 and 4 above. With skilled employees, the hirers do not know what they have hired. The persons interviewing the potential employees for the job may not be versed in the particular skills being sought, and will thus be unable to make a fully informed judgement of their abilities.

Even if the interviewing panel did have these skills, it would be extremely unlikely that the people appointing the panel members would have them as well. Who judges the judgement of the judges? At some stage the judgement would be imperfect. How could we judge the capabilities of others to make good decisions, in regard to matters with which we are ourselves unfamiliar? The purchase or allocation of knowledge or competence itself requires knowledge or competence, and there is a potential problem of infinite regress. As a result, not all economic competencies – particularly those relating to the exercising of judgement in a milieu of

uncertainty – are contractible. As a result, a complete market for all skills is impossible in principle.

Typically it will be assumed that the potential employee will learn many of the particular skills after he or she is appointed. Such learning will often depend on imitation and close interaction with others at work. But it is impossible to specify fully in advance the skills that an employee may acquire while working on the job, or to detail the information that may be transferred and the learning experiences that may occur.

Difficulties of this kind do not arise simply at the selection and appointment of an employee. They remain during the subsequent period of employment. By definition, employment involves potential control and supervision by others. However, as Drucker (1993, p. 107) asserts, “the organization is increasingly composed of specialists, each of whom knows more about his or her own speciality than anybody else in the organization”. This creates a supervisory problem. If the employee has the highly specific and idiosyncratic skills that are needed in a complex economy, then the extent of proficient supervision and control of the employee depend also on the supervisor’s possession of relevant capabilities. In an increasing number of cases, these capabilities will be lacking. Close and highly evaluative supervision, based on a hierarchy of command, will be less viable, simply because the nominal supervisors will not know the best way of doing the job – or even the precise purpose of the specialist job itself – and the employee will know better.

The shift from physical to intellectual work also compounds the problem. Even though managers lacked complete knowledge of the idiosyncratic skills required in action-centred work, at least they could observe the physical activity and its output, and make semi-informed judgements concerning the efficiency and aptitude of the worker. In contrast, with intellectual skills, meaningful supervision is less viable. We can observe manual work, but it is impossible to see what is going on in someone’s head (Zuboff, 1988).

Admittedly, developments in information technology make possible some sophisticated surveillance of the population. However, such observation would mainly concern the locations and visible activities of the persons concerned. Video cameras cannot record the workings of the mind. Computers cannot evaluate many details of knowledge-intensive work. If managers cannot know what their employees know, then neither can a video- or computer-based monitoring system. Furthermore, the installation of surveillance systems is likely to undermine the culture of trust and co-operation, which is necessary for the full development of the learning economy. As work becomes more complex and knowledge-intensive, these problems are compounded.

In some cases, knowledge workers are expected to reach specified pecuniary or other targets set by the employers. Admittedly, these targets can impose a strenuous discipline on the knowledge worker. However, the assumption is that the

achievement of these specified targets is the best way of doing the work. In some cases, on the contrary, some underperformance today can lead to exceptional performance at a later stage. The imposition of specified targets rules out such alternative strategies for the knowledge worker. In any case, direct supervision of the manner and process of work is abandoned by management.

As complexity increases, detailed direction, concerning what to do and how to do it, will become less viable and productive. Without finding evaluators with similar expertise, the possibility of assessing the worker's capacities and performance will be limited. Detailed and effective supervision is thwarted by problems of complexity. Only small portions of what people actually do on a job can be monitored in detail. As Drucker (1993, p. 65) put it: "Knowledge employees cannot, in effect, be supervised." Managerial control of the work process is progressively undermined.

Consequently, in the employment contract, the key characteristic of detailed managerial control is increasingly bounded and impaired as a result of the growing complexity of the production process.

The organisational response to this decline in the potential for direct supervision of work is to encourage internal commitment and self-motivation. These replace authority as the primary spur to productive activity. The firm uses "mission statements" and develops its own cohesive moral community. The ethic of obligation replaces the direct command.

To some degree, problems associated with a degree of complexity existed in early industrial capitalism, even when manual workers were operating looms, digging ditches or sharpening pins. Workers have always possessed some tacit and other skills beyond the reach of managerial comprehension. But in the modern, complex, knowledge-intensive economies the predicament has become much more severe. In particular, what were formerly regarded as exclusively managerial, administrative or organisational capabilities are increasingly expected of other workers not nominally described as managers. The old distinctions between the conception of a task and its execution, as elaborated in the "scientific management" of Frederick Winslow Taylor, are breaking down. In practice, the division between the two is increasingly difficult to enforce or sustain.

The flattening of the traditional hierarchies, with the blurring of the boundary between managers and workers, is bound up with the increasing complexity and knowledge-intensity of the processes of production. Responsibility is diffused more throughout the organisation, instead of being concentrated at the top. With flatter hierarchies, there is less vested interest in the status bestowed by rank, and in the status quo. There is thus less resistance to change, and flatter structures may facilitate learning (Hamilton and Feenstra, 1995).

These developments would have enormous implications for office and administrative practices that social scientists have begun to explore only recently. There have been many discussions of the organisation of work in manufacturing industry, but relatively little of the administrative office, or of the service sector as a whole. Yet an increasing proportion of workers are organised in the service sector or in administrative activity. Office work, in particular, has been dramatically transformed in recent years, in part by the impact of new information technology. Yet the traditional social divisions of status, designated role and financial remuneration have been much slower to adjust. Here, as elsewhere, a key question is the degree to which social structures can be transformed to make full use of the technological possibilities of the present and future.

## **8. Touching the intangible**

A further consequence of an increasing reliance on advanced skills and knowledge is that these become relatively more important compared with the physical instruments of work, such as tools and machines. In part, this shifting balance is likely to be expressed in changes in relative costs. Today, some specialist skills can command very high prices on the market, whereas – despite massive improvements – computers and many other high-technology components have become progressively cheaper in real terms. It is being assumed here that the balance of strategic importance, economic value and social status will shift further in favour of those with productive knowledge and skills.

The relative importance of the physical means of production in the production process, compared with knowledge and other “intangible assets”, has typically been overstressed by mainstream and non-mainstream economists alike. Mainstream economists have long depicted the contribution of physical “capital”, alongside “labour”, to production, treating them both as inputs into a mechanistic function. Against this overwhelming trend, the American institutional economist Thorstein Veblen (1919) was one of the first to emphasise the relative importance of immaterial assets, including the “knowledge and practice of ways and means”.

In contrast, mainstream explanations of economic growth have typically stressed changes in factor inputs on the one hand and technological changes driven by research and development on the other. Emphasis on such tangible inputs and measures has often obscured the importance of learning and the accumulation of social knowledge. There is a tendency to treat knowledge and skill as identifiable substances, stored up and possessed by individuals, alongside and akin to their material wealth. For example, the widespread use of the term “human capital” often misleads us by suggesting that knowledge and skills are readily measurable in monetary terms and generally tradable on the market.

There are further implications for the knowledge-based economy of the future. First, insofar as the physical means of production have become relatively less important, the question of who owns them has become less consequential to a similar degree. Accordingly, the possession of useful knowledge and skills by the worker has increased in relative significance, compared to the tangible instruments of work. As suggested below, the growth of the knowledge economy can lead to major transformations in the structures of economic, social and political power.

It is not suggested that we should disregard the question of who owns the means of production. What is being argued is that the changing balance between intangible and tangible assets, and the growing reliance on knowledge and skill, should be taken into account. It means, for instance, that the relative bargaining power of the skilled employee has increased, and the gap in this respect between the skilled and the unskilled worker has widened substantially. These differences are manifest in growing differences of income, and the severe shortages of skilled labour in many industrialised countries compared with the widespread mass unemployment of unskilled labour. The skilled worker carries knowledge as a significant tool, signifying possession of an important but immaterial part of the means of production.

## **9. Further implications for the employment contract**

These developments also create increasing practical problems for the enforcement of the legal distinction between employment contracts and self-employment. The legal system has already experienced severe difficulty in identifying clear criteria to identify whether or not the worker is under the “control” of another person. The question of whether or not the worker owns or provides the instruments of work is often used as a surrogate criterion. But this alternative test is itself in severe difficulties. For example, some corporations are making increasing use of allegedly self-employed management experts and consultants. These skilled managers often move on from one trouble-shooting exercise to another, and receive substantial fees. However, these rewards have little or nothing to do with the physical instruments of production used (and perhaps owned) by the consultant. Essentially, what is being hired is intangible: the knowledge and highly developed capabilities of the skilled manager. As a consequence, the surrogate legal criterion will mistakenly fail to identify this person as self-employed, even if the perceptions of both consultant and client are to the contrary.

A contract of employment is notionally an agreement between an individual worker and an employer, where the worker agrees to make a productive contribution of some kind, under the direction of the management, in return for a stipulated wage or salary. Work is contracted and the right of employer control is accepted, in return for an agreed remuneration. However, the group and team character of work

suggests that this is not in essence a straightforward “exchange” of individual rights and contributions. Furthermore, monitoring and control is made much more difficult by the complex and interrelated character of production. In sum, the employment contract is in large measure a convenient fiction, couched in the individualistic terms of modern contract law, which in fact masks the social and co-operative character of all productive activity.

The increasing complexity of the production process would arguably widen the mismatch between the individualistic formulations of the employment contract and productive realities. It can be further argued that with the increasing dependence on advanced and knowledge-intensive skills comes the increasing reliance on the group as a forum for imitative and other learning. Production becomes more inter-related and social in its character, not less. Production assumes more and more of an organic quantity: it cannot be broken down and analysed in terms of individual components, exchanges and contributions.

It is curious that the individualistic formulations of contract law have been most appropriate for a relatively short period of capitalism's existence. In both the United Kingdom and the United States they have been confined largely to the 20th century. The epoch of the individual contract coincides remarkably with the epoch of collectivist and socialist ideologies. To a large extent, both individualism and collectivism are based on shared presuppositions. As these joint assumptions are challenged, the supersession of both individualism and collectivism should therefore not surprise us.

Some commentators have observed the extent to which the growing importance of knowledge “challenges property and labor as the constitutive mechanisms of society” (Böhme and Stehr, 1986, p. 7). The move from machine-intensive to knowledge-intensive capitalism is tied up with complex and organic developments in the sphere of production, which cannot be readily encapsulated by the notions of property and contract. The gap between the *de facto* organicism of economic life and the *de jure* mechanics of the contractarian stipulation widens to critical proportions.

This does not mean that the stipulations of employment or property law are irrelevant and can be readily disregarded. The system of contract law – as Durkheim showed long ago – in principle depends on its non-contractual elements. As Schumpeter (1976, pp. 423-4) emphasised:

no social system can work which is based exclusively upon a network of free contracts between (legally) equal contracting parties and in which everyone is supposed to be guided by nothing except his own (short-run) utilitarian ends.

Capitalism, like all other systems, essentially relies on its “impurities”. These impurities are the elements of social culture and interaction that are not subject to the relatively impersonal formal rules and legalities of contract. Hidden beneath

the surface expressions of contract law are always customs and rituals. These help to frame aspirations and provide meanings to the actions of economic agents.

The complexities of a knowledge economy give impetus to the social and informal aspects of economic interaction. However, as long as the delimiting framework of private property, contract and employment law remains, then capitalism in its familiar form will survive. It may, however, harbour within it structures and processes which are increasingly antagonistic or corrosive. There is nothing necessarily cataclysmic about this. To some degree, all systems contain internal strains of this type. They can persist for centuries and can lead to varied outcomes.

History indicates that politico-economic systems can muddle through and survive for a very long time, despite their internal contradictions. It also tells us that the existence of specific types of impurity within a system does not necessarily foreshadow a new system in which those impurities are somehow more prominent.

## **10. Problems of accreditation and delimitation**

Higher knowledge-intensity makes the employee a prized possession, but one that depends on (essentially partial and limited) evidence of acquired skills to become marketable. The employee knows more than before, but not many will know what the employee knows. This undermines the efficacy of supervisory control but creates a problem of accreditation for the employee. If knowledge skills are specialist and idiosyncratic, then the possibilities for self-employment may be limited by the fact that few would know what skills they are purchasing. The services of a self-employed teacher, for example, may not find many buyers; in the absence of accredited organisational affiliations the buyers do not in principle know what they are buying. We are judged in part by the organisations that admit us. For this reason, the knowledge worker may depend to a great degree on access to an organisation, in order to exercise and validate his or her skills.

There are additional reasons the process of organisational validation or accreditation is important. With advanced information technology and an information-oriented culture, the whole system faces the problem of information overload. Greater use is made of information screening agencies and systems of selecting appropriate information and knowledge. As Giddens (1990, p. 83) has pointed out, such “expert systems” are essential to modern institutions, as means of establishing credibility and trust. In particular, the marketing of knowledge-intensive skills depends on mechanisms of accreditation: the academic qualification, the institutional certification, the expert’s testimonial. These are the imperfect means by which we attempt a semi-informed judgement of the knowledge and judgement abilities of others, whose skills we can neither fully fathom nor understand.

Like the aforementioned puzzle concerning the judgement of judgement, the processes of accreditation face the problem of infinite upward regress: who accredits

the accreditors? It is not possible for everyone to accredit everyone else. Apart from being too time-consuming, it would depend upon an unattainable diffusion of specialist knowledge. A hierarchy of evaluating and accrediting agencies may emerge, but this is an incomplete solution. Some institution has to act as the quality assurer of last resort. Failing a solution to this problem, there is a danger of degeneration into a semi-anarchy of competing suppositions with questionable credentials.

With an ever more technical and sophisticated array of goods and services for sale, the consumer faces a similar problem. To some degree, we cope with our lack of appropriate technical information concerning the goods and services we buy by relying on brand name reputation. We place a precarious trust in a product, based on our tentative confidence in the integrity of the corporate producer. Alternatively, we rely on the advice of consumer groups and associations. Consumption itself gets drawn into the web of increasing complexity.

Returning to the sphere of production, the growth of specialist knowledge means that the worker becomes more like an independent contractor, possessing the prized, knowledge-based skills – but one that owns neither the material means of production nor the product of the work performed. Further, the corporate manager remains in control of many of the (imperfect) procedures of quality assessment and authentication. Given the collective nature of much knowledge, the worker often requires an organisation in which to work. In such cases, the knowledge worker depends on the organisation just as the organisation depends on the worker.

As a result of the increasing knowledge-intensity of production, however, the boundary between conception and execution becomes increasingly blurred. Within the organisation the titular division between management and worker becomes more and more an anachronism. Hierarchies within the firm become even flatter, with a reduction of layers of management. Going even further, some progressive corporations may develop schemes of worker participation, especially in regard to decision making in process-related and day-to-day matters.

Despite recent tendencies towards their abolition, there is also the possibility within the knowledge growth scenario of the growth of lifetime employment rights, as part of a package of measures attempting to secure employee dedication and commitment. Forms of lifetime job tenure have been established in some large Japanese corporations. They also exist in many universities throughout the world. In some quarters, such arrangements bring fears that the removal of the potential threat of redundancy may undermine worker discipline. However, on the other hand, such measures may help to enhance vital feelings of community and belongingness at work. Such feelings improve motivation and enhance productive social interaction in the workplace. These measures may also reduce workforce turnover and the loss of expensively trained workers. In a context of knowledge growth, these factors may become even more important.



As the boundary between manager and employee breaks down, and formal control is eroded, a kind of quasi-self-employment will develop. Strictly speaking, in many cases it will not be self-employment, but it will have some of those features. By owning part of the intangible means of production – in the form of specialist knowledge – and having a considerable degree of control over his or her work process, in some respects the employee will resemble a self-employed worker.

On the other hand, the employing corporation will retain ownership of the goods or services that are produced, the physical means of production, and some of the crucial mechanisms of knowledge accreditation. For these reasons the worker does not become fully self-employed, in either a *de facto* or a *de jure* sense. Nevertheless, the possession of highly specialist knowledge and the control of the work process by the employee can develop to the extent that the worker is virtually an autonomous agent. We can find examples of this quasi-self-employment today, in many public and private universities and even in some research units in large, knowledge-intensive corporations.

Furthermore, as Handy (1984) has pointed out, with the increase in the relative and absolute cost of specialist skills, there may be more cases of employment contracts being replaced by *de facto* and *de jure* self-employment, where the skilled worker contracts explicitly for specific services, not hours of work. The relatively high cost of skilled labour provides a strong push towards hiring the services of skilled, professional individuals or groups on the basis of a contract for services rather than an employment contract. Handy thus argued that the “gathered organisation” – where all skills are possessed by the firm on the basis of employment contracts, typically organised together in specific localities – will be gradually replaced by the “contractual organisation”, relying heavily on subcontracting and contracts for services, often with people working from home or in other dispersed locations.

The implication of the decline of the “gathered organisation”, facilitated by increasing use of the internet or other telecommunications, is a breakdown of the territorial division between home and work. In historical terms, this territorial division is in fact quite recent. Up until the early phases of the Industrial Revolution, much work was done in or near the home. It was the rise of the modern factory system – initially becoming widespread in the United Kingdom in the 19th century – that first separated the spheres of work and recreation for a large number of citizens. These boundaries may not endure. Not only is it possible for a substantial amount of knowledge-intensive work to be done at home – cheaper travel and the rise of the global economy have widened the sphere of leisure, and extended the ties of immediate family to cover the globe. Both work and recreation have become more global, and this trend is likely to continue. The local, territorial confinements of work, leisure and family may become a thing of the past.

These geographical and other developments have important temporal implications. We have considered the increasing role of specialist and idiosyncratic knowledge, the emergence of real and quasi-self-employment, and the decline of the “gathered organisation” in one locality. Crucially, as a result, the stipulation in the employment contract of a number of hours to be worked loses much of its operational significance and meaning. Even if he or she remains formally and legally an employee, the knowledge worker may require periods of contemplation, reading, research or study that cannot always be confined to official office hours. Conversely, scheduled hours spent out of the office can often assume a ritualistic vacuity. Work will be taken home and performed for hours or days in a domestic, rather than a supervised, environment. Leisure activity may become even more important for mental recuperation than it has been for physical recuperation in the past. All these considerations make the concept of “hours worked” less and less operational and meaningful. The boundary between work and leisure becomes blurred, making a temporally bounded contract of “employment” an anomaly.

Further, the specialist and idiosyncratic nature of work makes detailed regulation or supervision of defined periods of knowledge work difficult or impossible. As has already become common in many professional and managerial positions, employment contracts do not stipulate a minimum or guideline number of hours to be worked. Instead, the tasks required in the job are vaguely and broadly specified.

Clearly, any such developments will be facilitated by a culture of trust, but restricted by any effort of detailed, managerial surveillance. The age-old supervisory habits of management may die hard. Alternative social mechanisms of accountability and trust are precarious and difficult to develop. The growth of the knowledge-intensive economy brings enormous challenges. It requires a broader social culture of responsibility and accountability that will take many decades to evolve. To be viable, it must permeate the whole of social life.

In the history of capitalism, managerial authority has been legitimated by various ideological appeals, including divine right, natural law, the survival of the fittest and meritocratic entitlement (Zuboff, 1988, Chapter 6). At its contractual core, it has been legitimated as a delegated power, stemming from ownership of the means of production. As skilled knowledge, embodied in people, becomes relatively more important, the central legitimation of managerial power, based on the authority of capital ownership, itself begins to be eroded.

Considering all such developments, the meaning of the employment contract is stretched to the limit, creating normative and legal tensions that may suggest its radical reformulation into something quite different. Insofar as these developments spread, this bodes the end of the classical employment relationship, the transformation of the modern corporation, and the evolution of a quite different economic system.

It is likely that any blurring of the boundaries between managers and workers in the sphere of production would be both reflected in and facilitated by similar transformations in other hierarchies of power and status in society at large. Although hierarchy itself is likely to remain in some degree, the possibility emerges of a more inclusive and egalitarian outcome. To be viable, such developments will require a reinforcing ideology and culture, spanning all spheres of social life.

These developments bring dangers as well as positive possibilities. As organisations develop their culture of employee commitment, productivity may be enhanced but new problems arise. The nature of knowledge-intensive work, the growth of an ethic of corporate obligation, and the difficulty of regulating work by specifying a fixed number of hours bring the concomitant risks of overwork resulting from social pressure or addiction to work itself.

By its nature, knowledge work means a shift from timekeeping to normative control, permitting indefinite extension and intensification. Today, overworked knowledge workers are prevalent in both the West and Japan. Their existence has enormous implications for the viability of the family and the community, and for health and social security policies in particular. The roots of this problem lie partly in the social mechanisms of enculturation that inculcate dedicated commitment to the complex problems of the organisation. The fact that knowledge work is not so readily delimited to fixed periods of time and can be extended to the home and periods formerly for recreation is also a cause of the difficulty.

The problem of the knowledge-intensive society is not simply the extension of access to the means of acquisition and use of knowledge. It is also to protect the knowledge worker from overwork.

## **11. Conclusions and further concerns**

It must be emphasised that the above is a very broad-brush account of possible future developments in a knowledge-intensive economy. Not only is there no inevitability about them, but they can themselves be expressed and sustained within a number of quite different institutional frameworks. These range from formal legislation to the much looser acceptance of rules and legalities within a more solidaristic social culture. Many such institutional frameworks have already emerged within modern capitalism, challenging the boundaries and definitional formalities of the system.

For developed countries keen to sustain economic growth and to diminish unemployment, education-centred economic policies have a special and additional significance today. In the last two decades of the 20th century there has been rapid economic growth in a number of developing countries. New technologies have taken root and there have been substantial advances in levels of skill. This has led to the situation where a huge global workforce in the developing world can now

take on, at much lower wage costs, much of the manufacturing work formerly confined to the developed countries. The developed world now imports cheap but sophisticated manufactured goods and computer software or hardware from India or East Asia. Accordingly, in the West there has been a dramatic loss in employment opportunities for workers in manufacturing and other sectors.

In developed countries and elsewhere, the acquisition of alternative, viable skills, for which there is sufficient local demand at higher wage costs, is necessary to reduce this unemployment. Given the institutional and cultural conditions of the developed world, it is not possible to compete with the newly industrialised countries in terms of lower costs. Instead, the strategy must be to concentrate on knowledge-intensive, high-quality goods and services. In pursuing this approach the developed West has no acceptable alternative but to invest massively and continuously in education and training.

The increasing relative importance of the knowledge worker has important potential implications for the distribution of income in the future, as it has had in the past. Income inequality has widened in many countries since the 1970s, most markedly in the United Kingdom and the United States. While institutional, political and other changes have clearly affected the distribution of income, there is strong evidence that rising skill differentials and rising relative wages for skilled and experienced workers are a major force behind the change (Gottschalk, 1997; Johnson, 1997; Topel, 1997; Wood, 1994).

One problem is to break the link between growing knowledge-intensity on the one hand and growing pecuniary and social inequality on the other. Whatever complementary measures are deployed, the only substantial and enduring strategy would necessarily involve heavy investment in education and learning, to widen access to knowledge and to increase the relative and absolute supply of skilled and educated workers. In the face of rapid and dramatic global and technological changes, massive increases in effective expenditure on education and training are required to reduce both unemployment and inequality. Countries that have travelled more than others down this road, particularly Germany, have not witnessed such a significant increase in income inequality since the 1970s, and have been more able to train and relocate workers with relatively lower skills (OECD, 1993). We can learn many lessons from international comparisons of this type. One of them is that the logic of globalisation and the learning economy implies no single model for national success.

It is not simply the "amount" of education and learning that is important, but its quality, access and distribution. Real knowledge is not distributed more widely simply by improving access to the internet, for example. Knowledge and learning work at different levels, combining both the general and the specific, and the tacit and the codifiable. The recent German experience emphasises the importance of widening the distribution among the population of detailed technical skills. Many of these

skills are tacit, and require on-site training. In addition, it is necessary to enhance flexible and transferable skills. Many of these involve capabilities of a more abstract and conceptual nature. There is little value, for instance, in educating a workforce simply in the use of one particular technology, when any such technology is increasingly likely to become obsolete in a short period of time. To face the challenges of the future, people do not simply need to learn – they need to learn how to learn.

Furthermore, the purpose of education and learning is not simply to enhance the skills of people at work. In an ever more complex economy and society, knowledge is required to act effectively as a consumer and a citizen. Expert knowledge is required, and at the highest level this is inevitably confined to the specialists. But no expert is infallible. There is the unavoidable problem of scrutiny and accreditation. In a democratic society the citizen must also play a major, if not ultimate, part in this process.

Finally, education does not exist in isolation. Without the satisfaction of prior social, physiological and psychological needs – such as food, health, shelter, security, nurture, care, interaction and affection – education cannot thrive or progress. The mere provision of learning opportunities is not enough. The personality of the individual, including the capacity and motivation to learn, are largely formed in childhood. Social and material conditions are crucial, especially in the early years of life. It must be a priority to ensure that the material, social and cultural conditions of both children and adults are conducive to learning. Clearly, learning cannot be effective unless such primary needs are addressed. People learn much less effectively when they are hungry and when they lack self-esteem. The learning economy must necessarily address and gratify all human needs.

Above all, social exclusion or discrimination would thwart the general development of the learning economy. Social exclusion means lack of access to the institutions and facilities of learning. The learning economy is necessarily an inclusive economy. It nurtures and thrives upon an endless diversity of human skills and talents. At the same time, it is infused throughout with both an egalitarian culture and morality of political, economic and social rights. The detailed nature of these rights is a matter for further discussion. Nevertheless, a general principle has been established here: that the ability to access, use and develop knowledge is a key criterion of social and economic power. The substantial denial of such access to any significant social stratum or global region would lead to threatening divergences and inequalities on a scale that would bode ill for future political stability and economic development in the 21st century.

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*Chapter 5*

## **Towards Globalism: Social Causes and Social Consequences**

*by*

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### **Prelude**

Since the end of the Second World War, there has been an uninterrupted movement towards more internationalism and more globalism. The trade system has been liberalised. Capital movements flow freely between the major countries. Information and entertainment do not recognise borders. National seclusion as we knew it in the 1930s belongs to the past. Today our economic well-being and our knowledge base are firmly anchored in an international context.

A network of international institutions has been built to cope with the problems created by the nation state's failure to exercise control over economic, monetary, industrial and technological movements in its shift from the national level to the international. How can the nation state control these developments when they already operate internationally? The international system has been the response to this evolution, exactly as the British historian Arnold Toynbee coined the phrase "response to challenge" to explain the rise of civilisations.

Internationalism has for many years been taken for granted and viewed as an evolution that could only go in one direction. More internationalism and more globalism. The strength and magnitude of economic and monetary flows on the international level and the internationalisation of industrial and technological activities have confirmed this belief.

Politicians, industrialists and scholars are all operating in the framework of ever greater internationalism. Politicians consider it self-evident that they have to perform inside this model. Industrialists plan on this basis. Scholars publish paper after paper setting out how globalism will change the world, for better or for worse.



And yet, behind this screen can be detected a growing discontent with globalism. The impact on individual societies and on groups inside individual societies does not seem to be as undeniably positive as was once thought. Widening social disparities lead many people inside the nation states to dispute whether internationalism and globalism really benefit them. A growing dichotomy between the élite and the rest of the population puts a question mark on the social cohesion inside many societies – a cohesion that has been and still is the foundation for stability.

The might of the large multinational enterprises, creating havoc with individual currencies, raises the fundamental question of who is really in charge – who is governing the world.

Basically the political system refined during the growth of globalism seems to have run out of steam. Many of the problems faced by the large majority of people in the countries engulfed by globalism are not addressed by the system – at least not in the eyes of the large majority.

There still seems to be strong support for globalism and internationalism but the support is not as strong as it used to be, and it continues to wane. Policy makers seem to be unaware of this.

Gradually the following picture is emerging:

- An élite in most countries that is more and more international in the sense that its consumption pattern and its communication and information channels are more and more international, while the large majority of the population inside the nation states find it difficult to jump on the international bandwagon. The implication is a dichotomy inside the nation state between the international élite and the more nationally oriented majority of the population. There is no dialogue between the two groups. The élite hold dialogues with the élite in other countries. The majority hold dialogues inside their own caucus. The élite marvel in enjoying internationalism while the majority of the population start to ask themselves and the politicians, “Where is the beef for us?” Internationalism still rallies the majority behind its flag, but the ardour of the followers is cooling down.
- A social disparity, meaning that internationalisation and globalism result in higher production and a higher gross national product per capita, but also in a growing social disparity. Even if everyone labours in the same stony vineyard, the fruits of the effort seem to be confined to a smaller and smaller part of the population. Everyone knows that total production is growing, but the large majority are not convinced, and sometimes with good reason, that their lot is. This constitutes the psychological and political problem.
- A market that is running full speed ahead without being aware of possible icebergs directly in its path. The political counterweights and the legal and constitutional frameworks controlling the market and protecting it from the

worst abuses and distortions have disappeared in the aftermath of the end of the cold war. Market forces have become almost the saint of the century at the turn of the century.

The fundamental questions we face are:

- What are the effects on social cohesion in individual nation states?
- Can we expect globalism to continue in view of the impact on social cohesion?
- What are the policy conclusions to be drawn from the answers we find to the first two questions?

### **1. Technology, culture and organisation**

The interchange between technology, culture and organisation determines not only which cultures flourish and which do not, but also which kind of society emerges as the foundation for the social structures.

For two hundred years we have been living with:

- An industrial technology focusing on manufacturing and the generation of power.
- An industrial culture which praised everything big and homogeneous.
- A model of organisation based on rules governing relations between individuals, organisations and nation states, which highlighted efficiency, precision and specialisation.

Together this interchange produced:

- The industrial society, and
- An internationalisation to promote and control the industrialisation.

For a large part of the period, the model produced the secluded nation state. Everything was based on the nation state. All industrial companies were national, all efforts to disseminate information were national, and the nation states sought to build fences with regard to trade and information to keep outside intervention away. The organisation aimed primarily at distributing the wealth generated by the industrial process. It did not envisage participation in an international framework.

During the past fifty years this picture has gradually shifted. Today we live in a semi-international world – one that tries to assimilate the industrial structure into the stream of new technology and culture, and to shape a model for combining the national organisation with the demands of a truly international society, while still trying to apply the industrial model to the new society. This has not, cannot, and will not be successful.

Industrial technology is being replaced by new technology based on information and biotechnology. Generation of power is of no interest. Now it is about creation, dissemination and controlling information and bioengineering, processes which the industrial mind is unable to grasp.

The industrial culture is being replaced by information, entertainment and adventure.

For both technology and culture, the crucial factor is that homogeneity and worship of all that is large are being replaced by diversity, imagination and all that is small and applicable in various respects. This society can be named the non-material society. Some scholars go a step further and talk about the dream society.

Organisation faces a new era where the rule-based society will gradually be accompanied by ethics, norms and values. People and organisations will behave and act in certain ways not because they are compelled to do so but because they know and feel that such behaviour is the right thing to do. And the right thing to do is what is in their interest and in the interests of society as a whole – at the same time. The broad concept of values appears as the guideline for society (persons, institutions and enterprises). People do not look in the book to know how to behave. They call upon their conscience and values engraved into their mentality.

The secluded nation state is on its way out. That also means that the nation state as a political infrastructure is dead and buried. We face the challenge of shaping a truly international or global institutional set-up able to respond to the problems, opportunities and challenges presented by internationalisation.

And that is where the problems begin. The nation states have built an infrastructure capable of operating inside the industrial society and inside the national framework without realising what internationalism really means.

The social structures are still predominantly national. But very few of the problems, opportunities and challenges originate inside the nation state. The vast majority come from the outside world.

Thus, we have a schism between the infrastructural set-up which is primarily national and the real world, so to speak, which is predominantly international. No wonder that we are running into “cul-de-sacs”!

## **2. The new actors in the great game**

During the industrial period the political and economic infrastructure was, broadly speaking, confined to the nation state. Once set up, it worked sufficiently well to sustain the development of the industrial society. On the international scene the nation state was the *jeune premier*, in the sense that it was the ambition of the nation state which called the tune. Only late in the industrial period did international institutions begin to emerge, but all of them except one – the European Union – had very limited powers.

As the generation of wealth and the distribution of this wealth are transferred from the national to the international scene, the same is happening for the political and economic infrastructure, which now has the control of this political game as its objective. The machinery to deal with social problems and social structures in our societies is becoming devoid of substance as long as it operates on the national level. It has to follow suit and jump from the national to the international arena. Thus one actor is replaced by a string of actors all fighting for a place in the sun.

*The nation states* are no longer *jeune premier*. They are performing the dying swan – sometimes with very little grace, but no other role is available in the script of history. Economics, trade, politics, security and social structure – all the elements forming the substance are operating internationally and do not recognise borders. Any form of legal framework to control these topics will prove hollow because the substance avoids any national legislative framework. The conclusion is simple enough: the defence of national interests has to move from inside the nation state to the international level, and that means participating in an international effort to shape conditions that provide possibilities for the nation state to forge and finance the society and the social structures it wants. This explains the emergence of international institution after international institution, and why sovereignty is being transferred so that nation states no longer take decisions in isolation but in common. An often-heard misunderstanding is that nation states hand over sovereignty to these international institutions. The truth is that nation states decide to exercise decision making in common. They do so not because they love it but because they need to. The alternative is “declaratory” decision making – decisions that look nice on paper but that have no impact.

Inside the nation states *the regions* are enjoying new-born freedom from cultural imperialism exercised for decades, even centuries, by artificial nation states. The regions go international in the sense that they feel more and more attached to internationalism and international institutions as a substitute for the nation state. Citizens in Europe feel more like regional citizens, European citizens, than citizens of a nation state. They try to solve their economic and social problems in the context of internationalism instead of through the nation states. The region has become a new actor trying to offer participation in the economic internationalisation and local cultural identity at the same time.

As if this were not enough, *cross-border regions* are appearing as actors in the power game. In Europe such regions can be seen on both sides of the Rhine, both sides of the Alps, both sides of the Pyrenees, in the triangle Vienna-Budapest-Prague, and in the Baltic area. There is more common interest between citizens in Denmark, Southern Sweden and Northern Germany than between citizens in the northern part of Germany and Bavaria or between citizens in Skåne and citizens in Norrbotten.

*The enterprises* grow bigger and bigger and assume great economic and information-based power to the detriment of the nation state. The nation state finds it increasingly difficult to provide its citizens with social services (welfare, education and entertainment): the enterprises take over. The employees in the enterprises no longer appear as employees but become “citizens” of the enterprise. They feel increasingly attached to the enterprises as they lose their attachment to the nation state, because the nation state can no longer deliver. The enterprises exploit the window of opportunity providing ethics and values to the staff and in doing so become the vehicle for the social security sought by the staff, not so much in economic terms but in terms of mental security. In a world becoming more and more stressful, people look for a safe haven with regard to their identity. They work in the enterprises not so much to earn a salary but because the enterprise and the staff have common values.

*The international institutions* become, one could say, the decision maker of last resort. This is where the broad framework is being laid down for the economic, cultural and social evolution inside as well as outside the nation states. Those who want to influence these rules governing our societies have to bypass the nation state and operate with the international institutions. The most striking example is that international courts of justice can force nation states to abandon national legislation if it goes against their international obligations. And who decides if that is the case? The answer is international institutions – not many people are aware of this added dimension to decision making.

*The pressure groups and non-governmental organisations* are among those who are. They have shifted remarkably fast and remarkably efficiently the grain of their activities from the national to the international level. Why bother with these national governments and national parliaments when the real power is at the international level? It is far better to appeal to, for example, the European Parliament than national parliament. It is even better to appeal to international public opinion than to public opinion inside a nation state. There are several cases where pressure groups have managed, by playing on internationalism, to force a nation state to undo legislation.

### **3. The impact of globalism and internationalisation**

#### ***Social disparities***

Few will dispute the consensus view – otherwise it could not be called a consensus view – that internationalisation and globalism have led to strong growth in gross national product per capita. Many will agree with the statement that at the same time, social disparities have risen. However, the reason for the latter is contested and it is

even more contested if one goes a step further and blames it on internationalisation and – to call it what it really is – “a new kind of global capitalism”.

The figures leave little doubt, however, about the state of affairs. The latest UNDP report brings to light the following facts:

- In 1820 the ratio between the richest and the poorest nation was 3:1. In 1913 it had increased to 11:1, in 1950 to 31:1, in 1973 to 44:1 and in 1992 to 72:1. These are burning figures.
- In today's world the 200 richest people have a fortune equivalent to the annual income of the group of least developed nations. Of these 200 people, 65 are found in the United States, 55 in Europe, 13 in other industrialised nations, 3 in Central and Eastern Europe, 30 in the Asia Pacific, 16 in Africa and 17 in Latin America.
- The OECD has shown that disparities, defined as income after tax (disposable income), in the decade 1980-90 grew strongly in the United States and Sweden, but less so in Australia, Denmark, Japan, the Netherlands, Norway and Belgium. There was no change for Canada, Israel, Finland, France, Portugal, Spain or Germany. Only in one country – Italy – could a decreasing disparity be spotted.

These figures do not prove that internationalisation is to be blamed *per se*. But it cannot be disputed that there is a correlation between this growing disparity and the growing internationalisation of economies. One of the complaints heard from the transition economies in Central and Eastern Europe is that while they do not dispute – indeed they welcome – the strong growth in gross national product, they have to grapple with problems of social disparity hitherto unknown, or maybe kept hidden. One topic that pops up again and again in discussions about the Chinese economy is that while it is steadily producing growth rates between 7% and 10%, observers highlight the growing social problems inside Chinese society.

A *key question* is whether global capitalism can thrive without increasing social disparities inside nation states and between nation states. As the figures mentioned above show, the answer has so far been no. *Another key question* is whether such a pattern is sustainable and if not, what will happen. Or, to begin in a more positive mood, can the pattern be reversed, and is something to that effect already happening?

Attention is shifting towards preventive social policy and the concept of social capital. These concepts constitute the counter-attack.

*Preventive social policy* implies some kind of conceptual break with the past. In the industrialised world social policy and social welfare were conceived in an exclusively economic framework. If people were hit by the economic onslaught, they had the right to be paid by the state, making it possible for them to maintain some kind

of life even if not at the same standard of living as before the event took place. Old age pensions, allowances in case of invalidity, and unemployment allowances are all examples of this kind of thinking. It could even be said that where a person was not able to contribute to the national product, he or she was paid by the state to stay away. What emerged here was a kind of external social diseconomy. It was cheaper for the nation state to remove superfluous persons from the productive part of society and pay them to stay away. By doing so, productivity could be kept high and competitiveness maintained. In other words, gross national product increased sufficiently to allow the rest of society to pay those in need or those without the necessary skill to quit the productive part of society and still be better off.

It is difficult not to conclude that it was a cruel way of thinking.

Preventive social policy means that efforts are directed at maintaining the overwhelming majority of the population – if possible, the whole population – inside the productive part of society, conveying the impression that everybody contributes and that everybody counts. This kind of thinking thus abandons the exclusive economic pattern and opens the door to the psychological side of social problems.

This can be done in a national economy. The problem is to do it in an international economy. How do we implement such policies in a world where there is incessant demand for higher productivity and competitiveness and the risk of enterprises, research and development shifting location – unless we keep pace with the pack and in some cases even become the leader of the pack?

On the macro level this requires some kind of contract between the public sector and enterprises. The important thing is to make the enterprises an active player in the game. The social system – in particular, the welfare system as practised in Northern Europe – saw the enterprises as outside the game. They did not contribute to welfare. They paid taxes, yes, but that was their contribution and they did not see their role as political or psychological. They felt little or no responsibility towards staff laid off because of slimming down or cutting off unnecessary fat or whatever phrase was used to justify firing workers. It was the responsibility of the public sector to take care of those persons in society not employed by the enterprises. The climax was reached during the 1990s, and unfortunately was linked to internationalisation. Page after page of business news announces – often with trumpet fanfares – reduced payrolls and this or that enterprise reducing the number of workers by 5 000 or 10 000 or whatever number is relevant. One page later it says that the management of the same enterprise has allocated stock options to themselves leading to annual salaries of \$10-50 million dollars. In this way, the schism between, shall we say, the ugly part of global capitalism and the staff is revealed. Participation in global capitalism opens the window to enormous gains in productivity, and thus profits, provided that a sufficiently tough line is being taken to reduce the number of employees in the enterprise. But how can staff and workers

be expected to applaud the global capitalism bringing this about? Or the equation of reduced payroll leading to higher profits producing higher salaries for management? It looks as if management is being rewarded every time the staff is reduced and it seems that the vehicle for this development is globalism.

It is no wonder that the public sector in the nation state finds it increasingly difficult to cope with this burden. That is why there can be seen emerging, slowly but surely, a social conscience for what might be called social responsibility inside the enterprises. In the first place, many enterprises feel that they have a responsibility towards the staff. This goes for a great number of the social welfare benefits hitherto administered by the nation state. It also goes for entertainment and leisure activities. Such a policy makes the staff feel much more attached to the enterprise. In fact what is seen emerging could be called a cultural profile of the enterprise providing identity as well as social welfare for its staff.

On the micro level a network is being built among citizens in the local communities and inside the enterprises. People try to support each other. This does not apply – at least not yet – to economic benefits where we are all still on our own without support from neighbours and colleagues, but it does apply to the psychological side of the social welfare problem. A support factor is being built which starts to operate in case of unemployment or other social problems, making the individual feel that he or she is sliding out of the active part of society.

In many enterprises, staff and management are working together to help individuals experiencing problems, *e.g.* alcohol or not being able to assume a 100% job. Facilities are being provided that enable the individual to stay inside the active part of society and draw upon the network to support and assist. Special job functions labelled “protected work functions” are being set up. On the other side of the coin are conditions that the individual in question has to accept. In the old welfare system the person received money – and that was that. In fact the condition imposed upon the beneficiary was that he or she kept out of the way. The preventive social policy and the network only function if all the participants – those who help and those who benefit – assume obligations and responsibilities. This is new in the welfare concept. The beneficiaries are now faced with a little list of what they must achieve. If not, “something” will happen – “something” unpleasant. It is not a free ride. It works. The duties imposed upon the beneficiaries make them understand the system and activate them much more than just being placed at the receiving end of a money pipeline.

*Lifelong education* combined with flexibility and mobility is one of the most important instruments to move this development along. In the old industrialised society people were educated at a young age and that was that. In today's non-material society no education lasts for very long. It needs to be supplemented and to a certain extent replaced by new tools and, most importantly, by new ways of thinking.



The common interpretation of unemployment was that it was a cyclical phenomenon. So people unemployed today could be re-employed a couple of years from now in the same industry doing more or less the same job. Why waste money on re-educating or retraining workers? No need. A welder without a job because of a slump in the shipbuilding industry would re-enter his old job when the industry picked up. As long as unemployment was a cyclical phenomenon, this way of thinking was simple enough.

But now most unemployment is not cyclical, it is structural. People are on the dole because their skills belong to an industry that is dying. The welders in the British shipbuilding industry losing their jobs in the 1970s and 1980s saw the yards being closed down – one after another. Their skills could not be used any more. The 21 000 Japanese workers declared superfluous by Nissan cannot expect to be employed again by Nissan or any other car manufacturer. Unemployment is a consequence of working in a sunset industry with an obsolete skill.

The way out of this is to introduce into the labour market continuous education. This means two things. In connection with unemployment, it means that people acquire skills that can be used outside their traditional job. Their chances of shifting to other jobs will greatly increase. The spectrum of job opportunities is widening. They can shift inside the same enterprise or they can shift from one job in an enterprise to another job in another enterprise. It also means that their productivity is increasing, thus reducing the risk that the enterprise will lose in the competitive game.

Lifelong education is thus killing several birds with one stone. It enhances skills, knowledge and the ability to handle more than one function, increasing the number of jobs or functions for the worker in question. It increases the competitiveness of the enterprise.

The drawback is that in the short run it costs money, and the problem is that the enterprise cannot be sure that if it invests in the worker, he or she will stay with the enterprise. This therefore calls for a combination of efforts encompassing the enterprises, the public sectors and the trade unions. Only by such a concerted effort will the chances for a successful implementation of lifelong education on the labour market be sufficient to warrant the big investment in human resources called for.

The key is to think and act to promote human resources. In the industrialised society labour was a production factor like machinery. In the non-material society workers are not workers, they are human resources to be developed. It is what is inside the skull – the small grey cells – that matters, and the ability to handle situations and find answers that constitutes human resources. Only nation states, institutions and enterprises thinking in this way will be able to jump from the old welfare system with unemployment allowances to the non-material society with preventive social policy and lifelong education.

We are moving towards what Joseph Schumpeter called *workfare* instead of welfare and workplace. This goes hand in hand with *social capital*.

Returning to the comparison with the old industrialised society, there were formerly three production factors: raw materials including soil, machinery, and labour. Later we discovered human capital instead of or as a supplement to workers. Now we discover social capital.

Taking the case of Russia for example, an analysis of that country's endowment with production factors should reach the conclusion that the Russian economy is strong and buoyant. Yet that is not so. Why?

Because there is no social capital. Mutual confidence between individuals and trust in the public sector and other service facilities in society are absent – totally absent. When this is the case people keep their knowledge to themselves. They do not share what they know or their hard-won experiences. The dissemination of skills and knowledge applicable in the productive part of society does not happen. An educated worker knows how to perform certain functions. He is the only one. He keeps it to, and for, himself. He is afraid that if he spreads his knowledge others will take the job away from him. People in possession of money do not put it in the bank. They keep it in gold or US dollars under the mattresses. So the financial system, if ever there was one, ceases to function. People are not paying taxes because the public sector does not provide them with any services, so if they need something they have to pay for it themselves and cannot do so if they have paid the money to the public sector. Society breaks down; there is no network. Everybody fences for his or her own good.

The opposite is a society where we have this trust and mutual confidence. Skills are spread around society not because people are ordered to do so, but because they know and feel this will increase production and productivity, thus making everyone – including themselves – better off. They put their money in the hands of the financial system, which uses it to finance production. They pay their taxes and the public sector rewards them.

Productivity is much higher in societies with a high social capital than in societies with little or no social capital.

*The key point* is to understand the need for service functions to support the active part of society. In the old industrialised society we had the industrial or private sector and the public sector. In the non-material society, with the onslaught of globalism, the borderlines disappear and we see clearly that productivity in the industrial part of society can increase only if it is supported by a strong service sector, for which the public sector must provide the lion's share.

Globalism and internationalism are quite ruthless. No one can hide. Even the most remote corners of society feel the repercussions. Social structures become a consequence of how well we respond to these challenges. If we accept the need to

operate internationally and if we understand or try to understand the patterns (opportunities and limits) traced by globalism, the manoeuvring room for the domestic social structures is available. If not, if we continue to think nationally and in terms of the industrialised society, we will be washed away by the strong current and we will then risk a backlash generated by the majority of people.

### ***Communication and information***

The élite look to the élite in other countries for communication and information while the majority of the population are confined to national or local media. It has probably always been like that.

The difference now is the speed and the quantity of information pulling the élite out of the national framework. In many nation states the élite are educated abroad (or at least receive some of their education abroad), they follow international news, they enjoy international entertainment, they adopt international fashion, they travel, they make friends in other countries, they marry across borders. In short, the framework for the élite is no longer the national culture or the national society. Their culture in the broad sense of behaviour in daily life loses the links to the national culture and the élite measure their behaviour against that of the élite in other comparable societies and nation states.

News channels like CNN epitomise this development, as does international entertainment controlled by tycoons like Rupert Murdoch.

On the other hand, the majority of the population are still confined to the national framework. They read national newspapers, they follow national news, they get their education and entertainment inside the well-known, established national pattern.

The implication here is a “dichotomising” of society. To paraphrase Karl Marx, the élite in all countries unite, leaving the majority behind in a national cave.

The dialogue inside the nation state is starting to break down. The sense of commonality disappears in the mist of globalism versus localism. The élite and the majority of the population may speak the same language but they do not mean the same thing in using the same words. Language stops being a part of civilisation. Instead it becomes one of several instruments for passing messages around.

The unwritten understanding that the nation state is governed by the élite in the interest of the nation state as such is not necessarily valid any more. A growing feeling, even suspicion, arises among the majority of the population that the interests of the élite are congruent not with the interests of the majority but with the interests of the élite in other nation states. The establishment around the world of large international banks, the multinational companies, the behaviour of IMF and the World Bank all work in the same direction. The same goes for the

preponderance of the United States serving as the focal point for the élite, and in the late 1990s without any counterweight.

This is one of the reasons why in many countries around the world we see a strong revival of traditional cultures and religions. The élite may or may not take part in this evolution. In fact the élite often try to prevent it and sometimes show that they hold the traditional culture in low regard. In most places the movement originates among the majority of the population. It begins as a bulwark against globalism and internationalism, a way for the majority of people to maintain their own lifestyle regardless of the mighty attack of the global and international flow of communication and information.

So the élite continue to enjoy the fruits of global communication and information while the majority of the population move back to basics. Social structures start to fall apart and homogeneity, if it ever existed, is replaced by layers of society more or less unable and unwilling to communicate with each other.

The concept of *mondoculture* has entered our vocabulary. What we see is some kind of mondoculture with regard to superficial information and entertainment. But behind this screen we also see a strong revival of traditional family cultures pointing to well-established cultural patterns with deep roots in national or local communities.

The *first key point* in this connection is whether the superficial mass culture can coexist with the deep-rooted family cultures – the basic culture.

The *second key point* is whether those who get their information from international networks can convince those who want to be firmly anchored in local basic culture that the stream of communication, information and entertainment from abroad is beneficial to society as a whole and not only to the élite.

The answers to these two questions are still blowing in the wind. They will determine whether globalism and internationalism can continue or whether we will see a counter-attack mounted by the majority of the population to reintroduce a more – nationally – secluded communication and information system.

### ***The education system***

The structure of an education system depends on the kind of society it serves – agricultural, industrial, non-material. The social structure determines how large a portion of the population will get access to the education system.

In the industrial age the education system was intended to prepare people for the industrial workplace. It therefore taught people how to answer questions and provide solutions to problems. The high point was how to dig a ditch which in various guises accompanied the pupil from grade one to grade twelve. If two men can dig a ditch in four hours how long will it take one man? This related admirably and immediately, without any barrier, to the industrial society. On their way back home

from school pupils could see people digging! The education system also turned pupils into specialists but at a later stage in their life in the education system. The industrial structures required mastery of all kinds of tiny mechanical details that had to be calculated and produced. So we had the specialist trained in answering questions and delivering solutions.

In the non-material society it is almost the other way round. The computer provides the calculations – cheaper and faster. So the challenges become how to ask the right questions, how to define the problems and how to choose between various alternatives offered by the computer. If we build a ferry boat the computer tells us that we can have it with a speed of 20 knots and space for 200 cars or space for 150 cars and a speed of 23 knots. What do we want? How do we trade off these alternatives? We need also to think and behave like creative human beings fulfilling the role that lies outside the performance of the computer. We need the generalist to do that, a human being who is able to combine all kinds of data into the concept needed just now (in short, able to conceptualise). Having done that once, the generalist may, a week or two later, have to conceptualise in a different way because our needs may have changed (another concept is needed). The digger has no place in this society; not only is the digging education system obsolete, but its value added is negative as it puts a roadblock – the wrong way of thinking – in the way of people and society.

Unfortunately, the education system tends to become more expensive. In the good old days, it was comparatively cheap and society could afford to pay for education for a large part of the population for a large number of years. Only the very élite educated in selected – self-selected – universities required the students to pay for themselves.

Now the principle of “pay if you can, or stay outside the learning process with disastrous consequences” is creeping into the heart and soul of societies. Apart from basic education, which to many observers is deteriorating in quality, the pay principle hits an ever-larger share of pupils. The implication is not difficult to grasp. The door to higher education is no longer open to everybody, but only to those in the population who can afford to pay. Gradually the principle of “either you are well off and well educated or you are not well off and not educated” dominates society. It is rare to find someone poor and well educated or well off and poorly educated.

This is where the social structure comes in as a determining factor. A low social mobility means that a low share of total population gets access to the higher echelons of education, while a high social mobility produces the opposite results.

Many people have for years heralded the social and geographical mobility of American society and criticised European societies for being petrified. Few if any would dispute the geographical mobility feature, but a similar picture is not detected for social mobility. One of the barriers in the way of ascent from the bottom or even the middle stratum of society in the United States is exactly that: the pay principle

prevents these social groups from moving into the education system and thus into higher strata. There seems to be evidence that a limited share of the American population enjoys the luxury of access to higher education because the rest is not able to pay. The United States thus mobilises a comparatively small part of its *own* human resources. In the much-criticised European societies where the welfare system is practically ridiculed, social mobility is much higher because higher education is financed by the public (at least to a much higher degree than in the United States, even if this is not universally the case). You do not need to be well off to get into universities and stay there for the period it requires to get your BA, MA or whatever. The European societies thus mobilise a much higher share of their human resources. And with regard to social mobility they are much less petrified than the US system.

The *key point* is that social structures and social mobility determine the long-term competitiveness of nations by opening or closing higher education for a large portion of the population.

Now comes the *key question*: why is the United States doing so well in spite of this? Because the country is importing talent from abroad. And who pays for this? The talent-exporting nations? No, the élite in the talent-exporting nations!

The fact that English is the international language, the fact that the US universities rank among the best in all major areas, and the fact that they operate on the pay principle means that from all over the world the élite send their children to the United States to study. This provides the United States with an imported mass of talent which that country has not paid for, and the exporting nations with a smaller highly educated élite even if they paid for a larger one. It also increases the gap between the élite inside the nation state and the majority of the population.

It should in principle be good that higher education is becoming more and more international and more and more global. However, the question looms whether this is indeed so.

The *key observation* is that we have a double dichotomy: inside the nation states, between the élite and the majority of the population; and outside the nation states, between the poorer nation states not able to finance high-quality universities and the richer ones, in particular the United States.

### **Minorities**

The social structures in many nation states tend to focus on the problem of minorities in terms of immigrants and sometimes in terms of refugees.

The élite become less and less rooted in their own nation and their own national culture because they tend to digest their intellectual food in an international context.

The minority also tend to feel less attached to their roots because they often have their roots in another nation state. They are not always welcomed by the majority if they display their original race, religion and culture. The minority do not enjoy the luxury of the élite to choose between various cultures and where to live. The fact that they are torn between roots in their original nation or culture and impact in their new home nation or culture makes life very complex and sometimes uncertain in view of historical experiences that are not always positive.

The borderline between rich and poor often follows borderlines between minority and majority of the population. On top of the ethnic and religious problem there is also a social one.

Either the rich segment of the population belongs to a minority possessing a large proportion of income and wealth – this is the example of some nations in East Asia where the Chinese minority possesses considerable economic power – or the lower social strata are constituted by minorities, often immigrants or guest workers, having arrived to settle in the nation state in question but not being able to work their way upwards.

The *key observation* is that in both cases the combination of social structures and globalism tends to worsen instead of helping to solve the problems. The rich élite enjoy the fruits of globalism and transfer large sums of money out of the nation when problems arise, as was seen in Indonesia. They can only do so because globalism keeps the door open. Malaysia took a step in the direction of closing the door at least for a while when introducing restrictions on outward capital. The poor minority compete with the lower indigenous social strata for jobs in that category, and as seen in several European nation states this gives rise to social and political tensions.

The *key conclusion* is that it is very rare that ethnic and religious tensions are not accompanied by social tensions, and that globalism frequently either aggravates these tensions or makes them possible.

#### **4. The political consumer and the political enterprise**

As we all know, Adam Smith coined the phrase “the invisible hand”, explaining how the market would guide economic activities and determine which producers were most competitive and which products were in strongest demand. Some may dispute that the market plays that role now, with the large monopolies and concentration of financial and technological power.

However, the market is coming into focus as the ruler of another process of selection: the selection of values.

The *key point* is that consumers and enterprises assume some kind of leadership with regard to selection of values, and they do so by the market mechanism.

The political consumer is a consumer who is building into his or her preferences not only the usual and well-known economic criteria, but also the value factor. The product is being demanded or shunned because of values, ethics, etc. This has been seen for a long time with regard to the environment. What is new is that it is also seen in the area of true ethics – what is good and what is bad. Examples are legion, but to mention just a few: animal welfare, human rights issues and the question of ethnic minorities. Companies such as Shell know very well what it means to be up against a strong trend of consumer preferences based upon ethics.

The *key observation* is that the political consumer becomes a player in the power game – not in the traditional party politics paradigm but in a new paradigm where preferences select enterprises that have guessed the evolution of ethics correctly. More of the same. This game increasingly takes place at the international level where pressure groups throw their weight around and influence institutions.

There is feedback from the grass roots, and to a certain extent it works. And it uses the market mechanism by way of purchasing or non-purchasing.

Some observers talk about the internet as a channel for democratic expression in the future. They may be right or wrong. But they should instead focus on the already existing use of the market to influence political decisions.

Some would say that this is happening because the traditional political process does not work anymore. The feedback between the electorate and the politicians is becoming weaker. Politicians are being pulled away from the voter because he or she needs to be near the power centre, and in some cases this is international.

Thus, the emergence of the market mechanisms as a channel for political expression is another consequence of the dichotomy between the élite and the majority of the population. The majority and/or grassroots are not heard by the traditional political hearing aids. They then seek other ways and other channels to influence decisions of importance to them and their daily lives. And this channel is to go directly to enterprises and to push them toward the “right” behaviour.

This is natural because what we see emerging is the political enterprise. In today's world very few enterprises can exist, never mind expand, without becoming more and more political. This does not mean party politics in the traditional sense but political in the sense of showing the way ahead and putting forward ideas, ethical values and positions *vis-à-vis* the problems.

The *key point* is that ethical leadership is gradually being moved away from the political game as we used to know it and to the pitch of the large enterprises. Who is most important for the destiny of citizens in a middle-sized European or Asian nation state: its Prime Minister, or Bill Gates, or Rupert Murdoch? The answer is no longer self-evident. So what do we do to channel our views to this mighty person or this mighty enterprise?



The *key observation* is that we force them to adopt values and to put them forward to us. No enterprise is allowed to hide its head in the sand like an ostrich, and not say what it stands for. It is required to do so one way or another, not necessarily for all issues but for some of the major issues on the agenda. An enterprise wishing to invest in Burma will have to say where it stands with regard to human rights. An enterprise wishing to lay a pipeline in the Amazon will have to announce what it thinks about the ecology of the operation. An enterprise selling toys produced in some of the Asian countries will have to make clear where it stands with regard to child labour.

Gradually we see emerging another concept beside the political enterprise: *the cultural profile* of the enterprise.

And here we come to the *key conclusion*. Customers and staff are attracted to or repelled by the values the enterprise stands for. They wish to know them and they wish to express their attitudes. They form a social and cultural link to the enterprise. If the values are perceived as positive, consumers buy the products of the enterprise and staff are attracted to work for the enterprise. If the values are “negative”, the customers do not buy the products and staff do not want to work for the enterprise.

Thus the emergence of the political consumer and the political enterprise goes hand in hand with the breaking down of traditional social structures where people are attached to the nation state which delivers social and cultural security. It does not do so any longer. The enterprise as a political enterprise with a cultural profile has not replaced the nation state, but it is among several players moving into the vacuum created by the disappearance of the nation state.

As consumer patterns and large enterprises operate internationally, this development contributes to sever the link between the international élite and the more national-oriented majority of the population.

## 5. Conclusion

### *Where do we go from here?*

For many decades the political and economic architecture erected by the industrialised society and the industrial technology served us well. It no longer does so. Social structure based upon the nation state system is breaking down, and often faster than is imagined. During the nineties we have seen the market as an economic factor play the game without any opposition and/or any counterweights. The impact upon our well-known and well-established social structures has been almost devastating.

We face some awkward but crucial questions and political decisions. Do we want or accept an international system able to replace the old nation state system as a legal and political framework capable of controlling development? If so, can we design one? What will the main rules be, and who will be the main players? Do we

want the market to continue its forward march without any parapet? Is the present and growing social disparity inside nation states congruent with stable development? Is the dichotomy between the internationally oriented élite and the large, more nationally oriented majority sustainable? How will emerging new players, such as the political consumer and the political enterprise, make their mark on the future power game?

All these questions need to be addressed by the politicians. Some of them need to be answered, and fast.

Most, if not all, of the analytical part is readily available. What is missing is the political act – that is, a design similar in scope and determination to the one bringing the world forward in the late 1940s. That one was based upon the national welfare system, the concept of collective security and economic internationalisation.

The *new* design might feature:

- Less social disparities inside as well as between nation states.
- Another concept of social welfare focusing more upon the role (rights and obligations) of the individual.
- Economic and political institutionalising on the international level comparable to the domestic political and economic architecture that served the industrialised nations so well.

Chapter 6

## The Prospects for Social Renewal

by

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### 1. Introduction

What are the decisive social challenges that the world's developed countries are likely to face over the next two decades? How will those countries meet the needs and aspirations of their citizens? Which forms of social organisation will survive and which face a future of irretrievable decline? These are the questions taken up in this chapter.

#### *The mismatch between economy and society*

Around the world a lively debate is taking place about how societies can renew themselves in the new century – adapting to change while also preserving the things they value. In Europe, debate has focused on the future of generous welfare provision, highly regulated labour markets, and collective provision for old age. In North America debate has focused on the social effects of the new economy, inequality (including continuing racial inequality), the sustainability of mushrooming prison populations, widely varying health levels that are in some areas as low as the poorest developing countries, and widely varying levels of educational attainment. In East Asia, in the wake of the recent crisis and economic stagnation in Japan, the debate has focused on the future of the family, ageing, and the survival of everything from provident funds to jobs-for-life employment norms. Attention everywhere has turned to the implications of a sharp acceleration in globalisation: greater flows of money, culture, people, information and goods, and more powerful global institutions and communities, from science and business to non-governmental organisations.

So far this phase of globalisation has been marked by a mismatch between economy and society. The global economy is by many standards remarkably

healthy. Trade and investment are buoyant. Productivity is growing rapidly by historical standards, with a surge of new technologies and products. The availability of cheap capital, combined with macroeconomic stability, has helped many economies into a benign equilibrium of low inflation and low unemployment.

But the extraordinary economic dynamism of the new knowledge economy has yet to be matched by a comparable social dynamism. The rapid integration of the world's economies has been accompanied by strong pressures towards social disorganisation (with greater individualisation and the weakening of old communities) and by political fragmentation (with the rise of identity politics and new national and regional interests, particularly in the former communist world).

The resulting imbalance between the economic, the social and the political has contributed to the legitimacy problems of globalisation. Despite rising living standards, there are widespread fears that the spread of global markets is “out of control”, that democracy is being bypassed by global business and unaccountable global institutions, and that many societies are paying too high a social and environmental price for economic growth. Certainly large minorities are not sharing the benefits of economic growth and technological progress, and everyone, however prosperous, is affected by problems of crime, drug abuse and social fragmentation. One measure of the problem is the widening divergence between the growth of GDP and the stagnation, or even decline, of broader measures of welfare in many Western countries over the past twenty years.

The great unanswered question of the new century is what role governments – and governance more broadly – can play in responding to this imbalance. So far governments have often appeared sidelined by the pace and complexity of change in culture, technology and society. They have been slow to adapt, to retool, and to focus their energies on the challenges of the future. They remain hugely powerful players, controlling between a third and a half of national income in most OECD countries, but too few have been confident about how best to use that power to revitalise their societies.

This chapter argues that there is a crucial role for governments to play in the next phase of social renewal – but it will be a different role from that played by governments in the second half of the 20th century, one that will use radically different means.

#### ***Four themes for social renewal: institutional reform, justice, responsibility and holism***

In the recent past, societies have been able to survive and prosper in very different forms. The sheer variety of countries as diverse as Japan and Germany, Ireland and Taiwan, Portugal and Singapore, tells against any overconfident generalisations about which kinds of society will thrive in the next century. But almost all developed societies face some challenges that are similar – adaptation

to an economy based on knowledge; ageing populations and falling birth rates; new forms of social exclusion; multiplying global connections; pressures to achieve environmental sustainability; changing public values.

This chapter suggests four main themes to inform how societies should respond to these challenges.

The first is an argument about *institutions*. Those institutions through which people live, work and are cared for, including nation states, corporations, organised religions and trade unions, have tended to become weaker over the past two decades. The causes are many, but the most important ones have to do with what can be called *connexity*: the new connections and freedoms that make it harder for institutions to command loyalty, commitment and resources. For some, this weakening of structures and institutions is cause for celebration, and it has indeed been associated with an expansion of choice and freedoms. However, well-being depends on reliabilities as well as freedoms. Few people can thrive without some guarantees and certainties, and many have suffered greatly from the rising fluidity and insecurity of social and economic life, from weaker families, unemployment, crime and mental illness. Previous periods of rapid change tended to be followed by periods of active reconstruction as governments – and civil society more generally – helped to put in place more stable institutions and orders to spread the benefits of progress. Now, once again, we need to create new institutions, rules and guarantees, covering everything from monetary policy to welfare, from lifelong learning to knowledge, from old age to crime reduction. Not all of these will be national. Increasingly, the most effective institutions will be organised at other scales – global and European, regional and local – to serve as the spines around which freer, and longer, lives can be lived.

The second is an argument about *justice*. During periods of rapid social change, politics can amplify differences and conflicts, or it can ensure that there are more beneficiaries and that the losers are supported. The implicit and explicit social contracts that all societies rest on, the entitlements and obligations of rich and poor, men and women, cities and countryside, old and young, have become frayed in recent years. There are many reasons for this, including greater mobility for the wealthy and ideological contests over the roles of men and women. These social contracts now need to be renewed to fit today's needs: helping people to cope with the complexities of longer lives and greater equality between the sexes; widening access to knowledge and opportunities rather than effectively wasting the talents of 20-30% of the population, as many societies now do; and redefining citizenship to fit the realities of the 21st century.

The third is an argument about *responsibility*. Highly populated and complex societies only work well if their members are able to take greater responsibility for their actions and for their lives. The alternative is more coercion, regulation and direction, and an unsustainable rising burden on the state. In a range of fields –

from work and learning to health and security – it will be argued that greater personal responsibility is the complement to new institutional spines, and the foundation for societies that are better able to organise themselves. Responsibility to all, the founding principle of social justice, needs to be matched by reasonable expectations of responsibility from all. In the age of the internet, environmental threats and open markets, self-efficacy and moral maturity become invaluable qualities for any society to cultivate.

The fourth is an argument about *holism*. Many of the 20th century's greatest successes came from reductionism: breaking issues down into their component parts to guide the organisation of bureaucracies, production lines, or whole economies. Now many of the most important issues require more holistic, systemic ways of thinking that build on the insights of reductionism, but go beyond them. So, for example, economics is having to come to terms with the social and cultural foundations of successful market economies (learning from the disastrous application of non-holistic economic theories to former communist countries and much of the developing world). Health care specialists are coming to terms with the role of well-being and the environment in explaining sickness and health; sociologists are grappling with the hugely complex array of biological, economic and cultural factors that shape families and communities; and, to take a very different example of holistic thinking, political theorists are coming to understand that every devolution of power downwards needs to be matched by stronger shared institutions of co-operation at higher levels if communities are not to become insular and chauvinist. In almost every field, the challenge is to develop holistic ways of thinking – and acting – that are as practical and rigorous as the reductionist ones that dominated much of the last century.

These four tasks are closely linked. Together they amount to a challenge to match the dynamism of the new knowledge-based economy with a comparable dynamism in society.

Fortunately, there are grounds for optimism that these tasks can be accomplished. For the first time in a generation, some of the key indicators are now moving in the right direction in many countries: structural unemployment, crime, and even divorce rates are showing signs of improvement. Governments are beginning to develop policy agendas that seriously respond to the new environment as well as sharing, benchmarking and communicating policies to each other: learning from what works. The connections between economic and social policy are becoming better understood: economic success depends on human and social capital, and the widest possible access to knowledge and opportunity; and social success depends on a dynamic, entrepreneurial economy creating jobs and opportunities. The promise is that societies can transcend the false choice between economic success and social cohesion that has bedevilled politics over the past two decades.

## 2. The drivers of change

It is never easy to disentangle the truly powerful agents of change from those that are marginal. Looking back over the past thirty years few can agree on the relative significance of the contraceptive pill and television, of the car and feminism, of bond markets and microprocessors. Some spheres change at bewildering speed – such as finance, fashion and consumer markets – and by some measures the speed of change appears to be accelerating. Strictly speaking there is no such thing as a measurable “pace of change”, and no evidence that it has speeded up. Most OECD societies are far more stable than they were during the fastest phases of urbanisation in the 19th century, or during and after the world wars. Even technological progress is by no means relentless. Aerospace, which moved in just sixty-six years from the first manned flight to the landing on the moon, and which at one point looked set to revolutionise societies, is now almost stagnant by previous standards, with only a vestigial space programme and an industry dependent on planes designed and often built thirty years ago. Even IT and the internet have arguably still not had as much impact on daily life as electricity, the car or television.

Although there are many examples of spectacularly rapid change, most of the fundamental processes of change still move relatively slowly. Six of these processes are particularly important.

### *Knowledge and technology*

Throughout this century the contribution of knowledge as an input to the economy has risen at roughly one per cent each year while inputs of matter and energy have declined by roughly the same amount. At the same time the scale of scientific work has steadily risen, until today more scientific work is done each year than in the whole of human history up to 1900.

The most important outputs of science take several generations to work their way through society. It took fifty-sixty years for the full effect of the internal combustion engine to be felt in the physical organisation of suburbs, supermarkets and motorways, and roughly the same length of time for the full effect of electricity to manifest itself in consumer durables industries, which in turn freed women from the obligations of domestic labour. Some of the barriers to the diffusion of technologies are technical, but most are social and organisational. The same pattern is occurring with information technologies: more than forty years after the invention of the semiconductor it is only now that computers are having a measurable effect on productivity statistics. Moore's law has been operative for thirty years, and may have another ten to twenty years to run before the physical limits of miniaturisation are met (or quantum computing takes over). Even now, however, IT is not a mature industry and new waves of innovations – from commerce on the world wide web to pervasive computing, from digital television to wireless applications protocols for

broadband mobile – are emerging, all of which have profound social implications, from privacy (which could be the first major issue around which the IT revolution stumbles) and the place of the English language (97% of web pages are in English) to patterns of control.

The same time-scales are likely to apply in the case of biological and genetic science. Over forty years after the discovery of DNA, the success of the Human Genome Project now offers a potential revolution in the management of health and disease; genetic modification of food; new materials; new reproductive technologies, offering individuals and societies choices and control that were not only impossible but morally inconceivable in the past. But on its own, technology is not enough. The full advantages of this knowledge will be achieved only if societies learn how to use, regulate and legitimate them.

The rising importance of knowledge has not happened suddenly. The first management books on the knowledge economy appeared in the 1940s and the first serious theoretical analyses of the knowledge society were done by Fritz Machlup and others in the late 1950s. Economic historians now ascribe at least 50% of growth in the 20th century to the accumulation of knowledge. Yet it is striking how uncertain we are about the implications for societies and economies. Many earlier predictions have turned out to be wrong. In the 1960s experts predicted that the rise of a knowledge society would make universities into dominant institutions, and give professors the highest status in the labour market. Instead their status has, by many measures, fallen. Others assume that there will inevitably be greater inequality as a result of the rising importance of knowledge – yet the rapidly rising supply of knowledge workers that resulted from university expansion in the 1960s turned out to have the opposite effect in the 1970s, and may already be doing so again in the United States at the end of the 1990s.

### ***Demography***

In the past the nature and weight of the population have often been the decisive factor behind social change, from the emergence of states to the growth of large-scale administrations and welfare systems that accompanied the emergence of modern industrial cities. Worldwide population is continuing to rise, with mean estimates around 9 billion by 2050, according to the UN. But many countries face the prospect of sharp declines as birth rates fall well below replacement rates. In 1950 more than a third of the world population was in developed countries. Now the proportion is down to 17%, and falling.

The big driver of change is rising life expectancy. Today 14% of people in the developed world and 21% in the EU are over 65, but this latter figure is set to rise to 34% by 2050, with an even faster growth in the population over 80, from 4% to 10%. In the next twenty-five years, the number of persons of pensionable age in the



OECD countries will rise by about 70 million while the working-age population will only rise by 5 million. For the first time ever in human history, some societies will be dominated by older people, with a median age in the 50s.

The second driver is falling birth rates, which are partly a consequence of the rising power, education and freedom of women. In 1950 replacement ratios were 3.5 in North America, 2.75 in Japan, and 2.5 in Europe. They have now fallen to a typical range of 1.7-1.9, and as low as 1.34 in Italy and 1.5 in Denmark. At these rates population levels can fall very rapidly, with unpredictable effects not only on the economy but also on the feel and morale of a society.

The proportion of one-person households is also rising as a result of ageing and divorce (in the United Kingdom for example, from 3.6 million in 1971 to 5.8 million today and a projected 8.5 million by 2021), with profound implications for loneliness and mental health as well as for standards of living, since societies based on smaller households require more houses, cars and consumer durables for a given population. In Germany and Denmark the proportion of single-person households is already over a third, double the proportion in Portugal and Spain.

For many countries the main counter to the prospect of falling population is immigration. One of the corollaries of globalisation is large-scale movement of people, whether as tourists, workers, or legal or illegal migrants. It has been estimated that 100 million people have migrated into the OECD countries since the Second World War (more than triple the transatlantic migrations of 1880s-1920) and there is now a continuing flow of legal and illegal migrants and refugees into the wealthier countries (the ILO, for example, estimates that there are 2.6 million illegal immigrants in Europe). Migration is now the main contributor to population growth in many countries – Germany, Italy and Sweden – and the US population is set to continue rising entirely because of immigration.

### *Globalised exchange*

The history of the past few centuries is in large part one of widening patterns of exchange: markets spreading from towns and villages to nations, continents and the world; markets multiplying in layers to cover commodities, currencies, futures, derivatives; systems of exchange for goods, services, information and culture.

At root the concept of globalisation refers to the acceleration of this process and its consequences as exchange is aided by international travel, telecommunications and satellites. In some countries trade may still be fairly marginal (only 7% of GDP in the United States, for example). But the volumes have risen steadily, as have other kinds of flow: tourism; popular music; direct investment; telephone conversations. Any society or city can now be more usefully analysed in terms of its connections rather than its assets: patterns of direct investment; trade; exchanges; internet connections per head of population; airports.

The consequences are many; the most important is interdependence. Where once the economies and cultures of communities could be relatively self-sufficient, this is increasingly not the case. Jobs depend on distant markets and distant sources of investment. Environmental well-being depends on the actions of firms and governments far beyond national boundaries. Within the cities of the developed world minorities retain strong links to their home countries, or to dispersed diasporas.

Globalisation brings many effects in its wake: changing patterns of time and space, including instantaneous news, and new geographies in which the prosperous centres of cities have more in common with other major cities than with their own hinterlands. There are also effects on power: the relatively mobile become more powerful than those rooted in a single place. Those with globally marketable skills become more valuable; those with trader mentalities can exploit opportunities faster and gain position relative to those concerned with preservation, conservation and guardianship.

There are effects on community. One UK survey asking people who they have most in common with found the answers were parents, people with the same hobbies, and people who enjoyed the same television programmes or who read the same newspapers. Those the respondents had least in common with included people from the same town, and neighbours.

Another effect is on government. Within Europe in particular, as a result of these new links, there is no longer any clear dividing line between domestic and foreign policy: national departments operate *de facto* foreign policies in relation to environmental regulations, labour standards, or cross-border control of crime, while local authorities have come to depend on European funding.

However, the overall effects on government are not simple. Although globalisation has diminished government's capacity to affect some areas, notably currency flows, the thesis that it is profoundly undermining the capacity of governments is simplistic. In fact governments have chosen simultaneously to relinquish powers (such as over trade), to syndicate them (such as over defence) and to enhance them (such as over informal economy or crime). In many fields – ranging from food standards to information – they are taking on new regulatory roles. Moreover, although the power of national governments may be diminishing, the powers and capacities of governments as a whole, including local, regional, European, and global institutions, are almost certainly greater than ever before.

There are many other dimensions of globalisation: the rise of global institutions; the number of non-governmental bodies (20 000 by the mid-90s); and the spread of global media and icons. But all are to a large extent aspects of the growth of exchange, trade, and interaction, which has in turn tended to shift the terms of trade within societies in favour of the mobile relative to the immobile, the connected relative to the unconnected.

## **Exclusion/inclusion**

Two centuries ago the richest nations were about five times richer than the poorest. By 1960 the richest 20% of the world's population had income thirty times that of the poorest. Now the gap has risen to sixty, and the world's wealthiest 250 individuals enjoy income roughly equal to half the world's population.

The new economy has continually created new forms of exclusion, new divisions between winners and losers. According to the statistical evidence, inequality began to grow in the United States around 1973, in the United Kingdom around 1977, and then in Australia, New Zealand, France and the Netherlands in the early 80s, and in West Germany in the mid-1980s, widening both because of unemployment and because of earnings dispersal. In the United States, the bottom two quintiles experienced a fall in real earnings from 1970 to the 1990s.

For many of the OECD countries the return of poverty has come as a shock. While economic growth rates can still roughly double material prosperity each generation, prosperity has been accompanied by worsening social exclusion. Earnings dispersal has increased as the jobs for unskilled workers have dried up and the relative rewards for skills have increased. In some countries (like the United States) these problems manifest themselves in declining earnings for those on low incomes (partially reversed in the late 1990s); in others (including much of Europe) as structural unemployment; and in others still (such as the Netherlands) through a burgeoning population defined as incapacitated, disabled, or retired early.

Many more people are now vulnerable to poverty. Recent UK research showed that about a third of the population experienced poverty at some point over a four-year period. Similar German research found roughly the same proportion passing through poverty at some point over a ten-year period. In the United States eligibility for tax credits – a good measure of poverty – covers one in six families in any one year, but two in five families in any ten-year period.

This widespread experience of transient poverty exists alongside pockets of long-term social exclusion, particularly in inner urban areas and peripheral estates. Exclusion affects new “out” groups such as migrant workers, street homeless and gypsies; growing numbers of the young elderly, particularly men who were at the heart of the industrial economy; and many young people who find it hard to make the transition to adulthood. New kinds of exclusion are also emerging, such as exclusion from IT skills and access (with big gaps between rich and poor in relation to internet access); there is also the danger of “genetic exclusion”.

At the other end of the income spectrum, there are now new ways for the wealthy and mobile to exclude themselves by buying their own education, health care, or private security. More mobile capital has also become harder to tax, tending to shift the burden of tax onto immobile labour and putting downward pressure on public spending as a whole.

## **Environment**

The facts of environmental challenges are well known and do not need to be rehearsed here. As governments respond to global warming and climate change, there are likely to be profound effects on how societies are organised.

Radical reductions in car use, for example, may reverse the trend to longer travel between home and work, or between home and shops or leisure. The spread of network technologies, combined with higher taxes on more polluting fuels, could radically reduce the need for travel (although it is worth noting that throughout this century travel and telecommunications grew in tandem). Policies to recycle and reuse waste products may change the physical shape of houses and streets as well as creating new industries and occupations.

Longer-term pressures for sustainability may encourage a return to compact cities; alternatively, the trends to de-urbanisation that have become quite marked in a handful of countries could accelerate, prompting the revival of market towns, the rise of wired cottages and a new post-urban geography.

## **Values**

Many of the principal values of modern societies have changed relatively little over the last century. Most people's lives still centre around family, community, work, leisure and religion.

But values are not fixed, nor is their impact on behaviour. For example, the commitment to fairness and equality of treatment has over time come to be applied to new groups – to women as well as men, to ethnic minorities, the disabled, the elderly. It is increasingly being applied as well to children and the mentally ill. Moreover, there is now strong evidence of the long-term trends in values. The work of Ronald Inglehart and others has shown the importance of generational formation, and that since the Second World War each generation has been more attached to “postmodern” values than its predecessor – by which is meant concern for quality of life as well as material wealth; individual self-expression and creativity; individual value systems rather than ideologies; tolerance of single parents, homosexuals. The greater power and autonomy of women has also been a strong force in reshaping values. Others, following the work of Walter Ong, have analysed complex changes in cognitive styles as each generation is shaped by the dominant media around it – oral, print, television or computer cultures each bring with them distinctive logics of causality, hierarchy, reason and emotion.

As new values spread, other values wane: deference, hierarchy, respect for tradition, militarism, attachment to nation. These patterns of generational change are not straightforward. Periods of economic crisis tend to lead to a return to stronger concerns for security, reinforcing traditional loyalties and enmities. But there is nevertheless evidence that changing values are a powerful force. In politics, new

values fuel the desire for more direct engagement – referendums, citizens’ juries, e-politics, direct action (encouraged by stronger belief in conscience above the law), single-issue politics (such as animal rights) – as adjuncts to formal representation through parties. They also play a de-politicising role in that the traditional vehicles for politics lose much of their purchase in favour of a more consumerist, less loyal or tribal approach to parties and elections. Such value shifts are at least part of the explanation for the spread of liberal democratic values – according to the Freedom House Survey (1998), 88 of the world’s 191 countries are free, maintain a high degree of political and economic freedom, and respect civil liberties, while another 53 are partly free – much the highest number ever.

In the economy new values are contributing to dematerialisation: much the largest share of the increase in consumption spending since the mid-60s has been on non-material needs, and some anticipate a steady growth of new sectors providing not only services but experiences. Values also shape the social agenda: the rise of new movements based around quality of life, conservation of the environment, animal rights, pressures for free time (particularly in continental Europe and among younger Japanese), holistic health, and the growing importance of personal privacy and control over personal data. They shape the labour market, encouraging both more instrumental relationships with employers – seeking skills and advantage rather than security and loyalty – but also more of a search for meaning in working life. They encourage tolerance of diversity around a common core of respect, as evidenced by the steady decline in racism in each new generation. Crucially too they tend to bring less faith in the wisdom and good faith of government and other formal authorities.

The biggest shift in values of our times is undoubtedly the rise of individualism, the search for greater autonomy. But this shift is not as simple as it is often portrayed; human nature has not ceased to be profoundly social. Shifting values have not replaced community with a world of free-standing individuals. Rather, beyond individualisation lies a different sense of community, which is more likely to be chosen rather than inherited, but which continues to be shaped by the constant striving for partnership, connections and bonds that an atomised society cannot provide. These values of community, reciprocity, mutuality and fairness continue to be important resources for social renewal.

### **3. Responses to the new environment**

#### ***The challenge of the new capitalism***

Every previous era of industrial capitalism has elicited political and social responses – usually to share the rewards of progress more widely and more fairly. The emergence of socialist movements, co-operatives, mutuals, trade unions, state enterprises and planning, welfare states, consumer regulations, charity law, rights,

paid holidays – all were responses to the anomie, poverty and powerlessness that the new industrial system brought in its wake. All were responses to the fact that the market is a dynamic force that can also be blind and destructive.

Many political responses failed. Those that looked backwards to craft, medieval and agrarian traditions all failed. Those that attempted to create entirely separate economic systems have – for now – turned out to be historical dead-ends. The ones that prospered found ways to complement the dynamics of the capitalist system for producing wealth with new forms of social organisation.

The current era is – once again – forcing a debate about how to design a political and policy response. Few would dispute that a distinctively different type of capitalism is taking shape, one dominated by firms producing intangibles – chips, software, pharmaceuticals, brand values – in new sectors such as IT, genetics and biotech, with a combination of more monopolistic firms in leading sectors and dynamic small-firm sectors providing much of the energy alongside new service industries. The Fordist industrial structures that dominated Western economies for much of this century have been replaced by new models of work organisation.

This new economy is still in its infancy. Over the next few decades, as internet penetration reaches the great majority of OECD households, sharp changes are likely in the organisation of sectors as diverse as banking, retailing, pornography, gambling, information, and the media. These are likely to be matched or even exceeded in their impact by the new biological industries.

So far this new economy has turned out to be less fixed than its predecessor. Businesses founded on intangible assets are less permanent; firms are easier to create – and destroy. Structures come and go, including alliances and joint ventures. Employment contracts have tended to become fixed term and, for professionals, more likely to include equity alongside salaries. Yet there are also new kinds of glue. In the new economy the unit of production – and of competition – is more often the network than the firm, and collaboration and social capital have turned out to be key elements in the production of new knowledge, goods and services.

This new economy appears to thrive best against a background of institutions and fiscal arrangements that encourage entrepreneurship; skilled and adaptable workforces; high levels of public investment in education; cosmopolitan cultures that are open to women, minorities and outsiders, and tolerant of dissent.

Yet our understanding of the social causes and consequences of the new economy remains limited. Economists have highlighted the role of flexible financial markets to recycle capital into new ventures; urban geographers have analysed some of the spatial concentrations that have given birth to new industries; sociologists have analysed the role of social capital. But none has yet provided an adequate interdisciplinary analysis of the new economy, or credible models to make reliable predictions.

Nevertheless, some of the problems associated with the new economy are becoming clearer: how to ensure that enough people have the skills to participate; how to balance the flexibility needed to create new enterprises and new jobs with people's need for security; how to protect family life in an economy that is much faster – and often stressful.

### ***Political responses and the Third Way***

There have been many unsuccessful political responses to the new economy: the neo-liberal attempt to use the new economy as a justification for a dramatic extension of market principles into society, which ended in electoral defeat; the traditional left's attempt to build up militant resistance to globalisation, protecting existing jobs and industries and rights to welfare; and the radical Green movement's wholesale rejection of free trade and the new economy in favour of a return to localised production and exchange, based on suspicion of science and new technology.

Each of these responses has had an influence beyond its immediate constituencies; but none has yet developed a credible political and policy agenda able to command widespread support. Instead, the most serious political response to the new economy has largely come from the centre-left: what has variously been called the "Third Way" or "Neue Mitte", associated with leaders as diverse as Blair, Kok and Schroder, Jospin and Cardoso. This response takes different forms in different countries, but there are common themes.

First, there is an acceptance both of the reality of the new economy and globalisation, and of the need to build institutions that can maximise their advantages and minimise their costs. The stance is pro-enterprise and anti-exclusion, in favour of strong communities as well as an open world, rather than proposing a radical alternative to capitalism.

Second, there is a conscious attempt to update social democratic ideology and values: applying traditional values of co-operation, equality and responsibility in a new environment, and taking into account the new economy and the experiences of earlier phases of social democratic government, while reasserting the philosophical principles of mutual responsibility, equal worth, and respect for others as ends rather than means.

Third, there is a strong emphasis on pragmatism: drawing on the lessons of experience and experiment, informed by values, rather than attempting to define a traditional ideology from which policies can be deduced.

### ***The return of active government***

At the heart of this new politics is a reassertion of the positive role that governments can play in a period of profound change: not standing above society with a

plan or blueprint, but rather working in partnership with society to widen the circle of winners, mitigate costs and insecurities, and prepare people for change.

There is still a fairly close correlation between wealth and social spending as a proportion of GDP. But the confidence of governments, and confidence in governments, hit barriers in the 1970s and 1980s. Some of these concerned the demand for government: public distrust and resistance to higher taxation manifested itself in tax revolts from the Progress Party to Proposition 13. Some of the limits are more accurately described as limits of supply: failures to deliver policy objectives such as higher economic growth, lower unemployment or crime; loss of confidence in key professions; and problems maintaining the tax base in an era of more mobile factors of production.

According to one view, the net result is that governments face inevitable decline and a diminishing social role. The combination of values favouring autonomy, technologies undermining the tax base, and the inherent inefficiency of large structures will militate against any attempts by states to retool. Neo-liberals argue that the history of the 20th century needs to be turned on its head, shrinking the state back to a minimal core of defence, public order and law. This position is in turn justified on the grounds that a weaker state must necessarily mean a stronger economy and a stronger, more self-reliant society.

Governments constructed according to traditional bureaucratic principles have certainly found it hard to adapt to more complex societies, networked forms of organisation and greater flows of information and knowledge. Yet the argument that government's role in shaping societies is in irreversible decline is unconvincing. The share of tax in GDP actually rose across OECD countries from 34% in 1980 to 38% in 1996. Contrary to many predictions, the demand for government and the capacity to supply this demand both remain strong. On the demand side, electorates have signalled clearly that they want public services and the security afforded by governments in health care and pensions, as well as common goods such as clean air and safe streets. Business, too, has rediscovered its dependence on government to maintain social order, education and infrastructures.

The political rejection of neo-liberalism has also been encouraged by the failure of earlier strategies to cut taxes and public spending. In many countries, far from cutting total public spending, programmes of retrenchment tended to increase the need for, and hence relative spending on, remedial and palliative areas – in particular, social security and law and order – at the expense of productive spending on infrastructures, health and education. In the worst cases, cutbacks to government have led to a spiral of decline. Societies with little social capital can easily fall to, and remain at, a low equilibrium for long periods.

These experiences have confirmed that good government is a competitive asset, and indeed that the effectiveness of governance – the speed and quality of



decisions, the rule of law, the integrity of governors – is the decisive factor in economic and societal success, more important over time than skills levels, natural assets, enterprise cultures and savings rates. It is otherwise impossible to explain why self-employed migrants from Haiti to the United States earn two-thirds as much as those from west Germany, even though the difference would be one hundred times if they had stayed at home, or why the earnings capacity of the Chinese rises tenfold when they move from Guangdong to Singapore.

Good government does not need to be either big or small, but it does need to be effective at identifying and solving problems, and reallocating its resources to address new needs. This last task is far from easy because of the great inertia in government spending. In the United Kingdom, three-quarters of public spending in 1990 went on programmes introduced before 1945, and when Thatcher left office in that year, £9 out of every £10 spent by her government were spent on programmes introduced before she came to power.

However, many governments are now adapting and retooling to better supply what their electors want. Some of their reforms are designed to mitigate the tendency of public sector organisations to become vested interests in their own right. Some are designed to ensure greater effectiveness for public spending. Some literally shrink government to a more manageable size (there are now around 200 nations, up from 62 in 1914, and many more nations with strong regions). Some are about sharing powers and roles – particularly in Europe, where co-operation over social and employment policy, asylum and immigration, policing and economic policy co-ordination has continued to evolve. And some are designed to ensure better management of networks and horizontal forms of organisation in place of the classic, vertically organised bureaucracy. At their best, reforms help societies to better organise themselves. These are some of the key elements of this reform agenda:

- Focusing public spending away from the older priorities of national defence, farming, traditional industries and passive welfare systems, where governments can no longer add much value, and more towards education, knowledge, active welfare, crime reduction, public health, infrastructures and new industries.
- Focusing more clearly on outcomes (such as better education or lower crime rates), and working backwards to devise solutions and allocate budgets.
- Modernising public services to make them more responsive to consumer choice and more transparent – *inter alia*, using new technologies to enable services to be delivered directly by telephone or internet (with integrated portals for citizens to access public services, shaped to fit life experiences and episodes rather than administrative convenience).

- Using horizontal structures (joined-up government) alongside the traditional vertical ones in order to cope with complex problems such as the environment, family policy and social exclusion.
- Turning the state into a purchaser and manager of solutions and outcomes rather than a provider managing vertically integrated agencies and imposing centrally defined solutions.
- Using evolutionary methods in place of social engineering with incremental adaptive change, involving continuous improvement, distributed systems and rapid information flows.
- Investing in innovation: R&D spending within public sectors is still far lower than in industry and knowledge management remains rudimentary, although more are using zones, experiments and pilots.
- Systematic use of knowledge, including intelligence-led policy, using evidence, formal evaluations, data, and analysis of lessons learned.
- Opening up government information, including internal management information, to improve services and accelerate change.
- Encouraging entrepreneurship in and around the public sector, through allowing greater flexibility, rapidly deploying money and know-how to projects, and supporting social and civic entrepreneurs who can identify underused assets, finding new combinations.
- New forms of funding and spending that reinforce public support: tax credits, charges, hypothecated taxes.
- Benchmarking against other governments and the private sector to accelerate adaptation and improvements in performance.
- Devolving more powers and responsibilities to regional, urban and local tiers of government, including the very local, neighbourhood level.
- And, crucially, syndicating more functions internationally and globally through the EU, UN, WTO and others.

Governments have little choice but to change in these ways. Not only do they increasingly compete with other governments for investment and people; they also increasingly compete with other layers of governance for resources and legitimacy in a changing environment: the close identification of nations with states, and states with communities, is no longer a given.

The great Italian novelist Italo Calvino suggested that the qualities of the new Millennium would be lightness, quickness, exactitude, visibility and multiplicity. These qualities sometimes seem the precise opposite of how much of public policy in government has been done in this century: heavy, slow-moving, imprecise in its goals, invisible and closed to the public, and committed to single solutions rather

than to multiplicity. But they are the qualities that governments will need to take on if they are not to face a future of dwindling legitimacy and effectiveness.

#### 4. Ten areas of challenge

This section examines some of the key challenges facing the developed societies, and some of the emerging solutions.

##### *Strengthening the commitment to children*

The most fundamental task of any society is to create and nurture the next generation. The decades since the Second World War have brought a dramatic shift away from traditional assumptions about family form and duty. Birth rates have fallen sharply. Women have entered the labour market and many more remain childless. Rising earnings for women have been closely correlated with divorce rates. Feminism has – directly and indirectly – produced a marked change of consciousness that has, probably irreversibly, destroyed the foundations of patriarchy (and spawned its own backlashes). Family structures have weakened and mutated (with divorce rates roughly doubling in the United Kingdom, France, Sweden and the Netherlands between 1970 and 1990), even though some new technologies (such as the mobile phone) have helped pull them together. The state has become a far more important partner in the upbringing of children, adding to universal education widespread provision of child care and paid leave for mothers – in some countries, for fathers too.

These shifts are having profound knock-on effects. Smaller families have helped to liberate women from full-time motherhood. The relative value of each child has sharply risen, feeding a cultural shift that has made children – their needs, rights and well-being – the focus of much public concern and policy. Investment in children has risen sharply. New services have grown up around the needs of children: not just a new domestic service economy of child care, but also new public services. Moreover, policy makers have begun to appreciate that in order to counteract the pressures on the birth rate they will need to reduce the opportunity costs of parenting in relation to career opportunities and standards of living.

In all societies the informal “family economy” functions in parallel with the formal economy of paid labour and commodities. Recent changes can be understood in part as a shift of functions from the informal family economy to the formal economy. But this is far from the full story. Evidence has accumulated about the value of early attachment to parents in forming self-confident, balanced people. As a result, wise societies are recognising the vital role of investment in the early years – and the long-term spinoffs in relation to employability, relationship stability and crime that come from effective preparation of children in the early years, and from better support to help parents perform their roles effectively.

(Headstart in the United States and Surestart in the United Kingdom are prime examples.) Education policy is also beginning to encompass families more overtly, supporting family learning and access to books and IT, and providing parents with skills to help their children learn.

Some Scandinavian countries have gone furthest in reshaping public policy around the needs of children with extensive child care, generous parental leave entitlements for men as well as women and, in Norway, a parenting allowance acknowledging the value of parenting work in the home.

Accumulating evidence about the importance for children of being brought up in a stable relationship, ideally with two parents, has convinced many of the need to renew and revitalise the structures through which people make long-term commitments to each other. In some cases this has meant reasserting traditional marriage (for example in the marriage covenants introduced in some US states such as Louisiana), and more traditional relationships (as in the American “True Love Waits” movement, which promotes pre-marital abstinence). In others a very different trend has emphasised the need for legal support for many different kinds of relationship (as in France, which has granted legal equivalence to same-sex relationships).

Difficult choices will continue to be played out over the next few decades: over the rights to access and responsibilities to provide economic support for nonresident parents; over the balance of spending between early years and the elderly; over the extent to which giving women more encouragement to go out to work than to stay at home is a legitimate policy goal; in striking the right balance between adult freedom on the one hand and children’s need for stable families on the other; balancing the demands of the competitive economy for longer working hours and more intensive psychic commitment at the workplace with the needs of families.

However, in all countries we are seeing a stronger assertion that children are a public responsibility, not just a private one; that the relative weakening of traditional family structures has created a new need for active government to redirect resources of money, time and care towards the early years; and that, in the wake of an era of greater freedom in relationships, we now need to strengthen the commitments that adults make to each other as well as to their children.

### ***Widening and deepening access to knowledge***

The second area is learning. Every society needs to ensure that the next generation is equipped not just with formal academic qualifications but also with knowledge that we need to live successful and fulfilled lives.

Investment in education has been rising fast. Some countries – such as Korea – have put education at the centre of their strategies for economic development. Everywhere the correlation between earnings and qualifications has become

clearer and steeper, fuelling more demand for higher education and training (in the United States, for example, the average college graduate earned 75% more than the average high school graduate in 1998, compared to only 46% more in 1980). Governments now look eagerly at league tables for science and maths as a leading indicator of future prosperity.

However, much education investment has been inefficient. In the past some of the countries that invested most in education showed little evidence of any benefit in terms of growth or quality of life (the USSR being a classic example). In most Western countries, successive evaluations of investment in training for the young unemployed have failed to demonstrate any measurable benefit. Many schooling systems have not taken advantage of evidence about educational effectiveness and remain deeply conservative – and ineffective.

It has therefore been necessary to engage in a fundamental rethink about learning – how to raise the quality of investment in learning in all its forms; how to achieve a matching rise in individual responsibility to learn, and relearn; how to apply the rapidly growing evidence emerging from the brain sciences about how and when people learn; and how, given the inefficiency of many of traditional models of schooling and training, to innovate with new approaches. These are some of the themes of the emerging agenda:

- Policies for knowledge go wider than formal education: diet, housing and poverty bear directly on cognitive development and educational performance.
- The basic foundations of learning – literacy, numeracy, IT capacity – which are still poorly provided in some countries are the necessary if not sufficient conditions for social and economic success.
- Parental involvement in learning can be as critical as the education provided by formal institutions (especially since children spend only 15-20% of their waking hours in formal education).
- The new economy requires new kinds of ability, such as skills in accessing information, selecting, surfing, thinking in systems.
- Children need to learn not only formal skills but also capacities to make decisions and take responsibilities – capacities that are best learned through doing rather than formal pedagogy.
- The media have a major role to play in education, providing materials online, on television and in various forms of “edutainment”.
- Jobs – and life roles – require softer skills of emotional intelligence and the ability to work in teams, as well as the formal qualifications offered by higher education.

- Innovation is helped by relatively open and variegated systems for learning, with ease of entry for new types of school and college, and a continuum between further and higher education.
- The need for continual replenishment of skills requires genuine lifelong learning.
- Education and learning will increasingly take place beyond educational institutions: in workplaces, homes, libraries and via the internet and television, as much as through the printed page (the United Kingdom's new University for Industry, which builds on the experience of the Open University, is a good example of a new form of virtual educational institution).

Looking ahead, four issues stand out.

The first concerns the balance of responsibility for paying for learning. In much of the world individuals are paying more: through student loans, tuition fees and the costs of PCs, internet charges and books. There are clear advantages in encouraging more individual spending on education, yet too open a market threatens greater inequity as privileges are passed down from generation to generation.

The second concerns employers. Their investment in skills has always been held back by the "free rider" problem – namely, that other employers can benefit. Some countries maintain strong pressures on employers to invest (Singapore and France are good examples), whereas in others the burden of responsibility falls mainly on the state. Germany and Austria continue to be particularly successful at taking young people from school to work because of the strength of their apprenticeship systems. But in more open and competitive sectors, it is unclear whether these models will be able to survive.

The third concerns lifelong learning. It has become a cliché that education in the future will be less a one-off investment at the beginning of life and more a continuous process of acquiring new skills. Some countries, such as the Netherlands and Sweden, have begun to put in place impressive policy frameworks for lifelong learning. There are clear advantages in creating practical ways for people to borrow money, and take time off work, so as to acquire new skills. Yet so far, few countries have been able to release resources from the mainstream educational system to achieve this.

The fourth concerns migration. The world is still a very long way from having an open market for labour. But some countries and regions have used migration policies as a way to import knowledge. Silicon Valley effectively draws in the cream of the educational systems in India, China and Europe to fuel its growth (and a third of chief executives are non-US citizens). The UNDP has estimated that India, China, South Korea and the Philippines lost 145 000 scientifically trained workers to the United States between 1972 and 1985. In most countries immigration policy is not integrated into economic strategy. In the future it probably will be.

### *Achieving full employment*

Work is the essential source not only of wealth but also of self-worth. Those European countries that have managed to contain income inequality at the cost of high unemployment cannot afford to be complacent: joblessness can be every bit as damaging as poverty through its impact on dignity and self-worth.

Industrial societies have been strongly shaped by their class and occupational structure, and the ways in which, through these, material rewards and life opportunities have been distributed. Every year, on average 10% of jobs disappear. But beneath this turbulence, longer-term trends are unfolding:

- The steady rise in the importance of inputs of knowledge relative to unskilled labour, the continuing decline of agriculture and primary industries, widening earnings disparities within occupations and across the economy.
- The decline of manufacturing employment (even as its share of GDP remains high).
- The rise of new service industries – many of them still at relatively low levels of technological sophistication – and the continued importance of many old service industries (such as gardening, catering or child care) that are much less vulnerable to automation than, for example, legal advice or hedge fund trading.
- The continuing rise of professions.
- Rising returns to education and, on the margins, “winner takes all” markets for top professionals.
- Feminisation of work, both in the sense of the disappearance of jobs depending on physical strength and in the sense of a growing weight and status for women at work. (Female participation rates in the OECD countries rose from 48% in 1973 to 62% in 1993, and to take just one telling statistic, in the United States 40% of women graduates make more money than their husbands.)
- Growth of high-tech jobs in software, systems.
- Growth of care jobs (high touch) in health and education.
- Ageing of the workforce (as preparation for work takes longer).
- A shift away from fixed salaries towards contingent pay, profit-sharing, etc.
- More sophisticated screening methods adding genetic screening to psychological profiling and other tools.
- Models of employment that increasingly emphasise entrepreneurship and individual capacity rather than loyalty and conformity.

Looking ahead, seven challenges stand out.

The first is returning to full employment. The greatest failure of the OECD countries over the last two decades has been the rise of long-term unemployment, which has corroded well-being, social solidarity, and the legitimacy of institutions, as well as spawning a host of other social problems. Some of the essential factors in ending long-term unemployment are now clear: maintaining growth and high levels of demand against a backdrop of economic stability; a light regulatory climate that encourages enterprise creation and job creation; high investment in active labour market institutions to help people find jobs, retrain, and adapt (such as the United Kingdom's New Deal); fiscal measures to ensure that there are clear incentives to work (such as the various tax credits introduced in the United States and United Kingdom that are effectively introducing a negative income tax approach); systems that put pressure on individuals to accept work rather than spending long periods dependent on state benefits; modern job-matching systems using the internet, call centres and specialised agencies; imaginative job creation such as France's "Emplois Jeunes" and the Netherlands' "Melkert" schemes. The promise is not a return to full employment in the sense of permanent jobs for everyone, but rather achieving security through employability: a realistic expectation that if people lose their job they will be helped into another one quickly.

The second challenge is expanding the supply of labour, so that a greater proportion of the population can achieve economic independence, whether through full- or part-time work. The combination of changing values and domestic technologies has already encouraged a major expansion of female participation in the labour market. This was one of the main reasons why the ageing of the last forty years did not put much strain onto welfare systems. However, other groups have become more detached from the world of work: those defined as disabled, the young elderly, and single parents. As the working-age population begins to fall (from 2010 onwards for the EU as a whole), the need to find new sources of labour will become acute and there will be even stronger incentives for governments to invest in helping people back into work.

The third is encouraging upward mobility. Social mobility has risen surprisingly little this century. According to one measure, the children of middle class parents are 5.5 times as likely to become middle class as children of working class parents in the United Kingdom, 5.4 times as likely in West Germany and 3.7 times as likely in the United States. Only Scandinavia and communist Eastern Europe achieved significantly greater levels of mobility. Yet the promise that each generation will do better than the last, and that life can become more fulfilling and better rewarded, is part of the promise that many societies make. Performance in this respect varies widely: the best, like Denmark, achieve rapid upward movement in the workplace from the combination of a tight market, pressure from wages and effective training



systems. In others, too many people end up stuck in low-level occupations with little prospect of advancement.

The fourth is improving the balance between work and life. As dual earning has become the norm in many societies, pressures on family life have become intense. The century-long fall in working time went into reverse in the mid-1980s, particularly affecting some managerial roles and some unskilled occupations such as security guards. Many governments have responded with new rights to time off, including parental leave, rights to periods of time off for training (such as Sweden's "Knowledge Lift") and options for sabbaticals (as in Belgium). France has responded with the introduction of a 35-hour week. In other countries employers have negotiated more flexible management of time, including annualised working hours and offers of term-time working, as well as three- and four-day weeks. There is some evidence that the upwards lurch of working hours is now going into reverse. However, the issue is made more complex by the evidence that some people actively choose hard work as more satisfying than leisure (one reason why predictions of an imminent leisure society proved to be so inaccurate).

The fifth is lifelong learning. Eighty per cent of technologies are obsolete within ten years – but 80% of the workforce operates with knowledge that is more than ten years old. As discussed in the previous section, the task of achieving a system that genuinely updates skills has not been easy. This will be a key issue for the next century, and is likely to encourage intensive experimentation with new forms of incentive for employers; learning accounts into which the state, individuals and employers can invest money; more competitive markets for courses; and use of on-line technologies to offer skills ranging from thirty-second help services to two-year vocational courses.

The sixth is managing new kinds of work. Skills traditionally associated with women in the family and the community are increasingly valuable in the work environment: working in teams, collaborating, interpersonal support. As routine tasks are automated, interpersonal skills and emotional intelligence become relatively more valuable. For many men this has become a major problem (and one that raises questions about the success of education systems in cultivating social skills).

The seventh challenge is good work. In wealthy and growing sectors, huge investments are made to ensure that work (at least for the highly paid) is satisfying, fun, and carried out in good environments. Because of the persistence of high unemployment, over the last two decades the issue of "good work" has been marginalised in public policy discussions. However, if full employment is once again achieved – let alone if labour shortages result from the declining birth rate – these issues are likely to return to prominence.

### ***Preparing for longer and more varied lives***

Where previously people could rely on a predictable passage through childhood, education, work, child-rearing, and a (fairly brief) period of retirement, with income tending to rise during working life, a very different pattern is now taking shape.

In early life many more years are now needed to accumulate knowledge and skills; in later life longevity has opened up the prospect of decades in retirement. Compounding these changes have been the collapse of youth labour markets; the destruction of jobs for the over-50s, particularly men; new patterns of childbirth in which women can have children into their 50s. According to one – partly humorous – extrapolation from current trends in education and retirement, by the middle of the next century people will move straight from full-time education to retirement.

These shifts are putting great strains on existing welfare structures and on the implicit contract between the generations. When Bismarck introduced the state pension, life expectancy was decades lower than the age of eligibility, 65. Today, life expectancy is typically ten to fifteen years older than the age of eligibility. Most employment insurance systems were designed to cover periods of relatively brief unemployment, not large-scale structural unemployment, and certainly not large numbers of people leaving work for good in their early 50s. Ageing affects not only the costs of pensions but also health care. In the United Kingdom, for example, it costs 20 times as much to care for an 85-year-old as someone in middle age.

These trends are not inherently dangerous. Longer lives are in many ways a great boon, providing a valuable extra resource for every society: a pool of labour, a source of voluntary help and care. In some countries there is little risk of a demographic time bomb. Everywhere it is likely that each new cohort will enjoy more disability-free years after retirement, and in the future each new cohort will be readier to learn new skills. Some – mainly the wealthy – may quite soon benefit from dramatic improvements in life expectancy if the promise of new medical advances to prevent ageing is achieved.

However, despite these optimistic possibilities, difficult choices will still need to be made about how to adapt to these new patterns of life.

The first and most visible issue facing many societies is how to pay for a longer period of old age as well as for other periods out of work, *e.g.* for full- or part-time parenting, or to learn new skills. Most welfare systems developed around a fixed set of entitlements and expectations linked to age, with education up to 16 or 18, state pensions at 60 or 65, and so on. Most insurance systems combine some age-related entitlements with entitlements related to need: Germany has pioneered the imposition of an additional charge for care, and Japan is now introducing an extensive insurance-based system to finance long-term care, with eligibility linked to assessments of need. The problem many face is that governments have made

unrealistic promises about what can be afforded. In France, Germany, Japan and Sweden, state pensions will take 15-20% of GDP by 2050, compared to 8% in the United States and 4% in the United Kingdom.

Although steps have been taken to raise retirement ages, these have risen more slowly than life expectancy. Moreover, all insurance-based systems face questions about whether they are now focused on the right risks, and about how to avoid problems of moral hazard.

Some of the more radical thinkers have proposed moving entirely away from age-based entitlements towards entitlements based on need, on the grounds that age is no longer a good proxy for need. They have argued for a return to the working patterns of pre-industrial economy, where the elderly continued working while steadily reducing their working hours in line with their capacities, with public provision making up for the difference rather than offering a fixed-sum entitlement. But reforms of this kind are hard to implement, and clash with perceptions that there is a natural entitlement to payments after a lifetime of employment.

These various considerations are likely to continue focusing attention on self-funding. Self-funded pension schemes have grown dramatically and have been encouraged by public policy from Chile to the United Kingdom (and in the United States 75% of financial assets are owned by over-65's). In theory, self-funding allows public funds to be targeted to those in greatest need. In theory, too, the money purchase of defined contribution arrangements gives people a visible stake in their society or company, and goes with the grain of an equity culture based on individual ownership. However, self-funding is no panacea: it still requires there to be a transfer of resources from people in work to pensioners, even if the mechanism is dividends rather than tax or insurance. Moreover, there are serious dangers with over-reliance on self-funding, including often very high transaction costs and risks if stock markets underperform. The most promising examples of reform have therefore introduced complex systems combining self-funding, insurance-based models and guaranteed minimum incomes linked to earnings, with strong incentives for self-reliance combined with a reasonably generous safety net (and subsidies for carers and others who are unable to sustain contributions to funded schemes).

Many of the same considerations apply in thinking about how to finance some of the other needs of longer and more complex lives: parental leave, periods of eldercare, re-education, etc. All can in principle be supported through pooled insurance models, tax finance or self-funding, so long as there are sufficiently long periods of earnings to cover periods without earnings, and (in the first two cases) so long as there is sufficient willingness to cross-subsidise from the relatively wealthy to those unable to earn for such long periods.

However, the issue of changing life patterns is about more than money. It is also about how to mobilise the energy and skills of older people. The strong pressures

to encourage early retirement in the 1980s and 1990s now look to have been an historic mistake. They left large minorities out of work, often depressed, and facing the prospect of poverty in old age. As a result, policy attention has turned to new issues: how to bring the over-50s back into the labour market, if not in full-time jobs then in part-time jobs; how to increase voluntary activity on the part of the over-50s, including the use of new payments systems such as LETS and Time Dollars as a half-way house between formal paid employment and volunteering (encouraged by the strong evidence that useful activity and personal health are strongly correlated). The big issue for the next two decades looks set to be not about how to cope with a demographic time bomb but rather how to turn longer lives into a boon, a resource for societies and communities to draw on.

### ***Better health and well-being***

These issues of life overlap with the question of how to achieve better health and well-being at all ages. OECD countries spend huge sums on health – in some cases over 10% of GDP. These sums appear to be rising remorselessly. New medical technologies, as well as new drugs such as Viagra or AZT, stoke demand, as does heightened public awareness about health. New fears about drug-resistant infectious diseases and the rapid spread of epidemics in an open world also fuel demands for higher spending. New technologies – including smart cards and web-based information services – look set to give consumers much more power over their own health information and the quality of service they receive – another source of pressure on resources.

However, higher spending does not correlate closely with the achievement of better health. It is estimated that improvements in health services explain only 15% of health improvements – the remainder is better explained by diet, lifestyle, exercise, housing, or the stress levels associated with overwork, inequality and powerlessness. There is also now abundant evidence that health is partially correlated with mental well-being, and that this is in turn closely correlated with marriage, stable relationships and friendships, and levels of equality. On their own, neither the provision of health services nor increasing income has much measurable effect, whereas social problems such as unemployment and social exclusion have a very direct – and damaging – impact on both well-being and health.

The health strategies of the next century therefore look likely to be much more holistic, addressing several different dimensions simultaneously.

First, there is the application of new knowledge through the technologies of health care: in particular, potentially rapid advances in the ability of medical science to predict, prevent, detect, treat and cure disease drawing on new knowledge of genetics, and new techniques ranging from the implantation of devices in the body and regenerative medicine to new forms of immunisation.

Second are the organisational innovations to contain rising costs and improve effectiveness and responsiveness. This may involve applying systematic performance management methods to health services (to reduce the huge disparities in effectiveness that can be found in many systems); introducing greater competition (as is already happening between sick clubs in Germany and insurance groups in the Netherlands); providing more scope for health services to be organised in conjunction with other services (for example for young children); and new forms of palliative and hospice care. The new NHS Direct service, which provides access to health advice over the phone and the internet as well as through walk-in shops, is another good example of a radical organisational innovation.

The third strategy is to respond to more assertive consumers by offering more information, choice, and data about the performance of providers, in place of passive acquiescence. In some countries the response to consumerism may need to be a new balance between universal provision of a defined range of services, shaped by evidence of what works, and a range of lower-priority services requiring some form of payment and provided on a more competitive basis.

Fourth, there are preventive strategies addressing the causes of ill-health through changing cultures of behaviour (for example on diet, smoking or exercise), encouraging healthy environments, clean air and water; tackling stress, etc.

The fifth relates to encouraging the trend towards greater personal responsibility for physical health. In the medieval period it was believed that there was a public responsibility for the state of people's souls – through the church – but that responsibility for bodies was a private matter. These positions long ago reversed, with the advent of public health services and collective insurance to deal with physical health on the one hand, and the decline of organised religion on the other. But a further reversal may be at hand, with a large increase in demand for and supply of services for mental health and a sharper sense of personal responsibility for physical health, through lifestyle, diet, smoking (half a million die each year in the EU from smoking-related disease). This new emphasis on personal responsibility and control leads at one extreme to growing support for euthanasia. It will almost certainly encourage a recognition that more detailed genetic information will impose sharper responsibilities on individuals to shape their lives in the light of that information; to manage diet and lifestyle; to avoid risks; to enhance protective factors. This may be the quid pro quo for more advanced medical services that guarantee rapid and effective treatment for all.

### ***Security from crime***

Most OECD countries are extremely safe by historical standards. Murder rates are low. But many countries have experienced rising levels of crime (and countries as apparently safe as the Netherlands, Sweden and Denmark now have burglary

levels higher than those in the United States), as well as rising levels of fear of crime. Some of the causes of crime are well known, such as the demographic effects from the number of 15- to 24-year-old men, who commit a greatly disproportionate number of crimes. But the standard explanations only go so far, and in any event the forms of crime have changed: the growth of large-scale organised crime across boundaries; drugs and the associated drugs economy; rising levels of juvenile crime, often associated with family breakdown and school failure; new areas of criminal behaviour coming into view such as domestic violence and child abuse; the preponderance among criminals of young men without the clear social roles offered by industrial jobs; and a new interplay between the media and crime which results in systematic misperceptions on the part of the public, which in turn influence the climate for policy. Complicating the picture too is the fact that many law enforcement systems are chronically inefficient, with low clear-up rates, and even poorer records in terms of stopping re-offending.

Crime and fear of crime matter: they corrode social trust and community, as well as undermining well-being. Declining civility can become a cause of crime, setting in motion a spiral of decline as people lose faith in their community and in those around them. All societies need to be able to define and enforce rules and these rules in turn need to be widely supported and upheld – not least so that they can be passed onto the next generation, both through the formal curriculum taught in schools and through the implicit curriculum that children pick up by observing other children and adults – what is valued, who is rewarded and punished.

Many societies have failed to renew the rules governing social order. Yet without this, progress in other areas will always be hard, if not impossible. Four tasks stand out.

The first is preventing crimes. Much is now known about how to do so. The methods include: intensive support for individuals and families who are at risk, often targeting very young children and aiming to improve cognitive skills and self-esteem; better physical design and lighting; and, in areas of high juvenile crime, more coercive measures such as curfews for under-10's. Prevention is also helped when communities take greater responsibility for security: for example through neighbourhood watch schemes or neighbourhood warden schemes (as in the Netherlands Civic Guards), or even through the use of private security to complement the police (there are at least three times as many employees in private security as in the police in the United States, and twice as many in the United Kingdom and other countries). Effective policing of small infractions can help to establish norms of obedience to the law that reduce the incidence of more serious crimes (the “broken windows” thesis of James Q. Wilson).

The second is solving crimes. Technological solutions and organisational changes are critical: applying new information and genetic technologies to the

identification of criminals, including systematic DNA testing and the use of DNA databases; the widespread use of CCTVs in public spaces (over 500 000 in the United Kingdom alone); home security systems; sophisticated mechanisms for tracking money; the use of cross-border co-operation and transnational policing capacities to deal with international organised crime; and, within countries and cities, the use of new methods of “intelligence-led policing”, using data systematically to allocate resources.

The third is punishment. Over the past two decades there has been an explosive growth in the use of prison as a punishment in some countries, notably the United States (where prison populations are now over 1.8 million) and New Zealand. These are now hugely costly, and although they may have some effect in reducing crime while offenders are incarcerated, they are extremely inefficient at preventing future crimes. In other countries a variety of specialised punishments, including community sentences and very short sentences, have been used, as has electronic tagging. But as a whole the field of punishment has not been innovative, and few regimes of punishment can demonstrate strong evidence of success in either deterrence or rehabilitation.

The fourth is rehabilitation. In many societies re-offending rates remain high. Some countries have therefore shown interest in more imaginative methods – such as the restorative justice methods derived from the Maoris, which bring offenders and victims face to face, and more intensive counselling and after-care to help former criminals re-establish themselves with a home and a job.

### ***Active welfare***

Each of the areas discussed above touches on how we think about welfare and well-being. Welfare was the foundation stone of the postwar order. It ensured protection; it embodied shared values of social justice and protection for the weak and the unlucky. But the risks faced by individuals, families and communities have changed, and the environment in which all welfare systems operate is now substantially different from that of the postwar period:

- New forms of poverty and exclusion have emerged despite rising spending on welfare.
- Ageing patterns have called into question the promises made by some governments.
- Changing values have made people less willing to look after elderly relatives.
- Changing – and weaker – family structures have reduced families' ability to look after themselves and made them a major cause of poverty.

- International competition has made firm-based welfare systems harder to sustain.
- Some welfare systems have had perverse effects on behaviour and cultures, including encouragement to free-ride and cheat.
- Disparities in quality of service between public institutions and private companies have grown.

These are all reasons why, although many welfare systems are not in any strict sense unaffordable, there is good reason to talk of a crisis. Welfare systems that were designed to provide a backdrop of security have instead, in the worst cases, encouraged a long-term dependence on benefits that is disabling, reducing people's capacity to find work, corroding self-esteem and self-efficacy, and (in turn) damaging social capital. In any society, large numbers of people will have no choice but to be dependent: the problem has been to distinguish between them and others who may have real prospects of economic independence.

These are not arguments for dismantling welfare. Modern economics has shown very clearly why markets are poor at providing adequate protection against diverse risks. However, the precise ways in which risks are pooled, and the deals offered to individuals and groups, need to be continually modernised if welfare systems are to remain effective – and legitimate.

Much of the developed world is now engaged in reform: shifting from passive provision of funds to active intervention in life chances; focusing more attention on knowledge, skills and self-efficacy rather than only on money; and defining a clearer balance between rights and responsibilities.

These shifts in approach are likely to entail new mechanisms for delivering welfare, including the use of personal advisers and a more customised front-end for welfare in place of standardised entitlements (as in the United Kingdom's new ONE service); much greater use of IT and the internet to provide job opportunities and training, as well as benefits; links between welfare delivery and other services such as literacy, drugs rehabilitation and debt counselling.

The goal of reforms will be to redefine the guarantees that the welfare system provides: guarantees that if an individual is unfortunate enough to lose a job or face a relationship breakdown or a serious illness, there will be support on offer to quickly help the individual and their family back to independence and prosperity, alongside clearer expectations that individuals will help themselves.

What this means in practice is in some respects a more interventionist welfare system. Rapid and intensive support is often necessary because the longer an individual or family is left poor or unemployed (or for that matter homeless or facing drug addiction), the harder it is to escape. Holistic support – bringing together



different agencies and professions – is often needed because the problems facing individuals and areas tend to be clustered, with close links between unemployment, ill-health, family breakdown, and crime.

These new approaches to welfare also bring with them a changed approach to risk. Earlier models of welfare assumed that risks had to be minimised. The welfare state was essentially a vehicle for security. Yet in a more individualised society with a wider spectrum of life chances, some kinds of risk are not only economically healthy but also good for the individual. Indeed one of the measures of confident, self-directed individuals is their ability to take considered risks. Hence the new emphases on self-employment, soft skills and self-confidence as key goals of welfare.

In practice the viability of different types of welfare system depends on deep patterns of political attachment and willingness to pay tax. Experience has shown that very generous systems can be sustainable where there is strong public commitment (and some of the highest spending states remain near the top of league tables of economic competitiveness), so long as welfare continues to be efficient and targeted at contemporary needs rather than old ones. However, where this is not the case, and where there is less of a culture of high taxation and spending, governments have to be much more careful in targeting resources to maximum effect. For many citizens the results may not be very different. For example, in the very different systems of the United States and Sweden, typical households spend around 40% of income on protection; the main difference is that in the United States much of this is channelled through private or semi-private insurance.

Like other fields of public policy, welfare is subject to reflexivity: analysis and assessment of policies and their effects. Some of this new knowledge comes from social science, for example on labour market dynamics. Knowledge can also be drawn from the more sophisticated management of personal or area-based data. Looking ahead there will also increasingly be knowledge from genetics. So far genetic knowledge has been far too unreliable – and testing too expensive – to have the predicted impact on employment, housing and insurance. But there are real concerns that once the results of the full sequencing of the HGP in 2002 flow through, alongside gene chips that can test more cheaply, a “genetic underclass” could take shape as people find themselves excluded from markets for insurance and mortgages, or facing discrimination in employment.

### ***Revitalising neighbourhoods***

One of the common problems of the last three decades has been the emergence of concentrations of poverty, unemployment, ill health and crime in neighbourhoods, often in inner urban areas, though sometimes in peripheral estates (as in France). The spatial character of many social problems was under-appreciated in the past. Today it is evident that problems that often began with the disappearance

of jobs from cities – particularly industrial jobs for men – became over time much more complex, connecting culture, weak family structures, welfare dependency, low levels of social capital, racial discrimination and the rise of an economy based on drugs. As a result, inequalities within cities have often become much more acute than inequalities between cities and regions.

Many of the earlier policies used during the 1970s and 1980s to revitalise neighbourhoods were ineffective. In retrospect, many focused too much on physical renewal rather than investing in human capital and capacity; too much was imposed top-down rather than involving communities themselves; too many initiatives were short term; too many focused on one or two problems rather than tackling the cluster of related problems in the round.

Some progress has been made in the 1990s to tackle these deficiencies. There are Empowerment Zones and Enterprise Communities in the United States, and the Single Regeneration Budget and New Deal for Communities in the United Kingdom; in France, the *Zones Urbaines Prioritaires*, which often had the biggest concentrations of problems, have been replaced by the policies of the *contrat de ville* and *zones franches*; in the Netherlands, the various Grote Steden Beleid programmes have linked together job creation, safety and quality of life; in Denmark the Byudvalgsinitiativ in the mid-90s and, more recently, the Kvarter-loft programme both pioneered integrated approaches to regeneration.

In all of these cases some of the same problems recur: how to gain and sustain local participation and leadership; how to persuade business to invest; how to convince public agencies to co-operate fully. Looking ahead, this set of issues is likely to become one of the hardest challenges for the OECD countries if they are to prevent worsening polarisation within the major cities. Social renewal will count for little if it does not reach into the poorest urban neighbourhoods, which have largely failed to make the transition to a stable new economic and social order.

No one would pretend that there are any easy answers (or that neighbourhood renewal can be seen in isolation from larger social and economic policies). However, there is an emerging consensus about some of the themes needed to underpin a more holistic and effective approach:

- Physical regeneration as the necessary but far from sufficient condition for renewal; in some extreme cases, there is a need to demolish housing and start again.
- Encouraging economic independence through combining inward investment; stronger links to the mainstream economy through transport, job search, and mentoring programmes; and promoting indigenous wealth creation through self-employment, business start-ups and community business.

- Building up community-based institutions to manage housing, public spaces and amenities at the neighbourhood level, and building up the assets under the control of the local community.
- A strong emphasis on public order, safety and crime reduction.
- Using local public institutions – such as primary schools and health centres – as hubs to revitalise community life.
- Raising the performance of mainstream public services in poor areas (including in particular schools, police, health services).
- Committing agencies to long-term, ten- to fifteen-year plans for renewal.
- Involving local communities closely in the design and delivery of renewal plans, while also tying plans closely into city-wide and regional economic plans.

### ***Mobilising the third sector and the other invisible hand***

Within any society people need mechanisms to organise themselves and to express care, commitment and altruism. The third sector of non-profit organisations provides the vehicle. Yet in many countries its legal, financial and regulatory environment remains unmodernised.

The postwar order was primarily based around the relationship between state and market. In many countries non-profit independent organisations – particularly religious ones – provided welfare services, schooling and health. Well-known examples include the religious organisations in the Netherlands and Germany; labour organisations such as Histadrut in Israel; the non-profit organisations associated with the Catholic Church in Italy. In Belgium and Austria about half of social services are provided by the third sector. However, in all countries the third sector tended to have a subordinate role – lower in status and power than business or the public sector.

Over the past fifteen years this relatively low status has begun to improve. One factor was the collapse of communism and a search on the left of politics for a bigger role for non-state organisations, less tarnished by the failures of large-scale planning. Another was disappointment with the excesses of neo-liberalism, which appeared to squeeze non-material values to the margins.

The result has been a revaluation of the role of organisations driven by values rather than self-interest and coercion, and a recognition that they have a crucial role to play in social renewal – identifying new needs and new ways of organising, and mobilising different resources of commitment and time than state and market institutions can do.

While some commentators – notably Robert Putnam in the United States – have warned of a decline in civic association, the evidence is not clear-cut. Some traditional charities have declined but they have been more than compensated for

by new ones. Some studies in the United States, the United Kingdom and elsewhere have shown a clear upwards trend in social capital, closely associated with rising educational levels and occupational change, and manifest in the growing number of self-help health groups, small organisations, neighbourhood organisations and social entrepreneurs. Elsewhere there have been striking examples of public willingness to contribute; after the Kobe earthquake in Japan in 1995 for example, one million volunteers went to help with relief.

Governments have also built up the sector. Its economic weight – typically 4-6% of GDP, and usually a rather larger share of employment – reflects large infusions of public funding. In some cases governments have funded non-profits to cut costs and undermine public sector interests, while elsewhere the priority has been to bring in ideas and responsiveness. In many countries voluntary organisations have taken on some of the characteristics of public bureaucracies and indeed of for-profit firms, and co-operatives have become more similar to associations. But the most important change is that third sector organisations in all their forms – from mutuals in insurance or the internet to small community groups – are now seen to have capacities beyond the reach of public and private organisations.

Governments are now trying to find new ways to engage the third sector as a partner in social change: legitimately different from and independent of government, but also inevitably involved with it in framing and delivering policies. These are some of the emerging themes:

- More systematic use of the voluntary sector to innovate, identifying new needs and new practices (for example in drugs rehabilitation, self-help in health, neighbourhood regeneration or housing).
- Developing new machineries for people to give time, including funding for volunteering and mentoring programmes to provide a one-to-one personal complement to formal, professionally delivered services; accreditation for time given; encouragement for employers to release staff; “time monies” and other kinds of reward for commitments (such as discounts on student loans).
- Funding community organisations to run services, manage community exchange systems [such as LETs or internet equivalents such as GEMs (guaranteed electronic markets)], organise local neighbourhoods and engage communities in planning their own futures.
- Modernising the legal and institutional frameworks for non-profit activity, including guarantees of independence, proper scrutiny of financial arrangements and new methods for individual and corporate giving, as well as new forms for the social economy.
- Involving the third sector more directly in policy making through commissions, task forces, community planning fora, etc.

- Developing new sources of risk finance to support new social ventures, and social entrepreneurs.

Two hundred years ago Adam Smith developed the idea of the “invisible hand” that links the pursuit of individual self-interest to the common good through the market. One of the lessons of recent history is that all societies also depend on another invisible hand that mobilises altruism, concern and commitment, and which – like the invisible hand of the market – rests on institutional forms to gain fullest expression.

### ***Tolerance, culture and identity***

The final challenge concerns culture: how to maintain a diverse, tolerant society against a background of greater flows of people and a revival of identity politics. Nations have rarely had the homogeneous cultures that romantics imagined. In practice, cultural unity often had to be forged out of mass education systems, national media (particularly broadcasting) and national armies. But now there are very real concerns that we could be entering an era of intolerance, cultural conflict and the loss of traditional identities.

In Eastern Europe, ethnic and national chauvinism and anti-Semitism have re-emerged. In the United States, more than thirty years after the civil rights movement, the majority of black people expect racism to continue. California's Proposition 209 in 1996, which made it illegal for public colleges to take ethnicity into account in deciding on admissions, appeared to signal a new period of intolerance. France's “affaire foulard” (over wearing Islamic headscarves in school) revealed uncertainties about the terms of citizenship at the end of the 20th century, as did Germany's debate about the reform of citizenship laws. Elsewhere in Europe the rise of right-wing, often overtly racist political movements such as Jorg Haider's Freedom Party or the Vlaams Blok has kept issues of diversity high on the agenda, as have racist murders in Germany, Britain and France, and the terrorist acts of US militias.

All have fuelled fears that the next twenty years will bring fragmentation, division, mutual distrust and the importation of the divides of the whole world into settled societies. At a global level the argument is put by theorists such as Samuel Huntington, who has emphasised the incompatibility of the world's main religiously-based cultures and warned of the prospect of worsening conflicts along their boundaries.

Certainly, much of the world is now populated by more mixed populations, and there are more signs of tensions, from racist violence to civil wars, than a generation ago. Globalisation has been accompanied by a resurgence of identity politics and nationalism. However, there are important reasons for being sceptical about the pessimistic account of worsening conflict and incomprehension.

Firstly, there is now far more evidence that cosmopolitan and diverse societies can be stable and successful. Some of the most diverse cities are also the most peaceful: Toronto, Melbourne and London in the English-speaking world are counter-examples to Los Angeles and Washington. Elsewhere, countries as diverse as Singapore, Brazil and the Netherlands have achieved remarkable records of harmony. Tolerance and co-operation can be learned and embedded in institutions.

Second, the evidence of hybridity undermines the pessimists' account of conflict between homogeneous groups. Mixed relationships now account for 30-40% of the relationships among young members of Britain's ethnic minorities, and even in the United States half of Asians marry non-Asians and half of Hispanics marry non-Hispanics by the third generation. In culture too, hybridity has become the norm, with the intermixing of forms and genres in popular music and literature, such that the leading exponents of "English" literature now come from the Caribbean, the Indian subcontinent and Africa. There is the very real prospect that within a few decades there will be fewer clear breaks between majority and minority populations.

Third, the success of ethnic minorities in many societies has tended over time to become more variable, with some minorities quickly attaining wealth and status, while others languish, often reflecting their class origins. Where class and race overlap, social problems can be particularly resistant to solution. But the lines dividing in-groups and out-groups are not fixed, and in some parts of Europe and North America the white working class is now one of the most excluded and alienated groups.

These considerations suggest that societies can take a very strong stand against discrimination and inequality without promoting a racist backlash, and that they can achieve integration without assimilation through:

- Enforcing vigorous anti-discrimination laws.
- Intervening to ensure that high unemployment does not become a norm in particular minority groups.
- Using housing allocation policies to avoid ghettos.
- Engaging all groups in mainstream politics.
- Widening access to the most influential professions.
- Using symbolic acts of inclusion.

It is not necessary to believe that societies can only hold together if everyone shares the same values. There is certainly a minimum of shared values that is necessary for social values – and in particular a shared commitment to procedures and regulations. But beyond this, societies can thrive with a very wide range of belief systems. Moreover, inclusion and tolerance can be learned, and enforced. The institutions promoting them can be built up, reinforced, and given greater legitimacy

because – contrary to what the cultural purists believe – in practice cultures are complex not closed, dynamic and not fixed. However, for tolerance to thrive it is essential that the healthy trend towards greater autonomy for individual communities is matched by stronger commitments to tolerance, co-operation and equal rights at higher levels, whether at the level of the nation state, the European Union or global institutions. Otherwise there will always be a risk that greater self-determination for minorities, communities and localities will result in insularity, intolerance and conflict.

## 5. Conclusions: the renewal of social and economic order

What conclusions can we draw from this brief survey about the conditions for social renewal over the next twenty-five years?

### *The decline of the postwar order*

First, we have seen that the social and economic order of the OECD countries that took shape in the years after the Second World War has become obsolete. This order tended to include the following main characteristics:

- Nation states operating to varying degrees as closed systems.
- State and market expanding in tandem.
- Substantial state involvement in the economy.
- States offering economic and health protection to the majority of citizens.
- Markets offering the prospect of rising levels of consumption.
- Knowledge concentrated at the apex of large organisations and professions.
- Deep hierarchies with many layers.
- Policy informed by ideology.
- Welfare systems based on entitlements.
- A clear gender division of labour and inequality of power.
- Relatively homogeneous societies.

This postwar order was highly organised; built around powerful institutions able to make strong claims on their citizens, employees and members, under the umbrella of the nuclear deterrent and the cold war; held together by governments taking on a greater share of collective responsibility for health, welfare, education and security; run by organisations within which authority derived from the role not the person, with power and reward clearly linked to position in the hierarchy.

Under the twin impacts of knowledge and connections this order has declined. Institutions have become weaker – less able to command loyalty, to raise money, and to make demands. “Strong power”, multilayered hierarchies have started to be

replaced by flatter organisational hierarchies and “weak power” structures that are looser and more flexible, more able to redesign themselves; tied together in networks; and governed by finance, information and culture as much as by formal authority. The result is a clear discontinuity, a break in the traditional account of modernity.

This break affects many domains. For much of this century it was possible to say that many nations were on a similar path of modernisation, albeit at different stages: the trends towards higher population, urbanisation, industrial employment all pointed in the same direction in the East and West, North and South, as did some of the costs of modernity, notably weaker family structures and environmental pollution. Everywhere the dominant model of development and growth took for granted the virtues of bigness; material abundance; control over nature; increasingly centralised political structures and bigger firms.

Today much of the developed world is moving in a distinctly different direction: towards stable and possibly falling population; de-industrialisation; de-urbanisation; decentralisation; cleaner air and water and reforestation. There are even some early signs that other apparently unavoidable trends are either levelling off or going into reverse: divorce rates have started falling in the United States; crime rates have started falling, sometimes rapidly; even trust in institutions has stopped declining and in some countries is now rising again. Problems that recently seemed insoluble now appear to be tractable: just as the inflation that appeared endemic in the 1970s (and a reflection of deeper social factors) has largely disappeared, so the unemployment that appeared to be endemic in the 1980s is now beginning to respond to new policies.

### ***The rise of a new social and economic order***

These observations and the others discussed above confirm that we may be witnessing something less like incremental change and more like a change in order: the emergence of a new social and economic order appropriate for knowledge-based economies and for connected and democratic societies. We can summarise the emerging characteristics of this new social and economic order:

- Greater porousness to flows of money, culture, goods.
- State, market and civic society as triple pillars.
- An economy based on knowledge.
- Active welfare focused on human capital.
- A shift from material consumption to quality of life as the primary concern.
- Flexible labour markets.
- A broader spread of knowledge and capacity to organise throughout society in place of reliance on experts.



- Policy driven by ethics and evidence rather than ideology.
- A new balance of rights and responsibilities in place of a politics of entitlements.
- Intolerance of discrimination based on race, gender, age or disability.
- Stronger protection of personal autonomy (*e.g.* privacy).
- A more androgynous labour market and domestic sphere.
- A more diverse social structure.

It goes without saying that none of this is inevitable. The prospects for social renewal will be sharply determined by the health of the global economy and the absence or presence of war. Many other features of the emerging order will only become clear with the passage of time: whether, for example, businesses will take on greater social responsibilities or stick to a narrow focus on shareholder value; whether there will be a further commoditisation of everyday tasks or conversely a return to self-provision in the home (as is already happening to some extent with education, health, child care, cooking); whether levels of taxation will continue to be roughly frozen at the widely varying levels they reached in the early 1980s; and so on. Yet, despite these caveats, the overall shape of the new order is already becoming clear.

### ***What causes change?***

Changes of order do not happen spontaneously. They evolve both from below and from above, emerging from the interaction of complex processes of organic change, involving millions of individual decisions, experiments and innovations, with the attempts of states to impose form through laws, institutions and rules. They build on deep predispositions towards pro-social behaviour, co-operation and trust that are hard-wired into our biology, as well as on self-interest. And they are also shaped by the states that – in the OECD countries – spend a third to two-thirds of economic income, maintain law, punish violence, regulate markets, currencies, organise and fund, either directly or indirectly, schools, welfare and health, collect data, imprison people, govern who can go where, as well as regulating the legal and fiscal status of relationships, the rights and responsibilities of parents.

Neither side of this equation can be relied on. Governments can all too often be obstructive, myopic, tied to the status quo, slow to adapt and unenterprising. That is why governments themselves have to change radically if they are to play a constructive role in social change. But too little government can be as much of a problem as too much: certainly recent history shows that societies with weak governments are rarely blessed with stronger and more self-reliant people, more dynamic economies and a richer civic life.

### ***Connexity***

Underlying much of the previous discussion is what has been called the question of “connexity”. Is it possible to create new forms of stable order in a much more connected world, where people and communities have wider choices about who they deal with, trade with, communicate with, join together with? Is it possible to avoid the tensions between freedom and interdependence? Is it possible to combine economic dynamism with the community, mutual responsibility, commitment and care, which are the preconditions for a good society that meets the needs of its citizens?

This chapter has offered affirmative answers to each of these questions. Globalisation is neither a force of nature that must be unthinkingly embraced, nor a monolithic threat that must be resisted at all costs. It is not inevitable that globalisation will lead to a descent into widening inequalities, mutual incomprehension, weaker communities and social conflict. New bonds and commitments are emerging spontaneously and they can be encouraged – whether at work, in families, or in communities.

Many governments have already shown that they can combine cohesion and competitiveness in ways that respond to global challenges, while also drawing on the specific circumstances of their own history, culture and institutions: delivering welfare in much more active, integrated and personal ways; providing lifelong learning; managing health holistically; making public services more responsive; devolving power down from national governments; empowering third sector and community organisations; and offering citizens new guarantees based on a new balance of rights and responsibilities. There is much further to go, and much more to be done to link government, business, non-profit organisations and the wider public. But social renewal is achievable.

The emergence of any new social and economic order is accompanied by disorganisation, confusion and chaos. During such periods it is natural to want to cling onto the securities of the past. Usually, however, periods of “unsettling” are followed by periods of reconstruction – what the Japanese call “*kakumei*”, or the renewal of order. We are now at just such a moment. For too long the debate has been polarised between an unthinking celebration of the new economy and an unthinking defence of the old postwar social order. Now the debate needs to reconnect the economic and social; to address in detail the practicalities of renewing social systems, welfare, education, health and law enforcement; and, in so doing, to strike a new balance between expanding freedom and the growing interdependence of a connected world.

## Chapter 7

# Primary Globalisation, Secondary Globalisation, and the Sustainable Development Paradigm – Opposing Forces in the 21st Century

by

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### 1. The primary logic of globalisation

#### **Introduction**

Globalisation is an abstract concept. It does not refer to a concrete object, but to (an interpretation of) a societal process. The phenomenon therefore cannot be defined easily. To make clear what one means by “globalisation”, it is necessary to make a comprehensive conceptualisation. For most authors, globalisation is a complex process that involves political, economic and socio-cultural changes. Usually, globalisation is also meant to refer to the consequences it carries. Thus, globalisation is often seen not just as a “one-way process”, but as a dialectical dynamic. This chapter adopts such a perspective. Section 1 offers an overall definition of globalisation and examines its primary logic. Section 2 follows with a discussion of the secondary logic involved.

#### **Definition**

Globalisation is here defined as follows:

*Globalisation is a process in which geographic distance becomes a factor of diminishing importance in the establishment and maintenance of cross-border economic, political and socio-cultural relations. This process reaches such intensity that relations change fundamentally, and people become aware of that change. The potential internationalisation of relations and dependencies creates opportunities, but also causes fear, resistance, actions and reactions.*

This definition captures both the objective and the subjective aspects of globalisation. On the one hand, geography is made less relevant thanks to new technologies, the strategies of economic actors and the policies of national and international political actors. On the other hand, globalisation gains in strength because of the fact that people acknowledge the possibilities opened up by technologies, strategies and policies, and when they act accordingly they make globalisation happen. At the same time, the fears, ideas, actions and reactions caused by the globalisation process are a reality as well.

This definition underlines the fact that the importance of geographic distance is diminishing, but that does not mean it is fading away. The earth does not really shrink but relative distances do. Worldwide (networks of) relations can thus be established – and these in turn can “liberate” people, goods and symbols from their geographic context, allowing them (in a fully globalised system) to flow freely around the world. People and societies are neither restricted nor protected by borders.

The definition also speaks of *potentially* worldwide networks, because socio-cultural realities will influence the “logic” of globalisation. An inward-looking culture, isolationism, dictatorial political regimes, a conflictual international order, defensive regionalisation etc. can change the globalisation dynamic significantly. Globalisation might for example also produce fragmentation.

### **What's new?**

Globalisation can be said to be centuries old. The first Homo sapiens were nomads, travelling from one place to another; Indian tribes travelled ages ago from Mongolia to Northern America; products of the Inuit have been found at ancient sites of Australian Aboriginals; the story of Jesus has been told around the world from the beginning of our era. Clearly, flows of people, products and symbols have existed for a very long time.

The roots of contemporary globalisation can be found in the European enlightenment process. The decoupling of science and religion stimulated technological innovation; rationalisation of life brought us rationalisation of economic enterprise and a positive appraisal of science and technology. The liberation of the individual brought us creative force and quests for adventure, overseas and on the domestic market. Technology, rationalised economy, and room for individual creativity, adventure, success and failure brought us where we are today: a globalised world. Not in a linear way, since history seldom takes a straight trajectory, but the enlightenment process sowed the seeds. That is not to say that today's globalised world is the same as the world of the great voyages of discovery, the world of colonies and the colonised, the world of the Medici and the Hanseatic League.

What is special about our globalising world is that dependencies within global networks are so great and interactions so dense that they form spheres unto themselves. The global institutional order has a logic of its own that is more or less

independent of that of the local configurations it encompasses. The movements and interactions in global space are now patterned and institutionalised to such an extent that local societies have to explicitly react and relate themselves to the global configuration. Therefore, globalisation now goes hand in hand with many new societal patterns and processes.

The existence of this global configuration has consequences for national societies and actors. The institutional arrangement of national state, national culture and national economy no longer holds as an effective and credible “ideal model” for societies. National institutions are still necessary, but they do not suffice.

Once societies acknowledge globalisation, societal, political and economic actors have to act and react upon it. These reactions are intertwined: policies affect economic strategies that provoke social reactions, and *vice versa*.

Thus, in the globalising world we not only have to cope with the dependencies between local configurations and the semi-autonomous global networks – we also have to pay attention to the intertwined actions and reactions of actors in the three societal spheres of politics, economy and culture, at different interconnected geographic levels.

To conceptualise this, we need to simplify. This chapter distinguishes between primary and secondary globalisation. The first type is driven by two “prime movers”, a dynamic that carries a number of negative consequences for government power and for the quality of life in our world.

### ***The prime movers***

A description of the prime movers has to begin with technological innovation, mainly in information and communications technology. ICT has such an impact on mobility and communication that the “technological revolution” implies a “social revolution” and a decisive shift from industrial capitalism to a post-industrial conception (and reality) of economic relations. Alvin Toffler called this, already more than two decades ago, the Third Wave.

The second prime mover of globalisation, building on the success of technology, is the hegemony of neo-liberal ideology. This is about the triumph of the market ideology, the economisation of life, mass consumption and mass entertainment, deregulation, and so on. It is a global ideological breakthrough in which democracy is considered to be a twin of the market economy. Together, the twins are seen to form a winning team.

Of course, there has been and still is an enormous amount of interaction between technological and ideological globalisation. This interaction has led to globalisation of and by the economy. Economic globalisation, in turn, has become a force in itself (global financial markets, world trade, consolidation of industries, etc.).

The reality of globalisation can be understood by focusing on these two prime movers. The hegemony of neo-liberalism became especially visible and gained an extra dimension after the end of the cold war. The model of “free market plus democracy” became more convincing because of the collapse of the “evil empire”. The fall of the Berlin wall seemed to many to be the long-awaited final victory of the Western winning team. However, the popularity of Thatcherism and Reaganomics started before that, while the economisation of life, ongoing individualisation, materialism, but also the problems of the over-matured social-democratic “welfare states” began back in the early seventies. Seen in that light, the collapse of Communism was, on the one hand, a consequence of the success of neo-liberalism. On the other hand, it contributed to the neo-liberal victory since the collapse made clear – especially to developing countries – that the Communist bloc was lacking the technological and creative capacities of the West.

Although the hegemony of neo-liberalism can be considered a driving force behind globalisation, it cannot be said that all consequences of globalisation were desired or even foreseen by proponents of that ideology. For example, neo-liberalism is a creed based on the concept of democratic nation states, the blessings of which it takes for granted: through the democratic states both internal and external security would be guaranteed; markets, both national and global, would be organised; and so on. However, because of globalisation, democracies based on territorial nation states began to fail – the chapter returns to this later. The important point here is that while neo-liberalism can be seen as a cause of globalisation, that does not mean all the consequences of globalisation therefore fit into the neo-liberalist “agenda”.

Neo-liberalism coupled with technological innovation stimulated internationalisation of economic life. Neo-liberal ideology invited policy makers to liberalise markets, to deregulate economies and to privatise state-owned firms. Then, technological innovations, ICT in particular, allowed economic actors to take full advantage of the possibilities opened up in the free markets, now that capital could flow around the world in a split second. ICT, the miniaturisation process and the earlier transport revolutions made it attractive to produce different parts of a product in different continents, to bring them together and then to distribute them to consumer markets worldwide. Producing, selling and buying are now less confined to actual geographic markets and sites of production than ever before. Lending and borrowing, investing and speculating have become “around the globe” activities. The neo-liberal ideology urged policy makers to take away any “market barriers” while technological innovations made it possible for goods, money, symbols and people to cross borders fast and at low cost. Borders ceased to be meaningful and states lost power to market forces.

### ***The consequences***

This dynamic has many consequences, both positive and negative. It is interesting to look first at the problems created by primary globalisation, since they can be seen as the “new challenges” for the political, business and societal leaders of the world.

### *Governmental and democratic deficit*

The first major deficit is what can be called the governmental and democratic deficit.

The states are handling fewer of their traditional tasks. Acting in accordance with neo-liberal ideology and in adapting to globalisation, they have transformed themselves from neo-Keynesian guardians of the national public good to neo-liberal guardians of international private capital.

Since the globalisation process has now gained momentum, states are becoming objectively less powerful, less capable of carrying out traditional “societal” tasks like redistributing welfare and protecting the environment. They are even becoming less capable of accomplishing tasks necessary for international capital itself: securing property rights and ownership, maintaining public order, fighting criminality, safeguarding peace, and so on.

State authority is bound to a specific territory, while with globalisation more and more processes now have a transboundary character; some cannot even be localised. Also, many of the pressing problems in today's world have global dimensions, and cannot be solved at the national level.

States do regain some of their governance capacity by pooling authority at a higher geographical level, in regional political institutions and in IGOs (intergovernmental organisations). However, international policy making is difficult because of the huge differences in economic development, political priorities and cultural backgrounds among countries. Also, international policy making is by definition not very democratic. IGOs are not elected representatives of the people and national parliaments only have a right to veto international agreements.

It can therefore be said that the capacity *and* the will to govern are diminishing, while “international democracy” is in bad shape. This is all the more painful since the globalising world is characterised by three further deficits that each negatively influence the quality of life relating to security, social well-being and the environment.

### *Security deficit*

We have to deal with problems concerning safety and security. On the one hand we face conflicts in failed states and the inability of the international community to respond adequately. On the other hand both survival criminality caused by poverty and organised crime – facilitated by ICT – are intensifying.

With regard to violence in failed states, it is interesting that globalisation has reached a point where the sovereignty of individual nation states is no longer seen as a legitimate argument for the international community not to intervene. This means that countries can no longer assume that the use of – illegitimate – violence within their borders is “strictly an internal matter”. However, it is often unclear

whether or with what means the international community can interfere with “internal matters”, be it to end a civil war like the one in Kosovo or to punish a human rights violator like Pinochet.

The security deficit, especially with regard to organised crime, should be dealt with both in an intergovernmental and in a supra-national setting. As with violence, states should not hide behind the principle of territoriality or act on the assumption that it is solely up to national states to protect their citizens. Co-ordination of policies, knowledge-sharing and capacity-pooling is important, but not sufficient. Supra-national security institutions are also needed, for example to monitor bank accounts and money flows, to fight “internet crime” (copying credit card numbers and the like) and to tackle international crime networks.

Given the need for intergovernmental and supra-national action, it is of paramount importance to gain legitimacy for this action in the world’s civil society directly, via public opinion. It is difficult to give shape and substance to democracy on the international level. Relying on propaganda is risky because it can only produce support for a limited period of time. We can increase the involvement of the public by informing them honestly and by listening carefully to the signals coming from citizens and NGOs.

#### *Social deficit*

It is also possible to speak of a social deficit. Globalisation offers people opportunities to improve the quality of their lives. These opportunities can be grasped if one is highly educated, has highly developed social skills and has access to well-functioning labour and/or capital markets. Many people are not this lucky; many people are excluded. Income gaps and social cleavages within countries are growing. At the international level many countries and almost all of Africa are incapable of joining the globalised economy. How can the marginalised masses and countries be included? How can they be given the chance to participate?

What aggravates the social problem is that it is troublesome to create enough jobs for every potential worker at the right level. This stems from two factors. Firstly, due to technological developments, those with a lack of vocational training are excluded, and can only catch up with difficulty. At the same time, because of globalisation, the supply of labour from less developed countries affects the market position of all those who are not scarce. In short, only the strong can keep their income position. Even middle class people are losing out in comparison with those who earn income out of capital and those who can profit from their positions in management, scarce labour, and training in new technologies.

In the less mature economies, enormous numbers of people are still excluded, living in poverty or being exploited. It is not simply a question of income. An additional problem relates to the very poor conditions in which some of the labourers



have to work. Nearly everywhere in the former Third World, labour conditions are unacceptably low according to Western standards. Child labour is practised, safety measures are minimal, working hours very long, pay minimal, the freedom to form labour organisations non-existent. Of course it is in those countries that Western companies can manufacture cheaply and buy cheap parts and services.

All of this is already very painful in real facts and figures. However, the pervasiveness of information and communication makes the experienced social deficit even larger. In the West people can now see the injustice done to workers and the poor in the less developed countries. Out of this arises a general feeling of discontent. In the less developed countries, people get a glance, via tourism, advertisement and TV, of the "rich life" in the West. It is not unreasonable to suppose that this aggravates feelings of relative deprivation.

### *Environmental deficit*

In addition to governmental-democratic, security and social deficits, the globalising world also suffers from an environmental deficit. Environmental damage and pollution are increasing with the growth in economic activity. National environmental policy is not very effective in dealing with global environmental problems. At the same time, it is difficult to develop global environmental policies due to differences between the countries of the world in economic development, political choices and cultural backgrounds.

There does now exist a network of environmental treaties. That is a positive development. Experience teaches that countries arrive at better environmental policies when they act in cross-border and especially regional contexts. This is so because environmental problems themselves are often cross-border (the Rhine pollution, for example). Also, environmental policies always affect economic interests. In regional contexts it is possible to come to a fair burden-sharing.

Besides, in the regional context one can aim at higher policy goals and stricter norms, since the fear of competitive disadvantage, which often eliminates ambitious national policies, will be lessened. One can also realise more effective action and better capacity-building, since pooling information and means produces positive outcomes.

## **2. The secondary logic of globalisation**

### *Counter-reactions*

The fact that primary globalisation creates deficits in the quality of life and the ecosystem could be taken to mean that globalising society is at a loss. However, this is not necessarily true.

Globalisation is given shape and substance by individual human beings. People of flesh and blood act in accordance with globalisation and thus contribute to its force. Individuals can also change their course of action if the negative effects of aggregate actions become clear. People can react against social forces and thus change the course of social developments.

Indeed, people have already started to counter-react against effects of primary globalisation:

- People react against the globalisation of American images and values by stressing their own roots and local identity.
- People react against the primacy of technology and economy by (re)exploring emotions and spiritual values.
- People react against universal materialism by stressing non-materialist values.
- People react against the pooling of governance capacity on the supra-national scale by demanding decentralisation and decisions nearby.
- People react with fear against alienation caused by the further abstraction inherent in globalisation.
- People react against insecurity by looking for scapegoats, by demanding “protection from the terrifying foreign” – be they foreign refugees, foreign cultures, foreign products or foreign investors.
- People react against ecological degradation by formulating alternative values and action programmes in the sustainable development paradigm.

In short, the one-sided attitudes connected with globalisation induce complementary, mirror attitudes.

These reactions take on an institutional structure. The need for the spiritual and supra-natural gains substance within religious movements. The cry for values beyond materialism gains voice within non-governmental organisations (NGOs), religious movements and new social movements (NSMs). The fear of the foreign materialises within extreme nationalist groups and conservative political parties.

The counter-reactions call into life a new, complementary governance dynamic. In this alternative form of governance, NGOs and the private sector play special roles.

### ***Governance by NGOs and transnational corporations (TNCs)***

NGOs are voluntary organisations that stand for certain specific values: environmental protection, nature conservation, solidarity, human rights, neighbourhood improvement, and so on. They sometimes try to realise those values in a direct way: by planting trees, attacking polluters, distributing food among the poor

and elderly. Often, NGOs also try to pressure citizens, politicians and businesses to help them realise (or to not harm) core values.

Globalisation has strengthened the power position of NGOs in several ways. Due to counter-reactions, citizens have become more socially active and pay more attention to non-materialistic values. That is probably why membership of NGOs both in developing and in developed countries is growing. Besides, NGOs gain strength from ICT: they are “emailing societies”.

Also, NGOs can make their voices better heard in the political arena, since IGOs and nation states are paying more attention to them – for example at the International Conference on Population and Development in Cairo, the Social Summit in Copenhagen, the World Conference on Women in Beijing and the Conference on Environment and Development in Rio de Janeiro.

Lastly, corporations have learned to take civil society organisations seriously, especially after Shell's Brent Spar incident (and the cases of Nike, Heineken, Colt and Monsanto).

NGOs are now developing their “muscles”. They can put pressure on politics to get social/environmental values realised. They can also motivate business to respect those values, since NGOs can effectively threaten with a consumer boycott or a “warning” (a threat to withdraw permits, for example) via political channels. Thus, civil society organisations contribute to the quality of life in globalising societies.

Interestingly enough, transnational corporations (TNCs) have also begun to contribute to the quality of life and to our natural environment. Environmental policies that go “beyond the law” are an example of this type of private business governance.

Why would businesses become benevolent, showing concern for public values, in a globalising society? What motivates them to take responsibilities beyond the law? In today's world, businesses need to be aware of the social and ecological values of the wider society. This awareness serves their interests because:

- As mentioned above, NGOs can mobilise consumers and politicians if a corporation violates important societal values, *e.g.* with regard to human rights or the environment. This can cause firms to lose their political and/or societal licence to operate.
- Secondly, businesses are vulnerable to actions of NGOs since employees and staff of TNCs do not like “their” company to be scandalised (the shame factor). Management is afraid of personnel becoming demotivated.
- Thirdly, judges have now started to penalise TNCs when they violate soft law principles, such as the precautionary principle. Judges base their verdicts not only on hard law, but also on national and international values that are widely accepted and often articulated by NGOs.

- Lastly, insurance companies and banks have become aware of the fact that socially, environmentally and ethically sound companies run fewer risks. Therefore, those businesses can borrow money more easily, pay less interest, and pay lower insurance premiums.

But business quite often becomes motivated internally as well to realise societal values and to promote ecological and social sustainable development. Experience has taught TNCs that doing so improves production quality and cost awareness (“eco-efficiency”), and frequently results in win-win situations.

Thus companies, especially TNCs, have started to internalise social and ecological norms in their business policy. They accept obligations and responsibility beyond what is imposed on them by law. TNCs internalise norms in several ways: they draw up codes of conduct and mission statements, and account for their actions in green and social accounting reports. One important obligation accepted by many companies – often under pressure from NGOs – is the principle of best practice. This simply refers to the rule that corporations active in different countries should, when making new investments, use the cleanest, best possible technology (*i.e.* the best technology they themselves are already using in other offices). Whether a host country has laws concerning environmental norms is no longer the main issue.

### ***Secondary globalisation: enlargement of governance capacity outside the political realm***

Section I made the point that globalisation influences the effectiveness and legitimacy of nation states. That is a real problem for which solutions have to be developed soon. Revitalisation of democracy on both the national and international level is necessary. IGO formation and regionalisation can help to enhance effectiveness; formulation of international laws and treaties can also help. Better integration of trade and environment regulations (*e.g.* effective complementarity between the WTO trade regime and the Multilateral Environmental Agreements) is important, as is better co-ordination between institutions such as the IMF, the World Bank, the WTO and the UN.

The point was also made, however, that globalisation causes counter-reactions in society. Many people do not feel at ease with the globalisation trend. They react against (parts of) the primary globalisation logic. This results in a backlash, in a “secondary logic” of globalisation that strengthens civil society and motivates corporations to internalise societal and environmental values in their business policy. The dynamic between states, NGOs and business can be called “new governance”.

New governance cannot replace governance by governments and political institutions, but it can be an important extra instrument in realising societal and environmental values.

It is inspiring to see that civil society is now very active in the debate on ecological/societal degradation and sustainability. It is also a good sign that many trans-national companies have started to develop more ambitious environmental/social business policies, which they see as necessary from a purely legal point of view.

These developments point in the direction of a new symbiosis of government, business and civil society. Politics defines the rules of the game, functions as arbiter, and guards order and safety in the global society.

Civil society realises societal and environmental values directly and indirectly, by pressuring politics and business and by raising the “value-consciousness” of the public.

Corporations will concentrate on making a profit. However, they will realise that making a profit is impossible in the long run if they do not pay attention to societal and ecological values present in their social surroundings right now.

Organisations in politics, business and civil society thus all play a role in public governance. Therefore it is important that institutions in all three segments adhere to basic norms of good governance: transparency, accountability and integrity (no corruption). Only that way can the three parts of the new symbiosis balance and control each other so that they jointly promote quality of life and earth in the globalising world. NGOs often seem to underestimate the need to adhere to those principles themselves. However, they need the trust of the general public and their governance partners. Sustained trust can only be gained if those three basic norms are respected.<sup>1</sup>

### **3. Sustainable development: a common paradigm for collective action**

#### ***Different dimensions of sustainability***

Brundland defined sustainable development in 1987 as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

The concept of sustainable development is often criticised for being too vague. How can we know the needs of future generations? How can we gauge their abilities to meet needs? And what counts as a need as opposed to a luxury? At the same time, however, sustainable development has proved to be a sensitising concept. It invites people and organisations to think long term, inclusive and holistic; it invites people to pay attention to environment's carrying capacity, to reflect on limitations, and to exchange existing patterns of behaviour for environmentally friendlier ones.

A distinction can be made between two levels of ambitions with respect to sustainable development. The first ambition level (sometimes called weak sustainability) requires the conservation of available resources, enabling future

generations to achieve similar welfare levels. The second level (sometimes called strong sustainability) is more ambitious: it requires the conservation of ecosystems in their present diversity.

In the beginning, the sustainability concept was limited to ecological sustainability; as such, it would not be adequate to serve as an alternative paradigm. Later years have seen the concept broadened to include many other dimensions. In the literature, ecological sustainability and “human” sustainability are often presented as two sides of the same coin. The latter refers to basic needs – to the ambition to eradicate poverty, scarcity of food and water, illiteracy, preventable illness, etc. Often, it also refers to “human security”, including the very basic need of “absence of violence”.

Human sustainability is often divided into four types: social-economic, community, cultural, and institutional.

“Social-economic sustainability” refers to a just distribution of chances and welfare at the global level. Because economic systems have become global, (distributional) equity problems also take on a global dimension. The historical intuition is that if one includes people in economic systems (national markets, world markets), one cannot (at the end of the day) escape the need to include them in distributional equity. In the long run, one economic space implies one social space.

Social-economic sustainability is not something new. What is new is the global interrelation of people, which makes equity a global rather than national issue. This distributional equity is not only spatial but temporal (intergenerational).

Next to distributional equity, equity in chances for social participation – *i.e.* “empowering people” – is also considered of paramount importance. A society with a structural weakness in terms of participation is not sustainable.

At the micro level, the term “community sustainability” is used: sustaining human communities as valuable systems in their own right. This involves maintaining or enhancing the community’s economic and socio-cultural well-being, its cohesiveness, and the long-term health of the relevant human systems.

The concept of “cultural sustainability” differs slightly in that the focus is on cultural diversity. A society is not viable if it does not have a capacity to deal with that diversity. Homogeneous cultures miss out on a very fruitful dynamic of interaction. Cultural diversity is therefore to be cherished and stimulated. Cultures need to acquire openness towards each other, but they also need to be protected against hegemonic and identity-deforming influences.

As a last dimension of sustainability, “institutional sustainability” is sometimes named. The quality of institutions should be safeguarded. Institutional sustainability is closely connected with traditional government and to what in Section 2 is called new governance. If the “new symbiosis” described previously is to work, political, civil and private institutions will need to safeguard their own quality and

credibility by practising democratic values (transparency, accountability, integrity). Also, societal institutions will only be able to function as governance partners if they are given breathing space by the political regime.

### ***Sustainability as an alternative paradigm and set of ambitions***

The sustainability concept can be used to formulate an alternative trajectory for the development of our globalising society. It can function as a new paradigm for governance actors. Politics, business and civil society have different tasks and different ways of fulfilling tasks. However, they need to be bound by a common vision, a common set of ethics. The Universal Declaration of Human Rights (UDHR) and subsequent documents with a universal ambition have functioned and still function as an ethical (and now also legal) framework for the different nation states of the world. Sustainability could function as such a goal-setting, consciousness-raising notion for political and non-political actors alike. This new paradigm will be effective partly as a maturing agent for international law, partly as an adopted universal principle (compare also *ius cogens* and natural law), and partly as a functioning soft law. National and international judges will prove to be instrumental in the weight and importance of sustainable principles.

As a paradigm for thinking, sustainability – as mentioned at the beginning of this section – is characterised by long-term, holistic and inclusive thinking.

Long-term thinking is provoked by the explicit quest for intergenerational equity.

Holistic thinking is stimulated because weight is given to ecological, social and security concerns at all levels of society, from local to global. As a consequence, the sustainability concept invites us to “super-optimize”<sup>2</sup> decisions, instead of “externalising negative effects”.

Furthermore, sustainability is connected with inclusiveness: the interests of all relevant actors, regardless of their power position, should be weighed by decision makers. That is not to say we should always strive for consensus, or that everyone should be involved in decision-making processes (the stakeholder decision model). Business leaders decide over business policies, politicians make political choices, civil society leaders have their decisions to make. However, in doing so, they all have to pay attention to the interests of all those who will be affected by the outcomes.

If sustainable development is taken as the starting point for action, alternative objectives and ambitions come into sight.

Because of primary globalisation, the governance capacity of the state is diminishing. As a result, public values and collective problems cannot be dealt with effectively. Since neo-liberalism and techno-materialism focus attention on realising the highest possible economic growth, the quickest technological innovation

processes and the deregulation of markets, threats to quality of life are not given the attention they need. In contrast, the sustainable development paradigm immediately draws attention to quality-of-life deficits.

Human sustainability points to the ambition to counteract the security deficit, since security is one of the basic, essential needs of human beings, together with food, water and a roof above one's head.

Environmental sustainability is, obviously, the reverse of the environmental deficit.

Social-economic, community and cultural sustainability are all incompatible with the globalising world's social deficits. Socio-economic sustainability is the ambition for "global justice", while cultural and community sustainability are more concentrated on justice at the micro level and on participation of individuals in their local/ethnic communities.

Institutional sustainability combined with community sustainability points to the need for democratisation of political institutions as well as the need for all institutions to adhere to "good governance" and to monitor their quality by sticking to the norms of transparency, accountability and no-corruption.

The "alternative ambitions" inherent in this paradigm could be summarised by the motto: "We must strive for a just, sustainable and participatory society."

### ***Universal declarations based on the sustainability paradigm***

The process of formulating a "universal ethic" based on notions of sustainability is already under way. Civil society organisations play a very important role in this process. The IUCN (the International Union for the Conservation of Nature) has formulated a valuable international declaration complementary to the UDHR (the Draft International Covenant on Environment and Development, 1995). This declaration is addressed to the UN and its member states.

The Earth Council is working on an Earth Charter. The Council works closely with all kinds of local, national and international civil society organisations. The content of the Charter is very broad: rights of nature, rights and duties of individuals and groups, rights of minorities and indigenous peoples are all discussed. The Charter also addresses governments, civil society and business. In that sense it is grounded in the same interpretation of "sustainability" and "new governance" as the one used here.

### ***The sustainability paradigm in international relations***

The sustainability paradigm has been developed and strengthened in civil society and in the political community. People are already acting and thinking in accordance with sustainability principles and ambitions. However, the neo-liberal, techno-materialist paradigm is very strong.



In international relations, the sustainability paradigm invites states and IGOs to attempt to solve global problems through:

- State/interstate regulation.
- North/South partnership.
- Consensus-building and inclusion of new actors in decision making.
- Reconciliation of ecology and economy.

From this it follows that:

- The needs of all countries (big or small) should be incorporated in international agreements and policies.
- A partnership in which the strong help the weak is necessary.
- Differential treatment is just (compare also the concept of differentiated responsibility).
- Integration of environment and development concerns is the only road towards sustainability.
- Intervention of the state and the global community on behalf of the public interest to control market forces so as to attain greater social equity and bring about more sustainable patterns of production and consumption is of paramount importance. The market left to itself cannot solve the problems. Governments and the intergovernmental community as well as NGOs and citizen groups have to temper the market with social and environmental priorities and programmes.

This paradigm for international relations is holistic, inclusive and oriented to the long term. Attention is paid to ecological and “human” sustainability. It also gives much room and influence to civil society.

Of course, this paradigm for international relations is not new. It served as the main logic in Rio de Janeiro for the UNCED in 1992.

However, it has to compete with the market paradigm, which has strong means of implementation. In the Bretton Woods institutions, structural adjustment can be enforced as a condition for much-needed loans. In the WTO system, the agreements and rules are enforceable through a powerful dispute settlement system, which includes trade penalties and retaliation. The main factor for the triumph of the market paradigm, however, is the strong support and aggressive advocacy for it by the powerful countries, and their deliberate marginalisation of the sustainability paradigm. Within these countries, the commerce and finance departments of governments enjoy a far greater influence than the environment or overseas aid departments. This has contributed to the far higher priority given in these countries to national and private commercial interests *vis-à-vis* safety, environmental and development concerns.

So, what is really needed is a paradigm shift within powerful countries, within the Bretton Woods institutions (the World Bank is already working on reformulating its missions and strategies) and within the WTO (which is now involved in a discussion about “deeper integration” of trade and environment issues). If this shift does not succeed and the sustainability paradigm remains too weak, the one-sided push for the market paradigm will prove to be self-destructive. The choice to go for sustainability is not only a moral one, it is also the only rational one.

#### 4. Conclusion

The globalisation process as defined in this paper is fuelled by technological innovation (especially ICT), economic internationalisation and the hegemony of neo-liberal ideology. The process gives rise to governmental shortcomings. Neo-liberalism prescribes privatisation, deregulation, and a general withdrawal of the state. It advocates the conscious reduction of state influence. Moreover, in the globalising society, processes become increasingly cross-border while important problems (pollution, crime) assume global dimensions. Nation states are not well suited to regulate these processes, since their authority is limited to their borders. States are based on a territorial concept.

Apart from this governmental-democratic deficit, growing security, social and ecological deficits characterise globalising society.

The neo-liberal paradigm – with its admiration for technological innovations and liberal markets, coupled with the objective governmental shortcomings that are due to globalisation itself – paves the way for unsustainable practices and trajectories.

However, the techno-materialism inherent in neo-liberalism, the governmental shortcomings, and the deficits induce counter-reactions. People do not feel at ease; they oppose primary globalisation and the paradigm inherent in it. These counter-reactions gain institutional form and social force.

The political ability and will to counteract deficits in globalising societies is diminishing, but the capability and willingness to realise social goods and reduce social ills in society itself seems to be growing. NGOs gain strength because counter-reactions stimulate membership, because they too profit from ICT, because they are taken more seriously by international governmental institutions, and because lawyers have started to apply “soft law”. With this new strength, NGOs can put pressure on governments but also on business to realise core values. That creates incentives for business to internalise social and environmental values in its corporate policy. These incentives are strengthened by the reputation mechanism (the shame factor), by “the world of law” applying soft law (stimulating business to be proactive), by insurance companies and banks adjusting prices according to “social and environmental corporation results”, and by businesses themselves since they experience “win-win situations”.

Thus, the capability to realise societal values without legal pressure or law-enforcing institutions of the state is growing. The dynamic between civil society organisations, business and politics that realises societal values can be called “new governance”. This new governance cannot replace older democratic governments. However, it adds complementary governance capacity to globalising societies. To counterbalance the governmental shortcomings we should stimulate further development of the new symbiosis.

This governance architecture needs to be based on a universal ethic, an alternative paradigm that can function as a guide for thinking and acting for the many different governance actors. Over and above neo-liberalism, a “new” paradigm for governance actors is needed. Out of environmental concerns, the sustainability paradigm has grown. If this concept is taken in its broad meaning, it can and does indeed function as an alternative for neo-liberalism. Sustainability has several dimensions: it is about environmental, human, socio-economic, community, cultural and institutional sustainability. The sustainability concept offers both an alternative framework for thinking and an alternative agenda, alternative ambitions. The paradigm is characterised by holism (many dimensions), inclusiveness (all groups and individuals count, all have to be considered as stakeholders) and long-term thinking (intergenerational equity). Sustainability explicitly calls for the reduction of ecological, social, security and democratic deficits. In that sense it can be seen as the mirror paradigm of the neo-liberalism/techno-materialism inherent in primary globalisation.

The two paradigms are both being acted upon in the real world. The neo-liberal paradigm has strong means of implementation. In the Bretton Woods institutions, structural adjustment can be enforced as a condition for much-needed loans; in the WTO system, the agreements and rules are enforceable through a powerful dispute settlement system that includes trade penalties and retaliation. The main factor for the triumph of the market paradigm is the strong support and aggressive advocacy it enjoys from the powerful countries, and their deliberate marginalisation of the sustainability paradigm.

However, there is no reason to despair. Globalisation and neo-liberalism have a dialectical character: the stronger they become, the more their drawbacks and weak points become visible; the stronger counter-reactions and alternative paradigms become, the more governance civil society will be able – and businesses willing – to deliver.

## Notes

1. These norms for “good governance” were always important. In the “new governance model”, however, power is spread across many societal actors, including those who do not fall under parliamentary control. It thus becomes much more important that both the political and non-political stick to these basic rules. Besides, new governance requires trust among societal actors. The conviction that every institution respects the basic norms will help generate this trust.
2. Super-optimisation is a term coined by Larry Susskind. It can be taken to mean that one has to weigh overall, aggregated expected effects of decisions on all relevant sectors and fields of society (economy, ecology, social surrounding, etc.). The concept is often used in bureaucratic governmental organisations, where it is considered the opposite of extreme, unproductive departmental segregation. However, the concept can be very useful outside government as well.

## Annex I

### Keynote Address by Donna E. Shalala US Secretary of Health and Human Services

It's a great pleasure for me to join this meeting of the Organisation for Economic Co-operation and Development in what are truly the closing moments of the 20th century.

When you're young, history is about someone else's life – not yours. Well, I'm not quite as young as I used to be – and today I feel the sweep of history. Like many of you, I lived through the Cold War. I remember President Kennedy standing at the Berlin Wall. I remember the Prague Spring. I remember the trauma over medium range missiles. And, of course, I remember when the wall came down. So coming to Berlin, the reunited capital of Germany, I am reminded that with hard work and patience, the human longing for justice will prevail.

I mentioned some of the history we've lived through together. But if you want a breathtaking view of how much Europe has changed in the last hundred years, take a look at Professor John Keegan's new history of World War I. In December 1899, if two diplomats were strolling down the streets of Berlin talking about "European integration", they would have meant something very different than we mean in December 1999. In 1899, Europe was integrated the old fashioned way – through competing monarchies tied by blood, and interlocking alliances capable of igniting a war at a moment's notice.

World War I came and nothing has been the same since.

But let me say this: Through all the terrible pain this continent has suffered since the last *fin de siècle*, something extraordinary has risen from the ashes – the integration of civic ideals. Ten years ago, democracy was on the march. Today, a shared outlook about social policy is on the march.

I want to be clear: Democracy must never take a backseat to economics. Liberty is a virtue in its own right, and the notion that it should be compromised – let alone sacrificed – on the altar of social reform is both dangerous and self-defeating. Free expression – even more than free markets – is prosperity's nurturing soil.

This is not just a lesson for Europe. Through painful battles, first for women's suffrage, then for civil rights, and now for people with disabilities, the United States spent the 20th century remaking our political culture. When the dust settled – and we woke up to a more humane society – we looked around and saw there was more work to be done.

Which brings me back to our shared outlook on social policy. While democracy at this *fin de siècle* is stronger than ever, the battle to reduce poverty, support families, educate children, protect public health, and harness technology for the common good goes on. For most of the past two decades, the right and the left pushed their competing – and nearly irreconcilable – strategies for how to win this battle.

The right said government is never the answer because the free market is always more efficient at picking winners. The left said government is the only answer because the free market is always less efficient at protecting losers. Nearly every democracy has lived through this philosophical clash. The moment of truth for the United States came in 1995, when the Republicans shut down the government, and President Clinton stood his ground in order to protect not only our social safety net – but our values.

Since then, those values have come into sharp relief. They are personal responsibility, equal opportunity and an inclusive community. We're offering not a hand out, but a hand up.

The point is that we are finding a middle ground between government as overlord – taking care of everything, and government as potted plant – taking care of nothing. Some in Europe and the United States have called this the Third Way. Others, like Julian Le Grand of the London School of Economics, prefer the acronym Cora – for community, opportunity, responsibility and accountability.

President Clinton noted last month in Florence that we have the chance to create a new social policy that will draw millions of poor families into the economic mainstream. In the United States, we have the lowest unemployment rate in thirty years. The lowest inflation rate in thirty years. The lowest welfare rolls in thirty years. And the lowest poverty rate in thirty years.

We have also turned conventional fiscal wisdom on its head. Instead of deficits as far as the eye can see – which is what most economists were predicting as recently as five years ago – we now have our first back-to-back surpluses, a trend that will continue well into the future. In the meantime, the new brainpower economy of computers, the internet and global free trade has created enormous wealth – and new opportunities for anyone with cutting edge skills. So when it comes to empowering millions of people still living on the economic margins, Hillel's question is still the right one: If not now, when?

I don't have all the answers. But I understand what Shakespeare meant when he wrote in *Julius Caesar*, "The fault, dear Brutus, is not in our stars, but in ourselves".

In the United States we've proven that we can move people from welfare to work, and lift people out of poverty. We built a political consensus to change our welfare system to a transitional system. We did this by working in partnership with the private sector and labour unions.

Still, if we are to strengthen our economies through social and economic policies that educate people and put them to work, we must face up to the serious challenges that lie ahead. We cannot leave it to the stars – or to future generations. It is up to us – to this generation of leaders.

What are the challenges that will confront us in the next century?

Let me start with ageing. The greying of Europe, Japan and the United States is under way. In Europe, many countries are at – or near – zero population growth. In developed countries, living to 100 will soon become commonplace. In the next thirty years, the number of people in the United States over 65 will nearly double.

In Italy, the population over 65 is expected to climb from 15% of the total in 1990 to twice that in 2030. In Germany, the projected rise is from 15% to 28%. And in Japan, from 12% to 26%. So my friends: you and I may be getting older. But a lot of our fellow countrymen and countrywomen are too.

That's why I want to repeat what I said at the Ministerial meeting of the OECD's Employment, Labour and Social Affairs Committee in Paris in 1998. We are heading for a future with millions of older – but still productive – citizens. So we must craft policies that focus on active ageing – which means shaping useful and rewarding lives for healthy seniors.

We must also keep a close eye on the bottom line. All of us face a future where fewer and fewer workers will be paying into national pension systems meant to cover more and more retirees. So, that generation of workers must be the best prepared. Not one can be lost because of gender, race, religion or disability. The day of budget reckoning is coming – and the sooner we prepare, the better.

National pension systems like our Social Security have greatly reduced poverty among the elderly. But poverty still is very much with us.

That is our second challenge.

As I mentioned, the United States is in a period of unprecedented prosperity, and millions of families are finding employment and opportunity for the first time in their lives. But millions more are still waiting their turn to climb onto the ladder of economic opportunity. On our Pine Ridge Indian reservation, 73% of adults are unemployed. In many urban and rural communities in the United States, the unemployment rate is more than double the national average.

Using 40% of median income as a standard measure for poverty, the most recent available data tells us that the overall poverty rate in the United States is approximately 14%. In the United Kingdom, the rate is 15%. In Germany, 6%. In Canada, 9%. And in Australia, 23%. So notwithstanding today's prosperity, there is still poverty in the midst of plenty throughout the developed world.

Poverty is an even bigger calamity in the developing world. That's why debt relief must continue to be a priority. Instead of demanding every last dollar, pound, franc, deutschmark and guilder in interest payments, we will all be better off if poor countries invest their limited resources in schools, infrastructure and jobs.

The biggest – and in some cases only – reason that some of our citizens are left behind is that they simply do not have the skills they need to succeed in our global economy.

The skills gap: that's our third challenge.

Technology and the internet are changing what sells and why. Workers or companies that stand pat are simply going to be run over. Even Japan is discovering that its traditional policy of "lifetime employment" is not tenable in a global marketplace. Part of the solution is worker retraining. But, frankly, we must also close the digital divide.

Our leaders talk frequently about the importance of getting every school wired to the internet. Millions of poor children attend schools that are behind the times in the way they're organised and funded. These children must not bear the additional burden of being shut out of the computer revolution. Our challenge in much of the world is to jump from literacy training to access and use of the internet. This is not just a matter of fairness. It's a matter of smart social and economic policy. These children will either have what it takes to compete in the global marketplace, or their despair – rooted in lost promise and dreams deferred – will drag us all down.

And what about the parents of these children?

That's challenge four: reducing income inequality.

The right claims this is nothing more than a pipe dream, and the left claims this is nothing less than a first principle. We must navigate our way between both claims. In the United States, raising the minimum wage, lowering taxes on the working poor, and making work pay

have become economic necessities for us. We need a generation that sees work as an expectation.

We need every worker in the future to be productive.

Whether you're a parent in Berlin, or Budapest, or Bristol or Boston, there is no easy way to balance work and family.

As the President said in Florence, virtually every European country has done a better job than the United States in supporting working families. For example, we've spent years trying to convince our Congress that the lack of affordable, accessible, high-quality child care is an American nightmare. We've made only limited progress. But we're not giving up.

My fifth challenge is the borderless community. This is really a public health challenge.

The OECD may represent the world's developed countries – but disease and terrorism do not recognise borders. Last Wednesday was World AIDS Day. I emphasise “world”. India already has 5 million HIV cases. Africa is heading for a generation of AIDS orphans. Eastern Europe is one of the fastest growing areas for new infections. We must come up with a better system of HIV surveillance. We must make drugs cheaper and more accessible. And we must continue vigorous research to find an AIDS vaccine.

As we enter the 21st century, we must not ignore diseases of the 19th century: TB, malaria – and, of course, smoking.

We also have to wake up to the real threat of bio-terrorism.

There was a time when this was science fiction. Now, it's science fact. But if we use our collective ingenuity, the gas mask – symbol of how this century started – won't become a symbol for how it ended.

My last challenge – number six – I offer with Kosovo, Northern Ireland and East Timor in mind.

If we don't accomplish anything else in the next century, let's at least accomplish this: the end – once and for all – of racial, religious and ethnic hatred. Like all of you, I have travelled the world. I can tell you, no nation has escaped this curse. And no nation can rest until it does.

In his famous poem “The Second Coming”, the great Irish poet William Butler Yeats predicted that “the centre will not hold”. Despite the terrible cost in lives and treasure over the last century – or perhaps because of it – the centre did hold.

Now at the dawn of the year 2000, we hold in our hands – the second chance.

We need to grab that chance – by strengthening the centre of our politics, and by working to make the next century one of economic justice, social development and peace.

Thank you.



*Annex 2*

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