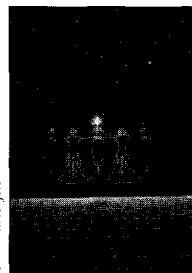


Policy issues

the future



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The future: what policy-makers have to think about

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The next century holds out the promise of extraordinary economic, social and technological progress. But policy-makers should be aware of the risks too.

Policies that spur the interaction of technological, economic and social change in a positive way: that is what governments have to implement as they prepare to respond to the challenge of the 21st century. There is almost no question that the profound global changes that are in store will be comparable in depth and magnitude to those which brought about the shift from the agricultural to the industrial society. Seeing such fundamental transformations as an exceptional opportunity and harnessing them successfully is the crux of the challenge we face. The reward could be extraordinary technical progress, unparalleled levels of social participation and perhaps even a new long boom, setting the world economy on a new trajectory of above-average growth rates. Already today, advances across a wide range of pervasive technologies are beginning to revolutionise the worlds of medicine, agriculture, retailing, communications and entertainment, profoundly affecting the way we live, work and spend our leisure time. With new methods of production and globalisation continuing apace, there is potential for massive increases in productivity, and for integrating many re-

gions and countries into the world economic system which hitherto have remained stranded on the margins. And there is the prospect of much improved non-material well-being finding expression in greater individual choice, new forms of social interaction, and new opportunities for creativity. In fact, it is this dematerialisation of economic activity in the advanced countries and rising per capita incomes in the developing world which could, given the right mix of policies, lead us into a period of sustainable global development.

Future promise versus new risks

However, with the promise of progress come challenges and risks – not least for policy-makers. The populations of most OECD countries are growing older for a start. As the share of the elderly population rises, the pressures on pension systems, health provision, social services and public finances in general will increase, in some countries quite dramatically so. In the developing countries, populations will continue to grow at a fast pace, exacerbating the problems of widespread poverty and food shortages. Together

with unemployment, particularly among young people, this will add greatly to migratory pressures.

Global and local environmental problems will move increasingly to the fore as efforts are stepped up to address the problems of global warming, pollution of the oceans, fresh water scarcity, urban congestion and so on. In the coming decades, the industrialising countries will become a much bigger consumer of energy and account for a significant and growing share of greenhouse gas emissions. Population growth, economic expansion and climate change could expose as many as 3 billion people to water shortage problems by 2025.

The transition towards the information and knowledge economy and the process of globalisation, together with growing international interdependence reduce both the room for manoeuvre and often the effectiveness of national economic policies. This is already happening at the macroeconomic level with respect to monetary and fiscal policy, but it also applies to the microeconomic level. National competition policies are increasingly ineffective. Excessively high taxation levels or unusually strict environmental standards can easily undermine the attractiveness of a country or region as a location for investment.

There are institutional issues too which policy-makers should worry about. The rules of the game and the social institutions which were essentially geared to the functioning of predominantly national industrial societies are fast becoming inadequate or incompatible with the emerging global information and knowledge economy. Competition laws, securities regulations and privacy protection, education and social support systems all appear to be in need of adjustment, if not wholesale reform, if they are to

have relevance and value in the age we are about to live in. New rules may be needed in some areas to spur progress in a positive fashion.

The diversification promised by the knowledge economy is one of its great attractions, but it harbours some worrying risks. For example, there is a danger that without major political effort those same forces of change with respect to knowledge and economic potential will lead to new divisions, with deepening inequalities and a fragmentation of society. A polarisation could develop between technology "insiders" and "outsiders", between those who have access to information and knowledge, and those who do not, and between those who can adapt easily to the new socio-economic environment and those who cannot. The distribution of income and wealth could become even more uneven as a result, turning this problem into a vicious circle.

There are technology-related issues to think about too. As societies become more diversified, decentralised, networked and technology-dependent, complicating, disrupting and even harmful failures could arise. The growing dependence on computers, networks and the software that runs them will expose more and more critical parts of society's infrastructure – from medical systems and sewage treatment facilities to air traffic control and financial transfer systems – to a growing risk of system-wide breakdown.

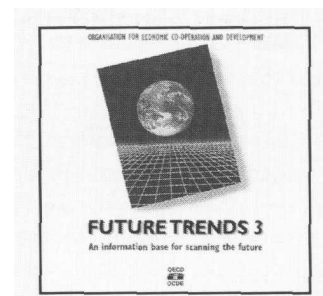
Values and mindsets

In addition to such practical problems, there are others of a more abstract, though nonetheless fundamental, nature, related to ethics, values and mindsets. Even the early phases in the longer-term development towards a new economic and social paradigm could pose unusual dilemmas to the

The OECD scans the future

The OECD International Futures Programme was set up in 1990 to help decision-makers inside and outside government to come to grips with the challenges of the future. The Programme offers improved monitoring of the long-term economic and social horizon, with early warning on emerging domestic and international issues; pinpoints major developments and possible trend breaks; gives an analytical evaluation of key long-term issues; and better dialogue and information-sharing to help set policy agendas and strategies. The programme's Forum for the Future provides a platform for informal high-level discussion on key issues, from the economy to the environment. All of this is backed up by the OECD and its International Futures Net-

work: a global network of some 600 people in government, business and leading research institutions, all with a common interest in understanding long-term developments. An information base called *Future Trends* is available on CD-ROM. *Observer* readers are invited to visit the International Futures Programme's website on www.oecd.org/sge/au/.



present-day cultural and ethical standards. Growing exposure to the outside world and to the implication of new, radically innovative technologies will put enormous strain on people's ability to tolerate the foreign, the new and the unknown.

But there is no turning back. The process of globalisation and the transition towards the information and knowledge society has taken hold. The real question therefore is what policies might be used to ensure that the benefits of the future technological, economic and social dynamism are reaped to the full and properly shared, while the dangers and risks are controlled and contained?

At the most general level, households, businesses and governments will most

likely have to embrace a culture of creativity and experimentation. Major efforts will be required to encourage individual and organisational capacity and liberty to innovate and change. Values and customs will need to be nurtured that sustain continuous discovery and adjustment to constantly changing economic, social, technological and environmental conditions. Specifically, that means identifying policies where the present thrust needs to be maintained or even strengthened and those where fundamentally new, imaginative approaches are required.

Helping the market to help itself

As far as domestic policy is concerned, the traditional orientation of macro-economic policies towards low inflation and sound public finances will

have to be upheld so as to ensure a stable framework for reducing volatility and stimulating investment, innovation, experimentation and risk-taking. And efforts to encourage structural adjustment will have to continue so as to facilitate the smooth adaptation of economic structures to changing patterns of supply and demand and ensure that resources are allocated to their most efficient uses. That means creating competitive markets for goods and services, open and transparent markets for capital and flexible markets for labour. Also important here is the continuing shift in the role of government from a direct provider of often uniform products and services, towards a regulator of more diversified, decentralised and market-driven output.

Any social or economic change clearly affects learning. Marginal improvements in education policies based on business-as-usual will hardly be sufficient. Changes in the composition of the workforce, along with the growing internationalisation of the economy, further advances in technology and the spread of new innovative models of work organisation, will demand substantial investment in human capital if the skill and qualification requirements of future jobs are to be met. Making the leap to life-long learning will demand imaginative new ways of how education is organised and how people's knowledge is validated. The present supply-led and heavily institutionalised system based on quasi-government monopolies of education may in the future give way to a demand-led, client-driven approach where learners can shop from a diverse range of sources and in ways they themselves can plan.

Ageing will pose many challenges for policy in the coming years. But even were ageing not a policy issue, major imaginative efforts would be needed

anyway to make sure that social support, pension and health care systems are adapted in ways that correspond to the needs of tomorrow's highly diverse and possibly less predictable society. Many of the old ways of risk sharing and social solidarity, such as inflexible pension schemes, which were largely adequate for the industrial society, may tend to stifle the greater adaptability, creativity and diversity that will be essential to fuel the knowledge economy and society. What is needed is a shift from a social "expenditure" to a social "investment" perspective. This entails new imaginative approaches of a public, private and mixed character which provide clear incentives to work, save and invest. Such approaches would respond well to a wider range of risk profiles, while at the same time avoiding problems of moral hazard and poverty traps.

At the international level, too, there are certain areas of policy where the traditional thrust needs to be maintained or strengthened, and others where new imaginative approaches are required. The further development of the multilateral system of trade, investment and technology transfer belongs to the former category. It needs deepening where past liberalisation discussions, such as in agriculture, have not gone far enough. And it demands widening in areas still outside the multilateral framework. The latter applies to a number of important service sectors, such as international air transport, and also to cross-border investment, which are still dominated by several hundred bilateral agreements.

Nurturing a globalised information and knowledge economy and society, however, is a formidable task which goes far beyond the traditional challenges. There is a need for a major overhaul of competition and intellectual property laws and administration to take into account the greater im-

portance of intangible assets and global markets. New ground will have to be broken to provide global policy frameworks for the Internet and in particular for electronic commerce. The latter demand includes global solutions to such issues as consumer protection, safeguarding privacy, secure

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payment, verifying identity and ensuring competitive market conditions. New international rules will have to be designed and negotiated in relation to biotechnology developments. International agreements on certification procedures for and trade in genetically modified organisms may turn out to be a particularly thorny problem. And finally, breakthroughs will be needed in managing global issues, such as the proper functioning of international capital markets or dealing with the potential implications of climatic change.

This is a daunting agenda indeed, and the risks are manifold. But if properly handled, forward-looking policy responses should pay handsome dividends for all – not least in terms of further increases in living standards and social participation. The chances of a proper long boom occurring may well be small, but the opportunity to make one happen does appear to be there before us today. It is ours to take. With an open, targeted and positive approach to the future, perhaps we can send the world economy into the 21st century on a trajectory of truly exceptional growth rates and discover a future of unparalleled global levels of material well-being after all. ■