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The Long-term Prospects for World Development

The Main Results of the INTERFUTURES Project

by Wolfgang Michalski, Paris*

The increasing interdependence of the world economy requires the development of new approaches to policy-making. Nineteen OECD member countries and the Commission of the European Communities therefore decided to take part in a three-year (1976-1978) research project on the long-term prospects for world economic development and in the attempt to work out a general framework for the economic and social policies in the industrialised countries. Which are the conclusions and results of this research project, which has come to be known as INTERFUTURES?

The results of the INTERFUTURES project are centred around the following four main problem areas:

- limits to growth: the comparative irrelevance of the physical scarcity of resources compared to political, economic and social problems;
- long-term prospects for economic growth and employment in the industrialised countries with special reference to the need for, and consequences of, structural change;
- future aspects of relations between advanced (ACs) and developing countries (LDCs): political alternatives for the North-South Dialogue in the light of progressive economic diversification of the Third World;
- need for, and possibilities of, international co-operation arising from future world economic development against the background of increasing global interdependence.

The analysis of future prospects for population growth, food production, energy supplies, availability of mineral resources and likely environmental problems leads to the following general conclusion: even though mankind will increasingly have to cope with the effects of economic activity on the environment in the widest possible sense and to an ever greater extent, the process of worldwide economic growth can continue

over the coming 50 years without running up against any absolute physical limits. It has however to be added that in the first place transitional problems and probably also regional difficulties will appear; secondly, that in many countries economic growth will undergo qualitative changes; and thirdly, that political, economic and social obstacles to growth will become increasingly important.

Demographic Tensions

Even in the Third World a tendency towards a fall in the population growth rate now seems to be appearing – although there are wide differences between individual countries and the different social groups within them. The divergence between the demographic situation in the North and the South nevertheless remains so extensive that it can today already be seen as a cause of possible tension. Examples can be given of differences of behaviour and attitudes between societies with different age structures, pressure of emigration from South to North and the consequences of continuous high birth surpluses, particularly among the poorest population groups in the LDCs.

It is assumed that world population will reach around 12 bn by the year 2075 and will stabilise at this level in the long term. At the same time it is observed that potential world agricultural production appears adequate to feed this population, even on the assumption that per capita food consumption in the Third World reaches the level at present prevailing in middle income countries. There are three

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circumstances under which serious problems might arise: first, in the event of a serious deterioration in the climate; second, if it were impossible to prevent the further extensive loss of arable land, e. g., due to soil erosion or urban development; and third, in the event of the Third World aspiring to diets similar to those of the OECD countries at the present time in terms of quantity and quality.

No Limits to World Energy Production

In the long term, there need be no limits to world energy production in terms of the physical availability of resources. In the forthcoming period of transition from oil to new forms of energy it should be possible to place increased reliance on other fossil fuels, notably coal, and on nuclear energy. Aside from such global economic considerations, geo-political issues will of course be critical in this connection. This refers on the one hand to political developments in the oil-producing countries. Recent events in Iran are an eloquent example of this. On the other hand, attention has to be given to the differing availability of energy resources in the various consumer countries. In this respect it can hardly be disputed that Japan in particular and to a large extent Western Europe are at a comparative disadvantage.

As concerns other mineral resources such as ferrous and non-ferrous metals, it is also true to say that no problem arises from any overall limits to physical resources. The critical issues here are also – as in the case of energy – political, economic and social. The key factors are: the danger of short and medium-term interruptions of deliveries as a result of political crises in the main producing countries for particular metals; the problem of the introduction of direct or indirect restrictions on exports; resistance to the expansion of mining on environmental and other social grounds, particularly in the ACs, and insufficient investment in raw materials in the medium term in the light of low profit expectations and unacceptably high political risks.

As far as environmental problems are concerned, global aspects such as relations between human activity and the climate are of far greater significance than the local problems, which of course are also important in their own right. In particular the provision of adequate finance for research into the climate seems a matter of urgency, not merely to improve knowledge in this field, but so as to lose no time in introducing appropriate scientifically based measures to counteract deep-seated harmful trends at an early stage and before it is too late.

Politico-economic Obstacles to Growth

Apart from temporary bottlenecks, particularly in the energy field in the event of supply interruptions of a political nature or inadequate energy policies, economic growth in the ACs will not encounter any external limits within the foreseeable future. This applies, as already mentioned, to the availability of natural resources, but also to the possibilities of continued technological innovation. In the future the following three intrinsically politico-economic obstacles to growth will continue to be of decisive importance:

- insufficient private investment in a context of unsatisfactory profit expectations and higher risk;
- inflationary trends associated with conflicts over income distribution; and
- balance of payments problems due to the OPEC surplus and inadequate international co-operation.

It is nevertheless important to point out that the purely economic statement of these obstacles to growth only reveals a part of the truth. There are also problems of basic significance affecting modern industrial society as such.

Increasing Potential for Social Conflicts

Firstly, the economy and society in the ACs are showing an increasing potential for social conflicts. This is expressed on the one hand by a growing social oligopolisation in confrontation over income distribution. On the other hand, the situation is characterised by the appearance of an ever-growing number of minorities promoting particular interests on the basis of differing (and partly newly-emerging) values. Since at the same time economic growth is less able than in the past to resolve social conflicts, it will be increasingly difficult for governments to keep a balance between traditional economic policy objectives and the new, more quality-related values.

Secondly, the two basic institutions for co-ordinating production and solving distribution problems as regards both goods and services, i. e. the market and the welfare state, are encountering increasing difficulties. This is true of the market since it is partially unable satisfactorily to discount future needs, can only imperfectly internalise external effects, and because it is by its very nature unable to take over those co-ordinating functions which are not subject to the operation of any market. The problems of the welfare state arise from a serious lack of any self-regulating mechanism to prevent the excessive extension of its services, from inability to adapt flexibly enough to

provide for individual needs, and from an inherent tendency to be more sensitive to the interests of organised groups than to the true needs of the unorganised majority.

Pressure for Structural Adjustment

Structural change in the economies of the ACs will continue. However, the need and pressure for adjustment will, unlike the past, result less from the process of economic growth than from prevailing social conditions and international interdependence. On the whole, the tension between needs for structural adjustment and the actual capacity and motivation of the economy and society to meet this challenge is likely to increase rather than decrease.

The factors exerting continuing and in some cases increased pressure for *structural change* include the following elements: demographic trends and changes in the size and composition of labour force potential; changes in the structure of overall demand; relative increase in the cost of using natural resources such as energy, industrial raw materials and the environment; changes in the international competitive situation of major industries irrespective of problems of energy and raw materials supplies; and new trends in the development of international technology and capital transfers. It is of special significance in this connection that the forces which compel structural adjustment do not only affect the economic process as external variables, but are also to a considerable extent internally induced. The influence of differing rates of increase of labour unit costs is an example of this.

A number of crucial factors can also be isolated in relation to trends towards greater *structural rigidity*. Prominent examples of these are the growing inflexibility and specific qualitative disparities in the labour market; negative effects of the increasing influence of the state on the economic process, both as concerns regulatory activities and the results of direct state intervention in certain sectors; rigidity due to capital-intensive large-scale technologies; increasing protectionism, not only of the traditional kind, but more particularly in the form of various types of subsidies, the introduction of voluntary export restraints and attempts at the closer control of international trade. Moreover, economic decisions are also becoming increasingly political in nature – not only in government administration but also in relations between workers and employers and in connection with initiatives by consumers and environmental groups, etc.

It is essential that the factors referred to above as influencing the process of structural change in the economy should not be seen in isolation. There is also a multiplicity of interreactions between them, often resulting in a reciprocal strengthening of their negative effects. In this connection low rates of economic growth make structural adjustments more difficult in a number of ways. But at the same time increasing tensions between the need for structural adjustments and the ability of the economy and society to react in a positive manner tend to impede the achievement of higher growth rates together with both full employment and price stability. This interreaction between structural change and economic growth is of paramount importance alongside the macro-economic obstacles to growth mentioned above. All these factors taken together involve the risk that the relatively slow growth of the world economy (e. g., an annual rate of real GNP growth of 3.4 % for the OECD area as a whole) may be a distinct possibility even in the long term.

New Type of North-South Relations

Future prospects for the Third World will become of increasing significance for political, economic and social development in the OECD area. This is true not only of problems in the energy and raw materials fields, but also as concerns industrial activities and international capital flows. The attitude adopted by the ACs in North-South negotiations will on this account have to undergo a fundamental change. All too often in the past the ACs have left the initiative to the LDCs and have in most cases reacted to their proposals more or less in concert, with small, and only rarely with major, concessions. This will not be good enough in the future. The ACs must themselves work out active and global strategies for the maintenance of worldwide political and economic stability which take account of their relations with the Third World.

Even if population growth rates in LDCs fall sharply as expected over the next 20 years, by the end of the century 75 to 80 % of the world's population will live in the Third World. Provision for the basic needs of an additional 2 bn human beings by the year 2000 is alone a problem which can scarcely be resolved through the strategies currently applied in many countries and through the present type of North-South co-operation. Aside from the need to reduce existing under-employment in the Third World, at least 700 mn new jobs have to be created to give work to the expected addition to the labour force. Here again prospects are unpromising and by the year 2000 some 350 mn

people will in all probability suffer from hunger, not due to the impossibility of producing sufficient food but due to the inability of those concerned to purchase or produce the necessary foodstuffs.

Heterogenous Group of LDCs

A global view thus conceals already existing differences among Third World countries and the likely widening of those differences in terms of income, degree of industrialisation, nutrition, health and education. Today, per capita income in a number of small LDCs has already reached the level of the less industrialised countries of the OECD. It is probable that by the year 2000 a number of LDCs with a total population of more than 500 mn will have caught up with the present day ACs. This means that in less than 50 years those countries will have attained a level of income which the present day ACs took some 100 years or more to reach. China and several other countries with a total population of more than 1.5 bn should by the end of the century attain living standards of the middle income countries. That will leave the remaining LDCs with a total population of around 2 bn, where absolute poverty will still prevail in the year 2000. Future prospects for the majority of the population of the Third World depend in the first place on the domestic development strategies of the countries concerned themselves. However, the relations between industrialised and developing countries will continue to be of overwhelming importance in the future.

Least Developed Countries

As concerns the poorest countries, situated predominantly in South Asia and Black Africa and only to a lesser extent in Latin America and South-East Asia, selective aid has to be provided to cover basic needs. In particular it seems meaningful, in addition to direct food aid, to give effective support for the development of agriculture. The advantages of such action are multiple: they range from direct orientation towards the needs of the majority of the population, through comparatively favourable effects on employment and the balance of payments, to a slower process of change in traditional social structures. Key aspects in implementing such a programme include: adequate training of the labour force, development of appropriate technologies, less emphasis on capital-intensive large-scale water supply projects for limited areas in favour of simple rain water supply systems, and longer-term planning of development programmes accompanied by corresponding long-term financial commitments on the part of the ACs.

Raw-material-producing LDCs

As regards the raw-material-producing LDCs, priority problems concern the stabilisation of export earnings and of prices, and the securing of adequate investment oriented towards future demand. On the first of these questions it seems appropriate for a number of reasons to give priority to stabilising export earnings rather than stabilising prices. Insofar as it is also desired to achieve price stability, quasi-automatic intervention mechanisms have to be developed which would on the one hand effectively prevent major price fluctuations while on the other hand continuing to allow normal price movements around a medium-term trend. The advantages of such systems, which from a technical point of view are perfectly feasible in the framework of buffer stock operations, are quite obvious: the balancing of demand and supply through the market mechanism would be maintained in principle; financial and material requirements for the purposes of such intervention could be calculated and successfully limited; current intervention through buffer stocks would be subject to established rules rather than constantly changing political decisions. Particularly in the light of recent decisions concerning the establishment of a Common Fund, such considerations take on a new quality.

OPEC States

Likewise in the field of energy, conflicts of interest between North and South are smaller than is generally thought. On the one hand, economic development in the Third World is inseparable from a high and sustained rate of growth in the ACs. On the other hand, the oil-producing countries are only a part of the developing world. It is thus expected that energy requirements in the Third World (excluding China) will increase more than fourfold before the end of the century, while at the same time energy import needs of the LDCs alone will increase more than threefold. The long-term guaranteeing of energy supplies is thus also of great significance for the LDCs, and it can hardly be disputed that in this respect the ACs and the OPEC states bear a common responsibility. Energy saving, intensified use of nuclear power and coal, the development of new energy systems and the further expansion of the oil production within and outside OPEC are the principal issues in this area. Moreover, as far as the relationship between the OECD and OPEC countries is concerned, it also seems important that co-operation in the energy field should help the OPEC countries to create a sound economic basis for the post-oil era.

Newly Industrialising Countries

Besides the poorest countries, the raw-material-producing countries and the oil-producing countries, there is a fourth group made up of those states in which the process of industrialisation is already fairly advanced and which are today appearing as new competitors for the ACs in many markets and for many products. In regard to these countries, it is essential that they be accepted by the ACs as full partners in the international division of labour and trade. This means that on the one hand they must be given the possibility of further diversifying their economies and particularly of continuing to increase their exports to the ACs. Only if the ACs remove their own import restrictions and accept the resulting structural changes can they expect the industrialising countries to introduce similar measures. That this is not merely in the interests of the ACs, but is of great benefit for the entire world economy, is shown, among other things, by the fact that new export markets are thereby also created for those LDCs which are only just beginning the process of industrialisation.

Radical Changes in the Nations' Importance

Consideration of the past twenty-five years shows that greater international interdependence has had an overwhelmingly positive influence, particularly on economic development. Whether this will continue to be so for the remainder of the century is a matter for debate. What is certain is that the consequences of changes in international relations both within the OECD and between the ACs and LDCs will give rise to a series of major political problems. The same is true for the constantly changing relations between national and international development and for the increasing relevance of global problems. In particular, it cannot be excluded that the forces which at the beginning of the 1970s had already led to major imbalances and had contributed to an increased vulnerability of a number of economies, may persist in the forthcoming years.

Prospective analysis suggests that over the next 25 years there will be further and perhaps more radical change in the respective weights in the world economy of various nations and groups of countries, particularly within and between the OECD and the Third World. Even if longer-term growth rates are considered to be speculative and depend on the methodological approach as well as on the assumptions taken for reference, rough orders of magnitude and basic consequences may be presented as follows:

United States

Although the North American share in Gross World Product will decline from nearly 35 % to about 20 % in the year 2000, the role of the United States will be as important in the next quarter of a century as in the last, but in a different manner. In a multi-polar world it has become only one leading world power among others. Nonetheless, the United States will continue to hold considerable advantages: a small degree of dependence on the world economy, a rich endowment of natural resources, an undeniable lead in basic technologies, and a currency recognised as a reserve currency (even if this entails disadvantages from time to time), not to speak of the military position. Even in a world of growing interdependence the United States may therefore still have greater possibilities than other industrialised countries to pursue a policy of their own.

Japan

The increasingly important role of Japan, whose share in world income may grow from 6.5 to about 10 % at the end of the century, rests on quite different factors: a great ability to process information and to decide and act collectively, plus an undeniable ability to make structural adjustments. All these are essential factors of strength in an era of interdependence. Japan has geographical advantages in the proximity of China and South-East Asia, but has weaknesses which are no less important: no energy or raw materials and an agriculture with limited possibilities. There are also specific problems in such matters as land use, national defence and the rapid ageing of the population. Nevertheless, with the rise of Japan, the further industrialisation in South-East Asia and the new policy of China, there is emerging in the Far East an area which, in the second quarter of the 21st century, may become one of the centres of the world economy.

European Community

The case of the European Community is more difficult. Its share in world income could fall by nearly one quarter – from nearly 20 % to about 15 % in 2000. With the problems of a rapidly expanding labour force throughout the 1980s, strong pressures for industrial restructuring and related unemployment, the impact of lower growth could affect the European Community more than the United States or Japan. However, since its member countries differ widely in economic structure and social organisation, the nature and the intensity of the problems may also vary considerably. Hence the danger of insufficient structural adaptability, given the national and regional features, the

superimposition of the Community on national decision-making processes and the demographic ageing which is affecting more or less all the countries.

Centrally Planned Economies

As regards the centrally planned economies, the quantitative analysis is mainly based on the projections of the UN Economic Commission for Europe, and the estimate is that the share of the Eastern countries in Gross World Product may slightly increase from 16 to 18 % over the next two decades. However, two additional ideas are not without importance in this context. Even if the trade of USSR and Eastern Europe with OECD and the Third World remains limited, its level and content may change sufficiently to have a significant impact on world industrial competition. Allowing for economic prospects of OECD (still representing 50 % of world income), of the Third World (which may achieve about 24 %) and of China (with a fraction of 8 %), the share of the USSR in world income might reach its maximum towards the end of the century.

Distribution of Industrial Output

The general development picture outlined above may be given more shape by proposing some specific transformations which, in the course of the next 20 years, may affect the development, organisation and distribution of industry and international trade. As a phenomenon, the continuous change in industrial structures and trade patterns is nothing new. It was one of the main features of the post-war period. However, there are at least five elements which indicate differences between the future and the past:

□ First, the interaction between industry and scientific research as well as the complementarity between industry and numerous service activities (mainly in the developed countries) will progressively deprive the concept of industrial activity of the precise contours which it used to have.

□ Second, a new generation of key industries will progressively replace those which brought about industrial growth in the post-war period. In particular the electronics complex, covering automation, data processing and telecommunications, will constitute one of the major poles around which the productive structures of the ACs will be organised.

□ Third, there is also likely to be an exacerbation of competition between the most advanced countries to control the future trend of the international division of labour at the level of technology.

□ Fourth, on to the changing industrial relations between North America, Western Europe and Japan there is superimposed a broader interaction involving the industries of Southern Europe, Eastern Europe and the Third World.

□ Finally, the process of structural change will increasingly take place within sectors and not only among them. One of the outstanding features will be a further fragmentation of production processes and an intensified intra-company international division of labour, mainly under the auspices of multinational corporations, together with a further expansion of industrial sub-contracting.

Consequently, the growth prospects for the Third World and in particular its industrialisation cannot be separated from the growth performance of the OECD countries and the whole process of industrial redeployment. Whatever probable future development path is considered, prospective analysis suggests that the OECD share in world industrial production may still be in the order of 50 % in the year 2000 and that the Third World (China excluded) might, by the end of the century, be producing about 18 % of the world's industrial output. This may look unsatisfactory if mirrored against the so-called Lima target; however, compared with about 8 % in 1970 and even less in 1973, one tends to underestimate the achievement as one is matching this with too far-reaching objectives.

As far as international trade is concerned, the LCDs' share in manufacturing exports might increase from about 12 % in the early 1970s to about 18 to 22 % by the end of this century. However, different scenarios show clearly that the absolute volume as well as the OECD import shares greatly differ according to different assumptions about economic growth performance, in particular in the OECD area, about general North-South relations as far as co-operation or confrontation are concerned, and about the course of trade policies, be it further liberalisation or increasing protectionism. In any case, manufacturing exports could be even less equally distributed among the LDCs in the future than industrial output.

Conclusions for Economic Policy

However careful the analysis and however prudent the argument, the history of the future has yet to be written. In particular the question arises, what action should governments take to influence the future course of world economic development in a positive way and so lessen the risk of serious turns of event and possible

crises. It must not be forgotten that not everything is in the power of governments, and in particular that it is not solely in the hands of the governments of the ACs. Moreover, national strategies are only one aspect of the matter, the other being the possibilities for, and limits to, international co-operation.

In the light of the conclusions concerning the long-term prospects for world economic development and structural change the following four directions may be indicated for policies concerning growth, structural adjustment and employment. Such directions may be of general relevance to all ACs in spite of existing differences in their political, economic and social conditions:

- It is first necessary to rehabilitate the idea of economic growth – not as an aim in itself, but as an instrument to achieving other social goals; that in so doing the quality of growth must be taken into consideration alongside the rate of increase in production is not a matter for dispute.
- Second, there has to be recognition of the need for structural change, not at any price, but through the most efficient form of socially acceptable and politically feasible adjustment; this also means that measures to alleviate the social consequences of structural change must be temporary in nature, at least as far as the individual case is concerned.
- Third, development which excludes specific social groups from participation in increasing welfare over longer periods must be avoided; here it is necessary, in particular in the field of employment policy, to work out specific programmes for young people, women, older workers and the handicapped.
- Fourth, attention should be given to the wishes of groups which advocate new social values. This does not mean general acceptance of whatever is in vogue, but permanent critical reflection on such movements can facilitate early adjustment to fundamentally new developments.

Future North-South Relations

Aside from the special proposals discussed above, four general conclusions can be advanced concerning future relations between the industrialised and developing countries:

- For the ACs the issue is one of working out an active long-term strategy for the maintenance of world political stability and to ensure the continued future

development of the world economy on the basis of the principles of the market economy. Continuing improvement of the existing world economic order, internationally co-ordinated macro-economic demand management and monetary policies, together with other forms of intervention in cases where problems cannot be solved through the market, constitute a permanent challenge.

- If the ACs are in the long term successfully to refute the constantly reiterated demands of the Third World for a structural policy of central controls and anticipatory reform, it must be emphasised that the mere statement of the advantages of the free market system is not sufficient, and not credible unless the ACs themselves refrain from suspending the market economy in favour of domestic industries where competition from LDCs becomes too intense.
- In this connection, the decisive factor is not simply the rejection of any proposal for worldwide bureaucratic structural planning but rather the convincing presentation of a constructive, future-oriented alternative. Only in this way will it be possible to prevent the involuntary emergence of a worldwide controlled economy following continuous partial and unco-ordinated concessions.
- In view of the difficulties and limited success of global North-South negotiations, it seems important that, wherever possible, greater attention should in the future be given to solutions of problems through functional agreements specific to given regions or countries. This in no way means that the ACs should attempt to call into question or destroy the unity of the Third World. The issue is merely one of giving greater attention to the different problems and interests of individual LDCs and groups of LDCs and – on the basis of the overall strategy referred to above – entering into concrete negotiations on a set of clear-cut problems.

Improved International Co-operation

Lastly, it is necessary to improve international co-operation to ensure the success at international level of policies generally conceived with reference to national objectives. In this connection, four approaches are of particular importance:

- First, the political will to international co-operation implying above all readiness to accept and share responsibility for future world political and economic development – both among the OECD countries themselves and between ACs and LDCs.

□ Second, the definition of the main problem areas where international co-operation is necessary and likely to be successful. Apart from questions of military co-operation, these cover North-South relations, energy and raw materials problems, international trade policy, structural change in industry and the co-ordination of cyclical and monetary policy.

□ Third, a minimum consensus has to be reached concerning guidelines for action. For example, agreement should be reached that national strategies should be so designed that they do not result in burden-shifting from one country to another. Energy policy and structural policy for industry are two areas in

which this principle has been extensively ignored in the past.

□ Fourth and last, the institutional consequences have to be drawn at both national and international level. National governments must reflect on how to co-ordinate and reconcile national and international policy. So far as international organisations are concerned, it is important constantly to review their areas of activity and their structure in the light of new problems. Lastly, it seems important at both levels to orient short-term programmes more intensively than has hitherto been the case towards long-term concerns and in general to ensure greater consideration of increasing global interdependence.

NUTRITION

Agriculture: Toward the Year 2000

Major Results of the FAO-Report

by Heinrich von Loesch, Rome*

When the World Food Conference of 1974 demanded the eradication of world hunger within the brief time span of ten years, experts and laymen alike were surprised. The target seemed too ambitious, and it can be safely expected that it will not be achieved. A study has now been submitted by FAO to its 20th Plenary Conference session which – without proposing a new target date – attempts to prove the feasibility of greatly reducing world hunger before the advent of the 21st century.

The declaration of the World Food Conference of 1974 was a spontaneous and noble gesture which did not offer a well-designed, comprehensive and realistic strategy for attaining this target. FAO's report "Agriculture: Toward 2000"¹ embodies quite the opposite approach to the global problem. Innovative in its methodology but cautious in its judgment, FAO has assessed what progress in the field of food, agriculture and trade could reasonably be achieved to the year 2000 if an effort is undertaken to speed up

development. The study arrives at the conclusion that a growth rate of gross agricultural production in the poor countries close to 4.0 % – seen against the background of a 2.6 - 2.8 % growth rate during the period from the early sixties to the present – could be achieved and it would greatly contribute to get closer to the objective as described by FAO's Director-General, Edouard Saouma: "The World could free itself from the scourge of hunger largely by substantial advances in food production in developing countries; yet, it cannot all be done within the next five or ten years. What is needed is a sustained effort to the end of the century; there is no new major technology that can be relied upon; there are no easy shortcuts."

*Food and Agriculture Organization of the United Nations (FAO). – The views expressed in this article are those of the author and do not necessarily reflect the official position of FAO.

¹ FAO : C 79/24 July 1979.