

# GLOBAL SOLUTIONS JOURNAL

## RECOUPLING

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**GLOBAL SOLUTIONS**

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# In search of global solutions



**Prof. Dennis J. Snower, PhD**

President, Global Solutions Initiative

President, Kiel Institute for the World Economy



**Dr. Markus Engels**

Director, Global Solutions Initiative

## Dear readers,

Our world order appears to be sliding into ever-greater disorder – regional conflicts with potentially worldwide repercussions, global challenges of climate change, financial instabilities, biodiversity loss, digitalization disruptions, and a fraying political discourse within and between nations. In the first quarter of the 21st century, we face problems of epochal scale and, in many cases, of frightening irreversibility. Though the economies of the world are largely integrated, the societies and polities remain fragmented. If we do not find new ways of bringing people together – in the social and political spheres, to cooperate in tackling the problems they all share – then the nations we live in will become zones of deepening conflict.

At the same time, each of these problems also has the potential to be the starting point for building a better world. Our transnational threats can become arenas that motivate us to find new forms of international co-operation. Global problems can pave the way for global solutions. Our job – as a community of nations, cultures, ethnicities and religions – is to rise to this challenge.

In this world of diverse identities, norms and values, no one can ever claim to have



The Global  
Solutions Summit,  
May 2017

the one, comprehensive solution. Instead, we must value our diversity of worldviews and recognize both the commonality of our interests and the individuality of our perspectives. Just as biodiversity makes for a thriving ecosystem, diversity of perspectives – when we respect each other’s perspectives – can make for a thriving global community of nations and regions. Global solutions are built locally, in many diverse ways, and local solutions must reflect global imperatives.

Nowadays economic progress (reflected in economic growth) often becomes decoupled from social progress (reflected in the well-being of citizens). Economic progress also frequently outstrips political and environmental progress. Many of our global problems arise from these decouplings. Thus, our central challenge is to achieve “recoupling.” Realigning our economies, societies, polities and environments will re-

quire co-operation among diverse groups: policy makers, businesspeople, academics and civil society representatives. In this endeavor, recoupling becomes the keystone of new alliances within and between societies and nations.

With this first issue of a new journal, the Global Solutions Initiative presents what it hopes will become a public arena for exchanging views on how to tackle the problems that cross national, social and political boundaries, a stage for global citizenship. We hope the contributions presented here will inspire you to new ideas and their implementations.

Yours, in hope and confidence,

# Global Solutions Journal

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# Recoupling

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Policy thinkers helping policy leaders to recouple the world: This is the Global Solutions Initiative serving the G20, the G7, and other international institutions. Independent of the official processes, yet firmly connected with official engagement and working groups, the initiative delivers independent, long-term oriented policy briefs for world leaders.

The theme of “recoupling” social and economic progress has formed a common thread running through many of the Policy Briefs produced by the Think20 research organizations in support of G20 policy-making over the past two years. The theme may be summarized quite simply: (a) Social prosperity can become decoupled from economic prosperity. (b) The G20 should focus on social prosperity and (c) seek to recouple social and economic prosperity through the appropriate policies.

This theme is also central to the Global Solutions Initiative, which seeks to envision, propose and evaluate policy responses to major global problems. The policy recommendations and strategic visions are generated through a disciplined research program, elaborated in policy dialogues between researchers, policy makers, business leaders and civil society representatives. The GSI puts strong emphasis on the co-creation of a joint narrative by these stakeholders, growing out of the “recoupling” theme.

## **THE DECOUPLING PHENOMENON**

We live in an economically integrated, but socially fragmented world. The forces of globalization have made the citizens of most nations economically interdependent, while national boundaries keep them socially disconnected. Under these circumstances, economic progress can easily become decoupled from social progress. That is the fundamental challenge of our age.<sup>1</sup>



It is a puzzling age. On the one hand, most people around the world are far more prosperous, healthier, better fed, less threatened by violence and live longer than ever before. On the other hand, in both developed and developing countries populism and nationalism, religious and ethnic conflicts are on the rise. Globalization is under attack; refugees in many parts of the world have increasing difficulty finding safe havens, public trust in politicians, business leaders, media and NGOs is falling across the G20 and beyond.

Why are people so dissatisfied even though average living standards are higher than ever? Why have the rising living standards in developed countries had so little positive influence on self-reported happiness and the incidence of depression and suicide? Why do so many citizens believe that their political leaders are strangely disconnected from their troubles and fears?

It turns out that the answers to these questions all hinge on the relation between social and economic progress. These answers have an important bearing on global governance, the role of the G20 in particular.

We find these questions puzzling because our thinking has been shaped by historic events when social progress flowed from economic progress, so that what is good for the economy is also good for society.

In the West, this was the legacy of World War II. The war had generated a sense of social solidarity; the postwar reconstruction was a massive exercise in empowerment. In short, citizens felt socially embedded and empowered; what they sought, after the privations of war, was peace and

material prosperity. Success in achieving peace and prosperity sprung from pursuing free market activities, free trade, within constraints set by their democratically elected governments.

Gradually, however – starting in the 1980s and accelerating after the financial crisis of 2008 – social progress in the West became progressively decoupled from economic progress. This should not have been surprising. The solidarity from wartime

**»Under these circumstances, economic progress can easily become decoupled from social progress.«**

efforts and the empowerment from post-war reconstruction faded with the passage of time. The need for economic security was increasingly addressed through rising government involvement in education, health, welfare and social security provision. Education and health services also promoted skill acquisition, leading to better, higher-paid jobs.

But while citizens' desire for improved and more secure living standards was being addressed, their needs for solidarity

and empowerment were gradually being neglected. The processes of globalization and technological advance – through out-sourcing, off-shoring and automation – disrupted long-standing workplace relationships as well as the associated social communities. The traditional nuclear families gave way to more flexible, often more short-lived arrangements. Social media restructured social networks, away from durable geographic affiliations towards transient electronic contacts among likeminded individuals. As Western consumerism penetrated progressively more countries and absorbed progressively more attentional space (through ubiquitous advertising and entertainment), long-standing cultural ties were undermined. Around the world, a disaffected class of young people was emerging, its members cut adrift from their religious, ethnic and national roots, increasingly addicted to consumerism, subjectively disenfranchised by blind global forces, and increasingly devoid of intrinsically meaningful pursuits. This development contributed to the proliferation of narcissistic gratification on the one hand and to a combination of nationalism and religious extremism on the other.

At the same time, the rapid restructurings of global value chains led to a spreading sense of economic disempowerment. The allocation of work around the globe became dramatically more flexible, as costs of transporting information fell; but the flexibility of most people's skills did not rise in tandem. Recent advances in digital technologies are enabling machines to take over progressively larger swathes of routine work, but education and training systems have hardly responded. Thus most people have few opportunities to acquire

new forms of creativity and social competences that they need to combine with technical skills, in order to remain employable. The resulting "polarization of work" – a hollowing out of the middle segment of the income distribution – is accompanied by a polarization of economic empowerment. As machines take over more cognitively predictable work, this sense of disempowerment is felt by skilled "knowledge

## »Needs for solidarity and empowerment were gradually neglected.«

workers" higher up the skill distribution. And as machines improve their sensory-motor abilities (sensing their environments and responding accordingly), the sense of disempowerment among the low-skilled workers intensifies.

In the presence of this flexible dispersion of production activities across countries and the free movement of financial capital, governments became increasingly ill-equipped to provide the economic and social security that citizens had come to expect. However, most politicians continued to make their usual promises of material prosperity and security. The widening gap between political promises and their fulfillment led to rising citizen distrust of their governments, alongside a growing sense of political disempowerment.<sup>2</sup>

The recent symptoms of the decoupling of social from economic progress could be found in the many telltale signs: public discontent with globalization (even among those whose living standards were thereby improved), unwillingness to accept refugees (even when these refugees were expected to generate more net gains for their hosts), rising nationalism, as well as growing ethnic and religious conflicts. The Brexit vote, often motivated by the wish “to take back control” (even if the decision led to economic losses) and the public resonance with Trump’s “American first” call (even among those whose jobs were not off-shored), as well as the protests regularly surrounding the G20 summits, were further evidence of decoupling.

Many politicians were blindsided by these developments. They interpreted them solely as grievance against rising inequality. There can be no doubt that rising inequality played a significant role in creating the growing dissatisfaction in the Western middle classes. Median household incomes in many countries had stagnated while aggregate income continued to grow. But this was far from the whole story.

After all, human well-being springs from many sources that are unrelated, or at best tangentially related, to economic success: a sense of personal and social achievement; engagement with the world around us through intrinsically meaningful activities that develop our capacities; tolerance and respect for oneself and others; a sense of social belonging; and the opportunity to promote the happiness and relieve the suffering of others. In times when social prosperity is coupled to economic prosperity, economic success promotes the achievement of these other sources of

well-being. But once decoupling occurs, it is possible for people living in material affluence (by historical standards) to be justifiably miserable. After all, man does not live by bread alone.

This is what politicians missed, namely, that public discontent was also arising not just from inequality but, profoundly and independently, from a sense of disempowerment and social estrangement. Neither phenomenon is closely related to inequality or other measures of economic performance.

## RECOUPLING

According to the conventional wisdom which arose in the age of coupling in the West, economic growth – rising material wealth – raises social welfare. The more widely the wealth is distributed, the more people become happier. When citizens are dissatisfied, their governments can come to the rescue through wealth-creating policies.

This is not an appropriate approach to government policy making in an Age of Decoupling. As long as social progress follows economic progress, it is natural for governments to aim for promoting economic growth in order to create maximal material wealth. But once social progress goes its own way, we must reconnect our thinking with the fundamental purpose of government. This purpose is to promote the well-being of its citizens, broadly conceived.

The investigation of the decoupling phenomenon has highlighted three major problems: deficient economic growth and inequality, disempowerment and estrangement. To address these three problems, it is useful to consider the following three components of human well-being, summarized by the acronym “WES”:

- “W” stands for material “wealth,” satisfying people’s material needs. This covers the traditional realm of goods and services, the traditional focus of economic policy making. It centers on GDP-related measures, as well as security from adverse shocks to income, health, and employment, addressed by traditional social and welfare services.

- “E” is for “empowerment,” which involves people’s need to control their fate and be part of the decisions that fundamentally affect their lives. It involves mastery of the environment, personal growth, attaining personal goals and creativity.

- “S” stands for social “solidarity,” covering the needs of humans as social creatures, living in communities.

With regard to global problems – involving global externalities (such as financial market reform or greenhouse gas abatement), global social dysfunctions calling for new global norms (such as fighting corruption and creating transparency) and global inequities (such as transnational income inequalities) this trilogy of human needs must become associated with a corresponding trilogy of G20 objectives. The current G20 preoccupation with wealth-oriented policies, must become extended to empowerment- and solidarity-oriented policies as well.

“Empowerment” involves giving people the motivation, capacities, resources and opportunities to develop their strengths in ways that are meaningful to them and their communities. It gives people control over their lives and contributes to their self-actualization, making them more responsible and accountable for their actions.

“Solidarity” covers several distinct elements. In terms of motivation psychology, it

covers both care (compassionate concern, altruism) and affiliation. In terms of social psychology, sociology and anthropology, it covers identity formation, the establishment of social norms and values, and the development of common narratives that promote an understanding of the social environment, motivate social action, and make social assignments.

“Care” is one of the richest and most enduring sources of human happiness: the capacity to promote the happiness and relieve the suffering of others, the opportunity to use one’s greatest abilities in the service of others. “Affiliation” satisfies the need for social belonging. It involves the capacity to create and sustain affiliative relationships, covering cooperative contributions to one’s workplace, neighborhood, nation, or other social groups. In the process we create trust and trustworthiness. Affiliation also enables us to develop self-acceptance and tolerance of others, self-respect and respect for others.

“Identities” are our conceptions of who we are and who we want to be. “Social norms” are the rules of behavior that are considered acceptable in social groups. “Moral values” are ideals or principles that provide the basis for distinguishing right from wrong. “Narratives” are sequences of causally linked events, unfolding through time, used as templates for interpreting our ongoing experiences.

W, E and S are indeed three separate, universal sources of human well-being, associated with distinct policy objectives. No one of these sources is reducible to the other two. Empowerment and solidarity are certainly not reducible to wealth and thus cannot be effectively addressed through the traditional wealth-oriented policies.

The way to deal with disempowerment is through empowerment-oriented policies (E-policies), not merely through wealth-oriented policies (W-policies). These include vocational training, employment subsidies, lifelong learning, political communication of promising social and economic plans to their citizens, and

## »The Global Solutions Initiative seeks to envision, propose and evaluate policy responses to major global problems.«

the building of communities that value the contributions of their citizens. Active labor market policies are particularly useful in this regard, but it is important for policy makers to remain aware of the massive job dislocations that the new digital age is expected to generate. As machines take over more and more cognitive work, active labor market policies that promote traditional skills are likely to become progressively ineffective. What is required is a redirection of education and training towards social skills, in combination with

the traditional cognitive ones. The workers of the future will require not “activation” of existing skills, but “transformation” of their abilities. Beyond that, they require a transformation of the organization of labor and the governance system in which they operate. New organizations are emerging that are more inclusive, horizontal, socially and environmentally oriented, and more oriented to towards the flourishing of the workforce than the traditional organizations. “Transformative labor market policies” – both in terms of skills and organizational structure – are a better name for the employment policies that the future calls for.

Estrangement is to be tackled through solidarity-oriented policies (S-policies). These are the policies that have largely been left to the whims and vagaries of politics, social activism and advertising – the primary shapers of social identities. Estrangement arises from a lack of perspective-taking. When populist politicians create strong dividing lines between social groups in their countries, then members of different groups become less willing and able to take each other’s perspectives into account. As they develop distinct destinies, they come to care less for one another, have less mutual respect, and ultimately less tolerance for one another. Atrocities become possible when there is no interchangeability of perspectives. To kill, soldiers are taught to dehumanize their enemies, enabling them to disconnect from their enemies’ perspectives. A similar disconnection took place between Serbs and Croats when Yugoslavia dissolved, between Hutus and Tutsis during the Rwandan genocide, between the Nazis and the Jews, and so on.

S-policies are ones that promote perspective-taking. The process of globalization and ICT advance has brought about unprecedented contact among disparate social groups. Without policies that promote perspective-taking, the citizens of the world cannot develop the good will necessary to support the global problem-solving initiatives that are required to deal with our truly global problems, such as financial crises and climate change. S-policies involve the promotion of strong local communities and organizations (including businesses) that actively strengthen these communities, as well as the promotion of civil society organizations. Participatory decision making processes in local and national politics also can enhance not only a sense of empowerment, but also a sense of social solidarity.

#### **THE ROLE OF THE G20**

The G20 has a potentially important role to play in promoting recoupling in our currently fragmented world. The G20 has been constructed to be flexible in its responses to global problems: unlike other international organizations, its mandate is not rigidly defined; it lacks a secretariat with rigid departments; its member states are sufficiently small in number to make collective leadership possible, while being sufficiently influential to cover two-thirds of the world's population and 80 percent of its trade; the G20 provides face-to-face contact among national leaders, in order to promote trust for collective action in response to problems as they arise; the issues on the agenda can be addressed through ministers' meetings and expert groups, constituted flexibly; it gives voice to a variety of non-state actors through its Engagement Groups (B20, L20, T20, and so on). In these respects, the G20

is unlike any other organization of global governance. It can set its own agenda. The G20 presidency rotates from one country to another annually and each presidency sets its own priorities. In short, the G20 is flexible enough in its agenda, large enough in terms of economic clout, small enough for effective decision-making, strong enough in terms of professional expertise in order to choose its goal freely. Given its charac-

**»The current G20 preoccupation must become extended to empowerment- and solidarity-oriented policies.«**

teristics above, the legitimacy of the G20 ultimately depends on its ability to promote global social welfare. As long as economic and social progress are closely coupled, it is appropriate for the G20 to focus primarily on economic issues. But once decoupling has occurred, it becomes necessary for the G20 to devote itself also to other aspects of social well-being.

The G20 can do so by pursuing by the path of multilateralism focused on the primacy of social prosperity, in accordance with the principle of subsidiarity.

The primacy of social prosperity implies that as long as economic and social progress are closely coupled, it is appropriate for the G20 to focus primarily on economic issues. But once decoupling has occurred, it becomes necessary for the G20 to change course, devoting itself not only to economic issues, but other aspects of social welfare as well. Social prosperity must remain primary. The breadth of the G20 agenda should depend on how closely global economic progress is tied to social progress.

The principle of subsidiarity requires that local problems be handled on the local level, national problems on the national level, and only the global problems be tackled through G20 negotiations. To observe the subsidiarity principle, we need a clear conception of what problems are global, as distinct from national. For this purpose, it is useful to recognize that global problems involve one or more of the following issues:

(1) global collective goods, associated with global externalities: these are generated by global public goods (such as greenhouse gas abatement and international financial market reform) or global commons (such policies to control over-fishing and deforestation);

(2) global inequities (commonly expressed as inequalities of opportunities and outcomes): these are commonly generated by inequalities in market power, information or skills ;

(3) global social dysfunctions that cannot be effectively handled exclusively by market incentives or regulations (such fighting corruption, promoting tax cooperation, or preventing resource depletion from an environmentally wasteful pursuit of status goods): these call for changes in global norms and values.

The G20 can justifiably become active in each of these areas, since they involve global problems lying beyond the competence of individual national governments. However, the G20 has often failed to communicate the need for its initiatives on this basis.

Implementing WES-oriented policies in response to these global problems will require a revolution in our conception of structural policies, for the purposes of both national policy and international policy coordination. These policies cover labor market performance, education and training, regulation, market openness and much more. Although descriptions of this revolution would require a voluminous literature, let the following example suffice. Consider a WES-oriented approach to active labor market policies (ALMPs) that, according to the OECD, involve the following features: “ensuring that people have the motivation and incentives to seek employment, increasing their employability and helping them to find suitable employment, expanding employment opportunities for jobseekers and people outside the labor force, and managing the implementation of activation policy through efficient labor market institutions.” In the presence of the new digital technologies, which are poised to take over much of the routine work in the future, it is clear that this conception of ALMPs is inadequate. What will be required is not merely incentivizing of employment and expanding employment opportunities. This will generate income, but it will not necessarily generate empowerment and solidarity. Given that the new digital age will favor the exercise of creativity and social skills, combined with technical skills, at the workplace, it will be necessary to reassess labor market policies in terms

of the degree to which they empower people to become creative and express their solidarity in the workplace. An analogous reassessment will need to be made of education and training programs. Given that the new digital age appears to be favoring the ability to learn new skills, to perform a portfolio of jobs, to mix formal and informal jobs, to attract temporary and part-time jobs, to be entrepreneurial, to work flexibly in teams, and to find new forms of work-life

## »The G20 can do so by pursuing multilateralism focused on the primacy of social prosperity.«

balance, it will be necessary to restructure the welfare state. The required revolution in our social insurance systems will necessitate the transition from the current “welfare state” (offering economic security) to an “empowering state” that focuses on giving people the skills and empowering institutions to lead meaningful lives through achievement at the workplace and affiliation to their communities.

Needless to say, WES-oriented policies will inevitably differ across different nations and cultures, since different social contexts generate different needs for empowerment, care and affiliation, as well as different ways of satisfying these needs. Thus sensitivity to WES-oriented policies across the G20 cannot be expected to lead to a consonance of policy approaches. In order to achieve such consonance, the G20 requires an overarching vision – a global worldview – that will enable G20 countries and others to cooperate in tackling inherently global problems, while remaining distinctive and free to following their diverse social objectives.

*This article is a summary of the following papers:*

- Dennis J. Snower (2018). “Beyond Capital and Wealth,” *Economics: The Open-Access, Open-Assessment E-Journal*, No. 2018-21 | April 24, 2018, p. 1-10. <http://dx.doi.org/10.5018/economics-ejournal.ja.2018-21>
- Dennis J. Snower (2018). “The G20 at a crossroads: the future of global governance.” *Economics: The Open-Access, Open-Assessment E-Journal*, 12 (2018-22): 1–12. <http://www.economics-ejournal.org/economics/journalarticles/2018-22>

<sup>1</sup>This theme is explored insightfully in C. Kelly and B. Sheppard, “Realigning Business, Economies and Society” ([http://www.g20-insights.org/policy\\_briefs/realigning-business-economies-society/](http://www.g20-insights.org/policy_briefs/realigning-business-economies-society/))

<sup>2</sup>Some driving forces behind past, present, and expected future decouplings of social and economic progress are surveyed in the Vision Brief: Dennis J. Snower, “The Dangerous Decoupling.”







# The Argentine G20 presidency

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# **The launch of the Argentine G20 presidency**

**Mauricio Macri**

President of Argentina

# The launch of the Argentine G20 presidency

Official remarks by President Mauricio Macri

The author:



**Mauricio Macri**

President of Argentina  
2018 Chair of the G20

This is a historic day for all Argentines. We assume the presidency of the G20, the most relevant global forum for economic cooperation.

This process culminates in the Leaders' Summit, which will take place in South America for the first time. It convenes heads of state and government from the 20 most vital world economies, who advance the coordination on the critical issues of the present, and for our development.

As with the WTO's Ministerial Conference, beginning in a few days' time, we are putting Argentina in a place of relevance in the world. A world to which we inspire confidence because it sees that we are on the right path. A world that we see as an opportunity for us to grow and to develop.

We want to be the voice for an entire region, not just our country. This is why we will bring the aspirations and concerns of this entire developing region, eager for new opportunities, to the table at the G20.

We will show that we can join the global conversation without raising our voice in anger, yet also without passively following the interests of others. Our view from the

South of the world in the 21st century can be a bridge for diversity.

The challenge is to be up to the task of these events and to generate the conditions for a broad and diverse dialogue. The presence of all of you here today is an invitation to be the protagonists of our intelligent insertion to the international community.

By “intelligent insertion”, I refer to be able to express our democratic and multilateral identity, and to take advantage of global opportunities to create jobs, investment and exports; as well as to elevate the quality of our education and scientific systems, and to live in a safer environment.

We are a nation with a diverse identity. Diversity is in our DNA, and sustains our tradition of peace and peaceful coexistence. Our language is that of justice and consensus. Our diplomacy is based on the power of the norm, not of the norm of power. We have a vocation to better the quality of life of our people without harming the quality of life of others.

An important part of what we’re doing at the G20 has to do with the major goal we have in Argentina: to reduce poverty. Our vision is for the G20 to be a group of countries that cooperate to generate inclusive growth.

In light of this, we have decided on the slogan for our presidency: “Building consensus for fair and sustainable development.” We will lead the G20 based on the principle of putting people first, with a focus on equality and sustainability.

During the 2008 crisis, the G20 proved its effectiveness. It prevented an international economic depression and strengthened the financial framework. By contrast, today’s growth is firm; however, we must remain cautiously optimistic.

This growth has not benefited everyone and this has breached many people’s confidence in globalisation. The level of inequality is a daily reminder that implores us to ensure that growth reaches all.

Our presidency will build on the agreements met in Hamburg. We are proposing priorities where we believe there is a shared interest.

**»We will lead the G20 based on the principle of putting people first, with a focus on equality and sustainability.«**

Argentina will propose an agenda focused on three key themes: the future of work, infrastructure for development, and a sustainable food future.

The future of work aims to unleash people’s potential. Technology is changing the processes of production, which offers opportunities as well as challenges. We must ensure that the adoption of these technological advances does not lead to economic exclusion or other negative side effects.

Education is at the centre of debate. Making the next wave of technological ad-

vances as inclusive as possible will require great investment in training and updating skillsets for life and work.

Now is the time to forge these opportunities and abilities to prepare our people for this change. We are employing this in Argentina: creating fundamental consensus, and adhering to the spirit of agreement and dialogue with workers, business leaders, and the public sector.

Infrastructure is crucial for development. Investing in it spurs growth and productivity, and provides physical and digital access to take advantage of future opportunities. Encouraging private investment is fundamental to close the global infrastructure gap.

In this country, we are undertaking the most ambitious infrastructure plan in our history. In the G20 we will seek to develop infrastructure as a new asset class which can channel today's savings into transport, sanitation services, energy, and connectivity which will transform each individual today into a citizen and worker of the world in the future.

A sustainable food future is in everyone's interest. As the producer of foodstuffs for more than 400 million people, Argentina is ready to do its part.

Agricultural lands are a natural resource that produces most of our food. They are necessary for food security and human health. As a finite and non-renewable resource, their preservation is crucial.

The G20 can create the coordination necessary to foment major public-private partnerships and to create a sustainable food future.

To ensure continuity of the G20's work, we will find support in the legacy of previous presidencies. We will further the efforts on

issues ranging from gender equality, anti-corruption, strengthening global financial governance, protecting the environment, amongst others.

Today we begin the period of intense work that will serve to tell the world about Argentina and to tell Argentina about the world. It is one of the greatest challenges of our history.

We will lead the G20 with the spirit of being an honest broker. The Argentine G20 presidency will be a success only if we work together. I invite you all to put forth all of our effort and talent to achieve it.

*Published on [www.g20.org](http://www.g20.org) on  
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**Global Solutions for**

**the Future  
of Work and  
Education for  
the Digital Age**



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# **Explorations for a future-proof education**

**Dr. Cristóbal Cobo**  
Center for Research  
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# Explorations for a future-proof education

## Can technology effectively shape the future of education?

The author:



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In different moments of the 20th century, we have witnessed various trends in technology that promised to “revolutionize” education. Nothing can be more charming than watching children learning by themselves only with the use of technology. This techno-enthusiasm is connected with good intentions such as reducing inequalities, enhancing learning opportunities, enabling self and lifelong learning, etc. However, it is fair to say that the interest has also been driven by vendors and others interested in selling devices, content, software, connectivity, or simply, influence. Some examples can be found on educational television, educational CD-ROMs, smart boards, massive open online courses, and now, apparently through artificial intelligence. All of them are presented as “silver bullets” that in different moments have promised to transform the education sector.

Today, the education market is very big (economically attractive) and the interest to improve education in every country is arguably one of the top priorities of any government (likewise many international organizations). Thus, what is at stake is far from insignificant.

It is important to remember that during the last two decades alongside the

The institution:



Fundación**Ceibal**

The Center for Research Ceibal Foundation seeks to provide guidance to Ceibal Plan and other national and international educational actors in education and technologies related issues, both inside and outside the formal educational system. Ceibal Plan is one of the most important programs undertaken by the Government of Uruguay to minimize the digital divide.

expansion of the Internet, there has been a growing if not unstoppable adoption of digital technologies in the world of education. However, as we know, in the education sector quantity and quality does not always happen at the same time. Based on a growing volume of research conducted by international organizations as well as meta-studies developed during the last decades it is pretty evident that the integration of technology in the classroom has not been as easy as expected (see recent reports from the Organisation for Economic Co-operation and Development, the Inter-American Development Bank or the World Bank, among others).

There is little doubt that technology opens access to an incredible volume of resources and new sources of information, but digital technologies are much more than a library online. These are overall conversational tools which gain value and relevance while we share resources with others. In other words, the information gains social value and relevance when exchanged with and among peers, or within communities. New technologies are powerful instruments to enable decentralized forms of knowledge production and consumption. One of the main challenges we envisioned is that digital tools offer structural challenges to the traditional practices of formal education. The adoption of digital platforms in the classroom challenges the idea of a centralized knowledge delivery (i.e. teacher, curricula or textbook), which concentrates or controls what knowledge is relevant and what isn't. In earlier decades, the role of educators was to transmit to the learners the "valid knowledge". This model is increasingly being challenged by the emergence of decentralized or more

distributed (multi-node) digital platforms, much like Wikipedia where many collaborate and negotiate to produce or modify the existing knowledge.

After revising hundreds of research papers in the field, in a large number of cases the adoption and use of education technology has mainly focused on technological deployment and not necessarily on other dimensions that need to be taken into account when technologies land in

**»Learning happens all the time and everywhere.«**

classrooms. Therefore large volumes of research and public policy impact evaluations focus on the following question: What is the impact of technology in learning? Unfortunately, the other dimensions (e.g. social, organizational, political, and contextual factors) are rarely considered (or controlled) in these studies. Not to mention the pedagogical strategies adopted by educators, or the quality of the teacher training they receive. As a consequence, the result that we see most often is that the deployment of new technologies by itself does not lead to a clear impact in learning outcomes. Even worse, there are a number of studies that show that large exposure to digital technologies without support and guidelines might lead to worse performance results versus those who do not use it at all.

We may ask ourselves why it is so difficult to identify the impact of technology as a driver for change. How can these tools help us transform educational systems that resist embracing the transformations required in the current century? As Clay Shirky rightly says, “A revolution doesn’t happen when society adopts new tools. It happens when society adopts new behaviors”. This is probably one of the most relevant reasons to explain why it is so difficult to see radical transformations only within the field of education technology.

After having worked with dozens of countries in this field, I suggest taking into account at least five critical dimensions before planning the implementation of education technology or when preparing an assessment of the impact of these tools.

1. Providing pre-established educational content will be less relevant than facilitating and promoting their connection and combination with different sources of knowledge and information (within and outside the educational program or curriculum).

2. When transitioning to new technology, learning how to teach with technology regardless of the context is pivotal. Digital and peer-based pedagogies are a good starting point.

3. Understanding that traditional divisions of knowledge are not suitable within the digital landscape. It is critical to develop new ways of thinking such as network literacy, computational thinking, collaborative problem-solving, inquiry-based learning, among other multi-literacies.

4. If you want to understand the role of technology, you can’t keep using the old-fashioned instruments to assess learning.

Keep in mind that digital devices go beyond disciplines, contexts and ages. It is necessary to be equally innovative in the adoption and creation of instruments for assessing new forms of learning. This also applies to adopting alternative forms for recognizing informal learning.

**»Sooner rather than later the education system will keep moving from an encyclopedic to a more flexible system.«**

5. Learning happens all the time and everywhere (even if we don’t know how to measure it). The use of education technology at home differs from that in the classroom. It is necessary to overcome physical limitations of formal learning. Today’s learning can take place anywhere, anytime and almost with anybody (also known as the “third space literacies”). So the best cognitive tool that educational systems can develop is learning how to explore new questions at an individual and collective level regardless of the environment.

What about suggesting that technologies are not properly integrated into the classroom because they challenge the authority of the educational institutions (incarnated in the 'old' idea of knowledge transmitters), a role that for centuries has been barely modified? What about suggesting that these decentralized tools challenge the traditional "one-to-many relationship" between one transmitter and many receptors? Today there is a growing interest in participating in many-to-many conversations, which can happen in the same place but also can occur with people from anywhere (regardless of their academic background or affiliation). What about suggesting digitalization is a form of drastic disintermediation, which is disruptive for the conventional authority that has been replicated for centuries within the walls of the classroom. The disintermediation of technologies (when properly adopted) is disruptive of many of the traditions and approaches largely replicated in formal educational settings.

Part of the challenge today is focusing less on technologies and more on the emerging contexts that their adoption redefines. How to change towards an approach less focused on the tools and more on the transformational opportunities they can offer? I am optimistic in the long run. We are confident that we will finally learn that we have to innovate not only in the adoption of devices but also in the assessment of new forms of learning. We also envision that sooner rather than later the education system will keep moving from an encyclopedic to a more flexible system focused on critical thinking, promoting multi-literacies as well as social-emotional skills in a variety of environments. We hope that a new

generation of decision-makers will resist the temptation of relying only on artificial intelligence and other new gadgets and will help design long-term innovations in their education systems that can be seriously future-proof.

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**Global Solutions for**

**Climate Action  
and Infrastructure  
for Development**

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## **Growth and jobs**

**Dr. Dennis Görlich**

The Kiel Institute for  
the World Economy

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## **What does it take?**

**Veronika Tomova**

Young Global Changer  
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Initiative

# Growth and jobs

by investing in sustainable special economic zones

The author:



**Dr. Dennis Görlich**

Head, Global Challenges Center, Kiel Institute for the World Economy

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Achieving environmentally and socially sustainable economic growth is a major challenge faced by the G20 countries. One avenue to achieve growth (but potentially disregarding environmental and social sustainability) is written down in the Antalya Action Plan that was ratified by the G20 Heads of State in 2015: “Boosting quality investment, especially in infrastructure, is a top priority for the G20, in an environment of investment and infrastructure shortfalls.” The text says further that infrastructure investment should help lift medium-term growth, reduce inequalities and improve productivity. Yet, it remains open what types of infrastructure investment are meant to be done. What should be considered quality investment? How can it reduce inequalities? Can we make sure that the investments are sustainable in the sense of environmental and social sustainability? And how can environmental and social sustainability be ensured in a world where value chains are globalized?

**CGP RECOMMENDATIONS**

I suggest the creation of sustainable Special Economic Zones (SEZs). The creation of sustainable SEZs would be an important institution that can help to achieve economic growth and create jobs and at the same time address the Sustainable Development Goals. SEZs are well-known

The institution:



The Kiel Institute for the World Economy is an international center for research in global economic affairs, economic policy consulting, and economic education. On basis of its research, the Institute advises decisiontakers in policy, business, and society and informs the broader public about important developments in international economic policy.



as being important drivers of economic growth and development. Besides bringing the benefits of standard SEZs, the creation of sustainable SEZs would directly address Sustainable Development Goals (SDGs) 8 and 12: Sustainable SEZs would help to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, and they would help to ensure sustainable consumption and production patterns. The export orientation of SEZs and the important role they play in global value chains make SEZs an issue of international concern.

### STANDARD SEZS

Standard SEZs have a number of features that should be shared by sustainable SEZs. These include:

- A geographically delimited area with access to transport, such as ports or airports, and enhanced infrastructure (incl. kindergarten, schools, hospitals)
- A single management or administration
- Benefits for investors within the SEZ, typically preferential tax treatment for a certain period of time (e.g. reduced corporate income tax rates, income tax reductions for foreign nationals)
- Separate customs area and streamlined procedures, typically no customs duties on imported intermediate goods as long as they re-exported
- Expedited permitting
- Special rights to obtain property for foreigners
- No restrictions on the repatriation of profits
- Protection of property rights
- Access to the pool of labor of the host country

These features helped SEZs to play an important role in achieving growth and development in many countries, most famously China. Foreign firms were attracted to SEZs, FDI increased. Jobs were created in SEZs as companies locating there employed local workers. An industrial export sector was created in countries that were previously dependent on a single resource or agricultural goods.

»Sustainable Special Economic Zones can help to achieve economic growth and create jobs.«

Knowledge and technology was transferred by the creation of backward linkages, i.e. the integration of domestic companies and their products in production and consumption. This increased productivity and product quality in the domestic economy. Backward linkages created additional jobs outside the SEZ. And schools, jobs and incentives helped to upgrade skills of the domestic population.

Critics of SEZs claim that they may remain enclaves because, unless the state intervenes, incentives for investors

to create backward linkages are limited and, hence, technology or skill transfers may not take place. Rather than procuring intermediate inputs locally, investors may prefer to import them. Moreover, activity in SEZs may strongly depend on business cycles. A downturn and the resulting capital outflow may particularly hurt the SEZ host countries. SEZs have also been criticized for delaying reforms at the national level; they could at best be suboptimal policies as it would be better to improve the business environment nation-wide (OECD, 2006). Finally, many critics address sustainability issues, such as the suspension of environmental protection standards in SEZs, or the bypassing of national labour rights.

### **SUSTAINABLE SEZS**

Indeed, most SEZs are currently not sustainable in the sense of environmental and social sustainability. Even though they deliver economic growth and create jobs, their environmental footprint is typically disregarded and labour conditions are often criticized. There is ample room to improve these conditions, with the benefit of making the sustainable SEZs much more attractive to multinational enterprises that want to ensure sustainable production conditions. Sustainable production is increasingly demanded by consumers and producers are eager to find suitable production locations. A sustainable SEZ, which can be relatively easily monitored and perhaps even be certified, would be an ideal production location for such enterprises.

Sustainable SEZs differ from standard SEZs by providing a business place with good environmental and social practices in

addition to the above-mentioned commercial benefits. In particular, it should incorporate the following practices and standards (cf. UNCTAD, 2015, p. 22).

- Ensuring standards for working hours and benefits
- Giving unions the right to operate in the SEZ
- Promoting (gender) equality
- Reducing emissions by using renewable energy sources, or improved energy efficiency
- Reducing waste, e.g. by enabling the circular economy and recycling
- Protecting the environment by creating waste disposals, e.g. hazardous waste management
- Ensure protection of employee health, e.g. by improving hospitals
- Introducing and monitoring work safety rules
- Introducing and enforcing anti-corruption standards
- Improving backward linkages, e.g. by providing assistance with local sourcing, or training domestic workers and producers

Ideally, these practices and standards would be certified by a respected, independent authority. An example for such independent certification agencies is ISCC (International Sustainability and Carbon Certification), which is active in the bioenergy market and the food, feed and chemical industries.

Adding these features to standard SEZs would provide them with a distinct comparative advantage: Assisted by SEZ management, companies can produce according to their CSR standards, while retaining cost advantages (UNCTAD, 2015).

Introducing sustainability practices and standards in SEZs may be initially preferable to introducing them nation-wide because SEZs are typically small, manageable units. Moreover, due to their importance for global value chains, making SEZs sustainable would be an important step towards making trade and global value chains environmentally and socially sustainable. Promoting gender equality within SEZs could create avenues for women

## »Sustainable SEZs could be set up in any country to promote sustainable production.«

to enter the formal economy (cf. Farole & Akinci, 2011). Sustainable SEZs would thus help to address SDG 8 by generating sustained growth with (1) sustainability, (2) inclusiveness, (3) decent work, (4) full and productive employment. In addition to that, (5) transparency and anti-corruption measures could be introduced.

Both the host and the trading partner benefits from sustainable SEZs. The host benefits from economic growth and job creation, and potentially from economic development through backward linkages, skill upgrading and technology transfer.

The trading partner benefits from lower production costs in SEZs and lower costs for sustainability certification.

### WHERE SHOULD SUSTAINABLE SEZS BE LOCATED?

Successful standard SEZs are typically located in coastal regions or in the vicinity of major cities that are known as trading hubs. These locations allow good access to ports, airports or railways and are hence critical for linking the SEZ to international markets. Beyond geography, a number of other factors should determine location. Among them is the commitment of the local government, an adequately skilled workforce, or the national business environment (Zeng, 2015, World Bank). For export-oriented manufacturing, the availability of cheap labour was an important comparative advantage, and standard SEZs were set up in locations where these conditions applied. For SEZs with a different focus, the location choice may rest on other considerations. Many older SEZs can be found in Asia, while some newer SEZ projects have been set up in Africa.

For the location of sustainable SEZs, the same considerations as for standard SEZs should apply in principle. Natural locations would then be less developed or emerging market economies with an abundant pool of labour that are linked well to international markets. This way, a sustainable SEZ can contribute to making global value chains sustainable.

However, SEZs could also be regarded as “experimental laboratories for the application of new policies and approaches” (Farole & Akinci, 2011, p. 4). Accordingly, sustainable SEZs could be set up in any country to promote sustainable production,

for example in order to try out policies of circularity. In addition, old-style SEZs could be “upgraded” by making them environmentally and socially sustainable.

### **WHY IS THIS A G20 ISSUE?**

SEZs are not the sole responsibility of their host countries because SEZs play an extremely important role in global value chains. Many intermediate goods and services are imported from SEZs. That im-

**»If the G20 wants to take its growth and investment goals seriously, it should decide for sustainable SEZs.«**

plies that countries higher up in the value chain have some responsibility for SEZs too, and can exert pressure to improve environmental and social conditions in SEZs.

Sustainable SEZs could become an important element of the G20’s investment and growth plans. It will ensure coherence between the G20’s growth and investment agenda and the implementation of the 2030 Agenda for Sustainable Development (SDGs).

In addition, it could be an important building block for the work of the G20’s Development Working Group (DWG) as the G20 can provide knowledge and guidance to set up sustainable SEZs in developing countries. Companies based in the G20 would benefit, too (see above).

If the G20 wants to take its growth and investment goals seriously, and at the same time wants to make progress on the 2030 Agenda for Sustainable Development, then it should decide to channel infrastructure investment into sustainable SEZs, and to share information and experiences on SEZs with developing countries.

### **FINANCING SUSTAINABLE SEZS**

The G20 should not only play an important role in positioning and designing sustainable SEZs, but it can give decisive guidance in finding finance for them, too. The Antalya Action Plan lists a number of G20 initiatives to advance infrastructure investment, which can also be helpful in providing finance for sustainable SEZs. In particular, finance for sustainable SEZs could involve:

1. Public-private partnerships, which the G20 could foster by prioritizing appropriate investment plans. The newly set up Global Infrastructure Hub could play a role in sharing information and connecting private and public partners.
2. A global fund for sustainable investment.
3. Official Development Assistance (ODA), if the sustainable SEZ is located in a less-developed country.

Various papers discussing the financing of the Sustainable Development Goals argue that public funding alone will not be sufficient to cover the financial needs. Com-

plementary private funding will be needed as well. Sustainable SEZs lend themselves well to the involvement of private funds because their comparative advantage will allow for profits. National and multinational development banks can act as catalysers of private investment. In addition, they can provide technical assistance.

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# What does it take?

## From a young professional to a Young Global Changer

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Young Global Changers is a programme by the Global Solutions Initiative that brings the next generation’s policy leaders and policy thinkers from around the globe to Berlin to contribute their views and ideas to solving the global problems of our times.

If the most valuable property is between your ears, then certainly being a Young Global Changer of the Global Solutions Summit is one of the greatest investments you can make.

The opportunity to hear and be heard by Nobel Laureates, eminent academics, political elites and civil society leaders on topics that concern each and every one of us is not only professionally rewarding, but is also a chance to turn great ideas into even greater actions, benefiting the world with revolutionary outcomes.

For a young professional as I consider myself, the opportunity to network with like-minded peers and sustainable development experts on global solutions allowed me to develop the “Pentomatrix”. This is a five-component development model that converts the open-ended and linear economy into a circular modus operandi.

At a time when sustainable development is still considered a threat to the economy, the Pentomatrix as a mediator that balances the two extremes of economic and environmental well-being may prove the very opposite.

Following the Great Depression, in order to revive the shattered economy through new employment opportunities and growing industries, and so that profit-driven production could sustain consumer society, the use of Planned Obsolescence

became the root of some of the greatest problems the world faces today. This superficial solution to the world's longest economic decline, which caused mass unemployment and widespread poverty (1929-1939), evidently brought about an even greater problem for humanity: a pollution-induced environmental imbalance, which traded human well-being for financial gain. To prevent another Great Depression, while surely accelerating their own self-destruction, many economies failed to build rational consumption and production into their "codes of conduct". Unaware or even consciously ignoring (in favor of industrial conglomerates) the need for a balance between the economic and environmental variables, their actions further escalated the problem.

Unlike profits, which are usually confined to a territory (a country or countries), pollution and waste created by production and consumption cycles are borderless threats. These are transmitted through the global commons of air, water and land to countries not necessarily party to their creation. The disruption of environment and quality of life becomes a global problem, urging global action and an international commitment to altering the conventional economy, and to creating a circular and environment-friendly modus operandi. Just as history has proved that short-term and myopic solutions create many other problems in the long-run, the conclusion can be drawn that global action and international commitment through partnerships (SDG#17) are just as important as multi-disciplinary, intersectoral and above all sustainably-oriented commitment and action. The multidisciplinary approach should consider any undesirable

side-effects and try to diminish or prevent them. The intersectoral approach should ensure inclusivity that allows each counterpart to contribute to a beneficial impact, creating a sense of societal responsibility. Sustainably-oriented methods should help secure continuous upward development, which in satisfying the needs of the present would not compromise the needs of future generations.

Considering the preconditions of sustainable development and incorporating them into a developmental model that

**»Sustainable development is still considered a threat to the economy.«**

smoothly balances the two extremes of economic and environmental well-being, which rather than contradicting can be complementary, the Pentomatrix, as an integral five-component trajectory, could replace a linear economy with a circular one. This would work as follows: 1) Government subsidises research and development (R&D) of 2) Academia and relevant Think Tanks on how the conventional linear economic operatives could switch towards the principle of the circular economy. The 3) Enterprise Sector would then help align their services with industrial-ecological standards. These are then subject to 4) Corporate Clustering, where, rather than

competing in the marketplace with enterprises that deviate from principles of environmental viability, they are pooled with enterprises whose ethical performance allows them to form production chains (clusters) complying with sustainable prin-

## »Action and commitment must be multi-disciplinary, inter-sectorial and sustainably oriented.«

ciples. The final stage of 5) Policy-Making considers the user-experience of the model's beneficiaries, and public policies are created that ensure the state works in favor of the circular economy as a whole.

The Pentomatrix aims to secure economic transition simultaneously on an individual (per enterprise) and collective (per economy) level, as this is the only way to administer structural change. Besides the fundamental principles and functions of all five components of the Pentomatrix, Corporate Clustering has the responsibility to supply, assemble and integrate goods, components and services in the most financially and logistically efficient way. This is defined by a specially created "Footprint Calculator", and varies according to ecological parameters.

Following the clustering stage, once public policies are created (including policies for tenders and public procurements), alongside a legislative element and principle of direct involvement in the work of the policy makers, the Pentomatrix inevitably aims to set new standards in the public sector. This greatly hinders corrupt and unethical corporate influence over public servants. By also making sure that public policies consider and respond to the needs of the enterprises while adhering to their re-designed circular and environmentally friendly operations, (a huge shift from treating the environment as a waste reservoir for manufacturing) the Pentomatrix focuses on collective transition to more sustainable development, as its ultimate goal.

Taking part in the Global Solutions Summit and having the opportunity to work with like-minded peers on the Circular Economy task force within the G20 Sustainable Development policy field have been crucial in creating this social innovation, which has also brought me recognition as a young leader and social entrepreneur. It takes great inspiration for positive change, countless hours of hard work and a valuable network to become a Young Global Changer.





**Global Solutions for**

**Food Security  
and Sustainable  
Agriculture**

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# **The global food system under radical change**

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# The global food system under radical change

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The International Food Policy Research Institute (IFPRI) provides research-based policy solutions to sustainably reduce poverty and end hunger and malnutrition in developing countries. Established in 1975, IFPRI currently has more than 600 employees working in over 50 countries.

Food systems have been central to recent unprecedented reductions in global poverty, hunger, and undernutrition, and will be the foundation of future progress. There is no more important and valuable human endeavor than growing, making, and preparing the foods that nourish and sustain us. Yet food is among the leading causes of our global health and sustainability crises. Efforts to sustainably end hunger and malnutrition will depend on reshaping our food systems. Radical global changes, including rising antiglobalization sentiment and emerging technologies both inside and outside the agriculture sector, are creating new challenges and opportunities. How these global trends are managed will be crucial for ensuring that food systems can deliver sufficient nutritious, affordable, delicious, and healthy food for all within planetary boundaries.

## **FOOD SYSTEMS CALLED ON TO DO BETTER**

Addressing radical global changes is critical to improving the contribution of food systems. After a period of prolonged decline, world hunger is again on the rise, millions of children remain stunted, and nearly 2 billion adults are overweight or

obese. In part due to globalization, many national food systems are rapidly ushering in a transition toward animal-based and processed foods that are too salty, too sugary, or too high in fat—a transition strongly linked with the increase of diet-related noncommunicable diseases such as heart disease and diabetes. Moreover, the global food system—which includes all actors and sectors involved in producing, distributing, retailing, and consuming food—and national food systems are at the center of many environmental challenges facing the planet. Nearly 85 percent of global water use goes to agricultural irrigation, of which 15–35 percent is unsustainable. Close to a quarter of all global land is degraded. Food systems contribute about one-fifth of all greenhouse gas emissions, and agriculture is a primary cause of biodiversity loss. Overall, agrifood systems have been largely successful in feeding a growing number of people, but are pushing planetary boundaries in terms of greenhouse gas emissions, biodiversity loss, freshwater use, and both nitrogen and phosphorous cycles, risking expensive, potentially irreversible environmental change.

As acute as these challenges are, food systems are uniquely positioned to reverse course to become the primary driver of improved human and environmental health. To do so, they must be transformed into restorative food systems to support healthy diets for all. Global models forecast that the combination of shifting toward healthy diets, increasing production efficiency, and reducing food waste and loss has potential to provide healthy diets for 9.5 billion people in 2050, while reducing food's land and climate footprints. Food systems must be more lucrative for smallholders, women,

and youth, as such groups are critical in meeting emerging demand for a diversity of safe and nutritious foods, and smallholder farming must transition toward providing quality jobs. For food systems to support sustainable development, the global integration of national food systems—through the flow of goods, investments, people, and knowledge—will be key, provided their integration is governed appropriately.

»Yet food is among the leading causes of our global health and sustainability crises.«

#### **MEGATRENDS AFFECTING GLOBAL AND NATIONAL FOOD SYSTEMS**

Recent antiglobalization sentiment, especially the potential resurgence of trade protectionism, risks slowing progress toward achieving the Sustainable Development Goals (SDGs), greater economic growth, and improved food security and nutrition. Trade is not only necessary to feed growing populations, it also has the potential to raise incomes and provide access to more diverse foods at lower, more stable prices. Trade also has an important, though little explored, role in shifting food production from regions of high environmental risk

(carbon-rich forests, water-scarce lands) to areas of lower environmental risk. For these benefits to be experienced by all, trade must be inclusive.

International investments must be a component of investment strategies for creating employment, boosting incomes, developing rural infrastructure, and introducing new technologies, among other benefits that improve livelihoods. Yet at times, such private investments result in exclusion of people from the food system, environmental unsustainability, and even conflict, as well as the introduction of new challenges such as obesity—thus fueling antiglobalization arguments. Carefully designed policies can maximize the contribution of investments to sustainable food security and nutrition and minimize the associated risks.

Global governance failures and weakening commitments in the international community to a sustainable future are likely to have negative impacts on agriculture, food security, and nutrition. For example, declining commitment of countries to the Paris Agreement on climate change may increase exposure of agriculture and food production to climate shocks and natural resource depletion, and also increase agriculture's pressure on planetary boundaries. Local governance and coordination have the potential to help cities, districts, and provinces play key roles in promoting improved livelihoods, sustainability, and nutrition. Without appropriate global and local governance and coordination mechanisms that work based on evidence and trust, decision makers will face challenges in reacting to short-term and emerging crises, rather than successfully preventing those crises.

Forced migration and protracted conflicts were major drivers of the rise in global hunger and the persistence of undernutrition in recent years. Currently, out of the 155 million stunted children globally, 122 million live in conflict areas, and conflicts continue to displace people—the number of forcibly displaced people doubled between 2007 and 2016, to about 64 million people. Conflicts, migration, and food

**»Countries should reduce trade distortions in order to expand secure and equal access to markets.«**

insecurity can form a vicious cycle. And when borders are tightened or closed, the flow of migrants is restricted, and threats to food security and nutrition increase for those who would have migrated and their families. Moreover, conflict is often compounded by the impacts of ongoing climate change, further affecting food security and livelihoods. Innovative solutions are needed to break the cycle of conflict and hunger in migrant source countries, while providing support to migrants and host countries.

At the same time, the global flow of knowledge and emerging technologies are on the rise. Open access to knowledge and

data and effective information networks, particularly for farmers, businesses, and governments, can contribute to improving food security and nutrition. Many innovative technologies inside and outside of the agriculture sector could be game changers for the future of food systems—gene sequencing, gene editing, vertical farming, precision agriculture, lab-grown meat, big data, and innovations in information and communication technologies show great promise for making food systems more interconnected, climate-resilient, and efficient, although the benefits and risks of these technologies are not fully understood.

### **ADDRESSING THE CHANGES**

Addressing these radical global changes can provide avenues to transform the global food system, moving toward a system that is driven by better nutrition, health, sustainability, and greater inclusiveness. Major food system levers to tackle health and sustainability and contribute to the SDGs center around increasing sustainable production efficiencies (more food with less impact), reducing food waste and loss, and shifting diets—notably shifting toward plant-based diets in developed countries with high meat consumption. The following key actions are required in support of these central priorities for food system transformation.

### **ENCOURAGE AN OPEN, EFFICIENT, AND FAIR TRADING SYSTEM**

Considering the important role of trade in reducing hunger and malnutrition and in avoiding environmental harm, trade and related domestic policies must support and enhance an open, transparent, and inclusive trading system, especially for

agricultural goods. Indeed, appropriate tools and policies that consider the trade-offs and potential unintended consequences of open trade must be employed to directly address global and local challenges instead of hindering trade. Countries should reduce trade distortions by reducing high import tariffs and eliminating export bans and restrictions in order to expand secure and equal access to markets for food and agricultural products, particularly for nutritious and sustainably sourced foods. To encourage fair competition in the presence of large multinational players along the value chain, developing countries will have to strengthen domestic policy and legislation, such as antitrust laws, to prevent or govern monopolistic structures and market behavior. Responsible investments can be encouraged with strong international principles and by giving priority to investments that provide inclusive benefits for food security and nutrition, for example through productive, well-targeted, nutrition-driven social protection measures. Countries must also eliminate inefficient domestic support policies and redirect public resources to food system investments with greater impact. Rural infrastructure and agricultural research and development (R&D), for example, can substantially increase agricultural productivity growth and reductions in poverty. Indeed, investments in these public goods, as well as in sustainable agriculture and farm extension, can support domestic producers and improve local diets without violating international trade rules.

Trade policies must strongly factor into strategies for nutrition, health, inclusiveness, and sustainability for trade to help

fuel food system transformation. To ensure state-of-the-art food safety and protect human health from foodborne diseases, developing countries should strive to build capacity to implement tested and proven international standards and guidelines and receive assistance in doing so. In addition to enhancing awareness, stakeholder engagement, and collaboration among governance structures for food safety, greater investments in R&D and information and communication technologies will be needed to improve food-safety testing and surveillance. The potential negative impacts of global free trade on nutrition and health, including greater access to unhealthy foods, need to be addressed. Trade policies must also support inclusiveness for developing countries to foster opportunities for value addition and create rural jobs for small producers. For trade policies to help advance environmental sustainability, governments should consider phasing out fossil fuel subsidies in favor of investment in renewable energy.

Strengthening regional and local trade can increase market opportunities and access to more healthy and nutritious foods, provided regulations and incentives exist to mitigate increased access to unhealthy foods. Africa lags behind other regions in intraregional trade; regional issues of productive capacity, trade-related infrastructure and services, private sector engagement, and diversification of traded products must be addressed to increase trade both regionally and more broadly. Facilitating local trade to improve nutrition and livelihoods while reducing food loss is likewise important. Improvements in urban-rural linkages through strengthened value chains, better coordination, and in-

vestments in rural infrastructure and intermediate towns will be essential for reaping the benefits of regional and local trade.

### **SUPPORT RURAL DEVELOPMENT TO ADDRESS CONFLICTS AND FORCED MIGRATION**

Investing in agriculture and rural development can help to slow or even halt the vicious cycle of conflict, food insecurity, and forced migration. Early warning systems and social protection programs must be strengthened to help policy makers and populations respond to and mitigate the impact of shocks, including rising food prices, loss of agricultural livelihoods, and negative weather events such as drought. Local agriculture must be supported through measures such as diversification, training, extension, and investments in postharvest infrastructure to increase resilience and help rural populations prevent and recover from conflict. Ensuring that marginalized populations—including women, smallholder farmers, and minority groups—are equitably included in such investments, as well as in access to natural resources, can reduce the tensions that often lead to conflict and forced migration.

Investments are also needed in strengthening livelihoods and food security in countries hosting refugees. Such support tends to be a cost-effective means for refugees to improve their integration in the labor market and society at large and helps them restore their livelihoods. Integration can generate social benefits in the long run for recipient countries, and potentially for countries of origin if migrants return when the conflict ends. Fostering economic opportunities and providing access to jobs for migrants will help to relieve fiscal pressure



and other burdens on host countries. Moreover, these actions can stimulate the local economy which, especially in cases of protracted displacement, can contribute to social inclusion and cohesion and help integrate migrants into the economy.

## »Avenues for cooperation among stakeholders and across sectors and sub-national jurisdictions must be reinforced.«

### **INVEST MORE IN RESEARCH AND INNOVATION**

Research and innovation are essential to promote an agrifood system that is nutritious and healthy, environmentally restorative, climate smart, and lucrative – particularly for smallholders, women, and youth. Expanding investments in agricultural R&D will yield high returns in terms of reductions in poverty and regional inequality as well as improved rural incomes. It is encouraging that developing countries are increasing investments in agricultural R&D—for example, China tripled its investment between 2000 and 2013—but de-

veloped countries should not lag in these investments.

Frontiers for sustainable intensification and nutrition-driven technologies must be advanced. For example, breeding high-yielding, climate-ready, high-nutrition crop varieties through biofortification has shown promise. Increasing the yield potential of the vast diversity of currently underutilized species also has potential to improve food availability and nutrition, as do low-cost technological and financial innovations geared to smallholders. Policy innovations have immense potential to improve nutrition, health, and sustainability. For example, behavior change communication can help stimulate nutrition knowledge and steer consumer demand toward healthier and more sustainable foods. Innovations in carbon tax policies addressing unsustainable food production have the potential to reduce greenhouse gas emissions and improve human health. Institutional innovations, such as public-private partnerships for sustainability and nutrition, should be explored.

Further investigation to assess the impact of different investments in nutrition-driven technologies and innovations for hunger and malnutrition reduction are needed to fill a knowledge gap in this area. Promoting the use of evidence-based research to set priorities and fine-tune strategies, as well as investing in data collection systems and capacity building for research, continue to be imperative. Collaborative research efforts such as the EAT-Lancet Commission report (forthcoming) can provide an essential evidence base for establishing universal dietary and health guidelines, within which food systems should operate.

## **BREAK THE SILOS**

Countries' experiences of success—and failure—can help to inform and shorten the learning curve for others. Speeding progress will depend on assembling and sharing the relevant knowledge across sectors and local, national, and international levels. Stakeholders can support mutual learning by providing opportunities for sharing key experiences on what has and has not worked in improving food security and nutrition; promoting technology transfers; building capacity; and improving infrastructure in developing countries. Networks such as the C40 Food Systems Network in partnership with the EAT Foundation provide opportunities for cities in the global North and South to learn from each other. Interdisciplinary collaborations can play an important role in coordinating and synthesizing the evidence on healthy diets from sustainable food systems. Understanding the complexities of and linkages among food system components is key to enabling an integrated food systems approach in policy making.

In addition, in this period of growing anti-globalization sentiment, avenues for cooperation among stakeholders and across sectors and subnational jurisdictions must be reinforced. Investments via channels of South-South cooperation can help accelerate progress toward the end of hunger and malnutrition. Joint ventures, cooperation contracts, and public-private partnerships offer possible means of working together toward this end. Global initiatives will facilitate knowledge exchange and multisectoral cooperation: Compact2025—an initiative of the International Food Policy Research Institute—brings stakeholders together to share knowledge and spur innovation for

accelerating progress to end hunger and undernutrition by 2025. The EAT Foundation facilitates collaboration across sectors—science, business, policy, and civil society—and across the food-health-sustainability nexus to advance healthy diets from sustainable food systems.

## **PROMOTE LEADERSHIP AND COMMITMENT TO THE SDGs**

Strong political will and leadership are key ingredients for accelerating progress toward achieving food security and improved nutrition. To build momentum toward these goals, leaders from all relevant sectors and fields will have to champion the SDGs—the anchor of the global development agenda. At the global level, leaders must follow through on international commitments, including the UN Decade of Action on Nutrition—a unified effort to implement the Second International Conference on Nutrition (ICN2) Framework for Action—and the Paris Agreement on climate change. Global initiatives can help champion food security and nutrition, among other SDGs. In addition, global institutions can serve as coordinators to enhance the effectiveness, efficiency, and productivity across sectors and countries of global efforts on food security and nutrition.

Regional commitments are critical. For example, African countries should continue to monitor progress toward the Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods, while engaging with regional commitments on environmental health. Country-level leadership and champions who work to end hunger and malnutrition are among the most important drivers of change. Some

encouraging campaigns include China's commitment to achieving Healthy China 2030 and Ethiopia's Seqota Declaration on ending undernutrition by 2030.

Local governance will be increasingly important. For instance, cities have a growing role to play as urban populations expand across the world and poverty, food insecurity, and malnutrition become increasingly urban problems. Cities may be better poised to address these challenges nimbly than national governments. Local

## »Food systems must be re-shaped for nutrition, health, inclusion, and environmental sustainability.«

policies must be context specific; for example, in Africa, where many urban poor people get their food from informal food markets, governance for food safety must be improved while institutionalizing regular engagement between local governments and informal workers. Cities can also act as leaders in creating stronger climate policies. For example, 12 cities in the United States that have joined the C40 Cities Network are leading the way on climate action through investment and collaboration.

### FOOD CAN FIX IT

Food can fix many problems, but to do so food systems must be reshaped for nutrition, health, inclusion, and environmental sustainability. Growing antiglobalization pressures create additional challenges for food to help achieve these goals. New opportunities—especially in emerging technologies in and outside of the agriculture sector and new global forums for fostering multisectoral collaboration, sharing knowledge, best practices, and research—must be leveraged through appropriate actions to maximize benefits for all. Indeed, how these actions are implemented will be crucial to ensuring that no one is left behind and to minimize negative trade-offs in achieving economic, social, and environmental goals. Similar to the science-based goals set for climate change, a strong evidence base is needed for healthy and sustainable diets, and would contribute to agreement on targets. Evidence encourages stakeholders to act with confidence and greater speed, and facilitates the assessment of progress. Evidence-based policies will enhance competence, and global cooperation will foster trust; both are key to ensuring that food system changes are broadly accepted and contribute positively to global development in a rapidly changing world.

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## **Is the confidence gap between men and women a myth?**

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# Is the confidence gap between men and women a myth?

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The institution:



ESMT Berlin was founded by 25 leading global companies and institutions. The international business school offers a full-time MBA, an executive MBA, a master's in management, as well as open enrollment and customized executive education programs. ESMT focuses on three main topics: leadership, innovation, analytics. ESMT faculty publishes in top academic journals. Additionally, the business school provides an interdisciplinary platform for discourse between politics, business, and academia.

How working women are kept from positions of influence and power is by now well-documented by scientists and journalists alike. While the research has not been specifically remedy-directed, where gender-based bias has been discovered some have sought to counter it with HR policy changes, training, awareness campaigns, equal opportunity legislation, and more.

No small part of these countermeasures have been directed at women themselves. One especially pernicious message has been unchallenged for years: that female workers lack the self-confidence of their male peers and this hurts their chances at success. If they were less hesitant and sold themselves better, this logic goes, success would be theirs. Popular business writers thus advise women to “visualize success,” “take the stage,” “rewrite the rules,” and “think differently.” Famously, in 2013, Sheryl Sandberg, the chief operating officer of Facebook and a billionaire, published a book in which her advice for working women was to tell them to “lean in.” The following year, in *The Confidence Code: The Science and Art of Self-Assurance – What Women Should Know*, authors Katty Kay and Claire Shipman write, “Underqualified and underprepared men don’t think

twice about leaning in. Overqualified and overprepared, too many women still hold back. And the confidence gap is an additional lens through which to consider why it is women don't lean in."

Underlying all these messages is the belief that although the deck may be stacked against women as a group, individual women can break through the glass ceiling if they make certain choices: forego the trappings of femininity, learn the rules of the male-dominated working world, and assert themselves accordingly. In this framing, the aforementioned structural barriers are hurdles to be leaped over with proper mental training.

Yet, perhaps challenging common wisdom, recent research shows no evidence of a female modesty effect. In achievement-oriented domains, women rate themselves no lower than their male counterparts in leadership-related dimensions. Moreover, studies are finding no consistent gender differences in self-reported self-confidence. That is, women in today's organizations seem to see themselves as capable as men of succeeding in their professional roles.

In research with Margarita Mayo of IE Business School and Natalia Karelaia of INSEAD, I took a different angle on the confidence factor and its relationship to organizational influence. Regardless of how confident a woman feels, we focused on what we termed self-confidence appearance — that is, the extent to which others perceive a woman as self-confident. Using multisource, time-lag data from a male-dominated technology company employing more than 4,000 people worldwide, we sought to determine how much the appearance of self-confidence increased the

extent to which an employee gained influence within the company.

We found that even among similarly high-performing workers, appearing self-confident did not translate into influence equally for men and women. For women, but not for men, influence was closely tied to perceptions of warmth — how caring and prosocial they seemed. Moreover, women's self-reported confidence did not correlate with how confident these women appeared to others.

**»While self-confidence is gender-neutral, the consequences of appearing self-confident are not.«**

While self-confidence is gender-neutral, the consequences of appearing self-confident are not. The "performance plus confidence equals power and influence" formula is gendered. Successful women cannot "lean in" on a structure that cannot support their weight without their opportunities (and the myth) collapsing around them.

Popular messaging about how women must change to appear more self-confident as a key to their success isn't just false. It also reflects how the burden of managing a gender-diverse workplace is placed on

the female employees themselves. Where their male colleagues are allowed to focus on their own objectives, women who are expected to care for others are shouldering an unfair load. This prosocial (double) standard does not appear in any job description but it is, indeed, the key performance indicator against which access, power, and influence will be granted to successful women. Men are held to a lower standard.

## »Companies can ensure that all employees are being evaluated according to the same criteria.«

The takeaway is not, then, that women should forego developing the skills that build their confidence and bolster their performance. Instead, it is that organizational systems and practices should change so that women are rewarded equally. Companies can adopt processes, rules, and safety checks that ensure that all employees are being evaluated according to the same criteria. There are several actions that organizations can take for this purpose:

- Make job requirements for success explicit. In particular, the HR department could systematically document the broad portfolio of skills (beyond technical expertise) required for success and disseminate such a list among all employees. If em-

ployee warmth is desired — as might be healthy for a collaborative organizational culture — it should be made an explicit benchmark in employee development, hiring, and evaluation for men as well as women. Moreover, in sectors where women are deeply underrepresented, the explicit expectation of prosocial skills can be helpful in both attracting female candidates and signaling their priority to existing personnel.

- Monitor promotions and career advancement. The fallacy of meritocracy in male-dominated organizations is well-documented. Paying attention to implicit gender biases in promotion decisions is an important first step for organizations to develop more inclusive cultures. For example, often without making it explicit, performance appraisals contain nearly twice the amount of language about being nice and warm for women than for men. Our results imply that while self-confident men might pass the bar more easily, self-confident women will not unless they show a higher level of warmth. HR can monitor promotion decisions accordingly to avoid that talented women who do not conform to gender role prescriptions end up being penalized.

- Highlight a wider array of role models. The stereotype of employees in male-dominated professions, such as computer science and engineering, is very narrow and relies on a common assumption: successful employees in these fields have poor interpersonal skills but that this is perfectly fine because only their technical ability matters for being successful. Successful high-tech celebrities are therefore perhaps not surprisingly often portrayed in the popular press as male, bright, dedicated, and often with a lack of interpersonal skills.



Organizations can try to combat this by elevating other role models, with a more varied range of skills and talents that can inspire a more diverse workforce.

Although no single study can provide a definitive understanding of gender biases at work, our results highlight the importance for organizations to monitor how high performing men and women are perceived — by their peers and especially by their supervisors — and how they progress in their careers. Only when organizations make active efforts to uncover gender biases and the processes that perpetuate them will they be able to become closer to the kinds of workplaces we believe in — where our talents and skills are rewarded fairly, regardless of gender.

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# Empowering women in the digital age

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The Kiel Institute for the World Economy is an international center for research in global economic affairs, economic policy consulting, and economic education. On basis of its research, the Institute advises decisiontakers in policy, business, and society and informs the broader public about important developments in international economic policy.

Digitalization offers a variety of opportunities for female empowerment and for a more equal female participation in labor markets, financial markets, and entrepreneurship. Currently, digitalization seems to favor the female labor force, which faces a lower risk of being replaced by machines as compared to the male labor force. Women's often superior social skills represent a comparative advantage in the digital age, and this is particularly so when social skills are complemented with higher education and advanced digital literacy. However, the same barriers and deficits that obstruct women's current advancement in many G20 countries may deprive them from many beneficial opportunities in the digital age. Major efforts by G20 governments are required to invalidate these barriers. Rendering women better access to the new digital technologies seems a promising starting point for such efforts, and for thereby achieving the goal of gender equality.

## CHALLENGE

The digital revolution opens new windows of opportunity for the G20 to spur their goal of gender equality. The digital revolution, characterized by artificial intelligence, big data, cloud computing and mobile robotics could improve female participation in economic life and enhance the

economic and social autonomy of women in (at least) three ways. First, mobile and digital technologies offer women the potential to bypass some of the traditional cultural and mobility barriers, particularly in emerging and developing countries. Digital technologies could help women access new markets, work flexibly and distantly, acquire and interact with customers, receive training and provide mentoring, improve financial autonomy and access finance for their ventures. Second,

## »The digital revolution opens new windows of opportunity for the G20 to spur gender equality.«

women quite often possess superior social skills, which can expect increasing rewards on labor markets in the digital age. Such social skills are often a feature of women-dominated jobs and they include, for instance, a heightened sense of responsibility towards the wider community, greater empathy, more effective communication and a greater willingness to adapt to changing circumstances. They should help women avoid the enormous employment losses from automatization, which, in developed countries, are predicted to

account for up to 60 percent of all jobs over the next two decades. It is worth noting that little is known about effects of digitalization on labor markets in emerging and developing countries. Third, the female social skills advantage could be developed even further if complemented by competencies in abstract (or cognitive) skills and advanced digital literacy, which becomes a core requirement in the digital age. Such skills complementarities are expected to increase and they could open the way for women into better-paying management and leadership types of jobs.

Current gender inequalities may prevent women from fully benefiting from opportunities offered by digitalization. Women often find themselves trapped in a vicious circle, where current gender gaps hinder the chances for future improvements. Thus, prevailing legal and cultural restrictions towards female autonomy in many emerging and developing economies tend to prevent women from accessing digital devices that could help overcome some of these restrictions. And even in the most developed G20 countries, lower female enrolment rates in higher education, especially in STEM fields (Science, Technology, Engineering, Mathematics), deters women from fully realizing the chances offered by digitalization. Accordingly, women are at risk of missing out on the most promising jobs of the digital age.

Digitalization is likely to create a vast variety of new opportunities for entrepreneurship, too. Current gender imbalances like gaps in entrepreneurial skills, a lack of developed social networks for female business founders, an insufficient number of female role models of entrepreneurship, and the prevalence of financial constraints

may keep women from recognizing and pursuing those entrepreneurial opportunities. If women are to realize their full potential in the digital age, the G20 governments need to target these current gender gaps. Many of these gender imbalances can effectively be addressed by means of deploying new digital technologies.

## PROPOSAL

Policy is thus required to pave the way for a successful adoption of the new digital age opportunities by women. Given the potential for gender gap persistence to undermine any future gains to women from digitalization, the G20 leaders need to take action. And G20 leaders seem resolved to do this: Since the watershed 2012 Los Cabos summit, they have repeatedly committed themselves to overcoming the barriers preventing the full economic and social participation of women. Several earlier studies analyzing the challenge of digitalization for gender equality have already come up with recommendations for remedial policy action. These policies include providing universal, affordable, secure and open broadband internet access; fostering female digital literacy; encouraging more women to enter tertiary education and STEM occupations; facilitating web-based female entrepreneurship; and empowering women financially through innovative digital finance tools and e-government. Many governments have already taken measures to achieve these goals. Still, progress is slow. The recent study by Sorgner et al. (2017), while also corroborating the recommendations of the earlier studies, suggests that the G20 should additionally take action in the five following areas:

**1. Establish an early warning system for potential adverse effects of digitalization on gender equality.** The G20 should continuously monitor changes in female employment prospects that accompany digitalization developments. Such a cross-country initiative should help to spark an early warning system, which in turn can trigger timely policy responses. But the G20 should not confine its focus to digitalization impacts for the female workforce in developed countries only. Rather the G20 should also consider initiating high-profile research for emerging and developing countries since they may be particularly vulnerable to digitalization.

»Current gender gaps in higher education and digital literacy may deprive women of opportunities.«

Female employment is currently expected to be less vulnerable to digitalization than male employment, and this particularly applies to low-skilled jobs. This is because low-skilled males are more likely to work in routine jobs, e.g. in manufacturing, where the rise of industrial robotics has been replacing such jobs already for some time. In turn, low-skilled females are more like-

ly to work in jobs that rely on non-routine manual tasks that are rather difficult to digitalize, for instance, in health care. However, the most recent advancements in artificial intelligence have demonstrated that future technological progress may succeed in extending digitalization into fields regarded unattainable for computers. Accordingly, many jobs that were, up to now, considered safe from automatization, may similarly become obsolescent in the future. Female employment may, therefore, be disproportionately affected during the next wave of digitalization. The early warning system should help the G20 to recognize emerging threats to female employment and facilitate timely reaction for meeting these threats. Additionally, more research is urgently required on the vulnerability of female employment in emerging and developing countries, which often rely on low-skilled labor.

**2. Redesign existing government programs to foster women's economic and digital inclusion.** The G20 should launch an initiative to use existing government programs, especially in developing and emerging economies, for further female empowerment.

Existing government programs, such as social welfare programs, can be redesigned to address women's economic and digital inclusion in addition to accomplishing the primary objectives of these programs. These programs may enhance women's economic inclusion by targeting women as beneficiaries of financial transfers to their families or communities. As a result, these modifications will not only enhance women's economic inclusion but even improve program effectiveness by actively

leveraging the women's strengths regarding their social and family responsibilities to the advantage of the program's primary objectives. The programs may both enhance the digital inclusion of women as well as reduce the cost of program delivery by using digital technologies more extensively for payment, management or monitoring. Conditional cash transfer (CCT) programs like Mexico's "Prospera" or Brazil's "Bolsa Familia" programs provide good examples for the complementarities between female economic inclusion and program effectiveness. Some of these programs, including Colombia's "Más Familias en Acción", do already use mobile money technologies for money transfer. There is still scope for leveraging such benefits to CTT programs in other countries where they are conducted and for redesigning similar programs to exploit the same type of complementarity between program effectiveness and female economic and digital inclusion.

**3. Help women complement their social skills with higher education and advanced digital skills in all G20 countries.** The G20 should more actively foster female participation in higher education and research as well as the acquisition of advanced digital skills by women.

Digitalization is likely to promote jobs that will strongly rely on complementarities between social and emotional intelligence and abstract (or cognitive) skills that can be acquired through higher education, such as creativity and critical thinking. In addition, high proficiency in digital skills will become a core requirement in the digital age. Since many women possess stronger social skills than their male peers they could benefit from exploiting these

complementarities. However, the current gender gaps in higher education and digital literacy that are particularly strong in emerging economies may deprive women of these opportunities, and they may hinder them to occupy those high-profile jobs in management, STEM occupations or entrepreneurship that are expected to flourish best in the digital age.

## »The G20 should promote innovative web-based instruments for women-led businesses to raise financial capital.«

Many of the G20 countries have introduced various initiatives to promote advanced digital literacy and to increase interest towards STEM fields among girls and young women, for instance, in form of hackathons, coding workshops or mentoring programs. Such programs are a key step towards achieving the goal of gender equality, and the G20 need to support more of such initiatives to help women be best prepared for new requirements on labor markets of the digital age.

### **4. Support high-quality online platforms to foster women's entrepreneurial skills.**

The G20 should support high-quality online platforms that provide training to novice female entrepreneurs and facilitate knowledge exchanges with experienced female entrepreneurs.

Digitalization is likely to create new opportunities for entrepreneurship. Women often lack sufficient entrepreneurial skills and role models, which hinders them (compared to their male peers) from recognizing and pursuing more promising entrepreneurial opportunities in the digital age. Entrepreneurship-relevant human capital can be acquired by means of higher education and work experience, particularly in STEM fields, as well as through frequent interactions with entrepreneurial peers. This avenue remains closed to many women who are currently excluded from labor markets. Internet platforms represent a promising new tool for disseminating entrepreneurial skills among women and providing them an interface to mentors and role models. High-quality online training and mentoring platforms for female entrepreneurs should prove particularly beneficial for women in regions with few entrepreneurial role models or who face restrictions in access to these role models.

### **5. Popularize innovative web-based instruments that improve female entrepreneurs' access to financial capital.**

The G20 should promote innovative web-based instruments for women-led businesses to raise financial capital for their ventures. It should popularize high-quality digital platforms for angel investors, venture capital investors or equity crowdfunding that bring together female entrepreneurs and female

investors. It should also promote innovative ways of risk assessment that rely more on transaction histories and other Big Data rather than relying on traditional forms of securities.

Female entrepreneurs face difficulties in accessing the necessary financial capital to set up and grow their businesses. One reason for these difficulties is that many women lack the necessary collateral required by traditional financial institutions. Another reason is that angel and venture capital networks, which are still male-dominated, often prefer funding male-led businesses. More web-based platforms like the Next Wave Ventures program in the United States are needed that provide training programs and mentoring for novice female investors by their more experienced peers. Innovative risk assessment methods like those used by the Goldman Sachs' internet-based 10,000 Women program help to overcome the lack of collateral available to lenders from women by using the online transaction and behavior histories to make inferences about the client's creditworthiness.

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# **Cooperation with Africa**



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# **Contributing to development in North Africa and steering migration**

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# Contributing to development in North Africa and steering migration

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Bruegel is a European think tank with the mission to improve the quality of economic policy.

For North Africa to achieve lasting and significantly higher growth, both public and private investment is needed. Public investment can build infrastructure and provide education and health services. However, public resources cannot be the main driver of a modern, competitive economy. The main issue in the region is not so much the quantity of capital but the quality of the environment in which capital is deployed. Algeria and Libya have large resource endowments that, rationally exploited, can enable high savings. And the region's low dependency ratio (a very large working age population compared to the number of old people and children) allows or should allow for an adequate savings rate and the ability to self-fund significant investments. The critical question is then how to improve conditions for private investment. These conditions depend on the willingness of the NACs to reform, not on the EU. However, the EU can help provide some anchors to reform, even though it cannot replicate the strategy employed towards Central and Eastern Europe, where institutional reform was linked to eventual EU membership<sup>1</sup>.

We see five framework conditions that are of particular importance

**1. Political stability and greater security are critical factors.** This falls largely outside the remit of finance ministers and economists, but political stability in the region is a prerequisite for achieving development and managing migration. Without greater political and security stability, for example in Libya, it will be difficult to tackle migration pressures. The EU should put in place a comprehensive policy that combines foreign policy tools with development policies, granting of market access and financial initiatives.

»The main issue in the region is the quality of the environment in which capital is deployed.«

**2. Improving access to markets.** Trade is important for boosting productivity, raising living standards and boosting long-term growth. Open trade in itself, however, is not enough. Strengthening the business environment and improving skills – discussed below – are preconditions for deriving the full benefits from trade. However, much more needs to be done to facilitate the

region's trade intra-regionally and with the EU. Services sectors remain protected, and even as tariffs have come down, many non-tariff barriers to trade exist. In agriculture, trade is still impeded by tariff and non-tariff barriers, including by the use of various kinds of quotas. While effectively applied tariff rates have fallen overall, they remain comparatively high in some sectors. Foreign direct investment and access to land is impeded in numerous ways. The EU has started negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA) with Tunisia and Morocco (negotiations with Morocco have been suspended since 2013). The DCFTA is intended to go further than traditional free trade agreements by establishing a framework for economic development that opens markets and also achieves extensive harmonisation of laws, norms and regulations, aligning key sectors to EU standards. The DCFTA is also intended to provide for freedom of establishment in services and non-services sectors on condition that the EU *acquis* is implemented. While laudable, it is unclear whether the DCFTA initiative as currently structured can provide the impetus to reform that is needed in the NACs. Recognising that EU accession is not envisaged, consideration should be given to DCFTAs that demand more of the NACs on the reform front but also offer more in the form of market access and development funds. A platform for dialogue between the private and public sectors could help establish a way forward.

**3. Promoting good governance and strengthening the institutions that underpin private entrepreneurship.** The NACs generally rank low in terms of ease of doing business, good governance, competition

and rule of law. Improvements in all these areas are essential for economic growth<sup>2</sup>. The EU can deploy official development aid and lending programmes to support these reform efforts. Recent initiatives include, for example, increased support from the European Investment Bank to provide funding at preferential rates<sup>3</sup>. Project-based funding from the EIB, EBRD and the World Bank contributes financial resources and, more importantly, technical expertise and encouragement of reforms that have been shown to work elsewhere<sup>4</sup>. Official Development Assistance net loans and grants to the five NACs range from 0.1 percent of GDP in Algeria to 1.8 percent in Tunisia<sup>5</sup>. Before expanding such programmes, a rigorous evaluation of the most effective approaches should be undertaken, focusing especially on the catalysing effects of such interventions. International Monetary Fund programmes in Egypt, Morocco and Tunisia, and the ongoing surveillance and technical assistance programmes throughout the region, also play significant roles in promoting growth and stability-friendly reforms.

**4. Reforming education and containing youth unemployment.** Youth unemployment has been an important drag on these countries' performances, a source of dissatisfaction and unrest, and an important factor behind decisions to emigrate. The difficulty young people face to enter the NAC labour markets has detrimental effects on their future employability because of the depreciation of skills and their lifetime income. This affects labour markets and hinders inclusive growth and leads to the loss of entire generations. With the exception of Morocco, all other countries in the sample have about double the level of

youth unemployment than observed in the EU28. The level of youth unemployment is particularly high for women, in some cases twice as high as that for men, and has typically deteriorated since 2010 for both genders. Importantly, the highly educated are more likely to be unemployed – a factor that points to a grave misallocation of resources (Dine, 2012). Demographics is one of the factors driving youth unemployment. Whether growth is driven by capital inten-

»A credible strategy to tackle youth unemployment must focus on reducing the gap between the formal and the informal sectors.«

sive sectors also matters for employment, as does the tax system and labour market institutions. Also, poor education and inadequate skills reduce the employability of the young. Lastly, the MENA economies are characterised by high informality and their relatively small formal labour markets favour incumbents to the detriment of new

entrants, mostly the young. A credible strategy to tackle youth unemployment must therefore go beyond the general reform agenda (improving the business environment, the rule of law and market access) and focus on reducing the gap between the formal and the informal sectors. Containing the reservation wage<sup>6</sup> by moderating wage increases in the public sector, in particular in rentier economies, is also important. These are necessary conditions that need to be complemented by targeted programmes to correct the pronounced skill mismatch between graduates and what employers demand (McKinsey 2011). Programmes that provide on-the-job training are equally important.

#### **5. Step-up collaboration on containing migration pressures from sub-Saharan Africa.**

As sub-Saharan Africa develops and the size of its young population increases, emigration pressures are likely to mount in the next 20 years. The destination of emigrants will be determined by numerous factors, including the opportunities in Europe, in North Africa and the Middle East. North African countries themselves will increasingly become a destination for migrants. There is no alternative to encouraging the integration of markets within Africa and improving the conditions for investment in sub-Saharan Africa as the long-term solution to Africa's problems, and also to create potentially vast new markets for both the EU and the NACs. Research shows that one of the most effective ways to deploy public resources is to enhance the education of girls, which tends to accelerate the demographic transition, sharply reducing the fertility rate, and contributes to improved health and education outcomes among children.

Development policies need to be combined with a strategy on migration. The EU and its members have an active development policy in sub-Saharan Africa, and the G20 initiative tries to further leverage private investment. However, more attention should be paid to migration policies<sup>7</sup> and how they can be made to work better for the countries of origin, for Europe and to enhance the welfare and safety of the migrants themselves. The EU should ex-

»Development policies need to be combined with a strategy on migration.«

plore partnership frameworks on migration with the countries of North Africa. Promoting development, granting greater access to EU markets, including for services workers, enhancing collaboration related to university education and providing temporary work opportunities for highly skilled workers could all be elements of a 'compact' on migration. Programmes that strengthen the economic links between the North African countries and their emigrants based in Europe (diasporas) can also facilitate trade, investment and the return of migrants. Readmission agreements could be established. Moreover, the EU could establish admission centres in the region that would grant a certain number of legal immigration permits to sub-Saharan

African nationals wishing to migrate to the EU<sup>8</sup>. Such a policy could also help disrupt the business model behind illegal human trafficking.

Overall, the EU should strengthen its partnership with North Africa and offer increasing links in trade, investment and cross-border service provisioning. The aim of that policy compact would be to establish stability, foster growth and build a prosperous neighbourhood, within which collaboration on migration is recognised as an important aspect.

*This article is an excerpt from "Europe's role in North Africa: development, investment and migration", published in the Policy Contribution Issue no. 10, 2017 by Bruegel.*

<sup>1</sup>Sapir and Zachmann (2011) discuss lessons for the Southern Mediterranean that could be taken from the EU's experience in eastern Europe

Bouis et al (2016), for example, document that product market reforms, such as opening up regulated sectors such as telecoms to competition, can yield substantial benefits in GDP.

<sup>2</sup>Annual EIB lending in the framework of the economic resilience initiative is around €1.6 billion annually.

<sup>3</sup>De Lima et al (2016). See Table A2 for an overview.

<sup>4</sup>See Figure A1 for a description of ODA to North Africa by donor.

<sup>5</sup>See, for example Boot et al (2016).

<sup>6</sup>The lowest wage rate at which a worker would be willing to accept a particular type of job.

<sup>7</sup>Belloc (2015) argues that development policies often neglect their impact on migration.

<sup>8</sup>There is considerable academic debate about how to allocate immigration visas. Possible solutions range from approaches based on humanitarian needs, qualifications and chances of labour-market integration in the destination countries, to random allocation or even auctioning of visas.

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# SDGs and early childhood in Argentina

## Gaps and priority actions to leave no one behind

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CIPPEC (Center for the Implementation of Public Policies for Equity and Growth) is an organization that strives to create an efficient, democratic, and just state to improve the quality of life for all Argentine citizens. It focuses its efforts on analyzing and promoting public policies that encourage equity and growth in Argentina.

Argentina has made progress in terms of regulations and social policies that prioritize early childhood. In 2016, the National Government highlighted the need to design policies that focus on families with young children and it developed a National Plan for Early Childhood. However, significant challenges persist. It is imperative to reduce inequities so that children can exercise their rights regardless of the socioeconomic status of the family and the place where they live.

One of the main obstacles in this process is the lack of follow-up, monitoring and evaluation in policy implementation. Against this backdrop, the 2030 Agenda and the SDGs offer a unique opportunity for advancement.

This article evaluates the degree of achievement of the SDGs related to early childhood. The aim is to describe Argentina's situation, existing regulations and policies implemented, and to provide recommendations for the attainment of the SDGs.

### **THE IMPORTANCE OF EARLY CHILDHOOD**

Early childhood is a crucial stage for physical, cognitive and emotional development. All children have the right to achieve the

full development of their capabilities; yet in Argentina, they exhibit the highest levels of poverty. Prioritizing early childhood allows to achieve equity and efficiency simultaneously, for it has a positive impact on the future of children and on society as a whole.

First, as stated in the UN Declaration of the Rights of the Child (1959) and the UN Convention (1989), all children have the right to achieve the full development of their potentialities. Adults must ensure children's access to their rights and the states must be the ultimate guarantors of their fulfilment.

Second, neuroscience highlights the importance of the first years of life and the prenatal phase in brain development: during this period, 40% of an adult's mental capabilities are attained (Araujo y López-Boo, 2010). Children need a stimulating and stress-free environment, which implies quality care, nutrition and motivation.

Third, early childhood issues are connected with the gender agenda, for children are in great need of care and this is mostly performed by women.

Moreover, investments in early childhood can be highly cost efficient: US\$1 invested has a return of up to US\$17 (UNICEF, 2010), while lack of adequate investment could entail a global cost of \$1 trillion annually (Barnett, 2009).

Lastly, investing in early childhood is relevant from a demographic point of view, as Argentina is in the midst of the window of demographic opportunity, characterised by a low dependency ratio, and this will last for only 30 more years (Filgueira and Aulicino, 2015). Once this period is over, elderly people will represent a bigger share of the population and this will have significant economic and fiscal implications.

## EARLY CHILDHOOD AND SELECTED SDGS

For the term 2015-2019, the government has established ending poverty as one of its key priorities and, in this vein, Argentina has subscribed to a voluntary review of the 2030 Agenda in 2017. This article analyses Argentina's performance on SDGs 1, 2, 3 and 5 for early childhood and whether the level of compliance of these goals is in line with the existence of social protection floors.

**»It is imperative to reduce inequities so that children can exercise their rights.«**

This task introduces a big challenge, since the credibility and legitimacy of the Argentine statistics have been severely compromised during the previous government (IMF, 2013) and this hinders the strengthening of a long-term evaluation policy (Aquilino, 2015).

The voluntary review of the 2030 Agenda can be a key opportunity for the country to develop an effective information system and promote monitoring and evaluation practices. A multidimensional and coordinated approach in setting criteria and the design of data collection would be essential to monitor progress on the SDGs.

### **End poverty in all its forms everywhere**

Since 2003, Argentina has experienced a significant reduction in poverty levels, yet this declining trend has been reversed in the last years and regional disparities persist.

The “infantilisation” of poverty is disturbing: while moderate and extreme poverty affected 27.7% and 6.1% of the total population in 2017, rates for children aged 0-4 were much higher – 39.4% and 11.9%, respectively.

During this period of declining poverty, there were significant changes in social policy. Previously restricted to workers in the formal economy, since the 2000s social protection schemes have been expanded to other sectors of the population. In 2016, 69.3% of children and teenagers had some kind of social protection (Presidencia de la Nación, 2017). However, in 2011 above 12% of the total population under 18 years of age was eligible but did not receive any transfer (ENAPROSS I).

A key instrument has been the Universal Child and Pregnancy Allowance, conditional cash transfers (CCT) created in 2009 to address poverty and its inter-generational transmission based on equal rights of children. Yet while more than 3.9 million children received the transfer in August 2017, around 1 million remain unreached.

Thus, in spite of the progress, gaps prevail: a significant share of the population lives in poverty and this proportion is higher for families with children. In addition, while social protection coverage has expanded, it is not yet universal.

The cash transfer regime is prone to two major weaknesses. On the one hand, it is fragmented, as transfers depend on

the labour condition of adults instead of on the rights of children. On the other hand, it is inequitable, as the amounts can be regressive and the criteria to grant them is heterogeneous.

It is vital to reach all households with children that meet CCTs’ eligibility criteria and ensure progressive grant amounts. Also, it is necessary to rethink the different co-responsibilities required for the grant of contributory and non-contributory transfers, as they negatively affect the equity of the transfer regime.

**»Prioritizing early childhood allows to achieve equity and efficiency at the same time.«**

### **End hunger, achieve food security and improved nutrition and promote sustainable agriculture**

Inadequate nutrition is the result of different factors and it can have a long-lasting impact on people’s health and development.

In 2005, 1.3% of children of 6-60 months old suffered from wasting, with a higher prevalence among children in extreme poverty. Regarding overweight, 10.4% of children under 5 years of age suffered from obesity and this was more prevalent among the non-poor.

The impact of malnutrition can be especially significant in early childhood. Strategies must promote healthy food choices and physical education from an early age. Moreover, industry regulations and incentives should foster the production and availability of healthy food products. Additionally, the importance of exclusive breastfeeding for babies up to 6 months old should also be underscored, together with complementary breastfeeding for children up to 2 years of age.

### **Ensure healthy lives and promote well-being for all ages**

Substantial progress has been made in increasing life expectancy, preventing avoidable deaths and diseases and improving well-being for all. Yet children and pregnant women's situation reveals challenges ahead.

Argentina failed to comply with only MDG number 5, which called for a 75% reduction in the maternal mortality rate. In 2015, 3.9 women died per 10,000 live births. Although the national rate is below the current SDG target for 2030 (7 deaths per 10,000 births), ten provinces were above that level in 2015.

Regarding infant mortality, the ratio registered a remarkable drop between 1990 and 2015, from 25.6 to 9.7 deaths per 1,000 births, showing notable regional differences.

To ensure children and maternal well-being, it is necessary to guarantee universal access to sexual and reproductive health services. While there is widespread use of contraceptive methods among women (in 2013, more than 81% declared to use birth control methods), access to free contraception is limited and there are different degrees of awareness about birth control.

Teenage pregnancy also remains a problem. For the 10-14 year-old group, it has only fallen from 1.8 in 1990 to 1.6 in 2015. In 2015, 15% of live births were from mothers under 20 years of age and the proportion of unintended pregnancies was 68.1%.

Finally, access to health insurance is vital to guarantee well-being. The state provides universal healthcare coverage and a high share of the population resorts to alternative healthcare providers (70% in 2016), yet this proportion drops for early childhood (58%) and there are remarkable discrepancies based on economic status.

A key policy to improve access to universal healthcare coverage is Plan Sumar, which reaches 20% of the population. In 2017, 15% of beneficiaries were children under 5 years of age. This programme is part of the Universal Healthcare Coverage, which aims to reach the whole population by 2030. The Universal Child and Pregnancy Allowances also play a role, as a portion of the transfer is conditional on providing proof of health checks and vaccinations.

To address infant and maternal health, it is necessary to create a national strategy for pregnant women, childbirth and new-borns' care. Plan Sumar has been an important step and expanding Universal Child and Pregnancy Allowances coverage could also improve children well-being.

As for sexual and reproductive health, it is important to raise awareness on the need to prevent unintended teenage pregnancies, by enhancing sexual education and improving access to contraceptive methods and sexual and reproductive healthcare services. In addition, policies need to address sexual violence and abuse and provide effective access to the legal termi-

nation of pregnancy. The National Plan for Unintended Teenage Pregnancy is an essential tool to address these issues.

### **Achieve gender equality and empower all women and girls**

As cultural norms consider children as their mothers' responsibility, progress in gender equality can have significant implications for them, especially during their first years of life.

## **»The infantilisation of poverty highlights the need to put an emphasis on early childhood.«**

Argentina has adhered to the Convention on the Elimination of All Forms of Discrimination against Women and it implements a National Programme for Sexual Health and Responsible Parenthood and Comprehensive Sexual Education. Also, the National Institute for Women was created to promote gender equality.

Households with more children are proportionately more female-headed, partly due to the unequal distribution of care work between genders. This impacts on women's possibilities to access and stay in the labour market, which hinders poverty alleviation.

Official estimates reveal that while 88.9% of women stated they were involved in unpaid work, only 57.9% of men did. Moreover, women spent on average 6.4 hours per day on domestic chores, almost twice as much as their male counterparts (3.4 hours).

Against this backdrop, providing access to quality care services for early childhood can contribute to children's well-being and gender equality, as it favours women's insertion in the labour market and it can impact on poverty and economic growth. In 2016, the National Plan for Early Childhood aimed to expand and improve the offer of caregiving services.

Yet regarding 'time to care', the parental leave regime depicts a gender imbalance and access to a leave period is conditional on the labour situation of parents. A new regime needs to be universal, equitable and co-parental: it is essential to increase the length of the paternity leave and create a parental leave in order to redistribute unpaid work more evenly between men and women, and to extend the benefit to informal workers.

Finally, it is crucial to carry out periodic time use surveys and measure the economic contribution of care work. The visibility of this work turns out paramount for the proper design of public policies and strategies that address the unequal distribution of unpaid work and to improve gender equality.

### **FINAL REMARKS**

In Argentina, rights are still not guaranteed for all. To leave no one behind, it is necessary to foster the universalization and progressivity of social protection. The infantilisation of poverty highlights the need to put an emphasis on early childhood.

Statistical deficits and the lack of policy monitoring and evaluation hinders the fulfilment of children's rights. In this context, Argentina's voluntary review on the 2030 Agenda presents a key opportunity to advance on data production and policy follow-up.

All children need to be guaranteed a universal basic income that allows them to access essential goods and services, regardless of the socio-economic situation of their family. It is critical to improve coordination between government sectors and levels, create partnerships with the private sector and civil society, generate comprehensive information systems and implement progressive and sustainable financing structures. Only with a holistic, multidimensional and coordinated approach will be possible to meet the SDGs and contribute towards building strong, resilient societies.

*This article is an excerpt from "Sustainable development goals and early childhood in Argentina: Gaps and priority actions to leave no one behind", published in July 2017.*

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# Creating common purpose

Change is required to focus economies on their original purpose – to deliver societal progress

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PwC's purpose is to build trust in society and solve important problems. PwC is a network of firms in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, advisory and tax services.

## **REALIGNING BUSINESS, ECONOMIES AND SOCIETY**

Over the past seventy years, three distinct forces – globalisation, 'financialisation' (a focus on financial metrics as the primary measure of success) and technology – have driven enormous progress in the global economy and societies worldwide. Between 1945 and 2008, these forces saw economic growth go hand in hand with social development. But over time, these forces have combined in a new and less beneficial way, resulting in the economy – the engine for matching human needs with opportunities – becoming separated from its core function of delivering progress for society.

## **OUR SYSTEM IS FACING MULTIPLYING STRESSES AND IS NO LONGER FUNCTIONING EFFECTIVELY**

This failure is creating systemic stresses that are growing in intensity, particularly in the West but elsewhere too. Examples include the widening global disparities in wealth and opportunity, and the rise of populist movements around the world. Even where people feel better about their national economies than they did before the 2008 financial crisis, many are not optimistic about their children's futures. And many



are ever more concerned about the implications of technology on everything from employment to privacy to politics.

The outcome is that we're now at a fork in the road, facing a stark binary choice: continue as we are, accepting more of the same, or choose another route by redesigning the system. In our view, staying on our current path is not an option. A fundamental realignment of our societal and economic systems is needed – including changes to the role that business plays in both.

Faced with today's global challenges, it's easy to blame one or other part of the current system for bringing them about. However, most components of the system are interdependent, and the strains on it interconnected. Only by looking beyond the symptoms of stress and addressing their underlying causes, will we be able to re-design our current system so the economy once again delivers for society.

### HOW CAN WE RESPOND?

Our premise is that we must challenge three fundamental assumptions that have underpinned our current system for decades – namely that:

- Economic growth delivers societal progress. This can no longer be assumed. And even when it does deliver progress (in terms of the overall average), too many people are excluded from the benefits, and don't believe 'the system' is acting in their interests.

- Financial returns are an acceptable end in themselves. In fact, they're the means to deliver for society. The purpose of an economy or individual business is not just to deliver financial outcomes. Unless a business delivers financial results in a way that is acceptable to broader stakeholders,

it will endanger its licence to operate. Similarly, an economic system must deliver to the society within which it operates, or risk being rejected by it.

- There is a systemic equilibrium that can be maintained through the status quo. The reality is that the system is non-linear, constantly in flux and will always be dynamic. The 'wiring' of the system – and its institutions – must be redesigned to enable decision-making that's more agile and integrated, recognises interdependencies, and delivers desired societal outcomes on a sustainable basis.

**»A fundamental realignment is needed, including changes to the role of business.«**

We must also re-examine our beliefs and expectations in the context of environmental boundaries that we're continuing to breach to our own detriment and that of future generations. Previous industrial revolutions advanced economic development but have largely come at the expense of the planet. Today, there is a mounting scientific consensus that Earth's systems are under unprecedented pressure – with a number of 'planetary boundaries' already crossed.

Risks will only heighten as population growth is accompanied by increasing demands for food, materials and energy.

None of the issues confronting us today – be they global or inherently local – exist in isolation. Each is intimately connected to the others, and many are actually symptoms of underlying systemic strains that will shape our long-term tomorrow. What's more, the forces driving the strains are accelerating.

## »Previous industrial revolutions advanced economic development but have come at the expense of the planet.«

It follows that we must solve the short term with the long term in mind, by responding to today's challenges in ways that move us towards the future we wish to create.

### WHY A COMMON PURPOSE MATTERS

Challenging these assumptions requires a fundamental re-think of many of the elements of an economic (and therefore business) system which we have taken for granted for many decades. No-one would suggest that market economies have functioned without problems in that period,

but they have been underpinned by these assumptions. Rethinking the assumptions requires these foundations to be re-examined, and this raises some essential, complex and deeply important questions. For example:

- What is the purpose of an economy (if we can no longer assume that delivering only in financial terms is sufficient, sustainable or acceptable)?
- What is the purpose of a business (if financial results are not the only acceptable outcome)?
- How should the purpose of an economy be defined, measured and reported?
- How can this be done, recognising the realities of a globalised, interdependent world, balanced by the interests of local communities and regions?
- How can the implications of extraordinary technology innovations of all kinds be managed in this context?

If we have a sense of what economies should be focused on delivering in broad terms, how do we ensure that the behaviours of individual economic actors are broadly consistent with these objectives? Or put another way, how do we create commonality of purpose between economies at a macro level and individual businesses?

In an economic system in which there is increasing evidence of divergence from what is considered to be acceptable and sustainable in societal terms, this issue of commonality of purpose is perhaps the most significant challenge of all. It points to the scale of the rethinking and redesign of economic and business fundamentals required.

There are some immediate and obvious (albeit complex) steps to focus on. Economies need not only financial but

also societal goals that reflect the needs of local communities, cities, regions and countries; prioritising basic human needs; and looking beyond simplistic indicators of success, such as GDP.

As we consider these steps, the United Nations' Sustainable Development Goals (SDGs) provide a very useful platform to build on. Among the many benefits it brings, the SDG framework offers the potential to move beyond commitments among countries to understand more deeply what people need most urgently within them. At the same time, a nation's progress against the SDGs can help clarify what people within local communities, cities and regions value most highly. Armed with these insights, we can look at their desired outcomes in a global context to ask: 'what is an economy for?' And we can use the answer to help reinstate the economic engine as the mechanism for matching an infinite variety of human needs with diverse opportunities – contributing to societal goals on a sustainable basis.

### **EVERY BUSINESS MUST FOCUS ON PURPOSE ...**

This change in the system must be reflected in business. Each business must define, deliver on and constantly update an explicit purpose that governs all its decisions and informs its corporate culture. This purpose must be clear on the societal need that the organisation fulfils as well as its financial objectives and outcomes. As events over recent times have demonstrated, failing to define such a purpose is increasingly perilous: as soon as a company subjugates its purpose to the purely financial, it risks losing its way. And when defining its purpose, the SDGs can again act

as a useful framework to help a company clarify its contribution to society.

### **... AND NEW METRICS TO NAVIGATE BY**

A common thread of the changes we are describing is that achieving financial goals is not an end in itself. Instead, it's the means to create the wealth to deliver on a societal vision at a nation state level, and on a purpose at a corporate level. It follows that the metrics to assess and monitor performance at both levels must be expanded beyond the purely financial. These metrics must guide reporting to maximise accountability, and to enable leaders to understand both the progress they're making against multiple goals and where course corrections are needed to maintain the balance among them.

### **THE NEED TO 'REWIRE' THE SYSTEM**

The move to this new framework is a huge and complex task, and will require further research, analysis and consideration. At its core is the need to establish the link between macro-level outcomes and micro-level behaviours – the creation of common purpose that will recouple societies and economies. The change also requires us to confront a key question: What needs to change in our current system to enable a transition to a new one?

How should the 'wiring' that guides all activity within today's system – regulation, incentives, investment objectives, reporting etc. – be reconfigured to power the new one? It is hard to overstate the significance of this question, and it goes to the heart of the ability to create commonality of purpose. Our existing system of incentives – regulation, responsibilities, expectations etc. – has built up over decades

with the express objective of requiring and encouraging businesses to focus primarily on financial outcomes. Without a redesign, without a re-think of the elements of this system which foster, necessitate or prioritise these behaviours, we will not change course: we will simply have more of the same, with growing divergence and the frustration which follows.

## QUESTIONS TO GUIDE US

Questions around the rewiring of the economy are complex, and will inevitably lead to others. What are the implications of this transition for leaders across government, business and civil society? And how can they strike a balance between delivering on their commitments within the current system while changing it to be sustainable for the future? Technology raises further questions still. How can technology help us find creative solutions to everyday – existing and emerging – societal problems?

Re-thinking our current system will also require us to reconcile several dualities – delivering local outcomes in a globalised economy, realising societal and financial outcomes, and leveraging technology to fulfil human potential. We'll now look at some principles to guide us in doing this.

## FOUR PRINCIPLES TO HELP FOCUS ON COMMON PURPOSE

### 1. Global connectivity and local initiative must go hand in hand

Global problems must be dealt with at a global level. At the same time, local solutions yield visible progress at pace, and are a powerful complement to national government policy on universal challenges

around economic productivity, liveability, environmental protection and social development. Action at a local level can also generate socio-economic co-benefits where they're most needed.

As we seek to realign the system, we need to continue to reflect on the global realities, but with much greater emphasis on delivering locally. While 'localisation' is often understood to represent a focus on place, it can also be defined by other shared interest: perhaps a manufacturing sector facing disruption, or rural households struggling to access broadband. Localisation in developed economies – and rapid urbanisation in developing ones – are creating the space for cities, regions and places to play a greater role in policy development and problem-solving, especially where local action is aligned with global and national priorities. In fact, it is essential that local action reflects the global context – and vice versa.

A further aspect of localisation is that it is increasingly cities rather than nations that are inspiring and driving change. As devolutionary forces continue to take effect, a new generation of cities are being thoughtfully (re)designed with people at their centre. These reinvigorated modern cities are more connected – both physically and digitally – and increasingly people-centric, matching human needs with opportunities. They also exhibit higher productivity and waste fewer resources than their older counterparts.

Cities and regions also have the tools needed to solve problems, and have proven to be adept at fostering public/private collaboration. And cities can engage more easily on cross-border global issues – such

as climate change – because the stakes are lower than for nations. For example: how mayors and cities worldwide stepped up to support the Paris climate accord after the US announced its withdrawal. Not surprisingly, another unifying theme is technology – which has emerged as a vital enabler of the smart city, facilitating choice, resilience, flexibility, creativity and innovation, and creating a more joined-up living experience.

An increasing and necessary emphasis on addressing issues at a local level in a global context also raises key questions about governance, and the role of the nation state.

## 2. Look beyond financial performance

Financial performance is a necessary but not a sufficient element of success in a market economy. We need to define the societal outcomes an economy – and businesses operating within it – should help deliver, and then measure progress against them in a more holistic and integrated way.

GDP cannot answer the question: is life actually better or worse for most people? So, instead of GDP, we need better, more integrated metrics at a macro level to tell whether the economy is delivering for citizens in line with the priorities they have both for themselves and society. These metrics must capture how life is changing over time, and whether well-being today is being achieved at the cost of depleting resources for tomorrow. The Organisation for Economic Co-operation and Development (OECD) has explored this issue through the 'Better Life Index'<sup>1</sup> and the 'New Approaches to Economic Challenges'<sup>2</sup> initiative.

At a corporate level, the most critical contribution any business makes to society is transforming ideas into products and services that solve problems and meet needs – a process intimately connected to its purpose. This contribution cannot be captured by shareholder value, but only by integrated metrics that reflect broader measures of business success and the multiple ways business maintains its social contract and licence to operate, again within the context of its purpose.

» **Businesses must manage the transition within their organisations in a humane way.** «

However, corporate pioneers are currently swimming against the tide. In PwC's 21st Annual Global CEO Survey<sup>3</sup>, 66% of business leaders said businesses and society are moving towards measuring prosperity through multifaceted metrics, including indices measuring quality of life, but fundamental and widespread changes are required to enable this to happen at a meaningful scale.

## 3. Technology doesn't care, but we must

Automation, machine intelligence, and disruption of communities are just some of the threats technology poses to large parts

of the global population. But emerging technology also promises to help us create new industries and jobs, and find new ways of meeting human needs. So, adjusting our global and local economic systems to foster a beneficial place for technology in our society is critical.

Today, technology has put us in uncharted waters, as its advances intersect, combine and permeate every aspect of human life. There is no historical precedent for the velocity, scope and system-wide impacts of this technological explosion. Its impacts range from massive disruption to most industries – and therefore employment – to concerns over the threat that cyberattacks pose to political systems. And as technology advances, it is changing both our needs as humans and also our ability to meet these needs.

So, how to meet these challenges? Given the difficulty of assessing the future impacts of technologies such as AI, the way forward lies in drawing on a broad range of expertise, and taking a systems-wide approach. At a macro level, the SDGs can help policymakers work out how to apply technology to solve humanity's most pressing challenges. Examples include the potential to use Fourth Industrial Revolution (4IR)<sup>4</sup> technologies to enable a clean energy grid aggregating billions of emerging renewables sources<sup>5</sup>. At a corporate level, a business's purpose will be key in helping it identify how to use technology to greatest effect. In financial services, for example, Fintech is enabling better access to the financial system for the unbanked.

However, creating innovations that add value for society requires a move away from the focus on short-term goals and financial

outcomes, to create space for discussions about not just what technology can do, but what we want it to do at a societal level. For example, we need AI systems to be conscientious, fostering co-evolution of humans and technology in hybrid thinking systems where humans are ultimately in control. More generally, we must continue to consider and research the effects that new technologies will have on individuals and societies.

**»Cooperation across and between governments and businesses will be vital.«**

#### **4. Educate for the future**

Last, but not least, people need the right skills for a successful future. Cooperation between governments and businesses should be scaled up to ensure that our global workforce can thrive in an increasingly technology-enabled environment.

As machines perform more and more predictable, cognitive work, people will need to acquire new skills, adaptability and creativity, and apply these alongside digital and technical competencies. Education and training will need to be rethought, to equip young people with the skills to work in a global, interconnected labour market.

Lifelong learning will become the norm, with the appropriate public and private sector support.

Since these effects will transcend national boundaries, cooperation across and between governments and businesses will be vital. This will also require a new problem-solving mindset – one based on framing explicit target outcomes for all stakeholders, and delivering solutions through an integrated, agile network of participants. While technology is often seen as the ‘bad guy’, the reality is it is indifferent to its impact on people, and is essentially a tool that people apply. So the biggest challenge for organisations is not technology but people, as they strive to transform their workforces while allowing for continuous success in the digital age.

Throughout, we must keep our focus on humanity – and businesses must manage the transition within their organisations in a humane way, continuing to match human needs and opportunities linked to societal outcomes. This brings us back to purpose, and to the key question: what is business there to do?

## CONCLUSION

The scale of the challenges described can feel daunting - but this simply reinforces their importance. It is also possible to see a path forward. Human societies have always evolved and adapted their systems – economic and otherwise – to focus on the

human-centric outcomes they wish to see delivered. We are probably at another great inflection point in this process – reflecting the need for the re-design of our current system, based on putting human-centred needs and opportunities of today’s world at the heart of the process. Creating this commonality of purpose will be the key to progress.

<sup>1</sup><http://www.oecdbetterlifeindex.org/#/11111111111>

<sup>2</sup><http://www.oecd.org/naec/>

<sup>3</sup>Source: <https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2018/gx.html>

<sup>4</sup>Source: <https://www.weforum.org/about/the-fourth-industrial-revolution-by-klaus-schwab>

<sup>5</sup>Source: <https://www.pwc.co.uk/sustainability-climate-change/assets/enabling-a-sustainable-fourth-industrial-revolution.pdf>

**Global Solutions for**

**Trade,  
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Tax Cooperation**



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## **Impact of international remittances on poverty reduction**

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## **America's policy thinking in the age of Trump**

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# Impact of international remittances on poverty reduction<sup>1</sup>

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**ABSTRACT**

International remittances represent the second most important source of external funding for developing countries after foreign direct investment (FDI). This paper examines the impact of international remittances on poverty reduction using the panel data of 10 Asian developing countries. In terms of the dependent variables, this paper sets three poverty indicators: poverty headcount ratio, poverty gap ratio, and poverty severity ratio. Results show that international remittances have a statistically significant impact on the poverty gap ratio and poverty severity ratio under the random effect model of ordinary least squares (OLS) estimates. A 1% increase in international remittances as a percentage of GDP can lead to a 22.6% decline in the poverty gap ratio and a 16.0% decline in the poverty severity ratio in the sample of 10 Asian developing countries from 1981 to 2014. In addition, results show that a per capita GDP increase and trade openness can decrease poverty measures and higher inflation rates may be one of the causes of the poverty.

**1. INTRODUCTION**

International remittance flows into developing countries are attracting much interest

because of their rising volume and impact on origin countries. As for the international remittances to developing countries, they were estimated to have reached up to \$436 billion in 2014 according to the World Bank (2014). Remittances to the East Asia and Pacific (EAP) region<sup>2</sup> and South Asia Region (SAR)<sup>3</sup> account for the first and second largest portions in the world. Although a number of studies have investigated the effect of international remittances on poverty reduction in specific countries or villages, very little attention has been paid to analyzing the impact of international remittances on poverty reduction under the data set of Asian developing countries as a whole and on different indicators of poverty.

The aim of this paper is to investigate whether international remittances contribute to reducing different indicators of poverty in Asian developing countries using more recent data. This data set includes 10 Asian countries: Bangladesh, India, Nepal, Pakistan, and Sri Lanka from the SAR, and the People's Republic of China (PRC), Indonesia, Malaysia, the Philippines, and Thailand from the EAP region. The survey years are from 1981 to 2014. This research will contribute to a deeper understanding of the effects of international remittances on poverty reduction in Asian developing countries, especially migrant-sending countries.

This paper used three definitions of poverty, which are headcount ratio (the poverty incidence), the poverty gap ratio (the depth of poverty), and the squared poverty gap ratio (the severity of poverty), respectively.

First, the poverty headcount ratio is a measure of poverty that refers to the proportion of the population living beneath the poverty line. This paper uses \$1.90 per day in 2011 PPP as the poverty line. The poverty

headcount measure is thought to be the most commonly calculated poverty measure. Poverty headcount ( $P_0$ ) is expressed as  $P_0 = n_p/n_t$ , where  $n_p$  means the number of people who lived under \$1.90 per day in 2011 PPP and  $n_t$  means the total population. Second, the *poverty gap* ratio indicates how far below the poverty line the average poor household's income or expenditures fall. For example, a poverty gap of 10% means that the average poor person's income or expenditures are 90% of the poverty line. This situation can be written as equation (1).

$$y_p = (1 - P_1) \bar{y}_{povertyline} \quad (1)$$

$y_p$  means income of poor person,  $P_1$  is poverty gap, and  $\bar{y}_{povertyline}$  means the poverty line indicated as \$1.90 per day in 2011 PPP. When we rearrange equation (1), it can be written as:

$$P_1 = \frac{\bar{y}_{povertyline} - y_p}{\bar{y}_{povertyline}} \quad (2)$$

The poverty gap measures the extent to which individuals fall below the poverty line as a proportion of the poverty line. The sum of these poverty gaps gives the minimum cost of eliminating poverty, if transfers are perfectly targeted. The measure does not reflect changes in inequality among the poor.

The squared poverty gap index (also known as the poverty severity index)  $P_2$  averages the squares of the poverty gaps relative to the poverty line:

$$P_2 = \left( \frac{\bar{y}_{povertyline} - y_p}{\bar{y}_{povertyline}} \right)^2 \quad (3)$$

## 2. INTERNATIONAL REMITTANCES AND POVERTY REDUCTION IN ASIAN DEVELOPING COUNTRIES

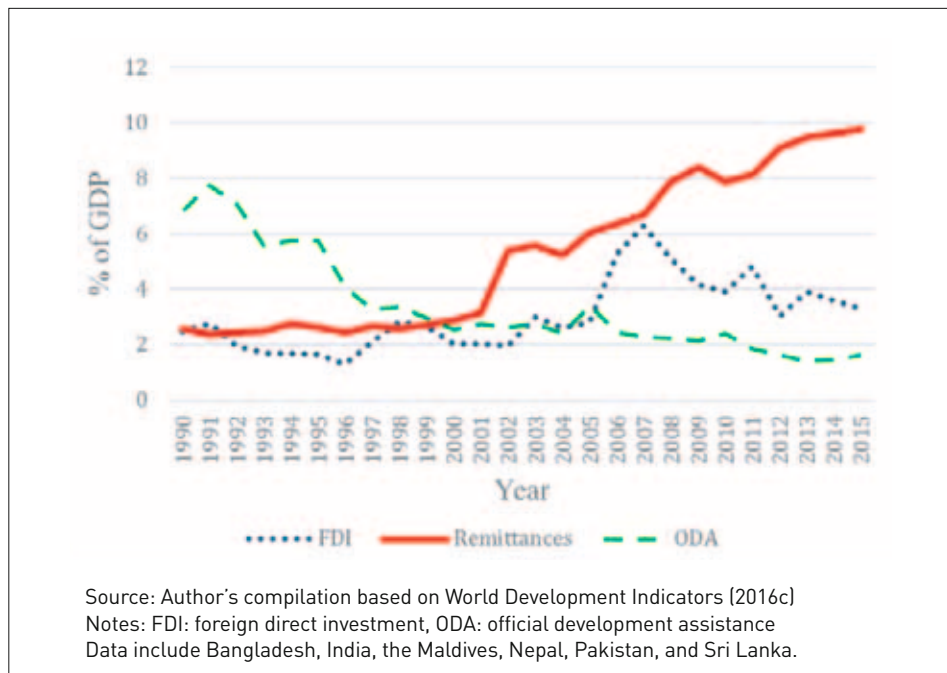
### 2-1. Recent trends in remittances to Asia

In terms of international remittances to developing countries, they were estimated to have reached up to \$436 billion in 2014, according to the World Bank (2014). Remittances to the East Asia and Pacific (EAP) region account for the largest portion in the world, and are estimated to have increased by 9.9% from 2014 to reach \$135 billion in 2015.

The economic effects caused by remittances in the SAR are quite robust. Interna-

tional remittances are the largest source of external resource flows in the SAR and have been stably increasing compared with other factors such as FDI and official development assistance (ODA) (Figure 1). Remittance flows account for a large portion of the external resources in the SAR, especially from the beginning of the 21st century. Looking at the respective data of the SAR, the international remittance flows in Nepal, for example, were equivalent to 25% of GDP and to 98% of international reserves in 2013 (World Bank 2014). As for Pakistan, international remittance flows in 2013 were equivalent to 284% of international reserves (World Bank 2014).

Figure 1: External Resource Flows in SAR (% of GDP)



### 3. EMPIRICAL RESULTS

#### 3-1. Pooled OLS results

Table 1 shows the results of empirical estimations for the paper's theoretical model using ordinary least squares (OLS) of panel data analysis. The international remittance variable has a negative impact on all three of the poverty measures: poverty headcount ratio ( $P_h$ ), poverty gap ratio ( $P_g$ ), and poverty severity ratio ( $P_s$ ). T-statistics of poverty gap and poverty severity are statistically significant. However, t-statistics of poverty headcount ratio are statistically insignificant. The results of the OLS test show that a 1% increase in the international remittance flows as a percentage of GDP can lead to decreasing the poverty gap ratio by 22.6% and to decreasing the poverty severity ratio by 18.3%.

→ Table 1: Empirical Results of the Effects of International Remittances on Poverty Measures in Asia

#### 3-2. Hausman test

Table 2 shows the results of the Hausman test in order to verify whether we should choose a fixed-effect model or a random-effect model. From the Hausman test, this paper will adopt a random-effect model that considers the independence between fixed effects and explanatory variables. The results under the random-effect model are similar to those of the pooled OLS. The international remittance variable has a statistically significant impact on the poverty gap ratio and poverty severity ratio. The results show that a 1% increase in the international remittance flows as a percentage of GDP can lead to decreasing the poverty gap ratio by 22.6% and to decreasing the

poverty severity ratio by 16.0%. However, only t-statistics of international remittances are statistically insignificant for the poverty headcount ratio. This may be because the poverty headcount ratio does not reflect the poverty gap among the poor. There might be people who live on \$1.90 per day, but at the same time, there might be people who live on \$0.50 per day. Although remittances are

»A 1 percent increase in international remittances as a percentage of GDP can lead to a 22.6 percent decline in the poverty gap ratio.«

distributed to people in developing countries, those who receive remittances might be from high-income families, because it costs quite a lot to leave home countries and work abroad. This can lead to expanding the gap among the poor. Compared with the poverty headcount ratio, the poverty gap ratio and poverty severity ratio take into account the average poor household's income or expenditures against the poverty

line. Therefore, these two variables can reflect a substantial reduction in poverty and can get a significant effect from international remittance inflows.

→ Table 2: Hausman Test

#### 4. CONCLUDING REMARKS AND POLICY IMPLICATIONS

This paper examined the impact of international remittances on poverty in Asia using the data set of 10 developing countries in Asia. Some key findings and policy implications emerged. First, international remittances have a significant impact on reducing poverty in Asia, especially on reducing the poverty gap ratio and poverty severity

ratio. A 1% increase in international remittances as a percentage of GDP can lead to a 22.6% decline in the poverty gap ratio, and a 16.0% decline in the poverty severity ratio. Moreover, per capita GDP and trade openness also appear to decrease all poverty measures and the inflation rate can be a factor in fueling the poverty measures.

In the policy implication part as follows, this paper discusses how remittance-sending systems should be organized.

First, remittance-receiving countries in Asia need to reduce the cost of sending remittances for immigrants. Lowering the transaction costs of sending remittances can be a possible way to reduce poverty in

**Table 1: Empirical Results of the Effects of International Remittances on Poverty Measures in Asia**

Variable	Poverty Headcount	Poverty Gap	Poverty Severity
Constant	0.019 [-0.758]	0.016 [0.670]	0.012 [0.540]
Per Capita GDP (constant 2011 US\$)	-0.007 [-0.335]	-0.192* [-8.816]	-0.25* [-13.216]
Inflow of International Remittances (ratio of GDP)	-0.093 [-1.451]	-0.226* [-3.486]	-0.183* [-3.167]
Inflation Rate	1.394 [-14.446]	1.362* [13.918]	1.214* [13.929]
Trade Openness	-0.025* [-3.496]	-0.032* [-4.467]	-0.037* [-5.783]
R-Squared	0.666	0.395	0.397
Adjusted R-Squared	0.651	0.387	0.386
Prob (F-Statistics)	0.00	0.00	0.00
Observations	330	330	330

Notes: Numbers in parenthesis are t-values. \*Significant at the 1% level

developing countries in Asia and can encourage an increasing share of remittances that flow through formal channels, not unofficial ones.

As regards the cost of sending remittance transfers, the cost tends to increase according to the income level of migrant-receiving countries. For example, remittance transfers from the US, Japan, Germany, and the UK, which account for a large part of total GDP in high-income countries as a whole, impose quite a high cost on people. In contrast, remittance transfers from India, Saudi Arabia, and the UAE, whose GDP is usually lower than the countries above, impose a lower cost on people. In addition, as data shows, where

people send less than 300 US\$ to their home countries, it is estimated that about 8 to 10 % of remittance transfers can cost a fee. Fees increase when the amount of remittance decreases. In order to reduce the cost of sending remittances, one possible solution is encouraging a partnership between international banking services and remittance transfer operators. Although there are many channels, including unofficial ones, through which remittances can be made, creating a solid transfer system within the international banking services and encouraging migrants to use the official banking channels can lead to increasing the efficiency and equality for migrants in sending remittances.

**Table 2: Hausman Test**

Variable	Poverty Headcount		Poverty Gap		Poverty Severity	
	Fixed	Random	Fixed	Random	Fixed	Random
Constant	0.013 (-0.758)	0.018 (0.725)	0.013 (0.560)	0.017 (0.729)	0.017 (0.794)	0.015 (0.537)
Per Capita GDP {constant 2011 US\$}	0.044* (2.069)	0.001 (0.072)	-0.140** (-6.429)	-0.192** (-9.580)	-0.228** (-11.493)	-0.243** (-12.795)
Inflow of International Remittances {ratio of GDP}	-0.044 (-0.653)	-0.085 (1.410)	0.149* (13.918)	-0.226** (-3.788)	-0.124* (-1.959)	-0.160** (-2.745)
Inflation Rate	1.143** (11.912)	1.353** (15.002)	1.090** (11.206)	1.362** (15.124)	1.027** (11.484)	1.133** (13.206)
Trade Openness	-0.025* (-2.587)	-0.024** (-3.586)	-0.025** (-3.642)	-0.032** (-4.854)	-0.031** (-4.983)	-0.035** (-5.586)
R-Squared	0.716	0.653	0.502	0.395	0.467	0.362
Adjusted R-Squared	0.704	0.648	0.481	0.387	0.449	0.354
Prob (F-Statistics)	0.00	0.00	0.00	0.00	0.00	0.00
Observations	330	330	330	330	330	330

Notes: Numbers in parenthesis are t-values. \*Significant at the 1% level \*\*Significant at the 5% level

Second, technological improvements are required in the remittance transfer systems through using financial technology. In today's world, where every economic activity is related to technology, it is essential

## »Technological improvements are required in the remittance transfer systems through using financial technology.«

to create a specific infrastructure to transfer remittances using Internet services. By establishing solid banking technologies in the remittance transfer network, it may be possible to expedite check clearance and improve information disclosure. Taking the

two policy implications above into consideration, 1) fostering official banking channels through cooperation between international banking services and remittance transfer operators and 2) creating an Internet-based remittance transfer network are possible ways to reduce the cost of sending remittances and to make good use of remittances in migrant-sending countries. Reducing the costs of sending remittances might increase the disposable income of migrants and their families, which may accelerate the reduction of poverty in migrant-sending countries.

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<sup>1</sup> Complete version of this paper is available as: Yoshino, N., F. Taghizadeh-Hesary, and M. Otsuka. 2017. International Remittances and Poverty Reduction: Evidence from Asian Developing Countries. ADBI Working Paper 759. Tokyo: Asian Development Bank Institute. Available: <https://www.adb.org/publications/international-remittances-and-poverty-reduction>.

<sup>2</sup> The EAP region includes Japan, the People's Republic of China, Cambodia, Indonesia, the Republic of Korea, Lao PDR, Malaysia, Mongolia, Myanmar, the Pacific Islands, Papua New Guinea, the Philippines, Singapore, Thailand, Timor-Leste, and Viet Nam (World Bank 2016c).

<sup>3</sup> The SAR region includes Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka (World Bank 2017).

<sup>4</sup> Hillary Clinton, Speech, Roosevelt Island, New York City, June 2016.

<sup>5</sup> For a vivid portrait of that period see Paul Johnson, *The Birth of the Modern* (New York, Harper Collins, 1991.)

<sup>6</sup> Ancient philosophers spoke of *boni et aequi* – "the good and the just" – not "the just and the good." David Sidorsky, revered philosopher at Columbia, wrote me that he agreed.



# America's policy thinking in the age of Trump<sup>1</sup>

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Today's standard economics misconceives causes and misses some of the main effects, good bad and ugly. That has consequences for how we understand history, how we make policy, how society views business and economic life and what they could aspire to. In response, the Center on Capitalism and Society is endeavoring to build a modern economics of the workings of modern economies.

## ABSTRACT

What is striking in Trumpian economics – supply-side economics too – is the omission of economic growth. There is no awareness that nations at the frontier need indigenous innovation to have ample growth. The take-offs into sustained growth in 19th century Britain and America were fueled by dynamism from the grassroots up. Moreover, this stunted economics has no room for the rewards from participating in the economy besides the market wage – for the satisfaction of succeeding at what one is doing, the sense of flourishing as one's career unfolds, and the thrill of venturing into the unknown.

## I. WHAT AILS THE AMERICAN ECONOMY – THE SYMPTOMS AND CAUSES?

- The symptoms – for several decades – include meager rates of return to investment, wage rates growing at a snail's pace (total labor compensation has done better), pathological fiscal deficits and rising numbers unwilling or unable to participate in the labor force. (Many are on drugs or in prison.)
- The immediate cause of all this is the ongoing slowdown of productivity growth that started in America around 1968 and spread

to France around 1998, and to Britain and Germany around 2004. The “booms” will not change that.

- The underlying cause of these slowdowns is the net losses of aggregate indigenous innovation in those nations – despite the digital revolution.

- And, as I have argued before, these innovation slowdowns stem not from a dearth of possibilities and not mainly from omissions of the public sector (like infrastructure) but from a major loss of the old mojo: a decline of the modernist values that fuel the dynamism of those economies<sup>2</sup>. Economists back then missed this. They were Schumpeterians believing that the innovations we observe were obvious applications by an experienced entrepreneur of a scientist’s discovery, or they were Hayekians believing that what we really observe are merely the “adaptations” that result when unseen and evolving opportunities are intuited by an insightful businessman<sup>3</sup>.

A political upheaval has resulted: For one thing, while wage rates have been near-stagnant, private saving – particularly, saving out of profits and enormous capital gains – continued apace, so the wealth-wage ratio and asset prices climbed to vertiginous levels. Established wealth grew more powerful and wealth managers did well. In industries badly hit by foreign trade or automation, many jobs were lost and wages actually declined. As these new developments continued, they exerted increasing pressures on society and, ultimately, there was – figuratively speaking – a shift of the tectonic plates: Some economic groups have shifted their votes.

Remarkably, politicians took no notice of these ailments – neither Democrats nor

Republicans. When Hillary Clinton gave her first campaign speech, she spoke only of social justice for marginalized groups<sup>4</sup>. There was no sense that the nation’s economy had largely lost – some 6 decades ago – the sustained growth it had been generating – despite depressions and inflations – since the 1820s or so<sup>5</sup>.

## »Innovation slowdowns stem from a major loss of the old mojo: a decline of the modernist values.«

The Democratic Party – the party of some 80 per cent, I would guess, of the people in this room, including me – became fascinated by notions of “fairness” – of what academics call the just economy – apparently without noticing that the nation had been operating for decades without a good economy: Many participants have had little or no chance of earning enough to feel included. They have had little chance of a job that is engaging and – very important, in my view – little chance of having the feeling of succeeding at something. The Democrats put the cart before the horse: We need a good economy, then a just way of rewarding

participants for the contributions that this economy helps them to make<sup>6</sup>.

**II. WHAT ABOUT THE REPUBLICAN PRESCRIPTION, ITS EFFECTS AND VALUES?**

On winning the election, Republicans in Congress evidently wanted to run with the ball into the opening left by the Democrats. They have sought to address weak investment and stagnant wage rates through a range of reforms, with emphasis on the recent tax bill – especially the cut in corporate profits tax – from 35 per cent to 21 per cent. Their boastful rhetoric accompanying this legislation was a bit ironic since they had 12 years in which to act under Presidents George W. Bush and George H. W. Bush.

The economists supporting the legislation adopt a textbook kind of model in which investment activity drives the capital stock to the steady-state level where the after-tax rate of return, or “marginal product of capital,” –  $(1 - \tau) f'(k)$  in the usual notation – has diminished to the level of the real rate of interest – denoted  $r^*$ . The latter is exogenous, whether it is the rate of pure time preference in the nation or the exogenous world rate of interest. This intersection of rate of return and the interest rate is diagrammed in Figure 1. (A more classical case, in which the rate of interest is pushed down by capital accumulation, is shown in Figure 2.)

These supporters then reason that the tax cut, in causing the after-tax rate of return to jump up, will in turn yank up investment activity and cause the capital stock to grow and thus productivity to rise until the capital stock clicks into a new steady state – in around 10 years, they calculate.

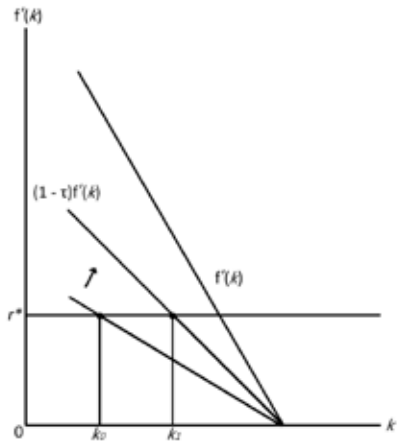


Figure 1: The after-tax rate of return,  $(1 - \tau) f'(k)$ , and exogenous interest rate,  $r^*$ , determine the capital stock in a textbook model.

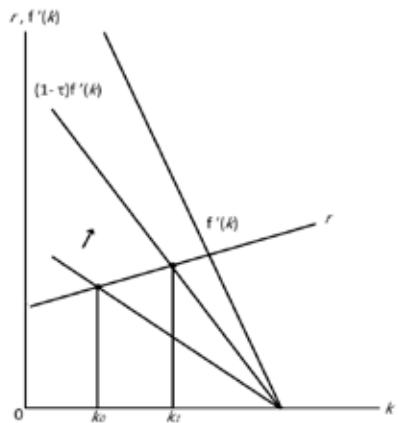


Figure 2: Rate of return,  $f'(k)$ , and interest rate,  $r$ , in a Ramsey-Modigliani model of closed economy.

But this is so short-termist – like all supply-side economics and the radical brand of Keynesian economics. For one thing, no reason is offered to think that growth will be created after the 10 years of growth in the capital stock. The lift to the growth rate of capital, productivity and incomes is only temporary. As long as the economy is still missing the volume of indigenous innovation needed to generate the high growth of our golden past (stretching from around 1830 to around 1970), the rate cuts of the Republican tax bill are only stop-gap – and even those are far from enough to deliver fast growth over the next decade.

More fundamentally, we ought to ask whether it is sound to believe that the tax cut can reasonably be expected to generate any pickup in productivity growth. I am not sure. The tax cut can reasonably be feared to add to the annual fiscal deficit and thus the public debt at the 10-year mark; and that, I will argue, may derail any productivity pickup.

When I was a young economist writing a monograph called *Fiscal Neutrality toward Economic Growth*, I would have said, in view of the favorable short term conditions, it would be better to raise tax rates across the board to the levels needed to stop the fiscal hemorrhaging in the federal government! Such a move might bring a sharp rise of bond prices and a drop in yields, thus a considerable drop of interest rates over the entire yield curve and a sharp rise of share prices – provided that the Fed did not offset this development with large sales of its bond holdings.

As a young student, I remember when the Republicans in Congress were vocal in their opposition to fiscal deficits – and a

Democrat, President Harry Truman, enacted a run of fiscal surpluses aimed at mopping up the federal debt. (Inflation also helped to decimate the real value of the debt.) No depression occurred – only the 1949-50 recession. Now, of course, crude Keynesianism is so deeply ingrained in voters that any program to run a fiscal surplus or just fiscal balance has become unthinkable. (Shame on us that the economics they learned is so awful.)

From that perspective, I am wondering whether the tax bill may arouse worries that the resulting additions to the federal debt – on top of the debt added by the supply-sider Bush and the Keynesian Obama – may raise concerns about the soundness of the government debt, thus pushing up interest-rate risk premiums in anticipation of these consequences and pushing the dollar down. Yes, the Republican tax bill does take steps to raise some revenue and cut some spending. But that is not totally reassuring.

From the supporters' own perspective, it should be noted that the supposed rise in investment activity will immediately cause a sharp real appreciation of the dollar, so that the real value of the dollar will then be expected to be depreciating over the future – back to the where it had been. (Otherwise, no one would want to go on holding foreign capital.) In standard models, a consequence of that dollar appreciation is a shrinkage of export demand – paradoxically, something that Trump did not want. Yet we knew something had to give.

In customer-market models, there is also a positive effect: The dollar appreciation will cause domestic firms in import-competing industries to cut their markups so that potential competitors from over-

seas are less interested in invading the domestic market. The consequence here is that wage rates are pulled up along with the amount of labor supplied. Thus, these industries will show an expansion of output and employment.

But from a very different perspective, the scenario envisioned by proponents of the tax cut is not a sure thing. Can we depend on the tax cut to quicken business investment and go on doing so until the

**»The rate cuts of the Republican tax bill are only stop-gap – and even those are far from enough to deliver fast growth over the next decade.«**

marginal productivity of capital has fallen enough to raise substantially the marginal productivity of labor? It is a possible scenario, but it is not clear it will be realized. We have little idea what will happen.

As Roman Frydman and I argued in an op-ed last month, the real-life American economy is not a “mechanical system in which tax parameters and other inputs explain exactly how investment occurs and

the economy grows.” We possess agency: We can imagine and often go on to create what we have imagined! For example, new visions by innovators – or losses of some of the visions that exist – and new confidence on the part of entrepreneurs – or losses of confidence by entrepreneurs – can place investment and wage rates onto paths that are nothing like the paths described by the textbook model the academic supporters of the tax cut have relied on. The economics profession is ignoring the consequences of this.

One consequence is that if, for a time, many more people engage in conceiving, creating, and achieving innovations, investment and wage rates may rise far beyond the expectation of the experts using a textbook model. If many fewer people engage in those activities, bringing further losses of innovation, investment and wages rates may rise far less than expected or even fall. The force of innovation, up or down, may very well dwarf the effect of the corporate profits tax cut over the 10-year span to which the experts refer. From the evidence, we may learn little or nothing about the efficacy of the tax cut. The tax cut may turn out to be a drop in the bucket.

In my view, the uncertainty goes deeper than that. The problem is not only that the disturbance terms may be enormous, overshadowing the effects of the tax cut and perhaps making it less valuable. There is the problem that the coefficients that are measures of the effectiveness of the tax cut in raising investment and wage rates are not foreknown or even knowable. If the aspiring innovators cannot be sure what sort of success their new products or methods will have, how can economists foretell how much investment is going to take place per

unit of tax cut and how efficacious this investment will be in driving up the marginal productivity of labor?

I have suggested recently that what we call the natural unemployment rate can be affected by insecurity and fear<sup>8</sup>. Similarly, that tax cut, if it conjures visions of insolvency, may scare corporate heads from investing.

A nightmarish example is the possibility that increased investment will largely take the form of stimulating technologies that actually reduce wages (and jobs) of many employees in some industries, so we cannot be sure whether the new tax cut will be positive or negative for wage rates and employment. Will the Republican tax plan unleash collapse or noticeably faster growth of both productivity and wages? We do not really know.

That does not mean that we ought not to try new departures in the hope of making progress. Certainly we will go on trying. After difficult times, Voltaire's *Candide* says to Cunégonde – in the musical version, at any rate – “We’ll do the best we know.”

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<sup>1</sup> This paper was presented at the Annual Meeting of the American Economic Association, Philadelphia, PA, January 2018; a shortened version appeared as an op-ed under the same title in *Project Syndicate* on January 26, 2018; a slightly longer version was published in the *Journal of Policy Modeling* on April 16, 2018.

<sup>2</sup> This is a critical thesis of my book *Mass Flourishing* [Princeton University Press, 2013].

<sup>3</sup> See Joseph Schumpeter’s 1912 landmark *Theorie der wirtschaftlichen Entwicklung* (Leipzig: Duncker and Humblot, 1912) and, for example, Friedrich Hayek’s widely known article, “The Use of Knowledge in Society,” reprinted in his essays, *Individualism and Economic Order* (Chicago, University of Chicago Press, 1948). See also the much reprinted book by Chester I. Barnard, *The Functions of the Executive* (Cambridge: Harvard University Press, 1938).

<sup>4</sup> Hillary Clinton, Speech, Roosevelt Island, New York City, June 2016.

<sup>5</sup> For a vivid portrait of that period see Paul Johnson, *The Birth of the Modern* (New York, Harper Collins, 1991.)

<sup>6</sup> Ancient philosophers spoke of *boni et aequi* – “the good and the just” – not “the just and the good.” David Sidorsky, revered philosopher at Columbia, wrote me that he agreed.

<sup>7</sup> Roman Frydman and Edmund Phelps, ‘We can’t predict the effect of the tax bill on investment and growth,’ *MarketWatch*, December 20, 2017.

<sup>8</sup> Edmund Phelps, “Nothing Natural about the Natural Rate of Unemployment,” *Project Syndicate*, November 2, 2017.



**Global Solutions for**

**Social Cohesion,  
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# Civil society challenged

## Towards an enabling policy environment

The author:



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Civil society has experienced many changes in recent decades. Following a period of rapid growth in both scale and scope (non-profit organizations account for 5-10% of GDP in most OECD countries; see Salomon et al. 2013; Anheier 2014), the past decade brought about a more complex, challenging environment for non-governmental organizations:

- Internationally, the rates at which civil society organizations are being created slowed down significantly. In the 1980s and 1990s, international CSOs experienced significant expansion; and whilst their total number continues to grow, the frequency of newly founded organizations has dropped since the global financial crisis and continues to do so.

- Competition for financial resources intensified, putting pressure on capacity and sustainability, while at the same time, many countries adopted austerity budgets or shifted priorities and reduced public spending in areas where CSOs are typically active, from social service, health care and education to environmental sustainability or international assistance (OECD Social Expenditure Update). There is more pressure on earned income generation, and more demand for fewer public funds (Anheier 2014: 441).

- While private investments from G20 countries to developing countries has been increasing in the past years, the Center for

The institution:



The Hertie School of Governance prepares exceptional students for leadership positions in government, business, and civil society. Interdisciplinary and practice-oriented teaching, first-class research and an extensive international network set the Hertie School apart and position it as an ambassador of good governance, characterised by public debate and engagement.

Global Prosperity (CGP) at the Hudson Institute (2016) estimates for 28 Development Assistance Committee (DAC) countries and 11 non-DAC countries show that philanthropy comprises only \$64 billion of a total of \$513 billion of total private investment flows in 2014. The share of philanthropy has declined in relative terms and remained fairly stable in absolute numbers.

- Many countries either have or are considering introducing stricter regulation of CSOs, usually around issues of tax

## »Civil society finds itself at a crossroads. It is time to act, and chart a way forward.«

exemption and finance as well as religion and advocacy (see [www.icnl.org](http://www.icnl.org) for overview). Internationally, changing geopolitics led to more restrictions on the cross-border operations and transactions of CSOs. Some G20 countries have imposed stricter controls of CSO-related financial flows and operations, often in the context of anti-terrorist measures. As a result, barriers of entry as well as transaction, regulatory and compliance costs have increased.

- Civil society itself is changing: advances especially in information and communication technologies and social innovations facilitated the growth of cyber

activism, lobbying and even new international movements (Della Porta and Felicetti 2017; Hall 2017).

### THE POTENTIAL OF CIVIL SOCIETY

For several decades, most developed market economies have seen a general increase in the economic importance of CSOs as providers of health, social, educational and cultural services of many kinds. They have also seen new and renewed emphasis on the social and political roles of CSOs, usually in the context of debates about civic renewal. Indeed, these developments are taking place across many countries that otherwise differ much in their economic structures, politics cultures and social fabrics. They are driven, in large measure, by four broad perspectives that position CSOs in specific ways and allocate certain roles to them:

- First, CSOs are increasingly part of new public management approaches and what could be called a mixed economy of welfare with a heavy reliance on quasi-markets and competitive bidding processes. Expanded contracting regimes in health and social service provision, voucher programs of many kinds, and public-private partnerships are examples of this development. In essence, this policy approach sees CSOs as more efficient providers than public agencies, and as more trustworthy than for-profit businesses in markets where monitoring is costly and profiteering likely.

- Second, they are seen as central to building and rebuilding the realm of civil society itself, and for strengthening the nexus between social capital and economic development. Attempts to revive or strengthen a sense of community and belonging, enhance civic-mindedness and engagement, including volunteering and charitable giving,

are illustrative of this perspective. With the social fabric changing, civic associations of many kinds are seen as the glue holding increasingly diverse societies together.

- Third, CSOs are part of a wider social accountability perspective that sees these organizations as instruments of greater transparency, and heightened accountability for improving governance of public institutions and business alike. The underlying premise is that conventional accountability enforcement mechanisms like elections, public oversight agencies and the media are falling short; CSOs are to become the social whistleblower and advocates for voices that would otherwise remain unheard.

- Finally, there is the policy perspective that views CSOs as a source of innovation in addressing social problems of many kinds. Indeed, CSOs are assumed to be better at such innovations than governments typically are: their smaller scale and greater proximity to communities affected and concerned makes them creative agents in finding solutions. Governments are encouraged to seek a new form of partnership with CSOs aimed at identifying, vetting and scaling up social innovations to build more flexible, less entrenched, public responses.

While CSOs can bring advantages, they also have inherent weaknesses, including [Anheier and Hammack 2013; Anheier 2014]:

- Resource inadequacy, whereby goodwill and voluntary contributions alone cannot generate resources adequate and reliable enough to cope with many of the problems facing developed and developing countries.

- Free-rider problems, whereby those who benefit have little or no incentive to contribute, stand in the way of sustainable resourcing, too.

- Particularism, whereby CSOs focus on particular subgroups only while ignoring others, which can lead to service gaps; conversely, if CSOs serve broader segments of the population, they encounter legitimacy problems.

»There is an urgent need to cut through the cacophony of policies regulating CSOs, and to point to policy options.«

- Paternalism, whereby CSO services represent neither a right nor an entitlement but are at the discretion of particular interests that may not necessarily reflect wider social needs, let alone the popular will.

- Accountability problems, whereby CSOs, while acting as accountability enforcers and pushing transparency, are themselves inflected by such insufficiencies.

The challenge is clear: how can the advantages CSOs offer to society, and indeed to governments, be strengthened while minimizing any disadvantages? What is the right policy framework for governments and CSOs to balance their respective interests while realizing the potential of civil society? What rules and regulations, measures and incentives would be required? What balance between public control and public support is adequate?

### **STATE – CIVIL SOCIETY RELATION REVISITED**

The relationship between civil society and government is complex and multifaceted. What are the theoretical rationales why government and CSOs develop some form of relationship? Economic theory offers three answers to this question, each casting CSOs in a different role: (i) substitute and supplement; (ii) complement; and (iii) adversary (see Steinberg 2006; Anheier 2014, Chapter 8, 16).

The notion that CSOs are supplements and substitutes to government rests on the public goods and government failure argument first advanced by Weisbrod (1988): they offer a solution to public goods provision in fields where preferences are heterogeneous, allowing government to concentrate on median voter demand. CSOs step in to compensate for governmental undersupply. Operational independence and zero-sum thinking characterize their overall relation as alternative providers, and neither government nor CSOs have incentives to cooperate.

The theory that CSOs are complements to government was proposed by Salamon (2002), and finds its expression in the third-party government thesis whereby

CSOs act as agents in implementing and delivering on public policy. CSOs are typically the first line of defence in addressing emerging social problems of many kinds, but face resource insufficiencies over time that, in turn, can be compensated for by government funding. The theory implies that (i) nonprofit weaknesses correspond to strengths of government, i.e., public sector revenue to guarantee nonprofit funding and regulatory frameworks to ensure equity; and (ii) the financing (government) and providing (nonprofit sector) roles are split.

The theory that CSOs and governments are adversaries is supported by public goods arguments (see Boris and Steuerle 2006) and social movement theory (Della Porta and Felicetti 2017): if demand is heterogeneous, minority views may not be well reflected in public policy; hence self-organization of minority preferences will rise against majoritarian government. Moreover, organized minorities are more effective in pressing government (social movements, demonstration projects, think tanks) than unorganized protests; however, if CSOs advocate minority positions, the government may in turn try to defend the majority perspective, leading to potential political conflict.

According to Dahrendorf (1992), in spite of their high potential for conflict modern societies nonetheless command a large repertoire of mediating institutions and organizations. Dahrendorf was fundamentally concerned with the question of how complex societies can resolve conflict without either curbing individual liberty or sacrificing a potential for modernization. His answer lay in a need for institutions that are capable of providing creative solutions. The world today, however, differs from the

post-war period. The framework for the economy and the state today is a globalized world and as such is characterized by significant governance issues (Hertie School of Governance 2013). These problems are due to the growing imbalances between the forces of globalized markets on the one hand, and the potential for governance and control on the other.

## »We propose an independent high-level Commission to examine the contradictory policy environment for civil society organizations.«

The policy challenge is clear: how can the advantages CSOs bring be strengthened while minimizing any disadvantages? How can the profoundly adversarial relations be transformed into complementary or supplementary ones? How can the goals, ways and means of governments, including international organizations on the one hand, and civil society on the other, be better coordinated and reconciled? What is the right

policy framework to balance their respective interests while realizing the potential of civil society? What rules and regulations, measures and incentives would be required? What balance of public control and support is adequate?

Civil society, challenged in many ways yet harboring huge potential, finds itself at a crossroads. It is time to act, and chart a way forward. Fifteen years after then Secretary General Kofi Annan initiated the first-ever panel to examine UN-civil society relations (United Nations 2004), it seems urgent to revisit the role of CSOs in a geopolitical environment that has radically changed. There is an urgent need to cut through the cacophony of policies regulating CSOs, and to point to policy options.

Therefore, we propose an independent high-level Commission of eminent persons to examine the contradictory policy environment for civil society organizations, and to review the increasingly complex space civil society encounters domestically as well as internationally. Working closely with, but independently of, the Civil 20 (<http://civil-20.org>), the Commission is to make concrete proposals for improvements. At the G20 summit in Argentina that year, the Commission is to report to G20 member states. Results and policy recommendations of this Commission could also be useful for countries outside the G20 as well as the international community.

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# Mind hacking

## Information warfare in the cyber age

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The Italian Institute for International Political Studies is an independent, non-partisan think tank providing leading research and viable policy options to government officials, business executives and the public at large wishing to better understand international issues.

The good old days of cold war disinformation are gone. Social media are increasingly relevant in shaping public opinion, but they are just "echo chambers". Foreign actors with malicious intent can easily exploit this intrinsic feature of social media, manipulating online information in order to influence the public opinion. Moreover, cyberspace allows a large degree of anonymity, behind which it is easy to automate propaganda, and cyber attacks may be leveraged to exfiltrate and expose sensitive content or to gain information dominance during military operations, increasing the strategic relevance of the "information space". Operations in this domain are central in Russia's security strategic thinking, featuring predominantly in its "New Generation War" military doctrine. But the ongoing militarization of cyberspace risks having dangerous spillovers in the conventional domain.

What can we do in order to protect our open democracies while preserving a global, free and resilient Internet? The answer is multi-faceted, inasmuch as CEIW (cyber-enabled information warfare) is an emerging asymmetric threat that forces us to innovate our security approach in many ways.

The desire to influence the public debate in foreign countries is nothing new, as disinformation and psychological operations (PsyOps) have long been a tool in



the arsenal of states. What is changing is the level of directness, the scale of activity and the scope of effort of these operations, made possible by the increasing pervasiveness of the Internet and by its rising relevance in shaping public opinion. Cyberspace is a powerful multiplier of the destabilizing effects of manipulated information because it allows high connectivity, low latency, low cost of entry, multiple distribution points without intermediaries, and a total disregard for physical distance or national borders. Most importantly, an-

»Cyberspace is a powerful multiplier of the destabilizing effects of manipulated information.«

onymity and the lack of certain attribution of an attack make cyberspace the “domain of ambiguity”, as we have seen in the first Dossier published by ISPI’s Centre on Cybersecurity. When we talk about influencing the online debate we are therefore discussing “perception management” in an environment that is already quintessentially non-linear (“the medium is the message”), as the expressions “echo chamber” and “information bubble” describing social media clearly show.

These intrinsic features of cyberspace are easily exploited by foreign actors with the malicious intent to plant and disseminate fake news and instruct paid trolls (each controlling multiple online profiles) to spread online manipulated content in order to deceive, distract, and disinform the public, trashing debate with diverging truths, which eventually disorients and corroborates a sense of doubt among the public, or shapes the opinion of a specific target audience on a certain issue.

Hostile actors in cyberspace are also willing and capable of leveraging the panoply of tools allowed by computer network operations (CNOs) and “computational propaganda” to influence public opinion to a degree that old-fashioned PsyOps could only dream of. These cyber tools allow a much greater impact on the target audiences, for instance creating a virtually infinite number of automated scripts (bots) to populate social media and interact with real online unwitting users; using social engineering techniques for targeting purposes; rerouting data-flows or launching distributed denial of service attacks (DDoS) in order to interdict information; attacking the hardware supply chain; infiltrating the opponent’s networks to steal, modify, implant or expose privileged information. In the case of military operations, also the physical destruction or the hijacking of Information and Communication Technology (ICT) infrastructure is a powerful option to influence the public debate: one of the first objectives of Russia during the operations in Crimea, for instance, was the occupation of the Simferopol Internet Exchange Point (IXP) and the disruption of cable connections to the mainland, which indeed contributed to Moscow’s total information

dominance on the peninsula. The warning released just few weeks ago by the head of the British Armed Forces, Air Chief Marshal Sir Stuart Peach, about the risk that Russia could cut off the UK by severing undersea communications cables, is a recent reminder of the concerns about physical threat to ICT infrastructures.

### **INFORMATION WARFARE: A THREAT TO INTERNATIONAL SECURITY**

Russia's interest in influencing the democratic processes of the West is a very hot issue in the international security debate. The threat of Russia's information warfare is prominently indicated in the National Security Strategy of the United States, released last December, where it is stated (page 35) that "Russia uses information operations as part of its offensive cyber efforts to influence public opinion across the globe". Proof of Russia's meddling in the last US presidential election's public debate raised serious concerns across the Atlantic. The President of France, Emmanuel Macron, announced this January that he will soon propose a law to tackle the issue of fake news, especially during electoral campaigns, for instance by requiring a more transparent profile of the authors of online content. Last October, Germany approved the law on the "Enforcement on Social Networks": it is one of toughest laws in the Western world, designed to ensure that social media platforms remove fake news and hate speech within set periods of receiving complaints, and foreseeing fines of up to 50 million euros if they persistently fail to comply. Last November, at the traditional Lord Mayor's Banquet, Great Britain's Prime Minister, Theresa May, warned: "So I have a very simple message for Russia. We

know what you are doing. And you will not succeed. Because you underestimate the resilience of our democracies, the enduring attraction of free and open societies, and the commitment of Western nations to the alliances that bind us".

The issue is also relevant to Italy's general elections. Former Italian Prime Minister, Matteo Renzi, recently warned about the risk of "weird connections" between some of his political opponents and media outlets allegedly involved in influencing public opinion with manipulated information; its Democratic Party launched last December a monthly bulletin to "name and shame" fake news. Connections between some Italian political parties and Russia were, instead, given for certain in last December's issue of Foreign Affairs by former US Vice President, Joe Biden, and former US Deputy Secretary of Defense, Michael Carpenter, who overtly accused Russia of attempting to stir the discussion around the December 2016 Italian referendum on institutional reforms. The Italian intelligence community promptly denied that any such interference occurred in the past, but remains vigilant.

### **RUSSIA'S APPROACH TO THE "INFORMATION SPACE"**

Back in 1998 (while Operation "Moonlight Maze", one of the first and most devastating cyber campaigns ever orchestrated by Russia's intelligence against US military targets, was well underway...) the Russian Federation presented to the UN General Assembly a proposal for a Resolution titled "Developments in the field of information and telecommunications in the context of international security". The Russians wanted to discuss both cyber security

and the limitations to destabilizing online content (revealingly gathered together by Moscow under the label of “threats to the information space”). The West refused to have that discussion, on the grounds, essentially, of its self-proclaimed moral superiority: if we want to safeguard an open Internet and freedom of expression, the West argued, it is not possible to ne-

## »Informational attacks are perceived as one of the most cost-effective tools of non-nuclear coercion.«

gotiate about information’s content. Ironically, almost twenty years later, the West is forced to discuss with Moscow about the threat of manipulated online content, which probably is, in itself, a score on the Russian side.

The approach highlighted in the Resolution of 1998 reflects Russia’s strategic thinking: cyber-attacks and information warfare (we could also add electronic warfare, hybrid warfare, ...) are, in Moscow’s view, on an operational continuum. Cyberspace, in Russia’s view, is one part of the broader “information space”, which inclu-

des also ICT hardware and software, data and human information processing. This is confirmed in the Russia’s Information Security Doctrine of 2000, which identifies two types of so-called “informational attacks”: technical and psychological ones. If we assume that the ultimate strategic objective of Russia is that of undermining the cohesion and the stability of NATO and the European Union in order to renegotiate – from a better position – a new European security architecture, then, in order to obtain this overarching strategic goal, it does not really matter to Russia whether it is more suitable, in a given tactical context, to hack the opponent’s networks or, so to say, “hack his mind” (“cognitive hacking”), or do both. Russia has an integrated and holistic approach to the “information space”: while digital sabotages (CNOs) aim to infiltrate, disorganize, disrupt or destroy a state’s functioning, psychological subversion (information warfare) aims at deceiving the opponent, discrediting its decision makers, and disorienting and demoralizing its public and armed forces. This is reflected in the current 2014 Russian Military doctrine, the “New Generation War” doctrine (also known as “Gerasimov doctrine”, named for the Russian pro tempore Chief of General Staff, Valeriy Gerasimov). The “New Generation War” doctrine enshrines a combination of hard and soft power (encompassing also economic warfare, energy blackmailing and pipeline diplomacy, support to political oppositions and agents of influence abroad, and other active measures) across different domains and through a skillful application of coordinated military, diplomatic and economic tools. In this context, “informational attacks” become the “system integrator”

of both kinetic and non-kinetic military means as well as of government and non-government actors; they are waged during peacetime and wartime in domestic, the adversary's, and international media domains, and they are perceived as one of the most cost-effective tools of non-nuclear coercion, and an essential instrument to minimize kinetic engagements.

A textbook example of "informational attack" (or, in our lexicon, "cyber-enabled information warfare" -CEIW), that clearly combines both offensive cyber capabilities and information warfare, is Operation "Grizzly Steppe": the US Intelligence community assesses with "high confidence" (notwithstanding President Trump's skepticism) that Russia's intelligence (GRU) gained access to the Democratic National Committee (DNC) computer networks in July 2015, and maintained it until at least June 2016. By May, Russia's intelligence had exfiltrated large volumes of data from the DNC. Someone under the name of "Guccifer 2.0" subsequently leaked to WikiLeaks.com and DCLeaks.com the material stolen from the DNC. The scandal that followed was exploited by a massive PsyOps to discredit Hillary Clinton and, more importantly, to erode trust in US institutions.

Considering the relevance of the "information space" in Russia's security strategic thinking and the intrinsic ambiguity of cyberspace, "informational attacks" seems perfectly suited for the job of the intelligence community that is so relevant in Russia. Cyberspace provides both unprecedented access to compromising material (available online or "securely" stored in PCs...) and a safe, efficient, effective and global distribution platform for gaining maximum strategic effect from its use. In order for data to

become weaponised information, it does not really matter whether the content is forged or non-attributable; it is instead crucial to "make the first impression", to create the "sense of doubt" in the public opinion, to trash the information space with multiple truths – ultimately, to hack the cognitive domain. Moreover, the State's control over the "information space" is critical also at the domestic level: everywhere in the world, autocratic governments view the Internet as a threat to their grip on power – an informati-

»Our limited perception of the ongoing confrontation in cyberspace is worrisome.«

on platform that must be monitored, censored and manipulated. Social media servers located outside of the government's control are an intrinsic threat, as Moscow's strict control over the Internet in Russia shows. The relatively low impact among the Russian public opinion of the Panama Papers' leak – that uncovered the personal wealth hidden abroad by Russia's leadership – is probably the result of such a control.

#### WHAT'S AT STAKE

If operations in the "information space" are so critical in Moscow's "New Generation Wars", what does the escalation in di-

rectness, level of activity and scope of effort of Russia's activism in cyberspace tell us from the point of view of international security? Truth is, we do not really know. But it is reasonable to assume that much of what is going on in cyberspace (military and intelligence cyber campaigns; reconnaissance of networks; signaling about cyber capabilities in order to establish deterrence; information warfare,...) is part of a much greater game. How does what happens on global ICT networks relate, for instance, with the signaling concerning the level of readiness of conventional and nuclear forces? Ironically, understanding the ongoing political-military confrontation in cyberspace would require decoding an ongoing heavily encrypted interaction taking place on multiple tables and at the global level, just like hackers do.

Our limited perception of the ongoing confrontation in cyberspace is worrisome, for two reasons. First, there is an actual risk of misperceptions and miscalculations involved in states' responses to CEIW campaigns, as the tensions following Moscow's meddling in the US presidential election debate show. Second, the use of cyberspace for projecting a state's power is endangering a free and open Internet, is fuelling the proliferation of aggressive capabilities through reverse-engineering of cyber weapons, is providing motivation and resources for hackers and organized crime engaged in identifying zero-days vulnerabilities and in developing cyber weapons, and is hijacking trust both among common Internet users and within public-private partnerships – which typically take years to develop. Our individual freedom and our societies' independence will be increasingly relying on a free, open and resilient In-

ternet, and it would therefore be of key importance to safeguard it as a critical global commons. We are unfortunately drifting toward a different scenario: sovereign states will inevitably aim at establishing information superiority over potential adversaries for the achievement of their own national security. Therefore the crucial question becomes: what can we do if we want to preserve our open democracies and protect one of the greatest accomplishments in human history against the risk of cyberspace becoming a warfighting domain? The general lack of awareness and consideration about the dangers and the responsibilities involved in this dilemma is a question of serious concern.

### **MOUNTING A MULTI-FACETED RESPONSE**

What can we do to protect our democracies from the threat posed by fake news and cyber-enabled information warfare? The answer is multi-faceted, inasmuch as CEIW is an emerging asymmetric threat that forces us to innovate our security approach in many ways. Investments in technological innovation and cyber capabilities aside, there are probably at least five major endeavors.

If foreign influence is the virus that attacks democracies, the first aspirin (or, if you will, the most effective firewall) is awareness and education. Awareness about the threat, the game at play and the price at stake, both among the general public and at the top institutional level, is the first line of defence. Education in dealing with the cyber threat, in particular, is a powerful ally against CEIW, as reducing cyber vulnerabilities, enhancing the resiliency of our ICT infrastructure, and encouraging cyber

hygiene in the general public would drastically reduce the potential damages of cyber attacks (for instance: the malware “Wanna Cry”, that affected so many computers in 2017, used a well-known vulnerability, that was patchable long before the campaign was launched). Cyber hygiene would also greatly contribute to the fight against cybercrime, which is the gym, the ATM, the fog of war of a far more dangerous game entailing state-actors’ attacks for espionage, intelligence, surveillance and reconnaissance (ISR), deterrence, targeting, war fighting prepositioning. We are not saying that cyber hygiene and a greater awareness about the cyber threat will, per se, protect countries from cyber advanced persistent threats (APTs), hybrid scenarios or “New Generation Wars”, but they are an easy and relatively inexpensive measure that could allow us to devote our scarce financial and technological resources to face even more serious threats and challenges. Explaining to the general public the dangers of manipulated information will also constitute an efficient cultural barrier against fake news, while our societies develop a healthy skepticism as they learn to manage, interpret and evaluate large volumes of non-intermediated information. Education, in other words, reduces the “echo-chamber effect” of social media, ultimately making us better citizens.

A second critical element for countering CEIW is our societies’ adherence to their core values: information warfare represents an attack on an unavoidable vulnerability of open democracies, but this does not mean we shall question or negotiate our commitment in transparency, openness and the rule of law. While we must confront foreign information warfare

head-on, and we must increase transparency in political funding in order to avoid foreign meddling in our democratic processes, we must also, at the same time, avoid a witch-hunt against whoever is ideologically aligned with Moscow’s stances: such a course of action would ultimately erode the legitimacy of our democratic institutions, with the effect of dissipating precisely what we wanted to preserve. Instead, open democracies should work on reinforcing their institutions and the public support they deserve. The best way to do this is proving how they are able to deliver innovative solutions to manage the complexity of today’s world. In this context, one discussion that seems urgent is the one concerning the strategic relevance of public-owned ICT infrastructures and independent media. Revealing, in this sense, is the discussion underway at the global level (but not much in Italy...) about net neutrality. The new US administration’s decision to abandon President Obama’s choice on net neutrality reflects the idea that the Internet is primarily a commercial environment and that market forces are best suited for ensuring its growth. But the Internet is clearly much more than this: it is, primarily, an infrastructure that is essential for the functioning of modern societies. Not recognizing this role at the domestic level risks undermining our ongoing international efforts to ensure an open Internet at the global level. Adherence to our values means, also, that politicians should refrain from undermining public faith in the free press just because they are the objects of unflattering but genuine journalism, because disinformation works best precisely where there is a lack of trust.

Another important element in our response to Russia's CEIW is to refrain from launching, at least in peacetime, retaliatory strategic communication (Stratcom) on our own citizens or on citizens of allied countries, as this would ultimately undermine faith in the free press and trust in international relations. Likewise, retaliatory Stratcom would most likely reinforce (and, to a certain extent, even justify) Russia's perception that information campaigns have been and are implemented by the United States and the West in order to influence the course of a series of regime changes over the last two decades ("Color Revolutions" and the "Arab Springs"). The danger, in other words, is that of fuelling an escalation in the conventional domain with relevant repercussions. Instead, a viable option, although a very challenging one, is to respond to information warfare not by retaliating in kind, but by countering its desired effects. ISPI, for instance, is one of the many think-tanks that launched a fact-checking initiative to expose fake news; likewise, many institutions are focusing not on developing a counter-narrative, but rather on exposing the mechanism behind fake news, such as the "East StratCom Task Force" launched in 2015 to counter Russian propaganda in Eastern Europe, the "EU myth-buster" and the US State Department's Global Engagement Center, that do not. The new US National Security Strategy seems to point to this direction, where it declares: "We will craft and direct coherent communications campaigns to advance American influence and counter challenges from the ideological threats that emanate from radical Islamist groups and competitor nations. These campaigns will adhere to American values and expose adversary propaganda and disinformation."

A fourth initiative to counter CEIW is strengthening our governance and response-mechanisms at the institutional level. Michael V. Hayden, who served as CIA Director under President George W. Bush, described the Russian interference in the last US presidential elections as the politi-

»If foreign influence is the virus that attacks democracies, the first aspirin is awareness and education.«

cal equivalent of the 9/11 attacks -an event that exposed a previously unimagined vulnerability and required a unified American response. The transformation underway at NATO, which is actively involved in developing doctrines, structures and mechanisms to counter hybrid threats, shows that new institutional and operational arrangements are needed. As suggested by Prof. Adriano Soi in his contribution to the second ISPI Dossier on cybersecurity, maybe it is time to update even at the domestic level our decision-making processes and to develop an ad hoc strategy and specific structures and procedures for countering the emerging threat of CEIW. Finally, the

West should build on the idea that, in order to counter an asymmetric threat, the best possible strategy is partnering with those that are defending against the same menace. At the international level, this means strengthening both at the strategic and at the operational level our cultural, political and military alliances, and working actively to establish confidence-building measures (CBMs) and norms of states' behavior in cyberspace. At the domestic level, CEIW compels us to actively engage in a coordinated effort all relevant public-private stakeholders, key ICT infrastructure owners and operators and, also, media outlets, building within these communities as much trust as possible. Private companies should not be the arbiters of truth, but they do, however, have an interest in preserving a safe space for genuine content, and this interest could and should be leveraged. The success in engaging Internet providers and social media operators in countering online jihadist propaganda and radicalization, gained by the G7 Ministries of Interior last October at the meeting organized by Minister Marco Minniti in Ischia (Italy), is an excellent example of what can be done to develop a shared responsibility among key stakeholders, and could be fruitfully pursued also in the response to cyber-enabled information warfare.

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# Inclusive growth

## An international perspective

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The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. The organisation provides a forum in which governments can work together to share experiences and seek solutions to common problems. It works with governments to understand what drives economic, social and environmental change. The OECD measures productivity and global flows of trade and investment, analyses and compares data to predict future trends and sets international standards on a wide range of things, from agriculture and tax to the safety of chemicals.

As a global community, we stand at a critical crossroads. For decades, globalisation has enhanced global prosperity and improved the livelihoods of millions of people. It has helped spread technologies, knowledge and culture across the world, creating a vibrant, diverse and interconnected global community.

But the benefits of globalisation have not been equally shared across all groups and countries and we are now facing a backlash against globalisation and the established political and economic order, manifested by the return of populism and protectionism in many places.

This is the result of a growth model that did not deliver for all, and one in which those that were left behind are calling for something better.

### HOW HAS THIS COME ABOUT?

Inequalities have been rising or remained stubbornly high over the past three decades.

Take a look at the numbers. The average income of the richest 10% of the population is now around 10 times that of the poorest 10% across the OECD, up from seven times 25 years ago. For emerging and developing countries this can be worst. What's remarkable is the concentration at the very top of the income distribution: over the past three decades, the top 1% captured 47% of total growth in pre-tax incomes in the US, 37% in Canada and 20% in the UK.<sup>1</sup>

And inequality actually worsened during the crisis and the supposed recovery as income gains went to the rich and redistribution weakened or stagnated in many countries.

The picture is even more troubling in terms of wealth. OECD data indicates that wealth inequality has grown over recent decades, with the richest 10% in the OECD owning around half of all household assets, whilst the bottom 40% owns barely 3%. At the very top of the distribution, the top 1% holds a staggering 19% of total wealth.<sup>ii</sup> So even at the highest income group, the top 1 percent captures the highest share.

Inclusive growth, or the lack of it, is a cross-cutting problem, and many different groups have been left behind. Gender wage gaps for example, have changed little since 2010 and remain substantial, averaging at 15% across the OECD in terms of the median monthly pay gap for full-time employees. Child poverty continues to hit large shares of our populations.

There is also a strong spatial component to the growing divide. Many OECD countries see large regional income splits, with big differences between urban and rural areas and even between metropolitan areas. Income inequality is also higher in cities than other locations and tends to be higher in the largest cities, reflecting the primacy of cities both as engines of economic growth but also of social divisions.

Such regional and metropolitan divides also extend to well-being. The regional gap in life expectancy is striking: on average across the OECD, citizens in regions with the highest life expectancy live two and a half years longer than citizens in regions with the lowest life expectancy.<sup>iv</sup> These regional inequalities extend to other areas, inclu-

ding access to services, digital connectivity and investment, giving rise to “geographies of discontent”.

## **WHAT HAS CAUSED THIS INCREASE IN INEQUALITIES?**

Globalisation and new technologies are changing the nature of work and the demand for skills. Ever-increasing computing power, Big Data, the Internet of Things, and AI are combining to codify and automate a growing range of cognitive and non-cognitive skills traditionally carried out by humans. The end result is a pattern of job polarisation across most OECD countries: the erosion of middle-skills jobs and growth of low and high skill jobs, thus increasing market income inequality.

The OECD’s work on The Productivity-Inclusiveness Nexus<sup>v</sup> has shown that aggregate productivity growth in the OECD remains sluggish. Yes, some global superstars have continued to see huge productivity successes – but this also shows that the economic system doesn’t work for everyone.

We are seeing the largest firms – we call them frontier firms – becoming the biggest winners of globalisation. They have locked in their success through better access to financial leverage and the patent system, and the ability to operate globally and conduct arbitrage when it comes to tax competition and regulation.

This gives them a permanent competitive advantage over their lagging counterparts – like SMEs – meaning that they can enhance productivity and pay higher wages to their employees, which partly accounts for the growth of market income inequality.

These dynamics are particularly strong in sectors with high concentrations of

knowledge-based capital (KBC) and ICTs, in which global frontier firms benefit from 'winner-take-all' network externalities.

Connected to this is the increased tax competition brought about by globalisation. Rapidly growing capital mobility worldwide has been accompanied by the increased use of tax havens. Estimates of the size of offshore assets range from USD 6.1 to 7.6 trillion.<sup>vi</sup>

## »The benefits of globalisation have not been equally shared.«

This has led countries to not only engage in tax competition with respect to the corporate income tax system, but also to the personal income tax system. Such tax competition may well have driven down top rates of taxation, reducing the progressivity of tax systems and thus contributing to rising inequalities.

Also part of the globalisation and inequality story is the increasing financialisation of our economies. Finance is a critical ingredient of stronger growth but negative effects can kick in after certain levels of development.

OECD research highlights three key mechanisms through which finance contributes to inequalities: finance workers are concentrated at the very top of the income distribution and earn premiums unlinked

to their productivity compared with their peers in other sectors; high earners can and do borrow more so the majority of credit goes to high earners; and most of the benefits of stock-market expansion goes to affluent households. The financialisation of our economies (i.e. larger shares of finance in the economy) explain part of the concentration of wealth at the top.

Finally, the role of fiscal redistribution – a vital tool of the welfare state to reduce market inequalities – has weakened over the past decades, particularly during the 1990s. The main reasons for this decline are found on the benefit side: cuts to benefit levels, tightening of eligibility rules and the failure of transfers to the lowest income groups to keep pace with earnings growth.

### **WHAT HAS BEEN THE IMPACT OF RISING INEQUALITIES ON SOCIETIES?**

Inequalities place a large toll on our societies and span many areas. First, there is a large economic cost. OECD research shows how the rise in inequality knocked 6 to 10 percentage points of GDP growth between 1990 and 2010 across a range of OECD countries including the UK, Mexico, Finland, Italy, and the US, by reducing the skills of the bottom 40% and causing them to underinvest in their human capital.

Second, rising inequalities put further pressure on public social budgets, which are already overwhelmed due to population ageing and rising healthcare and pension costs.

Third, inequalities accumulate over people's lifespans and the outcomes of one generation frame the potential of the next. Social mobility is already quite low in many OECD countries and is exacerbated

by rising inequalities. All too often, wealth and income inequality stand in a symbiotic relationship with the intangible social trappings of success, such as cultural capital and access to parental networks.

OECD data show that the children of poorer parents struggle to keep up with the social and cultural capital of their wealthier class-mates. From that initial disadvantage, many go on to lower educational attainments with children whose parents did not complete secondary school having only a 15% chance of making it to university – against a 60% chance for peers with at least one parent who had attained tertiary education. More troubling still is the fact that the very same children at a disadvantage in the education system typically go on to receive smaller salaries and, most worryingly of all, to live shorter lives. A 25-year old university-educated man can expect to live almost 8 years longer than his lower-educated peer, on average across OECD countries; the difference is 4.6 years for women. At all ages, people in bad health work less and earn less. Over a career, bad health reduces lifetime earnings of low-educated men by 33%, while the loss is only 17% for highly educated men.<sup>viii</sup>

High inequalities are also eroding trust in governments and further reducing their capacity to act. Trust in government institutions across the OECD has plumbed new lows during the crisis and its aftermath.

### WHAT IS TO BE DONE?

First and foremost, we have to change the way we go for growth; over the past three decades we have prioritised efficiency outcomes in economic policy, and leaving equality considerations as a secondary issue. We need to replace the growth mo-

del of growing first and redistributing later with one that considers equity and sustainability considerations in an ex-ante manner. We need to stop using averages as a measure of well-being and instead look at granularities.

»High inequalities are also eroding trust in governments and further reducing their capacity to act.«

To redress the relentless rise in inequalities, and place people and their well-being at the centre of policymaking, we need to advocate for an international inclusive growth agenda. This means pursuing integrated policy packages that benefit all people, firms and regions.

We need an empowering state that concentrates on children's well-being and development and fosters education for life and throughout people's lives.

We need to update our social protection systems to take into account the effects of globalisation, digitalisation and the changing nature of work – benefits should be made portable and linked to people rather than jobs. We must not forget environmental considerations, but rather include environmental policy as part of an overall approach.

Promoting gender equality in access to employment and job quality is a key component of any inclusive growth strategy. We must remove discriminatory barriers against women in the workplace and work to reduce the gender pay gap through measures such as universal and affordable childcare and equal paternity leave.

Investment in inclusive growth policies such as these and investment in tertiary education deliver greater returns to the state in the long run.

We need to overhaul our tax systems to better reduce inequalities and promote inclusive growth. This means altering the bias in favour of capital, increasing the progressivity of property taxation and improving global tax governance to ensure that every company and individual pays their fair share, building on OECD-led initiatives like Base Erosion and Profit Shifting and Automatic Exchange of Information.

This also means encouraging business dynamism and levelling the playing field so that all firms, including new firms and SMEs, have the opportunity to thrive.

As the barriers to inclusive growth cut across borders, we need to pursue inclusive growth strategies at the international, as

well as at the national and local level, requiring coordination and leadership across multiple layers of government. This is no easy task but a necessary one to ensure a brighter, more prosperous world for people and the planet.

<sup>i</sup> OECD (2015), *In It Together: Why Less Inequality Benefits All*, OECD Publishing, Paris, <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>

<sup>ii</sup> OECD (2015), *In It Together: Why Less Inequality Benefits All*, OECD Publishing, Paris, <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>

<sup>iii</sup> OECD (2017), *Bridging the Gap: Inclusive Growth 2017 Update Report*, OECD Publishing, Paris, [http://www.oecd.org/inclusive-growth/Bridging\\_the\\_Gap.pdf](http://www.oecd.org/inclusive-growth/Bridging_the_Gap.pdf)

<sup>iv</sup> OECD (2017), *Bridging the Gap: Inclusive Growth 2017 Update Report*, OECD Publishing, Paris, [http://www.oecd.org/inclusive-growth/Bridging\\_the\\_Gap.pdf](http://www.oecd.org/inclusive-growth/Bridging_the_Gap.pdf)

<sup>v</sup> OECD (2017), *The Productivity Inclusiveness Nexus*, OECD Publishing, Paris, [https://www.oecd-ilibrary.org/economics/the-productivity-inclusiveness-nexus\\_9789264258303-en](https://www.oecd-ilibrary.org/economics/the-productivity-inclusiveness-nexus_9789264258303-en)

<sup>vi</sup> Zucman, G. (2014), "Taxing across Borders: Tracking Personal Wealth and Corporate Profits", *The Journal of Economic Perspectives*, Vol. 28 No. 4, pp. 121–148.

<sup>viii</sup> OECD (2017), *Preventing Ageing Unequally*, OECD Publishing, Paris, <http://www.oecd.org/employment/preventing-ageing-unequally-9789264279087-en.htm>

# What is flourishing? How do we foster it?

Realigning business, economies, and society: The MSC Process

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## INTRODUCTION

The Industrial Revolution brought a socioeconomic shift from an integrated norm to a split norm: once, an extended family worked from home and labour and leisure were permeable; then, work became a place one 'went to' and home became a sanctuary for a nuclear family. At the same time a cultural-philosophical shift took place in the turn to the subject: once truth and authority was an 'out-there' thing, a reality about God one found by accessing wisdom from the past; then authenticity became a discovery and expression of the self, to be realised in the present and progressively increased in the future.

The result of these two changes, and others like them (the medico-scientific revolution, the transport-communications revolutions) is that human flourishing has become domesticated and individualised. Rather than being a vision for a whole society, understood as an organism, it has been atomised as a collective sum of discrete elements. The ecological crisis arises from seeing nature as a resource to be used for achieving personal goals, rather than a realm to be enjoyed for its own sake. In theological terms, the absence of conviction about eternal life means that expecta-

tions for comprehensive fulfilment in this existence rise enormously; and the desire for such flourishing, narrowly conceived, quickly morphs into a right to such flourishing: which transforms aspiration into entitlement, and energised ambition into embittered (and envious) resentment.

Thus I believe two fundamental shifts are required in our notion of human flourishing.

1. Turning an economy that seeks simply to generate wealth sufficient for individual consumers to acquire goods and services to their hearts' content into an ecology in which good is to be found as much in the process of wealth-generation as in the disposal of the wealth generated.

2. Turning perceptions of well-being as empowered independence into an understanding of flourishing chiefly as restored relationship.

Health isn't about having the resources to supply a cabinet full of medicines to cover every unfortunate turn of events: it's about playing a full part in a society that requires and facilitates relationship, creativity, partnership and compassion. Likewise business health isn't about extracting maximum profit and humanising it by offering a percentage of it to charity, but by ensuring the way the profit is made advances the constituent elements of flourishing life. The test of a good business is not simply the rewards it garners for shareholders but the esteem in which it's held by suppliers, customers, employees, neighbours and competitors.

### MY OWN EXPERIENCE

I spent a formative six years (1997-2003) living in a deprived outer-urban estate in Norwich, which was chosen as one of the 17 Pathfinder neighbourhoods for

New Labour's New Deal for Communities scheme. I thus participated closely in a community-led regeneration programme, which created the first Development Trust in the east of England. It was at times conflictual and chaotic, but from it I learned many lessons, among them the following.

»The ecological crisis arises from seeing nature as a resource to be used for achieving personal goals.«

1. The first and greatest lesson I learnt was that poverty is not fundamentally about money. It is about two things – imagination and community: what I call knowing what to do and having someone you trust with whom to do it. Without those things no amount of money can help. That goes for the mundane activities of housekeeping, cooking and childrearing as well as the more sophisticated practices of entrepreneurship, campaigning and organising.

2. The second lesson was that a deprived community is a mystery and not a problem. The language of 'problem' is mechanistic: it speaks of fixing and fin-

ding solutions. It is generic. To those with a hammer in their pocket everything looks like nail: it assumes one-size-fits-all remedies, and is captivated by the prefix 're' – restore, regenerate, recover, return, all of which look to a past time when things were fine. By contrast mystery language is sui generis; it doesn't transplant solutions, but enters and pays attention and highlights distinctiveness; it grows organically rather than builds mechanistically, and while it emerges from a narrative, it imagines a future that's bigger than the past.

»It seems everyone wants the fruits of globalisation without its costs.«

3. The third lesson was that growth cultivates assets rather than identifying deficits. Unemployment, homelessness – even disability – define people by what they're not. Growth comes largely from what already is. The Norwich scheme funded four kinds of projects – some existing initiatives were expanded, some city-wide programmes focused extra attention in the neighbourhood, some local ideas gained support, and some major projects brought together a coalition of internal and external stakeholders. The first group were the most successful: the affirmation

and extra resource released energy and motivated engagement for cultural changes such as appetite for training, health and safety expectations, and institutional requirements such as accounting and record-keeping.

4. The fourth lesson was that just as poverty isn't fundamentally about money, politics isn't fundamentally about the efficient management of statutory services and the fair distribution of limited resources. Politics is an ongoing conversation about how to bring out and empower the ocean of different gifts and talents in a community. It is not about the limited money in people's pockets, it is about the limitless potential in their hearts and minds and souls and bodies. It is about how to engage all the energy that is about, and how to discern and embody that which constitutes the good life. What I witnessed was less the arguing over funding and struggle for authority, but more the release of energy once people had conviction, motivation, self-belief, experience of constructive partnership and, in a word, hope.

5. The fifth lesson was that 'regeneration' as we called it, was not so much about pity, or even justice, as about enlightened self-interest. The tragedy of the housing estate on which I lived was not the huge quantity of public resources being spent there, to no great outcome, or the discouragement amongst teachers, health visitors, police, housing officers and a host of external agencies seeking incremental enhancement; it was the incalculable waste of energy, talent, imagination, love. The term 'inclusion' is somewhat patronising because it suggests the rest of society is sorted and normal and it should be kind and stretch out a helping or sympa-



thetic hand. But a better model is mutual self-interest. I remember the leader of the community safety scheme saying, 'It turns out they're starting community safety schemes all over the country – they just gave us the money as an experiment.' I replied, 'What do you expect? This isn't charity. Take it as a compliment. Next time beat them to it.'

### WHAT IS FLOURISHING?

In his Nicomachean Ethics, Aristotle considers virtue as a mean between extremes. Thus courage is the mean between recklessness and cowardice. We may imagine human flourishing in a similar way. Here are seven such formulations of well-being understood as balance.

1. Between stability and mobility. It seems everyone wants the fruits of globalisation (diverse products, instant communication) without its costs (displacement of populations, outsourcing of employment). In Norwich I found it an irony that underclass people invariably had children playing in the street and grandparents living two streets away, whereas middle-class people, to whose lifestyles the underclass were expected to aspire, worked hard to afford a private garden and spent the weekend travelling to see grandparents. There is perhaps a mean between staying near one's roots and seeing the world.

2. Between public and personal. Can anyone really say they are free if everyone around them is in chains? Individual fulfilment alone is a false aspiration. The treasures of life are shared. However those treasures are largely personal, rather than public. The common good is beyond autonomy – but when too general it becomes abstract.

3. Between challenge and comfort. People say they want comfort, but when you ask them what their most significant life experiences have been, they almost always refer to surmounting challenges and finding companionship in adversity. Boredom is the result of having no outlet for creativity, seeing no incentive to learn new skills or stretch existing ones, finding no prospect of discovery and being able to take the conditions of life for granted. But perpetual challenge is unendurable.

4. Between process and outcome. Life yields few experiences of arriving; the secret is to learn how to enjoy the journey. Social goals tend to presuppose arrival (make poverty history); the greatest joys in life tend to be the collective endeavour of striving together. Victory can be as dismantling of community as defeat. Hence the insistence that flourishing means redirecting attention to how the economy functions, rather than simply its outputs and outcomes. But some results (eradication of malaria) are nonetheless worth pursuing.

5. Between present and future. This is the balance between 'jam today' and 'jam tomorrow.' Again, people ask for jam today; but a fulfilled existence is a balance of achievements and goals, possessions and aspirations, blessings and hopes.

6. Between diversity and unity. Diversity is a benevolent word for difference; less positive words include tension and conflict. Unity, likewise, is an affirmative word for what could also be termed uniformity or homogeneity. It seems people can't cope with too much difference; but stagnate without a healthy degree.

7. Between mastery and exposure. In relation to the natural environment, the quest for mastery has proven to be both

a chimera and a curse. Humanity has to a significant degree overcome its subjection to the whim and power of nature; but it has, in the process, created new forces that may prove at least as damaging. It turns out the mastery is a different form of imprisonment.

8. Between agency and partnership. Empowered, agency has been the goal of modernity: through education and technological progress humankind seeks to fulfil its potential and achieve maximum control of the contingencies of existence. But the satisfaction yielded by independence is limited: greater joy is to be had through partnership with friend and stranger. Overcoming limitation invariably results in isolation. And isolation is perhaps the biggest curse. My own conviction is that healthy existence is about learning to be with oneself, those near and far, and the natural world.

## HOW TO FOSTER FLOURISHING

The insights above yield recommendations for public policy, commercial leadership, and civil society institutions and initiatives.

### 1. Government

- a. Make a welfare distinction between cultivating assets and addressing deficits. Government has an irreplaceable role in addressing deficits – e.g. unemployment benefit. But cultivating assets is usually best done by business and civil society groups.
- b. Make a renewed notion of – and training in skills in – politics a key part of education at all levels.
- c. Fostering institutional and associational life in disadvantaged communities, since on such trust all other social benefit rests.

d. Promoting a culture of attending to mysteries rather than fixing problems – working with rather than working for.

### 2. Organisations

- a. Making the health of an organisation – a 360° evaluation of customers, suppliers, employees and neighbours – rather than shareholder benefit the accepted estimate of success.
- b. Perceiving ‘regeneration’/development as primarily a business proposition – creating markets, raising entrepreneurs with local knowledge, harnessing skills – rather than a government scheme of welfare funded by taxation.
- c. Articulate a much more inspiring narrative around ecology and sustainability – less about managing crisis that about developing and restoring healthy relationship.

### 3. Institutions

- a. Focusing on restorative justice processes at individual and corporate levels, and refining these to enhance best practice, learning from key sites e.g. Rwanda, Northern Ireland, Israel/Palestine, Burma.
- b. Given the pressures toward geographical mobility, institutions can think of themselves as that which in a society ‘gives people reasons to stay.’
- c. Highlight the power of challenge, especially challenge faced and encountered collectively: perceive institutions as common projects, not about preserving the past but about modelling the future.
- d. Generate a much richer language around diversity, based not on rights or inclusion but on the need for different skills and aptitudes and dispositions and experience to make a team to address common challenges.



**Global Solutions for**

**an International  
Financial  
Architecture for  
Stability and  
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## **The cat in the tree and further observations**

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## **Globalization has contributed to tearing societies apart**

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# The cat in the tree and further observations

## Rethinking macroeconomic policy

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The institution:



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*Economists did very badly in predicting the crisis. But in this column, Nobelist George Akerlof argues that the economic policies post-crisis have been close to what a sensible 'economist-doctor' would have ordered. The lesson for the future is that good economics and common sense have worked well. We have had trial and success. We must keep this in mind with policy going forward.*

I learned a lot from the IMF's recent conference on rethinking macroeconomic policy (IMF 2013), and I'm very thankful to all the speakers. Do I have an image of the whole thing? I don't know whether my image is going to help anybody at all, but my view is that it's as if a cat has climbed a huge tree. It's up there, and oh my God, we have this cat up there. The cat, of course, is this huge crisis. And everybody at the conference has been commenting about what we should do about this stupid cat and how do we get it down. What I find so wonderful about this conference is all the speakers have their own respective image of the cat, and nobody has the same opinion. But then, occasionally, those opinions mesh. That's my image of what we have been accomplishing. I think this debate is very useful because each person's view of the cat comes from his or

her perspective. And each of them is valid. My view of the cat is the poor thing is there in the tree; it's going to fall; and we don't know what to do.

### MY OWN THOUGHTS

So I'm going to give you my own thoughts on the crisis and how well we've been doing relative to the cat. My thoughts are a slightly different angle on what everybody else has been saying rather pervasively from different vantage points.

I am going to concentrate on the post-crisis US, but the analysis also pertains internationally. There is an excellent paper by Oscar Jorda, Morris Schularick and Alan Taylor (2011). They divided up recessions into financial recessions and normal recessions for fourteen advanced countries from 1870 to 2008. They looked at how GDP recovery varied in severity, according to credit outstanding relative to GDP in the preceding boom. And their conjecture was strongly confirmed:

- Not only are financial recessions deeper and slower in recovery than in normal recessions, they also have slower recovery the greater is the credit-to-GDP ratio.

That is the history. How do their findings reflect on the current crisis? Curiously, it depends upon the measurement of credit outstanding:

- With bank loans to the private sector as the measure of credit, the US recovery is about 1% of GDP better than mean recovery for financial recessions.
- When, in addition, the measure of credit also includes credit granted by the shadow banking system, we are about 4% better than the median recovery in financial recessions.

The graphs in the paper I just mentioned illustrate this, but with the onset of financial derivatives we have no way of knowing how to measure 'credit'.

If derivatives are used to hedge risk then we would expect derivatives to soften the crash. For example if the buyer of a credit default swap goes bankrupt in the event of a default, rather than the seller,

**»We economists have not done a good job of explaining that our macro-stability policies have been effective.«**

then we would expect the credit default swap to soften the crash. On the other hand, if we think that derivatives escalate gambling, then we would expect them to exacerbate the crash.

The conventional interpretation of the 2007-2008 crash in the US says that derivatives enhanced gambling in a different way. In parable, derivatives allowed a daisy chain of escalating valuation of mortgages, as they were made in the Central Valley on the shadiest of bases, but then passed through into derivative packages, which were rated A and higher. This was an environment in

which junk did not affect ratings. So mortgage originators had no incentive to require down payments or borrower credibility. To a great extent, they didn't.

In their creation and ratings of derivatives the investment houses and the ratings agencies were mining their reputations as fiduciaries. This additional role of the derivatives suggests that a measure of credit based on loans outstanding, even including the role of the shadow banks, yields a conservative measure of our benchmark for where we should now be.

## »The lesson for the future is that good economics and common sense have worked well.«

### **TODAY'S POLICY RESPONSE LOOKS GOOD COMPARED TO THE GREAT DEPRESSION**

That view also conforms to the common perceptions from autumn 2008. At that time the Great Depression was the benchmark for what would happen without government intervention. From that vantage point, macro policy has not just been good, but truly excellent. Alan Blinder's fantastic book, *After the Music Stopped*, says the exact same thing.

Almost every programme has been close to what the doctor called for. Those measures include: the Economic Stimulus Act of 2008; the bailout of AIG; the rescue of WaMu, Wachovia and Countrywide by adoption; the Troubled Asset Relief Programme; the stress tests run by Treasury and the Fed; declines in interest rates to close to zero; the American Recovery and Reinvestment Act of 2009; the bailout of the auto industry; and international co-operation in the spirit of the G20 Meeting in Pittsburgh in which the IMF played a leading role.

There is only one major criticism of the policies put in place:

- We should have led the public to understand that we should measure success not by the level of the current unemployment rate, but by a benchmark that takes into account the financial vulnerability that had been set in the previous boom.

We economists have not done a good job of explaining that our macro-stability policies have been effective. There is, of course, good reason why the public has a hard time listening. They have other things to do than to become macroeconomists and macroeconomic historians.

But just a bit of common sense indicates why the policies have been so successful. If Lehman Brothers had been \$1 in the red, and it needed to be only \$1 in the black to stay out of bankruptcy court, then the expenditure of only \$2, at just the right crisis moment, could have saved us from a Great Depression. That \$2 finger in the dyke would have been all that was needed.

The expenditures for the bailout were of course more than \$2; they will probably be positive, and run to a few billion dollars. But



they did, literally, stop a financial meltdown that was in progress. Relative to the tens of trillions of GDP that would have been lost with a repeat of the Great Depression, the savings from the Troubled Asset Relief Program are of the order of magnitude of a thousand to one. A thousand to one says that, figuratively, it may be fair to call this a finger in the dyke.

The expenditures by both the Bush and the Obama administrations on fiscal stimulus have had less bang-for-the-buck. But almost surely they have been effective. Current estimates of government expenditure multipliers are something like two. That number also makes intuitive sense. Liquidity-trap estimates of a balanced budget multiplier are approximately one, both in theory and in estimation; and the tax multiplier is robustly measured as approximately one. The government expenditure multipliers will be the sum of the two, so the stimulus bills have almost surely also had significant payoff.

## CONCLUSIONS

In sum, we economists did very badly in predicting the crisis. But the economic policies post-crisis have been close to what a good, sensible 'economist-doctor' would have ordered. Those policies have come directly from the Bush and Obama administrations, and from their appointees. They have also been supported by the Congress.

The lesson for the future is that good economics and common sense have

worked well. We have had trial and success. We must keep this in mind with policy going forward.

*The text was published as part of the column-series "Rethinking Macro Policy II: First Steps and Early Lessons" in April 2013.*

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# Globalization has contributed to tearing societies apart

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The John F. Kennedy School of Government at Harvard University is a graduate and professional school that brings together students, scholars and practitioners who combine thought and action to make the world a better place. Smart public policy and inspired public leadership can make people's lives safer, more prosperous, and more fulfilling.

*Interview by ProMarket with Harvard economist Dani Rodrik*

**In a recent paper, you argue that contrary to the prevailing view among economists, trade agreements are the result of rent-seeking by politically well-connected firms. Can you elaborate?**

Trade agreements are political documents. Special interests, lobbyists, industry, and labor groups have always played a critical role in shaping them. I think what has changed is not that trade agreements involve special interests and political horse-trading, but the balance of interests.

The traditional economists' story about trade agreements is that they tend to restrain or rein in protectionist interests. In this story, trade agreements are political, but essentially are a way of limiting the influence of groups that would close off the economy from the rest of the world. I think economists haven't sufficiently appreciated that the world and the nature of trade agreements have changed and that the balance of interests, in terms of who shapes these trade agreements, has also changed. I think there is less and less reason to believe that, on balance, trade agreements are pursuing what an economist might consider

the gains from trade or appropriate social objectives and are more and more being shaped by the agenda of special interests.

### **When did this change occur?**

I think the watershed event was probably the 1990s. The creation of the World Trade Organization, for me, is the turning point. In the '50s and '60s, the world was very heavily protected, economies were insulated from each other, and the struggle then was to push against the prevailing protectionism. By the 1990s, the world economy had already become fairly open, and the WTO marked a fundamental transformation in the nature of trade agreements. They changed from trying to remove barriers at the border—the traditional import tariffs or quotas that economists tend to think about when they talk about trade barriers—and instead began to focus increasingly on behind-the-border rules and regulations, things like investment rules, rules on subsidies and health and safety, intellectual property rights.

These are all areas where the economic benefit of global agreements has to be scrutinized very, very carefully because there is no natural benchmark. It becomes very difficult in these new areas to determine whether more trade agreements and international rules is a good thing or a bad thing.

**A recent report by the United Nations Conference on Trade and Development argued that the hyperglobalization of the past 30 years has led to a sharp increase in market concentration, which in turn led to a proliferation of rent-seeking. Do you agree with the assessment that globalization has increased rent-seeking?**

I'm not saying that it has increased rent-seeking. I'm agnostic on that. I think it's changed the relative power of different groups of rent-seekers and that the terrain over which the rent-seeking is taking place is different. I don't want to make a blanket statement that we're in a world where rent-seeking has increased. I think it's always been there. I think what has happened is a combination of changes in our ideas and

»**By fetishizing globalization, we have essentially privileged and prioritized a set of powerful interests.**«

changes in the financial power and other powers of different groups, and this combination is reflected in the various parts of our global economy.

I think that by fetishizing globalization and exaggerating its benefits and understating its downsides, we have essentially privileged and prioritized a set of powerful interests. The fact that pharmaceutical companies or foreign investors find it so easy to get what they want is in part because of our existing narratives, or existing ideas, about how the world does or should work.

### **Who are the rent-seekers empowered by trade agreements?**

I'd say there are three groups, when it comes to trade agreements. First, financial institutions, banks; second, multinational institutions; and third, pharmaceutical companies. We see the impacts of these groups in investment rules, financial services agreements, intellectual property rights.

### **To what degree is the populist nationalist backlash in Western democracies essentially a backlash against globalization?**

I think globalization has contributed to tearing societies apart. You can see some of that in terms of greater inequality, but you can also see it in the increase of what one might call "social distance" between different groups in society: those who are globally networked and feel themselves to be part of a cosmopolitan group that don't recognize or need national borders, who have the assets and the mobility to take advantage of the world economy, and those who think that their fates are tied up with local communities, that don't have the assets or the resources and networks. It's a social and cultural cleavage that globalization has deepened by having very asymmetric effects on different groups.

### **Did this cleavage contribute to the widespread sentiment that financial and political elites are self-interested and not concerned with anyone's welfare but their own?**

Yes, I think that's effectively what has happened and what globalization has fostered. When corporations weren't as footloose, they felt that the health of their local communities was important—it was important for them. You needed to have a well-trained

workforce and you needed to ensure that your local government invested in public services. But if you think of yourself as an entity that can essentially operate in any part of the world and move wherever the circumstances are more advantageous, naturally you build up a very different kind of sensibility where you don't feel yourself to be part of the local community, and your connections with local stakeholders are weakened.

» **Economic populism takes aim at the sources of economic inequality and at concentrations of economic power.** «

These elites will not explicitly tell you, "We don't care about you anymore." They'll tell you, "Look, we can't afford to care about you because we're competing in a global economy and therefore we have to make these choices, we have to outsource and we have to move, we have to look for low-tax environments because we can't afford not to." They'll complain that they have no choice.

**Has the fact that globalization is often used as an excuse for policies that benefit politically connected groups and multinational firms helped fuel this backlash?**

It certainly has been an excuse, to be used as a bargaining tool, and I think it's been often disingenuous to the extent that these corporations have not valued the services or the importance of local or national governments, except for in moments of crisis. Banks and large corporations think of themselves as being global entities that don't rely on national governments – except during a financial crisis, when they need their national governments to bail them out.

And then of course we have mainstream political groups that have in many ways contributed to demonizing globalization, because they have a tendency to hide behind globalization. Paradoxically, both the right and the left have justified their programs by saying that's what needs to be done to compete in the global economy. You have the left saying that we need to invest in infrastructure and education so that we can compete better in a global economy – that was the New Democrat line – and the right saying we need low taxes and lower regulations to compete in the global economy. What do you hear when politicians are telling you this? You just hear that globalization is this monster out there that's making us do all these things, instead of what I think is a sort of an older tradition of thinking, where the world economy was something to help domestic societies achieve their objectives of prosperity, full employment, inclusion, and equity.

After the 1990s, I think these priorities became reversed and globalization became

the end, and countries and societies became the instrument, as opposed to the other way around.

**Much of the anti-globalization backlash of the last two years has been xenophobic, racist, authoritarian in nature. What is it about the nature of globalization that led to this kind of response?**

I think a lot of it has to do with the fact that the left has been missing in action. Twenty years ago, when I was fretting that globalization would create a backlash, I would have guessed that the main beneficiary of this might have been the left, because it would capitalize on the economic and social grievances that these divisions create. Indeed, when we think about the populisms of the late 19th century—in the US or for that matter Latin America, with its long history of populism—they were by and large not racist and xenophobic, ethno-nationalist populisms, but left-wing populisms that focused on financial elites, on corporate elites, and pushed for social reform and more regulation of the economy.

Today, here and in Europe, we're seeing much more of a right-wing ethnonationalist backlash. I think it's partly that the left has been missing in action and that the center-left and the social democrats have essentially been complicit in many of these changes since the 1990s. New Democrats in the US and New Labour in the UK were at the very forefront of this push for hyper-globalization, so they couldn't easily disassociate themselves from this complicity. I think Hillary Clinton's ill-fated campaign showed that very well.

There were other shocks that made it easier. For example, immigration made it easy for right-wing nativists to provi-

de a much more nativist, ethnonationalist frame for economic and social grievances to which I think one might have responded very differently.

**In a recent New York Times piece, you argue that in order to fend off the racist, xenophobic populism that we see on the rise in many advanced economies, what you call “the bad kind of populism,” we need a “good kind of populism.” Is this “good” populism, as the title of your piece suggests, essentially the New Deal?**

I think it's like the New Deal in the sense that it requires significant economic and political reforms that will curb the prevailing abuses of the market capitalism that we have now. But I think its specific details are going to take very different forms. I don't think that the right way forward is to simply enlarge or refine the welfare state that we have, which is based largely on essentially trying to redistribute through the tax and transfer system what the market produces.

I think the challenge today is actually to reform the production stage and the pre-production stage of the market economy, much more so than simply having more progressive income taxation or improved health and employment benefits.

Certainly in the United States, there's a lot that still can be done in terms of social insurance, and the US has a lot more to learn about improving safety nets from Europe. But I think it would be a mistake to think that's the main challenge. The real issues are going to be how to rethink property right systems in a way that's going to make the fruits of innovation and automation much more inclusive, how to make society feel much more [like] an equity participant in technology, closing the gap between this

narrow elite that benefits from it and the broad parts of society that are not. How do we increase and democratize our educational system to ensure that the endowments with which workers come into the market seeking jobs diminish this deep cleavage between the technocratic and professional elite and ordinary workers? How do we regulate digital platform monopolies?

These are reforms in education and property rights, in regulation and antitrust policy, that I think are going to necessarily look very different from the challenge that we confronted during the New Deal.

**You differentiate between two kinds of populism – political populism, the kind of autocratic populism we see from the likes of Putin in Russia and Erdoğan in Turkey – and economic populism, which you write is “occasionally necessary” and which you seem to suggest as a potential remedy to our current predicament. What is economic populism, and how is it different from political populism?**

I think economic populism is a populism that takes aim at the sources of economic inequality and at concentrations of economic power. Today in the US, economic populism would take the form of bringing the financial sector down to size, reducing the influence of Wall Street in political institutions, and having much greater regulation of the financial sector. It would mean taking aim at concentrations of power in high-tech and digital industries. It would mean taking aim at our current pattern of trade agreements, which often privilege particular corporate interests and investors. All of that would be economic populism that tries to reshape the distribution of economic power and tries to reduce the concentration of

economic power but does not try to turn the political system into an authoritarian one, does not necessarily concentrate political power or undermine liberal norms of pluralism and tolerance.

## »Macroeconomic stability, incentives, contract enforcement and property rights are very valuable first-order principles.«

**And yet there is a certain overlap between the two, at least in terms of rhetoric. Many far-right populists also attack digital platforms, Wall Street, cronyism. How can we better differentiate between the “good” kind of economic populism, and the “bad” kind of political populism?**

I think the similarity is that both economic and political populism have an aversion to agencies of restraint. Just like a political populism doesn't want anybody to stand in front of the so-called people's will, an economic populism wants fewer restraints on what can be done.

The difference, which I think in many ways is more important, is that econo-

mic populism is trying to redress economic imbalances and is actually doing things that would fundamentally improve the overall performance of an economy, [rather than] doing things to aggrandize or entrench the power of those who are currently in power.

**You write that the populist backlash to globalization “should not have been a surprise, least of all to economists.” And yet, most economists did miss it. How did so many economists miss what you suggest is a fairly straightforward lesson from history?**

When I say economists should not have missed this, I am suggesting that the very economic theory that we teach in the classroom has very stark implications for inequality and social divisions, and therefore we should have expected these divisions having political consequences.

I think fundamentally, economists were so enamored with the principle of comparative advantage and free trade that they felt that what they needed to do in the public domain was to defend free trade and globalization, even though the specific form that it took diverged very much from what they teach in the classroom. Still, I think they just instinctively sort of felt that they needed to be cheerleaders for this process rather than skeptics. Frankly, I think we didn't do our job very well because of that.

**Many of these developments—namely financial deregulation and globalization—have been tied to a set of policies often referred to as neoliberalism. In a recent piece for the Boston Review, you described much of neoliberalism as ideology**

**masquerading as economic science, and criticized mainstream economics for embracing it. Should economists have been skeptic?**

I think in a way, economists were definitely a little bit politically naive. During this whole process, if you asked economists about neoliberalism, I think most of them would have said, "What is neoliberalism? I have no idea what neoliberalism is." And yet neoliberalism is a real thing. I think economists either didn't appreciate that they were cheerleading for something that the rest of the world called neoliberalism, or they implicitly made the judgment that on balance this was better than sitting on the sidelines or expressing skepticism, because of their fear that the other side, so-called "protectionist barbarians," would have the upper hand.

**Heaping scorn on neoliberalism, you write, risks "throwing out some of neoliberalism's useful ideas." What are those?**

I think there is really a big distance between neoliberalism and proper, sound economics. But to the extent that it's really about ensuring macroeconomic stability, ensuring proper incentives, ensuring proper contract enforcement and property rights, these are very valuable first-order principles that ensure good economic performance. As I argue in that piece, this does not translate into what neoliberalism is usually thought of. But we should make sure we don't throw the baby out with the bathwater, that we just reject neoliberalism, but not reject the important role that markets have to play and the important role that incentives and macroeconomic stability have.

*The interview was conducted by and published on The ProMarket blog in March 2018. The full interview can be found on <https://promarket.org/globalization-contributed-tearing-societies-apart>.*





**Global Solutions for**

# **Migration**

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# **The importance of belonging**

**Prof. Paul Collier**

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# The importance of belonging

Politics ‘for the many, not the few’ needs to be rooted in people’s communities and their sense of home

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The Blavatnik School of Government is a global school pursuing a vision of a world better led, a world better served and a world better governed. It aims at improving the quality of government and public policy-making worldwide, so that citizens can enjoy more secure and more fulfilled lives. The Blavatnik School of Government is committed to excellence in leadership and public policy education.

Most people have a powerful sense of belonging to place. I grew up in Sheffield, then, as now, the least fashionable city in England. Like me, the famous British playwright Alan Bennett was the son of Yorkshire parents with little education. The History Boys recounts his story of social mobility from humble origins to Oxford. But he grew up in more-fashionable Leeds. In order to emphasize the social gulf that he had crossed, he set his play, not in his home town, but in mine. Indeed, he set it in my school: I am more authentically a ‘History Boy’ than Bennett himself.

Sheffield is unfashionable, but that only strengthens the bonding of its people, and that bonding became a powerful political force. Through recognizing that they had a common attachment to the place where they grew up, communities such as Sheffield built cooperative organisations that reaped the benefits of reciprocity.

By putting affinity to use, these organisations grew to include a remarkable range of economic activities that addressed the anxieties of working people. Cooperative insurance societies enabled people to reduce risks; cooperative building societies enabled people to save for a home; cooperative agribusiness and retailing gave

farmers and consumers bargaining power against big business. This happened not just in the North of England but across much of Europe.

By banding together, these cooperatives became the foundation of the political parties of the centre-left. Like the cooperatives, their policy agenda was practical, rooted in the anxieties that beset the lives of poor families. But as these political parties became successful, they attracted an entirely different class of participant who became disproportionately influential. These were middle-class intellectuals who were attracted by the utilitarian philosophy devised by Jeremy Bentham. Bentham is now thought to have been autistic, and so incapable of having any sense of community.

### AN ELITIST CREED

Utilitarianism offered a vision in which a paternalistic state run by a vanguard of technocrats, would impose policies that achieved 'the greatest happiness for the greatest number'. This was an updated version of the Guardians of Plato's Republic: indeed, John Stuart Mill, brought up as Bentham's disciple and the other influential intellectual, was taught Greek and was reading *The Republic* by the age of eight. Deliberately kept away from other children, he was probably more familiar with ancient Greece than with the provincial cities of his own society. Their middle-class followers, though not grounded in the anxieties of poor communities, readily saw themselves as the new Guardians: the empowered technocrats who would run society on behalf of everyone else.

As Europe's states became more powerful, and as centre-left parties became

dominant, the utilitarian technocrats supplanted the communitarians without even noticing that they had done so. But ordinary families noticed, not least because, divorced from communities, some of the policies favoured by the utilitarian technocrats were damaging and unpopular. The technocrats ran the state from the metropolis, which was thriving; communities were provincial and increasingly faced the risk of being plunged into economic catastrophe.

»Any solution must work for the many who stay in their societies, not the few who leave.«

This indeed happened to Sheffield during the 1980s. When I grew up, my home town was a global centre of specialist steel; its workforce highly skilled and fiercely proud of its tradition. Indeed, my great-great grandfather had been the master of a tiny cutlery works: I treasure the photo of him in front of the dozen youths who were his workforce.

Sheffield was making cutlery in the 13th century: we know this because of a line in Chaucer's *Canterbury Tales*. This centuries-old tradition was completely smashed within a few years by globalisa-

tion, a process that despite such tragedies met the utilitarian criterion of providing 'the greatest good to the greatest number': East Asians were gaining and they were poorer than the people of Sheffield.

»Belonging to place is a force too potent, and potentially too constructive, to be abandoned to the far right.«

### INELIGIBLE, UNSUPPORTED

If you have seen the hit-film *The Full Monty*, you will have acquired some insight into the consequences for Sheffield: the film is the story of what happened to my home city. By then I experienced it at one remove, secure in a job at Oxford University, and living the metropolitan life. Back home, our neighbour was made redundant; my young relative could not find a job and moved to the Netherlands. When he returned three years later, he found that under the utilitarian-inspired rules, his absence had made him ineligible for either housing or educational support. Immigrants had greater needs and so were deemed to be the priority.

My entire professional life has been concerned with the needs of people in societies that are poor, as is much of Africa,

or beset by violence, as is Syria. Decades of research and experience have gone into my books, such as *The Bottom Billion* and *Refuge*, that propose ways of addressing these needs. But my premise has been that any solution must work for the many who stay in their societies, not the few who leave.

The utilitarian technocrats, for their own reasons, insisted on the opposite: a few fortunate people should be 'rescued' from the troubled societies, with little thought for the many. For example, Europe's policies towards refugees currently spend around €135 on each of the tiny minority of those who come to Europe, for every euro spent on the many who choose to stay closer to home. And we have 'rescued' doctors from Africa: there are more Sudanese doctors in London than left in the entire country of Sudan.

As the utilitarian technocrats captured control of the parties of the centre-left from the communitarians, electoral support melted away. The technocrats, superior in their new globalised class identity, actively denigrated the sense of belonging to place. But since that sense is fundamental to most people, having been discarded by the centre-left it was gleefully seized by the far-right for its own, repellent, agenda with potentially dangerous consequences.

In retrospect, the period of utilitarian dominance of the centre-left will come to be recognised for what it was: arrogant, over-confident, and destructive. The centre-left will recover as it returns to its communitarian roots, and to the task of reconstructing the web of trust-based reciprocal obligations that address the anxieties of working families. Belonging to place is a force too potent, and potentially too constructive, to be abandoned to the far right.

*This article was first published in the online magazine International Politics and Society in November 2017. International Politics and Society is published by the Department of International Political Analysis at the Friedrich-Ebert-Stiftung.*

# The annual Global Solutions Summit

Facts and figures 2018

Participants of the  
Global Solutions Summit 2017





- Date: May 28th and 29th, 2018.
- 

- Location: ESMT – European School of Management and Technology, Berlin. The building housed the East German government until 1989. After German unification it was used for two years as the office of the German Chancellor.
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- More than 1,000 participants from around 100 countries.
- 

- More than 140 speakers from around the world in 39 panel discussions and keynotes.
- 

- Representation of the Argentinian G20 presidency by numerous government officials as well as the chairs of Argentina's T20 process.
- 

- Representation of the German government by Federal Chancellor Angela Merkel, Federal Minister of Finance Olaf Scholz, Foreign Minister Heiko Maas and Federal Minister for the Environment Svenja Schulze.

- Speakers from our partners from the Council for Global Problem-Solving (CGP) as well as representatives from UN, WTO, World Bank, OECD and civil society organizations.
- 

- Theme of the summit: "Recoupling Social and Economic Progress." The Global Solutions Initiative and its President Prof. Dennis J. Snower are committed to providing solutions on this theme.
- 

- Welcome reception by the Governing Mayor of Berlin, Michael Müller, on the evening of May 27th, 2018. German Foreign Office reception on May 28th, 2018. Networking and exchange of ideas in a relaxed atmosphere.
- 

- Young Global Changers programme with more than 100 future decision makers. Lectures by Nobel Laureates and internationally renowned experts in a summer school before and after the conference.
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- Information about the Global Solutions Initiative as well as the related summit can be found on [www.global-solutions.international](http://www.global-solutions.international) and Twitter (@glob\_solutions)

*This edition of the Global Solutions Journal was published on the occasion of the second Global Solutions Summit on May 28, 2018.*

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