WORLD LEADERSHIP ALLIANCE
CLUB DE MADRID

10 YEARS
SHARED SOCIETIES
Political action on the social dimension of the Agenda 2030

The Economics of Shared Societies

The Shared Societies Project

Democratic Leadership for Dialogue, Diversity & Social Cohesion

Building a World Safe for Difference

Club de Madrid President Kok with Women of the National Assembly, Nigeria

The Club de Madrid aims to demonstrate that diverse societies which are cohesive and inclusive make sense: co-operation is better than conflict. It is more cost effective and beneficial in every way to invest in building Shared Societies.

Wim Kok
Former Prime Minister of the Netherlands
President of the Club de Madrid

From my own experience there is no contradiction between sound financial policies and supporting the achievement of Shared Societies, in fact they complement each other.

Pedro Solbes
Former Finance Minister, Government of Spain
Former Commissioner for Economic and Monetary Affairs, European Commission

Prime Minister Roman visiting the Centre for participation and integration of immigrants, Madrid

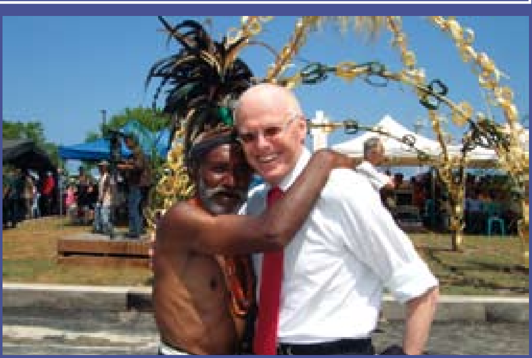
Project Co-Chair Uteem and President Chissano leading a Shared Societies Project Mission to South Africa

We want to show that it is possible to promote Shared Societies everywhere, even where leaders argue there is nothing that they can do. What we say to political leaders is also relevant to those in leadership positions in civil society.

Cassam Uteem
Former President of Mauritius
Co-Chair of the Shared Societies Project

The Shared Societies vision shows us what is possible, what is best in the realm of social and economic policy.

Lord Meghnad Desai
Member of the House of Lords
Professor Emeritus of Economics at the LSE and founder of LSE Global Governance



Project Co-Chair Birkavs with local leader in Timor Leste

CLUB DE MADRID

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Democratic Leadership for Dialogue, Diversity & Social Cohesion

Building a World Safe for Difference

The Economics Of Shared Societies

No. 2 Of The Shared Societies Project Document Series

www.clubmadrid.org

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IN MEMORIAM

At the Club of Madrid we are deeply saddened by the passing away of Alan B. Slifka, philanthropist, New York investment manager and the main funder of the Shared Societies Project, on Friday, February 4th, 2011, just as this publication was going to the printers.

Members and staff of the Club of Madrid would like to express their sincerest condolences to his family and to the entire team of the Alan B. Slifka Foundation.

The Shared Societies Project, a Club de Madrid global initiative, has benefited greatly from the commitment and support of his Foundation. His vision and passion for a better world will continue inspiring all of us.

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1 PRESIDENT'S INTRODUCTION

I welcome this latest collection of materials from our Shared Societies Project, which brings together our current ideas on the economic benefits of socially cohesive and inclusive societies.

The Club de Madrid initiated the Shared Societies Project in 2007 in an effort to provide current leaders with the principles underlying meaningful social inclusion and an inventory of best practices and tools to productively manage social diversity and overcome inter-group tensions and hostilities. Social division due to race, ethnicity, religion, language and gender, among others, often lead to tensions and hostilities and is one of the major challenges facing the community of nations today. As such, the Members of the Club de Madrid found social cohesion to be a priority issue to bring to the attention of current political leaders, policy makers and international institutions, highlighting the need to identify and promote ways to achieve greater harmony and fairness in inter-group relations. Our concern and commitment to the issue and this project remains as firm today as it was when we began.

We chose to use the term "Shared Societies" because it best described our vision of a society where the people in any given jurisdiction feel they belong, have a role to play in its society and, at the same time, can fulfil themselves at the individual level. In our 2007 booklet: *A Call to Action for Leadership to Build Shared Societies,* we said:

> *A 'Shared Society' is a socially cohesive society. It is stable, safe. It is where all those living there feel at home. It respects everyone's dignity and human rights while providing every individual with equal opportunity. It is tolerant. It respects diversity. A Shared Society is constructed and nurtured through strong political leadership.*

It is clear that this vision goes far beyond tolerance and expecting everyone to be alike. As our vice President has said "you have to be like us!" is an unintelligent and unsustainable approach to national identity".

Our rationale for the Shared Societies Project is clear. We believe that averting ethnic, religious and cultural conflict in and among communities and nations is an urgent priority for many cities and states. We believe that societies are most likely to be peaceful, democratic and prosperous when leaders and citizens recognise the value of diversity and actively develop means to build together a Shared Society based on shared goals and common values. We believe a socially cohesive society will be more stable and productive. Its members will be positive and confident of their role in society and their talents and contributions will be recognised, nurtured and applied in the further development of the society and the global community. The wellbeing of individuals and communities leads to the wellbeing of the nation, and among nations.

Building a Shared Society is a complex, long-term effort that requires thoughtful, committed political leadership. In order to provide leaders with effective methods to advance in this process, the Shared Societies Project codified the principles that, we believe, underlie a true Shared Society and articulated Ten Commitments that capture the elements necessary to make Shared Societies a reality. You can find this previously published material on our website.[1]

When we began the Shared Societies Project, we said that this was one of the most important issues facing national and international leaders. Since then, the challenges posed by a global economic and systemic crisis, the reality of climate change and the calls to reform governance structures and policies have all generated additional political heat — but the issue of inter-group relations has not diminished in importance. In fact, we are increasingly aware that managing inter-group relations can be part of the solution to these other challenges.

We, the Members of the Club de Madrid, know from our own experience that Shared Societies bring economic benefits, while the wrong economic policies deepen social divisions. We have also painfully learned from experience in our own countries, that social divisions can negatively affect all of our people, directly or indirectly, and are a major drain on the national economy. In extreme cases, where divided societies fall into violent strife there are considerable, immediate economic costs, as well as long-term costs associated with rebuilding and reinvestment.

- Recent research by the World Bank suggests that where group-based tensions lead to civil war, national income can be reduced by as much as 50 percent.[2]

- A decade of data collected and evaluated by the World Bank found that countries with high levels of social trust and cohesion saw an 18.6 percent increase in GDP over the decade. At the same time, countries with low levels of social trust, experienced economic stagnation during the same period of time.[3]

- In Canada, economists calculated that the failure to fully recognize the potential of immigrants and women in the workforce represented an untapped economic opportunity of $174 billion in lost personal incomes.[4]

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1 http://www.clubmadrid.org/en/ssp/commitments_and_approaches_br_for_shared_societies

2 Foa, R and Jorgensen, S: *Defusing Collective Violence: The Economic Arguments* in McCartney, C. (ed.) The Shared Societies Project Background Papers: Responding to Social Cohesion Challenges (2008) Madrid: Club de Madrid.

3 Foa, R. and Jorgensen, *ibid.*

4 RBC Financial Group (2005) *The Diversity Advantage: A Case for Canada's 21st Century Economy,* Presented at 10th International Metropolis Conference, Toronto, Ontario. www.rbc.com/economics

We believe that one of the most effective ways to demonstrate the benefits of a Shared Society is to show that it is positively related to the achievement of economic wellbeing.

It is this idea that has moved the Members of the Club de Madrid to work to make a compelling economic case for Shared Societies, in light of which, during 2010 the Shared Societies Project established an Expert Working Group to consider the link between Shared Societies and economic wellbeing. The Working Group identified the types of economic policies that stimulate and encourage a Shared Society and those that have a negative impact on the achievement of Shared Societies. This Group has submitted its final report, which can be found on our website[5], and the Members of the Club de Madrid have endorsed its findings, concluding that these clearly demonstrate to all interested parties that a Shared Society is central to development and that, while there are challenges in achieving that goal, the rewards make the effort eminently worthwhile.

This publication presents a set of guiding principles (page 15) on the economics of Shared Societies formulated by the Expert Working Group and their core analysis of the benefits of Shared Societies (page 17), together with a broad range of approaches and actions (page 29) that could be adopted by policymakers to enhance Shared Society through economic policies. We are heartened that a number of eminent experts have also endorsed the report (page 89).

Building upon the findings of the Experts' Working Group, the Members of the Club de Madrid have developed a Statement (page 11) and a set of policy recommendations (page 29), which we wish to offer current leaders, political and economic, national and international. The guiding principles and policy recommendations, together with the Ten Commitments presented in the first document of the Shared Societies Project Document Series[6], provide the framework for a new approach to both economic policy and inter-group relations which we hope will be both more effective and fairer.

This publication also includes a review of recent literature and current practice on these topics, with lessons and insights we feel can be helpful to guide future practice (page 35).

The Club de Madrid intends to bring this analysis and ideas for future action to the attention of current leaders and contribute to the critical debate on a shared vision of our economic future and the management of inter-community relations, and how to enhance global

5 http://www.clubmadrid.org/img/secciones/Policy_Perspectives_on_the_Economics_of_Shared_Societies.pdf

6 Also available at http://www.clubmadrid.org/en/ssp/commitments_and_approaches_br_for_shared_societies

economic institutions to enable them to contribute more effectively in both areas. This publication is a first step in sharing these ideas and we ask you to consider them carefully. Two years ago we issued a Call to Action (page 97) on Shared Societies. The ideas that have emerged from our work on the economics of Shared Societies make that Call to Action ever more relevant. We urge everyone to subscribe to it by registering on our website and, more importantly, to act on it to make a difference.

We are planning a number of exchanges with key global and regional institutions to gain support for our Shared Societies proposals and will be sharing these ideas during our country missions in different part of the world.

Finally, I want to take this opportunity to thank those who have contributed to this phase of our Shared Societies Project — and the members of the Working Group; Steve Killelea who during the General Assembly in November made a presentation on the structures and attitudes underpinning a peaceful society and indicated many overlaps with our own analysis; and the various institutions that hosted the Expert Working Group meetings.

We owe a particular debt of gratitude to Alan B Slifka, whose keen interest in the initiative made it all possible. Sadly he passed away in early February just as we were preparing this booklet for publication. He was the main supporter and sponsor of the Project since its inception and it is fitting that we dedicate this publication to his memory. His vision and passion for a better world will continue to inspire all of us.

We believe the time has come to act and we believe these materials provide a guide to the most appropriate actions. I therefore am pleased to offer them to you and encourage you to share it widely so that we can build a critical mass of supporters of an economic system that works for all and, as a result, benefits us all.

Thank you.

Wim Kok
Former Prime Minister of the Netherlands
President, Club de Madrid
January 2011

2 THE CLUB DE MADRID STATEMENT ON THE ECONOMICS OF SHARED SOCIETIES

We, the Members of the Club de Madrid, are committed to the development of Shared Societies, where people hold an equal capacity to participate in and benefit from economic, political and social opportunities regardless of race, ethnicity, religion, language, gender or other attributes and where, as a consequence, relations between groups are peaceful.

We are convinced that this is not only inherently desirable but also economically beneficial.

We bring this message to national leaders and their countries but also to global financial and political institutions which, too often overlook this fact and focus on fiscal rectitude, which, although important, often acts to the detriment of the social and human dimensions of social development and economic growth, which are equally important.

Shared Societies enjoy better prospects for economic wellbeing, which we understand to be sustained economic growth with equity, and gains for all. You cannot have sustained and equitable economic wellbeing without inclusion.

Shared Societies generate economic dividends for governments, businesses, communities, families, and individuals. Through a “virtuous cycle”, these economic dividends of Shared Society further enhance a society’s capacity to be shared, which in turn, generates more economic dividends.

To explore these links, the Club de Madrid established an Expert Working Group to analyse and inform on this virtuous cycle connecting economic wellbeing and Shared Societies.

HOW DOES THE VIRTUOUS CYCLE WORK?

1. Governments that engage and invest in all members of their societies — through education, health care, infrastructure and an equitable distribution of resources — foster a productive and dynamic environment that maximizes the economic contribution of all individuals, regardless of their race, ethnicity, religion, language, gender or other attributes.

2. Such governments are responsive to the people's needs and priorities. When government engages and invests in its people, they are more likely to have a sense of belonging and to be more willing to support the state and the common good, thus enhancing stability.

3. Businesses in Shared Societies can, therefore, draw on a stable, more educated, diverse and productive population, and access the skills and creativity offered by all individuals. Entrepreneurship, creativity and innovation flourish in a peaceful, tolerant and stable environment, making inward investment more attractive. The overall economic wellbeing of a country or community is enhanced.

4. An added benefit of this 'social contract' between government, the business community and a country's population is increased transparency of public institutions and greater understanding of public spending. This contributes to reduced corruption and less wasteful public spending. Thus, a Shared Society enhances the fiscal dividend to the state, enhancing its economic wellbeing and providing the resources to further promote a Shared Society.

5. When the broader economy flourishes so too do individual households. Households that are included within broader society and benefit from the economic dividend of stability tend to be stronger and more resilient in the face of misfortune. The economic contribution of all individuals becomes a critical factor in a country's ability to overcome external shocks to its economy.

This virtuous cycle is also enhanced by the reductions in costs that result from a Shared Society and the release of resources previously set aside to maintain the status quo, including policing and security measures to manage intercommunity tensions.

Shared Societies make economic and social sense.

WHAT CAN WE DO?

We urge all leaders and global financial institutions to recognise that Shared Societies benefit everyone and to take all steps to make them a reality worldwide. Any other policy is short sighted. We also call on them to adopt the Call to Action and the Ten Commitments for Shared Societies as a means of effectively achieving a truly Shared Society in their own countries.

We invite the wider community to support leaders working to build Shared Societies, realising that they too will ultimately benefit, and encourage them to bring the economic argument for building Shared Societies to leaders who are not at present responding to it.

Our Expert Working Group has identified Ten Guiding Principles that should guide national and international policymakers in their discussions and the formulation of fiscal, social, and economic development policies. The Members of the Club de Madrid has endorsed, adopted and will promote these Guiding Principles for its peer to peer consultations at the country level, as well as in its exchanges with international organizations such as the United Nations, the World Bank, and regional intergovernmental bodies and in its participation in public debate and discussion generally.

We call on current leaders and international institutions to also adopt these Ten Guiding Principles as a framework for their policies and programmes and as a means to a fairer and more inclusive international order that will ensure a global environment where States will be encouraged to build their own Shared Societies.

Together with the Expert Working Group, we have made a series of specific recommendations, linked to these Ten Guiding principles, which we offer to current leaders for their serious consideration and implementation.

3 GUIDING PRINCIPLES OF THE ECONOMICS OF SHARED SOCIETIES

The experts' analysis of the economic benefits of a Shared Society, and the national and international policy approaches and options that emerged from this analysis, resulted in the articulation of ten Guiding Principles on the economics of Shared Societies. The Club de Madrid believes these Guiding Principles provide a useful framework during policymaking and planning and has adopted them and used them as the basis for the set of recommendations that appears in chapter five.

1. Shared Societies, in which diverse groups and individuals are economically integrated and utilise their talents and skills, tend to be more stable societies, which enjoy higher economic growth than divided societies.
2. If groups and individuals are economically marginalized they have no reason to feel a sense of belonging to the state and are less likely to support the state or society and contribute to the economic wellbeing of all.
3. The cost of investing in a Shared Society and ensuring that marginalised groups feel they have a full place in society is more than compensated for by the contribution they can then make.
4. Leaving groups and individuals on the margins of society is not cost-free, as it creates social, political and security problems which are avoidable, unnecessary and costly.
5. National and local economic policies and programmes play a major role in creating an inclusive dynamic for all groups.
6. National and local economic policies and programmes too often mainly benefit those who are already successful and influential, and as a result reinforce social divisions.
7. The international economic frameworks and the institutions that support them need to be reformed to ensure a fair, equitable and sustainable international economic order and business practices, and encourage appropriate national policies leading to Shared Societies and greater economic wellbeing worldwide.
8. Existing international economic frameworks need to ensure that wealthier countries and vested interests do not benefit at the expense of poorer states and marginalised groups within all states.
9. Well intentioned economic policies often fail to benefit marginalised sectors and integrate them into society because of unintended consequences. They can be subverted by influential sectoral interests.
10. Economic policies are more likely to benefit those who are marginalised and integrate them into a Shared Society if marginalized groups are involved in the planning and implementation of policies and programmes and if there is a mechanism to screen policies and programmes for their differential impact on each sector of society.

4 POLICY PERSPECTIVES ON THE ECONOMICS OF SHARED SOCIETIES

The following are key extracts from the Conclusions of the Working Group on the Economic Rationale for Shared Societies. The full report is available on the Club de Madrid website.[1]

THE ECONOMIC RATIONALE FOR SHARED SOCIETIES

Shared Societies generate economic dividends. By harnessing the skills, strengths and talents of their entire population, Shared Societies create safe and prosperous communities. Shared Societies foster a productive and dynamic environment that maximizes the economic contributions of all individuals, regardless of their race, ethnicity, religion, language, gender, or other attributes. Specific characteristics of Shared Societies will vary across countries and regions. But the concept and general attributes of social inclusion apply to high and low income countries as well as to conflict-influenced areas.

Evidence from several countries and communities underscores the compelling economic advantages associated with having a Shared Society, not to mention improvements in areas such as health, education and reduction in crime.

Shared Societies, where people hold an equal capacity to participate in and benefit from economic, political and social opportunities regardless of race, ethnicity, religion, language and other attributes and where as a consequence relations between groups are peaceful, are inherently desirable. But Shared Societies are also economically valuable, offering and enjoying, as they do, better prospects for economic wellbeing, achieved through sustained economic growth with equity, and gains for all can be better applied in a socially and environmentally sustainable way in a Shared Society.

Governments in Shared Societies encourage participation, are more responsive to people's needs and are more in contact with their populations' priorities. In turn, residents have a sense of belonging and are more likely to support the state and its policies. This reciprocity generates stability and fosters economic growth. In addition, the flow of communication between the state and all residents results in increased understanding of state expenditure and increased transparency of the political institutions, which reduces waste through corruption and/or unproductive expenditure.

Business enterprises in Shared Societies can draw on a stable, more diverse and productive population, and access the skills and creativity offered by all individuals. Entrepreneurship, creativity and innovation flourish in a peaceful, tolerant and stable environment.

Households that are included within broader society and benefit from the economic dividend of stability tend to be more resilient in the face of adversity. The economic contribution of all individuals becomes a critical factor in countries' ability to overcome external shocks to their economies.

1 http://www.clubmadrid.org/img/secciones/Policy_Perspectives_on_the_Economics_of_Shared_Societies.pdf

Shared Societies release the economic potential of the population and thereby increase the economic wellbeing of their people. Creating Shared Societies and improving economic wellbeing have a positive impact on each other and create a virtuous cycle which strengthens the whole society. A Shared Society is a more settled and stable society, which in turn encourages business activity and economic participation, leading to wealth generation and economic wellbeing, and creating more resources that can be used to finance policies to support a Shared Society.

Shared Societies underpin political stability. A Shared Society, where all members have an equal opportunity to participate and benefit, is a more settled and stable society. It is more likely to be legitimate (in the sense of having widespread public support). This is because it is more willing to hold itself accountable, relate directly to the people, address social divisions, and productively resolve conflict.

Shared Societies support economic growth. Political and judicial stability, built on the state's legitimacy and capacity, are essential ingredients for economic wellbeing at any stage of development and provide a positive climate for economic activity.

Financial investment requires a predictable and stable policy environment and legal system. The entry and exit costs of public and private investment are generally very high, and decisions on investment are often delayed when there are uncertainties, such as political instability, an absence of transparency, and/or the exclusion of marginalized groups. In divided societies, as a result, risk increases and the high cost of investment is pushed even higher.

Shared Societies facilitate intercommunity trade and also tap into the economic potential of the whole society. A country's social and economic wellbeing requires investment in human development, without which a society will not have the healthy, educated, trained workforce necessary to fulfil its economic potential. The existence of such a workforce is another important determinant of inward investment. Shared Societies offer all individuals in society, regardless of race, ethnicity, religion, language, gender or other marginalizing traits, education and training and the opportunity to put their skills to productive use — through work, entrepreneurship and innovation — thereby fulfilling their productive potential, and adding to a country's overall growth. In contrast discrimination against sections of society narrows the labour market and underutilises the capabilities and capacities of those excluded. Consequently they make no or little contribution to the national economy.

As a result investment, productivity, economic growth and development are higher in Shared Societies than in divided societies. This creates a financial dividend which can be used in part to finance measures which will strengthen the promotion of a Shared Society.

In contrast, a divided society not only loses these revenues but incurs additional costs necessary to manage the tensions within society. These costs include higher expenditures for policing and security and manipulative transaction costs such as corruption, lobbying and rent-seeking.

In extreme cases, where divided societies fall into violent strife and/or become fragile states, neighbouring states are affected. Shared Societies are in the common interest.

The Shared Society economic benefit differs across stages of a country's development. In countries in the early stages of development, the difficulty of accumulating and utilizing capital and labour limits progress in economic wellbeing. A stable, predictable policy environment and available workforce ensures substantial economic benefits. For developed economies, maintaining competitiveness and economic growth depends more on innovation and technological progress, which, in turn, depend on dynamic, diverse, creative, risk-tolerant and entrepreneurial societies, where a premium is placed on performance not background. It is therefore wasteful to ignore the talents of groups previously ignored and discriminated against for these and other reasons and at the same time, this analysis points to the advantages of welcoming immigrants. These are qualities available in Shared Societies but not in divided societies.

SHARED SOCIETIES COLLECT AND SPEND PUBLIC MONEY BETTER

A strong economic argument for a Shared Society is the fiscal dividend. The increase in economic growth which Shared Societies enjoy results in the fiscal dividend of higher revenues. This fiscal dividend is further enhanced by the capacity of countries with Shared Societies to collect revenue more efficiently. This fiscal dividend allows the servicing and reduction of government debt, and higher levels of expenditure on social items including schooling, health and public infrastructure.

Increasing these types of expenditures in an equitable way would itself build a Shared Society, and will in turn convince more people to support the state and pay taxes. It is, however, clearly conditional on a fiscal compact: giving people a say in how their taxes are used, keeping public finances transparent and accountable, and decentralizing public spending.

In developing economies, a key challenge for policy makers is to broaden the tax base which — *inter alia* — means bringing many informal entrepreneurs and businesses into the formal economy. This leads to a virtuous cycle, as formalized businesses can often get easier and more credit, enjoy greater legal protection, and hence can grow and create more jobs. A key challenge in high-income economies is to increase tax cooperation. Tax evasion, tax avoidance and tax havens create inequalities and resentment as well as depriving the state of revenue.

Overcoming these problems requires tough laws and effective enforcement mechanisms but more fundamentally a greater willingness to contribute to state funds. This comes from recognition that state revenues are financing high quality public services directed at achieving a Shared Society from which all will benefit, and from a greater civic sense that tax payers should support the state in achieving agreed goals.

A challenge for all countries is to use the fiscal dividend more effectively to enhance Shared Societies. The fiscal dividend of Shared Societies should be used to reduce group-based inequality including inequality in access to education, job training, health care and other development opportunities.

If societies can involve, enable and instil confidence in currently marginalised and under-utilised residents, including migrants, it would allow societies to integrate them and their families as productive members of the broader society. This process will provide increased social protection contributions, and in countries where the population is ageing rapidly, this will contribute to resolving the challenge posed by the financial sustainability of social protection systems.

SHARED SOCIETIES, PERSONAL WELLBEING AND ECONOMIC WELLBEING

The nexus between Shared Societies and economic wellbeing is also evident at the personal level. In fact the individual's experience demonstrates most clearly the nature of the interaction between them and explains why they are so closely entwined.

Personal wellbeing necessitates not only income and services but also recognition, that comes from participation in the economic and social life of the community. On the other hand marginalisation and a lack of personal wellbeing lead to significant costs not only for the individual but for the whole society.

The aspirations of all people are very similar — to have a reasonable quality of life, a sense of control over one's destiny, to be accepted and respected by the wider society and, in parents, to give their children a good start in life. If those aspirations are met, and even more if one's society helps to meet them, self respect grows and then the individual is ready to engage with and play a responsible part, economically and socially. He or she will be a productive member of society contributing his or her effort, skills and talents as he or she pursues personal aspirations. We know that in a fair and enabling society the wellbeing of all members improves.

These aspirations can however be easily blocked if there is no encouragement of a Shared Society. Sections of the society, when they are defined as different from the dominant community, are often treated as second class citizens, if they are recognised as citizens at all, with consequent economic disadvantages. They may have no right to own property or have only qualified rights. There may be limitations on their rights to establish small enterprises. They may be restricted in their ability to move to areas where they can pursue their aspirations more effectively. Even when their rights are not blocked in these ways, in order to realise their potential, they may need support and assistance, such as education and training, access to capital and the development of appropriate infrastructure. They may also face prejudice and discrimination in many areas of life including the job market. Amartya Sen[2] has pointed out that poverty can be understood as the lack of the capacities, tools or opportunities needed to function as a full citizen rather than the lack of money and possessions or a shortage of talent or ambition.

When their aspirations are blocked it is not surprising that individuals and whole sectors of society will feel they do not belong, with negative consequences — social, economic and political — not just for the individual and his reference group, but for the whole population.

Some will be apathetic with low morale and no sense of purpose. They are unable to support themselves or contribute to the wider society.

Others will withdraw into a community where they feel less uncomfortable and rejected, and therefore become more detached from the rest of society. They may try to hold on to their traditional values even as they are changing in response to the modern world. In trying to find or hold on to something or some group where they can feel secure, they may even create a different more rigorous form of their traditional culture. The stereotypical attitude of the wider society may channel them into this alternative community. Indigenous communities are often accused of being against development when they themselves say they want development but not in the form in which it is offered. Immigrants are often accused of not integrating into the host community when they are limited in their opportunities to play a full part in it. This process of marginalisation comes at a cost to society in terms of the lost potential of those marginalised, not to mention the costs of supporting and policing them.

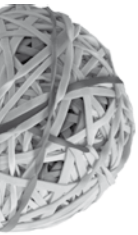
Marginalised communities with no outlet can easily turn in on themselves and become beset by social problems with high social costs — breakdown of social control; overcrowding, poor health and sanitary conditions; alcohol and drug abuse; domestic violence, gang cultures and mafia control.

2 Amartya Sen (1999) *Development as Freedom.* Oxford: Oxford University Press.

Frustration may also turn outwards leading to challenges to the wider society. People look for ideologies and belief systems which help them to explain their situation and may join militant groups or secessionist movements, which in turn leads to more chauvinism and hostility from the wider society.

Instead of the virtuous cycle to which we aspire, this series of events leads quickly to a vicious cycle, when there is no sense of wellbeing. On the other hand it can quickly be reversed by taking an alternative approach aimed to create a Shared Society where individuals have a chance to pursue their individual aspirations. Benign neglect and welfare provision in isolation do not help. They only create dependency by recipients and resentment by tax payers who fund these services, which reinforces the vicious circle.

The opportunity for economic engagement is also essential in creating a virtuous cycle. That requires governments and the dominant sectors of society to recognise the desire of individuals to belong and fulfil their ambitions even if they seem different from other sectors of society. It requires government and society to make spaces for individuals to pursue their personal ambitions in their own way and at the same time give them the support they need. When this happens then there is a strong motivation and incentive to integrate into the rest of society so that those aspects of their identity, such as language, religion, clothes and other cultural practices which mark them out as different, do not disappear, but become private matters which strengthen their personal sense of ease and wellbeing, as is the case with the whole community.



There is now, especially following the global economic and financial crisis, a questioning of the importance of targeting and measuring economic growth and GDP per capita as key elements of development policy. People's non-material wellbeing is increasingly receiving its due recognition. It also appears that people put more value into relational goods — families, friends, broader society, etc. — as countries develop in a material sense, and as GDP per capita rises. Economic wellbeing in a Shared Society results in personal wellfeeling.

The experts' analysis in the preceding sections of the report[3] *lead to the articulation of approaches and options in the formulation and implementation of national and international economic policies which impact the achievement of Shared Societies.*

NATIONAL AND INTERNATIONAL ECONOMIC POLICIES FOR SHARED SOCIETIES

Fiscal policy does have an effect, positive or negative, on the attainment of a Shared Society. General fiscal policies will have a differential impact on different sections of

3 The first four guiding principles synthesise the arguments elaborated in these sections.

society and that will increase or minimise the inequalities between those groups. National policies aligned with the analysis in the previous sections will have a positive impact on the achievement of a Shared Society in various ways[4]:

- Improving the progressiveness of the tax system will correct income inequalities and benefit more disadvantaged groups.

- There is a need to broaden the tax base and, particularly in low income countries, to include the informal and underground economies. This in turn will give those affected the interest and the legitimacy to influence how taxes are spent and increase participation. As the more disadvantaged are able to participate in decision making there is more possibility that spending will be more targeted on the needs of these groups.

- A more efficient tax system will allow governments to generate resources which can then be allocated to more productive ends, such as education, public health, and infrastructure.

- More creative mechanisms are needed for the delivery of social spending, with (particularly in countries facing the challenge of a growing youth population), emphasis on education and training.

- Those countries facing the challenge of aging populations should implement reforms to ensure the financial sustainability of pension and social security systems, many of which, on present trends, are facing bankruptcy. Those countries that have insufficient or deficient systems of social protection need to reform them to establish basic universal coverage and may require external assistance to do so as many are low income countries.

- The current financial situation has obliged governments to seek to improve public finances (i.e., reduce historically high budget deficits). In doing this, if they can endeavour to protect vulnerable groups in the population, the challenge becomes an opportunity to move towards a Shared Society.

The Working Group also is aware that policies that appear targeted at marginal groups may in fact have the opposite effect and divert resources to the more advantaged sections of society, as well as being wasteful or otherwise unproductive expenditures. One by no means unique example that the Group looked at closely was petroleum subsidies.

According to the IMF, petroleum subsidies in 2010 are expected to be somewhere between 1.0-1.3 percent of world GDP, or well in excess of US$800 billion. These

4 See Guiding Principles 5 & 6.

consumer subsidies are wasteful; their benefits go overwhelming to the higher income groups, and because they encourage excessive consumption, constitute an environmental calamity. Of 83 countries with petroleum subsidies in 2010, 69 were running budget deficits and in more than half of these the deficits were in excess of 3 percent of GDP, sometimes substantially so. Governments have often shied away from reforming subsidies because, over time, populations have become addicted to them and do not hesitate to go into the streets to vent their anger when alerted to the possibility of price rises. And yet, they imply a huge opportunity cost for societies. They represent vital resources which are not used to improve the educational system, the country's infrastructure, or the health of its citizens, all areas with a much greater potential to improve productivity and social cohesion. In many countries, total consumer subsidies exceed expenditure on education and health combined. It is instructive to examine how many governments have managed to phase them out, replacing them with various targeted mechanisms to protect the poor and other vulnerable groups.

In addition to strictly fiscal measures, initiatives in many areas of social policy will also have a positive impact on both economic wellbeing and the development of a Shared Society. These include advances in social protection, housing, education, and social services. Similar benefits will accrue from labour market policies to ensure integration in the work place, to combat discrimination and generally to improve working conditions. These policies will tend to have a redistributive effect and contribute to minimising inequalities.

International economic frameworks and international economic structures also have an important bearing on a nation's achievement of a Shared Society, as well as influencing the level of sharing between states. The following ideas will have a positive impact[5]:

- In order to increase economic opportunities for the population of low income countries, high income countries should create fair trading conditions, including the opening of markets and the phasing out of subsidies to agriculture, which distort trade and impose heavy costs on the developing world.

- It would be desirable to create a global fund to support countries building a Shared Society, creating opportunities for those previously excluded and providing them with social protection. The ILO-UN Social Protection Floor Initiative could provide the framework within which such a fund could be established.

- Governments should explore innovative ways to raise funds (e.g., international tax on financial transactions, carbon taxes) to address the divisive social and economic implications of climate change, which are expected to be especially harsh on the developing world and disadvantaged groups, and ensure progress towards Shared Societies.

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5 See Guiding Principles 7 & 8.

- As part of the Article IV Consultation process, the IMF should try to broaden the content of policy discussions with its members to include aspects of social cohesion and Shared Societies.

- States can circumvent well intentioned proposals and policies because there is an absence of a strong framework which states will accept, and international financial institutions are heavily weighted in favour of richer and more powerful states. Therefore it is a priority to establish stronger international bodies and stronger more inclusive international decision making processes.

MONITORING AND AUDITING PUBLIC POLICIES[6]

It has already been noted that policies may have unintended consequences or may have outlived their purpose and may in fact be having a negative impact on the attainment of a Shared Society. Therefore public policies should be evaluated on the basis of their expected and effective impact on different sectors of society and particularly on those groups who are marginalised or discriminated against.

Policy audits will help identify good practices in social and economic policies to foster Shared Societies and support transparency and accountability *vis-à-vis* the commitment of governments to promote Shared Societies.

Mechanisms for policy audit can be implemented based on existing procedures and methods for reporting and policy analysis.

The differential impacts of economic policy could be assessed *ex-ante* in an "inclusion assessment" by estimating the potential effect on different pre-determined groups — for example, in effective subsidies received *on average* by each group.

The actual selection of the groups to be examined should be carried out in a manner that allows for the participation and representation of the groups themselves. It should also endeavour to be shared across society. The process needs to consider the risk of reinforcing antagonisms and stereotypes.

As well as internal self-auditing there exists a number of regular policy audit mechanisms that can be expanded to include issues of differential impact across groups:

- Peer reviews of social and economic policies among OECD countries.

- Ministerial reviews within the UN Economic and Social Commission.

6 See Guiding Principles 9.

- Reports by states on implementation of conventions they have ratified.

- Article IV consultations carried out by the IMF.

- Poverty Reduction Strategy Papers carried out by the IMF and the World Bank with IDA-funded members.

- UN Human Rights Commission reviews and European Commission reviews.

Extending any of these to include Shared Societies as an object of study raises the issue of legitimacy of the auditor (whether it is the UN, another multilateral organisation or an independent auditor mandated by either).[7]

The participation of the countries and people concerned is necessary to ensure that policy audits are followed by concrete commitments and action. It is also needed to ensure accountability of leaders with respect to their populations and with respect to their international commitments.

The design of any such policy audit, whether it is *ex ante* or *ex post*, requires clarity on the concept that is being used as an outcome and the indicators that measure it. It also requires ownership on the part of the societies. In some cases, this will require that any set of indicators for Shared Societies cover salient economic inequality issues, both horizontal (between identity groups) and vertical (inequality and poverty regardless of social group affiliation).

Whether it is possible and desirable to assess the impact of public policies depends on the ability to construct indicators of outcomes and processes that reflect sufficiently well the status of a Shared Society in all its dimensions.

Constructing such indicators requires extensive work in building databases, gathering information and consulting with stakeholders. In fact, indicators should be constructed so that they can be used as a basis for evaluating outcomes and processes.

THE IMPORTANCE OF PARTICIPATION OF ALL GROUPS IN DEVELOPING AND IMPLEMENTING POLICIES[8]

The participation by marginalized groups ensures the development and implementation of effective policies that address social division and the Working Group has noted in a variety of contexts the importance of this in relation to socio-economic policies. A vicious circle is easily created:

7 See above page 24.
8 See Guiding Principles 10.

- Social division leads to marginalisation which means the exclusion of members of certain groups from the labour market, from community initiatives, from integrated living, from schools, etc., and failing to utilise their knowledge, creativity, experience, physical and intellectual capacity on behalf of the local community and the society.

- By being marginalized, groups may develop cultures based on helplessness, dependency, with all of the related costs (lower participation in education, higher unemployment rate, increased human insecurity).

- Not only is this a waste of human resources and human energies for the local community and for the society as a whole, but it creates the vicious circle by which they are even less considered when policies are being developed and implemented.

- Their involvement in the policy cycle means policy makers are impelled to be more aware of their needs and aspirations.

- Since they know their situation best, facilitating their participation in policy and programme planning on issues that affect them contributes to the development of better policies and programmes to improve their situation, tailored more to their needs.

- Participation prevents wasting financial resources and time on programmes that are not well targeted.

- If marginalized groups participate in policy and program planning, they are more motivated to participate in the implementation, mobilizing their knowledge, experience, creativity, physical and intellectual capacity.

- Supporting self-help initiatives is one of the most effective ways of enabling people to participate in their own affairs.

Connecting members of marginalized groups with policy makers and with mainstream society can contribute to social capital. Social capital is an important factor in economic success, improved employment and health, and a higher educational level of the community. As a consequence of developing local, societal networks of members of different groups, they are learning about each other and from each other, reducing negative stereotypes and social distance, building trust, and reducing costs of bureaucracy and public security expenditure. In other words the act of participation itself helps to reduce social divisions.

5 RECOMMENDATIONS ON POLICY, PRACTICE AND STRUCTURAL INITIATIVES

The following recommendations of the Club de Madrid, mainly related to economic policy, are partly based on the report of the Working Group but are also the result of the Club de Madrid's own deliberations. Most of them are practical applications of the Guiding Principles and that link is made explicit in the way they are laid out.

Guiding Principle 1	Shared Societies, in which diverse groups and individuals are economically integrated and utilise their talents and skills, tend to be more stable societies which enjoy higher economic growth than divided societies.

and

Guiding Principle 2	If groups and individuals are economically marginalized they have no reason to feel a sense of belonging to the state and are less likely to support the state or society and contribute to the economic wellbeing of all.

THEREFORE

- In setting national goals and policy frameworks, governments and international institutions need to consider fairness and equality across the whole community as important factors alongside financial rectitude and support for the business sector.

- A key priority for public spending should be those sectors which uplift marginal groups and facilitate their participation in the economy as productive members of society — sectors such as education, public health, infrastructure development in marginal areas and support for entrepreneurial activities within marginalised communities.

Guiding Principle 3	The cost of investing in a Shared Society and ensuring that marginalised groups feel they have a full place in society is more than compensated for by the contributions those people can then make.

and

Guiding Principle 4	Leaving groups and individuals on the margins of society is not cost free, as it creates social, political and security problems which are avoidable, unnecessary and costly.

THEREFORE

- Governments and international institutions need to raise awareness of the benefits of progressive tax systems, that correct gross income inequalities and benefit more disadvantaged groups, in order to gain public support for such systems.

- Governments need to involve the public more in public expenditure decisions in order to achieve their support for those policies and to ensure the policies meet the needs of the wider population. This requires greater transparency about economic issues, greater participation and in general greater public influence on public expenditure.

Guiding Principle 5	National and local economic policies and programmes play a major role in creating an inclusive dynamic for all groups.

and

Guiding Principle 6	National and local economic policies and programmes too often mainly benefit those who are already successful and influential, and as a result reinforce social divisions.

THEREFORE

- Taxation policies should be assessed in terms of their impact on the achievement of a Shared Society and their reduction of inequality between groups.

- More creative mechanisms are needed for the delivery of social services, with emphasis on education and training, particularly in countries facing the challenge of a growing youth population.

- Governments need to promote greater awareness among the informal and underground economies of the benefits of joining and supporting the formal economy as a means to broaden the tax base.

- Countries with insufficient or deficient systems of social protection need to reform them to establish basic universal coverage as they support the development of a Shared Society, and external assistance should be provided for low income countries that do not have sufficient resources to do so.

Guiding Principle 7	The international economic frameworks and the institutions that support them need to be reformed to ensure a fair, equitable and sustainable international economic order and business practices, and encourage appropriate national policies leading to Shared Societies and greater economic wellbeing worlwide.

THEREFORE

- Because national governments are often powerless in the face of global economic forces, including global business corporations and economically powerful states, urgent action is required to reform the global financial institutions to ensure they are responsive to the needs of more disadvantaged countries and more disadvantaged communities.

- A key requirement for a more effective and fairer international governance is greater complementarity and coordination between the various IGOs which deal with economic and financial issues.

- A second key requirement is that inter-governmental institutions become more democratic by ensuring that developing and emerging states have more influence and decision making power alongside wealthy and economically powerful states. This should lead to more effective policies because they take into account the needs of all nations. At present, international financial institutions are heavily weighted in favour of richer and more powerful states.

Guiding Principle 8	Existing international economic frameworks need to ensure that wealthier countries and vested interests do not benefit at the expense of poorer states and marginalised groups within all states.

THEREFORE

- International agreement is required on tax evasion ensuring that the more mobile, who are often the wealthier members of society and business organisations, contribute their corresponding and fair share in support of government finances.

- International consensus on the taxation of global business organisations is necessary to ensure that they pay taxes in the countries where profits are made.

- In order to increase economic opportunities for the population of low income countries, high income countries should create fair trading conditions, including the opening of markets and the phasing out of subsidies to agriculture, which distort trade and severely hurt the growth potential of the developing world. High income countries must increase awareness of the unfair nature of subsidies and protectionism, specially among those who benefit from them.

- It would be desirable to create a global fund to support countries building a Shared Society, creating opportunities for those previously excluded and providing them with social protection. The ILO-UN Social Protection Floor Initiative could provide the framework within which such a fund could be established.

- Governments and international fiscal bodies should explore innovative ways to raise funds to address the divisive social and economic implications of climate change, which are expected to be especially harsh on the developing world and disadvantaged groups, and ensure progress towards Shared Societies.

Guiding Principle 9	Well intentioned economic policies often fail to benefit marginalised sections and integrate them into society because of unintended consequences. They can be subverted by influential sectional interests.

THEREFORE

- Governments should establish systems to monitor and audit public policies ensuring they do not adversely affect already marginalised groups but rather that they help to involve them in the wider society.

- International institutions should take steps to assist states to monitor how current and proposed policies will increase or decrease marginalisation of different groups within society. For example the Article IV Consultation process of the IMF could broaden the content of policy discussions with its members to include aspects of social cohesion and Shared Societies. However such actions are only appropriate if these bodies are more accountable to the wider membership.

Guiding Principle 10	Economic policies are more likely to benefit those who are marginalised and integrate them into a Shared Society if marginalized groups are involved in the planning and implementation of policies and programmes and if there is a mechanism to screen policies and programmes for their differential impact on each section of society.

THEREFORE

- Mechanisms should be put in place that ensure marginalised sections of society are consulted and involved in economic and other policies which affect their interests. This may include a statutory right to consultation.

- Self-help initiatives should be introduced and supported, as they ensure that people can participate and influence their own affairs.

ACADEMIC RESEARCH

- The academic community should be encouraged and supported in carrying out studies to confirm and explain the link between Shared Societies and economic wellbeing, and in particular it is suggested that a Shared Societies Index offers a potentially powerful tool.

6 THE ECONOMICS OF INCLUSION: BUILDING AN ARGUMENT FOR A SHARED SOCIETY

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For
Economists For Peace And Security[1]

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Abstract: This paper presents a review of the literature on the economics of Shared Societies. As defined by the Club de Madrid, Shared Societies are societies in which people hold an equal capacity to participate in, and benefit from, economic, political, and social opportunities regardless of race, ethnicity, religion, language, gender, or other attributes and where, as a consequence, relationships between the groups are peaceful. Our review centers on four themes around which economic research addresses concepts outlined by the Club de Madrid: the effects of trust and social cohesion on growth and output, the effect of institutions on development, the costs of fractionalization and research on the policies of social inclusion around the world.

1. INTRODUCTION: WHAT IS A SHARED SOCIETY?

This paper takes on the difficult task of providing a review of *economic* literature pertinent to establishing an economic rationale for the Club de Madrid's vision of Shared Societies. The Club de Madrid (2010) defines a Shared Society as one in which "people hold an equal capacity to participate in, and benefit from, economic, political and social opportunities regardless of race, ethnicity, religion, language, and other attributes, and where, as a consequence, relations between the groups are peaceful."[2]

Let us start by defining the contours of a Shared Society. While, on the one hand the Club de Madrid further believes that "*specific characteristics of a Shared Society will*

1 This paper was commissioned by the Club de Madrid to Economists for Peace and Security, c/o The Levy Institute for Economics. Bard College, Blithewood, Annandale-on-Hudson, NY 12504. www.epsusa.org. The authors owe extensive thanks to Thea Harvey and Clem McCartney for their support and commentary.
2 Club de Madrid (2010) *Shared Societies Project Working Group Statement*, working paper, available at www.clubmadrid.org

vary across countries and regions", a Shared Society is, in effect, one in which all people are equally capable of participation in and reaping the benefits of economic, political, and social opportunities. Residents in a Shared Society have a sense of belonging, and are empowered to participate without necessarily conforming to a dominant culture. A Shared Society has a stable policy environment and legal system. Implementation of a Shared Society means seeking to develop workable means by which to include marginal groups. A Shared Society seeks to facilitate trade between different communities, thereby accessing the potential earning power and innovation of social groups who in a fractionalized society are marginalized. A Shared Society is one in which, ideally, economic growth and development are bolstered by newly included groups and more equitable and sustainable economic growth for all of its citizens.

It is often far easier to find literature which demonstrates the cost of fractionalization than it is to demonstrate nations which are reaping the rewards of social inclusion. We outline the methodology in constructing the economic argument below.

While it is the position of this paper that a Shared Society is inherently desirable, the construction of an *economic* rationale presents a bit of a challenge, for essentially two reasons.

First, it is important to acknowledge that the term "Shared Societies" is a new concept. As a result, the economic literature is limited and scattered, since it does not fall into a precise area of economic research such as money and banking, international trade or any other JEL classification.[3] Second, the concept of a Shared Society does not necessarily always cover a quantifiable ground, for the idea of a Shared Society often has qualitative, as opposed to quantitative, meanings.

Despite those limitations, it is possible to identify some principles of the Shared Societies initiative with proxy variables in order to quantify certain social phenomena. The literature presents trends concerning social cohesion, the relationship between institutions and economic growth and productivity, and the costs of fractionalization, which support the assertions of the Club de Madrid's (2010) Guiding Principles. The literature also clearly identifies certain public policies which are more suitable for both economic growth and social cohesion — those goals promoted by the Shared Societies initiative. A careful review of the economic literature tells us that creating a Shared Society leads to economic benefits, provided that certain conditions are met and certain policies implemented.

3 JEL stands for the Journal of Economic Literature, a flagship journal of the American Economic Association, and provides the standard classification themes for all economic research. See: http://www.aeaweb.org/jel/jel_class_system.php

2. CONSTRUCTING THE ECONOMIC ARGUMENT

Constructing the *economic* argument for Shared Societies is challenging. Economics prefers to study *quantifiable* phenomena and yet many of the tenets of a Shared Society pose problems in terms of valuation. For instance, it is difficult to establish values for cultural variables, and it is equally challenging to find literature which uses relevant, trustable and high-quality proxies for cultural variables. For that matter, it is not always obvious whether different economists mean the same thing when they use instruments for terms like "culture", as the definitions for cultural variables vary across time, space, and, well, cultures.[4] Glaeser (2005) further notes that even ethnicity proves challenging, as perceptions about ethnicity or social identity in general are apt to shift over time. In general, while there is a large body of compelling sociological literature concerning identity and horizontal integrations, much of the study of ethnicity, race, and culture lie largely outside the purview of this paper.

For our purposes, it is important to find straightforward means by which to quantify social phenomena, and attempt to determine some concrete means by which a Shared Society can be measured and therefore serve to support an economic argument for social inclusion. There is an extensive body of literature which instruments for many social variables which are relevant to the Shared Societies initiative, and which serve as compelling instruments to measure social capital and social cohesion.

The economic literature identifies four important dimensions which are important to the realization of a Shared Society:

The first section looks to policies of **social inclusion** around the world, and seeks to evaluate any quantifiable economic benefit from these policies. We find that there is very little empirical evidence which demonstrates directly quantifiable economic benefits from enacting socially inclusionary policies. Broader economic hypotheses behind social cohesion, however, inform our inquiry into the effect of institutions and social cohesion on economic growth as a logical starting point toward building an argument for Shared Societies.

Trust is the instrument most discussed in the literature. A Shared Society is a socially cohesive society; one in which people trust each other. Initiatives to improve intergroup trust are certainly a means by which a Shared Society can be achieved. Much literature discussed in later sections deals with the effects of trust on economic growth.

The economic rationale for Shared Societies also insists on the role of **national and regional institutions,** especially for economic growth and the improvement of social cohesion. The research demonstrates that there is an alignment of interest between

4 Glaeser, E. (2005) *The Political Economy of Hatred*, The Quarterly Journal of Economics, 120, 1, pp. 45-86.

economic growth and the promotion of a Shared Society. Many of the institutions which promote growth and investment are the same means by which to achieve a Shared Society.

The sixth section deals with **institutional failures and the cost of fractionalization**. An effective way of determining, from an economic standpoint, a more quantifiable definition of a Shared Society is to look at what a Shared Society isn't. Research demonstrates that fractionalized societies tax economic growth, stifle innovation, increase corruption, and prompt agents to employ racial and ethnic divisions for rent seeking purposes.

The final section of this paper summarizes our findings and determines policy alternatives which are in keeping with the findings in the economic literature.

3. SOCIAL INCLUSION IN ACTION?

Unfortunately, we can point to very few empirical data sets that support policies of social inclusion. Vinson (2009) specifically searches for applicable research which supports inclusionary principles, and voices frustration with the lack of data.[5] He concludes that "studies reporting statistically tight associations between inclusionary principles and economic benefits are scarce." However, some general overarching factors emerge that support various Shared Society initiatives, and point to areas in which further study could greatly enhance empirical support for social inclusion. Notably, Vinson's (2009) research asserts that the benefits of putting marginalized people to work are generally greater than just the economic value of their input, as employing marginalized groups reduces crime and other social problems associated with poverty.

Inclusionary policies aimed at raising levels of participation in society across ethnic, cultural, gender, and income lines are generally considered of value to society if the benefits to society exceed the cost of implementation. While it is usually fairly simple to add up the cost of a policy initiative, listing and quantifying empirical benefits for such social policies is not at all straightforward. Positive economic outcomes can be demonstrated for a few specific inclusionary principles noted below, but the effects of enacting broader policies of social inclusion are discussed largely within the parameters of social observation and theory and not necessarily economics. Many such programs may indeed be just and intuitively desirable, but data supporting their economic benefits simply do not exist. This means that an economic argument

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5 Vinson, Tony (2009) Social *Exclusion: The Origins, Meaning, Definition, and Economic Implications of Social Inclusion/Exclusion*, The Australian Department of Education, Employment, and Workplace Relations, available at www.socialinclusion.gov.au.

for Shared Societies will have to be built from existing research in areas somewhat peripheral to direct study of social inclusion. Much literature cites the social theory of Robert Putnam (1993, 1995b), who determines that societies high in interpersonal trust and civic cooperation among individuals have more efficient goods provision in the public sector, and that a culture of trust facilitates growth. Building trust also serves to constrain the high costs of conflict.[6] Barnes *et al* (2004) also conclude that regional cultures of social inclusion are likely to encourage economic activity because diverse social groups are a source of potential innovation.[7]

While there is little evidence which supports social inclusion, there is some, and there are several governments around the world seeking to implement socially inclusive policy. The Ministerial Advisory Committee for a Fairer Victoria (2009) also asserts that there is a link between social participation and an economy's overall capacity to produce, and that inclusion will reduce the gap between excluded groups and the rest of the population.[8] The committee cites some evidence that strong investment in social and economic participation among teenagers in potentially excluded groups in Finland has resulted in lower poverty and a strong economy, but the connection is rather nebulous. The link between social participation and output is explored further in section IV of this paper.

Saint-Martin *et al* (2003) demonstrate a quantifiable influence of connectedness between disparate social groups on regional development, suggesting that there is economic benefit to bridging ties across associational lines. They determine that making ties across associational lines can increase the production function.[9] Their work concludes that building ties between groups has increased employment and output in four regions of France.

Extensive search of international databases seeking empirical data which elegantly support inclusionary policies have come up empty. Vinson (2009) claims that this lack of empirical data might explain why some social programs and income transfers targeted at groups at risk for social exclusion across the EU have often had unforeseen economic consequences. He notes increased income polarization, persistent poverty, and high unemployment in regions across the EU to suggest the shortcomings of current social policy to effectively incorporate marginalized groups. He further suggests that the failure of these policies bespeaks a need for relevant data evaluating specific

6 Putnam, R. (1995) *Tuning In, Tuning Out: The Strange Disappearance of Social Capital in America.* PS: Political Science and Politics, 28, pp. 664-683.

7 Barnes, J., J. Peck, E. Sheppard and A. Tickell (2004) *Reading Economic Geography*, Oxford, Blackwell, pp. 56-58.

8 Ministerial Advisory Committee for Victorian Communities, Social Inclusion: the next step for a fairer Victoria, Melbourne, May 2009.

9 Jenson, J. and D. Saint-Martin (2003) *New routes to social cohesion? Citizenship and the Social Investment State*, Canadian Journal of Sociology, 28, 1, pp. 77-99.

inclusionary principles and their effect on growth. This view compliments our desire to build a coherent economic rationale for Shared Societies.

While the determinations of research involving social inclusion are relatively narrow, what work there is touches upon the tenets of a Shared Society, and is a starting point in determining means by which to encourage social inclusion *and* foster economic growth. Promise of concurrent economic growth is, after all, a compelling impetus for policymakers to consider inclusionary policies. The relationship between trust across associational groups, and its ties to productivity, is a keystone to building the economic argument for a Shared Society. So is the relationship between trust and cross-group association and collective action among diverse ethnic and linguistic groups. Terms of access to labor markets also require study. However, further data is needed which demonstrates exactly which groups' livelihoods are obstructed by lack of access to labor markets and enterprises, skewed or corrupt land ownership laws, or other avenues of social exclusion.[10] There is also a need to explore the connection between economic inequalities and structural norms in societies, such as those which forbid the education of women. It is hard to argue that marginalizing half of any society makes economic sense.

The UN Economic and Social Commission for Western Asia (2007) notes, however, that there are "drawbacks to applying ideas concerning social exclusion based on economic and social experiences in post industrialized countries."[11] Given that social inclusion encompasses social rights and equal participation in socio-economic development, ESCWA (2007) maintains, better indicators are needed in order to instrument for social participation than traditional measures of consumption and social provisions. Their report calls for evaluation of "bottom up" data on social and economic aspects of living standards relating to income poverty and human poverty, as well as the feasibility of the provision of services such as education, health care, transportation and infrastructure to the socially excluded. To do this, it will be beneficial to determine how groups in society encounter barriers to accessing basic services and labor markets, or otherwise become marginal participants. The report stresses the importance of multi-disciplinary research to bridge many of the gaps between sociology and economics to link social inclusion to positive economic outcomes.

More research will hopefully corroborate the assertion that social inclusion is likely to encourage economic creativity and release the potential of previously excluded groups, and to contribute to the goal of creating societies where "equity is no longer

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10 United Nations Economic and Social Commission for Western Asia (2007) *Literature Review on Social Exclusion in the ESCWA Region.* United Nations, New York 2007.

11 United Nations Economic and Social Commission for Western Asia (2007) *Literature Review on Social Exclusion in the ESCWA Region*, United Nations, New York 2007.

viewed as an issue of distribution of wealth but also of production of wealth."[12] Such analysis might enable economists to build simpler "cost benefit" models for the social inclusion of various excluded groups. Furthermore, greater attention could then be directed at the means by which institutions, political rights and economic processes interact to generate both higher standards of living and social cohesion. Subsequent sections in this paper corroborate the idea that under certain conditions, ethnically diverse groups can have higher levels of output. Our research has determined that trust and institutions interact to foster environments favorable to social inclusion.

4. TRUST, SOCIAL CAPITAL AND ECONOMIC GROWTH

Given that the goal of a Shared Society is to give people the opportunity to participate fully, we look at studies of social cohesion in order to establish a link to economic growth. The literature on social cohesion uses instruments for trust and civic cooperation as the two measures which determine a society's level of social capital. The centerpiece of Knack and Keefer's (1997) analysis is the idea that a society in which social capital is high is one in which levels of interpersonal trust, as well as civic cooperation of individuals, is high.[13] There is evidence in their research which illustrates the importance of trust. Trust facilitates transactions, which encourage and foster economic growth. Levels of trust and civic cooperation are a useful starting point in seeking means by which Shared Societies concepts can be quantified.

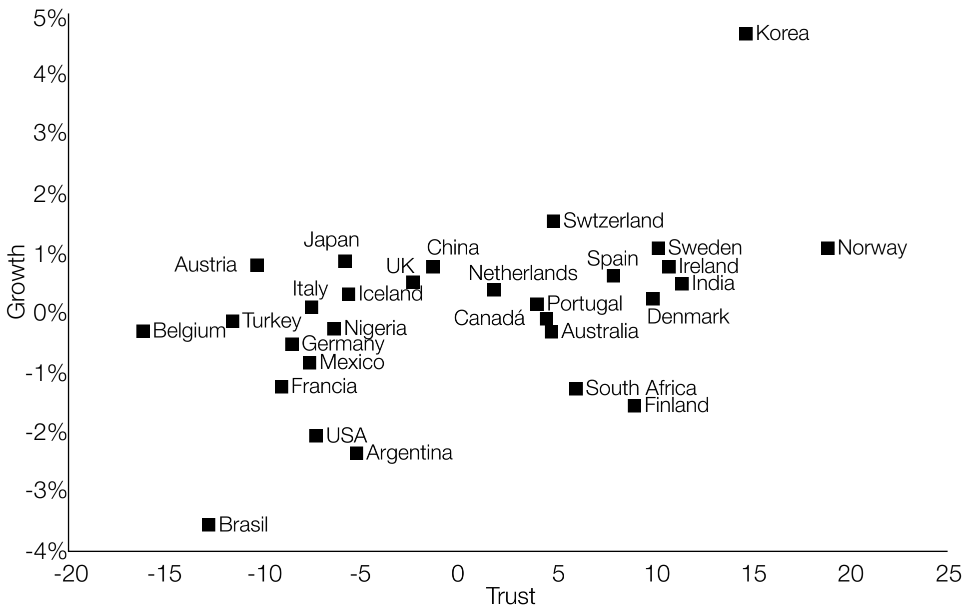
One way this paper seeks to build a more quantitative measure of Shared Societies is through the body of work which seeks to quantify the concept of social capital. "Social capital" is a somewhat ambiguous term, more common to political science and sociology, but is defined in the above article as an aggregate of the measure of Knack and Keefer's (1997) instruments for interpersonal trust and civic cooperation in a given society. We also point to the relationship between trust and civic cooperation and economic growth as a proxy measure for Shared Societies. The Terms "trust" and "civic norms" are measured in the literature discussed in this paper in accordance with definitions and valuations presented by the World Values Surveys (WVS) conducted in 1990-1991 across 29 different market economies. The WVS is a non-controversial source for measuring trust within countries. There are obvious valuation problems in measuring trust, and Knack and Keefer (1997) state, succinctly, that "if 'social capital' is to be more than a 'buzzword,' it must be measurable, even if inexactly". "Trust" is here quantified by asking respondents the following question: "Would you say that

12 Employment Equity Act Review of the Canadian Human Resources and Skills Development, December 2001, available at http://www.hrsdc.gc.ca/eng/lp/lo/lswe/we/review/report/main.shtml

13 Knack, S., and P. Keefer (1997) *Does Social Capital Have an Economic Payoff? A Cross Country Investigation,* The Quarterly Journal of Economics, 112, 4, pp. 1251-1288.

most people can be trusted, or that you cannot be too careful in dealing with people?" Their measure for "civic norms" is based on responses to questions regarding the perceived acceptability of several activities, namely, claiming government benefits falsely, avoiding paying a fare on public transport, cheating on one's taxes, keeping found money, or failing to report damage done to a parked vehicle.

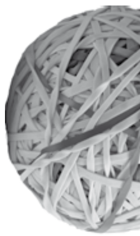
These measures of civic norms are also strongly and positively related to economic growth. They demonstrate that a 10% rise in the trust coefficient leads to a 0.8% increase in GDP per capita across the countries surveyed. A 4% rise in civic norms translates to a 1% increase in growth in GDP per capita. There is also a strong and positive link between an increase in trust and investment. A 7% rise in trust in a country is correlated with a 1% rise in investment spending as a percentage of the GDP. Such findings are demonstrated across a large body of economic literature that explores the links of trust and civic norms to economic growth.[14] The findings also repeatedly demonstrate a strong and significant relationship between trust and civic cooperation and output per worker. In every instance, higher levels of trust and civic norms are correlated with higher economic growth, on a macro level, and significantly higher levels of output per worker, on a micro level.



14 Putnam, R. (1993) *Making Democracy Work*, Princeton: Princeton University Press. Coleman, James (1988) *Social Capital in the Creation of Human Capital*, American Journal of Sociology, 94, pp. 95-120. Loury, G. (1977) *A Dynamic Theory of Racial Income Differences*, in P. A. Wallace, and A. Le Mund (eds.) *Women, Minorities and Employment Discrimination,* Lexington, MA: Lexington Books.

Higher levels of trust and civic cooperation among populations have an economic impact, as economic growth depends on trust in a number of ways, mostly in terms of trust's role in reducing the transaction cost of economic activity. The fundamentals of economic activity are contingent upon an individual's ability to rely on the future actions of others. As Arrow (1972) points out, "much of the economic backwardness in the world can be explained by lack of mutual confidence."[15] Indeed, economic activity is inherently unstable. If trust can reduce the volatility of economic activity, trust should therefore cause more economic activity and therefore growth; everything else being equal.

Conversely, the exchange of goods and services for payment is thwarted by lowered levels of trust. In low trust environments, it becomes difficult to establish employment contracts in instances where oversight might be difficult. Low trust thwarts investments, especially those which rely on assurances from governments or banks not to expropriate assets. In this sense, low trust environments can discourage innovation.[16] Hall and Jones (1999) posit that trust is integral to anonymous market exchange and reduces the need for contracts.[17] Lack of trust, then, raises transaction costs and reduces the benefit from labor and the gain from trade. It acts as a tax on development, because where trust is low, agents have to spend resources to protect themselves from predatory actions by other agents.



Knack and Keefer (1997) conclude that high trust environments can substitute for overly formal institutions and lower the costs for firms and individuals in the establishment of contracts. High trust environments make it easier for individuals to protect themselves from litigation and expropriation, as litigation and expropriation are simply less common. In higher trust environments, they note, agents can adopt longer and more appropriate time horizons for investment decisions, because long term gain becomes more attractive than rent seeking, or short term gains which undermine economic stability. Similarly, they conclude that environments with greater trust spend public money more effectively, as in socially cohesive societies there is less incentive to engage in rent seeking at the expense of another group. High trust environments improve the quality of the overall workforce, as employers can focus more on the merits of potential employees and less on their level of "trustworthiness," which in fractionalized societies is generally based on blood ties or personal knowledge. In low trust environments, the effective pool of labor available to employers is smaller and less skilled than in high trust environments.

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15 Arrow, K. (1972) *Gifts and Exchanges*, Philosophy and Public Affairs, 1, 4, pp. 343-362.

16 Clague, C. (1993) *Rule Obedience, Organizational Loyalty, and Economic Development,* Journal of Institutional and Theoretical Economics, 144, pp. 393-414.

17 Hall, R. and C. Jones (1999) *Why do Some Countries Produce So Much More Output per Worker than Others?* The Quarterly Journal of Economics, 114, 1, pp. 83-86.

There are a few notable outliers within the studies whose performance across a few decades only solidifies the relationship between trust and growth. Nigeria, for example, is among the lowest in levels of trust and civic cooperation among the countries surveyed by the WVS. Despite fairly robust growth between 1960 and 1970 due to the discovery of oil, by 1980 the Nigerian economy was again performing very poorly. Knack and Keefer's (1997) findings suggest that the squandering of this economic windfall can be attributed to the low levels of trust and civic cooperation within Nigeria. Low trust affects the time horizons adopted in deciding how to allocate resources. Low trust environments favor consumption over investment of revenue. In Nigeria, this evaporation of vast profits points to the importance of creating high trust environments. Not only might high trust environments be right or just, economic viability depends on them. Fractionalization and low trust also thwart investment. In fractionalized societies, elites often maintain power by diverting resources to supporters who then expropriate funds for investments outside the country. Mexico and Brazil saw such "capital flight" between 1960 and 1970 and later in the 1980's. Each benefited from temporary economic windfall which was undercut and eventually undone due to factors which follow low levels of trust and civic cooperation.

Tabellini's (2005) work illustrates compelling examples of the historical development of what the Club de Madrid (2010) refers to as "vicious cycles." Low trust and poor institutions continue to feed off each other. Low trust leads to ineffective institutions, which in turn further fractionalize societies. The legacies of institutions often act as intermediaries between trust and economic growth, as institutions can shape levels of trust and civic cooperation over time.[18]

Environments in which the diffusion of social capital[19] is encouraged are a key aspect to the promotion of a Shared Society. It is important to explore the determinants of social capital, i.e. trust, civic norms, and culture. Tabellini's (2005) model focuses on various instruments for culture and links them with economic growth across regions of Europe. Each instrument for the measurement of social capital variables which facilitate growth is also a trait which is favorable to the implementation of a Shared Society. A look at these traits is an encouraging means by which the gap between social capital and institutional means to achieving a Shared Society might be bridged.

1) Trust: facilitates market exchange and reduces the need for contracts.

2) The conviction that individual effort is likely to pay off: Those in less hierarchical societies are more likely to view success as related to hard work and innovation rather than luck or uncontrollable external events.[20]

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18 Institutions will be discussed separately in a later section but his work uses the World Values Surveys to further evidence the link between culture and economic growth.

19 Tabellini (2005) expands the definition of social capital to include not only interpersonal trust and civic cooperation but also the four traits listed above.

20 Banfield, E. (1958) *The Moral Basis of a Backward Society*, New York: The Free Press.

3) Generalized versus limited morality: Hierarchical societies tend to have more limited morality, according to World Values Surveys.[21] It is widely held that liberal democracies foster diffused development and that people within a democratic society apply abstract rules of good conduct in favor of limited morality.

4) Obedience: Coercive cultural environments, ones in which violence is used to control people, stifle cooperation within a group.

The link between additional measurements of culture and their effect on economic growth is compelling. Not only does Tabellini (2005) link cultural traits and economic development in the past, but finds that specific institutions have shaped cultural traits which have, in turn, fostered economic growth. In exploring the historical legacy of institutions, data support the correlation between the diffusion of a generalized morality, or trust, and economic growth.[22] Social capital traits are strongly correlated with economic outcomes in a wide sampling of countries.

The links between institutions, which are easier to examine and measure than cultural traits such as trust, obedience, or morality, put the economic arguments for a Shared Society on much less shaky ground. There are a number of authors who make the link between historical institutions and culture. Putnam, as well as DeLong and Shleifer (1993), emphasize that the evolution of liberalism goes hand in hand with a diffusion of a generalized morality.[23] Measures of the attributes of political institutions are always strongly correlated with measures of culture. Tabellini (2005) finds that historical instruments such as “Constraints on the Executive,” “Accountability of Executive Powers,” and “Political Checks and Balances” throughout history consistently correlate with the measures of culture and social capital which, in turn, explain current economic development.

Levels of trust and civic cooperation, however, are nearly always considerably lower in ethnically heterogeneous societies. The literature repeatedly finds that fractionalization along ethnic lines correlates to significantly lower levels of trust and civic cooperation than are found in ethnically homogenous societies.[24] It is also crucial to note, however, the many ethnically heterogeneous societies which are also economic powerhouses, and the many ethnically homogenous societies which are economic failures. No one could argue the ethnic homogeneity of North Korea, for example. Of course, the population of the United States is very diverse and is the largest economy in the world. The question

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21 General Morality, according to the WVS, measures the likelihood that a person will behave “morally” to everyone. Limited Morality measures the likelihood that a person will only behave “morally” to those to whom he is immediately accountable, i.e. family and close associations.

22 Tabellini, G. (2005) *Culture and Institutions: Economic Development in the Regions of Europe*, Working paper 292, IGIER, Bocconi University.

23 DeLong, B. and A. Shleifer (1993) *Princes and Merchants: European City Growth Before the Industrial Revolution*, Journal of Law and Economics, 36, 2, October, pp. 671-702.

24 www.clubmadrid.org/en/programa/the_shared_societies_project

is why? There must be other channels through which trust and civic cooperation foster economic growth. The repeated mention of institutions in the literature on trust and civic cooperation lead us to further explore the relationship between institutions and economic growth. We find that institutions are central to fostering environments of trust, and are possible means to remediate the lack of trust in ethnically heterogeneous societies. There is indeed evidence of what the Club de Madrid refers to as a Virtuous Cycle. We explore the definitions and significance of the Virtuous Cycle below.

5. INSTITUTIONS, TRUST, AND ECONOMIC GROWTH: THE VIRTUOUS CIRCLE EXPLORED[25]

The "Virtuous Cycle" is a term coined by the Club de Madrid (2010). It is meant to articulate the proposition that governments which engage in and invest in all members of society foster an environment which maximizes the economic contributions of all individuals. When governments act on behalf of their entire populations, people are more likely to identify with and support the common good. If more people are engaged in supporting the common good, governments will be more stable and therefore better able to act on behalf of all of their citizens. A Vicious Cycle, conversely, reflects a government which is not interested in investing in all members of society. Some fractions of society are therefore unable or unwilling to contribute to the common good. Some might seek to undercut the common good for their own benefit. Governments will therefore be less stable and unable to act on behalf of all of its citizens.

The correlation between institutions and social capital, and social capital's concurrent benefit to economic growth, offers insights which encourage promotion of a Shared Society. Acemoglu *et al* (2001) spot a definite and quantifiable pattern in the existence of certain institutions and economic growth.[26] They cite as institutions favorable to economic growth: consistent property rights, an absence of confiscatory tax policies, low risk of expropriation, low levels of corruption and limited barriers to trade.

Acemoglu's (2001) study of institutions is indicative of this trend, and isolates "clusters of institutions" which mitigate ethnic fractionalization as well as promote economic growth. There is definite room to expand the research on the clusters of institutions and each one's effect on economic growth, as there is a vast literature on the effect of each institution on economic outcomes. There are also correlations between individual institutions and social cohesion across much of the literature discussed in this review.[27] There is compelling evidence for both virtuous and vicious cycles.

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25 www.clubmadrid.org/en/programa/the_shared_societies_project

26 Acemoglu, D., S. Johnson and J. Robinson (2001) *The Colonial Origins of Comparative Development: An Empirical Investigation,* American Economic Review, 91, 5, December, pp. 1369-1401.

27 See Acemoglu *et al* (2001), Knack and Keefer (1997), Hall and Jones (1999) and Alesina, A. (2003).

Improvements in education are a real linchpin in achieving a Shared Society. Glaeser (2005) finds that better educated populations, and environments which contain better information technology have lower costs associated with finding and vetting information about other ethnic groups. Additionally, better educated populations generally have greater knowledge of politics and public affairs. Societies in which a large numbers of citizens are aware of public affairs keep corruption in check. In a cross country analysis, Knack and Keefer (1997) find that higher levels of school enrollment are consistently and positively related to growth. All of these factors increase levels of social cohesion and at the same time demonstrate favorable economic outcomes.

Knack and Keefer (1997) analyze policy extensively, as well as other links through which various instruments of social capital might have an economic effect. Their work concludes that trust and civic cooperation are significantly higher in countries with formal institutions which effectively protect property and contract rights. Not surprisingly, they find also that trust and civic cooperation are higher in societies which are less polarized along lines of class or ethnicity. The body of research nonetheless points out again and again that these institutions mitigate lower levels of trust and civic cooperation in ethnically heterogeneous societies. They also find that these same institutions encourage economic growth and output per worker. Knack and Keefer (1997) conclude that a body of property ownership laws, as well as a level playing field for signing and negotiating contracts of all kinds, are associated with higher levels of social capital, and evidence a strong concurrent economic impetus. This is an excellent start in the promotion of a Shared Society.

In many fractionalized societies, marginalized groups cannot own property. Sometimes, the legal system is skewed so much as to prevent full representation of the interests of certain groups. The consistent and equal ability of citizens to enter contracts, and the ability for all citizens to see that the protections and benefits outlined in those contracts are enforceable, are key elements in promoting a Shared Society. Our research demonstrates that those same factors not only promote growth, but also increase levels of trust and civic cooperation. It is plausible that further inquiry will more concisely demonstrate the precise means by which alterations to specific institutions will enable nations to further implement a Shared Society. For the time being, however, it is clear that many of the institutional objectives which encourage growth also increase social capital.

Acemoglu *et al.* (2001) reach conclusions similar to others in their studies of the institutional legacies of colonizers. Interestingly, the authors choose mortality rates of colonizers in a cross country analysis as a means of exogenous variation in institutions and their ties to economic performance. They determine that in colonies such as Nigeria, Cote D'Ivoire, the Belgian Congo, and others, the prevalence of diseases (mostly malaria and yellow fever), meant that colonizers could not feasibly settle permanently, and therefore set up extractive institutions.[28] The rule over indigenous populations was absolute, individual liberties were limited, and confiscatory tax policies were established. All institutions served the singular purpose of transferring as much wealth as possible from the colony to the colonizer. In colonies where mortality rates of Western settlers were comparatively low, such as Canada, Chile, New Zealand, or Australia, colonizers built "mini-Europes," with governments comprised of institutions that protected property rights, limited the authority of the executive, and where extractive institutions would be counterproductive to the colonizing population. Acemoglu (2001) highlights the persistence of these institutions. The nations which had high levels of settler mortality have the lowest GDP per capita today. It is clear through examining the legacy of extractive states versus those of the "mini-Europes" that the institutions a society creates have lasting effects on the long term stability and sustainability of an economy.

This dichotomy in institutional quality is evident in the contrasting legacies that institutions brought by Europeans have created. The effect of extractive institutions on social cohesion is relatively straightforward. The authors point to Brazil, which didn't outlaw slavery until 1888, or to policies of forced labor in Mexico or Zaire as evidence of institutional legacies which stifle growth. Such institutions, of course, also run counter to the vision of a Shared Society. They maintain that this institutional persistence can account for the fact that many Latin America and African nations have low or negative growth. La Porta *et al.* (1999) have done extensive work on the legal origins of colonizers and their effect on the quality of current institutions in former colonies around the world, but mortality of colonizers has turned out to be a key exogenous measure of those institutions.[29]

Tabellini (2005) estimates the effect of specific cultural traits which are generally regarded as favorable to economic growth and to the effective functioning of democratic institutions. The analysis uses literacy rates in the past, as well as several measures of political institutions, and links them to current measures of culture according the WVS surveys in 69 regions across Europe. The model demonstrates that past literacy rates and regional political history are correlated with culture. Culture, in turn, influences per capita development. In his cross-regional and cross country analysis, literacy rates in 1880 are strongly and positively correlated with current per capita output. A 1% increase in literacy rates in 1880 translate into a 0.8% to 0.9% increase in current output per capita. Similarly, his model creates an institutional framework which determines strong and positive relationships between historical political institutions and current responses to WVS surveys. There is also a strong

28 An "extractive institution" is a body of law designed for the sole purpose of transferring wealth from a colony to a colonizer.

29 La Porta *et al.* (1999) *The Quality of Government*, The Journal of Law, Government, Economics and Organization, 15, 1, pp. 222-279.

correlation between past institutions and current GDP per capita figures. The model determines, in effect, that institutions shape culture, and improvements in cultural instruments increase economic growth. Greater economic growth allows a society to afford better institutions, which, in turn, further shape culture. Tabellini's (2005) work rather succinctly encapsulates the concept of a Virtuous Cycle.

The results of the models indicate that a society can realize substantial economic gains by improving its institutions. If, for example, Nigeria were to improve its cluster of institutions to a level on par with those of Chile, it would lead to a 700% increase in income per capita. This comparison is somewhat disingenuous, or perhaps overly simplistic, but certainly underscores the importance of quality institutions. Japan's Meiji restoration, or the rise of South Korea after the Korean War are excellent examples of the impact improving institutions have on fostering growth.[30] Nobody could dispute the disparity in institutional quality between North and South Korea, and they are both comprised of the same ethnic group. To that end, North Korea is one of the most ethnically homogenous countries on earth, yet its economic policies are utterly catastrophic.

The unfortunate shortcoming of the "cluster of institutions" model is that while improvements in clusters of institutions corresponds with a higher GDP per capita, it isn't always clear what exact steps would lead to improvement of these institutions, or which specific institutions might affect growth more positively than others. It is also worth noting that institutional changes often affect cultures in ways which were not intended. We believe that Shared Societies will most effectively be brought about through institutional channels. Since early institutions affect the future accumulation of social capital, it seems like the best place to start in implementing a Shared Society. It is clear that greater work is needed on determining the most effective institutional means by which to encourage social inclusion, as the implementation of Shared Societies is most likely realized through institutional means on the international, national, and local level.

6. FRACTIONALIZATION: ROOM FOR IMPROVEMENT

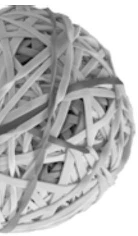
When considering the economic benefits of a Shared Society, it is important to examine the economic costs of fractionalization, as the two terms stand in sharp contrast. Landmark research by Alesina *et al.* (2003, 2005) has proven useful in this regard, and its findings are corroborated across several follow-up papers.[31] Their

30 Sen, A. (1999) *Development as Freedom*, New York: Anchor Books, a Division of Random House Publishing, Inc.

31 Alesina, A. *et al.* (2003) *Fractionalization*, Journal of Economic Growth, 8, 2, June, pp. 155-194. Alesina, A. and Alesina, A. and E. La Ferrara (2005) *Ethnic Diversity and Economic Performance*, Journal of Economic Literature 43, 3, pp. 762–800. La Porta *et al.* (1999) *The Quality of Government*, The Journal of Law, Government, Economics and Organization, 15, 1, pp. 222-279. Canning, D. and M. Fay (1993) *The*

paper demonstrates the correlations between ethnic conflict and poor governmental and economic performance. Its shortcomings prove useful as well, pointing to gaps in research necessary to further the building of an economic rationale for a Shared Society.

Alesina's (2003) model instruments for ethnic fractionalization by using Easterly and Levine's (1997) ELF Variable. The variable reflects the likelihood that two randomly selected individuals from a population will belong to two different ethnic groups.[32] The variable for linguistic fractionalization is measured the same way, using the classifications of language given by the Encyclopedia Britannica's list of "mother tongues" across 201 countries. Alesina's (2003) analysis measures ethnic and linguistic fractionalization to determine their effects on growth, institutional quality and productivity. The research broadly determines that "ethnic conflict is an important determinant of political economy of many nations and localities."



The table on the next page, taken from Alesina (2003), indicates that ethnic and linguistic fractionalization are correlated with poor institutional quality and low (and sometimes negative) economic growth. They instrument for economic performance by calculating GDP growth per capita, as well as the average black market premium for goods and services. They then run these variables against fractionalization coefficients for 190 countries. The link to institutional quality is illustrated by calculating average levels of schooling, as well as for the number of telephone lines per 1000 workers, and running them against the same fractionalization coefficients. The analysis demonstrates that higher levels of ethnic fractionalization result in less "desirable" levels of every variable. Average growth is much lower, and black market premiums are much higher. The workforce is consistently less educated, and infrastructure (instrumented as telephones per worker) is considerably poorer.

Alesina's (2003) model shows that both ethnic and linguistic fractionalization, especially, have a strong negative correlation with levels of schooling, with financial depth, with fiscal surplus and with the number of telephones per worker. In instances where fractionalization is higher, the variables are considerably lower, which in turn, it is surmised, reduces growth. Controlling for each of the variables effectively eliminates the correlation between fractionalization and growth, suggesting that there is no direct causality between fractionalization and growth or government quality. The analysis highlights different avenues by which fractionalization and ethnic conflict may affect development, and suggest that they may do so through institutional channels. The link is precarious, however. That the link disappears when conditioning for institutional

Effects of Transportation Networks on Economic Growth, Columbia University Working Paper. Mauro, P. (1998) Corruption *and Growth*, The Quarterly Journal of Economics, 110, 3, pp. 681-712.

32 Easterly, W. and R. Levine (1997) *Africa's Growth Tragedy: Policies and Ethnic Divisions*, The Quarterly Journal of Economics, 111, 4, pp. 1203-1250.

variables may be due to outliers or some omitted variables. Further research is needed to test the robustness and establish a definite empirical thread between fractionalization, institutions, and economic growth.

Country	Average Growth in 1980's	Average Black Market premiums in 1980's	Average Years of Schooling of Labor Force, 1980's	Telephone Lines Per 1000 Workers, 1980's	Government Balance to GDP, 1980's	Corruption (1 to 10) Higher Means Corruption	Ethnic Fractionalization Coef.
Africa							
Botswana	7.0%	16%	3.3	27	11.2%	6.5	.41
Ethiopia	0.0%	76%	n/a	4	-7.1%	4.3	.72
Nigeria	-3.3%	76%	n/a	2	0.3%	3.0	.85
Latin America							
Bolivia	-3.3%	39%	5.0	46	-14.4%	2.8	.74
Chile	1.9%	16%	7.0	84	-0.2%	5.3	.19
Guyana	-2.4%	131%	5.6	n/a	-39.7%	2.0	.62

Nevertheless, the research offers some historical explanation for the correlations. They also isolate outliers such as Chile and Botswana as a means by which to expand on or refute some previous determinants of poor growth established by La Porta (1999), such as origins of a country's legal system, or its proximity to the equator.

The correlation between fractionalization, institutions, and growth across countries is clear, though ambiguous causality prevents us from pointing to concrete economic imperatives for the creation of a Shared Society. While determinants for this link can be surmised through historical context and social theory, quantifiable data sets and empirical proof draw rather limited conclusions. It is one thing to establish that there is a link between ethnic heterogeneity and poor economic, institutional and government performance, and it is quite another to be able to quantify concrete measures of the actual costs of fractionalization.

It is possible, however, to extrapolate practical starting points for implementation of Shared Societies from the research on fractionalization. If there are intermediate variables through which fractionalization affects growth, then intermediate variables can mitigate fractionalization's effect. For example, the link between education and Shared Societies' objectives has already been established. It is also determined by Glaeser (2004) that improved education and communication lowers the opportunity cost of verifying information about other groups. This lower opportunity cost thereby creates greater incentives to cross associational lines. He cites a survey in the United States which determines that 7% of college educated Americans favored a law banning interracial marriage, whereas 37% of those with a high school education or less favored the ban. Ninety three percent of college educated Americans would vote for a black candidate for president, compared to less than 80% of those with a high school education or less. Similarly, improving means of communication is another means to lower the opportunity cost for members of groups in fractionalized societies to vet misinformation about other groups. Better means of communication in societies increases peoples' incentives to vet information about other groups. Increasing the number of telephones per worker may therefore also mitigate fractionalization.

Further insight into possibilities for a Shared Society is evidenced by the well documented negative effect of fractionalization on economic growth. Alesina (2003) notes that in societies, fractionalized by ethnic, linguistic, religious, or, for that matter, income inequalities, associations tend to form along those fractionalizing lines. We have mentioned in Section IV that interpersonal trust is considerably lower in more diverse societies. In countries where there are lower levels of interpersonal trust, Glaeser (2004) states that there is a far greater incentive to renege on policy agreements with other ethnic groups. Additionally, fractionalized societies are less likely to share common frames of reference for expectations about future behavior of other groups. Glaeser (2004) concludes that lack of trust, and lack of common frames of reference among populations lead to rent seeking at the expense of the public good. Incentives to renege on policy agreements and lack of mutual expectations about future behavior often plague fragmented groups within a country. Rent seeking behavior further undermines trust and acts as a tax on output.[33]

Economic research also documents a strong link between fractionalization and government quality. La Porta, (1999) for instance, asserts that greater fractionalization always leads to a lower quality of government, i.e. indicators for corruption of public officials, property rights, a transparent legal system and education, among others. The Democracy Index is also inversely related to ethnic conflict.[34]

Fractionalization may affect growth through the effect of ethnic conflict on the quality of institutions and government policy. Alesina's (2003) findings can be put in context using the historical narrative of some of the more fractionalized societies. Many countries high in ethnic and linguistic fractionalization, such as Nigeria, Ethiopia, Bolivia, or Guyana, have been beset by struggles which have impeded economic growth for generations. Conflict

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33 Knack, S., and P. Keefer (1997) *Does Social Capital Have an Economic Payoff? A Cross Country Investigation,* The Quarterly Journal of Economics, 112, 4, pp. 1251-1288.

34 The Democracy Index is compiled by the Economist Intelligence Unit, and is an index which measures indicators of democracy across 60 different categories. www.eiu.com

of preferences, racism, and prejudices between ethnic groups are wasteful, and can lead to exclusionary and counterproductive policy. Oppression of minorities can and has led to unrest and civil wars in Algeria, Angola, and Rwanda, for example, which have had disastrous economic consequences.[35] Many examples around the world exhibit formations of vicious circles which the Shared Society seeks to remediate. Ethnic fractionalization lowers the quality of institutions (Alesina 2003). Institutions affect economic performance and shape culture. Culture and social cohesion affect output and economic growth, which in turn affects institutions. Tabellini's (2005) research of institutional persistence evidences this circular relationship between institutions and culture.

Specific examples are abundant. In Nigeria, much of the ethnic struggle can be traced to ethnic fractionalization between the Muslim north and the Christian south. Minority groups in northern Nigeria have been victims of persistent violence. Additionally, fragmented groups in the center of northern Nigeria and the Niger delta perpetuate small scale conflicts along ethnic lines. The polarization between groups in Nigeria has led to disastrous economic policies, poor infrastructure and high corruption (Maier, 2000).[36] Nigerian people have to depend disproportionately upon a black market in order to procure goods and services, reflecting a failure of markets in addition to government failure. Telephone density is among the lowest in the world, and their bureaucracy is among the most corrupt. A perfect example cited by Maier (2000) is his exposé on the construction of the Ajaokuta Steel Complex, begun in 1979. Since its inception, the project has been beset by asset stripping, corruption, deliberate construction delays, and after squandering $8 billion in public funds has yet to produce a single ton of steel.

Ethiopia has had revolving door regimes since its independence, which span the political spectrum from Marxist-Leninist to reformist. Ethiopians have endured ethnic conflict for centuries, and have one of the lowest growth rates in the world. Political and ethnic conflict have both caused and magnified ravaging epidemics of famine and AIDS. Much of the paltry aid and tax revenue the Ethiopian government collects has been absorbed by civil and international war. Ethiopia is also a perfect example of a country whose political associations are set up along ethnic lines. The Tigray minority dominates the government, despite accounting for only 6% of the population. The Tigray People's Liberation Front is an egregious rent seeker, having managed to siphon off revenue to accumulate extensive holdings in shadowy offshore endowment funds. The government claims credit for attempts to prevent ethnic conflict by decentralizing power. The TPLF claims to make an earnest attempt to address ethnic divisions in Ethiopia, but the fact is that of over 80 ethnic groups in nine different regions, the dominant group in each region works to marginalize local minorities. Decentralization of authority is seen as a ploy to divide the TPLF's political opposition along ethnic lines, and to undercut the authority of the central Ethiopian bureaucracy.

35 Blattman, C. and E. Miguel (2010) *Civil War*, Journal of Economic Literature, 48, 1, pp. 3-57.
36 Maier, K. (2000) *This House Has Fallen: Midnight in Nigeria*, New York: Public Affairs.

Interestingly, Botswana is the exception to many of the poor economic outcomes which plague much of sub-Saharan Africa. They have experienced high growth, and black market premiums are low. The government runs a surplus and is relatively uncorrupt. For the region, however, Botswana has relatively low ethnic diversity.

The data shed new light on the ethnic diversity in Latin America and the Caribbean as well. Alesina (2003) expands the ethnic and linguistic fractionalization indices to distinguish between many ethnic groups which were previously lumped together.[37] In light of new data sets, poor growth and political instability can be attributed to previously un-quantified fractionalization. Whites controlled Bolivia until 1952, whereupon an Indian revolt redistributed land and abolished most of the exclusionary policies implemented by whites. Bolivia endured rampant political instability and frequent coups for the next thirty years. Institutional legacy is indeed persistent. Despite having been ruled democratically since 1982, Bolivia still exhibits low growth, poor provision of public goods and services, and predatory police and judges.

Guyana is another nation beset by corruption and poor growth outcomes since its independence. Afro Guyanese and Indo Guyanese are the two predominant ethnic groups, and political mobilization in Guyana has taken place along ethnic lines. Due to fractionalization, any attempt at consensus among ethnic groups has been eviscerated by rent seeking. As a result, Guyana is one of the most corrupt countries in the world.

The simple fact remains, however, that not all ethnically diverse societies are a failure. Not all ethnically homogenous societies are a success. The challenge is to pinpoint the means by which to mitigate the negative effects of fractionalization, and whether those channels of mitigation further serve as means by which to promote Shared Societies. In subsequent work, Alesina and La Ferrara (2005) explores why some diverse societies succeed. After all, research exists which identifies a relationship between individual heterogeneity and innovation and productivity (Hall and Jones 1999).[38] Diversity's relationship to the production function is an area of promising future research. Future research might also further quantify the trade-offs between the positive benefits of diversity and the possible costs that diversity imposes due to differences in communication and culture.

There is a relationship between diversity and productivity evidenced by the literature, which might help to explain the economic success of some ethnically heterogeneous societies. It is asserted in the research on diversity and production that diversity only

37 Before Alesina's work with the ELF variable, the data of ethnic and linguistic fractionalization most typically used was published in the Soviet Union in 1964 in the *Atlas Narodov Mira*.
38 Hall, R. and C. Jones (1999) *Why do Some Countries Produce So Much More Output per Worker than Others?* The Quarterly Journal of Economics, 114, 1, pp. 83-86.

leads to higher productivity when conflict is minimized and communication is maximized. Research by Hong and Page (1998) determines that more diverse groups of people with limited abilities can out-perform homogenous groups of high ability problem solvers.[39] O'Reilly, Williams, and Barsade (1997) find a generally positive effect of racial and gender diversity on task completion, but only when controlling for communication among the groups.[40] The effect of communication and conflict management on productivity among diverse groups is a compelling explanation for the fact that some ethnically diverse countries are successes. Alesina (2005) complements this connection by noting that advanced economies can realize the benefits of complementary skills of a diverse population, as richer societies have developed institutions which allow them to better cope with the conflict element which is intrinsic to diversity.[41] Many richer societies have better established "rules of the game," which enable them to reap the benefits of racial, gender and cultural diversity.[42]

Inquiry into variety in productivity, and its link to diversity, offers an interesting avenue by which to build the argument for Shared Societies. Mankiw, Romer, and Weill (1992) explore diversity's affect on the aggregate production function and determine that human and physical capital only account for a small difference in output per worker across countries.[43] The largest determinant of output is differences in productivity. Why then, do some countries have so much more productive workers than others? Hall and Jones (1999) attempt to answer this question, and their conclusions may help to determine why some heterogeneous societies are successful while others are not. Much of the difference in long-run economic performance throughout the world, they conclude, is determined by variations in "social infrastructure" across countries.

"Social infrastructure" is defined by Hall and Jones (1999) as an instrument which quantifies "institutions and government policies that determine the economic environment within which individuals accumulate skills, and firms accumulate capital and output." Analysis of worker output across 127 countries confirms that accumulation of physical capital and the education level of a workforce are only a partial explanation for the vast disparity between productivity figures at the top and bottom of the global spectrum. In order to measure the effect of social infrastructure on output per worker, they quantify social infrastructure by creating a variable which aggregates two indices. The first is the Index of Government Anti-Diversion Policies (GADP) as calculated by the Political Risk Services Guide, a company that provides

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39 Hong, Lu and S. Page (1998) *Diversity and Optimality*, Santa Fe Institute Working Paper.

40 O'Reilly, C., K. Williams and S. Barsade (1997) *Demography and Group Performance*, Research Paper 1551, Working Paper Series, Stanford University.

41 Alesina, A. and E. La Ferrara (2005) *Ethnic Diversity and Economic Performance*, Journal of Economic Literature 43, 3, pp. 762-800.

42 Jackson, S. and M. Ruderman (eds.) (1996) *Diversity in Work Teams: Research Paradigms for a Changing* Workplace, Washington, D.C.: American Psychological Association-

43 Mankiw, G., D. Romer and D. Weill (1992) *A Contribution to the Empirics of Economic Growth*, The Quarterly Journal of Economics, 107, 2, pp. 407-438.

risk assessment for international investors.[44] The second is a measure of openness to trade established by Sachs and Werner in 1988.[45] The Sachs and Werner index measures several criteria: whether non-tariff barriers affect less than 40% of trade, whether the average tariff is less than 40%, whether black market premiums are less than 20%, that a government is not socialist and that the government does not monopolize major exports. Sachs maintains that policies to maintain free trade yield benefits in terms of specialization, as well as the ability to adopt techniques from abroad.

The aggregate Social Infrastructure Index attempts to quantify the effects of diversions on productivity, and links incentives which encourage individuals and firms to produce new goods and services, or to develop new production techniques, with more or less favorable environments. The findings determine that aggregate institutional variables are fundamental to ensuring higher levels of productivity among workers. This is very much in keeping with Alesina's (2005) determination that the benefits of ethnic diversity can only be realized when controlling for potential conflicts or differences in communication. It also dovetails with our findings relating to institutional means by which to foster economic growth discussed in section V.

Hall and Jones (1999) highlight government quality as the main determinant in creating social infrastructure. They also consider government the most efficient means by which to suppress diversion. Where suppression of diversion is effective, individuals and firms do not need to invest resources in avoiding diversion, and are therefore rewarded by the full amount of their labor (North and Thomas, 1973).[46] On the other hand, when social infrastructure is low, and where government manages diversion poorly, diversion acts as a tax on output and a disincentive to work by reducing the individual gain for one's labor. The link between governments and social infrastructure is elemental to the Shared Societies concept, as, in the Hall and Jones (1999) model, government is the central agent to increase or decrease social infrastructure. Governments have the power to make rules, so they can be an agent for diversions and predatory or rent seeking behavior through expropriation, through confiscatory tax structures, or as a result of the corruption of its officials, which reduces the marginal benefit of work. They can also act as agents for the suppression of diversions by establishing equal protection under the law, definitive property rights, oversight of public officials, and fair, transparent tax structures.

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44 The indicators the Index of Government Anti Diversion Policies instruments for are (i) Law and Order, (ii) Bureaucratic Quality, (iii) Corruption, (iv) Risk of Expropriation, and (v) Government repudiation of contracts.

45 Sachs, J. and A. Warner (1995) *Economic Reform and the Process of Global Integration,* Brookings Papers on Economic Activity, pp. 1-95.

46 North, D. and R. Thomas (1973) *The Rise of the Western World*, Cambridge, UK: Cambridge University Press.

Countries with the highest levels of social infrastructure in Hall and Jones's (1999) model, namely Italy, France, (British) Hong Kong, Spain, and Singapore, are also among the highest in output per worker. The countries in the model that have the lowest levels of social infrastructure, namely Zaire (now the Dem. Republic of Congo), Bangladesh, and Haiti, are among the lowest. Output is 3170% higher in the highest than in the lowest. A change in an exogenous variable which leads to a 1% increase in social infrastructure leads to a 5.14% increase in output per worker.

These findings enable us to determine that adjustment to social infrastructure variables are not only inherently desirable to a Shared Society, but also have profound payoffs in terms of worker productivity. Improving the rule of law and bureaucratic quality, or eliminating corruption, can improve societies, and can dramatically increase worker productivity. The corporate world has known this for a long time. The Political Risk Services Guide is utilized by investors around the globe to determine levels of risk to capital in making foreign investment.[47] The World Bank compiles similar data and regularly publishes matrixes by which to calculate investment risk across countries.[48] Social infrastructure drives rates of investment in physical and in human capital and thereby makes societies more productive. Of course, direct comparisons of the effects of diversity between post industrialized Western societies and African villages is a bit disingenuous, but highlighting the potential benefits of diversity help to form an idea of some of the underpinnings of the economic effects of diversity. If nothing else, variety in production can be isolated as a determinant in levels of productivity to showcase the potential benefits of diversity.

7. OTHER ECONOMIC APPROACHES

The above sections have presented the case for Shared Societies through the lens of specific studies addressing certain defining features of Shared Societies. There is, however, a more diffuse body of knowledge in economics which, despite not addressing the issue of Shared Societies directly, can be used to draw conclusions pertaining to the Shared Societies Project. Most of what follows draws a parallel between the Shared Societies Project and what is commonly accepted regarding *inequality*. The advantage of linking the Shared Societies program to inequality is that the issue of inequality is well developed in economics. Most economic research would indeed justify a certain degree of "natural" inequality, which should not be corrected for. The arguments run as follows.

47 Political Risk Services publish the International Risk Services Guide, a publication which monitors 161 countries, rating a wide range of risks to international businesses & financial institutions. See www.prsgroup.com

48 www.doingbusiness.org. The World Bank has created a similar index to the IRSG.

We have seen that a Shared Society is an inclusive society so that we should expect a Shared Society to be a more egalitarian society, as opposed to a widely unequal society. By "egalitarian" it is meant that previously excluded individuals, or groups, would participate in a Shared Society labor force and general economic process. But "more egalitarian" society should also mean that those individuals, or groups, previously excluded would now participate in the labor force at the *current* rates of compensation, if only to avoid discrimination. Yet there is no basis for believing that all excluded individuals would enter the labor force at the same prevailing rate. Even under the best circumstances of a period of high and sustained economic growth, leading to a massive accession to the labor market, only certain areas of the economy will expand, and certain individuals benefit, and some more than others. Growth is always biased towards one or a few sectors, which usually reap most of the benefits. As such, economic growth may lead to a divergence of incomes which goes against the Shared Societies agenda.

Introductory economic textbooks will say that inequality of incomes is also a normal state of affairs in economic life. Inequality has several causes, with unequal educational achievements being the chief one. Individuals possess different abilities and skills, so that individuals arrive at different educational achievements; we should expect the most educated and most skilled to reap the better paying jobs, and the unskilled, least able, least educated to have the worse paying jobs — therefore justifying the existence of inequality of incomes. Along those lines, introductory textbooks tell you, any observed increase in inequality must therefore come from a malfunctioning labor market, or from a well-functioning labor market where the education premium has been rising. Certain key skills for instance, especially those tied to high-growth sectors, have been exceptionally well rewarded on the labor market (like computer science and finance most recently).

Should such an explanation of inequality be true, the policy implications are immediately clear: one should provide for access to education as a public good, using all the policy tools possible — but within limits. Minorities, especially, who are often left aside of educational opportunities, should be encouraged to acquire skills. But no policy should force individuals to acquire skills that would be too costly to train for. A simple cost-benefit analysis proves that training individuals is only valuable if there is a commensurate market reward for it — we do not need to subsidize the education and training in typewriters, shoe repair, etc, any more than we need to give PhDs to the whole population. Under traditional economic analysis such obsolete skills should disappear because they are really a burden of inefficiency to society. And promoting too much training or the wrong training to unable or unwilling individuals would only lead to a waste of tax resources.

In that sense, traditional economic research provides a certain boundary to the Shared Societies Project. If inclusion is a matter of achieving a less unequal society, one should be cautious not to try to reduce inequality so low as to reach the point where the costs of lowering inequality outweigh the benefits of enjoying a Shared Society. Certain products and services we consume do indeed demand very little skills and education; it would be foolish to reward those skills at the same rate than skills in higher demand, or more strategically important.

Another well regarded economic model promotes the existence of a certain incompressible level of inequality. Most countries, and especially European countries, have developed, and continue to develop, through international trade. But what are the likely effects of international trade? First it is likely to bring labor mobility which will lower cross-country wage differences. Second, using trade as an indirect method of production allows for a reorganization of resource usage in a more efficient way: there are widespread gains from trade. But we should be warned: in a given economy, some sectors will gain from trade and others will lose. The traditional Hecksher-Ohlin-Samuelson model of trade for instance, will insist on the overall gains from trade but also on the fact that losers from trade will inevitably appear. Again, this simple economics model would certainly not justify within-group inequality; yet there remains the fact that the mechanics of international trade lead to conclusions of internal divergence of incomes. In that sense, economic growth and international trade make up two threats to the Shared Societies Project because those forces may create, if left on their own, a pulling apart of society, as opposed to a greater feeling of belonging.

Yet biased economic growth and international trade are unavoidable, and should be embraced. To lessen their negative impact on the Shared Societies Project one should devise plans to *compensate* for the likely rise in inequality of income they will likely generate. This appears as much better alternative than turning our backs to the gains from trade or economic growth.

8. CONCLUDING REMARKS

This survey concludes by mentioning several trends that emerge from the economic literature on Shared Societies. Trust and civic cooperation are intrinsically linked to economic performance, though many societies most in need of an economic boost exhibit very low levels of trust. It is possible to determine, however, that certain institutional improvements can increase the levels of trust and civic corporation, important not only to the creation of a society in which all citizens can participate, but one that is economically vibrant and politically stable. Higher levels of trust allow people to fully realize the fruits of their labor. Trust enables firms and individuals to invest resources in their own people without fear that their capital will be stolen by a corrupt government, or be destroyed by fractional infighting.

It is imperative when making the economic case for a Shared Society to note that many of the same institutions which foster growth are the very same means by which to create a Shared Society. The rule of law, legislative constraints on executive power, and steps to eliminate corruption in government and the legal system all have profound economic benefits in the long run. The key is to get people to view the long run instead of the short run, and the way to do that is to implement policies which enable citizens to come to all transactions with similar expectations. If different citizens in society are treated differently in the legal system, or have different levels of access to labor markets or public goods such as education or basic health care, those citizens will have less incentive to participate in the system which excludes them. They will then have greater incentive to undermine economic processes through mafia formation, black markets, or tax evasion. Such rent seeking is epidemic in fractionalized societies all over the world and stifles economic progress.

Indeed, empirical evidence points to emergences of both vicious and virtuous cycles around the globe, and highlights compelling possibilities for implementation of Shared Societies. It has been demonstrated that past institutions influence trust and civic cooperation. It is also demonstrated that low trust and civic cooperation can undermine the ability of governments to rule efficiently. Citizens who are disenfranchised or marginalized in society, in turn refuse to participate in society. A society in which people refuse to participate suffers on two levels. In poorer countries, governments cannot effectively collect the revenue necessary for infrastructure and governance. In wealthier countries, governments often have to pay to “manage” the marginalized population. Our research concludes that it makes more sense to invest in human potential than in damage control.

We must acknowledge the difficulty in establishing consistent valuation for many cultural variables, however, and must recognize the limitations of some of our conclusions. It is plausible, for example, that institutions are the channels through which ethnic diversity affects economic growth, but further research is needed in order to corroborate our preliminary findings. We must also address the paucity of empirical work which establishes rigorous empirical causation between social exclusion and economic outcomes. Yet despite those limitations, we are confident that the general trends outlined in this review can serve as a framework for real means by which a Shared Society can be built.

There is no absolute rule, and no single variable should be taken at face value as promoting a Shared Society in isolation from other variables. Rather, Shared Societies seems to emerge from, and in return benefit from, a set of policies. We have also discovered promising avenues for further research, looking to the conditions in which diverse groups exhibit higher levels of productivity, and exploration of concrete means by which infrastructure improvements could encourage social inclusion.

All in all a Shared Society is not something you wish for, it is something you build, and it can be built by seeking means to increase interpersonal trust, and by seeking means by which government can act to eliminate diversion. A Shared Society is built of equitable institutions on a solid foundation of trust.

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7 ECONOMIC POLICIES AND PRACTICES THAT REFLECT A SHARED SOCIETIES ORIENTATION

An important recommendation of the Club de Madrid and the thrust of the argument of the Working Group is that priority should be given to facilitating the participation of marginalised groups in the economy as productive members of society, including, support for entrepreneurial activities. There are examples of this being done throughout the world and Ananda Millard[1] was commissioned to document some of these examples from countries in different continents, at different levels of development and facing different challenges, but all showing that economic policies can and do help the economic participation of disadvantaged sections of the community. They have been recorded in a simple bullet point format so that the key elements of the initiative can be quickly identified and references are given to sources of more detailed information. This format has been used for documenting examples of other types of policies and practices which are already available on the Club de Madrid website where they are related to the Ten Commitments and Approaches for Shared Societies.

INITIATIVE: NATIONAL COMMISSION FOR SCHEDULED CASTES

COUNTRY: INDIA

BACKGROUND ISSUES

- Long standing divisions exist in India between those from higher castes and those from lower castes, justified on religious grounds.
- Lower caste people are very poor and disadvantaged.
- Most lower caste people have had very limited opportunity for upward mobility.
- They have also been subject to ill treatment and violence.
- At independence the Constitution highlighted the importance of equality and provided for the establishment of special arrangements for lower castes listed in a schedule to the Constitution, thereafter called scheduled castes.

1 Ananda Millard is an Independent Consultant a member of the Working Group on the Economic Rationale for Shared Societies.

GOALS

- To protect the rights of and end discrimination against scheduled castes.
- To improve the living conditions and life chances of members of scheduled castes.
- To increase the acceptance of members of scheduled castes as equal members of society.

METHOD

- A National Commission for Scheduled Castes was set up under the Constitution to protect the rights of different scheduled castes in India.
- The Commission's chairman and vice-chairman have Union Cabinet Minister and Union Minister of State status.
- Members of the Commission hold the rank of Secretary to the Government of India.
- The Commission's functions include:

  – Monitor the implementation of protective legal safeguards for scheduled castes.
  – Investigate any transgression to the aforementioned legal safeguards.
  – Evaluate the effectiveness of current legislation as pertains to the protection of individuals from scheduled castes.
  – Make recommendations on the type of measures that should be introduced to further promote and/or safeguard the protection, welfare and socio-economic development of scheduled castes.
  – Investigate complaints regarding violations to the legislation which protect the rights of scheduled castes.
  – Evaluate, together with other bodies, the socio-economic development of scheduled castes.

- With reference to investigations the Commission has all the powers of civil court trying a case.

IMPACT

- Statistically progress has been made: literacy, for example, increased from 10 to 37% between 1961 and 1991.
- Scheduled castes are able to elect their own representatives to the seats reserved for them in parliament.
- Progress is being made in poverty reduction of scheduled castes.
- However, the speed with which poverty is reduced amongst scheduled castes, or the speed with which scheduled castes progress in terms of health or economic indicators, for example, is proportionally lower than that of other groups.

- Some argue that while scheduled castes have a role in government, their actual involvement in decision-making is small.
- There is still a great deal of prejudice against lower caste people in some parts of the country, especially in rural areas.
- The bottom line is that while the measure explored here is an important one, it will not achieve major change unless other efforts are carried out along side it.

ENABLING CONDITIONS

- Article 338 of the Constitution provides for a National Commission for Scheduled Castes.

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INITIATIVE: EQUAL OPPORTUNITY POLICY AT FIRST GROUP PLC.

COUNTRY: USA/UK

BACKGROUND ISSUES

- Numerous studies have shown that private enterprise benefits from a diverse working environment.
- Diverse working environments can nurture innovation.
- First Group plc. is a transport company with holdings in both the US and UK, and an annual revenue of 6 billion pounds sterling and 130,000 employees.
- First Group plc. highlights that it benefits economically as a company from ensuring a diverse staff environment where equal opportunity is at the core of management decisions. This enables the company to utilize all available resources and talents and to ensure the company benefits to the maximum degree possible from the skill set available to it.

GOALS

- To employ individuals based on their skills and without prejudice based on race, colour, nationality or national or ethnic origin; sex or marital status; disability (e.g., a long term mental or physical impairment); gender identity, sexual orientation; religion or philosophical belief; political belief; trade union activity; or age.
- To make efforts to eradicate discrimination and harassment from the workplace.
- To provide employees with a harmonious work environment that offers equal treatment and makes equal opportunities available to employees.

METHOD

- First Group plc. has a clear policy delineating their equal opportunity employment principles.
- The ultimate responsibility for the enforcement of the policy is with the Board of Directors, however all employees are also regarded as responsible for upholding the principles of equal opportunities.
- Remuneration, promotions and retention practices ensure that no discrimination has been part of the decision making process.
- Disciplinary measures will be taken against individuals who violate the equal opportunity policy.
- Mechanisms to recruit, identify individuals for training/job development, and promotions must be made in a manner that precludes the possibility of discrimination.

- Staff who feels that individuals have taken discriminatory actions/practices should report this to the relevant human resources office.
- Monitoring and evaluation of the mechanism employed to ensure equal opportunity are taken regularly. These include:

  – Collection and analysis of personal data at regular intervals to ascertain whether there are particular groups which are underrepresented and if so why this might be so.
  – Examination of employment procedures and how these may unintentionally (or intentionally) affect particular groups.

- The outcome of the monitoring and evaluation process enables appropriate corrective action to be taken if needed and adjustments to be made to the company policy if these are deemed necessary or relevant.

IMPACT

- A more amicable, harmonious and thus profitable work environment.

ENABLING CONDITIONS

- Willingness by the company/senior management to introduce mechanisms within the company's operating procedure.
- Recognition by senior management of the benefits of a non-discriminatory workplace.

REFERENCES/CONTACTS FOR FURTHER INFORMATION

For information on the policy see http://www.firstgroup.com/equal_opportunities.php

INITIATIVE: KICK START AFFIRMATIVE ACTION SCHOLARSHIPS – UNIVERSITY OF AUCKLAND, NEW ZEALAND

COUNTRY: NEW ZEALAND

BACKGROUND ISSUES

- Historically, the Maori have had higher rates of unemployment and a greater representation in lower skilled manual occupations in secondary industries than non-Maori.
- Changes in the economic landscape of New Zealand since the early 1980s have caused significant job losses for the Maori in sectors in which Maori were highly represented.
- The Maori constitute 7.4% of the total population of New Zealand.
- The socio-economic disparities between Maori and non-Maori, have led to government policies that seek to address the disadvantages faced by Maori; these include efforts to make higher education more accessible.

GOALS

- To break down ethno-economic barriers to education.
- To facilitate the participation of Maori in higher education.
- To enable Maori individuals to access better opportunities in the job market by providing them with appropriate educational skills.

METHOD

- On an annual basis, 4 scholarships are offered at the University of Auckland.
- The scholarships are only made available to students of Maori or Pacific Island background who are New Zealand Nationals or holders of a residency permit.
- Applicants may be subject to an interview as part of the selection process.
- In addition to meeting the basic requirements (i.e. ethnicity), the applicant's academic merit, personality and drive to make a difference will also be factored into the decision making process.
- Students are assisted to set up once they have arrived at university (lodging, books, etc.).

IMPACT

- The statistical impact of these scholarships is not documented, but access to, and successful completion of, higher education is known to have a major impact on employment opportunities later in life.

ENABLING CONDITIONS

- The students need to have the means to attend higher education in the first place. This scholarship is not one that covers all the costs associated with higher education such as living costs while attending university.
- The students must first have a sufficiently good academic basis in order to succeed at University.

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http://www.civilrights.org/equal-opportunity/education/higher-education.html
On the Educational System: http://education.stateuniversity.com/pages/1080/New-Zealand-EDUCATIONAL-SYSTEM-OVERVIEW.html

INITIATIVE: THE FINNAMARK ACT (LAND RIGHTS OF THE SAAMI PEOPLE)

COUNTRY: FINNMARK, NORWAY

BACKGROUND ISSUES

- There has been a long-standing struggle between the Saami people and the national government regarding land rights.
- The land tenure issue between the Saami and the national government was highlighted by a conflict regarding the development of the Alta-Kautokeino watercourse in the 1970s and early 1980s.

GOALS

- Facilitate the management of land and natural resources in Finnmark without prejudice and in an ecological and sustainable fashion.
- Enable the survival of Saami culture.

METHOD

- On June 17, 2005 the Finnmark Act was adopted. This act established that the State was no longer the owner of Finnmark.
- Pursuant the Finnmark Act, the state of Finnmark was established to manage both the land and natural resources on the land that comprises Finnmark.
- The Finnmark Act applies to the management of land in the county of Finnmark and extends into the sea as pertains to private ownership of sea/beach rights.
- Both the Saami Parliament and the Finnmark County Council appoints 3 members of the Board of the Finnmark state.
- The Act does not discriminate along ethnic lines beyond ensuring the ethnic representation of the Saami in the Board of the Finnmark State.
- The Act complies with Article 27 of the UN’s International Covenant on Civil and Political Rights and International Labour Organisation's Convention no. 169.
- The Act bases rights on proximity and therefore individuals have stronger right over land where they reside than in neighbouring municipalities.
- Residents of Finnmark County have the right to hunt and trap large and small game, fish with rods and fishing lines, pick berries and collect wood for home crafts.
- Within their own municipality individuals are also allowed to use nets for fresh water fishing, harvest eggs, and fell trees for fuel.
- Individuals who do not reside in Finnmark are entitled to trap and hunt small game, fish and pick cloudberries for their own household consumption.

IMPACT

- The access and use of land and natural resources in an equitable way enables Saami people to perpetuate their way of life.
- It enables Saami people to secure their livelihoods (i.e. secure an income).

ENABLING CONDITIONS

- A process of dialogue and consultation between the Parliament Justice Commission, the Saami Parliament and the Finnmark County Council led to the drafting of the Act.

REFERENCES/CONTACTS FOR FURTHER INFORMATION

Norwegian Legislation and Administration- Saami land rights. Journal of Indigenous people's rights No. 1/2007

Background: http://arcticcircle.uconn.edu/HistoryCulture/Sami/samisf.html

AFRICAN INITIATIVES: SUPPORTING NOMADIC PEOPLES' LAND RIGHTS AND NATURAL RESSOURCE MANAGEMENT

COUNTRY: TANZANIA

BACKGROUND ISSUES

- The tourist industry, conservation programs and commercial farming are stripping African pastoralist and hunter-gatherer nomadic communities of the land they have relied on for their sustenance.
- While some of these industries bring income to the country, nomads themselves often reap few benefits.
- Climate factors, such as drought, also threaten nomadic communities.
- Nomadic people utilize the local resources in a way that can both contribute to the local economy and to the eco-system.
- Pastoralist communities depend on the land and owning cattle essential to both survival and social status.
- The expulsion of nomadic communities from their land has resulted in the break down of those communities and in the disruption to their economy.
- There is a general belief that hunter-gatherer ways of life are “illegitimate” and this often translates into political, social and economic discrimination.
- Development initiatives often lean towards working with nomadic communities with the aim of changing their way of life from nomadic to sedentary communities.
- Tanzanian Law and Constitution recognizes the rights of traditional land tenure.

GOALS

- To resolve conflicts and secure access to land and other natural resources.
- To safeguard the lifestyle and economy of nomadic communities and enable them to adapt to a changing world and access new economic opportunities.
- Helping nomadic communities to remain self sufficient and make their contribute to society economically and by protection of the environment.

METHOD

- African Initiatives is a UK based NGO which was founded in 1995 and works in Tanzania and Ghana. In Tanzania they work with local organizations in Tanzania (the Pastoral Women’s Council – PWC and the Ujamaa Community Resource Trust-CRT) to assists in the development of Land Use Plans by carrying out geographical surveys that highlight the different uses of specific land.

- The land use plans are then used to increase local participation and strengthen the local community's awareness of land rights.
- Education projects on economic literacy, financial management and food security are also provided to the populations.
- Civil education is also part of the project to ensure that local populations are aware of their rights and responsibilities and the most effective way to raise their concerns.
- The project raises awareness with both national and international authorities/ organizations on the plight of nomadic peoples in Tanzania.
- It engages with local government in order to influence policy shifts.
- It collaborates with regional networks working on natural resource governance and land tenure issues.

IMPACT

- Conflict related to issues of land have been reduced.
- The CRT has been able to secure land use for 4 villages.
- The CRT has supported 3 villages in contesting hunting bans placed against them.
- It has supported the increase of participation in general assemblies (democratic participation) and reduced levels of corruption.
- Land use plans have been agreed to by local communities and implemented in 42 villages.
- Land Use Plans have also been used to prevent land grabbing.
- The above gains together with the support of eco tourism are benefitting some 120,000 nomadic people through:

  – the improvement of village council offices and school premises;
  – payment of school fees;
  – development of 10 health dispensaries and 2 health insurance schemes;
  – supporting 10 women income generating projects;
  – 20 water projects and improved management of 23 water sources and rivers;
  – Improved management of forest and charcoal production in 13 villages.

- Household income has been increased by enabling them to stay on their land and take up opportunities in eco tourism.

ENABLING CONDITIONS

- The constitutional recognition of the rights for traditional land tenure provides a basis for promoting the interests of the nomadic people.
- Local people have been willing to participate in the process.
- The NGO's are experienced and have the ability to link national policy with conservation and land management issues at the community level.

- The nomadic people's existing unique understanding of the local ecosystem and the skills to use it productively, indicates that they have a contribute to make to the wider community and provides a good base for developing project activities.

REFERENCES/CONTACTS FOR FURTHER INFORMATION

http://www.african-initiatives.org.uk/projects/landRights.htm
http://www.international.ucla.edu/africa/grca/publications/article.asp?parentid=107729
http://www.maasaierc.org/maasaipeople.htm

INITIATIVE: CEO PHILADELPHIA ACCESS NETWORK

COUNTRY: USA

BACKGROUND ISSUES

- In 2010 the majority of residents of Philadelphia were Black, Latino, Asian and women. However only one quarter of the estimated 63,000 small businesses were owned by members of those groups.
- Despite minorities comprising the majority of the population they only generated 3 percent of total business revenues.
- Aware that the economy of Philadelphia was suffering from the inability to adequately include marginalized groups, in 2006 the mayor of Philadelphia signed an executive order aimed to transform the city's government as it related to minorities including women, disabled and would-be entrepreneurs.
- This executive order led to the drafting of a strategic plan aiming to change the entrepreneurial landscape of Philadelphia (2010).
- A study by the Urban League of Philadelphia underscored the challenges faced by Philadelphia citizens and how these are linked to unemployment and in turn to too few business/entrepreneurship opportunities amongst minorities.
- The Chamber of Commerce of Philadelphia felt that building networks between established business owners and up-and-coming minority business owners was a critical support mechanism needed in order to strengthen minority entrepreneurship.
- One of the efforts made to support minority entrepreneurs is the CEO (Chief Executive Officer) Access Network project.

GOALS

- The first goal of the strategic plan of the city of Philadelphia in 2010 was to increase by 25 percent the number of registered businesses owned by minority, women and disabled persons.
- The goal of the CEO Access Network of Greater Philadelphia is to drive business and create economic opportunity for urban businesses and residents by building and strengthening a network between established and emerging CEOs and business owners.

METHOD

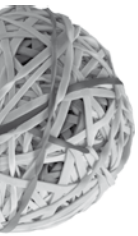
- The CEO from an established large business will be partnered with a minority CEO for the purpose of providing counseling, guidance and networking opportunities.
- The partnered CEOs will interact both within the CEO Access Network (i.e. meetings and events) as well as outside the formal Access Network gatherings.

- The pairings between CEOs are expected to last 1 year as established by the network program, but it is anticipated that these will last beyond the Access Network program and become enduring relationships.
- The Access Network will formally meet three to four times per year for a breakfast meeting.
- The formal Access Network meetings are expected to last no more than 90 Minutes.
- Each Access Meeting will feature a guest speaker who will speak on a topic of interest.
- Access meetings may also include brief presentations by member CEOs on business opportunities.

IMPACT

- Since the CEO Access Network has recently started operations it is not yet possible to know what the impact of this enterprise has been.

ENABLING CONDITIONS



- Willingness by established CEOs and by minority CEOs to join forces in a network.
- Support by the local government to nurture the network relationship.
- Good definition of relevant groups within society to ensure their participation and prevent this effort from becoming a further dividing rather than unifying enterprise.

REFERENCES/CONTACTS FOR FURTHER INFORMATION

Information on CEO Access Network see: http://www.telrosecorp.com/new_031309.html
http://www.limaconsulting.com/newsroom.aspx

Michael A Nutter: *Inclusion Works For All Philadelphia* Speech delivered by Mayor Nutter 08/02/2010. http://oeo.phila.gov/forms/inclusion%20works%20for%20all%20philadelphians%202-8-2010.pdf

See also Philadelphia Chamber of Commerce: http://www.greaterphilachamber.com/Membership.aspx

INITIATIVE: SINA GAMILA: REFLECT BEAUTY IN THE MIRROR OF ACTION

COUNTRY: EGYPT

BACKGROUND ISSUES

- The Bedouin population is an Egyptian ethnic minority constituting 2% of Egypt's total population.
- Bedouins are traditionally a nomadic people, making their ability to participate in conventional employment difficult. Furthermore normal day labour has traditionally not been recognized by the Bedouin as reputable source of income.
- The opportunities for economic progress and participation in the national economy are limited due to their way of life and skill sets.
- The Sina Gamila Project supports mechanisms to generate income by utilizing Bedouin's existing knowledge and capitalizing on it.

GOALS

- To provide the Bedouin with a new way to generate income.
- To utilize Bedouin cultural heritage as the basis for income generation.
- To establish a reliable income generator for participating Bedouin people.
- Capacity building for Bedouin women.
- To market culturally rich goods for western consumers.

METHOD

- "Apparel Design, Management & Technology" at Helwan University in Cairo was founded in 1999.
- The programme at the university was designed to train individuals in high quality tailoring for European markets and simultaneously link trainees/students with local artisans.
- The Bedouin were one of the local artisan populations which were targeted by the students of the "Apparel Design, Management & Technology" programme.
- With funding from numerous organizations and institutions both in Cairo and Germany, and the World Bank, the Sina Gamila project enabled the establishment of a structure that allows for the exchange between Bedouin women and individuals trained in tailoring and based in Cairo.
- Students from the college visited Bedouin women in their communities and watched and learnt from them.
- By combining the knowledge and skill of embroidery and stitching of the Bedouin with professional tailoring in Cairo the business creates clothing for which there is a market.
- The Sina Gamila project is in the process of establishing clothing collections.

IMPACT

- The Bedouin people are provided with a way to enter the market economy. This has both economic implications for the Bedouin and for Egypt.
- By increasing their participation in the market economy, the Bedouin further contribute to Egypt's economy.
- The utilization of Bedouin culture and cultural heritage as a basis for the business model can, on the one hand, contribute to reducing the Bedouin's perception of marginalization, and on the other hand, teach the general Egyptian population that Bedouin history and culture has value for all.

ENABLING CONDITIONS

- The university set up a program that encouraged students to seek out traditional skills/artisans and to mix these skills with solid tailoring.
- Students were encouraged to explore markets for the goods they produced.
- The project was sufficiently backed/funded in order to kick-start the process.
- Bedouin women were willing to participate in the project.
- The goods created have found a market in the west and thus the business is in a position to explore a future that is not dependent on donors.

REFERENCES/CONTACTS FOR FURTHER INFORMATION

"The Bedouin of Egypt" See http://kcm.co.kr/bethany_eng/p_code1/161.html

"Egypt's New Challenge: Sinai's Restive Bedouins" see
http://www.time.com/time/world/article/0,8599,1958622-2,00.html

For project see: http://www.susannekuemper.de/contact.htm

INITIATIVE: GONE RURAL, SWAZILAND A FAIR TRADE ORGANIZATION

COUNTRY: SWAZILAND

BACKGROUND ISSUES

- In 2006 the unemployment rate in Swaziland was estimated at 40% with 69% of the population believed to rank below the poverty line.
- 1 in 4 of adult Swazi people are estimated to be living with HIV or AIDS.
- The HIV and AIDS epidemic in Swaziland is believed to be the primary contributing factor to the drop in life expectancy. Currently life expectancy in Swaziland is estimated at 32 years (lowest in the world).
- The Gone Rural project, in Swaziland, aims to support women in rural communities that have been ravaged by poverty and HIV/AIDS.

GOALS

- To provide the women in rural Swaziland with income generating opportunities.
- To create a viable business which is profitable while remaining socially responsible.
- To make goods for which there is a market using local materials and knowledge.
- To work with local communities to create goods which are based on local materials and local craft skills, but which meet the demand of modern living.

METHOD

- The company, Gone Rural, is a socially responsible business enterprise. It was set up as a commercial company with a strong social responsibility ethos.
- Gone Rural identifies as part of their work team interested women in rural communities where income-generating opportunities are few.
- The women first harvest the grass, a basic raw material, used in the majority of Gone Rural's goods.
- The grass is then taken to the Gone Rural headquarters where it is dyed.
- The dyed grass is then returned to the women who will make the articles for sale.
- Gone Rural staff go to each village on a prearranged day and provide the women with raw material for future articles and buy articles that the women have already made.
- Teams of designers who work at the Gone Rural headquarters design the articles.
- The designers test different designs and, once satisfied that their designs are marketable, they conduct trainings in the villages where the women who make the articles live.
- Gone Rural carries out constant quality assurance and increases the training time when the designers feel the product does not meet the quality requirements.

- Once trained, women return to their homesteads and create the items.
- The goods bought from the women are then sold at the Gone Rural shops.

IMPACT

- Women, often heads of household, are able to earn an income that would otherwise be impossible.
- Through its non-profit branch the project supports community initiatives aiming at further empowering women, builds educational structures and creates a sustainable basis for progress.
- Thus far, this project has benefitted 700 women in rural areas of Swaziland.

ENABLING CONDITIONS

- Gone Rural was aware of the type of goods/skills that were available locally.
- Gone Rural was aware that the raw materials were readily available.
- Gone Rural was able to identify women interested in making the products.
- Gone Rural was able to identify designers willing and able to work on the design of products based on local Swazi materials.
- Gone Rural has been able to sell the products created and make a profit, which has in turn allowed for expansion.
- The security of Gone Rural's staff has been threatened during market day (when they go to villages to buy goods), but by and large they have found ways to secure their own safety.

REFERENCES/CONTACTS FOR FURTHER INFORMATION

Swaziland CIA world fackbook page https://www.cia.gov/library/publications/the-world-factbook/geos/wz.html

For HIV statistics see http://www.avert.org/aids-swaziland.htm

http://www.goneruralswazi.com

INITIATIVE: GRAMEEN BANK

COUNTRY: BANGLADESH

BACKGROUND ISSUES

- 73% of Bangladeshi population lives in rural or peri-urban areas.
- 47% of the Bangladeshi population is illiterate.
- Almost 51.5 million people in rural Bangladesh were believed to live under the poverty line in 2009.
- Low-income families were often made poorer by lending agents.
- High interest rates made borrowing prohibitive to low-income families.
- Inability to access start-up funds prevented poor families from finding a way out of poverty.

GOALS

- The Grameen Bank has as a primary goal to extend banking facilities to poor men and women who would otherwise not have access to banking.
- To protect poor men and women from exploitation at the hands of lenders.
- To increase self-employment opportunities for unemployed rural Bangladeshi's.
- To enable disadvantaged individuals/families, mostly women, to organize themselves in a way that enabled them to do well economically.

METHOD

- The initial scheme was an action research project to examine how small credit facilities could be made available to the rural poor.
- It eventually became an independent bank owned by the rural poor whom it serves and established under government legislation.
- The Grameen Bank delivers support to families that are the poorest amongst a population which is already considered to be poor. The majority of the individuals targeted are women.
- A set of indicators exists which allow for the identification of possible beneficiaries.
- The Grameen Bank also focuses its energy on the design and development of projects that support a local social development agenda.
- Borrowers are supported in creating projects that are sustainable and applicable to local conditions, thereby ensuring that funds borrowed would generate returns.
- The Grameen Bank continually examines its loan portfolio and the relevance of that portfolio.
- Groups of five individual prospective borrowers are then formed. These groups are voluntary.
- At the first stage only two of the five prospective borrowers are provided with a loan.

- The borrowers are then monitored closely for about a month to see if they keep to the rules of the bank.
- If the two initial borrowers start to pay the loan with interest within 6 weeks, then the rest of the group (remaining 3 individuals) are entitled to borrow funds.
- In this way the collective responsibility is used as a collateral to the loan.

IMPACT

- It is estimated that household income of individuals who borrow from Grameen bank is 50% higher than that of households where the bank is not operational.
- It is also estimated that the household income of Grameen Bank borrowers is 25% higher than those families who do not borrow from Grameen, but who live in areas where Grameen Bank operates.
- 20% of Grameen Bank members live below the poverty line, however 56% of non Grameen Bank members live below the poverty line.
- The project has expanded from one initial village (1976) to the national level.
- Currently the borrowers themselves own 90% of Grameen Bank shares. 10% of shares are owned by the government of Bangladesh.

ENABLING CONDITIONS

- Its initial establishment as a project within a university allowed the founders to test out its working methods in a supportive environment.
- At an early stage the project received sponsorship from the national bank and commercial banks.

REFERENCES/CONTACTS FOR FURTHER INFORMATION

http://www.grameen.com/index.php?option=com_content&task=view&id=25&Itemid=128
https://www.cia.gov/library/publications/the-world-factbook/geos/bg.html
http://www.ruralpovertyportal.org/web/guest/country/statistics/tags/bangladesh

INNITIATIVE: SIERRA PRODUCTIVA

COUNTRY: PERU

BACKGROUND ISSUES

- Most landowners in Peru are small holding landowners, which limits their ability to make their farms economically productive and sustainable.
- National Peruvian agrarian policy excluded small farm holdings.
- The Andean region is a harsh environment and hence farming technologies and advances can be useful to this environment.
- While new technologies and advances have been made in the farming arena, traditional ways of farming have been developed over centuries and their merits should be explored before replacing them.
- Mechanism to share information should equate with both the cultural and logistical local realities.
- Sierra Productiva started as a project in the Cusco Region with the help of the Institute for Agrarian Alternatives (IAA) in 1995.

GOALS

- Sierra Productiva is a programme that promotes increased productivity, which is economically and socially sustainable in the long term.
- Sierra Productiva aims to accomplish its goals by utilizing the potential of the Andean farmer of Peru together with the incorporation of 18 technologies (adapted to the Peruvian Andean environment), which allow local farmers to dramatically increase their productivity and efficiency.

METHOD

- The Sierra Productiva concept is based around the concept of a *yachachiq*. A *yachachiq* is a person who is able to transmit knowledge by example. Someone who applies the knowledge they have and does so in a way that enables those close to him/her to apply the same knowledge.
- The concept of a *yachachiq* originates in the local indigenous tradition.
- Sierra Productiva started by training 10 individual *yachachiq*. The idea was that these trained individuals were then committed to train a further 10 individuals in their own communities and accompany their own trainees thereafter.
- Sierra Productiva is based on the creation of a network of knowledge, whereby all trained *yachachiq* are for their part committed to train others.
- In the beginning individuals were specialized in a specific component of farming, but more recently each *yachachiq* is trained in all aspects of farming and related aspects of production.

- The Sierra Productiva key *yachachiq* trainers carry out a few visits per year to each participating village to ensure that the knowledge is being adequately translated to them.
- The facilitator of the project is the Institute for Agrarian Alternatives (IAA), while the *yachachiq* are the actual protagonists of the project.

IMPACT

- Following its notable advances, the National Center for Strategic Planning (Centro Nacional de Planeamiento Estratégico – CEPLAN) has agreed to incorporate Sierra Productiva as part of its National Strategic Development policy 2010-2011.
- Improved agricultural practices have ensured: sustainable irrigation that is not rain dependent, access to clean and reliable water sources, green pasture 12 months of the year as opposed to only 3 prior to the start of the project, harvest of grass that allows for 5 harvests per year and gardening which includes 16 types of vegetables and fruits.
- The gardening ensures food security for the whole year and provides an income by the sale of the surplus.
- The availability of grass allows for the raising of a diverse variety of farm animals and this in turn allows for a better diet and for the sale of animals.
- The diet of rural peasants has improved.
- Small-scale industry has begun to develop.
- Families could typically expect a monthly income of 80 to 120 Soles per month in the past, but in the first year of the programme they could earn 300-500 soles per month. These profits can be doubled and even tripled in following years.
- The people reevaluated the use of traditional customs while introducing new knowledge.
- Health improved through better practices, increased knowledge and access to more nutritive food sources.
- Indigenous populations have been enabled to partake more widely in socio-economic aspects of Peruvian life by providing them with the economic means to do so.

ENABLING CONDITIONS

- The Institute for Agrarian Alternatives was willing and able to launch the project.
- The knowledge to improve the output from local farming was understood.
- The traditional method of learning was an effective way to transfer knowledge to local populations.
- Local communities were willing to participate in the projects.

REFERENCES/CONTACTS FOR FURTHER INFORMATION

For information on Sierra productive see:
http://www.sierraproductiva.org/yachachiq/Home/Yachachiqs
http://www.theworldchallenge.co.uk/2010-finalists-project03.php
http://www.youtube.com/watch?v=-LUEjDlRCBU
http://www.sierraproductiva.org/

8 WHAT CREATES PEACE: STRUCTURES AND ATTITUDES

The Club de Madrid, in exploring the links between Shared Societies and economic performance, has been identifying related evidence-based research. Coming from the perspective of researching peaceful societies, the Global Peace Index is producing results which are very relevant to understanding the impact of Shared Societies. The Institute for Economics and Peace has studied that data and has identified eight attributes of peaceful societies, most of which the Shared Societies Project has identified as attributes of a Shared Societies. We are pleased to include this extract from the Report[1] and are indebted to the Institute for Economics and Peace for permission to use it.

STRUCTURES AND ATTITUDES OF PEACE

INTRODUCTION

Using the Global Peace Index (GPI), it is possible to analyze the relationships between peace and society so as to develop a fact-based approach to determining what type of society will deliver the optimum environment for peace. However, peace does not exist in isolation, in many ways it can be seen as a proxy for the things that really matter such as well functioning government or personal freedoms because peace resides in societies that have certain characteristics and these characteristics are what creates optimal performance. An example is that peaceful societies are resilient. This is the ability to bounce back from external shocks. Additionally, the structures that create peace also create the structures needed for superior economic performance.

The GPI, an asset of the Institute for Economics and Peace (IEP), is the first ever study to rank the nations of the world by their peacefulness. Since 2007, it has ranked 149 nations by their peacefulness, and uses as its definition of peace the “absence of violence”, a concept often referred to as “negative peace”. This definition is both intuitive and empirically measurable. The GPI uses 23 indicators to measure both the internal peacefulness of nations as well as their external peacefulness to create a composite index.

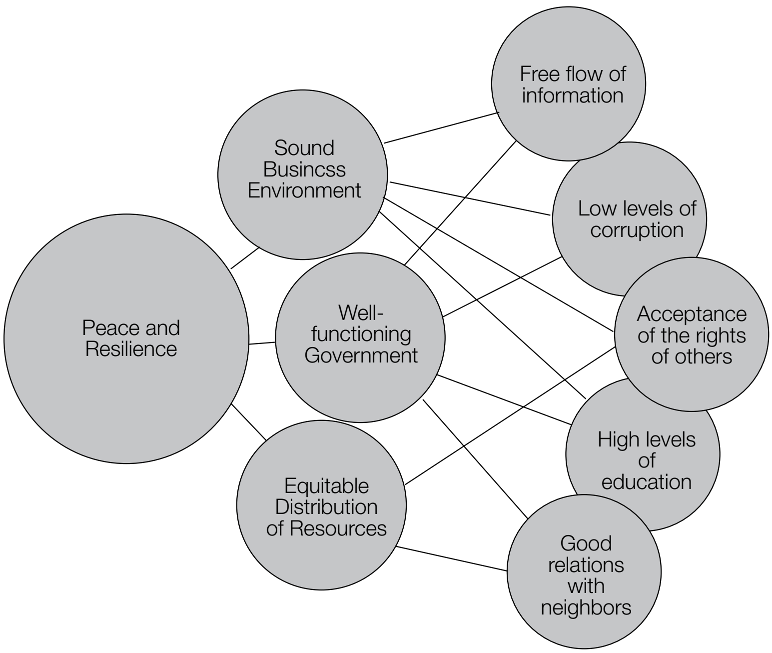
1 Institute for Economics and Peace (2010). *Special Report: Structures and Attitudes of Peace*.

Another view of peace is "positive peace[2]", which is the structures and attitudes that create peaceful societies. This can be identified through statistical analysis by analyzing other data sets, indexes and attitudinal surveys in conjunction with the GPI to arrive at the most statistically relevant relationships. Identifying the structures, attitudes and institutions which create and maintain peace is the key objective of this paper.

The statistical analysis undertaken by the IEP uncovered eight structural and attitudinal "elements" related to peace. Figure 1 displays the interactions between each element. The three first-order structures: a sound business environment, well-functioning government and the equitable distribution of resources within a society are the critical components that create peace. The secondary elements are what make the primary elements work effectively and are heavily interconnected with each other and the primary structures.

When peace is viewed as consisting of these characteristics or attributes, then the word "*Peace"* can be seen as a proxy for describing an inter-related set of structures that create an environment that is optimal for human potential to flourish.

Figure 1. The structural attributes of peaceful countries



2 Galtung, J. (1996). *Peace by Peaceful Means: Peace and Conflict, Development and Civilization.* Sage Publications.

There are many benefits that societies can derive from the aforementioned structures. Some of these benefits are an improved security outlook, lower levels of business risk, higher per capita income, a better developmental environment and improved human happiness.

These Structures of Peace act and react with each other in many and varied ways and generally form virtuous cycles meaning that causality can run either way between the various structures. The best way of thinking about the Structures of Peace is that they are an interdependent set of structures that reinforce each other with peace being greatly weakened by the absence of any one. It's a bit like a brick wall, removing one brick reduces the strength of the wall dramatically.

A core finding of the research is that ***peace creates resilience***, allowing societies to absorb shocks more easily. Peace, when viewed through this lens, is a collection of activities that creates an optimal environment for human potential to flourish.

The resilient nature of peaceful societies is one of the most profound observations of the GPI. In one sense, resilience is "…merely the capacity of systems to absorb stress and maintain or ever repair themselves[3]", yet it also accurately describes the inner toughness of countries that overcome adversity and solve problems using peaceful methods. The characteristics that make countries resilient are also those that the most peaceful countries share in common.

CONCLUSION

To date, the overwhelming emphasis within peace and conflict studies has been placed on understanding the causes of war. The Global Peace Index is a pioneering attempt to systematically expand and explore our understanding of peace. Through expanding the definition of peace to the "absence of violence" and measuring internal indicators such as violent crime, a richer set of data has become available to help understand the mechanisms that nurture and sustain peace. This paper has introduced an original conceptual framework that is fact-based, linking peace with the societal structures and attitudes observed in the most peaceful countries included in the GPI.

Our analysis shows that the most peaceful countries in the GPI tend to have a set of structures and attitudes in common which appear to be intricately linked to their peacefulness. Using statistical correlations and other means eight key structures of peace have been identified. These structures are each heavily interconnected with causality running both ways depending on the individual circumstances within the societies. When viewed together, these characteristics promote resilience in society,

3 Quinlan, A. (2010) *Building Resilience in Ontario: More than Metaphor or Arcane Concept.* Ontario, Resilience Science.

allowing these societies to overcome adversity and solve problems using peaceful methods. In summary, peaceful societies are determined by the following factors:

- **Well-functioning government** – Strong relationships across a number of governance indicators show that well-functioning governments need to have many aspects working correctly if they wish to help create peace.

- **Sound business environment** – Business competitiveness and economic freedom are both associated with the most peaceful countries, as is the presence of regulatory systems which are conducive to business operation.

- **Equitable sharing of resources** – Low infant mortality and high life expectancy are characteristics shared by peaceful countries, while the Gini coefficient is moderately correlated with the GPI's internal peace measure.

- **Acceptance of the rights of others** – A commitment to human integrity is a key characteristic of peaceful countries, a claim supported by very strong correlations with three indexes measuring human rights. Also important are societal attitudes towards fellow citizens, minorities, ethnic groups and foreigners.

- **Good relations with neighboring states** – Countries with positive external relations are more peaceful and tend also to be politically stable, have well-functioning governments, are regionally integrated and have low levels of organized internal conflict.

- **Free flow of information** – Peaceful countries tend to disseminate information in a way that leads to better decisions and rational responses in times of crisis.

- **High levels of education** – Higher years of total schooling are closely related with the most peaceful countries.

- **Low levels of corruption** Strong correlations with corruption-related indexes suggest that the most peaceful countries are also often the least corrupt.

As a fact-based body of analysis, this paper provides many useful insights for a broad range of decision makers including: policy analysts, business, academics, and other international institutions. A major purpose of the paper has been to set the scene to initiate wider debate and discussion in the area. It is hoped that the analysis will guide subsequent research both by the Institute for Economics and Peace and other interested partners.

9 ENDORSEMENTS TO THE REPORT OF THE WORKING GROUP ON THE ECONOMIC RATIONALE FOR SHARED SOCIETIES

Latin America has seen in recent years major developments in poverty reduction and even some improvements in bridging inequalities. The continent is overcoming the current international crisis quicker and with more strength than any other region of the world.

However, poverty and inequality are still among the main challenges of our region. In addition to these challenges there is a lack of social cohesion and the fact that indigenous people, women and the unemployed or precariously employed remain amongst the most vulnerable in our societies.

Cultural diversity in Latin America is a source of pride and cultural heritage. Social Cohesion is not only a goal, but politically desirable and socially possible. ECLAC has clearly stated that equality and social cohesion are prerequisites for development. Economic growth does not suffice to generate equality, but equality brings economic growth.

We welcome and thank the work of the Club de Madrid's Shared Societies Project that clearly highlights what in ECLAC we had already recognized as true for our region: that social cohesion can be a spring of wealth and that equality is a precondition for economic development. We agree with the Club de Madrid that how we manage our coexistence is one of the most relevant conversations of our times. We will continue our partnership with the Club de Madrid in this relevant area of work that is of mutual interest. We invite all those in Latin America that bear responsibilities of economic management to read this piece that will surely offer them new ideas to design development plans for their region.

Alicia Bárcena
Executive Secretary of the UN Economic Commission
for Latin America and the Caribbean (ECLAC)

The Club de Madrid has issued an ambitious document and along with it a far-reaching programme of research and analysis that the Working Group has now embarked upon. The Shared Societies vision shows us what is possible, what is best in the realm of social and economic policy. Inclusion has its dividends if policy makers can pursue it. It is also essential to evaluate the performance of policy by constructing a Shared Societies Index which can compare countries across the world and any one country over time.

Yet the task will not be easy. What we have here is a normative statement — what ought to be — not yet a positive statement — what is. The task will be to devise policies which will make the ideal actual. There are along the way conflicts between different policies and different countries. Let me outline just two;

> Immigration: Is inclusion a global or a national goal? Free and unrestricted immigration will achieve inclusion but may cause problems within the host countries.
>
> Economics and environment; ideally taxes should fall on consumption and not income if we are to build sustainable societies. Here again there will be a difficult choice to make between alternative taxes.

I am very pleased that the Club de Madrid has taken this task on. It deserves the support of all of us.

Lord Meghnad Desai
Member of the House of Lords (UK)
Center for the Study of Global Governance and founder of LSE Global Governance.

Reading the report of the Club de Madrid Working Group on the Economics of Shared Societies reminds me of the vision that has guided me in all my work, whether with the World Bank, as Minister of Finance in Afghanistan and now with the Institute for State Effectiveness. We need a citizen-centred perspective to rethink the fundamentals of the relationship between citizens, the state and the market in the context of globalization, and stability and prosperity in our interdependent world demand a new compact to ensure that the billions of people currently excluded from globalization become stakeholders in the emerging political and economic order through creating binding ties between citizen, the state and the market.

This report not only identifies the benefit that this will bring to all but indicates approaches which will get us there — approaches that overlap with those that I have long advocated, in for example the ten functions of state effectiveness. I urge leaders to read and act on this Report. I know from personal experience that many states do not have the capacities and resources to take the necessary action and the international community has sometimes hindered rather than helped them to do so. I therefore call on the international community to also take note of the Report and develop a coherent strategy and a set of coordinated interventions to support this approach in the most fragile states.

Ashraf Ghani
Chairman of the Institute of State Effectiveness
Former Minister of Finance, Afghanistan

I am delighted that the Club de Madrid has taken the initiative to explore the additional economic value derived from an inclusive and Shared Society. I also welcome the report that has been prepared by the Working Group they established which sheds light on this important subject. I have read it with great interest and see many parallels with the work of the Institute for Economics and Peace (IEP). Our Global Peace Index has allowed us to track the connection between peace and a number of other factors including sustainability and economic prosperity. Positive inter-community relations are another key element which is closely connected to peace and economic prosperity.

Building peace and building Shared Societies are essential if we are to protect our planet and create a prosperous future for all of us. Last year IEP explored the economic benefits of peace and found that the total economic impact of a cessation of violence would have been U.S.$28 trillion from 2006 to 2009. Violence of all types has both immediate costs associated with it as well as the long-term economic damage brought about by the inefficient use of human capital, unproductive investments and damaged infrastructure. If policy makers focused on the reduction of violence then the economic payoff could be huge, with substantial gains in GDP, co-operation and well-being. I commend the Club de Madrid for its initiative in this regard because Shared Societies are a major step on the road to creating more peaceful nations and a more peaceful world.

Steve Killelea
Chairman and Founder Integrated Research Ltd; The Charitable Foundation
Institute for Economics and Peace and the Global Peace Index

This is a wonderful and important initiative undertaken by the Club de Madrid. It is clear that there is a link between cohesive or “shared societies” and sustained economic growth. The Club’s commitment to exploring and increasing awareness of this link is a significant contribution to the broader discussion of how governments can improve levels of well-being among their citizens, thereby re-inforcing the social contract.

Mario Pezzini
Director OECD Development Centre

I receive with great interest this report; as someone that has held responsibilities for financial policies in my own country and in the European Union, I am particularly glad the report highlights the important impact that financial and fiscal policies have on social cohesion. From my own experience there is no contradiction between sound financial policies and supporting the achievement of Shared Societies, in fact they complement each other. I commend the report to those policy makers now in power for their consideration and action.

Pedro Solbes
Former Finance Minister, Government of Spain
Former Commissioner for Economic and Monetary Affairs, European Commission

10 MEMBERS OF THE WORKING GROUP ON THE ECONOMIC RATIONALE FOR SHARED SOCIETIES

Rafael Domínguez Martín – Chair of the Department of International Cooperation and Latin America, University of Cantabria, Spain.

Roberto Foa – Doctoral Researcher, Harvard University.

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Arjan de Haan – Senior Lecturer in Social Policy, Institute of Social Studies, The Netherlands.

Juan Ramón de Laiglesia – Economist, Poverty Reduction and Social Development, OECD Development Centre.

Augusto López Claros – Founder EFD-Global Consulting Network and Honorary Professor at the European Business School.

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Wim Naudé – Senior Research Fellow and Project Director, UNU-WIDER.

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Sarah Silver – Executive Director, Alan B. Slifka Foundation.

Camilla Schippa – Senior Vice President, Global Peace Index.

Carlos Vergara – Regional Advisor, ECLAC (CEPAL).

Ellen Webbink – Database Manager, Indices of Social Development, International Institute for Social Studies, The Netherlands.

Stuart Wilson – Formerly Vice President with the DuPont Company.

11 THE SHARED SOCIETIES PROJECT

WHAT IS A SHARED SOCIETY?

A ‘Shared Society’ is a socially cohesive society. It is stable, safe. It is where all those living there feel at home. It respects everyone’s dignity and human rights while providing every individual with equal opportunity. It is tolerant. It respects diversity. A Shared Society is constructed and nurtured through strong political leadership.

WHY SHARED SOCIETIES?

Burqas banned in France... Brutal racial attacks on Indians in Australia... Gay Iraqis murdered by militia forces... Italian city passes “public security” ordinance to expel foreigners... Ethnic clashes erupt in Kenya... Bloodshed between Han Chinese and Muslim Uighurs... Headlines everyday tell us of identity-based conflict north and south, east and west.

A paradox of globalization is that the more we come together, the more we seem to fall apart. But fear of difference is not new. And, in times of crisis, apprehension grows as people cling to the familiar for fear of losing out to those who are different. Many leaders are comfortable catering to the majority — some even exploit tension between people of different identities to solidify political capital among their base. Research and practice show, however, that societies are most likely to be peaceful and prosperous when leaders and citizens recognize and celebrate the value of diversity and actively build an inclusive, Shared Society safe for difference.

WHY A SHARED SOCIETIES PROJECT?

As communities become ever more inter-twined and intercultural — ninety percent of the world’s countries have at least a ten percent minority — leaders face the challenge of building and maintaining social cohesion in their communities and countries. How they respond to social cohesion differs from leader to leader, but one element remains true for all: They need options and tools to address this challenge.

The Shared Societies Project was designed in response to an urgent call from leaders worldwide for arguments and action plans to help them effectively and constructively manage ethnic, cultural, religious and other identity differences — promoting human rights and respecting human dignity — to facilitate coexistence, inclusion, opportunity and participation.

RATIONALE FOR A SHARED SOCIETY

Social exclusion and mismanagement of diversity within societies are among the major challenges facing the world today because they create enormous threats to the stability of our world and consume enormous resources in dealing with the consequences of inequality and exclusion, which include war, violence, community breakdown and alienation. Our failure to co-operate in managing the world's resources, locally and globally, leads to natural disasters and destruction of the environment.

How nations and communities, individually and collectively, approach the issues of social cohesion and cultural diversity will have implications for political and economic development, human security, social stability, and peace throughout the 21st century and beyond. Current trends of economic mobility, displacement and globalisation will increase the levels of diversity across the world. The failure to proactively and positively manage diversity has the potential to produce substantial negative consequences.

We believe that averting ethnic, religious and cultural conflict in and among communities and nations is an urgent priority for many cities and states. We believe that societies are most likely to be peaceful, democratic and prosperous when leaders and citizens recognise the value of diversity and actively develop means to work together to build a Shared Society based on a set of shared goals and common values. We believe a socially cohesive society will be more stable and productive. Its members will be positive and confident of their role in society and their talents and contributions will be recognised, nurtured and applied in the further development of the society and the global community. The well-being of individuals and communities leads to the well-being of the nation, and among nations.

12 CLUB DE MADRID CALL TO ACTION FOR LEADERSHIP ON SHARED SOCIETIES

Building Shared Societies and a world safe for difference

The Club de Madrid issued this call to action during the Global Forum on Leadership for Shared Societies. The work that has been done since on the economics of Shared Societies, which is collated in this publication, reinforces the need for action to build Shared Societies as a moral principle and a matter of justice and fairness but also because of its economic benefits. We therefore invite individuals and organisations to subscribe to this call to action on our website.[1]

Rotterdam, 14 November 2008

The Club de Madrid — whose members are 72 current and former heads of state and government from 51 countries — meeting in Rotterdam 12-14 November 2008, reaffirmed its commitment to promoting leadership for social cohesion and Shared Societies as a key priority for the world today.

LEADERSHIP REQUIRED

We call to action all peoples, leaders and organisations in all sectors of society and walks of life to redouble efforts towards building understanding and tolerance. Beyond that, we call on leaders to show by example that when societies' dominant groups recognise and fully include others, particularly those who bring richness through difference, it will be for the betterment of all. We call on leaders to ensure that no-one is excluded from opportunity or left behind in the journey to Participation, Progress and Prosperity.

We call on them to use their spheres of influence — at the community, local, provincial, national, regional and global levels — to work together to promote and ensure social inclusion and cohesion. We call on them to recognise that achieving social cohesion and creating a world safe for difference is essential for the well-being of individuals, states and the world as a whole.

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1 http://www.clubmadrid.org/en/ssp/call_to_action_br_for_leadership_on_shared_societies

NO 'PLAN B'

We declare that there is no other option — no plan B — if we are to avoid a world continually wracked by identity-based tensions, inter-community divisions, inequality, and injustice. Without action, tension will continue to beget conflict, and conflict will breed violence.

If individuals and peoples are not able to express themselves in their language, enjoy their culture and traditions, and pursue their aspirations, they will not live freely nor fulfil their dreams. As such, they are a loss to the potential of their society and the world as a whole.

If we are not able to accept difference and to learn to understand the unfamiliar in others, and are not helped to engage with others, barriers are created between people and communities which fester and lead to social disintegration with devastating consequences.

ACTION PARTNERS

The Club de Madrid believes in building Shared Societies, based on co-operation and welcoming the contributions of all. We reject attempts to build homogeneous societies, in which difference is discouraged or even forbidden.

At a time when global financial, food, and energy crises will exacerbate the tendency to seek scapegoats among those different from us, this work is more important than ever. We make this Call to Action too, though, at a time of hope, when barriers are being brought down and change may come from new directions, leading us together from difference to Shared Societies.

BASIC PRINCIPLES

We have identified basic principles on which true social cohesion and Shared Societies can be created. We call on all leaders to uphold and apply those principles and measure progress towards social cohesion against them.

The basic principle we cherish is respect for the dignity of every individual.

We equally value the principle of respect for human rights and the rule of law.

No section of society, either the majority or the minority, can expect to have license to act in any way it likes, ignoring others and their rights. Central to the vision of a Shared Society is a social equilibrium in which all members of society, while expressing their own identity and aspirations, are expected also to do so in ways that accept the dignity and rights of others with different identities. Critical also is the principle of rule-of-law, adhered to by leaders and all members of society.

Equality and fairness are essential principles in building Shared Societies and it cannot exist where there is discrimination, marginalisation and lack of opportunity for all.

The Club de Madrid was founded on the principle of democracy and we believe that democracy enhances the possibility of building a Shared Society if all sections of society are able to express their aspirations and needs. However, we recognise that many democracies fail to promote social cohesion, and that the importance of building social cohesion also applies to authoritarian states.

We are clear about what has to be done and we in the Club de Madrid have prepared a Portfolio of Policies and Practices that document the ways in which it has been done by others.

CALL TO ACTION

We have identified 10 areas of policy commitments that complement one another towards achieving a Shared Society and to which we call all leaders to commit themselves to action. We call on all other sectors of society to support leaders to make and implement these commitments.

At our Global Forum for Leadership on Shared Societies in Rotterdam, we have invited principal sectors of the global community to contribute key ideas for taking forward this Call to Action.

URGENCY TO ACT

We believe there is no excuse for avoiding the imperative to build social cohesion. Oft-cited excuses such as resource scarcity or the presence of conflict are in fact reasons to make increased efforts to value all people in society and respect their diversity.

The issue cannot wait. Action is needed now. The process of building social cohesion starts at the top and we call on all leaders to endorse and act on this Call to Action.

Signed:

Ricardo Lagos
President of the Club de Madrid

Mary Robinson
Vice President of the Club de Madrid

Jenny Shipley
Co-Chair, Shared Societies Project

Cassam Uteem
Co-Chair, Shared Societies Project

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ABOUT US

The Club of Madrid responds to the demand for leader-to-leader support to confront today's global, regional and national democratic leadership challenges. It is an independent organization dedicated to strengthening democratic values and leadership around the world by drawing on the unique experience and resources of its Members — over 80 democratic former Heads of State and Government from 60 countries who contribute their time, experience and knowledge to this mission. The Club of Madrid's membership constitutes the world's largest forum of ex-Presidents and ex-Prime Ministers and offers today's leaders an unequalled body of knowledge and political leadership.

WORLD LEADERSHIP ALLIANCE
CLUB DE MADRID

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Alan B. Slifka Foundation

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Institute for Justice and Reconciliation (South Africa)
Institute for Economics and Peace
Institute for Social Studies (The Netherlands)
International Crisis Group
International Labour Organization
Open Society Institute
Organization of Economic Cooperation and Development (OECD)
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The World Bank

Members of the Club de Madrid at the VIII General Assembly (Madrid, November 2009)

I meeting of the Economic Rationale of Shared Societies (Santander, June 2010)

Partners

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