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Shared Societies

The Case for Inclusive Development

Edited by Clem McCartney and Wim Naudé

www.clubmadrid.org

Working Title:

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Version: 10 August 2012

Foreword

The Club de Madrid is delighted to be associated with this publication. In fact the Club has been a prime mover in bringing it about, along with our friends and colleagues in the *Maastricht School of Management*, and I take this opportunity to publicly acknowledge their cooperation, encouragement and wise counsel as we worked together on this book.

In order to explain why this initiative is important for the Members of the *Club de Madrid*, I need to give some background about the Club and explain the reason for its interest in this particular issue. The Club de Madrid is a network of over 90 former heads of state and heads of government, at the last count, and I have the honour to be the current president. We believe that our experience in government gives us a unique opportunity to help and give advice to current political leaders - and also civil society leaders – to deal with the many challenges they face.

We work with, and sometimes challenge inter-governmental institutions such as the United Nations and International Monetary Fund and we also are involved in specific countries, particularly countries in transition. Recently we have been involved in South Africa, Peru, Kyrgyzstan, Myanmar, South Sudan and a number of countries in the MENA region to name but a few. Our members are also to be found at civil society for helping the participants to understand current leaders and therefore engage with them more effectively.

Our perspective is generic, holistic and multi faceted, because many of the problems facing the world and individual countries are interlinked and cannot be deal with in isolation from each other. At the same time we often highlight particular issues that we believe are so important that they should be the focus of attention and we use our position to try to highlight them.

One such is the problem of intergroup tensions and how to solve intergroup divisions. In 2007 the Members of the Club decided that this should be a priority in our activities. I don't think it is difficult to make that case. We often quote the statistic that in over 90 per cent of the countries in the world at least 10 per cent of the population are different from their neighbours in terms of race, language, caste, religion, or other ethnic factors. And we know that in many countries such differences lead to serious social problems and violence. It was so in my country in the past because of religious differences and today we have tensions in relation to migration.

We called our initiative the *Shared Societies Project* because we wanted to chose a distinctive phrase which caused people to stop and think what this means. It is hard to imagine anyone saying that they do not believe in inter-ethnic harmony but there are different views on how we can reach that goal.

> -Do we follow those who say the best basis for good intergroup relations is for the other group to go away?
>
> -Do we agree with those who say that good fences make good neighbours and as long as the other groups keeps to themselves then everything will be fine?
>
> -Or how do we respond to those who claim that everything would be all right if the people who are different from us became like us – liked the same music; followed the same religion; dressed like us and so on?

We feel none of these options are tenable. They do not lead to harmonious relations. Whether we try to assimilate people, or keep them separate, or force them out, we are building up resentments that will eventual come out, often with violent results. Nor are they morally acceptable options, because they try to impose the preferences of one section of society on others. We do not like it when some other group tries to do that to us.

So our vision is not a society which is owned by one group in the population, but it is a place which belongs to all and everyone is expected to take responsibility and care for it - a Shared Society. We believe this is the only way to create long term sustainable communities and we have published materials including a set of ten commitments that leaders and their people need to make in order to achieve that vision and possible policies and practices which will realize those commitments[1]. We have been testing them in countries where these concerns are very real.

As we developed the Project we became more and more aware of something we intuitively knew from experience – that the development of a shared society has positive impact on development in other areas. We believe that Shared Societies are more ecologically sustainable, they build more social capital and they enhance economic wellbeing.

[1] http://www.clubmadrid.org/img/secciones/The_Shared_Societies_Project_Booklet_160910.pdf

This is not surprising because I said already that our experience is that all areas of policy interact with each other, and this is clearly so in the case of Shared Societies. They are affected by other areas of policy and they in turn have an impact.

The link with economic performance particularly interested us.

Current leaders sometimes say, we would love to have a shared society but it is not economically feasible at the moment. We have to concentrate on growth or balancing the budget and cannot invest in a shared society.

Or they say we are committed to Shared Societies but our supporters would never accept it because they feel threatened by other groups and their economic status would be undermined. For example they may believe that the best jobs go to people from other identity groups, including migrants from elsewhere.

Those leaders need to be able to show to their people that they cannot afford **not** to have Shared Societies. Division will hinder economic progress and investing in the whole community will reap tangible rewards for everyone.

The benefits of Shared Societies seem self evident but I know that some leaders and their supporters in much divided societies just do not want to know that. In their hearts they would prefer the whole community to decline rather than risk sharing with those to whom they are opposed.

So it is important that those communities and their leaders can be helped to understand how short sighted that view is, and that if they are more open to others everyone including their own people will benefit. And they also need support in finding ways to do that.

We have been developing the argument for two years now and already produced a set of materials[2]. Of course other organisations have also been developing this case.

We have been working with the *Friedrich Ebert Stiftung* in New York and the *Centre of Concern* in Washington to bring this case to leaders of global and regional intergovernmental institutions.

[2] http://www.clubmadrid.org/img/secciones/The_Economics_of_Shared_Societies_Publication.pdf

Working with representatives of these organisations we have developed a Global Shared Societies Agenda[3] for economic policy making and we have been working to encourage these bodes to adopted and apply its principles and proposed policies.

We are convinced of the case we have developed, but at the same time we want to take it farther. We need more evidence based analysis of the issues.

Therefore we joined with our colleagues in the *Maastricht School of Management* to organise a seminar to which we invited academics and practitioners from various disciplines to to consider the issues related to the economics of shared societies from the perspective of their own discipline. We deliberately kept the group small so to encourage in depth discussion of each paper.

As the President of the Club de Madrid and a citizen of the Netherlands I had the pleasure of hosting a dinner at the start of the conference. On that occasion I pointed out how appropriate it was to meet in the Netherlands and specifically in Maastricht, which is a living example of coming to terms with diversity and building a shared society.

My country lies on a number of the ethnic fault lines of Europe. Today those fault lines do not compare to the intensity of other fault lines of religion and race of which we are so aware today. But for the people who lived in this region 350 years ago, their divisions were very real.

Some of those divisions were political as the Dutch found themselves competing with the Spanish, the French and the British and the Low Countries was the cockpit of the struggle for influence through out Europe. . Some of the divisions were linguistic, the dividing line between Dutch, German and French falling across the Limburg region where Maastricht is situated. There is even a local dialect, Limburgish which has influences from the other languages. Religion also played a part with the Low Countries home to Protestants and Catholics

But those days are in the past. From the end of the 19th Century, the Netherlands developed a system of separate institutions on politico-denominational grounds – Protestant Catholic and Social Democratic as an interim measure, and in due course the significance of those pillars has

[3] http://www.uncsd2012.org/content/documents/146Global%20Shared%20Societies%20Agenda.pdf

become gradually less relevant. We are also part of the great project of bridging divisions through the European Community and Maastricht is now part of a multilingual Euregion.

This is because we have accepted difference and embraced it and at the same time tried to bridge the difference. It has created a Shared Society And we have prospered. This is what the economics of Shared Societies really means. But at the same time the Netherlands and indeed the whole of Western Europe have to respond to new challenges or immigration.

This is but one example and the authors have looked at experience in other regions and in other countries. As a result we believe the contributions to the book deepened awareness and understanding of the link between social and economic wellbeing and Shared Societies. The Members of the Club de Madrid will continue to work to ensure that this understanding informs future economic policy, especially using the Global Shared Societies Agenda for economic policy making which I mentioned earlier. At a time when past economic structures and policies have been found inadequate and damaging, and when we still have not created a new architecture and mechanisms for managing the economy in a way which provides sustainable and long term benefits for us all, we hope others will be inspired by these contributions to our knowledge to work with us to advance a new inclusive and shared paradigm for managing national and global economies.

-Wim Kok**,** *Former Prime Minister of the Netherlands and President of the Club de Madrid*

Acknowledgements

On 29 and 30 March 2012 the Club de Madrid and the Maastricht School of Management organised an international conference with the title "*Can the Economics of Shared Societies Support More Resilient Economies and Global Sustainability? Challenges and opportunities in an interdependent world"* in Maastricht, The Netherlands. During this conference a dozen papers were presented by participants – academics and practitioners alike – from across the world, dealing with the question posed in the conference title. This book is largely based on the papers delivered at this conference, and subsequently revised.

The book's genesis goes deeper however; to the Shared Societies Project that the Club de Madrid started in 2009 (read more about this project on the web at http://www.clubmadrid.org/en/programa/the_shared_societies_project).

As such we have a large intellectual and practical debt to acknowledge at the outset. First and foremost to the many participants in this and previous workshops and meetings, who provided the ultimate case for shared societies, and whose answers to the question posed in the title of the international conference was overwhelmingly positive. Second, to the Club de Madrid, whose support for the Shared Societies Project generally and the conference preceding this book specifically was unwavering, and which illustrates its members' conviction that shared societies are worth pursuing. In particular, Mr. Wim Kok, who as President of the Club promoted the Project wherever he could, and who also opened the conference in Maastricht in March 2012. Furthermore, within the Club de Madrid the organisational and other support of Rubén Campos, Carla Fernandez-Duran, Javier Garcia and Maria Romero was indispensable. At Maastricht School of Management, we want in particular to thank Patrick Mans and Sandra Kolkman for their professional and effective organisation of the conference and Peter de Gijsel for his general support and encouragement.

Clem McCartney and Wim Naudé

Limavady and Maastricht

August 2012

About Maastricht School of Management:

For sixty years Maastricht School of Management has been a leading international institution for postgraduate education. According to its mission – enhancing the management capacity of professionals and organizations in and for emerging economies and developing countries – MsM offers internationally accredited, English management education in more than 25 countries. For more information see www.msm.nl

About Club de Madrid:

The Club de Madrid is an independent non-profit organization composed of 86 democratic former Presidents and Prime Ministers from 60 different countries, constituting the world´s largest forum of former Heads of State and Government, who have come together to respond to a growing demand for support among leaders in two key areas: democratic leadership and governance; and response to crisis and post-crisis situations. Both lines of work share the common goal of addressing the challenge of democratic governance and political conflict as well as that of building functional and inclusive societies, where the leadership experience of our Members is most valuable.

Contents

Notes on Contributors

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Aldo Caliari has been, since 2000, staff at the Washington DC-based Center of Concern where he is currently a Project Director focusing on global economic governance, debt, international financial architecture, human rights in international economic policy and linkages between trade and finance policy. He has edited several books on these subjects and his writings have been featured in books, academic and specialized journals and the media. He has been a consultant to several intergovernmental organizations, governments, civil society networks and foundations. He has a Master of International Policy and Practice from George Washington University (2007), with a focus on economics and finance and a master's degree from the Washington College of Law, American University, on International Legal Studies (2000).

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Patricia Justino is a Senior Research Fellow at the Institute of Development Studies (IDS), was a recent visiting scholar at Harvard University (2007-2009) and has studied in Coimbra (Portugal), Cambridge and London. Her research lies at the interface between development economics and political science, focusing on the analysis of the impact of violent conflict on household welfare, and on the relationship between violence, institutional transformation and development outcomes. She is the head of the Conflict, Violence and Development Cluster at IDS, the director of MICROCON, one of the founders and directors of the Households in Conflict Network and has been lead researcher in several projects funded by the British Academy, the UK Department for International Development, the European Commission, the UK Economic and Social Research Council, FAO, the Leverhulme Trust, UNDP, UNESCO, UN Women and the World Bank.

Clem McCartney is from Northern Ireland. His first degree is in law but he switched to social development for the first part of his working career. He mainly worked in the United Kingdom but also spent some years in Papua New Guinea. From the mid 1980s his main interest has been in conflict resolution and mediation. He worked in the Centre for the Study of Conflict in the University of Ulster being responsible for connecting academic researchers to policy makers and practitioners and making research more relevant to decision makers, during which time he was awarded his doctorate. In 1982 he became an independent consultant on conflict and community issues and has a wide range of experience in Northern Ireland, the Caucasus, Middle East, South America, South and South-East Asia. Since 2007, his main activities have been as advisor to the Shared Societies Project of the Club de Madrid, focusing on policies to promote inter community harmony. He has been directly involved in developing the materials of the Project, including the recent publication "The Economics of Shared Societies" and has taken part in Club de Madrid missions to international bodies and a number of countries.

Wim Naudé is Dean-Director and Professor of Development Economics and Entrepreneurship at Maastricht School of Management and Professorial Fellow at the Maastricht Graduate School of Governance, University of Maastricht. He is also affiliated to the United Nations University's MERIT. Previously he has been a Senior Research Fellow and Project Director at UNU-WIDER. He holds an MSc in quantitative development economics from the University of Warwick, and a PhD in economics from North-West University (South Africa). He has published widely on entrepreneurship and development. He is co-editor of the books *Entrepreneurship and Innovation in Economic Development*, and *Fragile States*, both published by Oxford University Press. He is a member of the Club de Madrid's working committee on the economics of shared societies.

Patrick Nolan is Research Director of the Northern Ireland Peace Monitoring Project``. A native of Belfast, he has been involved in various NGO peace building campaigns, and in 1998 was chair of the Yes campaign in the referendum which followed the Belfast/Good Friday Agreement. His early career was spent in adult education and as Director of the Workers' Educational Association he helped to pioneer anti-sectarian education and training. Before taking up his current post he worked as Director of the Institute of Lifelong Learning at Queen's University Belfast where he also published on issues relating to peace education.

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Chapter 1

Introduction

Clem McCarthy and Wim Naudé

1.1 Introduction

According to the Club de Madrid, the global network of former presidents and prime ministers, shared societies can be described *as societies where people share an equal capacity to participate in economic, political and social opportunities regardless of their religion, ethnic or linguistic groups, and where as a consequence relations between groups are peaceful, are inherently desirable.*

The Club de Madrid has had a particular interest in the relationship between inter group diversity and economic performance. Some time ago it developed an initiative on intergroup relations called the *Shared Societies Project* to provide current leaders with greater understanding of the benefits of social cohesion, as well as the incentives and means to advance it. It preferred the term Shared Societies because it was not envisaging a society where some groups are tolerated and allowed to coexist with the rest of society, and the term seems to capture more clearly the idea that all identity groups can have a full role and stake in their specific society, able to contribute to that society and take responsibility for it without having to diminish or deny their other identities. It is based on the assumption that societies are most likely to be peaceful, democratic and prosperous when leaders and citizens recognize the value of diversity and take measures to build a shared society. In early 2011 the Project developed this argument in its publication "The Economics of Shared Societies".

While it is possible to make this case conceptually, and offer case studies (though more work needs to be done), it is more difficult to demonstrate empirically the causal connection. Fractionalization of a state has been shown in certain circumstances to have a negative impact but with the right kind of policies the benefits of diversity can be realized. Development can be shown to lead to greater inequality and marginalization of those sections of the community unable to, or excluded from taking advantage of that development, but ultimately diversity can be a driver of development.

The Club de Madrid and the Maastricht School of Management wanted to respond to the challenge of encouraging new thinking on the link between economic performance and social conditions. We invited a range of thinkers and writers from intergovernmental bodies, policy think tanks, academia and activism, including some junior researchers, to come together and share their perspectives. Those perspectives were deliberately very different because we wanted to involve people who may not have already made the link between social conditions and economic perspectives and challenge them to look at the issue through the lens of their particular discipline and experience. Some looked at the issues from a global, regional or national perspective and some chose to look at a local community experience. Some looked at the impact of current trends, some looked at the challenge of measurement of the concepts under consideration and some looked at how policy change can be introduced. They came together at an international conference at the Maastricht School of Management at the end of March 2012. This book is the result of that conference.

1.2 Layout of the Book

The book consists of 14 chapters organized into four sections. Section I puts forward the economic case for shared societies. Part II shows what happens when a shared society is absent (or why it is absent), and Part III share some country experiences, for instance from South Africa, Northern Ireland, Latin America, China and Uganda. Part IV asks how civil society can push for progressive social change to bring about shared societies.

1.3 Contributions and Overview

Chapter 2, by Michael Valenti and Olivier Giovannoni is entitled "*The Economics of Inclusion: Building an Argument for a Shared Society*". As the first chapter in **Part I**, it provides a useful literature review of the economic dimensions of shared societies as defined by the Club de Madrid, and hence provide the foundation for most of the subsequent chapters. The authors start out by pointing out that making the economic case for a shared society is complicated. This is due to the fact that the concept is new, the literature is relatively small and little quantification of the relationship between the concept and economic performance has been done. From the existing literature they do however derive a number of important conclusions which they share in the chapter. The first is that a shared society requires deliberate policies for social inclusion and social cohesion. Social inclusion policies refer to policies that further the broad participation in society across ethnic, cultural, gender and income lines. Social cohesion policies refer to policies that build trust across these groups. The authors point to a number of studies, particularly using measures of social cohesion (such as trust) that have found that better social cohesion may facilitate provision of public goods and economic growth.

The second conclusion they derive is that many of the 'good' institutions for development, such as rule of law, good governance, voice and accountability are also appropriate and beneficial for promoting a shared society. Thirdly, Valenti and Giovannoni illustrate that the costs of a fractured (non-shared) society may provide insights into the economic advantages of a shared society. They show that the literature is clear on the facts that fractionalized societies pay a high price due to corruption, conflict, rent-seeking, reduced innovation and competitiveness – as the subsequent chapters in Part II and III of this book further documents.

In chapter 3, "*Why Do Shared Societies make Economic Sense?"* Aldo Caliari makes an economic case for shared societies – arguing that classical contributions to development economics provide theoretical support for the Club de Madrid's assertion that a shared society is beneficial for development (and that indeed the causality also runs from a shared society to development and not just the other way around). From Ragnar Nurkse's *Theory of Balanced Growth* he argues that unemployment is one of the most significant barriers to development, and that allowing everyone to share in contributing to economic activity, through for instance full employment, will make an important contribution to growth. Indeed, he points to Nurkse's analysis that showed how unemployment (surplus labour) leads to lower savings, lower capital accumulation and consequently reduction in consumption and growth. In addition, unemployment, as a consequence of social fragmentation and exclusion, contributes to social instability and conflict (as the other chapters in this book ample illustrate). Social exclusion – for instance through discrimination "narrows the labour market and underutilizes the capabilities and capacities of those excluded"(Club de Madrid, quoted by Caliari). The emphasis on unemployment as a symptom and cause of exclusion that constrains growth and development is also central in the Structuralist School's though, the second major theoretical body of thought that Caliari draws on. Finally, Caliari discusses Institutional Economics as providing further theoretical support for the contention that shared societies have a positive economic impact. For him, the principles of a shared society, such as tolerance and sense of belonging is conducive for knowledge generation and dissemination, the key drivers of growth in today's technologically driven economies.

In Chapter 4 "*Living in a Shared Society: a Precondition for Sustainable Well-Being* **",** Claire Dhéret focuses on the economic – and social – crises in contemporary Europe. As she puts it, Europe has since around 2008 been stumbling along in a "seemingly endless series of economic crises". Her point of departure is that these impacted negatively on Europe's growth potential, reduced European citizens' purchasing power, and "shaken the EU's social fabric to its foundations…the crisis has reinforced the position of radical parties on both sides of the political spectrum or even encouraged certain mainstream parties to adopt a protectionist and nationalist approach" and that this ultimately threatens social cohesion in Europe. She proceeds to analyse social cohesion in Europe based on the findings of 'Well-being 2030', considering how shared societies can serve the purpose of increasing citizens' well-being and exploring the role of social policy in Europe to achieve this objective. She concludes that a political / public debate on the development model Europe wants to promote has become a precondition to revitalising the European social model and reconciling citizens with the European project, but that not much debate is taking place at present.

Chapter 5 continues to make the case for shared societies, in this case by focusing on the global financial and economic crisis that started in 2007-2008. Entitled "*Shared Societies and the Global Crisis: Evidence and Policy Options*", Raymond Torres present a disturbing picture of the world that preceded the sub-prime mortgage crisis in the USA. For instance they show that growing income inequality has been fuelled by (i) rising incomes for the very rich; (ii) a slowing down of wage growth; and (iii) increasing global unemployment. They warn that "there is also evidence of links between income inequality and social unrest…[an] examination of the determinants of social unrest in 2011 revealed that limited disposable income and unemployment are most strongly associated with the estimated risks of social unrest", and that greater inequality is hampering efforts towards a greener, more sustainable and healthier economy.

Moreover, not only has greater inequality associated with the crisis exacerbated social and environmental problems, but Torres also argue that the increasing trends in inequality preceding the crisis was a contributing factor in the collapse. This is because income inequality, especially through growth in wealth at the very top, leads to a "build-up of private debt" and to predatory lending and high risk-taking which in the context of weak regulation and globalized markets (including tax havens) turned out to be unsustainable. It is a discussion to which Sara Burke in chapter 13 returns, when she asks how social change agents, such as the Occupy Movement, can promote a shared society in the light of the powerful influence of the global banking sector.

Finally, Torres discusses some policy options to address or halt growing inequality. These policies should aim for promoting a shared society as envisaged by the Club de Madrid. As was emphasized also in Caliari's chapter, they emphasize the importance of appropriately functioning labour markets and labour institutions including social protection, and more progressive taxation (also a topic picked up by Harrison in chapter 14). The implications are clear: the West will not get out of its stagnation without promoting a more shared society.

Whereas Part I of this book makes the economic case for Shared Societies by tracing how they can contribute to growth and development, **Part II** makes the case by illustrating how violence and conflict results where a shared society is lacking; the contributions in this section detail the cost implications of such violent conflict.

In Chapter 6 Daniel Hyslop discusses "*Violence Containment Industries in the United States*". The violence containment industry (VCI) refers to "all economic activity devoted to either inflicting, preventing, and dealing with the consequences of violence". In the USA the VCI costs the economy more than US $ 2.16 trillion – equal to 15 % of the country's GDP. It implies a huge waste. The USA is clearly paying dearly for its growing inequalities and great social divides – to the amount of US $ 7,000 for every man, woman and child. It constitutes a powerful economic case for a shared society.

In chapter 7 Patricia Justino considers "*Shared Societies and Armed Conflict: Costs, Inequality and the Benefits of Peace*". In this chapter the focus is broadly on the relationship between economic exclusion, inequality and conflict. Three issues are central: one, the fact that conflict threatens the existence of shared societies by polarizing and ripping communities apart, destroying trust, cohesion and inclusion; two, that conflict is often the result of a lack of social cohesion and inclusion, and of marginalization, inequality and the breakdown of trust; and three, how during conflict a shared society eventually emerges – as Justino puts it "very few countries in the world have implemented systems of justice, equality and democracy without some amount of bloodshed".

In each of these three instances, Justino provides an extensive overview of the literature. She is particularly concerned to draw from this advice on how local communities and governments can end violence and established shared societies in the particular regions where these societies are located. Her analysis suggests this is no easy task, given that such efforts may be either facilitated or hindered by the kind of "social and political institutions that emerge and endure in areas of violent conflict". This means more research is needed to understand the type of institutions that emerges from conflict. To understand how to create shared societies, we need to understand what occurs in its absence.

Having made the case for Shared Societies in Part I, and having dealt with the costs of the absence of shared societies in Part II, the experiences of a selection of countries and regions in terms of conflict and transitions to peace are presented in **Part III**.

In chapter 8 "*Unsustained Growth: Lessons from South Africa*", Jan Hofmeyr follows South Africa's efforts over the past 18 years, from the ending of apartheid and the first democratic elections in 1994, to established a more shared society. According to Hofmeyr South Africa's progress after a laudable start in the 1990s has not been even. Its story is one of initial political inclusivity marred by continuing economic exclusivity and a growing threat to even political inclusivity. "Millions of citizens still lack the agency to improve their living conditions…many continue to feel disempowered and have become disillusioned", he points out. The causes seem to be simple: continuing high unemployment and high –even increasing – inequality, both the key characteristics of non-shared (exclusive) societies (see the discussions in chapters 1 to 3 and

Justino's remarks on inequality and violence in chapter 7). Facing such levels of exclusivity, it is perhaps no wonder the South African economy had only managed to achieve mediocre growth rates during the strongest commodity boom since the Second World War. Hofmeyr traces part of the reason for growing inequality to the country's failed black economic empowerment programme, which had resulted in large emigration of skilled whites and which however only benefitted relatively small emerging black elite. As a result patronage and corruption have become rampant in the country in recent years (a former head of police was jailed for corruption and gangsterism and a second fired for allegations of corruption). Inter-group violence and xenophobia have seen increasing violence. The ANC's Youth League has intensified calls for the expropriation (theft) of farms as had happened in Zimbabwe, and earlier in Uganda (see Chapter 12 by Collins in this book). For Hofmeyr there is now an urgent need for interventions to stem the tides of unemployment, inequality, and poverty, including deliberate policies to focus again on the lost project of building the "Rainbow Nation".

Whereas the South African transition has been problematic, the Northern Ireland peace process has, according to Paul Nolan in chapter 9 been a "remarkable success story for a conflict that was once routinely described as intractable". His chapter entitled "*Northern Ireland: The Measurement of Sharing and Separation in a Post-Conflict Society*" discusses how changes in the socio-political sphere can be measured and monitored in order to track whether a more shared society is emerging, or whether, as a he puts it "the continuing separation of the two ethnonationalist blocs is allowing a form of benign apartheid to grow up". In the context of the Northern Ireland Peace Monitoring Report, Nolan then discusses four domains that such measures should track: (i) the sense of security people feels; (ii) equality (iii) political progress; and (iv) cohesion. As Nolan explains, there has been good progress on the basis of these measures in Northern Ireland. The transformation of the country is however, not yet complete, with concerns remaining over paramilitary activities and sectarianism.

In chapter 10 "*Shared Societies in Latin America: Challenges and Opportunities*" Ernesto Ottone evaluates the extent to which the Club de Madrid's concept of a Shared Society has been achieved in Latin America. He provides a historical context for the development path that contemporary states on the continent have followed. He notes that although Latin America consists of "vastly heterogeneous" countries, they face similar shortcomings in realizing a shared society, such as "high rates of poverty and indigence, persistently unequal income distribution and uneven opportunities, unsatisfactory economic growth and…a lack of solid political systems". Ottone argues that the obstacles that these pose for shared societies to be realized in Latin America are of such a nature that supranational co-operation is needed. He calls for better and more regional integration, arguing that Latin American countries have a common destiny, and that the diversity of its peoples, political and social actors is not an obstacle to a shared society. Ottone's contribution is an important one to keep in mind when one considers that the discussion about shared societies have so far been largely on the level of a country or community – he is quite right that the interrelatedness of the global economy means that shared societies have been intertwined also above and beyond the national level.

From Latin America the focus shifts in chapter 11 to Asia, and specifically China. Entitled "*Towards Greater Equality in China: The Economic Growth Dividend*", Guanghua Wan's chapter starts out by noting that although China's economic growth achievement has been remarkable its income distribution has been worsening. This may now be threatening social and political stability. Wan discusses in great detail the changes and patterns and the causes of China's rising inequalities. He argues that for China to realize eventually a more shared society, its development policies need to shift from promoting growth, to prioritizing equity (through urbanisation). Such policies could include better management (and promotion) of urbanization, development of financial markets, the extension of public services, the promotion of lagging, inland regions, and the development of the service sector.

In the final chapter in Part III we return to Africa. In chapter 12 Tumuhairwe Collins deals with "*The Effects of Iddi Amin's Expulsion of the Asian Community in Uganda*". Collins reminds us that before Amin assumed political power in 1971 Uganda was a multi-ethnic country with a sizable Asian (Indian) minority. In 1971 however Amin expelled the Asian minority. More than 55,000 Asian's fled and more than 20,000 are still unaccounted for. The expulsion was followed by mass theft. Collins documents that "5655 firms, ranches, farms, and agricultural estates were reallocated along with cars, homes, and other household goods". As a result the Ugandan economy was devastated – real salaries and wages declined by 90 per cent in less than a decade (a similar economic catastrophe followed the expulsion of white farmers from their land in Zimbabwe, more than two decades later). With military and financial aid from Ghaddaffi's Libya, social dissent was repressed violently, resulting in massacres: "Bodies were often dumped into the River Nile". Today, although Uganda has benefited from the return of many Asians and growth has resumed, Uganda is still far from a shared society. For Collins therefore, further economic development of Uganda critically requires further efforts towards inclusivity and cohesion.

While much has so far been said about the desirability of Shared Societies, the question is how do they come about? Although Justino briefly touched on this in her chapter (chapter 7) this question is taken up in **Part IV** that concludes this book. It deals with two recent global issues or trends that illustrate how in particular civil society, in collaboration with other social change organizations, can be a catalyst for shared societies.

In Chapter 13 Sara Burke addressed "*Traditional Social Change Organizations and the Occupy Movement: the Struggle for a New Solidarity*". She examines the "Occupy" movement that arose in New York in the aftermath of the global economic crisis (see also Chapter 4 by Torres) and at the same time as the social unrest in the Middle East and North Africa, and in Europe. The Occupy movement is a "non-traditional" social change organization pressing for progressive social change – in contrast to more traditional organizations such as unions, community coalitions, and political parties. Burke tracks the rise in the Occupy movement to a disillusionment of people with traditional social change organizations, who are increasingly seen as being complicit in a system that "perpetuates" inequality. Hence inequality comes over strongly in her chapter, as in most of the previous, as the key concern vis-a vis shared societies. According to Burke, despite the Occupy movement's distrust of traditional social change organizations, there is strong justification for co-operation with them, not only to reduce inequality but also to fight social concerns such as debt injustice, persistent unemployment, and to fix the dysfunctional global financial system. With the power of bankers as it is, and the regulatory capture of governments by strong plutocratic interests, such an alliance of non-traditional and traditional social change organizations have become vital to press the case for a shared society.

The final chapter in this book, chapter 14, is by Rob Harrison and is entitled "*Consumer Campaigns for Shared Society Values*". He stresses that values of shared societies, such a social justice, inclusion and cohesion are "not just shared by progressive policy makers. They are also shared by millions of ordinary consumers and voters around the world". He argues that consumer campaigners should form global alliances with other social change organizations (see also the arguments in Sara Burke's chapter in this book) to promote shared societies. He describes, using examples of the boycott of South Africa during the apartheid era and the Fairtrade Movement, how consumer campaigns can bring about desirable social change. Such campaigns not only target governments directly, but also businesses or brands, as Harrison explain. As a result of such actions many businesses have started to take Corporate Social Responsibility (CSR) more seriously, and Multi-Stakeholder Initiatives (MSI) increasingly become a vehicle of choice for businesses and consumers to address issues of economic justice and human rights. Harrison lists 15 such MSIs and concludes by recommending that governments provide greater support to consumer campaigners including recent initiatives such as boycotts of banks (see also Torres and Torres and Burke's chapters) and campaigns against tax avoidance. He makes a strong case for the role that consumer campaigns can play in naming and shaming big corporations who violates the principles of shared societies and governments that tolerate such behaviour.

1.4 Concluding Remarks

As a whole the chapters in this book put forth a strong economic case for why shared societies matter, apart from their intrinsic worth. In a nutshell, the authors have showed us that shared societies enjoy better prospects for both material and non-material wellbeing, and material gains can be better applied in a socially and environmentally sustainable way in a shared society. Governments in shared societies tend to be better resourced - shared societies can raise more taxes for the common good. This is the case in both developing and advanced in economies. Government in shared societies are more responsive to people's need, and more in contact with their populations' priorities. Firms in shared societies can draw on a stable, more contented population, where they can draw on the skills and creativity offered by all individuals. Entrepreneurship, creativity and innovation flourish in a tolerant, diverse and peaceful environment. And households that are included within broader society tend to be more resilient in the face of misfortune. Without shared societies the probability of conflicts, marginalization and disillusionment is high, and of citizens opting out of the democratic political processes.

Establishing and maintaining a shared society is however difficult, even in democratic and rich countries, as many of the case studies in this book has shown. When the Club de Madrid started with the Shared societies Project, the global financial system had not yet turned into the global maelstrom of crisis and stagnation that we had experienced these last three years. These events have confirmed in an unexpected way the significance of a shared society. When we face a crisis there is a tendency to fall back on old ways of doing things and avoid innovation, yet crises are often a sign of the failure or limitations of existing approaches. It is at times of uncertainty that innovative thinking is most needed.

So it is with the shocks that have rocked the global financial system. They are a challenge to current orthodoxies, yet in the face of these challenges the main reaction is caution. The mantra has been fiscal rectitude which translates into austerity. But as the western economies drift into recession and the public react against the impact of austerity, growth is becoming the new mantra.

We have a polarization between leaders arguing for austerity and others calling for growth though the starkness of the division is masked by the way the options are presented. On the one hand the argument is made that we need growth but it has to be built on austerity. And the alternative argument is that we need fiscal rectitude but at this moment we need to grow the economy to enable us to balance the books. These kinds of statements are still prioritizing one over the other: austerity first or growth first.

But we do not seem to get to the heart of the matter. The question is not whether we need austerity or growth. The real questions are “what kind of austerity” and “what kind of growth”. Some austerity will help us out of the present problems while other forms create a black hole from which there is no escape. Growth is needed to create wealth but the wrong growth policies will create problems down the road both for the economy and the environment. Growth based either on financial sector growth or high commodity prices and resource extraction as we have seen over the past two decades, do not lead to shared growth – one reason being that these growth paths reduces the need for taxation-accountability that underlies shared societies, increase inequalities, and can only respond to the inevitable fiscal crisis through imposition of draconian austerity measures. Hence the key question to the realisation of shared societies are how do we identify what is the right kind of austerity and the right kind of growth? One can also ask whether there may be a third factor that needs to be included in our policy equation? For example, a growing body of evidence seems to be pointing to the importance of equality in creating sustainable, meaningful economic wellbeing. Yet the austerity policies being advocated at the moment have a markedly regressive impact on equality, because those with less are the easiest to target even though they are least able to contribute. Growth policies seem equally to ignore the redistribution implications of different growth strategies. So can we think of austerity policies and growth policies which can work together **and** have progressive impacts? Equally how do we ensure that other social impacts are factored into our assessment of policy options? Wan in his chapter proposes a "theoretically sound and practically operational indicator of inclusive growth" that takes account of equity and which could be used as a performance assessment measure of progress towards an economically sound shared society. Ensuring that whatever option is chosen will improve social inclusion and cohesion should certainly, in light of the arguments offered here, be a guiding principle.

Part I: Making the Case for Shared Societies

Chapter 2

The Economics of Inclusion: Building an Argument for a Shared Society

Michael A. Valenti and Olivier Giovannoni

1. Introduction: What is a Shared Society?

This chapter 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."[4]

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 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.

[4] Club de Madrid (2010) *Shared Societies Project Working Group Statement*, working paper, available at www.clubmadrid.org

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 chapter 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.[5] 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.

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

[5] 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

the same thing when they use instruments for terms like "culture," as the definitions for cultural variables vary across time, space, and, well, cultures.[6] 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 economic growth and the

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

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.[7] 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

[7] 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.

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 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.[8] 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.[9]

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.[10] The committee cites some evidence that strong investment in social and economic participation among teenagers in potentially excluded groups in Finland have 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 chapter.

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

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

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

[10] Ministerial Advisory Committee for Victorian Communities, Social Inclusion: the next step for a fairer Victoria, Melbourne, May 2009

lines can increase the production function.[11] 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 inclusionary principals 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.[12] There is also a need to explore the connection between economic inequalities and

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[11] 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

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

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."[13] 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 viewed as an issue of distribution of wealth but also of production of wealth."[14] 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.

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

[14] 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

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.[15] 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 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,

[15] 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

claiming government benefits falsely, and 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 .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.[16] 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.

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 explained by lack of mutual confidence."[17] 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

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[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.

[17] Arrow, K. (1972) *Gifts and Exchanges*, Philosophy and Public Affairs, 1, 4, pp. 343–362

trust environments can discourage innovation.[18] Hall and Jones (1999) posit that trust is integral to anonymous market exchange and reduces the need for contracts.[19] 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.

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

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

[19] 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

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.[20]

Environments in which the diffusion of social capital[21] 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.

- Trust: facilitates market exchange and reduces the need for contracts.
- 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.[22]

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

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

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

- Generalized versus limited morality: Hierarchical societies tend to have more limited morality, according to World Values Surveys.[23] 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.
- 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.[24] 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.[25] Measures of coded 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.

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[23] 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 whom he is immediately accountable, i.e. family and close associations.

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

[25] 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

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.[26] 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 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[27]

The "Virtuous Cycle" is a term coined by the Club de Madrid (2010). It is meant to articulate the supposition 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

[27] www.thesharedsocietiesproject.clubmadrid.org/

al (2001) spot a definite and quantifiable pattern in the existence of certain institutions and economic growth.[28] They cite consistent property rights, an absence of confiscatory tax policies, low risk of expropriation, low levels of corruption, and limited barriers to trade as institutions favorable to economic growth.

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.[29] There is compelling evidence for both virtuous and vicious cycles.

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 are 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

[28]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

[29] See Acemoglu et al (2001), Knack and Keefer (1997), Hall and Jones (1999) and Alesina, A. (2003).

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.[30] 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

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

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 in 1886, 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.[31]

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 .8% to .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 correlation between past institutions

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

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.[32] 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

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

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.[33] Their 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.[34] 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 below, 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

[33] 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 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.

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

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.

Country	Average Growth in 1980's	Average Black Market Premium 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

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, reduce 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 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.

Nevertheless, the research offers some 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 Society from the research of 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 less 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.[35]

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.[36]

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 of preferences, racism, and prejudices between ethnic groups are wasteful, and can lead to exclusionary and

[35] 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

[36] 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

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.[37] 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).[38] 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 expose 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 set up along ethnic lines. The Tigray minority dominates the government, despite accounting for

[37] Blattman, C. and E. Miguel (2010) *Civil War*, Journal of Economic Literature, 48, 1, pp. 3-57

[38] Maier, K. (2000) *This House Has Fallen: Midnight in Nigeria*, New York: Public Affairs

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.

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.[39] 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.

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[39] 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*.

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).[40] 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 leads to higher productivity when conflict is minimized and communication is maximized. Research by Hong and Page (1998) determine that more diverse groups of people with limited abilities can out-perform homogenous groups of high ability problem solvers.[41] 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.[42] 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.[43] Many richer societies have better

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[40] 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

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

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

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

established "rules of the game," which enable them to reap the benefits of racial, gender, and cultural diversity.[44]

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.[45] 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 differences in long-run economic performance throughout the world, they conclude, are 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 risk assessment for international investors.[46] The second is a measure of openness to trade established by Sachs and Werner in 1988.[47] The Sachs and Werner index measures several criteria: whether non-tariff barriers affect less than 40% of trade, whether the average tariff is

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

[45] 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

[46] 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.

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

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 5.

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).[48] 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 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.

[48] 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.[49] The World Bank compiles similar data and regularly publishes matrixes by which to calculate investment risk across countries.[50] 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

[49] 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

[50] www.doingbusiness.org. *The World Bank has created a similar index to the IRSG.*

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.

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 of 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 chapter 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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Chapter 3
Why do Shared Societies make economic sense? Three theoretical approximations

Aldo Caliari

3.1 Introduction

The concept of Shared Societies may be seen as a moral prescription to offer grounds and guidance to economic policy-making. The task given to the Working Group on the Economic Rationale of Shared Societies to look into "the types of economic policies which stimulate and encourage a shared society and those policies which have a negative impact on the achievement of shared societies" implies such an approach.

Such a way to consider the link between Shared Societies and economics might not be consistent with what has come to be the most widespread approach to economics science. But its merits should not be underestimated. The relatively recent past of economics can often makes us forget that economics and ethics were not always the separate fields that they are today. As economic historian Alessandro Roncaglia reminds us, "philosophers… of the Middle Ages considered it their task not so much to describe and interpret the way the economy works, but rather to provide advice on morally acceptable behaviour in the field of economic relations." (2006, p. 19) In fact, the emergence of economics as an autonomous science is a relatively recent phenomenon that began gradually in the seventeenth century. (Ib., p. 18)

The exploration of what a normative concept of Shared Societies could suggest in terms of economic policy prescriptions is, therefore, a promising line of inquiry. A recent OECD report considers that "social cohesion is a valuable goal in itself" (OECD 2911, p. 17) and encourages policy-makers to ask, regarding their economic policies, questions such as "Do they lead to more or less social exclusion? Do they foster trust and civic participation? Do they help to improve social mobility?" (Ib., p. 25)

In that link between Shared Societies and economics, however, this chapter chooses to make a contribution in the other direction, that is the inquiry into whether Shared Societies make economic sense, or whether the implementation of the principles of Shared Societies can lead to improvements in economic performance.

As Valenti and Giovannoni warn us (see Chapter 2), this is a challenging case to make, perhaps one whose level of challenge is definitely higher than transiting the link in the opposite direction. But the economic case remains one very important and, one could argue, indispensable to make. Indeed, the implementation of Shared Societies will be greatly helped by making a solid economic case for it. This is, in the first place, because many, who might not be ready to buy into the concept of a Shared Society on the basis of its ethical appeal, might consider its economic benefits. Indeed, it is important not to underestimate the resistance that the practical dimensions of implementation of a Shared Society are likely to elicit. Discussing a concept such as Shared Society which refers to the harmony among different groups in a society at the abstract level is a lot easier than coming to grips with what that means in concrete societies in time and space for which exclusion or the struggle among different groups has been an unabated feature for long time.

In second place, it follows the argument that economic progress and Shared Societies are part of a virtuous circle, showing that certain economic policies will lead to Shared Societies is just half the argument, and it would leave unanswered the question of how the emergence of a Shared Society can better economic progress.

Having established that there is a need to make the economic case for Shared Societies, this paper sets out to make a contribution by resorting to at least three theoretical economic frameworks whose intuitions Shared Societies actually rescue and put in practice. First, Nurkse's contribution to development economics, with its intuition of the importance of mobilizing all labor resources in countries as a way to increase capital formation while suppressing apparent consumption/ investment trade–offs. Second, institutional economics and its intuition of the role that "institutional technologies" play in economic performance or, as others put it, politics' impact in influencing the incentives of economic agents to develop new ideas. Finally, structuralist frameworks and the relevance they attach to the role of heterogeneity in societies as a key factor modeling development outcomes. For each of these frameworks, the paper will develop relevant insights provided by them, how they are applicable to Shared Societies and pertinent to the analysis of Shared Societies' impacts on economic performance.

So this chapter supports the economic basis for Shared Societies – and therefore their implementation – by offering another route to make the economic case for them.

By way of preliminary comments, it is important to precise from the outset the exact level of ambition of this chapter: what it intends and what it does not intend to do. The purpose in the paper is not to demonstrate any intended influence of economic theories upon the Economics of Shared Societies or the latter drawing upon the former. That may or may not have happened. Independent from that, the paper is merely oriented to show that the argued economic benefits of Shared Societies have important theoretical foundations in different economic schools. In doing so, it uses the Guiding Principles of the Economics for Shared Societies (Club de Madrid 2011, p. 15) or findings of the Working Group on the Economic Rationale of Shared Societies (hereinafter "the Working Group"), as the most precise statement of what those economic benefits are (Ib., p. 17).

In turn, the fact that the findings are approached from their grounding in economic theory is expected to offer a glimpse into potential drawbacks, implicit assumptions and conditions of applicability, all elements that should provide useful guides to the further development or elaboration of the guidelines and principles of Shared Societies for economic policy-making.

The chapter seeks to describe the way, the modality by which certain concepts embedded in Shared Societies may be capable of achieving the economic effects that are ascribed to them in the findings of the Working Group. In this sense, it is not so much concerned with the "what" of the Guiding Principles or, for that matter, the findings of the Working Group – generally taken as a given – as with the "how" of their operation.

This is especially important if, as Valenti and Giovanonni argue (Chapter 2), the main difficulty in making the economic case for Shared Societies is the lack of quantifiable data. After all, the identification, collection and collation of data needed for the effort can hardly be of help without an hypothesis that is guiding them. Understanding, at least by way of hypothesis, the mechanisms by which a Shared Society leads to better economic outcomes will be a useful complement to any exercise in empirical demonstration of the validity of such a proposition.

It is also worth distinguishing the current exercise from others seeking to offer an empirical assessment of the economic benefits of Shared Societies. It is undeniable that the economic performance of Shared Societies can be the subject of an empirical inquiry. One could, for instance, identify the characteristics of a Shared Society and, to the extent that these are empirically verifiable, assess the correlation with economic performance indicators they show in practice. Attempts at this can be found in Valenti and Giovannoni (Chapter 2) and also, with varying scopes, in other chapters of this book.

3.2 Contents

3.2.1 Nurkse and labor's contribution to capital formation

Ragnar Nurkse was one of the pioneers of "classical development economics" alongside Paul Rosenstein-Rodan, Hans Singer, Arthur Lewis, Albert Hirschman and Gunnar Myrdal (Kattel, Kregel and Reinert 2009). Some of Nurkse's contributions to development economics resonate strongly with the findings of the Shared Societies Working Group.

One of the economic rationales for Shared Societies reads:

> 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. (Club de Madrid 2011, p. 17)

Nurkse's economic arguments for the importance of mobilizing all labor resources in countries as a way to maximize total productivity and suppressing apparent consumption/ investment trade – offs provides an explanation of how such effects might take place. But in order to explain this it is necessary first to give some background on Nurkse's thinking.

Nurkse studied the problems of capital formation in developing economies. In his assessment, the small buying power of people is what generates a vicious circle of low investment, which in turn perpetuates low income. (Nurkse 1953, p. 103).

The limited size of the domestic market in countries at early stages of economic development constraints incentives to invest. It is worth noting that for Nurkse the size of the market was not related necessarily to population size or to territory. He introduced the notion that the size of the market is primarily determined by the volume of production. (Ib., p. 105) Of course, he recognized, the volume of production will depend on the capital intensity of production – more capital, higher volume of production – but if capital is scarce to start with, that would not seem to offer any way out of the problem. The question is that investment in any given line of production is hampered by the limited market available for the respective products.

This is where Nurkse's notion of "balanced growth" becomes crucial to provide a response to the problem. While balanced growth might be good for its own sake, Nurkse maintained that it was actually the primary means to enlarge the market size. (Ib., p. 108) This was because investment in any given line of production would not be profitable due to a limited market, but the same would not happen to an application of investment across different lines of production in a synchronized way. In this latter case, the industries would provide a market for each other. In his words:

[A] wide range of projects in different industries may succeed because they will all support each other, in the sense that the people engaged in each project, now working with more real capital per head and with greater efficiency in terms of output per man-hour, will provide an enlarged market for the products of the … other industries. (Ib., p. 109)

The corollary he saw to this was that as long as production increases over a wide range of consumables that correspond with consumers' preferences, they would create their own demand. (Ib., p. 108)

Still, the enlargement of market size required capital. In looking for the sources of finance for the required capital, Nurkse referred to the notion of "disguised unemployment." In poor countries with large populations, there is a surplus of labor – he meant by this that the same output could be gotten with a smaller labour force, without necessarily a change in methods of production. (Ib., p. 122)

Nurkse was developing the concept here in reference to areas he describes as featuring "rural overpopulation." But it is more than plausible he was doing so only for the sake of explanation. The more abstract understanding of the concept that is presented in this paper is not absent from his proposal. For instance, in another part of his work (Ib., p. 135) he gives a more general definition of disguised unemployment as a situation where some occupations are relatively unproductive while others are relatively productive. In any such situation there is potential to transfer labor from the former to the latter thereby increasing total output.

Thus, he argued that disguised unemployment implies a disguised saving potential as well, becoming a possible source of capital formation in underdeveloped areas has been neglected in economic literature (Ib., 125). The "productive" workers are performing, in other words, a 'virtual' saving: they are producing more than they consume. But the savings, as long as the "unproductive" workers remain in unproductive activities, are wasted. By re-allocating the surplus laborers to capital-producing projects the savings would lead to accumulation of capital.

An important consequence of the approach is that it allows the possibility for increasing capital formation without reducing the level of consumption.

One important aspect that Nurkse highlighted was the difference between this approach and traditional approaches that were in fashion at the time to analyze excess population and population growth trends. (Kregel 2007, p. 13) The latter would typically estimate how much capital was needed for the productive employment both of the annual increase in the labor force and of the existing surplus labor. On the contrary, he treated population as an element on the supply side of the problem of capital formation, and found that "the supply of capital … can be increased by making use of unemployed labour." (Nurkse 1953, 134).

It is also relevant to the resemblances with Shared Societies that Nurkse precisely focuses on labour as a resource that might provide an alternative or, at least, a complement, to external financing of a development strategy. It is, in fact, more proper to say that he saw foreign investment or lending as complements to the mobilization of domestic resources (not the other way around) given that he deemed the inducement needed for investment not to be adequately provided by external sources of finance.

Having explained Nurkse's theory of balanced growth and disguised unemployment as a source of savings and as an active component for capital formation, let us explain how they illustrate one of the theoretical foundations that economics offer for the Shared Societies propositons referenced at the beginning of this section.

If the human resources of a society are a source of savings, it simply follows that by "harnessing the skills, strengths and talents of their entire population, Shared Societies create safe and prosperous communities." (Club de Madrid 2011, p. 17) Further support is provided by Nurkse's arguments on the role of the labor force in capital formation to the link drawn by the Working Group between societies that offer all individuals, regardless of race, ethnicity, religion, language, gender or other marginalizing traits the opportunity to put their skills to productive use "thereby fulfilling their productive potential," (Ib., p. 18) and an improved economic performance. Likewise, if the labor force of a society is a source of disguised savings, it becomes easier to understand why, as the Working Group tells us, "discrimination against sections of society narrows the labour market and underutilises the capabilities and capacities of those excluded." (Ib., p. 18)

Nurkse's approach to domestic savings – in this context, labor as a disguised saving—as the main driver of growth (as opposed to external financing) is also echoed in the Working Group's statement that shared societies might create more resources that, in turn, can finance policies to support a Shared Society. (Ib.) The Working Group on Economic Rationale for Shared Societies found that "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." (Ib.) This is a finding that clearly conveys the concept of Shared Societies actually providing a "financial" dividend, which can in turn promote a virtuous cycle of strengthening the promotion of a Shared Society, thus leading to more of such dividends in the future.

The important role Nurkse saw for domestic industries becoming each others' clients also resonates with the finding that "Shared Societies facilitate intercommunity trade and also tap into the economic potential of the whole society." (Ib.) The mobilization of labor resources in the formation of capital could, certainly, not happen if barriers exist for the trade among different communities.

Likewise, the Shared Societies framework advocates against discrimination against sections of society because it "narrows the labour market and underutilises the capabilities and capacities of those excluded." (Ib.)

3.2.2 Institutional economics: Shared Societies as an "institutional technology"?

Institutional economics emphasize the role that institutions play in economic development and performance. As put by Acemoglu, Johnson and Robinson, representatives of this line of thinking, "differences in economic institutions are the fundamental cause of differences in economic development'." (Evans 2006, p. 1)

Institutional economics is credited with breaking so-called "capital fundamentalism," the idea that poor countries' economic development problems should be addressed through increases in their capital stock. (Evans 2005, p. 91) North found that "the primary source of economic growth is the institutional/organizational structure that determines incentives." (Meier 2005, p. 136) So here is a key aspect pointing to its relevance as a theoretical framework regarding Shared Societies. For without such premise – the relevance of factors other than mere capital endowments for economic development--, the relevance of Shared Societies to economic performance could hardly be argued.

But this section intends to highlight several other commonalities, as intuitions coming from the realm of institutional economics also resonate strongly with the Guiding Principles and findings of the Working Group on the Economics of Shared Societies, and offer a theoretical framework to explain how such principles and findings operate.

First, it is important to give some further background on institutional economics and what it understands by "institutions."

Several definitions have been given by representatives of this school of what institutions are. Institutions have been defined as "systematic patterns of shared expectations, taken-for-granted assumptions, accepted norms and routines of interaction that have robust effects on shaping the motivations and behaviour of sets of interconnected social actors." (Chang & Evans 2000, p. 2). In an oft-quoted definition given by Douglas North in his Nobel Prize acceptance speech, he characterized institutions as "humanly devised constraints that structure human interactions." (Meier 2005, p. 136)

In an institutional economics framework, how economic actors organize themselves and respond to incentives in the framework of ?resulting? institutions becomes key to understanding the economic performance.

In turn, the evolution of institutions becomes a factor itself capable of altering the choice set available to the economic actors over time. As stated by North:

[T]he theoretical framework of modern institutional economics] must build upon the basic determinants of institutions, so that we can not only define the choice set really available to people at any time, but also analyze the way in which institutions change and therefore alter the available choice set over time. (1986, 230)

The set of choices is, as explained by North, narrower than that conceived in a purely neoclassical framework because the institutions define a limited set of alternatives available at any moment in a society. But it is also wider because "it encompasses a concept of utility functions broader than the traditional neoclassical utility function." (North 1986, p. 230)

One important function of institutions is that they shape the incentives to develop ideas – even though institutions can also, themselves, be seen as essentially constituted by "ideas." (Evans 2005, p. 94) Institutions can be seen, in that sense, as "constitutive." They inculcate a certain set of values that are internalized by individuals living under them and can make those individuals evolve and change. (Chang & Evans 2000, p. 9)

One particular extension of that concept is found in Evans:

More fundamental still are the institutionalized ideas that operate at the level of the society as a whole—like administrative norms, legal rules, and other governance mechanisms. They are ideas themselves, but they also generate (or fail to generate) the incentives for the production of new ideas of all kinds, and thereby help determine the overall rate of growth. (2005, p. 95).

This proposition offers insight into one particular mechanism by which Shared Societies might be understood to further economic performance. This is because the principles of Shared Societies can be equated, looking from this lens, to a particular set of ideas that are going to shape the set of choices available to the economic actors in a given society. A set of choices that, following North (1986, p. 230), will be in a way narrower, but in another way wider, than that available to them in a purely neoclassical approach that presumes rational, wealth-maximizing individuals.

For instance, one of the Working Group's findings was that governments in Shared Societies:

> [E]ncourage 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." (Club de Madrid 2011, p. 17)

Further, the Working Group stated that:

> "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." (Club de Madrid 2011, p. 18)

The sense of belonging, as well as the Shared Societies principles of inclusion, non-discrimination, tolerance and respect for diversity, among others, can, from this perspective, be considered part of the institutional framework. Once in place, the institutional framework would be one that leads to discarding a number of choices if they are not consistent with those results, or patterns. On the other hand, the values and principles embodied in Shared Societies could be conceived as part of that broader "utility function" that North referred to. In other words, there is a shared expectation that economic actors are responding not to rational individual profit-maximizing goals, but rather to internalized goals that incorporate Shared Societies values. The economic solutions being promoted through the State would, certainly, be expected to draw and reinforce such expectations. The sense of belonging and tolerance are conditions more conducive to the aggregation of knowledge and the potential for combinations across more groups and communities.

The "participatory" behavior, and a "contact with populations' priorities" mentioned by the Working Group would be, in this case, a specific pattern for resolving issues and conflicts, including those of economic substance.

In stating the connection to economic performance the Working Group found that "Political and judicial stability, built on the state's legitimacy and capacity, … provide a positive climate for economic activity." (Club de Madrid 2011, p. 18)
The fact that a basic development question, such as what the desirable ends of development are, can already be built on solid foundation of social support, would already provide an indication of the economic success that can be expected. As put by Evans, "the ability of communities and societies to define their goals is certainly the most basic form of institutional technology." (2005, p. 97)

Institutional economics throws more light and further definition on the forces at work in unleashing this economic impact. The involvement of the citizenry and the constructive approaches to resolve social conflict, without marginalizing any group, would become, therefore, an institutionalized way to approach economic issues.

The institutionalist approach also helps justify other economic dividends that the characteristics of Shared Society can yield. One characteristic of institutions is that they can grow entrenched, or be locked-in in spite of their lack of positive results. Evan said that "Getting out from under bad institutions is likely to be the most difficult part of trying to develop new ones." (2005, p. 102) Against this backdrop, he identified the search for social agents and political processes with capacity to generate institutional change, as a central one to development theory. He accurately identified a limitation to institutional development which is that existing institutions might provide differential returns to parts of society that will have a vested interest in maintaining such institutions, thus worsening the problem. (2005, p. 101)

In this regard, again, a Shared Society offers a sort of meta-institutional framework that is expected to facilitate this evolution and search for newer and better institutional forms. The search for social agents of change will be aided in a context where all social agents, without distinctions, are presumed to have something to contribute to the construction of the institutional framework. Likewise, the more participatory the political process is, the more it seems to offer a chance for deliberations conducive to expose and openly address vested interests.

Of course, while laying out some useful explanations of how a Shared Society leads to better economic performance; the question of how to get to a Shared Society institutional framework in the first place does not receive an answer. The more general question of how “good institutions” emerge has been the subject of debate and receives different answers in different streams of institutionalist economics. Theorists such as North and Williamson see the emergence of institutions as rational responses by economic actors to the search for efficiency in real world imperfect markets. This is different from the approach that earlier institutionalists such as Adam Smith, Vebler or the German School took, seeing institutions as the product of historical evolution. (Roncaglia 2006, p. 470)

In answering this question it may be useful to reflect on the fact that the characteristics of a Shared Society can hardly be found in a pure state anywhere. It is more accurate to think of different societies that are approximate versions of a Shared Society inasmuch as they embody to a certain degree its defining features. One can think of the emergence of a Shared Society as the product of a “peaceful” evolutionary process that, in a virtuous way, incrementally adopts some of its characteristics, with a path-dependent speed towards the incorporation of more of those characteristics over time. One can also think of the emergence of Shared Societies as a process not at all peaceful, the result of struggle and even armed conflict whose result is the destruction of institutions and their establishment of new ones that can have more of the characteristics of a Shared Society. Justino, in this same volume, offers some convincing evidence to support the contention that “Processes of conflict and violence are central to how shared societies are built and sustained.” (Justino, Chapter 7)

3.2.3 Structuralist approaches: development in heterogeneous and unequal contexts

Structuralism is the name used to refer to a school of economic thought represented, in its initial steps, by several intellectuals that worked at the Economic Commission for Latin America (ECLA), a UN agency established in 1947 and located in Santiago, Chile. (Kay 1989, p. 25, Ottone Chapter 9) Proponents of structuralism did not set out to construct a systematic and coherent development theory and, in fact, the theorizing and systematizing came later. (Ib., p. 28) A report authored by Raul Prebisch in 1950, "The Economic Development of Latin America and its Principal Problems" is credited by some as the founding document of Latin American Structuralism. (Saad-Filho 2005, 131-2) But, as clarified by Sztulwark, not all contributions came from intellectuals within ECLA and Prebisch's report of 1950 still missed the denomination of "structuralism", which only appears in another report in 1961. (2005, p. 28)

It is often stated that structuralism is "dualist" (Saad-Filho 2005, 132) and this is because a key element in its analysis is the observation of duality, or heterogeneity, in the economy. It is this concern with the risks heterogeneity poses to the economic development process that offers the main resemblance to a theme of the Economics of Shared Societies. But there are other important parallels. Before drawing them, it is useful to provide more background on structuralism.

Structuralism used a method that began from the observation of historical and sociological realities underlying an economy to explain economic phenomena. (Sztulwark 2005, p. 29) In this sense, it was a reaction to the neoclassical economic school. While this latter addresses economic analyses assuming homogeneity, certainty and equilibrium, the former would address them assuming heterogeneity, uncertainty, and lack of equilibrium. (Ib., p. 31)

Structuralism finds duality in the international economy – with a "center" and a "periphery" fulfilling different functions in an international division of labor that disadvantages the latter. In line with a method that focuses primarily on observing historical processes – in this case the insertion of Latin America in the world economy since the industrialization period— structuralism holds that the disadvantage stems from a steady deterioration of the terms of trade between the "center" and "periphery,". In Kay's description:

> There is a long-run tendency for prices of primary products to deteriorate relative to the prices of manufactured goods. This meant that the periphery had to export an increasing

quantity of raw materials in order to continue importing the same amount of industrial commodities. (2005, p. 32)

The deterioration of the terms of trade between center and periphery took place because the increase in productivity of primary commodities (main export of the "periphery") led to reductions in prices, and as a result the gains were captured by the "center" that buys them. On the other hand, increases in productivity of manufactures (main export of the "center") did not lead to lower prices, with gains, thus, captured by the workers and employers in the "center." (Saad Filho 2005, p. 134; Kay 1989, p. 33) The reason for the different behavior of prices of commodities and manufactures in the face of rising productivity had to do with the slow pace of increase in world demand for primary products, compared with that for manufactures. (Prebisch 1963, p. 94-95)

Structuralism found also this duality in national economies in the periphery, which exhibit enclaves of progress coexisting alongside backward areas. For structuralists, the technical progress, when transplanted to peripheral economies, resulted in them becoming disarticulated and dualist. (Kay 1989), p. 29) This dualism came from the fact that heterogeneous economic actors coexist in the export and subsistence sectors, so a gap of productivity between them grows. The heterogeneity of the peripheral economies was described in terms of high productivity in the primary export sector, and low in a relatively inefficient sector producing agricultural and manufacturing goods for domestic consumption, as well as large subsistence masses living outside the market economy. (Saad-Filho 2005, p. 132-3) As put by Sztulwark, "the productive structure of the periphery acquires two fundamental characteristics: … heterogeneous (or partially backwards) which expresses the coexistence of sectors of high productivity with others more backwards,…" (2005, p. 33)

The heterogeneity tended to be reinforced by the high profits in the high productivity-sectors, which are "highly concentrated, and tend to be either repatriated abroad by exporting firms or wasted through luxury goods imports by the solvent classes." (Saad-Filho 2005, p. 132-3)

The attempts at industrialization via incorporation of imported technical means of production, in a context of heterogeneous economic structure, rather than overcoming the backward condition would reinforce it, while generating high productivity enclaves disconnected from the rest of the economy. According to Celso Furtado, the increasing inequality in income distribution reproduced an increasingly inefficient and diversified industrial structure which further concentrates income. (Kay 1989, p. 42)

Sztulwark explained that in the structuralist thesis the interaction of a static element, the structural inequality (heterogeneity) and a dynamic one, the differentiated productivity and income accruing to the unequal sectors, is what produces an inherent tendency in the system, even during an industrialization stage.

As mentioned earlier, heterogeneity and inequality as an obstacle to development efforts are also featured themes in statements on the economics of Shared Societies. “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.” (Club de Madrid 2011, p. 15) In another passage, the Club de Madrid members emphasize the importance they ascribe to addressing 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.” (Ib., p. 8)

The emphasis is on the last part of this statement, and its caution about “divided societies.” The statement would follow the structuralist school‘s view that efforts at improving economic performance in “divided” societies which do not address the structural issues are condemned to failure, and to reinforce the inequality and divisions.

In fact, in some structuralist accounts the differences deepened by the introduction of technical progress run not just along economic sectors – as in the difference between export sectors and subsistence sectors – but can be found between the more and the less formal parts of any economic sector. (Kay 1989, 27) Thus, structuralism introduced an early analysis of the phenomenon of marginality that the Economics of Shared Societies also incorporate.

It is also possible to find an echo of structuralism in the Guiding principles 7 and 8. Principle 7 reads:

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. (Club de Madrid 2011, p. 15)

Although one could, for analytical purposes, separate the domestic economy tendency towards inequality from the international trends, structuralism sees them as part of the same continuum, an approach that principle 7 seems to share with the link it draws between reforming the "international economic order" and encouraging "appropriate national policies leading to Shared Societies."

Principle 8 holds that 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. (Ib.)

The idea that wealthier countries might benefit at the expense of poorer states – and marginalised groups within them—certainly resembles the structuralist model that describes center and periphery as, in the words of Kay, "closely interrelated." (Kay 1989, p. 26) Kay further argued that "The originality of the structuralist paradigm lies in the proposition that the process of development and underdevelopment is a single process…" (Ib.)

There are other connections that can be drawn between aspects, perhaps not so central, in structuralist thinking and the Economics of Shared Societies.

For instance, the role that limited bargaining power of the working class plays in the deterioration of the terms of trade. In the center, the thesis goes, reductions in unit costs and the correlative increased productivity can be captured by workers due to the existence of a unionized labor force, while in the periphery this is not the case, so increased productivity tends to be captured by other factors of production. (Saad-Filho 2005, p. 134; Kay 1989, p. 34) The absence or weakness of trade unions is part of the reason why price reductions in export products forced by downswings in the international economy are, in the structuralist explanation, more able to compress wages in the periphery than in the center. (Kay 1989, p. 33)

Although, it is fair to point out that the large surplus of unemployed or underemployed workers is, perhaps, more important in this argument than the absence of bargaining power. In Kay's view, "the main argument put forward by Prebisch to explain the inability of workers to capture a significant part of the increase in productivity is the existence of a large surplus labour force." (Kay 1989, p. 34)

Structuralism places its hopes in the State as a key agent that can correct some of the tendencies described above, particularly through the promotion of the industrialization process. This hope can also be found in Principle 5 of the Economics of Shared Societies: "National and local economic policies and programmes play a major role in creating an inclusive dynamic for all groups." (Club de Madrid 2011, p. 15)

Of course, it should be noted that this hope is tempered by the following Guiding Principle: "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." (Ib.)

Interestingly, even this tempered approach to the role of the State is not really inconsistent with structuralism, one of whose essential features was to consider development as a process that is not just economic, but also inextricably tied to social and political factors. So, an analysis of the actors and the power structures in which the process of reform would need to happen was also part of its assessment, as was the phenomena of social exclusion that ill-undertaken development processes could lead to. Neostructuralist approaches tend, in fact, to be more aware of the potential pitfalls associated with a State-led process. This is exemplified by the following statement by Rosales:

Although [CEPAL's views] took into account the socio-political complexity associated to the tasks of development, they tended to privilege one agent –the state-, who was assumed to have the capacity to escape the socio-political formation that originated it and of modify it according to the industrialist program. The reflection on the State as economic agent and scenario of social and political conflicts, is conspicuously absent in the industrialization proposal. (1988, p. 25)

This more ambivalent approach to the role of the State can also be found in Ottone's chapter of this book, saying that "Despite its undeniable achievements, the Latin American development model, with its clientelistic State occupying a central role was unable to overcome the concentration of wealth in a few hands or to shed its own heterogeneous nature." (…)

3.3 Conclusions

In conclusion, the implementation of Shared Societies would be greatly aided by a solid economic case why Shared Societies lead to improved economic performance.

This chapter makes a contribution to building the economic case for Shared Societies by exploring the points of connection between findings and propositions from the Guiding Principles and the Findings of the Working Group on the Economic Rationale of Shared Societies and three theoretical approaches: Ragnar Nurkse' s writings, institutional economics and structuralism.

The exercise has shown several points where those economic theoretical frameworks find common ground with Shared Societies, points that could help explain the mechanism at work in the link between Shared Societies and improved economic performance.

In doing so, the chapter's contribution to the case for Shared Societies sheds light on possible mechanisms at work in the link that leads from Shared Societies to improved economic performance. In that regard, the inquiry was not an empirical one, but it should be noted it is one not absent of relevance for empirical demonstrations. Indeed, knowing more about the mechanisms, the "how", it is hoped will illuminate the identification of elements that could assist the empirical verification, such as parameters for data-gathering, collation and interpretation. In this latter regard, in particular, it could assist in the identification of causality directions.

A second function this contribution fulfills is that of enlarging the state of knowledge on the economics of Shared Societies with incorporation of new elements for consideration by bringing into the discussion the different theoretical frameworks' potential drawbacks, implicit assumptions and conditions of applicability. In that regard, the exercise paves the way for reflections about the potential drawbacks, implicit assumptions and conditions of applicability of the Shared Societies approach itself, allowing some learning from the reflection and discussion that have accompanied the debate around, progress and evolution of those theoretical frameworks presented hereby.

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Chapter 4

Living in a Shared Society: a Precondition for Sustainable Well-Being

Claire Dhéret

4.1 Introduction

The seemingly endless series of economic crises Europe has recently gone through has led to consequences, which go far beyond economic considerations. Not only is the crisis impacting Europe's growth potential and affecting European citizens' purchasing power, it has also shaken EU's social fabric to its foundations. On the one hand, Europe has seen a growing number of social movements and public demonstrations illustrating the dissatisfaction of many Europeans with the ruling political elite and the recent austerity measures. On the other hand, the crisis has reinforced the position of radical parties on both sides of the political spectrum or even encouraged certain mainstream parties to adopt a protectionist and nationalist approach, as illustrated by the request to revise key EU principles such as the freedom of movement. Therefore, the emergence of social claims and tensions together with changes in political discourse shed light on the threat posed to social cohesion in our European societies and put citizens' long-term well-being in jeopardy.

Against this background, this chapter explores the relationship between living in a shared society and sustainable well-being based on the findings of 'Well-being 2030'[51], a two year research project co-funded by the European Commission and the European Policy Centre. Whereas the project looked at the different determinants of European citizens' well-being and investigated the role of social policies in maximizing Europeans' well-being through their positive impact on well-being determinants, this paper takes a narrower approach. On the one hand, it aims to analyze to what extent the results of 'Well-being 2030' can be used in order to further develop the concept of Shared Society and adapt it to Europe. On the other hand, it looks at how shared societies can serve the purpose of increasing citizens' well-being and explores the role of social policy in Europe to achieve this objective.

[51] See: http://www.epc.eu/prog_forum_details.php?prog_id=2&forum_id=8

The chapter is divided into three main parts. The first part outlines the concepts of Shared Society and sustainable well-being drawn on the recent research. The second part presents some findings of 'Well-being 2030' and highlights their relevance for developing the concept of Shared Society in Europe. Finally, the third part looks into the relationship of the two concepts and sheds light on the role of social policy in Europe for maximizing citizens' well-being.

4.2 The concepts of Shared Society and sustainable well-being

4.2.1 Shared society

The Club de Madrid (CdM) 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'[52]. According to the CdM, four important dimensions are crucial for the realization of a Shared Society and have all a positive impact on economic growth as a Shared Society is one in which economic growth and development are bolstered by newly included groups and the benefits of growth are shared by all its citizens. These four dimensions are: policies enhancing social inclusion, trust in each other, a strong role for national and regional institutions and the absence of institutional failures and fractionalization. In addition to this definition, the CdM further clarifies that 'specific characteristics of a Shared Society will vary across countries and regions'[53]. The next section of the paper will look into how the results of the Well-being 2030 project can further develop the concept of Shared Society in Europe and to what extent it is backed by Europeans' values.

4.2.2 Well-being and its complexity

Well-being is a complex and multi-faceted concept, which is currently subject to increased research both in academic circles and within policy-making institutions. There is indeed a questioning of the relevance of using GDP per capita as the indicator measuring the successful development and the progress of a country. In other words, the importance of taking other factors

[52] See: M.A. Valenti and O.Giovannoni, *The Economics of Inclusion: Building an Argument for a Shared Society*, chapter 2
[53] See: M.A. Valenti and O.Giovannoni, *op. cit.,*p.2.

into account such as citizens' well-being which encompasses material and non-material aspects, is receiving greater recognition.

However, defining well-being is not an easy exercise. Far from being a straightforward concept, the term 'well-being' has different meanings, in different contexts and disciplines. Usually, researchers make the distinction between two core concepts, i.e objective and subjective well-being (or happiness). Whereas objective well-being focuses on measuring people's satisfaction with each element that constitutes a good quality of life, subjective well-being gives priority to emotional evaluations relying on people's feelings. Therefore, subjective well-being depends very largely on individuals' culture, experience and aspirations, which also tend to change over time.

This paper concentrates on the concept of objective well-being as 'Well-being 2030' focused on the impact policy can have on the different determinants of life satisfaction and could not draw sufficient and tangible conclusions on subjective well-being and data reflecting people's emotions. However, this paper also introduces a slightly different concept called 'sustainable well-being'. This concept put the emphasis on the capacity of policy to maximize citizens' well-being in a sustainable manner. In other words, it implies that the quality of public policy enhancing well-being of the current generation should be measured against its capacity to provide the same level of well-being to future generations. This concept has important policy implications: not only will Europe and the rest of the world have to use their common resources in a more efficient and sustainable manner, but Europe will also have to deal more seriously with some constraints, which, if unsolved, are likely to affect the well-being of future generations. These constraints, such as the limit of public finances, the transformation of the economy, the impact of globalisation, demographic ageing, the scarcity of natural resources and climate change, will not impact equally on every EU Member State as the degree of constraints might differ. However, all these challenges are relevant across the EU and are therefore likely to affect the well-being of all European citizens.

When analysing well-being, there is also a need to make the distinction between individual determinants and societal factors, although there are interlinkages between the two. Besides individual determinants, citizens' well-being is influenced by the well-being of others, i.e. by the level of well-being in the community as a whole. The cohesiveness of a community has a significant impact on reported levels of well-being, and dissatisfaction within certain groups in society can also have a direct impact through crime or conflict. But it is also important to recognise the potential for conflict between an individual's well-being and the aggregate well-being of a community. For instance, if the benefits of growth are not shared equally, some groups of society enjoy very high level of income while others are likely to suffer from dire poverty. This implies that there are circumstances in which individual sacrifices and a focus on the community can increase well-being overall, providing a key justification for social policy interventions.

Individual well-being was analyzed in 'Well-being 2030' with respect to income, employment, health and education as these factors appear to be the main determinants of individual well-being which can be influenced by social policy. While this paper takes individual determinants to draw policy recommendations, at the end, the focus is more on the societal factors and their link to Shared Society.

4.3 Shared society: a concept backed by Europeans' values?

The Well-being 2030 project has identified a number of common findings across Europe by asking citizens how they envisage their future life by 2030, what their priorities are for social well-being in 2030 and what choices they would make when presented with specific scenarios. While these findings are drawn on qualitative research[54] and cannot be generalised, they, nevertheless, give some indication of the main concerns shared by Europeans and their capacity to identify key determinants likely to improve their well-being by 2030. This section of the paper sheds light on the results of the qualitative research and looks at whether the concept of Shared Society is backed by Europeans' values and perceptions of priorities.

4.3.1 Societal values

As mentioned earlier, not only does people's well-being stem from factors which are strictly personal such as income, employment, health or the level of education, but it also largely

[54] The qualitative research was conducted in eight Member States – Estonia, Germany, Greece, France, Poland, Romania, Sweden and the UK. The results fed into a qualitative Eurobarometer published in September 2011. See: http://ec.europa.eu/public_opinion/archives/quali/wellbeing_final_en.pdf

depends on other societal factors. In fact, the quality of society an individual is living in is an important driver of people's life satisfaction and it is referred in this paper as 'societal well-being'.

The results of the Well-being 2030 project have confirmed previous research showing that there is no single set of European values and preferences towards issues related to social policy. It is well-known that European societies have different approaches as regards the role of public spending and who should bear the main responsibility for providing insurance against risks. These differences in preferences are very much rooted in historical, institutional and political traditions and explain the existing diversity of social models across Europe.

There is, however, a clear indication that our European societies are based on common societal values that can be grouped into three elements: social cohesion (1), equality of opportunity (2), and solidarity (3). These values are at the core of the European social model and remain omnipresent when citizens describe the kind of society they want to live in.

Social cohesion

According to the qualitative Eurobarometer, social cohesion is perceived as a key driver for societal well-being. This reflects Europeans' desire to live in a harmonious social environment, despite going through a time of greater diversity where social dysfunctions such as unemployment, loosening of social ties, crime, poverty and exclusion tend to rise.

Social cohesion is a concept describing outcomes of social harmony which has been defined by Jenson (1998) as the 'shared values and commitment to a community'[55]. Europe's citizens seem to pay great attention to it as they generally want to feel positive about the community they live in, where challenges are faced together, with institutions that can support the community and especially the most vulnerable. This also entails a concern for the kind of society Europeans live in, for example people worry about environmental degradation/climate change, unsustainable public finances and the absence of intergenerational equity in an ageing society.

[55] J. Jenson, *Mapping Social Cohesion: The State of Canadian Research*, Canadian Policy Research Study, 1998.

Beyond the importance people allocate to outcomes of social harmony, some studies have also proved that cohesive societies are more effective in realising collective goals such as integrating minorities, but also in terms of economic return. Indeed, factors such as trust in others' reliability or confidence in national institutions are likely to enhance innovation, risk-taking and market exchanges[56].

Equality of opportunity

Not only are Europeans concerned about the growing disparity between rich and poor, they are even more worried about the issue of inequality of opportunity. While people accept that those who work harder, take risks, and are more entrepreneurial than others have greater economic returns, they consider inequality of opportunity as being clearly unfair.

The relationship between income inequality and inequality of opportunity remains blurred and it is difficult to find out which one creates the effects. The research on well-being has shown that satisfaction with health and education is in general positively correlated to income satisfaction. But is it a high level of education which influences income level or the good economic conditions of the parents which have a positive impact on the level of education of their children? In other words, does income inequality lead to inequality of opportunity or the other way around? While it is obvious that equality of opportunity is not the only factor in achieving more income equality, it remains, however, a precondition for reducing income inequality.

Solidarity

Solidarity emerges as one of the key principles which need to be preserved in Europe, according to Eurobarometer surveys. In the 'poverty and social exclusion' survey carried out in 2010[57], participants were asked to respond to the question 'why in your opinion are there people who live in poverty?' 48% of participants surveyed see injustice in society as the reason why people live in poverty and 16% think that it is 'an inevitable part of progress'. When asked about

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[56] Many studies have demonstrated the positive impact of social cohesion on the economy. See for instance the work of the Shared Societies Project of the Club de Madrid on: http://www.clubmadrid.org/en/programa/the_shared_societies_project. See also: Wilkinson, R. and Pickett, K., *The Spirit Level,* Penguin, London, 2010.

[57] See: http://ec.europa.eu/public_opinion/archives/ebs/ebs_321_en.pdf

possible solutions to addressing poverty, 85% of respondents express the desire for governments to make sure that the wealth of the country is more fairly distributed and 79% think that people who are well-off should pay higher taxes so that governments have more means to fight poverty. Although these figures do not tell us what kind of government transfers Europeans would be willing to see, they confirm that the principle of solidarity is important to people and should be maintained.

4.4 Common perceptions of priorities needed in the future

In the qualitative Eurobarometer, citizens were asked to name policy priorities for societal and personal well-being in 2030. Not surprisingly, one can observe that the policy priorities picked up by Europeans are both in line with the key determinants of individual well-being, i.e. employment, living standard, health and education, and also the societal values described in the previous part.

Investing in our economies for job creation

For most people surveyed, investing in the economy is perceived to be the most important factor for driving the well-being of society in the future. Citizens see well-functioning economy as being the foundation on which other factors depend and, therefore, on which the well-being of society hinges. In that vein, a British interviewee declared '*Everything depends upon it, education, employment benefits, councils' budgets'*.

But the purpose of investing in the economy is also explained by personal motivation and the impact it may have on personal employment status and, later in life, on pension benefits. Therefore, most participants agreed that the focus of public spending should be on creating employment. Employment is indeed perceived to the *condicio sine qua non* for economic security, health and education services, but has also psychological benefits. As a French interviewee declared: '*Employment is the first lever: when you have an income, you can invest, consume and you feel better in your head. Income opens the floodgates on many things'*.

All this points to the centrality of work for people's well-being – with work being defined broadly, for example, include unpaid jobs. Exclusion from the labour market or from meaningful occupation is the single biggest factor in reducing well-being.

Ensuring equal access to quality public services

It is clear that public services have a significant impact on a number of determinants of life satisfaction and affect people throughout their lives, ranging from childcare services to quality education and care for the elderly. As shown by the European Quality of Life Survey[58], effective public services are perceived as a key component of the quality of society and the perceived quality of public services appears to be positively correlated to life satisfaction.

When confronted with scenarios and asked about priorities for spending in the key areas of concern, most participants picked actions aimed at preserving or reinforcing universal and affordable access to public services. In the health sector, for instance, the scenario which was most rejected by people was the possibility that treatment would not be accessible to all. As regards education, access again emerged as the key driving principle for societal well-being and reactions to scenarios introducing any kind of trade-off between quality and equal access were clearly negative. These fundamental public services are seen as a right for all and there is widespread support of the idea that government has the responsibility to preserve such rights.

The findings of 'Well-being 2030' are of high interest for the concept of Shared Society and for providing more information on how this concept should be articulated in Europe. As indicated by the qualitative research, a 'good society' should be based on Europeans' values, i.e. social cohesion, equality of opportunity and solidarity, and reflect their perceptions of priorities which consist in creating enough jobs so that everyone can be employed[59] and ensuring equal access to quality public services. Therefore, the concept of Shared Society appears to be a precondition for achieving greater level of well-being. These elements shed light on the crucial role that social policy has to play both for creating a Shared Society and maximizing citizens' well-being.

4.5 A new way of thinking policy

Despite the shortcomings in our knowledge of well-being, especially with regard to policy choices, starting with the concept of well-being as the central tenet for policy making has nevertheless a number of important implications.

[58] See: http://www.eurofound.europa.eu/areas/qualityoflife/eqls/

[59] Depending on the level of development ,of a country, citizens might also pay attention to the quality of jobs. Indeed, citizens tend to focus more on this aspect in rich countries.

Involving citizens in policy choices

Using subjective well-being or happiness as a guideline to determine policy is still problematic, not least at the European level. Comparisons of subjective well-being across countries are fraught with difficulties, compounded by a lack of good data which makes differentiation between countries according to age, gender, socio-economic or educational groups impossible. But the same does not apply to the determinants of objective well-being. Here, there are some similarities across the EU as shown in the previous section: the importance of work (albeit with a different emphasis between the richer and poorer Member States) or the focus on equality of opportunity especially in terms of access to education and healthcare coupled with an understanding of the significant challenges which the EU is facing.

The implication of the qualitative Eurobarometer is clear: citizens can make choices in the light of constraints, albeit reluctantly. There is thus no reason why Europe's citizens cannot be more directly involved in providing direction to decision-making processes. This will entail further data collection and research to ensure that citizens' choices take place in the context of the resources and constraints which determine the framework for policy decisions. At the same time, there is a need to address certain misconceptions, such as the belief that the number of jobs in an economy are limited and thus migrants take away jobs from the unemployed (lump of labour), or that a positive trade balance and a strong currency are always healthy for an economy. The aim should be to enable citizens to make informed choices in the light of existing constraints.

Protecting Europe's social model

What already emerges strongly from the qualitative Eurobarometer study is that citizens are unwilling to compromise on certain principles underpinning Europe's social model. As explained in the previous part, there are some values – the centrality of work, the importance of equal opportunity and its implication for access to public services and the need to live in a cohesive society - which are at the heart of citizens' concerns concerning future well-being and which have some implications for decision-makers. These implications are:

- It is essential to incentivise, support and promote people's access to labour market opportunities. Addressing unemployment is likely to have a major positive impact on well-being. Achieving higher labour market participation through targeted incentives and active labour market policies, for example for women, new entrants, older age groups or marginalised groups, is an essential component of increasing well-being, while also contributing to the enhanced sustainability of European welfare states. At the same time, the quality of work matters and, especially as income increases, more emphasis is needed to ensure better and more flexible working conditions. But attitudes need to be addressed as well: avoiding work or exiting the labour market does, in general, lower individuals' well-being as well as having a detrimental impact on the rest of the economy. More needs to be done to reinstate the value of work in the public discourse. To this end, several actions should be undertaken such as enabling people to work beyond official retirement age if they wish to do so and are able to carry on, recognising and promoting non-paid work as well as improving quality of work. Especially as income increases, more emphasis is needed to ensure better and more flexible working conditions.

- Inequality matters especially when it restricts individuals' opportunities to participate in society. Not being able to access/afford healthcare and education is incompatible with Europe's social model. Growth must be seen in conjunction with social distribution of benefits and the maintenance of public services for all, which are crucial factors to eliminate disadvantage. With increasing mobility and identification with 'Europe', young people might also pay growing attention to inequality between countries, not just within countries.
- Societal values are important. Citizens' well-being is enhanced by living in a fair, green society which takes care of the most vulnerable and where there is a feeling of community. The pursuit of individual happiness needs to be balanced by social considerations. Reconciling the increasing diversity of communities (which is happening regardless of future migration flows) with individuals' desires for cohesiveness is crucial. Shared public services, used by all parts of the community, have a crucial role here.

There are, of course, still significant differences between European countries. For example, while in poorer countries the level of income associated with work still plays the predominant role, in richer countries the quality of work has become more important. But the importance of work, of equality of opportunity, and of society are shared. This makes addressing Europe's common social policy challenges even more important.

The need for reform

To ensure that Europe's societies can meet citizens' needs with regard to well-being and do it in a sustainable manner, reform is unavoidable. The current functioning of European welfare states does not take constraints sufficiently into account and is therefore not sustainable for a number of reasons:

- Globalisation and, in particular, global competition from economies with significantly lower wage levels and with lower social, environmental and labour standards;
- The long-term impact of the current economic crisis, which includes the deterioration of public finances;
- The impact of ageing in public service delivery costs, labour market participation[60] and growth;
- The changing nature of European society, with different family structures, significant diversity and mobility/migration all requiring shifting patterns of public support;
- The need to invest in the transformation of Europe's economy towards a lower carbon and environmental impact;
- The increasing global competition for resources, resulting in higher food and energy prices but also labour market limitations.

What are the implications of these challenges? The challenge is in essence threefold:

1. An increase in the demand for public services, interventions and spending, for example through higher demands on pension and healthcare systems;

[60] Meeting labour market requirements in an ageing society with, eventually, a shrinking workforce will also entail migration as well as activating groups currently outside the labour market. More efforts are needed to ensure that Europeans understand how migration can reinforce the sustainability of labour markets. At the same time, new forms of migration need to be explored. See: S. McLoughlin, R. Münz with R. Bünte, G. Hultin, W. Müller and R. Skeldon, *Temporary and circular migration: opportunities and challenges*, EPC Working Paper, N. 35, March 2011.

2. Lower economic dynamism accompanied by growing inequalities; and
3. A lack of resources to deal with societal challenges.

There are obvious ways to address these issues without ignoring the underlying trends. Increasing efficiency and effectiveness, limiting access/eligibility or changing the way services are provided, for instance, by leveraging in private/household spending are all examples of policy actions that can contribute to address the challenges.

But this creates a conflict at the heart of Europe's social model. On the one hand, there is a clear need to focus on the most vulnerable. Here, those affected by multiple factors of disadvantage are clearly least resilient to the changes which Europe is going through. Targeted support which tackles key individual barriers simultaneously is most promising. On the other hand, most Europeans value the idea of a shared society, where key public services and social provision are equally available to everyone, for example through a shared education and healthcare system. In other words, Europe's social model consists of both targeted support and a social safety net for the most vulnerable and universal services for everyone.

Many of the current solutions to the challenges Europe's social model is facing will weaken one element of this model to sustain the other. For example, limiting eligibility through means-testing clearly removes universality. But this endangers Europe's social consensus: public services are for all, not just the most vulnerable. Overcoming this contradiction at the heart of social policy means reforms must be more ambitious; it will not be enough to change policies in the margins and to try to address the challenges by cost-cutting or by limiting eligibility/access alone.

Society does, of course have a number of resources it can draw on, including technology and innovation, private sector/household assets, unused capacity in the labour market and the wider economy and, in most countries, functioning governance. But to activate these resources will require significant reforms, often altering the way policy is made and implemented. A starting point must be to become more outcome oriented and to remove artificial distinctions between different policy areas. Social policy is not a distinct category but is intrinsically linked to macroeconomic stability, public finance sustainability, future economic growth and structural reform. Delivering social policy outcomes will therefore require policy action across a number of policy areas[61].

Rethinking social policy

To find solutions which can be sustainable in the long-term will require rethinking social policy fundamentally, starting with the low hanging fruit. Why are some obvious win-win situations not happening consistently across Europe?[62] These include better functioning labour markets, which can achieve higher participation rates, school systems which intervene early and provide all-day care, a more consistent application of technological and innovative solutions, investment in future productivity and human capital, prevention rather than cure[63] and using the tax system to incentivise work and discourage unsustainable activities. All are obvious benefits which can enhance the well-being of citizens while also enhancing the long-term sustainability of public systems.

The reality is that there are a number of important barriers:

- The initial investment required: often these solutions require significant upfront investment.
- Path dependency: many can only be introduced if prior steps have already been taken.
- Resistance to change: many see change as a threat, making it difficult to take away public provisions, once granted.
- Transition costs: many reforms result in winners and losers, creating significant transition costs for some sections of society.
- Doubts over the feasibility of some of the proposed solutions: there is significant uncertainty over the effectiveness of certain policies.

[61] See: F.Zuleeg, *The long-term growth crisis: what implications for economic governance and Social Europe?,* EPC Challenge Europe, Issue 21, May 2011, pp. 70-75.
[62] See: F.Zuleeg with C.Dhéret and B.Guerzoni, *Enhancing the well-being of Europe's citizens: hard choices?*, EPC Working Paper, N.34, December 2010.
[63] See: A. Ahtonen and B.Guerzoni, *Promoting health –should the EU have a role?*, EPC Policy Brief, June 2011.

- Vested interests: there are many groups which will resist change as they have a vested interest in maintaining the status quo.

- Lack of policy instruments to drive change: many of the key outcomes are not directly deliverable through public policies.

- Variations in national and regional circumstances and in traditions/cultures: these create different conditions which can make a solution feasible in one place but not in another.

- Risk/uncertainty: this is pervasive in many social policy areas, as the unintended consequences of policies can negate positive impacts.

- Lack of positive incentives to change: many public organisations and public budgets are not geared towards delivering such change.

Much more attention both at national and European levels needs to be paid to how these underlying barriers can be addressed. Solutions are likely to include:

- Innovative finance solutions which can facilitate the initial investment required;
- Focused and targeted research to determine what policies work and in which countries;
- The creation of positive incentives to reform in the public sector, including addressing the way budgets are set for public sector organisations;
- Increased responsibility of policy-makers to address long-term challenges;
- Ensuring that there are mechanisms to support those who lose out in the transition.

In addition to tackling these barriers, social policy needs to be fundamentally reconsidered. This involves looking at and accounting for social policies differently by considering them as:

- Drivers of future competitiveness; and
- Investment into future economic performance.

In future, Europe's economies will have to rely increasingly on human capital as the key driver since competition from countries with very low wage levels and labour standards is growing. But there will also be global competition for the kind of people who can add significant value[64] and Europe's attractiveness as a destination is already under challenge. Europe's social systems could be a key factor in an overall package which could make coming to (or staying in), living and working in Europe attractive. Education provision for dependent children, diverse and safe communities, low levels of inequality or good quality of life in general could all increase Europe's competitiveness in a global war for talent. But the benefits go beyond attracting and retaining talent. Having a functioning social model which delivers quality public services and high levels of education will also increase the productivity of all citizens not least in promising sectors such as the knowledge-based economy, as well as extending effective working life which would be a crucial component in addressing the challenge of population ageing[65]. This is especially crucial in the context of a changing labour market.

The importance of human capital also reinforces the notion of social investment. Here, the key concept is that investment in areas such as education, health or housing should not be seen as a drain on the public purse but as factors which can contribute to future economic performance – in other words, there is a real return for society from investing in people both in economic and financial terms. Investing in human capital is the only way to mobilise the productive potential of citizens, to make them more resilient to social risks such as long-term unemployment and become therefore an asset for the economic development of a country. If these social returns are taken into account, more investment will lead to better outcomes for society as a whole and will be financially sustainable as it will increase the number of taxpayers and reduce the need for future corrective interventions.

Applying the ideas of social policy as investments and drivers for competitiveness has certain consequences. Firstly, much more of an evidence-based outcome focus is needed to demonstrate that the returns are delivered in practice. This entails showing what works and what doesn't in delivering the desired social outcomes, and what return investments bring in reality. Secondly, given the lack of public investment, new ways will have to be found to generate

[64] Migration should, however, not be seen as the 'silver bullet' answer to Europe's challenges. The scale of migration we are likely to see and which citizens are willing to accept will limit how much impact it can have on the labour market. At the same time, migrants (and their descendants) need to be integrated far more effectively in Europe's labour markets to increase their positive contribution.
[65] See: B. Guerzoni and F. Zuleeg, *op. cit.*

private/household investment to generate social benefits. Thirdly, social expenditure needs to be spent more effectively. Gross public social expenditure on average across OECD countries increased from 15.6% of GDP in 1980 to 19.3% in 2007 - but inequality has been growing over this time. It means that the redistributive effect of government expenditure is no longer sufficient to redress socio-economic current trends. Indeed, most policy interventions tend to focus on how to redress socio-economic outcomes through tax instruments instead of addressing the underlying causes[66]. In other words, social policy needs to intervene much earlier and to focus on the early phases in life[67]. Activities which do not contribute to competitiveness or do not constitute investment will be under severe pressure and will need to be curtailed unless other strong public policy rationales and results can be demonstrated (such as, for example, reducing poverty and inequality).

By involving citizens more in decisions, by protecting and reforming our welfare states and rethinking the role of social policy, Europe's social model can remain a key driver for Europeans' well-being despite the significant challenges which Europe faces. But without significant redirection, Europe's governments will quickly come to the point where the costs of social systems escalate despite reform programmes, which already weaken the underlying foundations of the social model, universal social services and support to the most vulnerable.

Redirecting Europe's social policies is a mammoth task, with significantly different starting points across Europe, which makes any action of the EU in this field particularly difficult. However, it is now urgently needed that the EU plays its role in reinforcing the European social model and helps Member States on the road to a renewed social policy creating Shared Society, a precondition for delivering high levels of well-being for Europe's citizens.

4.6 The way ahead

The Well-Being 2030 project has afforded the opportunity to put citizens' well-being at the centre of the political debate and to raise awareness about the need to adopt a cross-sectoral

[66] See: C. Dhéret, *How to reduce socio-economic inequality in Europe?*, in *Growth, well-being and social policy in Europe: trade-off or synergy?,* EPC Challenge Europe, Issue 21, May 2011, pp.46-52.

[67] See: A.Hemerijck, *The social investment imperative beyond the financial crisis,* in *Growth, well-being and social policy in Europe: trade-off or synergy?*, EPC Challenge Europe, Issue 21, May 2011, pp.11-19.

approach in this field. It is in the nature of such research that a lot of questions have emerged and that many of them still remain without a definitive answer. However, one can notice that giving the opportunities to citizens to voice their opinions was a useful instrument to better understand that societal well-being needs to be put on an equal footing with individual well-being and to further develop the concept of Shared Society in Europe. Such an exercise has also demonstrated the key role of responsible social policy that has to both facilitate the emergence of Shared Society and preserve the sustainability of our social models. To achieve this ambitious objective, a key underlying issue will be to ensure that enhancing citizens' well-being is the central objective of policy-making in Europe.

Having a political debate on the development model Europe wants to promote is a precondition to revitalizing the European social model and reconciling citizens with the European project. Key questions that have been central to the Well-being 2030 project are: What kind of societies do Europeans want to live in? What kind of growth do Europeans want and what are their perceptions of 'social progress'? What price are they willing to pay to achieve societal progress? And what is the role of the European Union in all this? In the final analysis, these are not questions that can be answered by research or by experts; they are political questions which should be debated in our political processes, at local, regional, national and European level. But there is very little public debate on such topics. Policy-makers will have to find the answers to these questions if they want to meet people's expectations and to identify the concrete actions needed for the creation of Shared Society. This will need to be a politicized debate, including elected representatives at all levels.

Chapter 5

Shared Societies and the Global Crisis: Evidence and Policy

Raymond Torres

5.1 Introduction

The damage wrought by the current financial crisis continues to spread throughout the world economy. A number of arguments have been put forth as to the origins of the crisis including: inappropriate financial regulations, excessive risk-taking of certain financial intermediaries, inefficient remuneration practices of bank managers and traders, lax monetary policy, global savings-investment imbalances and growing income inequalities. In this respect, the crisis has amplified the message that there is still much work to do to ensure the social sustainability of globalization.

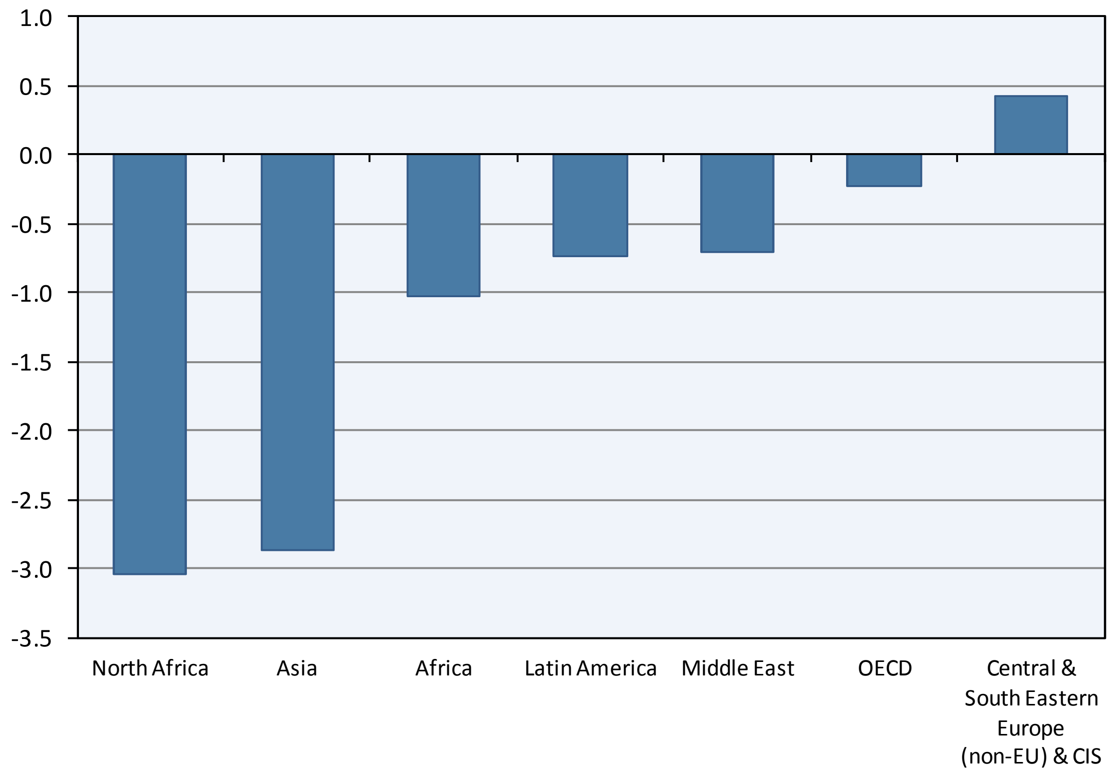
With this in mind, the purpose of this chapter is to discuss the issue of income inequality in the context of the global crisis. It begins with an overview of trends in inequality both before and after the global crisis, including key linkages to investment and profits (Section I). The paper then assesses these developments and the onset of the global crisis (Section II). Section III examines policies and practices to correct these inequalities (Section III). Concluding remarks are presented in the final section (Section IV).

5.2 Inequality trends

Labour incomes losing ground, especially for the low-paid

The global crisis was preceded by a long period of wage moderation. In fact, the wage share, i.e. the share of labour incomes in GDP has declined since the 1990s. This is true for the vast majority of countries, even correcting for a number of factors like self-employment income – a trend which is consistent across advanced, emerging and developing countries (Figure 1). For instance, in Asia the wage share has declined by 2.8 per cent between 1991 and 2006. In North Africa, the decline is even more spectacular as the wage share decreased by 3 per cent since 1996. In African countries, the wage share fell by more than 1 per cent between 1991 and 2007, while it decreased by 0.7 per cent in Latin America and Middle East. This trend is also observed among advanced economies, with a decline of 0.2 per cent in wage share. One exception is Central and South Eastern Europe and CIS. In this region, the wage share has increased by 0.4 per cent between 1992 and 2008.

Figure 1 **Developments in the wage share since 1991**



Note: CEE indicates Central and Eastern Europe and the Former Soviet. Data for OECD refer to 1991-2008, CEE: 1992-2008, Africa: 1991-2007, Latin America: 1993-2006, Middle East: 1995-2005, North Africa: 1996-2006 and Asia: 1991-2006.

Source: IILS estimates (IILS, 2011a).

A more detailed examination of advanced and emerging economies reveals that with the exception of France, Italy and Spain real wages grew slower than productivity (Table 1). These economies, however, have been characterized by comparably strong levels of producer price inflation which has adversely affected total labour cost developments. As such, when wage growth is discounted for producer price, wages (i.e. "real product wages") are consistently lower than productivity with the exception of China where product wages are slightly higher than productivity gains.

Table 1 **Wage and productivity developments (2000-2009)**

Average annual growth rates (%)	**Brazil**	**China**	**France**	**Germany**	**India**	**Italy**	**Japan**	**Spain**	**United Kingdom**	**United States**
Real wages [a]	1.6	12.6	0.9	0.3	9.1	1.1	-1.2	1.3	2.1	0.7
Real product wages [b]	8.6	14.1	0.5	-0.3	10.1	-0.1	-1.8	0.2	1.1	3.2
Labour productivity	9.0	13.7	0.8	0.9	11.5	-0.2	-0.6	1.1	1.3	3.7
Wage shares in GDP [c]	-0.4	-4.0	-0.3	-1.2	-1.4	0.2	-1.1	-0.8	-0.2	-0.5

(a) The average annual growth rate for Brazil is for the period 2001-2008.

(b) The average annual growth rate for Japan and the US is for the period 2000-2007.

(c) The average annual growth rate for all European Countries, Japan, US and India is for the period 2000-2007. For Brazil and China is for the period 2000-2006.

Source: IILS estimates based on national sources.

Moreover, since the crisis hit, wage growth has decelerated sharply in advanced countries and some emerging economies. This was mainly a result of pressure from labour market slack and the high and persistent unemployment that resulted – and continues – from the crisis. Globally, growth in average monthly wages slowed from 2.8 per cent in 2007, on the eve of the crisis, to 1.5 per cent in 2008 and 1.6 per cent in 2009.[68] Indeed, in 2009 many countries implement salary freezes as a reflection of the global downturn – a survey of 348 multinational companies in 57 countries revealed that 40 per cent implemented salary freezes worldwide.[69]

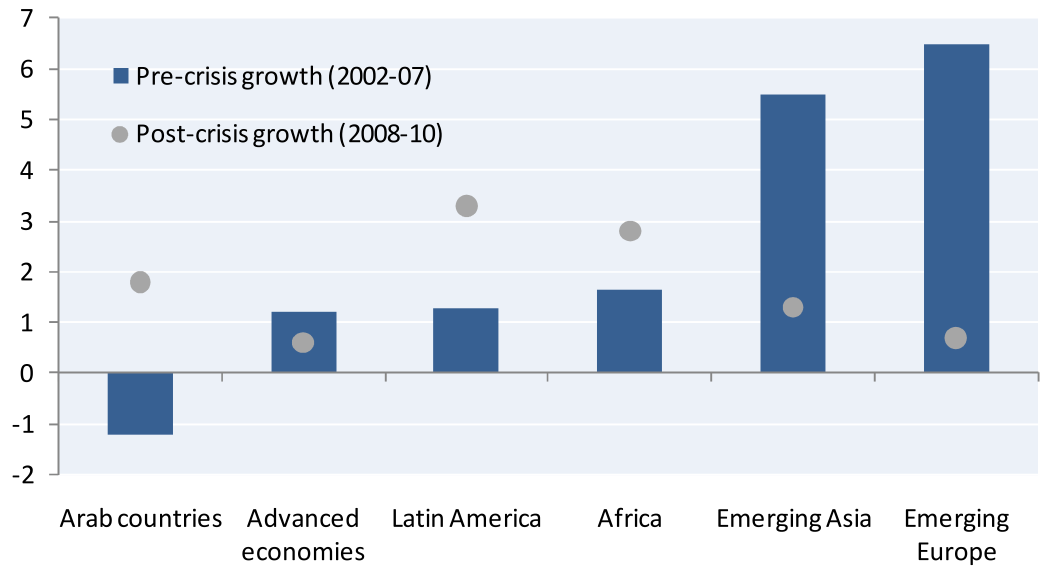
Moreover, in comparison to the period that preceded the crisis, average annual real wage growth fell in a number of regions. In emerging Asia and Europe real wage growth declined by between 4 and 6 percentage points. In the advanced group, wage growth fell by over 0.5 percentage

[68] ILO, 2010.

[69] ECA, 2011.

points, from an already low level of growth (Figure 2). These developments are delaying the recovery process as consumption is being suppressed by weak growth in disposable income – exacerbated by persistently high unemployment.

Figure 2 **Average annual real wage growth: Before and during the crisis (percentages)**



Note: The chart displays annual average real wage growth during pre-crisis vs. post-crisis years in six major world regions.

Source: IILS based on Economist Intelligence Unit.

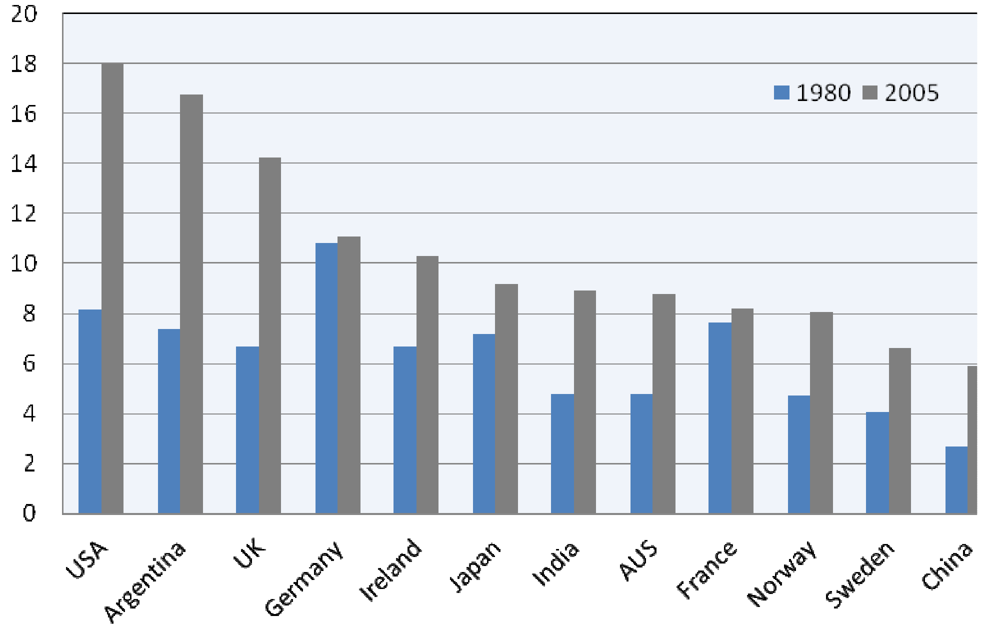
The rich get richer

At the same time, there has been an increasing share of the top income earners vis-à-vis the rest of the population. In particular, the decrease in the labour's share of GDP has been more pronounced for low income earners than for high income earners. Between 1998 and 2008, wages of the 10 per cent higher earners increased faster than those of their bottom counterparts. In fact, the P9/P1 ratio of gross earnings increased in the majority of countries for which available data exist (Figure 3). Increases have been particularly large for countries which have overall low inequalities such as Nordic countries and some transition economies. The only exceptions to this pattern are Hungary, France and Belgium.

Growing wage inequality mainly reflects a significant increase in top wages, rather than a falling bottom. However there are differences across countries in inequality patterns. Among countries which have seen increases in inequality, Poland, Czech Republic, Denmark and Finland appear to be characterized by an effect of “polarization” of wages, having experienced an increase in inequality in both the highest and lowest deciles vis-à-vis median wages. The same occurs in the Netherlands and Sweden.

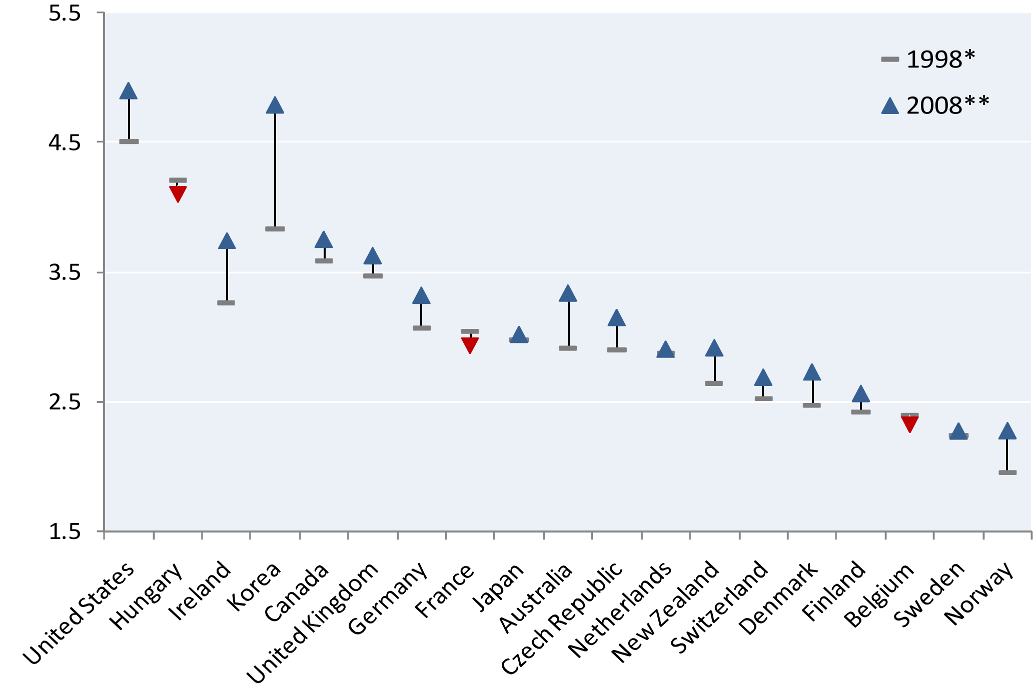
Figure 3 **Developments in income inequality**

Panel A: Share of top 1 % in total income, 1980 and 2005



Source: Atkinson et al. (2010)

Panel B: Change in the P9/P1 ratio of gross earnings between 1998 and 2008



*Data for Belgium and Ireland correspond to 1999 and 2000, respectively. **Data for Belgium and France correspond to 2007 and for the Netherlands to 2005.

Source: IILS calculations based on OECD Statistics.

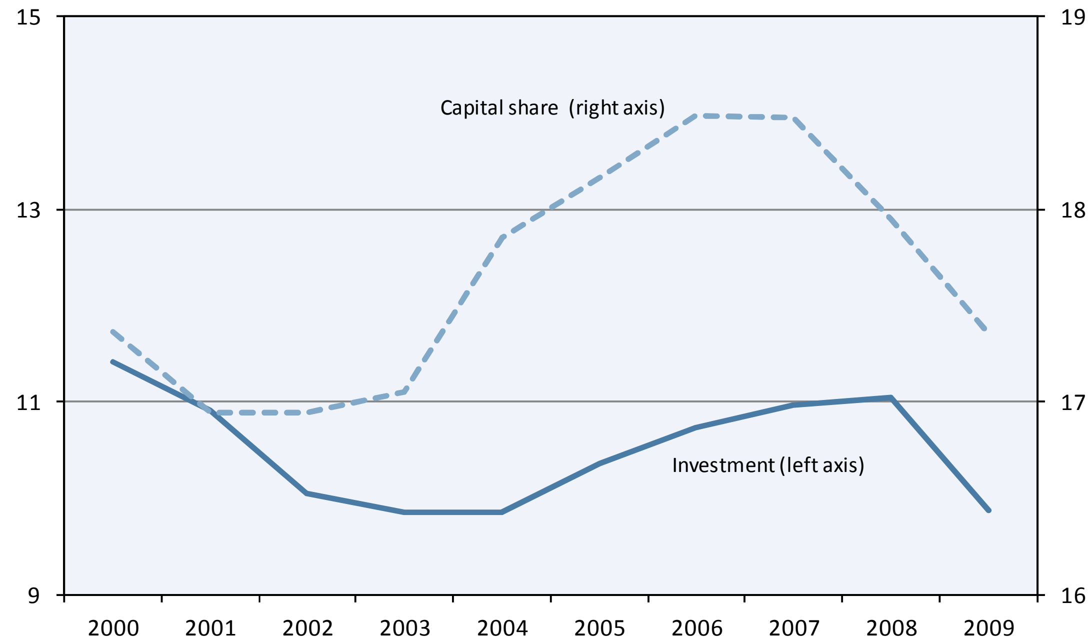
In the case of Hungary and the United Kingdom, increased wage inequality appears to be also driven by developments in top wages, which largely outweigh the decrease in inequality among bottom wage deciles. In the case of Germany, the overall increase in inequality is the result of the growing disparity between the median and lowest wages – some sort of "collapsing bottom" case. And in France the falling overall inequality is explained by an important decrease in the dispersion between the medial and lowest wages, which offsets the increase disparity caused by fast growing top wages.

Inequalities did not boost real investment or employment creation

Some have argued that lower wages were necessary to boost profits in order to lift investment – and subsequently employment.[70] However, the increase in income inequality and, therefore, the reduction in the wage share and the increase in the profit share, have not translated into more investment. Between 2000 and 2007, capital share in advanced economies grew by 1.5 full percentage points, from roughly 17 per cent in 2000 to 18.5 per cent in 2007. In contrast, investment as a percentage of GDP did not keep pace with profits and remained stable (Figure 4). Indeed, since the onset of the crisis, investment as a percentage of advanced economies GDP has tended to decline little by little. This is the case, for instance, in United States. In the case of emerging economies, investment as a percentage of GDP has increased but much less than what would have been possible on the basis of the increase in profits as a percentage of GDP.

[70] The inverse relationship between the wage share and investment is known as the Schmidt Theorem following the quote of the German head of government Helmut Schmidt, who said that "The profits of today are the investments of tomorrow and the investments of tomorrow make the employment of the day after tomorrow".

Figure 4 **Capital share and investment developments among non-financial firms in advanced economies** (percentages of GDP)



Note: The sample analysed comprises 30 advanced economies.

Source: IILS calculations based on the OECD and UN National Accounts databases, national sources and IMF (2011).

Importantly, in no major region is the correlation coefficient between profit shares and investment rates close to unity (Table 2). In advanced economies, notably the OECD and the EU-15, the slope is in fact negative.

Table 2 **Correlations between profits shares and investment (early 1990s to 2007)**

Region	Slope	adjusted R2
OECD	-0.50***	0.41
EU 15	-0.36***	0.26
Africa	0.28***	0.33
Asia	0.12***	0.044
East Europe	0.22***	0.077
Latin America	-0.22***	0.49
Middle East	0.058***	0.041
Northern Africa	0.18***	0.22

Note: Fixed effect method regressing investment on profit shares.

Source: IILS estimates.

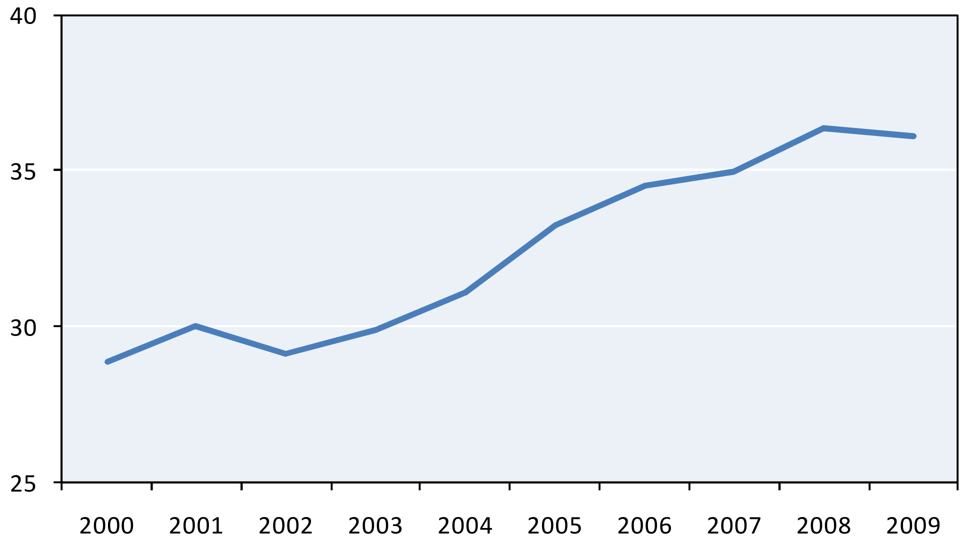
The disconnect between growing profits and productive investment reflects three main factors. First, much of the increase in profits accrued to the financial sector. Between 2000 and 2007, in advanced economies, financial-sector profits grew by 13 per cent annually, compared with 6 per cent in the case of the non-financial sector, i.e. the real economy. In emerging and developing economies, the figures are around 85 per cent and 20 per cent, respectively. Financial-sector profits declined somewhat in 2008–09, but have since strongly recovered – both in absolute terms and vis-à-vis profits in the real economy.[71]

Second, in advanced economies, profits of non-financial corporations have increasingly been used to pay dividends and to invest in financial assets rather than to make productive investments. In 2009, more than 36 per cent of profits were distributed in terms of dividends, compared with less than 35 per cent in 2007 and less than 29 per cent in 2000 (Figure 5). Moreover, total financial assets of non-financial firms in advanced economies increased from 81.2 per cent of GDP in 1995 to 132.2 per cent of GDP in 2007. Due to the financial crisis, there

[71] IILS, 2011c.

was a decline in 2008 and 2009, but 2010 data show that there is an upward trend in financial investment by non-financial corporations in advanced economies.

Figure 5 **Dividends payout developments, 2000 - 2009**



Source: IILS calculations based on the OECD and UN National Accounts databases, national sources

The situation among non-financial corporations in emerging and developing countries is a stark departure from the practices in the advanced world. Dividend payouts – at roughly 19 per cent of profits – remained relatively stable in the pre-crisis period and even declined to 16.5 per cent at the onset of the crisis in 2008. However, as in advanced economies, investment in financial assets also increased from 54 per cent of GDP in 2000 to 87.4 in 2007.

Third, more recently, productive investment in advanced economies has been hampered by uncertain demand prospects combined with tight credit conditions – affecting small and medium-sized enterprises (SMEs) disproportionately. For example, in the United States, the net percentage of banks reporting a tightening of lending standards for SMEs increased in the most recent quarter (Q3 2011). In addition, when firms in the European Union were asked about the most pressing problem they faced between September 2010 and February 2011, one-fifth of SMEs reported a lack of adequate access to finance. In fact, the rate of unsuccessful loan applications increased between 2007 and 2010 in 19 of the 20 European economies for which data are available.[72]

Additionally, the decline in the wage share has not led to significant improvements in employment. In other words, greater declines in the wage share have not accompanied greater improvements in employment. For instance, the Middle East, Africa and Latin American regions have recorded strong employment growth yet the wage share declines have been relatively modest in comparison to Asia and North Africa. In particular, in the Middle East, while the employment growth was over 3.7 per cent between 1995 and 2005, the wage share decreased by 0.7 per cent, the second economic area with the lowest fall.

There is also evidence of the links between income inequality and social unrest. In 2009, out of 82 countries with available information, more than three-quarters indicated that individual perceptions of quality of life and standard of living have declined. Moreover, the unemployment rate in these countries has risen by nearly 3 percentage points more than in the other countries. A follow-up examination of the determinants of social unrest in 2011 revealed that disposable income and unemployment are most strongly associated with the estimated risks of social unrest.[73]

Unbalanced income developments are also intrinsically linked to other issues, e.g. environmental sustainability[74]. In particular, inequality can express itself not only in terms of income and wealth but also through access to a clean and healthy environment (clean water, clean air, etc.). For instance, many countries have indicated their preference for green growth paths, however it is unclear the impact a transition to a green economy would have on income distribution that need to be taken into account.

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[72] Data are based on a survey covering 25,000 SMEs across the European Union and were released in connection with the "European SME week 2011", which took place on 3–9 October in 37 European countries. For more details see: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/4-03102011-AP/EN/4-03102011-AP-EN.PDF.

[73] IILS, 2011c.
[74] IILS, 2011b.

In short, the alleged benefits of wage moderation, notably more investment and high employment have not materialized. Importantly, the trend increase in income inequality is a key factor underlying the onset of the global crisis.

5.3 Income inequality: Links with global crisis

Not only has wage developments not produced the expected effects, income inequality in both developed and emerging economies, has affected economic growth by reducing consumption demand, through two mutually-reinforcing effects: debt-led demand in advanced economies and export-led growth in emerging countries.

In some advanced economies, income inequality caused a build-up of private debt. Those countries that have more inequality also had more increases in household debt as a percentage of household income. Under the dysfunction of financial systems, banks were in a position to provide credit to these households – even though, under prudent criteria, such loans would not have been provided.

In the case of emerging economies where the financial system was more tightly regulated, income inequality had a direct impact on weaker domestic demand. So it was crucial for economic growth in these countries to gain wider access to markets of advanced economies, especially those where domestic demand was especially dynamic. This is how the increasing inequality in emerging economies was transmitted into an increase emphasis on export-led growth.

For a while, the coexistence of debt-led growth in certain developed countries with export-led growth in large emerging economies seemed sustainable. The surpluses of the latter countries served to finance the deficits of debt-led countries. And the world economy was expanding fast. Between 2000 and 2007, excess demand in advanced economies taken as a whole represented billion 193 US$ per year, or 9.5 per cent of the average yearly increase in domestic demand (Table 3). In 2008, the year of the crisis, the figure reached 13 per cent.

Table 3 **From demand imbalances to global rebalancing**					
	1990-2000	**2000-07**	**2008**	**2009**	**2010**
Average annual increase in domestic demand (trillion US$)					
World	1.0	3.4	5.6	-3.3	5.0
Advanced economies	0.8	2.0	2.4	-2.7	1.7
Emerging & developing countries	0.2	1.3	3.2	-0.6	3.2
Average annual excess demand in advanced economies					
Billion US$	72.8	-193.0	-308.2	58.0	-6.3
% of domestic demand in advanced economies	8.9	-9.5	-13.0	2.1	-0.4
Average annual demand shortage in emerging & developing economies					
Billion US$	-72.8	193.0	308.2	-58.0	6.3
% of domestic demand in advanced economies	-38.8	14.7	9.6	-9.1	0.2

Source: Torres, 2010.

However, debt-led demand proved to be the Achilles' heel of the growth process. As US monetary authorities raised interest rates in 2006-07, the relatively small increase in borrowing costs which resulted from this measure was enough to provoke a cascade of failures in loan repayments. This quickly spread throughout the financial system as a result of both the complexity of financial products – which made it difficult to assess the degree of risk – and the close international connections between financial institutions.

The absence of social protection and the deregulation of international capital flows are just two of the main drivers of falling wage shares. As labour institutions have become weaker they have been unable to play an effective redistributive role. Greater coverage of collective bargaining agreements tend to be associated with lower inequality. And yet coverage rates are going down. The rising incidence of precarious and informal employment has also played a role in the trend increase in income inequality. Finally, tax policies have become less progressive and are therefore less able to redistribute the gains from economic growth – a trend which may partly reflect international tax competition to attract or retain high-income people. The resulting shortfall in tax revenues has been offset by rising indirect taxation, with typically regressive effects.

So altogether the recent global crisis has proved that neither the profit-led (debt-financed) growth model nor the export-led growth model are sustainable in the long run, as they fuel social and economic imbalances. In this context, a growing number of analysts are therefore increasingly turning towards wages and their role in rebalancing economic growth, by sustaining aggregate demand and labour productivity.[75] Recent evidence shows that a wage-led growth model (i.e. a model where wage growth leads to higher demand, leading in turn to higher productivity, higher investments, and hence to higher economic growth) appears to be more sustainable in the long run, as it increases the productive capacity of the economy.[76]

5.4 Policies to address excessive inequality: Ensuring a shared society

Well-designed labour market institutions

If labour market institutions are well designed, they permit the achievement of both equity and employment goals. In fact, labour market institutions are, in general, stronger in low inequality countries than in high inequality economies. More concretely, by strengthening labour market institutions policy makers could ensure that wages grow in line with productivity, starting in surplus economies.

Labour market institutions can also help with employment transitions. There is a lot more pressure from product markets, more international competition and, therefore, there is a greater tendency for workers to bear the brunt of adjustment. One way to reassure workers is to protect them from job loss through unemployment benefit schemes, well-resources public employment services and other labour market transitions. Indeed, strengthening such institutions can play a significant role in helping to facilitate employment adjustments and reinforce the adaptive capacity of workers.

In emerging and developing countries where such institutions and programmes are less developed well-designed social protection measures can help to attenuate shocks while improving labour market outcomes. Such is the case of the National Rural Employment Guarantee Act (NREGA) in India or the Expanded Public Works Programmes in South Africa.

[75] ILO, 2011.
[76] Shangeon, L., 2011.

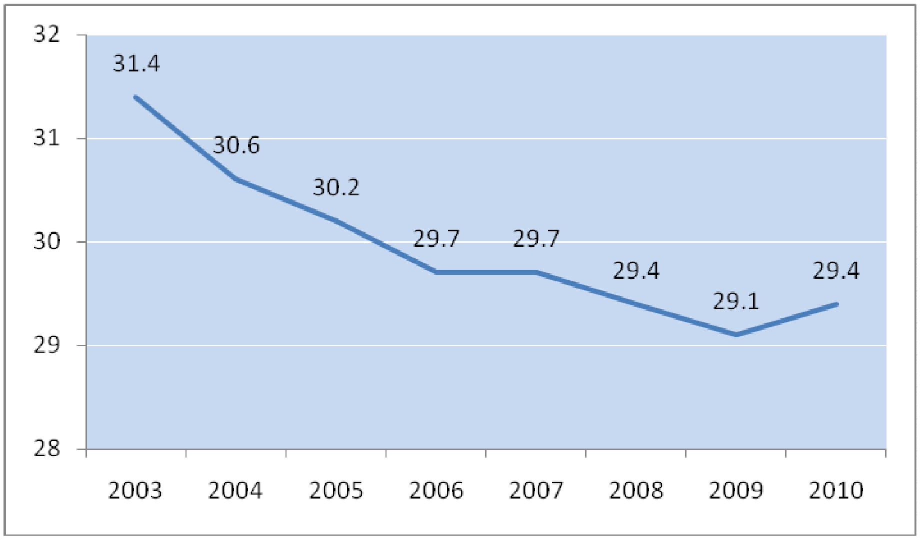
Finally, consideration could be given to a careful and coordinated increase in the minimum wage. Further efforts to implement core labour standards would also be helpful, especially in emerging and developing countries where gaps exist. Ratifying ILO core Conventions in all G20 countries would give a positive signal in this respect.

Role of progressive taxation

Over the past few decades both advanced and developing economies have shifted the tax structure towards less progressive systems. First, top personal income tax rates have declined globally from 31.4 per cent in 2003 to 29.1 per cent in 2009 (Figure 6).[77] Even as individual income tax revenues started to decline, the top tax rates were not increased. In the advanced economies, it has been shown that substantial revenues can be generated by relatively small tax increases for higher income groups (Atkinson et al., 2010) and such additional resources might be redistributed to or used to alleviate the tax burden on low income groups. Second, corporate tax rates have also declined from an average of 31.5 per cent in 2001 to 25 per cent in 2010. Some have argued that lower corporate tax rates are necessary to improve the business climate, improve competitiveness and attract foreign capital.[78] Other authors find that high taxation does not necessarily discourage foreign direct investment (FDI) – such as in Denmark where public infrastructure, access to new technology, a well-educated labour force and social and political stability play an important role.[79]

[77] Many governments decreased the top income tax rates due to the cyclical boom during the late 1990s and the subsequent improved budgetary positions leading into the 2000s (Hemmelgarn & Nicodeme, 2010).
[78] See, for example, Zodrow and Mieszkowski, 1986.
[79] Genschel and Schwarz, 2011.

Figure 6 **Top personal income tax rate – world average** (percentage)

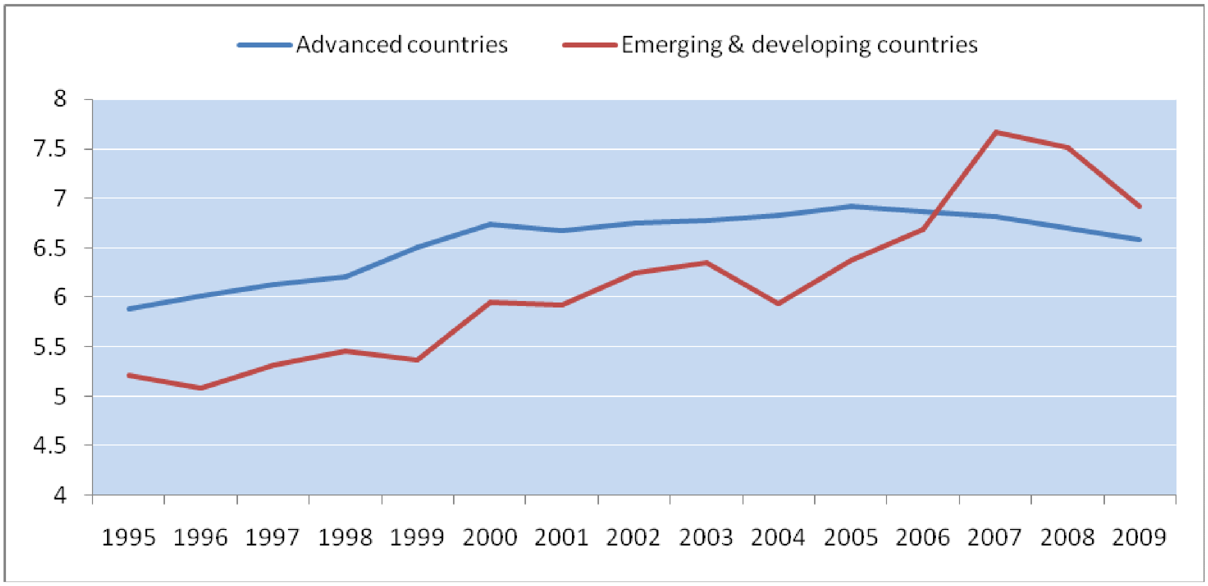


Source: KPMG (2010)

Third, value added tax (VAT) revenue has also been increasing in both advanced and emerging countries as a percentage of GDP (Figure 7). Since, VAT is normally passed on to the consumer through price increases, the poorest are often hit harder in terms of its incidence.[80] It represented 5.9 per cent of GDP in advanced countries in 1995, increasing to 6.9 per cent in 2007, but slightly decreasing to 6.5 per cent in 2009 as result of the financial crisis. The importance of VAT in generating government revenue is higher in emerging and developing countries (35 per cent of total tax revenues) than in advanced countries (26 per cent).[81] There have been attempts by some countries to deal with this regressivity by eliminating or lowering VAT rates on basic consumption items, which are generally consumed by the poor, while luxury items are surcharged (see Box 1).

[80] Viren, 2009.
[81] IILS, 2011c.

Figure 7 **VAT revenue** (percentage of GDP)



Source: IILS calculations based on IMF (2011) and OECD Statistics.

Box 1 A more progressive consumption tax: Lessons from Canada

Background

On 1 January 1991, Canada implemented the Goods and Services Tax (GST), a multi-stage tax similar to value added tax (VAT). The GST replaced the Manufacturers' Sales Tax (MST), a single-stage tax which had been criticized for its regressivity and for its "cascading" effect (items were taxed repeatedly as they moved from production to final retail sale) (Bird & Gendron, 2009). The GST is complemented by provincial consumption taxes. Initially, the GST rate was 7 per cent, but it was eventually reduced to 5 per cent in 2008. The combined tax rate varies from 5 per cent in the province of Alberta to 15 per cent in Nova Scotia. Despite its complexity, the Canadian GST presents the features of an innovative tax as it reduces the burden for low-income households.

"GST package"

In an attempt to increase the progressivity of the GST, the Canadian federal Government has included in the design of the consumption tax an exemption for certain items and implemented a refundable tax credit to compensate low-income households for the increase in prices of goods and services:

- The GST does not apply to basic groceries, health and medical care, education, day care, legal aid services, residential rents, financial services, municipal services and passenger ferries. This approach makes the GST more progressive because the tax exemption is targeted at products that represent a large share of low-income households' budgets.

- The Canadian Government has implemented a refundable tax credit, which is a quarterly payment that helps low- and lower middle-income households offset all or part of the GST that they pay. In other words, the Government pays eligible households a cash rebate for their GST, so that households at the subsistence income level pay no net consumption tax, but the rate of the rebate reduces as household income increases. (Auerbach & Hassett, 2005). In 2010, the GST credit was C$258 for an eligible adult and C$133 for each dependent child. To be eligible for the tax credit, net income should be below C$40,681 for a single person and C$48,401 for a family with two children. In addition to the federal GST credit, some provinces provide tax credits for their own consumption tax.

Distributional effect

By including the tax credits in the analysis, Grady (1990) demonstrated that the GST was progressive for families with incomes under C$35,000 per year and proportional for those with higher incomes. Those results were supported by a more recent study by Curtis et al. (2010), which showed that families with net incomes below C$30,000 ended up with tax credits that outweighed the increase in expenditure necessary to maintain their welfare level.

Thus, the tax credit has proved to be not only a good instrument to relieve the burden of indirect taxation for lower-income groups (especially when coupled with tax exemptions for necessary products), but also a redistributive tool.

Some other taxes such as wealth tax which impact more the richer groups might also be considered to restore progressivity. Yet, very few countries have wealth taxes. France, India, Norway and Switzerland have some form of a tax on wealth – however, it varies considerably between the countries. An even greater number of countries have all but abolished such taxes, including Austria, Denmark, Finland, Germany, Greece, Iceland, Italy and Sweden.[82] Also, higher income households receive in general more capitals gains. For instance, in the United States, "over half of the assets that can generate taxable capital gains are owned by the richest 5 per cent of households" (Hungerford, 2010). Instituting a capital gains tax (CGT) would hence make the tax system fairer and more progressive. Moreover, as mentioned financial transactions and gains have significantly increased over the last decades. The implementation of a financial transactions tax (FTT) and a financial activities tax (FAT) would help fight excessive short-term speculation in the stock and commodity markets and reduce gains linked to such venture.

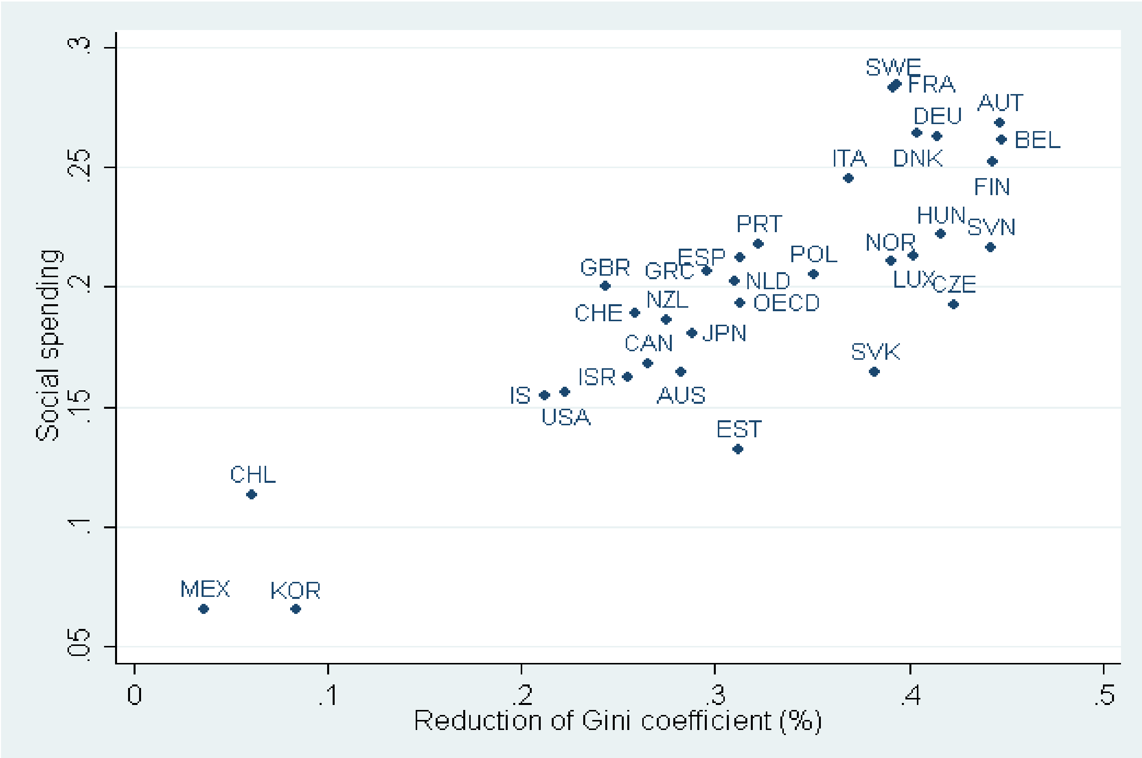
But here, the question is whether countries can do it in isolation. It is reasonable to argue that any tax reform will not achieve its potential unless tax compliance and regulation are strengthened and coordinated across countries. International cooperation and mandatory schemes remain essential for policies to be effective.

Limits of social spending

Policy makers must bear in mind the limitations of social transfers to reduce income inequality. Estimates by the International Institute for Labour Studies indicate that countries may need to spend 2.4 per cent of GDP in social programmes in order to reduce Gini by just one point (Figure 8). Indeed, reducing inequalities to 1980's levels would require additional spending by 5.4 per cent of GDP – in the case of the United States, additional spending would reach 8.5 per cent of GDP.

[82] Ristea and Trandafir, 2010.

Figure 8 **Social spending and income inequality**



Source: IILS estimates.

Furthermore, a much deeper phenomenon is whether this kind of distribution is conceived as a way to compensate for something that happens in the market and, therefore, the need of distribution will only increase as market inequalities continue to grow. Moreover, in the context of the current state of fiscal affairs, re-distributing through social spending in the present circumstances seems unlikely to occur.

Stimulating demand: Efforts to rebalance

A model developed in IILS (2010) analysed the employment effects of a set of policy measures and highlighted the importance of the right distribution of market incomes. While the effects of a 20 per cent nominal appreciation of the Chinese yuan vis-à-vis the US dollar are weak (the unemployment rate in China rises by more than 1.8 percentage points, and it remains broadly unchanged in the United States and other advanced economies), improved social security and higher wages in Asia would have important effects on global rebalancing and recovery (Table 4). A decrease in the net tax rate by 10 per cent together with a decrease in the propensity of wage earning households to save by 10 per cent and an increase in nominal wages by 10 per cent would have a positive impact on employment in all regions. At the same time, the model suggests that fiscal austerity measures tend to depress world growth. For instance, a cut in US deficit as a share of GDP by 2 percentage points, would increase the US unemployment rate by over 3 percentage points and would lead to a downturn in all the regions (unemployment rate in China would increase by 0.7 percentage points)

Table 4 **Changes in unemployment rates as a result of three policy options for rebalancing the world economy** (percentage points)

	United States	**China**
Yuan appreciation	-0.1	1.8
Asia rebalancing	-0.1	-1.4
Aggressive cut in US deficit	3.1	0.7

Source: IILS estimates (IILS, 2010).

Concluding Remarks

The trend increase in income inequalities leading up to the crisis highlight quite clearly that people did not have equal capacity to benefit and participate in economic growth – a key component to achieving a Shared Society. Moreover, rising income disparities explain in part the current financial turmoil and the increase in social unrest.

The policy approach to date to addressing the global financial and economic crisis has failed to address the source of these imbalances and, as such, have only delayed the recovery process. In some instances that have even exacerbated earlier inequities.

Rather, the current crisis should be taken as an opportunity to refocus efforts on equal opportunities and a fair distribution of the benefits of growth and globalization – in other words a more shared society. In other words, shared societies are likely to lead to better economic outcomes while addressing the growing discontent among the public. This will have positive spillover effects in the form of more stable employment and wage growth and less volatility in financial markets. Indeed, these issues are at the core of the ILO's Decent Work Agenda.

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Part II: Violence, Conflict and Shared Societies

Chapter 6

Violence Containment Industries in the United States, a theoretical taxonomy to conceptualise economic activity related to violence

Daniel Hyslop

6.1 Introduction

While the physical, emotional, and societal benefits that would flow from improvements in peace and social cohesion are often discussed, the potential economic benefits are overlooked in the broader mainstream economic debate. This is in spite of the fact it is well-established in the development economics literature that direct violence has a serious negative effect on both social and economic development, something which evidently holds true for both high income and low income countries. Importantly, this literature tends to focus on the costs of all-out interstate or civil war rather than on the different economic effects of interpersonal violence on a developed economy. Hence while there are many qualitative studies focused on the societal consequences of violence in cities and communities, and what can be done in terms of prevention[83], to date there have been no comprehensive studies to account for the total economic cost of violence.

In light of this particular gap in research, the Institute for Economics and Peace (IEP) has developed a methodology for categorising and accounting for the size of economic activity devoted to either inflicting, preventing, and dealing with the consequences of violence in the largest national economy – the United States. This spending is defined as 'violence containment spending' or the Violence Containment Industry (VCI). The definition of violence containment spending or VCI is *'public or private sector economic activity that either inflicts or prevents, responds to, and deals with the consequences of violence'*. This category of economic activity is significant because diverting economic resources to containing violence is costly, not only in static terms as a percentage of current income, but also in long-run, dynamic terms. Funds presently employed for containing violence over time could be invested to increase a society's

[83] For instance, *Violence in the City*, The World Bank (April 2011). Washington D.C.,

productivity-enhancing stock of human, physical, and social capital and create a larger economic pie.

In practical terms, violence creates significant direct costs for both businesses and governments; it reduces productivity, inhibits economic growth, reduces profits and holds back job creation. There are two types of economic gain associated with a reduction of violence and increase in peace: (1) the direct benefits associated with the absence of violence, such as reduced police, corrections, justice expenditure and medical costs, just to name a few, and (2) the indirect benefits generated by higher levels of trust, certainty, and freedom that flow from peaceful structures and institutions.

Higher rates of violent assault, robbery, and homicide increase direct costs for government and business. Much of the expenditure aimed at reducing violence is fundamentally unproductive, and if redirected toward productive pursuits it would improve government balance sheets, company profits and ultimately, the productivity and wellbeing of society. For government, more resources are required to respond to higher levels of crime through policing, incarceration, and judicial costs. For business, higher levels of violence results in additional private security, higher insurance premiums, and greater risk. Many businesses have large overheads hiring private security guards, installing and maintaining surveillance equipment, and repairing damaged property, let alone the lost productivity from senior management spending time managing complex security procedures. These are just the direct costs, which do not include lost time, higher transaction costs of doing business and lower levels of trust and confidence engendered by higher levels of violence.

Quantifying the size of the Violence Containment Industry is an important first step in enabling a deeper understanding of the interactions between investments in activities that reduce violence and their potential economic flow-on effects. While it may be necessary, the purchase of security comes at the expense of investment in other potentially productivity-enhancing assets. In this sense, this chapter views the provision of public or private security entirely on the grounds of economic efficiency for a social system as a whole. In this, the private security sector has an important and entirely legitimate role to play, especially as it tends to focus more on before-the-fact prevention than on response and after-the-fact consequences. Hypothetically speaking, too little public sector security provision may be suboptimal as opportunities for misbehavior arise, while too much provision of private sector security is suboptimal as it may result in diversion of resources from more productive investment.

Undoubtedly, a society that manages to create and maintain social contract norms that regulate behaviour in cooperative and in mutually trustful, respectful, and peaceful ways gains advantages that permit it to run more optimal levels of violence containment spending and in turn increase its long-run standard of living through enhanced productivity. Therefore, there are important economic benefits that derive from a culture of trust, reputation, and peace. This is supported by the Valenti and Giovannoni contribution to this volume the *Economics of Inclusion*[84] which describes the importance of trust, social cohesion, fractionalization, and strength of institutions to economic growth and output. Using violence as one important proxy measure for understanding the economic benefits of inclusion is also reaffirmed in this context as, 'the economic literature [on inclusion] is limited and scattered…does not fall into a precise area of economic research such as money and banking, international trade or any other JEL classification.'[85]

The key question for researchers and policymakers is: how can a society spend the optimal amount to contain violence while cost effectively investing in future violence reductions? Here, there is an important point to be made regarding potential trade-offs between long term social investments that help reduce violence and short term violence containment. For instance, work on the United States Peace Index (USPI)[86], which measures the peacefulness of the U.S. states, finds several statistically significant social and economic correlates with peacefulness across the county. The USPI generates state scores from five indicators of peace, and provides data which show that peace is highly correlated with educational opportunity and attainment, access to health care, and economic opportunity. By understanding the social and economic drivers of violence, policymakers can better understand the costs and benefits of particular social and economic investment programs. By directing resources to addressing the root causes of violence, and away from short term violence containment spending, it is more possible to make long term strides towards creating a virtuous cycle of peace and economic prosperity.

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[84] [84] Valenti, M. A. and O. Giovannoni Chapter 2 *"The Economics of Inclusion: Building an Argument for a Shared Society."*

[85] ibid

[86] United States Peace Index (2012) Institute for Economics and Peace URL: http://www.visionofhumanity.org/wp-content/uploads/2012/04/2012-United-States-Peace-Index-Report.pdf

This becomes more critical in the context of government budgetary constraints, as the cost of police wages, capital costs for jails and the ongoing burden of incarceration necessitates a relative decline in spending in other areas. Under these conditions, programs that alleviate the need to contain violence become more economically viable over the medium to long term. Most, if not all violence alleviating programs have important spin-off effects, such as education which improves human capital while if appropriately targeted, also contributes to reduced recidivism rates. Hypothetically speaking this in turn helps to reduce policing, judiciary, and incarceration costs, as well as adding to the labor market and increasing the government's taxation receipts.

This approach stems from the emerging conceptual paradigm of peace economics which aims to make a critical distinction between productive and unproductive forms of production. The theoretical basis of this approach sees the purpose of economic study as premised on the need to understand the design of political, economic, and cultural institutions, their interrelations, and to then uncover policies to prevent, mitigate, or resolve any type of latent or actual destructive conflict within and between societies.'[87] This is predicated on a goal to 'design institutions and policies that prevent, mitigate or resolve actual and potential destruction by influencing the choice of behaviour of individuals in favour of peace-creating habits.'[88]

6.2 Peace and the *Shared Societies* agenda

Peace, like the concept of Club de Madrid's *shared societies* is composed of mutually reinforcing factors: the absence of violence and the presence of particular cultural, economic, and political structures and institutions. Many of the institutions which support peace imply the same normative goals as the shared societies agenda of creating a society 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."* This normative scheme implies there are a particular set of formal and informal institutions desirable in all societies and further, that they are a critical economic necessity in order to underpin the sustainability of society.

[87] Brauer, J and Caruso, R, (2011) *Peace economists and peace economics* Munich Personal RePEc Archive (Nov)
[88] Ibid.

Johan Galtung's conceptualisation of peace in its negative and positive forms provides a framework to order how these different social needs can be prioritised. Negative peace is the 'absence of violence' and positive peace can be broadly understood as 'cooperation for mutual and equal benefit, where individuals and society are in harmony'.[89] According to Galtung, while it is possible to have *some* positive peace without negative peace, it is unlikely to last long, and it cannot be substituted for negative peace.[90] Negative peace is thus seen as a key pre-requisite for a culture of positive peace to develop and flourish. In this basic framework, improving negative peace or reducing direct violence is a guiding first principle to establishing viable and sustainable institutions that will resolve conflict and facilitate cooperation and mutual benefit. In the sociological sense, the absence of violence is a 'thick' public good which is both the producer and product of forms of trust which is a critical pre-requisite to democratic communities.[91] It is self-evident to many that societies composed of individuals living objectively and subjectively in a state of fear are not likely to make good citizens. Fearful or anxious environments facilitate behaviours where individuals may become 'inattentive, unconcerned, or even enthusiasts for the erosion of basic freedoms, lacking sympathy towards others'.[92] This is one important dimension which underpins the importance of peace to notions of inclusion and the overarching *shared societies* agenda.

Furthermore, peace and *shared societies* are similar conceptual forms in that they are multidimensional and cannot be represented or embodied in any 'one factor', meaning that by nature, they have different cultural, economic, political and economic forms. Casual empiricism strongly suggests how the key indicators of negative peace or direct violence provide, in many ways, a 'roadmap' for the *shared societies* agenda, as in many instances, countries which are low in peace and vulnerable to conflict tend to have less social cohesion, less compliance with international human rights, greater inequality, less civic activism and poor governance. Conversely, countries with these factors present, tend to be more peaceful (i.e. have less direct violence) and in turn appear to have the institutional capacity and resilience to deal with external

[89] Galtung , J. (2012) *Insight on Conflict*. Interviewed by Ben Baruch [in person] London, March 12 .
[90] Ibid.
[91]Loader, I. Walker, N (2007) Civilizing Security, Cambridge University Press London. Page 8
[92] Ibid.

social, political, economic and environmental shocks.[93] Given the conceptual and data limitations to measure the *quality* of inclusion and to assess counterfactuals, the strong statistical association[94] suggested by cross country data between peaceful environments and relatively more cohesive and inclusive environments suggests levels of negative peace is a useful proxy for capturing quantity and quality of the aspects of a shared society.

6.3 Methodology for counting the yearly current cost of violence

Violence is defined as the threat or use of intentional physical force or power, threatened or actual, against another person, group or community. Table one provides a number of examples of the types of expenditures or activities included in violence containment.

Table 1: Examples of the violence containment industry

Public Sector (federal, state, and local level):

- *National security and defense:* military, counterinsurgency, counterterrorism, transportation security, air transport security, maritime security, border control, etc.
- *Law enforcement and intelligence agencies:* FBI, CIA, ATF, DEA, etc.
- Prison system including federal and state penitentiaries and local jails

Private Sector

- *Household, Personal and Corporate - capital costs:* locks, alarms, fences, guards, metal detectors, vehicle security, victims shelters, patrol services, controlled access systems, private investigators, etc.
- *Security services:* Estimated size of private sector spending includes private security officers, cyber security market, self-defense industry, private security guard and schools protection, etc.
- *Consequences of violence:* legal costs, compensatory and punitive payments, medical and counseling costs, repairs, remediation, restorations, non-profit sector committed to violence containment, insurance premiums and payouts

Public sector spending includes government expenditures, at the federal, state, and local (county or municipal) levels. At the federal level, the most obvious component is the U.S. armed force or military expenditure in general. This includes the current cost of the Afghan and Iraq wars, U.S. bases and troop deployments, ongoing military-nuclear activity, the military use of outer space, the intelligence agencies, arms procurement, military-aid to foreign powers, virtually all of homeland security, veterans' affairs, and more. Because the U.S. federal government budget is usually in deficit, the shortfall must be debt-financed. Thus, in proportion to the violence containment industry's contribution to the

[93] The empirical evidence for this is supported in IEP research brief, Structures of Peace URL: http://economicsandpeace.org/research/understanding-peace/structures-of-peace

[94] See Appendix A for list of correlations between measures of intergroup social cohesion, civic activism and gender equality with peace as measured by the Global Peace Index.

federal debt, a portion of the interest paid should be counted as a legacy cost coming due in the present budget year.[95]

Law enforcement, as commonly understood, includes police protection, judicial and public sector legal expenses, and correctional facilities at the federal, state, and local levels. 'Corrections' refers to the cost of operating prisons and jails, even if contracted out to the private sector prison industry, and the cost of dealing with parole and probation. In addition, security-related expenditures for labor, services and equipment associated with infrastructure and events such as municipal airports, public schools and universities and publicly sponsored or supported events.

As to the private sector, one must count the vast private security sector in terms of seemingly mundane economic activities in private households and businesses, such as security fences, deadbolt locks, building and car alarms, security guards, insurance premiums paid to insure against loss of life, limb, or property, and so on. This also include the employment of private security guards, estimated by the Small Arms Survey 2011, as employing some 2 million people in the United States and between 20-25 million people worldwide. This compares to approximately 11 million police personnel worldwide with 883,600 being employed in the United States in 2007.[96] In addition, there are the security costs at passenger and commercial transportation hubs, which, in the U.S., are mostly privately owned and operated. There are also the private sector legal costs associated with violence against property or persons. While mostly captured in the legal services industry, these costs are also partly captured by large corporations' internal legal departments, making them difficult to count and therefore have not been included in this study. Additionally, there are the costs imposed on the health, medical, and rehabilitation sectors which are associated with violence.

The private sector also covers arms producers, both of major conventional weapons and weapons of mass destruction. When weaponry is manufactured for and sold to the U.S. Department of Defense (DoD), this is captured in the federal government budget. Small arms such as bladed

[95] The interest portion is calculated by taking the proportion of related defense and military expenditure (including homeland security and Veterans Affairs) as a percentage of NIPA Federal Government Consumption and Gross Investment Expenditure. The resulting percentage is applied to the net interest payments.
[96] Small Arms Survey, 2011, chapter 4, Table 4.1 (p. 106).

weapons, handguns, long-guns and ammunition are also included in the cost accounting, but these are very minor parts of the final figure.

Defining cost

The method adopted for the study in this chapter is to total expenditures related to violence containment in the 2009-10 financial year. Importantly, this includes expenditures on present operations and legacy costs[97] that fall due in the current year due to violence or past security-related events. For example, the medical treatment of a U.S. soldier permanently injured during an army exercise in the former West Germany imposes a burden on the U.S. health care system today. Likewise, debt incurred to finance past military budgets creates interest payments for the current year. This study pursues current expenditures as the method for totalling the costs of violence containment.

In practice, neither private nor public accounting systems are set up to make the necessary differentiations for many items and the lines of distinction may not be easy to define. To identify the VCI there is a need to bring together several levels of spending that have not been previously combined. Two rules that have been consistently applied to the data collection are consistency and comprehensiveness.[98]

Working with GDP and issues counting real value-added

Gross domestic product, or GDP, is conventionally defined as the market value of all final goods and services produced within a country during a year's time. Three equivalent approaches may be used to compute this value. The first is to add up final expenditure streams of consumers, business investment, including inventory investment and residential housing, and the government sector at the federal, state, and local levels. Considering the formula GDP = C+I+G+(X-M), methodologically, the government part (G) is the easiest to deal with because all government spending at the federal, state, and local levels are deemed to be final expenditures. In terms of investment (I), numbers would be required for the violence containment-related investments, such as security equipment, for all business enterprises. The U.S. Bureau of the Census does

[97] Legacy costs are costs incurred today for purchases made in the past. These may be the cost of pensions for labor purchased in the past, or debt service payments made today for prior loans.
[98] Bozzoli, Brück, and Sottsas (2010).

conduct an annual capital expenditures survey, however, the information cannot be used as no detail on the precise nature and purpose of the investment is available. Investment information would, at any rate, provide no detail on other inputs such as security guard services into the production process.

In terms of consumption (C), the U.S. Bureau of the Census conducts periodic consumer expenditure surveys for the U.S. Bureau of Labor Statistics (BLS) and is "the only Federal survey to provide information on the complete range of consumers' expenditures and incomes."[99] However, under the current survey questionnaire, none of the items are even remotely suitable to extract violence containment-related items. For example, surveyed consumers report expenditures under the housing category in subdivisions for (1) shelter, (2) utilities, fuel, and public services, (3) housekeeping supplies, and (4) household furnishings and equipment. None of the subcategories can be used to extract violence containment components such as security door and window locks or alarm systems. For purposes of the National Income and Products Accounts (NIPA), the information is reclassified into personal consumption expenditures (PCE) in terms of goods and services, as well as into "major functions" which closely mirror the BLS categories. Mere reformatting of the underlying information of course does not yield details on violence containment. In terms of exports and imports, major conventional and small arms as well as security services need to be counted. Counter-intuitively, arms imports are excluded; although trade in arms certainly is part of violence containment, in terms of GDP this is an expenditure executed in another country's jurisdiction.

Another method for computing GDP is to add up the income streams that the expenditures generate. In the United States, this is done as compensation for employees, proprietors' income, rental income, corporate profits, and net interest earned, with adjustments for taxes paid and subsidies received. Again, it is not feasible to estimate the violence containment portion of GDP this way as income is not directly reported by activity. Yet another method is to sum each sectors' value added. *Gross value added* (or net output) is calculated by subtracting intermediate inputs from gross output. Further subtracting fixed capital consumption (depreciation charges) yields *net value added* (the sum of gross wages, pre-tax profits net of depreciation, and indirect

[99] Bureau of Labor Statistics, United States Government URL: <http://www.bls.gov/cex/>

taxes less subsidies). Once again, national statistics are not kept at a level of detail that would permit one to extract violence containment-related expenditures.

For the non-government line items, counting is more ambiguous for which double counting problems arise. The reliance on revenue data precludes one from being able to 100% accurately express value added figures for the private sector. Because of the nature of accounting mechanisms, it is unlikely one would ever be able to derive the 100% correct figure, approximations such as this one is the best available method. Hence, the resulting numbers for the private sector can only be expressed as indicative percentages of GDP. If a full and accurate accounting of the value-added contribution of the private violence containment industry were possible, it is reasonable to assume it would result in some subtractions, many additions, and a final net figure likely higher that what is estimated here.

6.4 Findings

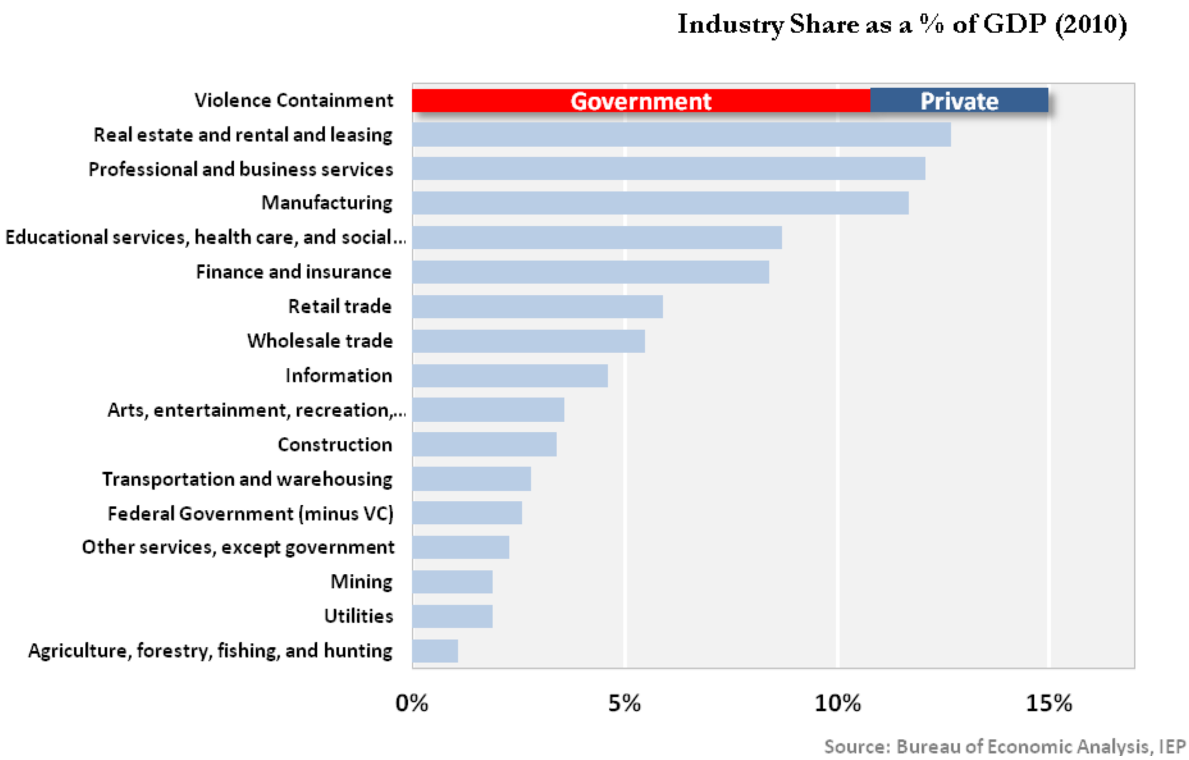
Table two summarises the expenditures associated with the Violence Containment Industry. It is estimated that the private and public sectors together spend approximately 15% of GDP, or $7,000 per person on violence containment. This could be alternately expressed as $15,000 for every taxpayer or 1 out of every 7 dollars in the U.S. economy. The major component of accounted expenditure is related to public sector spending which is 10.8% of GDP. This compares to 4.2% of GDP for private sector spending.

Table 2: Summary breakdown of the Violence Containment Industry

Public Sector	**US$ (bn)**	**% of GDP**
National Defense, Veteran Affairs, Homeland Security, and debt service	1,203.00	8.33%
Police, Justice & Legal, Corrections (PJC) (not incl. local gov.)	130.8	0.91%
Total Other Public Sector Spending (incl. local gov.)	226.51	1.57%
Total Public Sector	***1,560.31***	***10.80%***
Private Sector	**US$ (bn)**	**% of GDP**
Household, Personal and Corporate - capital costs		
Household Security Market and Spending (locks, car alarms, safes, biometrics)	15.19	0.11%
Security services market		
Estimated size of private sector spending on private security services	87.4	0.61%
Cyber Security Market	130	0.90%
Security Sector Training companies	11	0.08%
Consequences of Violence		
Victim Compensation Programs	0.47	0.003%
Property loss from intentionally set fires	0.79	0.01%
Mental Health Care and Welfare Services for Children of abuse	27.81	0.19%
Private legal (e.g., in-house corp. counsel)	25	0.17%
Medical Costs of Violent Crime (Upper)	24.81	0.17%
Repair/restoration - Vandalism	48	0.33%
Non-profit sector - Violence containment related	82.1	0.57%
Insurance (net premiums written - assumed VCI component 25%)	106.55	0.74%
Private Defense		
Defense Exports	37.2	0.26%
Small Arms Manufacturing (non-military)	5	0.04%
Ammunition Sales	0.5	0.003%
Total Private Sector	***601.82***	***4.17%***
Total, Public and Private	**$ 2.162 Trillion**	**15.0% of U.S. GDP**
Per Household	**$18,830**	
Per Taxpayer	**$15,004**	
Per person, per year	**$7,003**	

As shown in figure one, if all US$2.16 trillion of violence containment spending were represented as a discrete industry, it would be the largest industry in the United States economy, larger than government, real estate, professional services or manufacturing.[100]

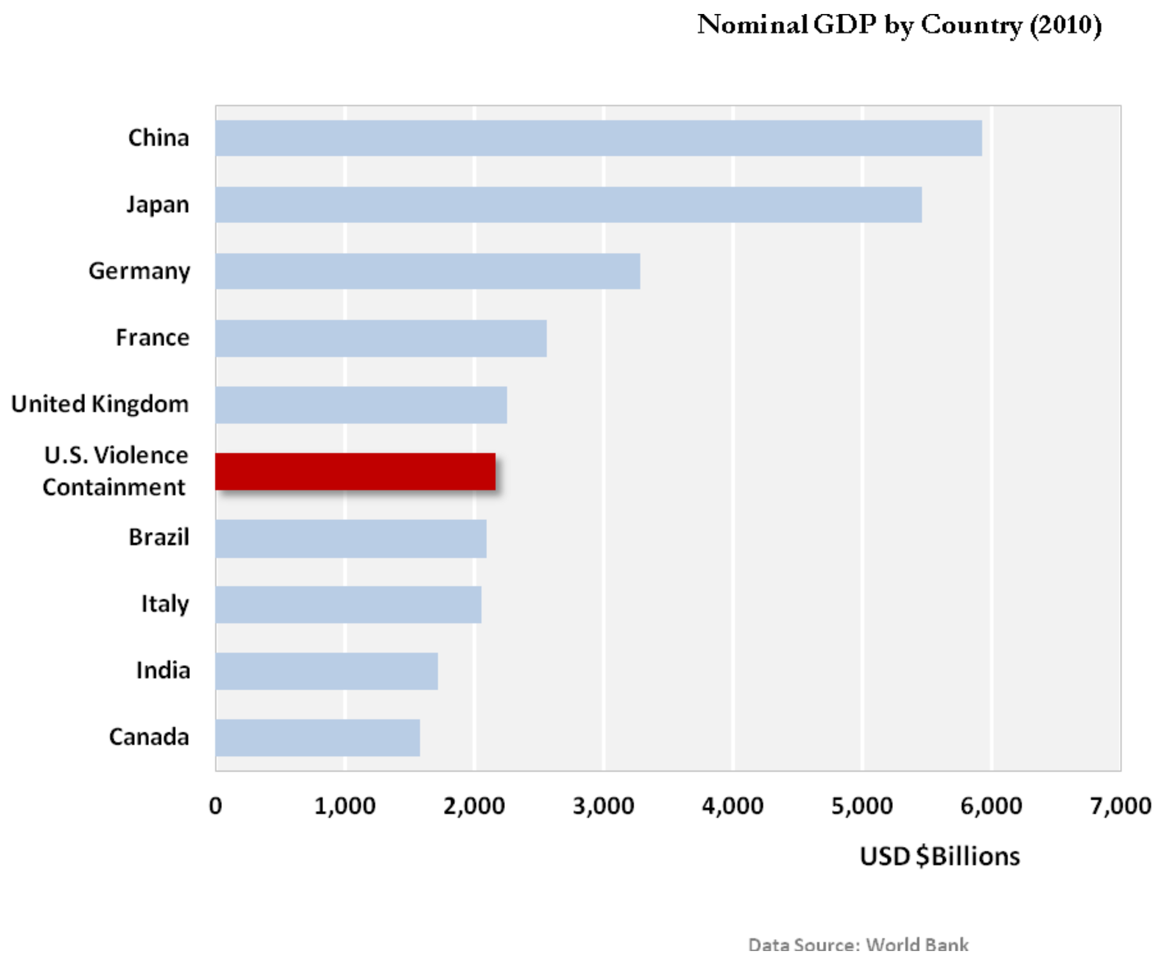
Figure 1: If Violence Containment spending was represented as a discrete industry, it would be the largest in the U.S. economy.



The enormous comparative size of this spending is shown when comparing the US$2.16 trillion of violence containment spending to the world's largest economies, as shown in figure two. In nominal terms, U.S. violence containment spending is the size of the sixth largest economy in the world, marginally smaller than the United Kingdom and larger than Brazil.

[100] Because of the issues associated with calculating the percentage of private sector spending that is value added, this part of VCI cannot be reasonably assumed to be completely 100 per cent value added. Counting of non-value added activity in the final figure is somewhat compensated due to the likelihood various categories of private VCI spending is left out because of accounting difficulties.

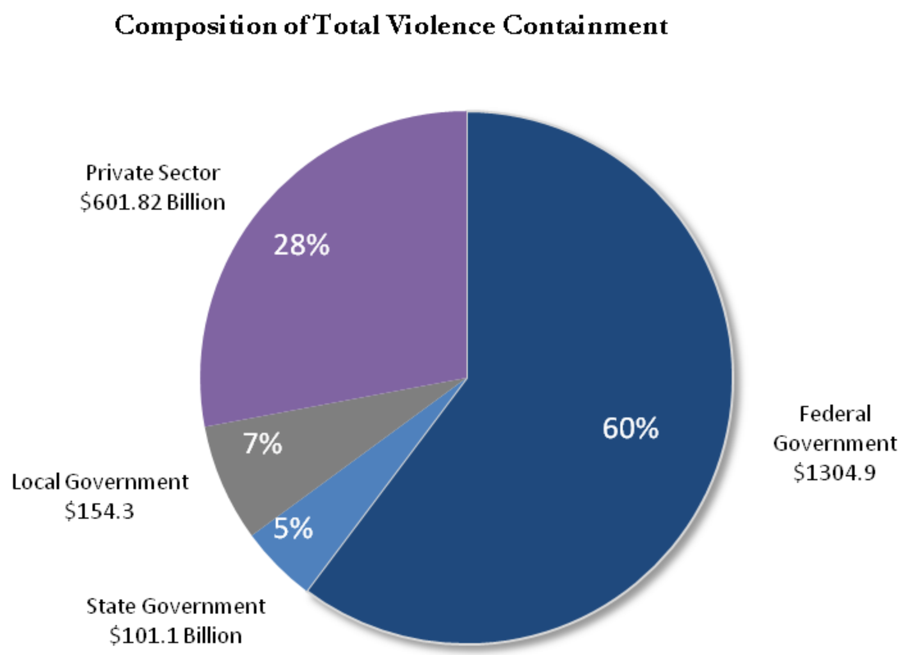
Figure 2: Taking out the U.S., violence containment spending would represent the 6th largest GDP in the world in 2010



Without conducted an analysis of the size of the violence containment spending in other countries it is difficult to assess independently how the U.S., fares compared to other countries. Given the size of its defense and associated homeland security spending, the final size of the VCI is likely higher than other developed nations.

In terms of the composition of violence containment spending, the majority, 60% is borne by Federal government, with the next largest share spent by the private sector at approximately 28%. While the state and local government amounts are comparatively smaller, they still represent very large sources of spending at $101billion and $154 billion respectively. This is shown in figure three.

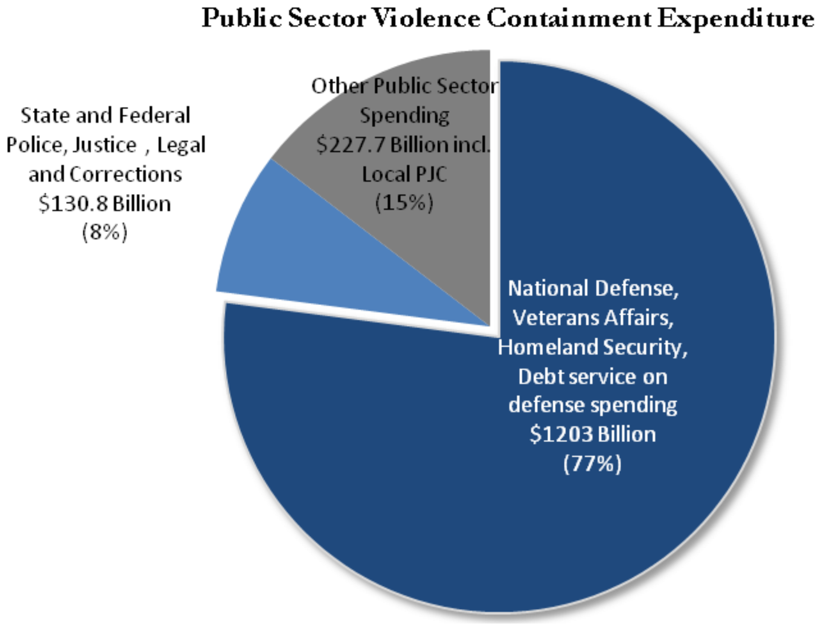
Figure 3: The Majority of Violence Containment Spending in the U.S. is by Federal Government



Public Sector Composition of Violence Containment

As has been shown, the majority of violence containment spending is by government, some US$1.56 trillion in total. This is equivalent to 10.6% of GDP or 72% of total violence containment spending compared to 28% for the private sector. Within the public sector, the great majority of this, 77% or US $1,203 billion is apportioned to the federal government's spending on national defense, Veteran Affairs, Homeland Security and debt repayment on military related debt.

Figure 4: National defense, veteran affairs, homeland security and interest on military related debt dominate public sector violence containment spending



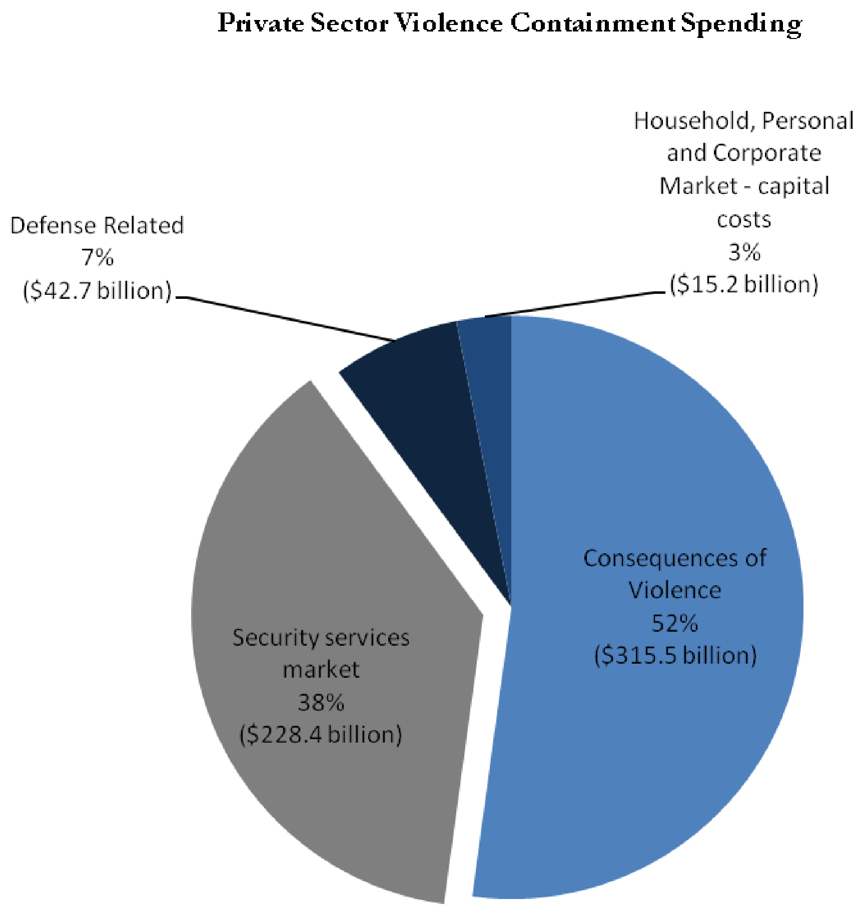
Private Sector Composition of Violence Containment

The private sector violence containment figures include private security and private military companies, the major conventional arms and small arms and ammunition industries, victim compensation programs, property loss from violence and vandalism, spending on cyber security and the insurance, legal, medical, and non-profit sectors dealing with violence containment.

Private sector spending on violence containment has been broken into four main categories of expenditure:

- Household, personal and corporate spending on capital equipment for security
- General private sector spending on security services.
- Spending on the repercussions or consequences of violence.
- Spending and revenue of private defense and small arms companies.

Figure 5: Composition of private sector spending – the majority of private sector spending is on dealing with the consequences of violence



6.5 Hypothetical reduction of Violence Containment

Given that violence containment spending totals 15% of the U.S. economy, the opportunity cost and economic implications of reductions in violence are potentially very significant. Table 3 shows the very substantial amount of money that would hypothetically be available to be utilised on other forms of economic production. This illustrates very clearly the enormous fiscal and economic benefits of reducing violence. It can be seen that a 25% reduction in violence containment spending would result in $390 billion of funds being available to local, state and federal governments for redirection into other potentially more productive areas. Additionally, $150 billion would be available for the private sector.

Table 3: Total additional public funds and private sector money from reductions in violence containment

% Reduction	% of 2010 GDP	Additional Money in the economy (Bn)	Additional Public Funds for Local, State and Federal government (Bn)	Approximate money the Private sector could direct into other expenditure (Bn)
No reduction	15.0%			
5% reduction	14.2%	108.26	78.0	30.2
10% reduction	13.5%	216.53	156.1	60.5
15% reduction	12.7%	324.79	234.1	90.7
20% reduction	12.0%	433.06	312.1	120.9
25% reduction	11.2%	541.32	390.2	151.1
30% reduction	10.5%	649.58	468.2	181.4
35% reduction	9.7%	757.85	546.3	211.6
40% reduction	9.0%	866.11	624.3	241.8
45% reduction	8.2%	974.38	702.3	272.1
50% reduction	7.5%	1082.64	780.4	302.3
55% reduction	6.7%	1190.90	858.4	332.5

Because the public sector accounts for the great majority of the total violence containment spend at 72%, it is useful to estimate the impact of possible reductions in this expenditure. The public sector spend is dominated by federal spending[101] which in 2010 calculated the violence containment expenditure at US$1,304 billion in total, or approximately 9% of GDP.

Federal violence containment expenditure has experienced very large increases in the past ten years, increasing by 25% in real terms. The increase from 12.8% of GDP in 2001 to 15% in 2010, while seemingly small, is in fact very large when considering it is equivalent to almost $300 billion of value added 2010 dollars, or greater than the US$288 billion of tax cuts contained in the American Recovery and Reinvestment Act of 2009.

Table three demonstrates that if military expenditure had remained the same as it was in real 2001 levels, the federal government would today be able to save approximately US$326 billion which could be used on other social investments, to reduce debt, or provide tax cuts to stimulate the economy. By illustrating the size of these savings, even small redirections of expenditure could have a meaningful flow on effect. The growth in this expenditure highlights the growing constraint that violence containment has had on economic productivity.

[101] Federal Government spending is composed of National Defense spending (including the Department of Defense), Veteran Affairs, Homeland Security, Interest payments on national defense debt, federal police, justice, corrections and the Central Intelligence Agency (CIA).

Table 4: What if just Federal Government Violence Containment Spending was lower?

% Reduction in Federal VCI	Expenditure US$ (Bn)	% of 2010 GDP*	Federal Government Savings (Bn)
No reduction	1304.90	9.0%	
5% reduction	1239.66	8.6%	65.25
10% reduction	1174.41	8.1%	130.49
15% reduction	1109.17	7.7%	195.74
20% reduction	1043.92	7.2%	260.98
25% reduction close to 2001 levels[102]	978.68	6.8%	326.23
30% reduction	913.43	6.3%	391.47
35% reduction	848.19	5.9%	456.72
40% reduction	782.94	5.4%	521.96
45% reduction	717.70	5.0%	587.21
50% reduction	652.45	4.5%	652.45
55% reduction	587.21	4.1%	717.70

**GDP Figures from OECD*

6.6 Conclusion

This chapter has outlined a conservative and indicative analysis of the size of private and public sector spending on violence containment in the United States. This has found that violence containment spending in the U.S. is in the region of 15% of GDP or US$2.16 trillion. This is slightly smaller than the UK economy, and over $7000 for every man, women and child, or approximately $15,000 for every American taxpayer. The opportunity cost of this spending is potentially very significant. For instance, if the federal government's violence containment spending was reduced by 25% to the same level as it was in 2001 and the remaining funds channelled into national infrastructure investment, then the total funding requirements for rebuilding levees, inland waterways, school infrastructure, roads and mass transit systems would

[102] In 2001, these components of spending were in the region of US$644 (in 2001 dollars) or 6.27% of 2001 GDP.

be extinguished in five years.[103] Similar comparisons can be made to channelling funds into education or health which have more positive effects in developing human capital and are associated with policy outcomes that are positively correlated with key indicators of the *shared societies* agenda. This demonstrates that small reductions in federal violence containment spending, if appropriately redirected, can potentially reap notable benefits.

The $2.16 trillion spent on violence containment represents a large portion of the United States' economic activity. Economic resources dedicated to violence and violence containment is costly, not only in static terms as a percentage of current income, but also because of the lost future growth from investments in more productive activities. Just as we would look critically at other forms of government spending or the composition of spending on a company's balance sheet, violence containment spending can, and should, be analysed for its efficiency and effectiveness. Better accounting standards to accrue for violence containment would allow governments and policymakers to focus on the most cost effective economic and social programs that reduce violence. By reducing the quantum of public funding spent on containing violence, the surplus generated from these savings can be reinvested in the community or handed back to the taxpayer.

While the U.S. has become more peaceful in the last twenty years, international comparisons show that in many measurable categories of violence the U.S. lags behind most other developed nations. The sheer size of spending on violence containment very clearly illustrates the enormous economic and social opportunities associated with peace. In recognizing the larger concept of violence containment, it is clear the discussion must be broadened in order to know the full toll that violence takes on the economy, and to therefore understand the true value of actively pursuing peace.

If policymakers clearly understood the economic burden of non-productive violence containment spending in the United States then the stage would be set for a new era of long-term structural economic and societal reform. This would improve the productivity and competitiveness of the nation as well as improving well-being, social cohesion, and many other factors that are vital for human potential to flourish.

[103] Estimated fund required to rebuild levees, inland waterways, school infrastructure, roads and mass transit systems is taken from the American Society of Civil Engineers. URL: http://www.infrastructurereportcard.org/

Appendix A – Selected indicators of shared societies correlate with indicators of the GPI

This demonstrates the empirical association between the Indices for Social Development which provide composite measures of civic activism, intergroup cohesion, interpersonal safety and trust and clubs and associations and the Global Peace Index indicators. Correlations are with 2011 GPI data of 153 countries.

	ISD - Civic Activism	ISD - Clubs and Associations	ISD - Intergroup Cohesion	ISD - Interpersonal Safety and Trust	ISD - Gender Equality	Club de Madrid Shared Societies Index
Global Peace Index Score	**-0.62**	0.08	**-0.8**	**-0.51**	**-0.53**	**-0.75**
Global Peace Index Rank	**-0.63**	0.12	**-0.75**	**-0.51**	**-0.52**	**-0.74**
Internal Peace Score	**-0.67**	0.11	**-0.79**	**-0.67**	**-0.58**	**-0.77**
External Peace Score	-0.09	-0.05	-0.36	0.24	-0.09	-0.23
Perceptions of criminality in society	-0.44	0.07	**-0.58**	**-0.62**	-0.31	**-0.53**
Number of internal security officers and police 100,000 people	-0.09	-0.29	0.02	0.04	-0.05	-0.1
Number of homicides per 100,000 people	-0.46	0.17	-0.4	**-0.76**	-0.28	-0.49
Number of jailed population per 100,000 people	-0.02	-0.17	0.14	-0.02	0.32	0.09
Ease of access to weapons of minor destruction	**-0.55**	0.15	**-0.53**	**-0.61**	-0.42	**-0.54**
Level of organised conflict (internal)	**-0.55**	0.1	**-0.69**	-0.41	**-0.52**	**-0.62**
Likelihood of violent demonstrations	**-0.54**	0	**-0.66**	-0.47	-0.48	**-0.6**
Level of violent crime	-0.49	0.2	**-0.53**	**-0.65**	-0.37	**-0.55**
Political instability	**-0.71**	-0.05	**-0.55**	-0.3	**-0.62**	**-0.69**
Respect for human rights	**-0.58**	0.12	**-0.69**	-0.48	**-0.52**	**-0.65**
Volume of transfers of major conventional weapons, as recipient (Imports) per 100,000 people	0.22	0.05	0.1	0.3	0.02	0.18
Potential for terrorist acts	-0.27	0.22	**-0.71**	-0.08	**-0.52**	-0.44
Number of deaths from organised conflict (internal)	-0.19	0.11	**-0.75**	-0.22	-0.4	-0.47
Military expenditure as a percentage of GDP	-0.25	0.02	-0.17	0.19	-0.2	-0.25

Number of armed services personnel per 100,000 people	-0.14	0.04	-0.12	0.15	-0.01	-0.12
UN Funding	-0.29	0.08	-0.16	-0.19	-0.18	-0.23
Aggregate number of heavy weapons per 100,000 people	0.12	-0.22	0.15	0.4	0.14	0.14
Volume of transfers of major conventional weapons as supplier (exports) per 100,000 people	0.42	0.08	0.13	0.19	0.31	0.43
Military capability/sophistication	0.39	0.01	0.06	0.36	0.12	0.26
Number of displaced people as a percentage of the population	-0.14	-0.06	-0.49	-0.13	-0.19	-0.32
Relations with neighbouring countries	**-0.52**	-0.07	-0.41	-0.03	-0.33	**-0.53**
Number of external and internal conflicts fought	0.09	-0.01	-0.21	0.17	0.05	-0.06
Estimated number of deaths from organised conflict (external)	0.26	0.12	-0.02	0.11	0.12	0.25

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Chapter 7
Shared Societies and Armed Conflict: Costs, Inequality and the Benefits of Peace

Patricia Justino

7.1 Introduction

Processes of conflict and violence are central to how shared societies are built and sustained.[104] Very few countries in the world have implemented systems of justice, equality and democracy without some amount of bloodshed. At the same time, violence and conflict threaten the principles and values underlying the concept of shared societies. Today, 1.5 billion people are affected by armed conflict. Conflict-affected countries contain one-third of those living in extreme poverty, and are responsible for over half of all child mortality in the world (World Bank 2011). Kaldor (1999) and Kaplan (2000) have famously discussed the wave of new brutal civil wars that have erupted after the Cold War. The view that modern civil wars are more brutal and senseless than ever before has been contested (Kalyvas 2001), while the incidence of internal armed conflict has decreased in recent years (Themner and Wallensteen 2011). However, the legacy of violence persists in many countries, affecting the sustainability of global development, international peace and democracy-building processes worldwide, as well as disrupting the living conditions of millions of women, men and children. Armed conflict remains one of the most important challenges facing the world today.

This chapter examines how the interplay between economic exclusion, inequality, conflict and violence shape the goal of establishing shared societies. The chapter makes the argument that this impact is largely determined by the emergence and organisation of social and political institutions in areas of violent conflict. In particular, violence will persist as a means to solve social conflicts when institutional processes that promote exclusion, dysfunctional inequalities and injustice remain entrenched in societies. Two particular areas of institutional change are central to understanding the relationship between armed conflict and shared societies. The first is

[104] 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, and other attributes, and where, as a consequence, relations between the groups are peaceful" (Valenti and Giovannoni Chapter 2, or change the reference to the original Club de Madrid statement).

the change caused by armed conflict on social interactions and norms of trust and cooperation. The second is the influence exercised by informal mediators, informal service providers and, in some cases, informal systems of governance that emerge from uneven development processes and are particularly prevalent in areas of armed conflict. These forms of institutional transformation that emerge from armed conflict, and in turn determine its sustainability, have remained unexplored in the literature. Yet they are central to understanding how societies are able to restrict the use of violence as a strategic way of resolving social conflicts. This chapter attempts to disentangle these important institutional mechanisms that shape the transition from conflict-ridden to shared societies.

The chapter is organised as follows. Section 7.2 reflects on the role that violence has played in the achievement of the goals underlying the vision of a shared society. Section 7.3 focuses on the importance of inequality and social exclusion in the transition from violence-ridden to shared societies. These two sections illustrate the significance of local institutions in the formation of shared societies. Section 7.4 discusses new emerging evidence on how institutional transformation in contexts of violent conflict may shape the relationship between armed violence and the goal of establishing a shared society. Section 7.5 concludes the chapter and discusses promising avenues for a future research agenda on transition processes from violence to shared societies.

7.2 Violence as a means to shared societies?

There are serious human, economic and political costs associated with violence and armed conflict that may threaten the establishment of shared societies: war damages infrastructure, institutions and markets, destroys assets, breaks up communities and networks and kills and disables people. Knight, Loayza and Villanueva (1996) have estimated that civil wars lead, on average, to a permanent income loss of around two percent of GDP. Collier (1999) has shown that, on average, a seven-year civil war will result in a 15 percent loss in GDP. Recent empirical evidence has suggested that some economic effects of armed conflict at the macro-level may not persist into the long-term because the temporary destruction of capital caused by fighting can be overcome in the long-term by higher investments in affected areas, bringing the overall economy to its steady growth path (Bellows and Miguel 2006; Ben-David and Papell 1995; Davis and

Weinstein 2002). However, these aggregate effects may hide important structural differences between different communities and population groups affected by violence. In particular, emerging empirical research at the micro-level has shown that the educational, labour and health impacts of war at the individual and household levels may last well beyond the end of fighting (Akbulut-Yuksel 2009; Alderman, Hoddinott and Kinsey 2006; Bundervoet, Verwimp and Akresh 2009; Shemyakina 2011).

But violent conflicts take place because there is something worth fighting for, and a number of actors have used conflict and violence as a means to try to improve their position and to take advantage of potential opportunities offered by the conflict. Although violent conflicts are perceived as a form of state and governance failure (see Zartman 1995), they nonetheless offer important opportunities for new groups to challenge incumbent political power (Cramer 2006; Keen 1998; Reno 2002). Notably, throughout history, violence has been used as a means to achieve the goal of shared societies. The lack of conditions under which all members of society can live peacefully, and share in democratic processes and prosperity, often lead to social conflicts. Under some conditions, these social conflicts will be addressed through violence. Violent means of conflict resolution will either persist across time or may under certain circumstances create the conditions to build more inclusive societies.

Following on from the pioneering work of Charles Tilly (1975, 1978, 1990), a series of recent studies has assigned violence to the heart of explanations for how modern societies have emerged (Acemoglu and Robinson 2006, 2012; Besley and Persson 2011; Boix 2003; North, Wallis and Weingast 2009). This new wave of literature places violence as central to processes of social development and advances in democracy, and discusses how and why violence goes side-by-side with low incomes, weak state capacity and social exclusion.

A common thread across these studies is that modern societies have evolved as a way of limiting the use of violence as the means to solve social conflicts. The persistence (or limitation) of violence is in turn highly dependent on the institutional set up of different societies, and how this institutional set up manages different forms of exclusion, inequality and other social differences and interests. Different institutional set-ups – and the factors that constrain or aid different interests within these institutional set-ups – determine the role of violence. In the language of

North, Wallis and Weingast (2009), different orders emerge as forms of controlling violence. They do so in different ways. In open access societies (equivalent to the notion of shared societies), the unbiased treatment of citizens acts to prevent violence. Everyone is treated in the same way, limiting the emergence of exclusion, grievances and their translation into violent outcomes. In limited access societies, the possibility of fruitful rent extraction also limits the use of violence by elites. But the threat of violence remains because the state has no monopoly over its use.

Institutional change is at the heart of how to move from low-income, violence-ridden societies to more inclusive societies. The body of research above resorts to history to explain how some countries have done that move successfully. Acemoglu and Robinson (2012) discuss the role of inclusive institutions in promoting virtuous cycles of innovation, economic growth and peace. Besley and Persson (2011) refer to the significance of common interests in the transition towards more inclusive development processes. North, Wallis and Weingast (2009) discuss the role of elite competition in containing violence. External events that alter the institutional balance of existing social arrangements propel transitions to shared societies, or explain the persistence of exclusionary and undemocratic systems.

While external events play a significant role in institutional transitions, violence is itself endogenous to how institutions emerge and are sustained. Violent conflict produces within itself processes that may constrain (or aid) the rise of 'good institutions'. How do these institutions look like in reality on the ground and how can we promote the development of inclusive institutions?

Limited attention has been paid to how social and political institutional organisations change and adapt during and after violent conflict, including ways in which communities manage conflict and sustain social cohesion, the forms of local governance that emerge amidst violence and what organisations are developed for the provision of public goods and security in areas of violent conflict. These changes are likely to have profound impacts on the lives of individuals and households, the organisation of communities and hence on how societies transition from violence to cohesion. Structures, norms and organisations that favour corrupt, rent-seeking and predatory behaviour will perpetuate dysfunctional economic, social and political relations and destroy the social fabric. Organisations that protect property rights, enforce norms of conduct and impose sanctions for undesirable behaviour may create the conditions necessary to the establishment of shared societies

As noted already there are two under-researched areas of institutional change that are critical to understanding the relationship between armed conflict and shared societies. One concerns changes in social cohesion and norms of cooperation. Violent conflict impacts considerably on the social fabric of affected communities, on social relations between family members, neighbours and friends, on how communities relate internally and with other communities, and on the functioning of local citizen organisations and their relation with state-level institutions. The impact of these on local social organisations can be significant as it will affect the ability of people to rely on community relations in times of difficulty, to access employment or credit arrangements and to integrate into new norms and ways of living. The second is the emergence of local governance structures controlled by non-state (often armed) actors during violent conflict in areas where the state is absent, deposed or heavily contested. The actions of these actors have significant impacts on how local communities are organised, creating political, social and economic arrangements that remain entrenched well beyond the end of the conflict. Section 7.4 discusses new emerging evidence on how these institutional effects may shape the relationship between armed conflict and shared societies. Before that I discuss below the central role played by inequality and exclusion on the institutional transition from violence-ridden to shared societies.

7.3 Inequality, exclusion and the threat of armed conflict

The transition from violence-ridden to shared societies is highly dependent on how institutional frameworks manage different forms of exclusion, inequality and other social differences (Acemoglu and Robinson 2006; Boix 2003). The relationship between inclusiveness, equality, cohesion – all features of a shared society – and violent conflict is, however, rather complex. There is now a growing consensus that prosperity and democracy cannot be disassociated from the constraints caused by violence and conflict (World Bank 2011). In spite of that, we have very limited rigorous evidence on the mechanisms shaping the relationship between (types of) economic progress and violence.

On the one hand, the literature on civil wars has shown a strong association between low levels of GDP, negative economic shocks and the outbreak of armed conflict (Collier and Hoeffler 2004; Fearon and Laitin 2003; Miguel et al. 2004). On the other hand, research has long identified rapid uneven economic growth as a destabilising force that may spur civil unrest and political violence (Bates 1974; Horowitz 1985; Olson 1963; Tilly 1990). Most of this evidence comes from low-income countries where violence, poverty and low economic growth feed into vicious cycles (Collier 2007). There is now evidence of similar processes at play in middle-income countries like India, Brazil, China, Russia and other emerging economies, where significant economic, social and cultural change is taking place within a very short period of time. Crime, civil unrest and terrorism are common risks experienced in these countries. The Institute for Economics and Peace reports large reductions in the average Global Peace Index score amongst emerging economies between 2007 and 2010 (Table 1).

[Table 1 about here]

Democratic systems are generally deemed better at resolving the conflicts that may emerge as a result of rapid or uneven development processes. Social policies in particular, such as safety nets, cash transfers or employment generation programmes, may strengthen the legitimacy of the state and support excluded population groups in such contexts (see discussion in Justino 2008). There is, however, mounting evidence that vulnerable groups have been largely excluded from the benefits of rapid economic growth in many countries in the world. High rates of urbanisation have in addition resulted in the proliferation of slums and large areas where state presence is minimal.

But while forms of exclusion and inequality persist in many countries, only a handful of these countries have experienced or will experience violence and conflict. Two factors are key to understand the relationship between inequality and violence. The first is the nature of inequality processes, which will determine the point at which inequality will be seen as a sufficiently serious infringement of the social contract between states and citizens in order to break social cohesion and lead to violence. The second is the type of structures in place in society that may allow (or not) violence as a strategy to access power and/or manage social conflict. We address the first point below, and discuss the second point in section 7..

7.3.1 Inequality, instability and armed conflict

Processes of economic development are typically accompanied by a certain level of inequality. Different people have different abilities and different initial endowments of physical and human capital. It is therefore extremely difficult to ensure that all population groups benefit equally from potential economic gains. Not all types of inequality are adverse. Functional inequalities, i.e. inequalities that are likely to arise in a market economy as a result of rewards to risk-taking, enterprise, skill acquisition and saving, may create important incentives for technological advance and increased productivity. However, dysfunctional inequalities,[105] i.e. inequalities that arise from lack of opportunities, social and political exclusion of certain population groups and other forms of discrimination, from a colonial legacy or from political connections and inherited wealth, are often associated with the exclusion of some population groups from the process of development and may pose constraints to the establishment of fully functioning societies. Tilly's (1998) work was one of the first theoretical efforts to systematically analyse the persistence of inequalities caused by differences between societal categories. Persistent or 'durable' inequalities between different social or political categories arise "because people who control access to value-producing resources solve pressing organisational problems by means of categorical distinctions. Inadvertently or otherwise, those people set up systems of social closure, exclusion, and control" (pp. 8).

Countries with persistently high levels of dysfunctional inequalities are less successful at establishing shared societies, and more likely to see the use of violence as a means to resolving social conflict. One important aspect of persistent inequalities is their association with increased social discontent, which under some circumstances may be associated with increases in criminal activities, violence and civil conflict. The persistence of inequalities, social exclusion and perceived social injustices over time may result in a sufficiently high level of social discontent

[105] The distinction between functional and dysfunctional inequalities is made in Killick (2002). Tilly (1998) refers to the latter as durable inequalities.

and the subsequent use of violence to address social differences. Persistent inequality and forms of exclusion have been associated with increased risk of crime (Table 2).[106]

[Table 2 about here]

An extensive literature has also provided empirical evidence for a positive relationship between inequality and various forms of social and political conflict (see Gupta 1990). Although in many countries some level of inequality may coexist with social peace, not all societies will have high levels of tolerance for persistent inequalities (see Hirschman 1981). When tolerance breaks, inequality can lead to the accumulation of discontent amongst some population groups to a sufficiently high level to damage social cohesion (see Alesina and Perotti 1993; Bénabou 1996; Stewart 2002). However, no consensus has yet been established on whether poverty, inequality and social exclusion, together or separately, operate as triggers for violent conflict, nor whether these factors are responsible for the onset or escalation of violent conflicts.

7.3.2 When does inequality and exclusion lead to violent conflict?

There is widespread disagreement regarding the effect of social discontent (or grievances) on the outbreak of armed conflict. Cross-national empirical analyses of the causes of civil wars have found no statistical evidence for a relationship between 'grievances' and civil wars (Collier and Hoeffler 2004; Fearon and Laitin 2003). The econometric evidence described in these studies suggests that rebel groups are primarily motivated by opportunities for predatory behaviours on available resources and assets (Collier and Hoeffler 2004) or conditions that facilitate insurgency, such as rough terrain (Fearon and Laitin 2003). These findings are challenged by a body of research that highlights the importance of inequality and exclusion as sources of armed conflict. Studies have shown a close association between violent conflict and income and asset inequality (Muller and Seligson 1987; Schock 1996), class divides (Paige 1975; Scott 1976), inequalities in access to power decisions (Richards 1996), horizontal inequality between ethnic, religious and other cultural groups (Langer 2004; Stewart 2000, 2002; Murshed and Gates 2005; Østby 2006), relative deprivation (Gurr 1970), levels of polarization (Esteban and Ray 1994;

[106] See also Fajuzylber, Lederman and Loayza (1998).

Montalvo and Reynal-Querol 2008; Esteban and Schneider 2008) and ethnic fragmentation (Easterly and Levine 1997).

The differences found in the studies above result largely from the dichotomisation of the debate around whether 'grievances' or 'greed' cause violent conflict. Under that perspective, inequalities tended to be associated with 'grievances', while economic motivations fall under the 'greed' headline. However, in reality, the persistence of social injustice associated with economic, political and social disparities between different population groups and with systematic social exclusion may spur a combination of grievances and greed motives that underlie most armed conflicts. Inequality and exclusion may result in the accumulation of discontent to a sufficiently high level to break social cohesion (Horowitz 1985; Muller and Seligson 1987; Schock 1996). At the same time, they may also increase the probability of some population groups engaging in rent-seeking or predatory activities (Benhabib and Rustichini 1991; Fay 1993; Fajnzylber, Lederman and Loayza 1998; Grossman 1991, 1999). Social discontent and frustration with living conditions can act as strong motivators for conflict *and* for the participation of individuals in organised forms of violent conflict.

Another body of literature has found a strong, albeit indirect, association between policies that address forms of inequality and exclusion and the prevention and reduction of violent conflict. For instance, Justino (2008), using state-level empirical evidence for India, shows that redistributive transfers are effective means to reduce civil unrest. Deininger (2003), using household-level data for Uganda during the 1992-2000 period, shows that higher levels of education decrease individuals' propensity to engage in civil strife. Even Collier and Hoeffler (2004) argue that prioritising investment in education and health may signal government's commitment to peace by keeping the population contented. Increases in equal opportunities in the access of excluded groups to education may decrease social tensions. This logic underlies US's affirmative action policies in the education sector (see Bush and Saltarelli 2000), while some evidence seems to suggest that higher school enrolment rates increase the opportunity costs of recruiting militants by rebel groups (see, for instance, Thyne 2005). Cragin and Chalk (2003) provide evidence for the effects of job creation in decreasing potential recruits for the IRA.

Finally, research on individual and group motivations for collective violent mobilisation also provides evidence on the links between social discontent and violent conflict. A number of actors have made use of armed conflict as a way of improving their position and to take advantage of potential opportunities offered by conflict (Dube and Vargas 2007; Keen 1998, 2005; Hirshleifer 2001; Humphreys and Weinstein 2008). In particular, individuals may engage in violence when productive activities in peaceful times are scarce, unemployment is high and returns from agriculture work are low (Collier and Hoeffler 1998; Deininger 2003; Grossman 2002: Walter 2004). When joining militias or military groups, young men may also get access to food and clothing, as well as recognition and sense of becoming valuable, which may not be part of their previous lives (Clark 2006; Humphreys and Weinstein 2004). Walter (2004) discusses the importance of 'misery' and 'lack of voice' as incentives for the retention of fighters in armed groups, while Richards (1996) shows how young soldiers and civilians alike used rebellion in Sierra Leone as a way of continue their education when state infrastructure collapsed. In a pioneering study of the civil war in El Salvador, Elisabeth Wood (2003) refers to what she calls the 'pleasure of agency' and a "new sense of hope and dignity" born from defiance against ruling parties and state brutality, and revenge against the impact of violence on family and friends. Moore (1978) attributes violence to the violation of norms of fairness in society, while Petersen (2001) shows how grief, anger, revenge and pride may be central to individual and community decisions to participate in violent collective action.

However, while poverty, inequality, social exclusion, discrimination and other sources of grievances exist in most societies, only a few countries have experienced armed conflict. This is because not all societies have in place the structures and institutions that allow the translation of grievances into acts of violence and rebellion (Fearon 2004). Collective mobilisation is also not sufficient to sustain armed conflict without human, material and financial support. Inequality, exclusion and resulting social discontent are therefore unlikely to be a sufficient condition to trigger armed conflict. Nonetheless, high levels of social discontent and perceived injustices may be instrumental to the organisation of collective violence when combined with the readily availability of resources (people, funds, food, and military assets) to sustain the rebellion, or when access to resources can be made available or easily appropriated. However, the mechanisms that lead to the "actualization [of discontent] in violent action against political objects and actors" (Gurr 1970) are not well-understood. We also have very limited understanding of the mechanisms that will sustain or limit violence once conflict is underway. When violent conflict emerges from social discontent, will it result in more cohesive and just societies? How? When? Will violence remain as a permanent form of resolving social conflicts or will alternative systems of conflict resolution emerge? These issues are discussed in the section below.

7.4 Institutional transformation, armed conflict and shared societies

The transition to shared societies will be determined to a large extent by how the norms and organisations that emerge from the conflict manage the social differences that led to the conflict in the first place. Institutional change is one of the most important legacies of violent conflict (Blattman and Miguel 2010; Justino 2012). Changes in institutional structures in turn have considerable implications for the reconstruction of communities, economic recovery and the establishment of democracy (Acemoglu and Robinson 2006, 2012; Hoff 2003; North 1990). In particular, institutional change – defined in this section in terms of change in social organisation arrangements and local governance structures – holds an important key to understanding how shared societies are built and sustained.

Armed conflict and its aftermath may well result in the exclusion of certain groups and the undermining of social cohesion. A large literature has examined the impact of inequalities on the onset of civil conflict. Much less exists on the impact of conflict on distributional arrangements in societies affected by violence though it is well-accepted that conflicts will result in new forms of social arrangements and political structures that are bound to benefit some groups in detriment of others. These changes in distribution, and potential association with new forms of social injustices in post-conflict periods, may lead to further outbreaks of violence. Below I discuss two areas of institutional change that are particularly critical to understanding how and why some societies make successful transitions from violence to cohesion, while others remain trapped into violence, often across generations. The first area of institutional change is concerned with the relationship between violent conflict and the transformation of social norms around trust and cooperation. The second area is related to the emergence of governance and order in areas outside the control of the state.

7.4.1 Violence and social norms of cooperation

The first way in which violent conflict results in institutional transformation is through changes in local social relations that determine the nature of local norms of conduct, cooperation and trust. This includes changes in how communities relate internally and with other communities, the functioning of local citizen organisations and the relation between local communities and state-level institutions. Violent conflict is typically portrayed as causing the destruction of the social fabric of communities where it takes place (Colletta and Cullen 2000; Collier 1999; Hartzell et al. 2003). Recent empirical research shows, however, that socio-political change during conflict may result in positive forms of collective action in the post-conflict period (Bellows and Miguel 2009; Blattman 2009; Voors et al. 2010). Similarly, while some forms of social interactions may create the conditions for the outbreak of violence (see, for instance, Pinchotti and Verwimp 2007), in other cases strong community links may prevent local tensions from feeding into national cleavages that lead into mass violence. The impact of these different forms of social interaction on how forms of inequality and exclusion emerge and are managed will depend on the initial characteristics and alliances of individuals and communities at the start of the conflict, the level of breakdown of social cohesion during the conflict (for instance, displaced communities targeted by the conflict due to ethnic or other characteristics may fare worse) and the strength and types of new networks, organisations and alliances formed during and after the conflict (for instance, those fighting for winning coalitions may benefit from new forms of governance in the post-conflict period) (Justino 2012).

The development economics literature has provided wide-ranging evidence for the importance of social organisations and norms of conduct, cooperation and trust on several social, economic and political outcomes. In particular, individual and household group membership (for instance, of race, religion and ethnic groups, local associations and so forth) has been shown to affect significantly human and social capital outcomes (Durlauf 1996; Fafchamps and Lund 2002), including the persistence of inequalities due to distorted 'neighbourhood' effects (Durlauf 1996; Wilson 1995) and social segregation (Bowles, Loury and Sethi 2009). Similar mechanisms are likely to arise from changes in intra- and inter-household and community relations during violent armed conflict. However, very few studies have examined the role of changes in social relations, organisations and norms in contexts of violent conflict.

Recent studies have tried to isolate the impact of violent conflict on norms of trust and cooperation, as these are likely to be central to understanding how social cohesion is regained in the post-conflict period. Bellows and Miguel (2009) find that individuals who were exposed more intensely to war-related violence in Sierra Leone are more likely to attend community meetings, to join local political and community groups, and to vote in the post-conflict period. Similarly, Blattman (2009) finds a strong positive correlation between exposure to violence and increased individual political participation and leadership amongst ex- combatants and victims of violence in Northern Uganda. Voors et al. (2010) find that direct individual experiences of violence during the Burundi civil war have resulted in more altruistic behaviour. De Luca and Verpoorten (2012) show that in the case of Uganda self-reported trust and group membership decrease in the aftermath of outbreaks of fighting but recover rapidly once fighting subsides.

More recent research has highlighted the less positive effects of violent conflict on social trust and cooperation. Bauer et al. (2011) ran experiments with around 600 children aged 4-11 affected by the 2008 conflict between Georgia and Russia. This study reports that exposure to the conflict was associated with increases in forms of altruism and fairness within communities, but not between communities. This has resulted in the strengthening of parochial attitudes and reliance on immediate kinship ties. Cassar et al. (2011) discuss similar results in the case of individuals exposed to violence during the civil war in Tajikistan in the 1990s, as do Rohner, Thoenig and Zilibotti (2011) for the case of Uganda.

This area of research is very new and the debate is still ongoing. However, the studies above clearly indicate that experiences of violence appear to be central mechanisms driving changes in norms of trust and cooperation. This is a very important area of research as social organisations and norms that emerge from violent conflict will entail considerable consequences in how societies move from violence to cohesion and democracy.

7.4.2 Violence, state absence and local governance structures

The second way in which institutional transformation takes place is through the emergence of non-state actors that aim to replace weak, inexistent or inappropriate state institutions. Some of these actors resort to the use of violence or the threat of violence to maintain their authority outside official state control, while others take on the functions of the state in less violent ways. Some of these actors replace the state outright, while some may act as mediators between local people and state institutions (Olson 1993; Gambetta 1996; Young 1997; Pool 2001). These processes of institutional change have been described in the literature, particularly in policy circles, as ‘state collapse’ (Milliken 2003; Zartman 1995) or ‘state failure’ (Ghani and Lockhart 2008; Milliken 2003). What is less understood is that the collapse of ‘government’ or even the ‘state’ does not necessarily have to be accompanied by the collapse of ‘governance’. Rather, it is typically accompanied by institutional changes as different actors replace weak or inexistent institutions in the provision of local public goods, the enforcement of property rights and social norms and the provision of security.

These processes of institutional transformation are likely to be more present in contexts of uneven development – in other words, when development that is experienced differently across population groups, regions and sectors – because the state may be unable (or unwilling) to cope with rapid changes and take adequate measures to mitigate the impact of uneven growth patterns. In these situations, inequalities may rise, feeding into processes of exclusion and disenfranchisement, while higher economic opportunities in some areas or sectors may lead to predatory behaviour from some actors and organisations. Informal mediators, informal service providers and informal systems of governance may replace or contest the state in those settings, thereby shaping how individuals, households and communities access social, political and economic structures, or remain excluded from it. Violence and conflict may rise and persist in contexts where informal actors and organisations contest the role of state institutions in the provision of services, public goods, justice and security. But violence and conflict may also open the space for the emergence of stable organisations and actors, and the establishment of political order.

In some cases, these actors are aliens to the communities in which they operate and emerge from new structures imposed by ways in which different factions compete over control for resources, populations and territories. In other cases, they are related via kinship, ethnic or other ties to local forms of leadership and governance that would have existed before the conflict – and that may or may not have been formally incorporated into the state structures – thereby blurring the distinction between populations, local state actors and non-state groups. The actions of these actors have profound impacts, both negative and positive, on the organisation of local societies. However, current understanding of these institutional changes is extremely limited, which has severely constrained political and development efforts at promoting positive change in conflict contexts.

The emergence of new political actors and forms of governance in areas affected by violent conflict may affect political institutional organisations that determine the access to and effectiveness of livelihoods and security adopted by individuals living under the control of these actors. Some recent research has looked at the formation and influence of non-state institutions in situations of violence such as rebel groups, militias, paramilitary groups, warlords, gangs, mafia, drug trafficking factions, private security providers and vigilante groups (Arjona 2009; Gambetta 1996; Skaperdas 2001; Volkov 2002; Weinstein 2007; Weinstein 2007), as well as at the emergence of social order in violent contexts (Arjona 2009; Kalyvas et al. 2008).

These include situations of criminal and predatory actions, as well as non-violent forms of behaviour that are largely overlooked in the literature (Arjona 2009; Lubkemann 2008). In all cases, emerging institutional arrangements appear to significantly determine local decision making structures, the organisation of property rights and the provision of public goods, security and justice. In addition, these local institutions, and the actors that (attempt to) control them, shape norms and behaviour well beyond the end of the conflict (Arjona 2009; Mampilly 2011; Wood 2008).

The control of populations and the provision of security by non-state actors are typically viewed suspiciously by the international community. These groups are described in a variety of derisory ways ranging from criminals, thugs and 'spoilers' to, more recently, terrorists, following the 'war on terror' campaign (Mampilly 2011). Emerging evidence is starting to show that in many circumstances some of these organisations in some ways operate sophisticated structures of governance, promoting (some form of) the rule of law, and imposing norms of conduct and social behaviour. In many contexts, this has lead to improvements in the living conditions of populations under their control and administration (see Arjona 2009; Kasfir 2005; Mampilly 2011; Mehlun, Moene and Torvik 2006; Weinstein 2007).[107]

The actions of these actors are likely to have profound impacts on the duration of the conflict and how society and markets are organised in the post-conflict period. The nature and magnitude of this impact will depend on the strength of new local forms of governance relative to the strength of local state presence, and how this relationship evolves with the conflict (Kalyvas 2005; Weinstein 2007). This is in turn associated with the effectiveness of non-state armed groups in relation to the state apparatus to control local resources and populations (Justino 2012). This may be done through fear and terror, through the provision of public goods and security and the establishment of social norms and sanctions to guarantee social cohesion and the protection of property rights and punish undesirable behaviour, or through a mix of both strategies (see Kalyvas 1999 2003 2005; Valentino 2004; Arjona and Kalyvas 2006).

Understanding the transition from armed conflict to shared societies through changes in political institutions requires meticulous knowledge of how state and non-state actors interact and compete throughout the conflict, how their strategies of violence determine population support and the control of territories and resources, and how different state and non-state actors' activities are embedded in different areas and communities. These institutional changes are important because they shape how violent conflict unfolds at the wider political level, how violent groups may be transformed into nonviolent political parties and how political and development interventions – for instance, establishment of elections, restructuring of property

[107] This argument is akin to Olson (2000)'s distinction between 'stationary bandits' and 'roving bandits'.

rights, local justice and security reforms, demobilisation and reconstruction programmes, and social service provision – may support (or fail to support) the transition to shared societies.

7.5 Concluding remarks: A new research and policy agenda?

This chapter has argued that structural factors present in societies where social cohesion is low and exclusion is high may created the conditions for the emergence of armed conflict. In these contexts, violence may be used strategically to access power, or to improve unequal or unjust situations. Local communities, local governments and the international community face the challenge of establishing the conditions that facilitate the transition from the use of violence as the preferred means of conflict resolution, to inclusive and democratic societies. This chapter discussed how this process of transformation may be supported (or hindered) by the type of social and political institutions that emerge and endure in areas of violent conflict.

The chapter makes the case that violence may be mitigated – even in countries affected by violent conflict – by norms and organisations that may lay the seeds for stability, trust and inclusion. Some of these norms and organisations may lie at the margin of state institutions and may be determined by actors outside the state apparatus. But they are central to understanding how societies transition to inclusiveness, or remain trapped in vicious cycles of underdevelopment and violence. In some cases, norms and organisations that emerge from violent conflict may produce dysfunctional social, economic and political processes that will perpetuate the conflict itself. In other cases, these forms of institutional transformation may establish the seeds of accountability and legitimacy that may have been lacking in society at the onset of the conflict.

Post-conflict stabilisation and recovery policy has recently shifted its attention from short-term conflict mitigation interventions to the need to 'get institutions right' (World Bank 2011). The World Bank's flagship publication, the World Development Report, argued in 2011 for a strong focus on the complex long-term challenges faced by conflict-affected countries in building democratic institutions, the rule of law, sustainable security, and the need for the international community to support these institutions. The analysis developed in this chapter supports this view, but asks the more difficult question raised by the other side of the story: what do we do about the institutions that emerge from violent conflict? Answering this question requires understanding violence beyond its destructive role. In particular, violence has an instrumental function when used strategically by political actors to transform the state institutions that determine the current and future allocation of power.

Conflict-affected countries are not 'blank states' once wars have ended. Rather, they are the sites of intense institutional change, as different actors compete for the monopoly over the use of violence in contested areas. The actions of these actors have profound impacts on the survival and security of ordinary people, and the emergence of social, economic and political organisation in the areas they control. Such forms of institutional transformation are central to explaining why violent conflict may persist in many societies, why it often mutates into different forms of violence and criminality, and why some societies have historically successfully moved from violence, corruption and destitution to cohesion, democracy and inclusiveness.

These processes of transformation are, however, largely ignored in post-conflict policy interventions, where the security and the capacity of the *state* may be at odds with the security and welfare of its *people*. This represents a real challenge for the international community, but one that has to be addressed if justice and inclusiveness are to be promoted in areas of violent conflict.

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Table 1. Global Peace Index Rankings 2010 and 2007 – Selected Countries

Country	2010		2007	
	Rank	Score	Rank	Score
New Zealand	1	1.19	2	1.36
Iceland	2	1.21	n.a.	n.a.
Japan	3	1.25	5	1.41
…..				
China	80	2.03	60	1.98
…..				
Brazil	83	2.05	83	2.17
…..				
India	128	2.52	109	2.53
…..				
Russia	143	3.01	118	2.90
…..				
Afghanistan	147	3.25	120	3.18
Somalia	148	3.39	n.a.	n.a.
Iraq	149	3.41	121	3.44

Source: Vision of Humanity – Institute for Economics & Peace.

Table 2. Inequality and Crime Rates (per 100,000 inhabitants) by Regions

(Latest available year)

	Income inequality [a]		**Intentional homicides** [b]		**Major robberies** [c]	
	Regional mean	**Regional median**	**Regional mean**	**Regional median**	**Regional mean**	**Regional median**
Arab States	0.37	0.38	3.04	1.65	20.86	10.81
Central and East. Europe	0.34	0.34	3.69	2.90	38.78	31.79
East Asia and Pacific	0.43	0.43	4.48	3.15	24.05	13.30
Latin America	0.50	0.52	23.65	18.40	294.83	207.57
South Asia	0.38	0.37	3.20	2.80	47.51	1.86
Sub-Saharan Africa	0.44	0.44	18.48	15.80	68.38	23.04
High Income	0.32	0.33	1.40	1.20	172.87	59.85

Source: (a) GINI Index as used in UNDP (2011), *Human Development Report 2011*. Data refer to the most recent year available during the period 2000-2011. (b) UNODC crime and criminal justice statistics (http://www.unodc.org/unodc/en/data-and-analysis/crimedata.html). Data refer to the most recent year available during the period 2004-2010. (c) UNODC. Data refer to the most recent year available during the period 2003-2009.

* Means are not weighted by population. The sample of countries for each indicator differs according to available information.

Part III: Regional and National Experiences

Chapter 8

Share trading, or a shared society? The challenge of reaching a developmental consensus in Post-Apartheid South Africa

Jan Hofmeyr

8.1 Introduction

The 'shared society' is an appealing concept, because it feeds into the idea that a state can be neither just nor legitimate if it is not orientated towards the creation of the common good. It is a notion that is fundamental to the existence of the nation state – individuals or groups within a geographically defined area surrender their sovereignty to a national entity on the assumption that the collective will be protected and governed by laws that promote equity and allow people to reach their full potential. When regimes implode, they most frequently do so when the citizenry are no longer convinced of their ability to fulfil this core function.

Not since the turn of the millennium has the world witnessed so much questioning of, and even violent resistance to, state power. As such, the shared society idea is deserving of further attention, but due to the difficulty in translating an essentially qualitative idea into something that is quantifiable, it remains underexplored.[108] The Club de Madrid's (CdM) *Shared Societies Project* is one of the few initiatives that have ventured into providing a broader theoretical basis for the concept. In a position paper that explores the parameters of what the concept may entail, the CdM proposes a number of broadly defined attributes of such societies: they are socially cohesive; stable and safe; provide their citizens with a sense of belonging that is underpinned by

[108] Valenti, A. and Giovannoni, O. (2011) *The Economics of Inclusion: Building an Argument for a Shared Society,* The Economics of Shared Societies, Club de Madrid Website <http://www.clubmadrid.org/img/secciones/The_Economics_of_Shared_Societies_Publication.pdf> Accessed: 10 July 2012

equal opportunity; are tolerant, and respect individual dignity and human rights; celebrate diversity; and are guided by strong leadership.[109]

This conceptualisation alludes to broad traits of political culture, rather than the institutional architecture of states; it also does not explicitly endorse a particular form of governance. There is, nevertheless, a tendency to assume that democratic states posit these characteristics by default. Of course, one does not need to look far to realise that such a view is removed from reality. At best, democracies can avail of the political levers to shape such societies, but whether they in fact materialise, depends on how their constitutive parts (state, citizen organisations, labour, and business) mobilize the rights and resources at their disposal towards the cause of greater social justice. Without targeted policies and concerted effort to give the idea of a shared society substance, democratic states are as vulnerable to legitimacy crises as undemocratic regimes.

2011 provided a number of poignant reminders of this truth. It not only saw uprisings in authoritarian North African and the Middle Eastern states, as part of what we have come to refer to the Arab Spring, but it also witnessed a proliferation of protest across Western democracies, many of which were led by young people who have come to feel marginalised from the opportunity and access that democratic states promise them in theory. Their consequences continue to reverberate around many places around the world, and governments will ignore the lessons to be learnt at their own peril.

This is particularly true for young democracies, such as South Africa. The country's democratic transition in 1994 was one of the most celebrated of the 20th century, and marked the bloodless defeat of apartheid, a system of governance that comprised the very antithesis of the CdM's characterisation of a shared society. Yet, while it brought political liberation that extended the voting franchise to all citizens, South Africa continues to fall short on most of the shared society criteria, particularly as they relate to human development and social cohesion. Material inequity has created new social divides and continues to entrench historical ones that were drawn along

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109 Club de Madrid, (2011): The Economics of Shared Societies, Club de Madrid Website <http://www.clubmadrid.org/img/secciones/The_Economics_of_Shared_Societies_Publication.pdf> Accessed: 10 July 2012

the lines of race. As a result, millions of citizens still lack the agency to improve their living conditions in an economy where opportunity is biased towards the 'haves'. Almost two decades on, many have become disillusioned with the perceived inability of the democratic state to bring dignity to their lives. The country's draft *National Development Plan*, produced by its National Planning Commission and released at the end of 2011, suggests that an inability to reverse this sense of marginalization, especially amongst young South Africans, may have grave consequences for political stability over the next 20 years.

This article tracks South Africa's attempts over the past 18 years to create a more inclusive society after apartheid, and pays specific attention to the transformation of its economy. Before doing so it provides a brief overview of the political transition and its impact on creation of a shared society.

8.2 Political Inclusivity

Since 1994 South Africa crafted a comprehensive range of state institutions that one would associate with a liberal democratic state. Its constitution, the product of extensive public participation and deliberation between the former adversaries of the apartheid state and progressive movements, led by the African National Congress, is often lauded as one of the most progressive in the world, and as a result the country has often been touted as an instance of best practice in democratic transition.[110]

Having conducted four free and fair general elections since, it continues to be a constitutional state that adheres to the principles of the rule of law and the separation of powers between the legislative, executive, and judicial arms of government. The National Parliament, consisting of an upper house that represents the interests of provinces, the National Council of Provinces (NCOP), and a lower house, the National Assembly (NA), is the country's highest legislative body. Provincial legislatures are located in the capitals of the nine provinces, with each nominating ten delegates to represent their province in national lawmaking activities in the NCOP. Delegates to the NA and provincial legislatures are elected on the basis of a party list

[110] Carothers, T. (2004*).* **Critical Mission Essays on Democratic Promotion**, Washington DC: Carnegie Endowment for International Peace

proportional system, and a joint sitting of both houses of parliament elects the president, the head of the executive.

On paper South Africa's governance organogram therefore largely resembles that of a federal state, but in practice it has a far more unitary character. Power within its cooperative system of governance is centralised, with provinces having limited revenue-raising powers and legislative discretion. [111]

From a practical point of view, this architecture has been most appropriate for a country that had to undergo the type of transition that South Africa embarked upon. Given the country's vastness and cultural diversity, it had to ensure an inclusive and shared sense of belonging by incorporating provincial representation in the NCOP. At the same time, strong centralised decision-making was of critical necessity to underpin the functioning of a fragile civil service that had undergone radical structural changes over a very short period during the transition. Amongst these were the integration of the duplicated state functions for different racial groups into single national entities; the reincorporation of the former homelands – the quasi independent states that were only recognised by the apartheid regime – and their highly corrupt bureaucracies into the South African state; the creation of new provincial bureaucracies that was required by the increase in the number of provinces from 4 to 9; and the adoption of a new system of local government, which was accompanied by a reduction in the number of municipalities from 843 to 278.

Change did not only occur at a structural level. The racial integration of the country's predominantly white civil service through the implementation of employment equity measures, such as affirmative action, inevitably resulted in tension between those representing the 'old guard' and those that entered the civil service after 1994. While the former had years of experience in public administration, their understanding of the needs of a marginalised majority was often limited. Conversely, new entrants carried with them a lived experience of decades of marginalisation, but often had limited administrative experience. These frictions created

[111] Probably one of the clearest indications in this regard has been the centralisation of social security provision in the National Social Security Agency, which centralised the payment of grants and pensions to recipients across the country – a function that has formerly been a responsibility of provinces. Recurring debates, moreover, occur around the possible reduction of the country's number of provinces. This will contribute to a cut-down in the size of government bureaucracy, but is regarded by some as unlikely, given its political implications in terms of patronage.

inefficiencies, but also discontinuities in the transfer of skills and experience to a new generation of civil servants.[112] Particularly at the local government level, a sphere that has been fraught with corruption and weak management, citizens have been the biggest losers. In his 2012 Local Government Audit, the country's Auditor-General, for example, reported that only 13 local governments in the entire country received clean audits. [113] When read against the backdrop of another finding that 72 per cent of local government staff does not possess the minimum qualification required for their job level, this finding may not be all that surprising.[114]

Today South Africa's civil service has been transformed to be largely reflective of the country's demographic composition. Yet, broad recognition exists within and outside of government of the extent to which capacity deficits are hampering the ability of the state to implement its developmental agenda. Implicitly this means that its progress towards the creation of shared society has been slow and lagging behind many of its developmental peers. Much of this can be attributed to the profound technical skills deficits, inherited from the skewed education outcomes of apartheid education, but, as has been alluded to above, also the way in which skills transfer has been dealt with during the initial years of the country's transition.[115] Given the failure of post apartheid education policy to significantly expand the pool of trained entrants to the labour market, the public and private sector continue to suffer from a weak supply of skilled workers. This in turn has implications for the country's fight against poverty and inequality, which will be addressed in the following section.

8.3 Economic Inclusivity

From the outset the newly-elected democratic government was burdened by great - and often unrealistic - expectations from the marginalised masses to undo a patently skewed distribution of wealth that had occurred over centuries. For them the voting franchise primarily represented the key with which the shackles of economic bondage could be unlocked. Not surprisingly, as Robert Mattes has shown, South Africans' expectations of democracy have been – and largely

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[112] See for example Chipkin, I. (2008) *Set-up for failure. Race and Redress in the Department of Public Service and Administration*, in Bently K. and Habib, A. (eds.), **Racial Redress and Citizenship in South Africa**, Cape Town: HSRC Press, pp. ??

[113] Marian, M. (2012) *Audit Chief says 11bn misspent by councils,* **Business Day Online Website:** <http://www.businessday.co.za/articles/Content.aspx?id=176884> Accessed: 15/07/2012

[114] Ibid.

[115] See Chipkin, I. (2008)

still remain – based on instrumental considerations, rather than an intrinsic understanding of democracy. The extent of the democratic state's developmental capacity to 'deliver' thus became the critical yardstick for its legitimacy.[116] While James Gibson, a political behaviour scholar of the earlier part of the transition, was not convinced that material factors were the sole or primary determinants in citizens evaluation of newly-liberated state, his survey data nevertheless suggested that democratic legitimacy may largely "depend on continuing improvements in the quality of life – if not the economies – of ordinary South Africans".[117]

At the same time those that have been privileged under the previous political dispensation, and big business interests in particular, exerted pressure on the state to guarantee the security of their assets against the perceived threat of unregulated redistribution to restore apartheid's material injustices. Whereas the marginalised masses could sway policy by means of numbers, this sector of society was able to do so through their investment choices.

In practice, therefore, circumstances since the dawn of democracy were such that young, untested institutions have had the complex task of developing functional structures, while being exposed at the same time to the pressures of anxious expectations in one part of society and the deep-seated fears of another. The perceived cost of losing ground in the navigation of these tensions contributed to situations where the urgency of achieving outputs took precedence over the incremental development of processes that seek consensus. This has had an impact on the strength of institutions, as well as their ability to sustain the implementation of long-term plans that were aimed at setting the country on a more sustainable economic development trajectory. Whenever the sacrifice required by a particular design became evident, factional interests within the government, and lobbies linked to it, moved to exploit public discontent to their advantage. Neva Makgetla, a senior bureaucrat in the country's Department of Economic Development, for example, notes that 'the extreme fragmentation of economic policy-making meant that it largely reflected the balance of economic, political and social power in the broader society,' and hence 'it was easy for policy-makers to end up representing, not the majority in a democratic sense, but

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[116] Mattes, R. (2007). *Democracy without people: Political institutions and citizenship win the new South Africa,* **Afrobarometer Working Paper** no.82; See also Garcia-Rivero, C. et al. 2002. Political Culture and Democracy: The South African Case, **Politikon**, Vol. 29, No. 2, p.169.

[117] Gibson, J. (2003). *The Legacy of Apartheid: Racial Differences in the Legitimacy of Democratic Institutions and Processes in the New South Africa*, **Comparative Political Studies**, Vol. 36, No.7, p. 791

rather their key stakeholders.'[118] As a result, it is also not surprising that over the short space of 18 years four different macro-economic strategies have been adopted by the ruling party. As such, it may therefore be inaccurate to brand any of these designs as failures, based on their outcomes, as none of them were ever allowed to come to full fruition. In the following paragraphs we track their sequence.

From the outset, the newly-elected African National Congress' task was complicated by the fact that it inherited a virtually bankrupt state that had suffered as a result of economic sanctions over the preceding decade. This was to have far reaching implications for its ability to provide improved living conditions to its expectant constituency. As a result, the ANC was forced early on during its rule to shed its public-sector-driven Reconstruction and Development Programme (RDP) that was crafted prior to the elections with its leftist tripartite alliance partners, the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP), in favour of the more liberal and market friendly Growth Employment and Redistribution (GEAR) strategy. Although GEAR has been highly successful in bringing the country onto a sound macro-economic footing, its indirect consequences made it hugely unpopular with the left and many grassroots civil society organisations. Because it has been premised on a strict regime of fiscal discipline, GEAR did place a damper on the channelling of sufficient resources towards the country's developmental needs during the late nineties and the first years of the new millennium. Moreover, the privatisation of state assets – or 'restructuring' as the ANC euphemistically referred to it – and the impact of the relaxation of import tariffs on uncompetitive industries, saw millions of workers, both in the public and private sectors, lose their jobs. This has had a ravaging effect on the South African job market and even today the official unemployment figure is 24,9 per cent (See Graph 1), although more expansive definitions put it closer to 35 per cent.[119]

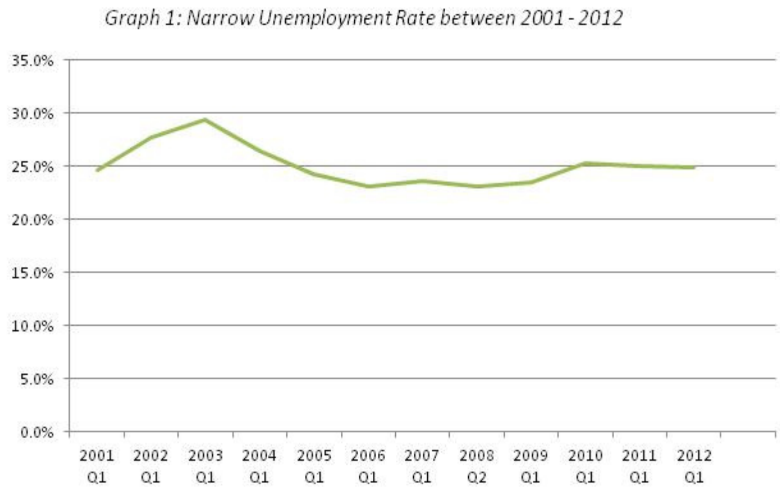
Even though GEAR has to be credited for restoring the country's economic fundamentals, which allowed it to grow at faster rates (See Graph 2) during the first few years of the 21st century, it did not translate into a significant decline in the country's high unemployment levels. Growth

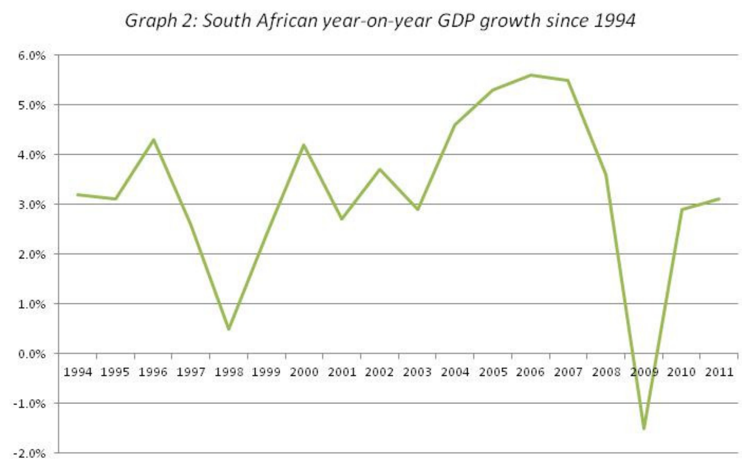
[118] Makgetla, N. (2012). *If you want peace, fight for justice: Economic policy in a divided society*. *In:* Hofmeyr, J. (ed), **Transformation Audit 2011: From Inequality to Inclusive Growth**, Cape Town: Institute for Justice and Reconciliation. pp.12.
[119] Stats SA: Quarterly Labour Force Surveys 2008-2012

during this period was not "jobless"[120], as many incorrectly contended, but the speed at which the economy created new jobs was nevertheless much slower than the rate at which the labour market expanded.[121] Towards the middle of the decade, the left successfully stepped up its criticism of GEAR, and as positive sentiment towards it started to wane, so did its mention from government platforms. In 2006, the government launched the Accelerated Shared Growth Initiative for South Africa (AsgiSA), together with the Joint Initiative on Priority Skills Acquisition (Jipsa) to address major bottlenecks to more rapid, employment-generating growth. AsgiSA focussed on infrastructural, regulatory and organisational dynamics, while Jipsa attended to the question of how to obtain scarce and critical skills that were required for economic acceleration.[122] When pressed, government officials responded that these initiatives did not signal the failure of GEAR, but rather represented a new phase in the country's economic transformation that built on the achievements of its predecessor. Like its predecessor, however, these initiatives died silent deaths. As projects that were conceived during the last days of the Mbeki presidency, neither of these designs managed to survive the succession battle that saw Jacob Zuma came to power with the support of leftist allies in the tripartite alliance.

However, the challenges that they aimed to address did not disappear and they continue to challenge the Zuma administration. There has been three primary structural reasons why this has been the case, and why it will continue to be the case for a long time to come.

[120] The number of employed has, according to the country's Labour Force Survey, increased from 9,5m in October 1995 to 13,7m June 2008 (in other words, growth of 44 per cent).
[121] Bhorat, H. 2008. A skills mismatch crisis, **New Agenda** no.9, pp46-47.
[122] SA Government Information (2006). *Accelerated and Shared Growth Initiative for South Africa*. SA Government Online: <http://www.info.gov.za/asgisa/> Accessed: 03/08/2012





Firstly, from the mid-eighties onwards the country's economy had undergone a marked transition from one that was primarily resource-orientated to one in which services were playing an increasingly important role. Since the turn of the millennium, financial services, for example, became one of the largest net contributors to GDP growth. Compared to manufacturing, this sector is far less labour intensive and hence could not address the country's dilemma of an oversupply of low-skilled labour and a deficit of technical skills. Secondly, growth between 2000 and 2008 was primarily consumption driven on the back of sales of imported goods and, as a result, there was little incentive for a dramatic expansion in the productive, manufacturing capacity of the economy. When the global recession reached South African shores in 2009, the retail sector was haemorrhaging and thousands lost their jobs. Thirdly, and probably the most stubborn challenge of the three, is the inability of the country's faltering education system to meet the skills demands of the economy. Of the cohort that started their education in the South African schooling system in 2000, only 38% graduated from the system in 2011.[123] Given the legacy of apartheid education, but also due to bad policy decisions by post-apartheid education authorities, the dropout percentages for students from the historically marginalised black component of the population continue to be far larger than that of their white peers. As a result, historical inequities continue to reproduce themselves in a post-apartheid, non-racial South Africa.

The primary economic beneficiaries since the country's political transition have therefore been those who have had the educational attributes to adapt to a skills-driven economy. This included the overwhelming majority of white South Africans, middle class South Africans from previously disadvantaged backgrounds, but also a significant contingent of black South Africans who have been absorbed into the new, racially diverse civil service. It is important to note the role that employment equity- and black economic empowerment (BEE)[124] legislation have played in providing access to the formal economy. The former has largely concentrated on the creation of workplaces that reflected South Africa's demographic composition, while the latter focussed more narrowly on the issue of ownership in the South African economy through the creation of sectoral charters that set targets for black ownership in particular industries. BEE legislation, in addition, also dictated that black ownership become a precondition for the awarding of government tenders across the three spheres of government. Together, these measures have supported the rise of what advertisers today call, the "Black Diamonds – a relatively small, but influential, group of black consumers that have been credited for being the backbone of the country's consumption-driven prior to 2009.

While it is hard to contest the necessity of these restorative measures, their *implementation* have in certain instances become a source of discontent for some. As indicated earlier, questions have been raised about the unintended consequences of a singular focus on racial quotas in the

[123] Mail & Guardian Online, 2012. *Matric pass rate may be deceiving*, M&G Website <http://mg.co.za/article/2012-01-06-matric-pass-rate-may-be-deceiving> Accessed: 19/03/2012

[124] Some of the most common BEE measures have included preferential government procurement of tenders by black-owned companies, as well as the drafting of BEE Sectoral Charters, which have set targets for black ownership in key sectors like banking, mining, and the information technology sector. To date such transfers in ownership have largely occurred in the form of equity sales to BEE consortia under very favourable conditions.

implementation of affirmative action[125], while many, including the Congress of South African Trade Unions (Cosatu), an ANC alliance partner, have complained about the perversion of BEE. Their disenchantment, firstly, stem from a perception that only a small, politically-connected group of individuals have had privileged access to government tenders, either as a result of their political pedigree or their clientelist relationship with those in power. The stellar rise of these 'BEE tycoons' has stood in stark contrast to the dire conditions within which millions of impoverished South Africans continue to live, and has drawn wide criticism. The close proximity of some of these tycoons to the Thabo Mbeki presidency, combined with the former president's perceived inability to connect with poor South Africans, provided ample ammunition to his opponent, Jacob Zuma, who eventually toppled him in the palace coup of 2009. Ironically, patronage and clientelism have reached new heights under the Zuma presidency, which replaced an independent corruption-busting unit with one that, according to a Constitutional Court ruling, lacked the independence that is required of a unit of this nature. A second criticism that has been levelled against BEE has been the extent to which 'racial fronting' has been used by white businesses to circumvent the intended outcome – a diversification of ownership – of BEE. A third critique, which relates to the nature of BEE transactions in the private sector, suggests that empowerment consisted largely of a transfer of shareholding at reduced prices, but have not added much to the productive capacity of the economy.

The economic reality of present-day South Africa is therefore fraught with apparent contradiction. Poverty levels have declined, although largely as a result of the exponential expansion of the state's social welfare regime, which was made possible by solid growth during the first decade of the 21st century (See Graph 3).[126] At the same time income inequality has increased (See Table 1) for the country as a whole, and within each of its historically defined racial groups. Seen from another perspective, South Africa's score on the UNDP's Human Development Index has declined from 0.64 in 1995 to 0.61 in 2011.[127] It suggests that although more South Africans are today better off than before, the scale of deprivation has also increased exponentially. White South Africans continue to be the major beneficiaries of growth. In 2008,

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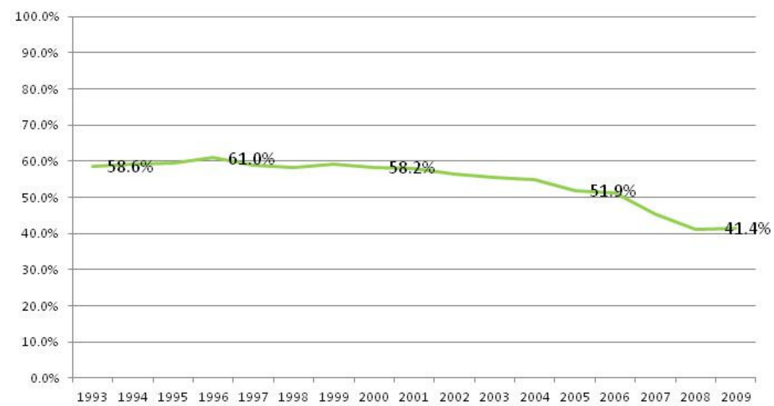
125 Financial Mail, 2008. *Affirmative Action: A Long Way to Go,* 4 April 2008, p.15

126 Van der Berg, S et al. 2005: Post-apartheid South Africa: Poverty and distributional trends in an era of globalisation. Paper presented at the UNU-WIDER conference held in Johannesburg, 1-2 December

127 UNDP Human Development Index Data: <http://hdrstats.undp.org/en/countries/profiles/ZAF.html> Accessed on 18/03/2012

the per capita income of black Africans was still only 13% of white South Africans. The comparative figure for coloured South Africans, and South Africans of Indian origin was 60% and 22% respectively.[128]

Figure 3: Income Poverty in South Africa
(Poverty line: R3864 per capita per annum, 2000 prices)



(Source: All Media Products Survey 1993-2009)

Table 1: Per capita income Gini-Coefficient

	Aggregate	**Black African**	**Coloured**	**Indian**	**White**
1993	*0.67*	*0.55*	*0.43*	*0.46*	*0.42*
2000	*0.67*	*0.61*	*0.53*	*0.50*	*0.47*

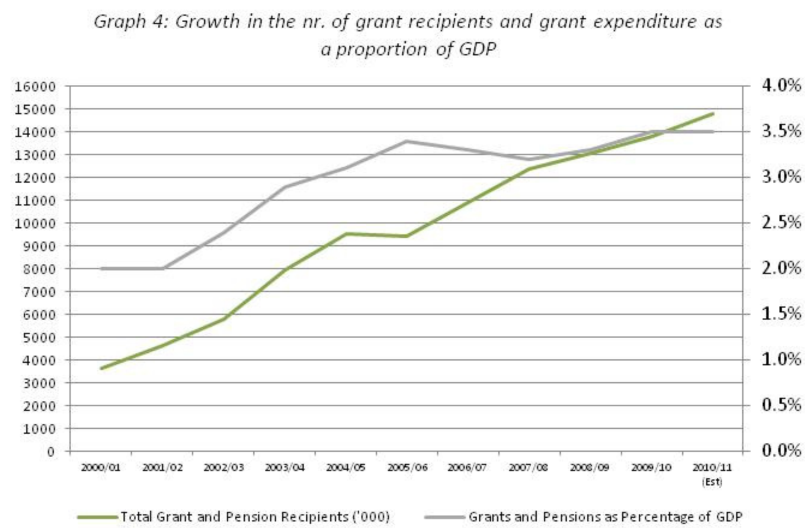
[128] Leibbrandt, M. et al. 2010. *Trends in South African Income Distribution and Poverty since the Fall of Apartheid*, **OECD Social, Employment and Migration Working Papers**, No. 101, OECD Publishing, p13.

2005	*0.72*	*0.62*	*0.60*	*0.58*	*0.51*
2008	*0.70*	*0.62*	*0.54*	*0.61*	*0.50*

Sources: Project for Statistics on Living Standards and Development (1993), Income and Expenditure Surveys (2000,2005), National Income Dynamics Survey (2008), Calculations by Leibbrandt, M. et al[129]

Inevitably these poverty levels and the skewed nature of income distribution has put pressure on the South African treasury as more citizens became dependent on some or other form of social grant. While the government has, as a result of good economic fortunes in the first decade of the 21st century, been able to finance such an expansion up until now (15m out of 50m South Africans receive some form of grant), it cannot do so indeterminably (See Graph 4). The graph below shows that although welfare expenditure still accounts for less than 5% of the budget, the number of grant recipients between 1995/96 and 2010/11 increased by 511%. Given the current global economic volatility, which is likely to persist for the foreseeable future, this rate of expansion is not sustainable. Up to now, such expenditure has had a stabilising impact on the alleviation of income poverty, as well as the levels of social conflict related to it. But, should government revenues not expand significantly in years to come, continued growth at the same levels will in the longer term require a decline in the real value of such grants and pensions, thereby reducing their material and social impact.

[129] Ibid.



Sources: National Treasury: Intergovernmental Fiscal Review, Editions 1999, 2003, 2005, 2007 and

Medium-Term Budget Policy Statement, 2010

In its present form the structural composition of the South African economy, therefore, has limited potential to propel the country towards it longer-term developmental objectives. Despite its achievements in addressing income and access poverty, the country has underperformed in terms of what it realistically could and should have achieved in improving the livelihoods of its citizens. In the light of the policy uncertainty that existed since the end of the Mbeki administration, the Department of Economic Development (DED) unveiled yet another grand design, the *New Growth Path (NGP) Framework* towards the end of 2010, which allocated a much more central role to the state in championing specific industries that had the potential to boost growth and create employment at the same time.[130] Although never wholeheartedly endorsed by business or labour, the NGP with its ten-year window represents the South African government's most recent response to the question of economic development. A year later in November 2011, the National Planning Commission (NPC) released its draft *National Development Plan (NDP): Vision 2030* that provided a broader vision for the country's development trajectory.[131] Although their time frames differ, some observers have suggested that

[130] Department of Economic Development (2010). **The New Growth Path Framework**, Pretoria: Department of Economic Development.
[131] National Planning Commission, (2011). **National Development Plan: Vision 2030,** Pretoria: National Planning Commission.

certain contradictions exist between the NGP and NDP, particularly as they relate to the reach of the state.[132] With reference to these apparent differences in emphasis, many are also keen to point out that the creation of the DED and the NPC under the Zuma administration may have been a strategy to accommodate both the left and the more market-orientated factions within the tripartite alliance. Ebrahim Patel, who heads the DED is a former trade unionist and staunch critic of Trevor Manuel, former Minister of Finance, and now figurehead of the NPC. If this analysis is indeed correct, then it further underscores the contention made earlier that policy-making and implementation is indeed held to ransom by fragmentation, not only between government, labour and business, but also within government itself.

6.4 Towards a Shared Society?

In the light of the country's political- and economic transition from apartheid, which has been outlined above, it has to be asked to what extent it has come to reflect a more inclusive, shared society.

The society's need to confront the inhumanity of apartheid, which crudely divided citizens on a racial basis, was a first major obstacle in this regard. In addition to the changes in the country's governance infrastructure, it also instituted a Truth and Reconciliation Commission to investigate human rights abuses that occurred on both sides of the political divide between 1960 and 1994. Its underlying rationale was that political stability and social integration in a democratic South Africa would be challenging without a proper account of the atrocities that were committed during this period. Instituted during the presidency of former president Nelson Mandela, and under the chairmanship of Archbishop Emeritus Desmond Tutu, its emphasis fell on reconciliation through truth telling, and also provided for amnesty to alleged perpetrators, provided that they make full disclosure of their crimes.

While the Commission received criticism from various quarters, including the ANC, during its proceedings it did manage to lift the lid on many apartheid crimes that were denied in the past. Nobody could ever again refute the cruel nature of the apartheid system and the deeds that were

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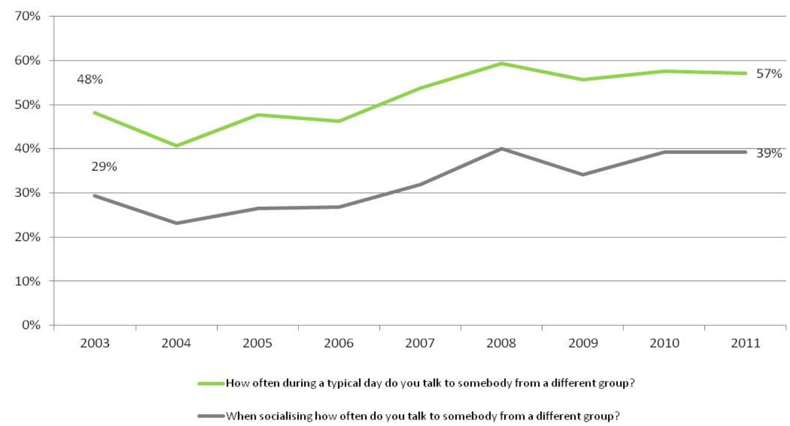
[132] Business Leadership South Africa, (2012) **BLSA's Response to the National Development Plan**, Politicsweb Website: <http://www.politicsweb.co.za/politicsweb/view/politicsweb/en/page71654?oid=299046&sn=Detail&pid=71654> Accessed: 02/08/2012

committed in its name. As a result, it managed to establish a new national narrative, which could serve as a common point of departure for citizens when it came to understanding the history of the country and the future challenges that it had to overcome.

What the Commission, with its focus on human rights abuses, did not do was to focus on material dispossession and its restitution. Although it recommended cash payments to victims and the families of victims that have passed away, these related exclusively to material loss as a result of human rights transgressions on either side of the divide. No compensation was made for material loss or the consequences of unequal opportunity, stemming from the imposition of discriminatory legislation. As a result, entrenched patterns of apartheid distribution have persisted, favouring those who have had privileged access to education and social networks. Most white South Africans continued to benefit, while a much smaller percentage of black South Africans, who have either had access to quality education or links to the new political elite, also prospered. Given this background, many young black South Africans have come to question the wisdom of the reconciliation emphasis of the Mandela legacy. Some have gone as far as accusing him and people like Tutu of 'selling out' those who struggled against oppression.

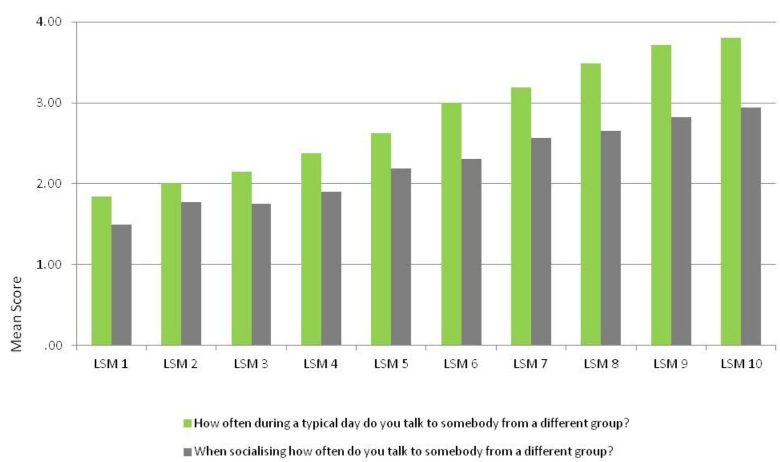
What has emerged from this is a polarizing, class-based society, characterized by high levels of poverty and growing levels of inequality. Class and race still largely overlap and, as a result, the creation of a more inclusive economy is as imperative for economic equity, as it is for the creation of a more tolerant and socially cohesive society. Graphs 5 and 6, which are derived from the Institute for Justice and Reconciliation's annual SA Reconciliation Barometer Survey, demonstrate patterns of integration as they relate, firstly to the frequency of general contact which South Africans from different historically-defined racial categories have in on normal working day, and secondly, how often these people interact socially after work in their houses or the houses of friend. Graph 5 reports on the percentages of people who indicated that they did indeed make contact on either of these levels. Graph 6 reports on the same questions in terms of mean scores, with one 1 representing the frequency of 'never' and 5 of 'often'. These scores are being reported for each of the country's 10 living standards measurement categories, which are being used as an indicator of material well-being.[133]

Graph 5: Social Interaction amongst SAns of different groups



Source: SA Reconciliation Barometer Survey (2003-2011)

Graph 6: Social Interaction amongst SAns of different groups by social status



Source: SA Reconciliation Barometer Survey (2011)

[133] The Living Standards Measure (LSM) is a composite variable based on survey items including water reticulation in a household, ownership of basic consumer goods, and level of urbanisation.

Graph 5, not surprisingly, shows that there are more South Africans that have casual contact with each other on a daily basis than there are citizens who socialize with each other across racial lines. The frequency of interaction on both counts has risen since 2003 when the first measurement was done. In 2011 around 40% of South Africans indicated that they have social contact with South Africans from groups other than their own on a frequent basis, while just less than 50% indicated that they had basic contact on a daily basis. While both represent a positive upward trajectory, these levels of intergroup exposure, nevertheless remain low. Graph 6 is significant, because it reports on the material profile of the respondents. The finding that it conveys holds specific significance for the question of a shared economy in South Africa. It shows that the higher an individual's level of material affluence, the more likely they are to report social interaction with somebody from a different group.

What does this finding mean within the South African context? Given that most of the interaction occurs within the upper income categories, it suggests, firstly, that integration occurs amongst South Africans who are employed and find themselves in the formal economy that has, as a result of the implementation of employment equity legislation, become more representative of South Africa's racial demography. Economic prosperity allows for higher levels of social mobility, which in turn affords citizens the opportunity to encounter people from communities other than their own in their work and shared cultural spaces. Secondly, despite this progress derived from equity legislation, the economy's high demand for skills continue to favour white South Africans, and as a result, class – despite a limited degree of integration - remains colour-coded, with affluent South Africans continuing to be mainly white and poor South Africans predominantly black. Historic inequitable power relations within the workplace, therefore, often continue to be perpetuated. Thirdly, regardless of racial composition, skewed patterns of income distribution (See Table 1) dictate that these upper LSM categories represent only a small slice of the South African citizenry.

The data cited above seems to suggest that in the absence of an economic model that can fast-track inclusive growth, which absorbs more people in the labour market, the prospects for higher levels of social integration will remain limited. This, according to the SA Reconciliation

Barometer Survey, is also what a large population of South Africans seems to be believe (See Table 2).

Table 2: What do you regard as the primary source of social division in South Africa today?

	2011
Political Parties	22%
Income Inequality	32%
Disease or HIV/AIDS	14%
Religion	7%
Race	20%
Language	6%

Source: SA Reconciliation Barometer Survey (2011)

Table 2 reports on respondents' response to a question that asks them about the most stubborn source of division in post-apartheid South Africa. Close to a third (32%), the single largest response, noted 'income inequality' as being the single most divisive reality of South African society. It would, of course, be mistaken to assert that racial prejudice is no longer a critical determinant of interactions, because race and class largely overlaps and more often than not reinforce each other. It is, however, significant that when being asked to single out one phenomenon of South African life, such a sizeable proportion refers to the growing role that class plays as an obstacle to the achievement of a shared society.

Following on this finding, it would be tempting to conclude that a change in the country's economic fortunes will be sufficient to reduce its high levels of social polarisation. Such a simplistic view, however, fails to take cognisance of the inability of key social institutions to play a more constructive role in forging greater cohesion amongst citizens. The animosity - often with racial undertones – between political parties is an obvious case in point, but equally so is the growing factionalism within the ruling ANC. As far as the latter is concerned, governance has on numerous occasions been held ransom to factional maneuvering within the organization, and as the party approaches its national conference at the end of 2012, rumours of political assassinations of rank and file members are increasingly casting a shadow over the ability of Africa's oldest political movement to serve as a cohesive force in an already divided society.

A singular reliance on economic growth as an explanatory variable for South Africa's deep social schisms also discounts the impact of the uneven performance of the country's so-called Chapter 9 Institutions. Named after the chapter of the South African Constitution that provides for their creation to protect the country's constitutional democracy, these institutions such as a Human Rights Commission; a Gender Commission; a Commission for the Protection and Promotion of the Rights of Cultural, Religious and Linguistic Communities; a Public Protector; an Independent Electoral Commission; and an Auditor General. Several of these so-called Chapter 9 Institutions have either underperformed as a result of resource constraints or timidity in cases where political appointees were reluctant to assert themselves vis-à-vis their colleagues in government. In cases where such institutions have asserted themselves, they have been exposed to severe criticism and even threats to curb their powers. In 2007 a Commission, headed by former Minister Kader Asmal, recommended a number of far-reaching changes that would have allowed Chapter 9 institutions to increase their reach in society, and hence also their ability to execute their mandate more thoroughly. To date the South African government has failed to act on any of these recommendations.

8.5 Concluding Remarks

South Africa's progress towards the creation of a more inclusive, shared society since its transition from apartheid contains a number of important insights for other divided societies. Probably the most important of these is that without a demonstrated commitment and pursuit of material equity, the achievement of political liberation will ring hollow to its intended beneficiaries. Economic growth can contribute to such equity, but only if the economy is calibrated towards the developmental needs of a society. If not, it can become disruptive of, instead of contributing to a more cohesive society.

After it managed to stabilize its dire financial position that was inherited from the apartheid state in the early '00s, the new post-apartheid state was able to direct more of its resources towards the plight of the poor and those that have been disadvantaged by the imposition of apartheid laws. The achievement of this improved fiscal position coincided with a boom in the global commodity markets, which advantaged South Africa with its rich mineral reserves. An assumption existed at the time that the transformation of the economy could be achieved through a combination of growth, deracialisation of ownership and the workforce, and redistribution through welfare, without having to make major structural adjustments to its composition and the way in which it produced wealth. This transformation did not happen, and as a result this model has reached its limits. Skills deficits continue to hamper growth, inequality has grown, and as a result of the global economic slowdown, there is less fiscal space to address the plight of the poor through social welfare. Consensus exists about the nature of these bottlenecks, yet there seems to be little urgency to eradicate them

This stalemate has not been the result of a lack of ideas, but rather the absence of trust, which has led to the inability to achieve consensus, and an unwillingness to sacrifice short-term gain for the benefit of longer-term sustainable development. This dynamic is evident in the relationship between key stakeholders such as government, labour, business and civil society, but also within government itself. The adoption of the government's fourth macro-economic design since the country's political transition in 1994 is symptomatic of this lack of cohesion that cuts across society from the grassroots through to the policy level.

This combination of factors has implications for social cohesion and the pursuit of a shared society. Communal protests against poor service delivery by municipalities, often accompanied by violence and destruction of public property, has become an increasingly common form of political expression in South Africa. In some instances citizens from different racial groups, sharing the same community, squared up against one another, accusing the opposite parties of benefiting from government services to the detriment of their group. Without exception these conflicts, whether they are between citizens and councils or amongst citizens themselves, occur in towns characterized by high levels of unemployment, low levels of education, poor infrastructure, and insufficient healthcare services to deal with the health implications of living in such conditions. The violent form that they take, suggests that those participating have little or no faith in the existing formal democratic institutions to remedy them. Although the country's constitution provides for a number of institutions that are intended to protect the constitutional rights of its citizens, and in particular the most vulnerable, the low profile of most of these bodies have made them ineffective in the execution of their respective mandates.

For many Sub-Saharan states that have in recent years been experiencing the boon of growth after decades of conflict, the lessons from South Africa should not be ignored. Peace after years of apartheid has allowed the country to prosper economically, but it has missed an opportunity to invest the windfall into sustainable growth. The nature of this growth may, arguably, now be the source of new polarization in society.

??References??

Chapter 9

Northern Ireland: The Measurement of Sharing and Separation in a Post-Conflict Society

Paul Nolan

9.1 Introduction

On 27th April 2012 the Organisation for Security and Cooperation (OSCE) held its annual conference in Dublin**.** For the first time Ireland was chairing the organisation, an intergovernmental regional security organisation comprising 56 states, including all EU countries, Russia, the US and Canada. To mark the occasion, the Irish government chose to theme the conference on the success of the Northern Ireland peace process. The title given to the event was 'Shared Future: Building and Sustaining Peace, the Northern Ireland case study.' Many of those who had been involved in the 1998 all-party negotiations that led to the Good Friday Agreement were present in order to discuss with visiting delegates how the Northern Ireland settlement could offer lessons for other divided societies. Amongst the speakers was former US Senator George Mitchell, who chaired the Northern Ireland peace talks and who drew on this experience when, in 2009, he was appointed United States Special Envoy for Middle East Peace by President Obama. Also present was his deputy chair during the Northern Ireland talks, former President of Finland and Nobel Peace Prize winner, Martti Ahtisaari. Welcoming the delegates the Irish Minister for Foreign Affairs, Eamon Gilmore said: "As Chairperson-in-Office of the OSCE, I am committed to doing what I can to advance efforts to resolve ongoing conflicts in the OSCE area. By presenting the experience of achieving a peaceful political settlement in Northern Ireland, I hope we can illustrate that shared futures can be forged from seemingly intractable situations."

That same day a curious ritual was being enacted in Northern Ireland's second city, the place known to Catholics as Derry and to Protestants as Londonderry. In one of the city's most socially disadvantaged housing estates, Creggan, a mother was taking her 18-year old son to an appointment with paramilitaries. He was to be shot in both legs as a punishment for drug-dealing, and the mother, in agreeing to the appointment, had accepted the rough justice laid down in the area by the Catholic paramilitary group, Republican Action Against Drugs. Speaking to the local paper she was quoted as saying: "It could have been worse. I honestly feared that he was going to be found dead having overdosed in a flat somewhere ... I also believe that it was better he is shot in the legs now, than shot in the head further down the line"(Derry Journal, 30/4/2012). In February the same paramilitary organisation had killed another young man from the city because of his alleged involvement in the drug trade, and in the previous five years had been responsible for at least 85 ‘knee-cappings’, beatings or expulsions from the city (The Guardian, 13/5/12). This form of paramilitary policing is not confined to Derry/Londonderry, nor is it confined to Catholic areas: fourteen years after the signing of the Good Friday Agreement, the paramilitary groups that were supposed to melt away in the new dispensation are still active on the streets in both Protestant and Catholic areas. The police statistics for 2011 show that less that four per cent of these ‘punishment beatings’, as they are known, result in a prosecution – a combination of fear and a tacit acceptance of communal retribution has halted Northern Ireland’s progress towards the criminal justice norms that are assumed in other liberal democracies. What’s more, this is only a symptom of the problem, not the problem itself. The success of the 1998 peace accord is still less than complete. The triumph of politics that led to the Agreement, the triumph that was presented to the OSCE delegates, was a triumph achieved on the high wire by political elites. Below that level, the two antagonistic communities, the Protestants and the Catholics, have had to struggle to emerge from a thirty year conflict and find ways to build a shared society in the schools, the workplaces and the neighbourhoods where people live out their daily lives. The poetry of the Agreement very quickly turned to prose in the implementation period, and instead of creating a shared society Northern Ireland seems at times to have evolved as a ‘shared out’ society, with social goods and resources divided up by political leaders on a one-for-me, one-for-you basis. That has led some to characterise the new post-conflict dispensation as a form of ‘benign apartheid’ where the two communities maintain a wary peace by keeping their distance from each other, with high degrees of self-segregation in the school system, in patterns of housing and in social and cultural pursuits. If this is so and patterns of division are in fact deepening, then there may be at best what Ignatieff (2003) calls a ‘cold peace’, that is, peace without reconciliation. At worst, the cycles of violence which characterise

Irish history may turn once more and the current absence of violence may turn out to have been no more than a generational truce.

The signs however do not just point in one direction. For every indicator that signals division there is another that suggests a new form of rapprochement is slowly taking shape, that under the canopy of the new constitutional arrangements a more tolerant and accommodating society is emerging. Observers find it difficult to decide which trend is likely over time to become the more important. One academic has summarised the current situation as follows:

> There are radically opposing views among experts on whether, ten years on, the settlement has reduced or increased sectarianism, as to whether it has crystallised or softened opposing views, and as to whether it has solidified or moderated opposing blocs, or perhaps even begun to transform them. (Todd, 2010:88).

Like those Escher drawings where the figures ascending a staircase appear mysteriously to be descending at the same time, the people of Northern Ireland can seem to be moving forward and backward at the same time. This paper will explain how a research project known as the Peace Monitoring Report has been set up to explore the state of the Northern Ireland peace process, and the difficulties it has faced in trying to establish an interpretative framework that can analyse data drawn from many different sources – political, economic, social and cultural. It will outline the results of the first study, and show how in education policy it has been economic forces that have driven an agenda to facilitate sharing between Protestant and Catholic schools.

9.2 Divided state, divided people

The era known euphemistically as 'the Troubles' lasted for almost 30 years – from the first civil rights marches in 1968 until the accord in 1998. This is a conflict span three times longer than WW1 and WW2 put together, and as well as costing the lives of 3,500 people it ingrained the division as an intergenerational experience of us-and-them identification. It is of course possible to stretch that span back much further: the Plantation of Ulster in the 17th century gave rise to patterns still discernible today – an ethnic differentiation between English and lowland Scots colonists and resentful Irish dispossessed. The ethnic markers first became visible at this time: the Irish language and the English, the Catholicism of the native Irish and the Protestantism of the new planters. That identity conflict has remained at the core ever since, and the Good Friday Agreement bases itself on a recognition of there being 'two communities'. The religious markers do not by themselves explain the content of the conflict: this is not a conflict primarily *about* religion, but rather one where religion acts principally as the marker for two distinct ethno-national identities. The roots of the quarrel in the clash between Planter and Gael have meant at different times and to different degrees that members of each community have sought succour through identification with the larger national identities of Britain and Ireland.

In everyday life the fault line that opened up centuries ago continues to express itself in myriad ways. There are Catholic schools and Protestant schools, Catholic housing estates and Protestant housing estates, Catholic sports and Protestant sports – and so on *ad absurdum* to the point where, for example, it is believed that there are Catholic beards and Protestant beards, or Catholic ways of toasting bread and Protestant ways of toasting bread. For those who choose to concern themselves with mapping the cultural differences, however, the problem has been, and remains, that there are in fact very few differences to be concerned about. Unionism and nationalism are not shown to have different DNA structures when placed under the anthropological microscope. The most detailed ethnographic studies are those conducted by Buckley and Kenney, who conclude:

> There are no distinctive Protestant or Catholic dialects, nor agricultural practices, not house types, nor pottery techniques, nor styles of cooking. Family life is much the same in both communities, as indeed is the broader social morality. (Buckley and Kenney, 1995: 20)

The homogeneity of the 'two communities' is reinforced from an historian's perspective by Akenson, whose study of Protestants and Catholics in 19th century Ireland is summed up by its title: *Small Differences: Irish Catholics and Protestants, 1815 -1922* (Akenson, 1988). It is Akenson who provides a clue to why communities so alike should have developed such mutual hostility. Borrowing a term from Freud, he talks of the 'narcissism of small differences', by which he meant the process whereby internal group cohesion and self-esteem is maintained by exaggerating the differences from those they most resemble, e.g., Portuguese and Spanish, or English and Scots (Akenson, 1988: 149). This same idea was later popularised by Ignatieff

(1999: 34-72) who gives it further refinement in applying it to contemporary conflict situations, using it to link Northern Ireland and the Balkans. In this view, the question of identity is primarily relational: "A Serb is someone who is not a Croat. A Croat is someone who is not a Serb." (Ignatieff, 1994: 37) In the absence of real or substantial differences, nationalist movements seize upon the most minor distinctions and inflate them so that they appear to describe significant truths about the two cultures: in such comparisons, one culture appears (to its members) as having the richer civilisation, and myth-making narratives are constructed to provide historical legitimacy for that community.

While identity construction of this sort may be based on illusory distinctions, the markers of difference are none the less given solidity and permanence through the processes of self-segregation and government policy. The economic costs of running a polity on this basis are extremely high. If a town requires two health clinics rather than one, two schools where the numbers only justify a single school, and public transport and service delivery of every kind engineered to meet the needs of two communities then obviously there is a cost to the public purse. In 2007 the management consultancy firm Deloitte submitted a report commissioned by the British government which attempted to put a figure on the costs of division. The estimate they made was that an additional £1.5 billion was added to the public expenditure bill every year in Northern Ireland because of the costs of the divide. To arrive at this figure comparisons were made with public expenditure allocations in other parts of the UK, and the additional per capita spend for Northern Ireland was then assumed to arise from the additional cost of the division. This may not have been as satisfactory a methodology as an aggregation of all costs from the bottom up, but the authors explained that issues of disentanglement, consistency of base period, and resource definitions rendered such an approach impracticable. The estimate derived from macro data may be open to question, but it had, at minimum, the effect of focusing debate on the economics of running a divided society.

The framework employed to calculate the costs broke them into three primary categories:

Direct costs of conflict This category includes all costs associated with policing an ethnic conflict or dealing with its legacy. In the summer of 2011, for example, the additional policing costs that arose out of the summer 'marching season' were put at £6 million. The legacy costs include the investigation of murders committed during the Troubles, along with the occasional costs of tribunals and inquiries. The Saville Tribunal, for example, which looked into killings by the British Army in the 1972 incident known as Bloody Sunday, cost a total of £195 million.

Duplication costs At the macro level the additional costs that result from housing duplication are put at £24 million. A large proportion of this is due to the development of social housing while habitable homes lie empty due to the sectarian division – Belfast for example is losing large numbers of its Protestant population but Catholics cannot avail of empty housing in areas deemed to be Protestant. The report also estimates that a single unified education system, with unified teacher education, could save up to £80 million per annum. To provide one example to show how this works at the micro level, the report details how each week in Northern Ireland there are an additional 165 bus runs to prevent conflict breaking out between Protestant and Catholic children on their way to and from school.

Lost opportunity costs Northern Ireland's tourism figures lag behind those of Britain or the Republic of Ireland, and the report estimates the financial shortfall to be in the region of £1.46 million; similarly, foreign direct investment is lower than comparable regions within the UK and the estimate here is for a differential of approximately £225 million.

Not all costs are identified and quantified. There are plenty of cases where duplication can be identified but the complexities of data collection do not allow for reliable quantification, and considerations of lost opportunities must inevitable lead into the realm of speculation. What is not in doubt is that as a divided society Northern Ireland is a very costly place to run. The Deloitte report on the costs of division would therefore seem to provide a case study example of what Valenti and Giovanni (chapter 2 of this book) find elusive: ".. evidence which demonstrates directly quantifiable benefits from enacting socially inclusionary policies"

9.3 The policy framework

The Janus-like nature of Northern Ireland today – a society that looks backward and forward at the same time – can be explained by the contradiction between the formal peace accord and the legislation and policies that followed on from it. The political settlement reached through the Good Friday Agreement in 1998 and subsequently amended through the St Andrew's Agreement in 2007, is a very particular kind of agreement. It is not, as outsiders sometimes imagine, an accommodation that dissolves previous antagonisms in a warm, healing bath of compromise. It is rather, a settlement that builds upon the two ethnic identities: as Taylor (2008: 183) puts it, the underpinning assumption is that it is 'in the nature of things', that "Northern Ireland is deeply, indeed irrefutably, divided between two competing ethno-nationalist communities". Taking this as axiomatic, the architecture of the political arrangements uses these identities as the building blocks of the new settlement: thus, the manner in which power is shared between the political parties is through a system of weights and counter-weights. The parliamentary see-saw depends upon the nationalist bloc staying in position at one end and the unionist bloc balancing it at the other end. Politicians in the Northern Ireland Assembly must register as nationalist, unionist or other (*NIO*: *The Good Friday Agreement*, *Strand One*, para. 6) and the system of mutual veto is a way of maintaining equilibrium between two political identities.

This system of government, known as consociationalism, does not invest in assisting communities to escape their ethnic identities; on the contrary, the stability of consociational arrangements can only be assured when these identities remain fixed. That does not make Northern Ireland exceptional in the world of conflict resolution; it is rather the new norm in situations where the international community intervenes to create a peace agreement. The constitutional arrangement that framed the Dayton Agreement at the end of the Bosnian war, the Ohrid Agreement in Macedonia in 2001, and the NATO-brokered arrangements in Iraq and Afghanistan are all examples of consociational arrangements introduced to cap ethnic antagonisms. In essence, consociationalism is a form of government in which all ethnic communities work together within a grand coalition. Instead of the usual government-and-opposition parliamentary arrangement all parties are entitled to a share in government, with the size of each share determined by electoral strength. The advantage of such an arrangement is the stability it can bring; the disadvantage is the premium placed upon ethnicity as the basis of the polity. For war-weary countries – and Northern Ireland in 1998 was very much in this category – the peace and stability on offer can outweigh all other disadvantages. For its critics however, consociationalism simply offers conflict societies a reinforcement of the ethnic identities at the root of the problem. As Phillips puts it:

> And since the emphasis throughout is on stability rather than equality or change, there is nothing to worry about in the formation of exclusionary political identities which derive their force from seeing others as a species apart...The followers may become so immersed in segmental self-definition that they can no longer bear to live in the same neighbourhood with others who are different from themselves, but if this works to enhance the authority of those who speak for their community or group it will help rather than hinder the 'democracy' (Phillips, 1993: 52)

Seen from this angle, the 1998 Agreement may have brought an end to the violence but has solidified the communal identities of nationalists and unionists and, as a consequence, weakened the middle ground. For critics of the Agreement this problem was obvious from the outset. It began in fact with the publication of the Accord. This, as Shirlow and Murtagh (2006:33) point out, is the 'document with two names'. Before the ink was even dry on the first print run it had become known to Catholics as the Good Friday Agreement and to Protestants as the Belfast Agreement. Those who drafted the text of the peace agreement could hardly complain. The binary is built into the document itself. While it begins in the first paragraph by talking about the 'whole community' it soon slips down through the gears into the more familiar language of the 'two communities'. The permanence of the division is assumed in the constitutional arrangements set up to manage that same division.

It hardly needs to be said that this is an entirely different approach from that which underpinned peace-building efforts in an earlier period. Then the assumption was that relations between the two communities could only be improved with the creation of superordinate identities that would allow for the transcendence of sectarian division or, at minimum, a diminution of communal hostilities. For many years government policy favoured 'contact theory' community relations as part of an overall political strategy which has as its main objective the idea of magnetising the political centre in order to draw moderate unionist and nationalist parties into a power-sharing arrangement. The corollary was that with the creation of a strong centre the political extremes would become increasingly irrelevant. The 1998 Agreement, and the devolved parliament which has, somewhat belatedly, followed on from it, do not conform to this model, and the peacemaking strategies which have developed in the period since its signing are likewise cast in a new mould. The extreme parties, the DUP and Sinn Fein, have formed the new axis of politics in Northern Ireland and it is the moderate, centrist parties like the SDLP and the Ulster Unionist parties, which find themselves in the ironic position of seeing their importance diminish as a result of the peace process.

That however is not the whole story. The contradiction – or as the political scientist Adrian Little puts it, the 'paradox' – written into the Agreement itself is that it manages to be both integrationist and segregationist at the same time (Little, 2004). While the political parties may remain anchored in historic identities, then it is also true to say that the new dispensation is 'bolstered by a new regime of human rights and a culture of equal opportunity' and that it is 'steeped in pluralist, inclusive philosophy' (Wilford, 2001:121). The legislation that has followed in the wake of the Agreement includes the most swingeing equality provisions in Europe: not only does government have a responsibility to safeguard against discrimination, it also has a duty to go beyond this to a positive pursuit of 'good relations'. And so, while the constitutional arrangements assume the solidity of ethnic identities the Agreement also launched a dynamic to improve relations between the two communities. The guiding principle, that of 'good relations' can be interpreted in different ways. It is possible, in the minimalist interpretation, that it means no more than a guiding principle that good relations are to be fostered between two fixed, immutable and antithetical identities without the gap between the two ever being narrowed. It could also however include the ambition that increased exchanges between people from the two blocs will lead to a narrowing of difference, and a pooling of identities, concerns and networks. If so, then the hope is that in time each citizen will be freed from the constraints of his or her birth identity and be able to move in and out of shifting, fluid multiple identities. This latter, more ambitious agenda was the one set for Northern Ireland by the British government when it published a policy document in 2005 called *A Shared Future*. At that time the Northern Ireland Assembly was suspended because of one of the political stalemates that bedevilled the period, and the direct rule administration from Britain used the occasion to push the two sides towards a more full-blooded commitment to the creation of a genuinely shared society. The meaning of the term 'shared society' as it is presented in this document shows a high degree of congruence with the vision presented by the Club de Madrid (2011), and the idea it puts forward of self-reinforcing virtuous circles where economic and social progress feed off each other. The text of

A Shared Future makes a very clear statement not only on the moral imperative for sharing, but also the economic need:

> Separate but equal is not an option. Parallel living and the provision of parallel services are unsustainable both morally and economically..the costs of a divided society..are abundantly clear: segregated housing and education, security costs, less than efficient public service provision..Policy that simply adapts to, but does not alter these challenges, results in inefficient resource allocations. These are not sustainable in the medium to long-term. (Section 1.4, Fundamental Principles, A Shared Future)

While such a vision commended itself to the political centre, the two governing parties, the Democratic Unionist Party and Sinn Fein were unimpressed. They effectively sidelined the policy, saying they would bring forward their own document, but then, in a telling demonstration of the problem they were trying to solve, were unable to agree on a community relations strategy. The impulse towards sharing and accommodation is however carried forward in other ways; by civil society organisations, local government, regulatory bodies dealing with equality and human rights and by a vast panoply of projects and initiatives funded by the generous grants distributed through the EU Peace Programmes and the International Fund for Ireland. What success can they be deemed to have had? Which is to be – a society moving out of conflict or one experiencing a strengthening of inflexible ethnic identities? This is the question posed in the introduction and, as stated there, the Peace Monitoring Project was set up to provide a rolling analysis of the situation as it evolves, paying close attention to empirical realities.

9.4 How is it being measured?

If peace were simply the absence of violence then the trajectory of the Northern Ireland peace process would be easy to trace: using the statistics for deaths and injuries, bombings and shootings, riots, arrests and convictions, we would be able to plot with almost mathematical certainty the journey out of violent conflict. We might even be able to arrive at a forecast for the time when the figures for violence in Northern Ireland come into line with those for other parts of these islands, and we could be seen to function within the norms generally accepted for Western European polities. The decrease in violence since the 1998 Agreement is not sufficient however to offer guarantees for such a future. Northern Ireland was in fact an exceptionally peaceful society in the 1960s, if measured only by the statistics for violence. In this period it was a classic example of what the Norwegian peace studies expert Johann Galtung calls 'negative peace' – that is, peace defined simply by the absence of violence. In such situations structural injustices may be waiting to erupt into conflict – as indeed was the case in the period before the civil rights movement took to the streets at the end of the 1960s. The measuring instruments must therefore not only examine overt cases of violence but also what Galtung calls the 'structural violence' below, the inequalities or imbalances that might precipitate a return to violent conflict.

Beyond that, there lies the problem of pinning down something as elusive as the subjective sense of peace. While there are quantitative data sets and standard measures for all of the negatives – poverty, inequality and violence – it is much more difficult to capture the opposite, the occurrence of positive experiences of solidarity, well-being and justice, the experiences that are constitutive of a positive peace. There have been some significant developments in the measurement of 'well-being', with the French and UK governments now publishing indices that monitor subjective experiences within their respective populations. Peace has now also come to be seen as a valid construct for empirical research; in fact there has been an exponential growth in the study of peace and conflict – not just between states, but because of the rise in ethnic conflict, within states. Recent developments in peace monitoring reflect the diversity of their origins. Driven by the quite different concerns of peace institutes, military intelligence, international development agencies, global capital and international development bodies, there has been a branching out of approaches and methodologies. Academic peace institutes like the Scandinavian International Peace Research Institute, the Uppsala Conflict Data Program, or the Heidelberg Institute for International Conflict Research, tend to act as observatories producing 'conflict barometers' to calibrate the danger of war in different theatres across the globe. The Global Peace Index (see chapter 6), which is produced annually, provides an annual ranking of the countries of the world in terms of their proximity to peace, and stresses the connections between the absence of violence and the possibility of economic growth. The American military, following its interventions in Iraq and Afghanistan has concerned itself very much with indicator frameworks that will allow for predictions about the 'inflection points' that signal changes in the political temperature. Post-conflict studies have been slower to emerge. A significant addition in recent years is the Yearbook of Peace Processes, issued by the Escola de Cultura de Pau, University of Barcelona. This provides a short account of the status of each ongoing conflict (usually about 70 each year), and any peace agreements that have been signed. The most detailed account of the journey of a post-conflict society is provided by the Institute for Justice and Reconciliation in South Africa which publishes not one but two annual monitoring reports: the SA Reconciliation Barometer, which tracks attitudes to the 'other', and the Transformation Audit which monitors the country's efforts to achieve inclusive economic growth. The particularity of these two IJR reports serves to reinforce the old Tolstoyan message: that while all happy societies are alike, each conflict society is unhappy in its own way, and that each must therefore devise its own peace process and, as a corollary of that, each must have its own monitoring system. And so, while all of these varied initiatives in the measurement of peace are of interest, the Northern Ireland Peace Monitoring Report had had to create its own indicator framework.

9.5 Creating an indicator framework

'An indicator is a sign of the presence or absence of the concept we are studying'. (Bobbie, 2010: 131) This definition is both precise and clear; however, to make our indicators operational we must find ways to make the abstract concepts amenable to empirical observation. This same task faces all social research surveys where the concept under scrutiny takes the form of a political abstraction. Peace is an example of a concept that is too loose and baggy to be measured without further definition; we must break it down into more meaningful categories or dimensions and then construct indicator sets that will allow these categories (which are still abstractions) to be appraised in real life situations. In a widely quoted definition Gallopin (1996:108) describes indicators as "..variables that summarise or otherwise simplify relevant information, make visible or perceptible phenomena of interest, and quantify, measure and communicate relevant information". Since the choice of possible indicators is limitless, care must be taken to ensure that only those closely aligned with the concept are admitted. Selecting what is to be included and what excluded is no easy task: the Council of Europe, for example, looked at 600 possible indicators to allow it to examine the idea of social cohesion. The crucial first step is being clear about the concept, or category, under investigation. As Beauvais and Jensen (2000:6) have it,

”definitional choices have significant consequences for what is analysed, what is measured, and what policy action is recommended”.

If, for example, we wish to consider how a concept like social justice can be monitored then we can look to the example of the Bertelmann Foundation which, working from OECD data, examines how this abstraction translates in practice in developed societies. It makes its definitional choices by dividing the concept of social justice into five dimensions, each of them open to empirical testing: poverty avoidance, education access, labour market inclusion, social cohesion and equality and generational equality. These domains are then further divided into indicator sets, based on the pooling of 18 qualitative and quantitative indexes and the transformation of them into a linear scale. Or, to use another example, when the Equality and Human Rights Commission set out to monitor fairness in British society it did so by breaking the concept of fairness down into five ’gateways’: health and well-being; education and inclusion, work and wealth; safety and security; and autonomy and voice. Each of these was then further broken down into indicator sets (or ‘clusters’) so that all relevant aspects such as age, class and gender could be factored in to create a fully multi-dimensional understanding. It is in this way that the abstract becomes concrete, the general becomes the particular, and something that is an abstract value is given a relationship to facts.

The definitional choice that faced the Peace Monitoring Report concerned the categories or domains that, taken together, allow for a fully rounded analysis of the peace process. Peace as a superordinate category is multidimensional and in order for it to be examined we had to disaggregate it into distinct, if overlapping dimensions. The number had to be sufficiently parsimonious to allow a tidy ordering of the information, while at the same time sufficiently accommodating to allow for all the many and various aspects of accord and discord to be taken into account. This meant the creation of a small number of indicator-rich domains or, as they are sometimes called, composite indicators. According to the OECD definition:

> A composite indicator is formed when individual indicators are compiled in a single index, on the basis of an underlying model of the multi-dimensional issue that is being measured. A composite indicator measures multi-dimensional concepts which cannot be measured by a single indicator.

What concepts then, taken together, allow for a sufficiently kaleidoscopic understanding of the dynamics of a post-conflict society? The framework constructed for the research is made up of four distinct, but interlocking domains, each with own indicator set made up of both quantitative and qualitative data. The four dimensions are: the sense of security: equality, political progress; and cohesion and sharing. The rationale for each and the results of the first annual summary of the data are as follows:

- *The Sense of Security*

The simplest measure of how peaceful any society is comes from the sense of security experienced by the individual citizen. This has to be assessed in a number of different contexts: in the home, in the neighbourhood, in the workplace, and in the public space. To build evidence for this dimension we looked not just at crime statistics but at attitudinal surveys and academic articles which explore the subjective sense of security. Attention was also been paid to differentials between geographical areas and between groups of people. Levels of violence are key indicators of the absence of security, and during the Troubles they were the statistics most frequently used to measure the intensity of the conflict. The decline in the levels of violence since the ceasefires provides useful evidence of the journey out of conflict, and we therefore collated data which detailed the numbers of bombings, shootings, beatings, hijacking, arson attacks, and other forms of violence which reflect injury to person or property. Trends which show decline or diminution in the security-related category of the PSNI Crime Statistics cannot of themselves however be taken as evidence that the threat of sectarian violence has been left behind. While the figures for 2011 provide encouragement in that the murder rate has fallen to pre-1969 levels, it was also the case that the Chief Constable warned that the dissident threat is at its highest level since 1998. The sense of latent violence therefore had to be part of the equation, because even when the threat did not become manifest, the people of Northern Ireland still lived under its shadow. Note was also taken of the level of non-political crime. While post-conflict societies like Kososo, Guatemala or (especially South Africa) have often recorded increases in crime following a peace settlement, this has not been the case in Northern Ireland. And, while conflict societies often record high rates of domestic violence, again this has not been true of Northern Ireland, where the incidence of abuse has consistently run below other parts of the UK.

- *Equality*

The Troubles in Northern Ireland erupted because of structural inequality in housing, employment and life chances between Catholics and Protestants. This fault line therefore has to be constantly monitored to see if the inequality gap is opening up or closing over. In the 1998 Agreement great emphasis is laid upon equality as the essential ingredient of any peace settlement; the wording of the Agreement commits the participants to 'partnership, equality and mutual respect', and one of the first initiatives following its signing was the creation of an Equality Commission. In the past inequality was closely associated with discrimination, but external factors now have a hugely important shaping influence. Northern Ireland has had to absorb the shocks of a global recession that has radically restructured the labour market, creating new differentials. The de-industrialisation of an earlier period has its effect on heavy industries like shipbuilding and engineering, while the recession is now making its impact felt on construction and related occupations. These blind forces re-balance the life chances for Catholics and Protestants in unintended ways but the consequences have to be monitored. So too do the effects of educational policy and the quality of educational provision which prepare – or fail to prepare - a younger generation for the labour market. A consideration of education and equality also necessarily brings gender into focus. Social disadvantage, religious background and gender can combine to create a compound effect, so differentials need to be understood not just in their own terms, but in interaction with each other. The data for the 2011 year showed how these various forces have combined to create a force field in which both women and Catholics have been redressing traditional imbalances. The labour market had been re-shaped during the 1998-2008 period to allow more females and more Catholics to enter the labour market and to ascend the managerial levels. The research showed however that the escalator providing this upward movement had been stopped by the recession: this has meant a suspension of relativities at the 2008 level but not, as yet, their reversal.

- *Political progress*

The end destination of the peace process has always been shrouded in mist, and this creates an obvious problem in measuring progress towards that point. The 1998 Agreement was suffused with the 'creative ambiguity' that allowed for its acceptance by both political traditions. For unionists the compromises over territorial sovereignty are justified by the belief that this marks a final settlement of the constitutional issue; for republicans the acceptance of the UK framework is justified by the belief that it is only a staging post towards a united Ireland. Republicans see themselves as still being on a journey; unionists feel they are at a terminus. The Peace Monitoring Project is agnostic on the constitutional issue. Progress in this context does not have to be measured against particular constitutional destinations, such as a United Ireland or further integration with Britain. Instead it can be seen in terms of the ability of political opponents to use dialogue in order to arrive at mutually satisfactory outcomes. The operations of the Northern Ireland Assembly were thus evaluated and it was shown that the local parliament performed its functions as a legislature surprisingly well – at least as measured by the number of bills enacted. It was also noted that, when the Assembly dissolved itself for the May 2011 elections, it was the first parliament to have served out its mandate for forty years. And, while there has been spoiler activity by dissident republican paramilitaries, their violence has not threatened the political institutions; on the contrary, their campaign has had an effect opposite to the one intended in that it has consolidated the political centre. Not all the indicators were positive. The most destabilising factor has been the inability to deal with the past. Old sores continue to open up and while it is now accepted that there will not be a 'big bang' solution, such as a South Africa-style Truth and Reconciliation Commission no other remedy has been accepted. The Israeli writer Amos Oz has said 'you can have peace or you can have justice, but you can't have them both'. Northern Ireland chose peace but the release of convicted prisoners, an essential part of the deal, created a sense of injustice that is proving slow to heal.

- *Cohesion and sharing*

While the values of the project have a clear preference for sharing over segregation, sharing in itself is not elevated to an absolute. This is an area where the measurement of progress becomes problematic because there is not a consensus on where the balance is to be struck between the *unum* and the *pluribus*. When the document, *A Shared Future,* was put out to consultation the overall recommendation was to privilege sharing over separation, but a sizeable minority, some 40%, reported themselves happy with the existing level of separation. The more we look into different sectors the more complex the patterns become: while most people agree that residential sharing is desirable, there is an understandable hesitation about giving it more force in housing policy if that comes to seem like coercion. When it comes to education, the pattern is even more confusing. Attitude surveys consistently show support for the idea in principle, but the new emphasis on respect for cultural diversity has allowed a challenge to develop. The Council for Catholic Maintained Schools, for example, argues that a genuinely pluralist society would not put such pressure on Catholic schools to integrate with others. Sharing, in other words, as a moral and social value has to be balanced against other imperatives. This is a problem identified elsewhere in the creation of other indicator frameworks. In Canada, for example, a monitoring survey of immigrant communities used support for minority ethnic languages as an indicator of respect for incoming communities (diversity) while also including participation by immigrants in English and French language programmes as an indicator of integration (unity).

Given that Northern Ireland is now very definitely a multi-ethnic society, it has been necessary also to look at how far its many different communities can also experience themselves, in Benedict Anderson's phrase, as an 'imagined community'. At the low end of the cohesion spectrum there is a fragmentation of the culture with social groups operating at increasing distance from each other; at the high end, where cohesion is achieved, there is a commonality of experience and with it, a sense of the mutuality of ties and obligations. Perhaps one of the more hopeful findings to emerge from the 2011 data was the increase of neutral spaces, enjoyed by all. Northern Ireland's towns and cities have seen the growth of a confident new cappuccino culture: busy restaurants, shopping malls and night clubs. There were also times when old enmities were set aside to allow for a sense of a united people – as for example, when Northern Ireland's golfers, Rory McIlroy, Graeme McDowell and Darren Clarke pulled off stunning victories, or when the MTV awards came to Belfast and the city gave itself over to a party which was, in its way, a celebration of how far things have come.

Finally, economic forces have provided the driver for a new form of sharing in education. Falling school rolls have made the twin track approach of having a Catholic and Protestant school in every town unfeasible. Northern Ireland has 879 primary schools, but more than a third of these (326) have less than a hundred pupils, the number needed to be economically viable. Of the 228 post-primary schools 107 are economically unviable. While integrated schools might provide a solution, they at present only account for 6.5% of all enrolments, and the numbers are not projected to reach 10% until 2020. A new initiative led by Queen's University Belfast has piloted what is termed 'shared education', a system whereby schools, while retaining their identity, can pool resources to mutual benefit. Thus, schools which do not have sufficient students to support a French language teacher, or to build a basketball court, can combine their resources to assist each other. The framework encourages the sharing on a cross-community basis and, while the driver may be economic, the benefits are social. The initiative provides additional resources, but the scheme has caught the attention of a cash-strapped Assembly, which has now set up a Sharing Education working group to see how such an initiative can be mainstreamed. It is a small step but a significant one. And it is by taking such small steps that we travel the path towards a shared society.

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Chapter 10
Shared Societies in Latin America

Ernesto Ottone

10.1 Introduction

The *Club de Madrid* has defined the shared society as "one which individuals share an equal capacity to participate in economic, political and social opportunities regardless of their religion, ethnic or linguistic group, and where as a consequence relations between groups are peaceful".

ECLAC has defined social cohesion (1) as "the dialectic between established mechanism and dispositions in relation to the way these operate. Social integration and inclusion mechanisms encompass employment, education systems, entitlements and pro-equity, pro welfare and social protection policies, among other things. They entail some degree of distributive social policy impact and a system of transfers that reduces disparities in opportunities, capabilities and vulnerability. On the other side, people's behavior and perceptions encompass spheres as diverse as trust in institutions, social capital, the sense of belonging and solidarity, the acceptance of rules for common living, and a willingness to participate in collective projects and deliberations.

This concept allows heterogeneous dimensions to be associated in the dynamics of development: social policy and the value of the solidarity distributed throughout society; synergies between social equity and political legitimacy; the transmission of skills and the "empowerment" of citizens; the relationship between trust and governance; the impact of socio-economic transformations on changes in social interaction (and vice-versa); harmonization between greater economic equality and greater recognition for cultural diversity; and the reciprocal effects of socio-economics divides and the sense of belonging".

Some of these features are partially present in Latin American societies today but still there is a long way to reach the capabilities of advanced economies to combine high degrees of freedom and social cohesion.

To understand the obstacles to overcome to achieve shared societies in the region, it seems convenient to analyze the main historical trends of Latin America's process of development and modernization

I will not analyze the oligarchic modernization model (1850- 1914 followed by an interregnum till 1930) except to note that it drew the map of Latin American states, created nations and integrated the region into the world economy of the time. Accordingly, this model gave rise to several features that persist to this day in Latin America, such as the region's gap with respect to the developed countries and the great social inequity and intraregional heterogeneity that are its hallmarks today. For better or worse, the region's birth certificate was written in that period.

10.2 The unfinished modernization

The unfinished modernization model (1930-1980) may be summarized in three main points:

- The creation of a more inclusive State and of a popular national identity: In most of the countries, emerging social sectors were absorbed in the absence of a representative democratic system (i.e. without elections, respect for minorities or institutions responsible for checks and balances). Most states were forged by authoritarian processes, popular revolts and military interventions of different political persuasions (such as the Mexican revolution and the movements of Getulio Vargas, Perón, Rojas Pinilla, Pérez Jiménez and Villarroel, [2]among others). Chile, Uruguay and Costa Rica, in particular, were partial exceptions in this regard.
- The end of the oligarchic State did not spell the end of oligarchy as a dominant class. Albeit transformed and weakened in some cases, this class continued to exist, representing the landowning component in a new political compromise with the emerging commercial, financial and industrial sectors in the block of post-oligarchic power, which also included organized labour and the political representation of workers.
- The process of State-led, domestic-market-oriented industrialization was not a doctrinare decision; neither was it a free choice or – to dispel a myth – an invention of the Economic Commission for Latin America and the

> Caribbean (ECLAC). On the contrary, it was a reality created by the crisis of 1929. Let us recall that the exports of six major Latin American economies plummeted by 33 per cent between 1929 and 1932 while the United States and Europe adopted protectionist stances.

This is the global economic landscape into which the State-led, domestic-market-oriented industrialization model was born.

The economic and socio-political developments that took place in the framework of this State model combined important advances with large inequalities.

On the one hand, great economic expansion was achieved between 1950 and 1980. During this period per capita gross domestic product more than doubled, despite a twofold increase in the population[3i]. Hand in hand with this expansion went significant urbanization and the modernization of the lifestyles and consumption patterns of certain social groups. Notable social achievements were made, particularly in health and education and in infrastructure. However, economic expansion was achieved at the cost of external indebtedness and financial imbalance, and coexisted with large technological shortcomings and insufficient saving-investment processes[4].

The fruits of economic expansion were distributed in a notoriously unequal manner, with large sectors of the population continuing to live in poverty and even extreme poverty.

Despite its undeniable achievements, the Latin American development model, with its clientelistic State occupying a central role was unable to overcome the concentration of wealth in a few hands or to shed its own heterogeneous nature. The clientelistic model was unable to build a democratic system nor interests state, notwithstanding the fact that some important social advances were taken as far as possible. During the 1970s poverty reached 35 per cent of the population. All of these processes were framed politically by the Cold War and its landmarks, such as the Cuban revolution.

Towards the late 1960s and early 1970s, the region's pattern of growth with little equity – and, mostly, practically no democracy – generated what Lechner termed 'ideological inflation' driven by 'the threat of dissolution and atomization of the social order' in the framework of the Cold War[5].

Such ideological inflation led to a clash of 'global ideological approaches and polarizations' that diminished the possibilities of compromise that the clientelistic State could arbitrate. Then, in the 1970s, a conservative alliance sprang up as authoritarian or military regimes were established in many Latin American countries.

According to the United Nations Development Programme (UNDP), only three democracies still survived in Latin America in 1976.

Under the military-authoritarian regime, the State loses its capacityfor compromise and for economic intervention. It plays a fundamentally repressive role, in this case to ensure the application of neoliberal doctrines that arose in response to the crisis. In particular, it is a matter of attempting to impose hegemony through the disarticulation of civil society.

But the neoliberal doctrines were hegemonic even in those countries where the democratic system survived. During this period, deregulation and privatization were promoted and production was steered towards exports.

Between the 1970s and 1980s – in other words, the period in which the globalization process began to gather momentum and the world economy shifted dramatically towards internationalization – the unfinished modernization model lost all effectiveness and became stagnant even in the democratic countries.

The region had built up serious shortcomings in savings, investment and addition of value. It was shouldering unwieldy external debt and lacked competitiveness, and was suffering depredation of natural resources and inflationary processes, while its industry and technology were becoming obsolete. The external debt, the raising of interest rates in the United States and the fall in commodity prices paved the way for the crisis of 1982.

But this was not only an economic and social collapse; it was also a political and cultural one. The clientelistic State was the main source of shared identity in Latin America: the end of this model also created a vacuum in the sense of belonging, because the new neoliberal minimal

States and dictatorships were simply articulating the process of integration into the global economy, without any filter or attempt to build a national identity[6].

It must be stated, however, that it was during this period and in the framework of the Cold War crisis that the conditions for democratization of political systems and advances in democratic pluralism were created.

Thanks to internal developments and the end of the Cold War crisis, democracy was restored in the region by 1990, but the poverty rate had reached 4 per cent.

10.3 The 1990s

The 1990s are commonly described as a period of neoliberal domination reflecting the nature of the globalization process underway in the world at the time.

But at the theoretical level, at least one important alternative school of thinking existed in Latin America: the school of productive transformation with equity, inspired by and developed within ECLAC by Fernando Fajnzylber[7].

On the basis of the empty box theory, which proved empirically that none of the Latin American countries had been able to achieve an acceptable level of per capita GDP growth at the same time as a reasonable degree of equity, ECLAC presented a theory to the Latin American governments in 1990 in which it proposed changing production patterns with social equity.

This theory may be summarized in five points:

1. The central idea around which all the other points revolve is that the changing of production patterns must be based on the systematic and deliberate incorporation of technical progress, which must encompass the entire system within which enterprises operate.
2. Coherent and stable macroeconomic management is necessary, although not sufficient in itself.
3. A symbiotic relationship between growth and equity is possible and feasible, and economic progress is sustainable only with social progress and inclusion.
4. Open regionalism is necessary.

5. There is a recognized need for a democratic, pluralistic and participatory setting with a minimal level of consensus around fundamental development goals.

All these ideas were endorsed, but only partially applied. Chile has been the sole successful exception. Brazil, under the administration of F.H. Cardoso, [8]also followed a number of these guidelines with good results.

By the mid 1990s, the balance of economic transformation showed both advances and shortcomings. Most of the countries in the region achieved moderate economic recoveries, with average growth of 3.2 per cent between 1991 and 1996, significant advances in macroeconomic stability, rising export growth and diversity, improved access to external financing and a significant increase in economic interdependence within the region, spurred by a new generation of formal integration agreements.

However, growth levels still fell far short of those necessary to overcome technological and social shortcomings and the economies still showed large degrees of vulnerability.

Domestic savings levels were too low. Expansion of total investment was insufficient and the structural heterogeneity typical of the region's productive systems sharpened.

There were profound disparities in national poverty levels. During the first half of the 1990s the poverty rate decreased from 48 per cent to 39 per cent: an important advance but not enough to counteract the previous decade's rise from 35 per cent to 48 per cent. Nor was it enough to reduce the overall numbers living in poverty.

The advances achieved in the region towards the mid 1990s became more fragile. The Tequila Crisis and, later, the Russian and Asian crises were decisive points for the Latin American economies.

The 'dark' phase of globalization brought with it episodes of turmoil that proved devastating for the region. The early years of the twenty-first century were marked by profound economic, political and social crisis. The region's gross domestic product took a negative turn. Despite a brief recovery in growth in 2000 (3.7 per cent), the figure in 2001 was only 0.4 per cent in 2002, and in 2003, 1.5 per cent.

This situation, whose main cause lay in the world economy – in particular in financial market volatility – produced setbacks in poverty reduction and widened the gap in income distribution.

In relation to poverty, ECLAC figures again showed the loss of the advances achieved during the 1990s. In 2003, poverty reached 43.9 per cent of the population, or 225 million poor in absolute terms. This reflected previously unheard-of figures in many countries, such as Argentina, where the poverty rate reached 40 per cent, of which 20 per cent were indigent. The only country to remain an exception to this was Chile, which managed to maintain and even slightly lower the figures of the 1990s, reducing poverty from 40 per cent to 18.8 per cent and indigence from 14 per cent to 4.7 per cent. Chile's situation largely reflected its ability to apply countercyclical policies[9].

10.4 Facing the global crisis

Fortunately, the negative situation in the region began to turn around thanks to the new global economic cycle that started to gain momentum from 2004 on. As a result, the economy of Latin America and the Caribbean grew by 6 per cent in 2004 and by over 4.5 per cent from 2005 until 2008. This enabled strong recoveries in the economies that had suffered most in the previous cycle.

This new cycle afforded breathing space in the short term. It was strongly driven by a favorable external scenario, the lowering of interest rates and the temporary rise in raw material prices caused by numerous factors, including burgeoning demand from huge economies – principally China and India.

These factors combined to create a highly positive set of conditions in Latin America between 2003 and 2008, the like of which had not been seen for at least 40 years. Growth stood at around 4.5 per cent per year, all social indicators improved and poverty levels decreased in nearly every country in the region, coming down to 33 per cent overall in 2008. Income distribution improved, albeit moderately, and the overall quality of development rose: more saving and investment, first steps towards implementing countercyclical policies, reduction of unemployment and higher and better-quality social expenditure.

Although the advances were greater in South America and smaller in Mexico and Central America – whose economies compete with China in exporting low-tech manufactured goods to the United States market – the situation overall improved, seemingly opening up new opportunities for the region as a whole. Already in 2007, however, ECLAC had drawn attention to certain problems in the global economy, particularly in the United States. Even so, the expectation was for another 'soft landing' in the world economy, whose impact on Latin America would slow up improvements but would not be dramatic.

The global crisis erupted in the third quarter of 2008 and shook the Latin American economy: as is well known, this crisis was of North American and European origin and Latin America had no responsibility in creating it.

So true is this that the Latin American financial system, much more regulated than those of the United States and Europe, did not suffer financial contagion.

The effects of the crisis began to hit Latin America at the end of 2008 and continued until the third quarter of 2009, when some signs of recovery emerged. GDP growth fell to -1.9 per cent in 2009.

The reasons for the drop in GDP growth are all linked to the combination of reduced exports in the global economy, a collapse in investment, a decrease in tourism, the rise in unemployment and the fall in migrant remittances … though not for long.

The countercyclical policies implemented in the region account for the modest increase in poverty and extreme poverty and for the fact that when the world economy – particularly the large emerging economies – recovered, Latin America also embarked upon a rapid recovery in the aspects mentioned above. GDP growth in 2010 was 6 per cent and the projection for 2011 is 4.2 per cent.

The primary problem of the Latin American economies relates to the uncertainties of the developed countries' economic recovery.

It may be asserted, therefore, that we are in a historically new situation, inasmuch as a global crisis did not dramatically hurt the region, which was then able to recover faster than the global economy.

Of course, prudence must be exercised. Latin America faces enormous challenges in consolidating sustainable development and achieving a positive and sustainable form of integration with the globalization process. But there is something new: for the first time the region's performance in the face of global crisis was relatively autonomous and successful. It could be said that we are moving, even if only a little, from dependency to interdependency. There is reason to think that Latin America could develop into a new protagonist in world affairs.

10.5 A strategic look

If we look at things objectively, Latin America is a region with a composite cultural identity, an intermediate economic situation and political systems that are historically marked by fragility.

Latin America is not a low-income region like sub-Saharan Africa, but nor is it a developed region. It is in the middle, like many parts of Asia and some of Eurasia. It is middle-income. It is midway between the African continent and the group of more advanced economies: Latin American per capita income represents a fifth of the per capita income of OECD countries and more than twice that of sub-Saharan Africa.

The region is vastly heterogeneous, both geographically and economically speaking: its economies range from Haiti with per capita income close to US$400, to Chile, Argentina and Mexico whose per capita income nears US$16,000 in purchasing power parity terms.

The region also has countries of continental dimensions, such as Brazil, as well as small island states in the Caribbean.

Nevertheless, the region overall faces similar problems throughout, including high rates of poverty and indigence, persistently unequal income distribution and uneven opportunities, unsatisfactory economic growth and the permanent 'black box of technical progress', and a lack of solid political systems.

In order to comprehend the relationship between today's Latin America and the globalization process, it is necessary to analyze some of the most salient aspects of its current situation.

Still fragile democracies

As noted earlier, the advances achieved by the region in terms of democracy have few precedents in its own history. With the exception of Cuba, all the countries have governments formed from elections that conform to international standards of acceptability, and have resolved serious conflicts in this way.

Latin American countries with fragile democratic systems today face difficulties similar to those experienced by all democracies in the present world: the distance between citizens and institutional crises of political parties and parliament; the problems that public opinion supported by the new information technologies present for the democratic representative; and the omnipresence of image and interactive communications. All of this is, moreover, aggravated by the deficit of Latin American states in terms of responding to the challenges of highly unequal societies with mediocre levels of social cohesion.

Just when it is beginning to firm up its still-weak representative democracies, Latin America must deal with the challenges to democracy presented by the globalization process.

Latin American governments show a variety of political orientations today: centre-right, centre-left, neo-Jacobean (in the French Revolutionary sense) democratic systems are suffering particularly in the neo-Jacobean governments[10].

The regimes that I have termed 'neo-Jacobean' in orientation show differences in representation that may arise from initial popular or citizen support in response to a broad perception of lack of governance and corruption, as is the case of Venezuela and Ecuador, or the exclusion of an entire universe, as was the case with the indigenous majority in Bolivia.

But beyond the rhetorical or practical differences and the varying economic and social outcomes of these regimes, in their re-founding they share a clear tendency for power accumulation which stresses and polarizes the democratic logic, and erodes the separation of powers and, sometimes, freedom of speech as well. Their situation is paradoxical, inasmuch as their electoral democratic origin and regional and global surroundings compel them, sometimes at the limit, to more or less respect a democratic system that they do not truly value and for which they appear to have no love: this is certainly the case of Venezuela. That is, they are compelled in some degree to a democratic practice, which by its nature empowers the negotiation of disagreements and is dysfunctional vis-à-vis great foundational ideological projects.

Although the fragility of democracy may be more acute in regimes of neo-Jacobean persuasion, it is not limited to these. Institutional weaknesses, the tendency to achieve power through demonization of the adversary, the mixing of politics and money, the absence of legal certainty and respect for rules, are shared partially by different political tendencies (such as that of Uribe and Kitchner[11]), and the penetration of the State by criminal elements and corruption are all very common in the region and encompass countries with governments of diverse political orientation.

In Latin America the impacts of global crime, and especially of drug trafficking and its related ills, have long ceased to be the sole preserve of the sensationalist press. Crime has grown into a major political problem in a number of countries:

Latin America is now the region with the world's highest crime rates, and this is weakening its political systems and taking a toll on the whole of civil society. The emergence of barbaric groups, their hold on particular territories and the perpetration of acts of unthinkable cruelty and inhumanity in countries as large as Mexico throw up unprecedented challenges for still-fragile democratic systems and jeopardize the State's very ability to function. How these new developments are to be tackled is far from clear. What is clear, however, is that the approaches taken thus far have failed.

Persistent inequalities

As we have observed, social inequality in Latin America, particularly inequality in income distribution, is characterized by its persistence. Globalization did not cause inequality in Latin America, but it has reinforced and modernized it, extending its reach to education and communications.

The latest developments with regard to the high degree of inequality in Latin America, one of whose traits is excessive income concentration in the richest decile of the population, are not, however, all so negative. The Social Panorama of Latin America published by ECLAC shows a decrease of poverty to 32.1 per cent and of indigence to 12.9 per cent in 2010[12]. It also signals that income distribution improved throughout Latin America with few exceptions between 2002 and 2009. Nevertheless, income inequality is still very high in the region. Some Latin Americans like to say, with a kind of perverse pride, that it is the world's highest. But this seems not to be the case. If the Gini coefficient for Latin America were compared with that of sub-Saharan Africa, the latter would be the winner, but Latin America would take a comfortable second place before the OECD countries, Central Asia, Western Asia and the Pacific. The difference with Europe is enormous: 0.52 compared with 0.34. The Latin American country with the most equal income distribution still has a higher Gini coefficient than the European country with the worst distribution.

Where poverty levels are concerned, the comparison with other developing regions has a different outcome: here Latin America is better placed, as well as in social mobility, consumption patterns or access to property or basic services.

Consequently, it is necessary to consider the unequal income distribution theme in all its seriousness but also in all its complexity. Inequality in income distribution should not be equated with inequality in general, and it is necessary to address other aspects that capture the complexity of the subject.

As already noted, the globalization process has widened gaps in market incomes with the rest of the world. The gap with Europe in this regard has also increased; accordingly, what largely explains the enormous difference between Gini coefficients in Latin America and Europe is the action of the welfare state in Europe, that is to say, the income differences after payment of direct taxes, social assistance, unemployment insurance and, ultimately, the whole array of transfers that act upon income. In Latin America the difference produced by State intervention is scarcely two percentage points; in Europe it is about 10, signaling distributive efforts of very different dimensions[13].

What has made it possible to reduce inequality starting with the boom period described is the combination of higher labour income and transfers to poorer households. This is why the distribution improvement was able to navigate the 2008 crisis while remaining on a positive path.

To accentuate this trend, end the persistent inequality and break its dynamics of production and reproduction throughout the lifecycle of the Latin American people are crucial steps towards building societies with greater well-being in the future. This depends, in the first place, on the generation of better and more stable employment for youth, particularly those in the poorer deciles. Simply keeping those groups in the labour market would by itself bring about an enormous jump in equality.

All this implies giving continuity to the increase in social spending and making it countercyclical. If it is accepted that social expenditures must be used efficiently, it is impossible to disregard the need for a new fiscal covenant in the region, one that provides more resources for social policy and can collect more revenue in a more progressive manner.

It must be recalled that, compared with other world regions, Latin America has a regressive tax structure and a larger proportion of indirect taxes. There is room to raise the tax income of the State without undercutting growth and to collect more revenues more efficiently, because most of the countries have a low tax burden, a high evasion rate and too many exemptions. As a counterpart, this new fiscal covenant requires greater levels of social trust and strong legitimization of State action.

In the long term, the fundamental factor that shapes a more egalitarian society is education, although here different factors work to prevent the rupture of inequalities of origin, such as territoriality, which causes acute social fragmentation in the very arteries of the region's countries. As in education, the advances obtained in territorial matters have a bearing on equality, productivity and the building of a modern citizenry.

A spotlight must also be turned upon the new forms of inequality brought by the information society. Latin America has taken great strides in digital development in the past ten years and is considered an emerging market in terms of ICT access and use. Yet new gaps are opening up with respect to the developed countries and even other emerging regions, as well as within countries, owing to segmented access to new information technologies.

Latin America accounts for 8 per cent of the world's Internet users, far short of the 39 per cent for the Asia-Pacific region. Mobile telephony development, however, has been huge, with subscribers actually outnumbering inhabitants in some countries. Chile, for example, has 22 million subscribers for a population of around 18 million. This has not translated into productivity gains, however, or into greater internal equality, and it has produced only partial convergence with the more advanced countries. More strenuous efforts are needed, therefore, to design new strategies for the information era[14].

Open identities

Even though the subjects of identity in the region have undergone changes, starting with the fall of the clientelistic national State and, within this framework, as a result of globalization, Latin America does not show the identity conflict seen in other world regions. Moreover, the existence of 700 ethnic groups does not appear to imply that such potential exists.

The problem is not irrelevant, however. It is a fact that Afro-descendants and indigenous people, the most numerous minorities in that order, suffer discrimination, racism and accumulation of economic, social and political disadvantage.

Yet the identity concept is strongly present in the political discourse in some Latin American countries today, particularly in those that have a numerically large indigenous population with strong identity links with their communities, as is the case of Bolivia in particular. In that country 36 different identities have been acknowledged, that explains the complex relationship between identities in local, territorial, ethnic and national plans[15]. In Bolivia, there are discussions that compare the notion of an indigenous State with the idea of either a liberal or a Marxist nation-state along Western lines, coming down in favour of the first in light of Aymara precepts of a multicentric State of diverse territories[16].

The issue of ethnicity and identity is not confined to Bolivia, however, but is common in one way or another to all the countries of the region and is particularly ingrained in Guatemala, Peru, Ecuador, Mexico and Colombia and in other countries, like Chile, whose indigenous population is smaller but enshrines a powerful symbolic heritage. What is more, it should not be overlooked that the strong Afro-descendent presence in the region in fact outnumbers the indigenous population.

The political treatment of indigenous issues differs substantially within Latin America. Mexico's population has a considerable indigenous component, yet political discourse in the country does not revolve particularly noticeably around its interests. Then there are paradoxical cases such as Guatemala, where the indigenous presidential candidate Rigoberta Menchú [17]failed to garner sufficient support among the indigenous peoples canvassed in opinion polls. Several countries show a broad range of positions with respect to indigenous identities, running the gamut from those that point to the failure of the biological and cultural blending of mestizaje in Guatemala to those that elevate mestizaje to a national virtue. This latter concept of mestizaje weighs heavily in the history of Mexico and at times in that of Brazil, where it has been a research subject for decades. The discourse and reality of mestizaje is therefore an important subject for analysis in the different countries as an element of union and of tensions born of real inequalities.

Fortunately, while in other latitudes religious conflicts tend to cross over ethnic or cultural identities, with impacts moving increasingly from local to global in recent years, in Latin America freedom of creed and the secular nature of most States has averted the outbreak of significant religious conflicts. This has been aided by the fact that secularism, understood as a regulative principle, is a social link that determines people's participation in public life as citizens, adding to the value of this principle as a driver of social cohesion. As a result, conflict arises mainly over restrictions on the effective enjoyment of citizenship that imposes profound exclusions and social inequalities.

The modernity of the region lies, precisely, in its openness to the world from the moment it was named. From then on, its modernity was defined by syncretism, which supposes a continuous re-signifying of its cultural identity.

From the cultural point of view, the challenge of globalization for Latin America revolves around two questions. The first is how to capitalize on the region's historical experience in intercultural crossover and turn it into a competitive advantage in the new landscape of an interconnected and globalized world. The second is how to make use of the region's long history to tackle in greater depth the challenge – which industrialized societies also face – of rethinking the content of citizenship, starting from the progressive coexistence of several cultural-ethnic identities.

For the region to come to terms with its own intercultural fabric is, perhaps, the most authentic way of recognizing itself today within the context of a modernity marked by a growing complexity of 'identity'.

The unresolved productive transformation

Despite the advances made in terms of social well-being, greater equality in Latin America is still a pending issue. Likewise, despite the economic progress achieved in the past few years, from a strategic perspective, the region's productive transformation also remains pending.

Unless this transformation is achieved, the current growth will not be sustainable over time. What is needed, then, is not only to build solid macroeconomic policies and fiscal responsibility, but also to raise the productivity of all the factors, adding value to the whole of production activity.

How will we position ourselves within the global economy? Clearly, the region will lose yet another opportunity if it stands still and does not add value to its current form of integration in the world economy. The boom may last for several more years, but without a new type of economic integration, there can be no certainty of a positive future. On the contrary, a future fraught with weaknesses is almost certain.

Although the Latin American people have advanced, little has been done with any strategic intent. The region is still marginal to the traditional concentration of trade, research and development in the United States and Europe. Unlike Latin America, Asia has advanced remarkably in this aspect.

The region's empty box, that of growth and equity, is still unfortunately unfilled. Investment is still insufficient, exports do not produce dynamic effects across the production structure, and market share has been lost in services trade. Latin American regional integration is not moving forward, scant resources are allocated to research and development and knowledge-intensive industries account for a very low proportion of industry overall. Lastly, the region is not creating the basis for sustained growth and a good position in the world economy in the long term.

Despite the crisis, the possibilities of bringing about this transformation lie open for Latin America. Today consumption has expanded to encompass a substantially larger part of the world population, which has increased demand for all types of raw materials and services, and opened spaces for very specialized manufacturing.

It seems very probable that raw material prices will remain high, which would enable the region to gain time. In addition, new technologies are cheaper and thus the region can advance faster in its adaptation and access to them. Latin America must therefore act more rapidly to position itself in the world production structure and take its place in value chains.

This will require a jump in innovation, in export quality and in all kinds of diversification, from manufacturing, mining, agriculture and services to tourism and finance.

All of this calls for a strategic vision in each country and a region-wide effort to project itself ten or twenty years hence. None of the countries outside of the region that have developed recently have done so without a strategic vision and an alliance between a vigorous State and a dynamic private sector, and without building consensus and inclusive understandings which enable the generation of strategies that outlast political-electoral cycles. The absence of strategy could mean several decades' delay.

The nucleus of an efficient development strategy is to diversify and develop arenas in which technological learning and competition are linked. Even if much of technological change lies in manufacturing, innovation and technical progress must be extended across the entire fabric of production.

The twenty-first century must not be allowed to be marked by the 'natural resources curse' of past centuries, when the bondholder and lazy spirit of the ruling classes led them to lose their opportunity, as they did by the end of the nineteenth century (oligarchic modernization).

Today, the new technologies, biotechnology and the rapid transformation of information technologies, make it possible to add value very broadly. There are no impenetrable walls between the outputs of production; what matters is how they are produced.

It is clear that this productive transformation process will not arise spontaneously; momentum must be provided by a State that drives technology to a higher level[18].

10.5 To live better, in a better world?

Strengthening democracy, ending inequality and ethnic discrimination, and achieving productive transformation – together with other strategic tasks such as environmental stewardship and the fight against crime – form the universe of challenges that Latin American countries must overcome in order to live better and to assume a greater and more positive leading role in a world that is beginning to design itself.

The supranational character of some of these problems and the need for all of the countries to cooperate to solve other national issues make it an urgent task to leave behind integrationist rhetoric full of bombastic phrases and historical quotations but little real content, and embark upon a serious and exhaustive process of regional integration.

What is needed for the Latin American countries is to understand that they have a common destiny, which they can only seize with initiatives that allow all to grow according to their possibilities, while favoring the weakest economies.

The countries all have responsibilities but they are not the same. For the first time in its history, Latin America enjoys the potential of having one of its countries, Brazil, recognized by the international community as a global actor: not only it is one of the 'BRICs' but also one of the 'Eagles', the countries beginning to acquire weight in the world economy.

Brazil has overcome many international and economic problems, even if it still has a long road ahead of it to achieveeconomic, political and social development. Together with Mexico, Brazil is the country whose role will be fundamental in increasing Latin America's weight in the world.

It is true that Latin America has developed a greater capacity to solve, within the region and with a democratic orientation, certain specific conflicts, such as the Colombia-Venezuela dispute and the Bolivian internal situation. It had less success in the Honduras crisis but was able to generate an immediate alert regarding the situation in Ecuador. All of this is still too little because a stronger political maturity is required, which demands an effort of a greater magnitude entirely.

If it were assumed that passing the development threshold meant simply breaking through the threshold of US$22,000 per capita income in purchasing power terms, and that threshold were reached with an income distribution structure similar to the current one in the region, the resulting state of affairs would be one in which the richest quintile would enjoy a standard of living on a par with that of the world's richest countries, but the poorest quintile would continue to live very badly.

Reaching the development threshold does not consist simply of attaining a determined level of growth. It must result from the combination of many factors, which include a considerable increase in yearly per capita income, but also an increase in the lowest quintile's share of income and in that group's capacity to pursue life plans according their aspirations and capacities and not be constrained by their origins. This requires a society in which social ascriptions are reduced to a minimum and disadvantages do not accumulate within the same groups or pass from generation to generation. This requires, consequently, a shared society.

I am absolutely convinced that growth is not development, just as income is not equal to quality of life.

Discussions in academic and political circles today touch on the expansion of social indicators beyond the economic vision to measure other values that encompass a wider conception of quality of life, including happiness itself.

I am more sceptical on the matter of happiness because I have a certain conviction that it depends on a delicate and precarious individual equilibrium that, of course, eludes social action.

This leads me to lean more on the concept of well-being, particularly on the idea of 'being well' as the greatest outcome of public action, in the line of Claude Levi-Strauss: 'Pessimism teaches me that it is necessary in all cases to promote, instead of an exaggerated humanism, a modest humanism.'

When we talk of Latin America's advance towards a development that affords a better life to all its inhabitants, we are aware that each country has its own pace and manner, because the region is still very heterogeneous. The road to overcoming its asymmetries and obtaining greater homogeneity is, then, a long one.

A few of the region's countries are advancing with a reasonably firm tread, have crossed halfway over the ford and can see the other side fairly clearly; others are making the crossing with a more uncertain step and over more rocky terrain; some have only just left the river bank and others have yet to reach the start of the crossing.

Crossing that river would allow the region to adopt a more leading role in the world, but that possibility is not set in stone, because the world is changing rapidly.

The 2008 crisis had and is still having multiple effects. It threw into question geopolitical equilibriums and revealed a world economy functioning on the basis of deregulation and unrestrained greed, which took it to the edge of the precipice. Moreover, the crisis weakened the most advanced forms of social well-being, unmasked enormous disequilibrium, and ultimately showed the weaknesses of an economic culture of globalization that had seemed able to last indefinitely.

Questions that yesterday seemed to be the sole domain of alternative organizations are gaining new legitimacy today. They refer, for instance, to planetary sustainability, decision-making at the global level, the international financial architecture, consumption patterns and political transformations. It has become legitimate and necessary to think about new forms of globalization and development and about the economic culture prevailing in developed countries, many of whose citizens, as Manuel Castells has remarked ironically, have nothing to lose except their cancelled credit cards.

This is a far cry from the old anti-capitalist nostalgia whose dreams ended in dictatorial nightmares.

But as Fernando Savater use to say "To be in favour of Electricity does not mean to be in favour of the electric chair"[19]. We must conceive a wide field of reforms sustained by the new technological possibilities and widen democracy to give way to a new phase of globalization in which market and profit have their place but where the public too has weight and space is opened up to a society guided by citizenship values.

This Latin America, which is in the middle of the ford, which has endured all kinds of avatars and has begun to secure democratic values, whose cultural mix makes tolerance only sensible and whose religious dimension is non-belligerent, may acquire a more potent voice and a greater presence in the world in the near future. Perhaps it will position itself in the world, as a region which has acquired a reforming capacity that, among other things, carried it intact through the last global crisis and which has learned the hard way to appreciate the intrinsic value of democracy and the need to advance gradually. This region has arrived at the conviction that the diversity of political and social actors is not an obstacle to 'living together'. Latin America can, therefore, make a meaningful contribution to the creation of that new diversified cosmopolitanism that requires the globalized world to be – let it be said once more – not the best of all worlds but a better world.

Chapter 11
Towards Greater Equality in China: The Economic Growth Dividend

Guanghua Wan

11.1 Introduction

Pre-reform China was largely an egalitarian and extremely poor country. Income was more or less equally distributed among the urban labor force and among the rural households although urbanities enjoyed relatively higher standard of living than the rural residents. In 1977, China's per capita annual income averaged 142.18 Yuan (in 1952 prices)[134] or 176.89 Yuan in current prices. This was approximately equal to $95.10 based on the official exchange rate then. Converted using consumer price index, the 1977 average income is equivalent to 826.49 Yuan in 2005 or $0.55 per day when adjusted for purchasing power parity (PPP). This falls far short of, and is only 44 per cent of, the $1.25 a day poverty line of the World Bank. Clearly, Chinese in 1977 could barely afford basic food and basic clothing. At such a low income level, the egalitarian system was almost a necessity to ensure survival of the massive population. This system, however, severely suppressed incentives.

"Let some get rich first" said China's reform architect Deng Xiaoping in early 1978. This famous quote of the then paramount leader of China was meant to introduce incentive into the economy. Consequently, unlike in the past, those who worked harder or smarter were allowed to pocket more. This marked the beginning of fundamental changes in China's development ideology, accompanied by swift reforms first began in the countryside in 1978 and then spread to urban areas. A series of reforms plus the open door strategy introduced later put China on a growth track, leading to more than thirty years of sustainable development in the most populous nation on earth. By 2011, China's GDP reached 47156.4 billion Yuan or $7301.11 billion at market exchange rate ($11529.68 billion at PPP exchange rate). This represented a per capita GDP of 35083 Yuan or $5432 at market exchange rate. The miracle growth since 1978, averaged almost

[134] 117.1 Yuan for the rural population and 260 Yuan for the urban population.

10 per cent per annum, has dramatically raised Chinese living standard and helped lift hundreds of millions of people out of poverty (Wan 2008a). In addition, the unprecedented growth has helped improve China's position as a major global economic and political power. The Chinese economy is now ranked the second largest in the world and is projected to overtake that of the United State within the next 15-20 years.

Deng Xiaoping's quote anticipated and explicitly endorsed income inequality for the first time in the Communist era of China, which seemed against the very principle of communism. Soon after the initial reform began in the countryside, the term "Wanyuanhu" (literally translated as households with 10 000 Yuan or approximately $1500 annual income) emerged as a popular saying or pet phrase, referring to the very rich in China. The official endorsement of inequality and widespread publicity about "Wanyuanhu" motivated others to engage in profit-making and market-oriented activities, turning China from a politics-centric into an income-centric society.

There is no doubt that some in China have become rich, extremely rich, possibly beyond the imagination of the late Deng Xiaoping. However, the growth benefits have not been shared fairly among all. By the definition of Club de Madrid, China is moving away from not towards a shared society[135]. For example, according to the Hurun Research Institute, in 2010 China had 960,000 millionaires, each with more than 10 million Yuan ($1.58 million) in personal wealth, 9.7 percent more millionaires than in 2009 (see www.chinadaily.com.cn/bizchina/2012-02/07/content_ 14549447.htm**)**. In 2011, the number of billionaire in China (with more than 1 billion US dollars of assets and income) reached 146. On the other extreme, there were still more than 100 million Chinese who merely survived on no more than $1.25 a day (Purchasing power parity or PPP-adjusted) in 2008. In the same year, the number of poor living under $2.0 a day (PPP-adjusted) is estimated to be 336 million (Wan and Sebastian 2011). It is alarming to realize that China went from a well-known egalitarian society to one of the most unequal countries in the world within a short period of three decades.

As noted by Milanovic (2005), China's inequality trends and patterns determine, to a large extent, overall global inequality. On the other hand, as income inequality rises, those at the lower segments of the income ladder cannot afford consumption, rendering investment and export as the main drivers of economic growth. This seriously undermines the sustainability of the Chinese

[135] See Valenti and Giovannoni (this volume) for the definition and discussion.

economy. In addition, China's heavy reliance on export represents a major source of global economic imbalance, causing trade frictions with the US and others. Furthermore, high level of inequality means those at the bottom of the society cannot afford investment in financial or human capital. In the earlier times, gaining entry into universities was a major avenue for many poor households to step out of poverty in China. Prohibitive fees for entering quality schools, plus intensifying competition for entrance into senior high schools and colleges, now prevent many poor households, particularly those in the rural areas, from properly educating their children. This is detrimental not only to poverty reduction but also to national prosperity as education and human capital formation are known to have spillover effects. Finally, high inequality has entailed and is reinforced by the alliance between the rich and the politically powerful, which could tilt policies and environment in their favor, eroding efficiency, equity and even justice.

The most publicized impact of rising inequality is on social cohesion and political stability. Some of the widely reported crimes, particularly the disturbing kindergarten massacres, were related to inequality or poverty. Also, Li and Zhu (2006) and Tian, Wan and Huo (2009) found that rising inequality does contribute to increased crimes and worsening health problems in China. Looking back at China's long history, the authorities has frequently encountered unrests arising from unequal distributions and relied on border prosperity to enhance national sovereignty. The latter is closely related to regional inequality. At present, around 75 percent of China's minorities live in the poor western areas which are home to only 22 percent of the national population. Thus, high regional inequality may cause ethnic tensions and threaten China's unity or even sovereignty. This must be one of the major considerations underlying the historic west development campaign.

On the other hand, rising inequality offsets the poverty-reducing impacts of growth (Zhang and Wan 2008). In a separate study, Wan (2008c) demonstrates that redistribution is more important than growth as a policy instrument in combating poverty in China. Also, high inequality dampens private demand simply because the relatively rich are not consuming while the poor cannot afford basic consumption. In this context, the enlarging rural–urban gap is the most significant culprit because, on average, rural residents only earn less than one third of what urban residents earn. The average income of Shanghai residents is more than ten times higher than the rural average of Guizhou or Gansu. Worse still, only one third of China's population can be classified as urban citizens. Even including the reported 200 million rural-to-urban migrants, China's urbanization rate in 2010 was under 50 per cent. It must be pointed out that these migrants face various kinds of discriminations. They earn much less than those who have urban Hukou[136] and they received minimum social protection. In addition to possessing lower marginal prosperity to consume, they are more risk-averse and tend to save more out of the already low income for the "rainy" days. All these contribute to sluggish domestic demand or global imbalance.

In short, greater equality in China will help improve political stability and social order, enhance growth sustainability, and increase the impact of growth on poverty reduction. Meanwhile, reductions in inequality will help boost domestic consumption, thus alleviate pressure on exports which has been causing trade disputes. Given the importance and urgency of the inequality problem in contemporary China, considerable research efforts have been invested into this issue (see Wan 2008a, 2008b and references therein). However, largely due to non-accessibility or unavailability of household survey data, earlier attention was mostly focused on measurement of regional inequality (Tsui 1993, Rozelle 1994, Wan 1998). The China Household Income Project (CHIP) produced unit record data for 1988, 1995, 2002 and 2007, which led to a sizeable literature (see Griffin and Zhao 1993, Khan and Riskin 1998, Li and Wang 2005, Gustafsson, Li and Sicular 2010). In addition to inequality measurement, inequality decompositions were conducted to explore the broad compositions of income inequality (Kanbur and Zhang 1999, Wan 2001, 2007). Following the recent advance of the regression-based inequality decomposition technique (see Wan 2004 for a review), research outputs are emerging which aim at quantifying sources or causes of rising inequality in China (Wan and Zhou 2005, Chen, Wan and Lu 2010), Also, there are limited works on the impact of inequality. For example, Wan, Lu and Chen (2006) find that inequality is harmful to growth no matter what time horizon is considered and that the growth-inequality relationship is non-linear.

[136] Formally established in January 1958, Hukou is also called household registration system, under which Chinese citizens are classified as rural and urban residents who enjoy different benefits and social welfare. The status of residents is inheritable. Until 1983, migration was largely prohibited not only between cities and countryside but also across local communities and employers within urban or rural areas.

Despite previous research efforts, and perhaps surprising to many, there are no consistent time series estimates of inter-person or inter-household inequality for China as a whole in the literature. Leaving the issue of representativeness aside, the CHIP dataset is only available for 1988, 1995, 2002 and 2007 and its geographical coverage varied depending on the year of survey. In particular, the CHIP data cannot offer any information on inequality in the early reform period.

Most regrettably, there is a shortage of findings and knowledge on fundamental forces driving inequality in China, which is also true for other countries. To some extent, the failure or inability of government policies on and interventions in moving towards a shared society owes to the scarcity of thorough research which can provide concrete and evidence-based policy suggestions.

To assist China in moving towards greater income equality or a shared society, it is useful to construct her inequality profile over time, to uncover the major driving forces and to provide policy recommendations. Accordingly, the paper is organized as follows. Section 11.2 provides estimates of overall income inequality for whole China over time, going back to 1978. Trends and changes in regional disparity and the urban-rural gap will also be explored. This is followed by various decompositions in Section 11.3 to quantify broad components and fundamental causes of rising inequality. The decompositions lay the foundation for making policy recommendations which are presented in Section 11.4. Finally, Section 11.5 provides concluding remarks.

11.2 Constructing China's Income Inequality Profiles

It is important to point out that the inter-person or inter-household inequality encompasses regional and urban–rural gaps as its components. And governments may prioritize any component in designing and implementing relevant policy measures during any particular period of time. Thus, it is appropriate to start with the construction of an inequality profile at the individual or household level and then move to its regional or urban-rural component.

Unfortunately, official survey data on individual or household income are not released to the public or researchers although the National Bureau of Statistics has been conducting large scale household survey since the late 1970s. However, the Bureau did publish the inequality estimate of Gini index, but only for rural China and only between 2000 and 2005. As will be shown later in the paper, urban inequality has risen much faster than rural inequality. More importantly, the urban-rural gap has expanded dramatically since mid-1980s and constitutes a major component of China's inequality. Thus, it is necessary, as a first step, to construct a comprehensive inequality profile for China as a whole, taking the urban-rural gap and urban inequality into account.

The preferred source of data is the National Bureau of Statistics which publishes grouped distributional data such as population shares and their corresponding income shares, for rural and urban China separately. While it is possible to estimate inequality from grouped data (Cowell and Mehta 1982), questions remain as to how to combine the urban-rural gap with the separate Gini estimates for rural and urban China. Also, the accuracy and reliability of these estimates based on grouped data are questionable. Fortunately, a variety of ingenious procedures and tools exist which can be used to "ungroup" the grouped data. Many different functional forms were offered as approximations to the empirical income distributions (see Shorrocks and Wan 2009, and references therein). One notable application of this "ungrouping" approach is provided by the POVCAL software of the World Bank. However, it generates Lorenz curves that dip below the horizontal axis. See Minoiu and Reddy (2006) for a detailed critique.

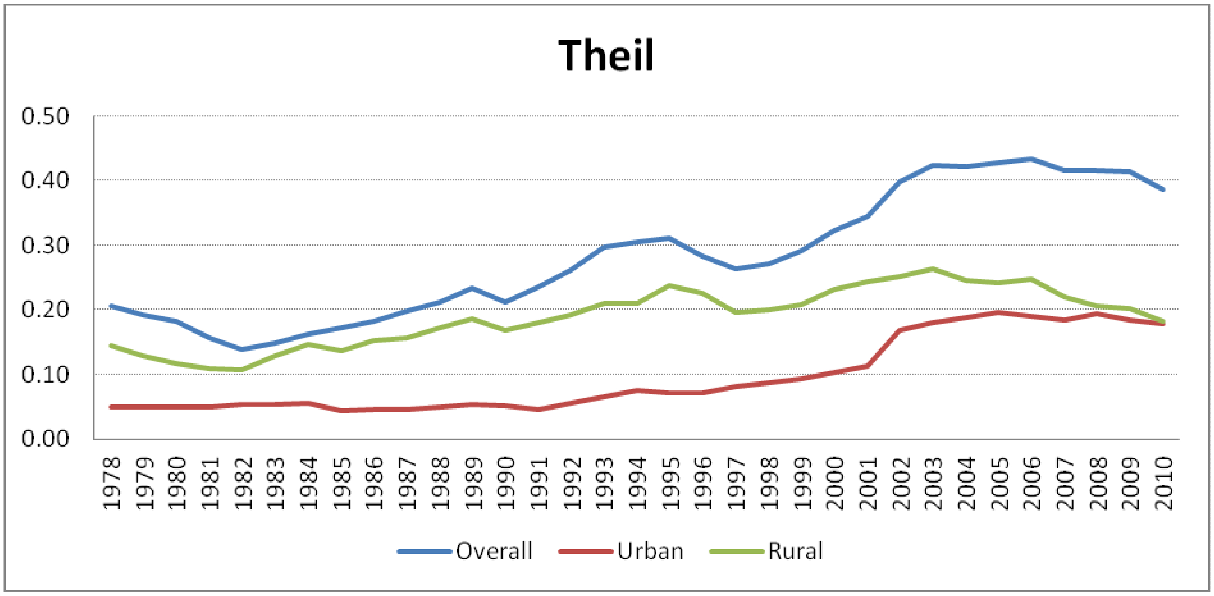
In this chapter, we employ a recently advanced method of Shorrocks and Wan (2009) to generate synthetic samples using grouped observations. The method allows a sample of "income" or "consumption" observations to be reconstructed from any valid set of Lorenz coordinates.[137] This sample will then be used to compute inequality statistics, by treating the sample observations as if they had been drawn from a household survey with a homogeneous population of equally weighted households. Simulation results in Shorrocks and Wan (2009) confirm the accuracy and reliability of this method.

[137] Lorenz curves plot the cumulative income shares against the cumulative population shares when observations are ordered in terms of increasing incomes. Only relative incomes matter for Lorenz curves, so the synthetic sample values can be arbitrarily normalized, for example, to ensure that the mean is unity.

Grouped data for urban and rural China are available from China Statistical Year Books. The earliest data point is 1978 for rural China and 1981 for urban China, with observations for 1979 missing for both. Since inequality in urban China changed little in the very early 1980s, urban income dispersions over 1978-1981 are assumed to remain unchanged and the rural income distribution in 1979 can be interpolated. Since mean income levels, which are reported in official statistics, change every year, overall inequality in China still differs over time even if urban and rural inequalities remain the same. This is because, as will be seen later in the paper, the urban-rural gap is a large component of total inequality. One point worth noting is that since the grouped data are for the whole of China, it is impossible to consider price differences across provinces and regions, an issue raised by Wan (2001), although this is likely to cause over-estimation of the true inequality.

Applying the ungrouping procedure to the Chinese data, inter-household income inequality can be estimated using summary measures of the Gini and Theil indices. Both the Gini and Theil estimates exhibit the same trend. This is not surprising as Shorrocks and Wan (2005) found that different inequality measures are highly correlated. Consequently, the Theil estimates are plotted in Figure 1. The figure shows that inequality decreased in the very early stage of China's reforms and then rose. In terms of the Gini coefficient, overall inequality decreased from 0.34 in 1978 to 0.29 in 1982, then grew over time until it reached 0.483 in 2006. Since then, inequality has improved at a slow pace. This is partly due to the abolition of the agricultural tax in 2006 and gradual introduction of social protection measures in rural China.

Figure 1: Inter-household Inequality in China



The inequality trend of Figure 1 can be largely explained by the reform sequence. In late 1978, China began economic reforms by introducing the rural household production responsibility system. Under this system, arable land was decollectivized and allocated to individual households on the basis of household size and household labor force. Any produce over and above the state procurement and collective retention was kept by the individual households. This reform, coupled with rises in grain procurement prices in subsequent years, helped enhance farming productivity and raise rural income. Meanwhile, due to fairly equal allocation of land among laborers and households, the income gains were shared rather equally. In other words, China's economic growth in the early reform period was pro-rural and largely inclusive. As a consequence, overall income inequality in China declined during this period since the urban–rural gap comprises a large proportion of China's total inequality (Wan 2007). This decline in turn helped reinforce the impact of growth on poverty reduction. It can be said that without the narrowing gap and declining inequality, the remarkable large-scale poverty reduction in China could not have been achieved.

Rising rural income induced demand for industrial goods which stimulated development of non-agricultural sectors. Meanwhile, the impact of the rural household production responsibility system had leveled off[138] and the reform emphasis was soon shifted to the urban areas. More

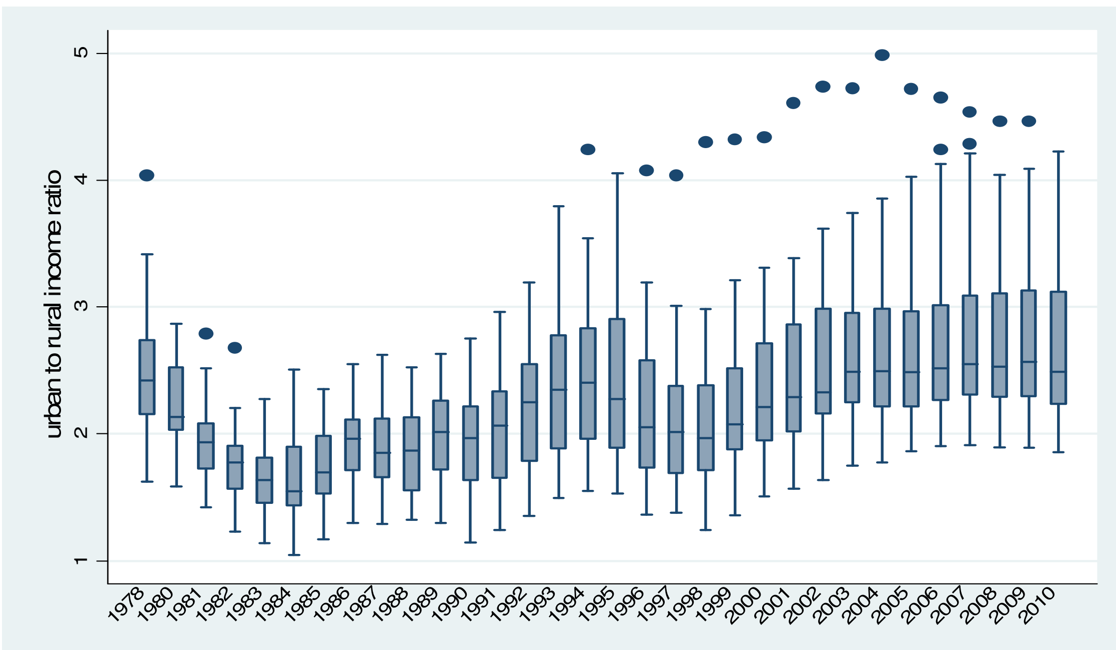
[138] By the end of 1986, all households in rural China adopted the production responsibility system.

importantly, the openness policy instituted since the early 1980s, favouring the east region, has enabled the coastal areas to grow faster. These have caused a growing regional inequality and widening urban–rural gap. At the individual level, the dramatic socio-economic transformations, particularly the privatization move, have produced opportunities for some to get rich while others were left behind. Thus, income inequality has risen at a fast pace and along all dimensions since 1983.

Contrary to historic evidences from many countries, urban inequality was far lower than the rural counterpart until recently. In particular, it was more or less flat till the early 1990s. This corroborates with our earlier arguments that the urban sector was characterized with egalitarian distribution of income in the early period. However, urban inequality has been increasing fast since mid-1990s, partly due to the structural adjustment begun in 1996 (Chen, Wan and Lu 2010). To what extent the increase related to the major taxation system reform of 1994 is a question open to further research. It is important to note that the urban data may not cover rural migrants who are usually discriminated against and earn rather less than the urban employees. Thus, the urban inequality in recent years is likely to be underestimated. It is beyond the scope of this paper to analyze the recent declines in inequalities and the convergence of rural and urban inequalities, as shown in Figure 1. Nevertheless, the rises in the overall inequality appears much faster than the urban or rural inequality. This implies enlarging urban-rural income gaps, an issue to which we turn now.

Figure 2 is a boxplot of urban-rural income ratio for provinces whose data are available, where the dots represent outliners, the bottom and top of a box represent the 25th and 75th percentiles, the band inside the box represents the median, and the ends of the whiskers represents minimum and maximum values after removal of outliers. Focusing on the movement over time of the boxes and ends of the whiskers, it can be seen that the urban-rural income ratio declined from 1978 to 1984 but has generally risen since 1985. The correlation between the overall inequality of Figure 1 and the urban-rural ratio of Figure 2 is quite visible. In particular, the ratio was low for 1983 and 1984, forcefully demonstrating the impact of rural reform and government support in terms of grain price rise on rural income in the early years of China’s reform. The declines in the urban-rural income ratio after mid-1990s can be attributed to the introduction of the so-called "provincial governor grain bag responsibility system". Despite these policy shocks, the urban-rural income ratio maintained a generally increasing trend until the very present. At the aggregate national level, the overall urban-rural income ratio almost doubled from 1.9:1 in 1985 to 3.33 in 2009. The ratio dropped slightly to 3.23:1 in 2010.

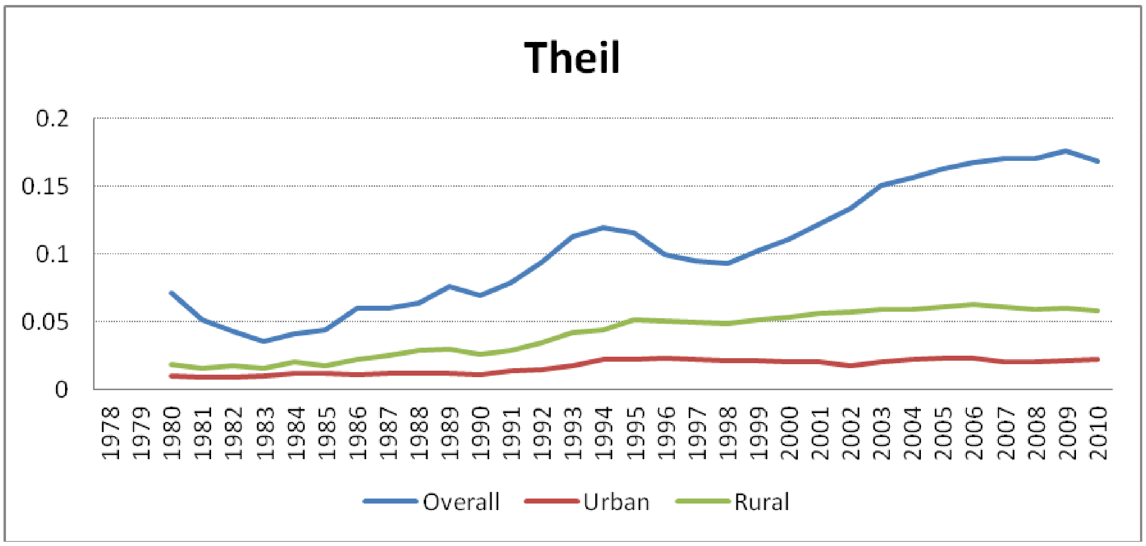
Figure 2. Urban-Rural Income Ratio, China (1978-2010)



Source: Authors' estimates.

What about China's regional inequality, which prompted the historic west development campaign? As Figure 3 shows, by and large, the trends in Figures 1 and 3 are consistent although changes in the trends are not completely synchronized. Again, the overall inequality has been rising faster than the rural or urban counterparts, indicating the expanding urban-rural gaps as shown in Figure 2. Also, regional urban inequality is always lower than regional rural inequality although both rise over time. Different from the case of inter-household inequality, there is little catch-up or convergence between rural and urban inequalities. An interesting finding from Figure 3 is recent dips in the regional inequality, which lags behind the inter-household inequality decline. It would be interesting to explore if these signal the beginning of the end of the rising inequality trend and the start of the declining trend in inequality, as already speculated by some in China.

Figure 3. Regional Inequality in China



Source: Author's calculation

As previously mentioned, the open door policy favored the coastal regions, which caused unequal share of growth dividend among provinces. As an integral part of the open door policy, the central government set up special economic zones in the coastal areas as early as 1984 (Wan, Lu and Chen 2007). These zones enjoyed concessional tax and fiscal support of central and local governments. Consequently, the relevant policies unintentionally contributed to the regional gaps. Of course, policy bias is only one driving factor of the divergent growth rates across space. Economic geography, local culture and globalization are among the other drivers, which cannot be overlooked.

The discussion on inequality is not complete if gaps between different population groups are not included. In this context, one of the most talked about issues is gender inequality. As is known, a nation-wide policy implemented in the Maoist era in China was equal pay to men and women for the same job. However, economic reforms introduced market forces into the economy and profit maximization become the ultimate objective of firms and enterprises. Did reforms lead to gender discrimination? Wang and Cai (2008) find that females were treated unfavorably in terms of employment and promotion opportunities, as well as wage payment in post-reform urban China. Decomposition of the male–female wage gap reveals that the main source of lower earnings for females lies in the unequal pay within sectors — a clear indication of sex discrimination. This finding is consistent with Ng (2007) who finds that gender discrimination, although limited, is evident in more developed areas and has increased over time. Ng (2007) attributes these to wage decentralization and possibly enhanced market competition. She also finds that resource endowments of females are found to have increased more than those of males, offsetting some of the effects of discrimination in returns to personal characteristics against women in the labor market.

Another dimension of inequality relates to sector segregation, which was minimal in pre-reform China. As wage setting becomes decentralized and monopoly power has developed in some sectors due to incomplete reform or lack of second-generation reform, salary gaps across sectors have increased significantly. In addition, productivity growth differs across sectors, which underlines income change, especially in the long run. When mobility is low owing to institutional constraints, these inevitably cause widening gaps across sectors. Today, the SOEs are enjoying not only protection from competition but also privileges in financial service and energy subsidies. According to Chen, Wan and Lu (2010), the contribution of sector segregation to urban inequality rose from 1.03 percent in 1988 to 3.02 percent in 1995 and as high as 10.07 percent in 2002.

Apart from inequality in income, disparities in other welfare indicators are also important. For example, the rise in the inequality of educational outcomes is worrisome as returns to education have risen and the endowment gap of education becomes larger, both contributing to growing income inequality (Lee 2008). Meanwhile, the urban bias in terms of access to higher education, medical care and other public services has become worse over time. Furthermore, China's uniquely decentralized fiscal system has aggravated spatial inequality in non-income variables (Dollar and Hofman 2008). Under this system, local governments relied primarily on local tax collection to fund basic social services including education and primary health care until very recently. Consequently, poor localities have not been able to afford these services, and poor households have not been able to pay for the high cost of basic education and healthcare.

11.3 Sources or Causes of Rising INCOME Inequality

Despite numerous policy interventions and several large scale campaigns, inequality has kept rising in China. This partly could be due to a lack of thorough understanding on the fundamental forces driving inequality in China. In other words, the symptom has been detected for a long time; the desire for a cure has been strong; prescriptions have been made; and medicines, some very costly, were taken. But the sickness has been getting worse. It is thus necessary to question the diagnosis.

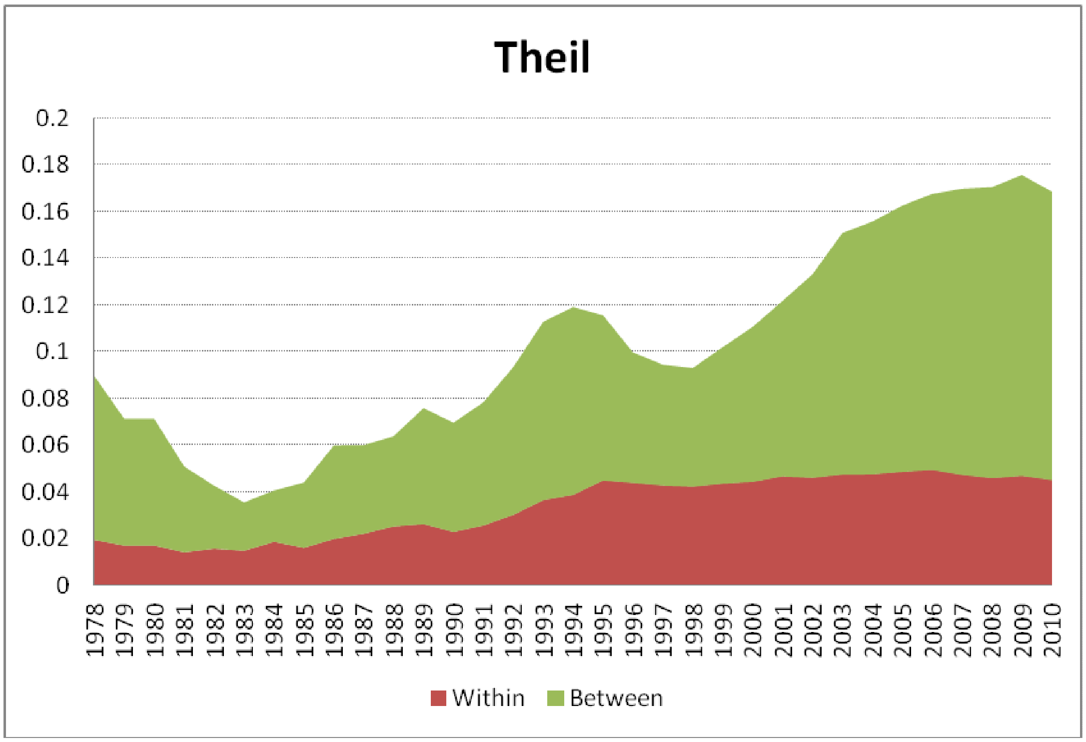
In this context, a point often made by economists refers to the famous Kuznets hypothesis which states that inequality will initially rise as part of the growth regularity but will decline after a threshold level of economic development is reached (Kuznets 1955). As Lewis (1954) pointed out, growth does not take place everywhere and not everyone is positioned to gain from growth at the same rate. Thus, initial growth may inherently be accompanied by rising inequality. The implications of the Kuznets hypothesis are rather profound. If accepted, rising inequality constitutes an indispensible part of the growth process and policy interventions are deemed unnecessary and ineffective.

However, the Kuznets hypothesis may not be applicable to the case of China. The key assumption underlying the hypothesis is that population flow from low-inequality sector into high-inequality sector. As shown earlier, however, in China the inequality in the urban sector has been low relative to the rural counterpart although urban inequality has been rising. Clearly, the theory or mechanism underlying the Kuznets hypothesis contradicts realities in China and cannot explain rising inequality in China. In what follows, attempts will be made to uncover various sources or causes of China's inequality.

11.3.1 Major Sources of Regional Disparity

One way to gauge the determinants of regional inequality is to take each province as a unit which consists of urban and rural sectors and then conduct the conventional decompositions. Under this approach, inequalities in terms of the Theil index are computed for rural China and urban China separately, and are summed up using population weights. This is called the within-component of the total regional inequality. The residual is called the between-component, which measures the contribution attributable to the urban-rural gaps. The decomposition results are shown in Figure 4.

Figure 4. Urban-rural Gap and Regional Inequality

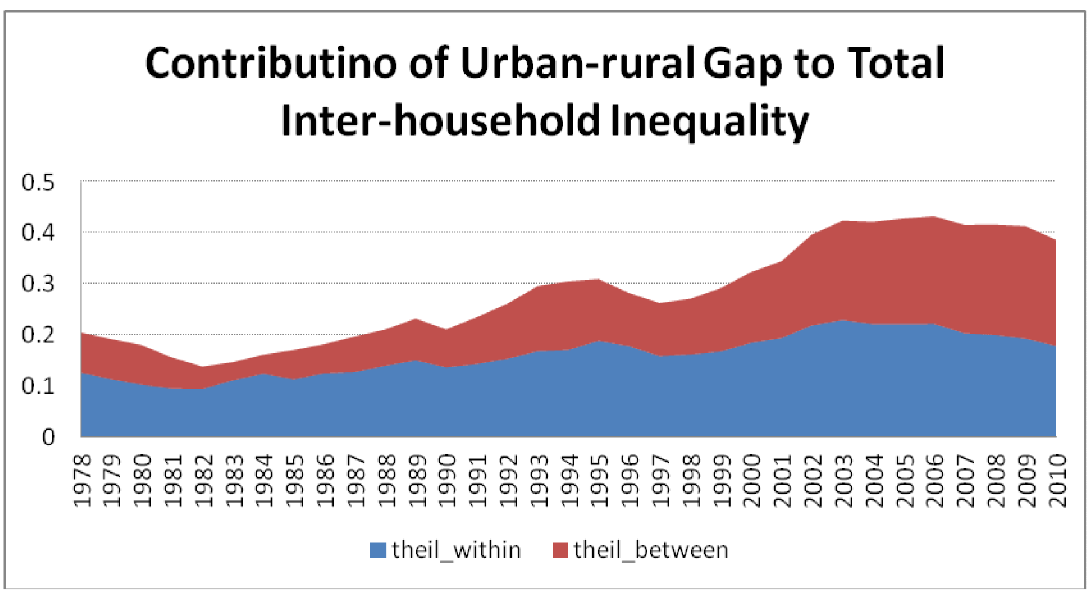


Source: Author's estimate.

Earlier in this paper, the urban-rural gap was shown to have been on the rise. Since inequalities within rural and urban China have also been on the rise, it was unclear about the role of the enlarging urban-rural gap in constituting the total regional inequality or its trend. According to Figure 4, up to 70 percent of regional inequality is attributable to this gap, and all increases in the regional inequality since 1997 or 1998 are completely accounted for by this expanding gap. In other words, if urban-rural gaps for each province can be eliminated, total regional inequality can be cut by 70 per cent. It is interesting to note that fluctuations in the total regional inequality is largely caused by the changing urban-rural gap and regional inequalities with rural and urban China are fairly stable except mild increases between mid-1980s and mid-1990s.

It is noted that even if household-level rather than provincial aggregate data are used, the contribution of urban-rural gap is as high as 28 percent in 1995 and grew to more than 30 per cent in 2002 (Sicular et al. 2007). In fact, the large contribution of urban–rural gap to total inequality in China is not unique. Shorrocks and Wan (2005), in reviewing international evidence, found that this contribution ranges from less than 20 percent in Greece to 26-30 percent in the Philippines. Using the ungrouping approach, it is also possible to estimate the contribution of the urban-rural gap to inter-household income inequality in China (see Figure 5). Not surprisingly, the gap constitutes a significant portion of the total inter-household inequality. However, unlike in the case of regional inequality, the trend of total inter-household inequality is not driven by the urban-rural gap.

Figure 5. Urban-Rural Gap and Inter-household Inequality in China



All the above confirm the growing importance of urban–rural gap in composing and raising inequality in China. This is not surprising given the rigid household registration system (Hukou) that impedes labor mobility. Despite gradual relaxation of labor mobility restrictions, the social welfare benefits attached to Hukou have largely remained intact thus urban-rural gap remains the most significant institutional segregation in China. This is consistent with Ravallion and Chen (2007) who also attribute rising inequality to enlarged rural-urban income gap. As Wan (2007) emphasizes, if this gap was kept under control, overall inequality could have been maintained at a manageable level.

Notwithstanding the dominance of the urban-rural gap, it is surprising to note that most research and policy attention has been paid to the coast-inland income or growth gaps. Needless to say, location is important, especially given China's reliance on export and integration into the global economy where geography plays an increasingly prominent role. In addition, location reflects differences in endowments of untradeable resource including localized culture and human capital. Nevertheless, relative to the urban-rural gap, the contribution of location to regional inequality is less significant, as forcefully shown in Wan (2007). Further, Wan, Lu and Chen (2007) found that the importance of location in composing regional inequality has been declining, from a contribution of less than 18% in 1987 to just over 15% in 2001. Based on these findings, it can be inferred that contribution of location to regional inequality in China will become smaller as infrastructure develops, labor mobility improves and urbanization proceeds.

11.3.2. Accounting for Inter-Household Inequality

The conventional decomposition is useful in providing broad breakdowns of the major sources of inequality. However, it suffers from a serious contamination problem: the variable used to divide sample observations could be correlated with other determinants of inequality which cannot be controlled for under the conventional decomposition framework. For example, when gender is used as the category variable to split the data, the differences between the two subsamples, in addition to sex, may include systemic differences in the endowment of human capital or years of work experiences. It would be misleading to attribute the effects of these systematic differences in wage to discrimination in the labor market.

The regression-based inequality decomposition developed recently overcomes this contamination problem (Wan 2002, 2004). It involves two steps: estimating a regression equation for the target variable such as income or consumption and taking inequality on both sides of the entire regression equation. The left hand side of the equation, of course, is simply total inequality in the target variable and the right hand side contains inequality contributions of regressors.

In this chapter, CHIP data are used to estimate consumption functions. To facilitate analysis of inequality changes over time, the years 1995 and 2007 are chosen. The empirical consumption models are not presented to economize the paper but available from the author upon request. Judged by the good-of-fit, signs of estimated coefficients and t-ratios, the models are of reasonably good quality. The corresponding inequality decomposition results can be found in Table 1.

Table 1. Composition of Total Inter-household Consumption Inequality

Variable	GINI		% Contribution	
	1995	2007	1995	2007
female head	0.00	0.01	-0.22	1.49
age of head	0.00	0.00	0.30	0.19
education	0.02	0.04	**4.36**	**8.62**
married head	0.00	0.00	0.20	0.11
retired head	0.01	0.01	2.72	2.64
Sector	0.05	0.02	**12.56**	**4.30**
dependency ratio	0.01	0.01	1.59	2.09

household size	0.03	0.03	**6.63**	**6.78**
age composition	0.02	0.02	5.05	3.93
urban dummy	0.06	0.11	**12.97**	**25.26**
province dummy	0.06	0.07	**14.29**	**15.72**
Residual	0.17	0.13	39.56	28.88
Total	0.44	0.44	100.00	100.00

There are several interesting findings from Table 1. First, consumption inequality rose from 0.435 in 1995 to 0.442 in 2007. While the increase is not large, it conforms to inequality trends based on income data, which usually exhibits larger variations. Second, almost all variables maintained their ranks in terms of their contributions to the overall inequality from 1995 to 2007. Third, the prominence of urban-rural gap in constituting total inequality is confirmed once again. Finally, the two most dominating contributors are urban-rural segregation and province dummy variables, highlighting the mobility problem in China. These two factors contributed almost one third to total household inequality although in 1995 provincial dummy was more important and in 2007 urban dummy became more important.

11.3.3. Other Contributors to Inequality in China

Education and Human Capital: At the household or individual level, education and skills are the major means for earning income thus differences in the endowment of schooling and returns to education must help explain income inequality. Using enrolment data, Lee (2008) finds worsening educational inequality across provinces and the deterioration becomes worse at higher levels of the education ladder. Meanwhile, returns to education are found to be on the rise in China, further aggravating the inequality impacts of the educational endowments. Based on Sicular et al. (2007), education explains more than 25 percent of rural-urban gaps. However, the contribution of human capital to regional inequality only amounts to 5-7 percent (Wan, Lu and Chen 2007).

Trade and Globalization: Globalization offers the opportunity for the low-skilled to find work thus may help reduce inequality. On the other hand, entry of MNEs, FDIs and emergence of large firms which compete in an international market for management and technical talents mean that those highly qualified and experienced receives compensation of the developed world but the general labor force is only paid local salary. Thus, the overall impact of globalization on inequality is ambiguous.

It is well-known that China's phenomenal growth owes a great deal to trade and FDI (both reflecting globalization). Equally well-known is the fact that coastal area in China gained much more than the inland area from the export-led growth strategy (Wan and Zhang 2008). It is thus not surprising to see a significant role of trade and globalization in driving inequality in China. According to Wan, Lu and Chen (2007), trade accounts for 12 percent of regional inequality in the late 1980s and grew to more than 14 percent in the early 2000s. The contribution of FDI also rose, from 5 percent to almost 7 percent during 1987–2001. Adding these two together, globalization contributes more than 20 percent to the total regional inequality in China since 1999, overtaking capital as the sole most important driver of inequality. This result is consistent with Zhang and Zhang (2003).

Institutional and Policy Factors: Inequality may have been exacerbated rather than mitigated by a number of policy features. Restrictions on rural-urban migration have limited opportunities for the relatively poor rural population. The inability to sell or mortgage rural land has further reduced opportunities. In the absence of the Hukou system, rural–urban gap could be reduced considerably and the inter-province disparity would be smaller too. The Hukou not only impedes labor mobility and institutionalizes urban bias; it also interacts with other policy factors in raising inequality. Under the current system, migrants have little chance to gain employment in monopoly industries which usually pay well. Inter-province relocations, even for urban residents, are not completely barrier-free.

A very peculiar feature of China's fiscal policy is that government transfer has been inequality-increasing (Gao 2008, Wan 2006, Chapter 14). China in fact has one of the most decentralized fiscal systems in the world, more decentralized than OECD countries and middle-income countries, particularly on the spending side. More than half of all expenditure takes place at the sub-provincial level. Functions such as social security, justice, and even the production of national statistics are largely decentralized in China, whereas they are central functions in most other countries. Consequently, fiscal disparities among sub-national governments are larger in China than in most OECD countries. These disparities have emerged alongside a growing disparity in economic strength among the provinces. Inequalities in spending are even larger at the sub-provincial level. The richest county, the level that is most important for service delivery, has about 48 times the level of per capita spending of the poorest county (Dollar and Hofman 2008).

The situation in education is similar. In a survey of 3,037 villages in 2004, average primary school fees were 260 *yuan* and average middle-school fees, 442 *yuan.* A family living right at the dollar-a-day poverty line would have about 888 *yuan* total resources for a child for a year; sending a child to middle-school would take half of that. Not surprisingly, then, enrollment rates are relatively low in poor areas and for poor families.

11.4 Policy Suggestions: towards Greater equality

To move towards a shared society, development policies in China must shift from emphasizing growth to prioritizing equity. Such a shift is expected to be beneficial to growth in the long run since the fast rising inequality does bite long run growth in China (Wan, Lu and Chen 2006). Also, in the absence of concerted policy initiatives, labor, capital and other resources will continue to flow from poor inland areas to the affluent coastal regions and from the rural to the urban sector. Consequently, inequality may rise further without government interventions.

Based on the analyses presented above, the urban–rural gap and regional inequality deserve priority considerations as far as policy initiatives are concerned. Accordingly, our policy suggestions will focus on these two dimensions, followed by other recommendations

11.4.1 Tackling the Rural-Urban Disparity: Fast Urbanization

Fast urbanization is proposed because the urban–rural gap comprises a large and growing component of the regional and household income inequality and the contribution is too large to be amenable to fiscal policy intervention or redistribution. China has no alternative but supporting rural-to-urban migration so to allow rural people to share the urban portion of the national cake. Note that location gaps can never be eliminated while urban-rural gaps can be and shall be. Removing the latter will cut China's regional inequality by 70 per cent or so and inter-household inequality by one third while removing location gaps (even if possible) can only produce half or less of the impacts associated with urban-rural gaps.

This recommendation deserves a special emphasis as the Chinese government recently set a lower urbanization target than what is needed to bridge urban-rural gaps. Note that recent increases in regional inequality are almost completed accounted for by this rising gap. According to Wan (2011), unless the urbanization rate reaches 80 per cent by 2030, the urban-rural ratio is expected to remain unacceptably high, even with redistributions. The government target for urbanization rate is only 60 per cent by 2030, implying no more than 8 per cent of GDP to be shared by 40 per cent of rural population, while over 90 per cent of GDP would be shared by the 60 per cent urban population.

As the relatively rural poor move to cities to earn higher income, distribution is bound to improve. However, this is only a static picture. In a dynamic perspective, if the earnings of the originally affluent grow faster than the migrants, inequality will continue to rise although absence of migration will make the situation worse. This is exactly what is happening in China – migrants are being discriminated in the labor market. This is where urgent measures are needed to abolish the Hukou system, which is necessary though not sufficient for eliminating such discriminations. In passing, note that that urban inequality rises faster than rural inequality, thus migration alone may not help reduce overall inequality.

In fact, China has been experiencing fast urbanization in the past two decades, with the urbanization rate rising by 1 per cent per year. Over 270 million rural residents moved into urban areas during 1990-2009. Nonetheless, China's urbanization remains low, not only relative to its industrialization status, but also to Asian neighbors such as Malaysia and the Philippines. If the current pace of urbanization is sustained in the next two decades, China's urbanization rate should reach 68% in 2030. If, however, the average pace were to accelerate to 1.5% per year, the urbanization rate would reach 78 percent by 2030. A target of 80 per cent or more is needed under this scenario.

In this context, abolishing the household registration system is only a necessary but not really sufficient condition for tackling the urban–rural gap. In other words, the expectation that urban–rural gap will automatically disappear after reforming the household registration system is misperceived. This is demonstrated by the persistence of urban-rural disparity in India, Mexico, Philippines and many other countries where labor and population movement is free. What is required is that government initiatives, including fiscal policy, taxation policy and other social-economic policies, must be geared towards facilitating urban settlement of rural residents.

A common criticism of this proposal is that the urban areas cannot absorb the huge amount of surplus population from rural China, which is in the order of 550 million. In particular, employment and job creation are of concern. However, the simple fact that there already exist more than 200 million migrant workers in urban China implies that the urban system already supports some 700 million rural residents in terms of employment opportunities and household income. What is needed is physical relocation of the migrant families. Note that permanently settling the 750 million rural population in the cities will double the urban population. This itself would generate a huge amount of jobs, as discussed below.

Is the worst scenario—all cities doubling their sizes—beyond comprehension? This can be best answered by considering the largest city in China—Shanghai. The 2007 population of Shanghai net of migrants is about 14 million. Under the worst scenario, simple extrapolation would give rise to 28 million under our proposal. In relative terms, this represents less than 2% of China's population. And calls for 50 million for Shanghai are being aired by leading economists from Shanghai. These economists argue that many big cities in other parts of the world such as Tokyo, London, New York, Sydney and Mexico accommodate 15 per cent or more of their national population, almost eight times the 2% proposed for Shanghai. In fact, the current population of Shanghai including migrants is estimated to have already reached 20 million. Of course, China may encourage faster growth of small and medium sized cities thus their sizes will more than double while large cities such as Shanghai will expand less.

To minimize the social and environmental problems potentially associated with massive migration, a step by step procedure is necessary where migrants with long term jobs or secure housing should be given priorities. Those with better education should also enjoy concessions. In fact, some cities such as Shenzhen have recently adopted a scoring system, with demographic and other characteristics of potential migrants being taken into consideration. This was advocated by Wan (2008d), who suggests that to ease fiscal pressure new migrants may be provided with limited and phasing out access to financial assistance in housing, education, health care and other welfare provisions. Community colleges should be set up in the cities to provide training and education to temporary and long-term migrants and their family members.

11.4.2 Tackling the Regional Inequality

According to Wan, Lu and Chen (2007), equalization of domestic capital stock on a per capita basis across regions will cut regional inequality by 20%. To narrow gaps in capital possession, it is necessary though difficult to break the vicious circle existing in capital formation. This calls for development of financial market in China, especially in poor rural areas. Policy support for investment in the poor regions is needed in terms of tax concession and bank lending. In particular, continued financial reforms are necessary in order to eliminate discriminations against small farmers and rural activities. Certainly, the gradual withdrawal of bank branches from rural China must be stopped or replaced by development (policy) banks. On the other hand, while various government entities and financial institutions are experimenting with micro-credit schemes, such a complementary scheme must be adjusted to cater for capital formation.

In addition, fundamental changes are needed in the collection and allocation of fiscal resources which so far have favoured the developed regions. Thus, there is a need to make fiscal spending and redistributions progressive rather than regressive (Gao 2008). An equalization in fiscal support would lead to an almost 15% drop in regional inequality and a progressive fiscal scheme would result in a much larger impact. All transfers can be conditional, geared towards physical capital formation and education of the young. Especially, public research and development

(R&D) investment in agriculture must be increased to improve farming productivity, and special attention must be paid to the quality of schooling in poor areas.

Finally, it is useful to promote trade and FDI in inland China. Policy biases, that helped expand trade and FDI in coastal China, are gradually being phased out andshould be implemented elsewhere. The phenomenal expansion of modern infrastructure in inland China does lay the foundation for trade growth and attracting FDI. However, the complementary "soft environment" is yet to be created, where policy initiatives are crucial.

Successfully addressing the three issues discussed above will cut regional inequality by more than 50% (Wan, Lu and Chen 2007).

11.4.3 Incentivise Local Government for Promoting a Shared Society

The Chinese governments, both central and particularly local, have largely neglected equity issues until recently, while focusing on economic growth. This is due partly to the politically centralized but economically decentralized system, under which performance of government officials is largely based on growth indicators with little consideration of distributional issues. In other words, the incentive mechanism of the entire policy arena requires fundamental changes and reforms.

Therefore, equity shall enter the system of performance assessment. One way of doing so is to add an indicator of inequality such as the Gini index into the scoreboard. It is possible to integrate inequality with GDP growth to allow trade-off between them, as discussed below. In this way, local governments have the freedom and incentive to promote equity, possibly at a moderate cost to growth. For example, returns to investment may be lower in rural sector than in urban areas. Thus, diverting funds away from cities may adversely affect aggregate growth. However, rural development can help bridge the urban-rural gap thus lower inequality. Such achievement in equity has not been recognized let alone encouraged in the past.

Essentially, this suggestion institutionalizes inclusive growth as the ultimate government goal in China, which is essential for the realization of a shared society. Note that different definitions and interpretation of inclusive growth exist. Conceptually, **poverty reduction** focuses exclusively on the bottom section of the income distribution or lower segment of the Lorenz curve irrespective of what happens to growth. **Pro-poor growth** still focuses on the lower segment of the Lorenz curve, but diverts some attention to the non-poor (i.e., other segments of the Lorenz curve) and more importantly overall growth is taken into consideration. **Inclusive growth** appeals for more weights to be attached to the non-poor than earlier concepts. Nevertheless, the literature is silent on what weights to give for which segments of the Lorenz curve. It is also silent on how to factor in the growth ingredient[139].

To develop a theoretically sound and practically operational indicator of inclusive growth, the welfare function proposed by Sen (1973) is useful:

$W = U(1 - \text{Gini})$,

where W denotes social welfare, U denotes mean income or average GDP and Gini denotes the Gini inequality index. Thus, (1- Gini) can be viewed as an equality index, to be denoted as E. By definition, $0 < E < 1$. Now, inclusive growth can be defined as the growth in the social welfare W. Using *0* to index the base period and *t* the terminal period, we have:

$W_t/W_0 = U_t/U_0 \ E_t/E_0$

$\mathrm{Ln}(1+ IG) = \mathrm{Ln}(1 + R_u) + \mathrm{Ln}(1 + R_E)$

Since $e^r \approx 1 + r$, we have

[139] The definition of inclusive growth that prevails in ADB emphasizes three aspects: growth which offers expanding opportunities for all; equal access to opportunities in education, health and other social services; and social protection which targets exclusively the poor. The last two aspects can be viewed as the “means” for achieving equitable income which can be viewed as the “end”.

$IG \approx R_u + R_E$

where IG denotes inclusive growth, R denote growth rate, U and E denotes mean income and equality.

The IG measure is a function of changes in both income and its distribution. Any level of government can target economic growth or/and equity. In fact, the IG measure can be applied in other contexts such as education, health and more generally living standard or happiness. Local government performance shall be assessed using this indicator instead of long-used GDP growth or FDI inflow.

11.4.4. Further Market Reforms

A major challenge facing China is the formation and growth of vested-interest groups and the emergence of crony capitalism. These, combined with wide spread corruption, make growth-inequality self-reinforcing with each other. To build a shared China, market reforms must be undertaken in three areas. First, competition must be introduced into sectors where state-owned enterprises occupy monopoly positions. Monopoly is detrimental to both efficiency and equity. More importantly, state monopoly has been breeding corruption, as only the powerful and privileged can enter these companies and corporations. This will generate inter-generational inequality as well. It is crucial to implement anti-monopoly law and to break up the state-owned giants. At the same time, it is useful to introduce public-private-partnerships into these giants. Further opening up of the economy, particularly in the service sector, to private investment and foreign entry will help abate monopoly and inter-industry disparities.

Second, labor market reforms to ensure equal opportunity and employee rights for all. This calls for enacting laws and regulations guiding employment conditions and labor relations. A key step is to finalize and decree the *Regulation on Wages* that have been in the making since 2008. The regulation emphasizes, among other issues, (i) employees and employers have equal power in negotiating and determining wages, (ii) the minimum wage system must be established at the nation-wide level, not provincial level; and (iii) wage levels and wage scales of monopoly sectors should be controlled.

Finally, prevailing price distortions must be corrected. The low interest, unfairly low wages for migrant workers, subsidized electricity and other energy inputs are helping the few (SOEs, employers and investors) while hurting the private sectors, the working population and general public. Gradually removing these distortions may also help enhance the competitiveness of China's exporters.

11.4.5 Policy Reforms and Social Protection

Needless to say, the Hukou system must be reformed which may take some time. It would be a gradual process simply due to the sheer size of the rural population and its close connection with social welfare payout and China's fiscal capacity. In the last few years, various localized initiatives have been put in place to integrate the urban and rural sectors. However, these are limited to residents within the same municipality or province and often only apply to those rural households who lost their land for city development. These farmers are often given urban Hukou but they usually do not enjoy all the benefits associated with urban Hukou.

Quality education and health care must be made affordable and accessible for everyone. More than ensuring a minimum living standard for all, a well-functioning social protection system helps the poor and the vulnerable to invest in human and possibly physical capital, which is essential for improving income distribution in the long run. This will become increasingly important as aging and migration gains momentum in China.

While social protection in terms of pension, health care and unemployment benefits are more advanced in the urban areas, the rural sector is significantly lagging behind, not only in terms of breath and depth of coverage, but also in terms of level of benefits. These differences are becoming a hurdle to urbanization and must be addressed. Similar differences also exist between provinces which may adversely affect labor mobility across provincial borders.

One of the most serious problems lies in the non-portability of the various benefits. Overcoming this problem requires a nation-wide social welfare system where individuals can have access irrespective of their location of residence and household registration status. While still a long way to go as far as social protection is concerned, it is important for China not to develop into a welfare state. The lessons of overshooting, experienced by Canada and Australia, ought to be borne in mind.

Finally, a more progressive taxation system must be established to make after-tax personal income more equal. Introducing a real estate tax or some special forms of property tax is almost inevitable to tax the stock of wealth (as opposed to flow of income) owned by the rich.

11.4.6 Job Creation and Development of the Service Sector

It is accepted that job creation will help moderate income inequality as the poor and vulnerable usually possess labor as the only resource, while the rich have capital and other resources. To enhance job creation, China must maintain growth but more importantly must promote the service industry, which is relatively more labor intensive. Needless to say, lifting the share of the service industry in China's national GDP is necessary for China to undertake its structural transformation in the post-crisis era.

At present, the service sector in China contributes about 40% to national GDP and around 35% to total employment. Both are relatively low. If international experience is any guide, China's service sector should account for 50%–60% of national GDP and over 60% of total employment. A simple calculation projects 400–456 million jobs in the service sector. The current labor force in the service sector is 240 million, implying a gap of 160–216 million. It must be pointed out that these calculations have not taken into account new jobs to be generated by economic growth, which is expected to remain high and sustainable for the next 20–30 years.

In passing, it is worth noting that heavily investing in farming is unlikely to lead to growth, nor jobs. This is not conducive to narrowing down the urban–rural gap either, which is essentially determined by the productivity differential between farming and non-farming activities. This differential, in turn, is driven by the law of diminishing returns to land or lack of economies of scale in farming, and inelastic demand for farm products. Both are inherent characteristics of farming and are not subject to policy interventions in the long run except by increasing farm size, as evidenced by the declining numbers of farms and increasing farm sizes in Australia, USA, and to some extent Europe.

11.5 Conclusions

Income inequality in China has risen along various dimensions. In particular, discriminations against the rural and inland population, and more recently migrants in the cities, have led to unrest and crimes. These are clear signals of moving away from a shared society, as promoted by Club de Madrid.

In response, the central government has launched large-scale interventions including the west development campaign, the socialist new countryside movement and a series of social protection policies. The campaign of "western development" launched in 1999 is targeting the east-central-west divide, while the movement of "constructing socialist new countryside", formally initiated in 2005, aims at bridging the urban–rural gap by helping develop the rural economy. This is followed by the declaration, in October 2006, of "building a harmonious society" which represents a comprehensive attack on inequality.

These government prescriptions have so far failed to reduce income inequality in China, possibly because the diagnoses were incorrect. Based on careful analyses using up-to-date research methodologies, this paper quantifies the contributions of various factors which determine income inequality in China. Important findings include the overwhelming role of the urban-rural gap in constituting inequality at all levels, the fast rising contribution to inequality of growing monopoly and the worrisome emergence of educational disparity.

To move China toward a shared society, it is suggested that (i) China must speed up rather than slow down urbanization as this is the only way to bridge the urban-rural gap. "Building the socialist new countryside" is destined to fail as the share of rural GDP will decline as the economy develops further. Rural residents must be supported but assistance shall be provided in the urban areas, not in the countryside; (ii) China must break up monopoly in energy, telecommunications, railway and highway, and financial and insurance services by splitting the state-owned giants, introducing private-public-partnerships, allowing foreign entries; (iii) China must reform the fiscal system to ensure equalization of public services in basic healthcare, education and old-age pension, irrespective of local development status. The social protection level between urban and rural areas and across provinces must converge by increasing (and/or cutting) assistance to the rural (urban) residents. Meanwhile, entitlement to social welfare must be made portable; and finally (iv) Equity must enter the performance scoreboard of government bureaucrats and public servants.

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Chapter 12

The Effect of Iddi Amin's expulsion of the Asian community in Uganda in 1972 on the social and economic development of the country

Tumuhairwe Collins

12.1 Introduction

This chapter is aimed at sharing practical lessons on the importance of shared societies using Uganda's experience and history.

Uganda is located in East Africa with several indigenous ethnic groups of people including Bantu, Nilotics, and Hamites. These groups were living in harmony and had mutual respect for each other's culture for centuries. They were organized in kingdoms and chiefdoms led by Kings and Chiefs respectively. Over time other people from all over the world started coming to Africa with the Asian and Arab traders being the first to arrive in East Africa. Later the Europeans arrived in Uganda for trade, exploring and spreading Christianity. All these groups of people were warmly welcomed by the indigenous, although a few communities resisted due to security concerns. The African culture generally is welcoming to all and treasures so much sharing, working together and living in harmony. This gave these foreigners a very good atmosphere to carry out their activities smoothly with the Asian community specializing in trade and the Europeans (British) colonizing the area and taking over leadership from the local Kings and Chiefs. The British controlled Uganda until 1962 when Uganda got its independence.

After Independence Uganda enjoyed a strong and stable and very fast growing economy in the first years. The economy was mainly driven by the Asian community since they had all the skills, resources and experience as they had traded with East Africa for long. Most of the former British colonies in sub-Saharan Africa had many citizens of south Asian descent. Some of these Asians were brought by the British Empire from British India to do clerical work in Imperial Service, or unskilled/semiskilled manual labor such as construction or farm work. Large numbers had been in Uganda for several generations and had no other nationality. Many Indians in East Africa and

Uganda were in the tailoring and banking businesses, where they were employed by the British. Since the image of Indians in Uganda as tailors or bankers was common, most Indians perceived themselves as coming from a more advanced culture than Ugandans, a view not appreciated by Ugandans.

12.2 Relationship between Asians and the Indigenous Population

Indophobia in Uganda thus pre-dated Amin, and also existed under Milton Obote. The 1968 Committee on "Africanization in Commerce and Industry" in Uganda made far-reaching Indophobic proposals. A system of work permits and trade licenses was introduced in 1969 to restrict the role of Indians in economic and professional activities. Indians were segregated and discriminated against in all walks of life.

After Idi Amin came to power, he exploited pre-existing Indophobia and spread propaganda against Indians involving stereotyping and scapegoating the Indian minority. Indians were stereotyped as "only traders" and "inbred". Indians were labelled as "dukawallas" — an occupational term that degenerated into an anti-Indian slur during Amin's time), and stereotyped as "greedy, conniving", without any racial identity or loyalty but "always cheating, conspiring and plotting" to subvert Uganda. Amin used this propaganda to justify a campaign of "de-Indianization", eventually resulting in the expulsion and ethnic cleansing of Uganda's Indian minority.

12.3 Expulsion of Asians

On 4 August 1972 "His Excellency President for Life, Field Marshal, Alhaji, Dr, Dada, VC, DSO, MC, Conqueror of the British Empire, King of Scotland, Lord of all the Beasts of the Earth and the Fishes of the Sea, Distinguished Service Order, Military Cross, Iddi Amin" ordered the expulsion of his country's Asian minority, giving them a 90 days to leave Uganda.

The motivation for this remains unclear. Some of his former supporters suggest that it followed a dream in which, he claimed, God told him to expel them. Whatever the case, Amin defended this expulsion by arguing that he was giving Uganda back to the ethnic Ugandans.

“We are determined to make the ordinary Ugandan master of his own destiny, and above all to see that he enjoys the wealth of his country. Our deliberate policy is to transfer the economic control of Uganda into the hands of Ugandans, for the first time in our country's history” —Idi Amin quoted in *Uganda: a modern history.*

The ethnic cleaning of Indians in Uganda was conducted in an indophobic climate in which Ugandan government claimed that the Indians were hoarding wealth and goods to the detriment of indigenous Africans and “sabotaging” the Ugandan economy. A similar expulsion of the Kenyan minority had happened earlier in Uganda in 1969.

In this period Uganda got its “total independence” since colonial and foreign influence was greatly reduced and the economy fell totally in the hands of the locals.

This even scared other foreigners who were not part of the group expelled, more especially those from Britain who also had to flee the country since they knew they were the next target. 55, 000 Asians and Indians closed their shops and businesses and left for Britain, seeking asylum there.

Many of the Indians were citizens of the United Kingdom and Colonies and subsequently immigrated to the United Kingdom. Others became stateless after being stripped of Ugandan citizenship. Most of the Ugandan Indians accounted for went to Britain which took around 27,200. 6,000 went to Canada, 4,500 ended up in India and 2,500 went to nearby Kenya. Malawi, Pakistan, West Germany and the United States took 1,000 each with smaller numbers emigrating to Australia, Austria, Sweden, Mauritius and New Zealand. About 20,000 were unaccounted for.

Following the expulsion of Indians in 1972, India severed diplomatic relations with Uganda. The Indian government warned Uganda of dire consequences, but took no actions when Amin's government ignored the ultimatum.

12.4 Effect of the Expulsion of Asians on the Ugandan Economy

This section presents the economic effects Uganda suffered as a result of not having a shared society which resulted into the expulsion of the Asian minority. Before the expulsion, Asians owned many large businesses in Uganda but the purge of Asians from Uganda's economy was virtually total.

12.4.1 Sharing of Asian Property

In total, some 5,655 firms, ranches, farms, and agricultural estates were reallocated, along with cars, homes and other household goods. For political reasons, most (5443) were reallocated to individuals, with 176 going to government bodies, 33 being reallocated to semi-state organizations and two going to charities. Possibly the biggest winner was the state-owned Uganda Development Corporation, which gained control over some of the largest enterprises up for grabs, though both the rapid nature of the growth and the sudden lack of experienced technicians and managers proved a challenge for the corporation, resulting in a restructuring of the sector in 1974/5.

12.4.2 Benefits Vs Costs of this Expulsion

The expulsion of the Asians came with its benefits and costs to the Ugandan economy although benefits were short lived and did not stand the test of time.

On taking power in early 1971, Amin reduced state participation in the economy, and the earlier apprehension on the part of the multinationals and the large, mostly Asian-owned, companies was temporarily assuaged. However, although Obote was blamed (Uganda, 1972) for 'over-concentration on politics, at the expense of taking care of our economic life', the military regime was about to embark on policies that would seriously affect the Uganda economy and the wellbeing of the people for decades.

From the point of view of the economy, a major negative event was the expulsion of the Ugandan-Asian business families in 1972. Though anti-Asian sentiment was rife in the 1960s, the expulsion was unprecedented. Jamal (1976) has argued that though a long history of economic inequalities between the African majority and the Asians has caused resentment, the expulsion did little to improve income distribution or the welfare of the 'common man' in Uganda. The Ugandan economy was devastated by Amin's expulsion of the Asian community.

The agricultural exports declined exponentially since the Ugandan community at the time did not have the skills and capacity to look for markets and transport the goods abroad. This discouraged the farmers and raised the poverty levels given that the vast majority of the population relied on agriculture. The real value of salaries and wages fall by 90% in less than a decade. During this period flagrant and widespread corruption emerged. The regime became disliked especially in areas which suffered most.

Thus, economic imbalances emerged early under Amin's regime. Apart from the outcomes of the Asian expulsion, there were also the parallel effects of the oil crisis and the increasing international isolation, which led to loss of aid and commercial credits. However, instead of attempting to correct these shocks via stabilization policies, the government chose to tighten controls, especially on consumer goods. Sugar was, for example, a sensitive commodity, and since the expulsion of the Asians production had reduced by over 75 per cent, to barely 20,000 tonnes in 1976, the pressure on sugar prices had risen. Licenses for dealing in sugar were introduced with stiff penalties for smugglers and other defaulters.

For other transactions, import restrictions and exchange controls were introduced as well as a number of new license requirements. Still, these new regulations had differential impacts on businesses. Influential groups in the military and their allies openly flouted them. Smuggling and black markets became a common responses to the substantial rents engendered by the controls. Amin's policy of Africanization of the economy caused capital flight and the impoverishment of the majority and in the end Amin's populist agenda failed him.

He could not generate the economic resources required to maintain support from the military or to keep the population pacified. The inflation resulting from inadequate policies reduced the value of government salaries, while the level of imports fell in real terms. Thus the resources to support the elite were seriously eroded.

From this it can be seen that for development, the majority of the population must see the benefits of growth and the challenges that come with it like globalization. However, it is not only the average person who must be included, but also the ruling elite must allow competion within the groups to benefit, as well as allow new competitors to come in.

Apart from causing the virtual demise of the productive part of the formal sector, another substantial Amin legacy was the expansion of the public sector. Thus while there were only 10 parastatals in 1972, by the mid-1970s there was a total of 23, responsible for up to 250 different business enterprises (Katumba, 1988). However, the managers of the new parastatals lacked both managerial competence and entrepreneurial skill, while the private individuals who had acquired the smaller businesses had soon stripped them of most assets. Moreover, the new parastatals were largely used for state patronage. Thus while they were earlier sources of tax revenue, in the form of corporate taxes, rents, licenses and rates (Uganda, 1977, p.45), they now depended on the government for survival.

Skilled managers were replaced by largely unskilled people, often drawn from the military and with little education. The appropriation of their properties earned the country a long-lived reputation for lawlessness and property confiscation. The manner in which former Asian businesses were acquired created insecurity of tenure, leading to asset stripping.

However these Ugandans had no experience at running businesses, they also did not know where to buy supplies from and how much to charge. Consequently in just 3 months from the Asian and Indian expulsion, Ugandans economy financially crashed. Subsequently a secret black market economy emerged and the smuggling of goods became rife. For years there were no basic commodities like, sugar, butter, salt, bread and clean drinking water.

Ugandans started to starve and Idi Amin's suppression increased as he tried to beat down all illegal activity as families did anything they could to get food and supplies. Many Ugandans took to smuggling coffee, taking it over Lake Victoria by boat to neighboring countries of Kenya and Tanzania. Amin’s treasury consequently dwindled down to nothing meaning that Uganda was officially bankrupt. Amin declared war on the smugglers and ordered his army to shoot anyone and everyone they even suspected of smuggling, with no questions asked. Uganda was now on a one way ticket to hell, all petty criminals, smugglers and those that complained about Amin were rounded up, taken into fields with their arms tied behind their backs and shot as insurrectionists and terrorists.

Trends of the Main Economic Variables between 1967 and 1980

Year	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
GDP growth (%)	5.1	3.2	11.7	0.7	-1	-1	-2	-2	1	-1.6	-5.5	-11	-3.4	-0.2
GDP per capita (index) (%)	105	104	112	109	104	100	95	90	88	84	77	66	62	105
Gross domestic investment/GDP (%)	13	13	14	13	11	8	11	8	6	6	8	6	6	15
Gross domestic savings/GDP (%)	14	14	15	16	13	11	10	5	7	7	3	8	0	11
Export/GDP (%)	25	24	21	22	18	16	14	8	11	8	4	3	7	19
Terms of trade (1960=100)	90	94	94	102	94	88	76	78	108	186	119	117	113	103
Total external debt (million US$)	-	-	-	152	178	177	204	212	247	338	450	590	703	172
Wage employment (index)	105	115	121	128	135	143	151	151	150	150	-	-	-	133
Inflation (GDP deflator)	154	140	139	137	8	24	57	20	46	89	36	216	150	4

Money supply (M1) (growth %)	5	15	3	2	36	38	43	8	37	30	21	52	31	2
Domestic credit (growth %)	8	21	10	14	35	37	34	18	27	25	24	23	64	26
Credit to government (growth %)	-	35	77	77	55	49	35	24	33	15	30	28	59	64
Interest, bank deposit rate	-	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Population (million)	8.7	9.1	9.4	9.8	10.3	10.6	10.9	11.2	11.5	11.9	12.3	12.7	13.1	10.1

Source: Uganda (various years), Background to the Budget; Uganda (various years), Budget Speech: World Bank: World Development Data.; World Bank (1982).

From the above World Bank data the following can be clearly observed that all the economic variables declined between 1971 and 1979.

Investments dried up, exports declined, and per capita incomes fell continuously from 1973.
The GDP growth rate fell from -0.2 in 1971 to -11 in 1979.The GDP per capita fell 104 in 1971 to 62 in 1979. The Gross domestic savings/GDP (%) fell from 13 in 1971 to 0 in 1979. Export/GDP (%) fell from 18 in 1971 to 7 in 1979 since locals had no skills to look for the market. The total external debt increased from (million US$) 177.6 in 1971 to 702.5 in 1979.The Gross domestic investment/GDP (%) fell from 11 in 1971 to 6 in 1979. In 1979 when Amin was over thrown, the Asians started coming back to Uganda and the GDP rose again.

The agricultural exports declined exponentially and this discouraged the farmers and raised the poverty levels given that the vast majority of the population relied on agriculture. The real value of salaries and wages fall by 90% in less than a decade.

The Asians and Indians transferred most of their money into other bank accounts, consequently taking millions of dollars out of Ugandan circulation. This left the country short of financial capital for production.

Ugandan soldiers during this period engaged in theft and physical and sexual violence against the Asians with impunity. In addition, Amin spent excessive amounts of money on the military, neglecting such areas as health, industry, and education. Instead, Amin increased the military's share of the Ugandan budget from 20 percent to 60 percent in his first year of rule alone. In this declining economy, Uganda could not repay its debts or finance new purchases.

Amin needed funding, so he sought to align himself with Libya. He ordered the Israelis out of Uganda and in February of 1972 announced plans to make Uganda a Muslim nation. Libya then sent money and military support, as well as funds to support Muslim mosques and the spread of Islam. But Libya's aid was not enough to restore the country. Several groups began to place pressure on Amin. In December of 1976 a group of church officials asked Amin to end the suffering in Uganda. A military delegation also requested that Amin restore order. In response, Amin launched massacres on a massive scale. Bodies were often dumped into the River Nile.

12.4.3 The Social Consequences

Although expulsion of the Asians mainly affected the economy this had a strong bearing on the social and political welfare of the people in the Uganda. It marked a period of suffering to the locals mainly because of the gap left behind after the Asians fled the country. Although the expulsion of the Asians in Uganda triggered and started a period characterized by gross human rights abuse, political repression, ethnic persecution and corruption, other factors resulting from Amin’s poor leadership also contributed to the suffering.

The killings, for ethnic, political and financial reasons, continued throughout Amin's eight-year reign. The exact number of people killed is unknown. The International Commission of Jurists estimated the death toll at not less than 80,000 and more likely around 300,000. An estimate compiled by exile organizations with the help of Amnesty International, put the number killed at 500,000. Among the most prominent people killed were: Benedicto Kiwanuka, the former Prime

Minister of Uganda and later Chief Justice; Janani Luwum, the Anglican Church Archbishop; Joseph Mubiru, the former Governor of Bank of Uganda, the Central Bank; Frank Kalimuzo, the Vice Chancellor of Makerere University; Byron Kawadwa, a prominent playwright; and two of Amin's own cabinet ministers, Erinayo Wilson Oryema and Charles Oboth Ofumbi. In 1977 the first exposé of Amin's rule from the inside was published. Henry Kyemba, Amin's Health Minister and a former official of the first Obote regime, defected and resettled in Britain. Kyemba wrote and published A State of Blood, which gave an in-depth account of Amin's rule.

Outside pressures also increased. Criticisms came from Zambia, Tanzania, and the British, and these fueled internal divisions. Various troop divisions began to rebel, and Amin attempted to divert attention with a false report of a Tanzanian invasion. Ugandan troops retaliated against the innocent Tanzania, devastating the area, robbing and pillaging, burning and looting. The Tanzanians pushed the Ugandans back across the border and pursued them into Ugandan territory. When the capital of Kampala fell on April 10, 1979, Amin, along with his wives, numerous mistresses, and children, had already boarded a plane to Libya. He then sought refuge in Saudi Arabia.

12.5 Why did the Ugandans lack skills to carry on the Asian businesses?

It is true however, that Britain after independence left Uganda with almost non-existent political systems and had involved few Africans in governing their own country. Before granting independence, they considered unifying Uganda with Kenya and Tanganyika in a Federacy. Nor did they clarify the position of the traditional King of Buganda in the post-colonial space. Britain, too, made a net profit from its colonial possessions and while she talked about her moral responsibility towards her colonial subjects, she did little to encourage self-determination. She did leave behind educational systems but these taught students how to become European, not to value or to take pride in things African. At one point, Britain had been prepared to hand a large tract of Uganda over to the World Jewish Congress, an offer made in 1906. Although not all of Uganda's problems were caused by Amin himself and by his predecessors, expelling the Asians only exacerbated the economic decline. Unfortunately, and for this the British do shoulder a fair share of blame. Africans did not have the necessary skills to replace the departing Asians.

12.6 Return of the Asians

In 1986, when a new regime took over power, the Asians were returned their currently existing properties like buildings. The Asians have trickled back and are now fairly competing with the locals in business. And today once outcasts, Asians again drive Uganda's economy.

. The Asian community has recaptured its position once again and today Asians are present in all sectors including manufacturing. They are employing tens of thousands of Ugandan people. The Ugandan business community is competing favorably with the Asian community. The Ugandan business community has learnt a lot about trade from their Asian counterparts. Apart from a few who took over the Asians shops and businesses, the majority of the Ugandans were not happy with Amin's expulsion of the Asian community. This shows the need for a shared society, where people of all races are respected, for sustainable social and economic development.

This shows the strong bond of love and interdependency of the different races and it's a good example of a shared society. This was a good lesson for the Ugandan community on the importance of coexistence of the different races and mutual respect for each other.

Although the Asians are back into the country, the categorical difference between the races still exists up to present. Intermarriages are no longer common between the locals and the Asian community unlike before the expulsion of the Asians. The Asians do not consider the locals as their best ally since they do not share the same interests. This has made Uganda not to be considered as one of the good places for investment by foreigners since they fear being expelled later.

12.7 Concluding Remarks

Though at first Ugandans were very happy with Amin's policy of expelling the Asians, they later discovered that there is need for co-existence of the different races to complement each other after the suffering they went through as a result. They mainly learnt from the collapsed economy and this period marked the beginning of a new generation of young entrepreneurs who compete freely with the Asians and as a result learn from their skills. Currently Ugandans are trading harmoniously with the Asians though before they considered them as exploiting Uganda. Ugandans now understand the need for a shared society and it's for this reason that the government of Uganda has set up the Uganda investment Authority to encourage foreign investors into the country.

It has been asserted by many scholars particularly in Uganda that countries that have embraced the idea of shared society have developed faster than those that rejected shared societies giving a comparison between Uganda and Kenya as a vivid example. It has been argued countries particularly in Africa that have had large numbers of people of different races have developed faster than those with fewer ethnic groups explain why South Africa is the most developed country in Africa or why Kenya is more developed than Uganda.

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Part IV: Civil Society and Social Change Towards a Shared Society: Recent Issues

Chapter 13

Traditional Social Change Organizations and the Occupy Movement: The Struggle for a New Solidarity

Sara Burke

13.1 Introduction

This chapter aims to contribute to the debate invited by Club de Madrid on how to study, conceptualize and build what its members call "Shared Societies[140]". This debate has different facets, including whether the economic benefits of shared societies are demonstrable, and if so, by what new or old measures. My work at Friedrich-Ebert-Stiftung as a policy analyst has brought me close to these debates, particularly with regard to a series of seminars our organizations jointly organized at IMF with the aim of bringing social cohesion and economic inclusion into discussions of macroeconomic policy.

This chapter looks instead at a different facet of the Shared Societies' mission, the objective to initiate change that can promote citizen participation, fight inequalities of income as well as group inequalities based on gender, race or other differences, and to validate it via the peaceful relations that are then hypothesized to result among groups in society. While this paper draws from my work in policy, in its account of the localized genesis of the Occupy Movement in New York City, it is also informed by my citizen activism and direct participation in the Occupy Wall Street New York City General Assembly[141], two of its working groups[142], and several antecedent groups.

[140] Club de Madrid (2010) has engaged in a multi-year program to promote Shared Societies, which they define 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."

[141] This is the website started by the many people who occupied Liberty/Zucotti Park in New York City beginning 17 September, 2011 and is the official portal of this original occupation's General Assembly and the working groups that emerged from it http://www.nycga.net

[142] Working groups of Occupy Wall Street in NYC are listed on the General Assembly's website http://www.nycga.net/groups/.

I have observed that many opportunities exist for partnerships between the Occupy Movement and trade unions, civil society advocates for social justice, political organizations and parties, and community-based coalitions. Despite the fact that the Occupy Movement has resisted making demands in general, and I will go into why this might be so in the course of the paper, its working groups have taken on a number of issues that give it immediate common ground with the traditional political organizations and groupings mentioned above, issues such as debt injustice, rising inequality, persistent unemployment, and how to construct a financial system for the needs of society other than finance. These are all also issues of concern to the Shared Societies project.

In the autumn of 2011, once the mass media became aware of Occupy Wall Street, and sibling "Occupys" began to spring up around the country and indeed around the world, traditional organizations for social change were drawn to the movement. Even U.S. President Obama associated himself with Occupy Wall Street's narrative of the 99% against the 1%. During this period, the greatest obstacle I observed to the creation of synergy between the Occupy Movement and these other organizations was trust. On the homepage of the New York City General Assembly are links to two important early declarations of Occupy Wall Street related to trust: the Principles of Solidarity and Statement of Autonomy (NYCGA, 2011). The former emphasizes mutual respect, personal responsibility and a commitment to transparency and direct democracy. The latter requires supporting organizations to examine their own leadership and decision making procedures in light of Occupy's principles. It requires participating professional activists to be open and transparent about their affiliation and compensation. These core values, which my own experience in movements leading to the emergence of Occupy Wall Street has led me to share, are the reason both my professional title and personal activism are acknowledged in this paper.

Chapter 2 in this volume by Michael Valenti and Olivier Giovannoni examining the economics of inclusion contains a section on trust, social capital and economic growth that is relevant to this investigation. In the literature they examined, Valenti and Giovannoni found that greater trust and civic norms based on values that included fair taxation and honesty in basic transactions correlated "strongly and positively" to economic growth. My observation is that these values—

regardless of their relationship to economic growth—specifically the emphasis on fair taxation and honesty in basic transactions, combined with a rebellion against rising inequality and the system that generates it, are continually affirmed by the Occupy Movement as it evolves. They are also continually tested by attempts to build a larger movement aligned with other kinds of organizations, as well as for more traditional institutions and organizations advocating progressive social change—such as unions, community coalitions, social service agencies, and political parties—to relate to the Occupy Movement. The central question posed by this chapter is whether the Occupy Movement and these other organizations in civil society are potential partners in efforts to shift governments and intergovernmental institutions toward more substantial policies to promote shared and sharing societies. What I argue in this chapter is that the importance for them of building greater capabilities for trust and of searching for common ground—not only with the Occupy Movement but also with its antecedent movements in North Africa and Europe—lies not in an abstract principle of solidarity but in the concrete political and economic conditions that are driving these new movements for social justice.

13.2 Political and Economic Background

2011 was a turning point in what may be described as a crisis of social justice arising from the destructive effects of poverty and inequalities that were intensified by the financial crisis of 2007-08, and which fueled protests, occupations of public spaces and experiments in new organizational forms in North Africa, Europe, and the United States (U.S.). When 25 year-old Tunisian street vendor Mohamed Bouazizi set himself on fire on 17 December 2010 to protest the harassment and humiliation inflicted upon him by municipal government officials, no one could have foreseen the explosion of social protest across the Arab world in the weeks and months that followed. These events overthrew repressive governments in Tunisia, Egypt, Yemen, and Libya, the latter of which was ultimately accomplished with the aid of air strikes by a U.S./French/British military coalition. Civil uprisings in Bahrain and Syria, major protests in Algeria, Iraq, Jordan, Kuwait, Morocco, Oman, and Israel and demonstrations in Lebanon, Mauritania, Saudi Arabia, Sudan, and the Western Sahara were also ignited by a generalized climate of social unrest. Even the "Palestine 194 Movement," the diplomatic campaign by the

Palestinian National Authority to gain UN membership for the State of Palestine[143] was propelled by this wave of protest, which was not confined to the Arab World, but had a precedent in Iran's 2009 "Green Revolution" movement and important antecedents in Europe and North America in 2011, including the *Indignados* movements in Spain, Portugal, and Greece and the Occupy Wall Street movement in the U.S.

Why was 2011 a turning point? Although the international financial system experienced a profound shock in 2007, when the subprime mortgage crisis developed into a financial sector crisis affecting European and US banks, it did not became a full-blown global economic crisis until 2008, when the U.S. government was compelled to take control of its mortgage-finance related government-sponsored enterprises, the Independent National Mortgage Corporation (IndyMac), the Federal National Mortgage Association (FannieMae), and the Federal Home Loan Mortgage Corporation (FreddieMac) and investment banks Bear Stearns and Lehman Brothers collapsed, along with Washington Mutual Bank and multinational insurance company AIG, which was taken over by the U.S. government. During the same period in the United Kingdom (U.K.), Northern Rock, the first large British bank to experience a run on deposits in almost 150 years, was taken over by the government, as was mortgage lender Bradford & Bingley (BIS, 2008).

In addition, global concern among policymakers led to the expansion of the Group of Twenty (G20) in November 2008 such that not only finance ministers and central bank governors, but also heads of state of the member countries became directly involved. Their November 15, 2008 *Declaration* proclaimed that "global cooperation" and a commitment to "market principles, open trade and investment, and effectively regulated financial markets" were the key to "economic growth, employment, and poverty reduction" (G20, 2008). By mid-2009, the G20 governments' subsequent, coordinated interventions had largely resolved the interbank crisis that had paralyzed the American and European financial systems, and stimulus policies to boost aggregate demand were also being cooperatively pursued. In addition, financial institutions in the U.S. considered "Too Big To Fail" had been bailed out, and profitability had been restored after just one quarter of negative profits, from September-December 2008 (BEA, 2009; WSJ 2011).

[143] This would make Palestine the United Nation's 194th Member State.

Although the financial system recovered in 2009, at least by the measure of restored profitability, the credit crisis persisted and lending to nonfinancial entities remained extremely sluggish. Despite policies to stimulate aggregate demand, ordinary citizens in the U.S., U.K., and Europe continued to experience falling incomes and employment rates, increased poverty and inequality, foreclosures, and homelessness. By June of 2010, when the G20 held its Summit in Toronto, Canada, the Group was split on the importance — or efficacy — of continuing the stimulus policies advocated in their original response to the crisis, and most G7 members had begun to embark on austerity programs to shore up sovereign debts and falling revenues. This path, on top of the original crisis, threatened trade and economic growth worldwide.

As a consequence, a variety of agents, who were not responsible for the crisis of finance but nonetheless suffered from its effects (this included industrial and commercial enterprises as well as the middle class and poor workers in G7 countries and the developing world), were subjected to a crisis resolution favoring the narrow, private interests of the financial sector and high-income earners in all sectors (Duménil and Lévy, 2011). The wider social costs of the crisis persisted, as citizens in the most economically advanced countries were compelled to pay twice, first toward the direct costs of the bailout and economic slowdown, then with the pain of fiscal austerity. Citizens in the rest of the world suffered twice as well, first from a world economic slump that originated in G7 countries' financial markets and then from the contractionary effects of those same countries' austerity policies. In sum, by late 2010, the banking crisis had become a generalized fiscal crisis. The fiscal crisis was then compounded by a dramatic failure of accountability on the part of advanced governments and the financial sector, whose leaders failed to grasp the injustice of saving banks at the expense of people and the overall health of the global economic system. In all crisis countries this was compounded by rising income and wealth inequalities, but in North Africa it was further compounded by decades of state and police corruption and violence. The crisis may have come to a head with Mohamed Bouazizi's self-immolation in Tunisia on 17 December, but it returned home when it settled in New York City and Wall Street was "occupied".

It is not surprising that the Occupy Movement emerged in New York City. The city is home to the headquarters of a number of institutions involved directly or indirectly in the financial crisis and its resolution, including AIG, Bear Sterns, Citigroup, Goldman Sachs, Lehman Brothers, J.P. Morgan Chase, Morgan Stanley, Merrill Lynch, MetLife, and the Federal Reserve Bank of New York, where the open market operations to stabilize the international and national financial systems were conducted in 2007-08. In addition, by late spring in New York, energy and communications from the Arab Spring and anti-austerity protests in Europe had invigorated the climate of local politics focused on an annual ritual of struggle over the city's budget. Various waves of the international economic, political, and social crisis were auspiciously "in phase". Converging international, national, and even New York City effects of the crisis each amplified the others, heightening tensions around the budget debate.

The projected US $ 66 Billion 2011 city budget had risen steadily from US $ 38 Billion in 2000 (with only a temporary suppression in 2009 due to the financial contraction in the previous year). The New York City Independent Budget Office[144] projected that the 2000 budget would almost double by 2015, reaching a total of US $ 73 Billion (Lowenstein, 2011). Despite the growing budget, a number of public facility closures, layoffs of city workers and cutbacks to service agencies dependent on funds from the city were threatened by the Mayor. Notably, the fiscal plan under debate contained no proposals for tax increases. To the contrary, many lawmakers at the State level were threatening to let the so-called "Millionaires Tax" on New York State's top incomes expire at the end of the year, as if projected budget shortfalls could only be rectified via expenditure cutbacks (austerity and layoffs) and not also via revenues (making the tax system more progressive and correcting bad subsidies).

In a departure from previous years' budget battles, the usual coalition of labor unions, service agencies, nonprofits, and liberal think tanks – unified in 2011 as the "May 12 Coalition" – was joined for the first time by activists organized horizontally in the Uncut movement[145] and by new

[144] A publicly funded agency that provides nonpartisan information about New York City's budget to the public and to elected officials.

[145] Concurrent with the revolutions in North Africa unfolding in late 2010 and early 2011, anti-austerity protesters, unified under the name "Uncut" in both the U.K. and U.S., began occupying the storefronts of banks and multi-national corporations accused of tax avoidance and bad corporate "citizenship". In the U.K., the corporate targets included Vodaphone; also implicated in the campaign was Prime Minister David Cameron's "Big Society" initiative in which volunteerism is supposed to replace services formerly provided by government. In the U.S., the main corporate target was Bank of America, which paid no taxes in either 2009 or 2010 (Collins, 2011); these protests also criticized the increased political influence afforded corporations

coalitions drawn together to organize "People's Town Halls" and "action assemblies" against budget cuts and austerity, a direct attack on the so-called "Town Halls" regularly organized by elected politicians and widely discredited as mere public relations events in which the politicians take near total control of who attends, what questions are asked and which issues are raised. Invoking the spirit of the pro-union occupation held earlier in the year in the Wisconsin state capital, the May 12 Coalition urged its unionized base of supporters to "save our city's budget and make the big banks and millionaires pay their fair share!" Its demands were laid out in a manifesto entitled, "Its Payback Time", prepared largely by the Fiscal Policy Institute, the Center for Working Families, and Good Jobs New York, left-liberal, public policy think tanks that crafted a set of subsidy, taxation, and legal reforms designed to bring an additional US $ 1.5 Billion back into the city budget and rein in the socially destructive behavior of the six largest banks doing business in the city. These reforms included eliminating over US $ 1 Billion of subsidies, tax credits, and low-cost energy deals to JPMorgan Chase, Bank of America, Citigroup, Wells Fargo, Goldman Sachs, and Morgan Stanley and demanding US $ 300 Million in concessions and clawbacks for missed job targets (May 12, 2011).

The report and the coalition highlighted the fact that New York is the "inequality capital of the United States". This claim was substantiated by a December 2010 Fiscal Policy Institute report entitled, "Grow Together or Pull Apart? Income Concentration Trends in New York" based on the work of economists Thomas Piketty and Emmanuel Saez, who attributed the sharp rise in U.S. inequality after a three-decade boom following World War II to *political* decisions altering the direct taxation of wealth and income. Their work used fiscal statistics (before taxes and government transfers) to show that the share of total income going to the top one percent of tax filers climbed from 10% of total income to almost 25% in the mid-2000s (Piketty/Saez, 2003/2012). If anything the situation is even worse than portrayed by Piketty and Saez because fiscal data fails to catch the poorest of the poor, who earn too little to pay taxes.

Using income data for New York State and City similar to that used by Piketty and Saez, the Fiscal Policy Institute report demonstrated that New York is the "most polarized among the fifty states, and that New York City is both more polarized than the state overall and is the most

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by *Citizens United vs. the Federal Elections Commission* a 2010 decision by the U.S. Supreme Court against banning or limiting corporate spending in political campaigns.

polarized among the twenty-five largest cities in the United States" (Figure 1, Annex). Moreover, the report showed that the top income earners in the city pay a substantially smaller share of their income in state and local taxes than other New Yorkers (Parrott, 2010). The idea that inequality was the key problem faced by the city after 2008, and that it was not an inevitable outcome of capitalist social relations and markets, but rather a policy choice regarding the institutional framework within which those markets operate that determines the distribution and concentration of wealth was the message promoted by the leaders of May 12. In other words the city's inequality could be managed downward with the right demands and a strong coalition of political partners backed by a broad citizens' movement.

Coalition partners accustomed to the yearly ritual of budget battles and posturing on both sides were not surprised by the concessions made or the ultimate outcome of the budget, but the activists from Uncut and the People's Town Halls, initially attracted to the campaign, were alienated by the political process. They, spent the final weeks of the budgeting process joined by advocates for the homeless, as well as rank-and-file activists from unions and community groups protesting threatened public sector layoffs and austerity measures. Many of them camped out on the streets near City Hall for a three-week long occupation known as "Bloombergville", in parody of billionaire Mayor Michael Bloomberg and referencing the "Hooverville" shanty towns during the Great Depression. From this perspective, the unions, city-funded agencies and other big players in the May 12 Coalition were quick to back away from their demands, perhaps never really intended a serious fight for their demands, and were therefore complicit in an outcome that remained socially unjust because it was not a meaningful challenge to the growing inequality in the city. The activists, now joined by others from Spain, Egypt, and throughout the US, continued to meet in July and August, holding the "General Assemblies" that have come to define the Occupy Wall Street Movement, agreeing to their formulation as the 99% against the 1%, and deciding to create another encampment on September 17 at Zuccotti Park, the first home of Occupy Wall Street.

An essay by Columbia University/University of California-Berkeley professor Judith Butler, entitled "So What Are the Demands?"—which is the main question put to Occupy since it emerged as a political entity—addresses the Bloombergville/Occupy Wall Street perspective on inequality (Butler 2012). Butler's essay appears in the Spring 2012 issue of *Tidal: Occupy Theory, Occupy Strategy*[146]. In it, Butler argues that the question, "so what are the demands?" is based upon the presumption that to be legitimately "political" in our society a movement must have a list of demands that it strives to have satisfied.[147]

Some of the demands pursued, which Butler also refers to in the essay, are central to the concerns of the movement: jobs for all, homes for all, an end to foreclosures, and the repudiation of student debt. What Butler points out is that such a list of worthy demands, which could easily become much longer, nevertheless fails to explain how those demands are related. And yet the very conception of the Occupy Movement as the 99% against the 1% reveals that such demands address only facets of rising inequality. And since the central concern of the movement has been to draw attention to and resist rising inequalities of wealth, she argues that this concern is "a social and economic reality that crosses all the specific demands that such a list might include" and therefore does "not really count as one demand among many" (2012, pg. 8). Instead, to protest the production and reproduction of inequality by the economic and political systems that generate it, says Butler, is to produce an overarching critique based on a claim about how the whole political economy of capitalism works. Under the domination of high-speed transactions, high-risk instruments and overall high-volatility both inside and outside the financial sector, "inequalities are becoming greater, assuming new and devastating forms, and this accelerated process of inequality remains unchecked by existing state and global authorities who have a vested interest in making capitalism work." (2012, p. 9). The problem is compounded by the fact that these same authorities cannot satisfy the Occupy Movement's central concern—rectifying the social injustice of inequality in all its facets:

> But if those existing institutions are complicit with the economic regime that depends upon it, and furthers, the reproduction of inequality, then one cannot appeal to those institutions to bring about an end to the conditions of

[146] *Tidal* is an Occupy Wall Street publication on theory and strategy available in print and on the web: http://occupytheory.org/

[147] Although Occupy Wall Street's General Assembly had a "Demands" working group—which discussed a variety of demands and sought particularly to have its "jobs for all" demand ratified by the general assembly and the movement as a whole—in fall 2011, the general assembly has been extremely resistant to adopting overarching demands.

> inequality. Such an appeal would defeat itself in the course of its articulation. Simply put, the appeal or demand that sought to be satisfied by the existing state, global monetary institutions, or corporations, national or transnational, would be giving more power to the very sources of inequality, and in that way aiding and abetting the reproduction of inequality itself. As a result, another set of strategies are required, and what we are now seeing in the Occupy Movement is precisely the development of a set of strategies that call attention to, and oppose, the reproduction of inequality. (2012, p. 10).

It is hoped that this account of the Occupy Movement's genesis—a local political struggle with international dimensions—provides necessary background from which to begin an evaluation of existing and potential future relationships between the Occupy Movement and more traditional organizations advocating progressive social change. Political unity is not the same as social cohesion, but the presence of trust among groups seeking social change, as well as the commonly held civic values discussed by Valenti and Giovannoni, is a necessary, but not sufficient, condition for this solidarity. The Occupy Movement's, *raison d'être* **-** its mission to expose and combat inequality and the system that regenerates it—which, as Judith Butler has pointed out, cannot count as merely one demand among many, means that solidarity with Occupy also necessitates a radical critique of the causes and effects of rising inequality and the system that produces and reproduces it.

13.3 Toward Solidarity

The state of trust between the Occupy Movement and trade unions is a useful barometer of solidarity as well. Trust between the Occupy Movement and trade unions has—from the beginning—been both essential and complicated. Many of the activists who are involved in Occupy are also members of trade unions—some rank-and-file, others at the staff level. In addition, upon the request of Occupy activists serving as liaisons to trade unions, various unions have officially provided meeting spaces, office equipment, food, first aid and organizational assistance of different kinds in addition to organizing large solidarity rallies with the Occupy Movement.

These acts of solidarity have been essential to the Occupy Movement. For example, when Mayor Bloomberg threatened to evict the occupation from Liberty/Zucotti Park on 14 October, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) put out an urgent call requesting its New York members to assemble in the park before dawn to defend the occupation. The presence of more than 1000 additional bodies in and around the park that morning forced the city to reconsider its tactics and did indeed forestall the eviction for another month. Actions like this built trust, especially in the early days of the Occupy Movement. They also made possible previously unimaginable dialogues about the future of civil society, in which both sides could be candid and critical, as this 27 October 2011 exchange[148] between Jed Brandt, one of the "*Occupied Wall Street Journal"* editors, and George Gresham, President of 1199 Service Employees International Union (SEIU), shows:

> *Brandt:* Here is a movement with no demands. The strength of the movement is that it is not a negotiation: it is participation. Organized labor has now lost many fights, but OWS has opened a democratic space. People are looking to each other. We don't look to labor as numbers and money, but to ask, "How can we build something that shifts things just now?" Something has opened up with support across the US. Autonomous GAs are a space in which we can all operate. This all started with people who could camp out, but that's not working people, parents, etc. That's why we need each other. Civil Society has atrophied in America. We want to open up to what we – labor and OWC – can *do* together. Not what we can *get from* each other.

[148] The meeting was held in the Retail, Wholesale and Department Store Union (RWDSU) headquarters in New York and was attended by Brandt, Gresham and the presidents of the RWDSU and 32BJ unions, as well as by several union staffers and 15 members of the Occupy Wall Street Labor Outreach Committee, including the author.

> *Gresham:* OWS is a dream come true for labor. For a long time we have been trying to stir up change, to advance the needs of real working people. We are Stepford warriors moving in lock-step, too afraid to speak up to our neighbor. Now youth has provided inspiration. We want to put our muscle together with the inspiration, to provide the fuel. The labor movement has historically had to "own it in order to be a part of it". This has sadly been true, but now we want to be real partners. Working people shouldn't be 99% pushed around by 1% (Burke, 2011, p. 1).

But maintaining trust has also been complicated: exactly three weeks after this exchange, when several local union leaders were arrested in a solidarity demonstration for the two-month anniversary of Occupy Wall Street, they were accused of duplicity within some of the working groups in Occupy for pre-arranging with the police department to be arrested for the "photo op" and then released shortly afterward, while Occupy activists went to jail for the night. This is but one example of the complicated balance of trust and fear of co-optation that has characterized the ongoing relationship between the Occupy Movement and organized labor. One union that seems to have maintained a good relationship with Occupy is the 170,000-member National Nurses United (NNU), the largest nurses union in the U.S.

This solidarity was forged even before the Occupy Wall Street movement emerged, when the nurses unexpectedly encountered the occupiers of Bloombergville during NNU's 22 June 2011 rally for financial transaction taxes in New York City. To link up NNU's "Tax Wall Street to Heal America" campaign with an International Day of Action called by the European Trade Union Federation, several thousand nurses from all over the U.S. staged a large protest on the steps of Federal Hall, a short distance from the New York Stock Exchange and one block from the Federal Reserve Bank, to demand that financial firms and other corporations pay their fair share of taxes. On 22 June the Bloombergville occupation was one week old and just settling in on Broadway and Park Place, a few blocks away from the site of the rally.

Equating inequality and the callous, risky behavior of finance with an illness affecting the country and the world - an illness that speakers at the rally said kept them from being able to heal their own patients, whose lives were adversely affected by the ongoing effects of the financial crisis - the nurses and their campaign for a financial transaction tax to "make the millionaires and bankers pay for the ailments they have caused" resonated strongly with the Uncut and Bloombergville activists who were among the initial organizers of Occupy Wall Street (BBV Declaration). In fact, Bloombergville joined the nurses' march and members of that occupation were invited to speak out during the rally. The ties that were forged during this rally laid a groundwork of trust so that when Occupy Wall Street settled into Liberty/Zucotti Park, NNU had set up a medical tent within just a few days. The union maintained this tent, providing first aid and more, until the police moved in to make arrests and shut down the occupation after midnight on 15 November and shredded the tent and all patient records and destroyed other equipment along with everything else in the park belonging to Occupy. (Chico, 2011).

The NNU's nurses and leadership have consistently negotiated the complicated balance between trust and fear of co-optation that has plagued the Occupy Movement's relationship with organized labor. Their credibility with the movement comes from NNU's transparency and directness. They approach Occupy, as well as Wall Street, simply as nurses trying to do their job: heal the sick. When they find economic and political obstacles to healing their patients, they conclude that they must heal a societal illness as well. NNU Executive Director RoseAnn DeMoro puts this point of view succinctly, "America has the wealth to end despair and deprivation. To reclaim this nation we have to start by making Wall Street pay to undo the damage that has caused immeasurable suffering, while the high rollers on Wall Street who created this crisis are rewarded with bailouts, bonuses, tax cuts, and regulatory rollbacks" (Gynne, 2011).

The high degree of trust that seems to exist between NNU and Occupy has been built on some of the same kinds of shared civic values that Valenti and Giovannoni discuss in their paper on the economics of inclusion, such as paying one's fair share of taxes. As previously argued, this is a necessary but not sufficient condition for real solidarity with Occupy. It is also necessary that the partners in solidarity share a critique of the causes and effects of rising inequality and the system that produces and reproduces it. NNU is widely recognized as being unique in the U.S. labor movement for its pointedly radical analysis of the failures of the U.S. system, the rights of workers, and the needs of people who rely on the country's health care system. Adhering to an overarching message that emphasizes the illness of inequality and the need for a radically transformative strategy to overcome it has allowed NNU to steer a politically difficult path that has managed to keep them close to both the Occupy Movement and to the big international NGOs campaigning for financial transaction taxes for global public goods like climate change mitigation and adaptation.

NNU's experiences in the year since it brought its "Tax Wall Street to Heal America" campaign to New York City have led the union to embrace a global vision for its campaign and to join the "Robin Hood" financial transaction tax campaign underway for some time in Europe and the U.K.. During the NATO summit in Chicago in May 2012[149], NNU—which leads the effort to pass the tax in the U.S.—convened its annual Staff Nurses Convention in Chicago and organized a spirited rally in Daley Plaza to send the message, "Tax Wall Street to Heal the World." The day before the rally, NNU hosted a strategy session that included many international members of the Robin Hood Tax campaign, including Stamp Out Poverty, OXFAM, Institute for Policy Studies and Health Gap, as well as trade union leaders from nursing and healthcare unions in Guatemala, Canada, Italy and South Korea, and Occupy activists among other participants.[150] NNU's involvement in this campaign has brought a different perspective into the group on what such a tax should do—be large enough to have a meaningful effect—and on what the campaign should not do—advocate for specific usages (such as climate change) and a specific global/domestic allocation of the tax revenues.[151] Instead NNU seems to see the campaign as an opportunity to educate Americans about class and the fact that income and wealth inequality is an objective for highly compensated financiers, not merely a bi-product of our economic system. Just prior to these Chicago meetings RoseAnn DeMoro was interviewed by Bill Moyers on NNU's involvement in the Robin Hood Tax campaign, and she specifically linked this

[149] Chicago was also to be the site of the G8 meeting until the large mobilization of protesters led President Obama to move that summit to Camp David near Washington.
[150] The author was also invited and took part in this meeting.
[151] The UK's Robin Hood Tax website proposes that 50% of money collected in the UK would go to domestic poverty eradication, 25% to poverty eradication in developing countries, and 25% to fighting climate change, for example.

educational mission with Occupy and its emphasis of the sharp distinction between the 1% and the 99%.

> I like the Occupy movement, and am hoping that it moves with structure and reform, and I'd say, non-reformist reforms. Like the financial transaction tax, because what that does is it starts having a different view on speculation and what's a responsibility to society. Occupy is extremely important to us, because it actually *doesn't* buy into the fact that we're all in this together (Moyers, 2012).

The message coming from NNU is also sharply critical of the US political system in a way that sets it apart from other large unions in the U.S., who have largely adhered to the Democratic Party, and therefore the U.S. 2-party system, for decades. Key ideas from Chicago include "no bipartisanship, no liberal sell-outs, no 'side deals'[152]. In her remarks to the Chicago rally, DeMoro described the campaign as completely lacking confidence in U.S. democracy:

> We're changing the way we do politics. We're going to do participatory politics. We're not counting on our legislators to do the right thing. We're going to do the right thing. That's right, America, nurses have your back… We're going to expose everything we can, and they're not going to be able to delegitimize us, because the communities know and the patients know who they can trust. And they trust the nurses more than they do the politicians (Burke, 2012).

[152] In other words, none of the ritualized political theater such as was discussed regarding the New York City budget process in 2011 and the effect it had on catalyzing the Occupy Movement.

Trust built during the course of more than a year's experiences with Occupy and its Bloombergville predecessors, shared civic values emphasizing a common responsibility to pay taxes and take care of our societies, and an overarching critique of the U.S. political system and the global economic system have led both NNU and Occupy to a similar point: a commitment to "do the right thing", even, and especially, when that means taking matters into one's own hands. Solidarity between Occupy and the larger trade union movement still requires a lot of work. The experience of National Nurses United should be carefully examined by any unions and union activists who want to be a part of that work.

13.4 Conclusion

The central objective of this chapter has been to determine whether the Occupy Movement and traditional organizations advocating progressive social change can work meaningfully together to shift governments and intergovernmental institutions toward more substantial policies to promote social cohesion and economic inclusion, and if so, to articulate the key challenges. The Occupy Movement has shown itself to be disillusioned with the official political process and wary of traditional organizations working for social change because of real and perceived complicity with a system that perpetuates inequality. This paper argues that in addition to building solidarity on shared civic values and experiences that generate trust, an overarching critique of our economic system is necessary, one that gives full weight to the partisan, class and income-based division in society. This paper concludes with a reflection on this key challenge, which is pertinent to the Shared Societies mission as well, in terms of understanding what is required to initiate real change that can promote citizen participation, fight both economic and group inequalities based on gender, race or other differences, and bring about peaceful relations among all these groups.

The period immediately following the deep economic shocks of 2008 produced a series of G20 summits that reached consensus on the need for more strict, comprehensive and coordinated financial regulation, and – above all – on the need for government led stimulus of aggregate demand. This "Keynesian coalition" lasted through the immediate stabilization and bailout of the financial system but had fallen apart by June 2010 and the G20 "austerity" summit in Toronto. Among a wide variety of economists and economic analysts – Keynesians, progressives, radicals, Marxists, social democrats, and even the research departments of the IMF and World Bank – there is widespread agreement that the origins of the crisis are strongly linked to rising income inequality, particularly in the U.S. over the past thirty years. As noted by both the lead economist in the World Bank's research division, Branko Milanovich, and one of the IMF's key researchers on inequality, Michael Kumhof, as well as others, the escalation of income inequality in the lead-up to the great financial crash of 1929, in which the top 1% of the population just about doubled its share of national income, uncannily resembles the lead-up to the great financial crash of 2008 (Milanovich, 2011; Kumhof and Rancière, 2010).

Among the wide array of economists and analysts sharing this perspective, there is also a common interpretation that attributes the cause of excessive financialization during the same period to excess savings. This interpretation relates to either the savings of households or of nonfinancial corporations, in which huge amounts of excess savings ostensibly went searching for good investment opportunities that the "real" economy was unable to supply. Milanovich gives a colorful account of this essentially Keynesian interpretation in his book, "The Haves and the Have-Nots":

> What did the increase mean? Such enormous wealth could not be used for consumption only. There is a limit to the number of Dom Pérignons and Armani suits that one can drink or wear. And, of course, it was not reasonable either to "invest" solely in conspicuous consumption when wealth could be further increased by judicious investment. So a huge pool of available financial capital—the product of increased income inequality—went in search of profitable opportunities in which to invest.
>
> But the richest people and the hundreds of thousands somewhat less rich could not invest the money themselves. They needed intermediaties, the financial sector. Overwhelmed with such an amount of funds, and short of good opportunities to invest the capital, as well as enticed by large fees attending each transaction, the financial sector became more and more reckless, basically throwing money at anyone who would take it. Although one cannot prove that investable resources eventually exceeded the number of

> safe and profitable investment opportunities (since nobody knows a priori how many and where there are good investment opportunities), this is strongly suggested by the increasing riskiness of investments that the financiers had to undertake.
>
> (Milanovich, 2011).

The problem with this interpretation, according to French economists Gérard Duménil and Dominique Lévy, who have done a great deal of empirical research on the details of financialization over the past thirty years, is that it does not fit the data.

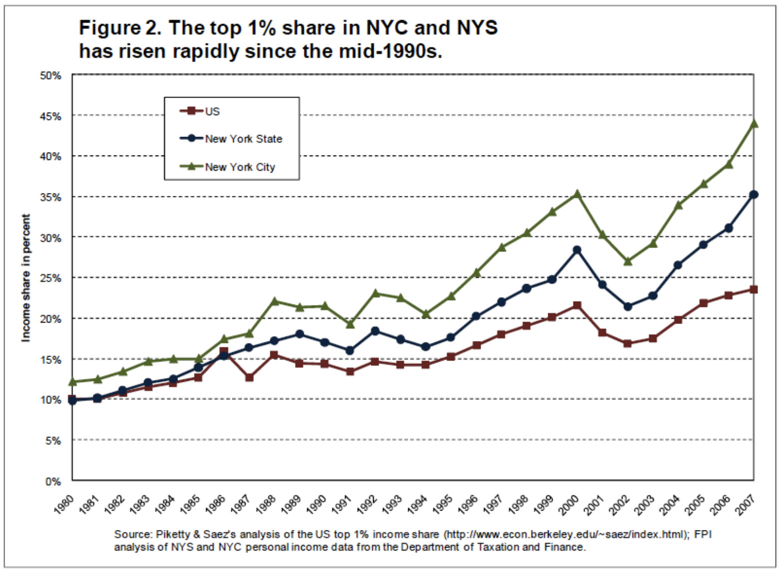
> There was, actually, nothing like income in search of investment opportunity that nonfinancial corporations would no longer provide, but rich households borrowing to spend more. Concerning nonfinancial corporations, financialization is interpreted as the "consequence" of the divergence between the restoration of their profits and their stagnating investment rate. Again financialization is seen as the manifestation of excess savings. The difficulty with this interpretation is the same as above. Considering the economy globally, profits paid out as interest and dividends by corporations finance consumption and residential investment, as the saving rate of the entire country is negative. None of the new features of the dramatic wave of expansion of financial mechanisms after 2000—derivatives, conduits and SIVs, carry trade, and LBOs—manifested the availability of extra savings in desperate search of investment opportunities. To the contrary, they were the expression of the quest for high income. They were frequently highly leveraged, manifesting the dramatic extension of financing beyond the potential opened by the flow of savings (Duménil and Lévy, 2011, pp. 126-127).

Figure 2 (Annex) from Duménil and Lévy's 2011 book, *The Crisis of Neoliberalism,* shows a declining trend in domestic investment in fixed capital on the part of corporations in the "real" economy from the 1950s until just before the crisis. According to their analysis, the close relationship between the accumulation rate and the rate of retained profits, contrasted with a profit rate prior to payouts for interest and dividends, which is significantly higher and with more of a horizontal trend, indicates that "corporations basically self-finance their investment." This close relationship between retained earnings and investment is puzzling. "It suggests that, considering the sector globally, nonfinancial corporations do not finance investment out of new borrowings… [they] borrow but these borrowings are used for other purposes, for example, to buy back their own shares… One may wonder why nonfinancial corporations do not use the leverage inherent in the borrowings (at interest rates inferior to profit rates) in the conduct of real investment. This finding is all the more surprising in that leverage is a key element in the conduct of financial operations by financial institutions and might also be used by nonfinancial corporations to the same end" (Duménil and Lévy, 2011, pp. 153).

The conclusions reached by Duménil and Lévy suggest that the ballooning of finance acted as a disincentive for both financial and nonfinancial corporations in the real economy to behave according to the standard economic narrative in which finance functions to channel savings into productive investments. The investment behaviors of nonfinancial corporations coupled with exceedingly high incomes garnered from the financial activities undertaken by the top managers of both financial and nonfinancial corporations seems to refute this model in which finance and the real economy are mutually supportive. Indeed, the data points to an economic system that supports the Occupy Movement's claim about how the political economy of capitalism works: to enrich the few at profound cost to the rest of society.

Annex

Figure 1



Source: Figure 2 from Fiscal Policy Institute Report "Grow Together or Pull Apart" (Parrott, 2010)

Figure 2

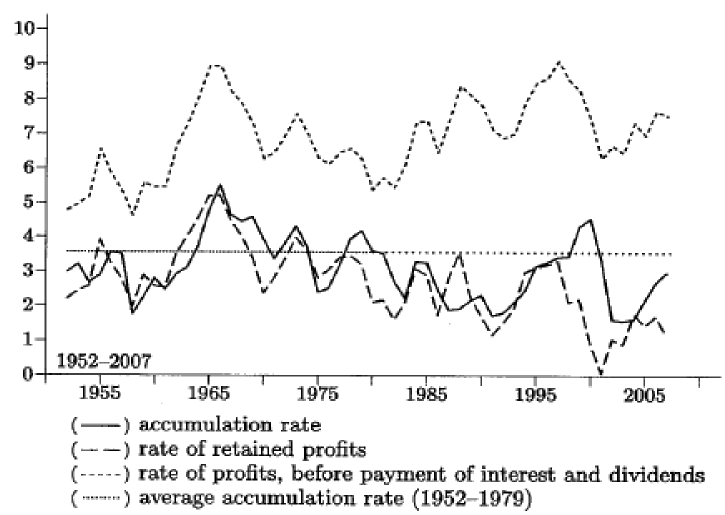


Figure 10.7 Rate of accumulation and two rates of profit: U.S. nonfinancial corporations (percent, yearly). The rate of accumulation is the ratio of net investment to the net stock of capital, that is, the growth rate of the net stock of fixed capital.

Source: Figure 10.7 from *The Crisis of Neoliberalism,* (*Duménil and Lévy,* 2011, pp. 152)

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Chapter 14

Consumer Campaigns for Shared Society Values

Rob Harrison

14.1 Introduction

The values within the concept of shared societies – of social justice and of political and economic inclusion – are not just shared by progressive policy makers. They are also shared by millions of ordinary consumers and voters around the world. By forming global alliances with non-governmental organisations (NGOs), trades unions, church groups, local authorities and others, consumer campaigners have had a profound effect on the defence of such values over the last 30 years.

Although many people will be unfamiliar with thinking about this movement for change in the abstract, most will be familiar with particular campaigns and labels because these stories are necessarily played out in the public domain – with coverage on newspapers and on TV. The first part of this chapter grounds us in this familiar environment by looking briefly at two key examples; the consumer boycott of apartheid South Africa, and the Fairtrade movement.

This is followed by a discussion of the contemporary character of consumer campaigns where two new developments have become significant. The first is the focus of such campaigns on consumer brands and the emergence of the idea of corporate social responsibility. The second is the emergence of multi-stakeholder initiatives (MSIs) – such as the Forest Stewardship Council – as mediating institutions in key campaigning areas.

The third part touches briefly on attempts to measure and understand the extent and significance of participation in these campaigns, and introduces the ideas of political consumption and ethical consumption.

Although many of these campaigns are a response to the problems and complexities for national governments in regulating global business, there are still many way in which policy makers can respond positively to these new movements. The penultimate section looks very briefly at seven areas of potential policy intervention.

The final section looks at how this 'new way of doing politics' is consistently innovating to meet new challenges. In particular attention is focussed on consumer responses to the recent financial crisis and the problems caused by a financial sector which appears, at times, beyond control or even reason.

14.2 South Africa Boycott

Jan Hofmeyer in Chapter 6 describes apartheid South Africa as 'the antithesis of a shared society'. Its bizarre system of rules designed to systematically exclude whole racial groups from equal political and economic participation had long earned it widespread condemnation. Whilst economic exploitation and political repression are only too common around the world, what singled South Africa out was that oppression and exclusion was based on race. As the apartheid government itself commented in a series of adverts in the UK national press in 1983 “South Africa arouses more controversy than almost any other country in the world”.[153] A second key element of the campaign which unfolded was that the black majority spoke with a clear political voice. The ANC were united in a call for social, economic and diplomatic isolation of the apartheid regime.[154] And while this campaign did lead to a UN arms embargo and an OPEC Oil Boycott, more comprehensive economic sanctions were not forthcoming.[155]

While governments appeared reluctant to act, their own citizens were not, and a wave of consumer boycott campaigns caught the imagination of the general public. In the UK a 15 year long boycott campaign against Barclays Bank (the biggest retail bank in South Africa) saw its share of the UK student market fall from around 40% to 13% and, after much manoeuvring and prevarication, the company dis-invested in November 1986.[156] In the USA, initial focus was on Polaroid, whose supply of technology for passbook (identity card) photographs left it morally

153 N Craig Smith (1990) Morality and the Market. London. Routledge. at p

154 See e.g. Oliver Tambo's speech at UNESCO Paris on May 21st 1981 International Conference on economic sanctions against apartheid South Africa retrieved 15/6/12 from www.anc.org.za/show.php?id=4379

155 N Craig Smith (1990) Morality and the Market. London. Routledge. p 236

156 Connie Field (2010). Have Your Heard From Johannesburg: The Bottom Line. (A five part film) Clarity Educational Productions.

exposed as a collaborator with the apartheid system. Campaigns against other companies 'profiting from apartheid' including Shell Oil received the support of the World Council of Churches as well as trades unions and consumer groups around the world.

By the time Nelson Mandela was freed in 1990, 155 US companies, 98 British companies and more than 100 from other countries had pulled out.[157] Although there were many other factors at play – not least the regular street demonstrations from the United Democratic Front – the role of consumer and civil society campaigns was later acknowledged by members of the South African government to be central to the collapse of the regime.

The anti-apartheid movement is now understood as an important founding block in the emergence of the idea of a 'global civil society'.[158] Two key characteristics - a broad alliance between church groups, local authorities, trades unions and consumers, and a focus on consumer-facing brands, have emerged as central to success and will be discussed further below.

14.3 The Fairtrade Movement

The second very widely known example of consumer action for social justice is the Fairtrade movement. In the 1970s and 1980s, development NGOs such as Oxfam and Christian Aid were beginning to observe chronic poverty among Southern farmers supplying commodity crops to Northern markets. Particularly problematic were fluctuations in commodity prices with, for example, coffee prices falling by 45% between 1980 and 1990.[159] Some NGOS in Europe also became involved in selling 'solidarity coffees' under their own brands to support farmers in Nicaragua (and elsewhere) who were subject to unique problems in some western markets.[160]

In 1988 the first Fairtrade label, Max Havelaar, appeared on a Mexican coffee sold in Dutch supermarkets. In the late 1980s and 1990s this initiative was replicated in other markets across Europe and North America: "Max Havelaar" (in Belgium, Switzerland, Denmark, Norway and France), "Transfair" (in Germany, Austria, Luxembourg, Italy, the United States, Canada and

157 Connie Field (2010). Have Your Heard From Johannesburg: The Bottom Line.
158 Hakan Thorn. (2006) Anti Apartheid and the emergence of a global civil society. Palgrave Macmillan. UK
159 *Oxfam: International Commodity Research – Coffee (2001) Retrieved from www.maketradefair.com/assets/english/CoffeeMarket.pdf*
160 There was a US embargo against Nicaragua between 1985 to 1990.

Japan), “Fairtrade Mark” in the UK and Ireland, “Rättvisemärkt” in Sweden, and "Reilu Kauppa" in Finland.[161]

The setting of a stable price - addressing the original problem - was the core requirement of the new labels. Other criteria included freedom of association, a 'Fairtrade premium' for community projects and standards for health and safety.162 The labels also required independent verification to check that producers were genuinely respecting the rules. The movement is now a complex, coordinated, international collaboration across multiple products and countries. No longer marginal, it is now coming to dominate in some sectors, with Fairtrade bananas for example taking 36% of the UK market and 52% of the Swiss market.163 Sales of Fairtrade products in the UK alone rose to £1.3 billion in 2011, in no small part due to the participation of many transnational corporations in the scheme. Perhaps most importantly, supporters of the scheme were able to point to 7.5 million people (small farmers, their families and communities in the South) now with stable incomes and flourishing communities as a result of the scheme.164 Fairtrade is not without its critics, but in many ways even these dissenting voices have helped strengthen and develop the scheme by addressing important issues.165

14.4 The contemporary character of consumer campaigning for social justice

The South Africa campaign and Fairtrade movement, as well as being well known, also serve as classic examples of the two main types of consumer market intervention: the boycott and positive buying. Boycotts tend towards the confrontational and are characterised by picketing, marching, leafleting and protest. Positive buying tends to be more collaborative, involving companies and campaigners coming together to set standards and market products with ethical claims.

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161 History of Fairtrade. Retrieved 15/6/12 from www.fairtrade.org.uk/what_is_fairtrade/history.aspx

162 see e.g. www.fairtrade.net/our_standards.html

163 Ethical Consumer magazine Issue 136, May/June 2012 Buyers' Guide to Bananas

164 Fairtrade explained: Changing trade together (2011) Retrieved from www.fairtrade.org.uk/includes/documents/cm_docs/2012/F/F14_Fairtrade%20explained_2011_DOWNLOADsml.pdf

165 Smith, Alastair (2009). Evaluating the Criticisms of Fair Trade: How strong is the argument that consumers and businesses should abandon Fair Trade as a means to socialise their economic decisions? *Economic Affairs* 29 (4) , pp. 29-36

Boycotts are still important where consensus does not exist. A 15 year boycott of companies operating in Burma ended in 2011 with a promise by the military dictatorship to return to democracy in that country. There is also an active 'boycott, disinvestment and sanctions' campaign targeting products from Israel and addressing its activities in Palestine and the Occupied Territories. The Israel campaign also has spin-off boycotts targeting particular companies there including Caterpillar branded apparel and Ahava cosmetics.166 In addition there are counterboycotts called by pro-Israel groups.167

Boycotts also continue to target companies. In 2010, the tribal peoples' rights organisation Survival called for a boycott of Botswana diamonds over the government's harsh treatment of the Kalahari Khoisan. It also targeted the diamond company De Beers which was involved in the country. The Khoisan had been illegally evicted from their ancestral lands eight years previously to make way for diamond mining.168 De Beers sold its 'problematic asset' there in 2011.169

However, in general, direct boycotting in support of shared society values has declined over the last 20 years to be replaced by more collaborative approaches to problem-solving using the positive buying campaign tool.170 Two key developments around this change are the emergence of corporate social responsibility and the idea of the multi-stakeholder initiative.

14.5 Business and the emergence of corporate social responsibility

For consumer campaigns, both positive and negative, the primary target for pressure is not governments but businesses or brands. A change in government policy might be the ultimate goal (as in South Africa), but businesses are the channel though which pressure is delivered. Noreena Hertz identifies this as a strategic decision by civil society organisations "to shift away

166 Ethical Consumer magazine. Issue 133. September/October 2011 Boycotts A-Z

167 see e,g, www.counterboycott.org

168 Celebrities back call to boycott Botswana diamonds (2010) Retrieved 15/6/12 from www.survivalinternational.org/news/6587

169 Ethical Consumer magazine. Issue 133. September/October 2011 p16 'The Key to Success'

170 Ethical Consumer magazine. Issue 120. September/October 2009 Moving from the margins to mainstream

Rob Harrison

from government-focused campaigns, and co-opt the media in an attempt to mold public sentiment and thus force accountability from corporations."[171]

As a result, commercial companies operating in consumer markets began to systematically measure the attitudes of consumers towards buying or boycotting ethically problematic products in the 1990s. And instead of discovering that it was a marginal concern affecting a small population of citizen activists, they discovered that an appetite for ethical products tended to be expressed by a majority of the population in most mature consumer markets.[172]

International boycott campaigns, such as that of Nike over workers' rights at its supplier factories, were also beginning to demonstrate the capacity to inflict real economic damage on targeted companies.[173] Because of this, companies began to see civil society campaigns as a potentially serious business risk that needed to be managed. If child labour were suddenly uncovered in a subcontractor factory, newspaper horror stories could undo years of careful brand building in just a few days. The development of a systematic approach to understanding and managing these risks before civil society campaigns started have now become formalised, most often under the title of corporate social responsibility (CSR) policy and reporting.

Although the desire of individuals within corporations to act responsibly is also an element in these developments, it is commonly misunderstood to be the main driver and CSR policies are therefore sometimes misleadingly described as 'voluntary initiatives'.[174] Of course, with the great diversity in business types around the world, there are entrepreneurs and smaller businesses setting up as 'social enterprises' with specifically development or human rights goals as central to

171 Noreena Hertz (2001) The Silent Takeover: Global Capitalism and the Death of Democracy . Heinemann. UK. p156

172 see e.g. www.ethicalconsumer.org/commentanalysis/marketresearch.aspx for a wide range of surveys from the period 1989 to 2009

173 Michael E Conroy (2007) Branded! How the certification revolution is transforming global corporations. New Society.. Canada at p 12

174 see e.g. Michael Blowfield and Jedrzej George Frynas (2005) Setting new agendas: critical perspectives on Corporate Social Responsibility in the developing world International Affairs vol 81, Issue 3 499-513 Chatham House London

the mission. The potential assistance that these type of company can offer to the shared societies vision has already been noted,[175] and many thousands of them supply the UK.[176]

14.6 Mutli-stakeholder initiatives

When consumer campaigns were gathering strength in the 1990s, an initial response from some big businesses was to see these developments as a marketing opportunity. Claims for 'environmentally-friendly cars' and 'socially-responsible burgers' proliferated and the term 'greenwash' for misleading 'green' claims was first coined.[177] Perhaps unsurprisingly, such claims tended to generate more scorn than market share. What companies needed was some kind of endorsement from the civil society organisations (CSOs) which opposed them. In turn, CSOs were tempted by the idea that they could extract verifiable promises from a wide range of companies in key areas without having to launch costly and time consuming campaigns.

Thus the idea of the 'multi-stakeholder initiative' (MSI) was born. A committee comprising campaigners, companies and sometimes also governments and trades unions could meet to set standards and potentially establish labels and verification systems for 'acceptable' products. The Fairtrade mark discussed above is, in some senses, an MSI, but perhaps the classic example is the Forest Stewardship Council (FSC).

In the late 1980s commercial logging generally, and the logging of endangered or rain forest timber species particularly, became the focus of environmental campaigners and social justice organisations concerned about the loss of territories and resources for indigenous peoples. Shop pickets and boycotts featuring props such as giant inflatable chainsaws became commonplace in Europe and America. As a result, a group of timber companies and campaign groups met in California in 1990 and first coined the term Forest Stewardship Council. Consultations across ten countries led to the establishment of a certification system for sustainable forest management and by 1993 the first certificates were issued.

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175 Club de Madrid. The Economics of Shared Societies 2011 p79 re Swaziland available at www.clubmadrid.org/img/secciones/The_Economics_of_Shared_Societies_Publication.pdf

176 see e.g. enzi footwear - an Ethiopian social enterprise in Ethical Consumer 136 May/June 2012 and similar companies in previous editions.

177 see e.g. The Greenpeace Book of Greenwash. (1992) Greenpeace. Washington. USA

FSC certified forests now cover more than 150 million hectares around the world equivalent to 7% of productive or semi-productive woodlands.[178] In the UK, the proportion of all timber and panel products that were FSC certified surpassed the 50% mark in 2008.[179] The FSC has become the focus of political debate about how sustainable and just forest management should take place. It has detractor websites, competing schemes with lower standards set up by timber companies seeking to undermine it, and a democratic structure with a general assembly that meets every three years with more than 300 members from 65 countries attending. In the words of Michael E Conroy, a specialist who has written extensively on MSIs:

> "The FSC is the most important example of increasingly successful certification systems that are transforming major industries around the world. It illustrates the potential for global action to change industry practices through collaborative governance that is closer to the reality of industrial globalisation than any set of laws and regulations implemented by individual nations. This kind of certification system is arguably superior to a negotiated United Nations treaty, as it is more efficient and less costly than a treaty, it works through markets to provide its services, it depends on market forces to drive companies into its reach, and it builds on decades of global civil society's calls for improved social and environmental practices in the management of the world's forests."[180]

Below is a short table listing 15 MSIs which address economic justice and/or human rights issues somewhere in their criteria. An MSI must have at least one credible Civil Society Organisation to be recognised as such. There are many initiatives - such as the Electronics Industry Citizenship Coalition and the PEFC Forest Certification scheme - which may look like MSIs but because they are governed only by companies, do not make the list. Initiatives focussing solely

178 Forests and our Future (2011) FCS web page retrieved 15/6/12 from www.fsc.org.overview.357.htm
179 Increase in FSC certified timber and panel products (2010) retrieved 15/6/12 from www.fsc-uk.org/?p=604
180 Michael E Conroy (2007) Branded! How the certification revolution is transforming global corporations. New Society.. Canada p 95

on environmental criteria have not been included. The list seeks to be illustrative rather than exhaustive.

[table A]

MSIs addressing Shared Society Values
Food
Fairtrade movement
Organic movement
Marine Stewardship Council
Rainforest Foundation
Roundtable on Sustainable Palm Oil
Roundtable on Responsible Soy
Clothing and Labour Rights
Ethical Trading Initiative
Fair Labor Association
Fair Wear Foundation
Social Accountability International
Workers Rights Consortium
Better Cotton Initiative
Other
Forest Stewardship Council
Kimberly Process (diamonds)
Sustainable Tourism Stewardship Council

14.7 Measuring and understanding participation in consumer actions

As discussed above, when commercial market research companies began to survey ordinary consumers in Western markets about their desire to purchase 'ethical products' they discovered repeatedly that between 40% and 70% of those questioned were keen to participate. Quite early on it was recognised that this did not really translate into ethical purchases in the shops, and this 'attitude behaviour gap' began to be explored in more detail.[181] Significant factors, unsurprisingly, included the relative price and availability of such products.

In the UK, there has also been a systematic attempt to measure the extent of all 'ethical purchasing' in an annual Ethical Consumerism Report produced by the Co-operative Bank. In 2011 they noted that the value of such purchases had risen to £46.8bn annually - between 5 to 10 percent of consumer spending by some measures.[182]

The first point to note is that most such analyses of ethical consumer behaviours are looking at a broader phenomenon than consumers supporting campaigns for shared society values. They also commonly include sustainable or 'green' purchases as well as support for high animal welfare product choices. Nevertheless it is clear, from the Fairtrade banana statistics mentioned above, that there is sufficient support for schemes such as this to gain a dominant market share. A spokeswoman from Kraft has also gone on record to predict that between 60% and 80% of the European coffee market would be covered by an ethical certification scheme by 2015.[183]

There is however a widespread discomfort with trying to understand these new movements solely by using the language of markets and consumers. A parallel concept of 'political consumerism' has also emerged, primarily from Scandinavian social sciences.[184] Michelle Micheletti, who defines political consumerism as "actions by people who make choices among

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181 see e.g. Harrison, Newholm and Shaw Eds (2005) The Ethical Consumer. Sage. London

182 Andrew Bounds, (2011) Ethical goods prove popular despite downturn. Financial Times December 14, 2011

183 Rob Harrison (2006) Reflections in reaching 100. Ethical Consumer magazine Issue 100. May/June 2006. Manchester. UK

184 Clive Barnett, Paul Cloke, Nick Clarke, Alice Malpass (2011) Globalizing Responsibility: The Political Rationalities of Ethical Consumption Wiley-Blackwell, UK at p33

purchases with the goal of changing objectionable...market practices", understand the behaviours as primarily about driving change rather than being attracted by a particular product.[185]

The table below compares boycotts and positive buying (described as "boycotts" in the table) with other types of political activity across a range of European countries.[186] It shows boycotts and buycotts as the third and fourth most practiced political activity across a range of countries. Given that voting opportunities commonly only arise very year or so, and that purchasing choices are usually made every week, the table may under-represent - in some senses - the prominence of these activities in people's lives.

[inset table B]

In terms of understanding this significant growth in boycotting and buycotting, a number of commentators have linked it to a simultaneous fall in interest in mainstream party politics and falling turnouts in elections.[187] Noreena Hertz sums up the analysis well:

> "Over the last two decades the balance of power between politics and commerce has shifted radically, leaving politicians increasingly subordinate to the colossal economic power of big business.....
>
> Governments, by not even acknowledging the takeover, risk shattering the implicit contract between state and citizen that lies at the heart of democratic society, making the rejection of the ballot box and the embracing of non-traditional forms of political expression increasingly attractive alternatives."

185 Michelle Micheletti (2003) Political Virtue and Shopping: Individuals, Consumerism, and Collective Action, London, Palgrave

186 Data taken from European Social Survey and compiled by Acik-Toprak, Necla, (2009) for "Political Consumerism and New Social Movements in Europe: Evidence of a Link though Multiple Correspondence Analysis", *European Protest Movements: The rise of a (Trans-)national Civil Society and the Transformation of the Public Sphere after 1945.* Mari Curie Conferences, University of Zurich, 23-26 June 2009. http://www.protest-research.eu/index.php?option= com_researchers&view= researchers&id=19&Itemid=32

187 Noreena Hertz (2001) The Silent Takeover: Global Capitalism and the Death of Democracy . Heinemann. UK. at p 20

The link between political consumption and problems with representative democracy lead to another important observation about the nature of consumer actions. Although many of them, to date, have been about rich Northern consumers taking solidarity actions with oppressed Southern peoples, sometimes they can be about poorer communities taking action in defence of their own interests. One classic case was the boycott of Montogmery City Line buses by black consumers over segregation, organised by Martin Luther King in the USA in 1955-56. The bus company was nearly bankrupt four months after the action started and ended segregation. Similar actions proved successful in many other cities in the Southern United States.[188]

Lastly it should be noted that some analysts have explored the non-violent nature of consumer actions as a form of protest. N Craig Smith (1991) linked contemporary boycott campaigns with Gandhi's ideas of Ahisma (peaceful resistance by disassociation with a wrongdoer) and noted Gandhi's own use of the tactic - urging consumer boycotts of salt and British cloth in the struggle for Indian independence.[189] Given the notion within the shared societies idea that inclusive societies are likely to be more stable and less violent, it is arguable that societies which choose to facilitate or encourage ethical consumer behaviours as a form of protest could exhibit more of this kind of stability. If competing interest groups can learn to seek change by using purchasing power rather than by resorting to less peaceful methods then more stable societies might result.

14.8 Potential policy intervention

Although much of this civil society innovation takes place irrespective of regulatory intervention, there is no doubt that a positive attitude from regulators can help. In the same way that governments seek to create the right environment for business to flourish, they can create the right environment for civil society market interventions around social justice issues to thrive. They can also drive change directly by using their own purchasing power to achieve shared society goals. This is a hugely complex area which will, of necessity, be discussed only briefly here.

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188 N Craig Smith (1990) Morality and the Market. Routledge. UK at Appendix B

189 N Craig Smith (1990) Morality and the Market. Routledge. UK at p 134

Ethical Consumer Research Association, a UK NGO campaigning for ethical purchasing generally, has identified five key areas for policy intervention and this next section draws heavily on that work.[190]

(a) Government purchasing

Public sector procurement with additional social or environmental objectives can be observed around the world within a wide range of institutions including national governments, local and regional governments, educational institutions and health and social services.

At its simplest level, pubic sector purchasers can require policies on key issues such as 'equal employment opportunities' or 'environmental impact' from those seeking to sell to them.

A more proactive system might require a certain number of purchases to be from a certain type of business. Affirmative action and supplier diversity programs in the USA have been widely recognised as an important catalyst for the rapid growth of ethnic minority businesses in the period before the rules changed in 1989.[191] Buying locally has also been identified as an important way for pubic sector purchasers to create economic stimulus in poorer regions.[192]

At its most effective, governments can choose to mandate procurement policies across the public sector. For example, t**he UK Government's timber procurement p**olicy requires that all timber and wood-derived products must be from only "independently verifiable legal and sustainable sources" such as FSC-labelled products.[193]

(b) Information

Consumers are hampered in their ability to purchase ethically by the lack of information on which to base decisions. There are four main areas where governments can act to help improve the flow of information: labelling, disclosure, publishing and education.

190 Ethical Consumer manifesto for change 2001 Retrieved 15/6/12 from www.ethicalconsumer.org/aboutus/ourmission/ourmanifesto/manifesto2001.aspx

191 see e.g. Monder Ram, David Smallbone and Brian Linneker (2002) Assessing the potential of supplier diversity initiatives as a means of diversification among ethnic minority businesses in the UK Centre for Enterprise and Economic Development Research, Middlesex University at p 4

192 *Public spending for public benefit, (2005) New Economics Foundation NEF, UK*

193 Retrieved from Central point of expertise for timber procurement website 15/6/12 at www.cpet.org.uk/uk-government-timber-procurement-policy

(i) Labelling

Regulations around, for example, ingredients or energy labelling have long helped citizens make informed choices in a wide variety of areas.

(ii) Disclosure

Companies of all sizes should be obliged to report annually on progress made in addressing social and environmental impacts just as they are required to report on financial matters. A number of European countries including France and Denmark are leading the way in requiring this kind of reporting from businesses.

(iii) Publishing

The government should become a researcher and publisher of primary information which rates companies and products against social and environmental issues. The USA, for example, has a 'Toxics Release Inventory', which is a web-accessible database placing in the public domain all emissions consent, release, and enforcement data for toxic chemicals.

(iv) Education

Socially responsible consumption, and its history and diversity, should be required learning as part of a full education for all citizens. Learning about Fairtrade did become part of the national curriculum in the UK in 2004.[194]

(c) Fiscal intervention

Tax interventions which encourage ethical consumer behaviour can be split into two types: correcting distortions in the market, and rewarding socially responsible behaviour.

Correcting distortions in the Market might, for example, include some sort of carbon taxation to correct a distortion which currently makes it more economic for many consumers to fly rather than travel in less carbon intensive ways. So many consumer 'choices' - such as whether to use a

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194 The Ethical Consumer Manifesto - Six Years On (2007) Retrieved 5/6/12 from www.ethicalconsumer.org/aboutus/ourmission/ourmanifesto/manifesto2007.aspx

car or public transport for a journey - are so constrained by the circumstances under which the choices are made that it is difficult to say that it is simply a case of people not being interested in these choices.

Calls to reward socially responsible behaviour commonly include demands for fiscal incentives for clearly defined social or ethical investments, and lower levels of taxation for companies trading as not-for-profit or charitably.

(d) Regulation

Regulatory mechanisms have an important role to play in restricting market extremes. It is, after all, difficult to argue that a consumer's right to choose should extend to products that seriously damage the wider public interest (such as CFCs in aerosols). 'Choice editing' is a key term which is used to describe these types of intervention. EU regulations have in recent years, for example, banned the sale of inefficient electrical appliances, illegally logged timber, and high energy light bulbs. In the USA too, regulation has in the past restricted imports from problem areas such as products manufactured by child labour, and from oppressive regimes like Burma

(e) Controlling Corporate Power

One of the primary causes of the growth of ethical consumer behaviour has been the globalisation of markets and the rise of 'unelected' multinational corporations. Many global companies are now financially more significant than the economies of small countries, and national governments now find it increasingly difficult to regulate in a global market. Legislative proposals which threaten corporate interests may be difficult to advance without also looking, in the long term, at structural ways of addressing the change in distribution of power that has occurred.

A wide range of suggestions have come forward from civil society. Some, such as requirements to disclose lobbying relationships with governments, are already appearing in countries such as the USA and UK. Others, such as proposals from UK development NGOs such as Cafod and Traidcraft, which argue that companies should be made legally accountable to stakeholders other than just shareholders, are yet to be realised. Another campaign, yet to be realised but gaining ground, is for a 'Tobin Tax' on international currency speculation. This was also discussed by Sara L Burke in Chapter X above.

14.9 Innovation and Current Challenges

There are now very few European markets without some kind of ethical interventions from either citizens groups or progressive companies. Consumer campaigns, like all political actions, can also move fast to respond to changing circumstances. The first quarter of 2012, for example, saw new revelations about working conditions in i-phone manufacturer, Apple's supply chain.[195] Foxxconn's giant factories in China had been accused of forcing workers to work excessive overtime to meet Apple's exacting standards and delivery times.[196] Email petitions quickly sprang up around the world to increase pressure on Apple's executives and the campaign is ongoing.

However, many commentators are describing the social and financial crisis, which began with the banking collapses in the USA and UK in 2008, as a crisis of different proportions. Sara L Burke in chapter X above describes 2011 as "a turning point in what may be described as a crisis of social justice." She explains how it was ordinary citizens around the world who suffered twice. First by having to pay the cost of "a financial resolution favouring the narrow, private interests of the financial sector" and secondly with the "pain of fiscal austerity".

Millions of people took to the streets in 2011 in a wave of 'occupy' protests which sprang up in more than 1,000 cities around the world. And the level of anger could be seen in the language used - such as feral, parasitic and even criminal - to describe the banking institutions involved. What was becoming clear was that the kind of decisive response required from governments - such as breaking up too-big-to-fail banks into retail and investment parts - was simply not going to happen. The power and influence of financial sector lobbyists over G7 nations was simply too strong.

195 The iEconomy: In China, Human Costs Are Built Into an iPad (2012) Retrieved 15/6/12 from www.nytimes.com/2012/01/26/business/ieconomy-apples-ipad-and-the-human-costs-for-workers-in-china.html?_r=1

196 Latest iPad: Apple Still Exploiting Chinese Workers, Activists Say (2012) Retrieved 15/6/12 from www.ibtimes.com/articles/311137/20120308/apple-ipad-foxconn-slave-labor-contract-sumofus.htm

What is currently emerging in response from civil society organisations is actions in two main areas: banking sector boycotts, and actions around tax avoidance. This chapter will end by briefly outlining the main characteristics of each of these in turn.

14.10 Banking Boycotts

A campaign to 'Move Your Money' to local financial institutions such as credit unions began in the USA in 2011 with a Facebook campaign by a Bank America customer sick of poor service and high charges. Occupy Wall Street backed the campaign - bringing in more political issues - and a Bank Transfer Day was arranged for November 5th.[197] In total 4 million people moved their money with 40,000 moving in Bank Transfer Day alone.[198] Campaigns against banks have continued locally in the USA in 2012. In March persistent actions by 'Occupy Davis' (a University of California college) led to the closure of a branch of U.S. Bank on the college campus.[199] And in May it was announced that 'faith leaders and activists' were starting a fresh month of actions urging consumers to move their money from Wall Street Banks.[200]

In the UK, a Move Your Money campaign was launched in January 2012 with a coalition of partners including UKUncut (see also below), Ethical Consumer, Co-operatives UK, a consortium of trades unions, third sector organisations, student groups, and a number of ethical banks.

With significant volatility in the credit markets providing more critical day-to-day concerns for bank directors, it is unlikely that these campaigns were having any significant economic impact on the bigger international banks in their early stages. Some banking campaigns around South Africa (discussed above) took fifteen years to bear fruit, and civil society organisations have developed a reputation for the kind of dogged persistence which is required to succeed in what at first may look like Quixotic tasks.

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197 Occupy Wall Street Backs a Nationwide Boycott Against Banks. (2011) CNBC 7th Oct 2011 Retrieved 15/6/12 from. www.cnbc.com/id/44800021/Occupy_Wall_Street_Backs_a_Nationwide_Boycott_Against_Banks

198 Special Report on Banking (March 2012) Ethical Consumer magazine Issue 135. Manchester. UK

199 Occupy Davis's Bank Boycott Victory.(2012) The Nation. March 21, 2012

200 Travis Waldron (2012) Move Your Money: Faith Leaders, Activists To Target Wall Street Banks Throughout Month Of May www.thinkprogress.org May 2, 2012

What is known is that smaller ethical banks, mutual building societies and credit unions were recording significant inflows of capital and becoming stronger throughout this period.[201] As Ethical Consumer wrote in March 2012: "One big benefit of 'moving your money' in this way is that, even if regulators and big institutions remain unmoved for a significant period of time, we are building new sustainable social models on a smaller scale around us while we wait."

14.11 Campaigns against tax avoidance

A second systemic problems for the shared society agenda is the growing use of tax avoidance strategies by multinational corporations, commonly assisted by the same financial institutions responsible for the 2008 credit crunch. Falling tax revenue from productive enterprises makes maintaining welfare systems and redistributive economic programs - central to any shared society agenda - increasingly difficult. Sarah L Burke (in chapter X) has already covered the emergence of street protests by UK Uncut and US Uncut against corporations - such as Vodafone in the UK - with poor reputations for tax avoidance.

In addition, development NGOs such as Action Aid in the UK have begun to document and campaign around how the same tax avoidance strategies by multinational corporations are also damaging the economies of some African and other developing nations. As their 2010 campaign literature explained: "Giant UK-based brewer SABMiller, the company that owns Grolsch, is avoiding an estimated £20m of taxes in Africa and India every year - enough money to educate a quarter-of-a-million African children."[202]

In France, some local governments have begun to discuss channelling procurement contracts only to companies where there is no evidence of the use of tax havens for avoidance strategies.[203] This use of government purchasing as a lever to persuade companies to look at tax avoidance from a corporate responsibility perspective is also beginning to be pursued in the UK.[204]

201 Special Report on Banking (March 2012) Ethical Consumer magazine Issue 135. Manchester. UK p 19
202 Calling time: why SABMiller should stop dodging taxes in Africa (2010) Action Aid. London

203 Hayat Gazzane (2010) Paradis fiscaux : l'Ile-de-France lance la lutte. Le Figaro. 03/06/2010
204 Ethical Consumer campaign on tax havens.2012. Retrieved 15/6/12 from www.ethicalconsumer.org/ethicalcampaigns/taxjusticecampaign/taxcampaigninformationforlocalauthorities.aspx

14.12 Conclusions

This chapter has explored the use of consumer campaigns to address shared society values. The development of consumer campaigning on social exclusion has been traced from the South Africa boycotts of the 1980s to the increasingly influential Fairtrade movement of the present day. It has been argued that such campaigns were key drivers in the development of both corporate social responsibility programs and later of multi-stakeholder initiatives such as the Forest Stewardship Council. These in turn have had profound effects on the nature of consumer actions for social justice in the present day.

Research showing that participation in these types of 'political consumption' campaigns were at around 40% of the population in some counties was explored. The links between this growth of boycotting and positive buying and the decline in interest in traditional political activity in some countries was also briefly touched upon.

The potential for government intervention, both as a purchaser in its own right, and as an enabler of ethical purchasing by others was discussed. It was also argued that consumer campaigns were an attractive way for people to express different points of view because of their essentially non-violent nature.

The chapter ended with an exploration of civil society responses to the recent financial and fiscal crises which are presenting such systemic problems for the shared society agenda. Bank boycotts and campaigns against tax avoidance by multinational corporations were identified as two key campaigning responses.

Colin Crouch, in his book 'The strange non-death of neo-liberalism', explains how "the news is good because there are things that ordinary citizens can do."[205] Although the lobbying power of firms has given them enormous power over public policy "hope for the future cannot lie in suppressing them in order to attain either an economy of pure markets or a socialist society. Rather it lies in dragging the giant corporation fully into political controversy. Here a key role is played by the small, cash–strapped campaigning groups who, with precious little help from established parties, seek to achieve corporate social accountability."

205 Colin Crouch (2011) The strange non-death of neo-liberalism. Polity Press. Cambridge. UK at p 177

Table B

Political Participation

(% of sample in 2002)	Norway	Sweden	Finland	Denmark	UK	Ireland	Luxembourg	Austria	Netherlands	Belgium	Germany	France	Italy	Spain	Portugal	Greece	Slovenia	Poland	Hungary	Average
Vote	81	82	72	89	67	76	51	82	81	79	78	75	85	72	69	84	75	62	79	76
Petition	37	41	24	28	40	28	29	27	22	34	31	35	17	24	7	5	12	7	4	24
Buycott	37	55	42	44	32	25	30	30	26	27	39	28	7	12	7	7	10	10	11	25
Boycott	20	33	27	23	26	14	16	22	10	13	26	27	8	8	3	9	5	4	5	16
Contact	24	17	24	18	18	22	18	19	15	18	13	18	12	12	12	15	12	10	15	16
Community	28	25	31	17	9	14	17	19	23	23	18	18	8	17	6	6	2	6	3	15
Demonstration	9	6	2	8	4	7	21	10	3	9	10	18	11	17	4	5	3	1	4	10
Campaign Badge	23	11	16	5	10	9	5	8	4	7	6	12	7	10	7	3	2	3	3	8
Donation	12	7	7	9	8	11	15	11	8	10	9	3	3	5	4	2	7	9	2	8
Party/Action Group	9	5	4	4	3	5	4	10	3	5	4	5	3	6	4	5	4	3	3	5
Party Member	9	8	7	6	3	5	7	14	5	7	4	2	4	3	5	5	5	2	2	5
Illegal Protest	1	1	0	1	1	1	4	1	0	2	1	3	2	2	0	2	1	0	1	1
Sample Size	2,036	1,999	2,000	1,506	2,052	2,046	1,552	2,257	2,364	1,899	2,919	1,503	1,207	1,729	1,511	2,566	1,519	2,110	1,685	

Source: European Social Survey 2002. Cell entries are in percentages. The variables are ranked by the most popular types of activities across 19 countries. Vote (voted in last national or parliamentary election), petition (signed a petition), buycott (deliberately bought certain products for political, ethical or environmental reasons), boycott (boycotted certain products), contact (contacted a politician, government or local government official), community (worked in another organisation or association (non party or action group)), demo (taken part in a lawful public demonstration), campaign badge (worn or displayed a campaign badge/sticker), donation (donated money to a political organisation or group), illegal protest (participated in illegal protest activities), party/action (worked in a political party or action group), party member (currently member of a political party). www.europeansocialsurvey.org