



## THE SHARED SOCIETIES PROJECT

### Policy Perspectives on the Economics of Shared Societies

#### Conclusions of the Working Group on the Economic Rationale for Shared Societies

##### **The Economic Rationale for Shared Societies**

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

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

Shared societies, where people hold an equal capacity to participate in and benefit from economic, political and social opportunities regardless of race, ethnicity, religion, language and other attributes and where as a consequence relations between groups are peaceful, are inherently desirable. But shared societies are also economically valuable. Shared societies enjoy better prospects for economic wellbeing which we understand is achieved by sustained economic growth with equity, and gains for all can be better applied in a socially and environmentally sustainable way in a shared society.

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

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

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

The following report describes the channels through which a shared society delivers an economic dividend.

## Background to the Working Group

In 2007, the Club de Madrid, the network of former heads of state and heads of government, identified one of the major problems facing the world at the beginning of the new millennium as social division due to race, ethnicity, religion, language, gender or other attributes which lead to tensions and hostilities. The Members selected it as a priority issue that they wanted to focus on and bring to the attention of current leaders, as well as identify and promote ways to achieve greater harmony and fairness in inter-group relations.

The members created a dedicated strand of their work which they called the Shared Societies Project, because the term “shared societies” described best their vision of a society where everyone who live there can feel that they belong and can play a full part and at the same time fulfil themselves:

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

It is not a society where people are accepted only if they conform to the dominant culture, customs and way of life or one in which people have no influence over their own affairs.

The Project has gone on to clarify the rationale for creating a shared society and the principles which will underlie a true shared society and has identified the elements which go to making a shared society in the Ten Commitments for a Shared Society.

The Project has been aware that a shared society is closely bounded up with economic factors and it believes one of the most important ways to demonstrate the benefits of a shared society is to show that it is positively related to the achievement of economic well-being. This finding will demonstrate to all interested parties that a shared society will bring benefits and any risks involved will be outweighed by those benefits. The Members know this from their own experience and anecdotal evidence. They have noted specific national examples but they want to explore whether there are general trends which will help to make the case for shared societies.

To this end the Club de Madrid has established a Working Group to report on the link between shared societies and economic wellbeing. It has been asked to assess the evidence for such a link and what the nature of that link may be. It was also asked to look at 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 and on that basis to recommend what would be economic policies for shared societies. It will also identify gaps in our knowledge and recommend how those gaps can be filled.

This statement presents the results of the discussions of the Working Group. It first summarises the economic benefits of a shared society and then considers how the link between economic benefits and shared societies can be convincingly demonstrated. The Group then lays out pointers to the kind of national and international policies which would be needed to promote shared societies and the kind of monitoring and auditing systems which are required to ensure appropriate policies are being implemented and have the desired impact on closing social divisions. Finally the Statement looks at two cross-cutting themes: the benefits of people being involved in decision making and secondly, the importance of collecting data, which measures the degree to which states have achieved shared societies and the feasibility of creating a Shared Societies Index for that purpose.

The Working Group are satisfied that a link does exist between the existence of a shared society and a higher level of economic wellbeing and they set out guiding principles on the economics of shared societies. However the Group is aware that more work needs to be done to fully explore that link. It requires interpretation and analysis of existing data sets and would benefit from the collection of additional data on specific aspects of shared societies. Therefore at various points in this statement the Working Group has also identified knowledge gaps and recommended lines of future enquiry.

**Shared Societies release the economic potential of the population and thereby increase the economic wellbeing of their people**

Creating shared societies and improving economic wellbeing have a positive impact on each other and create a virtuous cycle which strengthens the whole society. A shared society is a more settled and stable society which in turn encourages business activity and economic participation, which leads to wealth generation and economic wellbeing and this creates more resources that can be used to finance policies to support a shared society.

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

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

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

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

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

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

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

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

### **Shared Societies Collect and Spend Public Money Better**

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

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

In developing economies, a key challenge for policy makers is to broaden the tax base which – inter alia -- means bringing many informal entrepreneurs and businesses into the formal economy. This leads to a virtuous cycle, as formalized businesses can often get easier and more credit, enjoy greater legal protection, and hence can grow and create more jobs. A key challenge in high-income economies is to increase tax cooperation. Tax evasion, tax avoidance and tax havens create inequalities and resentment as well as depriving the state of revenue. Overcoming these problems requires tough laws and effective enforcement mechanisms but more fundamentally a greater willingness to contribute to state funds. This comes from recognition that state revenues are financing high quality public services directed to achieving a shared society from which all will benefit and from a greater civic sense that tax payers should support the state in achieving agreed goals.

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

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

## Shared Societies, Personal Wellbeing and Economic Wellbeing

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

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

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

These aspirations can however be easily blocked if there is no encouragement of a shared society. Sections of the society, when they are defined as different from the dominant community, are often treated as second class citizens, if they are recognised as citizens at all, with consequent economic disadvantages. They may have no right to own property or have only qualified rights. There may be limitations on their rights to establish small enterprises. They may be restricted in their ability to move to areas where they can pursue their aspirations more effectively. Even when their rights are not blocked in these ways, In order to realise their potential, they may need support and assistance, such as education and training, access to capital and the development of appropriate infrastructure. They may also face prejudice and discrimination in many areas of life including the job market. Amartya Sen<sup>1</sup> has pointed out that poverty can be understood as the lack of the capacities, tools or opportunities needed to function as a full citizen rather than the lack of money and possessions or a shortage of talent or ambition.

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

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

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

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<sup>1</sup> Amartya Sen (1999) **Development as Freedom** Oxford: Oxford University Press

part in it. This process of marginalisation comes at a cost to society in terms of the lost potential of those marginalised, not to mention the costs of supporting and policing them.

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

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

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

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

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

#### **Guiding Principles 1-4**

- 1. Shared societies, in which diverse groups and individuals are economically integrated and utilise their talents and skills, tend to be more stable societies which enjoy higher economic growth than divided societies.**
- 2. If groups and individuals are economically marginalized they have no reason to feel a sense of belonging to the state and are less likely to support the state or society and contribute to the economic well being of all.**
- 3. The cost of investing in a shared society and ensuring that marginalised groups feel they have a full place in society is more than compensated for by the contribution those people can then make.**
- 4. Leaving groups and individuals on the margins of society is not cost free, as it creates social, political and security problems which are avoidable, unnecessary and costly.**

## National and International Economic Policies for Shared Societies

Fiscal policy does have an effect, positive or negative, on the attainment of a shared society. General fiscal policies will have a differential impact on different sections of society and that will increase or minimise the inequalities between those groups.

- Improving the progressiveness of the tax system will correct income inequalities and benefit more disadvantaged groups.
- There is a need to broaden the tax base and, particularly in low income countries, to include the informal and underground economies. This in turn will give those affected the interest and the legitimacy to influence how taxes are spent and increase participation. As the more disadvantaged are able to participate in decision making there is more possibility that spending will be more targeted on the needs of these groups.
- A more efficient tax system will allow governments to generate resources which can then be allocated to more productive ends, such as education, public health, and infrastructure.
- More creative mechanisms are needed for the delivery of social spending, with, particularly in countries facing the challenge of a growing youth population, emphasis on education and training.
- Those countries facing the challenge of aging populations should implement reforms to ensure the financial sustainability of pension and social security systems, many of which, on present trends, are facing bankruptcy. Those countries that have insufficient or deficient systems of social protection need to reform them to establish basic universal coverage and may require external assistance to do so as many are low income countries.
- The current financial situation has obliged governments to seek to improve public finances (i.e., reduce historically high budget deficits). In doing this if they can endeavour to protect vulnerable groups in the population, the challenge becomes an opportunity to move towards a shared society.

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

According to the IMF, petroleum subsidies in 2010 are expected to be somewhere between 1.0-1.3 percent of world GDP, or well in excess of US\$800 billion. These consumer subsidies are wasteful; their benefits go overwhelmingly to the higher income groups, and because they encourage excessive consumption, constitute an environmental calamity. Of 83 countries with petroleum subsidies in 2010, 69 were running budget deficits and in more than half of these the deficits were in excess of 3 percent of GDP, sometimes substantially so. Governments have often shied away from reforming subsidies because, over time, populations have become addicted to them and do not hesitate to go into the streets to vent their anger when alerted to the possibility of price rises. And yet, they imply a huge opportunity cost for societies. They represent vital resources which are not used to improve the educational system, the country's infrastructure, or the health of its citizens, all areas with a much greater potential to improve productivity and social cohesion. In many countries, total consumer subsidies exceed expenditure on education and health combined. It is

instructive to examine how many governments have managed to phase them out, replacing them with various targeted mechanisms to protect the poor and other vulnerable groups.

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

#### Guiding Principles 5 & 6

- 5. National and local economic policies and programmes can play a major role in creating an inclusive dynamic for all groups.**
- 6. National and local economic policies and programmes too often mainly benefit those who are already successful and influential, and as a result reinforce social divisions.**

International economic frameworks and international economic structures also have an important bearing on a nation's achievement of a shared societies as well as influencing the level of sharing between states.

- In order to increase economic opportunities for the population of low income countries, high income countries should create fair trading conditions, including the opening of markets and the phasing out of subsidies to agriculture, which distort trade and impose heavy costs on the developing world.
- It would be desirable to create a global fund to support countries building a shared society, creating opportunities for those previously excluded and providing them with social protection. The UN Social Protection Floor Initiative could provide the framework within which such a fund could be established.
- Governments should explore innovative ways to raise funds (e.g., international tax on financial transactions, carbon taxes) to address the divisive social and economic implications of climate change, which are expected to be especially harsh on the developing world and disadvantaged groups, and ensure progress towards shared societies.
- As part of the Article IV Consultation process, the IMF should try to broaden the content of policy discussions with its members to include aspects of social cohesion and shared societies
- States can circumvent well intentioned proposals and policies because there is an absence of a strong framework which states will accept and international financial institutions are heavily weighted in favour of richer and more powerful states. Therefore it is a priority to establish stronger international bodies and stronger more inclusive international decision making processes.

#### Guiding Principles 7 & 8

7. The international economic frameworks and the institutions that support them need to be reformed to ensure a fair, equitable and sustainable international economic order and business practices, and encourage appropriate national policies leading to shared societies and greater economic wellbeing throughout the world.
8. Existing international economic frameworks need to ensure that wealthier countries and vested interests do not benefit at the expense of poorer states and marginalised groups within all states.

### Monitoring and auditing public policies

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

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

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

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

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

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

- peer reviews of social and economic policies among OECD countries,
- ministerial reviews within the UN Economic and Social Commission,
- reports by states on implementation of conventions they have ratified
- Article IV consultations carried out by the IMF,
- Poverty Reduction Strategy Papers carried out by the IMF and the World Bank with IDA-funded members,
- UN Human Rights Commission reviews and European Commission reviews.

Extending any of these to include shared societies as an object of study raises the issue of legitimacy of the auditor (whether it is the UN, another multilateral organisation or an independent auditor mandated by either (see above page 8).

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

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

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

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

#### **Guiding Principle 9**

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

### **The importance of participation of all groups in developing and implementing policies**

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

- Social division leads to marginalisation which means the exclusion of members of certain groups from the labour market, from community initiatives, from integrated living, from schools, etc., and failing to utilise their knowledge, creativity, experience, physical and intellectual capacity on behalf of the local community and the society.
- By being marginalized, groups may develop cultures based on helplessness, dependency, with all of the related costs (lower participation in education, higher unemployment rate, increased human insecurity).
- Not only is this a waste of human resources and human energies for the local community and for the society as a whole but it creates the vicious circle by which they are even less considered when policies are being developed and implemented.
- Their involvement in the policy cycle means policy makers are impelled to be more aware of their needs and aspirations.
- Since they know their situation best, facilitating their participation in policy and programme planning on issues that affect them contributes to the development of better policies and programmes to improve their situation, tailored more to their needs,
- Participation prevents wasting financial resources and time on programmes that are not well targeted.

- If marginalized groups participate in policy and program planning, they are more motivated to participate in the implementation, mobilizing their knowledge, experience, creativity, physical and intellectual capacity.
- Supporting self-help initiatives is one of the most effective ways of enabling people to participate in their own affairs.

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

#### **Guiding Principle 10**

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

### **Measuring the degree to which a society is shared**

At numerous points the Working Group has been aware of the importance of being able to carry out an assessment of the existence of a shared society.

If a country wants to know how far it has achieved a shared society it needs some objective measure which is not reliant on individual impressions. It can challenge the confidence of the influential sectors that the society is open to all residents and can show that some groups are in fact marginal and disconnected from the rest of society or that is their perception.

If one wants to make the argument that there is a link between shared societies and economic wellbeing it is important to be able to justify that with clear data and ideally be able to show that link graphically. Otherwise national leaders will ignore the evidence and be motivated by other considerations in determining policy.

If leaders want to promote shared societies the task is easier if they can communicate to opponents and sceptics the economic benefits of building a shared society backed by data that is difficult to challenge.

If a society wants to assess its performance over time and gauge how far it is becoming more or less shared then it requires data collected over time which allows comparisons to be made.

Therefore the Working Group was exercised with the question of what evidence exists and how that evidence can be presented in a graphic and convincing way. This requires a clear understanding of the characteristics of a shared society, so that we can measure how far it has been achieved, and the identification of suitable indicators. A society where all residents feel at home and have a sense of belonging is something that we can all recognise when it exists and equally we are aware of its absence. These are rather subjective feelings and as such are not easy to measure but as one defines more clearly what are the characteristics of a shared society, it becomes possible to identify and reach agreement on suitable. The Shared Societies Project has identified the elements that are required to foster a shared

society and in its Ten Commitments for Shared Societies has identified the policy areas where inputs can and should be made. They require efforts both by the state and by civil society.

Between those inputs and the desired outcomes there are a series of outputs which are tangible and which contribute to that sense of belonging. They are related to the Ten Commitments but are not just a direct result of policies and practices in any one area. They depend on the synergies between those policies and practices which should lead to a wide range of benefits for the society, and individuals and groups within that society, which lead to the outcome of a shared society. For example, we can identify characteristics such as opportunities to participate, access to resources and the abilities to take advantage of those opportunities, increased social capital, the narrowing of inequalities between regions, groups and individuals, lower levels of crime and violence, increased mutual understanding and respect.

Consequently the working group has considered the characteristics of a shared society and the indicators of those characteristics that would be most powerful in allowing a measurement of the degree to which a shared society is being achieved. Using this data a Shared Society Index can be developed.

### **The advantages of developing a Shared Societies Index**

The popularity of composite indices is explained by their straightforward advantages for organizations wishing to communicate their message to a broader public. Composites measure, provided they are valid and reliable, are able to summarise complex or multi-dimensional issues in a simple manner, have substantial ease of interpretation over the use of multiple benchmarks, and allow people to track progress over time. In addition, composite indices are an excellent way of raising awareness of some issue that was previously ignored or sidelined. For this reason, advocacy organizations typically turn first to the construction of an index when seeking to bring some new issue to the public's attention, whether it be the challenge of reducing corruption, or progress towards achieving the Millennium Development Goals, or the importance of ensuring that migrants, indigenous peoples, and other religious and ethnic minorities are integrated into a society without violence or discrimination.

A further benefit of indices is that they make empirical research into a given area possible, making it possible to substantiate claims that something as intangible as having a 'shared society' is associated with economic growth, higher levels of wellbeing, or other tangible economic and social benefits. Until a concept is measured, such assertions simply cannot be made.

The advantages of a Shared Societies Index as one specific composite index is that it would provide a key communication and advocacy tool about the importance of shared societies. In particular in the context of the brief of the Working Group, by comparing its results with data on the economic performance of states it will provide evidence of the link between economic well being and shared societies. Preliminary research is suggesting that a positive link does exist. A long term aspiration would be to be able to demonstrate the nature of the causality behind that correlation but at this stage it is not possible to make that assessment.

The index (and its composite sub-indices) will facilitate empirical cross-country comparison and demonstrate the impact of different policy options that have been implemented in states facing similar challenges. As the Index is developed it should be possible to consider specific types of country on the basis of region or issues that they face so that a more refined index could be produced. For example it would be instructive to look at countries in Europe with migrant populations, including second and third generation descendents of migrants, or countries in South America with significant populations of indigenous people.

An index will also be a useful tool in discussions with individual countries about their performance. During peer to peer consultations it will provide a basis for discussion with leaders on issues that they may need to deal with, or why the countries performance is changing. It will be an encouragement for leaders attempting to promote a shared society if they can see that the performance of the country has improved. It will be possible to compare performance against other states, especially those facing similar problems and if the index is compiled on a regular basis, the country can see if its situation is improving or deteriorating.

To use the index for any of these purposes does not require individual countries to be named and, if thought desirable, a simple coding system could be used for each country.

### **Challenges in developing a Shared Societies Index**

There are a number of challenges in creating the Shared Society Index. A great deal of data is already being collected which provides evidence of a shared society. The challenge is to know which indicators are most appropriate and correlate most closely with a shared society. There are some gaps in the information available and alternative indicators might give a better measure. It is likely that over time the quality of the data could improve and the establishment of an Index will give momentum to the collection of additional relevant data. Experience with other indices shows that the selection of indicators does change over time.

It is inevitable that some anomalies will emerge so that some countries will appear to be performing well while anecdotal evidence would suggest otherwise. This does not invalidate the whole exercise and as the choice of indicators is refined the incidence of anomalies will decline. However if the indicators are changed then comparisons over time will not be valid and it is much preferable to have at the outset a robust process to identify the best indicators.

It is important to stress that the value of such an index is not to rank individual countries against each other, though some may try to use it in that way. More importantly it can be a useful tool in quiet diplomacy as has been mentioned already.

There are certain requirements for the organisation and maintenance of such an index: access to data, human resources to oversee the preparation and analysis of the index and an organisation which owns and publishes the Index. In order to maximise the value of the Index it would need to be maintained and repeated over a number of years.

At the same time as indices in general have become more widespread, in recent years a wide range of new cross-country sources for social institutional research have become available with which to measure progress towards a shared society. Comparative survey projects such as the World Values Survey regularly collects relevant information from respondents from over 90 countries around the world, while the Gallup World Poll now has survey data from 140 countries. A full summary of available data is presented in Annex 1.

In relation to access to the appropriate data, the International Institute for Social Studies in the Hague houses the Indices of Social Development Database which is a repository for over 200 relevant indicators drawn from over 25 freely available sources. This material has been used for generating the prototype Shared Societies Index and will be available for future editions of the Index.

In terms of human resources the preparation of the index is not excessively time consuming but obviously the more staff time that is available the more possibility there is to analyse the results and to improve the selection of material.

The Working Group is also aware that any index must be properly designed. For these reasons, key decisions have to be made when designing composite indices, notably regarding the selection of indicators, weighting schemes, and how to deal with missing data, so as to ensure that final index scores reflect a meaningful distillation of the available indicators. Our suggestions on how to address these concerns, with respect to a Shared Societies Index, are also presented in Annex (1).

### **Recommendations and Suggestions**

Further work is required to collect and analyse the evidence which does exist demonstrating the link between shared societies and economic well-being. In order to facilitate this process:

1. The Working Group has commenced the procedures to commission a literature review and the collection of examples of good practice and invites the Club de Madrid to receive and make public the results of the review.
2. The Working Group has proposed a conference to encourage debate on the link between Shared Societies and Economic Well-being. The UNU World Institute for Development Economics Research (WIDER) has agreed to co-host the conference. The Club de Madrid is invited to be a co-host and the World Bank could also be approached to support the initiative.
3. The Shared Societies Index offers a potentially powerful tool to help to establish the link between shared societies and economic wellbeing and the Club de Madrid is encouraged to lead the development of such an index, in partnership with another academic or research institution, and using the data in the Indices of Social Development Indicators.

While these steps will help to strengthen the argument of this statement, the Working Group is satisfied that the Guiding Principles that it has formulated are already robust and sound and invites the Club de Madrid to endorse and adopt this statement and promote the Guiding Principles in its work both in peer to peer consultation in specific countries, in its involvement with International Bodies such as the United Nations, World Bank and regional intergovernmental bodies and in its participation in public debate and discussion generally.

### **Guiding Principles of Economics for Shared Societies**

1. Shared societies, in which diverse groups and individuals are economically integrated and utilise their talents and skills, tend to be more stable societies which enjoy higher economic growth than divided societies
2. If groups and individuals are economically marginalized they have no reason to feel a sense of belonging to the state and are less likely to support the state or society and contribute to the economic wellbeing of all.
3. The cost of investing in a shared society and ensuring that marginalised groups feel they have a full place in society is more than compensated for by the contribution those people can then make.
4. Leaving groups and individuals on the margins of society is not cost free, as it creates social, political and security problems which are avoidable, unnecessary and costly.
5. National and local economic policies and programmes play a major role in creating an inclusive dynamic for all groups.
6. National and local economic policies and programmes too often mainly benefit those who are already successful and influential, and as a result reinforce social divisions.

7. The international economic frameworks and the institutions that support them need to be reformed to ensure a fair, equitable and sustainable international economic order and business practices, and encourage appropriate national policies leading to shared societies and greater economic wellbeing throughout the world.
8. Existing international economic frameworks need to ensure that wealthier countries and vested interests do not benefit at the expense of poorer states and marginalised groups within all states.
9. Well intentioned economic policies often fail to benefit marginalised sections and integrate them into society because of unintended consequences. They can be subverted by influential sectional interests.
10. Economic policies are more likely to benefit those who are marginalised and integrate them into a shared society if marginalized groups are involved in the planning and implementation of policies and programmes and if there is a mechanism to screen policies and programmes for their differential impact on each section of society.

### **Concluding remarks**

Political leaders and policymakers must create a dynamic of inclusion and cooperation among the full spectrum of their citizenry if they want to see national economic wellbeing that is sustainable and equitable. This vision must transcend electoral cycles and serve as a framework for long-term planning. It is for this vision that the Working Group calls for support and action. Shared societies provide the necessary framework for sustainable economic growth and wellbeing in the 21st century and beyond.