

Stockholm Statement

15 November 2016

Towards a Consensus on the Principles of Policymaking for the Contemporary World

Thirteen economists, which included four former Chief Economists of the World Bank, met over two days in Stockholm, Sweden, on 16-17 September, 2016, to discuss the challenges faced by today's economic policymakers. The meeting was hosted by the Swedish International Development Cooperation Agency (Sida) and the World Bank. The group consisted of Professor Sabina Alkire (Oxford), Professor Pranab Bardhan (Berkeley), Professor and former Chief Economist of the World Bank Kaushik Basu (New York), Professor Haroon Borat (Cape Town), Professor and former Chief Economist of the World Bank Francois Bourguignon (Paris), Professor Ashwini Deshpande (Delhi), Professor Ravi Kanbur (Ithaca), Professor and former Chief Economist of the World Bank Justin Yifu Lin (Beijing), Professor Kalle Moene (Oslo), Professor Jean-Philippe Platteau (Namur), Professor Jaime Saavedra (Lima), Nobel Laureate Professor and former Chief Economist of the World Bank Joseph Stiglitz (New York), and Professor Finn Tarp (Helsinki and Copenhagen). At the end of the meeting the group decided to issue a statement of the consensus reached among them: the "Stockholm Statement." What follows is this statement.

The Challenge of Development

The world today is going through turbulent times. Global forces hold out both promise and peril. Unprecedented technical progress promises rising standards of living, yet holds out the peril of displaced labor and youth unemployment. Expansion of trade and global investment have propelled growth and moved several low-income countries to middle-income status. At the same time, many groups in these countries have been left behind. The same is true even in advanced economies, where many have been adversely affected by the forces of globalization. Further, living standards have actually deteriorated in nations which are mired in conflict and war. Rising inequalities within countries threaten social cohesion and economic progress. Environmental degradation and climate change imperil the planet, and await concerted global action to address the looming dangers. Rapid urbanization offers the prospect of productivity gains from agglomeration, but can also aggravate the problems of urban slums, poverty and conflict.

None of these takes away from the enormous progress the world has seen in rising incomes and in improving health and education. We celebrate these achievements, and look ahead to the undoubted challenges that policymakers will face. A successful response to these challenges lies in designing policies to harness global forces for development and steering a course towards the promise rather than the peril. The design of such policies requires a clear vision of the goals of development policy, and learning from the successes and mistakes of the past and from the body of economic theory and statistical analysis accumulated over a long period of time.

It is now evident that some of the recommendations of more traditional economics were not valid. Policymakers cannot rely on simple policy guides such as holding the fiscal balance in check, using monetary policy to control inflation, providing macroeconomic stability, and then leaving it to the market to do the rest. Assuming that such an approach will promote growth that trickles down to the poor is not a tenable premise. Indeed, we owe some of our current predicament to too close an adherence to that dated advice.

This statement lays out not a blueprint for policy, but a set of principles that we hope can help frame country-level policies and promote global discourse and the design of multilateral policies. These principles are increasingly needed in today's rapidly changing and globalizing world.

1. GDP Growth is Not an End in Itself

We believe that, while policies to promote GDP growth are needed, that must not be an end in itself but a means to creating the resources needed to achieve a range of societal objectives, which include improved health, education, employment, security, as well as consumption. Individual wellbeing is multidimensional and policy should aim for improvements in all of the dimensions valued by society, not just income. There is, for instance, a need to provide better nutrition to all pre-school children and to ensure that everybody has basic healthcare, and to recognize that these are well within the realm of the feasible. If the right policies are not in place, GDP growth may come at the expense of these dimensions of wellbeing, including those related to local environmental and global climate degradation. It is also worth keeping in mind that GDP growth in itself may not lead to the eradication of oppressive norms and discriminatory practices against vulnerable groups. These usually require deliberate interventions.

We recognize the need to acknowledge that there will not be a single prescription deemed appropriate for all economies. Cultural and social contexts differ, as do histories. This leads to different aspirations in different societies and also plays a role in determining what will work and what will not. In the past there was a propensity to prescribe a uniform policy code (developed in some rich country) for all nations. While there are broad policy principles we all need to pay heed to, there has to be space for diversity and context-specificity of policy.

2. Development has to be Inclusive

We believe that policy should help ensure that development is socially and economically inclusive, and not leave behind groups of the population whether identified by gender, ethnicity, or other social indicators. There should be particular focus on extreme deprivation in the range of dimensions of wellbeing, and especially on individuals who suffer simultaneous deprivation on many dimensions. But a focus on the most deprived is not enough. The gap between rich and poor, and across salient social groupings, is also important. The sharp rises in inequality of income and wealth witnessed in recent decades and the observed level of inequality of opportunities in access to basic services like health and education are ethically indefensible, undermine social cohesion, and fuel a spiral of policy capture by elites which further exacerbates

inequality. High inequality tends to rob the poor of voice and so results in a weakening of democracy. The empowerment of women and of historically discriminated groups is a priority in its own right, but it also provides a sound basis for economic efficiency. When there is political turbulence and social conflict, development is not possible; and where development policies are not inclusive, they are likely to trigger social conflict. Overall, inclusive development is the only socially and economically sustainable form of development.

3. Environmental Sustainability is a Requirement, Not an Option

Although it will be mediated and implemented differently in each country and regional context, we believe that development policymaking must take on environmental sustainability as a central objective. This is related directly to local environmental degradation, where income growth in isolation can create a false indicator of wellbeing and progress. Further, competition over resources and environmentally related migration can lead to insecurity and conflicts which undermine development. At the global level, climate change is a long-term threat to the viability of the planet and, equally, a short to medium term threat to livelihoods, agriculture and habitat in many countries. Mitigation efforts must be pursued first and foremost at a global level, while adaptation policies require active intervention and support at national and local levels. These are problems that cannot be left to the free market to solve. Regulatory interventions by the state and a certain amount of multi-country policy coordination are indispensable.

4. The Need to Balance Market, State and Community

In the face of these objectives and the global challenges facing the world community, development policy has to build on a judicious balance among market, state and community. It is important to recognize that markets are themselves social institutions which need a framework of efficient regulation to deliver on their promise of efficient economic allocation of resources. Further, even where markets deliver on efficiency, they have no natural propensity to deliver on inclusiveness and equity. As we now know, famines are compatible with free market efficiency. The trend towards unfettered markets of the last quarter century explains a range of outcomes the world is now living with, including financial crises, untenable levels of inequality and unsustainability.

While recognizing the limits of what markets on their own can do, we appreciate that the state itself needs to operate efficiently. There are many ways in which countries can go beyond markets—there are important roles to be played by government at different levels and by the myriad forms that civil society can take, such as cooperatives, associations and NGOs. The nation state should not take on tasks which are better left to the market or to communities. Frequently, these institutions work together in complementary ways. There are contexts where the wellbeing of the most deprived is best served by actions by local groups at the community level. Even though we cannot be unmindful of the fact that local community institutions have

been known to be captured by retrograde forces, civil society organizations, at all levels, have an important role in promoting and maintaining social cohesion.

We reiterate that the state is indispensable in setting the rules of the game and in establishing a regulatory framework in which markets and communities can flourish and engender progress. The greater social cohesion and trust that better rules of the game foster will also result in less inequality, simultaneously promoting growth and well-being in all of its dimensions. The state also has an indispensable role in areas where markets do not work well—finance, health, and environment being prominent examples—and where there are clear inclusivity imperatives, such as women’s empowerment, the protection of vulnerable groups and addressing excessive wealth and income inequality. It also has a role to play in shaping industrial policy and effective agricultural and service-sector policies. The state must prevent the cycles of rising inequality, leading to state capture, which in turn enforces social, political and economic inequality.

5. Providing Macroeconomic Stability

A lot of traditional policy advice centered on the need for macroeconomic stability. Economies with greater stability succeed in having greater growth, with further enhancement of wellbeing. Macroeconomic stability entails managing policies to keep the economy on an even keel and paying attention to longer-term implications of today’s policy actions, notably ensuring fiscal and external financial sustainability. Countries should use periods of strong growth to build up fiscal resources, so that they are in a position to use this medicine when the need arises. Yet, while long-run fiscal discipline is important and traditional economics is right in emphasizing this, policymakers often ended up making a fetish of balancing the Budget

It has to be recognized that fiscal stimulus and public investment are often critical to escape stagnation traps and they are safe as long as indebtedness is carefully managed and the inflationary consequence of monetization is contained. Public investment is important to build infrastructure and green technology, where the benefits are too far stretched into the future to attract private investment. Further, macro-prudential measures can supplement monetary policy to discourage the development of bubbles, to moderate potentially-unstable capital-movements, and to prevent excessive build-up of external liabilities.

6. Attending to the Impact of Global Technology and Inequality

In the arena of policymaking a special challenge has arisen with recent advances in technology. New technology is linking up the global labor market, making it possible for workers in developing countries to work for global markets and consumers, without having to relocate themselves. This has created new opportunities for workers but has, at the same time, exacerbated inequality within nations. There is an increasing tendency in high-income nations to characterize this as a labor-versus-labor problem, one pitting the interests of workers in advanced nations against the interests of workers in developing countries. This is unfortunate. What is overlooked is that this is, in reality, largely a labor-versus-capital problem. Automation, the rise

in robotics and the globalization of the labor market not only displaces labor, it replaces the earnings of workers with higher profits for corporations and the owners of machines. These consequences are a concern that must be addressed without converting this into a global labor-versus-labor tussle.

This creates three policy compulsions. First, we must invest in human capital and increase skills in ways that complement technology and hence boost labor income, alongside the rise of technology. Second, we have to create new instruments of income transfers within nations. The fall in the share of wages in GDP must not be treated as an inevitable consequence of the rise of technology. Governments have to create systems of taxes and profit-sharing to break this equivalence, and they have to create rules of the game—such as strong enforcement of competition laws and labor legislation that enhances workers’ bargaining power and gives them a greater voice in society and within firms. Finally, this creates a special need for multi-country policymaking. It places a responsibility on multilateral institutions to encourage policy harmonization across nations and to promote policies that take account of the interests of not just rich, industrialized nations but also emerging economies, which are often deprived of voice in international decision-making.

7. Social Norms and Mindsets Matter

Much of traditional economics treated social norms and mindsets as having little consequence on our economic lives. A growing body of research demonstrates that this is not so. Our values and culture are not just important in themselves, they also affect how an economy performs. A society in which people have trust in one another does better than one in which people do not. The same set of options, when they are presented differently to people, for instance, in different order or with different default options, can make a difference to what people choose. Governments need to begin to use these new insights and new instruments to run their programs and services more effectively. Private sector firms and corporations have long been using and often exploiting their knowledge of human psychology and social predilections to further their own interests and profits. If governments want to deliver education and health services effectively and collect taxes fairly, our enhanced understanding of social norms has to be consciously integrated into policymaking in pursuit of the common good. Social norms and mindsets can also play an important role in curbing corruption. This is one area where the context specificity of nations is especially important, since norms and mindsets are products of each society’s history and experience.

8. Global Policies and the Responsibility of the International Community

Global forces increasingly frame the development policy options open to national governments. They present constraints and opportunities and are themselves, in turn, determined by actions in other countries.

Monetary policy in high-income nations affects the prospects for capital flows to developing countries. Financial regulatory policies in rich countries, although in the first instance affecting these countries, ultimately have an impact on emerging and developing economies, as amply illustrated by the financial crisis of 2008. Policies and regulations on tax havens affect the capacity of all countries, and especially low-income ones, to raise revenue to finance their policies for inclusive and sustainable development. Trade policies of one nation affect the export prospects for others. Migration policies in high income countries affect the possibilities for citizens of low income countries to better themselves and, in doing so through remittances and knowledge transfer, help the development of their home countries. In all such cases, each country in today's globalized world has collateral impact on others. As such, all countries have a responsibility to take account of and to advance development opportunities for the most deprived citizens of the world.

Agreements and institutions which span multiple countries are crucial in addressing some of the most pressing problems of our times. Yet these are the agreements and institutions which appear to be the most difficult to establish and maintain. While the Paris agreement on Climate Change represents a good start, the world awaits implementation of commitments on emissions by all countries, and on financing of assistance by high income countries for climate change efforts, both mitigation and adaptation, by low income countries. Recent years have seen a decline in development assistance from conventional sources and a proliferation of new bilateral and multilateral development institutions, not to mention the ever elusive goal of achieving the 0.7% goal for official development assistance agreed to by the world community decades ago. The international community has a responsibility to ensure that assistance is directed to developing countries and marginalized groups within them, and that developing countries are better represented in the governance structures of international institutions, which will in turn ensure that international agreements and conventions are mindful of the needs of developing countries.

Looking Forward

If countries follow pragmatic policies of balancing market, state and community in addressing development challenges, and if the international community works together to relieve the constraints of global forces and take advantage of the new opportunities being afforded, the technological progress the world is experiencing can be translated into progress in wellbeing for all, including the most deprived. We can achieve a world with shared prosperity. The mistakes and the successes of the past suggest a set of principles around which such policies at the national and global level could be formulated. It is now time to apply these principles systematically to the design of economic policies for development.