



Perspectives on Global Development 2021

FROM PROTEST TO PROGRESS?



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Foreword

Since 2010, the OECD Development Centre's *Perspectives on Global Development* (PGD) series has investigated trends in developing countries and their place in the global economy. The series started by examining the increasing weight of developing countries in the world economy, a phenomenon it referred to as "shifting wealth". In 2008, the share of non-OECD countries in world gross domestic product surpassed that of OECD member countries and many developing countries were on course to converge with advanced economies.

Each subsequent edition of the PGD examined the effect of this trend on development, focusing on different policy concerns, from social cohesion (2012) and industrial policy (2013) to productivity and the middle-income trap (2014) and international migration (2017). The 2019 edition examined the evolution of development paradigms and investigated how developing countries can design development strategies that respond to the challenges of the 21st century.

The 2021 edition examines the global surge in discontent in countries between the global financial crisis and the coronavirus COVID-19 pandemic that began in 2020. Although this phenomenon was evident in countries at all income levels, the report focuses principally on developing countries to understand where and why discontent has risen. It demonstrates that beneath the headlines of the Shifting Wealth story – developing countries' sustained economic growth, their success in reducing poverty and the emergence of middle classes across the Global South – lurk frustrations, vulnerabilities and inequalities that have taken a toll on people's life satisfaction and weakened social cohesion. These are set to worsen in the wake of the COVID-19 pandemic.

The report comprises five chapters. The first discusses how near-unbroken economic growth in countries at all income levels between 1990 and 2018 coincided with rising within-country inequalities and uneven improvements in living standards. It explains how global economic activity was closely linked to environmental devastation and imposed pressure on large portions of the labour force. The second chapter examines the evidence of discontent in different regions with reference to high-level political indicators and analyses citizens' grievances about the state of the economy, the quality of public services and opportunities to interact with the government. The third chapter argues that discontent emerges from the interaction of these grievances with weakening social cohesion and adverse political trends.

The fourth and fifth chapters examine how to alleviate discontent. Chapter 4 identifies mechanisms by which national governments can simultaneously strengthen social cohesion and promote development. Chapter 5 explores the global dimensions of discontent and explains how the multilateral system needs to evolve in response.

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Editorial

Discontent is rising around the world, reflecting dysfunctions and injustices that have emerged in economic, social and political systems. It is also a response to the damage humankind is inflicting on the world's natural systems and thus, inevitably, upon itself. The COVID-19 pandemic, during which this report was written, has exposed these defects to devastating effect. As countries plan their recovery from the multiple crises triggered by the pandemic, they have an opportunity to make these systems more inclusive, more sustainable, more resilient and more responsive. This report shows this can only happen with the active participation of citizens in new forms of collective action at the local, national and international level.

This report contributes to the task of addressing discontent in three ways.

First, by analysing the causes of discontent around the world, particularly in developing countries. Such an assessment is urgently needed to deal with a likely continuation (and possible aggravation) of the protests seen in recent years. Yet discontent is not only visible on the streets, nor is it solely driven by day-to-day frustrations. It can emerge as much from the disintegration of societies – from the evaporation of interpersonal trust, declines in civic engagement and polarised political systems – as from citizens' concerns with their material well-being. Today's discontent is neither a marginal phenomenon nor a passing phase.

Second, the report explains that countries cannot build back better from the pandemic without closing the cracks that already existed in their societies. To this end, the report outlines directions developing countries can take to strengthen social cohesion at the same time as they promote economic transformation, build capable states and reduce social vulnerability. These approaches need to be co-ordinated through national development strategies that will often have to design and promote new social contracts. And they should be complemented by new models of government that decentralise power and resources, encourage innovation and foster partnerships with civil society, which is increasingly asking for voice.

Third, the report identifies the global dimensions of discontent and demonstrates how these have exposed weaknesses and imbalances in international co-operation. It highlights that development must transition to new realities and new role players. A new spirit of experimentalism is needed; novel institutional configurations, different ways of thinking and a broader range of voices are required within an empowered and empowering multilateral system. Without doubt, these new voices must include the ranks of the discontented.

Mario Pezzini

Director of the OECD Development Centre and Special Advisor
to the OECD Secretary General on Development

Executive summary

Discontent has surged around the world since the global financial crisis of 2008-09. Although the COVID-19 pandemic cleared the streets temporarily, it also exposed and exacerbated the grievances and social fractures that were driving this unrest – factors that countries will need to address as they emerge from the pandemic and confront the worsening climate crisis. This edition of *Perspectives on Global Development* examines the nature and causes of discontent in developing countries and identifies possible responses to the phenomenon at local, national and international levels. These responses should aim not only to improve livelihoods and strengthen social cohesion but also to empower states and societies to address collectively the profound risks and uncertainties of the 21st century.

To begin, the report identifies an apparent paradox of discontent that underlines the importance of looking beyond gross domestic product (GDP) as an indicator of development: why were people increasingly unhappy before the COVID-19 pandemic when the global economy had performed so well? Over three decades from 1990 to 2019, developed and developing countries alike grew almost uninterruptedly. Per capita GDP and wealth rose, extreme poverty declined sharply, middle classes emerged in a large number of developing countries and living standards improved across multiple dimensions. The report identifies four keys to unlocking this paradox: widening inequality within countries; the fact that not all well-being indicators followed the same upwards trend as income and did not reach all parts of the population; the strains imposed on the global labour force; and the worsening environmental catastrophe. The COVID-19 pandemic has compounded a number of these fault lines, with the most vulnerable members of societies the world over bearing the brunt of the harm caused to health and livelihoods.

The report then dives deeper into discontent itself. While showing that protests have risen over the past decade in all regions, it finds that middle-income countries and middle-class citizens are the main drivers of this increase. It also finds evidence of contagion and commonalities between countries that lend weight to a sense of generalised discontent. Acknowledging that evidence of discontent is visible not only in protests, the report also points to declining trust in government, declining voter turn-out and declining support for democracy as proof of citizens' dissatisfaction. Although these variables are biased towards countries with democratic systems of government, protests have also been rising in authoritarian states.

Public attitude surveys from different regions reflect this discontent and articulate citizens' most pressing worries. They reveal that many people were struggling to get by even before the pandemic and that life was falling far short of their expectations. Economic issues were a source of concern for many people around the world; so too were security, governance and public services. These concerns correspond to a number of traps that confront developing countries related to low productivity, weak institutions and social vulnerability. The report also emphasises the importance of voice: if people took to the streets or refused to vote, it was often because they were not being heard.

These factors alone do not explain the rise in discontent. The report contends that discontent emerges from interactions between the factors outlined above and fault lines within a country's social and political context – a complexity exemplified by the relationship between inequality and discontent. These structural factors evolve over a longer timeframe and tend to be exacerbated by the megatrends of our age. The report identifies the erosion of traditional social networks and secondary institutions, the decline in

interpersonal trust and the emergence and intensification of so-called culture wars as evidence of social atomisation and polarisation. Technology is exacerbating a number of these phenomena: digital divides are worsening inequalities and leaving some people feeling more alone or less satisfied with their lives, while the increasing use of online networks to share information risks exacerbating polarisation. Social media has emerged as an important tool for social movements to mobilise support.

At the same time, political systems are becoming less adept at mediating social divisions: political parties and identities are fragmenting, the space for compromise is shrinking and a winner-takes-all approach to politics is reinforcing inequality. The rise of populism, especially in the past decade, is a response to these political failures but there is little evidence it can provide answers to today's challenges. The COVID-19 pandemic provides an opportunity not only to reset political systems but also to revive the institutions through which collective action can thrive. Building back better will require a ground-up approach if it is to heal the divisions described in this report.

Faced with this combined challenge (exacerbated by the pandemic) of social fragmentation, deepening discontent and worsening economic outcomes, the report argues for approaches that address these elements simultaneously. The objective is a double dividend of better development outcomes and more collaborative and cohesive societies. Taking each of the aforementioned development traps in turn, the report explains how harnessing the power of social capital and promoting participation can (if done properly) generate a range of social and economic benefits. Meanwhile, the imperative of environmental sustainability needs to be hardwired into policy making across all areas of government.

National strategies for development that are inclusive in formulation, vision and implementation, and that are capable of adapting to changing circumstances, are needed to co-ordinate and sustain these directions. These strategies should be complemented by more experimental and decentralised approaches to public administration that build on co-operation between private citizens and public institutions. Realising this vision in the wake of the pandemic will face considerable challenges, not least the weakness of public finances and the growth in inequalities attributable to the crisis; international support for the recovery in developing countries will be vital.

There are also strong international dimensions to discontent. As COVID-19 has demonstrated, the causes of discontent often emerge from outside a country's borders. Some two decades previously, anti-globalisation demonstrations in Seattle and elsewhere started to express discontent of a different form. Structural phenomena evident at the global level weaken the international community's legitimacy and effectiveness in addressing these causes. An examination of multilateralism's evolution shows how the strongest countries at the end of the Second World War have largely retained their power and how the interests of developing countries have been systematically under-represented. In recent decades, new phenomena, new actors and new rivalries have emerged on the world stage, leading to fragmentation and competition rather than co-operation, even when confronted by threats to global security.

To look at the international system with reference only to sovereign states is to miss a key piece of the discontent puzzle: the growing dominance of private interests over public institutions, which is locking countries into policies that are not socially or environmentally sustainable and weakening societies' ability to respond to the changes and dangers of the world around them. It warns that this dominance is so engrained that profound changes are required at every level, from the local to the global. The Sustainable Development Goals and Paris Climate Agreement, universal commitments reached only five or six years ago, provide hope and a roadmap for averting catastrophe. However, a new multilateralism is required to deliver on these commitments – a multilateralism that is both empowered and empowering, that brings a much broader range of actors to the table, that is able to foster co-operation and share innovations, and that is capable of protecting the interests of people and the planet above all else.

Overview

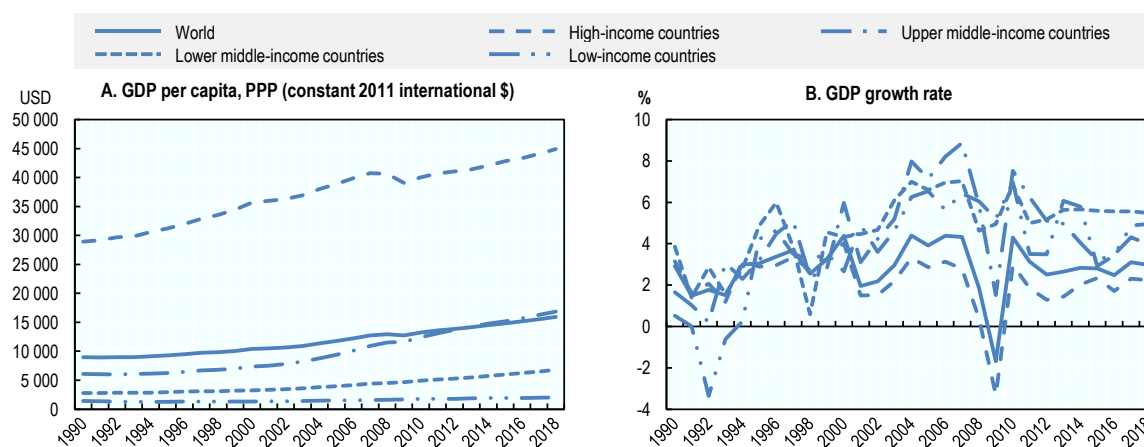
Between the global financial crisis of 2008-09 and the coronavirus (COVID-19) pandemic, protests and political instability surged around the world. The pandemic cleared the streets but only for a moment; civil unrest is expected to worsen in its aftermath. People's trust in public institutions is collapsing; so too is their trust in each other. Political systems in many places are failing to meet people's demands for change. New technologies are creating new divides within society. A vicious circle is emerging, whereby social fragmentation is impeding the collective action needed – at the local, national and global level – to address the factors behind this discontent. Given the scale of the challenges of the 21st century, this inability to co-operate poses an existential threat to humankind.

The seventh edition of *Perspectives on Global Development* examines the factors behind discontent and identifies how societies, especially in developing countries, can respond in ways that not only improve livelihoods but also strengthen social cohesion. It is written during the COVID-19 pandemic, which is inflicting a terrible human cost, exacerbating many of the divisions and vulnerabilities that are driving discontent, and exposing weaknesses in international co-operation. The report is intended to promote more inclusive societies in the wake of the pandemic – a project that will only succeed if it engages citizens at all levels and in all places, from the grassroots of local communities to the top of the most powerful multilateral institutions.

Discontent in an era of global economic growth

The surge in discontent over the past decade demonstrates the limitations of focusing on gross domestic product (GDP) and wealth. After all: why were people dissatisfied before the pandemic, when data suggest that they had never had it so good? On average, per capita GDP grew almost uninterruptedly across countries at all income levels between 1990 and 2018 and rose fastest among developing countries (Figure 1). Wealth levels also rose sharply.

Figure 1. Global economic growth rates, 1990-2018



Source: World Bank (2020), *World Development Indicators* (database), World Bank Group, Washington, DC, <https://databank.worldbank.org/source/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934252492>

This growth was accompanied by a sharp decline in the global rate of extreme poverty, which fell from 36% in 1990 to 10% in 2015. Middle classes emerged around the world, which by the middle of the 2010s, included more than half the global population. Living standards improved globally, as a combination of sustained economic growth and higher public spending allowed many developing countries to enhance provision of public goods. For the first time, inequality between countries declined, suggesting that developing countries were converging with advanced economies.

This report identifies four keys to understanding why discontent has emerged despite this strong economic performance. The first is inequality: gains from growth in global income and wealth have not been shared evenly across countries, leading to growing inequality in a large number of countries. If the People's Republic of China (hereafter, "China") is excluded from calculations, between-country inequality barely moved in three decades. Being middle class in developing countries (again, except China) is very different from being middle class in advanced economies: high levels of informality and low levels of social protection coverage render this status far less secure. Indeed, if poverty is considered in relative terms or against a more ambitious threshold than USD 1.90 (United States dollar) per day extreme poverty line, a large portion of the new middle classes would still be considered poor.

The second key is multi-dimensional well-being indicators, which provide a broader understanding of quality of life. While there have been improvements in indicators such as life expectancy, these gains have not been shared equally across populations; large gaps in well-being between and within countries remain. At the same time, some well-being indicators, notably food insecurity, have deteriorated during the 2000s. Overall, people in many countries have grown progressively more worried and less satisfied with their lives in recent years.

The third key relates to the pressures on the global labour force. While returns to capital have increased rapidly, wage growth across the labour force has not kept pace with productivity gains (although the incomes of highly skilled workers have increased rapidly). Globalisation and technological change, with associated changes in production and consumption, have adversely affected the prospects and job security of workers around the world. Non-standard employment is proliferating in advanced economies, while informality – and working poverty – remain pervasive in developing countries. A new global class – the precariat – has emerged, and its dissatisfaction and insecurity are becoming increasingly influential politically.

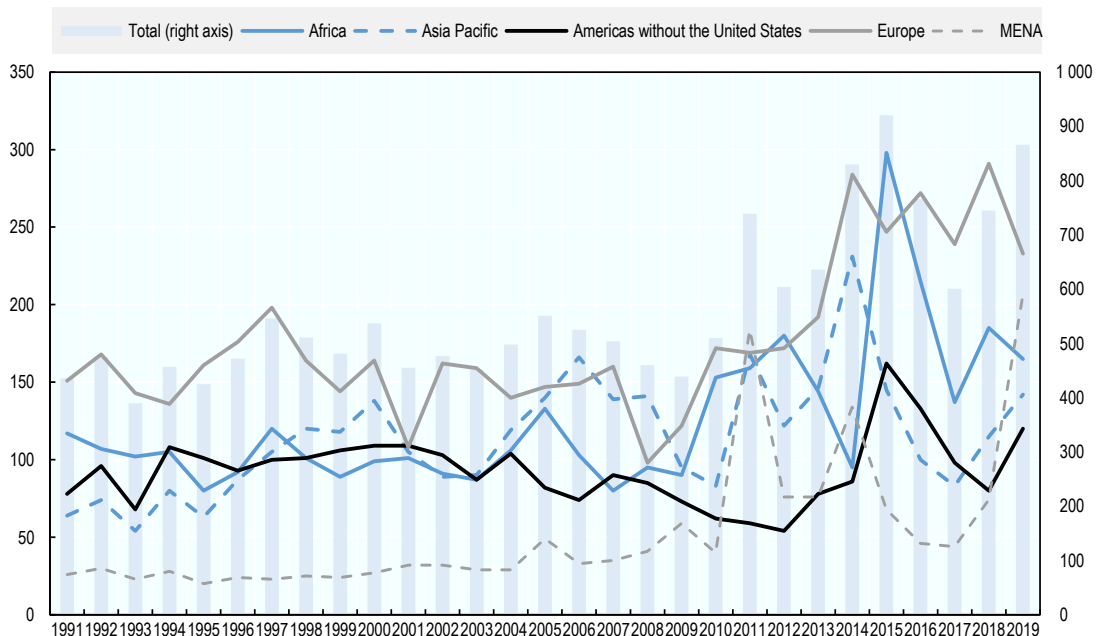
The fourth key relates to the catastrophic deterioration of the environment in recent decades. Global temperatures are rising as carbon emissions have risen with global GDP; there has been a staggering decline in biodiversity, with deforestation on a massive scale and many species becoming extinct; and air and water quality have deteriorated to lethal effect. Developing countries are enduring the worst of the climate crisis, despite their miniscule contribution to the stock of global emissions (even if they are increasingly responsible for the annual increases in emissions). Without urgent changes to the way humanity lives and works, its very survival is in jeopardy.

The COVID-19 pandemic has undone some of the gains made over the past three decades: economies have shrunk, an estimated 255 million jobs have been lost, and some 100 million people have fallen into extreme poverty. Millions are threatened by famine. Economic output in advanced economies is expected to rebound to pre-crisis levels in 2021, helped by massive stimulus packages during the crisis and first access to vaccines; for many developing countries, the recovery will take far longer, and the long-term scarring will be more severe. Meanwhile, inequalities have widened within countries at all income levels.

The case for global discontent

These four keys – inequality, uneven progress in improving well-being beyond income, worsening labour conditions and the climate crisis – provide important context for the current wave of discontent but do not fully explain it. To understand discontent, it is necessary to take a closer look at who is protesting and where. Yet discontent is not only visible in the streets: the report identifies declining trust in government, a loss of support for democracy, and long-term declines in voter turnout as evidence of dissatisfaction with the way societies are organised and governed. Discontent will be harder to identify in countries that lack these democratic institutions and where protest is not a legitimate form of political expression, although protests have increased even in authoritarian states in recent years.

Figure 2. Number of protests in selected regions, 1991-2019



Source: Clark, D. and P. Regan (2021), "Mass Mobilization Protest Data", *Harvard Dataverse* (database), Harvard University, Cambridge, MA, <https://doi.org/10.7910/DVN/HTTWYL>.

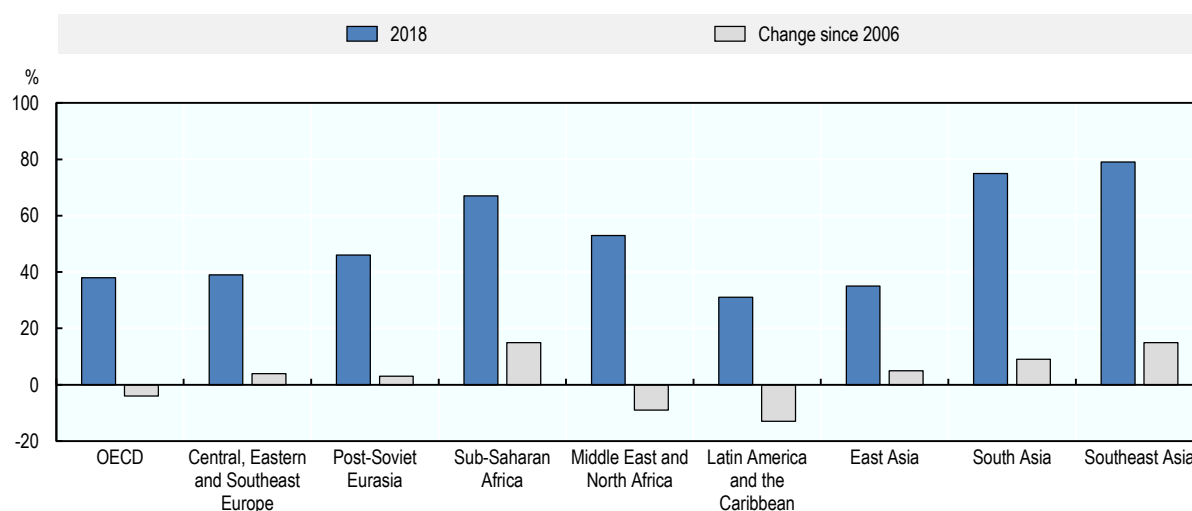
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Various sources attest to the rise in protests during the 2010s, which was evident across all regions (Figure 2). Political instability during this period was far more pronounced than in the 1960s, for example. Civil unrest was detected in one-quarter of countries around the world in 2019, a year when the proportion of protests that were violent rose sharply after declining steadily since the 1990s. Meanwhile, protests spiked in autocracies across Africa, the Americas and Europe in 2011 and trended upwards between 2015 and 2018.

The report demonstrates that protests are not concentrated in the countries with the weakest economies and that it is not the poorest members of society who are most likely to protest. Rather, protests during the 2000s have been most prevalent in middle-income countries, and people from the middle classes have been most apt to mobilise. This suggests that protests are inspired by frustration at progress interrupted and expectations unfulfilled. These movements, which often act at a remove from traditional political parties and lack clear leadership, are demanding systemic change: the protests in Chile in 2019, which set in motion a process to rewrite the constitution, are a good example. Evidence of contagion of protests between countries and the emergence of global protest movements suggest that people in societies around the world are finding common cause.

Other indicators strengthen the case for generalised and worsening discontent. The proportion of people expressing confidence in their national government declined on average between 2006 and 2018 in Latin America and the Caribbean, the Middle East and North Africa, and Organisation for Economic Co-operation and Development (OECD) countries but increased elsewhere (Figure 3). Voter turnout has fallen around the world since the 1960s. Support for democracy is also decreasing, and there has been a prolonged decline in the strength of democratic institutions during the 2000s that accelerated in 2020 amid the COVID-19 pandemic.

Figure 3. Those who profess to have confidence in their national government



Note: Respondents were asked if they have confidence in the national government of their country.

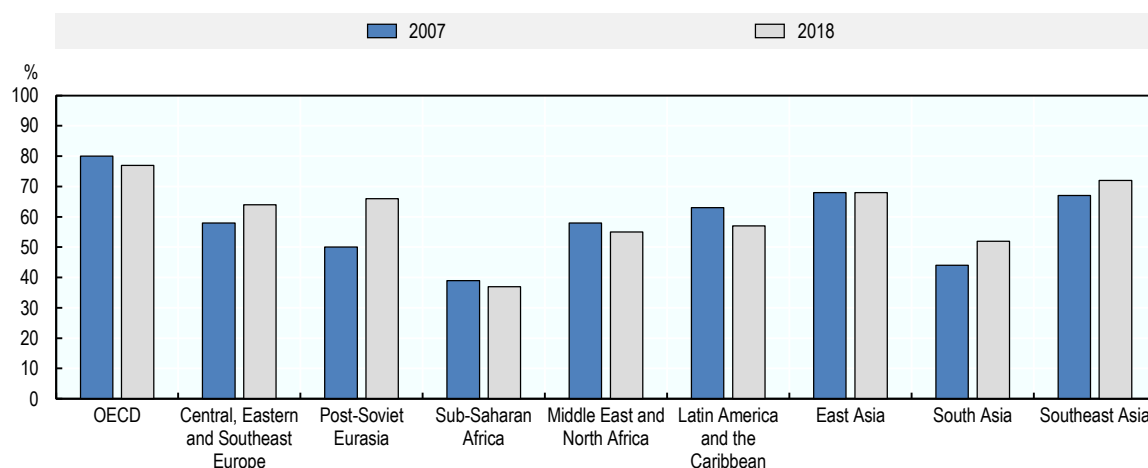
Source: Authors' calculations based on Gallup (2019^[46]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

StatLink  <https://doi.org/10.1787/888934253024>

To answer the question of why discontent is worsening, especially in developing countries, the report starts by analysing what citizens themselves are saying. Public attitude surveys in Africa and Latin America, for example, show the extent to which economic factors – such as unemployment, low wages and the cost of living – were at the top of individuals' concerns before COVID-19. This is hardly a surprise, when the

proportion of individuals who feel that they are doing well or getting by has declined in both regions, to 37% in the case of sub-Saharan Africa (Figure 4). Citizens in both regions were pessimistic even before the COVID-19 pandemic. Across 18 countries in Africa surveyed in 2019, 63% of respondents considered the state of the economy “bad” or “very bad”, while only 12% of Latin Americans considered the economic situation in their countries “good” or “very good” in 2018, down from 25% in 2013.

Figure 4. Those who are living comfortably or getting by on their current household income, 2007 and 2018



Note: Graph shows percentage of respondents in each region who answered yes to the question of whether they were living comfortably or getting by.

Source: Authors' calculations based on *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

StatLink  <https://doi.org/10.1787/888934253100>

Citizens also worry about the quality of public goods, such as security, good governance and public services. Satisfaction with these varies by region: in Latin America and the Caribbean, satisfaction with health, education and the judicial system has declined in recent years, but in Asia, public services are increasingly meeting people's expectations. However, it is notable that across all regions, people's standard of living in 2019 was much lower than they had expected it would be when asked in 2014. The report also identifies a tendency for people to feel that the government does not listen to them and that elections do not bring about change. This might explain why satisfaction with democracy is declining and why people feel more inclined to take to the streets and less inclined to vote.

These concerns and frustrations about the state of the economy and the quality of public goods resonate with the so-called “development traps” of low productivity, poor institutions and socio-economic vulnerability. These are systemic and interrelated challenges that require a broad response: addressing these factors behind discontent is not a question of matching policy to individual grievance. Moreover, while these trends contribute to the rise of discontent, they cannot explain it alone; discontent is, after all, a psychological and sociological phenomenon, and as such, cannot be understood solely with reference to people's material conditions. It is also necessary to look at the way societies function as a whole.

The structural causes and politics of discontent

The report contends that discontent emerges from the interaction of the contingent causes of discontent identified above with deeper societal divisions and political dysfunctions reflected in a lack of social cohesion. These structural factors, which can be understood as societies' fault lines, have many manifestations. Perhaps the most obvious are the inequalities that exist in any society – not just in terms of income and wealth but also across the many dimensions that determine a person's ability to live the life they choose. However, a direct link between inequality and discontent is difficult to establish; rather than inequality per se, the report stresses the anger and frustration attributable to relative deprivation – the perception, particularly at a group level, of being systematically disadvantaged within a society. Gender-based discrimination, as captured by the OECD's Social Institutions and Gender Index, is perhaps the most glaring and far-reaching example of this phenomenon. Relative deprivation also explains how frustrated expectations and broken promises cause unrest where decades of economic exclusion did not.

Social cohesion is also weakened by the social fragmentation associated with modernisation long studied by sociologists. The report identifies low levels of interpersonal trust across many developing countries – a major impediment to social cohesion and collective action. It also finds evidence that people's support networks are fragmenting at a time when they are increasingly under stress. These trends are reflected in a decline of the intermediary (or secondary) social institutions seen as key to a functioning society; civic engagement is declining, along with membership of unions, political parties and other associations. This tendency not only compounds the atomisation of societies but also deprives citizens of interlocutors between them and the state, not to mention a critical source of identity, recognition and social capital. Rising stress levels and deteriorating mental health further attest to the difficulties people face today.

Notwithstanding these specificities, the report identifies commonalities among countries that strengthen the argument for the existence of generalised discontent. These relate both to the megatrends of our age – globalisation, rapid technological change, the climate crisis and migration – and to the longer-term impacts of modernisation on societies.

Escalating culture wars – contestation over differences in values, attitudes and outlooks within a society – further jeopardise social cohesion. These divergences are attributable to a wide range of demographic and socio-economic factors that make them particularly susceptible to rises in inequality. Moreover, these differences in values, and the extent to which they influence people's worldview, are making it considerably harder to achieve consensus on public policies to address key issues that societies confront, such as inequality, the climate crisis and migration. They have shaped how countries have responded to the COVID-19 pandemic.

Political systems in many countries are proving unable to mediate adequately between different groups, to provide a level playing field for citizens or to respond to demands for change. The report focuses on two possible explanations for their failure. The first is the weakening and fragmentation of political identities (in particular, following the end of the Cold War), which has disrupted the political landscape and often created a distance between politics and people. The second is the winner-takes-all politics that emerges when the economically dominant groups within a society also dominate its politics; political inequality and economic inequality become self-reinforcing, and the capacity for people to effect change diminishes accordingly. In this context, the rise of populist parties or leaders appealing directly to the disenfranchised and positioning themselves against the elites is easy to understand. However, there appears little chance they will provide any answers to the challenges their societies confront, not least because the constituency they represent is so diverse.

Technological advances associated with the Third and Fourth Industrial Revolutions and accelerated by the COVID-19 pandemic are threatening social cohesion via a number of channels. They have the capacity to transform lives but can also perpetuate inequalities and reinforce power imbalances. Digital divides mean that some groups, even some countries, are being left behind by those better able to harness the

power of new technologies. Changes to the way people communicate are expanding people's networks without necessarily making them feel less alone or happier with their lives. Digital technologies have also changed the way people consume information: the transmission of news through social networks creates "echo chambers" that lead to further polarisation.

Meanwhile, trust in media is declining, in part due to the rapid proliferation of misinformation or fake news through social networks. The market power of new (and some old) media entities further weakens confidence in the notion of independent news and objective facts. Last, and of particular importance to this report, social media has proven a critical mobilisation tool for protests the world over, albeit one that cannot replace the infrastructure of previous social movements that enhanced the latter's likelihood of achieving a lasting impact.

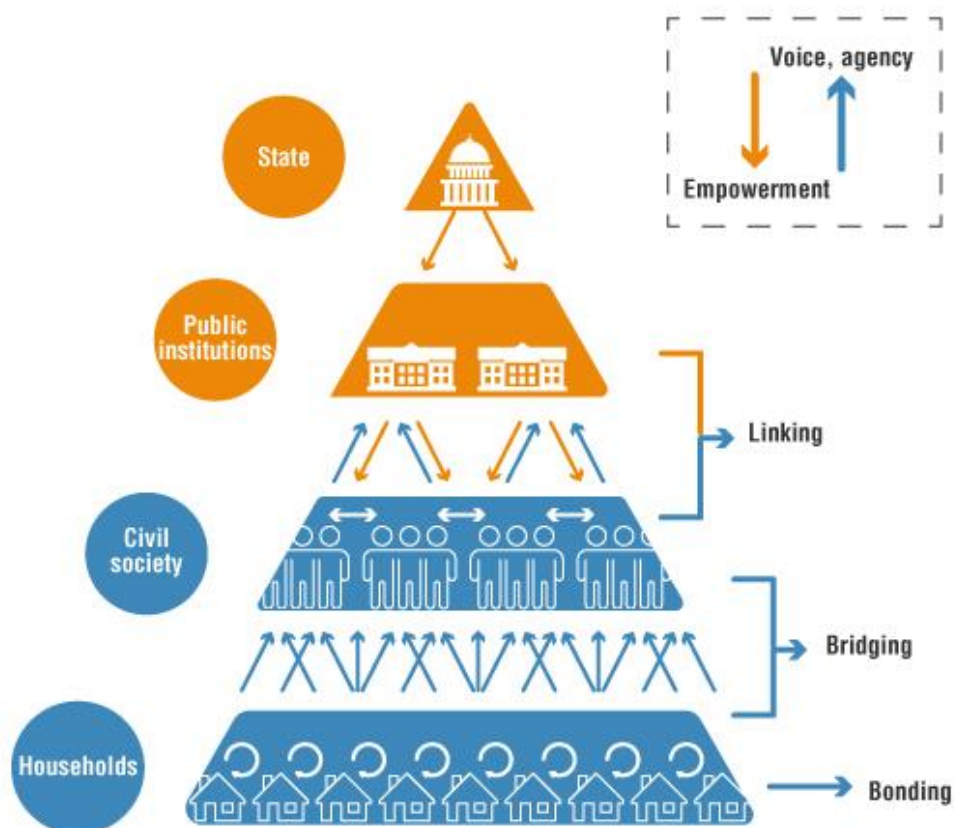
Just as it did the contingent causes of discontent, the COVID-19 pandemic has led to further social fragmentation and exacerbated the structural factors behind discontent. Digital divides have widened, especially in education and the workplace. Culture wars have become more ferocious. Lockdown measures left people even more isolated, and mental health issues have become more commonplace. Inequalities across numerous dimensions have been reinforced. Nonetheless, the COVID-19 pandemic also provides a rare opportunity to reset. As societies plan their recovery, they will need to confront the fault lines laid bare by the pandemic and decide whether they wish to return to life as it was before or, as many people hope, build back better.

From protest to participation

To prevent a surge in discontent in the aftermath of COVID-19, societies need to be rebuilt collectively and from the ground up. The challenges of the 21st century and the social fractures identified in this report cannot be addressed separately: for their legitimacy and effectiveness, the responses need to be mutually reinforcing. The objective is a double dividend, whereby inclusive, participatory processes generate better development outcomes and strengthen social cohesion. Realising this vision requires a fundamental reappraisal of the relationship between state, society, the economy and the environment.

To instigate an inclusive post-pandemic recovery and the broader structural reforms demanded by the current situation, it is important to recall the role of culture and institutions in promoting collective action and shaping societies' development. The report operationalises this role through the concept of social capital: the networks; the bonds of trust, recognition and reciprocity that hold these networks together; and the tacit knowledge (or know-how) that exists within these networks. Social capital operates both vertically and horizontally: two-way vertical links connect individuals to civil society and link civil society to the state. Horizontal links bind households, communities and society. These different flows of social capital are demonstrated in Figure 5 in accordance with a framework developed by the World Bank incorporating "bonding", "linking" and "bridging" capital between and across levels of society. These links are essential for social cohesion and fundamental to the social contract.

Figure 5. Social capital flows in a stylised representation of society



Source: Authors' elaboration.

The report adapts this stylised representation of relations between society and the state to the development traps discussed previously to demonstrate the different channels through which strengthening social capital can also improve development outcomes. The first step in this process is to convert the social model into an economic one by distinguishing between the economic actors that would typically be considered as belonging to civil society – micro, small and medium-sized enterprises – and large firms or clusters of firms (including multinational enterprises) that have very weak links to civil society. The second step is to drop a vertical red line that divides society primarily (but not exclusively) in economic terms (Figure 6).

Figure 6. Stylised model of a divided economy



Source: Authors' elaboration.

The objective is to represent (in basic terms) the inequalities and exclusion identified earlier in the report while emphasising how these phenomena operate both horizontally and vertically. The red line can distinguish traditional firms and modern firms, regions that are more or less economically productive, or individuals or groups according to their economic, social or political status. Their position either side of the line also demonstrates their access to institutions and the social capital they possess. Inclusive development, which aims to maximise the inclusion and agency of individuals and civil society, requires pushing the red line as far to the left as possible.

The response to each development trap reflects a ground-up approach, but the success of each is also contingent on the government reaching down to empower civil society. Starting with the productivity trap, the report highlights how industrial districts can bring together traditional and modern enterprises and explains how this collaboration can thrive with the support of local communities and national governments. It also emphasises the important role that trust and know-how play in allowing firms to expand their operations and markets to evolve.

In the case of the institutional trap, the report underlines the importance of tax morale – the virtuous or vicious circle that can form when citizens feel (or do not feel) that the government is making good use of the taxes they pay. Where the quality of public services is poorly perceived, tax morale (and thus compliance) is likely to decline, depriving the government of resources it needs to improve services. In developing countries, whose tax-to-GDP ratios tend to be far lower than those of OECD members, this phenomenon is felt keenly; recent trends in tax morale in Africa and Latin America are cause for concern.

The report then examines the positive impact of civic engagement on the quality of education. Where parents engage with teachers and administrators and where the government listens to both parties, the quality of education is likely to improve. In the absence of institutions that facilitate these interactions, such improvement will be much harder to achieve; frustrated parents, if they can afford to do so, will seek out private alternatives rather than use their voice to improve the public system. The importance of voice is also discussed in the context of urban services, particularly infrastructure: participatory budgeting in Brazil has shown the myriad benefits of engaging residents, especially the most vulnerable, in discussions around municipal spending. Such mechanisms, which have become widespread in developing and developed countries alike, can only achieve their potential of “democratising democracy” if they involve real transfer of power and resources to citizens.

The third trap, related to social vulnerability, can only be addressed through a significant expansion of social protection coverage. Less than half the world’s population has access to any social protection programme, with coverage especially low in Africa and Asia. The vulnerable middle classes are often structurally excluded, falling into a “missing middle” of social protection provision because they are not eligible for poverty-targeted programmes and not covered by social insurance, which typically only includes people in formal employment. The COVID-19 pandemic has demonstrated the critical importance of moving towards universal social protection coverage; the report argues that countries at all income levels can set their sights on this objective, which should be perceived as a driver of development rather than something that can only be afforded once a certain level of development is attained.

Social protection binds society and the state while, at an individual level, promoting agency, empowerment and inclusion. It is not only an important mechanism for eradicating poverty and narrowing inequality; it also allows individuals to go to school, stay healthy and look for jobs, and it protects them against the multitude of risks that might result in them falling back into poverty. Social protection allows people to participate in daily life; a universal approach removes the stigma and resentment suffered by social protection recipients when programmes are targeted to the very poorest members of society. In many cases, especially among low-income countries, this will be a long-term goal; where governments still need to target social protection programmes to the most vulnerable households, community involvement is critical to identifying the desired intended beneficiaries and ensuring the intervention’s legitimacy.

Although these approaches operate at different levels, their respective contributions to exiting the development traps and addressing discontent overlap. For example, making the economy more inclusive and productive will generate higher revenues for public services and create large numbers of good-quality jobs, thereby providing a route out of the institutional and vulnerability traps. It is also important to note that it is not possible to push the red line without a co-ordinated effort at all levels. National development strategies are a key mechanism for achieving the coherence and co-ordination among approaches on which their success relies. National strategies can also promote popular engagement by providing a common vision for a country’s future in which every citizen can recognise their contribution. By being inclusive both in formulation and outlook, they can hardwire equality, universal rights and social cohesion into a country’s development.

The report charts a sharp increase in the number of countries that have a development strategy in recent years: from 62 in 2006 to 134 in 2018. More than 80% of the world’s population lives in a country with a national development plan, a proportion that might rise further as countries chart their recovery from the pandemic. It also identifies a shift towards a “collaborative” logic, whereby strategies are not seen as top-down exercises in planning and problem solving but rather as an ongoing process of social deliberation that spans communities and focuses on values as well as outcomes to ensure that choices are both technically desirable and politically acceptable, thereby maximising their effectiveness and legitimacy.

Fostering innovation and experimentation is important for contexts of high uncertainty and rapid change. Experimental democracy aims to generate innovative solutions by promoting decentralisation of power and resources and emphasising partnerships between the public and private sectors to harness the know-how

of diverse communities. The effectiveness of this approach is contingent on a shared understanding of the most pressing challenges countries face, rigorous evaluation of different approaches and rapid diffusion of successful innovations from one locale to another. The central government plays a facilitative and supportive role in this context rather than a directive one.

The report recognises three potential impediments to implementing the institutional transformations discussed above, especially in the aftermath of the pandemic. The first is that there is likely to be an emphasis on resilience and efficiency rather than innovation. This will in part be motivated by the second constraint: the damage inflicted on public finances by the pandemic, as a result of which many governments will have fewer resources to invest in the economy and public services than before the crisis. The final impediment is inequality, which in many places has worsened during the pandemic: unless efforts to counter inequalities of different types – economic, social and political – are part of the design of participatory processes, such processes risk enhancing the position and interests of privileged groups, thereby worsening inequality.

These are indeed major challenges, but they are not insuperable. To implement these approaches, conceptions of resilience would have to change: rather than being understood as the capacity to absorb and eventually repel a shock, resilience can be understood in a more biological sense as the capacity to adapt. When the cost-benefit analysis on which efficiency is typically assessed is broadened beyond economic factors to include environmental and social costs and benefits, and when it is assessed with reference to a longer time frame, the systemic and structural changes advocated in the report might be considered to enhance rather than reduce efficiency.

More productive and inclusive economies and stronger public finances generate virtuous circles. However, they require the government to play a catalytic role – something that will be difficult to achieve in the post-pandemic context. There exists significant scope for developing countries to enhance tax revenues, particularly through taxes on income and profits. However, the political economy of the required reforms will be difficult to navigate, and international co-operation will be essential to reduce tax evasion and avoidance by firms and individuals, and to tax the digital economy. International support and co-ordination are also needed to ease developing countries' post-pandemic debt burden to ensure that the cost of servicing debt taken on during the pandemic does not absorb a major proportion of government revenues.

Mainstreaming environmental policies into these approaches is imperative, given the climate and biodiversity crises. The report identifies numerous instances where economic, social and environmental concerns are set in competition with each other, thereby undermining popular support for a green transition. Natural systems play a vital role in sustaining humanity's existence: their sustainability is integral to its survival and is therefore not something to balance with other priorities. Governments can promote this change in approach by locating environmental policies at the centre of government, embedding them in development strategies and devising appropriate governance structures that reflect the key role of social capital in protecting public goods and avoiding the tragedy of the commons.

Global governance and discontent

Discontent is a phenomenon that challenges notions of scale. While a protest might be confined to one very local space, such as a city square, the factors behind discontent (and the participants in the protest) are likely to be spatially more diverse. Moreover, the factors motivating discontent are likely to be a combination of local, national and global grievances. The report concludes by examining the global aspects of discontent. It observes the same interaction of contingent and structural factors discussed earlier and identifies institutional failings and power imbalances in global governance analogous to the weaknesses in political systems.

The COVID-19 pandemic is a clear example of how phenomena from outside a country's borders can cause or aggravate discontent: it has devastated economies, demonstrated weaknesses in public health

and other services the world over and exposed inequalities within and between countries. The international response to this global threat has been mixed: the rapid production of vaccines attests to the strength of international scientific collaboration and highly efficient supply chains, but competition between countries to access these vaccines has been chaotic and counterproductive, and developing countries have been left behind. Growing rivalries between countries have weakened international co-operation, while the role of the World Health Organization has become politicised nationally and internationally. The pandemic has also demonstrated how one global crisis can stem from another – in this case, the growing risk of zoonotic diseases directly traceable to biodiversity loss and uncontrolled urbanisation. Similar systemic factors are behind the locust swarms that beset East Africa and Western Asia in 2019-20.

Another category of global discontent is directed at the global system itself. The anti-globalisation protests in Seattle and elsewhere around the turn of the millennium, which brought together thousands of civil society organisations from many countries, shone a light on the downsides of globalisation, for example its impact on workers' rights, its adverse environmental consequences and the inequality it fosters. However, there were limitations to how much these protests could achieve: the plurality of voices made it hard to decide on tactics or articulate a coherent agenda, and there was also a tendency for organisations from the Global North to speak for the Global South. Last, it was difficult for such movements to identify the appropriate global institution towards which to direct their protests.

Nowadays, it is not only civil society organisations that are alarmed about globalisation and the inability of global governance to address the causes of discontent. In 2020, the United Nations (UN) Secretary-General, António Guterres, spoke of a “pandemic of inequality” and stated that “[inequality] starts at the top: in global institutions”. This report examines the evolution of multilateralism since the 1940s, particularly in light of the Secretary-General’s assertion that “[the] nations that came out on top more than seven decades ago have refused to contemplate the reforms needed to change power relations in international institutions”. It divides this evolution into four phases: the birth of multilateralism, decolonisation, the Washington Consensus and the “shifting wealth” era.

The first decades of multilateralism, which included the establishment of the United Nations and the Bretton Woods institutions, is often perceived as a golden age of international co-operation. During this period, the so-called embedded liberalism paradigm prevailed as the foundation of the post-Second World War consensus, whereby countries gradually opened up commercial ties at the same time as investing in domestic industry, promoting full employment and expanding social protection systems. Capital flows were tightly regulated to ensure the stability of international economic systems.

This period coincided with widespread decolonisation and an associated rapid increase in the number of countries: between 1945 and 1970, the number of UN member states rose from 51 to 127. Despite their rapid growth number, developing countries were not granted a commensurate voice on the global stage, particularly in the dominant global economic institutions. Institutions that emerged in the early 1960s, such as the Group of 77 and the United Nations Conference on Trade and Development, articulated the frustrations of newly independent countries vis-à-vis existing international economic arrangements and challenged the industrialised nations, but they were not able to wrest power from them.

The Washington Consensus era arose from the collapse of embedded liberalism and the emergence in the United States of a new economic paradigm that emphasised the primacy of markets over the state. The Washington Consensus took hold in developing countries in the 1980s, as its prescriptions – which included extensive liberalisation – were built into the structural adjustment programmes that followed a series of debt crises across Africa and Latin America. UN organisations ensured that human interests were not overlooked; over time, the Washington Consensus evolved to recognise the importance of social safety nets to protect the poor (those “left behind” by globalisation) and to promote country ownership. The Millennium Development Goals, with their focus on expanding living standards across a number of dimensions, codified the importance of development outcomes beyond GDP growth.

Around the turn of the 21st century, the global economy's centre of gravity started moving towards the east and south – from OECD members to emerging economies – in a phenomenon known as shifting wealth. The sustained rise of Asian economies, in particular China, has challenged the primacy of the advanced economies, as well as the alliances, institutions and ideologies through which this primacy is articulated. While this era coincided with continued acceleration of liberalisation and globalisation worldwide, the rise in South-South economic co-operation was particularly notable. However, South-South co-operation has not solely been commercial: for example, it has given rise to new dynamics in development assistance. China's Belt and Road Initiative is perhaps the most dramatic and ambitious example.

As international transactions multiplied and interconnectedness intensified, myriad new agreements and institutions were established on a bilateral, regional and global basis, in some cases diluting the power of the institutions that had dominated multilateralism up to that point. New, non-state actors entered the global development space. Amid this fragmentation and growing complexity, the world was nonetheless able to reach three landmark agreements in 2015-16: the Sustainable Development Goals (SDGs), the Addis Ababa Action Agenda and the Paris Climate Accords.

These agreements represent a universal commitment to a fair and sustainable world in which all countries are on equal footing. The five years that followed the SDGs have failed to realise this ambition: indeed what might have been known as the SDG era currently resembles an era of crisis. As well as the COVID-19 pandemic and the worsening environmental crises, the period has been marked by a deterioration of international co-operation that can be traced to the trends in national politics discussed in this report. The twin impulses of populism and nationalism have driven competition and rivalry between countries when co-operation is essential to confront threats to global security and to realise the vision of the SDGs. Many multilateral institutions are alive to the dangers that exist and are leading calls for bold and collaborative new approaches in the post-pandemic world but are finding it hard to forge alliances.

To escape the era of crisis requires a better understanding of where power currently lies in the international system. To rely on nation states to fix the problems of international co-operation is to overestimate sovereign power in a globalised world: countries at all income levels are, to a greater or lesser extent, locked into economic models that are socially and environmentally unsustainable. As multinational enterprises have become increasingly able to dictate terms, developing countries in particular are rewarded not only for adopting market-friendly economic policies but also for ensuring that these policies are institutionalised and insulated from domestic politics. If they refuse to abide by these terms, governments face legal sanction and lose their "investor-friendly" status. The consequence for these countries is sovereignty without autonomy; for their voters, it means freedom without choice. The cumulative effect is to undermine collective action and thus efforts to address discontent.

Yet the report contends this is not inevitable; a response can and must be found. However, current institutions – even current mind-sets – are not well adapted to the task. Governments can work with markets to address issues such as the climate crisis or SDG financing to a certain extent, but public institutions at the national and international level require the power, legal authority and global legitimacy to ensure that social and environmental sustainability take priority over economic gain. Recent advances in international tax co-operation proves that this is possible, while the SDGs provide a roadmap for the progress that is needed over the next decade.

The challenges that the world confronts today are vast and require fundamental changes in attitudes and behaviours, as well as an unprecedented degree of international co-operation. Such transformations require new approaches to multilateralism that harness the collective intelligence and imagination of people around the world, and provide platforms where these voices can be heard and where disagreements can be resolved productively. They also need a broad and fundamental acceptance that change is needed and that collective action is possible. It is possible to detect evidence of both messages in the rise of discontent around the world; ultimately, rather than being something to assuage or repress, discontent might be a phenomenon for humanity to harness.

1 Discontent in an era of growth

This chapter charts the evolution of the global economy during the three decades prior to the COVID-19 pandemic and examines possible links to the rise in discontent around the world. It analyses four tendencies to explain why discontent has surged despite a prolonged period of economic growth in advanced and developing economies: rising inequalities, uneven progress in broader well-being indicators, changes in production that are putting pressure on large portions of the global labour force, and the worsening environmental crisis. These phenomena underline the importance of looking beyond gross domestic product when analysing sustainable development.

Introduction

Ceux qui ont dit que tout est bien ont dit une sottise : il fallait dire que tout est au mieux (Voltaire, 1759^[1])

This edition of *Perspectives on Global Development* is about discontent. The report examines the origins, manifestations and consequences of discontent globally and explores what can be done about it. As the term is applied in this report, discontent is neither unhappiness nor anger; rather, it is a mental state created by frustration, unmet aspirations and powerlessness. It is also a collective rather than individual phenomenon. Discontent is not a term commonly associated with economics; its psychological and communal implications are better suited to sociological or political analysis. Economic factors are nonetheless central to the causes and consequences of discontent.

This report demonstrates that discontent is on the rise across the world, in advanced and developing economies alike. This chapter examines the global economy prior to the coronavirus (COVID-19) pandemic to confront what looks at first glance to be a paradox. Why was discontent rising around the world when gross domestic product (GDP) and wealth were rising almost uninterruptedly in countries at all income levels, poverty rates had declined, and the gap between rich and poor countries was narrowing? This chapter identifies four keys that both unlock this paradox and underline the importance of looking beyond GDP: the inequalities and vulnerabilities that characterised the growth in income and wealth over the past 30 years; the uneven trends in broader well-being measures over the same period; the negative impact of new patterns of production and consumption on social cohesion and individual well-being; and the environmental damage that has put humanity's long-term survival at risk.

This report is written during the COVID-19 pandemic, which spread rapidly across the world during the first half of 2020 and continues to inflict a terrible human cost on a global scale in 2021. Much of the data in this chapter (and the rest of the report) pre-date the multiple crises triggered by the pandemic. While it is impossible to predict the long-term consequences of the pandemic, most developing economies are expected to take much longer to recover than advanced economies. Global poverty, unemployment and inequality have risen as a result of the pandemic, which has undone many of the gains in living standards achieved over the past three decades.

The world pre-COVID-19: The best of times?

Over the three decades before the COVID-19 pandemic, countries world wide witnessed sustained GDP growth. Between 1990 and 2018, average GDP per capita almost doubled from USD 8 975 to USD 15 941 (United States dollar) (Figure 1.1). GDP growth rates were positive for all country income groups every year, except for low-income countries in 1992 and high-income countries in 2009. A remarkable feature of this period is that global GDP growth owed more to low- and lower middle-income countries than to high-income countries, indicating convergence between developing and advanced economies. Moreover, as discussed below, the period was marked by a steady decline in global poverty rates and the emergence of middle classes globally.

It should be noted, however, the global financial crisis in 2008-09 changed the complexion of the global economy. Although growth resumed thereafter in advanced economies, it was reliant on monetary stimulus, which inflated asset prices and benefited the holders of capital; meanwhile, austerity policies implemented to control debt levels choked growth and weakened public services (OECD, 2016^[2]). The fates of Wall Street and Main Street diverged, exposing inequalities that did not go unnoticed. While developing countries weathered the storm, their growth prospects gradually weakened, policy space narrowed, and debt levels rose. As Kose and Ohnsorge (2019^[3]) note, emerging economies became more vulnerable to economic shocks than they were before the global financial crisis. The global economy was poorly prepared for the COVID-19 pandemic (Box 1.1).

Box 1.1. The COVID-19 pandemic will have long-term effects on developing countries

This report was written during the COVID-19 pandemic, which spread rapidly around the world during the first half of 2020 and continues in 2021. The worst global health crisis in a century has precipitated the worst global economic crisis since the Great Depression, perhaps longer. The pandemic is undoing some of the headline achievements of the global economy over the past 30 years while simultaneously exposing and exacerbating the associated structural weaknesses discussed in this chapter, in particular the inequalities within and between countries.

The global economy contracted by some 3.3% in 2020 (IMF, 2021^[4]). Advanced economies shrunk by 4.7% and emerging and developing economies by 2.2%; the People's Republic of China (hereafter, "China") was one of the few countries in the world whose economy grew in 2020. Latin America and the Caribbean was the most affected region; its economy contracted by an estimated 7.0%. Advanced economies were able to muster an unprecedented response to the crisis, accounting for the vast majority of the USD 16 trillion on fiscal policy actions announced globally up to the time of writing (IMF, 2021^[5]).

Output in advanced economies is expected to rebound to pre-crisis levels faster than some developing economies: advanced economies have received the vast majority of vaccines produced to date and fiscal policies implemented during the pandemic protected against long-term scarring. In general, developing countries were restricted to a much more limited fiscal response; most were constrained by high debt levels coming into the crisis, capital flight at the start of the crisis, and a sustained, significant fall in public revenues during the crisis. Concerns are growing of a divergent and asynchronous recovery between advanced and developing economies that would significantly increase global inequalities (IMF, 2021^[4]), (OECD, 2021^[6]).

The COVID-19 pandemic has reversed recent progress in reducing extreme poverty. According to World Bank estimates in January 2021, between 119 and 124 million people fell into extreme poverty in 2020, with South Asia accounting for approximately half of those newly in poverty (Lakner et al., 2021^[7]). This represents the first global increase in extreme poverty since 1998. Using the USD 5.50 per day poverty line, the same estimates calculated an increase in poverty attributable to COVID-19 of between 202 and 210 million people. The combination of economic slowdown and public health measures has had a profound impact on access to work: according to the International Labour Organization (ILO) (2021^[8]), there was an 8.8% reduction in global hours worked, equivalent to 255 million jobs. The ILO expects that the effects of the pandemic will continue to weigh on job numbers into 2022 (ILO, 2021^[9]).

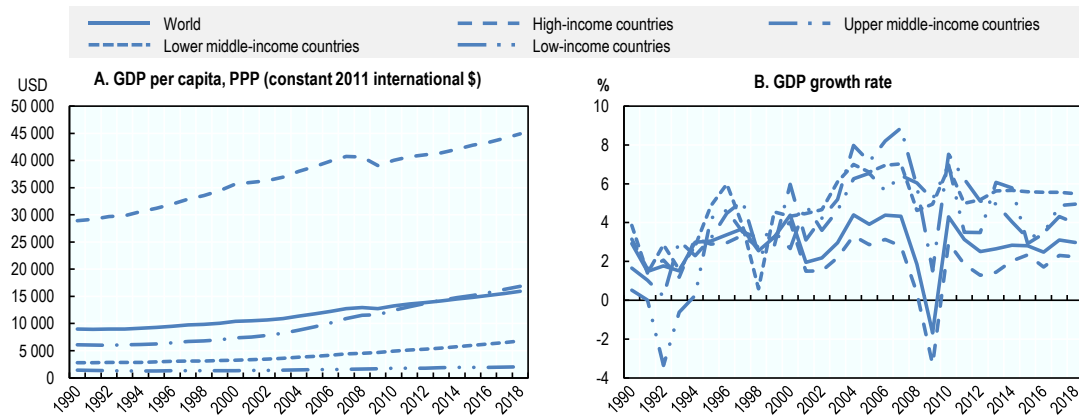
The pandemic is also expected to set back progress on a wide number of development indicators. For example, COVID-19 increased the number of malnourished people by between 83 and 132 million (FAO et al., 2020^[10]). The impact on children's education was unprecedented: temporary closures kept approximately 1.6 billion students out of school in 2020, causing the proportion of primary school children in learning poverty to increase to above 50% world wide (Azevedo, 2020^[11]). This will have long-term consequences for children's learning, with knock-on effects on their labour market prospects.

Inequality across a wide number of dimensions is expected to worsen as a result of the pandemic. In broad terms, the better-off have been relatively unaffected by the pandemic: they are in jobs that allow them to work remotely, their children are in schools that provide remote learning, and they enjoy the Internet access essential for both. They also have access to health systems and social protection mechanisms if they do fall sick or lose their jobs. Meanwhile, there are large portions of the global population that are unable to work or learn remotely and whose day-to-day subsistence is threatened by lockdown measures. There is a considerable risk that these inequalities will persist long after the pandemic is under control.

The period from 1990 to 2018 coincided with an intensification of globalisation, broadly defined as the expansion of economic and social relations between countries. Increased trade and a diffusion of global

production reinforced income gains by lowering the cost of many goods, especially those produced in China. The effect has benefited consumers everywhere, but low-income individuals benefited particularly from the decline in prices of tradable goods (Fajgelbaum and Khandelwal, 2014^[12]).

Figure 1.1. Global economic growth rates, 1990-2018

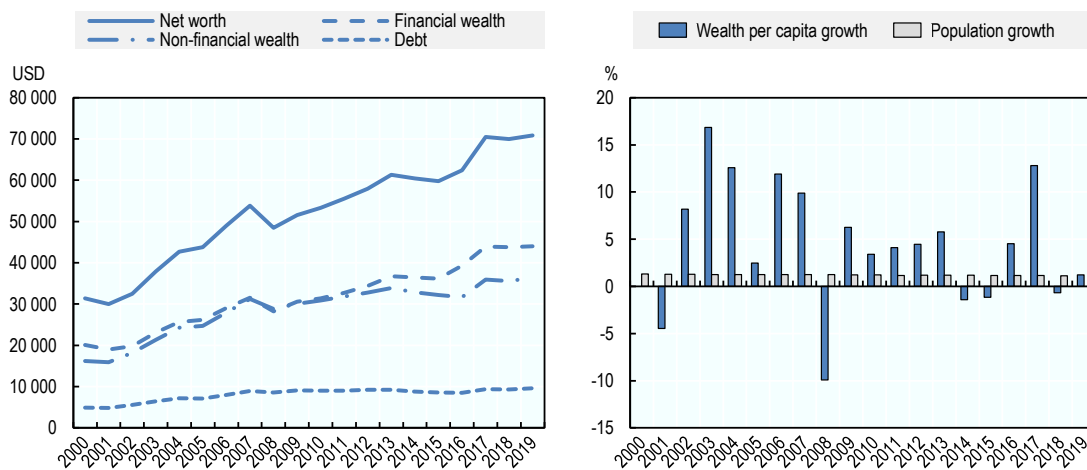


Source: World Bank (2020^[13]), *World Bank Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

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Recent decades have also been a time of unprecedented wealth creation. Between 2000 and 2019, aggregate global wealth per adult rose by 125% from about USD 31 400 to USD 70 840, with an average annual growth rate of 4.5%, far exceeding population growth (Figure 1.2). Wealth increased continuously during this period, except in 2009. After this point, a slightly higher proportion of people’s wealth consisted of financial assets, which recovered faster from the global financial crisis than non-financial wealth.

Figure 1.2. Global trends in wealth creation, 2000-19

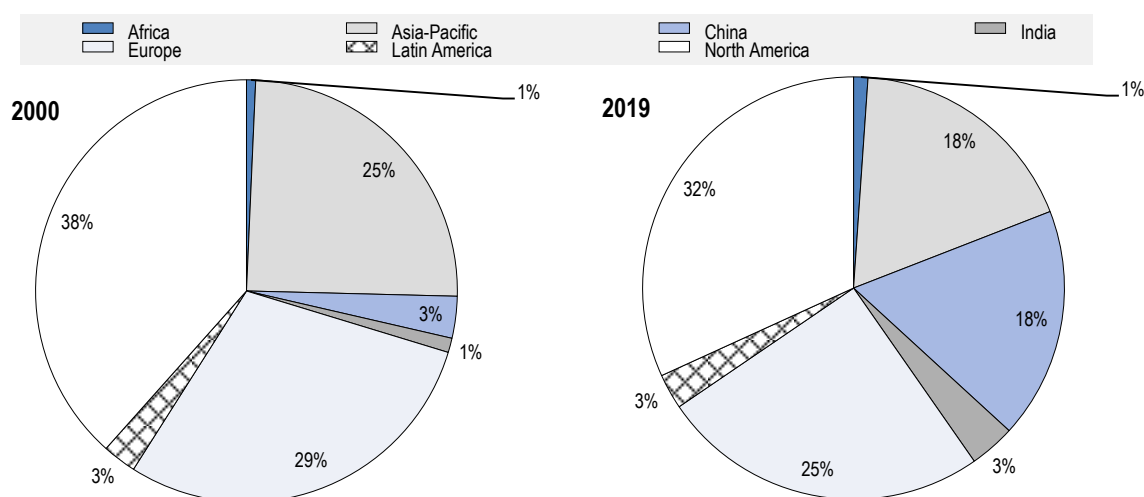


Source: Credit Suisse Research Institute (2019^[14]), *Global wealth databook 2019*, www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/global-wealth-databook-2019.pdf; World Bank (2020^[13]), *World Bank Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

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A new geography of wealth creation has emerged, marked by the growing prominence of Asian countries. There has been a relative shift of wealth from America and Europe to Asia (Figure 1.3), which has been a central theme of previous editions of this report, starting with 2010 (OECD, 2010^[15]). Wealth creation has been particularly strong in China and India. Between 2000 and 2019, North America's share of global wealth declined from 38% to 32% and Europe's share from 29% to 25%. By contrast, China's and India's share of global wealth increased from 3% to 18% and from 1% to 3%, respectively.

Figure 1.3. Wealth share by region in 2000 and 2019



Source: Credit Suisse Research Institute (2019^[14]), *Global wealth databook 2019*, www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/global-wealth-databook-2019.pdf.

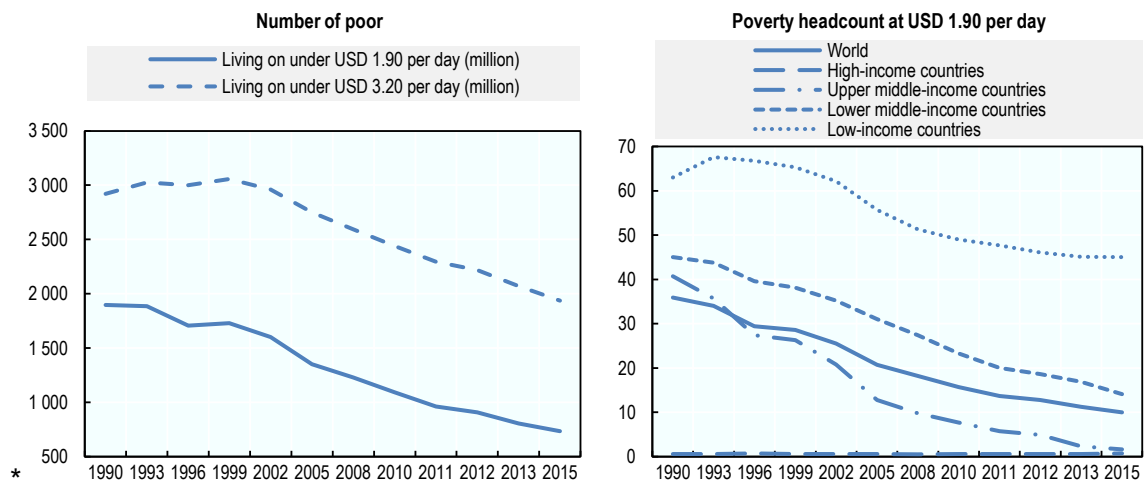
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The geographical distribution of income has also shifted in favour of Asian countries, at the relative expense of Europe, Latin America and the Middle East. In 1990, China and India were hardly present in the global top 10% of global income earners; by 2016, they represented a substantial share not only of the top 10% but also of the top 1%. North America remains the region with the largest proportion of ultra-high-net-worth individuals.

Extreme poverty has declined, but not everyone is satisfied

The three decades prior to the COVID-19 crisis witnessed a large decline in the proportion of the global population in extreme poverty. The global extreme poverty rate declined from 36% in 1990 to 10% in 2015 (Figure 1.4). The decline in poverty was particularly large in middle-income countries, largely China and India, although some 62% of the world's extreme poor live in middle-income countries (World Bank, 2020^[16]). In low-income countries, poverty has declined but remains widespread (Piketty, Saez and Alvaredo, 2018^[17]).

Figure 1.4. Global trends in poverty reduction, 1990-2015



Source: Authors' calculations based on World Bank (2020^[13]), *World Bank Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934252549>

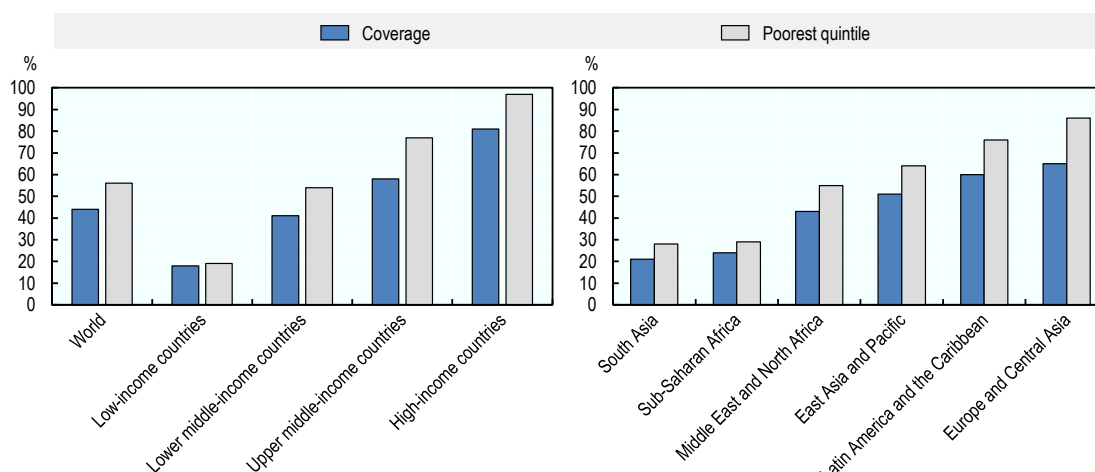
The decline in poverty, often hailed as a central achievement of globalisation over the past 30 years, is not universally acclaimed. Philip Alston, a United Nations rapporteur on extreme poverty and human rights, questioned the adequacy of the global poverty measure of USD 1.90 per day, saying it was “scandalously unambitious” and reflects “a staggeringly low standard of living, well below any reasonable conception of a life with dignity” (Alston, 2020^[18]). He said the benchmark hid the true extent of global poverty: using the poverty line for upper middle-income countries of USD 5.50 per day, poverty has hardly declined since 1990.

Combining absolute poverty data with a relative poverty indicator for a more welfarist approach to poverty reinforces this less positive analysis. This approach, used by Ravallion (2019^[19]), generates a much higher number of people living in poverty globally: while the World Bank calculated that 10% of the global population was in poverty in 2014, this study calculates the number to be above 30%, or more than 2 billion people. In developing countries, the number of individuals in absolute poverty declined between 1990 and 2014, but the number living in relative poverty increased.

The majority of individuals who have left extreme poverty over the past 30 years are at great risk of falling back. According to Edward and Sumner, this “vulnerable” cohort has grown by 1.6 billion people in the past 30 years. A key factor behind their vulnerability is low social protection coverage, particularly in developing countries (Edward and Sumner, 2017^[20]). Less than half the world’s population was covered by one or more social protection programmes before the crisis; in low-income countries, this stood at below 20% (Figure 1.5). In high-income countries, coverage is almost universal for the poorest quintile. Regional analysis shows the largest coverage gaps in South Asia and sub-Saharan Africa.

As Chapter 4 explains, the COVID-19 pandemic exposed the size of the vulnerable population globally and prompted an unprecedented scale-up in social protection in almost every country (Gentilini et al., 2021^[21]). However, the majority of these emergency interventions were timebound, lasting four months on average, as developing countries struggled with the impact of the crisis on their public finances. While the pandemic has demonstrated the importance of universal social protection coverage, it is far from clear whether such an outcome will be a legacy of COVID-19.

Figure 1.5. Share of total population and the poorest quintile with access to social protection



Note: Aggregated indicators are calculated using simple averages of country-level social protection and labour coverage rates across regions. This figure underestimates total social protection and labour coverage because household surveys do not include all programmes that exist in each country. The poorest quintile is calculated using per capita pre-transfer welfare.

Source: World Bank (2020^[22]), *ASPIRE: The Atlas of Social Protection Indicators of Resilience and Equity* (database), www.worldbank.org/en/data/datatopics/aspire; World Bank (2018^[23]), *The State of Social Safety Nets 2018*, <http://dx.doi.org/10.1596/978-1-4648-1254-5>.

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Middle classes have emerged globally but their prospects are uncertain

Another success story of globalisation is the emergence of middle classes around the world. This is not the same as a “global middle class”, a term that would imply that the middle class in every country – regardless of country income level – enjoys the same level of income and security. However, the aspirations implied by middle-class status (and the frustration that emerges when these aspirations are not realised) are an important driver of discontent the world over, as Chapter discusses.

In 2018, more than 50% of the global population was classified as middle class, a phenomenon driven by the success of developing countries in reducing poverty (Kharas and Hamel, 2018^[24]). Asia has accounted for the majority of growth in middle classes globally, with particularly strong gains in China and India, as well as a growing contribution from Southeast Asia (World Bank, 2018^[25]). The middle class in Latin America grew from 21.1% to 35.4% of the population between 2000 and 2015, although it had started to shrink even before the COVID-19 pandemic (OECD/CAF/ECLAC/EU, 2019^[26]). Africa’s middle class increased from 108 million people in 1990 to 247 million by 2013 (AUC/OECD, 2019^[27]). Trends varied in the Middle East during the first decade of the 2000s: the middle class grew strongly in Syria and Tunisia but shrunk in Egypt and Yemen (Dang and Ianchovichina, 2016^[28]).

Ravallion captures the vulnerability of the emerging middle classes (2010^[29]). He calculates that 1.2 billion people joined the middle class (measured in income terms) in developing countries between 1990 and 2005, 80% of whom came from Asia and half from China alone. However, he recognises that “middle class” in the context of developing countries bears no relation to how the term is applied in advanced economies and that it has different implications even across developing countries: only 100 million of the 1.2 billion would be classified as non-poor in every developing country. The COVID-19 pandemic has exposed these vulnerabilities: 41% of Latin America’s population was classified as middle income in 2019; in 2020, this proportion fell to 37% (ECLAC, 2021^[30]).

Meanwhile, the middle class in advanced economies has been shrinking. The middle class has shrunk in most OECD countries, amid meagre income growth, rising living costs and increasingly vulnerable employment (OECD, 2019^[31]). Social mobility has also declined, with middle-class children less likely to

achieve the same standard of living as their parents, much less exceed it. While almost 70% of baby boomers were part of middle-income households in their twenties, only 60% of millennials are today.

These diverse trends are captured by the “elephant curve” in Milanovic (2016^[32]), which displays strong relative consumption growth between 1988 and 2008 for the first seven deciles of the global income distribution, a sharp decline in relative gains between the seventh and ninth deciles, then strong growth in the tenth. Edward and Sumner calculate that there are 2.2 billion people earning above USD 10 per day; among this number, the consumption of 400 million people in China and the 700 million people in the world’s richest decile has grown strongly, but gains in consumption have been below the global average for the remaining 1.1 billion (2017^[20]).

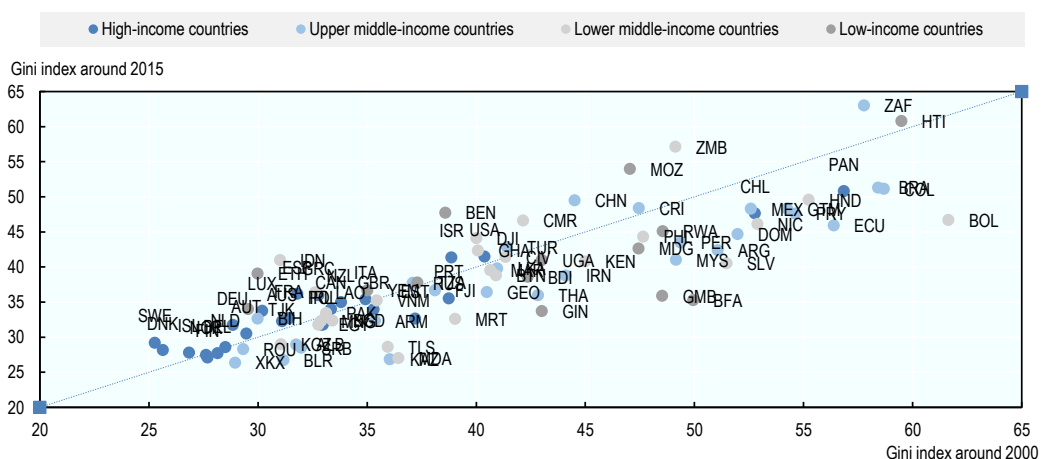
Gains in income and wealth have not been equally shared

The first key to understanding discontent in a time of plenty is that the gains in income and wealth identified have not been shared equally, either within or between countries. Within-country income inequality has risen in many countries, particularly among advanced economies, and remains high in a number of developing countries. It is an important component of the broader inequalities identified later in the report as a key factor behind rising discontent, weakening social cohesion and political upheaval. While there has been convergence in terms of the global income distribution and a decline in between-country inequality since 1990, China’s emergence has been by far the largest factor in both phenomena; many developing economies remain far behind advanced economies.

Large income inequalities are emerging within countries

Income inequality across the population as a whole has increased in a number of countries that experienced rapid economic growth. Between 2000 and 2015, income inequality as measured by the Gini index¹ increased considerably in a number of advanced economies, albeit from relatively low levels. It also increased in some developing countries, notably China and India (Figure 1.6). Income inequality declined in many middle-income countries in Latin America, although there is evidence that it started to increase after 2015 (OECD/CAF/ECLAC/EU, 2019^[26]).

Figure 1.6. Income inequality in 2000 and 2015

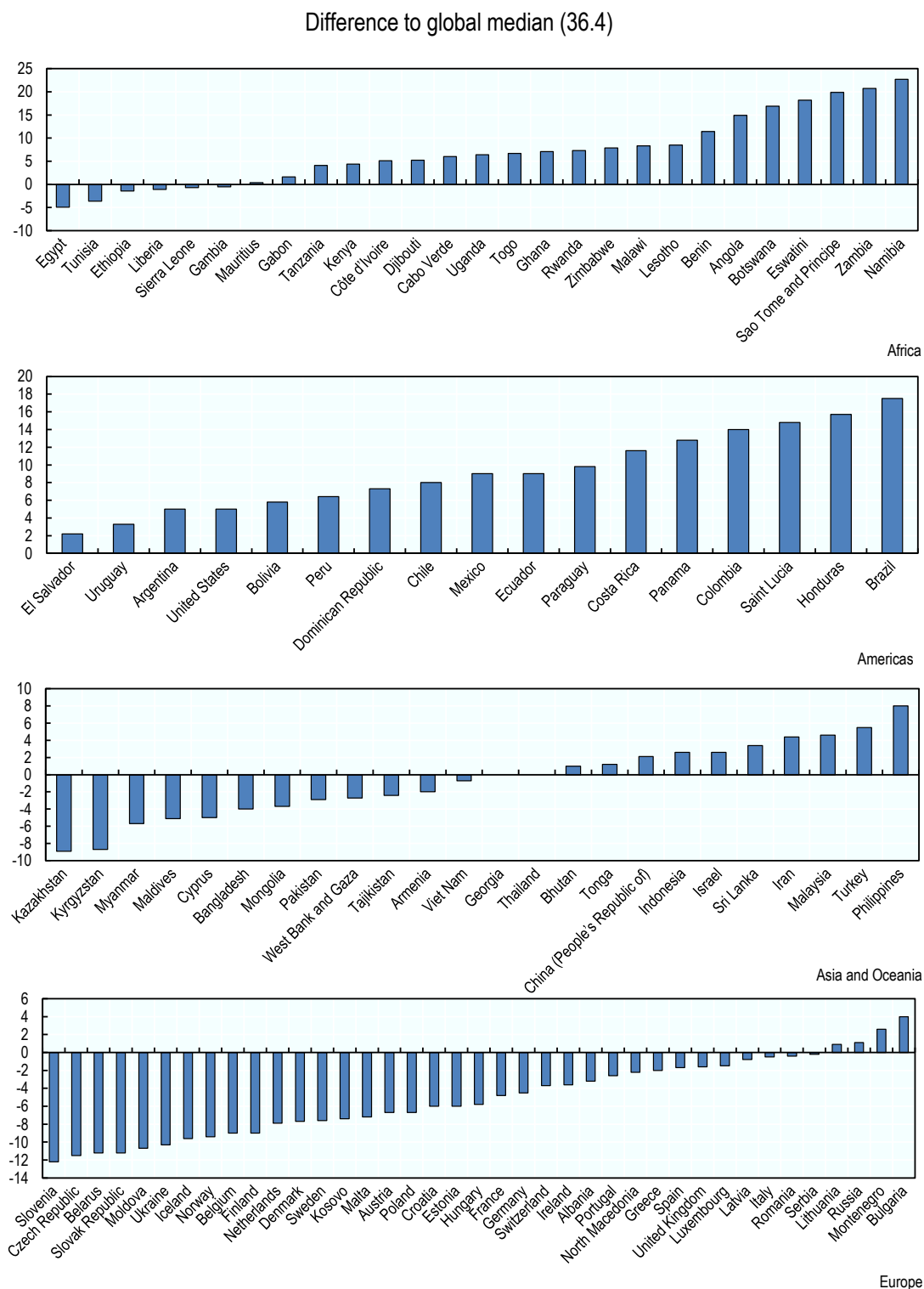


Note: Countries are only shown where comparable surveys falling within three years of each reference year were available.

Source: Authors' calculations based on Our World in Data (2020^[33]), *Our World in Data*, <https://ourworldindata.org/>.

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Figure 1.7. Relative income inequality (Gini index) by region



Note: The latest data available are from 2015 to 2018 and the median is based on 107 countries.

Source: Authors' calculations based on World Bank (2020^[13]), *World Bank Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

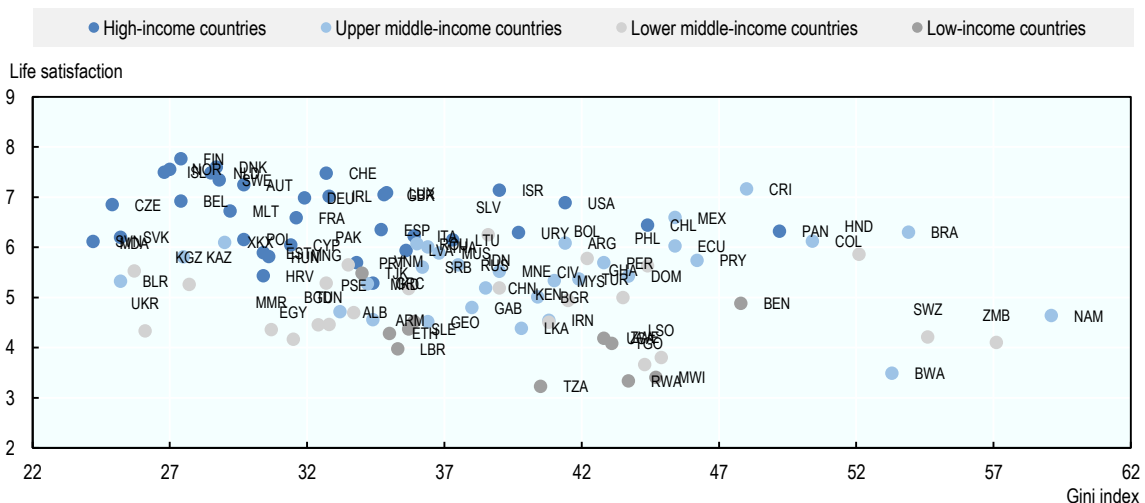
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There are clear discrepancies in inequality among regions. The most unequal region is the Americas, where all countries in the sample below have higher Gini than the global median. Income inequality is also above the global median in most countries in sub-Saharan Africa but is more heterogeneous in Asia and Oceania (Figure 1.7). While inequality in almost all European countries is below the global median, the upwards trajectory is of concern.

Income growth and wealth creation have been concentrated among a relatively small group globally. Overall, it is estimated that today 82% of the global wealth belongs to the top 10% richest individuals, while less than 1% is in the hands of the lower half of the world population (Credit Suisse Research Institute, 2019^[34]). Between 1990 and 2015, the income share of the global top 1% increased from 18% to 20%, with a peak at 22% in 2006 and 2007, while that of the bottom 50% has stagnated at around 9% (Piketty, Saez and Alvaredo, 2018^[17]).

Income inequality tends to have a negative effect on life satisfaction. People in less equal countries (in terms of income) tend to be less satisfied with their lives (Figure 1.8). However, the channels through which inequality leads to discontent at a collective level are complex, as Chapter 3 explains.

Figure 1.8. Life satisfaction and inequality



Note: Life satisfaction is a self-reported indicator. People are asked to rate their lives on a ladder scale from 0 (not satisfied) to 10 (completely satisfied). To calculate global trends by region and by income group, population-weighted averages are used.

Source: Authors' calculations based on Gallup (2020^[35]), Gallup Analytics (database), www.gallup.com/analytics/213617/gallup-analytics.aspx; World Bank (2020^[13]), World Bank Indicators (database), <https://databank.worldbank.org/source/world-development-indicators>.

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Variations in economic productivity across regions are an important contributor to within-country inequality. The OECD demonstrates that “two thirds of OECD countries have regions where productivity, a proxy for wages and economic prosperity, have stagnated or declined for a decade” and that “economic gaps across small regions have ... almost constantly increased since 2000, reflecting both an increasing concentration of economic activities in cities and the difficulties of small remote regions to keep pace with the national frontier” (2020^[36]). The OECD calculates that “one in four persons in the OECD lives in a region that is falling further behind the high-productivity regions in their country” (2016^[37]). According to the OECD, “[on] average, productivity in the least productive region of a country is 46% lower than productivity in its most productive region” (2019^[38]). Box 1.2 examines fluctuating regional fortunes in China in recent decades and outlines how the government has responded.

The OECD also finds that “in one-third of OECD countries, productivity growth has been concentrated in a single, already highly productive, region that is usually home to the country’s largest city” (2019^[38]). Although the story is much more complicated than an urban-rural divide, rural areas across the OECD are lagging. According to the OECD, “[in] 2017, GDP per capita in rural regions was 13 percentage points (p.p.) below the average, 16 p.p. lower in labour productivity levels and 8 p.p. lower in employment rates. Rural regions, especially those far from cities, have felt the effects of the 2008 global financial crisis more strongly, leaving many of them in a vulnerable position” (2020^[39]). The report notes the demographic pressures facing rural regions, whose populations are ageing and getting smaller.

There are also significant inequalities between different groups within countries. An obvious example is the gender pay gap, which stands at 13% in the OECD and 20% across the world (OECD, 2019^[40]). Pay gaps are driven by structural factors including horizontal and vertical segregation in the labour force; Chapter 3 examines the gender-based structural inequalities – and the discontent these generate – in greater detail.

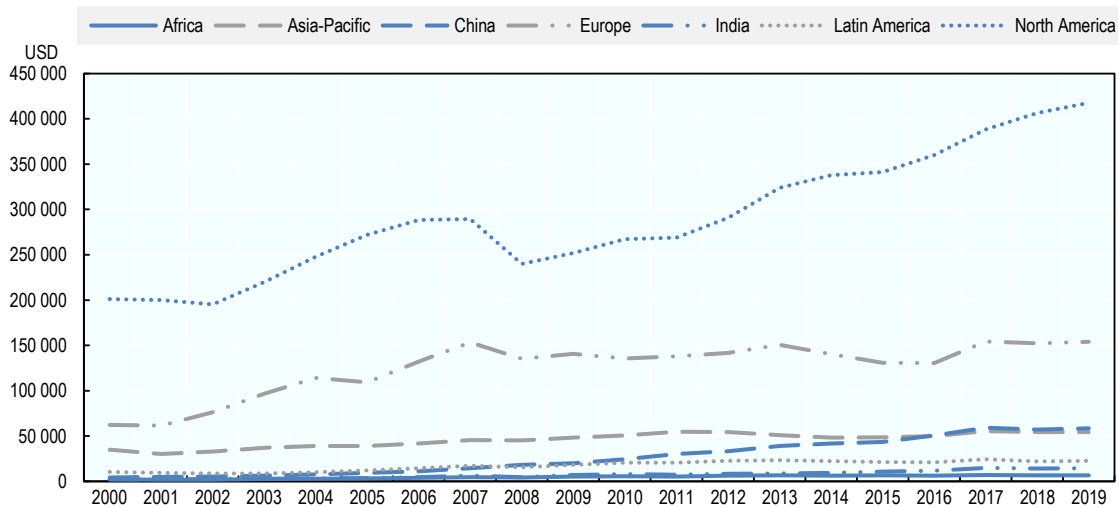
China accounts for the majority of the decline in between-country inequality

Between-country inequality declined between 1988 and 2013 (World Bank, 2016^[41]). However, this global convergence was driven principally by income growth in India and (especially) China: due to the size of their populations, rising household incomes in these countries have a major impact on the global income distribution. As Edward and Sumner argue, “between-country changes are so dominated by China’s rise that the fall in global inequality largely evaporates once China is excluded from analysis” (2017^[20]). It is nonetheless important to note that China’s Gini coefficient increased from around 0.30 in the early 1980s to 0.49 in 2008 before declining (NBSC, 2017^[42]; OECD, 2019^[43]; Sicular, 2013^[44]).

Income inequalities between countries remain very large. In 2018, among the sample of 187 countries for which data are available, GDP per capita in the richest country (Qatar) was 170 times higher than in the poorest country (Burundi). Using the global median GDP (equivalent to USD 12 316 in 2011 prices) as a benchmark, Africa stands out as the poorest region, with most countries far below the world median. By contrast, Europe appears the richest region, while in the Americas and Asia and Pacific regions, there are both relatively very rich and poor countries.

In 2019, the top ten wealthiest countries were found in Western Europe, North America and the Asia Pacific region, while the poorest nations were all in the Africa region and Haiti in the Americas. In Switzerland, the richest country in 2019, wealth per adult was 1 058 times higher than in Sudan, the poorest country. Looking at the evolution of wealth per adult since 2000 shows a diverging trend, with per capita wealth growing fastest in North America (Figure 1.9).

Figure 1.9. Global trends in wealth per adult by region, 2000-19



Source: Credit Suisse Research Institute (2019^[14]), *Global wealth databook 2019*, www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/global-wealth-databook-2019.pdf.

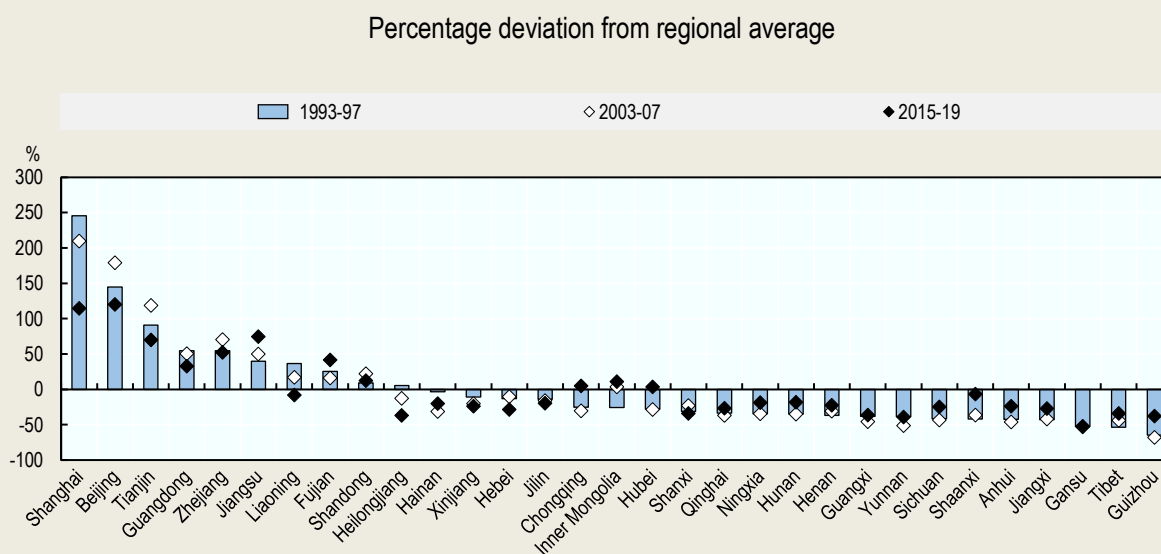
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Box 1.2. Regional inequality and government responses in China

China's economy has expanded dramatically since opening up in the 1980s, with average annual GDP growth of 9% to 10% in the three decades before 2020. This was accompanied by rising inequality, both for the population as a whole and across regions. Under Deng Xiaoping's slogan "Let some people get rich first", a principle akin to trickle-down economics, some regions benefited disproportionately from government initiatives such as Special Economic Zones and from trade liberalisation, attracting large amounts of domestic and foreign investments and human resources while leaving other regions behind. Nineteen out of 31 regions in mainland China showed widening gaps with the regional average in terms of gross regional product (GRP) per capita from 1993-97 to 2003-07 (Figure 1.10).

While the gaps have narrowed since then, the number of regions below the average (20) exceed those above (11), a ratio that has barely changed since the early 1990s. GRP per capita for the richest region is almost five times as large as that for the poorest region. Inequality of regional income has also contributed to disparities in the quality of public services, such as health care and education, as well as coverage of social security, between wealthier coastal provinces and centrally administered municipalities and less developed inland provinces and autonomous regions (IBRD/IFC/MIGA, 2019^[45]).

Figure 1.10. Evolution of GRP per capita in China (five-year average), 1993-97, 2003-07 and 2015-19



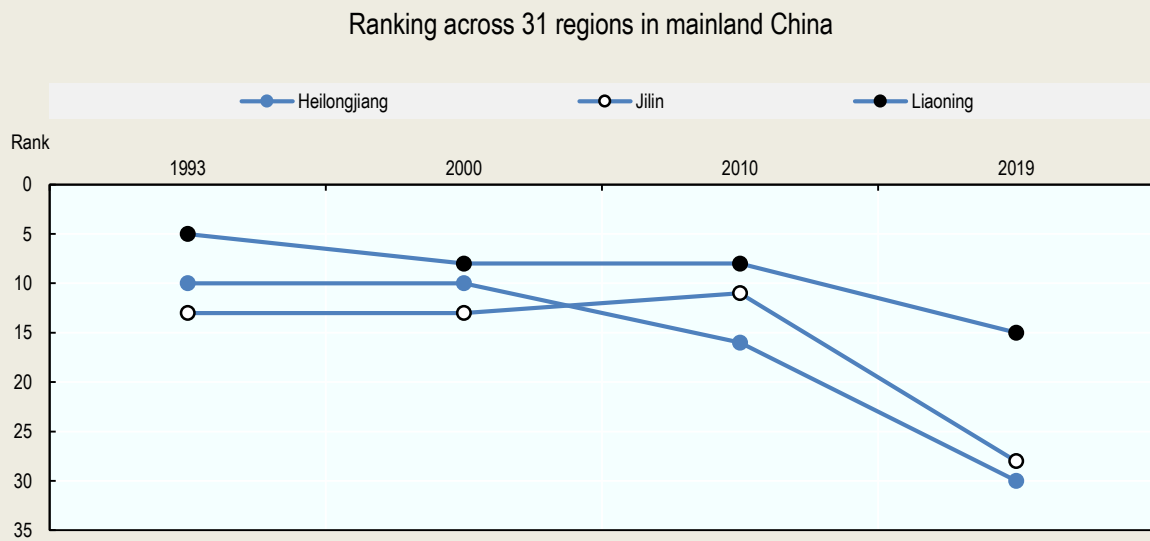
Source: Authors' calculations based on national data from NBSC (2020^[46]), *Statistical Data* (database), www.stats.gov.cn/.

StatLink  <https://doi.org/10.1787/888934252663>

Studies have identified a number of drivers of regional inequality in China. Using data from the 1950s to 2000, Kanbur and Zhang concluded that regional inequality, modelled as inland-coastal inequality, was mainly driven by three factors: decentralisation, trade and heavy industry (2005^[47]). Fiscal decentralisation (notably after 1984) allowed local governments greater freedom to raise revenues and finance economic development, which benefits regions with a more diverse economic structure and a larger revenue base (mainly coastal regions) while hindering development of regions relying on agriculture or a single industry. Trade liberalisation, especially since China opened up to global markets after joining the World Trade Organization (WTO) in 2001, has also benefited coastal provinces disproportionately due to their geographical advantages and preferential policies from the central government.

Heavy industries, which were mostly based in inland provinces such as the rust belt of Heilongjiang, Jilin and Liaoning, helped reduce regional inequality before 1979. However, this resulted in these inland provinces relying almost solely on military and heavy industries for their economies; their prospects deteriorated as liberalisation and the end of the Cold War prompted a shift of national focus to light manufacturing and trade. All three rust-belt provinces dropped significantly in the ranking of regional income since 1993 (Figure 1.11). Huang and Chen found that certain types of central government transfer payments could be anti-equalising, for example tax rebates, where regions with higher budgetary revenues obtain more, and specific-purpose transfers, where allocation is not rule-based and can be subject to political influence (2012^[48]).

Figure 1.11. Ranking of GRP per capita for China's rust-belt provinces, 1993-2019

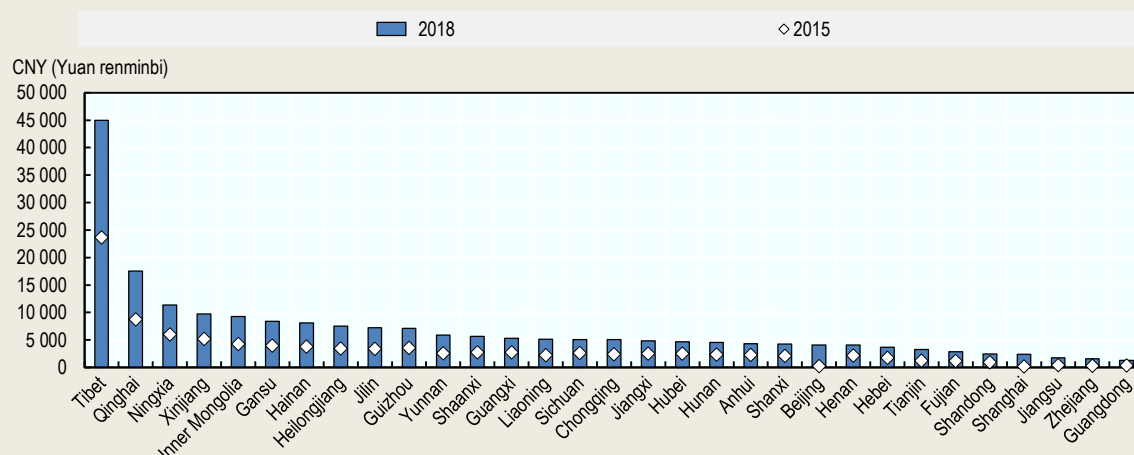


Source: NBSC (2020^[46]), *Statistical Data* (database), www.stats.gov.cn/.

StatLink  <https://doi.org/10.1787/888934252682>

To address inequality, the government of China has adopted a variety of measures, including progressive income tax reform, raising minimum wages, supporting rural development and farmers, expanding social security coverage, supporting less developed regions, enacting poverty-reduction policies and promoting financial inclusion (Jain-Chandra et al., 2018^[49]). Some of these measures aim to reduce inequality nationally, while others are more closely linked to reducing spatial inequality between rich coastal regions and lagging inland regions. For example, the 2000 Western Development Strategy was specifically designed to support the development of China's western regions, including six inland provinces, five autonomous regions and the centrally administered city of Chongqing, through subsidies to infrastructure development, preferential policies for domestic and foreign investment, and increased central government transfers. In addition, general-purpose transfer payments from central to local governments, which aim to equalise basic government incomes across regions, have increased substantially in recent years, from less than 50% of total government transfer payments before 2010 to 90% in 2019 (MOF, 2010^[50]; 2019^[51]). The largest beneficiaries of general-purpose transfer payments are inland provinces and ethnic autonomous regions (Figure 1.12).

Figure 1.12. General-purpose transfer payments per capita from central to local governments in China, 2015 and 2018



Note: There are different types of central government transfers in China. The general-purpose transfer payment is designed to equalise basic government incomes across regions and can be used freely by local governments. Other central transfers include transfer payments for specific purposes (for example, covering costs of implementing certain central policies), transfer payments for local government funds, transfer payments for local state-owned enterprises, tax rebates, etc.

Source: Authors' calculations based on national data from MOF (2020^[52]), "Central government budget", *Central Budget and Final Accounts Public Platform* (database), www.mof.gov.cn/zyjysgkpt/zyzfjys/zyys/; NBSC (2020^[46]), *Statistical Data* (database), www.stats.gov.cn/.

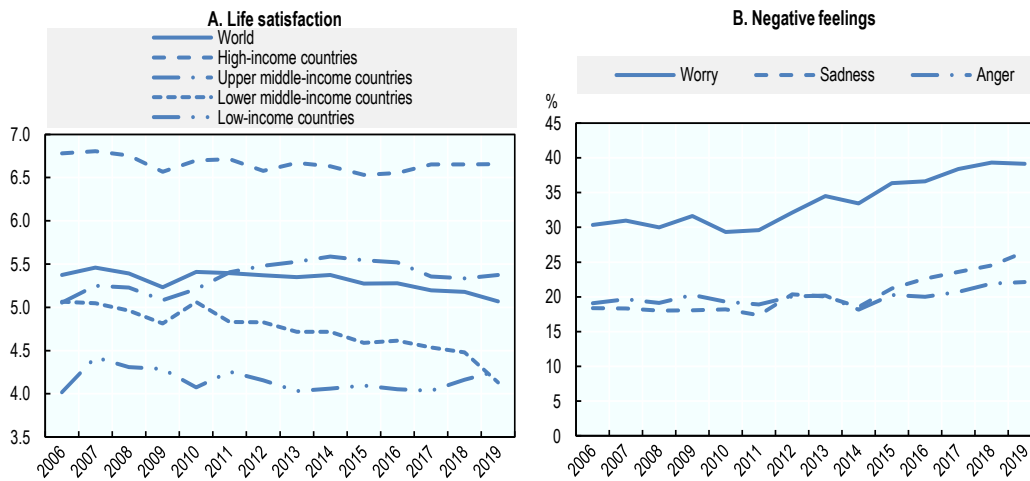
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Not all well-being indicators have kept pace with income growth

Rising discontent during a period of sustained economic growth underscores the need to look beyond GDP. People's living standards are determined by a broad range of factors that are captured by the OECD well-being framework and other multi-dimensional welfare indicators. These elements include health, housing, life satisfaction, the quality of the environment, social connections, the quality of work, work-life balance, safety, and knowledge and skills (OECD, 2020^[53]). Policies and strategies that specifically aim to achieve improvements across all these metrics are essential for sustainable and inclusive development (OECD, 2019^[54]). To reflect the critical importance of environmental issues, the United Nations Development Programme's *Human Development Report 2020* introduced the Planetary pressures-adjusted Human Development Index, which takes into account countries' carbon dioxide (CO₂) emissions and material footprint (UNDP, 2020^[55]).

A well-being indicator of particular relevance for this report is life satisfaction, which declined globally between 2006 and 2018, albeit with regional variations (Figure 1.13A). The global decline during this period was in large part driven by lower middle-income countries; life satisfaction declined sharply in this group after 2010. Over the same period, there was a sharp rise in negative feelings of anger, sadness and worry world wide: almost 40% of people reported feeling worried in 2018, up from 30% in 2006 (Figure 1.13B). However, saying that people are discontent because they are not satisfied with their lives does not advance our argument; other well-being indicators must be examined to find the cause of this dissatisfaction. As with measures of income and wealth, it is necessary to look beneath aggregate data.

Figure 1.13. Global trends in life satisfaction and negative feelings, 2006-19



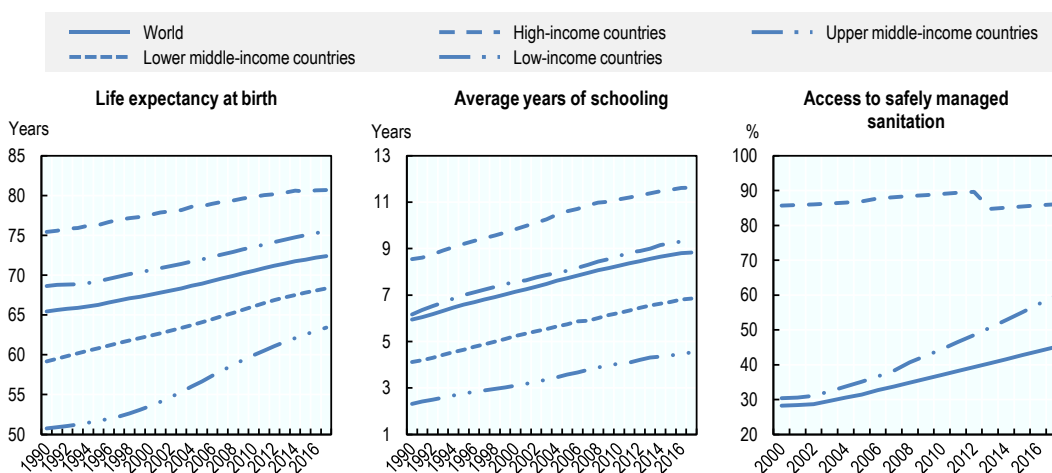
Note: Life satisfaction is a self-reported indicator. People are asked to rate their lives on a ladder scale from 0 (not satisfied) to 10 (completely satisfied). To calculate global trends by region and income group, population-weighted averages are used. Worry, sadness and anger correspond to the question of whether respondents experienced such feelings within the past 24 hours.

Source: Gallup (2020^[35]), *Gallup Analytics* (database), www.gallup.com/analytics/213617/gallup-analytics.aspx.

StatLink  <https://doi.org/10.1787/888934252720>

Many well-being indicators have improved globally over the past three decades. Between 1990 and 2017, there have been significant increases in life expectancy, average years of schooling and access to improved sanitation facilities in countries at all income levels (Figure 1.14). A key factor behind these improvements was an expansion of fiscal space in developing countries, which financed a substantial increase in public spending per capita even in contexts of rapid population growth. Increases in public revenues have outpaced economic growth, leading to increases in tax-to-GDP ratios across developing regions: the average tax-to-GDP ratio for Latin America rose from 15.9% in 1990 to 23.1% in 2018, while for Africa, it rose from 13.1% to 16.5% over the same period (OECD/AUC/ATAF, 2020^[56]).

Figure 1.14. Global trends in key well-being indicators, 1990-2017

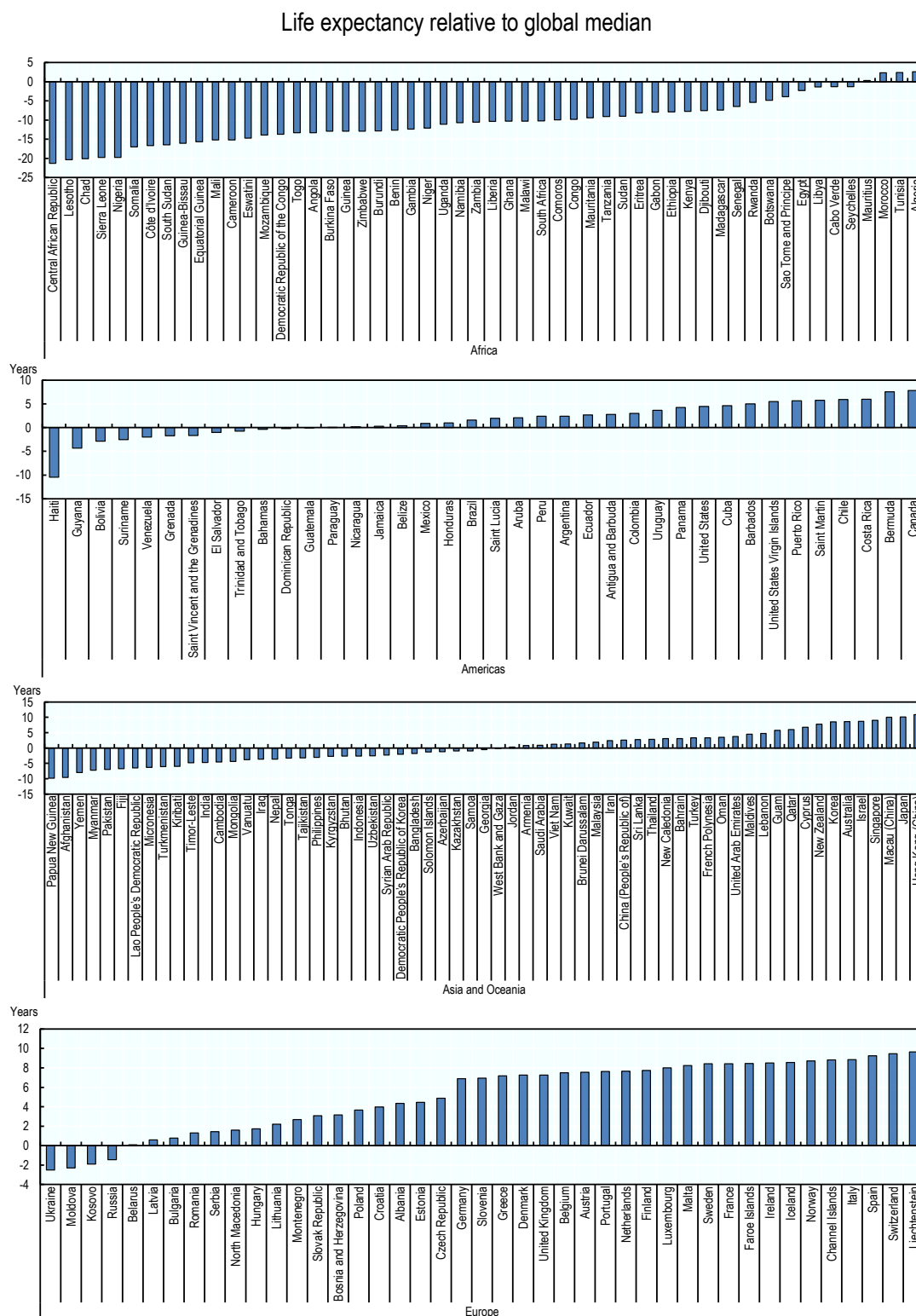


Note: No aggregated data for access to safely managed sanitation are available for lower middle-income and low-income groups.

Source: Authors' calculations based on World Bank (2020^[13]), *World Bank Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934252739>

Figure 1.15. Relative life expectancy at birth by region, 2018



Note: The median global life expectancy is 74.1 years.

Source: Authors' calculations based on World Bank (2020_[13]), *World Bank Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

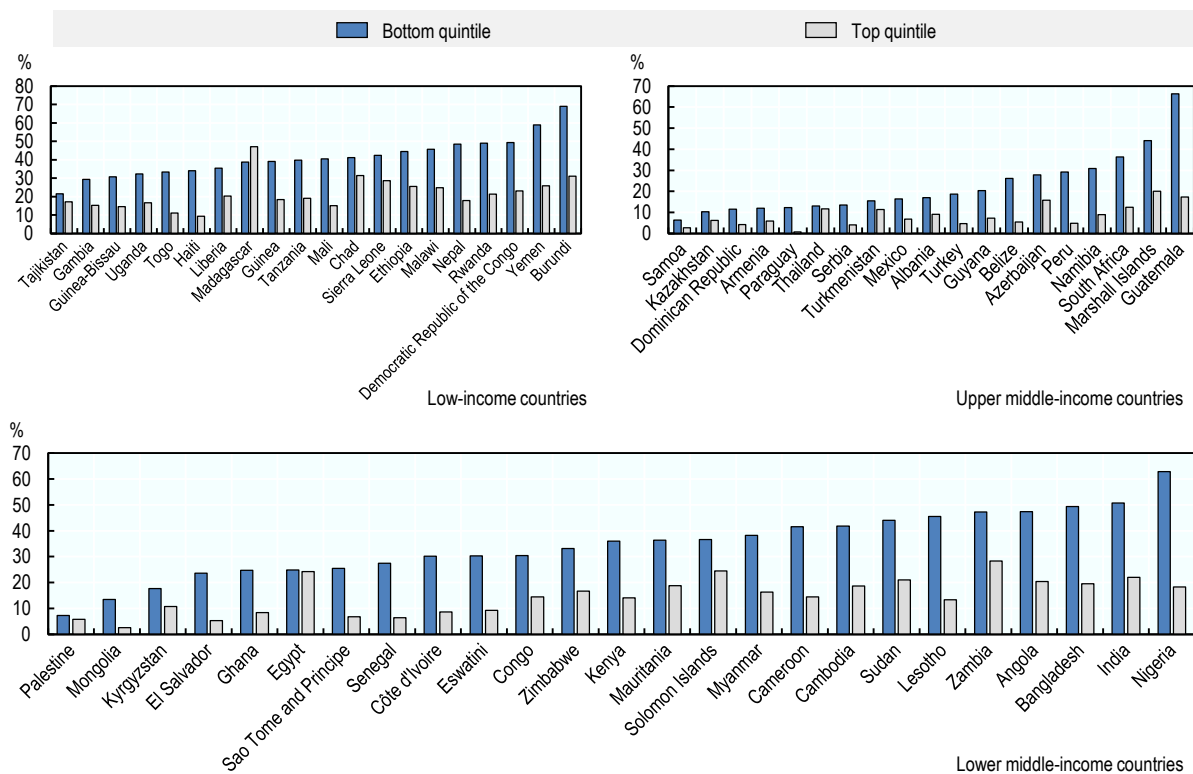
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Large inequalities in the quality of life exist across countries. For example, while the last three decades witnessed a great improvement in global health outcomes, particularly among low-income countries, inequality of life expectancy is still large across regions and countries (Figure 1.15). In 2018, average life expectancy ranged from 53 years in the Central African Republic to 83 years in Japan and Hong Kong, China.

There tend to be large inequalities in well-being within countries. For example, children in poor households have a much higher rate of stunting than those in rich households across developing countries in different income groups (Figure 1.16). The gap tends to be larger in both low-income and lower middle-income countries than in upper middle-income countries, where it is more extreme in countries with high levels of income inequality. Stunting reinforces inequalities by reducing the physical and cognitive development of children and thus reducing their capacity in adult life.

There are also regional dimensions to within-country inequalities. Using a composite well-being indicator for 26 OECD countries that combines income, unemployment and health, Veneri and Murtin show that regional disparities in multi-dimensional living standards are higher than for income alone (2016^[57]). According to Brezzi and Diaz Ramirez, as much as 40% of the explained variation of OECD residents' self-reported life satisfaction can be accounted for by regional characteristics and 60% by individual characteristics (2016^[58]).

Figure 1.16. Stunting rate comparison between the bottom and top income quintiles



Note: Latest year available, 2013-17.

Source: Authors' calculations based on World Bank (2020^[13]), World Bank Indicators (database), <https://databank.worldbank.org/source/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934252777>

Certain well-being indicators worsened in the decade preceding the COVID-19 pandemic, most notably those related to nutrition. The number and rate of people who were malnourished increased between 2014 and 2019 in all developing regions except the Middle East and North Africa (FAO, 2020^[59]). Close to 2 billion people were moderately food insecure in 2019. As Badie points out, the failure of governments and the international system as a whole to ensure that the global population has access to sufficient food at a time of unprecedented wealth weakens the legitimacy of local, national and global institutions alike (2020^[60]). As much as 17% of total global food production went to waste in 2019 (UNEP, 2021^[61]).

Slow progress towards achieving the United Nations Sustainable Development Goals (SDGs) demonstrates the distance from achieving an adequate standard of living for the global population. To analyse the trajectory of well-being indicators, it is necessary to consider not only the historical level but also the desired objective. The SDGs, agreed by the United Nations in 2015, represent a universal commitment by all countries to ensuring an acceptable standard of living. By the end of 2019, progress towards achieving the 17 goals was already behind schedule; as a result of the COVID-19 pandemic, many countries will fall even further behind (United Nations, 2020^[62]).

The global labour force is increasingly atomised and polarised

The third key to understanding the rise of discontent is understanding the structure of economic growth over the past three decades, in particular how it has affected the global labour force. Employment is inextricably linked to living standards: as well generating an income with which an individual may improve their material quality of life (and that of their families), employment can also teach useful skills, improve self-esteem, enhance social interactions and provide a sense of security about the future. At the same time, work can also be a source of illness or stress, shrink time available for social interactions and be a source of vulnerability.

Employment is therefore a necessary condition for a good life, but it does not guarantee it. This section outlines how trends in global employment over the past 30 years, often linked to profound changes in the organisation of production and consumer behaviour, have adversely affected both the material and non-material benefits of work for large parts of the global labour force. It also explains how they have driven inequality within countries and given rise to a new global class: the precariat.

Labour is under pressure from all sides

For all but the most highly skilled workers, labour is under pressure around the world. The labour share of income declined sharply between the 1980s and the global financial crisis in 2008-09; a similar decline occurred across developing countries, starting in the 1990s (Dao et al., 2017^[63]). Over the past three decades, returns to capital have grown significantly more than returns to labour, and wages have not kept pace with productivity gains (Box 1.3). While workers are increasingly vulnerable to shifts in global production and the vagaries of international trade, liberalisation of international capital flows has made it easier for multinational enterprises and holders of capital to seek out returns from anywhere in the world and insulate themselves from risks.

Occupations have enjoyed various fortunes since the 1980s. Examining the employment share of various occupations in the United States between 1980 and 2010, Autor finds that the share of employment in managerial roles increased sharply over this period, while service employment and high-skilled (“white collar”) technical work also grew (2015^[64]). Over the same period, there were steep declines in the employment share of skilled and unskilled blue-collar occupations. Similar trends have been evident across the OECD, where demand for high-skilled jobs has increased but has declined for mid-level skills, while demand for low-skilled jobs in the service sector has increased, driven by retail and personal care (OECD, 2020^[65]). Shifts in production between advanced and developing economies associated with globalisation

are part of this story, but so too is technology, changes in domestic demand and, to a lesser extent, demographic change (Tella and Rodrik, 2019^[66]).

The accession of China to the WTO in 2001 was a defining moment in the recent phase of globalisation and in the evolution of labour markets in advanced economies. According to Acemoglu et al., job losses in the United States directly or indirectly linked to China's increased prominence in the 2000s accounted for almost 20% of jobs lost in the country's manufacturing sector between 1999 and 2011 (2016^[67]). Declines in European manufacturing employment were also significant; while the impact might have been lower in countries with strong labour protection, the China shock made it harder for the unemployed to find work (Aghelmaleki, Bachmann and Stiebale, 2019^[68]).

There is growing concern that many developing countries, especially in Africa and Latin America, are deindustrialising before developing large-scale manufacturing sectors. Although internationally competitive firms specialising in particular products often exist in these regions and are integrated into global value chains (GVCs), this does not guarantee the growth of a broad-based manufacturing sector. This so-called premature deindustrialisation poses major challenges for employment creation, formalisation, diversification and productivity growth. This is a particular concern for Africa's rapidly growing (and increasingly urban) working-age population, for whom decent employment opportunities are scarce (AUC/OECD, 2019^[27]).

The dislocation and vulnerability of workers associated with global trade have been compounded by rapid technological change since the 1990s. The Third Industrial Revolution, which spanned the period between the late 1960s and the first decade of the 21st century, was characterised by advances in computing technology that powered the rise of automation, the birth of the Internet and advances in telecommunications more broadly. These changes were a critical enabler of globalisation. In the Fourth Industrial Revolution (also known as IR4), which began around 2010, technology is blurring the distinction between the physical, digital and biological spheres through advances in artificial intelligence, the Internet of Things, the capacity to harness big data, and 3D printing (World Economic Forum, 2016^[69]).

Technological change, particularly in automation, is weakening job security. Some 47% of jobs in the United States are at high risk of being automated (Frey and Osborne, 2017^[70]). The average proportion of jobs at risk is 14% in the OECD but varies greatly across countries (Nedelkoska and Quintin, 2018^[71]). A major change in automation is that it is not just routine tasks that are at risk; as the OECD notes, "with the advent of Big Data, artificial intelligence, the Internet of Things and ever-increasing computing power, non-routine tasks are also increasingly likely to become automated" (2017^[72]).

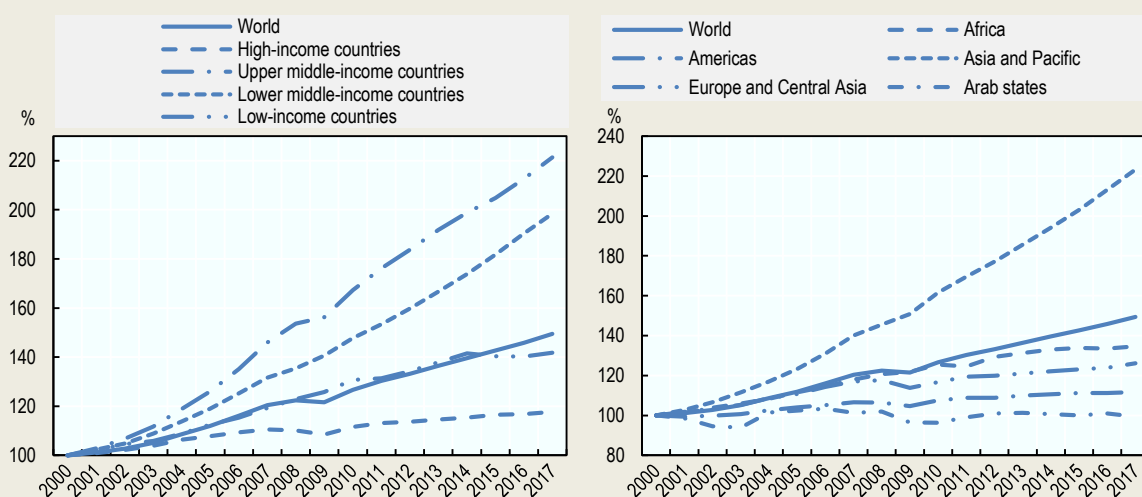
As technology has evolved over the 20th and 21st centuries, so too has the organisation of production. Fordist production systems that revolutionised production in the first half of the 20th century evolved to focus less on scale and cost efficiency and more on differentiation, providing customers with products that were tailored to their specific needs, often through the addition of services. These changes entailed a shift in the structure of employment: demand increased for white-collar workers adept at using new technologies and administering differentiation and just-in time supply chains designed to eliminate waste (a major focus of the Toyota Production System, for example), while automation reduced demand for routine manual work. As globalisation has intensified, with a concomitant lengthening and complexity of supply chains, production is ever-more international.

The advent of IR4 is accelerating the post-Fordist evolution in production techniques and demand for different types of worker. It has also fundamentally altered the structure of employment and consumption patterns, primarily through the impact of the platform economy, which functions as "a digital service that facilitates interactions between two or more distinct but interdependent sets of users (whether firms or individuals) who interact through the service via the Internet" (OECD, 2019^[73]). It includes (although is not limited to) the gig economy, whereby piece work is outsourced to individuals with appropriate skills, who are essentially self-employed independent contractors.

Box 1.3. Wages have not kept pace with productivity gains

Labour productivity growth, measured by annual growth rate of real GDP per worker, has accelerated over the past three decades (Figure 1.17). However, there is a large variation in productivity growth by country income group and by region. The largest increases have been in upper middle-income and lower middle-income countries and in the Asia and Pacific region, driven by the contributions of China and India. Aggregate productivity figures in advanced economies mask a significant divergence between firms at the technological frontier and the rest; productivity has risen sharply among the former but much less among the latter (Andrews, Criscuolo and Gal, 2016^[74]; Unger, 2019^[75]). These firm-level inequalities have knock-on effects for inequalities between individuals and between regions (OECD, 2018^[76]).

Figure 1.17. Labour productivity growth by income group and region, 2000-17



Source: ILO (2020^[77]), ILOSTAT, <https://ilostat.ilo.org/>.

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Labour productivity has increased more than real wages over the last two decades (Figure 1.18). This trend has been particularly evident in high-income countries, although firms at the technological frontier are once again the exception, paying salaries that keep pace with productivity gains (OECD, 2018^[78]). Recent trends such as the prioritisation of shareholders' interests, linking managerial compensation to financial markets, the disconnect between managerial compensation and long-term value creation, and the decoupling of wages and workers' productivity have been especially detrimental to workers (Beal and Astakhova, 2017^[79]; ILO, 2018^[80]; Keeley, 2015^[81]).

The gap between labour productivity and wage growth is particularly pronounced in firms engaged in international trade. Although exporting and importing firms appear more productive than firms that do not engage in trade and tend to pay higher wages than their non-trading counterparts, the productivity premiums for exporting and importing firms outweigh the wage premium by 13 and 5 percentage points, respectively (ILO, 2017^[82]). Hence, although some workers have become increasingly productive across the world, the benefits of their work tend to have increasingly accrued to capital income and to those at the top of the income distribution.

Figure 1.18. Trends in labour productivity and wages, 1999-2017



Source: ILO (2020^[77]), ILOSTAT, <https://ilostat.ilo.org/>.

StatLink  <https://doi.org/10.1787/888934252815>

The distribution of value added from GVCs raises equity issues. GVCs offer a number of potential benefits to firms and countries, including output and export growth and, most importantly, productivity spillovers (OECD, 2015^[83]). However, evidence shows that profits are largely captured by firms responsible for the design and marketing of the product, often in the most advanced countries. According to the OECD-WTO database on trade in value added, 67% of total global value created under GVCs accrues to global lead firms from OECD countries, while only 25% and 8% of total value added is shared among entities from emerging and low-income countries, respectively, where most workers reside (Banga, 2013^[84]).

Individuals in the gig economy are less protected and less connected to each other. Employers gain “wider and more flexible access to talented workers, including those with specialised skills, as well as a faster hiring process, lower costs and potentially round-the-clock productivity”, while workers enjoy greater flexibility to find work that interests them, perhaps even abroad (OECD, 2019^[73]). However, workers in the gig economy are often not covered by social security arrangements or other forms of worker protection. Moreover, they might have minimal interaction with other workers in the same sector. As such, today’s workforce is ever more atomised and their capacity to act collectively severely constrained.

Social protection systems in OECD countries are struggling to adapt to the changing structure of work, with large gaps in coverage emerging. In the case of the gig economy, for example, who should be responsible for employer contributions to social insurance schemes, how can involuntary loss of work be determined in the absence of an employer, and how should benefit calculations and means tests take into account fluctuations in income (OECD, 2018^[85])? In the absence of an employer, new employment arrangements have been accused of free-riding on welfare states that provide income support of last resort.

Consumers are becoming more connected in diverse ways. E-commerce, whereby consumers purchase goods and services on line rather than in person, was increasingly prevalent globally even before COVID-19 struck; restrictions imposed to control the pandemic have accelerated this phenomenon and with it the retail market share of platforms. Another innovation driven by the platform economy is its collaborative potential: in the so-called sharing economy, consumers are able to share products, with a group of people thus sharing the cost of an item they will use only intermittently rather than each having to purchase an item themselves.

The costs incurred by individuals using the platforms that facilitate these exchanges are typically extremely low. However, the providers are able to generate revenues by selling the data these interactions generate to third parties. There are clear efficiencies built into the platform economy, which is capable of linking buyers and sellers on an individual basis, as well as advertisers and target consumers. However, these efficiencies should be considered against the evidence of a high degree of market concentration among the leading platforms and their ability to gain a competitive advantage over traditional retailers in tax terms.

The speed, scope and complexity of IR4 is disrupting societies. All four industrial revolutions have changed the way people live, work and interact, and thus have had a profound impact on society as a whole. The high speed, broad scope and complex mechanisms with and through which these changes occur under IR4 is compounding this upheaval. Individuals and industries that are able to lead or at least keep pace with advances associated with IR4 are able to derive significant gains in income and wealth that will be much harder to access for those that are not. As IR4 becomes more pervasive in day-to-day life, reshaping not only production and consumption but also the relationships between citizens and institutions, it has ever-greater potential to divide people between those with the skills and resources to navigate digital societies and those without. Exclusion means not only inferior employment prospects but also diminished capacity to participate in society as a whole.

Informality, insecurity and working poverty are widespread

The majority of the world's working population are in informal employment and, as a consequence, confront high risks and vulnerabilities, as amply demonstrated by the COVID-19 pandemic. The informal workforce comprises some 2 billion workers, representing 61% of the total including agriculture and 50% excluding agriculture (ICLS, 2003^[86]; ICLS, 1993^[87]; ILO, 2018^[88]). Some 1.7 billion informal workers, or 85%, work in the informal economy. In low-income countries, nearly 90% of the labour force work in the informal economy and face high job insecurity and poor working conditions (ILO, 2019^[89]). These workers are likely to account for a significant proportion of the new precariat (Box 1.4).

In developed countries, some 18% of workers are engaged in informal employment (OECD/ILO, 2019^[90]). Non-standard forms of employment, which are not informal but which are characterised by self-employment, temporary work and independent contracting, have grown rapidly in the 2000s across several OECD countries, especially among the young. Some of these jobs, particularly in the gig or platform economy, are linked to technological advances, but many others are in traditional personal services, where employers are looking to maximise their flexibility through new employment relationships and part-time contracts (OECD, 2019^[91]).

Stable employment is increasingly rare. Across European OECD countries, 69% of employees who have been unemployed have histories of non-standard dependent employment. Workers with these contracts have proven especially vulnerable during the COVID-19 pandemic; before the crisis struck, the OECD calculated that non-standard workers were 40% to 50% less likely to receive any form of income support when out of work than standard employees (OECD, 2020^[65]).

In many countries, developed and developing, having a job does not guarantee a decent living standard or an escape from poverty. In 2018, workers in moderate or extreme poverty accounted for more than half of employment in low-income countries and more than one-quarter in lower middle-income countries. Working poverty is particularly common among informal economy workers, for whom the incidence is twice that found among formal workers (OECD/ILO, 2019^[90]).

According to ILO and UNICEF, progress in reducing child labour stagnated between 2016 and 2020: shortly before the COVID-19 pandemic, 160 million children – almost one in ten children worldwide – were working. Half of them were engaged in hazardous work (ILO/UNICEF, 2021^[92]). The authors expect child labour to rise further as a result of the pandemic unless there is a major scale-up of social protection in developing countries.

Box 1.4. The rise of the precariat

*O masters, lords and rulers in all lands,
How will the future reckon with this Man?
How answer his brute question in that hour
When whirlwinds of rebellion shake the world?*
(Markham, 1899^[93])

Economic trends of the past three decades have given rise to a new social taxonomy based on different types of worker. New groupings have evolved partly from the opposing blocs that defined industrial relations in the 19th and 20th centuries, but they are no longer defined via a binary distinction between capital and labour. Nor is it straightforward to divide the global labour force according to a class system except with reference to income level (which only captures part of what class identity entails).

A new taxonomy is emerging that distinguishes (in crude terms) between the winners and losers of globalisation and technological progress. The Occupy Wall Street protests of 2011 railed against “the 1%” as symbolic of the glaring inequality of the era. However, this term underestimates the size of the winners category without necessarily capturing the dynamics at the very top of the income distribution: in the United States, for example, the income and wealth of the top 0.1% of the income distribution has grown particularly strongly (Saez and Zucman, 2020^[94]). In its place, the term “elite” has become more prominent in the discourse around inequality.

The connotations of elite in its current usage are linked to economic factors, notably its constituents’ capacity to take advantage of the opportunities offered by the changes in production discussed in this chapter, in particular the growth of the knowledge economy. However, the term also entails a set of attitudes and way of life that separate this group from the rest of the population; as such, its implications are also cultural. This confluence of cultural and economic factors resonates with sociologists’ depictions of changes in the structure of modern societies.

For example, Castells contends that globalisation, changes in production and advances in information and communications technology have created a “network society” that is not bound by national borders (2004^[95]). In his framework, certain workers are included in the network society and others not; he articulates a divide between “those who are the source of innovation and value to the network society [and] those who merely carry out instructions”. He also adds a third group: “those who are irrelevant whether as workers (not enough education, living in marginal areas with inadequate infrastructure for participation in global production) or as consumers (too poor to be part of the global market).” The winners and losers are easy to locate in this framework, which he warns will inevitably lead to inequality and polarisation.

The “symbolic analysts” of Reich fall into the first of Castell’s categories (1992^[96]). According to this vision, the knowledge economy has created a new category of worker – symbolic analysts – who are valued for their capacity for creative thought in bringing product and service together rather than for their contribution to standardised production alone. Reich contends that symbolic analysts tend to interact through networks (as described by Castells) and work collaboratively, which means they often cluster in a particular area. He argues that countries in the 21st century must invest heavily in education (to provide children with the skills to become symbolic analysts) and physical infrastructure (to attract symbolic analysts to cluster in a particular place). The importance of clustering as a social phenomenon is echoed by Florida, who proposes that the economic prospects of cities depends on their capacity to attract the “creative class” through a combination of “technology, talent and tolerance” (2002^[97]). The

tendency discussed earlier in this chapter for national productivity gains to be concentrated in one or two big cities suggests this is indeed happening.

At the same time, a number of categories have emerged for individuals who do not form part of this class. Not all of these can necessarily be considered the losers from globalisation: recalling the elephant curve discussed earlier in this chapter, it is important to distinguish between those groups (principally in developing countries) whose incomes have risen sufficiently that they are no longer in poverty and the squeezed middle class of advanced economies, whose incomes have risen very slightly over the past 30 years. Nonetheless, these groups are bound by vulnerability and uncertainty about the future.

Standing posits the emergence of a new global mass class that he terms the “precariat”, which is defined according to three dimensions (2011_[98]). First, members of this class are pressured to accept a life of unstable, insecure labour, in which casualisation is extended by indirect labour, crowd labour and on-call contracts. The second dimension is their reliance on money wages, which have been falling in real terms while becoming more volatile and unpredictable; this group has lost access to non-wage benefits (paid leave, medical leave, occupational pensions) that provide labour security. The third dimension of the precariat is a loss of rights across the civil, cultural, social, economic and political spheres.

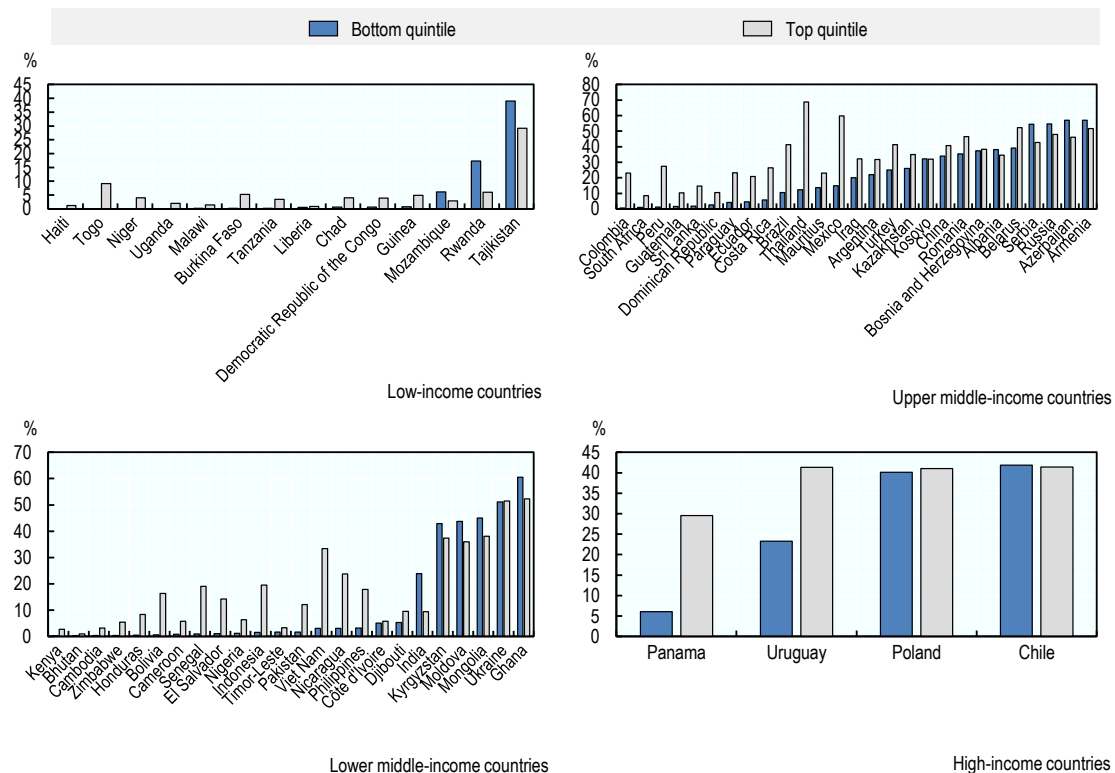
Giraud recalls the third category of Castells’ scheme, warning that globalisation has rendered a portion of the global workforce “useless” in economic terms (2015_[99]). They are either unemployed, on low incomes with only intermittent access to employment or in subsistence activities (often agriculture). This group relies on nomadic jobs generated by shifting patterns of global production, while more productive workers enjoy sedentary jobs with much greater security. The capacity of those reliant on nomadic jobs is limited by their lack of skills and poverty; their situation is rendered more precarious by the threat of automation. The low likelihood of career progress is a source of immense frustration.

These new groups of workers – defined by their starkly different situations and prospects – are a transnational phenomenon. As Sassen argues, globalisation is bringing together both broad categories of worker in what she terms “global cities”, whose economic purpose is better understood in terms of the global economy than the national (1991_[100]). The inhabitants of these cities are likely to come from all parts of the world, whether they be high- or low-skilled, with the latter servicing the former. This phenomenon creates a social structure with an hourglass rather than a diamond configuration, wherein the people at the bottom struggle with the increased cost of living driven by those at the top; they share a living space but inhabit very different realities. The emergence of global cities also exacerbates the cultural differences between major cities and secondary cities or rural areas.

Both Standing and Giraud foresee dire political consequences of the phenomena they identify, ranging from growth in support for extremist political parties to deep societal fractures, if measures are not taken to improve the situation of this new class of worker. However, in a recent essay, Standing also explains the “transformative potential” of the precariat, which “in Europe at least, is becoming conscious of itself as a coherent group opposed to the dominant power structure” (2018_[101]). He recognises that the political power of the precariat is nonetheless weakened by its tendency to fracture into three groups – the atavists, the nostalgics and the progressives – that have different outlooks and agendas.

The vulnerability of the precariat is reflected in a large inequality in social insurance coverage between the bottom and top income quintiles. As social insurance is mainly provided to workers in the formal sector, and formal employment accounts for a small proportion of the labour market in most low- and middle-income countries, social insurance coverage is extremely low globally. Indeed, as Figure 1.19 shows, there is almost no coverage for people in the bottom of the income distribution and very low coverage for the better-off households in low-income countries. The gap varies significantly among middle-income countries; it is as high as 40% and above in countries like Brazil, Mexico and Thailand, while there is no gap in countries such as Bosnia and Herzegovina.

Figure 1.19. Social insurance coverage comparison between the bottom and top income quintiles



Note: Latest year available, 2011-16.

Source: World Bank (2020_[13]), *World Development Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

□ StatLink  <https://doi.org/10.1787/888934252834>

The employment prospects for young and migrant workers are not promising. Changes to the nature of employment have often affected young workers more than older generations, which are more likely to have been engaged in standard forms of employment. Since the 1990s, successive cohorts of young workers in OECD countries have been increasingly less likely to enter the labour market in middle-skill jobs and are now likely to be in low-level jobs that are below the level for which they are educated. Meanwhile, in developing countries and especially across Africa, young people are particularly likely to be in informal employment (Lorenceau, Rim and Savitki, 2021_[102]).

COVID-19 has demonstrated the key role of migrant workers. Across Europe and other regions, migrant workers are particularly likely to be in low-skilled, non-standard employment. The COVID-19 pandemic has demonstrated the critical role they play in the economy. According to Fasani and Mazza, on average across Europe, 13% of key workers are immigrants, a figure that rises in sectors such as personal healthcare workers, drivers and food processing (2020_[103]). At the same time, mortality among ethnic minorities has been high relative to the population as a whole in a number of European countries (Crouch, 2020_[104]).

Humanity has brought environmental catastrophe upon itself

The environmental impact of global economic activity provides the fourth key to understanding today's discontent. As this section outlines, the world faces multiple environmental crisis, including rising temperatures, biodiversity loss and pollution, which entail the destruction of natural systems on which humanity depends for its survival. It has been posited that humanity is living through – and directly

responsible for – the sixth mass extinction on earth in 540 million years (Barnosky et al., 2011^[105]). Global environmental movements, in particular Fridays for Future, have grown rapidly in recent years and are increasingly influential on the world stage.

There are clear links between economic growth and environmental damage (Acheampong, 2018^[106]; Aye and Ebruvwiyo, 2017^[107]). It is estimated that human activities each year consume more than 1.7 times the resources generated by the biosphere, and it requires 20 months for the earth to regenerate what humans use in a year (Global Footprint Network, 2017^[108]). Incorporating a country's environmental footprint within the Human Development Index (HDI) has a large impact on national rankings: more than 50 countries drop out of the very high human development group (UNDP, 2020^[55]). Meanwhile, Costa Rica, Moldova and Panama move up at least 30 places on the HDI once their environmental impact is taken into account, underlining that environmental costs are not an inevitable result of economic progress but rather the outcome of policy choices (Dang and Serajuddin, 2020^[109]; Wu, Zhu and Zhu, 2018^[110]).

Environmental degradation is taking a toll on people's physical and mental well-being. Lawrance et al. demonstrate the severe impact of climate change on people's mental health (2021^[111]). The negative effects of air pollution on happiness and life satisfaction have been observed across Europe (Ferreira et al., 2013^[112]) and globally (Welsch, 2007^[113]). Climate change and deforestation also take a toll on subjective well-being (Krekel and MacKerron, 2020^[114]; Maddison and Rehdanz, 2011^[115]).

Carbon emissions and environmental inequality

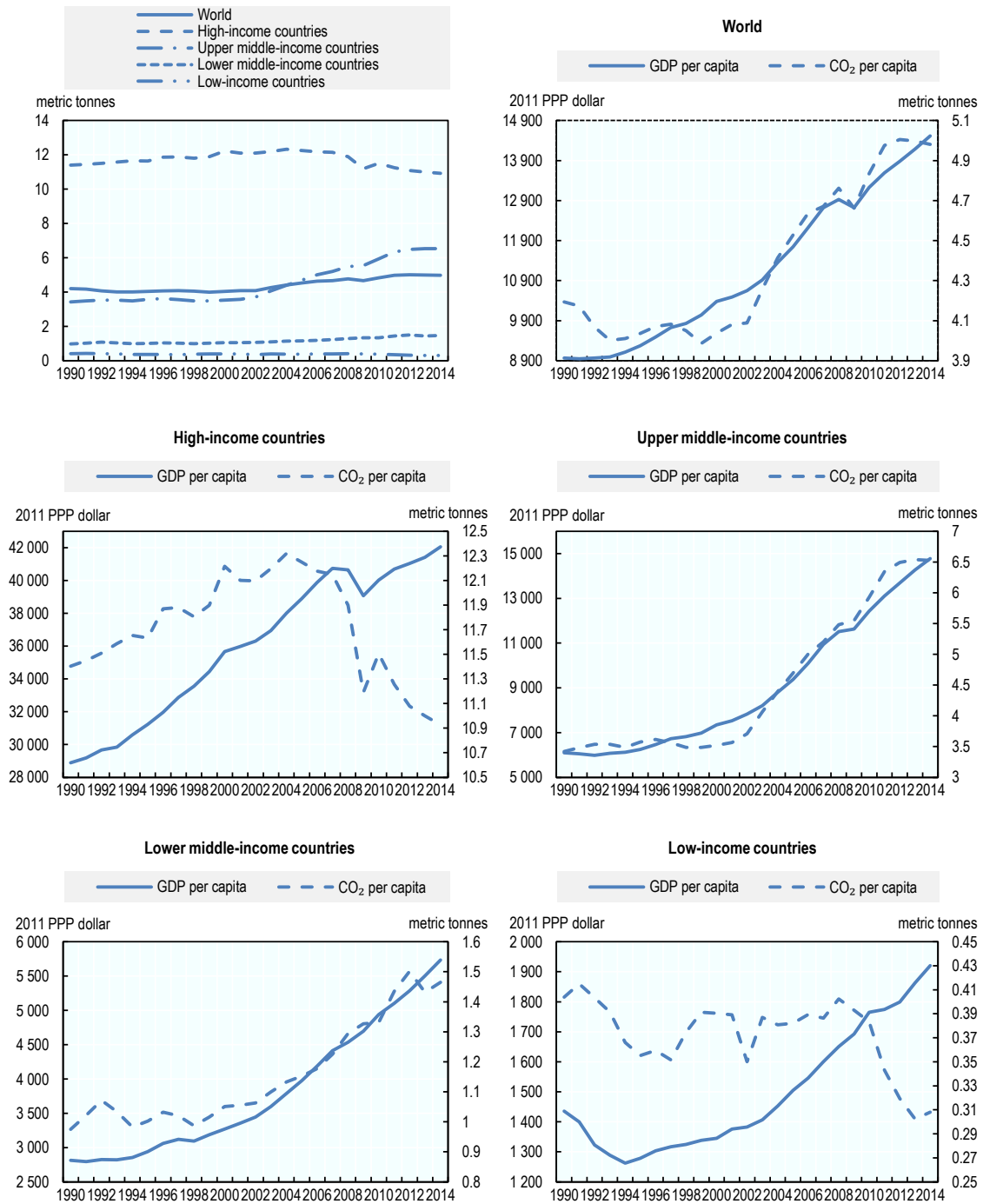
Global CO₂ emissions closely reflect humanity's environmental impact since the first Industrial Revolution and are the principal driver of climate change. The earth's average temperature between 2016 and 2020 is expected to be the hottest on record at a level 1.1°C higher than in the period 1850-1900 (generally known as pre-industrial levels) (WMO, 2020^[116]). Temperature increases attributable to human activity are already responsible for significant proportion of heat-related deaths across the world, especially in Asia and Latin America (Vicedo-Cabrera et al., 2021^[117]). However, the consequences of climate change extend beyond rising temperatures: they are behind an increasing frequency and intensity of high-impact weather events, such as droughts, storms and flooding, which cause massive human and economic damage.

Between 1970 and 2020, extreme weather caused more than 11 000 disasters, took 2 million lives and caused economic losses of USD 3.6 trillion: over these 50 years, the number of disasters and their economic cost increased by five and seven times, respectively (WMO, 2020^[118]). By 2050, the number of people at risk of flooding will increase from 1.2 billion to 1.6 billion, while the number living in areas with severe water shortages will increase from 1.9 billion to 2.7-3.2 billion (WMO, 2020^[119]).

Per capita CO₂ emissions increased from 4.2 to 5.0 metric tonnes between 1990 and 2014, closely following upwards trends in GDP per capita (Figure 1.20). Over this period, high-income countries had a carbon footprint that was more than ten times larger than that of low-income countries. However, carbon emissions have evolved unevenly across country income groups. While a downward trend in emissions has been observed in high-income countries since 2010, the reverse is true in upper middle-income countries and, to a lesser extent, in lower middle-income countries.

A “polluter elite” has emerged that mirrors the growing inequalities discussed in this chapter (Kenner, 2019^[120]). According to the United Nations Environment Programme, “the combined emissions of the richest 1% of the global population account for more than twice the combined emissions of the poorest 50%” (2020^[121]). The same report finds that to limit global temperature increase by 2050 to 1.5°C, as set out by the Paris Agreement, this elite would need to reduce their current emissions by a factor of 30 while the emissions of the poorest 50% could still increase by around three times their current level. As this report identifies, the question of how countries can reduce emissions in ways that reflect these vast discrepancies are an emerging source of political tensions in many places.

Figure 1.20. Global trends in CO2 emissions per capita and GDP per capita, 1990-2014



Source: Authors' calculations based on World Bank (2020^[13]), *World Development Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934252853>

Shifts in global industrial production are changing the distribution of emissions. Wealthier countries have exported manufacturing (and thus the associated carbon emissions) to developing countries, thereby allowing them to reduce their carbon footprint without changing consumption patterns. Initially, this trend led to a sharp increase in emissions by China, but changes in the structure of China's production and an

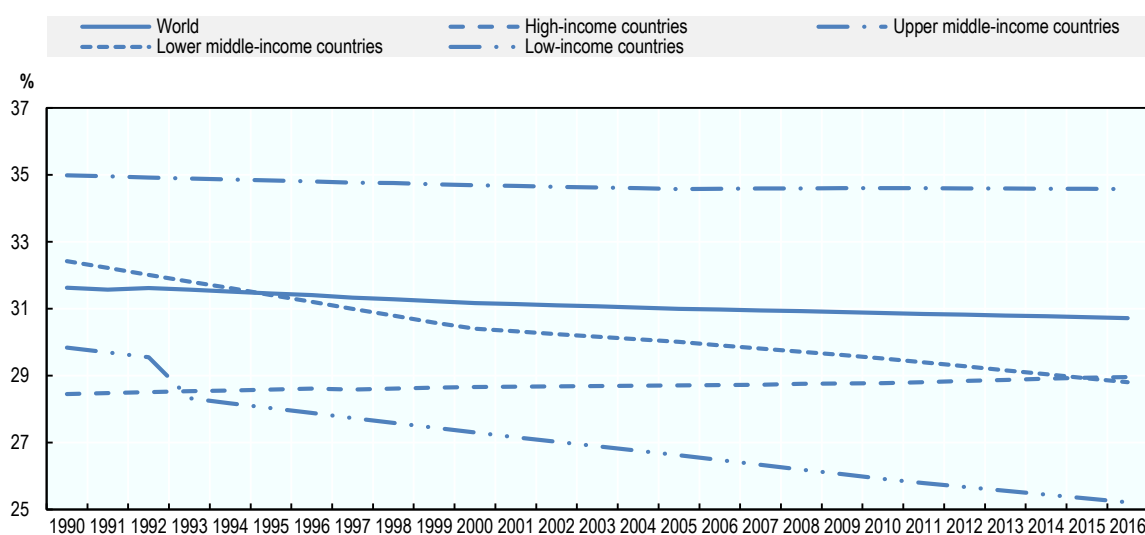
associated fragmentation of regional value chains have resulted in emissions shifting to countries such as Indonesia, Thailand and Viet Nam (Meng et al., 2018^[122]).

Developing countries are bearing the brunt of climate change, despite their minimal contribution to global emissions. Countries that rely more on agriculture for subsistence and economic activity are more susceptible to changes in temperature and extreme weather. At the same time, many developing countries lack the financial resources to invest in climate change mitigation, such as flood defences, as well as early warning systems (EWS). According to the World Meteorological Organization, one in three people are not covered by EWS, most of whom live in least-developed countries (LDCs); almost 90% of LDCs and small-island developing states identified EWS as their top priority for mitigating climate change but most lack the financial resources and capacity required to establish such systems (2020^[118]).

As countries start to plan long-term reductions in carbon emissions to achieve “net zero” by 2050 (meaning the same volume of carbon emissions is removed from the atmosphere as is produced in a given year), developing countries are dealing with the immediate reality of the climate crisis. As African Development Bank President Dr. Akinwumi Adesina said in April 2021, Africa “loses USD 7 billion to USD 15 billion a year to climate change, and this will rise to USD 50 billion per year by 2040...Africa is not at net zero. Africa is at ground zero” (Harvey, 2021^[123]). The cost of dealing with the impacts of extreme weather events and other consequences of climate change is worsening developing countries’ debt situation, compounding the financial impact of the COVID-19 pandemic. At the same time, as Chapter 5 explains, a number of developing countries are reliant on exports of hydrocarbons to finance their development.

Biodiversity loss poses an existential threat to humanity. Global economic activity is having an ever-larger impact on the natural world: more than 33% of the world’s land surface and nearly 75% of freshwater resources are now devoted to crop or livestock production to feed the growing global population and adapt to changing consumption patterns (IPBES, 2019^[124]). This is associated with a sharp decline in the abundance of species and massive degradation of natural systems; approximately 1 million species are threatened with extinction. This will have dire consequences for earth’s human inhabitants, for example by destroying food systems and posing threats to global health, as demonstrated by the COVID-19 pandemic.

Figure 1.21. Forest land area coverage by income group, 1990-2016



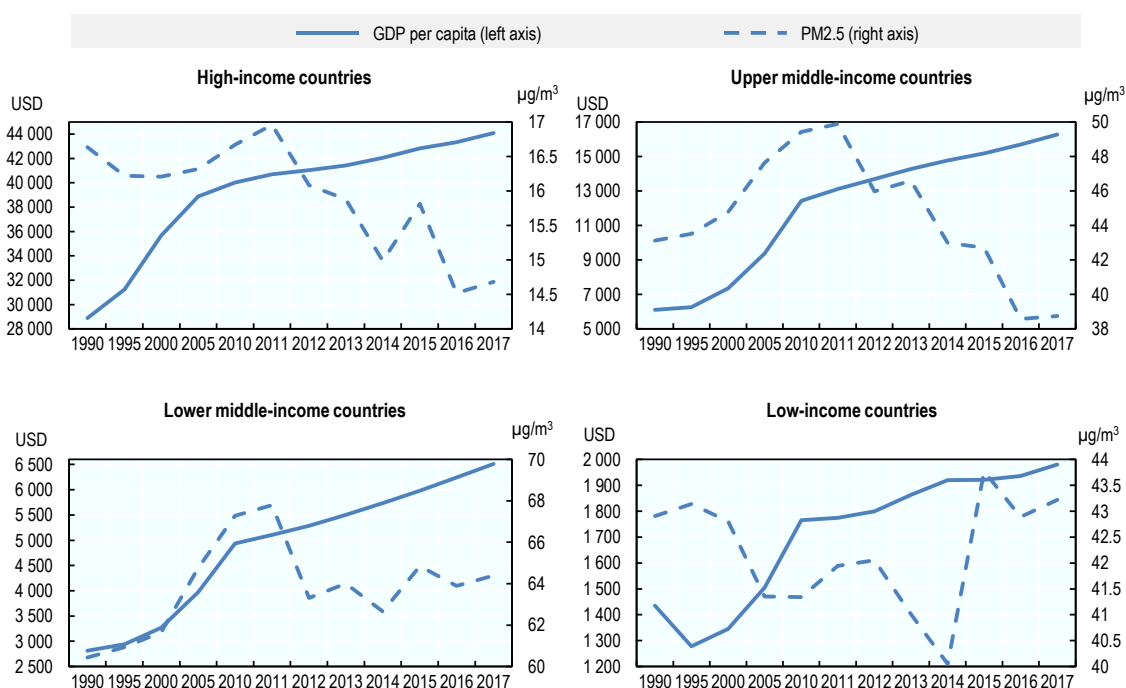
Source: Authors’ calculations based on World Bank (2020^[13]), *World Development Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934252872>

Deforestation continues at a rapid pace in the Global South. Deforestation is threatening ecosystems and human lives due to the loss of biodiversity, scarcity of natural resources, and pollution (FAO and UNEP, 2020^[125]). Forest area measured as a percentage of land area is decreasing everywhere and at a particularly rapid rate in lower middle-income and low-income countries (Figure 1.21). Biodiversity in developing countries is also increasingly threatened by invasive alien species, which globalisation has helped to spread outside their natural habitats and climate change has allowed to settle in new environments (Early et al., 2016^[126]).

Meanwhile, human beings are increasingly exposed to air and water pollution, which cost at least 9 million lives annually (UN Environment, 2019^[127]). As measured by global concentrations of fine particulate matter less than 2.5 µm in diameter (PM2.5), air pollution increased rapidly from 1990 and reached a peak in 2011 far above the World Health Organization's annual safety threshold of 10 µg/m³ (Figure 1.22). Air pollution has decreased in high-income and upper middle-income countries and increased in lower middle-income and low-income countries, especially in Africa. Air quality in advanced economies is four times better than in lower middle-income countries, and almost three times better than in low-income and upper middle-income countries. Today, the most polluted regions are South Asia and the Middle East and North Africa.

Figure 1.22. Global trends in PM2.5 concentration and GDP per capita, 1990-2017



Source: Authors' calculations based on World Bank (2020^[13]), *World Development Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934252891>

Conclusion

This chapter provides the global context for the rise in discontent discussed in this report over the past 30 years. It explains that there is no paradox behind the fact that discontent has worsened during a period of sustained economic growth: gains in income and wealth achieved in the three decades before 2020 were unsustainable socially, environmentally and politically. They gave rise to widening inequalities and were

accompanied by social upheaval caused by changes in the way people live and work. In telling this story, the chapter reinforces the inadequacy of GDP growth as an indicator of development or living standards. It also demonstrates that developing countries continue to face immense economic, social and environmental challenges even though they were an important driver of global growth.

These trends do not explain global discontent in themselves. As the following two chapters discuss, discontent is a complex phenomenon to diagnose and understand. Although economic factors are important, so too are sociological and political factors: discontent has a broad set of short- and long-term, contingent and structural causes that vary across countries. Nonetheless, there will be evidence of the four keys to discontent identified in this chapter throughout the report.

The chapter also demonstrates that global trends contribute to discontent and that the response to discontent must, to a certain extent, therefore be international. International co-operation on the environment is critical and urgent, but it cannot end there: improving living standards, providing secure employment and fostering social cohesion are the bedrocks of national development but they are also projects with a strong global dimension.

Notes

¹ The Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus, a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality (World Bank, 2020_[13]).

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2 The case for global discontent

This chapter examines the rise in discontent evident since the global financial crisis. It analyses protests and other forms of civil unrest across the world with a view to understanding where these events are most common and who is most likely to be involved. It also studies other political indicators with particular relevance to democratic systems of government: trust in government, voter turnout and support for democracy. The chapter then explores the contingent causes of discontent with reference to public attitude surveys from different regions. These shed light on citizens' principal worries and frustrations as they relate to the state of the economy and the quality of public goods. It also analyses the extent to which citizens feel they have a say in how their country is run.

Introduction

There's something happening here, but what it is ain't exactly clear. (Stills, 1966^[1])

This report contends that we are living in an era of global discontent. Its publication coincides with the tenth anniversary of the Arab Spring, a series of spontaneous yet connected social uprisings across the Middle East against authoritarian leaders following decades of perceived misrule. Fast forward to 2019, when large-scale protests engulfed countries across five regions, most notably Latin America. Even amid the restrictions of the coronavirus (COVID-19) pandemic, people have taken continued to take to the streets in 2020 and 2021: the Black Lives Matter protests that began in the United States in 2020 inspired similar protests in many countries. In January 2021, demonstrators disputing the results of the United States presidential election stormed the Capitol Building in Washington, DC, perhaps the foremost symbol of modern democracy.

The economic trends identified in Chapter 1 are not sufficient explanation for these protests. True, they provide crucial context: it is likely that worsening labour conditions, insecure incomes and hunger will erode people's quality of life, that inequality will weaken social cohesion and that environmental crisis will provoke a backlash. Yet, as this chapter explains, discontent is not concentrated in the poorest countries nor among the most deprived individuals; rather, frustration seems to be most intense among those who feel that they have something to gain, and vulnerability felt most keenly by those with something to lose. Meanwhile, societies around the world have tolerated varying degrees of inequality for generations.

Moreover, discontent cannot be measured by protests alone; doing so would imply that it is only people who take to the streets that are angry or feel powerless. This chapter complements data on civil unrest with other political indicators that have particular resonance for democratic systems of governance. It also analyses public attitude surveys to hear how people are feeling and to better understand their grievances. These subjective indicators elucidate what this chapter labels the “contingent” causes of discontent: the day-to-day economic worries and frustrations with government that give impetus to political action.

In broad terms, these contingent factors reflect the changes that people most want to see in their lives. However, their grievances cannot be understood (or fixed) in isolation. To understand discontent fully – and how governments might respond to it – also requires an appreciation of the deep-seated, longer-term phenomena that influence people's expectations, condition their behaviour and shape societies. This report argues that discontent emerges from interaction between the contingent factors discussed in this chapter and the structural phenomena analysed in Chapter 3.

Making the case for discontent

To demonstrate the existence and extent of discontent, this report starts by examining four interconnected indicators: civil unrest, (dis)trust in public institutions, satisfaction with democracy and voter turnout. Comparing these phenomena across regions and over time, this section considers the extent to which discontent might be generalised across different countries. Where possible, it seeks to disaggregate results, in line with the evidence from Chapter 1 that different groups are likely to have different perceptions about how well a political or economic system is working. These indicators contain a bias towards countries where protest is a legitimate means of political expression, free and fair elections take place, and there is a democracy with which to be satisfied. As this chapter notes, democracy has weakened in many countries in recent years, which might itself be a source of discontent.

Civil unrest is on the rise

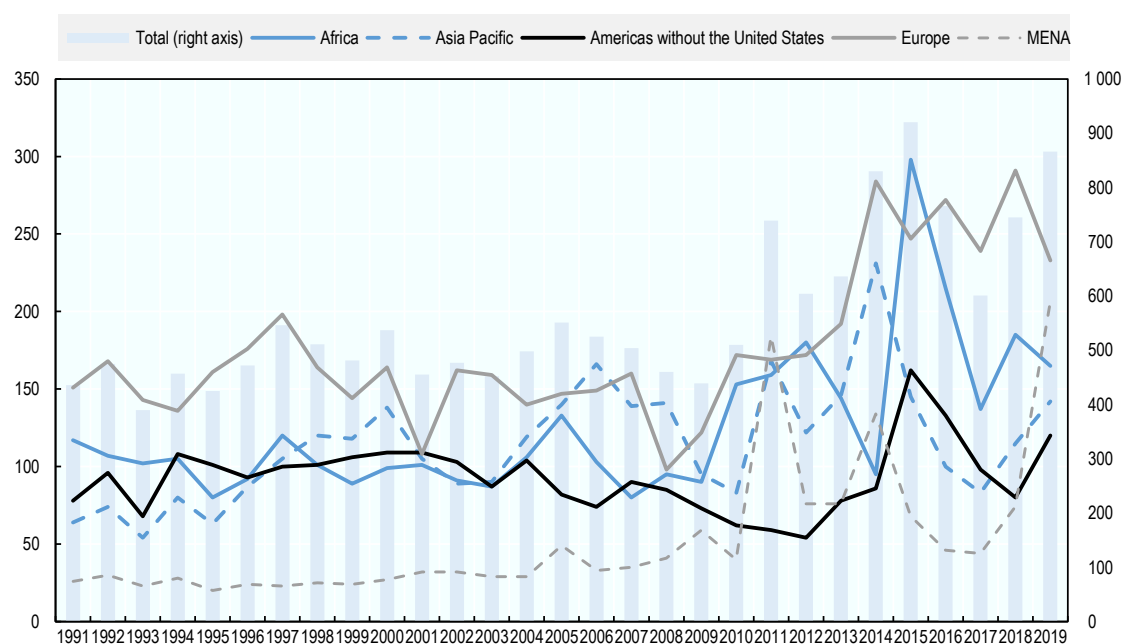
The most visible manifestations of discontent occur in the streets. However, two points are important to note at the outset. First, certain forms of civil unrest, such as protests and general strikes, are a legitimate form of political participation and a democratic right in many countries: they do not necessarily imply that

a political system is failing. Indeed, an increase in protests can be a sign of democratic consolidation. Second, an absence of protests, strikes or other forms of political participation in countries where these are not permitted does not imply that citizens are happy with the government. That said, civil unrest is a particularly important indicator of discontent, since it represents a larger commitment from participants than other articulations discussed here, and it can also impose long-term costs on the economy as a whole (Matta, Appleton and Bleaney, 2017^[2]).

Data from a range of sources indicate that there has been a sharp increase in civil unrest during the decade 2010-19. The Mass Mobilization Data Project (MMDP), which logs anti-government protests involving at least 50 people in 162 countries (although not the United States) between 1990 and March 2020, shows that protest incidence globally declined between 2005 and 2009 but rose substantially in the subsequent five years (Figure 2.1). Although protests declined in the following three years, they peaked again in 2019. These trends are visible across all regions. The finding for 2019 was echoed by Verisk Maplecroft, which identified a significant increase in the number and severity of incidents of civil unrest during 2019: protests affected 47 jurisdictions – one-quarter of the global total – across five continents (2020^[3]).

Measures to contain COVID-19 resulted in a marked reduction in protests around the world between March and May 2020. However, as the year progressed, the number of protests rose sharply to exceed their pre-pandemic peak. Campbell and Hribernik predict that unrest will become more prevalent in 2021-22, identifying 75 countries as being at high risk of unrest, with a deterioration of democratic institutions and reductions in subsidies for food and fuel expected to be key factors behind this increase (2020^[4]).

Figure 2.1. Number of protests in selected regions, 1991-2019



Source: Clark, D. and P. Regan ((2021^[5]), "Mass Mobilization Protest Data", *Harvard Dataverse* (database), <https://doi.org/10.7910/DVN/HTTWYL>.

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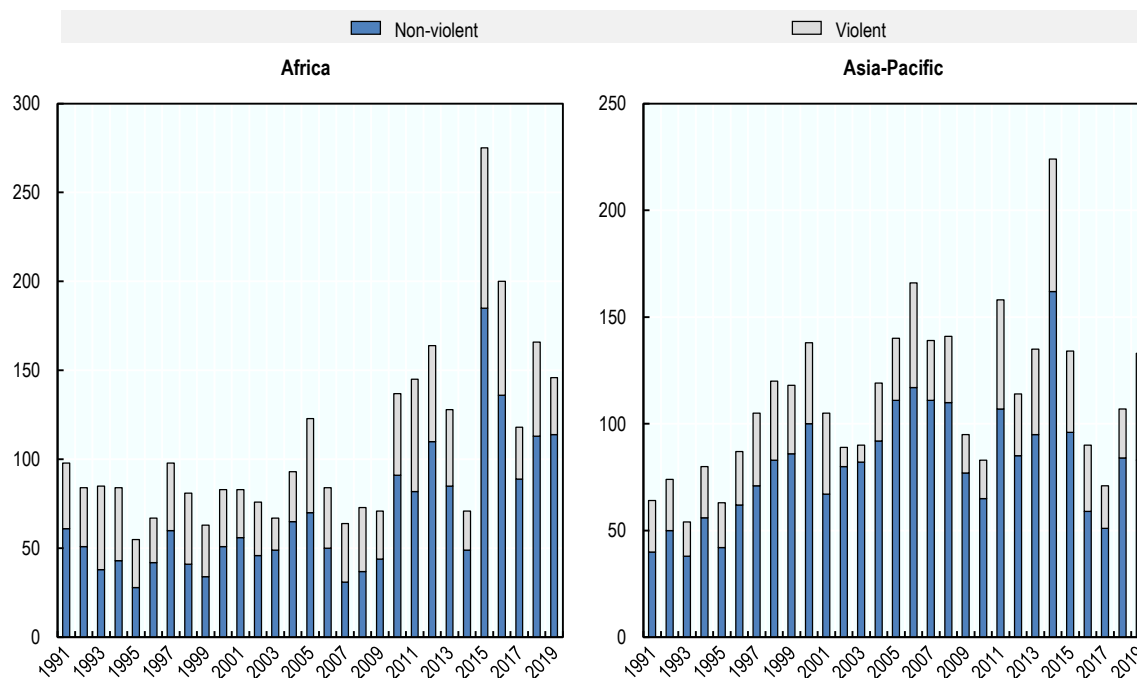
The surge in protests is corroborated by the Cross National Time Series (CNTS) database, which records instances of political instability in 117 countries. Korotayev, Meshcherina and Shishkin find “explosive global growth in anti-government demonstrations, riots, general strikes, terrorist attacks/guerrilla warfare,

and purges" over the last decade (2018^[6]). There was an eightfold increase in the average annual number of protests in 2010-15 compared with 2000-10, a sixfold increase in the number of anti-government demonstrations and a fourfold increase in the number of strikes (although there has been a sharp decline in the number of coups). As Funke, Schularick and Trebesch show when examining the political consequences of financial crashes, annual average incidents of unrest between 2010 and 2012 were higher than in the 1960s, when the last major spike in unrest visible from CNTS data occurred (2016^[7]).

The Reported Social Unrest Index shows a sharp increase in the number of countries experiencing unrest during the 2010s across all regions (Barrett et al., 2020^[8]). The authors also find that unrest is temporally and spatially correlated: unrest in one country increases the likelihood of further unrest in that country and of unrest in neighbouring countries. This index is calibrated with information from the Armed Conflict Location & Event Data Project (ACLED), which has time series data on riots and unrest for fewer countries than the MMDP or the CNTS but provides more granular information (2020^[9]). Its data for Africa confirm a sharp increase in civil unrest across the continent, with a particularly dramatic increase in North Africa.

According to the MMDP, the proportion of protests globally that were violent fluctuated between 1991 and 2019. In 2019, 28.7% of protests were violent, fractionally higher than in 1991. In the intervening years, the proportion fell to as low as 15.6% in 2003; it is notable that there was a jump of 9.3 percentage points in the proportion of protests that were violent between 2018 and 2019. Data for Africa and Asia-Pacific shed greater light on these global trends (Figure 2.2). The proportion of protests that were violent fell rapidly in the Asia-Pacific region in the 1990s but trended upwards from 2003 onwards, eventually returning to the same level as 1991. The proportion of protests in Africa that were violent remained relatively high until 2007, whereupon it started to decline even as the overall number of protests started to increase.

Figure 2.2. Violent and non-violent protests in Africa and Asia-Pacific, 1991-2019



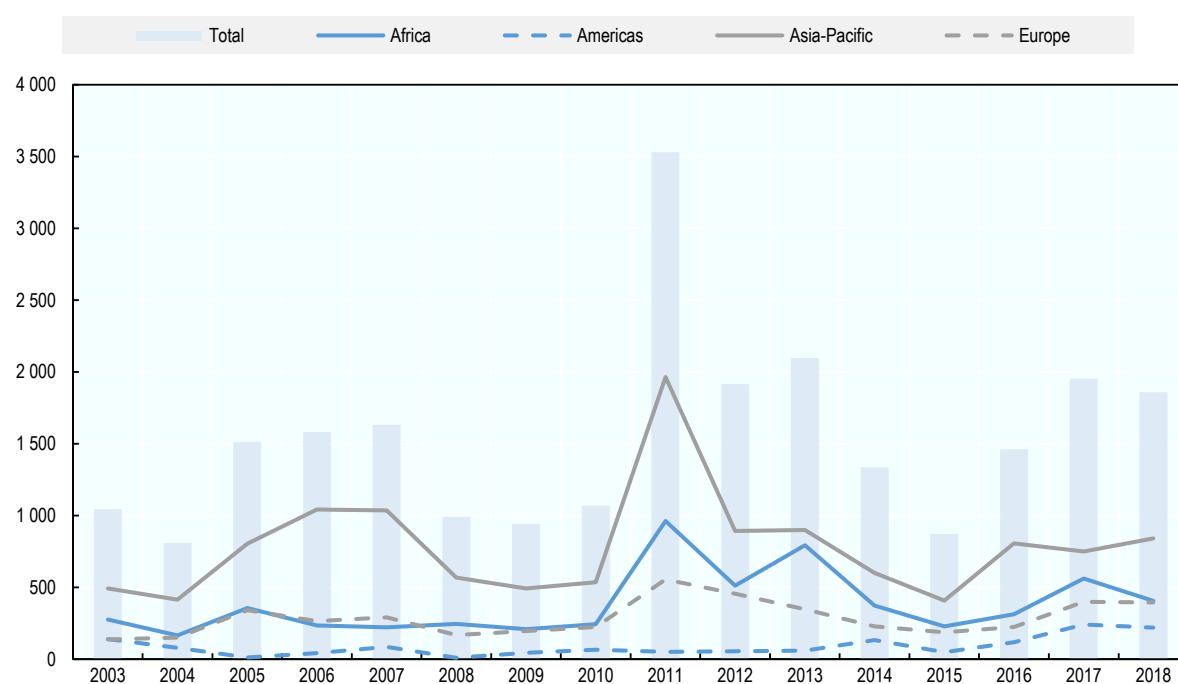
Source: Clark, D. and P. Regan (2021^[5]), "Mass Mobilization Protest Data", *Harvard Dataverse* (database), <https://doi.org/10.7910/DVN/HTTWYL>.

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The tendency for protests in Africa to increase during the 2010s while at the same time becoming less violent is consistent with AfDB/OECD/UNDP findings that “[these] widespread democratic and peaceful forms of public demands often indicate both vibrant civil societies as well as progress in political freedom across the continent” (2017_[10]). That report also shows that there has been a sharp decline in politically driven protests, strikes and demonstrations. Before 2013, political protests accounted for the majority of such incidents, but thereafter, economic factors accounted for the majority of protests: one-third of all protests in Africa between 2014 and 2016 related to employment issues (AfDB/OECD/UNDP, 2017_[10]).

The relationship between political freedom and protest complicates the use of the latter as an indicator of discontent. The risks and costs of demonstrating in a repressive state are generally far higher than in a liberal democracy. Moreover, the nature of the social contract is likely to be very different between democratic and authoritarian states, such that protests in authoritarian states are reserved for extreme situations rather than a part of political life (Hinnebusch, 2020_[11]). Even so, there is evidence of an upward trend in protests even in autocracies in the decade 2010-19 (Figure 2.3). Data from the Mass Mobilization in Autocracies Database, which tracks 70 countries that are or were until recently autocracies, indicate that protests spiked in autocracies across Africa, the Americas and Europe in 2011 and trended upwards in all regions between 2015 and 2018 (Weidmann and Rød, 2019_[12]).

Figure 2.3. Number of protests in autocracies in selected regions, 2003-18



Source: Weidmann, N.B. and E.G. Rød (2021_[13]) (), *Mass Mobilization in Autocracies Database* (database), <https://mmadatabase.org/about/>.

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It is not only the state of a country's political development that influences the propensity to protest; it is also the state of its economy. As Chapter 3 discusses in greater detail, economic protests might reflect frustrations that arise when living standards have not improved as expected or when some groups within a country are benefiting from economic growth and others not (a story that also emerges from Chapter 1). Evidence suggests that economic protests are not concentrated in the countries with the weakest economies and that it is not the poorest members of society who are most likely to protest. Labour unrest

in the People's Republic of China (hereafter, "China") – the world's foremost economic success story of the past three decades – underlines this point (Box 2.1), as does the case of Chile discussed later.

Korotayev et al. use CNTS data to examine the relationship between civil unrest and economic development at a national level, as measured by per capita income (2018_[14]). Specifically, they test the hypothesis put forward by Olson (1963_[15]) and Huntington (1968_[16]), among others, that political instability is positively associated with gross domestic product (GDP) per capita up to a certain point, after which the relationship becomes negative. While the aggregate Sociopolitical Destabilization Index (SDI) produces relatively weak support for this hypothesis between 1960 and 2015, the individual components of the SDI yield stronger results. The authors demonstrate inverted U-shaped curves in anti-government protests, riots, strikes and government crises, although each follows somewhat different dynamics: for example, while anti-government protests increase sharply by country income up to the upper middle-income category, the decline between upper middle-income and high-income countries is relatively small. Meanwhile, the authors find a strong negative correlation between coups and income per capita across the income distribution, suggesting that attempts to overthrow the government (or the political system) rather than to encourage a change of direction are concentrated in the poorest countries.

Mirroring the heightened propensity for protests among middle-income countries, individuals who belong to the middle class are most likely to take to the streets. According to Chen and Suen, who track protest participation in 78 countries between 1994 and 2007, low-income and high-income groups are much less likely to participate in anti-government protests than those in the middle of the income distribution (2017_[17]). The authors link this to pessimism among poorer members of society and optimism among those in the middle classes; while the former do not think that a protest will lead to any change in their situation, the middle class consider change to be possible. These findings echo, among others, Acemoglu and Robinson, who argue that "almost all revolutionary movements were led by middle class actors" (2006_[18]).

Ianchovichina, Lili Mottaghi and Devarajan demonstrate the importance of middle-class dissatisfaction in driving protests during the Arab Spring in 2010-11 (2015_[19]). They find that the Middle East and North Africa (MENA) was the only region in the world where subjective well-being was declining sharply towards the end of the first decade of the 2000s, even though economic data and development indicators more broadly painted a positive picture. These indicators did not capture growing frustration with the quality of housing, public transport and health care, as well as with a lack of job opportunities. While the authors find no evidence to support claims that inequality caused the Arab Spring, they do identify it as a possible cause of ethnic conflict in the region in subsequent years. Chapter 3 examines in greater detail the relationship between inequality, discontent and conflict.

Has there been, as Barrett et al. (2020_[8]) suggest, a degree of contagion of protests between countries? Badie thinks so (2020_[20]). He identifies commonalities between many of the protests that took place around the world in 2019 (in advanced and developing countries alike), as well as differences between these protests and those of the Arab Spring. Where the latter intended to topple administrations perceived as corrupt or ineffective, the protests of 2019 lacked a specific agenda or programme and were not at heart political. Rather, they were motivated by appeals for systemic change and for people to be treated with dignity. Badie also contends that, although there was an element of nationalism to these demonstrations, they were inspired by a set of grievances that were common among protesters in different countries.

There have also been high-profile examples of global social movements. The Occupy movement protested against inequality in more than 80 countries in 2011 (Taylor, 2011_[21]). The #MeToo movement has opened a channel through which women around the world can speak out against gender-based abuse and discrimination, especially since 2017 (Stone and Vogelstein, 2019_[22]). Protests in September 2019 against government inaction on the climate crisis organised by Fridays for Future were attended by an estimated 6 million people (Taylor, Watts and Bartlett, 2019_[23]). In 2020, the Black Lives Matter movement against systemic racial discrimination spread across the United States in a matter of hours and thence to more than 60 countries (Shaw and Kidwai, 2020_[24]).

Box 2.1. The evolution of labour unrest in China

China's stellar economic growth performance of the past three decades has been accompanied by rising inequality, environmental degradation and evidence of growing discontent (Ma et al., 2020^[25]; OECD, 2019^[26]). According to official sources, the number of protests in China increased significantly in scale and frequency between the mid-1990s and 2006, the year the government ceased to provide annual data on incidents of unrest (Lum, 2006^[27]).

Using a dataset compiled from social media posts, Göbel finds evidence of almost 75 000 incidents of unrest in China between July 2013 and June 2016 (although the author believes that the number of data points would have been higher were it not for gaps in mobile phone coverage) (2021^[28]). Some 43% of these incidents were labour related, often caused by non-payment or late payment of wages, with migrant workers most likely to be the aggrieved party. The next most common cause was real estate disputes (which accounted for 21% of protests), followed by land grabs (10%), evictions and medical malpractice (both 6%).

According to China Labour Bulletin, a non-governmental organisation based in Hong Kong, China, there has been a marked decline in labour unrest in China in recent years (2020^[29]). Labour unrest increased rapidly between 2011 and 2015 but declined sharply after 2016, since which year protests have also tended to be much smaller and shorter than during the peak years. These trends reflect changes in the structure of the economy. The proportion of protests that took place in the manufacturing sector declined from 41% in 2014 to 14% in 2019 as factories closed and manufacturing moved offshore.

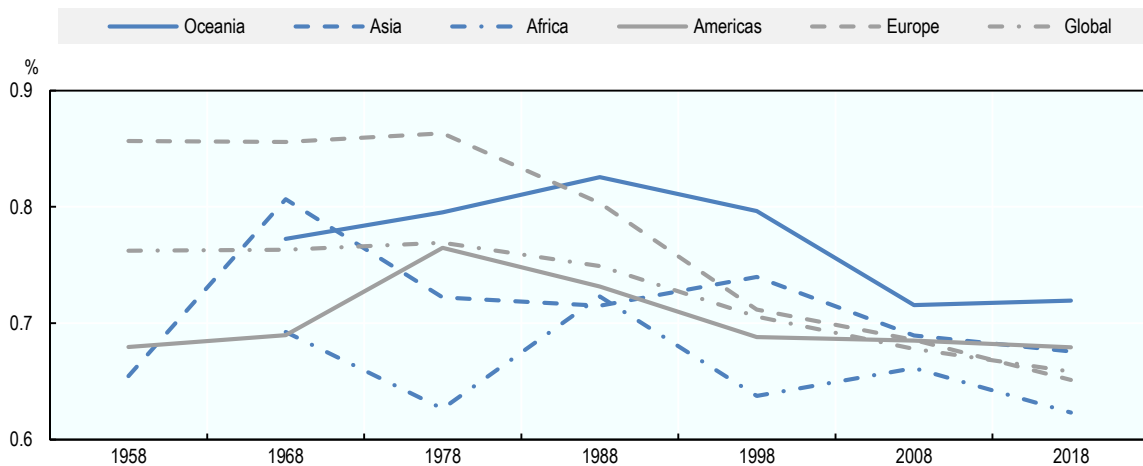
Although the construction sector has replaced manufacturing as the most restive part of the economy, there has been a notable increase in unrest in the service sector: between 2014 and 2019, the proportion of protests in the service sector rose from 10% to 23%, meaning middle-class white-collar workers are increasingly implicated (China Labour Bulletin, 2020^[29]). Recent protests have tended to involve domestically owned private-sector companies rather than state-owned enterprises or foreign-owned companies; this was not the case in the early 2010s (China Labour Bulletin, 2019^[30]).

The decline in labour unrest has coincided with rapid growth in union membership, which the national government has actively promoted as a means of resolving disputes without the need for protests. This increase in unionisation has been particularly pronounced among migrant workers (China Labour Bulletin, 2018^[31]). The umbrella organised labour institution, the All China Federation of Trade Unions (ACFTU), is pushing to enlist in its ranks 11 million or so workers in the gig economy (390 million workers at the time of writing); this will be a major test of the ACFTU's effectiveness and credibility (The Economist, 2021^[32]).

Voter turnout has experienced a long-term decline

Although less visible than active protests, large-scale political disengagement can provide equally telling evidence of discontent within a society. In a democratic state, participating in national elections is widely perceived as the minimum contribution a citizen should make to the core functioning of a political system, indispensable for its legitimacy and renewal. Voter turnout is thus the most commonly cited metric for confidence in the prevailing political system, since "higher voter turnout is in most cases a sign of the vitality of democracy, while lower turnout is usually associated with voter apathy and mistrust of the political process" (IDEA, 2018^[33]).

Figure 2.4. Voter turnout in parliamentary elections, 1958-2018



Note: Data are for legislative (lower house) elections that took place since 1953. Each data point represents the smoothed average of all elections in that region in the five years surrounding the tagged year.

Source: International IDEA (2020^[34]), *Voter Turnout Database* (database), www.idea.int/data-tools/data/voter-turnout.

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Turnout in parliamentary elections has declined consistently in most regions since at least the 1960s and at an increasing rate since the 1980s (Figure 2.4). The largest fall took place in Europe, where turnout declined by more than 20 percentage points between the mid-1970s and mid-2010s to 65%. Turnout also fell significantly in regions with less established political systems: in the former Soviet republics, whose political transition following the collapse of the Soviet Union marked the culmination of the third wave of democracy (Huntington, 1991^[35]), turnout fell from 67.4% in the period 1995-2000 to 58.6% in 2013-18. Turnout in sub-Saharan Africa (SSA) fluctuated between the mid-1960s and today but is much lower now than during the decolonisation period. The fact that voting is compulsory in some countries and voluntary in others explains some of the difference between regions, but it is notable that turnout has fallen even in countries where voting is mandatory, particularly in Latin America.

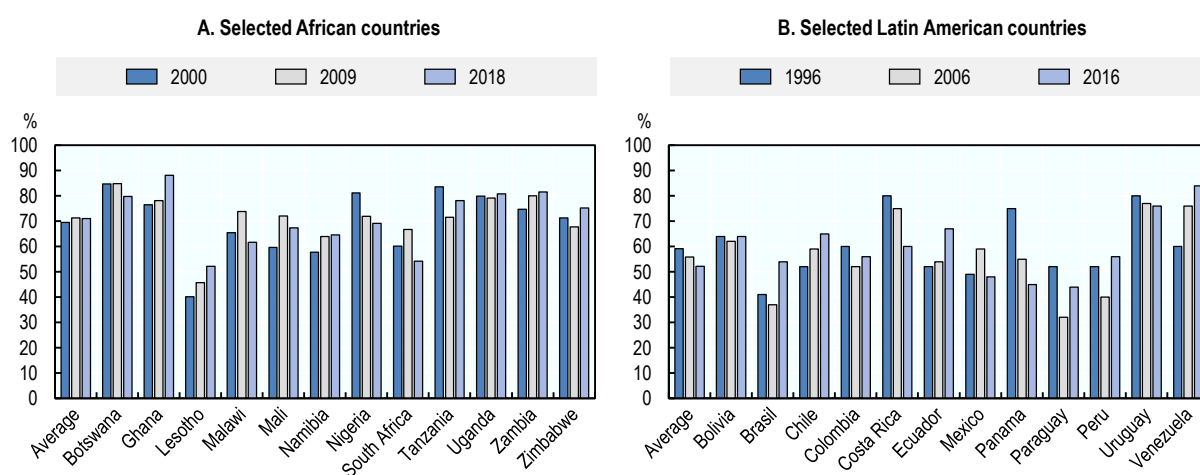
Discontent can also lead to higher voter turnout. Frustration with the political system might encourage people to vote for new parties or political movements that promise to disrupt the status quo. It is notable, for example, that the 2020 US presidential election saw the highest turnout since 1900 (United States Elections Project, 2020^[36]). Blais and Kostelka find that increases in turnout are in turn likely to increase satisfaction with democracy rather than the other way around, although the authors recognise that this effect might not persist if a particular candidate is defeated (2018^[37]). This chapter later examines in greater detail who votes in different regions as part of a discussion about whether people feel that they have a voice in their political system.

Confidence in democracy is on the wane

The complexities of voter turnout require evidence of satisfaction with democracy – understood as the way the political system functions – beyond the ballot box. According to the 2020 edition of the *Global Satisfaction with Democracy Report*, dissatisfaction with democracy is at its highest level since the series began in 1995 (Foa et al., 2020^[38]). The share of individuals who report that they are “dissatisfied” with democracy rose from 47.9% to 57.5% between 1995 and 2015, with most of the increase occurring since 2005. Overall, dissatisfaction is higher in developing countries, although this is driven in large part by particularly high rates of dissatisfaction in Latin America. Southeast Asia offers the only regional bright spot; dissatisfaction has fallen by almost 30 percentage points since the mid-1990s.

Foa and Mounk find evidence of a long-term deconsolidation of support for liberal democracy (2017^[39]). Looking at how democracy is perceived around the world, the authors find a sharp decline in the proportion of people who consider it “essential to live in a democracy” and point to a major generational divide in this indicator, with “the proportion of younger citizens who believe it is essential to live in a democracy falling to a minority”. The authors also argue that “disaffection with the democratic form of government is accompanied by a wider skepticism toward liberal institutions. Citizens are growing more disaffected with established political parties, representative institutions, and minority rights.” The authors argue that this lack of support is exploited by anti-system political parties and movements that narrow countries’ political agency and weaken democratic institutions by concentrating power in the executive.

Figure 2.5. Those who believe that democracy is preferable to any other sort of government



Source: Afrobarometer (2016^[40]), *Afrobarometer*, <https://afrobarometer.org>; Latinobarómetro (2018^[41]), *Latinobarómetro*, www.latinobarometro.org/lat.jsp.

StatLink  <https://doi.org/10.1787/888934252986>

Regional opinion surveys provide mixed evidence for democratic deconsolidation, although these should be understood in light of differing interpretations of democracy in different places. Across Africa, the proportion of citizens who believe that democracy is preferable to any other sort of government stayed more or less constant between 2000 and 2018, albeit with considerable variation by country (Figure 2.5A). The Asiabarometer asks respondents whether they agree with the statement “democracy has its problems, but it is still the best form of government”. The proportion who “agreed” or “strongly agreed” with this statement remained constant at 89% between 2011 and 2016. At the country level, support ranged from 80% in the Philippines to 95% in Japan (Inoguchi, 2016^[42]).

Country experiences are also heterogeneous across Latin America, but on average, there appears to be a downward trend; 52% of respondents across the region believed that democracy was preferable to any other sort of government in 2016, compared to 59% in 1996 (Figure 2.5B). Latinobarómetro reports a sharp rise in the proportion of respondents who are not satisfied with the way democracy is working in their country, from 51% in 2009 to 71% in 2018 (2018^[43]). Only 24% believed that democracy was functioning well in 2018, down from 44% in 2009. Only 9% of Brazilians were “satisfied” with democracy in 2018. The report finds that supporters of democracy in the region tend to be male, middle class, relatively well educated and relatively old; they vote, possess assets, own or run a business, approve of the government, and identify themselves as being at a specific point on the political spectrum.

The current state of democracy globally seems to justify this dissatisfaction. Of the 167 countries included in the Economist Intelligence Unit’s annual Democracy Index, democracy weakened in 116 during 2020

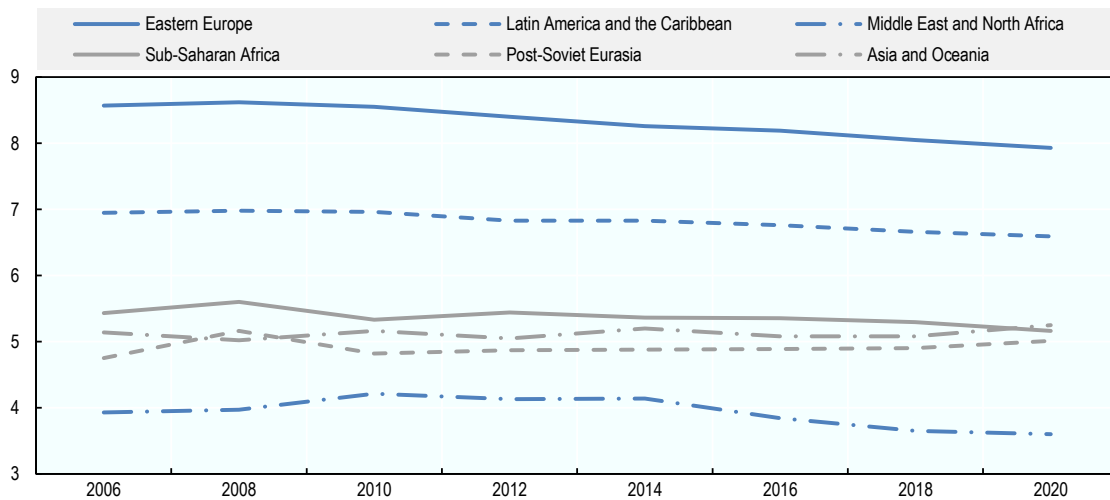
and strengthened in only 38 (EIU, 2021^[44]). Every region's score declined on average; the declines were particularly pronounced among states that already showed authoritarian tendencies. According to the same source, just under 50% of the world's population live in a democracy of some sort and less than 10% live in what the authors consider to be a full democracy.

These findings are echoed by Repucci and Slipowitz, who find that democracy weakened in 73 countries in 2020 and strengthened in just 23 – the largest “democracy gap” in 15 years, and the 15th consecutive year in which democracy has been on the wane (2021^[45]). The authors attribute the deterioration of democracy in 2020 to the COVID-19 pandemic: “[as] COVID-19 spread during the year, governments across the democratic spectrum repeatedly resorted to excessive surveillance, discriminatory restrictions on freedoms like movement and assembly, and arbitrary or violent enforcement of such restrictions by police and nonstate actors.” They calculate that nearly 75% of the world's population lives in a country where democracy weakened in 2020. Lührmann et al. also identify a widespread tendency towards autocracy but find evidence of growing resistance that is of relevance to this report: the proportion of countries that witnessed a mass pro-democracy protest was 44% in 2019, up from 27% in 2009 (2020^[46]).

The quality of democracy deteriorated across developing countries during the 2000s. According to Bertelsmann Stiftung, which analyses democracy according to variables such as state capacity, political participation, rule of law, democratic institutions and political and social integration, democracy weakened between 2006 and 2020 in Eastern Europe and Latin America and the Caribbean (LAC) (although these regions perform much better than some others) as well as in the MENA and SSA (Figure 2.6) (2020^[47]). Over the same period, democracy strengthened in Asia and Oceania and in post-Soviet republics. In the MENA, the decline in the quality of democracy reversed between 2008 and 2014, a period that spans the Arab Spring, but accelerated thereafter, leaving the region far below others. Chapter 3 discusses in greater detail the political causes and consequences of discontent.

Figure 2.6. Evolution of democracy in developing countries by region, 2006-20

Average BTI Democracy Status scores (index 1-10 from low to high democracy)



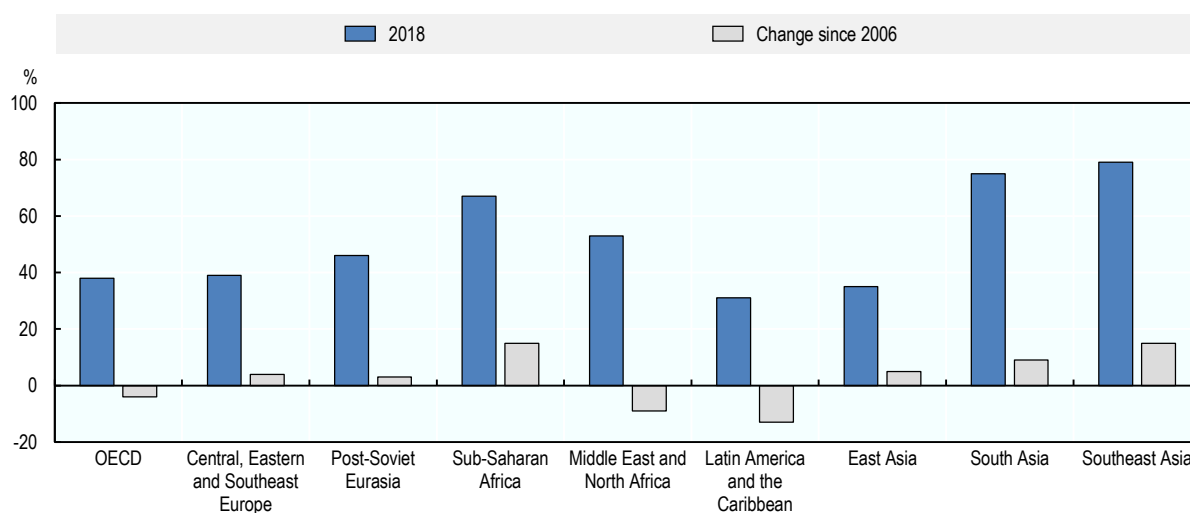
Source: Bertelsmann Stiftung (2020^[47]), *Bertelsmann Transformation Index 2020*, <https://bti-project.org/en/home.html?&cb=00000>.

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Trust in public institutions is falling

Trust is the glue that holds societies together and is the basis for collective action. This report argues that distrust in government is an important manifestation of discontent. The purpose of a national government is to protect and promote the interests of a country's citizens; a decline in trust indicates lower belief that it will perform this function. Distrust in institutions can also make it difficult for the government to implement reforms to improve well-being or to implement measures in times of crisis. It is important to look beneath the aggregate numbers, since people's trust in public institutions is likely to vary according to their current position in society, especially in contexts of high inequality. It is also important to note that trust in the government (and in general) reflects both short- and long-term (especially cultural) factors.

Figure 2.7. Those who profess to have confidence in national government



Note: Respondents were asked if they have confidence in the national government of their country.

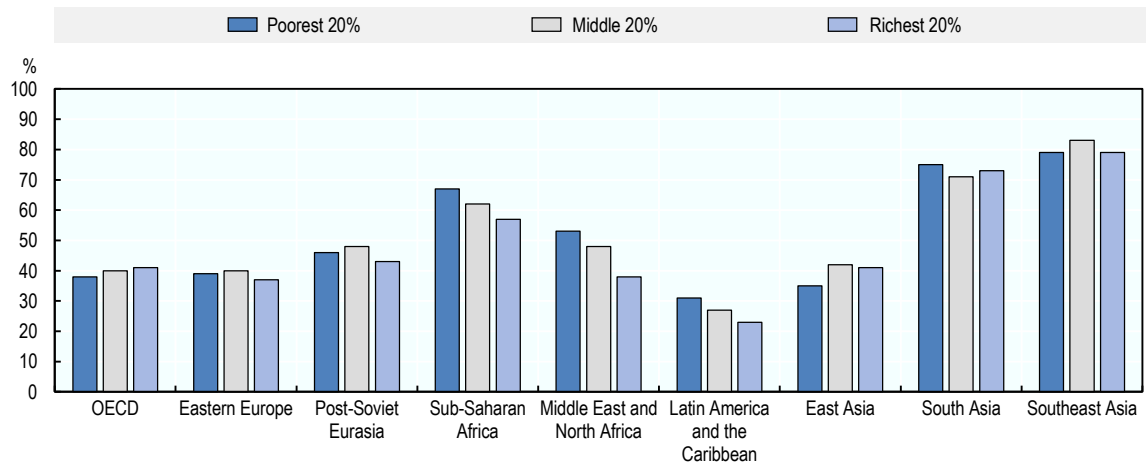
Source: Authors' calculations based on Gallup (2019^[48]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

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Confidence in national governments declined between 2006 and 2018 across the Organisation for Economic Co-operation and Development (OECD), the MENA and LAC, the region that exhibited the lowest trust in government at just 31% (Figure 2.7). Meanwhile, trust in government rose across Asia during this period; while it was particularly high in South and Southeast Asia, levels of trust in East Asia were only just above those in LAC, even though the two regions witnessed very different economic trajectories over the period. Levels of trust were also high in SSA and showed a relatively strong increase between 2006 and 2018.

Trust in institutions does not always rise with income. Confidence in national governments varied by household income quintile in 2018, declining with income in LAC, the MENA and SSA, and increasing with income in OECD countries (Figure 2.8). The finding for LAC is significant, given its high level of inequality: it does not seem to be the most disadvantaged individuals who trust the government least. The same applies for SSA, another region with many highly unequal countries, but the opposite is the case in OECD countries. Gallup shows that those who live in cities tend to have significantly less confidence in their government than those who live in the countryside; just 22% of those who live in Latin American cities have confidence in their government, for example (2019^[48]). Young people are more likely to have confidence in government, although this varies by region.

Figure 2.8. Confidence in national government by income quintile, 2018



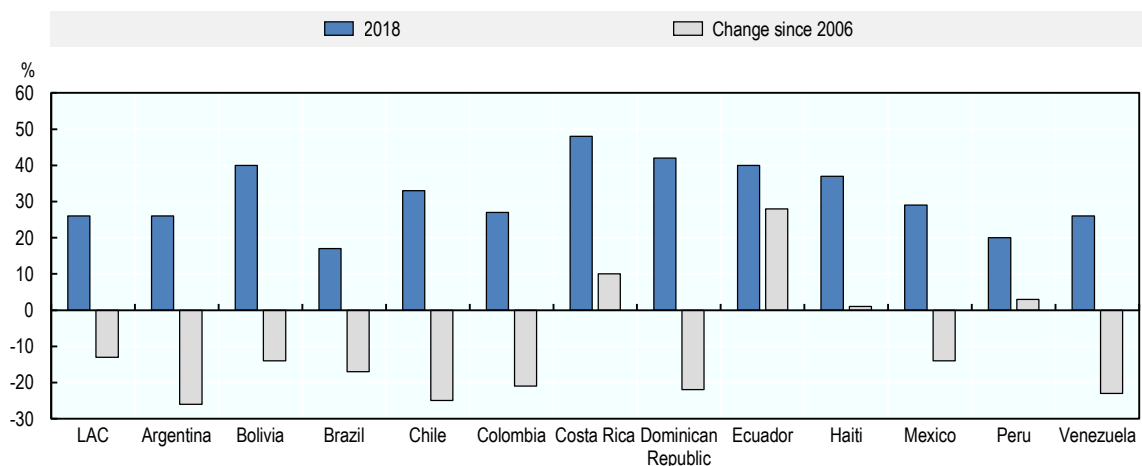
Note: Respondents were asked if they have confidence in the national government of their country.

Source: Authors' calculations based on Gallup (2019^[48]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

StatLink  <https://doi.org/10.1787/888934253043>

There is considerable between-country variation in trends across the LAC region, which overall witnessed the greatest decline in confidence in national governments (Figure 2.9). The change in those expressing confidence in their government in LAC ranges from +28 percentage points in Ecuador to -26 percentage points in Argentina. National protests in Ecuador in the latter half of 2019 suggest that this increase might have been short-lived.

Figure 2.9. Confidence in national government in selected LAC countries, 2018



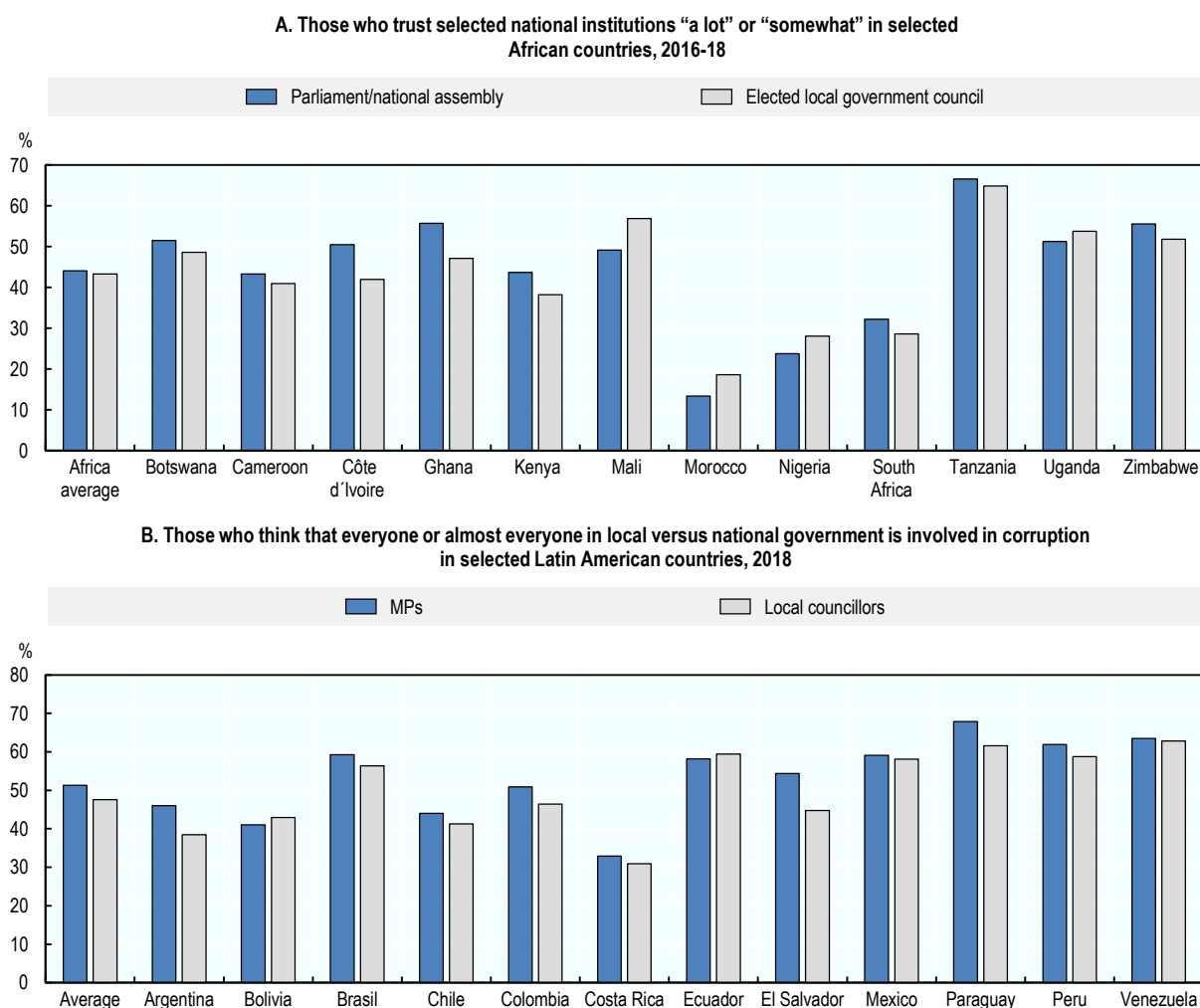
Source: Authors' calculations based on Gallup (2019^[48]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

StatLink  <https://doi.org/10.1787/888934253062>

Government is not a monolith: individuals may have different perceptions of local and national government. Attitudes towards local and national institutions differ between Africa and Latin America but tend to be similar within countries (Figure 2.10). Among African countries, trust in the parliament or national assembly tends, on average, to be slightly higher than trust in the elected local government council. The opposite appears to be true in Latin America (although the metric is slightly different); on average, corruption is

perceived to be more widespread among members of parliament than among local councillors. Across Asia, the tendency is for people to trust local government more than they do national government, except in China (Wu and Wilkes, 2018^[49]).

Figure 2.10. Attitudes towards national and local officials vary



Source: Afrobarometer (2016^[40]), Afrobarometer, <https://afrobarometer.org>; Latinobarómetro (2018^[41]), Latinobarómetro, www.latinobarometro.org/lat.jsp.

StatLink  <https://doi.org/10.1787/888934253081>

Subjective indicators and contingent causes of discontent

This section examines how individuals assess their quality of life, both to find evidence of discontent and to start understanding the factors behind it. One lesson that has already emerged from this report is the need for a broad range of indicators to gauge the mood of society: GDP growth is no guarantee of social cohesion, inequality is no guarantee of revolution, and the poorest members of society (or the poorest countries) are not necessarily the least happy with their government. Subjective indicators shed light on how economic factors and government performance affect people's outlook, and on why people might believe protests are the only way of achieving the changes they want to see in their country.

The economy is people's most pressing concern

His August Majesty chided the bureaucrats for failing to understand a simple principle: the principle of the second bag. (Kapuściński, 1983^[50])

Discontent usually has an object: people are angry or frustrated about *something*. Often, it also requires a target: a *someone* to blame for the *something*. As the institution ultimately empowered to ensure citizens can lead the lives they wish across economic, political and social domains (domains that invariably and extensively overlap), governments often become this target. Understanding the contingent causes of discontent requires first understanding why people are dissatisfied.

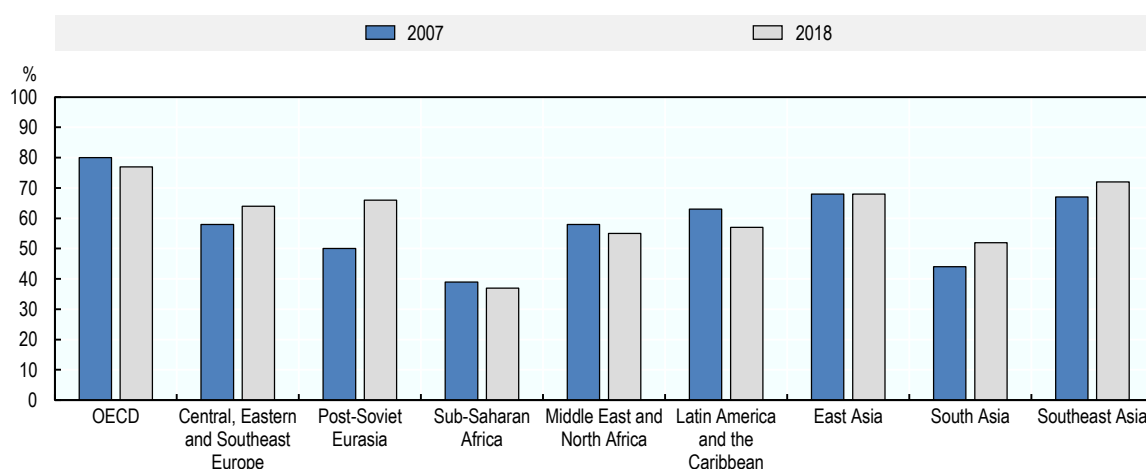
Latinobarómetro provides a snapshot of the sources of discontent across Latin America, as well as the breadth of dissatisfaction, prior to the unrest in 2019 (2018^[43]). On average, 35% of respondents across the region classified economic problems, such as unemployment, low salaries, the cost of living or the state of the economy, as the greatest problem facing the country. For 19%, crime and public security was the biggest issue, while just under 10% identified either the political situation, corruption or public services (health, education and basic services) as the main challenge. On average, only 12% of Latin Americans considered the economic situation in their countries to be “good” or “very good” in 2018, down from 25% in 2013. However, discontent is not confined to the countries that are performing worst in these areas: Chile has one of the biggest and best-performing economies in Latin America and a well-established democracy but was nonetheless witness to the most widespread and impactful unrest in 2019.

Similar levels of concern and dissatisfaction with the economy and public services are evident in Africa. According to the 2019-20 Afrobarometer survey, 35% of respondents in 18 countries identified jobs as a priority for the government (Logan and Gyimah-Boadi, 2020^[51]). According to previous waves, 73% of Africans surveyed in 2016-18 thought that their government was doing a bad job at creating jobs, up from 69% in 2005-06 (Makanga and Msafiri, 2020^[52]). The second most cited priority (34%) was health care. On average, only 23% participants thought that the economic situation in their country was good or very good, while 63% considered it bad or very bad. The survey showed a marked decline in positive sentiment (and/or a significant increase in expectations) across Africa in recent years: 65% of respondents felt that their country was going in the wrong direction in 2019-20 versus 50% of those who took part in the 2011-13 survey (Logan and Gyimah-Boadi, 2020^[51]).

The prominence of economic problems in Africa and Latin America points towards a trend seen more widely over the past decade or so whereby more and more people are finding it difficult to make ends meet. According to Gallup data, the OECD is the only region where more than 75% of the population is either “living comfortably” or “getting by” (Figure 2.11). While East Asia and Southeast Asia are not far behind, barely half the population of South Asia enjoys this sense of security, although in the case of the latter, this proportion rose between 2007 and 2018. Over the same period, economic security declined in MENA, LAC, OECD and SSA countries. Deeper examination of this data shows that just 39% of individuals in the bottom income quintile globally can live comfortably or get by on their current earnings; this falls to 30% and 26% in the MENA and SSA, respectively (Gallup, 2019^[48]).

Where a large proportion of the population is struggling to make ends meet, even a small increase in the cost of living or reduction in incomes is liable to exacerbate discontent; as Box 2.2 on Chile demonstrates and Chapter 3 explains in greater detail, the resultant protests are likely to articulate a much broader range of grievances. This phenomenon is particularly important for governments that are introducing tax reforms to increase public revenues or to achieve environmental objectives. As Chapter 4 discusses, tax policy will be a critical tool in promoting a sustainable and equitable recovery from the COVID-19 pandemic but tax reforms are likely to be extremely contentious, especially where the pandemic has left large portions of the population worse-off.

Figure 2.11. Those who are living comfortably or getting by on their current household income, 2007 and 2018



Note: Graph shows percentage of respondents in each region who answered yes to the question of whether they were living comfortably or getting by.

Source: Authors' calculations based on Gallup (2019^[48]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

StatLink  <https://doi.org/10.1787/888934253100>

Box 2.2. Unrest in Chile: From metro fares to a new constitution

The unrest in Chile that began in 2019 is emblematic of discontent seen across Latin America and globally. It also epitomises the diverse and complex underpinnings of discontent discussed in this report and demonstrates how discontent can create a space for transformation. A central question is how an increase in the cost of public transport in the capital, Santiago, caused prolonged national disruption in one of Latin America's strongest economies and most stable democracies, which has in turn resulted in a process to rewrite the country's constitution.

Latinobarómetro data on public attitudes articulate the paradox (2018^[43]). While public opinion across the region was generally downbeat in 2018, Chile's respondents were relatively positive. Although only 26% of the population rated the economic situation as good or very good, this was the highest score in the region and well above a regional average of 12%. One-third of the population believed that the country was progressing, well above the regional average (20%) and second only to Bolivia. However, individuals were much less confident about their own prospects: 39% expected their own situation to improve, below a regional average of 45%.

Questions about the political system yielded mixed results, with 58% of Chileans supportive of democracy (above the regional average of 48%), but 23% saying that an authoritarian regime might work better (second highest in the region and well above the average of 15%). While in 2018 only 22% of Chileans believed that the country was governed for everyone's benefit, this was one of the highest levels in the region and up significantly from the previous year, against the trend in most other countries. Nonetheless, 45% had confidence in the government in 2018 (up sharply from 2017), but trust in congress was below the regional average (17%). It is notable that support for democracy was highest in Venezuela, which was also most opposed to authoritarian government.

In 2018, 64% of Chileans were happy with their lives, the second lowest proportion in the region. Some 44% felt that they are not able to get by, and 51% were worried that they would lose their job in the next 12 months, the sixth highest reading in the region. Inequalities clearly rankled Chileans. Just 8% in 2018 believed that the distribution of income was fair or very fair, the joint lowest rating in the region and below the average of 16%. Based on respondents' assessments, Chile has one of the largest working classes in the region, with a very small upper class (59% and 4%, respectively). Chileans were also shown to be least likely to migrate to another country.

None of these figures explain how an increase in Santiago metro's peak time fare (equivalent to USD 0.04 [United States dollar]) led to nationwide protests. As many as 1.2 million of the country's less than 20 million population took to the streets, and numerous lives were lost. The protests caused USD 4.6 billion in damage to infrastructure, and the cost to the economy was calculated at around 1.1% of GDP (Verisk Maplecroft, 2020^[3]). Protesters' demands went far beyond a reversal of the fare increase. The issue exposed a broader lack of respect for citizens' basic rights as reflected by poor-quality schools and health facilities and low pensions; these demands were captured in a cry for "*dignidad*" or dignity (Mussa, 2019^[53]).

Longer-term factors provided evidence of political dysfunction. There has been a long-term decline in voter turnout in Chile since democracy was restored (Bargsted et al., 2019^[54]); the number of illegal strikes rose substantially during the 2010s (Pérez, Medel Serraldo and Velásquez, 2015^[55]); and there was an increase in protests over the same period, with large student participation and especially in areas with the lowest voter turnout (Garretón et al., 2017^[56]). Perhaps the most important cause, however, was resentment towards the constitution, which was promulgated in 1980 during the dictatorship of Augusto Pinochet.

This constitution locked Chile into the market-oriented model that prevailed during the dictatorship even once democracy was restored, with power highly centralised at the level of the president, minimal mechanisms for feedback outside the ballot box and highly favourable conditions for the private sector (Huneeus and Undurraga, 2021^[57]). Even if politicians opposed to this system were elected to office, the legislative majority required to amend the constitution was prohibitive.

This context helps to explain how a protest over the price of a metro ticket might end with a new constitution. In October 2020, a popular referendum was held on whether or not citizens wanted to change the constitution and who would be tasked with formulating a new one. More than 78% of those who cast their ballot voted in favour of a new constitution, and 79% of voters said that a new body wholly elected by popular vote should be established to draft it rather than a body that includes current members of congress (AS, 2020^[58]).

The popular vote on who would participate in the 155-person convention to draft the new constitution took place on 16 May 2021. A majority of voters rejected traditional parties, especially on the political right, which obtained only 21% of votes – well short of the 33% needed to have an influence on the content of the new constitution or to veto proposals. More than a third of the delegates who were selected ran as independent candidates; many of them participated in the initial protests. To promote inclusivity, the convention has equal gender representation, and 17 seats are reserved for indigenous groups (Le Monde, 2021^[59]). The convention has a mandate for change on a scale unimaginable before October 2019.

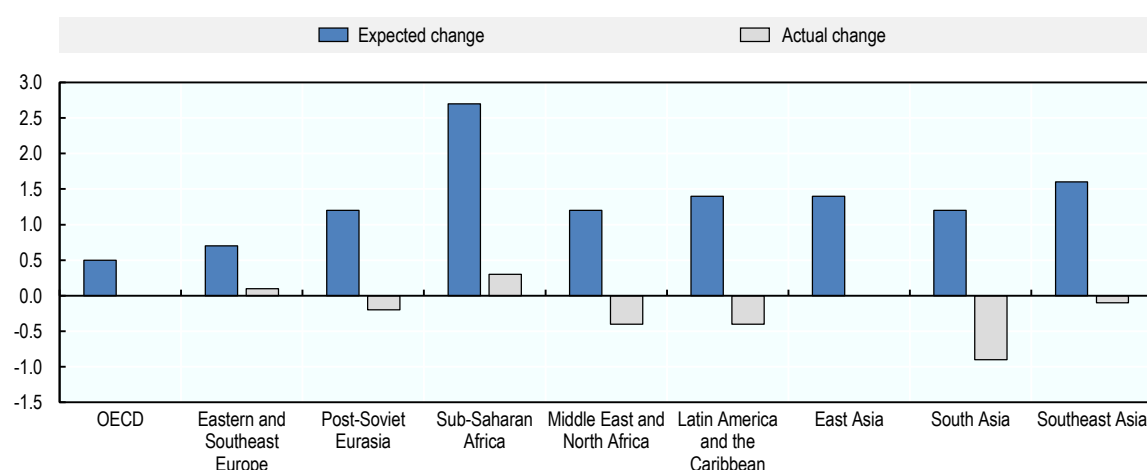
A final point is that the decision to raise metro fares was related to the cost of using renewable energy to power the network (Schröder, 2019^[60]). This is consistent with an apparent tension discussed throughout this report between social and environmental imperatives, which is addressed by the international commitment to a Just Transition (COP24, 2018^[61]).

Frustrated expectations reinforce the discontent caused by economic insecurity. In addition to people's feelings about their current situation, their feelings about their past and future personal economic direction – and that of their families and communities – are key ingredients of discontent. Tocqueville noted that the strongest revolutionary sentiment in France during the Revolution was found in regions where prosperity had been growing rather than in regions that were economically stagnant (1856^[62]). He attributed this to the frustration that comes when rising expectations generated by a positive trajectory are subsequently disappointed. By this theory, widespread discontent does not require economic collapse; it is sufficient that citizens do not experience the improvements in living standards they expected. Indices around happiness and well-being gradually delink from income and are shaped by a number of different quantitative and subjective factors, including the perception of the quality of public goods and jobs, as well as a sense of belonging (OECD/CAF/ECLAC/EU, 2019^[63]).

During the years before the COVID-19 pandemic, life across all regions was failing to meet people's expectations. According to Gallup, the average person in 2014 rated their life at 5.4/10 but thought that in five years their life would be significantly better (6.7/10). In no region were citizens able to fulfil their expectations (Figure 2.12). Indeed, the average life ranking in 2019 decreased to 5.1. It is reasonable to assume that these frustrated expectations have played a role in discontent and also that the fall in absolute well-being suffered by large portions of the population as a result of COVID-19 will worsen this phenomenon.

Confidence in the ability to improve one's standard of living is not universal, and many are nostalgic for the past. The Pew Spring 2018 Global Attitudes survey found that a median of 57% of people across 27 nations surveyed felt that they had a good chance to improve their standard of living. Citizens of emerging economies were slightly more likely to feel this (the median in these countries was 62%) than those in advanced economies (55%) (Pew Research Center, 2019^[64]). The results of a survey of 38 advanced and developing countries showed that fewer than 50% of respondents felt that life is better today than 50 years ago. In 23 of these countries, respondents were more likely to say that life was better 50 years ago than today or had not changed (Pew Research Center, 2017^[65]).

Figure 2.12. Expected versus actual change in life ranking between 2014 and 2019



Note: The question asked in 2014 was, "Please imagine a ladder with steps numbered from 0 at the bottom to 10 at the top. Suppose we say that the top of the ladder represents the best possible life for you, and the bottom of the ladder represents the worst possible life for you. Just your best guess, on which step do you think you will stand on in the future, say about five years from now?" The question in 2019 asked which step people would put themselves on "at this time".

Source: Authors' calculations based on Gallup (2019^[46]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

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Underlining the central importance of job creation, work is still widely perceived as the key to a better life. Gallup indicates that 82% of people globally in 2018 believed that people in their country could get ahead by working hard – unchanged since 2006 (2019^[48]). However, this average masks diverging trends in different regions: the proportion of respondents who held this belief rose in SSA (+1 percentage point), Southeast Asia (+4 percentage points) and, by a particularly large margin, East Asia (+24 percentage points). However, it declined in Central, Eastern and Southeastern Europe (-5 percentage points), South Asia (-5 percentage points), the MENA (-4 percentage points) and Latin America (-2 percentage points). The proportion was unchanged in OECD countries.

Public services are a source of dissatisfaction

Citizens count on their government to help them live the life they choose through the provision of public goods, such as security, education, health, social benefits and a clean environment. Public goods are also a key mechanism of redistribution and for promoting equality of opportunity. Where governments fail to provide these services or these services do not meet people's expectations, dissatisfaction is likely to follow, leading to spontaneous protests or longer-term loss of trust in institutions.

Dissatisfaction with public services is widespread. On average across the 21 OECD countries covered by the 2018 OECD Risks that Matter Survey, 51% of respondents agreed or strongly agreed that they had access to good-quality public education, making it the public service with the highest approval rating (2019^[66]). Fewer than half of respondents said that they had access to good quality and affordable health care, while one-third considered that they had access to good-quality public housing, and fewer than one-third said that they had access to good quality public employment services. A finding of particular concern given the ageing populations in many OECD countries is that people were least satisfied with the provision of long-term care.

The same survey reveals broad dissatisfaction with social protection provision: on average across the 21 countries, only about 25% of respondents agreed or strongly agreed that the government provided adequate income support in the event of unemployment or becoming a parent, and just 20% in the event of illness, disability or old age (OECD, 2019^[66]). This contributes to a majority of people feeling that they are not receiving a fair share of public benefits for the taxes they pay: 59% of respondents. It should be noted that *Government at a Glance 2019* gives a much more positive picture of public services for the OECD as a whole (OECD, 2019^[67]). Based on Gallup data, it shows that 70% of citizens in the OECD are satisfied with the availability of health care, and 66% are satisfied with education services.

Although not detailed in these studies, provision (and perception) of public services is likely to vary by region, discrepancies laid bare by COVID-19. As the OECD points out with reference to OECD countries, “[rural] regions tend to be equipped with fewer hospital beds ... In 2018, regions close to metropolitan areas had almost twice as many hospital beds per 1 000 inhabitants than remote regions. This gap has grown significantly since 2000” (2020^[68]).

The OECD uses Gallup data to examine satisfaction with public services in the LAC region. It finds that public satisfaction with health care declined from 55% in 2007 to 49% in 2018, while satisfaction with the education system and schools dropped from 65% to 63% (2020^[69]). Only 34% of respondents on average expressed confidence in the judicial system in 2018 – a slight increase from the proportion in 2007 but well below the OECD average (56%). *Government at a Glance Southeast Asia 2019* finds much more positive results: across the ten countries in the region, 79% of respondents on average were satisfied with healthcare provision, 83% with the education system and schools, and 69% had confidence in the judiciary (OECD/ADB, 2019^[70]). The level of satisfaction with health care and the judiciary had increased since 2007, indicating that governments are keeping pace with expectations in the region.

The *African Economic Outlook 2017* reported that more people were dissatisfied than were satisfied with the availability of new jobs, access to quality health care, public transport, roads and housing

(AfDB/OECD/UNDP, 2017^[10]). More people were satisfied than dissatisfied with education and water. Gizelis, Pickering and Urdal warn that disorderly urbanisation is likely to exacerbate frustration at the poor quality or low provision of services, leading to unrest in peri-urban areas in particular (2021^[71]).

Discontent might worsen as a result of the COVID-19 pandemic. Aside from its toll on people's economic situation, it is also exposing weaknesses in public services and, through its impact on fiscal revenues, might make it harder to improve these services in the future (a point to which the report returns in Chapter 4). In a study that reverberates with today, Davies depicts a J-curve to demonstrate how revolutions have occurred when a prolonged period of improvement is interrupted by a sudden economic shock, which creates an intolerable gap between people's actual conditions and those their previous experiences had led them to expect (1962^[72]). More recently, Barrett and Chen identify a positive correlation between pandemics and unrest across 130 countries but point out that the effect is not instantaneous: epidemics tend to create a period of relative calm before unrest returns (2021^[73]).

The fears and frustrations documented in this section resonate with so-called “development traps” (OECD/CAF/ECLAC/EU, 2019^[63]), which constrain national development and prevent improvements in well-being. These traps, which are evident in developing countries across the world, are reflected in low levels of economic productivity, weaknesses in public institutions, social vulnerability and environmentally unsustainable economic models. Chapter 4 returns to the first three of these traps to explain how approaches that harness popular participation can achieve a double dividend, providing an exit from these traps while also strengthening social cohesion and the bonds between society and the state.

Many citizens do not feel heard

The manifestations of discontent examined at the start of this chapter point to weaknesses in the way states and societies interact. A situation where citizens are protesting more and voting less suggests that elections are not providing an opportunity to effect the changes they would like to see in their country. Declining trust in the government indicates citizens do not feel their interests are represented and suggests insufficient opportunities for co-operation. These tendencies suggest a dearth of “political efficacy”, a phenomenon defined by Campbell, Gurin and Miller as “the feeling that individual political action does have, or can have, an impact upon the political process, i.e. that it is worthwhile to perform one's civic duties” (1954^[74]). Political efficacy can largely be summed up by a simpler term: voice.

Opportunities for citizens to express their voice are declining in many regions. According to *Government at a Glance 2019*, in 2016, only 37% of people in 23 (mainly European) OECD countries on average reported having a say in what the government did, slightly down from 2014 (OECD, 2019^[67]). The same report identified a strong positive correlation between voice, satisfaction with democracy, and trust in parliament in the same countries. There was wide variation among countries, with about 74% of respondents in Switzerland reporting having a say versus around 10% of those in Italy. From 2014 to 2016, the percentage of the population who believed that they could influence government action increased the most in Germany (+14.4 percentage points) and Iceland (+24.5 percentage points), while the steepest declines occurred in Poland (-12.4 percentage points) and Sweden (-9.9 percentage points).

Large sections of the population in many countries feel ignored by their government. Some 61% of people in a sample of 27 countries in 2018 thought that elected officials did not care what ordinary people thought. In addition, 60% stated that things do not change very much no matter who wins an election, with values varying from 42% in Spain to 82% in Greece (Pew Research Center, 2019^[64]). In all countries covered by the survey, there was considerably more dissatisfaction with democracy among those who said that elected officials did not care what people think. In Nigeria, for example, those who said that elected officials do not care what ordinary people think were 21 percentage points more likely to be dissatisfied with the way democracy was working in their country than those who said that elected officials do care. The figures for Hungary, Mexico and India were +39 , +19 and +18 percentage points, respectively.

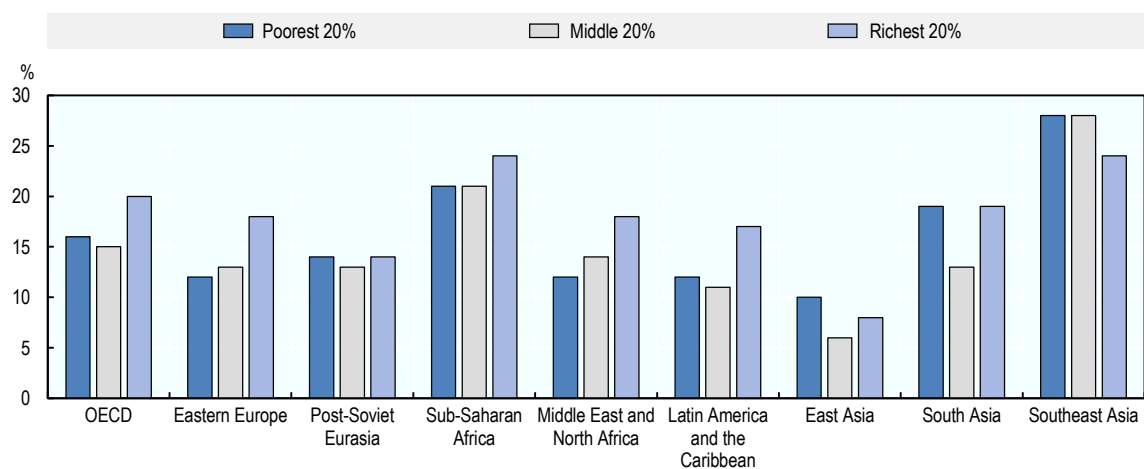
In Africa, citizens' confidence in the capacity of elections to bring about change appears to have weakened significantly. In 2019-20, an average of 42% of respondents from 18 countries participating in the Afrobarometer survey believed that elections ensure representatives in parliament reflect the view of voters and enable voters to remove leaders who do not do what the people want (M'Cormack-Hale and Zupork Dome, 2021^[75]). In the 11 countries surveyed regularly since 2008-09, this belief declined from 56% to 45% over the intervening decade. However, this decline has not affected citizens' belief in the importance of elections: on average, 73% of respondents said that they want to choose their leaders through regular, open and honest elections (M'Cormack-Hale and Zupork Dome, 2021^[75]). According to Kuenzi and Lambright, the propensity to vote in Africa is positively associated with age, living in rural areas, membership of voluntary organisations, affiliation to a political party, satisfaction with the government and dissatisfaction with the state of the economy (2005^[76]).

The picture of who votes in Latin America is complicated by the prevalence of compulsory voting legislation. However, Haime shows that women tend to vote more than men and that "identifying with the party of the incumbent president, being exposed to vote-buying incentives and having a high level of interest in politics increase turnout" (2017^[77]). The study also finds that "older, educated and employed citizens have higher probabilities of voting", a finding echoed by Carreras and Castaneda (2014^[78]). Meanwhile, Tambe finds that the propensity to vote in East Asia is weakly affected by socio-economic variables (with the exception of age) but is strongly connected to institutional factors (2017^[79]). Membership of trade unions and other civil society organisations increases the chances of voting, as do proportional representation, parliamentarism and closeness of elections, as well as the quality of elections (in terms of being free and fair). Sanborn confirms the importance of the quality of Asia's democratic institutions for sustaining democracy in the region (2018^[80]).

Interactions with officials are an important opportunity to influence the government outside the ballot box, as well as to build bonds of trust and reciprocity between citizens and the state. The proportion of people globally who voiced their opinion to an official in the month before participating in the Gallup World Poll fell from 17% in 2006 to 15% in 2018, although there is considerable variation by region (2019^[48]). Latin America, for example, saw a 9 percentage point fall between 2006 and 2018, while there was a 12 percentage point increase in Southeast Asia. The relationship between income and voice also does not appear to be straightforward; individuals in lower income quintiles participate less in Eastern Europe, LAC and the MENA, but the pattern is different in other regions (Figure 2.13).

Chapter 3 returns to the question of who has a voice, whether through activism, elected office or participation in the day-to-day organisation of public life, in determining the way countries are run. While greater citizen participation is a *sine qua non* of inclusive societies, Chapter 4 explains how inequalities in participation can reinforce rather than weaken pre-existing power structures.

Figure 2.13. Individuals who voiced their opinion to an official in the past month, by income, 2018



Source: Gallup (2019_[48]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

StatLink  <https://doi.org/10.1787/888934253138>

Conclusion

Discontent has risen sharply around the world since the global financial crisis. Despite a brief lull, it is expected to worsen after the COVID-19 pandemic. The rise in protests has been widespread across the globe, although other indicators discussed here suggest that citizens are more frustrated in LAC, MENA and OECD countries than might be the case in other regions, notably Asia. The chapter also finds evidence that discontent is most visible in middle-income countries and is often driven by the middle classes. A picture emerges of progress interrupted, which the chapter links to a series of development traps – low productivity, weak institutions and social vulnerability – to which the report returns in Chapter 4.

Public attitude surveys tell a compelling story about what people want around the world: a stable economy, secure jobs, less corruption and better public goods. They also show that many people are struggling to get by and that their lives are not meeting their expectations. Many are also finding it hard to make their concerns heard, which is pushing them towards different avenues of engagement with the government. Yet this chapter sheds only partial light on when, why and how these worries and frustrations lead to the levels of discontent evident today. To understand these questions better, Chapter 3 looks at the structural and political factors that interact with the contingent factors discussed here.

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3

The structural causes and politics of discontent

This chapter examines causes of discontent that operate at a deeper level than the grievances identified in Chapter 2. These relate to the functioning of society and its political system rather than to the state of the economy or the performance of a particular administration. The chapter starts by investigating the complex links between inequality and discontent then analyses social cohesion in different regions with reference to trends in civic engagement and inter-personal trust as well as the uneven evolution of values and outlooks within societies. Next, it assesses the diminishing capacity of political systems to mediate across increasingly fractured and unequal societies and examines the rise of populist movements in response. It concludes by demonstrating how emerging digital technologies have the potential to exacerbate social polarisation and are giving rise to new forms of political protest.

Introduction

In five years, everything can change in Russia but in two hundred – nothing. (Aleksievich, 2016^[1])

Chapter 2 identifies the insecurities, grievances and frustrations that provide the spark for discontent. However, it does not tell the whole story: as the example of Chile demonstrates (much as the Arab Spring did a decade earlier), unrest is not restricted to countries that are experiencing the most obvious difficulties. Nor do the macroeconomic trends analysed in Chapter 1 explain discontent in and of themselves. Discontent is a psychological and sociological phenomenon with important political implications: its proximate causes need to be examined within the broader social and political context, with which they inevitably interact.

These structural factors, which were in evidence during the coronavirus (COVID-19) pandemic, generate discontent of a different form, often originating more from dissatisfaction with the state of society than with a particular government. Questions of social cohesion, trust, identity and culture come to the fore; so too do matters of power and social justice. By drawing attention to these issues – infinitely complex though they are – this chapter demonstrates that responses to discontent that focus on the contingent causes without addressing social fractures and weaknesses in political systems will not provide a lasting solution.

This approach acknowledges that the specificities of a society are key to explaining the emergence of discontent but argues that many of the structural challenges that societies face today are common across countries and regions, consistent with a growing economic, social, cultural and, of course, technological interconnectedness. So while every unhappy country is unhappy in its own way, this does not rule out the existence of generalised discontent. Indeed, as Chapter 5 explains, these links are increasingly bringing civil society together across the world in protest.

The complexities of inequality and discontent

How can you expect a man who is warm to understand a man who is cold? (Solzhenitsyn, 1963^[2])

This chapter begins by addressing the question of inequality, which provides a bridge between the contingent and structural causes of discontent. Inequality is often cited as the driving force behind discontent, yet it embodies many of the complexities inherent to diagnosing and alleviating discontent. After all, inequality has been a feature of human social structures (and those of other species) for millennia: it has been tolerated in various forms by many successful (and peaceful) societies. Indeed, many people today are culturally disposed to approve of inequality – to perceive it as morally right – when it reflects just deserts for talent and hard work in a meritocratic society. Attitudes are likely to be highly contextual: Alesina and Giuliano stress the importance of “[historical] experiences, cultural factors and personal history as determinants of preferences for equality or tolerance for inequality” around the world (2011^[3]).

To demonstrate the complexities of inequality, this section first considers the definitional challenges it poses then examines the phenomenon not only in economic terms but also from a psychological and sociological perspective. It contends that relative deprivation provides the link between inequality and discontent before discussing the interaction between absolute and relative inequality. Moreover, relative deprivation helps to explain the prevalence of protests among middle-income countries or the middle classes identified in the previous chapter: the concept not only captures people’s frustration at the advancement and advantages of others but also the frustration that emerges when people’s expectations are unfulfilled or their progress impeded.

Which inequality matters?

Inequality is one of the defining economic challenges of our time. As the United Nations Department of Economic and Social Affairs argues, it is not a megatrend itself but is inseparable from globalisation, climate change, digitalisation, urbanisation and migration (UNDESA, 2020^[4]). It is also often cited as a critical factor behind discontent. Yagci, for example, shows that the occurrence and scale of protests linked to the Occupy movement around the world in the early 2010s were positively correlated with a country's level of inequality (2017^[5]). Yet inequality is a multi-dimensional phenomenon that can be understood and measured in many ways. It also falls under the purview of many different disciplines – from biology and anthropology to psychology and sociology, through to philosophy, political science and economics.

The first question to clarify when examining the link between inequality and discontent relates to the type of inequality. This report argues that income inequality should be considered alongside economic and social inequality more broadly, and that these in turn should be analysed in conjunction with political inequality. This approach echoes Sen's lecture famously titled *Equality of What?*, which underlines the importance of examining individuals' "basic capabilities" to understand the state of inequality in a society. These capabilities extend beyond "utility or primary goods" to "the ability to do certain basic things", including "the ability to meet one's nutritional requirements, the wherewithal to be clothed and sheltered, the power to participate in the social life of the community" (1979^[6]).

In this context, focusing on income and wealth provides only a limited understanding of inequality. This is especially so when the measures used to analyse inequalities of income and wealth might not capture a society's experience of these inequalities. Piketty argues that Gini coefficient for national income inequality shown in Chapter 1 (and widely used to analyse income inequality elsewhere) is not very intuitive (2014^[7]). To capture the gulf between the haves and the have-nots (or the haves and the have-mores), he argues that it makes more sense to calculate inequality according to the proportion of income or wealth that accrues to different income groups, be it the top 1%, top 5% or top 50%.

Nonetheless, income inequality is widely shown to be negatively correlated with a range of well-being indicators. Oishi, Kesebir and Diener demonstrate how individual happiness in the United States fluctuated between 1972 and 2008 according to changes in income inequality (2011^[8]), with the former declining as the latter increased, while Twenge, Campbell and Carter use similar data to show that interpersonal trust and trust in institutions are inversely correlated with income inequality (2014^[9]). Yang and Xin record similar results for the People's Republic of China (hereafter "China") (2020^[10]). Buttrick, Heintzeman and Oishi explain the specific psychological channels through which income inequality negatively affects well-being with reference to its impact on status competition, mistrust and optimism (2017^[11]).

Yet income inequality does not invariably lead to discontent. Various reasons have been put forward to explain this. For example, people tend to underestimate the level of inequality in their country (Hauser and Norton, 2017^[12]). It might also reflect acquiescence: Jost and Hunyady show that those groups poorest served by the economic system might still support it (2003^[13]). The authors find that system justification is prevalent across income groups even amid high inequality because it reduces feelings of guilt, anxiety and uncertainty among rich and poor alike. In related work, Mijs argues that income inequality is tolerated because gains in income are considered fair reward for ambition and effort (2019^[14]). The author also finds that people in advanced economies were more likely to believe their society to be meritocratic in 2012 than in the 1980s, even where income inequality rose over that period.

Relative deprivation holds the key

Under what circumstances does inequality lead to discontent? To answer this question, it is necessary to broaden both the unit of analysis and the temporal frame of reference. Our contention that discontent is a collective phenomenon means looking at inequality between groups rather than individuals; the argument that it is inspired by frustrated expectations or promises unkept means looking both backwards and into

the future rather than staying in the present. The concept of relative deprivation is central to this broader analysis: it captures not only the sense of injustice people may feel when they see another group enjoying a better standard of living than themselves but also the dissatisfaction people experience when their lives have not turned out as they had hoped (a tendency Chapter 2 uncovers in every region).

Relative deprivation theory dates back to the 1940s and was highly influential in social studies. Relative deprivation has been proposed, for example, as the reason that average happiness did not rise in the post-war United States despite significant increases in gross domestic product per capita (Easterlin, 1974^[15]). However, it was particularly prominent in the context of the Civil Rights Movement in the United States during the 1950s and 1960s (Smith and Pettigrew, 2015^[16]). Gurr brought the concept into political science, highlighting the importance of frustrated expectations in understanding civil unrest (1970^[17]).

Runciman distinguished between relative deprivation felt by individuals and by groups: relative deprivation among individuals (which he termed “egoistic”) was likely to inspire introspective attitudes and self-serving behaviour; relative deprivation at a group level (which he termed “fraternal”) was apt to inspire collective action and diminish trust across population groups (1966^[18]). While both forms are relevant to this report, fraternal relative deprivation is more useful for understanding how inequality might drive the increase in civil unrest visible over the past decade or so.

With reference to civil unrest in some 100 countries, Siroky et al. find that relative deprivation (which they describe as predominantly “psychological”) is a much better predictor of inter-group conflict than horizontal inequality (“structural and largely material”).

[Policy] makers may need to be more attentive to perceptions that groups have of being deprived, rather than relying solely on socioeconomic indicators of inequality, to identify groups that may be motivated to engage in violent collective action. While the results indicate that there is a clear need to unpack grievances, they equally imply a need to keep an eye on the groups’ relative capacity to mobilize. (2020^[19])

Must and Rustad explore relative deprivation with reference to the Mtwara and Lindi regions in Tanzania, which have been marginalised from the country’s post-independence development but were promised by the government that the discovery of natural gas in the area would kick-start their economy (2019^[20]). Riots broke out in the hitherto peaceful regions in 2012 and 2013 amid accusations that the national government had broken its promises. In explaining why the population mobilised then and not before, the authors argue that “objective group inequality is not sufficient to fuel unrest. Structural inequalities need to be perceived as unfair, and become grievances, in order to spark mobilization.” They conclude that “conflict studies should start to gauge perceptions and judgements, and how these are formed, in order to better determine when and how horizontal inequalities lead to mobilization.” They also find that individual inequality is not associated with the decision to mobilise, underlining the importance of group perceptions.

Hirschman’s famous account of the “tunnel effect” applies the complexities of relative deprivation and frustrated expectations to explain “development disasters” – instances where a country has achieved some success in developing but has suddenly undergone a swift reversal involving large-scale civilian unrest (1973^[21]). He employs the metaphor of traffic in a tunnel: citizens are in one lane or another trying to pass through the tunnel, and one group might see the cars in the adjacent lane moving faster than themselves. For a while, they tolerate and even welcome this inequality in the expectation it will soon be their turn to advance; the longer it takes for this opportunity to materialise, the greater their irritation will grow. At the same time, those who have moved initially might now find their progress blocked by some or other unforeseen impediment to their fulfilling their expectations. In this situation, both groups have cause to protest against the status quo.

Social mobility (or lack thereof) is key. Groups might tolerate inequality if there are reasonable prospects of advancing but cease to do so when these prospects disappear and the system comes to be perceived as unfair (Rodrik, 2017^[22]). As Becker shows, people’s attitudes towards income inequality change over time but their belief in the importance of equality of opportunity is constant (2021^[23]). Using data gathered

from more than 100 countries, Houle finds that countries with low levels of social mobility are “more likely to experience riots, strikes, demonstrations, political assassinations, guerrillas, and revolutions”, and that social mobility (or lack thereof) might be a more reliable predictor of unrest than inequality (2019^[24]).

Promoting social mobility requires more than enhancing economic opportunity. Returning to Sen’s capability approach, people’s capacity to lead a fulfilling life is also determined by social, political and environmental factors. If structural limitations to social mobility are not acknowledged and addressed, a situation might arise whereby inequality is justified in terms of an illusory meritocracy in which elites see their status as due reward of their hard work and talent, while the precariat have only themselves to blame for their vulnerability and diminished prospects. This state of affairs is likely to further polarise society, generate resentment across a population and weaken democracy (Lasch, 1995^[25]), (Sandel, 2020^[26]).

The notion of relative deprivation, whether viewed in subjective or objective terms, is complicated by the fact that individuals have multiple group identities, relating (for example) to their gender, ethnicity, sexuality, economic status or political orientation. The complex and interlocking power dynamics that exist between various identities, commonly referred to as intersectionality, should be borne in mind when examining how a particular group is socially privileged or discriminated against (Overstreet, Rosenthal and Case, 2020^[27]). It is also relevant when assessing whether and how broad coalitions might emerge in response to a particular grievance (Ayoub, 2019^[28]).

What role for absolute deprivation?

These people aren’t starving; they’re being starved. (ICVA, 2021^[29])

While relative deprivation helps explain the conditions and mechanisms whereby inequality leads to unrest, it does not necessarily tell us about the relationship between poverty – or absolute deprivation – and discontent. Chapter 2 shows that large proportions of the global population are not able to get by on a daily basis, a phenomenon it identifies as a contingent cause of discontent. However, poverty is also a structural phenomenon: self-reinforcing traps that prevent people escaping poverty might relate to the structure of the economy, regional factors or the impact of poverty on people’s belief that change is possible or their cognitive capacity (Mani et al., 2013^[30]).

The sharp increase in global poverty caused by the coronavirus (COVID-19) pandemic makes this an important time to consider the link between absolute deprivation and unrest. More specifically, the report focuses on food insecurity, which was worsening even before the pandemic; at the time of writing, some 34 million people around the world are on the brink of famine, and acute hunger is expected to soar in 20 countries (Hengel, 2021^[31]). Periodic spikes in food prices over the last two decades represent a simultaneous, macro-level shock to people’s purchasing power, which most affected the people with the lowest incomes. In his study of unrest in Africa, Smith finds “convincing evidence of a causal relationship between changes in domestic food prices and the probability of unrest” (2014^[32]). Abbs finds strong evidence that spikes in food prices increase the likelihood of protests and that these protests attract broad-based coalitions (2020^[33]).

Newman explores the complex links between food prices and political instability in 79 countries where food protests or riots took place between 2005 and 2015 (2020^[34]). While taking into account whether countries’ political environment was conducive to protests, the study finds evidence that absolute deprivation was indeed a factor. The frequency of unrest was negatively correlated with a country’s level of human development, social protection coverage and state capacity; unrest was more common in societies that were food insecure and where people spent a high proportion of their income on food. However, the study also reveals that unrest was not “disproportionately concentrated in the lowest income countries” or “in the societies with the *highest* levels of undernourishment”. It also shows that unrest tended to take place in “urban settings...and not necessarily in the poorest societies” and that “most events occurred in societies experiencing improvements in human development prior to the onset of food riots”.

Newman concludes by arguing that food riots are “an expression of broader frustrations in societies prone to contentious politics related to other social and political issues”: “food-related unrest is associated with partial democracy, social inequalities, and state fragility, key drivers of contentious politics more broadly.” The idea that food riots are “not necessarily about hunger” echoes Smith’s conclusion: “[to] think that food riots are simply about food is a dangerous reduction. Such a view could easily lead one to focus on controlling the cost of food while ignoring political or social injustices. But it is equally blind to ignore the possibility that the cost of food can be a driver of unrest that manifests in other ways or is directed at targets seemingly unrelated to the food system” (2014_[32]).

As this section demonstrates, the relationship between poverty and inequality on the one hand and unrest on the other is highly complex. An important lesson for policy makers is that objective data on poverty and inequality (especially when narrowly defined in terms of people’s income) do not capture the subjective perceptions that are the principal driver of discontent. Nor do they reflect people’s tendency to assess their quality of life with reference to that of other people, against their own rights and expectations, or against what they perceive to be fair and just. Last, focusing on income or even economic factors more broadly does not capture the power inequalities that perpetuate poverty and inequality. As Box 3.1 illustrates with reference to gender inequality, discrimination cuts across all areas of life and has often worsened during the COVID-19 pandemic.

Box 3.1. Gender-based discontent

The #MeToo movement that gained global traction in 2017 and has remained influential ever since is just one example of the ways in which girls and women have resorted to public demonstrations to expose the structural inequalities and injustices they face. As the Social Institutions and Gender Index (SIGI) produced by the Organisation for Economic Co-operation and Development (OECD) demonstrates, structural inequalities are rooted in discriminatory laws, social norms and practices that remain commonplace around the world. These barriers to women’s empowerment and well-being are both institutional and cultural, and they cannot be overcome without significant legal changes and policies that address harmful social norms (OECD, 2019_[35]).

Returning to the pay gaps mentioned in Chapter 1, 31 countries around the world do not have laws requiring equal remuneration for work of equal value. Only 27 countries legally require companies to report on how they pay women and men and merely 20 of these countries impose penalties for companies in case of gender discrimination in recruitment and promotions. The gender pay gap is partly explained by the under-representation of women in better paid jobs, and their over-representation in lower paid positions and among part-time workers. Social norms also contribute to gender segregation across occupations and sectors, which also amplify gender pay gaps (OECD, 2019_[35]). Restrictive masculine norms promote these gendered understandings of occupations and sectors, as well as the view that men’s paid labour is more valuable than women’s (OECD, 2021_[36]).

The OECD demonstrates the extent to which men dominate societies beyond the economic sphere, and how much progress is needed in changing attitudes towards women’s empowerment (2021_[36]). Most leaders in politics and business are men: in 2021, men represented 75% of parliamentarians and, in 2019, more than 65% of managers world wide. Many seem to believe this is normal; 41% of World Values Survey respondents declared that men make better political leaders than women, while 36% stated that men make better business executives. Women are legally excluded from certain professions in 88 countries, and the assumption that men should be the main bread winners in the household persists in many countries (OECD, 2021_[36]).

The COVID-19 pandemic has exacerbated these problems. Violence against women already represented a global health epidemic. Every day, 137 women are killed by their partner or a family

member, and one in three women world wide has experienced intimate partner violence in their lifetime (UN Women, 2020^[37]). Lockdown measures, combined with the pandemic's socio-psychological and socio-economic impact, have aggravated gender-based violence. They also amplified existing inequalities in unpaid care and domestic work: women already spent three times longer engaged in unpaid care and domestic work than men across the world prior to the pandemic, and up to nine times more in certain regions (OECD, 2019^[38]). The closure of schools and childcare facilities during the pandemic added further to this burden.

The pandemic has also disproportionately affected women and girls economically (OECD, 2020^[39]). The crisis crippled sectors such as retail, food and accommodation and tourism that not only constitute a key sector of developing countries' economies but are also a major employer of women, (UN Women, 2020^[40]). Women are more likely to be in temporary, part-time and precarious employment than men and less likely to be covered by employment-based social protection and labour laws (OECD, 2020^[39]).

Specific and co-ordinated efforts to address the multiple sources of discontent among women must be central to the post-pandemic recovery (UN Women, 2021^[41]). Prior to the crisis, gender-based discrimination in social institutions already resulted in a loss of 7.5% of global GDP (OECD, 2019^[35]). The COVID-19 pandemic is an opportunity to address the root causes of gender inequality for the good of everyone.

The sociological factors behind discontent

As the discussion of inequality shows, it is not possible to draw a straight line from the grievances identified in Chapter 2 to discontent. Discontent is an emotional state, so it is necessary to analyse the psychological impact of these grievances; it is also a collective phenomenon, which means a sociological lens is needed. People's decisions as to whether and how they express their discontent reflects not only mental calculations but also their emotional state and the extent to which they identify with the other people involved (Stürmer and Simon, 2009^[42]), (van Troost, van Stekelenburg and Klandermans, 2013^[43]). Moreover, their attitudes and behaviour are strongly influenced by cultural factors, which in turn reflect the history and beliefs of their society. This report argues that discontent emerges from the interaction of these structural factors with the aforementioned contingent factors.

While these structural factors are highly contextual, this section contends that certain commonalities exist across countries and regions, which it links to the social fragmentation associated with development and modernisation. To make this case, it shows evidence of weakening social networks, declining interpersonal trust and worsening anomie, and it examines clashes between values (the so-called "culture wars"). In doing so, it touches on some of the megatrends discussed in the previous edition of *Perspectives on Global Development* (OECD, 2018^[44]) that are changing the structures of society globally: migration, climate change and demographics. Another megatrend – digital technology – is dealt with at the end of this chapter.

Social networks and civic engagement are diminishing

We thought we could do without tribes and clans. Well, we can't. (Vonnegut, 1981^[45])

Sociologists have long examined the impact of modernisation on the health of societies. By affecting our fundamental perceptions of space and time, modernisation is a catalyst for fundamental changes in our activities and social relations (Harvey, 1990^[46]). Changes in the way we live and work break the close bonds of family and small communities; if modern life is to be tolerable, these bonds must be replaced by links of trust, reciprocity and solidarity with fellow workers or city dwellers, for example. If not, the individual's well-being suffers. So too, argued Durkheim, would the entire country, which would become a "sociological monster" unless "between the state and the individual, there is interlaced a whole series of

secondary groups near enough to the individuals to attract them strongly in their sphere of action and drag them, in this way, into the general torrent of social life” (1893_[47]).

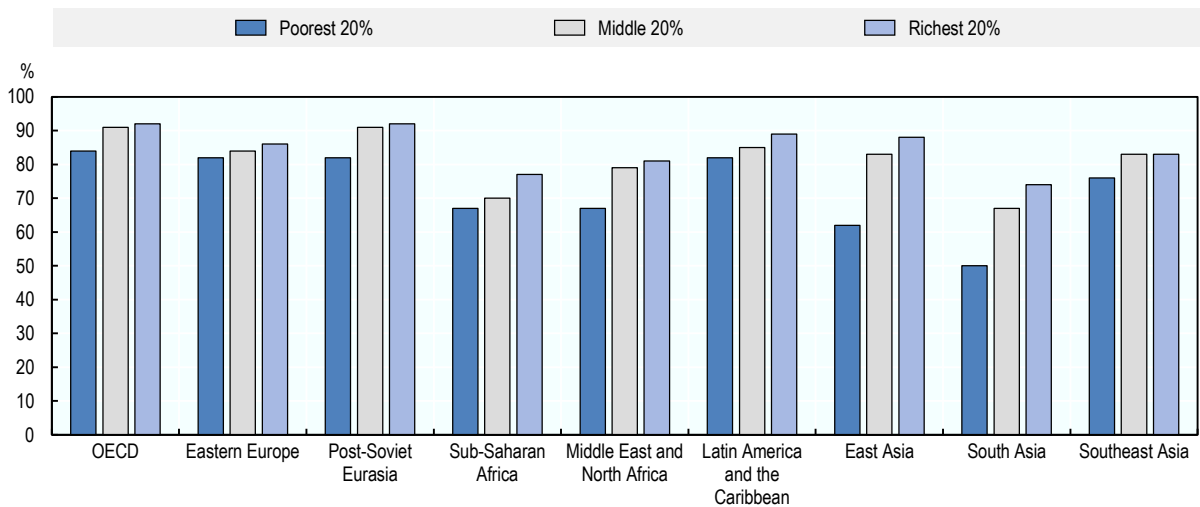
In explaining the health of democracy in the United States in the 19th century, Tocqueville emphasised the importance and breadth of associations, also known as secondary institutions.

Americans of all ages, all conditions, all minds constantly unite. Not only do they have commercial and industrial associations in which all take part, but they also have a thousand other kinds: religious, moral, grave, futile, very general and very particular, immense and very small... Thus the most democratic country on earth is found to be, above all, the one where men in our day have most perfected the art of pursuing the object of their common desires in common and have applied this new science to the most objects. (1960 [1835]_[48])

This idea has retained currency: some 150 years after Tocqueville was writing, Putnam attributed the decline of democracy in the United States to the demise of these associations (1995_[49]).

Support networks are weakening in many parts of the world. The proportion of people globally who felt that they could count on the support of friends and family in times of need fell slightly from 79% to 78% between 2006 and 2018. This average covers considerable regional variation, with increases in East Asia, post-Soviet Eurasia and Southeast Asia offsetting a five percentage point fall in the Middle East and North Africa and sub-Saharan Africa and a three percentage point fall in Latin America and South Asia. Across all regions, individuals from the lowest income quintile are substantially less likely to feel that they have support from friends and family than peers with higher incomes (Figure 3.1). The disparity is particularly pronounced in East Asia, the Middle East and North Africa, and South Asia.

Figure 3.1. Those who have friends or relatives to count on in times of trouble, by income, 2018



Source: Gallup (2019_[50]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

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The secondary institutions that temper the impact of modernisation at a collective level are also weakening. This tendency not only exacerbates citizens’ feelings of isolation but also contributes to the weakening of citizens’ voices. It is generally not feasible for citizens to communicate directly with the state. They are better able to communicate their interests via institutions that serve as interlocutors between society and state, as well as provide citizens with a group identity.

Union membership is low across the developing world and has declined in countries at all income levels. In 1975, 33% of workers were members of trade unions in OECD countries, but that rate had halved to 16%

by 2018. This decline was accompanied by a decline in the proportion of workers covered by a collective bargaining agreement, from 46% in 1985 to 32% in 2017 (OECD, 2019^[51]). The rate of union membership in the public sector in OECD countries is around three times higher than in the private sector. Across all sectors, union membership is extremely low among low-skill workers, the young and those on part-time contracts (OECD, 2019^[51]). There are thought to be many factors behind this decline, including changes to the structure of output (away from manufacturing, towards the service sector), the competitive pressures of globalisation and the growing prevalence of non-standard work contracts.

Time series data for union membership in developing countries are rare, but in countries for which data are available – and using the most recent data since 2010 – average rates of unionisation in non-OECD Americas, non-OECD Asia and sub-Saharan Africa are 15.4%, 16.0% and 15.8%, respectively (ILO, 2020^[52]). Of those countries that also have data since the early 2000s, more than half have seen falling rates of unionisation. China is an example of a country where union membership has risen strongly in recent years.

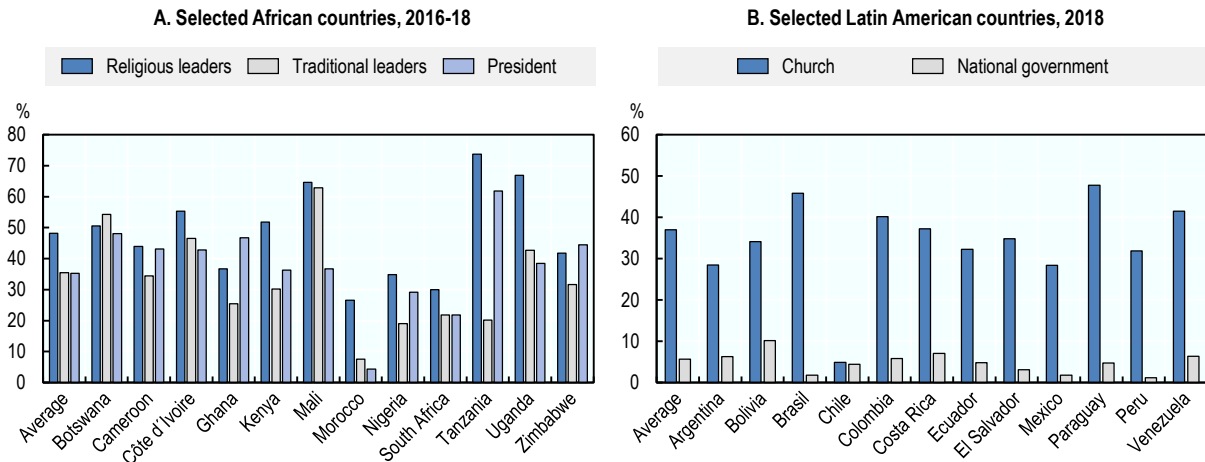
Membership of political parties has also declined. Van Biezen, Mair and Poguntke demonstrate that membership of political parties declined in all but 4 of 27 European countries between the late 1990s and the end of the first decade of this century, by which time just under 5% of the electorate belonged to a political party (2012^[53]). According to Katz et al., albeit using a smaller sample of European countries, average membership of political parties stood at almost 15% of the electorate in 1960 (1992^[54]). There has also been a change in the nature of party membership: party members are nowadays more likely also to have a link to the public sector or state service. As a consequence, parties are becoming less representative of (and less connected to) civil society and more akin to “the outer ring of an extended political class”, with ever-weaker links to the grassroots level (Van Biezen, Mair and Poguntke, 2012^[53]). Similar declines have been identified elsewhere around the world, although the United States is very much an outlier in this regard, since voting rights are closely linked to party affiliation (Whiteley, 2011^[55]).

Trends in civic engagement outside the workplace vary by region. According to the Gallup World Poll 2019, individuals’ willingness to volunteer time in their communities fell between 2006 and 2018 in East Asia (-14 percentage points), Latin America (-5 percentage points) and South and Southeast Asia (-2 percentage points) but rose in the former Soviet Union (+9 percentage points) and sub-Saharan Africa (+5 percentage points) (2019^[50]). Across all regions, civic engagement is lowest among the lower-income quintiles; globally, an average just 28% of those in their country’s lowest income quintile are able and willing to volunteer time in the community.

Religion remains an important part of the daily lives of people in developing countries and thus plays a prominent role in fostering identity and solidarity within groups. Some 47% of people in OECD countries said that religion was important to them in 2018 (Gallup, 2019^[50]). In the United States, church membership has fallen by more than 20 percentage points in just over two decades: 47% of Americans said that they belonged to a church, synagogue or mosque in 2020 versus 70% in 1999 (Jones, 2021^[56]). More than 90% of people in Southeast Asia and sub-Saharan Africa and more than 80% in the Middle East and North Africa and South Asia said that religion was important to them in 2018. East Asia is an exception; just 20% of respondents ranked religion as important (Gallup, 2019^[50]).

Trust in leaders outside government remains significantly higher than trust in politicians in many parts of the developing world. Across Africa, 48% of people professed to having a lot of trust in religious leaders between 2016-18, compared to 35% for both traditional leaders and the president. Logan and Katenda find that trust in traditional leaders has subsequently increased while trust in elected leaders has declined (2021^[57]). According to the authors, citizens perceive traditional leaders as having a positive impact on democracy and as bringing development to their communities but are strongly opposed to traditional leaders playing a more active political role. In Latin America, 37% of respondents had a lot of confidence in the church in 2018 while only 6% had a lot of confidence in the national government (Figure 3.2).

Figure 3.2. Trust in leaders



Note: Proportion of people saying that they trust these institutions “a lot”.

Source: Afrobarometer (2016_[58]), *Afrobarometer*, <https://afrobarometer.org>; Latinobarómetro (2018_[59]), *Latinobarómetro* www.latinobarometro.org/lat.jsp.

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Interpersonal trust has declined and stress levels have risen

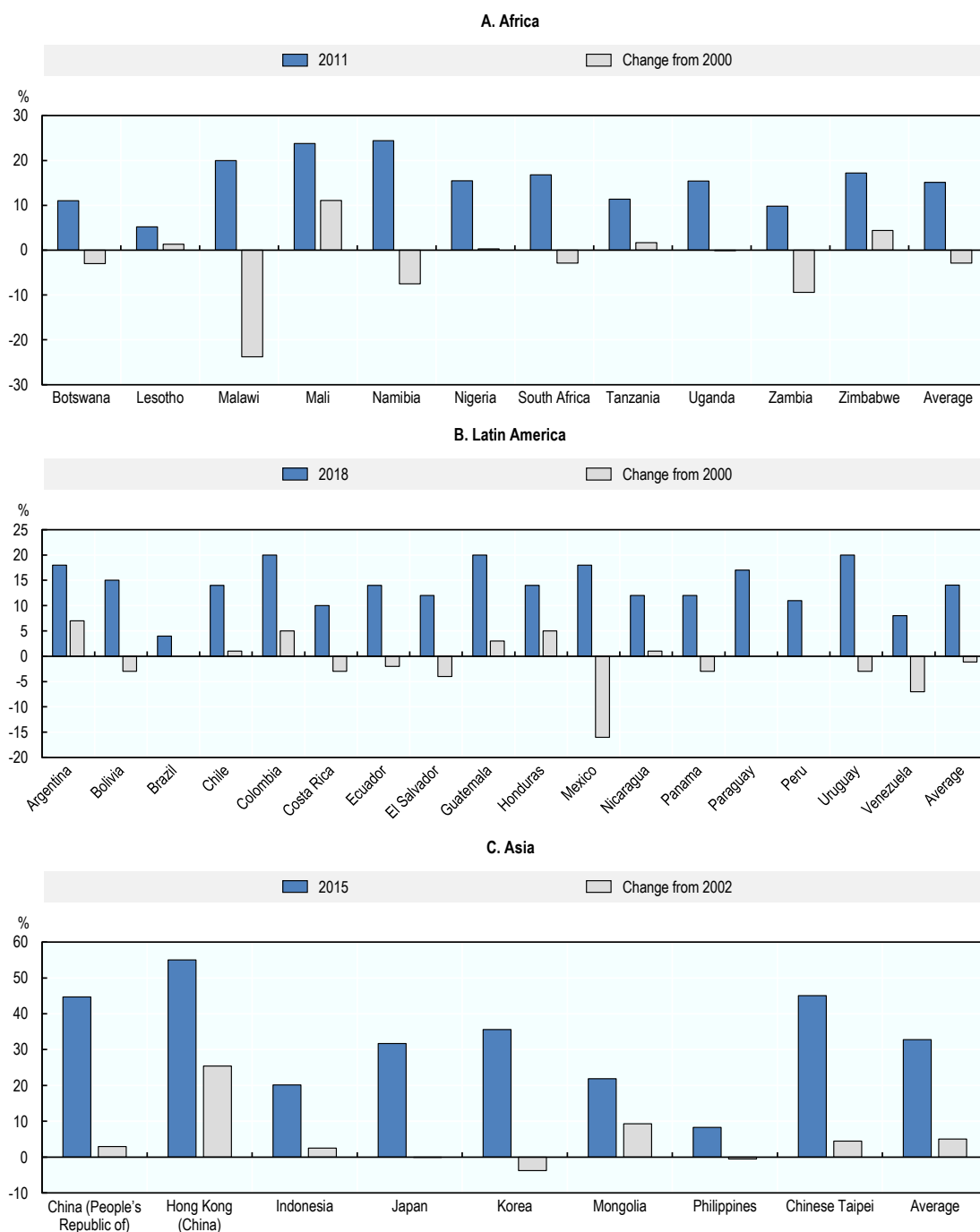
Interpersonal trust is a fundamental indicator of social cohesion, an essential ingredient of social capital and critical for collective action. Defined as the extent to which individuals feel that people from outside their immediate circle of family and friends can generally be trusted, it tends to be very low across developing countries, particularly in Africa and Latin America and the Caribbean. According to the Afrobarometer, 15% of people thought that others could be trusted in 2011, down from 18% in 2000 (2016_[58]). The Latinobarómetro indicates that interpersonal trust increased from 15% to 21% between 2000 and 2011 but fell to 14% in 2018 (2018_[59]). Interpersonal trust seems to be somewhat higher in Asia; the Asiabarometer indicates that it rose from 28% to 33% between 2002 and 2006 and then stayed more or less the same until the latest available data in 2015 (Inoguchi, 2016_[60]).

Regional averages hide considerable country-level variation in interpersonal trust. Countries within the same region seem to have been on different trajectories since the early 2000s (Figure 3.3). Perhaps most striking, however, is that levels of interpersonal trust tend to be very low in developing countries; in no country outside of Asia do more than 25% of people think that others can generally be trusted. Trust is also low in many advanced economies. Pew Research Centre notes that 71% of Americans feel that inter-personal trust has declined in the past 20 years, with half of respondents thinking people are less reliable than they used to be (2019_[61]). There is considerable heterogeneity within Europe (Ortiz-Ospina and Roser, 2016_[62]).

Levels of interpersonal trust vary by demographic group but the absolute level of trust is low across almost all groups. Across Africa, for example, 34% of those with only informal schooling thought that others could generally be trusted in 2011, compared to just 13% of those who had completed secondary school (Afrobarometer, 2016_[58]). In Latin America, 13% of those aged 15 to 25 thought that others could be trusted in 2018, compared to 18% of those aged 61 or over.

The determinants of interpersonal trust are a complex combination of social preferences, expectations and intrinsic motivations (Murtin et al., 2018_[63]). It is nonetheless clear that the functioning of social, economic and political systems relies to some extent on people’s capacity to trust others; these systems are weaker where trust is weaker. At the same time, trust among actors within a society can be earned and trust can be generated by repeated positive interactions.

Figure 3.3. Those who think that other people can generally be trusted, selected economies



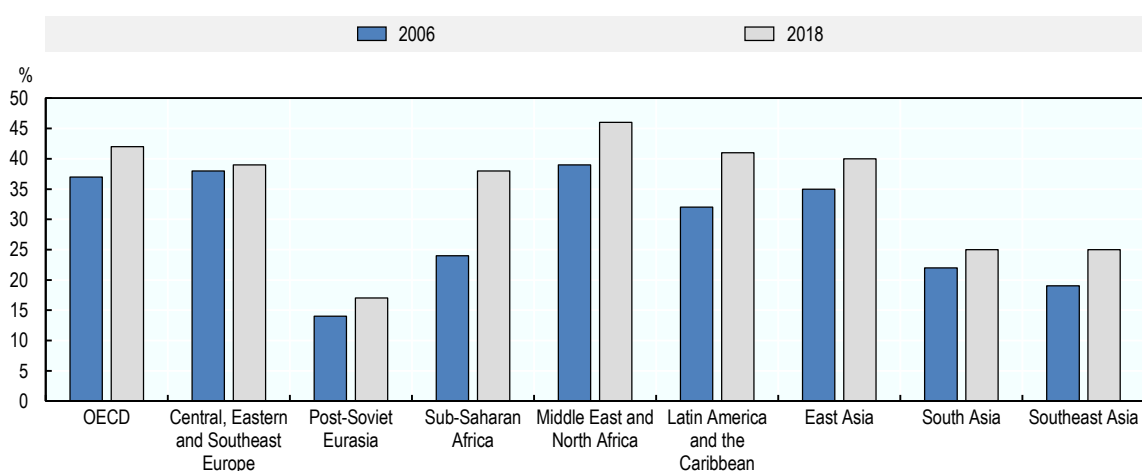
Note: The question asked was, "Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?"

Source: Afrobarometer (2016^[58]), *Afrobarometer*, <https://afrobarometer.org>; Inoguchi (2016^[60]), *Asiabarometer*, www.asiabarometer.org/data/abd/iph; Latinobarómetro (2018^[59]), *Latinobarómetro* www.latinobarometro.org/lat.jsp.

StatLink  <https://doi.org/10.1787/888934253195>

Rising stress levels underline the importance of support networks. The proportion of people who experienced stress rose across all regions between 2006 and 2018 (Figure 3.4). The highest increases were in Latin America (+9 percentage points), the Middle East and North Africa (+7 percentage points) and sub-Saharan Africa (+14 percentage points). An index of negative experiences on the day before the interview tells a similar story; the incidence of negative experiences increased everywhere except post-Soviet Eurasia and East, Central and Southeast Europe. This increase in negative experiences was particularly marked in South Asia and sub-Saharan Africa. As this chapter explains later on, virtual networks are expanding fast but are a poor substitute for real-life interactions and not necessarily conducive to social cohesion or trust in government.

Figure 3.4. Those who experienced stress yesterday



Source: Gallup (2019^[50]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

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Isolation, declining interpersonal trust and economic marginalisation are widely considered to be defining characteristics of “anomie”. Anomie is applied at a societal level to describe the fractures or malaise that occur when social regulation breaks down or when a large body of people lack the (legal) means to achieve goals that society considers to be desirable. The term is also applied to describe an individual’s state of mind and is associated with isolation, frustration and stress (Teymoori et al., 2016^[64]). In both cases, anomie is linked to eras of change (be it political or economic) and has a profound impact on social cohesion and individual well-being; it lies at the heart of the “deaths of despair” that, according to Case and Deaton, expose the social cost of modern capitalism, especially for the economically disadvantaged (2020^[65]). Anomie is thus an important input to discussions about discontent, not least because a popular movement might bring together individuals who had previously felt isolated and disconnected from society, for better or for worse (Kornhauser, 1959^[66]).

Anomie is a structural phenomenon; it is not attributable to a particular policy, and no single institution is to blame for its emergence. At a societal level, it underscores the need for a broad range of policies to promote cohesion, inclusion, equality and voice. Reconciling societies structured around mass consumption with the urgent demands of environmental sustainability is emerging as a critical challenge. Anomie points to the need for significant investment in mental health services. More broadly, it underlines the point that individuals invariably view their own success not only with reference to that of others but also to what society as a whole expects; in a changing, unequal and increasingly interconnected world, the latter can be extremely difficult to identify and a source of discord in itself.

Culture wars are emerging

The third component of this structural analysis focuses on the relationship between culture and values. When analysing the drivers of discontent discussed so far in this chapter, it is important to bear in mind that their impact in societies will vary according to the attitudes of that society (or sub-group thereof). As Inglehart and Welzel demonstrated, values vary across both space and time (2010^[67]): it is therefore impossible either to predict how a particular phenomenon will affect a society or to propose a single set of policies that will mitigate its impact.

According to Inglehart and Welzel (2010^[67]), societies fit on two major dimensions of cross-cultural variation:

- Traditional versus secular-rational values: traditional societies favour family values, deference to authority and national pride, while secular-rational societies are more likely to be accepting of divorce, abortion and euthanasia.
- Survival versus self-expression values: societies exhibiting survival values put considerable stress on economic and physical security, while societies favouring self-expression values are likely to focus more on environmental protection, gender equality and political and economic participation.

The “map” from Inglehart and Welzel, which locates countries at different levels of development according to the prevailing values, demonstrates clear regional trends that reflect cultural and economic factors. Populations in less developed economies tend to exhibit traditional and survival values, while people in more developed economies are more likely to exhibit secular-rational and self-expression values. The authors also note that certain values, notably self-expression, are more conducive to democracy and an active civil society than others. However, there is considerable variation between and within countries. A number of Latin American countries, for example, exhibit values that are considerably more traditional than their level of development might suggest. Moreover, values within the same society will often vary by age group, place of residence and occupation.

A study of religious attitudes conducted in more than 100 countries by the Pew Research Center, for example, shows that young adults (aged 18 to 39) in almost every country are less religious than those who are older; the gaps are largest among Christian populations in the Americas and Europe (2018^[68]). Jones points out that political differences are interacting with religious differences in the United States to heighten intergenerational divides (2021^[56]).

The relationship between income and values highlights the consequences of economic inequality for social cohesion. A high degree of inequality can narrow the scope for consensus within a society: if groups within a society (or indeed globally) experience different economic trajectories – increases versus decreases in income, security versus vulnerability of economic status – their values are likely to diverge. This will not only exacerbate polarisation, but it might also lead to a divergence in how inequality might best be addressed: groups will display different attitudes not only regarding policies but also processes. Where vulnerability begets conservatism, support for radical change and collective action might wane, jeopardising structural reforms intended to lessen the vulnerability. This polarisation is magnified considerably if one or more groups feel that they do not receive the recognition they deserve, leading to what is colloquially termed a culture war. As the next section discusses, such conflicts are muddying ideological waters.

Differences in values have a profound impact on support for public policies. As Algan et al. show, attitudes towards the desired level of redistribution in France vary significantly across groups at a similar income level according to variables such as level of education and religious beliefs; moreover, individuals at opposite ends of the income distribution and the ideological spectrum can have similar attitudes towards redistribution (2019^[69]). The authors also show that interpersonal trust is closely linked to people’s outlook towards major public policy issues, such as climate change and migration: individuals who are less trusting of others are less likely to accept migrants or support policies to address climate change.

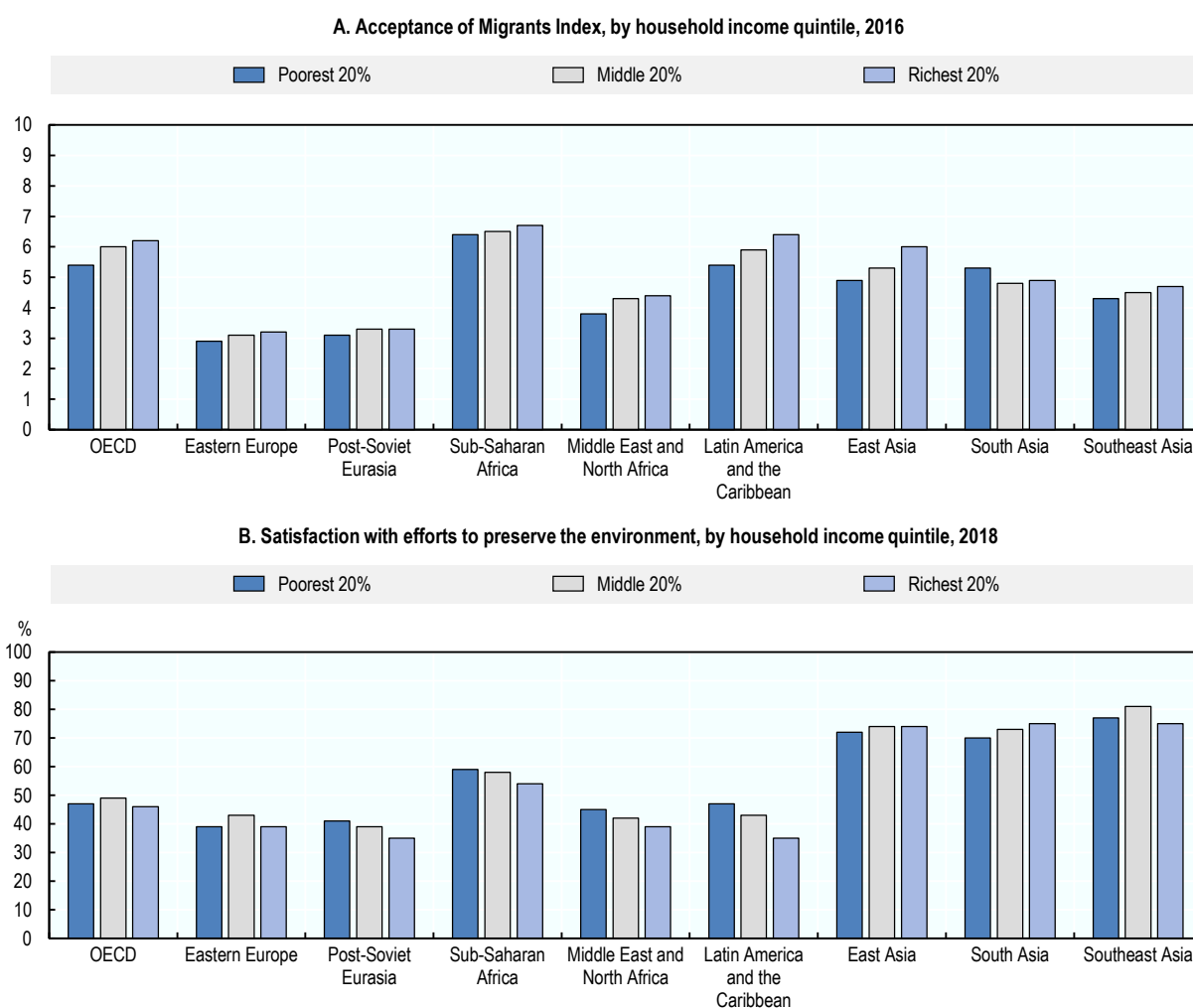
Attitudes towards migration vary greatly across regions and income groups. Survey data indicated that individuals from the lower income quintiles were less likely to be accepting of migration in all regions in 2016 (Figure 3.5A). However, there are indications that national income is negatively correlated with acceptance of migrants: respondents in Latin America and the Caribbean and sub-Saharan Africa are more accepting of migrants than those in OECD countries. This is likely in part to reflect a perception of respondents in OECD countries that they are the principal destination of migrants from countries in Africa and Latin America and the Caribbean.

Attitudes towards climate change also vary globally. Respondents in Asian economies are much more likely to believe that enough is being done to preserve the environment than those in other regions (Figure 3.5B). In Africa, Latin America and the Caribbean and the Middle East and North Africa, the proportion of respondents who feel that enough is being done tends to decline with income, while in OECD countries (many of which are among the largest carbon emitters), attitudes do not vary much by income: close to half the population at each income level believe enough is being done. Kahan notes a “striking convergence” between perceptions of global warming and political outlooks, with individuals on the political right much less likely to believe in the phenomenon (2015^[70]). He detects a strong cultural divergence between those who believe in the science on climate change and those who do not, which will not be easily shifted by public information campaigns, concluding, “whether people ‘believe in’ climate change, like whether they ‘believe in’ evolution, expresses *who they are*.”

In the cases of both migration and climate change, varying tolerance for different policies across groups means it will be challenging to gain consensus on the appropriate policy response either at a national or international level. Put simply, “best practice” on these issues will never be considered optimal by everyone. Even achieving consensus about the need to do anything at all might be difficult. The Pew Research Center shows that supporters of the Republican and Democratic parties in the United States agree on the extent to which migration policy is a priority for the government (Pew Research Center, 2021^[71]). However, the two parties are far apart on whether or not the administration should act on climate change: only 14% of Republicans believe climate change should be a top priority versus 59% of Democrats.

In the context of the COVID-19 crisis and the public policies implemented to control the pandemic, the level of trust in government is particularly important. So too is trust in scientists, on whose guidance many of these policies were implemented. In most countries, only one in three people professed to have “a lot” of trust in scientists in their country in 2018 (Figure 3.6). The experience of the pandemic (and variable support for different public policy responses) is almost certain to affect these attitudes. It is notable that trust in governments rose in the initial months of the outbreak (between January and May 2020) but by January 2021 had reverted to the pre-pandemic level (Edelman, 2021^[72]). The same survey showed scientists to be the most trusted group, although trust in scientists declined by seven percentage points from the previous year.

Figure 3.5. Attitudes towards migration and the environment, by income



Source: Gallup (2019^[50]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

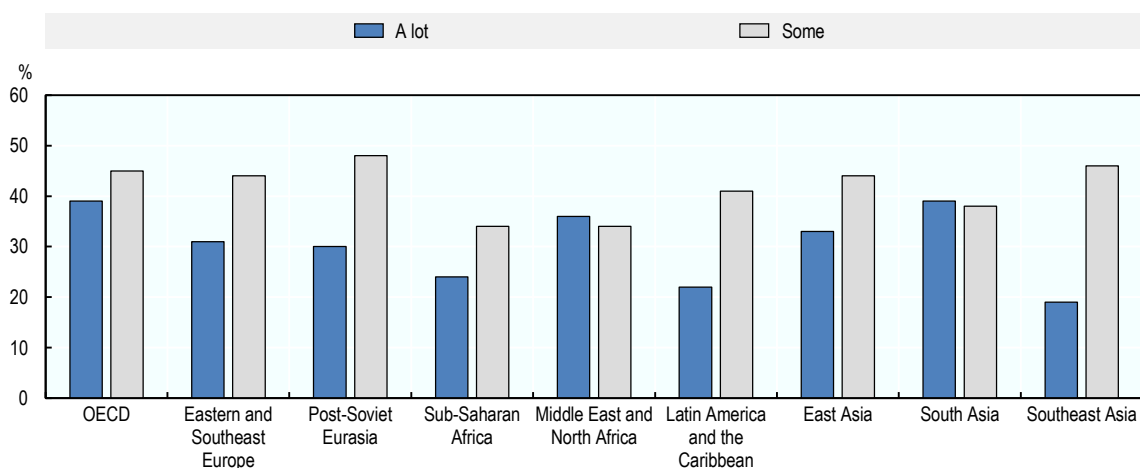
StatLink  <https://doi.org/10.1787/888934253233>

In the context of the COVID-19 crisis and the public policies implemented to control the pandemic, the level of trust in government is particularly important. So too is trust in scientists, on whose guidance many of these policies were implemented. In most countries, only one in three people professed to have “a lot” of trust in scientists in their country in 2018 (F). The experience of the pandemic (and variable support for different public policy responses) is almost certain to affect these attitudes. It is notable that trust in governments rose in the initial months of the outbreak (between January and May 2020) but by January 2021 had reverted to the pre-pandemic level (Edelman, 2021^[72]). The same survey showed scientists to be the most trusted group, although trust in scientists declined by seven percentage points from the previous year.

Elgar, Stefaniak and Wohl analyse the relationship between different forms of trust and COVID-19 mortality in 84 countries (2020^[73]). They find that mortality was negatively associated with confidence in institutions but positively correlated with social trust, a finding they suggest might be linked to behavioural contagion and non-adherence to social distancing regulations among closely-knit groups. The authors also find mortality to be positively correlated with inequality and negatively correlated with civic engagement. These

conclusions suggest social capital (discussed in greater detail in Chapter 4) has played an ambiguous role during the pandemic.

Figure 3.6. Individuals who trust scientists in their country, 2018



Source: Gallup (2019_[50]), *Gallup World Poll 2019*, www.gallup.com/analytics/318875/global-research.aspx.

StatLink  <https://doi.org/10.1787/888934253252>

A survey produced by Edelman in May 2021 showed that the pandemic has changed attitudes on issues that extend beyond public health or confidence in the government. Some 24% of respondents from 14 countries said that the pandemic had made them believe that climate change needs to be taken more seriously while 34% said it had made them believe that they are in the midst of an information crisis and 28% that their country is too reliant on products from other countries (2021_[74]).

The politics of discontent

The rise of discontent reflects a political failure. It can also have profound consequences for national politics and international relations. The rise of ethno-nationalist and so-called populist movements, particularly in advanced economies, reflects this failure but is unlikely to address its underlying causes. This section examines how some of the trends identified in the first two chapters have affected politics, explores the growing tendency of political systems to aggravate rather than assuage discontent, and investigates the negative impact of polarised and exclusive political systems on inequality, social cohesion and efforts to improve lives.

The report's interest in politics concerns its role in resolving contestation and fostering co-operation among groups in a society. This entails a perpetual search for compromise regarding who sets the rules that govern society and, as such, a continual tussle for power. An integral part of these power dynamics relates to the distribution of scarce resources: the question of "who gets what, how?" posed by Lasswell (1936_[75]). Politics is both a contingent and a structural factor behind discontent: it changes day by day, but the power relations that lie beneath are well established and play a key role in determining political outcomes. The political parties whose rivalry provides the most visible manifestation of these power struggles are not the only component of political life but will nonetheless be the focus of this section.

As discussed in Chapter 2, lack of voice and an absence of representation are fundamental to discontent. Citizens are less likely to vote when they do not see their interests or their outlook represented by a political

party, which in turn also diminishes their trust in institutions and their confidence in democracy (in a broad sense). They take to the streets to make their grievances heard because they lack alternative mechanisms. Where a political system excludes a large and (in many places) growing proportion of the population, it will not be able to fulfil its function of reconciling differences and fostering co-operation across society; social cohesion will weaken further as a result. Nor, at a structural level, will it enable a fairer redistribution of power and resources, which will in turn undermine efforts to reduce inequality.

These phenomena imply a loss of consent among civil society towards the state and the prevailing political, economic and ideational power structures. According to Gramsci, loss of consent thus opens the way towards new ways of organising society and implies that government authority is based no longer on leadership but instead on dominance, a weaker foundation (1971_[76]). This situation does not necessarily result in revolution but does generate what he describes as “morbid symptoms” – a term that resonates with the discontent visible today.

Economic changes are contributing to a fragmentation of political identities

Their discontent led nowhere, because, being without general ideas, they could only focus it on petty specific grievances. The larger evils invariably escaped their notice. (Orwell, 1949_[77])

The structural changes in the global economy outlined in Chapter 1 have had profound political consequences. In advanced economies, shifts in production and new forms of work organisation have contributed to a fragmentation of political identities that had coalesced into the left- and right-wing blocs that defined politics in the 20th century. As political landscapes fragment, “party identification has weakened and party membership has declined” (Foa and Mounk, 2016_[78]). While they might initially have benefited from weakening of political ideologies, centrist parties are now suffering: support for social democratic parties in Europe has declined significantly during the 2000s (Zur, 2021_[79]).

As fundamental questions of how to organise the economy – particularly the role of the state therein – became less important, the perceived performance of the economy in the hands of a particular party has become increasingly important in determining their electoral success. In this context, voters have proven more likely to change parties as they feel less loyalty to a particular movement. Crouch contends that “[voting] has become an experience closer to consumer activity, responding to advertising, rather than the expression of deeply felt social solidarities” (2020_[80]).

Focusing on recent experiences in Latin America, Lupu attributes the collapse of around 25% of well-established political parties in the region between 1978 and 2007 to a dilution of party brands and a poor economic performance under their watch (2016_[81]). As party brands dilute, their perceived competence in overseeing the economy becomes more important. Mainwaring finds that the institutionalisation of political parties in Latin America is positively correlated with governments’ economic success but not, surprisingly, with strong programmatic linkages, a strong state apparatus, ideological polarisation or partisan identification (2018_[82]). The study also contends that measures of higher economic development are negatively correlated with party identification and participation in Latin America, and that party systems in the region are now converging with those in Southeast Asia and sub-Saharan Africa, where party institutionalisation and programmatic differentiation are limited. Barrera et al. emphasise the influence of personalist leaderships and historical cleavages over ideological divides in determining the evolution of political landscapes across the region (2021_[83]).

Roberts explains the reconfiguration of political parties in Latin America with reference to economic and social realignment linked to globalisation (2014_[84]). He argues that the end of import substitution models in the region represented a critical juncture for political parties. The state of the party system in a given country during the import substitution era had a profound influence on the fate of particular parties after its demise, with left-wing or populist parties suffering particular losses during the instability of the 1980s where these had previously been dominant. A country’s party-political landscape was then profoundly affected

by whether it was left- or right-wing parties that led market reforms in the 1990s, which blurred traditional ideological boundaries and fractured constituencies.

As traditional ideological divides become less influential in the party-political landscape, issues associated with recognition (such as cultural identity and immigration) are becoming at least as important as the issues that previously defined the ideological divide, such as the role of the state and the degree of redistribution (Algan et al., 2019^[69]). A working-class voter might thus prioritise recognition over redistribution and support a right-wing party (Häusermann, Kemmerling and Rueda, 2020^[85]). In this context, ideological terms can be used to disparage political opponents even where this rivalry is not based on differing policy attitudes but on clashes of identity (Mason, 2018^[86]).

There is also a professional-geographical dimension to political fragmentation. Service industries and advanced manufacturing techniques have very different geographical requirements to those of the industries predominant in the last century: firms tend to cluster in particular areas (usually primary cities), which become hubs for innovation and attract high-skilled labour from across the country. Both tendencies create large gaps between these hubs and old industrial areas, small towns or rural areas not only in terms of their productivity but also their prospects – gaps that are reflected in differing political attitudes (McQuarrie, 2017^[87]; Weisskircher, 2020^[88]). The decline in unionisation has compounded this process.

Chapter 1 identifies a large global constituency – characterised by its economic vulnerability and low prospects – that is likely to challenge the status quo of political systems. However, this constituency, termed the “precariat” by Standing (2011^[89]), is not an organisation per se: it is characterised by marginalisation rather than being bound together by a particular identity, and it has various factions whose needs are diverse and might even be mutually exclusive. Nor does it possess a unifying ideology or a particular political agenda. This description resonates with “the masses” identified by Arendt, who sees a large group of atomised individuals as easy for totalitarian movements to exploit (1958^[90]).

At the same time, the disaffected (and vulnerable) middle classes described in Chapter 2 are not bound to a particular political identity. Fromm explains how a loss of status and need for a group identity felt by the lower middle classes in Germany during the 1920s was essential to the rise of Nazism (1941^[91]). The author warns that “nothing is more difficult for the average man to bear than the feeling of not being identified with a larger group....The fear of isolation and the relative weakness of moral principles help any party to win the loyalty of a large sector of the population once that party has captured the power of the state”.

In the absence of a political identity, subjective factors become increasingly important. In examining the French presidential election of 2017, Algan et al. find that supporters of the two candidates in the second and final round of voting – one a centrist, the other on the far right – were poles apart in terms of education and income (2019^[69]). However, these differences did not manifest themselves in ideology – they shared similar views on redistribution, for example – but rather in subjective factors. Voters who displayed lower life satisfaction, lower interpersonal trust and felt anger more frequently were more likely to vote for the far-right candidate. The supporters of both candidates were more individualistic in outlook than the candidates from traditional left- and right-wing parties, suggesting a degree of atomisation.

The importance of subjective factors, in particular emotions, in driving political choices is having important consequences for the style of political messaging, which seeks to generate an emotional response rather than appeal to a voter’s reason. At the same time, political groups are working hard to differentiate themselves from each other linguistically and even creating rival versions of reality (Box 3.2). These tendencies make it difficult to establish a productive dialogue between opposing groups.

Box 3.2. The political polarisation of language and fragmentation of reality

There is no story that is not true. (Achebe, 1958^[92])

Communication is a pre-requisite for resolving contestation and fostering co-operation; a worrying trend of today's political landscape is the inability to find a common language. As discussed later in this chapter, people who share political views increasingly communicate only with each other rather than with people who hold opposite views, creating an “echo chamber” effect that further polarises opinion. However, the divergence is much more fundamental than that. Even when people with opposing views interact, language is serving to push them apart rather than pull them together. Moreover, political discourse increasingly portrays such different realities that truth and facts lose their absolute quality. These tendencies, which make political compromise even harder, are in large part a consequence of political strategy.

The polarisation of political discourse in the United States has been demonstrated by Gentzkow, Shapiro and Taddy in their analysis of congressional speech between 1873 and 2016 (2019^[93]). Their variable of interest was partisanship, defined as the ease with which one can infer which of the two main political parties legislators belong to based simply on the language they use. They found that partisanship was relatively low until the mid-1990s, whereupon it increased sharply and has remained high ever since. The authors find that the inflection point corresponds with a strategy of the Republican Party to differentiate itself from the Democratic Party and (with the help of marketing companies) to communicate on these issues through language that most resonated with voters.

The deliberate use of language to foster political identities and establish distinct narratives has filtered down into civil society, where this polarisation functions on a sub-conscious level. Demszky et al. find evidence of partisanship on Twitter not just in the language used to describe events but also the way topics are chosen, how events are framed and how they are perceived (2019^[94]). Politicisation of news in its broadest sense (often magnified by the political leanings of the news agencies themselves, in the narrower sense of the term) entails the loss of a common interpretation of events, to the extent that notions such as “facts” and “truth” become subjective rather than objective. This phenomenon is at the heart of suggestions that we are living in a “post-truth” world.

While this phenomenon has greater scope to flourish given the fragmentation of the media discussed later in this chapter, it has strong historical resonances; the post-truth leader echoes the charismatic leader articulated by Weber (1968^[95]). Charismatic leaders gain legitimacy through their exceptional nature; their authority is not bestowed by tradition or a rational, rules-based system, and their supporters do not expect them to focus on the day-to-day realities of society but to pursue higher truths and embody a vision for the future (Spoelstra, 2020^[96]). The charismatic leader is thus able to challenge prevailing power structures, be they cultural or ideological, where these exercise control over the narratives and beliefs that regulate society; charismatic leaders can thus be catalysts for far-reaching change.

Even if charismatic leaders are not expected to engage with reality, their visions will nonetheless have to be articulated via some form of policy agenda, which in turn must take reality into account. At that point, the question becomes: which reality? A post-truth world poses profound challenges to policy makers: the fragmentation of perceptions across society makes it extremely difficult to agree which problems need fixing, undermines trust and drains the legitimacy from attempts to do so. Returning to the starting point of this discussion, the first step in meeting this challenge involves finding the appropriate language with which to frame these problems, mindful of the fact that, as Foucault argues, language and the act of framing a problem are themselves an expression of power (1994^[97]).

Winner takes all: The political consequences of inequality

Jake Gittes: Why are you doing it? How much better can you eat? What could you buy that you can't already afford?

Noah Cross: The future, Mr. Gittes! The future. (Towne, 1974^[98])

The inequalities emerging across a number of dimensions world wide that are documented in this report present a direct challenge to the legitimacy of political systems that might account for the growing discontent identified in this report. The equality implied by a democratic system, whereby one individual's vote is never worth more or less than another's, jars with the inequalities evident in many electoral democracies globally. Many countries are moving away from a situation whereby the political direction is broadly determined by the interests of the "median voter" towards a winner-takes-all politics that reinforces the advantages of an economic elite whose incomes and wealth have increased spectacularly over the past three decades (Hacker and Pierson, 2010^[99]; Piketty, 2014^[7]).

In this context, the term "winner-takes-all" should not be confused with first-past-the-post electoral systems, which, unlike proportional representation systems, confer considerable power on the party or politician who receives the most votes, even if they are not supported by a majority of the electorate. Rather, it is the idea that a small part of the population exercises disproportionate power over society – a sentiment that is widely held in Latin America, for example: according to Latinobarómetro, 79% of Latin American citizens believed that their country was governed in the interests of a few powerful groups in 2018, the highest level since Latinobarómetro began to collect this data in 2004 (2018^[100]).

To begin this brief examination of the channels through which economic inequality interacts with politics, it is important to recognise the limitations of the median voter theory. This chapter has already shown the decline in voter turnout, a shrinking sample that makes it ever harder to identify the median voter. The fragmentation of political identities described above is also a challenge. Moreover, the approach places considerable emphasis on elections as the determinants of policy and thus risks overlooking how politics functions across the electoral cycle as a whole: citizens are constantly able to influence political decisions through a variety of channels, including (but certainly not limited to) the protests described at the start of the chapter.

At the same time, it is not possible to reject the median voter theory completely (Holcombe, 1989^[101]): as Piketty demonstrates, many advanced economies significantly increased taxes and transfers to reduce inequality over the course of the 20th century, although this growth tended to level off from the 1980s onwards (2014^[7]). However, Bartels finds that social spending in advanced economies, as reported by the OECD, tends to be significantly lower than it would be if policies were fully responsive to the wishes of the population as a whole, leading him to conclude that "political inequality is rampant in contemporary affluent democracies" (2017^[102]). This resonates with the OECD, which reports that around 60% of respondents in 21 OECD countries believe that the government does not take their opinion into account when designing public policy, a figure which rises with age (2019^[103]). Moreover, it is important also to look beyond redistributive policies (including minimum wages) when considering how policy makers influence economic inequality (Hacker and Pierson, 2010^[99]).

There are various channels through which the better-off members of civil society – be they individuals, companies or organisations – can influence policies. The first is by direct lobbying – a catch-all term for the various ways in which private entities press policy makers for policies that directly benefit them, often in exchange for financial support. Although lobbying has attracted considerable attention of late, the practice has a long history; indeed, close relations between business and government are an integral part of state building and have been highly influential in international relations, as Chapters 4 and 5 discuss.

Lobbying legalises and institutionalises corporate influence in modern democracies, which allows these interests outsized say in public policy and inhibits collective action on issues as important as reducing inequality or addressing climate change.

In advanced capitalist economies, with strong formal institutions and rule of law, unequal access to political influence is found in lobbying systems, through which big corporations and interest groups can legally exercise overwhelming influence on policymaking. Because unequal access to political influence profoundly shapes the making of laws and policies, it affects inequality in all other realms: income, access to public services, exposure to risks. (Ang, 2020_[104])

Where lobbying becomes institutionalised, Hacker and Pierson argue that “the art for policy makers is not to respond to the median voter; it is to minimize the trade-offs when the desires of powerful groups and the desires of voters collide” (2010_[99]). This balancing act requires policy makers to avoid situations where a particular policy can clearly be seen to benefit a particular group; lobbyists will therefore focus their energies less on policy design and more on regulation or implementation. Policy makers can also satisfy interest groups passively, simply through inertia or drift. The decline in the membership and influence of unions, combined with dwindling grassroots political engagement, implies a lack of civil society as a counterweight to business organisations. It is also important to consider the demand side of lobbying: the changing nature of politics-as-spectacle requires that politicians spend heavily on media and advertising, which in turn requires them to raise funds from private interests (Hacker and Pierson, 2010_[99]).

The capacity for elites to influence government is heightened further by the “revolving door” phenomenon, whereby individuals move between senior positions in the public and private sectors (Brezis, 2017_[105]). Hemingway finds that “legislators from business backgrounds are more likely to support income inequality and small government, as well as less likely to consult with labour groups, than those from working-class and other backgrounds” (2020_[106]). Yet it is not necessary for public servants to have worked in the private sector for them to represent the interests of the economically advantaged: if they themselves tend to come from the upper echelons of society, it is very possible they will be influenced by the ideas and interests of that group. According to Lupu and Warner, “[around] the world, legislators’ preferences are consistently more congruent with those of affluent citizens” (2020_[107]). They find this to be particularly the case with economic issues, noting that the values of poorer individuals tend to be better represented in cultural issues. Park and Hawley conclude that “elites are particularly likely to diverge from the rest of the population on issues related to economic and domestic policy” in the United States, but this is less the case on foreign policy (2020_[108]). The gender imbalances in political representation and management positions discussed in Box 3.1 are likely to hamper efforts to promote gender equality across all domains.

The overall effect of these phenomena, which operate via a range of channels (structural and contingent, conscious and unconscious), is to reinforce economic inequality. Elections serve to regulate these tendencies to an extent but certainly do not eliminate them. Where a political system is strongly influenced by financial power, there is a clear path from economic to political dominance, especially if allied to control over the media. In general, constituents with outsized power have an interest in maintaining the status quo; a closure of political space is likely to ensue that prevents the kinds of reforms needed to combat profound inequality from even being discussed, which in turn diminishes the incentive for the disadvantaged to vote. The declining electoral turnouts documented in Chapter 2 are both a consequence of and boon for corporate capture of politics – corruption by another name.

Political scientists have labelled this new, narrow kind of politics as “post-democracy”:

[While] elections certainly exist and can change governments, public electoral debate is a tightly controlled spectacle, managed by rival teams of professionals expert in the techniques of persuasion, and considering a small range of issues selected by those teams. The mass of citizens plays a passive, quiescent, even apathetic part, responding only to the signals given them. Behind this spectacle of the electoral game politics is really shaped in private by interaction between elected governments and elites, which overwhelmingly represent business interests. (Crouch, 2000_[109])

A road to populism

His object is to throw things into confusion that he may ride the storm and direct the whirlwind. (Hamilton, 1792_[110])

While the social atomisation and contestation described in the previous section create a horizontal distance between people, the tendencies described in this section create a vertical distance between political systems and civil society, as well as between an economic and political elite and the rest of the population. In response, new movements are emerging that challenge the concentration of power and seek to represent the large constituency whose needs and values are not reflected in the prevailing political landscape. Populist parties, of the kind that have appeared in many advanced economies over the past decade, are an example of such movements, although it is also possible for an established party to take a populist turn. Populist movements can be from the ideological left or right, often depending on the context that gave rise to them. Mudde argues that it is often appropriate to ascribe to them a “thin” ideology that reflects their tendency to have specific opinions on a relatively narrow range of public policies and to use a “host ideology” (socialism or nationalism) to complete their agenda (2004_[111]).

Elites can harness populist forces and populist forces can represent elite interests. Coalitions between the elite and the people can emerge where both favour deregulation or protectionism, for example. This coalition might prove short-lived: gains from deregulation are unlikely to persist (and may generate undesirable social and environmental externalities), while protectionism (either from trade or migration flows) does not constitute a policy that might ensure long-term growth in wages and employment in the sectors most affected by changes in technology or global trade patterns. To combat this coalition, progressive parties with strong social or environmental agendas would need to convince voters that they can create and sustain jobs for low-skilled workers.

While populist movements often share a number of characteristics, they are not homogenous. It is also not clear how meaningful the term is when analysing the politics of developing countries outside Latin America (Box 3.3). In most cases, populist movements represent a challenge to the political and corporate beneficiaries of post-democracies by giving a voice to the marginalised and challenging the elites. However, they can simultaneously represent “not an antidote to post-democracy, but an extreme extension of it” (Crouch, 2019_[112]). Despite the evolving complexities and definitional uncertainties around the term, three common tendencies among populist movements appear especially germane.

The first relates to the low likelihood of addressing the grievances of their supporters. As Rodrik points out, “the people” is a huge constituency with diverse and probably even conflicting demands that are impossible to reconcile through a detailed policy agenda (2017_[22]). As a consequence, populist parties or politicians rally their supporters around stories, symbols and slogans that tell voters “here is what is happening, this is why, and these are the people who are doing it to you”. For right-wing movements, the most effective symbol for uniting this broad constituency is often the nation itself, which explains why many ethno-nationalist parties are populist and why both groups might vilify minorities and foreigners. In a context where social capital is deteriorating, inclusive political movements generate a sense of identity and group belonging that can be an important attraction.

The second point relates to potential damage to democratic institutions. Populist parties of whatever ideology challenge prevailing power structures, often implying that any group that threatens the direct rule of the majority is complicit in “anti-democratic” practices. Unelected democratic institutions, such as the civil service, judiciary or free press, risk being perceived as impediments to popular endeavours. Challenging institutions that represent vested interests might be a legitimate democratic agenda (Shapiro, 2011_[113]), but undermining them removes an important restraint on the executive and can weaken a country’s capacity for collective action unless replaced by more responsive and representative institutions. According to Funke, Schularick and Trebesch, populist governments also tend to do substantial long-term harm to the economy (2020_[114]).

Thirdly, the first two tendencies create a space between politics and civil society: people lack a strong political identity and politics becomes a game of elites. Populism exacerbates this divide by by-passing the secondary institutions that link individuals to political life. As Chapter 4 discusses, political systems need to be revived from the bottom up, but this cannot be done without a vibrant civil society that has space in which to function and to form its own institutions.

Box 3.3. The mixed evidence of populism in developing countries

The majority of the literature around populism focuses on its causes and manifestations in advanced economies, where it has surged in the 2000s after lying dormant for a century or so. Despite the emergence of populist movements or leaders across developing countries over the past decade, the significance of populism in such contexts is much less discussed, which prompts the question “why?”, when developing countries share many of the social problems discussed in this chapter with advanced economies.

It is widely acknowledged that populism was a common feature of Latin American politics in the 20th century, starting with Peronism in Argentina in the 1930s. Populist parties across the region have received more than 20% of votes since the 1960s; although there was a decline for populist parties between 1980 and the early 2000s, their share of the vote has since recovered and is on an upwards trajectory (Rodrik, 2017^[22]). Overwhelmingly, populist movements in Latin America have been left wing, reflecting the high levels of structural inequality and well-established elites, both of which bear strong links to the region’s reliance on extractive industries.

Populism in Africa has played an important role in the post-colonialist nation building that has taken place since the middle of the 20th century. Kaltwasser et al. suggest that there have been two populist phases over this period (2017^[115]). In the first, during the 1980s, populist leaders emerged from coups against first-generation post-colonial governments, emphasising their credentials as men of the people and defining themselves in opposition to the elites that gained power following independence, as well as to the colonial powers themselves. The second phase, in the 2000s, has seen populism used as an electoral technique by opposition parties to oust well-entrenched incumbents. These have often focused their appeal towards young, urbanised individuals, often in informal employment – groups often excluded from economic gains. At the same time, the importance of retaining support from rural voters has led populists to emphasise their ethnic identity.

According to Kaltwasser et al., populism is an “extremely rare species” of politics in East and Southeast Asia (2017^[115]). They contend that Asia’s ideological space is very different from that of Europe and Latin America, since the “left-right divide is not structured by Marxist class theory”, and that it is harder for populists to emphasise a defence of traditional values because “East Asian societies have not witnessed a shift towards post-material values”. A distinction between the elite and the people is not meaningful in Asia, although it has been possible for populist leaders to represent themselves as “friends of the poor” or to establish common enemies in the form of criminals that threaten society.

The net result of these manifestations of populism across developing countries is hard to quantify, especially in the absence of a counterfactual. The prevalence of democracy of some form across Africa, Asia and Latin America suggests success of a sort, but persistent levels of inequality in Latin America (and one ongoing catastrophe) call into question the effectiveness of the region’s populist movements to date, despite their sustained support. The often weak institutional development across certain developing countries in general makes it difficult to know what effect populist governments have had in this area.

COVID-19: A cause of further discontent or an opportunity to reset?

The COVID-19 pandemic, and associated social and economic crises, is exposing and exacerbating many of the factors behind discontent identified in this chapter. As the crisis maintains its grip in 2021, some regions – in particular, Latin America – confront massive loss of employment, an upsurge in poverty and inequality, and a collapse in public finances. The political impact of the pandemic on countries where discontent was already evident could be profound.

Yet the COVID-19 pandemic presents a rare opportunity to address a number of dysfunctions in a society, including its politics. As Crouch argues, crises can regenerate democracy

when enthusiasm for it is widespread [and] many diverse groups and organisations of ordinary people share in the task of trying to frame a political agenda which will at last respond to their concerns; when the powerful interests which dominate undemocratic societies are wrong-footed and thrown on the defensive; and when the political system has not quite discovered how to manage and manipulate the new demands. (2000^[109])

Pushing back against populism will achieve little if it restores the narrow, distant politics that prevailed previously and spawned the upheavals of recent years. Political systems that operated according to a winner-takes-all logic have failed to take into account the interests and voice of the population as a whole or to encourage broad-based secondary institutions as intermediaries in the democratic process. While global economic forces played a key role in the rise of populism, for example through the deindustrialisation of many advanced economies, the consequences of trade liberalisation for working-class employment and industrial regions were foreseen (Meeropol, 1998^[116]).

For better or worse, populism has fundamentally altered political attitudes. For example, protectionism might be strongly linked to populist and isolationist rhetoric, but it is increasingly accepted as a legitimate means of safeguarding livelihoods among those vulnerable to the forces of globalisation. A survey conducted by Tella and Rodrik shows that, contrary to what economics textbooks might say, a majority of people across the political spectrum believe that trade restrictions are a more appropriate response to economic shocks that threaten jobs than providing financial assistance to displaced workers (2019^[117]).

Greater citizen engagement is a *sine qua non* of a healthy political system and more inclusive societies. As Chapter 4 explains, this engagement should not be limited to politics in the narrow sense of the term; the polarisation of societies by status, wealth and identity – a phenomenon exacerbated by new forms of technology – reflects fault lines across all aspects of modern life that can only be addressed by a holistic, consensus-driven approach that begins at the grass roots of society. Policies to address the contingent and structural causes of discontent will be important but so too will processes and the institutions that arise at every level of society to mediate these interactions.

Digital technology and discontent

These are the days of miracle and wonder (Simon, 1986^[118])

Technology has been a driver of social change throughout history. It changes the way we live and work, how we communicate and interact with each other, and the nature of our co-operation and conflict. It evolves in response to our demands, but our demands also change according to the technology available. As Sterne argues, “[technologies] are structured by human practices so that they may in turn structure human practices” (2003^[119]). As this section demonstrates, the technologies of the third and fourth industrial revolutions are inextricable from the contingent and structural causes of discontent discussed in this report through their impact on the economic, social and political spheres.

The digital divide reinforces inequalities

It is possible to forget that the old skill and the new almost always were the perquisite of different people. The rewards of the 'march of progress' always seemed to be gathered by someone else. (Thompson, 1966^[120])

Uneven access to digital technology is a major driver of inequality across a number of dimensions, both within and between countries. The so-called “digital divide” not only renders certain groups within society less productive economically but also less able to access public services or interact with public authorities. In OECD countries, the digital divide has shrunk over the past decade. By 2019, 70% to 95% of adults used the Internet in OECD countries and were spending more time on line. However, clear gaps in usage remain: only 58% of individuals aged 55 to 74 used the Internet frequently in 2019 – up from 30% in 2010 but still well below the nearly 95% share of daily Internet users aged 16 to 24. In 2018, only 40% of adults in OECD countries with low or no formal education used the Internet to interact with public authorities, compared to 80% of those with tertiary education. E-commerce accounted for 24% of economic turnover in large firms in 2019 but only 10% in small firms (OECD, 2020^[121]).

Internet access in developing countries tends to be lower than in the OECD and with large within-country differences. These gaps have been exposed by the COVID-19 pandemic, depriving firms and households of the digital services that could support them during the crisis, such as economic support, health, education and social protection. Internet access in Latin America and the Caribbean is strongly linked to household income: on average, there is a gap of almost 40 percentage points between the proportion of the total population that uses the Internet in the richest quintile (75%) and the poorest (37%), a much bigger divide than in OECD countries (less than 25 percentage points). Internet coverage in some countries in Latin America and the Caribbean is four times higher in urban areas than rural areas (OECD et al., 2020^[122]).

In Africa, meanwhile, only 22.7% of the poorest 40% of the population has access to the Internet, up from 10.3% five years before but still below the level in Asia (33.6%) and Latin America and the Caribbean (45.4%). Some 47% of urban residents in Africa use the Internet regularly versus 27% in rural areas; 58% of salaried workers use the Internet regularly versus 16% of the self-employed; and 87% of large firms use the Internet to communicate with clients versus 50% of small firms (AUC/OECD, 2021^[123]). In Asia too, differences in education, income and age group are associated with large gaps in Internet usage; there is also a large gender digital divide. Coverage also varies across countries in Asia: in the least developed countries, such as Cambodia, Lao People’s Democratic Republic and Myanmar, a large proportion of the population still had no stable Internet access or no Internet access at all, with Internet penetration rates of 50% or lower as of August 2019 (OECD, 2021^[124]).

Atomisation and polarisation in virtual networks

Relative deprivation, an important factor behind discontent described earlier in this chapter, is magnified by modern communications technology, which makes the consumption gap between different groups (not only within the same country but also in different countries, possibly at very different levels of development) more visible than ever before. This in turn exacerbates the phenomenon known as “anticipatory socialisation” identified by Merton, whereby individuals take on the standards and values of groups that they aspire to join. Individuals who have begun to adapt themselves to the goals and lifestyles of wealthier or more privileged groups are likely to feel discontent if their assimilation into those groups is blocked or occurs more slowly than expected (1957^[125]). Insofar as individuals record only the best versions of their lives, social media can make the gap seem even larger than it is in reality. The scale on which this is occurring might well have been unimaginable 20 years ago: more than 2 billion people use Facebook each month, almost the same number use YouTube, and one-quarter of a billion use Twitter (Hootsuite/We Are Social, 2021^[126]).

Sabatini and Sarracino examine the links between social networks and individual feelings of frustration in Western and Eastern Europe (2016^[127]). They find that social network users in Western Europe are more likely to feel frustrated with their economic situation than non-users but note the opposite trend in Eastern Europe, where social network users are encouraged by the knowledge that people within their network are able to attain higher living standards, recalling the “tunnel effect” discussed earlier. In a separate study, the authors find that social network use in Italy has a direct negative effect on users’ well-being and also affects well-being indirectly by increasing people’s tendency to meet others in person (which has a positive effect) and by reducing trust (which has a negative effect) (Sabatini and Sarracino, 2017^[128]). Castellacci and Schwabe show how social media use among different age cohorts is associated with a steepening of the U-shaped relationship between age and well-being (2020^[129]). Social media users become less satisfied with their lives at a faster rate than non-users in early adulthood but, in later years, the life satisfaction of social media users recovers from its lowest point faster and earlier than among non-users.

Social media networks are not necessarily a substitute for the support that “real-life” friends and relatives provide. The question of whether social media use increases or decreases loneliness, depression and self-esteem has been much analysed, but the evidence is mixed (Seabrook, Kern and Rickard, 2016^[130]). The impact is mediated by numerous factors, including whether the social media experience of the user was positive or negative, their level of self-esteem, the strength of their offline social support networks and the time they spend on social media or the number of people in their network. People’s experiences during the COVID-19 pandemic, which prevented people from spending time with each other physically, are also likely to change the way social media is perceived and used.

Social media has not only changed the way people interact but also the way they receive information. The transmission of news through social networks has created what is known as an echo chamber effect, whereby people receive information from (and discuss it with) people with similar demographic or socio-economic characteristics and/or who share common values or political beliefs. As Lewandowsky, Ecker and Cook find, the effect is to compound fragmentation and polarisation (2017^[131]). The same tendency also exacerbates the tendency for individuals to think that people who do not belong in their group possess more extreme opposing views than is the case, as shown by Haidt and Graham when analysing the conflicting moralities of liberals and conservatives (2007^[132]).

More damaging still is the use of social media to proliferate misinformation. Misinformation during the COVID-19 pandemic has been particularly damaging to public health campaigns to prevent the spread of the disease (Ahinkorah et al., 2020^[133]; Loomba et al., 2021^[134]). This tendency is particularly concerning when it is part of a deliberate strategy by foreign powers attempting to disrupt the domestic politics of another country (Pomerantsev, 2019^[135]).

The shift towards consuming news through social media and tailored platforms rather than through traditional channels coincides with a crisis of trust in the media. In some countries, this is reaching critical levels: according to Edelman, only 18% of people who voted for President Trump in the 2020 presidential election said that they trust the media – a 15 percentage point drop from the month before the election (2021^[72]). An international survey carried out in 2020 found that the average level of trust in the news in general was 38%, down four percentage points from 2019. Within the developing countries surveyed, levels of trust were highest in Brazil (51%) and lowest in Malaysia (25%); less than half of respondents (46%) said that they trust the news media they themselves use (Newman et al., 2020^[136]).

In today’s world, news is diffused constantly and through innumerable (and mostly unregulated) channels. Closely associated with the growing tendency for people to receive their news via social media is a trend for people to use their mobile phones to access news. According to Newman et al., the proportion of people receiving their news this way more than doubled in leading economies between 2013 and 2020 but remains highest in countries in the Global South, such as Kenya and South Africa, where more than 80% of people receive news via their mobile phones due in part to lower coverage of fixed-line Internet (2020^[136]).

New media power dynamics

While the number of channels through which news is conveyed has increased exponentially, the sources of news have not become similarly diverse, and certain “traditional” media organisations have become considerably more powerful in recent years, allowing them greater power to determine what constitutes “news”. Winseck draws attention to the fact that “[while] new media, especially the Internet, open up unprecedented opportunities for people to access and distribute information, the emergence of a powerful nexus between both ‘old’ and ‘new’ media means that the character of media ownership and markets still matters greatly” (2008_[137]). His finding that there is “within countries, regionally and globally – greater concentration at the level of ‘source diversity’”, is echoed by Vizcarrondo, who finds a significant increase in media concentration in the United States from 2000 onwards (2013_[138]). These trends are not driven by multinational media enterprises alone: Stetka records the growing tendency for business elites in Central and Eastern Europe to invest in the media, which is leading to “constrained editorial independence and increasing intertwinement of the systems of media, politics, and economy in the region” (2012_[139]).

This media concentration must be considered in conjunction with broader concerns about the market power of the most prominent digital platforms (Calvano and Polo, 2021_[140]). The cumulative outcome is that information is, to a significant extent, controlled by a relatively small number of individuals or corporations: a sense of “public ownership” of the news is, in most parts of the world, gone, and with it perhaps the sense of a shared understanding of the world. For better or worse, the diffusion of information takes place outside political institutions, which are no longer ahead of the message but rather trying to keep up. This lack of political mediation in the spread and consumption of news creates a disjuncture between social and political life.

Some politicians have identified opportunities in this new media environment. Social media closes the gap that has emerged between politics and citizens by allowing politicians to communicate directly with the electorate. This creates a sense of responsiveness to (and interest in) the views of ordinary people that might diminish the popular perception discussed in this chapter that politicians belong to an aloof elite class. It also allows politicians to tell their side of the story quickly and via an unregulated medium, which is a boon for the types of charismatic leader described in Box 3.2. While such techniques might not foster trust in government across the population as a whole and this type of transparency might not foster proper accountability, they can be very effective in reinforcing support for a politician among his or her base.

By far the most important political impact of social media is as an unrivalled and unprecedented tool for mobilising the civil unrest documented in this report. Indeed, it is impossible to know whether the increase in protests documented in Chapter 2 would have occurred in the absence of social media. The importance of social media became apparent with the role that Twitter played during the Arab Spring, and it has since remained closely entwined not only with the national but also the global mobilisations increasingly common today. However, in very few cases have these protests effected lasting change, a fact that Tufekci (2017_[141]) attributes in part to a tendency for protests mobilised via social media to lack the same kind of “infrastructure” (such as planning, face-to-face assemblies, poster campaigns) that laid the foundations for successful protest movements in the past.

Tufekci points out that social media platforms cannot be assumed to be willing accomplices in these protests: their financial incentives revolve around advertising and data collection rather than providing a tool for mobilising popular unrest (2017_[141]). Sometimes, these platforms have worked with governments during demonstrations. She also explains that governments are becoming more adept at controlling protests, not by censoring or shutting down platforms but rather by using social media themselves to induce paralysis among protesters with “misinformation, information overload, doubt, confusion, harassment, and distraction”. Meanwhile, digital surveillance techniques can be used to repress political opposition or civil society activism, even across borders (Michaelsen, 2020_[142]).

These constraints on the revolutionary potential of social media demonstrate a theme of this section. Technology has the capacity to transform our lives but it can also perpetuate inequalities and reinforce power imbalances. As such, it can alleviate or exacerbate discontent. In either case, the power of today's digital technologies – and the private entities that control these technologies – is vast and growing. The capacity of states and societies to put emerging technologies, such as artificial intelligence, to good use, whether it be promoting social cohesion, reducing inequality or protecting the environment, will depend to a significant extent on whether the public can have a greater influence than it does at present in how technology is used (Villani et al., 2018^[143]).

Conclusion

This chapter concludes the report's diagnosis of discontent. It argues that the macroeconomic trends outlined in Chapter 1 and the grievances discussed in Chapter 2 do not fully explain the rise in discontent: it also matters how they interact with structural factors within a society and with broader megatrends affecting the world as a whole. These structural factors portray a discontent that is much broader and longer term than a focus on protests alone might indicate.

The chapter also explains how political institutions are reinforcing inequalities rather than promoting a fairer distribution of power and resources, and how they are polarising societies rather than mediating between groups to resolve their differences. Although new and emerging technologies possess considerable transformative potential, there are various channels through which they are currently reinforcing these adverse tendencies. In this context, it is extremely difficult for societies to agree upon the main challenges they face; generating the collective action required to address these challenges is harder still.

As they recover from the COVID-19 pandemic, societies have an opportunity to reassess and reset the institutions that govern citizens' daily lives, define their past and determine their future. In doing so, societies also have a chance to renew and strengthen the horizontal and vertical bonds that hold them together. The next chapter explains how approaches that simultaneously seek to improve individual well-being, strengthen social cohesion, empower civil society and enhance the effectiveness of government can provide the means to grasp this rare opportunity.

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4 From protest to participation

This chapter explains how developing countries can build back better from the COVID-19 pandemic through approaches that simultaneously improve development outcomes and strengthen social cohesion. It demonstrates that by harnessing the trust, networks and know-how that constitute social capital and by promoting broad-based participation, countries can escape the traps of low productivity, weak institutions and social vulnerability that not only constrain development but are also key factors behind discontent. The chapter explains that these approaches need to be held together by national development strategies and rely on more experimental approaches to public administration. It concludes by recognising the constraints such approaches will face in the post-pandemic world, notably the weakened state of public finances and higher inequality.

Introduction

There is no end which the human will despair of attaining through the combined power of individuals united into a society. (Tocqueville, 1960 [1835]^[1])

The coronavirus (COVID-19) pandemic is not yet over but there are already widespread calls for countries to “build back better” to meet the challenges they face today and will confront in the future. This chapter explores how this ambition can be realised at a moment when societies are so divided and capacity for collective action so weak. It argues that the project of building back better not only requires effective and widely-supported policies but also demands transformation of the institutional relationships between state, society, the economy and the environment. Indeed, it is not possible to separate one set of tasks from the other: only by identifying new approaches that engage and empower a broad range of citizens is it possible to formulate and implement an appropriate response to these challenges.

This chapter demonstrates how fostering engagement horizontally (across society) and vertically (between society and the state) can address the causes of discontent identified in this report. In so doing, it charts a way out of the development traps of low productivity, weak institutions and social vulnerability through approaches that emphasise the role of citizen participation. The chapter then sets out the importance of devising a collective vision for the future in which everyone can see their role and their route to a better life. It concludes by acknowledging some of the challenges that might impede these approaches, particularly in terms of financing.

The chapter affirms that promoting voice and agency among citizens is essential for reducing inequality and driving development. It envisages approaches to build back better from the ground up but contends this can only be achieved with appropriate and coordinated support across different levels of government. While the mechanisms outlined in this chapter seek to enhance well-being across all dimensions, they place particular emphasis on individuals’ social connections, civil engagement, knowledge and skills.

The social drivers of development

The first step in locating and strengthening society’s role in the development process is to set aside models predicated on individual economic agents in favour of paradigms that reflect the collective and plural nature of civil society. This entails a shift away from the narrow utilitarianism of Arrow (1951^[2]) towards the multi-dimensional empowerment of Sen (1970^[3]), whereby economic freedom is meaningless if not accompanied by social and political freedom. This section examines institutional and cultural factors behind development and how these interact to drive transformation. It then explores the concept of social capital as a means of capturing these dynamic interactions and as a basis for a stylised representation of the bonds that connect society and the state.

The simultaneous evolution of culture and institutions

As defined by North, institutions are “humanly devised constraints that structure political, economic and social interaction”, and which can be either formal or informal (1991^[4]). “History ... is largely a story of institutional evolution in which the historical performance of economies can only be understood as a part of a sequential story. Institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline.”

Acemoglu, Johnson and Robinson explain why economic institutions are such an important factor in determining a society’s development trajectory (2004^[5]). They also recognise how the distribution of political power (both *de jure* and *de facto*) shapes the evolution of these institutions, reflecting the key role that political institutions play in economic development. They note how the distribution of resources within a society determines the design of political institutions, which raises the question of reverse causality,

whereby economic growth affects the development of institutions. Of particular relevance to this report are the lessons they draw from how elites across history have voluntarily ceded some of their power – often to prevent unrest becoming revolution – by creating more inclusive political and economic institutions.

Culture, meanwhile, is a concept with a multitude of definitions not only across various sciences but also within them, reflecting the contestation around the term. A broad definition therefore seems judicious; the report characterises culture as a set of shared attitudes, values, goals and practices that depends on the capacity for learning and transmitting knowledge. Consistent with such a broad definition, culture can affect economic performance through many channels. For example, Weber, in one of the most influential studies of this phenomenon, examines the impact of religion on attitudes towards economic activity (1930 [1905]^[6]). Another channel is individuals' propensity (or lack thereof) to trust and support each other and to share resources in addressing collective challenges.

Culture is also central to the framework laid out by Habermas, according to which the evolution of societies is driven by people's capacity for rational communication, which in turn is fostered by a vibrant public sphere that encourages universal participation in all facets of social life (1981^[7]). Amin and Thrift (2004^[8]), meanwhile, demonstrate that culture and economy have become inseparable, a point implicitly acknowledged by Bourdieu (1984^[9]), who argues that people's social position and quality of life is determined by their economic, social and cultural capital (Pinxten and Lievens, 2014^[10]).

As set out by Bisin and Verdier, institutions and culture are likely to interact and evolve together in fostering the co-operation on which development – and social cohesion – depend (2017^[11]). Henrich explains how the cultural and institutional evolution of Western, educated, industrialised, rich and democratic (WEIRD) societies has produced a population that, in psychological terms, is an outlier from the rest of the global population across a number of variables, including individualistic tendencies, morality, capacity for co-operation and style of reasoning (2020^[12]). It is possible or even likely that economic or social models that emerge from a WEIRD context will not function elsewhere. Meanwhile, advanced societies that were colonised by European powers in the middle centuries of the last millennium typically suffered a “Reversal of Fortune”, whereby their prosperity diminished significantly once a new set of institutions was imposed on it (Acemoglu, Johnson and Robinson, 2004^[5]). For many of these countries, the imposition of economic and political institutions from outside has not stopped with decolonisation, as Chapter 5 discusses.

The relationship between culture and institutions might not always be straightforward. Where generalised trust does not exist in a society, strong institutions might emerge as essential mechanisms to ensure co-operation (Cook, Hardin and Levi, 2005^[13]). Nor are the outcomes always positive. However, combining institutions and culture dynamically through the concept of social capital opens a space for elements such as political power and shared values into apparently intractable collective action problems – the vicious cycles (or development traps) – in ways not available to more technical approaches, where such elements are taken as given. Broadening the analytical framework opens up a larger set of possible mechanisms for resolving these issues.

Social capital and the dynamics of social cohesion

Social capital is a cultural phenomenon with important institutional implications and is thus a useful mechanism for articulating the co-evolution of both. The concept of social capital and its application to development economics gained substantially in popularity during the 1990s. While challenges related to definition and measurement have since constrained its evolution, its importance is all too apparent in a world where atomisation and polarisation of societies are hindering collective action. This chapter argues that social capital is fundamental to social cohesion and should be regarded both as a key input and valuable outcome of public policies.

Woolcock and Narayan define social capital as “the norms and networks that enable people to act collectively” (2000^[14]). The transformative potential of social capital is possessed by individuals and groups

and covers all spheres of life, including social, economic and political. It fosters the tendency to trust both within and between groups, and between civil society and the state. As Fukuyama puts it, “[an] abundant stock of social capital is presumably what produces a dense civil society, which in turn has been almost universally seen as a necessary condition for modern liberal democracy” (1999^[15]).

Social capital has the potential to address the two main sources of discontent. As mentioned in Chapter 3, it underpins the relationships that support individuals trying to make their way in modern society and the networks of trust, reciprocity and interdependence that hold societies together. At the same time, numerous studies have shown that social capital is essential for achieving broad-based and sustained improvements in living standards (World Bank, 2001^[16]). Although typically omitted from standard economic models, social capital generates the intangible phenomena that underpin development: the trust, relationships, co-operation, organisational skills and know-how essential for problem solving, innovation and expansion. As Dasgupta and Serageldin state, “social capital...draws our attention to those particular institutions serving economic life that might otherwise go unnoted” (1999^[17]).

There are important qualifications to make about social capital, starting with inevitable issues of definition and measurement for what is an abstract concept. Trust, participation, and strength of civic institutions often feature in attempts to quantify social capital but there lacks an empirical consensus. Indeed, some argue that the very term “capital” is inaccurate. Even if there were a specific measure, it is impossible to define an appropriate time frame for analysis: social capital evolves as societies evolve.

Social capital can also empower groups that do considerable harm: criminal gangs and the perpetrators of ethnic violence might possess strong social capital (ERIC, IDESO, IDIES, IUDOP, 2004^[18]), (Colletta and Cullen, 2000^[19]). While some have argued that social capital is a public good, others see it as a mechanism for exclusion: Bourdieu explains how it allows upper social classes to retain their status (1980^[20]). Putnam has been criticised for linking the deterioration of democracy in the United States to a decline in social capital due to its focus on the individual (1995^[21]). This places the onus on individuals to develop their own social capital by joining an association or becoming more active in the community; the state’s responsibility to reduce economic and social inequality implicitly falls away (Ferragina and Arrigoni, 2017^[22]). Another concern is that the term implies a rivalrous relationship with the state, suggesting that its reach into private relations jeopardises – or might be resisted by – the natural functioning of society.

This chapter employs the framework described by the World Bank, according to which social capital can be bonding, bridging or linking (2001^[16]). Bonding capital captures an individual’s close ties with their immediate network of family or local community, while bridging capital brings an individual (or group) into contact with other groups. They are thus brought into civil society: associational life predicated on active engagement across a plurality of shared interests that forms the “third sector” of society, distinct from big business and the state. Linking capital allows civil society to interact with power as articulated by the state.

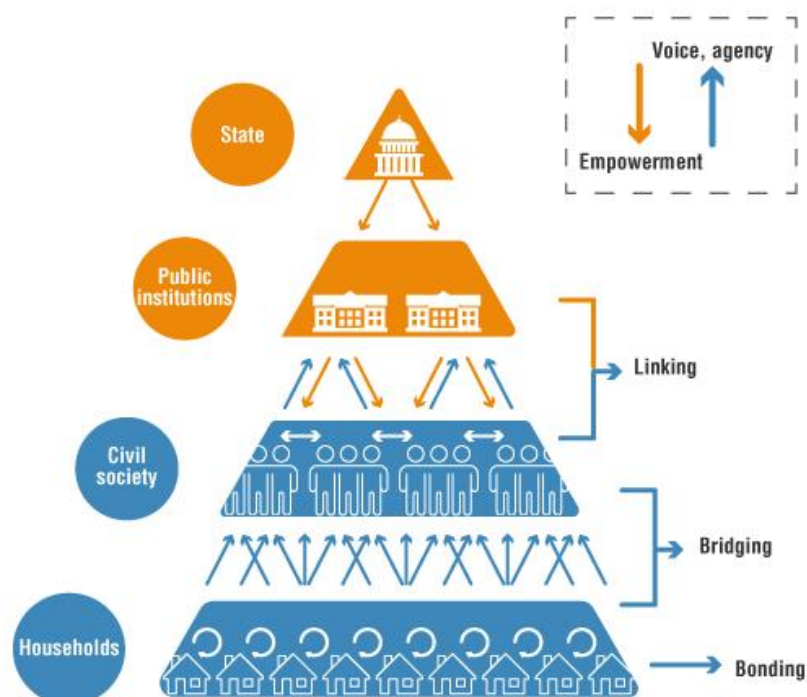
Interactions at the meso level are particularly important for addressing discontent and are thus of central concern to this report. Secondary institutions serve as interlocutors between the individual and the state, allowing the grievances of a particular constituency to be expressed to an institution empowered to address them. Where these interlocutors interact regularly with the state, sudden outbursts of discontent are less likely to occur, and there is greater likelihood of addressing the more structural causes of discontent.

The state has a critical role to play in fostering and harnessing social capital. As Woolcock and Narayan contend, “[the] state is the actor best able to facilitate enduring alliances across the boundaries of class, ethnicity, race, gender, politics, and religion” (2000^[14]). This chapter explains how these alliances can be mobilised through participatory processes to strengthen governance, vitalise political processes and generate innovation in public and private spheres. Such processes address the decline in institutional trust identified in this report by facilitating productive interactions between state and civil society and by improving development outcomes.

These forms of social capital are represented in Figure 4.1, a simple pyramidal representation of society and state that captures the micro, meso and macro levels on which social capital operates and the various flows of social capital. These levels are not exclusive: at a basic level, an individual might be part of a household, fulfil an active role in civil society and be employed by a public institution. Nonetheless, this stylised model, on which this chapter builds, demonstrates the role each level plays in social, economic and political life, and the mechanics of inclusion and exclusion. The upward arrows from bridging and linking social capital convey agency and voice; the downward arrows from public institutions indicate the capacity of the state to empower. Sideways arrows between institutions demonstrate co-operation. It should be noted, however, that the pyramid could be rotated to reflect that the state's power ultimately flows from its citizens, as per Rousseau (1762^[23]).

The size of the uppermost pyramid – the state – can vary, although it does not do so in this chapter. Such variation would depict the amount of space in which civil society can operate rather than ‘the size of government’ in an economic sense. A large state may be understood as constraining the space available to civil society by restricting freedom of association, peaceful assembly and expression – elements often linked to the health of a democracy itself, as discussed in Chapter 2. CIVICUS reports that the space for civil society had been narrowing in many countries in recent years and that this trend accelerated during the COVID-19 pandemic (2020^[24]). However, it also finds that 2019 was a year of extensive civil society mobilisation across the world around a number of national and global challenges, which was able to achieve real change.

Figure 4.1. Social capital flows in a stylised representation of society



Source: Authors' elaboration.

Individual households and small communities within a society along the bottom of the triangle (usually) possess bonding capital. Bridging capital allows individuals from these units to interact with secondary institutions – a highly diverse array of larger groups ranging from small firms and labour unions to churches and sport clubs. Individuals can belong to any number of associations, and these associations can interact

with each other to create the “dense network” mentioned above. Above the secondary institutions are public institutions, such as the board of education that interacts with a parent-teacher association or the chamber of commerce that works with local businesses. These are examples of complementary linking, as shown by the arrows running in both directions. The importance of horizontal as well as vertical flows within this model requires a broad understanding of the social contract (Box 4.1).

Box 4.1 Expanding perspectives on the social contract

The stylised depiction of society in Figure 4.1, with its interrelations, mutual dependencies and complex reciprocities between society and the state and between members of society themselves, evokes the concept of the social contract. Instances of discontent are often characterised as a vertical rupture of the social contract, a form of rebellion by one or more parts of society against a state that is perceived as failing in its obligations. As this chapter makes clear, the social contract is more complex than that.

In the 2012 edition of *Perspectives on Global Development*, the Organisation for Economic Co-operation and Development (OECD) explored the role of the social contract in development with reference to the relationship between citizens and the state (2011^[25]). This report uses the concept of social capital to expand the paradigm in four ways, to make the case that the role of the state is not so much to fix society’s problems as to partner with society to devise solutions.

First, it emphasises the importance of intermediaries between the state and citizens in maintaining the social contract. This reflects the fact that a citizen’s attitude towards the state is influenced on a daily basis by their local-level interactions with public institutions. Moreover, it acknowledges the importance of the collective: that the report contends that citizens gain a voice not as individuals but as part of a civil society that represents their interests, promotes reciprocity and generates feelings of solidarity.

Second, the chapter places an emphasis on horizontal linkages as well as vertical. The bonds of recognition, reciprocity and mutual empowerment are not confined to state-society relations but also exist between citizens, institutions and places in civil society. Although its specific articulation will differ greatly from place to place and culture to culture, the social contract is defined both by the state’s obligations to society (and vice-versa) *and* by citizens’ obligations to each other (Shafik, 2021^[26]). Trust between people is thus as important to the social contract as trust in government.

Third, this chapter recognises that a social contract is often based on a political settlement articulated in a written constitution, which codifies the rights of citizens and the obligations of the state to those citizens. The chapter contends that a national development strategy complements a constitution by locating each citizen within this project, supporting the realisation of socioeconomic rights enshrined therein and fostering ongoing deliberations about this strategy.

Last, the approaches outlined in this chapter imply that civil society and the state share responsibility for safeguarding societal well-being. The constitutions of a number of countries codify the duties a citizen must fulfil, as does Article 29 of the Universal Declaration of Human Rights: “[everyone] has duties to the community in which alone the free and full development of his personality is possible” (UN, 1948^[27]). However, these duties are usually confined to obeying laws, paying taxes and defence of a country (UN, 2018^[28]). This report asks citizens to engage more actively in the project of building more inclusive and prosperous societies but recognises the need for governments to support their efforts.

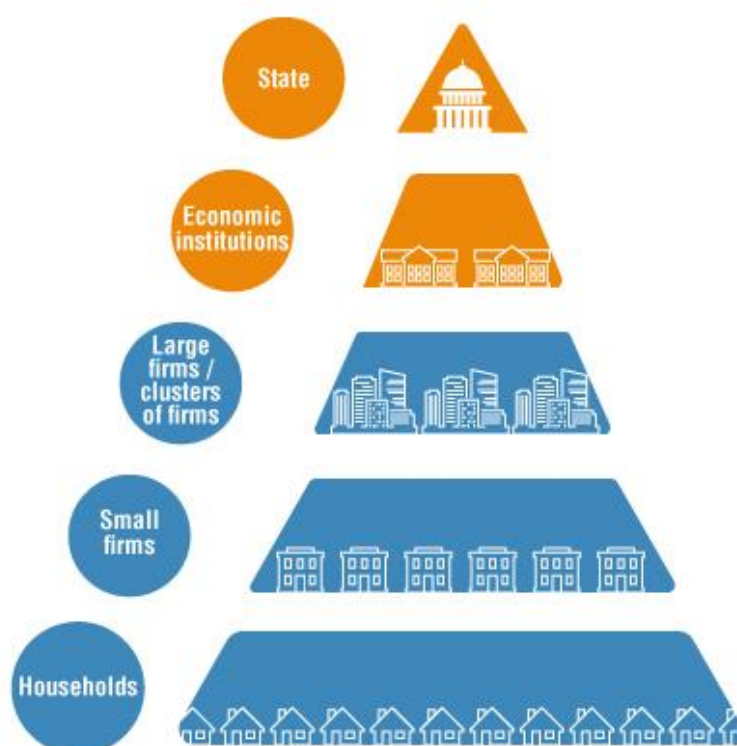
Introducing a stylised model of the economy, state and civil society

This chapter uses the stylised societal framework introduced in the previous section to address the challenges outlined in Chapters 2 and 3. To do so, the framework first adds an additional layer of

institutions: the large firms, or clusters of firms, that are displayed above the small firms in a stylised version of an economy with full employment (Figure 4.2). Small firms are considered part of civil society, rooted as they are in a community, both spatially and culturally. The larger firms, including multinational enterprises are not; these firms might be expected to cluster in particular locations (normally major cities) and have weak links to a particular community. The representation reflects these differences in proximity to households, which are now ranged along the bottom of the pyramid left to right according to income, with the lowest income households at the far left.

The public institutions depicted in Figure 4.1 are replaced by economic institutions in Figure 4.2. These institutions include the agencies established to promote economic development through the provision of infrastructure, direct support for enterprises, research and development activities or higher education as well as a stable macroeconomic framework and the rights and regulations that govern the conduct of firms. These are “promotive institutions”. Economic institutions also incorporate regulations designed to protect workers and the environment from the potential excesses of economic life, which the chapter terms “protective institutions”. These include laws governing maximum working hours or minimum wages, the freedom to form trade unions and social security systems.

Figure 4.2. A stylised model of a full employment economy



Source: Authors' elaboration.

Polanyi considered these promotive and protective institutions as constituting a “double movement” (2001 [1944]^[29]). Capitalist states facilitate the free functioning of the market economy while responding to the demands of society for protection from the associated adverse social and environmental consequences. In this way, the economy remains embedded within social relations despite pursuing its own logic. When

protective institutions weaken, the economy becomes disembedded from society; instead, “social relations are embedded in the economy”, and social institutions are divided into the economic and the political (with the latter unable to affect the former). In an idea with powerful resonance today, Polanyi considered that citizens would find intolerable a situation whereby they are unable to exercise control over the economy while having no choice but to participate in it, even on terms that violate their notions of justice or dignity.

Civil society has a critical role to play both as a counterweight to the state and in protecting the individual from the state. However, civil society is also a locus for contestation and dominance, with its own hierarchy. It contains elites, disaffected middle classes and different factions of the precariat, and it produces political parties of opposing ideologies. These elements are the lifeblood of politics but where political systems are dysfunctional, civil society can be captured by powerful sectoral interests that undermine Polanyi’s second movement.

Gramsci recognised the hierarchies within civil society, which he saw to be both economic-political and cultural and ideational (Brighenti, 2016^[30]). In spite of its plurality, he argued that civil society in democratic societies tends to be locked into a set of power relations directed by a specific way of thinking; this tendency not only allows inequality to reproduce itself but also prevents the emergence and adoption of new ideas even when the existing paradigm is increasingly discredited. In this context, an innovative political project gains traction through its currency with people’s everyday realities rather than through a revolution directed at the state. Radical change must be fostered by the democratic institutions within civil society.

Polanyi recognised that economic development is a partnership between public and private institutions (2001 [1944]^[29]). As this model illustrates, firms would not be able to operate, much less thrive, without the support of public institutions. Virtuous circles of reciprocity can develop between firms and economic institutions. While firms benefit from economic institutions, the institutions (and the state more broadly) benefit from engagement with firms: by monitoring the performance of firms, public institutions gain a better understanding of the economy, which in turn allows them to optimise their involvement in the future. Meanwhile, successful firms generate higher revenues for the government through taxes on their profits.

The links between firms, other secondary institutions and households are critical for embedding the economy. These links are not solely commercial: at an individual level, the status conferred by a certain profession or position might greatly enhance an individual’s standing in the wider community. Labour unions and employee organisations might be highly active in non-professional activities: the exalted Indian Railways cricket team leaps to mind. The links between firms and the community create a space for overview of the economy (at least at a local level) and thus an allocation of responsibility to individual actors for any damage they might inflict on society or the environment.

A key feature of this stylised model is its universality: all firms are in the formal economy and everyone is employed. The economy generates public revenues, which in turn finance further investment in the economy and the provision of high-quality public services. Social security is largely financed through contributions by workers and their employers but sufficient public funds exist to redistribute resources to vulnerable groups outside the labour market through a range of social services. Moreover, a citizenry with extensive social capital generates a dense civil society, which is in close contact with the state, thus strengthening social cohesion and collective action. In the sections that follow, the model illustrates how this virtuous circle breaks down in contexts of social, economic and political fragmentation and polarisation.

Harnessing society’s power to escape the development traps

This section builds on the stylised model developed in this chapter to address the three development traps mentioned in Chapter 2 related to low productivity, weak public institutions and the vulnerability of citizens. In each case, it outlines approaches that enhance individual well-being across multiple dimensions while

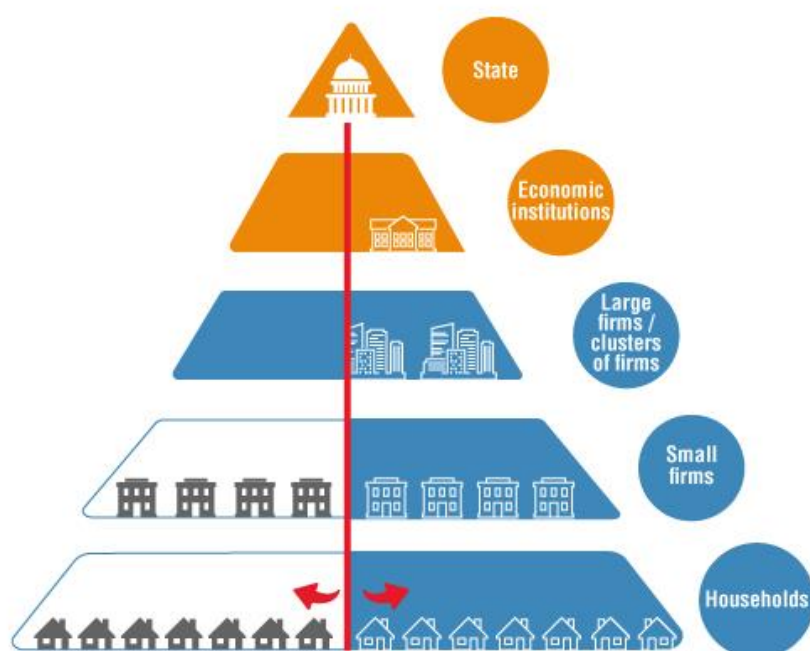
improving economic outcomes for society as a whole, at the same time as they foster social cohesion and strengthen the bonds between society and the state.

The productivity trap: Linking traditional and modern firms in industrial districts

Chapter 2 explains the productivity trap facing developing countries in terms of undiversified economies with low levels of productivity and large informal sectors. Many developing economies rely on exports from primary sectors with low levels of sophistication (such as mining or agriculture) and are unable to support the growth of micro, small and medium-sized enterprises (MSMEs), even though these account for the vast majority of firms. In Latin America, for example, MSMEs account for 99.5% of firms (with firms at the micro level alone accounting for 88.4%) and 61.0% of employment but only 24.5% of production (OECD/CAF/ECLAC/EU, 2019^[31]).

While there are numerous facets to the productivity trap, this chapter focuses on the small size and low productivity of firms. Returning to the stylised model, Figure 4.3 depicts an economy operating some distance from its potential. It introduces a dividing line (henceforth, the “red line”) between what might be considered in crude terms as the modern, productive or efficient part of the economy on the right and the untransformed, unproductive or informal part of the economy on the left. The institutions either side of the red line operate within the same society; there are no cultural or legal impediments to firms or households crossing from one side to the other. However, the differences in the institutional landscape on each side indicate that the firms on the left-hand side are poorly linked to each other and to large firms, and they have little or no role or voice in the productive or formal economy.

Figure 4.3. Stylised model of a divided economy



Source: Authors' elaboration.

In this stylised model, only firms and workers on the right-hand side of the dividing line are covered by promotive and protective institutions. There are no large firms operating in the left-hand triangle, but small

firms operate on both sides (and, one assumes, interact in this space). The red line represents the barriers that informal firms (which we expect account for the majority of enterprises on the left-hand side) face in seeking to join the formal sector or to integrate themselves in the value chains of large firms. These barriers might be related to finance, skills or competitiveness, but they might also pertain to the broader economic context. Households working for firms on the left-hand side are shaded in grey on the understanding that their status is closely linked to that of their livelihood.

The red line reflects policy choices that have benefited certain groups at the expense of others or have set the economy on a particular path. These choices might have been made many years ago, notably in the case of former colonies whose economies were engineered to fulfil a particular need for the benefit of a colonial power. This is particularly the case with extractive colonial models (Acemoglu, Johnson and Robinson, 2004^[5]). However, the choices might also reflect the power and interests of particular domestic groups that influence policy making today. Most notable in this context are the links between economic development and state formation mentioned earlier: the capitalist state and those who exercise power within this state are often invested in a particular model that grants them financial resources and political control. These structural dynamics hardwire inequality into an economic system and economic policy, and they prevent mechanisms of supply and demand from equalising firms and individuals.

The ranging of households at the bottom of the triangle by income is imperfect. People working in the informal economy can earn large sums of money, while productive firms (small and large) require workers at various income levels, who might be fully covered by protective institutions as a result. However, in aggregate, it seems reasonable to assume that the precariat discussed in Chapter 1, trapped in unproductive activities and highly vulnerable across a number of dimensions, are to the left of the line. This is a source of discontent for them and a waste of human resources for society as a whole.

This divided model recalls the dualist theories of economic development. In broad terms, these distinguish between traditional and modern sectors of a developing economy, as well as between the primary and secondary labour markets associated with these sectors. Many theorists expect that, over time, economic forces, particularly technology, will destroy the traditional sector, leaving in place a homogenised modern economy. Berger and Piore contest this interpretation, demonstrating not only that traditional firms co-exist with modern firms but also that modern firms support the traditional sector (as happens in France and Italy, for example) (1980^[32]). Moreover, traditional firms might even be able to expand and thrive.

In explaining this phenomenon, Berger and Piore (1980^[32]) and Brusco and Sabel (1981^[33]) demonstrate how small firms might prosper in a modernising economy. They argue that traditional firms might diffuse the products of the larger firms, large firms might contract with traditional firms to deal with fluctuations in demand and traditional firms might be better suited to certain tasks. They also show that cultural factors might generate strong social support for traditional enterprises, which incentivises governments to support the traditional sector through subsidies or trade protection for political gain. Rather than be left behind by large firms, traditional firms can exploit their role vis-à-vis the modern sector to innovate and expand.

The divided model can also capture geographical disparities in productivity, with less productive regions on the left-hand side and more productive on the right. This permits the exploration of territorial approaches to development, notably those originating from the district model outlined by Marshall, which focuses on the capacity of local areas to generate productivity gains endogenously (1879^[34]). “Each man profits by the ideas of his neighbours: he is stimulated by contact with those who are interested in his own pursuit to make new experiments; and each successful invention, whether it be a new machine, a new process, or a new way of organizing the business is likely when once started to spread and to be improved upon”. Becattini (2017^[35]) and Brusco (1982^[36]) explain how small firms might expand under a Marshallian approach in which they co-operate with other small firms on product upgrading and innovation; as a result, they become competitive with large, vertically integrated firms.

Social capital allows traditional firms to organise themselves differently to large firms. Under a Marshallian logic, small firms can coexist with large firms based not on their efficiency or their market power but on the relationships they generate with other small firms, with large firms and with society as a whole. These relationships are based on trust and goodwill, cultural factors generated by repeated interactions and reciprocity that reduce transaction costs. As Lin and Nugent argue, transaction costs – including the direct costs of obtaining information, negotiating contracts and communicating with partners, and the indirect costs of monitoring these arrangements – play a key role in shaping institutions (1995^[37]).

The decentralised, bottom-up approaches to industrial development outlined here contrast with the centralised top-down archetype of industrial policy. They build not only on the mutually advantageous relationships that small firms can foster both each other and with large firms but also on the cultural ties that embed smaller firms within a given community. This rootedness is a source of political power that firms can exploit to gain support from the economic institutions of the state. In this way, the gap Polanyi identified between the political and economic spheres is narrowed, allowing civil society greater influence.

These approaches involve each level of the stylised model in a dynamic set of interactions whose parameters are established partly by the market, partly by society and partly by the political system, in other words, a symbiosis of culture and institutions. As Marshall puts it, “the secrets of industry are in the air”, to be captured through “conviviality” and “face-to-face” interactions (1879^[34]). The rise of teleworking during the COVID-19 pandemic might have implications in this regard.

Echoing Marshall’s argument, Andrews finds patents declined significantly in counties in the United States where prohibition laws passed from 1917-19 forced the closure of bars and other drinking establishments, an outcome he attributes to a tendency for informal interactions outside the workplace to facilitate invention by encouraging collaboration and the sharing of ideas (2019^[38]). The author finds that patent numbers in these counties recovered after three years as people reconfigured their social networks and that these new configurations were reflected in changes in the technological classes of the patents. Meanwhile, Box 4.2 explains how another facet of social capital – the “know-how” located within networks – can be just as important as knowledge.

Box 4.2. The knowledge and know-how behind firm expansion

Sen’s capabilities approach mentioned at the start of this chapter has an analogue in the development of firms. Capabilities in the context of firms can be defined as competences or process-related knowledge, “embodied in various collective, shared or aggregate forms of knowledge at the levels of enterprises, the labour force, economies and societies” that “define the feasible patterns and processes of productive transformation” (Nübler, 2014^[39]).

Capabilities allow the use of, but are distinct from, productive capacities or endowments, such as capital, labour and infrastructure. Capabilities can be considered as the combination of options for productive transformation, given by the existing structure of the economy, and the competences that allow an economy or a firm to exercise an option and create new economic activities. Options and competences are complementary and both need to be developed simultaneously (Nübler, 2014^[39]).

Delving deeper into the types of knowledge that constitute capabilities, it is important to distinguish between conceptual and procedural knowledge (also termed know-how or tacit knowledge). Conceptual knowledge can be considered as the understanding of principles and concepts, rules and models. Procedural knowledge refers to knowing how to do something in actuality. Although harder to articulate than conceptual knowledge, procedural knowledge is necessary at the individual, firm and economy level, and it takes on new forms at each level.

The complexity of creating and passing on procedural knowledge increases with the size of the group, as does the required amount of procedural knowledge. A sports team just needs to have the knowledge

to perform as a team in a match. A firm must have the routines to organise itself (from top management to workforce) to produce a product and develop new products. A citizenry requires procedural knowledge for a vast array of interactions, from basics such as family and neighbourhood relations to politics and collaboration for common statehood.

Competences must be shared or mastered by a large proportion of the group or population to become fully effective. Trust in transactions is a good example. Only if a large majority of members of a society share a common conception of the roles and duties involved in a transaction (such as delivery of a product against the promise to pay in the future) can this transaction be undertaken. Where only a minority shares this trust, such transactions will be more difficult to undertake, as they would require establishing a common understanding of duties, as well as reliable, objective control mechanisms. The number of transactions possible would be limited in this setting.

The increasing complexity of creating and passing on competences as groups get larger increases the difficulty of copying or learning competences from other groups. In terms of practical policy advice, the knowledge and process concept of capabilities emphasises combinations of formal training, inviting advanced foreign firms to invest in a country in order to learn from their operations, and targeted programmes for building the necessary competences.

The state has a key role to play in these processes. Mapping a country's economic capabilities alongside its endowments and industrial capacity, discussing a strategy with a broad array of stakeholders from public and private sectors in collaborative processes, and learning from the experiences of other countries are strong foundations for unleashing an economy's potential to expand and diversify. This principle underpins the OECD's *Production Transformation Policy Review*, which emphasises peer learning and consensus building as first steps in developing an industrial strategy, which in turn is the basis for an inclusive development strategy for society as a whole (Primi, 2016^[40]).

In this example, a benign combination of institutional and cultural factors and policy choices can shift the red line leftwards to make the productive economy more inclusive. The example also demonstrates that it is not possible to move the line leftwards by applying pressure at a single point; rather, initiatives must push in a co-ordinated fashion along its length. From the perspective of the government, policies to promote the development of MSMEs must be aligned from the micro to the macro level, from exchange rates to local infrastructure, for example.

The model assumes that all individuals have full and equal access to the state insofar as they enjoy equal rights as regards voting and citizenship. This is represented by the pendulum pivoting at the bottom of the inner green triangle rather than the top. However, it does not imply equal access to public institutions or an adequate equitable provision of services, as the next section discusses.

The institutional trap: Improving tax morale and making schools work

The institutional trap is a key ingredient of today's discontent. It is premised on the growing expectations of emerging middle classes, whose members aspire to a better life for themselves and their children and, as a result, demand better public services, in particular education and health. Middle-class status means that these individuals might be paying tax on their income for the first time and are thus even more sensitive to the quality of the services they are financing. If they are not satisfied, they lose the incentive to pay tax; lower tax revenues imply lower-quality services, and a vicious circle develops that can result in civil unrest.

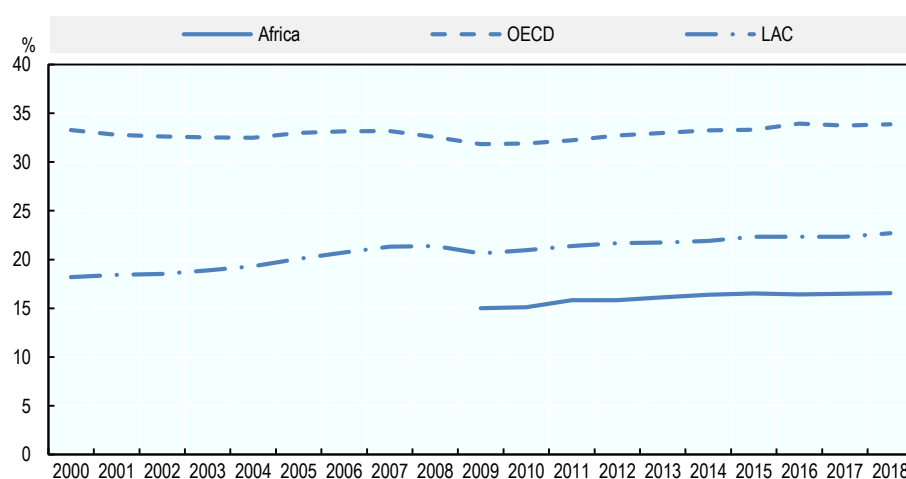
Recent work on tax morale finds evidence of this vicious cycle in some countries but not others. The OECD shows tax morale to be higher in the OECD and Latin America than in Africa and Eastern Europe (2019^[41]). However, the situation seems to be improving in Africa and deteriorating in Latin America. The proportion of people who strongly agreed that the government has the right to make people pay taxes rose sharply in Africa between 2005 and 2015: by the end of this period, only one-quarter of the population disagreed with

this government right, although there is evidence that the upwards trajectory stalled or even reversed subsequently (Isbell and Olan'g, 2021^[42]). In Latin America, the proportion of individuals who believed that it is justifiable to cheat on one's taxes rose between 2011 and 2015; by the latter year, less than half of respondents thought that it was never justifiable to do so (OECD, 2019^[41]).

The OECD identifies clear trends among the varying attitudes to taxation (2019^[41]). More educated individuals view paying taxes more positively; women generally have higher tax morale (although not in Africa); older people are less likely to justify cheating on taxes; and people who claim a faith or religious identity are more in favour of paying taxes. Institutional factors also matter: individuals who believe that they are living in a meritocratic society have significantly higher tax morale, as do people who trust the government, support redistribution or consider democracy to be the best form of government. These results are complemented by the work of Andriani et al. on the cultural factors behind tax morale (2021^[43]). Based on the evolution of tax morale in 48 countries over 30 years, they find that political inequality (what they term "power distance") and a lack of transparency in government operations tend to interact with people's deeply held values to reduce the likelihood of tax compliance.

Developing countries can ill-afford weak tax compliance. Figure 4.4 demonstrates the financial constraints many developing countries face relative to OECD economies when attempting to satisfy the demands of a growing middle class. Harmonised tax data for more than 100 countries shows how much these revenues vary across countries and regions (OECD, 2021^[44]). The average tax-to-gross domestic product (GDP) ratio for OECD economies in 2018 was 34.3%; in Latin America and the Caribbean (LAC), it was 23.1%, and in Africa, it was 16.5%. These averages mask significant within-region variation. LAC's tax-to-GDP ratios ranged from 13.2% in Dominican Republic and Guatemala to 42.3% in Cuba. In Africa, they ranged from 6.3% in Equatorial Guinea and Nigeria to 32.4% in the Seychelles (OECD, AUC and ATAF, 2020^[45]). A regional average for the Asia Pacific region is not available, but average tax-to-GDP ratios ranged from 11.9% in Indonesia to 35.4% in Nauru (OECD, 2020^[46]). Over the period 2009-18, the gap between the Africa and LAC averages and the OECD average hardly narrowed.

Figure 4.4. Average tax-to-GDP ratios for Africa, LAC and the OECD, 2000-18



Note: The Africa average should be interpreted with caution, as data for social security contributions are not available or are partial in a few countries. The Africa average (30 countries), LAC average (26 countries) and OECD average (37 countries) are all unweighted.

Source: OECD (2021^[44]), *Global Revenue Statistics Database*, https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL (accessed on 1 June 2021).

StatLink  <https://doi.org/10.1787/888934253271>

These trends demonstrate the fiscal challenge facing governments in developing countries as they look to improve public services. Assuming that the majority of tax revenues (especially from taxes on income and profits) are generated by the productive part of the economy to the right of the red line in Figure 4.3, it follows that the smaller the right-hand triangle, the lower these revenues are likely to be and the less they can afford to spend on services for the wider population. Unless a country follows an inclusive development path – one that expands the tax base by increasing the number of firms and individuals operating in the productive part of the economy – the government might well lack the financing required to expand and improve public services at a rate that satisfies the population. This is compounded by the challenge of sustaining the quality of services while scaling them up: intuitively, it takes one or more generations of quality schooling to produce a nationwide supply of good teachers and doctors. Citizens' expectations might not tolerate such a lag

Charting a way out of the institutional trap requires a deeper understanding – and harnessing – of the role secondary institutions can play in getting the most out of public spending, especially in constrained fiscal contexts. While tax morale partly reflects an individual's attitude towards the state (in particular, whether they feel they are getting out of the fiscal system what they put in), improving tax morale and strengthening public services depends in large part on the intermediary institutions located between citizens and the state.

Middle-class taxpayers unhappy with the quality of their children's education, for example, must choose between two courses of action when faced with poor public services: they can continue to use services while pushing for improvement or they can go to the private sector for their health and education needs. These two responses might have very different impacts on the long-term prospects of the service in question, as outlined by Hirschman, who characterises them as a choice between “exit” and “voice” (1972^[47]). If the parents send their children to private school, this will do nothing to improve the quality of public provision; however, if they use their voice to express dissatisfaction with a school, they might achieve something. Assuming these are relatively well-off individuals who are likely to be endowed with significant social capital, both in the sense that they have the capacity to influence various groups and in terms of the tacit knowledge that they possess which might help the school to address some of the challenges it faces.

The question for the government is how to give voice to these parents. A parent-teacher association establishes a two-way dialogue between individuals and a public institution through which complaints can be aired and discussed. A governing board comprising parents and other members of the community can oversee a school's performance. An education board or local department of education can liaise with these institutions to ensure higher-level involvement and, where necessary, remedial action. These are examples of bridging and linking social capital.

Two factors are important here: opportunities for voice and the power to effect change. Both are critical to the participatory approaches to public services that are increasingly recognised as prerequisite for their effectiveness. Rosanvallon argues that this trend reflects changes in the nature of democratic systems, where “the inability of electoral/representative politics to keep its promises (has) led to the development of indirect forms of democracy” (2008^[48]). Citizens are represented (and are exercising) power beyond the ballot box through their capacity for oversight (surveillance), prevention (capacity to protest) and judgment (power to take the government to court). Through these mechanisms, civil society serves as custodian for public goods, ensuring both their quality and their broad accessibility.

The three dimensions of counter-democracy – and the institutions that underpin them – need to be operational simultaneously if governments are to be held to account. They also need to operate across the economic, social and environmental spheres to ensure a broad range of rights is protected. Voice without power is merely consultation, and where consultation does not lead to change, citizens are likely to lose interest in or even resent the process. Mechanisms by which citizens can provide feedback about the quality of public services are a more complex case: their voice is an important source of accountability for public officials and has the power to improve public services, but it positions citizens as consumers of

public services rather than giving them an active role in improving matters. On the other hand, participatory budgeting has the potential to improve public services and institutionalises the power of citizens (Box 4.3).

Without the power to effect change, it is unlikely the parents in this example will keep their children in the public system unless compelled to do so. This compulsion might take two forms. The first is societal: it might be culturally frowned upon to opt out of public schools because it is incumbent on everyone to support the system. These cultural factors exercise great influence over people's behaviour, and (although not discussed here) they are closely linked to social capital. The second mechanism is to exclude rival service providers. This is not easy to do in a market economy but can nonetheless be critical to the sustainability of a public system. Many health systems, for example, have clear rules about which services can be provided by the private and public sectors. Security is another example where this might be necessary: if private security services expand beyond a certain degree, the state no longer has a monopoly on law and order provision or even the use of violence.

Keeping these parents engaged with the school and empowering them to improve its performance has the potential to create a virtuous circle. Not only do they continue to attend and continue to pay taxes because of this improvement, but other parents are more likely to do so as well. The resultant increase in revenues allows further improvements in quality, alleviating the discontent that poor public services often generate. All the while, children at the school receive better teaching and emerge as more productive members of society.

This has the potential to move the red line to the left but, as mentioned above, only if it is accompanied by other interventions higher up. No matter how well-taught children might be, if there is no chance of them finding productive employment once they leave school, the economic returns on education will be minimal and the incentive to enrol children similarly low. In this way, escaping the institutional trap is conditional on progress in escaping the productivity trap.

The institutional trap can compound the productivity trap. Where economic activity is relatively concentrated and the government is thus reliant on a relatively small number of firms to finance public services, these firms enjoy significant bargaining power which they can use to lobby against attempts to regulate or diversify the economy. At the very least, this influence can generate a degree of risk aversion in governments; at worst, it can prompt governments to introduce policies that empower incumbents and increase barriers to entry.

This examination of the institutional trap prompts two final points about the purpose of education that are germane for this report. First, education is a key route to freedom at an individual level, provided that it challenges structural power dynamics (Freire, 1970^[49]); at a societal level, it can serve as a mechanism for generating what Unger calls a "social imagination" to craft alternative visions of the future beyond prevailing, unsustainable models (2009^[50]). Both Freire and Unger recognise the importance of education in encouraging critical thought, problem solving, co-operation and dialogue rather than a top-down flow of information if education is to achieve its transformational potential. Second (and relatedly), education has the capacity to inculcate a sense of civic responsibility that has the potential not only to enhance social cohesion but also to generate the level of citizen engagement essential for the more participatory approaches to democracy discussed in this chapter (OECD, 2017^[51]).

Box 4.3 Participatory processes and the power to transform

Ho perduto la possibilità di vedere l'alto Sole...non per ciò che ho fatto, ma per ciò che non ho fatto. (Dante Alighieri, 1472^[52])

Participatory processes aspire to “democratise democracy” (Pateman, 2012^[53]). They are a continuous project by which individuals can participate in decision making in their daily lives and interact with authority structures in a way that reflects their individual capacities and characteristics. Individuals learn to participate over time and shape processes accordingly, while authority structures adapt to accommodate these processes. They provide opportunities for citizens to express their voice, empower communities to improve lives and transform public institutions, and generate trust between communities and institutions.

The most successful example of participatory democracy is participatory budgeting, a mechanism that first emerged in the Brazilian city of Porto Alegre in 1988 (shortly after the restoration of democracy in Brazil) and subsequently spread throughout the country, across Latin America and then globally. Today, it is an increasingly common component of democratic life in advanced economies. However, there is wide variation in how participatory budgeting is practised; in many cases, it falls far short of the goal of democratising democracy and becomes an exercise in consultation or deliberation that involves no transfer of power.

The Porto Alegre model has three layers (Group, 2008^[54]). At its foundation are two sets of neighbourhood assemblies set up across the city in which all citizens are able to participate. In one set, citizens debate and vote on budget priorities and elect representatives to the layers higher-up. In the other “thematic” assemblies, citizens discuss citywide policies, such as health, education or transport.

The second layer consists of Regional Budget Forums and Thematic Budget Forums for each of the city’s 16 districts, where elected representatives discuss the investment priorities identified by the neighbourhood assemblies in the presence of citizens wishing to attend. These forums each choose two councillors to participate in the Municipal Budget Council, which decides how to allocate the city’s annual investment budget, monitors implementation of these decisions and makes decisions around the subsequent year’s process.

According to the World Bank, some 20% of Porto Alegre’s population have participated in the budget process (2008^[54]). A large proportion of participants in the assemblies are in poverty (although the extreme poor have found it difficult to participate), and these individuals account for a significant proportion of the representatives elected to higher levels. Indigenous groups that are otherwise marginalised from political processes also participate. Women have been active participants and (after disappointing results initially) now account for a proportionate number of elected representatives, although women with caregiving responsibilities are under-represented.

Participatory budgeting is equalising in two critical dimensions: in addition to distributing power across citizens, it also redistributes resources. In Porto Alegre and other Brazilian cities, participatory budgeting has been shown to direct funding to poor regions and to projects that communities in these areas expect to be most transformative (Marquetti, Schonerwald da Silva and Campbell, 2012^[55]). The practice has been found to improve living standards over a range of dimensions in the short and medium term, reducing poverty and improving access to potable water and sanitation.

Cabannes finds that participatory budgeting globally is associated with significant improvements in public service provision, with increased community involvement enhancing the implementation and maintenance of investment projects, thus making them more cost effective (2015^[56]). The study also suggests that participatory budgeting increases municipal revenues by making citizens more likely to pay taxes, and finds that participatory processes also generate additional “off-budget” resources

through unpaid work by communities and co-contributions by local enterprises. The emancipatory impact of participatory budgeting is harder to quantify but could nonetheless be an integral part of the social change that the practice has been shown to generate (Célérier and Cuenca Botey, 2015^[57]).

As noted above, certain characteristics are necessary for participatory budget processes to be transformative rather than entrench pre-existing structures or political dynamics. Involvement should be a right, universally accessible to all citizens. The resources over which these processes have discretion should be large enough to achieve visible change in local communities and in citizens' power to allocate these resources meaningful. Mechanisms must be allowed to evolve in ways not controlled by the central authority. Where there is no meaningful transmission of power to citizens, participatory processes might improve transparency and make local administrations more accountable, but they are unlikely to reduce inequalities (Herzberg, Sintomer and Allegretti, 2013^[58]).

The world-wide diffusion of participatory budgeting shows that the practice is not reliant on a specific political system or particular political orientation. The approach is increasingly common in the People's Republic of China and South Korea, while the Indian state of Kerala was one of the first adopters in Asia in the mid-1990s. In Africa, participatory budgeting is most widespread in francophone West Africa, particularly Burkina Faso, Cameroon (which received extensive support from Brazilian and international non-governmental organisations) and Senegal. It has achieved less traction in other parts of Africa for a number of reasons, including the limited resources available in municipal budgets, entrenched power structures, weak capacity among citizens to engage and, in some cases, state- or local-level fragility (Herzberg, Sintomer and Allegretti, 2013^[58]).

Pateman takes a mixed view of the spread of participatory budgeting around the world and the local variants that have emerged, finding evidence of "an expansion of participation and an extension of citizenship, but not the beginnings of democratization and the creation of a participatory society" (2012^[53]). Yet to say that the practice has, in many places, fallen short of its transformative ideal risks overlooking the fact that it is a relatively recent innovation. It is not unreasonable to hope that a sustained impulse for civic engagement, combined with experience in implementation and evidence of impact, will intensify support for participatory budgeting and make it work better. Refinements will generate greater trust, and technological advances might make participation easier, ultimately engendering a culture of participation among citizens and public institutions alike.

The social vulnerability trap: The case for universal social protection

The social vulnerability trap articulates the reality of citizens who are classified as middle class in terms of their income but whose status is fragile. Individuals caught in the social vulnerability trap are typically in informal, low-quality, low-paying jobs without social protection coverage. They find it difficult to accumulate the savings required to invest either in themselves (through further training) or in an enterprise and are highly susceptible to income shocks, which can push them back into poverty. Their mobility is limited; although they might change jobs relatively often, they will usually move from one informal job to another. These citizens have been hit especially hard by the COVID-19 pandemic. This vulnerable population is located along the bottom of the left-hand triangle of this chapter's stylised model but is unlikely to be at the far left, where individuals who remain in poverty are located.

This chapter explores the social vulnerability trap through the lens of social protection – the broad set of policies and programmes designed to alleviate poverty and protect individuals and their households from risks over the entire course of their life. As of May 2021, 222 countries and territories had scaled up social protection provision in response to the COVID-19 pandemic, underlining its importance as an economic and social stabiliser in times of crisis (Gentilini et al., 2021^[59]). Social protection also has a key role to play in helping countries to recover from the pandemic in the short term and to build back better in the long term. Consistent with the approaches to the other development traps outlined in this chapter, enhancing

social protection simultaneously achieves better outcomes for individuals while also strengthening social cohesion and reinforcing the social contract.

Demonstrating the importance of social protection to social cohesion, Alik-Lagrange et al. explain that social protection affect relations between society and the state through three channels: the redistributive, the contractual and the reconstitutive (2021^[60]). The redistributive channel captures what governments provide to citizens, the contractual channel reflects what citizens expect from the government and how they perceive the state's authority, and the reconstitutive channel captures how states and citizens see themselves and each other. The authors explain how these channels are affected by the design of social protection programmes as well as by their financing modalities, and they emphasise that the interactions between programme and context have a significant impact on an intervention's effectiveness.

Social protection not only provides the income support required to get people out of or stop them falling into poverty; it is also a critical means of enhancing social inclusion and social cohesion. As Babajanian and Hagen-Zanker explain, social protection establishes legal rights for citizens, can improve human capabilities or human capital, and can enable poor and vulnerable people to strengthen their assets, all of which promote their inclusion in different facets of daily life (2012^[61]). In the case of social cohesion, Babajanian argues that social protection can “improve intergroup solidarity, tackle discrimination and stigma, reduce or prevent social conflicts, and achieve greater stability” (2012^[62]).

De Milliano et al. demonstrate how these positive impacts of social protection come together Ghana's Livelihood Empowerment Against Poverty (LEAP) 1000, a cash transfer programme for pregnant women and mothers of young children living in poverty (2021^[63]). The authors find that women participating in LEAP 1000 were more likely to receive social support than a control group and no less likely to receive financial support. Moreover, the study finds that LEAP 1000 beneficiaries were more likely to participate in community groups and that their access to financial markets, such as borrowing money or contributing to local savings schemes, had improved. These findings rebut the theory that social protection programmes weaken social support networks by “crowding out” the informal support of friends and neighbours; rather, the authors find evidence that social protection “crowds in” community support.

The COVID-19 pandemic has demonstrated the importance of universal provision of social protection, as articulated by Sustainable Development Goal 1.3. However, as Chapter 1 shows, that less than 50% of the world's population has access to one social protection programme, with coverage in Africa, the Arab States and Asia Pacific typically far below this level. Coverage among vulnerable middle-class members (especially those of working age) on whom this chapter focuses is often particularly low: because they are not considered to be among the extreme poor and typically do not fall within a vulnerable group (such as the elderly or people with disabilities), they are unlikely to be eligible for a tax-financed social assistance programme. At the same time, their informal status and irregular income means that they are unlikely to be covered by a social insurance arrangement. They therefore form part of what can be termed the “missing middle” of social protection coverage.

Viewed in narrow, technical terms, the missing middle phenomenon is an intractable problem. Governments in developing countries typically generate a much lower level of tax revenues than advanced economies and thus, it is assumed, are unable to expand social assistance. Meanwhile, efforts to expand social insurance arrangements to workers on low and irregular salaries raise concerns that contributions will increase the cost of labour and thus undermine efforts to increase formalisation in the economy (OECD/IDB/CIAT, 2016^[64]). Various options have been attempted to combine social assistance and social insurance through partial public subsidies (which translate into lower contribution or tax rates). These have had limited success in increasing coverage, for example in the case of combined contributions in Latin American pension systems (Bosch, Melguizo and Pagés, 2013^[65]). In other cases, the subsidies have cost the fiscus more than expected, as is the case with Indonesia's Jaminan Kesehatan Nasional health insurance scheme, which has nonetheless achieved rapid success in improving coverage across the informal economy and moving towards universal health coverage more broadly (OECD, 2019^[66]).

Informality is the common denominator in the missing middle problem. It is a constraint to social insurance coverage (which is typically predicated on formal labour relations) and it restricts the size of the tax base, thereby limiting the potential for domestic resource mobilisation that can finance non-contributory social assistance. It is not just the lack of visibility of the informal labour force that constrains policies to expand social protection to this group; its heterogeneity is also a major challenge. For example, not all workers in the informal economy have low and irregular incomes; they are often able to contribute something. They are often in some form of regular employment relationship (as part of a formal enterprise's supply chain, for example), and there is therefore an employer who could contribute to their income security. Moreover, an informal worker might still be covered by social insurance through a member of their household. Better understanding these specificities is an important first step towards understanding the social realities of informality (OECD/ILO, 2019^[67]).

A universal approach to social protection is the best and only solution to the missing middle problem and to the social vulnerability trap more broadly. As explained by Packard et al., social protection systems that are not adapted to high levels of informality in developing countries or to the changing nature of work in advanced economies render vulnerable a large portion of the workforce and greatly constrain risk-sharing across the population (2019^[68]). The authors call for a major expansion of social assistance beyond poverty targeting (moving coverage 'up' the income distribution) to protect vulnerable workers from falling into poverty when large-scale risks materialise. This should be co-ordinated with an expansion of social insurance arrangements 'down' the income distribution that shares risk and financing responsibilities fairly between individuals, employers (where a labour relationship exists) and the state. At the same time, expansion of well-regulated and flexible voluntary savings and insurance arrangements for workers at all income levels would respond to the fluidity and diversity of people's employment activities, as well as the associated income variability (Packard et al., 2019^[68]).

The push for universal social protection in developing countries must overcome certain preconceptions. The first is that a country's income level determines whether it can scale up social protection. European countries introduced universal social pensions at an early stage of their development, when their per capita incomes were equivalent to the level in Latin America in the 1980s and 1990s, and tax revenues as a percentage of GDP were far lower than they are today. South Korea committed to universal health coverage at an early point in its economic development. As Mkandawire states, "[social] policies have served not only as an instrument of development, but also as a guarantee that the development process will ensure, contemporaneously, the wide range of 'ends' of development and nation-building" (2005^[69]). This process can also work in reverse: Kyrgyzstan has sustained universal pension coverage since the collapse of the Soviet Union, despite a massive economic contraction (OECD, 2018^[70]).

The second preconception is that the Global South has always been playing catch up on social protection towards an idealised vision of the European-style welfare state. In fact, as Wehr, Leubolt and Schaffar point out, "a considerable number of states in the Global South, especially in parts of Asia and Latin America, developed modern welfare state policies and structures at the same time or even earlier than most of the European countries" (2015^[71]). In developing countries across Africa, Asia and Latin America, especially those that pursued import substitution policies, social security was an important part of the social contract and the project of state building, albeit one that benefited a relatively small constituency that tended to be urban, middle class and politically powerful (Mesa-Lago, 1978^[72]), (OECD, 2020^[73]). Oscillations between authoritarianism and democracy also played their part, as "welfare state policies were used to alleviate the tensions brought about by (dependent) capitalist development and the growing demands of democratic inclusion and participation" (Wehr, Leubolt and Schaffar, 2015^[71]).

The third preconception is that developing countries are obliged to channel scarce resources to those most in need. This targeted approach creates a stratified system whereby coverage for formal-sector workers is universal while those outside the formal sector have low coverage and inadequate benefit levels. In reality, universalism was the guiding principle of welfare policies in developing and advanced economies alike in the 1960s and 1970s, but "since the 1980s, the balance has radically tilted in favour of targeting" in both

sets of countries (Mkandawire, 2005^[69]). In the case of developing countries, the debt crises of the 1980s and 1990s, and the structural adjustment policies imposed subsequently, cemented this ideological shift. It should be noted, however, that many developing countries have retained universal subsidies for staple goods, in particular food and fuel; attempts to remove these subsidies can lead to unrest (Box 4.4).

Proponents of targeting point to the efficiency – and fairness – of directing benefits to individuals who need them most. This argument appears all the more compelling in countries that generate low fiscal revenues or where inequality is high. However, such arguments disregard the challenges inherent to targeting: people move in and out of poverty (especially in urban areas), the poorest people are often those that governments find it hardest to reach, income-based measures of poverty are unreliable, and multi-dimensional indicators are complicated to administer without necessarily generating better results (Brown, Ravallion and van de Walle, 2016^[74]).

Targeting also risks undoing the potential gains to social inclusion and social cohesion. Identifying a group as sufficiently poor to warrant government handouts might result in their being resented or stigmatised. Gassmann, Martorano and Waidler show that receipt of social targeted assistance benefits in Kyrgyzstan is associated with lower levels of subjective well-being among young people, who have grown up in a market economy, but not among older citizens, who recall universal social protection provision under Soviet rule (2021^[75]). Targeting can also generate divisions between recipients and non-recipients that result in tensions between groups and diminish social capital (Adato, 2000^[76]). Community-based approaches can address concerns related to the accuracy of targeting (McCord, 2013^[77]); however, as Endris et al. show in the case of Ethiopia, securing the legitimacy of a targeted programme requires embedding it in broader sets of community arrangements (2020^[78]). Meanwhile, effective grievance and accountability mechanisms are essential for improving performance and safeguarding the relationship between the state and society (Alik-Lagrange et al., 2021^[60]).

Applying conditionalities (such as school attendance or visiting medical facilities) to receipt of social assistance benefits is another mechanism for enhancing the impact of social assistance that has a mixed record, including in terms of strengthening social cohesion and relations between society and the state. Alik-Lagrange et al argue that much depends on programme design, emphasising the importance of aligning conditionalities to people's rights and expectations, ensuring these conditions are feasible (the services must be accessible in the first place, for example) and that recipients are not punished for non-compliance (2021^[60]).

The importance of the latter point is borne out by Heinrich and Knowles, who show that the behaviour of recipients of the Kenya Cash Transfer Programme for Orphans and Vulnerable Children was the same whether benefit receipt was conditional or beneficiaries were simply informed of the desired outcomes but compliance was not monitored (2020^[79]). Indeed, the authors showed the punitive conditionalities produced undesirable and regressive outcomes. It is also often the case that the task of adhering to conditionalities falls upon women, thereby reinforcing gender inequalities (Jones and Holmes, 2011^[80]).

The cost of universal social protection means it is a long-term objective, especially for low-income countries, which often have large gaps in social protection provision. The COVID-19 pandemic has increased this cost through its impact on incomes and employment. Durán Valverde et al. calculate that developing countries would need to spend an additional 3.8% of GDP per year on average to close the financing gap for the establishment of social protection floors (including health protection) (2020^[81]). For upper-middle-income countries, this cost falls to 3.1% of their GDP; for low-income countries, it rises to 15.9% of their GDP – the sum total of their tax revenues as calculated by Akitoby et al (2019^[82]).

For developing countries, increasing financing for social protection is inseparable from the broader objective of domestic resource mobilisation. Scaling up social insurance has an obvious role to play in this regard, in spite of the complexities. For low-income countries, however, external support is indispensable, even though this confronts the challenge of social legitimacy: as Devereux and White find, “programmes that emerge out of domestic political agendas and respond to local conceptualisations and prioritisations

of need are more likely to “succeed” in terms of their coverage, fiscal sustainability, political institutionalisation and impacts” (2007^[83]).

For most developing countries, establishing universal protection systems will take time. A social protection strategy that takes account of the needs of the population today and into the future is essential; so too is a corresponding financing strategy that demonstrates how to sustainably scale up social protection while also promoting shock responsiveness (OECD, 2018^[84]). To ensure that the resultant social protection system not only reduces vulnerability but also strengthens social cohesion and reinforces the social contract, both exercises should be based on social dialogues with an array of actors in government, business and civil society (ILO, 2021^[85]).

By including the voices of vulnerable members of society, such processes generate a broad-based consensus around the design of social protection systems and individual programmes that strengthens their legitimacy. They also reinforce social protection’s capacity to empower individuals and communities as a means of reducing inequality *ex ante*. As Lothian and Unger argue, “[the] most important form of redistribution is not retrospective and compensatory redistribution through tax-and-transfer; it is the reshaping of economic and educational arrangements to broaden opportunity and enhance capabilities” (2012^[86]).

Box 4.4. Subsidy reform in a divided economy: The contentious case of fuel subsidies

While most developing countries lack universal social protection programmes, many subsidise the cost of basic goods, particularly food and fuel, for the population as a whole. They do so either by controlling the price through government procurement processes or by exempting these products from taxation. These subsidies can become extremely costly for the fiscus when the price of these products rises, as happened in 2008-09 (IMF, 2008^[87]). They can also encourage overconsumption of certain products that runs against the environmental priorities of the government. However, as Chapter 2 notes, policies to remove or scale back these subsidies are often a cause of large-scale popular unrest. With a particular focus on fuel subsidies, the stylised model helps explain why.

There is increasing pressure on advanced and developing countries alike to eliminate subsidies or increase taxes on fossil fuels. Such measures are portrayed as a triple win. Making fuel more expensive reduces consumption and thus lowers air pollution and carbon emissions. At the same time, subsidies tend to be regressive insofar as the benefits are unlikely to accrue to those with the lowest income (who are unlikely to own a vehicle); channelling the savings or additional revenues from these subsidies towards social protection programmes for the poorest members of society makes the fiscal system fairer. Last but not least, eliminating subsidies or increasing taxes on fuel might benefit the long-term stability of public finances and be a source of fiscal space. As Lindebjerg, Peng and Yeboah show with reference to the experiences of Ghana, Indonesia and Iran in reducing fuel subsidies, the reality is rarely so simple: political economy concerns make these reforms extremely contentious (2015^[88]).

The number and strength of protests caused by the elimination of subsidies (or the imposition of higher taxes) on fuel suggest that large portions of the population in various countries view these reforms negatively. Individuals might be against these measures for different reasons – for instance, because subsidies are perceived as a universal social right or because of the reforms’ economic impact on individual households – but they can coalesce into a powerful movement. This opposition might be especially strong in oil-producing countries, which tend to subsidise fuel costs heavily (El-Katiri and Fattouh, 2017^[89]; Gupta et al., 2002^[90]); however, in any context where large portions of the population are struggling to get by, higher prices for an essential good might cause unrest. As Algan et al. find in the case of France, protesters against higher fuel prices tended to rely more on their cars because they lived in places with sparse public services, limited economic opportunity and dwindling populations

(2019^[91]). In such cases, private transport is not only needed to live and work but also an essential source of social capital.

These individuals might feel unduly burdened by reforms that increase the cost of fuel, especially where the political class supporting the measures inhabits large cities with reliable public transport. The population as a whole might also resent measures to reduce their carbon emissions in a context where wealthy individuals are responsible for a disproportionate volume of emissions, as discussed in Chapter 1. The legitimacy of the measure might be further weakened by differences in outlooks and situations across the population: the vulnerable middle class might be too focused on making ends meet each day to devote much time or energy to worrying about the long-term health of the environment, as per the hierarchy of needs articulated by Maslow (1943^[92]). This discrepancy was neatly captured by the dichotomy of “fin du monde” versus “fin du mois” that arose during the Gilets Jaunes protests in France (Poingt, 2019^[93]). At the same time, it is possible that opponents of the subsidy reform do not trust that the offsetting social protection measure will reach them and/or would not want what they might perceive as a handout.

Moreover, the better-off often possess sufficient political influence to resist measures that might increase their tax burden. Such individuals might be happy to increase taxes on fuel for cars but might be opposed to measures such as a wealth tax, an increase in the top marginal rate of personal income tax or a financial transactions tax. This opposition might be articulated through technical arguments demonstrating that such measures would have a limited or even counter-productive impact. While these arguments might be valid, it is important that they should be conveyed to citizens as clearly as the arguments in favour of the subsidy elimination and that the two sets of reforms should be weighed against each other as part of broader strategies around revenue mobilisation, addressing climate change and reducing inequality. It is also important not to lose sight of the importance to the social contract of a universal measure such as fuel subsidies.

Where a government assumes that the technical aspects of a reform are beyond the understanding of citizenry or, worse, that a particular measure is justified politically purely on its technical merit, it might not achieve legitimacy across the population – even more so if the measure is perceived as endangering an economic right. Such an approach implies undue control over how knowledge is produced and disseminated, a phenomenon known as “epistemic capture”, whereby certain constituencies determine “how problems are defined and which solutions are considered” (Rodrik, 2020^[94]). In the fractious political context described in Chapter 3, this can lead to or worsen popular distrust of experts and expert knowledge.

The political red line

An understanding of political economy factors is essential for overcoming the three traps identified in the previous section. This section uses the stylised model to understand better the close relationship between economic and political power, which in turn is fundamental to understanding the persistence of inequality in democratic systems. Figure 4.5 represents a society where a relatively small proportion of the population control a disproportionate amount of both forms of power. The dividing line has moved far to the right, with the right-hand triangle constituted by households from what we might consider a secure middle class and upper class. As mentioned earlier, the left-hand side of the triangle, where the precariat is located, is characterised by low levels of civil engagement and the absence of public institutions that might serve as interlocutors with the state and mediators of discontent. There is thus a marked absence of bridging or linking social capital, unlike on the right-hand side.

As discussed in Chapter 3, a concentration of economic resources is easy to understand; a political concentration (outside an authoritarian or theocratic regime) is less intuitive, for the simple reason that, in

political terms, everyone along the bottom of the triangle has an equal right to vote and to run for office. Remembering that the position of the red line is the consequence of a series of political choices, it does not make sense that a majority of the population finds itself on the wrong side of it.

Part of the answer lies in a narrowing of political space. Where 20th century politics was characterised by competition between the ideological left and right, the end of the Cold War led to the emergence of so-called Third Way politics, which focused less on ideological rivalries and more on the technical aspects of government. The objective of public administration became to optimise the status quo according to utilitarian principles rather than to promote change, on the grounds that there was no viable alternative to a highly liberalised economic model (Séville, 2017^[95]). Declining voter turnouts and distrust in political systems can be understood as a demonstration of the powerlessness voters feel to effect change and the exclusion of their interests from the political discourse.

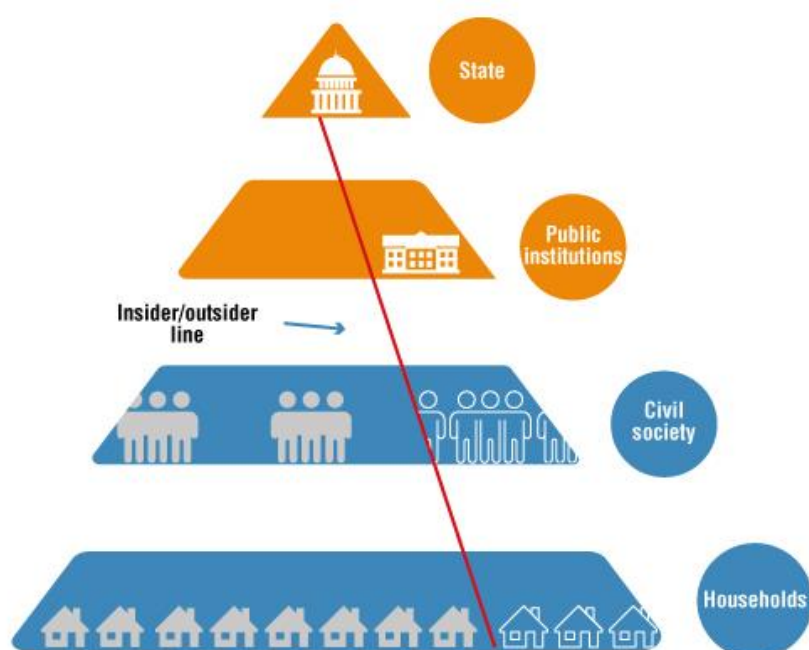
Social capital is a critical means of engaging citizens within the political system and ensuring their voices are heard. As Almond and Verba put it, “[voluntary] associations are the prime means by which the function of mediating between the individual and the state is performed. Through them the individual is able to relate himself effectively and meaningfully to the political system” (1963^[96]). The paucity of civil society in Figure 4.5 can be traced to various economic phenomena, such as the constraints in terms of time and money among the large proportions of the global population who are struggling to get by, as well as the atomisation of workers in a post-industrial society. However, it also reflects a failure by governments to foster and reach out to civil society as a whole.

Where civil society is weak, citizens are deprived of interlocutors between themselves and the state that might hear and address their grievances. As a consequence, their best option is to communicate with the state. This can be done directly (for example, in the form of a protest movement) or via a political party that positions itself as (sole) mediator between this disenfranchised majority and the state. Where such a party takes power, a form of highly centralised or direct rule is likely to ensue: the leadership is apt to bypass the democratic institutions (which are likely to possess much more credibility among those to the right of the line than those to the left) and frame policies as being in the interests of “the people”, meaning this majority rather than society as a whole. This is typical of the populist politics discussed in Chapter 3.

Populism can construct adversaries to the people on either side of the red line. When citizens look to the state for a group identity, nationalist and/or majoritarian impulses focused on two common enemies are likely to emerge. In the first, the disenfranchised group (via its political representatives) might focus on the “elite” to the right of the line, whose economic and political power they seek to reduce and redistribute more equitably. Alternatively, the common enemies might be the “outsiders” (either within or outside the borders) who compete for resources, such as employment or public services.

Adverse alliances can form between elites and the precariat. Citizens either side of the red line can find common cause even without sharing social capital. Indeed, a lack of social capital among citizens on the left-hand side (including the precariat described in Chapter 1) weakens this group’s political identity. This in turn deprives a country’s political system of a recognisable structure and discourse. Political movements (led by new or established parties) can manufacture an identity for the precariat that is likely to emphasise ethno-nationalist symbols rather than specific policy positions as a common denominator for a highly diverse constituency. This provides the political movement with mass support for its broader political agenda, which can justify a broad range of policies with recourse to narratives rather than a technical logic. This alliance might be effective where governments oppose international regulation for the benefit of large domestic businesses but justify their position with reference to the national interest.

Figure 4.5. Representation of political insiders/outside



Source: Authors' elaboration.

Populist movements eliminate (or appear to eliminate) the red line separating political insiders and outsiders but are likely to find it difficult to move the economic red line. It is worth remembering that it requires a concerted push along the length of the economic red line involving various sets of public and private institutions working in partnership and engaging the citizenry in collaborative endeavours to make an economy and a society function more inclusively. This is difficult to achieve in polarised societies where intermediary institutions are sparse and democratic institutions weak or discredited. Where governments fail to improve the conditions of the precariat, frustration is likely to ensue; this frustration might lead to the removal of the non-performing government at the next election, but it might also be directed at the aforementioned common enemies, leading to further division and rendering collective action even harder to achieve. Another vicious circle arises.

Greater civic engagement offers a path to greater inclusion. The rise of populist movements demonstrates the close links between social, economic and political exclusion, as well as the dangers thereof when a large portion of the population finds itself excluded from the most profitable (in the broadest sense of the term) operations of the society. Absence of social capital – and the associated lack of agency and empowerment – lies at the heart of each of these forms of exclusion; efforts to strengthen social capital should be pursued in the three spheres.

Civic engagement can foster a group identity and enhance individual status. A functional approach, such as the one outlined in this chapter, places people in relation to each other in spatial terms (defined by material and institutional parameters), but it does not convey an identity per se. This is a shortcoming in a context where an important attraction of populist movements is the associated sense of belonging and relatedness among individuals who have lost their identity because, as discussed earlier in this report, their identity (and social standing) was closely linked to a particular profession. Their economic value might have depreciated and with it their status and self-worth, but the skills they possess might be no less

valuable socially. Finding outlets for those skills through collective activities has the potential to achieve a better balance between what the economy (in all its globalised variability) values and what society values: a recipe for reducing discontent and strengthening social cohesion.

Throughout this chapter, the model assumes that state and society remain locked together, even if the flows of resources, reciprocity and influence between them vary. The possibility needs to be acknowledged that a population within a society might not feel bound to a specific state at all and therefore wishes to secede. If successful, a new state is constituted by this group and is presumably more representative of the group's particular needs. Alternatively, a country might be trying hard to integrate a geographical area or population with a different identity into prevailing national institutions. As Escobar describes with reference to populations living on the Pacific coast of Colombia, the legitimacy of such a project requires consideration of place, capital, nature, development, identity and networks that permit the group being integrated to retain its distinctiveness (2008^[97]).

It is also important to note that the size of a polity (understood as the state and society) might vary over time, depending on the purpose it is intended to serve. Turchin, for example, argues that throughout history societies have expanded as an optimal response to conflict (2016^[98]). As the threat of war diminishes, this expansion might be reversed. With the frequency of international conflict greatly diminished in most parts of the world in the past century (Gleditsch and Pickering, 2014^[99]), the structure of nation states is increasingly influenced by the demands of the globalised economy, as Chapter 5 explains. Social cohesion at a national level is likely to depend in large part on policies to close the subnational divides discussed in Chapter 1 (Box 4.5).

Box 4.5. Rethinking decentralisation for experimentation

The scale and nature of the challenges countries confront today demand new approaches to public policy and institutions. National governments can encourage innovations at a subnational level that have the potential not only to narrow the gaps between regions identified in Chapter 1 as a major source of inequality but also to harness or mitigate the threats and opportunities that face the country as a whole. To do so, they need to institutionalise and incentivise experimentalism.

Tasked with devising solutions to the territorial inequalities across Europe, Barca sets out how a place-based development strategy can promote growth and reduce inequalities (2009^[100]). In proposing a clear distinction between the policies to promote income growth and those intended to reduce inequality, he outlined the importance of leveraging local actors as central to the objectives of both “efficiency” and “social inclusion”, respectively. In this framework, a core set of priorities should be established by the centre, but local actors would be empowered to pursue innovations that harness the social capital that exists in their area. The centre would ensure checks and balances are in place and also that lessons that emerge from different territories are shared with others.

This approach is consistent with what is sometimes called experimental democracy, broadly defined as partnerships between the public sector and private citizens intended to generate the innovations in policy making required to confront large-scale challenges. As with participatory democracy, experimental democracy seeks to legitimise policy making by making it both more inclusive and more effective. While participatory democracy (properly implemented) promises to democratise democracy by allowing citizens to determine both the course of public policy and the shape of public institutions, experimental democracy incorporates a less transformative “deliberative democracy” to harness citizens' voice and expertise but proposes a radically different approach to how power is allocated among levels of government.

Experimental democracy, as set out by Sabel and Simon, is a response to a number of limitations inherent to bureaucratic systems in contexts of change and uncertainty (2017^[101]). Framing the

challenge initially from a legal perspective, they posit that, in certain cases, a judge cannot arbitrate because he or she lacks the required technical expertise and, crucially, does not know which outcome is most desirable to the broader polity. In these circumstances, experimentalists believe that “the solution ... is less likely to be substantive than procedural or institutional”, which is to say that new consultation mechanisms are established or existing ones reformed to ensure “openness to affected citizens and responsible operation”.

The parallels to policy making in contexts of great uncertainty are clear. Sabel and Simon argue that such situations “limit the value of expertise and revalues diffuse, situational knowledge” (2017^[101]). Their approach, which is based on harnessing private citizens’ unique experiences as a basis for policy making, is a direct challenge to the notion that public policy should limit its incursions into private domains because of inherent and overwhelming informational requirements. Experimental democracy also argues against the primacy of market-based solutions whose functioning is predicated on citizens as rational consumers on the grounds that the *ex-ante* informational requirements for establishing a market are no less overwhelming and that markets still require regulation.

Experimentalist democracy is equally opposed to a top-down, centralised policy response, instead promoting a wide degree of discretion – procedural and substantive – for subnational governments that allows them to depart significantly from the guidance of the centre. The feasibility of such an approach hangs on two prerequisites. The first is that governments function as a “learning organisation”: local authorities (or analogous agencies) must learn from successful and unsuccessful experiences, and they must share these lessons quickly across government to guide innovations elsewhere. Second, local authorities must report regularly on progress towards a high-level goal that they – and similar institutions – agreed with the central government, to see which approach works best and why.

The experimental approach sees the centre of government as “facilitative and supportive” rather than directive. However, it is not a vision of small government as proposed by critics of large, centralised bureaucracies (Bartels, 2009^[102]). Rather, by allowing space for private citizens to participate in local policy making, experimental democracy closes gaps between society and the state and gives individual citizens greater say in their lives and their future. Meanwhile, better performance by local government has been shown to improve institutional trust more broadly (Camussi and Mancini, 2019^[103]).

Mazzucato et al. argue that the COVID-19 pandemic has demonstrated the importance of dynamic states that allow the public sector ‘interact with other value creators in society such as the private sector and citizen innovators’ (2021^[104]). Based on the lessons learned from different countries, the authors call on governments to invest in “Adapting and learning in the face of incomplete, at times conflicting, information and radical uncertainty; aligning public services and citizen needs; governing resilient production systems and capabilities to foster symbiotic public-private collaborations and tapping into citizen innovation; capacity to govern data and digital...while balancing human rights protection; and inter- and intra-governmental learning and coordination”.

The importance of subnational government in climate change adaptation and mitigation strategies underscores the value of the approach outlined here. As the OECD explains, “[regional] and local governments play a key role in fighting climate change and adapting to it, not least because they make 64% of all climate-related public investment” (2019^[105]). Subnational governments have also been at the fore of governments’ responses to the COVID-19 pandemic, reflecting their responsibility for “critical aspects of containment measures, health care, social services, economic development and public investment” (OECD, 2020^[106]).

A new logic for national strategies

Inclusiveness can be hardwired into the rules by which a country is governed through a constitution that sets out universal rights. More than that, a constitution is fundamental to the social contract in a given society, serving as an institution that articulates and codifies the values that a society considers essential at a moment in time. However, there is no guarantee these rights can be realised: socio-economic rights such as access to basic services and employment depend on the resources at a country's disposal (Litinski, 2019^[107]). Consequently, constitutions such as South Africa's commit to the progressive realisation of such rights (Chenwi, 2013^[108]). Moreover, countries are apt to change the rules more often than one might expect: the mean duration of a written constitution since 1789 is 17 years, the median 8 years and the mode just 1 (Ginsburg, Elkins and Melton, 2007^[109]).

This section contends that a national strategy is an essential, forward-looking complement to a constitution. If compiled with the extensive collaboration of citizens, a national strategy provides a bottom-up legitimisation for the state that mirrors and reinforces the top-down validation provided by a constitution. Moreover, a national strategy has the potential to chart a path towards the realisation of socio-economic rights for the population as a whole and to demonstrate in concrete terms how each citizen and each region is reflected in – and will contribute to – a country's vision for the future.

Constitutional reform has been widespread over the past decade. As the example of Chile in Chapter 2 demonstrates, it is sometimes the case that only a commitment to redrawing the fundamental rules and institutions that govern society can satisfy demands for systemic change and social equality (Abebe et al., 2020^[110]). Constitutional reform in many parts of the world has strengthened socio-economic rights and opened the way for greater female participation. Many reform processes have involved much higher levels of public participation. Yet the story has not been universally positive: authoritarian regimes have used constitutional change to legitimise their regime or curtail democratic impulses; even in democratic settings, powerful groups have wielded disproportionate influence on constitution building or blocked legislative approval. Constitutional reform has also proven ineffective as a tool for conflict resolution due to the challenges of securing buy-in from rival factions (Abebe et al., 2020^[110]).

It is much too early to know whether recent constitutional reforms will help provide lasting solutions to the phenomena behind discontent, but it is important to recognise constitutional reform as only one step in the journey towards fairer and more inclusive societies. Giving effect to the constitution is a day-to-day responsibility of the state and society as a whole: socio-economic rights such as access to basic services or opportunities for employment can only be realised – can only be meaningful – if governments are able to provide services and if work is available. The rules of the game require a strategy for implementation that follows the same principles emerging in constitution building – a guaranteed standard of living for all citizens and inclusiveness as a principle both of formulation and realisation – but which also reflects the material constraints that countries confront.

While the number of countries amending their constitutions has grown in recent years, so too has the number that are setting out national development strategies. The number of countries producing national strategies increased from 62 in 2006 to 134 in 2018. More than 80% of the world's population lives in a country with a national development plan, a number which might rise further as governments contemplate their recovery from the COVID-19 pandemic. These strategies have the potential to be far more than a roadmap to a future desired by the administration of the day. If implemented correctly, they are inclusive in both ends and means: while the final objective should be a collective vision of the future in which every citizen (or region) can see their place, the process of negotiating this vision should be an opportunity for a broad range of voices from across society to be heard.

A national development strategy should not be confused with centralised planning or production quotas. Rather, a key aspect of a national development strategy is its ability to embed an economic project within a broader set of national priorities. To ensure its legitimacy, the process of identifying these priorities should

not be carried out in a top-down manner or as a technical process but as a collective exercise in participatory democracy. Getting the modalities of participation correct is a delicate task, but it is paramount that whatever process emerges is able to circumvent prevailing power structures to avoid the risk that these prescribe a country's future trajectory.

A successful strategy is guided by a robust understanding of a country's capabilities and how these capabilities will develop over time. The ability to mobilise and co-ordinate various stakeholders and actors at different stages of the process is also critical, as is an appreciation of how a country is positioned internationally. A good strategy combines a multi-dimensional approach to development with the ability to prioritise among dimensions and ensure coherence among activities. Effective implementation (closely monitored) is also key, likewise the principle that national strategies are not one-off exercises. Each strategy will have a successor: the country's capabilities are enhanced with each iteration, allowing each strategy to be more ambitious than the last.

According to Chimhowu, Hulme and Munro, today's strategies are underpinned by one of two different logics, which they refer to as "linear" and "collaborative" (2019_[111]). Linear rationality follows classical planning techniques, a technocratic exercise based on a top-down, problem-solving approach to development reliant on scientific expertise, abundant data and a toolkit of appropriate policies; decisions are guided by cost-benefit analysis and efficiency benchmarks. Under a collaborative rationality, meanwhile, planning is

a process of negotiating and communicating across communities and citizenries about shared values, cause-effect relationships and probable outcomes. The national plan is not so much a set of decisions as an important and ongoing element of social deliberation that involves constantly (re)negotiating goals and policies/actions so that choices are made that are technically desirable and politically feasible. (Chimhowu, Hulme and Munro, 2019_[111])

While the advantages of collaborative rationality from a social capital perspective are clear, the time it takes to achieve consensus might delay the planning process, and the aforementioned point about power asymmetries jeopardising the legitimacy of strategic planning remains.

When examining the strategies currently in effect, Chimhowu, Hulme and Munro recognise that linear and collaborative approaches differ in the extent to which they are evidence based (2019_[111]). The authors establish a four-type classification: 26% of plans have a linear rationality with a strong evidence base, 12% a linear rationality with a weak evidence base, 42% a collaborative rationality with a strong evidence base and 20% a collaborative rationality with a weak evidence base. These numbers suggest that one-third of national plans in effect today lack a strong intellectual foundation; among the rest, there is a tendency towards collaborative approaches that are bottom up and socially embedded. This trend has been accompanied by a diminished role for ministries of finance, which might account for a lack of a clear programme in many countries as to how a strategy will be financed.

The new generation of strategies, especially those with a collaborative rationale, imply a new approach to government predicated on regular engagement between society and the state and learning-by-doing. The OECD draws attention to the concept of problem-driven iterative adaptation, which consists of "proposing strategies that begin with generating locally nominated and prioritised problems, and working iteratively to identify customised 'best fit' responses" (2018_[112]). This is consistent with the experimental approach mentioned above.

Chimhowu, Hulme and Munro also find that national development strategies increasingly mention global challenges, especially climate change: "[to] a degree, it is as if the national development plan is an opportunity for a country to show it is a 'good global citizen' responding to a common agenda" (2019_[111]). It also makes sense: given that many global challenges impinge on a country's development (as Chapter 5 explains), reflecting these in a national strategy is an important means of ensuring its resilience and effectiveness. This endeavour is not without its complications, however, and not just because of the

inherent uncertainty. As Box 4.6 discusses, today's environmental crises demand a complete change in the way countries conceive of the relationship between the economy, society and the environment, while the global importance of a country's environmental policies complicates the governance of natural resource management.

As the COVID-19 pandemic has demonstrated, shocks from outside a country's borders have the power not only to derail a national development strategy but also to undo past progress. Writing in the wake of the global financial crisis, Lothian and Unger argue that this vulnerability calls for a "paced and limited integration into the world economy, subordinated to the requirements of a national development strategy" (2012^[86]). Echoing a number of points made in this chapter, they conclude that

the best is a movement that enhances integration but seeks to shape it in the service of a project designed to create new comparative advantages. The most effective way to create them is not dogmatically to choose sectors that are supposedly bearers of the future (as if the future did not have to make its own choices). It is to empower experimentalism: by establishing arrangements that broaden economic and educational opportunity, by giving small and medium-size business access to forms of credit, technology, marketing, and knowledge normally reserved to big businesses, by propagating successful local practice, and, above all, by creating the means and the conditions for pluralism and experimentation in the institutional forms of the market economy – that is to say, in the ways of organizing production and exchange.

Box 4.6. Placing the environment front and centre

This chapter examines how culture and institutions, operationalised through the concept of social capital, can help countries overcome three development traps relating to low economic productivity, weak public services and social vulnerability. Given the scale and urgency of the environmental crises that countries confront, especially related to global heating and biodiversity loss, it is vital to consider how strategies to protect the environment can be incorporated into the framework developed in this chapter.

An important starting point is to recognise that the natural world cannot be viewed as a discrete domain, somehow separate from the economic and the social domains. As Tilzey explains, this conceptual approach opens the way for supposed trade-offs between the three domains (2017^[113]). Instead, environment and society should be seen as the megastructure within which a market economy operates, as argued by Polanyi (2001 [1944]^[29]). Just as Polanyi recognised the need for welfare policies to protect the workforce from the encroachment of the capitalist economy on their lives, he also recognised the need for policies to protect the environment from the "annihilation" threatened by market forces, which commodified nature. Just as large gaps in social protection systems are leaving billions of people around the world poor and vulnerable, environmental protections are failing to avert catastrophe in the natural world.

A possible reason for the failure of public policies to avert discontent and environmental disaster is that this artificial separation of economic, social and environmental is also visible in government structures. While ministries of finance and planning belong to the centre of government, social and environmental policy is often the responsibility of line departments and as such often competes for budgetary resources allocated by ministries of finance with reference to a broader set of macrofiscal priorities as determined by, *inter alia*, the central bank, the capital markets and international financial institutions. The primacy of economic institutions in this model, to which Chapter 5 returns, does not reflect the fact that an economy cannot function without society, and society cannot survive without functional natural systems, clean water and clean air.

A response to climate change and biodiversity commensurate with the existential threat they pose would empower environmental institutions to the same extent that economic institutions are today: economic

policy, together with other public policies, would be considered with reference to their impact on the environment to ensure that “green” policies are mainstreamed across government (OECD, 2018^[114]). Such a paradigm shift would no doubt cause major social disruption, which would need careful management, including through economic policies that support high levels of employment. Countries are increasingly turning to participatory processes, often known as “climate assemblies”, to chart the transition and to ensure broad social support. As with other participatory processes discussed in this chapter, these need to be carefully designed (Howarth et al., 2020^[115]).

The environmental imperative leads to a second question relevant to the framework articulated here, namely: what is the most effective way for countries to manage their natural resources? Ostrom explains the key role that social capital among local communities can play in facilitating the sustainable and equitable management of natural resources and averting the so-called tragedy of the commons, whereby shared resources are rapidly ruined or depleted (1990^[116]). This underlines the importance of engaging with indigenous communities, who own, manage, use or occupy 25% of the global land area (IPBES, 2019^[117]). Schuster et al. find equal or higher biodiversity on lands managed by indigenous communities than in officially protected areas (2019^[118]).

To align these foundations with national policy frameworks requires a multi-level governance architecture “to avoid policy gaps between local action plans and national policy frameworks and to encourage cross-scale learning between relevant departments or institutions in local and regional governments” (Corfee-Morlot et al., 2009^[119]). Corfee-Morlot et al. recognise that this “vertical and horizontal integration allows two-way benefits: locally-led or bottom-up where local initiatives influence national action and nationally-led or top-down where enabling frameworks empower local players”. This resonates with the experimental governance approaches discussed in Box 4.5.

A multi-level governance framework becomes much harder to envisage when natural resources are perceived from a global rather than a national perspective. The public goods of a particular country are also global public goods insofar as natural systems generate benefits from which the entire planet benefits, and the whole world suffers when these systems deteriorate. However, as Cogolati, Hamid and Vanstappen recognise, the very term “global public goods” lacks a secure foundation in international law (2016^[120]).

Although the authors identify channels through which global legal frameworks can be adapted to protect or enhance provision of global public goods in ways that are legitimately democratic, “concrete institutions, principles, and rules” would need to change for these to take effect. In a finding picked up by Chapter 5, they argue that such changes might require humanity to take precedence over sovereignty as “the ultimate source of international law” (2016^[120]). A ruling by the Hague District court in May 2021 that Royal Dutch Shell, a private company, must reduce its greenhouse gas emissions by 45% by 2030 in order to comply with the Paris Climate Agreement might turn out to be a key moment in this regard (Ambrose, 2021^[121]).

What is stopping us?

This chapter outlines a range of mechanisms whereby states and societies work together to generate inclusive growth, establish stronger, more responsive institutions and reduce vulnerabilities. These can feed off each other, generating virtuous circles that not only improve development outcomes but also enhance social cohesion by fostering inclusion, co-operation and trust. However, the current context presents some major impediments to getting these approaches off the ground: the COVID-19 pandemic has taken a heavy toll on the economy and public finances, worsened poverty and inequality and, in many cases, further polarised societies. This section identifies three interconnected challenges that arise from

this context: a lack of financing, an emphasis on resilience (narrowly defined) over innovation, and the impact of inequality on participatory processes.

Public finances will need to be rebuilt after the pandemic

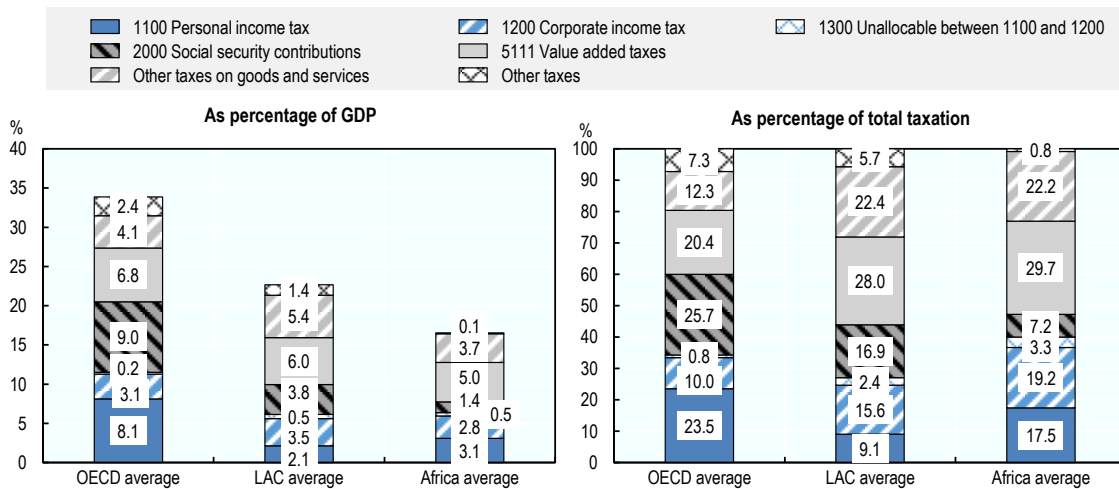
The COVID-19 pandemic has dealt a major blow to public finances, especially in developing countries. Tax revenues in countries across Latin America and the Caribbean, for example, fell 11.2% in 2020 at the same time as governments in the region scaled up public spending to protect incomes, jobs and livelihoods (OECD et al., 2021^[122]). Fiscal deficits widened, and the region's debt levels jumped by ten percentage points from the previous year to an average of 56% of GDP (NU CEPAL, 2021^[123]). While the output of OECD economies is expected to recover to pre-crisis levels in 2021, it could take much longer in many developing countries; tax revenues will remain subdued as a result.

This drop in revenues, compounded by rising debt costs, will narrow the fiscal space available to developing countries. There is little support nationally or internationally for austerity policies intended to accelerate fiscal consolidation by cutting spending: as mentioned in Chapter 1, this approach contributed to the slow recovery from the global financial crisis, and countries today are encouraged to maintain an expansionary fiscal policy until a recovery is well established (OECD, 2020^[124]). Nonetheless, it will be difficult for governments to finance the higher public investment in the economy, better public services and broader social protection coverage that can serve as a catalyst for these virtuous circles. Indeed, there is a risk the opposite will happen, reinforcing the development traps: public investment might fall, jobs might remain scarce, public services could deteriorate further, and poverty and inequality might rise. Discontent would likely worsen as a result, amplifying the challenge of achieving a political consensus for the structural reforms the approaches outlined here might require.

A comparison between the average tax structures of developing countries with that of OECD members demonstrates that scope exists to increase tax revenues, even taking into account the structural economic differences. Personal income tax (PIT) and social security contributions generate a much higher proportion of revenues in OECD countries than in Africa and LAC (Figure 4.6). Revenues from these instruments, whose base is greatly constrained by large-scale informality in developing countries, are also much higher as a percentage of GDP in OECD countries. PIT revenues are also constrained by the ability of high net worth individuals to hide money abroad (OECD, 2016^[125]).

On the other hand, taxes on goods and services generate a much larger share of revenues in Africa and LAC than they do in OECD countries, on average. So too does corporate income tax. Nonetheless, these categories are often operating below their full potential in developing countries due to a combination of tax evasion (especially by multinational enterprises) and tax incentives. Subsidies on value added tax can help ensure staple goods remain affordable for low-income households, while tax incentives can be an important instrument for industrial development or attracting investment.

Figure 4.6. Tax structure for Africa, LAC and OECD averages as a percentage of total tax revenues and of GDP, 2018



Note: The Africa average should be interpreted with caution, as data for social security contributions are not available or are partial in a few countries. The Africa average (30 countries), LAC average (26 countries) and OECD average (37 countries) are unweighted.

Source: OECD (2021^[44]), *Global Revenue Statistics Database*, https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL (accessed on 1 June 2021).

StatLink  <https://doi.org/10.1787/888934253290>

According to the Economic Commission for Latin America and the Caribbean and Oxfam International, tax expenditures for these different objectives in Latin America were equivalent to 3.7% of GDP on average between 2016 and 2019, or around 25% of tax revenue, excluding social contributions (2020^[126]). It is important to understand who benefits from these different sets of subsidies and to know what countries get in return for the economic incentives. Social protection benefits are increasingly recognised as a more effective way of supporting the consumption of low-income households, while in many places, the economic case for tax subsidies for businesses appears weak (Brys et al., 2016^[127]; Izquierdo et al., 2020^[128]).

There is scope for developing countries to increase revenues from a range of tax taxes with valuable externalities. Environmental taxes, an important mechanism for deterring activities that are harmful to the environment, generate a lower proportion of revenues in developing countries than in the OECD (OECD, 2021^[129]). The same can be said of taxes on immovable property (often referred to simply as 'property taxes'), even though these are a key source of financing for local governments looking to improve basic services, especially in contexts of rapid urbanisation. They can also be progressive (Norregaard, 2013^[130]). Wealth taxes can play an important role in reducing inequality and enhancing equality of opportunity but the number of countries that implemented taxes on net wealth in the OECD declined from 12 in 1990 to 4 in 2017 (OECD, 2018^[131]). There is a strong case for implementing wealth taxes in developing countries but very few do so (Londoño-Vélez and Ávila-Mahecha, 2021^[132]). The OECD finds that taxes on inheritance are not operating at their full potential, even in OECD countries (2021^[133]).

While the scope to increase revenues in order to finance better public services and promote redistribution exists, the tax reforms required to achieve these increases might very well be politically contentious. As Gómez Sabaini, Jiménez and Martner Fanta explain, contestation over tax policy is inevitable, given the inherent need to balance the imperatives of efficiency (in particular, minimising economic distortions) with equity in taxation, and given the differing views that exist within any society concerning the role and size of the state (2017^[134]). Different groups will have different positions on these questions, with the more

powerful groups, such as business associations, apt to have views on income taxes, for example, that are not shared by the more vulnerable members of society. Fairfield finds evidence of this phenomenon in Chile's tax policy during the two decades following the return to democracy in 1990 (2014_[135]).

Achieving strong and broad popular consensus for tax reforms is therefore vital. A fiscal pact across a broad range of stakeholders that reflects a shared understanding of what these reforms will achieve and a broad-based agreement as to how the cost will be shared would provide a strong and sustained foundation for such a reform programme. Fiscal pacts require a long time horizon: comprehensive tax reforms typically take a number of years to enact and will therefore require a commitment that spans administrations. Fiscal pacts also confront the fact that the majority of people have a poor understanding of tax policy and can thus be manipulated by the media (which, as discussed in Chapter 3, might have vested interests of their own). As Tetlow et al. put it with reference to the United Kingdom, “[the] only popular tax ... is the tax that somebody else pays ... [Getting] the politics right is the most important thing” (2020_[136]).

There are at least four reasons why the COVID-19 pandemic might facilitate fiscal pacts. First, crises make structural reforms easier, as the experience of OECD countries after the global financial crisis demonstrates (OECD, 2012_[137]). Second, the pandemic has underlined the importance of public goods and the vital role of the state in times of crisis. Third, the importance of tax policy has been underlined by its prominence in countries' responses to the crisis (2021_[138]). Fourth, the pandemic demonstrated that tax systems can be an effective means of providing support to businesses and individuals, implying a two-way flow of funds between the state and registered tax payers and entities. In this context, informal workers and enterprises might be encouraged to make themselves visible to tax administrations. Any fiscal pact should promote fair treatment of men and women by the tax system to avoid reinforcing gender inequalities (Harding, Perez-Navarro and Simon, 2020_[139]).

International support for these efforts is essential. As Chapter 5 discusses, international co-operation on taxation is essential to ensure multinational enterprises and high net worth individuals pay their fair share of taxes on income and wealth, particularly for their activities in developing countries (Zucman, 2014_[140]). Taxing the digital economy is a challenge countries cannot confront individually (OECD, 2020_[141]). Meanwhile, developing countries saddled with even larger debt burdens following the COVID-19 pandemic will be severely constrained without support from creditors (public and private) and could face financial crisis in the near future (UNSDG, 2021_[142]).

Navigating presumed trade-offs between resilience, efficiency and innovation

As the world has grown more interconnected, humans have become ever-more reliant on increasingly complex systems across all areas of life. These systems are undergoing profound changes and, as COVID-19 demonstrated, are highly vulnerable (Hynes, Lees and Müller, 2020_[143]). This vulnerability is in large part a consequence of human behaviours discussed in this report. As Friedman puts it:

Over the past 20 years, we've been steadily removing man-made and natural buffers, redundancies, regulations and norms that provide resilience and protection when big systems – be they ecological, geopolitical or financial – get stressed. We've been recklessly removing these buffers out of an obsession with short-term efficiency and growth, or without thinking at all (2020_[144]).

The pandemic's aforementioned impact on public finances is likely to result in an emphasis on maximising the impact of budgetary outlay. Resilience and efficiency are likely to be the watchwords of public policy in the near future; the risks inherent to innovation and the transaction costs (economic and temporal) associated with inclusive processes could push both into the background.

Such distinctions are misleading and muddled by definitional uncertainty. What do we mean by resilience? In one sense, resilience is the ability to withstand a shock such that the entity emerges unscathed. In another, it is an entity's ability to adapt to a shock, surviving in a different form. A linear approach to planning discussed earlier will prioritise the former to ensure a plan is resilient; a collaborative approach

will emphasise the latter to build a more resilient society. Creating space for innovation – and allocating resources to this end – is central to the ability to adapt.

Moreover, conventional measures of efficiency might not reflect the non-economic indicators discussed in this report. Traditional cost-benefit analysis cannot pick up feelings of agency or solidarity any better than it does distrust and alienation. Unless these measures are recalibrated to reflect improvements in trust in institutions or between people, they will neglect an important facet of what these innovations are trying to achieve. At the same time, standard measures of efficiency can demonstrate the effectiveness of a policy innovation and show ways it might be enhanced.

A tension also exists between resilience and efficiency. Resilience entails spare capacity and redundancy in public systems in case a shock occurs – think empty hospital beds and unused ventilators, for example. Meanwhile, a focus on efficiency reduces redundancy through probabilistic models that might function well for a prolonged period but be ill equipped for large and/or covariate macro-level shocks. The time frame over which efficiency is measured can make a large difference to the calculations.

Ultimately, the present fiscal constraints, the nature of the challenges societies confront and the uncertainty of our era require systemic approaches that combine efficiency, resilience and innovation. Indeed, policies and processes should be framed in these terms. At the same time, these concepts do not necessarily emphasise another prerequisite for the post-pandemic era: inclusivity.

Inequality jeopardises participatory processes

The COVID-19 pandemic has caused inequality to widen across a number of key dimensions (Stantcheva, 2021^[145]). The mechanisms outlined in this chapter are intended to tackle inequality of various types – social, political and economic – at the source. However, participatory processes carry the risk of compounding rather than alleviating inequality across these dimensions if disadvantaged groups are excluded. The greater the capacity of these processes to redistribute power and resources, the larger their transformative potential but also the larger this risk.

Kern and Hooghe find evidence from a sample of European countries of what they call a democratic paradox, whereby “a proliferation of forms of participation in practice leads to more inequality” (2018^[146]). The authors conclude that “[the] more opportunities there are for participation, the easier it will be for citizens with a high level of political resources to use those opportunities to make sure their interests are being taken into account by the political system. Citizens with fewer skills and resources, on the other hand, are much less apt to use all these opportunities”. They also point to the possibility of democracy fatigue, whereby citizens eventually switch off from regular political engagement; as one example, Switzerland makes extensive use of direct democracy but electoral turnouts are low relative to other European countries.

Such arguments do not undermine the case for broader citizen engagement in public life; this chapter has sought to articulate the potential of inclusive processes to achieve a double dividend in alleviating discontent insofar as they provide mechanisms for voice and can strengthen development outcomes. Moreover, it has shown how developing countries have been more influential in the global diffusion of participatory processes than advanced economies in recent years. Nonetheless, these arguments demonstrate the need for participatory processes to be carefully designed so as to empower those most at risk of exclusion. These arguments also underline how difficult it is to implement these processes once inequality has become entrenched: they tend to be more effective as prevention rather than cure.

The higher the level of inequality, the harder it is to proceed with some of these approaches. Ferragina emphasises “the importance of equality of conditions in building a cohesive society”, arguing that, while social capital is an important mechanism for promoting equality in society, a certain degree of equality is a prerequisite for the building of social capital (2010^[147]). As Lustig explains, the weak fiscal capacity in the majority of developing countries relative to advanced economies is a major impediment to redistribution

and poverty alleviation (2017^[148]). Low revenues also weaken the resilience of public finances by diminishing the counter-cyclicalities of fiscal systems (Égert, 2014^[149]).

However, a larger government does not necessarily entail lower levels of inequality: the extent of fiscal redistribution depends on how revenues are raised and how they are spent. As discussed in Chapter 3, efforts to reduce inequality depend not only on political will but also on prevailing social attitudes towards inequality. A critical question as the world emerges from the COVID-19 pandemic is whether these attitudes have changed (Wiwad et al., 2021^[150]).

Conclusion

The approaches outlined in this chapter have the potential to catalyse inclusive economic growth in the wake of the COVID-19 pandemic through enhanced co-operation predicated on a logic of collaborative networks, shared know-how, stronger social cohesion and a more robust social contract. At the same time, they address discontent by connecting individuals to the life of a nation, thereby providing them with voice and agency. To achieve their potential, these approaches require the participation and interaction of individuals and institutions across the length and breadth of society: they are bottom-up but rely on government reaching down to help. Moreover, these partnerships must act in co-ordination with one another, which implies not only adherence to a common plan but also a common way of working.

This is not so much a long-term project as an infinite one: regardless of a country's level of development, excluding groups from society's day-to-day functioning is both symptom and cause of dysfunctional governance, a breach of the social contract and a failure to harness a population's full potential. The collaborative approaches outlined here need careful design, might work slowly at times and do not negate the importance of the traditional tools for optimising the use of public resources. However, such processes are likely to hold the key to making societies not only more stable and cohesive but also better able to address the challenges of today and tomorrow.

To understand whether or not the kind of approaches outlined here are successful, governments will need to focus on the (albeit disparate) measures of social cohesion, as well as levels of inequality, rather than look narrowly at measures of per capita income, to derive a better understanding of not only the health of society but also its future prospects. A broad-based approach to welfare, which explicitly acknowledges differences across society without attempting to impose a ranking on them, is foundational to the OECD's Better Life index, the United Nations' Human Development Index and the work on multi-dimensional poverty, which recognise the importance of consumption to well-being but reflect numerous other factors as well, including the environment. Indeed, a reconceptualisation of the relationship between the economy, society and the environment will be critical to achieving global environmental goals.

A limitation of the model discussed in this chapter is that it excludes other countries. It is easy to imagine how international factors might undermine the approaches for escaping development traps outlined here. The rules that govern global trade – and the robustness of global trade at any point in time – will profoundly affect the likelihood of escaping the productivity trap. If multinational enterprises do not pay their fair share of taxes in the country where they operate, it will be far harder to escape the institutional trap.

The degree of interconnectedness evident today and the global risks humanity confronts have the capacity to overwhelm a country's strategies. They also challenge governance models and alter the relationship between citizens and the state. The next chapter discusses the role of international co-operation and global governance in helping or hindering developing countries to realise their ambitions and in promoting or preventing the co-operation between countries needed to confront the challenges of this age.

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5

Global governance in an era of discontent

This chapter explores the international dimensions of discontent and assesses the capacity of global governance institutions to address the phenomenon. With reference to the COVID-19 pandemic and locust swarms, it demonstrates that discontent in a country is often worsened by shocks that originate outside its borders. The chapter also examines discontent at globalisation itself, as articulated by the Seattle Protests over two decades ago. It then charts the evolution of the multilateral system since the end of the Second World War to understand why global institutions today are struggling to address the causes of discontent, and it examines the constraints to international co-operation in the face of global threats, including the climate crisis. It concludes by examining ways in which the multilateral system needs to adapt to the profound challenges of the 21st century.

Introduction

The world is too much with us; late and soon,

Getting and spending we lay waste our powers (Wordsworth, 1807^[1])

Discontent is a phenomenon that challenges notions of scale. While a protest might be confined to one space such as a city square, participants might come from far away and be motivated by grievances with local, national and global dimensions. This final chapter investigates the causes and complexities of “global” discontent, wherein it finds echoes of the contingent and structural factors discussed earlier in the report, as well as similar institutional failings and power imbalances. It argues that international co-operation must overcome profound challenges to address the sources of discontent at local, national and international level.

The chapter starts by exploring two categories of global discontent. First, it examines how cross-border phenomena can trigger the causes of discontent identified in Chapters 2 and 3; the coronavirus (COVID-19) pandemic provides an obvious example. Second, it analyses protests against globalisation itself, in particular, the Seattle protests of 1999. It then explores why international co-operation has fragmented at a time of unprecedented global interconnectedness, and how the legitimacy and effectiveness of multilateralism are called into question when collective action is urgently needed to confront global threats.

The chapter then examines whether global governance institutions still possess the power to meet the challenges of the 21st century. It argues that private interests are increasingly dominant in today’s world and that countries are locked into economic models that promote the primacy of the market over the state, whether voters like it or not. A new vision of multilateralism that is both empowered and empowering is required to rebalance global power and avert catastrophe. New approaches, new mind-sets and new voices, including those that represent discontented citizens from across the world, are needed on the international stage before it is too late.

Discontent from abroad

Chapter 2 describes the contingent factors behind discontent – the economic difficulties, dissatisfaction with public services and lack of voice that are often the most obvious causes of social unrest. Chapter 3 outlines the structural phenomena with which these factors interact, which relate to deep-seated sociological and cultural phenomena, as well as the political factors that are exacerbating inequality and polarisation. So far, the report has analysed these factors through the prism of the nation state, but it is impossible to avoid the fact that, in today’s interconnected world, what happens outside a country’s borders can have a profound effect on events inside those borders, to the extent that they can undermine the approaches to addressing discontent outlined in Chapter 4.

One need not look far for examples of how global events can worsen discontent. The year 2020 was apocalyptic in a sense observers from the Middle Ages might have recognised. In addition to war, famine, pestilence and death, the year witnessed a near-plague of locusts and blood-red skies brought about by inextinguishable fires. What would have been alien to those same observers, besides the speed with which these phenomena spread from country to country, is that we were in some way responsible for them and could have done more to prevent them. What those observers (and today’s insurance companies) would call Acts of God were symbolic of all-too-human failures: self-interest and short-termism have resulted in a self-imposed vulnerability and a failure to co-operate, even on matters of life and death. Moreover, this vulnerability is not evenly shared: the people and countries suffering most are often those that benefited least from global economic progress in the past three decades.

This section explains how the COVID-19 pandemic has exposed economic, social and political vulnerabilities within countries the world over, as well as weaknesses in international co-operation. It also examines the emergence of locust swarms across East Africa and West Asia (Box 5.1). These events have caused enormous social and economic damage that relates directly to the contingent causes of discontent discussed in Chapter 2. They have also exposed deep-seated challenges to international co-operation and structural imbalances in global governance that echo Chapter 3. This section then examines how the Seattle protests of more than 20 years ago confirmed the emergence of a globalised civil society capable of challenging the adverse consequences of globalisation.

The COVID-19 pandemic has exposed the weakness and imbalances of global systems

In the middle of 2021, at the time of writing, the COVID-19 pandemic continues to impose a terrible cost on humanity. Millions of lives have been lost amid the worst health crisis in a century, hundreds of millions of people have contracted the virus, and the pandemic has caused the largest global economic shock in living memory. It has directly aggravated many of the causes of discontent identified in this report: economic vulnerability, frustration with the quality of public services and inequalities, as well as stress and isolation, “culture wars” and political polarisation. The virus, which most likely emerged in the Chinese city of Wuhan towards the end of 2019, is thus a brutal demonstration of how quickly a problem in one country can disrupt and destabilise the whole world.

To understand the causes and consequences of the pandemic, it is necessary to look beyond the virus and focus on the systemic weaknesses, structural defects and vast inequalities of the world today, which are global in nature. As Hotez explains, the COVID-19 pandemic was “five years in the making” (2021^[2]). The author identifies “abrupt reversals” in progress against communicable diseases, “leading to the emergence or re-emergence of both vaccine-preventable diseases and neglected infections in multiple areas of the world”. The factors behind these reversals are not solely medical: the study explains how “war, political collapse, internal displacements, climate change, urbanisation, and shifting poverty combine in unique and interesting ways to promote widespread emergence of infectious and tropical diseases”. It also points to the rise of anti-science sentiment prior to the pandemic and the concomitant increase in vaccine hesitancy. This systemic view echoes that of the World Health Organization (WHO), which included a number of non-health-specific factors among the ten greatest threats to human health in 2019. The greatest threat was air pollution and climate change; fragile and vulnerable settings were in fourth place and vaccine hesitancy was in ninth (2019^[3]).

The extent of humanity’s interconnectedness facilitated the rapid spread of the COVID-19 virus. Aided by the millions of international journeys made every day before travel restrictions were imposed, COVID-19 spread rapidly across international trade and travel networks. Ten days after the People’s Republic of China (hereafter “China”) reported the first cases of atypical pneumonia to the WHO on 3 January 2020, Thailand confirmed the first case outside China. By the end of January, the disease had been identified in 18 countries, including Germany and the United States. At the end of February, it had been detected in 51 countries across six WHO regions. By the end of March, it has spread to almost every country on earth (WHO, 2020^[4]). Numerous studies have found that travel restrictions in this early phase of the pandemic would have drastically constrained its spread and reduced the number of eventual fatalities world wide (Pana et al., 2021^[5]; Russell et al., 2021^[6]).

The health impact of COVID-19 has compounded the disadvantages faced by poor and vulnerable groups. Mortality rates from COVID-19 are highest among the elderly and those with underlying health conditions. Mortality is also closely correlated with low socio-economic status and tends to be higher among minority groups (Mena et al., 2021^[7]; Strang, Fürst and Schultz, 2020^[8]; Sze et al., 2020^[9]). COVID-19 incidence and mortality are particularly high among individuals who live in crowded accommodation in urban areas, lack access to clean water and sanitation or are malnourished (Ahmad et al., 2020^[10]; Handu et al., 2020^[11]; Silverio et al., 2020^[12]). These disparities are compounded by economic factors: individuals who are able

to work from home and are covered by a range of social protection programmes have been much less affected than those in the informal economy, who have no source of income support if they do not go out to work each day. The pandemic has thus exposed and exacerbated existing inequalities within countries and across the global population.

The pandemic has also exposed shortcomings in public health services, not only in terms of underinvestment but also lack of preparedness and lack of institutional co-ordination. Although there has been significant progress towards universal health coverage (UHC) in countries at all income levels between 2000 and 2017, low-income countries and countries affected by conflict still lag a long way behind. Moreover, catastrophic health spending – defined as large out-of-pocket spending – increased continuously between 2000 and 2015, meaning health costs were increasingly forcing people into poverty (WHO, 2019^[13]). According to Lal et al., countries at different income levels that had achieved or made significant progress towards UHC have generally dealt better with the pandemic than countries with large gaps in health coverage or with health care of inadequate quality (2021^[14]). However, the authors contend that the health systems of countries at all income levels were overwhelmed if these systems were not aligned to (and co-ordinated with) the objectives of global health security, which encompasses the broader goal of “protecting people and societies worldwide from infectious disease”.

In addition to its devastating effect on lives and livelihoods, the pandemic heightened political tensions in many countries. The COVID-19 outbreak was widely politicised: differences in opinion as to the appropriate government response to COVID-19 often ran along political party lines, exacerbating divisions between opposing political groups in already polarised societies (Druckman et al., 2020^[15]). These differences were amplified by media coverage of the pandemic (Hart, Chinn and Soroka, 2020^[16]). The guidance provided by scientists and public health officials was viewed through ideological filters, weakening their influence not only on government policy but also individual behaviour (Makridis and Rothwell, 2020^[17]). This politicisation is thought to have come at a terrible cost in terms of lives needlessly lost (Abbasi, 2020^[18]; Woolhandler et al., 2021^[19]). In certain cases, there has also been a territorial dimension to the political tensions, when subnational governments have pursued different policies from those prescribed at a national level.

This politicisation has not been limited to national politics. As Cole and Dodds put it, international relations “have as much impact on the progress of the COVID-19 pandemic as do the characteristics of the SARS-CoV-2 virus” (2021^[20]). The authors argue that the virus has exacerbated the rivalry between China and the United States. They also stress that international competition has tended to trump international co-operation, underline the role of “health diplomacy” in shoring up alliances on the world stage and note the emergence of international non-governmental organisations (NGOs) pressuring for systemic change in response to COVID-19. The pandemic has thus illustrated the fractures and fault lines in global governance. The work of the WHO in co-ordinating the international response to the pandemic has been impeded by geopolitical manoeuvring at various points. Countries have, for example, refused to grant timely and full access to sites critical for understanding the nature of the virus or withdrawn funding in the midst of the crisis amid accusations that the institution is biased (Woolhandler et al., 2021^[19]).

Nobody is safe from the pandemic until everyone is safe, yet failures in collective action at all levels suggest this lesson has not been learned – a situation that bodes poorly for attempts to confront the climate crisis (Cole and Dodds, 2021^[20]; Heisbourg, 2020^[21]). Developing countries have largely found themselves at the back of the queue when it comes to acquiring the wherewithal needed to combat the pandemic, whether it be from medical supplies, personal protective equipment or vaccines, demonstrating a lack of solidarity and a surfeit of short-sightedness among more advanced economies (UNCTAD, 2020^[22]). A number of developing countries are even in dire need of oxygen (Usher, 2021^[23]).

As the WHO’s *Vaccine Equity Declaration* puts it, the vaccine gap between advanced and developing economies is symptomatic of “catastrophic moral failure”, the price of which “will be paid with lives and livelihoods in the world’s poorest countries” (WHO, 2021^[24]). At the time of writing (the second quarter of

2021), the situation is improving, with advanced economies substantially increasing the number of vaccines they are making available to the COVID-19 Vaccines Global Access initiative, better known as COVAX: a public-private partnership of Gavi, the Vaccine Alliance, the Coalition for Epidemic Preparedness Innovations and the WHO (Gavi, 2021^[25]). It will nonetheless take far longer for most developing countries to achieve the levels of vaccine coverage registered in advanced economies, which is just one of the reasons why developing countries will take much longer to recover from the pandemic.

It should also be noted that unprecedented real-time international co-operation among non-state actors in the scientific community around the world has been critical in allowing the production of a number of vaccines in record time. The best-known example is the Global Initiative on Sharing Avian Influenza Data (GISAID), a public-private partnership for sharing data and genetic and viral material among laboratories around the world. Many similar initiatives exist, offering a possible vision for the future of scientific co-operation in the production of public goods in a broad range of areas (OECD, 2021^[26]).

Cross-border partnerships between scientists and pharmaceutical companies to produce vaccines have been instrumental in charting a way out of the crisis, and production of vaccines has relied on highly sophisticated global supply chains. As Ireland's Prime Minister Micheál Martin put it in March 2021: "If you take the Pfizer vaccine, 280 materials go into making the Pfizer vaccine; 86 suppliers supply those materials from 19 countries around the world" (Kenny and Michalopoulos, 2021^[27]). However, national rivalries have been evident in the race to produce and distribute vaccines: so-called vaccine nationalism is driving international legal disputes and calls for controls on exports. Meanwhile, developing countries are concerned that their contribution to initiatives such as GISAID is not fully recognised by the companies developing the vaccines (Van Noorden, 2021^[28]).

Box 5.1. Locusts, conflict and climate change

In 2019-20, giant swarms of desert locusts devastated crops and livelihoods and threatened food security in an area spanning from India to Uganda. The locust crisis in the Horn of Africa – an "upsurge" by official measures, one notch down from a "plague" – was the worst in the region in 25 years and the worst experienced by Kenya in 70 years; at the time of writing, the situation remains critical in a number of countries. Exacerbated by other interlocking human and environmental crises in the region, the swarms are likely to return, overwhelming international efforts.

The locust crisis was two years in the making, but the factors that exacerbated it have a much longer history. As the Food and Agriculture Organization (FAO) explains, two cyclones in 2018 caused unusually heavy rains in what is known as the Quiet Corner of the Arabian Peninsula, which provided favourable breeding conditions for locusts that went unnoticed due to the area's remoteness (2021^[29]). In 2019, these swarms spread to Iran, Saudi Arabia and Yemen, where heavy rain again encouraged widespread breeding, and control operations were hampered by security concerns. Swarms spread north-eastwards to India and Pakistan and south-westwards across East Africa in the second half of 2019 and into 2020 (in a day, locusts can travel up to 140 km in swarms that can occupy 100 km² and can consume as much food as can feed 3.5 million people), laying waste to crops as they went (Roussi, 2020^[30]). These swarms have continued to breed and, although they did not reach West Africa as feared, they remain a major threat to rural populations (and subsistence farmers in particular) in Ethiopia, Kenya, Northern Kenya, Somalia and Yemen (FAO, 2021^[31]).

Before the current crisis, the Desert Locust Control Organization for Eastern Africa (DCLO) had largely succeeded in preventing the emergence of swarms on this scale. Established in 1962, the DCLO is a joint initiative of agriculture ministries in nine countries in the region, with strong support from the FAO (DLCO, 2021^[32]). Despite its track record of effective international co-operation, the DCLO confronts profound challenges. Climate change is expected to lead to future swarms of a similar scale (Salih

et al., 2020^[33]). Conflict in the Horn of Africa, which itself caused a humanitarian crisis in 2020-21, is making it increasingly difficult to perform control operations in the area (Showler and Lecoq, 2021^[34]). The DLCO also lacks funding due to the inability of certain member countries to meet their obligations (Roussi, 2020^[30]).

Controlling the swarms requires the use of pesticides that are also harmful to humans and the environment. McConnell warns that these responses could have dire long-term consequences for biodiversity in affected areas (2021^[35]). Controlling locust populations also requires being able to access the areas that need spraying as early as possible. Early warning systems that monitor climatic conditions in the region have a crucial role to play in facilitating a timely response and are especially useful if linked to social protection measures that can provide support to those likely to be affected before and after swarms arrive (Salih et al., 2020^[33]; World Bank, 2020^[36]).

Globalisation: Discord and other externalities

It is not just natural disasters that (with considerable human help) spread discontent from one corner of the world to another. Trade itself – the foundation of international relations throughout history and the defining element of globalisation – has historically been as much a source of conflict as of mutual gain. As Smith recognised, “[commerce], which ought naturally to be, among nations as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity” (1776^[37]). Of course, it is not just the global movement of goods that creates rivalries between – and upheaval within – countries: movement of capital and labour also generate gains for some and losses for others. Often, these exchanges favour the powerful over the weak, both within and between countries. At the same time, the externalities generated by the enhanced economic activity that globalisation catalyses can inflict incalculable harm on the planet as a whole. This is the story told by the first chapter of this report.

Popular protests have been part of the story of latter-day globalisation since the Battle of Seattle in November 1999, when some 40 000 anti-globalisation protesters disrupted the Third Ministerial Meeting of the World Trade Organization (WTO). These protests were not a one-off: they were followed in close succession by other large-scale demonstrations, most notably those outside the headquarters of the International Monetary Fund (IMF) and the World Bank in Washington, DC in 2000 and at a G8 summit in Genoa in July 2001. Further demonstrations were held in subsequent years (Badie, 2020^[38]). These protests were significant not only because they articulated global discontent towards the global economic system but also because they heralded the emergence of a global civil society dedicated to holding international institutions to account. As such, they represented a turning point in global politics: as Levi and Olson explained, “[two] of the great forces of the modern era, the continuing globalisation of capital ... versus the rapid progression in democratic decision-making norms, seem to be inevitably, fundamentally in conflict” (2000^[39]).

To be sure, these were not the first protests against international organisations. Such demonstrations occurred across a number of developing countries during the 1980s and 1990s, often prompted by the structural adjustment policies imposed by the IMF (Auvinen, 1996^[40]; Wignaraja, 1993^[41]). The year 2000 itself was particularly restive in this regard, with numerous protests against national governments in developing countries about their acquiescence to the demands of the IMF, many or all of which were foisted on the population without any democratic process (Woodroffe and Ellis-Jones, 2000^[42]). What the protests in Seattle did differently was to convey discontent directly to these institutions – and the system they represent – rather than blame governments. Moreover, the protesters came from a wide range of movements – some 700 NGOs were represented in Seattle – and thus voiced a more comprehensive (but inevitably less coherent) list of grievances than was the case in national-level protests (Gill, 2000^[43]). Akin to the protests in Chile two decades later, their target was the system rather than a single element thereof.

At first glance, a rational division of labour might be visible, whereby bottom-up protests within countries are complemented by demonstrations at an international level. However, there are problems with this approach. The first problem relates to representation: whose interests were represented in Seattle and similar protests? As with any protest movement, there were tensions between those demanding reform and those who want radical change. These tensions in turn prompt disagreements about tactics, organisation and ideology, as well as more profound differences in identity (Rowe and Carroll, 2014^[44]). These tensions were complicated by a second dimension, namely the tendency for protests in advanced economies to articulate the demands of groups from the Global North.

While the protesters expressed solidarity with the developing countries whose interests were being harmed by institutions dominated by advanced economies, civil society from those countries themselves did not have a voice in the demonstrations and might have said something very different if they had. As Gopal contends with reference to the different constituents of the Seattle protesters: “[the] mainstream American groups were often pushing demands opposed by their exact counterparts in major countries in the developing world, and the radical organisations did not really acknowledge the demands of radicals in other countries” (2001^[45]). Moreover, there was no evidence of communication between the two groups. “Many of the American protest organisations seemed to insist that they spoke for the ‘international community’, combining an insistence on the ‘voice of the poor’ with few distinct or dissenting voices from poor nations. As a result they in some ways replicated the very power structures they claimed to oppose.”

Disagreement within the ranks of demonstrators raised a second fundamental constraint on the capacity of such movements to effect change. Large-scale mobilisations of the kind visible in Seattle and elsewhere are certainly an effective mechanism of dissent and able to challenge the legitimacy of international institutions; the global media coverage they typically attract has the capacity to sway public opinion and inspire protests globally (Bleiker, 2002^[46]). They can also be effective on specific issues (Gill, 2000^[43]). However, internal divisions limit their ability to promote a coherent, alternative vision. Perhaps most significantly, it is not necessarily obvious whom they are opposing, given there is no central regulatory authority of globalisation, and the institutions that regulate various facets of the international system comprise individual nation states. The political dynamics of these demonstrations were thus uncharted and remain unclear even today.

Even the principles of the anti-globalisation struggle are problematic. Transparency and democracy are traditionally considered to be intertwined with conceptions of the nation state (Bleiker, 2002^[46]). Indeed, given the current status of democracy world wide, is it a potent or worthy unifying force for a global movement? As Bohman argues, there is a “ring of truth” to concerns about a lack of democracy at a global level, but democracy is no more likely to bring about fair outcomes at an international level than it is at a national level (where it is failing badly to do so, in many places): “Since existing democracies have helped to create the current global system, they can hardly be expected to promote global justice” (2006^[47]).

Recognising the limitations of the Seattle protests (and others like them) is not the same as undervaluing these movements. Rather than closing the political space, Bleiker contends that globalisation has opened up new spheres of contestation, populated by new actors, new methods and new logics (2002^[46]). For Gill, it is appropriate to see the protests as “new patterns of political agency and a movement that goes well beyond the politics of identity and difference: it has gender, race, and class aspects. It is connected to issues of ecological and social reproduction, and of course, to the question of democracy ... It seeks to combine diversity with new forms of collective identity and solidarity in and across civil societies” (2000^[43]). In other words, these movements are likely to evolve, aided by the fact that they cannot be repressed by the forces of globalisation since, as noted, there is no central regulatory authority that can repress them. In this way, “they open up possibilities for social change that are absent within the context of the established legal and political system” (Gill, 2000^[43]).

There are commonalities with the protests discussed in Chapter 2: the absence of mainstream political parties, an absence of leadership, and a broad agenda that eschews specific policy demands in favour of

calls for systemic change. However, there is no central authority to which anti-globalisation protests can issue their demands. While the achievements of a protest movement in a particular country might be visible (including a new constitution or transfer of power), protests against globalisation cannot expect similarly swift results (Panitch and Albo, 2016^[48]).

The chequered history of multilateralism

Inequality starts at the top: in global institutions. Addressing inequality must start by reforming them ... The nations that came out on top 70 years ago have refused to contemplate the reforms needed to change power relations in international institutions. (Guterres, 2020^[49])

An ever-more interconnected world requires an ever-larger number of institutions to co-ordinate these exchanges (Sassen, 1991^[50]). Sure enough, there has been a proliferation of such institutions over the past 30 years. If our starting point is that the excesses, imbalances and externalities of globalisation need to be controlled, the challenge for global governance is to build control on top of co-ordination in the absence of a central regulatory authority – an international government. In a system of sovereign states such as exists today under what is known as the Westphalian system, such control is problematic. In an international system based on competition, as is the case with the global economy, it is harder still: it implies countries voluntarily ceding a portion of the material rewards that accrue to sovereign states so that others might take a greater share. In a system where sovereign states are just one set of actors, the challenge becomes infinitely more complex.

The two strands of transnational discontent discussed above cast doubt on the effectiveness and legitimacy of global governance in regulating international exchange. The intertwined catastrophes of 2020 demonstrated international failure to provide and maintain global public goods and to collaborate in combating public bads. The Seattle protest and its successors have drawn global attention to the adverse social and environmental consequences of globalisation and the role of global institutions in propagating the inequalities and indignities that globalisation has produced – a critique conveyed by the UN Secretary General himself. If the objective is to attenuate discontent – contingent and structural – by creating a fairer, more sustainable world, it seems unquestionable that changes in global governance are required.

This section explores the evolution of the principal institutions of global governance since the Second World War to assess their legitimacy and effectiveness – the extent to which they have kept up with the times both in terms of the nature of global challenges and fair representation of the international community. Where they have not, their deficiencies contribute to vulnerability and inequalities within and between countries. Effectiveness and legitimacy are intertwined: as the successful co-operation of the international scientific community on COVID-19 demonstrates, it is not possible to devise solutions to global challenges without the inputs and expertise of countries around the world.

Examining the trajectory of multilateralism since the end of the Second World War sheds light on the state of global governance today. In briefly charting this evolution, this section identifies five key phases corresponding to the major developments in the international system. Inter-state relations drive a large part of the story but, over time, a particular set of ideas has become more important. By the fifth phase, the balance of power appears to have shifted away from nation states, as is discussed in the section that follows.

Early years of multilateralism

This section charts the evolution of global governance from January 1942, when the 26 countries allied in the war against Nazi Germany signed the Declaration by United Nations. This became the basis for the United Nations Charter, which was signed by 51 countries in October 1945, following the end of the Second World War. Before the United Nations Charter had been signed, 45 members of the United Nations

gathered in Bretton Woods in the United States for the United Nations Monetary and Financial Conference in July 1944 “to establish the economic foundations of peace on the bedrock of genuine international cooperation” (World Bank, 2016^[51]). It was widely recognised that economic instability following the Great Depression and associated beggar-thy-neighbours policies that hit international trade in the 1930s bore significant responsibility for the descent into war in 1939. This early articulation of multilateralism, rooted as it was in global conflict, had a profound impact on its evolution, hardwiring a state-centric, security-driven approach that endures to this day. Power politics were dominant, social issues secondary.

The institutions that emerged from the Bretton Woods conference were the IMF and the International Bank for Reconstruction and Development (IBRD), which later became part of the World Bank. The IMF’s mandate was to oversee the international monetary system, stabilise exchange rates and encourage countries to eliminate exchange restrictions that hindered trade. The IBRD’s mandate was to finance the reconstruction of countries affected by the conflict and fund investment in developing countries so that they could be integrated into the global trading system. John Maynard Keynes and Harry Dexter White, the principal architects of the Bretton Woods system, opposed the free movement of international capital, seeing it as incompatible with the free movement of goods and a barrier to nations being able to pursue demand-management policies (Ghosh and Qureshi, 2016^[52]).

Despite the centrality of trade to the post-conflict economic order, a proposal for an International Trade Organisation (ITO) proposed by the Bretton Woods institutions would not materialise for another 50 years. Until the WTO was finally established, the General Agreement on Tariffs and Trade, an interim arrangement set up in 1947, served as the *de facto* governance arrangement for global trade. Developing countries – in particular, Brazil, Chile, China and India – were active in the negotiations over the ITO that led to the signing of the Havana Charter in 1948, arguing that global rules governing trade must reflect the need for developing countries to protect their own nascent industries to promote their development. The Havana Charter was signed by 53 of the 56 countries that took part in negotiations but, faced with opposition from the US administration, only ratified by one (UNCTAD, 2014^[53]).

Inclusivity was an important principle of the Bretton Woods institutions in the early years. As the US Treasury Department put it in 1945, “[if] these two great international institutions are to achieve the mission which the world has so hopefully entrusted to their care, it will require the wholehearted and concerted cooperation of each of the member countries and their people” (World Bank, 2016^[51]). However, the practice of pegging currencies to the US dollar (which was then pegged to the value of gold) underlined the primacy of the United States until the early 1970s, as did the location of each institution within sight of each other in Washington, DC. Meanwhile, the custom whereby the head of the World Bank is an American and the head of the IMF a European has ensured this bloc elevated status since then.

The predominance of the leading economies in both institutions has been codified in a much more substantial way through the allocation of voting rights. The IMF’s quota system, for example, determines contributions based on a country’s “relative position in the world economy” (as determined by their gross domestic product [GDP], openness and economic variability) and allocates votes on IMF decisions accordingly, as well as access to allocations of special drawing rights. The IMF reviews the quota system regularly, both with respect to the volume of quotas and their distribution. In 2010, it doubled the size of the quota, its largest one-time increase. However, changes in quotas must be approved by an 85% majority, which in effect gives a veto power to the United States (which holds 16.5% of the votes at the time of writing).

While the Bretton Woods institutions remain specialised agencies of the United Nations, in reality, they operate independently from the UN system. Where the UN system operates on a one country-one vote basis (with the United Nations Security Council providing a notable exception), the IMF and World Bank have been accused of operating on a one dollar-one vote basis (Singer and Reisen, 1995^[54]). Developing countries have thus found their voice in the latter organisations to be limited, even as their number grew substantially in the years following the end of the Second World War. Another salient feature of the Bretton

Woods institutions is that they tend to interact at the national level with finance ministries, which further limits the voices they hear.

Between the end of the Second World War and 1971, when the United States ended the dollar's convertibility into gold, the Bretton Woods system oversaw a period of stability for the global economy characterised by strong growth, low inflation and sustained increases in trade among advanced economies. It allowed a model of what Ruggie (1982^[55]) termed "embedded liberalism" to flourish, whereby advanced economies were able to combine openness to trade with full employment and the development of welfare states, thanks in no small part to restrictions on capital flows. Inequality remained low or declined over this period in many countries.

However, this golden age did little to support developing countries, which benefited only indirectly from the strength of the advanced economies and did not receive the levels of investment they required. As Ruggie puts it, "[the] compromise of embedded liberalism has never been fully extended to the developing countries [and] may well prove to be very nearly fatal for some of the poorer developing countries" (1982^[55]). Ultimately, what is nowadays perceived as a golden age of international co-operation was managed by a small group of countries, predominantly for their own benefit.

Decolonisation: The Global South as emerging but excluded force on the world stage

Following the end of the Second World War, colonial arrangements collapsed, and dozens of former colonies were granted independence. Between 1945 and 1955, the number of member states of the United Nations rose from 51 to 76; by 1970, there were 127. Despite their rapid growth in number, developing countries were not granted a commensurate voice on the global stage, particularly in the prevailing global economic institutions discussed above.

The challenges confronting newly independent countries were acknowledged at the United Nations. During the 1950s, the United Nations discussed setting up a Special United Nations Fund for Economic Development to provide soft loans to newly independent countries, an idea that was supported by the Union of Soviet Socialist Republics but opposed by the United States. The latter's preference was for the World Bank to manage any fund that was set up for this task. The end result of these negotiations was the establishment of the United Nations Special Fund (UNSF) in 1959 and the International Development Association (IDA, which along with the IBRD formed the World Bank) in 1960 (Manzer, 1964^[56]). With the world's leading economies inclined to support the latter country over the former, the IDA prevailed.

The United Nations' opportunity to provide finance directly to developing countries through an arrangement in which these countries had an equal voice was lost. To compensate the United Nations for this loss, the United States supported the establishment of the World Food Programme in 1961 to provide food aid through the UN system (Singer and Reisen, 1995^[54]). Meanwhile, the technical support functions of the UNSF survived to form the basis of the United Nations Development Programme (UNDP) in 1966.

Meanwhile, the Marshall Plan for the reconstruction of Europe following the Second World War set in motion a new front in multilateral co-operation. The Organisation for European Economic Co-operation (OEEC) was established in 1948 to prepare the European Recovery Package and allocate the Marshall Aid dollars. Its logic was one of economic co-operation as well as aid: representatives of the 18 member countries participated in 20 committees to discuss reconstruction initiatives; countries each had equal voice, and decisions were unanimous. In 1961, the OEEC was transformed into the Organisation for Economic Co-operation and Development (OECD) with the accession of the United States and Canada.

In a context where the United Nations was expanding rapidly as a result of decolonisation, and membership of the IMF and the World Bank was also growing (although Cold War politics meant that this did not happen quite so fast), the OECD remained a selective institution. Membership expanded by only five countries between 1961 and 1994, with the accession of Italy (in 1962), Japan (1964), Finland (1969),

Australia (1971) and New Zealand (1973). This selectiveness allowed the institution to develop a shared understanding of economics and public policy and to formulate norms and standards by which member countries' policies could be assessed. These twin discourses – interpretive and normative – were neither diluted nor disputed by developing countries, which lacked a voice in the institution for the first 30 years.

The establishment in 1960 of the Development Assistance Group within the OEEC (which became the Development Assistance Committee [DAC] in the OECD) to co-ordinate donor policies among the advanced economies compounded the exclusion of developing countries. However, a consensus within the OECD that the organisation should engage with developing countries led to the creation in 1961 of the OECD Development Centre, at which OECD and non-OECD members meet as equals to share experiences.

Two defining events of the decolonisation phase in terms of providing developing countries with a voice took place simultaneously in 1964 with the creation of the Group of 77 and the first meeting of the United Nations Conference on Trade and Development (UNCTAD) in Geneva. The events leading to Geneva had been set in motion almost a decade before at the Bandung Conference in Indonesia, which brought together developing countries that did not wish to pick sides between the contestants of the Cold War and which in turn laid the foundation for the establishment in 1961 of the Non-Aligned Movement (NAM). The NAM, which was initially dominated by countries from Africa and Asia, called for international action on trade and development at its first summit in 1961. Latin American countries added their weight to this demand, leading to the United Nations General Assembly giving its approval to UNCTAD in the same year.

The first conference was organised by the first secretary-general of UNCTAD, Raúl Prebisch from Argentina, who sought to distance the conference from the United Nations Department of Economic and Social Affairs at the same time as he lobbied countries world wide and on both sides of the Iron Curtain in drawing up the agenda. Four thousand delegates from 120 countries attended the first conference, at which a new institutional machinery for sustaining the conference going forward was agreed, including the establishment of a secretariat, standing committee and group-based negotiations, as well as a commitment to reconvene UNCTAD every three years.

Developing countries formalised the solidarity they displayed at the first UNCTAD with the Joint Declaration of the 77 developing countries, which became the Group of 77 (G77). The G77, which has subsequently grown to 134 members, recognised UNCTAD to be the principal mechanism by which developing countries could articulate their economic interests. While the grouping was intended as a counterweight to the OECD, it lacked its organisational framework and was thus unable to agree on a proposed alternative to the status quo; interregional unity was not always forthcoming (UNCTAD, 2014^[53]). In the absence of a G-77 secretariat, the grouping depended on UNCTAD for its policy agenda; this created tensions between the grouping and UNCTAD, which had to “function in a dual capacity – part servants of all the member countries, part creators of Group of 77 policies” (UNCTAD, 2014^[53]).

The 1960s and 1970s are often considered as the golden years of UNCTAD. During this period, it launched a number of agreements intended to support the interests and needs of developing countries in global trade, including around trade and competition policies. It was also a driving force behind the target for advanced economies to devote 0.7% of their GDP as official development assistance to developing economies, and it was instrumental in identifying the specific needs of the Least Developed Countries, for whom UNCTAD became the focal point in the UN system.

UNCTAD achieved less in terms of empowering developing countries on the global stage. As UNCTAD puts it, its first two decades were “responsible for creating a high anxiety and politically embarrassing challenge to the powers that be than doing them any substantial harm” (2014^[53]). However, the very existence of UNCTAD influenced the conduct of other organisations, including the Bretton Woods institutions, and created a mechanism for economic interactions between the Global North and Global South.

As Walters argues, UNCTAD has been highly successful in “articulating, aggregating, and communicating political demands of least developed countries vis-à-vis advanced industrial states” (1971^[57]). He contrasts UNCTAD’s value for political communication with its limited potential as a platform for negotiation, reflecting not only the resistance of advanced economies but also the challenges inherent to forging a common position from such a diversity of approaches as espoused by developing countries. As Box 5.2 argues with reference to migration, the exclusion of developing countries from the mechanisms of international co-operation is a major constraint both on their development and in finding workable global solutions.

UNCTAD argues that it was progressively “defanged” as a forum for North-South contestation in the 1980s and as a means of challenging liberalisation, a process that started with the appointment of a secretary-general from the United States and concluded with the creation of the WTO (2014^[53]). However, this contestation did not disappear; rather, it was displaced to the streets of Seattle.

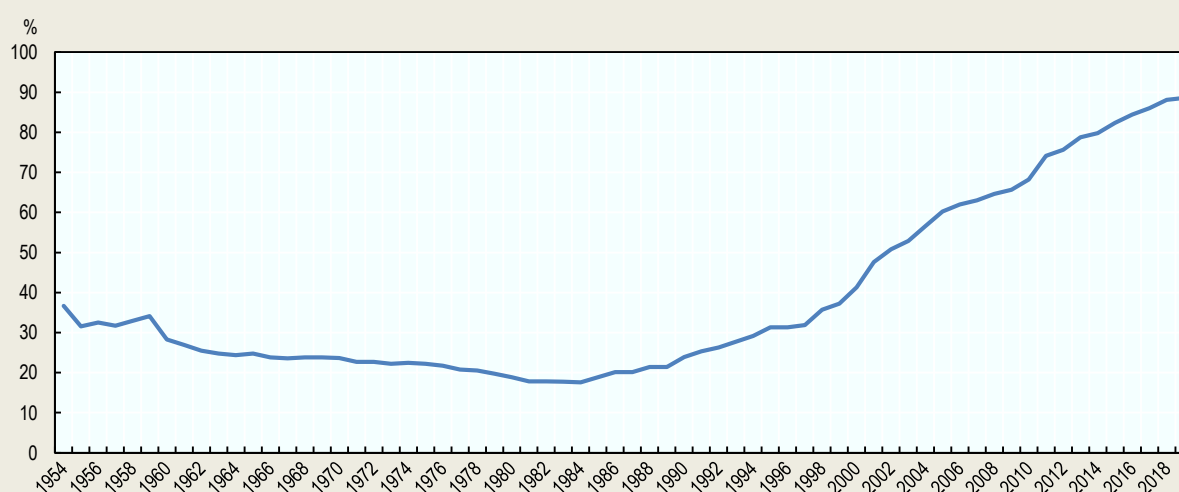
Box 5.2. The gaps and limitations of migration governance

Migration is closely entwined with the story of discontent told in this report. It is driven by the global economic trends identified in Chapter 1, as well as the discontent described in Chapter 2 and the structural factors described in Chapter 3. In particular, it is inextricable from demographic trends, public policies, technology, environment and climate change, as well as patterns of conflict and political instability, as described in a previous edition of *Perspectives on Global Development* (OECD, 2016^[58]).

No truly global governance on human mobility has ever existed. It was not until the aftermath of the Second World War that global institutions confronted the delicate balance between the right to human mobility and the safeguarding of national sovereignty. Fragmentation was built in from the start. The United Nations High Commissioner for Refugees (UNHCR) was established in 1950 out of the International Refugee Organization (set up in 1946). Soon afterwards, in 1951, the International Organization for Migration (IOM) was established. Both were created under similar circumstances (displacement caused by the global conflict) and with similar mandates (dealing with uprooted people and identifying resettlement countries).

Twenty countries founded the UNHCR in 1946, while 16 members founded the IOM. Today, the UNHCR’s Executive Committee consists of 102 member states, while the IOM has 173 members (Figure 5.1). The IOM has evolved from being primarily an operational agency to being a migration agency, dropped “Europe” from its name in 1980 and eventually became a related UN organisation in 2016, while the UNHCR has focused increasingly on forced displacement issues. About half of IOM member states have joined since 2000; in 1990, 80% of the world’s sovereign states were not members of the only global body overseeing international migration. It is also notable, given their importance in international migration, that remaining non-members include high immigration countries, such as the member states of the Gulf Cooperation Council (with the exception of Kuwait), as well as Malaysia and Singapore and two members of the G20 (Indonesia and the Russian Federation).

Figure 5.1. Share of UN member states that are members of the IOM, 1954-2019



Note: Graph adjusted to take into account total number of UN members in each year. Two IOM members are not counted as they are not official members of the United Nations (the Cook Islands and the Holy See).

Source: Authors' calculations based on data available at (IOM, 2021^[59]).

StatLink  <https://doi.org/10.1787/888934253309>

Global governance of migration is profoundly shaped by notions of sovereignty and the right to control admission within national borders. The importance of retaining control over sovereignty has meant that most migration protocols and governance have historically been dealt with at a bilateral and occasionally regional level but rarely at a global level. International cooperation is also held back by a belief that migration poses a threat to national development – for both countries of emigration and countries of immigration. Economists have argued that free movement would lead to absolute and relative advantages for high-income countries, meaning that they would attract and benefit the most. International terrorism has further complicated issues of migration.

Globally, emigration remains concentrated predominantly in the direction of high-income countries, although migration volumes between countries in the Global South remain significant (and are likely to be underestimated due to lack of data) (OECD, 2018^[60]). At the same time, the number of countries from which people are emigrating is increasing. Emigration towards richer countries has mostly been driven by a continued divergence between high-income and developing countries in terms of well-being measures, leading to complex debate about the link between development and migration. It is notable that emigration is high in middle-income countries relative to poor and rich countries (OECD, 2016^[58]).

Different ways of categorising and compartmentalising migrants – South/North, refugee/migrant, defined according to their country of birth or nationality – are confusing the policies and politics of migration. Confusion intensified when two different compacts were signed in 2018, one focusing on safe, orderly and regular migration (the Global Compact on Migration [GCM], adopted by 164 countries), the other on refugees (the Global Compact on Refugees, which 181 countries have signed).

The global governance landscape for migration is characterised by high heterogeneity of preferences among countries and, as a consequence, few rules and little enforcement. The GCM, the most tangible success in creating a global agreement on migration, is a non-binding agreement among countries. Embracing global governance on migration requires establishing a stronger commitment to minimum principles and agreeing on them through a dialogue that places all countries on equal footing.

Washington Consensus

The period following the Second World War generated a plethora of theories about development economics. First the Marshall Plan then the decolonisation wave sparked considerable debate about how countries from the Global South could achieve living standards for their population comparable with those of advanced economies. Developing countries implemented a variety of strategies to confront what soon emerged as a highly complex challenge, which are detailed in *Perspectives on Global Development 2019* (OECD, 2018^[60]). Typically, these approaches had in common an active role for the state in the management of the economy based around a strategy for trade and industrialisation, although in the 1970s, there was a greater focus on alleviating mass poverty and meeting basic needs, which implied greater concern with redistributive policies and inequality.

From the late 1970s onwards, optimism that developing countries could (with support from advanced economies) engineer economic convergence with the Global North dissipated. By the end of the 1970s, many developing countries faced large balance of payments deficits, were heavily in debt and in certain cases confronted hyperinflation. At the same time, the advanced economies experienced disenchantment with their own economic models brought about by the collapse of the Bretton Woods system, oil shocks and stagflation. In both domains, the legitimacy of the government's role in the economy was called into question; monetarism and neo-classical economics rapidly gained in popularity in advanced economies.

These trends culminated in the Washington Consensus, a policy paradigm embraced with equal enthusiasm by the political establishment of the United States and the Bretton Woods institutions based in the country's capital (Kuczynski and Williamson, 2003^[61]). The underlying principle of the Washington Consensus was the primacy of the market over the state: liberalising trade and capital flows was seen as the most effective means of encouraging economic growth, while state intervention in the economy fostered inefficiency and corruption. As the OECD puts it, “[government] was often regarded as more of a problem than a solution for economic and social progress, and state-led development came to an end” (2018^[60]).

Debt crises in developing countries during the 1980s and 1990s and the collapse of the Soviet Union provided multiple opportunities for the World Bank and the IMF to enforce the Washington Consensus, which became central to structural adjustment policies that accompanied loans from these institutions. In the interests of macroeconomic stability, countries were instructed to reduce fiscal deficits (by eliminating subsidies, curbing social spending and increasing their tax base); liberalise trade, financial and capital accounts; privatise public assets, and secure property rights. The elimination of poverty was considered possible only if macro- and micro-level imbalances were corrected. Strong public institutions were recognised as important, but only insofar as they established conditions appropriate for the functioning of markets (Saad-Filho, 2010^[62]).

The spread of the Washington Consensus demonstrated the power of the United States both in the global economy and in the institutions with greatest influence over the fate of developing economies. The diversity of experiences and complexity of challenges that had emerged from developing countries in the 1960s and 1970s was reduced to a narrow set of policy prescriptions that circumscribed states' ability to promote policies that were embedded within their own societies or consistent with the state-building projects of newly independent countries (Lopes, 2012^[63]). By this logic, failure to catch up was the fault of developing countries rather than a consequence of structural factors in the global economy or a result of their history. Ever-more expansive and intrusive conditionalities attached to external loans shrunk developing countries' domestic policy options.

UN organisations attempted to counter the emphasis on market-based solutions. The UNDP launched the Human Development Report in 1990, which placed people at the centre of development, while UNICEF demonstrated that the poorest in developing countries were often hardest hit by structural adjustment

programmes (1987^[64]). Taking note of reversals in many child-related development outcomes during the 1980s, UNICEF called for “Adjustment with a Human Face”.

The differing experiences of developing countries during the two decades that the Washington Consensus was dominant exposed its shortcomings. While Africa and Latin America both experienced lost decades in the 1980s, Asia’s emerging economies experienced rapid growth and structural change while ignoring prescriptions against the state’s involvement in the economy. Asia also demonstrated the risks of volatility and contagion developing countries faced in liberalising their markets when a financial crisis struck multiple economies in the region simultaneously in 1997. The insistence that the countries affected must keep their markets open while significantly increasing interest rates generated divisions within the World Bank and between the World Bank and the IMF (Saad-Filho, 2010^[62]; Stiglitz, 2002^[65]).

The thinking of multilateral institutions (in particular, the World Bank) evolved in the post-Washington Consensus period towards a greater focus on the importance of social safety nets and the need for prudential capital account regulations, not to mention working more closely with countries to ensure ownership of policies. A more holistic approach to development emerged, ushered in by the United Nations Millennium Development Goals, which prioritised poverty alleviation and other basic needs in developing countries. It was accepted that measuring a country’s development requires looking beyond GDP. The SDGs expanded the focus even further, not only by significantly increasing the objectives but also by directing them at all countries, regardless of income level.

By the end of the 1990s, the Bretton Woods institutions had demonstrated their power and ideological loyalties, which had led them far from their original mandate. The voice, agency and even sovereignty of countries in the Global South were disregarded. While the most extreme interpretations of the Washington Consensus were moderated from the 1990s onwards, market-led economic growth remained a cornerstone of development thinking. In ideational terms, neoclassical frameworks have incorporated pro-poor growth theories and real-world success stories through the inclusive growth paradigm without challenging the primacy of the markets or recognising the external or historical factors on which a country’s development might depend.

Shifting wealth

Since the turn of the 21st century, the sustained rise of Asia’s economies, in particular China, has challenged the primacy of the advanced economies, as well as the alliances and institutions through which this primacy is articulated and the ideological foundations of the Washington Consensus. This fundamental change to the global economic geography has opened up new models, new opportunities and new institutions for development around which the Global South can co-operate beyond the influence of the Global North. Indeed, such are the gaps that are appearing between advanced and developing countries that the latter are having to choose where their loyalties and interests lie.

While non-OECD economies in general have increased their share of global GDP during the 2000s, the growth in India’s and China’s contribution is particularly dramatic, as discussed in Chapter 1. A total of 83 countries were converging in the 2000s, meaning that they had a GDP per capita growth rate of more than twice that of the overall high-income OECD GDP growth rate (OECD, 2010^[66]). The global economy’s centre of gravity moving towards the east and south – from OECD members to emerging economies – has become known as “shifting wealth”. Asia’s rise coincided with a sharp reduction in global poverty and the growth of middle classes globally noted in Chapter 1, driven in particular by India and China.

This shifting of the global economic geography has given strong impetus to South-South co-operation. By 2010, developing countries accounted for around 42% of global merchandise trade, with South-South flows making up about half of that total. In contrast to a drop in North-North trade and stagnation in South-North trade, South-South trade remained dynamic even after the global financial crisis. China accounts for almost half of South-South exports (OECD, 2018^[60]). There has also been an increase in South-South financial

flows, principally directed through three channels: increased remittances; growing corporate equity participation via mergers and acquisitions, as well as greenfield foreign direct investment by emerging multinational companies (particularly through Special Economic Zones); and an extension of bilateral and multilateral bank credit supply, notably by China.

South-South co-operation is driving new trends in development assistance. Emerging donors such as Brazil, China, the Gulf States, India, Malaysia, Russia and Thailand are providing increasingly significant volumes of development assistance, although only a small proportion meets the criteria for Official Development Assistance specified by the DAC. New modalities of development assistance have also emerged, which combine financial support with knowledge sharing, capacity building and new tools of engagement, reflecting the fact that developing countries cannot escape the traps described in this report with money alone. Financing is a catalyst and development assistance a multifaceted facilitator for countries to implement their own development strategies (OECD/CAF/ECLAC/EU, 2019^[67]).

In the 2000s, China became a global leader in official bank credit for infrastructure funding, which mostly benefited Africa, and it established several bilateral and multilateral funds around the world, in addition to two policy banks, the China Development Bank and the Export Import Bank of China. In 2015, the Global South sent out its most direct challenge to the power of the North with the establishment of two multilateral financial institutions: the Asian Infrastructure Investment Bank and the New Development Bank by the BRICS nations (Brazil, Russia, India, China and South Africa). Thanks to their high capitalisation and lending capacity, as well as their specific focus on infrastructure, these institutions have the potential to be a game changer in global development (OECD, 2018^[60]).

The Belt and Road Initiative (BRI), initiated in 2013, is a physical manifestation of China's global emergence and the country's importance for developing countries. In economic terms, the BRI intends to promote connectivity and economic co-operation across large parts of Central Asia, Southeast Asia, the Middle East and Eastern Europe by vastly improving infrastructure across these regions: the capital needs for fully implementing the BRI have been estimated to reach USD 8 trillion (United States dollar). The initiative aims to reach more than 60% of the world population in 87 countries and cover over 50% of global trade by the time it is completed in 2049. Concerns have been expressed about the debt implications for the countries involved in the BRI (Bandiera and Tsiropoulos, 2020^[68]), as well as the initiative's environmental impact (Ascensão et al., 2018^[69]).

The shifting wealth period coincided with continued acceleration of liberalisation and globalisation. While some developing economies, notably in Asia, benefited significantly from global interconnectedness, many did not. As Primi and Toselli explain with reference to industrial production globally, “the success story of developing economies in the last decades remains anchored to the rise of China and, to some extent, to a few other South East Asian economies. Success stories from Africa and Latin America exist, but remain isolated” (2020^[70]). Looking ahead, the authors recognise that Industry 4.0 is a potential game changer for developing countries, with “new technologies ... opening opportunities for developing countries to address development gaps at a speed and with a pervasiveness not imaginable before”. However, they warn that “[growing] marginalisation could be around the corner”, because some developing countries are presently unable to take advantage of the possibilities offered by these new technologies. “Gaps in internet speed, quality, and safety, as well as in skills and technological capabilities could seriously hinder the capacity to participate in the digital globally interconnected production systems of the future”, they argue, adding that these same gaps could also exacerbate within-country inequalities in developing countries.

The countries whose global power has risen most this century have often pursued economic policies and systems of governance that are fundamentally different in certain ways to those of advanced economies. The idea that development necessarily involves a transition to a Western-style economy is challenged as never before: developing countries have distinct models they can follow and, in each case, can access institutions that will support them. If this decoupling becomes a rivalry between two systems (and there are growing indications that it will), then developing countries might be obliged to choose between them rather

than take advantage of the current extent of global interconnectedness to operate partially in both. A new division, akin to that which separated countries during the Cold War, might appear, based not on ideology but on differing and incompatible models of governance and economic policy.

As international transactions multiplied and interconnectedness intensified during the shifting wealth era, myriad new agreements and institutions were established on a bilateral, regional and global basis. New non-state actors entered the global development space, in particular philanthropic organisations. The growing complexity of global interconnectedness and the multiplication of actors have led to a fragmentation of the multilateral system, which was compounded by emerging international rivalries. However, the growing interconnectedness (not only economic but also social), as well as emerging threats, meant that global rules and standards remained essential, even without a single, universally accepted institutional architecture for their enforcement (Dervis, 2019^[71]).

Global trade governance is a case in point. The so-called Doha round of WTO negotiations, which were partly intended to promote the interests of developing countries, has made little progress since 2001. Moreover, the WTO's capacity to resolve trade disputes has been severely weakened by political disagreements over the Appellate Body, which is empowered to provide the final word on such disputes in instances where countries were unable to reach agreement based on the findings of a legal panel. Since 2017, the Body has been rendered inoperative by a failure to approve nominees for fixed-term positions on the panel. As Grozoubski puts it, "In the midst of a pandemic and escalating global protectionism, the WTO's paralysed dispute settlement system, largely immobilised negotiations, and chronically underutilised monitoring and compliance function, are groaning under the weight of trade tensions, unilateralism, and neglect" (2020^[72]).

Nonetheless, the shifting wealth period produced three landmarks in international co-operation: in 2015-16, countries gave their support to the SDGs, the Paris Climate Accords and the Addis Ababa Action Agenda. These far-reaching agreements represent a universal commitment to a fairer and more sustainable world that places all countries on equal footing. However, these agreements present challenges of their own to developing countries. The SDGs will require a massive financial commitment from developing countries – even more so following the setbacks imposed by the COVID-19 pandemic (Benedek et al., 2021^[73]; OECD, 2020^[74]). Meanwhile, developing countries will need to align their development strategies (and in particular, their industrial policies) to the Paris Climate Accords. Countries whose economy is based in part on fossil fuels confront considerable uncertainty around the nature and timing of international commitments to reducing carbon emissions (Box 5.3).

Box 5.3. The energy transformation: A paradigmatic development challenge

The low-carbon transition required by the climate emergency is one of the global megatrends that will affect developing economies in the 21st century, particularly those based on fossil fuel. The global decarbonisation agenda poses a number of dilemmas for these countries, for which this transition would represent not only a change in the structure of their economy but also in the structure of society itself.

Like all countries, fossil fuel-dependant economies are exposed to the physical, political, technological and economic risks of climate change, which require the global economy to reduce its dependence on fossil fuels. However, these resources contribute to energy security while the anticipated continuation of demand for oil and gas until 2030 and 2040, respectively, creates an incentive to leverage extractive revenues to finance other public policy and development objectives, such as education and health care. Although the COVID-19 pandemic caused a sharp decline in demand for fossil fuels, the International Energy Agency expects demand to return to pre-pandemic levels by 2023, which will greatly assist the recovery of some developing countries (IEA, 2021^[75]).

Moreover, there are risks associated with technological and political developments for fossil fuel-based developing economies. Technological uncertainties arise from the unanswered question of which technology will dominate the future energy landscape. Major breakthroughs in clean technology can further accelerate the transition, leaving behind “unburnable carbon” and “stranded assets”. Political and regulatory developments in demand-side countries and large markets might pose policy-related risks.

The future landscape will depend heavily on the international community’s commitment to tackling climate change. Political and regulatory developments in China, the European Union and the United States will continue to influence the direction of climate policies, with implications for developing countries as well. For example, a carbon border adjustment or “carbon border tax”, as is being discussed in the European Union, might make it more difficult for developing countries with a more diversified economy to export into these large markets due to their products’ carbon content, constraining their capacity to grow, compete and, ultimately, transition.

The economic risks and constraints are significant. In the most oil-dependent countries, oil exports account for around 60% of fiscal revenue – or more than 90% in some cases (IEA, 2020^[76]). If the world were to meet the Paris climate objectives, one-third of oil reserves, half of gas reserves and more than 80% of known coal reserves would need to be left unused (McGlade and Ekins, 2015^[77]). Fossil fuel-exporting developing countries are thus highly exposed to a decline in fossil fuel consumption. Whereas oil companies on average hold around 13 years of reserves on their balance sheets, fossil fuel-rich developing countries hold a median of 45 years of known reserves (Manley, Cust and Cecchinato, 2017^[78]).

A decline in fossil fuel demand could result in stranding a significant share of these reserves. The low-carbon transition has generated concerns in fossil fuel-exporting countries that reduced global consumption of oil, gas and coal will have a severe impact on export revenues, fiscal space, balance of payments and economic growth. Some fossil fuel-exporting countries have therefore been reluctant to engage in global initiatives that seek to curb carbon emissions. However, there are risks to swimming against the tide: Verisk Maplecroft warns that countries that fail to diversify their economies away from exporting fossil fuels will be overcome by “a slow-motion wave of political instability that will engulf the most exposed oil producers over the next 3-20 years” (2021^[79]).

One way to address the dilemma of fossil fuel-based developing economies is to tackle the challenge of reducing both direct and indirect emissions in the oil and natural gas supply chains. Indirect greenhouse gas emissions from the oil and gas sector amount to 15% of the sector’s total greenhouse gas emissions and are not a result of the actual consumption of the fuel (IEA, 2018^[80]). Indirect emissions are associated with producing, refining and transport, representing a significant opportunity for governments to contribute to decarbonisation by embracing technological innovation and implementing progressive policy measures based on public-private collaboration.

Last, fiscal policies can facilitate innovative energy access initiatives within the broader context of sustainable development and the low-carbon transition, including by financing the use of clean off-grid energy technologies for remote communities. This will limit the risk of being locked into a carbon-intensive development trajectory that imposes higher transition costs later on. Prioritising public spending in transition-related areas can contribute to closing the infrastructure and technology gaps that several countries experience while also generating jobs and growth that will outlast non-renewable resource extraction (OECD, 2019^[81]).

Oil- and gas-producing countries, the broader industry and the international development community must explore measures to limit the environmental impact of fossil fuel production and contribute to the global energy low-carbon transition. To date, the question of how fossil fuel-based economies could contribute to the global decarbonisation efforts by reducing their environmental footprint and restructuring their economies, however, remains largely unaddressed.

The crisis era (working title)

The COVID-19 pandemic is widely expected to serve as another inflection point in the history of international co-operation. Given the pandemic is ongoing as this report is written, it is too early to tell how this era will be characterised. For the time being, however, “the crisis era” seems appropriate.

This is an era of crisis in two senses. First, there are the various crises the world confronts, including not only the pandemic and associated social and economic crises but also the unfolding environmental catastrophe and the large-scale humanitarian crises unfolding in the Horn of Africa, the Sahel and elsewhere. On top of these, there are the crises of inequality and democracy and, of course, the crisis of discontent.

At the same time, there is a crisis in international co-operation. The growing rivalry between China and the United States is being touted by some as a new cold war (McFaul, 2020^[82]). International co-operation is fracturing, even in well-established regional blocs or security arrangements. The support for economic openness is giving way to protectionist instincts. Developing countries still find themselves last in line, despite their growing importance.

These two sets of crises are clearly interlinked and, as such, mutually reinforcing. They also flow directly from events of the previous four eras sketched out here. The SDGs and the Paris Climate Accords have the potential to chart a new approach to international co-operation and to address the most profound threats. However, they cannot do so without a clearer understanding of what underpins the crisis era – phenomena that can be traced to the primacy of private interests in national and international affairs, as discussed in the next section.

Who runs the world?

No son los sistemas sino sus excesos los que deshumanizan la historia. (García Márquez, 1989^[83])

The transition from the shifting wealth era to the crisis era prompts two questions. First, how did we move so quickly from the high point of the SDGs and Paris Climate Accords to the discord of the crisis era? Second, why was it that the United States, which had historically exercised such influence on the institutions and evolution of the international system, would withdraw from international co-operation on the basis that it undermines the country’s interests? Both questions require global governance to be examined from an alternative perspective to that of traditional geopolitics. This section examines who exercises control in the world of latter-day globalisation, a world in which it is commonly claimed that “nobody is in charge” (Steger, 2008^[84]).

The new governors

As a first step, it is necessary to look beyond nation states as the principal unit of analysis, important though they are to the story of the crisis era (Box 5.4). This involves recognising the shortcomings of the Westphalian system, which is based on sovereign states. As Strange argues, the symbiotic relationship between state and market development under the Westphalian system created three systemic failures that cannot be resolved politically: the failure “to manage and control the financial system ... to act for the protection of the environment [and] to preserve a socio-economic balance between the rich and powerful and the poor and weak” (1999^[85]). “The Westfailure system”, she concludes, “is thus failing Capitalism, the Planet and global (and national) civil society.”

It is difficult to dispute the three weak spots she identifies, which are at the heart of the crisis era. Central to her view of international relations is power, specifically what constitutes power in the international system and who possesses it (Strange, 1991^[86]). This entails examining the role of transnational corporations as lead actors on the world stage. “Major enterprises have outgrown national markets, national laws and

national financial markets and have begun to produce for a global market according to a global corporate strategy ... [They] cannot help exercising a major influence on the nature of the international political economy.” At every point, Strange asked the question “cui bono?": who benefits from the international system? The answer is very rarely developing countries, which she argued were compelled to open up to transnational enterprises (partly as a result of structural adjustment programmes) despite the negative consequences for their own development (Strange, 1994^[87]).

Strange's thinking prompted a broader exploration of the non-state actors with influence on the international system, such as NGOs and social movements. A broader definition of global governance emerged, as articulated by Avant, Finnemore and Sell: “[global] governors are authorities who exercise power across borders for purposes of affecting policy. Governors thus create issues, set agendas, establish and implement rules or programs, and evaluate and/or adjudicate outcomes” (2010^[88]). This perspective yields a clearer understanding of the unprecedented international power wielded by private actors.

The Washington Consensus increased the power of the private sector. Policy prescriptions around liberalisation and privatisation – new markets and small states – opened the door for businesses across developing countries, as mentioned earlier. Yet the same logic as was behind the Washington Consensus was also transforming advanced economies. At this point, it is impossible not to mention the term “neoliberal economics”, despite the contestation around the term: this is “neoliberalism” in the tradition of Hayek (1944^[89]), a contemporary of Polanyi's whose view of the relationship between state and market was radically opposed. This section follows the definition set out by Brenner, Peck and Theodore of neoliberalism as “market-disciplinary regulatory restructuring”, which plays out in different ways depending on the historical context and which takes effect gradually rather than overnight (2010^[90]).

The literature linking neoliberalism to discontent is vast and includes the placards held aloft at protests globally. The present analysis focuses on two aspects of neoliberalism. First, its endless logic of creating new markets and new spaces for wealth creation has become increasingly intertwined with globalisation. Even in countries such as China and Viet Nam, which have adopted a development model that retains a strong role for the state, neoliberal spaces have been established. In the case of Viet Nam, this is the foreign investment sector, which exists at a remove from the national economy; China's Special Economic Zones have a similar logic (OECD, 2021^[91]; OECD, 2020^[92]). As Ong explains, neoliberalism has been used experimentally across emerging Asia, where governments “carve up their own territory so they can better engage and compete in global markets”, selectively applying neoliberal governance mechanisms to certain regions and certain people (2006^[93]).

The second aspect is the reinforcing logic of neoliberalism. Brenner recognises that neoliberal models are unevenly applied in various contexts; the ensuing friction with existing models often leads to crisis (1999^[94]). What is notable is that the logic of neoliberalism tends to win out: as the austerity that followed the global financial crisis demonstrated, the solution to a crisis created in part by neoliberalism tends to include more neoliberalism. This reflects a challenge to the Polanyian thesis of a double movement: Polanyi assumed that popular resistance to the relentless incursion of the market into social life, with its commodification of labour and nature, would cause governments to adopt countervailing policies. These seem in short supply. The Thatcherian mantra “there is no alternative” is complemented by a second dictum: “there is no going back”.

Box 5.4. Rethinking space and states

Global interconnectedness challenges traditional conceptions of geography, particularly the concept of the state as principal unit of analysis. Critics of so-called state-centricism argue that borders are ever-less meaningful amid ever-greater flows of goods, people and investment (not to mention pollution and conflict); the faster these cross-border processes occur, the more compressed space and time become. The Internet has compounded this tendency, creating a completely virtual space that exists beyond physical geography. The globalised world has been reconceptualised in various ways as “borderless” (Ohmae, 1990^[95]), “flat” (Friedman, 2005^[96]) or a “space of flows” (Castells, 1996^[97]), to name but three.

The trends identified in this report have called such conceptions into question. While the economic relevance of the nation state has diminished over the past 50 years, it has remained psychologically important, not least as a source of group identity (Reicher and Hopkins, 2001^[98]). This is a fact of major significance to ethnonationalist and populist movements, which in some cases have literally erected walls along their borders. Utopian notions of a global community have floundered. Protectionist impulses provoked by the COVID-19 pandemic have caused borders to close and persuaded leaders of the need to strengthen domestic production capabilities (Barbieri et al., 2020^[99]).

While it is certainly necessary to reappraise conceptions of the state, a revival of state-centricism is not justified. Brenner defines state-centricism according to two central assumptions: the conception of space as “a static platform of social action” and “the conception of state territoriality as a preconstituted, naturalised, or unchanging scale of analysis” (1999^[94]). By this view, “the state is viewed as the container of society, while the interstate system is mapped in terms of a distinction between ‘domestic’ politics and ‘foreign’ relations that reinforces the state’s container-like character as the boundary separating ‘inside’ from ‘outside’”.

Viewed through this lens, state-centricism provides limited insights about the world today. As Badie explains, society cannot be contained by national borders, and domestic politics are interfering with foreign relations as never before (2020^[38]). Moreover, globalisation and other phenomena have undeniably altered notions of territoriality. These include

the deployment of new informational, military and transportation technologies; the internationalization of capital and financial markets; the virtualization of economic activity through electronically mediated monetary transactions; the global crisis of territorialized definitions of citizenship; the intensified role of electronic media in organizing socio-cultural identities; and the increasing density and velocity of transnational diasporic population movements. (Brenner, 1999^[94])

The very notion of stasis and territoriality is problematic: globalisation is widely understood as a dynamic and transformative process that operates simultaneously on a local, national and supranational scale. It operates according to a distributed rather than decentralised logic, with no discernible central control or plan but nonetheless functions on a physical infrastructure that is produced by societies. As Brenner puts it, globalisation is a “dialectical process whereby movement of commodities, capital, money, people, images, and information through geographical space is continually expanded and accelerated; and relatively fixed and immobile socioterritorial infrastructures are produced, reconfigured, redifferentiated, and transformed to enable such expanded, accelerated movement.”

The important question emerging out of this debate is not whether the state is relevant but how the state fits into new conceptions of space and territoriality, and how well these new conceptions align to globalisation. These are not merely abstract questions; rather, they get to the heart of global governance: *who* is regulating *what*? If globalisation cannot be rationalised according to a recognisable set or system of public institutions, particularly in legal terms, how is it to be governed? And for whom?

Locking in market primacy

There must have been a moment, at the beginning, where we could have said 'no'. But somehow we missed it. (Stoppard, 1994_[100])

The apparent inevitability and irreversibility of neoliberalism jars with democratic principles. If neoliberalism is such a cause of social disruption (and environmental destruction), why cannot countries simply say “no”? Put another way, how does neoliberalism become locked in across countries, from the very poorest to the very wealthiest? To answer this requires looking at the operating system for today’s globalised and digitalised economy: underpinning the billions or even trillions of daily cross-border transactions, worth billions or even trillions of US dollars, there must be an architecture, otherwise the global economy would collapse very quickly. Where there is an operating system, there is by definition design and control, otherwise known as a protocol (Galloway, 2004_[101]).

A protocol may be thought of in terms of code, commands and communication. In the global economic system, these can be considered as analogous to the legal basis of each transaction, the broader legislative framework within which these operate and the networks that transmit knowledge and ensure compliance. All three elements are increasingly influenced by private actors, attesting to – and reinforcing – their growing prominence in the international system. This protocol is an inextricable part of the global economic growth story of the past three decades; it has also hardwired inequality and disregard for the environment into daily life. Division, discontent and disaster follow.

To begin with the legal aspect, or the “code” of the international system, Bethlehem contends that the world faces challenges today “which in many respects, and certainly in scale, go beyond Westphalian conceptions of society and Westphalian conceptions of international law” (2014_[102]). Drawing attention to the legal architecture for cross-border exchanges that are essential parts of daily life, such as sending an email, he continues,

[the] Law of Nations, in terms of volume and importance, certainly as measured in economic terms, is increasingly being pressed into the service of private actors, to facilitate their engagements and transactions. The states may still be the legislators, but they are now only seldom the intended and ultimate subjects of this globalized, and globalizing, law as it trickles down and forms into rivers of legal principles that flow round the rocks of territorial sovereignty and national boundaries and independence that only momentarily cause a diversion in the directionality and quantum of the private engagements that the law is ultimately designed to serve.

This argument is echoed by Pistor, who argues that lawyers have become increasingly influential in modern capitalism, where “global capital exists and thrives without a global state or a global law” (2019_[103]).

International law, in the public sense of the term, is struggling to keep up with the pace of change in a globalised and digitalised world. This situation renders even the most powerful of states ever-less able to exercise control over the functioning of the global economy. As Bethlehem puts it,

[while] international law has developed flexible rules and practices of interpretation, it has neither an effective approach to legal revision and reform nor a well-developed concept of desuetude [disuse]. The result is that increasingly aged treaties and other crystallized rules of international law are left to carry the burden of addressing conduct, and of shaping an international system, that may bear little relation to the conduct and system for which the rules were originally crafted. (2014_[102])

Gill contends that global governance in the Westphalian sense has given way to a “New Constitutionalism”, which “relies upon the market, especially the capital market to discipline economic agents” and to lock in neoliberal policies (1998_[104]). This discipline is based on three pillars: confidence, credibility and an “appropriate business climate”. In a context where foreign capital is increasingly important to a country’s economic prospects and increasingly mobile, new constitutionalism achieves a separation of the economic from the political within states: policy is (to a significant extent) imposed exogenously, drastically narrowing the space for democratic processes to determine a country’s direction. While market primacy and

protection of private interests are locked in, popular-democratic and parliamentary forces are locked out of crucial economic, social and ecological decisions (Gill, 2000_[43]).

Gill points to three sets of processes at work in new constitutionalism (1998_[104]). The first is reconfiguring the state “to make governments operate as facilitators of, and also operate within the context of, market values and market discipline” (1998_[104]). This includes an emphasis on being transparent to global financial institutions, meaning states are required “to prove their credibility, and thus make the power of capital more precise and effective” (1998_[104]). Consistency and predictability of policy are also privileged: governments must make long-term commitments to market-friendly policies.

Some of the most influential oversight institutions are private, for example international debt ratings agencies. These institutions, particularly the three most powerful, play an outsized role in determining a country’s capacity to borrow yet they operate with little transparency, scant accountability and minimal regulation, and they confront major conflicts of interest (Li, 2021_[105]). With many developing countries on the brink of a pandemic-induced sovereign debt crisis, these agencies have an ever-more important role; as argued by UNCTAD, the case for a public ratings agency is compelling (2020_[106]).

The second is the construction of markets and simultaneous strengthening of private property rights. This entails the “imposition of internal and external constitutional controls on public institutions: partly to prevent national interference with the property rights and entry and exit options of holders of mobile capital with regard to particular political jurisdictions” (Gill, 1998_[104]). Last, new constitutionalism requires pre-emptive incorporation of the Polanyian double movement in recognition that societies will push back against the impositions described above and the dislocations that result. This third pillar, he argues, is evident in international advocacy around “targeting real material concessions” to the poorest people and engaging with civil society (particularly NGOs and business associations) to ensure pro-market policies gain credibility with middle classes.

The third aspect of the protocol relates to how it is communicated. Best practice guides and communities of practice produced and maintained by international organisations allow diffusion of the policies of new constitutionalism, but they are far from alone: any of the “new global governors” plugged into international networks are able to communicate the fundamental principles of new constitutionalism. As Peck and Theodore discuss, global networks are able to diffuse new policy ideas with great speed (2015_[107]) through what Brenner, Peck and Theodore describe as “new inter-jurisdictional circuits for the promotion, legitimation, and delivery of neoliberal policy templates, mediated through an increasingly influential cadre of experts and ‘technopols’” (2010_[108]). While contending that these templates can be applied anywhere and at any scale, the authors emphasise that policies do not look the same in all places, acknowledging that they vary according to the specific institutional landscape with which they interact.

At the same time, strategies for locking in this economic model combine to create a global-level discourse or narrative around new constitutionalism that portrays it to be the only rational approach to economic life and demonstrates that there really is no alternative. The policies and institutions – national and international – of the post-war consensus are anathema. As Brenner, Peck and Theodore argue, there has been “a direct inversion of historically entrenched national/global relations. The “global” is no longer seen as a derivative product of nationally steered institutionalizations. Instead, globally constituted forces and interests, institutionalized in the form of various multilateral apparatuses, impose strict market discipline on national states, regardless of their structural position in the world order” (2010_[90]).

The protocol of latter-day globalisation explains how, even in the world’s leading economies and even amid a period of sustained growth, large numbers of people became increasingly dissatisfied with the economy. It also shows how countries in Africa and Latin America were especially vulnerable to the prescriptions of new constitutionalism due to their debt crises of the 1980s and 1990s, which (it was claimed) had demonstrated the folly of national developmentalism and imposed regulatory policies on them as part of structural adjustment programmes. At a more fundamental level, the increasing weakness of the Westphalian system (and the states on which it is based), the exclusion of economic policy from the terrain

of domestic politics and the ideational hegemony of new constitutionalism are severely narrowing the potential for resistance and alternatives, no matter how urgently these are needed. For states, the consequence is sovereignty without autonomy; for voters, it implies freedom without choice. There is no voice, no exit, and loyalty is rapidly diminishing.

This recalls and extends the discussion of the closure of political and policy space in Chapter 4. In a globalised world run according to the precepts of new constitutionalism, the policy space, institutions and individuals to the right of the red line might be thought of as breaking away from those on the left-hand side: a fracture replaces the red line. The most important policies, which are invariably aligned to the wishes of the politically and economically influential, adhere to an internationally approved framework rather than a political settlement reached within a society. The winners in these fractured societies arguably have more in common materially and culturally with the winners from other countries than they do with those within their own society. Of course, the same is true for those on the left-hand side of the line, who increasingly find themselves in solidarity with the disadvantaged in other countries. The globalised world may be borderless, but social frontiers of inequality are ever-more significant in the international arena.

Gill sees the protests in Seattle as exemplifying the most (perhaps the only) viable way out of this stranglehold. In his words, they are a response to the challenge of “how to imagine and to theorise the new forms of collective political identity and agency that might lead to the creation of new, ethical, and democratic political institutions and forms of practice” (2000_[43]). They represent “a movement that goes well beyond the politics of identity and difference: it has gender, race, and class aspects. It is connected to issues of ecological and social reproduction, and of course, to the question of democracy.” Indeed, the strength of these movements might derive in part from their diversity, which reflects the interconnected and systematic nature of the challenges they confront (2000_[43]).

Steger sees in these movements evidence of a “global imaginary” – a growing tendency for individuals around the world to consider themselves less as part of a national community and more as part of a global community (2008_[84]). According to the author, this global imaginary, which is intrinsically linked to globalisation, has evolved from being a largely economic outlook built on market liberalisation in the 1990s to a more socially conscious vision. This articulation fosters not only an awareness of global injustice but also a solidarity among individuals in difficult countries, as demonstrated by the rapid spread of the Black Lives Matter protests.

Steger sees an ideological challenge in the emerging global imaginary as. Portraying the ideologies of the 20th century as inextricable from the nation state (and national imaginaries), he questions their continuing relevance as nation states weaken amid “unprecedented challenges to their authority from both subnational and supranational collectivities” (2008_[84]). This idea of emerging and fading ideologies based on global and national imaginaries, respectively, raises the possibility of what Sassen terms a tipping point – a moment when the logic for conceptualising and organising the national and international changes, as occurred (for instance) with the Bretton Woods system and the post-war consensus (2006_[109]). The dichotomy might also shed light on the complexities of today’s political context.

On the one hand, there might be considerable overlap in the agendas of the globalists and nationalists (narrowly defined here according to Steger’s vision). Both constituencies are likely to agree strongly on the need for greater protection from the vagaries of economic globalisation, including through stronger rights for workers. On the other, they are likely to disagree about which institutions are best suited to address these questions and might argue about issues such as the environment. At a deeper level, their different imaginaries are likely to reflect different values and cultures; they might also have different temporal perspectives – one nostalgic, the other focused on the future. It is unclear to what extent national politics can mediate between these different perspectives; at present, they tend to be cast against each other despite their strong common interests, thereby fracturing an important opposition to market supremacy and a potent coalition for change.

New visions for multilateralism

Rodrik identifies an inescapable trilemma between economic hyperglobalisation, national sovereignty and democracy according to which only two of the three are possible at any one time (2011_[110]). The evidence presented in this chapter suggests that the situation is starker still: hyperglobalisation seems to be incompatible with either democracy or sovereignty in the way these terms were understood 30 years ago. In both cases, this severely undermines humanity's capacity for collective action to address the sources of discontent. This section examines how a multilateralism that is at once empowered and empowering can chart a route out of this impasse based on new institutional configurations, new alliances and new ways of thinking and working.

Rebalancing international power

The global power of the private sector is reflected in the growing reliance upon market-based mechanisms to address global challenges. Efforts to protect the environment are a good example. The United Nations Environment Programme argues that private-sector involvement will be essential if the world is to achieve the fourfold increase in investment in nature-based solutions by 2050 required to meet its climate change, biodiversity and land degradation targets (2021_[111]). It is also hoped that investors will sanction companies that lack a credible strategy for reducing emissions and support those capable of designing the technology needed to remove carbon dioxide from the earth's atmosphere, although Pistor argues neither outcome can be taken for granted (2021_[112]). Batini et al. calculate the large fiscal multipliers generated by adopting green technology in arguing for clean energy and biodiversity conservation to form part of stimulus measures for a post-COVID-19 recovery (2021_[113]). The campaign to protect biodiversity is increasingly putting a price on natural capital to promote its inclusion in national accounts, thereby ensuring it is properly valued (Banerjee, Cicowiez and Vargas, 2020_[114]; Chami et al., 2020_[115]).

This logic was evident in the debt-for-nature swap agreed by the Seychelles in 2017, whereby the government established large marine reserves for climate resilience, fishery management, biodiversity conservation and ecotourism in exchange for official debt worth USD 27 million (Fuller et al., 2018_[116]). Given humanity's urgent need to protect biodiversity globally – and the cost this implies for developing countries – this approach offers a possible basis for debt negotiations with developing countries in the wake of the COVID-19 pandemic (Ainio, 2020_[117]; Steele and Patel, 2020_[118]; UNDP, 2017_[119]).

The private sector also has a key role in helping countries to achieve the SDGs. The OECD recognises the importance of foreign direct investment (FDI) in helping countries to meet the SDGs as well as the potential for FDI to have adverse social or environmental consequences (2019_[120]). It also acknowledges that capital markets can serve as a catalyst for achieving the step change in financing required to achieve the SDGs. The OECD calculates that aligning just 1.1% of total financial assets held by banks, institutional investors and asset managers globally would be enough to fill the financing for sustainable development gap, noting that a significant and growing proportion of these assets is already dedicated to environmental, social and governance objectives (2020_[74]).

Philanthropic organisations are increasingly important in the financing for sustainable development landscape: in 2018, they spent USD 7.8 billion on activities that count as development assistance, equivalent to 5% of total official development assistance recorded by the DAC that year (OECD, 2020_[121]). Foundations are not only acting unilaterally but also, in some cases, are combining with other organisations, such as the Global Alliance for Vaccines and Immunization, established as a public-private partnership by the Bill & Melinda Gates Foundation in 2000.

While operating within the logic of the market, international organisations are nonetheless playing their role in promoting public interests and inclusion. For example, the OECD (2019_[122]) and the IMF (2019_[123]) are leading efforts to promote carbon pricing and energy taxation to ensure that polluters pay an appropriate price for the harm they cause to the environment. This work serves as the basis for an equitable transition

in countries at all income levels, with the OECD specifically recognising the complexities that developing countries confront during the transition to cleaner energy sources (2021_[124]). The OECD also explains how sovereign wealth funds, whose asset portfolio is weighted heavily towards non-renewable natural resources, can become key players in the low-carbon transition (2020_[125]).

The Base Erosion and Profit Shifting (BEPS) initiative of the OECD and G20 operates possesses a different logic vis-à-vis the private sector. It represents a direct challenge to the aggressive tax planning that is a by-product of the liberalisation of global capital flows. For a long time, international tax co-operation focused on ensuring that individuals or entities with economic activities or assets in more than one country were not taxed twice; nowadays, the challenge is to make sure that they are taxed at all. Estimated to cost countries up to USD 240 billion annually in foregone revenue, BEPS disproportionately affects developing countries, which are more reliant on corporate income tax than OECD countries (OECD, 2013_[126]).

At present, over 139 countries and jurisdictions co-operate through the Inclusive Framework on BEPS to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment. As part of this, the framework is working to modernise international tax standards to address the digital economy, where many companies are now able to develop significant market share in a country without the physical presence on which taxing rights traditionally rely. This is a challenge with significant ramifications, affecting many of the largest and most influential firms in the world and seeking to reform the legal framework for an increasing portion of the global economy (OECD, 2020_[127]). The agreement by the Group of Seven nations in June 2021 to support the creation of a global minimum corporate tax rate of at least 15% might turn out to be a watershed for international tax cooperation (Thomas and Lawder, 2021_[128]).

New visions of multilateralism

The OECD's work on BEPS, which goes far beyond the organisation's 38 member countries, is indicative of how Bethlehem sees the role of international organisations evolving (2014_[102]). He draws a distinction between New York and Geneva. In the former, he sees the institutions that represent the old international order – the United Nations General Assembly and Security Council. In them, he sees a system “rooted in states; in sovereignty and equality; in notions of domestic jurisdiction and non-intervention; in boundaries; in majority votes and vetoes; in hard power, soft power, and smart power, but power nonetheless; in geographic blocs, persuasion, and regional influence rooted in the principles of the Westphalian system and engaged in power.”

In Geneva, by which he means the UN specialised agencies and similar institutions based there and elsewhere, he sees organisations that “are at the sharp end of the world of the future – focused on cyber, on food security, on pandemic health scares, on the interconnectedness of the global trade and financial system ... Big Power politics is less frequently in evidence. Cooperation across boundaries, and despite them, is the modus operandi. These two worlds intersect, of course, but their vantage points and visions are very different.”

For Bethlehem, this Geneva must be at the heart of the project to make international law capable of confronting the challenges of today. “If international law is not to become a drag on the international system, it will need to come up with ways that better allow the efficient and effective revision and reform of the law to meet changing circumstances. In some form or other, this is increasingly likely to require a delegation of law-making authority from states to international organizations, with all of the political grit that this is likely to entail” (2014_[102]). However, this cannot occur if international organisations are not perceived as legitimate *ex ante*: they must be “better enabled, more accountable, and less politicized. Issues on the reform agenda range from representation to decision-making to accountability to bureaucratic management and oversight”.

This call for a fundamental rethinking of the institutional architecture of international relations echoes Mitrany, who outlined a functionalist view of the world whereby the role of states was complemented by the involvement of an international network of economic and social institutions (1943^[129]). Mitrany perceived the state as being too strong in certain aspects (warfare and propaganda, for example) and too weak in others (such as social welfare provision) (Rosenboim, 2013^[130]). Only by combining the strengths of the public and private sectors across these activities could a peaceful world and effective international co-operation be achieved.

Meanwhile, Glennie makes the case for global public finance as part of a complete rethink of aid, which entails (*inter alia*) leaving behind the notion that development finance as something that flows from Global North to Global South in favour of a system whereby all countries pay in and every country gets something out (2020^[131]). This is a way not only to achieve the dramatic increase in development financing required to achieve the SDGs but also represents a change in philosophy and power relations at the heart of the aid system. It puts countries on more equal footing and promotes ownership of development projects, which is essential for their success (Mold and Zimmerman, 2008^[132]).

Certain new and emerging technologies are also asking profound questions of societies and the international community, and of regulation in particular. As the OECD points out, the long-term societal and economic implications for populations, health systems, business and society of current developments in artificial intelligence research cannot be predicted with any certainty, even if it is possible to subject this work to rigid classification, performance standards, estimates of economic gains and losses, and export controls (2018^[133]). Similar challenges arise in the field of neurotechnology, where embedded devices and brain-computer interfaces are subject to existing safety and efficacy regimes, but these regimes may not address long-term ethical questions about human agency and privacy. The report underlines the importance of addressing these ethical questions at the same time as focusing on the more market-oriented issues. Policy makers should be actively involved in defining the very visions and missions driving innovation; how this can be elevated to an international level represents a critical question.

Badie argues for a much larger rethink of global institutions. Recognising the diminishing power of states on the one hand and the growing but incoherent and ambiguous social interconnectedness among citizens around the world on the other, he stresses the need for new institutions whereby the two sectors can meet (2020^[38]). To give meaning to these institutions, sovereign states must be prepared to cede some power, which will be difficult in a context where populist forces are demanding stronger states. Although states and social movements are increasingly being pushed to interact, there is no evidence as yet of a formal partnership emerging; political systems are not allowing this to happen, outpaced as they are by the world and incapable as they are of mediating across civil society.

Badie's vision is one of "social multilateralism", whereby states engage with civil society in the most plural and diverse sense of the term on a national and international scale. This moves past multilateralism in the traditional sense, towards (perhaps even beyond) the polyilateralism of Wiseman (2010^[134]), whose importance is increasingly recognised today (Gressani, 2020^[135]). The alternative is a hybrid world, wherein the state retains a superficial role while inter-sociality determines the dynamics, culture and day-to-day running of international relations. If this is the case, the gulf between the two will continue to widen; the diverse and complex forces of inter-sociality will become ever-more unpredictable, and states will be ever-less able to control the consequences. In this context, co-operation on global security – whose weakness has already been exposed by COVID-19 – would become increasingly difficult (Badie, 2020^[38]). Perhaps the best hope is that the cost of global insecurity, and the growing threats to state control they generate, might inspire a change in attitudes – the new logic alluded to by Sassen (2006^[109]).

While the partnerships and institutions envisaged here might seem far away, it is worth remembering that the world is currently bound together by an agreement with these new alliances at its heart. Underpinning the SDGs is a philosophy of universality and inclusion across and within every country, predicated on a decent quality of life in the broadest sense of the term. This can only be achieved through both a massive

increase in the provision of public goods globally and the preservation and production of global public goods. Both elements rely on new partnerships and an active citizenry. As such, the SDGs provide a blueprint for the future beyond 2030. The economic underpinnings of this universalism must be very different from those of the world today; as Bowles and Carlin argue, an explicit ethical foundation is long overdue, despite all the complexities inherent to this project (2021^[136]).

The innovations and institutional reconfigurations described in this section recall the experimentalism of Chapter 4. Confronted by systemic challenges of daunting scale, complexity and unpredictability, global governance arrangements should facilitate adaptability, innovation and knowledge-sharing, as well as alliances between public and private actors. These arrangements should be integrated within a multi-level system of governance that spans the local, national and international scales, reflecting modern-day forms of human sociality (Snower, 2019^[137]). Platforms are needed that hear voices previously excluded from deliberations in multilateral organisations, including those of the social movements that are increasingly speaking for discontent, disaffected and disenfranchised populations.

Problem-solving will not solve our problems

There are more things in heaven and earth, Horatio, than are dreamt of in your philosophy (Shakespeare, 1980 [1603]^[138])

Perhaps the hardest aspect of the challenges humankind confronts is that they require completely new ways of thinking. As discussed in the previous section, ideas are no less important than institutions in establishing and enforcing a particular system. Just because phenomena such as inequality and climate change are obvious does not mean that people possess the mindset, culture, imagination or will to address them. As Marx ambiguously puts it, “[mankind] inevitably sets itself only such tasks as it is able to solve” (1977 [1859]^[139]). Put another way, “the most obvious, important realities are often the ones that are hardest to see and talk about” (Wallace, 2009^[140]).

Cox provides an important point of departure for addressing the challenges of today. He argues against problem solving, which “takes the world as it finds it, with the prevailing social and power relationships and the institutions into which they are organised, as the given framework for action. The general aim of problem-solving is to make these relationships and institutions work smoothly by dealing effectively with particular sources of trouble” (1981^[141]). This approach violates the guidance of Dewey, who recognised that the best solution to the problems of democracy was more democracy – but only if in a different form (1988^[142]). In the same spirit, problems of international co-operation will only be fixed by more co-operation if it looks different from what came before. The futility of trying to fix the international system as it stands is well diagnosed by Hale, Held and Young, who explain the gridlock in international co-operation across a range of critical issues (2013^[143]).

Cox contrasts problem solving with critical theory, which “stands apart from the prevailing order of the world and asks how that order came about” (1981^[141]). Critical theory is ill suited to providing specific policy recommendations and risks being relegated to an academic occupation, but it is better equipped to understand the broad underpinnings of change. Indeed, Cox contends that problem solving is appropriate for times of stability (such as the Cold War), while critical theory is more useful for understanding periods of change and uncertainty. One might add “contexts of structural inequality” to this list: critical thinking is essential for inclusiveness on a national scale, where minority groups exercise little influence on the public discourse, and on an international scale, where developing countries have been dominated and marginalised by institutions that still exercise power today. It is important that even – or perhaps especially – the most powerful groups consider their position in these terms.

As long as knowledge is unequally distributed or reflects structural power, it is inevitably politicised and its usefulness as a common starting point for discussion and compromise is limited. In his work on the profound influence that epistemic communities – what he terms a “knowledge elite” – bring to bear on the

institutions of international co-operation, Haas explains the importance of consensual knowledge in a context where “reality is socially constructed” (1992_[144]). Broadening these communities to encompass a range of realities, especially from developing countries, is the best and only way of bringing countries together in common action and empowering international institutions. Not only does this render international co-operation more legitimate but also, by bringing to bear a wide array of knowledge on highly complex situations, more effective. As this chapter emphasises, it is critical that the voices of developing countries are heard in framing and identifying solutions for global challenges (Box 5.5).

Box 5.5. Can the subaltern speak?

COVID-19 has not only exposed deeply entrenched inequalities, it has revealed the extent to which the so-called global response was primarily designed for and by the Western and rich countries of the world. In this context, post-colonial theory can be useful as a “theoretical endeavour of deconstructing unequal power relations, the inequitable distribution of resources [...], the protectionism and Western systems of knowledge that sustain and maintain power weighted towards the West” (Lunga, 2008_[145]).

With his ground-breaking work *Orientalism*, Said sought to change the focus of the academic world from the dominant, mainstream Western narrative to the intercultural discourse(s) of the non-Western “Other” (1978_[146]). In the same vein, Spivak, also a leading post-colonial theorist, later asked, “Can the subaltern speak?”, arguing that the subaltern (often a gendered female) cannot simply be made visible or be lent a voice (Morris and Spivak, 2010_[147]). Nor can Western theorists access the subaltern’s voice directly.

Furthermore, the subaltern faces institutional and structural barriers that prevent her voice from being heard and exclude her from spaces of governance and institutions. The subaltern must have access to these institutions and to the tools that can enable her to govern, but in turn the mainstream, Western stakeholders must “learn to learn” from the subaltern other, unlearning their own intellectual prejudices in the encounter with the other (Spivak, 2012_[148]).

Therefore, if problem solving will not solve our problems and new ways of thinking will, using a post-colonial lens and “learning to learn” may offer some useful insights. As Scause et al. argue, exploring the subaltern’s experiences of marginalisation may offer alternative imaginaries or ways of doing, starting, for instance, with alternative forms of democracies (2020_[149]). More specifically, “indigenous democratic practices demonstrate democracy’s capacity for resignification and suggest that the violent history of its globalisation does not exhaust its potentialities” (Quijano, 2000_[150]). Learning from examples of indigenous democracy offers “non-Western ways of knowing and being in the world” that can help us move away from liberalism as the ideological framework for democracy and beyond state-centric understandings of politics towards “heterogeneous forms of dialogue and solidarity between different ways of knowing and being”.

Dominant narratives, stories and assumptions determine reality, and power lies with those who control these stories. Rather than seeking to come up with an alternative universal blueprint for democracy, post-colonial theory and experiences can help experiment with and enact multiple and heterogeneous forms of democratic practices (Mignolo, 2011_[151]).

Whatever proposals emerge from the many ongoing discussions about how to confront global challenges, Hirschmann explains that they will inevitably confront resistance (1991_[152]). People with an interest in (or culture of) preserving the status quo are prone to oppose any reform proposal on the grounds that it will have unintended consequences, it is futile or that it will jeopardise gains already achieved. By the same stroke, he recognises that progressive rhetoric is equally likely to employ devices that are inimical to compromise. These arguments are often merely the opposite of conservative positions: oftentimes, saying “something must be done” is no more intellectually robust than saying “there is nothing we can do”.

Unger views this intellectual deadlock as testament to a lack of imagination. In arguing for the need to focus on the “adjacent possible” he states,

[if] I propose something distant, you may say: interesting, but Utopian. If I propose something close, you may answer: feasible but trivial. In contemporary efforts to think and talk programmatically, all proposals are made to seem either Utopian or trivial. We have lost confidence in our ability to imagine structural change in society, and fall back upon a surrogate standard: a proposal is realistic if it approaches what already exists. It is easy to be a realist if you accept everything. (1998_[153])

For Unger, there is nothing inevitable about the challenges we face, no natural laws predetermining our fate or prescribing the traps, paradoxes and dilemmas (or trilemmas) we encounter: “[the] organisation of society is made and imagined rather than just naturally there”. He sees the principal role of social sciences as being to understand how these can be changed without the need for a crisis to force structural change.

Unger’s perspective is a reminder that discontent is as much about the future as it is the present (OECD, 2021_[154]). Individuals need to imagine a better world in the times ahead. The socially constructed realities of Haas need to channel the imaginaries that societies create, both as a means of alleviating discontent and of fostering a shared vision that can bind communities (Anderson, 1991_[155]). For Castoriadis, meanwhile, the role of the imagination is more fundamental still, not least as a means of imposing human dominion over market forces (1987_[156]); the imagination is the unifying force behind societies’ continual emergence.

Inseparable from this project are the stories and narratives by which citizens and societies make sense of their lives and understand each other. Hirsch and Lopes, for example, explain how “Africa is frequently framed in a narrative that reduces or minimises its significance and achievements”, and that the emergence of more effective development strategies will rely on “a fairer historical and geographic perspective” (2020_[157]).

Conclusion

As this chapter explains, discontent is a global phenomenon. Many of the factors behind discontent are global; so too are the protests they inspire. Just as these factors are systemic, so protesters are increasingly directing their ire at the systems that govern daily life. The chapter also demonstrates the erosion of humanity’s capacity for collective action, without which it is impossible to confront the existential threats of the 21st century, principal among them the climate crisis.

It will take more than discontent to overcome the challenges humanity faces. New economic and political models, new ways of organising society (local, national and global) are needed; so too is a fundamental change in mankind’s relationship with the natural environment. None of this will be possible without new ideas and new institutions to foster co-operation world wide. However, discontent – and the collective articulations thereof – has the capacity to make the world aware of the scale of the crises we face and to mobilise a commensurate response. The voices of the discontented must be heard, one way or another.

Viewed in this way, within the discontent of today is a force that has the capacity to generate a better future; it is to be heard and harnessed rather than extinguished. Recalling the importance of experimentalism, it is perhaps apt to conclude with the words of Thomas Edison, who contended that “discontent is the first necessity of progress” (1948_[158]).

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Perspectives on Global Development 2021

FROM PROTEST TO PROGRESS?

Since its first edition in 2010, the OECD Development Centre's *Perspectives on Global Development* report has tracked development trends and policy priorities in developing countries. This new report examines the phenomenon of discontent. Between the global financial crisis and the COVID-19 pandemic, discontent surged around the world. It was especially evident in middle-income countries and was often most acute amongst the middle classes that have emerged in developing countries over recent decades. The report explores the economic, political and sociological drivers of discontent and argues that building back better from the COVID-19 pandemic in developing countries will require approaches that simultaneously improve citizens' well-being, promote productive transformation and strengthen social cohesion. The report concludes by examining the international dimension of discontent and demonstrates how weaknesses and imbalances in the present multilateral system are eroding humankind's capacity for collective action in the face of global threats, notably the climate crisis. The rise in discontent has exposed failings in prevailing economic, social and political models at all levels: addressing discontent means fixing these systems, and doing so in an inclusive and sustainable manner.



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