

# Progressive Governance for the 21<sup>st</sup> Century

**Berlin summit on 2–3 June 2000**

**The Swedish expert  
group's recommendations  
and documentation for the summit  
in Berlin on 2–3 June 2000**



REGERINGSKANSLIET

Statsrådsberedningen

## Foreword by Prime Minister Göran Persson

Combined wealth has never been greater. Rapid scientific advances are being made in medicine and technology. Social liberation is becoming reality for entire populations, and for women in particular. And, most important of all, political freedom and democratic accountability are becoming the norm. *topologia*

We find ourselves today at a historic juncture where global progress is a real possibility.

But there are threats to our ability to take common responsibility. In many mature democracies, democracy itself is questioned.

Too many do not bother to vote and too many reject political participation. Social rifts and unemployment are sowing the seeds of distrust. The dark forces of racism and antisemitism are harvesting support. Some blame unfettered globalisation and have come to hail insular nationalism.

We have to choose ways to make use of the possibilities that exist and we have to make globalisation serve people better. The future is not decreed by fate. It is people in co-operation who shape it. The choice is ours.

The political right claims that we have to choose between justice and growth, between equality and development, when preparing our economies and societies for the future. But nations that put the tools of development in the hands of all the people succeed in making sustainable progress. A well-educated population, a fair distribution of income, a social support system that encourages enterprise and mobility – these are the keys to success in the new economy.

### **Equality is no break on development**

Today, an increasing number of progressive governments all over the globe share the view that development and equality go hand in hand.

It is people that feel secure who dare to try the new, to grip new chances and to use their creativity and curiosity. Everyone must play a part if society is to hold together and move forward. Development will be stronger when everyone is part of it, and no one is left out.

Awareness of this is now spreading. Progressive leaders from all corners of the world are now shaping new networks for cooperation.

On the 2–3 June 2000, the summit “Progressive Governance for the 21<sup>st</sup> Century” was held in Berlin. Heads of state and government from five continents participated along with some ten experts from each country.

The task of/before the experts were to provide the political leaders with recommendations and documentation on a global strategy to promote the new economy, solve the problem of unemployment and encourage democracy, justice and security.

This report contains the collected work of the Swedish expert group. Each expert/author is contributing in a personal capacity in the sense that the Swedish government have not taken any stand in relation to the ideas presented.

I hope that it will stimulate to a broad discussion on democracy, equality and development. It will surely be of great interest to every one interested in how to shape a better future for all.

Göran Persson  
Prime Minister

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# Civil society and the role of politics

### **Maria Arnholm**

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## The call for democratising democracy

During the last decades, democracy has swept the world. In countries all over the globe democratic powers have overthrown totalitarian systems. Certainly we still see non-democratic nations but, overall, it could be said that democracy has won, proven itself to be the “best” system.

On the other hand, in the old – or mature – democracies there is growing discontent with democratic processes. The level of trust in politicians is decreasing and so are the numbers of people practising their right to vote. Young people, especially, say that they are uninterested in party and parliamentary politics. In Sweden, where enrolment in political parties has traditionally been extensive, the political parties are losing members rapidly.

The Director of the London School of Economics, Anthony Giddens, has called this the paradox of democracy. It is a challenge for the leadership of the mature democracies to dissolve this paradox, to contribute in different ways to the development and revitalisation of the democratic processes.

The disillusionment with parliamentary politics we see in many western countries is not a matter of indifference. On the contrary, people are more interested in politics than they used to be. It seems to be the actual processes and the structures of today’s system that makes people turn their back on party politics.

A lot of citizens are capable of and willing to contribute to democratic processes but they do not want to work within the old system. Many prefer for instance to involve themselves in single-issue groups. The reasons are many. Some examples:

- the political system is slow compared to the pace of life in a society characterised by globalisation and information technology;
- the system is hierarchic and seldom promotes qualities that are important today: fantasy, creativity, curiosity and originality;
- many political issues cannot be handled by national politics;
- many political issues that could be handled at local level by the people who are affected are today dealt with by national politics.

It is of the utmost importance to broaden the democratic process, in the words of Anthony Giddens to “democratise democracy”. This is not a question that is “solved” by the political leaders. But they are the only ones who can open up the old system. They must be willing to let in new people and new ideas. They must have the courage to say goodbye to things as they used to be:

- more international as well as transnational politics to deal with global issues
- less party orthodoxy and more innovation when it comes to solutions
- let information technology and the new economy enter the public sector
- offer greater transparency in political affairs
- experiment with alternative democratic procedures: electronic referenda, people’s juries, elected boards for schools, etc

### **Morgan Johansson**

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Chairman of the National Council for Crime Prevention (BRÅ).

## Transparency and public access to information – key words in progressive governance

### **The basics of the modern welfare state**

One of the most important issues for progressive governments around the world is to reform public administration and bureaucracy. The administration must be an administration for the people and with the trust of the people. We have to open up government and institutions to public insight and control.

Yes, this is about transparency and openness in institutions and agencies, but this time from another angle than the usual one. The perspective is how to build and uphold a welfare state in the long term.

The main theme for the discussion on the Berlin meeting is: how do we build strong societies upon our values of solidarity, social justice and equal opportunities for all? The modern welfare state has been, and still is, the answer to that question. The modern welfare state is not a state without demands. On the contrary. The modern welfare state is a demanding state – it says to its citizens that they have certain political and social rights, but they also have certain political and social responsibilities.

There are three cornerstones to the modern welfare state and two conditions for its maintenance.

Firstly, a welfare state has a system for sharing the costs for basic needs among all citizens. That means publicly financed education, health care, care of the elderly and childcare – free of charge or at a low cost.

Secondly, there is a system for sharing the costs for health problems or unemployment among all citizens. That means publicly financed social security systems.

Thirdly, there is a system for sharing the costs for bringing up children among all citizens. This could be, for instance, publicly financed family allowances, subsidised childcare with low fees and paid parental leave.

These are the three basic parts of the modern welfare state. But there are also two conditions. Firstly, it requires taxes. Progressive governments with high ambitions in social issues will never be able to compete with the conservatives in cutting taxes. This is simply because the conservatives want the costs for education, health care, social security and bringing up children to be financed by the individual, and not by taxes. Hence, relatively high taxes are one of the conditions for the welfare state.

Secondly, it requires low unemployment. Mass unemployment leads to budget deficit, and the eventual breakdown of welfare systems. Sweden was on the verge of that five years ago.

### **Transparency and public access – key words for progressive governance**

So, what has this to do with transparency? Well, transparency and public access to information is the third condition for the political sustainability of the welfare state in the long run.

The reasons are simple. The welfare state requires a large public sector – schools, universities, care of the elderly, social security systems, pension systems, etc. The welfare state also requires high taxes.

And the key word of building and upholding a welfare state is trust. If people are to continue to accept paying taxes, they have to feel that they are getting something for their money, and they also have to trust the politicians to use the tax money in an efficient way.

One key factor in building up confidence is to have a society where there are widespread opportunities to control power, and for people to see with their own eyes how the system works. If I can control and see for myself what happens with my tax money, or when I know that journalists can do it for me, then I can trust the political system. When I know that if there were any kind of government corruption at local

or national level it would be impossible to hide it, then I can trust democracy.

But when I as a citizen feel there are a lot of things going on in the dark, if I hear people in my neighbourhood telling me the support of bureaucrats or politicians can be bought, and when I hear of secrecy and concealment in government, then I lose trust not only in the bureaucrats and politicians, but also in the welfare state model.

Sweden built the welfare state during the decades after the war. Sweden has a large public sector and high taxes. But the political pressure today is not to cut taxes. It is rather the opposite. People say "If you have to raise taxes to provide better health care – then do it!" That is the political climate. What is interesting is that even if the trust in the politicians might be very low, the trust in the welfare state systems is very high. How can that be?

#### **Public access to official documents in Sweden**

One of the reasons for the special political climate in Sweden has to do with the constitutional principle of public access to official documents. It was expressed for the first time in the 1766 Freedom of the Press Act. The present Freedom of the Press Act is now one of the constitutional laws. The right of access to documents gives every person – Swedish citizen as well as alien – the right to study documents held by public authorities.

The scope of this right is very wide. It means that almost every document that is produced in a public institution, or is sent from or to it, is considered public. For instance, almost every letter the Prime Minister receives is public. The former chairman of the European Commission Jacques Santer learnt this a couple of years ago when he sent a letter to Prime Minister Göran Persson criticising the Swedish Parliament. The day after the Prime Minister received the letter, it could be read in its entirety in the Swedish newspapers.

Or another example. Every student in Sweden can walk in to the school principal's office and demand to see the principal's post for the day. That is a constitutional right.

Every document held by the authorities is public – this is the basic rule. But there are, of course, some restrictions. Firstly, drafts on decisions or memoranda are not public if they have not been sent out from the authority.

Secondly, a document can be declared secret if it contains certain sensitive information. But there are specific conditions governing when an institution can make a document secret. The rules are set out in the Secrecy Act and they are very strict and detailed.

Documents or parts of documents can be secret in order to protect the security of the state, Sweden's relations with a foreign state, business secrets and the personal integrity of individuals. Documents revealing Sweden's defence strategy, for instance, or individuals' medical journals are, of course, secret.

Another part of the legislation in this area states that it is forbidden for an institution to try and discover a journalist's sources. It is also forbidden for a journalist to reveal his sources, except in very special circumstances.

This can, of course, be very annoying for politicians. Almost every year, for instance, the details in the government's Budget Bill leak out the week before it is due to be presented. But there is no way in which government officials can trace the leaks. They just have to accept the situation.

This does, of course, lead to problems for the politicians. In the long run, however, this openness and transparency is positive. It provides the political system with a basic confidence among the people. People know that the use of their tax money can be constantly scrutinised by themselves or by journalists.

But it does more than that. It helps Sweden to fight corruption. Sweden has fewer problems with corrupt bureaucrats and politicians than many other countries and very few people would even think of trying to bribe a civil servant. And all civil servants are aware that files and documents are accessible to everybody, which reduces the risk of arbitrary action.

Access to information is one of the cornerstones of the democratic political system. People's confidence in the political system is the first

step towards mobilising responsible citizens in politics. We can never develop an active democracy, where civil society works side by side with political institutions towards common goals if we do not first have people's trust in the political system.

### **Prodi's Transparency Act is not enough**

In Europe, the issues concerning transparency and access to information came up on the agenda a couple of years ago. The Amsterdam Treaty of 1999 stated that a citizen of the European Union should have access to documents held by the European Commission, the European Parliament and the European Council. The Commission started to work out the rules and principles for access and "Transparency!" became a word very often used by the new Commission as a way of restoring public confidence in the European Union after the scandals which caused the Santer commission to resign.

In February 2000, Romano Prodi, chairman of the European Commission, presented a proposal for rules on access to EU institution documents. The Transparency Act is now being discussed in the European Parliament and in the Council and, according to the timetable, the Act should be passed in spring 2001.

There is, of course, much good in Mr Prodi's suggestions. The Commission says that the basic principle is that every citizen should have as much access and insight as possible into what happens in European institutions. That is good. But then the Commission states a number of exceptions, many of them very broad and unspecific.

For instance, a document can be secret if it could harm the efficiency of the institutions were it to be made public. Another basis for classifying documents is to maintain "the stability of the Community's legal order". The grounds for making a document secret are so many and so unspecific that they could be used to classify almost anything!

So, in short, Mr Prodi gives transparency and access to information with one hand, and then takes it back again with the other. The exceptions are totally undermining the rights of the citizens and the media to see what the European institutions are doing. This has been noticed not only by some of the member states, of course. The Ombudsman of

the European Union, Mr Jakob Söderman, has severely criticised Mr Prodi's Transparency Act.

The Transparency Act could be a success but it must first be changed in several respects. Maybe the process in the Parliament and the Council could result in such changes.

### **Finally**

Society must build upon values of solidarity, social justice and equal opportunities. The welfare state model is one of the answers. And the welfare state requires a large public sector and taxes.

Therefore, it is extremely important to earn and maintain people's trust. That means that we have to wipe out corruption and make it impossible to get away with. This calls for worldwide reforms for openness and transparency in government and public administration.

**Kristina Rennerstedt**

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## A sustainable social policy is indispensable for any progressive government

Civil society and the role of politics. The subject can be addressed from many different angles. One perspective could be the interaction between the public sector and the civil society. And from that perspective, it is evident that the starting point must be the discussion on how the secure and equal society with its developed social policy can be protected and enhanced. For me it is obvious that this is a subject we must approach in an offensive way, not least in the light of the sometimes brutal privatisation of welfare and health bodies that we have seen at close range.

A developed system for social policy and improving equal opportunities for all citizens has in our part of the world been instrumental in the development and safeguarding of a humane and modern democracy. Not only in that it guarantees socially secure citizens in the distributive sense, but more so since it requires a commitment from citizens, non-governmental organisations, political parties, and other civic institutions. Without that commitment, the system is reduced to a distributive function. The balance is delicate, since successful governance with ensuing human well-being might reduce the most tangible reasons for civic commitment, i.e. poverty, segregation, etc. However, the balance is crucial.

Let me take a parallel example from the European Union. As everyone knows, the establishment of the internal market facilitates trade and economic activity among the member states, and many will see it as nothing more than that: a commercial system. It does not make any deeper sense until you add the reasons for establishing this market

and the level of commitment this entails from the member states; I am referring to fundamental ambitions such as reducing inequalities and abolishing differences that in previous times led to conflict and war.

Another example can be drawn from the field of crime fighting, a fight that ultimately aims at defending the welfare society and its delicate balance as such. This involves the legal system, but we all know that this alone cannot fight a winning battle. The civic commitment must be there. Many citizens today perceive the fighting of crime as the exclusive domain of the state and its law enforcement agencies, a service for which taxes are paid. They fail to realise that to protect against crime and to prevent crime from occurring is a civic duty for us all. The police cannot and should not be alone in this struggle, which is an experience clearly drawn from periods when resources have been increased for law enforcement, while the effectiveness of crime fighting still deteriorated.

### **Involvement of civil society and mobilisation of citizens is also indispensable**

You can never solve problems solely by increasing the funds available. Paying problems to go away has never been a successful method. This holds true for social inadequacies in relation to the welfare state, just as it does for crime in relation to crime fighting. Some years ago we discovered that citizens did not feel that they had anything to contribute in this struggle, and that they regarded the responsibility for preventing crime as somebody else's business. For this reason we worked hard to bring back civic responsibility to citizens, to the level in society from where the problems emanated and where they subsequently could be solved, mobilising all the resources that could contribute to the fight against crime.

We have indeed succeeded in raising interest among citizens to participate in this process. Politicians, non-governmental organisations, teachers, social workers, neighbours etc. – all categories appeared just to have been waiting to be invited, which is an important experience. There is a great resource in all citizens who wish to contribute in the construction of the good society, and our duty as politicians is to mobilise that resource.

### **The citizens' perspective must be recognised**

This process – the process of empowerment – also demonstrated a general need for a citizens' perspective in the legal system, a need for an agreement and a consciousness that the rule of law and the effectiveness of the legal system is there to serve the citizens – not as a tool for imposing rules by the state and its officials. This consciousness has led to an increased awareness of the importance of swift procedures, high levels of service, to mention a couple of examples.

A public service that is a carrier of this philosophy – a true public service philosophy – enhances the conditions for civic commitment, vitalises the administration in its service of the citizens, and counteracts the alienation to which the purely distributive approach reduces the good state and the good citizen.

### **There is a need for constant defence of good governance**

In summing up, let me state that a functioning social policy is sometimes the victim of its own success, as it can erode the motivation for civic commitment. Our experiences show that, regardless of funds, you cannot be successful in reaching your aims if you do not have the civic society actively involved. Our task as politicians is therefore to find the forms for encouraging and inviting the participation of civic society in keeping and developing a progressive public sector that acts with a citizens' perspective. This is what I see as one of the most important tasks for us today.

### **The gender perspective must be recognised by any progressive government**

Being present at the conference I felt an urgent need to address the subject also from another perspective, namely the gender perspective. Noticing that none of the rapporteurs even touched this issue, I looked through the list of participants. There were almost 150 men and about 25 women present. I do not know what the discussions would have been like had the composition of the panels been more equal, but I am sure they would have been different. What I do know for sure is that good progressive governance requires participation from both women and men. All the participants probably share this conviction. And I am

also convinced that nobody would argue the fact that there is still a lot to be done in this sphere.

But the composition of the experts present illustrates that, well known and undisputed as it is, the gender perspective and the issue of equality between women and men must be highlighted over and over again. That is why I proposed that we should advise the heads of state to give priority to the gender issue when discussing progressive governance in the next century.

### **Conclusions**

It is an important manifestation in favour of good society, when so many heads of state meet and unite in giving support to the development of the welfare state, to human rights and to a citizens' perspective in society. It is a strong and important signal, a signal of optimism, and a signal that there is – and must also be in the future – an instrumental role for politics in a world more and more characterised by economism, in short for good governance and for good society.

Industrial countries  
and emerging markets  
facing the challenges  
of new economy and  
digital revolution

**Christer Sturmark**

Internet entrepreneur, founder of Cell/Cell Ventures, writer, member of the boards of Fame Studios, NordNet, Roaming Factory and Municel.

## The information society and the new economy

### Business

The new economy is driven by entrepreneurs, given the opportunity to realize their ideas in a dynamic climate outside the established structures, and fuelled by venture capital. It is important to assure the vitality of this system in order to complete the transition to the new economy, not only in Europe and in the U.S. but all over the world.

The Internet brings about convergence, and convergence demands deregulation. The Internet also increases transparency in the market. The more transparent the market gets, the less regulation is needed. Regulation is bad for developing industries, such as the evolving ones in the new economy. Once developed, the industries become subject to some kind of regulation. However, the IT and Internet industries present themselves as being under constant development. The global policy for such an environment needs to be discussed.

Karl Marx was right. The labor force is now in control of the production means, i.e. the human capital, the brainpower. The political system as well as the business climate must adapt to that, for instance through appropriate taxation systems and motivating incentives.

"All business is local", the saying goes, but competition in the new economy is global. So is the market. Therefore the business rules need not only to be common around the world, but also aimed at stimulating digital business.

### Education

The new economy requires more skilled people to continue its evolution. All over the world there is a significant lack of brainpower threatening the growth of the new economy. This is leading to a global race for human capital, making companies and countries trying the beat one another in offering the best conditions. A new cold war is about to begin – the battle of brains.

It is no longer possible to rely on old skills. One must be able to learn new things, re-learn some things, and unlearn other things all the time. Lifelong learning is crucial, and it needs to be in the minds of all people and supported throughout society.

The way we teach and prepare our children for the new economy is exactly the same way we taught and prepared them for the old economy. A revolution of the curriculum is necessary.

If we want to make the world more egalitarian, the industrialized world needs to invest heavily in education in the developing countries.

The leading countries of the new economy should cooperate in order to have IT and Internet spread all over the world as a means of improving education and democracy. In conjunction, a global education program for the developing countries should be rolled out.

### Culture

The Internet breaks boundaries and borders, and the new economy is global. When these phenomena affect people, the world becomes smaller. For the first time in history, distance is not an obstacle for people meeting and exchanging thoughts and ideas, paving the way for better understanding of one another regardless of race or sex. It is important to support and enhance the intercultural exchange that the Internet is offering. This is even more important as a means of fair trade between the industrialized countries and the developing countries.

The organizational hierarchy that was a result of a society without the options of communications that the new economy is offering ought to be replaced by a flat organizational approach. An environment that tolerates communication and discussion vertically between peo-

ple is an environment where everyone is respected regardless of formal degrees or titles. In a world where knowledge and creative skills are highly sought after, we must encourage everyone to exert their influence and take part in the activities with which they are occupied.

Why is it that men are always favored before women? Females are still very much regarded as the weaker sex. In a world where human capital is the rarest resource, we cannot afford to continue acting in this way. It is a well-known fact that heterogeneous groups are getting much further ahead of homogeneous groups. It is now time to really emphasize that future prosperity is dependent on our ability to take advantage of the entire human race, consisting of both men and women.

Although the Internet and the new economy are very much influenced by American society and the English language, it is important to recognize that improved communications are opening a window to learning about remote cultures. We should not only support minorities in interacting in order to help one another preserve our cultures, but also to use the Internet actively in order to spread knowledge about the various cultures around the globe. The Internet and the new economy should not be a tool for putting the world to rights.

### **Democracy**

For the first time in history we have been provided with a single tool for letting everyone influence the evolution of mankind. The idea of a world government might be obsolete, and even frightening. But still, the best way of avoiding wars is to interconnect and to encourage people to get to know one another. Since the new economy is the global economy, the Internet should be used for letting people react to global policies.

Dictatorship is still very much present in the world. What would the world have looked like if the people of the Soviet Union had had the Internet with which to communicate with the surrounding world? The Dalai Lama told me that the Internet holds the greatest promise for the Tibetan people because, over the Internet, young Chinese people learn about the outside world's view of the Chinese occupation of

Tibet, providing them with a perspective different from the one they encounter from the Chinese government.

Isolation and propaganda are very effective if the aim is to make people hostile to foreigners. In a world that becomes linked into a single web, transparency is essential. Free trade is very important, but it is also important not to make decisions in secluded rooms, away from public insight. Processes need to be open, and stand thorough examination.

Illiteracy is creating gaps in society. In the new economy, IT-illiteracy must be fought. It is a democratic right, as well as a means of maintaining and enforcing democracy, to have access to the Internet and the ability to use the powerful tools of IT.

The world is going through another paradigm shift as we enter the information society. With paradigm shifts, the balance of power changes. New power centers replace old ones. Old relations between center and periphery can no longer be taken for granted. This is valid on both the macro and the micro levels. The digital society offers new ways of being part of the new structures of power for those who have never before had the opportunity to influence decision-making locally or globally.

So far the development of Internet has had very little focus on utilizing the power of Internet to serve and to strengthen democracy. Not very many innovative ideas have been elaborated in order to increase democracy and people's interest in participating in the public debate. Not very many innovative ideas have been elaborated with to increase democracy and people's interest in participating in the public debate.

**Susanne Ackum-Agell**

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## Will new technology and trade reduce the demand for low-skilled workers?

One important issue in the new economy is whether the trend towards greater wage inequality that has been observed in recent years will continue in the future. Two common explanations for this phenomenon are increased competition from low-wage countries (there is, however, no consensus among economists about the importance of this argument) and skill-biased technological change. As firms in developed countries move repetitive assembly-line activities to developing countries, the demand for unskilled labour will decrease. This within-industry effect is quite similar to what happens when firms replace unskilled labour with computerised production processes. Outsourcing will probably continue rapidly in the future, spurred on by improved communications and transportation technology.

A not uncommon policy response to this scenario is to advocate protective trade policy and perhaps limitations to the introduction of new technology (cf. the Luddites). However, the gains from globalisation and the introduction of new technology are probably of such magnitude that they will allow the winners to compensate the losers. The long-term remedy is of course to make sure that everybody has access to education and training. In the short term, it is probably worthwhile to introduce wage subsidies directed at the lowest paid workers. The results from Swedish studies of active labour market programmes support the idea that wage subsidies directed towards marginalised workers improve their position in the labour market.

## Is there a role for labour market regulations in the new economy?

What impact will globalisation and technical change have on the labour market? In the public and academic debate, most arguments support the idea that it will lead to a deregulation of the labour market. A deregulated labour market (e.g. no minimum wage, poor benefits, weak unions and a minimum of labour market legislation) is regarded as the only way to avoid mass unemployment when economies are opened up for trade and are undergoing rapid technological change. In search of best practices in Europe, much focus has been on the "employment miracles" that have taken place in economies that have a deregulated labour market.

However, a growing body of economic research<sup>1</sup> shows that a deregulated labour market may not be the only likely scenario. Looking at data, there seems to be a positive relationship between the openness of an economy and the generosity of a variety of social welfare benefits and labour market characteristics. One explanation for the positive correlation between social protection and openness to trade is that more government intervention and social insurance is asked for when countries act under more volatile conditions. Thus, it is not unlikely that the European constituents' desire for protection from economic volatility will remain, due to further globalisation and rapid introduction of new technology. And countries will probably be able to maintain distinct labour market regulations (if there is imperfect mobility of capital, labour, goods and services) if they are willing to bear the costs of those regulations. (One should bear in mind that the incidence of many social protections already falls on the workers.) How high these costs will be is of course important to monitor.

Here it will be of great interest to study the development of the Swedish economy. So, why is the Swedish economy working, despite its regulated<sup>2</sup> labour market and its large public sector? Perhaps, in line with the discussion above, both the stick and the carrot work when it comes to labour market regulations. A compressed wage structure, a generous social security system, active labour market policy, strong unions and minimum wages, can all be regarded as an insurance that increases people's willingness to take risks and thus become more flexible.

1. See, for example: Agell J (1999) "On the benefits from rigid labor markets: norms, market failures and social insurance". *Economic Journal*, 109. Krueger A (2000) "From Bismarck to Maastricht: the march to European Union and labor compact". *Labour Economics*, 7. Rodrik (1997) "Has globalisation gone too far?" Institute for International Economics, Washington DC.

2. The Swedish economy is, by international standards, highly regulated and with a constituency in favour of a large public sector. However, one should bear in mind, when studying the Swedish economy in the 21st century, that during the 1980's and 1990's several reforms have taken place. For example, a major tax reform; the introduction of tight monetary and fiscal policy; deregulation of several goods, services (e.g. transportation, telecommunication and job brokerage) and the credit market. There has also been some changes in the labour market (e.g. there is now a variety of temporary employment contracts available, private recruitment firms are allowed and unemployment benefits have been lowered) and cuts have been made in the social security system.

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## Looking Ahead – The Challenges of Good Times

From an economist's point of view, the issue of the new economy boils down to long-term productivity. What is obvious from historical data is that productivity does shift over time. Even long-term productivity seems to be prone to some kind of cyclic behaviour. So the question is really: where do we stand now? Another set of questions that can be asked relates to the context of this conference – do politics matter for changes in long-term productivity? And do long-term shifts in productivity matter for politics?

We may assume, well aware of Robert Solow's statement that computers show up everywhere except in productivity statistics, that the United States – and maybe also Sweden – is entering a period of historically high productivity. This seems plausible since the so-called Solow residual has risen during the past couple of years in the United States, which would imply a technology shift. Productivity growth has also been impressive since the mid-1990s. This is of course exceptional, considering that the United States ought to be at the end of a long and intensive business cycle, where productivity should normally be declining.

This assumed shift in productivity growth is usually attributed to three factors.

- Globalisation, mainly meaning increased international specialisation through trade and deregulated markets.
- New macro-economic settings; mainly consisting of independent monetary policies and very low, stable inflation rates.
- New technology; meaning a shift in technology, mainly ICT, which leads to more efficient production and consumption patterns.

The length of this paper hinders a more detailed description of these phenomena, but what is clear is that the first two factors are closely related to political decision-making. Thus, of course, politics affects productivity, but the question becomes more interesting when it is reversed. How do shifts in productivity affect politics? If we are about to face good times, what will people demand of their politicians?

If we look back to the end of World War II, we note that from 1945 to 1970, productivity in the United States grew by almost 3 per cent. These were the golden years for many economies, including that of Sweden. Strong public finances could also meet increased demands for welfare and solidarity. In the 1970s, productivity growth slowed down. The nominal income development of western households could no longer continue at the same pace without creating increased inflation, which reduced any real income development achieved.

It is, of course, possible to discuss the issue of whether political decisions were the cause of the decreased productivity growth, or whether a politically exogenous technological cycle was in progress. There is quite a strong argument for the technology-driven productivity theory. There is also an increased discussion in the field of growth theory on the S-curve of enabling technologies (technological paradigm shifts). The S-curve theory may provide an explanation for Solow's criticism of the new economy. It would also be consistent with today's heated debate on the importance of entrepreneurs. The incidence of entrepreneurs should increase during the shift itself when there is a dramatic rise in profitable new business opportunities.

But without taking a stand on this issue, there was an opening for new ideas when Keynes' theories lost credibility and the public choice theory discredited the political system for being rent seeking and vote maximising, thereby closing the door to the solution to all market failures, the state. The idea was that the market may have been in the process of failing, but that citizens were far better off with a failing market than with a failing government.

The drop in productivity growth, however it was caused, spurred voters to accept new solutions to give them back what they had lost, job security and real income development. The remedy was to deregulate

late all markets and to give people back their economic incentives to work, by cutting social benefits. Logically the reaction to the emphasis on state responsibility and solidarity of the 1950s and 1960s became, from the end of the 1970s to the mid-1990s, an emphasis on market competition and social Darwinism.

In the background paper for this meeting, the first issue for our working group was:

– The new economy and fundamental values (shareholder value, the dominance of financial markets, the autonomy of the individual, etc).

I would argue that this is a description of the old economy that grew strong after the golden years and today stands at its peak.

The reaction when the golden years went bad was to negate the former model – state responsibility and solidarity. However, reactions when society moves from bad to good are probably more evolutionary and will tend to incorporate new values rather than negate old ones, the so-called third way. The values of the new economy will emerge from a situation in which productivity is moving forward to the levels of the first twenty-five years after the Second World War.

Policies in the first part of the 21st century will be, as they always have been, formed by:

- economic development; unemployment, economic growth, income distribution, etc.
- perceived threats to society; social cohesion, unemployment, low nativity, unequal distribution of opportunities, etc.
- changes in everyday life; changes in the pattern of interaction between citizens-society, citizen-citizen, consumer-market, market-market, employers-employees, etc.

All of these will be affected by developments in the ICT-sector.

If we assume a new economy, this will be similar to that which existed during the golden years: high growth, low inflation, strong real income development, low unemployment, a more equal income distribution and strong public finances. The big issues for future politics, therefore, will not be economic growth, unemployment and public finances. In a prospering society it is not survival that sets the agenda, but the quality of life.

The main threat to this situation in most OECD countries is low nativity and thus an increasing ratio of elderly people compared to those in the labour force. In the future, it will become more and more difficult to finance public expenditure if nothing is done about the population/labour force ratio. The situation of women and families with small children will therefore be in focus. The labour market must function in a manner that makes it possible to combine a job with a family. It is not difficult to foresee more generous family benefits and greater pressure on employers to accept the rights of their employees to a private life.

The second threat is an unequal distribution of de facto opportunities, especially as regards education. There will be a high cost for any society which excludes a group or groups from participating in the new ways of interaction within that society. There will be threshold values of knowledge, even though they may not be as extreme as some debaters argue, to participate in the new digital society. Those who are deprived of this level of knowledge will threaten social cohesion.

Everyday life will increasingly be more oriented towards cooperation, networking and building clusters of mutual interest, both in civil society and in business. The growing significance of non-governmental organisations (NGOs) and the expanding social economy are evidence of this. This trend can also be seen in modern companies' intricate game of competition and cooperation. One well-known example of this is when Ford, Daimler-Chrysler and General Motors together started a common market place for spare parts on the Internet. Transactions worth USD 240 billion were made on this site last year. The latest phenomenon in the "new economy" is not increased competition – but increased cooperation.

The political agenda in the new economy should thus logically focus on the quality of life, gender equality, family policies, equal opportunities and new forms of cooperation in all fields of society and in its widest meaning – with one eye on economic growth. Not the other way around.

# Modernisation of the State

- Good Governance

### **Claes Hultling**

Doctor of Medical Science and Doctor of Philosophy. Head of Spinalis SCI Research Unit, the department and research unit for clinical research and treatment of spinal cord injury at the Karolinska Institute.

I have been asked to contribute to this conference and to share with you my experiences from my research and from my clinical work at the Karolinska Hospital in Stockholm. My considerations are reflected by my position as a medical doctor and director of the spinal cord injury unit at the Karolinska Institute at the Karolinska Hospital, where we have successfully blended private and public partnership in order to establish a "state of the art" facility.

I broke my neck 16 years ago in a diving accident and became tetraplegic. At the time of my injury I worked as an anaesthesiologist at the ICU (Intensive Care Unit) at the Karolinska Hospital. After my spinal cord injury I could not continue my work at the ICU and decided to change my speciality and work only with spinal cord injury patients. After extensive travelling, visiting more than one hundred units in the world, I started Spinalis as a private foundation, primarily doing clinical research on spinal cord injury patients primarily from our catchment area. Soon it became a semiprivate unit and the local municipal health authorities started to cover costs for the type of health care we conducted on an ongoing basis.

In a situation where you deal with the local municipal health authorities on a day-to-day basis, you realise that very few people involved in the health care system do achieve the holistic scope of where we are heading and where we want to be. By tradition, the climate for collaborators expressing new ideas and "risk-taking behaviour" has been poor. It has been difficult to fulfil goals and it has been a challenge to survive in that system without access to external financial sources. At times it seems as if too many lukewarm, mediocre people have achieved too much power due to rigid systems and obsolete ways of

achieving acknowledgement and credit. It is very seldom that people who take calculated or uncalculated risks foresee substantial upsides within the existing public system. The question is, what can be done to recruit more people into this sector and still keep general health care as a part of the state's final responsibility.

A key element in this process is to try to avoid a feeling of being left on the outside, to avoid disengagement and lack of involvement. This requires sensitive implementation. If we rely too much on computer based systems at an early stage, we will automatically create a gap between these segments in society, no matter whether we are dealing with health care or schools. It should not be so that the only people who can afford high tech equipment should or could be part of the breakthrough in new communications technology.

How do we motivate people to engage themselves in activities that deal with their daily lives, including the logistical and practical considerations they are confronted with? How can we avoid the increasing lack of political awareness, and how do we encourage people to get motivated? As in lots of other fields it boils down to a type of management that allows people to take responsibility and to feel that they are responsible. Here again, motivation is the No 1 factor for success.

Today Spinalis is the largest out-patient unit in the world with more than 935 patients listed and 16 000 visits to the unit last year. It still functions and operates as a semiprivate unit, with the primary responsibility within the municipal health authorities, but also relying on a large number of external resources to add quality and enrichment to the daily work. 30 percent of the annual budget is raised from external sources, and a lot of that is invested in the local environment in the ward and allocated to improve the work situation for our staff. The ideal situation is that all staff, no matter what their professions, work 75 percent for the local community and 25 percent for the Spinalis Foundation. The 25 percent then becomes a very flexible asset, but this can vary over time and could be priced completely differently from the 75 percent that constitutes the bulk of their employment.

What does this minor example prove? Nothing dramatically, but a way in which to keep the staff turnover low and the possibility to differentiate wages according to input. What could be done by the state in

order to enhance creativity, innovation, strategies, and enriched development? How do we acknowledge inspiring work in order to have it spread elsewhere?

It is a well-known thought that private health care can be extraordinarily elaborate and flashy whereas public health care always carries the stigma of being dull and less fancy. The Spinalis unit possesses the characteristics of being extraordinarily different from an architectural point of view; it looks much more like an art studio in Manhattan than a hospital ward at the Karolinska. We believe this is important and we think it adds a holistic value to the types of operations that we are conducting.

The dilemma for the people engaged in trying to pave new avenues is to identify the interface between the different people who are responsible for conducting the treatment. Historical and formalistic patterns make it more difficult for a lot of people to let go and make use of their fantasy and creativity. It is partially an educational process where you learn how to relate to innovations, and to learn how not to say no.

The mix of private and public financing in health care will increase. We will soon be seeing the large generation born in the 1940s reach the age of retirement. This generation has been persuaded to save money for decades in various types of funds and they are, therefore, financially stable. They are also used to having their demands satisfied to a reasonable degree, and if public health care cannot meet their demands, I think we will be facing a situation where private health insurance will increase dramatically in countries with so called "socialised medicine". This will be the time to try to get public health care tuned up to meet these exceeding demands. When I say "tuned up", I could very well consider joint ventures between private and public health care. It may be that there are some significant advantages linked to that type of operation.

#### **Joakim Palme**

Doctor of Philosophy. Reader at the Institute for Social Research (SOFI) at the University of Stockholm. Chairman of the Commission on the Welfare Balance Sheet for the 1990s.

### Social citizenship for the 21<sup>st</sup> Century: Reforming economic and social institutions to promote equality and efficiency, care and reproduction. Comments on 'Good governance'

Populations are ageing, which means heavier pressure to increase public spending on both transfer systems and care services. People are leaving the employment sector at progressively lower ages, at the same time as it has become more difficult for young people to get paid employment. The declining fertility rates are not only problematic in terms of maintaining a balance between workers and pensioners in the future, it is also an indication of a failure to support families with children. In addition, divorce rates and single-parenthood are increasing. Mass unemployment is accompanied by poverty and social exclusion, not least among immigrants. Changes on the international scene are putting restrictions on what national governments can do, but they may also open up new opportunities.

The challenges are best envisioned in a life-cycle perspective. How appropriate is the system of social protection in terms of safeguarding the necessary resources that make it possible for individuals to deal with the various stages of the lifecycle? The social support system may be seen as an instrument for helping individuals to deal with the projects in life that are common to all of us: the chance to get a proper education in order to find a job; then to actually find a job; to form a family; to have children; to combine family life with participation, on

the labour market and in society at large; to be economically secure in case of exposure to unemployment and ill-health; to receive a pension in old age; to receive the necessary social services and care when physical ability is decreasing. In modern society, these problems cannot be solved by the family and the market alone. Good governance is about making choices in life possible.

The crisis of the welfare state has highlighted a number of dilemmas for present and future reform work. What is warranted is a strategy for resolving these dilemmas without diluting the moral content of the welfare state. My framework for reform starts from a notion that in order to be successful in meeting new needs with restricted resources, as well as in avoiding trade-offs between equality and efficiency, we must improve incentives, human resources, social services and employment opportunities. Then, in the end, social citizenship is about the establishment of a proper balance between rights and responsibilities.

The central questions when it comes to incentives are: How can poverty traps be avoided? How can marginal effects be reduced? How can welfare state programmes be designed so that it pays more to work while entitlements are still protected? A good rule of thumb is to use universal benefits and services rather than means-tested ones. The reason is that as soon as we start means testing, it will affect the profitability of those on a low-income in particular – often women – to engage in paid employment. Another strategy is to make social insurance provisions earnings-related, making it profitable for people to work and pay social security contributions. The more they earn and pay, the better the benefit entitlements will be. Another technique is to have tax credits for recipients of means-tested benefits so that benefits will not be fully reduced if recipients start to earn an income. If we are interested in improving the efficiency of welfare state programmes, empirical research suggests that we should worry less about the aggregate social spending and level of taxation, and more about the actual design of both programmes and methods of financing.

The Swedish strategy when it comes to human resources is education and training, as well as other forms of active labour market policy, such as public relief work and forms of subsidised employment. The aim of these measures is to improve, or at least maintain, the

employability of unemployed persons. What is often forgotten is that public expenditures can promote growth and equality simultaneously by affecting the distribution of at least two aspects of human resources – education and health – in a favourable direction.

Social services can be seen as another form of resource, making it possible also for adults in families with small children, or frail elderly relatives, to participate in the labour market. The approach here is to give heavy subsidies to public services, such as day-care facilities and the care of frail elderly people. This has undoubtedly contributed to the overall high employment rate among women. The lack of adequate resources in terms of social services, such as child care and care of frail elderly relatives, is an effective barrier primarily for the participation of women in the labour market but also in society in general. Social services may be seen as investments that in a dynamic way provide people with the opportunity to become tax payers and thus to contribute to balancing state finances. Social services are also needed to ensure the full participation of all citizens in society in general and not only in the labour market. The access to services is therefore a democratic problem.

Social policies cannot make up for failures in economic policy to provide employment opportunities. This means that a successful strategy has to be based on successful macro-economic policy making, and the fundamental problem of mass unemployment is that there are too few jobs. On the other hand, successful macro-economic policies are not likely to be enough, either, if the skills of the unemployed do not match the demands of the labour market. An important role of institutions is that they should promote stability and predictability in society. Stable institutions are important for growth – this applies to property rights as well as to social rights.

### **What constraints does globalisation impose on the systems of social protection?**

The globalisation of the world economy is most often perceived as a threat to national systems of social protection. But the conventional wisdom used to be that the most open economies among the advanced industrial societies had developed the most generous social security

systems, and it can be seen as a functional alternative to the kind of social protection that high tariffs and other import restrictions offer domestic employment. Yet globalisation has been used to create a climate of no choice. It is thus an important challenge to seek reform strategies that can make welfare state commitments compatible with exposure to a globalised economy. What appears clear is that the liberalisation of capital implies that the profitability of investments in any country would roughly have to follow what applies in the rest of the world, otherwise foreign and domestic investors will move their capital. This puts very clear constraints on the financing of social protection. The mobility of labour also puts restrictions on how far wages can be compressed, and how high levels of taxes can be raised in relation to the kinds of benefits and services that are provided.

The reform of economic and social institutions should be put into the context of democracy and security. Failing – when necessary – to reform the systems of social insurance, service and assistance, not only threatens to leave many people in poverty and despair, and disable many children from exploring their full potential in the future, it also threatens democracy insofar as it hampers the full participation of all persons as citizens and full members of society. And if democracy is threatened, this means that political security is on shaky ground. If governments are serious about securing peace, they have to be serious about the social security systems of their own and other countries.

In the end, I would argue that the welfare state can – and should – be seen as a project of civilisation. This means that the states should redistribute resources so that the poorest people can also enjoy the degree of civilisation which would otherwise be reserved only for the rich. The desirability of this is largely a question of value judgement. However, good intentions and political commitments are not enough to make reform work successful, the design of the existing programmes needs to be critically evaluated. Not only do we have to study whether the social policy goals are actually being achieved, but also to examine unintended consequences of the programmes. This is what 'good governance' should be about.

#### **Lena Sommestad**

Reader in economic history specialising in conditions for women, the development of the welfare state and population economics. Managing Director of the Institute for Futures Studies. Member of the boards of Sida and the Foundation for Strategic Environmental Research.

## Global Population Ageing: Challenges and Opportunities for Progressive Governments in the 21<sup>st</sup> Century

When six centre-left world leaders met in Florence last November, discussions focused on the role of progressive governments in a world dominated by globalisation. A main theme was the need to reform traditional, redistributive policies in order to adapt to the new globalised economy. My statement here today concerns the need for progressive governments to address another, equally important, economic challenge: global population ageing. In view of future demographic scenarios, the role of the state in advancing prosperity needs to be discussed from new perspectives.

Within the next decade, the number of retired people in the OECD countries will start to grow much faster than those of working age, and in the late 21<sup>st</sup> century, half of the population in today's industrialised countries is projected to be above age 60.<sup>1</sup> It is widely acknowledged that this scenario of population ageing will result in fiscal strain. Population ageing is closely connected to increasing public expenditure and budget deficits.<sup>2</sup> More importantly, however, new economic research makes it clear that population ageing will also result in a considerable slowdown in economic growth. For governments engaged in advancing prosperity, this impact of ageing deserves serious attention.

Why does ageing matter to economic growth? In a comparative study of growth patterns in the 1950–1990 period in the OECD area, Swedish economists Thomas Lindh and Bo Malmberg present results

1. W. Lutz, W. Sanderson, S. Scherbov and A. Goujon, "World Population Scenarios for the 21<sup>st</sup> Century", in W. Lutz (ed.), *The Future Population of the World. What Can We Assume Today?*, London, 1996, p. 382–386; *Maintaining Prosperity in an Ageing Society*, OECD, Paris, 1998, chapter 1.

2. B. Malmberg and L. Sommestad, "The Hidden Pulse of History: Age Transition and Economic Change in Sweden, 1820–2000", *Scandinavian Journal of History*, vol. 25, 2000; L. Sommestad, "European Social Research in Times of Population Ageing", in *The Social Science Bridge, Meeting 4–5 April 1997*, Lisbon, Portuguese Ministry of Science and Technology, 1998; *Maintaining Prosperity in an Ageing Society*, OECD, Paris, 1998, chapter 7.

that indicate a strong effect of changes in the age structure on variations in economic growth. The 50–64 age group has a positive influence on growth, while the group above age 65 contributes negatively. Due to the large post-war baby-boom generations that mark the demographic structure of several OECD countries, growth prospects are at present bright. In the next decade, however, when the baby boomers reach retirement age, growth rates will fall, and in the longer-term perspective, ageing is likely to result in negative growth.<sup>1</sup>

What is the role of politics and the government in relation to population ageing? Up to now, most political discussions have focused on policy solutions directly related to the growing share of old-age citizens, such as reformed pension systems, a greater emphasis on life-long learning, and a more flexible retirement age. However, I would argue that policy measures targeted at the ageing process itself and its immediate effects are not sufficient. Governments dedicated to advancing long-term economic prosperity must also address the fundamental issue of population decline. Two policy solutions to long-term population decline stand out as central: immigration and higher birth rates. In the following, I will focus on the low and declining birth rates in today's industrialised economies. My argument is that securing and supporting viable social institutions of care and human reproduction should be a key responsibility for progressive governments committed to combining social justice and long-term growth.

Policies in support of family formation, childbearing and children's rights can be designed in multiple ways. Family allowances, tax deductions, housing policies, subsidised public child-care, and high-quality public schools are only some of the available options. And there is, I would argue, still much to learn from earlier experiences in Western welfare state history. In the post-war decades, most emerging welfare states put great emphasis on family policies, since it is well known that consumption needs in young families with children tend to fall short of earning capacity. Policies chosen showed a great variation, however, and they were not necessarily based on high taxes or large public sectors. American housing policy in the post-war era, for instance, exemplifies a largely market-oriented approach.

How soon will population ageing affect the prosperity of our own economies? According to growth forecasts based on age structure modelling, produced at my own institute, the Institute for Futures Studies in Stockholm, all countries in the OECD area will enter a period of ageing and decreasing economic growth in the coming decades (in the 2030s at the latest). The timing differs markedly, however, as illustrated in the attached figures, which show the impact of demographic change on economic growth, in percentage points. In Japan, the turning point in the growth trend occurred already in the late 1980s. Since then, the demographic component has had a strongly negative impact on Japanese growth. By contrast, a number of Atlantic and Pacific states, including the Nordic countries, the UK, the US, Canada and New Zealand will experience good growth conditions up to about 2010. Thereafter a more marked slowdown will follow. A similar pattern, with a turning point by 2010, is expected for France. The latest turning points, 2020 or thereafter, are predicted for several European countries, including Germany, Austria, Belgium, Greece, Italy, Portugal and Spain.<sup>1</sup>

All in all, our forecasts demonstrate that growth prospects for the OECD countries are poor indeed in the longer perspective. However, these forecasts also show that there is time to rethink and change current policies and priorities. Up to 2010, and in many countries a decade or more later, economic prospects are bright. This opens up possibilities for new progressive policy agendas, and in this endeavour, international co-operation, of the type that we engage in here, will be crucial for success.

To conclude, population ageing is the most severe challenge to the future prosperity of our societies. Therefore, we can no doubt expect that population ageing will dominate political debates in the industrialised world over the years ahead, and not only in progressive circles.

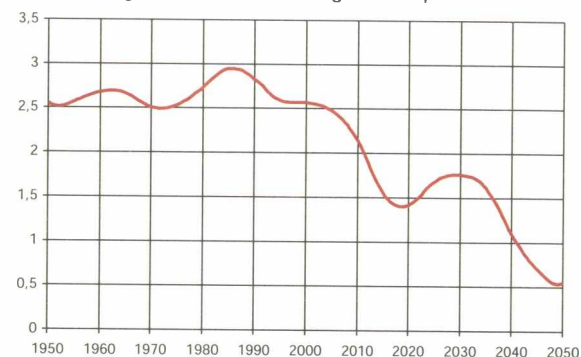
For progressive governments, however, population ageing is not only a threat, but also a great political opportunity. What the new research on ageing and growth tells us is that long-term growth depends above all on the human resources that societies possess. And this is good news indeed for everybody committed to solidarity, social fairness and

<sup>1</sup> T. Lindh and B. Malmberg, "Age Structure Effects and Growth in the OECD, 1950–1990", *Population Economics*, vol. 12, 1999. For references to forecasts, see footnote 4. Compare *Maintaining Prosperity in an Ageing Economy*, OECD, Paris, 1998; D. E. Bloom and J. G. Williamson, "Demographic Transitions and Economic Miracles in Emerging Asia", *The World Bank Economic Review*, 1998, vol. 12, nr 3; D. E. Bloom, and J. D. Sachs, "Geography, Demography and Economic Growth in Africa", *Brooking Papers on Economic Activity* 1998:2; M. Higgins, and J. G. Williamson, "Age Structure Dynamics in Asia and Dependence on Foreign Capital", *Population and Development Review*, vol. 23, June 1997, no 2, and; M. Higgins and J. G. Williamson, *Explaining Inequality the World Round: Cohort Size, Kuznets Curves, and Openness*, Federal Reserve Bank of New York, Staff Reports, June 1999, no. 79.

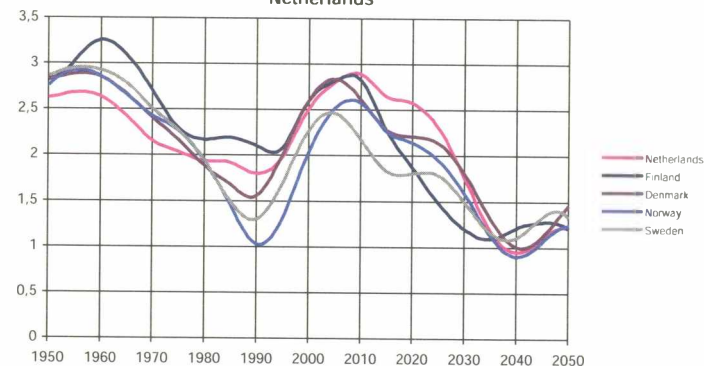
<sup>1</sup> Forecasts produced by Thomas Lindh and Bo Malmberg for the demographic programme at the Institute for Futures Studies, Stockholm, work in progress. For more detailed information about the age structure of European populations in a futures perspective, see Gëry Coomans, *Europe's Changing Demography: Constraints and Bottlenecks*, Futures Report Series no 8, Institute for Prospective Technological Studies, European Joint Research Centre, EU Commission, Seville.

the equal worth of all. Policies of income distribution and social security, such as child allowances or health care schemes, should not be understood as motivated by the needs and rights of individual citizens only. Such policies are also crucial collective arrangements for maintaining sustainable economic growth. In modern societies, where babies are no longer born by accident, and where women do not accept giving up their own independence in order to serve the family, progressive governments committed to growth must enhance welfare systems that support investments in human capacities in general, and parents' and children's needs in particular. In the end, we may have to realise that advancing prosperity also demands more of gender equality.

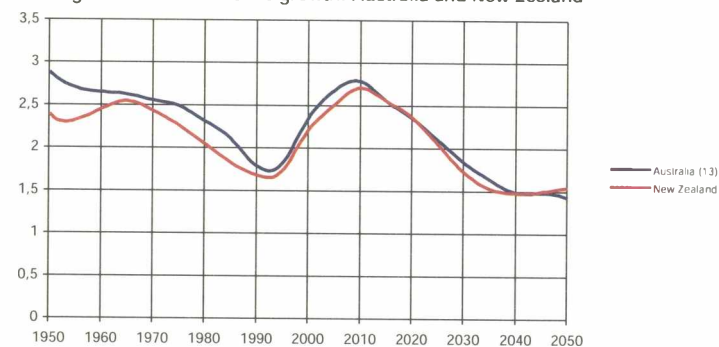
Age effects on economic growth: Japan



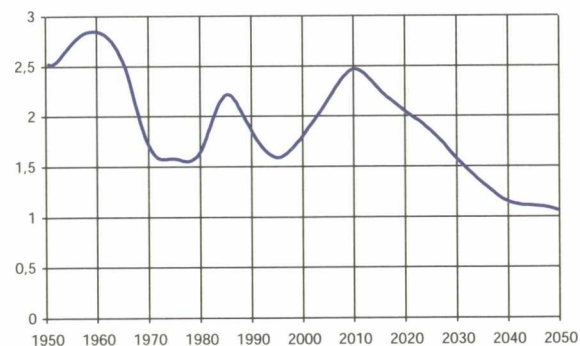
Age effects on economic growth: Nordic countries + Netherlands



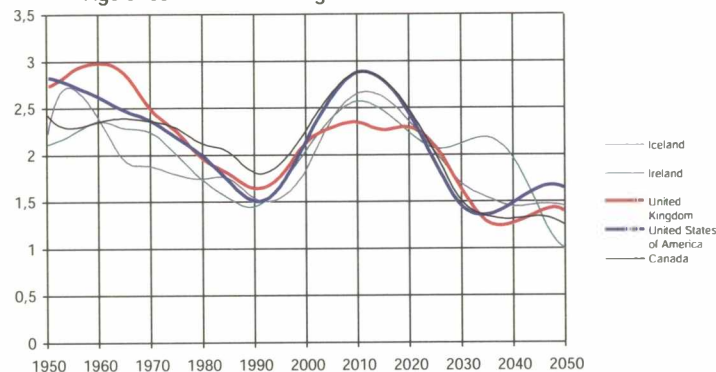
Age effects on economic growth: Australia and New Zealand



Age effects on economic growth: France



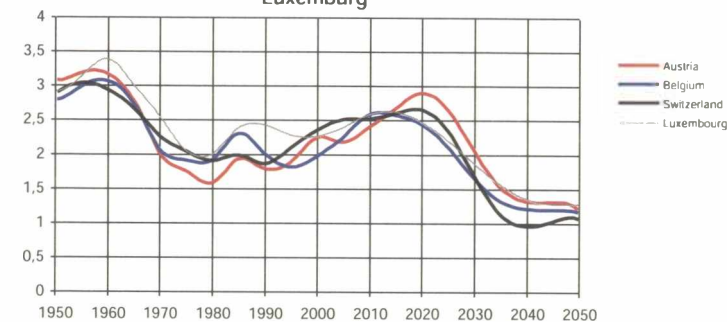
Age effects on economic growth: Atlantic countries



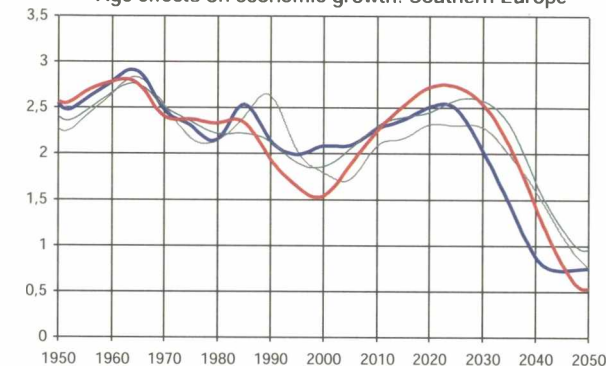
Age effects on economic growth: Germany



Age effects on economic growth: Austria, Belgium, Switzerland, Luxembourg



Age effects on economic growth: Southern Europe



*Note:* The estimates of age structure effects on economic growth (in real GDP per worker) are based on two sources: 1. The UN Population estimates and projections, 1998 revision. 2. The model of age effects on economic growth presented in Lindh, T. and B. Malmberg (1999). "Age structure effects and growth in the OECD, 1950–1990." *Journal of Population Economics* 12: 431–449. In addition to age variables the Lindh-Malmberg model also takes into consideration initial GDP per worker, the rate of gross investment, labor force growth and the technological gap. The projections presented here focuses only on the effect of a changing age structure. The estimated age effects are in percentage points and they have been normalized to reflect the impact of age structure on growth in an average OECD country.

## Berlin Communiqué: Progressive Governance for the 21<sup>st</sup> Century

We have come together in Berlin in order to exchange views and learn from each other about how to tackle the new challenges and opportunities that emerge in the 21st century. In November 1999 six of us met in Florence. We promised there to expand our discussions. Today, 14 Heads of State and Government have found common ground that we believe defines a progressive political project fit for the new century.

We are bound together first and foremost by our values. We are committed to solidarity and social fairness. We believe in the equal worth of all and in mutual responsibility. These values assume new relevance in a world that is changing at rapid speed. We are liberated from old enmities; but we are humbled by the responsibility to make up for lost years. The only way to do this is to forge a new progressive path.

We are leaders who are aware of the opportunities of globalisation, without denying the dangers. We fully recognize globalisation as an economic, social, and cultural reality, but it should not just be allowed to happen: it is a reality which we can collectively control; the key task of progressive governance in the new century is to help people make the most of change, by providing the tools for them to fulfill their talents in the new world that is being created.

We believe market economies must be combined with social responsibility in order to create longterm growth, stability and full employment, promote social justice, and protect the environment. We believe sound macroeconomic and fiscal policies that encourage strong and steady expansion can help spur full employment policies where con-

tinued growth encourages employers to recruit and train those previously denied good job opportunities. But the digital revolution, the growing integration of the global economy, as well as demographic and social changes mean that we can only fulfill our values if we work in new ways. We know that the benefits of globalisation are not being realised for all our people, especially in the developing world, where income distribution has become more unequal. Globalization must lead to higher living standards for all and not a destructive race to the bottom at the expense of environmental and worker protections.

All these challenges require progressive action. We commit ourselves to the core values of opportunity for all, responsibility from all, and community of all. We practice new methods of progressive governance. In this, we can only be helped by wider dialogue, and invite other leaders to join us in a commitment to meet the challenges and opportunities we describe below.

People want to live in a community, not merely work in a market; therefore they expect their governments to effectively fight unemployment – in cooperation with management and labour unions; they want education and lifelong learning, because they know that this is the key to more efficiency and more social cohesion at the same time; they want government to promote opportunity and security; they want to protect the environment and improve local quality of life; they seek co-operation across national borders in order to recognise the links of the international community in pursuit of these goals.

We are determined to take our countries forward and to establish safe and sound conditions that help to promote civil rights, employment and prosperity, equal opportunity for women and men. Our goal is to liberate the talent of all our people, but to do that we must share responsibility between public authorities and private individuals, between governments and international organisations, between non-governmental organisations and the public sector. This question is at the heart of progressive governance in the 21st century.

### Advancing Prosperity

Our discussion at the Berlin-Conference has focussed in three areas. First, we have discussed the role of politics and government at national

level in the context of global economic competition, global markets and global financial flows. For us, there are five key responsibilities for national government in advancing prosperity:

- It must maintain stability in macroeconomic policy, supporting sound public finances and a firm stance against inflation; it should also promote financial market stability, transparency and fair competition; only on this basis can companies and families invest with confidence; only on this basis we can keep our economies on a steady and sustainable growth path and envisage full employment.

- The new economy sweeping the globe is leading to unparalleled affluence. We believe that economic change and innovative technology can open up new ways of working and new markets can be empowering and democratic. Economic progress can help to lift people above social and economic barriers, but this demands that individuals are equipped with the capabilities of meeting the new challenges.

- Education is critical to equity, development and citizenship and is the key to social justice and economic dynamism. Our aims include promoting lifelong learning and upgrading low-skilled workers. By expanding higher education we are also creating a vibrant research base for new technologies.

- Social and welfare systems need to be both enhanced and adapted. In developing countries better social safety nets can prevent the transmission of poverty and inequality of both women and men. We must also ensure that the provision for the ageing, the sick and the disabled is financially secure for the future to prepare for new demographic challenges. The foundation of social policy is an effective employment policy, directed towards participation and especially preventing structural unemployment. In this field in particular we will share and learn from best practices.

- We are determined to fully exploit the opportunities that the new information and communication technologies create for prosperity, employment and participation. The role of government includes fostering a climate for entrepreneurship to flourish, to help reduce costs for access to new technology, and to promote research and scientific advance. We are also committed to bridging the digital divide. All citizens need to possess the skills to participate in the technology that is

rapidly changing the ways we live. We are aware that new technologies bring about new forms of labour organisation which can affect workers' rights.

### **Strengthening Civil Society**

Second, we discussed how to strengthen civil society. Thriving communities can become even more vital with changing social structures. Families need our support; citizens require secure neighbourhoods; children need to grow up without crime, drugs and violence; and immigrants and indigenous people must be fully integrated into economic, social and political life. We want to put on record our abhorrence of xenophobia and ethnic and religious animosities in all its forms, and our determination to fight against it – on a national as well as on an international scale.

A strong civic society based not on prejudice but agreed rules and a reformed state create a framework for a dynamic market. Those in authority must be held accountable. Reform governments must make globalization work for all people. We consider the following issues to be keys:

- We must modernise and update government to ensure that its focus is on addressing effectively the problems our citizens face and on encouraging their development. Where partnership with the private sector delivers the public interest, we support it; where decentralisation gives citizens more control of their affairs, we support it; where technology can rationalise provision and make it more convenient, we support it.

- Public services are critical to equal opportunity and a civilised society, because we all depend on the quality of education, health, care and childcare, criminal justice and social services. Our conviction is that these services must be driven by the needs of the citizen – for improved quality, greater convenience, more personalised service provision. That often means difficult reform, which is an essential counterpart to increased investment to meet growing needs.

- For us, communities only deserve that name when all citizens, whatever their race, religion, origin or sex, live in an atmosphere of tolerance and mutual respect. At a time of great population movements,

we must have clear policies for immigration and asylum. We are committed to fostering social inclusion and respect for ethnic, cultural and religious diversity, because they make our societies strong, our economies more flexible and promote exchange of ideas and knowledge.

- The digital revolution must be embraced by government in order to make it more accessible, accountable and efficient. We recognize that digital technology is a powerful tool that offers citizens a new way to connect and communicate with their government.

We need a new balance of rights and responsibilities as the basis for stronger communities. The affluent should lend society their abilities and talents, not exclude themselves from society, and those who are underprivileged should be integrated, being offered new chances. We support an enabling role for the state, providing all citizens with the tools to develop themselves. Women must have equal rights, equal access to education and employment and equal pay for equal work. Companies have responsibilities in community life too. This relationship has to be emphasised.

- Indigenous minorities in several countries are among the most vulnerable worldwide. We recognise that protecting and promoting their rights warrants special consideration and is a legitimate concern of international community.

### **Further Improving International Cooperation**

Third, we aspire to be an international community of shared values. We see the need for a new international social compact – the practical fulfilment at the international level of our commitment to strong communities at home. Such a compact recognizes interdependence, mutual effort and mutual responsibility for common goals. The developed world has duties to the developing world, and the commitment is reciprocated – aid debt relief must be used for popular need not conflict, development must respect the environment, the benefits of trade must be shared. In order to advance social justice and economic dynamism in developing countries, we must support the rule of law, market institutions, free trade and security within and between nations as prerequisites to economic development. As the global economy and a shared concern for international affairs draws us closer together, we

need to advance the idea of community from a national, regional and global perspective.

Just as we seek to advance social justice and economic dynamism for the whole population of our own countries, so we have a responsibility to develop a more inclusive and sustainable international division of wealth and opportunity. We have international institutions dedicated to many of the key issues: trade, financial stability, conflict prevention, public health, education, labour, environmental protection, economic development. We should particularly enhance those institutions which focus on fighting hunger, poverty, social exclusion and environmental degradation.

We recognise the demands for transparency and accountability in these institutions. We also believe that the strengthening of the international co-ordination and co-operation on issues of global concern can make a significant contribution to reinforcing progressive governance at the domestic level, by ensuring more stable economic conditions and by fostering efforts to build a more even process of globalisation.

We know that problems of poverty, child hunger, debt, conflict, environmental degradation are connected. A critical task for progressive Governments is to address the issues of poverty and underdevelopment. That is why we need efficient international co-operation that links together solutions to these problems. This form of linkage is being pioneered in the connection between debt relief and poverty reduction programmes. For us the following issues are key:

- We support free trade as an important instrument of economic development for the developing world, and as the route to new markets for industrialised countries. We will examine the structure of flows in the world economy which prevents direct investment even in those countries which have the necessary economic essentials in place. A strengthened multilateral trading system is essential for progressive governance to prosper at the international level by ensuring hard-working people in all countries a fair chance to market their product abroad. We agreed that as a crucial step for trade liberalisation developed countries and developing countries should provide the least developed nations enhanced market access.

- We are aware that a stable international financial environment is a crucial factor in promoting economic growth and in allowing all countries to reap the potential benefits of globalisation. Recent international crisis have stressed the need for proper financial regulation. We support the attempts at debt relief for HIPC. And we want to give more support to good governance in countries where it is the weakness of government that is undermining the rule of law and the development of economic and social life.

- We see the need to improve the institutional framework in which financial markets operate, in terms of the adoption of efficient regulation, supervising and accounting, codes of conduct, principles of sound corporate governance, and a fair sharing of responsibility between the public and the private sector. We agreed on the need for adequate regulation and supervision in order to strengthen financial stability and social justice.

- Globalisation, trade and technological advances should enable us to tackle widespread poverty better than ever before. It is our responsibility to secure that poor people and the poorest nations are included in the present historic opportunities, especially because rapid technological advances can tend to widen the inequality gap. Direct effective aid from both governments and non-governmental organisations is still needed. We will give it more priority and resist those who would give it less.

- We must turn the digital divide into international digital opportunities by training teachers and building strong partnerships with government, businesses, foundations, and civil organisations. We need to use new technologies to its fullest advantage, to improve health, promote education, and foster cultural exchange and understanding. We believe that education is as important, if not more important, for the developing world as the developed world. We support the target to substantially increase universal primary schooling. We must ensure that the children of the world – the citizens of the future – are well taught by qualified teachers with proper materials.

- We celebrate the diversity of our nations. We encourage cultural diversity. Globalisation, which is indeed about more contacts and more exchanges, should not lead to uniformity, but to the enrichment of people and the opening of cultures.

- The global environment must be handed on safely to future generations. Sustainable development is an important orientation for modern governance. This goal should be respected in all relevant areas of international policy. We support the commitments of the Kyoto protocol and want to use new mechanisms, like emissions trading, to create common interest between the developing and developed world.

- We must make a concerted effort to prevent the spread of infectious diseases that are robbing developing countries of their most precious assets – their people. We support an increased focus on resources on health infrastructure. We also commit to increasing our contributions to vaccine and immunisation efforts that assist the poorest countries and to fostering the development of new vaccines and immunisations to prevent diseases such as TB, Malaria, HIV/AIDS.

We, the leaders of progressive governments, believe that democracy in the 21st century advances the ideals and instruments of hope for all. We act now in the interest of the future generations of the 21st century.

We have all learnt from this meeting and we all want to meet again. One of the conclusions of the Florence meeting is to broaden the network of progressive governments. We want our ministers, civil servants and public administrators to meet and co-operate on a regular basis, to discuss political solutions and to learn from each other. We will promote the exchange of civil servants and public administrators and we will establish networks of thinkers and scientific institutions designed at identifying challenges and policy options. We believe our citizens should gain confidence from the common experience and approach that we are taking. We look forward to developing our ideas with all those who share our aims and values.

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The Swedish Prime Minister Göran Persson together with Ambassador Mats Hellström, Political Adviser Charlotte Svensson and the Swedish expert group.



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