

Interview with Dr. Dennis J. Snower, President of the Global Solutions Initiative, Senior Professor of Economics at the Hertie School of Governance, Berlin; Senior Research Fellow at the Blavatnik School of Governance, Oxford University; and Non-Resident Fellow, Brookings Institution & former President of the Kiel Institute for the World Economy

Restoring Social Cohesion – a Crucial Issue for the G20 in 2019

By Japan SPOTLIGHT

Lonely elderly people in an aging society, the unemployed in the new Fourth Industrial Revolution, those who feel left behind by globalization: all are symptomatic of growing social discontent and a lack of social cohesion. This lack of cohesion seems to be hindering political and economic stability even among developed nations. The G20 will address this issue at its 2019 summit in light of its growing impact on world peace and prosperity.

Japan SPOTLIGHT interviewed Dr. Dennis J. Snower, a distinguished labor economist who is president of the Global Solutions Initiative in Germany, a global collaborative enterprise to propose policy responses to major global problems, addressed by the G20, the G7 and other global governance fora. (Interviewed on Feb. 8, 2019)

Introduction

JS: Could you briefly introduce your academic specialty, labor economics, and also the Kiel Institute's mission and main activities.

Snower: I am a specialist in labor economics and give advice to governments on labor market policy, as well as on reforming welfare systems and how to get more incentives into the equitable distribution of opportunities. The basic idea is that we should move away from the redistribution of income, and instead redistribute economic incentives, enabling people to become employed and skilled. So, you take the most disadvantaged people and you give them employment subsidies and training subsidies, and the longer the duration of unemployment and the more disadvantaged they are, the higher these subsidies become. This has worked well in a good number of countries, as an underlying idea.

With Assar Lindbeck – who was then the chairman of the Nobel Prize Committee in Economics – I developed the insider-outsider theory of unemployment, which shows under what circumstances insiders whose jobs are protected in the labor market can benefit themselves, but not the outsiders who are outside this job protection, and how this can explain the persistence of



Dr. Dennis J. Snower

unemployment. In all of this, I have been fortunate that my economic and theoretical interests basically overlap with my policy advice interests. I have advised national governments (German, French, Spanish) but also at an international level including the OECD, the World Bank and others.

The Kiel Institute is one of the very few institutes in the world that examines the global economy from a global perspective as opposed to a national or regional one. From the perspective of the global public interest, how should global trade and global capital flows, global technological diffusion, be designed? The Kiel Institute has models that look at how the world's environmental systems are connected to the world's economic systems in order to see how the

economy influences climate and other aspects of our environment. We looked at the effects of offshoring and outsourcing worldwide, how value chains affect employment opportunities and how they change because of digitalization. The institute also has a forecasting department not only for Germany and Europe but for the world as a whole. Being president of the Kiel Institute gave me the opportunity to look at the inter-linkages between many different domains that are kept apart both in academia and politics. Climate, labor policies, social policies, demographic change – these are usually investigated separately but at Kiel we looked at how they interact, especially the inter-country linkages.

Role of Think-tanks in the G20

JS: Think-tank involvement in the G20 is a recent development. How do you assess this involvement?

Snower: As you said, this is relatively recent. Under the German G20 presidency, we restructured the process around task forces which produced policy briefs addressing the main issues of the G20 agenda. That proved to be very valuable to the German government, both in terms of the recommendations that we generated but also in terms of our overall narrative. We put all the recommendations under the umbrella of what we called the “recoupling narrative”, which basically means that social progress in terms of people’s well-being can become decoupled from economic progress. These sources of discontent are not necessarily closely related to the rate of economic growth, and therefore we recommended that the G20 should focus entirely on trying to recouple economic prosperity with social prosperity.

That, in fact, was very useful to the German government in the negotiations leading up to the G20 Summit in Hamburg in 2017. At that time, there were emerging protectionist activities, and President Donald Trump decided to leave the Paris Agreement on climate change, so it looked like the summit was in grave danger. The protectionists said that they are the only ones who represent the disadvantaged in the world, and as a result of our narrative the German government could say, “No, we are very concerned about the disadvantaged and we have a lot of proposals here about how to help them and protectionism is not effective in this regard.”

That helped change the discussion, and therefore we understand both the recommendations and an overarching narrative. Since the German presidency, Argentina has followed this structure of task forces and policy briefs related to the priority, and now of course in Japan there is another big step forward – the organization of the G20 process in Japan is extremely impressive. Many institutes are all cooperating with one another as well as with think-tanks abroad in generating proposals that are very closely related to the Japanese G20 priorities. Quality infrastructure, aging society, SME finance – these are all being pushed ahead under the Japanese presidency. Although the summit will occur relatively early in the year compared to other summits, the fact that the G20 has started its work in Japan so early meant that this has not been a problem.

JS: Would you agree that social cohesion is an interdisciplinary issue, and as such is relevant to be handled by think-tanks?

Snower: The big challenge of our age is that we have witnessed the

integration of the global economy, and value chains have become truly global. However, we have not witnessed a similar integration of global society or global politics. Because societies and their politicians remain fragmented, this creates tensions between our economic interests and our social and political ones. Therefore, it is not sufficient to look just at the economic interests because that ignores something important in terms of social concerns and social cohesion. The reason why we have so many protests at G20 summits is that the people on the ground understand that social cohesion is often overlooked and that the G20 is depicted as a meeting of heads of state and technocrats to impose economic solutions on people whose societies are fragmented. By looking at social fragmentation directly in connection with economic activity, we can address the issue and make a real contribution to the G20 process.

Social Inclusion an Important Policy Goal

JS: You co-authored a book called *Caring Economics*. Could you elaborate on this and the concept of social inclusion?

Snower: Economists tend to assume that people are purely self-interested, concerned only with their own consumption. Therefore, economic policy provides incentives of a monetary nature and that induce people to follow their self-interest to take care of externalities and other public concerns. However, this misses something important in human nature, which is the need for people both to care for another compassionately and to affiliate or bond with one another in order to have a sense of belonging. When those needs are not met, people become psychologically unbalanced and they become unhappy. Taking those needs explicitly into account in our economic models helps us work out how to create social contexts that generate more of this cooperative activity. For example, we can choose at the workplace whether we promote competition among individuals or whether we have collaboration in teams. The same thing holds in our school system and is very important in the health system. Therefore, having a new approach to what motivates individuals can have very far-reaching consequences in terms of what we do for economic policy.

JS: This is particularly pertinent for an aging society.

Snower: Absolutely. The big challenge in aging societies is the challenge of loneliness. Older people are left after their families have moved away to work, or a spouse may have died, so they are left feeling very lonely. How to address this issue, particularly in aging

societies, becomes extremely important. Digitalization can help, and Japan is a world leader in how to connect older people to health systems, social services and so on through digital pathways. However, digital technologies are not able to provide a sense of care and belonging. For that, you need other human beings. Human interactions to overcome loneliness require lots of time in terms of interpersonal interactions. The technological progress of human interactions does not proceed as rapidly as other areas; for example, computers these days are millions of times more productive than 40 years ago, and we can do millions as many computations per second, but we are not in a position where we can spend one millionth of our time with our children and our parents and still have the same quality of relationship. We are moving toward a society where interpersonal interaction among different age groups and in the caring profession will become increasingly important, supplemented by the new digital technologies.

JS: To maintain inclusiveness of welfare, some kind of policy measures would be necessary to avoid a digital divide in that context.

Snower: That is absolutely right. There are two things that elderly people need: one is, they need more training than they have to become socially skilled. To be able to interact well with other people requires empathy; it requires perspective-taking, mind-reading, compassion. These things can be taught. Schools and universities tend to train people in reading and writing and analytical skills – cognitive aspects – but not so much in social skills. In the world of the future, social skills will need to be taught much more.

We also need to teach digital skills that will enable us to use digital technologies to promote these social interactions. Digital skills are going to become ever easier to acquire as time goes on because computers are going to become much easier to handle. When I started interacting with computers, you had to know various computer languages, whereas nowadays you can talk to your computer and it will answer. Look at how easy it has become to drive cars – 100 years ago you had to be a specialist to drive and it was seen as the prerogative of the few. Now, virtually everybody can do it. Computers will become like this too. The challenge that we have is to make lifelong learning and digital skills a fact of life throughout the whole of society while understanding full well that the digital needs of old people will differ from those of young people. So, this lifelong learning must give them the digital skills that they need – not for its own sake, but primarily to help them interact better through these digital technologies with other people. This will be a big source of social cohesion.

JS: We are living in a globalized world, and so we need to maximize the merits of globalization. At the same time, we should minimize its demerits relating to social discontent. There is the idea of structural economic reform as a way to smoothen the globalization process. One aspect involves promoting efficiency through, for example, competition policy. Another is achieving equal opportunity for economic incentives. How can we achieve consistency or relevancy between these two aspects?

Snower: Promoting efficiency can be done by internalizing the externalities of economic activity, promoting competition policy, and providing a better flow of information to avoid asymmetry of information and market power resulting from that. Equality of opportunity arises largely through redistribution of economic incentives.

Looking at what different countries spend on training their workforce and lifelong learning, it is very revealing because in the United States the percentage of expenditures per capita on this is far lower than in Denmark or Germany or Japan, and this helps explain a lot of the social discontent that you have there. However, that does not cover all the main issues underlying the problem of social cohesion; in addition to these economic opportunities, people have two broad needs. One is the need for empowerment – that one can influence one's own future and destiny through one's own efforts, that I can affect my fate by working hard or doing something through my own effort. That gives one a sense of empowerment. Empowerment is an extremely important means for human beings, and not always directly related to economic growth.

It is true that if people have equal opportunity then they become equally empowered, but empowerment is broader than that. Globalization has reduced people's subjective empowerment because global value chains are always adjusting, people adjust, and firms adjust where they want to locate their activities depending on where it is most profitable, so the people at the local level feel at the mercy of big international forces over which they have no control. Multinational companies used to have great regard for the locality in which they operate, but that has become less pronounced as time has gone on. Japan is an exception to this rule, but even in Japan globalization has affected the way companies operate with regards to their local workforce and local society. Globalization has clearly promoted great wealth, especially in emerging economies, but also has led to a sense of disempowerment in many places, which is negative. The way to address this problem is to move away from the old concept of the welfare state to a concept of the empowering

state, whereby governments give people skills that will help them to make a difference to their own lives. Let's take one example in aging societies: if you give old people who live in geriatric homes the opportunity to say when they want to eat, and give them a choice of menu, they will live longer, be healthier, and have a better immune system, because they feel empowered. There are many ways in which we can empower people.

There is also a deep need that people have for social belonging and interaction. This means that governments should also have regard for how to strengthen local communities. People tend to live in small groups and these small groups should be strengthened, and globalization has also affected this because people feel that their communities are often at the mercy of big global forces. Minimizing the disadvantages of globalization involves not only more efficiency and equal opportunity but also overcoming the problems of empowerment and social estrangement that globalization causes.

Consequences of Immigration & Innovation

JS: Continuing with social cohesion, I think there are two challenges facing society now: one is immigration in a globalized era, and the other is innovation in the Fourth Industrial Revolution. Both could affect labor markets. Could empowerment work well to overcome these two challenges?

Snower: For immigration, the issue that economists have looked at is how much more GDP per capita can immigrants provide? And if they provide significant positive returns in that regard, then immigration is considered good. Despite this, immigrants come from different countries and have different backgrounds, and this affects the society in which we live and our social context. These effects are often overlooked by economists and policymakers. The issue is not only the economic integration of immigrants, but also what sort of social integration is required so that people who live in the receiving country don't feel endangered. That means countries need to be clear about what they require of immigrants and also need to be clear in terms of how large the flow of immigrants is that they are able to absorb.

Japan has been a relatively closed society but is now considering more immigration. Nowadays, I think that the issue of social integration should be considered much more carefully. In a number of countries, society is considered like a marketplace. If you trade with one another and you gain from trade then everything is fine. But society is not a marketplace, it is a place where people interact with each other, and these interactions come with a lot of social prerequisites: respect, care for one another, and deep cultural

learning. This social integration part of the argument should not be neglected.

Regarding innovation, there is another set of issues, more related to empowerment. If innovation proceeds sufficiently rapidly, there is a big danger that people will become disempowered for the simple reason that human skills – if everything goes well – grow at a rate of maybe 1.5% to 2% per annum. The skills of machines grow at the rate of Moore's law, i.e. double every two years. Even if machine learning slows down a bit, machines will still be growing at a rate far faster than what humans can keep up with. Policymakers will have to try to predict when the crossover point comes where machines take over the routine jobs from human beings – because once the crossover has taken place and machines take over those routine jobs, there is basically no way humans can get those jobs back because their productivity will never grow fast enough. So, they will have to look at different skills that are complementary to the machine skills, and those skills will largely be creative skills and social skills.

Income Equality or Economic Growth Insufficient

JS: You mentioned that economic growth should not necessarily be the primary goal considering the increasing importance of social issues. However, economic growth is still one of the most effective ways to achieve social cohesion. As people become wealthier, social discontent would go down and we would see more social contentment.

Snower: Basically, there are no hard and fast rules on this issue. If one lives in a society with a lot of social cohesion already and people broadly feel empowered by their work, then simply promoting economic growth is a very good thing because it will give them more purchasing power, enable them to live healthier lives, and give them the opportunity to partake of cultural goods. So in many respects, people will be much better off. The problem arises when social cohesion in a society is not very strong and people feel disempowered. Take the American Rust Belt for example. Families are broken, and people are laid off long-term. If you simply promote economic growth, you may not solve these problems and we've seen this in the US where people are left behind, and even if they are at work and receiving salaries, they are still suffering from the lack of social cohesion and disempowerment. Social prosperity must be closely coupled with economic prosperity. If society is functioning well, then focus on economics. But if society is not functioning well, then you need to look elsewhere in addition to economics.

JS: In Japan, the issue of the Rust Belt in the US is sometimes interpreted as a question of income inequality. Is it the case that expanded income inequality would always bring social dis-cohesion?

Snower: The greater the income inequality, the more likely it is that you will have social disintegration, for all the obvious reasons. But that is not the whole story. The opioid epidemic has not arisen because people have too little money – in fact, they have too much money with which they buy drugs; they are destroying themselves with the money that they have. Self-harm is a good example of where social prosperity becomes decoupled from economic prosperity. Therefore, inequality is very useful to look at in societies that function well. But when they don't function well, economic inequality is not everything. You need to be embedded in a social structure that has sufficient stability for you to feel confident that you will be supported by family and friends.

Implications of Discussions on Social Cohesion in G20

JS: Turning to global governance, when these social issues are discussed at international fora such as the G7, what would be the merits of such discussions? Anti-globalization sentiment is growing and perhaps the G20 could be considered as one of the flag bearers of globalization.

Snower: I think these international discussions are absolutely crucial for the future of our world, not only with regard to social cohesion. Through the process of globalization, we have produced lots of global problems, including climate change, financial crises, and immigration pressures. These can only be solved on a global level, and similarly for financial markets. Our challenge nowadays is to make sure that people living in many different countries understand that if they wish to be truly patriotic to their country, if they wish to be a good citizen in their locality, then one of their jobs is to support the multilateral process in order to solve global problems. If the problems of climate change and financial crises are not addressed, then every country will be damaged. Therefore one should not see nationalism and multilateralism as conflicting objectives, they should be seen as complementary ones, and that will be the big job of the G20 to promote that idea.

JS: So, could these international discussions be useful in mitigating populism, which seems to be fueling protectionism?

Snower: What the G20 needs to do, in my opinion, is to acquire a human sense. The G20 needs to communicate that it is doing these things so that people in countries around the world can lead more fulfilling lives. What the G20 does should be interpreted in terms of the needs of people on the ground. That's what we encourage at the Global Solutions Initiative. By doing that, it will create a lot more understanding of multilateral processes and bring a different tone to how it communicates with the general public. There is a big understanding in the G20 under the Japanese presidency on this issue and I very much look forward to seeing how it plays out.

Japan as a Model for “Caring Economics”

JS: What is your outlook for the Japanese economy? Japan used to be quite well known for practicing the “caring economics” that you referred to.

Snower: Japan is an extraordinary country, where despite its economic success it has not lost sight of the importance of social interaction. The deep sense of customs and interaction that accompany Japanese life help promote these social bonds. This cannot be exported as it is to other countries with different cultures and different associations; but the idea of promoting social well-being consciously – not only just between people but also in terms of government policy – is an important issue that other countries can learn from.

At the same time, Japan is also in a leading role for aging societies and how to handle the problem of people who become disconnected from families and their localities. Connecting those older people with younger people in ongoing relationships will be hard, as the pressures of work will pull them elsewhere. Machines will take over more and more routine work, and if people do a lot of work that is routine, that will require some very significant changes in the way that we deal with economic challenges. It will also be an issue for social cohesion because most people's work involves a lot of routine elements, and if these routine elements start getting taken over by machines, what will this do to social cohesion? This is a problem that should be high on every government's agenda. **JS**

Written with the cooperation of Joel Challender, who is a translator, interpreter, researcher and writer specializing in Japanese disaster preparedness.