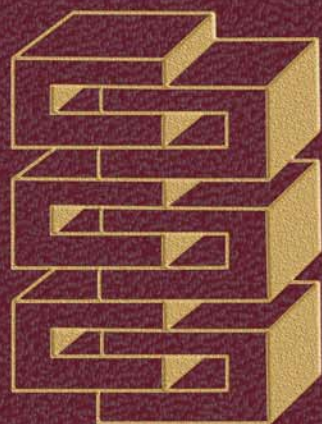


# STABLE STATES



RETHINKING SOCIAL COHESION  
AND GOOD GOVERNANCE

Peter Webinger    Alexander Schahbasi (eds.)

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ISBN 978-3-200-03547-8

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## FOREWORD

One hundred years after the outbreak of World War I, leading to a prolonged period of instability and unprecedented atrocities, it is only appropriate to reflect upon the factors that ensure the stability of a state. History has shown how fragile nation states can be and that stability cannot to be taken for granted. To maintain internal and external peace, therefore, requires persistent efforts.

Understanding the factors contributing to social cohesion and good governance is essential for politicians, policy makers and officials in public administrations.

Furthermore, I am convinced that, due to the ever increasing speed with which changes and trends occur that shape our world, it will become even more important to periodically rethink our approaches and policies, in order to arrive at the best possible solutions. Providing good governance, a legal system ensuring justice for all and a well-functioning bureaucracy are indispensable and have to be based on the constitution as a uniting set of principles for all citizens and legal codification of a nation's common values.

Cooperation within the framework of the European Union is a unique example of peaceful coexistence, requiring both cooperative spirit and administrative excellence. In Austria we are very much aware of this challenge and eager to set our political actions in this sense.

There is yet another aspect of stability that needs to be mentioned: It is the understanding of all those involved in policy-making that, when it comes to the core elements of stability, it is imperative to focus on the common good and set aside particular interests.

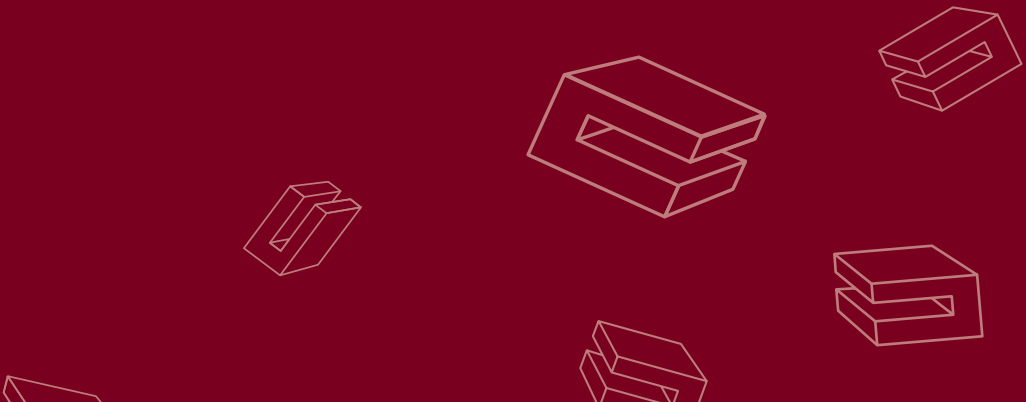
In this regard, I am convinced that the contributions compiled in this volume will help understand and revise approaches toward sustainable governance, now and in the future.

A handwritten signature in black ink, reading "Heinz Fischer". The signature is fluid and cursive, with the first name "Heinz" and last name "Fischer" clearly distinguishable.

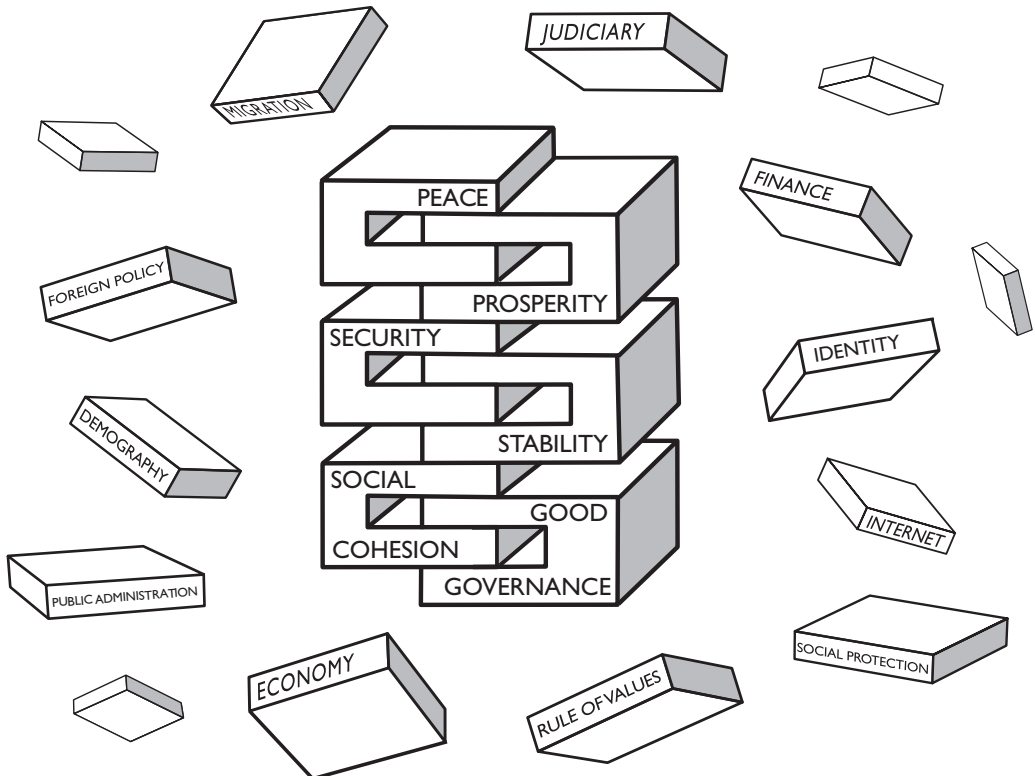
**Dr. Heinz Fischer**  
*Federal President of the Republic of Austria*

# INTRODUCTION

Peter Webinger & Alexander Schahbasi



The nation state and its institutions are not the single supreme authority anymore. Today, states are embedded in a global web of dependencies, be it financial markets, migration flows, energy demands or media coverage. Communication technology and the internet have boosted the pace of interactions into yet unknown dimensions and turned individuals from passive subjects into potential actors. In this time of rapid change, we thought it necessary to rethink governance and thus put forth a simple question to a number of experts from various backgrounds and disciplines: “What makes a state stable?”








The goal of governance, as we understand it, is to provide security, peace and prosperity. Stability, in this context, serves as a basis to achieve this goal and rests, itself, on two main pillars: social cohesion and good governance. The decisive factors for the provision of social cohesion and good governance and their relevance will be described along the chapters of this book. We acknowledge, of course, that they are certainly not all-encompassing and that the importance of each factor might differ according to the specific situation in a given country.

What does stability imply? Stability is, in essence, the absence of instability and the result of the interaction of a number of factors, with varying impacts.

Is stability a *goal* in itself? Is it *good* in itself? Does a stable state therefore automatically account for good governance and social cohesion? We certainly do not believe that to be the case. The word “stability” hints at a state of permanence, a solid *state*. This would suggest that a “stable state” and its institution, once established, should resist change and thus provide stability. In fact, the opposite is the case. Only through permanent change, the adaption of its institutions to global and national trends, core tasks of governance – such as education, social protection, health care or security – can be maintained. Stability is thus a product of constant evolution; stagnation, on the other hand, is the first step towards instability.

This volume does not try to vet systems of governance or factors for economic growth, but rather shed light on some of the tools needed to provide a “stable state” – in the best of senses. As officials working in public administration, we think that certain dimensions of governance – such as the rule of law, accountability and the absence of corruption – are of utmost importance and of global relevance. In the sphere of social cohesion, it is, in fact, all about a system that is inclusive, allowing for social and economic participation.

Although we took the liberty of asking a big question, we refrain from coming up with a comprehensive theory that explains it all. In our diverse world, governance is a craft that requires adept approaches as well as circumstantial handling of challenges. Therefore, we decided not to conclude this volume with a summary of relevant factors – a formula for a stable state – which could never be comprehensive and would also fail to grasp the particular situation of nations. There is, however, one overarching theme which is applicable to most of the governance issues described in this book: TRUST. It is, in essence, the fuel driving the processes of good governance and social cohesion on all levels. Citizens need to be able to trust their government and its



institutions, such as public administration, the security apparatus or the judiciary, and have faith in ownership structures, the banking system as well as social protection, e. g. the provision of pensions and social assistance. Vice versa, institutions need to reflect this sentiment, be it authorities confiding in the civilized conduct of citizens or banks presuming the repayment of loans.

In fact, trust is the basis for interactions on all levels and a necessity for sustainable governance and we would go as far to define it as the hallmark of a stable state.

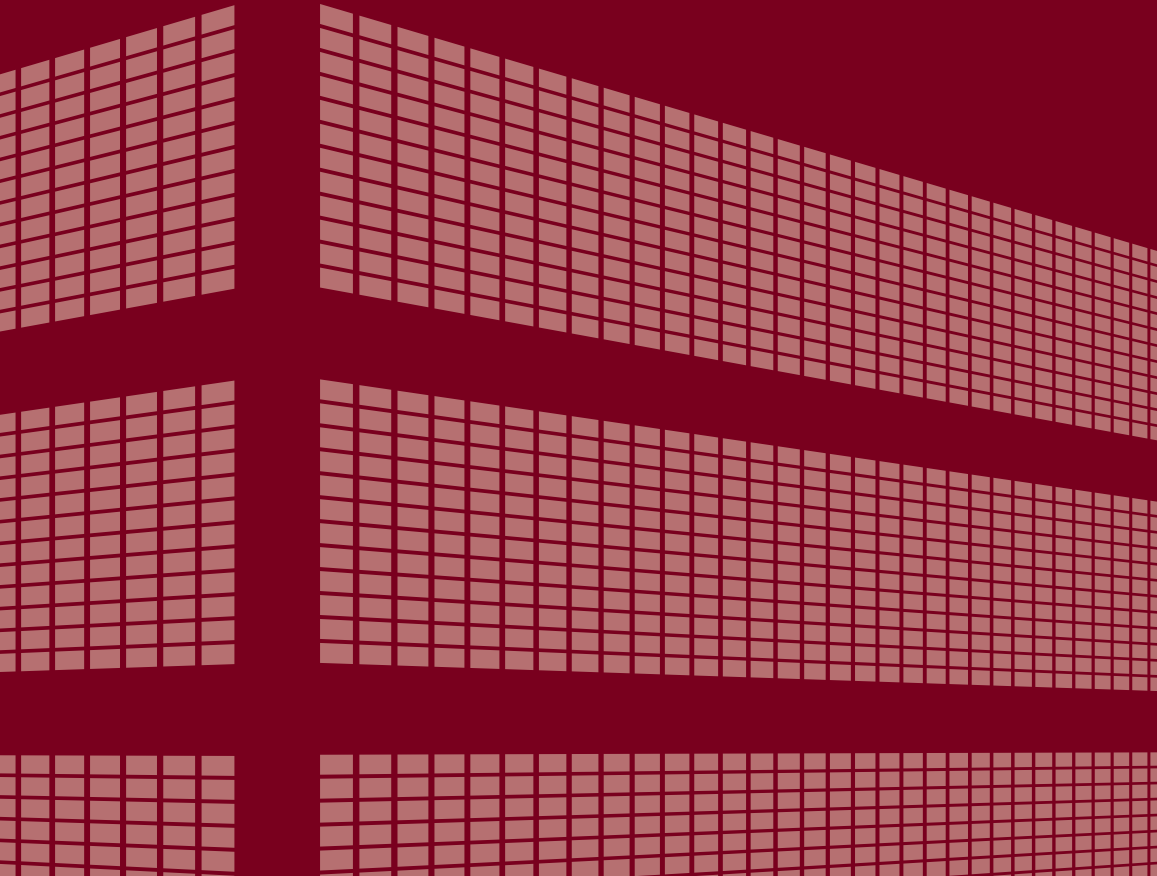
In this regard, we hope that this book contributes towards a better understanding of the factors essentially making a state stable and we would like to thank all authors for their insightful contributions.

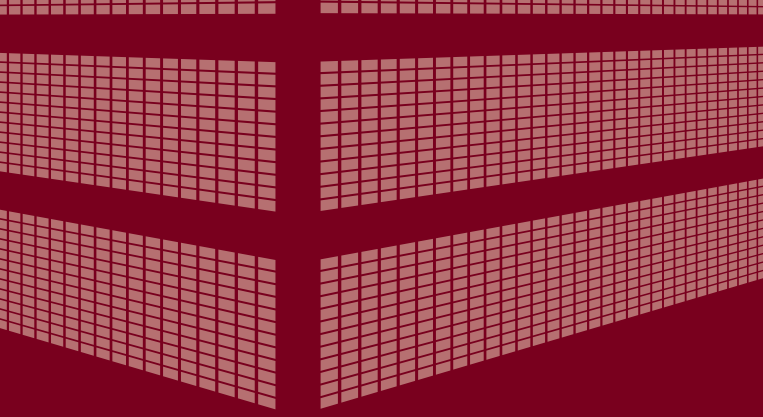
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# DEMOGRAPHY

Stephan Marik-Lebeck & Alexander Schahbasi



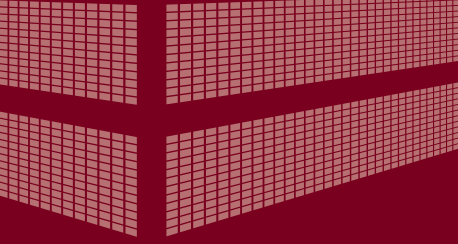


The world is currently populated by over 7 billion people and according to estimates that number will augment to 8 billion by 2025. Will it get “flat and crowded”, to paraphrase Thomas Friedman? In any case, we are witnessing a major demographic leap, unprecedented in world history. This growth will mainly take place in developing regions (with Africa leading the way), while the population in developed regions will remain constant. Europe, in the long run, will be shrinking.

Bearing the global population and migration dynamics in mind, the pressing question for policy makers is the related impact on nation states. The maintenance of “stable states”, particularly in the realm of social cohesion, is and will remain a challenge for governance in the 21<sup>st</sup> century. Which impact will changing demographics due to migration and ageing have on social cohesion and the respective policies?

It is evident that demographic and migration trends differ widely and even if similar might vary in their impact due to the respective socio-economic environment. Globally, these trends clearly mean different things to different people.

In the case of western industrial states (and also China), the demographic composition is to change fundamentally, with demographic weight shifting towards higher age groups. So while the number of older people is ever increasing and fertility rates are likely to stay low, the questions arises if current increases of productivity are maintainable in the future. Increases of productivity have so far been the main source for creating public wealth and thus sustaining current levels of social benefits and pension payments. The central question of social cohesion will lie in the retention of the “generation contract” – the provision for pensioners by those in the workforce. The financing necessary to keep up social benefits should, however, be seen in overall demographic dependency ratios and not just in relation to the ever increasing number of pensioners. The number of people that will have to be supported by every person of the workforce is going to be rather stable, as the large increase of pensioners is partially offset by the decrease in the number of children.

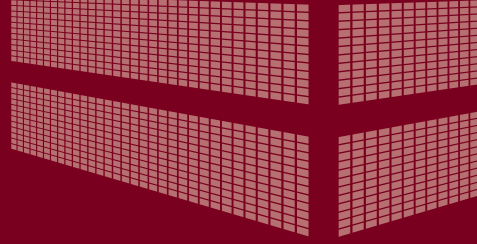


Dwindling innovation in combination with an ever increasing number of older people (which, in general, tend to have a lower innovation potential) may lead towards a rather stagnating economy that may in turn not be able to increase public wealth. This, in combination with an increasing demographic weight of older people, presents a real challenge to social and economic policy, particularly when considering the electoral power of this group.

Thus the danger of shifting policies away from the needs of the younger population remains real and policy makers are well-advised to counterbalance this trend by deliberately putting the focus on the needs of younger population groups. This may include new ways of organizing work as part-time and non-regulated work hours are a prerequisite for better compatibility of work and parental obligations. But also better childcare, less bureaucratic needs for the inception of businesses and deliberate tax-cuts for start-up businesses may be a good bet.

Still, changes in the demographic structure of a country in itself should not be seen as completely determining the socio-economic fate of a society. It may well be convenient for an ageing society to adjust its economic profile in line with the needs and skills of an older population. Yet, innovation will remain central as the source of continuing prosperity as only productivity gains induced through innovation can be transformed into gains of wealth for the society as a whole. In order to maintain current living standards it will be essential to find ways of extracting innovation out of experience. To achieve this, however, a change of economic culture is needed, that grants more value to experience instead of adhering to the shining new.

Much political attention is given to another possibility: that of importing innovation. Migration flows and the resulting diversity of workforces during the last fifty years in most industrial nations have put new demands on social bargaining. Social and economic inclusion is imperative, including perspectives for political participation, as permanent exclusion will be undermining the long-term stability of a society. The adjustment of institutions, governmental, quasi-governmental and non-governmental to the changing realities of a multi-ethnic workforce will be a necessity to prevail as a “stable state” and to maintain social cohesion. Yet, managing diversity will get ever more difficult. To balance perceived shortages of skilled workers, all industrial countries try to import well-educated workforce. However, this model is quickly reaching its limits as countries with significant numbers of highly-skilled workers are either offering sufficient incentives for these groups to stay (economic take-off) or competition among industrial countries is getting ever more important. Anyway, in

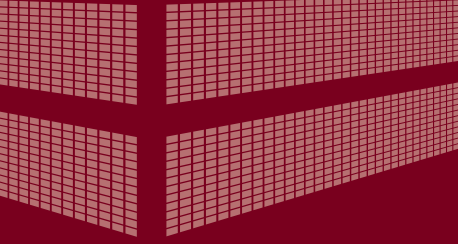


most developing countries there is only limited supply of the qualifications requested in industrial countries. In addition, the loss of potential innovators for the countries of origin may count negatively for any economic development. Yet, there may be benefits to the country of origin in the long run, if substantial numbers of innovators can be lured back after some time abroad. Indians from Silicon Valley acting as catalysts for development of the IT-industry in India are a good example. To succeed, it is necessary though to have favourable conditions in place for setting up businesses.

Changing demographics in many of the current countries of origin of migrants (i.e. Eastern Europe, which since the fall of the iron curtain has become a kind of central human reserve basis to Western Europe), will mean that the supply of relatively easy-to-integrate migrants will progressively be reduced. Two factors overlap in this fundamental demographic change: on the one hand formerly communist countries experienced a period of extremely low birth numbers due to the economic uncertainty of the time after the fall of the iron curtain. Thus, the generations now entering the labour market tend to be much smaller than previous generations. Employment opportunities may thus significantly improve in the countries of origin, thereby reducing the willingness to migrate abroad. In addition, emigration flows out of these countries during the last twenty years consisted mainly of younger people, thereby reducing the number of potential parents, resulting in a probable further decline of birth numbers in the countries of origin.

This, on the other hand, means for countries trying to attract migrants that competition for skilled migrants will intensify, which may lead some countries to attract migrants from further abroad. Increasing migration over big distances, though, often goes along with an increase in the cultural gap between the country of origin and destination. This may render integration processes to become much more complex, with also many negative side-effects. Nevertheless, there is some evidence, especially from North America, that the integration of people with more diverse cultural backgrounds may also be successful if the possibilities for socio-economic participation remain intact. Thus, appreciating greater diversity in all policy processes seems to be a good insurance to keep up social inclusion also for any ever more heterogeneous society.

With increasing competition among industrial nations for a limited supply of well-educated migrants, it may also be useful to turn to existing reservoirs for future innovation. Many industrial countries possess an ethnically diverse youth, which may prove advantageous in light of the continued globalisation of the economy. To tap this reservoir, it would be necessary to overcome barriers and obstacles in social up-ward



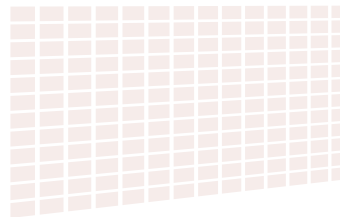
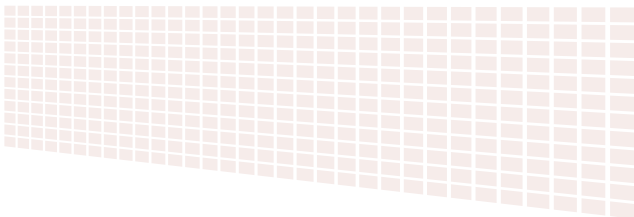
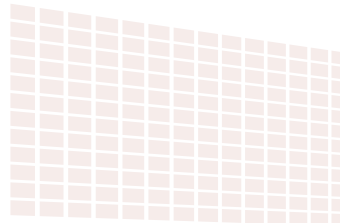
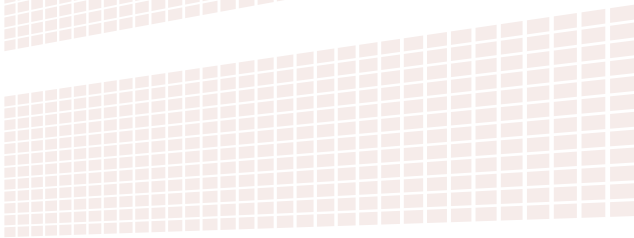
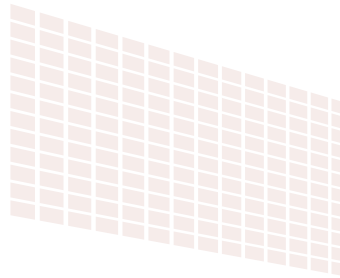
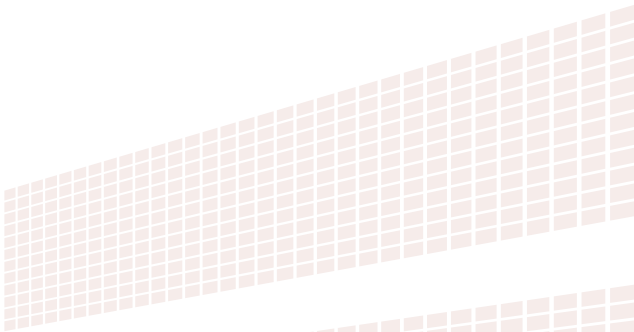
mobility, especially for migrants as the socio-economic status of parents still largely determines the educational chances of children.

There is, as argued, a strong linkage between demography and social cohesion. The two main challenges at hand will be ageing and migration. Nevertheless, as economic conditions and also social values have quite changed and keeping in mind the financial and economic crisis, we have to consider that a constantly growing number of people is not properly represented in the social bargaining processes. Also a declining middle-class will have a major impact on the socio-economic environment and electoral politics that should not be neglected. The socio-economic and political inclusion of the maximum number of people in society remains a priority, as all those considering themselves “superfluous” may represent a potential for social unrest. If young people in many industrial countries now hardly have a perspective of finding a decent-paid job offering the level of social security enjoyed by a large part of the population in the past, the way is paved for social unrest and/or mass emigration. Both options would undermine the stability of any given country. While social unrest in itself represents a threat to any political system, mass emigration would be a problem, as it would rip a country off its most powerful innovators (which usually form the most mobile part of a society) and thus severe the comparative position of its economy.

Demographic development, driven through ageing and migration, is a decisive factor for nation states in sustaining stability. As policies in this realm tend to yield results only over decades, it is vital to conceive long-term strategies with a clear vision of foreseeable changes in the societal composition and the related impact.

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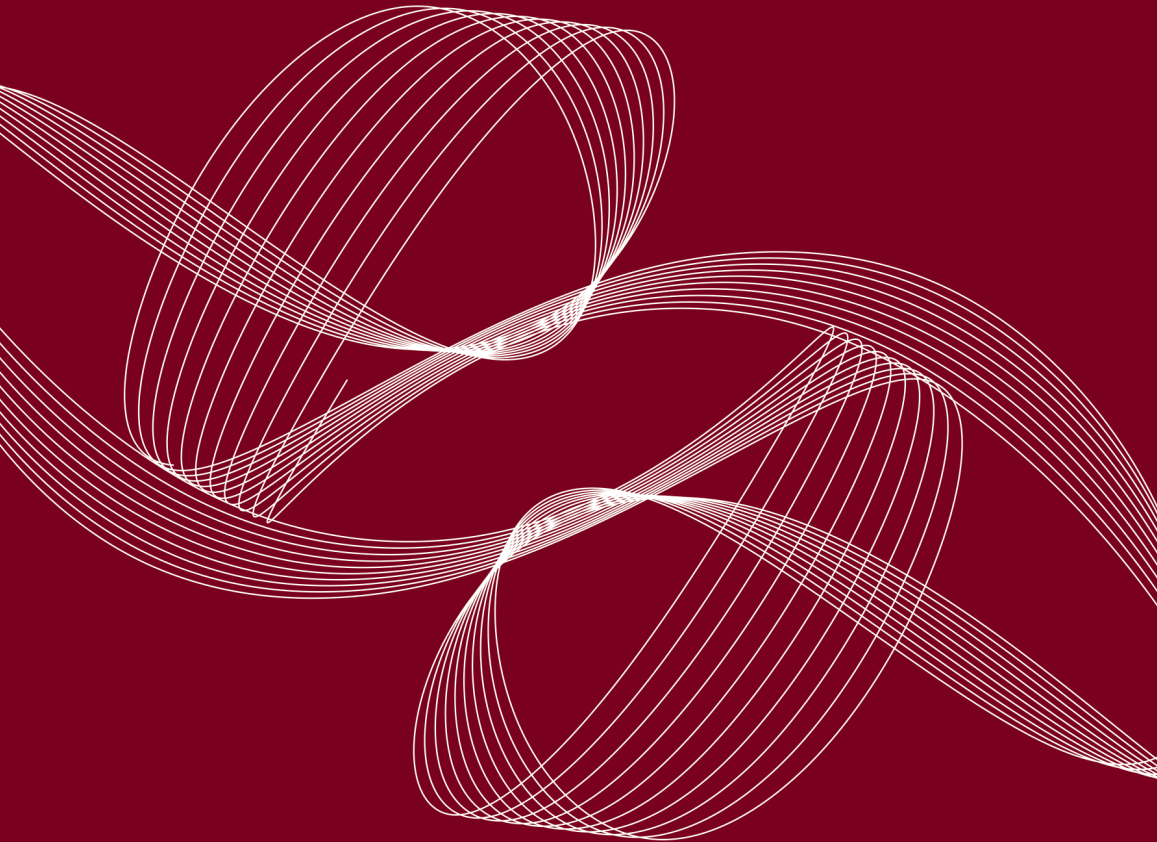
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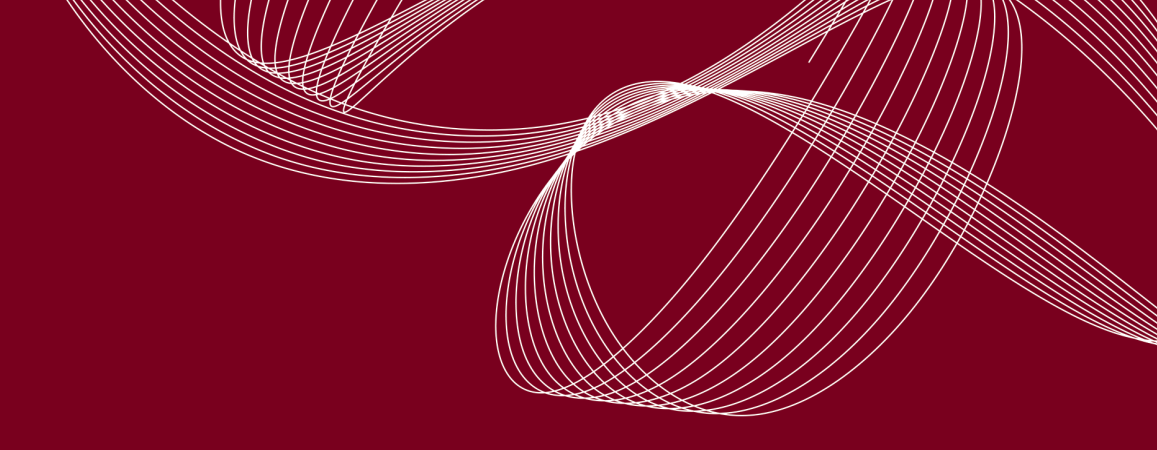




# MIGRATION

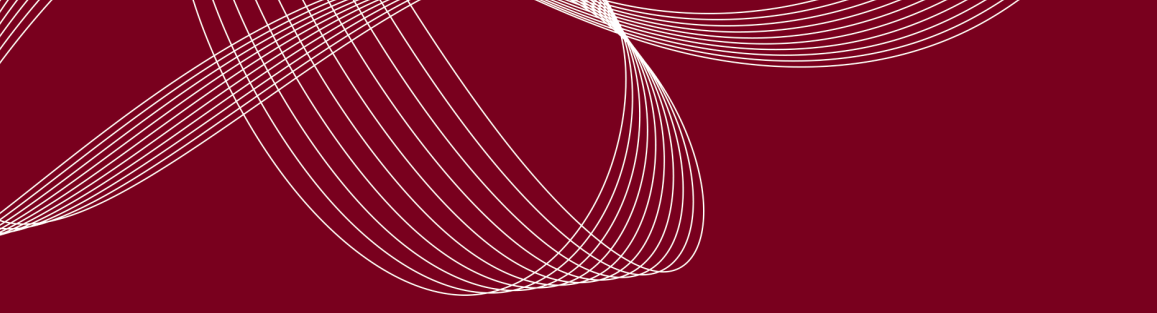
Martin Hofmann





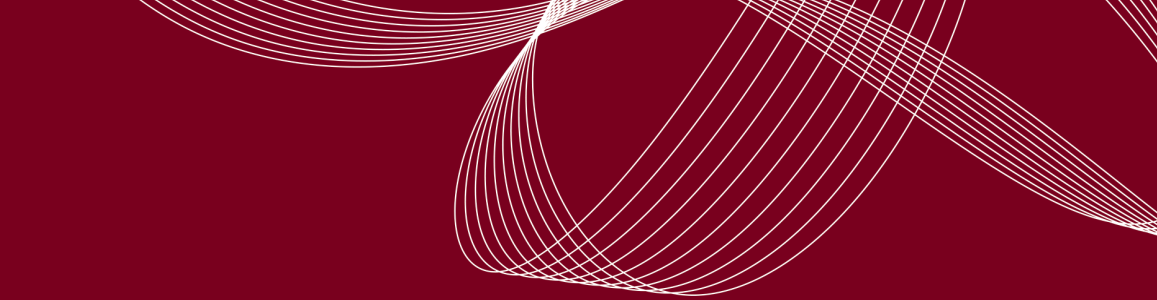
More than 20 years ago, Myron Weiner pointed out in a widely read article that the security of states can be affected by migration as much as the movements of people can be affected by security considerations of states. This notion reflected a trend in rethinking the concept of state security at that time, but also reacted to the fundamentally changed security environment after the end of the Cold War. Traditionally, state security was understood as the effective monopoly on the use of violence in a given territory. Consequently, a threat to state security would only occur when this monopoly of violence is threatened, be it through an invasion from another state or through instability, revolution or a coup d'état on the inside. The latter has become the main concern during the second half of the previous century, security concerns shifted from their external to their internal dimensions and focussed more on the safety of the individual and aspects like environmental factors, economic instability or social tension. Amongst others, “massive migrations” were seen as a main factor in the new thinking on state security. Many states have followed this perception and included the issue of migration in their security agendas.

But what are the circumstances under which migration becomes a potential or actual threat to stability and state security? This question is anything but easy to answer. Already Weiner pointed out that the term security cannot be defined unambiguously and will have different meanings in different societies. The same applies when trying to analyse which situations are seen as a threat, and whether migration is considered to be among them. Immigration levels are an obvious factor to look at. A country like Lebanon, for instance, is facing immense pressures due to the high numbers of refugees fleeing from war, civil war and unrest in the neighbouring countries. Jordan, with a total population of app. 6.5 million people is hosting refugee populations representing more than one tenth of its population, putting scarce resources under strain and triggering more and more hostility among the resident population. Both states have strong concerns that if the high inflows from Syria continue, they will ultimately lead to political unrest and a destabilisation of the state structures. At the same time, the United Arab Emirates host immigrant populations who represent app. 80 per cent of the total population and an estimated 98 per cent of the labour force. Though there are security concerns related to this high share of foreign born population, it is not



perceived as an immediate threat. Obviously high numbers are not the only factor to be considered. Immigration might become a security threat, or be seen as such, when it occurs in large quantities, appears to be beyond control of the receiving state and to endanger its economic, political, social and cultural stability. Unfortunately, it might also be perceived as a threat when none of these apply.

Throughout history, states have received, hosted and integrated large numbers of immigrants without collapsing. Thus, immigrations have unfolded in short-term massive inflows in reaction to immediate crisis situations or at more moderate levels over longer time-spans. They have included immigrants with close historical, cultural and linguistic ties to their new host countries but also immigrants without any of those characteristics. Migrations have been planned or spontaneous, voluntary or forced, demand or supply driven. And there have been a considerable number of cases where “migrants” had not moved in the first place but found themselves as “foreign citizens” in their traditional habitat as a result of state dissolution and new international borders. As stated above, large-scale and spontaneous immigrations can put societies and state structures under major stress but that does not mean that these structures break down. Obviously immigration as a single factor is not sufficient to destabilise societies and state structures to the extent where their functioning is really threatened. But when large scale immigration occurs together with other factors like violent conflict, ethnic tensions, a catastrophic economic situation, social, cultural and religious divide and weak state structures, it can be a catalyst for worsening the situation. However, all evidence suggests that immigrants and other minorities will be the first to suffer from this. Normally, they represent weak groups within a society, which due to a lack of access to the instruments of state power, the political system, the public discourse and the media are an easy scapegoat when states and societies get under pressure. We must not deny the potential threat of immigration to the stability of states and societies. But when we look at realities we have to conclude that in an overwhelming number of cases it was, is and will be the other way around. Severe conflict in a society and weak state structures will see immigrants and minorities as the first victims of state oppression, suspicion and hostility from the majority population, expulsion or ethnically motivated violence. Even when the perception of immigration as a threat is not based on realities it can become a very powerful force within a society. This not only applies to states in real crisis situations, but also to the wealthy, safe and stable ones that are only exposed to moderate immigration levels. They also experience social change, see it as a challenge and feel that immigration is somehow associated with it. Although they do not perceive immigration as an immediate threat to state security, they see it as a challenge in the context of cohesion within society, a term

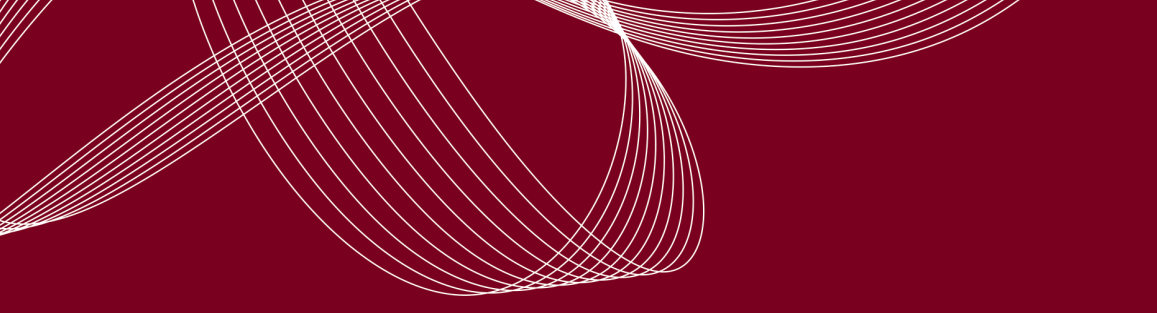


which summarises the positive forces bonding a society and which has gained in prominence in recent years.

It is part of the human nature to look upon the past with nostalgia, to remember the positive things rather than the negative ones and to state that things are not as good as they used to be. Also among societies there is the widespread notion that social relations worked better in the past “when everybody knew everyone, and people would help each other.” Most related research suggests that a majority of people thinks that social cohesion is declining, that societies are becoming increasingly fragmented and traditional social bonds continue to diminish. The main reasons for this development are quickly listed: Globalisation, economic and technological change, modern communication means, new lifestyles but also immigration are considered to disintegrate societies.

There is no universally agreed definition of social cohesion, it might have different meanings in different contexts but all definitions have in common that they refer to a sense of “inclusion”, “belonging” and “identity” within a society whose members feel connected with each other but also with the institutions, exhibit solidarity, have a sense of community and share an “orientation towards a common good”. These attitudes not only guarantee peaceful and gratifying relations between the members of a society but are considered to be an inevitable precondition for the functioning of a state. Consequently, states have to pay attention to questions related to cohesion and try to maintain and further promote it.

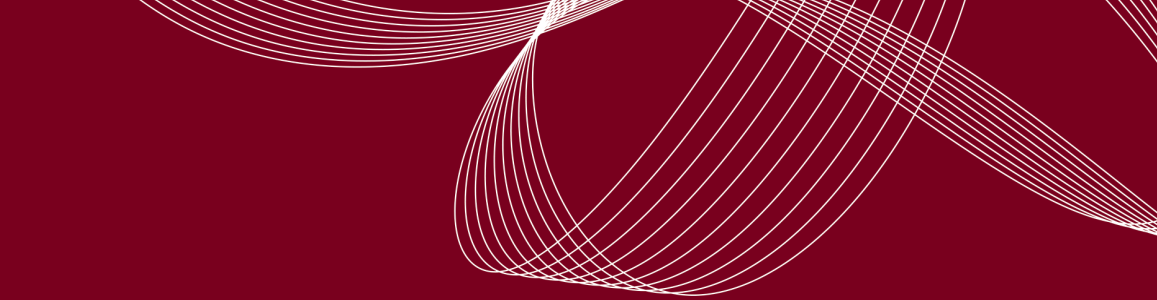
But at which points should they intervene and how? Cohesion is a condition that cannot be easily measured but a closer look at related research provides some valuable insights. In a recently published study, the Bertelsmann Foundation investigated the state of affairs on social cohesion in 34 EU and OECD countries. The study applied a sophisticated research design grouped around nine dimensions of social cohesion in the areas “social relations”, “connectedness” and “focus on the common good”. The findings of the study are clear but at the same time quite surprising. The countries with the highest GDPs are also the ones with the strongest cohesion. The degree of unemployment is of lesser importance, whereas technological innovation has a positive impact. Highly developed welfare states are top of the ranking but are directly followed by countries with lesser developed welfare systems. Globalisation does not appear to undermine social cohesion and neither does immigration, the countries with the highest immigration rates are also the ones with the highest cohesion. Trust in the institutions, participation in social networks, the respect for social rules and



the acceptance of diversity play also an important role, depending on the respective traditions in a country. Last but not least, cohesion does not change quickly but is a rather constant factor in a society. Following the findings of the study, a cohesive society is characterised by a high and growing GDP, a high degree of technological innovation, traditional but functioning relations with institutions and associations, respect for social rules and high immigration rates. In order to promote cohesion, the state has to promote a positive economic development, innovation and the creation of opportunities and prospects for the population on its territory. But if immigration is of lesser importance for the degree of social cohesion than widely assumed, why is it so high on the agenda of the related debate?

The previous section has concluded that a coherent society is an innovative and an economically potent one. But economic performance and social change due to innovation do not come without a price. Modernisation does indeed imply that cherished traditions and types of interaction come under pressure. The experience of a diminishing of binding social ties, of individualisation and fragmentation is not only a myth; it is a reality inherent to all social change and modernisation. The question is how profound these changes are, how rapidly they happen and which social groups they affect. Societies need to undergo transformation and have an inherent capacity to do so but when they experience fundamental and abrupt changes they might not be able to adapt without serious tensions among the various social groups, instability or even violent conflicts. The enormous military and civilian casualties of World War I, the economic devastation and lack of collective identity due to the collapse of the traditional regimes in its aftermath aggravated the existing antagonisms in many European countries and paved the way for the political extremism which ultimately dismantled the young democratic systems. This example from the not so distant past leads to two conclusions. Many negative factors have to come together to destroy cohesion within a society but if they do, its breakdown might destroy the political system as well. The lesson learnt from history is that in order to maintain its legitimacy, the political system must maintain and actively promote social cohesion.

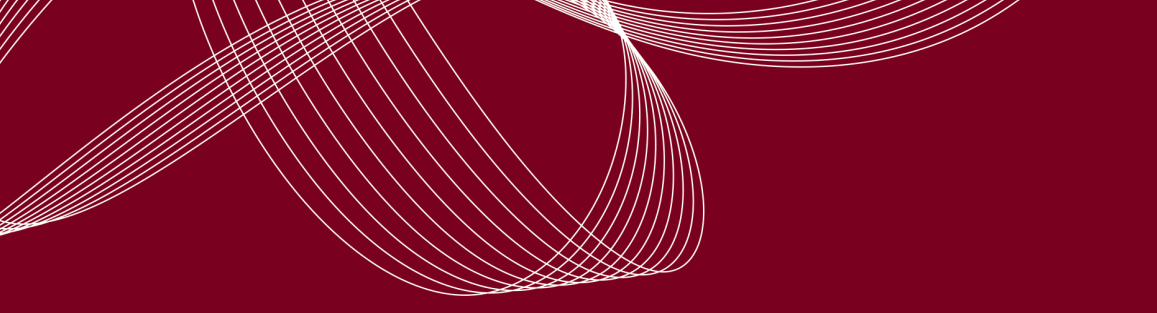
Immigration is seen as a main aspect of social cohesion especially in the European context. Other world regions with significant immigration debate the phenomenon as well and do not deny that it brings along challenges. Still, they perceive migration as a normality rather than an exception. In Europe the approach towards migration has been different and the reasons for that are twofold: First, and in view of the longevity of perceptions underlying social cohesion, immigration is still a young phenomenon in the European context. Second, the emergence of significant immigration flows fell



together with the end of the post-war age of prosperity in the 1970s and the crisis of the welfare state in the 1980s. For many centuries Europe has been a continent of emigration. Its development to one of the main target areas of international migration flows started only in the 1950s and was closely linked to the economic success story especially of the Western European countries which formed the core of the European Communities and later of the European Union. Until the 1970s the size of immigration flows to Europe was rather moderate and state measures to control and limit immigration flows more or less functioned. The dissolution of the Soviet Union and the fall of the Iron Curtain in 1989/90 opened a new chapter in the history of European migration. The expected “invasion from the East” did not take place but migration increased; migration flows shifted to more distant regions of origin; they increasingly took on the form of irregular migration; and there was a significant increase in asylum migration. However, the changing migration realities coincided with the most prosperous and peaceful era in European history, the end of the resentments between the European powers, the final victory of democracy and a degree of economic and political integration unthinkable a few decades ago. Of course it would be wrong to attribute European integration solely to immigration; however, it is also very much true that migration was by no means detrimental to this development but crucial to sustain the economic momentum which built the basis for the European success story after 1945.

But, as stated above, not all parts of the European populations have benefited equally from this success. Disparities in income, opportunities and social standing are increasing as well as those parts of the population who feel left behind because for whatever reason they cannot keep up with modernisation. Immigration is a visible expression of economic change but also of change within neighbourhoods, communities and whole societies. It seems to be easier to identify certain developments with individuals, even more when those individuals talk, look and behave differently, than with a whole range of complex interrelations even the most senior leaders and academics can neither fully understand nor sufficiently explain. Consequently, immigration is perceived as a threat when in reality the threats come from different directions, such as the economic cycle and its up and downs, the restructuring of the labour market, stronger international competition, rent increases due to changing life styles, higher energy prices due to increasing global demand, cuts in state and welfare spending to name but a few. Anti-immigrant sentiment is mostly found among those who are in fear of losing their jobs, their livelihoods and their social positions. Telling them that migrants are not to blame will not change their minds no matter how true such a statement is. More acceptance for immigration can only be achieved through policies that try

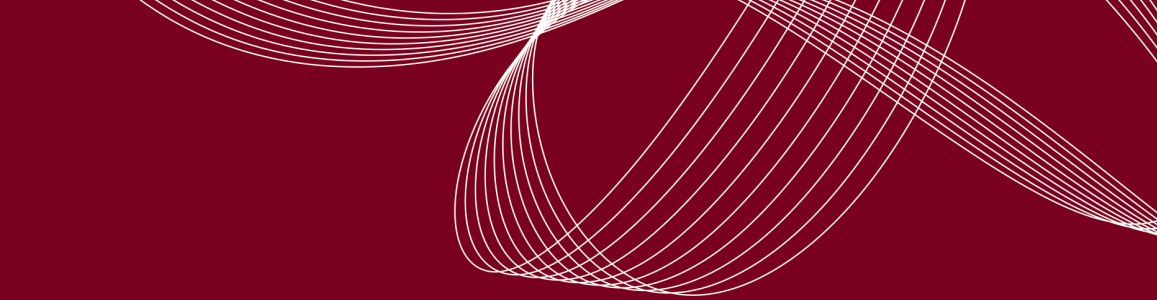




to make sure that nobody is or feels left behind, that create jobs, opportunities and prospects for everybody and promote cohesion for the whole society. Taking into account the significance that is assigned to work in modern life as a means of ensuring social standing and individual purpose, the issue of economic participation will always be the key factor in this respect.

The question on the link between migration and social cohesion also raises the question on the future governance and the future role of the state. By definition, migration only exists as long as states do as autonomous geopolitical entities with defined territories, external borders and citizenship, and “state citizens” move between them to settle abroad. Thus, the state is not the only actor shaping the size and direction of international migration. Other states, the local level, the international migration regime, migrant communities and networks as well as the economies are equally important actors whose individual influence on the actual migration situation is not always easy to distinguish. Internationalisation and globalisation might suggest that the international borders will increasingly diminish and that the nation-state is as a model which is becoming more and more obsolete. But so far there is little evidence to assume that it will disappear in the near future. In reality, the number of nation-states constantly increased during the last century and this process of disintegration continues today. This development is not necessarily a proof of the characterisation of the nation-state as the most successful model of political organisation but a result of the end of colonialism, the collapse of the Soviet System, ethnic tensions and violent conflict on a global scale. Still, our world is becoming more and more international implying that interaction and interdependence between states, economies and societies will continue to intensify. The significance of international and non-state other actors will increase even more in the future but the territorial state as a “territorially-based political organisation” will remain *an* if not *the* key actor in international politics.

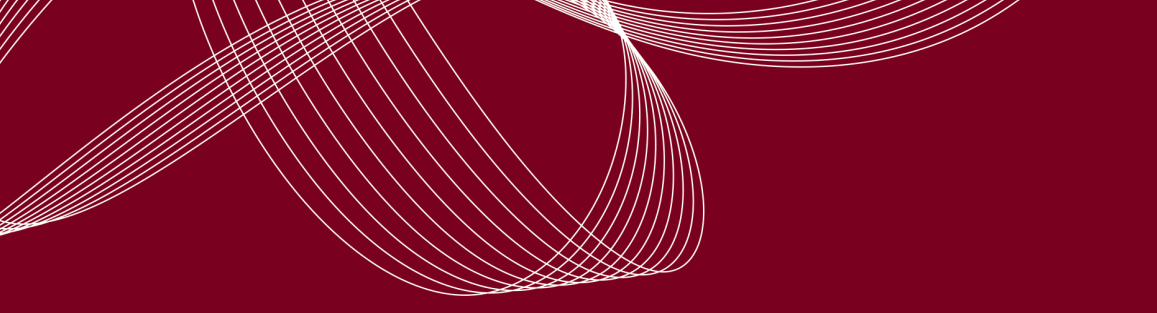
When this assumption holds true, the international phenomenon of migration will continue to have its national component, implying that states will have a key role in controlling the entry of migrants to their territory and in promoting the successful integration of immigrants within their territory. But if so, how big will this role be? One might argue that internalisation, demographic change and enhanced needs for foreign labour will undermine the role of the state as key actor in governing migration and that the real control of migration flows will shift to the economy, the market and the individual. In short, more migration would imply less state control – but is this assumption also realistic? Not necessarily, at least when control is not understood as restriction but as inevitable part of the development and implementation of targeted



migration policies with clear objectives, tools, instruments and means of monitoring. “Steering” migration in a beneficial way for migrants and non-migrants, societies and economies, as well as sending and receiving states requires a sophisticated and interrelated set of interventions at various levels. In reality, more migration requires more but also improved state control. It requires better interventions, more know-how and enhanced administrative capacities. The recent changes in labour migration policies might serve as an example for such a development. Over the last years, European states increasingly acknowledged the need for foreign labour; however, their answer was not a simple opening of their labour markets but the establishment of a complex regulatory and procedural framework trying to establish current and future labour market needs in a concerted and differentiated way, providing for various types of entry, residence and work permits for different migrant categories, and carefully monitoring and evaluating the impacts of these policies. The various skills-based, points-based, education-based, skills-shortage based, seasonal, temporary, circular and permanent schemes did not reduce the need for effective state control, on the contrary, they have increased it. From a realistic perspective, the future state will neither pursue a “laissez-faire-regime” on migration, simply because voters would not support such an approach, nor will it close the gates to immigrants because they will be needed economically and demographically. It will have to develop and implement policies that explicitly deal with immigration but will have to combine them with policies that maintain and promote social cohesion as a whole.

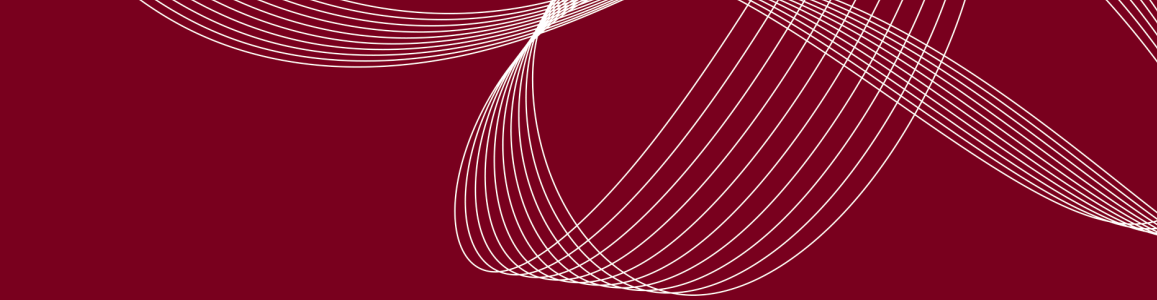
It was argued above that there is no dichotomy between immigration and social cohesion but that immigration is one of the sub areas which need to be addressed in order to maintain and foster cohesion within a society. It was concluded that the state has a key role in fostering cohesion and that societies despite their inherent capability to adaption rely on the state assuming this role. There is no “magic bullet”, which would solve all challenges in one go, but the need for systematic state action expressed in a comprehensive mix of policies addressing overall social, economic, political and cultural aspects in a society. Ideally, these policies foster equal opportunities, a fair distribution of wealth, a sense of joint identity, a feeling of belonging and togetherness, trust in the institutions and a high degree of interaction and exchange between the various groups in the society. Thus, and in order to positively address the sense of fragmentation within modern societies, policies on cohesion should create as many meeting points as possible where social groups get together and interact. The so called regular structures – kindergarten, schools, universities, the army, the police etc. – have to be receptive to immigrants or people with migration background and accommodate for diversity. Associations and clubs which foster joint activities





between the various social groups should be further promoted. Spatial segmentation between neighbourhoods and residential areas should be prevented. There is a long list of positive interventions, and many have been started already, but there is a need for intensified efforts based on the understanding that “integration” does not refer to immigrants but to every member of the society. Related policies have to follow a “whole-of-government” and “whole-of-society-approach”. They have to be inclusive in the real sense and benefit all parts of the population but have to pay particular attention to the vulnerable groups among them, namely those who run the risk to fall behind as economies and societies go through change and modernisation, and – that is the point – regardless of whether they are immigrants or not. Thus, immigrant-related policies become part of an overall policy promoting cohesion. Of course they should be tailored to specific needs but not be seen as interventions fundamentally different from the wide array of policies that directly or indirectly try to maintain and promote cohesion in the society. Conversely, policies on cohesion can learn a lot from the principles and practices of migrant-related integration policies. They can learn how to “promote and require”, how to mobilise populations, how to tailor measures to concrete needs and how to address diversity.

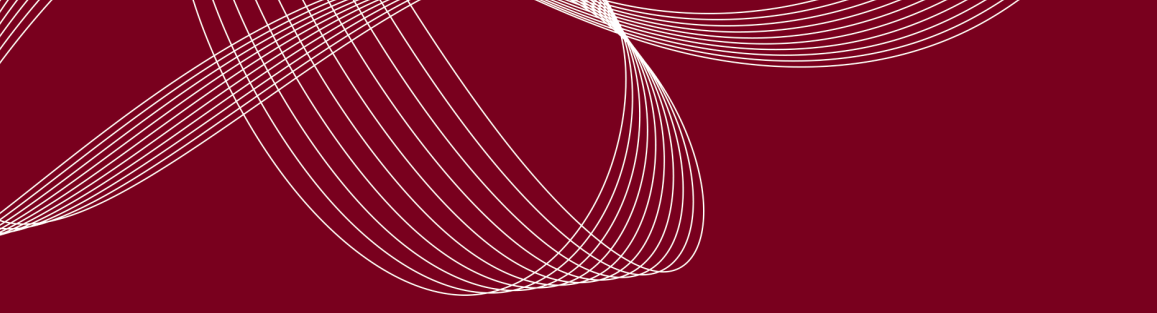
A final question remains, and that is the one on the political rights of immigrants. Both, the legitimacy of democratic systems and the degree of cohesion among their societies require the full exercise of citizenship and political participation. In view of the projected demographic developments in Europe it is to be expected that immigration will continue and the share of immigrants, i.e. non-citizens, among populations will increase in the future. If immigrants decide on keeping their own citizenship or are denied the citizenship of their country of residence, this also implies that ever larger shares of the population are not fully represented in the political system, cannot vote in elections or run for a political office. When democracy is seen as an instrument for conflict prevention and peaceful conflict resolution, a non-participation of larger shares of the population is not a desirable situation. It has the potential to weaken the legitimacy of state action and institutions in the view of immigrants and to further forms of political expression outside the majority system. Notwithstanding this, citizenship is a key aspect in the relationship between a state and its members. It has a legal, political and symbolic quality and is of high emotional value to those who have it; understandably, they do not want to see it given away for free. Such concerns need to be taken into account to find acceptance for a naturalisation policy, at the same time immigrants should not have to wait eternally before becoming fully acknowledged members of the societies they may have lived in for many years. Many states see the acquisition and awarding of citizenship as the logical end point of a



successful integration process and proven adherence to the main legal, political and societal values of the country of residence. From the viewpoint of social cohesion, this approach has to be welcomed as it promotes the political integration of (former) immigrants, at least in the long run, furthers the legitimacy and stability of the political system and ensures a high degree of acceptance from its citizens.

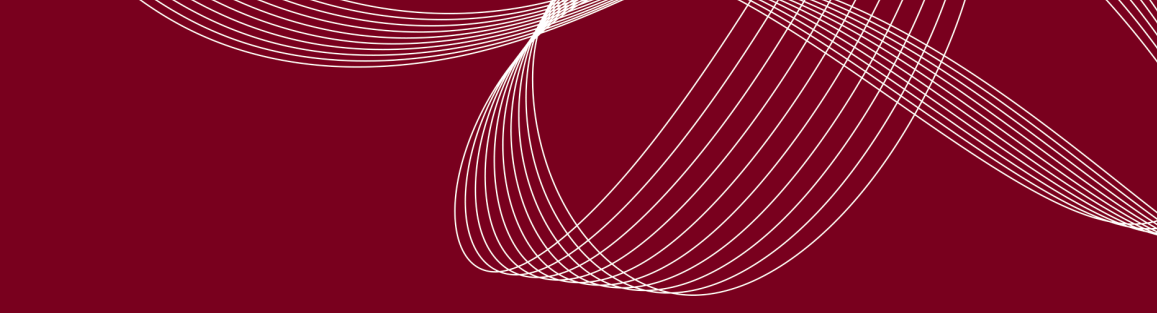
This essay has discussed the possible links between migration, security and social cohesion and the role of governance in addressing them. It has argued that the potential or actual threat of immigration to state security must not be denied, but that immigration alone is not sufficient to destabilise state structures to the extent where they are endangered to break down. A real threat to security and stability will only occur when large and short-term immigration coincides with internal or external violent conflict, ethnic tensions, economic crisis, social, cultural and religious divide and weak state structures. Even then, immigrants and other minorities will most often be the first groups to suffer from such developments. Also when immigration develops at rather moderate levels and affects wealthy and stable countries, it is often perceived as a challenge, maybe not to security in the narrower sense but to the broader concept of social cohesion. Economic and social change impacts on traditional ways of social organisation and on the social standing of certain groups of the society. A sense of loss and fears regarding their own marginalisation makes some parts of the population turn against immigrants whom they associate with this development. Cohesion is strong in societies with high economic performance, a lot of innovation, functioning state structures and a high degree of social interaction. Normally, such states also have higher immigration rates but less reservation against immigrants. Conversely, states have to address the issues of immigration and immigrant integration in a broader context of promoting social cohesion at all levels and for the whole society.

Assuming states will remain as key actors in national and international politics, this article calls for their strong but certainly not omnipotent or omnipresent role in the promotion of cohesion and the steering of migration. The state will have its role in migration control and management and it will play its part in promoting immigrant integration and social cohesion. Thus, it should focus on those areas where state action makes sense and where societies cannot fully succeed on their own. Under normal circumstances and when given sufficient time, societies have a strong capacity to adapt to changing environments. Immigration changes societies as much as it changes immigrants themselves. The foundations for what is meant by “social cohesion” will change as well and take on a different meaning in the future. But this seems to require



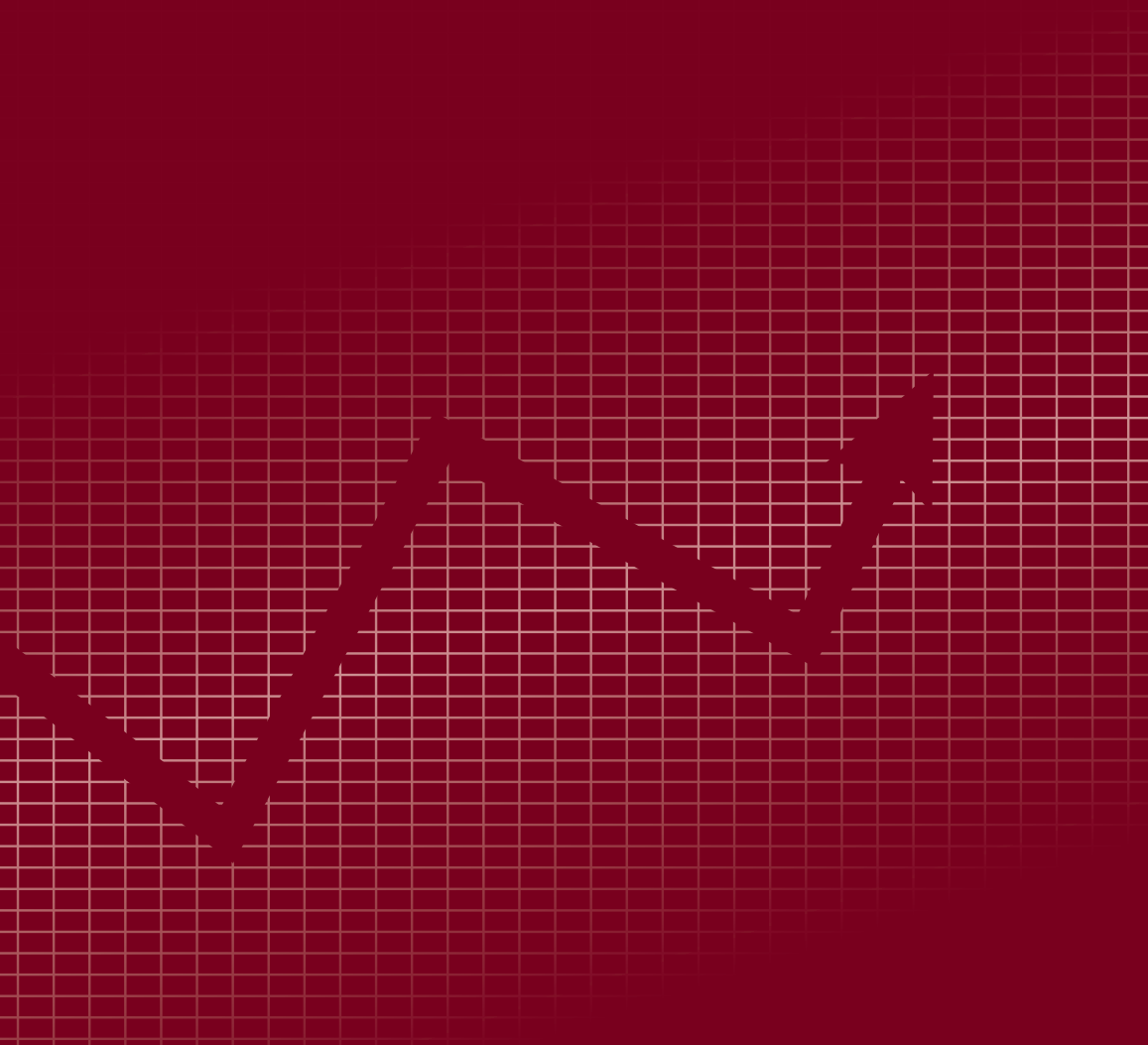
a long-term process, which, in order to unfold in a constructive and peaceful manner, needs the support of comprehensive and effective policies on social cohesion.

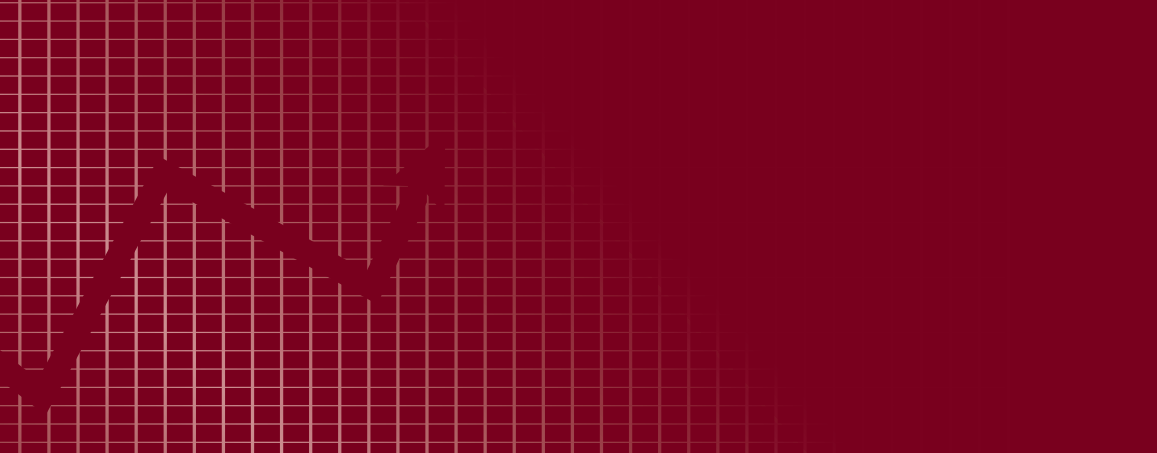
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# ECONOMY & FINANCE

Gottfried Haber






Economic performance can be seen as a major driver for social cohesion, which in turn is a key factor for stable states. In this context, the term “economy” refers to both, the economic system and the economic situation of societies and its members. Consequently, good governance in the economic sense comprises several important fields from a theoretical perspective: economic system design, economic policy objectives and economic policy implementation.

From a more applied and practical point of view, market regulation schemes and measures, financial markets and distribution issues including the tax system, the transfer system and labor market participation are the main drivers of economic and social stability of states and determine social cohesion. Most of these topics are also related to the protection of property rights and the provision of a predictable framework. Social protection and social security systems (health care provision, old-age pensions etc.) relate either to the transfer system (the provision of private or public goods by the government in the case of health care, or pensions financed by taxes), or to the financial markets (transfer of wealth from the present to the future in pension systems relying, at least partly, on private markets).

In the economic sense, social cohesion could suffer from two potential hazards: either envy among members of society or disappointed expectations leading to ex-post sub-optimal decisions and situations. While rather simple instruments, such as anti-discrimination legislation or taxes and transfer instruments, can handle inequality in different social contexts (e.g. the total distribution of income, or a mismatch between personal effort and reward), only a consistent and credible alignment of all policy areas can lead to stable expectations. This makes it much more complicated to achieve and difficult to measure.

Stability in the economic sense may be interpreted in several ways. Definitions include, among others, that there is no tendency of an economic system to deviate from market equilibrium in all markets in the economy. While appealing from a theoretical point of view, this approach does not contribute to a practical understanding of stability of states and societies, because social stability also requires systems to be flexible




enough to adapt to changing conditions (in a predictable manner). This is especially true for the design of the economic framework regulations, where a simple and static equilibrium does not exist in reality. Moreover, in theory completely unregulated market conditions might lead to efficient production (maximizing economic output), but do not automatically produce optimal results in the sense of total welfare of the society. Even worse, market failure in the competition system, lack of information, the presence of interdependencies in production and consumption call for specific market regulation schemes and a clear-cut framework of conditions provided by the government authorities.

This argument should not be confused with a call for extensive and detailed casuistic government interventions regarding the economic system, but interpreted as the need for a transparent, easy and stable definition of the rules for economic interaction. As we have seen from history, the different blends of (mainly) market economy systems mixed with some elements of social aspects, e.g. the “eco-social market economy” concept usually lead to an increased amount of social and economic stability.

While the fundamental design and composition of the main elements of the legal and economic framework are normative decisions that have to be taken by each society, there is a major issue influencing stability: the economic subjects (citizens) should be able to trust in the persistence of the rules defining the framework for their economic actions. This implies that fundamental rules are generally not changed in the short-run, and that specific measures taken by the government are completely in line with these fundamental rules. If changes in the framework are necessary to improve the performance of the economic system because of changes in the environmental conditions, in most situations these changes have to be made over an extended period and step by step. A clear announcement concerning the desired final state of the conditions including a time-schedule is also important.

Therefore, stable states with respect to economic conditions are characterized by a stable and persistent system of a (reasonably small) number of fundamental and credible rules, while micro-interventions are limited to a necessary (small) scale. These rules have to be formulated in such a generic and broad sense, that reasonable changes in environmental conditions do not render those rules useless – on the other hand, rules must be clear and powerful enough to be effective. The perfect economic system design with respect to good governance will rely on basic rules, which would not even have to be changed in case of small changes in social objectives and ideology; instead, the specification of details within these rules could be modified.



For example, the tax system itself should be subject to predictable and unchanged rules, even if re-distribution issues are re-aligned by a newly elected government. As an alternative, simple changes of the detailed specification, e.g. of certain tax rates and amounts, should be sufficient. We should not forget either that good governance would limit the number of rules, but at the same time would invest strong effort in the enforcement of these rules – again in order to provide predictable conditions for the economy.

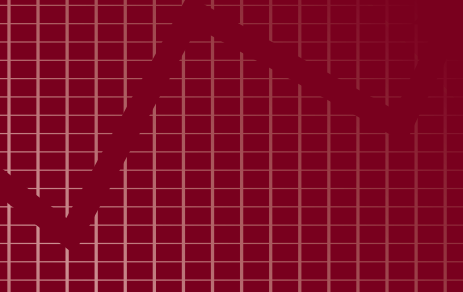
Another main aspect of social cohesion is the social provision of private or public goods, which is closely related to tax and transfer issues and determines the overall amount to be financed by the tax system. One of the major justifications for the existence of the public sector is the task to remedy market failure, when goods and services cannot be provided by the private sector due to lack of competition and potential profit. This is especially the case for goods consumed collectively, such as public security, infrastructure etc. Significant distribution effects arise from different consumption patterns within different social groups.

As a main conclusion for the impact of market regulation schemes on the stability of states, trust and confidence in the stability of the framework rules and conditions are of critical importance.

Theoretically, financial markets cannot be seen as a different sub-topic separated from general market regulation issues. In spite of this, due to the overwhelming importance of banking and finance issues for the last couple of years, financial markets regulation deserves special attention. Financial markets are responsible for two aspects of the economy: provision of money as legal tender including settlement of transactions (payment) and the intertemporal distribution of wealth (the distribution over time).

For both functions, faith in the stability of a currency and the financial markets framework is a main anchor for overall stability and should be a main objective for good governance. In this particular sense, stability arises from confidence in stability – and this feedback-loop is a serious source of instability. If confidence in the financial markets and the financial system decreases below a critical threshold, there is a self-reinforcement mechanism leading to even lower trust. Without intervention, the critical endpoint of this process could be the complete devaluation of money, which would no longer be a usable medium of exchange. Good governance in the financial markets sense therefore aims at providing the monetary system as a stable means of exchange; any disruption of money circulation (e.g. closing all banks for an extended






period, freezing cross-border money transactions, disabling cash dispensers and ATMs) should be strictly avoided to prevent unstable conditions and a profound loss of trust.

However, long before reaching this worst case, another serious problem related to the intertemporal distribution function of financial markets arises for the government: The only reason for the public sector being able to borrow financial resources from private subjects is unlimited faith in the credibility and the credit of the government and the public sector as a whole. As the usual maturity of government debt (mainly government bonds) is approximately ten years, every year around ten percent of government debt have to be re-issued in order to maintain liquidity of the government. Terms and conditions, especially the interest rate to be paid by the public sector, crucially depend on current market views on credit risk. Private economic subjects all over the world refusing to lend money and hitting some hard liquidity constraint for government finances mainly caused the problems in Cyprus and in Greece during the last years. As we know, severe issues in social conditions and public disorder resulted from these situations.

The intertemporal wealth transfer function of financial markets is to enable the economic subjects to transfer wealth from the presence to the future, which in turn generates financial debt for others – the obligation to pay back this wealth in the future. It is important to see that this simply implies that the lenders give up part of the goods and services they possess or produce currently and rely upon getting back these goods and services in the future. The borrowers can use these resources during this period. Thus, financial debt and financial wealth are directly linked to social cohesion. For the borrowers, it is important that the lenders trust in their credibility, because otherwise some kind of credit crunch might result, limiting economic development in the real economy. Good governance calls for the unconditional promise of the state to ensure and facilitate conditions in which lenders can rely on low risk of losing wealth. In this sense, rules for insolvency procedures (e.g. for the banking system) are still an important part of a predictable economic framework, but the main focus should definitely be on preventing such failure conditions by implementing efficient supervision and surveillance mechanisms in specific critical markets with the potential of severe external effects.

As mentioned before, the old-age pension system also relies on functional financial markets, as the whole system is based upon saving a part of present income (i.e. the lenders transferring wealth to another generation of borrowers) in the faith of consuming this wealth in the future, when the assets reach maturity. The linkage of




financial markets, real economy, social security systems, and public budgets is one of the most important factors to take into account in all fields of economic policy.

Summing up, the financial crisis of the last five years with all its impact on the stability of states and social cohesion was in fact a crisis of confidence in the long-run feasibility of public debt and credibility of the public sector. We can conclude that an overall stable budget path of the public sector is of crucial importance for social cohesion in the long run, because this is the only way to ensure stable private financial markets and to preserve the potential of the government for market interventions and also reasonable re-distribution activities, especially over time.

As pointed out before, no market economy will be able to do without some market intervention in the presence of unavoidable market failure in specific micro markets. Apart from these interventions, in order to move dysfunctional markets in the direction of compatibility with the fundamental rules, another reason for market intervention is identified in the literature: distributional issues. As mentioned before, the amount of inequality, which is desired or acceptable within a specific society, is subject to normative assessment. But there is wide consensus in economic sciences that all economic systems lead to a certain amount of unequal distribution of output and purchasing power. Historical evidence has shown that very sharp differences in income and economic wealth distribution can lead to unstable societies and states. Sources for differences in wealth are usually either the possibility to participate in economic activities (employment) together with the structures of families and other personal factors, or the historical accumulation of wealth.

For the stability of states, completely different implications arise from the different fields of government intervention. While labor market interventions (employment policies) tend to have less destabilizing potential, tax and transfer system design issues are much more controversial and potentially stabilizing or destabilizing.

Generally, labor market issues are closely related to education and knowledge, reduction of qualification mismatch, improvement of mobility, and other measures which tend to increase the overall level of economic activity, leading to higher total output and potential improvement of the economic situation for a wide range of social groups. At least, in most cases no clearly distinguished and confined social group suffering from these measures can be identified. This in turn is a reason, why artificially increasing or maintaining an excessive number of public employees bears



some destabilizing potential: People expect higher future tax burden and thus less disposable income in order to finance those employees.

Tax and transfer system design issues on the other hand tend to be effective immediately and can be clearly identified by individuals. The re-distributional consequences on the subject level can easily be valued in currency units. The assessment of the value of the provision of public goods and services – which is also important for improving stability of infrastructure, education, health provision etc. – is rather complicated. Individuals consequently tend to underestimate this value. Therefore, there is an inherent source of instability generated by re-distribution as a process, not only by the results of re-distribution activities. The main risk potential to social cohesion is that even net receivers of the tax and transfer system could feel that they contribute “too much” for the goods and services they receive in return. Transparency of the distribution effects is the only means to cope with this issue.

A stable tax system would be characterized by simple rules for determining the tax base; a simple algorithm for the tax rate, e.g. a flat rate, is not a necessary condition. Progression of the effective marginal and average tax rates should be smooth. Tax bases and the base for social security contributions should be consistent. Different social groups with a different structure of income should not suffer from different effective tax rates. If there is a subjective feeling of some social groups that contributions to the tax system are not fair, severe problems in terms of social cohesion could arise.

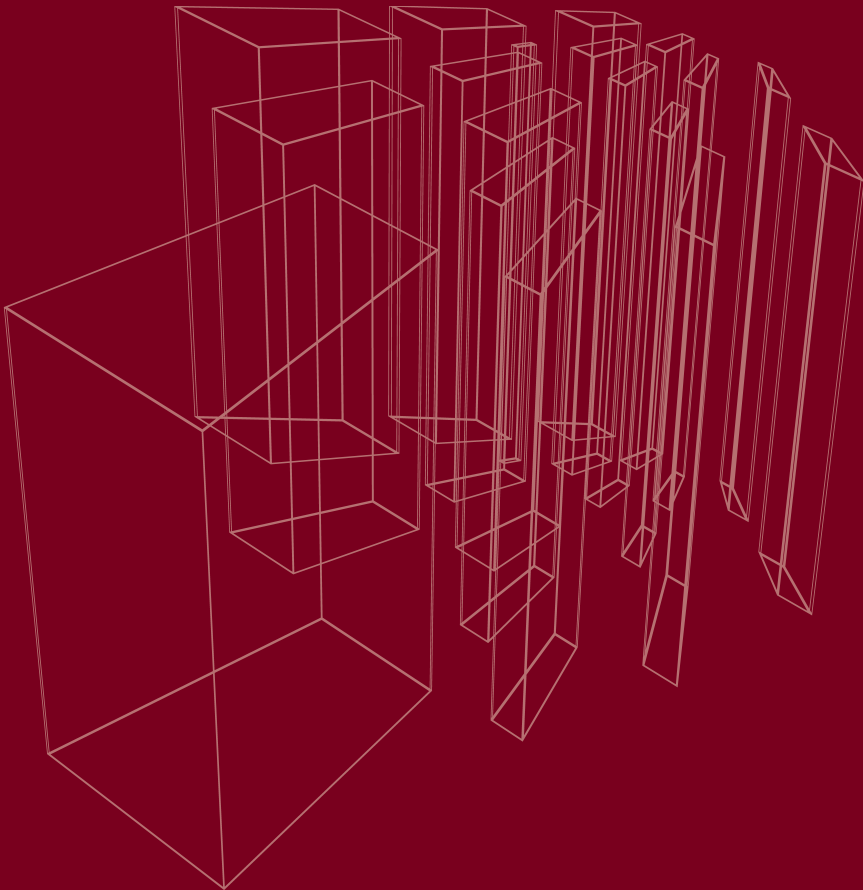
Good governance in the economic sense can be roughly described as providing stable and predictable conditions for the members of society concerning economic transactions and conditions. Central aspects for social cohesion related to economic issues are therefore stable expectations, mainly due to a consistent and predictable framework for the markets, and well-balanced (re-)distribution of economic wealth, leaving room for both, fair rewards in relation to efforts, and securing a basic standard of living for all citizens in line with the ethical principles of society. Thus, the key factor for good governance is the optimal mix of economic policy instruments defining a stable framework and stable conditions for markets on the one hand, and careful active discretionary action on the other hand. People desire the certainty that there is no inherent threat to their economic situation in the end.

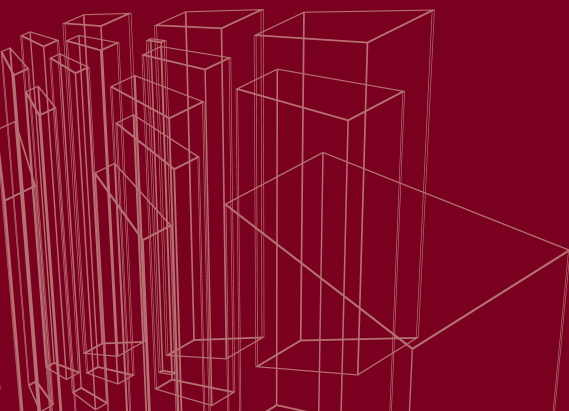
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# CENTRAL BANKS

Karthik Sankaran

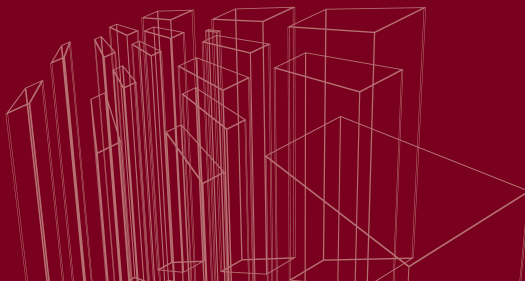




What characterizes a society that has a high degree of social stability and cohesion? In more traditional societies one answer might be homogeneity and widespread acceptance of hierarchy. However, in our more modern, dynamic world, the requirements are very different. These would include the sense that citizens can trust each other and their rulers; the belief that authorities are responsive to the concerns of citizens; the hope that both individuals and the society will enjoy a better future; and the sense that the burdens borne by citizens are justified and distributed equitably. In all of this, central banks play a crucial role as they are guardians at the gateway of many different social choices and social interactions.

To begin with, central banks stand at the point of interaction between the sphere of free economic exchange and governance. This is because the sphere of exchange in any economy that is not based on barter alone functions on the basis of money as a means of exchange and store of value. In order to encourage trust between citizens, it is essential that the mediums used for this purpose have some stability. The issue of money has traditionally been the prerogative of the sovereign, and in our world today, it is the central bank, as the representative of the sovereign, that performs this task. Consequently, the stability of the medium used for free exchange is a key determinant of the level of the trust in society. A weak or improvident sovereign that fails to maintain monetary stability can find that in order for the sphere of private exchange to function on a basis of trust, individuals are forced to resort to coinage from a sovereign outside the country who is perceived to enjoy greater trustworthiness.

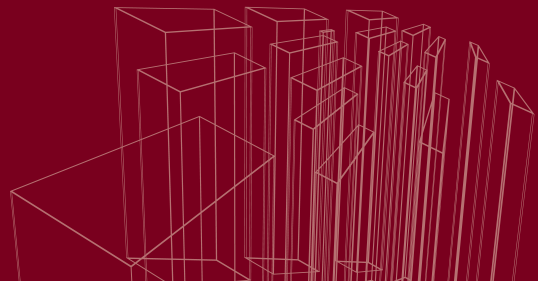
There are long precedents for this, including for example, the use of Austria's Maria Theresa Thaler as a highly trusted means of exchange in North Africa and the Horn of Africa well into the 20<sup>th</sup> century. There are more recent examples of the importation of such credibility via methods such as currency pegs (a stated commitment to maintain an exchange rate conversion level to another, more trustworthy currency); currency boards (more rigid attempts to constrain the supply of local currency by requiring the formal backing of each unit of the local currency by more highly regarded currencies such as the Dollar or the Euro); or in extremis, the outright rejection or replacement of a failed national currency by one that is imported from overseas. For example, after



a series of disastrous experiences with its own national currency (the Sucre) that led to a widespread preference to transact in the US Dollar, Ecuador decided simply to abandon its own currency and to adopt the US Dollar as its currency. In this instance, the rejection by the society of the claims of competence of its national central bank was so complete that it led to the complete elimination of the national currency. More recently, Zimbabwe underwent something similar after its own hyperinflation, when the legalization of transactions in other currencies in early 2009 led to the dominant means of exchange and stores of value becoming the US Dollar, the Euro and the South African Rand.

Basic monetary stability can be imported either officially (as in Ecuador, which simply gave up a long history of a national currency) or unofficially, in cases where citizens simply migrate en masse to money created in other jurisdictions, thus signaling their view of their own national currency by exiting it as a transaction and savings vehicle. In this regard, central banks that detract from social trust simply find themselves the victims of a “transaction strike.” But the mere existence of alternative vehicles does not mean that all is well. Citizens who give up on their own currency are likely to find themselves without some of the other essential functions that central banks provide for their citizens. One is the so-called lender of last resort function, which marked one of the essential attributes of central banks (as distinct from national mints that only supplied coinage). Thus, a citizen of Ecuador might be happy transacting in the US Dollar, but in the hypothetical event where one or more banks in that country were to find themselves in a situation where they experienced a severe bout of illiquidity and mismatch between assets and liabilities, they would have no central authority to approach who might “lend freely against good collateral but at a high rate” to paraphrase Walter Bagehot’s law.

This suggests that central banks play an essential role in providing not just monetary stability in the abstract, but also in safeguarding broader financial stability by preserving the value of money not just as a means of exchange but also as a store of value that can be saved and lent in institutions that comprise a financial system. It is in this regard that central banks play another key role in enhancing social cohesion. First of all, they can do so by supervising the activities of financial institution to ensure that they are run in a sound and prudent manner, thus protecting the value of citizens’ savings. Beyond this, they also have the ability and the authority to protect institutions and the system as a whole from being caught up in the waves of self-reinforcing panic which are inherent within a system in which the underlying business model is to lend against illiquid assets for the long term, while borrowing from depositors over a much shorter

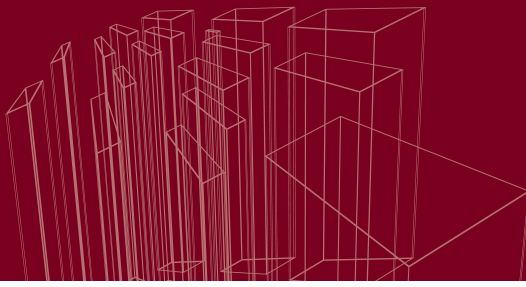


term. In this regard, the likelihood of a central bank being forced to use its powers as a lender of last resort will diminish the better it has done its job of prudential regulation and supervision and minimized the prospect of reckless behavior that can lead to systemic panic. In a sense, what the central bank is doing in both instances is preserving the value of the savings of citizens, whether from the great monetary disorder that is connected with inflation, or the financial disorder that comes from systemwide bank failures, which are frequently accompanied by acute deflationary pressures. In either case, the object is to protect a society from primordial threats to social cohesion.

But a central bank's role can go beyond the avoidance of catastrophic outcomes to society to include more of what might be called "fine-tuning" activity whose role it is to optimize of the use of resources in a country and the fairness of burden sharing among social categories and across generations. Indeed, in the modern world of central banking, as countries have moved away from specie-backing towards fiat currencies, it is this advantage in terms of "fine-tuning" that is cited as one of the benefits of having a national central bank. In such a modern regime, one task of the central bank is to regulate either the quantity of money or the level of interest rates in accordance with what the business cycle demands. But this in turn will affect the amount and quality of investment that occurs in a society. When a central bank is performing its job well, interest rates will be set at a level that responds both to the level of productivity of capital in an economy and to the prevailing level of economic activity as manifested in the usage of resources. Too high an interest rate in the face of weak economic activity can lead to investment foregone and excessively high unemployment, which can sap a society's productive potential both in terms of not renewing physical capital and the gradual atrophy of human skills and capital through unemployment. Conversely, too low an interest rate cannot only lead to inflation, which is pernicious enough, but also to excessive investment in unproductive projects that might never generate returns sufficient to justify the resources employed in initiating them. This would then be another form of wastage of resources.

In either instance, a central bank that did not take the optimal course would have been complicit in sending price signals that led to the misallocation of social resources. In one instance, social resources would have been left unemployed, and in the other, a central bank would have been insufficiently zealous in sending price signals that might have prevented the allocation of resources to projects with low returns and limited final utility. In the latter instance, some central banks have argued that the interest rate mechanism by itself is too blunt an instrument for them to mobilize, but that





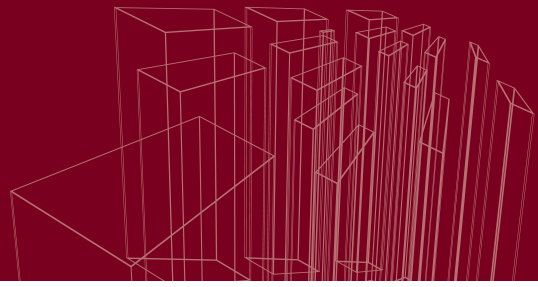
is precisely why they also have at their disposal other such tools as regulatory and prudential tools that give them oversight of the mechanisms of credit creation.

When it comes to fine-tuning, errors made in one direction or another have a tendency of compounding the difficulties that central banks face in righting the ship. For example, a period of excessive monetary creation (or excessively low interest rates) might lead to misemployment of resources, asset price booms, and rising inflationary threats that when eventually and belatedly curbed by central bank tools can result in disastrous busts with the threat of bank insolvency and mass unemployment. In such a case, the asymmetric availability of information about the true state of financial institutions and financial instruments among different strata of society makes it very likely that the costs of restoring balance to a previously imbalanced economy will be borne by those who had benefited less from the period of imbalance to begin with. The rewards of the period of financial imbalance would have trickled down; the risks of rebalancing the economy barely “trickle up.” This would obviously be destructive for social cohesion.

Similarly, central banks that have a limited or undistinguished history of overseeing monetary or financial stability might find they have very limited room to engage in fine-tuning. Instead, during an economic downturn, they may actually be forced to restrict the supply of money or to raise interest rates in order to preserve monetary credibility (especially if this has been imported by a peg or similar device) and to prevent capital from fleeing the country. This would obviously worsen the plight of the powerless elements of society, adding further elements of social fracture to an economy in crisis. It was for this reason that many developing countries such as Brazil and Mexico that had imported monetary credibility via exchange rate pegs in the 1990s, eventually made the decision to generate that credibility internally by creating strong and independent central banks.

The point of reciting this litany of possible failures is not to condemn central banks but rather to point to the extent to which their ability to navigate these treacherous shoals, if done well, can minimize threats to social cohesion that stem from the gyrations of sentiment. A central bank that is doing its job poorly can amplify the inherent pendulum swings of market economies, one that is doing its job well will most likely have modulated these swings in economic activity and asset prices by “leaning against the wind” as it is picturesquely called in academic literature.

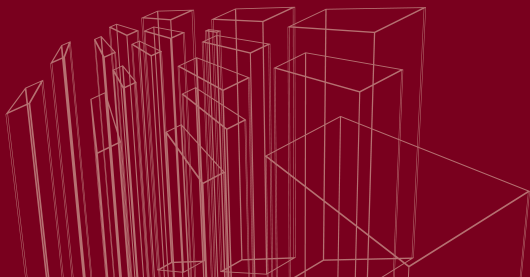
A logical question that arises from the above discussion is exactly what processes of democratic legitimation should central banks be subject to in view of their importance



in modern economies. For the reasons laid out above, the political model of policy alternance according to electoral results cannot be directly applied to central banks. It is possible, though still suboptimal, that alternating five years of high VAT following five years of low VAT (or vice-versa) represents a process of democratically legitimized swings in popular policy preference that does not do too much harm to an economy. However, to subject monetary policy to comparable spells of politically determined alternation between years of inflation and years of deflation (for example) would be extremely corrosive of a society's confidence in the very possibility of basic economic and monetary stability. Mercifully, while the consensus of central banking opinion has reached this conclusion when it comes to price stability, there has until recently been a greater tendency to permit more pendulum-like swings in the attitude towards financial sector oversight. Monetary policy has been rescued to a greater degree from electoral determinism than regulatory policy. Hopefully, this will change.

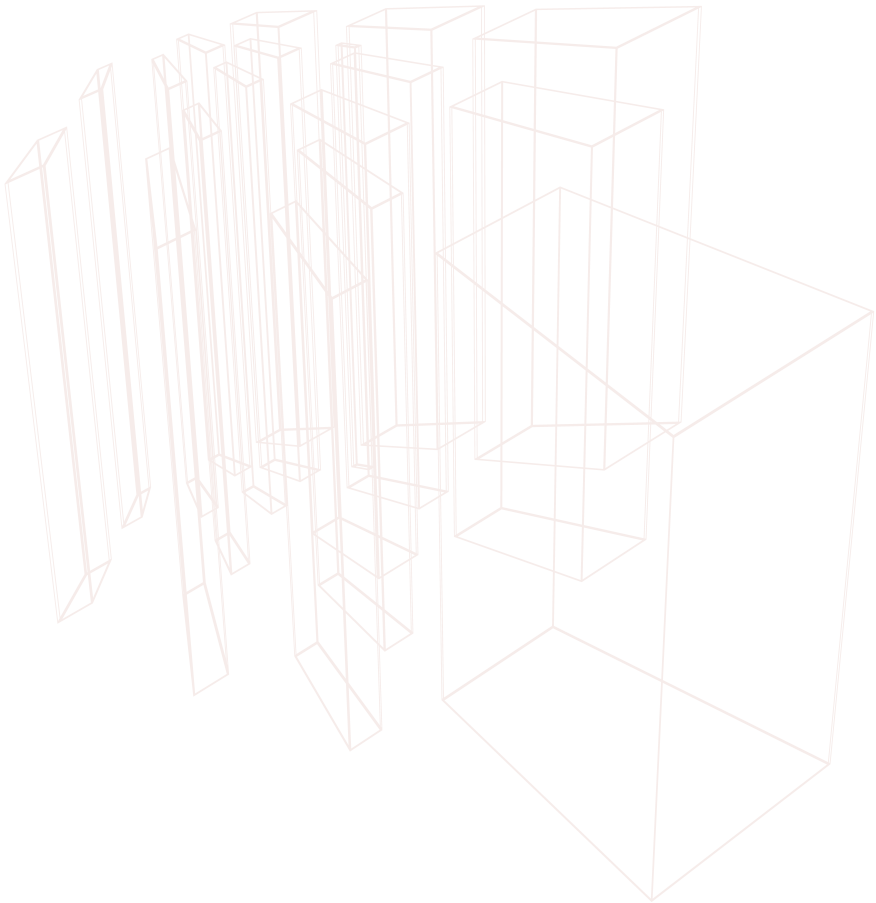
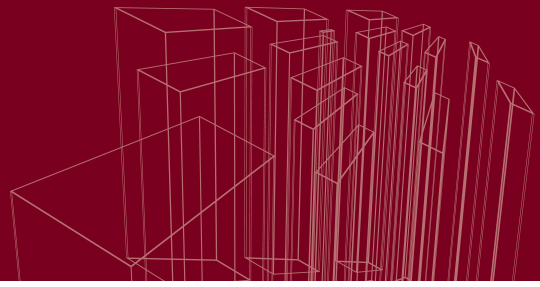
In any event, the question arises as to the optimum setup that permits central banks to pursue monetary and economic goals in a fashion that is conducive to stability and cohesion but nevertheless occurs in a frame that is democratically legitimized. The answer would seem to be that central banks should be given maximum operational leeway in order to achieve broadly defined targets or mandates that are democratically legitimized but once set, require something other than routine legislation to change. This way, one would have a consensual approach that sets out the overarching goals that define monetary and financial stability and optimum resource allocation within a society in combination with technocratic autonomy in pursuit of those goals.

All this, of course, presumes that there is a polity that is capable of articulating these mandates and goals and overseeing the success or failure of central banks in achieving them. This means that rather than a process of technocratic isolation, what is required, is a process of interaction and education in which central banks communicate constantly to the public and its representatives what they are doing and why. In so doing, they can and must also explain to the public the broader contours of political economy choices and the strengths and inherent limitations of central banks in achieving those goals. Among the world's most important central banks, both the Federal Reserve and the European Central Bank have been active in this regard. In the case of the Federal Reserve, Chairman Bernanke has spoken periodically about the need for the US polity to achieve a consensus on the national fiscal policy path in order to complement the efforts of the Fed. In the case of the ECB, the efforts have been more interesting, insofar as the ECB has found itself taking the lead role in safeguarding the monetary union even as national political figures and institutions have found it more difficult to



contemplate or articulate the kinds of transformation of national sovereignty that would be required to create a genuinely European polis to act as a counterpart to safeguard the European monetary or financial union that already exists (and has come under repeated threats of unraveling in the last few years). This then is a final way in which central banks can contribute to social cohesion – by educating the public about the difficult choices that need to be made in order to allow societies and economies to thrive, and not just survive.

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# SOCIAL PROTECTION

Robert Holzmann

Over the last decade or so a growing consensus has been established that protection against social risk is critical for economic and social development and political stability, making social protection a constituent element of a stable state. Social protection is concerned with preventing, managing, and overcoming situations that adversely affect people's well-being. Social protection consists of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to manage economic and social risks, such as unemployment, sickness, disability and old age.

In *developed economies* social protection typically consists of three sets of interventions:

- *Labor market interventions* are policies and programs designed to promote employment, the efficient operation of labor markets and the protection of workers.
- *Social Insurance* mitigates risks associated with unemployment, ill health, disability, work-related injury, and old age, such as health insurance, unemployment insurance, and old-age benefit programs.
- *Social Assistance* is when resources, either cash or in-kind, are transferred to vulnerable individuals or households with no other means of adequate support, including single parents, the homeless, or the physically or mentally challenged.

In *developing countries* the original and still dominating instruments to address social risks such as poor health, lacking employment, and death of the breadwinner are provided by family and community, or consist in the perhaps oldest risk management instrument of mankind: migration. In any case, the importance of these (social) risks for individuals and typically rural households is dwarfed by natural risks people are exposed to such as drought or flooding, animal diseases, strong winds, and earthquakes. There is limited support through government interventions and financial market instruments against all these risks (such as drought insurance or simple safe financial assets for rainy days) as their effective provision is typically conditioned on well-developed financial markets that come only later in economic development.



Common to all three is the strong conviction that social protection is a crucial ingredient to development. Differences remain in program design and implementation, with smaller differences in labor market interventions and social welfare programs, and somewhat larger in social insurance schemes, and all are triggered around issues such as the importance of incentives, the effectiveness of interventions, the scope of distribution, and the role of funded vs. unfunded provisions.

*Labor market interventions*, consisting of both active and passive policies, provide protection for those who are capable of gaining employment. Passive programs, such as unemployment benefits (via insurance or savings accounts), income support and changes in labor legislation, alleviate the financial needs of the unemployed but are not designed to improve their employability. But their availability also has an efficiency function as it allows individuals to search for the right offer and achieve better job matching.

Active programs focus on directly increasing the labor market access of unemployed workers. Active labor market policies are used to reduce the risk of unemployment and to increase the earnings capacity of workers. These policies have two basic objectives: an economic objective, by increasing the ability of the unemployed to find jobs and increasing productivity and earnings; and social objective, by improving the inclusion and participation of productive employment. These programs have the ability to increase employment opportunities and address the social problems that often accompany high unemployment:

- *Employment services*: These services include counseling, placement assistance, job matching, labor exchanges, and other related services to improve the functioning of the labor market.
- *Job Training*: This includes training/retraining for the unemployed, workers in mass layoffs and youth to increase the quantity of work supply.
- *Direct employment generation*: The promotion of small and medium enterprises (e.g. public works projects, subsidies) to increase labor demand.

A common issue in implementing successful labor market interventions is how to incorporate the informal economy, which comprises a significant portion of the workforce in developing and emerging economies. Informal employment comprises between half and three quarters of non-agricultural employment in the majority of these countries.





Social transfers in the form of periodic welfare/social assistance payments to poor individuals and families in low income countries have been the revolution during the recent decade. This was discussed during the Asia crisis of 1997-99 and was ready in many countries before the 2008+ crisis hit. What still remains under discussion is the issue of universal or means-tested access; how to test means – with income and/or assets or proxied by indicators; and conditioning the access to benefits with imposed behavior (such as sending the children to school and following some nutritional practices).

Assuming that these design and implementation issues can be addressed, there are still key challenges that require attention in order to live up to the aspiration and state-building role of social protection.

*Rigorous monitoring and impact evaluation* is critical to understand if and how a social protection program is reaching its objectives. When undertaken, this helps greatly focus scarce fiscal resources and their use or expansion towards the needy, and with the dissemination of positive M&E results this allows keeping or garnering political support for these programs. While some progress has been made in developing countries in this direction, the lack of rigorous M&E approaches for social protection programs in most developed countries create an obstacle for financing and application, in particular at bi-lateral level.

*Understanding population aging* in order to live up to the expectations of social protection is also critical for developing countries despite their still youthful population structure. All countries are aging by at least one measure and the process over the next decades will be the fastest in the currently least aged populations. However these countries risk getting old before getting rich and hence need to pay even more attention to having appropriate policies and programs in place as they have less resources to waste. A key entry point is a broad understanding of policy makers and the general public that continuous population aging is going to remain and is not a transitory development.

A *sound governance structure* of social protection institutions is necessary to develop and administrate these programs to achieve the expected benefits. However, as these programs typically distribute a lot of financial resources (in not yet matured social insurance schemes with young populations, they are also often swamped with revenues and face little current expenditure) they are prone to nepotism, favoritism, corruption, or simply mere populism. This has been the past experience in many countries and

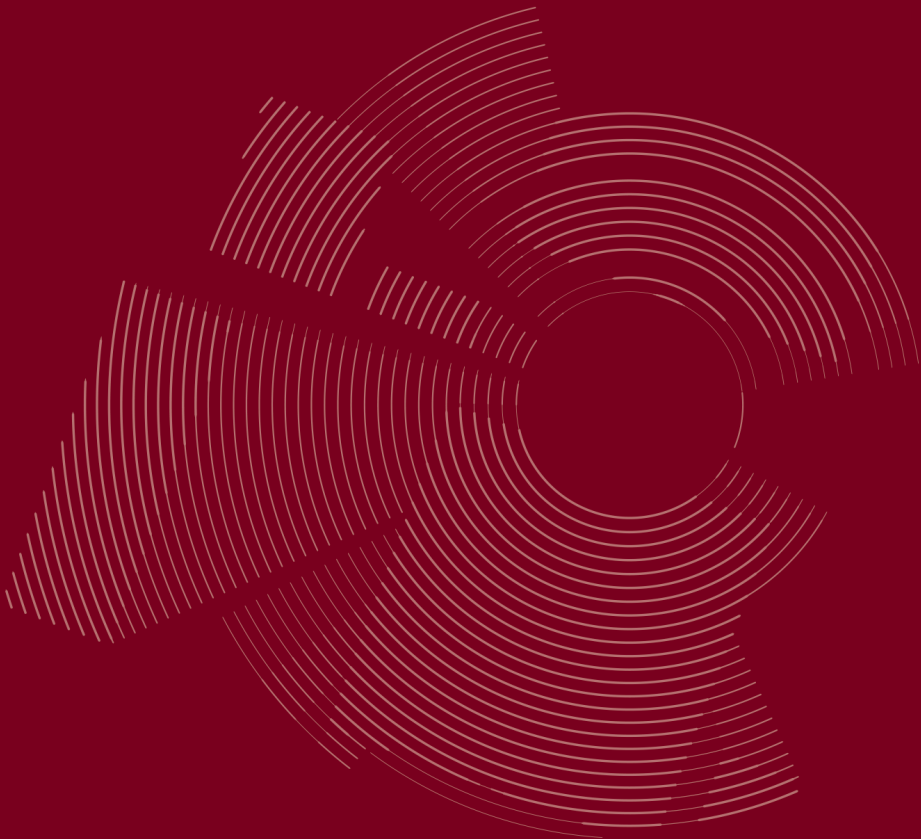
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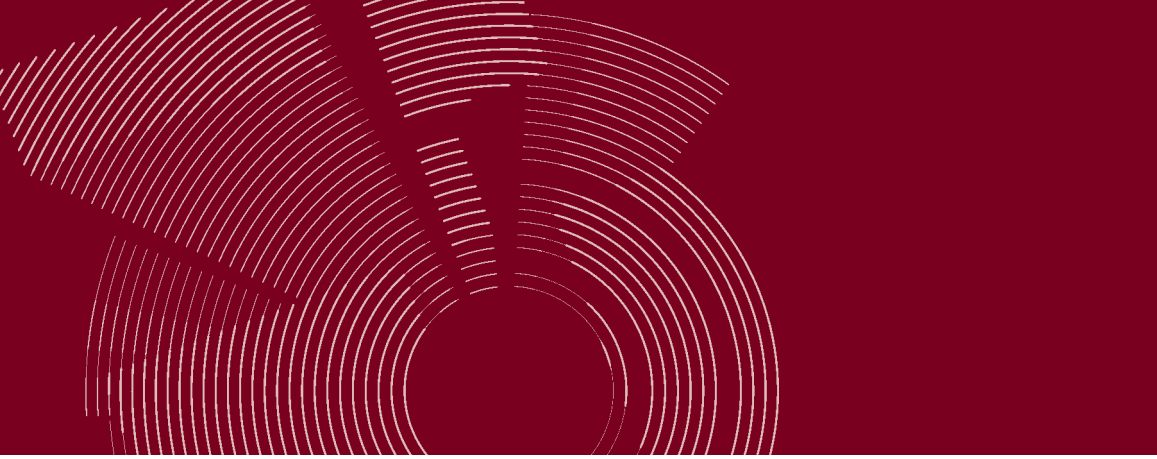
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# POVERTY

Jomo K. Sundaram & Anis Chowdhury





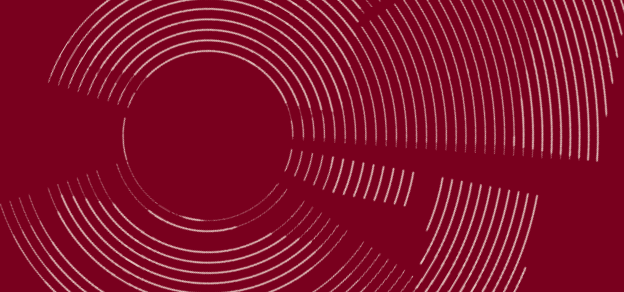
For over a decade, much of the international development community, led by the World Bank, has been promoting the agenda of “good governance” as a pre-requisite for economic development and poverty eradication. The agenda of good governance rose to prominence as an attempt to explain the failure of the economic liberalization reforms of the structural adjustment programmes (SAPs) to deliver economic growth and poverty reduction.

The link between good governance and poverty eradication is premised on the presumptions that good governance promotes economic growth, and growth is good for the poor. So it was presumed that SAPs were good for growth and the poor. But the disappointing results of most SAPs had to be explained away, and blaming poor or bad governance provided a convenient explanation which did not challenge the economic thinking underlying the logic of the SAPs. Bad governance was also convenient to blame for poor aid effectiveness.

The Bank started ranking countries against well over a hundred good governance indicators. A composite good governance index was introduced based on perceptions of: (a) voice and accountability, (b) political stability and absence of violence, (c) government effectiveness, (d) regulatory quality, (e) rule of law, and (f) control of corruption. Aid was increasingly allocated according to countries’ good governance rankings, ostensibly to improve aid effectiveness.

The index has been used by the donor community to “name and shame” countries that failed to live up to the standards associated with it and other related indices, e.g. the Corruption Perceptions Index, published annually by Transparency International, that serves as the major basis for the influential annual Global Corruption Report.

Critics have pointed out flaws in the World Bank’s and donor community’s good governance index and agenda. They range from methodological weaknesses to the poor evidence linking good governance to economic development and poverty reduction. Good governance indicators are riddled with systematic biases due to



changing definitions, selection problems, perception biases as well as survey design and aggregation problems.


The World Bank's good governance indicators are ahistorical while its definitions are not widely accepted. Claiming to be “context-neutral”, they do not take into account country-specific challenges and conditions which can be very different – not only among developing countries, but also between them and countries which developed earlier.

Thus, analytical conclusions are, at best, partial and hence misleading. The indicators measure initial conditions and the ostensible effects of governance reforms, rather than the direct consequences of governance reforms on growth and poverty rates. Additionally, methodological and measurement biases often overestimate the impact of governance and institutions on growth. Methodologically, most cross-country econometric studies suffer from selection bias, as African countries – where institutions are generally weak and growth performance has been poor, especially in the 1980s and 1990s – are typically over-represented.

Secondly, most cross-country regressions use reduced-form equations, with some measures of institutional or governance quality used together with other variables, such as investment, which is more likely to directly affect growth. Such regressions can overestimate the impact of institutions on growth, if institutional or governance quality also affects the efficiency of investment. It is difficult to disentangle the direct effects on growth of institutional quality variables from their indirect effects through their impacts on investment.

There is also a lack of consensus in the literature on definitions of institutions, how they change, and their likely influence on economic outcomes. Thus, a wide range of indicators – including institutional quality (e.g. enforcement of property rights), political instability (e.g. riots, coups, civil conflicts, wars), characteristics of political regimes (e.g. elections, constitutions, executive powers), “social capital” (e.g. civic activity, organization) and social characteristics (e.g. income, ethnic, religious, cultural and historical differences) – are all used in empirical work, although each has a potentially different impact channel on growth.

Moreover, many institutional indices used in empirical work are ordinal indices, which rank countries and simply associate a number with a ranking without specifying the degree of difference among countries ranked. However, to be used meaningfully in



a growth regression, such an index needs to be transformed into a cardinal index, where the degree of difference matters. There is also no reason to assume that the transformation from an ordinal to a cardinal index will be one-for-one (linear).

The empirical evidence conclusively indicates that countries only improve governance with development, while good governance is not a necessary precondition for development. All developing countries do poorly on good governance indicators compared to developed countries. Yet, some developing countries perform much better than others in terms of economic development without any strong empirical link to good governance indicators. This implies the need to identify the key governance capabilities that will help developing countries accelerate economic development, and thus eventually improve governance on a sustainable basis.

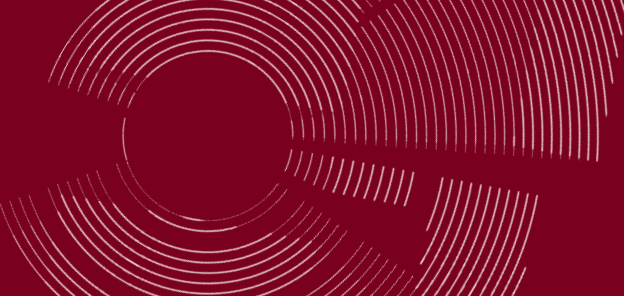
In recent years, Bangladesh, China, Ethiopia and Vietnam have all been growing rapidly despite their poor governance indicators. Such experiences suggest that good governance, as conventionally defined, is hardly ever a prerequisite for getting growth and development going.

Poor countries face a multitude of constraints, and effective growth acceleration interventions should address the most binding among them. Poor governance may well be the binding constraint in some countries, but certainly not in countries growing rapidly despite poor governance. Thus, as a rule, broad good governance reform is neither necessary nor sufficient for growth.

Finally, the link between growth and poverty reduction may also be more tenuous than presumed, depending on the distributional consequences of the growth process. One foundation of the good governance agenda is “[t]he norms of limited government that protect private property from predation by the state”. This has often reduced tax revenues, impeded agrarian reforms and exacerbated inequality. Such good governance reforms may instead deepen poverty, increasing resentment and popular discontent – that may negatively impact on growth itself.

The good governance agenda is particularly demanding on poor countries. In some cases, it may not be possible to make much progress on one dimension without prior or simultaneous progress on others. And if certain institutional and policy reforms matter more for development, these should probably receive the most support. Selectively concentrating resources would then be better than spreading limited





resources thinly across a whole range of ostensible good governance reforms – as international development agencies tend to do.

Poverty exists in a broad range of circumstances and has many causes. Poverty may be due to inclusion or exclusion. Attacking poverty's systemic, structural or root causes requires political commitment and state capacity to implement deep reforms to accelerate equitable and sustainable economic development.

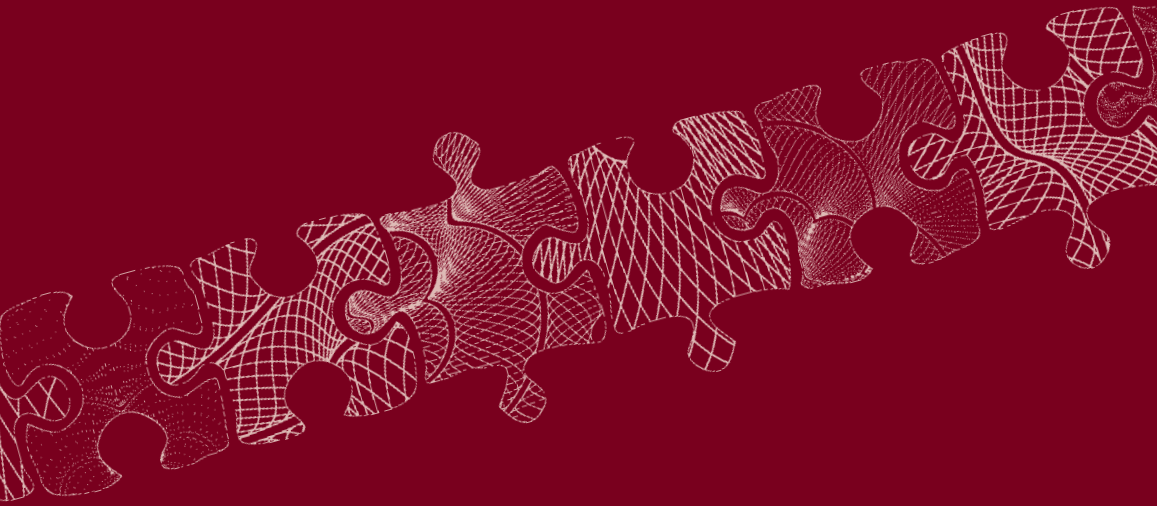
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# RULE OF VALUES

Christian Stadler

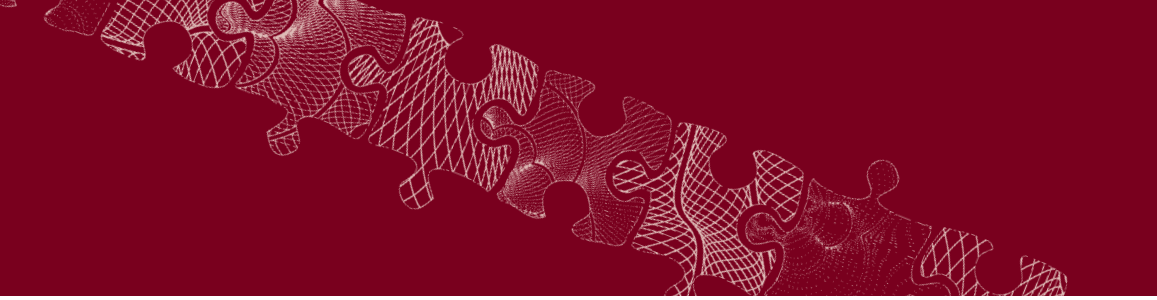




Good governance is – as the UNESCAP Paper (“*What is Good Governance*”) points out – “an ideal, which is difficult to achieve in its totality. Very few countries and societies have come close to achieving good governance in its totality. However, to ensure sustainable human development, actions must be taken to work towards this ideal with the aim of making it reality.” This means that first of all, “good governance” should be taken as an ideal, a perspective to be realized. It consists, as this UNESCAP Paper explains, of eight – very abstract and formal – factors: “It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society.” Governance is provided by both government and civil society (which does not refer to the people, but the non-governmental organizations) in combination, ideally in cooperation.

Not one substantial point is addressed in the concept – which is a typical example of an abstract, procedural approach towards *social justice*; only procedures are described, which work wonderfully if there are no substantial interests, contradictions, tensions or frictions in society. A likewise concept of good governance portrays a paternalistic picture of the nature of the human being, which can be compared to the famous approach by Otto von Bismarck (1815-1898): *Everything for the people, nothing by the people*. Similar to most concepts found in the “development literature”, the human being is the *weak* recipient of *strong* rights. Typically for the appellative character of such a “utopian” concept, no reference can be found that addresses the substantial preconditions of such an ideal: the notion and nature of the human being itself – and therefore, the transcendental preconditions required to realize such an ideal concept.

Both the government and the civil society – that is: the people – consist of human beings. One has first to understand the essence of the human being before organizing formal procedures to stabilize and further develop a just society. Before starting to install organizations and procedures to establish states (“state building”), it is important to prepare the groundwork, which is the respective society: *one* more important and

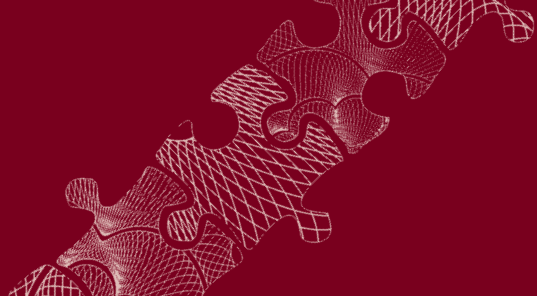


demanding task is to develop a strategy how to successfully manage “society building” instead of the bottomless installation of democratic procedures and institutions alone without a corresponding background in society. A state cannot be stable without an adequate social basis, which I refer to as social cohesion. The idea that a state may be based exclusively on the rule of law is a tragic error, because what is an – unsubstantial – so-called rule of law in reality leads only in the best of cases to a rule of endless law enforcement, in the worst case to a repressive police state. The need for a certain kind of social cohesion is known since the days of Aristotle (384-322 BC), when he developed the concept of a citizen polis, based on shared convictions and interests, on a certain level of higher education and economic independence of each citizen.

Regarding the solution of the problem, the teachings of Cicero (106-43 BC), the famous Roman lawyer and philosopher, play a far more important role. In his writings – based on the Plato’s masterpieces (427-347 BC) “Politeia” and “Nomoi” – “*De re publica*” and “*De legibus*” he develops a kind of comprehensive state theory which has since served as a pattern for modern political philosophy. Both Augustine (354-430) at the beginning of the Middle Ages and Grotius (1583-1645) at the beginning of the Modern Times refer extensively on the political teachings of Cicero. Besides the classical *political* (“polis-oriented”) thinking of Plato, Cicero also refers in his third master-piece “*De officiis*” to the universalistic (“mankind-oriented”) ethical thinking of Panai-tios of Rhodos (180-110 BC), a leading Stoic philosopher of the late Hellenistic period. In “*De officiis*” Cicero stresses the importance of values and virtues for the successful political life in a “modern” state, especially for the officials, who should represent the elites both in education and ethics of the people.

Cicero, *De re publica* I,39: “Africanus: Well then, the Commonwealth is the concern of a people, but a people is not any group of men assembled in any way, but an assemblage of some size associated with one another through agreement on law and community of interest.” Here Cicero addresses the key grounding factors of a – also modern – state: “*iuris consensus*” and “*utilitatis communio*”. The first factor concerns some kind of normative consensus (legal or ethical), while the second factor refers to a kind of interest consensus (cultural or economical). In a nutshell: shared normative values and shared personal interests are the precondition for a people, which is the social substance of a “republic”. A likewise people can only exist if “social justice” are in place, otherwise neither shared values nor shared interests will occur.

In order to organize a “stable state”, it is therefore necessary to create a people, forming the socio-ethical substance of such a state. The officials of the state –

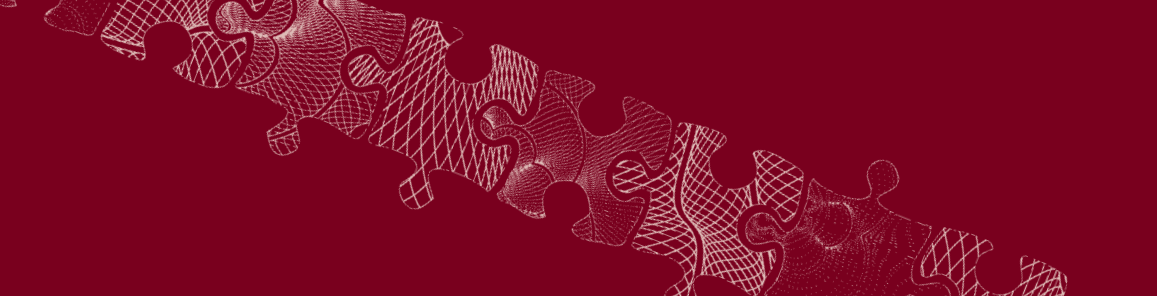


according to Cicero – have to serve their people, which is both a duty and an honor. A state is only a secondary construction to safeguard a socio-ethical substance, it can never establish the socio-ethical basis it serves and relies on. The reasonable state provides “its” socio-ethical substance with infrastructure, security, other public services etc., but it is not the socio-ethical basis itself. It executes the common will of its people, which should – in order to be able to develop such a common will – share values and interests. Without a certain degree of homogeneity in its people, a state cannot function and therefore not be really stable. These were the deliberations of Cicero – 2100 years ago.

In modern western societies one cannot find such classical “Greek polis” or “Roman res publica” homogeneity. Today, we seem to have too many contradictory interests and self-fulfillment or life style concepts; after all, it looks as if we would not share any common values at all in our modern societies. In today’s western world we even deny at times the existence of values! And more importantly, living in an age of global migration, we are constantly confronted with different values and interests.

This erosion of the classical socio-ethical basis of the modern state forces us to rethink its preconditions. A second phenomenon can be observed: the less cohesive a society, the more corrupt its state. Corruption, the global public pestilence of the 21<sup>st</sup> century, undermines the service functions of the state, which then no longer serves the *people sharing a common interest – as they no longer exist* –, but much rather the officials and their business partners. Thus the problem is complex: both the basis (the people) and the institutions (the state) are in the state of erosion today, due to the fact that the preconditions of the classical concept of statehood are no longer valid.


This is the reason why “good governance” – in the classical concept also the normal way of governing – in practice has such a utopian character today. With both society and state shaken, how can stability actually be provided? Cicero described the preconditions of a stable “res publica” in a timeless manner, but in “*Politeia*” Plato described the key factors of a stable state as follows: not only shared values and interests – but also comprehensive education (“*paideia*”). Paideia is a way of establishing the rule of reason – either in the person of a philosopher king (*Politeia* concept) or in the reasonable quality of laws and institutions (*Nomoi* concept). In both cases the education of the inhabitants is the only appropriate way to develop a “people”. Without education there is no chance to establish the fundamentals, which form the basis of a stable state. Modern liberal democracies are still fragile constructs, a fact that is at times seemingly forgotten or merely ignored, and cannot simply be established by external authorities



or forces. If the appropriate socio-cultural preconditions erode, even well-working stable states face the risk of drifting in to instability.

But what kind of education must be provided in order to change things for the better? This is not the place to explain these concepts in detail, but some basic hints can be given. First of all, one has to distinguish between “education” and “training”. Although people these days (more than in earlier times) are in the need of practical training in social and technical skills, this does not mean that one can afford to abandon the dimensions of education which one could call “cultural training” or “humanistic education”. This goes beyond language skills or historical and geographical knowledge, but also includes an understanding of the meaning of our existence. It’s not just about knowing but about understanding, as understanding drives curiosity, which is in fact part of the human nature, while education should only serve this curiosity in an adequate manner. An understanding of the facts and their meaning will lead to deeper questions, not only regarding the meaning of things but also their value. This may lead to a philosophical perspective which opens the space for values and the sphere of reason (“*logos*”), a more fundamental and radical view on things and their meanings.

If one tries to establish such an approach to education, the result cannot be “managed”, it is – from a paternalistic point of view – an open-end adventure. Such a way of education eventually leads to the reality of humankind, which is freedom. Freedom, however, should *by no means* be misunderstood as mere arbitrariness but seriously understood as reason-based insight into values, rights and duties and thus into the meaning of our human existence as “*zoon logistikon*”, as “animal rationale”. Such a reason-based responsive freedom is the true substance of what we call “human dignity” – and a state can only be really stable, if its institutions and procedures are reason-based and therefore appropriate to the human dignity. To put it the other way round: if a state is not reason-based – either unjust or corrupt – then it will sooner or later lose (or never gain) the requested stability and simply fail. So eventually there is no alternative to the development of reasonable states to safeguard national and international stability and peace. From this perspective good governance is nothing but reason-based government, based on critical reflection, hermeneutical insight into the true realities of humankind and its values. Good governance understands that the rule of law should be based on the rule of reason which, ethically speaking, means on the rule of fundamental human values.



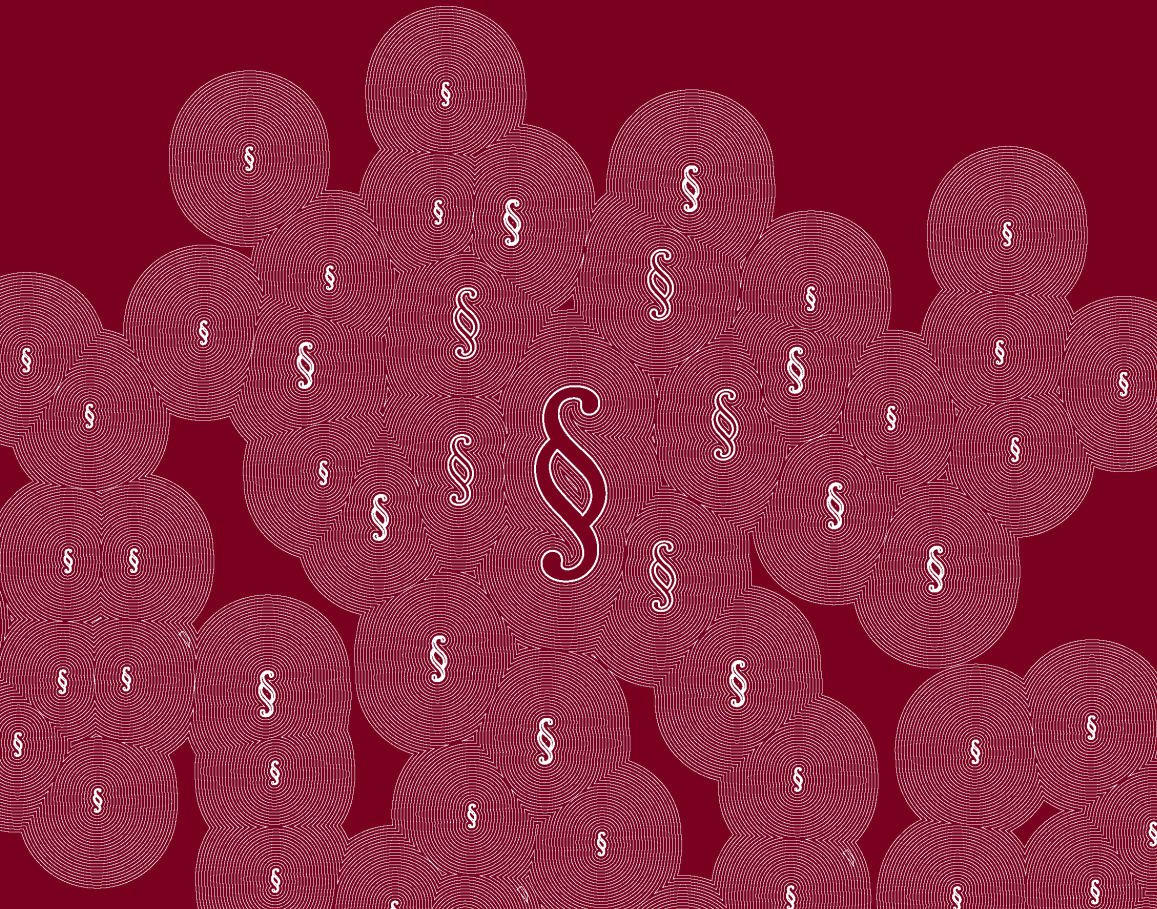
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# FUNDAMENTAL RIGHTS

Morten Kjaerum





Pressures on social cohesion run like a thread through European history with spectacular examples of disintegration through wars and economic crises. The irony is that social cohesion itself is a fluid and dynamic process that always has to predict or react to change. To paraphrase Tancredi in *Il Gattopardo* “*for things to remain the same, everything must change*”. The policy maker’s dilemma is therefore to ensure stability during this process of change without adversely impacting on the elements which underpin this cohesion. Elements, that ensure social justice, democratic accountability and sustainable development.

Key elements guaranteeing stability during change are fundamental rights, democratic principles and the rule of law. All of them are indispensable to the social contract and underpin good governance. All are recognized as such in the preamble to the Charter of Fundamental Rights of the European Union. In fact a reason for the Charter’s coming into being was the necessitation “to strengthen the protection of fundamental rights in the light of changes in society, social progress and scientific and technological developments by making those rights more visible in a Charter”.

The social fabric of Europe is experiencing one of those centennial periods of momentous change. A perfect storm of globalization, demographic transformation, economic crisis and structural renewal are reshaping the Union and its Member States. Boundaries of all sorts are being redefined. The reality, as observed by the Fundamental Rights Agency, is that different sets of pressures are being placed on the Union’s social capital, mobility and inclusion, both at the national and European level. As these pressures become part of the public discourse at the national and European level and manifest themselves in political programs, the respect and protection of fundamental rights becomes even more critical in policy responses and government action.

Social cohesion cannot be built on hate crime, racial and homophobic violence, inequality, discrimination, inaccessible justice and inadequate safeguards of personal data. It creates fear and insecurity. Freedom of movement of persons, services, goods and capital, and the freedom of establishment require actionable and justiciable rights.



Europe's growth strategies have to be inclusive as well as sustainable – all grounded on fundamental rights.

Effective social cohesion policy is traditionally built upon the three pillars of social inclusion, social mobility and social capital. These pillars are interrelated and interdependent in a triangular relationship which in effect binds society and builds in renewal and dynamism while maintaining cohesion. They provide the entry points for policy makers when developing policy on social cohesion. They therefore need to be taken as a whole in any effective policy intervention.

Fundamental rights are interwoven into these three pillars. They can ensure that a government has the well-being of all the members of society at the heart of its policy – by minimising disparities, preventing marginalization, ensuring accessibility, guaranteeing participation and delivering justice. This is not only about fundamental rights for their own sake; it is about protecting the institutions and relations that underpin the social contract between individuals and their democratically elected government. It is about bequeathing a sustainable and inclusive future to the next generation, imparted with common values related to the benefits of living together in changing and diverse societies.

Focusing on the three pillars of social cohesion within a fundamental rights framework, social capital fundamental rights inter alia guarantee political participation, access to institutions, rights in the justice field and ensure the just and fair functioning of our institutions. In the context of social mobility fundamental rights relate inter alia to rights to education, freedom of movement, freedom of belief, freedom of expression, equal treatment and the freedom to conduct business; and from a perspective of social inclusion, rights to equal treatment, non-discrimination, access to social benefits and protection, rights to healthcare and rights to free placement services amongst others. Social cohesion, fundamental rights and good governance are inextricably linked. One can think of a linear relationship between rights (fundamental rights), action (good governance) and positive outcomes (social cohesion).

Trust in democratically elected governments and national and European institutions to manage and improve the well-being of all those residing within the European space run the risk of being undermined by the perfect storm I outlined above. The various factors such as the economic crisis, demographic transformation, globalization and structural renewal have impacted on different parts of the population to varying degrees of severity, but they have one thing in common – and that is that they sow



doubt in the basic structures at the national and European Union level. This has been compounded by governance issues related to accountability, corruption, transparency and in some cases profoundly poor legal policies.

Inequality and unfairness have become an abiding theme of the economic crisis and the social movements that have sprung up such as the *indignados* and *Occupy Wall Street*. As income disparities have increased over time, basic rights and security have been undermined and the legacy burden of the crisis has fallen disproportionately on some of the most vulnerable and innocent members of our society as the figures for child poverty attest. Poverty has increased, youth unemployment is now described in biblical terms and the overall human cost incalculable. It is no longer an exaggeration to describe a lost generation of youth and to witness entrenched poverty with its social costs for the next decade in some Member States. Society, in many cases, is being divided more sharply into the haves and the have-nots. Even the OECD shared the concern that the fruits of economic growth were not being shared fairly and the widening gap between the rich and poor was counterproductive for sustainable growth.

The Fundamental Rights Agency's research has over the years identified that the most vulnerable and marginalized are the least likely to make use of their fundamental rights. They quickly lose all confidence in the national and European institutions and mechanisms of redress and re-distribution. The instruments of good governance fail them. This has consequences not only in the social, economic and education fields, but also in the criminal justice system. Fundamental rights cannot be seen to be or end up being a preserve for the wealthy, educated and the strong in society.

Trust and equality, both central elements in fundamental rights, should become watchwords for the policy maker and fundamental rights impact assessment standard practice for cornerstone policies. As the Council of Europe observed, divided and unequal societies are not only unjust, they also cannot guarantee stability in the long term.

We cannot neither escape the fact that there will be underlying tension between the national and European level. The economic and financial crisis has placed the EU institutions in the invidious position of supporting long-term structural reform in the face of real and present hardships. The debt restructuring and measures related to austerity are impacting negatively on employment, income equality, family incomes, healthcare provision, social protection, human capital etc. It is right and proper that

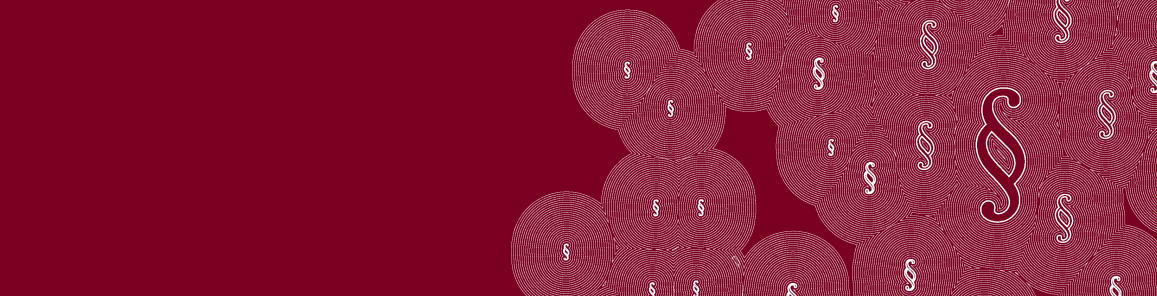




these issues are the subjects of political debate. Open and free expression of alternative views and policy prescriptions is the lifeblood of democracy and good governance – it is a fundamental right. Yet, we have witnessed the political legitimization of parties which promote social instability, want to roll back the positive gains of the Union and challenge the Union’s foundation of universal and shared values, human dignity, freedom, equality and solidarity, even in cases the rule of law itself. If this were to happen, social disintegration will be inevitable. Europe’s history needs no new lessons about the old ways of doing things.

Fundamental rights alone will not address these challenges. Fundamental rights require an independent and effective legal framework, mechanisms of support and an institutional grounding, and also greater awareness and understanding in society and – just as importantly – in the justice system. Governments are critical for the effective functioning of the framework and its institutions. Equally, for the realization of fundamental rights, government policy making and action need to assess the potential impact of its policy outcomes on fundamental rights. Greater sophistication around economic and social modeling, greater use of big data that has been collected by government from different fields needs to be reinterpreted and consolidated in relation to fundamental rights and social cohesion outcomes. National mechanisms such as Equality bodies and National Human Rights Institutions must take up the challenge of providing evidence to contribute to policy development.

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# **PUBLIC ADMINISTRATION**

Gregor Wenda

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In the late 1980s and early 1990s Europe was hit by a unique wave of political upheavals. The Eastern bloc fell apart and new states were founded, often succeeding former dictatorships. More than two decades later, many of these countries are politically and economically sound and some of them have even become members of the European Union. It is particularly in the context of such extreme changes that legislators and administrators wonder about the prerequisites of retaining or regaining a state's stability. Developing countries often concentrate on maintaining law, order and public peace and on re-establishing basic services such as medical care or the collection of taxes. However, making the executive branch and state institutions work, and keeping them readily available, is always a challenge, not only when outdated structures suddenly collapse or post-conflict societies need to recover. So what is the role of public administration in securing governmental stability?

The essentials of “good government” and a “good administration” have occupied generations of public servants. The city hall of Siena, Italy, features an allegory of “Good and Bad Government” on several 14<sup>th</sup> century frescoes by Ambrogio Lorenzetti. John Wyclif used the term “governance” in a document of 1386 and understood it as a “manner of governing” in order to compare different approaches of government. When societies were reshaped in the Age of Enlightenment and the theory of a “social contract” was borne, among others, the role of the state guaranteeing public services changed accordingly. In the 20<sup>th</sup> century, the idea of the state as a “human community that successfully claims the monopoly of the legitimate use of physical force within a given territory”, as Max Weber put it, was the prevailing concept for many years. It inevitably coined the picture and understanding of public administration. The state, represented by its administrative institutions, exercised its powers in the best way possible – limited by appropriate laws and under the inspecting eyes of parliament and courts. Citizens wishing to get directly involved in administrative and governmental processes were something quite unusual.

Hence, administrative reforms between the 1970s and 1990s mostly concentrated on managerial aspects: How could the state, and the public administration as its “servant”, deliver its goods and products as cost-efficiently and successfully as possible?



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How could the state's performance be measured? Which goals should the public administration reach and which tasks could be taken over by other providers rather than the state's administration? The time of "New Public Management" focused on the belief that the private sector and the public sector could be managed similarly in many ways. With competitive thinking entering governments, the question of "more state or less state" coined administrators for several decades. Public administration was supposed to focus on its "core activities" in order to remain effective, efficient and stable – deregulation, privatization, agencification, and the creation of public-private-partnerships were some of the consequences.

But the ideas of "good government" and "governance" that had first surfaced in the 14<sup>th</sup> century were not forgotten. The end of the 1980s and early 1990s made public administrators rethink their tool kits as it brought about a shift from mere management and political steering to the active involvement of civil society in the performance of public services. While the term "government" was traditionally narrower and referred to public policy aspects and the delivery of public services (more or less) directly by the state, the term "governance" intended to cover a broader scope and included all kinds of societal stakeholders. It was the intent to restore to the public what was "considered rightfully theirs, to reduce the unaccountable powers of elites and increase the power of the citizenry, to remind public officials, both political and administrative, both within and without government, that the public are the masters not the other way round, and to give the citizenry the feeling that they are in control and that they are the most important stakeholders in governance", as Gerald Caiden and Naomi Caiden, held it.

Thus, "governance" as a specific, citizen-oriented art of governing has unfolded in different categories – be it public governance, corporate governance, or public corporate governance. There is no surprise that public administration is primarily concerned about "public governance". The term "good governance" implies that public services should be delivered in the best way possible – even though the set of tools is not clearly defined. The possible ingredients of good governance are known to be multifaceted. Numerous researchers, think tanks, and scientific societies have elaborated on indispensable elements. Depending on the approach and perspective – be it from a legal, a political, or an economic standpoint – good governance is used to explain different phenomena and reforms. Despite the term's great flexibility, however, a number of elements seem to be commonly shared. When drawing upon reports from major international organizations such as the OECD or the United Nations, good governance should safeguard transparency, honesty, and stakeholder

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engagement. Key issues encompass, inter alia, an efficient and effective public sector; the rule of law, full respect of human rights, transparent and accountable processes and institutions, legitimacy, equity, effective participation of stakeholders, political pluralism and partnerships, political empowerment of people, access to knowledge, information and education, and sustainability. It becomes obvious that good governance is only realistic with sound and stable public institutions. It is intertwined with political and administrative processes that are to guarantee responsibility, accountability, participation, and the protection of fundamental rights and freedoms.

In the second half of the 1990s, the internet opened new doors for everyone and public administration had to face new challenges when the traditional thinking of hierarchies and jurisdictions started to melt away. All of a sudden, information, checklists, addresses, phone numbers, and even forms could be found with a few mouse clicks – and without the need to see an official. Electronic government was the new “kid on the block”. Saving time and costs appeared tempting and modern. Some countries, including the USA, even spoke about “reinventing government”. Many states jumped on the “e-train” and developed new programs with a focus on the World Wide Web and its – seemingly – endless opportunities. Once again the public service was confronted with a growing demand from the citizens and had to adapt. Not responding to an e-mail message for more than 24 hours was different from not getting back to a hand-written letter that might have taken the postal service a week to deliver in the first place. More speed, more flexibility, and more accessibility was one side of the coin – cyber security, technical flaws, and the need to re-allocate human resources in order to meet the growing impatience of customers was the other. Since the start of the new millennium, information and communication technology issues have never again left the public administration arena.

The economic and financial crisis of 2008 changed our world and, once again, the relationship between governments and their citizens. In the wake of collapsing markets, imploding business and bursting bubbles, the calls for a stronger state became suddenly louder. Media and researchers observed a “rediscovery of the state” and some kind of “return of government”. Ironically, the wish for stronger governments soon came along with growing distrust for those elected to govern. Current evidence collected by the OECD shows that “the average level of trust in government in 2012 was below its pre-crisis level in 2007”. New financial regulations, budget cuts, and general sacrifices have been a strain to social cohesion for the past years and left public administration with the difficult task to keep serving increasingly dissatisfied citizens at the highest level possible while overall savings started to affect their performance as well.

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Accordingly, this new decade sees more demand for citizens' involvement than ever before. Transparency and participation are the hot topics these days. The concept appears simple: The more transparent the public administration acts, the more trust it enjoys from citizens and the more likely any kind of corruption is prevented. Governments are supposed to benefit from more public participation and "democratization", in fact, the ideas of "democratizing democracy" and "renewing civil society" are much older than the aftermath of the financial crisis but the latest economic developments gave them a fresh boost. "Open Government" has become more than a catchphrase since a growing number of countries define it as a political goal. One approach is to make government data available to everybody. "Open Government Data" initiatives aim at publishing data and information produced or commissioned by public administration. Data retrieved through websites, databases, and public information services should subsequently be accessible to the whole world. The discussion on "Open Government Data" is still in its infancy. Simply putting vast statistics or meaningless minutes on the internet will not satisfy the wish for transparent governing but will make people wonder what purpose this mass of data serves. The public administration, on the other hand, has to clarify how this new hunger for data can be satisfied without becoming completely overburdened – let alone whether the collecting, processing and publishing of public data should be free of charge. Recent international incidents involving leaked databases and eavesdropped conversations showed that even in the age of openness, consequent data security and data protection must never be forgotten.

Providing citizens with information is one way of direct access to public administration, involving them actively in public issues is another. The present decade might be called the "decade of participation" one day. With the rise of social media, the dominance of the internet in most phases of life, and the availability of affordable, hand-held technical equipment for everyone, the so-called "network society" has formed. Administrative actions are under constant scrutiny – not only by auditors, courts, or members of parliament, but by ordinary citizens who are online twenty-four hours a day, communicating with like-minded people and public servants through a few key strokes, leaving comments, suggestions and criticism in forums, blogs and on Facebook. Since the internet "does not forget" and private opinions can reach surprising publicity within minutes, the relation between public administrators and those they are supposed to serve has again been on the move. About ten years ago, discussions about the possible future introduction of electronic voting started. In the meantime, some countries have had e-voting for several years and other e-enabled forms of participative instruments are gaining ground. In 2012 the first participative

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instrument on the level of the European Union, the European Citizens' Initiative, was launched. The EU regulation on the citizens' initiative provides for the online collection of statements of support – a premiere.

In which way do transparency and public participation affect public administration? They are often seen as a chance to uphold the integrity of governments and public servants. However, public involvement and observation is no panacea for preventing administrative abuse or the malfunctioning of public institutions. A firm legal framework strictly prohibiting bribery and punishing misconduct is required. Public administrators must be well-educated and solidly paid to make them resistant to outside temptations. In addition, codes of good conduct, compliance programs, and anti-corruption guidelines are of undeniable value to raise awareness and ethical standards among public officials.

Given today's influx of public governance, transparency, and participation, the bureaucracy model of Max Weber seems entirely outdated. However, public administration has not stopped to "manage" and will possibly face some "lean years" to come. Thus, the benefits of New Public Management were lately rediscovered (or never really disappeared from the administrative stage in the first place). However, the empowerment of civil society now plays a different role. Impact-oriented administration, strategic planning, and fierce task criticism are still essential to handle the current economic situation but public governance perspectives are now included and helped transform the classic NPM concepts into some kind of "new government". Remarkably, NPM's traditionally mixed reputation to tackle cost-cuts but allegedly lower social cohesion and the motivation of the public sector was not confirmed in a recent research paper. The EU funded survey "Public Administration Reforms in Europe – Views and Experiences from Senior Executives in 10 Countries" was published in July 2013 within the project "COCOPS" ("Coordinating for Cohesion in the Public Sector of the Future") and reviewed the impact of NPM reforms during the past two decades. As it turned out, "NPM" in Europe was not as intense and all-embracing as widely believed and the often criticized performance measurement was only implemented in a "moderate degree". The survey also revealed that aiming at service improvements, rather than mere cost-cutting, as well as a higher public involvement "seem to accompany a more positive assessment of administrative reform".

Looking back at all the societal changes and reforms of the past decades, it becomes obvious that public administration needs to constantly adapt to external circumstances

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in order to secure governmental stability. Although public administration is confronted with new ideologies, values, and styles all the time, it has continuously shown an impressive ability to dynamically, and pragmatically, administer public value creation – despite the occasional reputation to be outmoded, slow, or inflexible. From a public administration perspective, certain factors are undisputed when analyzing what “stable states” actually need: An accountable and credible government is indispensable to enjoy the trust of citizens. Public administration as the “state’s agent” must be well-trained and solidly paid in order to serve as the warrantor for impartial institutions. The separation of powers, widely known as “checks and balances”, ensures the protection of fundamental rights and freedoms. A competent public administration guarantees the rule of law, public safety, and security. Transparent actions, easy access of services, and generous public information are key elements. Transparency fosters trust and helps prevent corruption. And it is due to free elections of representative bodies as well as other tools of political participation that people are given a say in what administrators and law-makers do.

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# CONSTITUTIONAL JUSTICE

Christoph Grabenwarter





Modern democratic states are governed by the principles of rule of law and separation of powers. From a European perspective both principles cannot be defined without reference to constitutional justice. “European type” constitutional courts are – in states where they exist – vital elements of the rule of law and the separation of powers. Separation of powers is a basic principle in every democratic society that also serves other purposes such as freedom, legality of state acts and independence of certain organs that exercise power delegated to them by a specific constitutional rule.

This article will describe how constitutional justice democracy contributes to a stable democracy – from the perspective of both, another state power, the legislature, and from the perspective of the citizen.

By using the expression “European type” constitutional courts, reference is made to the historical roots of constitutional justice in 20<sup>th</sup> century Europe. After the establishment of a constitutional court in Austria in 1920 and of the constitutional court of Czechoslovakia in 1920 – which never became effective – European states have established constitutional courts in two waves: after 1945 and after 1989. They share a number of common features, which distinguish them from other systems, such as the US Supreme Court system.

There are fundamental differences in the functions with a view to the constitution, which have to be mentioned at the outset. The European type constitutional courts are judicial organs that were entrusted with ensuring normative superiority of the constitution over the remainder of the legal order. Fundamental rights form an integral part of the legal body of constitutional law. In many European systems, individuals are entitled to file applications in order to enforce their rights. At the same time, international human rights were made effective. They have had an increasing influence on the domestic practice over the last six decades.

In the *Kelsenian* constitutional thinking, the ordinary (criminal, civil or administrative) judge had no power at all to decide on the conformity of a law with the constitution. The task of defending the integrity of the hierarchy of norms is in the exclusive





competence of the constitutional court. This is called the “monopoly to annul laws”. On the other hand, constitutional courts are limited to deciding constitutional disputes and constitutional questions in disputes involving various issues.

As constitutional courts are empowered to set aside laws and statutes, legal theory describes them as “negative legislators”. However, this is only one aspect of the influence of constitutional courts on the legislative power: the constitutional judge is inevitably and on a permanent basis close to the powers of the legislator in a “positive” sense as well. This “positive” influence shows a stabilizing effect in various respects.

In many systems, constitutional courts have certain discretion when they make a decision during norm-control proceedings concerning the constitutionality of a legal rule on whether to annul the law or to interpret it in a way that makes it conform to the constitution. It is not a rare situation that the constitutional courts are on the border line between annulment of a law and bringing a law into the “green zone” of conformity with the constitution just by interpreting it in a certain way, taking up constitutional values that may not have been intended by the original legislature. It avoids an annulment and reaches the same effect: a stable rule interpreted in a new way. The legislature did not have to act. Such a procedure may be preferable in cases where there are many parallel cases and where the annulment may have massive negative (financial) consequences for the state, e.g. in matters of taxation. Although, legal theory may draw a sharp line between what interpretation can do and what has to be done by the legislature after the annulment of a law, a constitutional court enjoys a certain margin of appreciation in practice.

From the perspective of a stable democracy, constitutional courts can contribute to stability if they take account of the consequences of the annulment of the law. Sometimes they have the choice to annul the entire law, a section of the law, or only the exception to a rule. When making use of its discretion, the constitutional judge may take account of the prospects that Parliament will reach a solid new solution in a certain political situation. It may give effect to its decision at a certain date in the future (often one or two years after its decision), if it is a complex issue, if European standards have to be considered or if there are elections ahead.

Sometimes the constitutional court may even be sceptical that the legislature reacts at all. In that case it may also reduce the extent of the annulment to a small area with the result that the law continues to be valid in a reduced version which has just lost its “bad part”.



Sometimes constitutional courts do not restrict themselves to just saying what is absolutely necessary in giving the reasons for the annulment of a law. In fact, they go further in their reasoning and present to the parties of the proceedings – and above all to the legislature – guidelines for future legislation. In systems where the constitutional court is commonly accepted by all political parties and has gained high authority, such guidelines may have a considerably stabilizing impact on the legislative process following the annulment of a legal rule.

Even in mature democracies there are situations where legislation was necessary according to the constitution or simply for practical reasons, but there was no consensus in parliament for a solution. Under such circumstances, it is possible for one of the conflicting parties to submit a more or less political question to the constitutional court, which is often willing to decide on that question by means of constitutional law.

Of course, in this situation a constitutional court comes close to the boundary between judicial power and legislative power – a boundary that is neither straight nor clear. And there may be situations in a constitutional system where a constitutional court oversteps this line without being accused of abusing its power.

Other phenomena highlighting the political role of the constitutional court *vis-à-vis* the legislature are basic principles of the constitution. In a number of constitutions, we find special contents that may be called “supra-constitutional” contents of constitutional law. This part of constitutional law cannot be altered by parliament, not even by the majority (usually a two-thirds majority) and the proceedings for “ordinary” amendments of the constitution. If the constitutional court is competent to define the content of “supranational” law and its limits, it decides directly on the field of action of the *pouvoir constitué*, which means not only the “ordinary” legislator but also the legislator competent to amend the constitution.

From a theoretical point of view it must be borne in mind that parliament – with a qualified majority or with approval of the people in the case of a total change of a constitution under Austrian law – can change the constitution when it is of the opinion that the constitutional court has interpreted the constitution in a way that was not intended. In other words, with respect to constitutional law, it is not the constitutional court but the parliament that has the “the final say”, although the requirement of a two-thirds majority will usually – if the government does not have such a majority in parliament – not lead to a reaction by the legislature.



Powerful reactions to a court's case-law may be appeased by nominating judges that are closer to prevailing politics. The effect and the possibilities in this respect depend largely on the national rules on nominating judges. From a general perspective, professional requirements, long terms of office and a fixed age limit, the division of rights to present candidates among various state organs and qualified majorities in election proceedings will reduce the possibilities of influencing the composition of a constitutional court as a reaction to certain case-law.

This leads to the perspective of the citizen. Individuals seeking the protection of their fundamental rights have to rely on the function of the constitutional court as a guarantor of their rights vis-à-vis the state power. Constitutional courts have to gain faith, trust and self-confidence over a certain period of time. Trust by society and legal experts is gained by a predictable practice, case-law with a clear methodological basis, where former decisions are quoted to show a consistent "line". A constitutional court that has reached such a position contributes enormously to the stability of a democratic system based on the rule of law. The Austrian and the German constitutional courts are prominent examples for such "stabilizing" courts.

Moreover, the case law of these courts is backed up by a body of case law of a regional human rights court, the European Human Rights Court in Strasbourg. The constitutional courts take this European experience and integrate it into their own case law while avoiding a "blind copy" of Strasbourg decisions, because they sometimes have to be understood in a specific context or do not fully meet the problem to be decided at the national level.

Constitutional justice contributes to strengthening the stability of a modern democratic society governed by the rule of law. The extent to which a constitutional court is respected in this role by government and parliament highly depends on the political and *constitutional culture* of a given state. Very detailed regulations may not be worth much where there are subtle mechanisms of influencing judges or where pressure is actually exercised on them. Rather vague rules may be sufficient where the court and its judges are respected as ultimate guarantors of the constitutions.

Constitutional culture is not something that exists without an alternative and that cannot be influenced. The starting point for one constitutional court may be more difficult than that of another, taking into account the history of a state and the history of its constitution. However, in every situation it is in the hands of government, the civil society (e.g. the media) and the judges themselves to enhance the respect for the constitutional court and thereby its independence.



The *role of the media* should not be underestimated. In modern society, the publication of decisions in official collections of judgments or in law journals is still important, but it is not decisive for the overall perception of the performance of a court. Long before these publications appear, there is a public debate in the media on the content of decisions, its reasoning and its consequences. In this situation, the media bear responsibility for the proper perception of court decisions, and it is a common feature in democratic societies that the media strengthen and support the independence of constitutional courts by giving them a voice in the public debate.

The constitutional courts must be aware that their decisions may be perceived differently in a general political debate than in the circles of specialized (constitutional) lawyers. That means that a judge drafting a decision must bear in mind that it will be read by non-lawyers while keeping the standards of legal reasoning. Sometimes, a “translation” of a judgment for the public may be required – for instance by means of a press releases. The European Court of Human Rights provides us with good-practice examples when informing the European public and the public of the Member State concerned. Beyond this task of “translation”, the Court and its judges should refrain from “interpreting” the judgments. There is a fine line between, on the one hand, informing and translating a judgment and, on the other, interpreting or even commenting on it.

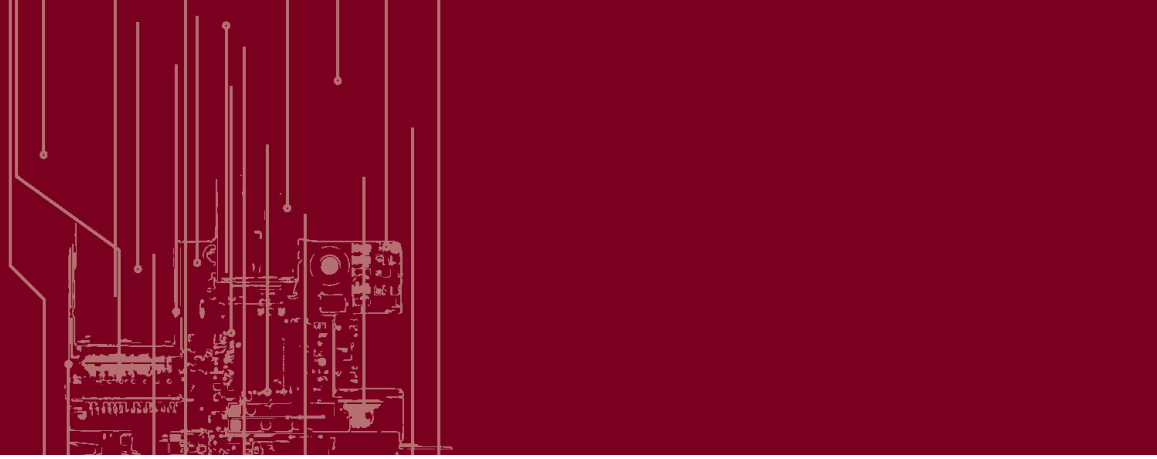
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# INNOVATION

Markus Hengstschläger

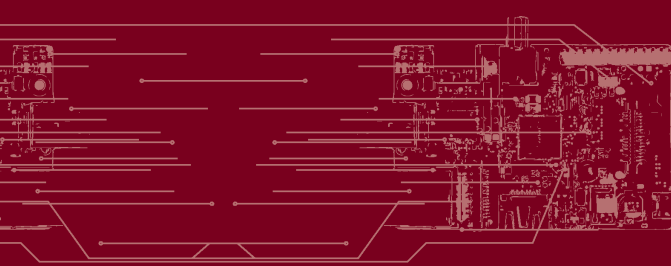




Being asked to add something to the topics of social cohesion and good governance two major things come to my mind. First and foremost, the more stability we want, the more flexibility we need and secondly, good governance must not only allow but demand individuality and teamwork.

Both, the pool of knowledge and information as well as the amount of change are dramatically increasing every day. In fact, the future has never been as unknown as today. One hundred years ago it probably took another hundred years to double knowledge and information on planet Earth. Today, things are happening faster. In our daily life, new questions arise continuously and information increases tremendously every day – not only due to “big data”. How can states cope with all these new challenges and with this speed of transformation? How can states be stable under these conditions? Of course, there are different approaches, which might prove promising. The future will raise new questions – questions we have never faced. Confrontation with new questions will necessitate new answers. Raising new questions and finding answers to these new questions are the hallmarks of what I call innovation. Consequently, it must be highlighted that without innovations the planet Earth cannot survive. Independently, whether the new questions are self-posed by mankind or they appear accidentally more or less as a consequence of evolution – we must be able to cope with these new challenges and handle their consequences. Without the consequent establishment of real innovations – not just “bigger”, “faster”, “cheaper” or “more” of the same – we are on the brink of extinction. Currently, the respective discussion is always nailed down to the question whether a state is an “innovation follower” or an “innovation leader”.

However, sometimes we need to consider that this aspect can also be seen from another point of view. This is especially true when we bring the discussion to another level: Is it mandatory for a state to create the needed innovations within its own boundaries? Is the generation of innovations within the own country a requirement for success and stability of a state in future? Or are there strategies, which guarantee the availability and allow the usage of every single new innovation without being involved in the creative process of its generation? Given a state is very rich in natural resources, such as for example oil – and we know of many countries that more or less live off



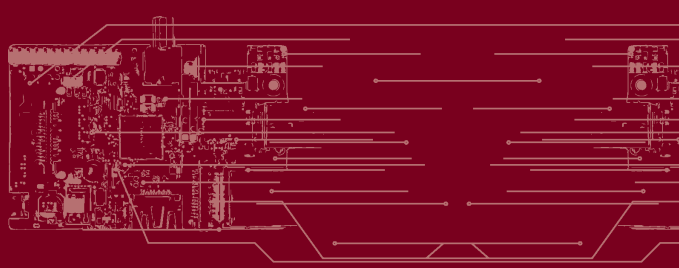
their natural resources – could this state not argue for a another strategy? As long as such a country earns enough money, it will be able to buy every single innovation as soon as it pops up in the market. Rich countries, with natural resources, can even buy the innovation before it has been established. Research funding allows for rich states to be involved in (or even responsible for) innovation development in other countries. Such states do only have to take care that the advantages of the newest innovations are available for all of their inhabitants, independently of whether these innovations have been created in other countries, but with their financial research support, or if the innovations are bought as soon as they reach the market.

It thus seems that money can, to some extent, substitute for the innovation process in the own country. Other examples for this strategy are states which focus on cheap production rather than creation of innovation. Waiting for new innovations generated in other countries, these states then manufacture the emerging products at the lowest possible costs. In many of these states low production costs are achieved by low income of the employees, which is often associated with low levels of education.

I am certain, I do not need to emphasise that both strategies discussed above – similar to all other concepts that also deny the development of innovation in the own country – are short-sighted and not sustainable. It is an unstoppable development that natural resources as well as human beings accepting low levels of education will decrease in future.

As a consequence of the aspects discussed above, we must conclude that the real sustainable strategy for stability is to do everything possible to trigger, promote and hold the process of innovation development within the own country. At this point, two important issues must be highlighted:

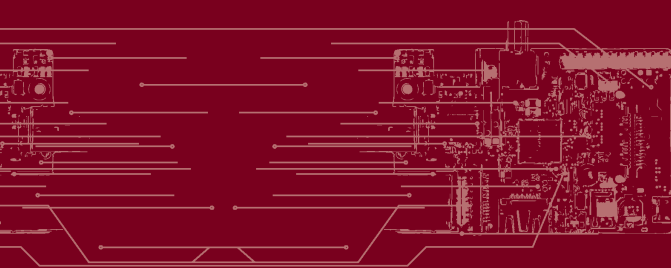
1. Very often the use of the term “innovation” is too wide and generalising. As already mentioned above, the quintessence of innovation is not to find cheaper or faster ways to the same approach. Real innovations allow to answer questions we have never faced before or to cope with problems we have already been aware of for a long time, but have not been able to solve so far. Accordingly, real innovations are always accompanied by processes, such as “change the way of thinking” and “leaving the old trails”.
2. So, what can good governance do to promote the spirit to trigger real innovations in the own country? Things become clearer when one considers



that innovations are always made by human beings! This has always been the case and will never change. The creative power of individuals and their willingness to work hard to achieve new solutions is the indispensable basis on the way to innovation. Everybody has individual talents and strengths, which are worthless without being discovered and (via hard work) turned into exceptional achievements – this is the route to success. Accordingly, good governance must do everything to allow the discovery of individual talents and to motivate the people to use their strengths to the best of their ability.

In my opinion, a dangerous development of today is the highly represented attempt to fully standardise education with the aim of guaranteeing the same qualification for everybody. The approach that really guarantees stability is individual education aiming at strengthening the strengths. For clarification I want to use an example of 20 children in a gym. The teacher tells the children that a ball will be thrown into the gym. The future is so unpredictable that nobody knows from where and when the ball will come. However, the challenge for the children has been the same for as long as anyone can remember – somebody must catch the ball – we must be prepared to cope with future problems. Accordingly, the teacher asks the children to position themselves within the gym so that one of them will catch the ball. If in the past the ball had come ten times from top right and ten times from bottom left and we use these data to standardise, the calculated mean value could lead us to the assumption that next time the ball should come from the middle. The real problem is that as a consequence of all calculations too often the 20 children are told to position themselves at one point in the middle of the gym – a recommendation based on the common average. Such an approach seems to be convenient allowing the individual to join the majority (“All the others were also standing in the middle of the gym!”) and to be fair (“Everybody has the same chance to catch the ball!”). In reality, a team, in which all members do the same, has a very low chance of coping with unpredictable issues. Obviously, a much higher chance of catching the ball exists when every child takes up a different – individual – position. And finally, the highest chance of success can be obtained when the children run around within the gym instead of taking a fixed position. Individuality and flexibility are the best strategies to be prepared for future unknown tasks. And as already mentioned – the future has never been as unpredictable as it is today. It is the obligation of the government and of society to encourage the next generation to leave the convenient field hidden within the other 20 children and rather take their own individual position. The needed attribute, which prospectively must be promoted, is “courage”.

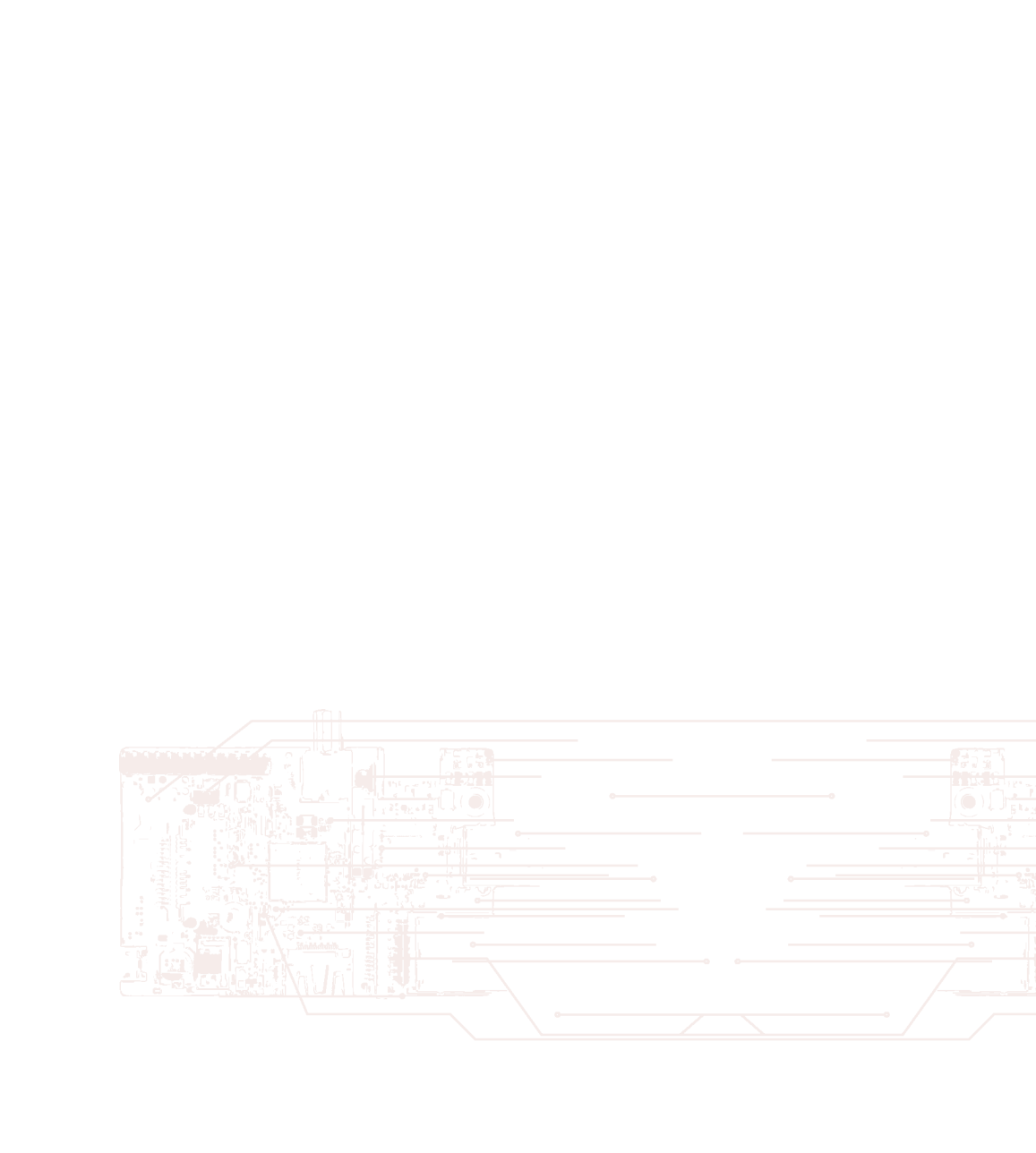
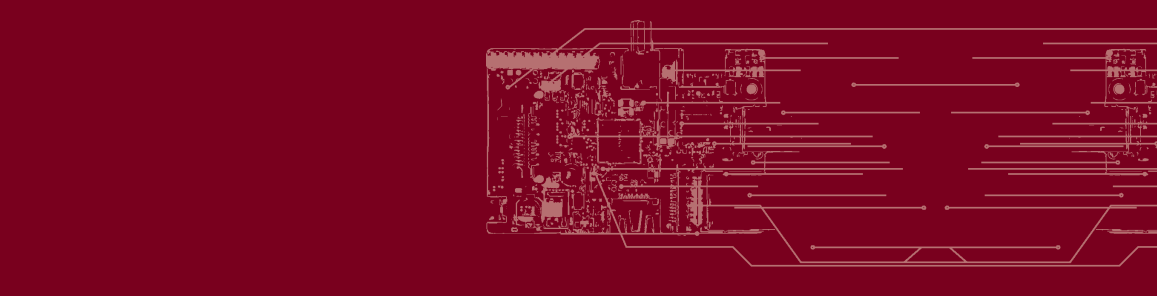




The most important features good governance must enable and promote are individuality, flexibility and courage as a prerequisite for the next generation to cope with questions they do not know yet, because they will not appear before tomorrow.

Stability can be achieved through a prospering economy, low unemployment, high levels of education, civil liberties, autonomy, happiness and mental and physical health of the population. Nobody builds a house alone, but even 1,000 electricians cannot build one. The more complex a question, the more individuals are needed to work on the answer. When there is only one child in the gym, its position is irrelevant – the chance to catch an unpredictable ball is always the same. As soon as there is more than one person, as soon as there is a team, the individuality of each member increases the chances. For obtaining the highest level of stability, a state must provide the conditions that each human being has the chance to contribute according to their talent. The right environment must be created in which talents are not wasted because everybody is doing the same thing all over again. To pull the development in the right direction, a state must establish conditions supporting the creation of a rope by twisting all the many different cords representing all the individual gifts within the population. Such a rope will be more solid than the cord of a single person can ever be. And furthermore it provides security: Breaking of a single cord does not destroy the entire rope, which consists of all members of the population. Social cohesion without reduction of individuality allows for as many “changes in the way of thinking” as needed to cope with the future, whatever that might bring.

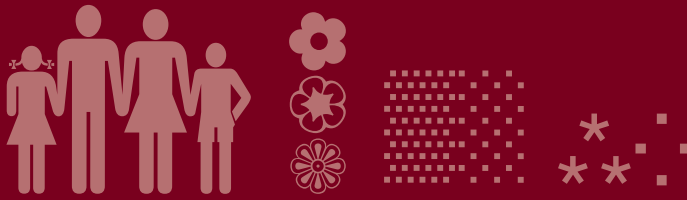
**Markus Hengstschläger** is head of the Institute of Medical Genetics at the Medical University of Vienna and member of national and international ethics commissions as well as the Austrian Council for Research and Technology Development.



# IDENTITY

Lukas Praml

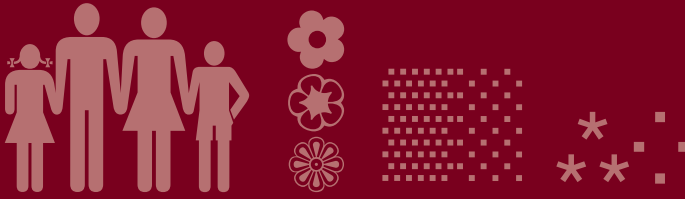




What causes states to fail? What renders the structure of a state unstable? Why do some states demonstrate a good performance, while others develop in a dramatically negative fashion? The literature on political science has worked out a wide range of factors that influence national stability and prosperity. One factor that was underestimated for the longest time is the lack of, or insufficiently developed identity and ownership structures. Wherever identities and ownership rules become precarious, instability is inevitable.

The economist and political advisor Hernando de Soto, founder of the Institute of Liberty and Democracy, has formulated a remarkable thesis in this context: based on extensive research findings from Asia, Africa, the Middle East and Latin America, he argues that most poor people already possess those assets which they require to succeed in capitalism. People put aside savings, even in the poorest countries. The one decisive deficiency is the lack of ownership rules, he states. Houses that are built on land of questionable ownership, unincorporated companies with unclear liability, industries that remain invisible to financiers and investors are the actual problem. Since ownership structures are not sufficiently documented, those assets cannot be converted into capital that easily. They are not suitable either as collateral for loan or for issuing shares to investors. In economically successful countries, every piece of land, every building, every machine and every inventory is represented by a document of title – as a visible sign of a comprehensive and hidden process that links all those assets with the rest of the economy. Thanks to this process of representation, assets are able to lead an invisible second life next to their tangible existence. They can serve as collateral for loans, states the economist.

Hernando de Soto's thesis – provocative to some – from the world of economics shows how indispensable flawless and securely documented representation is for all of us. We must know what and who we are dealing with, or otherwise all forms of transactions in our ever more interconnected and transaction-driven world will become questionable or simply impossible. Successful transactions, however, are the foundation of the success of individuals as well as the stability of societies and states in our society's market economy model.



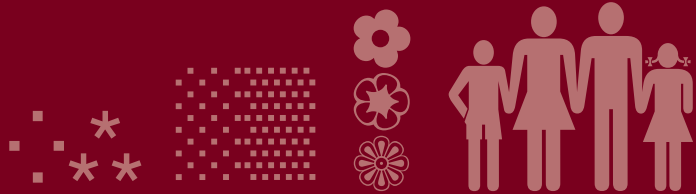
In stable states, the relationships between people, institutions, and the state are characterized by clear and secure identity structures. If necessary, it is very easy to find out who is who, and who is thus authorized to access what. A person's secure identity is basically their DNA within the state. It makes the individual unique before the state and the law.

The passport is the central document of representation and identity. It clearly and unambiguously establishes identity. It makes identity secure. A passport documents the nationality of a country. The picture in the passport plays a special role in this context. After all, there is no other international document – except for ID cards – in which the real and tangible link between the document and the person is as obvious and clearly visible to everybody as in a passport.

We live in a time in which the competition for a secure identity and all the ensuing options has reached a new dimension. Never before in history have there been so many and so massive attempts to counterfeit identification documents such as passports or visas. The broad distribution of fake identities would have a severely destabilizing effect on our societal and national systems; one only needs to think of social security and health care systems.

The technological methods of warranting the security of passports have been developed further. Passports of the latest generation are security passports with integrated chip technology. The passports of the Austrian State Printing House (OeSD) comply with the requirements and security standards of the European Union and the UN sub-organization UCAO (International Civil Aviation Organization). Personal data as well as a now digitally imprinted passport photo are additionally stored on a contactless chip in the new security passports. Another option that is becoming more widely used is the finger print. All of those methods ensure that the passport is and will remain the essential and forgery-proof document of secure identity.

Still, it is necessary to start working on the future of secure identity now. The proof of secure identity is a matter of technology. High-security printing has opened new perspectives. The digital world of the 21<sup>st</sup> century encompasses new challenges to continue guaranteeing the idea and the concept of a secure identity as the basis for social and national stability. Technological digitization cannot be considered separately from the social process of individualization. The term “ubiquitous computing” clearly shows that we are surrounded by increasingly digital worlds which we can use only if we have secure proof of our identity.

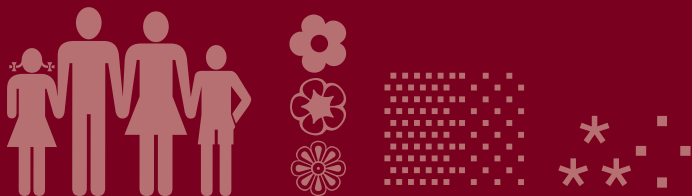


Against this backdrop, OeSD has been dealing very intensively, e.g., in the context of research projects, with the future of secure identity in the context of digitization for several years. In order to be better able to assess the potential and significance of a secure electronic identity (e-ID), it conducted an analysis at its OeSD Academy to find out what future scenarios are possible for Austria and Europe – and which scenario is desirable.

In the course of that research, four possible future scenarios were developed for Austria. This clearly showed that our future will be determined and unfold along different axes – along the axes of democracy, security, modernity and surveillance. The scenario study showed that it is critical which side of the respective axis we will find ourselves on in the future. More or less security, more or less democracy, more or less modernity, more or less surveillance – those are the alternatives we are faced with, alternatives all of which are linked to more or less national stability. While three of those scenarios open up perspectives that range from questionable to clearly negative, one of them – the “touch the future” scenario – showed a desirable development. Democracy, security, modernity, and control are interlinked in a highly positive manner here. State and society show a stable development. Guaranteeing a secure identity of people plays a decisive role in this context.

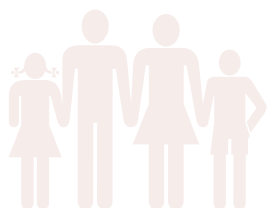
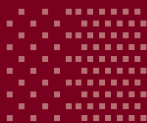
In a next step, research was undertaken as to what needs to be done to achieve this positive scenario of a prosperous development by 2025 – thus, in the not-too-distant future. This research focused on the future of political participation – an issue that, according to the assessment of top-tier experts, scientists and futurologists, is of increasing importance for our society and is massively driven by the new technologies. This is where the growing significance of warranting a secure electronic identity is shown to take on a very concrete form. In the digital age, increasing political participation is possible only on the basis of a secure e-ID. There is a direct link between secure civil rights and secure e-ID solutions. This becomes all the more evident as, even today, individual rights and social stability are being challenged by phenomena such as the mass disclosure of private and confidential data, cybermobbing, the unrestrained siphoning of data, or the lack of transparency with regard to the generation and use of data.

Any communication and interaction between people, with state institutions or private institutions must be afforded the security of dealing with the right person also in the future. If this security is missing, there is a threat of abuse. This must be prevented in the interest of social and national stability. A secure e-ID opens new perspectives in



this context. Secure identity is a key issue for individuals, society, and the state in the digital society of the 21<sup>st</sup> century. It is the basis of personal freedom and security, of exploiting the advantages of IT applications, and of economic and social success. A secure identity is the key to national stability.

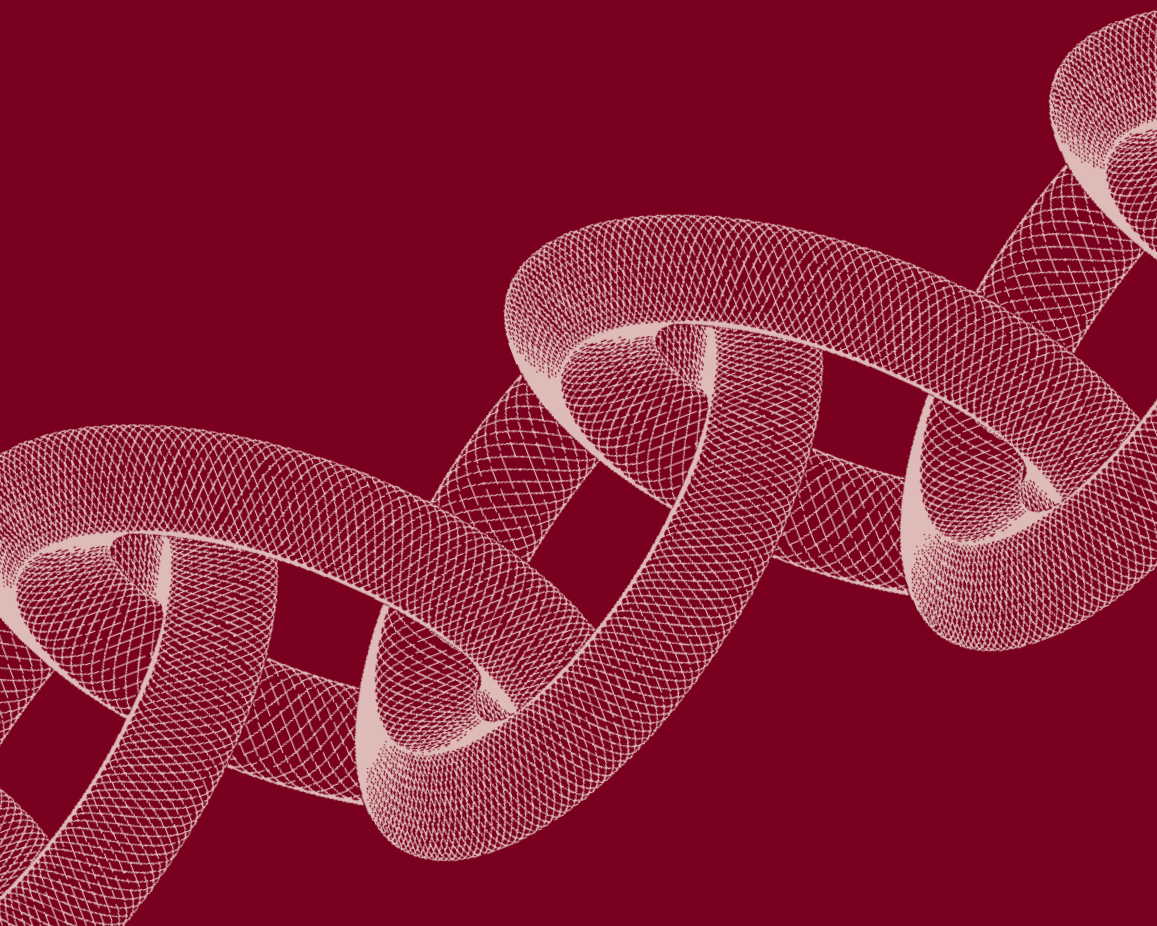
**Lukas Praml** is Managing Director and Chief Innovation Officer of the Austrian State Printing House (OeSD).





# SECURITY

Damien D. Cheong

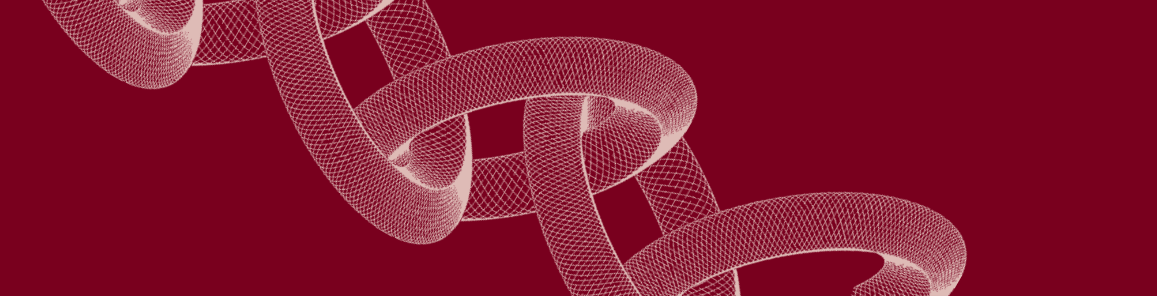




According to some observers, the drivers of the recent riots in Sweden (May 2013) were socio-economic in nature, namely: youth unemployment (particularly among new immigrants), the widening income gap, festering tensions between new immigrants and the local population and criminality (hooliganism). The riots were apparently triggered by the killing of an armed Portuguese immigrant by the police. Similarly, the UK riots of 2011 were also attributed to poor social-economic conditions such as perceived social injustices, anger and frustration at the way certain communities were policed, and opportunism. This incident was also triggered by the shooting of an unarmed suspect by the police.

Such social disturbances underscore two important points: the need for a state's security apparatus to improve relationships with communities in order to build trust and the imperative of governments to address socio-economic issues as best as they can, particularly in the areas of unemployment, immigration and ethnic relations. By doing so, it is envisaged that social cohesion within a country is likely to improve over time, and such disturbances, which seem to be occurring more frequently in recent times, may be minimised.

The social composition of many developed countries has changed drastically through increased immigration. The efforts to integrate these new citizens – the endeavour to make “them” “us” – have not always been successful. This has created a series of problems associated with real or perceived feelings of exclusion and insecurity on the part of such communities. A 2009 UNDP report argues that “there is a strong link between social exclusion and insecurity. Minorities will become more insecure if they are being victimised because of their ethnicity, gender, culture or religion. This group insecurity can then lead to wider societal insecurity if a marginalised group decides to use violent means to claim their rights and redress inequalities. Group differences are not enough in themselves to cause conflict, but social exclusion and horizontal inequalities provide fertile ground for violent mobilization. People who have been excluded often feel they have little to lose by taking violent action”. In light of this, the report goes on to suggest that from an operational standpoint, “the reduction of disparities, inequalities and social exclusion and the strengthening of social relations, interactions and ties” will enhance social cohesion.



While the amendment of socio-economic policies is beyond the remit of security officials, they can nevertheless, assist in reducing the perception of marginalisation and victimisation by communities (minorities and/or otherwise) through: the discerning use of force when dealing with suspects and community engagement.

The contentious issue of the use of reasonable force when dealing with suspects has been debated extensively, with no definitive answers or solutions. The two factors that make this issue a perennial problem are: situational exigencies and human fallibility. While it is easy to argue that security officials must employ reasonable force against a suspect, the realities on the ground may compel officers to use higher levels of force. If framed in a negative manner, especially through the use of social and traditional media, it may seem that the officers have made excessive use of force. At the same time, security officials must display that they possess the monopoly over the use of force in order to deter, and in some instances, to respond to security incidents. An inadequate display and use of force may undermine confidence in the ability of the officers to maintain law and order and to protect the populace. It would also encourage belligerence on the part of the perpetrators. On the part of security officials, there might be individuals who abuse their authority. Training, counselling and harsh disciplinary action will help reduce the problem to a certain extent, but will not eliminate it all together. In light of these inherent challenges, it may be more productive to improve the levels of trust between security officials and communities so that there is mutual respect and understanding between the parties. This would help build overall confidence in the security apparatuses in the expectation that when they do employ force against a suspect or suspects (especially from a specific community), their actions would be regarded as legitimate, rather than an act of victimisation. Furthermore, when officers commit offences, such infractions will be regarded by the community simply as an anomaly rather than as a norm. In short, the idea is to change the mind-set of the population in relation to the security apparatus.

The initiatives discussed below may not be new or novel, but they can help in confidence-building efforts:

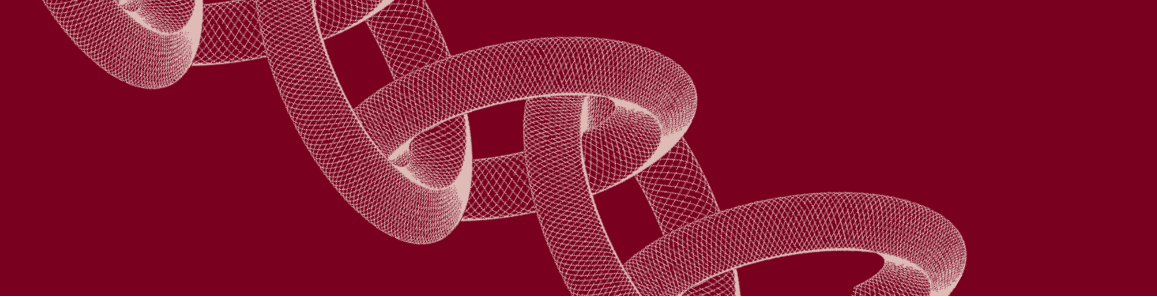
The Victoria Police in Australia has adopted a community-policing model that attempts to “mitigate the risk of alienating and marginalising key sections of the population”. This was done to “avoid the negative community experiences of counter-terrorism policing in countries such as the United Kingdom, the United States of America, and Northern Ireland”. To that end, they have developed programs to promote and



facilitate engagement between their officers and various communities from diverse cultural backgrounds. These include: cultural competency training for police officers, community engagement functions and events, the multicultural Liaison Officer program, the new and emerging community Liaison Officer program, administration for the Police and Community Multicultural Advisory Committee (PACMAC) and the Victoria Police Multi-Faith Council.

Authors of the book *Counter-Terrorism Policing: Community, Cohesion and Security* have argued that “small gestures, accumulated over time, can yield substantial benefits in terms of social harmony and community cohesion and can thus decrease the likelihood that groups outside of the mainstream will retreat into defensive isolated pockets”. They cite an example of how the Victoria Police defused a potential conflict between a group of young Muslims and their non-Muslim neighbours to underscore the merits of employing the community-policing model: “During the month of Ramadan, after rising early to have a meal before beginning their daily fast, a group of teenage boys would kill time before heading off to school by playing football in the streets around their homes, which created some tensions with non-Muslim neighbours. Rather than simply ordering the boys back into their homes to wait quietly until it was time to go to school, Victoria Police responded to this potential conflict by arranging access to a private indoor football facility, organising the boys into teams, and establishing an early morning football competition within which individual police officers also participated alongside the boys.” They add: “By emphasising community cohesion and proactive involvement within the community the police defused an issue which, though admittedly small, if left to fester unresolved might combine with other frustrations to create a milieu marked by high levels of distrust or hostility between Muslims and non-Muslims, as well as between the teenagers and the police.”

The purpose of such activities is to create awareness of what the agency does as well as showcase how it helps the community. Annual Open Houses such as those conducted by the Republic of Singapore Navy are effective methods of engagement. Road Shows are another way to increase public education and awareness as well as encourage communication. Such events could be held in schools, community centres and other community spaces. For instance, the Essex Police in the UK organised the “2Smart” road show that focuses on educating youth about bullying, alcohol, drug and knife-related issues. “Each show combines a mix of music, theatre, sport and role model depiction as a tool to educate 11-12 year old children from across the county. The aims of the show are to illustrate to young people what they can achieve if they



stay on the right track and put their hearts into the things that matter to them and providing information how to make the right choices.”

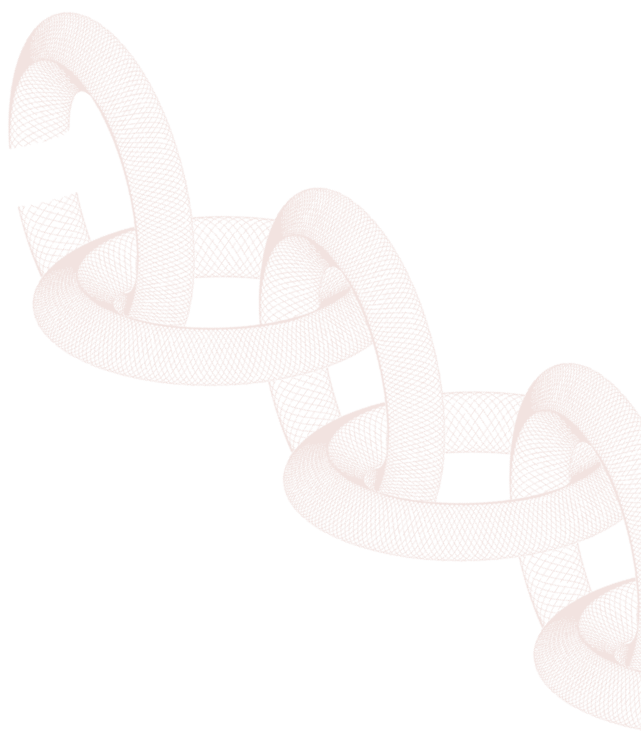
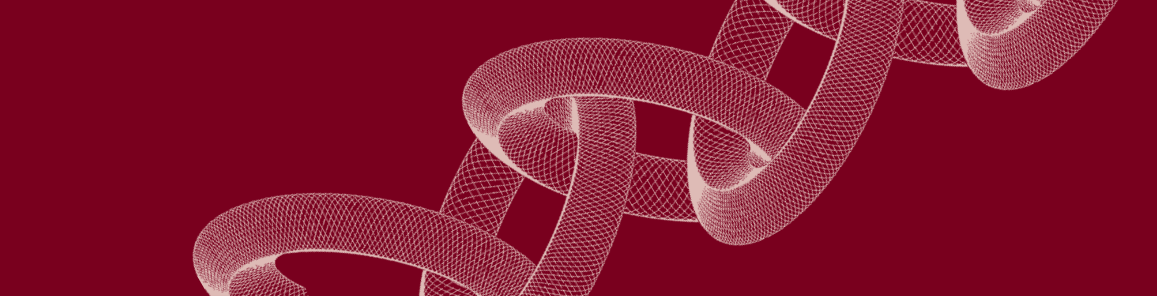
Increasingly, social media is being used to facilitate two-way communication between security agencies and the public. Some examples include: the Seattle Police Department’s blotter page (<http://spdblotter.seattle.gov/>), the US Department of Homeland Security’s YouTube page (<http://www.youtube.com/ushomelandsecurity>), the Taumarunui Police’s (New Zealand) Facebook page (<https://www.facebook.com/TaumarunuiPolice>). Expectedly, policies and approaches to engage the public must be developed first before security organisations employ social media.

Such initiatives will be limited in their effectiveness if individuals are unaware of the avenues for recourse against abuses of power or if they perceive that such avenues are limited and/or ineffective. It may motivate them to violence as they perceive it to be the only solution. For instance, Indonesia has had significant success against Islamist terrorism through its use of hard and soft counter measures. Densus 88, the elite counter-terrorism unit of the Indonesian National Police, has disrupted terrorist cells, arrested and killed key leaders and figures (e.g. Azahari Hussein in 2005 and Noordin M. Top in 2009) and foiled several terror plots. However, Densus 88 has come under fire for using excessive force against suspects, which has resulted in the deaths of several individuals. The level of mistrust for the police has risen as a result, and some Indonesians have even taken to attacking police officers and police stations in retaliation.

In light of the new security challenges in the domestic domain, it has become imperative for security officials to become facilitators of social cohesion as well. Action and effective communication, as argued above, are necessary for success. In addition to the operational challenges, which are considerable, officials would have to confront both personal and political challenges as well. Moreover, the triumphs may only be evident in successive generations to come.

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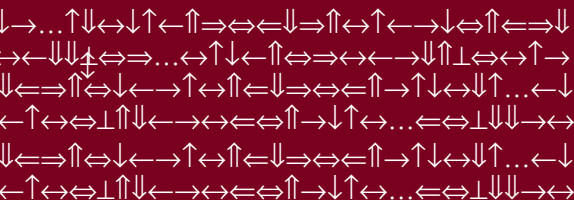
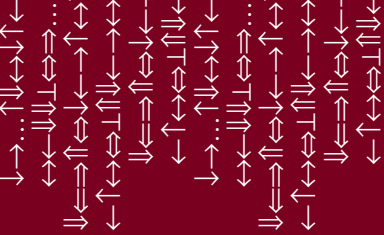
## FOREIGN POLICY

Wolfgang Schüssel

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The diagram consists of a grid of symbols and arrows. The symbols are arranged in a way that suggests a sequence of operations or a proof. The symbols include mathematical notations like  $\mathbb{R}$ ,  $\mathbb{C}$ ,  $\mathbb{H}$ ,  $\mathbb{O}$ , and various arrows (straight, curved, double-lined). The pattern is organized into several rows and columns, with some elements highlighted in red. The overall structure suggests a mathematical proof or a sequence of operations.



Although the main drivers for social cohesion and good governance are clearly internal factors, foreign policy nevertheless plays a crucial role in ensuring a stable environment for states to prosper and thence provide social stability as well as good governance.

Of course, each country faces its own challenges due to its size, geographic location, economy, military power, political situation etc. Defining the very strategy necessary to achieve a stable political environment is thus something very particular in every case, but there are, however, a few aspects that could be seen as globally applicable:

In very general terms the avoidance of extremes and diversification are paramount. Avoidance of extremes is not a call for mediocrity, but much rather an appeal for a nuanced foreign policy based on a realistic self-assessment. Considering the internal pressures towards foreign policy decision-making, this is often easier said than done. Diversification of strategic alliances is – as in investments and trade – a smart choice.

Again, this is not an argument for arbitrary alignments, but a necessary reduction of dependencies as well as the provision for all contingencies. A certain level of predictability – in terms of a coherent pursuit of national interests – is furthermore an asset in positioning oneself in the global arena and assuring continuous reliability for international partners.

Within the scope of this volume, there are in fact three main pillars forming the basis for a sound foreign policy aiming for stability:

1. Internal stability:

Comprehensive internal stability – maybe best defined by an absence of conflict or unrest – is a necessary basis for a sound foreign policy. In its absence – particularly in the case of warring factions – the risk of becoming the subject of proxy wars is given. The basis for most factors procuring stability in a country is a vibrant, diversified economy enabling all segments of society to participate and a sustainable debt level.





## 2. Neighborhood Policy:


A country is – for better or worse – bound to its neighborhood and the quality of the respective relationships to these countries has a massive impact on external stability. Contrary to alliances, geographic location and thus the linkage to neighboring countries is not a matter of choice. Keeping stable political relations with neighboring countries should hence be given priority, as a good working relationship on all levels of policy making is essential. Historical grievances (from atrocities to legal issues) or perceptions of current governments and their policies should not serve as a distraction from the strategic goal of maintaining regional stability. In an overall assessment, working out means of compromise certainly yields higher returns than the settling of scores on particular issues.

## 3. Multilateral Alliances:

Forging multilateral alliances – such as the UN, the EU or the OSCE, which are serving as platforms for dialogue and cooperation as well as a legal framework for solidarity – is the third milestone to be considered. The European Union, for instance, has accomplished to turn Europe into an area of security and economic prosperity after decades of war and conflict.

It is an important level of intergovernmental cooperation which is at times underestimated, but should in fact be strengthened. Not least in the interest of smaller states and as already indicated, it strengthens diversification in foreign policy. The “rules of the game” must be defined in a multilateral manner, although one has to acknowledge the fact that international organizations go through different phases of importance: they may boom at times and be less relevant at other times. Also, from a political perspective, multilateralism can be tiresome, but is certainly worth the effort. This is also the case for military alliances: they have become a global necessity to prevail as well as an effective way of burden sharing. On the downside, it is clear that all cooperative structures consume speed and time and always lead to the smallest common denominator. This can – in the worst case – also lead to inaction or instability.

A final aspect would refer to the lessons learned from today’s failed states, many of whom were defined on the drawing board. The heritage of faulty, artificially drawn borders is certainly a seed planted for future conflicts. Europe after the 1<sup>st</sup> World War serves as a case in point, as do the remnants of the Ottoman Empire or the current map of the Middle East.

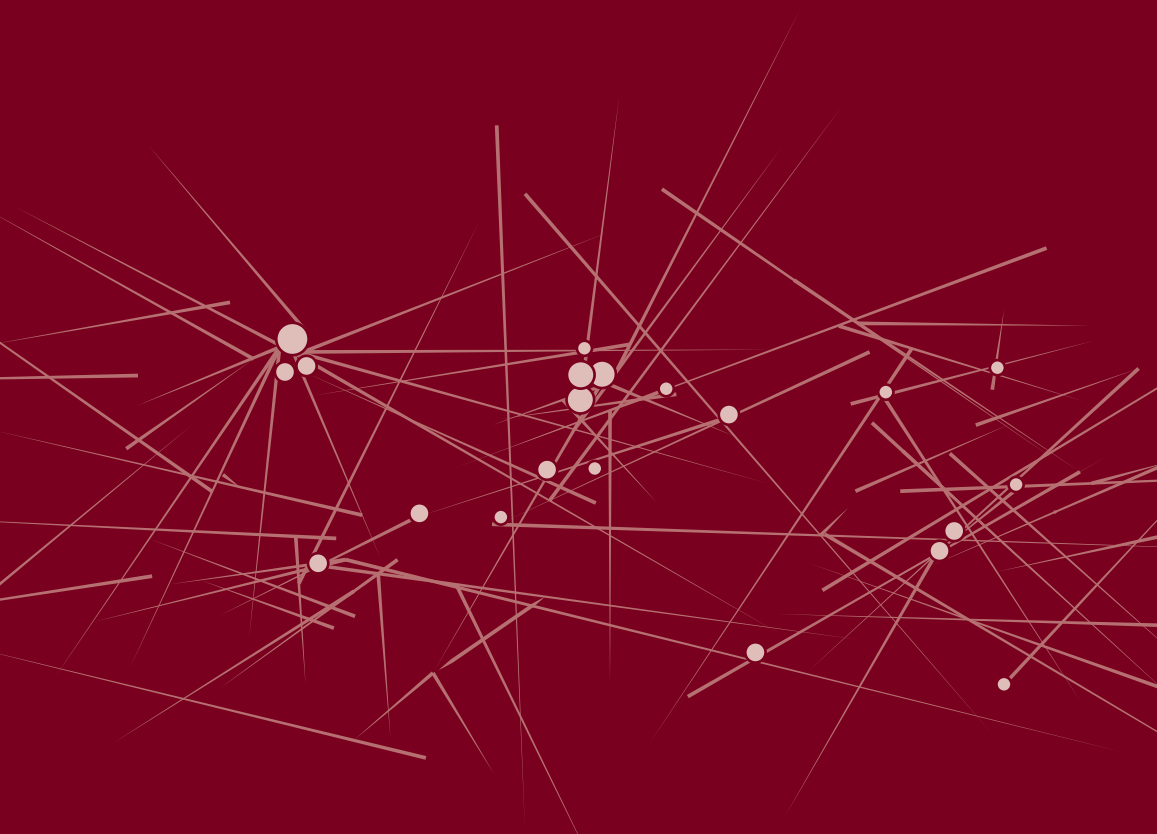


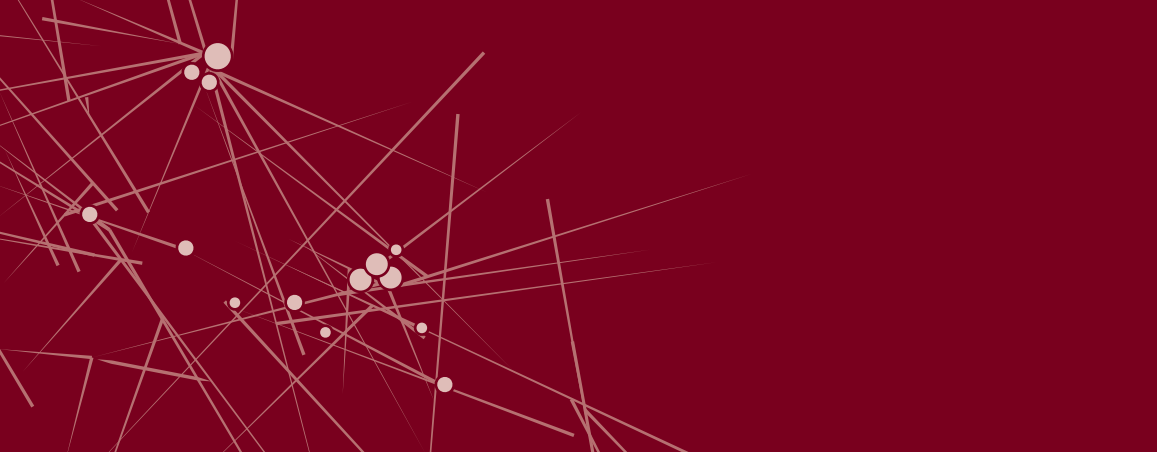
To conclude, it could be argued that whilst a balance of power provides stability on a global scale, an equilibrium based on the pillars of internal stability, good relationships with neighboring countries and multilateral alliances creates an environment necessary to provide “stable states”.

**Wolfgang Schüssel** is a former Federal Chancellor of Austria as well as a former Federal Minister for Foreign Affairs.

# INTERNET

Linnar Viik





Charles de Gaulle Airport, arrivals hall: A group of high school students with their travel bags, casually dressed, are gathered around their teacher and a trespasser cannot help but notice the tense atmosphere in the group:

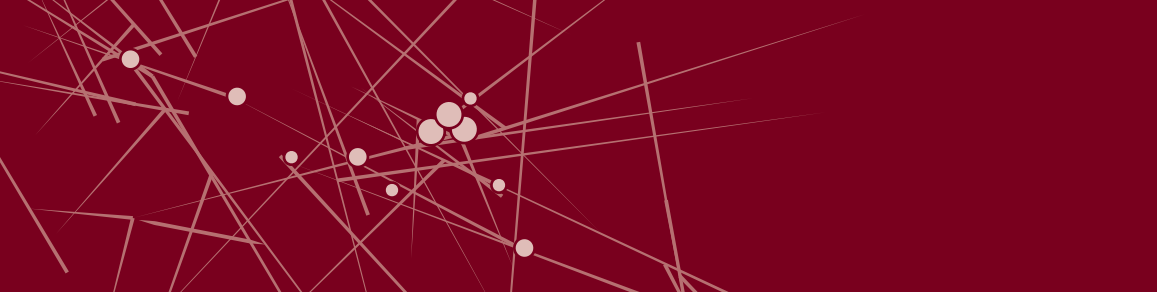
- This is like the worst trip ever!
- Can't we like return right back home or something?
- Why didn't anybody tell us about it?

The students have just realized that their long awaited school trip to Paris is about to become a nightmare – they have just arrived in France, where the local mobile operator's roaming plan does not cover mobile data and their smartphones with life essential features such as streaming subscriptions to audio and video feeds, social network applications, chats and e-mail are useless pieces of plastic and glass with no purpose, just silent expressions of high-tech couture in their hands. A girl is crying and her hands are shaking. Last year, increasing numbers of teachers have reported similar behavior; due to the shock some of the students even required medical attention.

It looks like the teacher, in his early forties, does not at all get the grip on what is really going on. The weather is good, everybody is fine, hotels are booked, no luggage is lost and a couple of days of excursions and galleries are waiting for them. He just does not get it, does he? This recalls lines from Bob Dylan's "Ballad of a thin man":

"Because something is happening here  
But you don't know what it is  
Do you, Mister Jones?"

At another instance a master student, who had to complete the pedagogical practice at school was stressed: "I have to take a full class of the 5th graders on a bus excursion to the IT and Science Center and I don't know how to establish some order on the bus. Will they listen to me when they start fighting and screaming and throwing things at each other?" The next day she was all smiles: "It was magical, I love them. Two hours of peace and quiet on the bus as they were all attached to the gloomy screens of their



smartphones and only a few times there were arguments about who should set up the next mobile internet hotspot to be shared with the classmates.”

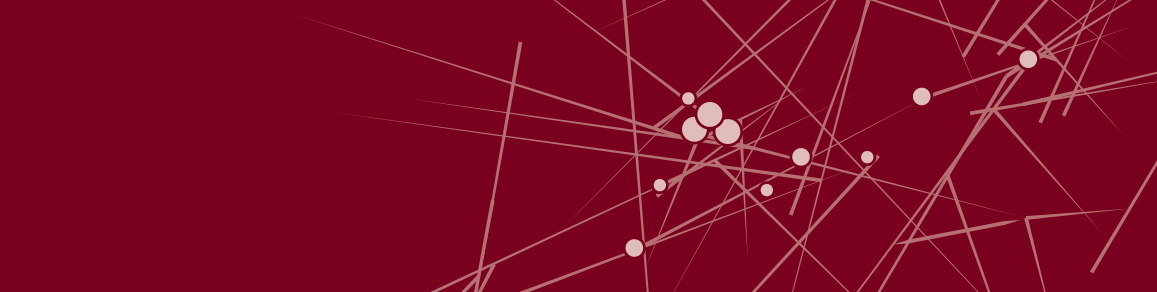
Something is happening here but we don't know what it is. Do we?

It really is quite something, what is happening and paradoxically, with every faster generation of processors in our hands, it takes more time to compute the impacts of these recently created and launched technologies. Whenever a new technology is out, we first tend to get overexcited about the short-term, immediate impact of that technology. We expect solutions to the problems we have, we assume a rapid growth in usage and dream about a better life. Pretty soon after the initial hype is over, we forget about this recently brand new technology and focus our attention on the next, even more promising solution. At the same time, we heavily underestimate the long-term, cumulative impact of all these technology layers and generations to our society – to individual users, organizations, processes, to cultural and social structures of our societies. We have reached the point where information and communication technologies have throughout their shortened lifecycle generations become indisputably the “new normal” of every country and society. We depend on the daily functioning of the Internet and its stability has become a strategic national interest.

In the novel “The Secret Agent: A Simple Tale” by Joseph Conrad, published in 1907, one of the storylines emerges in defining the new target for anarchist terrorism: “science”. The terrorist must carry out an operation, destroying the Greenwich Observatory through a bomb explosion. An attack against the new core of a society is no longer targeted at the royal family, the prime minister or parliament – nor at the industrial domain – but at science and knowledge. The free flow of ideas is the domain which can most effectively paralyze a target society and in the 21<sup>st</sup> century the “Greenwich Observatory” of information societies is the Internet, embedding all the core functions of modernized mankind. Still, we pay too little attention to how much we really depend on the Internet and what happens in the area of cybercrime and online terrorism.

What are the trends and threats of this new global and national security domain?

Less than one third of the world's population, around 2.5 billion people, use the Internet. This figure is expected to reach 4 billion in 2020. But the number of computers and devices connected to the Internet is higher – about 10 billion; by 2020 that number may rise to 50 billion. This is also something called the future of the Internet – Internet



of Things – and management of such type of the net is very different from what is now considered to be good governance of the Internet.

In 2000, around one billion spam e-mails were sent online each day. Within a few years, the share of spam had tripled to become about a third of all e-mails sent. By 2011, that number had reached two billion. From being one third of all e-mails in the middle of the last decade, spam can on some days now account for 90% of all e-mails sent. This is not just a costly nuisance. Up to 5% of spam e-mails contain malware, which can damage hard disks, steal data or immobilize networks. A decade ago, the total count of viruses was 50,000. Now this number exceeds 1 million. The distribution platforms are also keeping up with technology – within a year, the number of viruses for Android smart phones and tablet PCs has grown tenfold and is already close to 20,000.

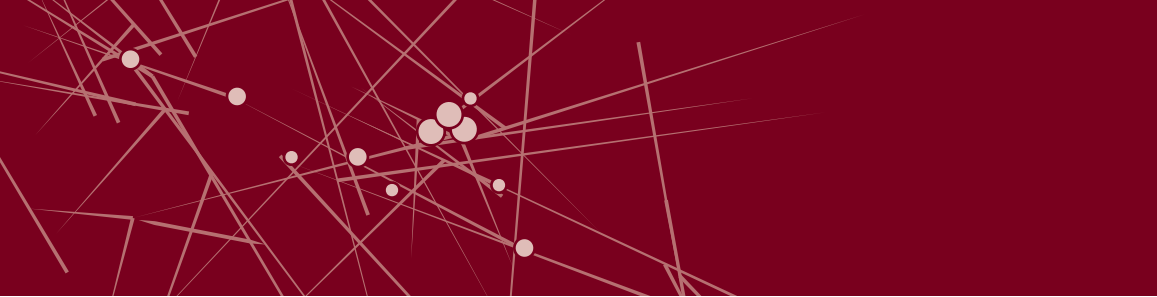
Virus-infected computers can be used for crime, or other forms of cyber-attacks, such as DDoS (Distributed Denial of Service), in which a website or network is swamped by bogus traffic. In 2007, over 12,000 cyber-attacks were reported in the USA. Within two years this number had doubled and last year there were 50,000 registered cyber-attacks on US federal level.

In addition to these serious cases, the Pentagon claims that up to 10 million attacks are daily committed against its information systems, while the UK claims that 150,000 daily cyber-attacks are made against their systems. Spam e-mail, viruses and attacks have become consolidated as cybercrime, with its own competence centers and coordination.

The former “student jokes” have been replaced by a global business related to money laundering and other forms of organized crime. Just as other branches of organized crime, cybercrime also has its own “flag-of-convenience” countries, whose governments find it useful to keep the “talent” at hand for their own use – be it cyber spying in those countries’ strategic interest, following dissidents on the internet or increasing their cyber defense capability.

All these cyber threats have been well-known already for the past decade and organizations and governments are cooperating to prevent and fight them. But it is not enough to ensure a virus- and spam-free internet.

The worldwide cost of containing and dealing with spam, viruses and cyber-attacks on companies and organizations added up to € 200 billion in 2012, which amounts to



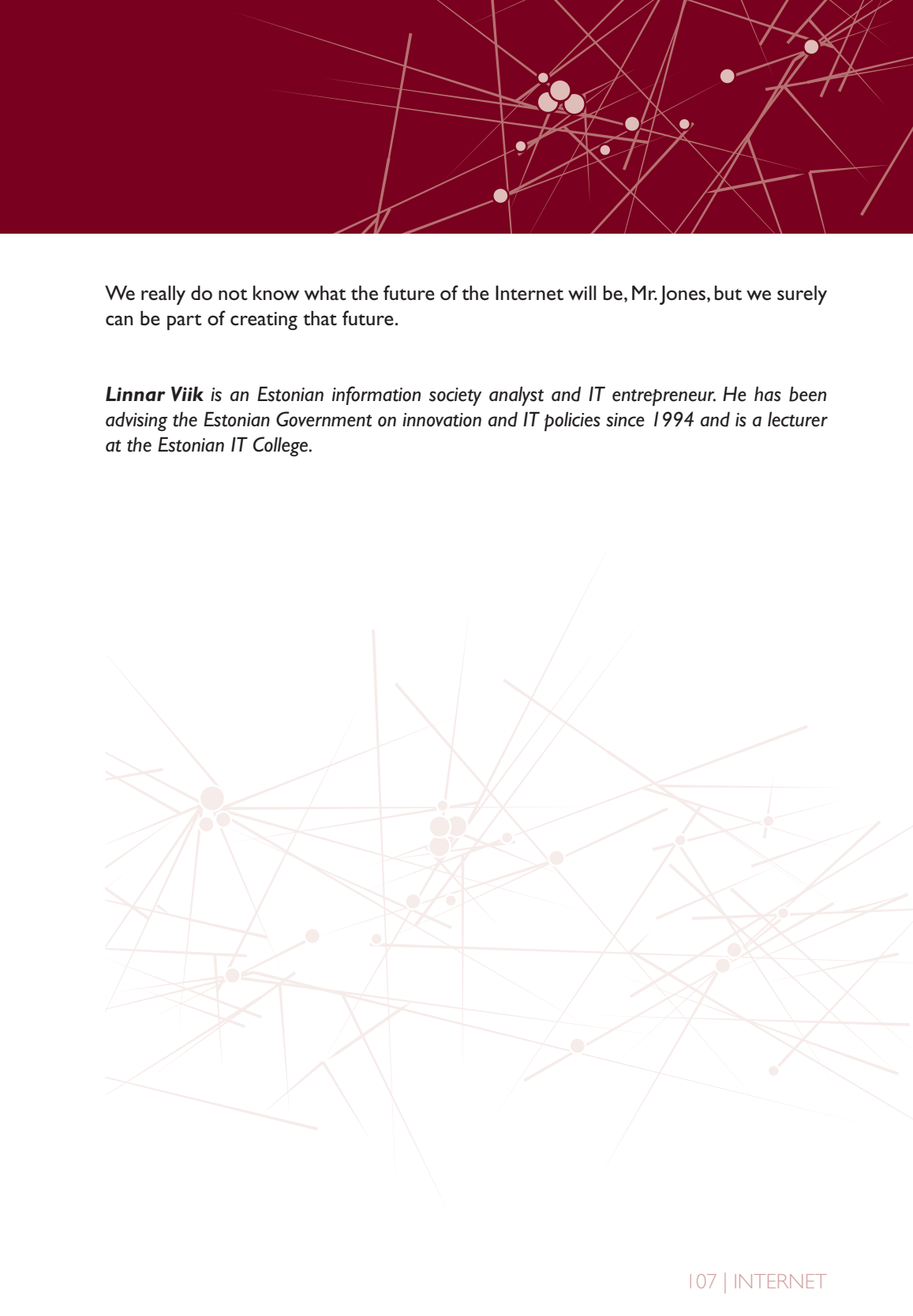
about € 80 per year per worldwide internet user. These costs make up about 5% of the global market value of information and communication technology (ICT) – this is considered to be very close to the maximum share that the ICT market can manage within the current business models. You cannot imagine bookstores operating with 5% of books stolen or supermarkets absorbing 5% of fraud – neither can it be done by the ICT sector.

Researchers of the evolution of the cyber world have talked about the “healing” effect of cyber-attacks on the information society – viruses and attacks force developers to search for new and safer solutions and thus promote innovation in ICT. Another comparison argues that the global cost of car accidents is threefold the cost of “internet accidents” and, unlike internet accidents, car accidents cost as many lives a year as there are inhabitants in an average European city.

It is worth remembering, however, that as vital services move onto the Internet, cyber threats are not happening in some hidden laboratories, but in the fast-paced information society, within the living environment of real people. Even more important is the alarming trend that the costs of dealing with cyber threats have grown faster over the recent years than the market value of ICT, while the character of the threats is becoming so complicated that companies and governments are struggling to cope.

The combination of the growing problem of malware and cybercrime, the dislike that many governments have for the political effects of Internet freedom, and growing suspicion of American and other Western countries’ electronic intelligence-gathering, has sharpened the debate about how the Internet should be run in future.

Positions are very polarized: a minority speaks up for a free Internet governed as it has been until now, another minority supports the reform of Internet governance and more control over the Internet, while the majority expresses no strong opinion, considering this to be a blue chip in international diplomacy. Within the next couple of years, the new underlying structure for global Internet governance will be set and it requires an extra intellectual effort from national governments to formulate their strategic positions in this heated debate. The stability of the state is more and more determined by the stability of globally interconnected electronic services and the flow of information. No state can afford to be left behind in the governance of the Internet: not now and not in the future.

The background of the page features a complex, abstract network diagram. It consists of numerous thin, light red lines crisscrossing the entire page. Interspersed among these lines are several clusters of small, solid red circles of varying sizes, representing nodes or hubs within a network. The overall effect is one of a dynamic, interconnected system, likely symbolizing the Internet or a global communication network.

We really do not know what the future of the Internet will be, Mr. Jones, but we surely can be part of creating that future.

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# LESSONS FROM ANTIQUITY

Ramsay MacMullen






In the ancient world, it is the middle centuries of the Roman Empire that serve best to illustrate causal connections between social structure and government. That period and population are more comparable in scale with modern countries than little Athens and better documented than the large kingdoms to the east.

The question to be illustrated is, what worked, and why? The answer might once have been sought in a quality judged well by the observer: so, a civilization would be called “higher” or the reverse; its success would lie in its product – its thought and art that the observer admired. But nowadays a more Darwinian approach is in favor: is a way of life well suited to survive? In its mid-life years the empire could not only survive and fend off its enemies, but could expand against them, all the while generating both the expendable wealth and the will to increase physical comforts and a more elaborate culture.

An empire in reality if not in name had been attained by the Romans earlier in Italy and then beyond. This was the achievement of a landowning oligarchy, itself made up of clans. Within these, seniority determined who was chief – just as, among the constituent families, patriarchs ruled unquestioned. The model may recall sheiks in Muslim countries today. Competition for leadership among clan candidates, as consul, praetor, and so forth, was settled by vote in the capital in which only a tiny percent of the population participated. They were taught by their daily dependency on the wealthy to follow the lead of a patron or landlord. When civil wars eventually transformed the oligarchy into a monarchy, at the turn of the Common Era, traditional habits of influence and dependence continued to prevail, simply in a larger structure topped by the most influential person, on whose good will and control of good rewards hung great landowners, themselves determining rewards for their dependents. It was common when moving around in this world to carry letters from persons of a higher position. At a level between the imperial and the personal, in town government, the elite, especially families long wealthy and well married, ran things, but the popular will and the counting of heads generally determined municipal office and community decisions.




A top-down or pyramidal shape to decisions of every sort made plain in immediate personal terms what the effects of deviance would be. There were indeed occasional strikes, both by rural collectivities and by urban manual workers on a small scale. Many peasants were organized in villages which (where their workings are known) had leaders, just as ship owners, builders and other tradespeople quite commonly had their associations and could act together to withhold services. Such horizontal action, however, is little reported. It didn't pay off.

Near the top of the pyramid, horizontal action can be detected in attempts at coups, where someone at the senatorial level (the top .5% or less), and almost always in command of troops, conspired with others to overthrow the reigning emperor. Against this, there was no structural defense, but a ruler could choose his generals with particular care and keep the very large guard-corps in the capital well fed and happy.

Meanwhile, the waterways (above all, the sea) and excellent roads allowed freedom of movement. Brigandage and piracy could be controlled, partly by an imperial fleet and garrisons in peripheral areas, more by local initiative. Shepherds moved their flocks according to the season, rural work-gangs moved about seasonally. There was emigration from Italy in substantial numbers at the turn of the era and later, too; ethnic neighborhoods in Rome and Alexandria indicate mobility. Cultural homogenizing was widespread though best seen in urban settings. However, beneath Greek speakers (a plurality) and Latin, a dozen other languages continued in use, indicators of different ways of life; and even the imperial system of law accommodated this reality to some degree.

In Darwinian terms, as was said, the minimal condition for the empire's success had been attained: physical security; in biological terms, homeostasis. By the third quarter of the third century, however, a perfect storm of ills brought an end to this happiness (Gibbon's term) – a storm of enemy attacks complicated by a throng of pretenders to the throne, and the result, short reigns brutally ended. This was a period of crisis.

One especially important measure to cope with it was a huge increase in the size of government with attendant tax increases to feed it. This had unlooked for consequences. The new office-holders brought no Prussian ethic with them: they saw their opportunities. They enforced the law or chose not to in exchange for payment exacted not only from the citizenry but also from their fellow officials in lower positions who sought promotion, or in higher positions, themselves seeking it.



Corruption, which had always been endemic on a small scale in a smaller government, very greatly increased in the far larger government of the fourth and later centuries. Inscribed tables of permissible bribery survive, advisory at check points or posted in public plazas; scores of edicts survive also in which emperors acknowledged reality but tried to put a cap on it, generally in vain. It can be seen even infecting the church, in the form of the sale of communion, baptism, or priestly office or promotion by bishops, or as gifts by bishops to the throne, or by the throne, to bishops. Yet, this is disapproved, therefore different from secular corruption. In secular officialdom, bribes were rather seen as perfectly acceptable, though limits should be set to them where possible.

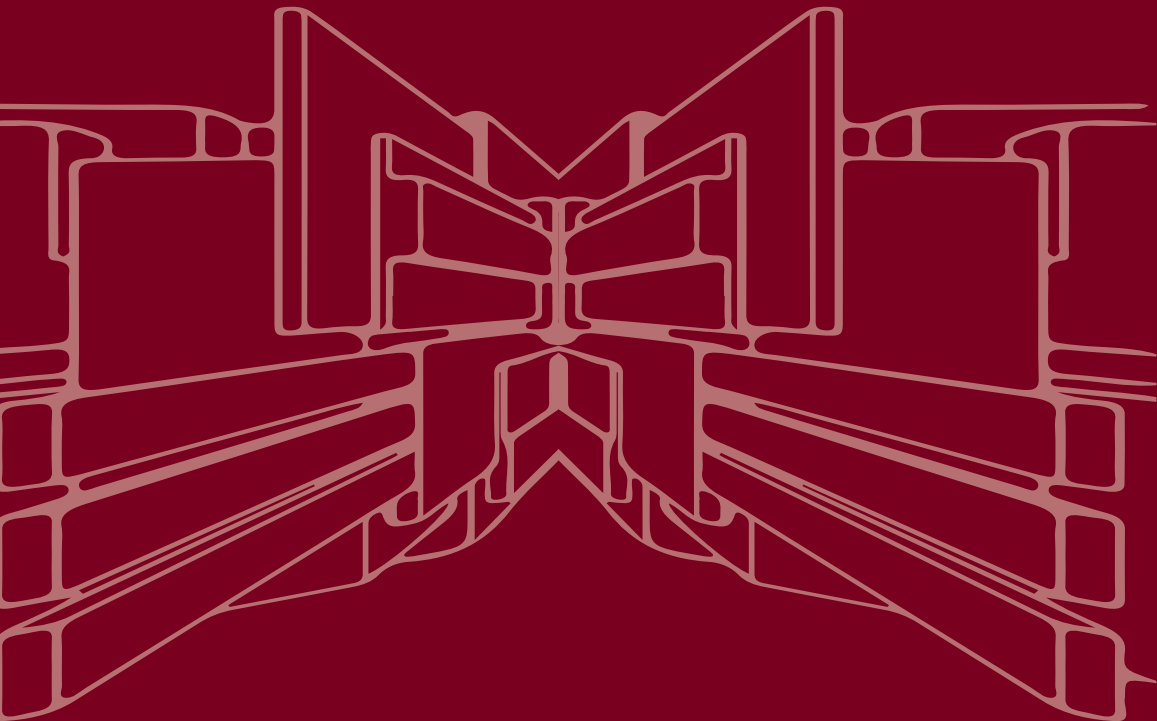
What is today seen as detrimental to any national purpose, a problem widely acknowledged and obviously serious in many countries, had like effects also in the Roman Empire. Historical records regarding its defense or revenue often show us where the emperors' will was disregarded or weakened in the face of need. By this evidence we can address the question, why were areas in the northern Balkan Peninsula abandoned, as others also in what are now Mauretania, Algeria, Libya, southern Turkey, northern Spain, Hungary, Germany, western France and Belgium? The empire's manpower pool was no smaller than in the earlier centuries of military triumphs; the currency in circulation was no less, to support transport and supplies; the armed forces were no smaller, but in fact significantly larger.

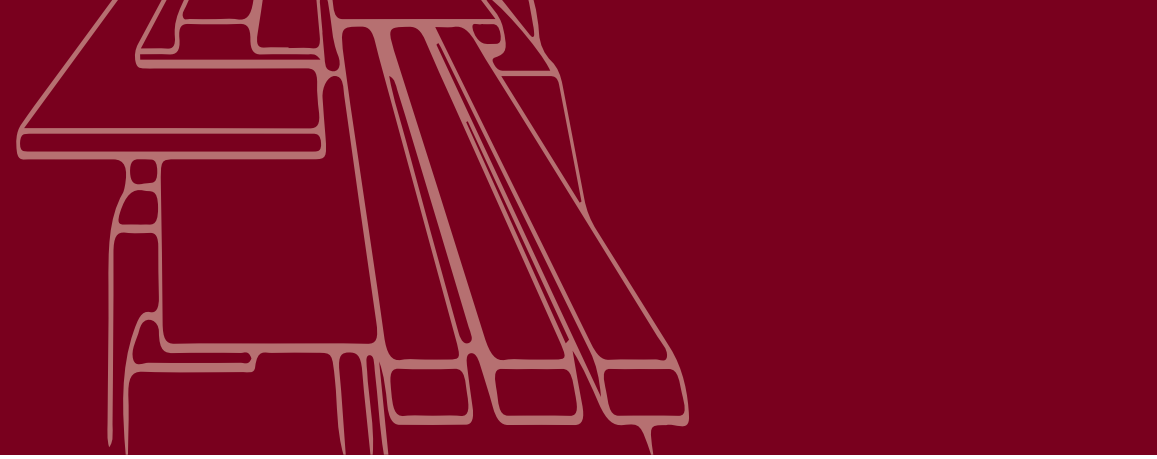
The problems that nevertheless developed proved serious only along and to the south of the Rhine and Danube. As responsiveness to the directing will in the military and in civilian government diminished, the security of the empire also diminished. In ordinary language, the western empire declined and fell. The eastern front could be defended better, though not with ultimate success, not because of any different routines of governance but because of the terrain and the nature of the Persian kingdom.

**Ramsay MacMullen** is Dunham Professor of History at Yale University, emeritus, and author of *"Corruption and the Decline of Rome"*.

# TERMINOLOGY

Heinz Fassmann





The image of a stable society is a familiar one that is often used to legitimize redistribution, progressive tax rates, guaranteed income or taxes on the wealthy. But what is a stable society and how can one be realized? The following discussion shows that both the concept of stable society as well as the respective formula for achieving one is ill-defined. The fact that a stable society is advantageous remains undisputed, however, and in the following overview a blueprint for one will be outlined.

How can a stable society be defined? The concept of a stable population – but not of a stable society – can be found in the field of demography. In a closed population with no migration, a constant age-specific mortality and a constant age-specific fertility, a stable population with a constant growth rate and a stable age structure arises after a sufficiently long period of time. While a stable population in terms of demographics can expand or contract, its “inner structure” or age distribution always remains the same.

However, there is no similarly authoritative definition for a stable society, although it is possible to extrapolate from the stable population example that the “inner structure” of a stable society would also have to remain the same. In this case the internal structure pertains not to the age distribution but the social, political and spatial distribution of population and society. The distribution of rich and poor, the question of power in a society and, finally, the relationship between centers and peripheries – or of individual parts of the country to each other – remain the same and constant in a stable society and are free of upheavals.

Is a stable society over time realistic? A state of stability in society is of course an illusion or at best a blip in history. Change is a part of the everyday reality brought to us by time; whether we like it or not is completely beside the point. There are migrations that affect the centers and peripheries differently; there is structural and cyclical economic change that privileges certain parts of the workforce and places others at a disadvantage; and, finally, the distribution of power in a democratic society is constantly renegotiated. Changes are probably the only truly constant aspect of




social development, though the extent of changes can be greater or lesser. Phases of social upheaval are interspersed with phases of social stability.

The description and analysis of changes over time are the central focus of sociological and historical theories and concepts. There are two dominant perspectives on changes over time. One point of view assumes incremental change. Changes occur uninterrupted over very small time intervals, which appear continuous when taken together. The transformation of an agrarian society to an industrial society to one based on a service economy would be one such approach. This perspective is characterized by sectoral structural change in the economy and thus by a continuous shift of employment from agriculture to industry and then to the service sector, induced by technological change as well as shifts in the organization of labor. It is assumed that societies develop into post-industrial societies, supported by a knowledge economy and the innovations it produces, which leads to increasingly efficient industrial production and the transfer of functions to the service sector. The post-industrial society also leads to a new social stratification in which knowledge and skills play an important role, but this new stratification does not occur abruptly; rather, it goes hand in hand with the structural change of the modes of production.

The other perspective is based on a tiered model of social change in which phases of stability alternate with periods of upheaval. Regulation theory establishes a relationship between the dominant mode of production of an economy and the socio-political elements of a society. According to this approach, economic change is driven by new lead industries in the course of a radical upheaval and alternates with a stable phase in which the public sector provides something resembling social balance. The rise of Fordist mass production in post-war Europe initially caused considerable social upheaval. The craft sector and small commercial enterprises lost significance while industry grew in importance and with it an organized and skilled working class arose. The social welfare state emerged, which made for a long and stable phase of social peace and stability. Modern society is entering a new phase of upheaval: major industrial mass production will lose significance in Europe and with it the organized welfare state. New growth sectors and forms of work will arise on a much smaller scale, more individualized and differentiated and accompanied by new political parties that will change the traditional power structure in post-industrial countries.

Stable societies are in equilibrium – at least for a period; the extent of disparities is low or socially acceptable. Stable societies are at risk if disparities increase or the acceptance of the existing disparities decreases. Richard Hartshorne has taken a



clever approach in his study of the relationship between disparity and stability and has identified factors that lead to the disintegration of a geographically distributed and initially stable society.

What endangers stable societies? If a society comprises different linguistic and socio-cultural groups, possibly living spatially separated from each other, major socio-economic differences can be observed between these groups; if there is no credible narrative regarded by all groups as providing an overarching identity, then conflicts may arise that place a stable society at risk and lead to its dissolution. Under these circumstances redistribution would be not an instrument for stabilization but – quite the opposite – an accelerator of decay. The former Yugoslavia fell apart as the sense of overarching identity provided by Yugoslavia's model of real socialism disappeared, solidarity between the republics was lost and the redistribution of economic returns from north to south came to be regarded as the catalyst for the breakup. A socio-economic, socio-cultural and geographically unequal society became unstable within a few years and dissolved into its constituent parts.

Why is immigration a challenge for a stable society? One corollary is that homogeneous societies without major socio-economic and socio-cultural differences exhibit greater stability than societies that are characterized by great social, cultural or territorial disparities. Especially if a common narrative that serves to unify and create a sense of identity in a heterogeneous society is also missing, then its stability is jeopardized. Societies that as a result of immigration become more socio-economically and socio-culturally heterogeneous and lack the time to develop new bonds that unify and create a sense of identity face significant challenges. That said, it is clear that successful integration leads to an increase of social stability and failed integration most certainly to its opposite.

Integration is – generally speaking – understood to be the cohesion of parts in a systemic whole, regardless, at first, of what this cohesion is based upon. The “systemic whole” comprises individual units (persons, groups) and depends on the extent of the reciprocal relations. Because these reciprocal relations, interdependencies and interactions among units (persons, groups) can vary in strength, a gradation and differentiation of integration is necessarily implied. The systemic whole can be perfectly integrated if the extent of reciprocal relations is both very high as well as randomly distributed and encompassing all units of the system, and it is more weakly integrated when the reciprocal relations are only moderate or include only certain units of the larger whole.






Further clarification will also be useful: integration – in terms of creating or forming the whole – can be viewed on two different levels. At the level of society, the extent to which individuals or groups are involved in the basic institutional structure can be analyzed and assessed. This perspective from above, which looks at the labor and housing market as well as participation in the political system, is known as system integration, while the perspective from below regarding the individual's integration into society as a whole is called social integration. There is not necessarily a correlation between system integration and social integration. Social integration can function excellently, while the systemic elements of society isolate new arrivals or particular groups in society. This can be problematic in the long term because it can lead to a crisis of confidence in a society. For example, if immigrants have been present for many years, have achieved socio-economic independence and are also involved in local social life, but are treated differently than other groups by government agencies, employers, or apartment owners, feelings of otherness, exclusion and heterogeneity are the result. States in which social integration and system integration diverge or do not occur are at risk in terms of their stability if the economic and political conditions are subject to crisis.

It is also problematic if immigrants integrate only within their own groups and build no relations with other social groups, especially the so-called majority society. If the immigrants and the putative natives, maintain relations – in the sense of ties, connections or relationships – only among themselves, then the group of immigrants and those who were already there may be well “integrated”, but a systemic whole cannot be said to exist. On the contrary: if the immigrants interact only with each other and sever all relations with everyone else, then the systemic whole is divided into at least two subsystems. If this has become established and the extent of relations is so low that the subsystems can be regarded as independent, then the society is segmented into parallel societies. History has shown repeatedly that such a configuration is destabilizing in times of crisis and conflict.

What is the linkage between the people and the state in a stable situation? The relationship between the micro level and the macro level is another important factor for the stability of a society. The micro level encompasses the actions of individual actors and the macro-level comprises the activities of the governmental (or quasi-governmental) institutions that are founded on the rule of law and provide security and social welfare. Individuals must have the feeling that their interactions with the macro level proceed in accordance with standard procedures, are open to scrutiny and are constrained by law; the individual must have the assurance that government



action serves the public good. If arbitrariness prevails and the actions of the macro level are unpredictable and serve not the public good but benefit only a few, then the people's confidence in such public institutions sinks dramatically and instability can be the result.

Safety, welfare and the rule of law are three central dimensions of governance. If a state can no longer perform these three functions in a meaningful way, it is said to be a failed state. A failed state does not necessarily descend into chaos and anomie; non-state actors could take the place of the state and establish a new order of their own (clans, mafia, warlords). However, such regimes are often regionally and temporally limited and do not fully carry out the three core functions of a state listed above. Trust in public institutions in a failed state is no longer present, and instability is the result.

Is there a recipe for a stable society? The only response is: none with the exact details of the ingredients. But the basic components are known. A stable society is in any case one with a high degree of solidarity and a common, shared identity. It is neither physically, nor socially or ethnically fragmented; rather, it is characterized by a comparatively high degree of socio-economic and socio-cultural compactness achieved through redistribution and secured by the acceptance of common values. Finally, the people's trust in their state structures plays an important role, and in turn these institutions seek to realize safety, welfare and the rule of law as their highest principles. Stable societies are the opposite of failed states and they are often the product of a historical learning process in which the participants had to learn from painful experience that only consensus-oriented policies, coexistence in a spirit of solidarity and an unyielding commitment to the rule of law lead to that which accounts for the stability of a state. Austria's development after 1945 would be a prime object lesson of this process.

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