

To: Ministerie van Buitenlandse Zaken

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In response to the open call to participate the Community Consultation (22.2 – 22.3.2018) on the Ministry of Foreign Affairs' Foreign Trade and Development Policy, here are some remarks regarding questions 1, 2, 3, 4 and 6. I would have no objection if these remarks were to be published.

Question 1: How can the Netherlands (the government, the private sector, social enterprises, civil society and knowledge institutions) achieve more results on the following themes: conflicts and instability, reception in the region and emergency aid?

Re-setting compasses and revisiting ‘theories of change’ about what drives conflict and instability, and what can reduce them, would be a place to start. Leading institutions such as the World Bank, IMF and OECD today regard **social equity** (alongside security and economic growth) as a key goal. It is therefore striking that the introductory paper *Why is a new foreign trade and development cooperation policy document necessary?* and the government coalition’s agreement *Confidence in the Future*, make no mention of it whatsoever.

Inequalities and humiliation, often ‘horizontally’ among social categories, [are major drivers](#) of bad governance, instability, conflict and population displacement. A weak **social contract** can be a major factor. Here is what The World Bank observes in its *World Development Report 2017* (page 170):

The concern about the vicious cycle of inequality and governance, in which initial conditions of inequality promote a policy arena that further entrenches that inequality, is exacerbated by the surge in the concentration at the top of the income and wealth distributions in many countries (Atkinson, Piketty, and Saez 2011; World Bank 2016). Understanding the entry points to break this persistent loop is crucial to restoring a social contract that can promote greater and more equal access to opportunities for everyone.

Also in its *World Development Report 2017*, the World Bank takes a favourable view of the material dimension of the social contract, and the importance of redistributive mechanisms:

*“Redistribution can buy peace by strengthening the social contract between states and citizens”* [ page 120 ] and

*“Redistribution can reduce violence by increasing trust in government and interpersonal trust.*

The exact mechanisms by which redistributive policies achieve security entail the resolution of commitment and cooperation problems between governments and groups pressing for redistribution— whether these are powerful elites or mobilized citizens (Addison, Le Billon, and Murshed 2002). Sustained and steady increases in government expenditures on social welfare, such as those in Latin America in the 1990s and 2000s, signaled governments’ commitment to the social contract that ties the state to

its citizens—or at least to the groups that would otherwise threaten elite control over the state (Bueno de Mesquita and others 2002, 2003). The political difficulty in rolling back these social welfare programs, which have become seen as entitlements, makes them very credible commitment devices (Acemoglu and Robinson 2006).

Such commitment, coupled with the demonstrated and repeated capacity of governments to make good on their promises, could increase trust in government over time and reduce the chances of choosing the violent option. Conversely, the poor credibility of governments in committing to the transfer of resources can lead to violence, especially if the chances of overthrowing the government by violent means are greater than the probability of it credibly transferring the resources (Acemoglu and Robinson 2006; Murshed and Tadjoeeddin 2009).

[ *World Development Report 2017* page 121 ]

The World Bank's repeated reference to the **social contract** as a frame or paradigm for tackling conflict and instability does not stand alone. In 2016, the UNDP's Bureau for Crisis Prevention and Recovery (BCPR) published [\*The Social Contract in Situations of Conflict and Fragility | Concept Note\*](#). That document signposts the concept's relevance and sketches concrete examples.

A further source of findings for the Dutch government, civil society and knowledge institutions that could help revise thinking about conflict, instability and effective responses to them is a recent book by a senior academic with extensive diplomatic and on-the-ground experience:

Susan L. Woodward, 2017, [\*The Ideology of Failed States. Why Intervention Fails\*](#). Cambridge: Cambridge University Press

**Question 2: How can the Netherlands (the government, the private sector, social enterprises, civil society and knowledge institutions) best address population growth in Africa and stimulate youth employment in Africa and the Middle East?**

Regarding (youth) employment, important and valid recommendations appear in a dossier compiled in 2014 by *The Broker*, whose findings have been summarized as follows:

“To solve the structural problems related to unemployment, a radical policy shift is needed. Innovation policies must focus on job-intensive sectors. Governments must curb free capital flows with more regulation and stimulate financial institutions to invest in productive sectors and employment opportunities. The current trade and investment regime must be reshaped. Tax on labour needs to be dramatically reduced in order to compensate for low wages. And a basic income should be part of a job guarantee programme.”

These are valid pointers, but solid knowledge about what effectively promotes decent jobs and livelihoods is still underdeveloped. Recall that employment goals emerged on the official development agenda only about ten years ago; they are not mentioned in original Millennium Development Goals; World Bank-sponsored Poverty Reduction Strategy Papers for African

countries give job creation hardly any mention, etc. That is, a lot of time has been lost and there is much knowledge to be acquired through experimentation, research and sharing of results.

While addressing needs for major *strategic* shifts (as per *The Broker's* findings) to promote job-creation, there is almost certainly room to test specific short- and mid-term *tactical* policy approaches, such as “Labour-based Infrastructure” and social care as a job-generating sector for young people.

Job creation and decent work measures are best dovetailed with public social protection programmes, whose affordability even in poorer countries has been demonstrated.

Question 3: What new priority areas could the government identify? Resources are limited and we need to make choices. So we'd also like to ask: what priority areas could do with *less* attention?

What could do with *less* attention? Regarding jobs/livelihoods, a good number of researchers (such as Blattman and Ralston 2015) indicate that less attention, if not termination, is called for in the case of:

- *Entrepreneurship programmes*, as their costs fail to justify any pro-poor benefits;
- *Microcredit* as a pathway to sustainable livelihoods.

Question 4: What innovative solutions could the Dutch government, NGOs and the private sector promote with a view to 1) reducing CO2 emissions (climate mitigation) and 2) helping societies adapt to climate change (climate adaptation)?

- 1) In pursuit of SDG 12.8.c: The government should rapidly terminate subsidies via the tax system -- that is, tax expenditures -- that favour production of greenhouse gases. At the same time, the government should increase subsidies for research & development that will help lower costs of carbon-free energy production and consumption and that promote built environments (in respect to heating & cooling, mobility and transport, etc) with smaller aggregate demand for products and services that generate greenhouse gases.
- 2) Regarding adaptation, among many other measures, there should come help for public authorities and civil society bodies to advance socio-political solidarity in localities (such as coastal cities) where people living in high-risk zones can be enabled to settle affordably in lower-risk places; promote 'green jobs'.

Question 6: Do you have any concrete suggestions on how the government could help ensure that international trade and investments contribute to the achievement of the Sustainable Development Goals?

A starting-point would be to face the fact that, in net terms, it is the poor who support the rich. Today's global financial system routinely promotes net outflows (licit and illicit) from most developing and transition countries, as shown in reports by UNCTAD and UN/DESA among others.

In pursuit of SDG 17.1, which prioritizes national resource mobilization (including capture of tax revenues and resource rents), donor governments including that of The Netherlands should squarely face their responsibilities in discouraging and ultimately ending tax evasion and ‘aggressive tax planning’ that frustrate achievement of that SDG among others.

Clearly, **policy coherence** is required. Calls for coherence are no longer by lonely, isolated voices. The World Bank, in the closing sentences of its *World Development Report 2017* (page 273) urges attention to the bilateral and multilateral spheres of global policy when it states:

Control of corruption, crime, and security at the country level, for example, may depend on how the flows of goods, capital, and migrants are regulated at the transnational level or in the domestic policy arenas of other states (see spotlight 13 on illicit financial flows). The impact of foreign direct investment on local outcomes may be largely determined by how multinational corporations are regulated by their home states as well as through transnational rules that encourage races to the top rather than the bottom. The growing role of private actors and finance in a wide range of development activities— from utilities to education to infrastructure—also highlights the importance of upstream policy arenas that aim to ensure accountability for the public good.

International actors should enhance efforts to engage in the two-level game, using transnational coordination and commitment devices backed by the promotion of incentives, preferences, and contestability in the domestic policy arena to help achieve security, growth, and equity goals. They also might look inward to the ways in which their own policy arenas have increasingly significant impacts on development outcomes across the globe.

In my reading of the introductory paper *Why is a new foreign trade and development cooperation policy document necessary?* and the government coalition’s agreement *Confidence in the Future*, I could find nothing to indicate that the Dutch government shares this conclusive view by (among others) the World Bank. That discrepancy should be addressed.