Bertelsmann Stiftung (ed.)

"To the Man with a Hammer..."

Augmenting the Policymaker's Toolbox for a Complex World

Verlag BertelsmannStiftung

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Preface

> "I call it the *law of the instrument*, and it may be formulated as follows: Give a small boy a hammer and he will find that everything he encounters needs pounding."
>
> Abraham Kaplan[1]

Why this book?

At the beginning of 2009, while the startling effects of Lehman Brothers' collapse on the global economy were still unfolding, it became clear that the fundamentals of the social market economy were under serious threat. This brought the Bertelsmann Stiftung to explore and assess different options for a project titled "Global Economic Risks and Opportunities." The main outcome of the study was that there is a need to look beyond traditional economics, to focus on what is going on in the newly developing area of "new economic thinking," and to build a bridge from academia to the world of policymakers.

1 Abraham Kaplan was an American philosopher who published this line in his 1964 book *The Conduct of Inquiry: Methodology for Behavioral Science*. Another attribution is often made to the American psychologist Abraham Maslow, probably best known for his "hierarchy of needs" concept first published in 1943. In his book *The Psychology of Science: A Reconnaissance*, dating back to 1966, he wrote: "I suppose it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail." Both quotes have been popularized in the paraphrased form "To the man with a hammer, everything looks like a nail."

Over the past five years, more and more examples have emerged that demonstrate how to turn “new economic thinking” into “new economic action.” And it has become clear by now that, instead of being restricted to the world of economics, the underlying paradigm shift to cope with today’s complex challenges extends to the social, political and even cultural spheres.

Given this change, the Bertelsmann Stiftung decided to invite 12 leading experts from Germany, Switzerland, the United Kingdom and the United States to depict how radically new ideas, based on cross-disciplinary research and policy-making practice, may help point the way forward in the face of complex global challenges.

Prosperity for all?

Though they can be rather abstract, even major global challenges can be translated into concrete questions: Where will the conflicts in the Middle East lead us? How do we resolve the current refugee crisis? How do we need to respond to global terror? Will we manage to mitigate climate change? What will the future of the European Union look like? Will we overcome the debt crises? Is there a new global financial crisis looming? Will we be able to eradicate hunger, poverty and disease? What do we do about rising social inequalities across the world?

One crucial instrument for tackling global problems is to set tangible and verifiable targets. The United Nations has very recently adopted the Sustainable Developments Goals (SDGs) “to end poverty, protect the planet, and ensure prosperity for all.” Compared with their predecessors, the Millennium Development Goals (MDGs), two differences stand out. First, the number of challenges has been raised from eight to 17, which indicates that a much more holistic view of human development has been taken. Second, and more profoundly, the SDGs now comprise targets to be met by all countries alike, including the industrialized ones. This is remarkable because it acknowledges that an inequitable distribution of opportunities is a global problem rather than one merely limited to developing countries.

As compelling as the new goals may seem, finding ways to pursue them will be an extremely complex challenge, specifically in light of the questions we asked above. At a first glance, there appears to be an insurmountable gap between the current state of play and the bright future envisioned in wishful dreaming. But this gap isn't necessarily insurmountable. In fact, many of today's crises wouldn't have occurred had we already achieved a majority of the SDGs. Taking a closer look at the latter, we see that many of them are actually about the provision of more equitable opportunities for everyone. For this reason, we are convinced that fighting social injustice, both within and between societies, is at the core of human advancement.

Still, how do we provide equal and compelling opportunities to all? The doctrine of neoclassical economics provides a conceivably simple answer: Push for economic growth. Assuming that economic actors behave rationally and that markets function efficiently, the so-called invisible hand of the market mechanism will supposedly guide us toward societally desirable outcomes and, hence, will automatically lead to an optimal distribution of opportunities, as well. In fact, in the first decades following World War II, trickle-down effects did work well; functioning markets provided a basis for strong economic growth, which in turn led to "prosperity for all." This claim was originally made by Ludwig Erhard, one of the founding fathers of Germany's "Soziale Marktwirtschaft," which can only be approximately translated as "social market economy." The subsequent expansion of the welfare state in the Western world came under scrutiny when growth eventually stagnated and unemployment rose. So, policymakers of the then-predominant neoclassical school grabbed their hammer (the idea of liberal markets) again, identified the challenge at stake as a nail (low economic growth due to overly strong state intervention or non-market failure) and set the stage for supply-side policies of market liberalization that started at the end of the 1970s and are still dominant in many countries across the world.

An augmented toolbox for inclusive growth

Today, renowned experts at academic institutions and supranational bodies, such as the U.N. and the OECD, alike are arriving at the conclusion that the promise of trickle-down economics does not hold true anymore. Although the assumptions about rational actors and efficient markets have never been quite realistic, they did prove to be good enough to guide effective economic policies up to a certain point. With rapidly advancing globalization and technological progress, however, global network effects – that is, phenomena emerging from interactions between highly connected actors – are kicking in to reinforce irrational behavior; non-classical trade goods, such as software and financial assets, are starting to dominate markets; and uncertainty abounds. Indeed, the logic of traditional economics is cracking. As a result, economic growth does not automatically yield socially just outcomes, and increases in income alone no longer lead to more satisfactory lives. Thus, we need to ask ourselves: What is it that we want to grow in addition to GDP? And how do we ensure that everyone gets a fair share of this growth? In other words: How do we foster inclusive growth?

This publication does not aim to answer these questions. But it does seek to provide some hints about how we might augment the policymaker's toolbox with new tools designed to the specific needs of the much more dynamic and complex present. Many ideas of how to do this have been developed in the academic world in recent decades. So now the task is to build a bridge between such academics and practitioners in politics, business and civil society. This book aims to build just this kind of bridge.

About the content

After an introductory chapter surveying new approaches to augmenting the policymaker's toolbox, Part I of this book starts with Ian Goldin's call to invest more effort into systemic risk mitigation as well as Dirk Helbing's call to build resilient societies. Part II provides alternative tools for a more appropriate understanding of our global economy's complexity. Paul Ormerod emphasizes the importance of network views for policy-making, and James Glattfelder provides concrete examples of how such network views can shed light on power concentration and financial entanglement. Herbert Dawid and his co-authors present an agent-based model that is capable of informing policymakers about the effects of cohesion policies in the European Union, among other things, and César Hidalgo explains how reframing economics in the language of information and computation can reveal new insights on a country's growth potential. Finally, Part III addresses policy-making practices: Graham Room calls for agile policy-making, Bridget Rosewell shares her insightful experiences as a former chief economic advisor at the Greater London Authority, and Eve Mitleton-Kelly introduces a methodology for organizational restructuring that is based on complexity science and has already proved successful in many different contexts.

To us, the major take-away from this book is that we need to rethink the following matters:

(1) *The way we analyze the world as a basis for policy-making*

We should put more effort into evidence-based analysis and objectification while simultaneously acknowledging that there often is no single truth. This requires us to look at the world from different angles; to be open to other people's thoughts, ideas and positions; and to embrace interdisciplinary thinking. We need to abolish thinking in silos, take on holistic views and, at the same time, account for interrelations and networks.

For example, as a prerequisite to designing an Inclusive Growth agenda, we need to see prosperity and its distribution as a multifaceted phenomenon that goes well beyond income and wealth. To fully understand its dynamics, under both the status quo and potential policy interventions, agent-based models could be promising tools. Moreover, shifting the focus from prosperity (i.e., an output distribution) to opportunities (i.e., an input distribution) may reframe the inequality debate quite a bit and lead to new insights and approaches. Finally, formal and informal networks can conceivably contribute to inequality dynamics, which calls for more analyses that take relationships between societal actors into account.

(2) *Our managerial, organizational and policy-making processes in general*

Since we need to be open to change and new ideas, we need to create cultures that encourage the exploration of new avenues. This requires being ready and willing to take on risks and to accept failure. Enabling environments are key for good decisions to flourish. Instead of pretending to be able to foresee the future under any circumstances, we should acknowledge our world's complexity and accept uncertainty. At the same time, we should invest more into risk prevention and prepare for multiple futures and multiple challenges.

Again, looking at implications for inclusive growth, these insights tell us that an Inclusive Growth agenda should not follow a master plan that tries to find the single best solution, for there is simply no way to tell which one it is in advance. Instead, policymakers should be encouraged to try out various solutions and to keep the ones that prove successful.

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We would like to thank all authors for their inspiring contributions, as well as Jan Arpe and Quentin Dumont for their conceptual and editorial work. We hope this book will spark interest among a wider range of readers and among policymakers, in particular. Ideally, it would get us a little closer to finding new solutions for making societies more just, inclusive, sustainable, resilient and peaceful, societies in which all individuals can lead fulfilling lives – now and, even more so, in the future.

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