

## **Workshop on Sustainability and Policy-making: Reconciling Short and Long-term Policy Needs in Democratic Governance**

East-West Center, Honolulu, Hawaii (Burns Hall Room 3121/125)  
June 30 – July 1, 2010

### **Sponsorship**

The Workshop on Sustainability and Policy-making: Reconciling Short and Long-term Policy Needs in Democratic Governance will be jointly organized by East-West Center and the United Nations University's Institute for Sustainability and Peace (UNU-ISP), in cooperation with the Pacific Basin Research Center, Soka University of America. The workshop will be held from June 30 - July 1, 2010 at East-West Center in Honolulu, Hawaii. The workshop focuses an emerging concern for democratic governance – how the concept of sustainability can inform policymaking that addresses pressing challenges without compromising the long-term needs of future generations.

### **Objectives**

This workshop seeks to reveal factors that influence formation of sustainable or unsustainable policies in the public and private sectors. Specific objectives of the workshop are to provide a forum for dialogue on the following questions:

- Which policy-making processes and approaches can address both short-term and long-term needs?
- How do internal and external factors involved in the policy-making process influence sustainable outcomes - including time pressures, conflicting values, imprecise or contested data, and structural complexities?
- What can induce governments to look beyond their short-term re-election agenda, and be able to address issues that require long-term vision (such as health, climate change, renewable energy, oil shortage, population growth, urbanization and food security)?
- What are the optimal structures within the government to ensure the formulation of sustainable policies?
- What can the public and private sectors learn from each other?

### **Context and Issues**

Political decision-making within a democratic structure tends to be inherently short-sighted, as the pursuit of electoral office and the immediate demands of constituents are of central concern to elected officials and bureaucrats (“short-termism”). However, policies designed to meet these short-term needs can often fail to address, or even actively work against, the needs of future generations. Similarly, managers in business are often encouraged – implicitly or explicitly – to concentrate on short-term profit over approaches which would bring more sustainable long-term success. In developing countries with weak democratic institutions and inegalitarian social and economic structures, the formulation and implementation of sustainable policies is an enormous challenge. Politicians are faced with any number

of short-term problems, requiring immediate attention and responses. But these short-term problems must be reconciled with the demands of less immediate, but no less important, longer-term public needs and goals. It is here that we see clear tensions between the short-term dynamics of the electoral cycle and the demands of the long-term public interest, evident in the reluctance of politicians to invest in long-term public goods, even when they would ultimately be beneficial for society.

A number of perspectives highlight factors influencing inter-temporal policy choices in democratic governance. Economic, behavioral and organizational perspectives include: the inclination of individuals to overvalue short-term over long-term outcomes and give disproportionate importance on the short-term losses, organizational inertia and resistance to change that produces less than optimal results, and decisions being increasingly vulnerable to short-term bias due to the availability of near instant information emanating from information and communication technology (Onculer, 2000; Kahnemann and Tversky, 1992; Shelley, 1994; Laverty, 1996).

Institutional structures and processes of democratic governance can also lead to preferences for short-term outcomes (Marginson and McAulay, 2008). Regular changes of government in a democratic system encourage policies that bring benefits within the electoral cycle. Where politicians are frequently voted out of office, the tendency is to accomplish "quick wins" and short-term outcomes to stay competitive in the political arena. By concentrating on short-term spending and policy outcomes, their accomplishments are more easily observable by citizens. Political uncertainty increases the likelihood of incumbents increasing current spending at the expense of long-term investments, especially in new and restored democracies.

Some argue that the inherent stability of some autocratic regimes allows them more space to implement long-term, sustainable policies. Studies, however, also show that democratic governance is more likely than autocracies to ensure the sustainability of the policies as they provide better access to information to citizens, engage them in policymaking processes and ensure accountability of office holders through media freedoms. However, each democracy has its own features. Policy sustainability becomes especially difficult in "electoral democracies" that lack stable systems of checks and balances and mechanisms for accountability.

Short-termism in policy-making is sometimes influenced by rent-seeking behavior by politicians – which includes simple waste, or spending on particular projects which may have no public benefit. They may choose to implement a policy less desirable for society in the long-term, but which benefits their short-term reputation – and thus improves their re-election chances. If politicians can generate rents for themselves by diverting tax revenues, there is greater risk in their rent-seeking from short-term projects being discovered by voters – as the outcomes are observed soon after the expenditures.

Short-termism could also result from overreactions to current events. Once in place, policies are hard to remove, even if they are ineffective or unsuitable – and so inefficient policies will be allowed to persist. Short electoral terms, particularly where the election timing is determined by politicians, may exacerbate short-termism. Similarly, self-imposed short-term targets discourage long-term planning or investment (Barro, 1973; Rogoff, 1990; Maskin and Tirole, 2004; Darby, 2004).

A short-term outlook is also widespread in the private sector – particularly in the western capitalist model, maximizing shareholder value has become ingrained as the primary goal of most businesses. Strong share prices are seen as the primary indicator of success by investors. There are two competing views on this – corporate short-termism may result from such behavior being rewarded by capital markets; or markets may be merely reflecting managerial short-termism (Marginson and McAulay,

2008). The evidence generally favors the former view. In the private sector, mandatory annual reporting of limited financial information reinforces the narrow focus on short-term capital, and ignores the intangible assets that may make up 75% or more of a company's market value. (Graham and Rajagopal, 2005). Short-termism may be more pronounced in the private sector as managers can be removed as soon as performance is seen to drop, while even the shortest electoral cycle provides politicians with a guaranteed term in office, and therefore a certain degree of freedom to implement longer-term, less observable policies. Short-term remuneration and appraisal structures are also powerful incentives for private sector managers to concentrate on short-term performance. In investment banking, high-risk short-term investments are encouraged by larger bonuses for higher returns. Training for financial analysts and fund managers also over-emphasize short-term returns, so even if these individuals wish to engage in longer-term investments, they may not possess the necessary skills or knowledge. (Kennedy, 2000).

The public administration perspective identifies four sets of independent factors that affect the design and implementation of short-term vs long-term policies: contextual factors (including physical, socioeconomic, political structures); inter-organizational relationships among the entities responsible for designing and implementing policies (such as coordination and linkages); organizational resources for implementation (such as financial, political and technical); and implementing agencies' characteristics and capacities (such as internal structures and processes, skills and attitudes) (Cheema and Rondinelli, 1983, 2007). Governments in homogeneous societies have greater flexibility for long-term policies than those with multiethnic and multilingual ones. The policy-making process that actively engages civil service is more likely to ensure a more long-term view based on assessment of alternatives.

There are many tools and innovations which could reduce the preoccupation with short-term outcomes in policy-making by encouraging or facilitating a longer-term outlook. Innovative application of the key role of incentives in the public and private sectors could contribute to this goal.

The key role of incentives in both public and private sectors suggests that their innovative application could contribute to this goal. Penalties for failure rather than bonuses for success are suggested to be more effective in inducing responsible, long-term investment (Omer and Shelley, 1996). Delegation of policy-making powers to independent institutions and "golden rule" application for public spending by which deficit spending is only permitted on public investments could allow governments to credibly commit themselves to longer-term public policies (Majone, 1996). In government, the existing penalties provided by elections could be complemented by rewards for success, perhaps based on independent evaluations of the long-term effects.

The business literature also suggests that when organizations create a climate of trust, individuals are able to cope with the short-term setbacks necessary to achieve long-term results (Laverly 2004). Inter-temporal choices may also be improved by the timing of the choices themselves. The latest report from the Intergovernmental Panel on Climate Change (IPCC) encourages policy-makers to carefully consider sequencing decisions to allow for learning about climate science, technology development and social factors (IPCC Fourth Assessment Report, 1997).

Extending electoral terms, or removing limits on the number of terms, could extend the temporal horizon imposed by the electoral cycle, but would risk decreasing responsiveness to the electorate and the accountability of individual politicians. Rather, there is good potential in new approaches such as deliberative democracy and inclusive democracy. Democratic leadership involves a responsibility to educate constituents, providing information and options, to reduce information asymmetries. Indeed, democratic governments must lead and guide public opinion, sometimes acting against popular feeling.

Accountability, evaluation and reporting mechanisms for democratic governments could also be improved and developed to draw attention to the long-term impacts of their policies.

The relationship between sustainability and short-termism is far from straightforward - short-termism could be seen as both a cause and a symptom of un-sustainability. But clearly, achieving sustainable policy outcomes requires policy-making approaches that emphasise long-term benefits. At the same time, the concept of sustainability provides an interesting perspective on the issue of inter-temporal choice in policy-making.

## **Expected Outcomes**

The workshop is expected to lead to the following:

- Enhance our understanding of complexities of issues related to short-term and long-term policies (dealing with such issues as climate change, population, poverty alleviation and regional cooperation) through dialogue among experts and practitioners
- Preparation of a Brief on Sustainability and Policy-making based on the dialogue for wider circulation among development practitioners and policy-makers
- Promotion of partnerships and collaboration with institutions in Asia and the Pacific for policy relevant research and regional dialogue
- Publication of a book on Policy Sustainability to contribute to the knowledge base about the policy-making and sustainability practice.

A Policy Brief based on discussions in the workshops will be disseminated to policy-makers and development practitioners in the region and globally. As a follow-up to the workshop, United Nations University will compile selected papers to publish a book on the subject.

While topics of interest for each of the participants have been identified and some abstracts of the papers to be considered for publication as follow-up to the workshop will be shared with all participants, there will be no presentation of papers. The workshop facilitator will provide opportunities to all participants to present their perspectives on selected issues based on their expertise and experience. The Brief on Policy Sustainability will be prepared based on the reports of the workshop rapporteurs.

## **Organization**

The workshop will be organized in the form of a facilitated dialogue among about 25 senior level experts. Each participant has identified a topic of interest related to sustainability and policy-making. After the plenary sessions in the morning of the first day, the participants will be divided into three groups. Each group will examine sustainability of policymaking related to a set of issues including climate change, education and health, human development, natural resource management, poverty alleviation, population growth, food security, policy-making and implementation structures and processes, and the financial crisis. These policy issues will be divided into three clusters, one for each group. On the second day, discussions will take place in the plenary sessions on factors influencing sustainability or un-sustainability of policies, and tools and innovations to facilitate longer-term policy outcomes.

The three volume series on Trends and Innovations in Governance published by United Nations University Press will be launched during the workshop.