

MOMENTUM FOR A DIFFERENT GLOBALIZATION

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The Brokerday on 14 April 2014

Deep economic crises are moments of political truth. History teaches us that the two great crises of the past hundred years were followed by radical institutional changes, internationally and nationally. And by a new economic and social order. The Great Depression of the 1930s led to the formation of the Bretton Woods system and the building of welfare states in various OECD countries. The crisis at the end of the 1970s and the early 1980s was followed by a period of great confidence in liberalization and globalization of the market, deregulation of the financial sector and flexibilization of the labour market.

We must realize that now – after the bank crisis of 2008 – we are going through a similar period of political truth. This is echoed in the appeals by Frans Bieckmann and Danielle Hirsch. Faced with rising unemployment and the extremely damaging effects of our production system on the environment and the natural world, many people have long felt the need to seek different solutions. But in recent months, a new momentum for change seems to have emerged, a momentum that is being created by new insights into the scale of income inequality within countries and new research into the negative effects of such high levels of inequality on things that we consider of value. Increasing inequality was the theme of the last Broker Day but – in light of that momentum – I would like to focus on it again briefly today.

Increasing income inequality

Although income inequality varies widely among countries, the common pattern of rising inequality in most countries of the world since the 1980s has been striking. In OECD countries, inequality first started to increase in the late 1970s and early 1980s, most notably in the US and UK, after the elections of Ronald Reagan and Margaret Thatcher. This pattern became more widespread from the late 1980s. Over the last ten

years even traditionally low-inequality countries such as Germany, Denmark and Sweden have become part of this trend. Moreover, Asian countries like China and India, the transition economies of Eastern Europe and the former Soviet Union, and several Sub-Saharan African countries (especially Nigeria and Ghana) have shown surges in internal inequality. That this is not an inevitable development can be seen from a number of Latin American countries, where policies specifically aimed at reducing inequality have had some success in reducing traditionally high levels of inequality.

Winner-takes-all

Looking at the shares of total income accruing to each decile of the population, we see a rather alarming pattern in middle- and high-income countries since the 1980s. This research was first conducted by Jose Gabriel Palma. Palma showed that the difference between high-inequality and low-inequality countries lies primarily in what happens to the top 10 percent and to the bottom 40 percent. The share of total income for the 50 percent of the population in between these two extreme groups is relatively constant among all middle- and high-income countries. In high-inequality countries, the top 10 percent has been pulling away, whereas the bottom 40 percent has seen its share squeezed. In low-income countries the ratio between the top 10 percent and bottom 40 percent has remained much lower. With the richest in high-inequality countries becoming steadily richer, while the 50 percent in the middle are not much better off than thirty years ago, we have to conclude that trickle-down economics is not working.

Causes and consequences of inequality

Recent empirical research into the causes of inequality makes it clear that there are some common factors underlying the widespread surges in inequality around the world. 'Traditional' and country-specific causes, such as differences in land ownership, education, and city/region background, do not appear to be responsible for the worsening situation. Crucial are 'new causes' linked to the deregulation and globalization of financial markets, the flexibilization of labour markets, and the nature of economic reform policies. The view that has been dominant for decades, that it is 'the inexorable ways of the market', is making place in many academic publications for the insight that rising inequality is a consequence of policy choices: 'It's politics, stupid'. It is regulation and policies made by politicians that determine the degree of inequality. This is supported by the finding that inequality has decreased significantly in a number of Latin American countries that have pursued different policies.

Moment for change

A generation of politicians has shown little interest in income inequality, but there now seems to be a momentum for change. Two factors are playing an important role in this trend:

Firstly, we see a radical change of course in academic thinking on inequality. Scientists like Cornia, Milanovic, Palma and Piketty have gathered long series of data on inequality for a large group of countries, as has the OECD. That is changing economics from a model-based science to an empirical science, which is a good thing. Available trend studies show that a number of fundamental expectations from neo-classical economics, on which policy has long been based, do not materialize. This research shows that inequality will not decrease if policies stay the same, but will increase further.

Secondly, recent research shows that a high level of inequality is bad for economic growth and financial stability and – at the very least – correlates with a long series of undesirable social and political phenomena. Where appeals to moderate income inequality used to be made on moral grounds, self-interest now plays a much more significant role. And where self-interest and the common interest coincide, a momentum for change emerges. The fact that there are shared drivers of inequality around the world also contributes to this momentum.

The Broker plays an important role in bringing this new empirical research together and making it accessible, and will also have to do that in the discussion on the policy conclusions of the research.

Beyond global free markets and compensatory redistribution

For decades, neither the political left nor right have devoted much attention to analysis and critique of the dynamics of capitalism, the relationship between globalization and democracy, or to formulating new ideas on the desired economic order. Across the board, the aim has been to achieve maximum growth through 'free, global markets', and progressive and left-wing parties have distinguished themselves only by spending a large share of that growth on social goals, through compensatory redistribution.

This strategy is, however, becoming increasingly problematic. Firstly, 'free, global markets' are not stable, efficient, or environmentally sustainable. In fact, there is no such thing as a 'free global market'. Markets are always shaped by politics. And we have to conclude that the current course of globalization and economic growth resulting from the legal frameworks that have been adopted over the last thirty years (for the financial sector, the labour market, corporate governance, etc) is inefficient and susceptible to crisis, benefits mainly the top ten percent on the income ladder, and neglects environmental constraints.

Secondly, relying primarily on taxation and welfare benefits to achieve social goals will be increasingly problematic. The massive pressures towards greater inequality, economic insecurity and exclusion, and the damage to social cohesion and democracy, lie far beyond the range of compensatory redistribution. Moreover, using the power of government to redistribute on a large scale will be more and more difficult in an era of fiscal constraints, increasing suspicion of government, more diverse societies, decreasing support for equalizing policies and generous welfare benefits, and European integration of markets without the accompanying solidarity to sustain a welfare state on a European scale.

Different globalization and new forms of countervailing power

We are living at a moment of political truth. The problems of growing inequality, rising unemployment and environmental degradation demand fundamental policy conclusions. A substantial body of work by a wide range of prominent academics – such as Dani Rodrik, Roberto Unger, Jacob Hacker and Paul Pierson, Joseph Stiglitz and Thomas Piketty – can support the formulation of an alternative policy programme aiming to achieve a more equal distribution of income, which would in turn generate more stable and robust economic growth.

That alternative calls for a different mindset from policy-makers in all areas: they need to strive to achieve full employment, good education and equal opportunities for all through an agenda of social investment, substantial investments in research, promoting innovations that focus more on saving on environmental costs than on reducing labour costs (with the associated loss of jobs). In addition, the government can curb excesses at the top by modifying the rules for corporate governance and taxation, preferably

coordinated at international level, and introducing and enforcing higher standards on the labour market, as minister Lodewijk Asscher is currently doing.

I hope and expect that The Broker, as an international academic and policy platform, can move beyond the bringing together of analyses and contribute to the exchange of knowledge and experiences leading to such a policy alternative.