

Globalization, technology, and inequality: It's the policies, stupid

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We are living in a time of mounting societal discontent and political divisiveness—a “fractured world,” as captured in the theme of the recent World Economic Forum meeting in Davos. In many countries, social **disaffection** with economic outcomes is up sharply, roiling the political landscape and stoking **populist** and nationalist sentiment. **Brexit** and the outcome of the 2016 United States presidential election are but the more dramatic examples of these socio-political dynamics that hold wider sway.

What explains the rising tide of socio-economic unhappiness? The world has not become less prosperous. It is true that the global financial crisis caused major setbacks, but economic growth has recovered. The economic pie is growing—although not as fast as before, as economic growth is being held down by a longer-term decline in productivity growth. The increasingly unequal sharing of the economic pie lies at the heart of the rising social discontent. Income and wealth inequalities have risen practically in all major economies, and sharply in several of them. In the U.S., for example, the income share of the richest 1 percent has more than doubled since the early 1980s to around 22 percent, with the wealth share rising to almost 40 percent. Those with middle-class incomes have been squeezed and the typical worker has seen largely stagnant **real wages**. In the “land of opportunity,” social mobility has been stalling. Even as economic growth gathered steam in 2017, economic disparities continued to mount. According to a report released on the eve of the Davos meeting, 4 out of 5 dollars of the increase in global wealth in 2017 accrued to the top 1 percent.

In the cauldron of political debate, much of the blame for the rise in inequality is heaped on globalization—often from both ends of the political spectrum. The popular backlash against globalization has been fed by a negative political **crescendo**. Another factor blamed is technological change—digitization, the rise of robots, artificial intelligence—that is seen to

favor capital and higher-level skills at the expense of ordinary workers. More and more, we hear calls to throw sand in the wheels of technological change, reflecting an ascendant **neo-Luddism**.

Most dynamic economic change inevitably creates winners and losers. Globalization and technology are no exceptions. They are key forces that drive innovation, productivity, and economic growth. But they also have been important factors behind the rise in inequalities we have witnessed—with technological change playing a stronger role. The distributional consequences of these forces, however, are not pre-ordained. Outcomes that are more inclusive are certainly possible. Much depends on policies. Sadly, policies for the most part have not risen to the new challenges. Indeed, they have often **exacerbated** rather than **ameliorated** the outcomes.

Attempting to inhibit globalization or technological change would be the wrong response to the rising popular discontent with their distributional outcomes. Instead, policies must do better to ensure that the economic gains are more widely shared. This means improving the enabling environment for firms and workers—to broaden access to opportunities that come with globalization and technological change and to enhance capabilities to adjust to the new challenges. Fresh, out-of-the box thinking is needed to bring policies in step with today's economic transformations.

Competition must be strengthened in industry and finance to check the growth of monopolistic structures and abuse of market power. Competition policies must be **revamped** for the digital age marked by the rise of winner-take-all technology giants. Technology policies must be reformed so that they promote innovation and wide diffusion rather than serve primarily to lock in **incumbents'** advantages as under the current **patent** systems.

Access to quality education and training must be greatly improved, including putting in place stronger and smarter programs for worker upskilling and reskilling and lifelong learning to

respond to the shifting demand for skills. New models of public-private partnerships and technology-enabled solutions must be explored. Labor market policies and social protection systems must be adapted to the realities of a dynamic job market with more frequent shifts between jobs and more diverse work arrangements.

Governments must reorient expenditure priorities and find the fiscal space to restore public investment programs in **infrastructure** and research and development that have been allowed to run down. They must also review tax and transfer systems that have seen erosion of their redistributive role.

Reforms are needed at the international level as well, so that rules of engagement between countries in trade and other areas are fair. But the dominant part of the agenda to make globalization work better and for all rests with policies at the national level. A few years ago, Richard Haass wrote a book entitled “Foreign Policy Begins at Home.” In the same vein, globalization begins at home. Rather than decry globalization, politicians should exert more to put national policy houses in order.

The political debate needs to shift from frenzied **rhetoric** to take up the **cudgels** against primal forces to a calmer and more serious focus on policies that matter. The aphorism “it’s the economy, stupid” captured the political **zeitgeist** of the not too distant past. “It’s the policies, stupid” would be an apt renewal of that **exhortation** for our time.

SUMMARY:

DIRECTIONS:

- 1) **Number** each paragraph.
- 2) As you read the document **highlight in YELLOW** important information (description of people or places, facts, or other evidence).
- 3) As you read the document, **circle** (in **GREEN**) key terms, dates, historical events, names, places, and words that signal relationship (“this led to...” or “as a result of...”). **If the phrase is longer than 3-4 words it should be highlighted not circled.**
- 4) As you read the document, **box** (in **ORANGE**) words with which you are unfamiliar. In the margins, **define** these words. Remember, this is an exercise in building your vocabulary. So, even if you can use context clues to figure out what the word means, but can’t define it on its own, you need to box and define that word. **ALL words already in bold MUST be boxed and defined.**
- 5) **Summarize** the document:
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