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GLOBALIZATION AND SOCIAL CHOICES

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What I would like to argue tonight is that Globalization, with all its implications, has changed – or should I rather say, “is changing” – the set of opportunities and choices that individuals face in their lifetime. In theory, this is positive: the greater the choice, the better for all. In fact, it is also raising great challenges for our societies, especially in advanced economies. The difficulty in dealing with these challenges is creating huge backlash, to the point of disrupting the social fabric and fostering dangerous populist tendencies.

Let me start with globalization, which entails not only the reduction of borders and barriers but also the rapid diffusion of technological progress that contributes to such an integration. In other words, the diffusion of internet is fully part, and contributes to globalization.

Globalization produces two contrasting forces in our society. On the one hand it increases the opportunities for individual choices. On the other hand it reduces the ability of society to constrain – or limit - these choices.

Let me give you an example that I would like to elaborate further tonight, i.e. education.

Today, families and students face a much broader set of choices than in the past, concerning in particular the school or university they can attend or send their children, either in their own country, in their town or district, or even abroad, either in public or private institutions.

In my time, the choice was much more restricted, for a whole series of factors, such as the recognition of diplomas, the access to foreign languages, the absence of an objective system of comparison between different educational systems. Nowadays the choice is much larger because the various diplomas are mutually recognized across countries, English is increasingly the common language for education – thus establishing a level playing field across students and institutions – and it is possible to compare schools and universities based on objective criteria, thanks to the work done by institutions such as the OECD. In addition, the supply of education has increased to meet the greater opportunities and an rising number of institutions try to attract foreign students as a way to pursue excellence.

On the other hand, it is more and more difficult for public institutions to influence students' decision on where to study, if the latter have the financial and intellectual capability to make their own choice. But - and this is a key point - not all can afford the various opportunities that are available. Studying abroad is expensive, and thus not affordable for all. The same is true for private schools.

As a result, wealthy families have a greater choice than the less privileged ones in our society.

One could say that this is to some extent unavoidable. Richer people tend to buy more expensive cars, or more expensive houses, which is in the end the motor of economic development. It is the desire to access a better life that creates the incentive for hard work and for investing in human capital.

But education is a somewhat different issue. If, on the one hand, better education provides you with greater opportunities in professional life, but on the other hand, better education is expensive and not accessible to all, a vicious circle can develop:

kids born in wealthy families will tend to have a better education and, as a result, will get better jobs. Vice versa, kids from poorer families who cannot afford expensive education will have access only to less attractive jobs. Kids from poor families will tend to remain poor, while kids from rich families will become even richer. To paraphrase a recent book by Lauren Riviera, elite students tend to get elite jobs, and elite students tend to come from elite families; so in the end if you come from an elite family you have much greater chances of getting elite jobs.

Education has long been considered, and should still be considered, as a key instruments to providing equality of opportunities in our societies, which is a cohesive factor of nation building in advanced democracies. If upward social mobility is made increasingly more difficult, and inequalities increase, the resilience of our societies is at risk, in particular in the face of external events and shocks such as the ones we are experiencing in our times such as migration, population ageing, technological development, economic stagnation.

For instance, underprivileged families will feel much more threatened by migration is they have little hope that they can climb the social ladder.

In a recent book, which has become rapidly a best seller, “Why nations fail”, Acemoglu and Robinson point to the ability of a country’s establishment to renovate itself and include new energies as being one of the key factor of economic development. Social mobility is an essential factor not only of prosperity, but also to avoid decline.

I am focusing on the specific issue of education but others are as important, think about health. In his recent book “The Great Escape”, Angus Deaton examines how access to better health and education are the traditional ways through which

societies escape from poverty. This escape seems to be increasingly difficult for some.

Other authors, like David Murray in “Coming Apart: The State of White America”, published a couple of years ago, or David Putnam in “Our Kids, the end of the American Dream” also point to other factors, such as race, family instability, values, community support, as major hindrance to social mobility

The key issue in the end is what to do about it. What policy instruments can be used to reverse this trend.

The hypothesis that I would like to submit to you, is that globalization has reduced the ability of policy makers to effectively respond to these challenges with traditional tools. A much more drastic reaction is required, one which is not easily viable in conservative societies that age.

Let me start by showing how traditionally opposite reactions – from the different extreme of the political spectrum – are insufficient to tackle the problem.

Starting from one end of the spectrum, the issue of equality of access to education can be tackled by making it easier for poorer families to exercise their educational choices, in particular by improving access to private schools. This can be done in different ways. The most radical solution is the one proposed by Milton Friedman, which consists in giving each family a voucher per student, for the amount equivalent to the cost of one year at school. Families would then use their vouchers to pay for the school they choose, public or private.

As a result, schools that would not be able to attract enough students would not have enough funds to finance their teachers and would have to fire them or,

alternatively, hire better teachers so as to attract more students. A variant of this solution would be to reduce taxes for families which send their children to private schools, especially below a certain income.

This approach is based on competition, between the public and the private sector and can be very effective, because based on financial incentives. However, it is very difficult to implement, for a series of reasons.

First, it assumes that the public sector is capable of restructuring itself in such a way as to compete with the private sector, in particular by being able to choose good teachers and to fire the bad ones. Furthermore, such a scheme requires to be financed, either through a cut in spending or an increase in other taxes, which are less distortionary, such as property tax. But we have seen how difficult it is – in particular in this country - to increase property taxes, even if it is aimed at supporting poorer families.

At the other end of the political spectrum, the congenial solution to reduce inequalities is to increase taxes, in particular wealth taxes, inheritance taxes or property taxes, as suggested for instance by Thomas Picketty in his *Capital in the 21st Century*.

The real question, which is rarely answered, is what should the increased tax proceeds be used for? If they are used to finance public schools, without any substantial reform, we can be back to square one, and may actually worsen the situation. If taxes are raised, some of the middle income families which could previously afford sending their children abroad, or to a private school, might not have enough money any more to do so, and would be forced to send their kids to public schools, while richer families will instead continue to do so. The ultimate

result would be to raise the bar for sending kids to private schools, and inducing an increasing number of students to attend public schools. The key issue is whether the resources obtained from the higher taxes proceeds would be able to improve the quality of public schools.

The answer is that having more resources can be a necessary condition but not a sufficient one. In order to have better schools you ultimately need better teachers, and better infrastructure. But even the latter depends on the quality of the teachers, as only good teachers are able to identify and discriminate the necessary and good infrastructure from the redundant one. So the key question is how to select good teachers.

A first condition is to be able to rate them, according to their tested capacities and merit. The second is to be able to remunerate them, again according to merit. The third is to be able to fire teachers that are not performing adequately, according to the standard set by the school. The fourth is that there should be some uniform way of ranking, based on international comparison and some pre- specified objectives.

Meeting these conditions basically requires a revolution in the way in which the public sector is managed. Today, most of the above conditions are not met in public sector educational systems. In Italy none of them.

What is the conclusion? Any reform requires a fundamental change in the role of the state in our society. This is true for education, which is a key factor in influencing economic growth, inequality in society, poverty. It is also true for other key functions performed by the state. I already mentioned health, but it also applies to the welfare system, communication, Justice.

To sum up, the forces underlying globalization are requiring a drastic rethinking of the role of the state as a provider of social goods, with a view of being at least as efficient as the private sector, or other public sectors abroad. The reform of the public sector is the mother of all reforms, for countries that want to avoid stagnation and increasing inequalities.

However, reforming the state is extremely difficult, politically and culturally, especially in countries with ageing population that tend to be highly conservative. It requires the courage of confronting well-established vested interests. But it may thus be highly costly in terms of votes. This is the reason why reforms tend to be postponed. But unless the state reforms itself, it becomes economically and socially unsustainable. Without reform, countries are condemned to lower growth, continued cuts in expenditures and increases in taxation to finance their inefficiencies. They are condemned to what is called “austerity”, which is in fact a self-inflicted disease.

Austerity – which is the alternative to reform – is itself not sustainable, because it gives rise to populism. Populism is based on the belief all evils come from outside and that globalization should be avoided by raising barriers. In this way companies and workers will be better protected, higher wages, higher pensions can be granted to all. Austerity can be finally ended.

It sounds like a great program, very attractive for voters. The beauty of democracy is that the people can decide who they should be governed by, and hold the latter accountable. If politicians are elected on an unrealistic platform, they will in the end be kicked out of office at the next election. But in the meantime the country risks being brought down the drain, by a government which tries – maybe in good faith - to implement what it promised.

Societies that do not want to reform may thus be confronted with the following alternatives: either confirm the existing political elite, which does not have the courage of reforming and implements austerity as the only policy solution; or change completely and give a chance to the “new” political class, which rejects previous solutions and promise everything to everyone, i.e. the populist way.

We have seen recently this choice been faced by the Greek people, who had enough of the old governing class and wanted to try a new one, whose promises sounded much nicer. And the newly elected Greek government is indeed trying to implement what it promised. The counter reforms adopted in recent months, for instance in the education sector – prohibiting university courses being taught in English, removing any time limit for giving exams, eliminating any evaluation system for professors (“Merit is not a criterion for university reform” said the Greek Education minister) – show that the government is indeed trying its best. It also shows quite clearly that Greece doesn’t want to be part of globalization and to change its society accordingly.

The likely result will be that over the coming months the Greek economy will get worse, and inequalities will increase further. The best Greek students will try to go abroad, but only those whose families can afford it will succeed.

We tend to think that what happens in Greece is unlikely to happen elsewhere. But we heard the same slogans, the same promises being made in other countries, for instance in Italy, in particular when education reform was proposed. Populism is difficult to fight, because it promises heaven on earth, and easy promises can be proved unrealistic only when put to test. And the test tends to be very painful for society, which often finds out when it is too late.

What is the solution? It is certainly not to imitate populism, because the latter's rhetoric will always be more convincing than mid-way solutions. It is rather to fight it on its own turf, explaining that its promises are unrealistic and in the end increase inequalities. The solution is – more importantly - to implement the much needed reforms, not half-baked ones, especially of the public sector.

It may be the case that governments that reform are at risk of not being re-elected. But it is certainly the case that governments that do not reform will not re-elected.