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COMMENT

Globalisation's losers need support.

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The modern globalisation debate deals with many important issues: governance, regulation and risk. None is more important, however, than who benefits and who loses, absolutely and relatively, in both advanced and developing countries.

Sustained high growth is expanding in the developing world. It is unique in history in terms of speed and scope and is made possible by the accessibility and growing integration of the global economy. So there is a lot at stake. Income inequality often rises in the growth process, however, and domestic policy is needed to mitigate the negative impacts on those who lose.

In China, the bottom 10 per cent of the income distribution has seen its income rise by 42 per cent in the past 10 years. The middle has grown by 115 per cent and the top 10 per cent by 168 per cent. Large numbers. Everyone has benefited but not equally. Similar patterns can be seen in other rapidly growing countries such as India.
A slightly different but related income distribution phenomenon can be seen in the US. In the past 20 years, productivity and real incomes have risen in the US, but the middle of the distribution has gained less than the lower tail and especially the upper tail. The middle grew at 0.4 per cent annually while the upper end grew at 1.25 per cent; small numbers that add up to large changes over a decade or two.

In the case of the US and other advanced economies, not all of this is due to globalisation. There is a shift in the industrial mix over time, enabled by the global economy. But there are other drivers. Tax policy is one. Information technology is another. Some aspects of IT are labour saving - a domestic phenomenon that has little to do with outsourcing or the global economy, but which hurts some wage earners. A more recent phenomenon is in markets for services, where labour can be supplied without geographic proximity and in which declining transaction costs are causing labour market integration, which affects incomes.

Globalisation is a positive sum game in the aggregate but one that produces both winners and losers. In developing and advanced countries there are growing protectionist voices. They must be controlled because the cost of disengaging in terms of foregone potential growth, especially among the poorer countries of the world, is simply too high. It is far better policy to capture the benefits of global markets and to look for domestic policies that reduce the costs in these distributional dimensions as much as possible, a challenge for all globalising countries.
India is a potential future economic giant. In the past 15 years, the country has increasingly integrated in the global economy and has begun to compete successfully in many markets, initially in services, but now more broadly. While many view the commitment to reform and globalisation as irreversible, there is resistance. As you would expect in a healthy democracy, there are internal voices that are opposed on the grounds of equity and if heeded could cause a retreat back into past problems created by an intrusive public sector and a lack of openness.

As in many other countries, the globalisation debate tends to (and sometimes is designed to) draw attention away from domestic policy challenges. India already has a rapidly growing service sector serving global markets. Much of the remaining challenge rests with better and more rationally designed subsidies, more effective education and labour reform and larger public sector investment, especially in infrastructure. That would enable India to participate fully in the next wave of manufacturing and to expand the fraction of the population that is participating in the high-growth sectors.

The reason there is so much optimism in India and abroad is the combination of its highly successful democracy and the vision of its leaders with respect to integration into the global economy. To cement the commitment to reforms, however, the challenge is to make the benefits of growth inclusive.

Similar issues are relevant in the US economy. While globalisation has generated productivity and income gains and much lower costs for goods and services, the data indicate that the net gains have been unevenly spread. The relative decline in the median income in the US is a problem. If we are to continue to have a highly efficient, flexible and innovative economy, there will be creative destruction and churn.

That kind of dynamism needs to be underpinned by two legs: programmes that help individuals make employment transitions, and solid safety nets and assured access to basic services such as education and healthcare.

This access must not vary with the ebb and flow of economic activity and personal circumstances. To have an open economy we may need a more protective one than we have had in the recent past. It is a trade-off. The art in policy-making is to design these protections with minimal adverse impacts on mobility and efficiency, the underpinning of the job-creation engine.

The US, China and India exemplify the challenge. We need to accommodate a rapidly changing economic mix as a result of technology and global market forces and to balance that with policies that make the growth and distribution of the benefits inclusive.

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