

Speech by Lilianne Ploumen, Minister for Foreign Trade and Development Cooperation

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Taming the elephant: to save globalisation, we must eradicate inequality

Ladies and gentlemen,

I'm honoured to address you all at the start of the academic year. You're quite the early birds. Most Dutch universities don't start until the fifth of September. But Rotterdam has always taken pride in being ahead of the curve.

Today this university has seven faculties and two special institutes. When I started my studies here, Rotterdam was known for just two disciplines: economics and medicine. I came here for a new specialisation: History of Society.

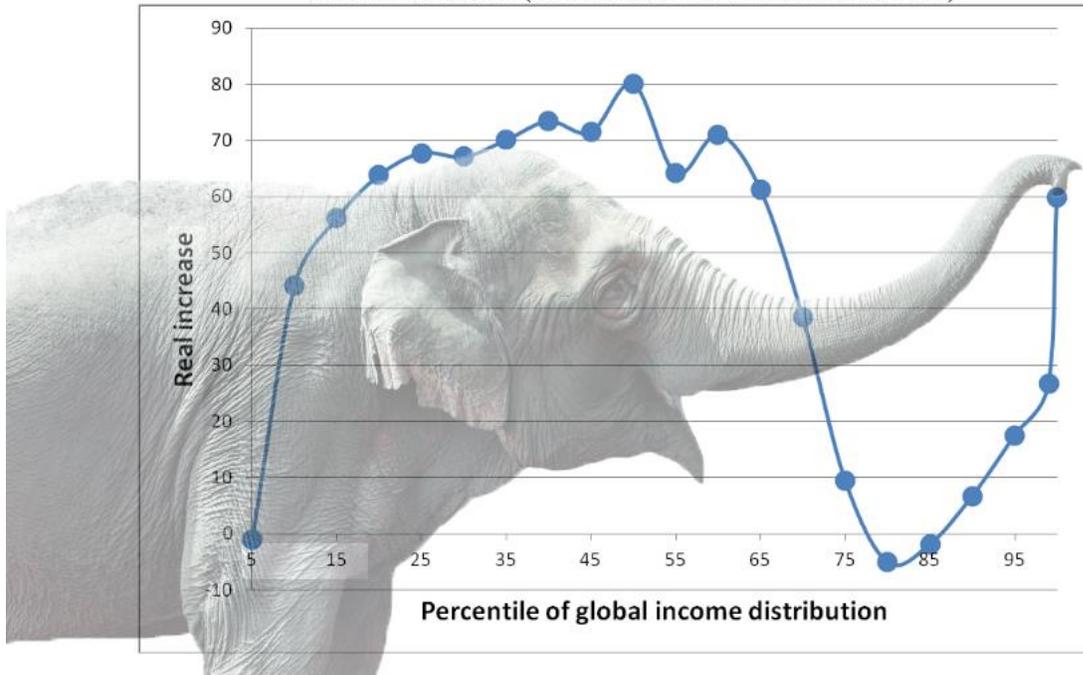
I'll confess: it wasn't always easy. I count myself lucky that I had lecturers who taught well and had endless patience. I especially remember the Statistics and Research courses taught by Geert Stevens. In fact, if it hadn't been for Geert, I doubt I'd have even completed my studies! But I did, and they've served me well all my life.

[INTRODUCING THE ELEPHANT]

Ladies and gentlemen,

A word of warning: I'm about to bring an elephant into the room. A wild, angry, and dangerous elephant. So I'm going to need your help. Ready? Here we go.

Change in real income between 1988 and 2008 at various percentiles of global income distribution (calculated in 2005 international dollars)



Source: Milanovic | World Bank (2012)

Take a look at the graph – don't worry, I'm going to explain it. I'd like to make Geert proud!

Imagine the world's population is only 100 people. If you line up those people from the poorest to the very richest, you get the horizontal axis. In other words, every person represents one per cent of the real world population. The poorest 5% of all people on Earth are at the far left. The richest 1%, the Buffets and the Zuckerberrgs, are at the far right. Now look at the vertical axis: income growth. The blue line shows how all these people, from the poorest to the richest, saw their incomes change over a period of 20 years – between 1988 and 2008.

The shape of the graph is striking. You can see why it's referred to as 'the elephant'. But what it represents is unsettling. Something is very wrong.

Don't be fooled by the photo; this is no friendly elephant.

[WINNING: EMERGING COUNTRIES AND GLOBAL ELITES]

This is made clear by Branko Milanovic, who created this graph when he worked for the World Bank. His research confirms that many people around the global median saw their incomes improve. Most live in emerging economies in Asia. Especially in China. Those people are level with the elephant's head. They are globalisation's biggest success story. They still don't earn a lot compared to the average Dutch person, but they've experienced a real leap in terms of what they can afford. They can send their kids to school, and most of them have access to decent health care. Their children will be a lot better off in the future.

Others are following in China's footsteps. Countries like India and Indonesia are lifting millions of people out of poverty. The middle classes in those countries are catching up.

Only one other group has seen their income increase by a comparable percentage: the global elite, at the very right, at the tip of the elephant's trunk. The top 1% has profited handsomely. They have managed to amass mind-blowing wealth, no doubt aided by carefully avoiding taxes. To quote former journalist Chrystia Freeland, 'We're living in the age of the global plutocracy.' She wrote a book on the people in the top 1%. Experts disagree on exactly how few billionaires are needed to equal the assets of forty per cent of the world's population. But whether it's several hundred, two busloads or just 62: something is very wrong.

[LOSING: POOREST 10% AND WESTERN LOWER-MIDDLE CLASSES]

Especially when you look at those people whose experience is much bleaker. Their plight is my first concern. Again, there are roughly two groups. We have the world's poorest on the very left of the graph. They are locked out of growth. Many live in countries in conflict. Others live in countries whose economies are growing fast, but they're unable to share in the gains.

Last year, all member states of the United Nations promised to eradicate extreme poverty by the year 2030. To Leave No One Behind. If we succeed, these people will finally benefit from globalisation. The Netherlands is playing its part:

- by helping to create jobs that pay a living wage. Jobs that give people in developing countries a chance to join the formal economy;
- by investing in education, infrastructure, agriculture, water and healthcare. For instance to provide access to affordable medicine;
- by helping marginalised and excluded groups to find their voice and claim their rights;
- by helping developing countries to set up fair tax systems. The rich should pay more taxes. And a bigger share of government expenditure should go to the poorest.

There's another group – a huge group – of people who haven't seen their lives improve much. Some of them have even seen their incomes drop. These people are roughly halfway along the elephant's trunk. They form the lower-middle classes in Europe and North America. Between 1988 and 2008 most Western countries grew richer than ever before in human history. Yet this group saw very little of that increased wealth. Many used to work in industries that have become obsolete here – because of new technologies, and because of competition from abroad. Like car and steel plant workers, and postal workers. They got a raw deal.

Many have started to wonder whether free trade is such a good idea. As Milanovic points out, it's hard to make people in Europe and the US enthusiastic about free trade if it's mainly the Chinese and global elites who benefit. If they have nothing to gain from it themselves, why should they support it?

[WHY INEQUALITY IS MANKIND'S BIGGEST MISTAKE SINCE COMMUNISM]

For too long, we let the elephant roam wild and wreak havoc. For too long, inequality was accepted and even encouraged, because it was thought to stimulate growth. As long as we increased the size of the cake, we didn't need to worry about the size of the slices. Let the rich get richer. They will inspire others to work hard. The wealth will trickle down eventually, or so people believed.

But the trickle-down theory has now been exploded, and rightly so. Inequality doesn't foster growth; instead, it hampers progress. Talents aren't used, opportunities are

wasted. More inequality means less social mobility. Rising inequality shows that markets are failing, as Obama's top economic advisor [Jason Furman] puts it. The case for inequality turned out to be self-serving, not self-evident.

Of course, here in Rotterdam you figured that out a long time ago. Just around the corner, on this very campus, there's a bench with a famous quote by Jan Tinbergen. '*Van de verdeling komt de winst,*' it reads. 'By sharing we profit.' Half a century later, the rest of the world has finally caught up with Tinbergen – talk about being ahead of the curve! Nowadays, even the IMF admits that increasing the income share of the poor and the middle class actually increases growth. The IMF has also discovered that when the income share of the top 20 percent rises, growth slows. When only the rich get richer, society gets stuck.

[TEXTBOOK ECONOMICS VERSUS THE REAL WORLD]

The zillion-dollar question is: how to turn this around? How to tame the elephant? That's where I need your help. We must force the elephant to raise its tail and stretch its trunk – we must even out the graph. We must ensure that the gains of globalisation and technology are fairly shared. If we fail, the backlash against open societies will grow.

I mentioned Chrystia Freeland, the former journalist from Canada who wrote a book about plutocrats. She compares globalisation to the Industrial Revolution – as a warning. Before the world learned how to share the benefits of that transformation, we had to go through two depressions (one in the 1870s and one in the 1930s), two major communist revolutions (in Russia and China), and two world wars.

Globalisation is not inevitable, it's reversible. We've seen it before: after the First World War started, many countries imposed trade barriers. To do so again would be disastrous, especially for the world's poorest. Without access to trade and investments, other developing countries won't be able to follow China's example. They will stay poor and get left behind. And closing our economies would hurt our own countries as well. Because no society ever succeeded by turning its back on the world.

So the choice is simple. We either make globalisation work for everyone, or we get nationalisation – which works for no one. I reject the latter, and I hope you do, too. Chrystia Freeland decided to walk the talk: she's now my counterpart, serving as Minister of International Trade in Justin Trudeau's government!

Ladies and gentlemen,

In order to make globalisation work, politicians like Chrystia and I need the help of academics like you. I realise that many scientists prefer to steer clear of politics. Mainstream trade economists, for example, don't like to pronounce on how to address the inequalities that can result from trade. That's up to politicians, they say. The classic textbook argument for free trade is very simple: the gains are large enough to compensate everyone hurt by foreign competition – in theory. It's sometimes added that workers who lose their jobs should be re-trained, so that they can apply for new jobs. That's where the textbooks usually end. But that's where the hard work begins! The most brilliant theories can founder on the rocks of reality. Academics shouldn't just focus on the 'why' of trade. They must pay attention to the 'how'.

Our economies have gone global, but many countries' social agendas are still decidedly national – for all the right reasons. It's my job to connect the two. It should be your job, too. How do we help those who risk losing out? Which groups are especially vulnerable? We can't just offer people who lose their jobs a bag of money and expect them to be grateful. We can't be content with hand-outs to those who lose out. We have to make sure everyone is a winner.

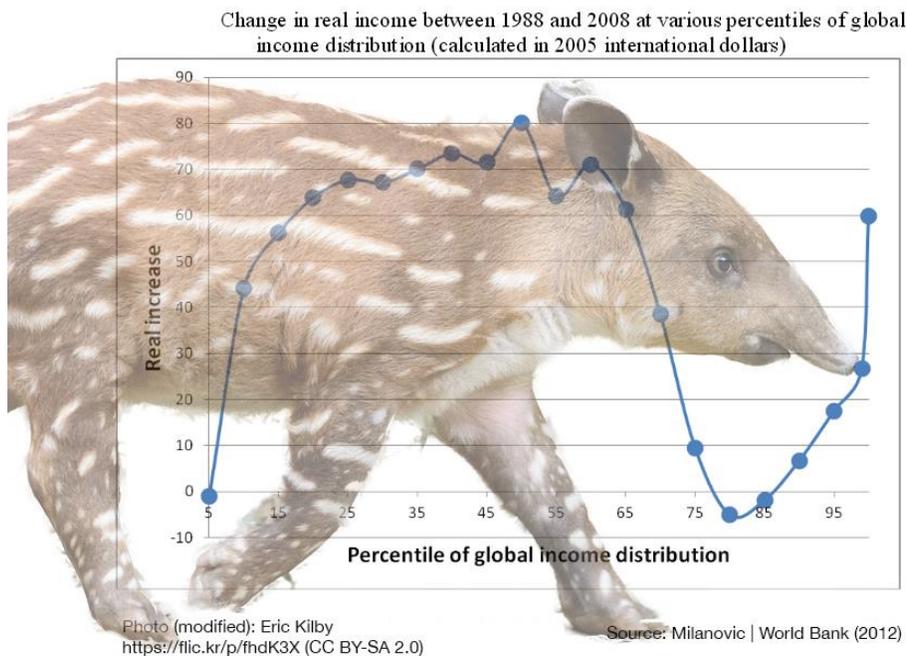
Can we do more than offer people a safety net? And if so, what? And at the other end of the spectrum, how do we get everyone to pay their fair share of taxes? My colleagues and I are working hard to ensure that economic gains leave no one behind, here in the Netherlands. But we haven't got all the answers yet. And that's why we need academics who are not afraid of politics.

[CALL FOR ACTION: TAMING THE ELEPHANT TOGETHER]

We can't simply ask this elephant to leave. We have to tame it. Academics and policy makers need to join forces to defeat inequality. Tolerating inequality is mankind's biggest mistake since communism. Unless we eradicate it, we risk the end of globalisation. And the world will be the poorer for it.

As I said, Rotterdam prides itself in being ahead of the curve. The Rotterdam School of Management is already doing great work on the new Sustainable Development Goals. The Institute of Social Studies in The Hague has an outstanding reputation when it comes to development studies. Some of the Netherlands' best economists teach here, at the Tinbergen Building. And I haven't even mentioned all the other faculties and institutes of Erasmus University.

There is a golden opportunity here for all of you. Only recently the Rotterdam Zoo witnessed the birth of a remarkable animal: a tapir.



I wouldn't go so far as to call it an omen. But look at that silhouette: a much smoother back, a much more modest trunk - that's what we need! I ask for your help in devising new ways to tackle inequality in an age of globalisation and rapid technological change.

In the process, I encourage you to join forces across academic disciplines. I ask you to replace the angry elephant with the friendly Rotterdam tapir.

Thank you for inviting me here. In return, I'm going to extend an invitation to you. I mean that quite literally. Students, researchers, lecturers and professors: come to my ministry in December and share the results of your deliberations with me.

Let's tame this elephant. Let's introduce the Rotterdam tapir to the world!

Thank you.