

Addressing the Anxieties of Our Time: The Work of the International Panel on Social Progress

www.kanbur.dyson.cornell.edu

World Bank, Kuala Lumpur, 22 January, 2018

Anxieties of Our Time

- “It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us.....”

Anxieties of Our Time

- In many respects the world as a whole the last three quarters of a century after the second world war has seen “the best of times.”
- There has been no global conflagration like the second world war.
- It took a thousand years up to 1950 for world per capita GDP to multiply by 15, but it took only 60 years for it to multiply by almost 4 between 1950 and 2008.

Anxieties of Our Time

- In 1978 China's per capita GDP was roughly twice its level in the year 1000. But thirty years later, in 2008, it was six times its value in 1978.
- At independence in 1947, India's per capita GDP was 20% above its value 1000 years before. During the next sixty years of independence, it increased almost five fold.

Anxieties of Our Time

- Global poverty ratio fell from 42 per cent in 1981 to 11 per cent in 2013.
- Life expectancy has increased from just above 50 years in 1960 to above 70 years half a century later.
- Over the same half century infant mortality has fallen from around 120 per 1000 live births to around 30 per live births.

Anxieties of Our Time

- And yet, and yet....
- The sense of anxiety in our time is palpable.
- Trump, Brexit, Scottish Independence, Catalan Independence, Far Right parties in Western Europe, subversion of democracy in Eastern Europe....

Anxieties of Our Time

- Conflict and threats to democracy in Africa, Hindu fundamentalism in India, Islamic fundamentalism in Middle East and elsewhere, Buddhist fundamentalism in Myanmar and elsewhere, states in conflict, refugee flows, South China Sea, North Korea....
- Environmental damage, climate volatility, extreme weather events....

Anxieties of Our Time

- Thus the picture we have is one of undoubted progress upwards, but of huge chasms opening up into which this progress could fall for generations to come.
- And let there be no doubt that progress can be brought to a shuddering halt.

Anxieties of Our Time

- “What an extraordinary episode in the economic progress of man that age was which came to an end in XXXX! [E]scape was possible....into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages.”

Anxieties of Our Time

- “The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of [the] daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice.”

The International Panel on Social Progress (www.ipsp.org)

- More than 300 scholars involved
- All disciplines (social sciences and humanities)
- All continents
- A first report (Cambridge University Press, 2018) on current perspectives for social progress
- A website with downloadable drafts, comments, teaching material, video interviews of the authors: ipsp.org



Objectives

- Comprehensive coverage of the multiple dimensions of social progress
- Make up-to-date social science more accessible and relevant
- Feed social actors and citizens with ideas about possible futures, influence public debates
- Raise interest in social justice and long-term prospective among thinkers and actors

Who?

- 300+ scholars
- Advisory Committee (Amartya Sen)
- Scientific Council (Nancy Fraser, Ravi Kanbur, Helga Nowotny)
- Steering Committee (Olivier Bouin, Marc Fleurbaey)
- Collège d'Etudes Mondiales (FMSH) and Princeton
- Dozens of academic institutions
- Foundations: FES, Gulbenkian, RS, etc

Topics of the Report

- Trends and compass (what is social progress?)
- Socio-economic transformations (inequalities, sustainability, cities, labor, capitalism and beyond)
- Governance and politics (global governance, democracy, rule of law, media)
- Values and cultures (modernities, religion, families, health, belonging)

List of chapters

Introductory Chapters

Chapter 1) Social Trends and New Geographies

Chapter 2) Social Progress... A Compass

Part I — Socio-Economic Transformations

Chapter 3) Inequality and Social Progress

Chapter 4) Economic Growth, Human Development and Planetary Welfare

Chapter 5) Cities

Chapter 6) Markets, Finance and Corporations

Chapter 7) The Future of Work: Good Jobs for All?

Chapter 8) Social Justice, Well-Being and Economic Organization

Part II — Political Regulation, Governance and Societal Transformations

Chapter 9) The Paradoxes of Democracy and the Rule of Law

Chapter 10) Violence, Wars, Peace, Security

Chapter 11) Supranational Organizations and Technologies of Governance

Chapter 12) Governing Capital, Labor and Nature in a Changing World

Chapter 13) Media and Communications

Chapter 14) Perspectives for Democracy and Equality

Part III — Transformations in Values, Norms, Cultures

Chapter 15) Social Progress and Cultural Change

Chapter 16) Religious Communities, Ideas and Practices

Chapter 17) The Pluralization of Families

Chapter 18) Global Health and The Changing Contours of Human Life

Chapter 19) How Can Education Promote Social Progress?

Chapter 20) Belonging and Solidarity

Concluding Chapters

Chapter 21) The Multiple Directions of Social Progress

Chapter 22) The Contributions of Social Sciences to Policy and Institutional Change

This Talk

- I cannot of course cover everything that is in the Chapters.
- In this talk I want to focus on two issues and relate them to each other:
 - Rising Inequality
 - Global Institutions
- Further, I want to give you *my* take on these issues.

Inequality

- Inequality is also a “best of times-worst of times” story, but ultimately I believe it to be chasm facing the world in the coming 25-50 years.
- This is not the place to go into technical details about how inequality is measured.
- Suffice it to say that if one applies the intuitive standard of “the gap between rich and poor” a fairly consistent story emerges about global trends and patterns.

Inequality

- The story is that inequality in the US fell for thirty five years after the second world war, but after that started rising and has continued to do so.
- Inequality has also risen in the UK, in parts of Europe, China, India, Bangladesh, etc.
- What's the good news? It is that Inequality in Latin America (Brazil, Mexico, Argentina, Chile etc) fell during this same period.

Inequality

- Further good news. China, India, Bangladesh, Vietnam etc all grew faster than the US and the West. Thus inequality as between countries fell.
- Putting all this together, inequality among all citizens of the world taken together fell.
- Overall good news then? What's there to worry about? What's around the corner?

Inequality

- The big worry is a massive technological trend.
- This is displacing basic labor in favor of skilled labor and capital.
- Unchecked, this will lead to increasing concentration of market income.
- Its manifestations are already felt in the US and UK where, mixed with a toxic blend of xenophobia and fear of immigrants, it has led to Brexit and Trump.

Inequality

- Where these trends have not as yet fully appeared (in parts of East Asia), or where they have been countered by policy (Latin America), there is no room for complacency.
- Governments in East Asia have already started worrying about the potential for inequality, and those in Latin America will have to keep running on policy to stand still on inequality.

Inequality

- This is the sense in which we are living in an age of rising inequality.
- But there is a second sense in which we are also living in an age of rising inequality—the global constraints on domestic policy towards mitigating inequality are greater.
- Here are some constraints:

Managing National Inequality—Global Constraints

- Mobility of Capital and Skilled Labor leads to a race to the bottom on these taxes, lowering revenue in every country, revenue which can be used to increase education and skills, or transfers. Even if illicit evasion was overcome, the basic problem remains, requiring global minimum tax agreements. Current OECD efforts are insufficient.

Managing National Inequality—Global Constraints

- Mobility of low income unskilled labor. If increased transfer benefits at the lower end, induce in-migration of basic labor, this will increase the fiscal costs of the redistribution policy. This requires global, or at least regional, management of migration. No global institution to address the question.

Managing National Inequality—Global Constraints

- Regulation and Labor Standards are a standard way of ensuring fairer distribution of the gains from technical change. But, race to the bottom again. ILO is meant to address these and does a useful job, but has no teeth.

Managing National Inequality—Global Constraints

- Finally, consider incentivizing and public investment in R&D to shift the tide away from labor saving to labor using technical change, as proposed by the late Tony Atkinson. But this faces all the usual problems of investment in public goods, since the benefits will spread beyond the borders of the initial investors. CGITR (T for technology) along the lines of CGIAR?

Managing Global Spillovers— Institutional Vacuums

- Managing national inequality is difficult because of cross-border spillover effects. But these spillovers occur in many other settings—greenhouse gases, financial contagion, infectious diseases, refugees flows, etc.
- The world clearly needs institutions to address cross-border spillovers, especially at the global level. In other words, institutions to provide Global Public Goods.
- But what we find is that the global institutions we have are designed for an earlier era when these global spillovers were not as important. Can they be redesigned?

Managing Global Spillovers— Institutional Vacuums

- I will discuss this issue by focusing on one important institution—the World Bank—and tell the story of how it has been left behind in a rapidly changing world.

Managing Global Spillovers—Institutional Vacuums

- John Maynard Keynes, *Economic Consequences of the Peace*, 1919:
- “if the European war is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also...”

Managing Global Spillovers— Institutional Vacuums

- Opening remarks of John Maynard Keynes, as Chair of “Commission II” on the Bank for Reconstruction and Development,” 3 July, 1944.
- “...it will be authorised in proper cases and with due prudence to make loans to the countries of the world which have suffered from devastation of war, to enable them to restore their shattered economies and replace the instruments of production which have been lost or destroyed.”
- “...as soon as possible, and with increasing emphasis as time goes on, there is a second primary duty laid upon it, to develop the resources and productive capacity of the world, with special attention to the less developed countries....”

Managing Global Spillovers— Institutional Vacuums

- “Herein lies the novelty of the proposals which will be submitted to you....The proposal is....that all the member countries should share the risk in proportions which correspond to their capacity. The guarantees will be joint and several, up to the limit of any members’ subscription.”
- “...I fancy that the underlying conception of a joint and several guarantee of all the member countries throughout the world, in virtue of which they share the risks of projects of common interest and advantage even when they cannot themselves provide the lump sum loan original required, thus separating the carrying of risk from the provision of funds, may be a contribution of fundamental value and importance”

Managing Global Spillovers— Institutional Vacuums

- This design of John Maynard Keynes and Harry Dexter White (who led the US delegation) succeeded brilliantly. Financial intermediation between sources of funds and uses of funds was successful, and contributed to the rapid post-war recovery and growth.
- After the first phase, the model was modified to include concessional funding as the newly independent developing economies came on the scene.
- The model was also replicated through the Regional Development Banks and sub-Regional Development Banks. The reasons for this proliferation of the model, which continues to this day through AIIB and NDB, are perhaps mainly political, but the proliferation is testament to the power of the model.

Managing Global Spillovers— Institutional Vacuums

- But notice that in the original conception the use of funds is basically for country level investment. There is no mention of the modern cross-border issues of climate change, infectious disease control, migration, or financial contagion—in other words, Global Public Goods (GPGs) as being part of the remit of the World Bank.
- These are of course the issues of our time. But, in keeping with the original model, despite a ramping up of rhetoric from all multilateral development banks on cross-border spillovers and global public goods, the overwhelming focus is still on country by country investment.

Managing Global Spillovers— Institutional Vacuums

- Could the World Bank, and other development banks, move into GPG issues?
- One fundamental question is the suitability of the development banks' signature instrument, the sovereign loan, for financing GPG mechanisms.
- Since the whole point about GPGs is the difficulty of attributing country specific costs and benefits, the sovereign loan instrument is peculiarly unsuited to the task. Various related mechanisms (eg Apex lending) have been tried, but the fundamental issue remains unchanged.

Managing Global Spillovers— Institutional Vacuums

- The core financial instrument for GPGs has to be a grant instrument.
- This is recognized in a recent Center for Global Development Report which proposes a new grant financing window for the World Bank alone of \$10b annually. It raises the question then of whether similar windows should also be opened for the regional development banks.

Managing Global Spillovers— Institutional Vacuums

- And it is the use of grant resources in this manner, rather than for direct poverty reduction, which Ray Offenheiser dissented from in the Report:
- “While I would certainly recognize the role of global public goods (GPGs) in addressing different dimensions of poverty and inequality....and perhaps even recommend making it an explicit and major pillar of work, I would continue to argue that the overarching mission and mandate of the World Bank (and other MDBs) must remain the fight to eliminate extreme poverty.”

Managing Global Spillovers— Institutional Vacuums

- The final issue for the World Bank as a purveyor of GPGs is its governance structure. This too reflects the financial and funding realities of 1944 and not the economic structures of today and the need for consensus building on how to address cross-border spillovers.
- For this, a major change in the voting structures of the World Bank will be needed, which is unlikely to happen with the veto power of the largest shareholder in the current structure.

Managing Global Spillovers— Institutional Vacuums

- The basic point is that the World Bank, a jewel in the crown of post second world war global arrangements, cannot as it stands address the major issues of our time.
- Its traditional role as supplier of country specific investment is undermined by lack of capital increase, competition from replica regional development banks, and of course from private sector flows.

Managing Global Spillovers— Institutional Vacuums

- Its signature instrument (and that of the other multilateral development banks) is particularly unsuited to the multi-country nature of solutions to cross-border spillovers.
- And its governance structure reflects the terrain of 1944, not the realities three quarters of a century later.
- The World Bank is symptomatic of Institutional Vacuums at the global level to address global issues.

Conclusion

- The last seventy five years have seen enormous progress in many dimensions.
- Yet we live in an anxious age.
- The reasons for this are the various chasms that are opening up which threaten to swallow our steady march of progress.

Conclusion

- Institutional Innovations in many dimensions are needed if we are to traverse these chasms before us.
- Examples of such innovations include new forms of redistribution to address inequality, and repurposing old global institutions for the new realities.
- The IPSP report contains much broader analysis and many more ideas on innovations to maintain social progress.

Thank You!