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World Bank Human Development Forum

Social Policy of the 21st Century: A new paradigm for a polarized world

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Remarks by Rebeca Grynspan

Ibero-American Secretary General

Let me begin by thanking the World Bank and the Human Development team for the opportunity to join you in this exciting discussion. We often hear that an event takes place at a critical juncture. Well, this time it's true. The 193 Members of the United Nations have unanimously agreed on a global development agenda –a success of multilateralism, together with the Paris agreement on climate change. It is also an ambitious agenda: ending poverty and hunger, achieving gender equality, ensuring sanitation and energy for all, reducing inequality, changing consumption and production patterns, and so on.

And yet, we cannot deny the growing signs of fragmentation and polarization around the world. Globalization is under attack in many places. We are witnessing the rise of populism, often built on toxic nationalism and xenophobia. The global order that emerged after

World War II –of which this Bank is a cornerstone – no longer seems to reflect the reality of a multipolar world.

A lot of people are angry and dissatisfied and they are blaming it on free trade, the international finance system, increased migration, and cultural transformations that come with greater diversity.

Despite this, we must remember that globalization has been a powerful force for positive change around the world. People living in extreme poverty came down two thirds between 1990 and 2015, the number of people belonging to the middle class tripled, maternal mortality and under-five mortality were reduced in half, and we reached near universal primary school enrolment[i].

The Human Development Index has increased from a global average of 0.59 in 1990, to a 0.72 in 2015, with the biggest improvements in the developing world and especially in the poorest countries[ii].

This came hand in hand with the emergence of the Global South. Between 1990 and 2010, developing countries' participation in the global middle class grew from 26% to 58%.

Trade has been an important factor behind these achievements: developing countries' share of world trade almost doubled between 1980 and 2010, while their share of world output grew from 33% to 45%[iii].

How do we reconcile these contradictory forces? A world of cooperation, where people trade more, are more connected and are able to come together behind a common set of goals; and a world of confrontation, with calls for sovereignty, protectionism, closed borders and an inward-looking policy agenda?

This is the backdrop of our conversation this morning. A world in flux, where local demands can come in conflict with global needs. We cannot ignore the plight of those that feel left behind, those that feel threatened by economic integration, technological disruption, demographic changes, and evolving cultural values and norms. Those that are resentful in light of a world where the 1% has more wealth than the remaining 99%, and where 62 people own more than half of humanity.

At the same time, we also know that populism and nationalism will only make matters worse. We must find ways to repair the social fabric that has been eroded by growing inequality. We must find ways to distribute the gains of trade, investment, and technology. This is essential to regain trust – trust in one another and trust in institutions.

We are facing a crisis of trust. In Latin America, 8 out of 10 people believe you cannot trust most people, the lowest average for inter-personal trust in the world. Trust in institutions is also worrisome, especially with regards to political and democratic institutions: Congress, political parties, governments, the Judiciary, are trusted by less than a third of the population[iv].

So this presentation revolves around the need to push forth public policies that not only increase human development but that are perceived as fair and equitable, policies that lead to trust. I will organize my presentation in two parts: first, I will talk about policy design and implementation to attain the Sustainable Development

Goals (SDGs). How does it affect our work and how can we adapt? Second, I will talk about reforms that I think can help us achieve inclusive and sustainable growth.

The title of this session is about "social policy", but I think we can start by agreeing that this is not a separate set from "economic policy" and "environmental policy". The 2030 Agenda demands integration between these three dimensions. We cannot have successful social policies that are not economically viable or environmentally safe.

The problem is that everyone agrees on this – in principle! In practice, however, we all prioritize our own areas of expertise. You go to the economists and say "three dimensions of sustainable development", and they all tell you "sure! But first focus on economic growth because, if you don't, you'll have nothing to distribute". And then you go to the social policymakers and say "three dimensions of sustainable development", and they all go "sure! But poverty reduction must be your number one priority. It's the moral thing to do".

And then you go to the environmentalists and say "three dimensions of sustainable development", and they say "sure! But if we don't address climate change and take care of the planet, then nothing else will matter".

In a way, they are all correct and they are all wrong. We must reach beyond this. Break the silos. Move away from sectorial thinking and policy making. The goal is to agree on the same set of policies regardless of our point of entry. We need policy coherence, whether you are coming from the economic, social or environmental community. Whether you are public sector, private sector, international organization, academia or civil society. That is what a universal agenda means!

Of course, this requires a dramatic shift in the way we design and implement policy. Governments are organized in sectors. Some Latin American countries are innovating in their institutional architecture precisely to address this problem.

Mexico, Brazil, Chile, Colombia, Costa Rica, El Salvador, Honduras Panama, Paraguay, Peru and the Dominican Republic – 11 Latin American countries have created high-level councils, commissions or inter-agency mechanisms for Sustainable Development, in order to follow-up on the commitments under the 2030 Agenda and integrate the different dimensions in all public policies[v].

Education must also change. We were taught to specialize and focus on our specific field of expertise, almost never leaving our professional bubble. We cannot become experts in everything but we can no longer call ourselves experts if we are unaware of the economic, social and environmental implications of our work. I was at a UN Conference last week and the former head of the International Labor Organization (ILO) said something that is completely true: High School is probably the last time any of us received an integral education. An education that is not just inter-disciplinary but multi-disciplinary and trans-disciplinary.

I wanted to reflect on this challenge because it is at the heart of how to make shared prosperity happen and achieve inclusive growth.

Now I want you to think about the *drivers* of inequality, because inequality is not a static, permanent state but rather the consequence of dynamic forces in our societies. It is the *balance* between these forces that leaves us being more equal or more unequal.

What we are seeing in most parts of the world, as many have pointed out, is an increasing return to capital versus labor, aided in many cases by gains in productivity, technological advances and automation.

In almost all developed countries, but also in many developing countries, the share of national income going to workers is declining. The Fourth Industrial Revolution might aggravate this problem, since it leads to savings in labor. We know that jobs are being created and destroyed all the time but we worry that, this time, the net effect will be negative.

We are seeing an increase in structural unemployment in many developed countries. In Europe, the share of people that have been looking for a job for more than 12 months rose three percentage points between 2012 and 2016[vi].

So these challenges do not allow for a reductionist approach. They demand from us an integrated line of attack. Let me propose a debate that considers policies as pre-market, in the market and post-market. My justification to do this is that usually, when we talk about inclusive growth, we tend to focus everywhere but in the market. We talk about skills and education. We talk about health. We talk about universal income and social protection. We talk about taxation. That is, we talk about interventions before people enter the labor market (what I call pre-market), and we talk about redistribution policies after production has taken place (post-market).

These are all conversations we need to have. Pre- and post-market interventions play a huge role in determining inequality outcomes.

Let me quickly make some remarks about these before I go to the "in the market" interventions.

In the pre-market interventions, we have great policies like conditional cash transfers, which have been effective in increasing access to health and education for children in low-income families, but the quality of the services they receive is still a huge challenge. In the discussion about targeted interventions like CCTs –if they need to be conditional or not, if they need to be universal and what universality means, and the proposals for a basic income for all, we need to pay attention not only to income levels but to the transformation of services.

We know that we need quality education to give students the tools and the soft skills to navigate a world that is rapidly changing. 60% of the jobs where current High-School students will be employed have not been created yet. We need to make sure that they are in the position to take advantage of the opportunities that are created in the market.

I am convinced that quality of education is a key determinant in the inter-generational transmission of inequality. Talent is the thing that is best distributed in society. What is not well distributed is opportunity. When we talk about privilege we are talking about an unfair distribution of opportunity, not talent. We are talking about rigidities that skew economic and social outcomes in favor of some but not others, with equal potential.

Is universal income the best way to go in societies that are highly unequal, vis-à-vis those that are more homogeneous? Shouldn't we go for universal access to quality education, health and social security, and create systems that are less fragmented and therefore more able to generate and sustain quality because they include more people with a voice to demand better services and, the same time, create the necessary coalitions and cohesion to oppose concentration forces in the economy and in the political sphere?

On the post-market interventions, let me just make two comments about taxation. In OECD countries, Gini coefficient drops around 18 percentage points after taxation. In Latin America, which relies heavily on direct taxes and where there is considerable tax evasion, the Gini coefficient goes down only three percentage points after direct fiscal action[vii]. Even if we take into account social spending, the redistributive power of public policies in Latin America is very limited. But there is also new evidence that suggests that many families fall below the poverty line because of taxation, so we need to address these three problems: first, insufficient levels of taxation to address the investments we need for the new realities; second, taxation that is regressive and does not have enough redistributive power; and third, taxation that increases poverty even when taxes are progressive in their design. We must continue to work in this area.

Now, let's talk about in-market interventions. Because, if the main forces *within* the markets are for concentration and exclusion, then they might not be offset by social spending or progressive taxation.

As the UNDP has put it: "When growth patterns are highly disequalizing, the amount of redistribution needed to compensate for unequal market outcomes is likely to be economically and politically prohibitive. The moderation of inequality requires a shift to a more inclusive pattern of growth".

The World Bank has also made it clear in its last World Development Report, which focused on "Governance and the Law" and the political economy of growth and distribution. The report shed light on the relation between governance and development outcomes, and between unequal distribution and policy effectiveness.

So we have to talk also about the primary distribution of income.

Let me state three priorities for action:

First, women in the labor force. Forty years ago, the consensus was that women needed access to education so that they could enter the labor market and compete for jobs. Educating women became an important goal.

I myself am the product of this push for educating women: me and my sisters where first generation in our family to attend college and, needless to say, the first professional women. Especially in the last couple of decades, we made significant strides in reducing the education gap between men and women, to the point that women now outnumber men in all levels of education in many parts of the world, including the U.S. and Latin America (although we still have an important gap in the technological and scientific professions, the so-called STEM sectors).

If we have more women in college than men, how come women still earn less, have higher unemployment rates and are more often employed in informal or low-productivity jobs? The labor market itself never changed. The lack of real conciliatory measures between family and work continues to drag productivity and opportunities for women. Women still implicitly have to choose between their families and their careers. On average, men get paid more after they have children. Women, on the other hand, are punished. Unless we radically change the way we deal with care in our society, unless we have real reconciliation between work and private life, then we will not close the gap between men and women.

We could mention other changes that need to happen in the market to achieve gender equality, like financial inclusion or support for female entrepreneurship.

This would help us take advantage of the investment we are already making: it is estimated that Latin America loses about 40% of its investment in the education of women due to inequalities in the labor market. In fact, achieving gender parity in the labor market would increase per capita GDP in Latin America by 34% in 2025.

Second, although we have talk (a lot, and rightly so), about the mismatch between the education system and the market demands, there is something that needs to happen *at the production level*, in the capacity of firms to innovate and adapt. We do not need to focus only on the capacity of workers, we need to focus on the production and innovation ecosystem, the conditions for entrepreneurship, the creation of new spaces for ideas to emerge and flourish. What are the best practices? How do we connect small and medium enterprises to value chains, now more possible than ever through digital platforms? There is a huge opportunity and potential here that we are not harnessing.

Third, we need to address structural unemployment through new and innovative policies. Shortening work hours, contributory versus tax-based financing for social security, and unemployment benefits versus new ideas like employment guarantee schemes that produce goods and services that society needs (not only those that the market needs) are part of this framework. Basic income, employment guarantee schemes and other proposals need to be taken seriously and discussed in this context. How do we reconcile these innovations with the declining share of labor on GDP and new policies on salaries and benefits?

What we need is to create an ecosystem for inclusive growth to happen in the market. People need to find spaces to grow, spaces that include groups that have been traditionally marginalized such as young people, women, ethnic minorities, rural communities, the bottom 40%.

This is exactly what happened in Latin America. Between the years 2003 and the years 2013, inequality dropped by an annual average rate of 0.7%, largely because of higher earnings for the lower income brackets and more horizontal equality. Income for people in extreme poverty and poverty grew by 6% and 4.7%, respectively, compared to 1.1% for the middle class. Women coming into the labor market played a large role in both the reduction of poverty and the decline in inequality (which went hand in hand).

So, don't believe those who tell you that inequality is too hard to tackle, too structural. Change can happen and it can happen under healthy macroeconomic conditions. The problem of reducing inequality is not just political and not just economic: it is an issue of political economy.

We must understand the interaction between the forces in society and in the market, between interests and values, in order to create more inclusive societies.

I remain cautiously optimistic. There is growing awareness in the world about the extent of inequality and the need to do something about it. Current dissatisfaction can be the prelude to a real transformation in the way we share the gains of economic activity and growth. We must not fear citizen discontent – we must address it.

I look forward to your questions. Thank you very much.

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[i] UN (2015) *The Millennium Development Goals Report* http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20(July%201).pdf

[ii] UNDP (2016) *Human Development Report 2016. Human Development for Everyone* http://www.undp.org/content/undp/en/home/librarypage/hdr/2016-human-development-report.html

[iii] UNDP (2013) *Human Development Report 2013. The Rise of the South: Human Progress in a Diverse World* http://hdr.undp.org/sites/default/files/reports/14/hdr2013_en_complete.pdf

[iv] Latinobarometro (2015) *La confianza en América Latina 1995-2015. 20 años de opinión pública latinoamericana* http://www.latinobarometro.org/LATDocs/F00005085-INFORME_LB_LA_CONFIANZA_1995_2015.pdf

[v] CEPAL (2017) *Annual report on regional progress and challenges in relation to the 2030 Agenda for Sustainable Development in Latin America and the Caribbean* http://foroalc2030.cepal.org/2017/en/documents/annual-report-regional-progress-and-challenges-relation-2030-agenda-sustainable?utm_source=cepal-news&utm_medium=email&utm_campaign=cepal_news_april_2017

[vi] ILO (2016) *World Employment Social Outlook 2016* http://www.ilo.org/global/research/global-reports/weso/2017/WCMS_541211/lang--en/index.htm

[vii] CEPAL (2015) *Panorama Fiscal de América Latina y el Caribe 2015: Dilemas y espacios de políticas*

http://repositorio.cepal.org/bitstream/handle/11362/37747/S1500053_es.pdf

Ver también CEPAL (2015) *The redistributive potential of taxation in Latin America*

http://repositorio.cepal.org/bitstream/handle/11362/39603/RVI116_Hanietal.pdf?sequence=1