



Kastryčnicki Ekanamičny Forum

Ураджай ідэяў дзеля ўстойлівага развіцця

KEF-2017: Foundations of the future

The Economics of Globalization and Inequality

Shamik Dhar, Chief Economist and Director for Economics at the British Foreign and Commonwealth Office

The project is funded
by the European Union



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The Economics of Globalisation and Inequality

Shamik Dhar, FCO Chief Economist

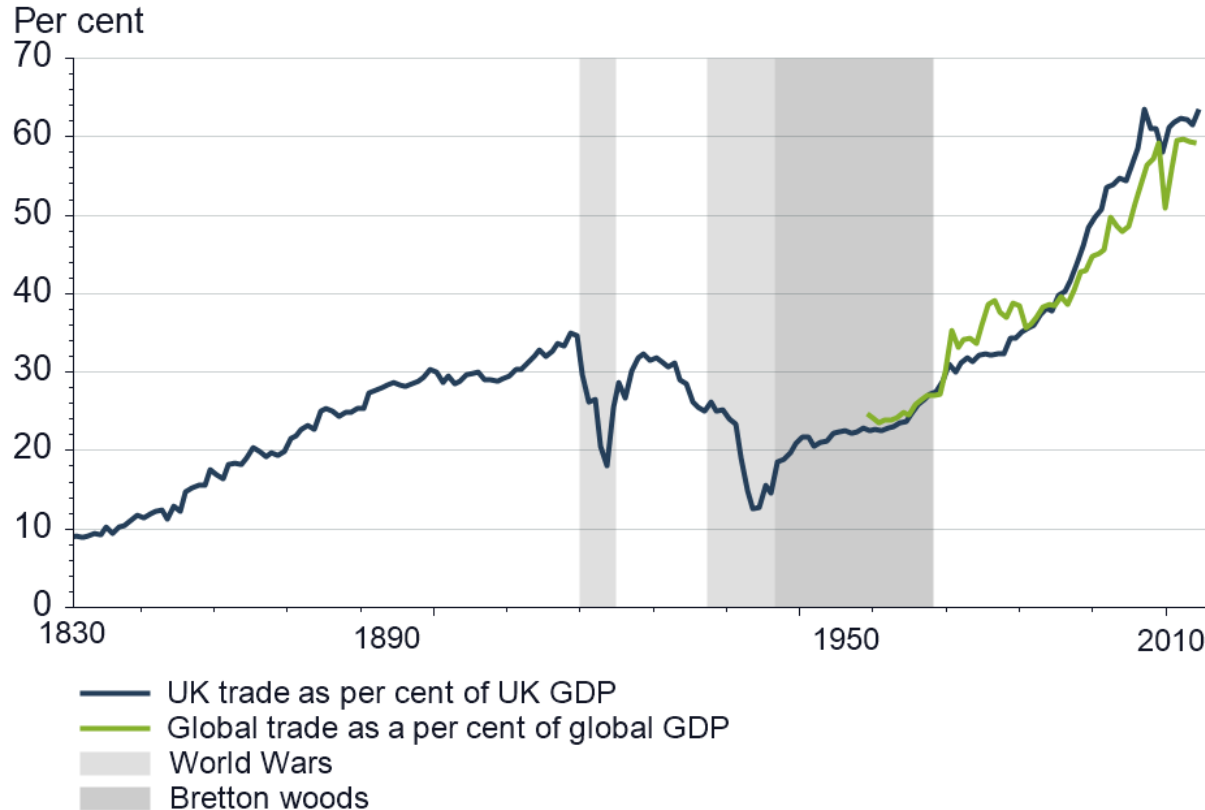


Globalization – the background



Globalization

International trade

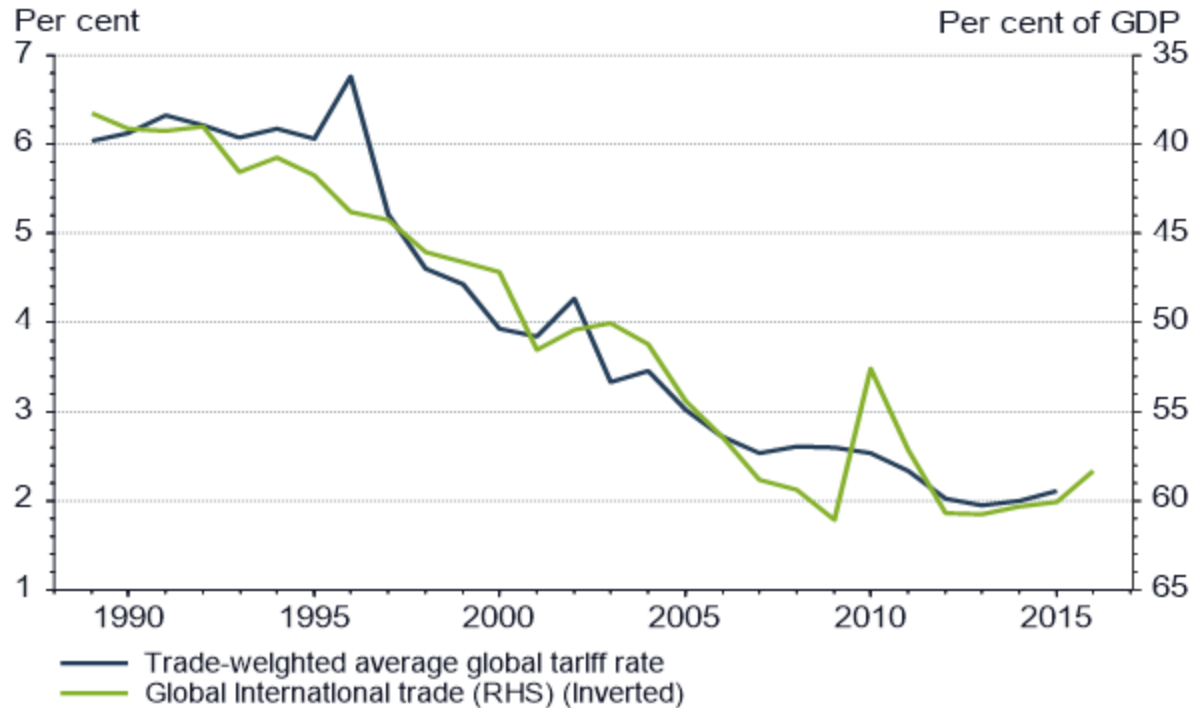


Source: Thomson Reuters Datastream / Fathom Consulting



Globalisation

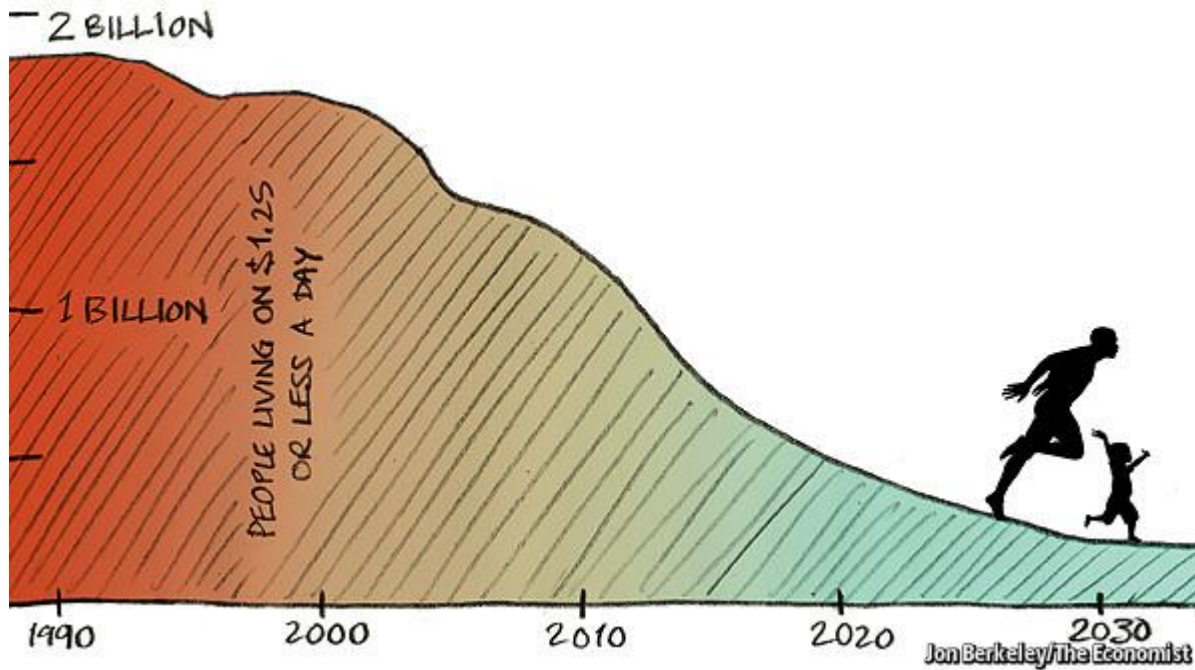
Trade-weighted average global tariff rate and trade



Source: Thomson Reuters Datastream / World Bank / Fathom Consulting

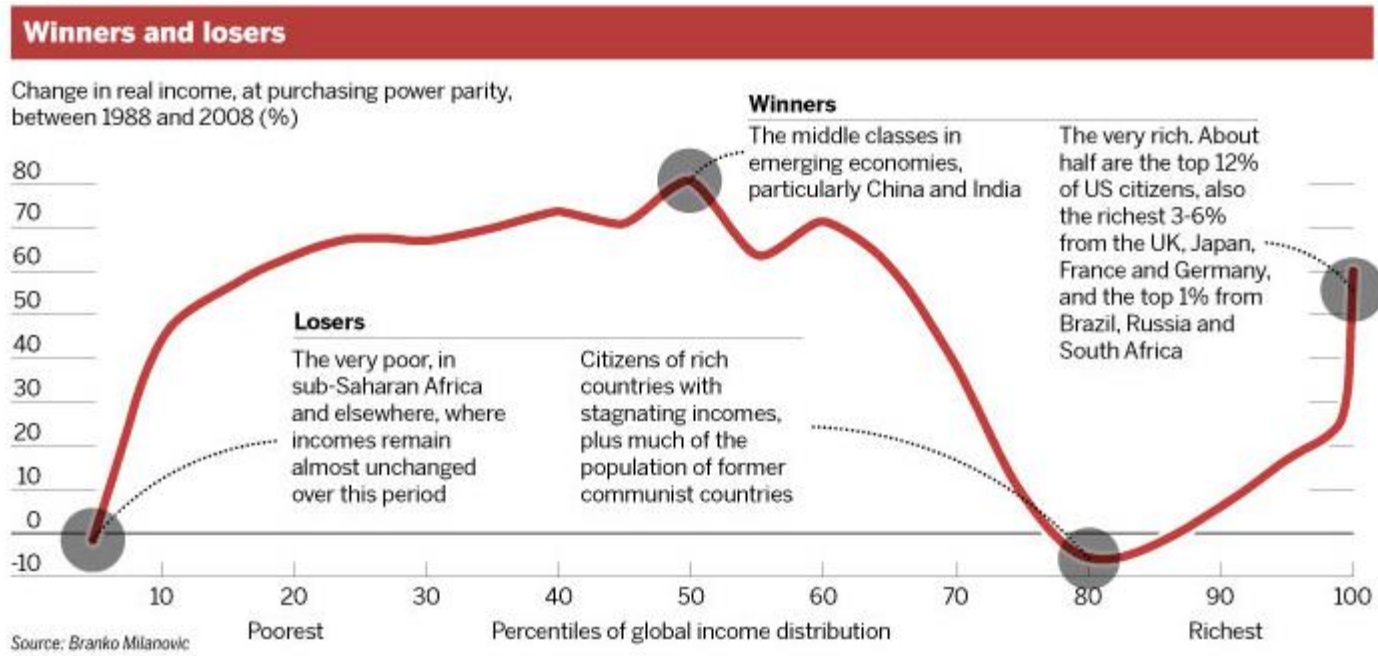


Globalisation: who gains?



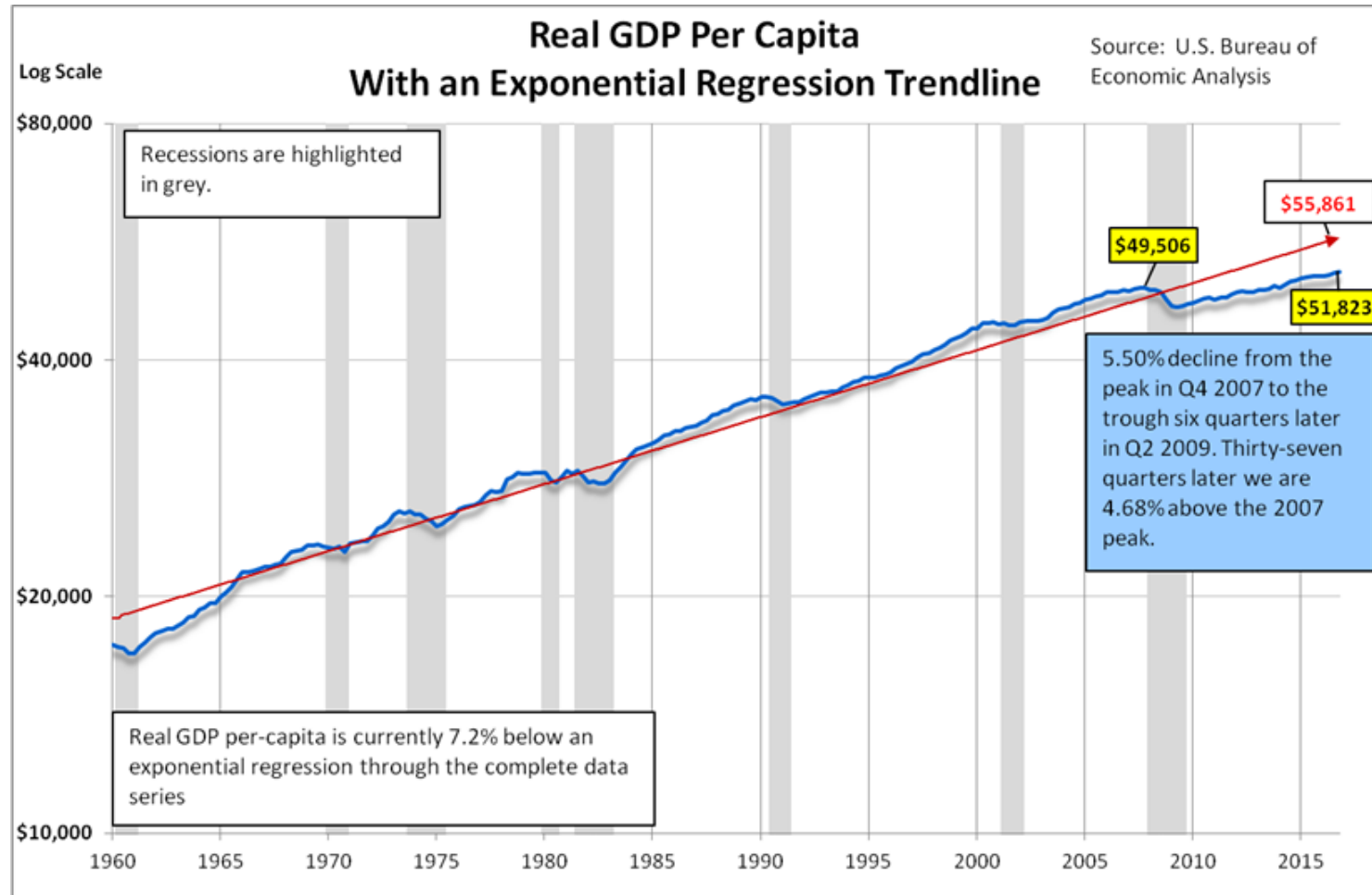


Globalisation: who gains?





Financial crisis: permanent loss





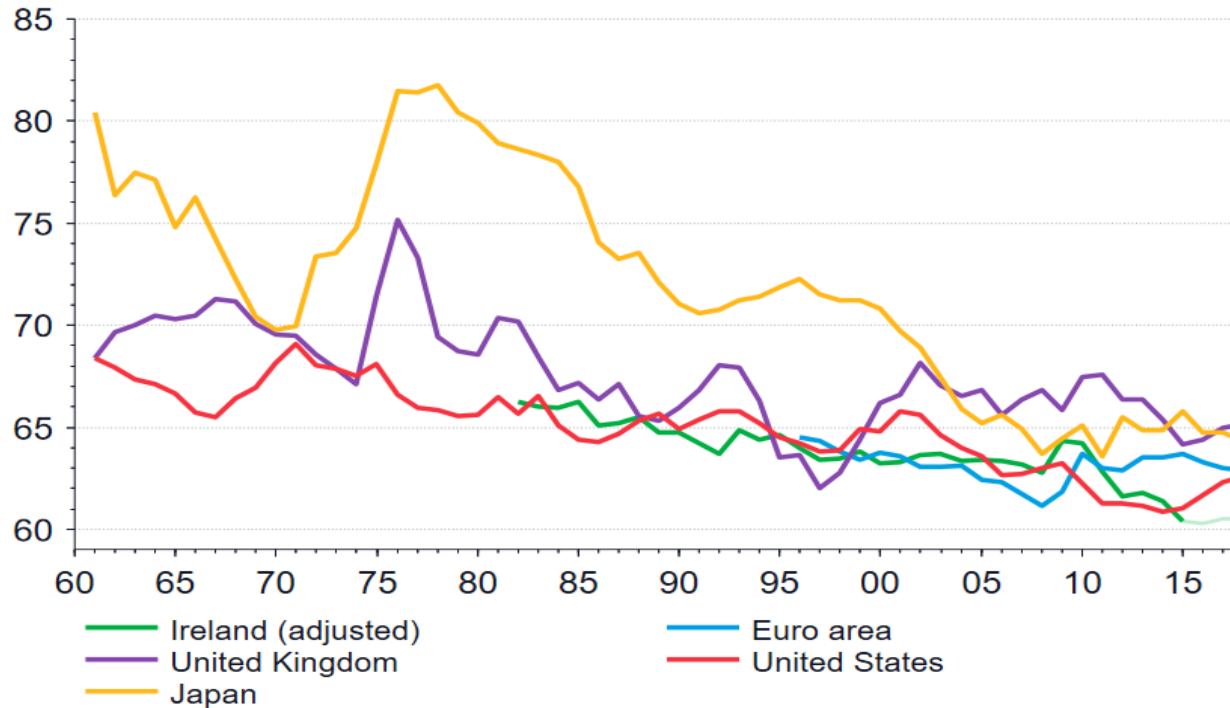
Labour and capital



Workers – a smaller share of the pie

Official labour shares

Per cent of GDP



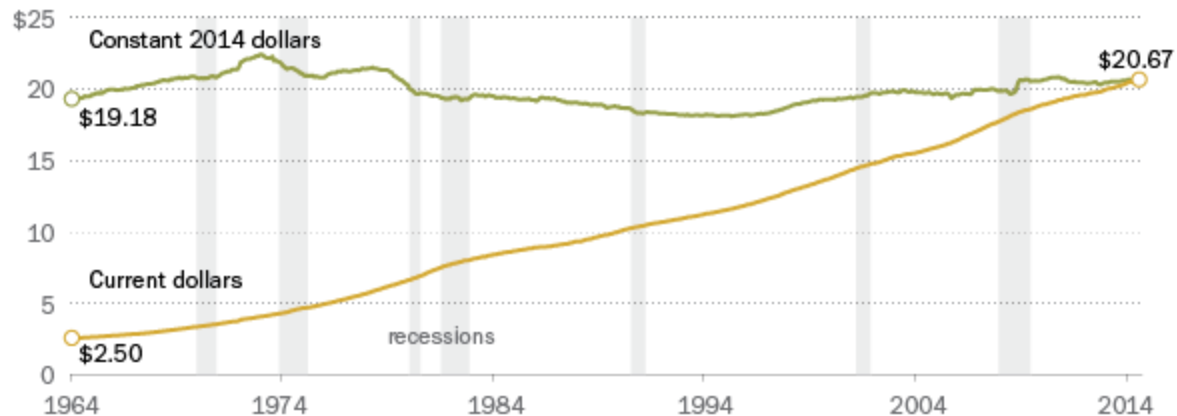
Source: Thomson Reuters Datastream / Fathom Consulting



Stagnant real wages for some

Bigger Paychecks, But Little Change in Purchasing Power

Average hourly wages, seasonally adjusted



Note: Data for production and non-supervisory employees on private non-farm payrolls.

Source: Bureau of Labor Statistics

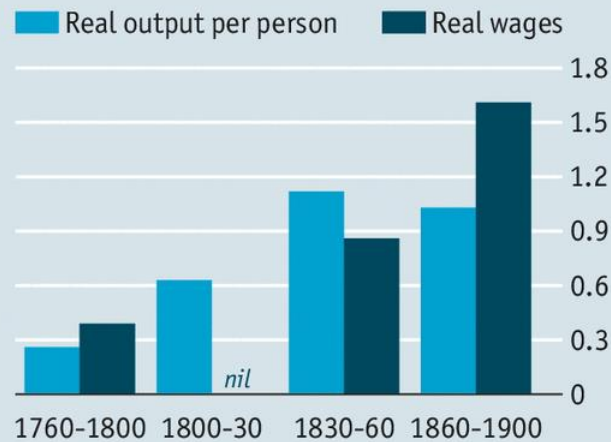
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Not unprecedented...

1 Long time coming

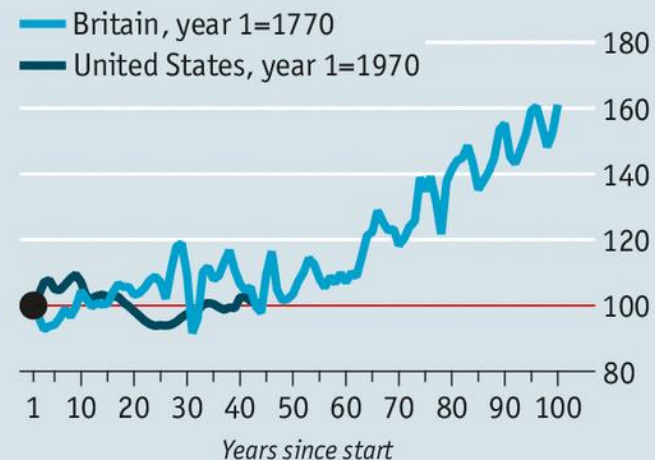
Britain's average annual growth, %



Source: "Engels' Pause: Technical Change, Capital Accumulation, and Inequality in the British Industrial Revolution" by R.C. Allen, *Explorations in Economic History* (2009)

3 A history to repeat?

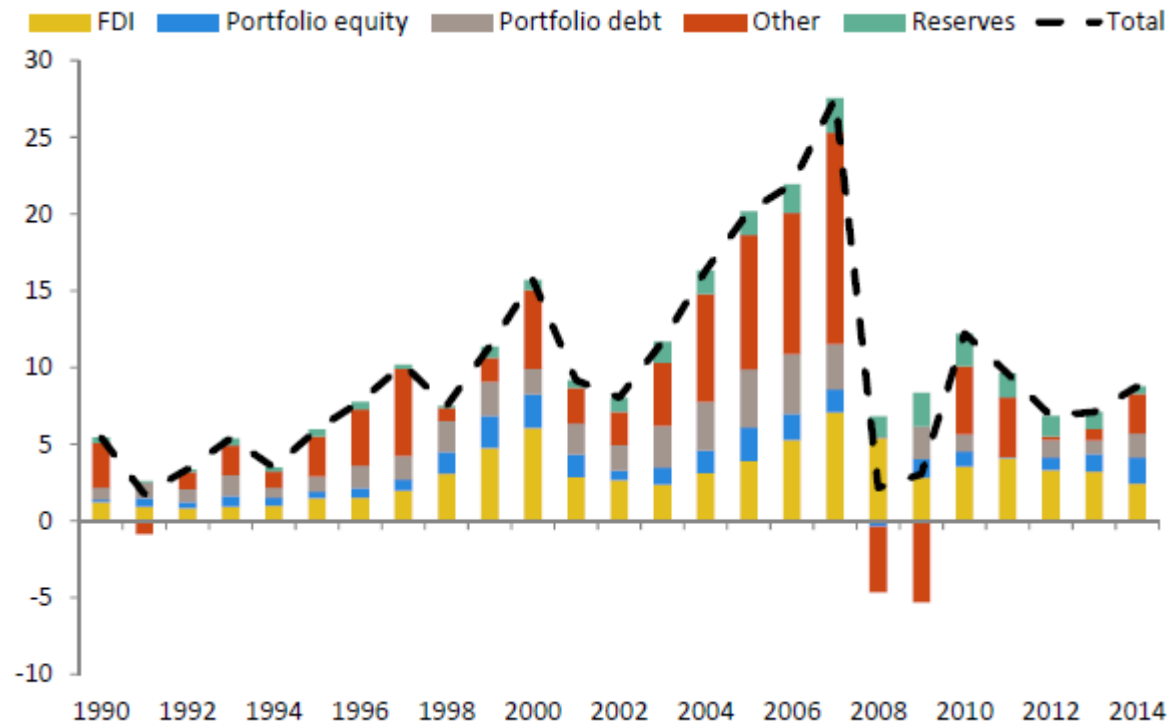
Average real wage, year 1=100



Sources: "Pessimism Preserved: Real Wages in the British Industrial Revolution" by R.C. Allen (2013); US Bureau of Labour Statistics



International capital flows (% of global GDP)



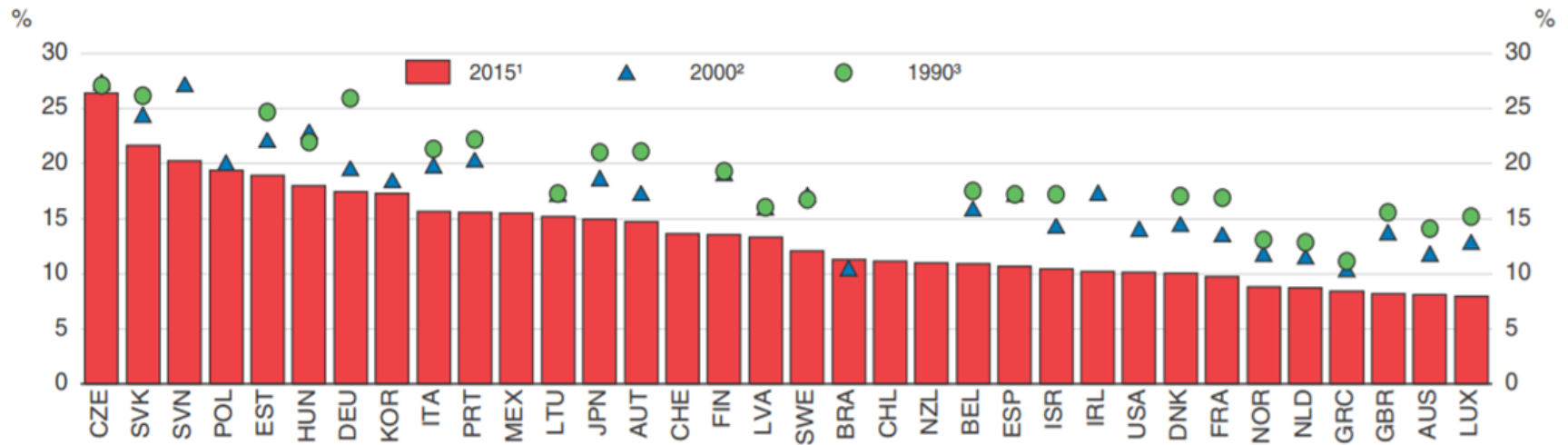
Source: IMF, ECB calculations



Some social consequences



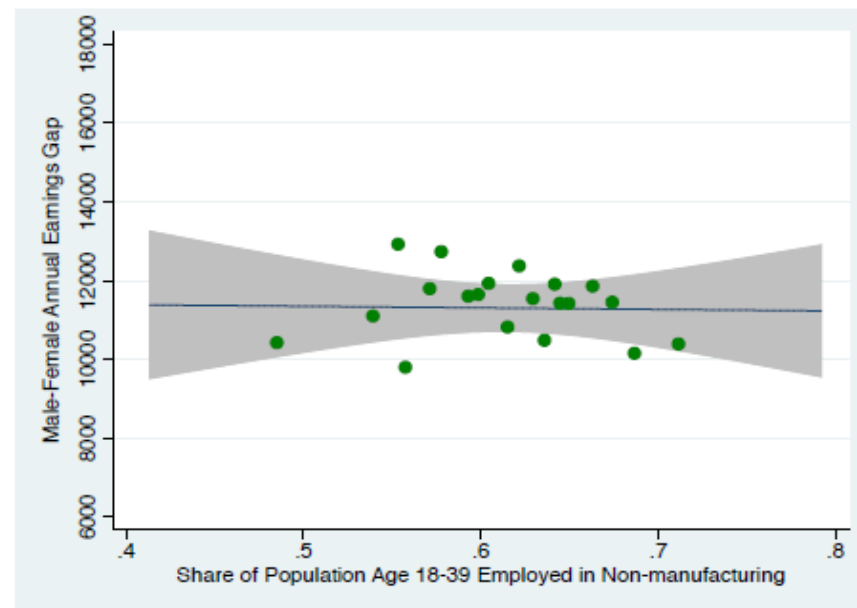
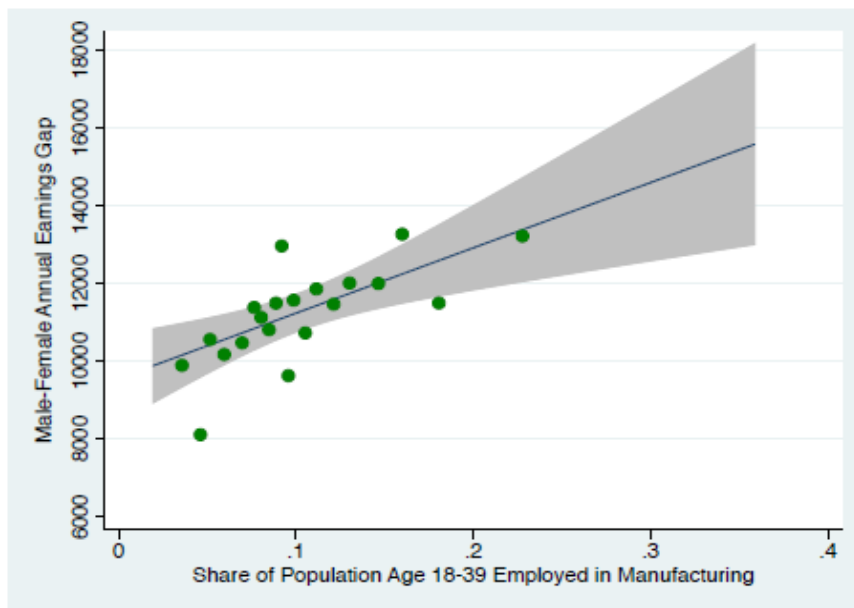
Manufacturing decline



Share of manufacturing jobs in total employment, OECD



Manufacturing: who gains?

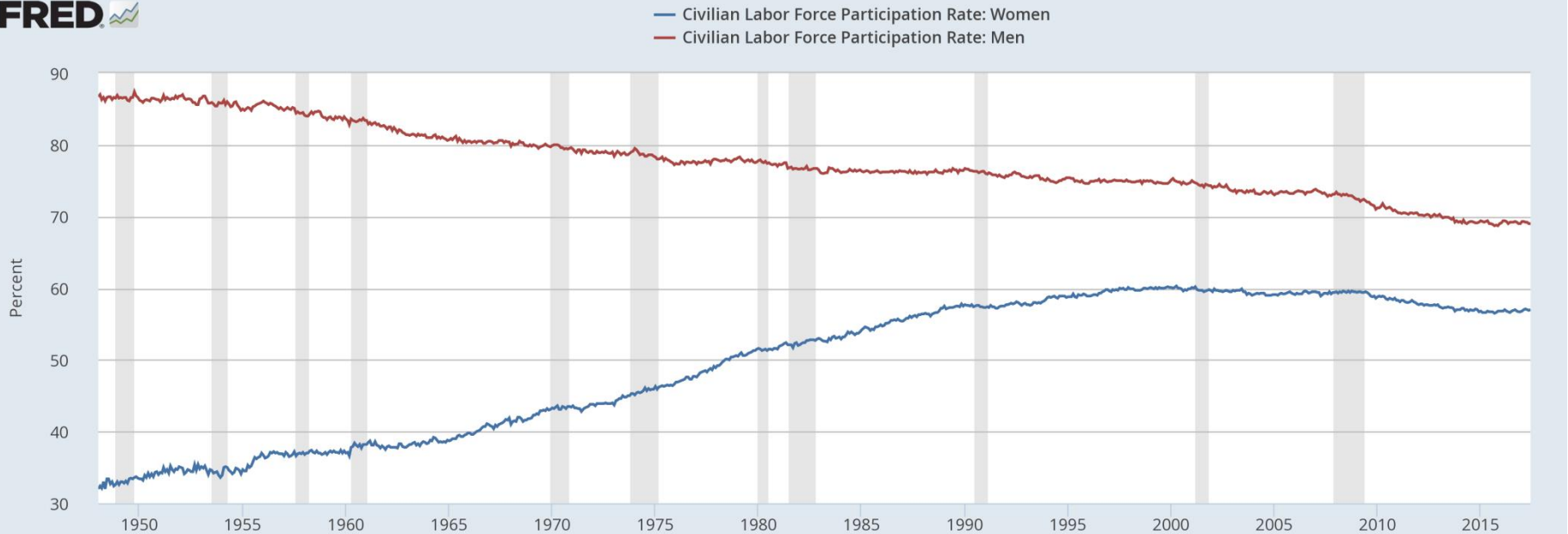


The Relationship between the manufacturing Employment Share (panel A) and the Non-manufacturing Employment Share (panel B) and the Male-Female Mean annual earning gap in adults aged 18-39 in 2000. Autor et al.



Participation rates: US

FRED



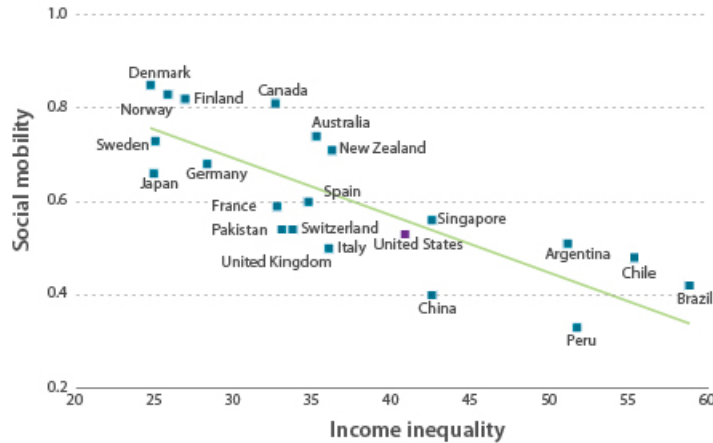
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org

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Inequality and social mobility

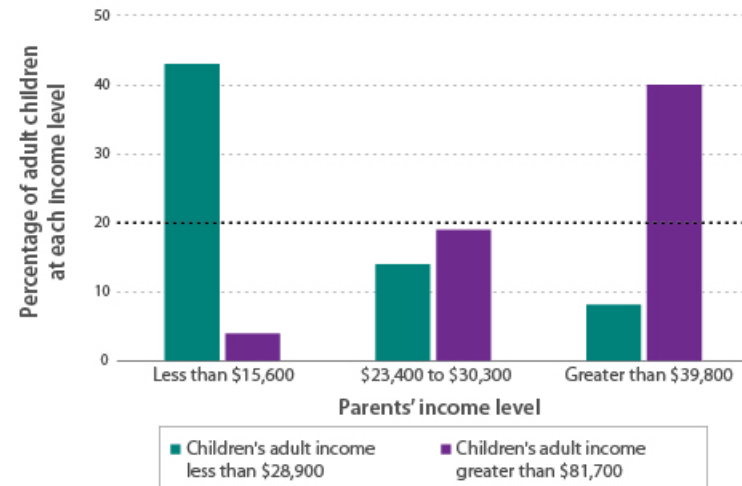
FIGURE 2.
The Relationship between Income Inequality and Social Mobility
Around the world, high income inequality is associated with low social mobility.



Source: Corak (2013); World Bank (2013).

Note: Reproduction of figure 2 from Corak (2013). Data points for Italy and the United Kingdom overlap. The x-axis shows Gini coefficients as reported by the World Bank. The y-axis is a measure of social mobility and is equal to 1 minus the intergenerational earnings elasticity for each country.

FIGURE 3.
Probability of Children's Income Level, Given Parents' Income Level
Children born into low-income families are likely to remain at the low end of the income distribution as adults.

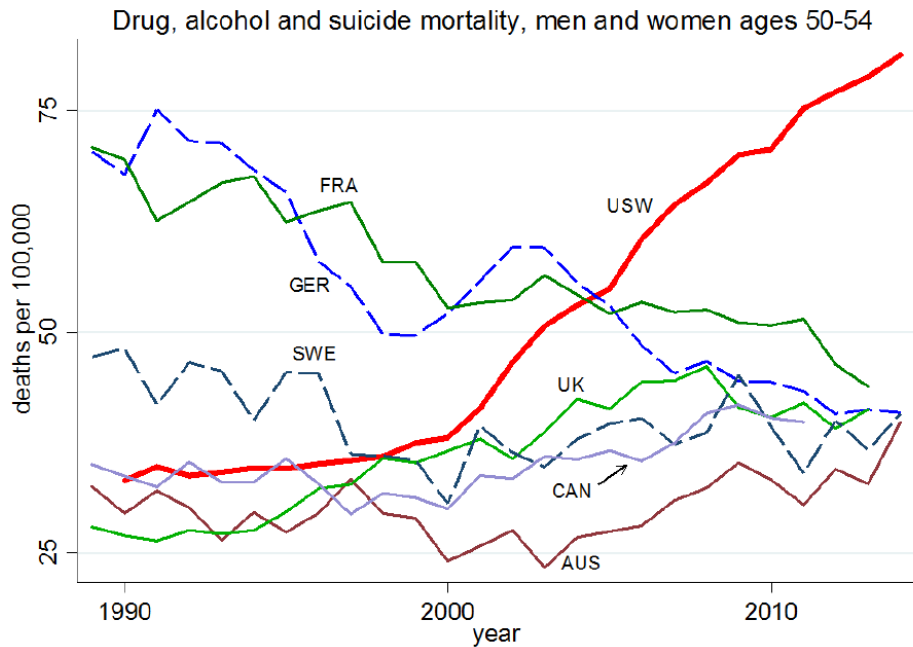


Source: Pew Charitable Trust, Economic Mobility Project (2012).

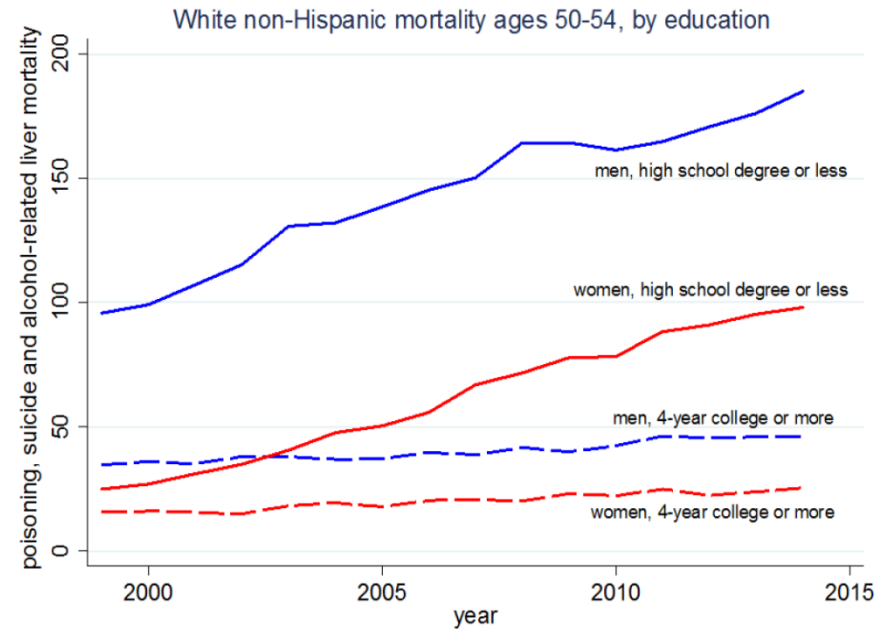
Note: Income estimates are in constant 2008 dollars and are adjusted for inflation using CPI-U-RS. Income categories along the x-axis correspond to the lowest, middle, and highest income quintiles in the Panel Study of Income Dynamics (PSID) as of 1968. Income categories in the legend correspond to the lowest and highest quintiles in the PSID as of 2008.



Social repercussions: mortality



Drug, alcohol and suicide mortality in white non-Hispanic men and women ages 50-54, by country.



Drug, alcohol and Suicide mortality in white non-Hispanic men and women, US- by education.

Source: Case and Deaton



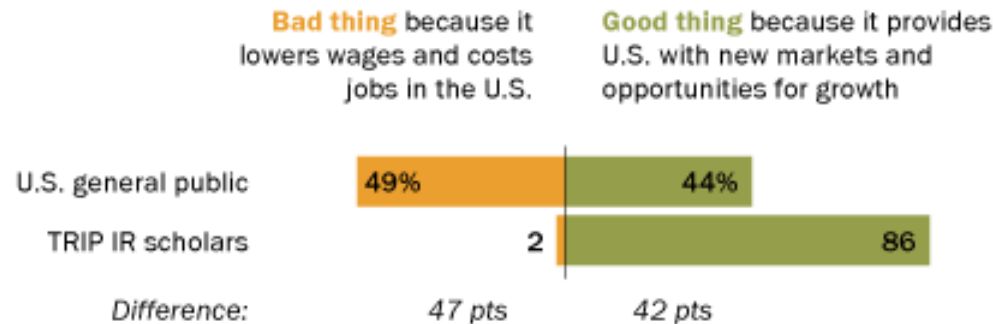
Some political consequences



US public skeptical

Foreign policy scholars sharply more positive on U.S. involvement in global economy than general public

Which statement comes closer to your view about U.S. involvement in the global economy, even if neither is exactly right?



Source: U.S. general public survey conducted April 12-19, 2016 by Pew Research Center (n=2,008). IR scholars' snap poll produced by the Teaching, Research, and International Policy (TRIP) Project based at the College of William & Mary, fielded on Oct. 5, 2016 (n=747). See <https://trip.wm.edu/charts> for more details.

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But Brexit is different

Please can you rank the following in order of how important they were in your decision?

Why Remain voters voted Remain

Overall UK



Conservative voters



Labour voters



Why Leave voters voted Leave

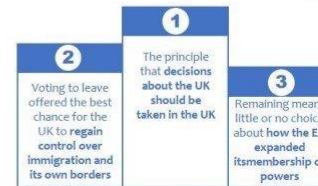
Overall UK



Conservative voters



Labour voters



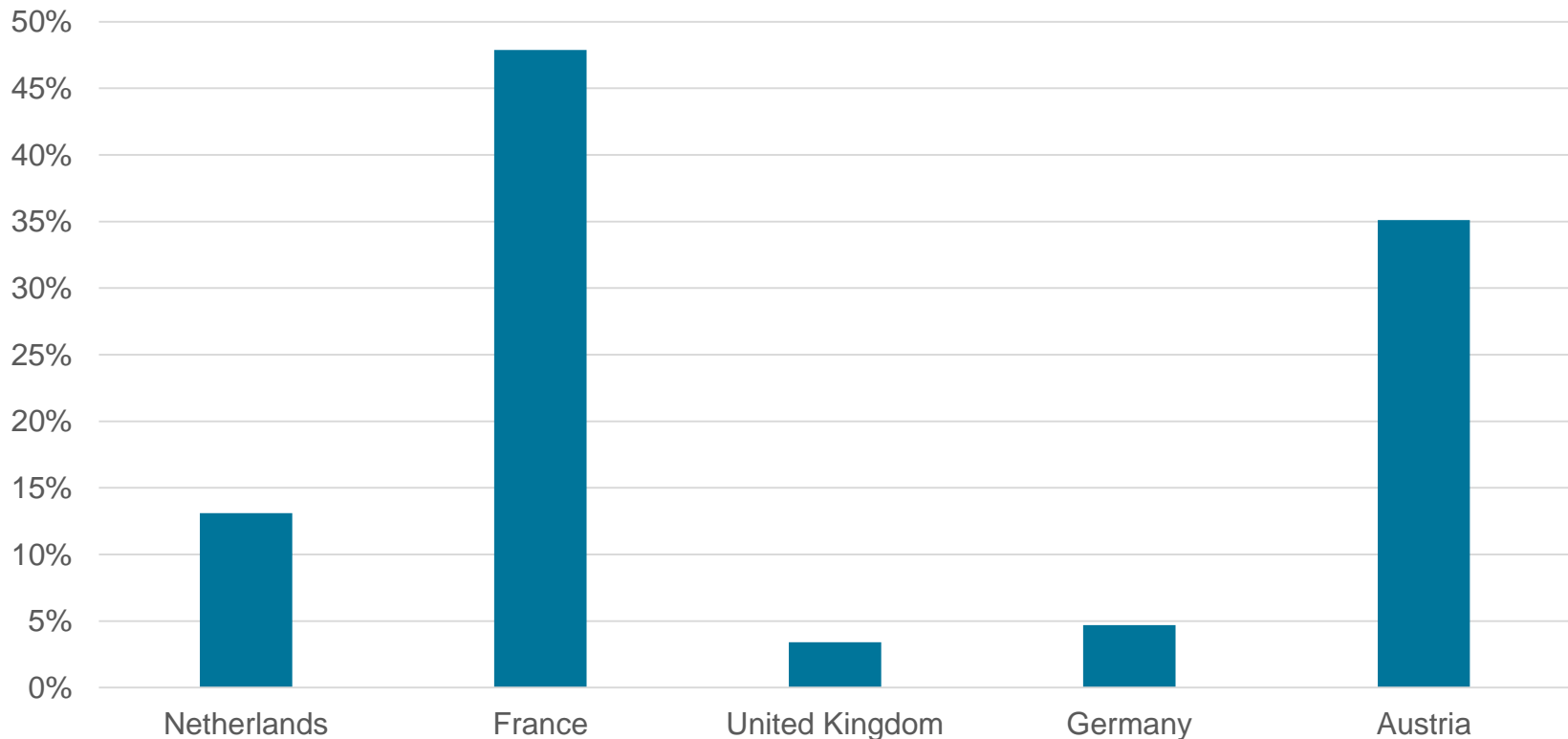
Lord Ashcroft Polls

@lordashcrofts



Reflected in election results

% Support for Hard Right/Left Wing (anti globalization) Parties in Last Election





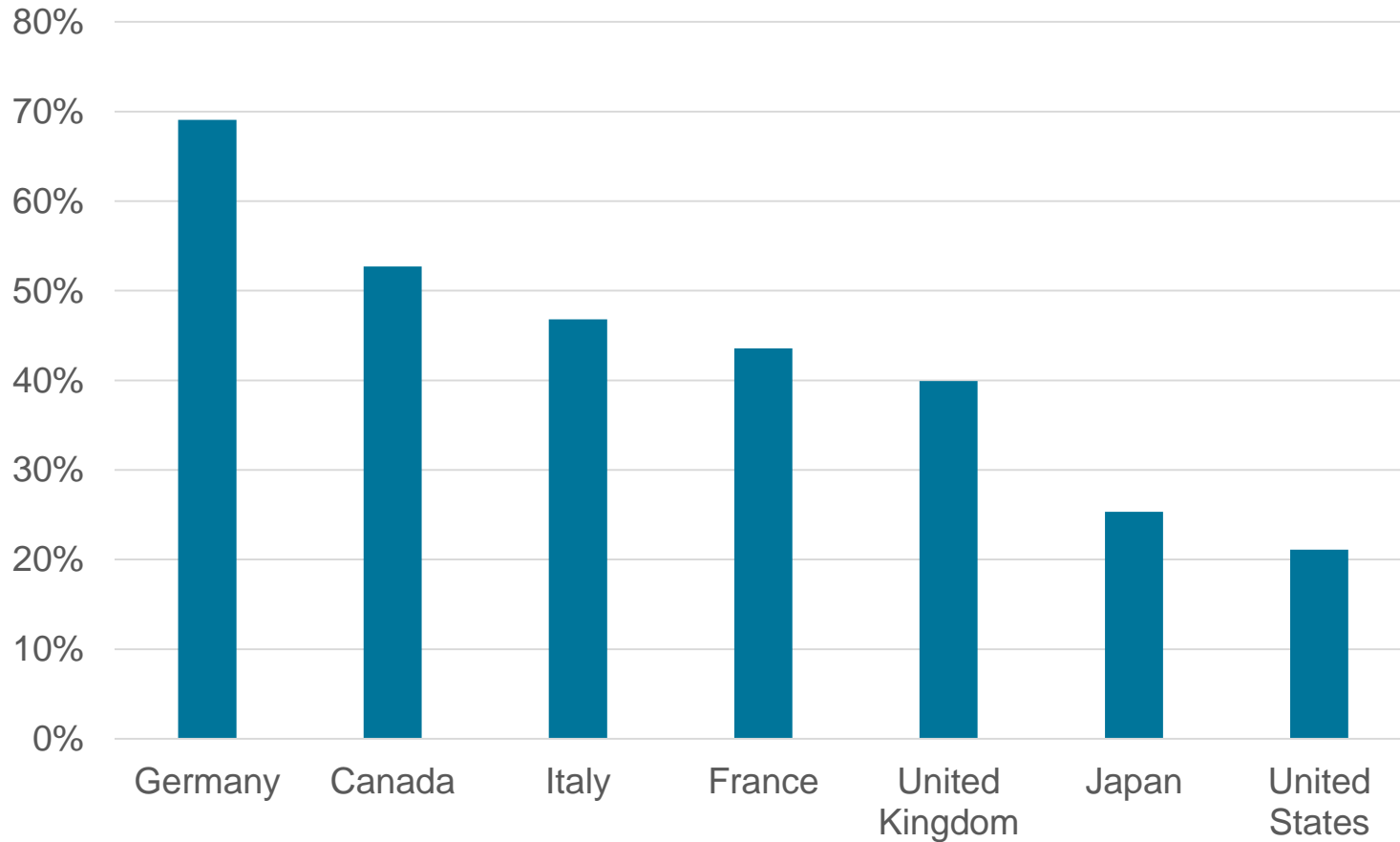
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Global Britain



G7 Trade Openness

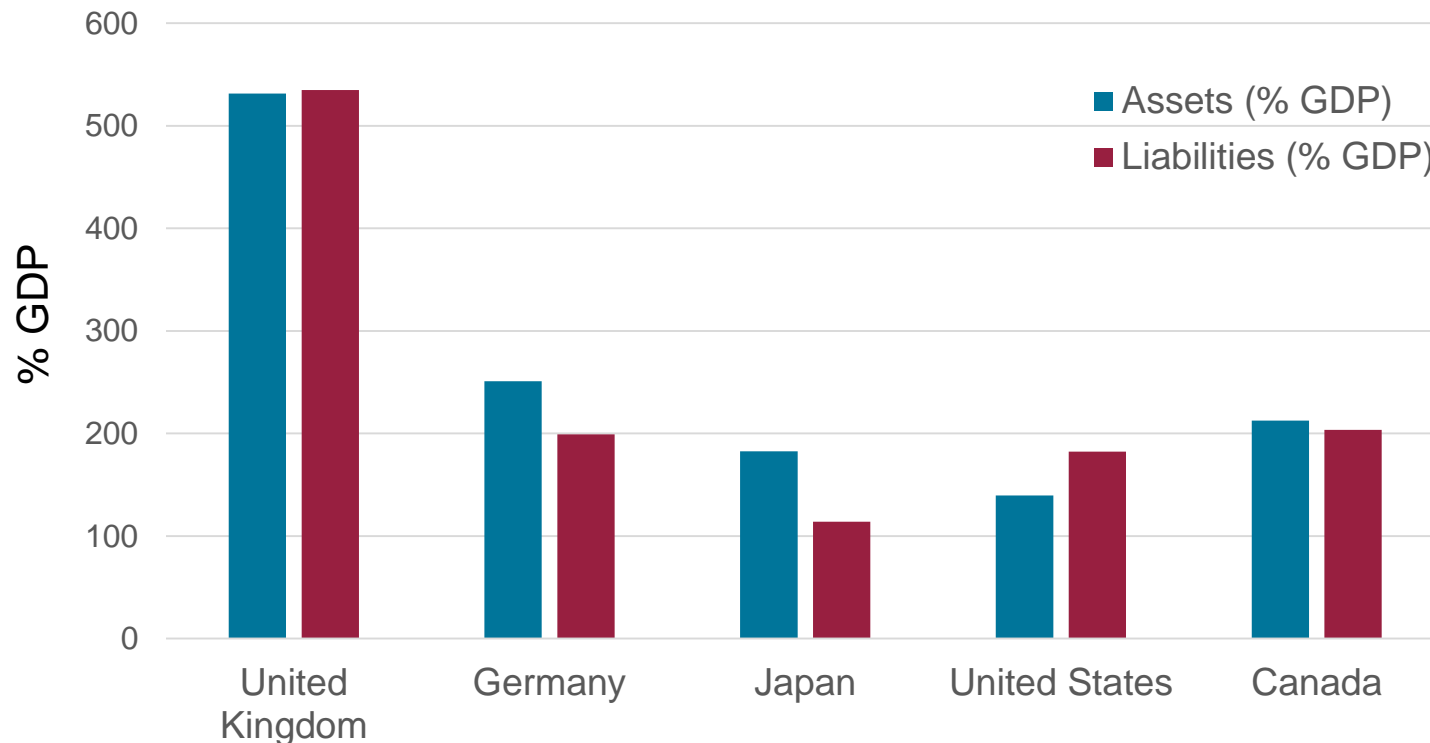
Trade as % of GDP (2016)





The UK is also open to investment and invests overseas

Assets and Liabilities as a % of GDP





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Office

UK education is global and world leading



127

Nobel laureates



438,010

Non-UK students studying in
the UK in 2015/16

15.9%

of the world's most
highly-cited articles



3

of the top 10 Global
universities



1st

by field-weighted citation impact
(an indicator of research quality)

45%

Interdisciplinary articles
co-authored with
international colleagues



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Summing up



Key takeaways

Globalisation can be defined as the international integration of goods, capital and labour markets

It has been rapid since c. 1980 – and has done a lot of good, lifting a billion people out of absolute poverty

But there have been losers – particularly in the West. The gains have not been spread evenly; the losers have not been compensated

Many recent geopolitical developments have their roots in globalisation – and we may see a pause as doubts rise

But the UK intends to remain an outward-looking nation. Not to resist globalisation but to make it work better for all.