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Intro [00:00:02] Thank you for choosing OECD Podcasts.

Clara Young [00:00:05] Welcome to OECD Podcasts. I'm Claire Young, and I'm here in the studio with Penny Goldberg, who is the chief economist of the World Bank. Thanks for coming in, Penny.

Penny Goldberg [00:00:11] Thanks for having me.

Clara Young [00:00:13] We've been seeing a steep rise in populism and a lot of OECD countries. It's showing up at the voting booth and in violent protests in the streets. Many people are unhappy, but not about the same things. They're angry about the rise in the price of diesel. They're angry about migrants. They're frustrated about taxes. They're upset about cuts in social services. But there's one thing that we're hearing over and over again, and that is that people cannot make ends meet and they feel they're being ignored by people who are in power. Now, the reasons why we have a growing class of working poor are many. Automation is starting to eat into jobs. And many people who've lost jobs in, say, manufacturing, which once meant you were a respectable middle class worker, have taken low-paid, low-security jobs in the service sector. Now, Penny, you've done a great deal of work on the connexion between poverty, inequality and global trade. And you've been very clear in saying that global trade generates winners and losers. Can trade be somehow answerable for the relative poverty and anger that so many people are experiencing?

Penny Goldberg [00:01:26] Now, if I had to give a one word answer to your question, the answer would be no. If you allow me to elaborate on that, I would say that globalisation and trade is just one facet of this. Globalisation had something to do with that. As you said previously, people in different countries or in different cities worry about different things. So, the issue that the French are demonstrating about and to be different than the issues Americans care about or Germans. But it is fair to say that exposure to globalisation has exposed people to more pressures. Now, globalisation, just like technology, presents also many opportunities for those who can take advantage of these opportunities. But it also creates inequality. It creates winners and losers like every major change. And the losers very often feel they were left behind. Now in some countries, their systems of social protection make sure that the losses are mitigated, at least in the short term, so that people have time to adjust. In other countries, the social realities are much tougher and people react to that.

Clara Young [00:02:40] Just to go into more about the losers in global trade, it makes me think of last year's OECD publication called *Making Trade Work for All*. In there is a profile and it points out there's been a rising productivity gap between leading firms and all the rest. And because of this, we see a gap in wages. And what's interesting is that instead of that gap being between advanced and developing economies like it was 10 or 20 years ago, these differences in prosperity are between firms and people within countries. And there are some regions and we see these countries that are three times more productive than another one, maybe 200 or 300 kilometres away. So not very far away. And what's more, the regions that are being left behind are rural because they produce more tradable goods, they're more affected by trade disruption. And the last thing the publication pointed out is that one in four people in OECD countries live in these poorer parts of the country. And so, my question is, why are economists having a hard time pinpointing these trade injustices?

Penny Goldberg [00:03:40] So I would have to agree with your OECD publication. In fact, this is a point I want to raise later today when I speak. So, economists in general tend to emphasise the aggregate gains that arise from technological change or from globalisation. By aggregate I mean, the economy as a whole as or the overall average person. They do acknowledge that change, whether it's technological or whether it's globalisation, that it also brings about disruption. But inequality has featured less prominently in research. Now, even the research that has looked at inequality traditionally has looked at one particular dimension, which is the difference between the wages of the skilled workers and the wages of the less-skilled worker. And by skill, I mean mainly education. And there are people who have documented large differences, but it's very hard to argue that globalisation was a driver with these differences. Now, in recent years, and that's a very recent development, there has been a shift in focus from skilled to regions with the special dimension. And this is where people have started to find larger effects. They find that regions that were exposed to more change tend to experience more disruption. And these effects tend to also persist in the long run. They are not short-term effects that go away in two or three years. This is something novel in research. It's not something that people expected, I would have to say, partly because one of our premises is that people are mobile, that they move where the opportunity is either to sectors that provide more opportunities or to regions or to cities where there is more opportunity. It turns out this is not true even in a country like the United States, where people assume there is enormous mobility. It turns out people do move for idiosyncratic reasons. You may get married and move from New York to California so they move for such reasons, but they don't move in response to economic incentives. It's a little bit of a puzzle why this is the case. Why don't we see more mobility? It could be that it's due to certain policies that tie people to the place where they live. It could be cultural. It could be that people have very strong cultural roots and they want to stay where they have their lives. But they think this is a very interesting dimension of this phenomenon. And as economists, we tend to always emphasise flexibility. Mobility is great, but in practise we don't see that.

Clara Young [00:06:11] And so the problem is if people are not moving to find better jobs elsewhere, but capital is moving, moving in and out in foreign direct investment, coming in to capitalise firms and then going out when they can find workers who are paid lower wages elsewhere. Then you have people in the regions that are stuck if the work leaves.

Penny Goldberg [00:06:37] That's right. Capital has proven to be much more mobile than labour. One of the mottos of economists is we should protect people, not jobs. I agree with that. I would add to that that maybe we should also think about protecting places, and that doesn't necessarily mean protecting particular industries or particular firms, but it does imply that we should give a little bit of thought about the fact that people are tied to the place where they were born or where they grew up. And maybe we should think of a place based policies that make sure that the gains are also regionally distributed in a more equal way. I think this might take care of many of the issues in much of the unrest we are experiencing today.

Clara Young [00:07:19] Is the World Bank working on these issues of investing in people or investing in regions and perhaps investing in regions in developed economies, but that are not doing so well?

Penny Goldberg [00:07:33] So the World Bank, by its very nature, has always had the mandate of helping those regions that are left behind. So namely the countries that the less developed. And I think one thing that's great about the World Bank and certainly has attracted me to the place is that if you just care about numbers about reducing poverty, you should just be focussing on the large countries. On China and India.

But the World Bank also cares about the small countries, about Togo, you know, the countries that may have very few people, but every life matters. I think by its very nature, it focuses on regions. The focus on people is a new aspect of the mission of the bank that I very much agree with. This is something that the president, Jim Kim has emphasised again and again, that through the initiative of the Human Capital Project, the point of the human capital project is to encourage governments to invest not just in bridges and roads, not just in physical infrastructure, but also in people. And that means mainly health and education. So, these are the two aspects of this investment that we are thinking about.

Clara Young [00:08:40] I want to now turn to a question about fair trade, because a lot of people have been saying that we need to just rethink how we do trade agreements. And there's been a lot of ripping up of them in the past year and a half. And, you know, what's your view on fair trade or that trade agreements need to be rethought?

Penny Goldberg [00:09:00] It's interesting that you ask this question, because I just came from Geneva where I talk to many people at the WTO, but also many people from the United Nations. And there is this very strong view that the trade agreements are biased against developing countries, against small countries. First, I think the biggest beneficiaries of trade agreements, I believe, are actually the small countries, especially developing countries. When you are a large country, where you have the U.S. or the European Union, you can engage in bilateral negotiations. This is what we are seeing now. I'm not a supporter of this approach, but the fact is that they can go very far through these bilateral negotiations. If you're a small country, the multilateral system, the trade agreements, are extremely important to you. And having a rules-based system, a system that gives you stability is crucial for the development of the economy. I think in broad terms, developing countries have benefited greatly from this agreement. Among other things, these agreements gave them a way to also discipline domestic lobbies and domestic interests that very often lobbied for policies that were not good for these countries, and they were particularly the detrimental to the welfare of the poor. I think there are benefits. There have been also some issues covered by trade agreements that were less interesting to developing countries, that they were extremely controversial trips like trade related intellectual property.

Penny Goldberg [00:10:28] Yes. For example, this was, I would say, outside those who signed these agreements. There has been very little support for the idea. There was little reason to see why one should force developing countries to adopt exactly the same standards that developed countries with advanced economies have on intellectual property, especially in sectors like pharmaceuticals. It's clear intellectual property needs to be protected. Otherwise, there would be no incentives for anyone to invest in research and development and innovate.

[00:11:01] But where the disagreement was on harmonisation. There is no reason that the developing countries should have exactly the same type of patent protection policies that advanced economies have. There have been cases where developing countries to a certain extent felt they were not heard. If you talk to the WTO now, I think they are very eager to lend an ear to developing countries and make sure that these concerns are heard now.

Clara Young [00:11:28] What about the protection of labour in trade bargaining? Are we looking at better ways of bringing labour concerns, employment standards, wages to the bargaining table?

Penny Goldberg [00:11:42] So this is one, as you know, this is one of the most contentious issues, I think it's very important to make sure that workers are protected, but this can mean very different things in the United States or in Europe, compared to a poor developing country where the primary concern is to make ends meet. Making ends meet means, again, is a different thing in the United States than in Somalia. And sometimes if we enforce exactly the same labour standards to very poor countries, essentially we shut them out of the process. This is something to be taking into account, I think most people who advocate for labour standards, for worker protection in advanced economies, do care about the welfare of workers and people in developing countries, and they are very often strong proponents of charity, but they have to realise that sometimes a better way to help these countries is to give people jobs and not just send aid. And the question is where you draw the line, right? It's of course, we're all against child labour, but how many hours per day should you work? What are the benefits that we consider to be acceptable? There the issues tend to be much more controversial. And I think we need to pay attention to the realities of each particular country, to the needs of each particular country.

Clara Young [00:13:07] Well, thank you, Penny.

Penny Goldberg [00:13:09] Thank you.

Outro [00:13:10] And thank you for listening to OECD Podcasts. I'm Clara Young. To find out more about the OECD's work on trade issues, go oecd.org/trade. To listen to our other podcast, check out our weekly podcast on iTunes, Spotify, Google Podcasts and soundcloud.com/oecd.