

# JEAN PISANI-FERRY

General Commissioner for Strategy, Office of the Prime Minister, France

I would like to make two points, one a general point and one on Europe. Most people present have spent part of their time explaining to other people that globalisation was not a major threat to equality. This is because it could bring a reduction in global inequality, which was a point made by Richard. At the same time, governments had the means to address the domestic consequences of globalisation and the distribution of income. They could use taxation to redistribute the gains from globalisation.

The first point was correct, and let me just quote one statistic that was published by the International Labour Organisation (ILO) a few days ago. Global wages last year rose by 2% in real terms and if you exclude China, they rose by 1%. Half of the global increase in wages was due to China, which indicates the magnitude of the phenomenon, in terms of the emergence of a global middle class. Nevertheless, regarding the consequences of globalisation for inequality within countries, several mistakes were made.

We greatly underestimated the correlation between globalisation and tolerance to inequality. In theory, very open economies, like Nordic European economies, were both open and relatively egalitarian economies. The idea was that the two could go together. At the same time, the fact that globalisation created the option to walk out, an exit option for wealthy people, had profound consequences regarding society's tolerance to inequality.

The second point is that the issue of tax avoidance has been underestimated for a very long time. It was treated as a second order phenomenon. We have some statistics by researchers. I think that 8% of total world household wealth is held in tax havens. This is an enormous amount, if you imagine that most people will not put their savings in a tax haven. 8% is enormous and it means that avoidance has consequences, because the ability of the tax system to redistribute wealth and income has been greatly diminished. Even if it is less important quantitatively, it is important morally and it has significantly undermined the case for globalisation.

Finally, we have underestimated the correlation between globalisation and the type of technical progress. This is technical progress on its own, but also correlated with globalisation. Perhaps it is a coincidence and perhaps it is more than a coincidence. It has contributed to a bias in the direction of more inequality. These are the serious issues that we are discussing today.

Let me turn to Europe. In principle, the EU could have been in a very different position, because the WTO and the IMF were institutions that were not established with a mandate to address issues of inequality of the OECD. We are seeing that these institutions are increasingly concerned about inequality. Paradoxically, the EU, which is a political institution with a mandate in the treaties of improving the whole of society, has proved relatively indifferent to these issues of inequality. We have shared values, we have political institutions and we have accountability, and at the same time, we seem to be relatively indifferent.

Why is it so? There are a number of reasons. There is a constitutional reason, which is that it was accepted from the start that the role of the EU was to deal with issues of inequalities across countries and across regions, but not for individuals. There is a division of labour and inequality among individuals is the business of the member states. The EU has nothing to do with it. That is the first reason.

The second reason is that the EU has been extraordinarily weak on taxation matters, for reasons that have to do with an alliance that has emerged. There are those who are in favour of tax sovereignty. This means there is no discussion whatsoever on tax coordination, because it is a matter of national sovereignty. There are those who are in favour of tax competition and who gain from being more lenient, with countries even playing the role of tax havens. We



heard recently about the Lux leaks and about the treatment of multinationals. Then there are those who are in favour of tax reduction, who are using tax competition as a way to reduce taxes at home.

For these reasons, the EU has proved completely ineffective in this discussion about equality in the role of taxation. We have this paradox that again, the OECD and the IMF seem to be more concerned about this. I think this is extraordinarily politically damaging for the EU, because the EU has been pushing for growth and integration. There is an implicit assumption that growth lifts all boats, so everybody will benefit from growth. The nature of growth as it is now is much more divisive. We know that growth does not lift all boats. We know that growth creates extraordinary wealth. Pushing for growth and integration without showing concern about the distribution consequences of that is not a winning proposition for the times to come and there is a need for great changes in this respect.