

## Peter Jungen

# Do Not Be Afraid of Globalisation

- Many people believe that Globalisation is an American thing. It has been invented in Europe and nowhere else, and it is based on European ideas.

### We should not be afraid of Globalisation

- While the rest of the world has embarked on Globalisation, Europeans think this is the end of the market economy. Only in Europe one does find such an idea. During the Cold War nobody believed that this might be the end of the market economy. Sometimes I have the feeling that people considered Communism to be less of a threat than Capitalism, that Communism was less of a threat than Globalisation. But obviously the world is a much better place to live in since the rest of the world did embark on Globalisation.
- Globalisation is here to stay. Globalisation is a threat only to those who refuse to respond to it. Globalisation has been a strong instrument for the creation of wealth. The remaining poor today are not suffering from too much globalisation, but from too little globalisation. Countries that isolate themselves from world markets have a gloomy future.
- Globalisation is not dividing society. It is fear of globalisation that is dividing society. We should not be afraid of globalisation, we should be afraid of politicians who make us afraid of globalisation.

### Basically, Globalisation is a wealth creation machine for the poorest

- Some of the developed nations were much more globalised before World War I than they are now. The process would have continued without WWI. The Great Depression, WWII and Communism have stopped the World from globalising even further. So, the 20th Century is a kind of lost century. There are Europeans who are fully aware of this: our friends from Central and Eastern Europe. They have now embraced Capitalism and they do not understand the debates some Western countries have about Globalisation.
- No one benefited more from Globalisation than Europe. World GDP has increased six times over the last fifty years whereas the world population increased by two and a half. So, basically, globalisation is a wealth creation machine for the poorest people in the world. Never in history has poverty been diminished and reduced so quickly and so dramatically than over our lifetime. Actually it is the first time since the industrial revolution that inequality has been shrinking on such a global scale. Nobody believes it. But numbers and figures abound that prove it.

### What we have is a race to the top, not a race to the bottom.

- Before industrialisation, 80% of the world population were living on a dollar and a half a day. Which is considered to be the poorest of the poor. Twenty years ago that proportion was down to 20%. Now it is 7%. And the Millennium goal is 5%. So, obviously, Globalisation is diminishing poverty in the world.
- For Marx, Capitalism was a system to destroy the privileges of the feudalists. He considered that never before in history so much wealth had been created in such a short span of time. In less than one hundred years, he said, the bourgeoisie has created more productive forces than during all the preceding generations taken together. He understood the working of Capitalism better than most today socialists and social-democrats, and even some in the Christian-Democratic Party.
- People are saying that Globalisation is a complete change in the world. This is true. China and India were accounting for 50% of the world GDP in 1820. China and India are likely to account for 50% of World GDP by 2050 or 2060. What we are seeing now is a shift to Asia. But this is not new in history. What we are witnessing is a reemergence of Asia.

### Globalisation has a human face

- During the nineteenth century income disparities kept increasing. Now they are decreasing. With Capitalism, Globalisation is also bringing Democracy. No country will remain antidemocratic or authoritarian if it would become part of this globalised world.
- Globalisation supports democracy, abolishes poverty, supports equality, increases living conditions along with health conditions and sanity. It has a human face. We do not have to make it human, as some politicians believe. The only people who in our today world are still exploited are those who are not part of the globalised system.
- We keep hearing of many reports that say completely different things. But they are always bloody wrong. If you compare the richest people in the world and the poorest, of course the gap is widening. But when you compare GDP per capita in the US, or in the EU, with China, and compare it with many years ago, you would find that GDP per capita in China has risen much more than in industrialised countries. In 1960 the so-called middle class - those who make between 20 and 40 dollars a day - accounted for only 6% of the world

population. Today it is 52%. It does not mean that there are today so many rich people, but that at least so many people did really make it out of the dreadful state of poverty so many of them were living in.

- A global inequality has fallen since 1970. For the first time of a long period.
- The number of people in extreme poverty have fallen since the 1980s. The first time in almost two centuries
- The percentage of the world population which lives in extreme poverty has constantly fallen.
- Poverty rates were cut by a factor of almost three: The total decline in poverty was between 250 and 430 million people in the last 30 years.
- There is a different regional development in the emerging countries. Asia is doing very well, Africa is doing badly
- After remaining constant inequality has declined substantially during two or three decades. In third after remaining constant in the 1970s. The reason is the income in the world's poorest and most populated countries China and India converged with OECD by Income per Capita.
- The decomposition of inequality into within "incountries" and "acrosscountries" components shows that with "incountries" inequality has increased, where "acrosscountries" inequality declined more than offsetting the first effect. The result is an overall reduction in global inequality.
- The millennium development Goal from 2000 i.e. that the proportion of people live in extreme poverty by 2015 is almost achieved. It was 10 percent 1990. People living on 1.50 Dollar a day. The goal is, reduce this to 5 percent. In 2000 it has already been broad down to 7 percent. Result is, Globalisation fights poverty better than foreign aid
- More even fascinating: the emergence of a global middle class. In 1960 received almost all whites and 6 percent Asians a daily income between 20-50 Dollar a Day. In 2000 it's 52 percent Asians. Demonstrating the re-emergence of Asia. Africa on the other Hand is the largest receiver of development aid. In 2000 36 percent of the world's poorest were Africans. Based on the present development, in 2015 it will be 90 percent. Which means, that obviously development aid is a major reason for keeping people in poverty and therefore dependent.

#### **Even Education is getting globalised**

- The reemergence of Asia create challenges of course. But also new opportunities, even for public policy. For example, many formerly localised services can now be provided across borders. Even Education is getting globalised. American universities are far ahead in this new field of activity. This is the biggest threat to the lazy Europeans,

because it means that many people who presently live on a 5000 euros income per month will have to respond to the competition from other workers with similar academic and work backgrounds but who will ask for only 500 euros for doing the same jobs. These are the people who, for example, work in the Indian software industry.

- Out of the 20 biggest software companies in the world, 16 are American. Only one - SAP - is a European company. Where do we now find their global Center for Breakthrough technology ? Not in Europe. Not even in the United States. But in India.
- Many people believe they could contain Globalisation. But it is just nonsense. Outsourcing creates new jobs. 1.2 jobs have been created in the US for every one job which migrated outside of it. In Europe, the number is negative: 0.8 jobs. This is so because of rigid labour markets, as well as because of too many regulations.

#### **Globalisation also has a moral impetus.**

- Globalisation is the only way for the poor people of the World to get out of the situation in which they are without having to rely on indefinite transfers and subsidies from western governments; transfers and subsidies which for the most part end up in the hands of a few local people who are responsible for the policies that maintained the poor into their poverty, and who are now very rich.
- Wealth creation is about poor people getting richer. This was the idea of Adam Smith. In that respect, the world of today is really a much better place. The World Economic Freedom Index shows that there is a direct relationship between economic freedom and GNP per capita, and also a clear negative relationship between economic freedom and unemployment. The numbers are staggering.

#### **The future is also a matter of R&D, but particularly a matter of innovation**

- China will grow substantially. But even the US will keep growing at a three to four per cent rate in the coming years. Europe will grow at a rate of only 1.6% per year. If the Americans are able to do it, why are we not able to do the same?
- How can we cope with this issue of European lower growth? Basically it is a matter of Education. European educational systems are very poor. They are anti social and immoral. Why do we have 30% of long term unemployed? Because they have no education, no training. Politicians tell us to be ever more social. But we are much more moral and social in this sense than our governments whose policies failed.
- The key to everything in the future is going to be innovation. We have to understand that simply increasing our R&D spending is not innovation; this may lead to more invention, but it does not command innovation. Most people in Europe still believe that if we increase spending on R&D, we will get more jobs. We may get more jobs, but somewhere else, not in Europe. Out of the three

hundred companies in the world with high R&D spending, 130 are in the US, and about 90 are in Europe. This looks still pretty good. But 53 of the 130 American companies were created after 1960, whereas among European companies the number is only... two. It means that European companies which spend a lot on R&D belong mainly to older industries, not to the Breakthrough ICT industry for instance.

### **What present day Europe is lacking most is an entrepreneurship culture**

- For the first time of its history, Europe is not involved in the leading sectors of the new industrial revolution .70 % of software production is written in the US, but not necessarily by Americans. 53 % of all the work done in Silicone Valley is done by people who are born abroad. 60% of all IT start ups in Silicone Valley have been set up by Chinese, Indians, and Koreans who now tend to go back to their home country. When they go back they bring with them not only knowledge, but also an entrepreneurial spirit. These people have understood that turning money into knowledge is what we call invention, and that turning knowledge into money is innovation. In Europe we are very bad at innovation. We do not understand that we are lacking most is not money, R&D, but an entrepreneurship culture. Innovation is called by Schumpeter creative destruction. It is the driving force of capitalism. Capitalism is unique not in invention but in innovation. This becomes clearer if you look back in history, we did not leave the stone age because of a leg of stones. But because of the application of better ideas that is innovation.
- An entrepreneurship policy has nothing to do with doing whatever is good for entrepreneurs. It is to use the entrepreneur to solve problems which governments cannot solve. Government can put the right kind of framework into place. But we must not loose sight of the fact that Government is part of the problem. What we need in Europe is Education of the people, a faster innovation process, and the development of a business creation industry.
- To do this we need competition. Not only competition between companies, but competition between institutions, between Universities, between Research Institutes. We do not need one big European Institute of Technology, but competition between several such institutes. Competition is the key for innovation.
- The EU is a great success story, some countries have a poor performance, other regions do it better. Before Margaret Thatcher Germans GDP was 50 percent higher than that of the UK. After it the UK is 20 percent higher than Germany in terms of GDP per Capita. In 1995 the per Capita Income of the Czech Republic was only one half that of Germany. By 2005 it is already 2/3.