INITIATIVE INTERNATIONALE POUR REPENSER L'ÉCONOMIE

Draft proposal for the 3rd European-Chinese Forum workshop:

"Sharing benefits from growth : putting social investment at the heart of development"

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It is a well-known fact that economic growth does not automatically guarantee a positive development of a society as a whole, neither in newly industrialized economies nor in "old" ones of the West. Whatever the country or historical period we choose to look at, things turn out to be more complicated: different sectors, regions and social groups will benefit quite differently from the opportunities offered, and tensions between them might bring the social cohesion in question, and eventually endanger the growth itself. Solidarity and regulations such as social policies and public spending are therefore required if we want to transform sheer growth into social well-being; this (rather consensual) statement could serve as the point of departure for our workshop; in what follows, I suggest how to frame our future discussions.

Putting the issue of wealth distribution on our agenda is obviously relevant considering the case of China, where we have seen a tremendous growth but also a dramatic rise of inequalities in the last decades. And China is by no means exceptional: as shown by consistent studies and indicators like the Gini-coefficient, rapid development and growth is generally correlated with sharp rise of inequalities. But the matter becomes increasingly relevant in Europe as well, and more generally in all mature economies, where a substantial part of the population feels more and more excluded from the "good society", notably from the labor market. On both sides, there are reasons to worry about the growing gap between economy on one side, environment, society and well-being on the other, and there is an urgent need for a common discussion about which models of development should guide our reforms.

What's more, serious doubts have been cast on the once so fashionable theory of “spill-over effects”, claiming that the benefits of growth somehow will “trickle down” spontaneously from the rich to the poor. The empirical evidence for this optimistic theory – and for the *laissez-faire* approach to the whole issue of redistribution of wealth – comes primarily from the history of industrialization in the West, where we clearly distinguish a period of rising inequalities (broadly speaking the 19th century, thus the classical period of industrialization) followed by of decline (a very sharp one in 1920s, then the decades after the Second World War). That evidence inspired theories like the famous “Kuznets curve”, and it may give the impression of a “natural” pattern of development. But if we look at it more closely, there is nothing natural about it: the Western pattern of development was a result of public policies and regulations, which resulted themselves from public deliberation. For instance, as shown by the French economist Thomas Piketty, fiscal policies have played a key role in the substantial decline of income inequalities in 20th century France – had they not been put in place, the income distribution would be different today from what it is.

And yet, even in European countries, this long-term trend has lost its impetus (or even been reversed) somewhere in the 1970s and 1980s. As more and more were excluded from the labor market and the “good society”, economic growth and social development have lost the “natural” connection established during the postwar years (1945-1975).

Three arguments for redistributing wealth

Having said this, how should we approach this issue in our workshop? Basically, there are three lines of argumentation followed by those who insist on the necessity of high level of social spending and redistribution of wealth. The first one is about the social order and cohesion: rapid rise of social inequalities may produce political instability and render the society more difficult to govern, leading in worst case to acts of disobedience, violence and rebellion. The second one is about values: we simply refuse to see others live in misery and inhuman conditions. Historically, economic progress of Western societies has been embedded in a broader change of values, stressing the importance of human dignity and lowering the collective tolerance towards poverty and exclusion. This process of changing values has been most manifest in Western Europe in the aftermath of the World War II, but the West has by no means a monopoly on this field: different cultures find different ways to put forward the same argument. And the same values gave rise to different movements: emergence of welfares-states, but also of private initiatives like charity, civil society networks, etc.

Reducing inequalities that undermine the social order; fighting against the poverty in the name of our values - neither of arguments has lost any of its relevance. But the first one is purely defensive (generally it works only when a society already faces a severe crises, and even then it might lead to only half-hearted attempts), and the second one is vulnerable (values without practical guidance tend to give away to passions). Thus, both might find support in a third line of reasoning, focused not so much on political stability or moral convictions but on *efficiency*: equality, so goes the argument, actually pays off. That's where the notion of *social investment* enters the stage, a notion that I suggest our workshop should focus on.

There's no surprise that some of worlds' most competitive economies, like Canada or the Scandinavian countries, are also worlds' most equal societies (and those that have come farther than others in responding to the new environmental challenges). They are not superpowers like the United States, and their socio-economic models are less well-known internationally than the American model. But they are there, reminding us constantly that a "variety of capitalisms" exists even within the group of developed countries. Often we mistakenly judge that these societies are more equal than others because they are "rich enough to pay it". But if we look more closely, we discover that it is, in fact, the other way round: a historically low level of social inequality is what actually explains, at least to some extent, why they become rich in the first place. It is so to speak a constitutive part of their pattern of development.

To some degree, this pattern of development is a part of a common, European (or at least West-European) experience. And though the last decades have questioned this model, it is still there, reminding as that things like social protection and social assurance are not a "luxury" rich economies can afford to buy: they are cornerstones of a specific, and globally successful, version of market economy.

Arguably, focusing on social investment is to opt for a more ambitious vision of market efficiency, since it calls upon *public action*, financed by public revenues, rather than waiting for the wealth to "trickle down" by it self. The problem is that our faith in public action has been seriously weakened during the last decades: after all, not every social spending is an investment, so how do make the difference? In some fields, like education, the notion of social investment might seem obvious: don't we all know that we have to invest in human capital, that skilled workers are more productive than unskilled ones? In China, enormous efforts are being made in order to foster a new generation of skilled workers – and thus to climb higher up on the added value-chain. Across the world, political leaders are obsessed by university rankings and comparative studies like the PISA study. The European Union's political agenda has been focused on the Lisbon strategy, stating that Europe will become the world leader in knowledge economy. Etc.

But there's much more into it than education, and we cannot isolate the educational sector from the rest, since development is a complex process where different segments of the whole system interact constantly. Eventually, the efficiency of a social investment depends on how all these parts work together. What about health, child care and social assurances? What about the working relations? And, taking a broader view, how should we share risks within a society? Should we let the individuals face the risks on their own, or should we establish collective protections?

All these questions bring us to the very heart of the debate about development patterns to be taken. As far as our common future is concerned, Europeans have no lessons to give to the world; rather, they need to think how to renew their own model. Nevertheless, the notion of social investment stands out as an important concept, a source of inspiration for a whole range of reforms in Europe as well as in Chine (tax policies, public services, labor market, work relations, social protection and social assurances…).

Would this general framework suit our Chinese partners for the Forum, then we can move ahead and define more precise questions and select participants.