

# **The Great Transformation and the Great Divide: Challenges for Advanced Economies**

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# The Great Transformation & the Great Divide then and now

- Like at the end of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century, the world economy is undergoing a Great Transformation linked to
  - Economic integration
  - Technological revolution
- This Great Transformation is producing important economic benefits
- But, like at the end of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century, this Great Transformation is accompanied by a Great Divide
  - A divide between countries
  - A divide within countries

# Will the Great Divide once again undermine globalization?

- Up to recently I was quite optimistic that this could be avoided thanks to
  - Domestic institutions, including welfare states, to manage domestic conflicts
  - Global institutions, including the WTO, to manage international conflicts
- But recent developments make me less optimistic
  - Welfare states in the advanced economies are under threat
  - The WTO is under threat
- The Great Divide + the Great Recession have generated demand for and supply of populism, including nationalism and protectionism

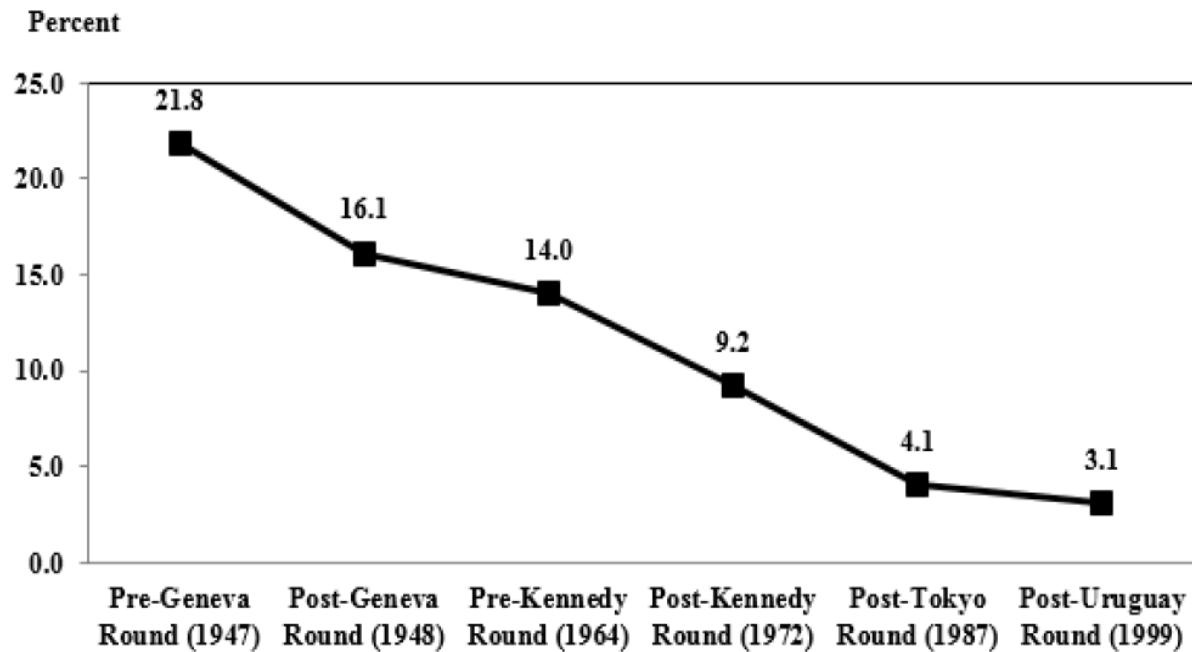
# The two phases of globalization: 1870-1913 and 1980-?

(world merchandise exports as a share of world GDP, in %)



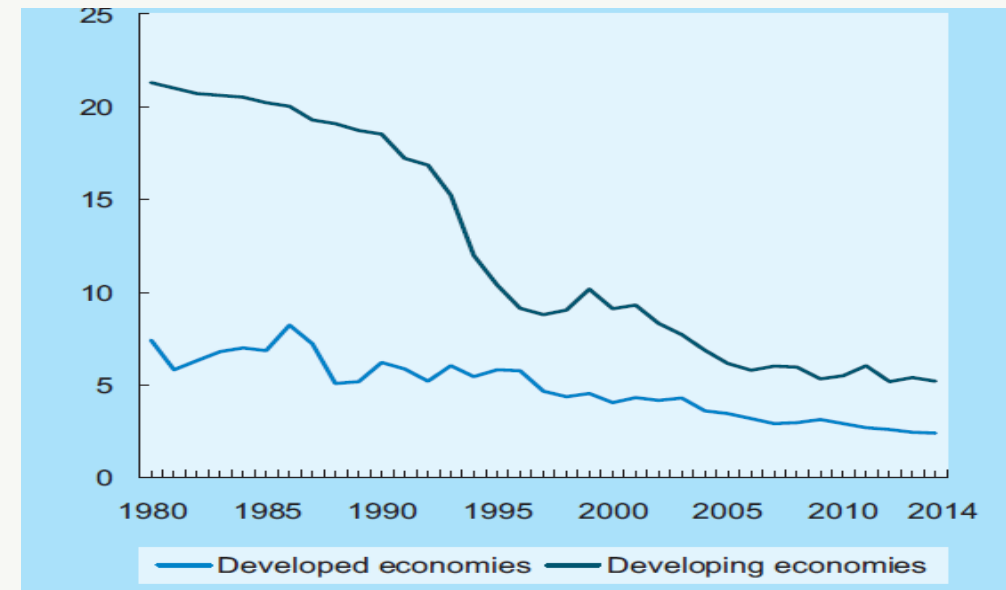
# Driver 1: Trade protection has come down significantly

## I. Advanced countries (US, EU, JP), 1947-1999



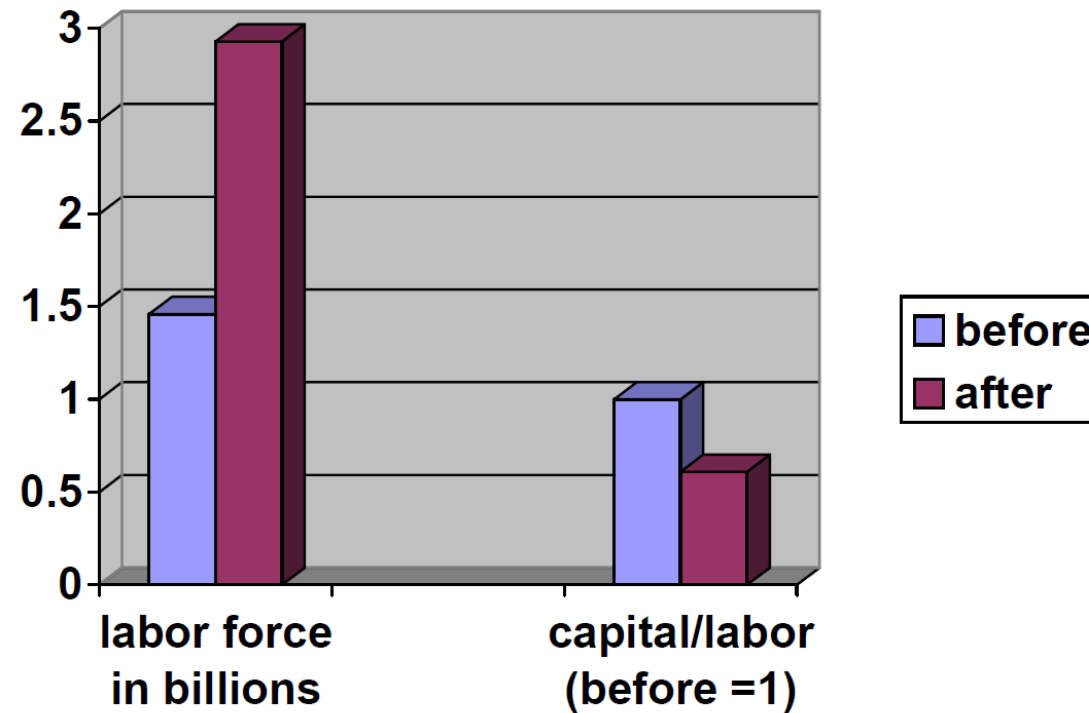
Source: Bown and Irwin (2015, Figure 1), based on backcast estimates for 1947 average tariffs, computed from data on simple average tariffs in effect at the beginning of the Kennedy Round (1964) and reports on the size of average tariff cuts arising during the initial GATT negotiating rounds.

## II. All GATT/WTO members, 1980-2014



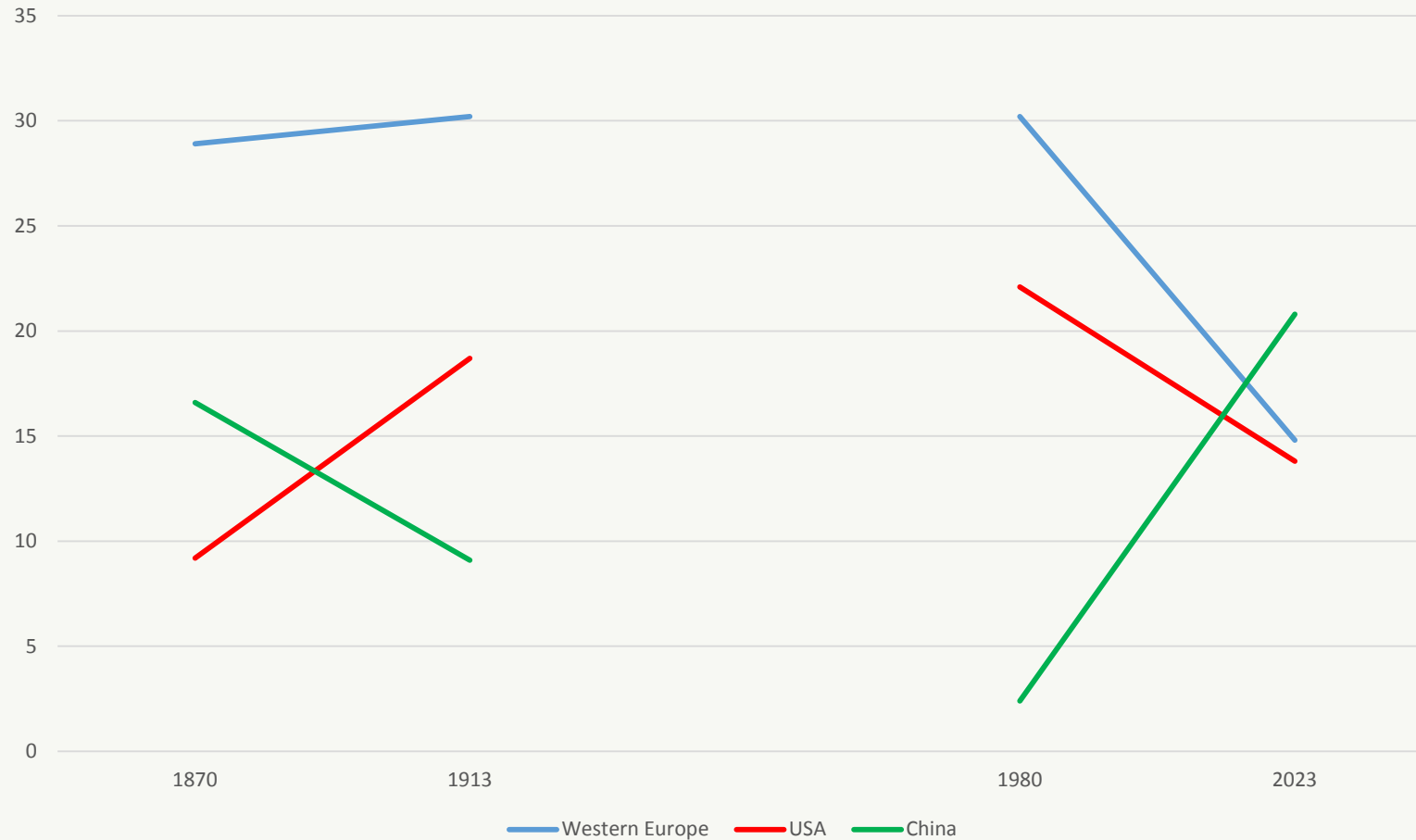
# Driver 2: The Great Doubling (Richard Freeman, 2005)

Exhibit 1: Workers in the Global Labor Force and the Global Capital/Labor Ratio, 2000, Before and After China, India, and ex-Soviet bloc join global economy

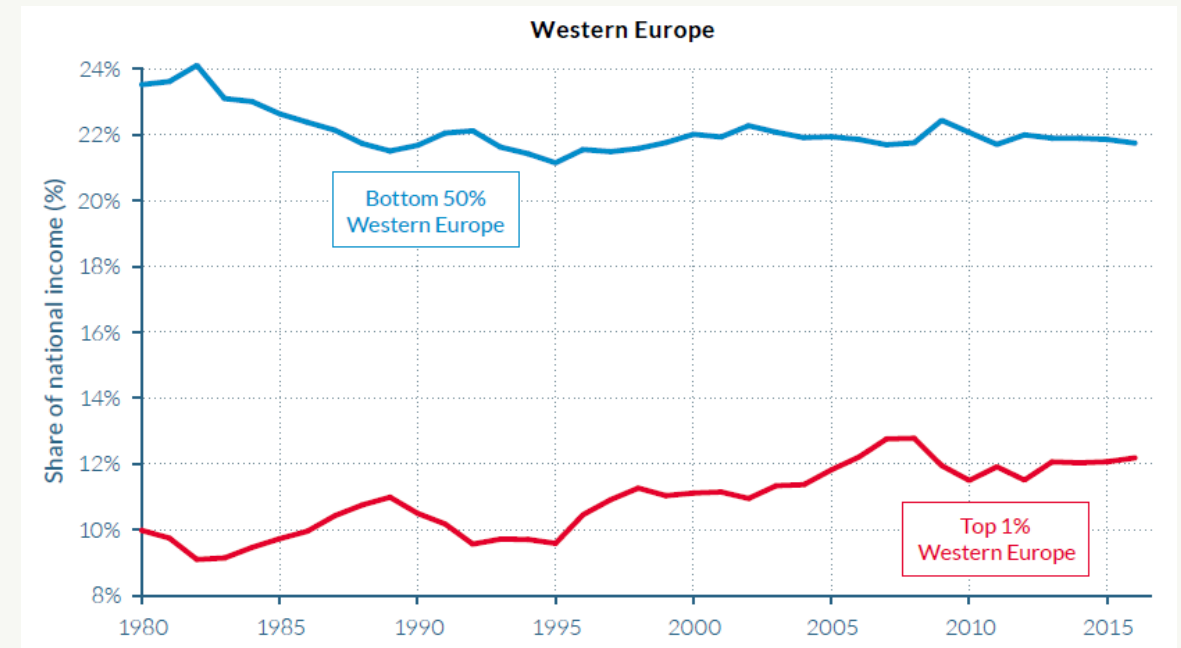
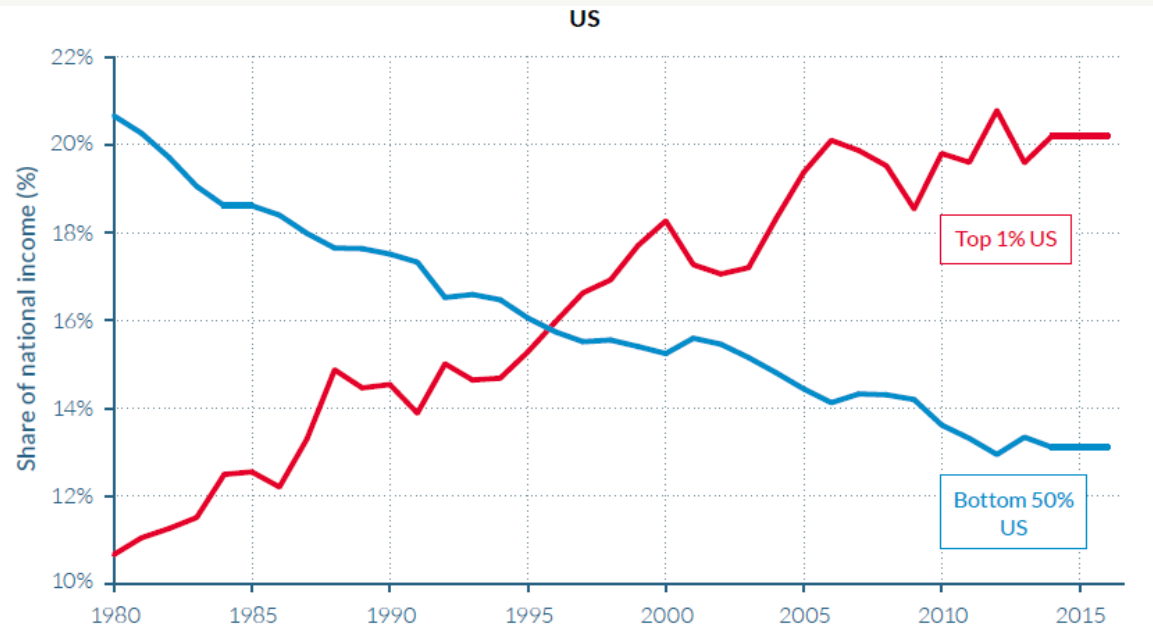


Source: Employment from ILO data, [laborsta.ilo.org/](http://laborsta.ilo.org/) Millions of Economically Active Persons, 2000 Capital-labor ratio, calculated from Penn World Tables as described in Freeman 2005, scaled so before is 1.00.

# The divide between countries: Evolution of shares in global GDP during the 1<sup>st</sup> and 2<sup>nd</sup> phases of globalization



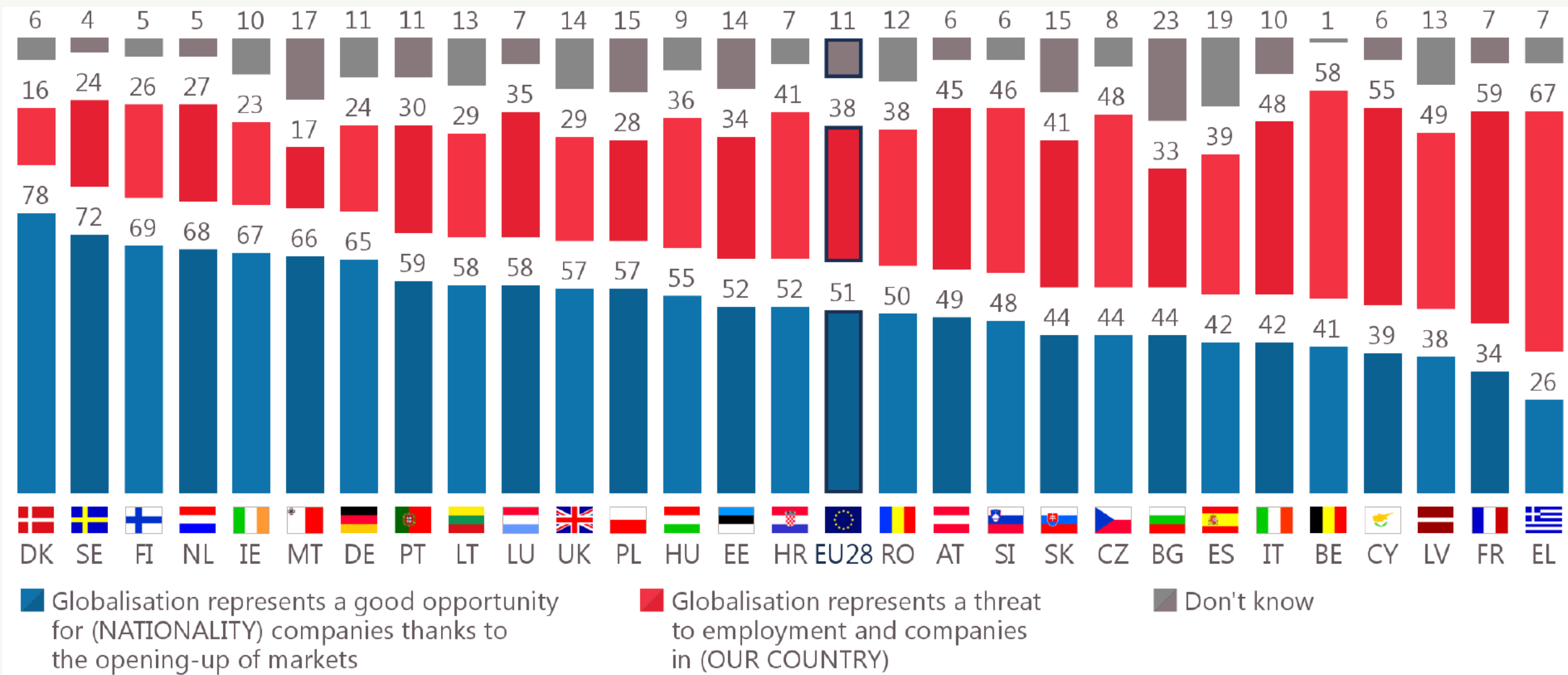
# The divide within countries: Income inequality trajectories in the US and Western Europe, 1980-2016



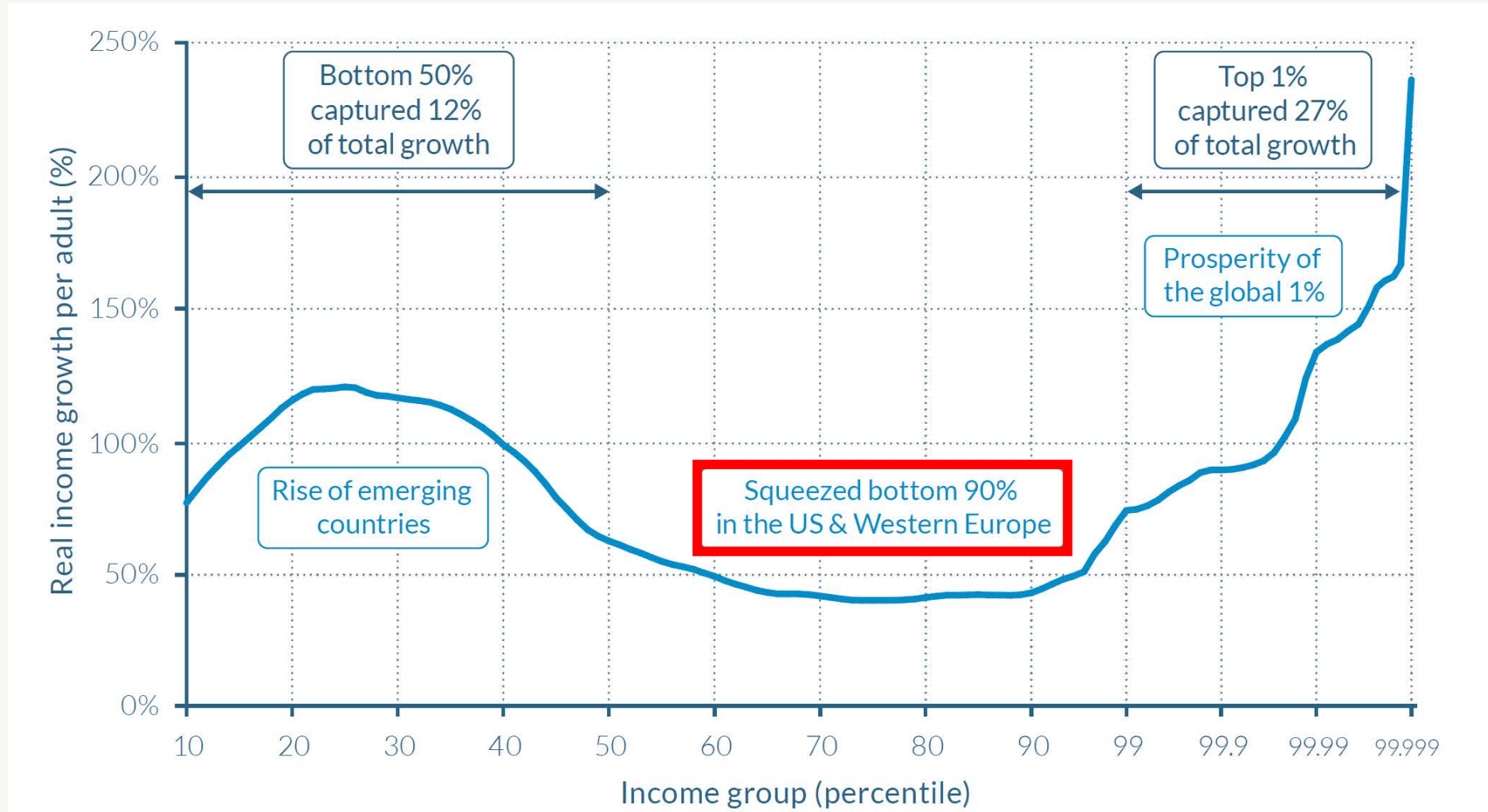


# Perception of globalization varies a lot across EU countries

(% of respondents to an April 2017 Eurobarometer survey)



# The divides between and within countries combined: Global income growth, 1980-2016



# Conclusion

- The Great Transformation and the Great Divide are likely to continue
- This means that the risk of backlash against globalization is also bound to continue, especially in the advanced economies
- The main challenges for the advanced economies will be
  - Domestically: to reform their economic and social systems to ensure greater flexibility, security & equity/fairness
  - Globally: to contribute to reforming WTO rules to allow the coexistence of different economic and political models