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**Conference Paper**

## Tackling social fragmentation

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## Inequality: Tackling Poverty and Social Fragmentation

# Tackling Social Fragmentation

### Summary

Globalization and social fragmentation are the two controversial issues that will determine the future world order. Globalization promises to yield substantial economic benefits for all participating countries, but not necessarily for each individual or each group within countries in the short term.

Groups of people may suffer, especially in emerging markets where social security nets cannot provide for compensation and smooth the growing gap between rich and poor. But is it high time for taming the markets to stop social fragmentation? Or quite contrary, do we need more market liberalization to overcome conflicts having its seeds in a vicious circle of poverty and oppression?

Globalization makes also small countries economically viable. As a result, globalization represents also an opportunity for small nations to emerge and become autonomous. Therefore an immediate consequence of globalization, understood as trade openness and economic integration, could be claims for political separatism of small regions. Hence, the peaceful disintegration of large states becomes a challenge in the globalization process. The reduction of centralization, specially of large states, could be a channel to coping with challenges of globalization in social fragmented countries, allowing ethnic groups to achieve their desired autonomy without the consequences of violence.



### Proposed Solutions

#### **Expert Opinion**

A crucial issue would be to discuss the role of governments to deal with the often short-term adjustments in the course of globalization. Although globalization is desirable, we need to think about appropriate policies to compensate the costs and suffering of the poorest. This challenge is an opportunity for new democracies to show how democratic they are. In particular, globalization profits have to be partly redistributed to finance a social security net. The indispensable tax burden has to be accepted as an insurance premium for political stability.



Governments should resist running away from the distributional consequences of globalization by hiding behind protectionist walls. The detrimental effects of such an approach on national income levels would be tremendous, and labour markets would be affected by rising unemployment which would further add to social fragmentation. Quite the contrary, openness to globalization can be expected to generate the (private and public) revenues required to mitigate social fragmentation.

Globalization also gives an opportunity for small nations to emerge and become autonomous. Therefore, the peaceful disintegration of large states is a further challenge in the globalization process. An important, but controversial discussion should focus on decentralization and, more important, on the possibility of redefining borders to assure that the globalization process does not cause any form of violence. Successful models of federalism should be considered as political blueprints to achieve a balance of interests between ethnic, social or religious groups within large and heterogeneous countries.

In case of population heterogeneity, a high degree of political inclusiveness by an adequate political representation of these groups in government would be crucial. No minority should be left out of the political decision making process. In case that ethnic and religious groups are regionally concentrated, political inclusion may not be enough: Increasing autonomy of those regions could be crucial to avoid serious conflicts. In particular each region should collect and administrate its own taxes, and decide how to spend them in education, health and other fields of regional public services. However, the disintegration of states should be accepted as a possible consequence of an increase in regional autonomy.

## **Strategy Perspectives**

### ***Short Summary of Proposed Solutions***

Roland Berger

*Founder and Chairman, Roland Berger Strategy Consultants*

#### ***Globalizing World Trade and Value Chain Structures***

We have seen trade and value chain structures being globalized **worldwide**, at the latest since the fall of the Iron Curtain. This process is irreversible, and will speed up even further in the coming years.

As a result, the global economic balance between the industrialized and emerging nations is shifting dramatically. China and India, two up-and-coming global players, are set to increase their gross domestic product by a factor of 3.8 to 4.0 in real terms by 2030, whereas Germany's economy will grow by just 1.5. This means the OECD (developed) nations' share of the global gross domestic product will fall from its current 77% to just 50% by 2050. Foreign trade is going the same way: by 2030, Germany's exports will increase by a respectable factor of 2.6 – but China's and India's will increase by 6.8 and 12.4, respectively (Economist Intelligence Unit).

#### ***Poverty Falling Worldwide, but World Economy Becoming Increasingly Socially Polarized***

As world markets become increasingly integrated, two trends are evident. On the one hand, poverty worldwide is falling steadily; on the other, the world is becoming increasingly polarized socially.



Since the early 1990s, the number of people living in poverty has been falling, and with it their share of the global population, although admittedly starting from a relatively high level. Which means that even today, 1.2 billion people – that is, one-fifth of the world's population – are living in absolute poverty. Economic growth areas have made great strides in the fight against poverty, though. In China, for instance, the number of people living in absolute poverty fell by a good 80 million people between 1987 and 1998 alone – and the trend is still continuing.

Poverty may be declining worldwide, but economic inequality is rising globally. Three points to note here:

(Cf. Branko Milanovic, *The True World Income Distribution*, Policy Research Working Paper 2244, Development Research Group, World Bank, November 1999.)

- **World income** is divided mainly between two poles. Much of the world's population lives in societies with a per capita GDP (in terms of purchasing power parity) of up to USD 5,000. This includes most of Africa, India, Indonesia and rural areas of China. At the other end of the scale are the OECD nations, with a per capita GDP (in terms of purchasing power parity) of around USD 30,000. There are very few countries in the middle ground (around USD 10,000 per capita), such as Russia, Mexico and urban areas of China. So, although many threshold nations have seen their economies soar in recent decades, the “global middle class” is still very small.
- The **global Gini index**, which measures inequality in income distribution worldwide, has been high for decades (the closer this value is to zero, the more equal incomes are; the closer to 100, the less equal). In many years, the global Gini index has even been markedly higher than any national ones. That is to say, income distribution globally was far more unequal than within any one economy. With the index currently standing at around 60 points, there are just six countries in the world which score higher (of around 180 countries recorded in all). The global Gini index has fallen to some extent recently, but it is still well above its previous best values.
- The **poorest 20% of the world's population** have seen their **share of global income fall** in the last thirty years, from 2.3% to 1.4% today. Over the same period, the richest 20% of the world's population increased their share of that income from 70% to 85%.

### ***Globalization Is Making People Better off and Reducing Poverty Worldwide***

There are many successful examples to show the way the world economy is developing is not a zero-sum game, but a win-win situation for everyone involved, and for developing and emerging nations in particular.

Take South Korea, for example. In the 1950s, it was one of the poorest nations in the world. Now it's a full member of the rich nation club, the OECD. Other nations that have been successfully integrated into the world market are Taiwan, Hong Kong, Singapore, Thailand and even Mauritius.

To be part of the globalization process, you need to have stable political institutions, invest continuously and across the board in basic and further education and build up national technical skills and social security systems.

So the real challenge for poor nations is not shielding themselves from globalization, but rather creating national structures to benefit from what globalization has to offer. At the same time, the global framework must be improved to give developing countries more room to maneuver in the world economy: debt relief, more power in the World Trade Organization (WTO), the International Monetary Fund (IMF), the UN and the World Bank. The industrialized nations need to open their markets to exports from developing economies, agri-



cultural products in particular. We need to create stable economic conditions worldwide, for example in the financial markets, and OECD nations need to invest much more in international development partnerships.

### ***The Picture in Germany***

There is another trend which should not go unmentioned here: even in the industrialized nations, the tensions in society have increased in recent years. In Germany in particular, more and more people are becoming increasingly exposed to open market economics, and hence to globalization too.

Precisely at a time when the German economy is booming, many people in Germany have the feeling they are being left out when it comes to economic growth. In a survey by the Allensbach market research institute, for example, 59% of all Germans said they felt they were not benefiting from the current boom (Institut für Demoskopie Allensbach). And, in a study by the Bertelsmann foundation, 73% of the population said they thought economic conditions in Germany were unjust (Bertelsmann foundation: "Citizens Program Social Market Economy").

This trend is typical of many developed economies, and it is dangerous. First, it undermines businesses' "license to operate", that is, acceptance of their entrepreneurial freedom. Second, such voices encourage the politicians to use state intervention and redistribution to limit what business can do. Of course, politicians tend to think short-term: many of them don't look beyond the next election.

The challenge here is mainly for businesses and businesspeople. We need to explain to the general public what has to be done in economic terms, and how it's all interrelated. But we also need to take responsibility for what we do. Because, as we all know, **the economy may not be everything, but, without a healthy economy, it's all nothing.**

### ***Tackling Social Fragmentation***

Richard Ernst

*Nobel Laureate; ETH Zurich*

The problem of social fragmentation is growing today worldwide. It is spreading within communities, within countries, between countries, and between cultural, or better ideological, regions. The social divide on multiple levels is a highly undesirable development that has already led to instability. It will become undoubtedly the source of further violent unrest.

The social divide is an age old problem that persisted for an uncountable number of centuries. At many instances in history, it was accepted as an integral part of functional social structures. The well established hacking order led to a kind of dynamic stability from which all societal levels could take their own advantages. The social balance was normally established within limited, largely autonomous regions. The lack of possibilities for comparison helped to maintain persisting inequalities and social injustice. The often appalling divide has been eased by local humanitarian efforts based on religion and charity where, occasionally, those in power distributed some of their wealth in order to ease their bad conscience and bad reputation to improve the relations towards the dependents.

Today's situation is radically different for two reasons that both impede the achievement of a local dynamic equilibrium. – At first, globalization enables long-distance commercial contacts that became, in fact, indispensable for a functional world economy. The problem is aggravated by the ease of information transfer through the easily accessible means of communication, making direct comparisons feasible. They put into plain evidence the state of



fragmentation and the appallingly unequal distribution of wealth and even of food and shelter, worldwide. – The second reason is the development of a utilitarian “philosophy” within the past twenty or thirty years with a profound lack of humanness, tolerance, and social responsibility. Our current drives are rather dominated by financial markets and egoistic craving for personal success. The only, and really the only, measure that we have left today for judging the desirability of actions is in terms of monetary units. Ethics, moral, and compassion do not count any longer, unless they “pay-out”. In the course of this development, much of the cultural achievements of mankind made during the past two thousand or more years are going slowly but surely down the drain. We have little “values” left, except for monetary wealth!

The measures proposed in the “**GES – Summaries & Solutions**” for easing the current strain are laudable and valuable; but I judge them as being rather short-sighted. Measures are proposed that are supposed to be implemented by National Governments who have, so far, proven to be driven by self-centred motives, not willing to accept compromises that would disfavour even in a moderate manner their own Nations and their commercial success. The very recent WTO disaster represents only one of many disappointments. In the Summaries & Solutions, it is proposed to recommend a further disintegration of States allowing for “increasing autonomy” “collecting and administrating own taxes”. “Federalism” and “decentralization” with “adequate political representation” are proposed as solutions. “Globalization profits have to be partially redistributed to finance a social security net”. But how this should be implemented remains mysterious.

I am convinced that on this level of arguments no sustainable solution of the grave global problem of social fragmentation is in sight. We should refrain from applying cosmetic plasters that might disguise the real long-term problems. I am convinced that the quest of social fragmentation is primarily a problem of a proper mind set that leads to all-inclusive wisdom, foresight, generosity, and, possibly, to sacrifices in favour of the weakest members of the global society. Thoughts of this kind are the basis a proposed five-step “Program Responsibility” that can be summarized as follows:

### ***My Recommendations, the “Program Responsibility”***

**Step 1.** We are asked to **openly acknowledge** that today’s global society is faced with a **fundamental problem of values and ethics**. Minor adjustments of the present system en vogue and of our current actions are insufficient; we are in need of major changes in our ethical motivation of personal, political, and commercial endeavours.

Honesty compels us to acknowledge that we are **living on the account** of future generations and their indispensable resources, as well as on the account of today’s deprived social groupings. Our economies are operating far from being sustainable, pre-empting the resources needed for a fair distribution of means today and for a prolonged survival of mankind in the future.

**Step 2.** We are asked to **redefine a globally oriented ethical system of values** that is compatible with a sustainable global development. In this context, the most fundamental ethical demand is for comprehensive **Responsibility** for all our deeds and their consequences in a global and a long-term view. This responsibility shall apply to all individuals, to all States, as well as to all organizations and commercial companies.

Terms, such as “profit”, “growth”, and “market expansion”, shall disappear from our vocabulary and be replaced by “**care for the global population and the environment today and tomorrow**”, and by “tolerance” and “compassion”.

We may base conceptually our “Program Responsibility” on the fundamental work “The Imperative Responsibility” by Hans Jonas, where he defines the basic imperative: “Act so



that the consequences of your action are compatible with the permanence of genuine life on Earth". This imperative is a consequence of the following observation: "The crucial point here is that the penetration of distant, future and global dimensions into our everyday, worldly-practical decisions is an ethical novum which technology has foisted upon us; and the ethical category that above all is called into play, is responsibility."

**Step 3.** We have to be aware that the **implementation** of such a "Program Responsibility" is enormously demanding, difficult, and time-consuming. It contradicts all present self-centred motivations of personal profits. We need a lot of patience and foresight in order to convince people that acting for the sake of society, rather than for personal enrichment, has become an urgent necessity. We can not change our egoistic habits immediately; it will be a continuous task for many generations to come to eradicate the misleading quotes by Adam Smith from our minds. But we have to start now immediately!

**Step 4.** By far the most important contribution that we can make ourselves is to **serve personally as a positive role model**. We have to remember the immortal saying by Mahatma Gandhi: "**We must be the change we want to see!**"

Serving as an inspiring role model is more effective than preaching and asking the others for change in their behaviour! Serving as positive role models is most relevant on all levels of the societal ladder. One should keep in mind that those members of society with the greatest power or wealth are burdened also with the heaviest load of responsibility. There is not only a need for income tax progression but also for sharing progressively responsibility in other more subtle ways. **Building trust and confidence** is more important than exerting brute force by monetary or even military means.

**Step 5.** For **implementing the "Program Responsibility"** the educational institutions, in particular **Universities**, have to assume a major function. At universities the **future generations of actors** are given chances to develop their personal values, their foresight, and their tolerance, founded on knowledge and experience. Most of the future societal leaders in politics and economy are passing through university courses. At this critical moment in their development, they can be impressed indelibly by proper role models that provide example, wisdom, and advice. This gives university teachers a very high degree of responsibility for **steering the long-term development**.

I am convinced that the "Program Responsibility" is one of the best means for "tackling social fragmentation". Irrespective of how we chose to structure our future global society, we have to answer positively the request for assuming responsibility in a much wider sense than ever before. Beyond any doubt, there are **limits to growth!**

### ***Consequences of the "Program Responsibility"***

Here, a few immediate measures are proposed that emerge from the above principles:

- **Globalization requests global actors to assume global responsibility.** To pocket global profits without assuming global responsibility borders on criminality. Well functioning globalization requires also the **installation of powerful Global Institutions** that define the rules, control the functioning, and are entitled to punish violators. – Today, unfortunately, the most powerful Nation States are also the most severe violators of international agreements and rules. The proposed Global Institutions must be empowered to such an extent that even the most powerful Nation States can be "tamed".
- It is plainly evident that the uneven distribution of natural resources has led to gross injustice on a global level. The occurrence of natural resources is purely accidental. In a fair global governmental system, this injustice has to be removed or eased by a **centralized, global resource management**. Natural resources should become a



global public good. A resource management agency has to take into account present and future needs and bring them into agreement with the available resources.

- Going even further, **globalization requires necessarily a Global Government**. Nation States can not be made responsible for global affairs. The global society requires a strong proconsul who has the means to implement the necessary global measures. This includes the collection and distribution of global taxes. “Tackling social fragmentation” will certainly become a major obligation of a Global Government.
- **Global subsidiarity is a necessity in a well functioning global society**. In this context it is advisable to establish autonomous segments of Nation States that can rule themselves their internal matters, but only in full awareness of being part of a multi-stage global edifice that imposes binding obligations upon its autonomous segments. Subsidiarity contradicts unlimited independence and freedom!
- Before such changes can be implemented, it is necessary to enhance the **public awareness** with regard to global interdependence and our resulting global responsibility. It is recommended to start an **extended and long lasting information campaign** regarding our long-term and far reaching global responsibility. It should be emphasized that our present style of living is very far from being sustainable and that future disastrous events are foreseeable unless we change drastically our affluent convenience.

### **Concluding Remarks**

Without public trust in the responsible behaviour of institutions and leaders, a well functioning global society is inconceivable. **Establishing mutual trust based on active responsibility as a fundamental principle of coexistence** and for preparation of a sustainable future worth living in, is a major precondition for “tackling social fragmentation”.

Numerous important aspects of “tackling social fragmentation” have not been mentioned in the proposed “Program Responsibility”. In particular, the **schooling systems** in developing and developed countries need to be reconsidered. Offering fair chances to everybody, irrespective of their origin, is crucial. A change of our valuation of different kinds of professions is also important in this respect. Our distorted view, favouring those in commerce and in academic professions, and disfavouring manual labour has led to an **unjust hierarchical edifice** that is also reflected in appallingly low payments for the hardest work, and admiring the easy making (and losing) of money at the stock market. Please remember that it does not pay off so much for a manual worker to cheat, as it does for those in the money trade! But to discuss thoroughly these kinds of aspects of **working moral, hacking order, and honesty**, relevant for “tackling social fragmentation”, would require much more space and time.