Anita Angelovska Bezhoska: How to make capitalism work for all

Speech by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of North Macedonia, at the IMF/WB Constituency Meeting, Skopje, 22 June 2019.

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Distinguished Prime Minister, ministers of finance and other respective representatives of government institutions, governors of central banks and other respective representatives of central banks, Executive Directors, Vice Presidents in World Bank Group Directors in International Monetary Fund, Professor Zingales, Delegates of the Constituency, excellences, fellow colleagues, representatives of the media,

At the very beginning, let me say how honored we are to have the opportunity to host this important gathering of our Constituency. Sixteen years have passed since the last meeting of the Constituency in Skopje, and we are delighted to have all of you with us here during these three days.

By a twist of fate, I recently came across a book that I have not seen since my early youth days; a book that starts with a very powerful notion – "Happy families are all alike; every unhappy family is unhappy in its own way" – you might recall Tolstoy's "Anna Karenina". Few days after, while searching for the most recent discussions on the matter of capitalism, inequality, wealth distribution, I read an analytical piece where the author cited the same quote, linking it with all the different modalities of inequality, as a symbol of the global unhappiness. Standard metrics on inequality point to a widespread and rising phenomenon. It obviously underpins the rising populism, that reflects the dissatisfaction with the system that does not create equal opportunities for everyone, a system where reward is not merit based, i.e., system that gradually evolves into a crony capitalism. Against this background, I have no doubts that we have chosen the perfect spotlight for this Constituency meeting.

Let me shortly use the historical lenses – what questioned the sustainability of capitalism and led to Marxism was the stagnation of wages and concentration of wealth in the early phases of industrial revolution. It gave ground for rising inequality, and as Thomas Pikketty, the so-called "Modern Marx" reveals in his book "Capital in the Twenty-First Century", the only exception from this rising trend of global inequality is the period as of 1914 until 1970s, as a historical outlier.

Indeed, actual data does indicate rising income inequality since the 1980s onwards almost across the board, although with different intensity. This turning point is very often associated with the end of the so-called "post-war egalitarian regime" around the globe. To bring the point closer, let me refer to the data retrieved from the 2018 World Inequality Report, which reveals that in 1980, the income share of the top 10% in the income distribution in Western Europe, North America, China and India was around 30–35%. By 2016, this percentage rose to around 35–40% in Western Europe, while the increase in the other regions was stronger, reaching 45%-50% of the total income. One might notice the remarkable difference in the income concentration at the top-level earners in Western Europe and US, meaning the inequality diverged substantially in these two groups in the last almost four decades.

This so-called "modern" surge and divergence in inequality leads economists wondering, which forces may be preventing benefits of capitalism being widely distributed. Observing the US – Europe nexus, apparently the level of development does not always matter for how the income distribution could look like. There are policy tools and fundamental values in the society that can affect the distribution curve markedly. For instance, many authors associate the divergence in Western Europe and US with the educational inequalities and less progressive tax system in US. On the other hand, in Western Europe tax progressivity declined moderately, but even more importantly the educational system and wage setting policies are thought to be relatively more favorable to low and middle income groups. Hence, equal opportunities to higher quality education, in particular nowadays when technology is rapidly advancing could be one of the remedies for the “illness” of inequality. It could enable young people at the bottom of the income distribution to get access to better-paid jobs, and hence flatten the income distribution curve.

In the region-specific context despite the transition, process that in principle leads to increase in inequality, the top 10% of the income distribution has a share of close to 29% of the total income, lower compared to Western Europe.

Apparently, the issue of rising unequal income distribution is neither new, nor the world has been shielded from tectonic changes in the systems, such as for example the transition in Europe, which was “fertile soil” for rising inequality. However, it is only in the last ten years that we witnessed such substantial proliferation of literature, and academic and political debates on the roots and consequences of rising income inequality. It was the financial crisis that brought the issue to the fore. Even more, some authors link the severity of the financial crisis and its unexpected spell, exactly to the uneven societies. In his book “Fault Lines”, Raghuram Rajan argued that rising inequality in the past three decades led to political pressure for redistribution that eventually came in the form of subsidized housing finance, which was at the root of the global crisis.

Whether or not policies of the central bank affect the income distribution gained lots of attention, as well. I would say that the pure fact that we inherently face with heterogeneity across households in terms of their primary sources of income – capital or labor – or with respect to their position of being saver, or borrower naturally implies that monetary impact, at least in the short-term, could differ along these groups. Macro-prudential measures, by design are targeted and selectively used to tackle identified points of vulnerability. Purchase of different types of assets, also significantly alters the pricing on the financial markets and can have different wealth effects. Still, given the rationale and the features of central banking policies, as Ben Bernanke (2015) states: “By comparison to the influence of (these) long-term factors, the effects of monetary policy on inequality are almost certainly modest and transient”. These long-term factors influencing inequality relate to globalization, technological progress, demographic trends, and institutional changes in the labor market.

How should we tackle the chronic problem of uneven income distribution, which seems a symptom of many fundamental weaknesses of the system? How to return the greatness of the opportunities that modern society should bring? Should the way forward be stronger regulation, more active redistributive role of the state or as Prof. Zingales claims through harnessing the power of competition? As economists, we all know that market based system inherently brings some inequality, but its disruptive power is unthinkable when boundaries are crossed. At the current juncture, when global growth slowdown is on the horizon pro–growth and pro–equality policies seems inevitable. I am sure that distinguished speakers and panelists will reflect on the array of available policies, including improving access to markets and levelling the playing field, increasing financial inclusion, investing in human capital, regulatory and institutional reforms, that strengthen the rule of law and promote competitive and fair business environments.

We, as policymakers, cannot only have the role of “innocent bystanders”, scrutinizing and stocktaking, but putting in place reforms that promote strong and inclusive growth that by its nature reduces inequality. Thus instead of re-slicing the pie more focus is needed on ensuring that the pie gets bigger and more inclusive, which will lead to less unhappiness in all the dimensions that it might appear.

I truly hope that in a not so distant future, we will be witnessing moderation in the income gaps, more prosperous and less unequal societies. This requires commitment, willingness and vision by all policymakers. Somehow, it seems appropriate to end as I began, with Tolstoy quotation: “There is only one time that is important— Now! It is the most important time because it is the only time when we have any power”. And we, as policymakers, exactly Now have not only power, but also a duty to act for a better wellbeing in our societies.

Thank you.