Julius Bär

Think Tank Podcast: World inequality: can global education solve it?

December 2021

TRANSCRIPT

Nisha Pillai [NP]: Welcome to the Julius Baer Think Tank Podcast.

In this series we'll be walking you through the mega trends of the future and bringing you closer to our network of thought experts who are capturing the world's major changes and putting them into context for us. I am Nisha Pillai, former BBC World News presenter and your moderator today.

Inequality has been growing across the globe, fracturing society in ways that are becoming ever more palpable. The asymmetric access to resources based on one's socioeconomic status, ethnicity, and gender has come to the surface. Nevertheless, challenges also represent opportunities in areas relating to global education, economic empowerment, and wealth inequality.

Today, we'll be talking to Dr. Damien Ng, Next Generation Research Analyst at Julius Baer, and Esteban Polidura, Head of Advisory and Products for the Americas, about how education remains an ever-critical component of sustainable development for personal well-being and the society.

[NP]: Damien, welcome again. Good to have you back with us on Think Tank.

Damien Ng [DN]: Thank you, Nisha, for the invite to this podcast today.

[NP]: Can you elaborate how poverty poses the greatest obstacle to education and its connection to inequality?

[DN]: You know, Nisha, the Covid-19 pandemic has brutally exposed social inequalities in many countries around the world, because the poorest nations were more unlikely to provide adequate support for remote learners who came from financially disadvantaged families during the global health crisis. Many authorities in fact struggled to find alternative solutions as schools were compelled to close in order to maintain social distancing and avoid further community transmission. But the thing is, online learning relies on the availability and accessibility of technology like computers and internet facilities – luxuries that may be taken for granted by richer families or wealthy countries. To give you an example, India's Ministry of Rural Development estimates that only half of Indian households receive more than 12 hours of electricity every day and more than 36% of schools across India operate without electricity. This reality means that online education is more likely to remain out of reach for children from underprivileged backgrounds, which brings us to the point on education that: students from financially disadvantaged families face a higher risk of dropping out of school altogether, while their peers from families with better financial means can more easily bridge the transition to remote learning. Therefore, a global crisis like the pandemic will not only widen the rift in educational inequality, but will also increase the likelihood of vicious circles transforming into persistent cycles of poverty.

[NP]: Historically, girls and young women were more likely to be excluded from formal education. Can you tell us the progress on gender disparity regarding education?

[DN]: According to the UNESCO, girls worldwide in general are attending schools longer than ever before. For instance, the number of out-of-school girls at primary and secondary levels declined by 35% from over 200 million in 2000 to 130 million today. The gender progress also coincides with the growing global average of girls' school-life expectancy, which is defined as the number of years of formal education a child can expect to receive. Back in 1970, a girl spent on average 6.7 years in school. Today, school attendance for girls lasts nearly 12 years on a global basis. In other words, the world is moving towards gender parity in terms of education uptake – a welcome development. But, despite improved global gender parity in education, the averages mask substantial variation at regional and national levels. In many regions across the world, women of all ages continue to face considerable barriers to education. For example, one in three adolescent girls from the poorest households around the world has never stepped foot in a classroom. The dropout rates for primary-school-age girls also continue to remain high across Sub-Saharan Africa, as well as South and West Asia in comparison with Latin America, East Asia, and Eastern Europe. In Sub-Saharan Africa, for instance, early marriages and teenage pregnancies are some of the major factors that prevent roughly 50 million girls from the region from going to school. Therefore, greater efforts are needed to get more girls to acquire the skills they need for better job prospects and societal contribution. If all girls in the world could complete 12 years of compulsory education, a World Bank report estimates that the world could gain between USD 15 trillion and USD 30 trillion in human capital wealth.

[NP]: Can you tell us more about the evolution of education technology globally and its impacts and implications due to the pandemic?

[DN]: Nisha, that's a very interesting question, because the evolution of education technology has undergone a very impressive evolution since blackboards in classroom learning made their first appearance in a Scottish classroom in the early nineteenth century. Today, technology has enabled students to access information more easily, enhanced their learning experiences, and offered abundant, fun opportunities to practise what they learn. Students are not the only beneficiaries of the growing uptake of technology in education, however. Teachers can also turn to online tools to reach out to more students effectively and identify the specific problems that students are facing. For instance, four in five teachers in the UK now use assistive technologies like learning apps, instructional software, and digital devices in the classroom. Ten years ago, only one in five teachers used them. Apart from the example of the UK, I would like to emphasise that the use of EdTech is not restricted to wealthy countries. In lower-income economies (also including socioeconomically disadvantaged districts in developed nations), where schools tend to be underfunded, effective implementation of EdTech has the potential to pave the way for a more level-playing field for global education. Online platforms offer the opportunity for rich and poor, urban and rural populations, to receive the same educational content, thus closing the gap in socioeconomic inequality. For instance, the empty classrooms following the global viral outbreak prompted many governments around the world to scramble for alternatives in delivering learning to homebound students. Nonetheless, resource-strapped countries encounter greater challenges in providing access to online learning of sufficient quality. For this reason, many of the world's poorest nations were more likely to turn to other forms of technology, such as radio and television, for the delivery of education content rather than the internet option largely adopted by the richer countries. Therefore, more efforts are required to harness technology for social good in a more widespread manner.

[NP]: How are publishing companies adapting their printed textbooks and materials to this new digital era of e-books and expanding their services onto digital offerings?

[DN]: Printed books still remain more popular than e-books in most countries around the world due to their look and feel, along with the ease of bookmarking and highlighting. Nevertheless, e-books are steadily growing in popularity as a medium as well. For this reason, the major global publishing companies are increasingly adapting their sales strategies to cater to the shifting preferences of their younger customers, who prefer the electronic versions of their books. By partnering up with online distributors that already have an established online customer base, publishing companies can direct their resources onto digital offerings and expand their digital distribution capabilities. However, I have to highlight here that an average student's out-of-pocket spending on college textbooks and digital course materials in the US has steadily declined in recent years. For the academic year 2019–2020, students spent around USD 413 on course materials. However, that number was nearly USD 700 a decade ago. The trend appears to suggest that a growing number of college students are finding ways to save money by avoiding to buy textbooks altogether. While some lease books or buy second-hand books, others have even turned to downloading pirated copies of textbooks.

Such developments have not gone unnoticed amongst education publishers, who understand that students have to struggle with expensive college tuition. For this reason, publishers have been working to lower the cost of the course materials they produce, while at the same time coming up with other innovative solutions for students to access the materials. These include the launch of online learning solutions that provide students with discounted materials, as well as fee-for subscription services, which provide unlimited access to a range of textbooks, online homework access codes, and study guides all for one price.

[NP]: What an interesting conversation, Damien. Thank you for joining us on Think Tank.

[DN]: Thank you, Nisha, it was a pleasure.

[NP]: Let's now bring in Esteban Polidura for his investment views. Financial markets have had a stellar year, but some analysts believe the party is over. Does Julius Baer see conditions to remain invested?

Esteban Polidura [EP]: The current cycle feels as if it is running in fast-forward mode. After a flash recession due to the pandemic, a flash recovery followed. What normally took quarters, if not years, during and after previous recessions, happened in a matter of weeks or months in the current recession. Hence, expecting a slowdown seems logical, especially after some economies posted all-time highs in growth rates in the first nine months of 2021.

Our team believes the slowing down of the global economy will last into 2022. Now, this doesn't have to mean bad news. Our analysts think that there is a fair chance that post-pandemic growth rates will be higher than those seen prior to the crisis. The reason for this is twofold. First, productivity gains in non-virus-sensitive service sectors will likely offset the secular declining labour force growth and facilitate higher trend growth. This looks like it has already started. Second, support from macroeconomic policies may wane a lot later than many market participants expect. The reason for this is that policymakers do not want to choke off the recovery by removing supporting measures too early. In addition, central bank policies in developed economies have focused on keeping financing conditions favourable; this is, preventing interest rates from rising disproportionately. This, in turn, means tapering unconventional measures, such as asset purchases by central banks, at a later stage and, more importantly, at a much slower pace than is currently priced into markets. So, yes, Julius Baer believes current conditions are attractive enough to remain invested. Of course, being selective is now even more important than in the last 18 months.

[NP]: Precisely on being selective, equity markets have continued to reach new all-time highs. Does it still make sense for investors to play stories like education and many more through this asset class?

[EP]: The S&P 500 has practically doubled from the pandemic lows reached in April of last year. After such a phenomenal rally, investors are pondering how much fuel is left in the tank for equity markets to climb higher before year-end. Our team always highlights to investors that the key driver for equity markets is not so much the level as it is the rate of change in economic momentum. The mid-cycle slowdown phase that I just described, when leading indicators such as purchasing managers' indices tend to roll over from high levels, has historically been accompanied by lower equity returns. Earnings revisions will likely also trend lower over the coming months. Against this backdrop, we recommend switching out of cyclical and value into defensive and growth stocks, which tend to do better in this part of the cycle. From a country perspective, US and Swiss equities fit the bill, offering both defensive and growth characteristics. As for emerging markets, we continue to hold to the view that they will take longer to return to their pre-crisis path of economic growth.

[NP]: Does this mean that investments in China's equity market should be avoided?

[EP]: No, Nisha, this just means that selectivity remains key going forward. Our team remains constructive on the Chinese onshore (A-shares) market for three reasons. First, it anticipates some monetary easing, and this will help the onshore market more than the offshore one, because mainland investors are highly sensitive to marginal shifts in policy. Second, the consumer technology giants that have garnered most of the government disapproval are not listed on the onshore market. On the contrary, the onshore market includes many companies that should be beneficiaries of the common prosperity goal meant to alleviate income inequality, which is at the root of the regulatory control. Third, less than 10% of Chinese household savings are currently invested in equities, while over half are in-vested in real estate. The government has made it abundantly clear that it believes housing should be used as a primary residence and not for speculation. Experts estimate that Chinese households will have the equivalent of USD7trn in investable assets by 2025. By means of comparison, onshore equity markets are capitalised at the equivalent of USD12trn.

[NP]: Thank you, Esteban, for putting it into context for us.

[EP]: Thank you, Nisha, for having me today.

[NP]: Children who go to school have more and better opportunities in the future since education provides them with the chance to break the cycle of poverty. Online platforms offer the opportunity for rich and poor, urban and rural populations, to receive the same educational content, thus supporting and closing the gap in socioeconomic inequality.

If you have any more questions on inequality and global education, please don't hesitate to talk to your representative at Julius Baer.

Thank you for listening to this episode of Think Tank. Do subscribe to our podcast series on Spotify and Apple Podcasts.

From me, Nisha Pillai, goodbye for now.