

Globalization and Inequality : a brief review of facts and arguments

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The globalization/inequality debate and recent political surprises

- Political disruption: Brexit, Trump, Italy, populist governments in Eastern Europe, rise of populist parties in France, Netherlands, ...
- Common explanations: globalization – i.e. deindustrialization, employment problems, rising inequality
- This presentation:
 - *Is it really about globalization and inequality?*
 - *Or other causes : technical change, regressive policy reforms, socio-demographics*
 - *Or simply about slow growth?*

Outline

1. Is the *perception* that '*inequality is rising everywhere*' correct?
 - Heterogeneity across countries and inequality dimensions
2. The long-run slow-down of Northern growth (and global equalizing)
3. The many causes of changes in national inequality:
 - Globalization, technical change, policy reforms?
4. Is the rise of populism due to rising inequality ?

Conclusion: what's next?

A summary of conclusions

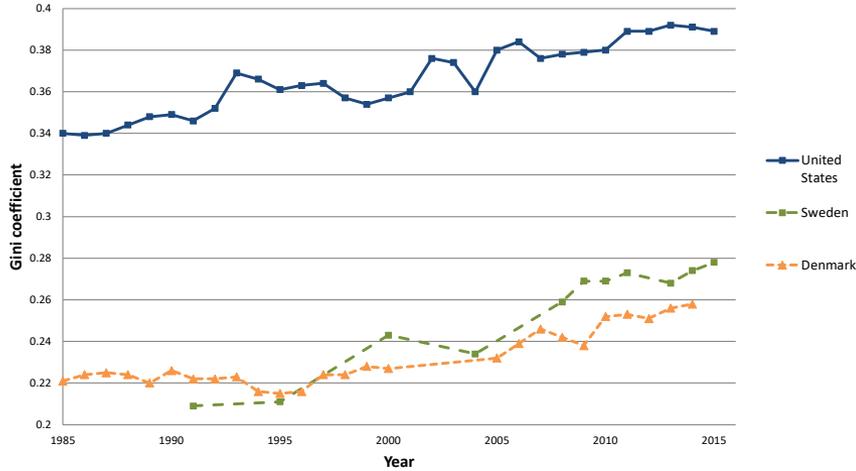
1. *Evidence on evolution of inequality:*
 - diversity of patterns of change in national inequality: no uniform rising trend
2. Globalization and change in North-South relative rates of growth
3. *Causes of change in inequality:* multiplicity and heterogeneity of causes, there is more than trade, globalization and technical change
4. Populism as consequence of vanishing opportunities ?
5. Preparing the future: the need to reinvent the welfare state

1) A tour d'horizon of the evolution of within-country inequality

- a) Diversity of evolutions when using standard inequality measure ('equivalized disposable household income' in household surveys)
 - No common 'trend' in developed countries
 - Inequality higher today than 30 years ago but diversity of time profiles
 - Diversity among emerging countries – but measurement issue
- b) Top income inequality (gross income, tax data) : substantial rise but tends to stabilize
- c) Declining GDP-share of labor

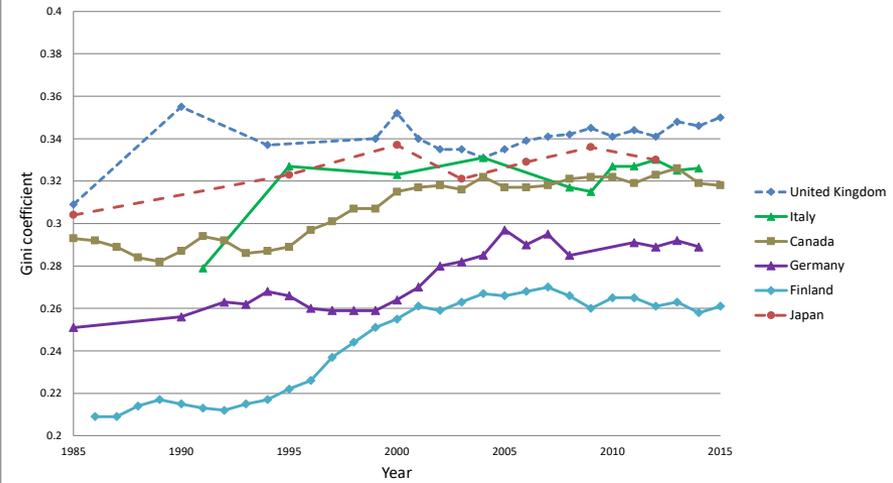
a) Heterogeneous evolution of inequality: 1985-2015

Figure 1a. Inequality of equivalized household income, 1985-2015
Selected OECD countries with a rising inequality trend.
(Gini coefficient)



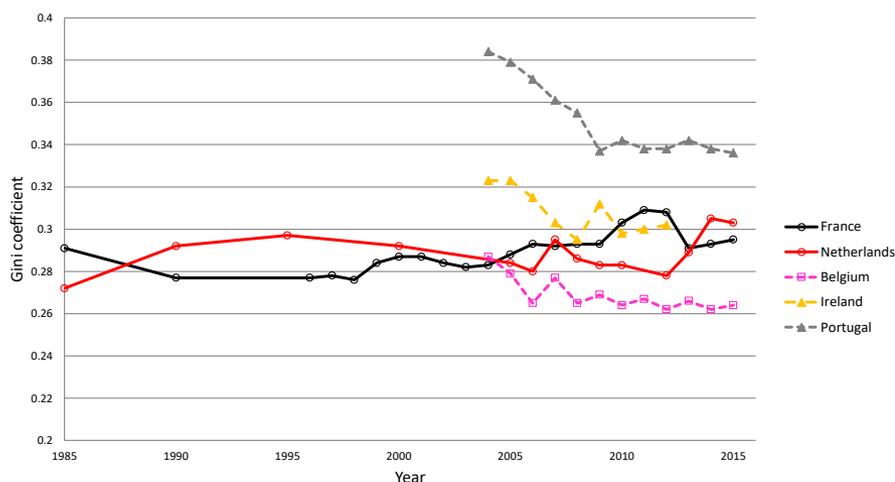
Source: OECD

Figure 1b. Inequality of equivalized household income, 1985-2015
Selected OECD countries with a one-step rise in inequality.
(Gini coefficient)



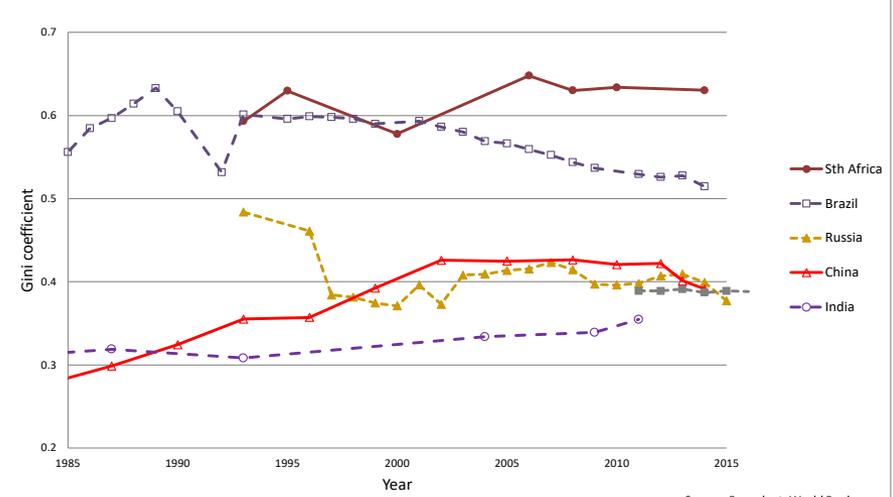
Source: OECD

Figure 1c. Inequality of equivalized household income, 1985-2015
Selected OECD countries with roughly constant or declining inequality.
(Gini coefficient)



Source: OECD

Figure 1d. Inequality of equivalized household income, 1985-2012.
BRICS countries (Gini coefficient)



Source: Povcalnet, World Bank

Increasing top income share in advanced countries (market income, tax data)

Figure 2a. Top 1 per cent share of market income, 1985-2015
Countries with increasing inequality

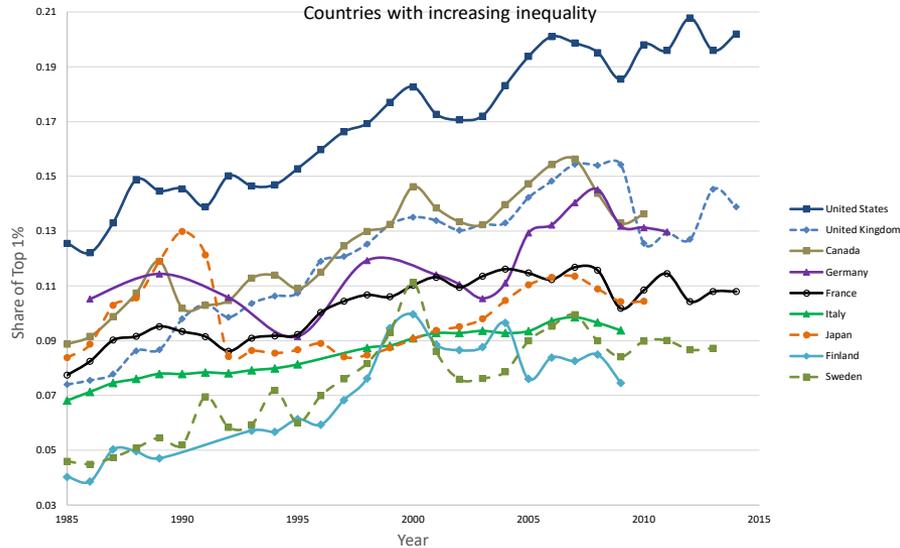
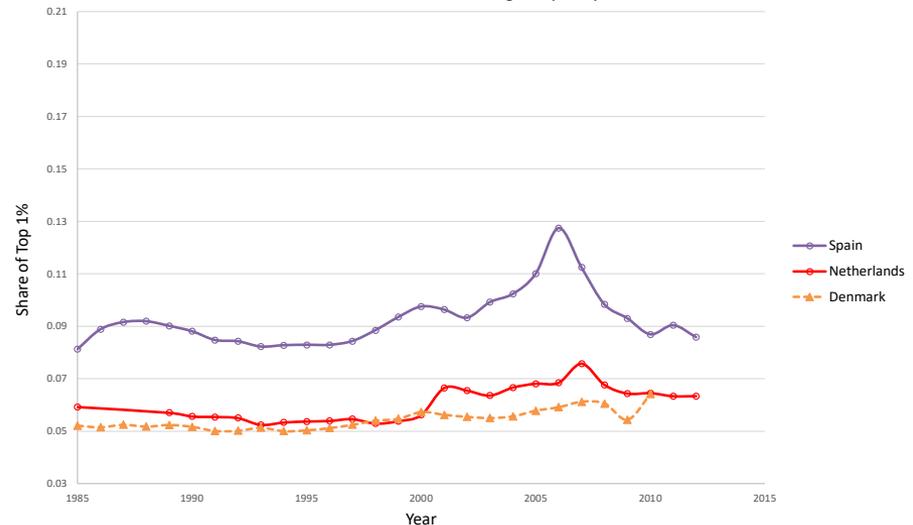
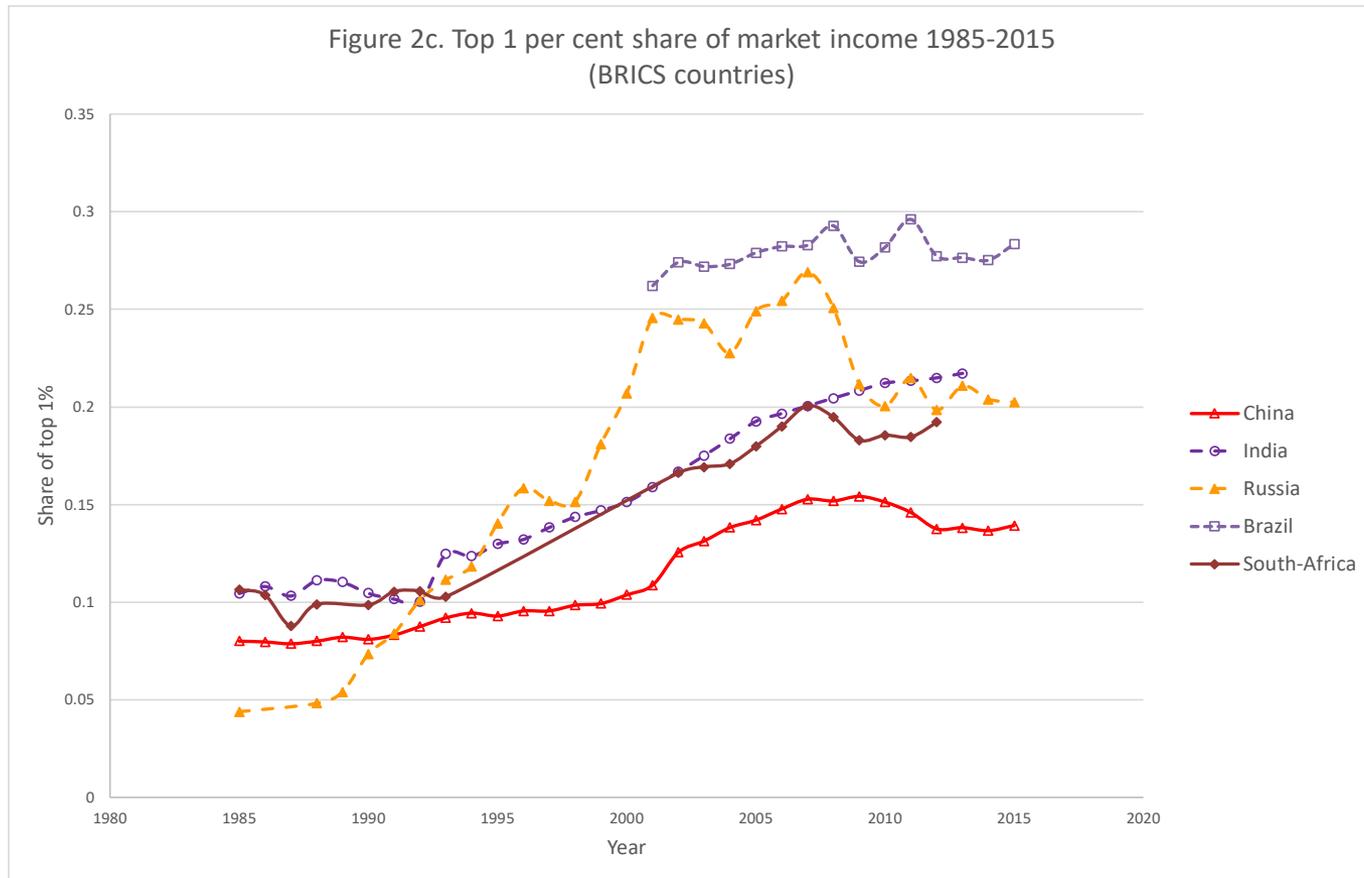


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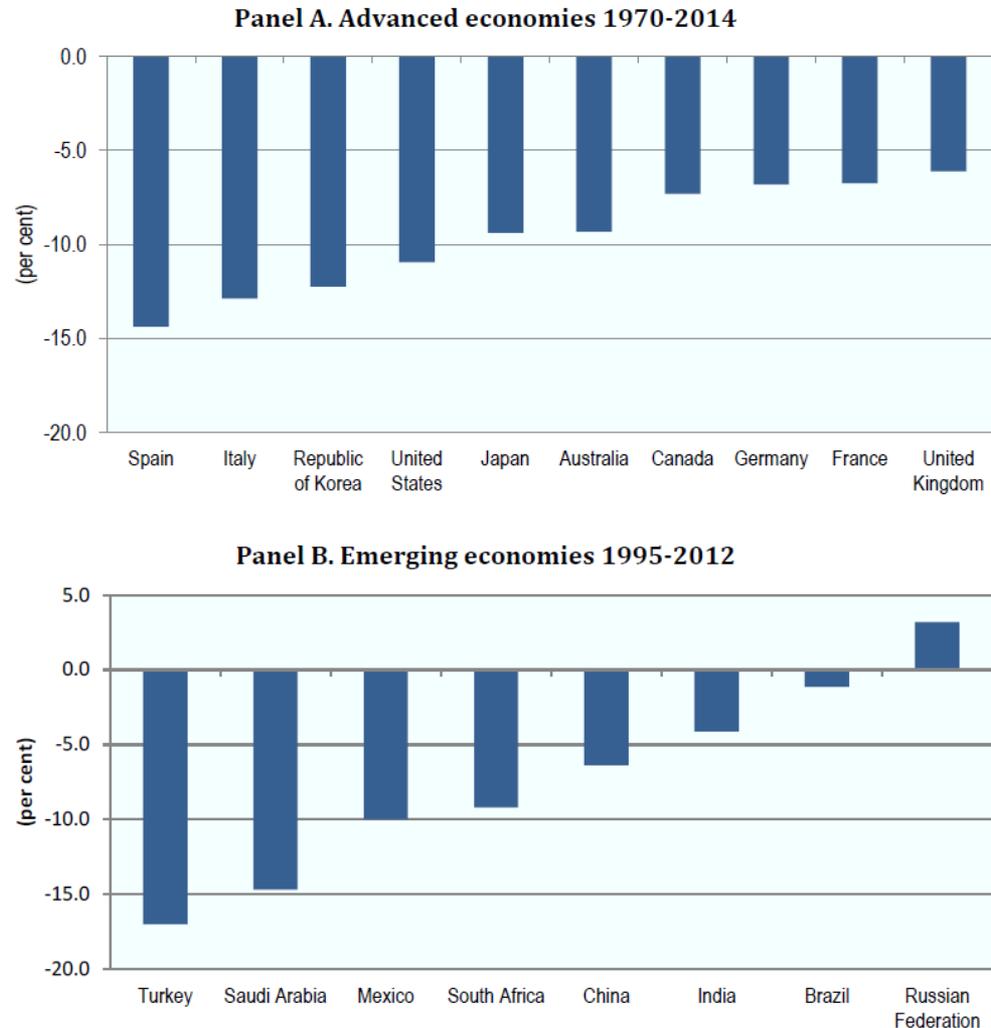
Note that top income inequality changes (tax data) are not always consistent with equivalized income data (household surveys): UK, Denmark, Germany
But explanation often lies in the very nature of the inequality indicators

Increasing top income share in emerging countries (BRICS)



c) The declining GDP-share of labor

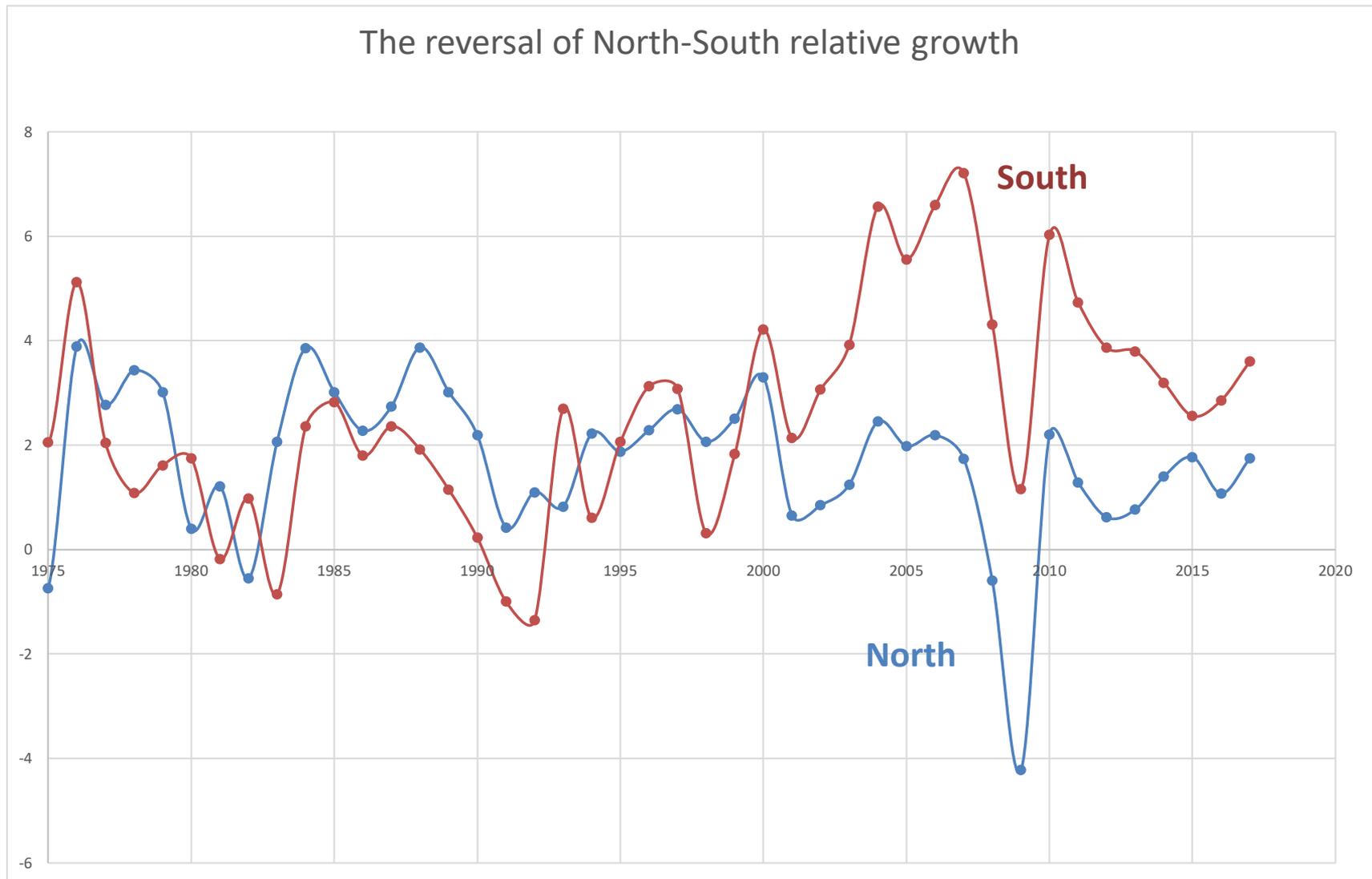
Figure 3. Changes in labour shares in G20 countries (plus Spain)



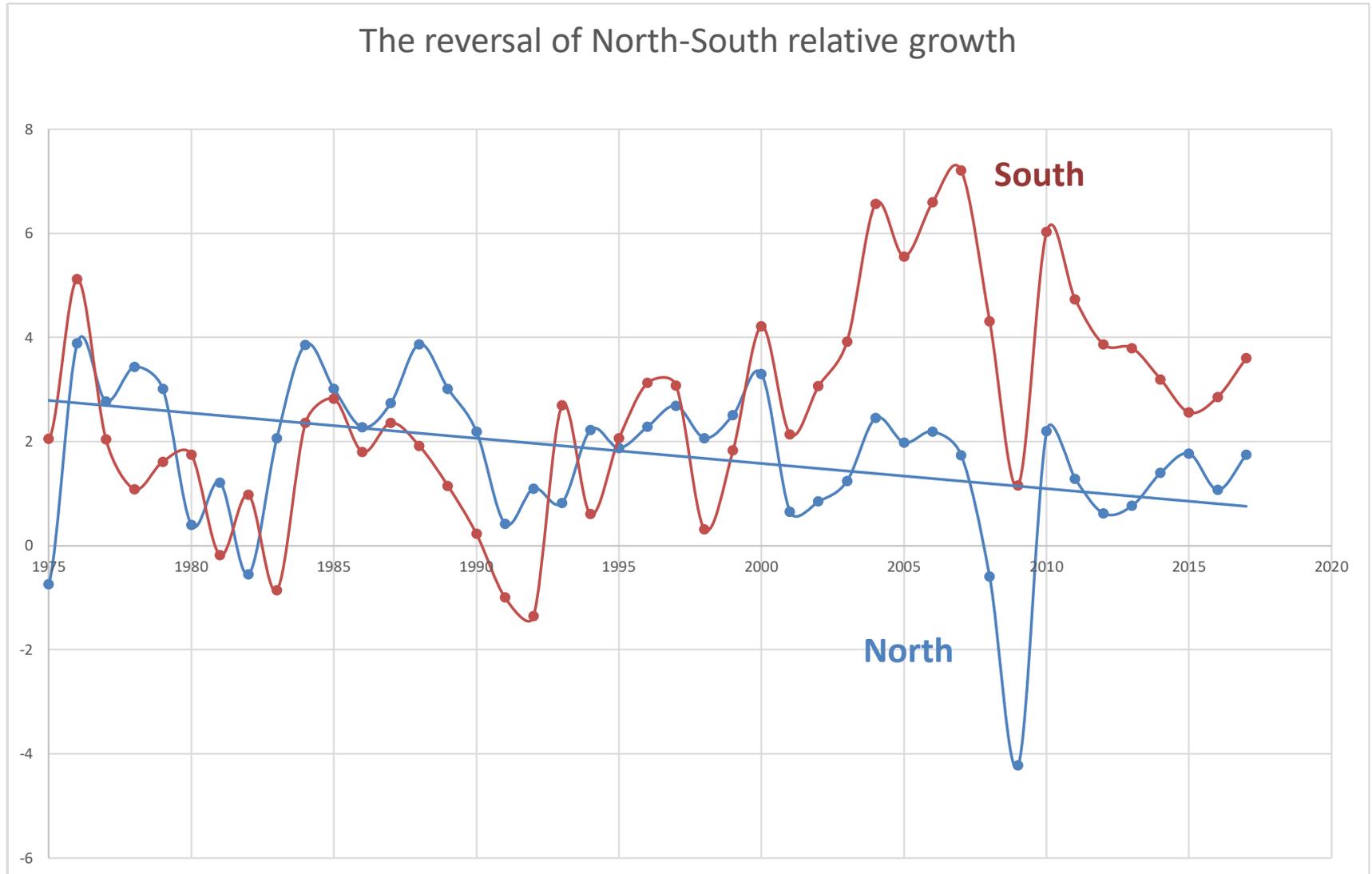
The diversity in the evolution of inequality

- Inequality higher today than 30 years ago in a majority of countries
- Difference between definitions of inequality
- Equivalized disposable income (surveys)
 - Advanced countries: rising trend (rare), one-off increase (frequent in major countries), constancy or falling trend elsewhere
 - Idem BRIICS: India-China, vs. South Africa, Brazil and Russia
- Top incomes (gross income, tax data)
 - Rising trend (US, India)
 - Increasing trend until 2000/2005 and stabilizing afterwards (majority of Advanced countries and other BRICS)
 - Flat trend (rare)
 - Link with change in GDP-share of capital income

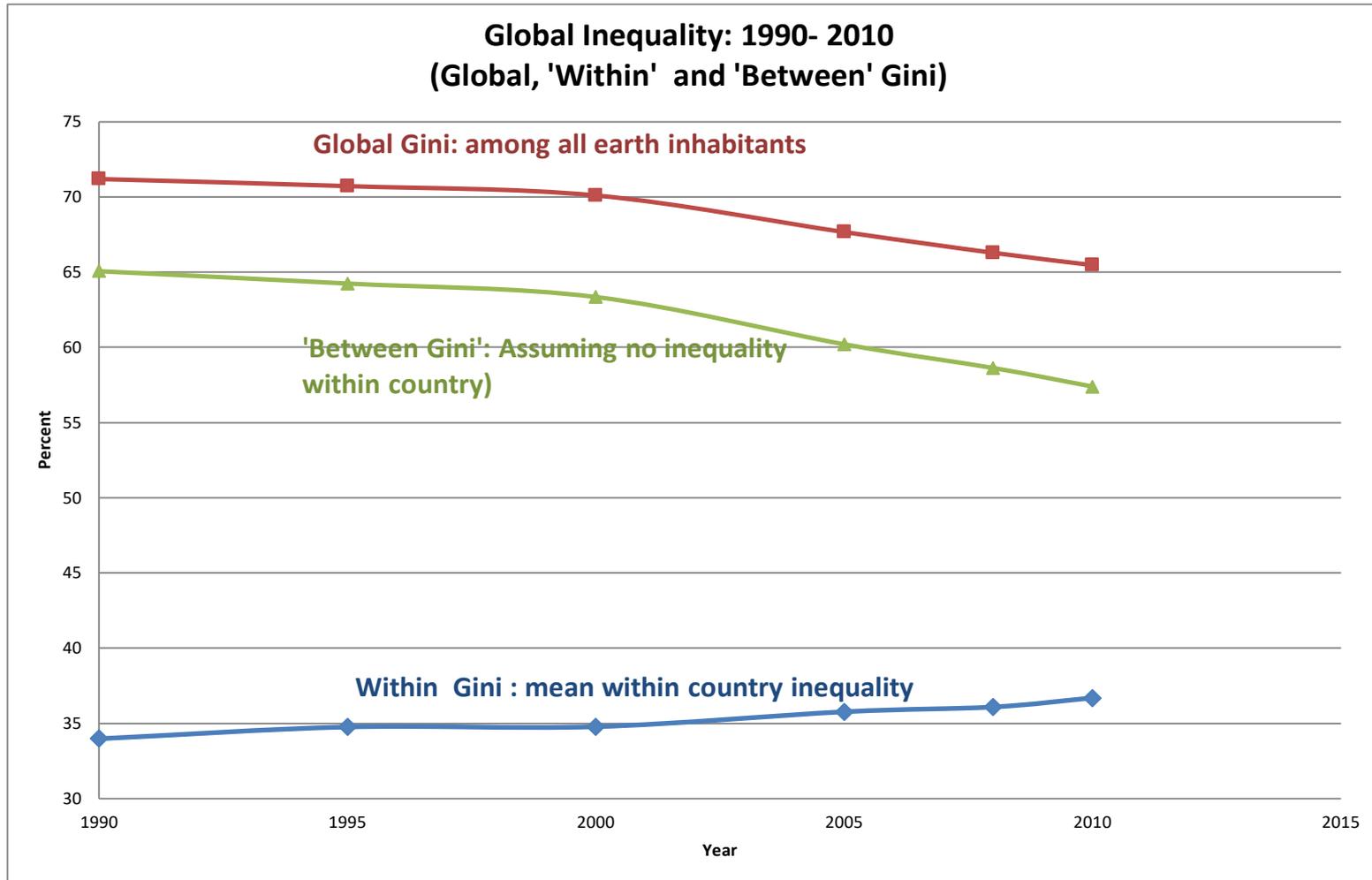
2. The long-run slowing down of Northern growth (and global equalizing)



2. Globalization and the reversal of North-South relative economic growth



The sharp decline in global inequality



3) The many causes of change in advanced country inequality (potential)

National level

- a) Globalization as a possible cause of increasing inequality
 - Trade in goods and services (HO-type argument - ??)
 - Increase in wage skill-differential in the US (much less in Europe)
 - Increase in capital GDP-share

- b) Other causes:
 - Technical change (SBTC)
 - Autonomous unequalizing forces in advanced countries :
 - Financiarisation (another aspect of globalization?)
 - Regressive reforms of redistribution systems (taxation, transfers)
 - Deregulation (labor market)
 - Demographics (migration, household composition, assortative mating, ..)

Note: Several of these 'autonomous' factors may be indirectly linked to 'globalization'

- Structural change in emerging countries

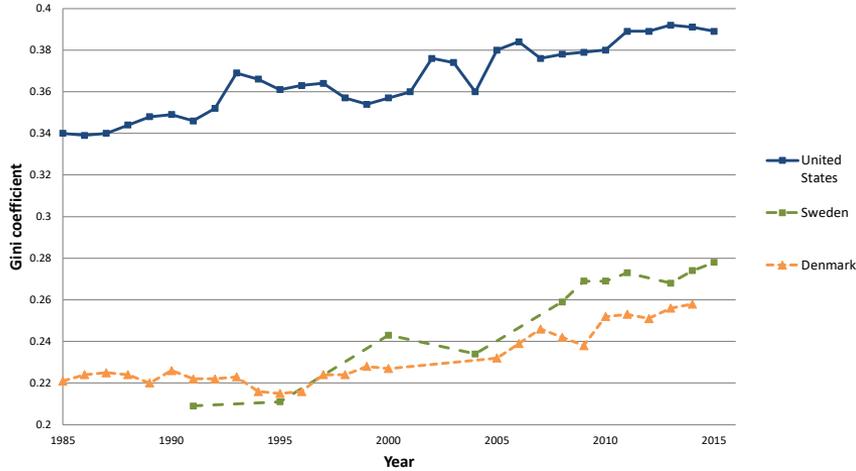
Causes of change in equivalized disposable income inequality: the key role of policy

- Considerable part of inequality changes in advanced countries explained by redistributive policy reforms 
 - UK (Thatcher reforms), Germany (Hartz laws + wage moderation), Sweden (cuts in tax rates and welfare system), Italy (end of indexation (scala mobile) + decentralized wage bargaining), Finland, Canada
 - Evidence on the importance of redistribution reforms : Denmark
 - US as an exception



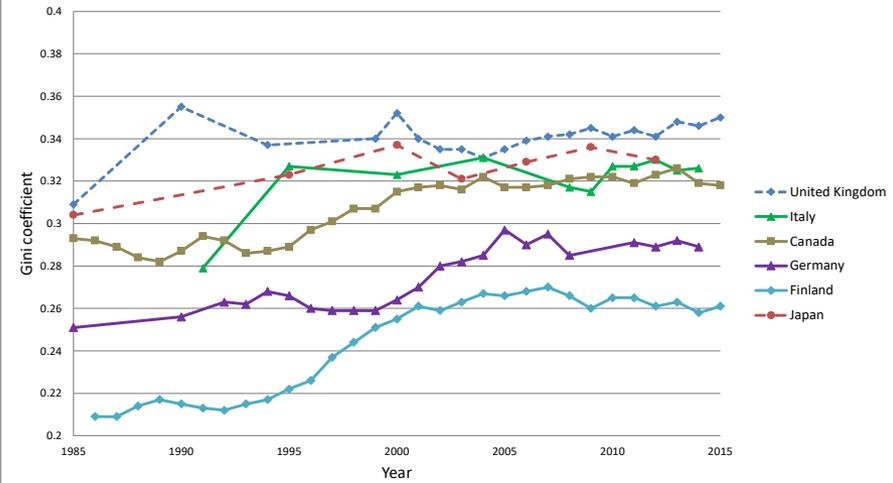
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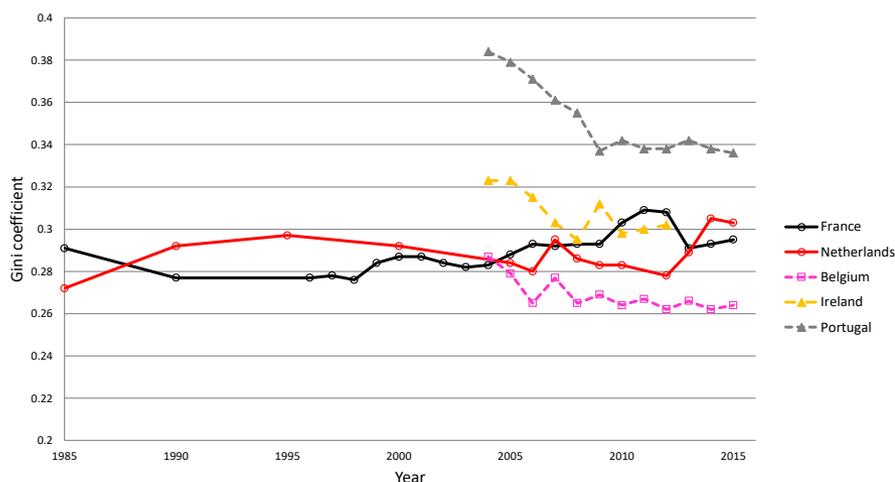
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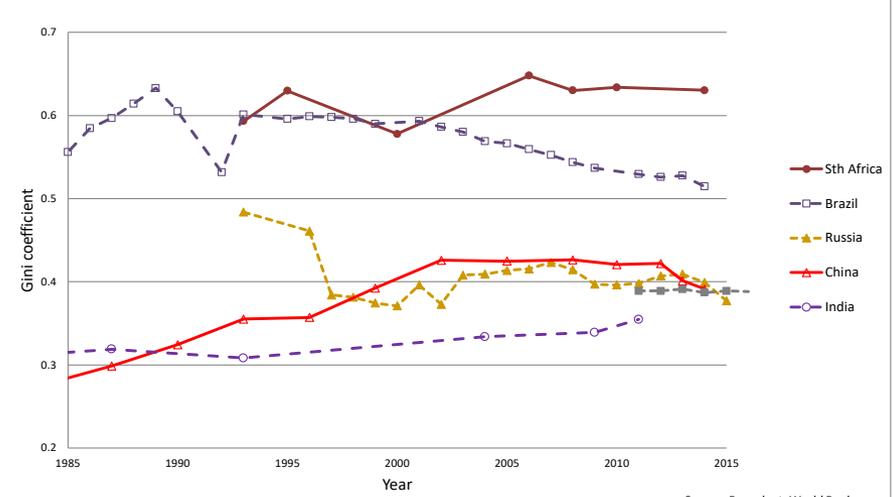
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Globalization and technical change

- Most likely to explain US inequality evolution (plus 1986 tax reform) and more technical change than globalization(?)
- Present in other advanced countries, but possibly partly compensated by redistribution institutions, regulations of the labor market, or miscellaneous factors (skilled labor supply, fertility, ...)
- Effects often hidden by changes in other distribution determinants

4. Rising populism: is it due to rising inequality?

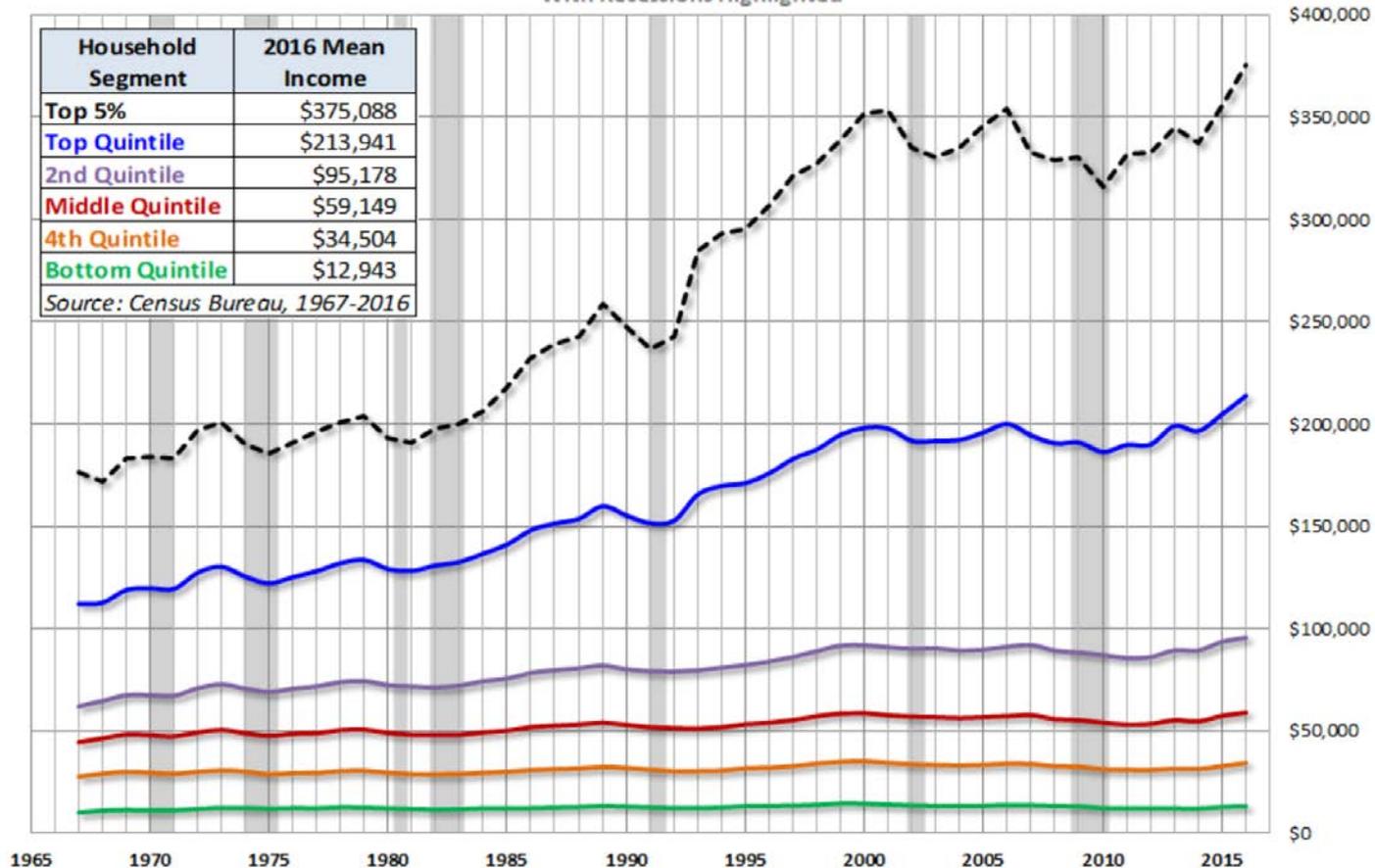
- Trump's election as the result of 30 years of rising inequality? Brexit as the result of high inequality and macroeconomic austerity?
- In France, observers impute the rise of right and left populism to the *perception* of rising inequality and austerity
 - Hence the hostility to the EU and the focus on migrants (who take away natives' jobs)
- In the light of the evidence on the evolution of inequality what should we think of these explanations?
 - The importance of real income growth (possibly by population group)
 - The importance of the inequality of 'current opportunities' rather than of income

The case of the US: inequality or income stagnation in the bottom half of the population?

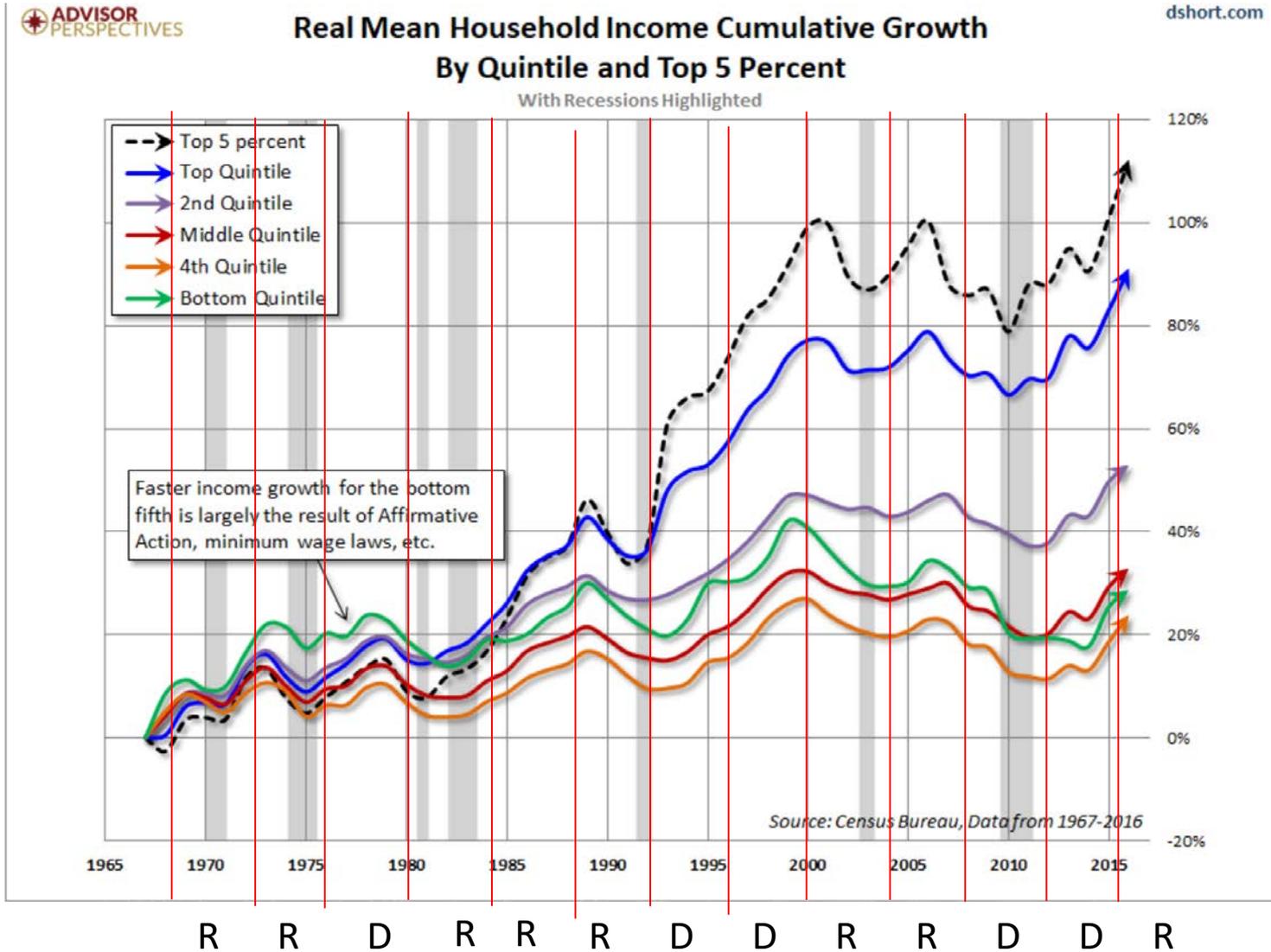


**Real (Inflation-Adjusted) Average Household Income
By Quintile and Top 5 Percent**
With Recessions Highlighted

dshort.com



The case of the US

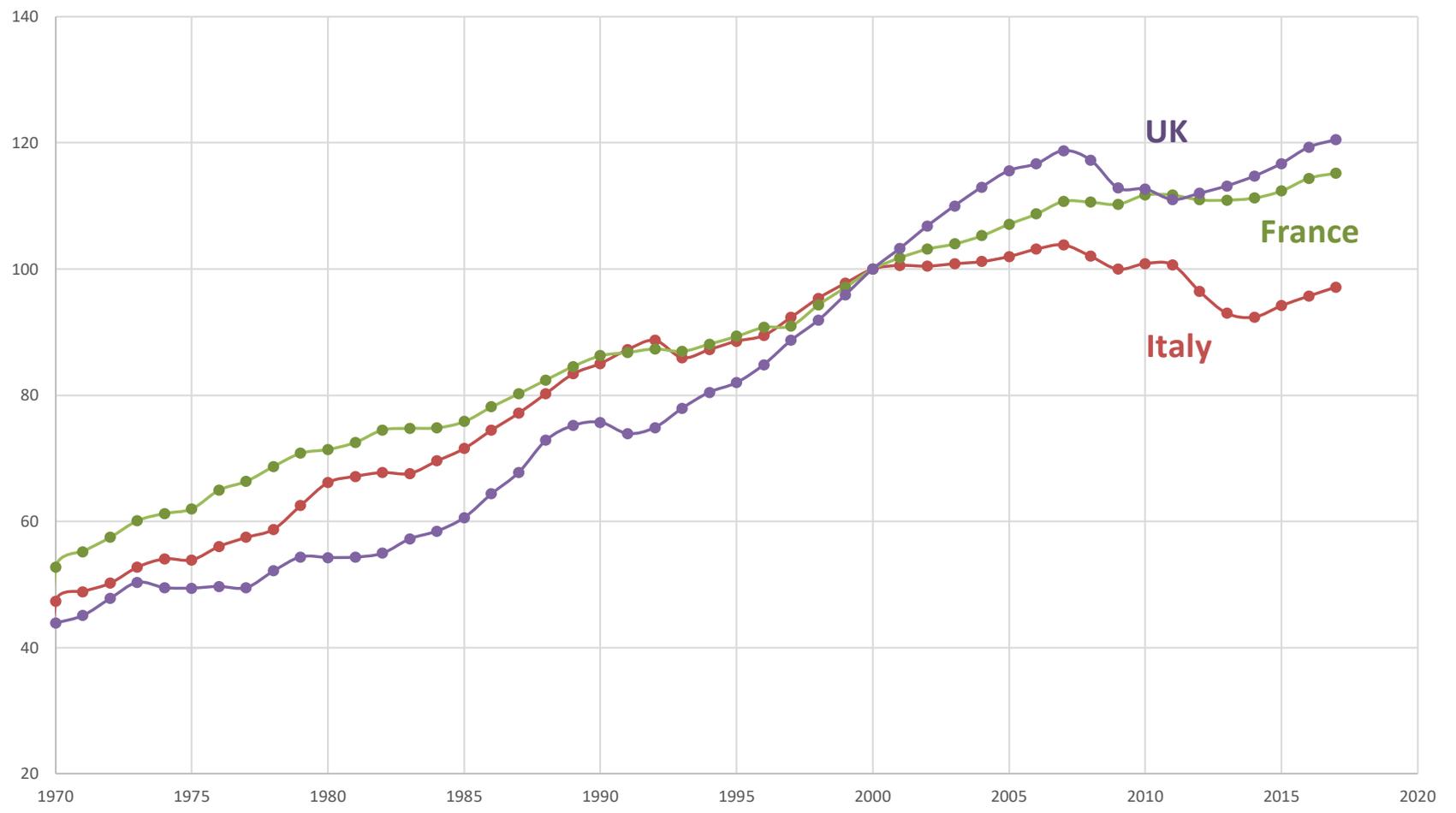


The case of the US (ct'd)

- The Trump election was more the result of purchasing power stagnation – and decline since 2000 – in bottom vintiles than of increased inequality
 - Campaign was not on inequality but on 'bringing jobs back' and the ills of globalization
 - Voters were not shocked by electing a billionaire or by his openly unequalizing tax reform
 - Was it the stagnating or declining purchasing power or the declining 'opportunities' and status of the white working class (Vance, 2016; Deaton-Case, 2017)?
 - Would the vote have been the same if the top quintile had fared as badly as the bottom ones?

Europe

Household consumption per capita in selected European countries:
1970-2017 (2000 = 100)



Europe (ct'd)

- Contradictory cases of populist rise:
 - Italy: Inequality is flat, but household consumption stagnant or declining over last 16 years
 - France: Inequality is flat and rather low, but household consumption resisted the crisis and is slowly increasing
 - UK: Inequality is high and unstable, consumption growth is satisfactory
- Economic causes of populist rise unclear or combined with other non-economic causes (migration, pure nationalism, ..)
- Slow growth – due to globalization? - rather than observed inequality more likely to be among the economic causes.

Conclusion: are the signs of political disruption due to rising inequality and globalization?

- Except for the US, no net major impact of globalization and technical change
- In most cases and with both definitions, inequality seems to have stabilized over the last 10 to 15 years
- Is the present socio-political uneasiness a delayed reaction to past rise of inequality (continuing in US) and/or reforms in the welfare state? Or to growth sluggishness (e.g. Italy)
- Or is it due to other welfare or inequality-related factor?
 - *Level* and inequality of opportunity: intergenerational
 - "Children will not do as well as parents" (Chetty et al. , 2015)
 - Inequality of opportunity: intra-generational
 - Unemployment, job-precariousness, constraints to mobility, geographic inequality

What should be done?

- Looming technical change revolution and costly reversibility of most aspects of globalization makes return to 'golden age' a non-option
- Improving social insurance and employment opportunities, while *maintaining non-regressive income growth* is essential
- Requires reinventing the welfare state and reinforcing its progressivity while avoiding inefficient backward-oriented reforms
 - E. G. "Thinking out of the box" (e.g. "Government as employer of last resort") (Atkinson, 2015)

Last word

- *Present political disruptions may be the price paid for ignoring income distribution and/or income growth in the past*
- *Are they the sign of a looming deep crisis or a wake-up call about the need to reinvent the welfare state?*

Thank you