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, 1985-2015**
BRICS countries (Gini coefficient)

**Source:** Povcalnet, World Bank
Increasing top income share in advanced countries (market income, tax data)

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)

Panel A. Advanced economies 1970-2014

Panel B. Emerging economies 1995-2012

Source: OECD
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)

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

The reversal of North-South relative growth
The sharp decline in global inequality

Global Inequality: 1990-2010
(Global, 'Within' and 'Between' Gini)

- **Global Gini**: among all earth inhabitants
- **'Between Gini'**: Assuming no inequality within country
- **Within Gini**: mean within country inequality

Source: Update of Bourguignon (2015)
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
a) Heterogeneous evolution of inequality: 1985-2015

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Source: PovcalNet, World Bank
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?
The case of the US

Real Mean Household Income Cumulative Growth
By Quintile and Top 5 Percent

With Recessions Highlighted

Faster income growth for the bottom fifth is largely the result of Affirmative Action, minimum wage laws, etc.

Source: Census Bureau, Data from 1967-2016
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