

World changes in inequality: facts, causes, policies

François Bourguignon
Paris School of Economics

BIS, Luzern, June 2016

The rising importance of inequality in the public debate

- Due to fast increase in inequality in key countries (e.g. US) ?
- A 'Great Gasby' bias ? Publicizing of top incomes and economic 'austerity'
- Change of view on the equity/efficiency relationship:
 - Trade-off due to distortive redistribution instruments
 - Complementarity through correcting unequalizing market failures
 - Non-economic effects of inequality
- Globalization and 'neo-liberalism' often taken as the cause of high and rising inequality
- Constraints on corrective policies

What's the state of play and what to do?

This presentation

- Is the perception of 'everywhere rising inequality' correct?
 - differences across periods, inequality concepts, countries and regions
- The fall in global inequality: is there a substitution between global and national inequalities ?
- Causes of changes in national and global inequality
- The economic inefficiency of 'excessive' inequality
- Which corrective policies and constraints on them?

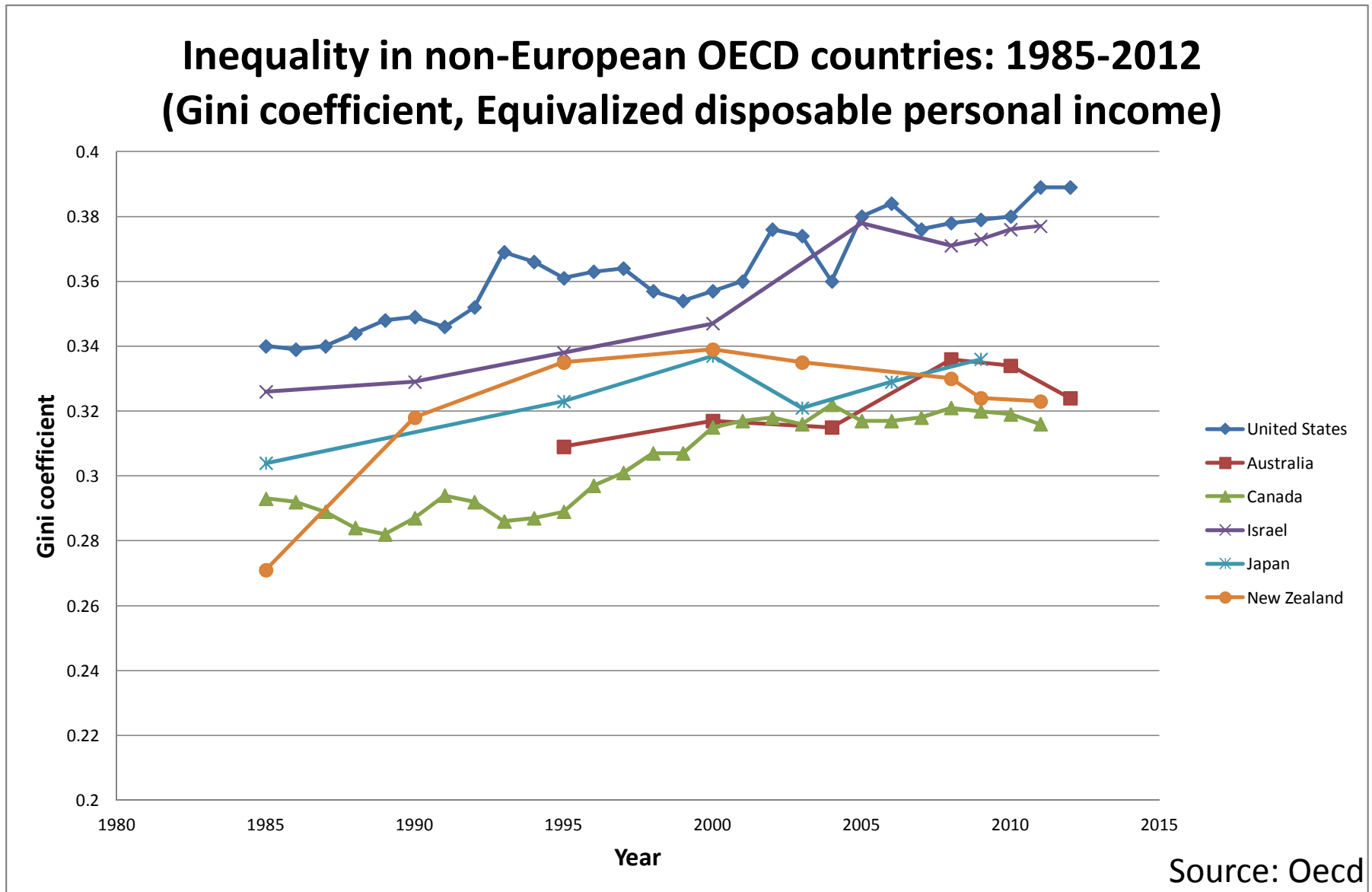
Outline

1. A tour d'horizon of the evolution of inequality
2. Causes of changes in inequality
3. The cost of excessive inequality
4. Corrective policies

1) A tour d'horizon of the evolution of inequality

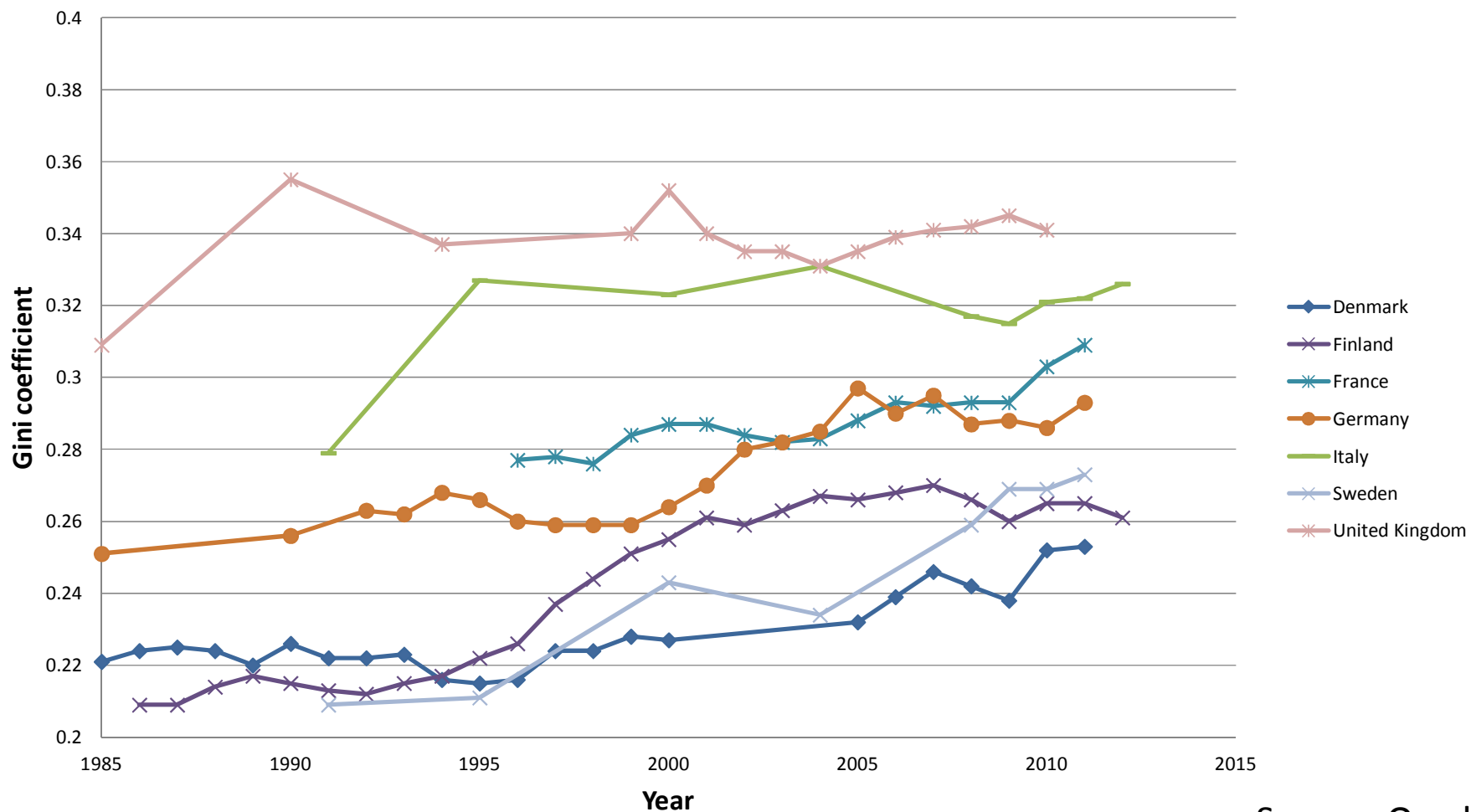
- a) Inequality of 'equivalized disposable income'
 - All people are imputed their household's disposable income per consumption unit
- b) Other inequality concepts:
 - Earnings, gross (market) income (top x %), wealth,
 - Non-economic : inequality of opportunity (no systematic data)
- c) The functional distribution of income
- d) Global inequality

a) In most OECD countries inequality is higher in 2012 than in 1985-1990, but paths are different



Inequality often tends to plateau after some upward shift

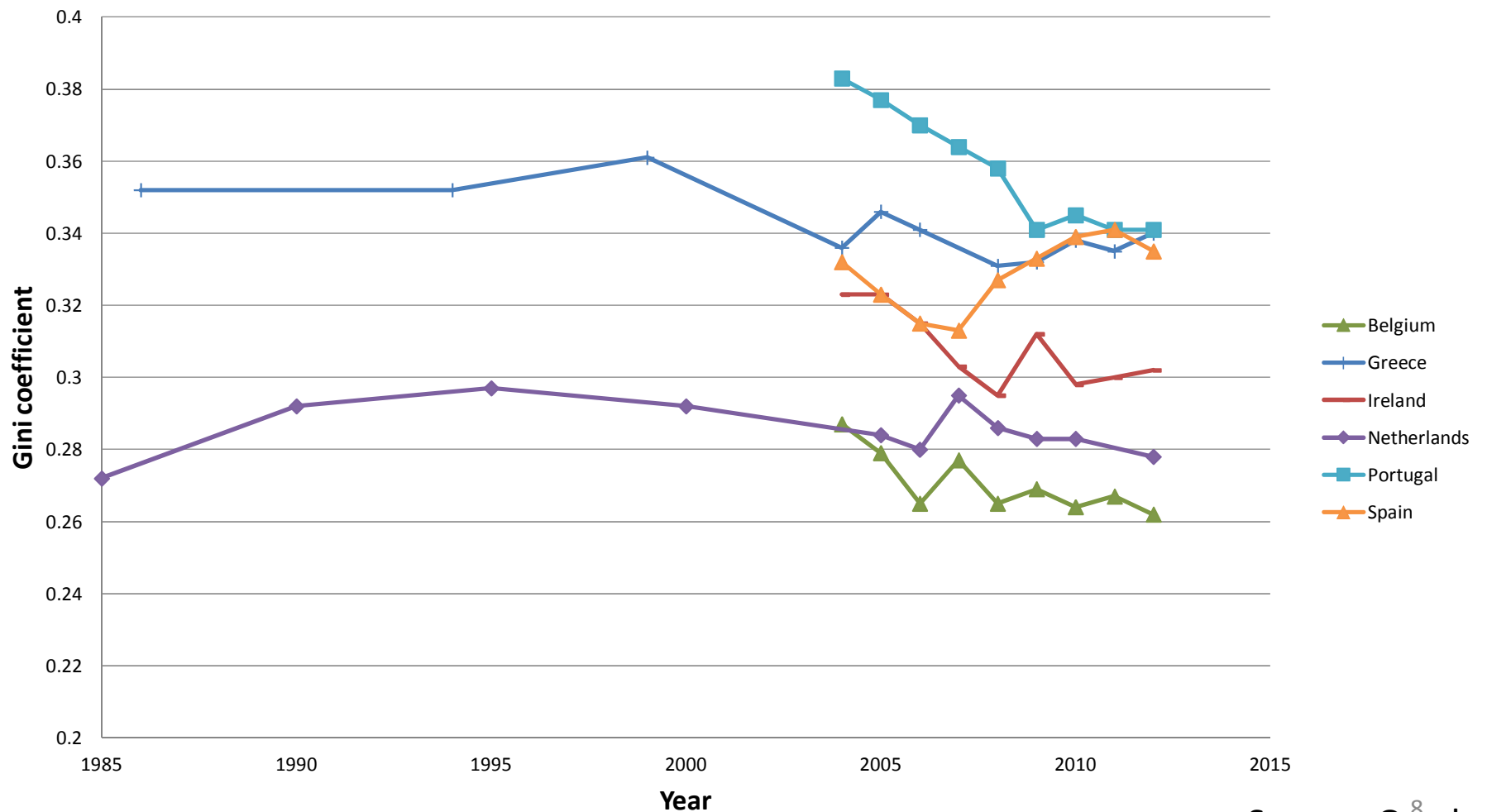
Inequality in European OECD countries: 1985-2012 (Gini coefficient, Disposable quivalized personal income)



Source: Oecd

... but inequality fell or remained roughly constant in several European countries

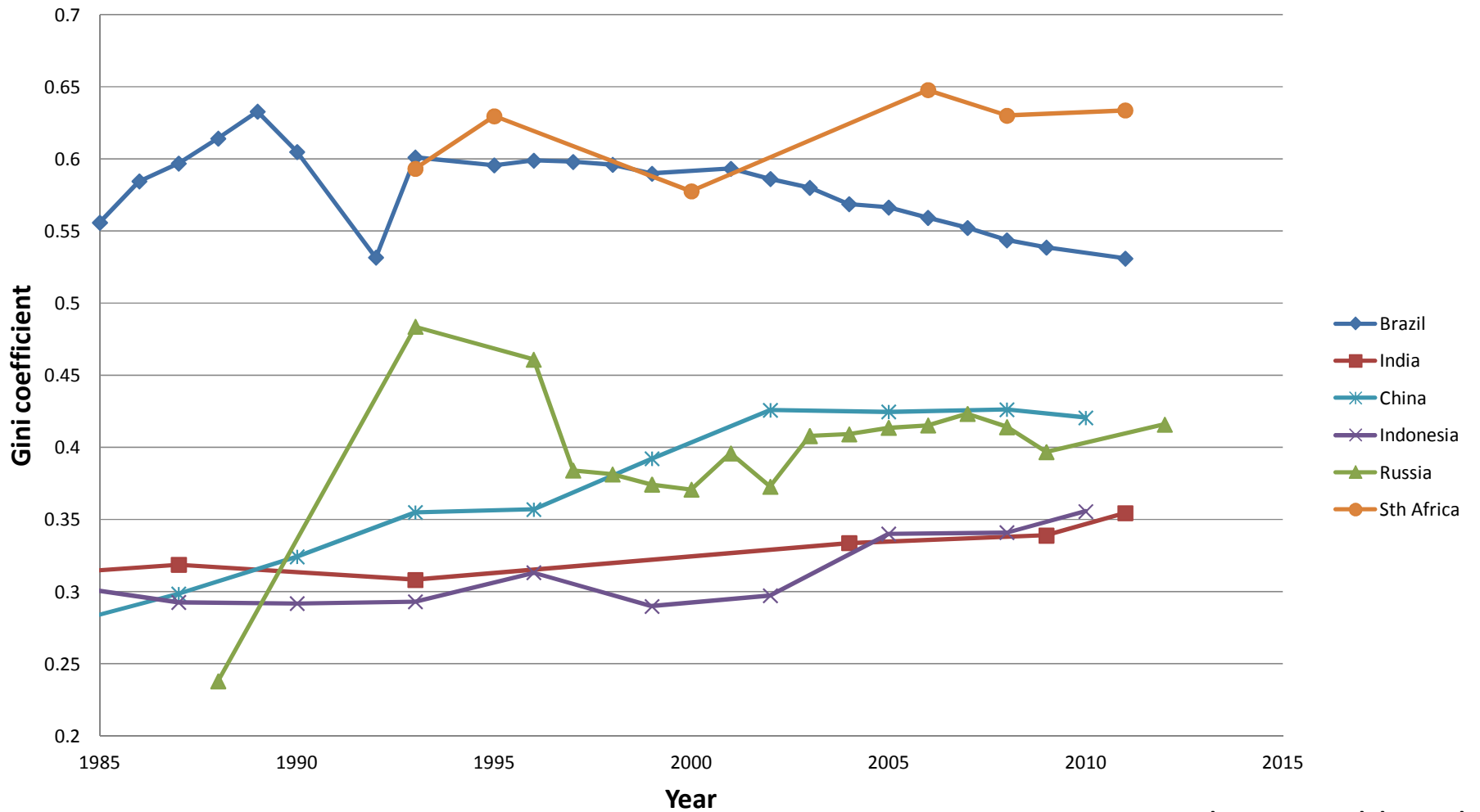
Inequality in European OECD countries: 1985-2012
(Gini coefficient, Disposable equivalized personal income)



Source: Oecd

Heterogeneity in emerging countries but dominant rising trend

Inequality in emerging countries (BRICS): 1985-2012 (Gini coefficient; Per capita disposable income/consumption)

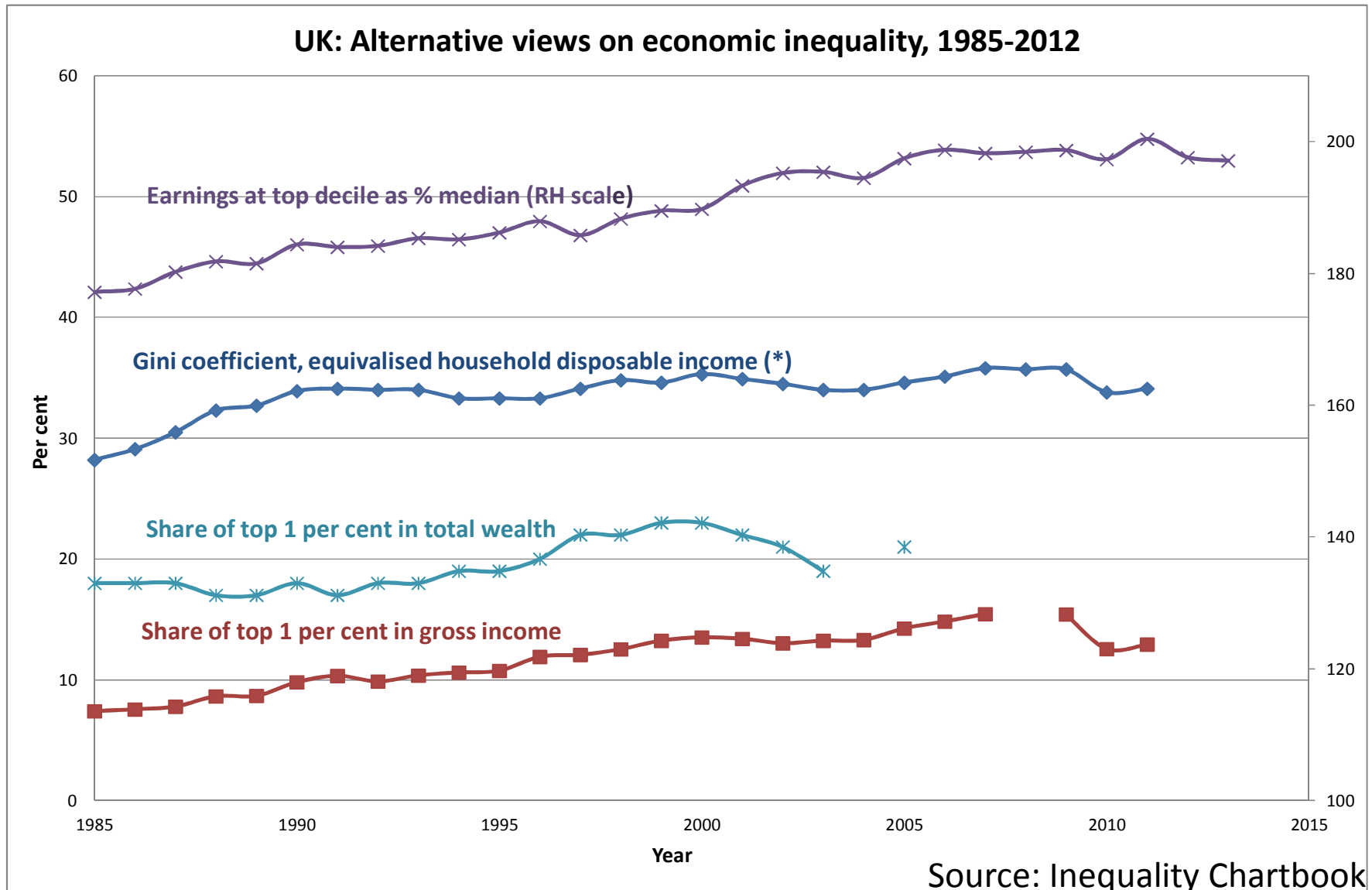


Source: Povcalnet, World Bank

Inequality trends by groups of countries or regions

- *Advanced countries* : inequality has increased in a large majority of countries over last 30 years but seems to have plateaued in most of them ... (before rebounding?)
- *Asia*: increasing in the giant Asian emerging countries, but remaining stable in a number of other countries
- *Latin America*: decreasing in most countries after having picked around 2000
- *Eastern Europe and Central Asia*: decreasing after sharp increase during the 'transition'
- *Middle East and North Africa*: Mostly stable
- *Africa*: Heterogeneity but ... less reliable data

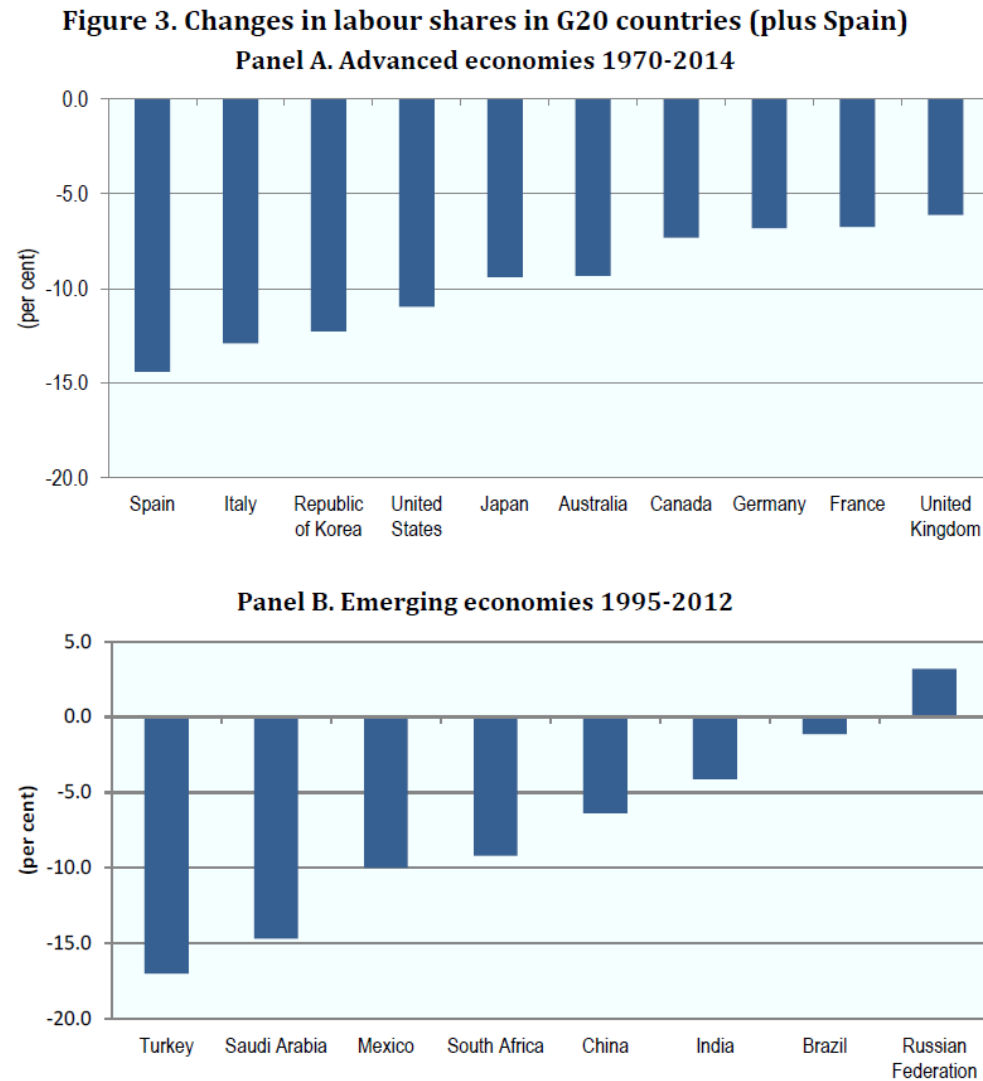
b) Alternative perspectives on inequality in a single country may lead to different conclusions



Divergent views on change in inequality

- In UK case:
 - Inequality of equivalized disposable income roughly constant since 2000
 - Yet, 'market' income inequality (earnings, gross incomes) seems to have increased
- Correspondence between various definitions of inequality complex (full-time vs. hourly earnings, role of taxes and benefits, household composition, assortative mating, ...)
- Differences may also be due to different sources and biases in them (e.g. under-sampling and under-reporting in surveys)
- What definition is the closest to public perception ?

c) The declining GDP-share of labor

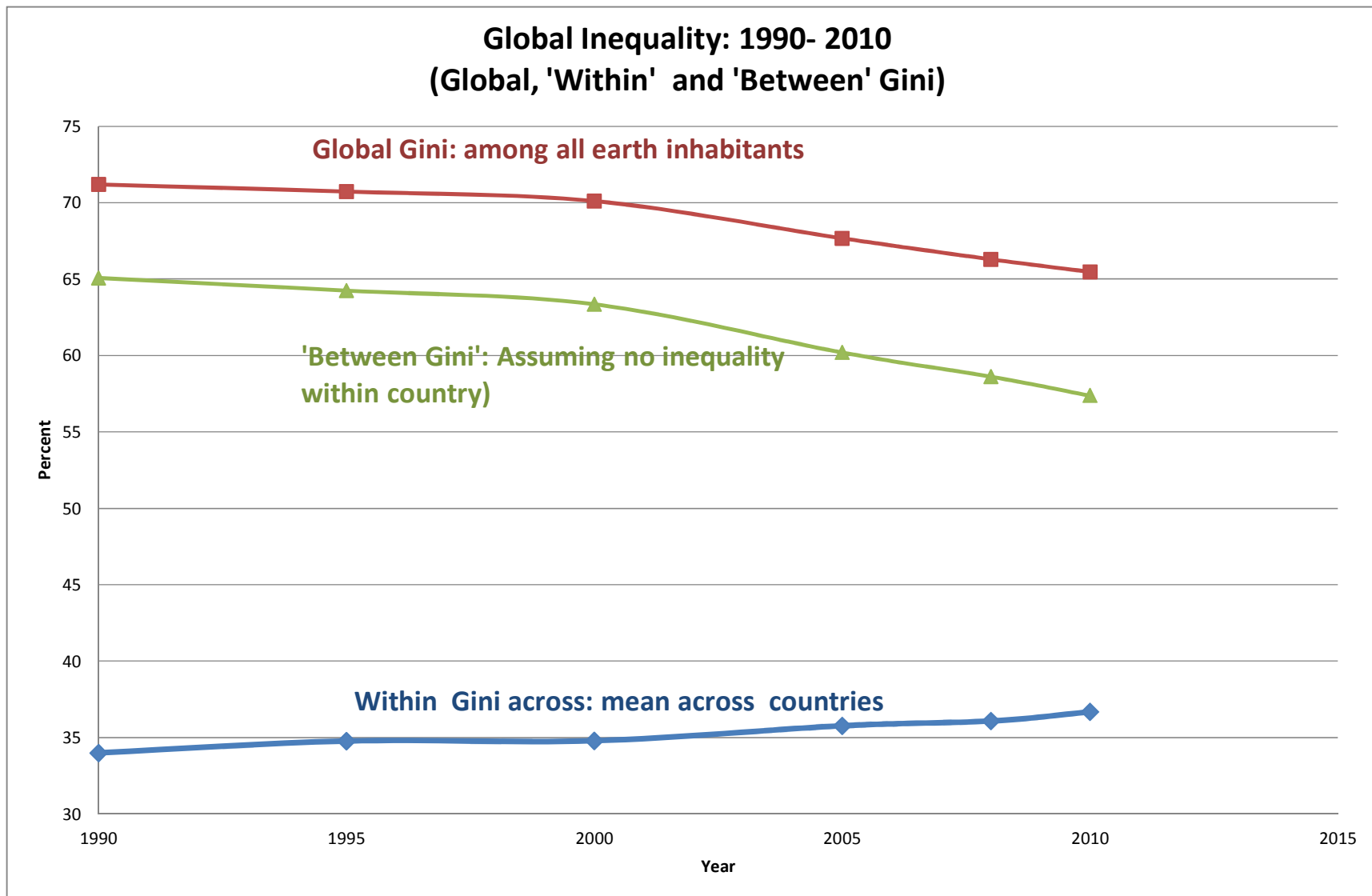


Source: OECD

From the functional to the personal distribution of income

- Shift of GDP factor shares away from labor implies more inequality:
 - Property of assets remunerated by the market (capital, real estate, intellectual property, competitive advantages,..) concentrated in the top of the income distribution
- Shift more general than the G20:
 - Karabarbounis and Neiman (2013), Guerreiro (2012)
- Generalized shift towards non-labor factors suggests inequality increase may be under-estimated in a number of countries

d) The sharp decline in global inequality... *A substitution of 'within' for 'between' inequality ?*



Source: author

2) Causes of change in inequality

Globalization vs. country autonomous forces

- a) Globalization as a possible cause of the 'substitution' between national and global inequalities:
 - Trade in goods and services
 - International mobility of capital and labor
 - Increasing capital share (?)

Causes of change ... (ct'd)

b) Other causes:

- Autonomous catching up of big emerging countries, possibly linked to more internal inequality
- Autonomous unequalizing forces in advanced and other countries :
 - Technical progress (economies of scale, automation, Artif. Int.)
 - Financiarisation
 - Regressive reforms of redistribution systems (taxation)
 - Deregulation
 - Demographics (migration, household composition, assortative mating, ..)

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

3) The cost of 'excessive' inequality

a) Economic costs

- Depressive effect through the demand side
 - One of the causes of the Great Recession ?
- Inefficiency of the inequality of opportunity
 - Unexploited economic potential
- Endogenous distortive redistribution
 - Taxation (Meltzer-Richard), violence (?)

b) Non-economic costs

- 'Populism'
- Persistence of extractive institutions (Acemoglu-Robinson)

How much is too much ?

4) Corrective policies

a) Downstream

- Income taxation
 - Constrained by globalization
 - Recent progress in transparency (FATCA, AEOI, BEPS, ..) may give back some autonomy to national governments
- Income transfers

b) Upstream

- Inheritance taxation
- Equalizing education
- Regulation of some key markets (finance, labor, patents, ..)

Conclusion

- a) The political economy and the (distortion ?) cost of corrective policies
- b) Limited reach of inequality corrective policies in countries where inequality has most increased
- c) A broader scope for corrective policies in emerging countries

Yet, such policies are necessary to ensure the ongoing technological revolution maintains growth global and inclusive