

# Comments on "World Changes in Inequality"

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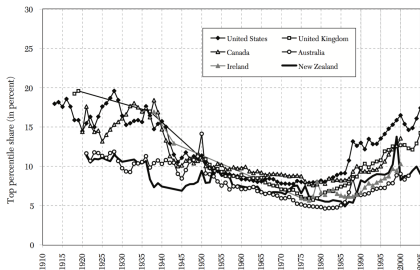
# Evaluating Macroeconomic Performance: A Distributional Lens

## The Big National & International Questions:

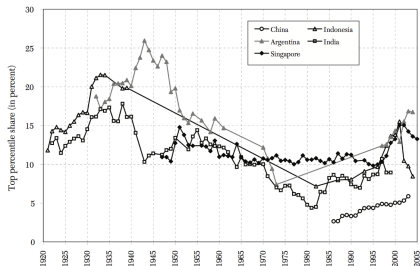
- How is prosperity shared?
  - Within a country, how are gains from growth shared?
  - Over business cycles/economic crises, how are losses distributed?
- How are the gains from globalization shared?
  - Trade
  - Outsourcing
  - Technological Change
  - Migration
- How are the negative consequences of growth shared?
  - Potentially exhaustible natural resources
  - Environmental damage (climate change)

# The Evolution of Inequality

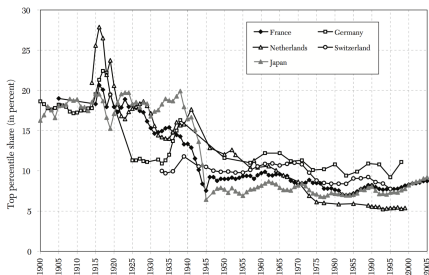
- For most countries for which we have LR data, inequality (share of top 1%) has been increasing since the '70s, whereas in others it was fairly stable and only increasing more recently.



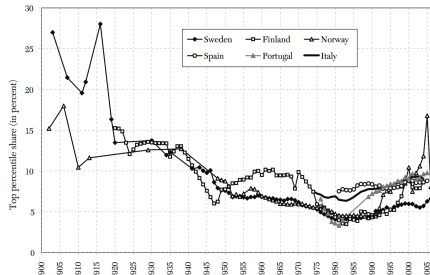
**Top 1 Percent Share:** English-Speaking countries. Source: A&P(2007, 2010).



**Top 1 Percent Share:** Developing Countries. Source: A&P (2007, 2010).



**Top 1 Percent Share: Middle Europe and Japan, Source: A&P (2007, 2010).**



**Top 1 Percent Share: Nordic and Southern Europe Source: A&P (2007, 2010).**

# The US

- US case particularly extreme

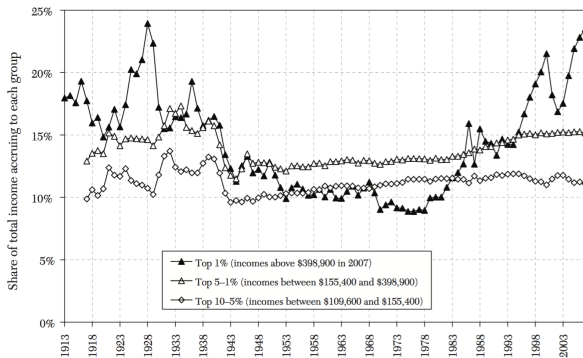


Figure 2. Decomposing the Top Decile US Income Share into three Groups, 1913–2007

*Notes:* Income is defined as market income including capital gains (excludes all government transfers).

Top 1 percent denotes the top percentile (families with annual income above \$398,900 in 2007).

Top 5–1 percent denotes the next 4 percent (families with annual income between \$155,400 and \$398,900 in 2007).

Top 10–5 percent denotes the next 5 percent (bottom half of the top decile, families with annual income between \$109,600 and \$155,400 in 2007).

*Source:* Piketty and Saez (2003), series updated to 2007.

# Evaluating Macroeconomic Performance: The US

- High inequality, in itself problematic, becomes even more so when growth gains accrue mostly to very small portion of the population

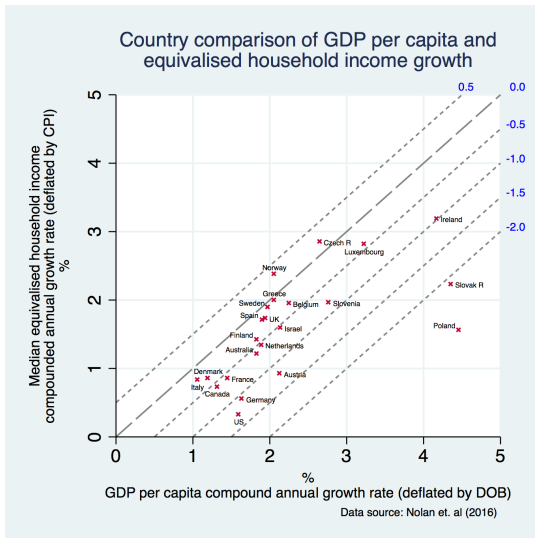
TABLE 1  
TOP PERCENTILE SHARE AND AVERAGE INCOME GROWTH IN THE UNITED STATES

Period	Average income real annual growth (1)	Top 1% incomes real annual growth (2)	Bottom 99% incomes real annual growth (3)	Fraction of total growth captured by top 1% (4)
1976–2007	1.2%	4.4%	0.6%	58%
Clinton expansion 1993–2000	4.0%	10.3%	2.7%	45%
Bush expansion 2002–2007	3.0%	10.1%	1.3%	65%

**Notes:** Computations based on family market income including realized capital gains (before individual taxes). Incomes are deflated using the Consumer Price Index (and using the CPI-U-RS before 1992). Column (4) reports the fraction of total real family income growth captured by the top 1 percent.

**Source:** Piketty and Saez (2003), series updated to 2007 in August 2009 using final IRS tax statistics.

# Growth: GDP versus Median Household Income



Data Source : Nolan et al (2016) using LIS household survey data and OECD National Income accounts.

Outliers: Hungary (1.92,-0.22), Estonia (3.62,6.14)

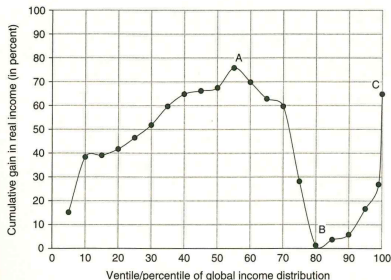
# Growth: GDP vs Median Household Income

- Harder to justify policies centered on growth if countries largely fail to distribute these gains
- Some caveats:
  - As shown by Nolan, Roser, Thewissen (2016), using GNI rather than GDP, deflating latter by CPI, and adjusting by family size, conclusions on a country by country level can change.
  - Median is an insufficient statistic. What happens in rest of distribution also matters
- Countries and international bodies (e.g. IMF, World Bank) should publish distributional gains from growth (deciles?).



# Growth and Global Inequality

## Relative gain in real per capita income by global income level, 1998-2008



**Notes:** This graph shows relative (percentage) gain in real household per capita income (measured in 2005 international dollars) between 1998 and 2008.

**Source:** Lakner and Milanovic (2015).

- Big winners (around the median) : middle classes of China, India, Vietnam, Thailand, Indonesia
- Big winners: top percentile – the very rich anywhere but primarily from developed countries
- Losers (non-gainers): middle classes of OECD countries

# Globalization and Inequality: Trade

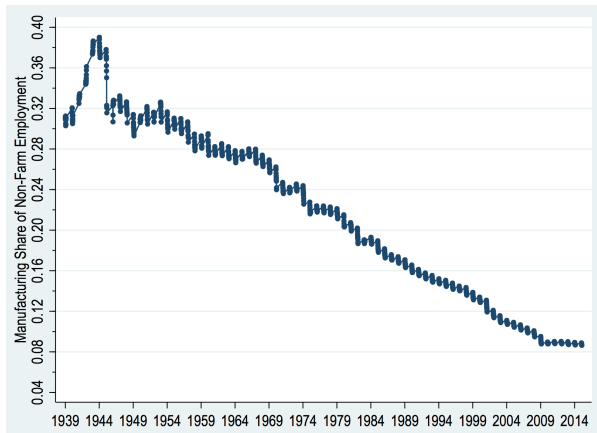
- Trade has been an important equalizing force in terms of world inequality
  - Asian tigers, India, Brazil, China, etc.
  - Less clear in Latin America: deindustrialization and higher inequality?

## Trade and the developed world?

- For first few decade after Breton Woods, trade seen as unilaterally good
  - Most trade was North-North  $\Rightarrow$  similar economies and small distributional consequences
- More doubts emerged in the 90s as inequality in US increased, but ultimately trade not seen as culpable
  - US manufacturing share had been declining steadily for decades and timing of  $\uparrow$  wage inequality across skilled vs less-skilled workers did not coincide with greater openness (ratio of merchandise trade to GDP fairly constant after sharp increase in '70s in developed world)

# Globalization and Inequality: Trade

## Manufacturing Share of US Economy Nonfarm Employment, 1939-2015



Source: FRED Economic Data

# Globalization and Inequality: Trade

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  - Most trade was North-North  $\Rightarrow$  similar economies and small distributional consequences
- More doubts emerged in the 90s as inequality in US increased, but ultimately trade not seen as culpable
  - US manufacturing share had been declining steadily for decades and  $\uparrow$  wage inequality across skilled vs unskilled workers did not coincide in timing with greater openness (ratio of merchandise trade to GDP fairly constant after sharp increase in '70s in developed world)
  - manufacturing sector shifted towards higher skilled workers despite their higher wages  $\Rightarrow$  technological change benefiting high-skill workers appeared to be the more likely explanation
- Academics concluded: American wages were "not being set in Beijing"

## A Recent, Less Benign, View of Trade

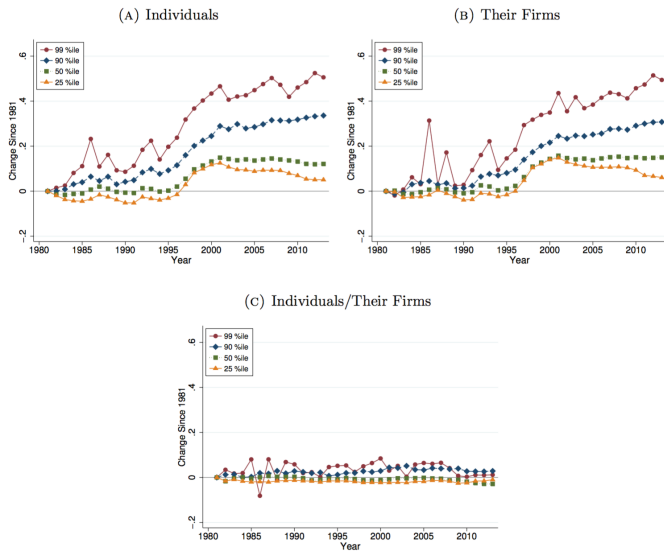
- Several recent papers have found that expanded trade is associated with substantial adjustment costs and negative distributional consequences (e.g., McLaren & Hokobyan (2012), Balsvik, Jensen, & Salvanes (2015), Donoso, Martin, Minondo (2014), ADH (2013))
- Using the arguably unexpected growth in China's exports of manufactures as a "natural experiment," Autor, Dorn, Hanson (2013,2016) show that local labor markets in which industries exposed to competition are located take a substantial hit.
- The negative shock is not dissipated throughout the economy...labor markets are very local

## A Recent, Less Benign, View of Trade

- By exploiting variation in exposure to Chinese competition across different manufacturing industries in different US CZ (local labor markets), ADH show
  - Adjustment in local labor markets is "remarkably slow,"
  - Wages and LFP rates remain depressed, unemployment rates remain high for at least a full decade after the China trade shock commences
  - Offsetting employment gains in other industries have yet to materialize
- ADHS (2014) use longitudinal data and study workers who were ex ante observationally similar but initially employed in different industries. They show that the worker whose initial (1990) industry is more more affected by import competition
  - suffer long-term lower earnings
  - spend more years receiving social security disability insurance
  - have more job churning

# Causes and Policy Challenges

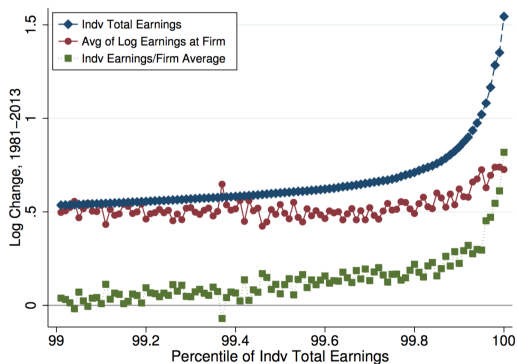
- Usual causal suspects for increased national inequality:
  - trade, technological change, automation
  - rent extraction (particularly financial system), superstar/tournament economy
  - falling labor share, deunionization
- Relatively little evidence on mechanisms or quantitative significance of each, but some intriguing recent work
  - e.g. Song et al (2016))



**Source:** Song et al (2016). Only firms and individuals in firms with at least 20 employees are included. Only full-time individuals aged 20 to 60 are included in all statistics.



FIGURE 6 – Rise in Inequality of Annual Earnings between 1981 and 2013 among Top 1% of Earners



**Source:** Song et al (2016). Only firms and individuals in firms with at least 20 employees are included. Only full-time individuals aged 20 to 60 are included in all statistics.

# Policy Challenges: National and International

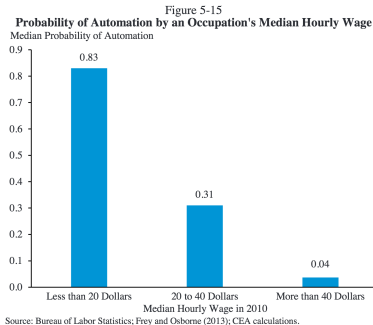
At the national level:

- Tax and labor market policies
  - Potentially important dynamic effects of tax policy on inequality
  - Higher taxes  $\Rightarrow$  less wealth and capital income  $\Rightarrow$  lower inequality
  - Effectiveness of policy depends on how mobile factors are
- Policies aimed at equalizing endowments
  - Equalize access to high quality education by increasing quality of schooling
  - Basic income
  - These must be paid for...

# Policy Challenges: National and International

Some future challenges

- Future automation and inequality



- How does a prolonged period of stagnation affect desirability of policies from inequality perspective?
  - Low growth but also low real interest rates

# Policy Challenges: National and International

At the international level: Migration

- Can be important policy for decreasing global inequality
- Politically difficult
- May increase economic inequality for host country
- Policy of deliberate legal discriminatory treatment of migrants?
  - may decrease political resistance
  - may exacerbate host country inequality
  - legal discrimination may erode non-discriminatory social norms – slippery slope