



# The globalization of inequality

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Public lecture, Canberra, May 2013



*"In a human society in the process of unification inequality between nations acquires the same meaning as inequality among classes in the past. Standards of living differ today between continents or between countries more than they ever did.*

*At the same time, the perception of inequality increases whereas resignation to poverty and to destiny is disappearing. "*

***Raymond Aron***

*"Studying income inequality is like watching grass grow"*

***Henry Aaron***



# Facts and Questions

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- ❑ The double reversal in the evolution of world inequality
  - Global inequality declines
  - National inequality increases in many countries
- ❑ Is the present wave of globalization the common cause of those reversals?
- ❑ Does the rise in inequality within nations threaten the general economic gains from globalization?
- ❑ How to promote more global equality while preventing inequality to grow at national level?



# 1. The historical double reversal in global inequality

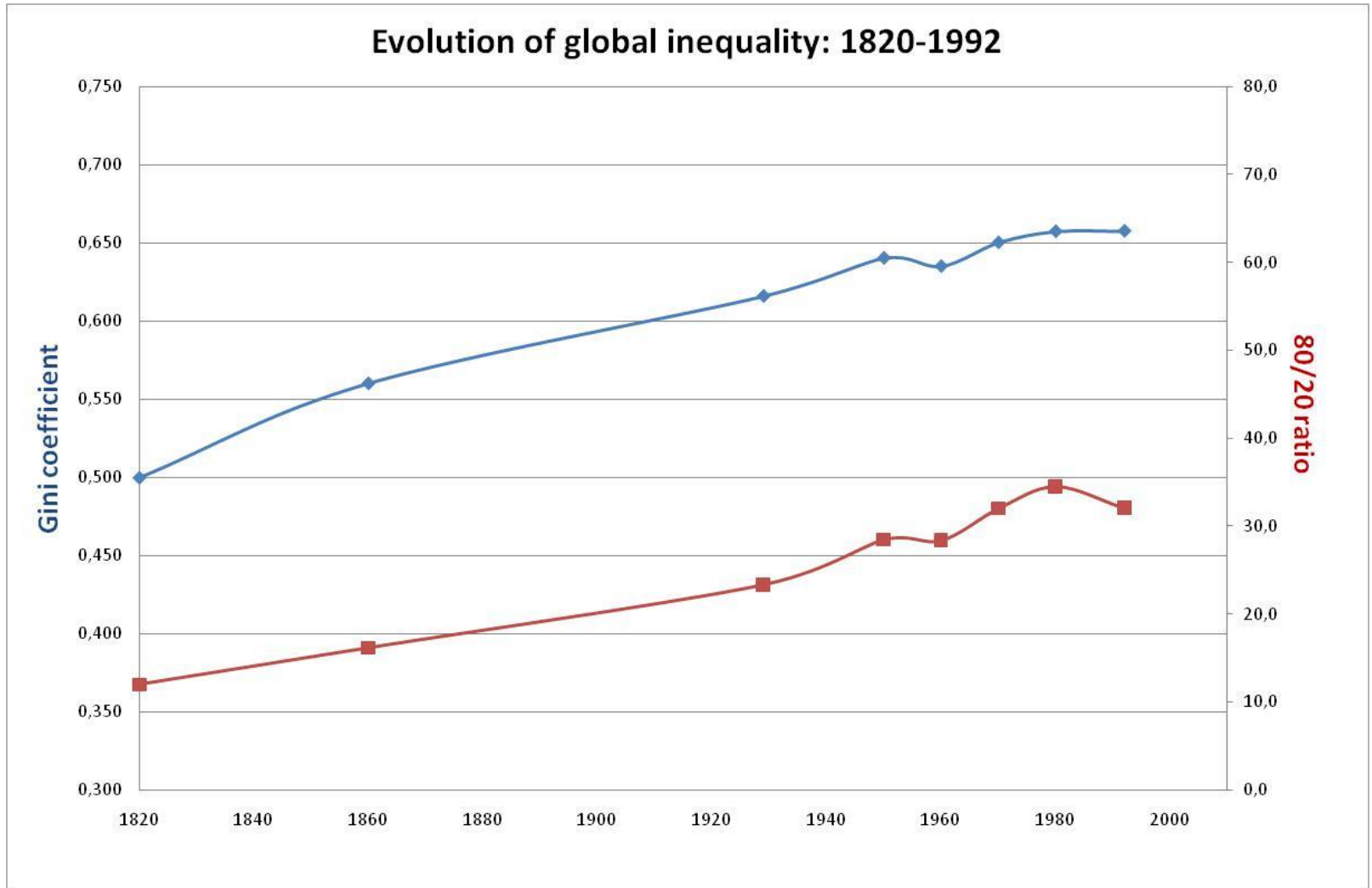
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## A) Measuring global inequality

- ❑ Inequality among world citizens
- ❑ Combines inequality between countries (e.g. GDP per capita) and inequality within countries (as observed in household surveys)
- ❑ Historical series based on Maddison data and proxies of income distribution in main countries (or groups of countries)
- ❑ Recent series data based on OECD + World Bank data



# The historical rise in global inequality

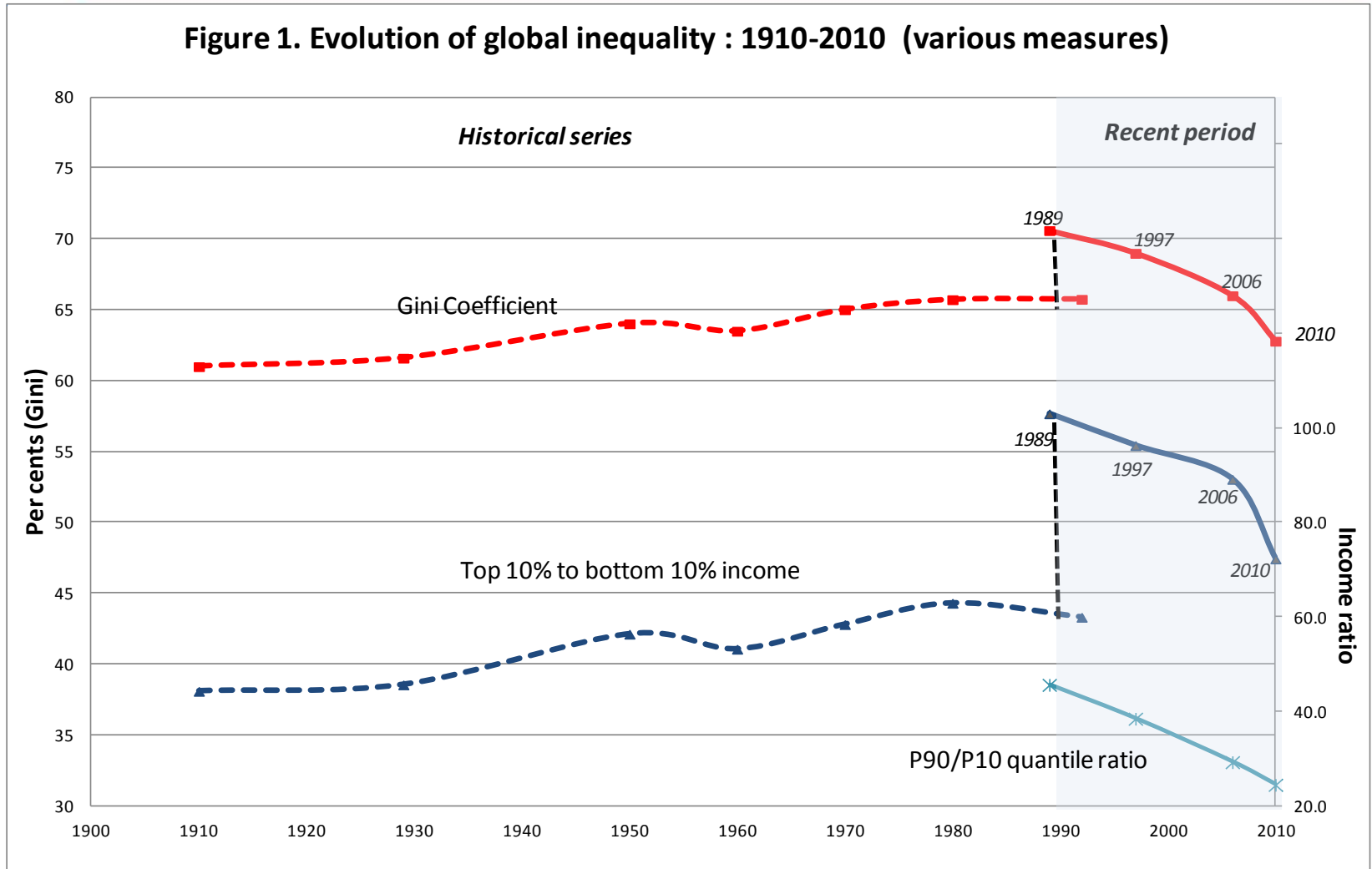


Source: Bourguignon and Morrisson, 2002



# The reversal in global inequality trend

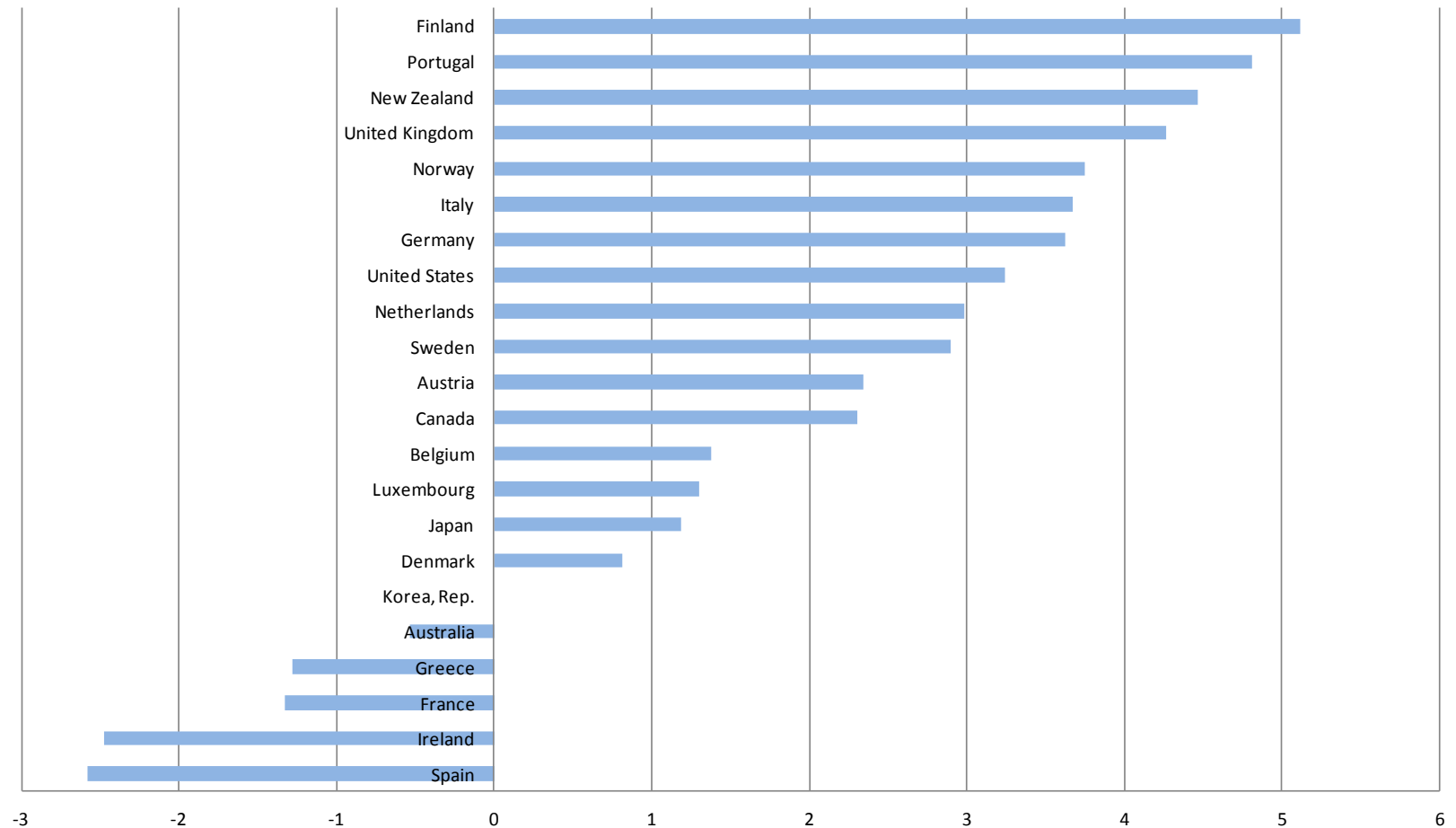
Figure 1. Evolution of global inequality : 1910-2010 (various measures)





# B. Within country inequality : the recent increase in developed countries

Change in the Gini coefficient : mid 1980s to mid 2000s, developed countries

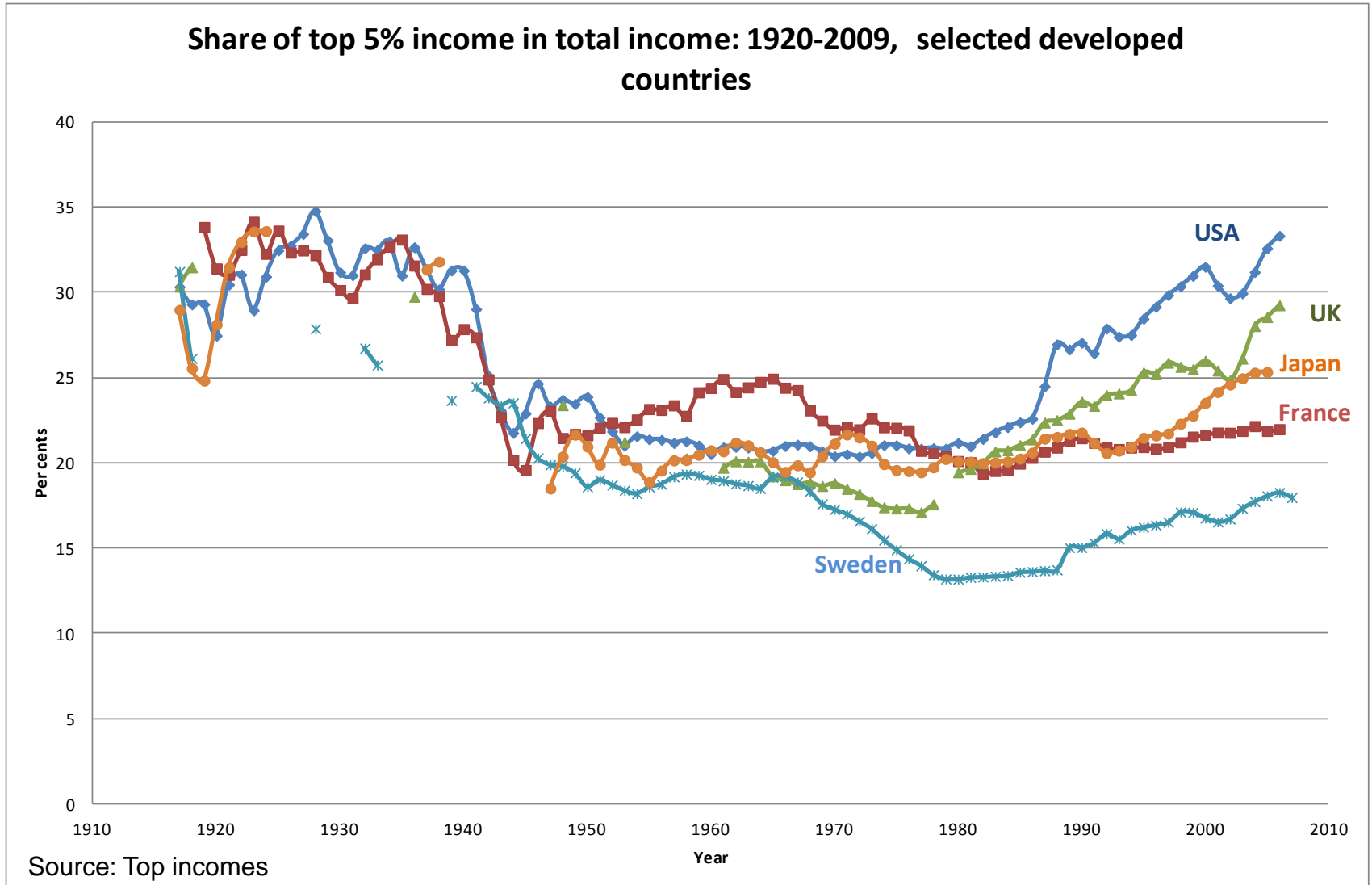


Percentage points

Source: Oecd, disposable income per CU



# Top (market) incomes in developed countries: a trend reversal

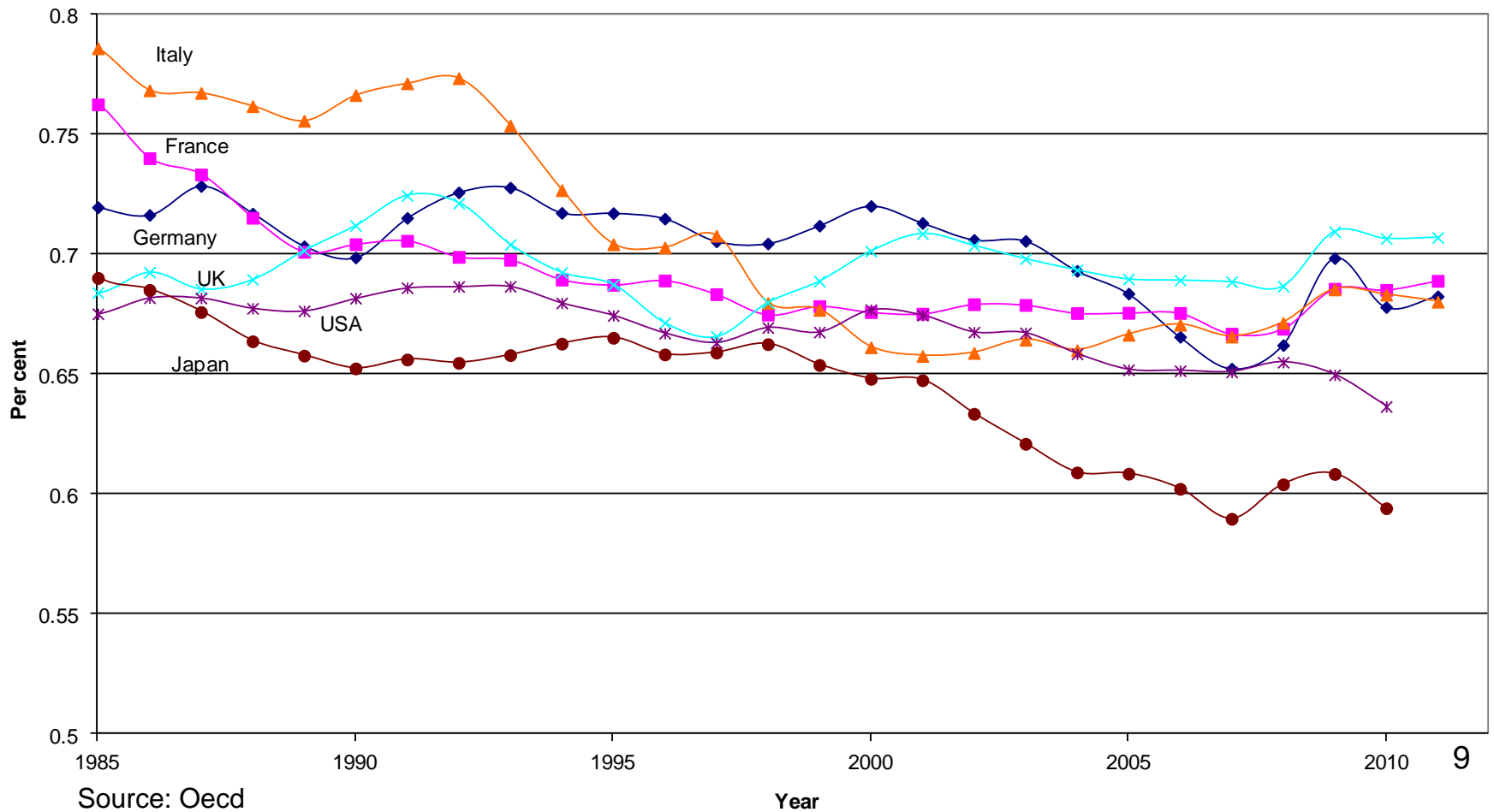






# The drop in the labor share

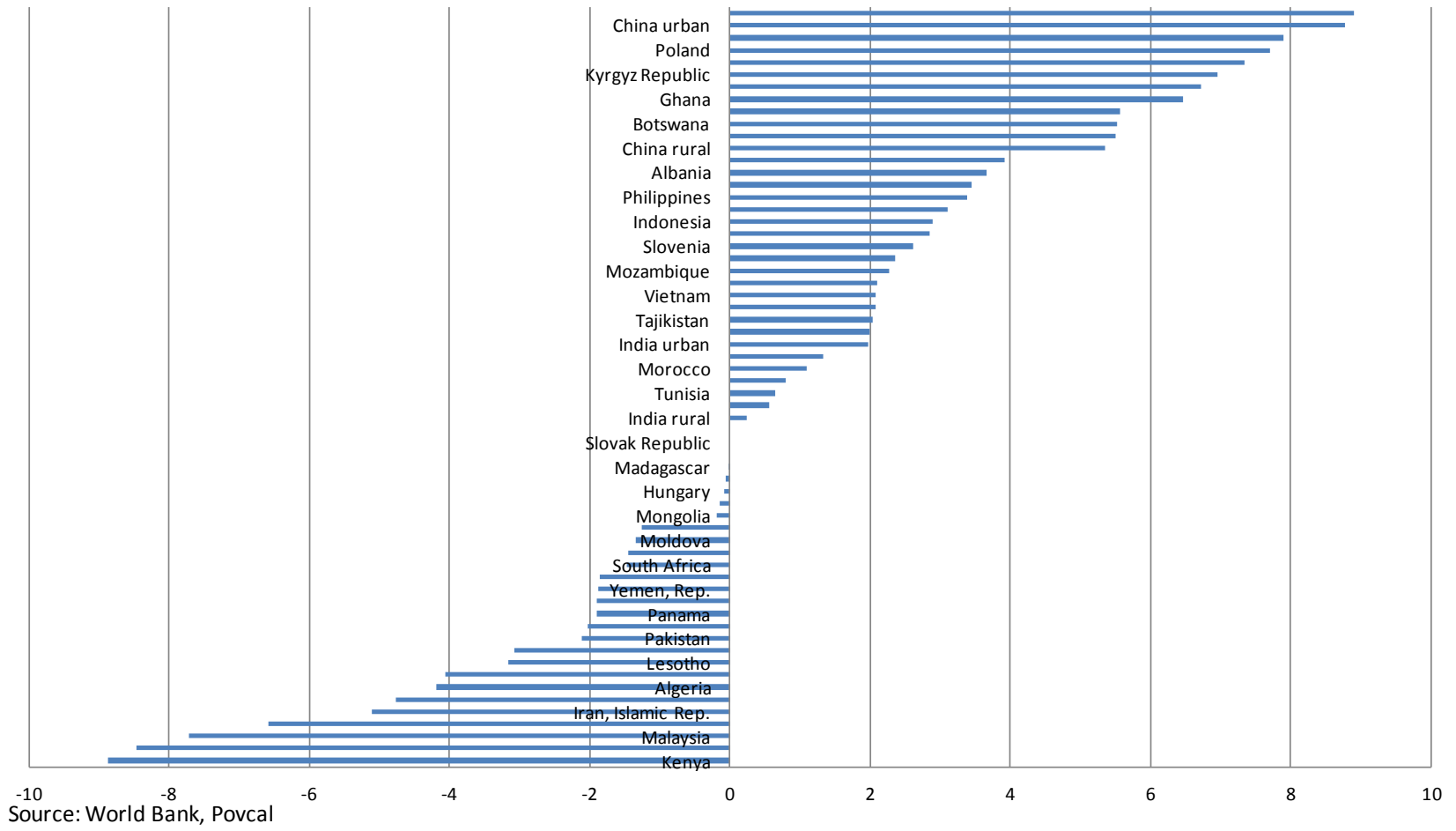
Labor share in GDP, selected OECD countries, 1985-2011





# Inequality change in developing countries (excluding LAC)

Change in the Gini coefficient : mid 1980s to mid 2000s,  
Other emerging and developing countries





## 2. Globalization as the common cause of inequality trend reversals ...

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### □ *Between countries*

- Catching up of emerging countries partly based on opening up: expanded trade and foreign investments
- Favorable spillover on other developing countries of record growth in China and Asia
  - The acceleration of growth Latin America and Africa since the mid 1990s



# Globalization as the common cause...

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## □ Within countries

- Unskilled labor hurt in de-industrializing developed countries; gains of skilled workers and capital owners.
- Offshoring of services to emerging countries (accounting, call centers, computer code writing,..) affects more skilled workers
- Heterogeneity of exporting firms in terms of productivity and wages
- Restructuring of the international value chain benefits capital owners and managers
- The spread of technical progress (skilled labor bias, economies of scale, 'winner takes all')
- Somewhat parallel effects in emerging countries



# Globalization as the common cause...

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- *Other unequalizing factors within and across countries*
  - Generalized increase in competition and deregulation
    - Privatisations
    - Deregulation: financial sector, labor market
  - Less progressive tax systems; cuts in the Welfare State
  - "Financiarisation"



### 3. Policies to correct global inequality: a) global level

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- ❑ Catching-up by emerging countries likely to continue
- ❑ But .. concern about growing gap between poor and emerging countries
- ❑ International redistribution to the poorest countries from rich and emerging countries through:
  - Official Development Assistance
  - Cutting trade restrictions
  - Capital flows (FDI)
  - Migration
  - Technological transfer



## b) Controlling national inequality

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- ❑ Forces towards more globalization and more inequality unlikely to disappear
- ❑ Is protectionism a solution?
  - Justified to a limited extent in poor countries, but less and less so in emerging countries
  - Increased protection by developed (and emerging countries) likely to stop the global equalizing trend without correcting national inequalities
- ❑ Positive distributional impact of solid growth at some stage in developing countries (China, Kuznets curve?)
- ❑ Reversing some aspects of deregulation (finance, labor, ...)



# The key role of redistribution policies

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- ❑ More progressive tax policies in developed countries (but problem of coordination)
- ❑ Development of taxing capacity and efficient social protection in emerging countries
  - The spread of cash transfer programs as the proof that cash redistribution is possible in developing countries
  - Financial development makes it easier to monitor individual incomes and to tax them
- ❑ Equalizing 'opportunities':
  - Human capital policies (Education, health care,..)
  - Taxing bequests
  - Fighting discrimination





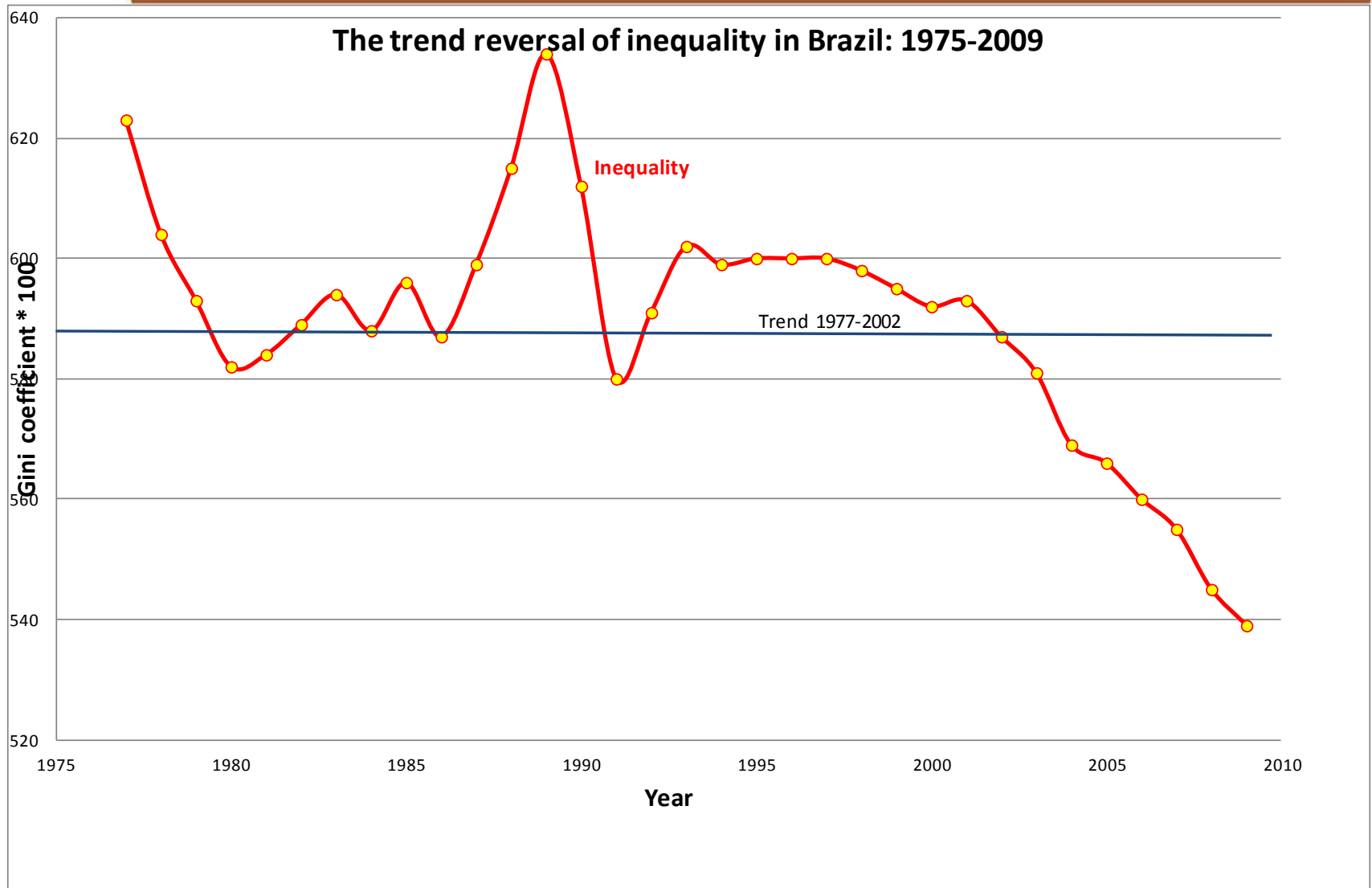
# Conclusion

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- ❑ Globalization is a positive sum game, with potentially adverse distributional effects at national level
- ❑ Growing national inequalities may have a huge economic cost at both the national and the global level
- ❑ No reason to be passive:
  - Correcting market failures through regulation is efficiency enhancing and often egalitarian
  - A more equal distribution of opportunities is efficiency enhancing:
    - It may increase the competitiveness of countries
    - It improves the distribution of economic outcomes (including incomes)
    - This is true even if it has to be financed through distorting taxes.

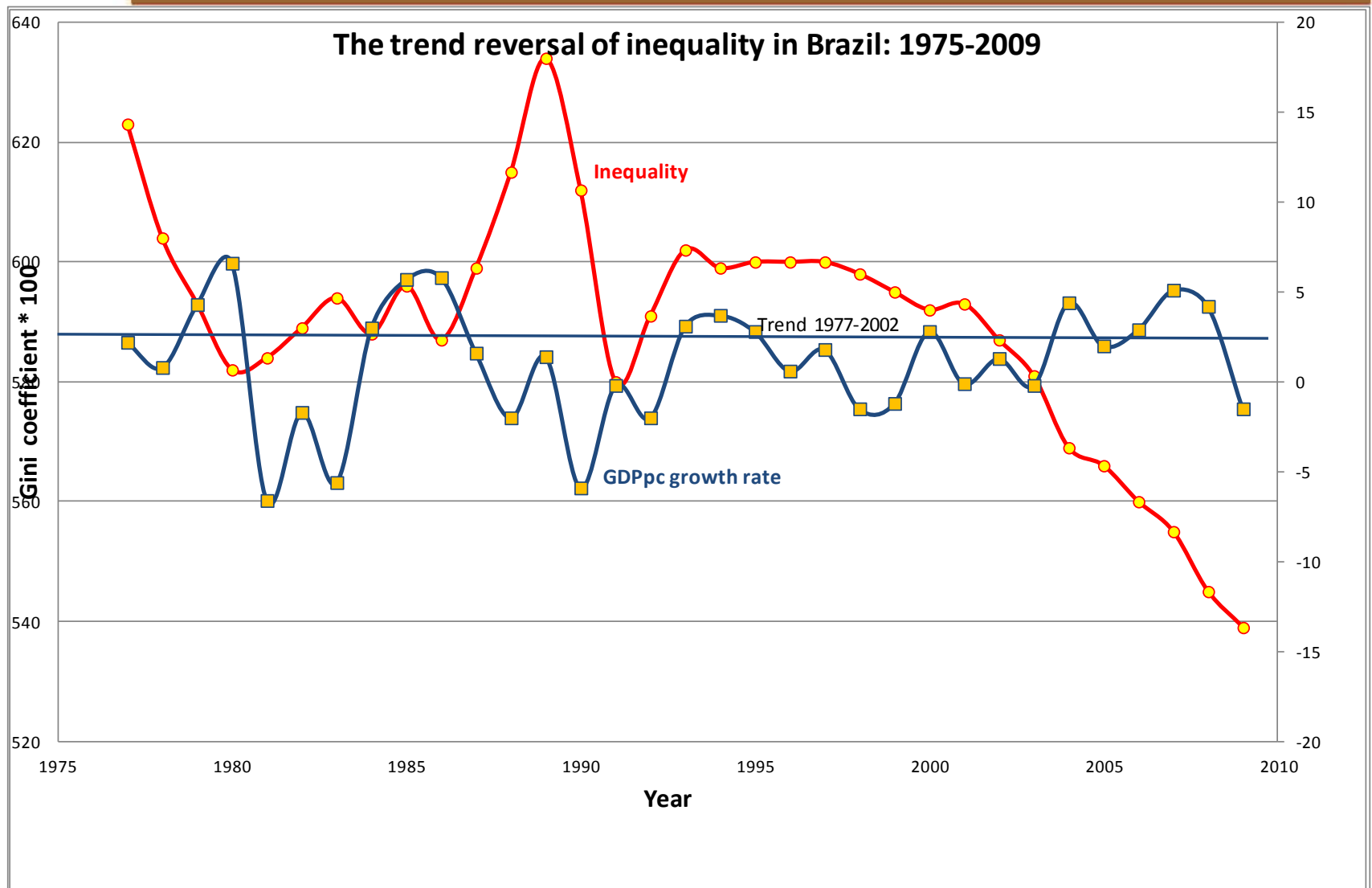


# A good example!





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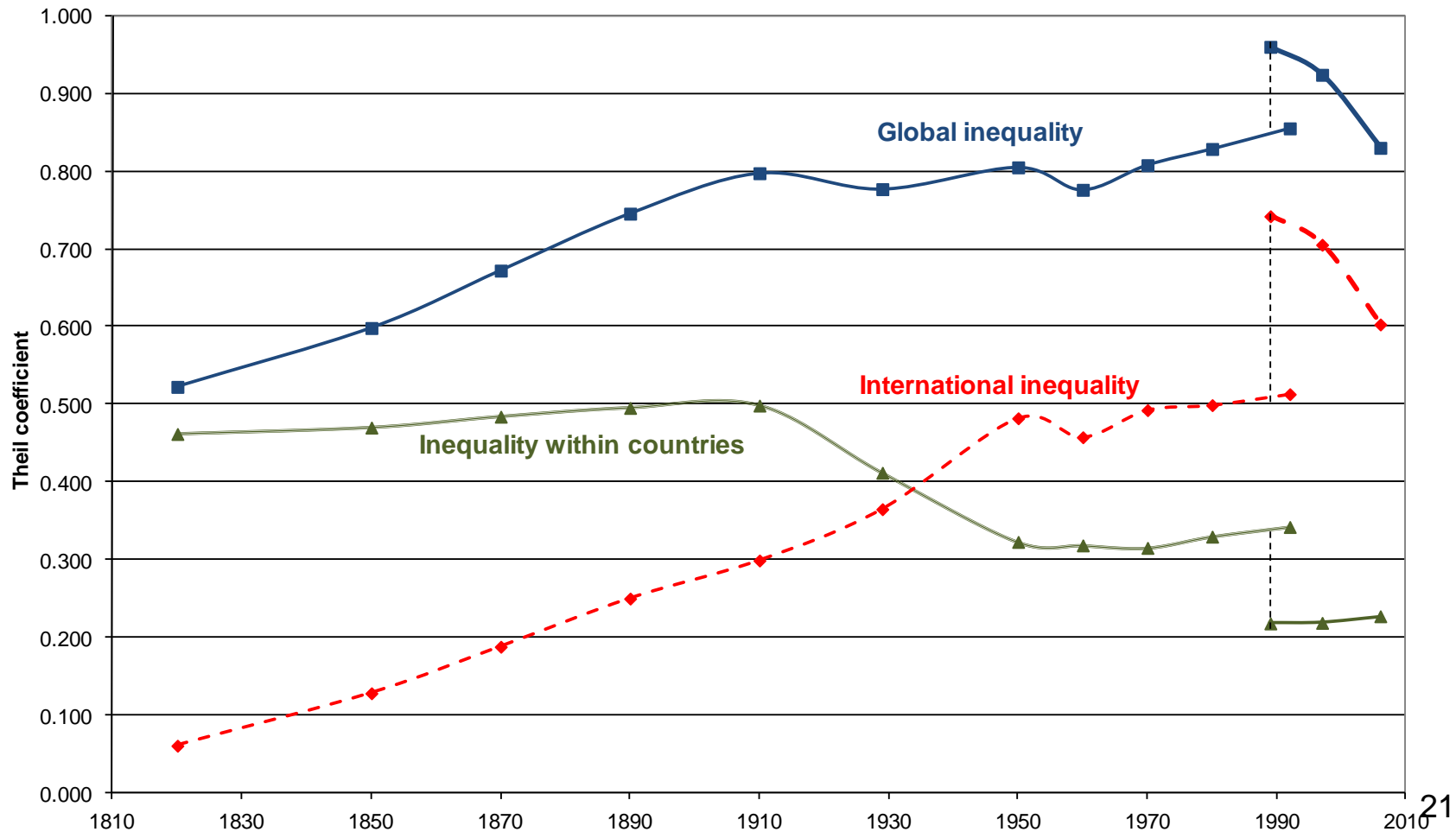


Thank you



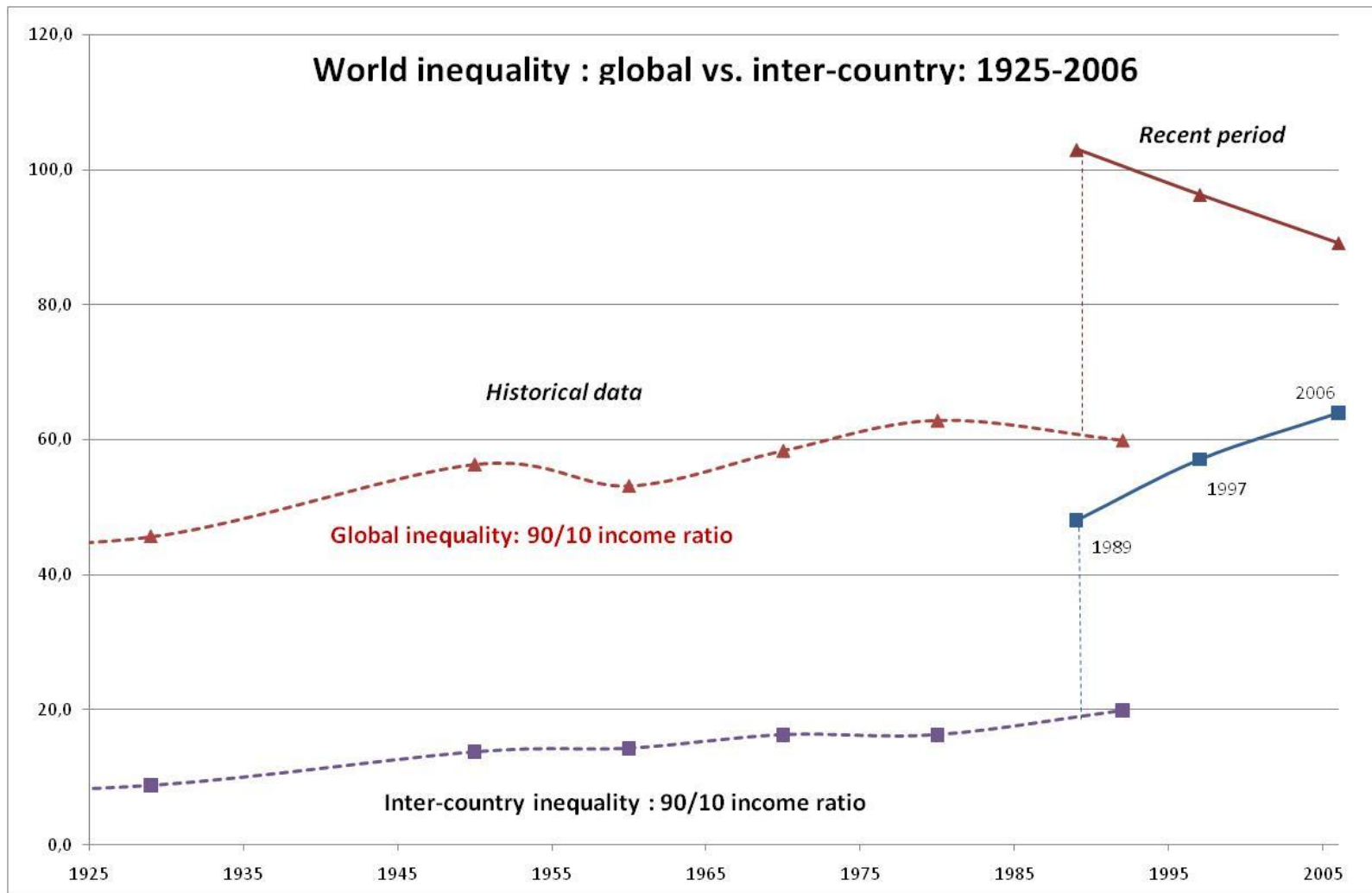
# Remark 1: Inter- and Intra country global inequality

Decomposition of global inequality into Between and Within components (Theil coefficient)



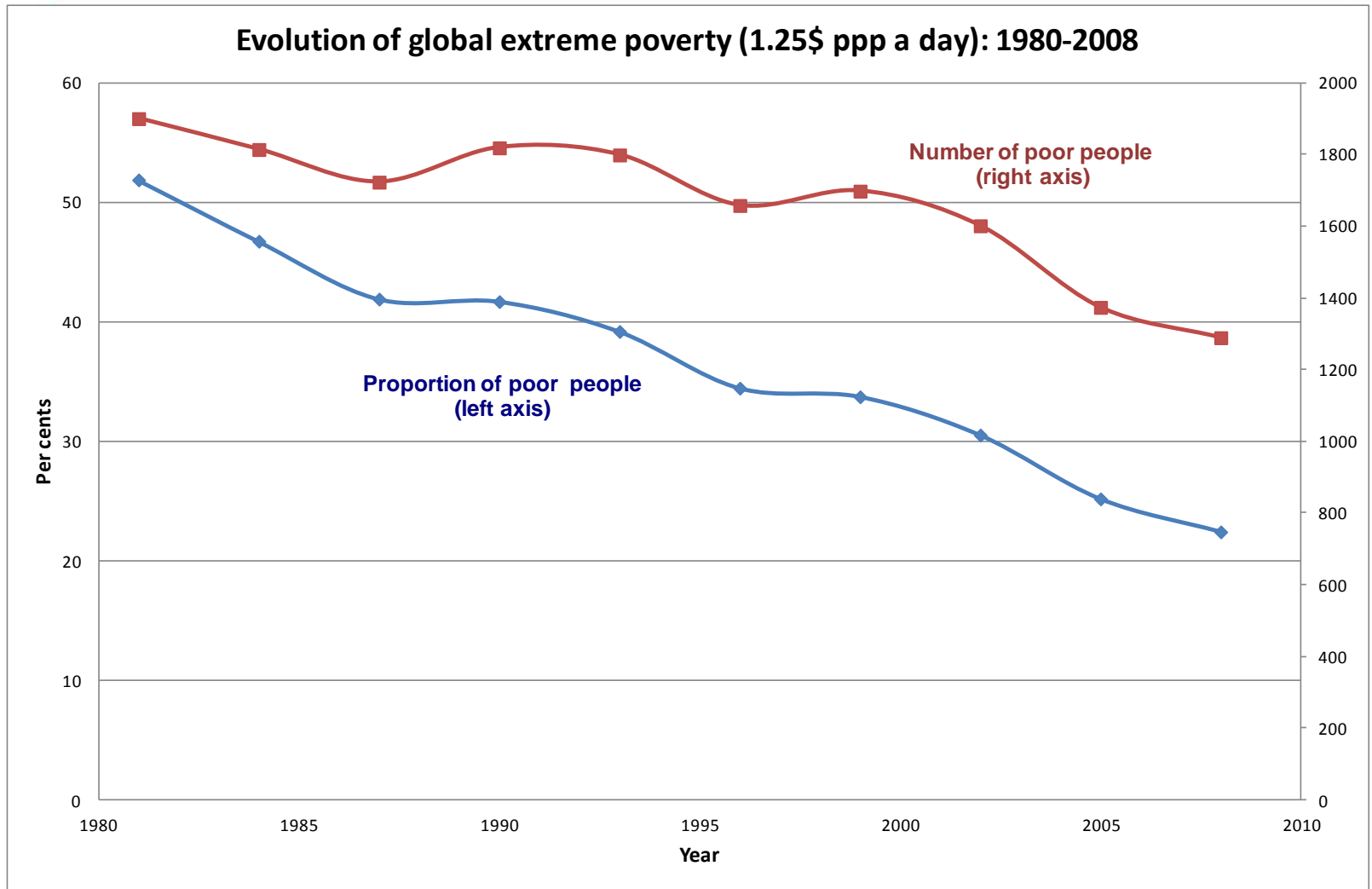


# Remark 2: Inter-country inequality keeps increasing





# A related phenomenon: the drop in extreme poverty (developing countries)

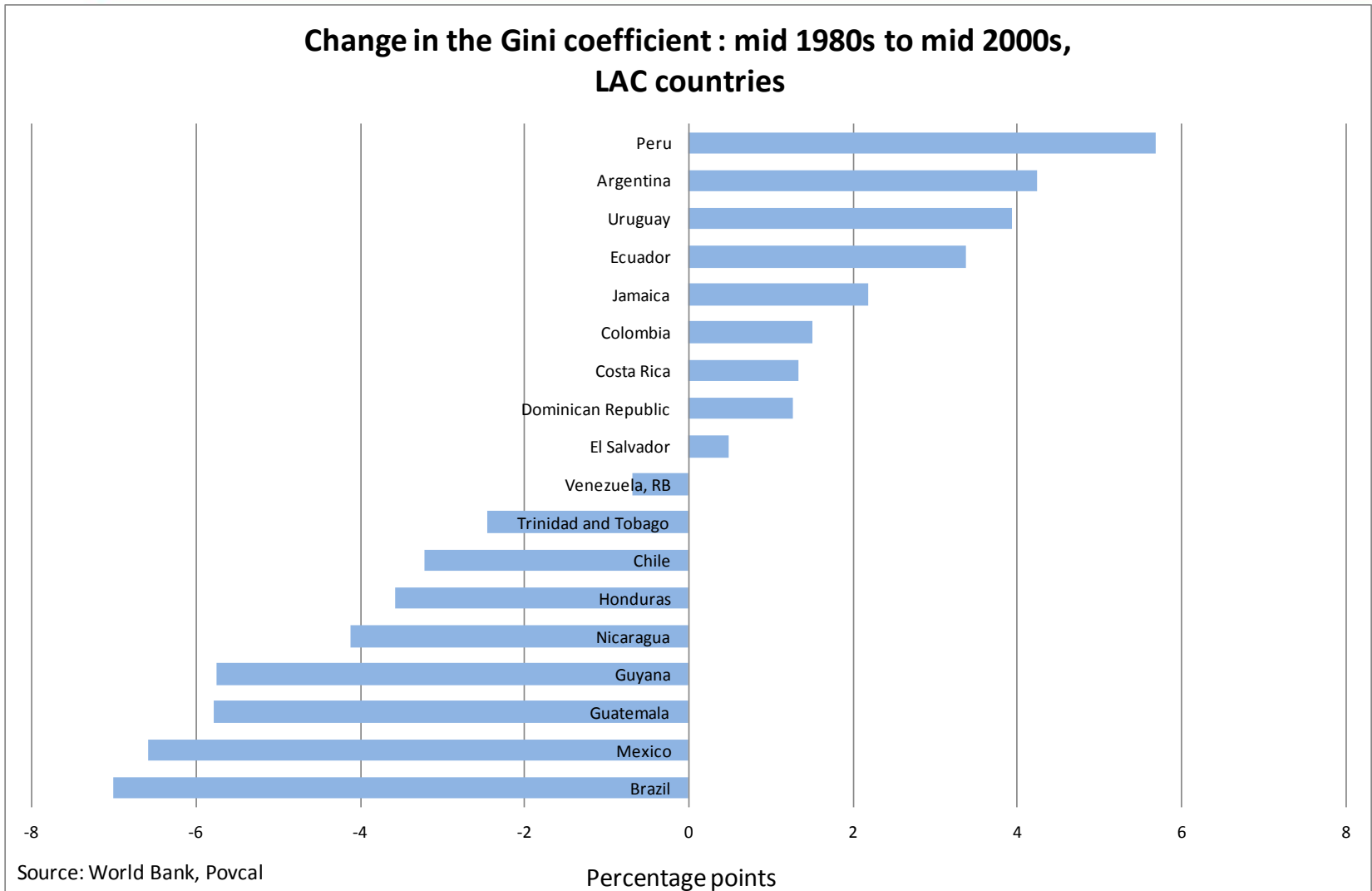


Source: World Bank



# Inequality change in LAC countries

**Change in the Gini coefficient : mid 1980s to mid 2000s,  
LAC countries**







# Top incomes in emerging countries: a trend parallel to developed countries?

Share of top 1% income in total income: 1920-2009, emerging countries + USA

