
Globalization and Inequality: which national policies?

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Motivation

- **Inequality** seems to have increased in a number of countries over the last two decades or so, often after a period of stability. It is high and stable in others.
- **Possible Causes** : preceding process *concomitant* with globalization, de-unionization, fast technical progress, change of social norms, ...But are these exogenous drivers?
- **Policy responses** : Which are the policies able to remedy the causes or consequence of high or increasing inequality?

Outline

1. **Global increasing inequality trend : what inequality?**
 - a) Earnings vs. Income: **not the same!**
 - b) **Perceived vs. observed** inequality and non-income dimensions
 2. **Drivers**
 - a) Main possible **causes** for increasing or high *earnings* inequality: globalization, technical progress, de-unionization and social norms
 - b) The **complexity** of income distribution dynamics
 3. **Policy issues**
 - a) What **kind of inequality** matters
 - b) The **three areas** for policy intervention: current income redistribution, market mechanisms, opportunity equalizing policies
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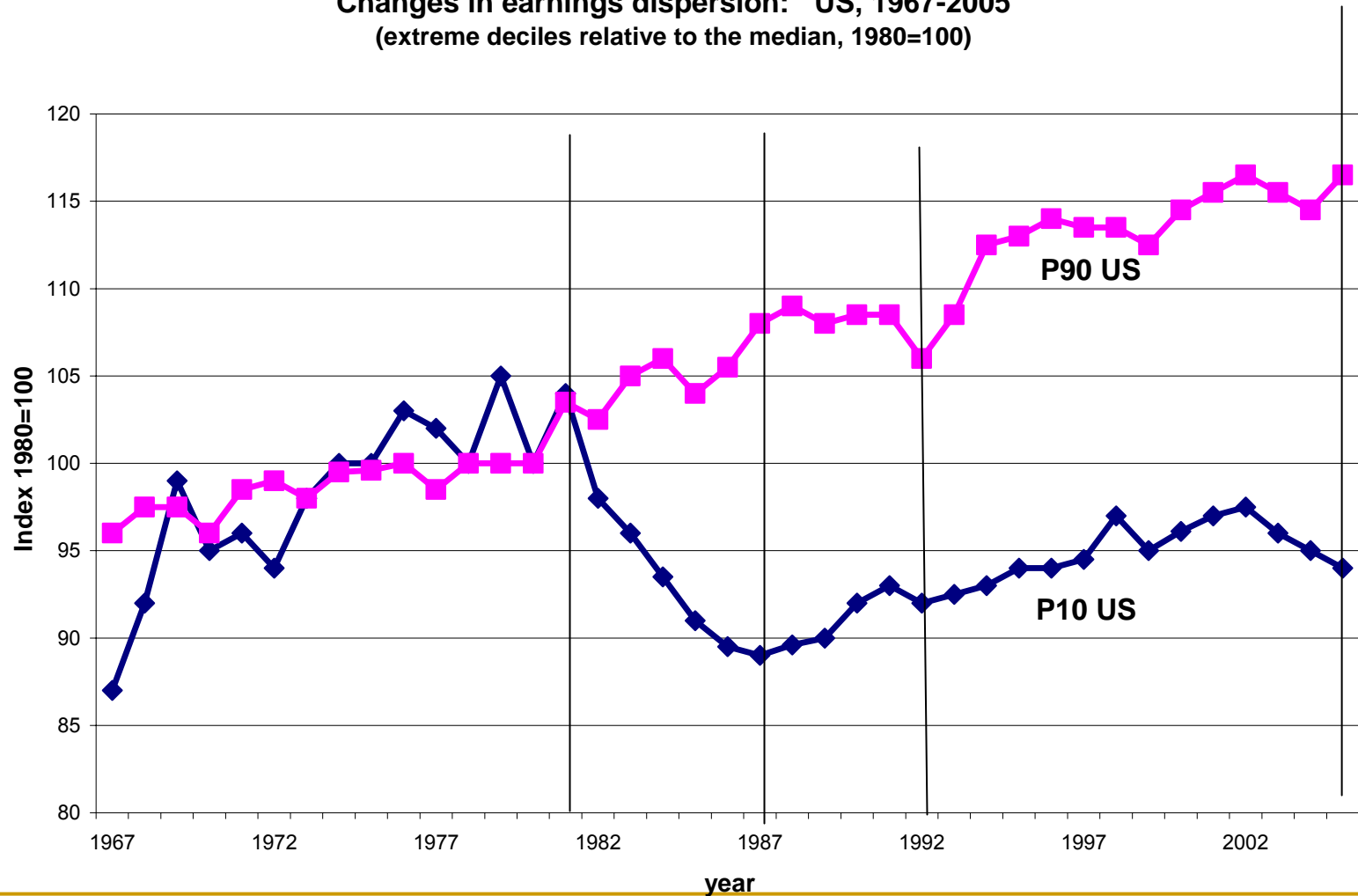
1. Trends in country-level inequality: 1980s-2000s

Some basic facts :

- Earnings inequality has increased in many countries, including most egalitarian countries, since the mid 80s
- Increase in inequality mostly due to rise in the relative earnings of top 10 per cent
- Top 10 per cent also gaining over top 25%
- Income inequality did not always rise, or rose marginally as a consequence of that evolution
- Less evidence for emerging countries

1.a Earnings inequality in selected OECD countries

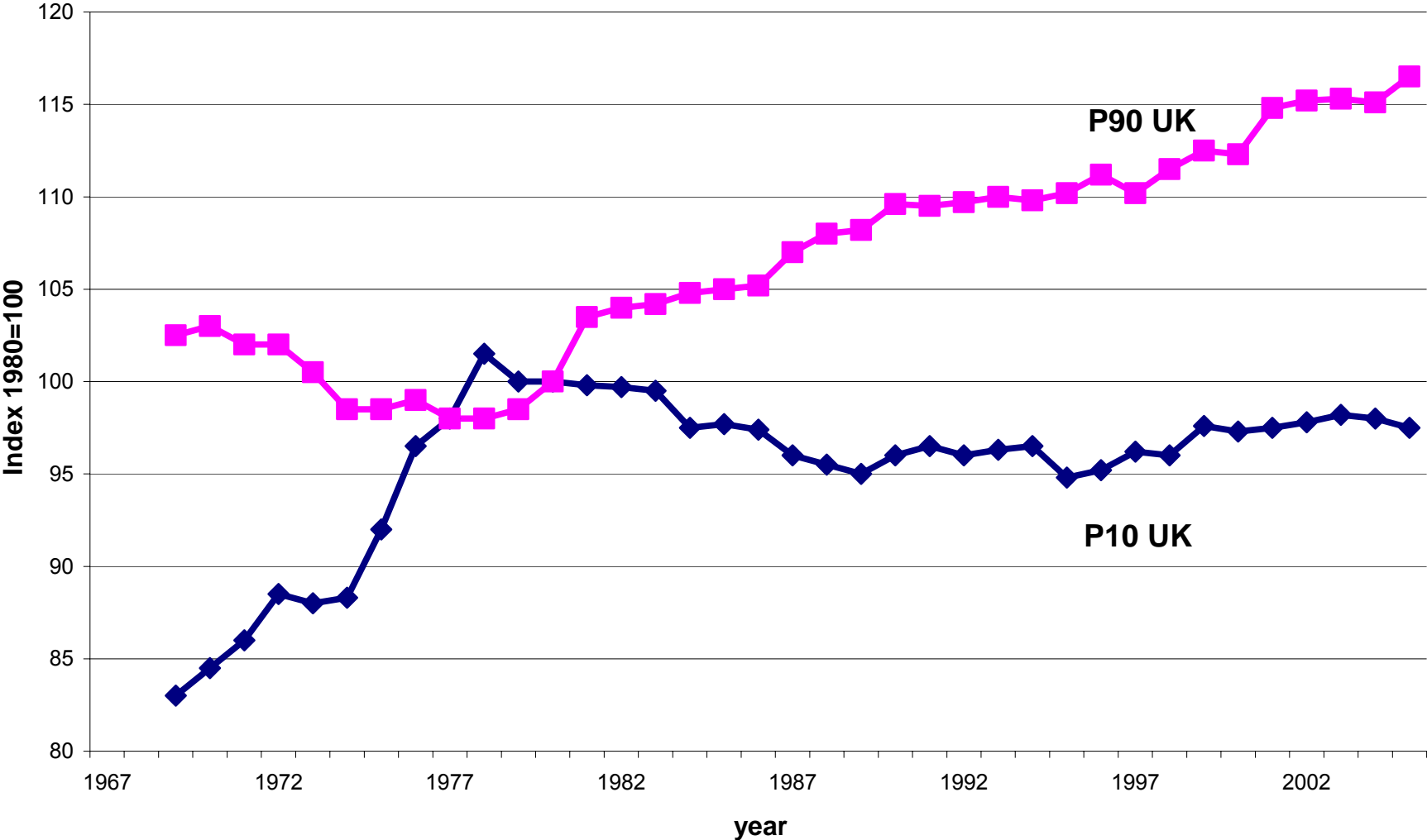
Changes in earnings dispersion: US, 1967-2005
(extreme deciles relative to the median, 1980=100)



Source: Atkinson (2007)

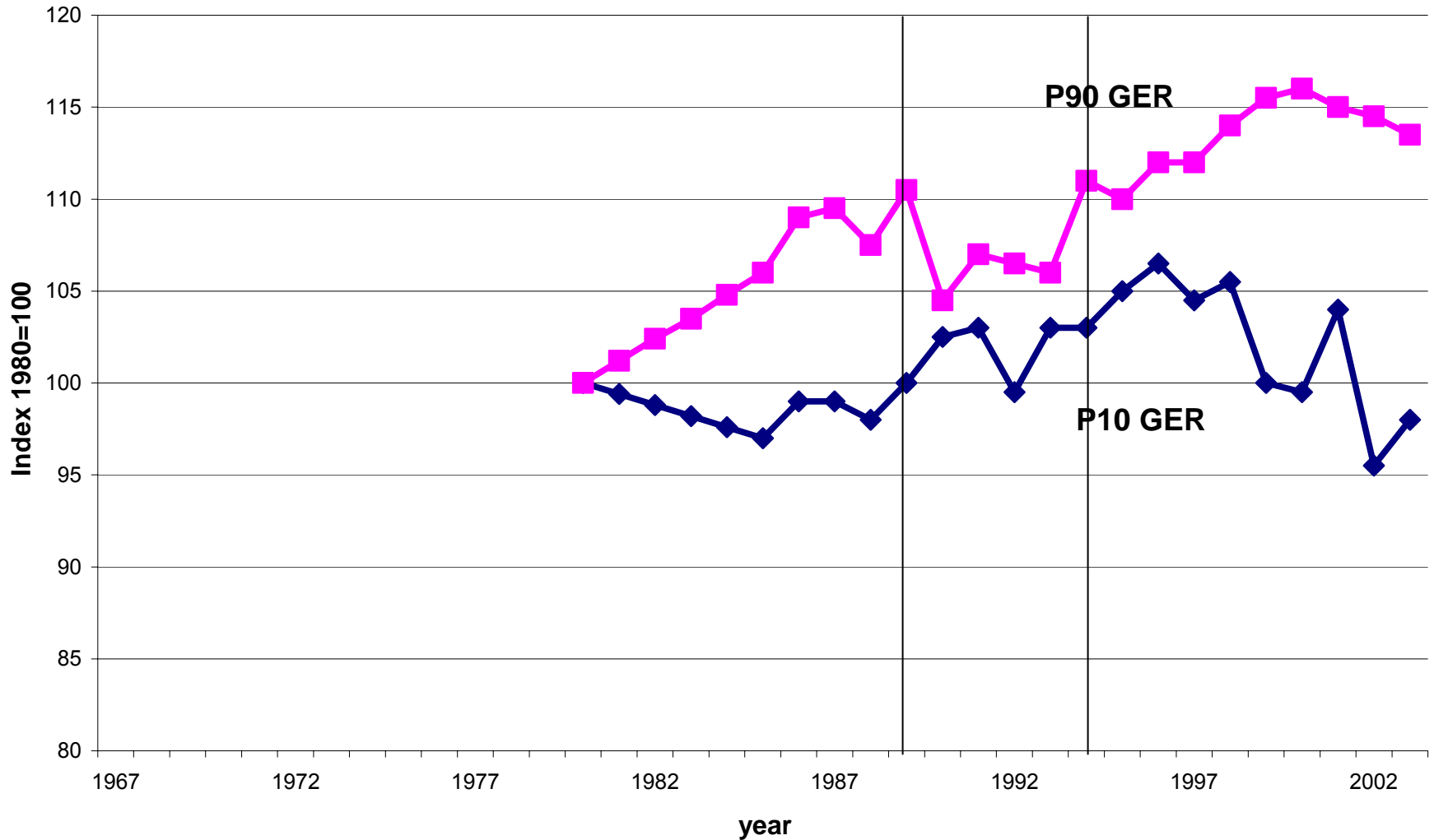
Changes in earnings dispersion: UK, 1967-2005

(extreme deciles relative to the median, 1980=100)



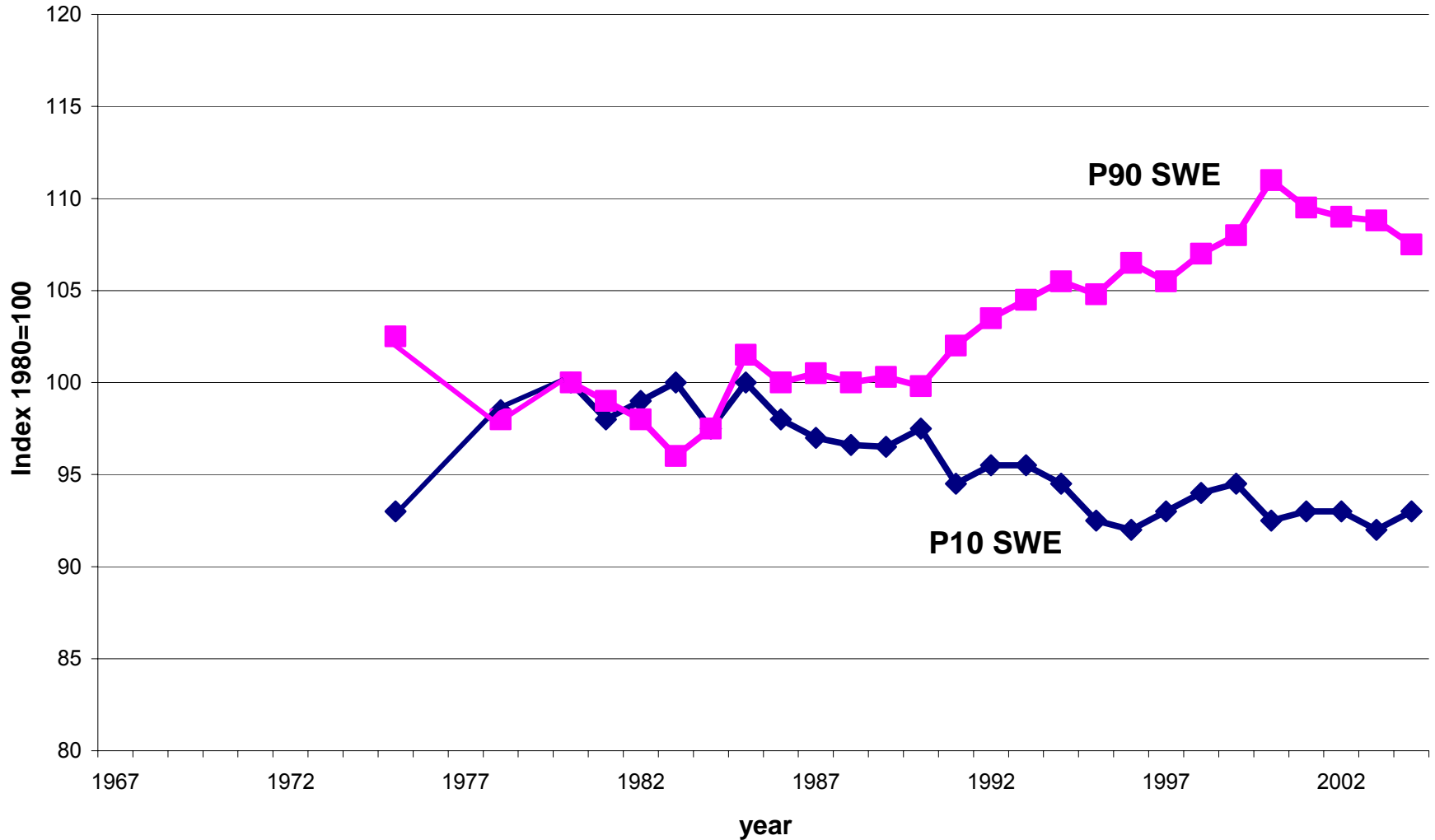
Source: Atkinson (2007)

Changes in earnings dispersion: Germany, 1980-2003 (extreme deciles relative to the median, 1980=100)



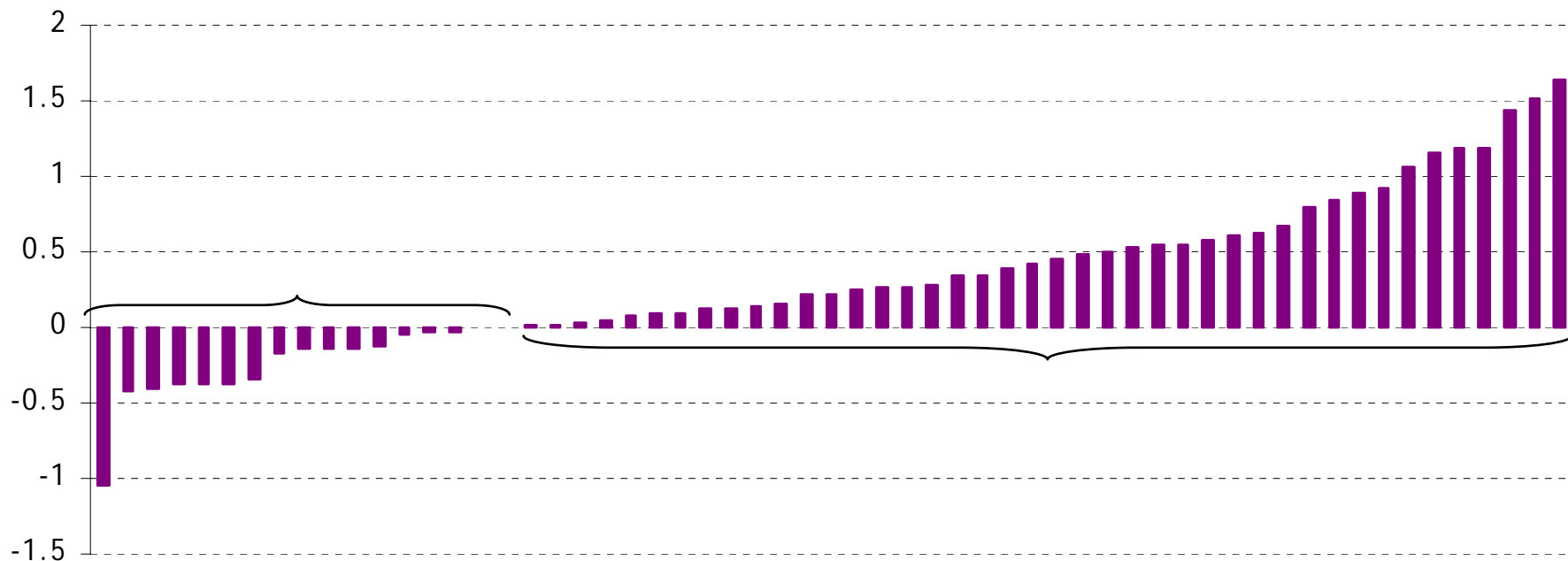
Source: Atkinson (2007)

Changes in earnings dispersion: Sweden, 1975-2004 (extreme deciles relative to the median, 1980=100)



Source: Atkinson (2007)

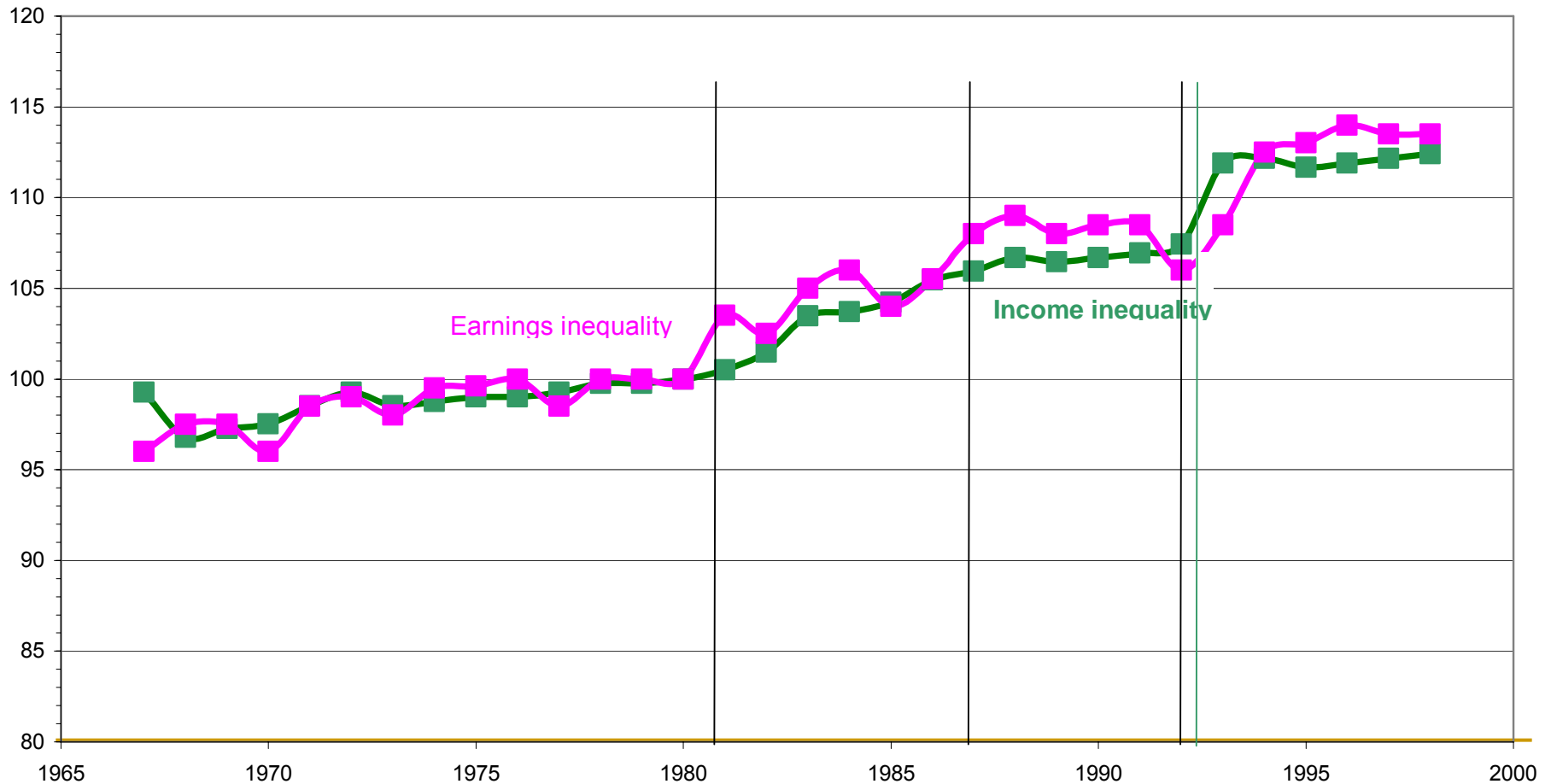
Gini Annual Change (percentage points) in 59 Emerging and Developing Countries: most recent available 10-year period (income inequality)



Source: World Bank (2007)

1.b Earnings vs. Income Inequality

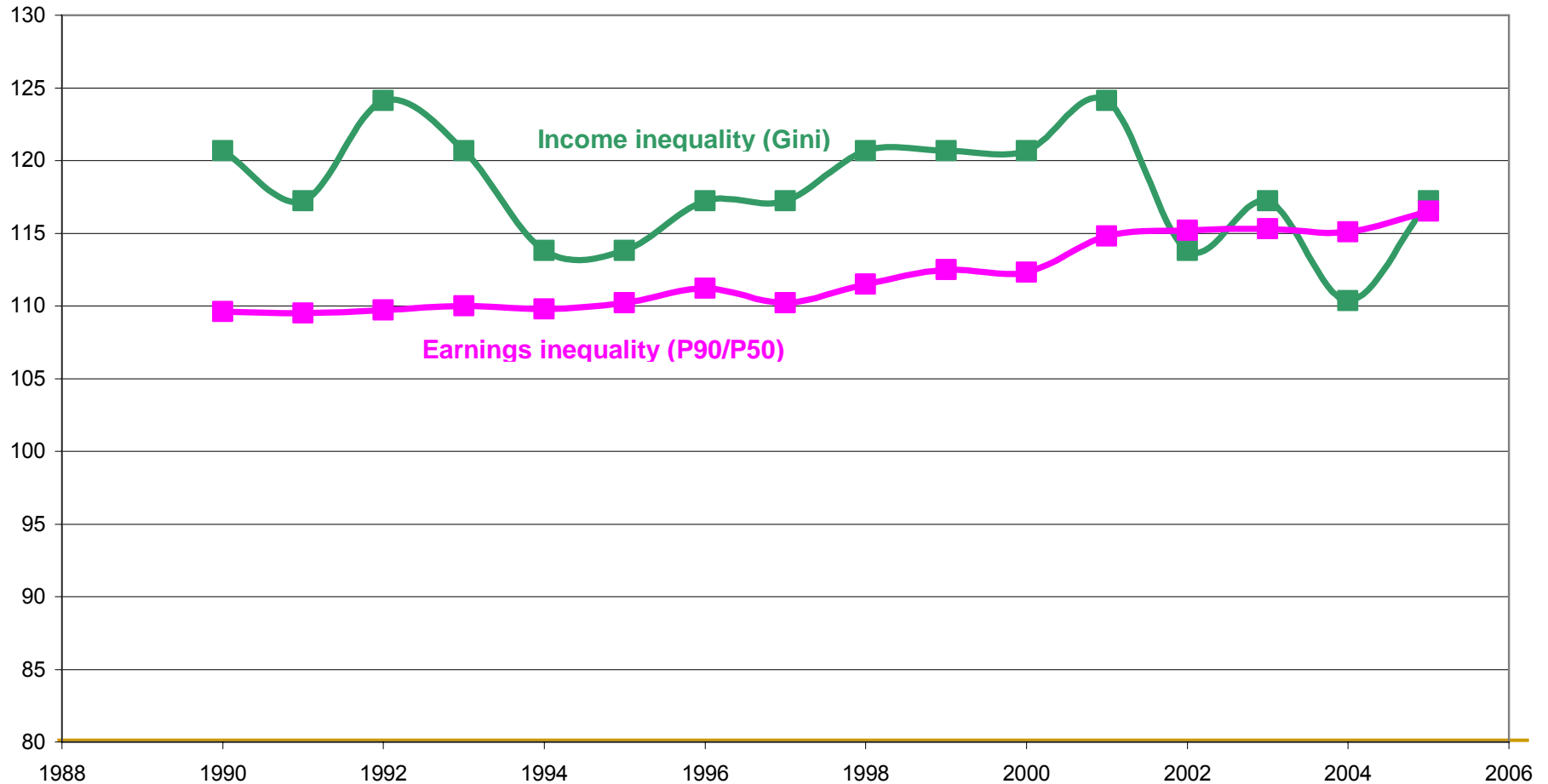
Changes in (disposable household) income inequality: US 1967-2000
(1980=100)



Source: author

Earnings vs. Income Inequality

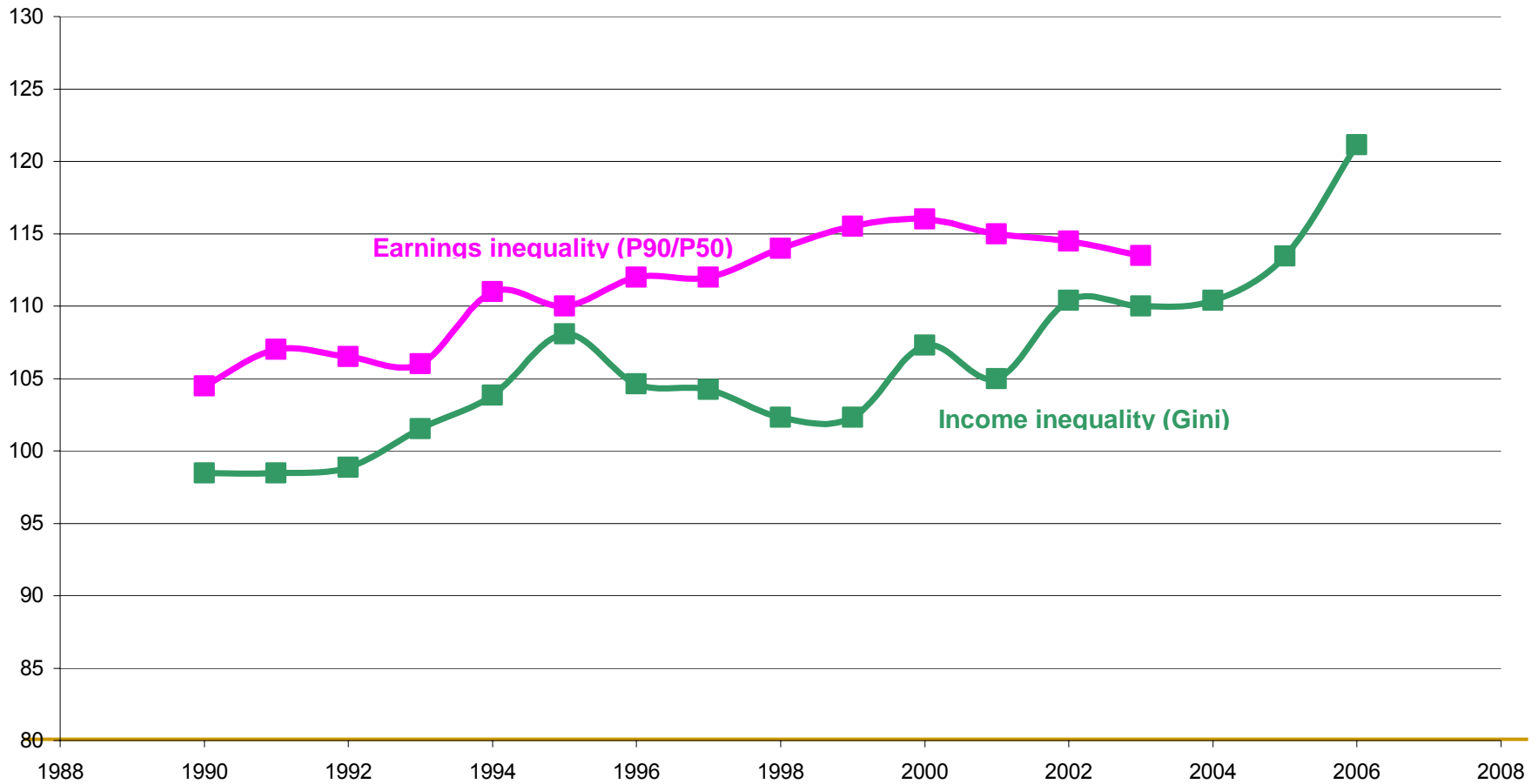
Change in earnings and income inequality: UK, 1990-2005
(1980=100)



Source: author

Earnings vs. Income Inequality

Change in earnings and income inequality: Germany, 1990-2005
(1980=100)



Source: author

1.c Changes in Perceived vs. Observed inequality and non-income dimensions

Facts and opinion often at odds

Possible causes

- Better (or different) information (media)
- Different definitions of inequality (e.g. earnings vs. Income, before/after tax, ...)
- Different measures
- Dynamic vs. static perspective (Δy matters more than y)
- Non-income dimensions: access to employment and/or nature of jobs, opportunities rather than outcomes

2.a Main causes for high (earnings) inequality or increasing trend

Several causes have been suggested for recent trends in increasing earnings inequality:

- Globalization (trade, migration, ...)
- Technical Progress
- Social norms
- De-unionization

Vast literature on each topic....

But caution: *simultaneity does not mean causality*

Globalization

Impact on earnings inequality unclear a priori

- Simple application of Heckscher-Ohlin theorem very insufficient and contradicted by evidence:
 - Increase in returns to skill in emerging and developing countries
 - Relative gain of top decile in all countries
- Migration as a powerful factor of change in earnings distribution if migration propensity is earning dependent
- Various dimensions of globalization: trade, finance, IPRs, migration ... (IMF 2007 study)

Biased Technical change

The most obvious explanation but is it an "explanation"?

- The race between technology and education (Tinbergen) and the global scarcity of skills
- Technical change as part of globalization: caused by competition, originates in developed countries, easily exported, ...

De-unionization and social norms

Ambiguous overall effects of unions

- Extreme view: only an anticipation effect (Friedman)
- Conventional views:
 - More inequality by raising the earnings of specific groups
 - Less inequality by raising bottom earnings of unionized workers
- Empirical analysis complicated by:
 - Diversity in the nature and role of unions
 - Selectivity of unionization
- Results of recent empirical work
 - US-UK (Card et al., diNardo-Lee) weak positive effect of de-unionization on inequality
 - Cross-country: little significant evidence

Social norms: multiple equilibrium story

2.b The complexity of income distribution dynamics

Earnings distribution affected by changes in the functioning of the labor market, the distribution of the supply and demand of skills

Income distribution subject to many other forces on top of earnings inequality

- Household composition (including matching)
- Employment
- Redistribution policies

2.b Two case studies from the MIDD project

Brazil (1976-1996): (Ferreira, Paes de Barros)

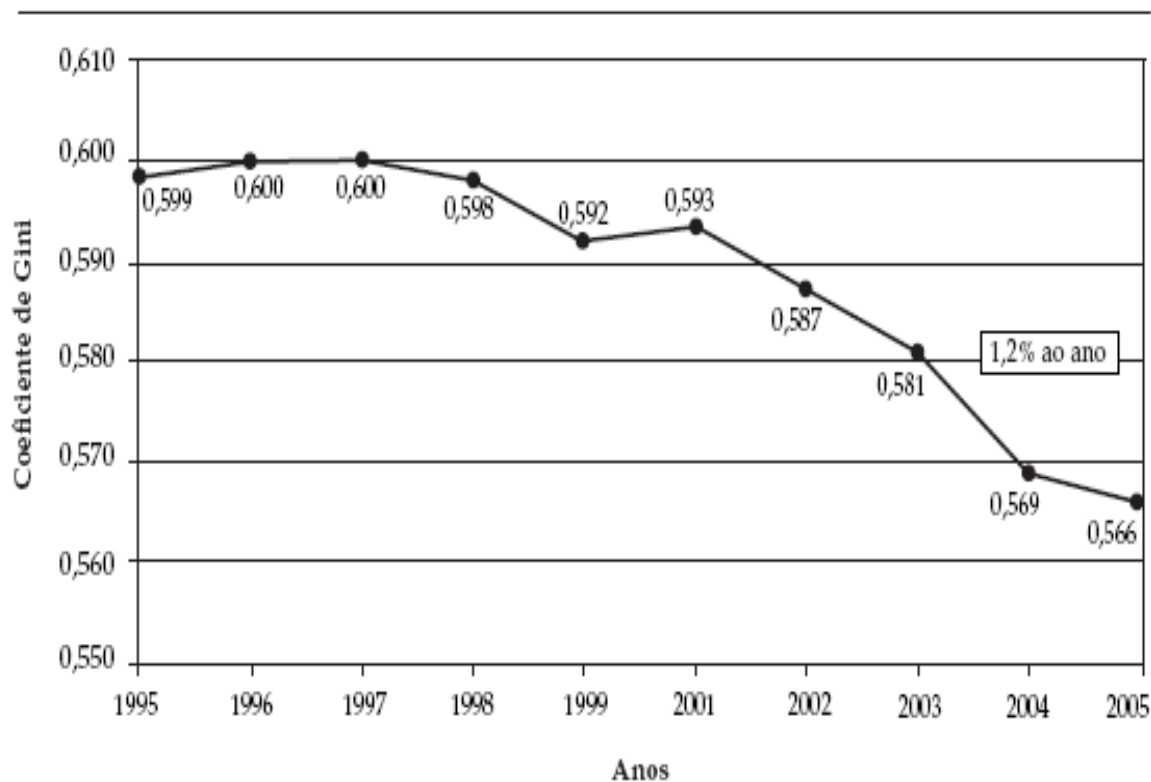
- Little overall changes in overall income distribution

Yet:

- More unequal distribution of earnings (increasing rate of return to education)
- More equal distribution of education
- Decreasing levels of employment in low-income families
- Larger decrease in fertility in low-income families
- Recent drop in inequality mostly due to Bolsa Familia

Recent fall in inequality in Brazil

Evolução da desigualdade na renda familiar *per capita* no Brasil:
Coeficiente de Gini (1995-2005)



Fonte: Instituto de Pesquisa Econômica Aplicada (IPEA) 2007.

2.b Two case studies ...

Taiwan (1980-1995) (Bourguignon-Fournier- Gurgand)

- Little overall changes in overall income distribution
 - More unequal distribution of earnings (increasing rate of return to education) for men and women
 - More equal distribution of education
 - Increasing labor force participation of women in low- and middle income families

3. Policy issues

Important preliminary question: *Is the reduction in the Gini coefficient the sole ultimate goal?*

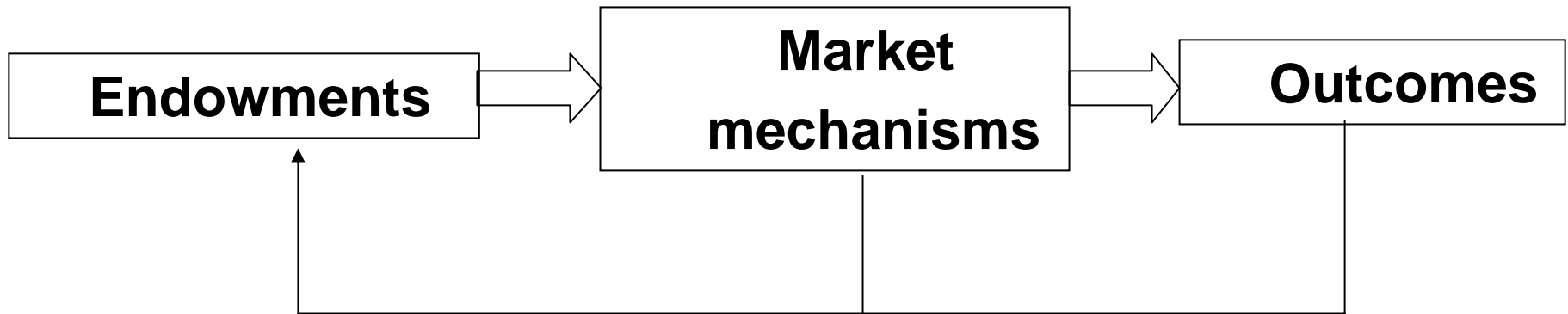
More generally, what type of inequality does matter?

- Current family income per capita or earnings
- Lifetime vs. current income or earnings
- Dynamic vs static
- Outcomes or opportunities
- Fairness of market mechanisms

Conceptual difficulty is that policy instruments may be seen as specific of these various definitions of inequality, which, in any case, are related to each other.

3. Three areas for policy

Determination of individual welfare

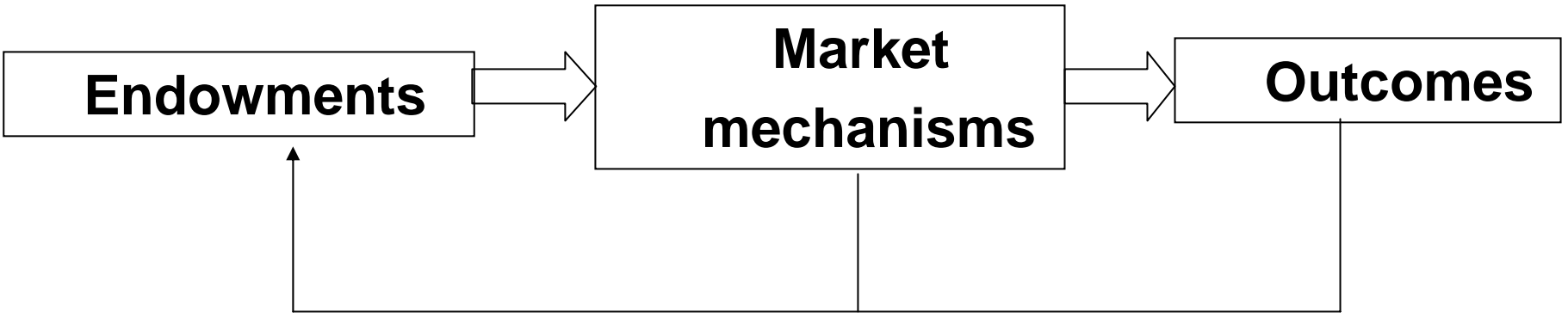


Three sets of inequality concept

Three sets of policy instruments

It is important to have the analytics of the relationships between concepts and policy instruments clearly in mind

3. Illustrations



Education policy

Inheritance laws

Infrastructure

Land tenure

.../

Credit market

Anti-discrimination on labor market

Minimum wage

Subsidies

Market regulation

.../

Income and other direct taxes

Cash / in kind transfers

Subsidized public services (health care)

.../

Conclusion

All those policies have a **cost** (budgetary or efficiency) in terms of overall income level or growth

Policies are **interdependent**: credit market or education policies require financing)) (+ political economy)

Policies have different **time horizons**: endowment oriented policies vs. market fairness or current income redistribution policies

Policies have different objectives which must be made consistent with each other.