

Are We Living in An Age of Rising Inequality? No, But Yes

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IMF Conference on Achieving Inclusive Growth
Seoul, Korea, 29 November, 2018

An Age of Rising Inequality?

- Rapid rises in inequality in the US, in parts of Europe, and in a range of big Asian countries like China and India have led to a narrative that we are living in “An Age of Rising Inequality.”
- For the US and Europe, the work of Piketty (2014) and colleagues is well known.
- For Asia, Asian Development Bank (2012) presented data which showed that between the 1990s and the 2000s, inequality had risen in countries comprising no less than 80% of developing Asia’s population.

An Age of Rising Inequality?

- The most spectacular of these cases is of course China. After its opening up in 1978, and especially after its opening up to world trade from the 1990s onwards, China had dramatic growth and unheard of poverty reduction.
- But it also had very sharp increase in inequality. As Kanbur, Wang and Zhang (2017) show, between 1995 and 2010 the Gini coefficient for China rose from 0.35 to 0.53.
- All of this has fed into a narrative of “An Age of Rising Inequality.”

NO

- But if by an age of rising inequality is meant inequality rising everywhere, or almost everywhere, the claim is easily dismissed.

NO

- The leading exhibit for a counter trend is Latin America, once the poster child for high and rising inequality. However, from about the mid-1990s onwards, measured inequality in most Latin American countries fell for the next fifteen years (Lopez-Calva and Lustig, 2010; Gasparini and Lustig, 2012; Lustig, 2014).
- But there are counters from elsewhere in the world as well.

NO

- Sub-Saharan Africa: “For the subset of 23 countries for which surveys are available with which to assess trends in inequality, half the countries experienced a decline in inequality and the other half saw an increase. No clear patterns are observed by countries’ resource status, income status, or initial level of inequality.” (Beegle et. al., 2016, p 15).
- Central Asia and South Caucasus: “the consumption-based Gini indexes show an overall downward trend during 2000–16 for most of CASC countries, with the exception of some upward movements experienced in recent years in Azerbaijan and Tajikistan (Figure 3.3).” (Capanelli and Kanbur, 2019, forthcoming)

NO

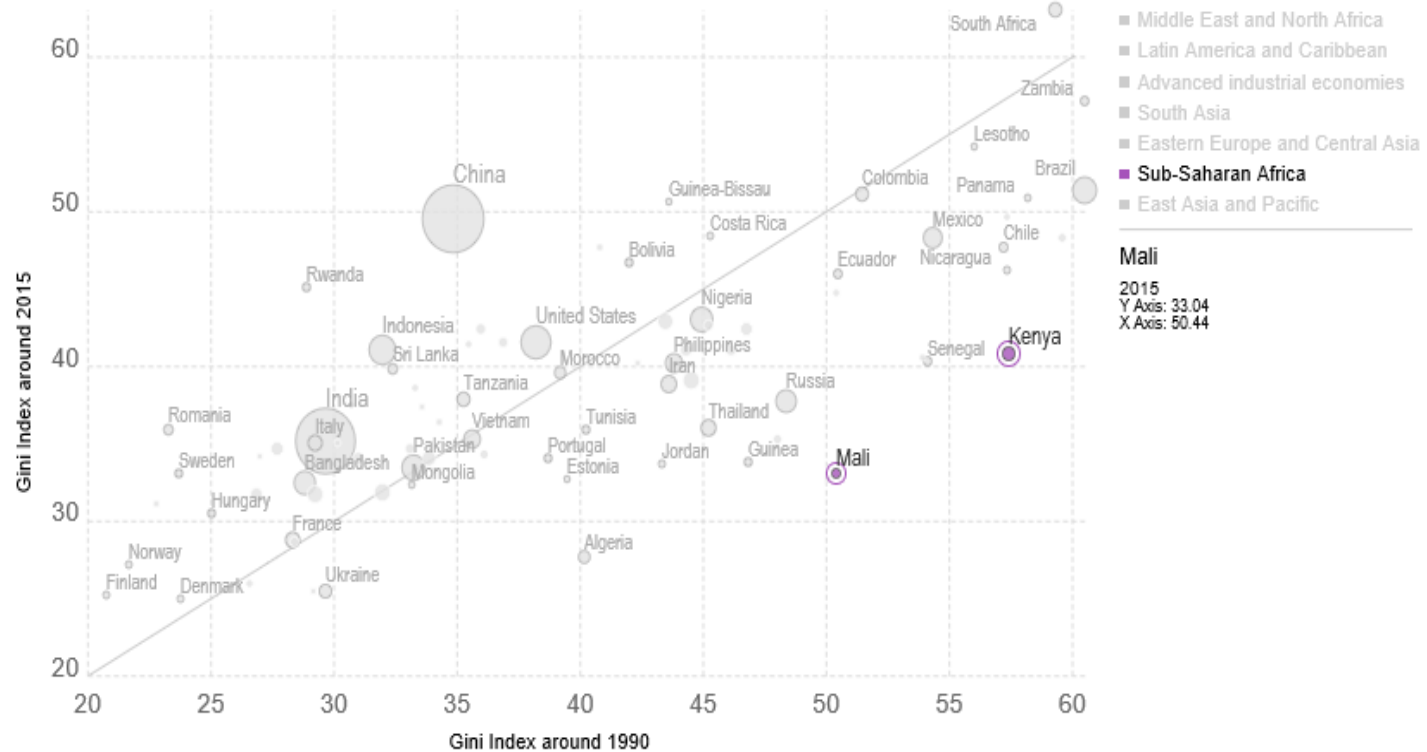
- Middle East and North Africa: “With the exception of Djibouti in 2012, the 90/10 ratio for most MNA countries appears to hover between 3 and 6 In addition, the ratio appears to have declined or stayed the same in all countries except Iraq.” (Krishnan et al, 2016, p. 3).
- Even for China the picture is more nuanced than the common narrative. In fact, Kanbur, Wang and Zhang (2017) highlight the fact that from 2010 onwards, the Gini coefficient fell to 0.50 in 2012 and 2014.

NO

Inequality in 1990 vs 2015

A higher Gini index represents higher inequality.

Our World
in Data



Source: Povcal (2018), The Chartbook of Economic Inequality (2017), Kandbur et al. (2017) Table 1.B

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Note: Estimates are based on household survey data of either incomes or consumption. All countries for which comparable surveys within five years of each reference year were available are shown.

NO

- On top of the variation in the trend of within country inequality as commonly measured, there is the well established trend of decline in between nations inequality due to the rapid growth of poor countries like China, India, Vietnam, Bangladesh etc relative to richer countries.
- The global Gini coefficient fell from 72.2% in 1988 to 70.5% in 2008 (Lakner and Milanovic, 2016; similar calculations in Bourguignon, 2016 and Ravallion, 2018).

BUT YES

- So, the answer to the question “Are We Living in an Age of Rising Inequality?” is clearly NO if by this is meant inequality rising everywhere or almost everywhere.
- But I have argued in my writings that the answer is YES in the sense that the fundamental economic forces of technical change may be aligned to increase inequality on a business as usual scenario.
- Differences across countries are then to a great extent the result of policy differences (eg policies followed in Latin American countries during their period of inequality reduction).

BUT YES

- We are living in an age where the trend of technological progress is to displace basic labor in favor of skilled labor and capital.
- Such labor saving technical change, also called skill biased technical change has been the hallmark of the world economy for at least the last three decades, and looks set to continue in the decades to come (Autor, 2014; Acemoglu and Autor, 2011; Acemoglu and Restrepo 2018; Chau and Kanbur 2018).

BUT YES

- At least in the short run, which could last for several decades, the displacement effects of these trends could work to increase inequality as wages of highly skilled labor (and returns to capital) increase and wages of basic labor fall if there is downward flexibility, or unemployment is created if wages are not flexible.

BUT YES

- In the long run, of course, the full set of consequences depends on how greater productivity plays out in terms of higher output and thus higher demand for labor.
- Those pointing to the inequality consequences of current technological trends are often told to look at historical episodes—the industrial revolution displacing craft labor, the internal combustion engine displacing employment in other forms of transport, the electric light bulb displacing candle makers, and so on.

BUT YES

- Eventually, it is said, the new technology created new jobs and over the long run standards of living were higher.
- This cannot of course be denied.
- But we neglect the consequences of labor displacement, perhaps over decades, at our peril. Their manifestations are already present in the politics of the US and Europe.

BUT YES

- Where these trends have not as yet fully appeared (in parts of Asia), or where they have been countered by policy (Latin America), there is no room for complacency.
- Governments in Asia have already started worrying about the potential for inequality, and those in Latin America will have to keep running on policy to stand still on inequality.

BUT YES

- This is the sense in which we are living in an age of rising inequality, and policy can address this to a greater or lesser extent, working on the supply side of skills and education, or on the redistribution side.
- These policy responses are not problem free (Kanbur, 2018), but they can be used to counter the forces for rising inequality, as was arguably done in Latin America.

BUT YES

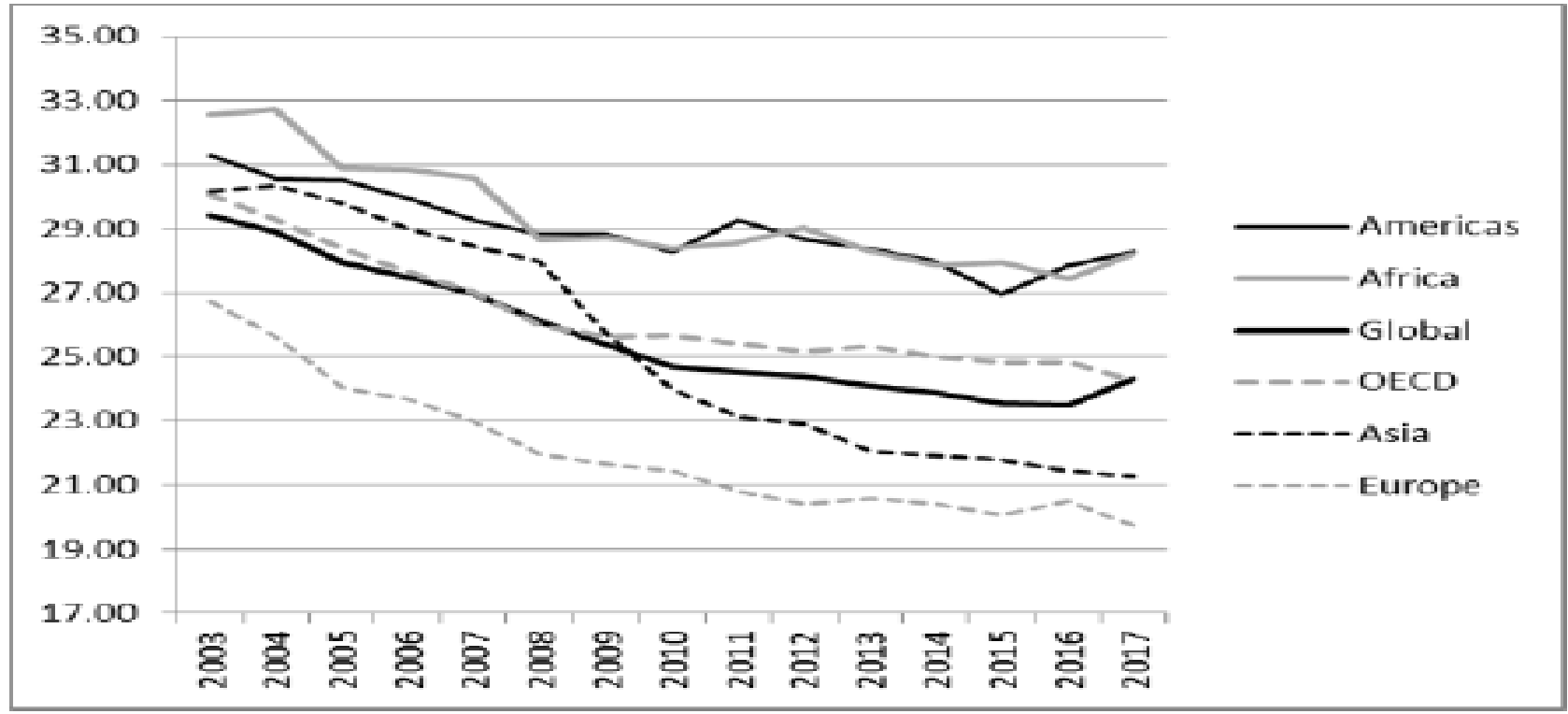
- But there is a second sense in which we are also living in an age of rising inequality—in a globalized world the global constraints on domestic policy towards mitigating inequality are greater.
- Here are some constraints:

BUT YES

- Mobility of Capital means that corporate taxation, to manage rising inequality directly or to raise revenue for expanding education and training, is restricted in the absence of global agreements on minimum corporate tax rates.
- In their absence, there will be a race to the bottom on these taxes.

BUT YES

Figure 7: Statutory corporate tax rates



Source: KPMG

BUT YES

- Mobility of skilled labor also means that taxation of high incomes from skilled labor is constrained in the same way that capital taxation is constrained.
- Further, the efficacy of the supply side response to managing rising inequality, by increasing the supply of educated workers, is also dented if these can leave for lower tax pastures elsewhere.
- A policy race to the bottom then follows.

BUT YES

- Regulation and Labor Standards are a standard way of ensuring fairer distribution of the gains from technical change. To the extent that international trade and investment agreements restrict the scope of independent regulatory policy, there is less leeway for national governments.
- But notice that even without these agreements there will be a race to the bottom as governments put in lower standards, or enforce standards less vigorously, to get a cost advantage in export markets. What is needed are minimum standards agreements across countries exporting into common markets.

BUT YES

- Mobility of low income unskilled labor also raises issues for national management of inequality. If increased transfer benefits at the lower end, brought in to address displacement of basic labor, induce in-migration of basic labor, this will increase the fiscal costs of the redistribution policy.
- This also applies to generalized subsidies such as food subsidies. If a transfer policy increases incentives for in-migration, the costs of that policy will be higher than anticipated. And if governments take these into account, there will be a race to the bottom on transfer policy as well.

BUT YES

- Finally, consider incentivizing and public investment in R&D to shift the tide away from labor saving to labor using technical change, as proposed by Tony Atkinson (2015) in his last book.
- But this faces all the problems of investment in public goods, since the benefits will spread beyond the borders of the initial investors. In this sense the global perspective once again highlights the tendency for investing in inequality reducing interventions.

BUT YES

- We are thus left with the conundrum that addressing national level inequality through national policies will be ineffective unless cross-national agreements can be reached on a range of tax and investment issues.
- The weakness of global institutions in addressing these questions (Kanbur, 2017) is surely another sense in which we are living in an age of rising inequality.

Conclusion

- So, are we living in “An Age of Rising Inequality”?
- My answer: NO, but YES.
- Clearly NO because inequality is not rising everywhere or almost everywhere.
- But YES in the sense that (i) forces of technical change are aligned to raise inequality on a policy as usual scenario, while at the same time (ii) cross-border flows of capital and labor in the globalized world economy put major constraints on governments in addressing these forces and (iii) global institutions are not up to the mark in managing and coordinating policy responses in light of these flows.

Thank You!

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