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Examining interrelation between global and national income inequalities

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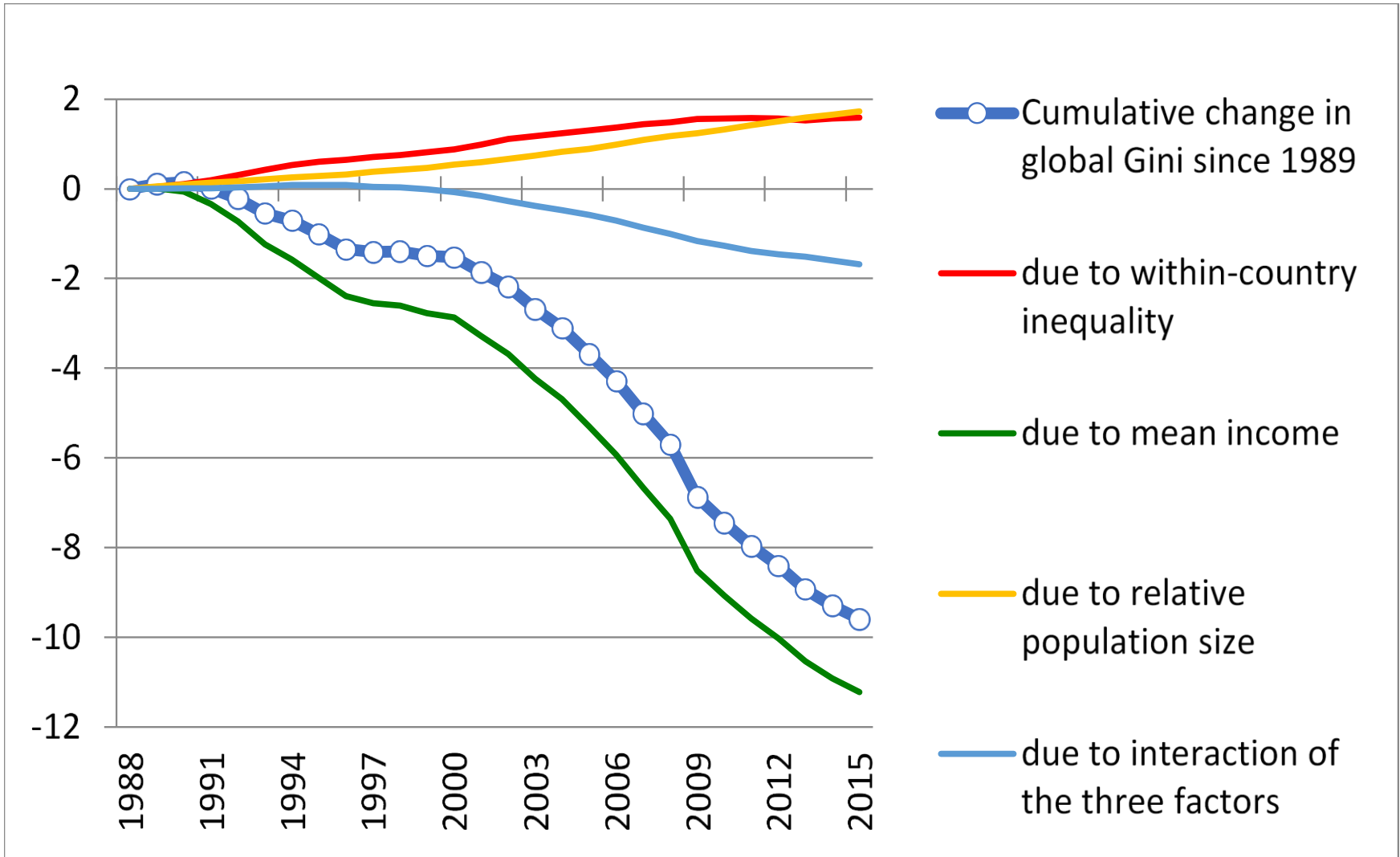
The key issues

- Shortcomings of an inequality debate:
 - Concentration on national inequalities in AEs while ignoring changes in global inequality
 - Attempts to aggregate/ extrapolate national inequality trends into regional and global trends (methodologically wrong)
- Global income inequality has been decreasing since the end of 1980s due to convergence in GDP per capita
- Changes in national income inequality go in various directions but they are on the raise in most of AEs and large EMEs
- The potential interrelation/ trade-off between both trends and the role of globalization in this trade-off

Measuring global inequality

- Absence of the global HBS \Rightarrow indirect methods based on national HBS and GDP-per-capita statistics in PPP terms
- Still a lot of methodological challenges (incomparability of national Gini coefficients, irregularity of HBS, changes in PPP conversion rates, revaluation of national nominal GDP, etc.)
- Attempts since late 1990s - Bourguignon and Morrisson (2002), Sala-i-Martin (2006), Anand and Segal (2008), Atkinson and Brandolini (2010), Milanovic (2012)
- Recent ones: Milanovic (2016), Lakner and Milanovic (2016), World Bank (2016), Darvas (2016 and 2018)

Change in the global Gini coeff. of income inequality and its decomposition, 1988-2015



Source: Zsolt Darvas (Bruegel, 2018)

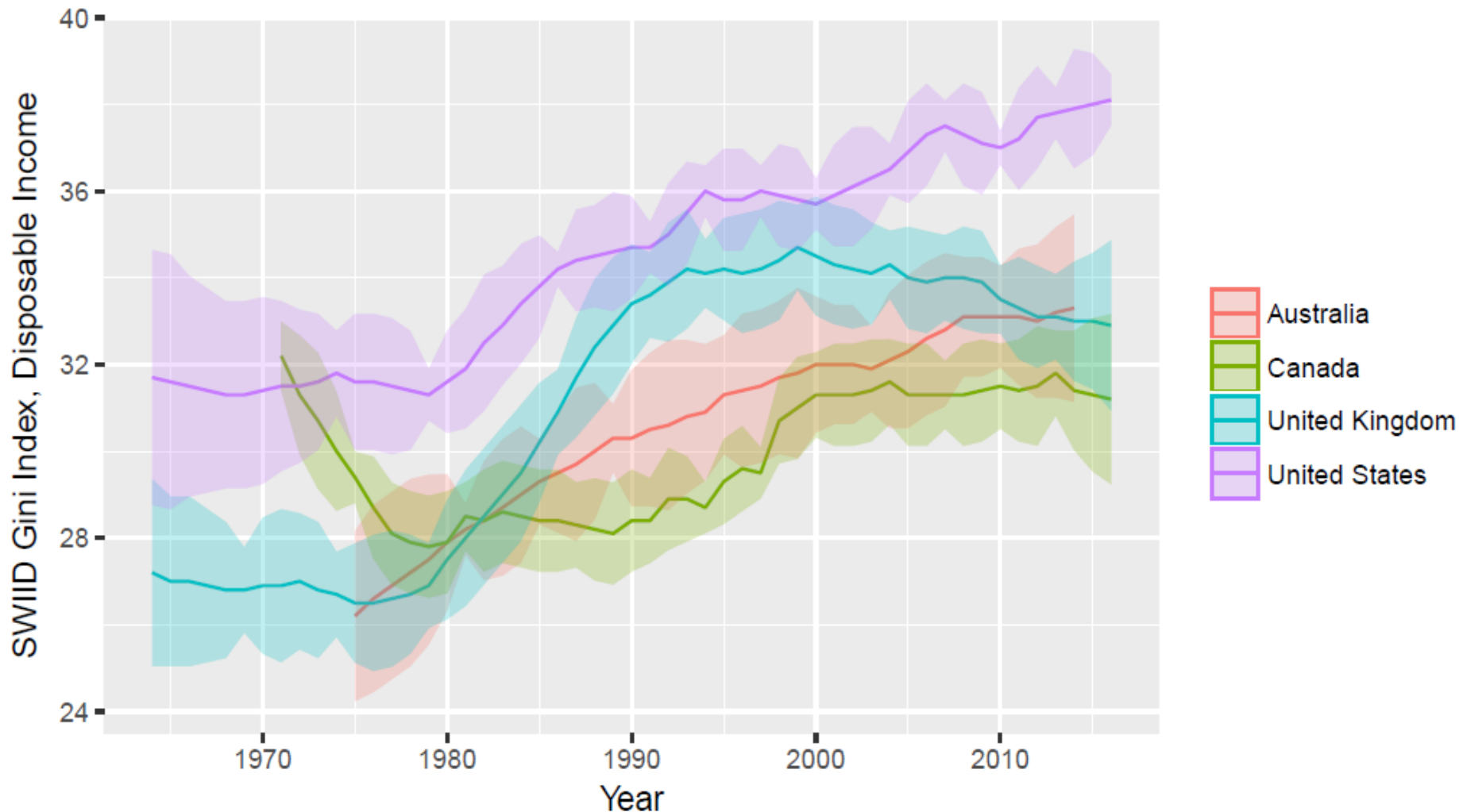
Global inequality trends - summary

- Since 1980s decline in global inequality driven by rapid income-per-capita convergence of EMEs, especially in the most populous countries (China and India)
- Increasing (per saldo) national inequalities and faster population growth in poorer countries worked in the opposite direction (i.e., they increase global inequality)
- Nevertheless, global inequality continues to stay at the level of the most unequal countries (South Africa, Namibia, Haiti)

National inequality trends - summary

- Heterogeneous trends in both AEs and EMEs
- Dominance of increases in national inequality (US, China, Japan, Germany, India, Canada, Australia)
- Some sort of convergence within the EU
- However, moderation and partial reversal of increasing inequality in 2008-2013

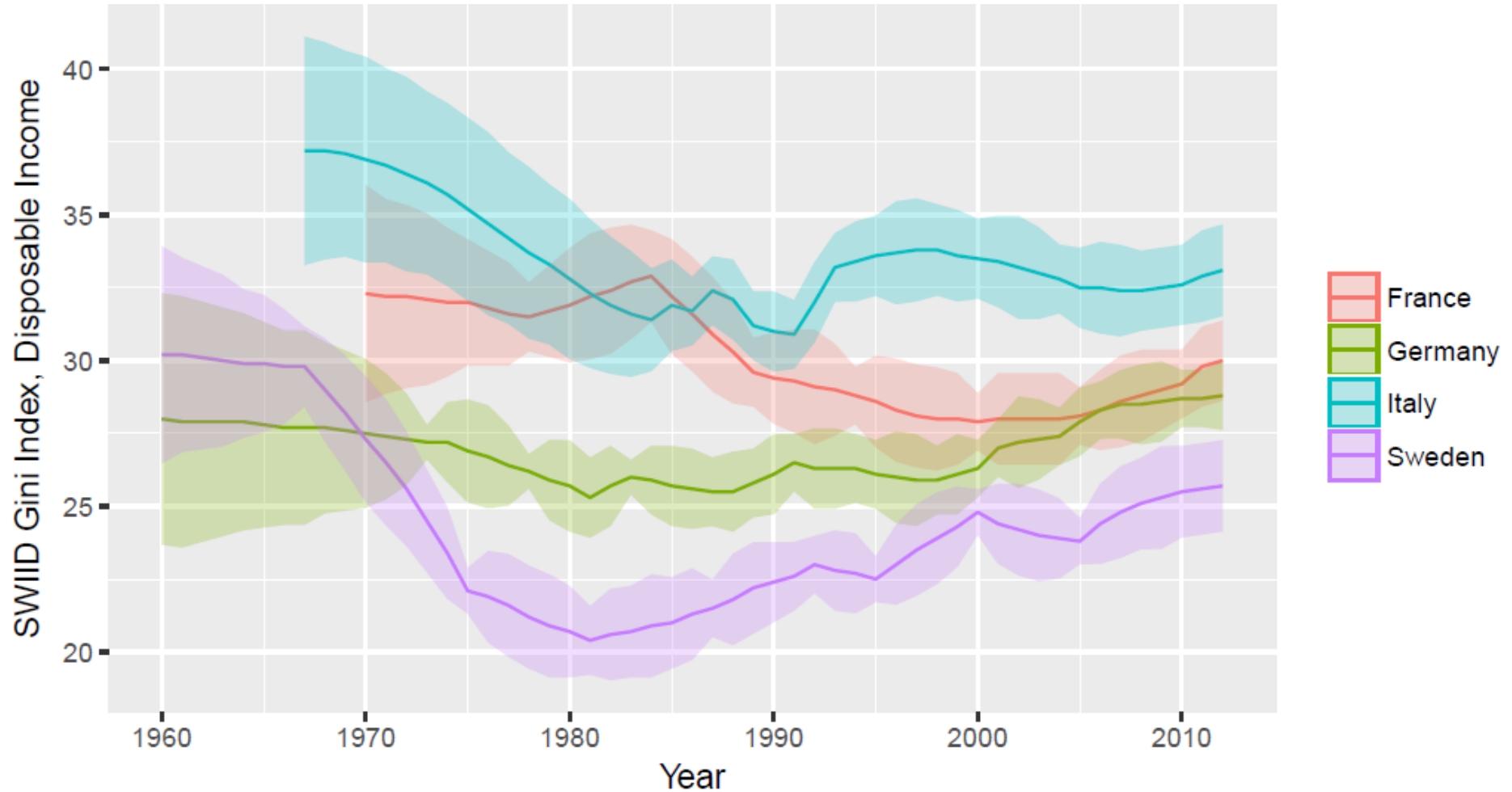
Gini coefficient of net income inequality: Anglo-Saxon countries, 1960-2016



Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% uncertainty intervals.
Source: Standardized World Income Inequality Database v6.2 (Solt 2016).



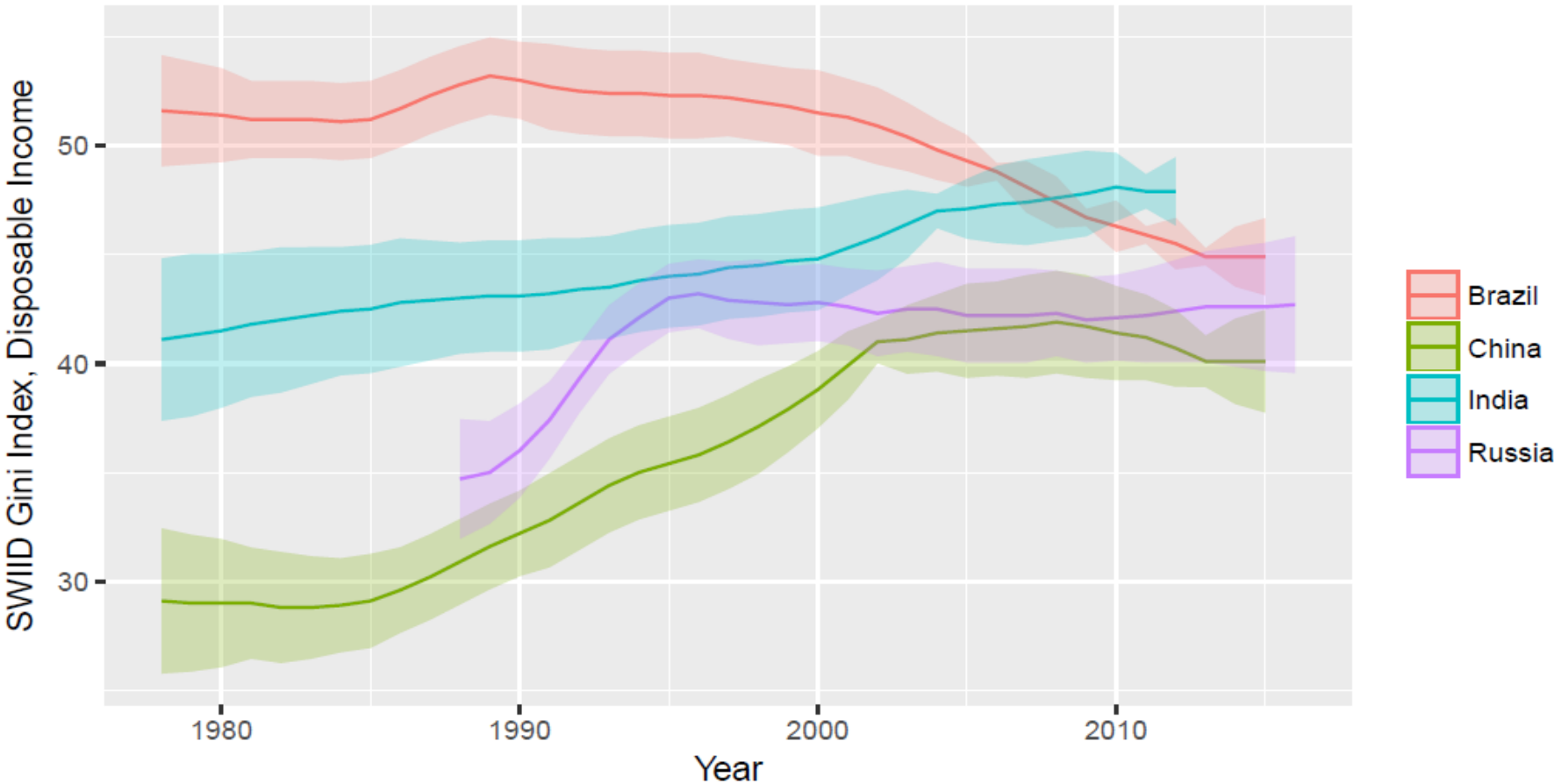
Gini coefficient of net income inequality: continental Europe, 1960-2013



Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% uncertainty intervals.
Source: Standardized World Income Inequality Database v6.2 (Solt 2016).



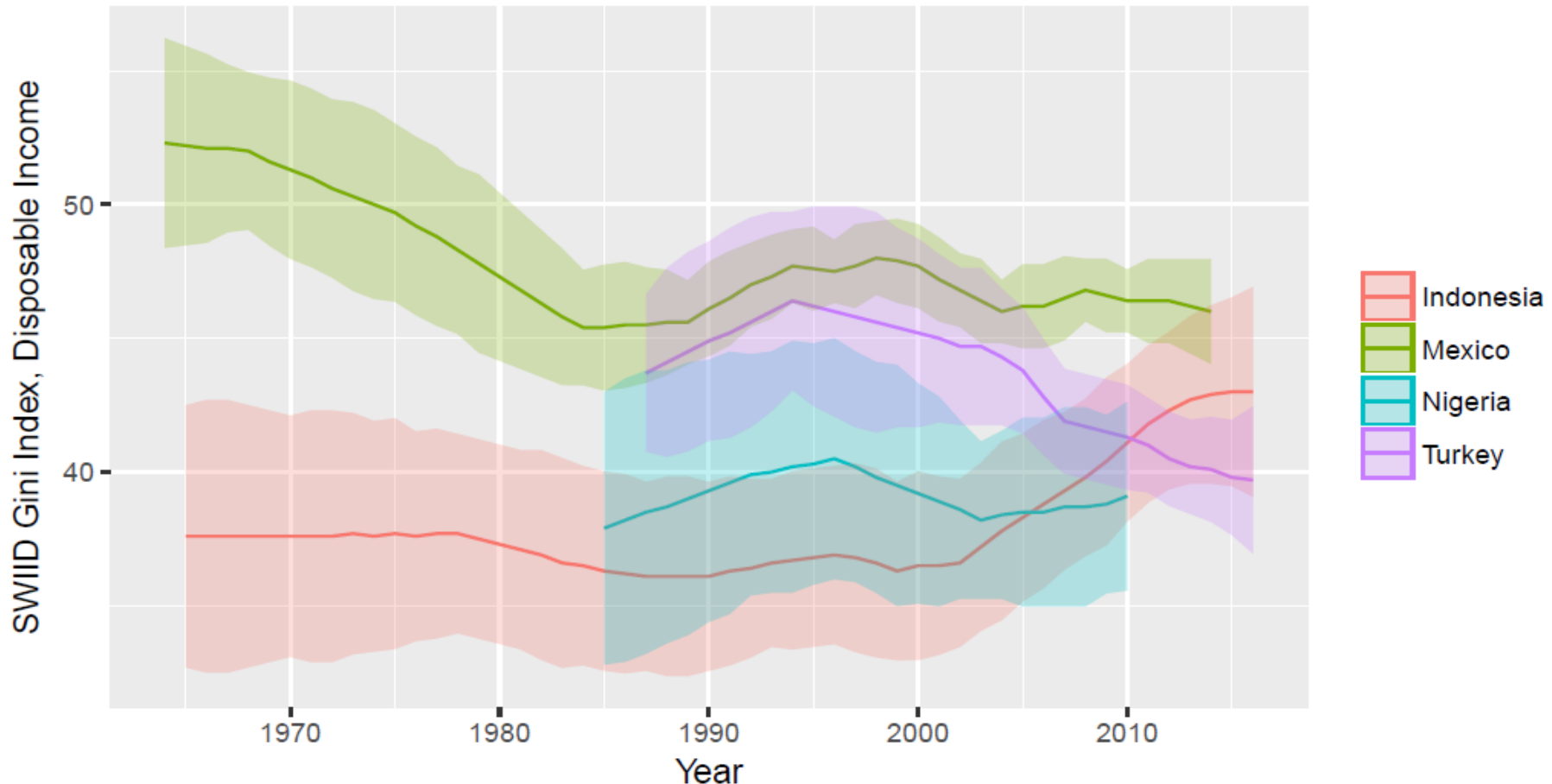
Gini coefficient of net income inequality: BRIC, 1970-2016



Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% uncertainty intervals.
Source: Standardized World Income Inequality Database v6.2 (Solt 2016).



Gini coefficient of net income inequality: MINT, 1960-2016



Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% uncertainty intervals.
Source: Standardized World Income Inequality Database v6.2 (Solt 2016).



Globalization and the potential trade-off

- Globalization has enabled catching-up growth in EMEs and, therefore, reducing global inequality
- Globalization may contribute to higher Gini in AEs
 - competition of lower-cost goods and services from EMEs
 - de-location of manufacturing and services to EMEs within GVC
 - concentration of high-paid jobs in corporate HQs (AEs)
 - concentration of capital income in GFC (AEs)
 - incoming labor migration
 - cross-border tax and regulatory arbitrage that undermines welfare state
- Scarce empirical evidence; however, few available studies (e.g., IMF, 2007; Jaumotte et al, 2008; Lang and Mendes Tavares, 2018) suggest positive impact of globalization (especially of financial globalization and FDI) on national income inequalities

Policy dilemmas

- Increasing national income inequality has negative impact on economic, social and political cohesion within individual countries; it fuels populism (along with other factors) and threatens globalization
- On the other hand, further decrease in global income inequality is important for global economic prosperity and security, reducing extreme poverty, uncontrolled migration, etc.
- Is it possible to avoid/reduce a trade-off, i.e., whether national policies (and which ones) can reduce national inequalities without compromising economic openness and hurting globalization?