Economics of Globalization

Sébastien Laffitte
Sciences Po Saint-Germain-en-Laye

Taking stock

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- International economics study these phenomenons in light of the growing internationalization of these activities.

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- **Distribution:** How globalization affects the distribution of resources.
  - Factor remuneration, Multinational Firms, Taxes.

$\longrightarrow$ Globalization and Inequalities.

Globalization and Inequalities

Global inequality + Add to myFT

Workers lose ground in the global recovery

Sharp drop in labour's share of the world's output points to worsening inequality

Construction workers take a break in Dubai, UAE. The clearest declines in labour's share of GDP since 2019 had been in Africa, the Americas and the Arab states © Christopher Pike/Bloomberg

Globalization and Inequalities

- How have global inequalities evolved?
- What are the links between globalization and inequalities?
  - Within-country inequalities.
  - Between-country inequalities.
- What are the other factors at play?

Measuring Inequality

- How to measure inequality?

Measuring Inequality

- How to measure inequality?
  - Labor share.
  - Gini Coefficient.
  - Income and Wealth shares.

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- What are income and wealth?
  - Income = Labor income + Capital Income
  - Labour Income $\approx$ wages + some mixed income.
  - Capital Income $\approx$ Profits + Rents + interests + some mixed income.
  - Share of labor in national income $\approx$ 70-75%
  - Wealth: stock of accumulated income or Assets - Liabilities of households.

Measuring Inequality

The Labor share

- Share of income going to labor is a good proxy for inequalities. Why?

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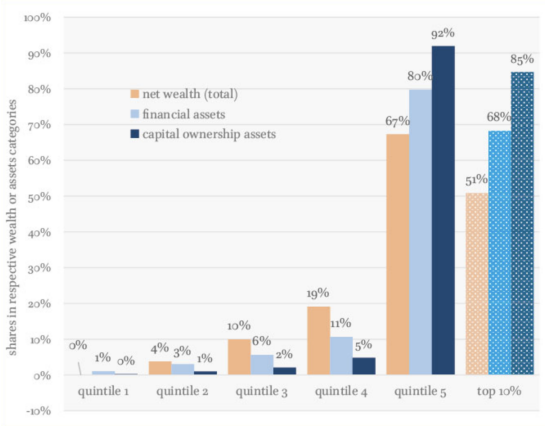

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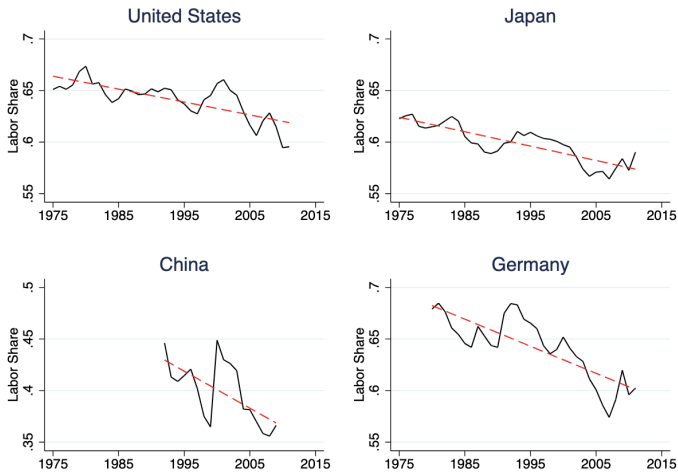


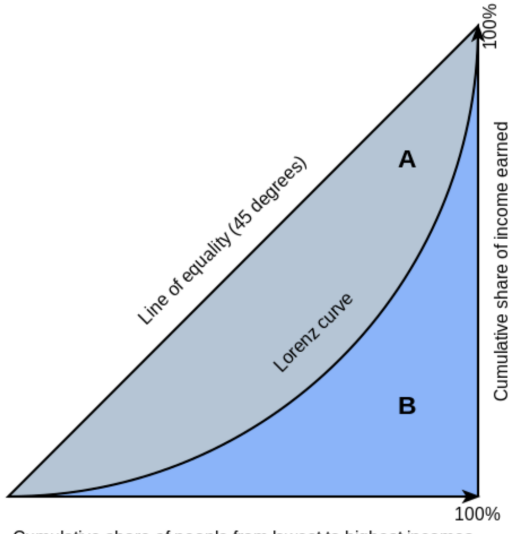
Measuring Inequality

The Gini coefficient

- Lorenz Curve shows the share of income earned by people below a given fractile.
  - *e.g.* The 50% poorest people in a country earn 22% of national income in Europe.
- The Gini coefficient measures inequality based on Lorenz Curves

Measuring Inequality

The Gini coefficient



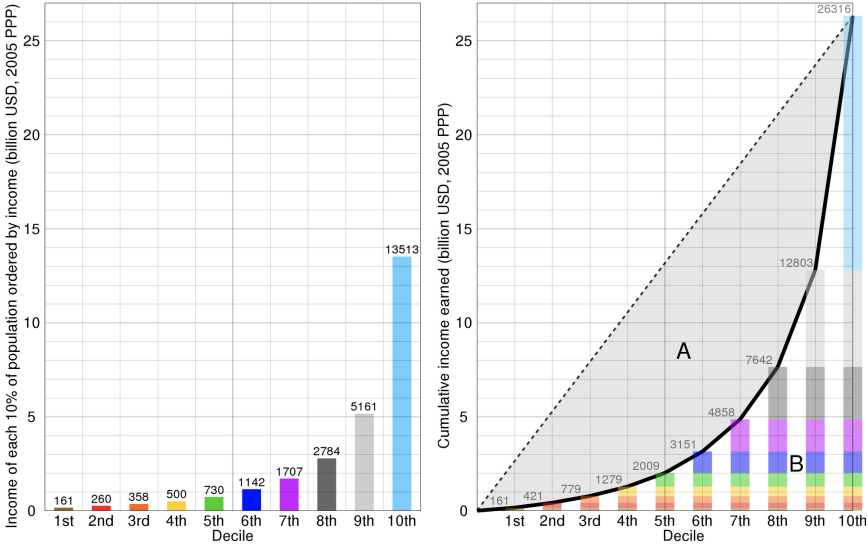
Measuring Inequality

The Gini coefficient

- The Gini coefficient measures inequality based on Lorenz Curves.
  - How does A move with inequality?
  - The Gini coefficient is computed as $\frac{A}{A+B}$.

Measuring Inequality

The Gini coefficient



Measuring Inequality

Income and wealth shares

- A drawback of the Gini coefficient is that it requires a lot of data.
  - You need all the income or wealth shares at all percentiles.
  - Not available back in the past or in developing countries.
  - It is also hard to interpret: change in the Gini coefficient can mean many things.

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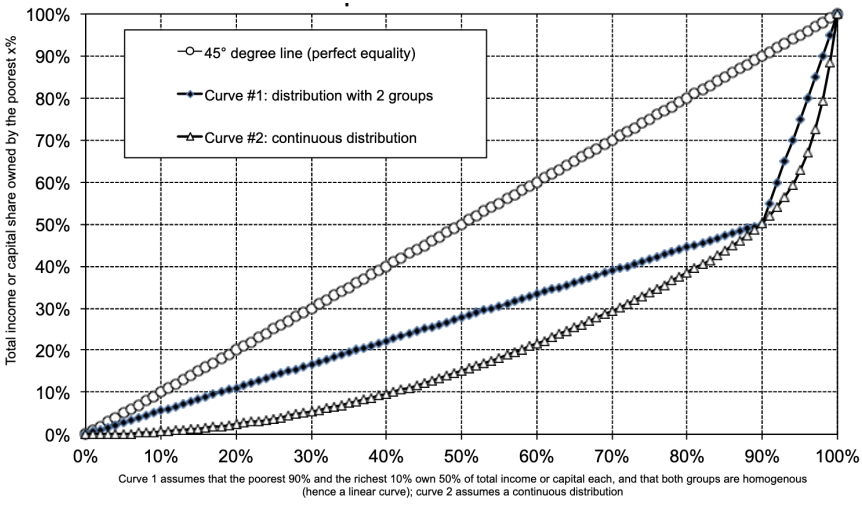
  - It is also hard to interpret: change in the Gini coefficient can mean many things.
- We can focus on income and wealth shares for specific percentiles.
  - Bottom 50% share, Top 1% share, Top 0.1% share, *etc.*
  - Easy to interpret but does not tell the whole story.
- The Gini coefficient and income shares are linked.

Measuring Inequality

The Gini coefficient



Source: Zucman

Evolution of Global Inequalities

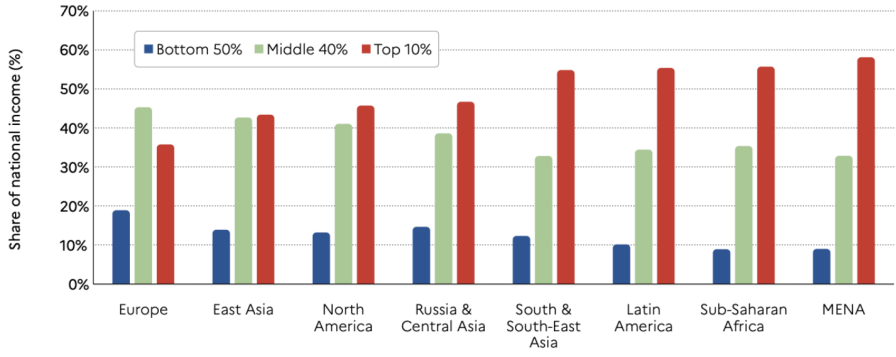
- An average adult in 2022 earns 16700 euros and owns 72900 euros.
- But this average is very unequally distributed in the world.
  - Top 10% of the distribution earns 87200 euros while bottom 50% of the distribution makes 2800 euros a year (representing 8.5% of total revenues).
- Wealth inequalities are even more pronounced than income inequalities.
  - Poorest half of the population owns only 2% of the total wealth in the world.
- MENA countries are the most unequal and Europe is the less unequal region.

Evolution of Global Inequalities

- Change in inequalities varies across countries and level of development.
  - There are different regimes of inequality
  - For given levels of economic and technological development, different inequality regimes that are possible.
- A long-run comparative and historical perspective on development in necessary.
  - e.g. Piketty's *Capital n the 21st century* and *Capital and Ideology*.
  - World Inequality Report.
- Studying inequalities is interesting because it reveals **inequalities in power**.

Evolution of Global Inequalities

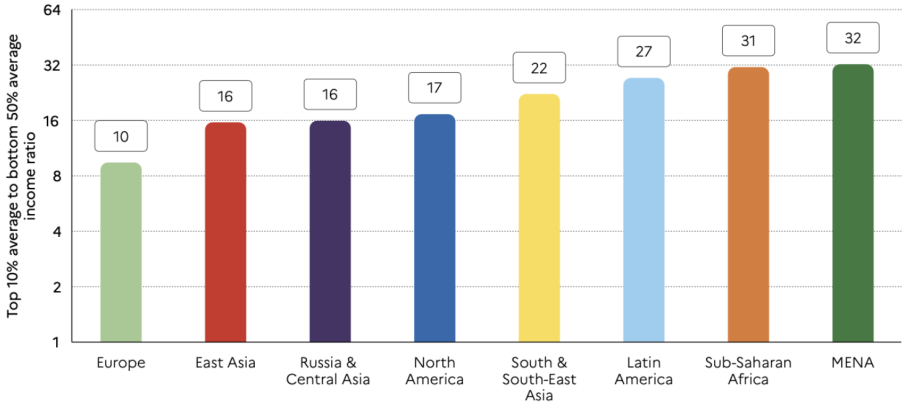
Figure 2 ***The poorest half lags behind: Bottom 50%, middle 40% and top 10% income shares across the world in 2021***



Interpretation: *In Latin America, the top 10% captures 55% of national income, compared to 36% in Europe. Income is measured after pension and unemployment contributions and benefits paid and received by individuals but before income taxes and other transfers.*
Sources and series: *www.wir2022.wid.world/methodology.*

Evolution of Global Inequalities

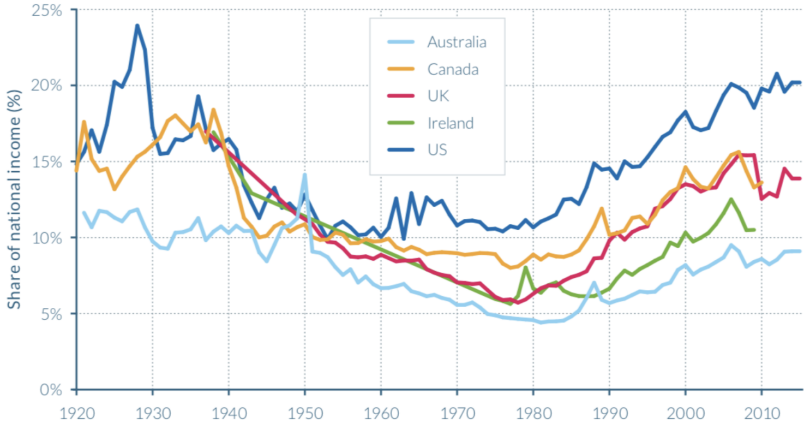
Figure 1.4 ***Income gaps across the world: Top 10 % vs. Bottom 50%, 2021***



Interpretation: *In Latin America, the bottom 50% earns 27 times less than the top 10%. The value is 9 in Europe. Income is measured after pension and unemployment benefits are received by individuals, but before other taxes they pay and transfers they receive.* ***Sources and series:*** *wir2022.wid.world/methodology*

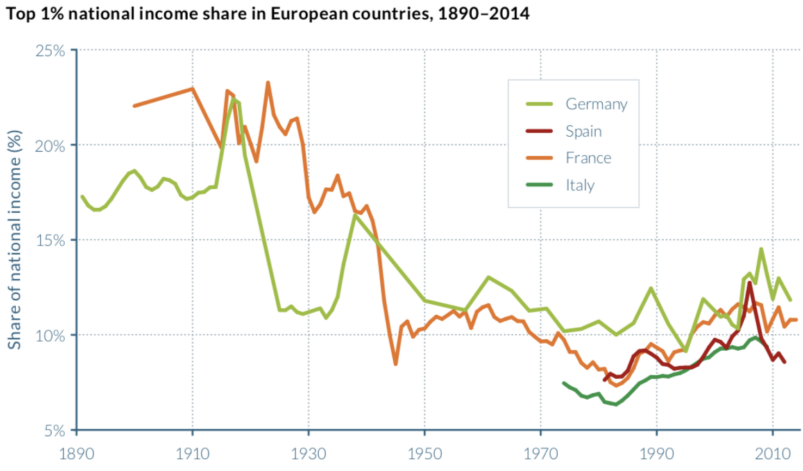
Evolution of Global Inequalities

Top 1% national income share in Anglophone countries, 1920–2015



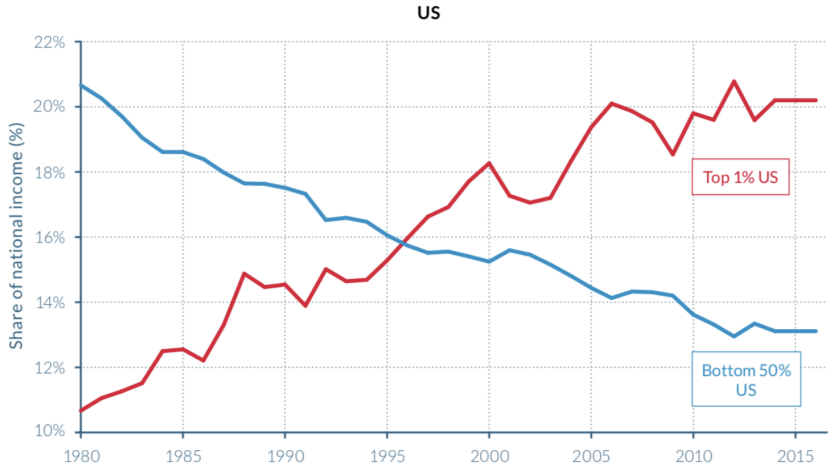
Source: Novokmet, Piketty & Zucman (2017). See wir2018.wid.world for data series and notes.

Evolution of Global Inequalities



Evolution of Global Inequalities

Top 1% vs. Bottom 50% national income shares in the US and Western Europe, 1980–2016



Source: WID.world (2017). See wir2018.wid.world for data series and notes.

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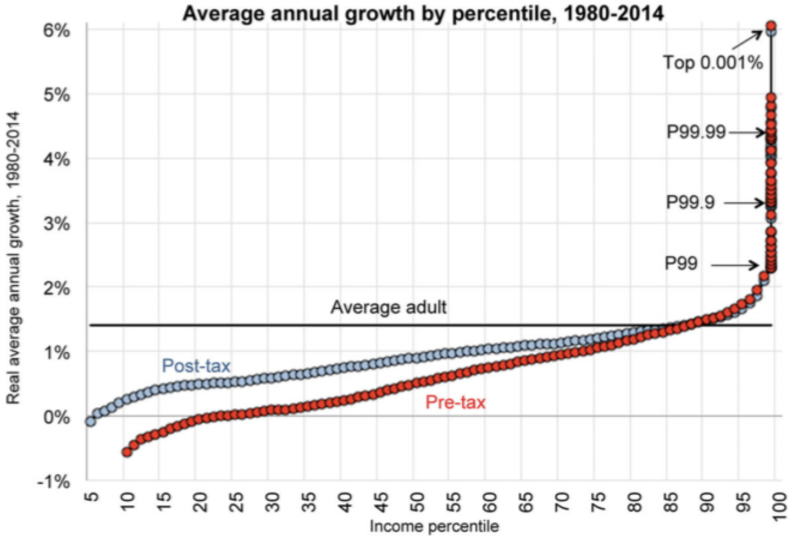

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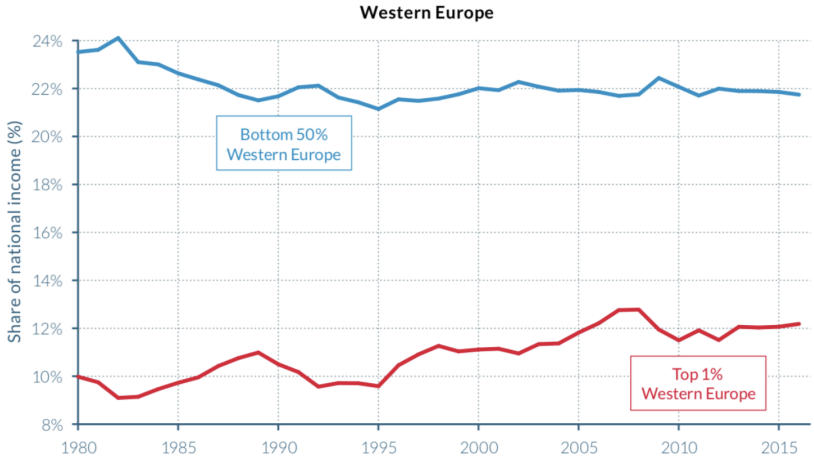

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In 2016, 22% of national income was received by the Bottom 50% in Western Europe.

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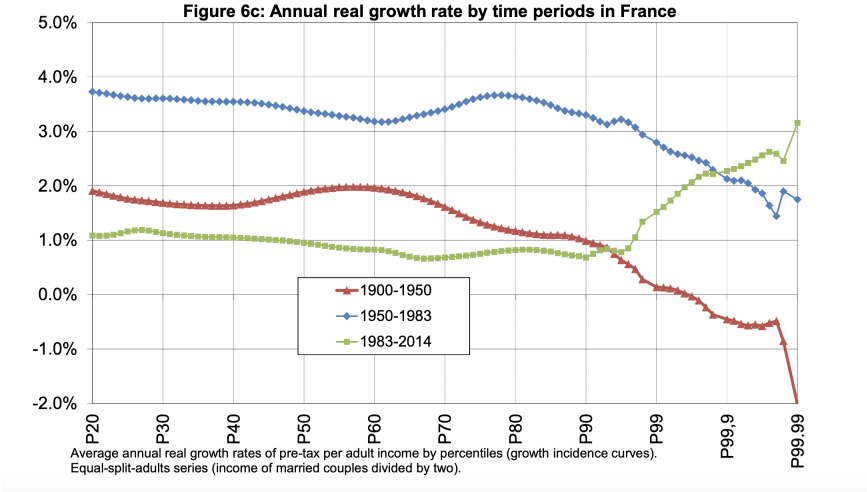

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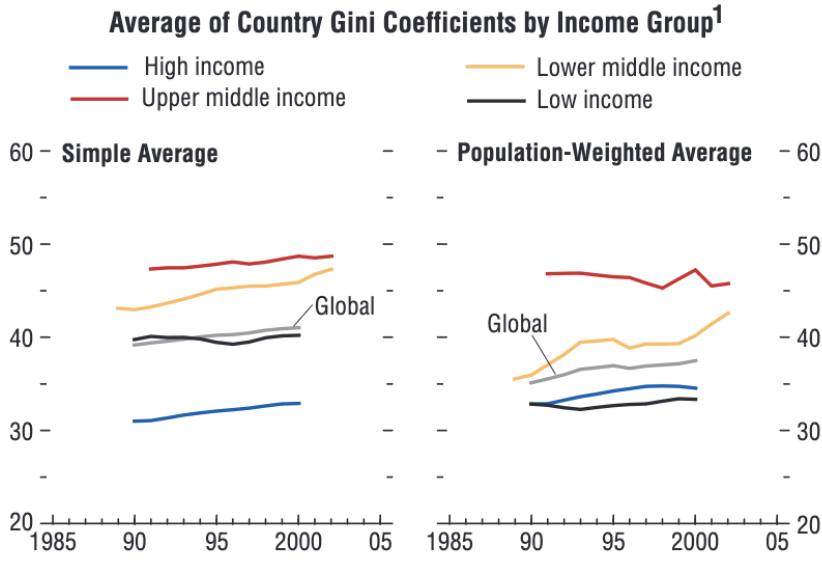
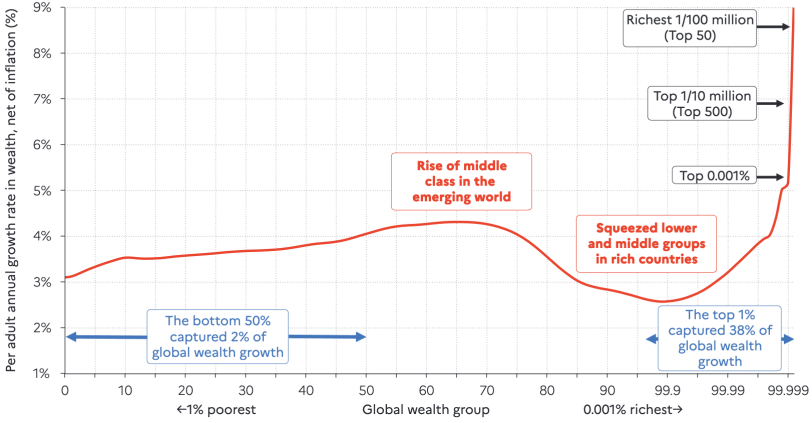


Evolution of Global Inequalities

Figure 9 *Average annual wealth growth rate, 1995-2021*



Interpretation: *Growth rates among the poorest half of the population were between 3% and 4% per year, between 1995 and 2021. Since this group started from very low wealth levels, its absolute levels of growth remained very low. The poorest half of the world population only captured 2.3% of overall wealth growth since 1995. The top 1% benefited from high growth rates (3% to 9% per year). This group captured 38% of total wealth growth between 1995 and 2021. Net household wealth is equal to the sum of financial assets (e.g. equity or bonds) and non-financial assets (e.g. housing or land) owned by individuals, net of their debts.* ***Sources and series:*** *wir2022.wid.world/methodology.*

Evolution of Global Inequalities

- The Elephant Curve mixes effects on within-country inequalities and between-countries inequalities.

- Between 1820 and 1910:

  - Rise in both between-country inequalities: Western countries establish their imperial supremacy over the World.
  - Rise in within-countries inequalities: unequal and hierarchical political and economic domestic systems.

- 1910-1980:

  - Between-country inequalities are still increasing.
  - Decline in within-countries inequalities: rise of the social state and modern taxation.

- Since 1980:

  - Rise in within-country inequalities again.
  - Decline in between-country inequalities rise of developing countries.

Globalization and Inequalities

Theoretical Effects

- Stolper-Samuelson Theorem:

Globalization and Inequalities

Theoretical Effects

- Stolper-Samuelson Theorem: trade increases the remuneration of the relatively abundant factor.

Globalization and Inequalities

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- Stolper-Samuelson Theorem: trade increases the remuneration of the relatively abundant factor.
  - (Low-skilled) Labor is relatively abundant in developing countries: inequalities should decrease there.
  - High-Skilled labor/Capital is relatively abundant in developed countries: inequalities should increase there.

Globalization and Inequalities

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  - (Low-skilled) Labor is relatively abundant in developing countries: inequalities should decrease there.
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- Non-competing imports: imports of goods that are not produced locally.
  - Price decreases but factor costs are not affected.
  - Might counter the inequality-increasing effect of trade.

Globalization and Inequalities

Theoretical Effects

- Increase in MNEs market power implies larger mark-ups.
  - $\textit{Price} = \textit{Cost} \times (1 + \textit{markup})$
- Increase in mark-up tend to favor the remuneration of capital over labor.

Globalization and Inequalities

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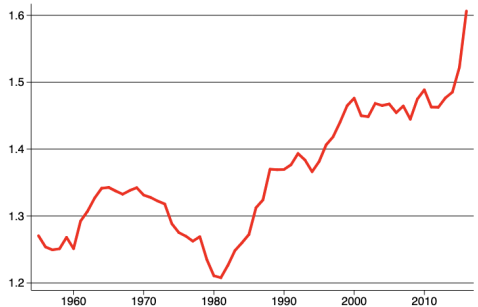

FIGURE I

Average Markups

Globalization and Inequalities

Theoretical Effects

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  - $\textit{Price} = \textit{Cost} \times (1 + \textit{markup})$
- Increase in mark-up tend to favor the remuneration of capital over labor.
- Alternative/Complementary explanation for declining labor share: investment in ICT capital substitues labor with capital.

Globalization and Inequalities

Theoretical Effects

- Trade-induced horizontal inequalities (Borussyak and Jaravel, 2023): inequality occuring among workers with the same level of revenues before the trade shock.
  - Exposure to trade through consumption (change in prices) and production (change in wages) homogeneous *across* income deciles and heterogeneous *within* income deciles.
- Generates winner and losers *within* income-decile.
- Might not be seen in conventional measures of inequality.

Globalization and Inequalities

Theoretical Effects

- Alternative explanation: rise in the skill premium between low-skill and high-skill workers.
  - The relative remuneration of skills increases over time: In 1980, college degree workers earned 40 percent more than a worker with just a high school education. It rose to 80 percent at the end of 1990'.
  - Technological change is skilled biased and might explain changes in inequalities: it increases the demand for high-skilled workers and then increases their wages.
  - *e.g.* Real-price decline in computerized technology $\Longrightarrow$ computer adoption $\longrightarrow$ substitutes labor in routine tasks and complements it in non-routine tasks.
  - But trade and globalization fosters the diffusion and adoption of robots, technological improvement in technologies, *etc.*

Globalization and Inequalities

Theoretical Effects

- Other factors:

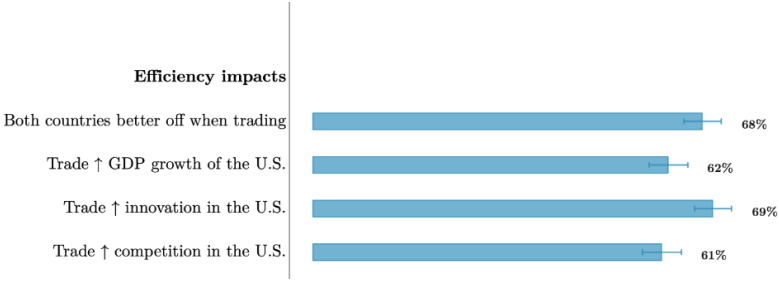
Globalization and Inequalities

Theoretical Effects

- Other factors:
  - Greater access to education can be inequality-reducing
  - Lower share of agricultural employment can be inequality-reducing.
  - Access to private credit might increase or decrease inequalities.
  - The quality of institutions is of primary importance.

Globalization and Inequalities

What do people think?



Source: Stantcheva (2023), Survey on a U.S sample

Globalization and Inequalities

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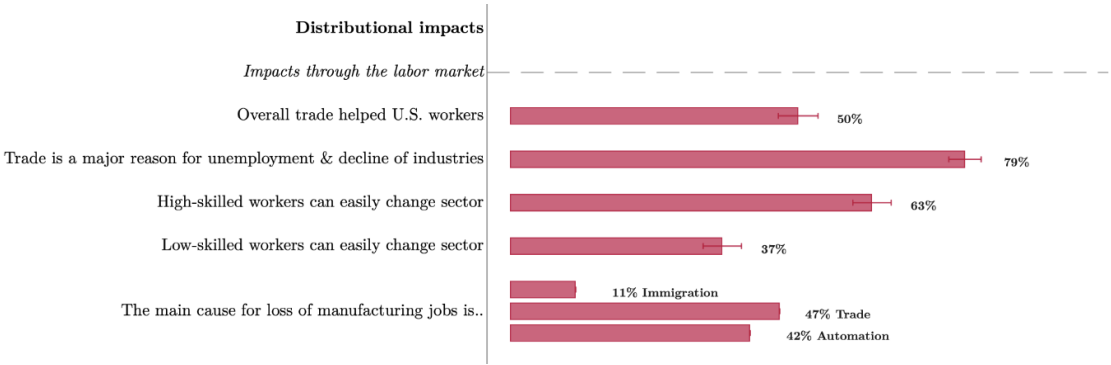

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Globalization and Inequalities

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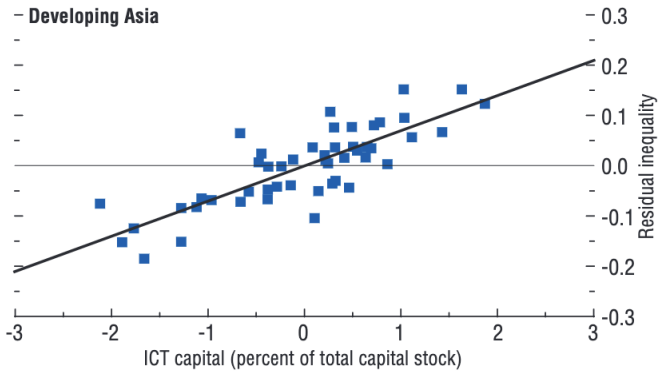
Globalization and Inequalities

Cross-country results

Figure 4.13. Inequality and Technology, 1981–2003[1]

Partial correlations by country group suggest that the disequalizing impact of technology was particularly strong in Asia, and was less powerful in Latin America and the Caribbean.



Globalization and Inequalities

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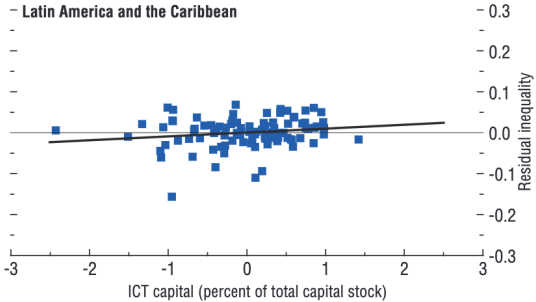
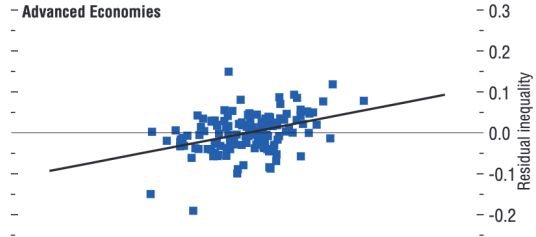




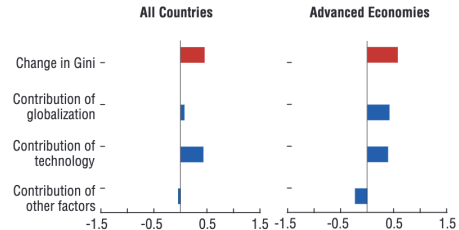
Globalization and Inequalities

Cross-country results

Figure 4.9. Explaining Gini Coefficient Changes[1,2]

(Average annual percent change)

The disequalizing effect of globalization was larger in advanced economies, in part because of outward foreign direct investment, while in developing countries, and especially in developing Asia, technological change was the main contributor to the rise in inequality.



Globalization and Inequalities

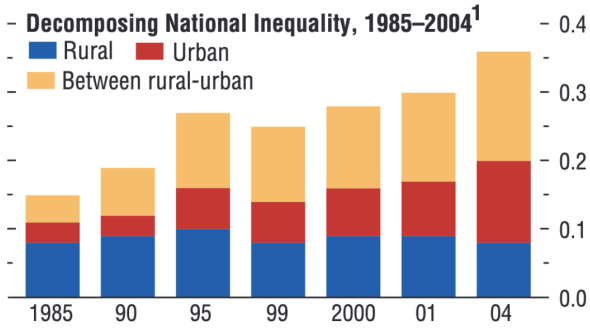
The Case of China

- Chinese liberalization: fall in poverty rates, large growth of the economy, but rising inequalities.
- Not in line with Stolper-Samuelson!
- Decompose change between rural and urban areas: decrease in rural inequalities, small increase in urban inequalities and large increase in rural-urban inequalities.
- Inequalities also increased in Mexico and India after their trade-liberalization.
  - The effects of globalization on inequalities go well beyond the predictions of the Stolper-Samuelson theorem.
  - Frictions to the mobility of workers across locations and industries.
  - Growing inequalities between those (individuals, firms, industries, places) exposed to trade and the others.

Globalization and Inequalities

The Case of China

China: Openness and Inequality in Urban and Rural Areas



Globalization and Inequalities

Policy

- It is difficult to conclude on the size of the impact of globalization in inequalities: all effects are intertwined.
- Though, we can be confident in the fact that globalization affects inequalities and is perceived as such.
- Education appears to be an important equalizing factor.
  - Public investment in education and skills in necessary to counteract the inequality-increasing effects of trade and technology.
  - More generally the quality of institutions can help to redistribute gains more equally.
  - Developing an efficient social system is key.
- Failing to address the consequences of globalization do have consequences.
  - *e.g.* on political attitudes (push towards nationalism and right-wing votes).

Globalization and Inequalities

Tax Policy

Le blog de **Thomas Piketty**

15 OCTOBRE 2024 PAR PIKETTY

How to tax billionaires

The tax debates currently underway in France and the discussions planned for the 2024 G20 summit demonstrate that the issue of tax justice and the taxation of billionaires is not about to disappear from the public debate. There's a simple reason for this: the sums amassed by the world's wealthiest individuals over the last few decades are quite simply gigantic. Those who consider this a secondary or symbolic issue should take a look at the numbers. In France, the combined wealth of the 500 largest fortunes has grown by €1 trillion since 2010, rising from €200 billion to €1.2 trillion. In other words, all it would take is a one-time tax of 10% on this €1 trillion increase to bring in €100 billion, which is equal to all of the budget cuts the government is planning for the next three years. A one-time tax of 20%, which would remain very moderate, would bring in €200 billion and allow as much additional spending.

A PROPOS

Pour suivre Thomas Piketty, consultez sa page personnelle à l'Ecole d'économie de Paris, et abonnez-vous à son compte Twitter : Follow @PikettyWIL

Ce blog est celui d'un chercheur en sciences sociales, engagé dans la vie de la cité. L'auteur du Capital au 21e siècle et de Capital et idéologie porte un regard sans concession sur l'actualité

Figure: link