Economics of Globalization

Sébastien Laffitte
Sciences Po Saint-Germain-en-Laye

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

$\longrightarrow$ Globalization and Inequalities.

Globalization and Inequalities

Opinion **Global inequality** + Add to myFT

Lula, Ramaphosa and Sánchez: We face an inequality emergency

The needs of ordinary people must be placed at the centre of the world's agenda

Globalization and Inequalities

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

Measuring Inequality

- How to measure inequality?

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  - Labor share.
  - Gini Coefficient.
  - Income and Wealth shares.

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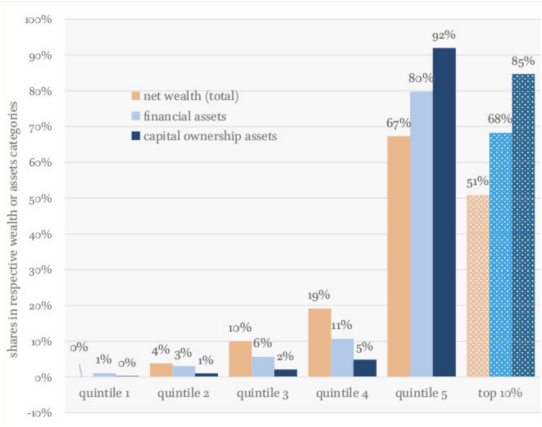

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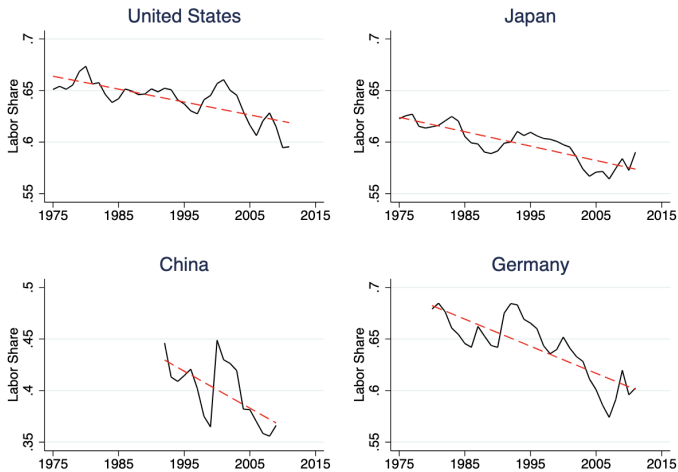

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- GDP $\approx$ Labor income + Capital Income
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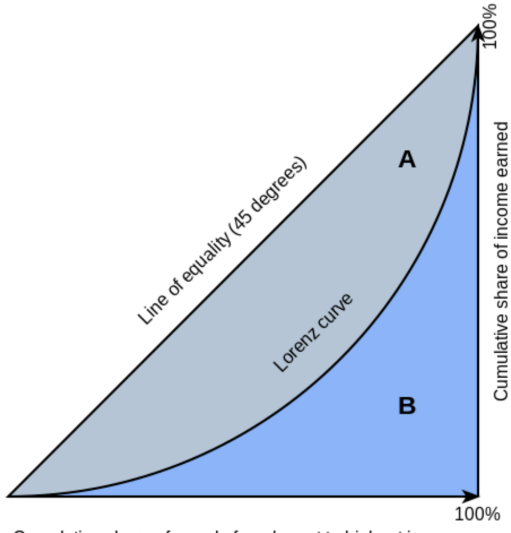
  - What matters for today's economists.
- Lorenz Curve shows the share of income earned by people below a given fractile.
  - *e.g.* The 50% poorest people in a country earn 22% of national income in Europe.
- The Gini coefficient measures inequality based on Lorenz Curves
- It summarizes in one number all the distribution of income.

Measuring Inequality

The Gini coefficient



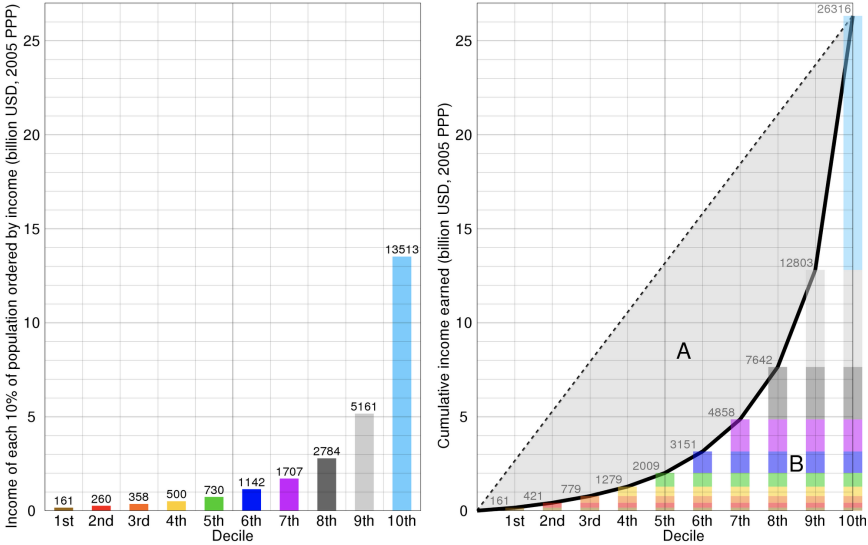
Measuring Inequality

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

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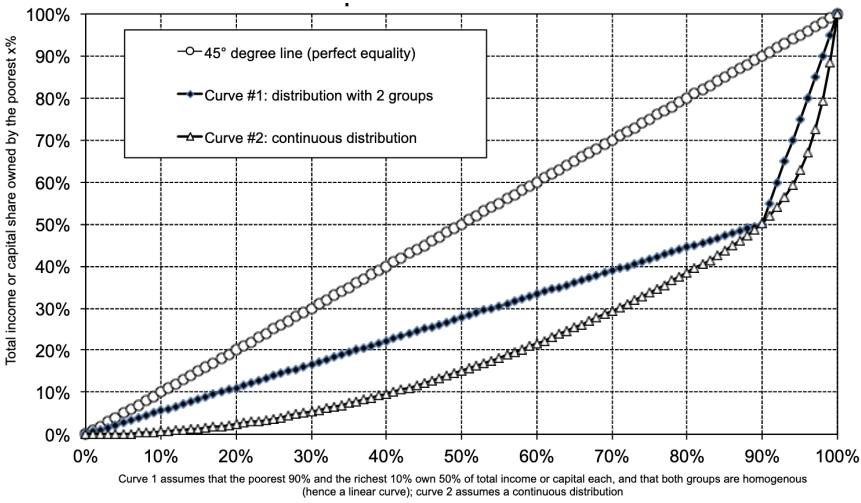
  - It is also hard to interpret: change in the Gini coefficient can mean many things.
- We can focus on income and wealth shares for specific percentiles.
  - Bottom 50% share, Top 1% share, Top 0.1% share, *etc.*
  - Easy to interpret but does not tell the whole story.
- The Gini coefficient and income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

Measuring Inequality

Income and Wealth shares



Source: Zucman

Evolution of Global Inequalities

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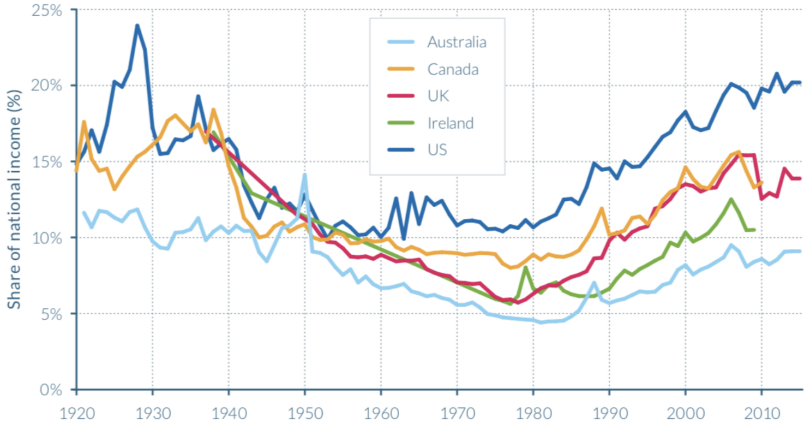
- MENA countries are the most unequal and Europe is the less unequal region.

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 also interesting because it reveals **inequalities in power**.

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.

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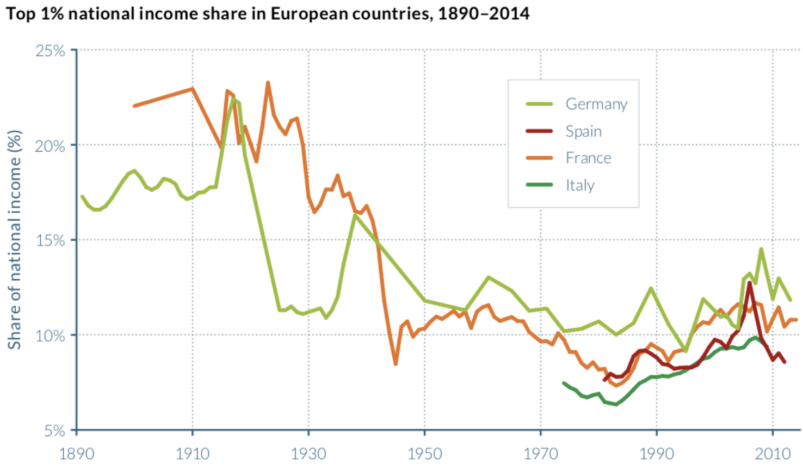
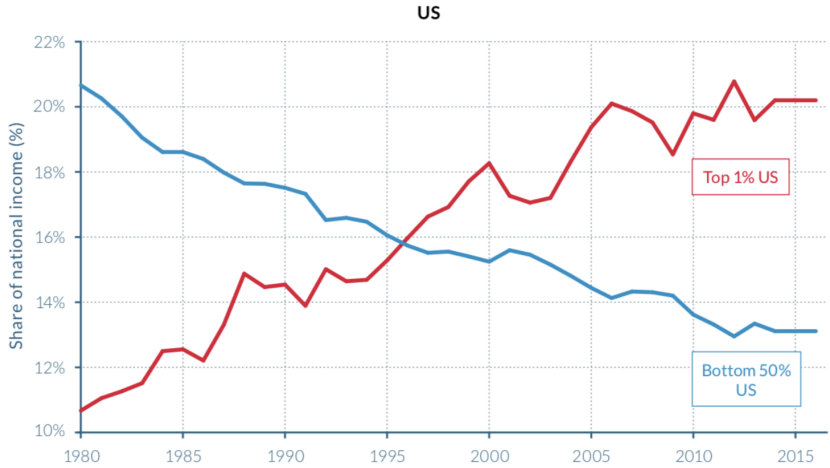


Evolution of Global Inequalities

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



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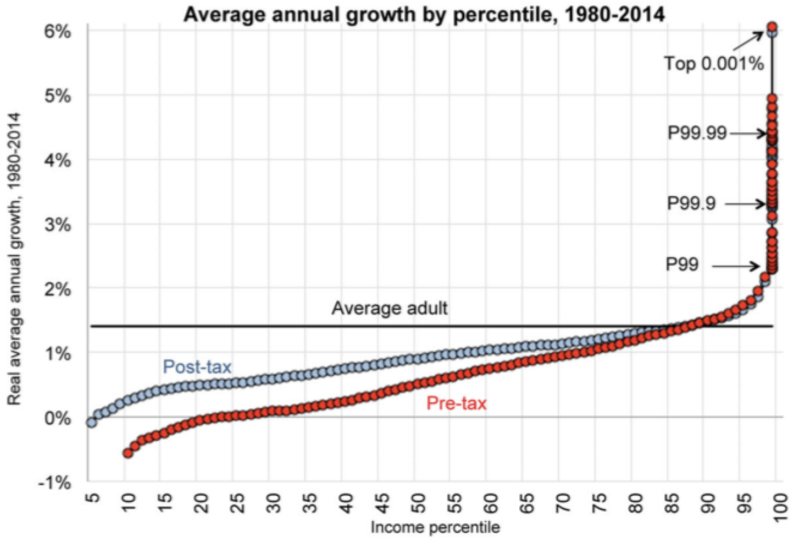

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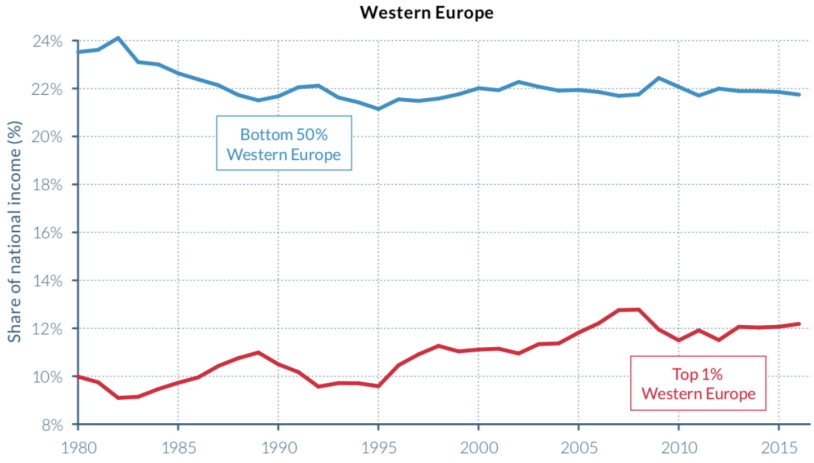

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In 2016, 22% of national income was received by the Bottom 50% in Western Europe.

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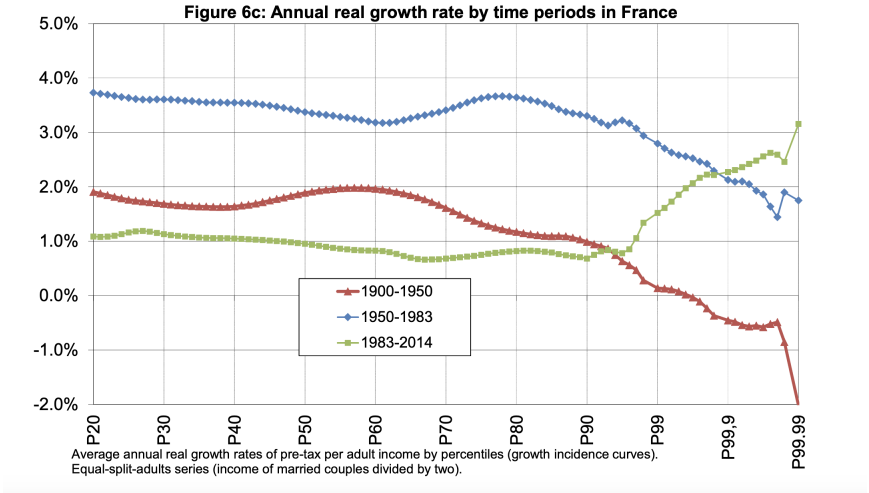
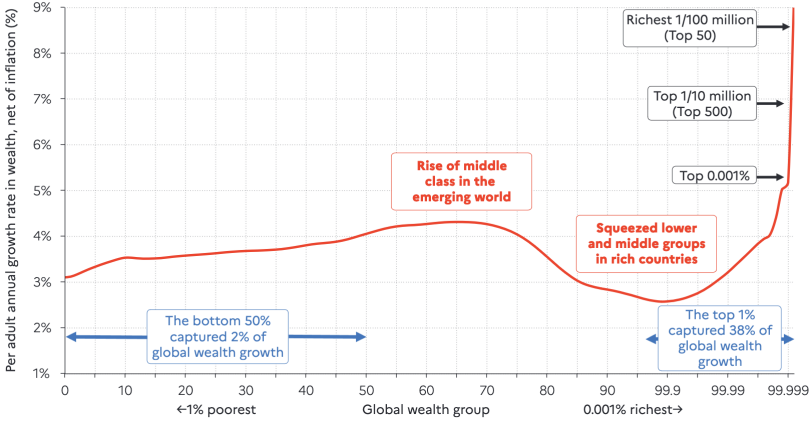


Evolution of Global Inequalities

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

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- 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:

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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.
  - $\textit{Price} = \textit{Cost} \times (1 + \textit{markup})$
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Globalization and Inequalities

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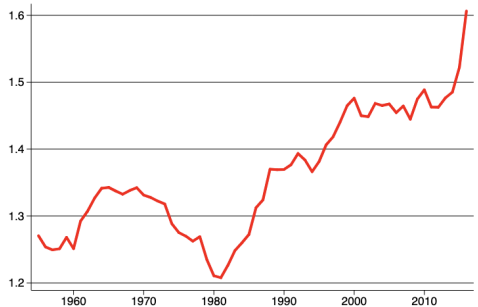

FIGURE I

Average Markups

Globalization and Inequalities

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- 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 + favors high-skilled workers

Globalization and Inequalities

What do people think?

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

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.
- Developing an efficient social system is key.
  - Role for the tax and transfer system.
  - More generally the quality of institutions (=allocation of rights in the society) can help to redistribute gains more equally.
- Failing to address the consequences of globalization do have consequences.
  - *e.g.* on political attitudes (push towards nationalism and right-wing votes).

General conclusion of the course

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- The economics of globalization.
  - Globalization studied in a broad sense: trade, multinational firms, taxation, inequalities, environment.
  - How does the economic activity (production, consumption, distribution) affects and is affected by globalization?
  - Goal: Be able to an answer general-interest questions about globalization with the tools of economic analysis.
    - How does globalization affect welfare? How does globalization affect inequalities? How do we address the negative consequences of globalization?
    - Need to know about the important trade-offs.
    - Having the trade-offs in mind, policy choices depend on political/moral views.

General conclusion of the course

- Set of theoretical tools to analyze globalization.
- Set of historical facts and empirical regularities.
- Policy analysis.

General conclusion of the course

Theoretical tools

- Trade models: country differences in productivity, institutions and policy generate relative cost differences, and then comparative advantages. Gains come from specialization and exchange.
  - Ricardian model: productivity differences drive trade. Trade increases welfare.
  - Hecksher-Ohlin model (+ Stolper-Samuelson theorem): trade arises from the difference of endowments between countries. Trade creates net gains but there are winners and losers: redistribution is necessary.
  - Fundamental link between trade and inequalities.
- Trade can also arise from economies of scale.
  - Trade also happens when there are no productivity or endowment differences.
- Game theory
  - Helps understanding the key incentives behind globalization dynamics

General conclusion of the course

Theoretical tools

- Trade policy
  - Economic Analysis of a tariff (*the triangles*).
  - The trade policy can be welfare-enhancing (for large countries that can manipulate trade prices, not for small countries).
- Basic determinants of multinational firms activity.
  - Proximity-concentration trade–off: FDI is preferred when trade costs are large, fixed costs are small, foreign markets are large
- Environmental regulations create leakage effects through three channels (competition, energy and innovation).

General conclusion of the course

Historical Facts and Empirical Regularities

- History of globalization and trade policies.
- The current state of globalization.
- Globalization and inequalities.
- The regulation of globalization: MNEs, international taxation, environment.

The Exam I

- Multiple choice questions.
  - *e.g.* In country A, producing producing good 1 takes 3 hours, and producing good 2 takes 6 hours. In country B, producing good 1 takes 5 hours and producing good 2 take 20. Hence:
    1. Country A has a comparative advantage for both goods.
    2. Country A has a comparative advantage for good 1 and country B for good 2.
    3. Country A has a comparative advantage for good 2 and country B for good 1.
    4. Country A has no comparative advantage.

    Keeping the parameters of question 1: if we move from autarky to free trade, and assuming that the world demand is such that both countries fully specialize:
    1. The relative price of good 1 will rise in country A.
    2. The relative price of good 2 will rise in country A.
    3. Relative prices will remain the same for both goods.
    4. Relative prices will move, but we can't say anything about the direction of the change.

The Exam II

If we observe a decrease in the ratio of value-added of exports over gross exports of a country, it suggests that:

1. The country is exporting more intermediate goods
2. The fragmentation of the production process has reached its limits.
3. The country is more integrated in global value chains.
4. None of the above.

- Exercise (see example online)
  - Course questions.
  - Graphical interpretation.
  - Use of course concepts to answer the case study.

The Exam III

- Open Question e.g.
  - What is the impact of globalization on inequalities within and between countries? How can governments play a role to regulate these effects?
  - The EU has recently launched an investigation in order to set up a tariff against the import of electric vehicles from China. You will the discuss the rationale and the consequences of such trade policy to answer the question: Should a government limit the import of foreign products in order to protect its national economy?

Thank you and good luck for the exam