Growth and inequality in the 3rd globalization era

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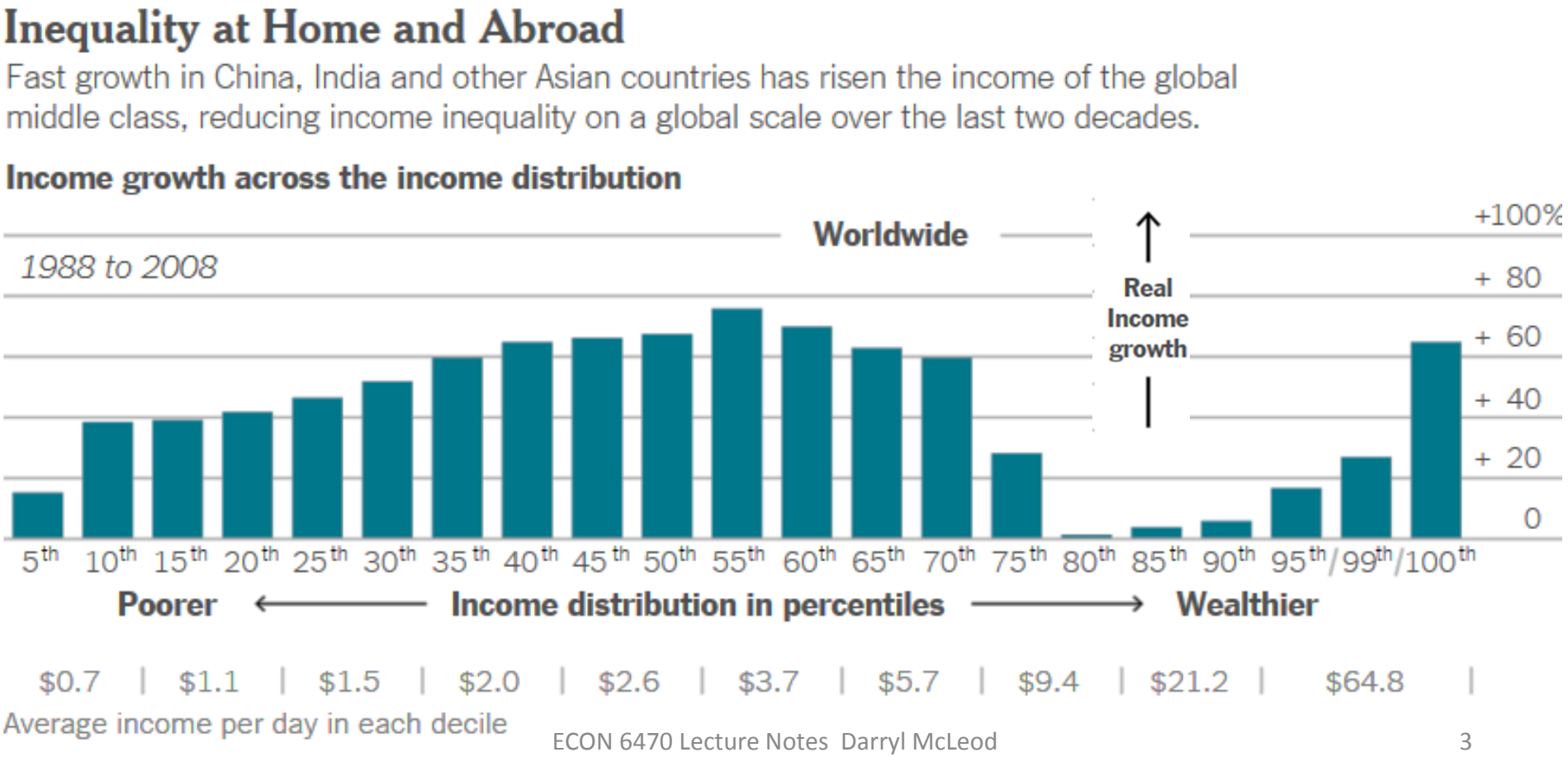
Falling Global Poverty and Inequality + slower growth in OECD nations + the rising share of the top 1% generate the Elephant curve

- Inequality is some nations has increased (USA and China) but inequality among people and nations has decreased since 2000, absolute convergence…
- Many nations closing gap with OECD see chapter 4 of Eclipse and DESA's Inequality Matters
- Openness has played a role…. China, Asia, RER
- Convergence in health, education and longevity faster than incomes see HDR 2010

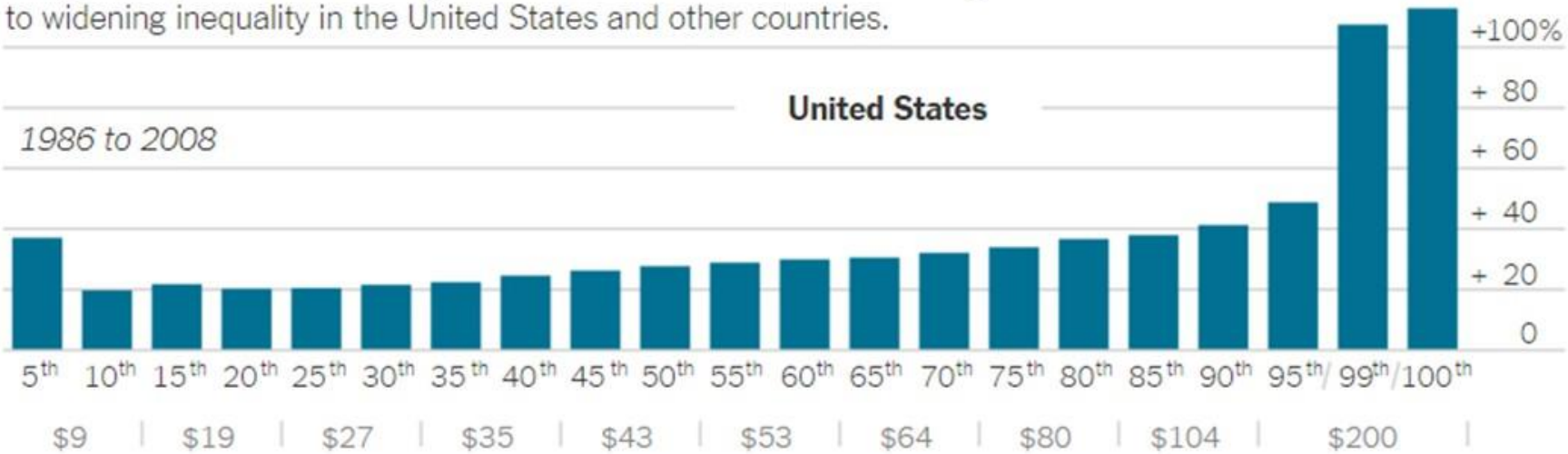
Falling Global inequality: Absolute convergence… *global growth incidence curve* from Porter & Bruno Milanovic

Figure PB-1 World Growth Incidence curve



Falling Global inequality: Absolute convergence finally SS growth models start to work… at a cost… *global growth incidence curve* from Eduardo Porter & Branko Milanovic (read NY Times) see web page

The global dynamics bolstering incomes in China are also contributing to widening inequality in the United States and other countries.



Notes: Average incomes are for 2008, measured in constant 2005 dollars. Global incomes are measured at 2005 purchasing power parities

Source: Branko Milanovic

This is astonishing progress. And although incomes of workers in the developed world didn't rise much as the Asian poor moved up the ladder, they didn't fall either: Globalization lifted all boats.

Figure 4. Change in real income between 1988 and 2008 at various percentiles of global income distribution (calculated in 2005 international dollars)

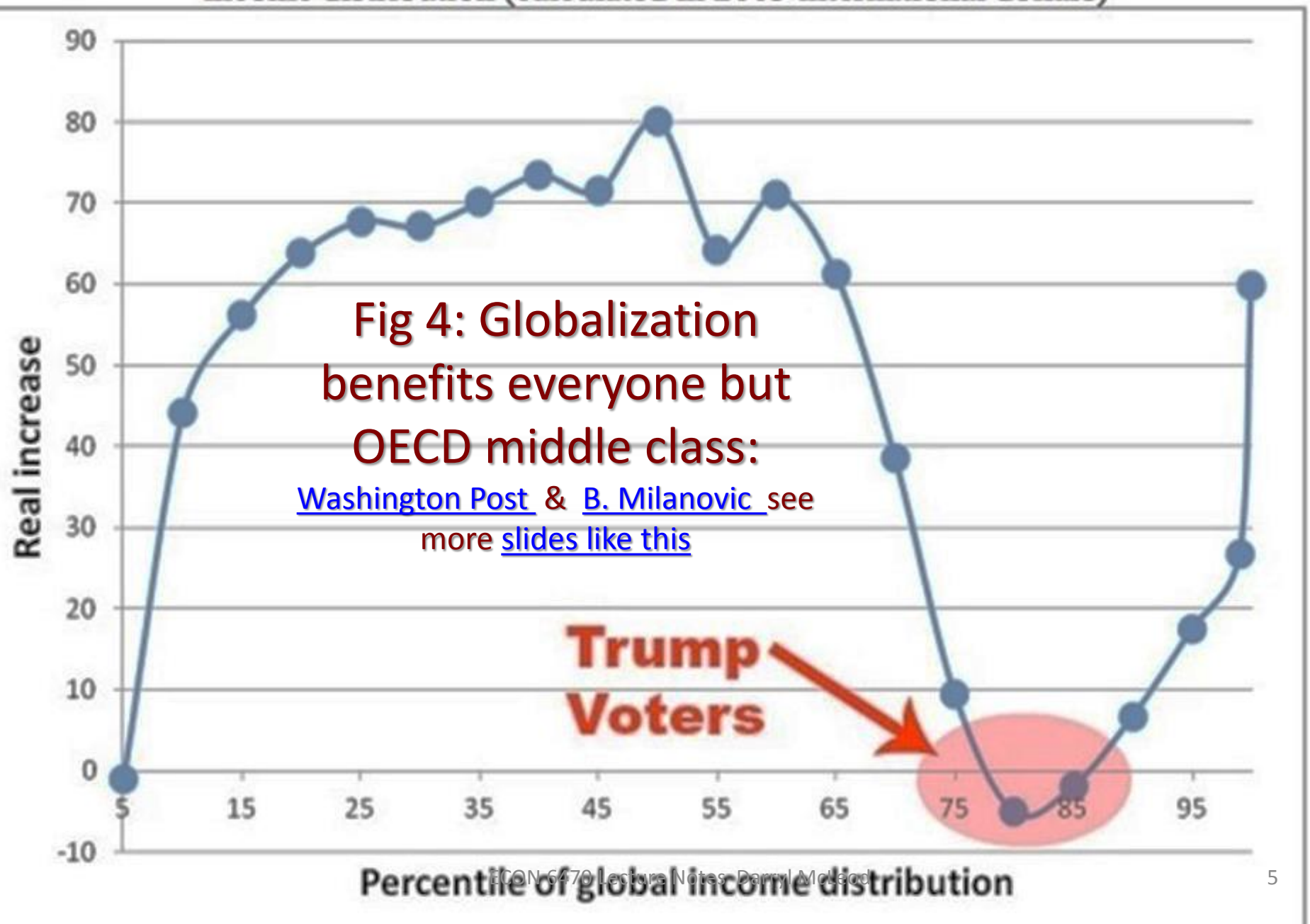
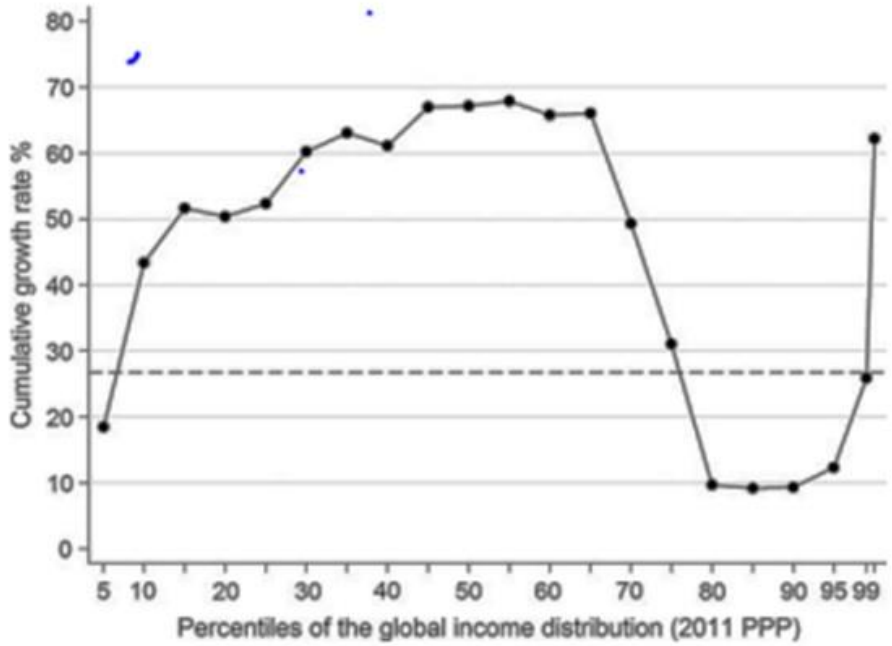


Fig 4: Globalization benefits everyone but OECD middle class:

Washington Post & B. Milanovic see more slides like this

2011 PPP prices eliminate the fall in OECD incomes, why?

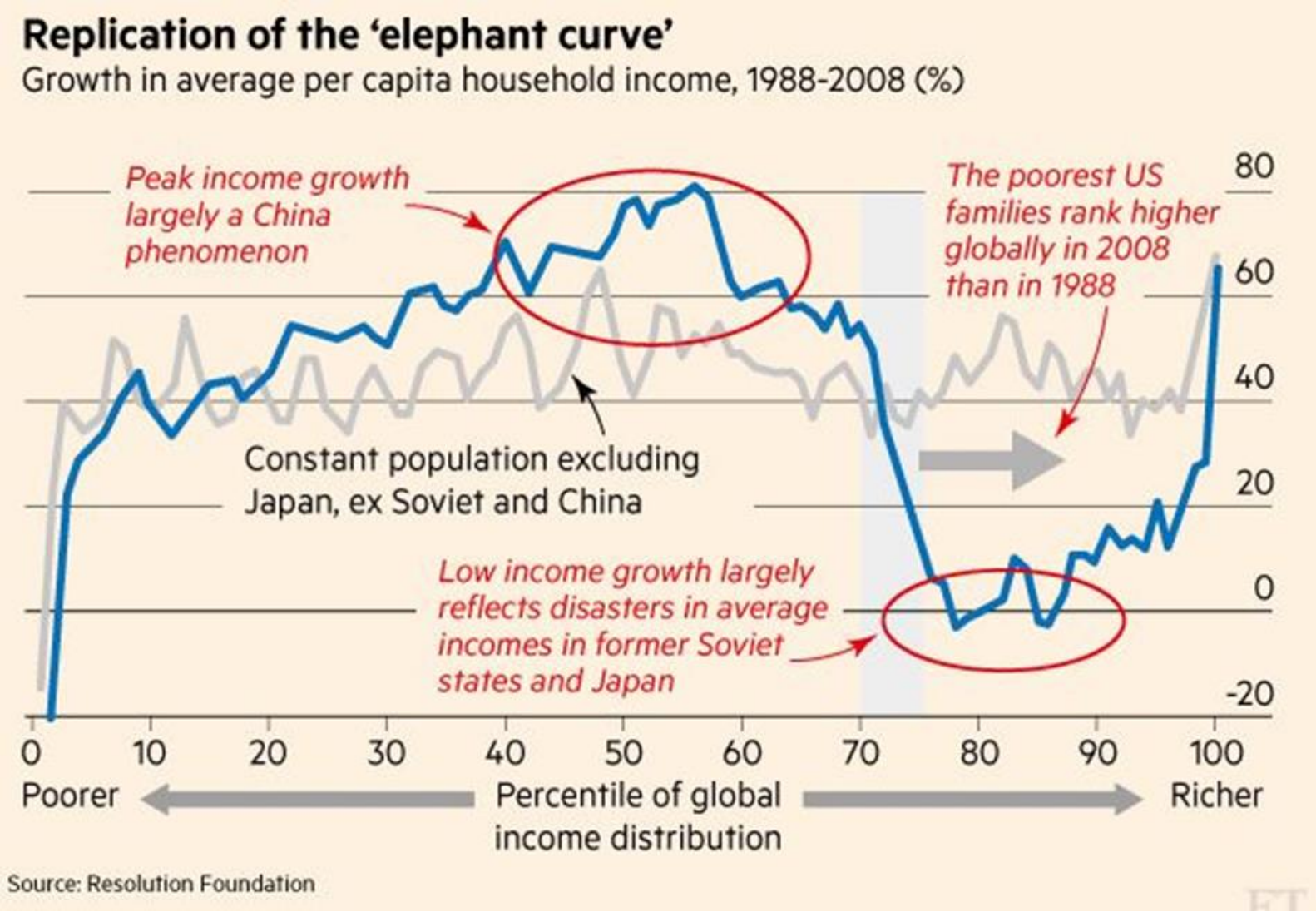
FIGURE A.1. Global Growth Incidence Curve 1988–2008 (2011 PPP)



Notes: Y-axis displays the growth rate in average income of the fractile group (in 2011 PPP USD). Population-weighted. Growth incidence evaluated at ventile groups (e.g., bottom 5%); top ventile is split into top 1% and 4% between P95 and P99. The horizontal line shows the growth rate in the mean of 26.74% (1.19% p.a.).

Source: Authors' analysis based on data described in the text.

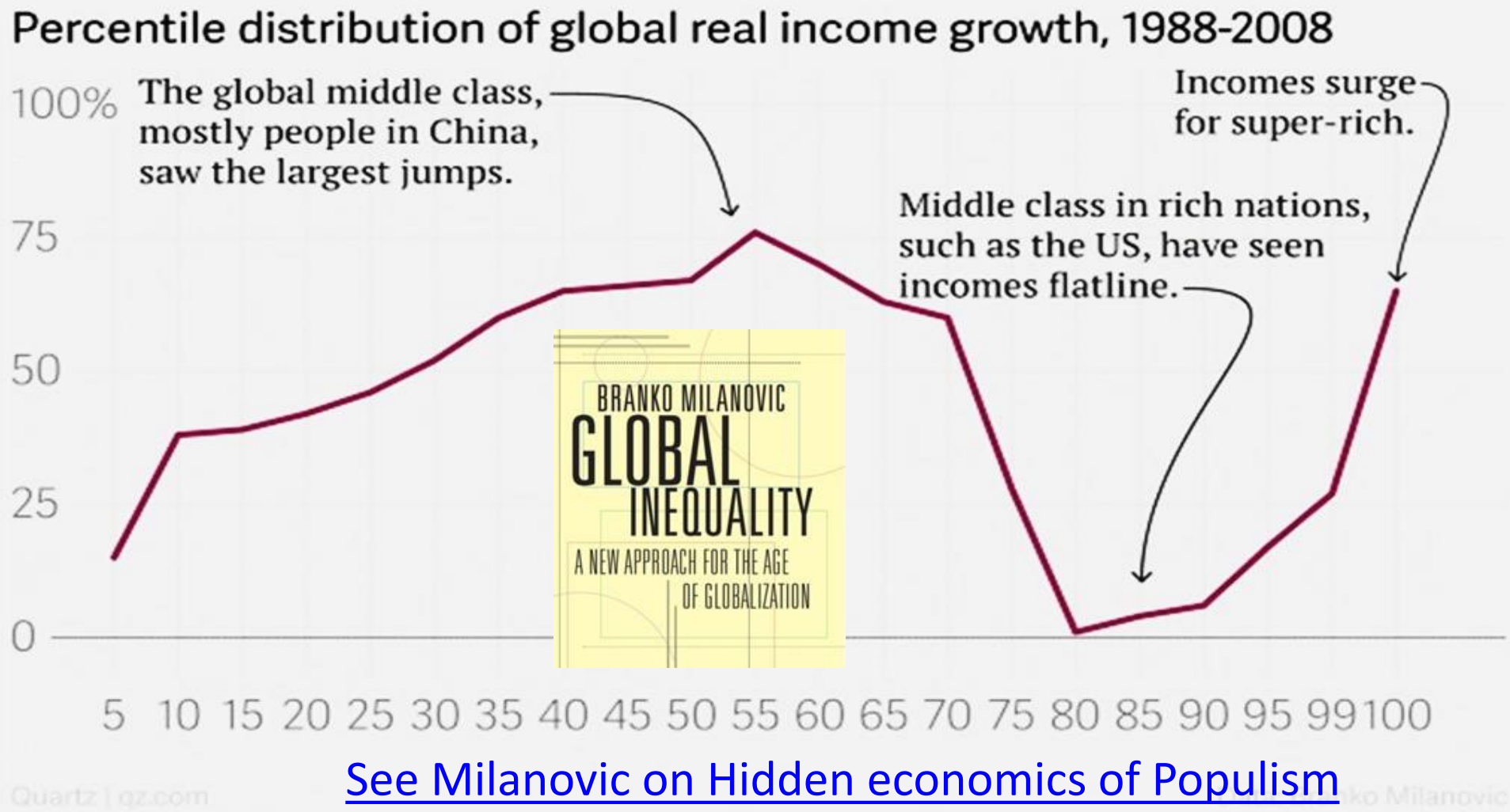
Giles and Dannon (2016)



FT WORLD

The reality of convergence is important for people and nations (and sustainable development)

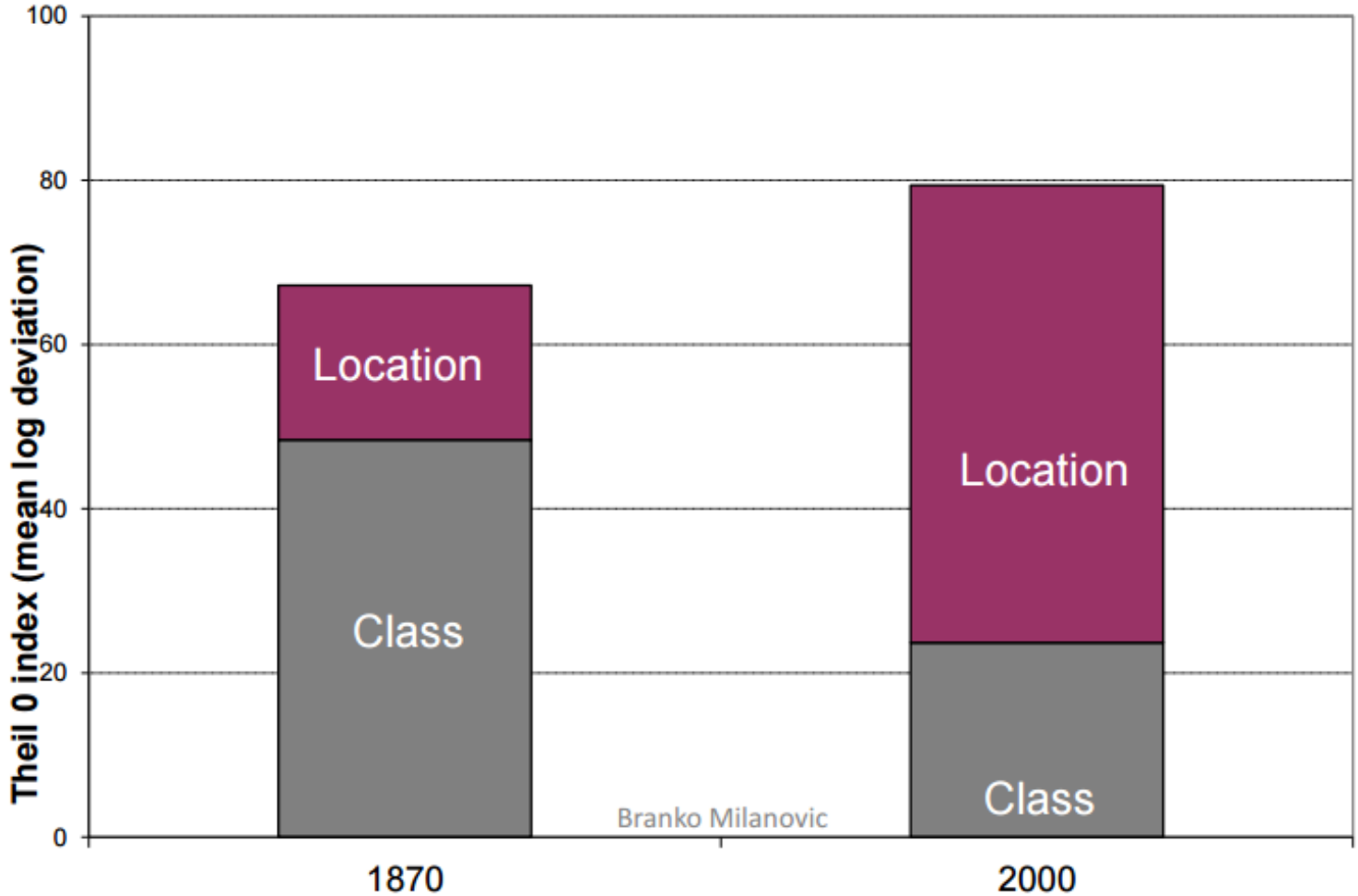
- Inequality among nations has increased, but inequality among people has decreased.
- Many nations are catching up with the U.S. see chapter 4 of Eclipse and see Milanovic, 2016.
- Openness has played a role…. China, Asia, RER
- Convergence in health, education and longevity faster than incomes (or is happening despite diverging incomes) see HDR 2010



[See Milanovic on Hidden economics of Populism]

Milanovic: This is about right. You have large increases in real income, which is really the middle class in Asia, essentially. (China, but not only China, it's also India, Indonesia, Vietnam and so forth.) And the global top 1%.

Composition of global inequality changed: from being mostly due to "class" (within-national), today it is mostly due to "location" (where people live; between-national)

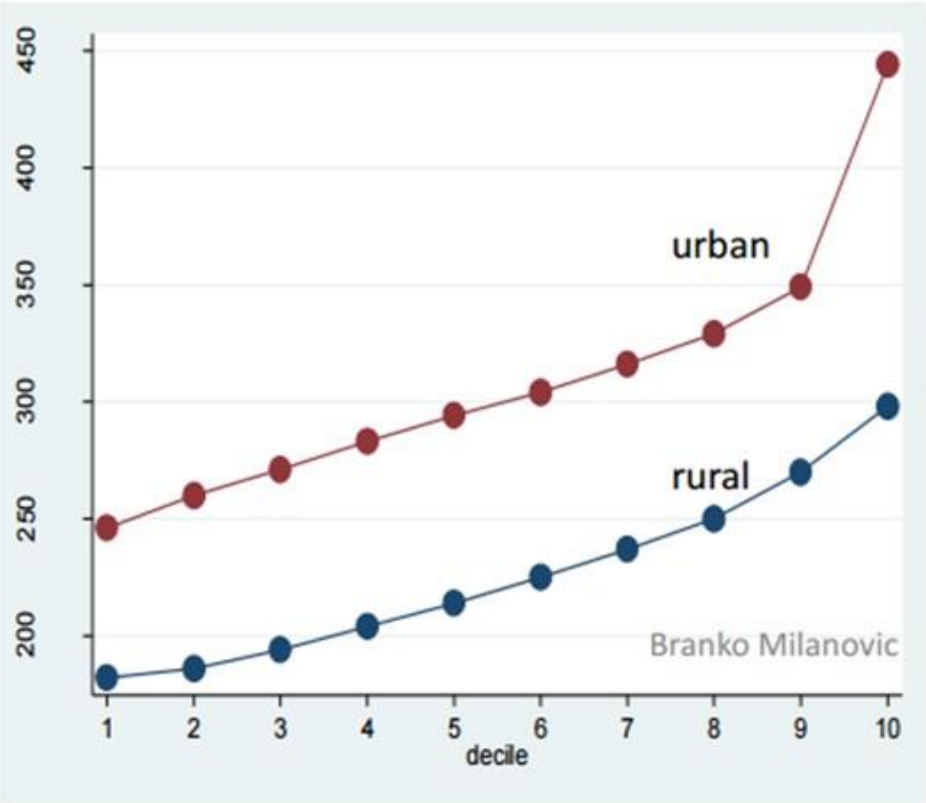


Based on Bourguignon-Morrisson (2002), Maddison data, and Milanovic (2005)

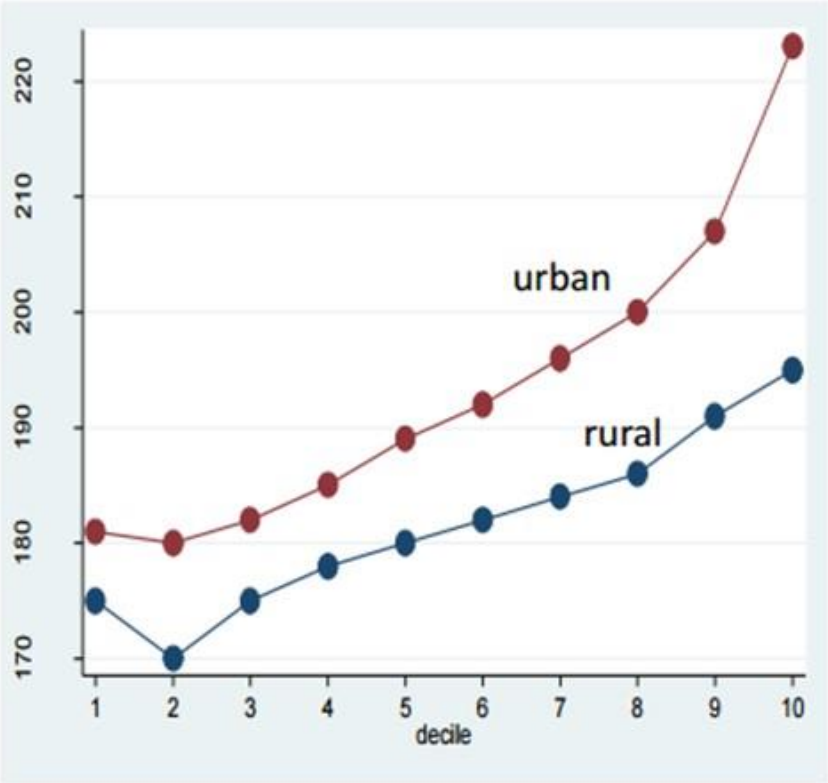
From thepast.xls

Increasing gains for the rich with a widening urban-rural gap

Urban and rural China



Urban and rural Indonesia



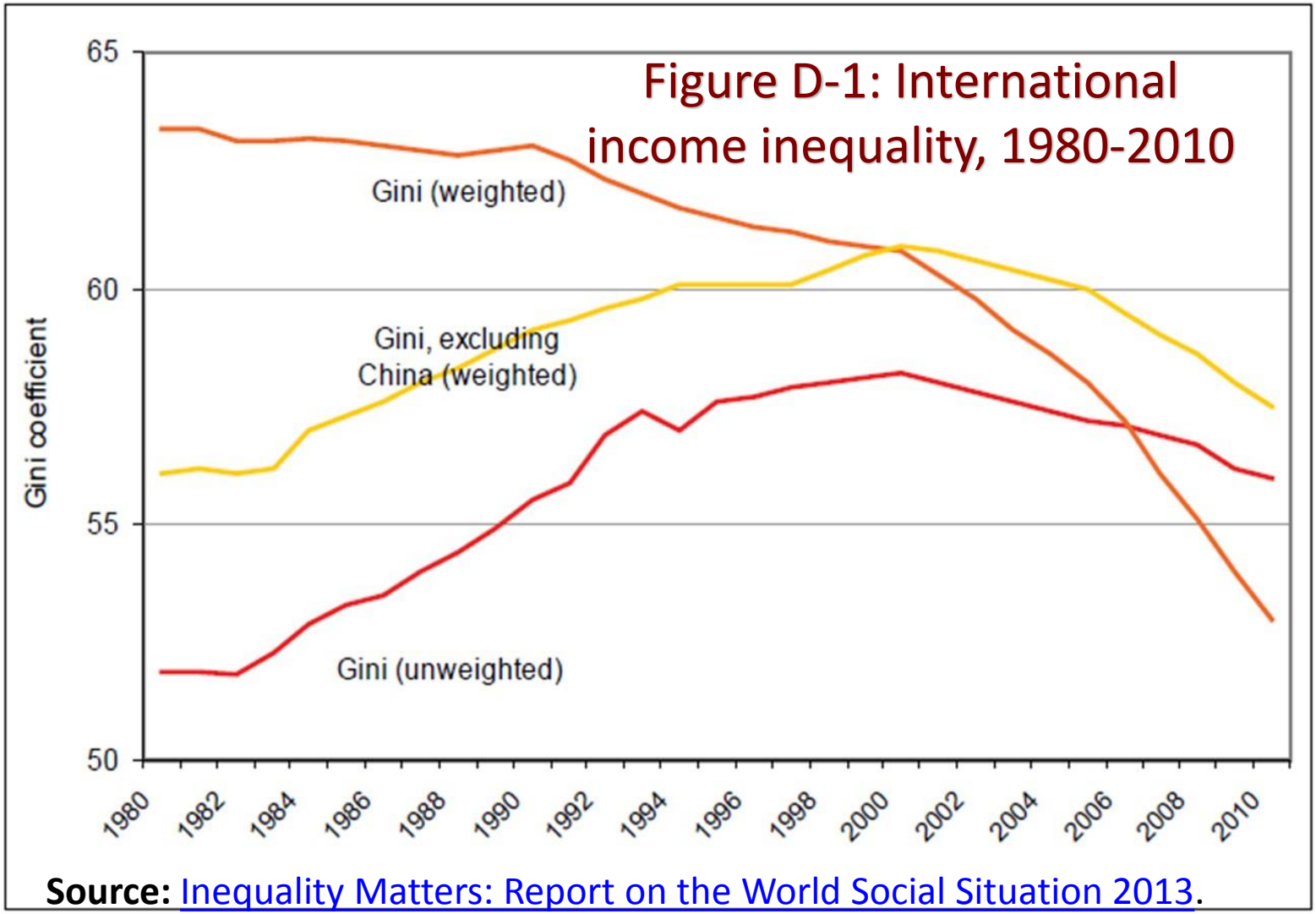
The reality of convergence is important everyone but backlash in North is reality… a "huge" problem

How to address U.S. backlash

- Expand EITC to all workers, create wage insurance for all displaced by trade (Schiller, 2016)
- Subsidize higher education for low income HHs…
- Carbon tax, lower wage tax (Stiglitz)

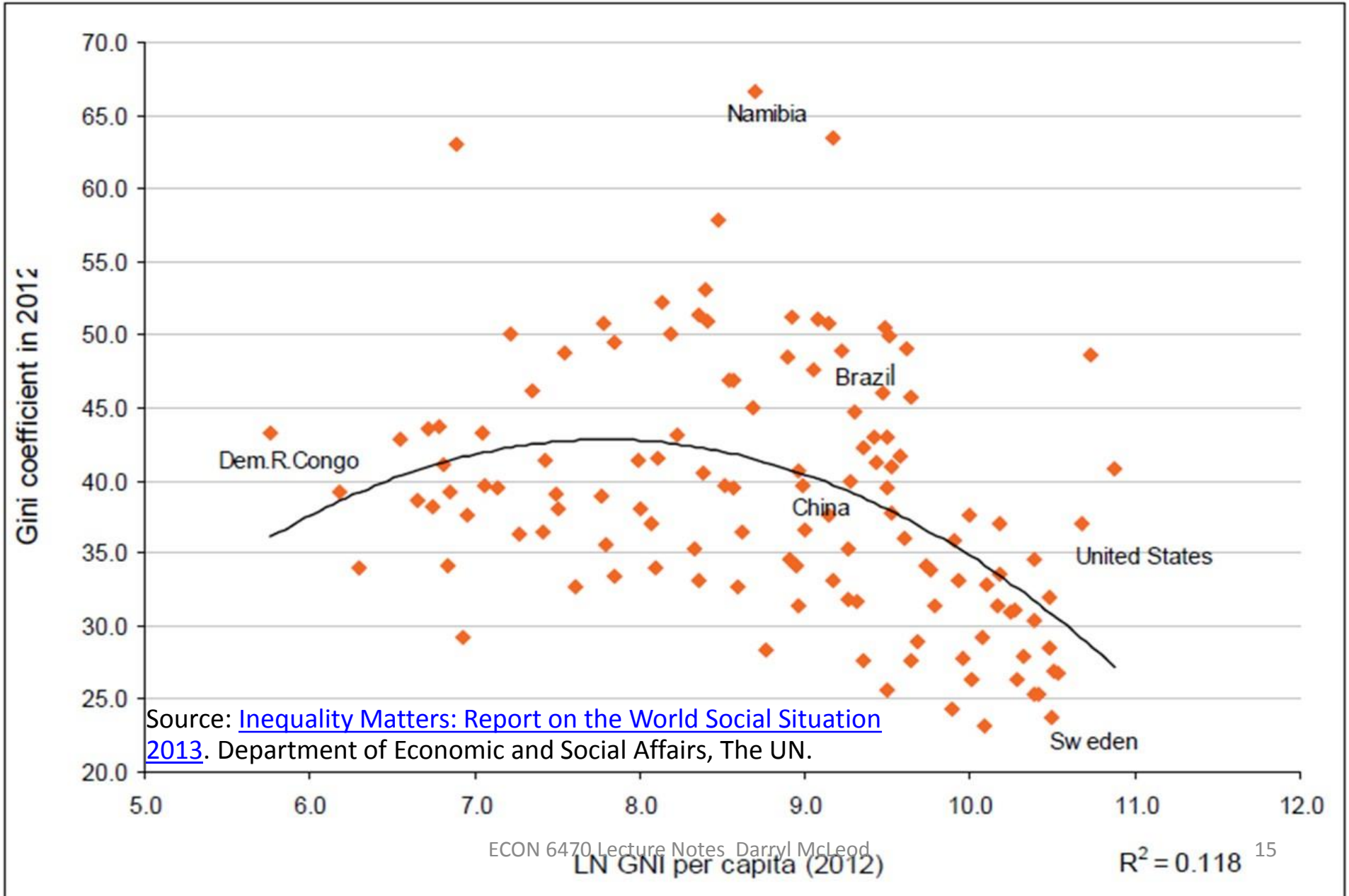
How not to address trade adjustment

- Raise minimum wage to $15
- Return to more protectionist regimes
- Close borders to immigration

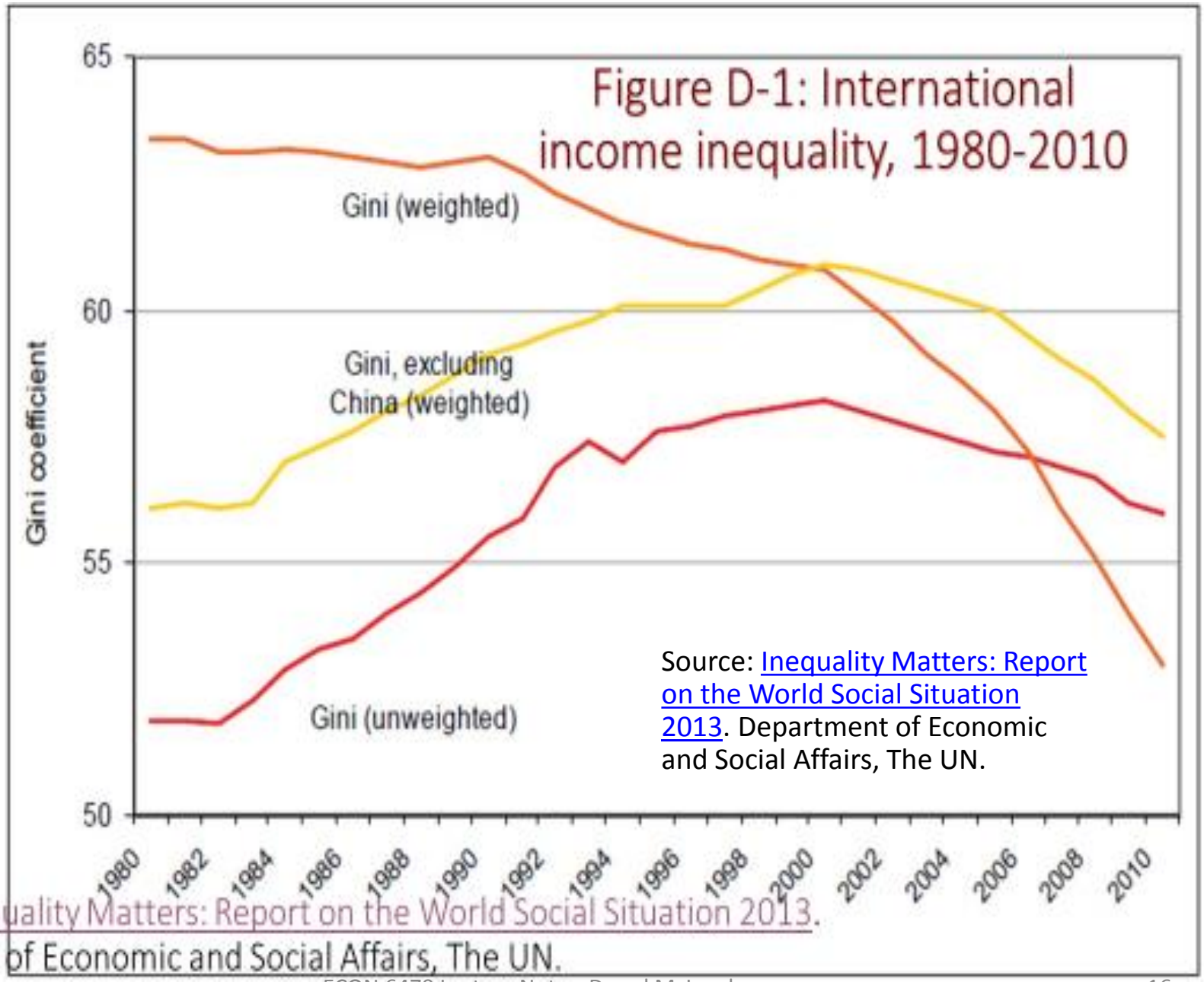


Source: Inequality Matters: Report on the World Social Situation 2013. Department of Economic and Social Affairs, The UN.

Figure D-2: Gini coefficient and GNI per capita by country: aka the Kuznets Curve



Source: [Inequality Matters: Report on the World Social Situation 2013](). Department of Economic and Social Affairs, The UN.



Source: Inequality Matters: Report on the World Social Situation 2013. Department of Economic and Social Affairs, The UN.

THE POVERTY CURVE: FROM TWO HUMPS TO ONE

A half-century ago, the distribution of income in the world looked like a camel with two humps. The first hump represented the so-called developing world. The second hump represented people in wealthier countries (mostly in the West). But the world is no longer separated into the West and the rest. More than a billion people have risen out of extreme poverty, and most of humanity is now in the large dromedary-like hump in the middle.

Figure G- 5: World income distribution now and fifty years ago

Source Gates Foundation Letter 2015
[:3 myths that block progress for the poor]

Source: Gapminder, drawing on Jan Luiten van Zanden et al., "The Changing Shape of Global Inequality 1820–2000: Exploring a New Dataset," Working Paper 1, Center for Global Economic History, Utrecht University, January 2011.

Figure P-1.1 Reversal of Fortune reverses post 1950

Source: Chapter 1 Piketty 2014

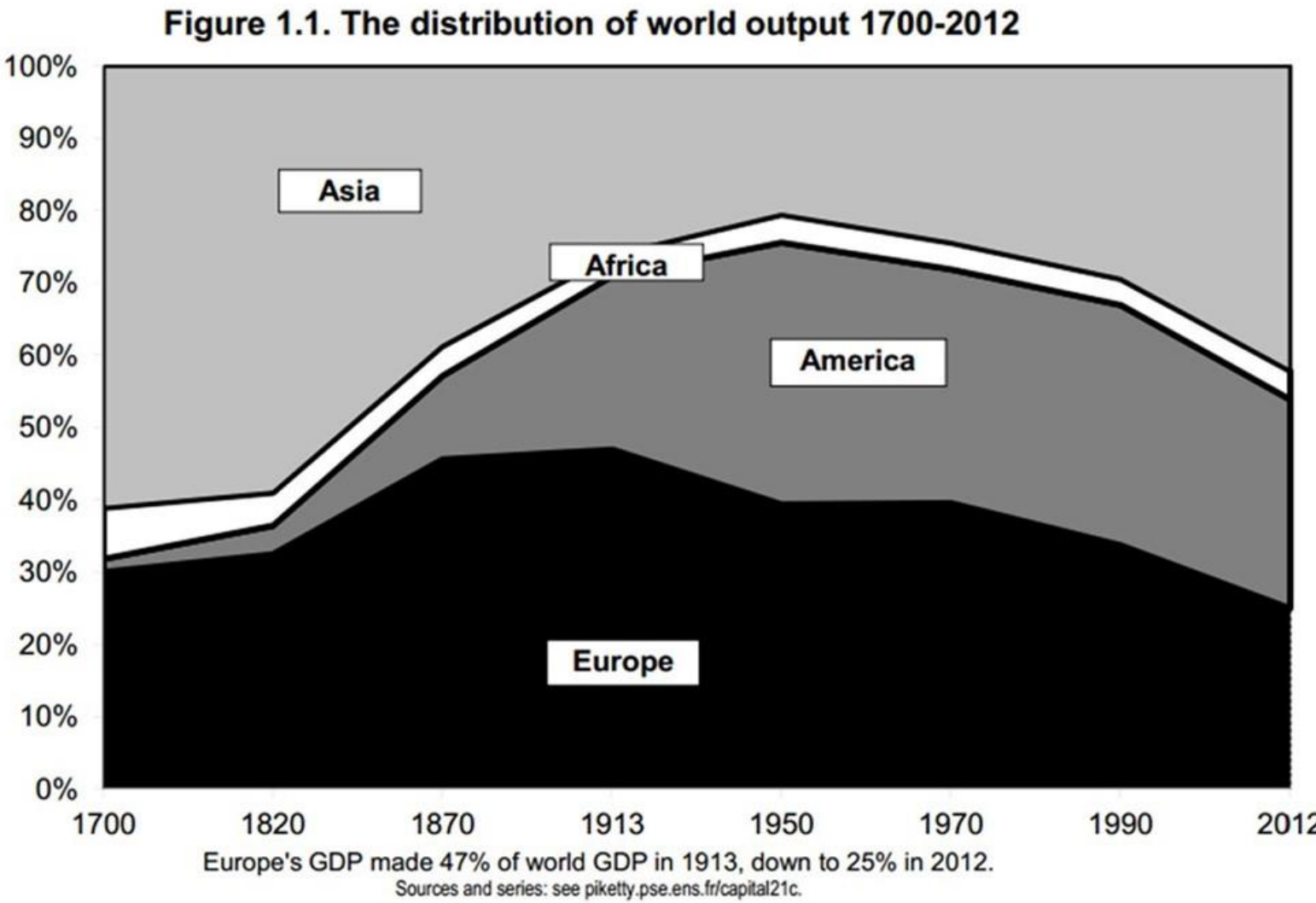
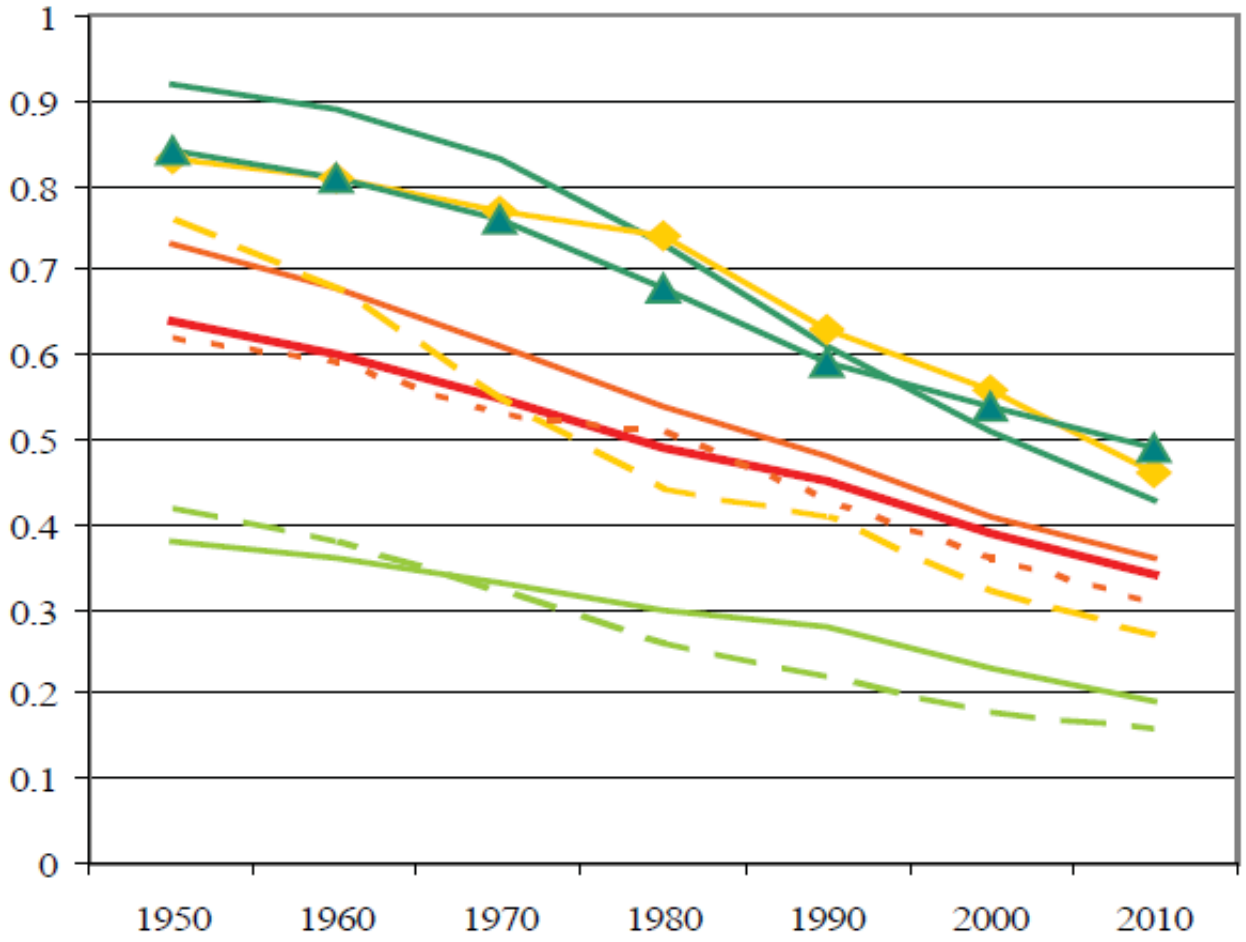


Figure D-4: Gini Coefficient for education



Source: Inequality Matters: Report on the World Social Situation 2013. Department of Economic and Social Affairs, The UN.

U.S. growth has been remarkably constant for the last 16 years at just under 2%, using the rule of 70, this income per person doubles every 35 years.

Since 1950, other nations have begun to catch up….

gins of Income Differences and World Growth

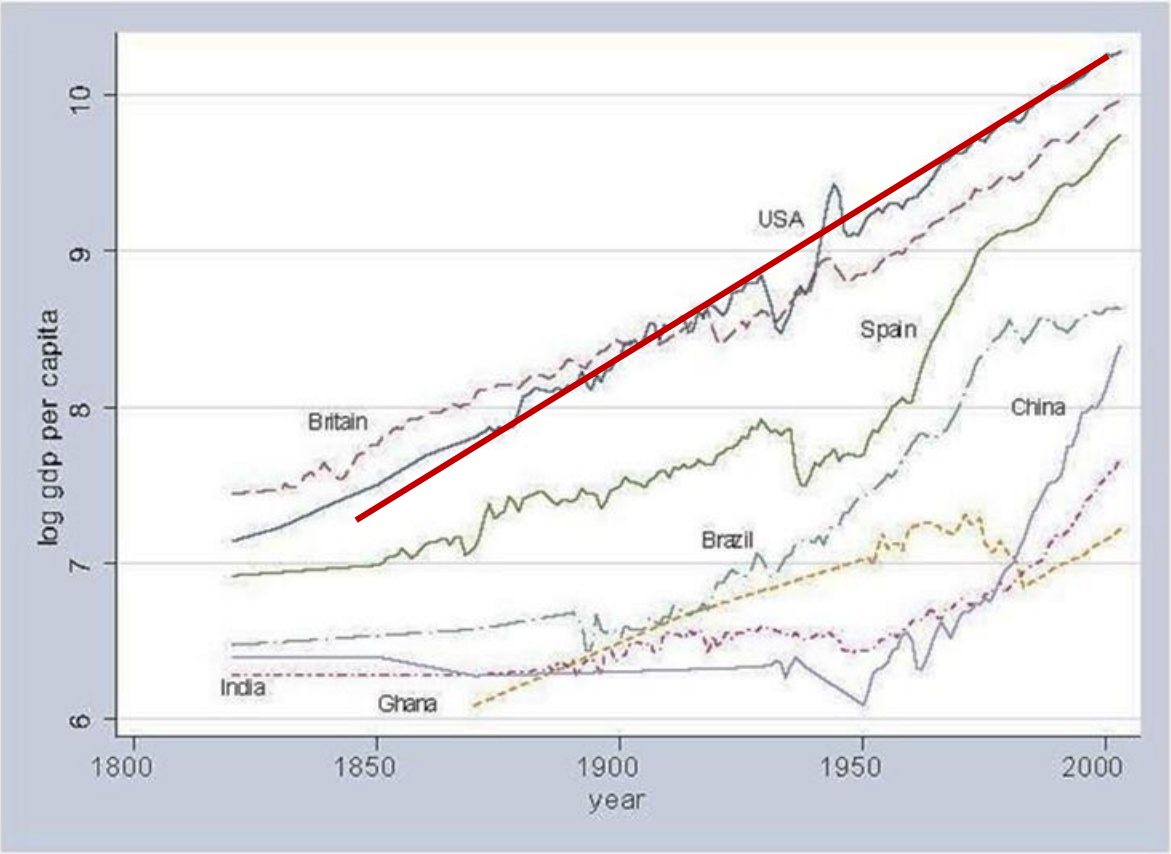
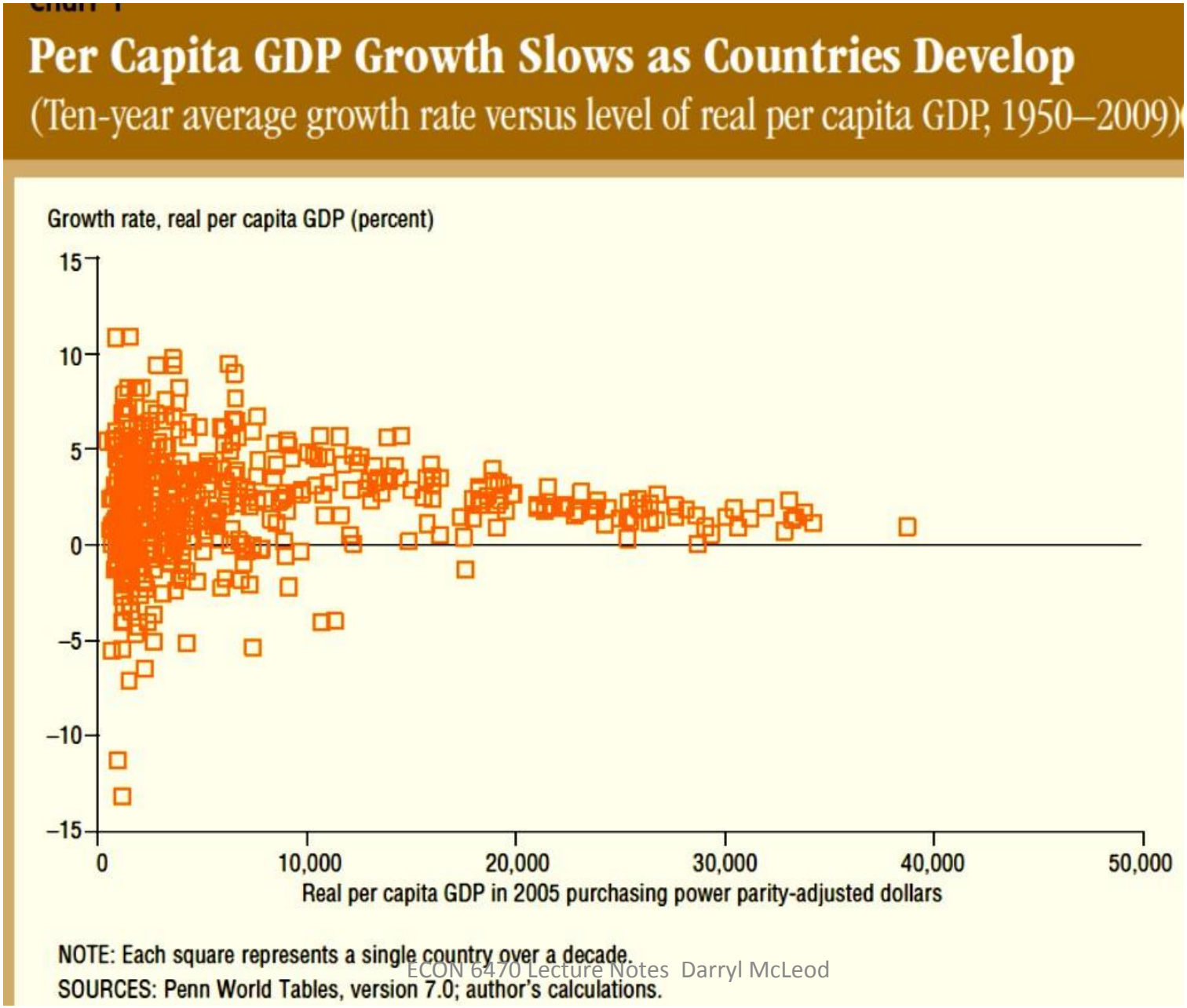


Figure: Evolution of income per capita in various countries.

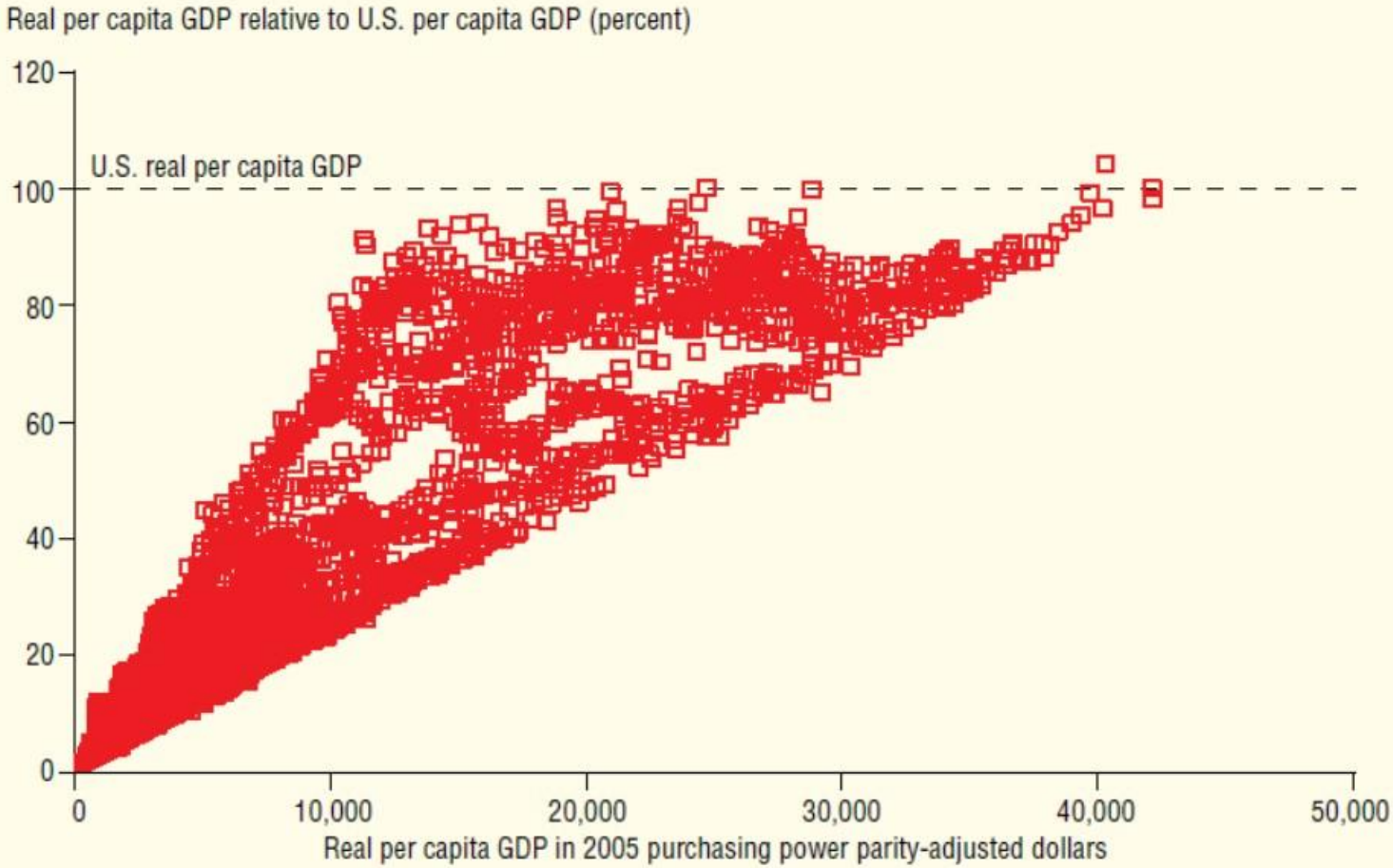
Wynne (2011) "Will China become as rich as the U.S.?"



Wynne (2011) "Will China become as rich as the U.S.?"

Countries Approach but Don't Surpass U.S. Per Capita GDP

(Data for the period 1950–2009)



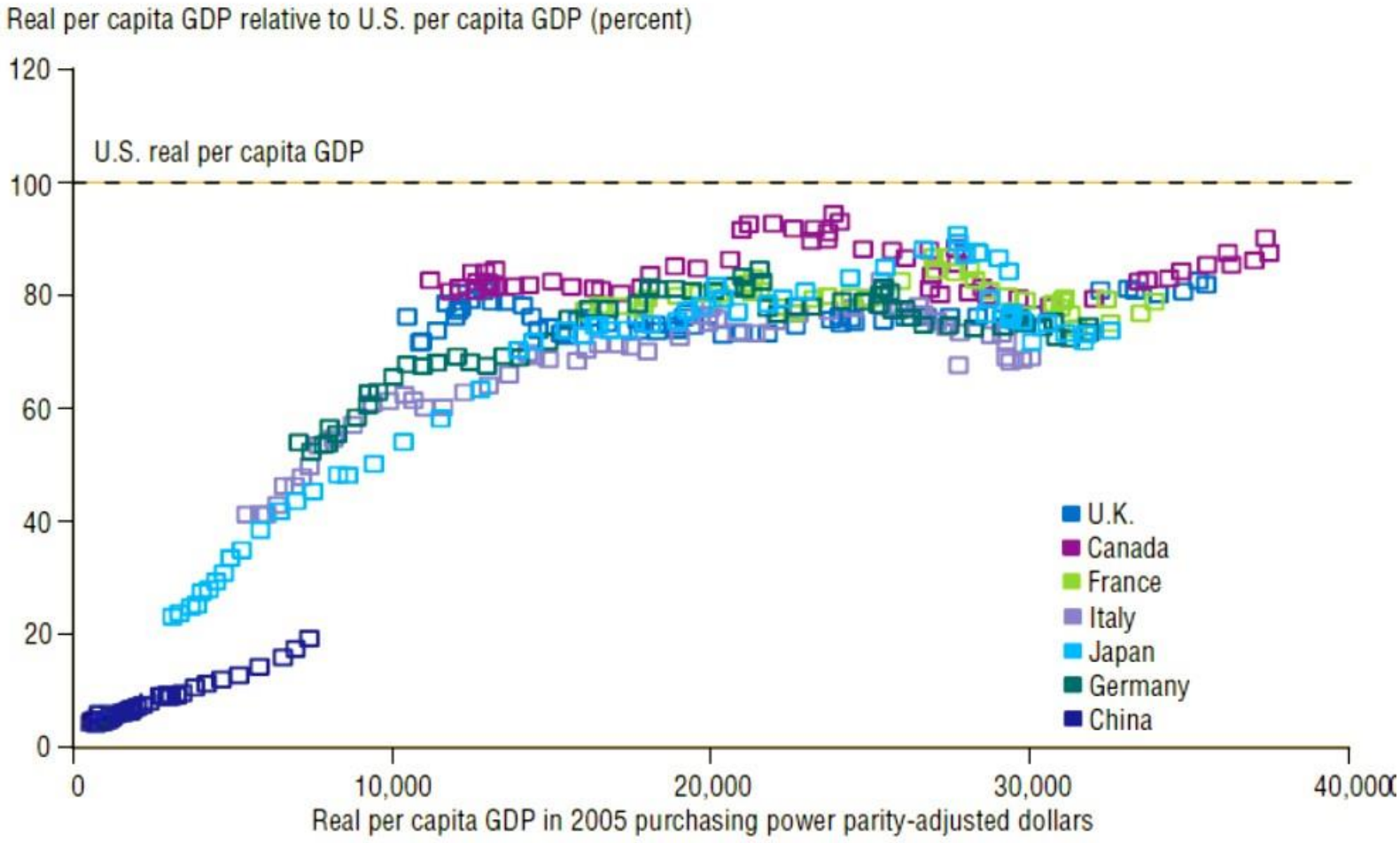
NOTE: Each square represents a single country over a one-year period.

SOURCES: Penn World Tables, version 7.0; author's calculations.

Wynne (2011) "Will China become as rich as the U.S.?"

G-7 Members and China: Catching Up with the U.S.?

(Data for the period 1950–2009)



NOTE: Each square represents the country over a one-year period.
SOURCES: Penn World Tables, version 7.0; author's calculations.

Convergence controversies

- PPP necessary to compare initial income levels, not perfect, but now several sources and iterations (PWT 8.1)
- L Pritchett (1997) argued for "**Divergence, Big Time**" and clubs of rich and poor countries, binomial distribution
  - 1870-1990, rich countries got much richer
  - 9/1 ratio in 1870; up to 50 to 1 ratio by 1990
- Since 2000 we have absolute convergence… See Figure 2-C
- Conditional convergence widely accept perhaps most important result of post 1990 growth theory revival… since government influences many OSVs creates a bridge to Poverty trap theories (which require government intervention). Consistent with focus on institutions, geography and integration…

Convergence debate

- Milanovic, B. (2002). "Worlds Apart: Inter-National and World Inequality 1950-2000". World Bank, Pritchett, L. (1997). "Divergence, Big Time." *Journal of Economic Perspectives* 11(3): 3-17.
- Stiglitz, J.-E. (2000). "Capital Market Liberalization, Economic Growth, and Instability." *World Development* 28(6): 1075-86.

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- Potter, Eduardo (2016). A global boom, but only for some. New York Times.
- Wynne, Mark A2011). "Will China ever become as rich as the US?" Economic Letter, 6.
- Giles and Dannon (2016) Globalisation 'not to blame' for income woes, study says Financial Times, Sept 13th 2016 Video version