GLOBAL EQUITY ISSUES

Presentation at CDP
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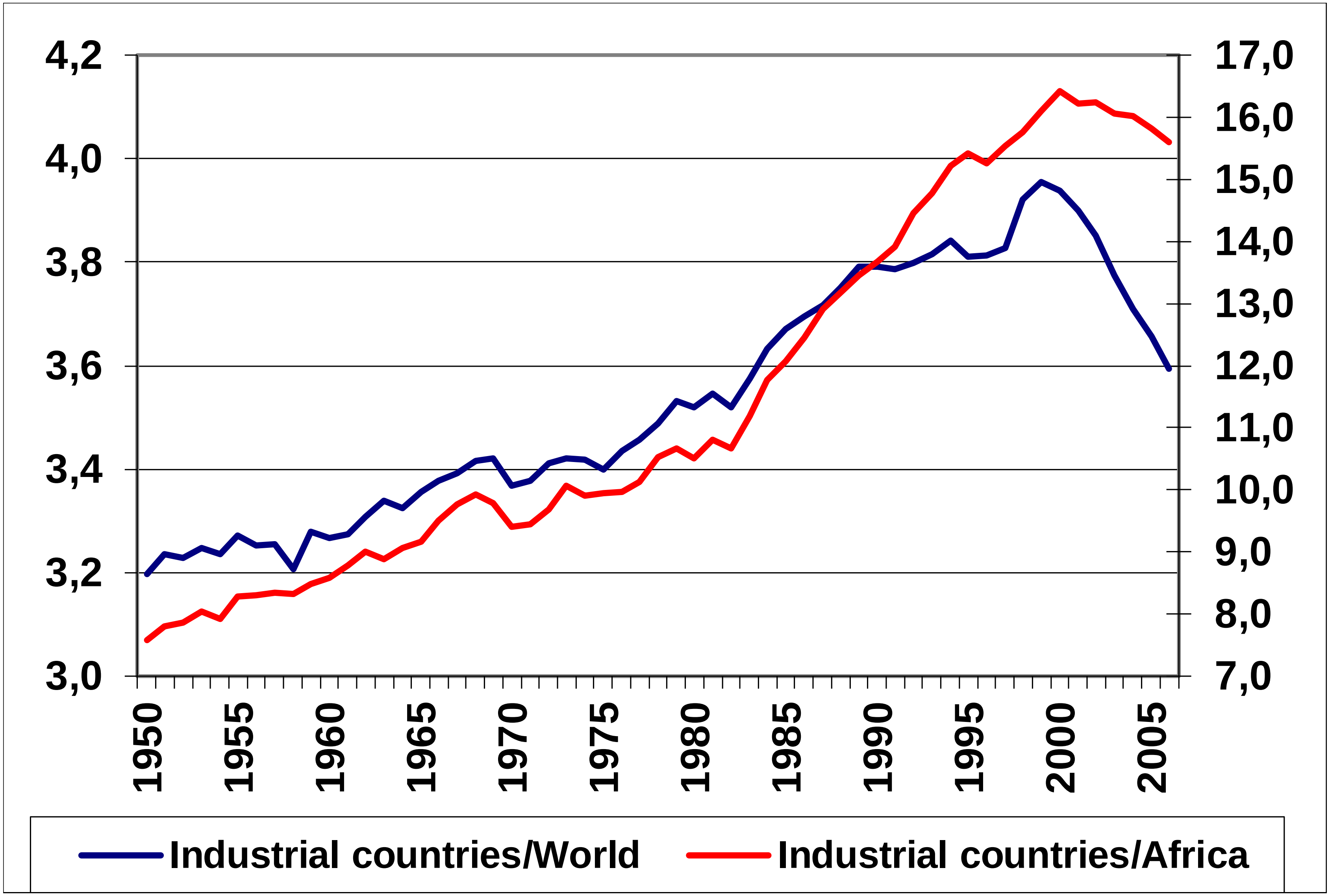
THE FACTS

INTERNATIONAL INEQUALITY (AMONG COUNTRIES)

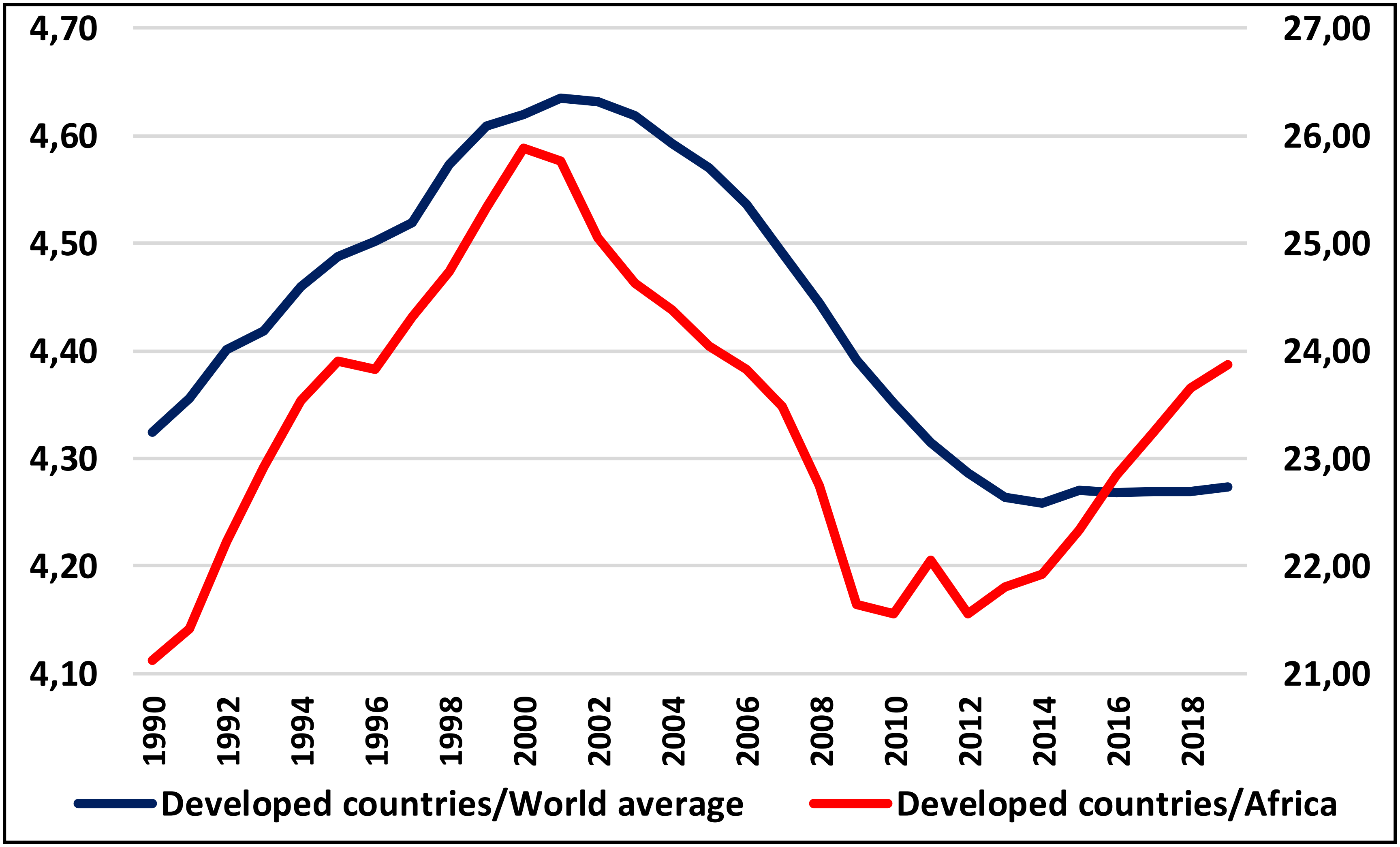
- “Divergence big time” (Pritchett).
- This factor drove global inequality up to the mid-20th century
- Greater dispersion of growth among developing countries (“dual divergence” since the last decades of the 20th century).
- This reflects both low but also several middle-income traps.
- But the turning point around 2000, has so far turned out to be short-lived.

TURNING POINT AROUND 2000?
(Maddison's data)



BUT, SO FAR, IT HAS TURNED OUT TO BE SHORT-LIVED

(UN data, 1990-2019)



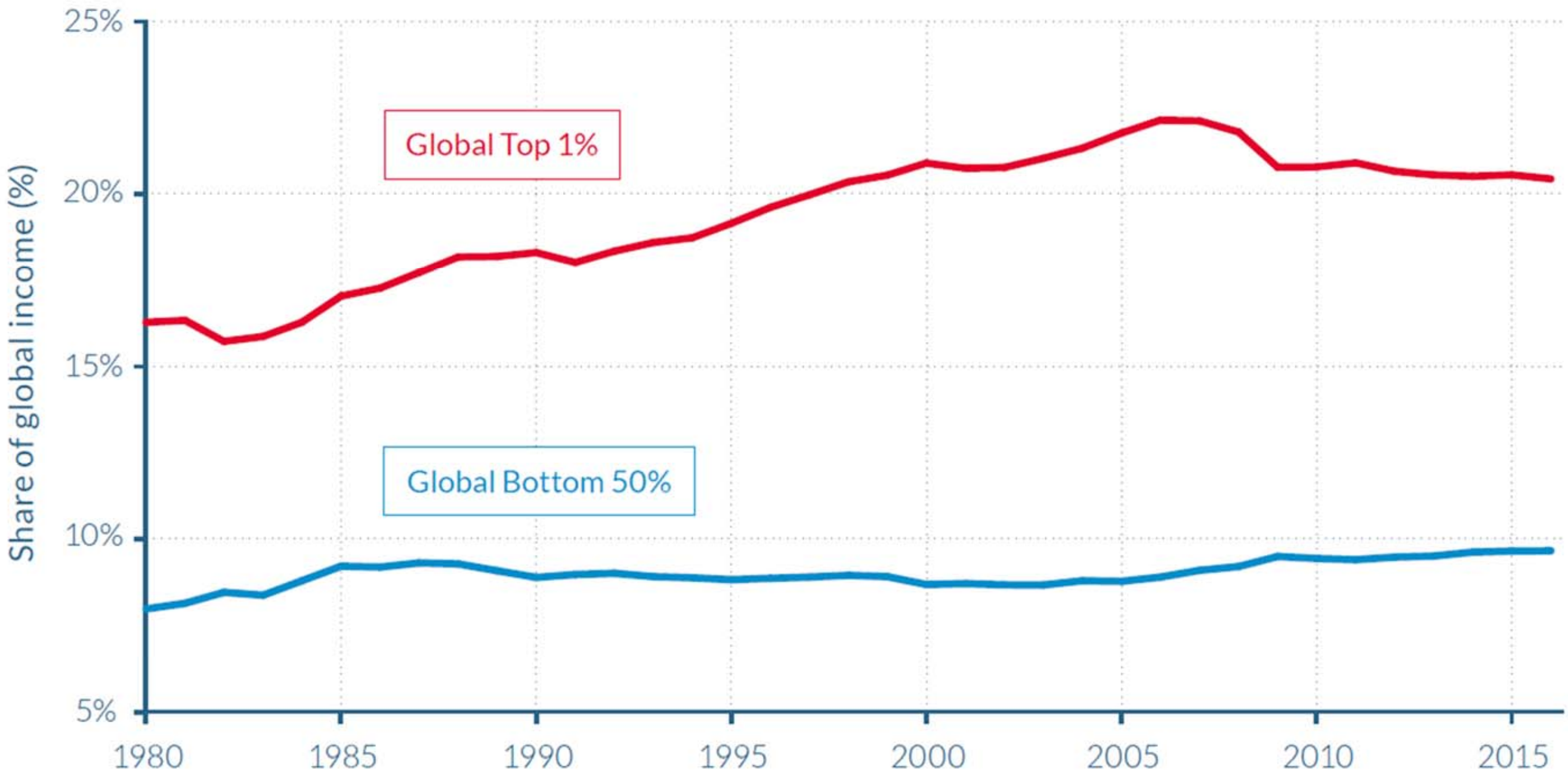
INEQUALITY AMONG WORLD CITIZENS

- One favorable factor: rise of China and, to a lesser extent, India (or, more precisely, of some regions within those countries).
- Two negative ones:
  - ✓ Broad-based rise in inequality within countries since 1980s. Different speeds, reflecting differences in taxation and labor policies.
  - ✓ Growing inequality among developing countries.
- Opportunities are very unevenly distributed.
  - ✓ Winners: the very rich + middle classes of successful emerging economies.
  - ✓ Losers: several median earners, poorest in Africa.

INEQUALITY AMONG WORLD CITIZENS
(World Inequality Report)

Figure E5

The rise of the global top 1% versus the stagnation of the global bottom 50%, 1980–2016



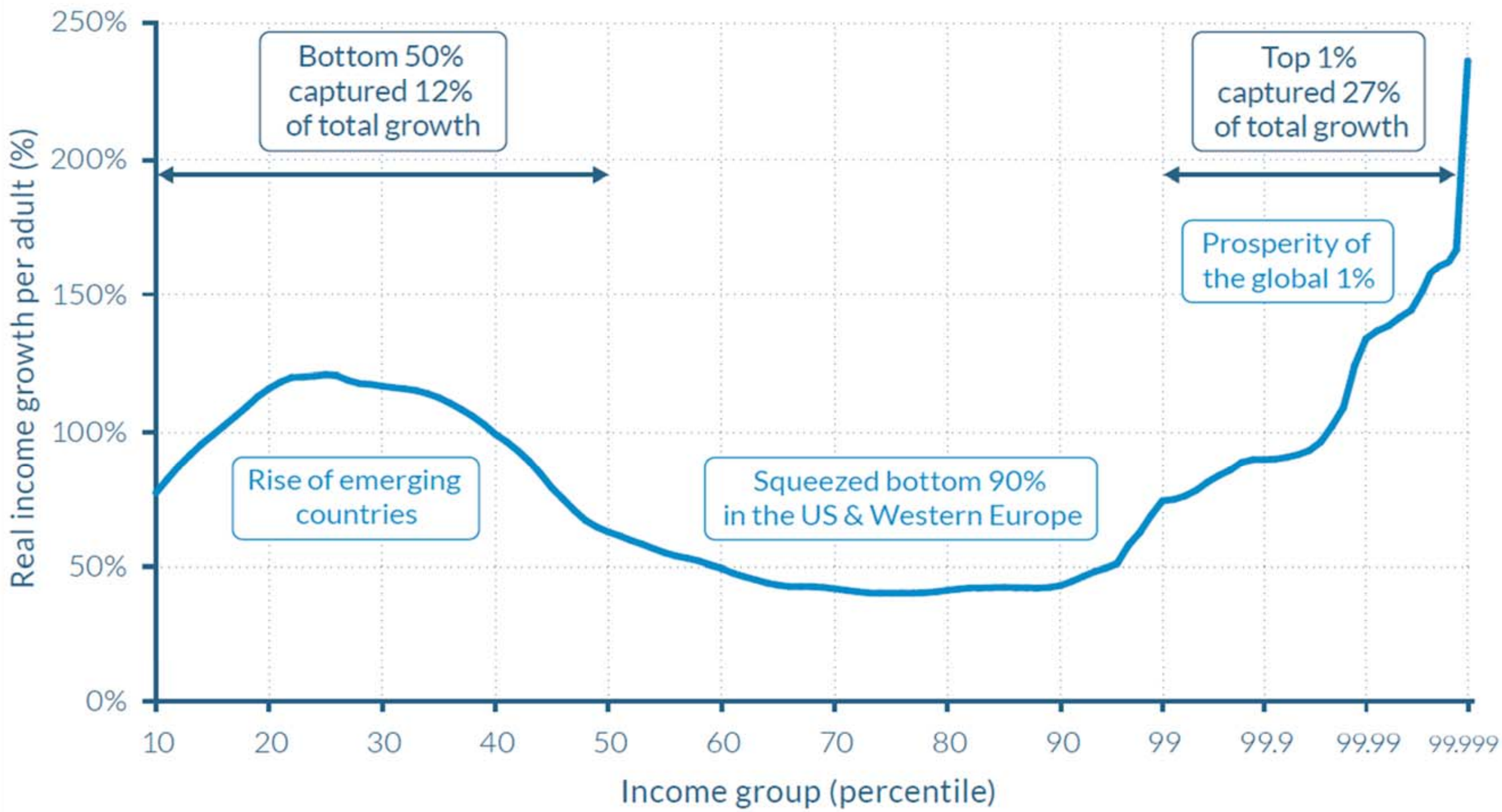
Source: WID.world (2017). See wir2018.wid.world for data series and notes.

THE "ELEPHANT CURVE": SQUEEZE OF THE WORLD MIDDLE CLASS

(World Inequality Report)

Figure E4

The elephant curve of global inequality and growth, 1980–2016



Source: WID.world (2017). See wir2018.wid.world for more details.

EXPLAINING INEQUALITIES

A POSSIBLE EXPLANATION OF INTERNATIONAL INEQUALITIES: ASSYMETRIES OF THE GLOBAL ORDER

- *Technological*: technological progress is highly concentrated and diffusion may be affected by intellectual property rights
- *Financial and macroeconomic*: global reserve system, financial market segmentation and volatility of capital flows, diverse room of maneuver for counter-cyclical macroeconomic policies
- *Asymmetries in the degree of mobility of factors of production*: limited labor mobility, particularly of unskilled labor

GLOBALIZATION AND DOMESTIC INEQUALITIES

- ❖ Asymmetry between groups that cross international borders and those that cannot: mobile factors benefit.
- ❖ Low-skilled labor subject to higher elasticity of demand, reduced bargaining power, and larger instability of employment and/or wages.
- ❖ Globalization increases the demand for social insurance but reduces the ability of states to provide it.
- ❖ Increasing arbitrage of national norms and social institutions: possible “race to the bottom”, as the costs of social insurance reduce competitiveness + tax competiton shifts tax burden to labor.

WHAT CAN INTERNATIONAL COOPERATION DO?

APPROACHES TO MANAGE INTERNATIONAL INEQUALITIES

- Two basic forms of intervention:
  - ✓ Asymmetric rules that recognize the different levels of development (trade, intellectual property)
  - ✓ Financing: official development assistance, multilateral development banks, climate change
- The concepts developed around UN processes:
  - ✓ “Special and differential treatment”
  - ✓ “Common but differentiated responsibilities”
- The facts: limited effects
- Countries’ policy space to adopt redistributive policies has been more important.

AVOID INTERNATIONAL RULES THAT MAY INCREASE INEQUALITIES

- ❖ Investment agreements, which can restrict the capacity of governments to introduce regulations that promote the public interest (e.g., social and environmental regulations).
- ❖ Capacity of countries to manage international capital flows, particularly volatile financial flows, which are a major source of boom-bust cycles.
- ❖ High protection of intellectual property rights (IPRs), which has adverse effects on technology-importing countries and can increase the costs of some essential goods (medicines, inputs for smallholders).
- ❖ Tax competition and, at best, highly insufficient tax cooperation, which may lead to both less progressive tax systems and reduced tax collection

WHAT CAN BE DONE ABOUT DOMESTIC INEQUALITIES?

- Restore “balance between markets and society”:
  - ✓ Greater multilateral discipline on social standards.
  - ✓ Broader exceptions to rules to manage inequalities
  - ✓ Global taxation on footloose factors.
- Some form of global commitment around UN: ILO standards (now “social protection floor”), economic and social rights, and global summits.
- Proposed SDG10: Reduce inequality within and among countries. The basic issue: no enforceability. Would monitoring and peer pressure work?
- Maintain policy space for redistributive policies.

THE TARGETS FOR SDG 10:

1. Income growth of the bottom 40%
2. Empower and promote social, economic and political inclusion.
3. Equal inclusion and reduce inequalities of outcome.
4. Fiscal, wage and social protection policies to achieve greater equality.
5. Regulation and monitoring of global financial markets.
6. Enhanced representation and voice of developing countries in international economic decision-making.
7. Facilitate orderly, safe, regular and responsible migration + reduce the costs of remittances.
8. Special and differential treatment in trade + ODA and financial flows, particularly in both cases for LDCs.

WOULD REDISTRIBUTION HAVE NEGATIVE EFFECTS ON GROWTH?

- Heated historical controversies:
  - ✓ Positive effects: human capital, social cohesion.
  - ✓ Negative: reduced innovation and savings.
- IMF research (Ostry, Berg and Tsangarides):
  - ✓ More unequal societies tend to redistribute more.
  - ✓ Lower net inequality (after redistribution through fiscal policy) tends to drive faster and more durable growth (longer growth spells)
  - ✓ Redistribution is generally benign in terms of growth; only in extreme cases is there any evidence of harm.
- So, redistribute actions are likely to have positive effects on countries’ and world economic growth.

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