The Inequality of Globalisation*

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François Bourguignon:
The Globalization of Inequality
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Over the past few years, the topic of inequalities has shifted from the periphery of economics to the mainstream of scientific debates and common discussion, and as a result, a number of remarkable works have been produced on this subject. These include the book discussed here, written by François Bourguignon, the well-known French researcher of inequalities and former Chief Economist and Senior Vice President of the World Bank.

Bourguignon's book is entitled the "*The Globalization of Inequality*", but its contents would be better reflected by the title "*The Inequality of Globalization*", as the key message of the book, put simply, is that the increase in inequalities may be directly or indirectly traced back to globalisation and its unequal impacts. This is a paradox, however, since the decline in inequalities is also due to globalisation. This apparent contradiction may be resolved by the different dimensions of – the already fluid definition of – inequality. Following a dramatic increase for two centuries, in the past approximately three decades, inequalities between countries (and at the level of individuals, measured globally) have declined, owing to the rapid and steady growth of emerging countries, while income inequalities in most developed countries have risen. The novelty of this book is that it not only describes these two different approaches or processes, but tries to find a connection between them, and identifies their common point in globalisation. All of this is achieved with a strong focus, and in a way that is also comprehensible to non-professional audiences. The book does not neglect one of the key basic elements of the works discussing the subject, namely a meticulous distinction and explanation of the various interpretations and dimensions of inequality, and a detailed description of measurement methods and their limitations.

* The views expressed in this paper are those of the author(s) and do not necessarily reflect the offical view of the Magyar Nemzeti Bank.

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In Bourguignon's view, the most important exogenous process that influences the evolution of inequalities is globalisation. With the opening-up of the world economy, a vast amount of cheap labour appeared on the global market. Its utilisation was facilitated by the spread of info-communication technologies (ICT), as well as the decline in transportation costs. The reallocation of production resulted in modernisation and restructuring, as well as significant, steady growth in the economies of a number of emerging countries, and the positive effects of this phenomenon have also been reflected in income distribution. Over the past twenty years, global income inequalities expressed using the Gini coefficient fell almost to the same extent as they had increased after 1900, for approx. 90 years. At the same time, on the side of developed countries, this reallocation manifested itself in lower wages, first for unskilled workers and later for moderately skilled workers, and in the increased employment uncertainty. In addition, globalisation has appreciated capital, and information-communication technologies have boosted the importance of a highly skilled workforce. As a consequence of the latter, the so-called superstar effect spread to such ordinary areas such as the financial sector and the ICT sector, and, as a result, income inequalities started to rise within developed countries. Over the past 20 years, the Gini coefficient of disposable income per capita[1] increased at least by 2 percentage points in more than three quarters of the OECD countries, and this trend even affected the Scandinavian countries which are famous for their equality. Among the developed countries, income inequalities increased the most in the USA; by 2008, the share of the top 10 per cent of the income distribution from the total market (before tax) income of households exceeded the approximately 40 per cent level which was valid one century earlier, while this value was around 30 per cent between WWII and in the 1970s. Apart from developed and emerging countries, Bourguignon also identifies the "losers of globalisation", who were unable to successfully join the globalisation because of their political, institutional instability and social and economic underdevelopment. In the case of an unchanged scenario, these lagging countries will contribute to the rise in global inequalities.

However, the specific impacts of external factors on inequalities are not uniform and are also determined by the economic policy and economic regulations which are applied, as endogenous factors. The fact that these endogenous factors facilitated the rise in inequalities within countries may be traced back to the wave of neoliberal reforms that started from Anglo-Saxon countries in 1970s and then spread globally. The key elements were the reduction in the highest marginal income tax rates, the increase in consumption taxes, the more favourable distinction of capital incomes from a taxation point of view, and the deregulation of financial and labour markets. It is probably not an accident that the French author puts the greatest emphasis on the impacts of the labour market deregulation in the broad sense. This trend

[1] Calculated in adult equivalent.

is clear; according to the OECD survey, over the past 20 years, 20 member states relaxed regulations on employment. Certain elements of deregulation (e.g. reducing the importance of unions and centralised wage negotiations, looser regulation of the minimum wage and unemployment benefits, etc.) were proven to contribute to the increase in wage inequality, and thus to the inequality of incomes. There is no doubt that in parallel with that, these measures may have also increased the number of jobs, but this was achieved only with increased employment uncertainty.

The double-edged nature of labour market measures highlights the trade-off between efficiency and equity, which (also) determines the debates on inequalities and their treatment. In this respect, the author emphasises that measures to lower inequalities may really reduce – to use a popular metaphor – the size of the cake, but beyond a certain point, the inequalities themselves also reduce efficiency, mainly through the market errors they cause and their impact on social and political stability.

Therefore, the development of inequalities is influenced by both exogenous and endogenous factors. In Bourguignon's view, however, the endogenous factors are also determined by globalisation, and it has an indirect impact on the evolution of inequalities through them. Globalisation increased competition in every respect, and thus intensified technological innovation, forced financial liberalisation and encouraged the mobility of capital. In order to maintain their competitiveness, countries have been underbidding each other to reduce taxes and loosen the regulations, and the majority of these steps point to the direction of rising income inequalities.

In the last chapter, the author makes recommendations to mitigate the unequal impacts of globalisation, and to restrain rising income inequalities. The author highlights those countries which can be referred to as the "losers of globalisation". Improvement of the socio-economic situation in these countries with the continued convergence of emerging countries may provide additional ammunition to further reduce global inequalities, and under the present conditions, perhaps these are the measures that are the easiest to implement. The increased volume and efficiency of development aid, the liberalisation of bilateral trade relations and the provision of access to the markets of developed countries could trigger the restructuring and the growth of the economies of these countries, which – with proper regulations – could also have a favourable impact on income distribution. Rising inequalities within countries can be restrained by measures which were previously reformed in a neoliberal approach, and these reforms have basically contributed to the rise in inequalities. Carefully considered modification of taxation regulations and those markets which significantly affect income distribution could be the most important ex-post measures. It is important to mention that these measures could and should take equity and efficiency into consideration at the same time. Education, training and the reduction of discrimination (in any form) contribute to mitigating inequalities in an ex-ante manner. The author specifically mentioned emerging countries which are contributing to the mitigation of global inequalities, while they are struggling with the problem of rising internal inequalities as well. These countries, led by China, have significant room for manoeuvre to reduce inequalities by way of regulations.

The proposed solutions, although they cannot be called simplifying at all, unfortunately also cannot be called overly convincing or novel. However, the author is also aware of this. There is no such thing as a universal "silver bullet", and until the problem is treated at its roots, i.e. the inequalities of globalisation, it is necessary to apply solutions that offer a treatment of the symptoms only, and that are mostly well-known but limited in time and space. In addition, it is not a question of whether or not these tools need to be applied, since globalisation, as the key driving force behind the rise of inequalities, will not stop; the appreciation of capital and skilled workforce, the depreciation of unskilled or moderately skilled workforce and the increasing employment uncertainty remain the factors that determine income distribution. Inequalities beyond a certain point – although their specific impacts are difficult to quantify – definitely have negative impacts on society and the economy, and these potential harmful consequences and the precautions associated with them cannot be emphasised enough even in the opinion of Bourguignon, who follows an objective and calm approach all the way through.