Global inequality and trade

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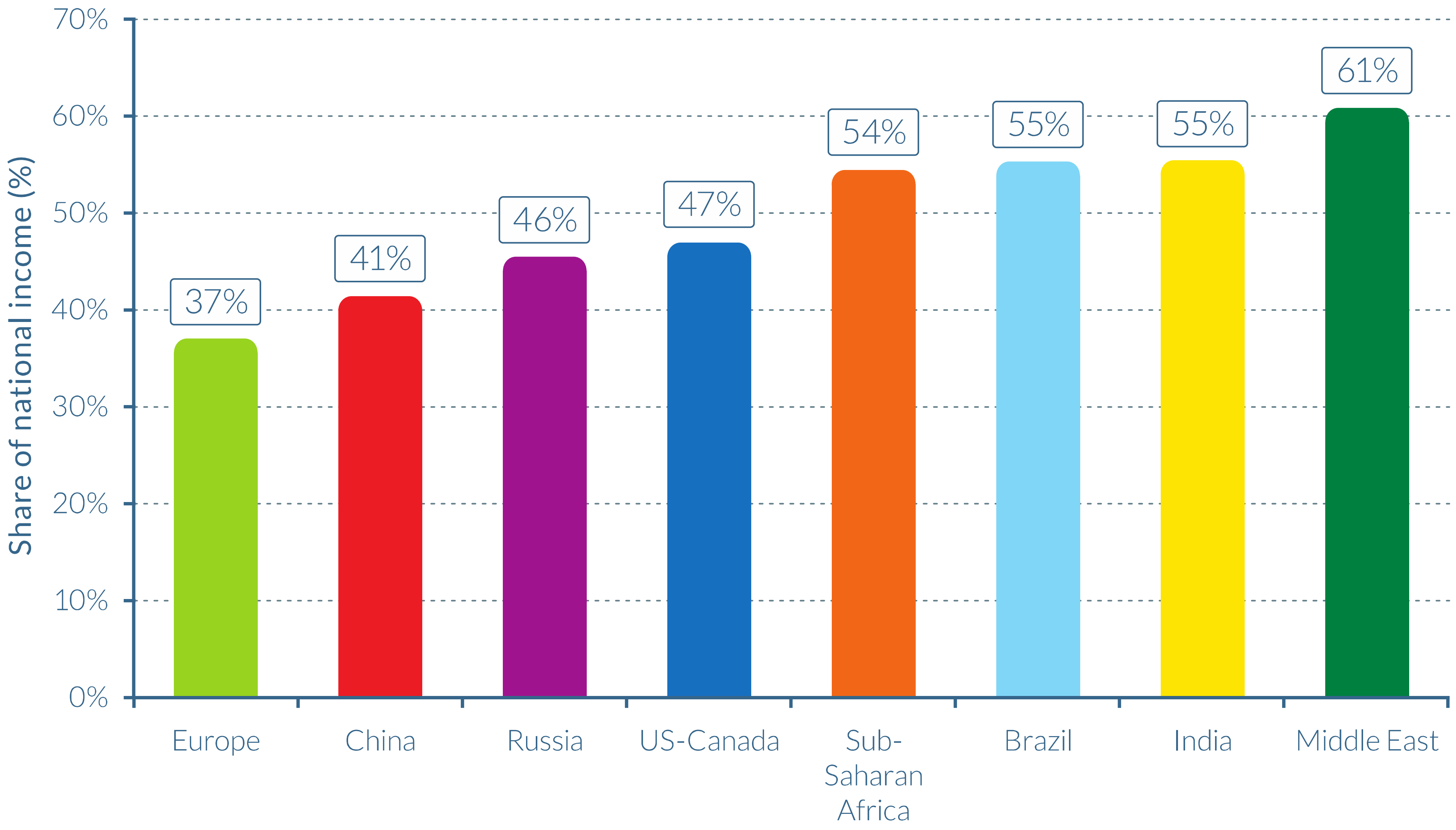
UNDP inequality Symposium

Income inequality varies widely across world regions

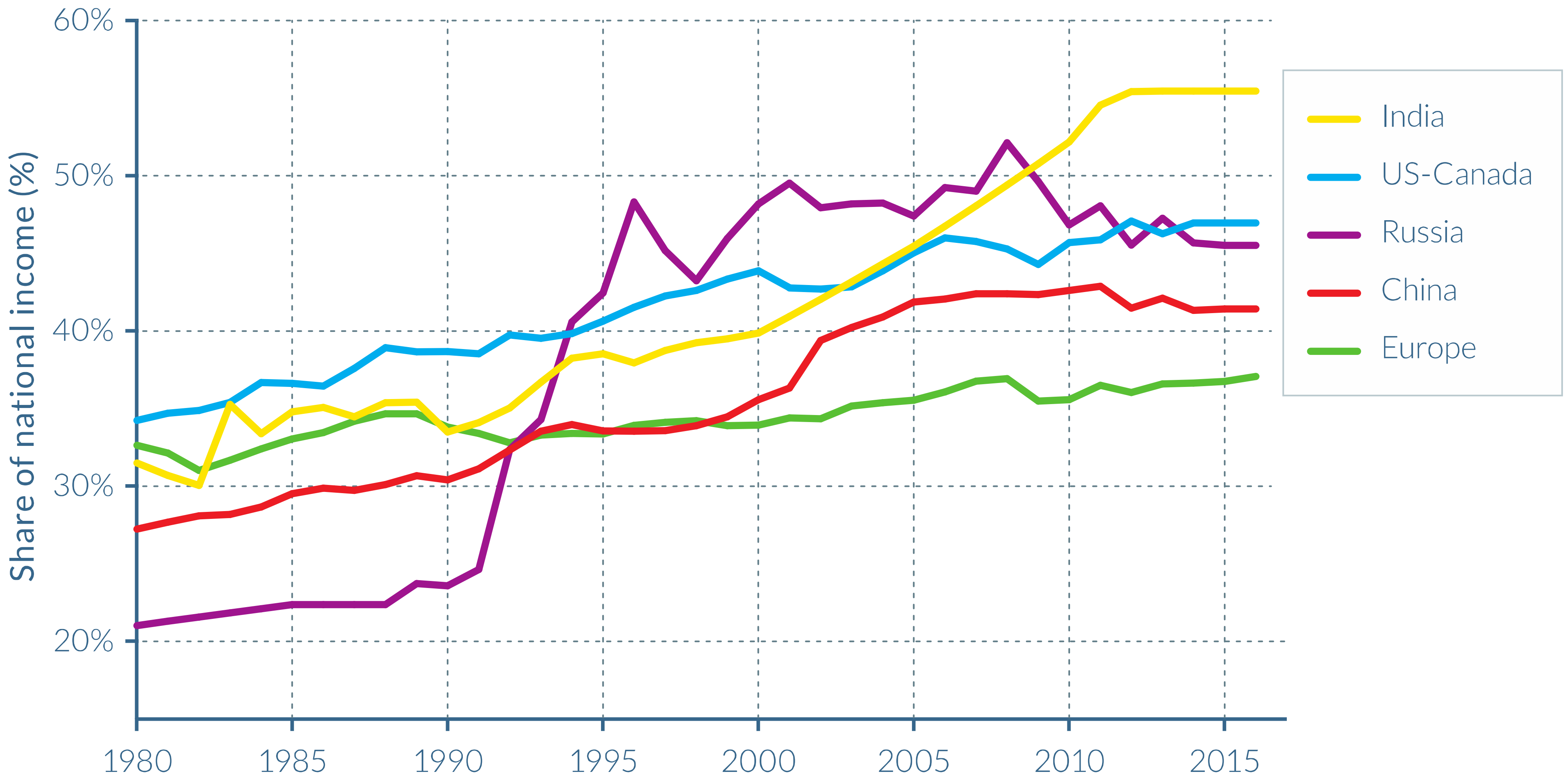
Top 10% national income share across the world, 2016



Source: World Inequality Report 2018, Figure 2.1.1. See wir2018.wid.world for data sources and notes.

Income inequality increased almost everywhere, but at different speeds

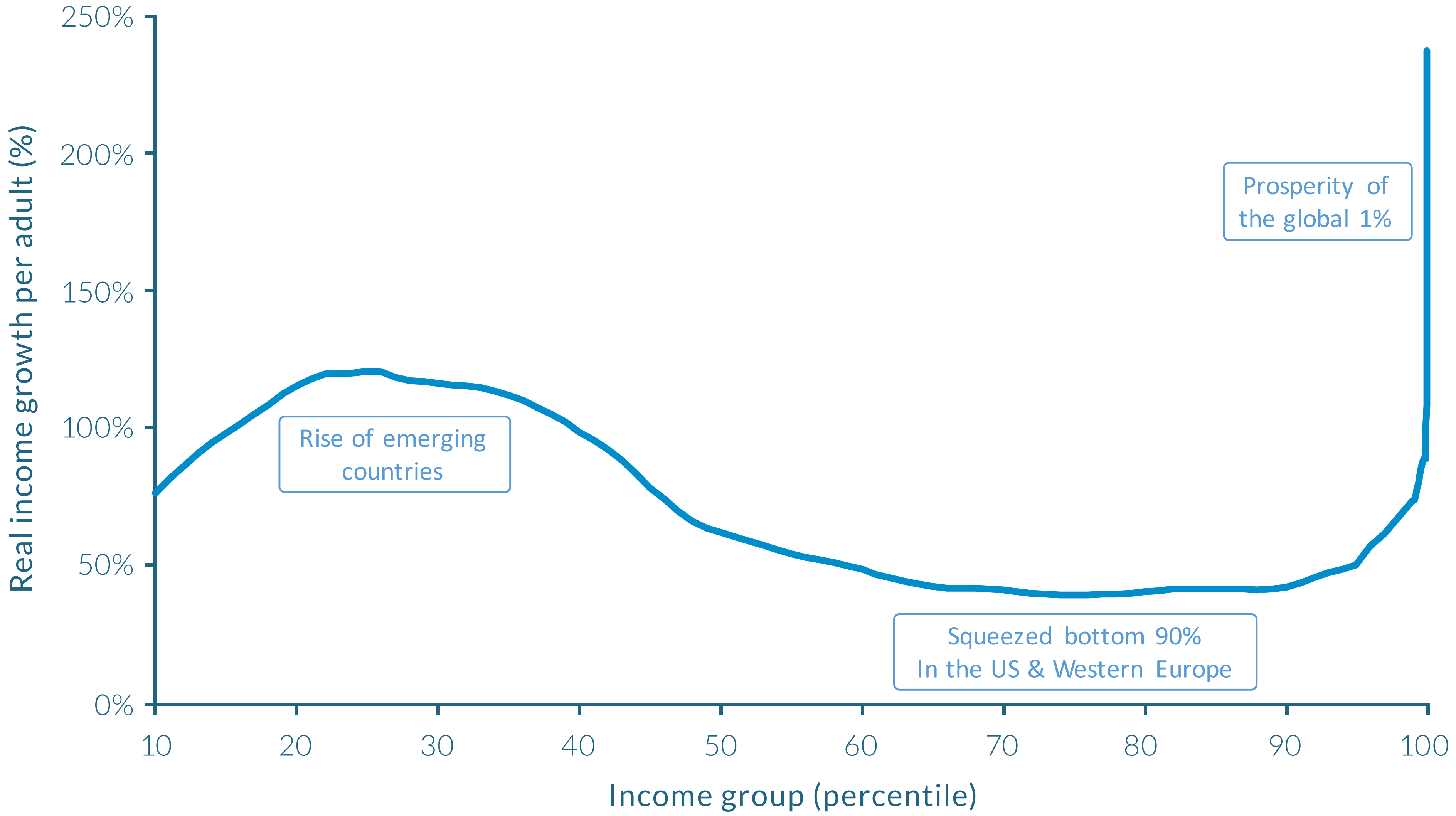
Top 10% income shares across the world, 1980-2016



Source: World Inequality Report 2018, Figure 2.1.1. See wir2018.wid.world for data sources and notes.

The global elephant curve of inequality and growth

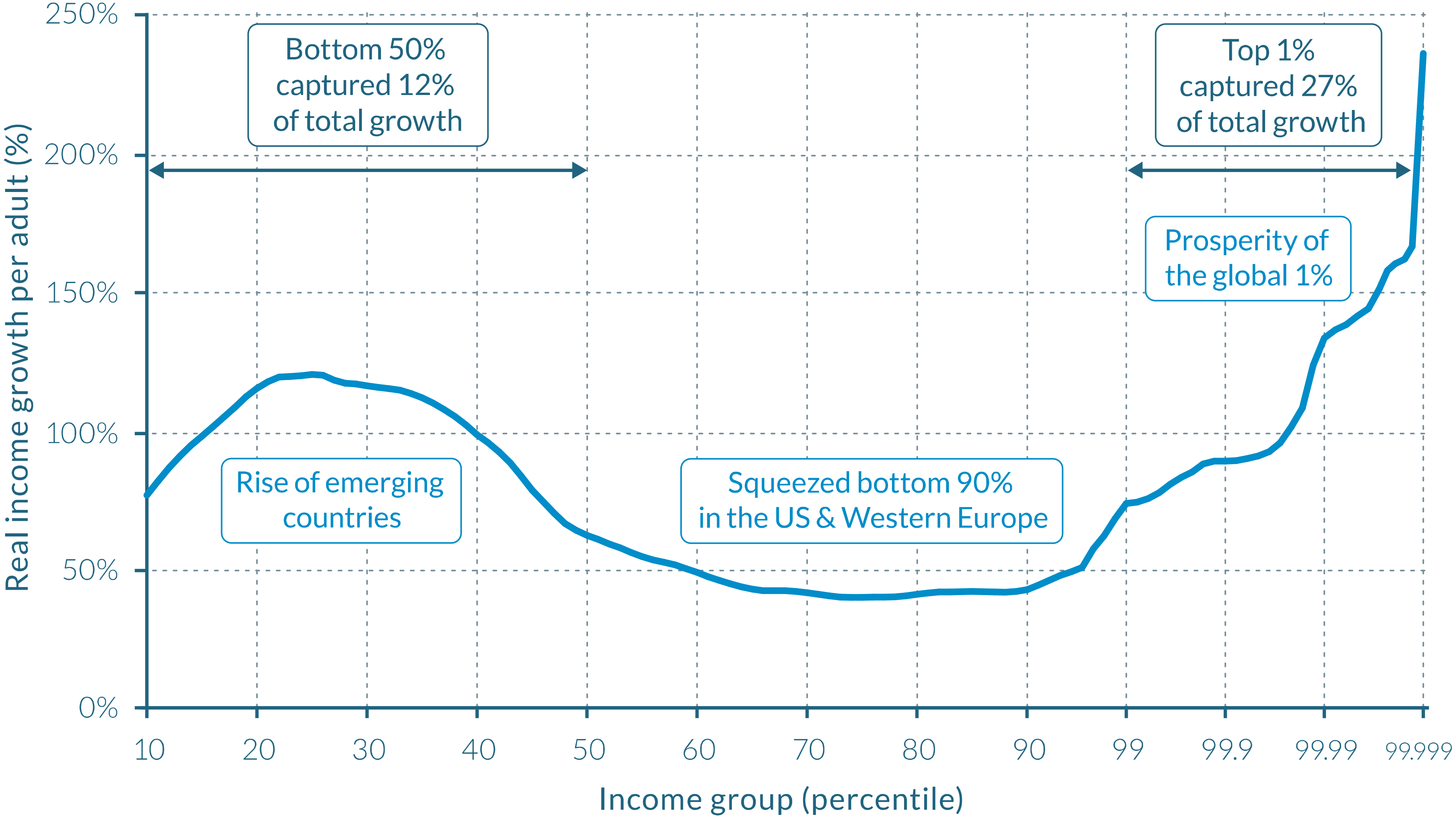
Total income growth by percentile across all world regions, 1980–2016: Scaled by population



Source: World Inequality Report 2018, Appendix Figure A1. See wir2018.wid.world for data sources and notes.

The bottom 50% grew… but the top 1% captured twice more total growth.

Total income growth by percentile across all world regions, 1980–2016



Source: World Inequality Report 2018, Figure 2.1.4. See wir2018.wid.world for data sources and notes.

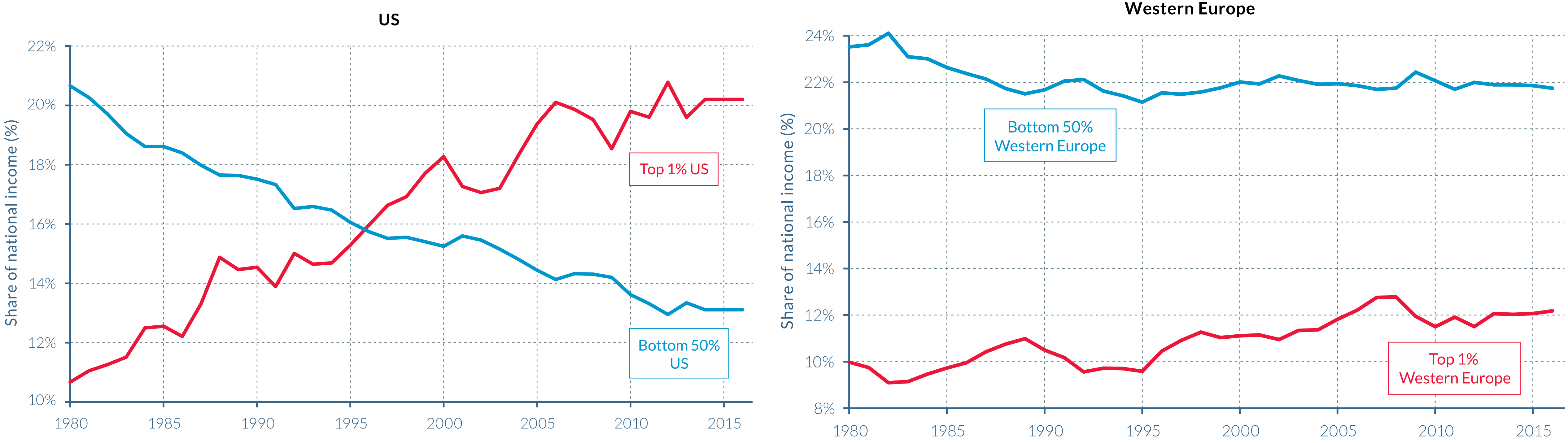
What does standard economic thoery say about trade and inequality?

- Most well-known economic trade theorem (Hecksher-Ohlin): increase of inequality in the global North, reduction of inequality in the South.
  - Basic intuition: high-skilled workers become relatively scarce in North and relatively abundant in South.

- Model does not account for rise of inequality in global South, it is key to look at national trajectories, institutional setups, tax policies, educational investments…

US vs. EU: Huge rise of inequality in the US but stagnation of bottom 50% income. Broadly similar regions (size, avg. income, openness, technology), diverging trends → Policy matters

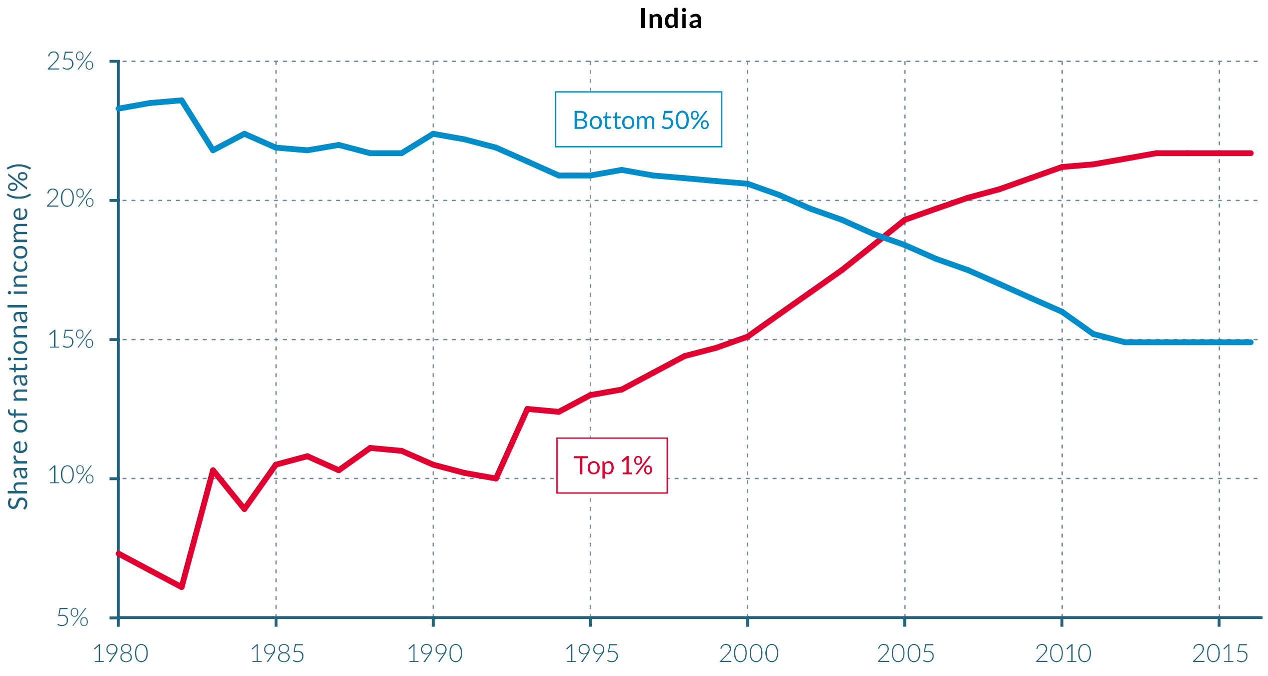
Top 1% vs. bottom 50% in the US and Western Europe, 1980-2016

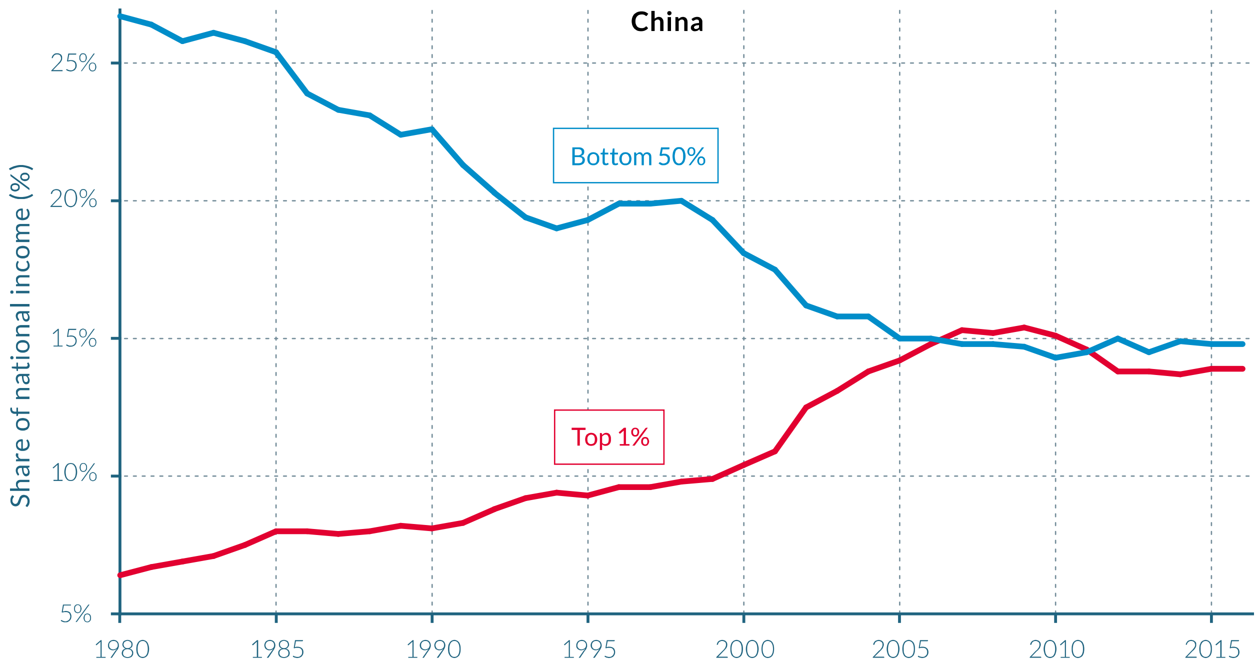


Source: World Inequality Report 2018, Figure 2.1.3. See wir2018.wid.world for data sources and notes.

India vs. China: higher rise in inequality in India, much less growth at the bottom

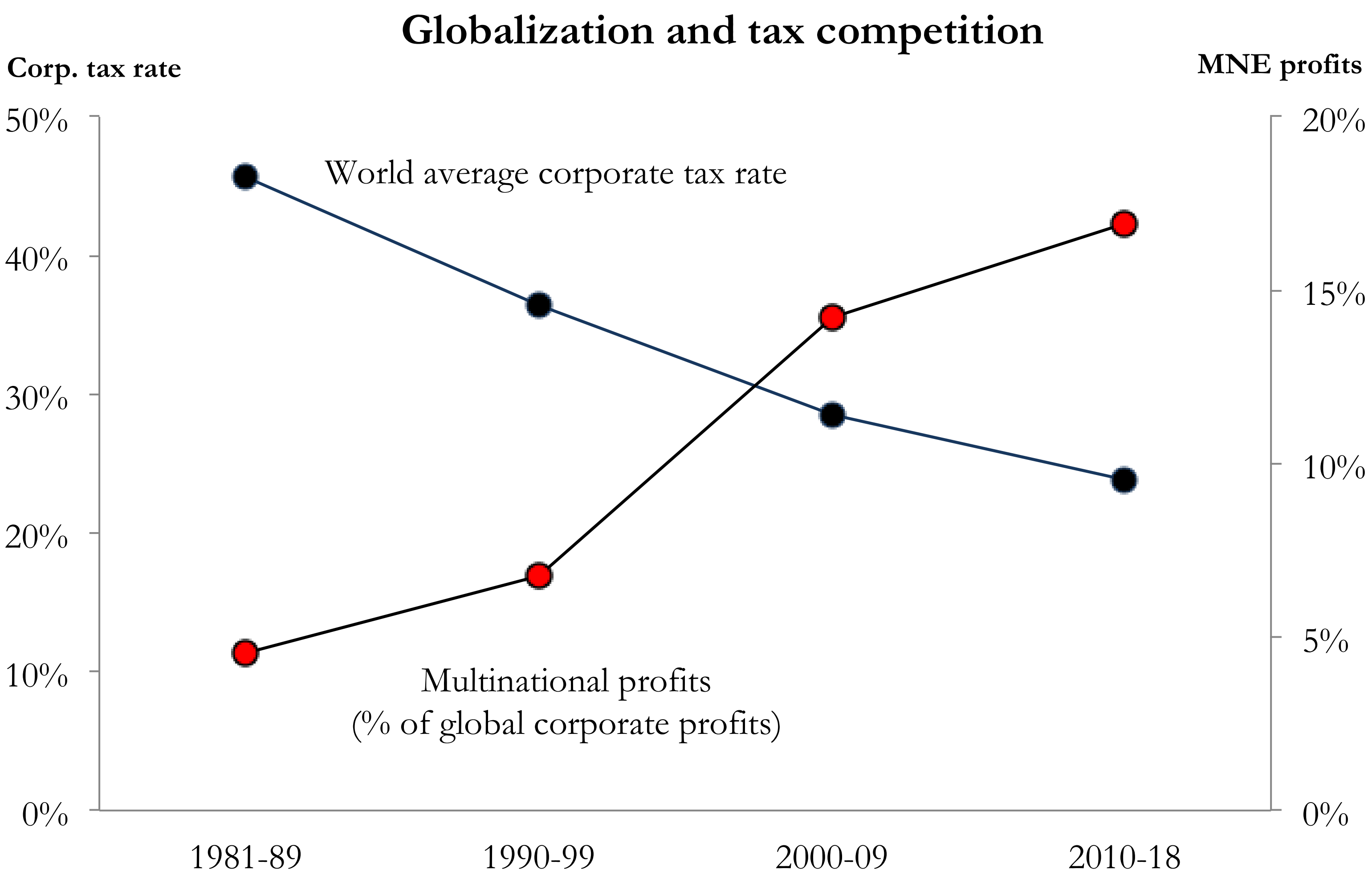
Top 1% vs. bottom 50% in China vs. India, 1980-2016





Source: World Inequality Report 2018, Appendix Figure A4. See wir2018.wid.world for data sources and notes.

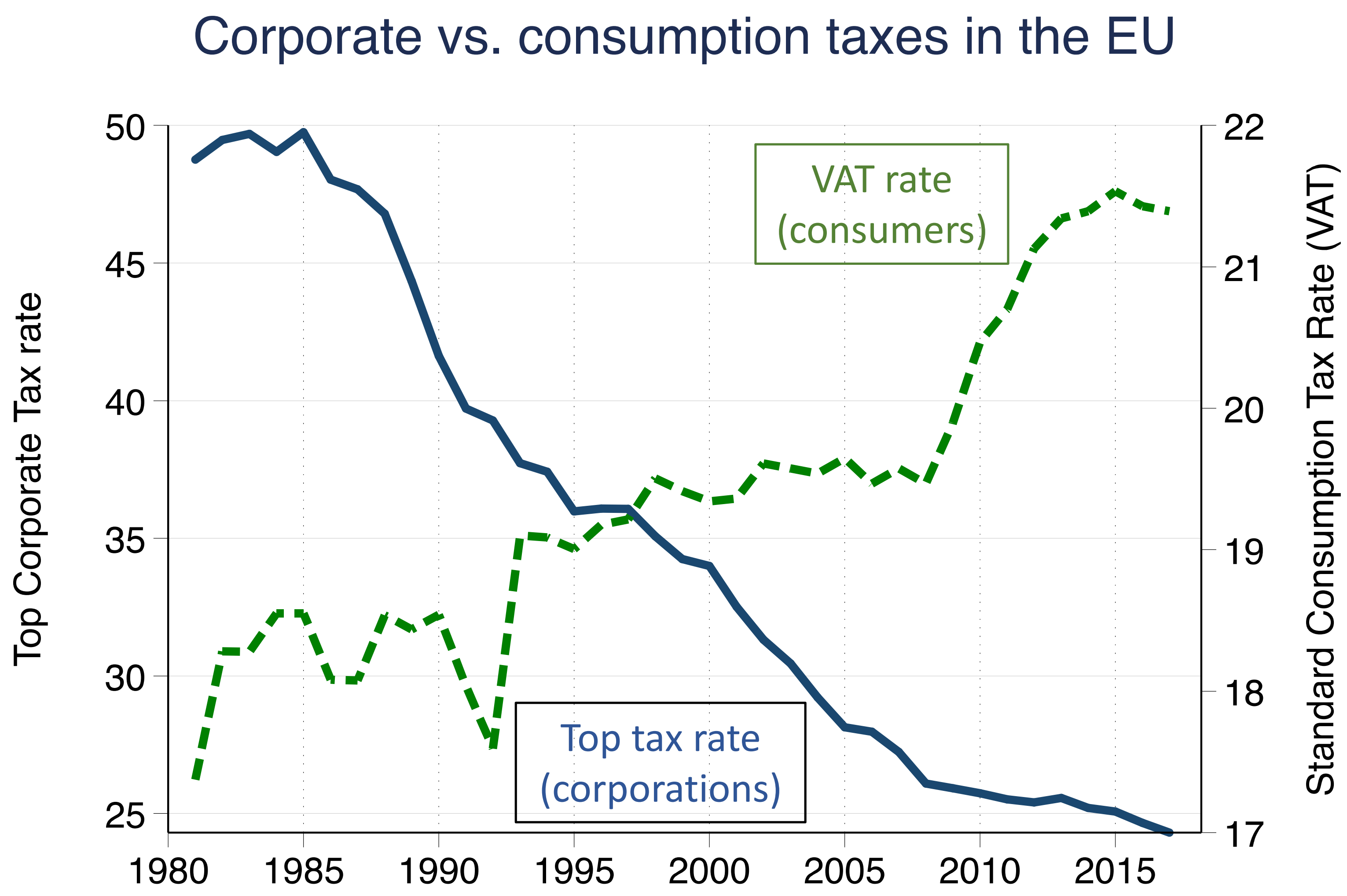
Trade without fiscal counterparts: tax competition



Notes: This figure charts the unweighted world average corporate tax rate and the share of global corporate profits made by multinational corporations. Multinational profits were around €1.4 trillion in 2015, while global corporate profits were around €7.9 trillion.

Zucman, 2017

European corporate tax rate is shrinking, VAT is rising



Blanchet, Chancel, Gethin, 2019

Trade without fiscal counterparts

- Trade agreements should be associated with fiscal (and social and environmental) counterparts:
  - *effective* exchange of financial information of individuals and corporations;
  - minimum corporate/income/wealth tax rate to avoid dumping

- But the opposite logic prevails, cf. Comprehensive Economic and Trade aggreements:
  - Exceptional clauses supposed to protect sustainability, financial regulation etc., but such clauses contradicted by other stated objectives of CETAs.
  - Rules and standards defined in technocratic bodies often absent democratic scrutiny
  - Private arbitration might jeopardizes governments' ambitions in terms of environmental, social or financial regulation

Concluding remarks

- Inequality hard to assess because of lack of data, problem for democracy
- Inequality is rising within countries and globally over the past decades
- Standard theory not really helpful to disentangle links between trade and inequality
- Trade without fiscal counterparts lays the ground for explosion of inequality
- Need to embed trade agreements into broader bilateral or multilateral sustainable development agreements