Stylized Facts on Inequality

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Structure

1. Stylized facts about inequality
2. Drivers behind these developments
3. Inequality and climate change
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1. Global income inequality decreased

- Decrease in the Gini coefficient since 2000 for all measurement concepts
- (concept 1: between per cap. GDP; concept 2: between per cap. GDP weighted by population size; concept 3: between households on a global scale)

2. Absolute poverty reduced by more than 50%

Mainly due to economic development in a few countries (China, India)

Number of people living on less than $1.25 a day worldwide, 1990–2015 (millions)

People living below the poverty threshold.
3. Increased wealth concentration at the top

- Process is mainly documented for developed countries and China (Alvaredo et al., 2013; 2016a; Saez and Zucman, 2016)
- Debate entered around "Capital in the 21st century" by Piketty (2014)

Increased wealth concentration at the top in the U.S. (Source: Saez and Zucman, 2016).
4. Increase in income inequality (within countries)

- Strong increase between 1980s and 2000s in most OECD countries;
- Middle class shrinking (U.S., France, Germany) (Alvaredo et al., 2016a, Grabka and Frick (2008); Grabka and Wittenberg, 2016);
- China: middle class created (Alvaredo et al., 2016a) but inequality is skyrocketing (Xie and Zhou, 2014) – both as a consequence of fast economic development.
Summary: elephant curve

Change in income for percentiles of the global income distribution between 1988 and 2008 (Source: Milanovic, 2013).
Summary: elephant curve

1. Absolute poverty reduced by more than 50%: A
2. Global income inequality decreased: A, B
3. Increase in income inequality (within countries): C, D
4. Increased wealth concentration at the top: D

Change in income for percentiles of the global income distribution between 1988 and 2008 (Source: Milanovic, 2013).
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5. Convergence

a) Strong economic development in some countries (mainly China, India, Brazil and Indonesia)
   - Lifted millions out of poverty || creation of a middle class
   - Reduced between-country inequality does not guarantee acceptable within-country inequality levels (Alvaredo et al., 2016a).

b) Baldwin (2016): convergence between countries has been enabled by
   - declining transportation costs
   - information technology
   which enable firms to produce high-tech goods with cheap labor in developing countries.
   Developing countries can join a global supply chain, instead of building the entire supply chain at home.

Shift in the economic center of gravity over time (Source: McKinsey Global Institute, 2012).
6. The role of labor in production

a) Income share of labor is declining in OECD countries: from 66.1% in the early 1990s to 61.7% in the late 2000s (OECD, 2012)

b) Low wage growth for lower/middle quintiles:
   - Average worker productivity has doubled since the 1970s, but wages for low- and middle income households hardly increased until the mid 2000s (Mishel et al., 2015).
   - Income of bottom 99% in the U.S. grew by 0.6% annually since the mid-seventies, income of the top 1% grew by 4.4% (Atkinson et al., 2011; Piketty et al., 2014).
7. The role of land rents

Capital income is decreasing, income for land rents is increasing
8. Increases in rent income at the top

- Increased wealth concentration not a consequence of self-reproducing capital but rather driven by an increase in rent income which mainly goes to the top income percentiles (Stiglitz, 2015a; 2015b).

- Land rents: Land ownership and housing play a crucial role, e.g.,
  - UK: a large part of the increase in wealth of the top 1% is due to housing.
  - Investment income was even more important.

- Rents in financial sector: often not competed away because of joint shareholdership (see Azar et al., 2016).

Top 1% wealth share in the UK: total wealth and wealth excluding housing assets (Source: Alvaredo et al., 2016b).
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Climate change threatens recent equity achievements

- Between-country inequality increases: poorer countries often hit harder by climate change (Althor et al., 2016; Mendelsson et al. 2006).

- Inequality between households increases: poorer households hit harder by climate change (access to air conditions, local air pollution, job losses,...; IPCC, 2014; Morello-Frosch et al., 2009)

Country-level income projections with and without temperature effects of climate change. (Source: Burke et al., 2015).
Climate change policy has strong redistributional components

Climate policy affects

- Distribution *between countries*: e.g. by redistributing rents or interfering with economic development.
  
  Follow-up talk by Nico Bauer

- Distribution *between generations*: cost of policy occur in the present, the benefits in the future.

- Distribution *between households* alive at the same time: poor households spend a higher share of their income on carbon intensive goods, are employed in carbon-intensive industries, or do not have the resources to enjoy the preserved nature (Fullerton, 2011).

  Follow-up talk by David Klenert
Literature


Alvaredo, F., Atkinson, A. B., Moretti, S. (2016b). Top wealth shares in the UK over more than a century


Grabka, Markus M. & Wittenberg, Erich (2016): "Trotz starkem Arbeitsmarkt ist der Anteil mittlerer Einkommensbezieher in Deutschland nicht gestiegen": Sieben Fragen an Markus M. Grabka, DIW-Wochenbericht, ISSN 1860-8787, Vol. 83, Iss. 18, pp. 403


Morello-Frosch, Pastor, Sadd, Shonko (2009). The Climate Gap


