

UNE ANALYSE INSTITUTIONNALISTE DES INEGALITES A L'EPOQUE DE LA MONDIALISATION

Robert Boyer (Institut des Amériques, Paris)

Conférence à l'Université de la Manouba,
Tunis, 16 décembre 2014

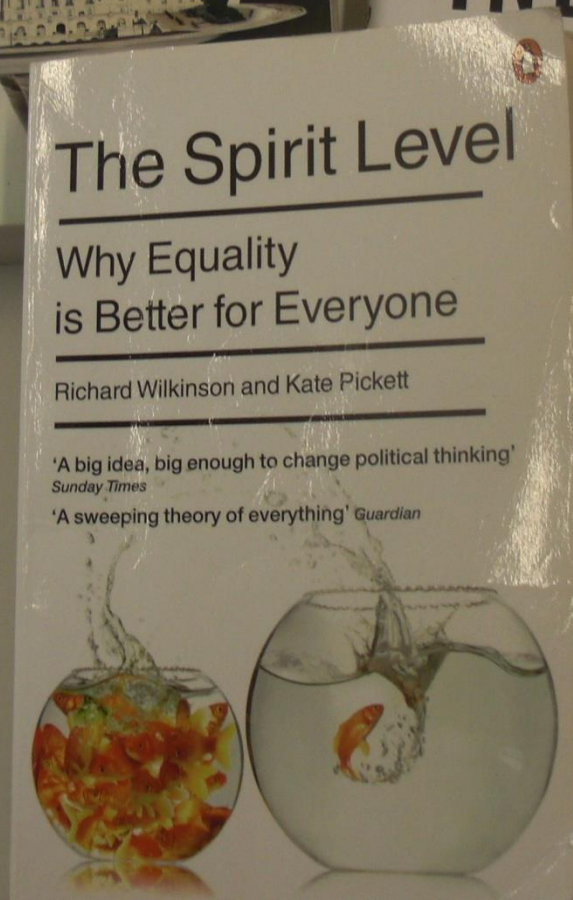
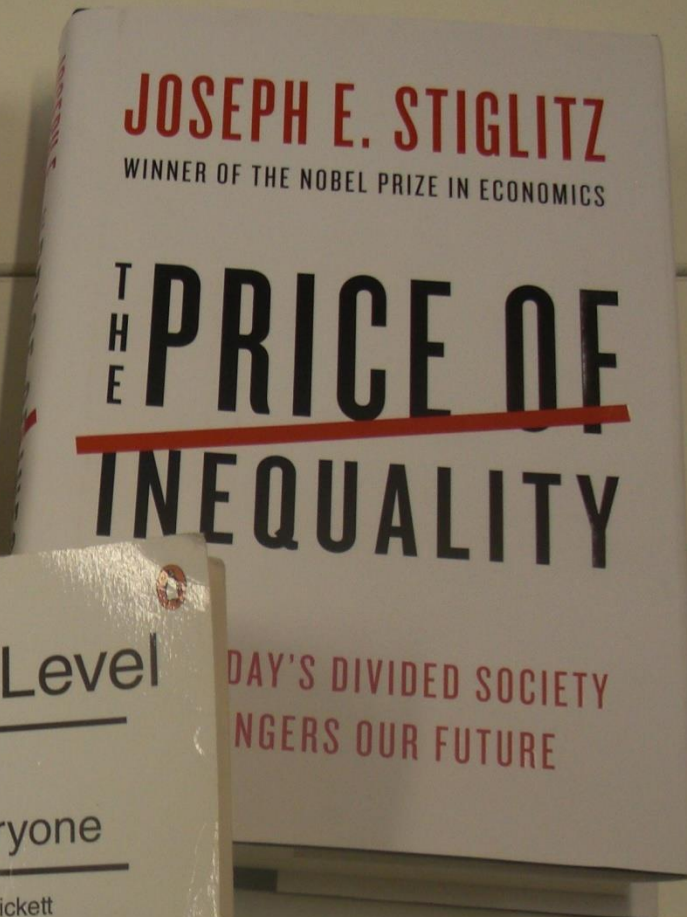
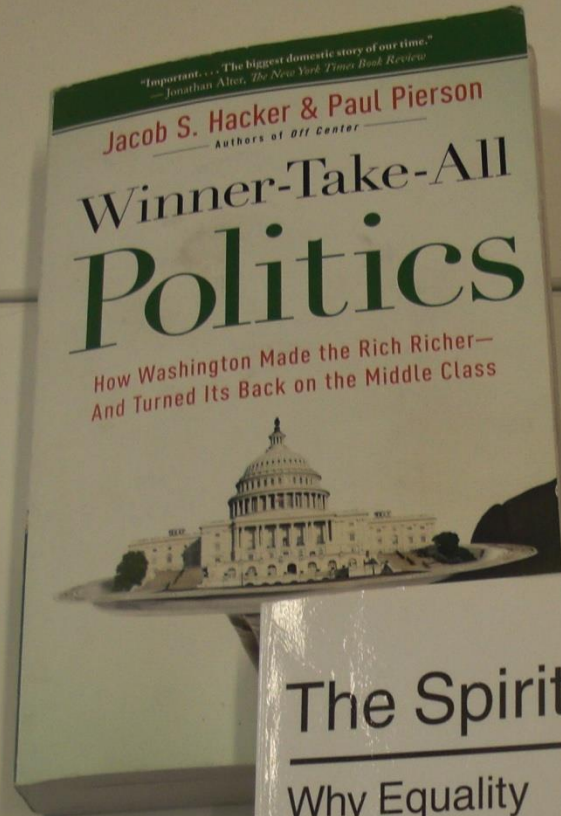
CAPITAL

in the Twenty-First Century

THOMAS PIKETTY

TRANSLATED BY ARTHUR GOLDHAMMER





INTRODUCTION

1. The rise of inequality seems an **universal feature** of contemporary societies...
2. ... And a major area for multidisciplinary research
3. Generally economists point out **one main causal mechanism** largely common to all economies:
 - **globalisation**
 - **technical change**
 - **capitalism**
4. Against **mono-causal , universal explanations**

SYNOPSIS

1. **China:** explosive inequalities are the consequence of fast development : Kuznets revisited.
2. **The United States:** a finance led regime promotes a surge in inequalities, volatility and crises .
3. **Europe:** resilience of an extended welfare but loss of economic dynamism
4. **The Latin American exception :** why the recent reduction of inequality ?
5. **Four different inequality regimes** made compatible by globalisation.

I. CHINA: LESS POVERTY BUT MORE INEQUALITIES, THE DIRECT CONSEQUENCES OF FAST PRODUCTIVE MODERNISATION

- 1. The very example of the exploration of the ascending part of the Kuznets' curve**

Table 1 – The two sources of inequality in China: urban vs rural, public vs private property

Type of property	Locality	
	Rural	Urban
Collective	Pre 1978 configuration	Pre 1978 configuration
Private	Intermediate stage	2010 configuration

```

graph TD
    subgraph Rural
        1((1)) -- A --> 3((3))
        1 --- P1[Pre 1978 configuration]
        3 --- I[Intermediate stage]
    end
    subgraph Urban
        2((2)) -- A --> 4((4))
        2 --- P2[Pre 1978 configuration]
        4 --- C[2010 configuration]
    end
    3 -- B --> 4
    
```

A: Change in the forms of property in direction of privatization

B: Migration of labour and persistence of rural and urban *hukou*

Table 2 – The role of extreme productivity differential in the widening of inequalities (China)

	1991			2008		
	Value Added	Employment	Relative productivity	Value Added	Employment	Relative productivity
Primary	7.1	48.8	14.5	6.5	39.6	16.4
Secondary	62.8	26.8	234.3	50.6	27.2	186.0
Tertiary	30.1	24.4	123.4	46.1	33.2	138.0
	100	100	100	100	100	100

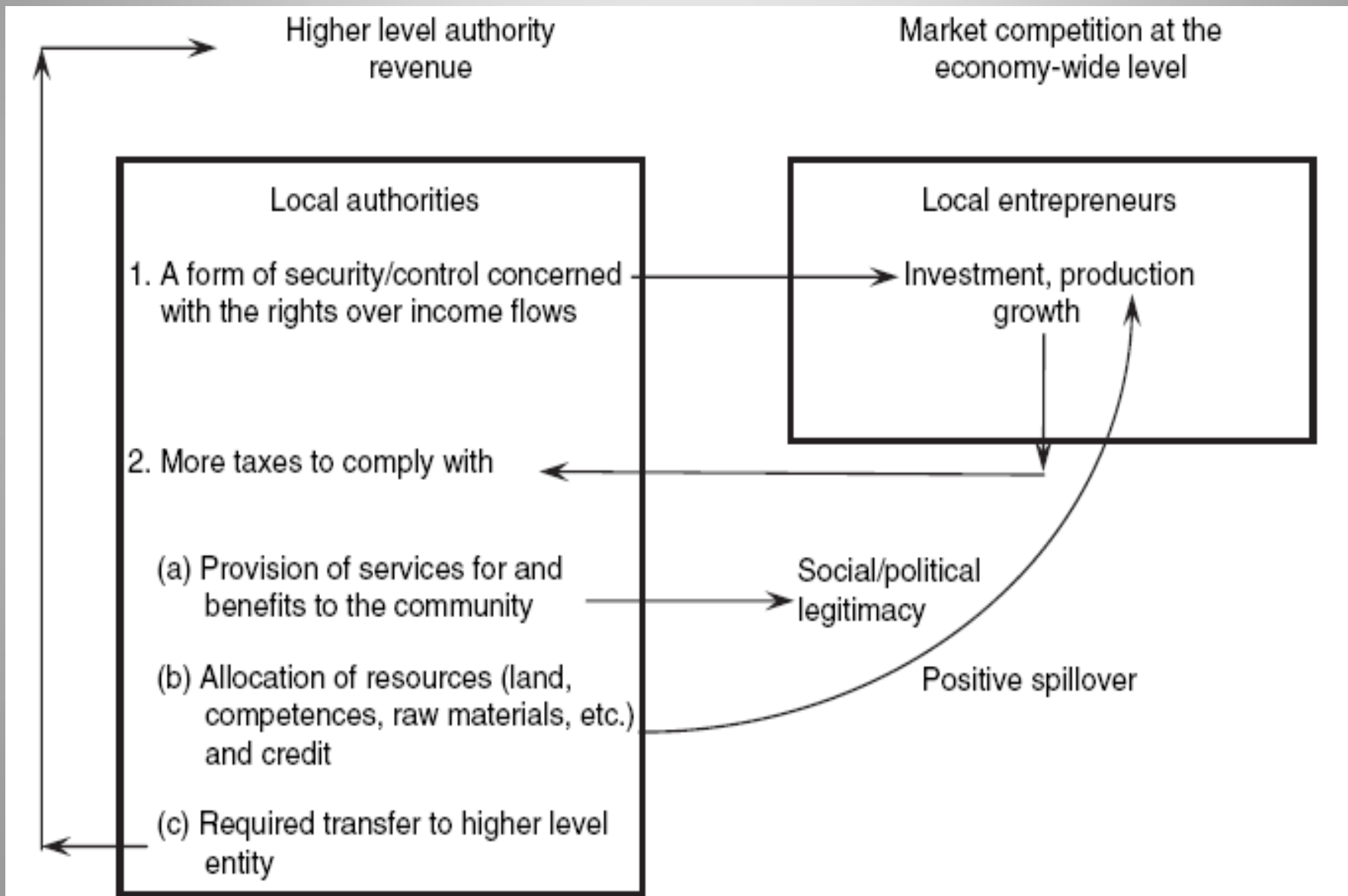
Source: China statistical year books, various years.

Table 3 – The urban/rural divide measured by average per capita income differential

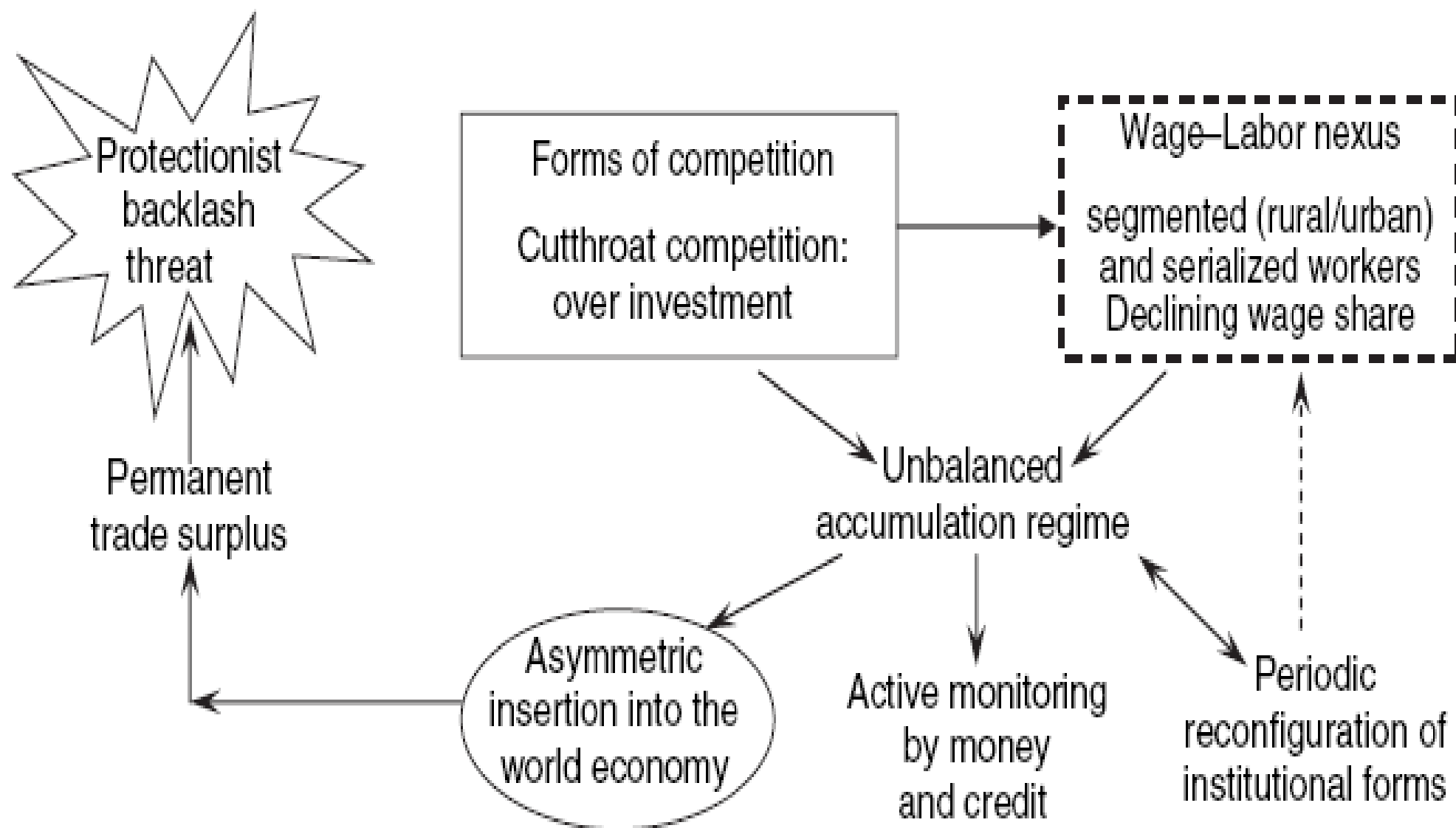
1978	1991	2001	2008
2.57	2.40	2.90	3.31

Source: China statistical year books, various years.

The Local State corporatism hypothesis



The source of inequality: the primacy of competition



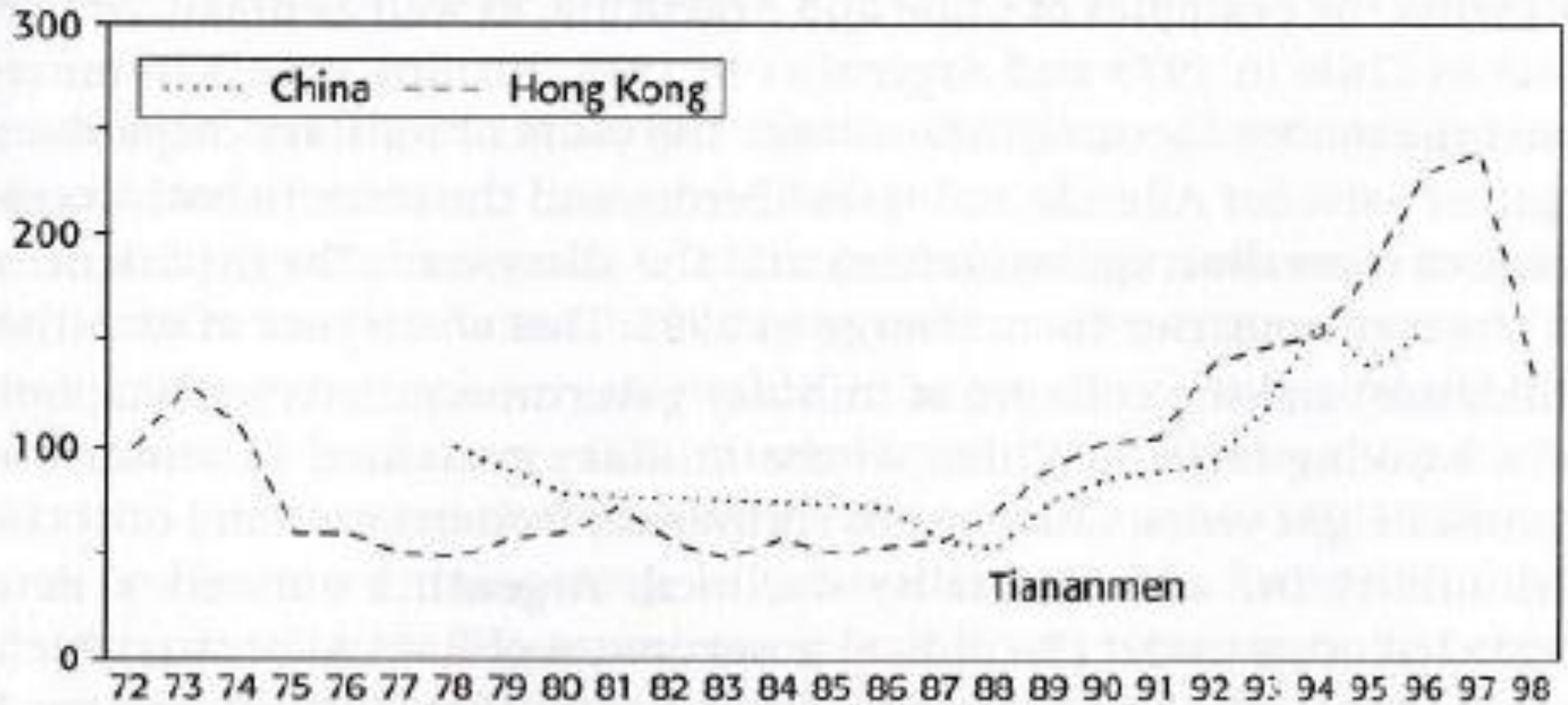
The crucial role of regional disparities: contribution of Beijing, Shanghai, Guangdong to interprovincial inequality, 1987-2007



Source:
taken from
UNRISD
(2010), p. 72

Note: The bar segments represent elements of the Theil index, specifically the population weight times the ratio of average sector pay to country pay (times the log of the same ratio). Thus above-average pay sectors show positive values, those with below-average pay show negative values. The Theil measure for each year is the sum of the bar values for that year. Source: Galbraith et al. 2008.

Evolution of inequality in China and Hong-Kong (1972-1998) Theil index



Source: James K. Galbraith (2007), p.153.

The
Economist

World trade's sudden slump
An AIDS riot in China
Why CEOs are worth every penny

Asia's next revolution

Reinventing the welfare state



The Economist

China's stockmarkets
The EADS merger with BAE crashes
Fake Pharma's golden age
The charms of Chilean Valley

True Progressivism

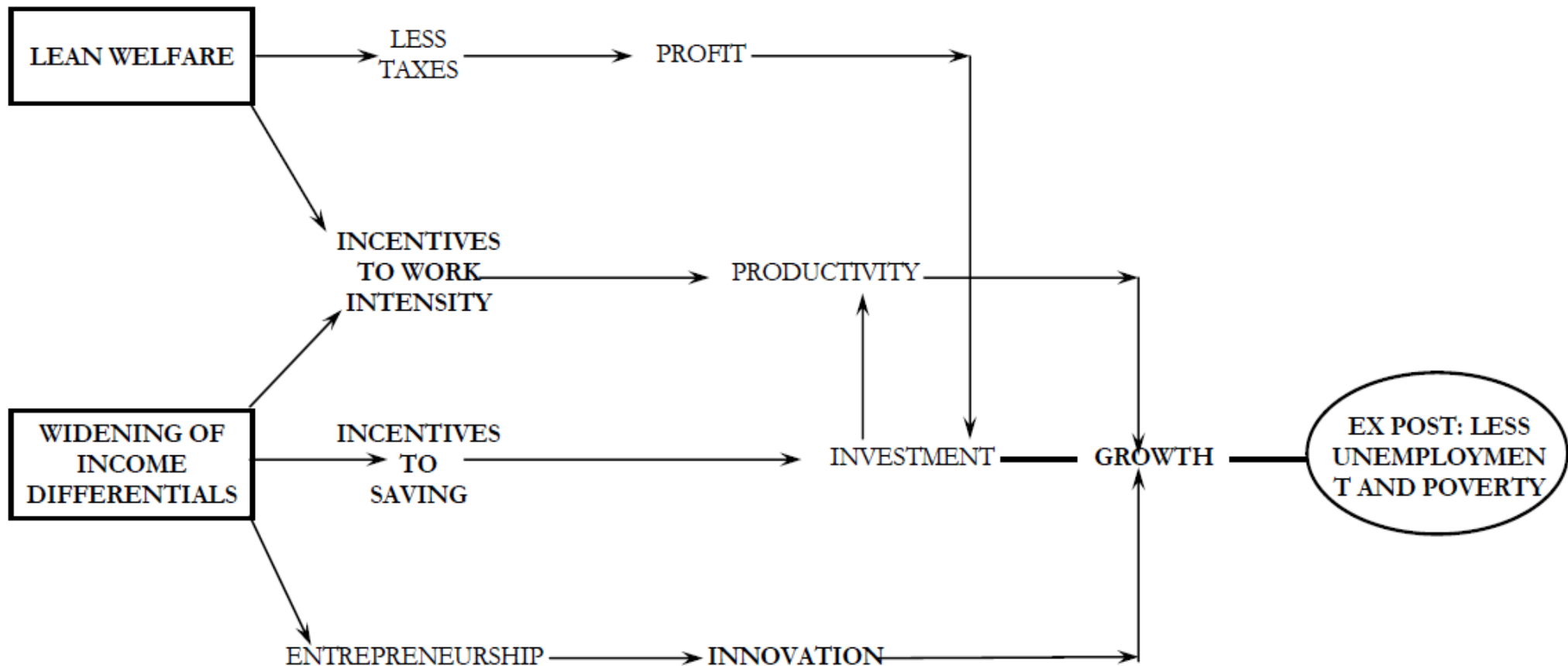
The new politics of capitalism and inequality



II. THE UNITED STATES: A FINANCE LED REGIME PROMOTES A SURGE IN INEQUALITIES, VOLATILITY AND CRISES

1. The new liberal doxa: increasing inequalities are necessary for growth recovery and domestic competitiveness

The anti-egalitarian paradigm shift of the 90s



2. The rise of finance: the third and massive source of explosive income inequalities

Quasi-stagnation of average real salary versus the explosion of CEOs remunerations



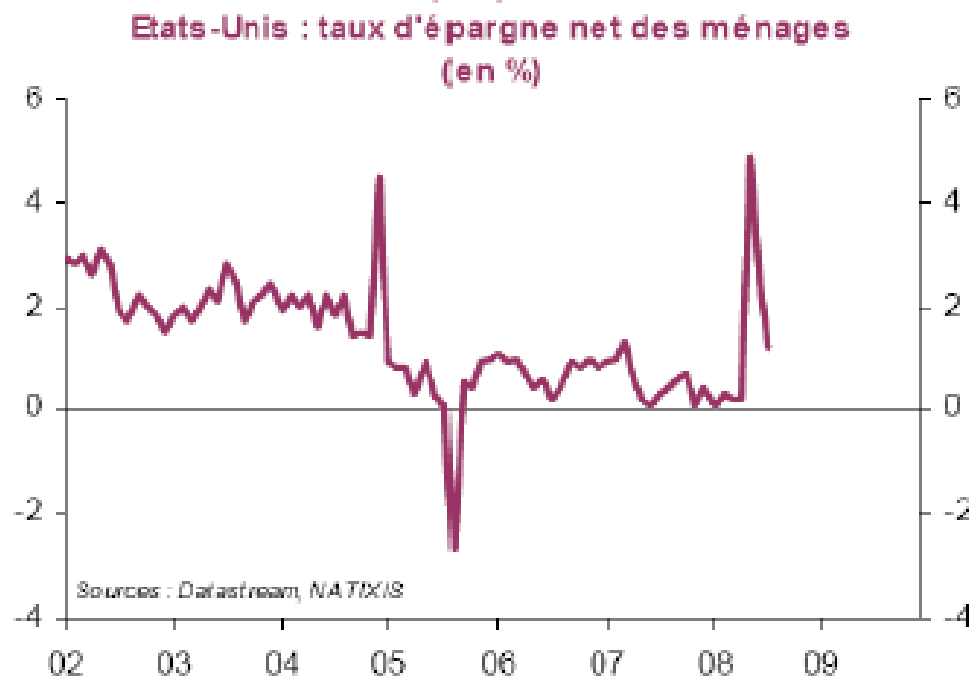
Source: Piketty & Saez, 2003, p. 33, figure 11.



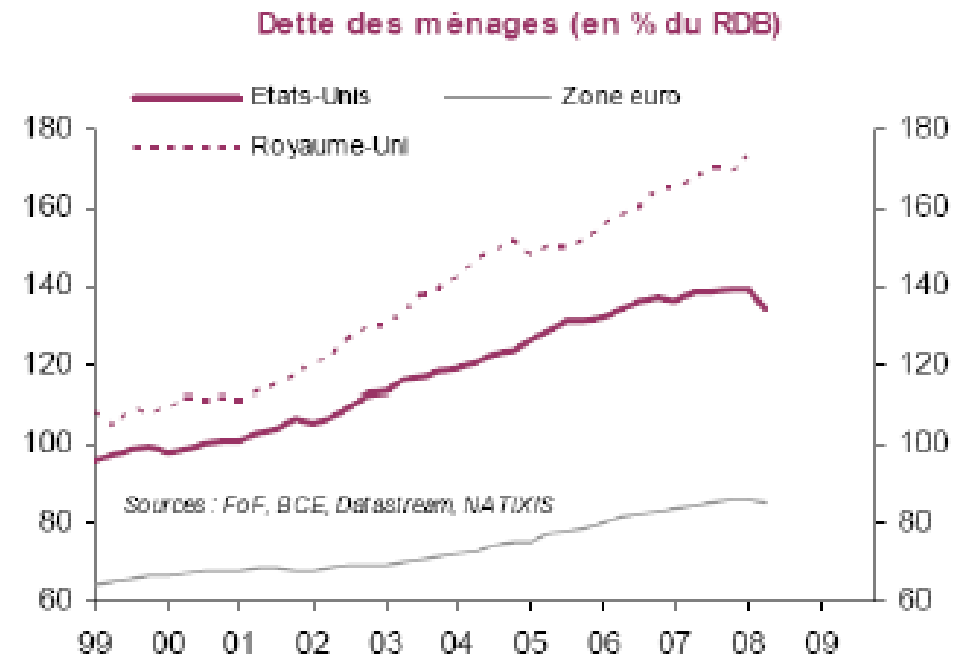
"The salary is unimportant—I'll just siphon off what I need."

✓ *More working hours, more sources of income within the same household and finally an explosion of credit*

Graph 13 – A very low saving rate of American households

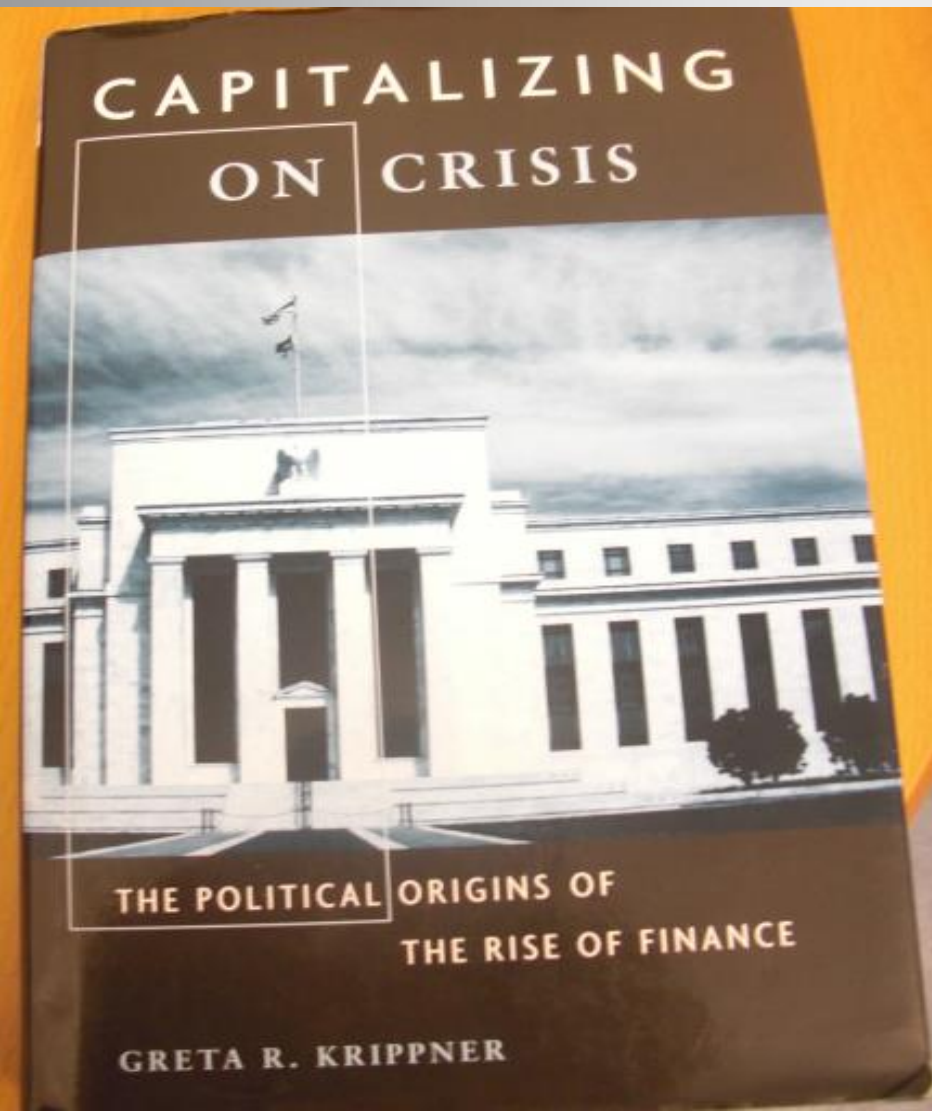


Graph 14 – A cumulative debt/Income



Source : Artus Patrick (2008c), « Trois méthodes pour réduire le levier d'endettement », *Flash économie*, n° 414, 23 Septembre, Natixis, Paris, p. 2.

3. **Financial liberalisation** has removed the inter-temporal income constraint and led to a crisis that could not happen in the static neoclassical model

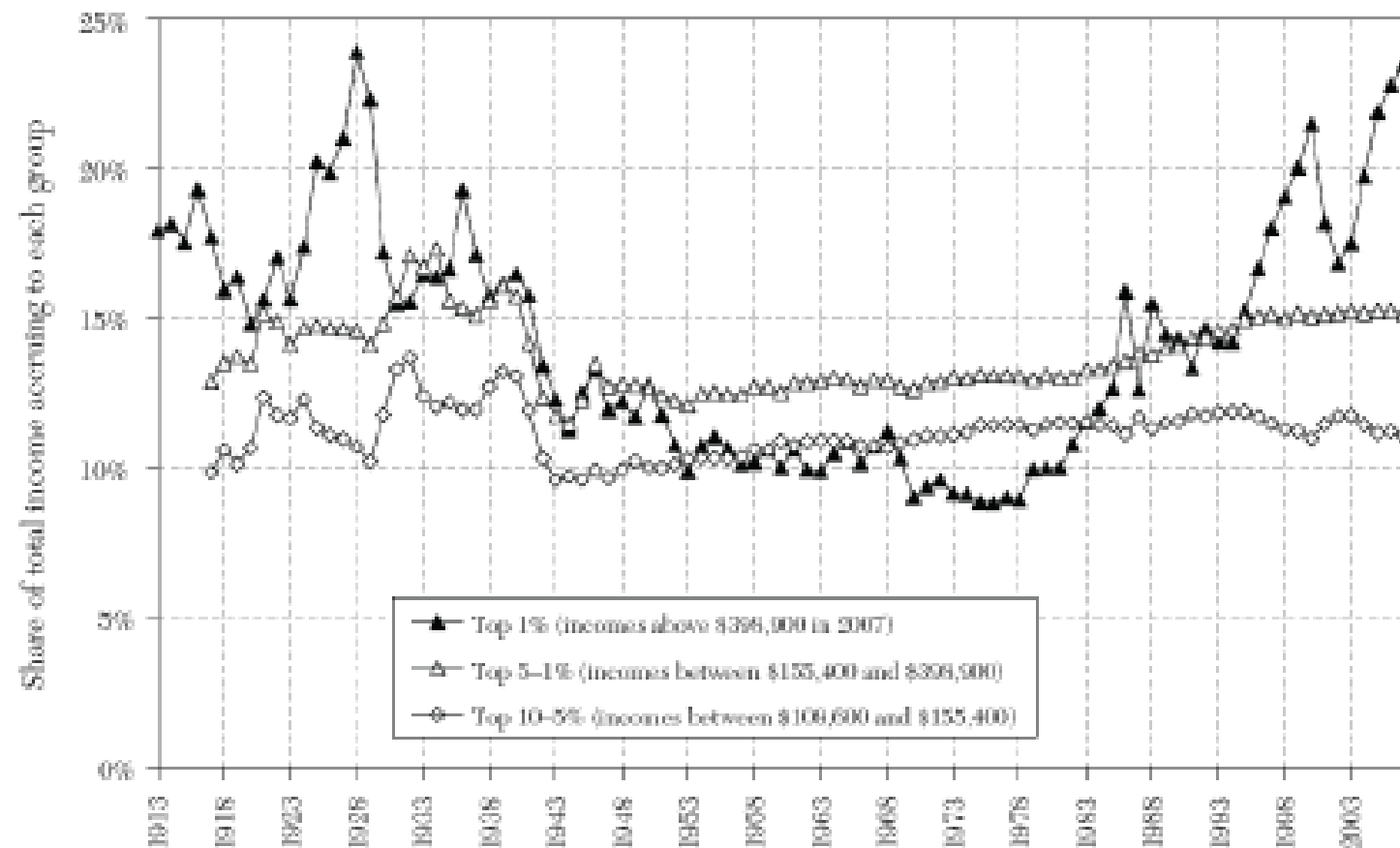


- In response to the exhaustion of the Fordist model of growth in the United States, facing incompatible social demands, successive governments decided to transfer the allocation of capital to markets in order to make anonymous the related choices... but financial innovations have instead led to a credit boom, along an unsustainable path long-term.

15 September 2008 is the **Day of Reckoning**

4. The surge of very top incomes in the US

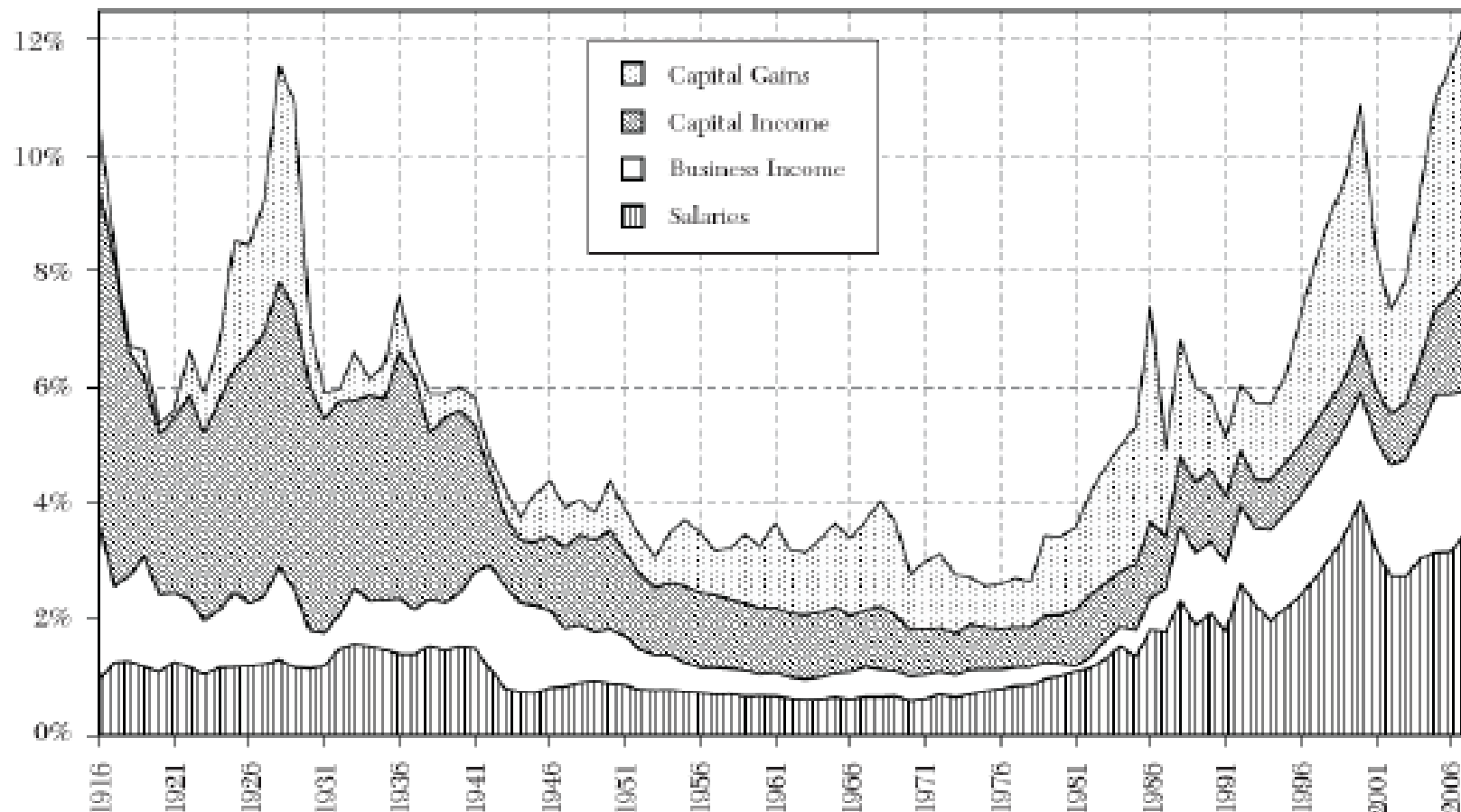
Graph 21 – Since 1980 the richest capture a larger and larger fraction of income: 1913-2007



Atkinson Anthony B., Piketty Thomas, Emmanuel Saez (2011), "Top Incomes in the Long Run of History", *Journal of Economic Literature*, Vol. 49 (1) : 7.

5. Largely the consequence of the domination of finance

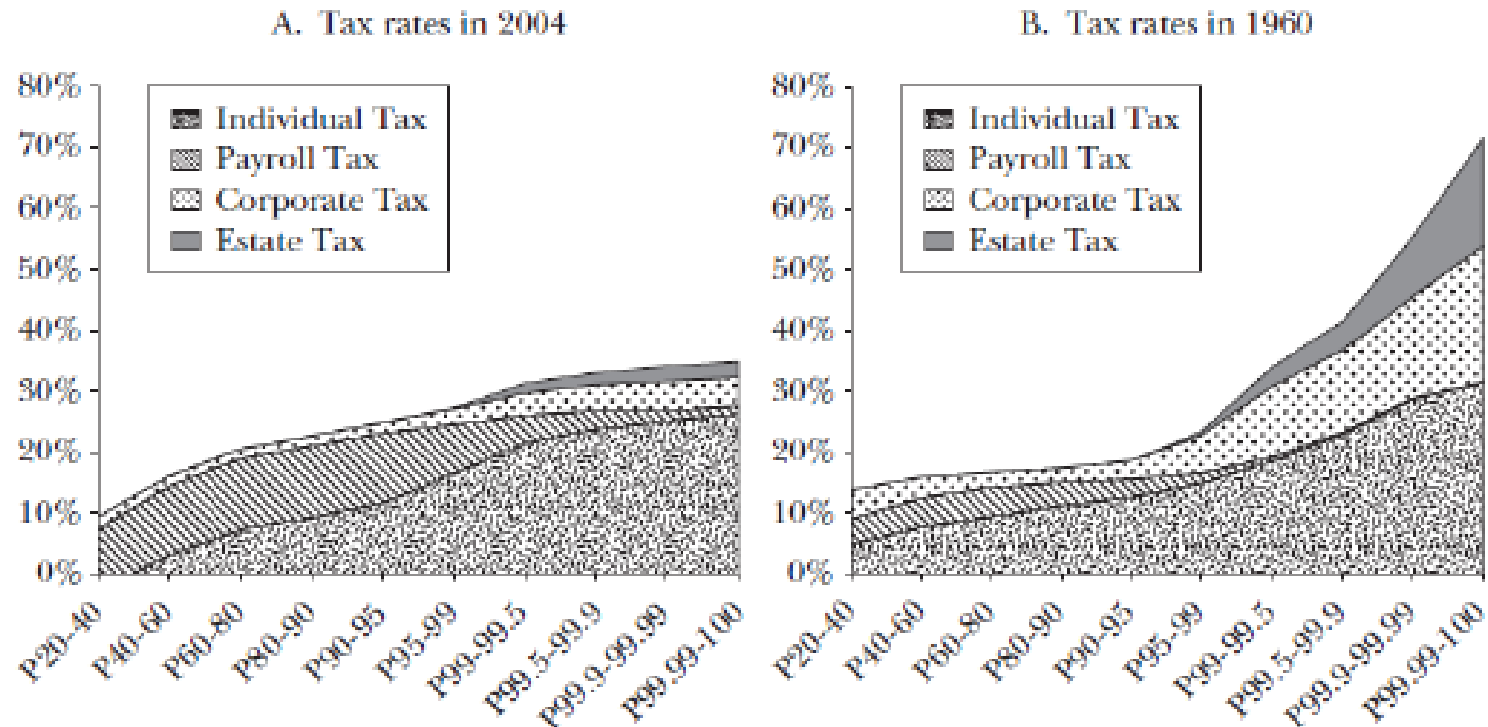
Graph 22 – Capital gain and income are the main sources of the rise of inequalities from the top of the distribution



Atkinson Anthony B., Piketty Thomas, Emmanuel Saez (2011), "Top Incomes in the Long Run of History", *Journal of Economic Literature*, Vol. 49 (1) : 8.

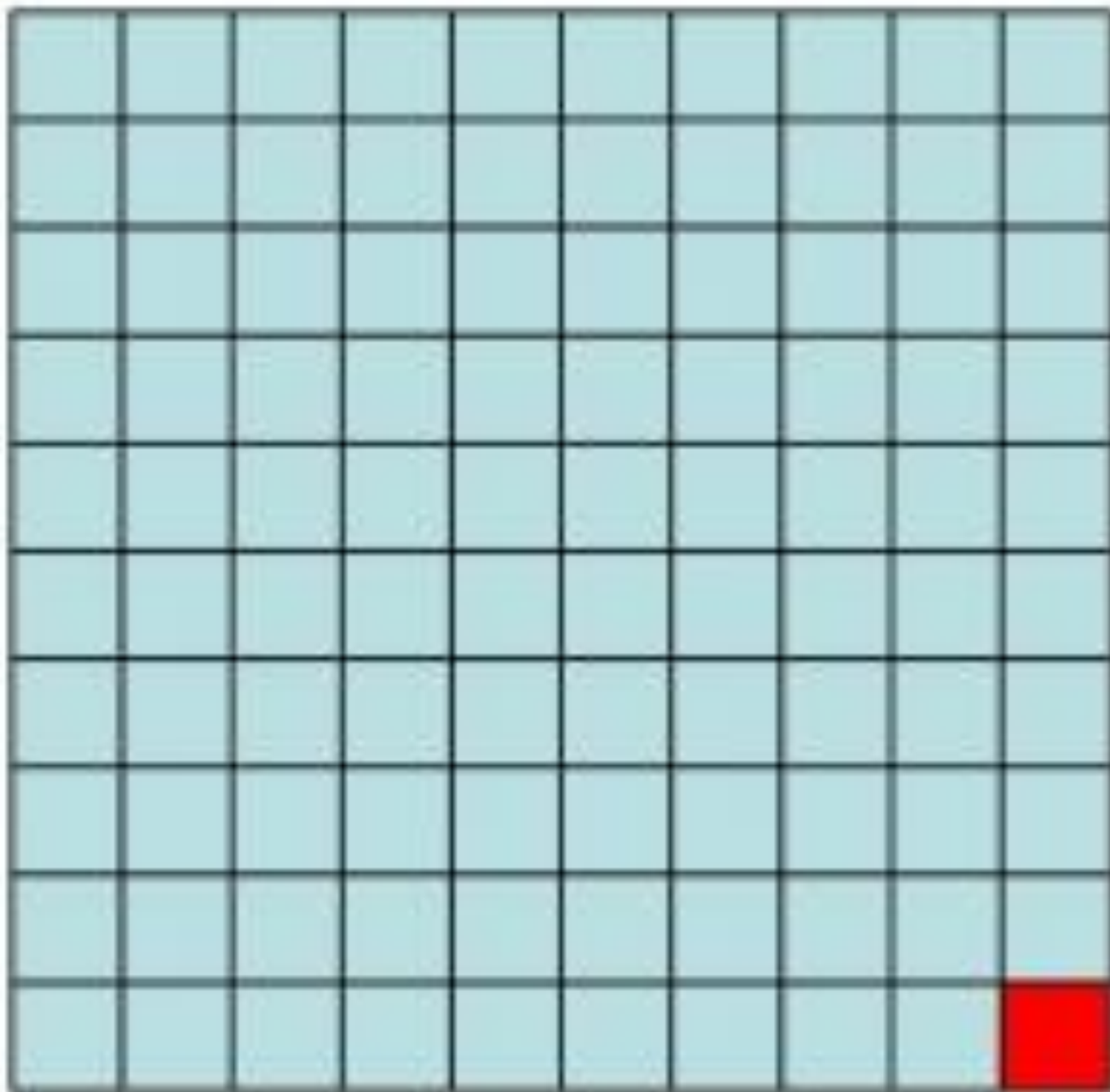
✓ *Some highly restricted groups use their economic power to lobby in favour of no or light regulation*

Graph 23 – The richest have got a drastic reduction of their taxation



Notes: Figures display the tax rate for each of the four federal taxes for various groups of the income distribution in 2004 (based on 2000 incomes adjusted for economic growth) and in 1960. Tax rates are stacked.

Source: Piketty Thomas, Saez Emmanuel (2007), "How Progressive is the U.S. Federal Tax System? A historical and International Perspective", *Journal of Economic Perspectives*, Volume 21, Number 1, Winter, p. 12.



ERIC CANTOR AND
HIS MERRY MEN...

HERE'S A LITTLE
SOMETHING TO
HELP WITH THE
DEBT PROBLEM.

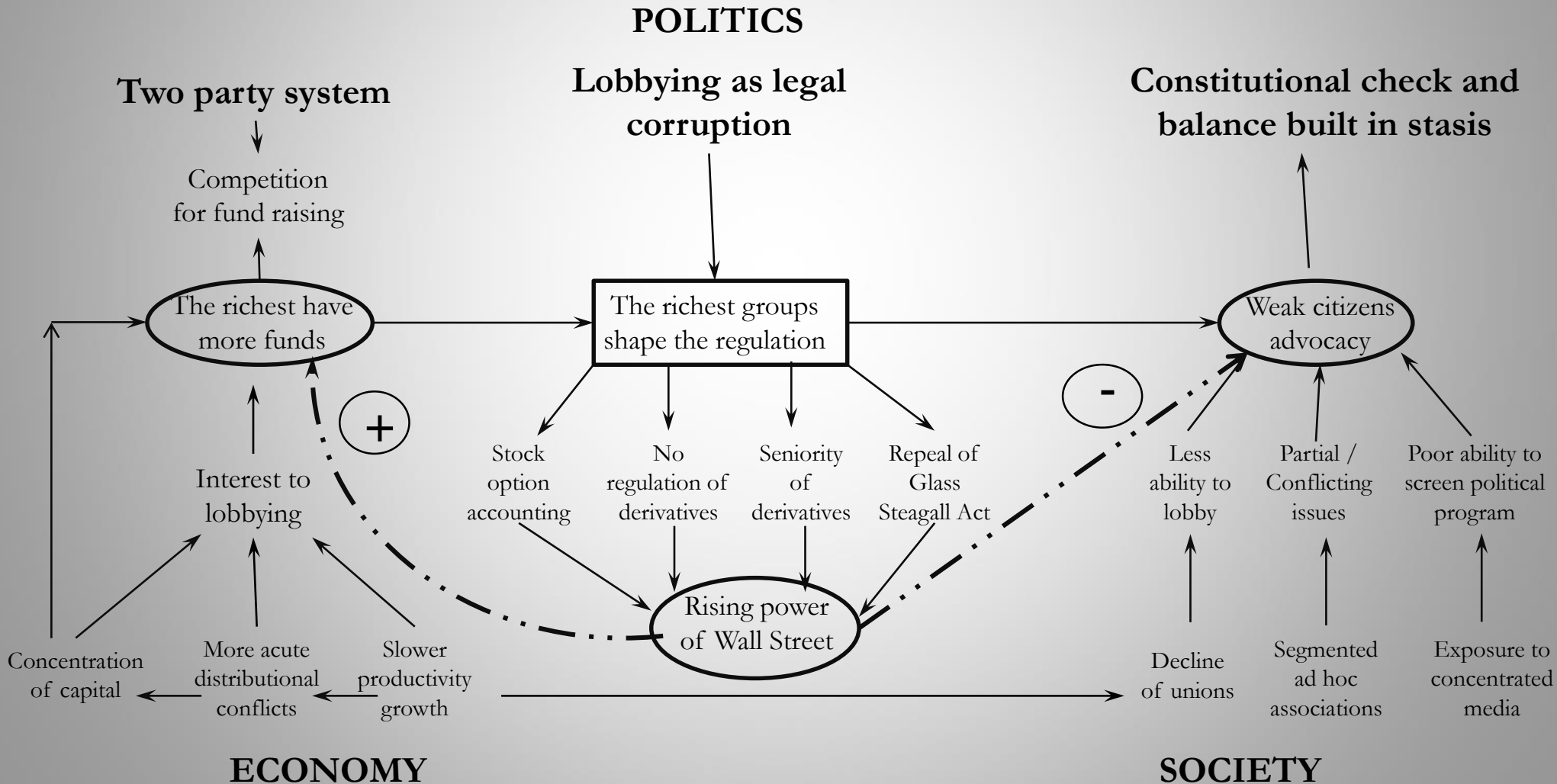
HORSEY
© 2011
WEAVER
NEWSPAPERS

Ye Rich

NO, NO, KEEP
YOUR MONEY!
WE'LL TAKE FROM
THE POOR.



6. The concentration of economic and political power is the basic explanation of rising American inequalities



THE FOUR BRANCHES OF GOVERNMENT

EXECUTIVE
BRANCH

LEGISLATIVE
BRANCH

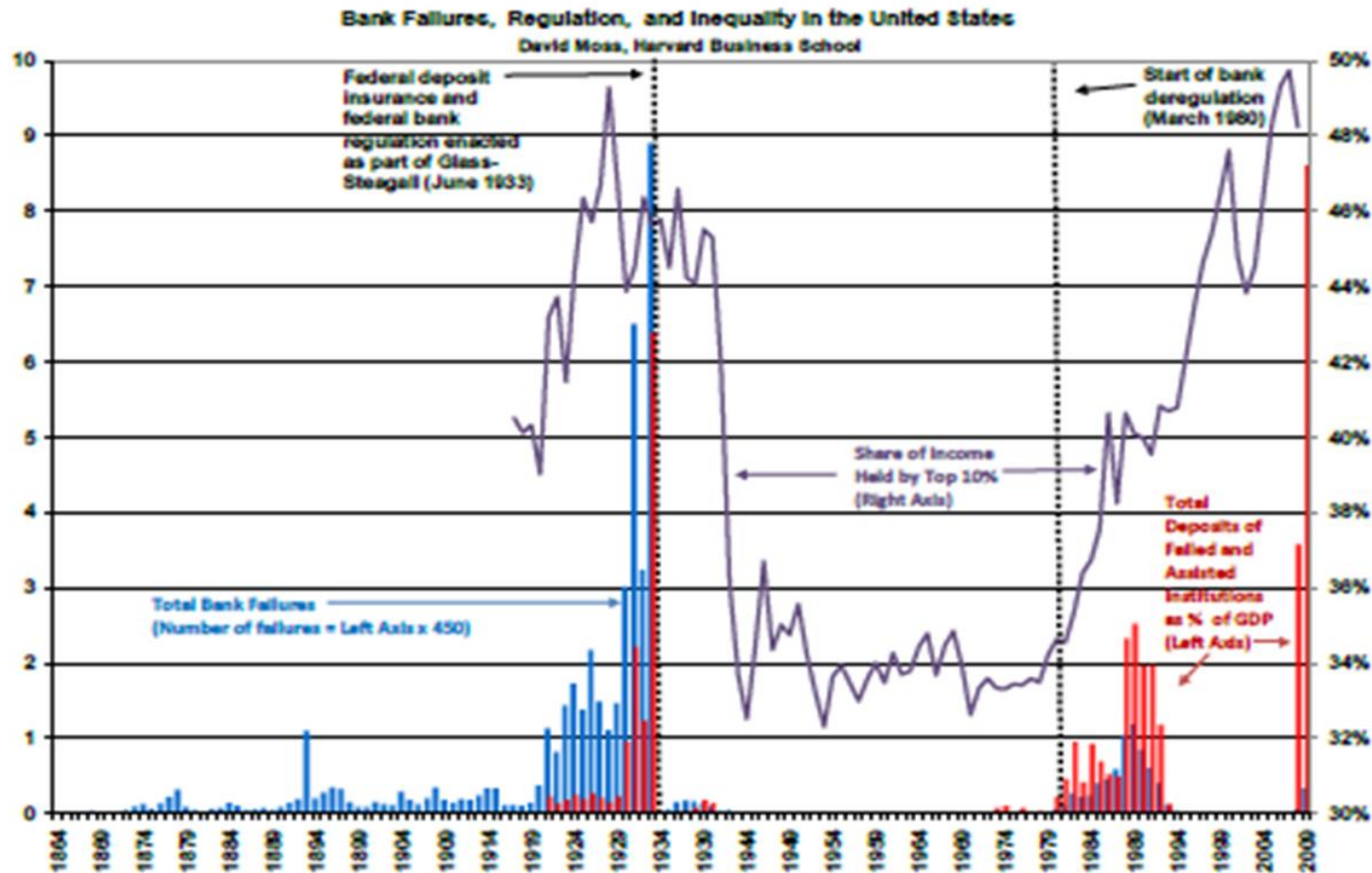
JUDICIAL
BRANCH

SUPER
BRANCH



M. WINTER
POLITICAL

✓ Increasing inequalities and financial fragility and crisis go hand on hand



Source: David Moss (2010) Comments on Bank Failure/Regulation/Inequality Chart, August.

Sources: Historical Statistics of the United States: Colonial Times to 1870 (Washington, D.C.: Government Printing Office, 1970), Series 3, Table 1, p. 1056; "Federal Deposit Insurance Corporation Failures and Assistance Transactions/United States and Other Areas," Table SP-1, FDIC website (<http://www.fdic.gov/insur/insur.htm>); Bernard Batlin, "Gross Domestic Product, 1790-2000," Table 1.1.1, in *Measuring Up: The United States in the 21st Century* (Washington, D.C.: Urban Institute Press, 2000); Bureau of Economic Analysis, "Gross Domestic Product (GDP) Table 1.1.1.1 (http://www.bea.gov/gdp/gdp.htm)"; Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1992," *Quarterly Journal of Economics*, 114(1), 2000, pp. 1-30, with updated data available at http://www.brookings.edu/papers/2003/09/piketty_saez. For an earlier version of this chart, without the inequality overlay, see David Moss, "The Curve of Prosperity," *Harvard Magazine*, September/October 2005.

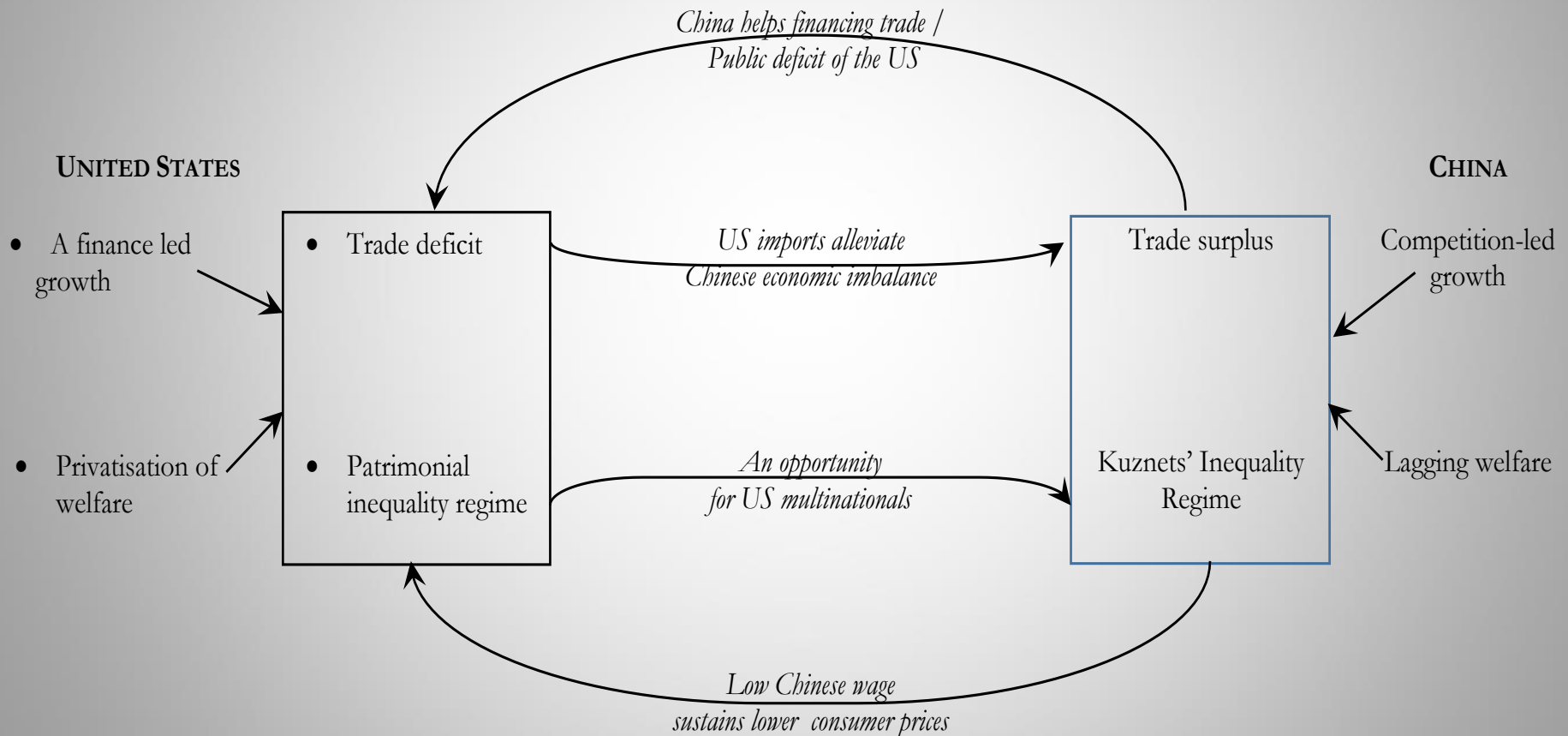
Note: David Moss prepared this chart with the assistance of Gerni Christensen and Arthur Kimball Stanley and is deeply indebted to Mitchell Weiss for his insightful observation about the pattern of inequality.

(c) David A. Moss, 2010

See comments on next page →

7. The Chinese and US inequality regimes are complements

The American patrimonial inequality regime and the Chinese Kuznets' inequality regime are complements



III. EUROPE: RESILIENCE OF AN EXTENDED WELFARE BUT LOSS OF ECONOMIC DYNAMISM

:

1. Welfare as a component of social capital, enhancing innovation and growth

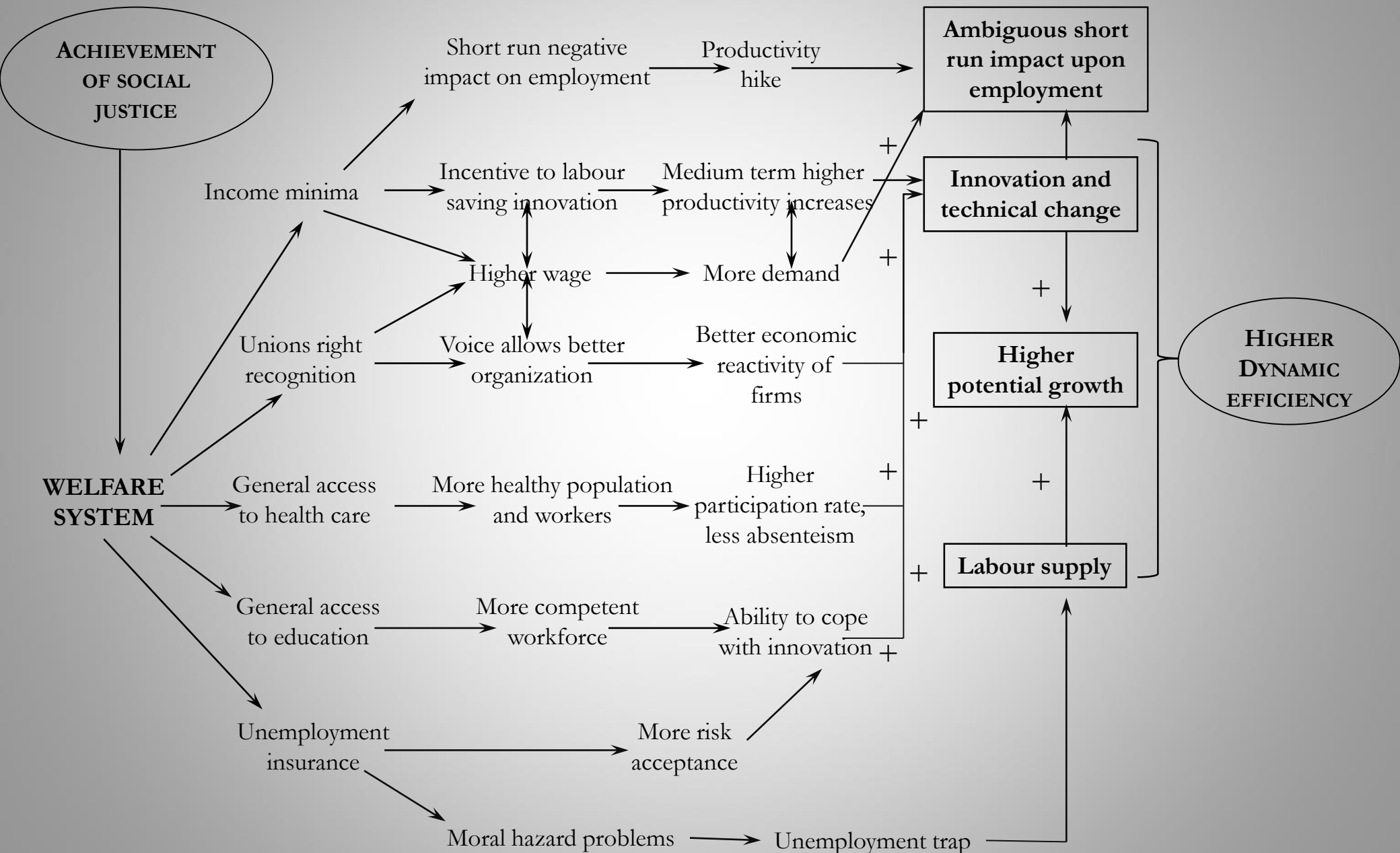
✓ *A legacy of the polder model*

VISSER J. and HEMERIJCK A. (1997), '*A Dutch Miracle*' - Job Growth, Welfare Reform and Corporatism in the Netherlands, Amsterdam University Press.

✓ *A powerful analytical tool ...*

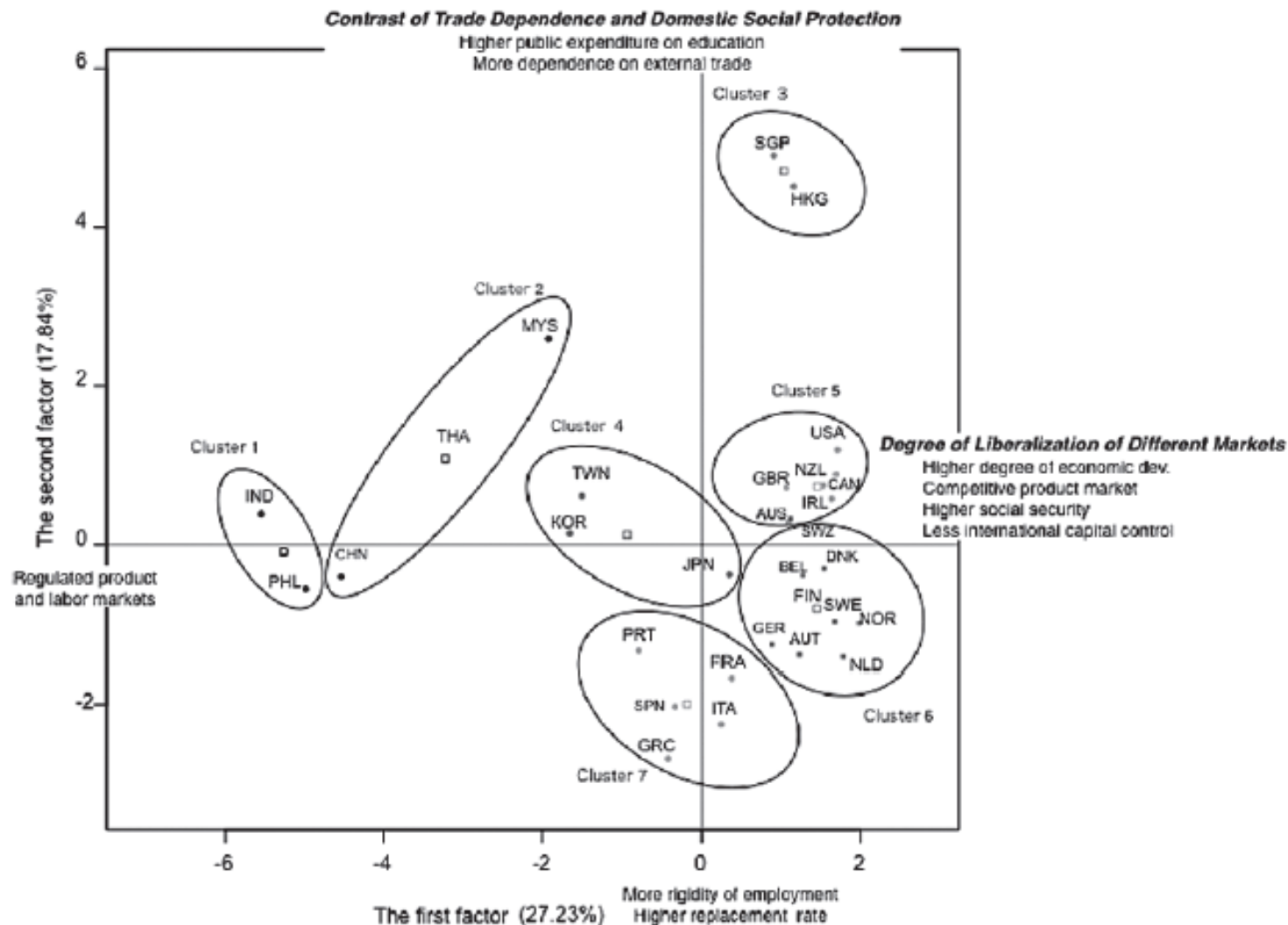
.....Alas that has not diffused within the European Union.

How some welfare systems enhance dynamic efficiency



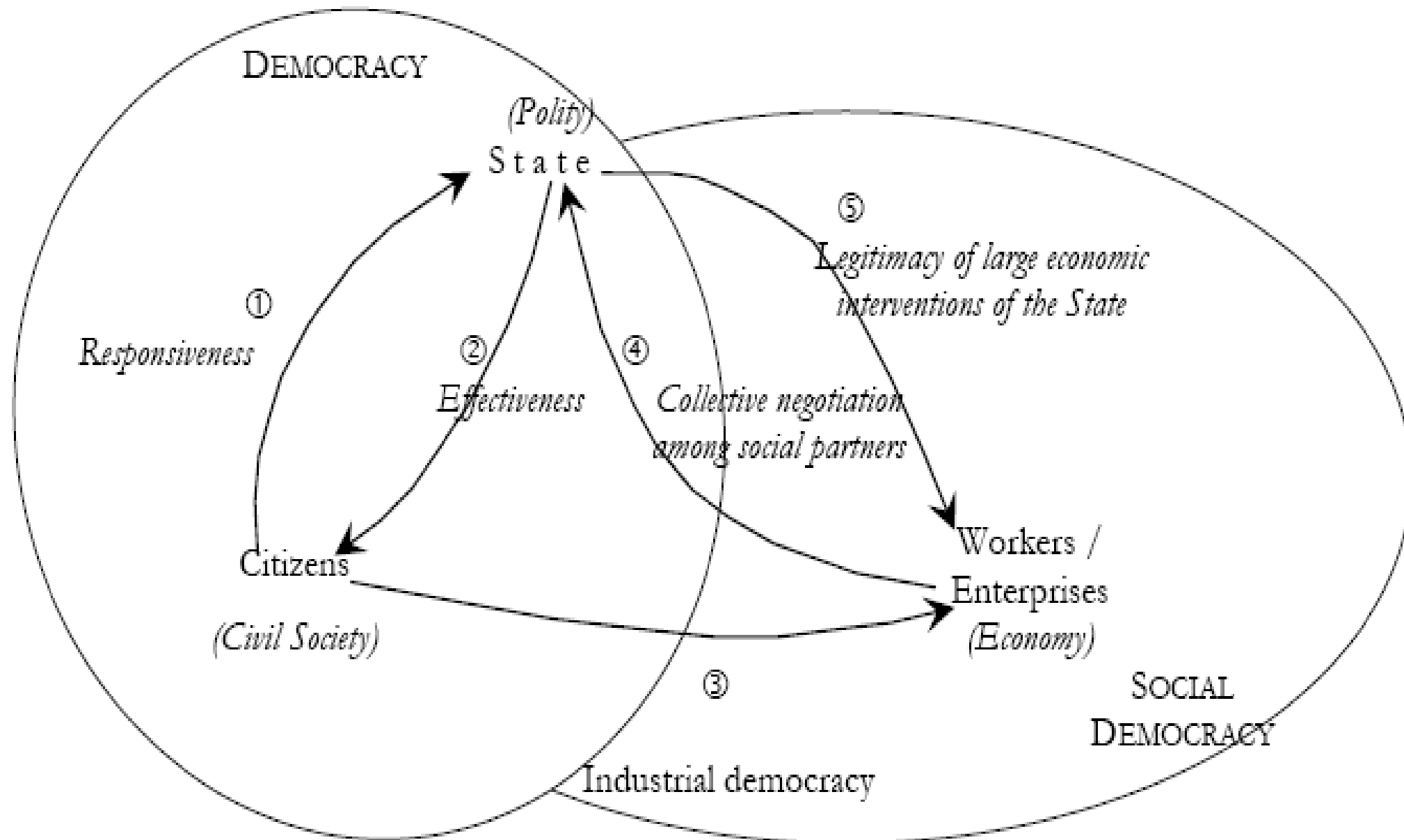
2. Social democratic capitalisms have maintained a better defence of social justice

✓ *A clear distinctiveness of basic institutional forms of Nordic countries*



Source: HARADA Yuji, Hironori TOHYAMA (2012), p. 247

✓ *The synergy between citizens' universal rights and wage-earners search for security*



3. Still limited inequality in some EU countries ...

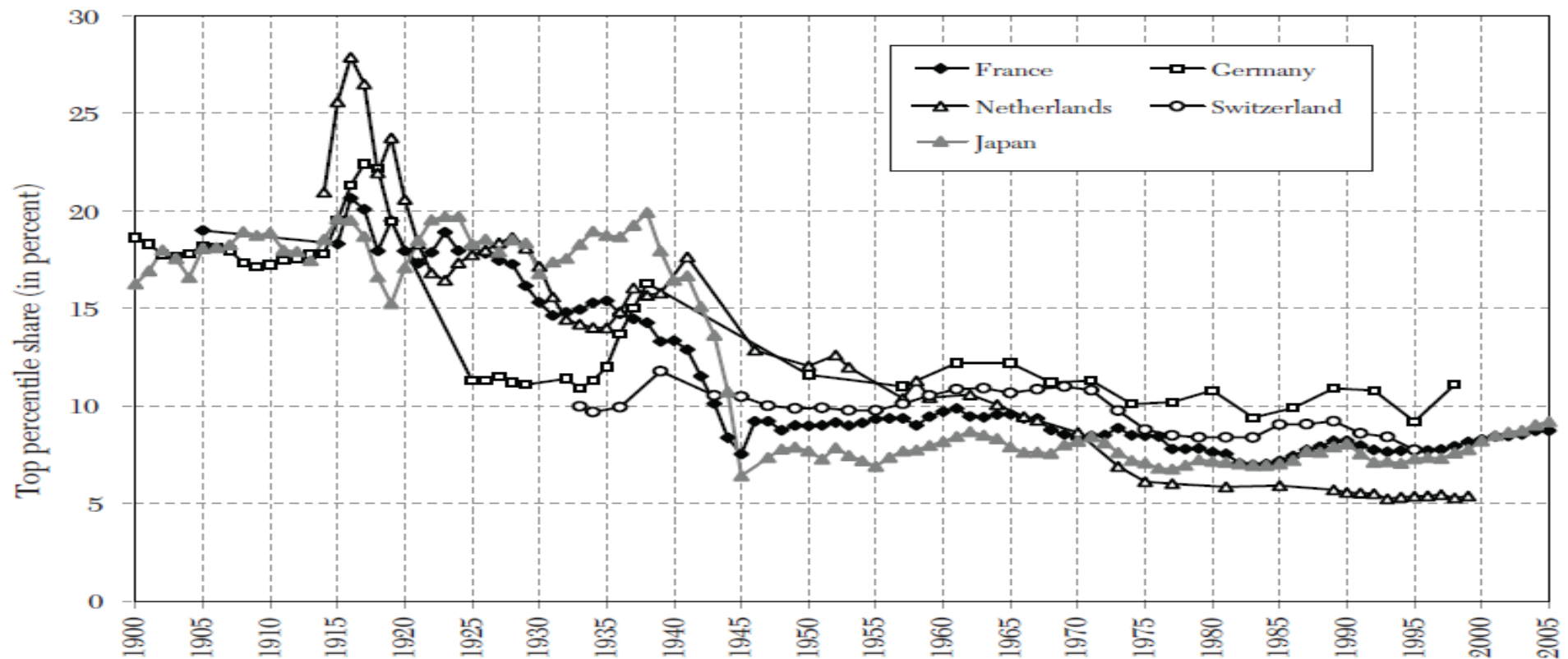


Figure 9. Top 1 Percent Share: Middle Europe and Japan (L-shaped), 1900–2005

Source: Atkinson and Picketty (2007, 2010).

...but explosion of inequality in English speaking countries

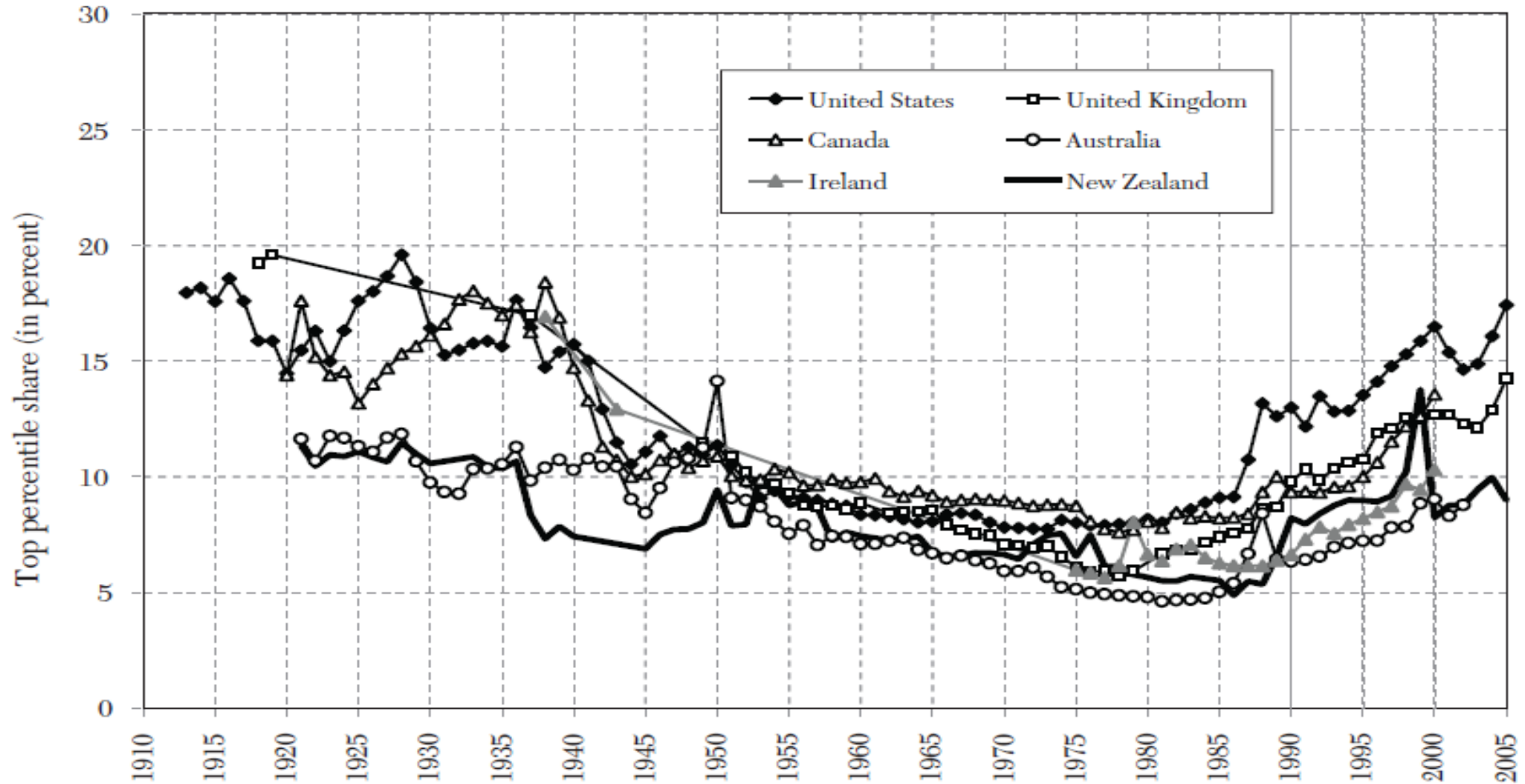


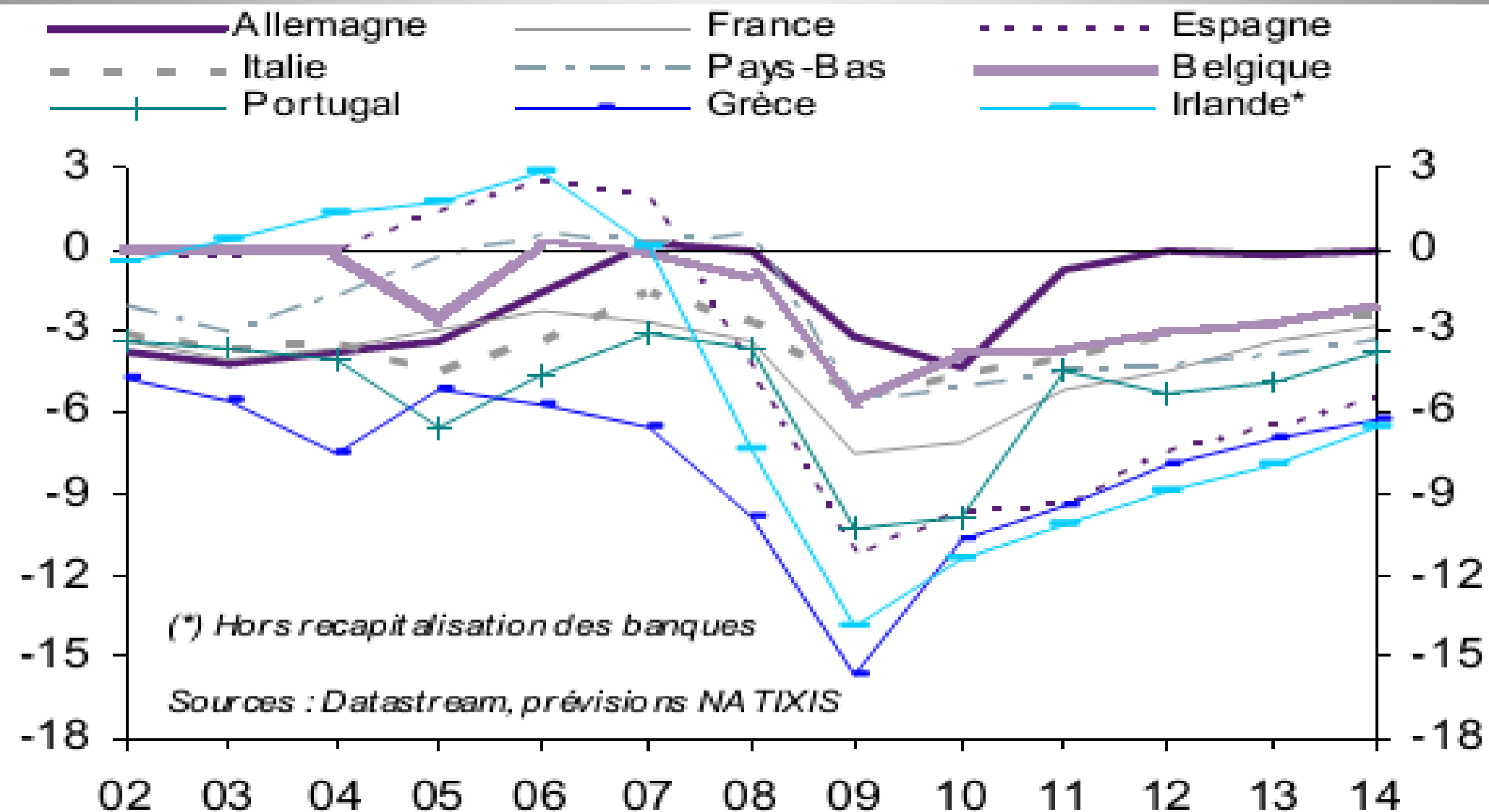
Figure 8. Top 1 Percent Share: English Speaking Countries (U-shaped), 1910–2005

Source: Atkinson and Piketty (2007, 2010).

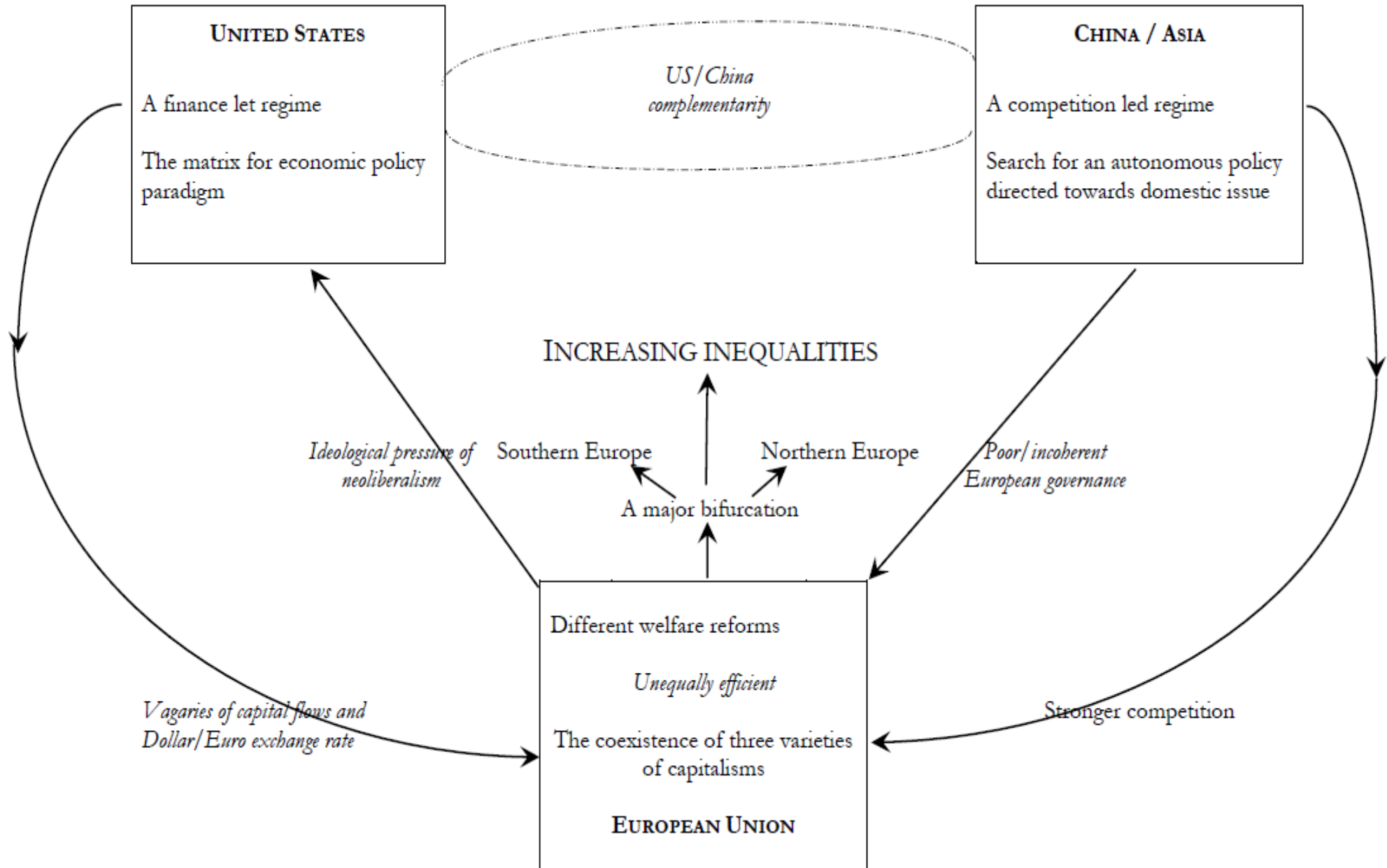
4. Importing Nordic Social Models is an illusion: the failure of the Lisbon strategy

- ✓ *Genuine configurations have to emerge from the interaction of domestic collective actors*
- ✓ *Economic institutions are not the equivalent of technological systems*
- ✓ *How interests, power and ideas interact in the genesis of society wide models*

5. A false attribution to public spending and welfare of the Euro crisis

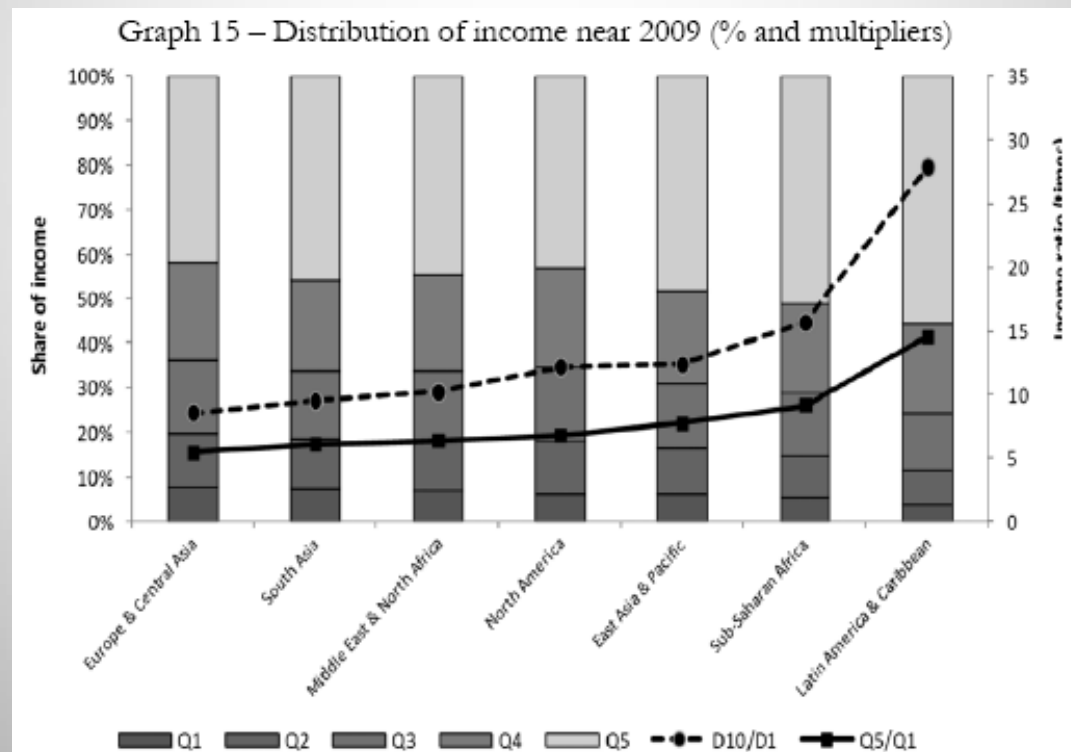


6. Three interdependent inequality regimes



IV. THE LATIN AMERICAN PARADOX: IN SEARCH FOR AN ECLECTIC INTERPRETATION

1. Not so poor continent but the most unequal

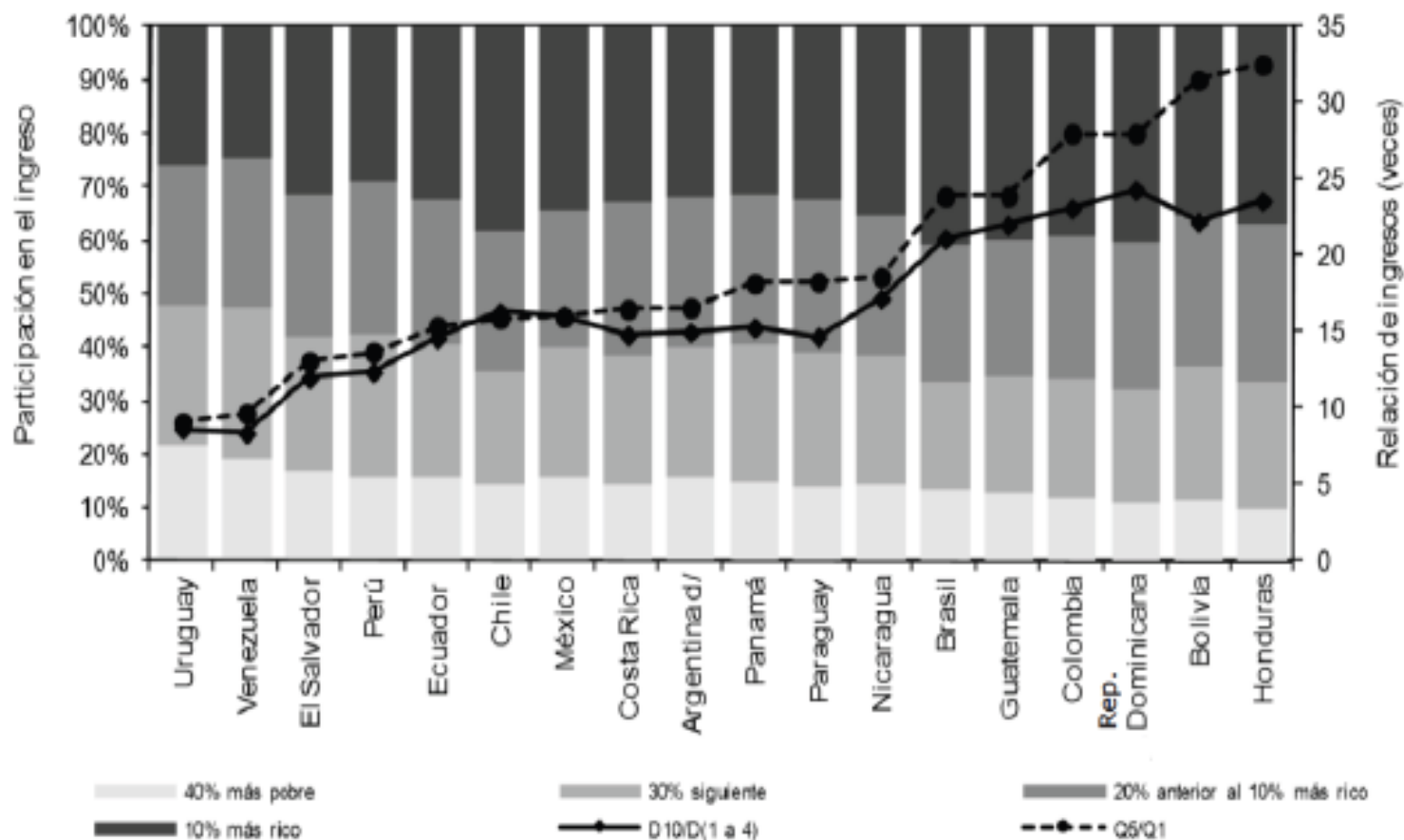


Fuente: "World Development Indicators" (Banco Mundial 2012)

Source: Juan Pablo Jimenez & Isabel Lopez-Azcunaga (2012), p. 5.

2. Large differences among Latin American societies

Graph 16 – A large diversity of income distribution by deciles within Latin America (% and multipliers)

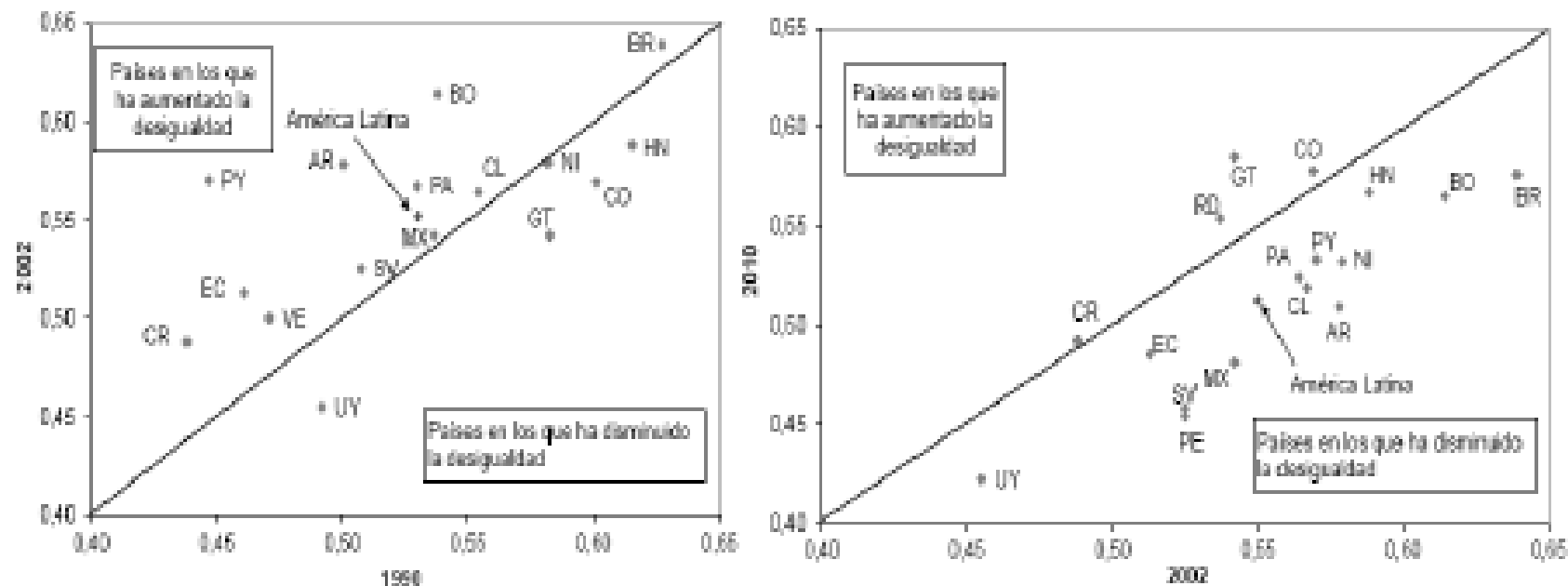


Fuente: "CEPALSTAT" (CEPAL 2012)

Source: Juan Pablo Jimenez & Isabel Lopez-Azcunaga (2012), p. 6.

3. Nevertheless a rather general and significant reduction of inequalities during the last decade

Graph 18 – The evolution of Gini index for 16 Latin American countries, 1990-2010

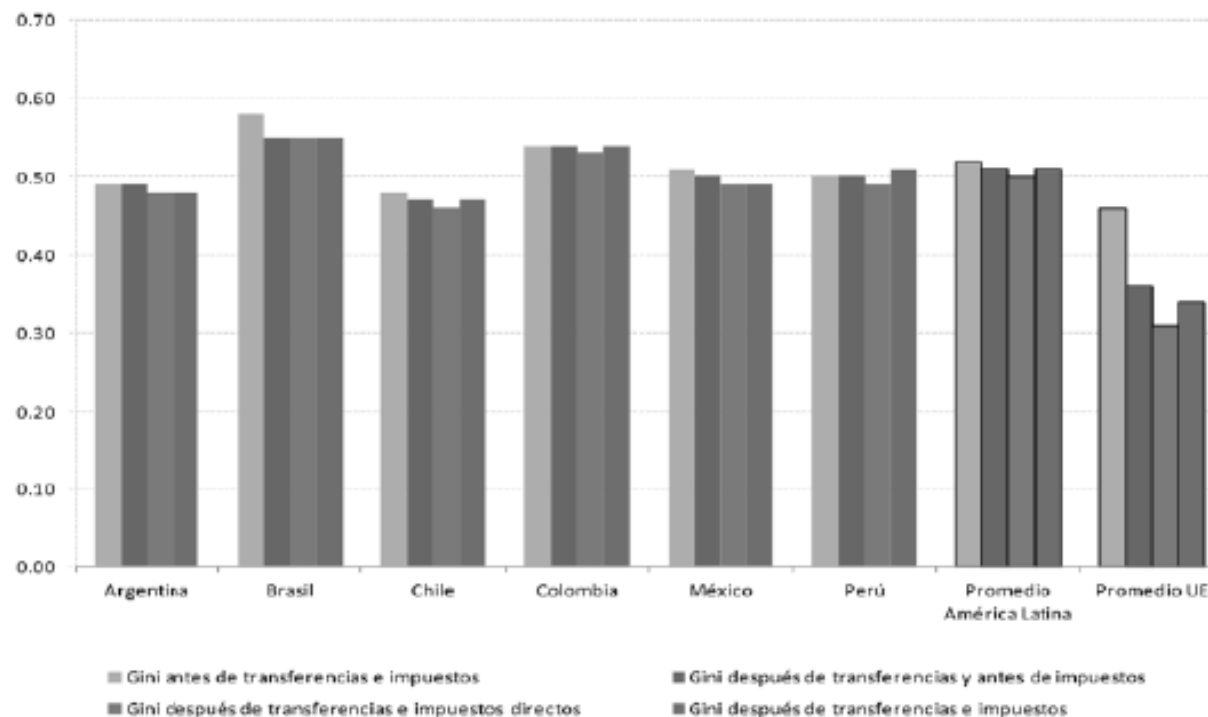


Source: Juan Pablo Jimenez & Isabel Lopez-Azcunaga (2012), p. 3.

4. No single factor but a complex web of economic, social and political processes

✓ *The fiscal and redistributive policies have a minor impact in the reduction of inequality*

Graph 19 – The major differences between Latin America and OECD: The redistributive impact of fiscal policy upon Gini index



Fuente: Goffi, López, y Servén (2011)

✓ *A strong contrast with respect to the European Union and even the US*

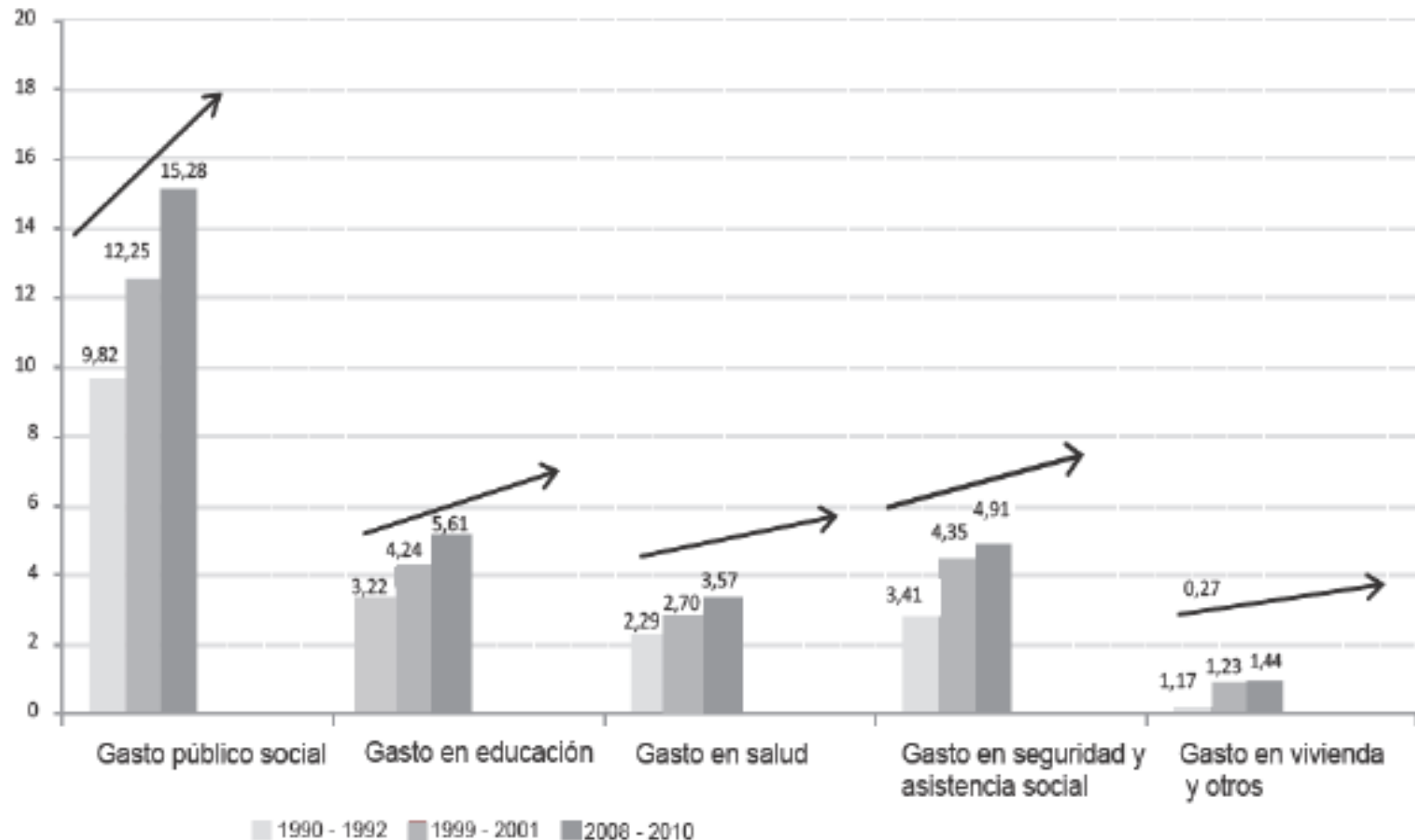
Table 5 – The role of taxation and social transfers upon Gini index: the gap between European Union and Latin America - 2006

Unión Europea (15 países)	0.46	0.31
América Latina (promedio)	0.52	0.50
Reino Unido	0.53	0.35
Irlanda	0.53	0.34
Dinamarca	0.49	0.29
España	0.47	0.35
Austria	0.38	0.27
Estados Unidos	0.47	0.34
Brasil	0.56	0.54
México	0.51	0.49
Chile	0.47	0.46

Source: Carlos Telo (2012), *Sobre la desigualdad en Mexico*, UNAM, Facultad de Economía, p. 279.

✓ *Increasing social expenditures but far less in education and health*

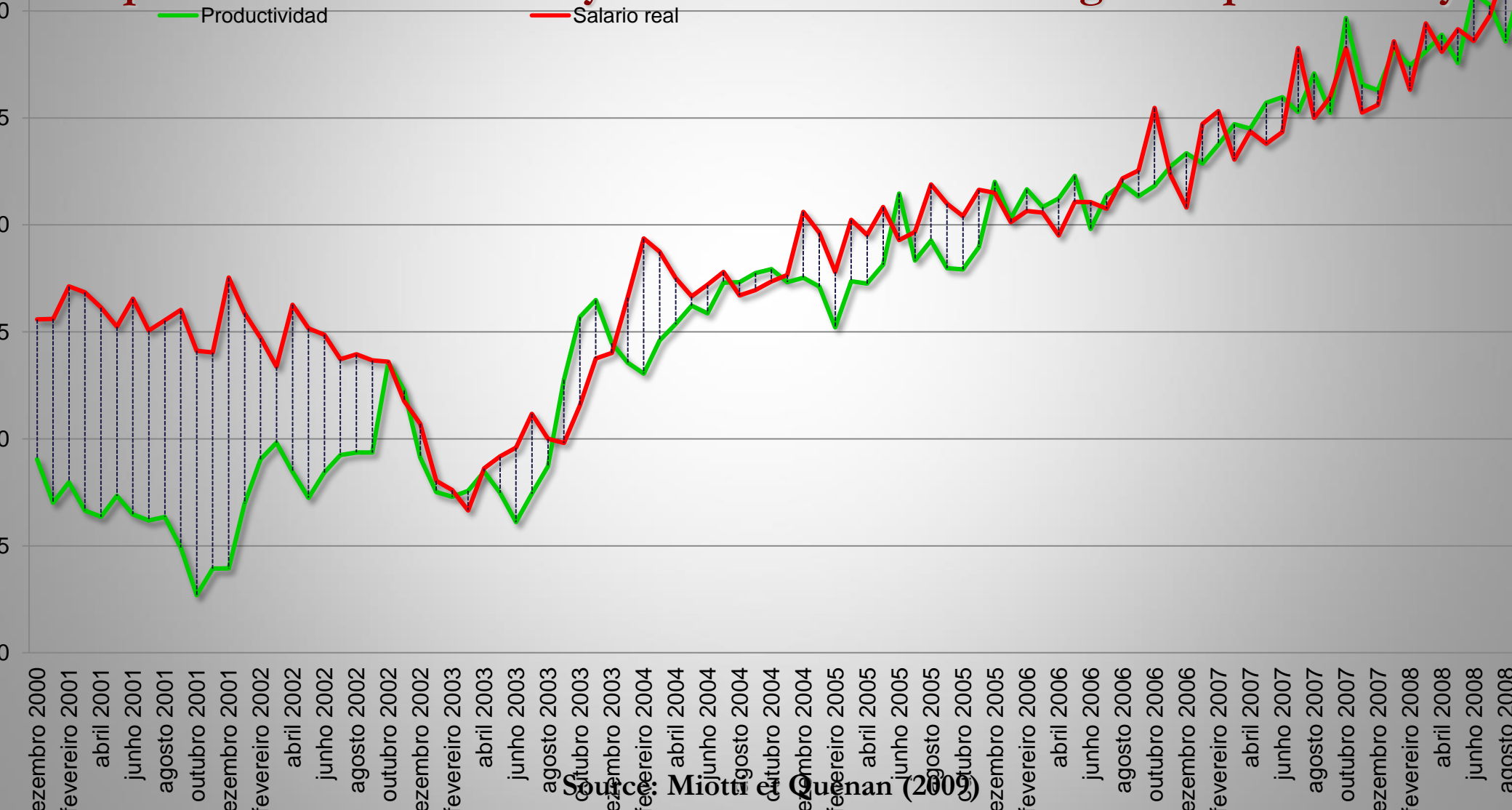
Graph 20 – The evolution of public spending by sectors from 1990-2012 to 2008-2010 (% GDP)
21 Latin America and Caribbean countries



Fuente: "CEPALSTAT" (CEPAL 2012)

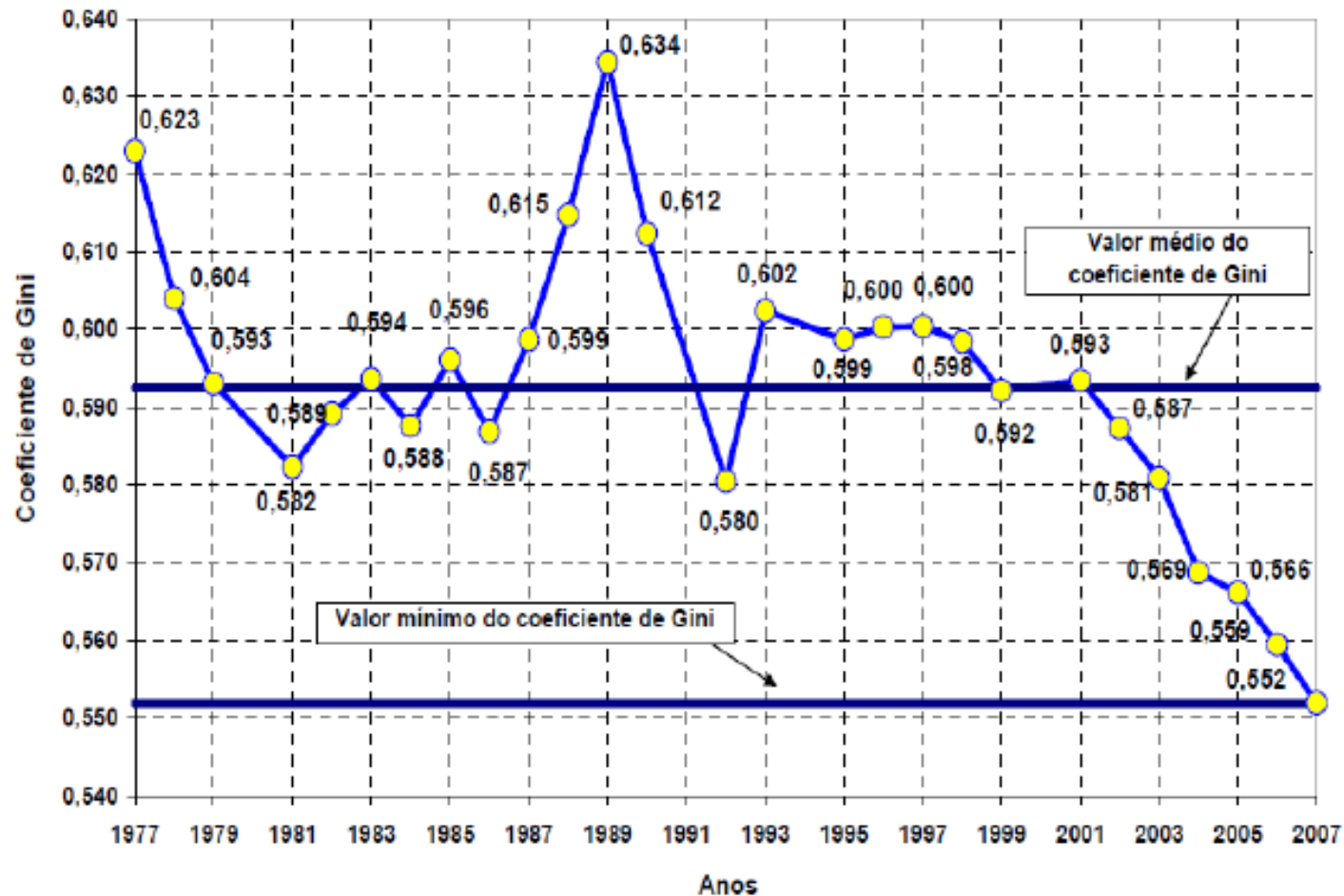
✓ A major change: the indexing of wage upon productivity since 2003 in Brazil

Graph – Since 2003 a new synchronization of real wage and productivity



✓ *A significant but still modest reduction in inequalities in Brazil*

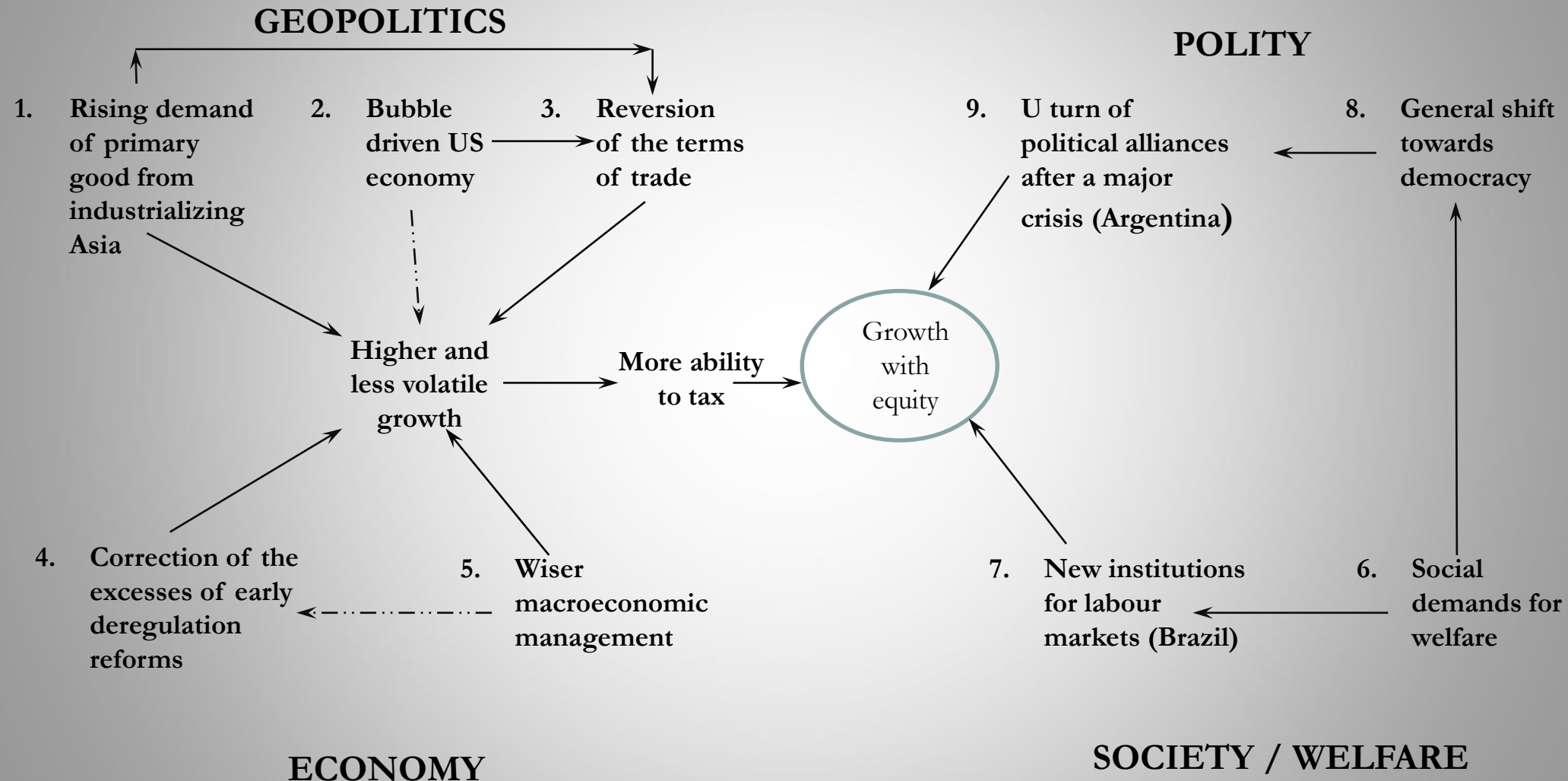
Graph 28 – A significant but still modest improvement in inequality (Gini index)



Fonte: Estimativas produzidas com base na Pesquisa Nacional por Amostra de Domicílios (PNAD) de 1977 a 2007.

Source: Renato Boschi (2009), "Estado desarrollista en Brasil: Crisis, continuidad, incertidumbres", IUPERJ

✓ All these factors have been mixed into a complex set of interacting processes



Source: Freely inspired among others by Juan Pablo Jiménez and Isabel Lopez Azcunaga (2012); Luis Miotti, Carlos Quenan, Edgardo Torija Zane (2012)



ACIONES UNIDAS

E P A L

CAMBIO ESTRUCTURAL PARA LA IGUALDAD

*Una visión integrada
del desarrollo*

V. A WORLD OF CONTRASTED AND INTERDEPENDENT INEQUALITY REGIMES

More than **globalisation**, interdependent sources of inequality at the world level

- ✓ *A rather fuzzy concept: domination of multinationals, world value chains
Americanisation, emergence of new industrialising countries....?*
- ✓ *Implicitly the hypothesis of an homogenisation and convergence of societies*
- ✓ *An argument in favour of “the same size for all” economic policies.*

LATIN AMERICA

①

Structural heterogeneity
but reduced

②

More democracy, more
response to social demand

③

More taxes, learning from
past crises

④

Dynamism of exports of
primary resource

A mild but significant
reduction of inequalities

UNITED STATES

Opening to foreign
competition

①

Split in the workers
/ Managers alliance

Delocalization of
mass production

②

Weaker bargaining
power of blue collar
workers

New productive
paradigm

③

Employment, discrimination
by schooling / Social
groups

Financialisation

④

Explosion of capital
remuneration

- Rising
inequalities
- Unbalanced
credit led
regime

*Mutually
reinforcing
diverging
trajectories*

- Rising
inequalities
- Competitive
pressures on
the world
- Help to
American
finance

ASIA

①

Destruction of
collective welfare

Marketization

②

Export-led
growth

Foreign Direct
Investment

③

Kuznets phase 1
inequality

Productive
modernization

④

Blocking of
social demands

Centralisation /
Monopoly of power

The crisis puts at risk
European welfares

Financial limits to welfare

Competitive pressures

Slower growth

Less tax basis

Large increases of top income

Single Market

Lag in new
productive paradigm

Outflow of FDI

De facto financialisation

①

②

③

④

EUROPE

**VI. CONCLUSION:
A WATERSHED IN THE
TRAJECTORIES OF
INEQUALITY?**

C1 – Ideas of academia have been used to sustain the **ideologies** and strategies of **dominant economic actors**. The demise of the Beveridge and Keynes legacy has entitled a return to **neoclassical theory** and not at all the diffusion of welfare as **social capital**: the vision of a **contradiction** between economic efficiency and social justice has triumphed

C2 – The contemporary capitalisms are simultaneously confirming the **Kuznets curve** (China and other emerging economies) and introducing new sources of inequality, especially linked to **financialisation** and Latin America still add many **other structural sources of inequality**.

C3 – For *régulation* approaches, the link between inequality and growth varies *in time and space*.. *Some* institutional configurations do sustain both growth and equity, but they have their own sources of *self-destabilisation*.

C4 – More than a **globalisation** of inequality, the contemporary world exhibit the **interdependence** and possible complementarity of **different regimes** generating contrasted sources of inequality (US, China, Europe, Latin America).

C5 – Social scientists of various disciplines have recently converged towards **a common interpretation** of contemporary inequalities. The **concentration of economic power** upon quite imperfect markets and the **lobbying capacity** of a restricted elite to design the rules of the game for their exclusive benefits are the two main forces operating in industrialized countries, especially in the **US and UK**.

**Thanks for your attention
and patience**

Robert BOYER

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<http://www.jourdan.ens.fr/~boyer/>