

# Sustainable growth and the distribution of income

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*Paradiso Workshop, Brussels, 12 June 2008*

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# Globalization?

- I will focus on the U.S. economy first:
  - because of its relevance in the world economy, and
  - because other countries (e.g. Italy) tend to adopt U.S. policies, with a lag



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## Real GDP quarterly growth rates (4q mov.av.)

Source: B.E.A.



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# Sources of growth

- When explaining growth, most economists focus on potential output
- But growth in potential output must be matched by growth in demand, which in turn has to be financed somehow

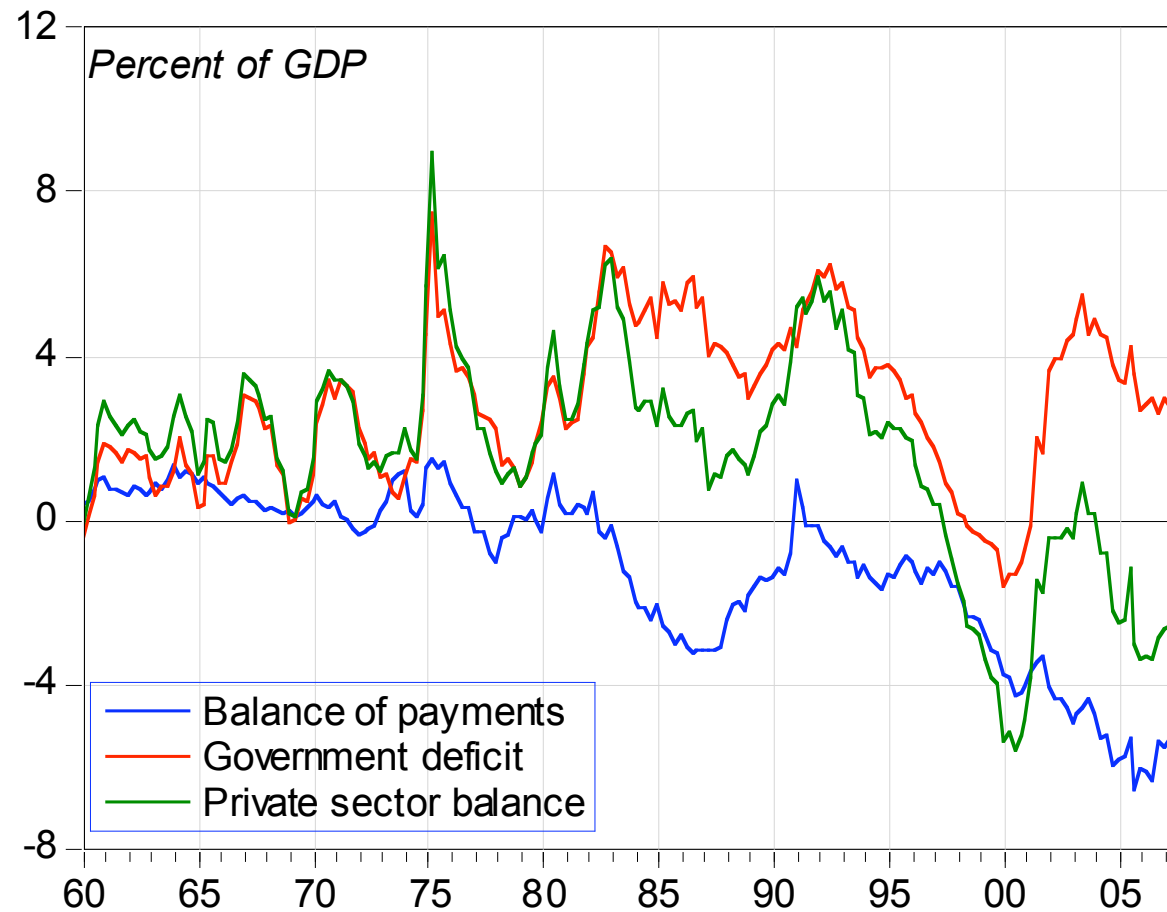


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# U.S. Main Sector Balances



Source: B.E.A.



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# Imbalances

- The U.S. economy has a large and growing deficit in its balance of payments
- The U.S. private sector has turned into a net borrower
- I believe the two patterns to be related (while others attribute the U.S. BoP deficit to disequilibria or policies in East Asia)



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# A changing pattern for the private sector

- In the last 15+ years, the decrease in private sector saving has fuelled growth
- This in turns suggests an increase in private sector borrowing and debt

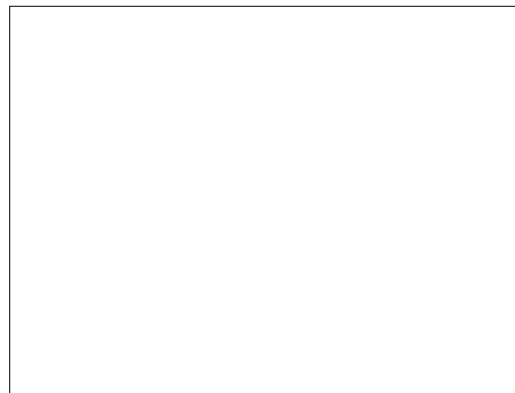
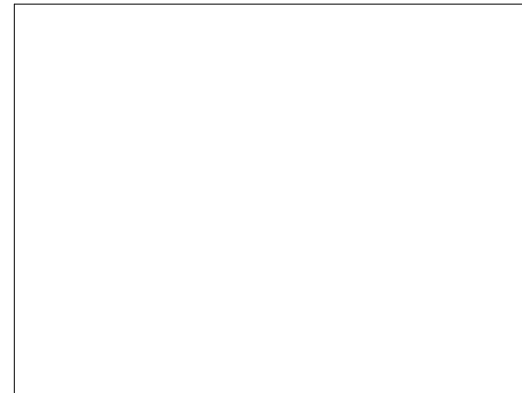
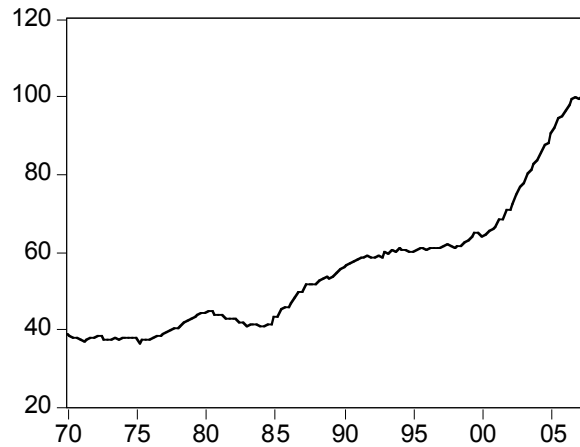


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# Borrowing and interest rates



**Par**

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# Patterns in income distribution

- The personal distribution of income in the U.S. has been shifting in favor of the richest quintile
- Meanwhile, the aggregate household propensity to save out of income has decreased
- Household borrowing has increased, relative to income



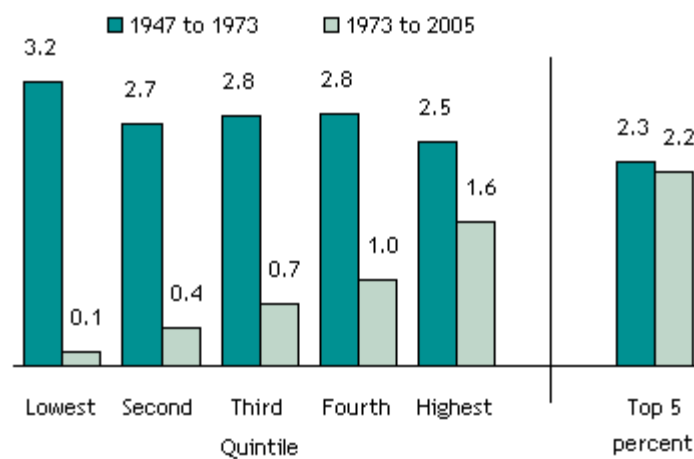
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# U.S. Real Income Growth

## Annual Growth Rate of Real Income Across the Family Income Distribution: 1947 to 1973 versus 1973 to 2005 (%)



Source: U.S. Census Bureau (from the PewResearch Center web site)



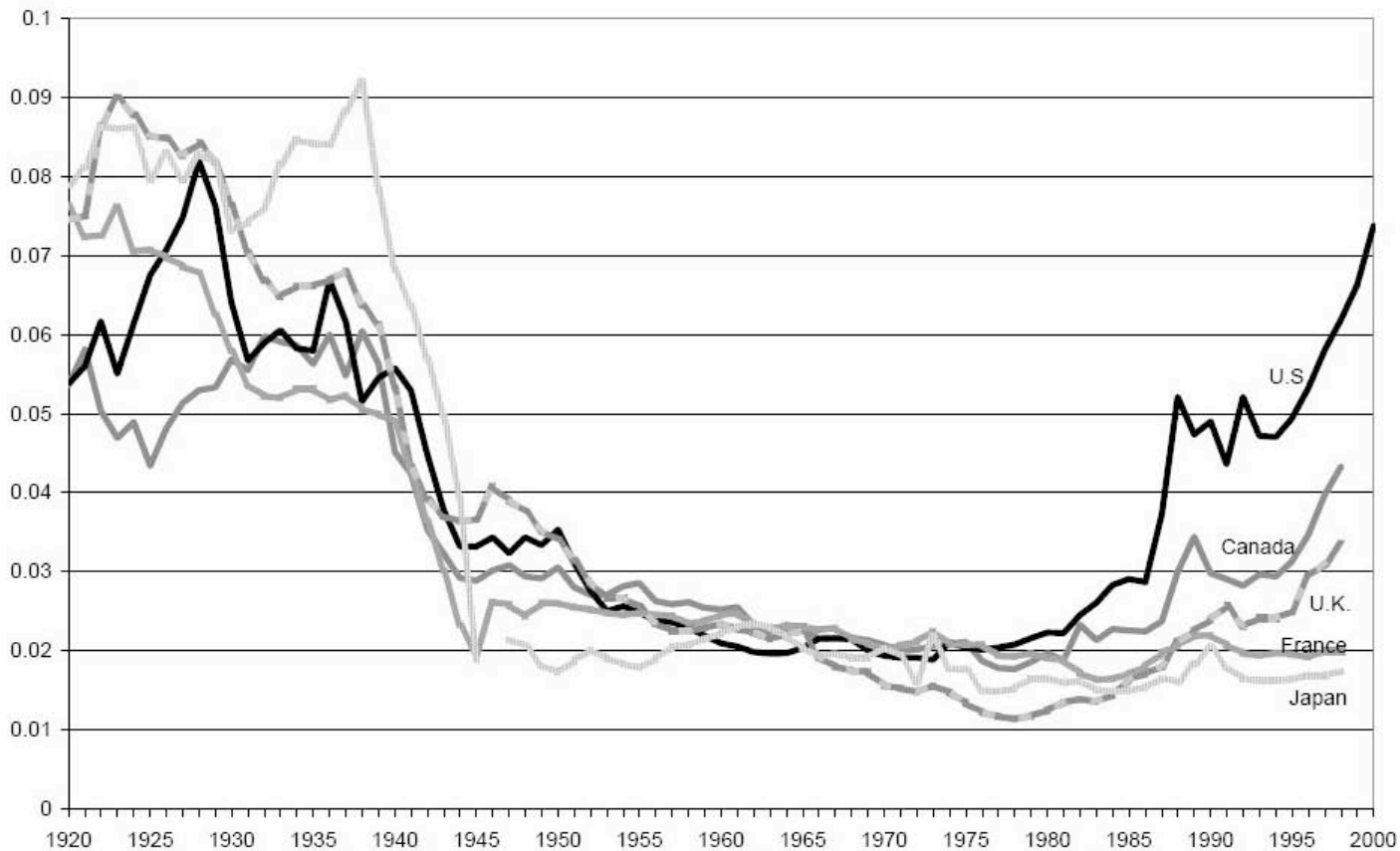
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# ...not limited to the U.S.

Figure 6. Share of top 1 percent in Total Income (Labor, Business, and Capital Income, excluding Capital Gains), for U. S., U. K., Canada, France, and Japan, 1920-2000



Source: Piketty – Saez, in R.J. Gordon – I. Dew-Becker (2007)



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# A recent survey found...

R.J. Gordon – I. Dew-Becker (2007) summarize recent findings:

- The share of labor income has not changed dramatically
- Shifts in the distribution have different origins at the bottom (0-90) and at the top (91-100)
- For the bottom quintiles, explanations differ by gender:
  - Decline in unionization (*mostly men*)
  - Decline in real minimum wage (*mostly women*)
  - Trade (*small effect*)
  - Immigration (*small effect*)
- For the upper 10%, Skill Biased Technical Change (SBTC) seems to explain increased skewness
  - Superstars; lawyers etc.
  - CEOs increased income follows a different pattern

Consumption inequality? Evidence is mixed (data problems)



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## A recent comment...

“...for years middle and lower-income americans found ways to live beyond their paychecks (...) The first way was to send more women into paid work (...) the second way: they worked more hours (...) the third way: they began to borrow” Rober B. Reich, *Totally Spent*, New York Times, 13 Feb 2008



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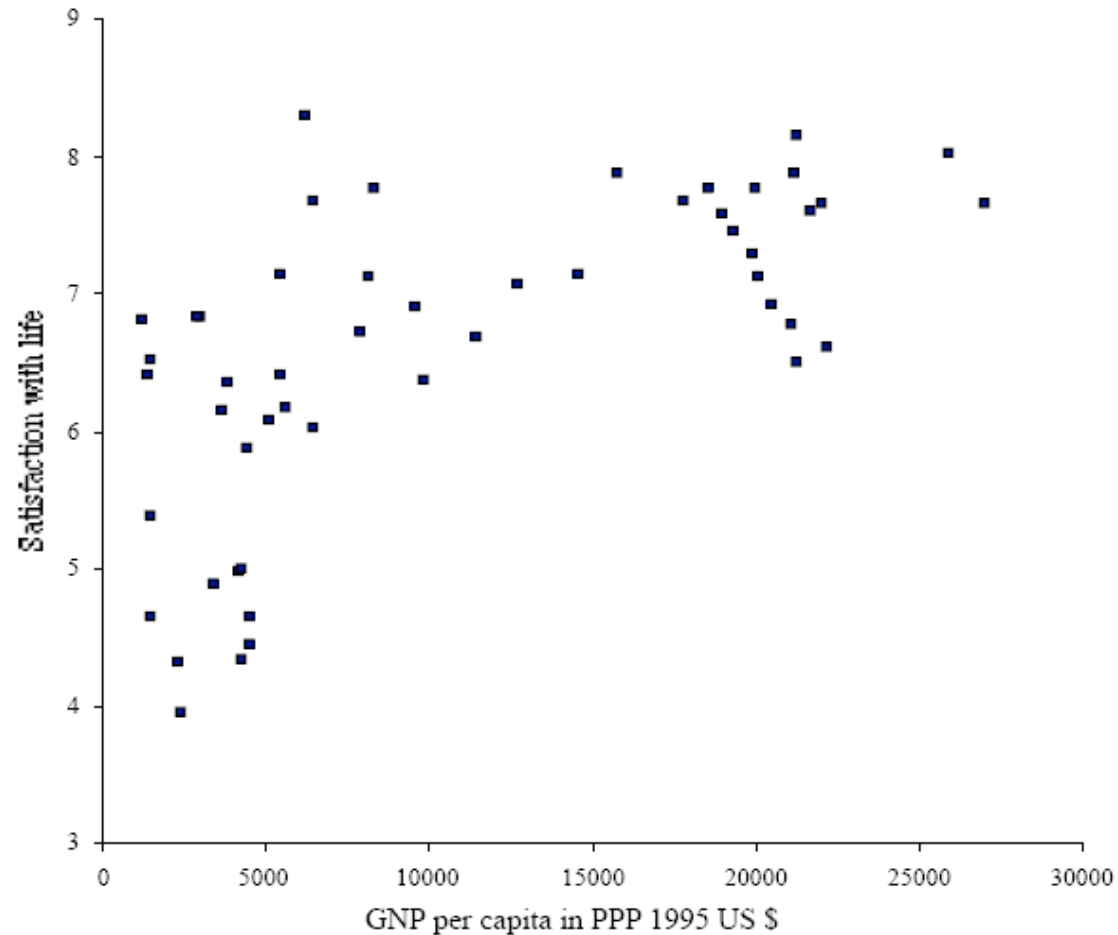
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# The happiness paradox

LIFE SATISFACTION AND INCOME LEVELS ACROSS THE WORLD IN THE 1990s

Sources: World Values Survey 1990-1993/1995-1997 (ICPSR 2790) and World Development



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# Conclusions (1)

Shifts in the distribution of income towards the richest, when (if?) translated into an increase in the desired standard of living for the population as a whole, are entirely consistent with a fall in the propensity to save and faster growth, financed by borrowing.



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## Conclusions (2)

This also implies that, if relative consumption matters, a shift in the distribution of income towards more inequality will imply an unbalanced growth path, which is part of the explanation of the recent financial crisis.



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## Conclusions (3)

- The increase in inequality, with its consequences for an unbalanced growth path, may be at the hearth of the “paradox of happiness”



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# Conclusions (4)

- The Euro area is not willing to rely on fiscal policy
- An unequal growth in real income in Europe will thus generate an increase in private sector debt, resulting in unbalanced growth



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# Conclusions (5)

- New measures of well-being are needed:
  - When the distribution of income is shifting, real GDP growth may be misleading, etc.
  - See Shaikh – Ragab (2008) “The Vast Majority Income: A New Measure of Global Inequality”, International Poverty Centre, UNDP



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## Conclusions (6)

- Measures which goes beyond real GDP (and income distribution) are also helpful. See LIMEW (Levy Institute Measure of Economic Well-being)
- Problem: a single measure, or a variety of indicators?
  - In both cases we need to assess the weights for each factor determining “progress”



# Linking indexes together

E. Nell, F. Mayor and K. Errouaki, *Humanizing Globalization*, forthcoming

## **The transformational growth matrix:**

- Economy (ECON)
- Environment (ENV)
- Social issues (SOC) e.g. health, education, ...
- Political issues (POL) e.g. social infrastructures, effective and democratic government, ...
- Demographics (DEM)
- Other issues? (happyness, religion, ...)



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# The transformational growth matrix

	EC	ENV	SOC	POL	DEM	OTH
EC		+	+	+	-	
ENV	+/-		+	+	-	
SOC	+/-			+	-	
POL	+	+	+		-	
DEM	+	+/-	-	?		
OTH						



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# The Internet

## Role of the Internet:

- Widen the gap between “rich” and “poor”, or
- Move towards an inclusive society

The former effect seems to prevail so far (e.g. agricultural production in developing countries)



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# Conference in Italy

We are organizing a conference on these topics for Sept. 26-27, 2008

## Well-being

Are we happy with our standard of living?

University of Cassino (Italy)

<http://dipse.unicas.it/wb2008>

Deadline for the Call for papers: July 2008

**Email: [zezza@unicas.it](mailto:zezza@unicas.it)**



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