A Global Macroeconomics of Inequality An empirical analyses with original measures

#### Dallas Federal Reserve/SMU Conference Trade vs. Technology: What's to Blame for Expanding Inequality in the U.S

March 2, 2018

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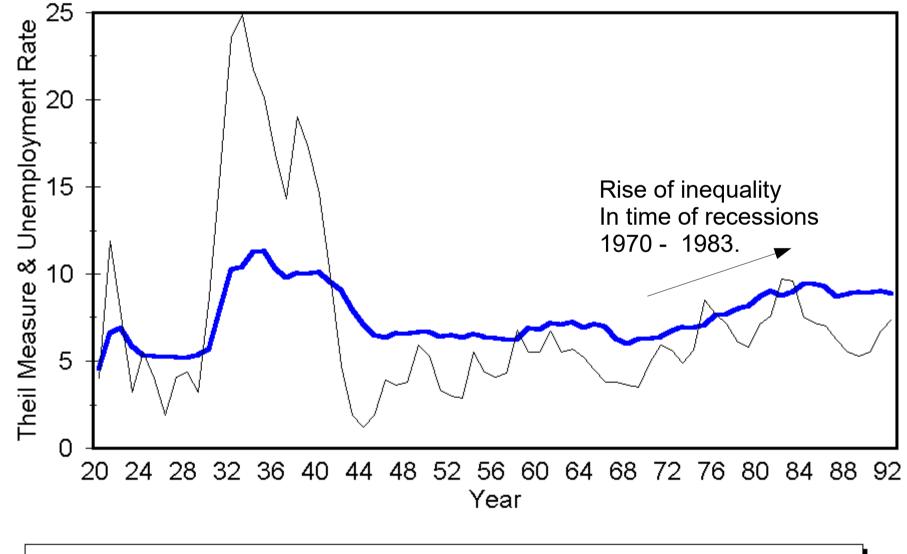
## What We Know (1)

- In *Created Unequal*, in 1998, I showed that rising inequality up to that point could be attributed *neither* to trade nor to technology;
- Instead, *pay inequality* largely tracked *unemployment*, with the largest increase from the early 1970s to the early 1980s.
- After about 1983, *before computerization*, pay inequality stabilized (and in the late 1990s, declined) *even though income inequality continued to rise.*

Figure 4

#### Inequality and Unemployment, 1920-1992

Theil measure scaled \* 1000



Inequality in the Wage Structure — Unemployment Rate

## What We Know (2)

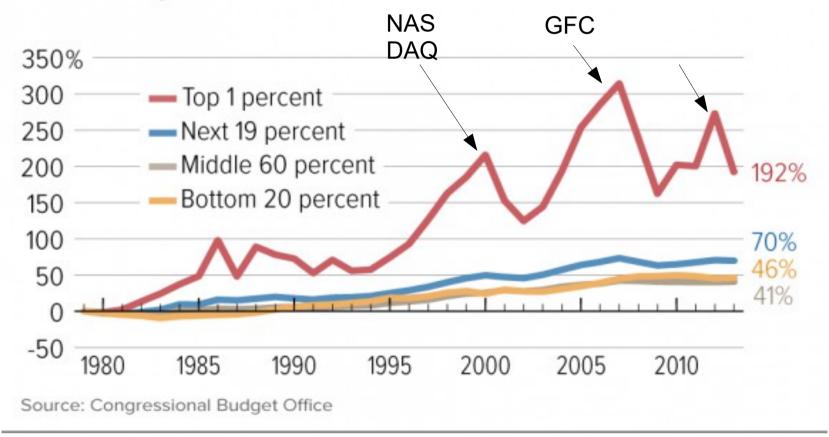
The large rise in inequality in pre-tax incomes is driven by capital markets – by stocks and real estate.

This is because profit income is concentrated, and also because

CEO and other top corporate pay which counts as labor income is in many cases tied to stock performance.

#### Income Gains at the Top Dwarf Those of Lowand Middle-Income Households

Percent change in real after-tax income since 1979



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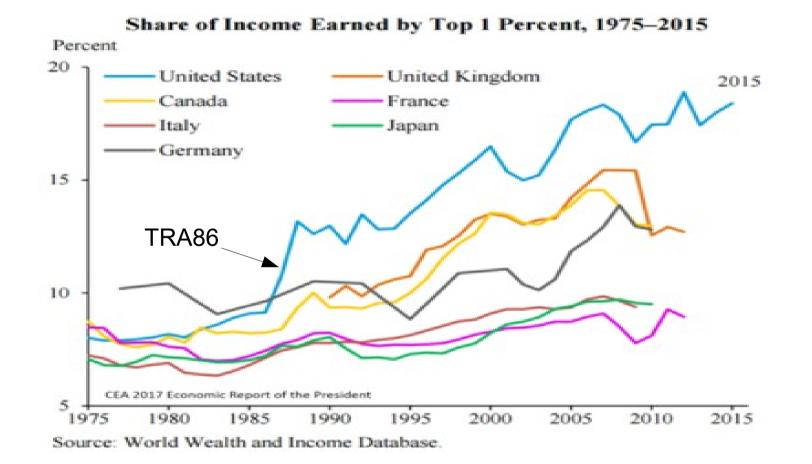
## The US is not Exceptional

Contrary to what many think, the rise in top income share in the US is *not* larger than some other countries.

It appears larger in Piketty's data because he fails to correct for the impact of the Tax Reform Act of 1986 on reported top income.

Nothing happened in 1987 – except that change in tax reporting...

### The Tax Reform Act of 1986 A *clear* data break



## What We Know (3)

Therefore the rise in pre-tax income inequality must be attributed largely to high-end pay and profit income fueled by capital asset bubbles.

Capital asset bubbles have been the driving force behind US economic growth for 40 years.

According, monetary policy makers, you have met the enemy and he is us.

## What we Know (4)

#### But it gets worse.

- Not only is the US policy mix and reliance on bubbles to fuel growth largely responsible for rising income inequality inside the US;
- It is also largely responsible for rising inequality throughout the entire world.
- The mechanism is *the exchange rate;* speculative devaluations transmit inequality around the world.

## **EHII: A Brief Summary**

The EHII data set is a panel of *estimated* Gini coefficients for gross household income, derived from measures of cross-sector industrial pay inequality and other information, especially the share of manufacturing in total output. It is calibrated to standard Gini coefficients by a simple regression analysis. Calculated and published by the University of Texas Inequality Project.

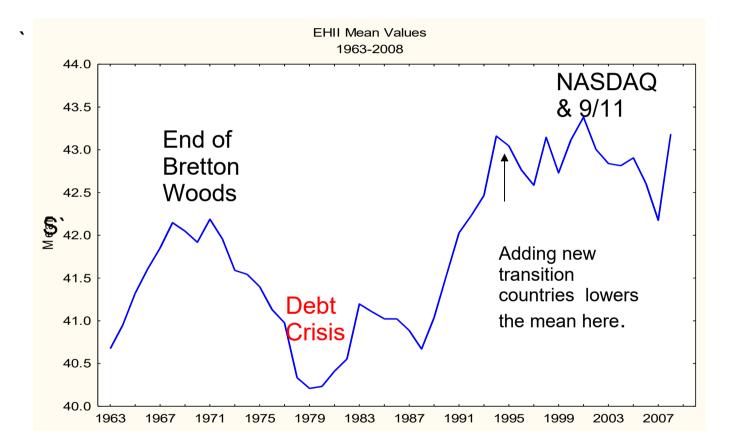
# The EHII panel has 3871 estimates for 149 countries, over the years 1963-2008

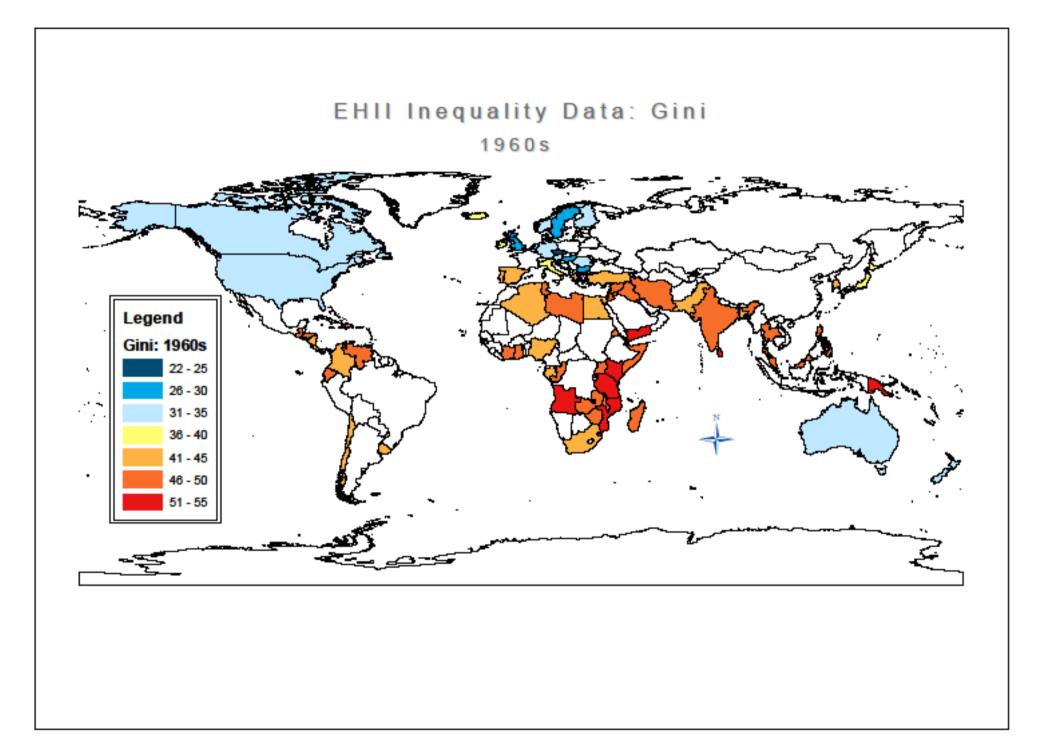
Recently updated to 2011

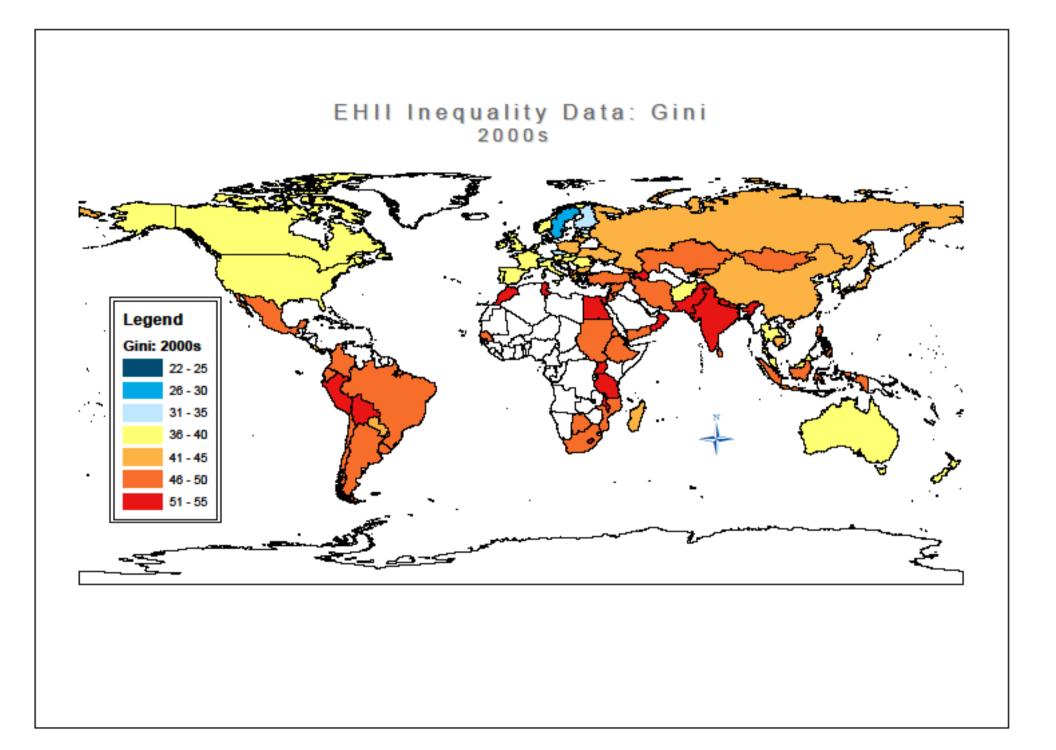
It is the largest consistent inequality data set calculated without interpolation across countries or years

We have shown it is broadly consistent with survey measures of gross household income inequality for many countries in a comparison published by the World Bank. It is highly consistent with the Luxembourg Income Studies, even for controversial cases, such as India. But it has many more observations for many more countries, so it comes close to providing comprehensive global coverage.

### Global Turning Points Match Monetary Upheavals



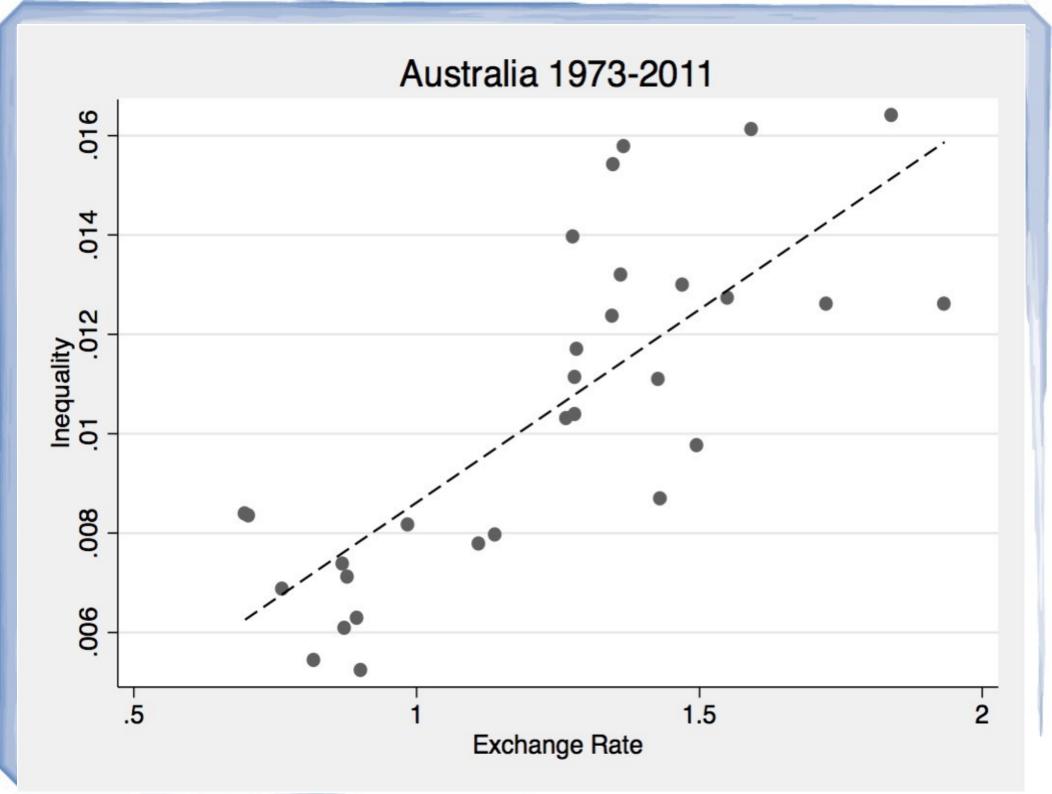


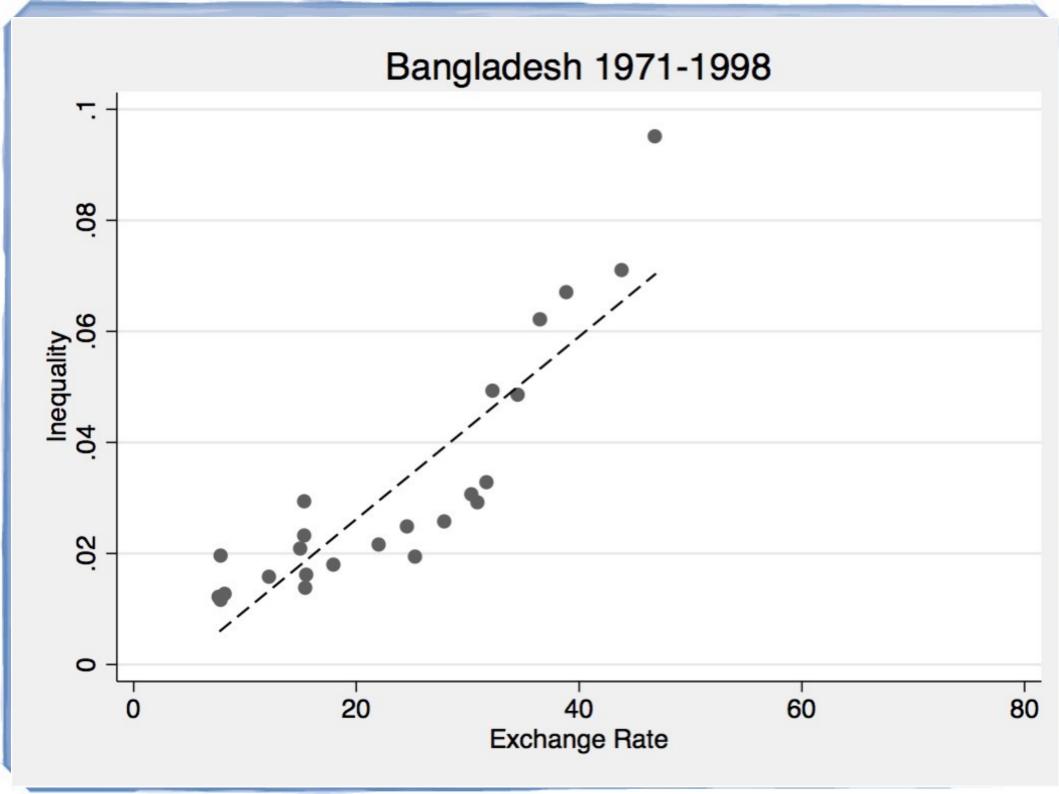


## Pay Inequality and the Exchange Rate

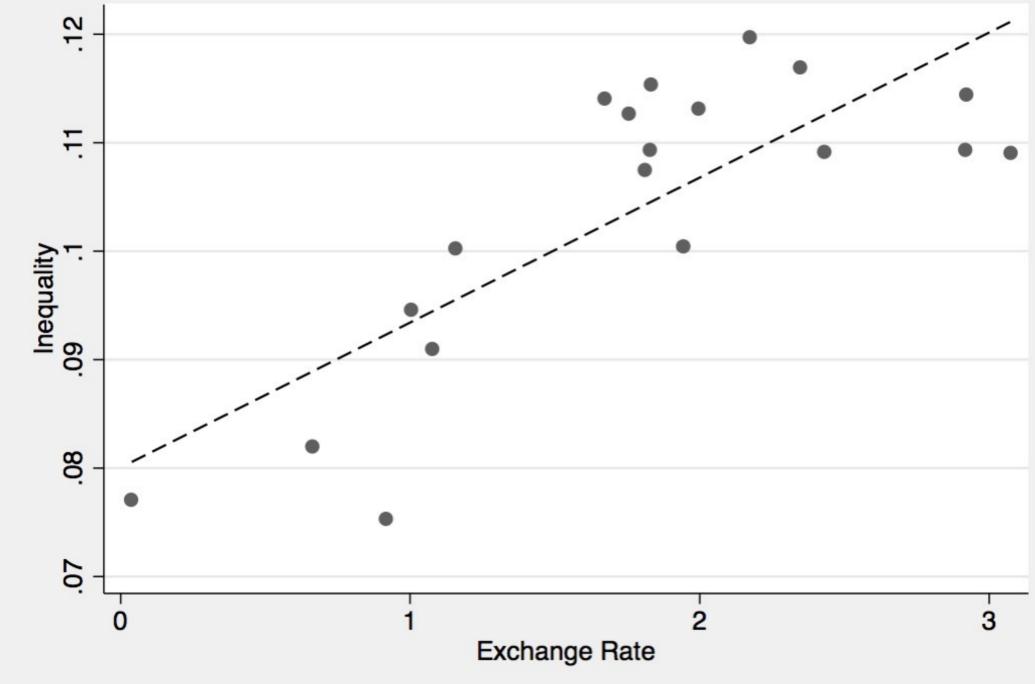
A Neglected Link

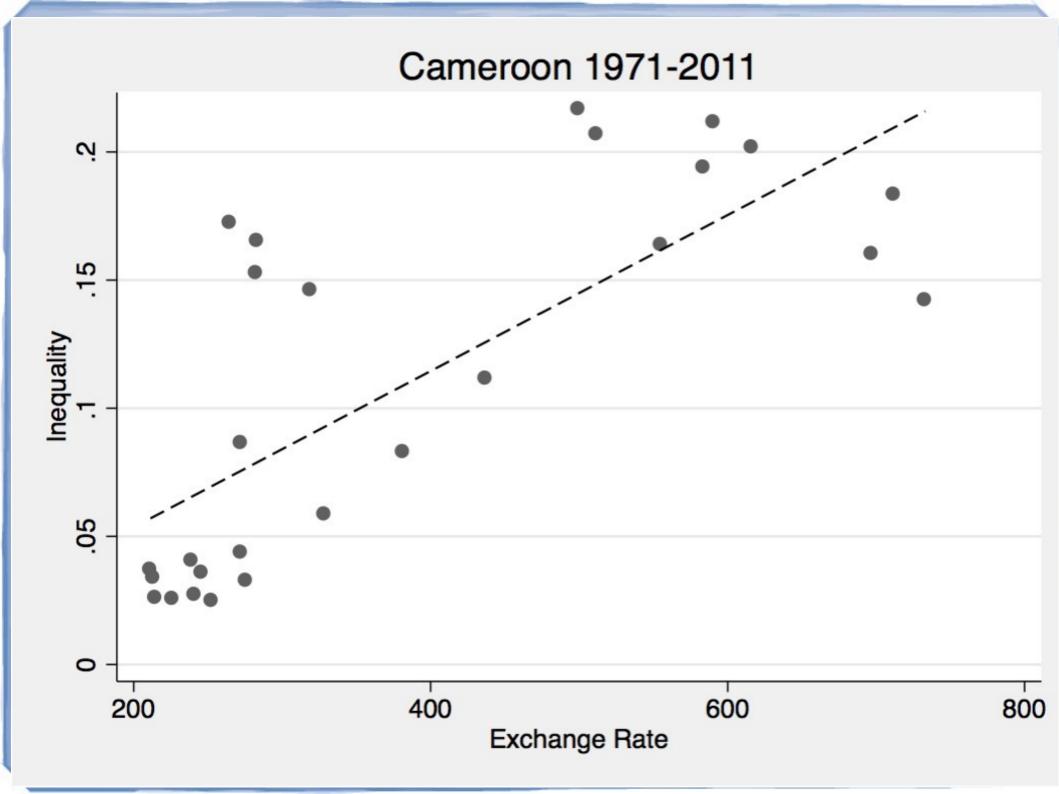
With implications for understanding the direction of causality in the world economy between financial power and inequality

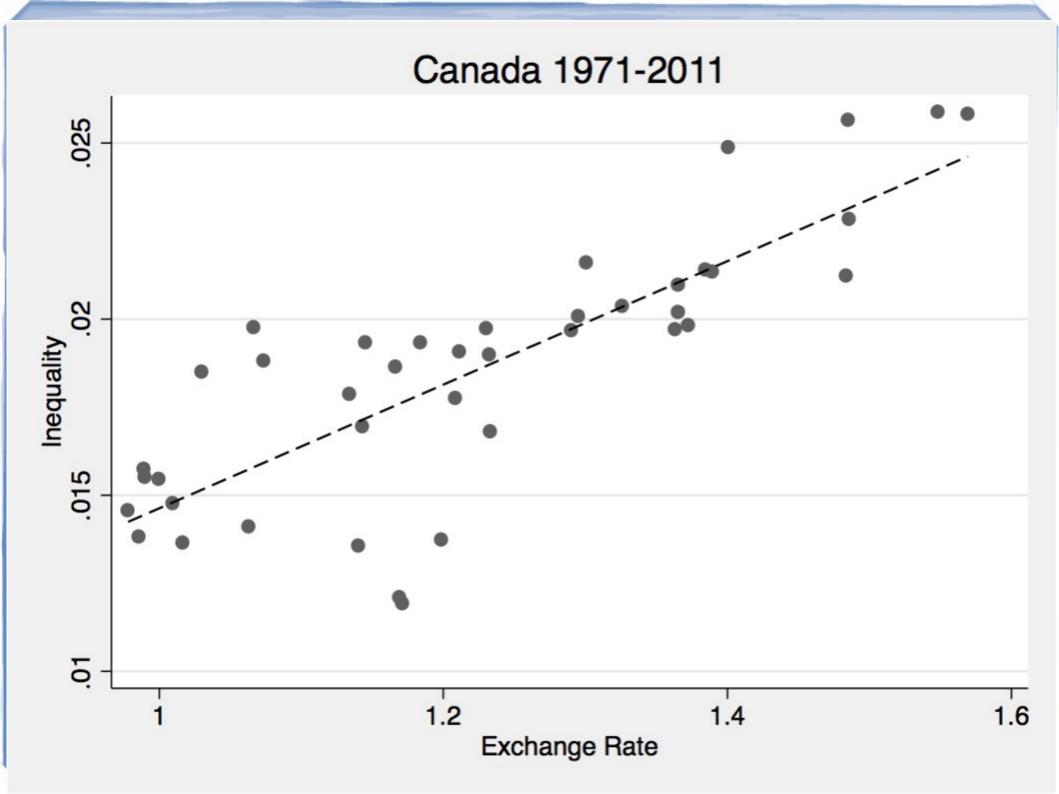


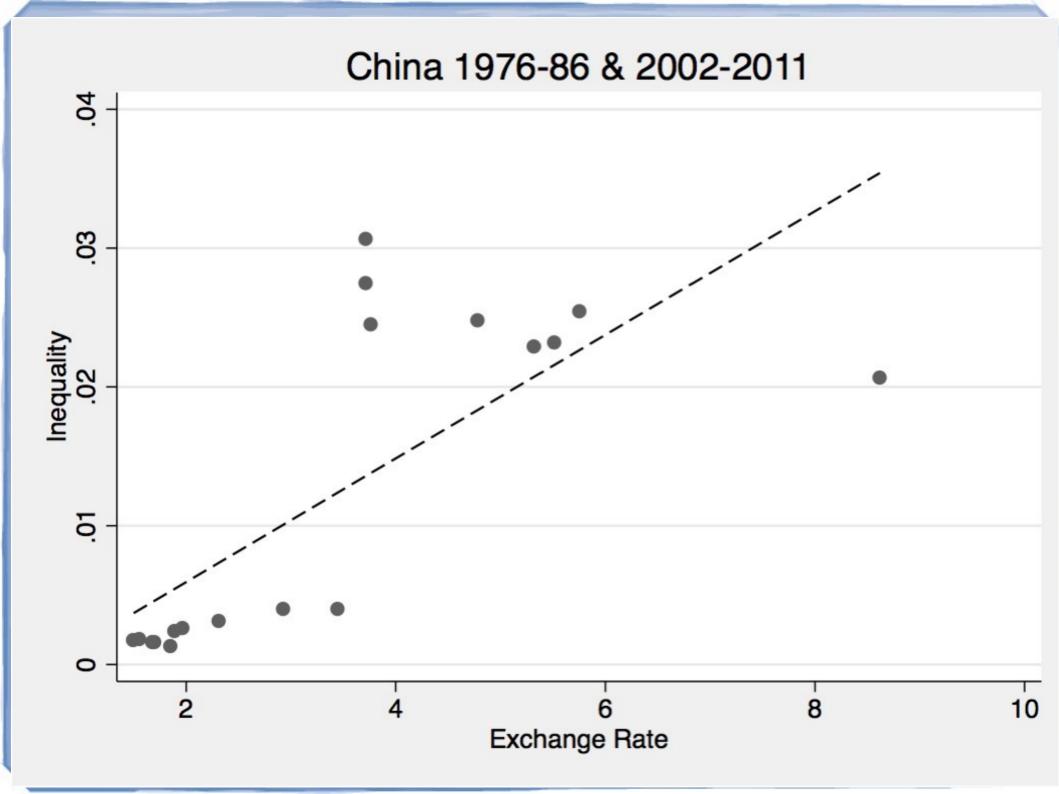


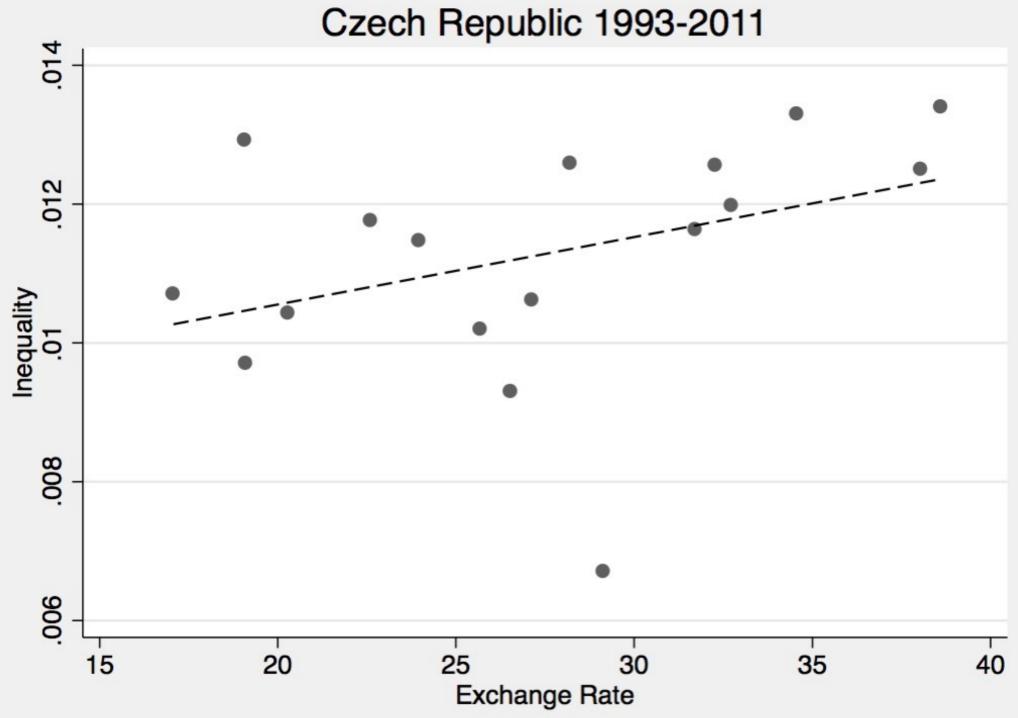


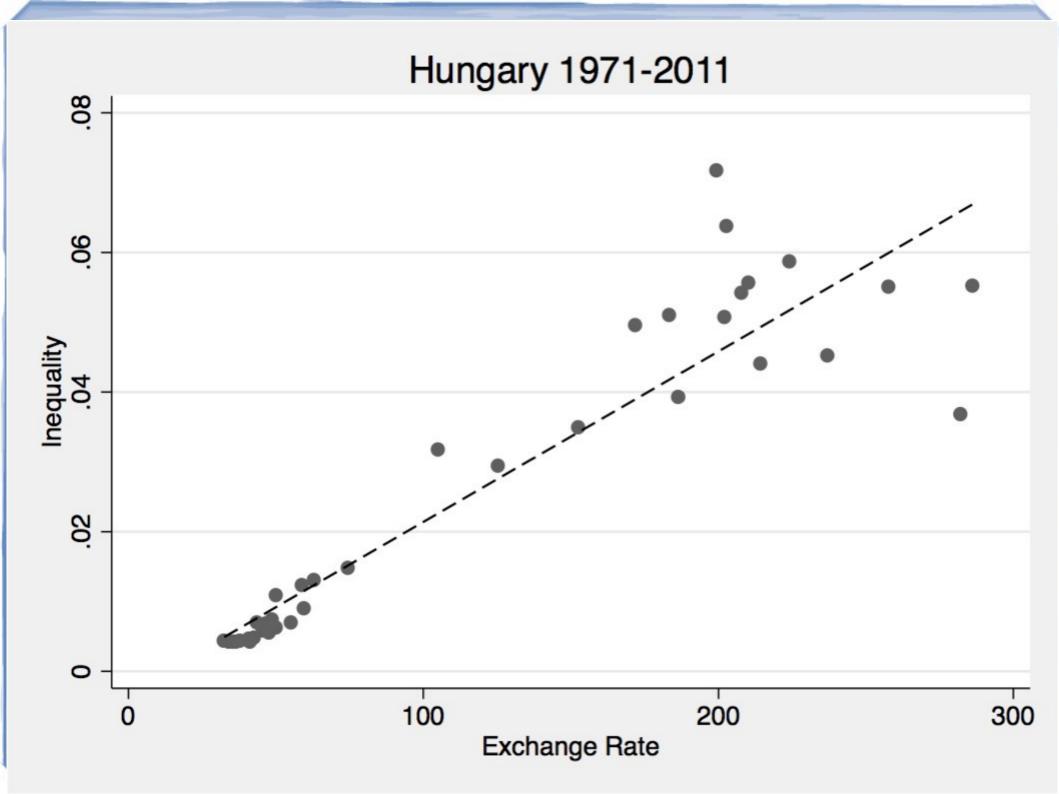


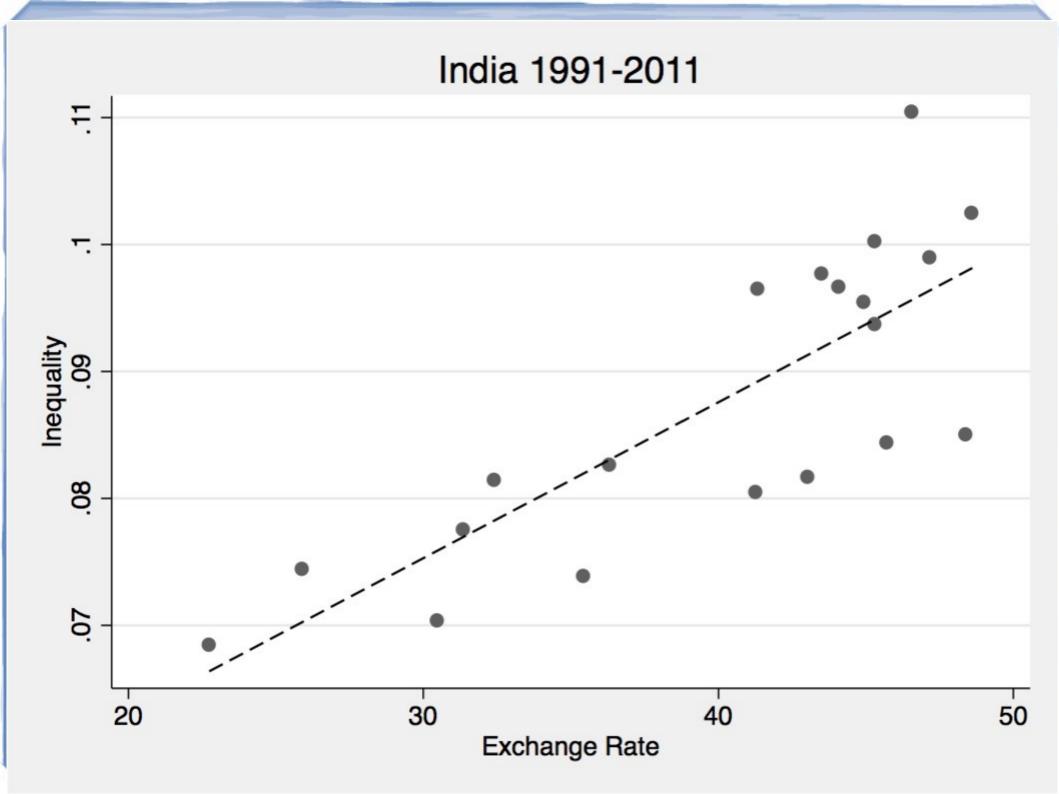


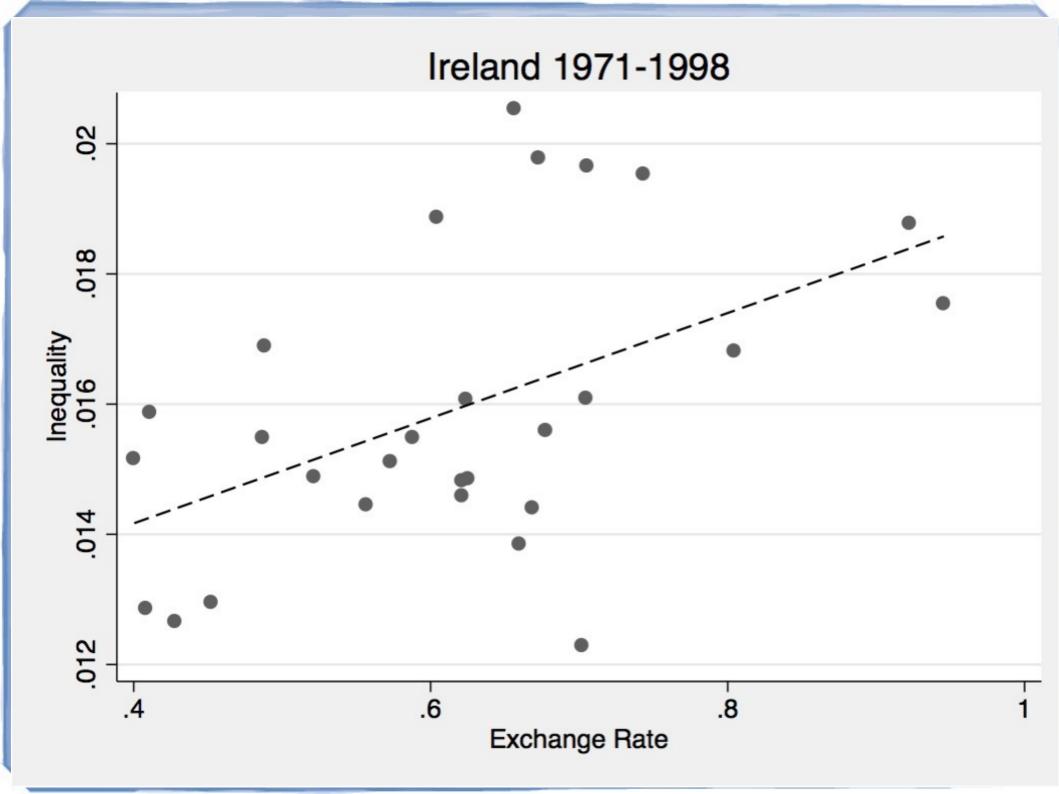


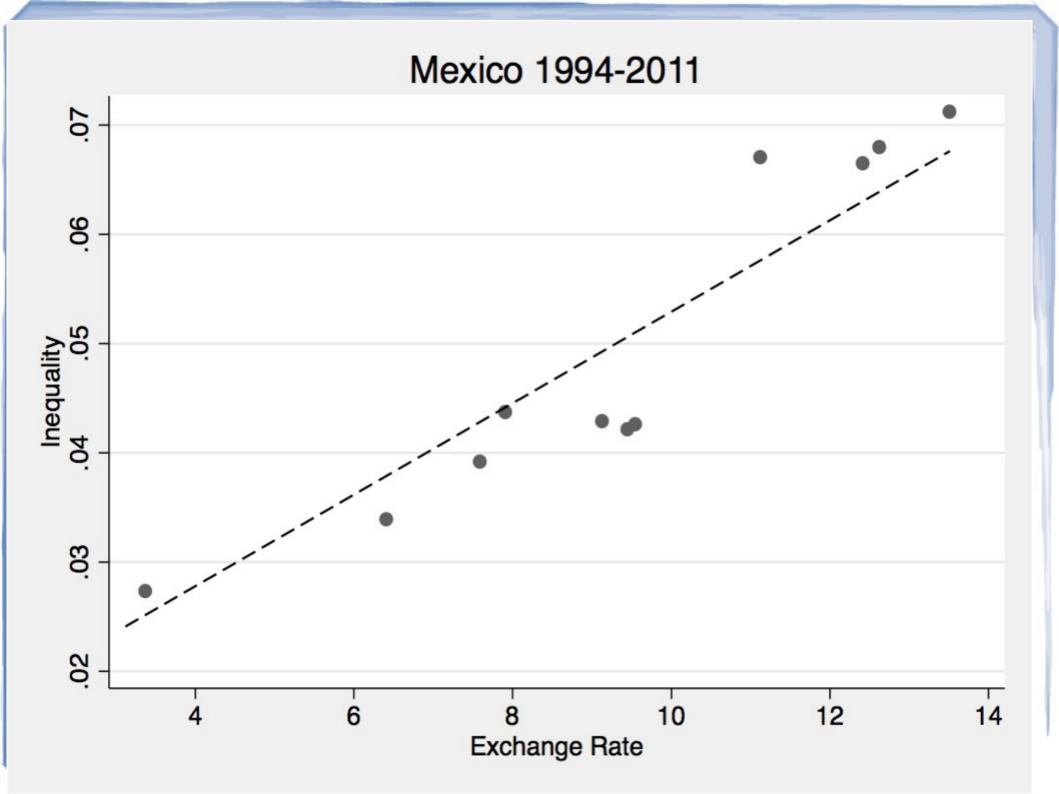


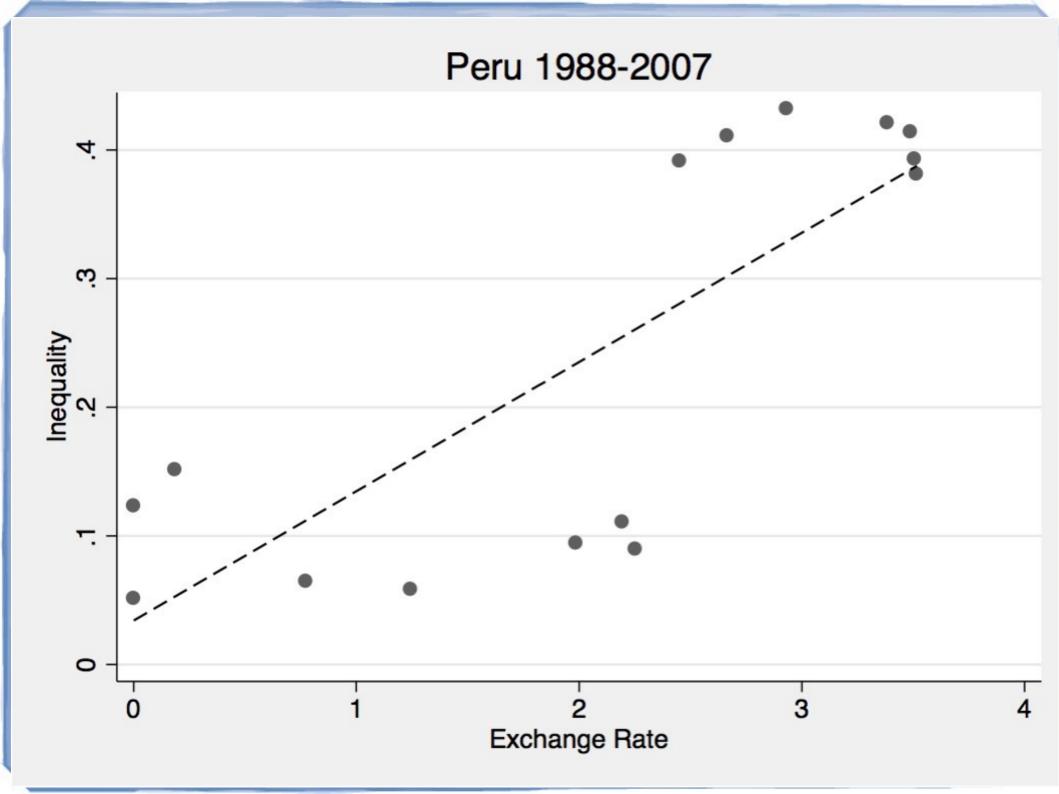


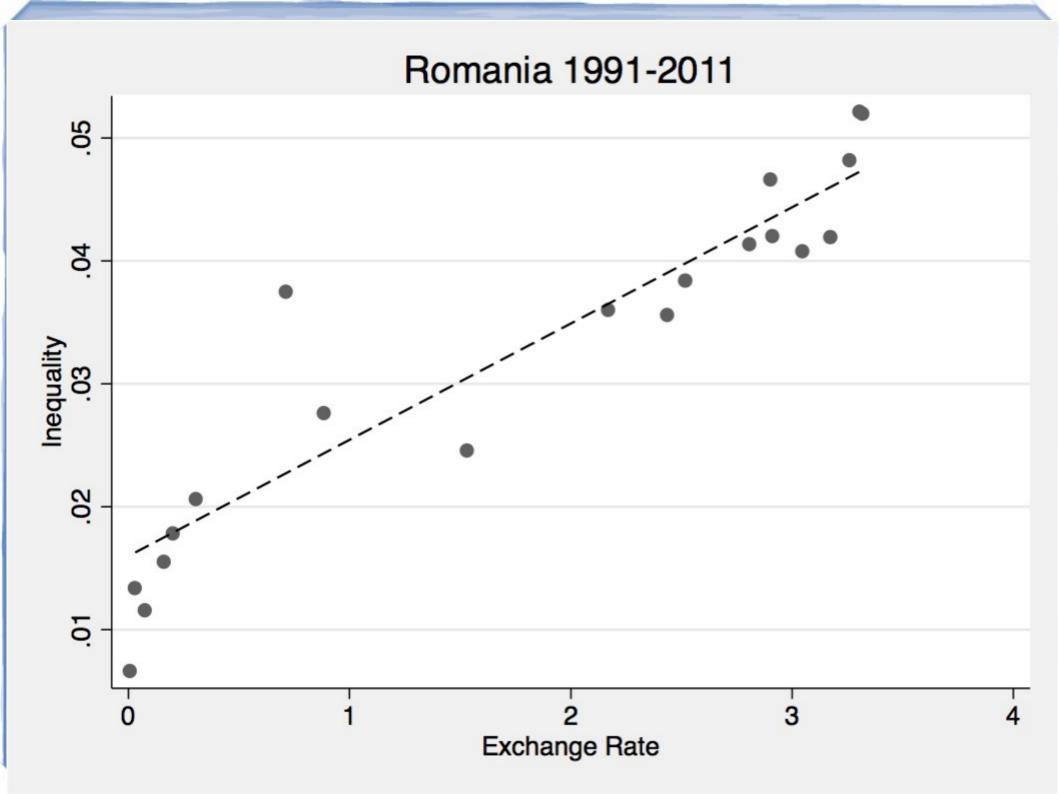


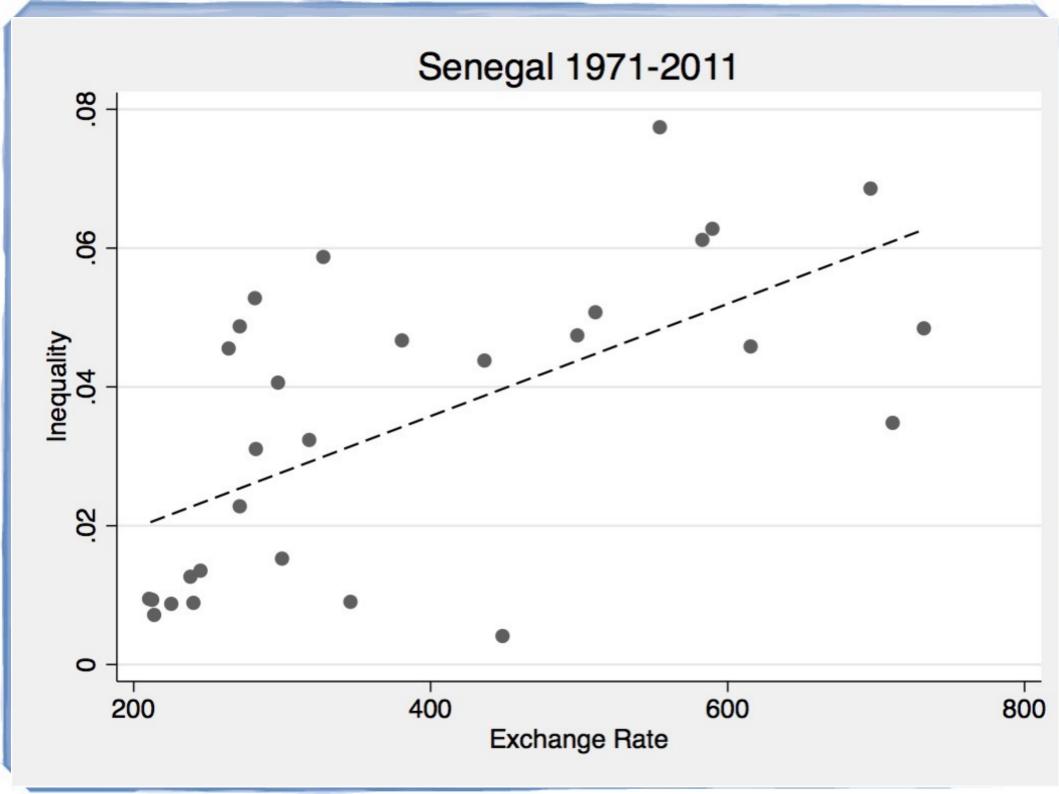


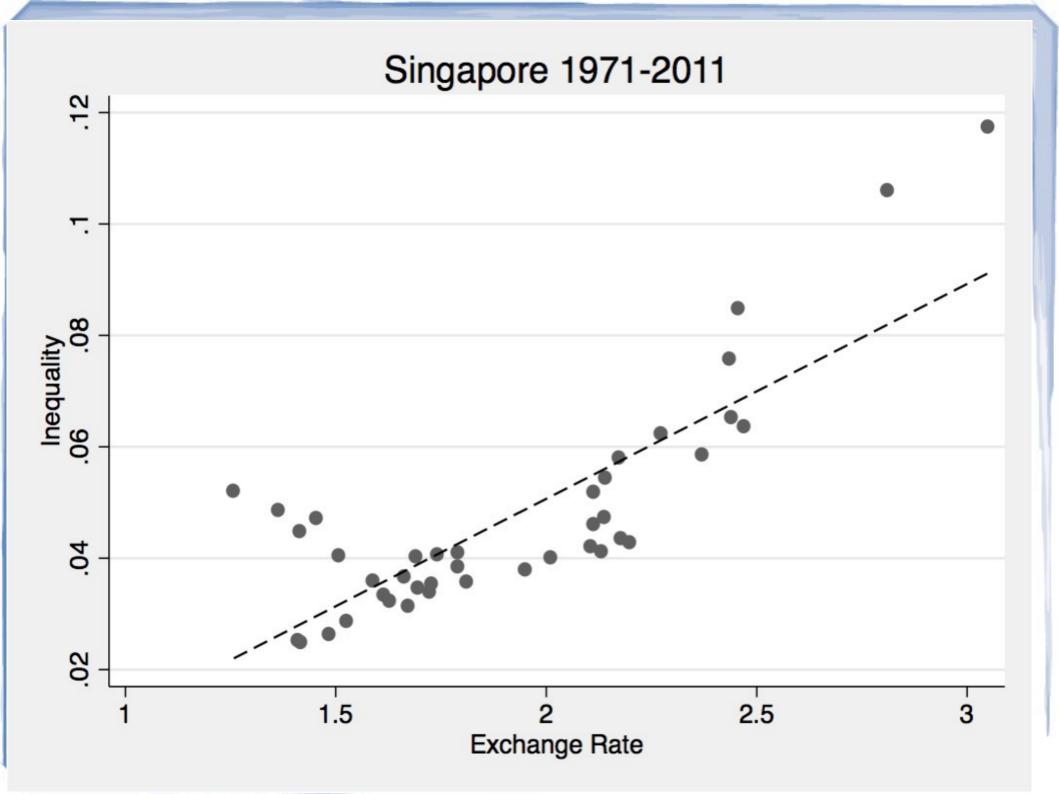


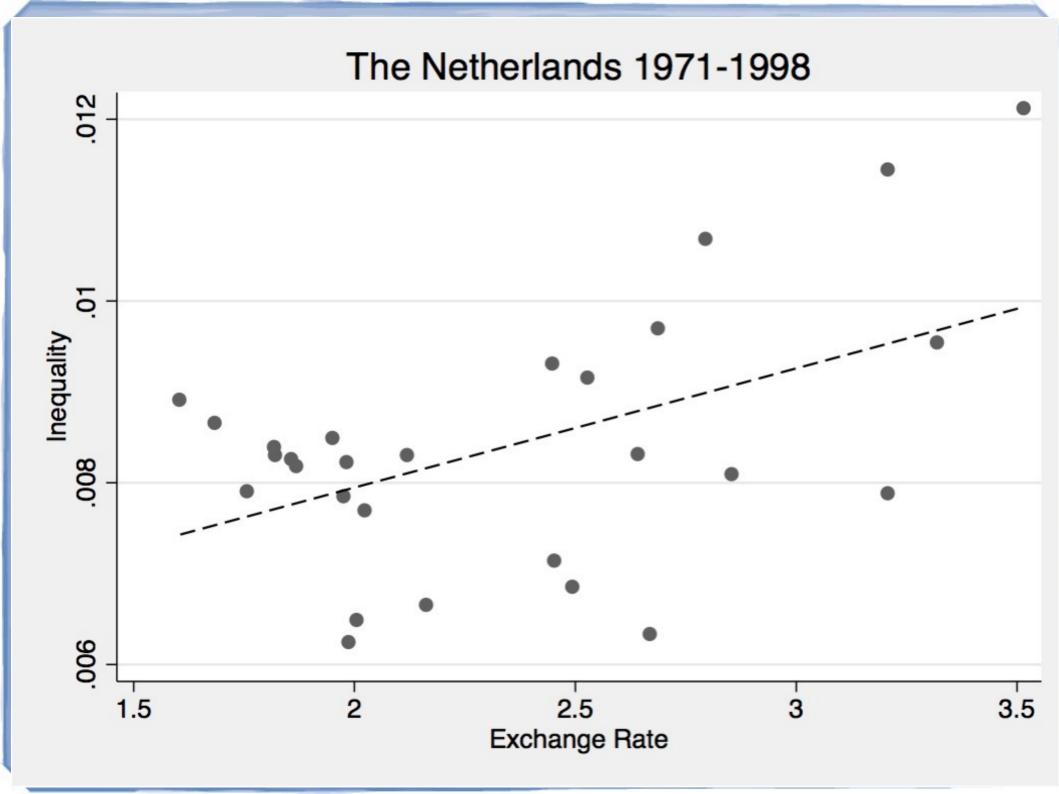


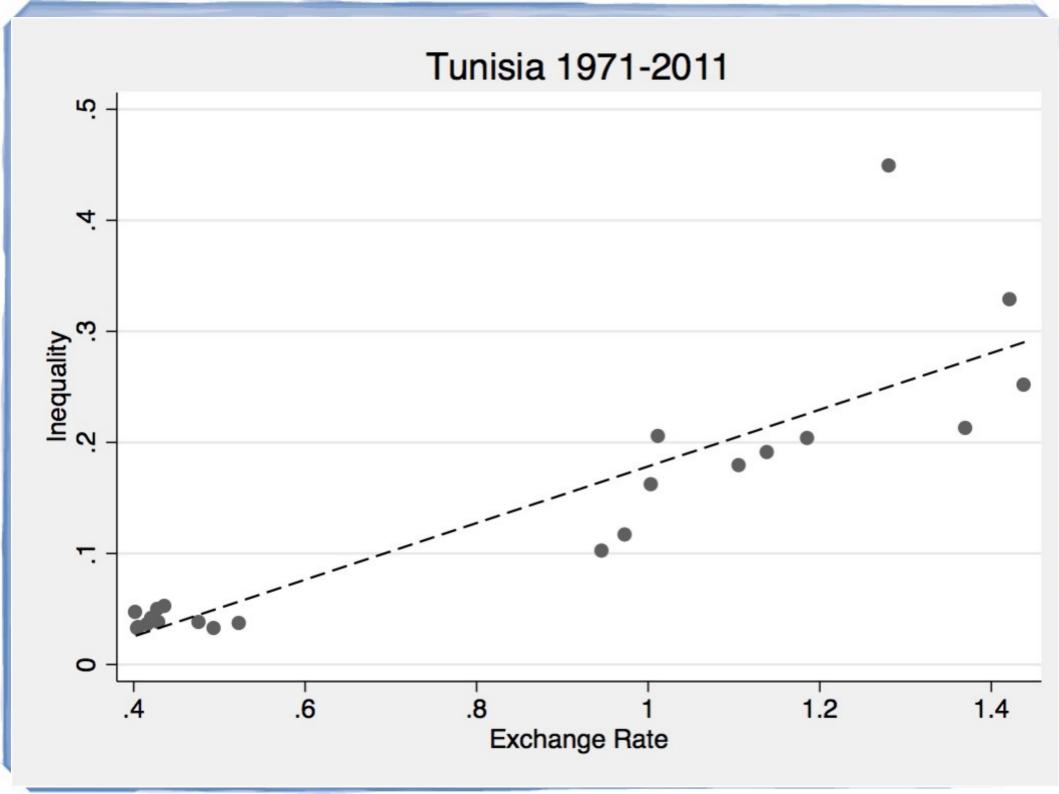


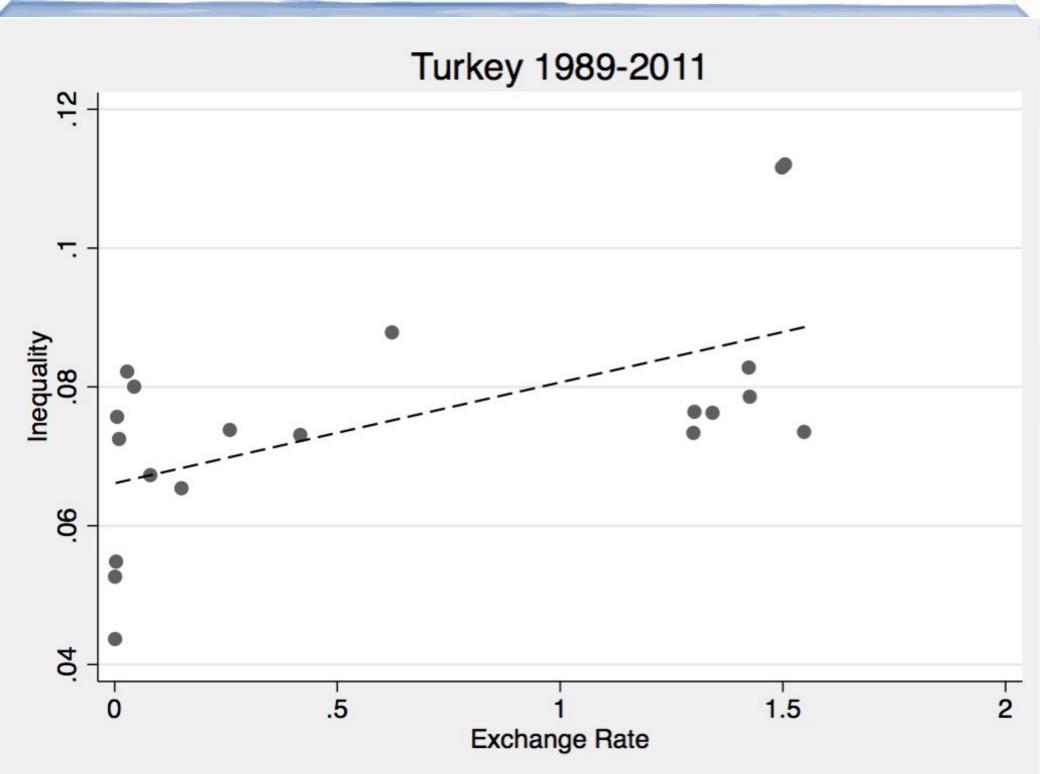


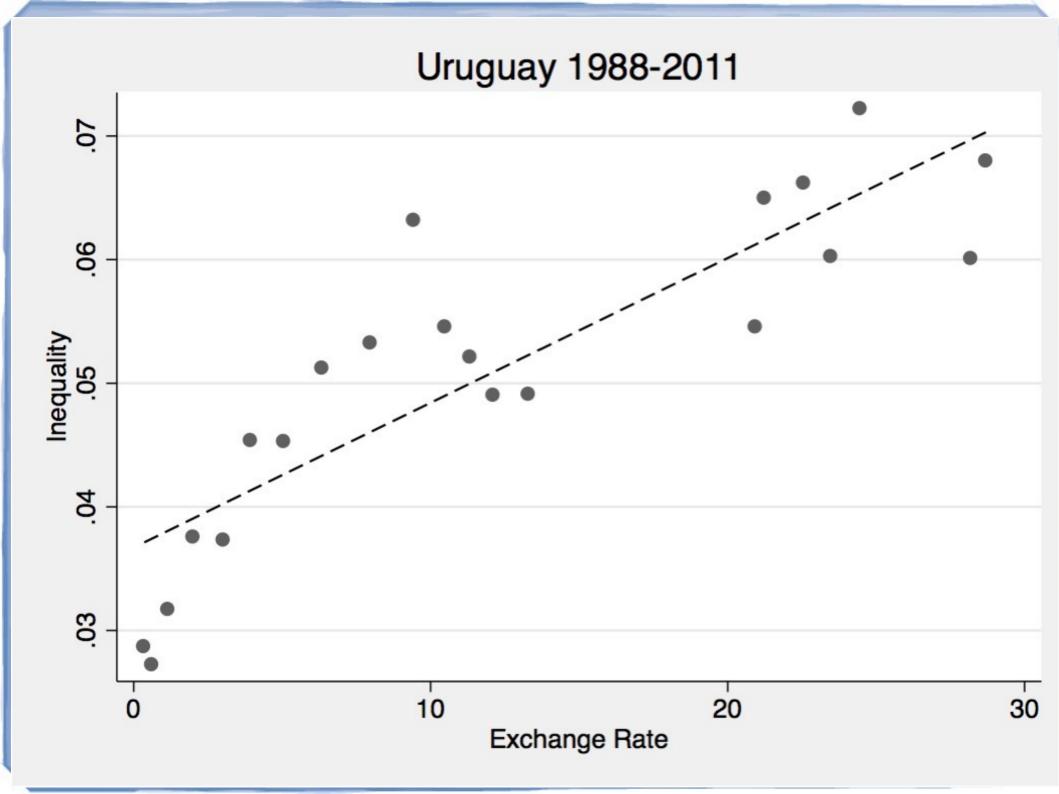


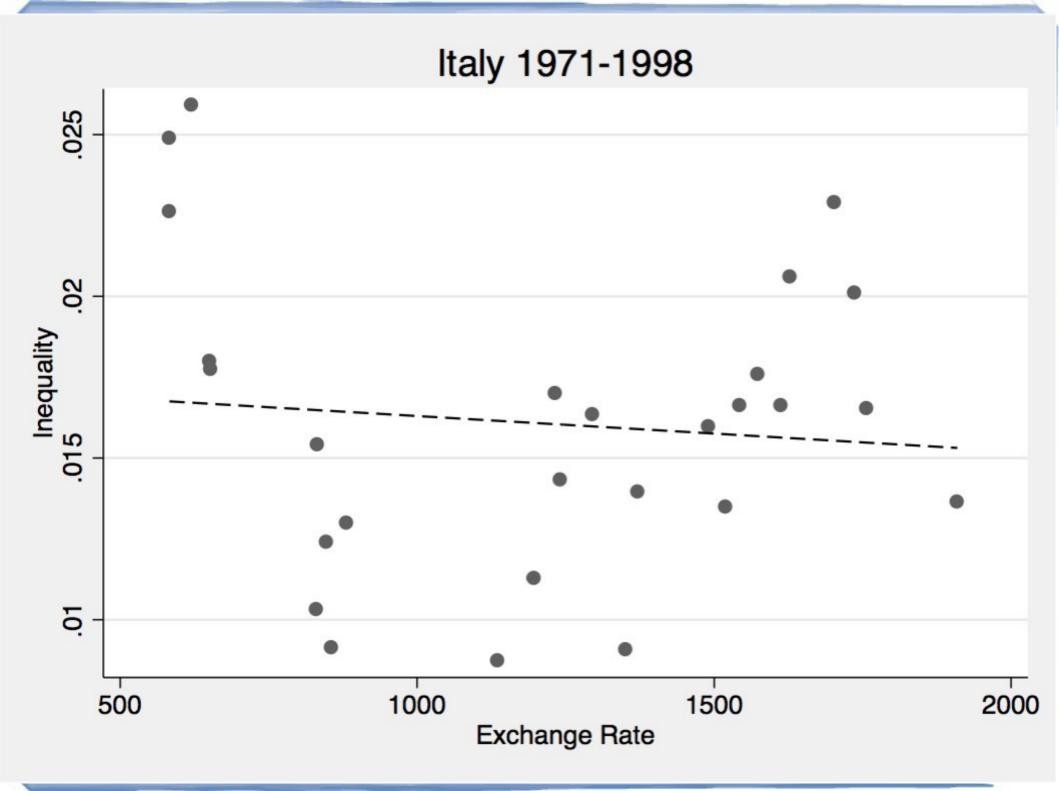










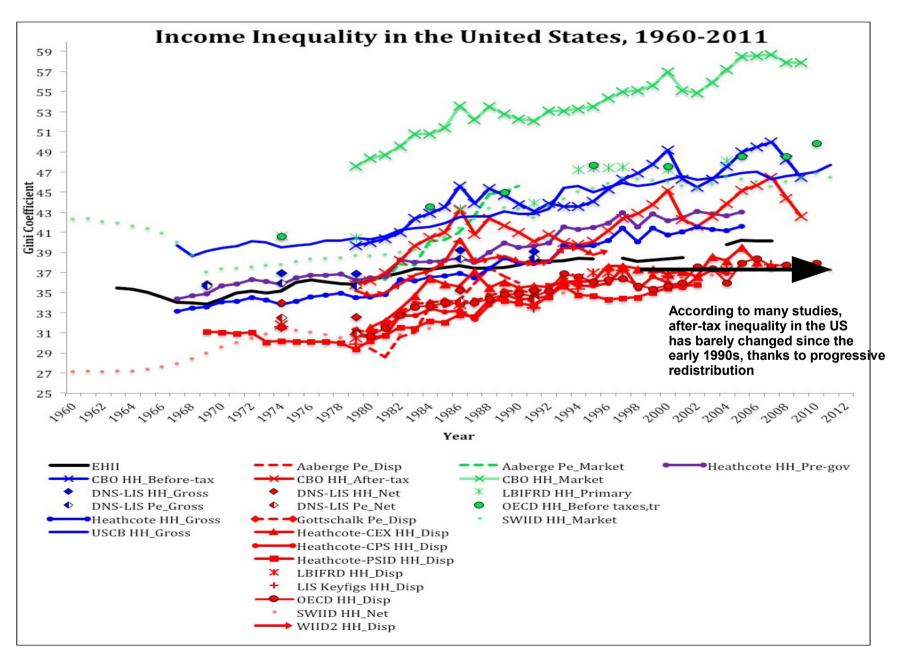


## Policies!

- Pursue Full Employment.
- Raise the minimum wage. Organize labor.
- Rely *less* on asset booms and *more* on stable growth of wages and incomes.
- Return to more progressive taxation, especially of estates and gifts, to curtail dynasties and promote decentralized non-profits.

Worldwide, begin to develop a new framework for more stable (but adjustable) exchange rates and less international currency speculation.

## By the way, redistribution works!

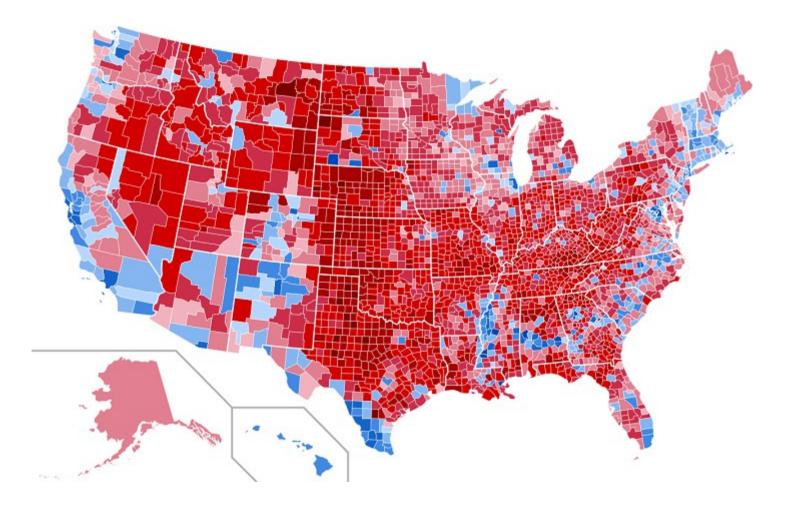


## Inequality and Elections

or, why this program will help the Republican Party

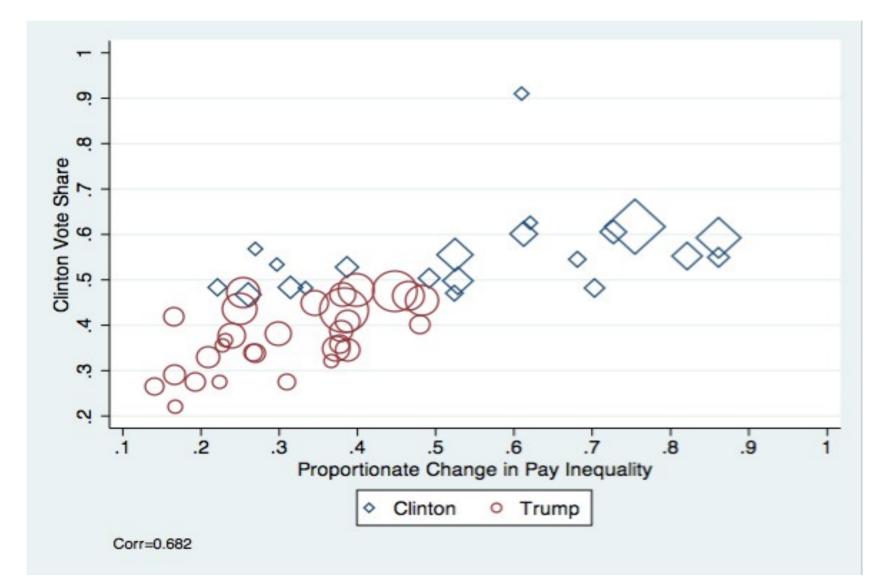
(A closing digression)

## The US Vote 2016

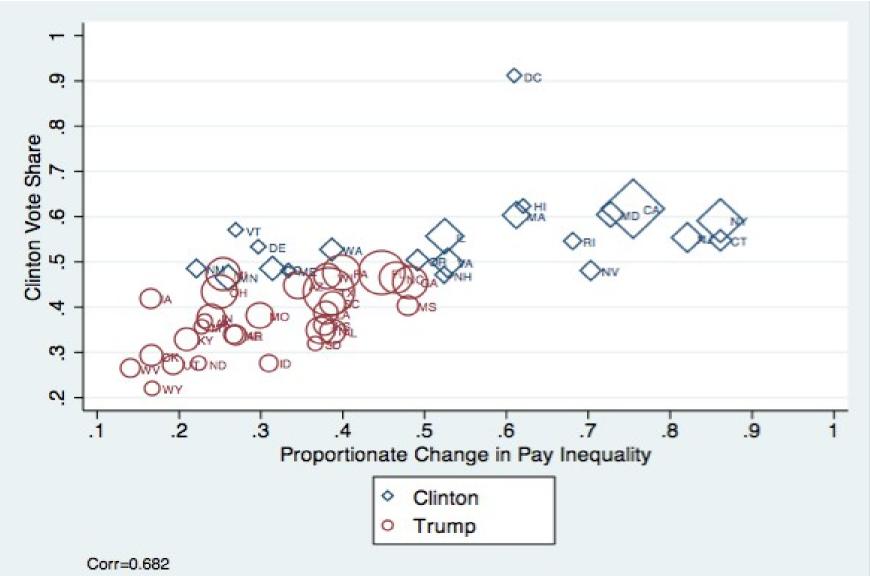


Source: Magog the Ogre via Wikimedia

# Changing Inequality and the US Election Outcome, 2016

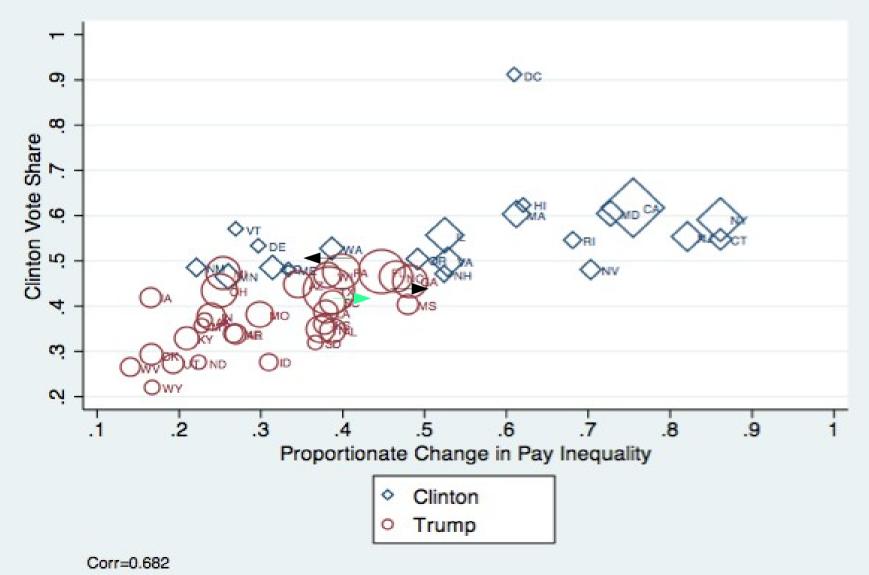


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Calculations by UTIP

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Calculations by UTIP

### UNIVERSITY OF TEXAS INEQUALITY PROJECT

### http://utip.gov.utexas.edu

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