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INCOME INEQUALITY IN THE BUILD UP TO THE GREAT RECESSION

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- Debt deflation in much of world economy is real prospect in 2010.
- Causes of Great Recession: (1) under-regulation; (2) global macro imbalances + associated capital flows.
- Little attention to (3) rising income inequality, national and global.

ROLE OF INCOME INEQUALITY

- Rising inequality → (1) richest households accumulate huge financial resources → risky “investments”; (2) middle quintiles in developed economies have stagnant incomes; (3) latter seek to boost consumption by borrowing; (4) democratic governments open credit floodgates and get re-elected; (5) external deficits and surpluses increase.

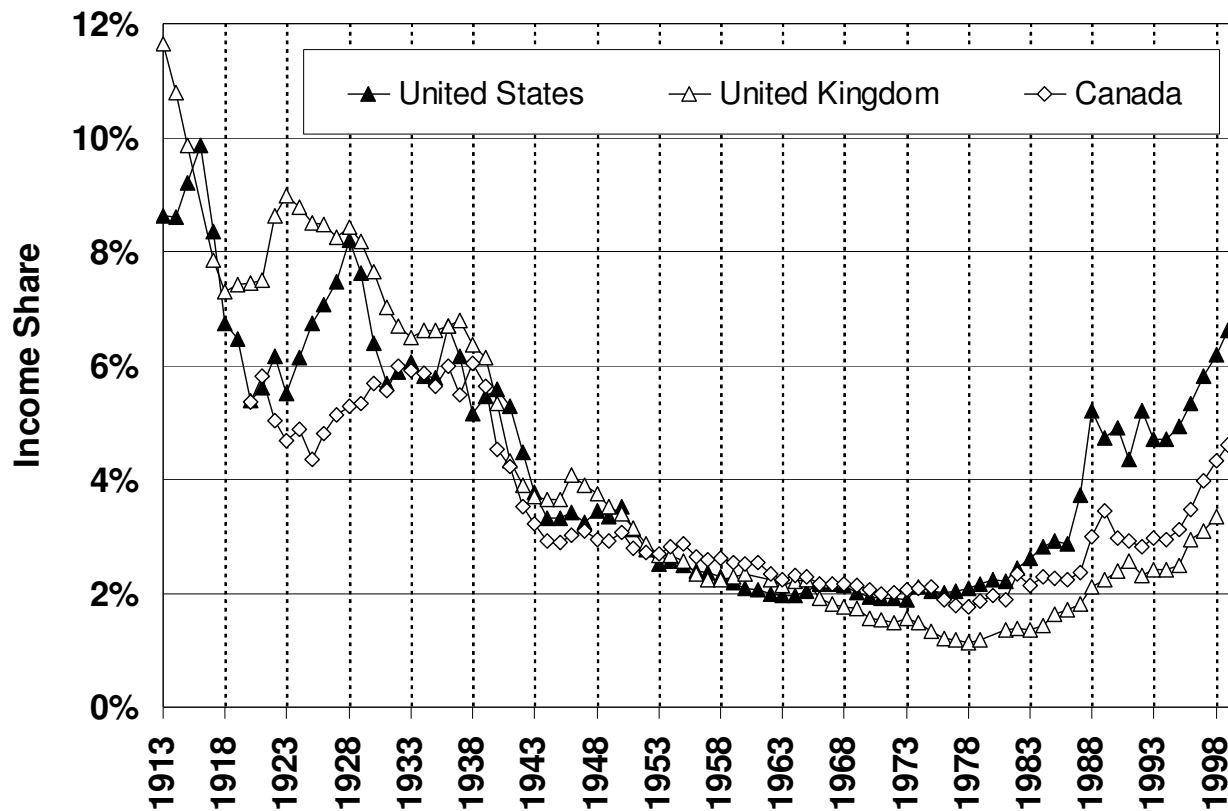
GREAT DEPRESSION IN USA

- Explanation: during 1920s
- (1) US growth engine – new consumer durable industries
- (2) income inequality soared b/w 1922 and 1929: income of top 1% rose by 63%; corporate profits rose by 62%; 90% of households had stagnant income.

GREAT RECESSION OF 2008-?

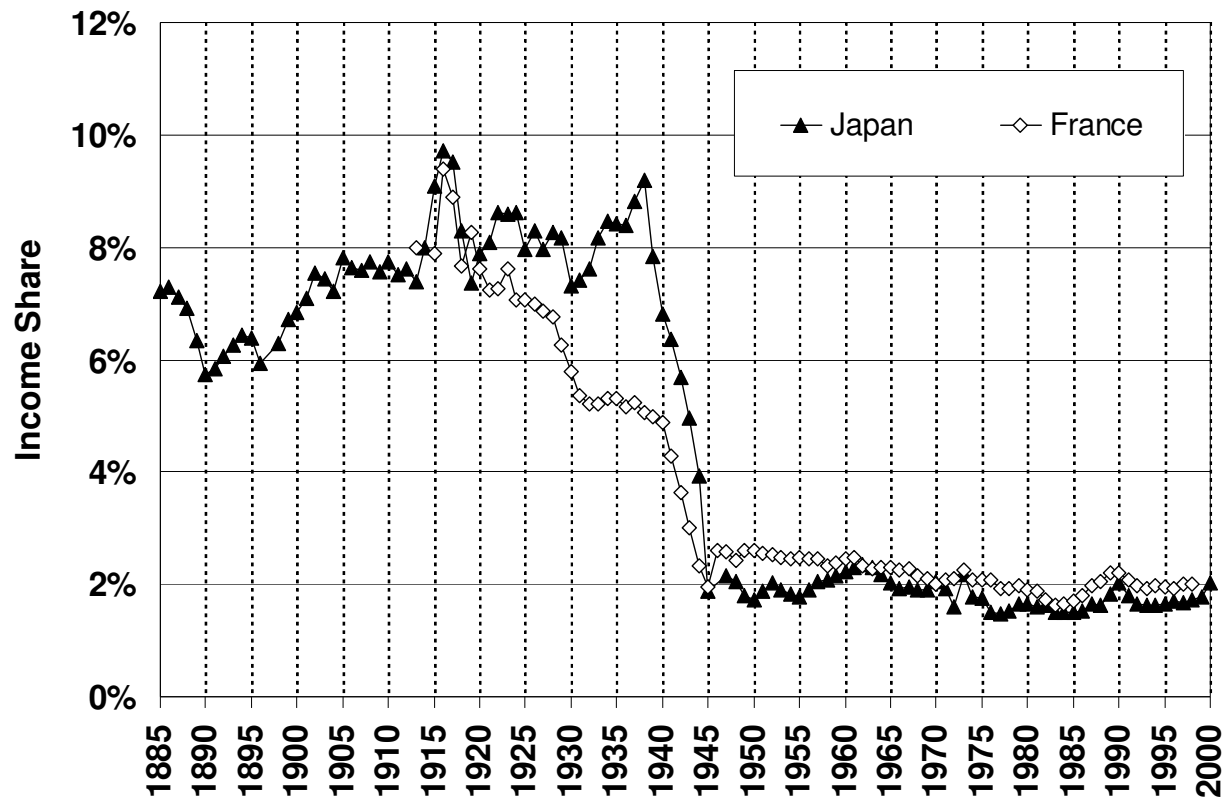
US, UK, Canada: top 0.1%

A. Top 0.1% income share in English Speaking Countries

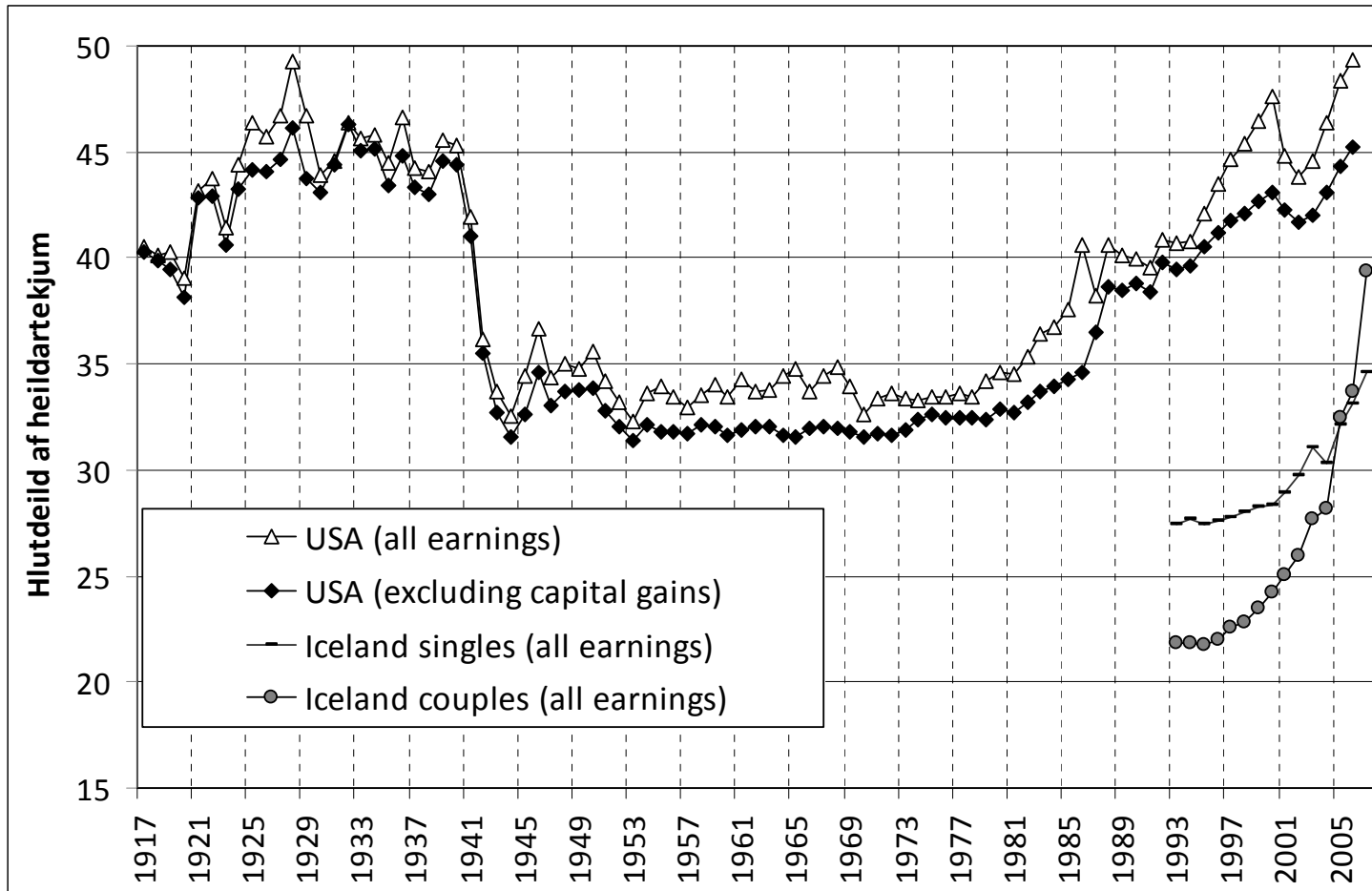


France & Japan: top 0.1%

B. Top 0.1% income share in France and Japan



US & Iceland: top 10%



US: top 1%, middle 60%, bottom 20%

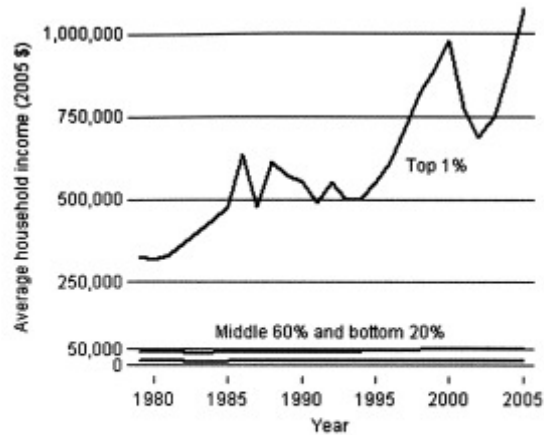
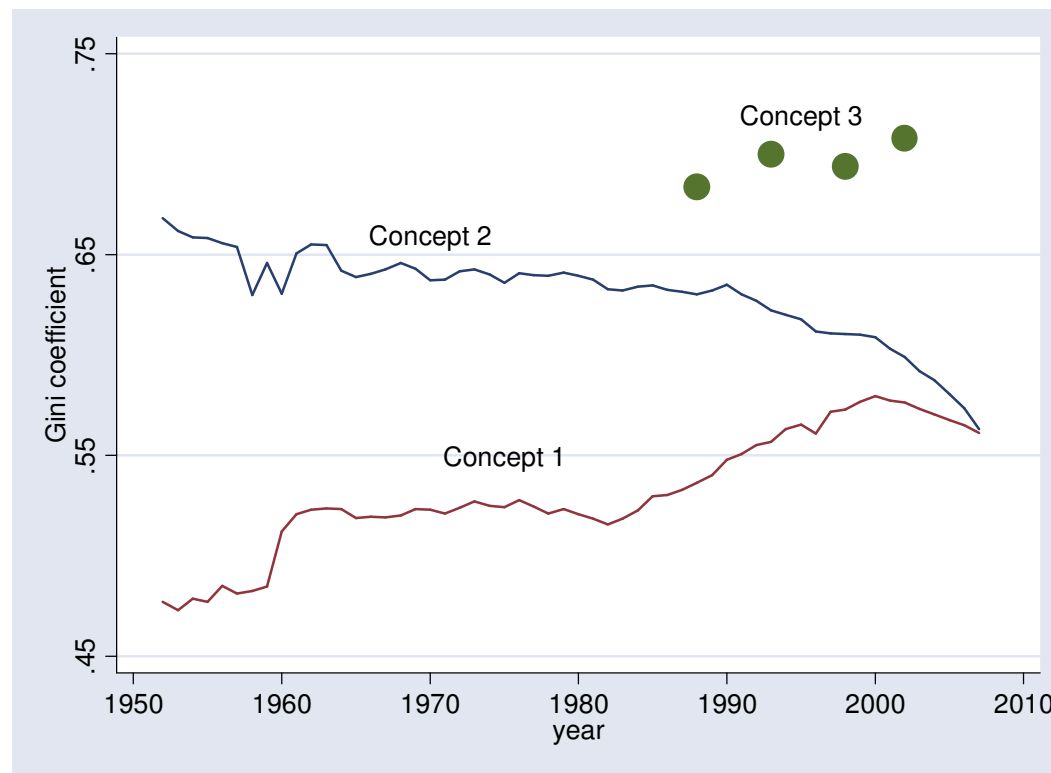


Figure 5. The Rise in American Income Inequality, 1979 to 2005

Source: Congressional Budget Office (2007).

Note: Posttransfer-posttax income.

3 measures of international inequality, Gini, 2005 PPP data



Reducing chances of repeat slump: national action

- Raise transfer payments
- Active labor mkt policies to raise employment
- Reform corporate take-over rules
- Boost domestic demand: minimum wage; consumer protection organizations; social security systems; investor protection; environmental law

Reducing changes of repeat slump: international

- Reforms to weaken incentives on governments to compress wages and increase profits:
- Collective insurance against currency runs
- Symmetrical pressure on external surpluses & deficits
- Selective trade protection for developing countries short of foreign-exchange