

# Overview Panel

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*Norman Chan*

## ***1. Growth in global economy and income has been significant.***

There has been a significant increase in global income over the past three-and-a-half decades. Based on the International Monetary Fund's (IMF) estimates, PPP-adjusted per capita GDP in advanced economies (AEs) increased 3.5 times from just \$10,100 in 1980 to \$45,700 in 2015, while growth in per capita income in emerging market economies (EMEs) has been even more impressive, surging by almost six times from \$1,500 to \$10,600 over the same period. I believe we would all agree that, in aggregate terms, the world economy has done not too badly, especially for the EMEs. In China, for example, over 700 million people were lifted out of poverty—an amazing accomplishment in human history. There is also little disagreement, at least among the academia and finance officials present at the symposium, that free trade, open markets, globalization and free movement of capital have contributed significantly to the growth of income and well-being of people, while also narrowing inequality between AEs and EMEs, in the last few decades.

## ***2. The share of labor income has been on the decline.***

There is then some not-so-good news: while inequality across countries has narrowed, income inequality has nevertheless widened

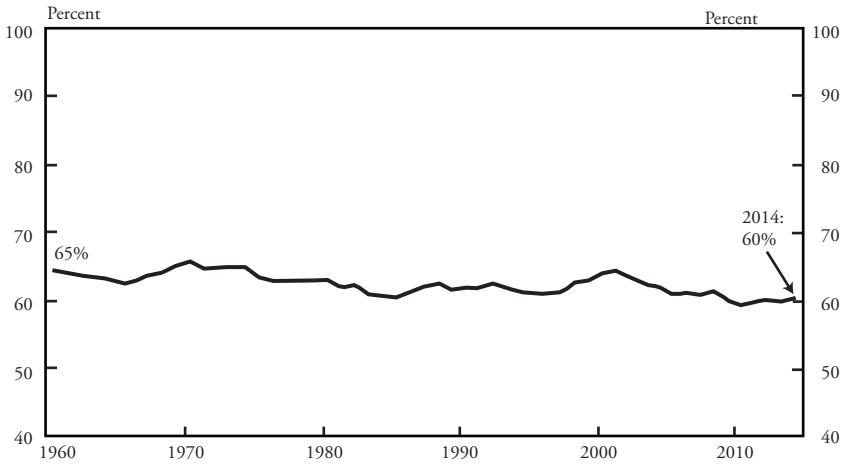
within many countries. We are witnessing rising public discontent that the gains from economic growth have failed to trickle down to the lower parts of the income distribution, particularly in AEs, as seen by voters' recent backlashes that fueled the populist surge in the United States and Europe. Such grievances are not without grounds. Indeed, data suggest that there has been a decline in labor share of income over this period of economic growth. In the United States, for example, the GDP share of labor income has fallen from 65 percent in 1960 to 60 percent in 2014 (Chart 1). At the same time, the fall in labor share of income is also quite pronounced in EMEs.

There are different narratives on why the labor share of income has declined while the capital share of income has risen. It is increasingly important that we understand the causes of this decline in labor share of income. There is a worrying trend, in some places, that the decline in labor share of income (or a slower growth of per capita labor income) is taken out of context to lend support to the populist agenda of anti-trade and anti-globalization politicians, under which protectionist slogans—such as those claiming to stop EMEs from “stealing” manufacturing jobs—have escalated from mere rhetoric to election pledges in some AEs. In the case of the United States, such a protectionist agenda may even find its way into mainstream politics.

Why then are workers getting a shrinking slice of the economic pie over time? Chart 2 illustrates the findings of an IMF study published in April (2017) on factors contributing to the decline in labor share of income. Based on this study, technological advancements explained almost 50 percent of the decline in labor share of income in AEs, whereas participation in global value chains accounted for only 18 percent. As a matter of fact, this study shows that EMEs actually suffered a bigger fall in labor share of income than AEs (with globalization accounting for the bulk of this decline at 83 percent), which reinforces my view that EMEs such as China have been picked upon as a convenient scapegoat.

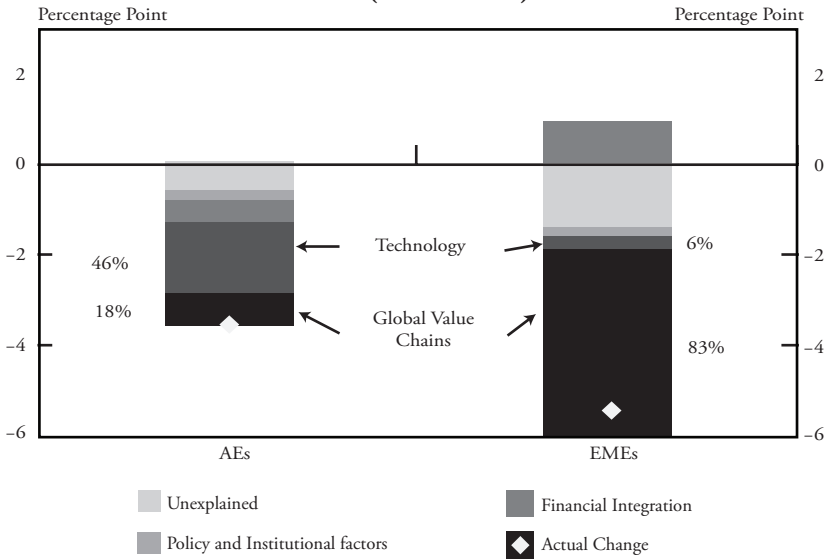
Then there is the question of why it is that technology and innovation, commonly regarded as positive developments, have contributed to this decline in labor share of income. In this symposium, a

**Chart 1**  
**U.S. Share of Labor Income Has Been Declining**



Source: Penn World Table 9.0.

**Chart 2**  
**Contribution of Globalization and Technological Advancements to Reduction in Labor Share of Income in AEs and EMEs (1993-2014)**



Source: IMF *World Economic Outlook* (April 2017).

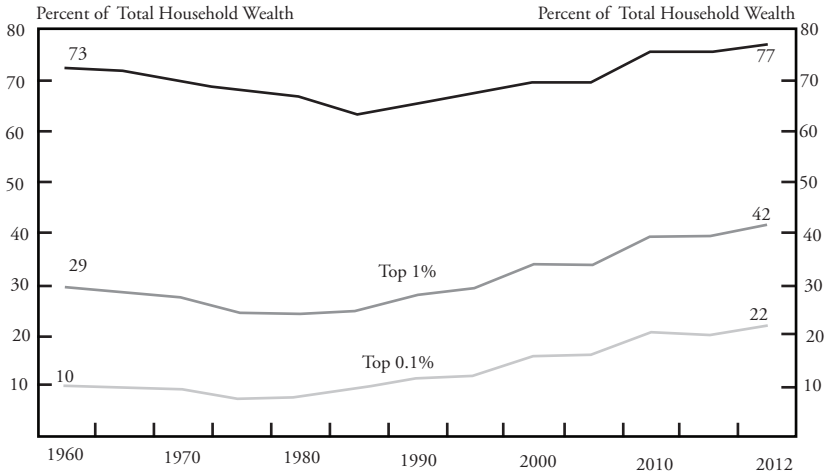
speaker presented a chart showing the steady decline in manufacturing employment in the United States, while the value of manufacturing production has remained rather stable as a share of real GDP since 1960. It is worth noting that this trend of declining manufacturing employment had started long before China joined the World Trade Organization (WTO) and became a major manufacturing country. As such, the increase in U.S. manufacturing productivity could more likely be explained by technological innovation than the rise of China as a manufacturing hub.

There is clearly a need for all of us to understand more on how technological innovation would affect employment and distribution of income. There are different kinds of technologies, some labor-augmenting but others labor-substituting, examples of the latter being robotics and artificial intelligence. Moreover, the same technology may have rather different impact on AEs as compared with EMEs. For example, I can envisage the labor-substituting impact of e-commerce and internet shopping on AEs with well-established retail distribution channels through shopping malls and other shops. However, e-commerce may actually generate more jobs than it destroys in economies like China, where the conventional retail distribution channels are much less well-developed.

### ***3. Distribution of wealth is becoming more uneven.***

After the not-so-good news comes the bad news. Based on U.S. wealth data by Emmanuel Saez and Gabriel Zucman (2016) (Chart 3), one can see that in the half-century since 1960, the wealthiest 10 percent of U.S. households' share of wealth stock increased 4 percentage points, from 73 percent to 77 percent, which is not surprising if one bears in mind the rising share of capital income over the same period. However, the astonishing point surfaces if one breaks down the distribution of wealth among the top 10 percent, as shown in the table beneath the chart. The top 0.1 percent (or 160,000 tax-paying households owning \$20 million or more of net assets) share of wealth increased by a staggering 12 percentage points over this period, mostly since 1990 (Table1). The next 0.9 percent registered a modest 1 percent rise, whereas the next 9 percent actually suffered a big fall in the share of wealth by 9 percentage points.

**Chart 3**  
**U.S. Wealth Has Become Increasingly Concentrated**  
**in the Top 0.1 Percent of Households**



Source: Saez and Zucman, UC Berkeley (2016).

**Table 1**  
**Share of U.S. Total Household Wealth**

	1960	1990	2012	Change (1960-2012)
	(%)	(%)	(%)	(Percentage pt.)
Top 0.1%	10	12	22	+12
Next 0.9%	19	16	20	+1
Next 9%	44	38	35	-9

What matters here is the likelihood that the combination of falling labor share of income, uneven distribution of income and increasing concentration of wealth in the hands of very few people would make more and more people become aggrieved and even angry because they have been left behind. Many of them have turned to the extreme right or extreme left, which promises change, for better or worse. Such a political and social environment may also lower economic growth and some recent studies do suggest inequality makes growth less sustainable.

#### ***4. Unconventional monetary policies may have significant impact on distribution of income and wealth.***

Are there more near-term causes of rising global inequality? Some argue that it is related to the implementation of unconventional monetary policies (UMPs), which is a rather contentious point. After the global financial crisis, UMP including zero-interest-rate policy and quantitative easing by major central banks have been designed to support economic recovery and employment by lowering borrowing costs and supporting asset prices. Rich people tend to own more assets such as stocks and properties, while poor people tend to have less or none. Retirees and pensioners usually depend a lot on interest income from their savings. While many borrowers have benefitted from very low interest rates, there are also many people with deposits and lifetime savings who would lose out as they received no or meagre interest income. Stock prices and property values in some AEs and EMEs have kept on reaching record highs, thereby benefiting the rich people enormously. The widening of the already wide gap between the “haves” and “have-nots” has, to varying degrees, provided impetus to the populist movements in some AEs in pursuit of their anti-trade, anti-globalization and anti-establishment agenda.

While research on the nexus between UMP and wealth inequality is at its infancy, a number of recent studies lent support to this view. For example, findings of a 2016 paper by the Bank for International Settlements suggest that UMP might have had significant effects on the dynamics of wealth inequality through changes in equity returns and house prices. Nonetheless, more research effort is needed on this very important subject. To conclude, central bankers, economists and policymakers will need to study and understand a lot more on the distributional effects of UMP, so that a more balanced analysis of the costs and benefits of such policies can be undertaken.