

# Global Distribution of Income and its Political Meaning

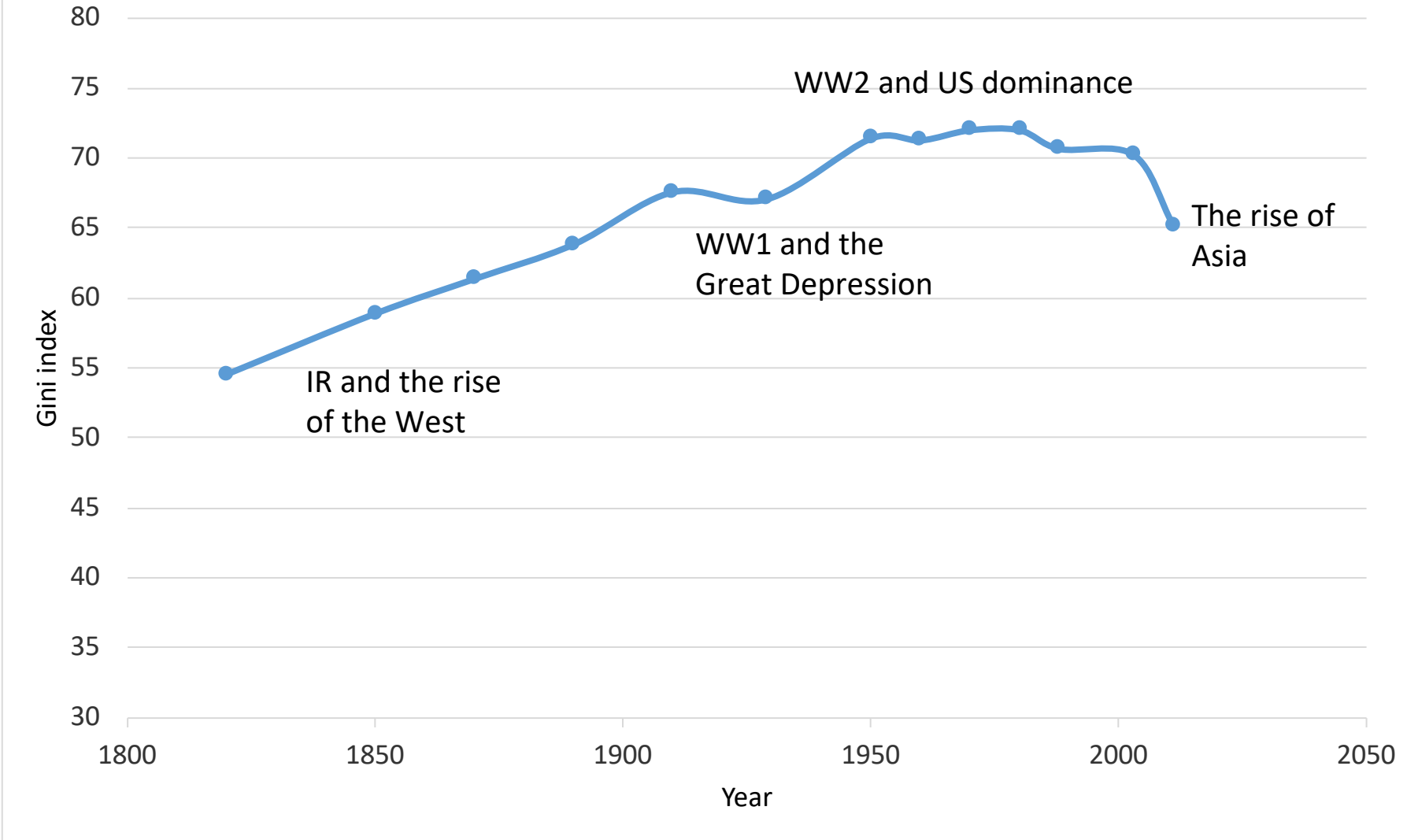
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Graduate Center, CUNY and LSE

# Structure of the talk

- Uniqueness of the current period: Capitalism rules alone + the reemergence of Asia (bringing the distribution of economic activity within Eurasia to the way it looked around 1500)
- Political meaning of inequality decomposition
- The world of averages and the world of heterogeneity
- Political/philosophical issues raised by looking at global, as opposed to only national inequalities

Long run

# Estimated global income inequality over the past two centuries, 1820-2013 (using 2011 PPPs)

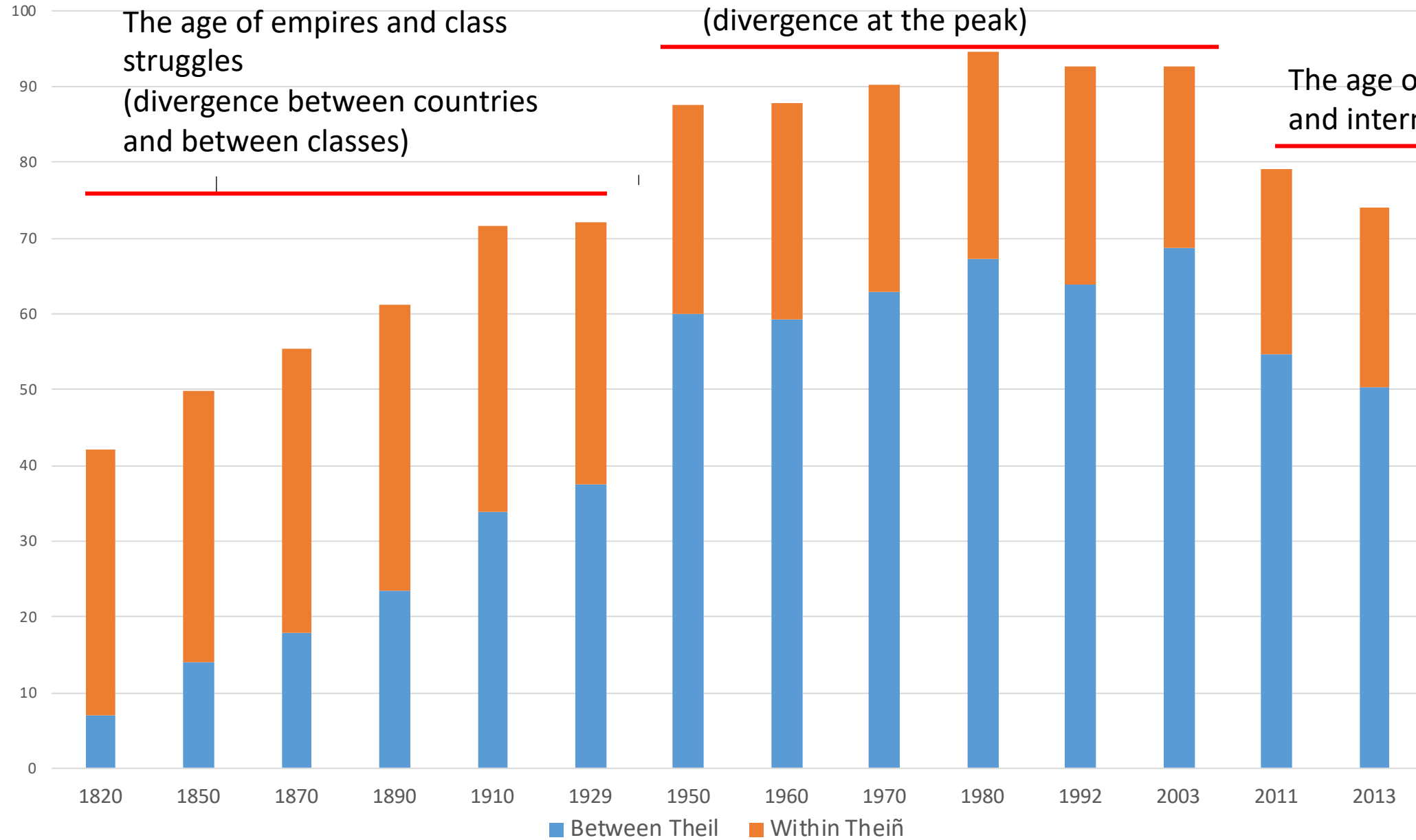


1820-1980 recalculation of Bourguignon-Morrisson; 1992-2013: Lakner and Milanovic with extensions

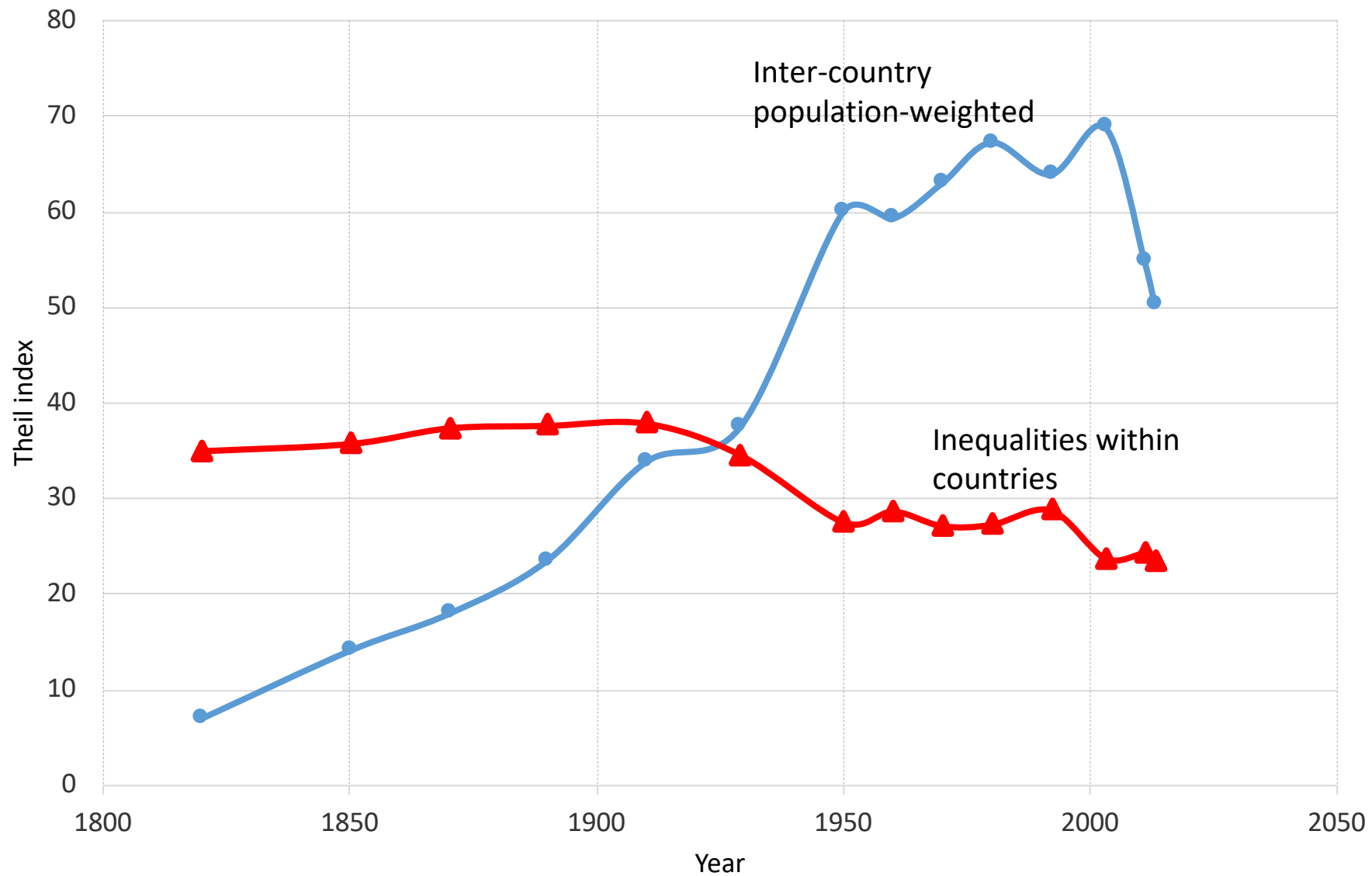
*La longue durée*: From Karl Marx to Frantz Fanon and back to Marx?

The definition of the three long-run periods (“ages) from the Industrial Revolution until today

# The age of the Three Worlds and diminished class conflict (divergence at the peak)



Within-national and between-national income inequalities (together equal to global inequality) during the past two centuries, Theil 1820-2013



# The political meaning of decomposition

- The decomposition is never just a mechanical, arithmetic exercise
- There is a political meaning in any decomposition of an inequality measure
- In this case, what is the principal cleavage: is it (a) between the countries or (b) between individuals within a country?
- In the early periods of the Industrial Revolution, (a) was small, (b) was large and increasing. Class cleavage was key, class contradictions within countries important, international solidarity of the poor feasible. (The world of social classes, that of Marx)
- Up to 1980s, (a) is large, (b) smaller. The world divided into “three worlds”, class contradictions within countries much weaker. (The world of rich and poor countries, that of Frantz Fanon)
- The current period and projections: (a) diminishing, (b) increasing. Class conflict becomes more salient, but since (a) still very high, migration becomes an issue (esp. with globalization). In some sense, now both cleavages matter.



# The peak of the three worlds

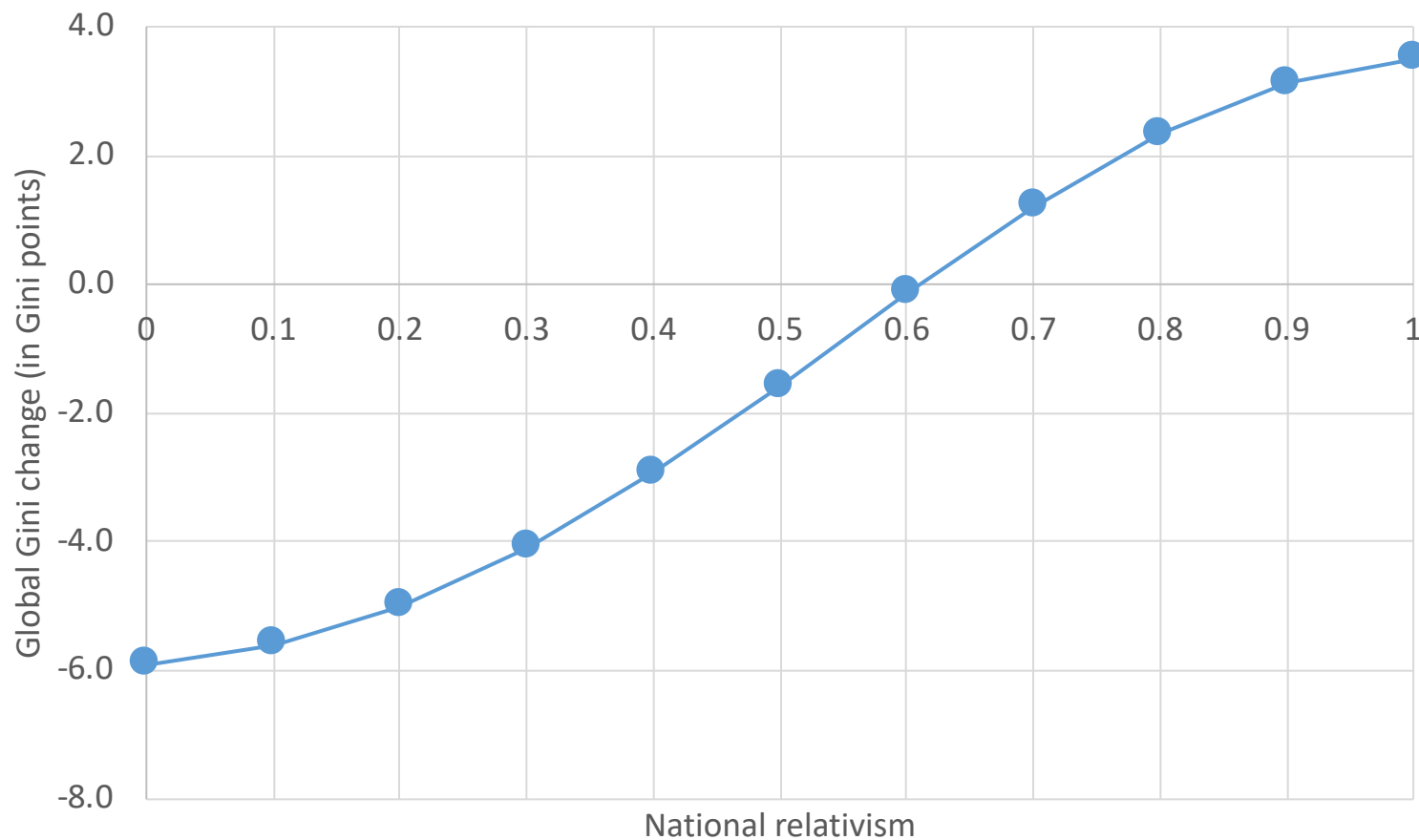
Senghor:

“The social problem today is less a class struggle within a nation than a global struggle between the ‘have nations’ (including the Soviet Union) and the proletarian nations (including the Chinese People’s Republic)”

Quoted in Samuel Moyn, *Not Enough* (p. 104)

# But if people really care mostly (only) about their relative position in national income distribution?

Change in global Gini between 1988 and 2011 for different values of the lambda



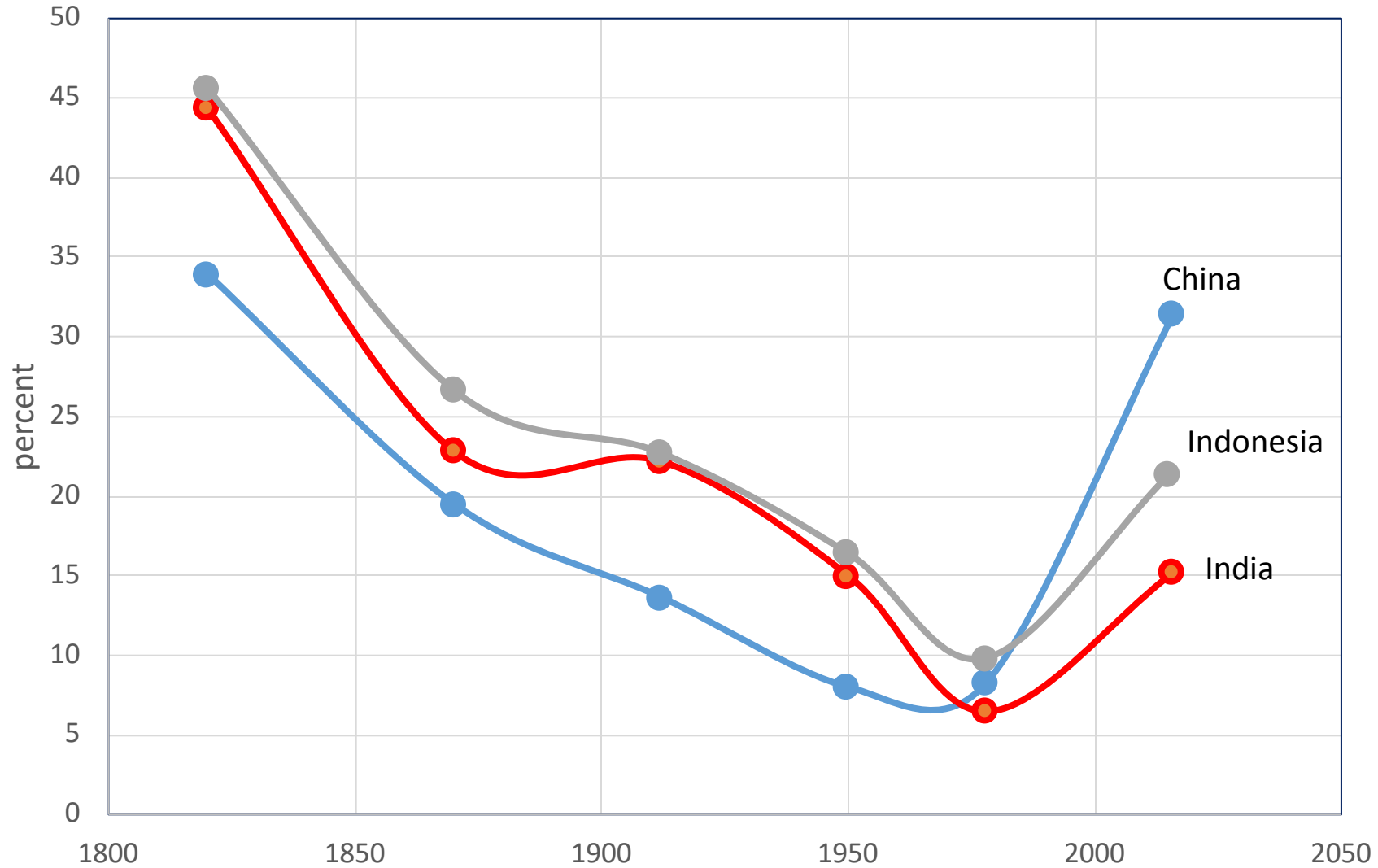
$\lambda$  is salience of one's position in national income distribution vs. real income

To put it simply, (i) if the rising incomes in Asia that underlie the reduction in global income inequality lead to increasing inequalities in advanced countries as well as in the Asian countries themselves, and (ii) if individuals still care more about their relative national positions, then a concern with rising national inequalities may significantly (in welfare terms) outweigh the advantages of rising welfare stemming from higher absolute incomes [and lower global inequality].

The averages

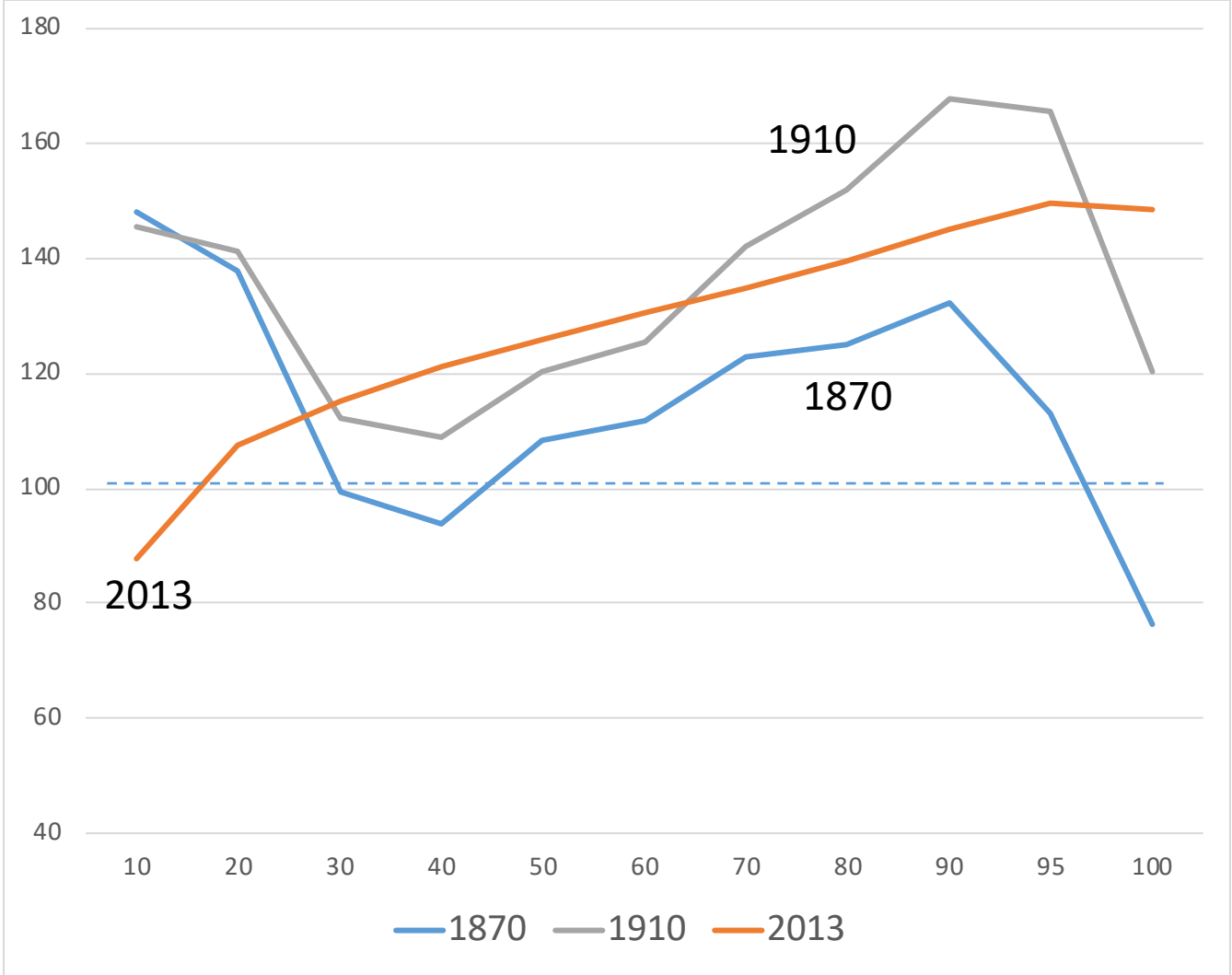
# Resurgent Asia

China's and India's GDP per capita as percent of British GDPpc from the Industrial Revolution to today (Indonesia vs. the Netherlands)

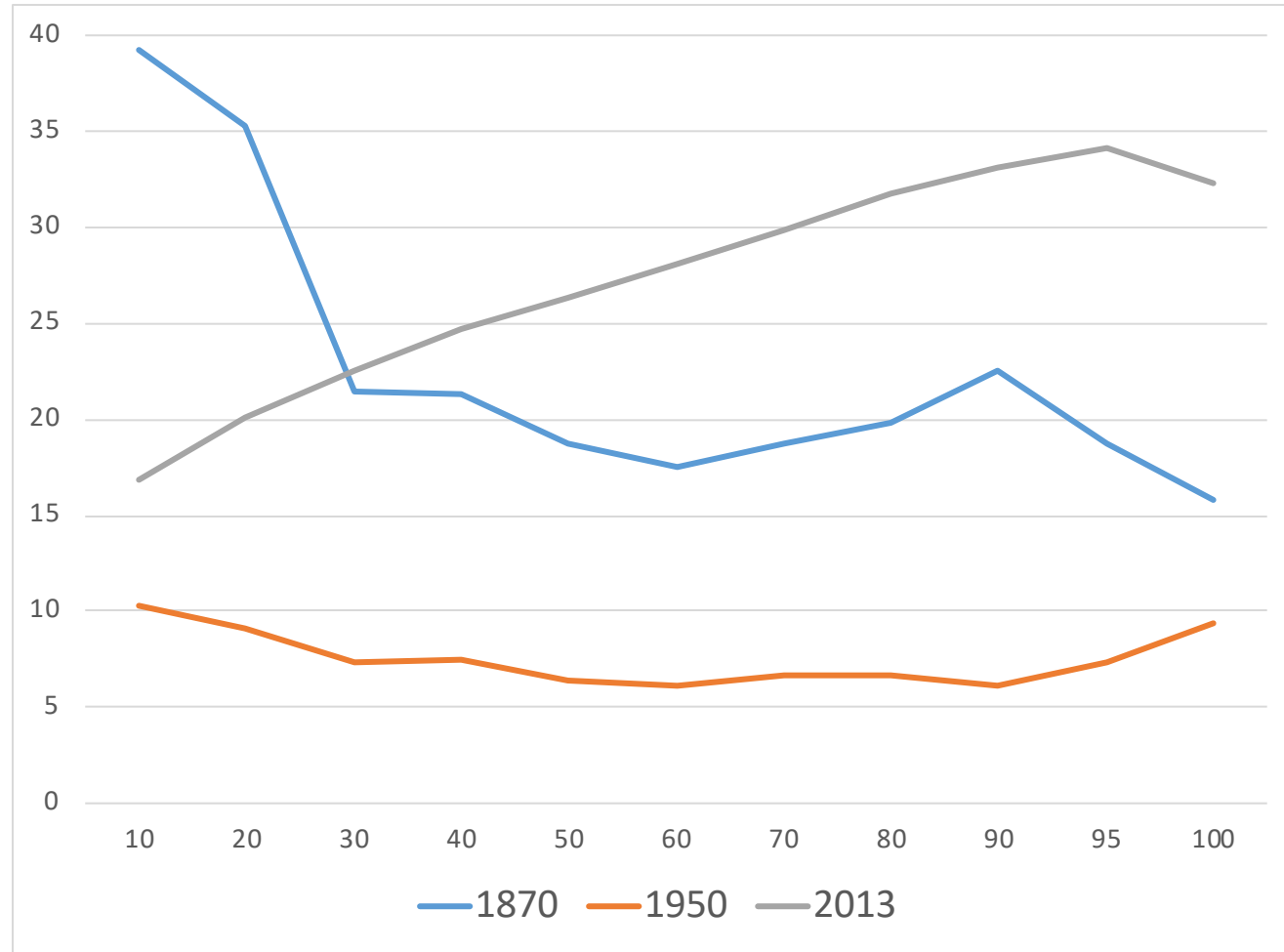


Heterogeneity: going beyond the averages

# The poor, the middle class and the rich in the US and the UK in historical perspective

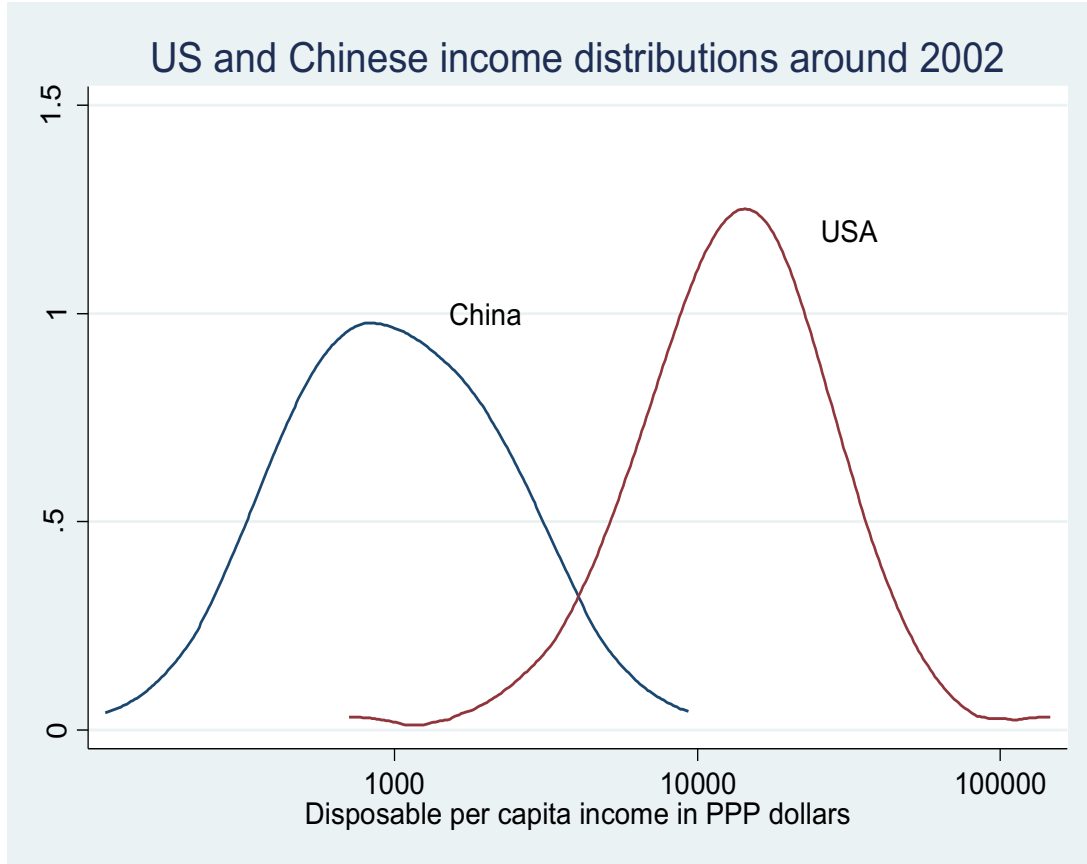


# The poor, the middle class and the rich in China and the UK in historical perspective

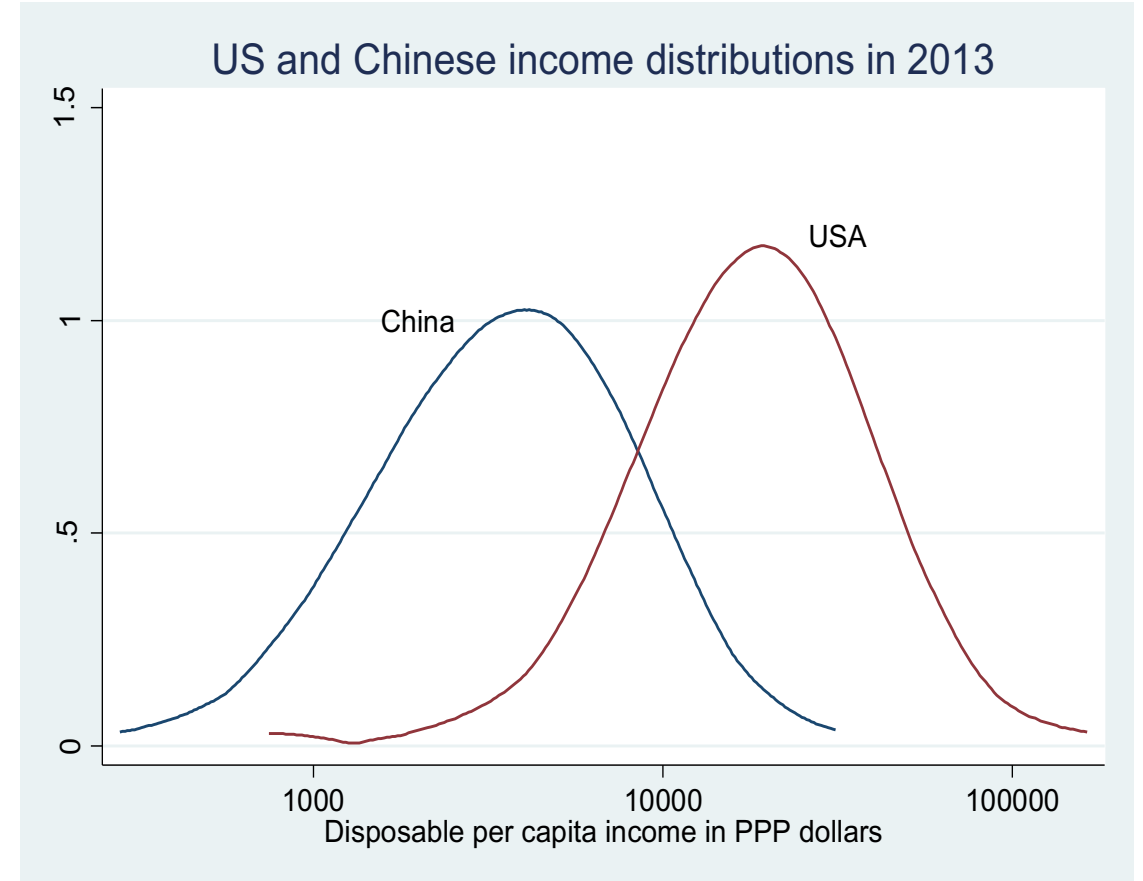




# Going beyond the averages: Convergence of Chinese incomes



23% of Chinese population within US income range

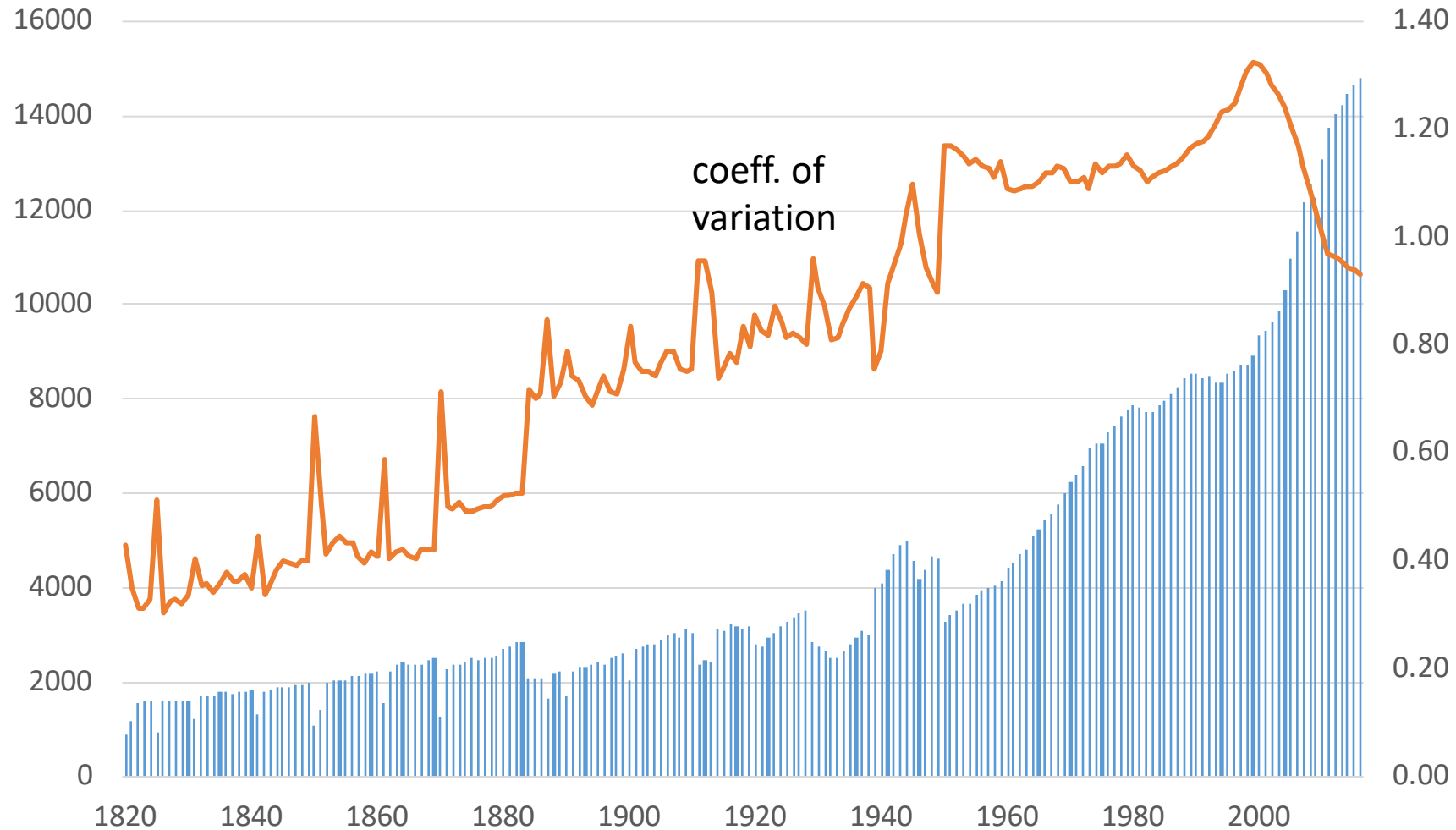


70% of Chinese population within US income range

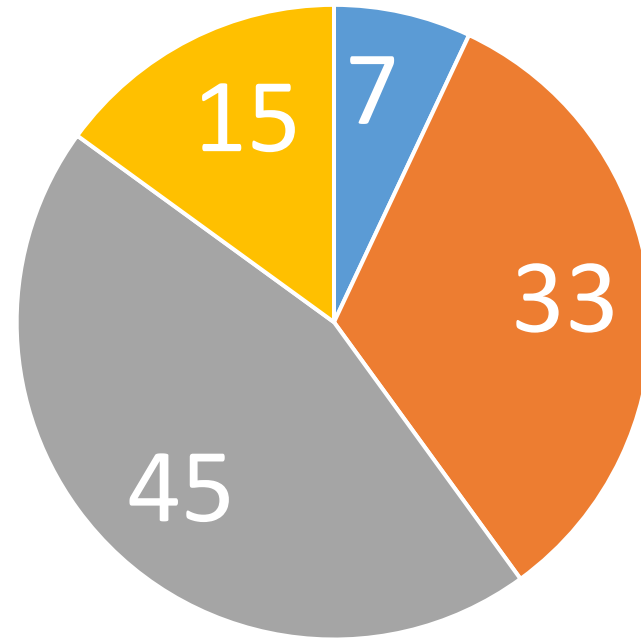
Another heterogeneity: Is the world getting better?

# Is the world getting better? Yes.

World GDP per capita (left) and coefficient of variation of countries' GDPs per capita (right) 1820-2016 (population-weighted)



Or perhaps not so much: 7% of people in the world live below the income level of the most advanced county in 1820; 33% below that of a century ago..



■ two centuries late  
■ 50 to 100y late

■ btw 1 and 2 centuries late  
■ contemporary

40% of people in the world live in a different century.

Past twenty-five years in the world:

the greatest reshuffle of individual income positions since the Industrial Revolution

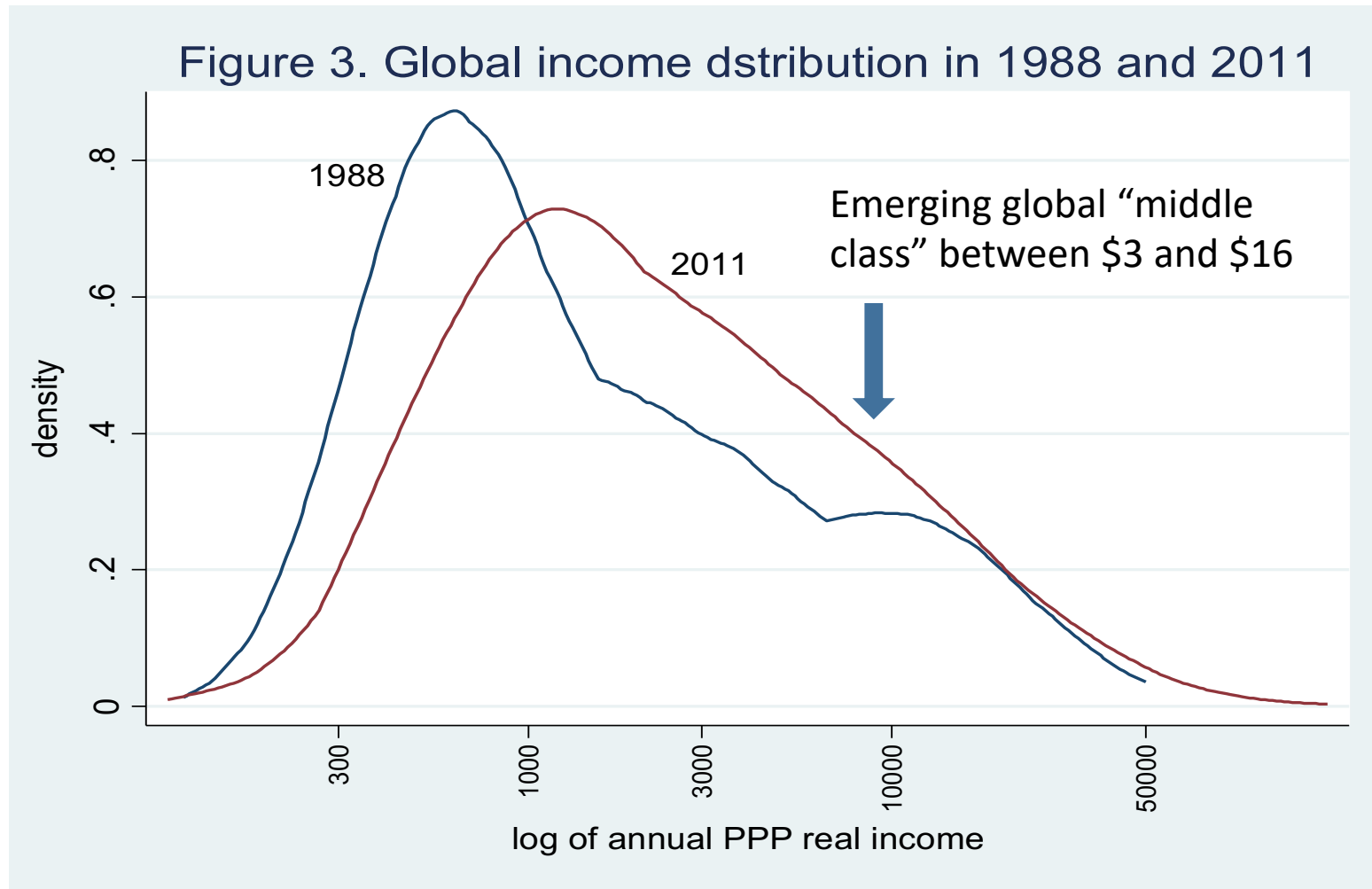
=> future implications for the rich world

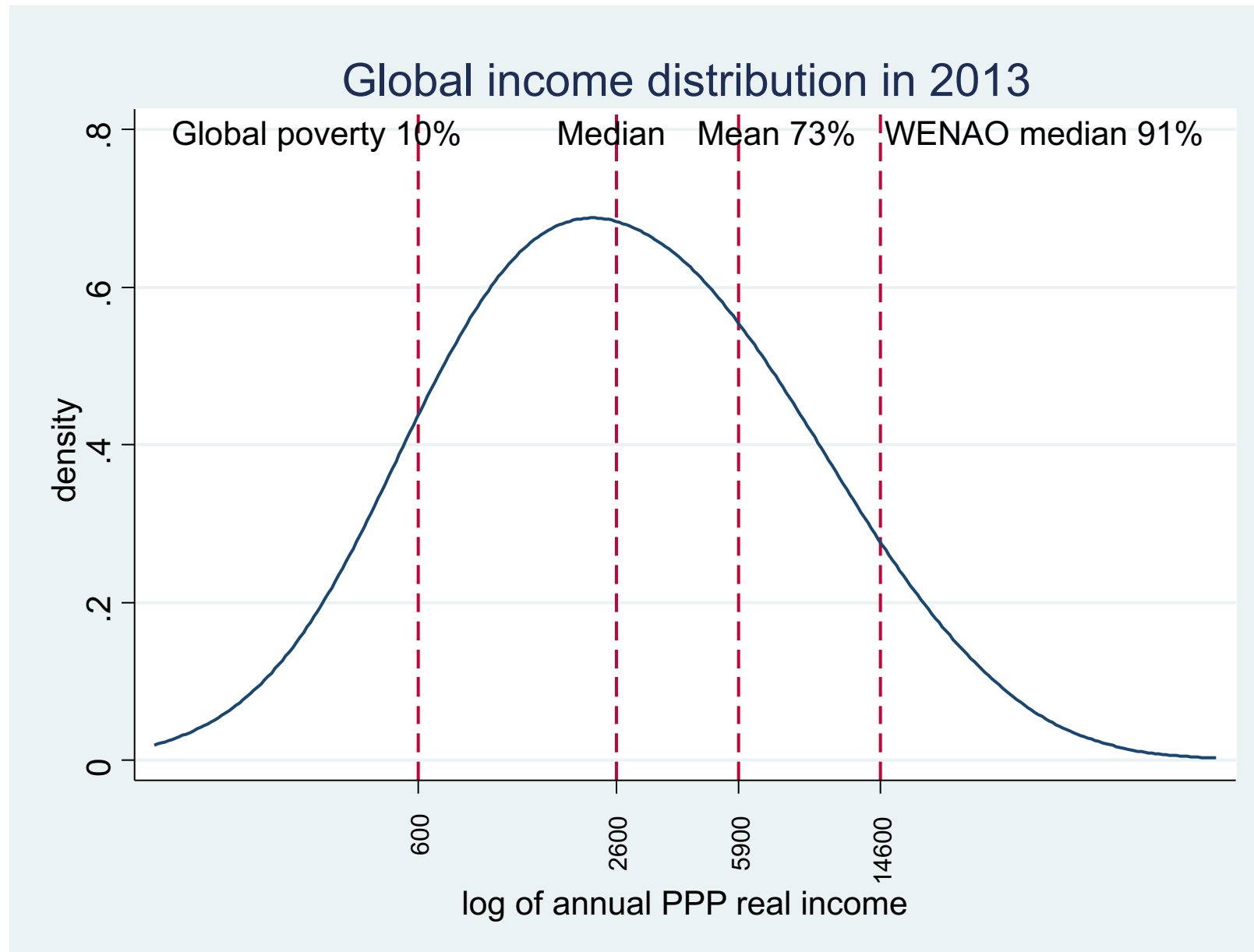
# The watershed years, 1978-91

- 1978: Deng: responsibility system: quasi privatization of land
- 1979: Thatcher: privatizations etc.
- 1980: Reagan: deregulation etc.
- 1983: Mitterrand changes course
- Mid-1980s: Gonzalez invents (avant la lettre) the “new labor”
- 1985: Gorbachev begins to dismantle planned economy
- 1991: India liberalizes

Within approximately a decade, W Europe, USA, China, Russia/Eastern Europe, India (60% of the world population) started living under a very different system than before.

# The emergence of the “global middle/median class”

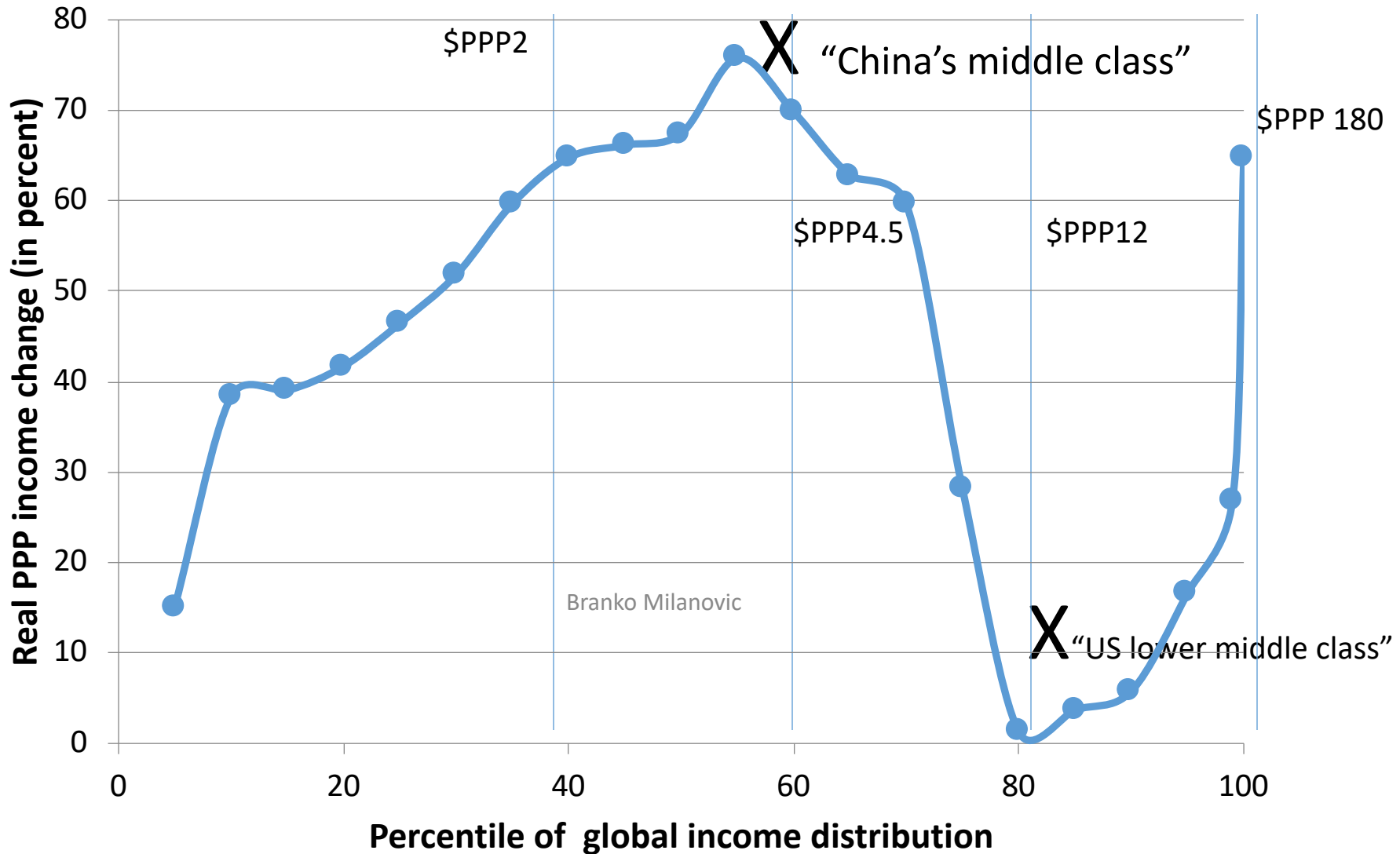




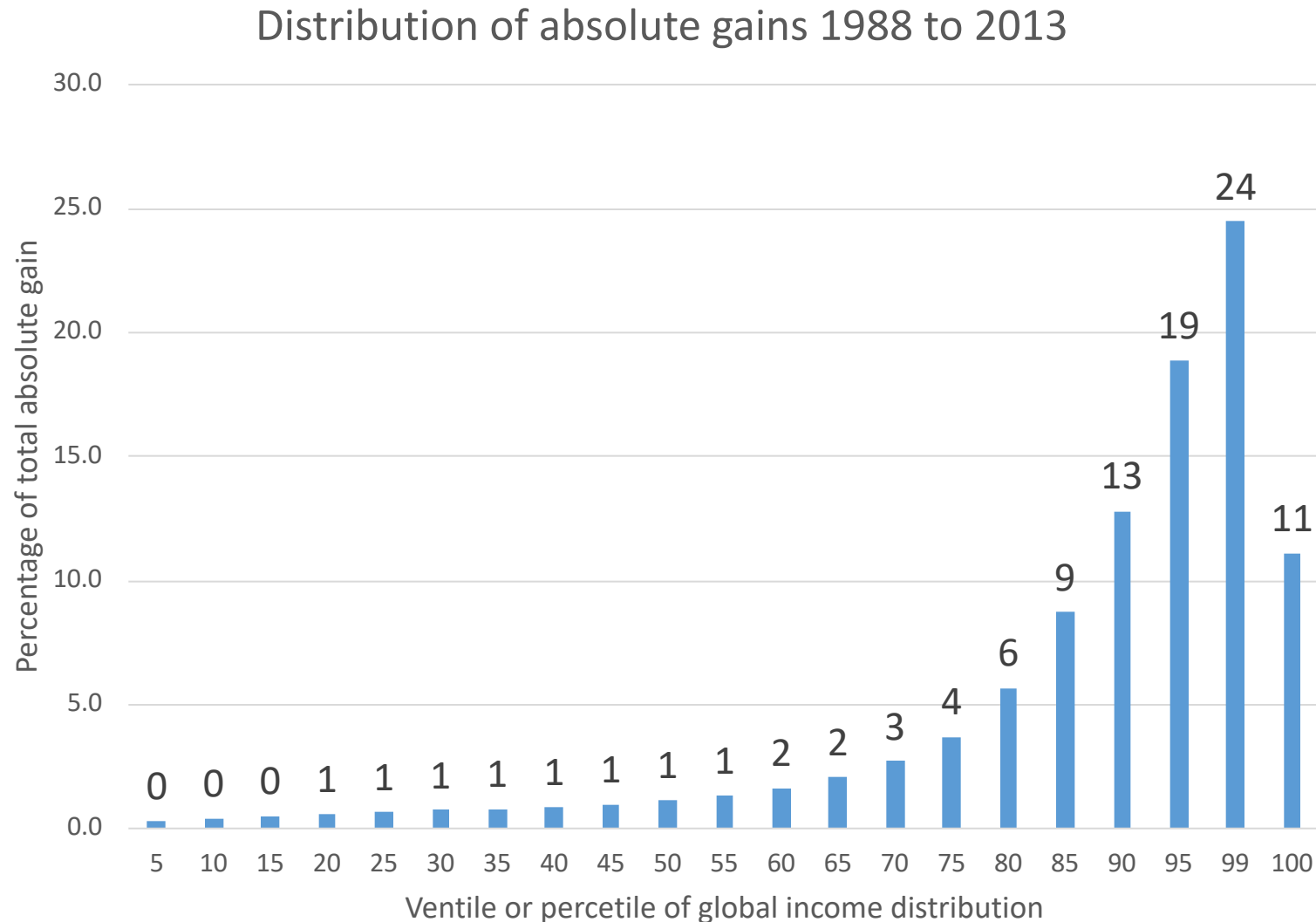
twoway (kdensity loginc [w=popu] if loginc>2, bwidth(0.2)) , legend(off) title(Global income distribution in 2013) xtitle(log of annual PPP real income) ytitle(density) xlabel(2.8"600" 3.4"2600" 3.77"5900" 4.2"14600", labszsize(small) angle(90)) xline(2.8, lpattern(dash)) xline(3.4, lpattern(dash)) xline(3.77, lpattern(dash)) xline(4.2, lpattern(dash)) text(0.8 2.5 "Global poverty 10%") text(0.8 3.4 "Median") text(0.8 3.9 "Mean 73%") text(0.8 4.7 "WENAO median 91%")



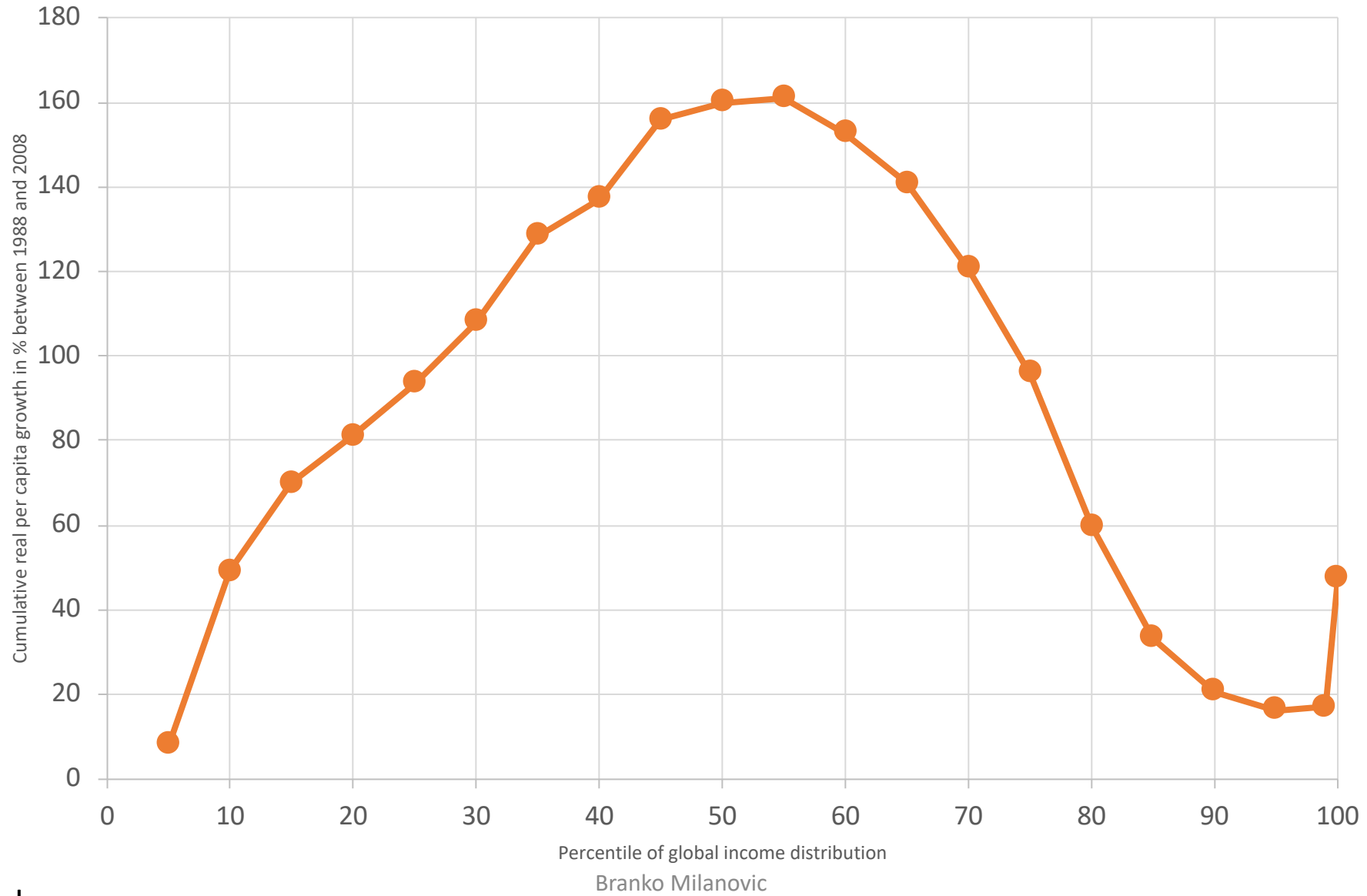
# Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)



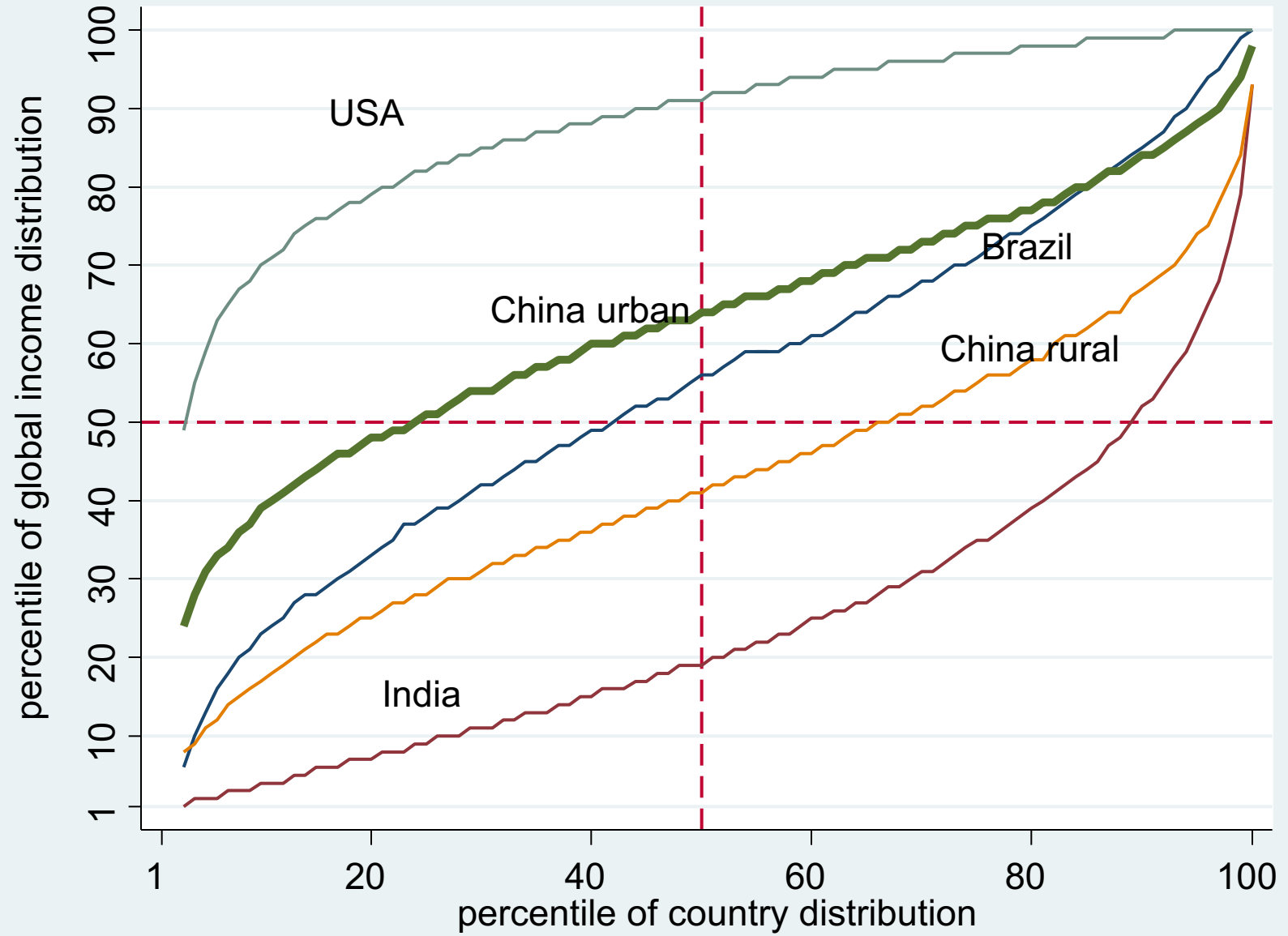
# Distribution of global absolute income gains: more than a third to the global top 5%



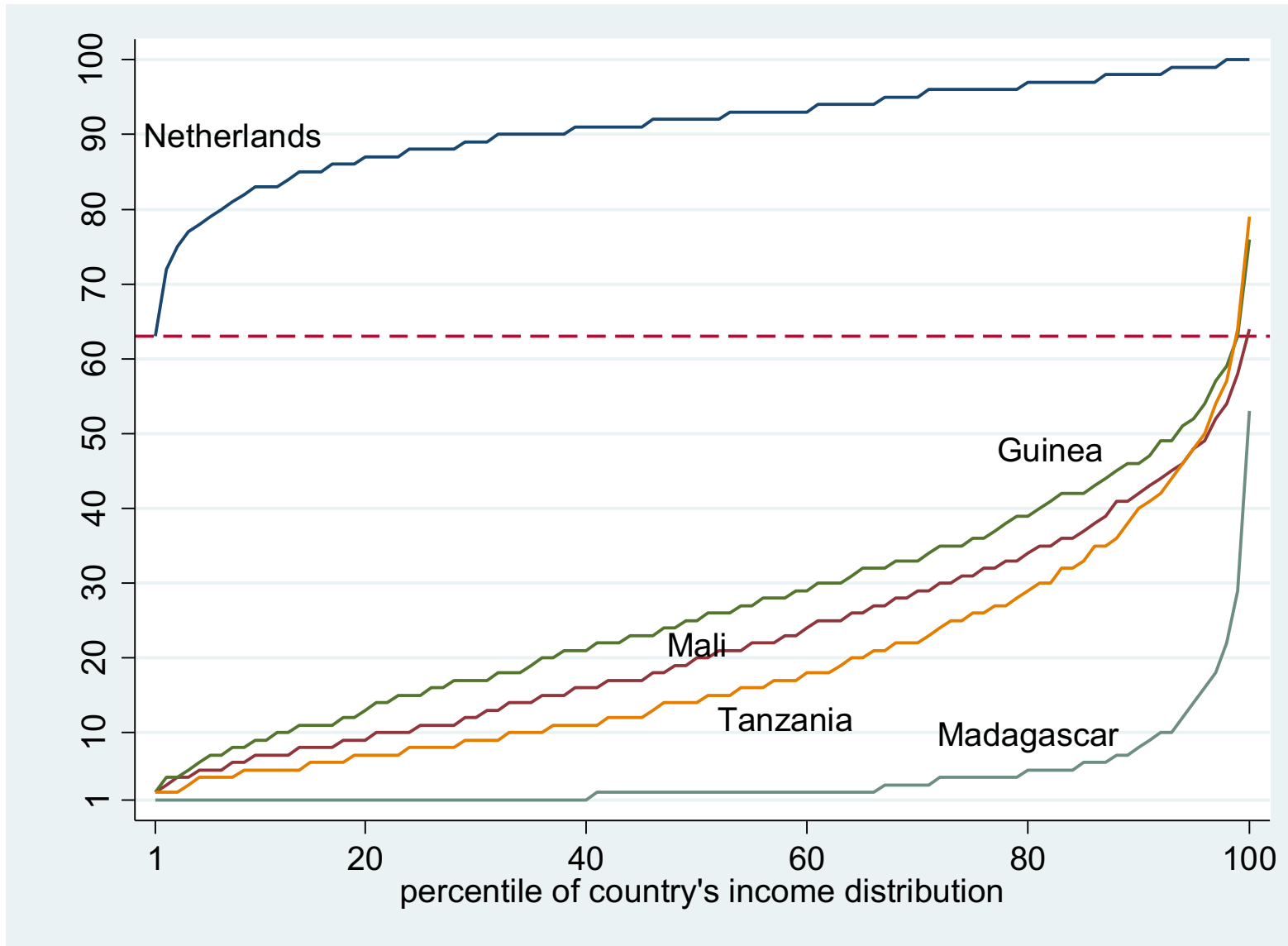
# Real income growth over 1988-2013 (based on 2011 PPPs)



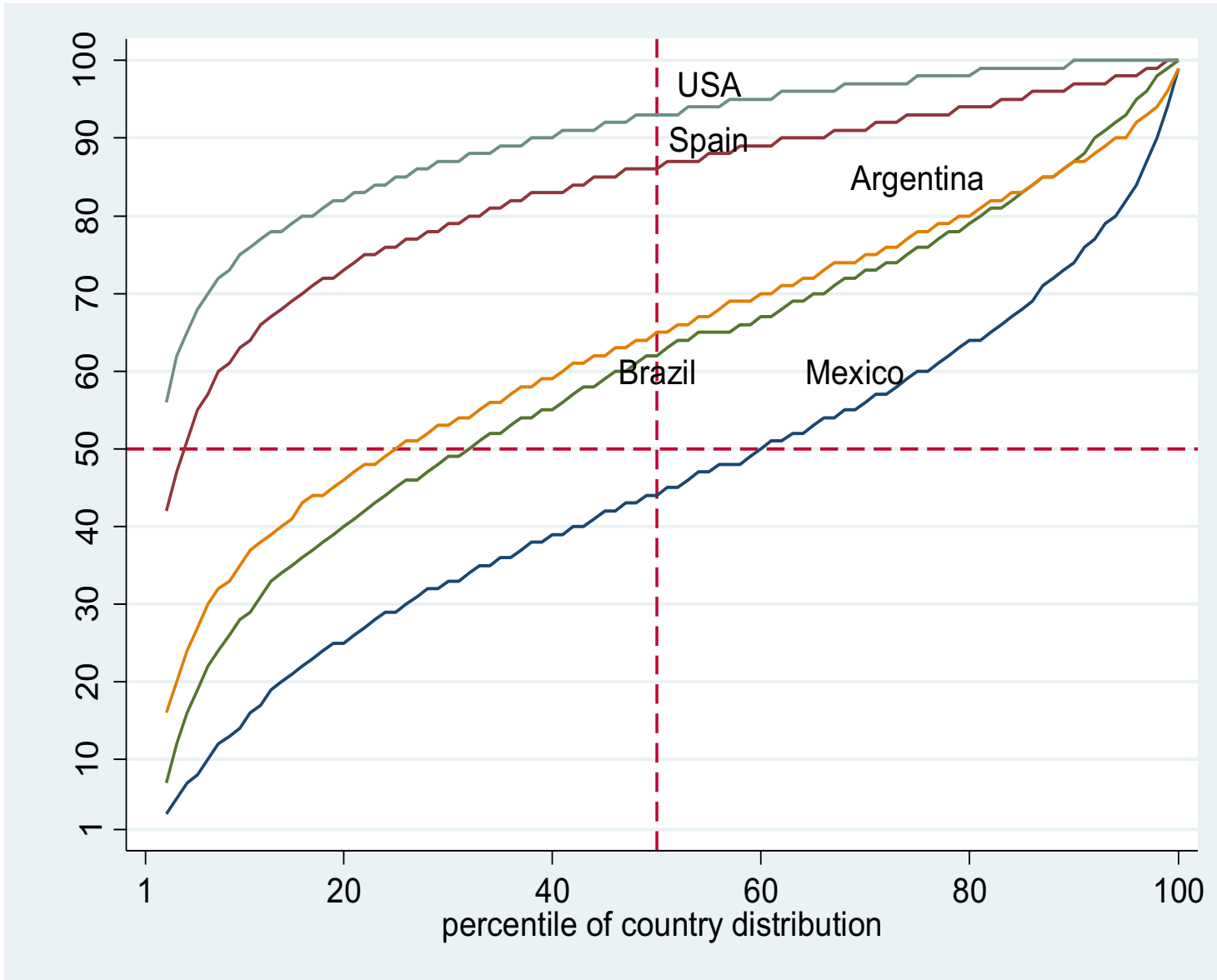
# Position of national income percentiles in global distribution



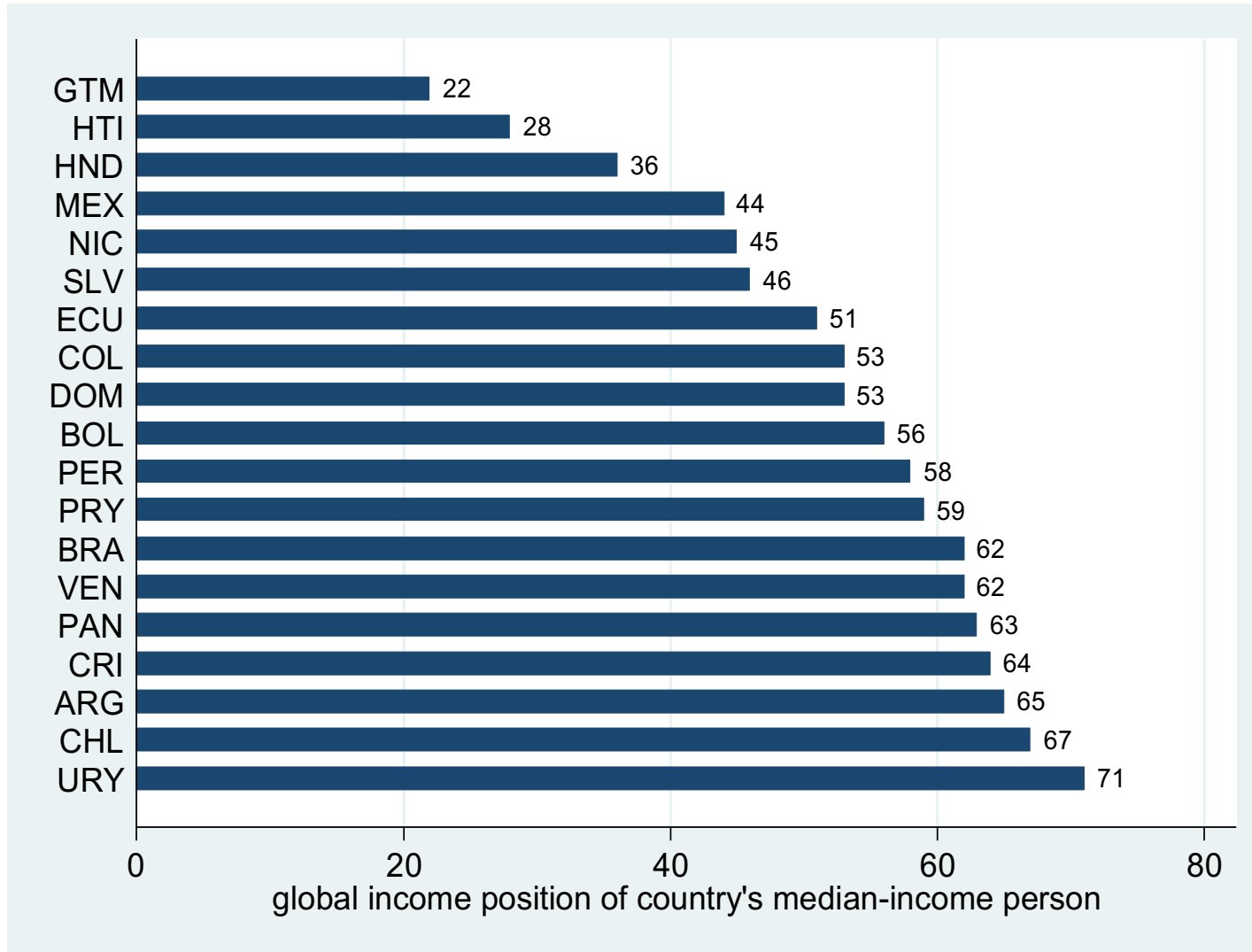
# Why international aid is unlikely to involve regressive transfers?



# Latin American countries in global income distribution, Year: 2013 all incomes in 2011 PPPs



# Latin America and the Caribbean: The position of a person with national median income in global income distribution (2013-14)



For comparison: rich countries' average is around 90.  
Spain = 86  
USA = 93

# Optimal global distribution: the Rawlsian world

- For Rawls, global optimum distribution of income is simply a sum of national optimal income distributions
- Why Rawlsian world will remain unequal?



# Global Ginis in Real World, Rawlsian World, Convergence World...and Shangri-La World (Theil 0; year 2013)

	Mean country incomes	All equal	Different (as now)
Individual incomes within country			
All equal		0	44 (all country inequality=0)
Different (as now)		31 (all mean incomes same; all country ineqs as now)	75

# Global political issues: Back to Mandeville?

- Possible crowding out of national middle classes, and the creation of a global one
- But the middle class is presumably a force for stability when there is a political community. There is no political community at the global level. What does global middle class mean?
- Would global middle class create a global polity?
- Or, global plutocracy: in the longer-term, reversal to the pre World War I situation
- Who is “the top 1%”: global or national?
- Can something that is bad nationally (increased inequality) be good globally (decreased inequality)?
- **Can national vices produce global virtue?**

The end

# Technical issues in the measurement of global inequality

## Three important technical issues in the measurement of global inequality

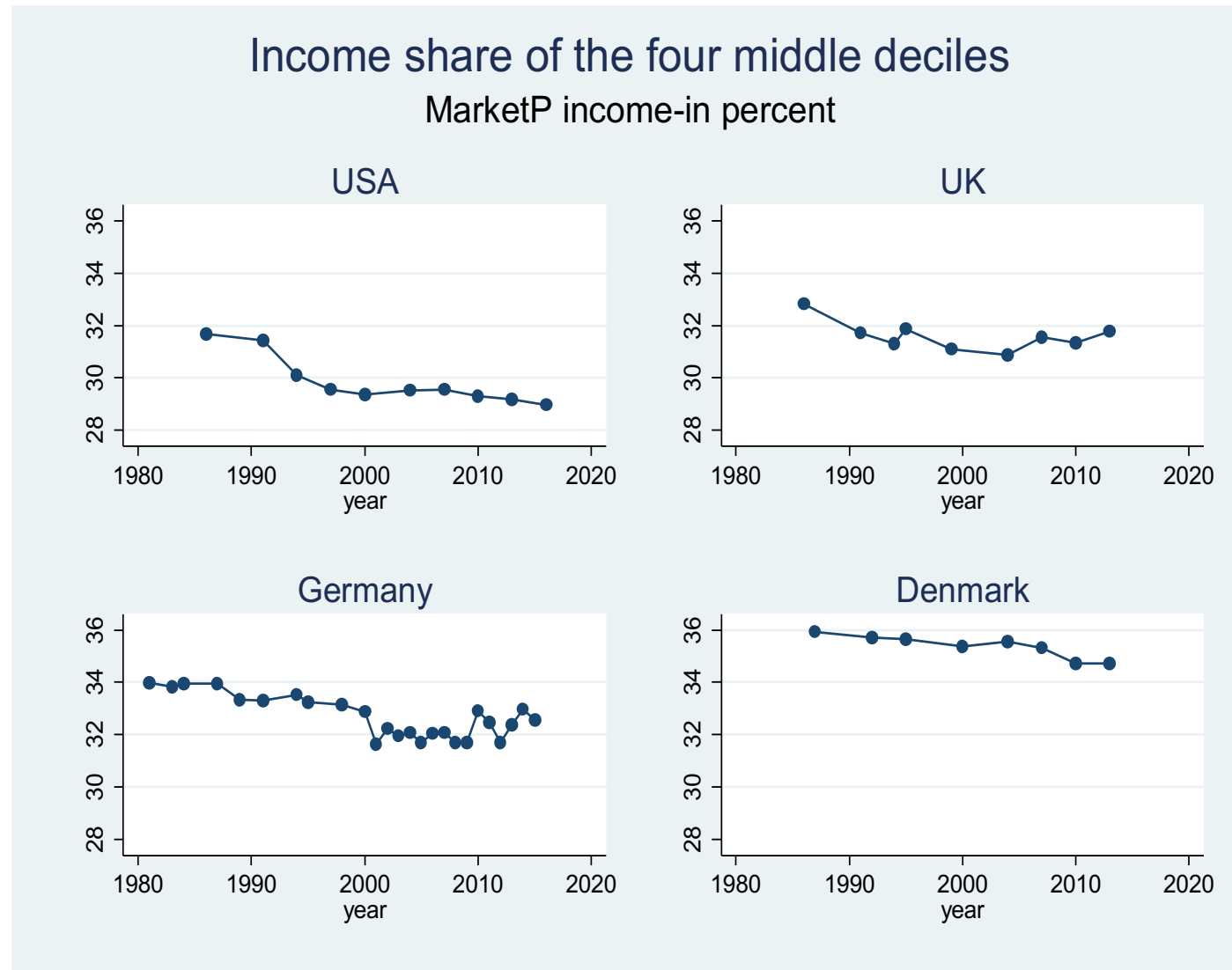
- The ever-changing PPPs in particular for populous countries like China and India
- The increasing discrepancy between GDP per capita and HS means, or more importantly consumption per capita and HS means
- Inadequate coverage of top 1% (related also to the previous point)

# Rising NAC/HS gap and top underestimation

- If these two problems are really just one & the same problem.
- Assign the entire positive (NA consumption – HS mean) gap to national top deciles
- Use Pareto interpolation to “elongate” the distribution
- No *a priori* guarantee that global Gini will increase
- A memo: why simply replacing top incomes with top income shares from tax data is not a very good solution
- Blanchet, Flores, Morgan method tries to solve this issue but does so only for countries for which both data types exist and “transforms” survey data definition to fit tax data definition

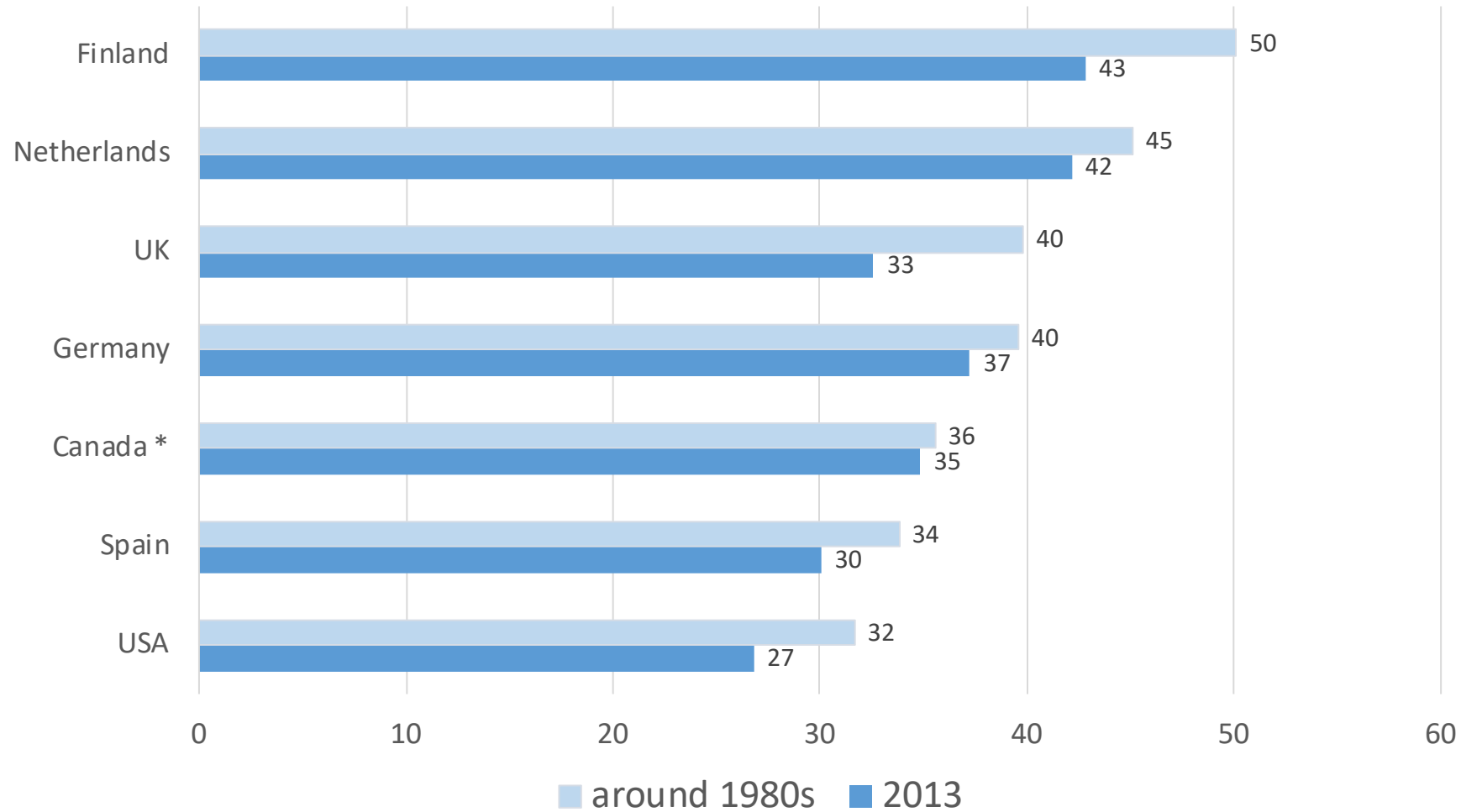
The past twenty-five years in the rich world

# Income stagnation and shrinkage in the size of the western middle classes





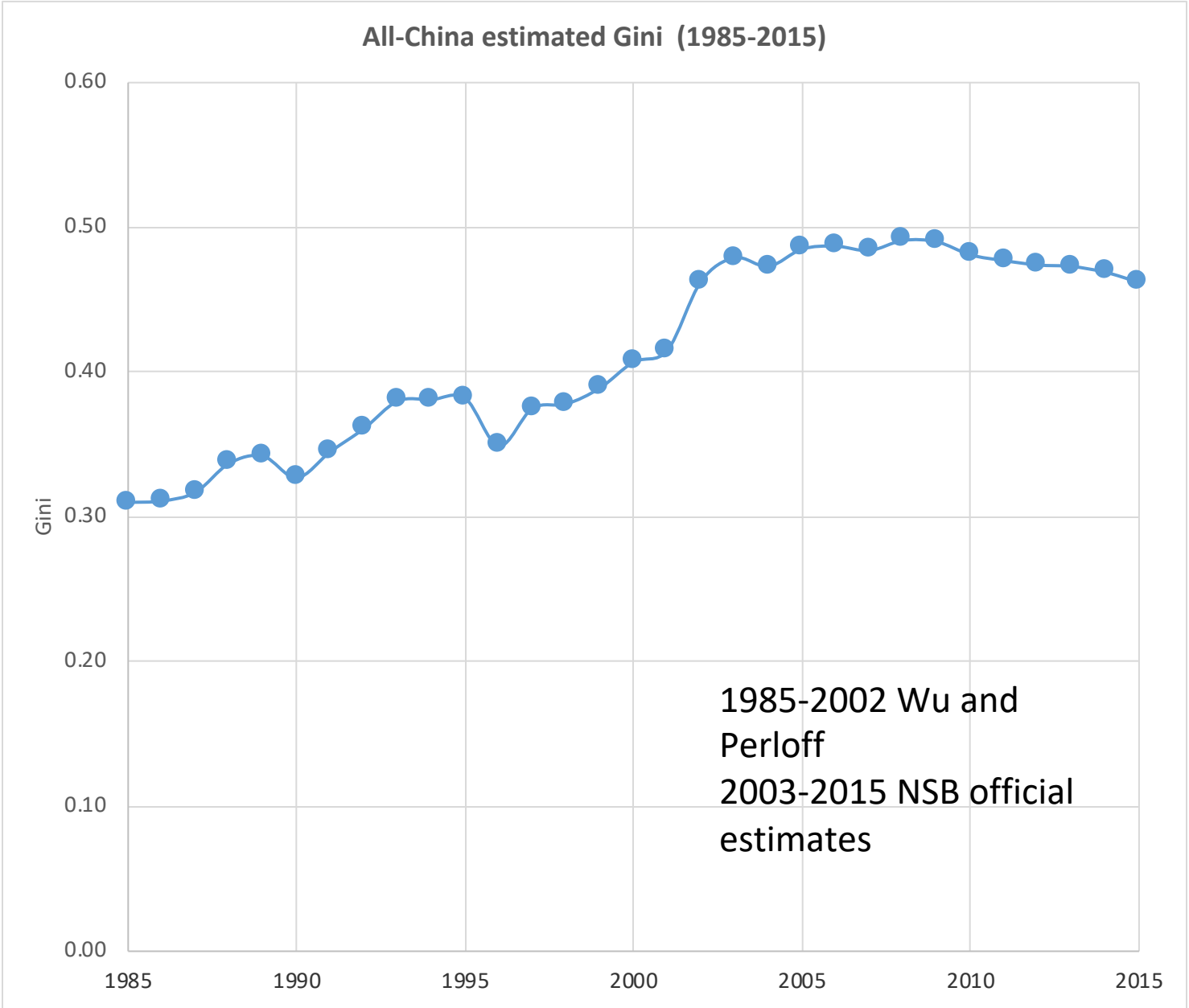
## Percentage of population considered middle class in early 1980s and 2013



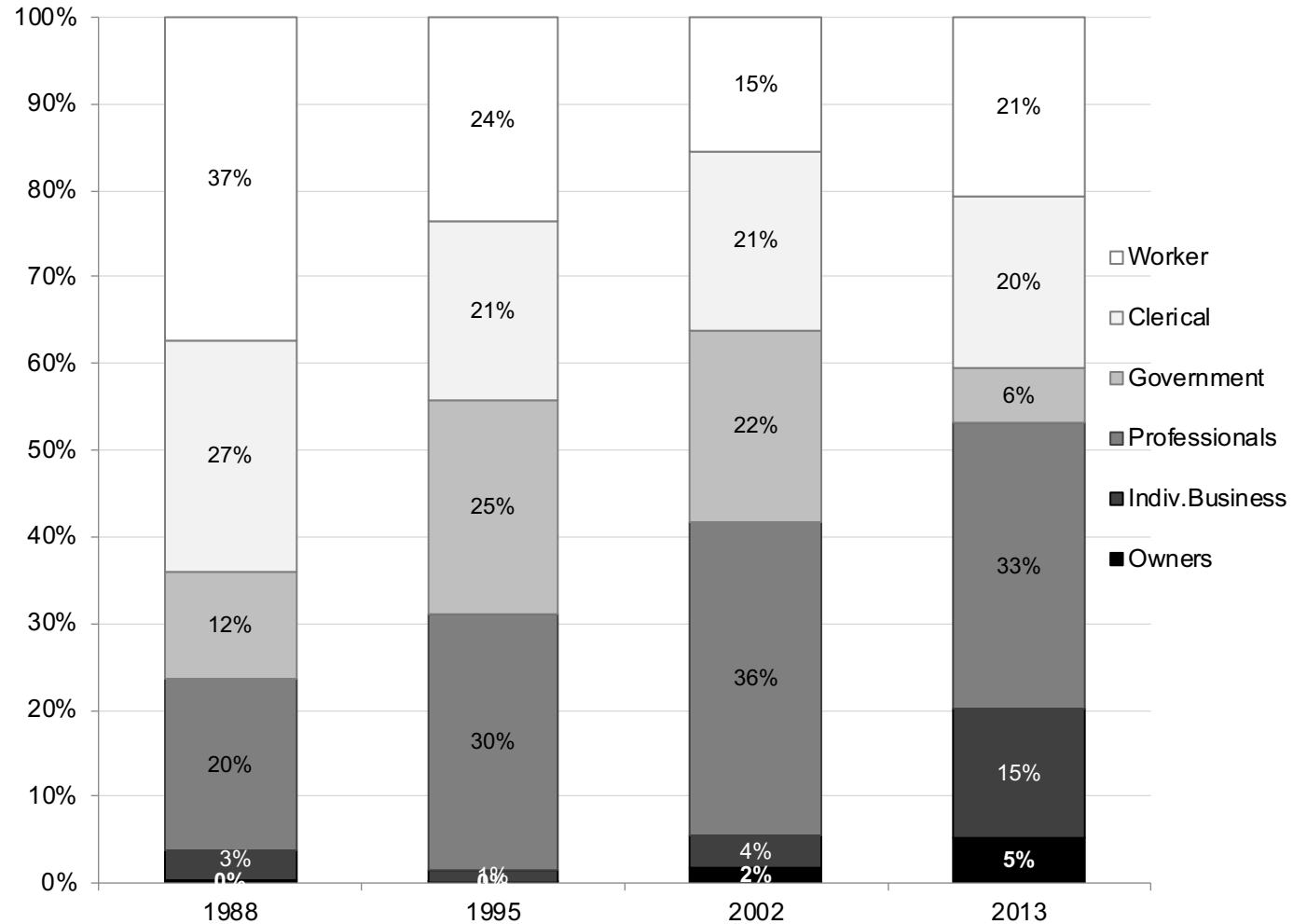
The middle class defined as population with income between +/-25% of national median income (all in per capita basis; disposable income; LIS data)

And in Asia

# China

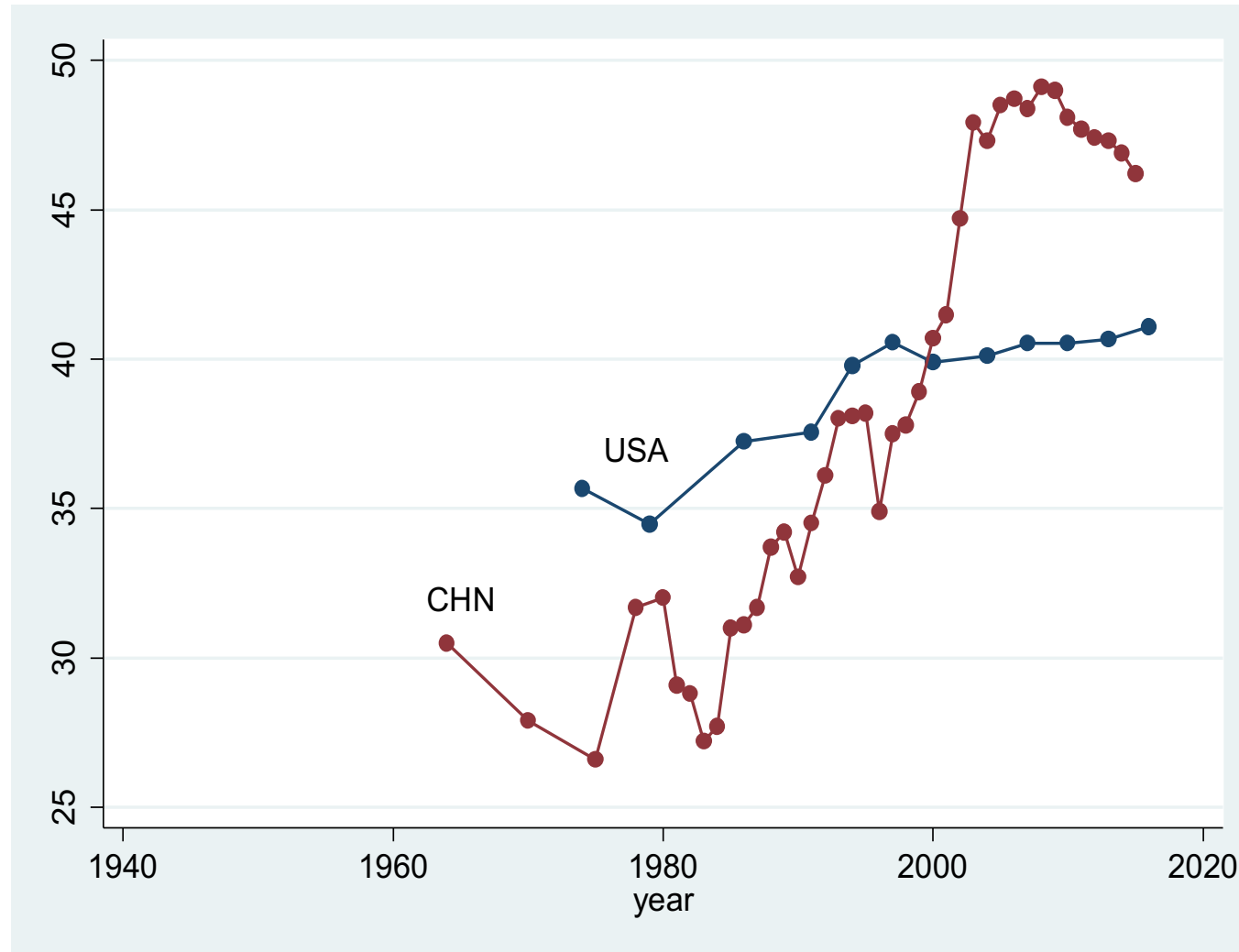


# Embourgeoisement of China: the composition of the top 5% from $\frac{3}{4}$ government and SOEs to 50+% businessmen and professionals



From Yang, Novokmet  
and Milanovic, 2019

# Inequality in China and the United States, 1950-2015

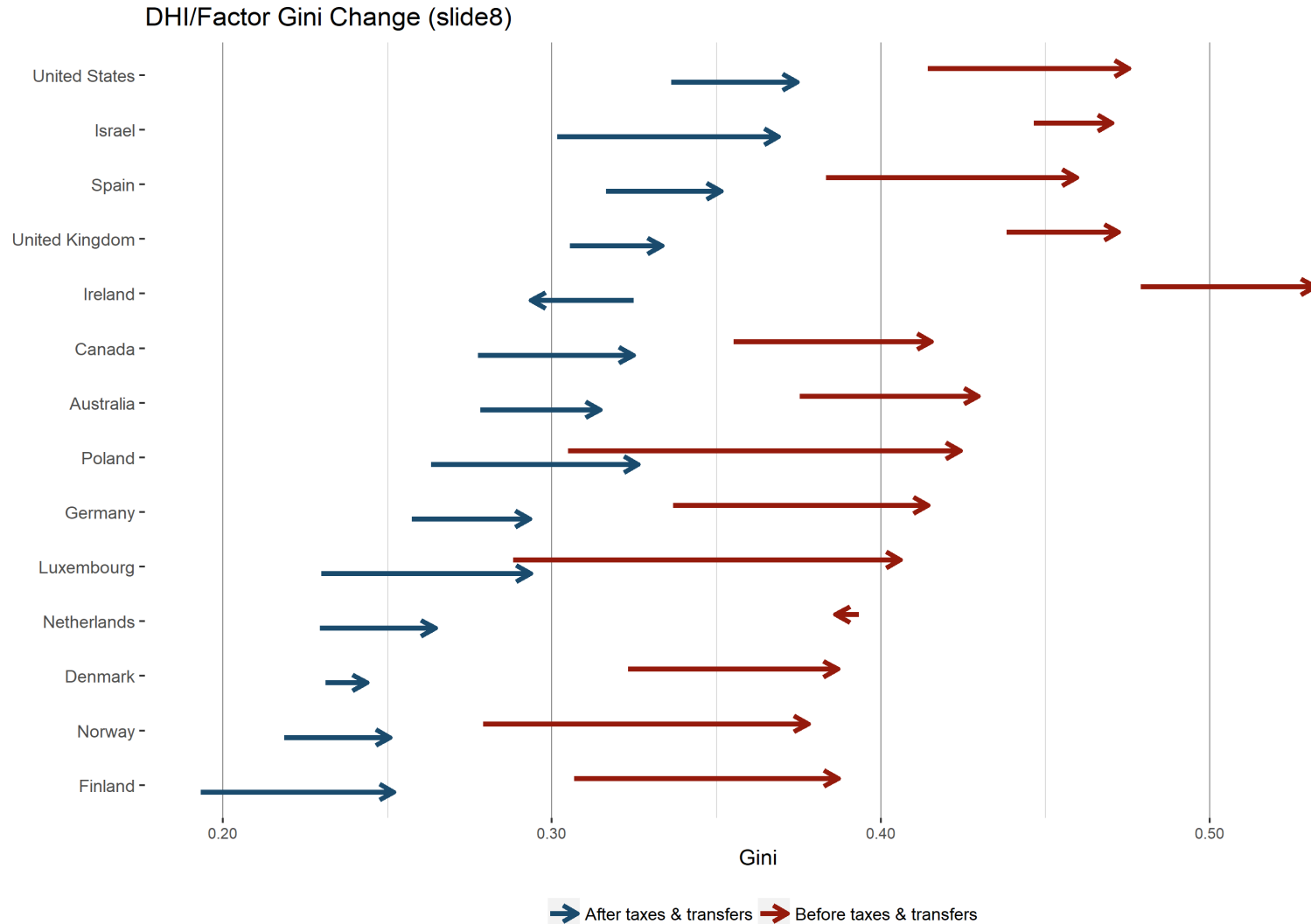


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legend(off) text(37 1978 "USA") text(32 1965 "CHN")) using All the Ginis
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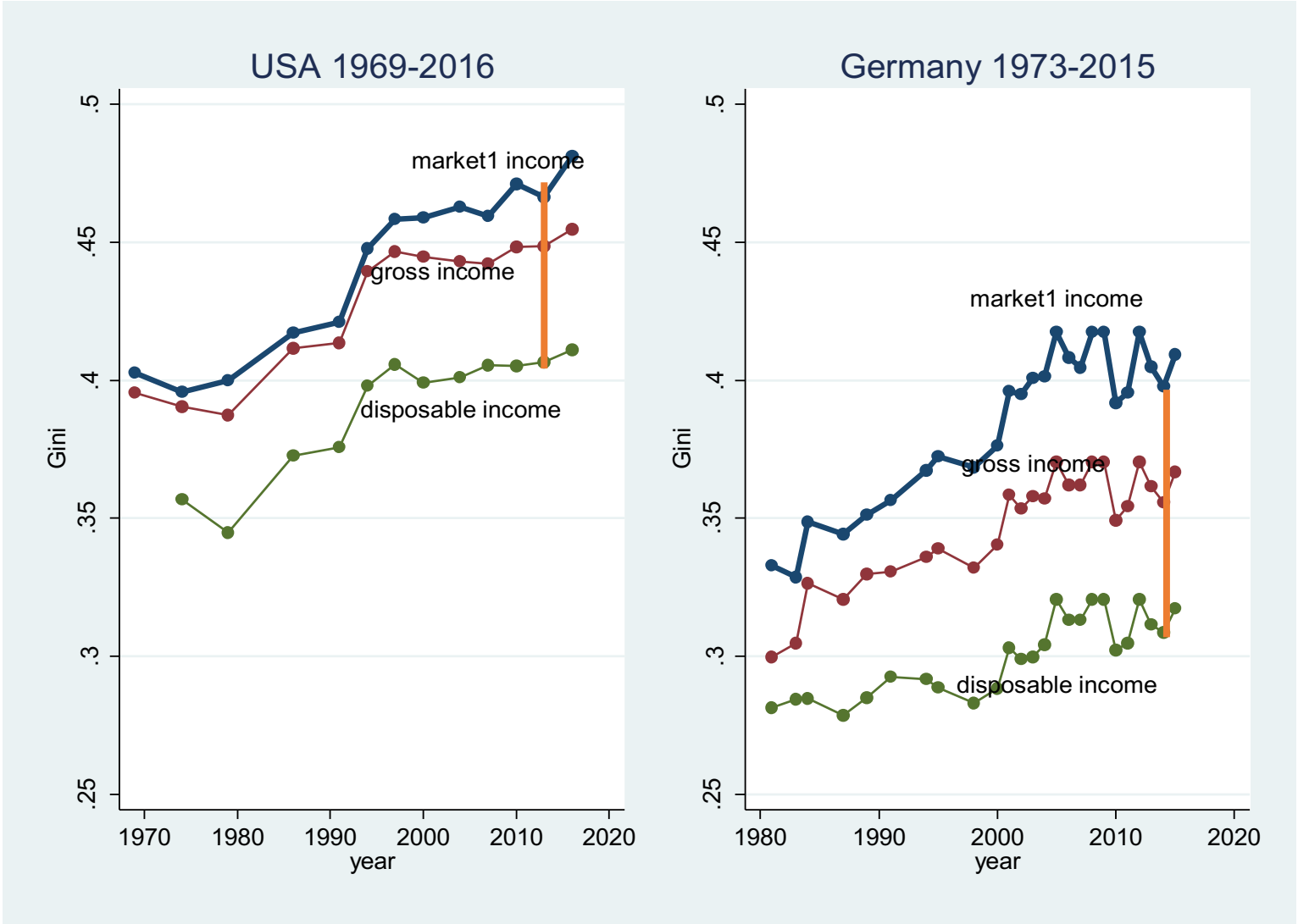
# The role of policies in rich countries

# The headwinds of rising market (pre-redistribution) income inequality

Market ("factor") income and disposable household income, Ginis, [non-elderly households](#) – change, approx. 1985 to approx. 2013



# The role of economic policies in offsetting the increase in marketP income inequality



MarketP (or market1) income inclusive of state pensions (social security) considered as deferred wages. Calculated from LIS data

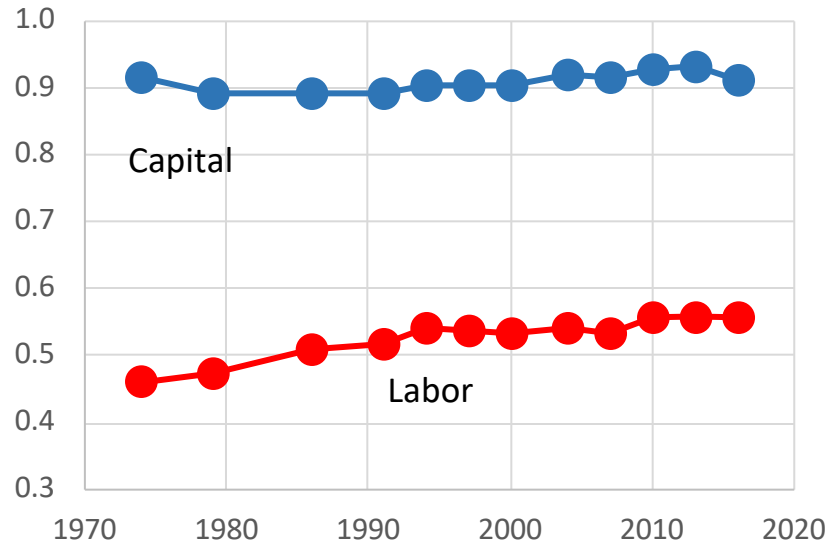


# Systemic inequalities in liberal/meritocratic capitalism

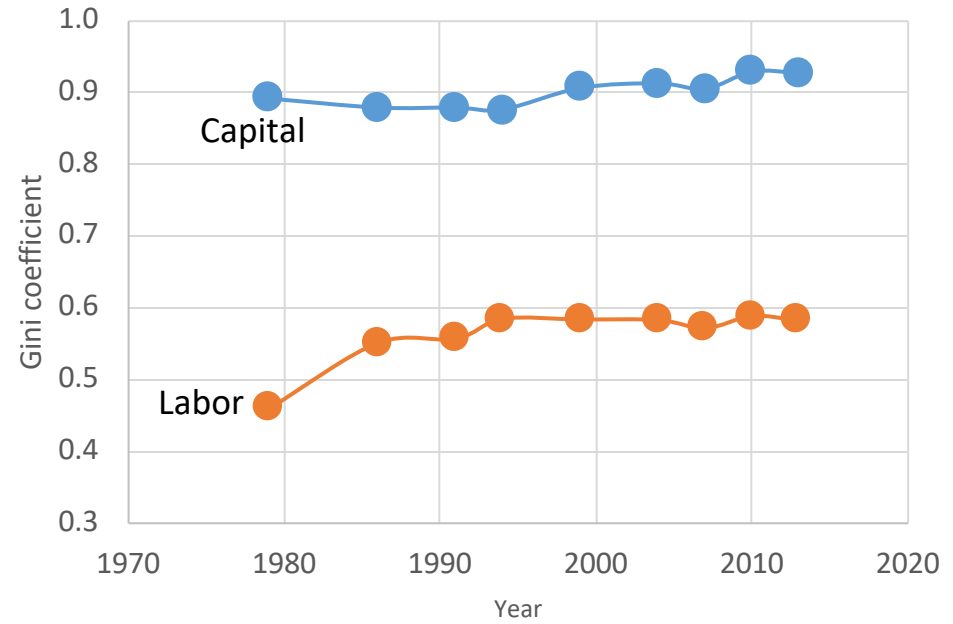
- 1. Increasing aggregate share of capital in national income
- 2. High concentration of capital ownership
- 2a. Higher rate of return on the assets of the rich
- 3. Association of high-capital and high-labor incomes in the same individuals (*homoploutia*)
- 4. High homogamy (assortative mating)
- 5. Increasing control of the political process by the rich (movement toward plutocracy)
- 5a. Greater transmission of income and wealth across generations

Ginis of capital and labor income and  
quasi automatic transmission of rising capital  
share into greater inter-personal inequality

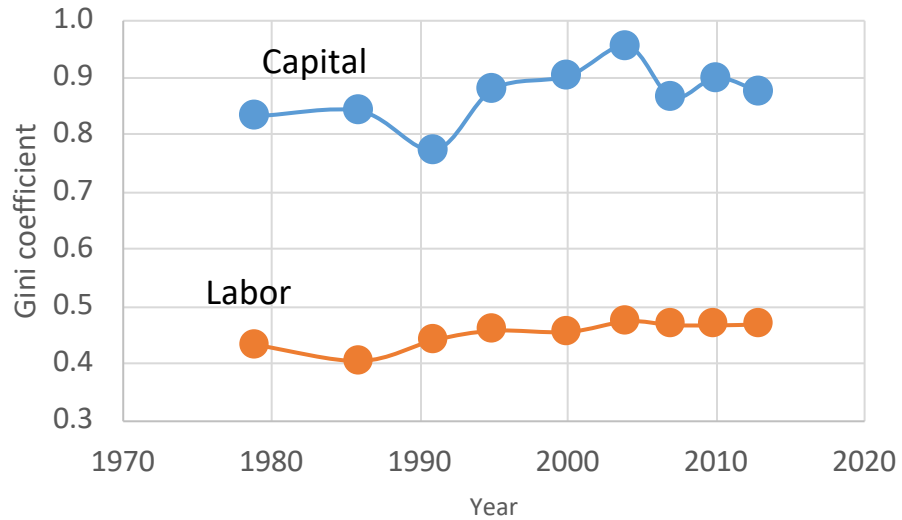
### USA, 1974-2016



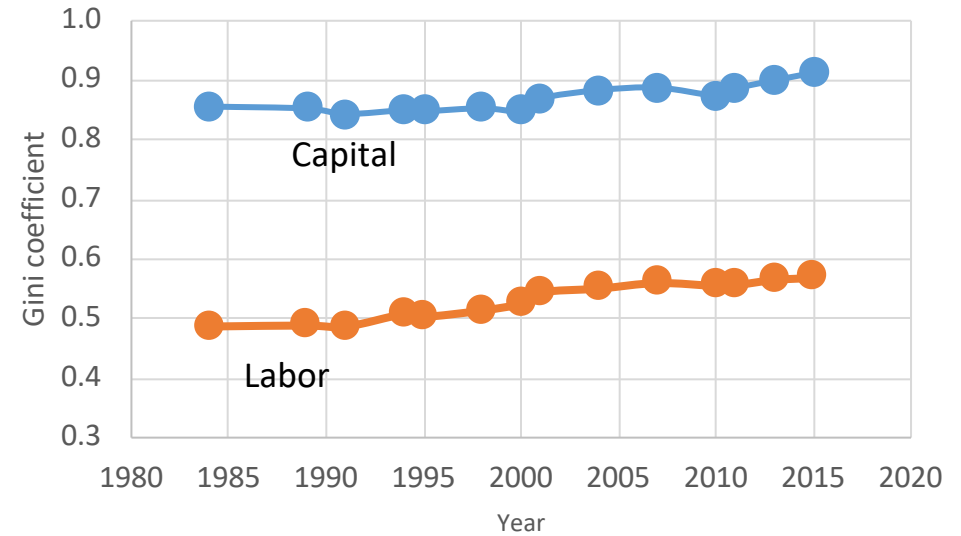
### UK, 1979-2013



### Norway, 1979-2013



### Germany, 1984-2015



# Policy implications

- Rich countries can expect to have an ever greater K/Y ratios. Unless  $r$  drops proportionally, capital share is likely to continue to rise.
- With the current K and L endowments, that implies that each additional point in K share translates into about  $\frac{1}{2}$  Gini point increase in personal income inequality. Is this sustainable, if e.g. the share of capital goes up by 10 points?
- Technically the link can be weakened by increased taxation of income from capital which would reduce Gini of capital income, may leave the distribution of assets (K) more or less unchanged, and could slow down the increase in K/Y.
- But four key tools of inequality reduction from the 20th century are weaker now: education, trade unions, taxes, social transfers

# Why tools from the 20<sup>th</sup> century will not work?

- **Education** in quantitative sense will have much less of a “bang for a buck” and will not by itself reduce the skill premium
- **Trade unions** are on the decline because the nature of work in service-oriented and globalized economy has changed
- Increases in **taxation** of current income are unlikely because the trust in the government is less
- New **transfers** cannot be financed; aging of the population and anti-migrant feelings further limit what can be done
- And one unlikely danger: **homoploutia**: more meritocratic capitalism where top wage earners are also top K earners (and the reverse) makes taxation more difficult

# What could possibly be done?

- Improved quality of education and [much easier access to education](#) for all—that is, investing for stronger public education rather than the opposite trend of ever stronger private education
- [Deconcentration of ownership and income from capital](#) through the use of tax incentives; a long and arduous process
- Employee-stock ownership plans
- Higher taxation of inheritance (not current income)
- Change in the rules re. financing of political campaigns (especially in the United States)

# Ok, what are the messages?

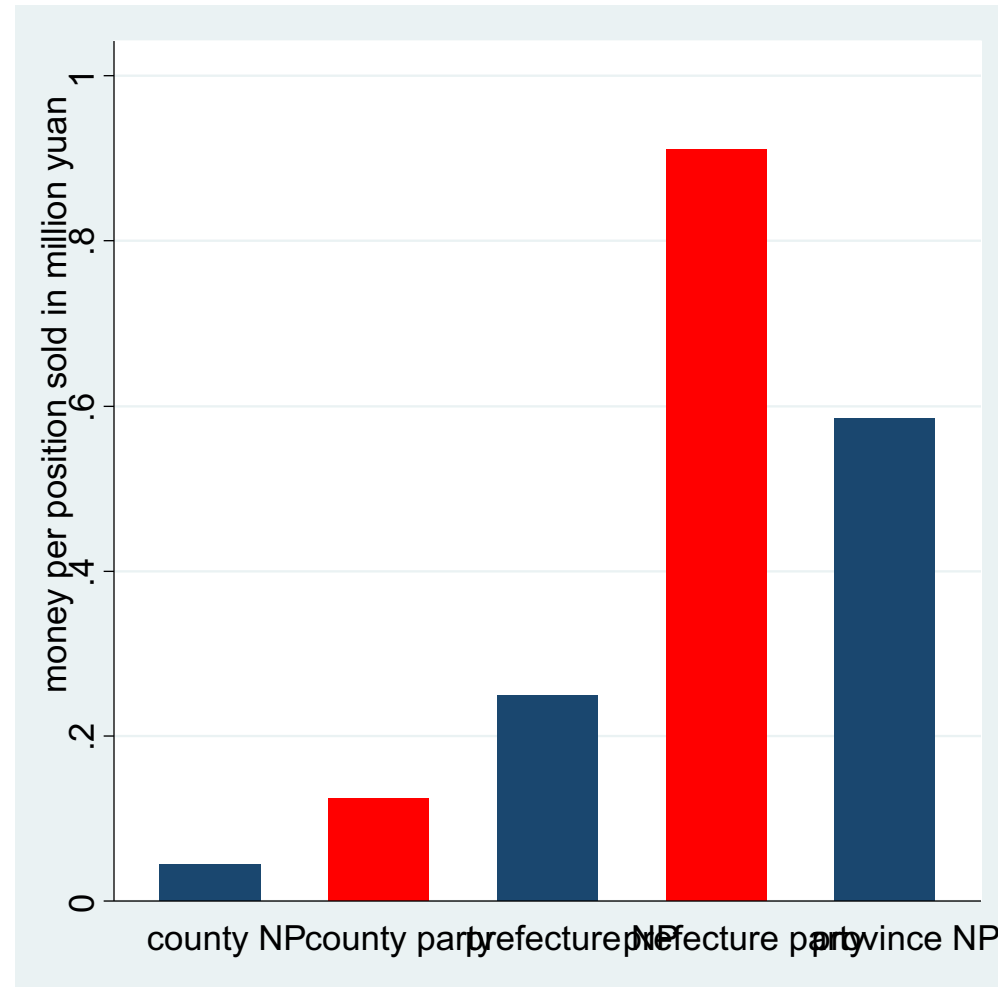
- Maintain globalization, but do not expect that it will help everybody
- Improve domestic redistribution precisely because globalization is not good for all
- Expect that the shift of relative economic power to Asia will continue
- Improve quality and access to education
- Broaden ownership of capital
- Tax inheritance
- Do not “kill” migration but make it politically more palatable (by reducing migrants’ rights)
- Realize that Europe is also part of the Greater Middle East
- Reform the funding of political parties and elections

Additional topics



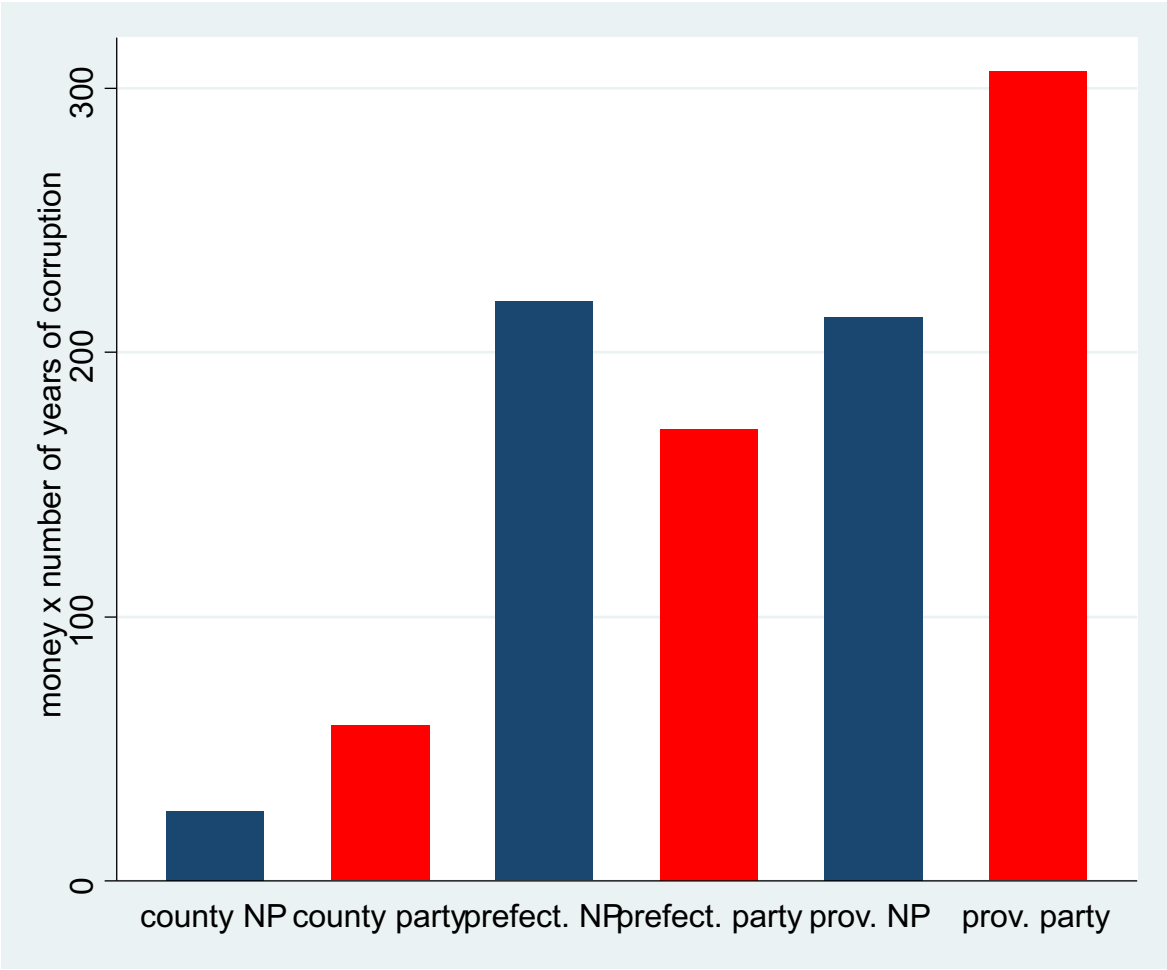
Inequality and corruption

# Money earned per position sold at different administrative levels (in million of current yuan)



Calculated from data in Minxin Pei's "China's crony capitalism; from corrupt.dta

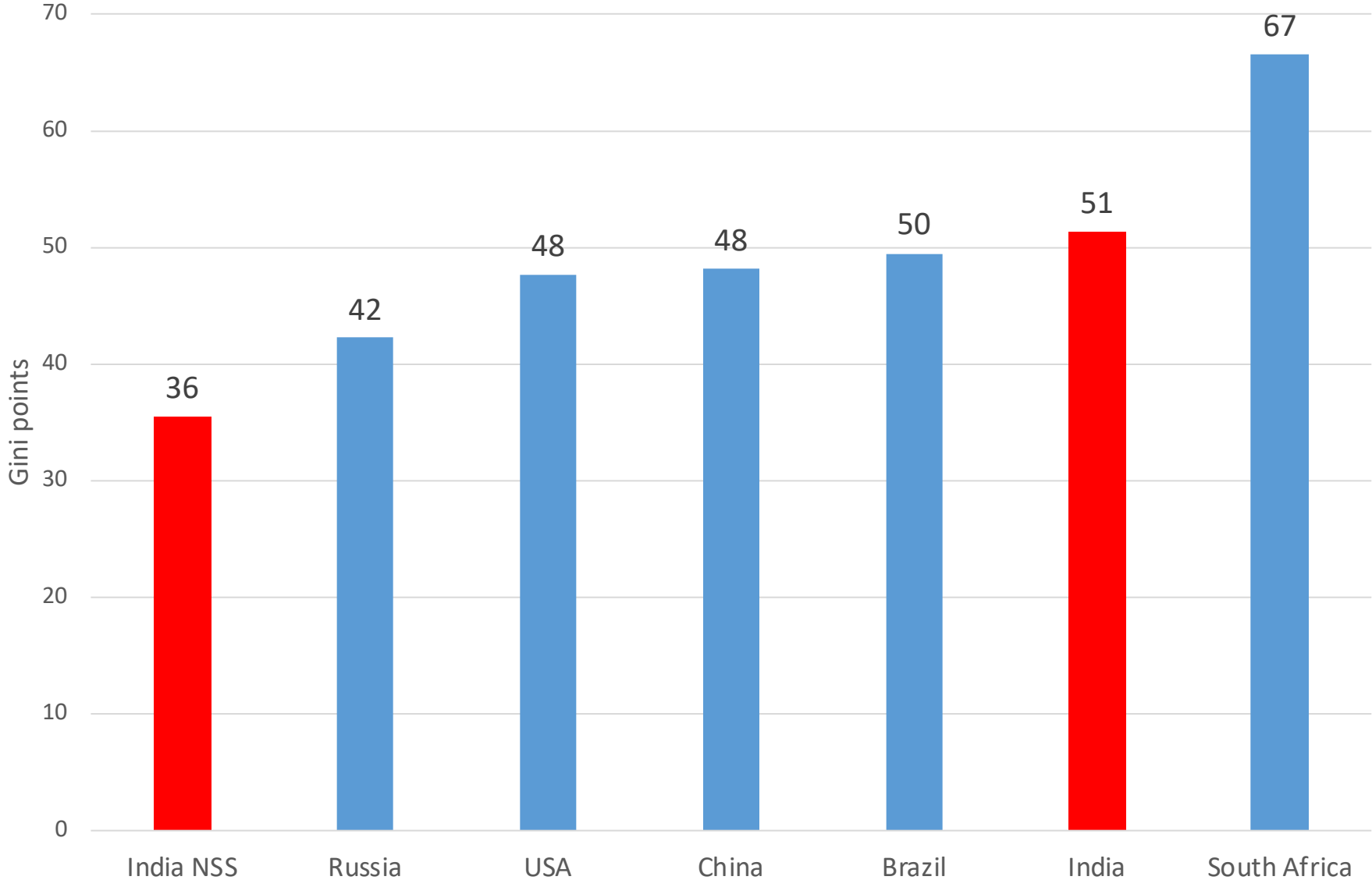
# Money x number of years of corruption involving multiple officials



Calculated from data in Minxin Pei "China's crony capitalism"; from corrupt.dta

# India

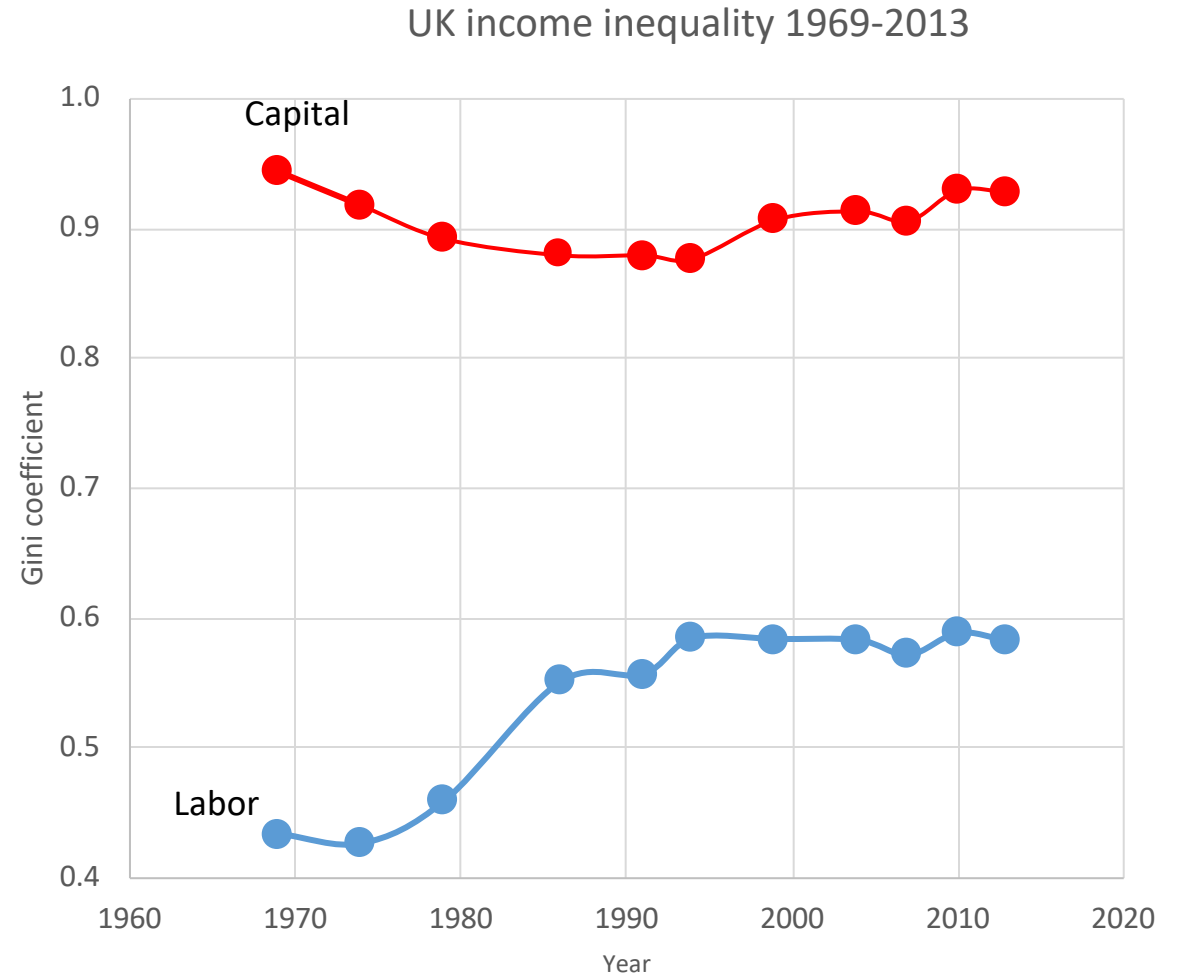
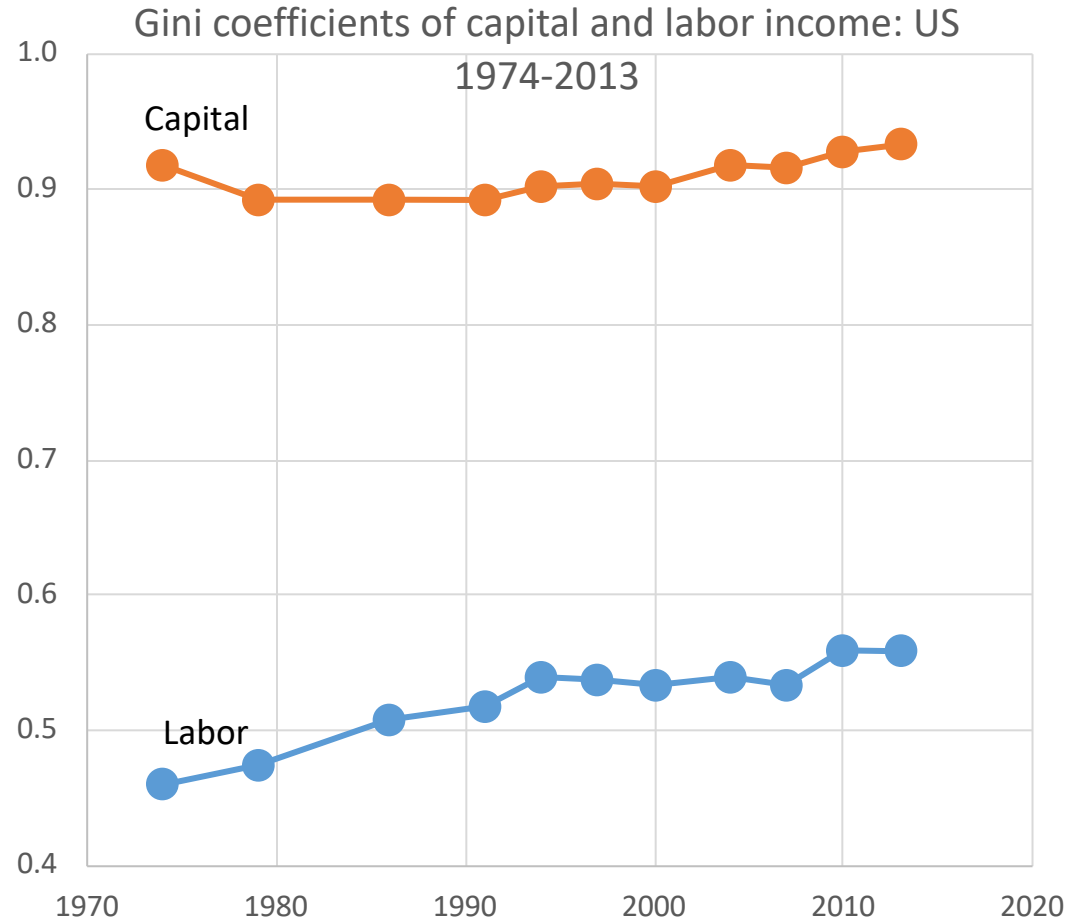
Income inequality around year 2011 (household per capita income or NSS consumption)



# Issues of justice and politics

1. Citizenship rent
2. Migration and national welfare state
3. Hollowing out of the rich countries' middle classes

# Increased inequality of both labor and capital incomes



# 1. Is citizenship a rent?

- If between  $\frac{2}{3}$  and  $\frac{3}{4}$  of our lifetime income is determined by citizenship, then there is little equality of opportunity *globally* and citizenship is a rent (unrelated to individual desert, effort)
- Key issue: Is global equality of opportunity something that we ought to be concerned or not?
- Does national self-determination dispenses with the need to worry about GEO? Rawls' and statist's point.
- Migration is an attempt to “dilute” or share the rent/premium => implication for migration policies

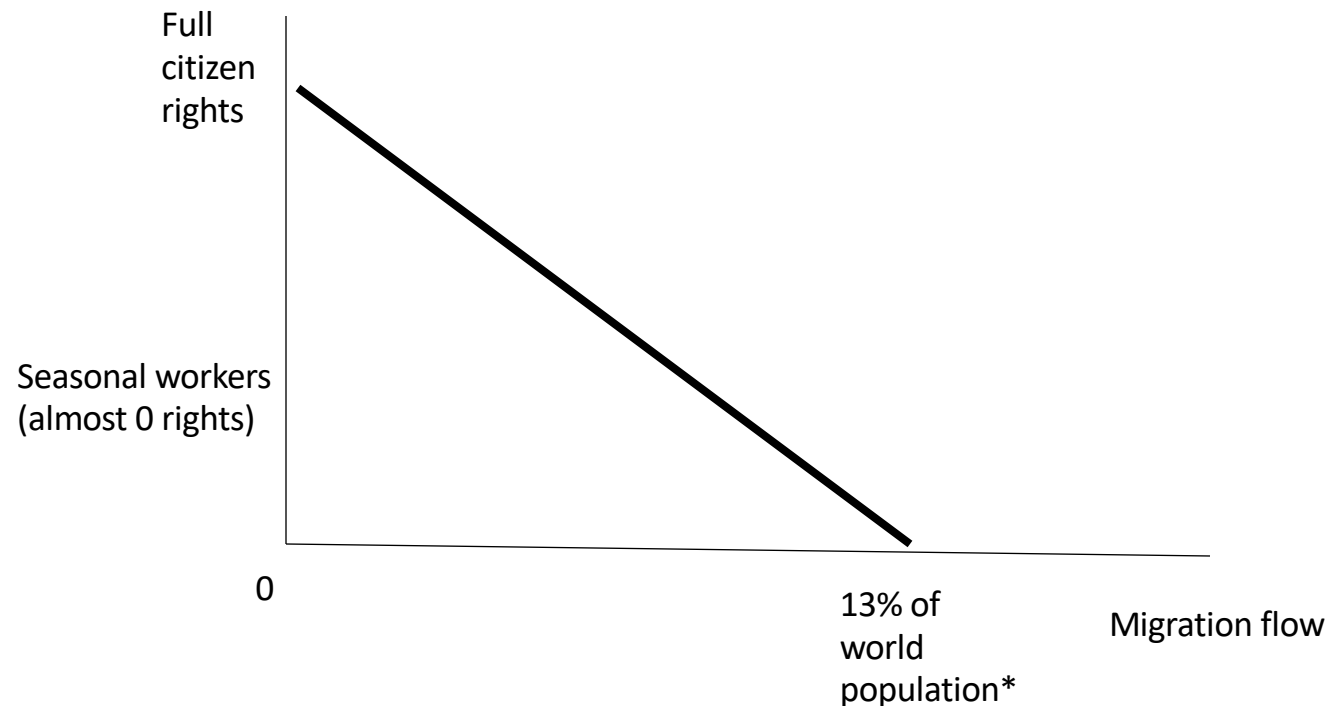
Extras



# (another) Trilemma of globalization

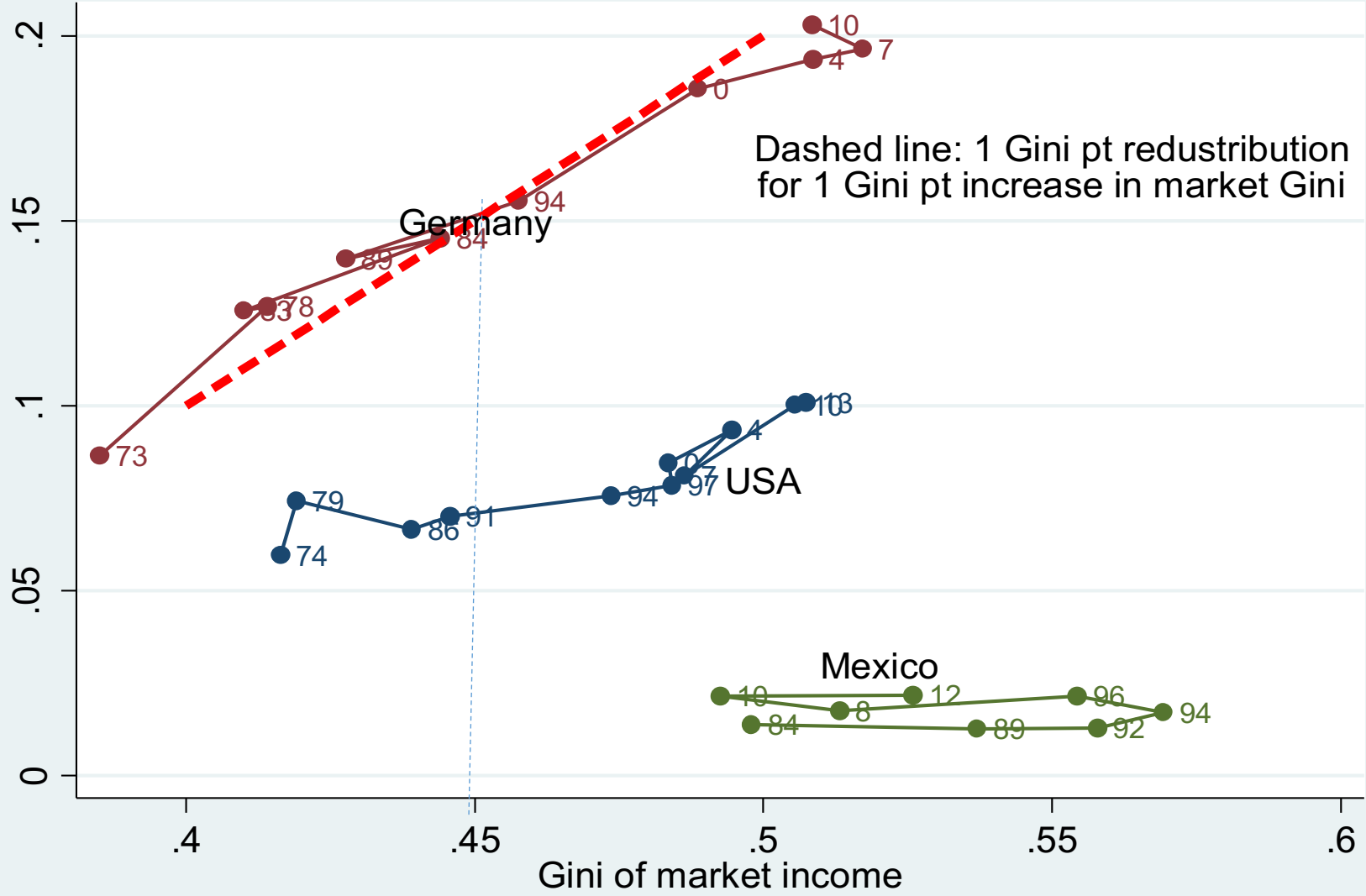
- You cannot have (A) large differences in mean country incomes, (B) globalization and (C) no structural migration.
- If A + B as today then migration.
- If A + C then no globalization.
- If B + C then you have to have homogeneous countries like EU15.
- EU, because of significant East-West and North-South income differences is, in a very modest way, a replica of the world
- EU migration problems stem from moving, as result of enlargement, from the situation (B+C) to (B+A) => Brexit

# Trade-off between citizenship rights and extent of migration

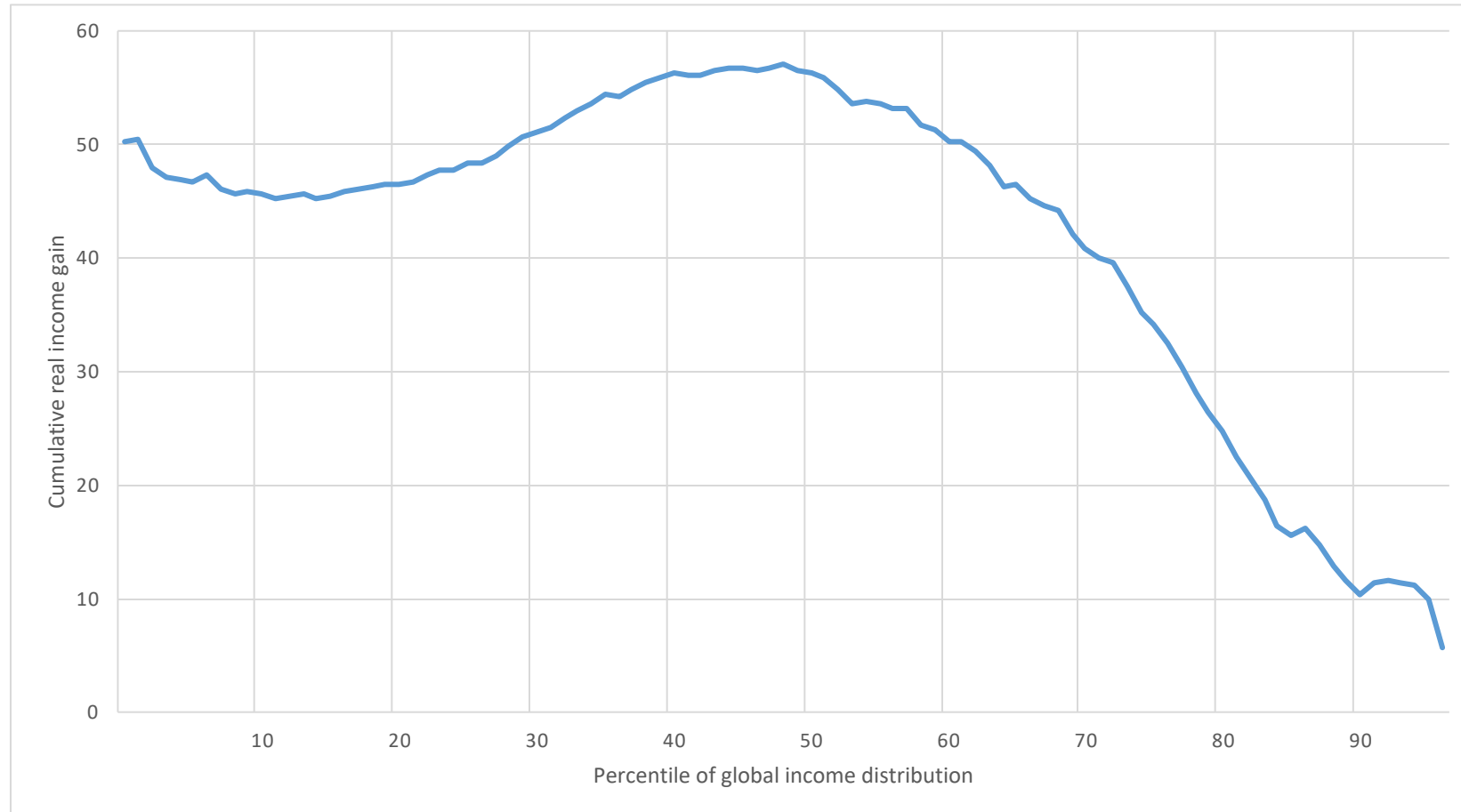


\* People who would like to migrate according to a world-wide Gallup poll

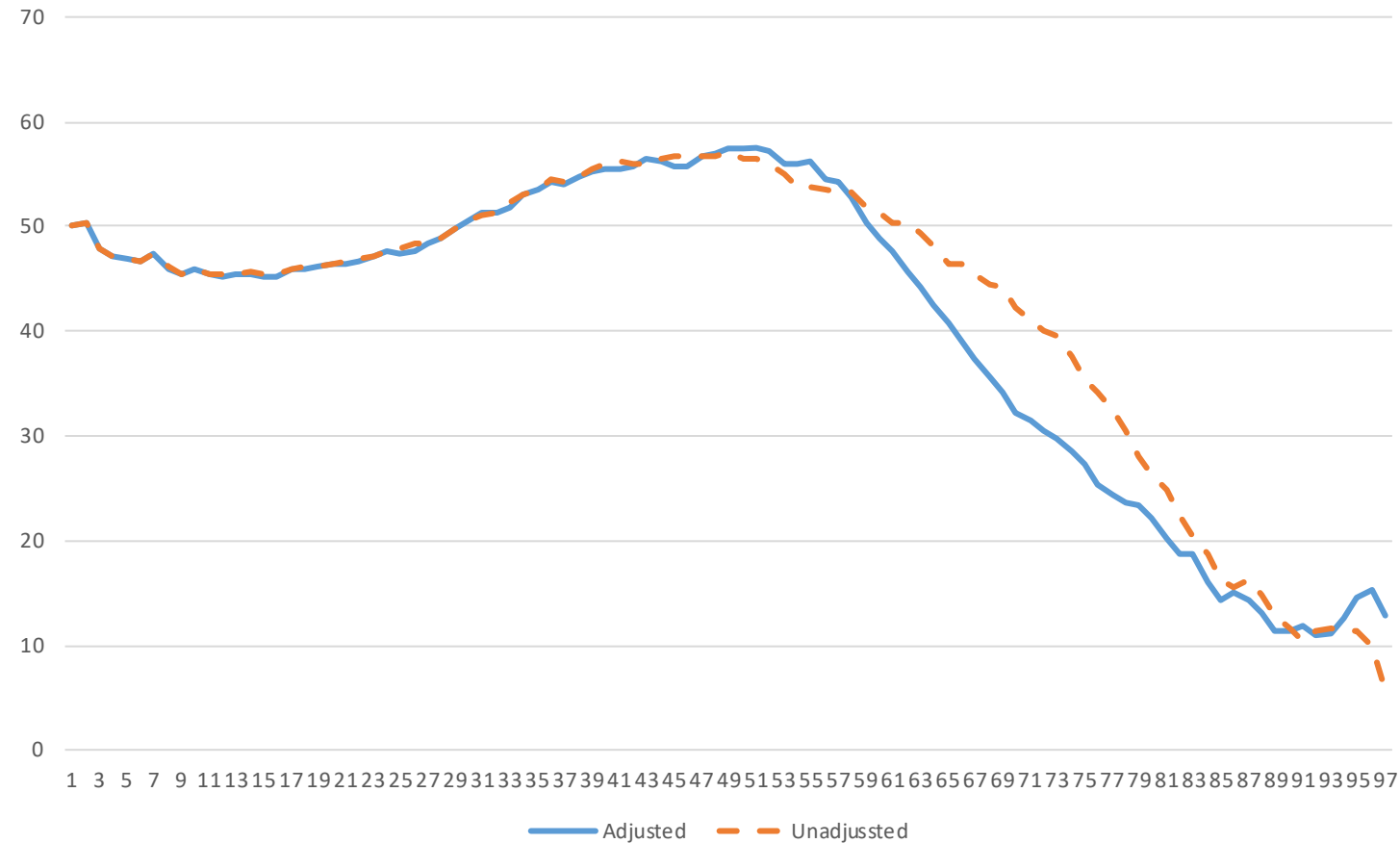
# Market income inequality and redistribution



Cumulative percentage growth of per capita income (in PPP dollars) at different points of the global income distribution 2008-13; full sample; unbalanced panel



# Global growth incidence curve with national top income adjustment and without adjustment (2008-13, in international dollars; full anonymous sample)



Real per capita disposable income growth along US income distribution, 2007-10 and 2010-16  
(revised CPS/LIS series)

