

# Changes in the global income distribution and their political implications

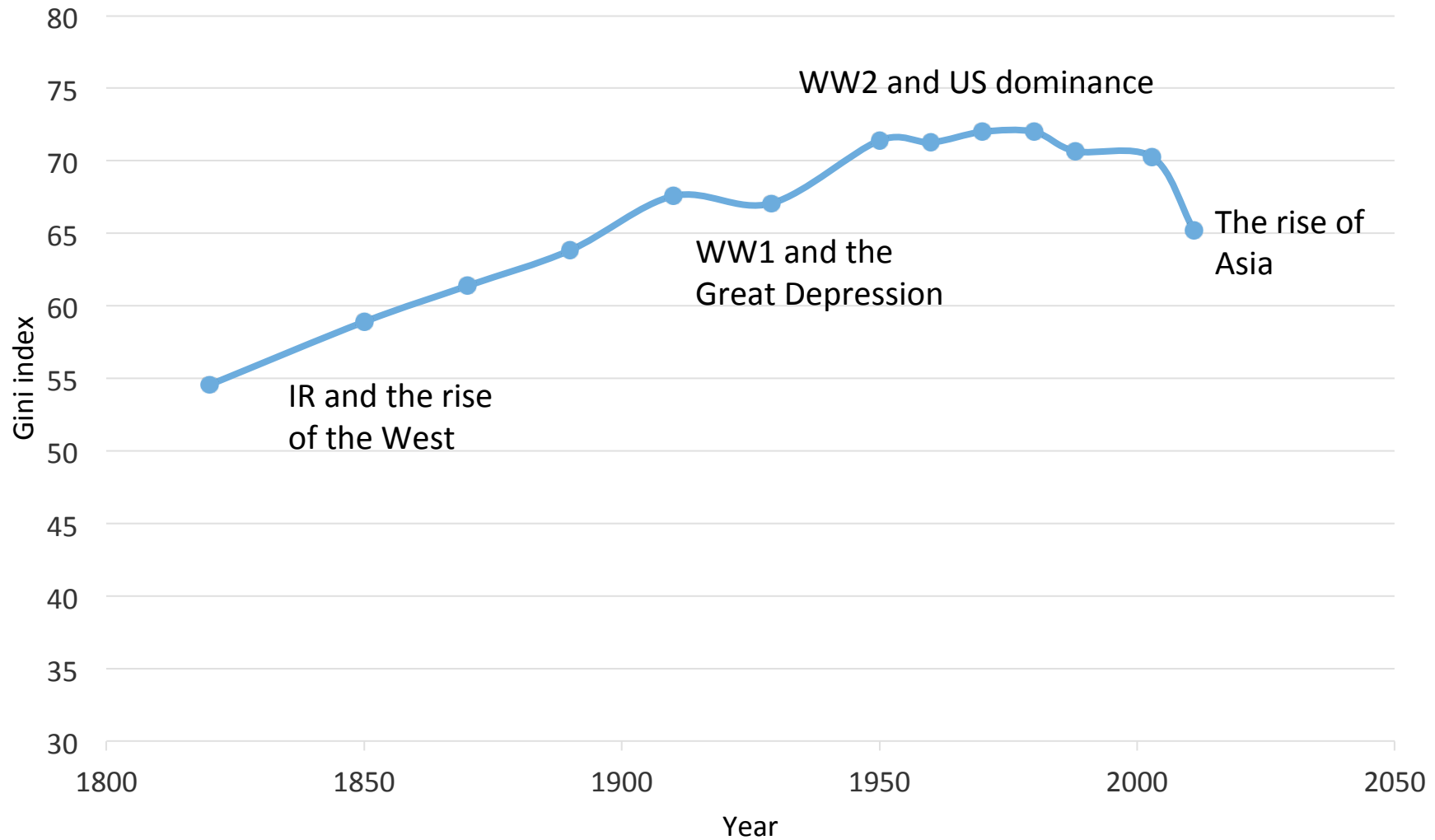
Branko Milanovic  
Rome, June 4, 2018

# Structure of the talk

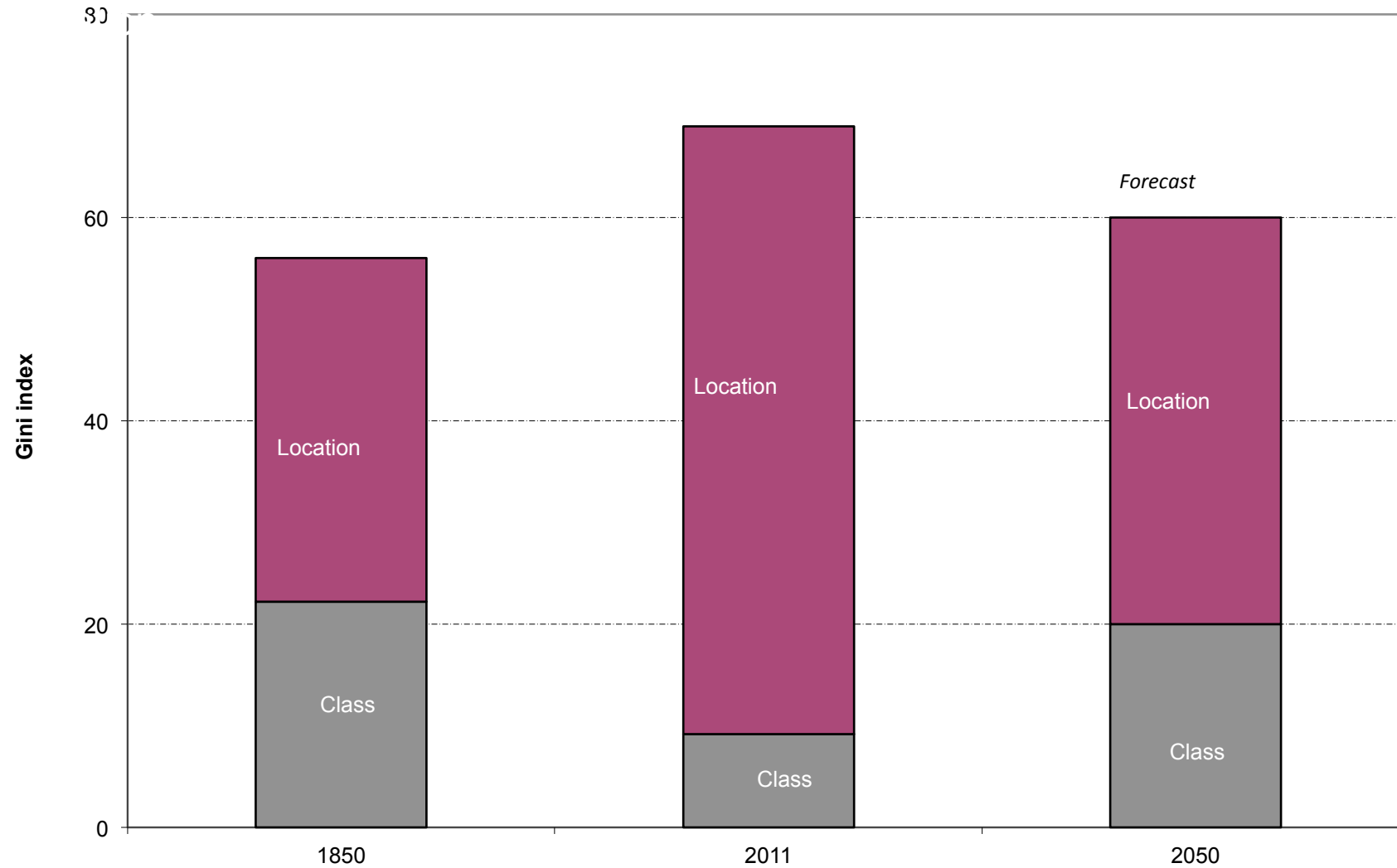
- Uniqueness of the current period: Capitalism rules alone + the reemergence of Asia (bringing the distribution of economic activity within Euroasia to the way it looked around 1500)
- Inequality and redistribution in rich and middle income economies
- “Elephant chart” and the ambivalence of globalization
- Greatest support for globalization in the South
- Unlikely that convergence of Asia will stop
- Disarticulation in the North => threat to globalization
- Migration as an expression of globalization => policies in favor of circular migration and against binary nature of citizenship

Long run

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

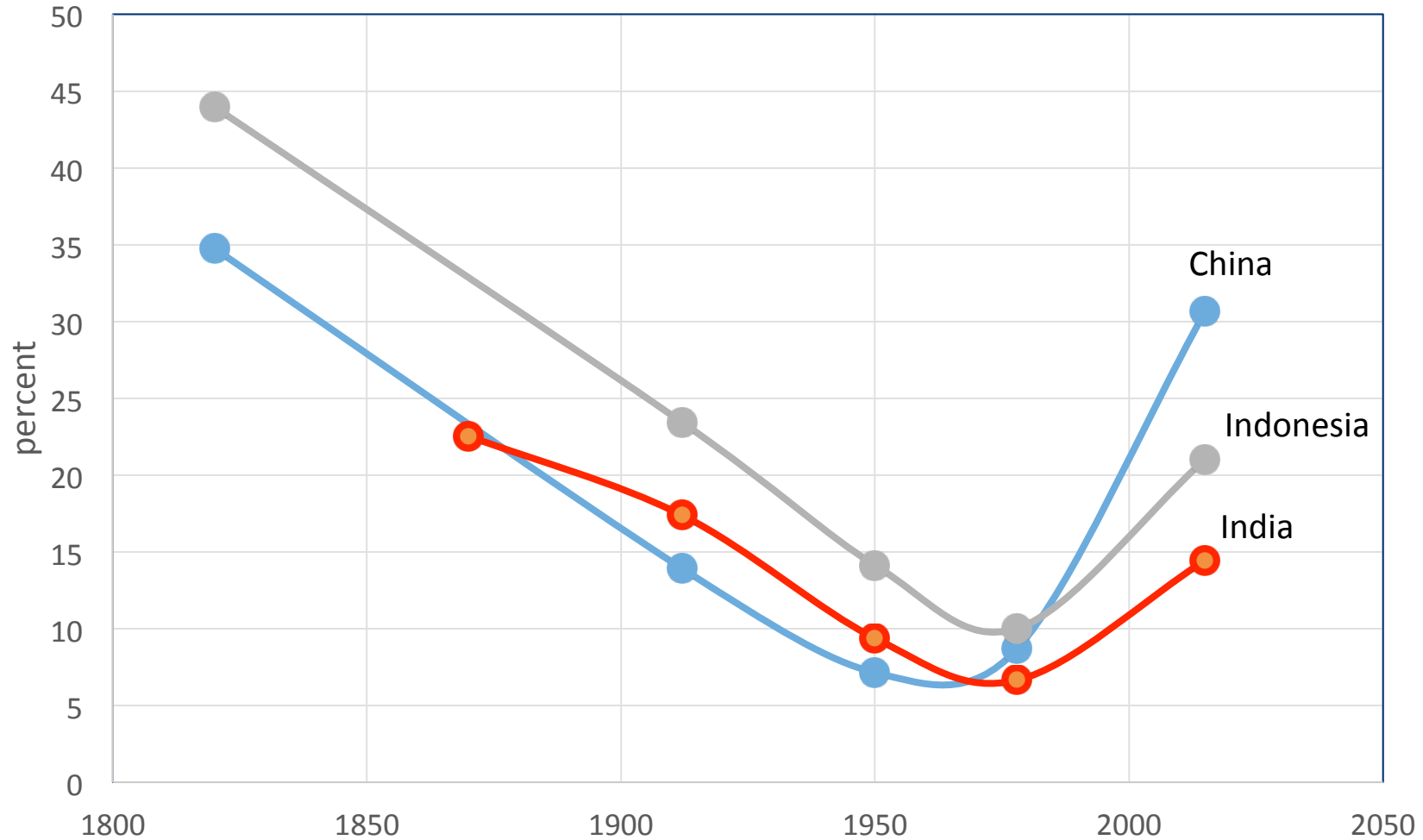


# La longue durée: From Karl Marx to Frantz Fanon and back to Marx?



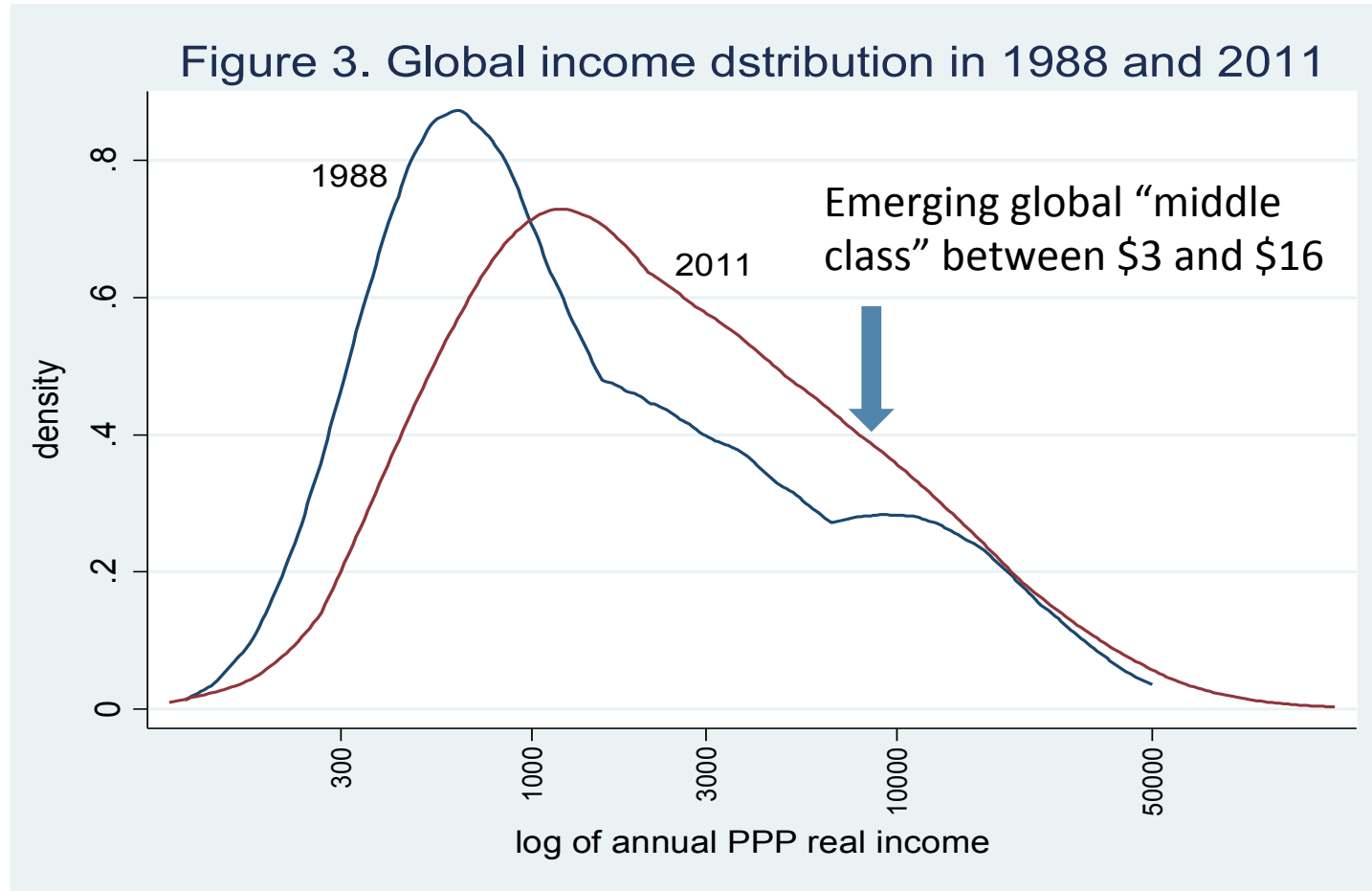
# Resurgent Asia

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



Past twenty-five years

# The emergence of the “global middle class”...



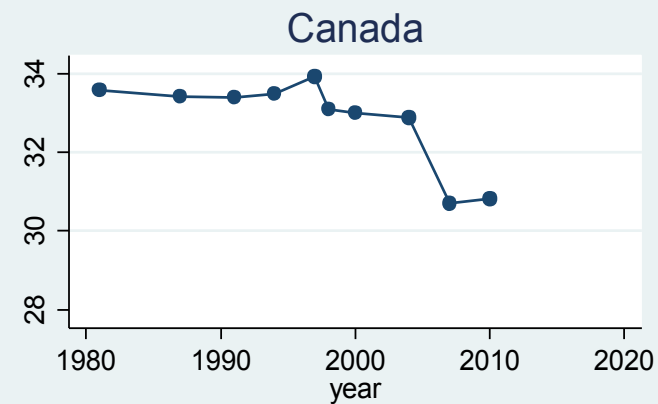
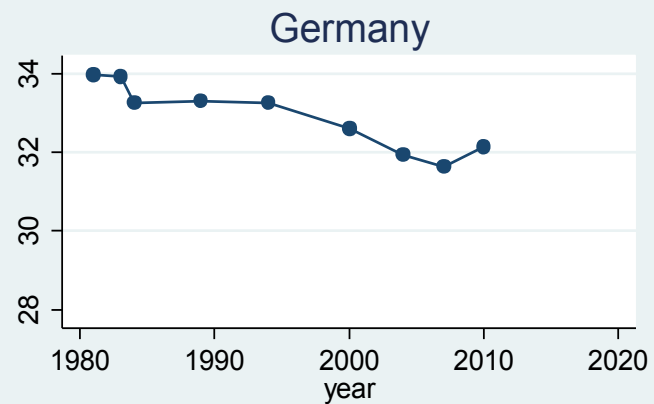
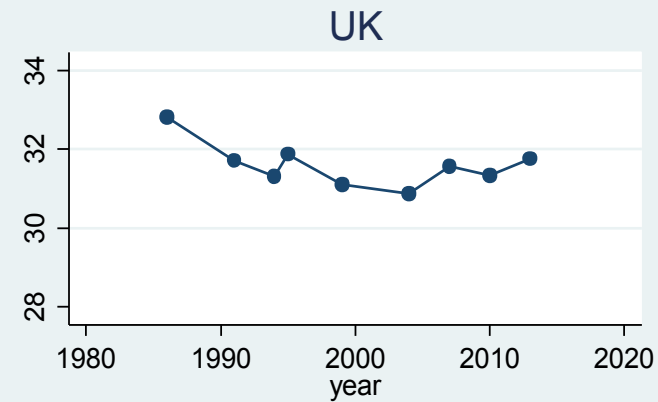
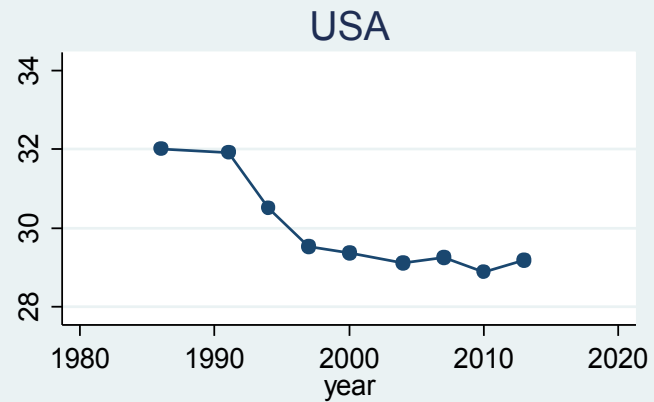
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twoway (kdensity loginc_11_11 [w=popu] if loginc_11_11>2 & bin_year==1988, bwidth(0.14) title("Figure 3. Global income distribution in 1988 and 2011")) (kdensity loginc_11_11 [w=popu] if loginc_11_11>2 & bin_year==2011, bwidth(0.2)) , legend(off) xtitle(log of annual PPP real income) ytitle(density) text(0.78 2.5 "1988") text(0.65 3.5 "2011") xlabel(2.477"300" 3"1000" 3.477"3000" 4"10000" 4.699"50000", lsize(small) angle(90))
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Using Branko\Income\_inequality\final11\combine88\_08\_11\_new.dta

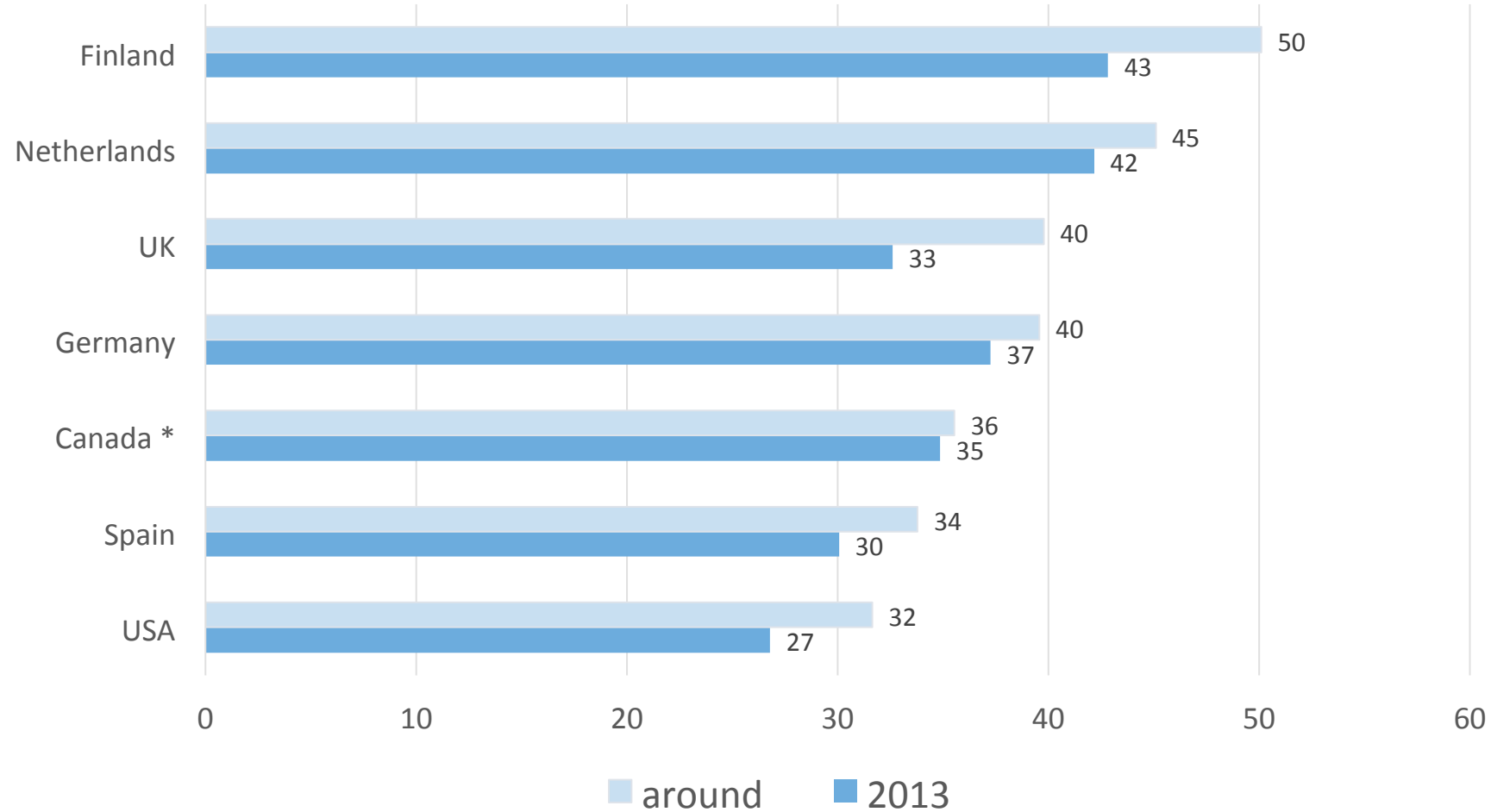


# ...and income stagnation and shrinkage in the size of the western middle classes

Income share of the middle four deciles 1980-2013  
in percent

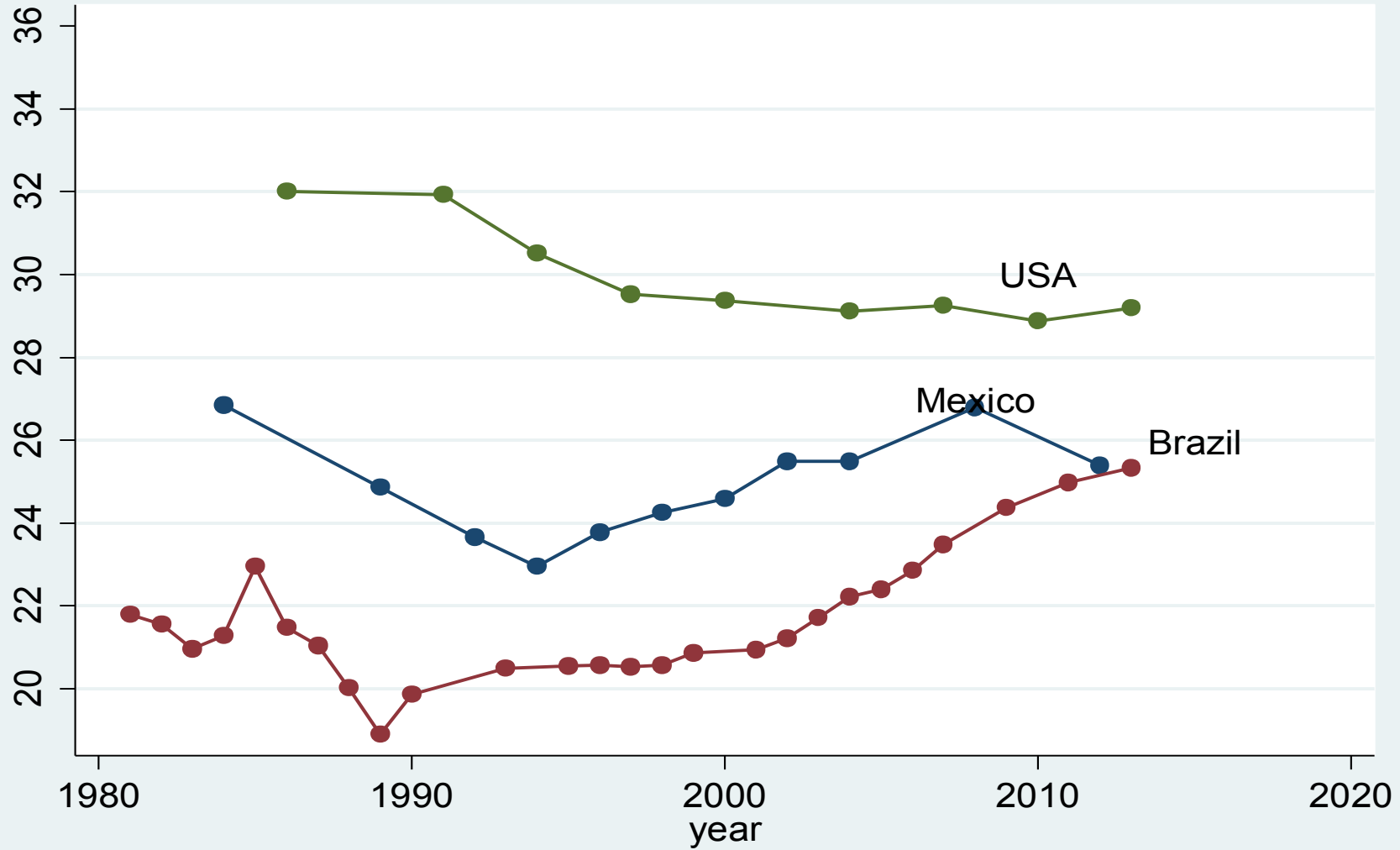


## Percentage of population considered middle class in early 1980s and 2013



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

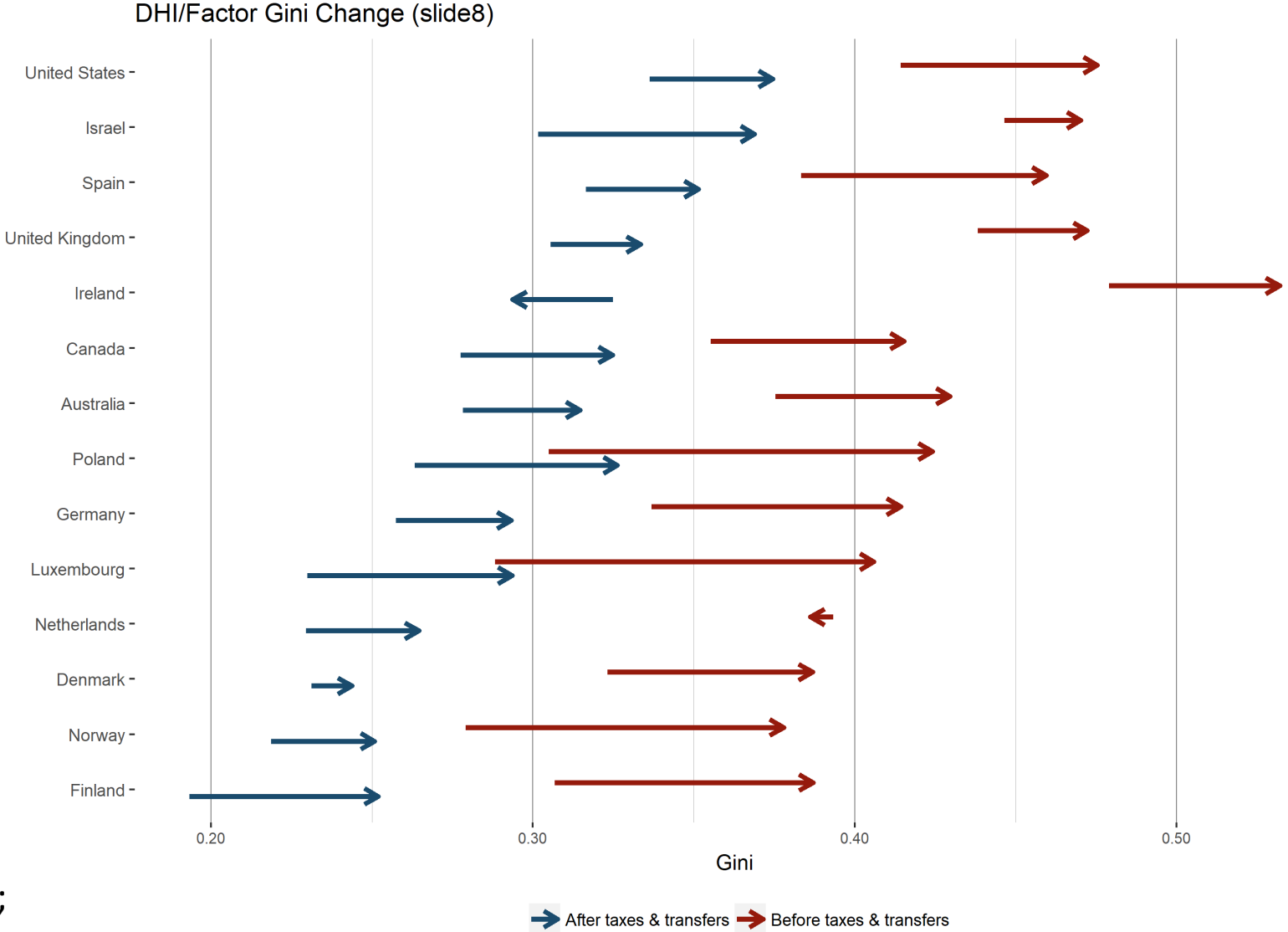
# Market income share of the four middle deciles



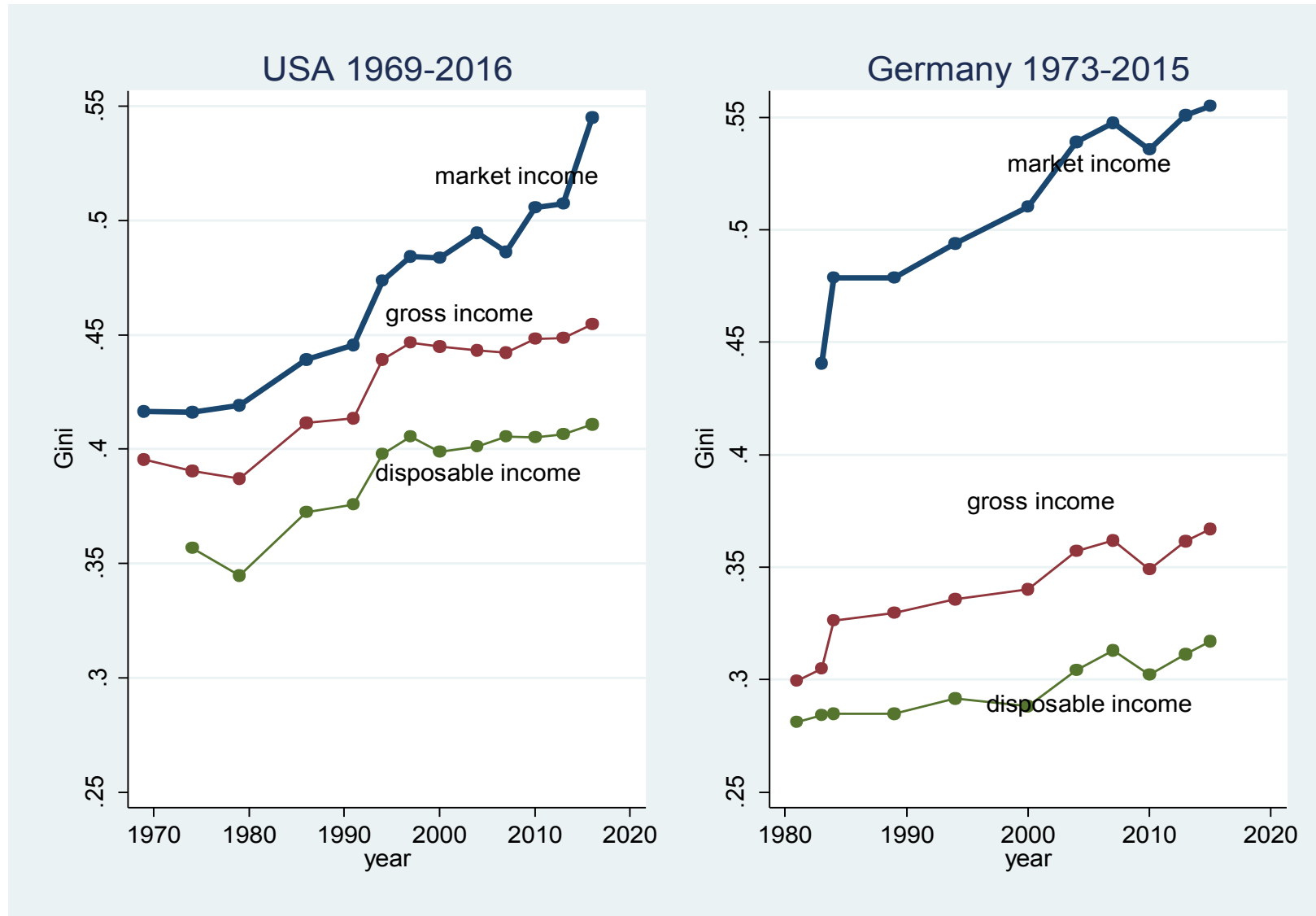
twoway (scatter middle\_mi1pc year if contcod=="MEX" & decile==1 & year>1979, connect(l) ytitle(" ") ylabel(20(2)28) xlabel(1980(10)2020)) (scatter middle\_mi1pc year if contcod=="BRA" & decile==1 & year>1979, connect(l) ytitle(" ") ylabel(20(2)28) xlabel(1980(10)2020)) (scatter middle\_mi1pc year if contcod=="USA" & decile==1 & year>1979, connect(l) ytitle(" ") ylabel(20(2)36) xlabel(1980(10)2020)) legend(off) title(Market income share of the four middle deciles) text(30 2010 "USA") text(27 2008 "Mexico") text(26 2015 "Brazil"))

Redistribution in face of rising market  
income inequality

Market (“factor”) income and disposable household income, Gini, non-elderly households – change, approx. 1985 to approx. 2013

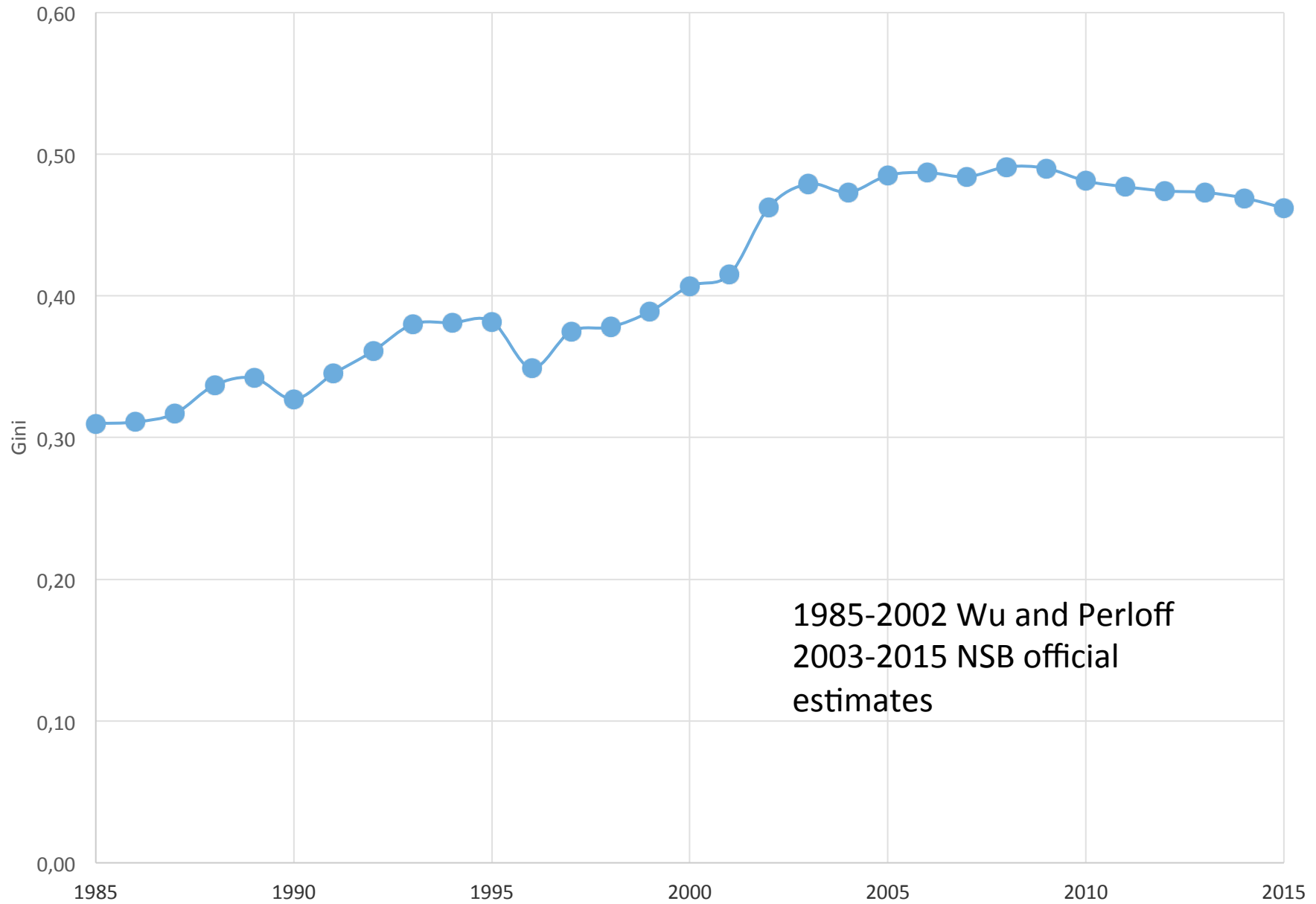


# The role of economic policies in offsetting the increase in market income inequality



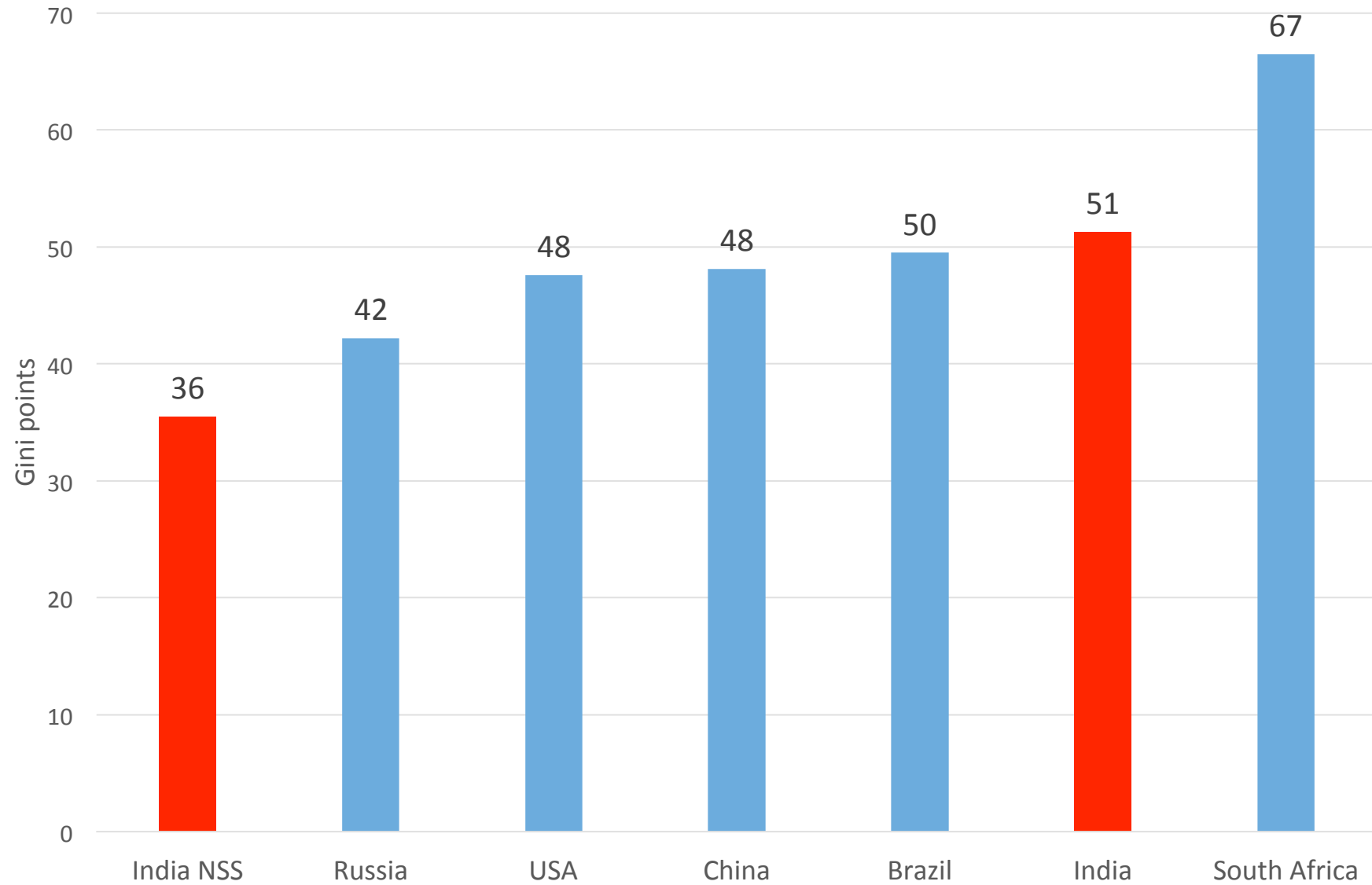
# China and India

All-China estimated Gini (1985-2015)



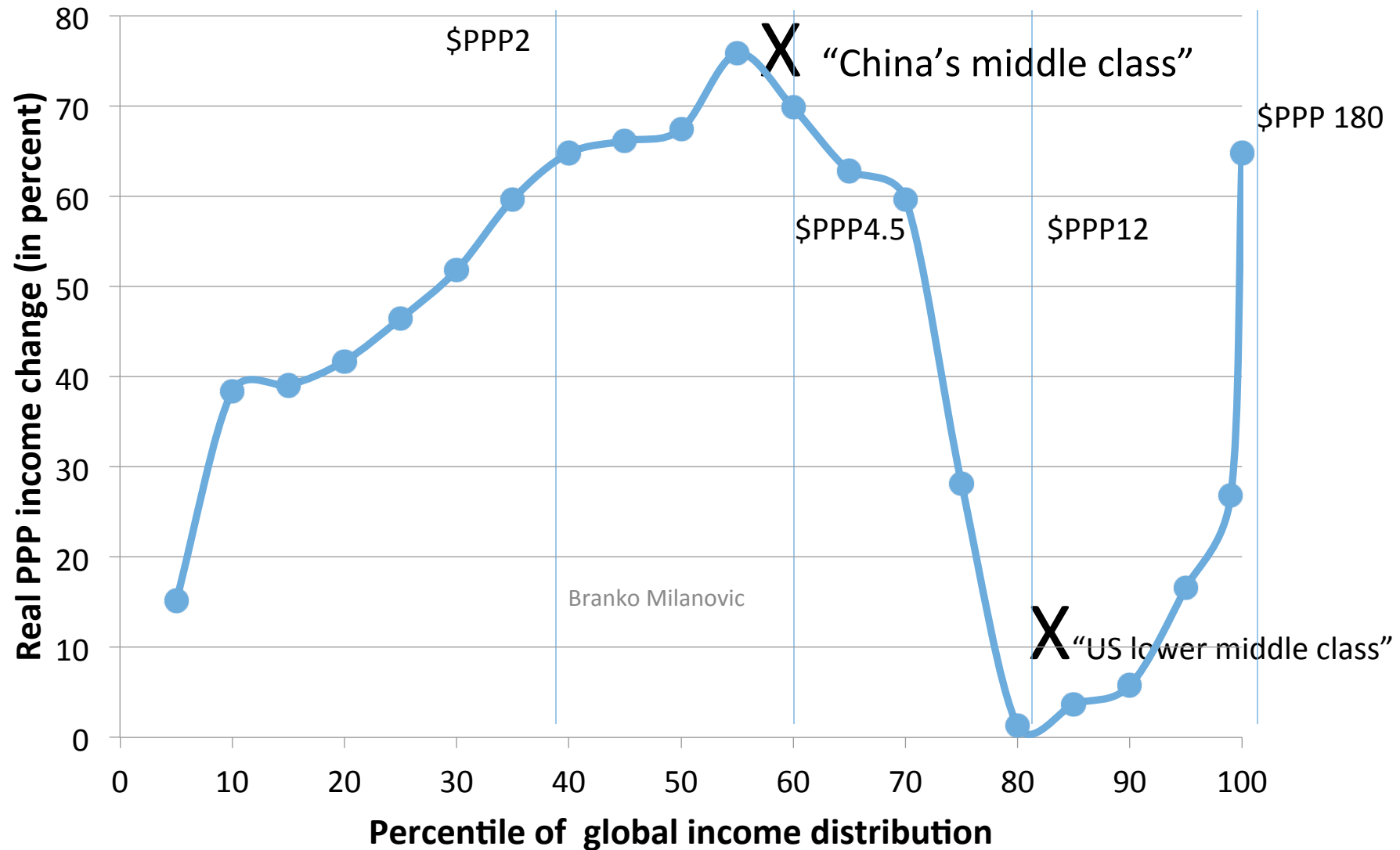


## Income inequality around year 2011 (household per capita income or NSS consumption)

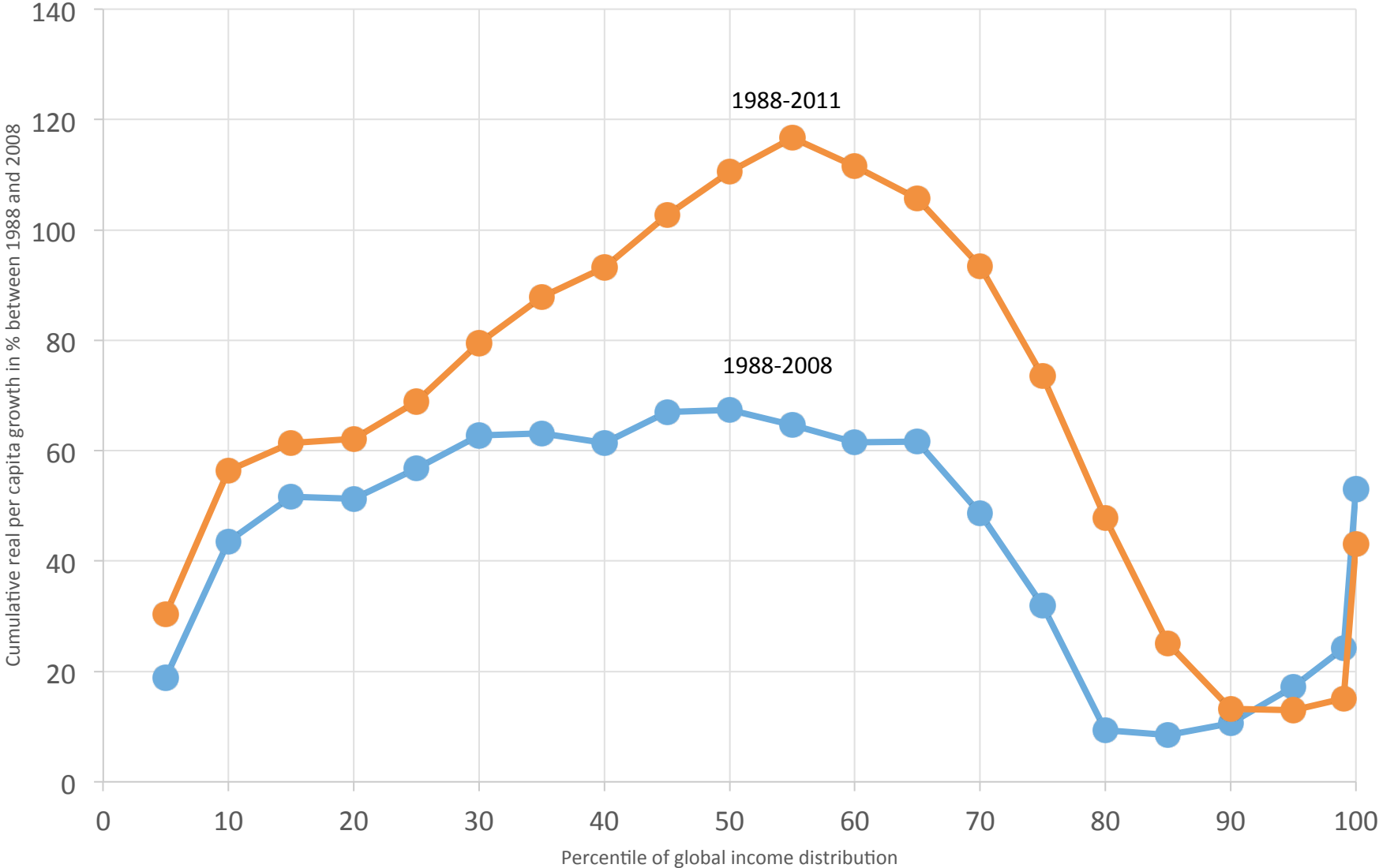


# The elephant graph

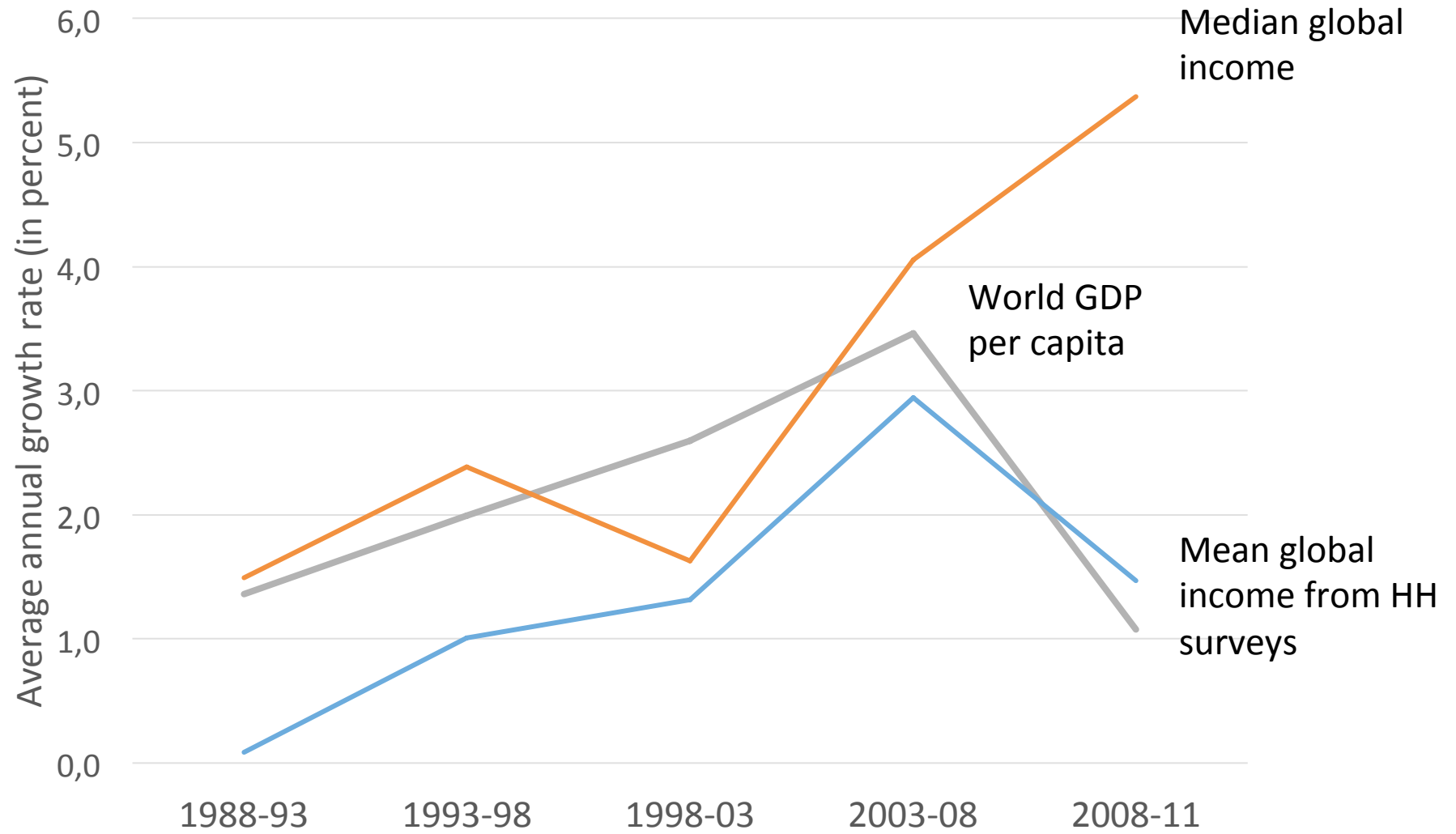
# Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)



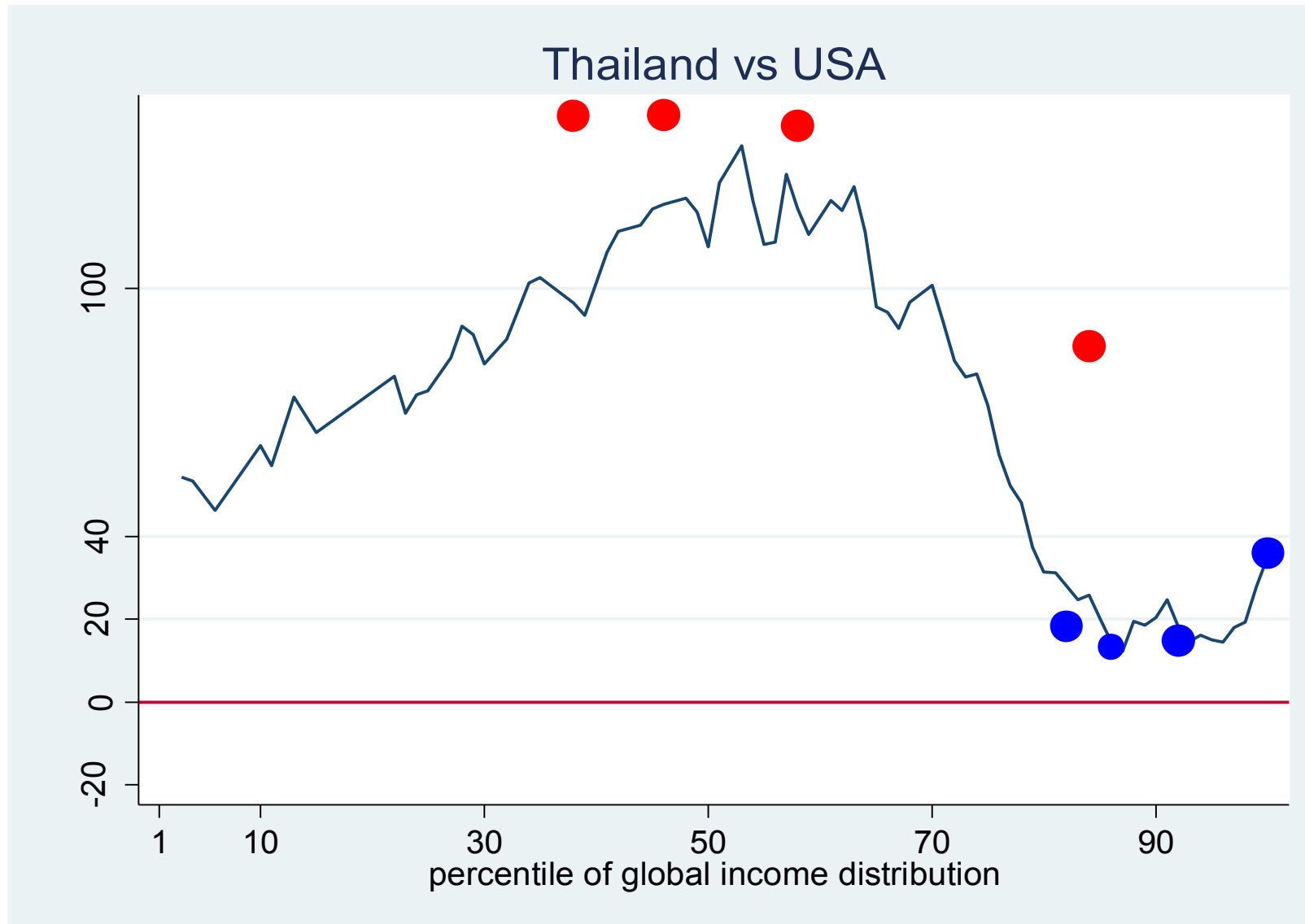
# Real income growth over 1988-2008 and 1988-2011 (based on 2011 PPPs)



# Mean and median annual growth rate of global per capita income



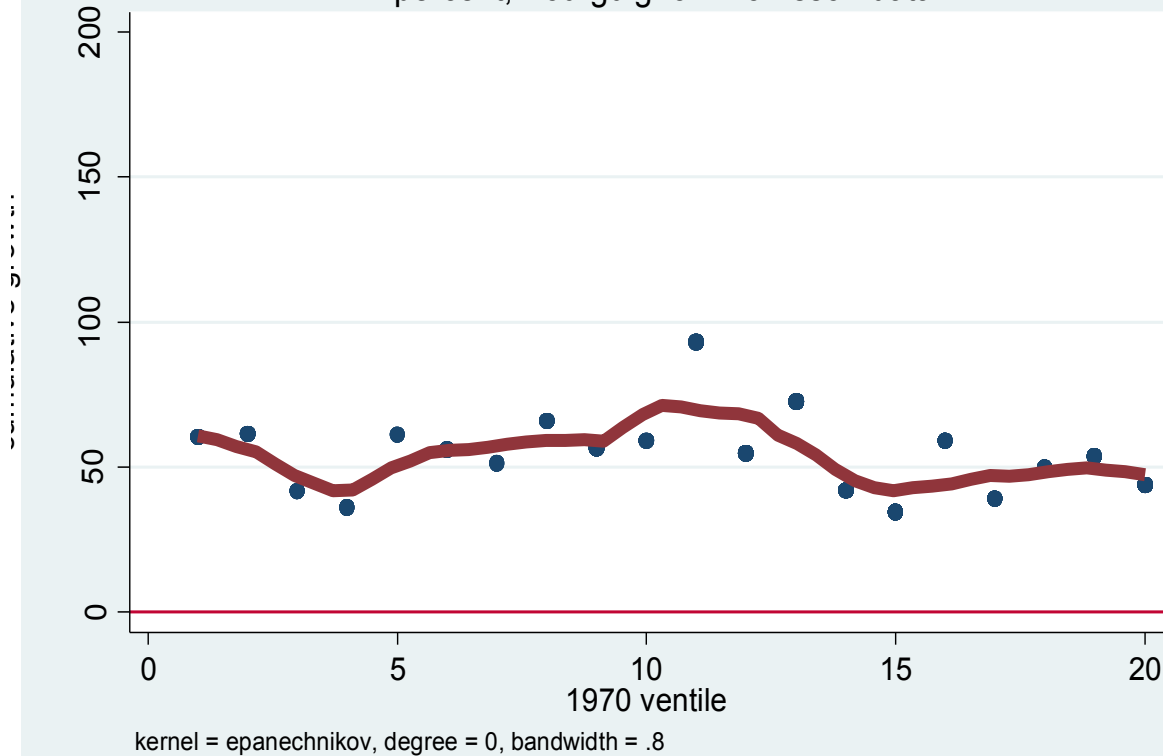
Cumulative real growth rates (1988-2011) of the same deciles in Thailand and the USA, pinned at their original 1988 positions in global income distribution



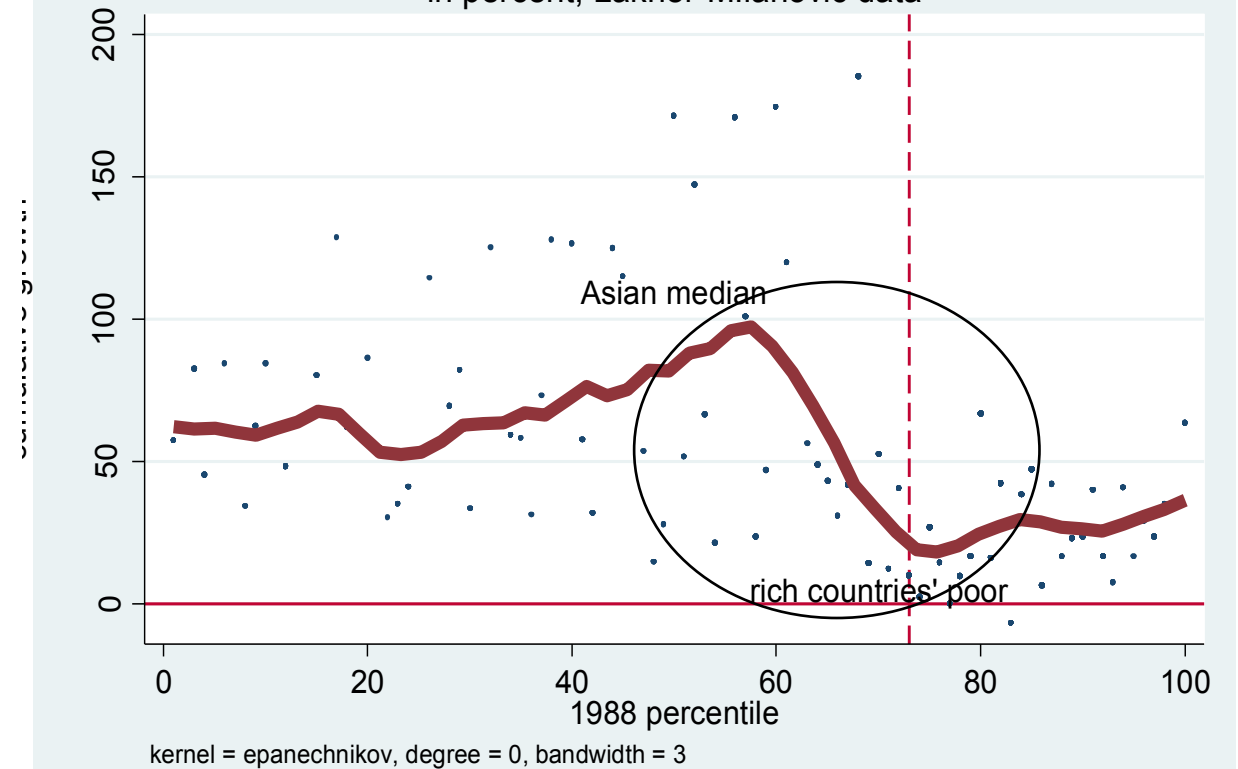
Deciles 2,3,5 and 10 at their original (1988) global income positions

# There was no “elephant” in the previous (pre-globalization) period

Cumulative quasi non-anonymous rate of growth 1970-1992  
in percent; Bourguignon-Morrisson data



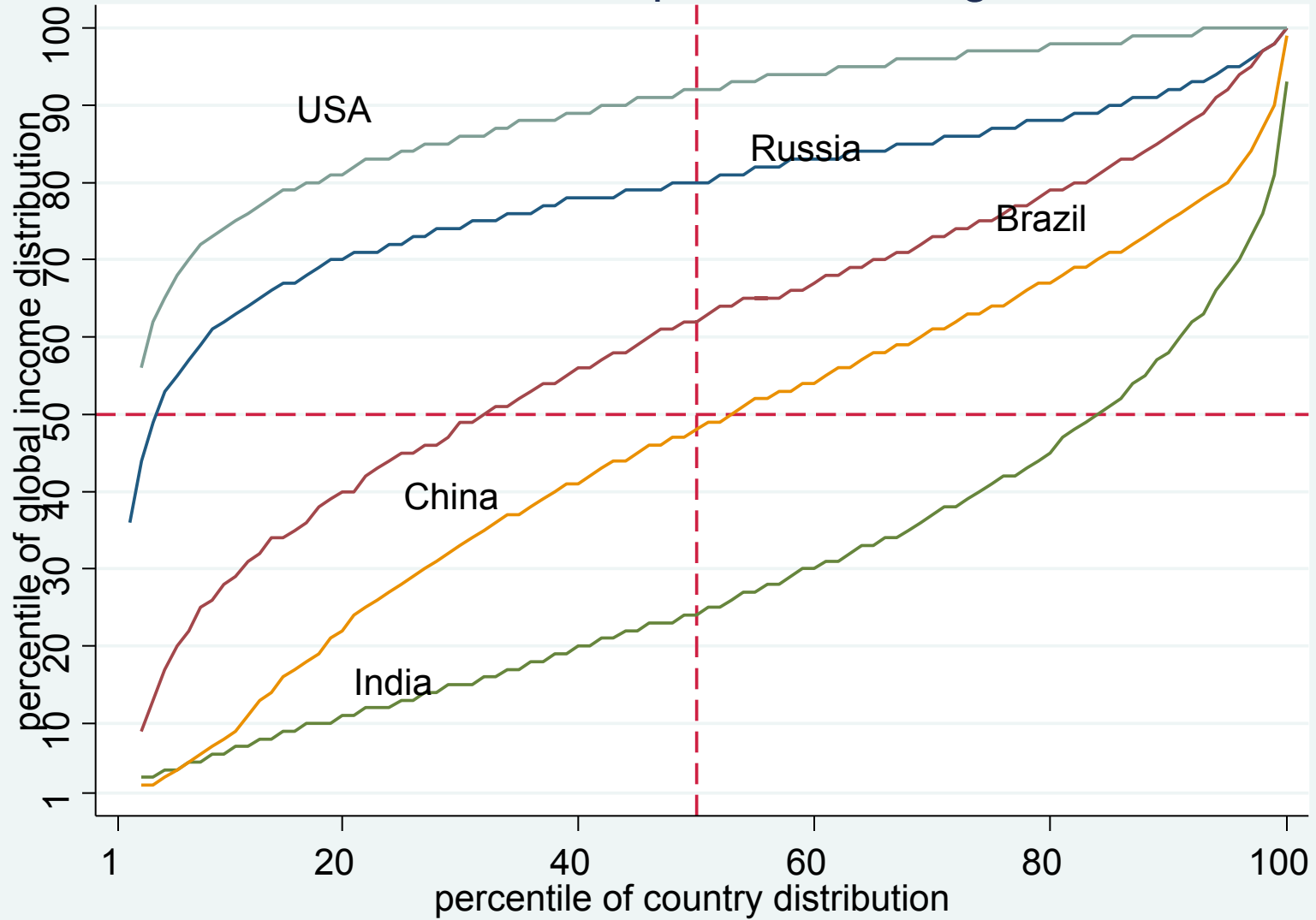
Cumulative quasi non-anonymous rate of growth 1988-2008  
in percent; Lakner-Mllanovic data



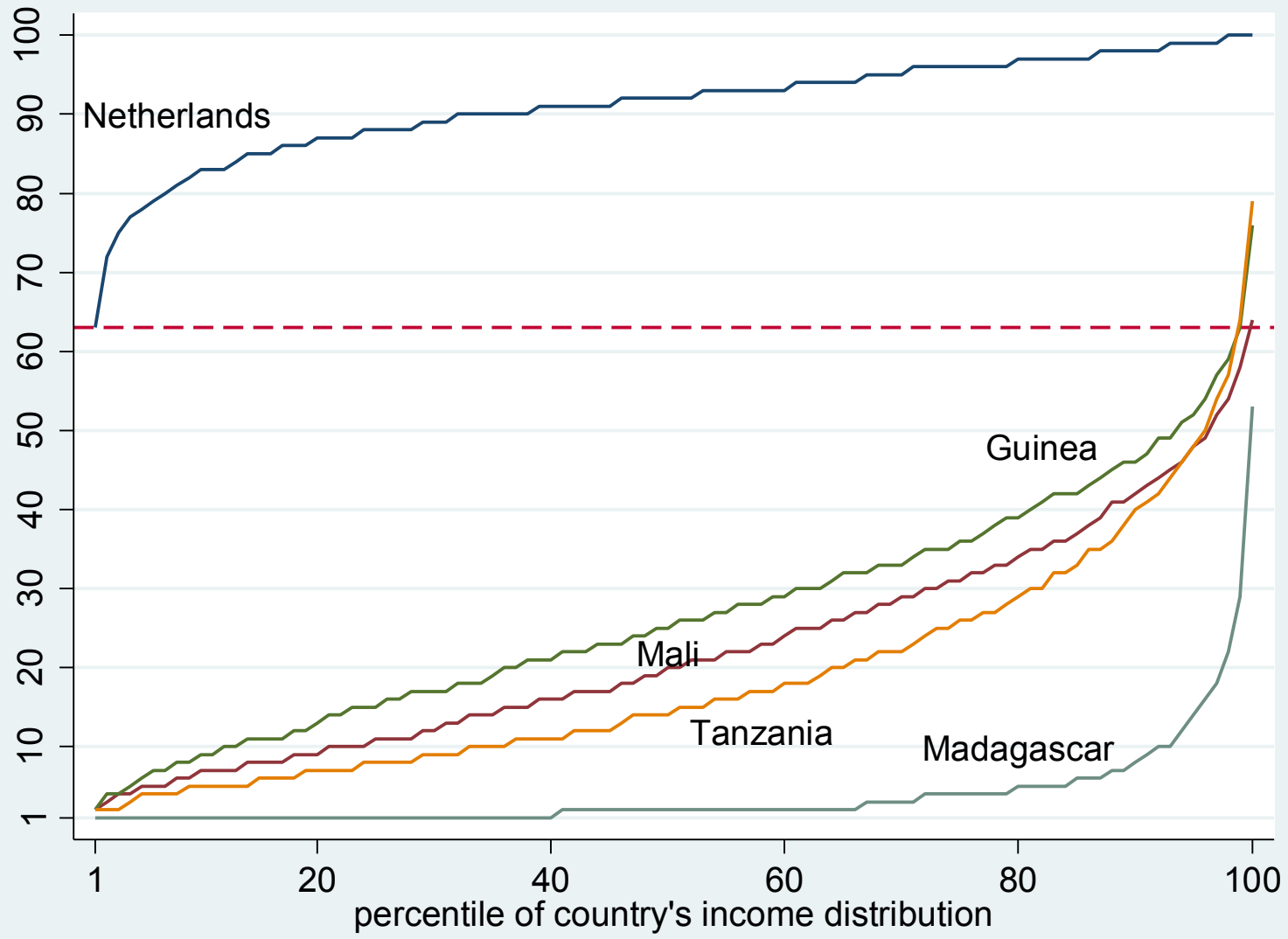
But large income differences between counties remain and they fuel migration



# Position of national income percentiles in global distribution



All countries with income data; year 2013; preliminary data (i.e. not a full sample of countries)

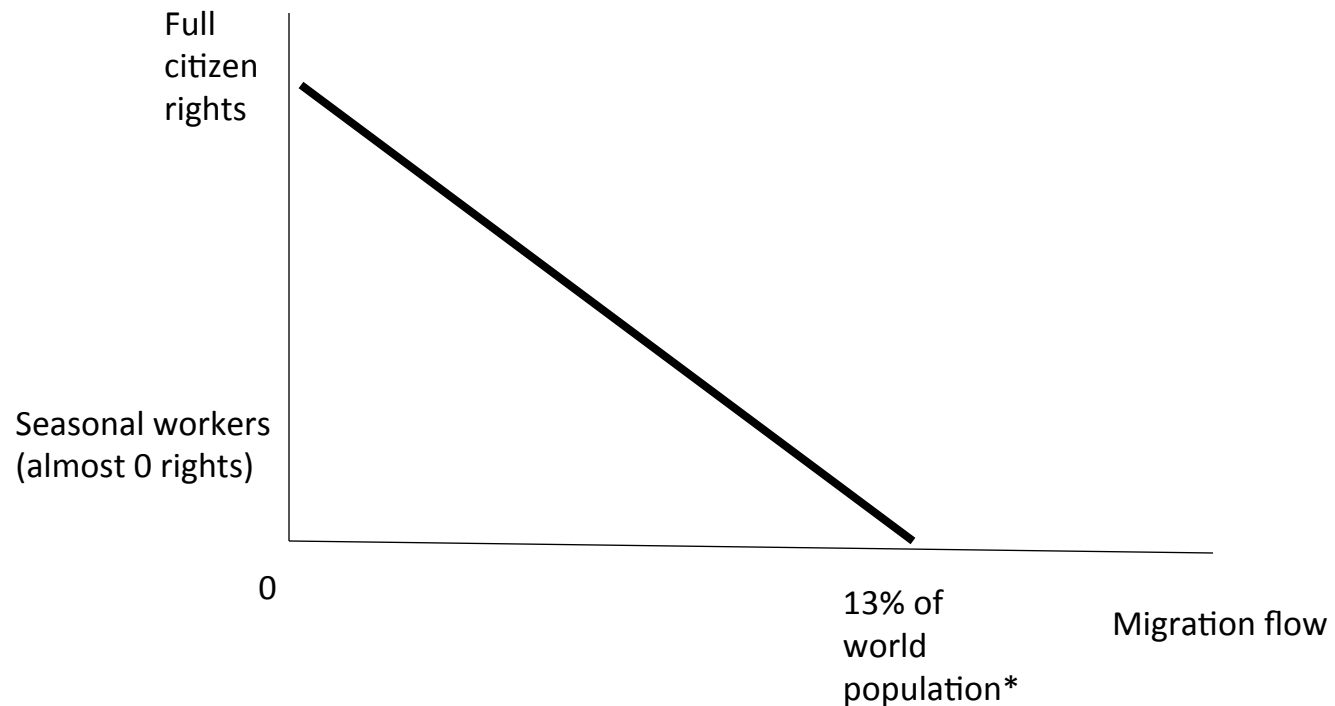


# Migration

# (another) Trilemma of globalization

- You cannot have (A) large differences in mean country incomes, (B) globalization and (C) no systematic 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 B+C to B+A.

# Trade-off between citizenship rights and extent of migration



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

# Inequality reduction policies for the rich countries

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

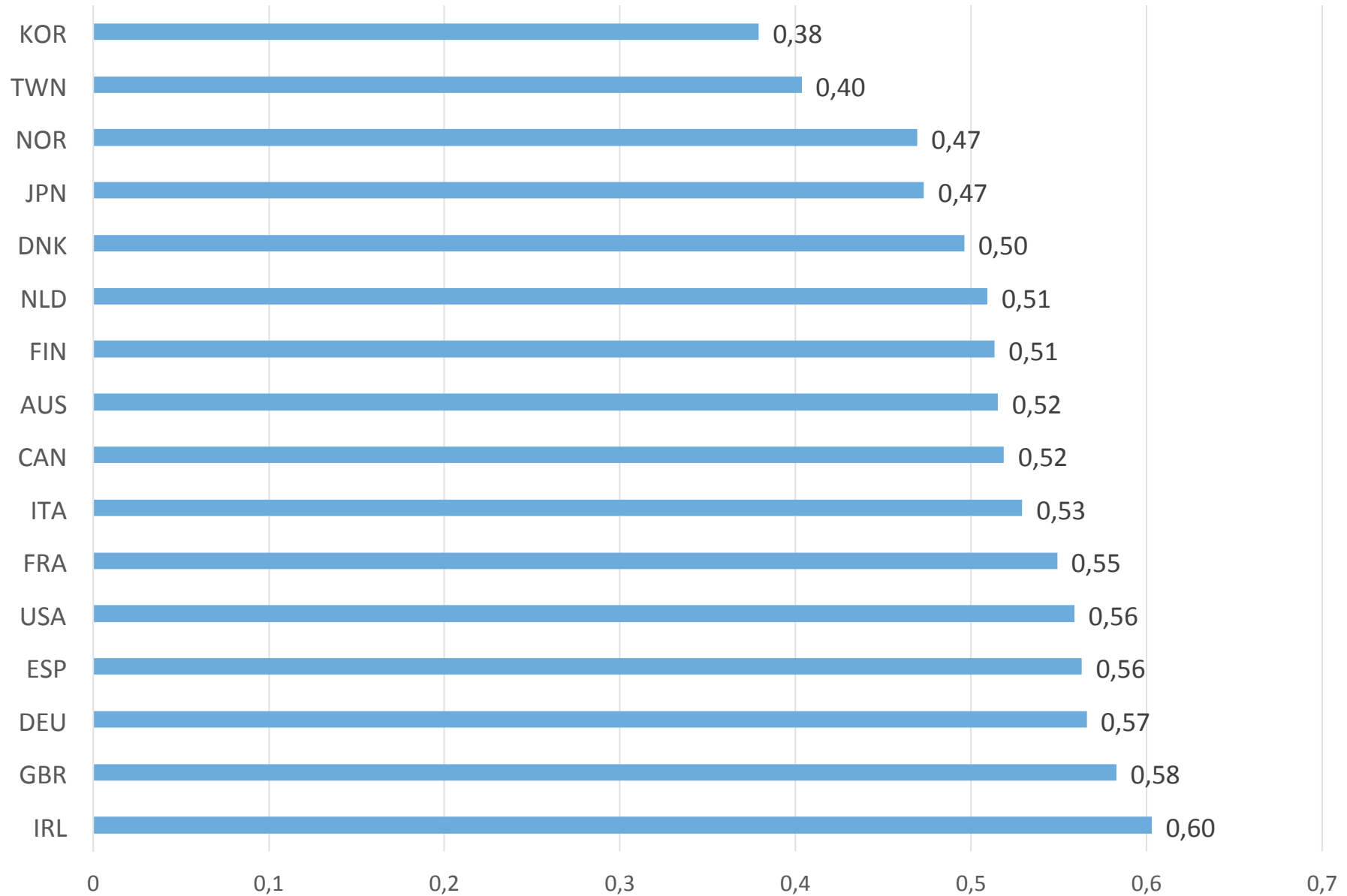
- Education in quantitative sense will have much less of a “bang for a buck” and will not by itself reduce the skill premium
- Trade unions are on the decline because the nature of work, in service-oriented and globalized economy has changes
- Increases in taxation of current income are unlikely because 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: more meritocratic capitalism where top wage earners are also top K earners (and the reverse)

# What could possibly be done?

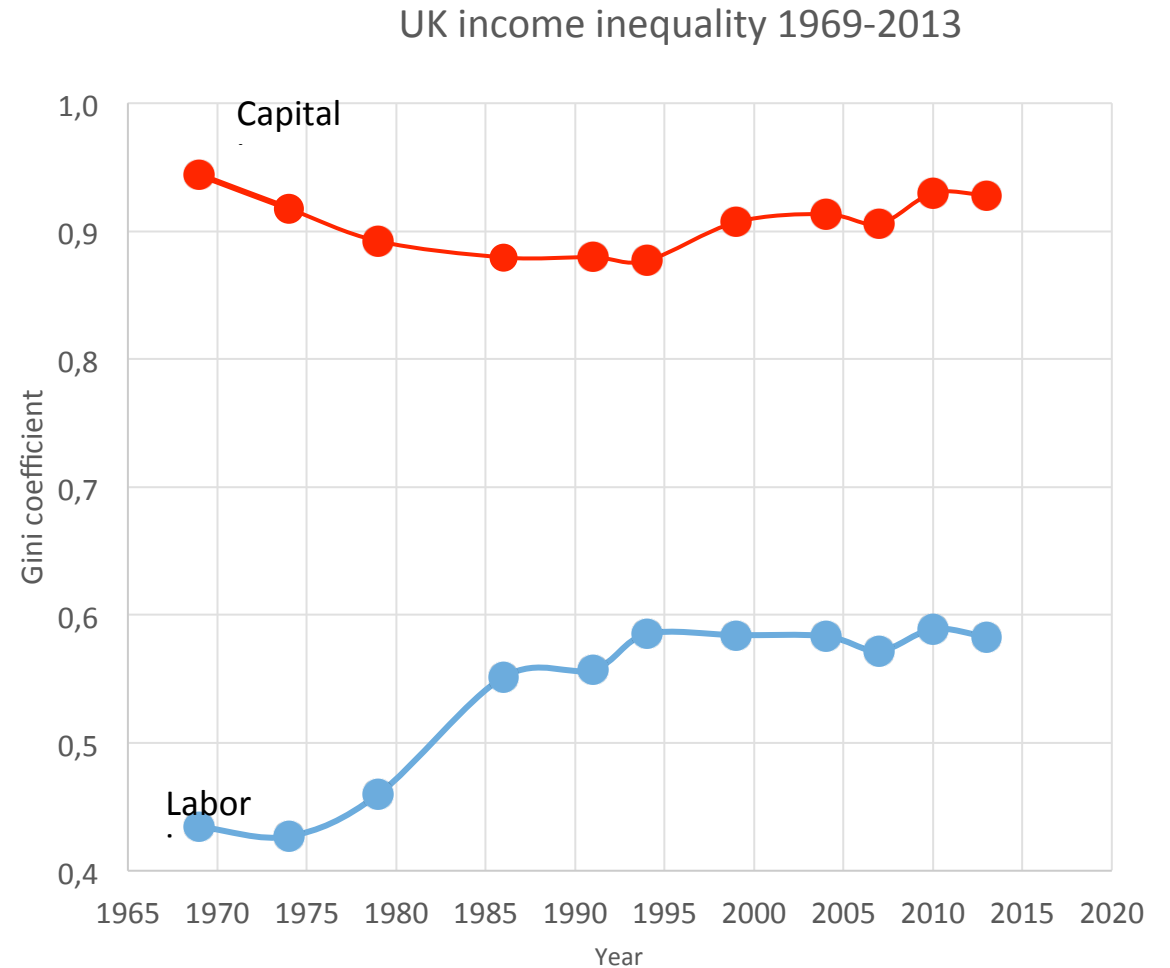
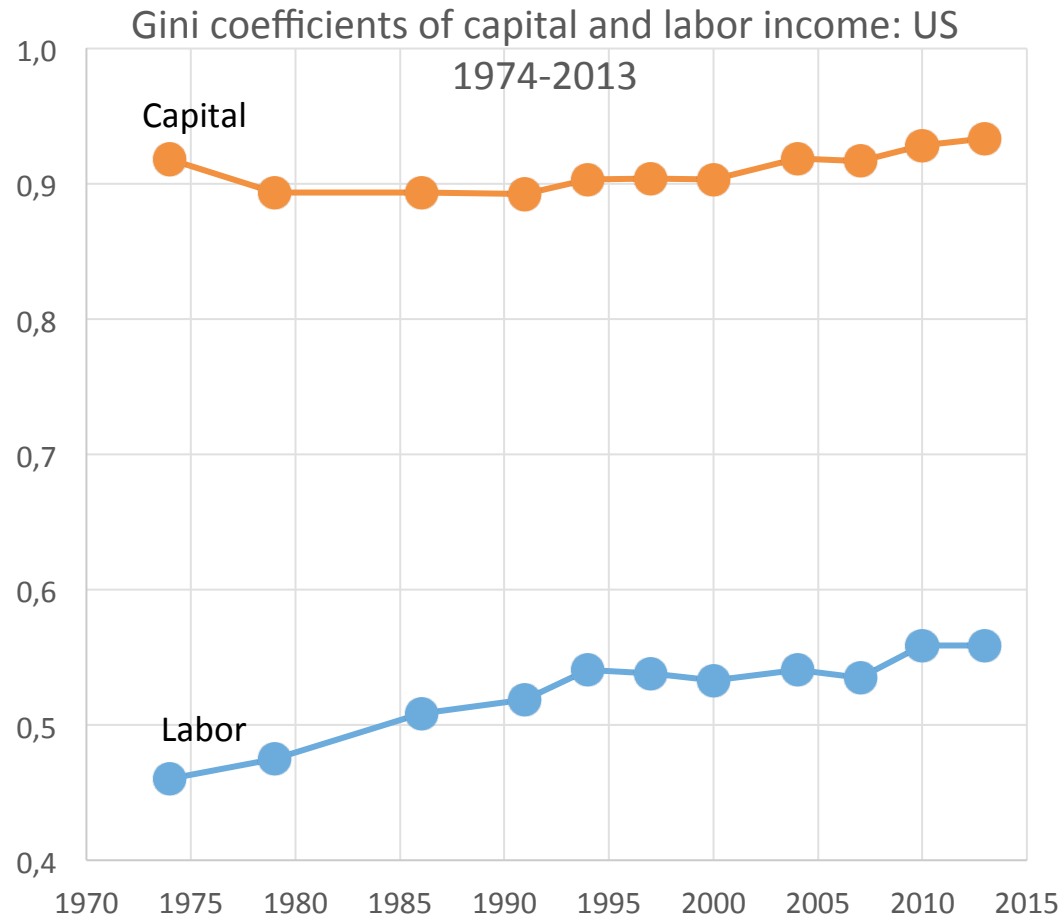
- Improved quality of education and [much easier access to education](#) for all—that is, investing for stronger public education rather than the opposite trend of ever stronger private education
- [Deconcentration of ownership and income from capital](#) through the use of tax incentives; a long and 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)



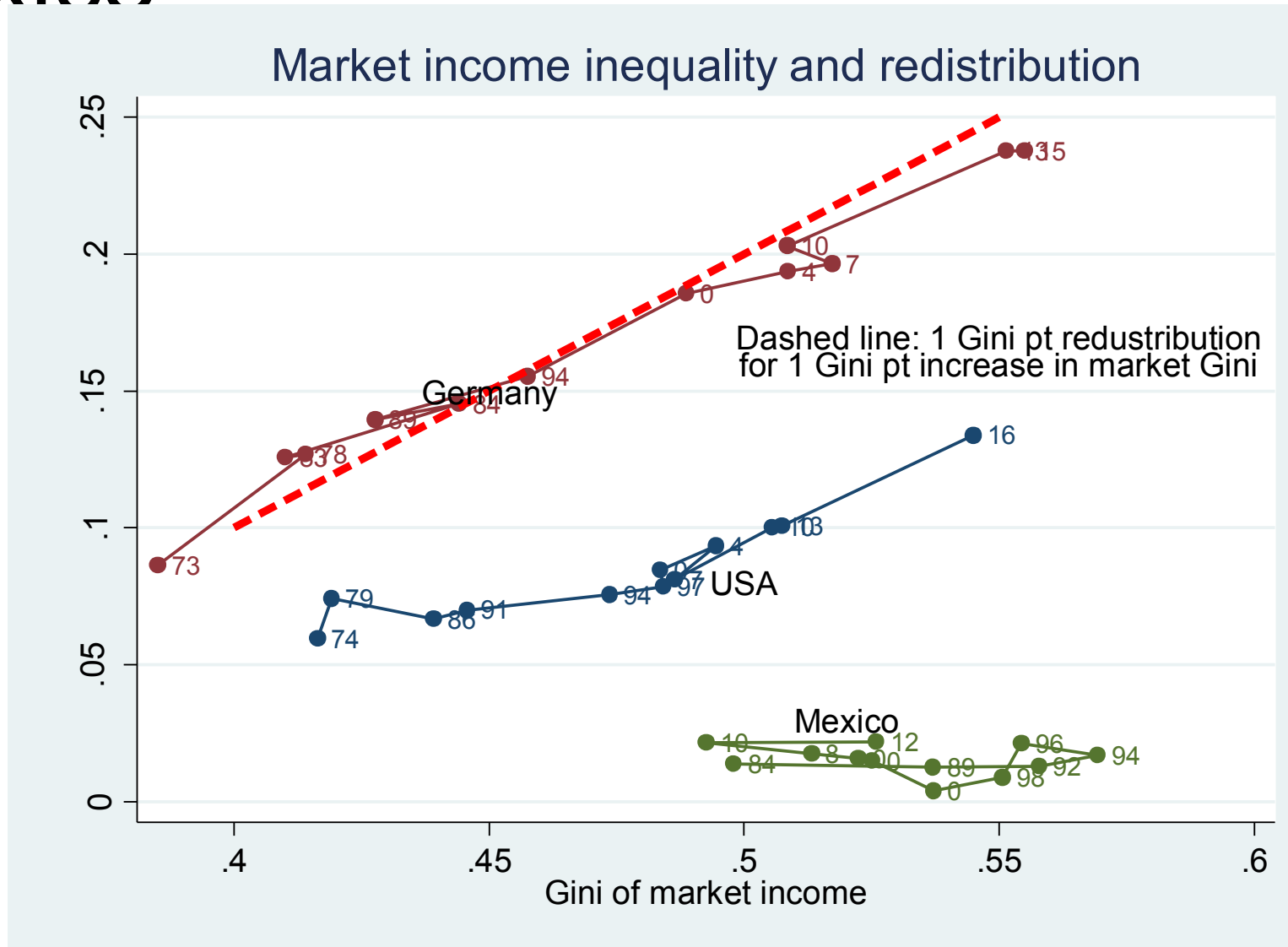
### Gini of household per capita labor income around 2013



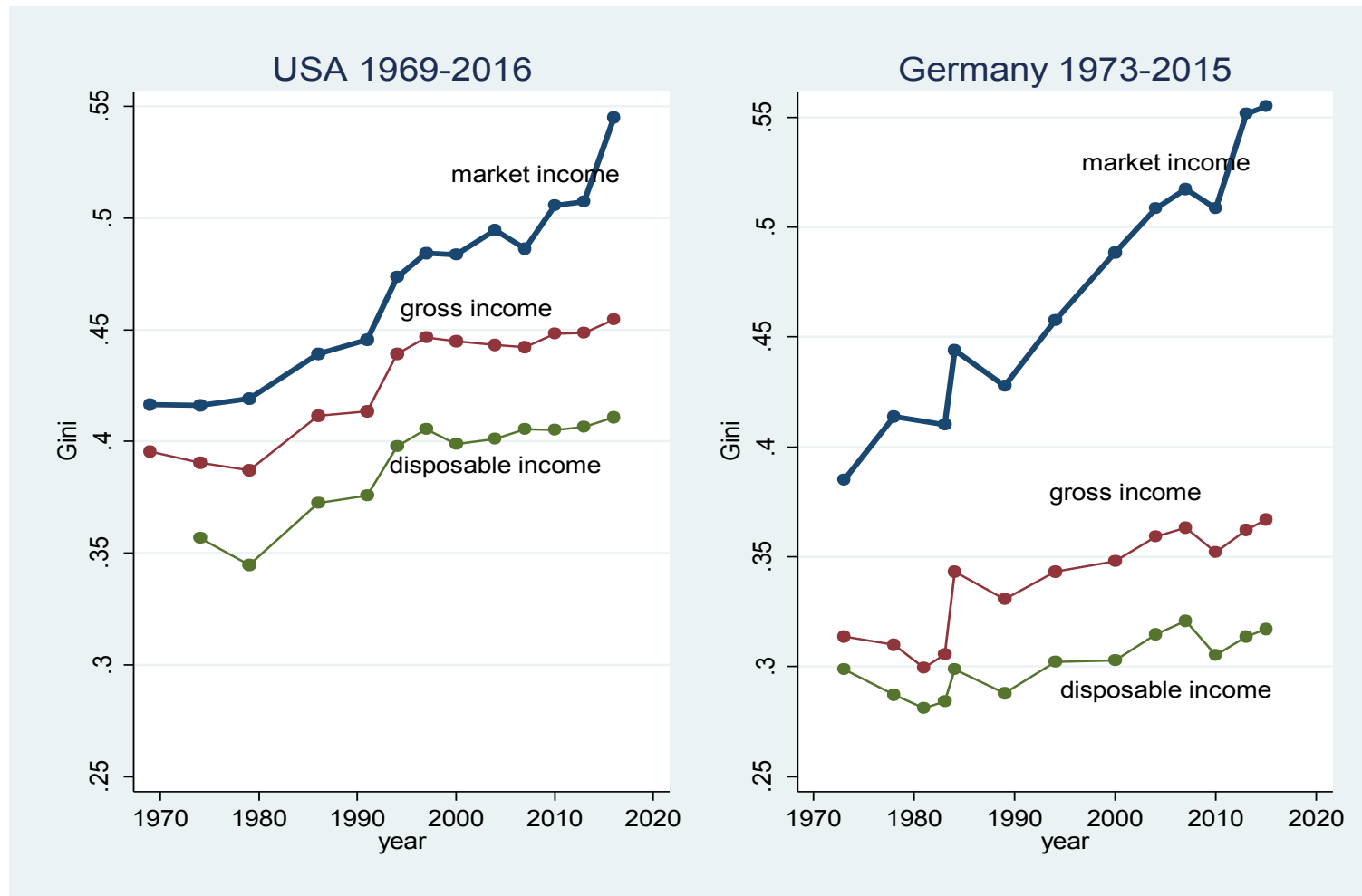
# Ginis of K and L income in the US and the UK



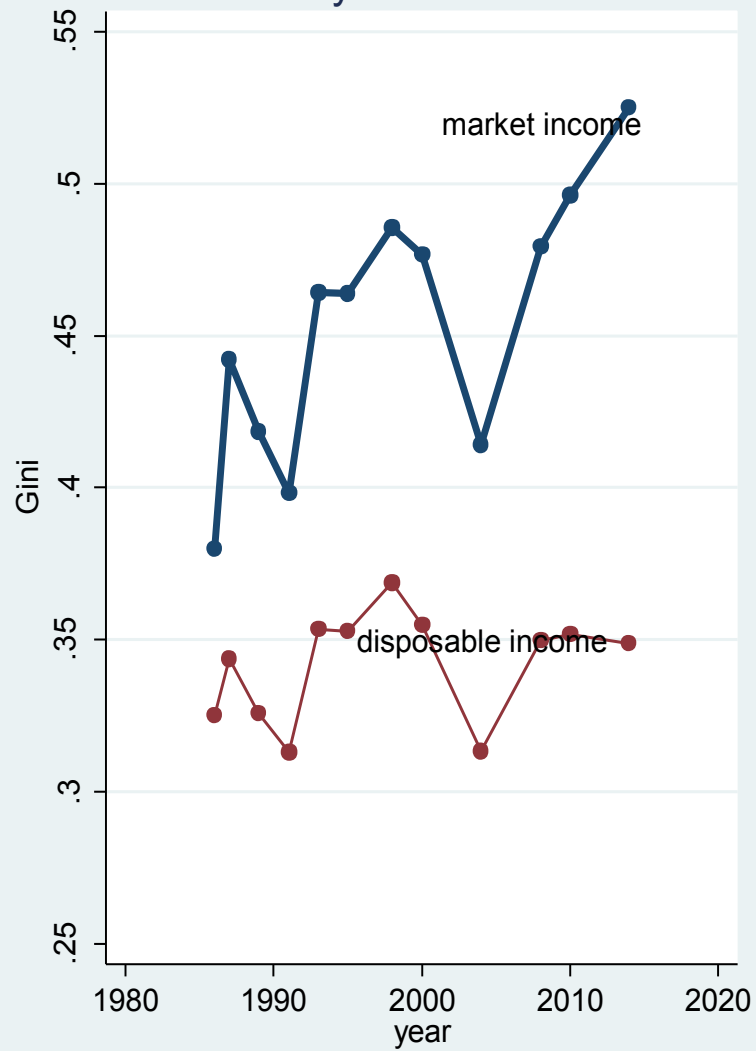
# Redistribution: USA, Germany and Mexico



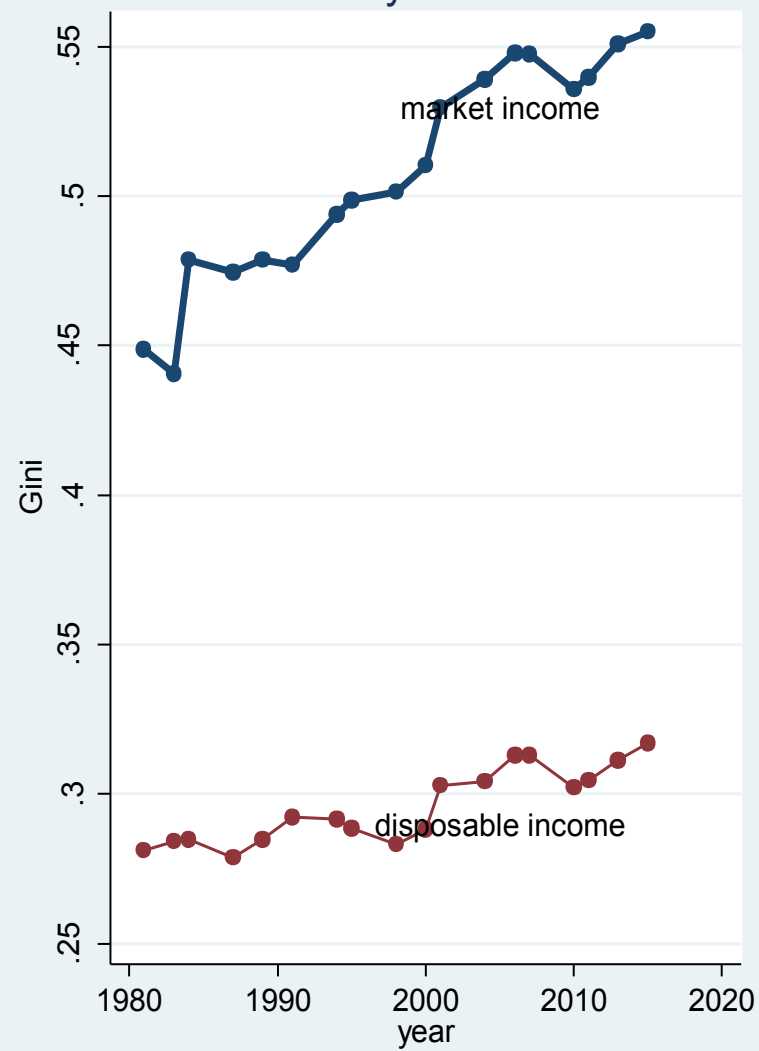
# Market, gross and disposable income Ginis in the US and Germany



Italy 1986-2014



Germany 1981-2015



# 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 a part of the Greater Middle East
- Reform the funding of political parties and elections