

# Trends in global income inequality and their political implications

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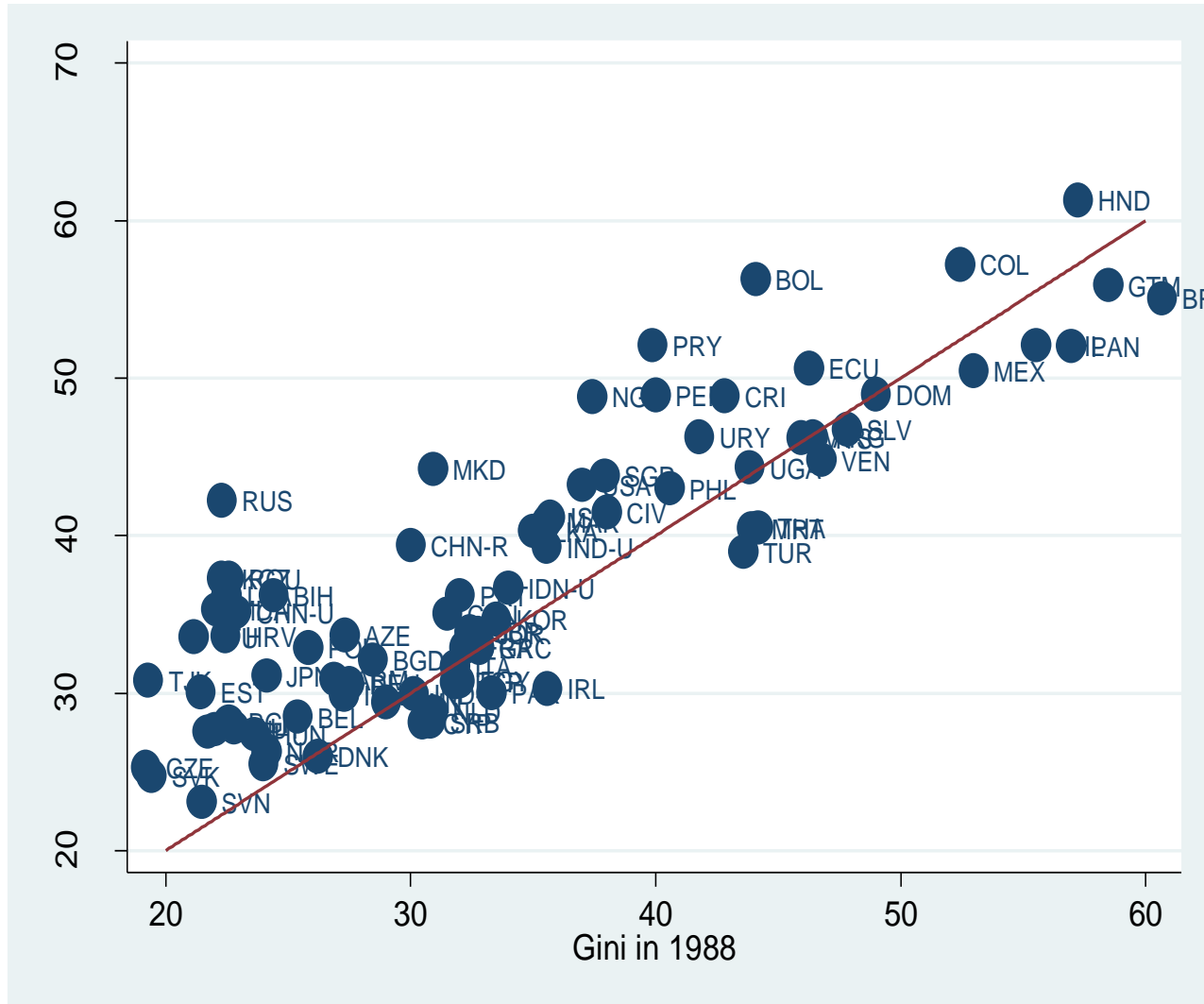
Talk at the Stockholm School of Economics, September 1, 2014

A. National inequalities mostly  
increased

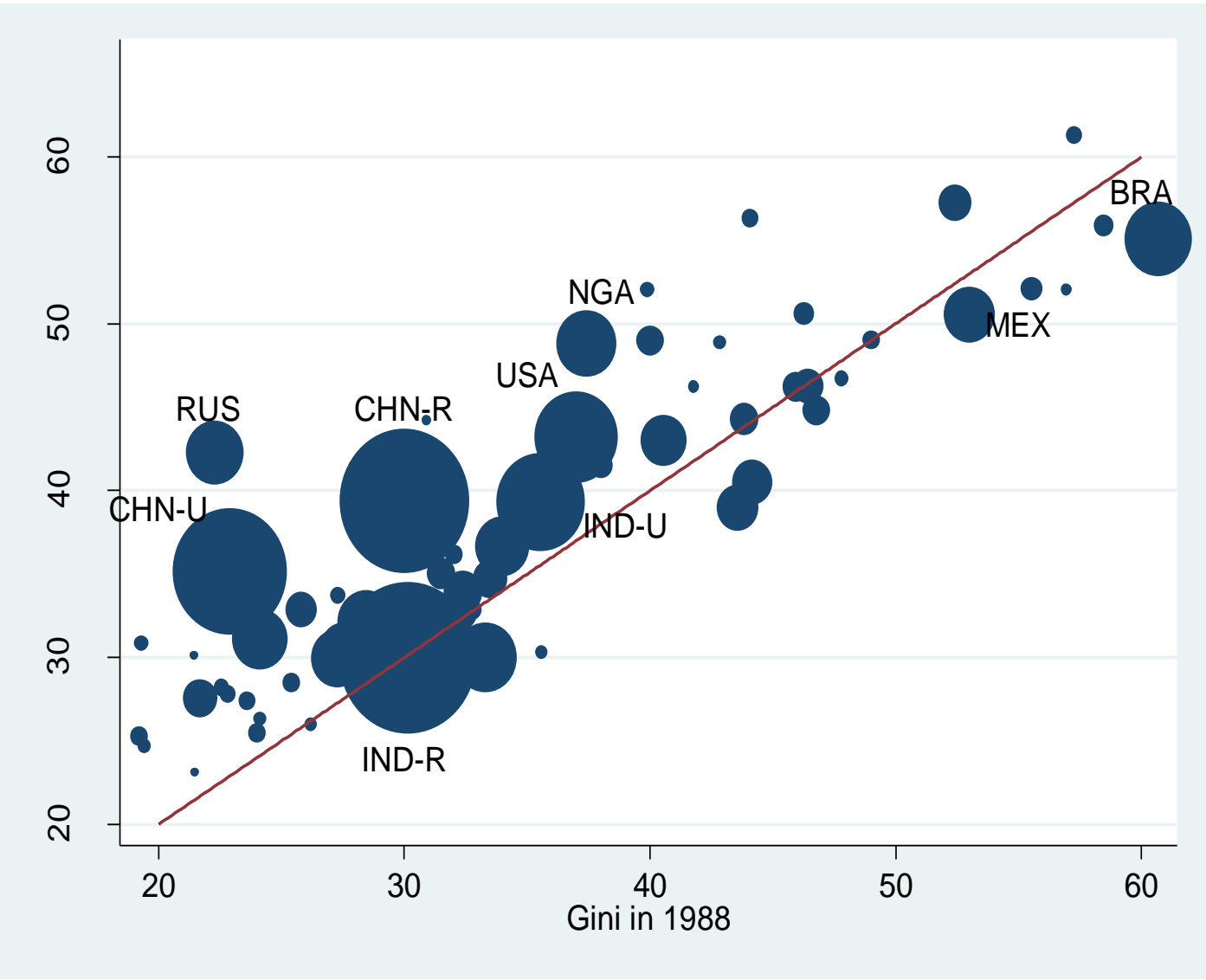
# Ginis in 1988 and twenty years later

	1988	2008	Change
Average Gini	36.0	38.5	+2.5
Pop-weighted Gini	33.9	37.3	+3.4
GDP-weighted Gini	32.2	36.4	+4.2
Countries with higher Ginis (38)	33.7	38.5	+4.8
Countries with lower Ginis (20)	40.5	37.7	-2.7

# Ginis in 1988 and 2008



# Ginis in 1988 and 2008 (population-weighted countries)

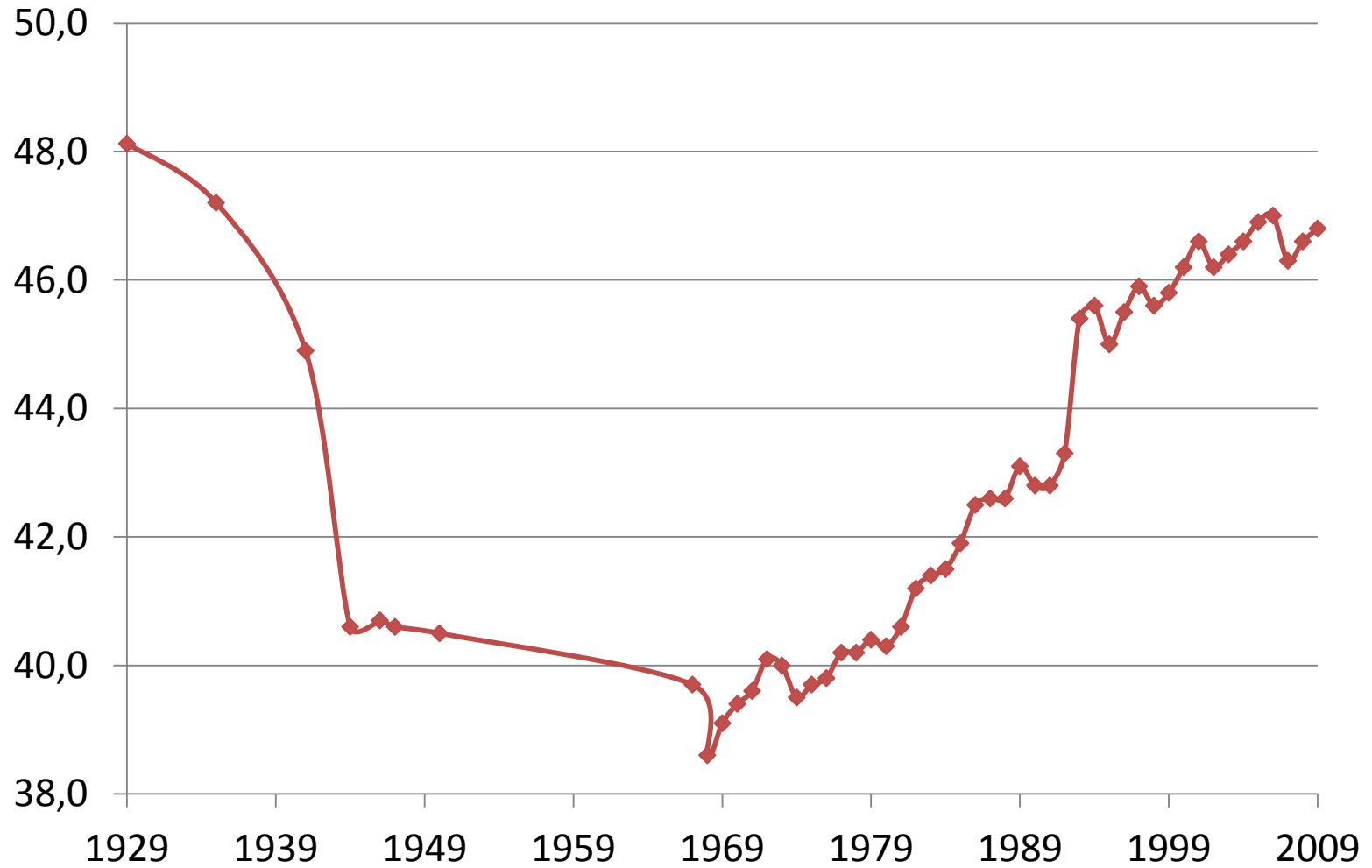


# Issues raised by growing national inequalities

- Social separatism of the rich
- Hollowing out of the middle classes
- Inequality as one of the causes of the global financial crisis
- **Perception** of inequality outstrips real increase because of globalization, role of social media and political (crony) capitalism (example of Egypt)
- Hidden assets of the rich

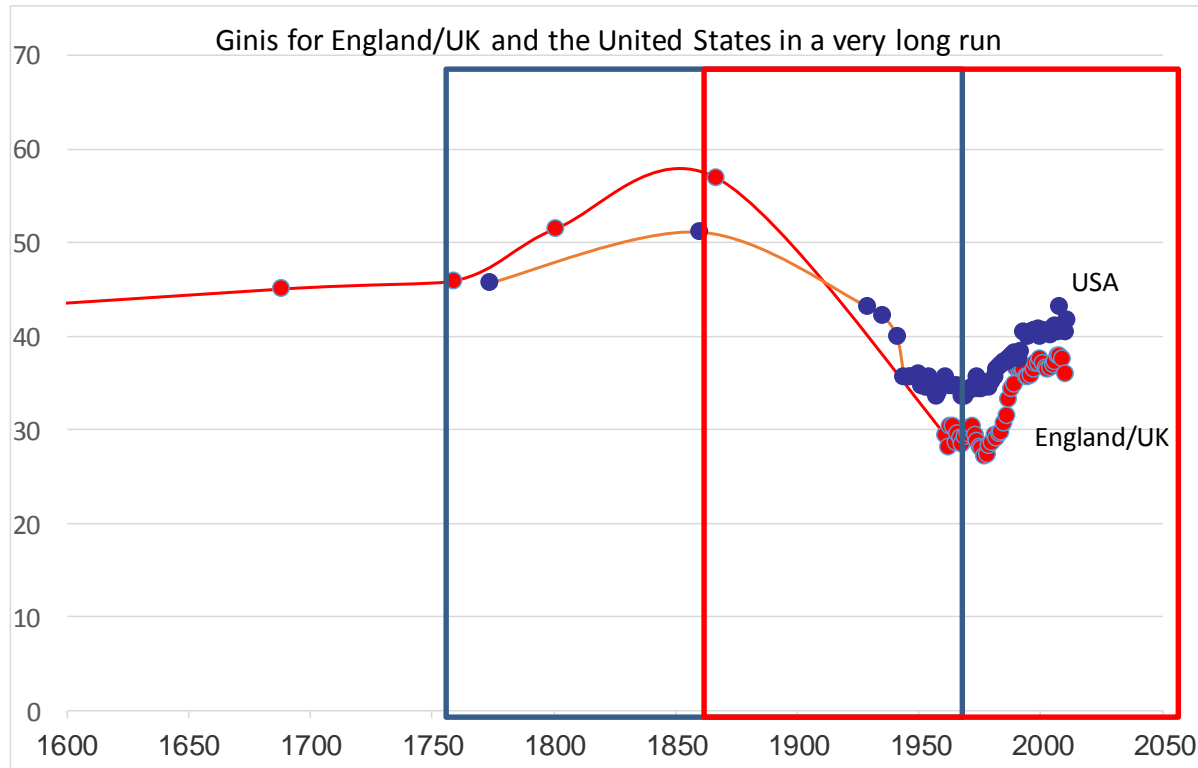
# Some long-term examples set in the Kuznets framework

## Inequality (Gini) in the USA 1929-2009 (gross income across households)





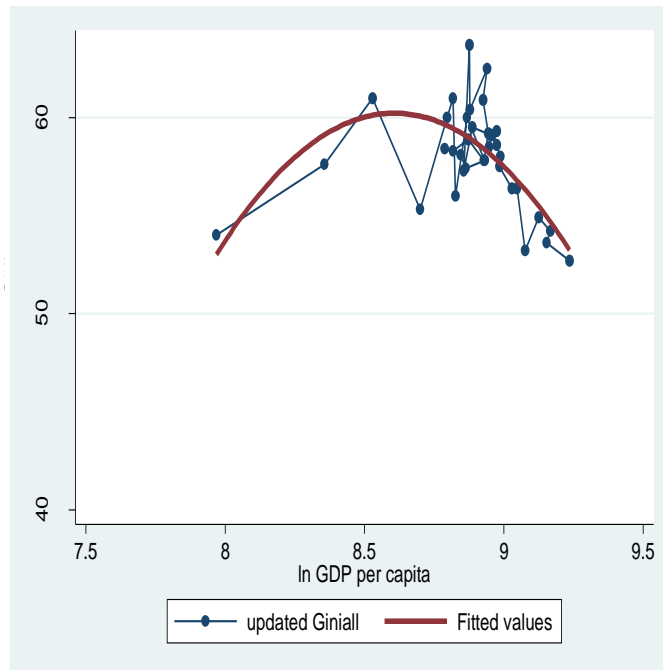
# Kuznets and Piketty “frames”



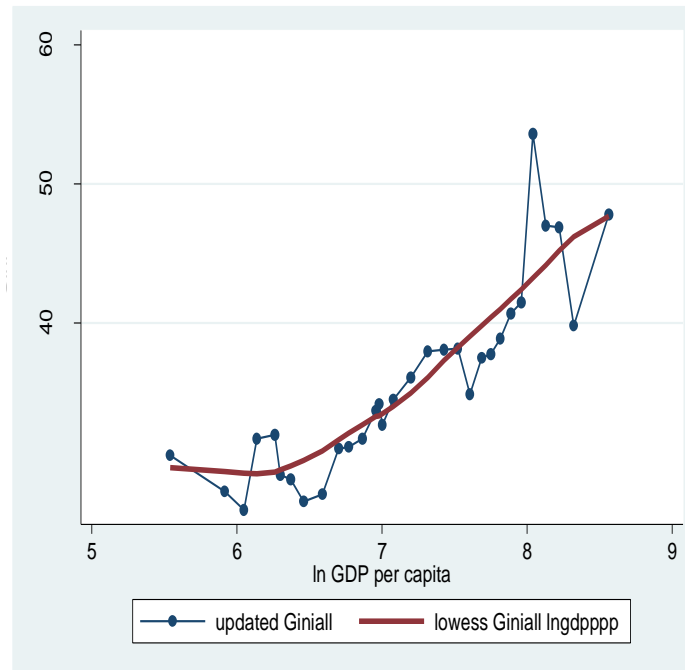
From uk\_and\_usa.xls

# Contemporary examples of Brazil and China: moving on the descending portion of the Kuznets curve

Brazil 1960-2010



China, 1967-2007

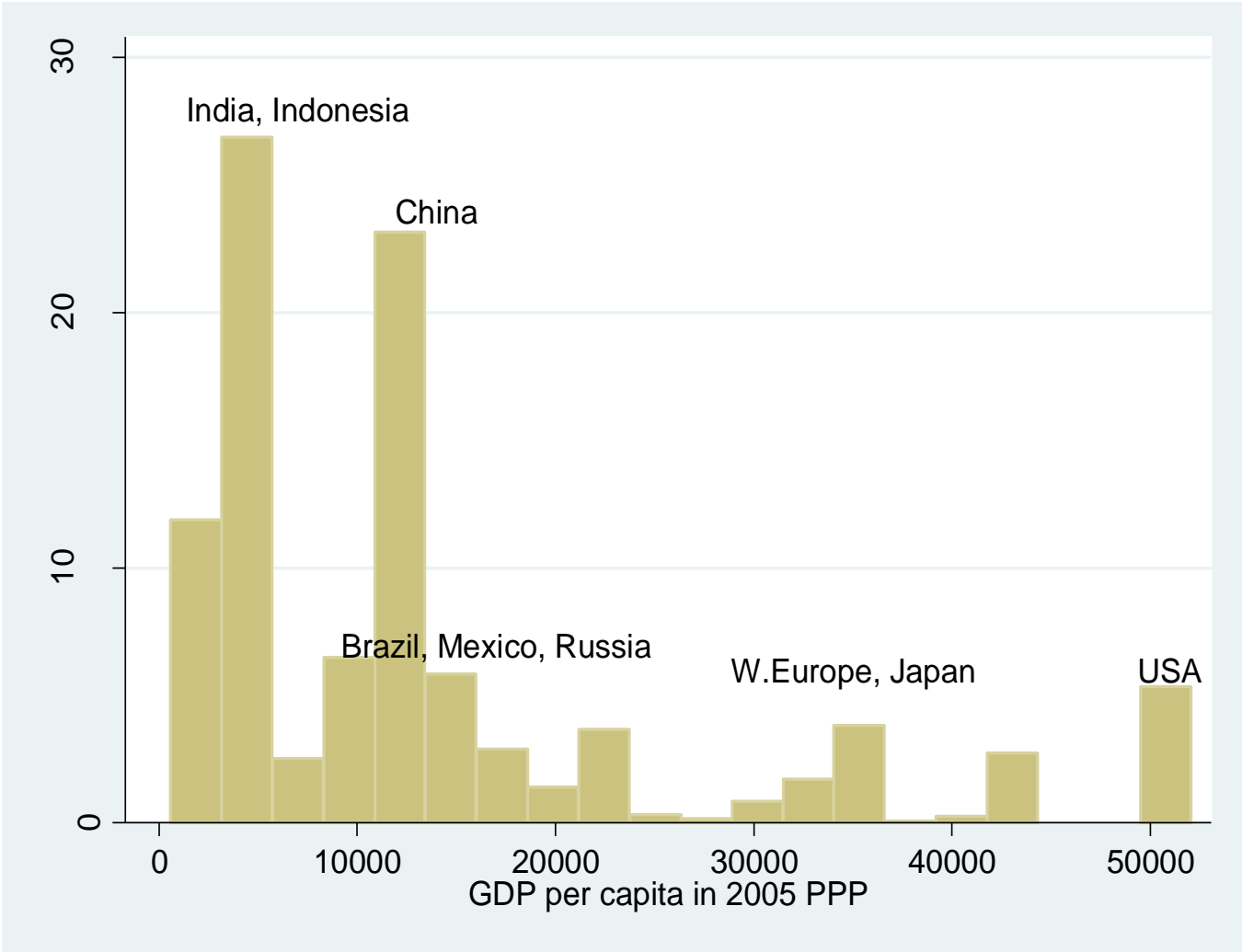


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twoway (scatter Gini ln GDP per capita if contcod=="BRA", connect(l) ylabel(40(10)60) xtitle(2000
6000 12000) ytitle(Gini) xtitle(ln GDP per capita)) (qfit Gini ln GDP per capita if contcod=="BRA",
lwidth(thick))
From gdp4.dta
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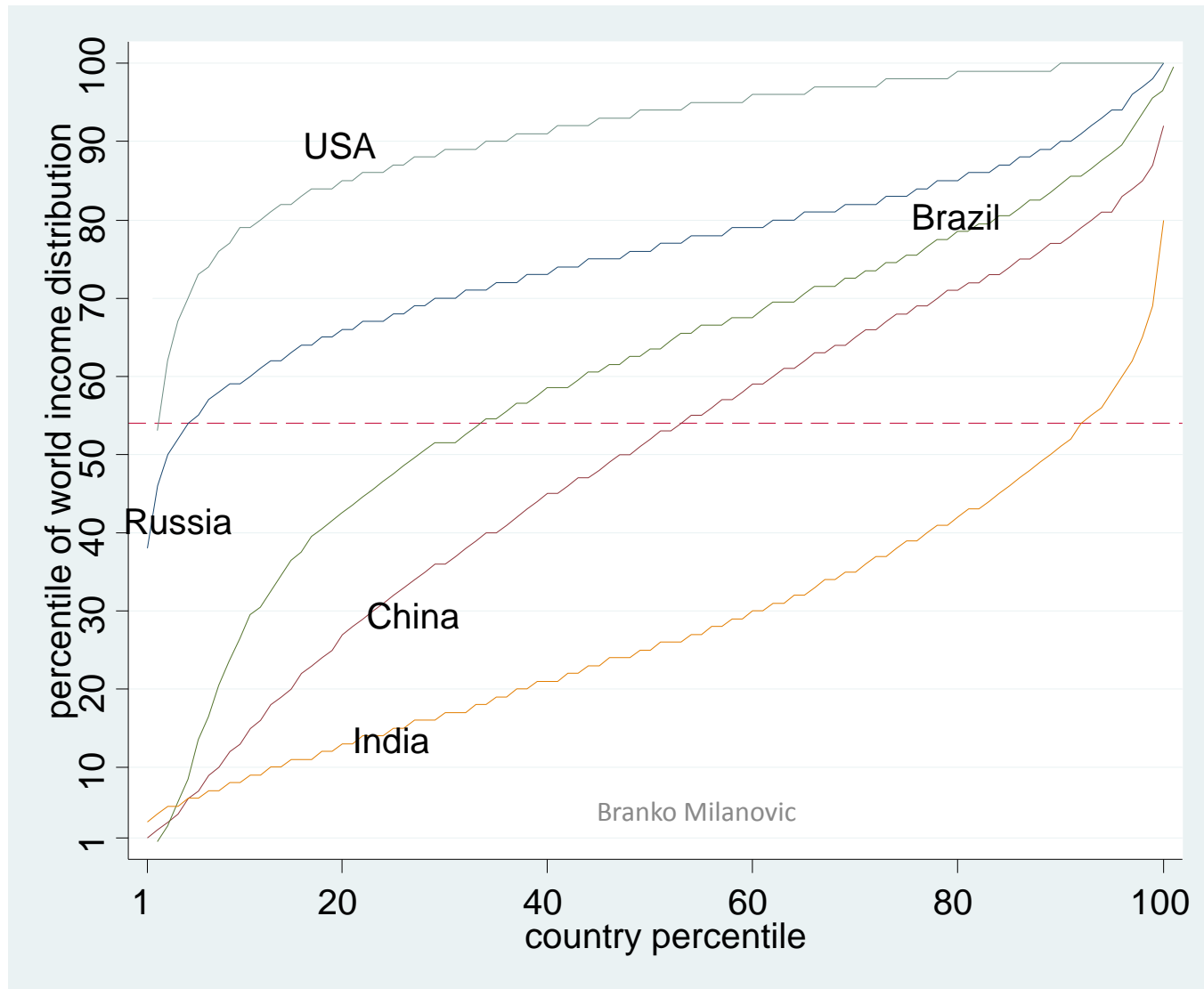
```
twoway (scatter Gini ln GDP per capita if contcod=="CHN" & year>1960, connect(l) ylabel(40(10)60)
xtitle(2000 6000 12000) ytitle(Gini) xtitle(ln GDP per capita)) (qfit Gini ln GDP per capita if
contcod=="CHN" & year>1960, lwidth(thick))
From gdp4.dta
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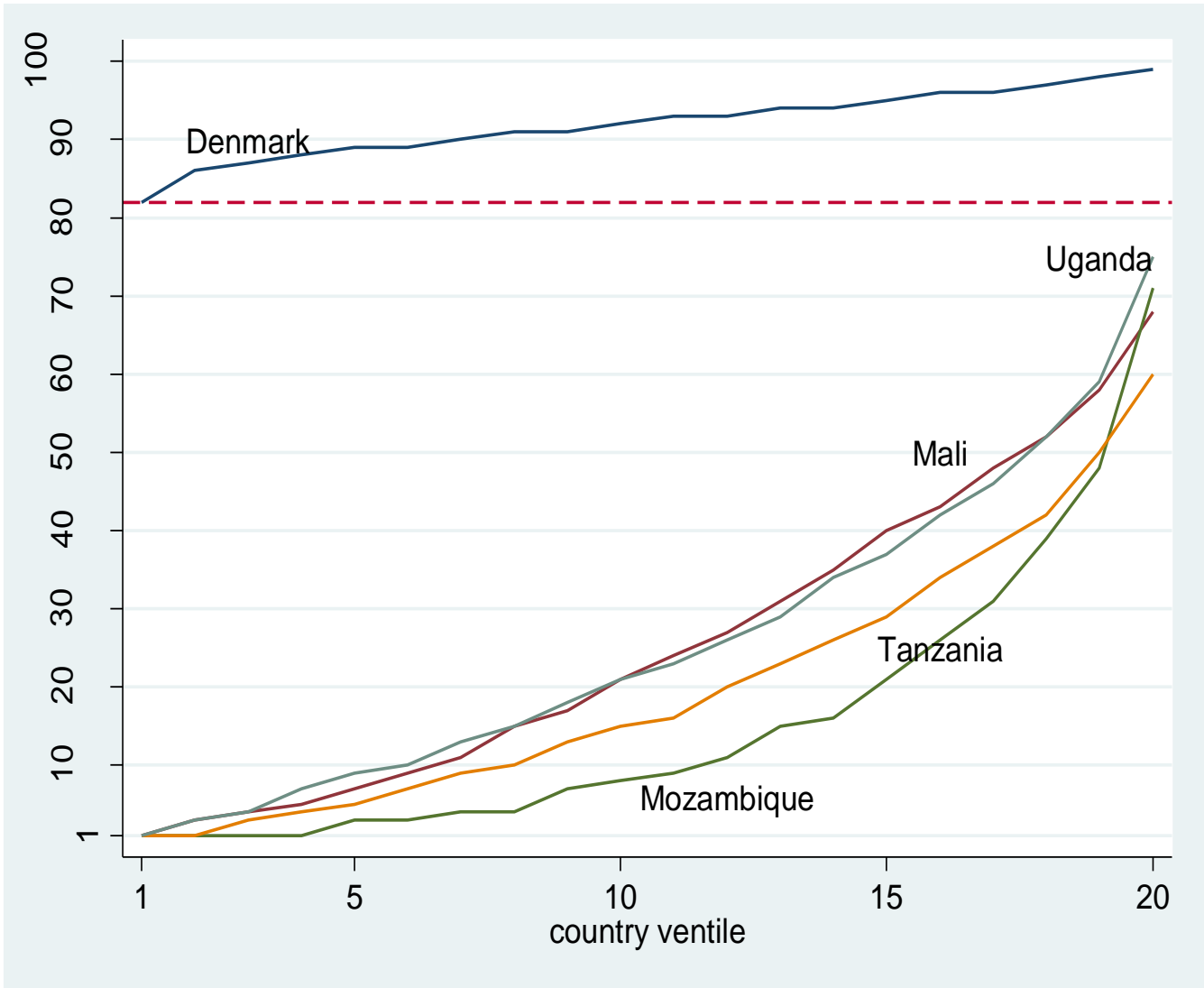
**B. Between national inequalities  
remained very high even if  
decreasing**

# Distribution of people by income of the country where they live: emptiness in the middle (year 2013; 2011 PPPs)

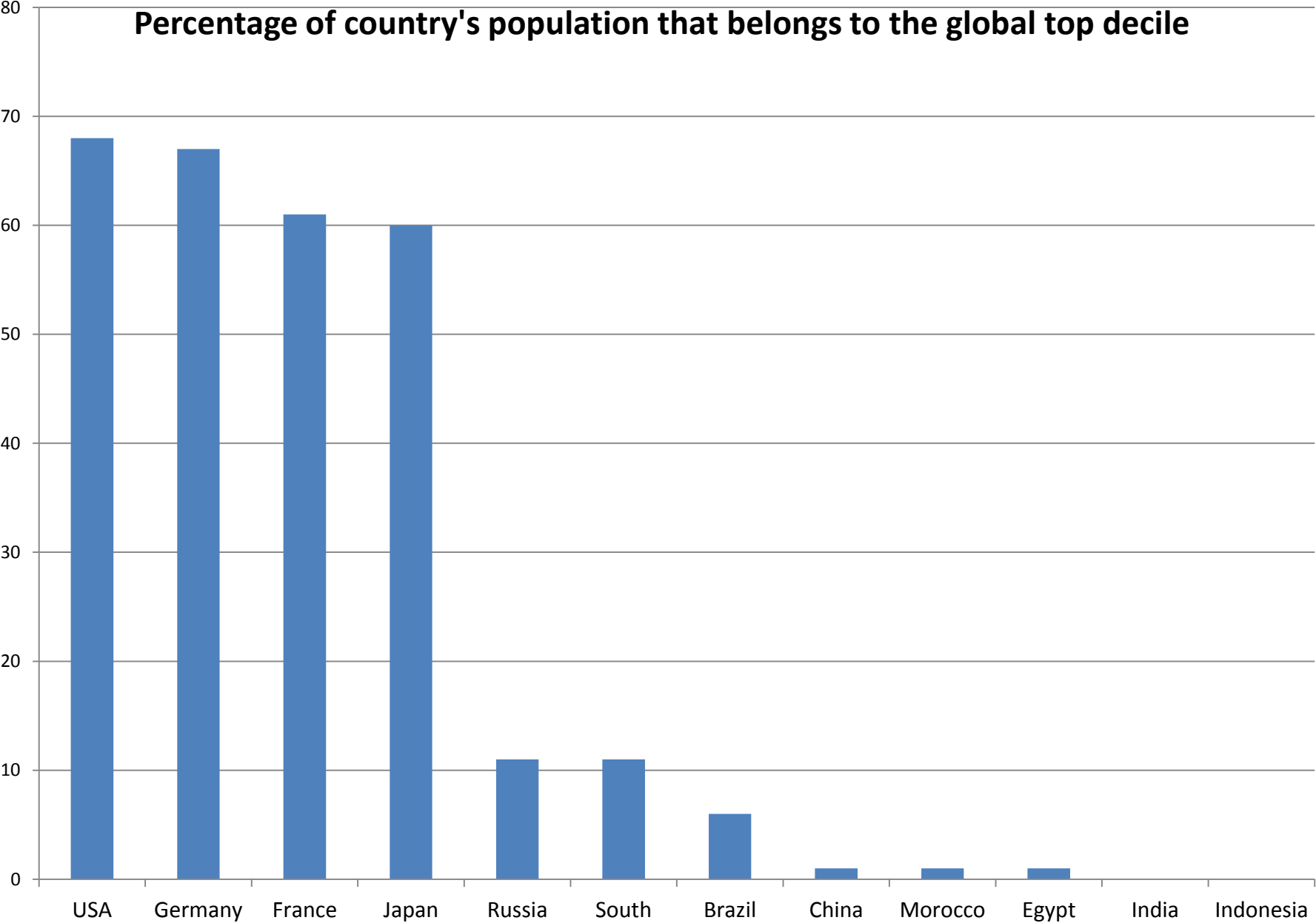


# Different countries and income classes in global income distribution in 2008





# Percentage of country's population that belongs to the global top decile



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C. Global inequality is the product of  
within- and between-country  
inequalities

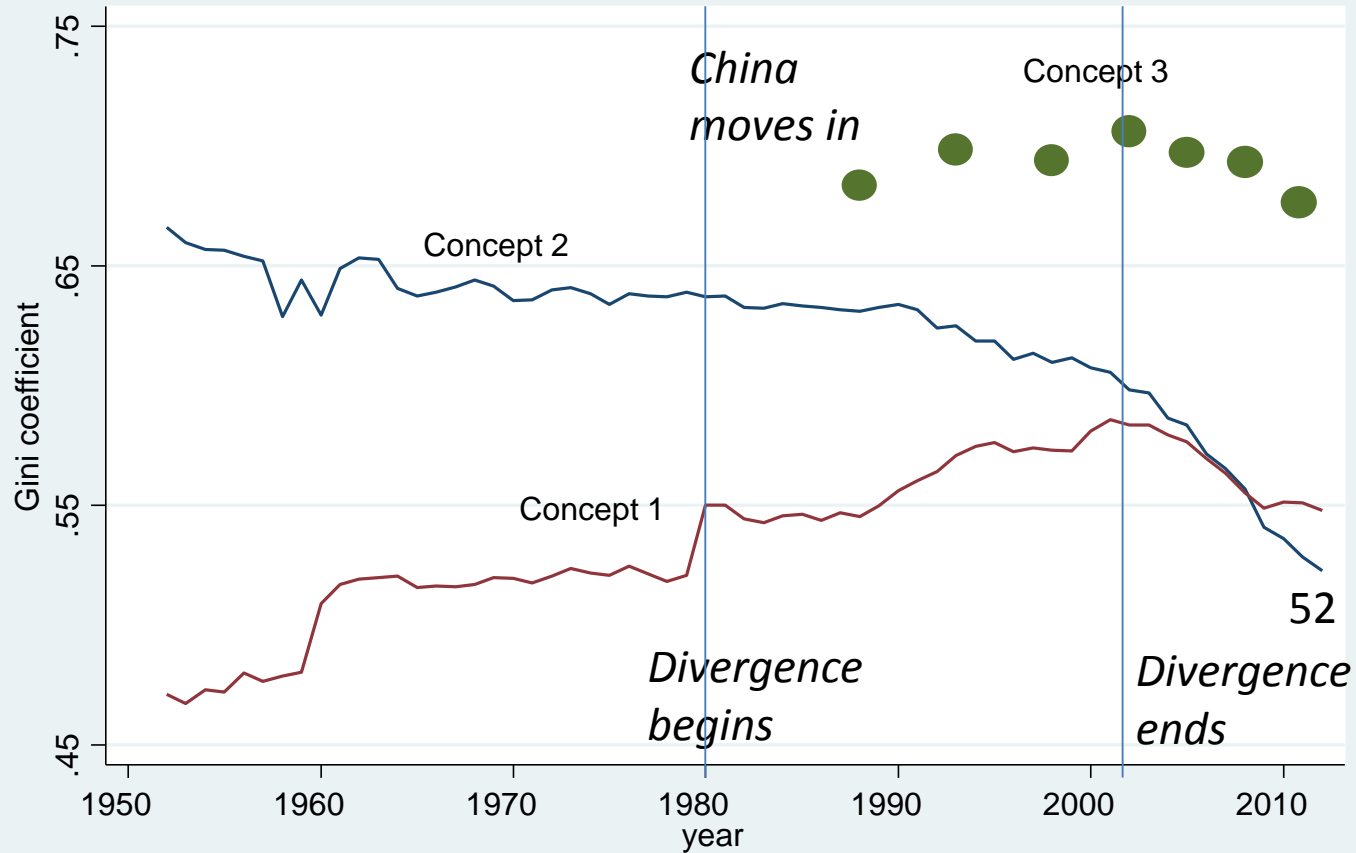
How did it change in the last 25 years?



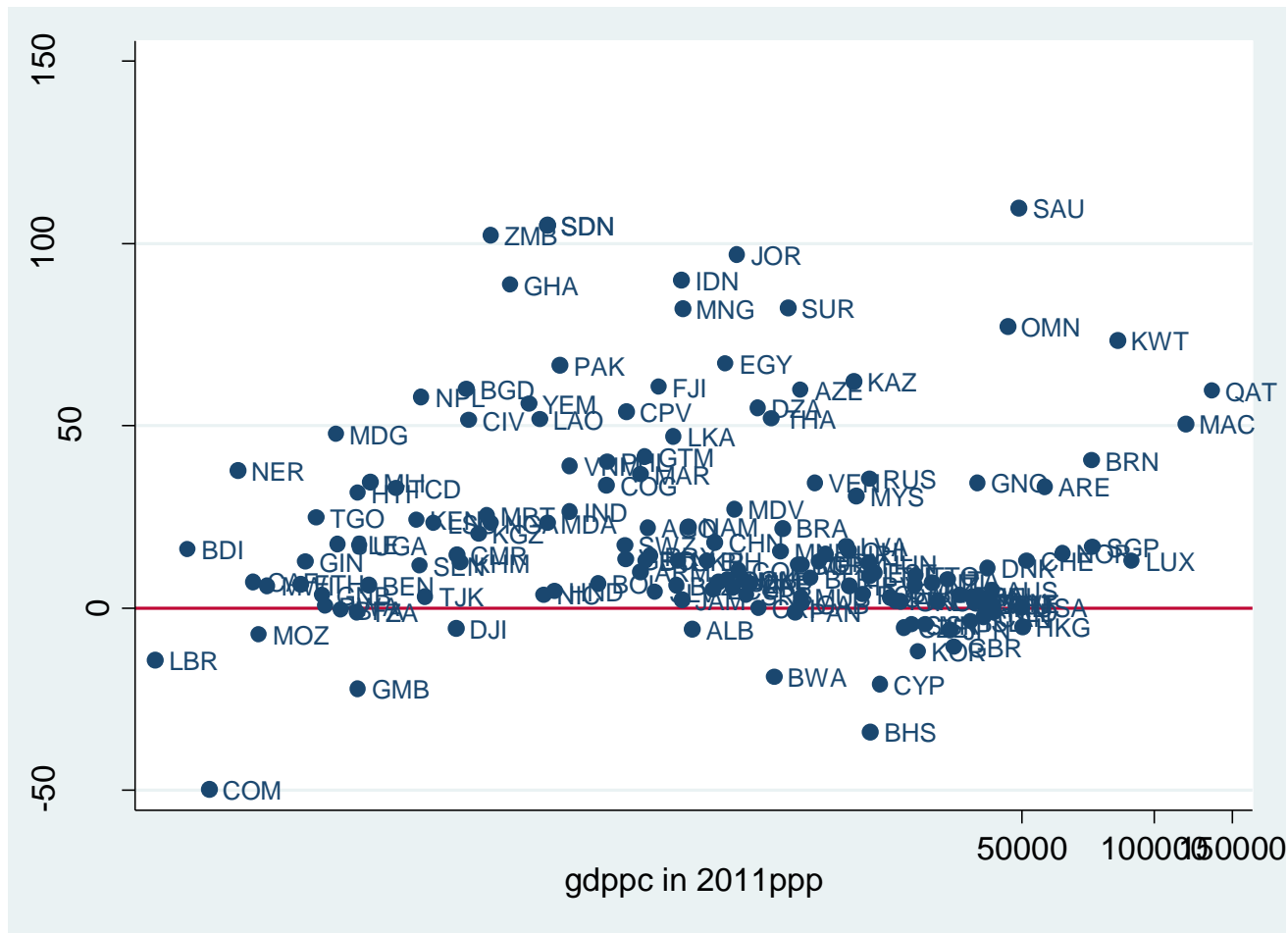
# Essentially, global inequality is determined by three forces

- What happens to within-country income distributions?
- Is there a catching up of poor countries?
- Are mean incomes of populous & large countries (China, India) growing faster or slower than the rich world?

# Global inequality 1950-2012: three concepts



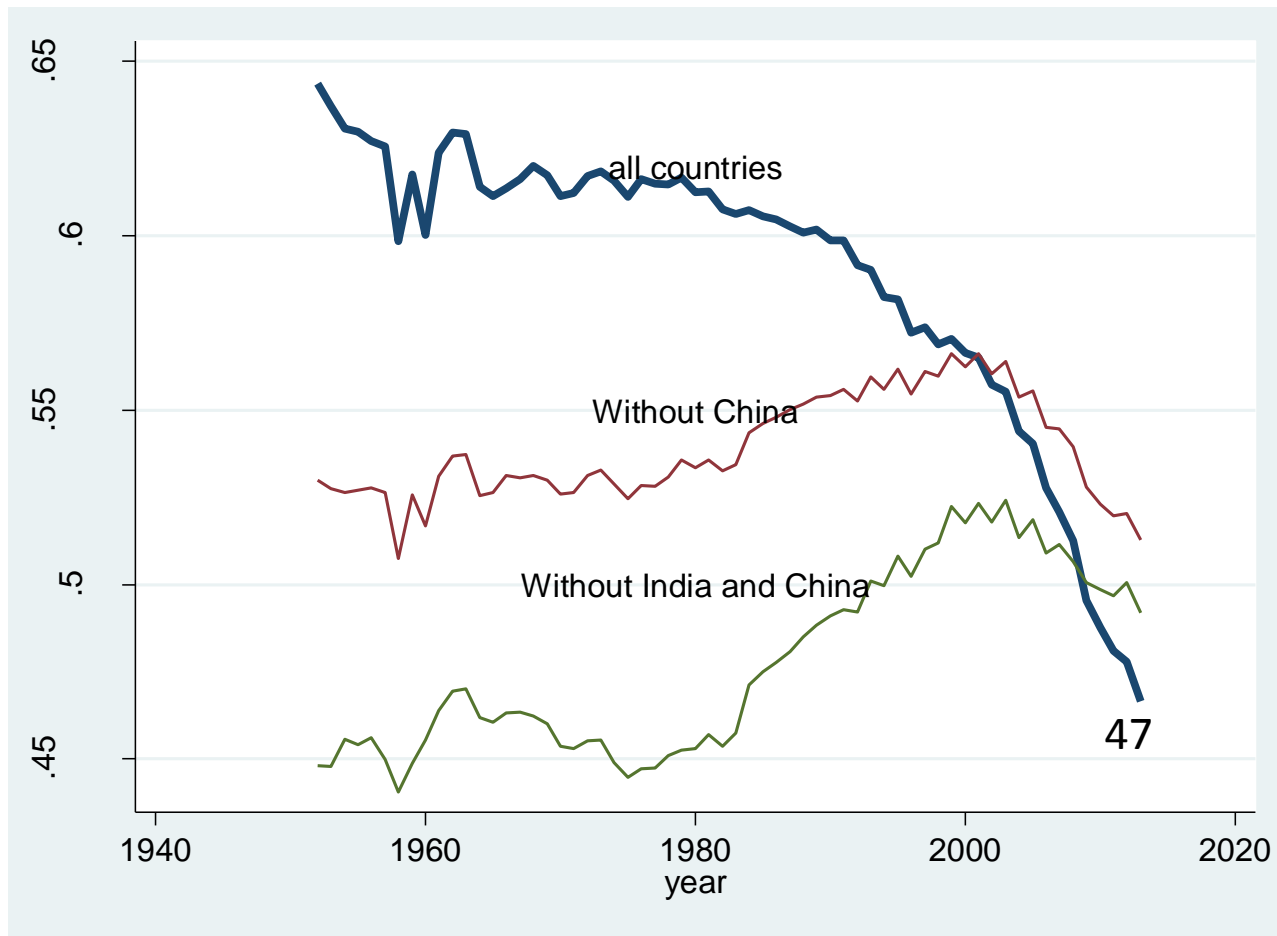
# The effect of the new PPPs on countries' GDP per capita (compared to the US level)



# The effect of new PPPs

Country	GDP per capita increase (in %)	GDP per capita increase population-weighted (in %)
Indonesia	90	---
Pakistan	66	---
Russia	35	---
India	26	---
China	17	---
Africa	23	32
Asia	48	33
Latin America	13	17
Eastern Europe	16	24
WENAO	3	2

# Concept 1 and 2 international inequality with 2011 PPP values



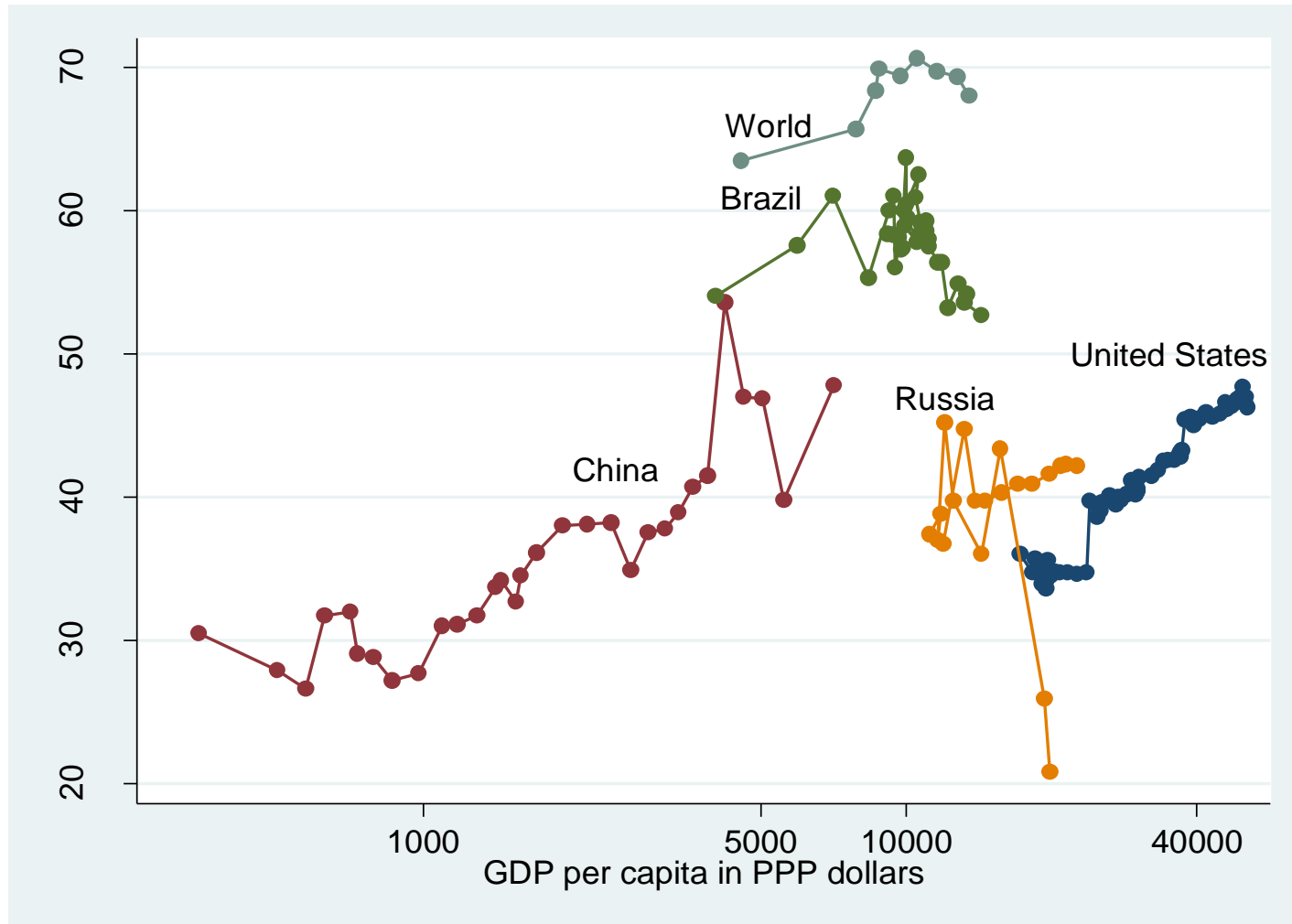
# Population coverage

	1988	1993	1998	2002	2005	2008	2011
Africa	48	76	67	77	78	78	60
Asia	93	95	94	96	94	98	86
E.Europe	99	95	100	97	93	92	76
LAC	87	92	93	96	96	97	97
WENAO	92	95	97	99	99	97	90
World	87	92	92	94	93	94	83

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Non-triviality of the omitted countries (Maddison vs. WDI)

# Large countries and the world, from 1950-60s to today

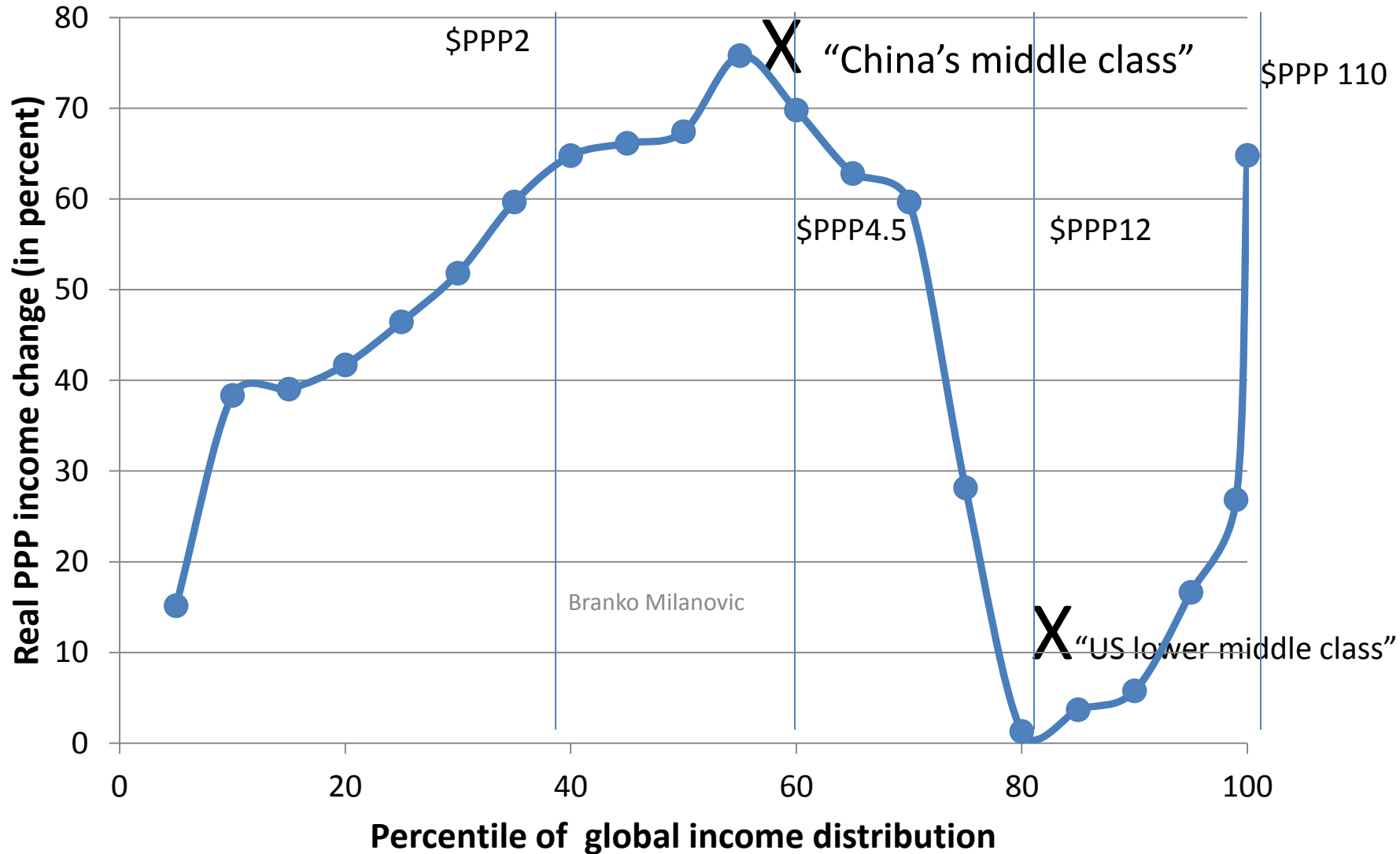


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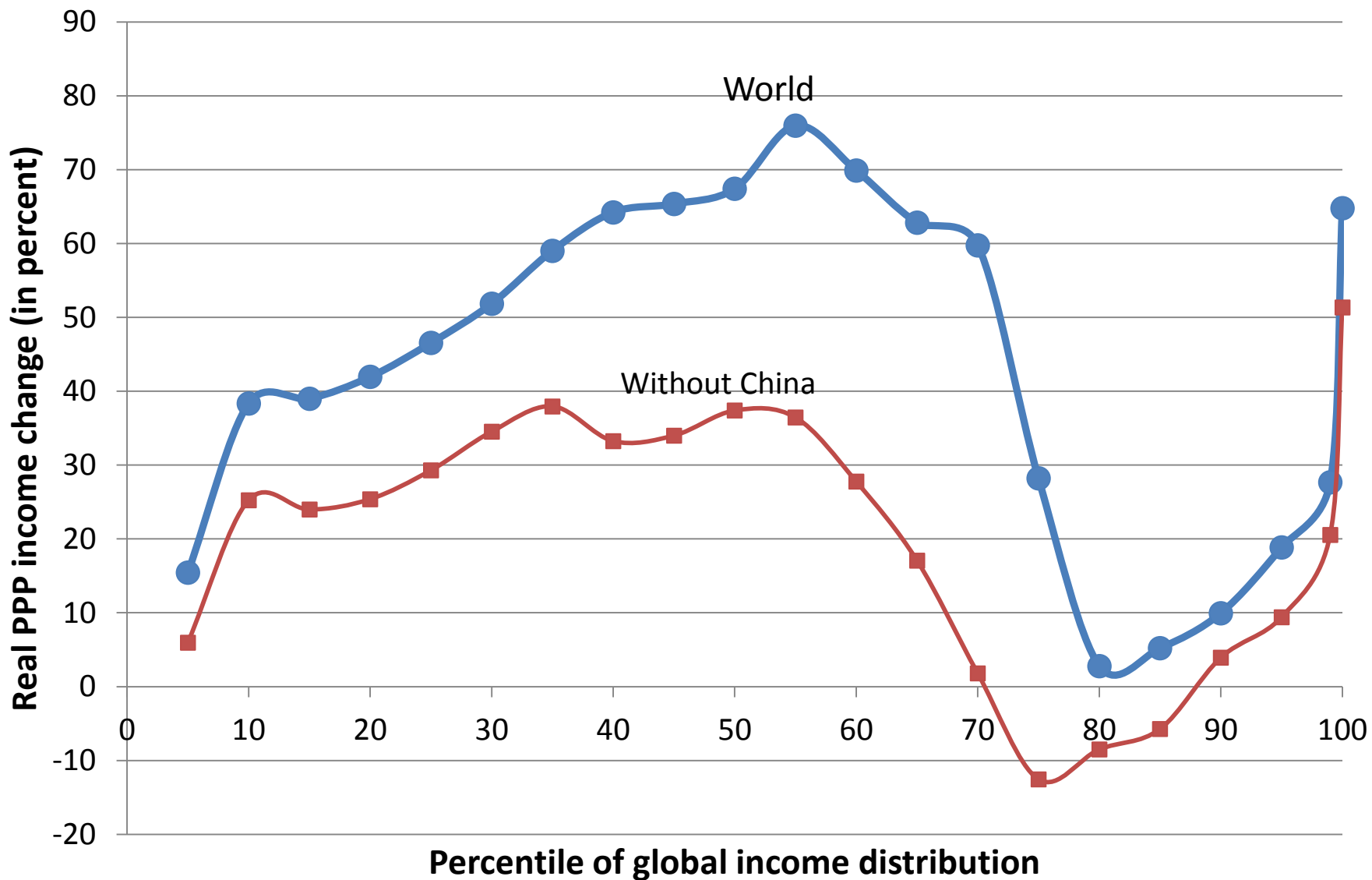
# D. How has the world changed between the fall of the Berlin Wall and the Great Recession



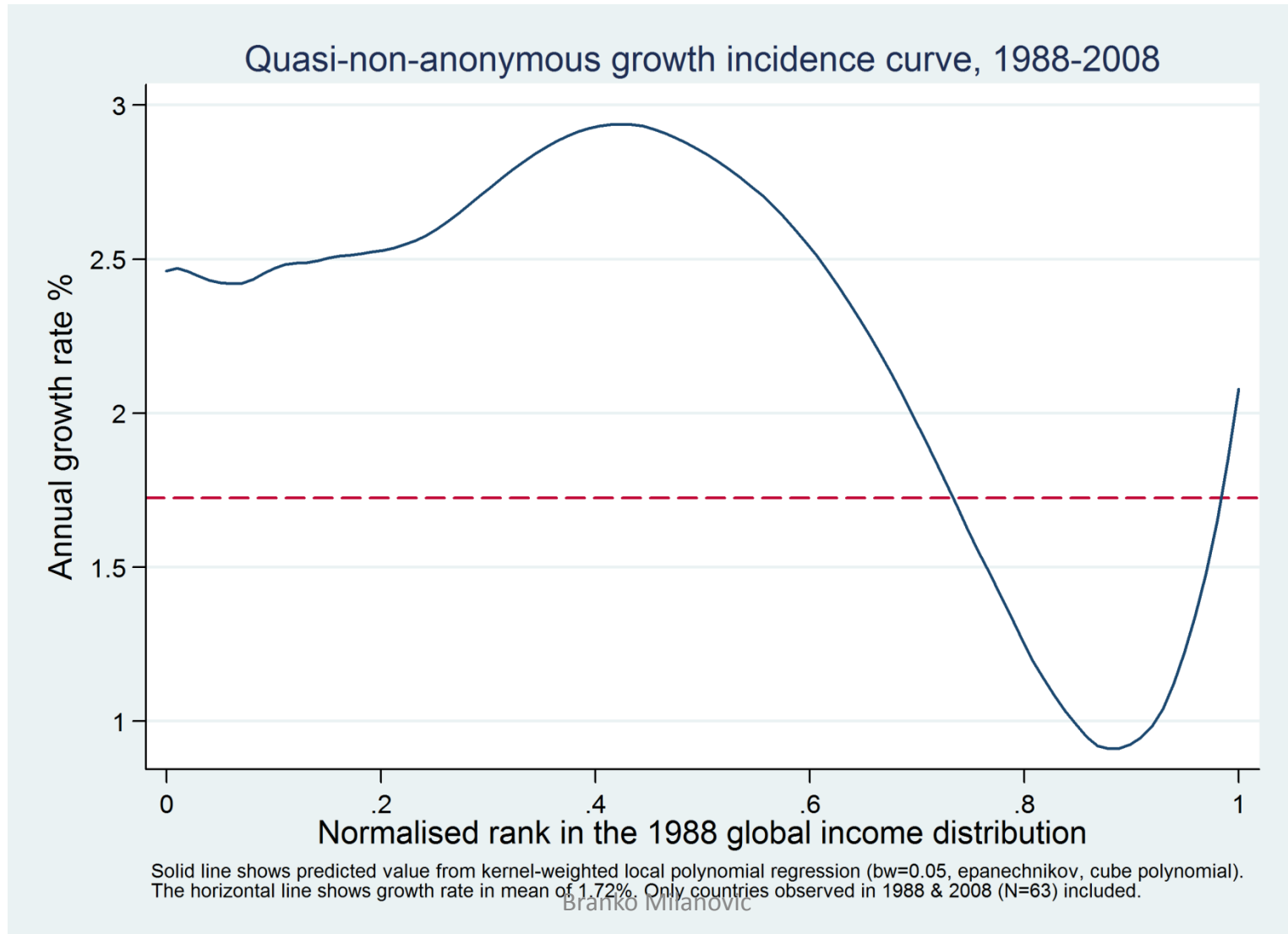
# Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)



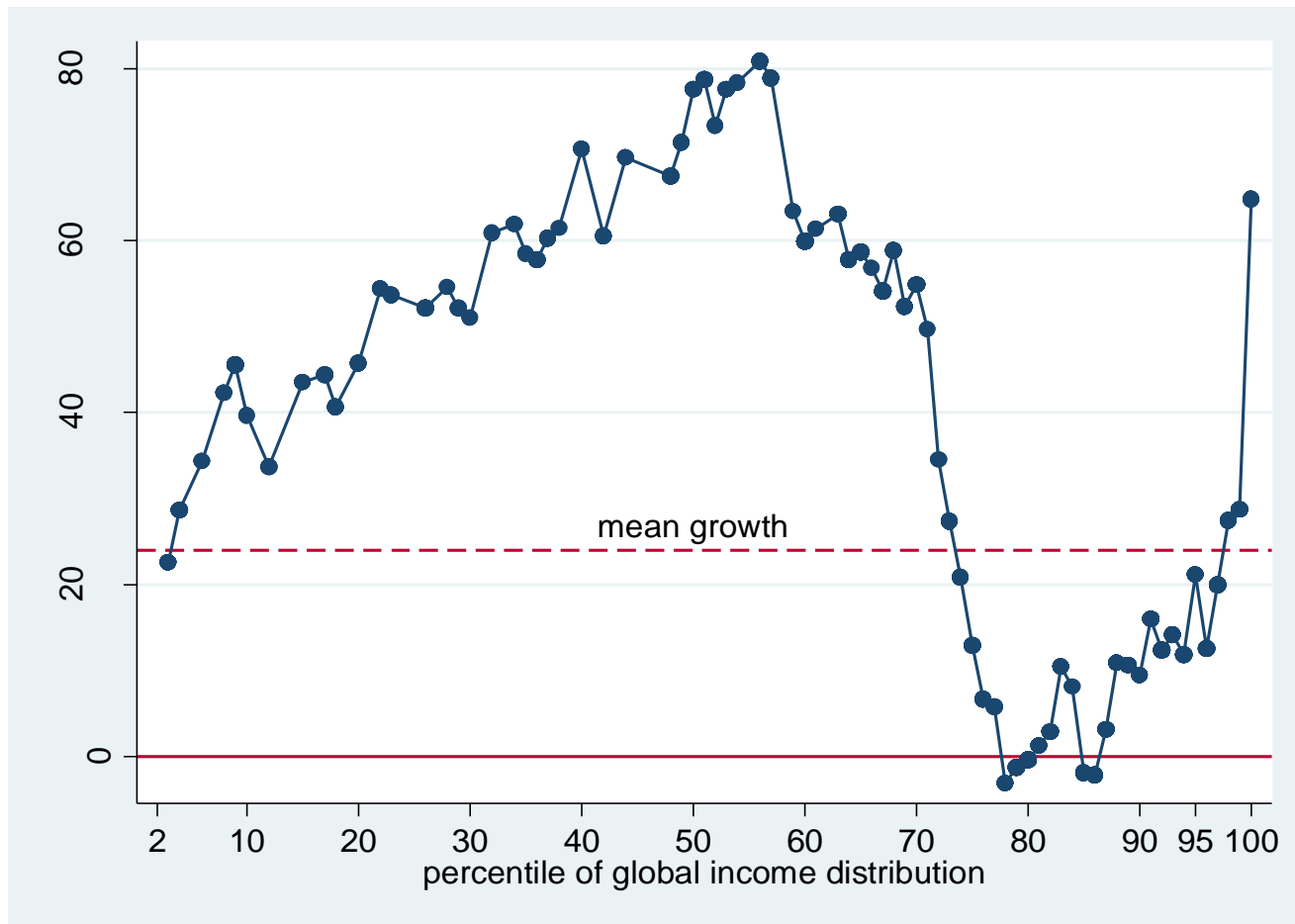
**Real income gains (in \$PPP) at different percentile of global income distribution 1988-2008**



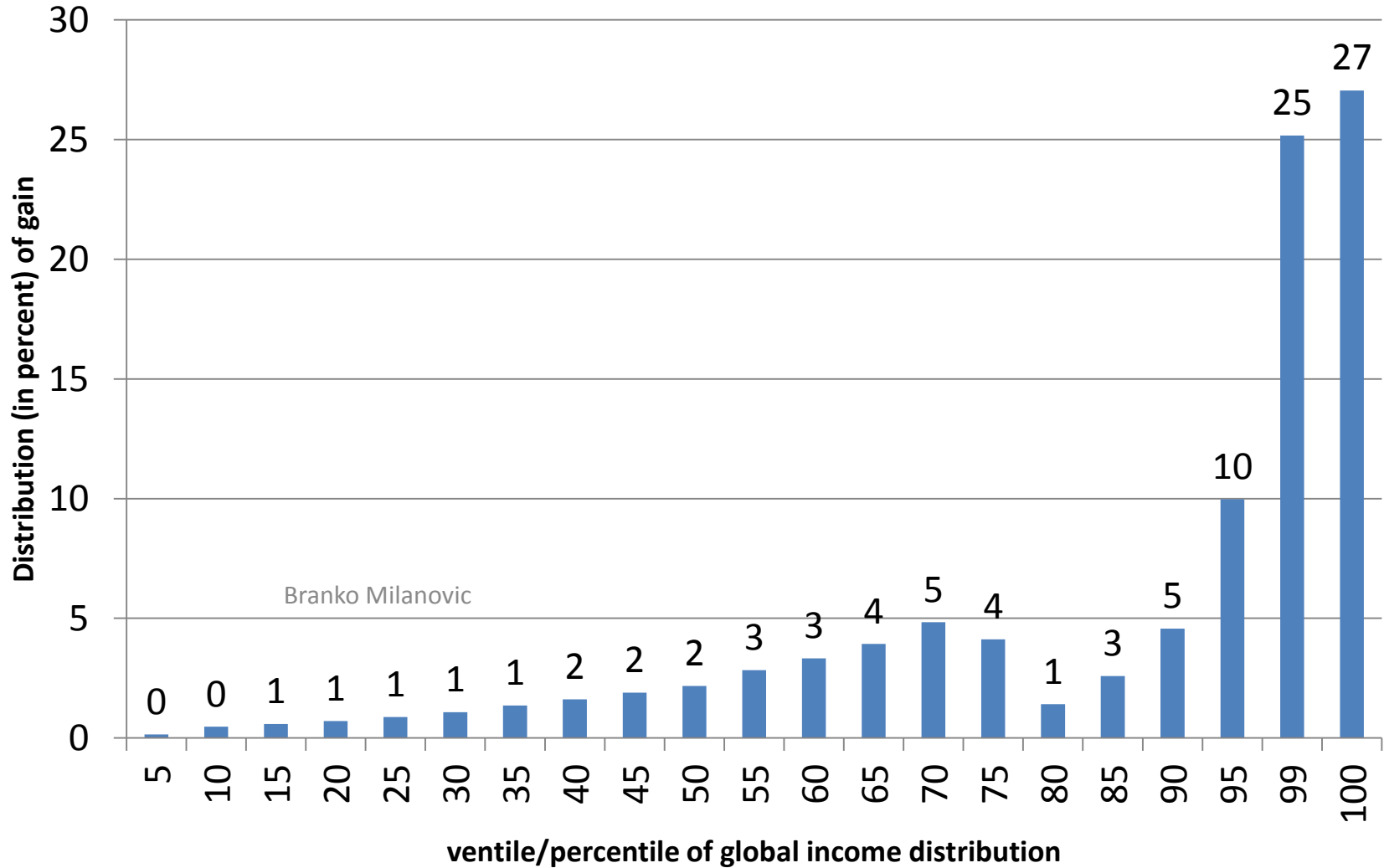
# Quasi non-anonymous GIC: Average growth rate 1988-2008 for different percentiles of the **1988** global income distribution



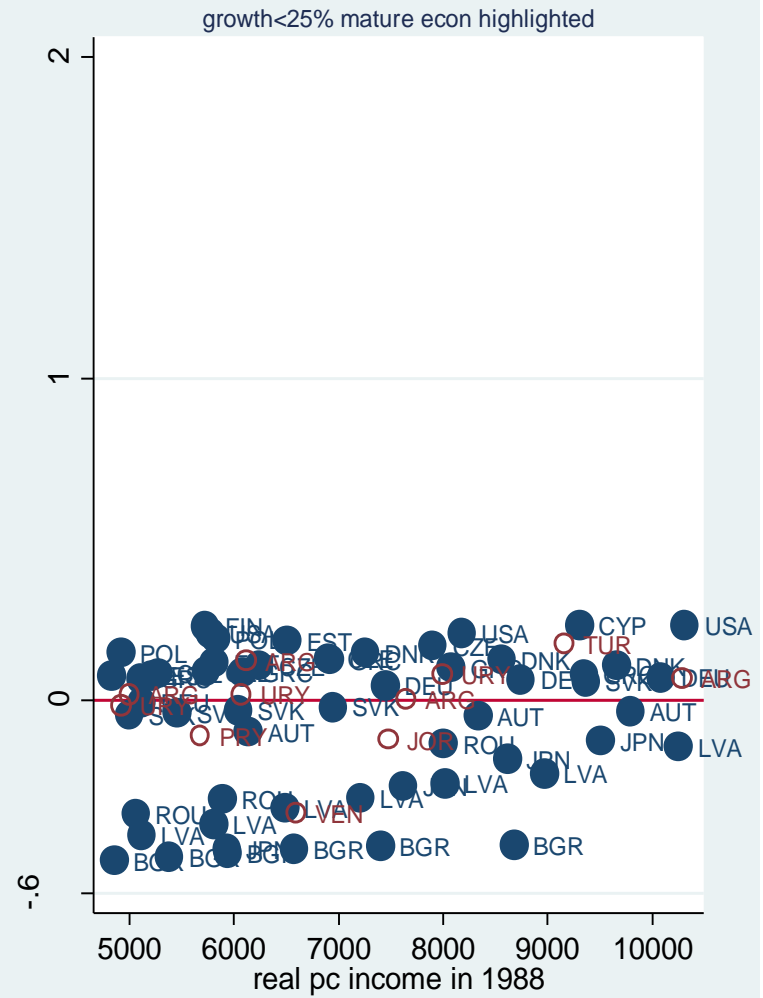
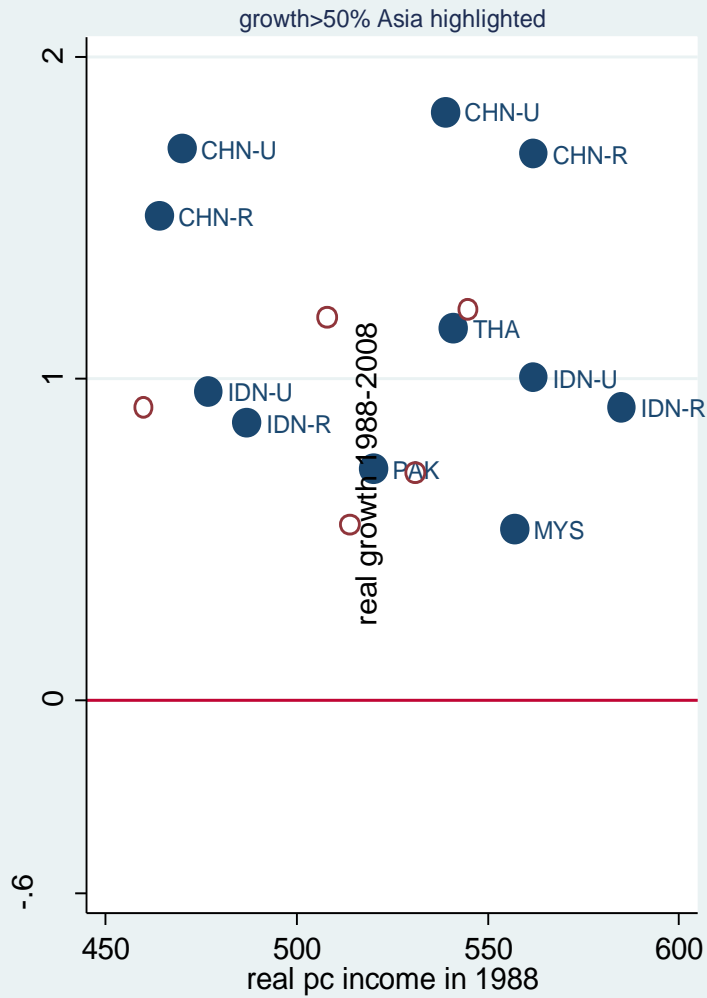
# Growth incidence curve (1988-2008) estimated at percentiles of the income distribution

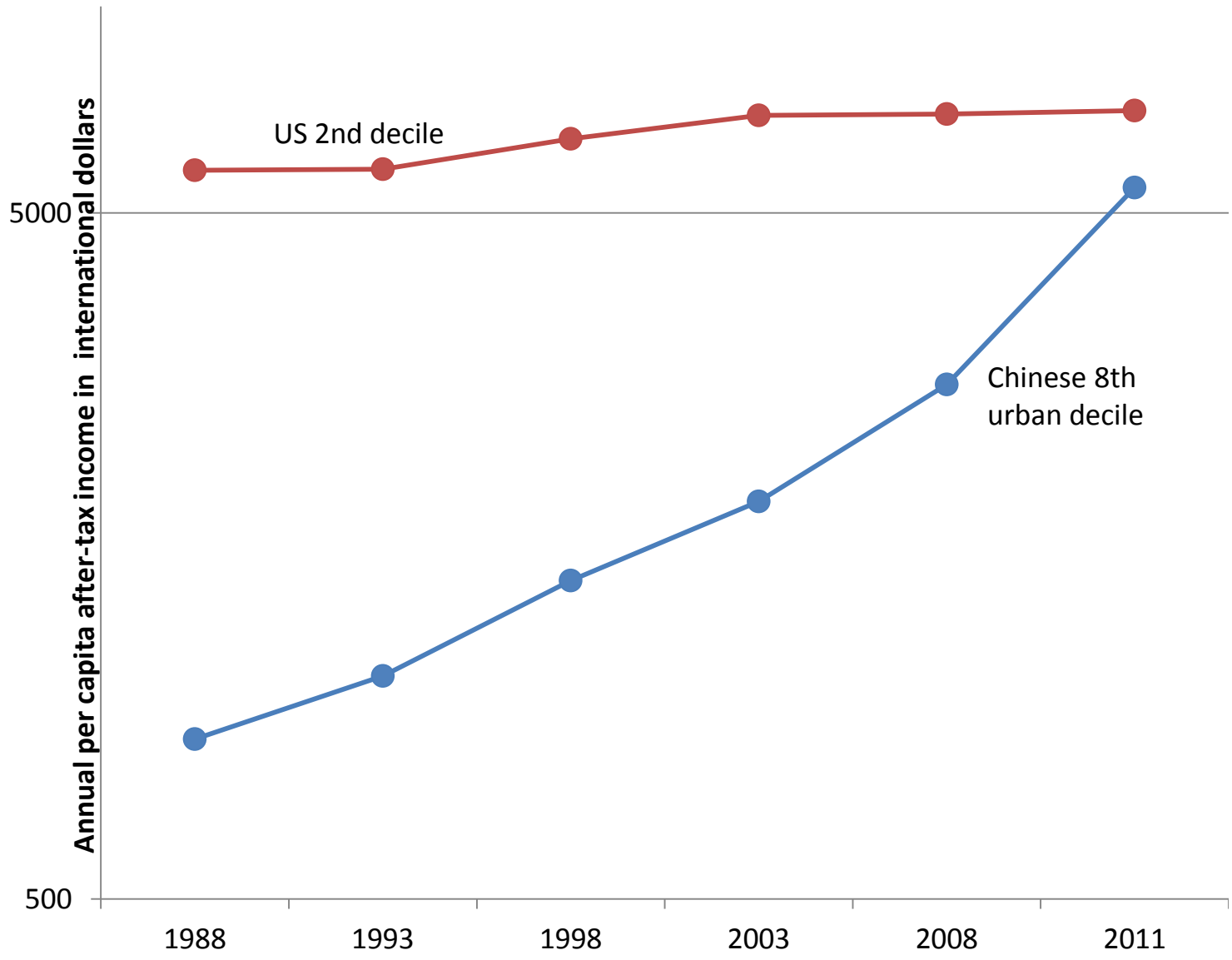


## Distribution of the global absolute gains in income, 1988-2008: more than ½ of the gains went to the top 5%

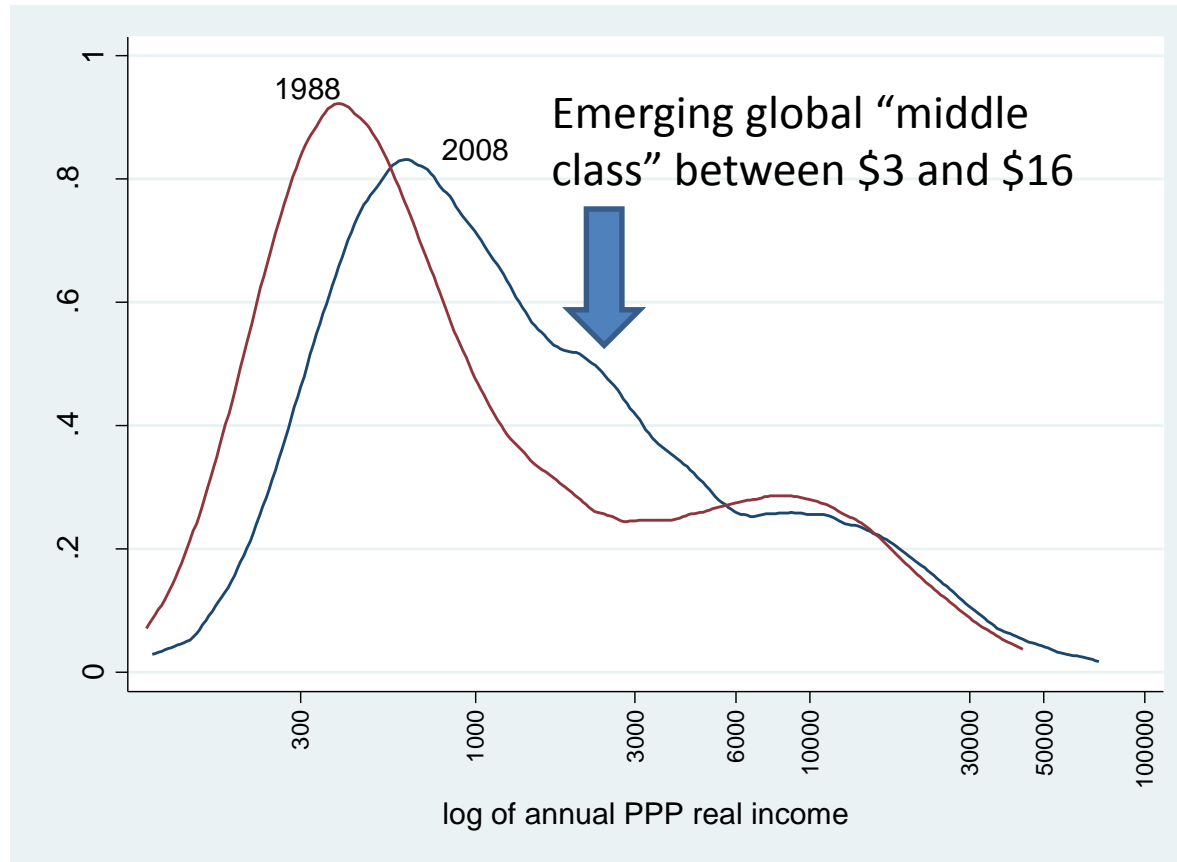


# Best and worst performing parts of the 1988 distribution





# Global income distributions in 1988 and 2008



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twoway (kdensity logRRinc [w=pop] if logRRinc>2 & bin_year==2008 & keep==1 & mysample==1) (kdensity logRRinc [w=pop] if logRRinc>2 & bin_year==1988 & keep==1 & mysample==1, legend(off) xtitle(log of annual PPP real income) ytitle(density) text(0.95 2.5 "1988") text(0.85 3 "2008"))
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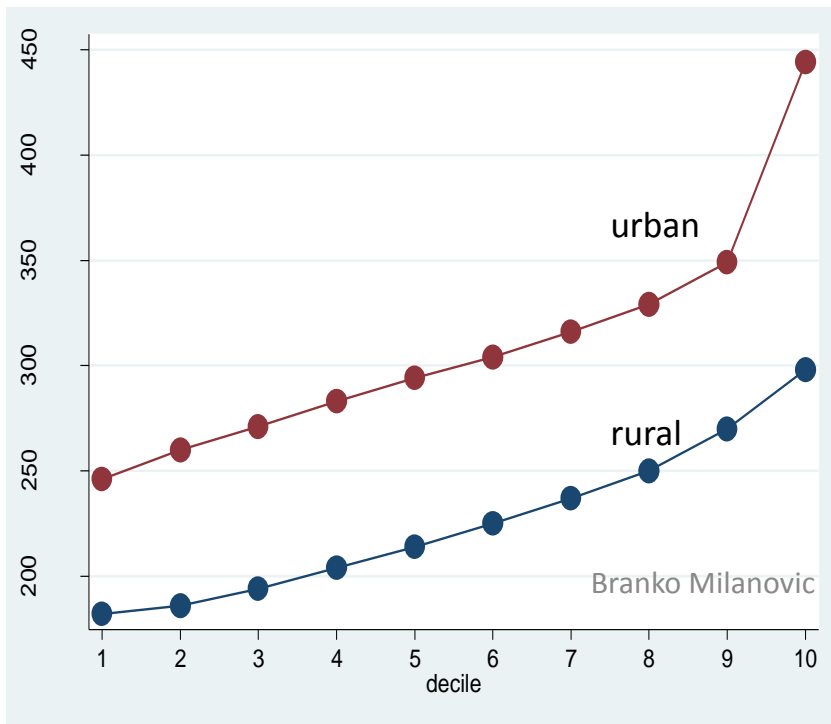
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Or using adding\_xlabel.do; always using final\_complete7.dta

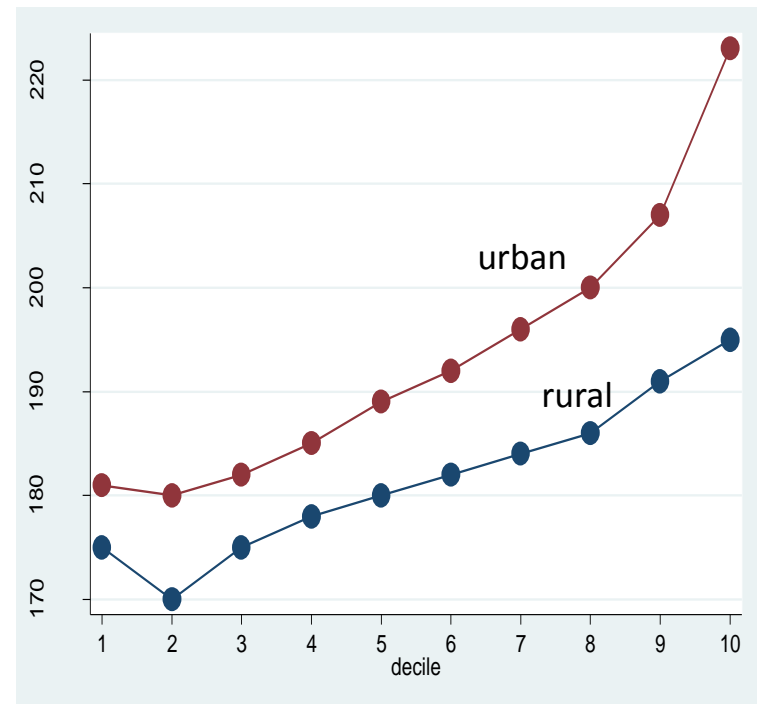


# Increasing gains for the rich with a widening urban-rural gap

## Urban and rural China



## Urban and rural Indonesia



# E. Issues of justice and politics

1. Citizenship rent
2. Migration
3. Hollowing out of the middle classes

# Global inequality of opportunity

- Regressing (log) average incomes of 118 countries' percentiles (11,800 data points) against country dummies “explains” 77% of variability of income percentiles
- Where you live is the most important determinant of your income; for 97% of people in the world: birth=citizenship.
- Citizenship rent.

# Is citizenship a rent?

- If most of our 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?

# The logic of the argument

- Citizenship is a morally-arbitrary circumstance, independent of individual effort
- It can be regarded as a rent (shared by all members of a community)
- Are citizenship rents globally acceptable or not?
- Political philosophy arguments *pro* (social contract; statist theory; self-determination) and *contra* (cosmopolitan approach)

# 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 2008)

Mean country incomes  Individual incomes within country	All equal	Different (as now)
All equal	0	68 (all country Ginis=0)
Different (as now)	30 (all mean incomes same; all country Ginis as now)	98

# Conclusion

- Working on equalization of within-national inequalities will not be sufficient to significantly reduce global inequality
- Faster growth of poorer countries is key and also...



# Migration: a different way to reduce global inequality and citizenship rent

- A new view of development:  
Development is increased income for poor people regardless of where they are, in their countries of birth or elsewhere
- Migration and LDC growth thus become the two equivalent instruments for development

# Political issue: Global vs. national level

- Our income and employment is increasingly determined by global forces
- But political decision-making still takes place at the level of the nation-state
- If stagnation of income of rich countries' middle classes continues, will they continue to support globalization?
- Two dangers: populism and plutocracy
- To avert both, need for within-national redistributions: those who lose have to be helped

# Final conclusion

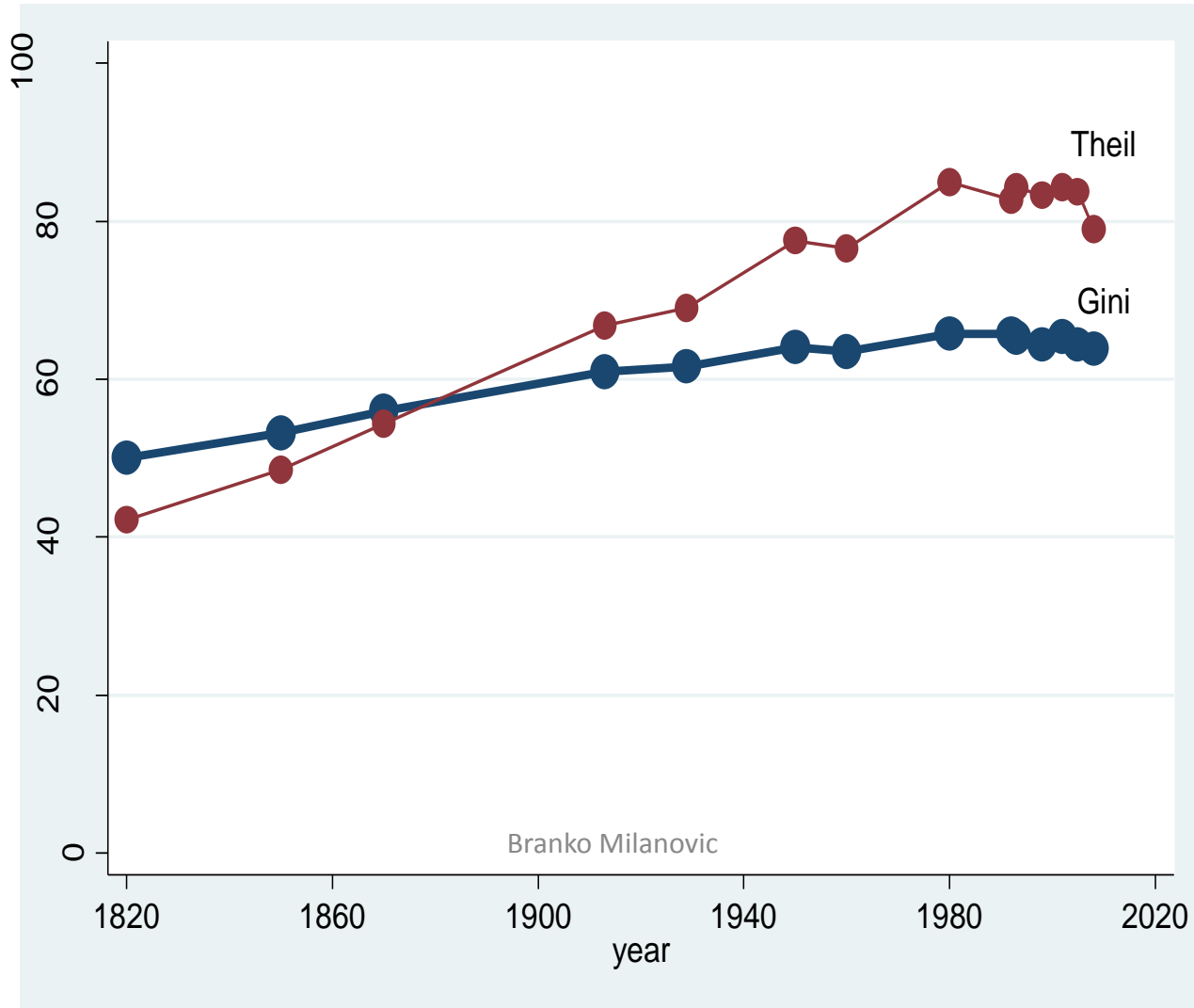
- To reduce global inequality: fast growth of poor countries + migration
- To preserve good aspects of globalization: redistribution within rich countries

# Additional slides

# H. Global inequality over the long-run of history

# Global income inequality, 1820-2008

(Source: Bourguignon-Morrisson and Milanovic; 1990 PPPs )



twoway (scatter Gini year, c(l) xlabel(1820(40)2020) ylabel(0(20)100) msizе(vlarge) clwidth(thick)) (scatter Theil year, c(l) msizе(large)  
legend(off) text(90 2010 "Theil") text(70 2010 "Gini"))

# A non-Marxist world

- Over the long run, decreasing importance of within-country inequalities despite some reversal in the last quarter century
- Increasing importance of between-country inequalities (but with some hopeful signs in the last five years, before the current crisis),
- Global division between countries more than between classes

# Composition of global inequality changed: from being mostly due to “class” (within-national), today it is mostly due to “location” (where people live; between-national)

