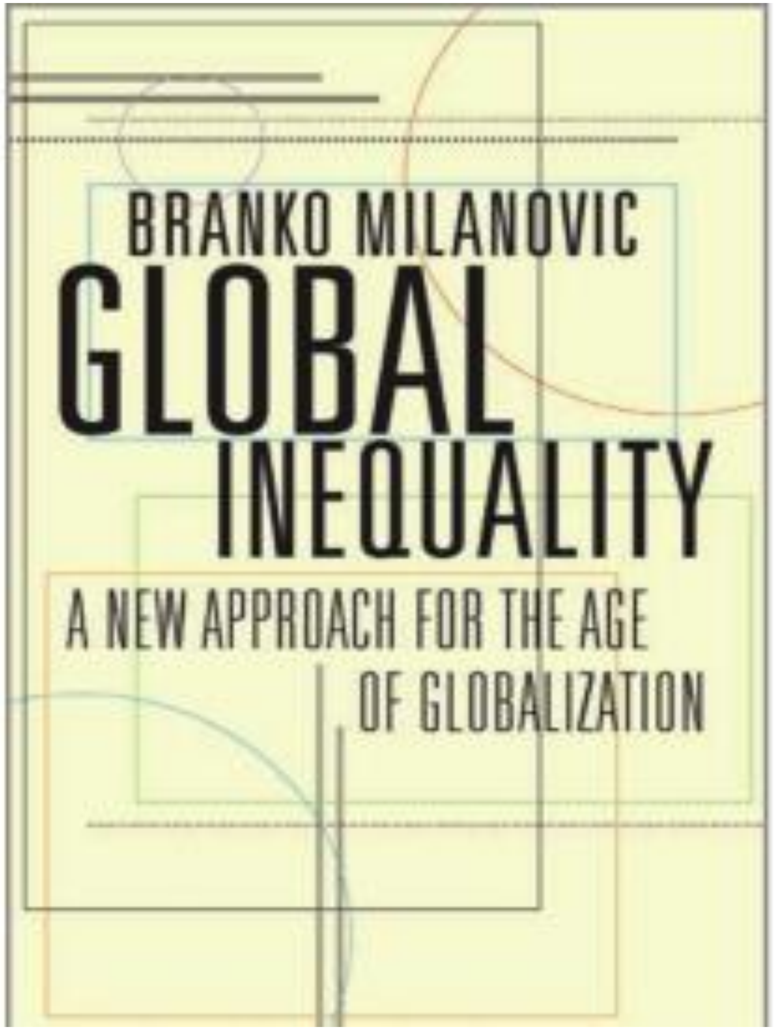
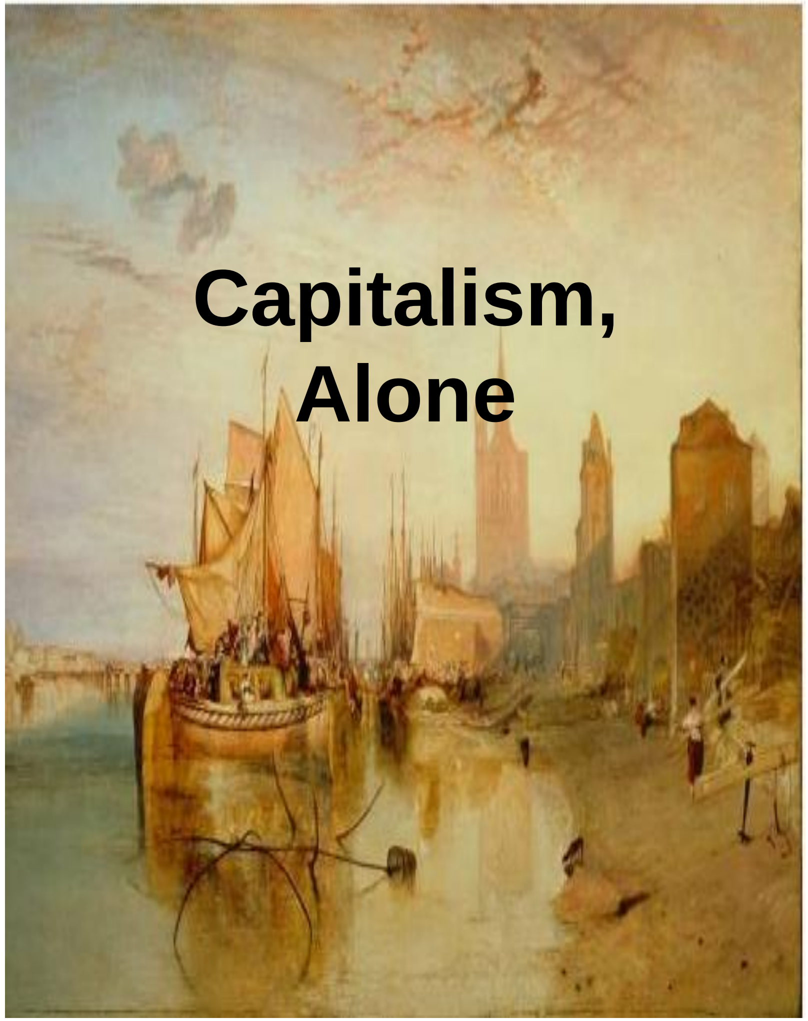
Changes in the global income distribution and their political consequences

Branko Milanovic

Winter 2018-19

Based on: And forthcoming…

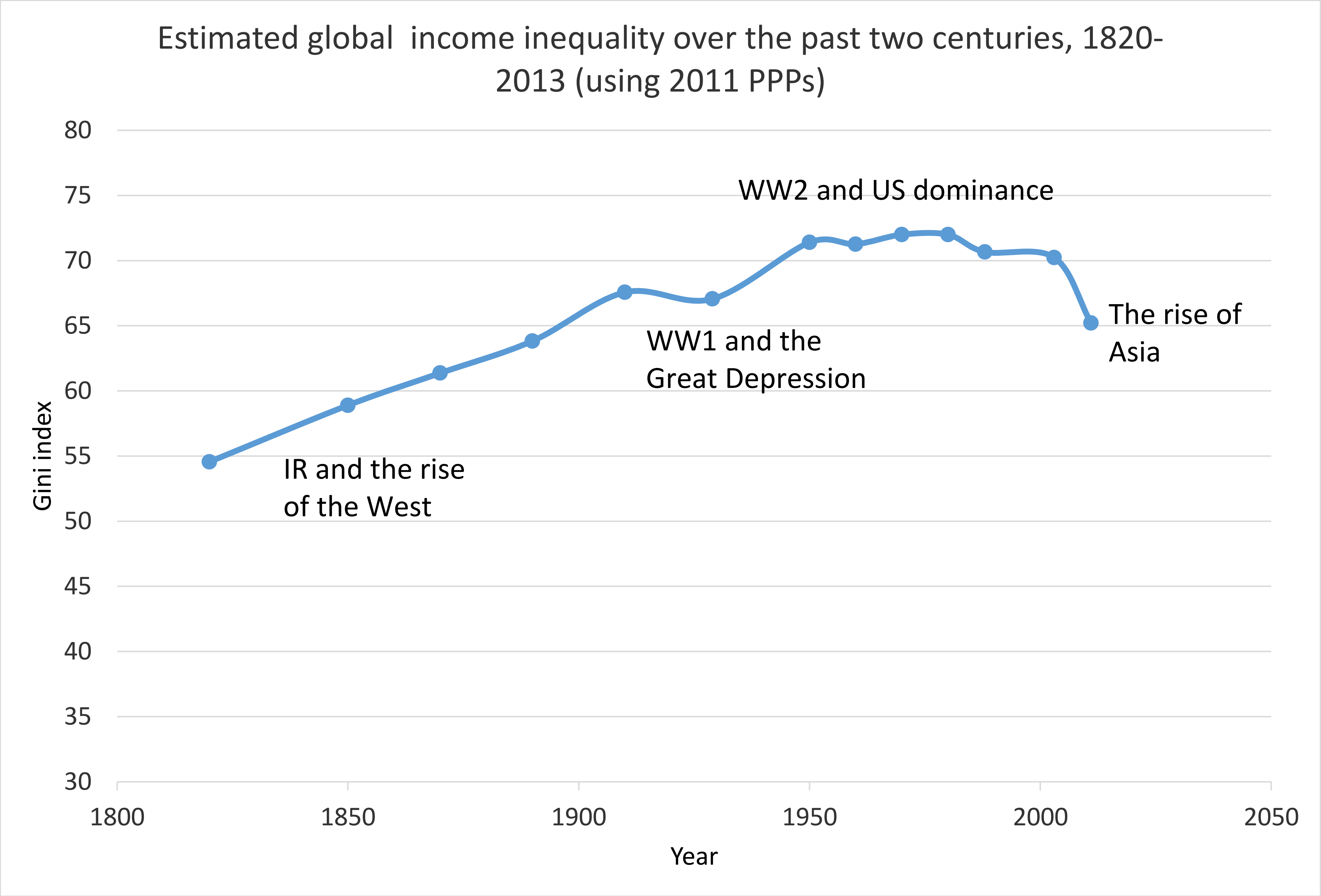




Structure of the talk

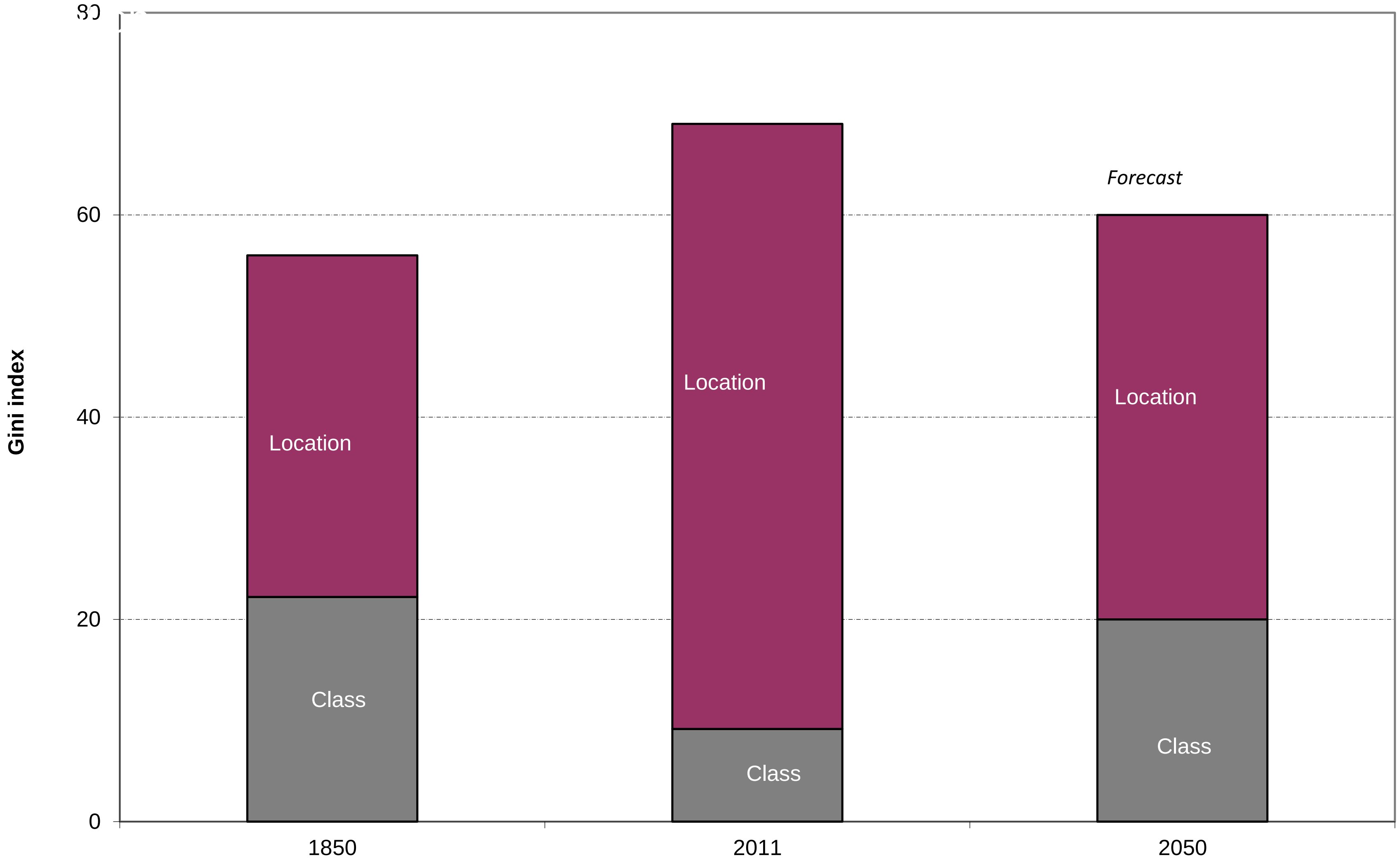
- Uniqueness of the current period: Capitalism rules alone + the reemergence of Asia (bringing the distribution of economic activity within Eurasia to the way it looked around 1500)
- Emergence of the global “middle/median class” and shrinkage of national middle classes
- Political/philosophical issues brought up by looking at global, as opposed to only national, inequalities
- The past 25 years in the rich world

Long run



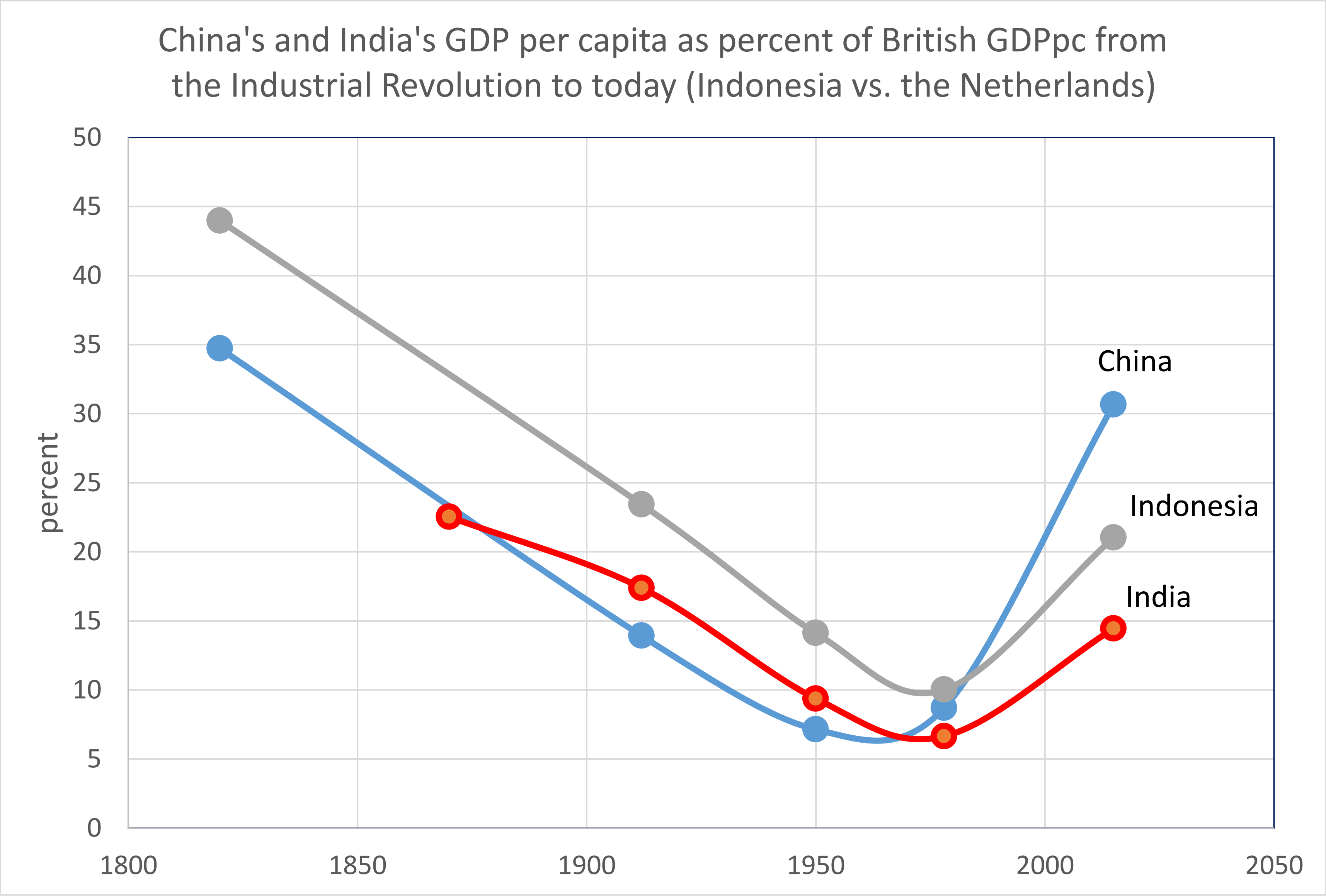
1820-1980 recalculation of Bourguignon-Morrisson; 1992-2013: Lakner and Milanovic with extensions

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

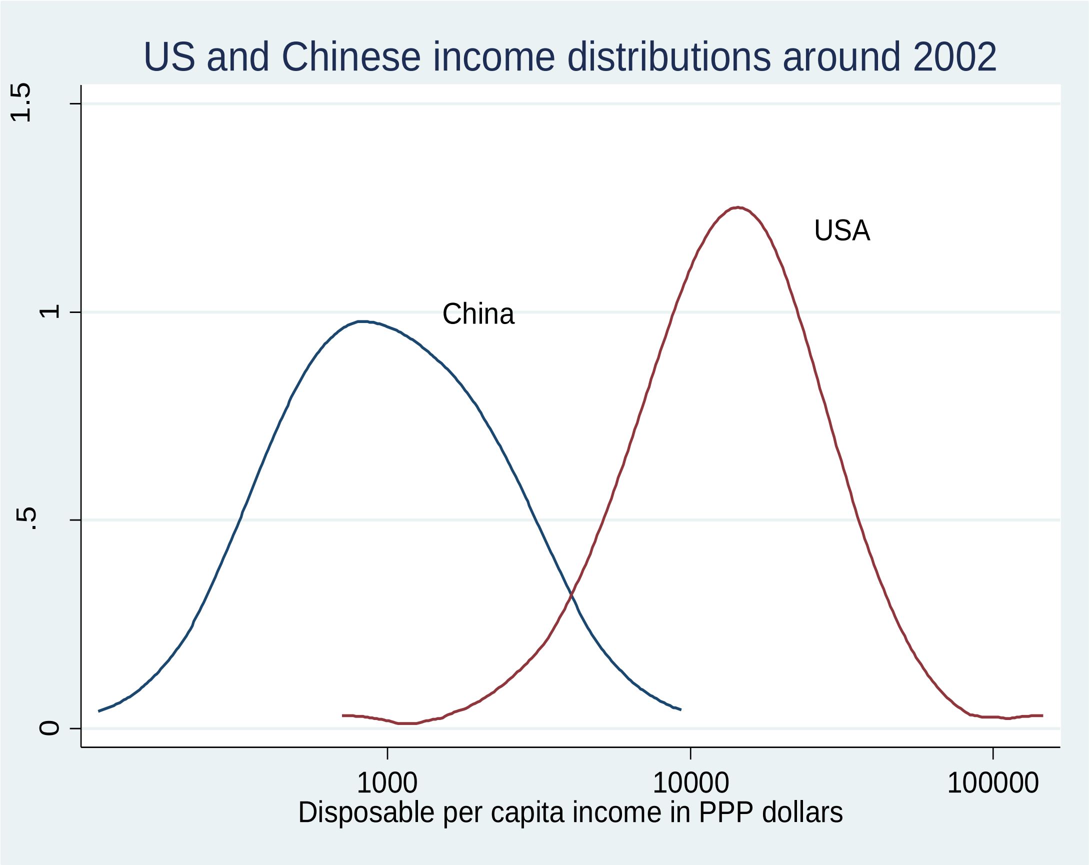


"Conditions common to them all and independent of each individual" Marx, The German Ideology

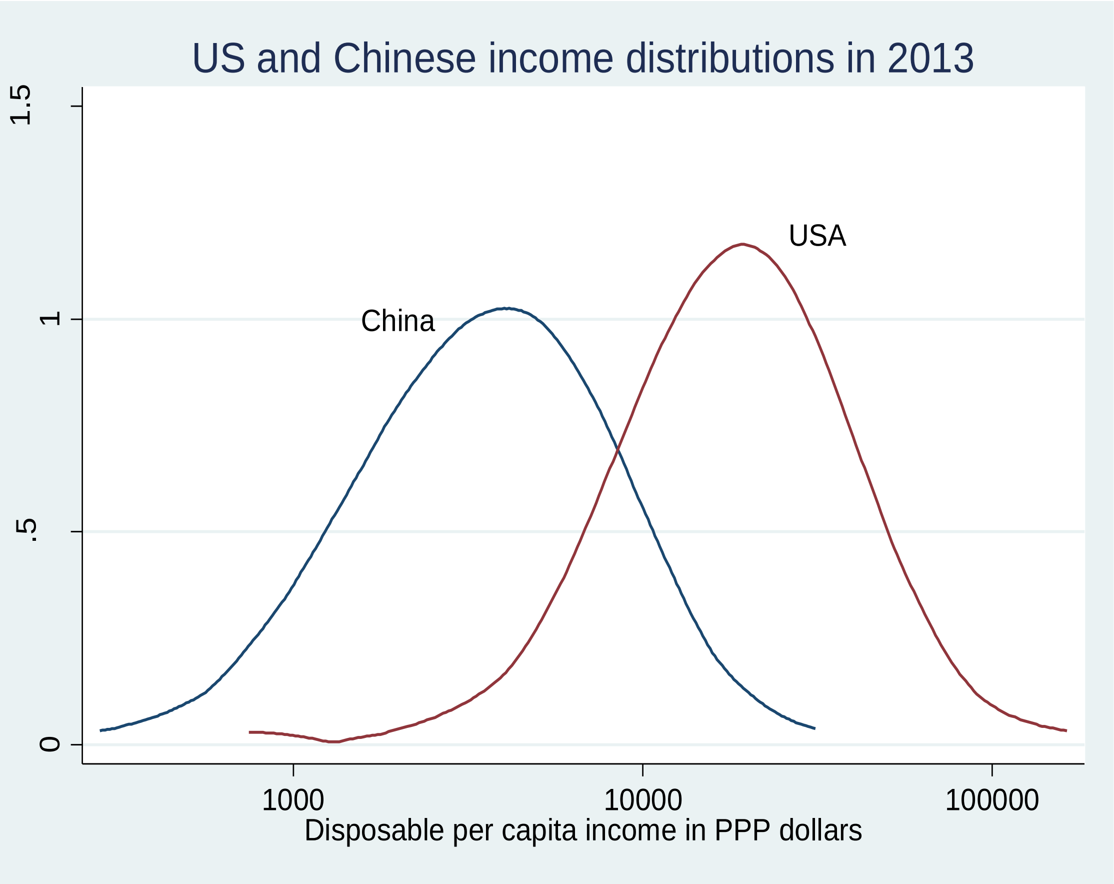
Resurgent Asia



Going beyond the averages: Convergence of Chinese incomes



23% of Chinese population within US income range

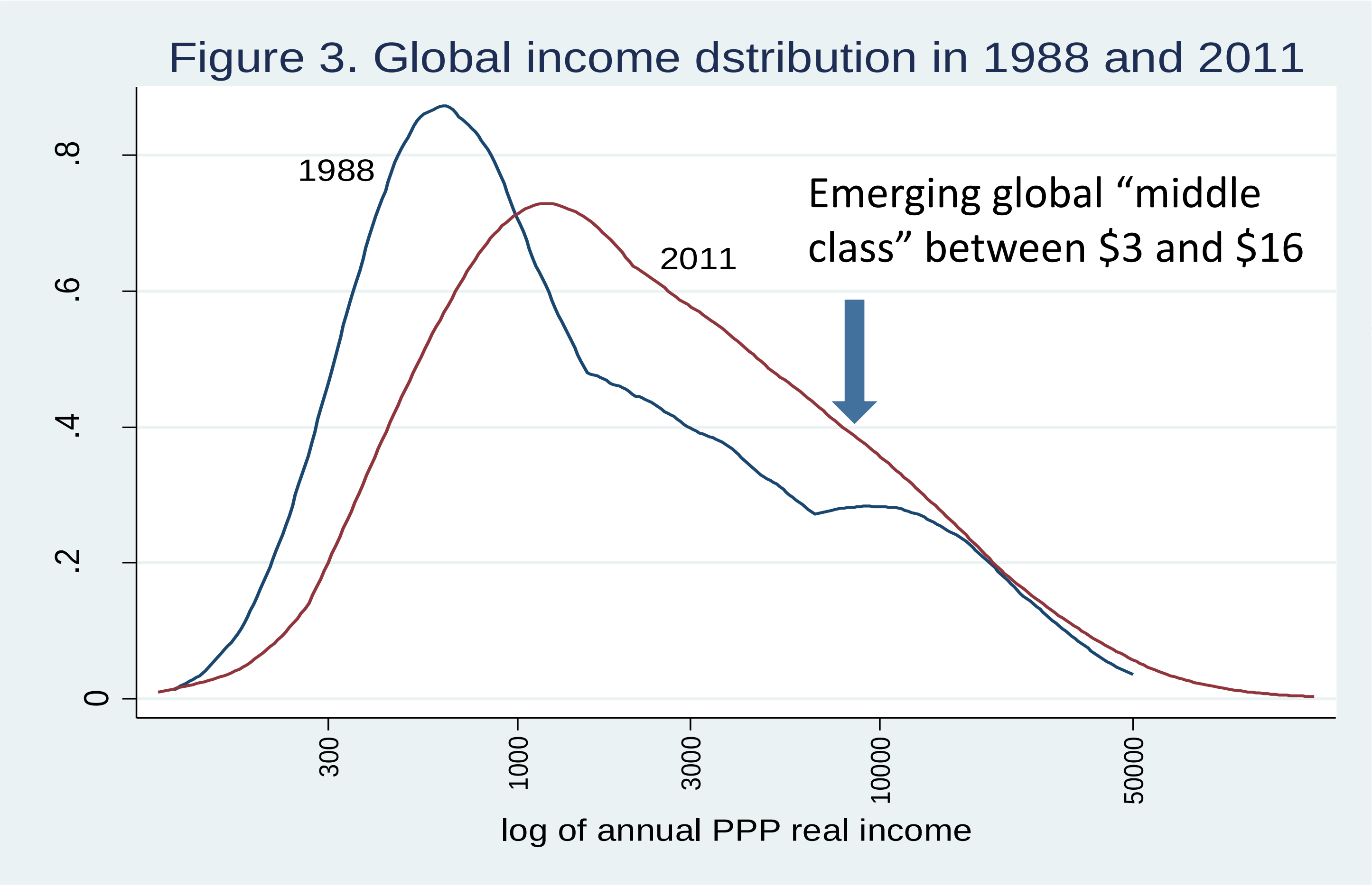


70% of Chinese population within US income range

- In the *long-run* inequality is determined by the spread of the technological revolutions: the West in the 19th century, Asia today
- In the *medium-run* global inequality is determined by:
- 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 that the rich world?

Past twenty-five years in the world

The emergence of the “global middle/median 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", labsize(small) angle(90))
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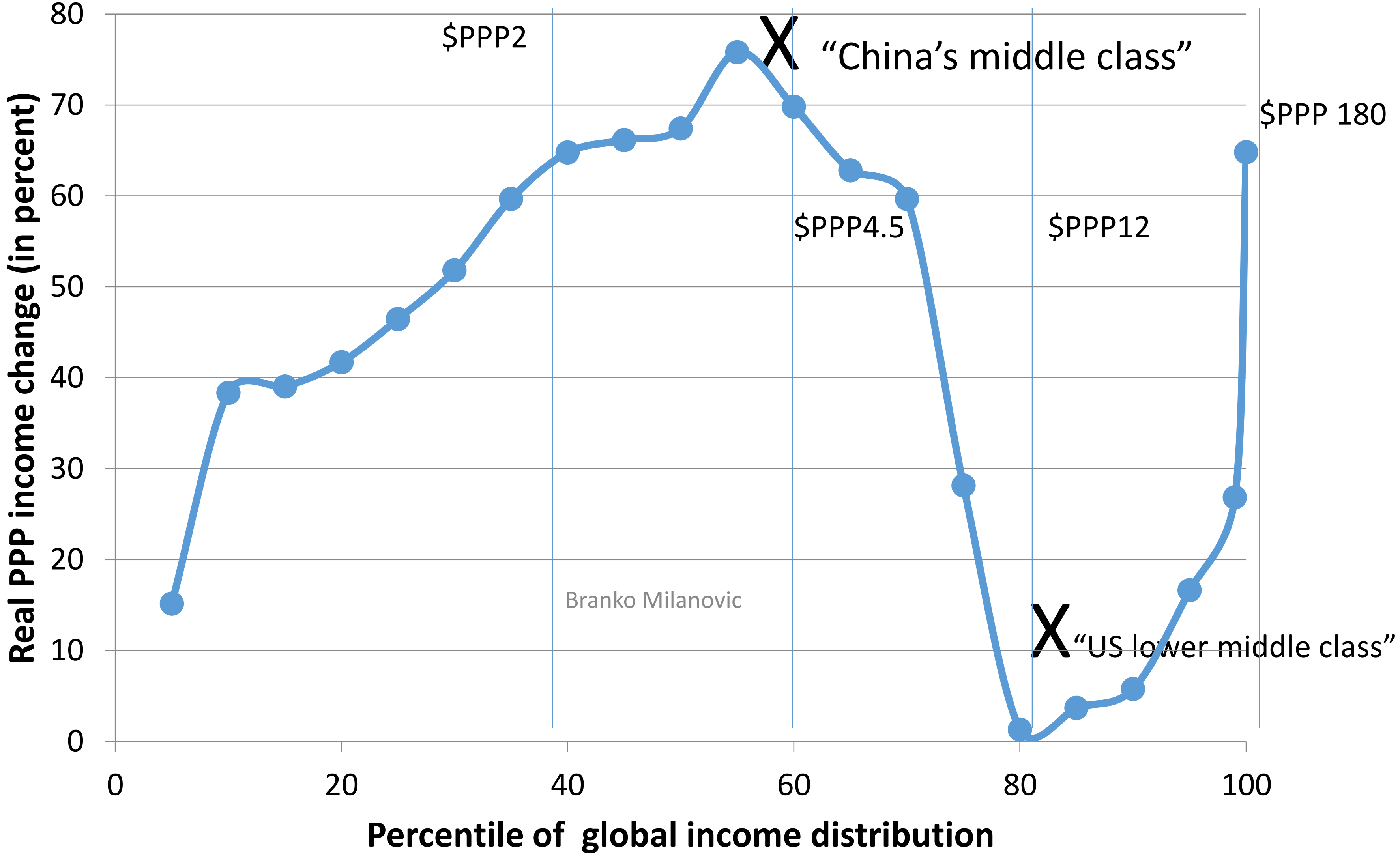
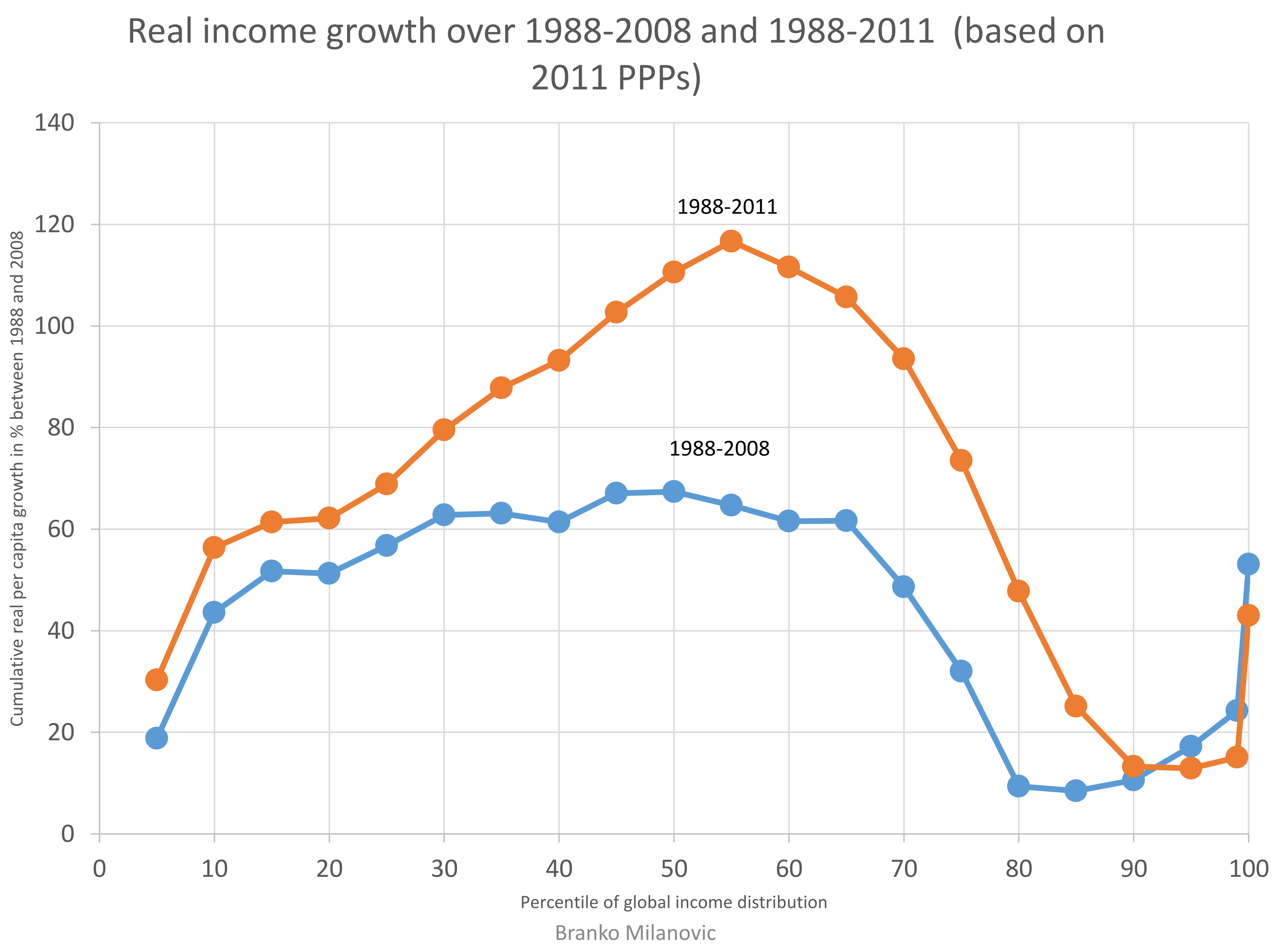
Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)



From twenty_years\final\summary_data

Estimated at mean-over-mean


Real income growth over 1988-2008 and 1988-2011 (based on 2011 PPPs)
1988-2011
1988-2008
Cumulative real per capita growth in % between 1988 and 2008
Percentile of global income distribution
0
20
40
60
80
100
120
140
0
10
20
30
40
50
60
70
80
90
100
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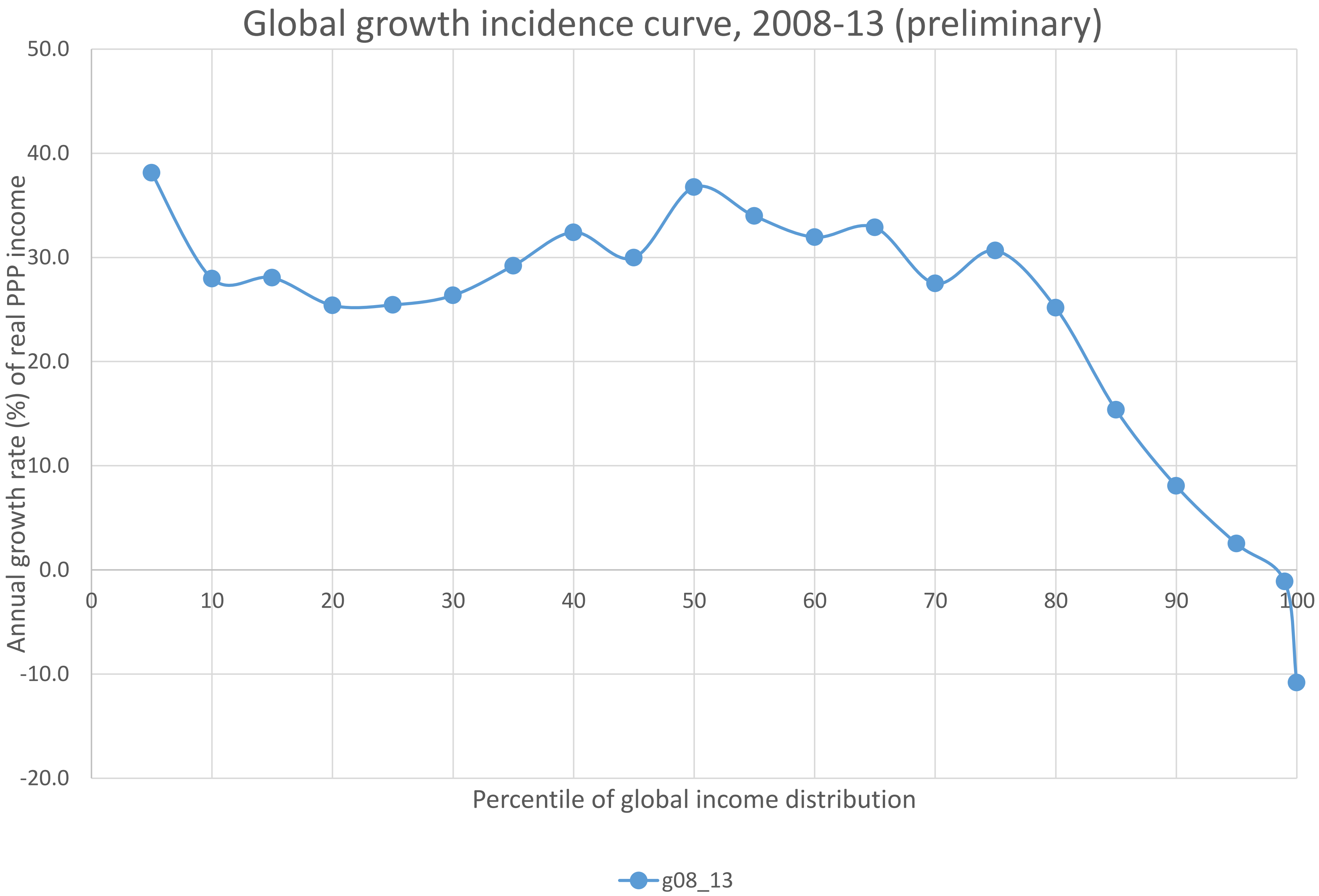

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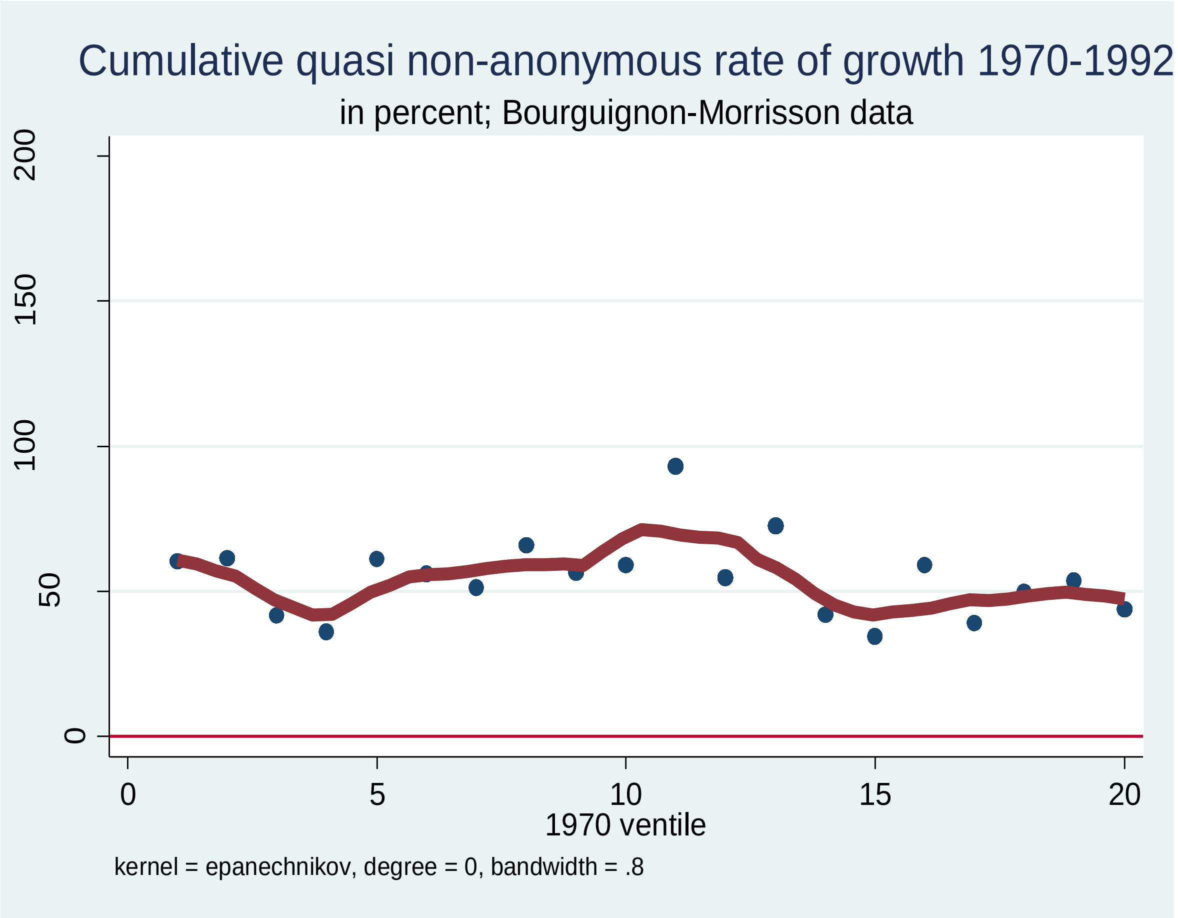
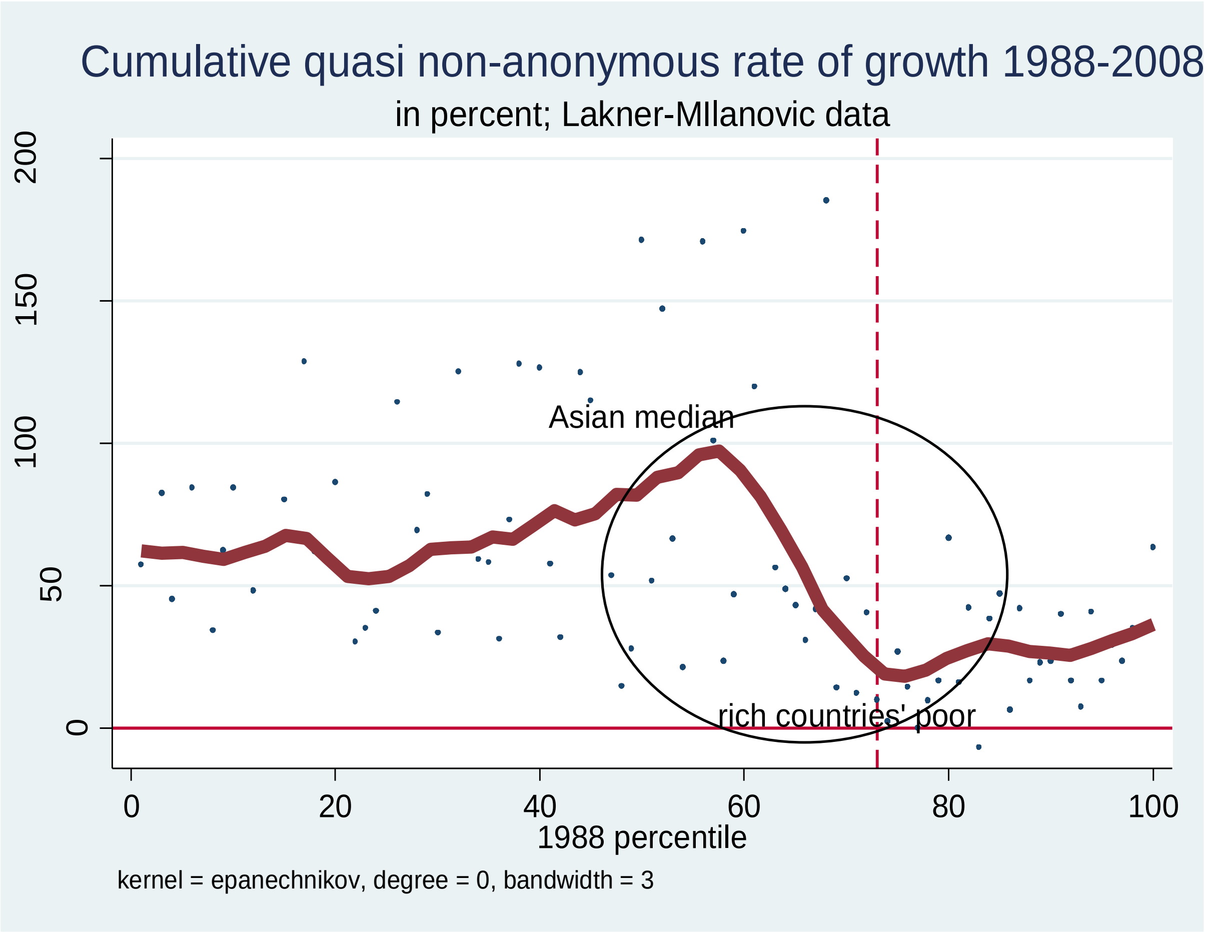
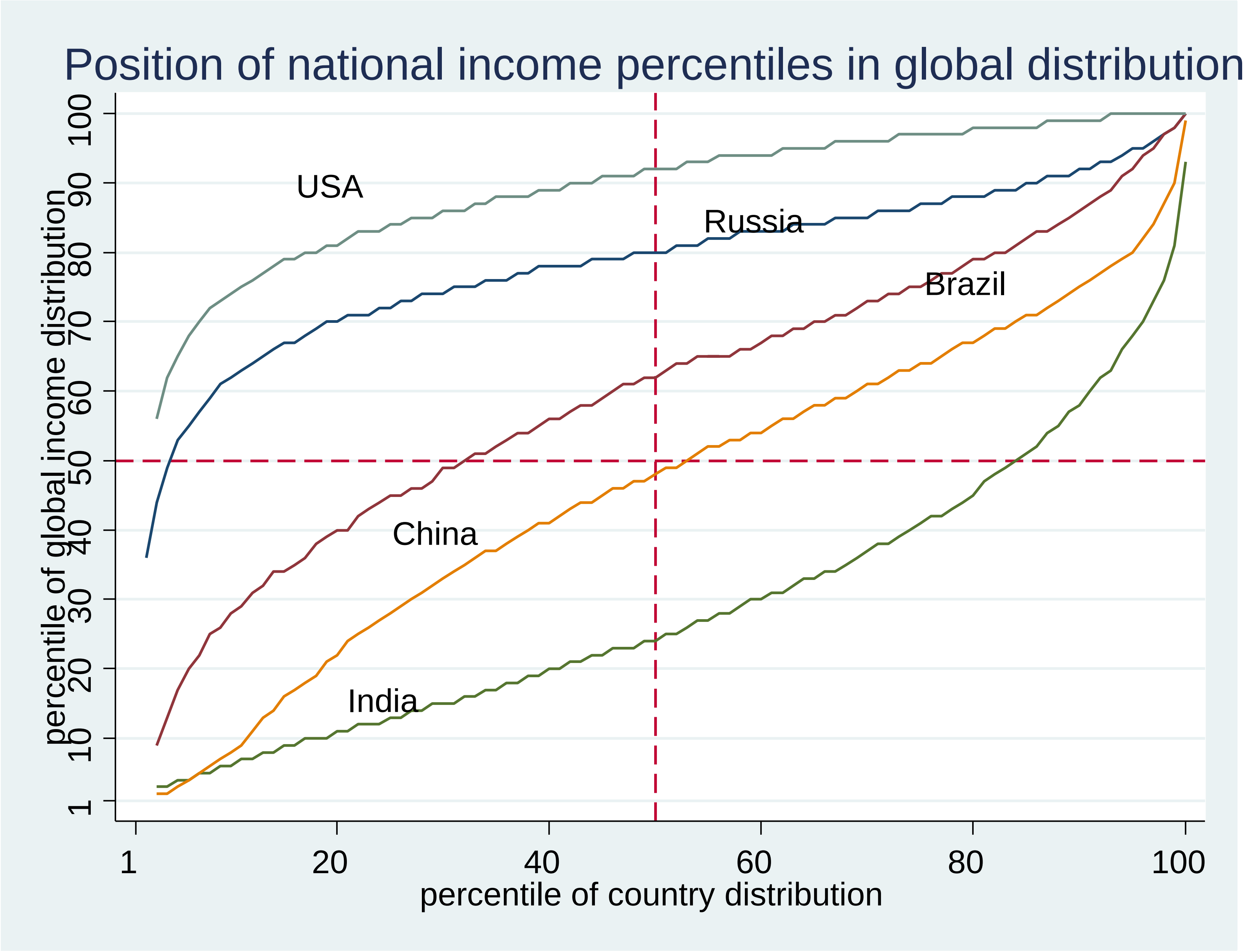
There was no "elephant" in the previous (pre-globalization) period





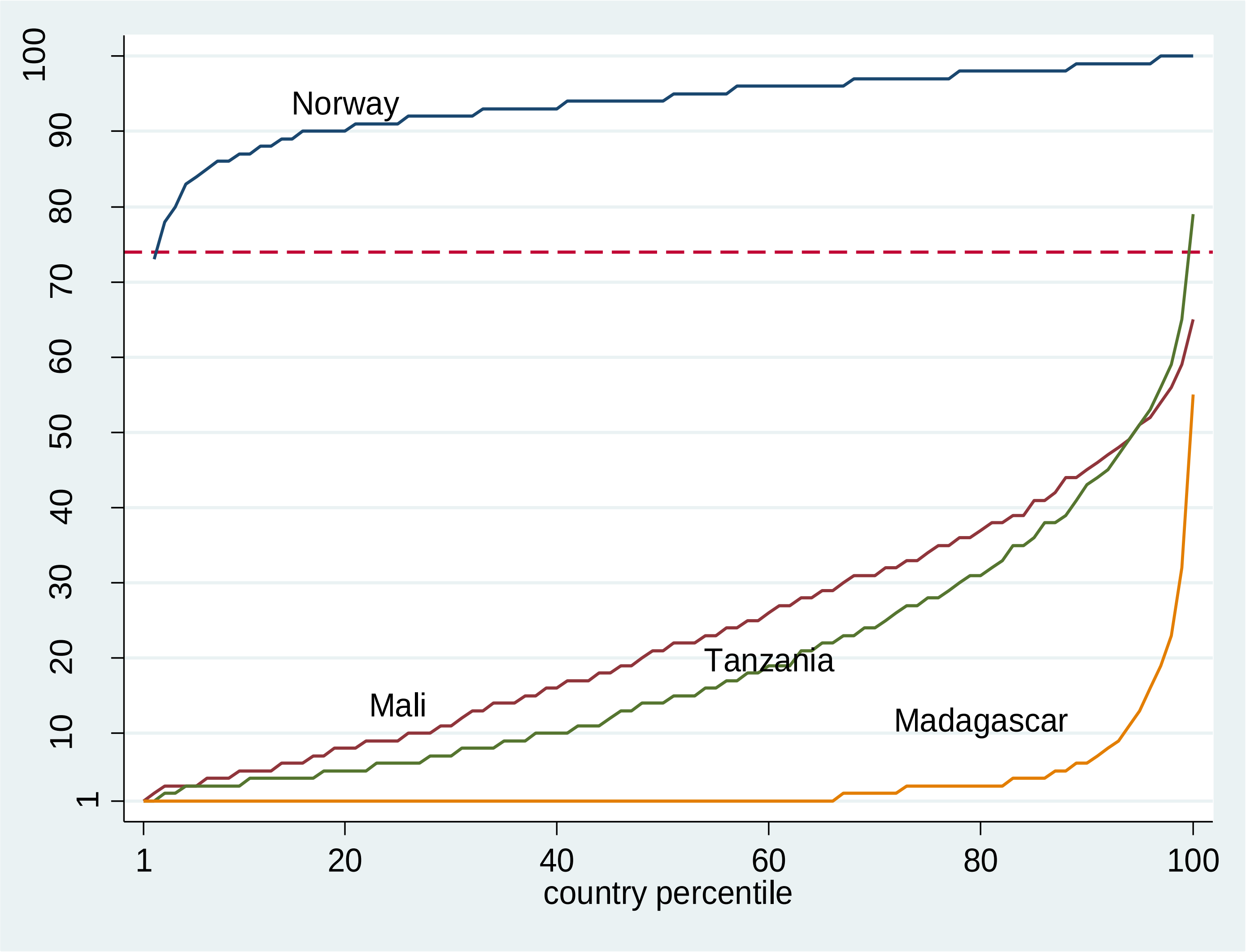
Global political or philosophical implications

- Does global equality of opportunity matter? Is "citizenship rent" morally acceptable?
- What is the "optimal" global income distribution?
- Can something "good" (global middle class) be the result of something "bad" (shrinking of national middle classes and rising income inequality)? Are we back to Mandeville?



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

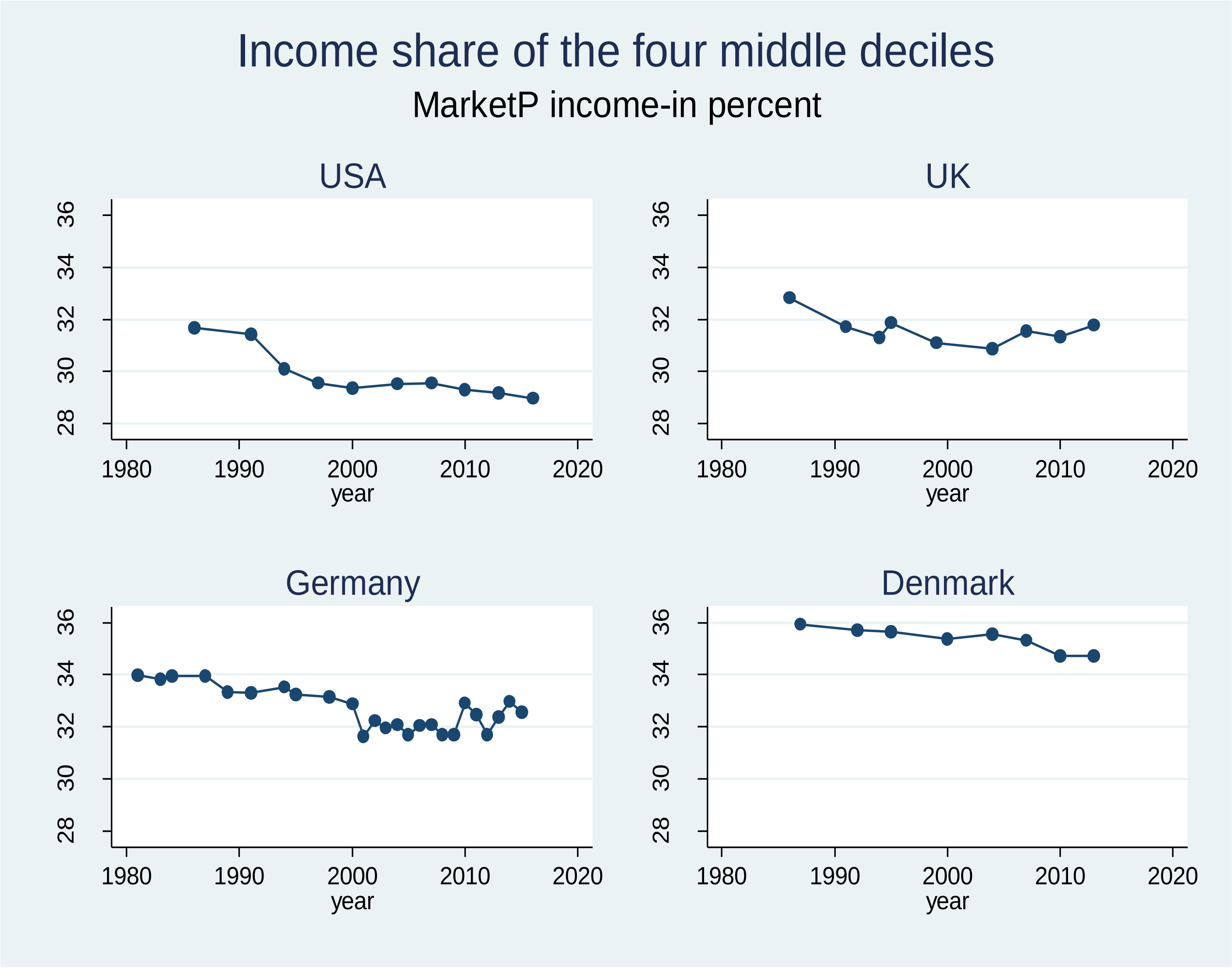
Quasi impossibility of having regressive transfers from very rich and egalitarian countries to very poor countries



Using calcul11.do and fnal11.dta

The past twenty-five years in the rich world

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



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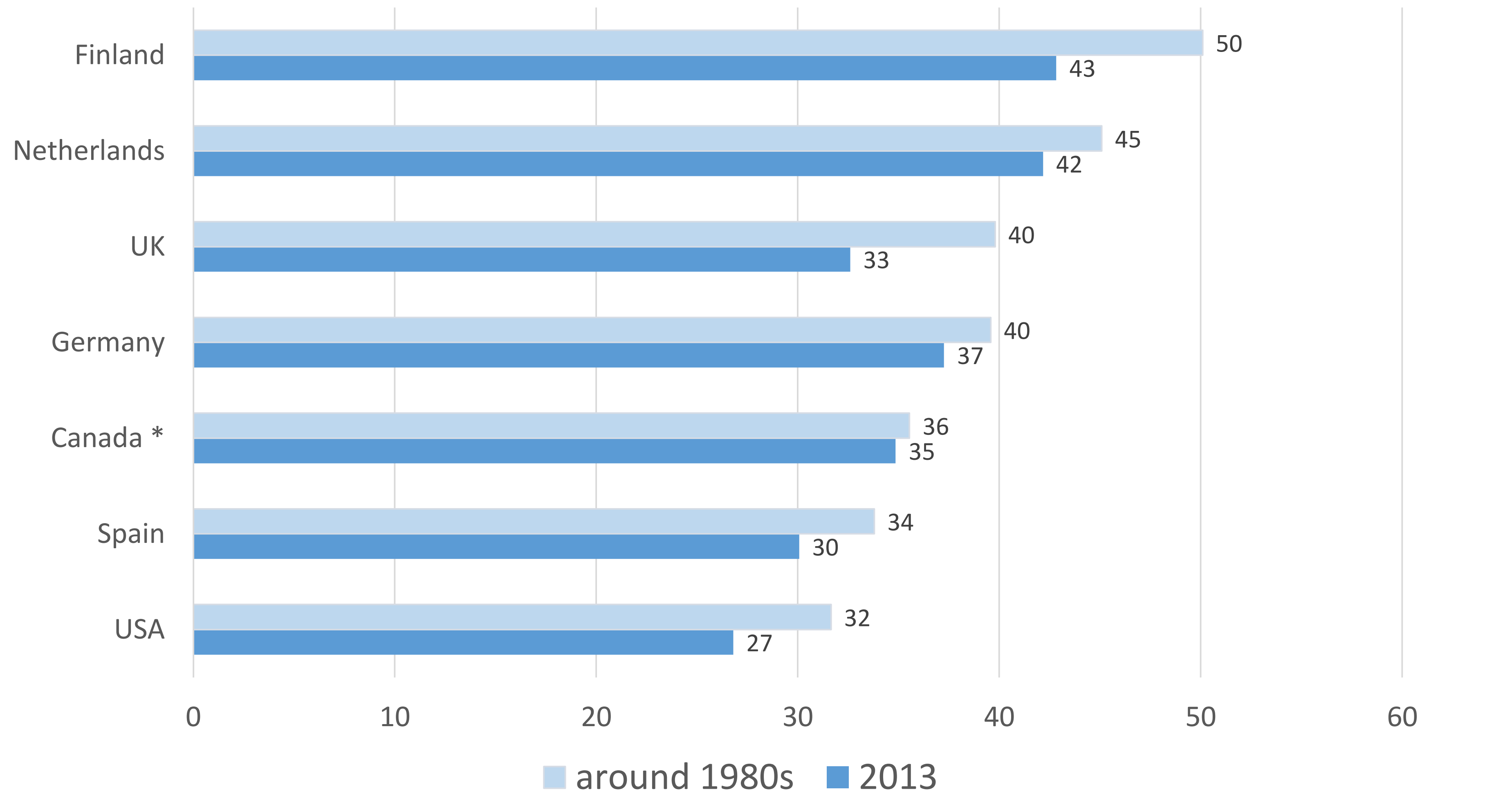
Percentage of population considered middle class in early 1980s and 2013



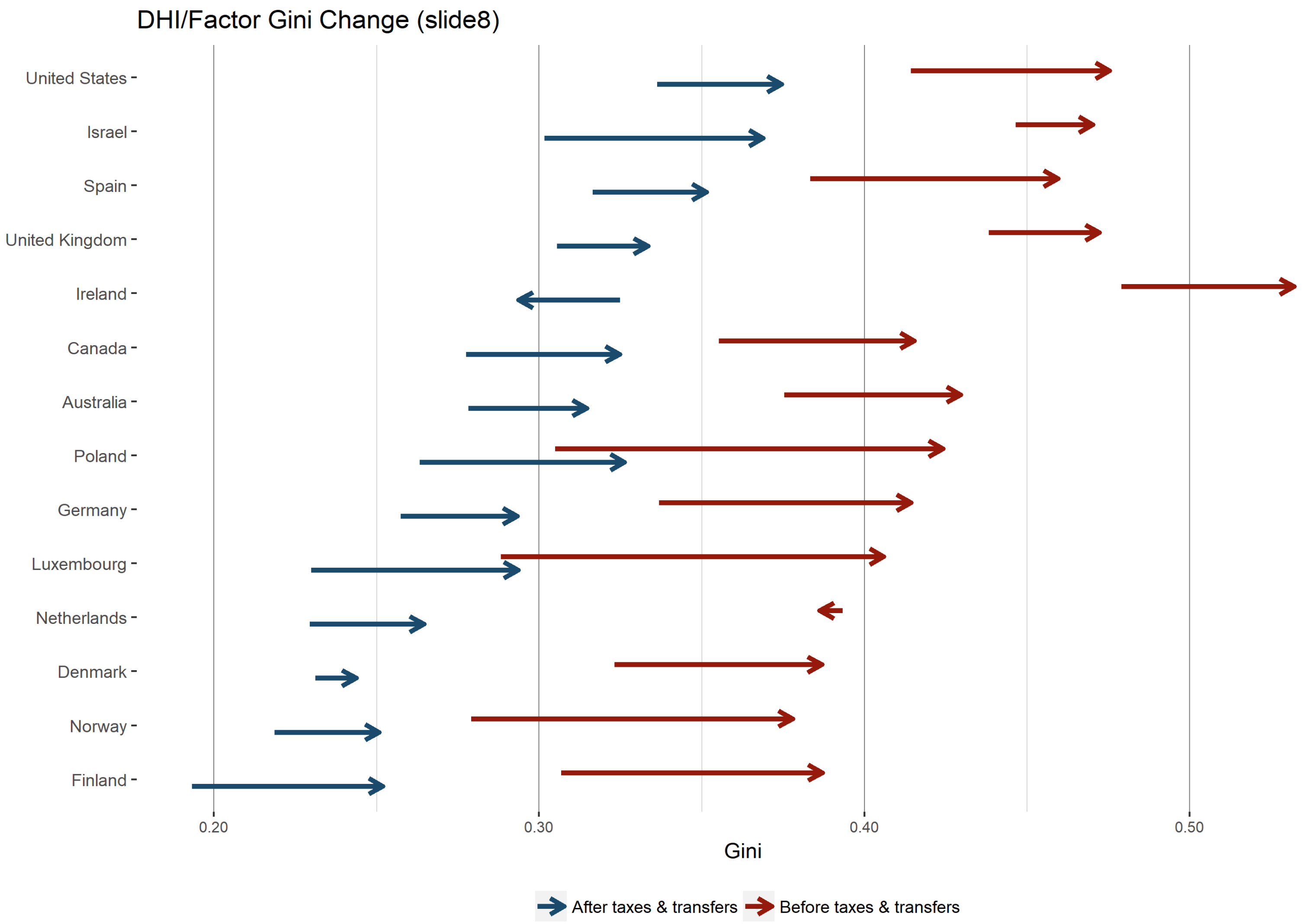
The middle class defined as population with income between +/-25% of national median income (all in per capita basis; disposable income; LIS data)

Redistribution in face of rising market income inequality

- It is neither globalization/technological change alone, nor is it only redistribution policy (taxes, transfers)
- Essentially, tax and transfer policy failed to counteract the rising market income inequality, coming probably from globalization, technological change, deregulation (which is indeed a policy), monopolization, reinforcement of the elite power, etc. (topic of my *Capitalism, alone*)

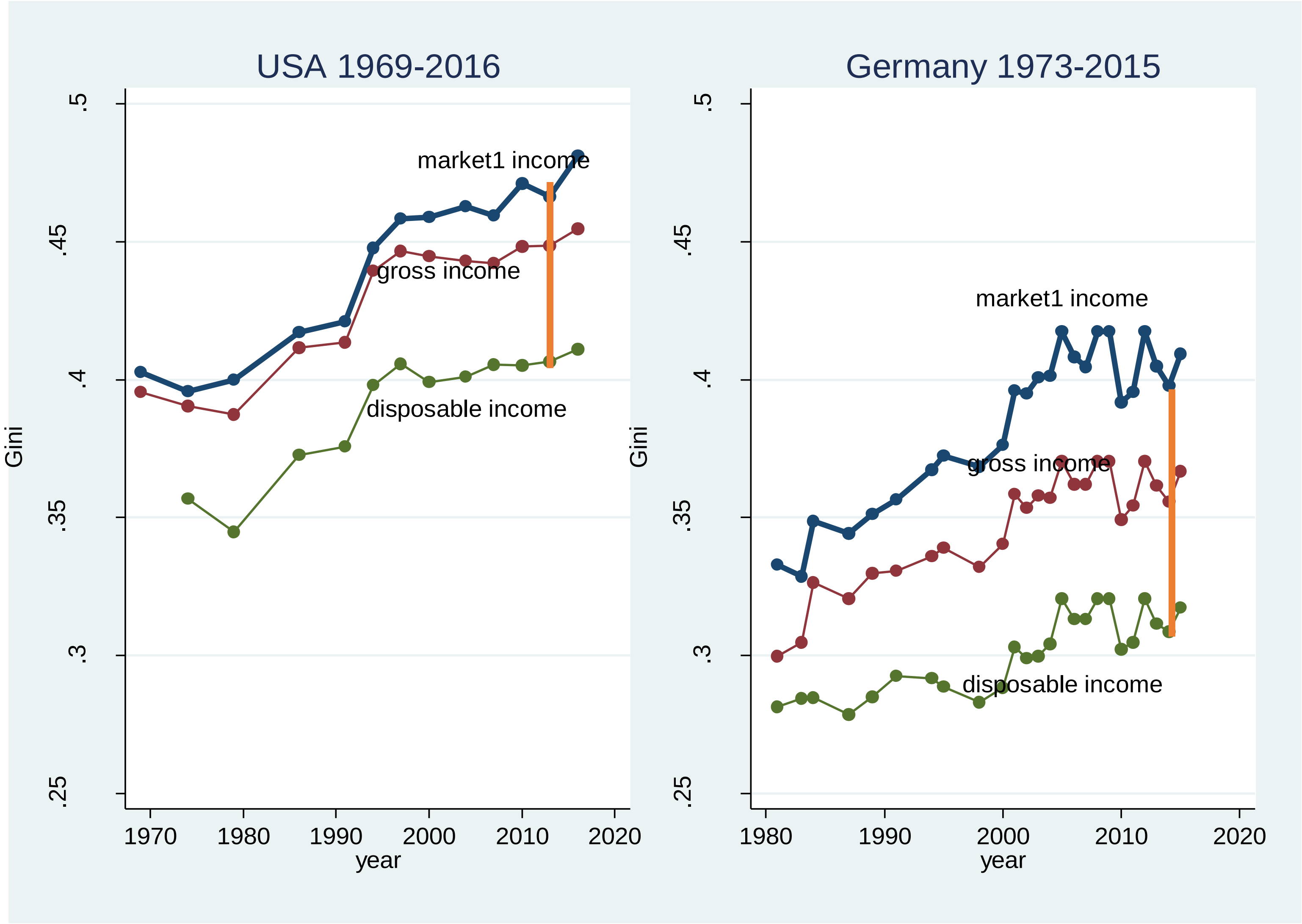
The headwinds of rising market (pre-redistribution) income inequality

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

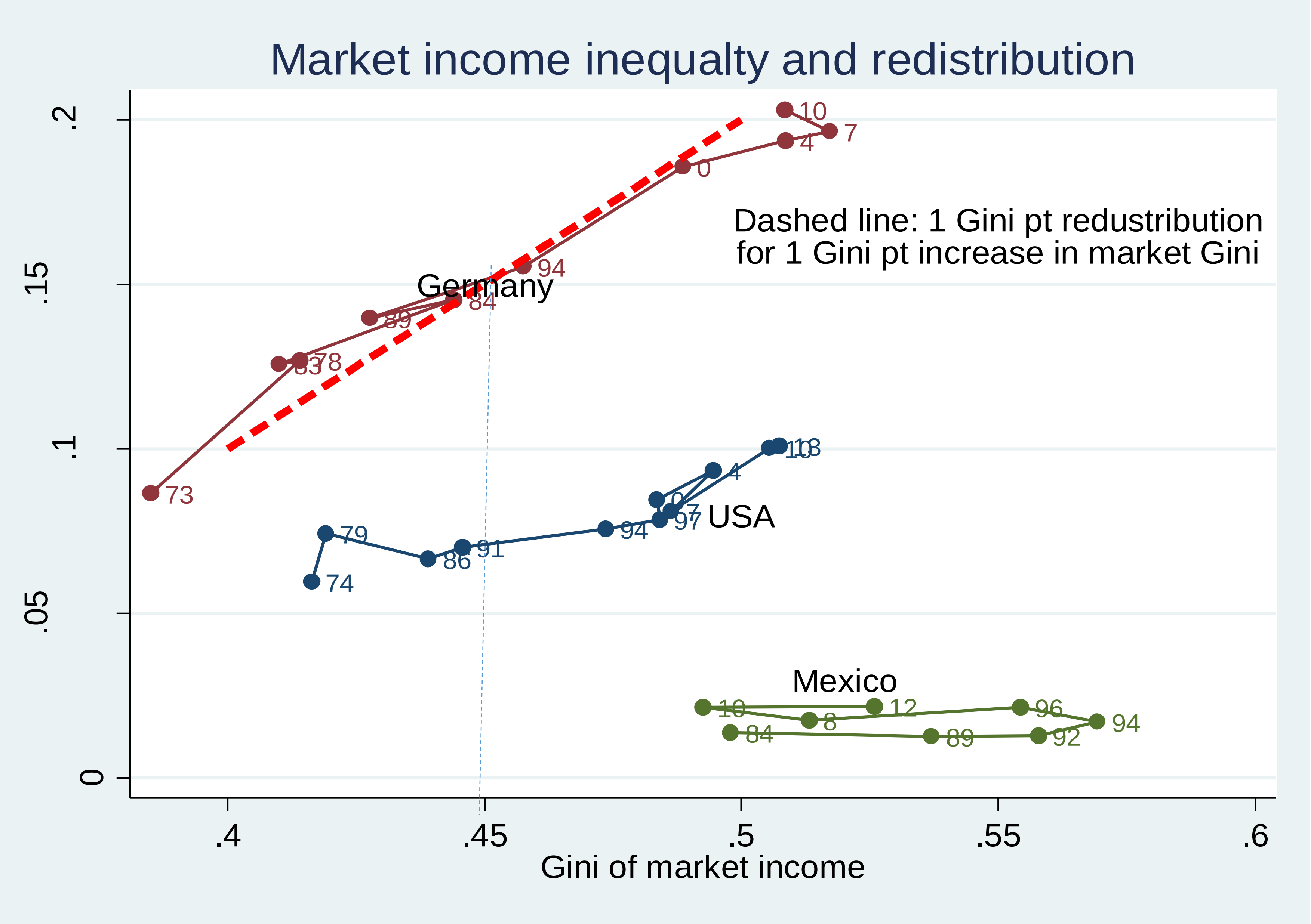


Luxembourg Income Study;
Janet Gornick

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



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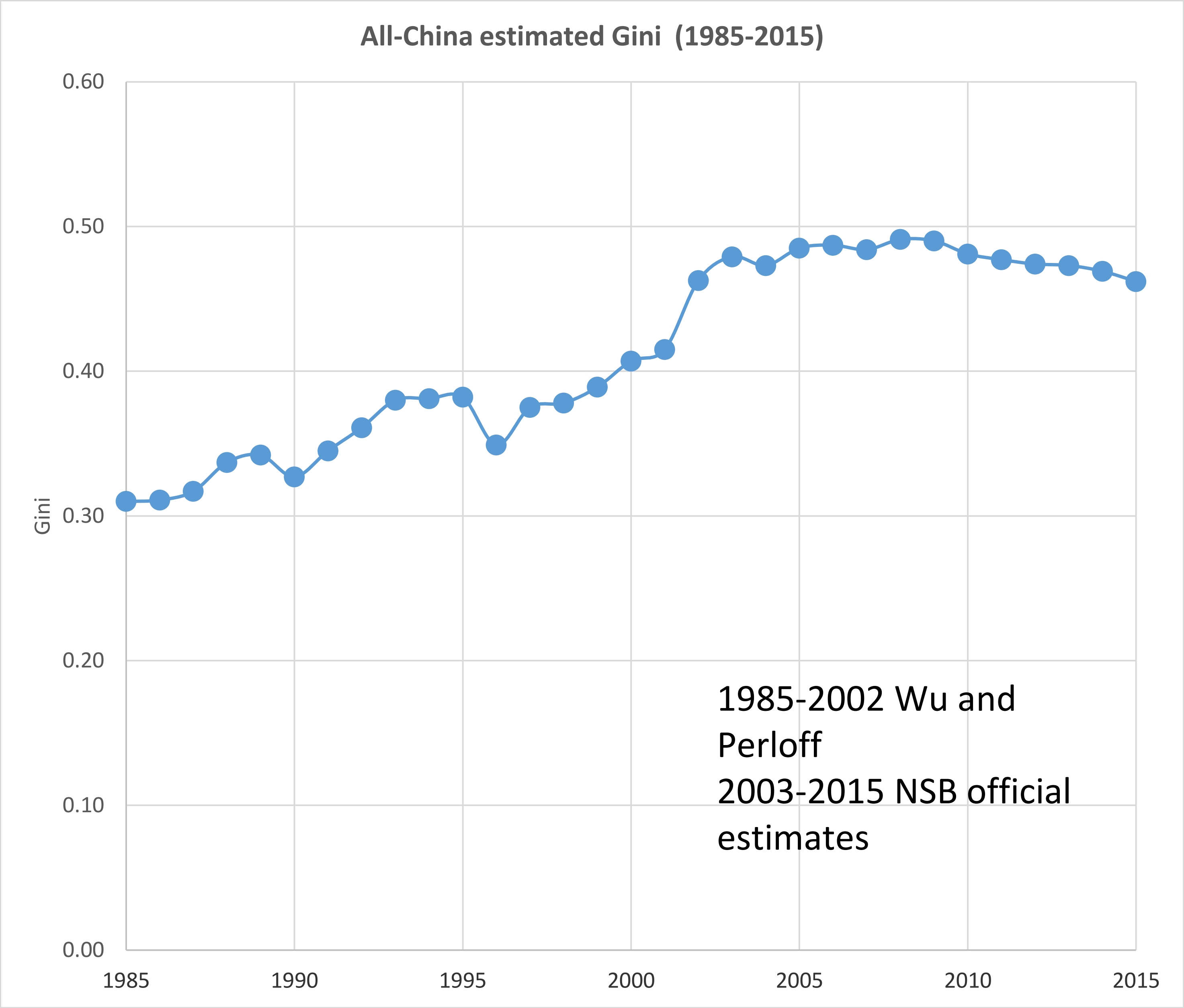
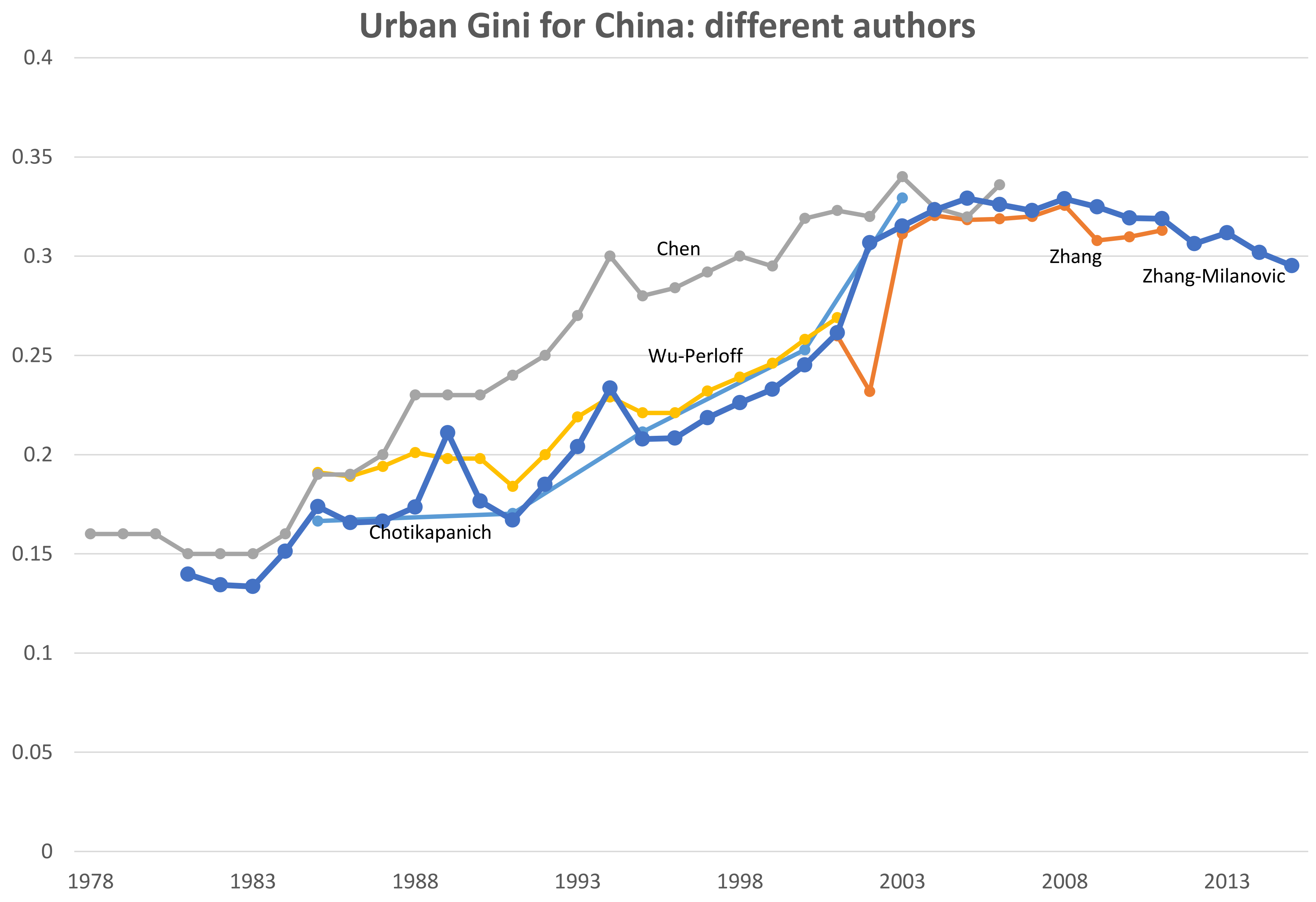
From voter/..define_variables

And in Asia

China

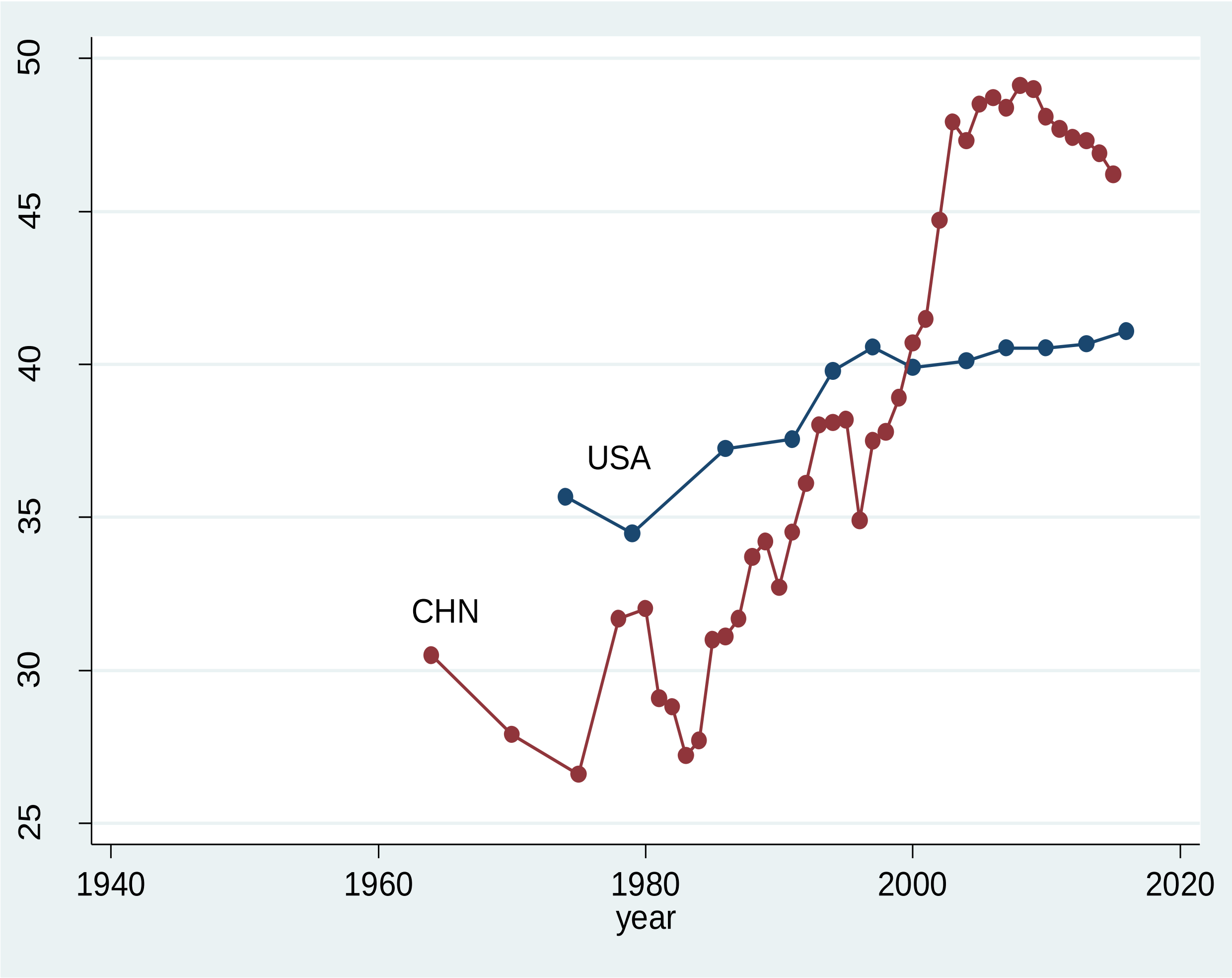


All-China estimated Gini (1985-2015)
Gini
0.60
0.50
0.40
0.30
0.20
0.10
0.00
1985
1990
1995
2000
2005
2010
2015
1985-2002 Wu and Perloff
2003-2015 NSB official estimates



Gini_comparisons_wenjie.xls

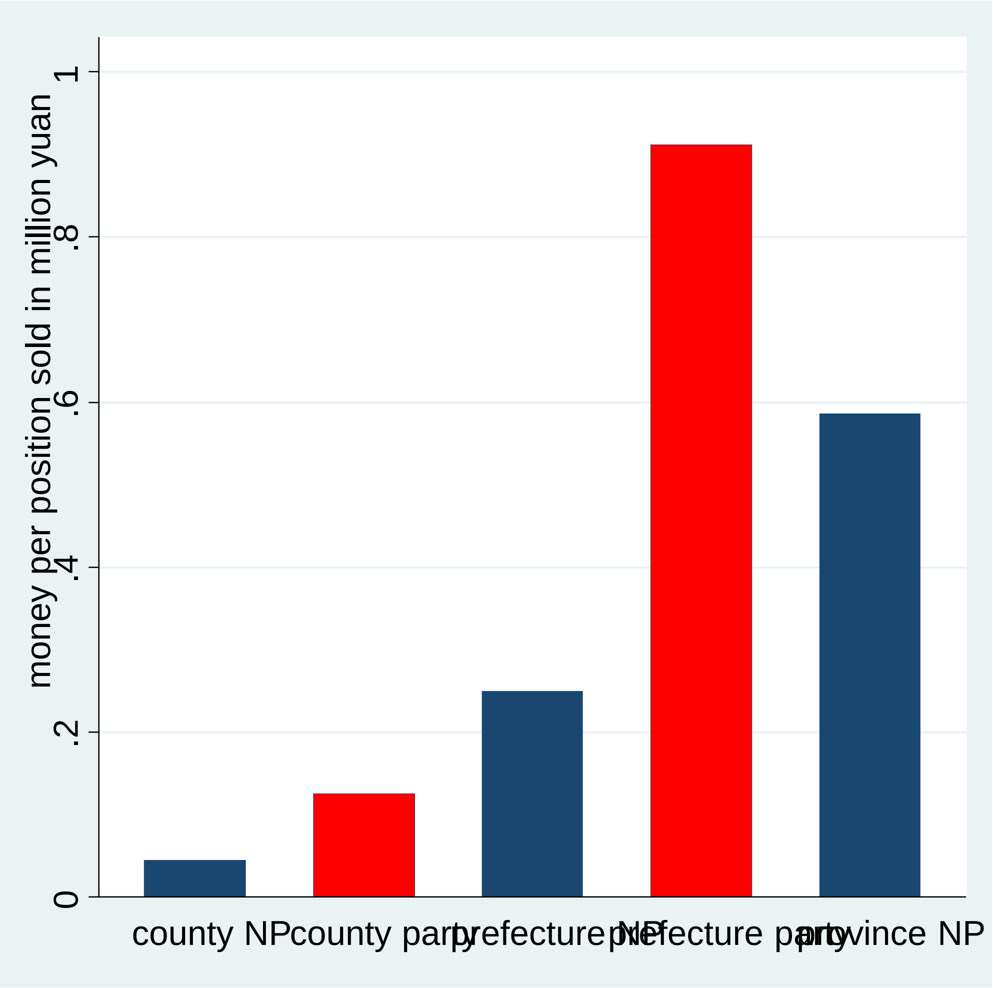
Inequality in China and the United States, 1950-2015



twoway (scatter gini_LIS year if contcod=="USA", connect(l)) (scatter Giniall year if contcod=="CHN" & year>1960, connect(l) legend(off) text(37 1978 "USA") text(32 1965 "CHN")) usimg All the Ginis

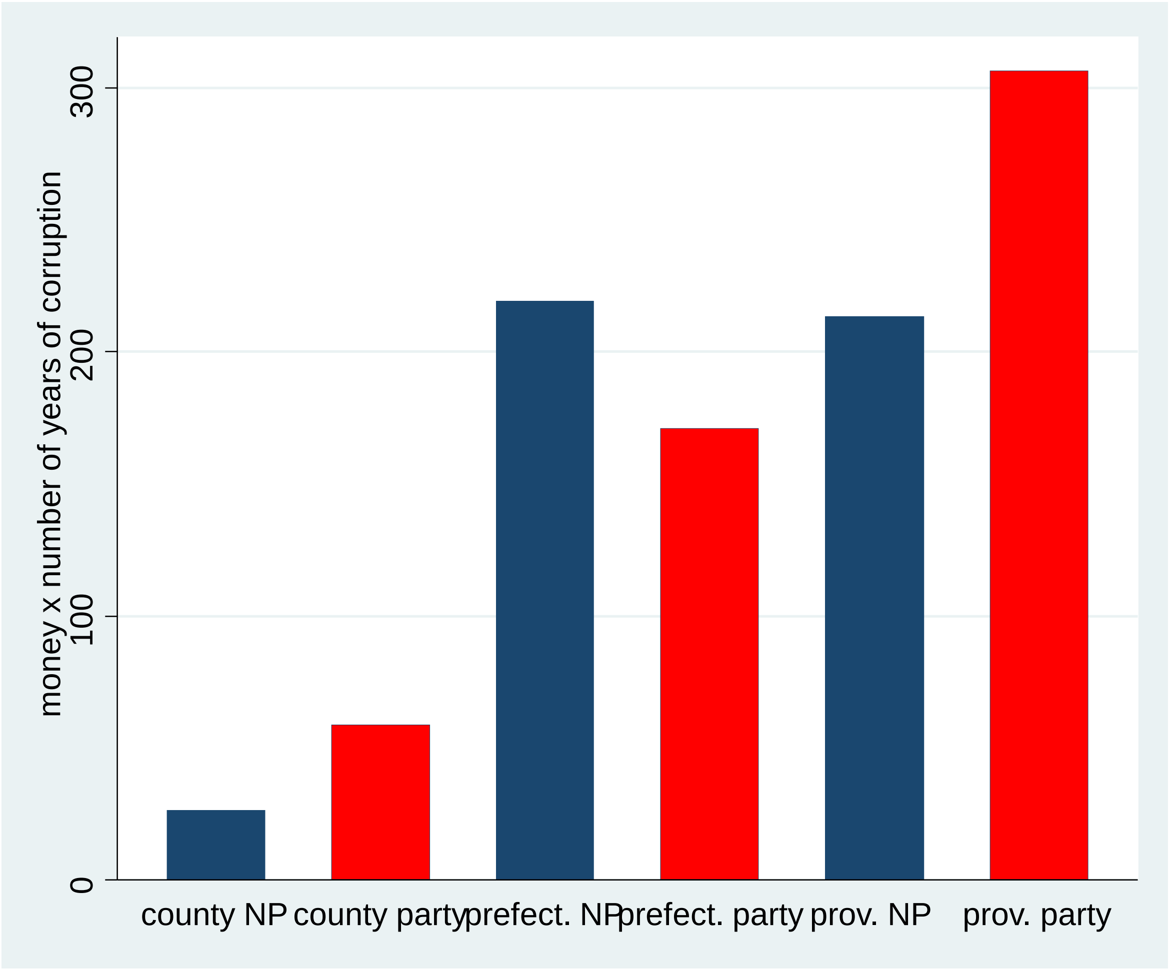
Inequality and corruption

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



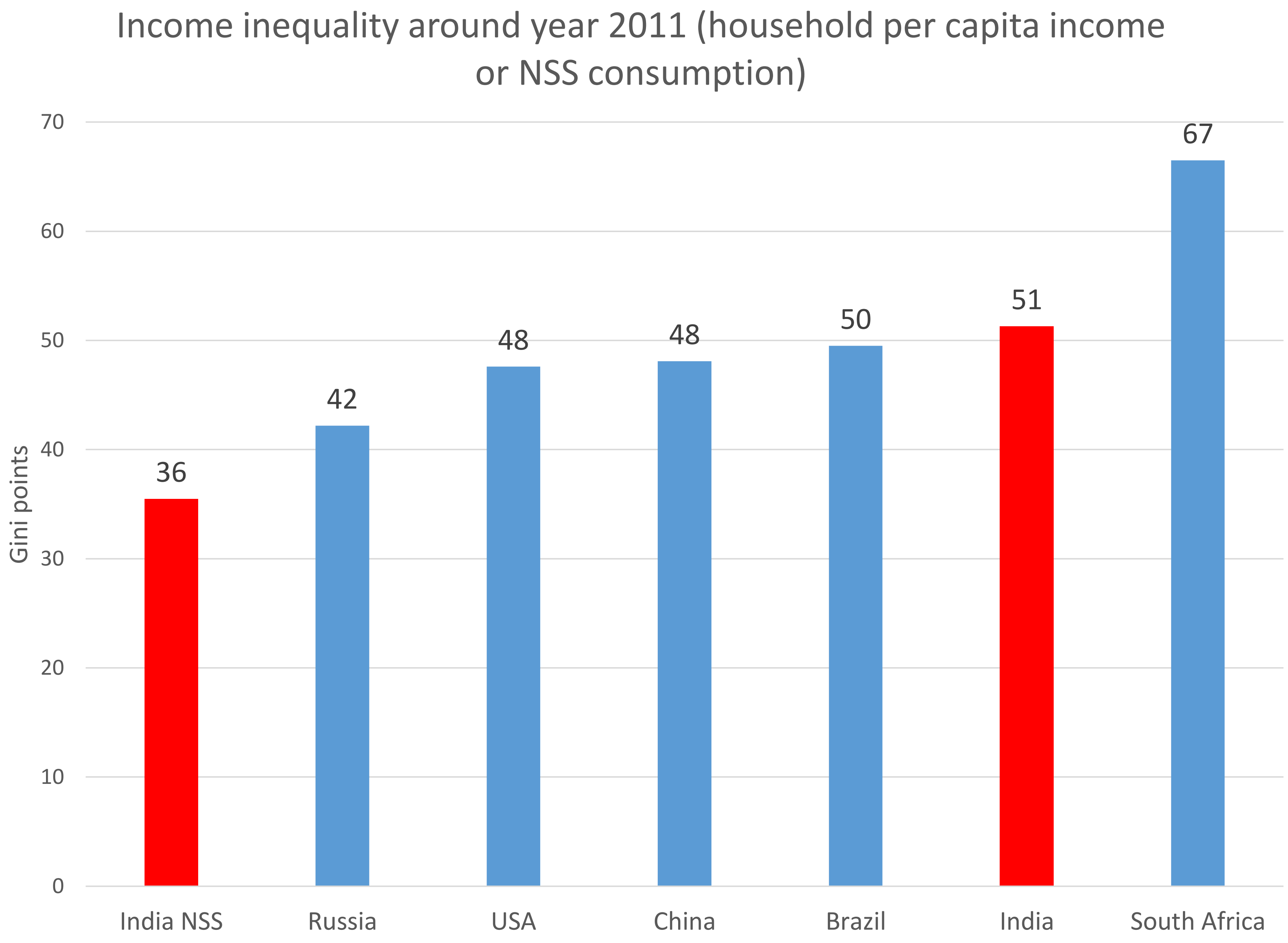
Calculated from data in Minxin Pei's "China's crony capitalism; from corrupt.dta

Money x number of years of corruption involving multiple officials

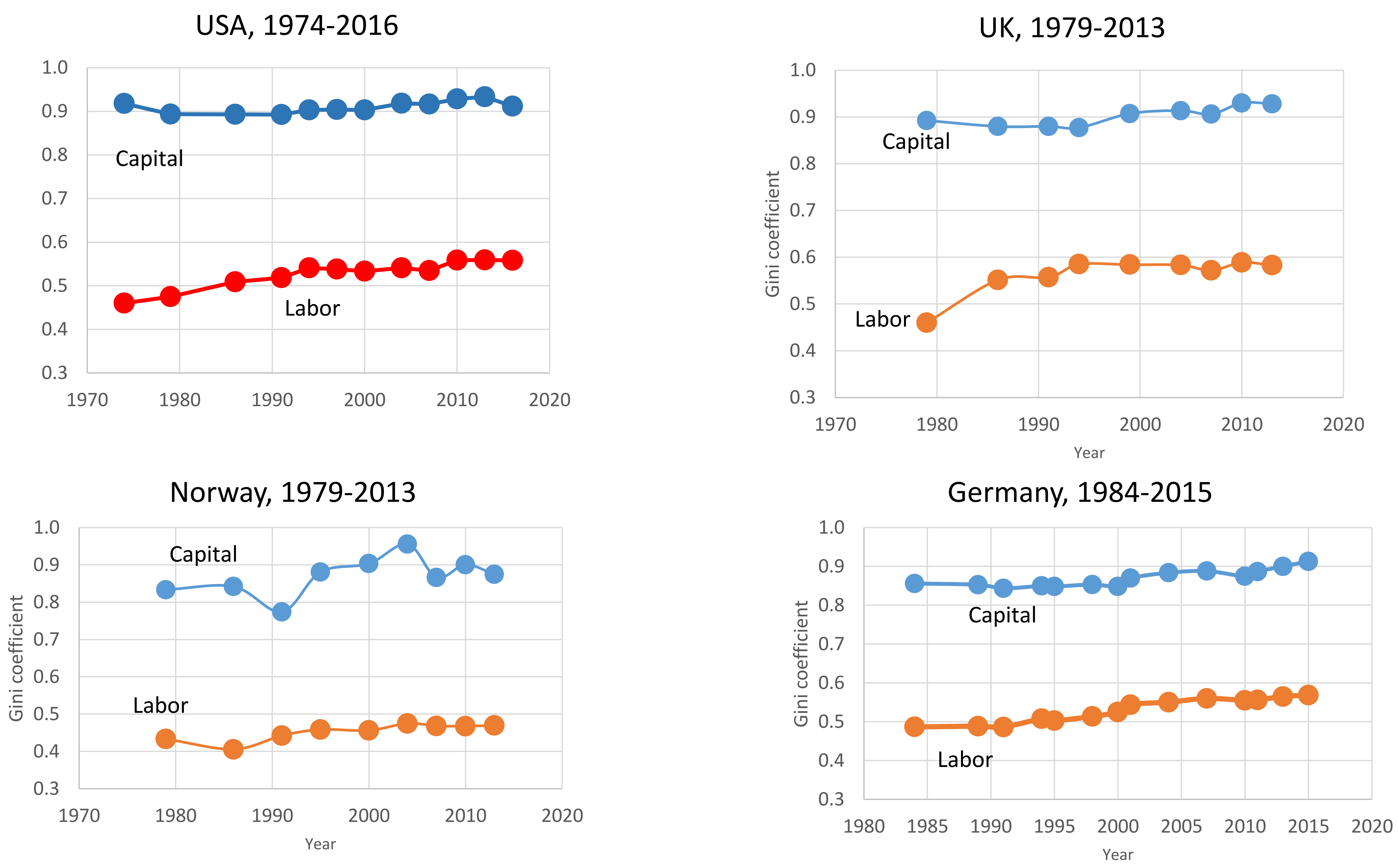


Calculated from data in Minxin Pei “China’s crony capitalism”; from corrupt.dta

India


Income inequality around year 2011 (household per capita income or NSS consumption)
Gini points
70
60
50
40
30
20
10
0
36
42
48
48
50
51
67
India NSS
Russia
USA
China
Brazil
India
South Africa

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



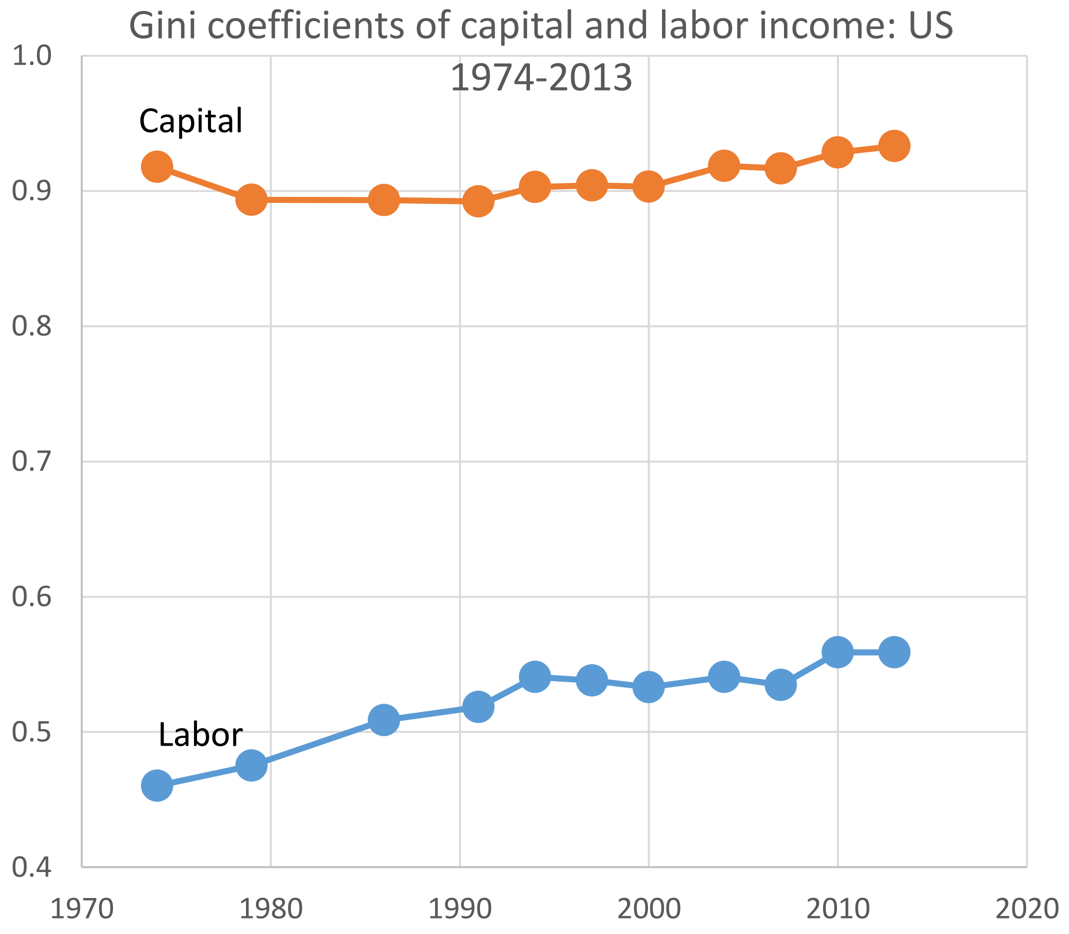
USA, 1974-2016
Capital
Labor
UK, 1979-2013
Capital
Labor
Gini coefficient
Year
Norway, 1979-2013
Capital
Labor
Gini coefficient
Year
Germany, 1984-2015
Capital
Labor
Gini coefficient
Year

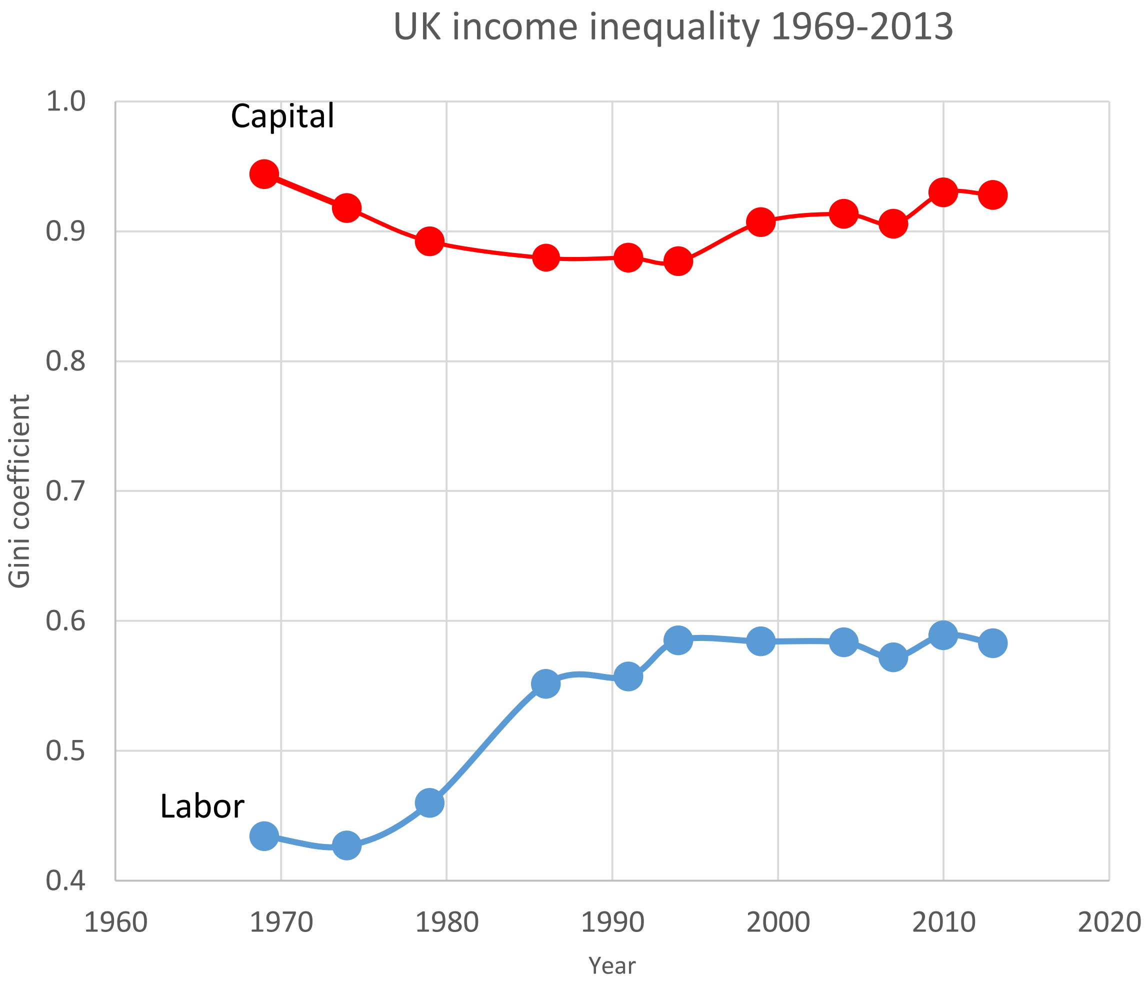
The end

5. 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 2/3 and ¾ 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 statists' point.
- Migration is an attempt to "dilute" or share the rent/premium => implication for migration policies

2. 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 inequality in Real World, Rawlsian World, Convergence World…and Shangri-La World (Theil 0; year 2011)

Mean country incomes / Individual incomes within country	All equal	Different (as now)
All equal	0	54 (all country Theils=0; all mean incomes as now)
Different (as now)	23 (all mean incomes equalized; all country Ginis as now)	77

3.Back to Mandeville

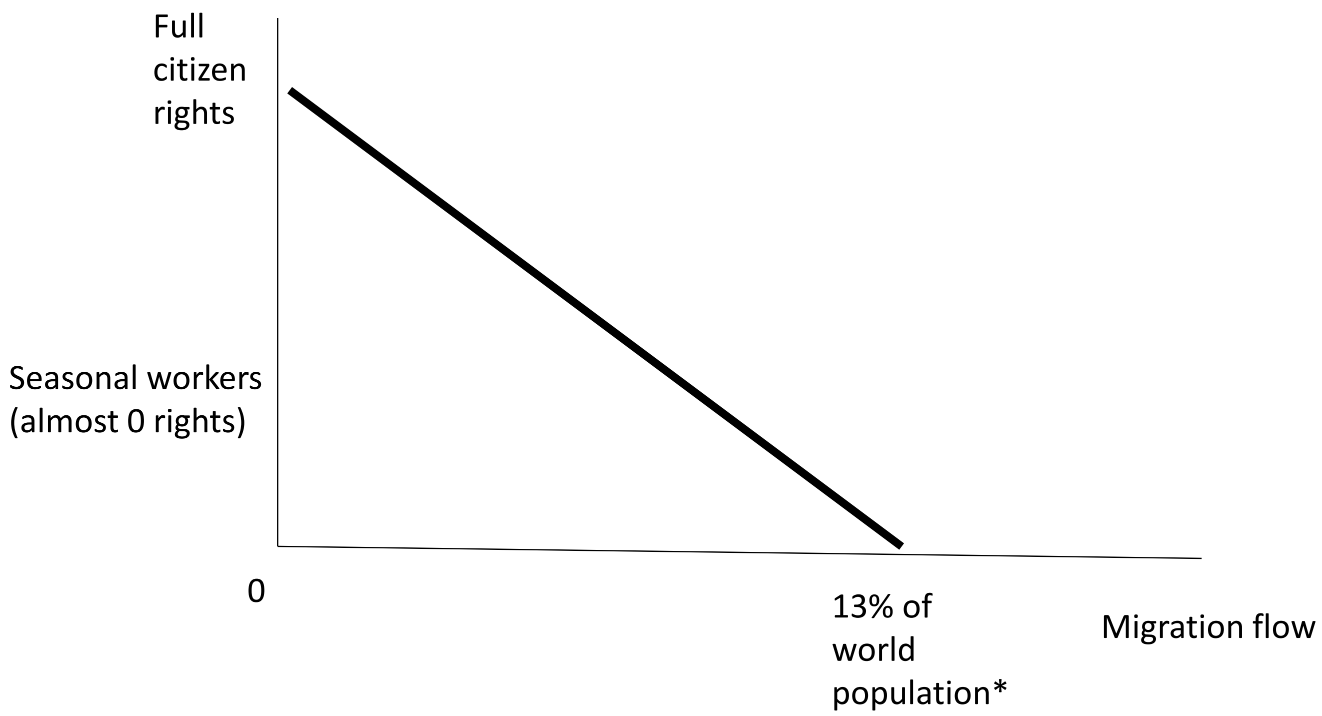
- Possible crowding out of national middle classes, and the creation of a global one
- But the middle class is presumably a force for stability when there is a political community. There is no political community at the global level. What does global middle class mean?
- Would global middle class create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

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

Why tools from the 20th 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
- Deconcentraton 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