Global income inequality: current trends, issues of justice and politics

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LIS SUMMER LECTURE
Luxembourg, 1 July 2014
A. National inequalities mostly increased
## Ginis in 1988 and twenty years later

<table>
<thead>
<tr>
<th></th>
<th>1988</th>
<th>2008</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Gini</strong></td>
<td>36.0</td>
<td>38.5</td>
<td>+2.5</td>
</tr>
<tr>
<td><strong>Pop-weighted Gini</strong></td>
<td>33.9</td>
<td>37.3</td>
<td>+3.4</td>
</tr>
<tr>
<td><strong>GDP-weighted Gini</strong></td>
<td>32.2</td>
<td>36.4</td>
<td>+4.2</td>
</tr>
<tr>
<td><strong>Countries with higher Ginis</strong></td>
<td>33.7</td>
<td>38.5</td>
<td>+4.8</td>
</tr>
<tr>
<td><strong>Countries with lower Ginis</strong></td>
<td>40.5</td>
<td>37.7</td>
<td>-2.7</td>
</tr>
</tbody>
</table>

From final-complete3.dta and key_variables_calcul2.do

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Ginis in 1988 and 2008

From key_variables_calcul3.do
Ginis in 1988 and 2008 (population-weighted countries)

From key_variables_calcul3.do
Mean Gini by year, 1962-2012
(unbalanced country panel)
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)

From ydisrt/us_and_uk.xls
Kuznets and Piketty “frames”

Ginis for England/UK and the United States in a very long run

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

twoway (scatter Giniall lngdpppp if contcod=="BRA", connect(1) ylabel(40(10)60) xtitle(2000 6000 12000) ytitle(Gini) xtitle(ln GDP per capita)) (qfit Giniall lngdpppp if contcod=="BRA", lwidth(thick))
From gdppppreg4.dta

twoway (scatter Giniall lngdpppp if contcod=="CHN" & year>1960, connect(1) ylabel(40(10)60) xtitle(2000 6000 12000) ytitle(Gini) xtitle(ln GDP per capita)) (qfit Giniall lngdpppp if contcod=="CHN" & year>1960, lwidth(thick))
From gdppppreg4.dta
B. Between national inequalities remained very high even if decreasing
Different countries and income classes in global income distribution in 2008

From calcu08.dta

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

USA > Germany > France > Japan > Russia > South Africa > Brazil > China > Morocco > Egypt > India > Indonesia
C. Global inequality is the product of within- and between-county 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

- Concept 1
- Concept 2
- Concept 3

Divergence begins

Divergence ends

China moves in

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International unweighted and population-weighted inequality, 1952-2010

Concept 2
Concept 2 without China
Concept 1

Gini coefficient in percent


India as new engine of equalization

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Graph in interyd\dofiles\defines.do; using gdppppreg.dta
## Population coverage

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>48</td>
<td>76</td>
<td>67</td>
<td>77</td>
<td>78</td>
<td>78</td>
<td>56</td>
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<tr>
<td>Asia</td>
<td>93</td>
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<td>94</td>
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<td>94</td>
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<td>86</td>
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<td>E.Europe</td>
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<td>95</td>
<td>100</td>
<td>97</td>
<td>93</td>
<td>92</td>
<td>76</td>
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<tr>
<td>LAC</td>
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<tr>
<td>WENAO</td>
<td>92</td>
<td>95</td>
<td>97</td>
<td>99</td>
<td>99</td>
<td>97</td>
<td>90</td>
</tr>
<tr>
<td>World</td>
<td>87</td>
<td>92</td>
<td>92</td>
<td>94</td>
<td>93</td>
<td>94</td>
<td>82</td>
</tr>
</tbody>
</table>
What does Gini of 70 mean?

Using data_voter_checked.dta to which I added the world from my global data
Large countries and the world, from 1950-60s to today

Gini coefficient vs. GDP per capita in PPP dollars

- China
- Brazil
- Russia
- United States
- World
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)

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Estimated at mean-over-mean
**Distribution of the global absolute gains in income, 1988-2008:**

more than ½ of the gains went to the top 5%

From summary_data.xls

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Best and worst performing parts of the 1988 distribution
Annual per capita after-tax income in international dollars

US 2nd decile

Chinese 8th urban decile

From summary_data.xls
Global income distributions in 1988 and 2008

Emerging global “middle class” between $3 and $16

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

Urban and rural China

Urban and rural Indonesia

From key_variables_calcul2.do
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?

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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)
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)

<table>
<thead>
<tr>
<th>Mean country incomes</th>
<th>All equal</th>
<th>Different (as now)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual incomes within country</td>
<td>0</td>
<td>68 (all country Ginis=0)</td>
</tr>
<tr>
<td>All equal</td>
<td>30 (all mean incomes same; all country Ginis as now)</td>
<td>98</td>
</tr>
<tr>
<td>Different (as now)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

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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) msize(vlarge) clwidth(thick)) (scatter Theil year, c(l) msize(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).


From thepast.xls