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

Branko Milanovic

Luxembourg Income Study Center

Graduate Center - City University of New York

LIS SUMMER LECTURE
Luxembourg, 1 July 2014

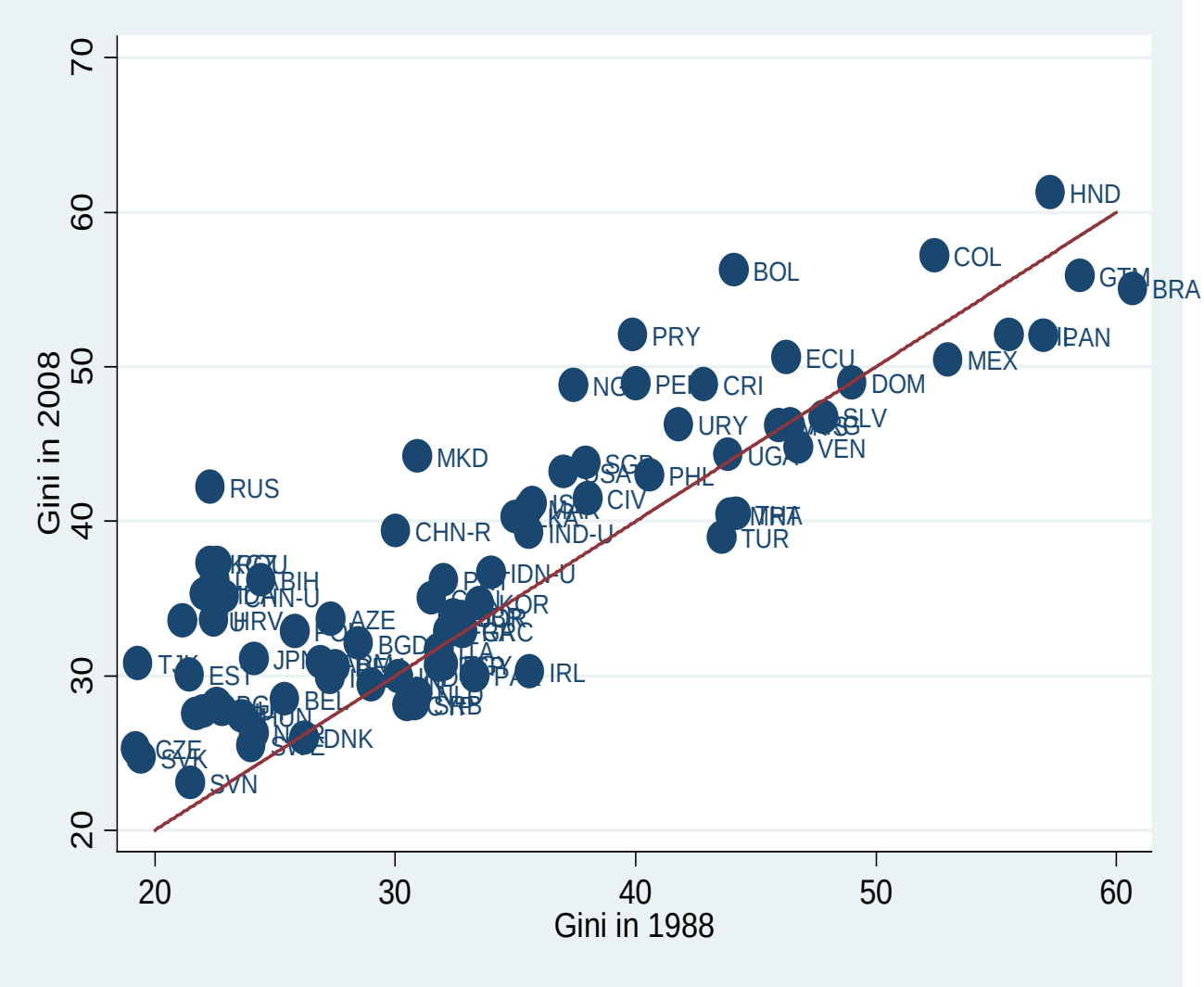
A. National inequalities mostly increased

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

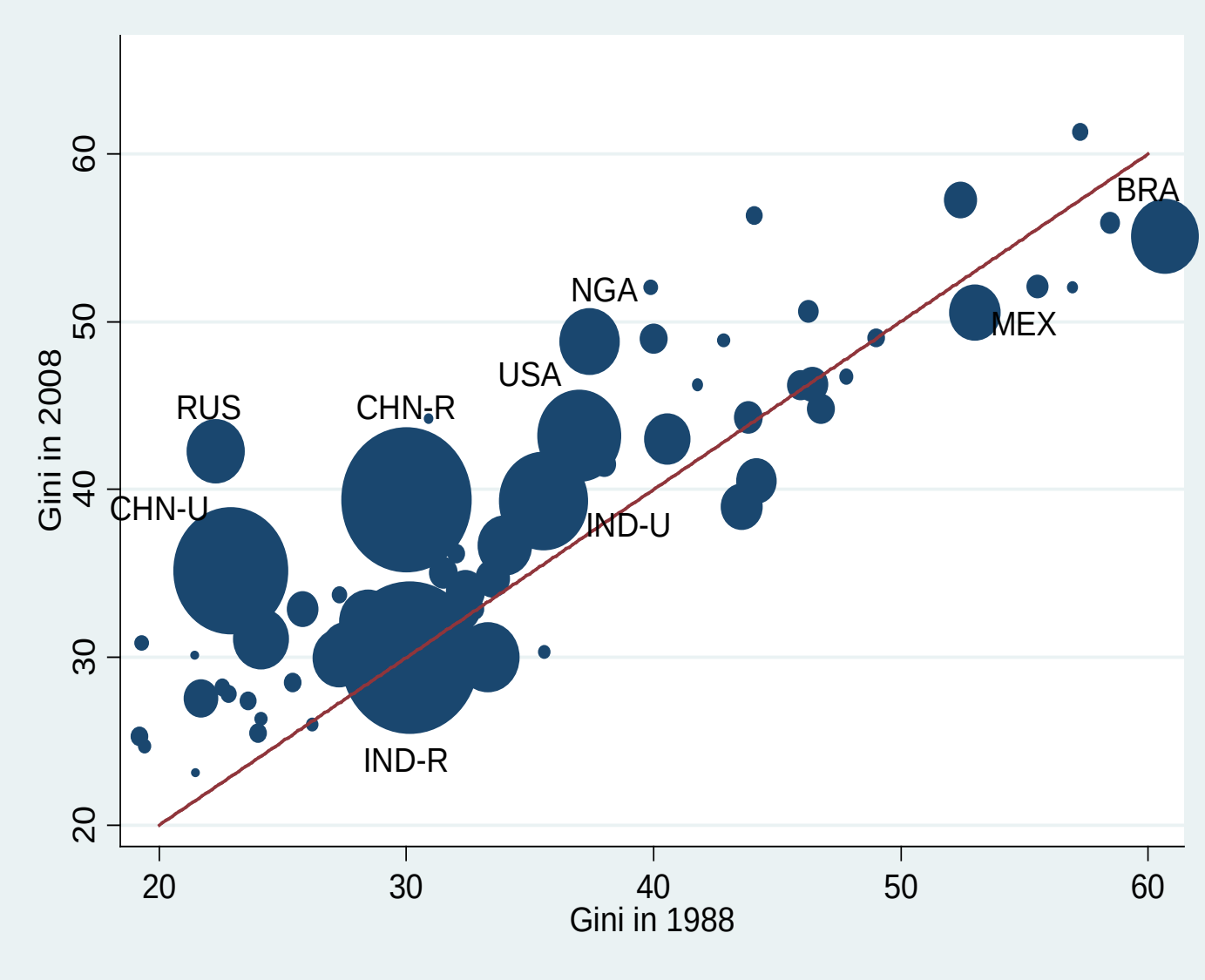
From final-complete3.dta and key_variables_calcul2.do

Ginis in 1988 and 2008



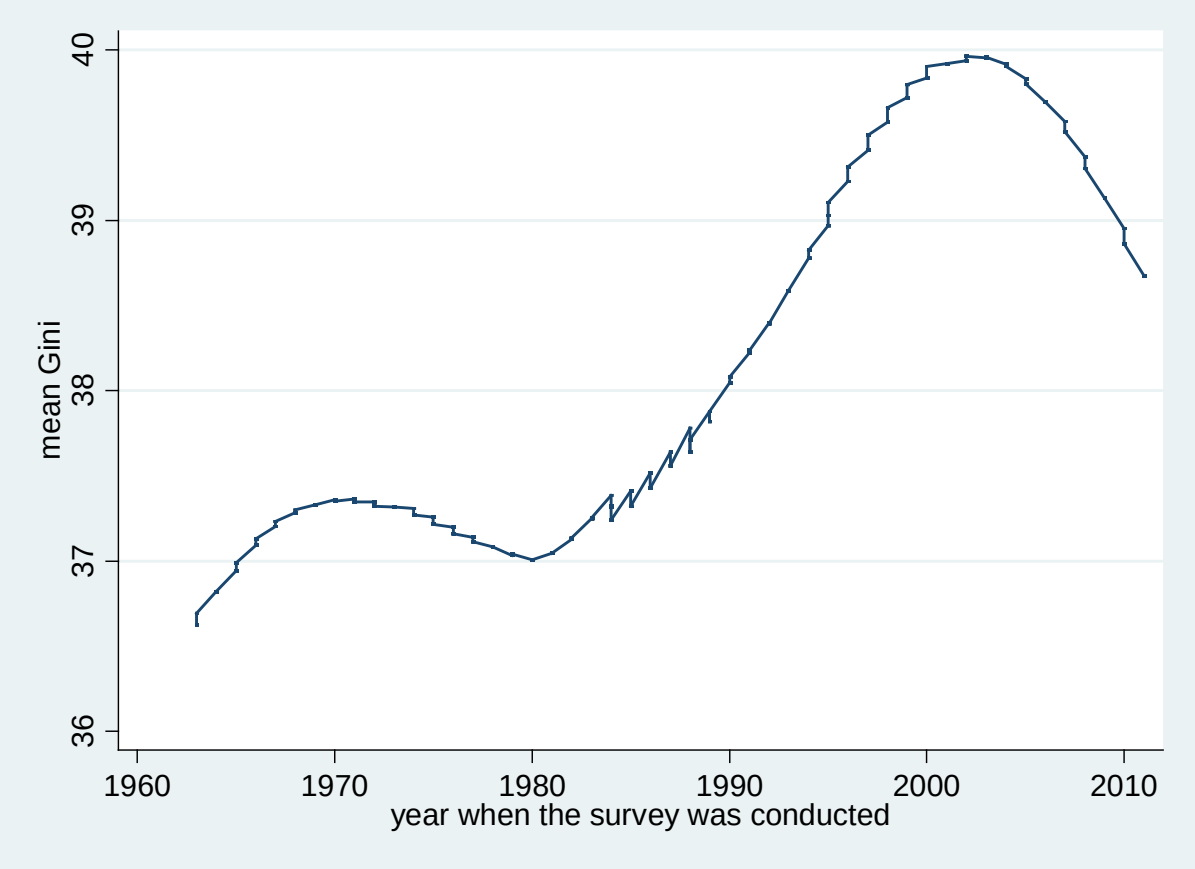
From key_variables_calcul3.do

Ginis in 1988 and 2008 (population-weighted countries)



From key_variables_calcul3.do

Mean Gini by year, 1962-2012 (unbalanced country panel)



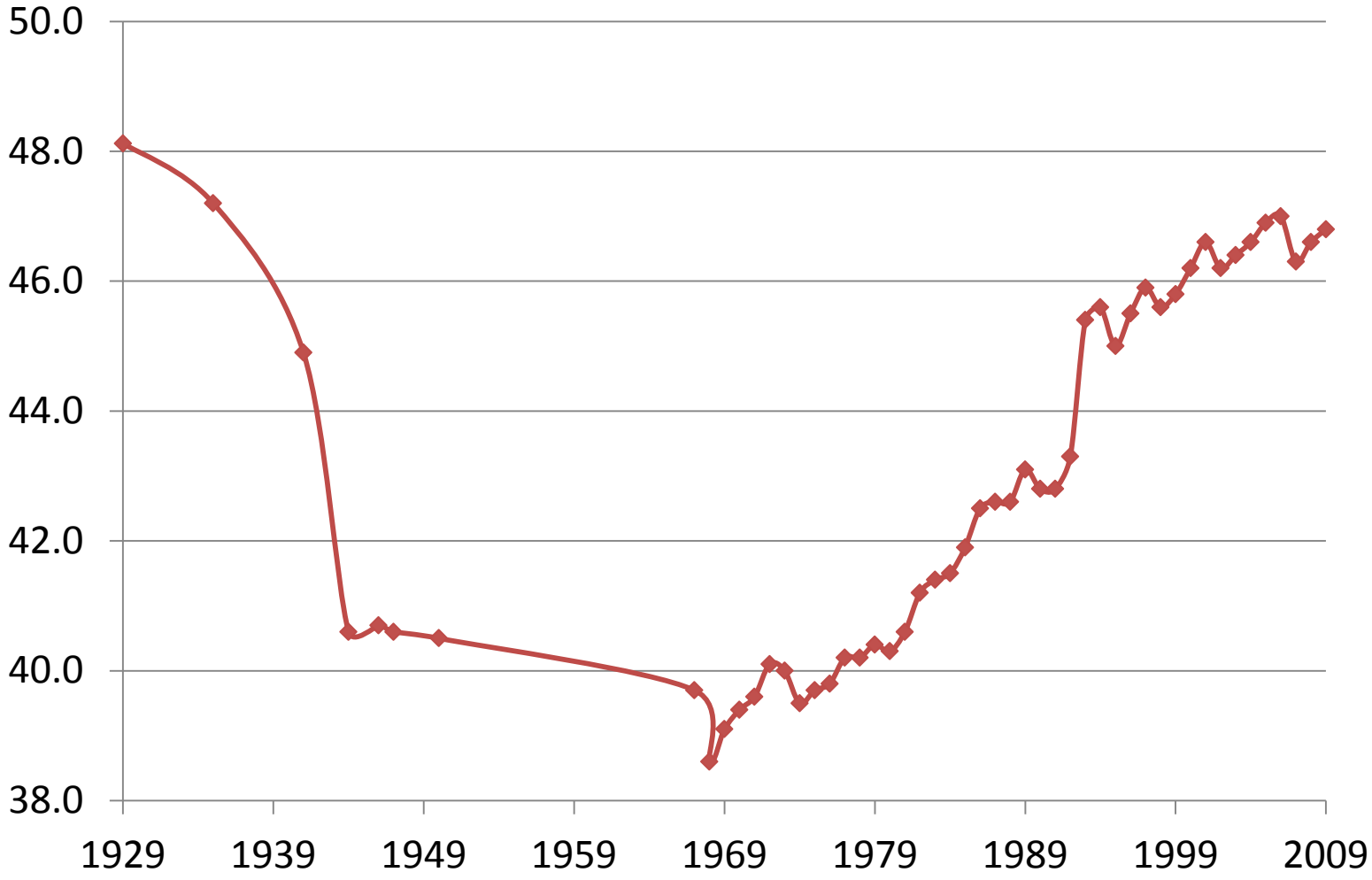
twoway (scatter cc year if year>1962 & year<2012, connect(l)) (lowess cc year if year>1962 & year<2012, legend(off) ytitle(mean Gini))
Using all_the_ginis

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

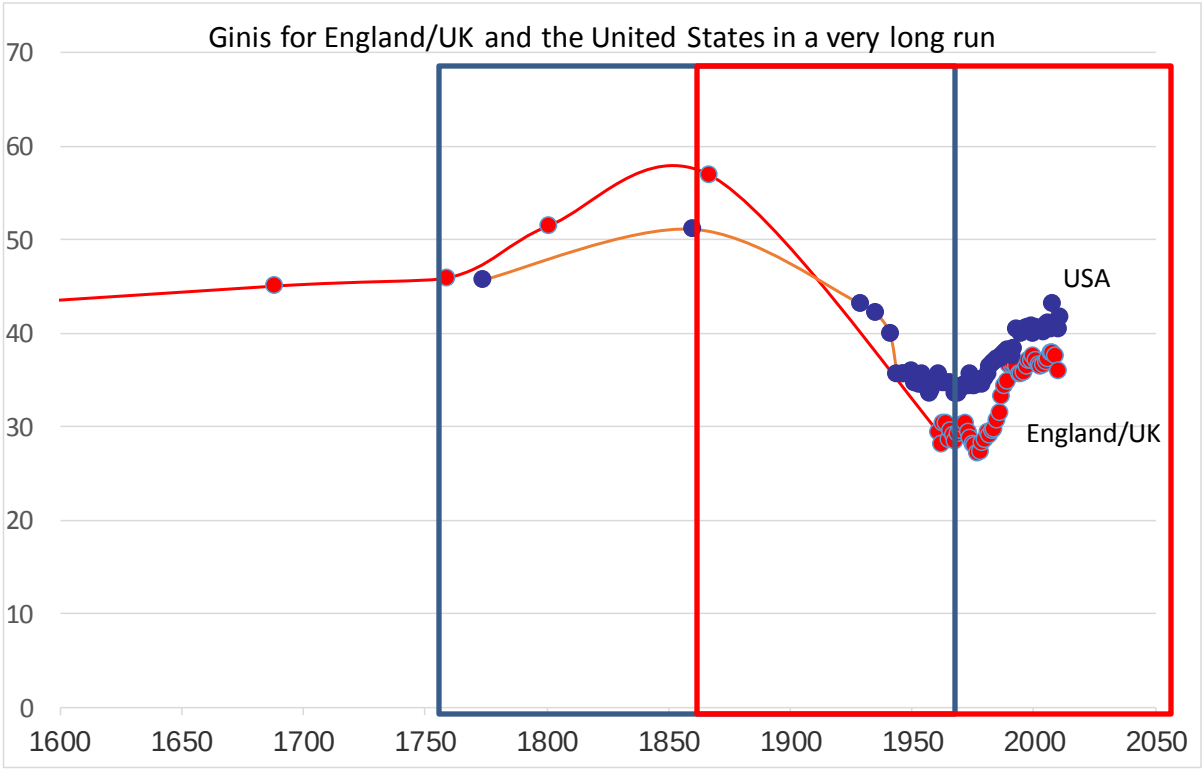
Some long-term examples set in the Kuznets framework

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



From ydisrt/us_and_uk.xls

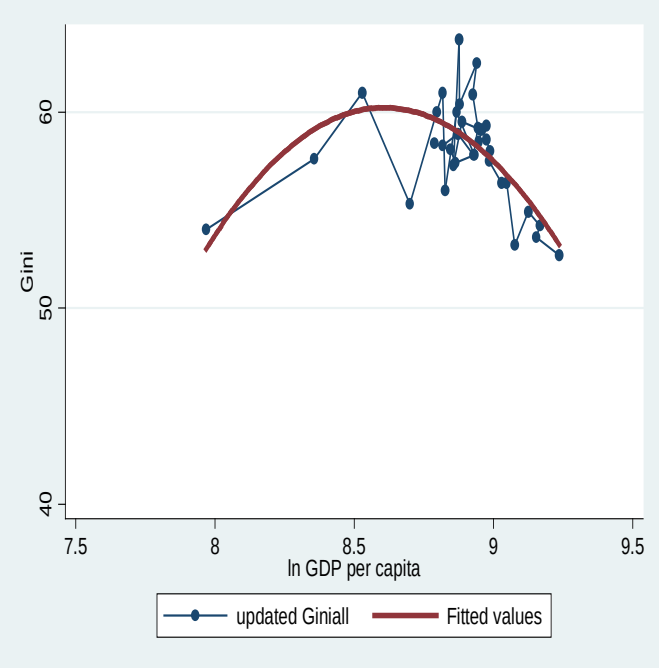
Kuznets and Piketty “frames”



From uk_and_usa.xls

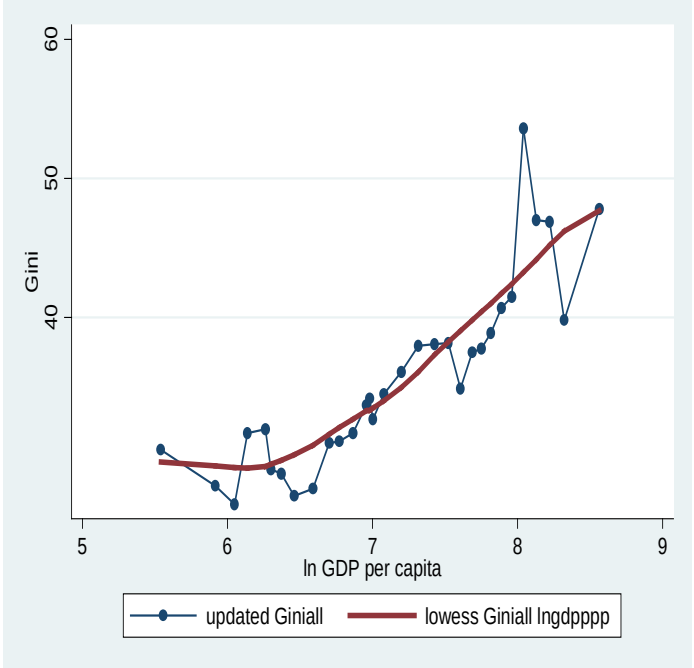
Contemporary examples of Brazil and China: moving on the descending portion of the Kuznets curve

Brazil 1960-2010



twoway (scatter Giniall lngdpppp if contcod=="BRA", connect(l) 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

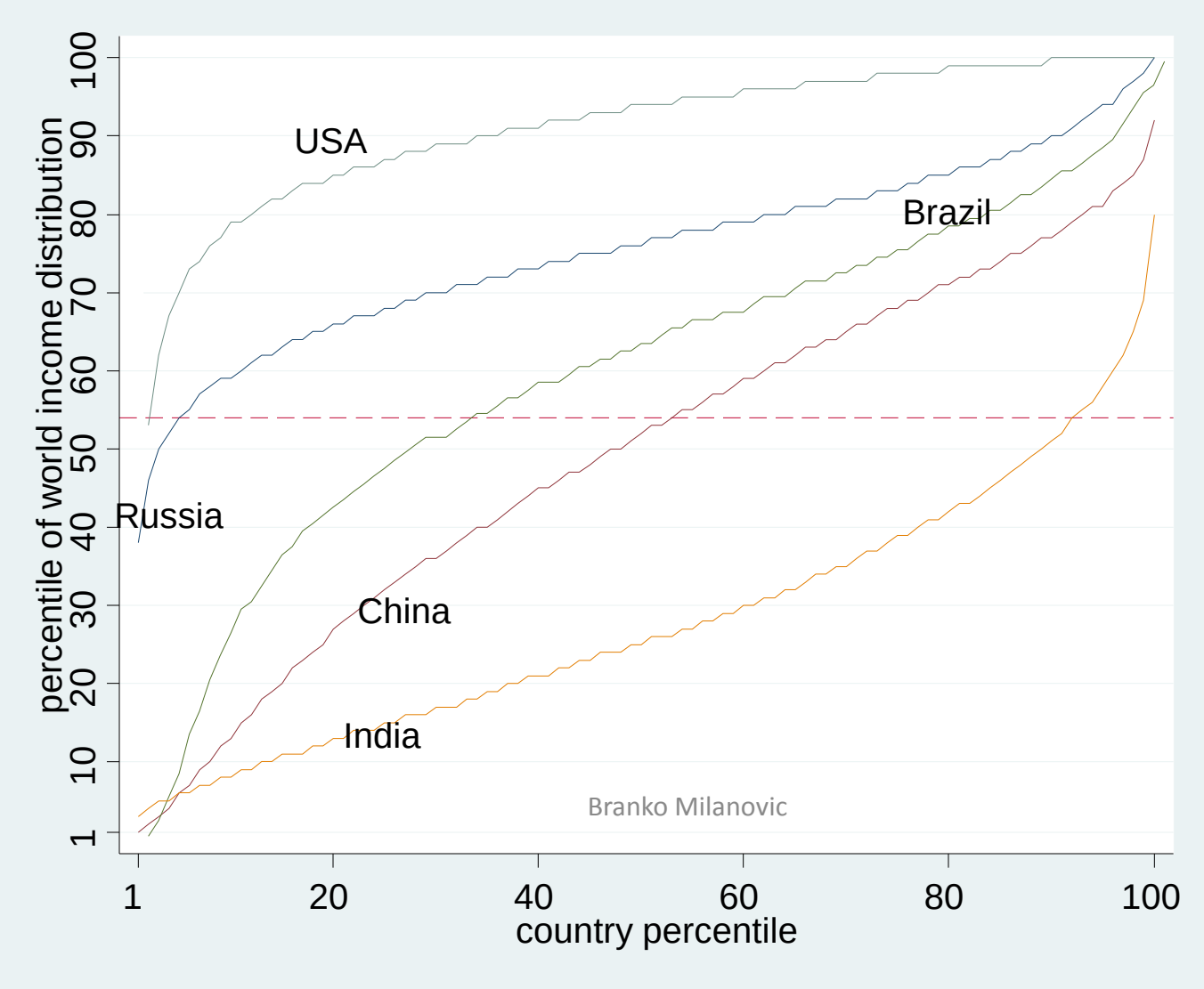
China, 1967-2007



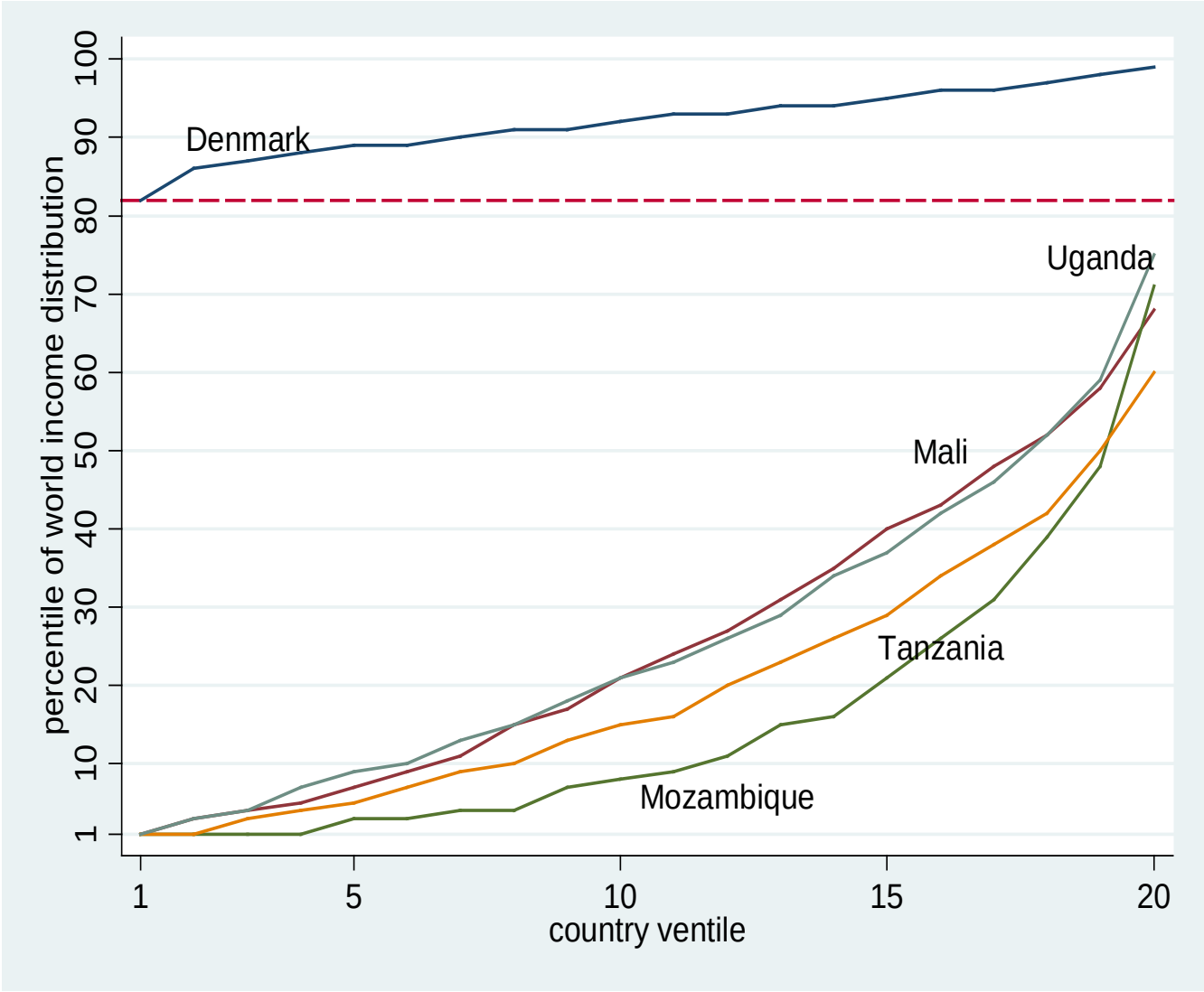
twoway (scatter Giniall lngdpppp if contcod=="CHN" & year>1960, connect(l) ylabel(40(10)60) xtitle(2000 6000 12000) ytitle(Gini) xtitle(ln GDP per capita)) (qfit Giniall lngdpppp if contcod=="CHN" & year>1960, lwidth(thick))
From gdppppreg4.dta

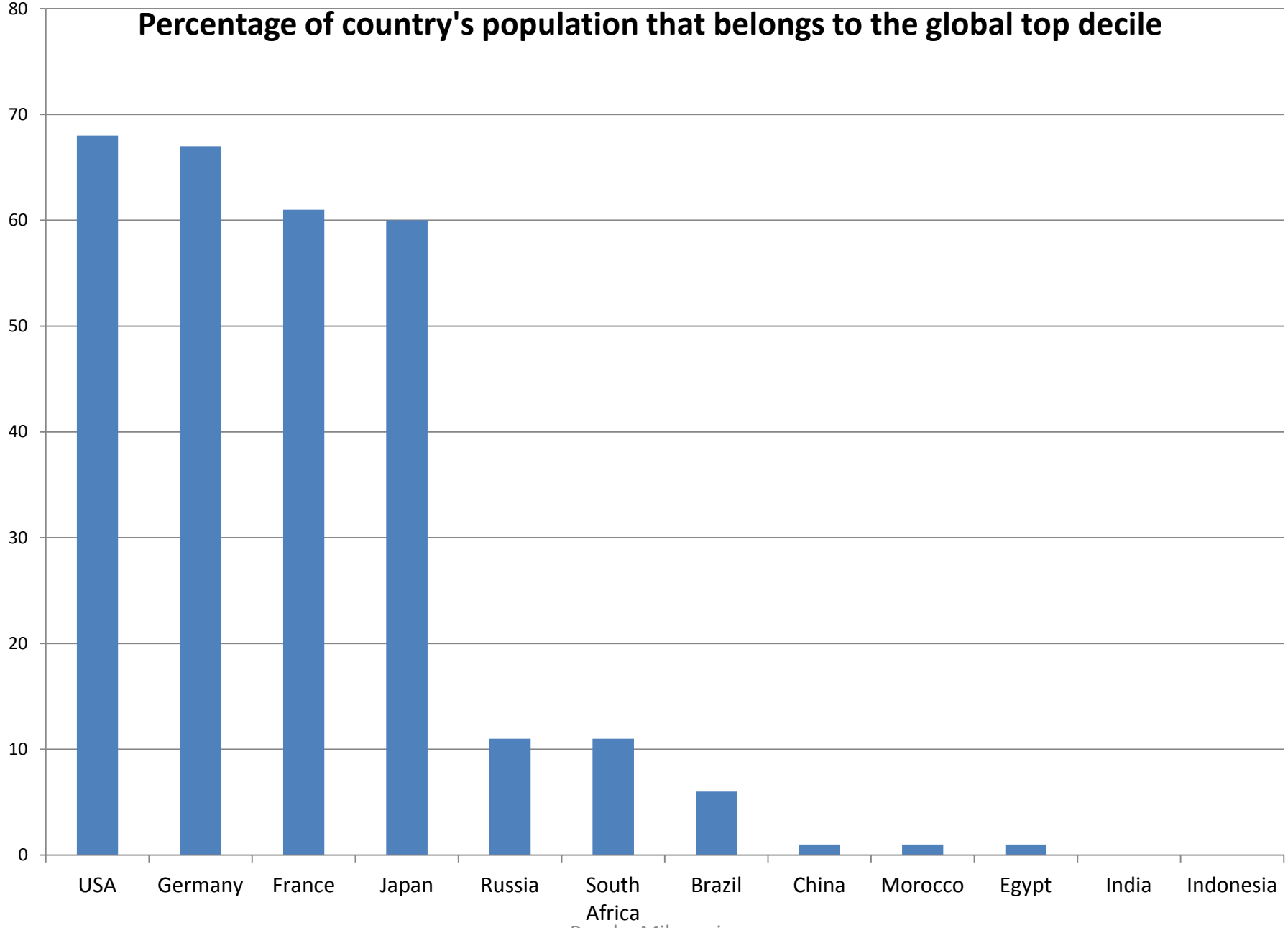
B. Between national inequalities remained very high even if decreasing

Different countries and income classes in global income distribution in 2008



From calcu08.dta


percentile of world income distribution
1
10
20
30
40
50
60
70
80
90
100
Denmark
Uganda
Mali
Tanzania
Mozambique
1
5
10
15
20
country ventile

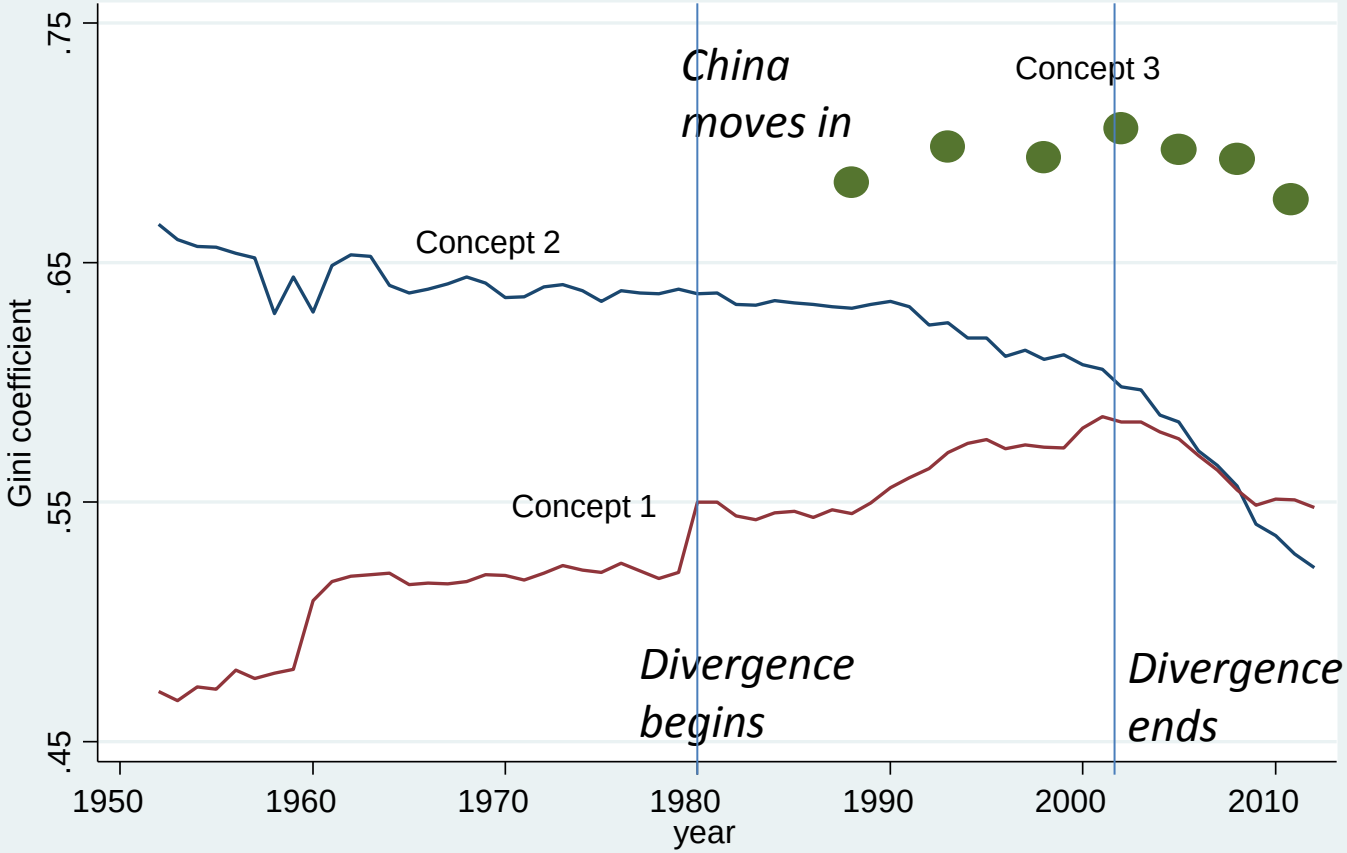

Percentage of country's population that belongs to the global top decile
80
70
60
50
40
30
20
10
0
USA
Germany
France
Japan
Russia
South Africa
Brazil
China
Morocco
Egypt
India
Indonesia
Branko Milanovic

C. Global inequality is the product of within- and between-county inequalities
How did it change in the last 25 years?

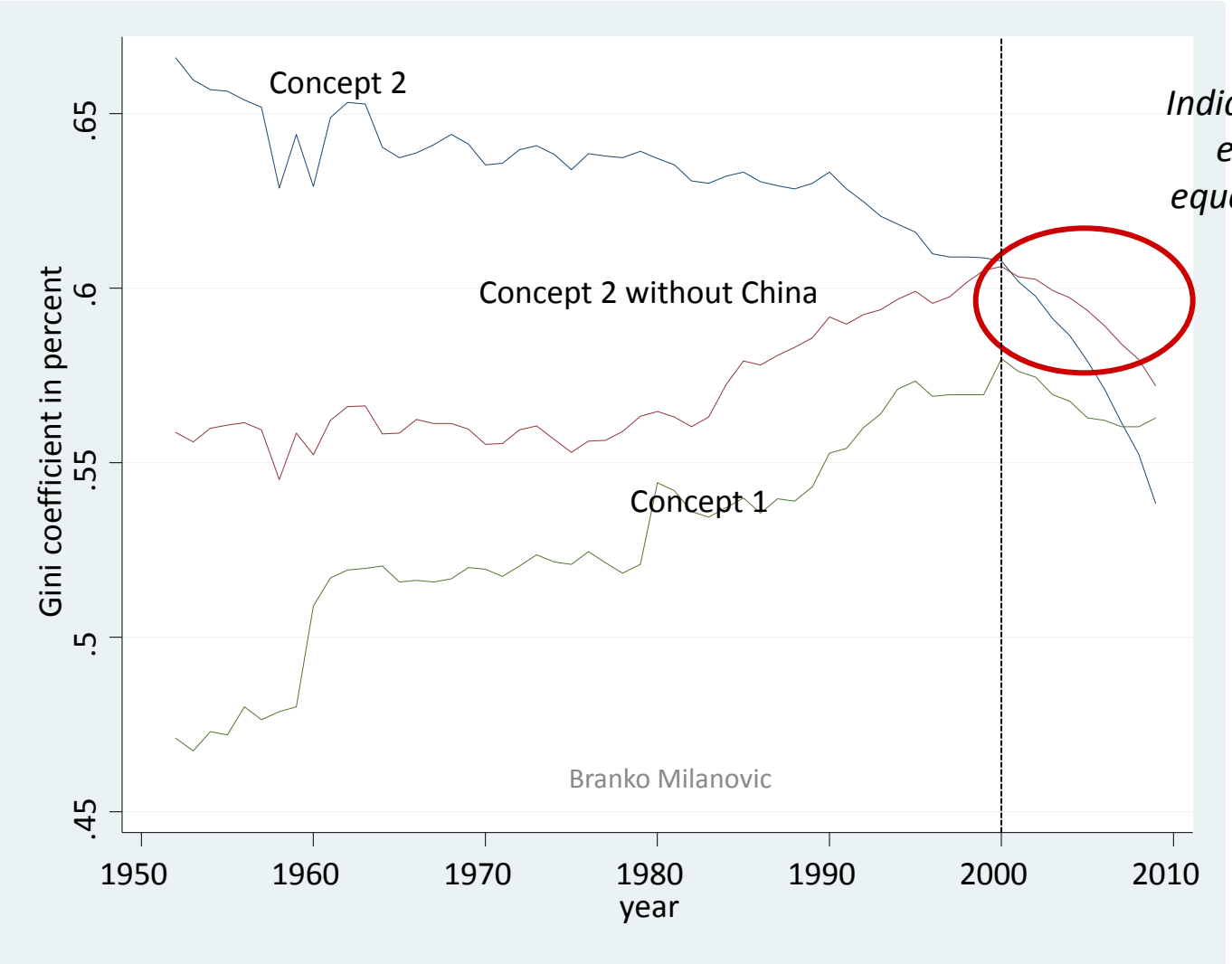
Essentially, global inequality is determined by three forces

- 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 that the rich world?

Global inequality 1950-2012: three concepts



International unweighted and population- weighted inequality, 1952-2010



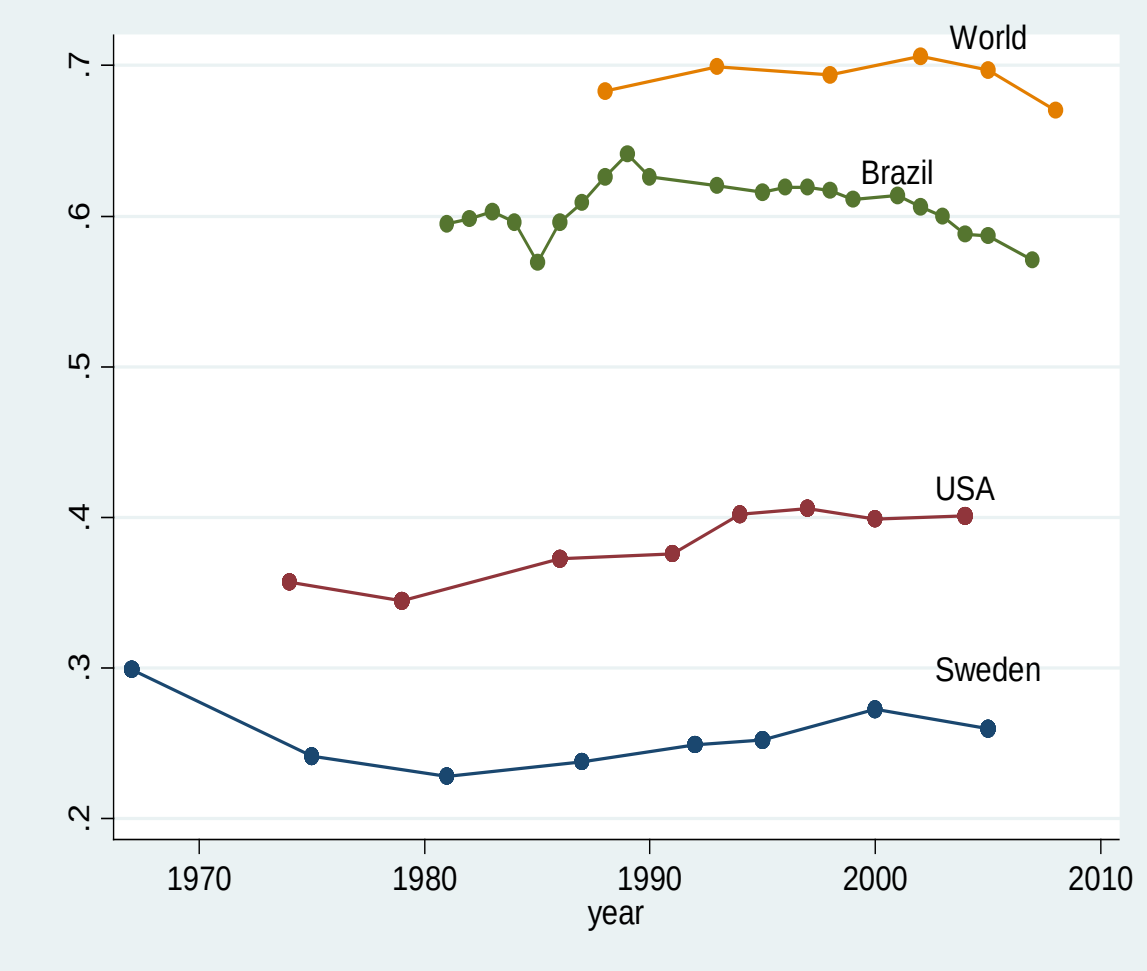
Graph in interyd\dofiles\defines.do; using gdppppreg.dta

Population coverage

	1988	1993	1998	2002	2005	2008	2011
Africa	48	76	67	77	78	78	56
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	82

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

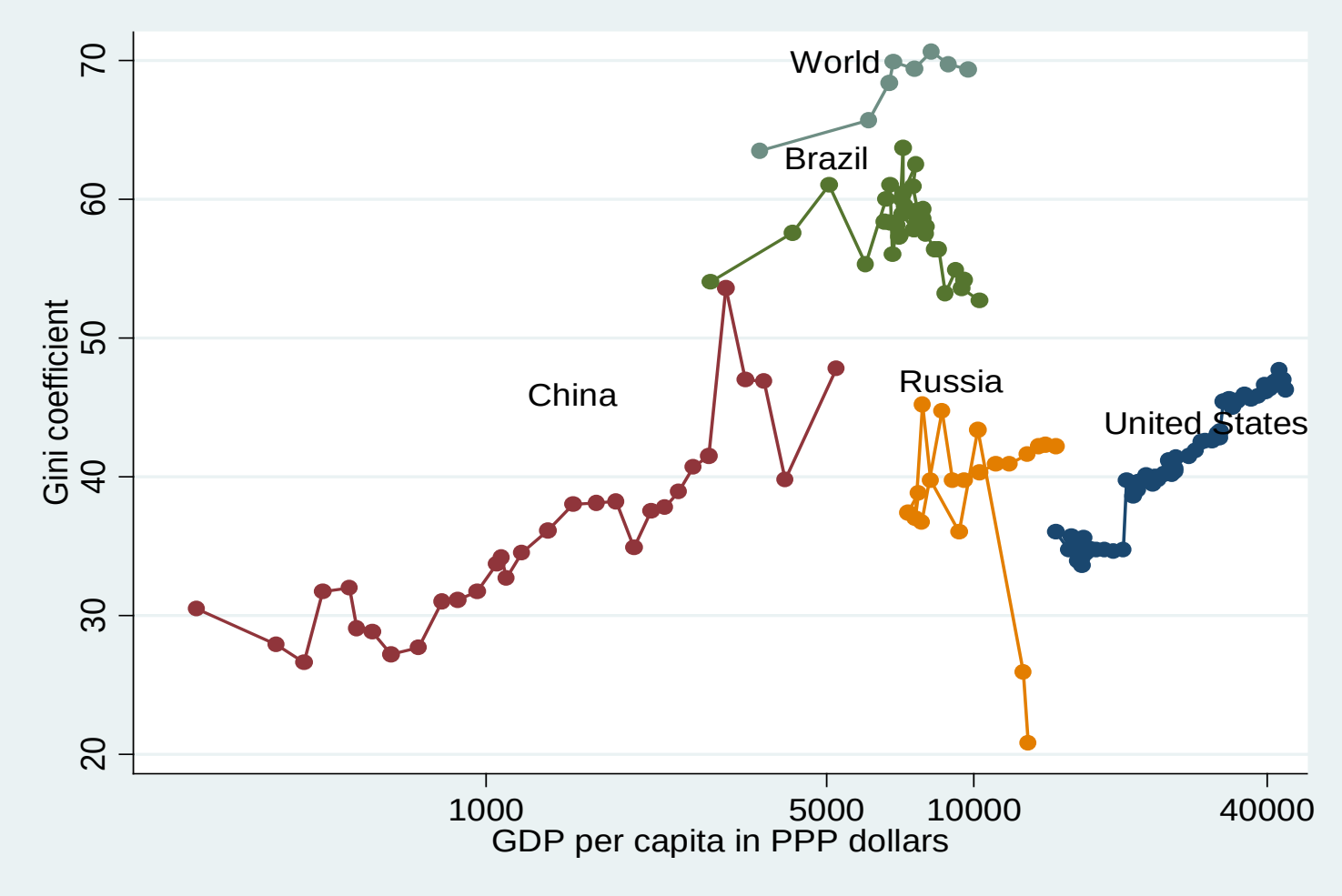
What does Gini of 70 mean?



twoway (scatter gini_disposable year if contcod=="SWE", c(l)) (scatter gini_disposable year if contcod=="USA" , c (l)) (scatter gini_gross year if contcod=="BRA" & source=="SEDLAC", c(l) legend(off) text(0.30 2005 "Sweden") text(0.42 2004 "USA") text(0.63 2001 "Brazil")) (scatter gini_disposable year if contcod=="WRL", c(l) text (0.72 2005 "World"))

Using data_voter_checked.dta to which I added the world from my global data

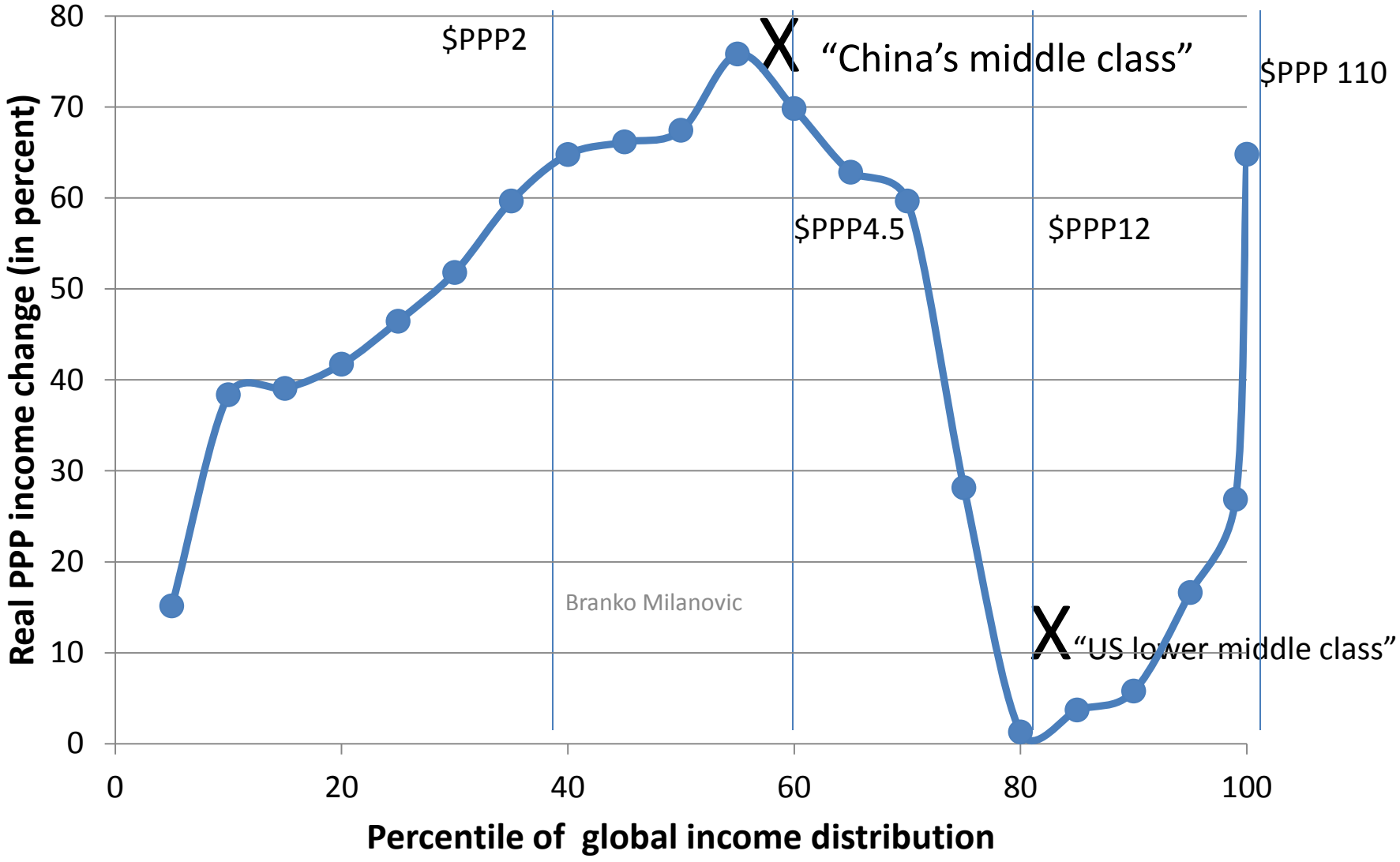
Large countries and the world, from 1950-60s to today



…finance_nd_devt/figure2.do
Using gdpppppreg4.dta

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

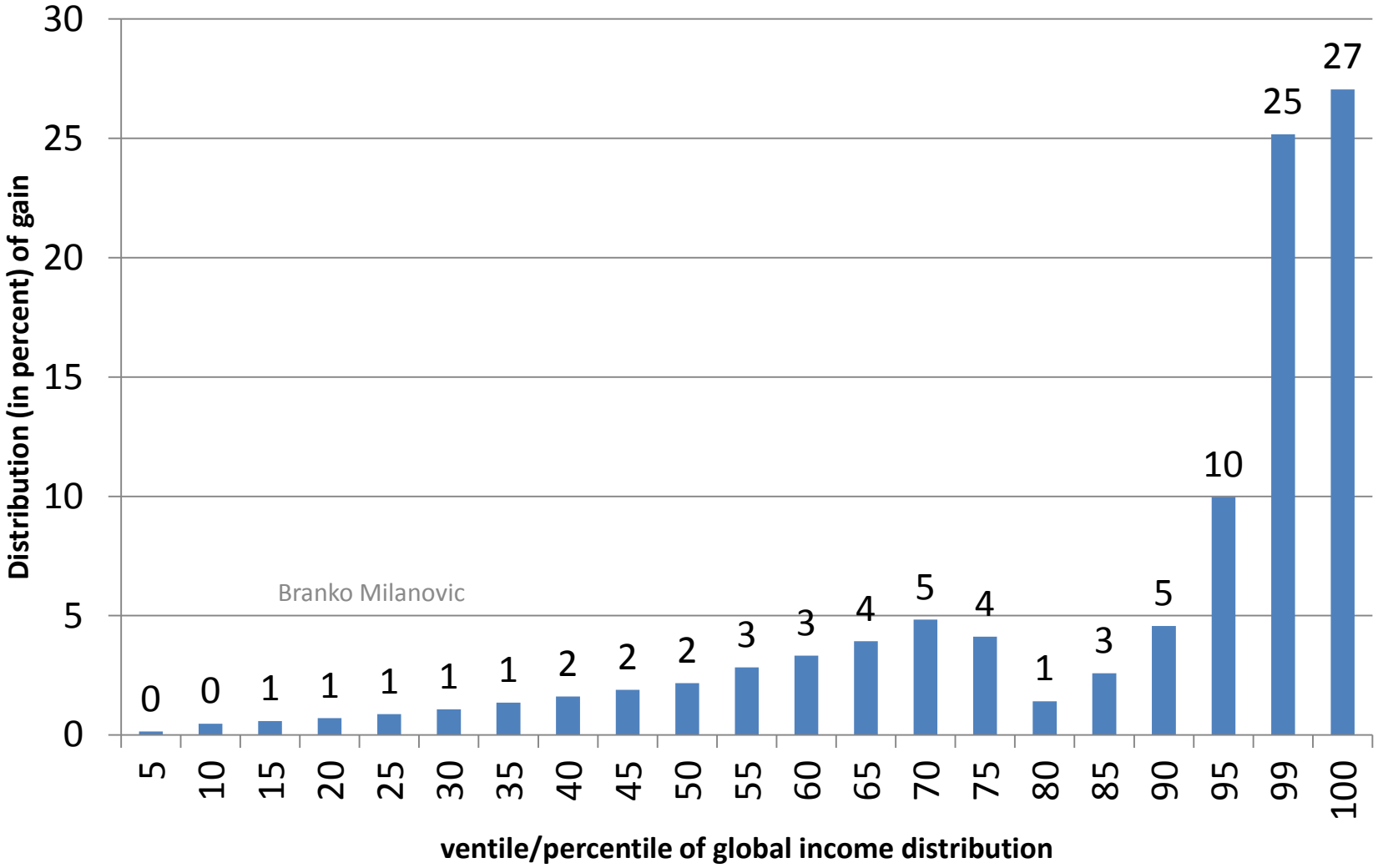
Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)



From twenty_years\final\summary_data

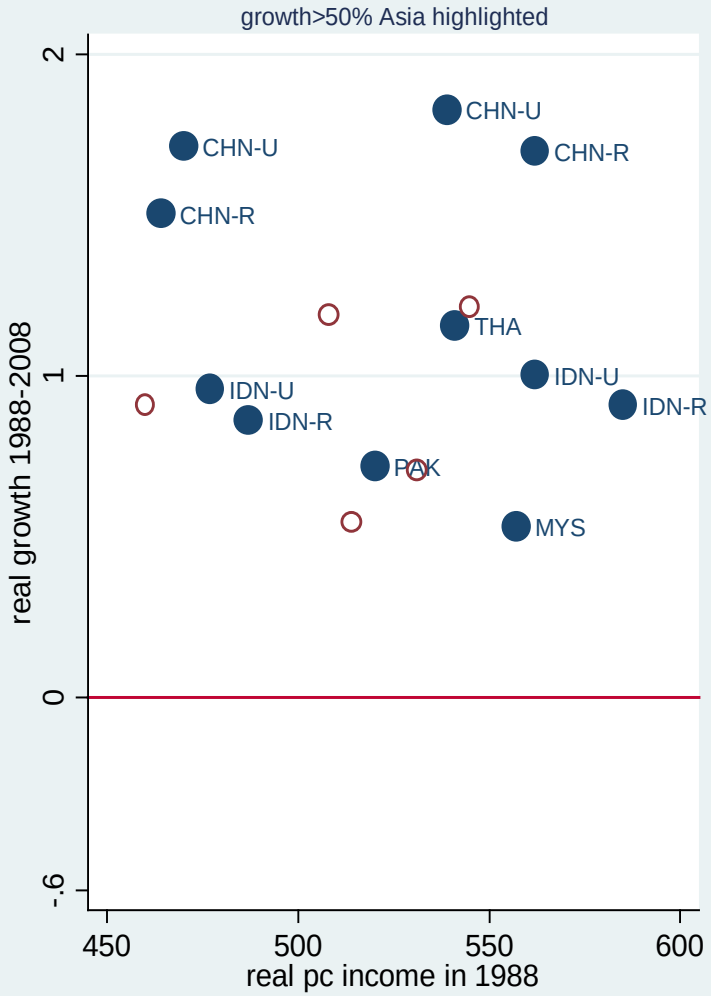
Estimated at mean-over-mean

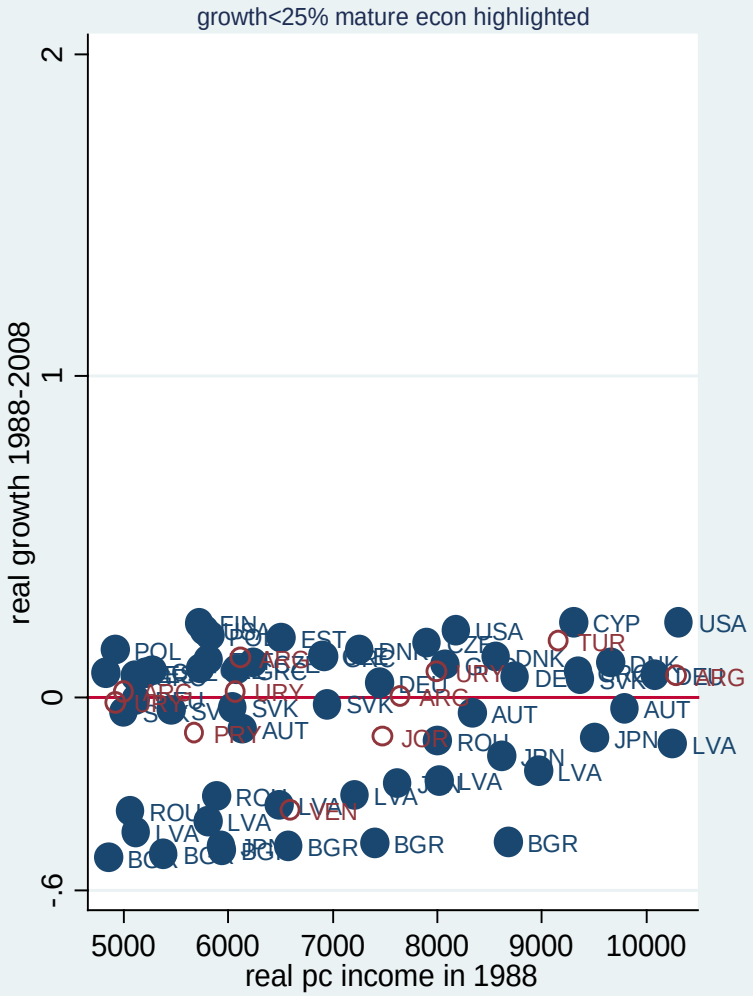
Distribution of the global absolute gains in income, 1988-2008: more than ½ of the gains went to the top 5%



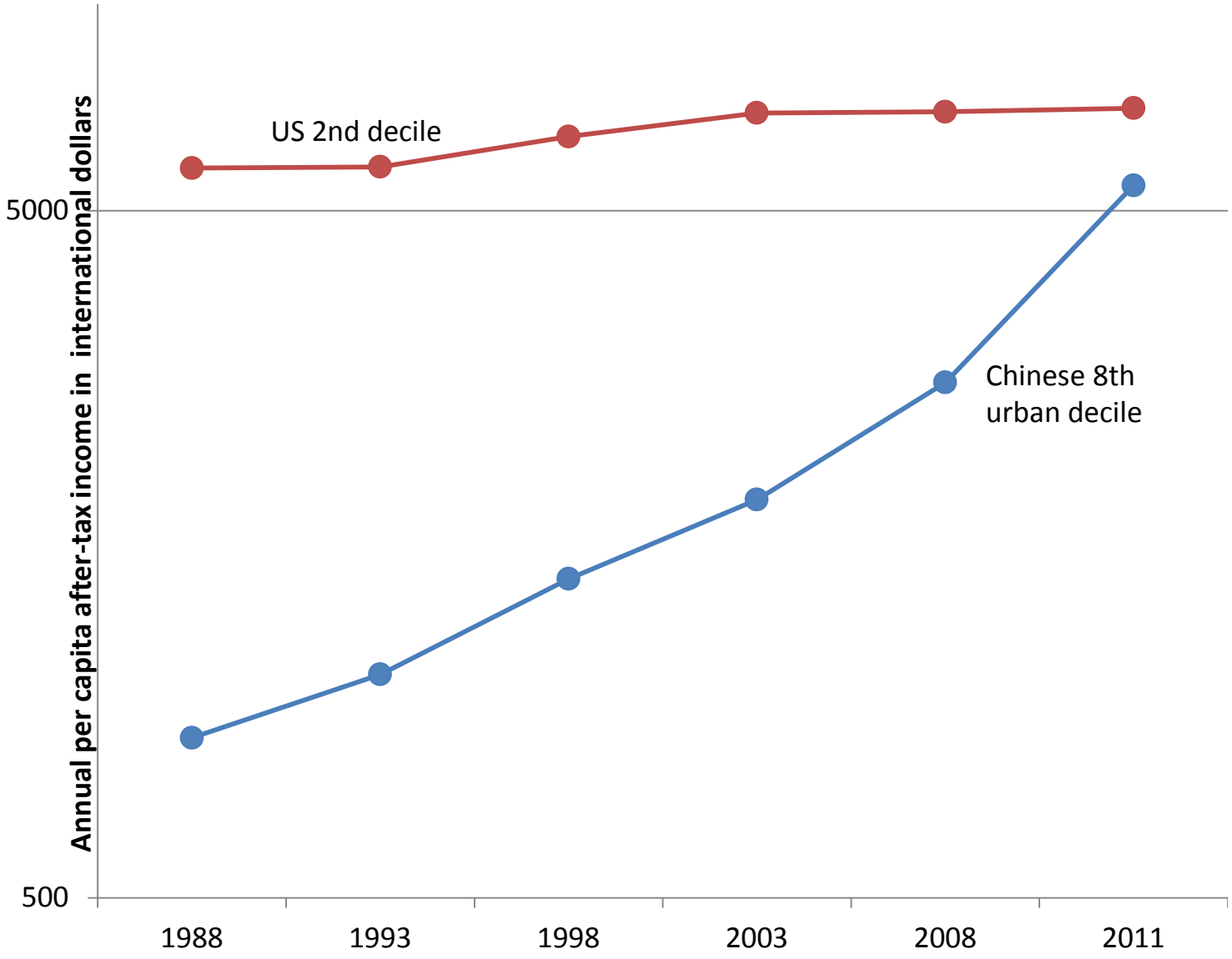
From summary_data.xls

Best and worst performing parts of the 1988 distribution



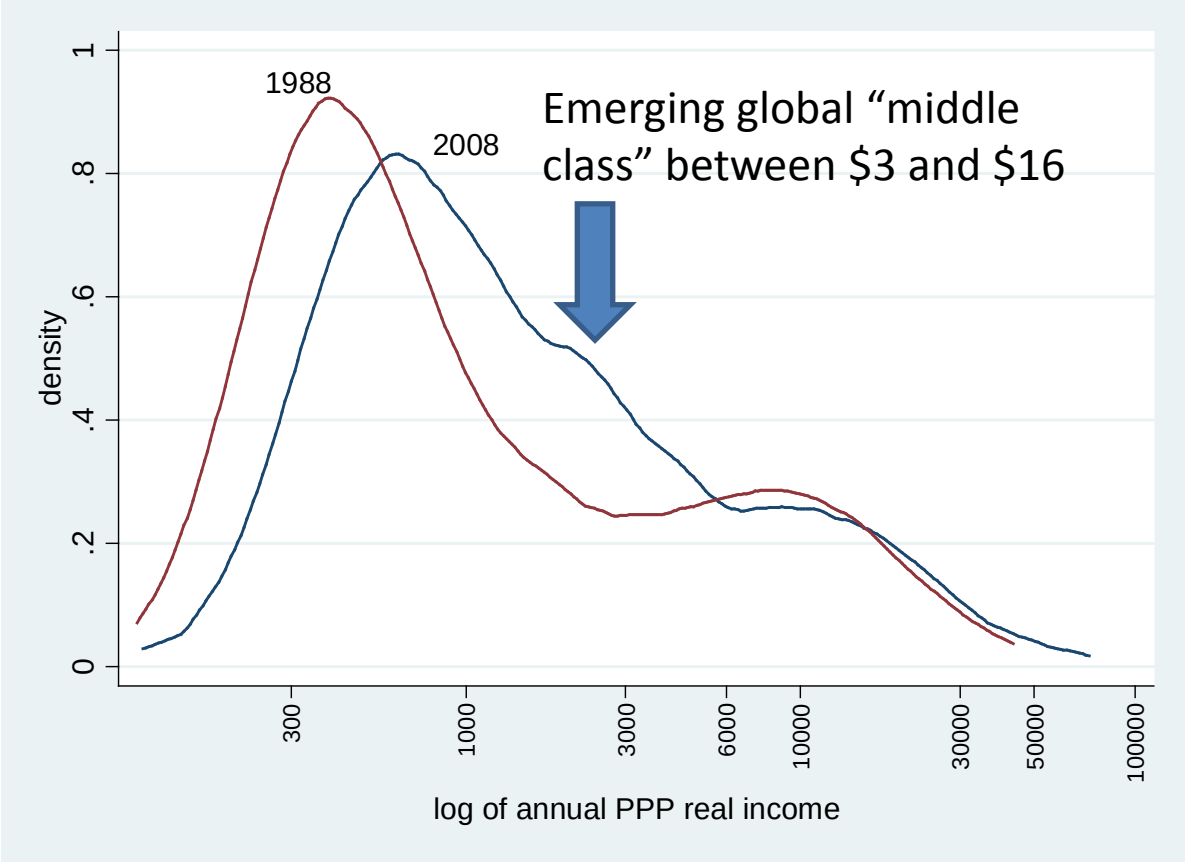


From my_graphs.do



From summary_data.xls

Global income distributions in 1988 and 2008

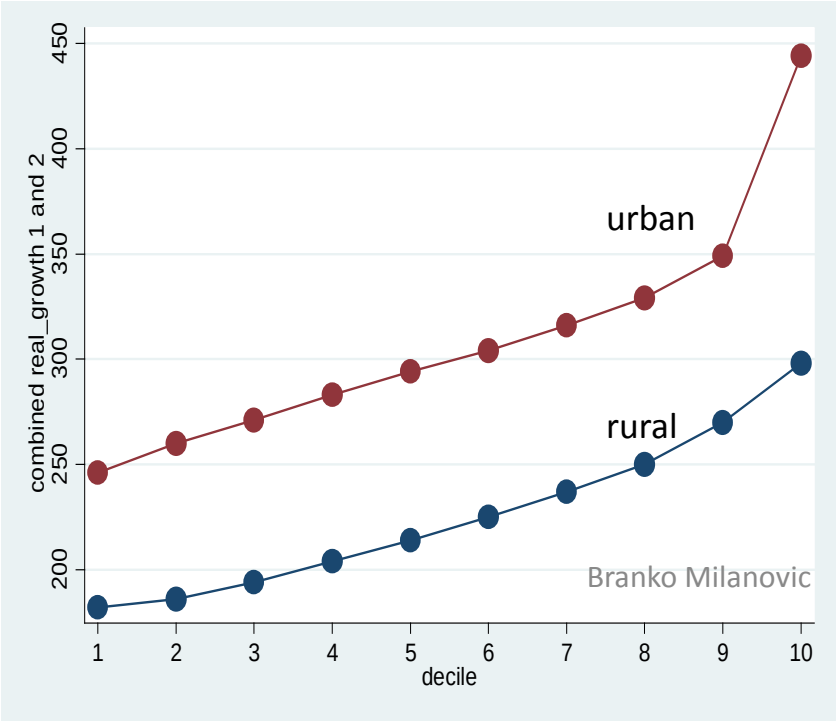


twoway (kdensity logRRinc [w=pop] if logRRinc>2 & bin_year==2008 & keep==1 & mysample==1) (kdensity logRRinc [w=pop] if logRRinc>2 & bin_year==1988 & keep==1 & mysample==1, legend(off) xtitle(log of annual PPP real income) ytitle(density) text(0.95 2.5 "1988") text(0.85 3 "2008"))

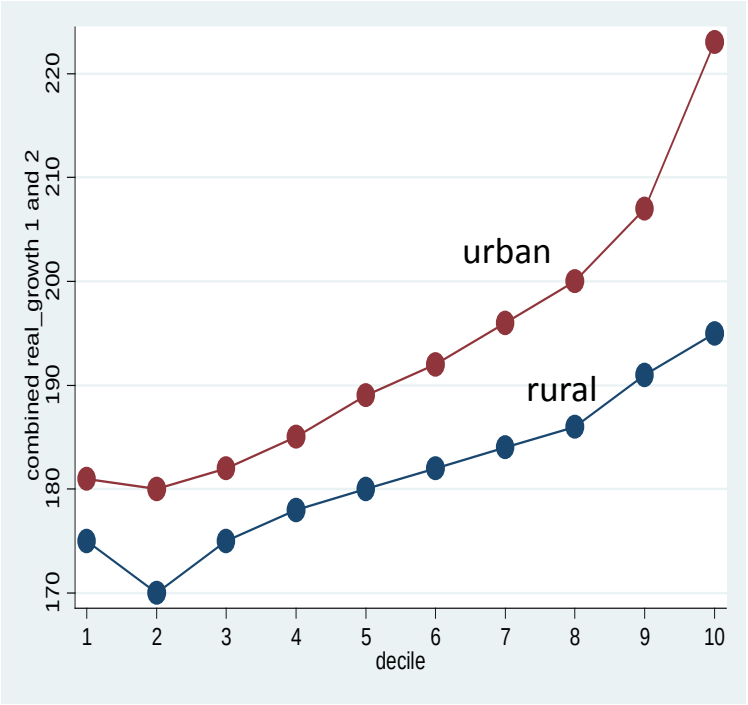
Or using adding_xlabel.do; always using final_complete7.dta

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

Urban and rural China



Urban and rural Indonesia



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?

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

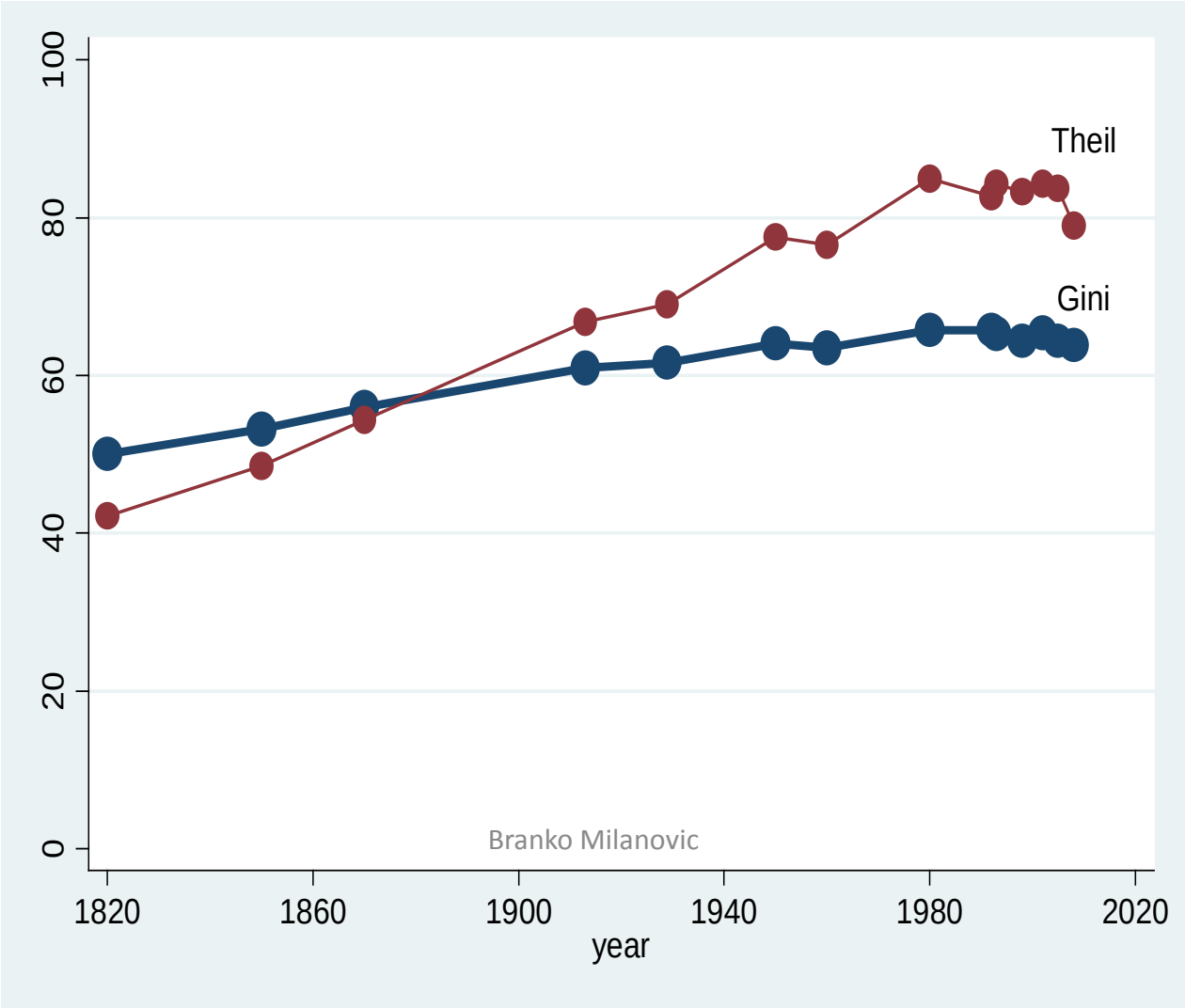
- To reduce global inequality: fast growth of poor countries + migration
- To preserve good aspects of globalization: redistribution within rich countries

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) 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)

Based on Bourguignon-Morrisson (2002), Maddison data, and Milanovic (2005)

From thepast.xls