

Long-run evolution of global income inequality and its political consequences

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Structure of the talk

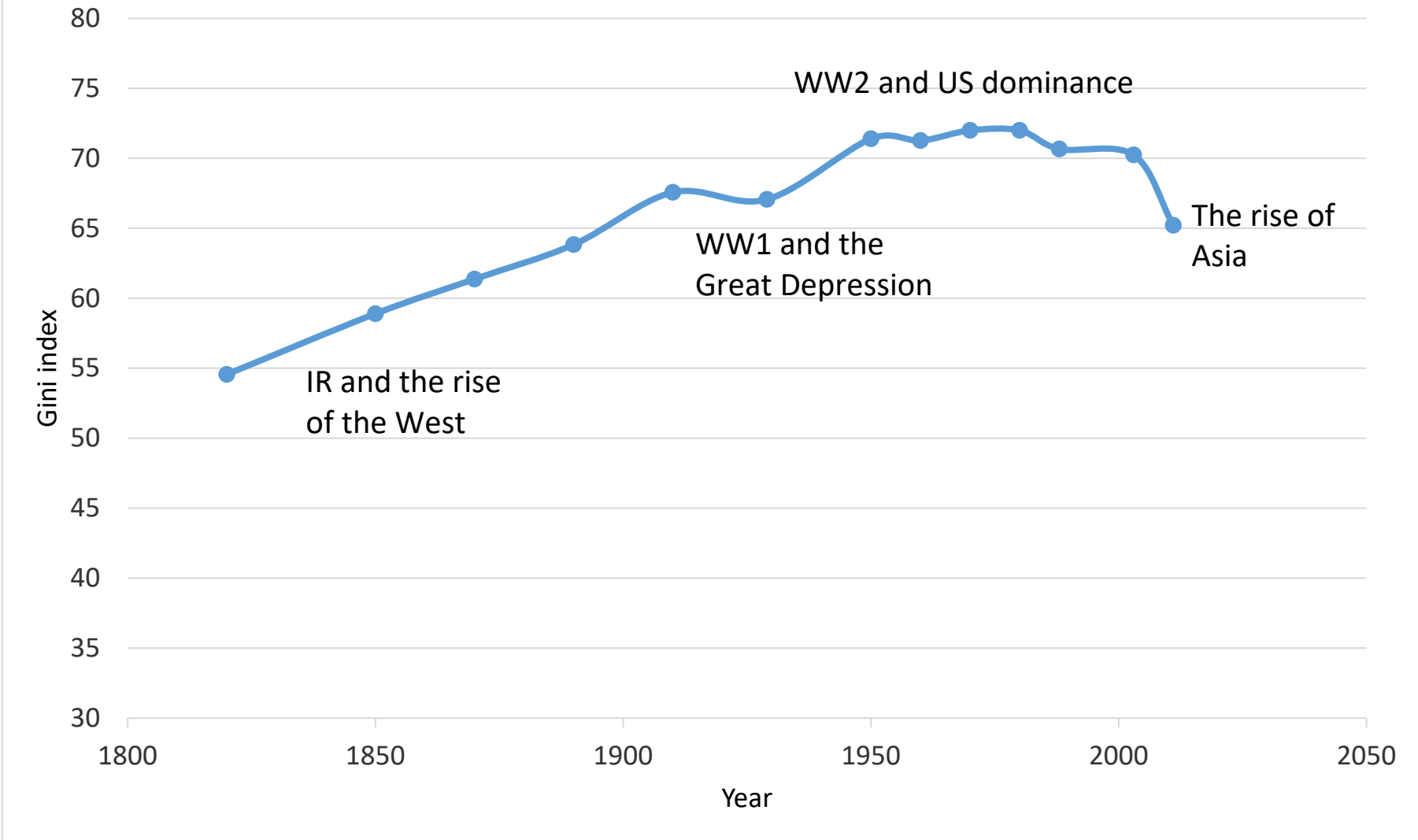
- Uniqueness of the current period: Capitalism rules alone + the reemergence of Asia (bringing the distribution of economic activity within Eurasia to the way it was around 1500)
- Changes between 1988 and 2008, and then..
- ...changes after the 2008 Financial Crisis
- The main inequality trends in the West and China
- Some possible future developments

Long run

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

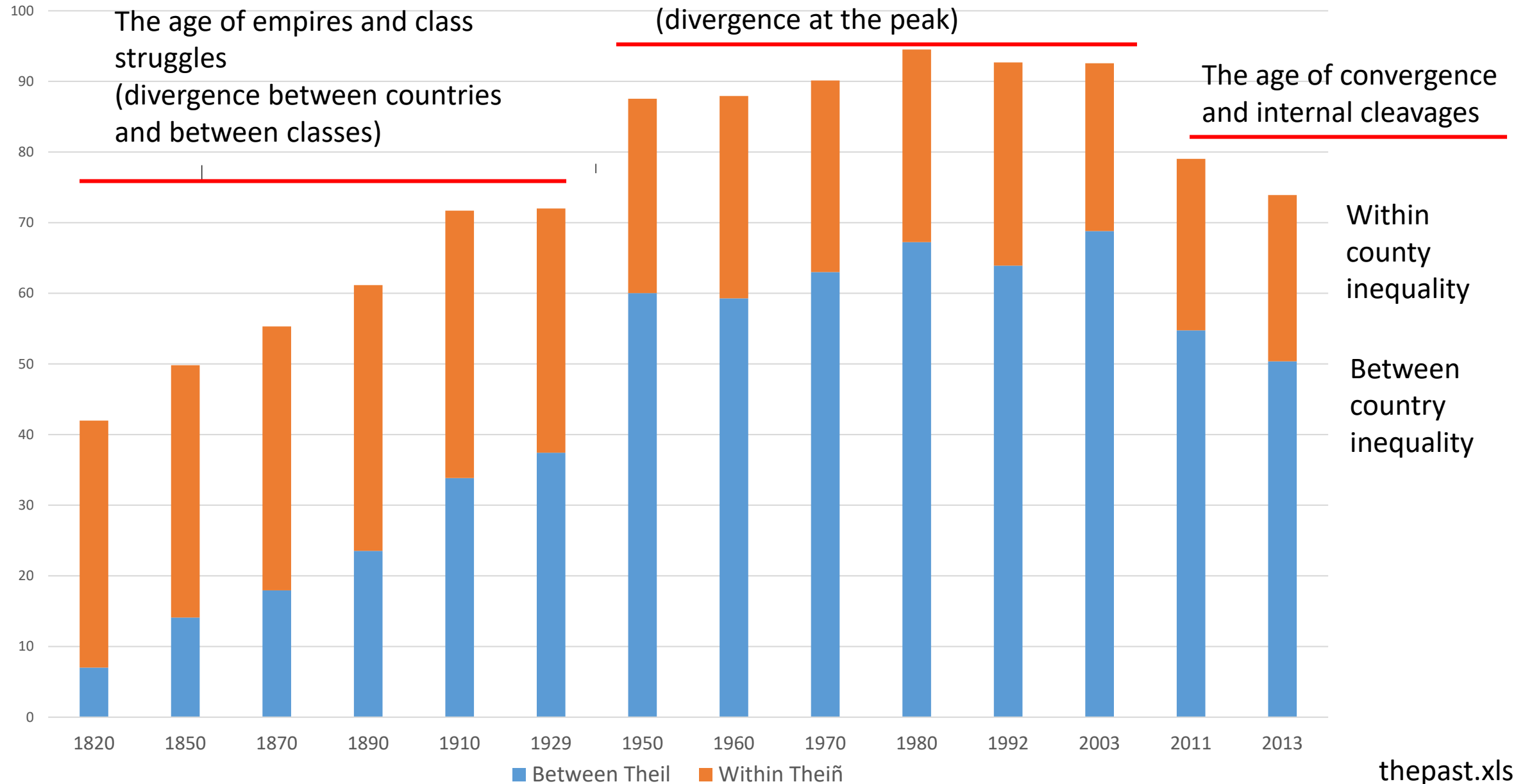
The definition of the three long-run periods (“ages) from the Industrial Revolution until today

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



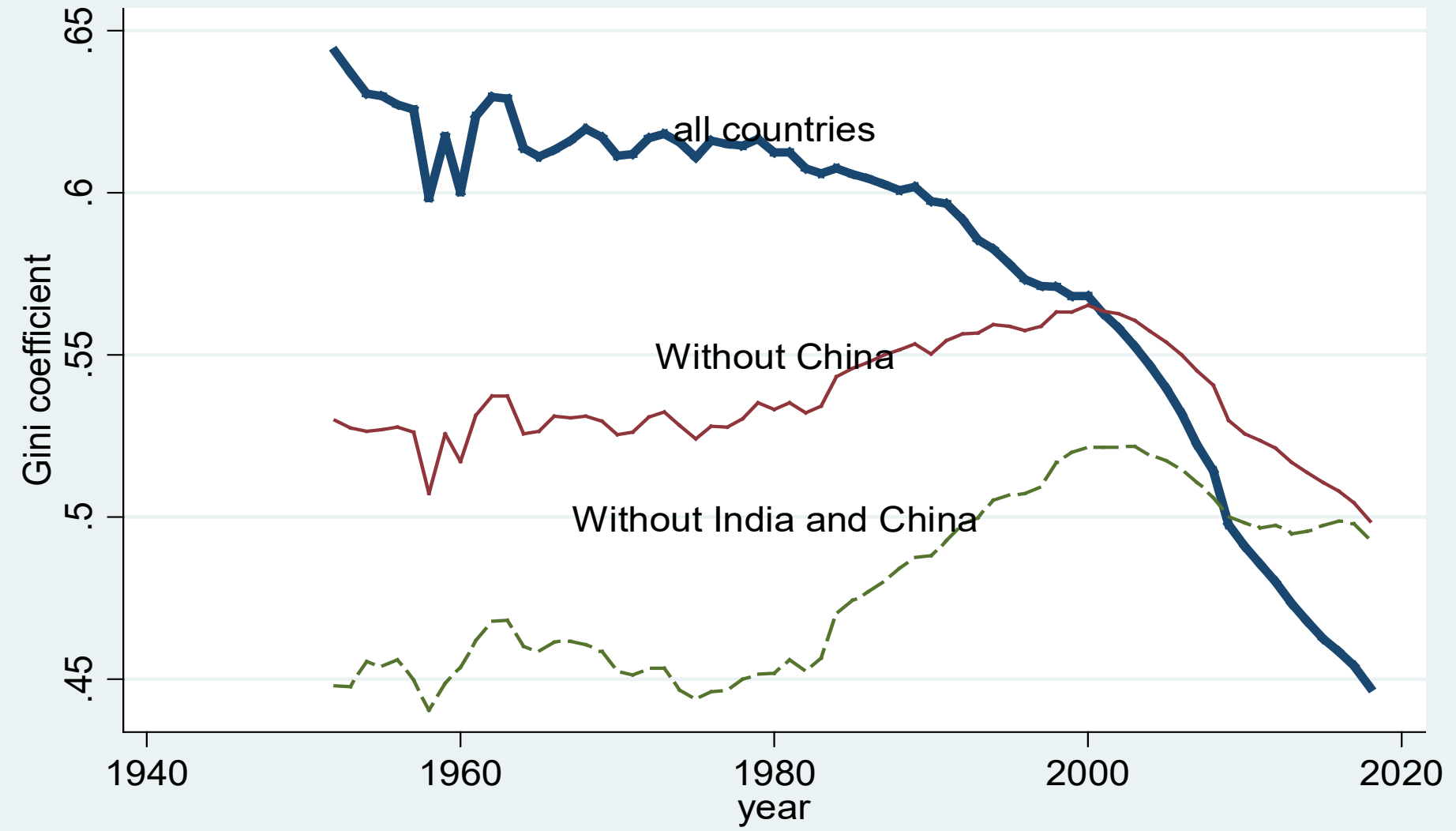
1820-1980 recalculation of Bourguignon-Morrisson; 1992-2013: Lakner and Milanovic with extensions

The age of the Three Worlds and diminished class conflict (divergence at the peak)

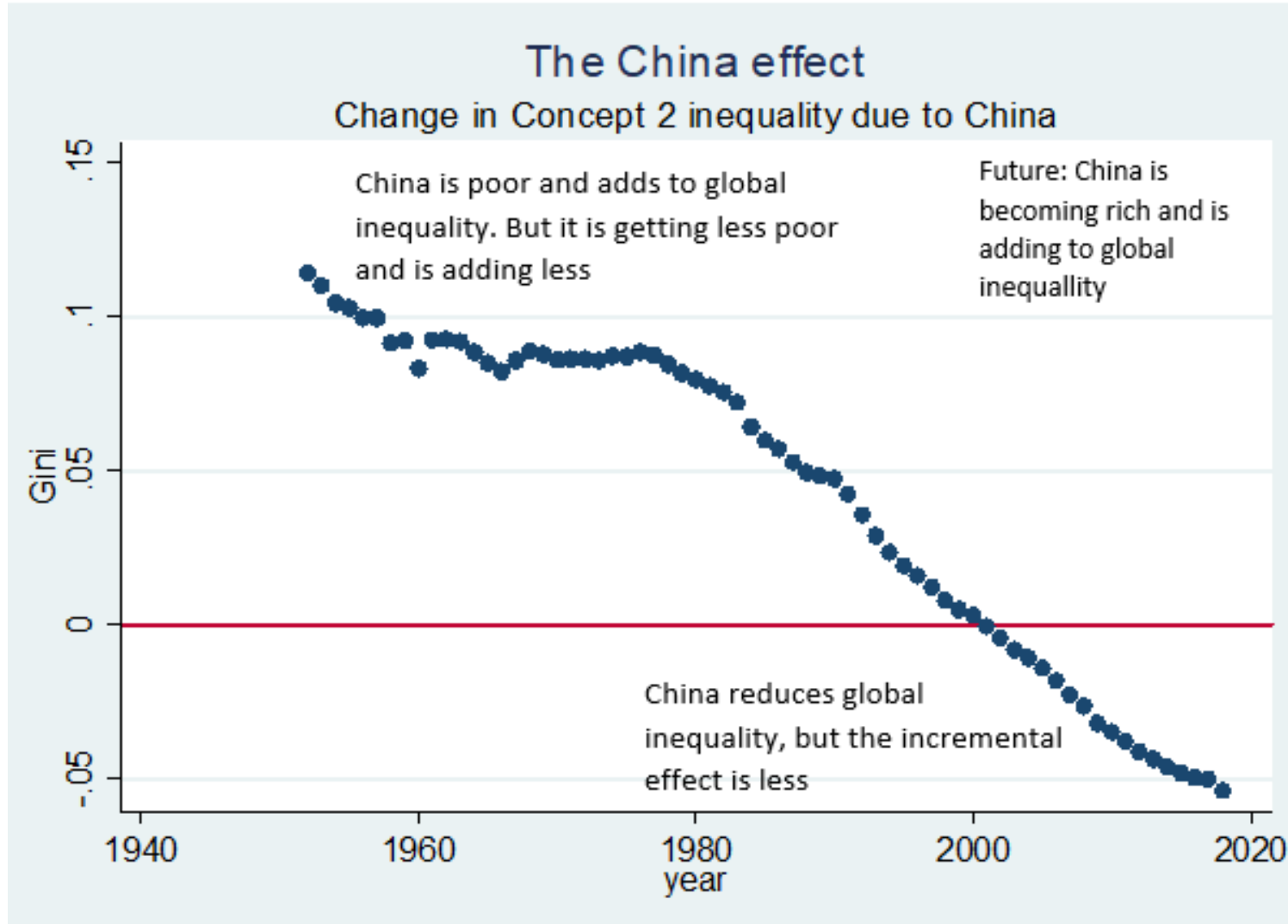


Concept 2 inequality

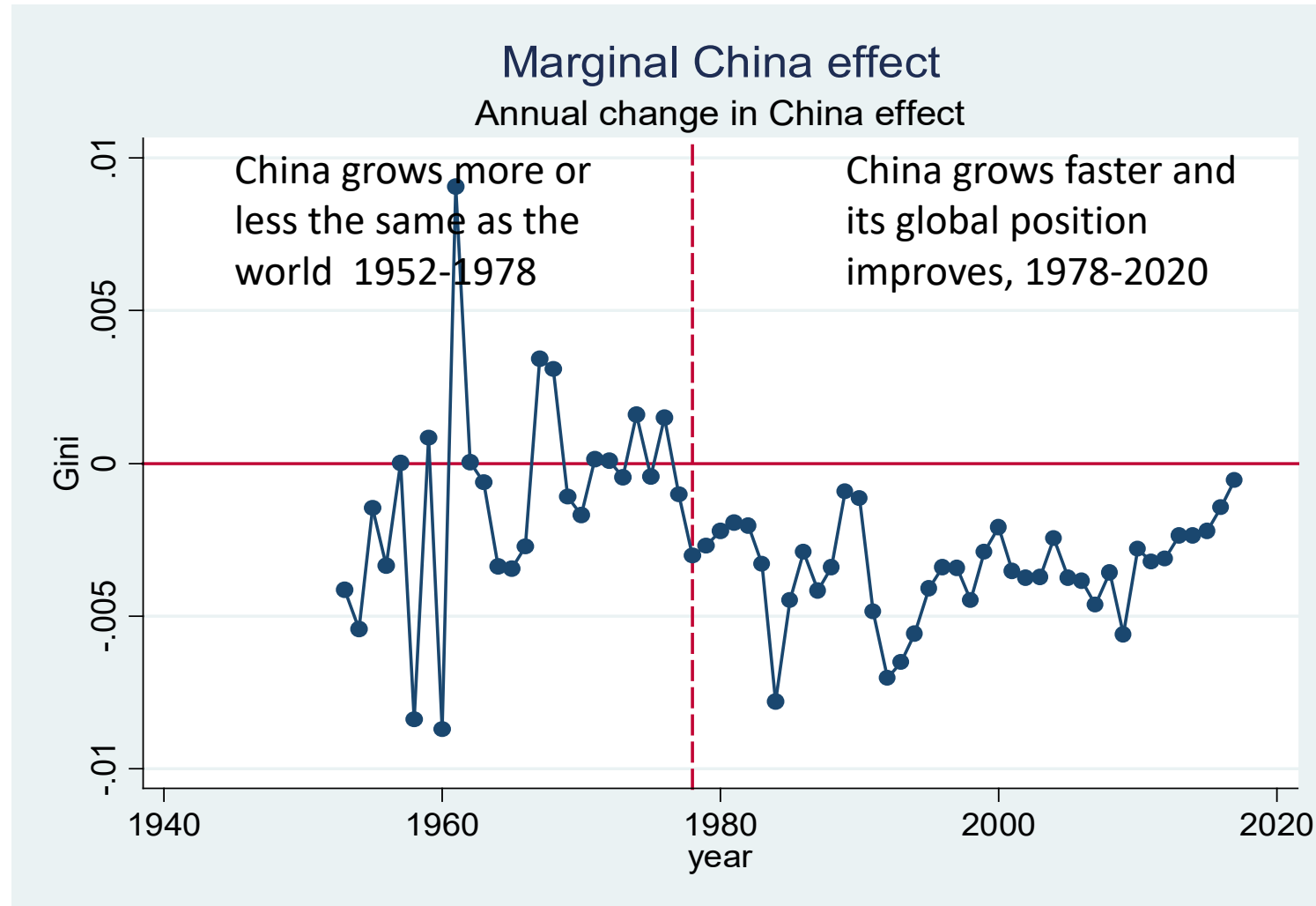
without China; and without China and India



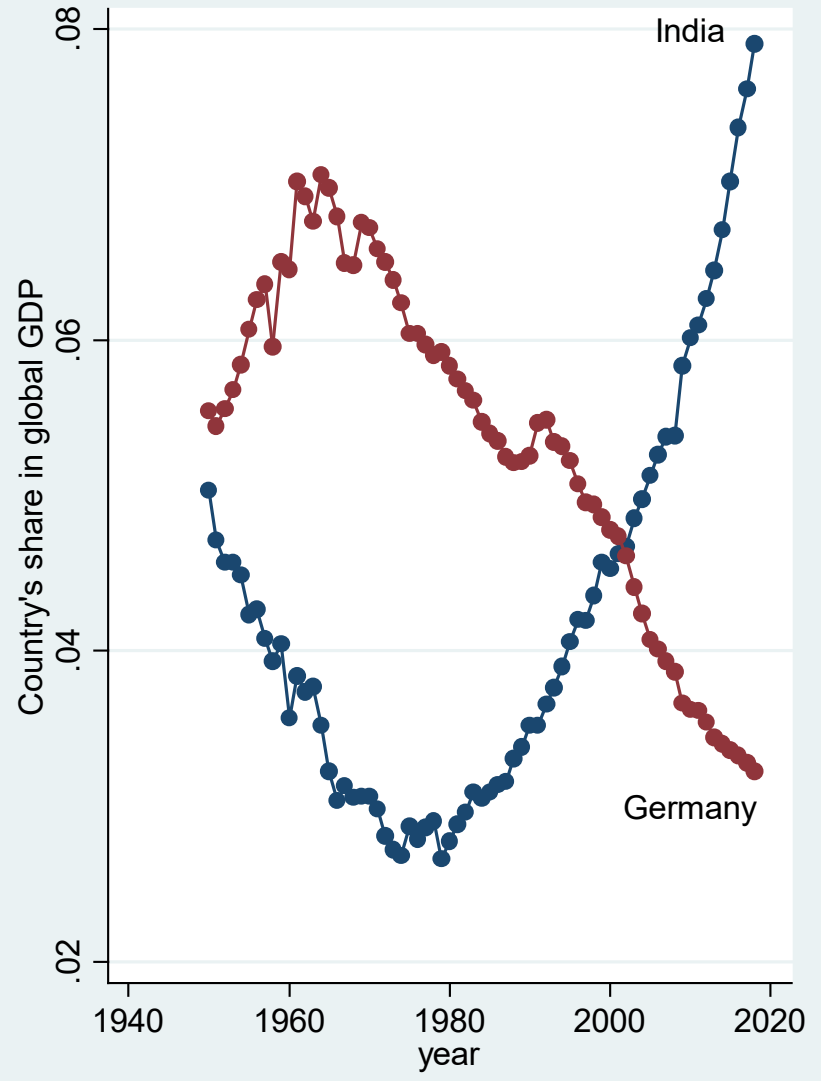
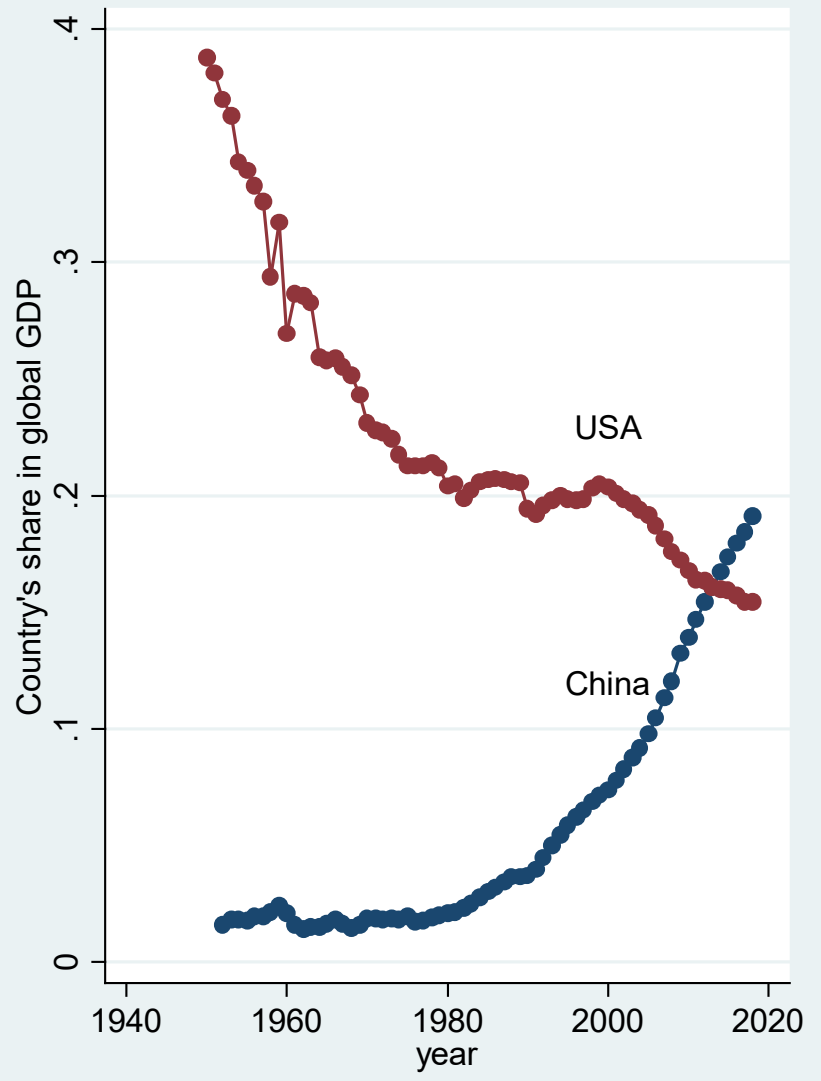
The effect of China on global income inequality



China's diminishing global equalizing role



The rise of Asia 1952-2018



Implications for global inequality in the medium-term

- We cannot any more rely on China to keep on reducing global inequality. Moreover, its movement toward high-income status will begin to **add** to global inequality.
- The role of India becomes crucial. Will it be the engine of global inequality (and poverty) reduction that China was for about 40 years?
- Also, highlights the role of Africa which must grow with per capita growth rates of about 5-6% in order to converge. Africa's importance in terms of population also rises.
- If neither Africa nor India converge sufficiently the decline in global inequality might stall.

Past thirty years in the world:

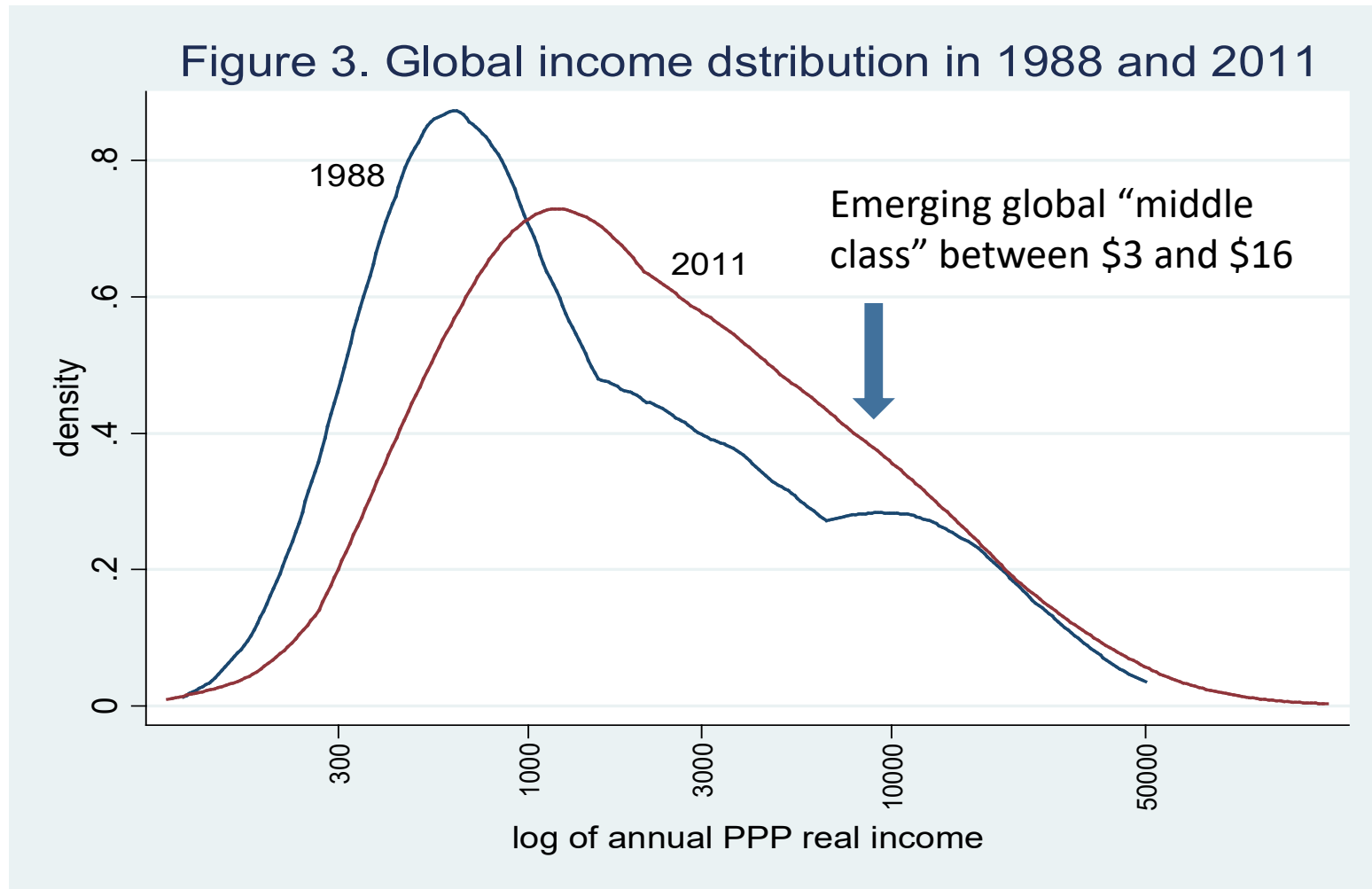
the greatest reshuffle of individual income positions since the Industrial Revolution

The watershed years, 1978-91

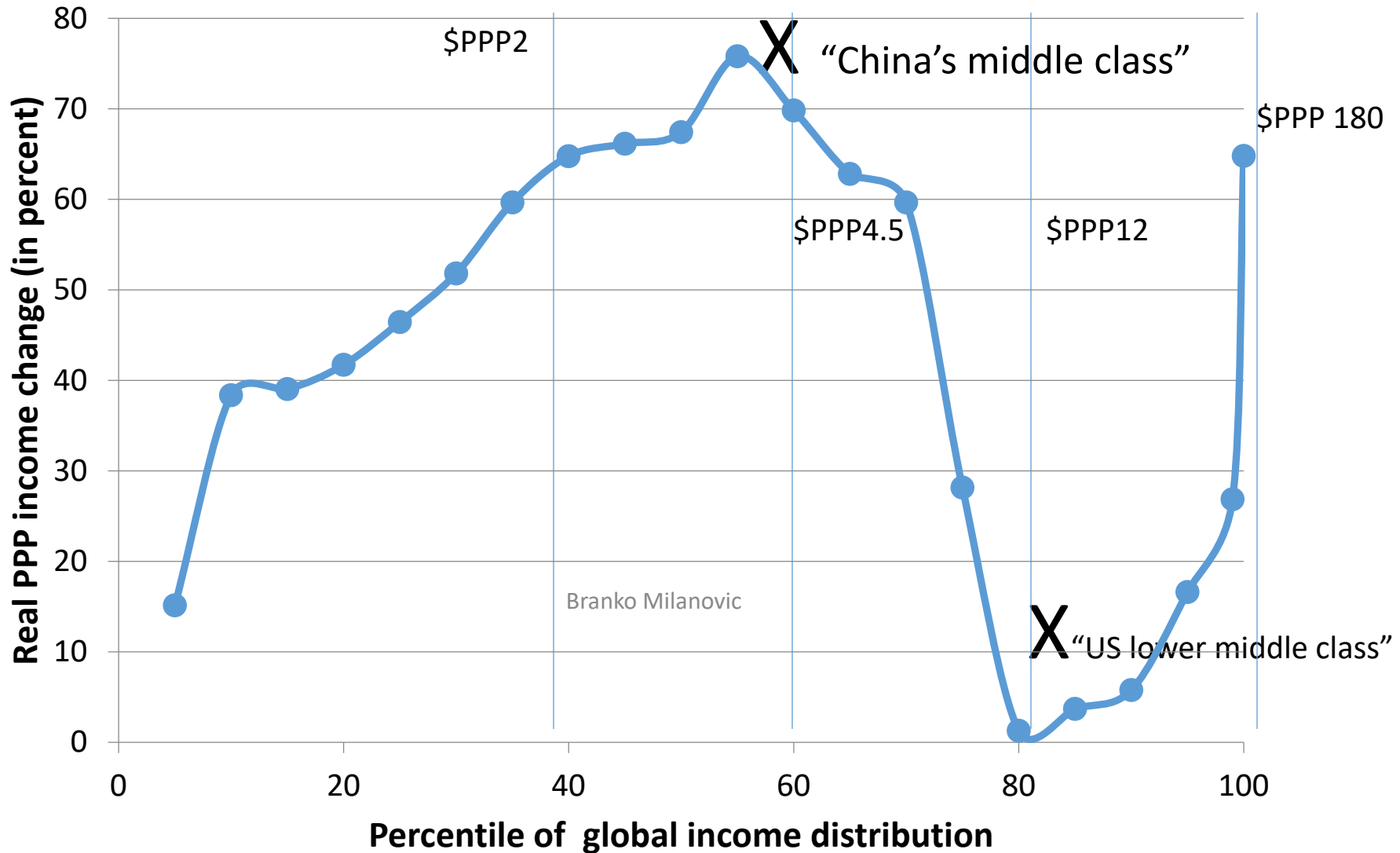
- 1978: Deng: responsibility system: quasi privatization of land
- 1979: Thatcher: privatizations etc.
- 1980: Reagan: deregulation etc.
- 1983: Mitterrand changes course
- Mid-1980s: Gonzalez invents (avant la lettre) the “new labor”
- 1985: Gorbachev begins to dismantle planned economy
- 1991: India liberalizes

Within approximately a decade, W Europe, USA, China, Russia/Eastern Europe, India (60% of the world population) started living under a very different system than before.

The emergence of the “global middle/median class”



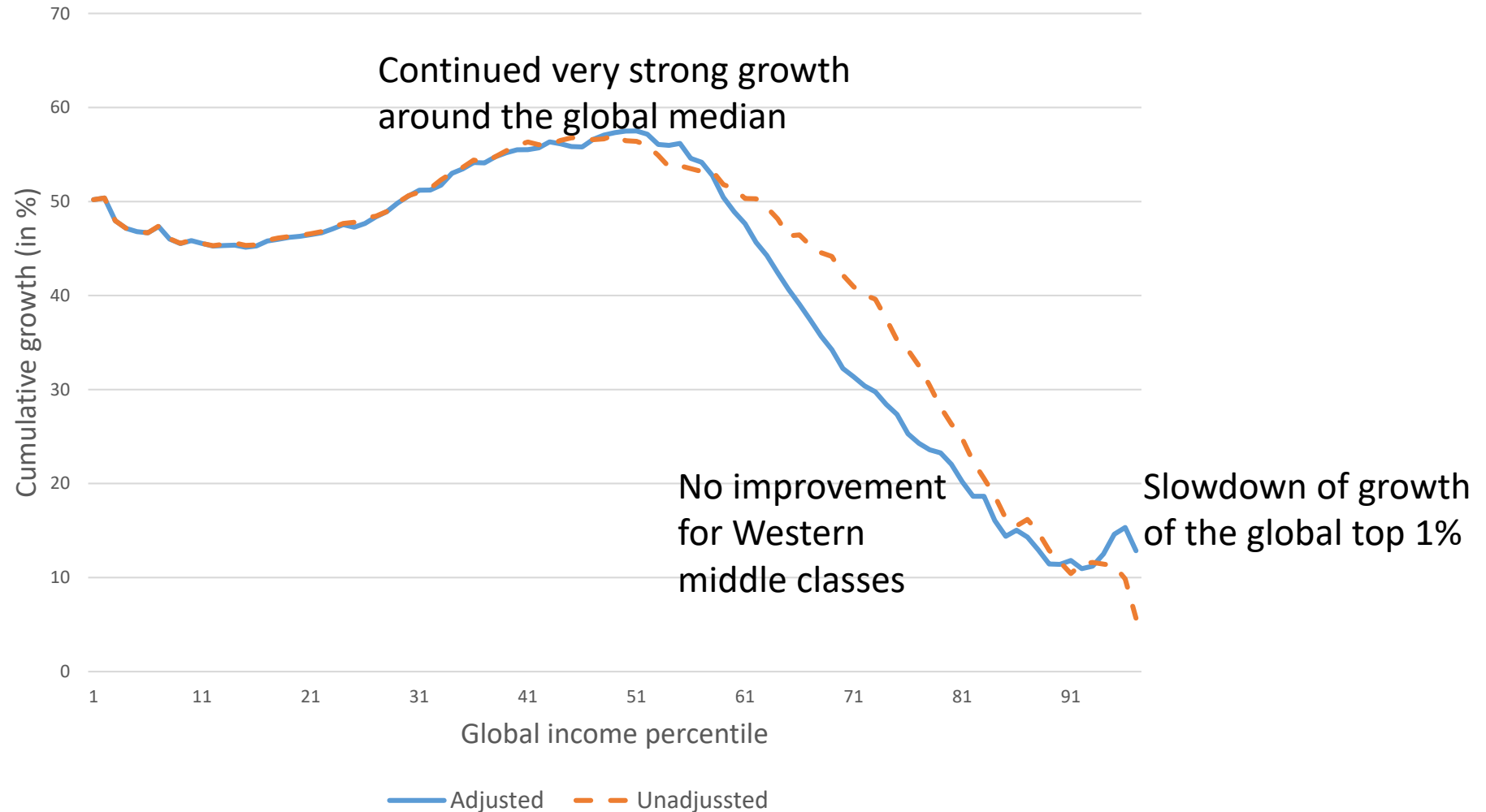
Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)



After the financial crisis

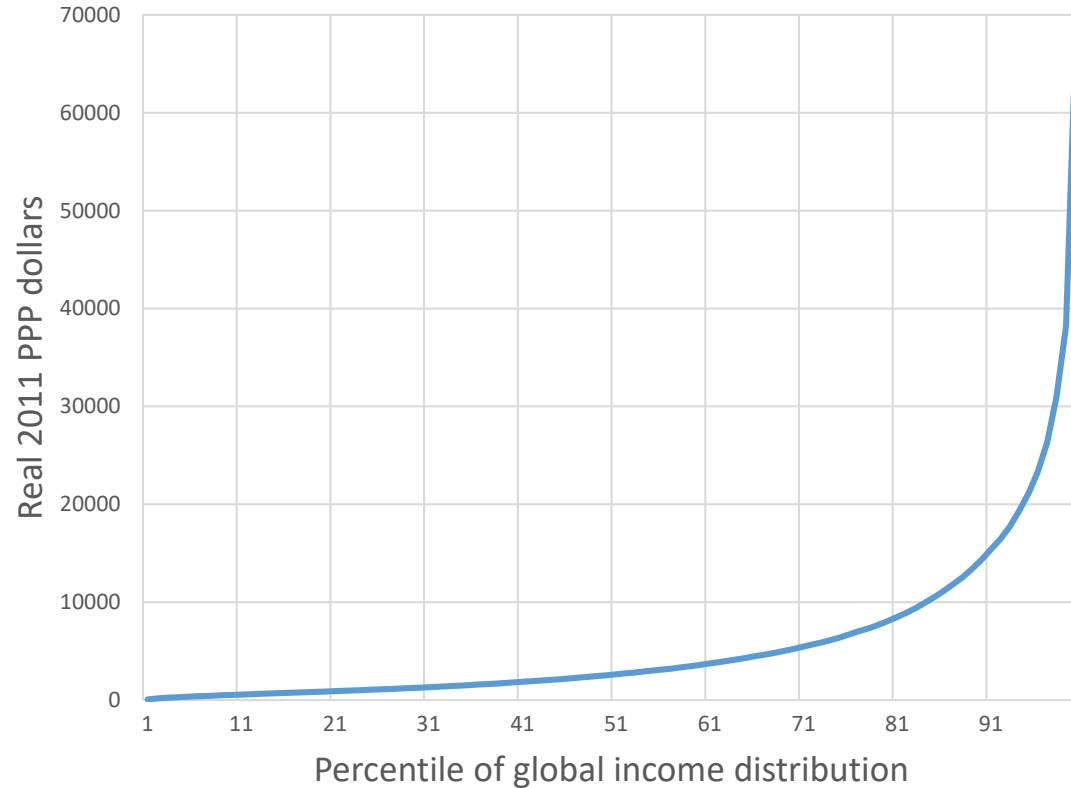
After the crisis: 2008-13

Growth incidence curve 2008-13 (PPP dollars)



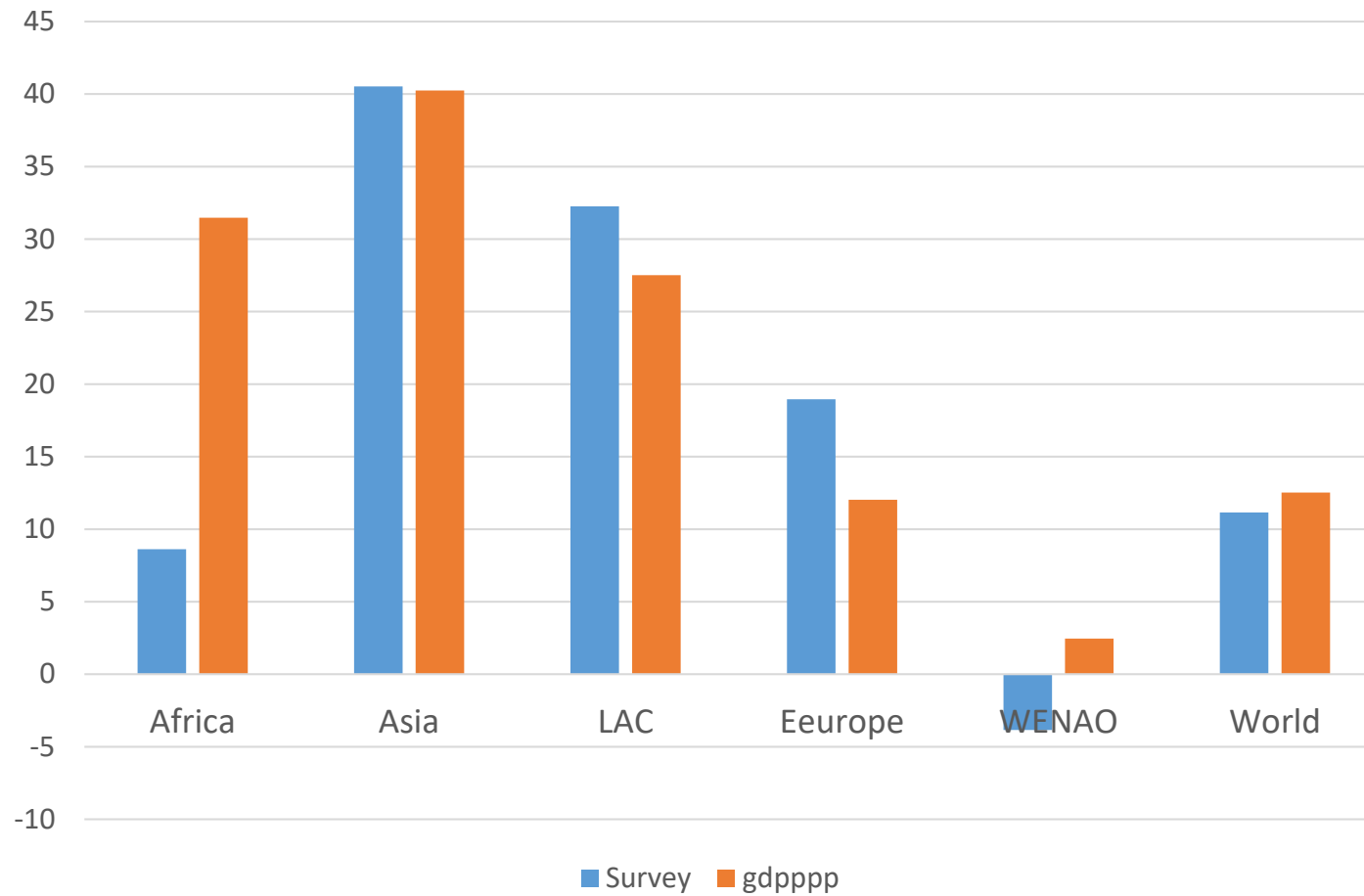
Absolute income gains are (not surprisingly) extremely unequal (in PPP dollars)

Absolute income increase between 2008 and 2013

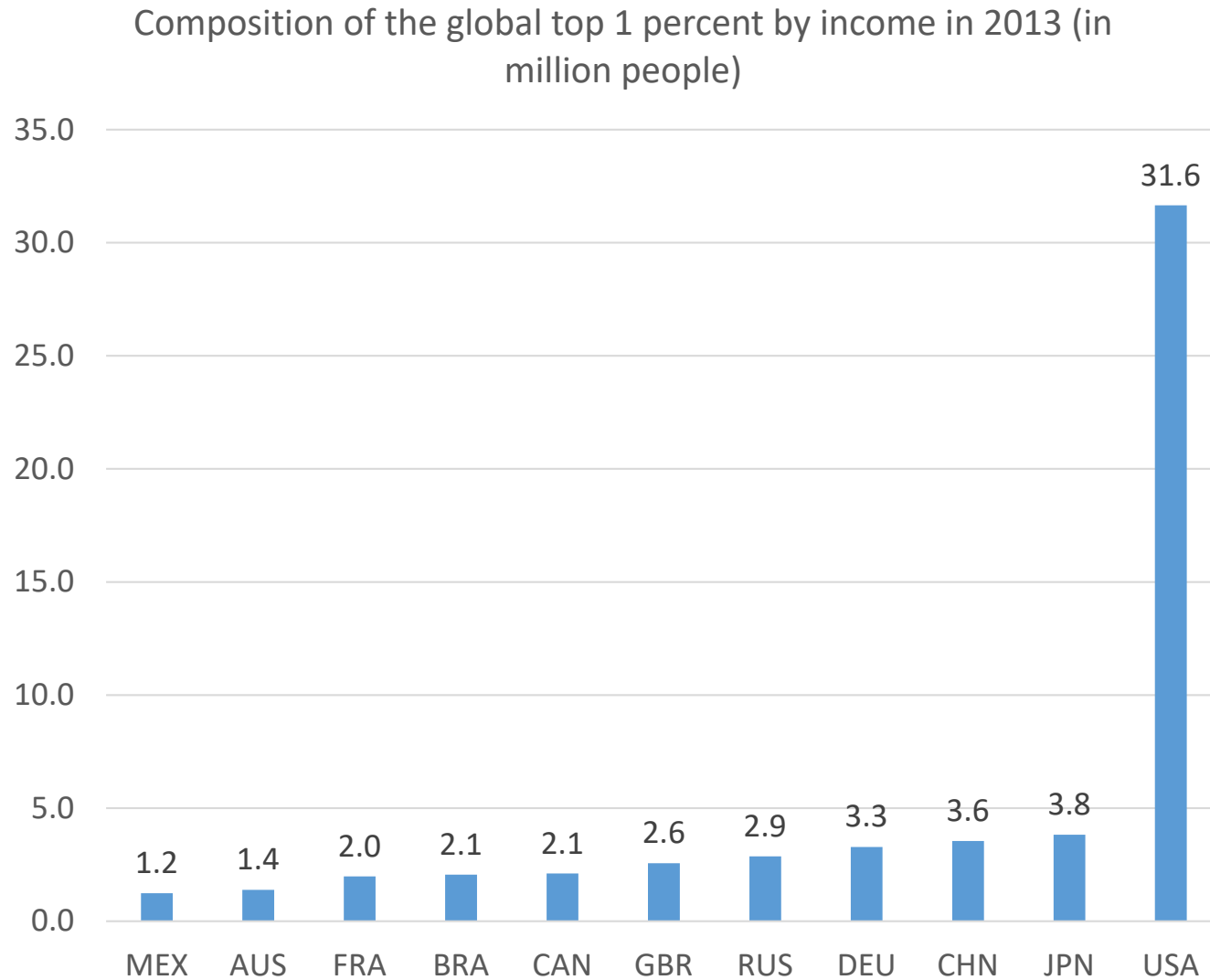


Continued catch-up of Asia....

Increase in average per capita income according to surveys and NA, 2008-13 (cumulative growth in US dollars)

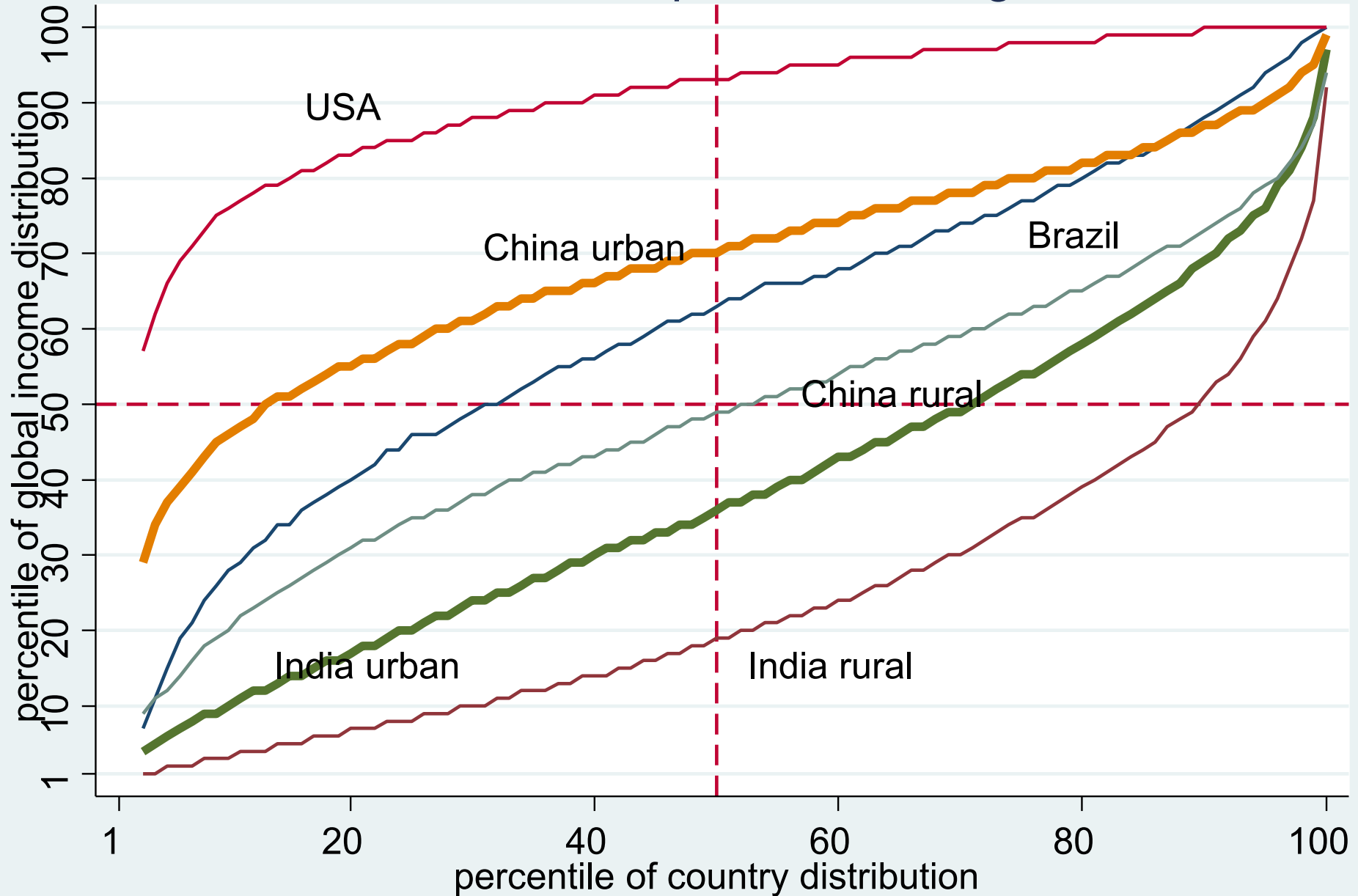


Composition of the global top 1 percent



Position of national income percentiles in global distribution

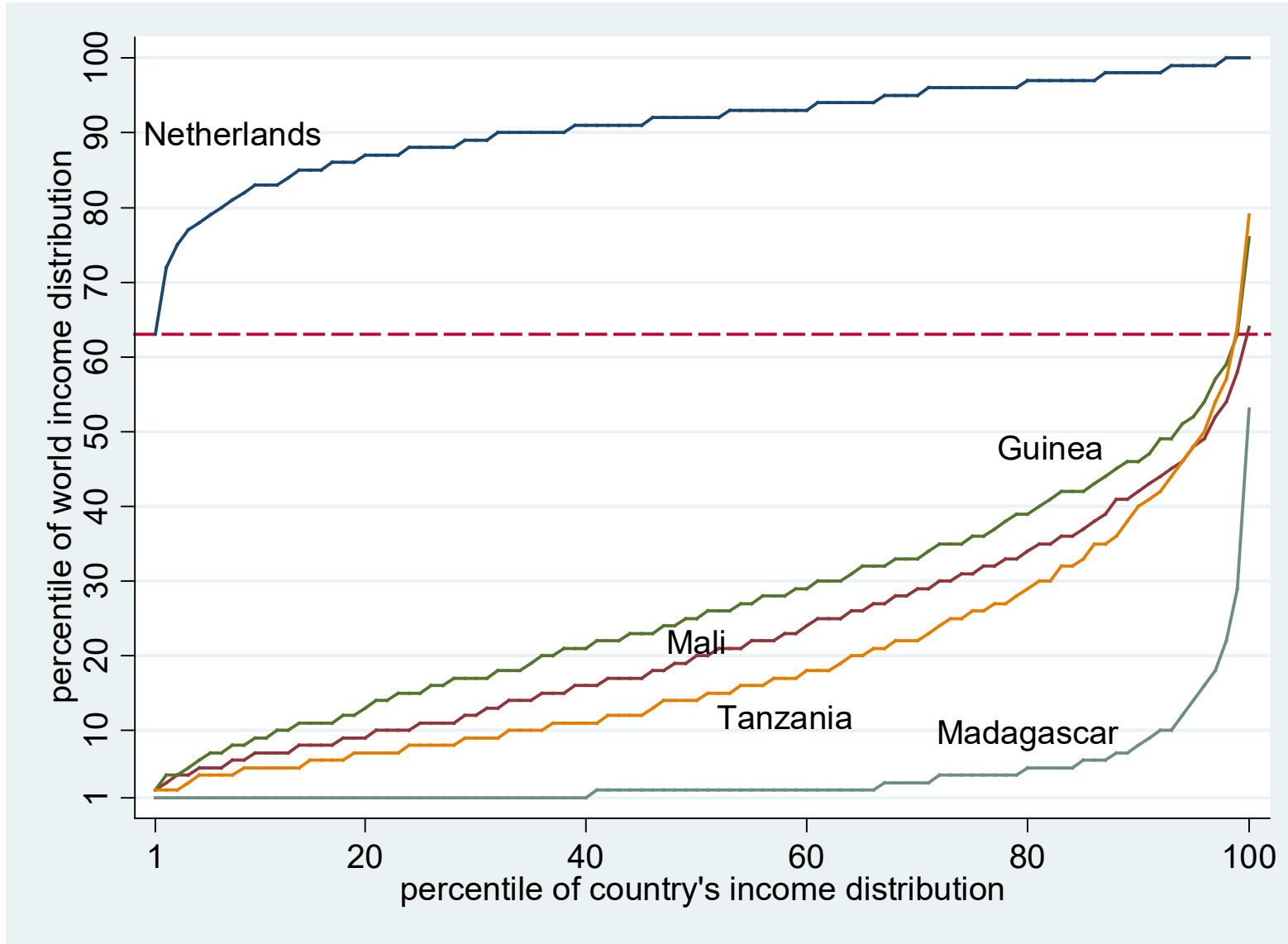
Year
2013-14



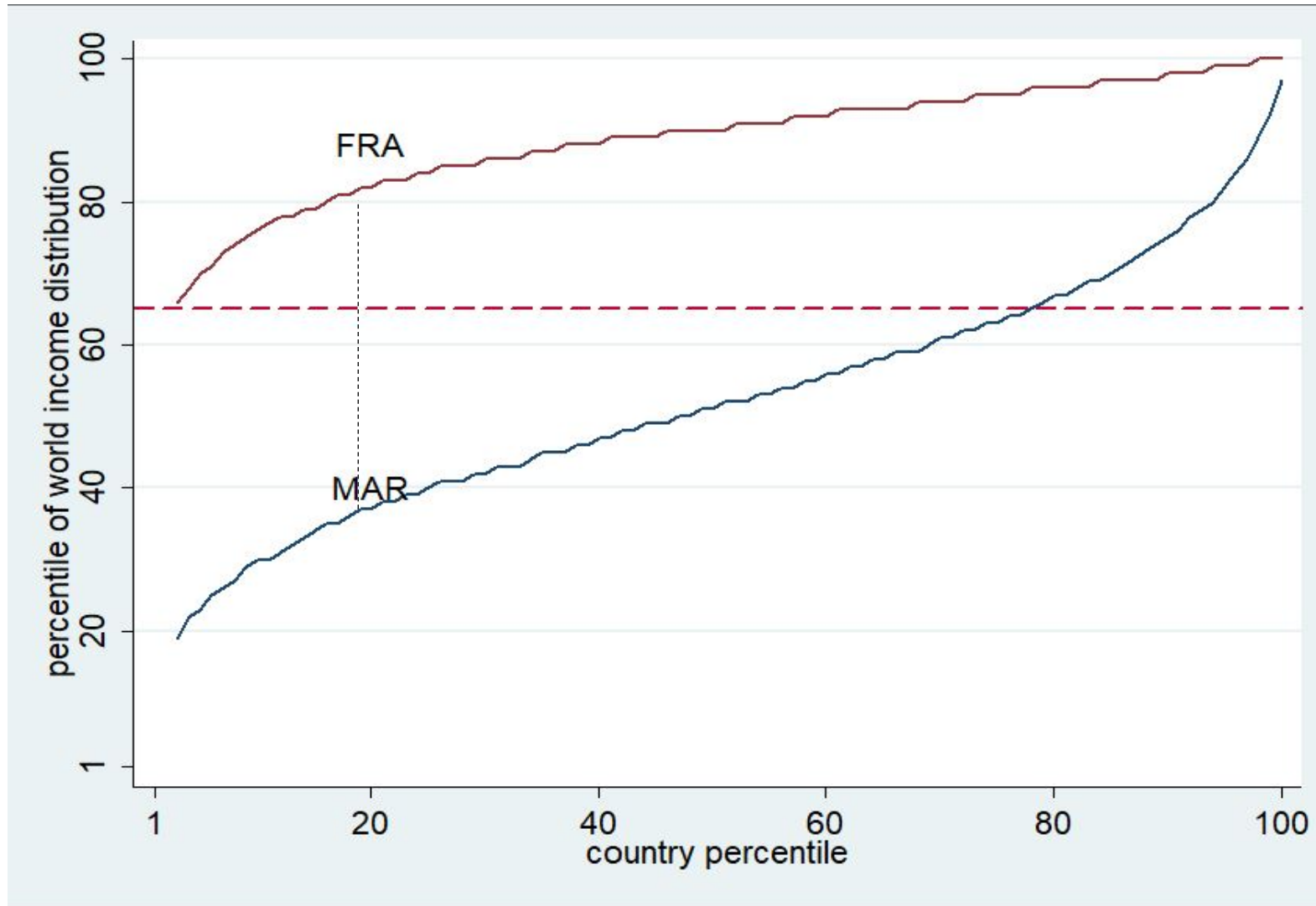
Global positions of the people at the 10th and 90th national percentiles

	Brazil	India urban	China rural	Indon urban	India rural	China urban	Indon Rural	USA
10 th percentile	28	10	20	22	3	46	16	76
90 th percentile	88	69	73	74	51	87	55	100
90-10 gap	60	59	53	52	48	39	39	24

Why international transfers are unlikely to be regressive?



Migration pressure: a person at the Moroccan 20th percentile jumps over 3 billion people by migrating to France and being at the 20th percentile there



The most important probable future developments

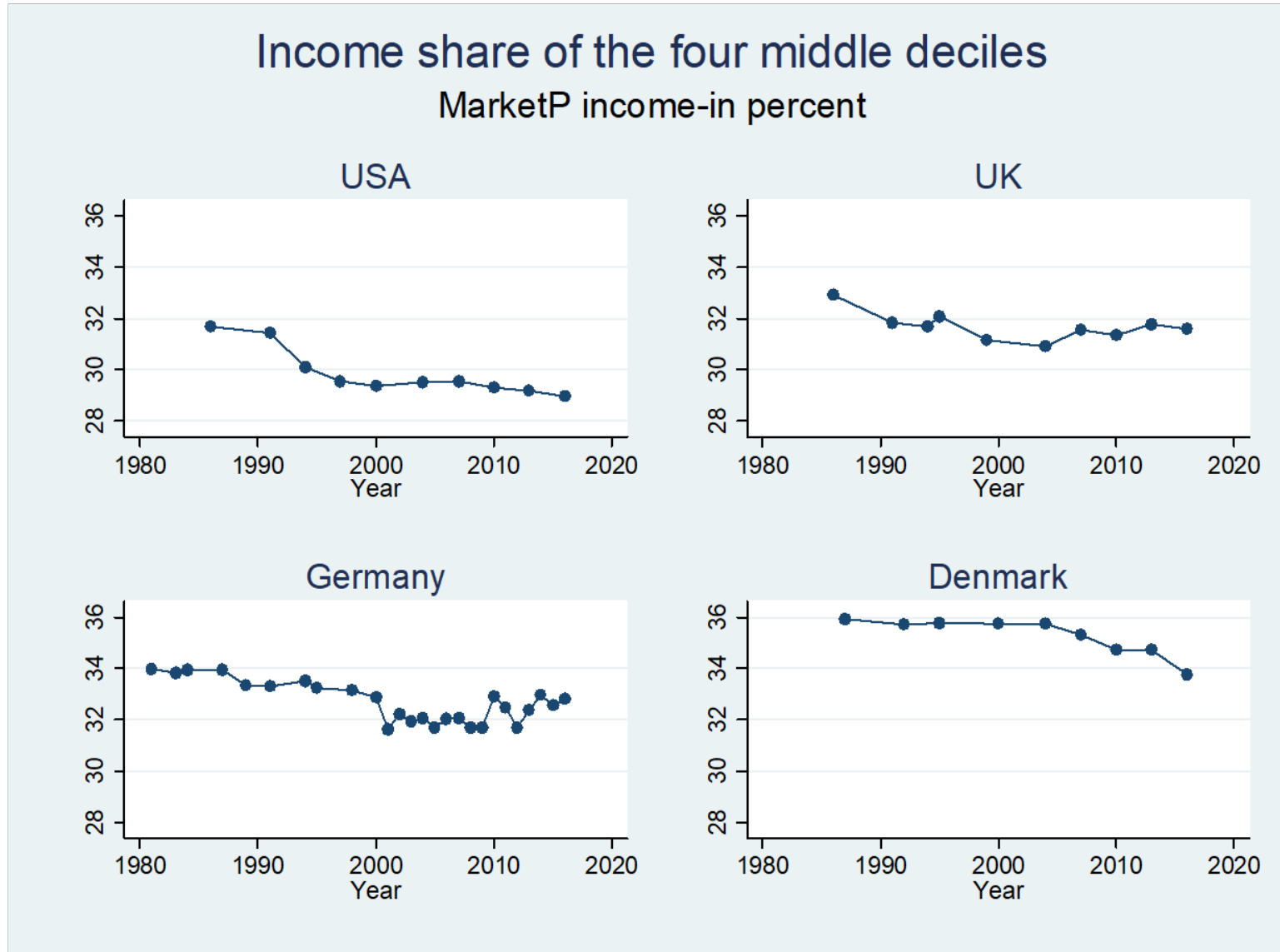
- For the first time in two centuries, Western lower middle classes will not be in the global top quintile.
- Global top percentiles will be increasingly populated by Asians. The change will be substantial and sudden because of Asian population size. Important psychologically because the entire modern period was a period of Western income (and wealth cum military) dominance. Effect on consumption patterns.
- Rich Atlantic and Pacific coasts will leave most of the Eurasian landmass (Russia and Central Asia) relatively poor and with low population density.
- Huge and possibly increasing Europe-Africa gaps will “feed” migration pressure for a long time. Europe needs to find a solution for that. If China’s BRI helps Africa grow, an unlikely partnership between Europe and China is possible.

A note on the likely effects of covid-19

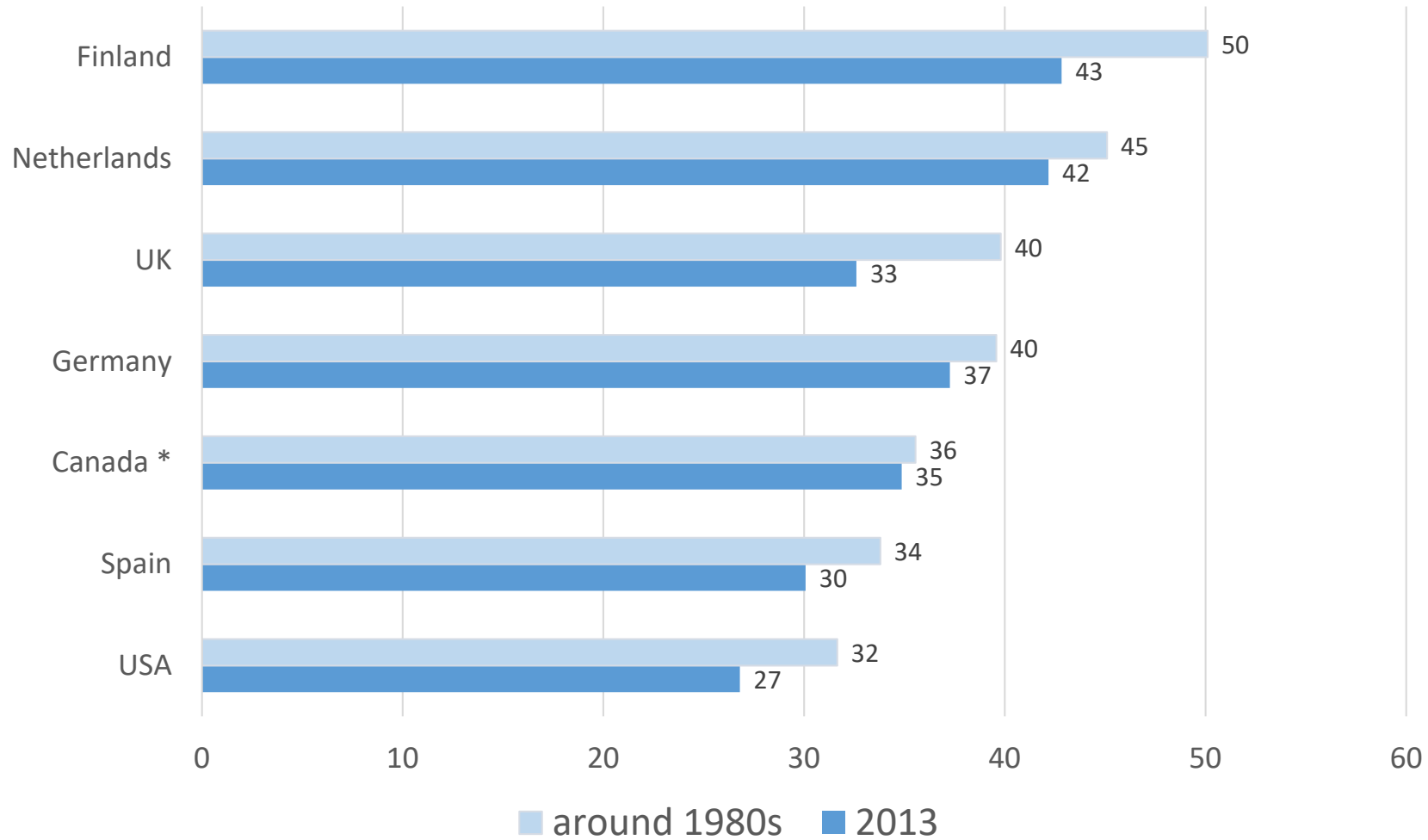
- Too early to tell because we are still in the midst of the pandemic & have no firm evidence when nor how it will end
- So far, richer countries have had higher mortality rates and greater losses of GDP (rather the opposite of what JHU and The Economist Intelligence Units expected in their October 2019 “Pandemic Preparedness Report”)
- Should give us pause about the use of mashup indexes
- But within countries mortality rates higher among the less well-off and most likely relative income losses greater among the poor
- Probable reduction of global inequality, but again the ambivalent role of China (its relative position improves also because of the drop in mean global income)

The past thirty years in the West

Smaller size of the western middle classes



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)

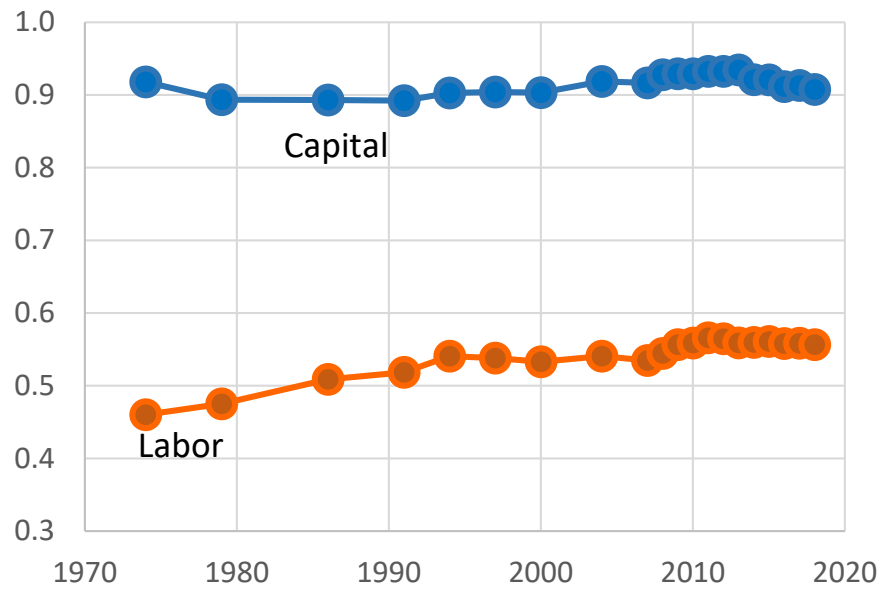
Systemic inequalities in liberal/meritocratic capitalism

- 1. Increasing aggregate share of capital in national income
- 2. High concentration of capital ownership
 - 2a. Higher rate of return on the assets of the rich
- 3. Association of high-capital and high-labor incomes in the same individuals (*homoploutia*)
- 4. High homogamy (assortative mating)
- 5. Increasing control of the political process by the rich (movement toward plutocracy)
 - 5a. Greater transmission of income and wealth across generations

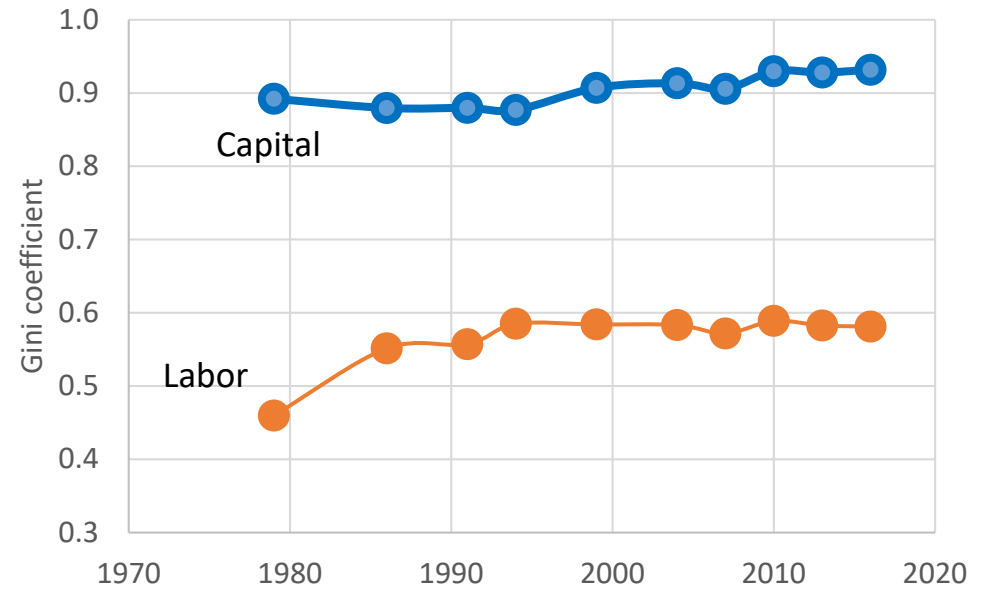
Rising concentration of labor incomes and very high concentration of capital incomes

- Inequality of labor incomes increased, from a Gini of around 0.45 to about 0.6
- Inequality of capital income remained extremely high (around Gini of 0.9) and even inched upwards (there is no much “space” to increase further).
- (All calculations in the next slide from Luxembourg Income Study (LIS) harmonized surveys.)

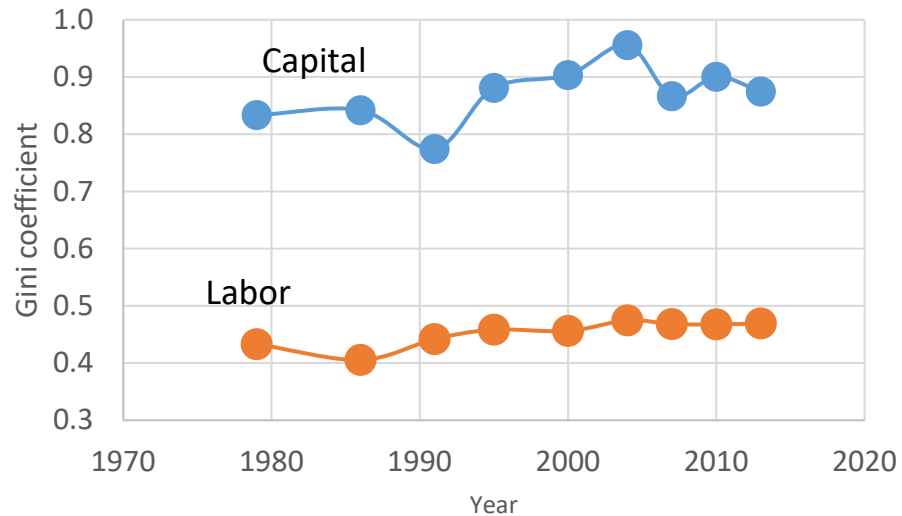
USA, 1974-2018



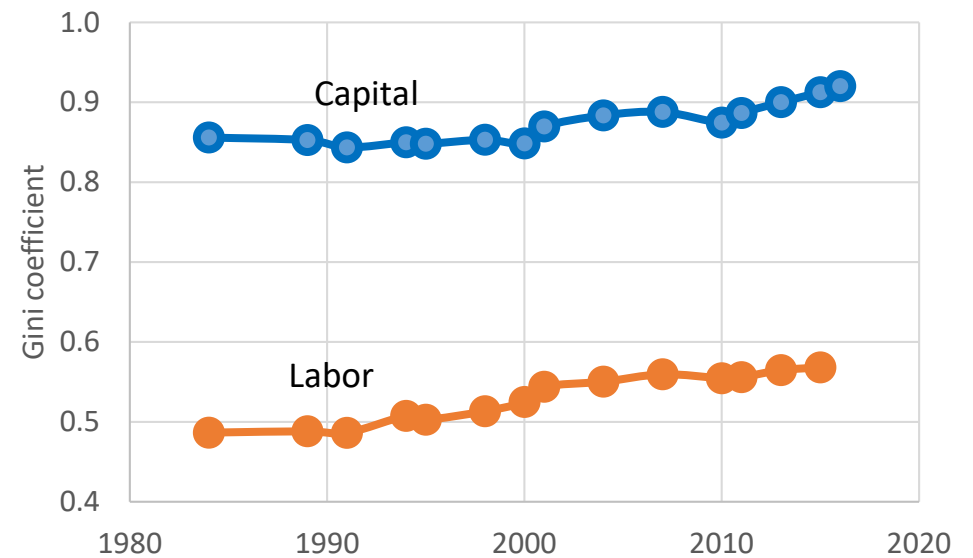
UK, 1979-2016



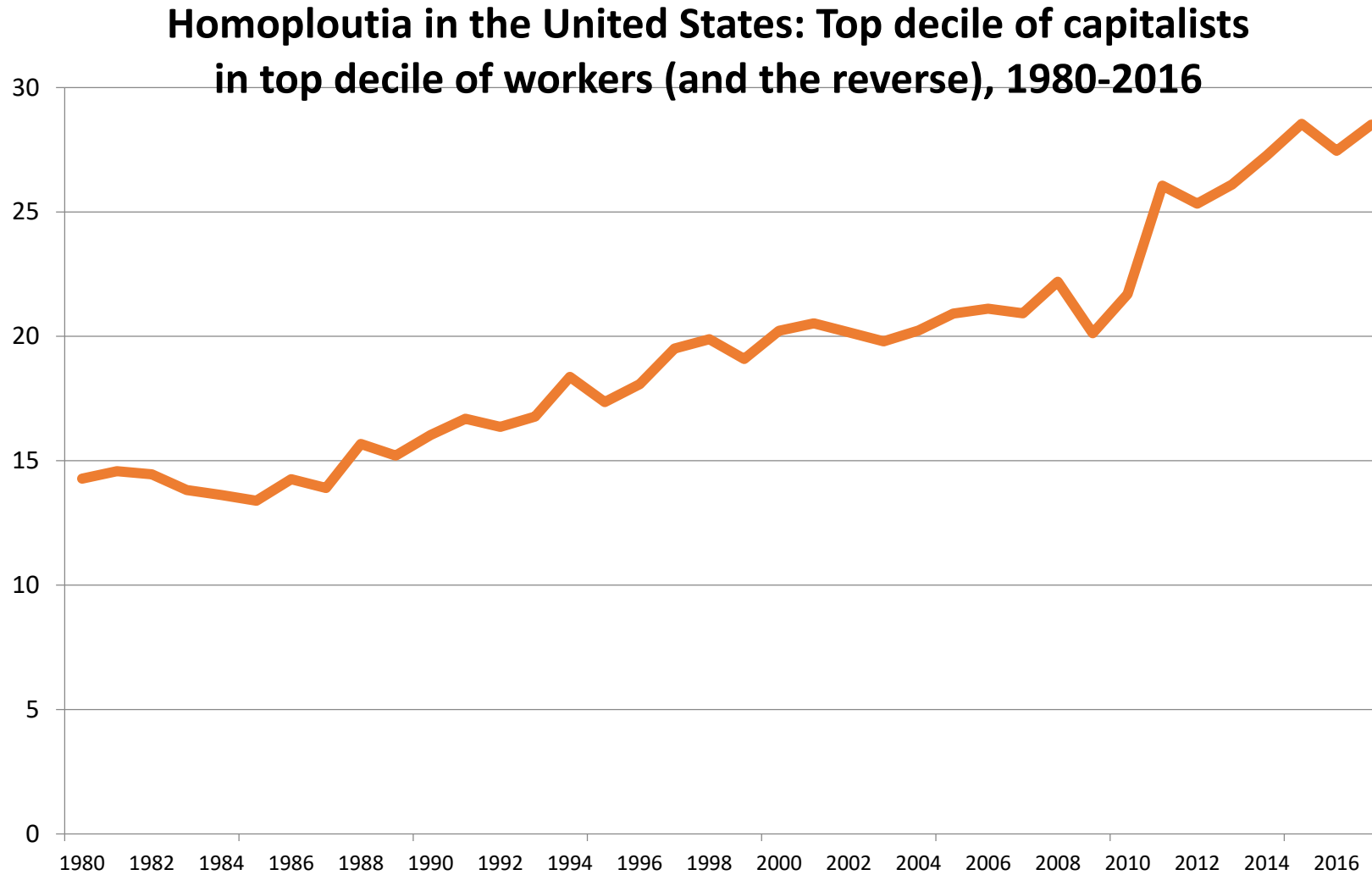
Norway, 1979-2013



Germany, 1984-2016

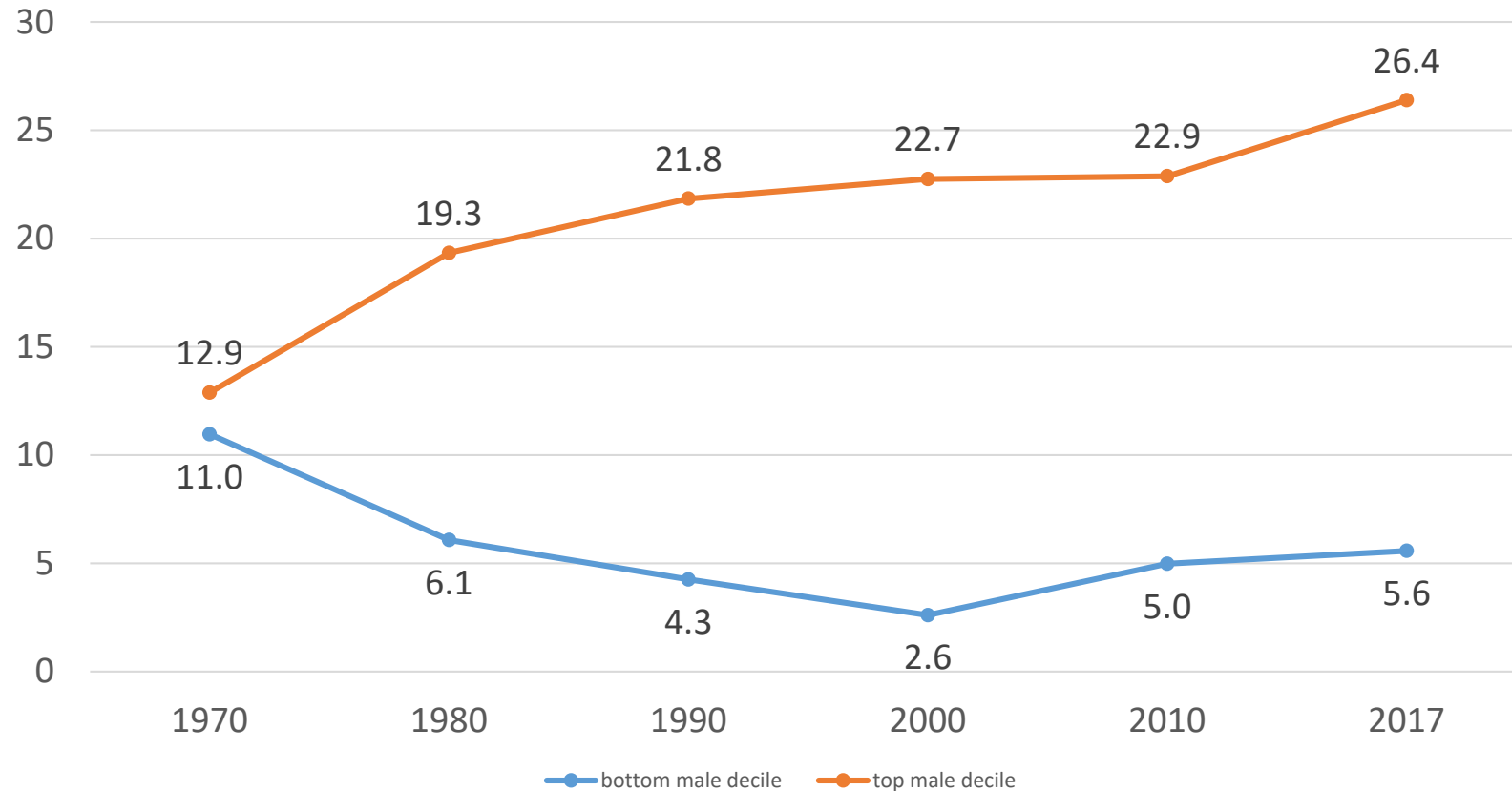


Homoploutia: High K and L income received by the same persons



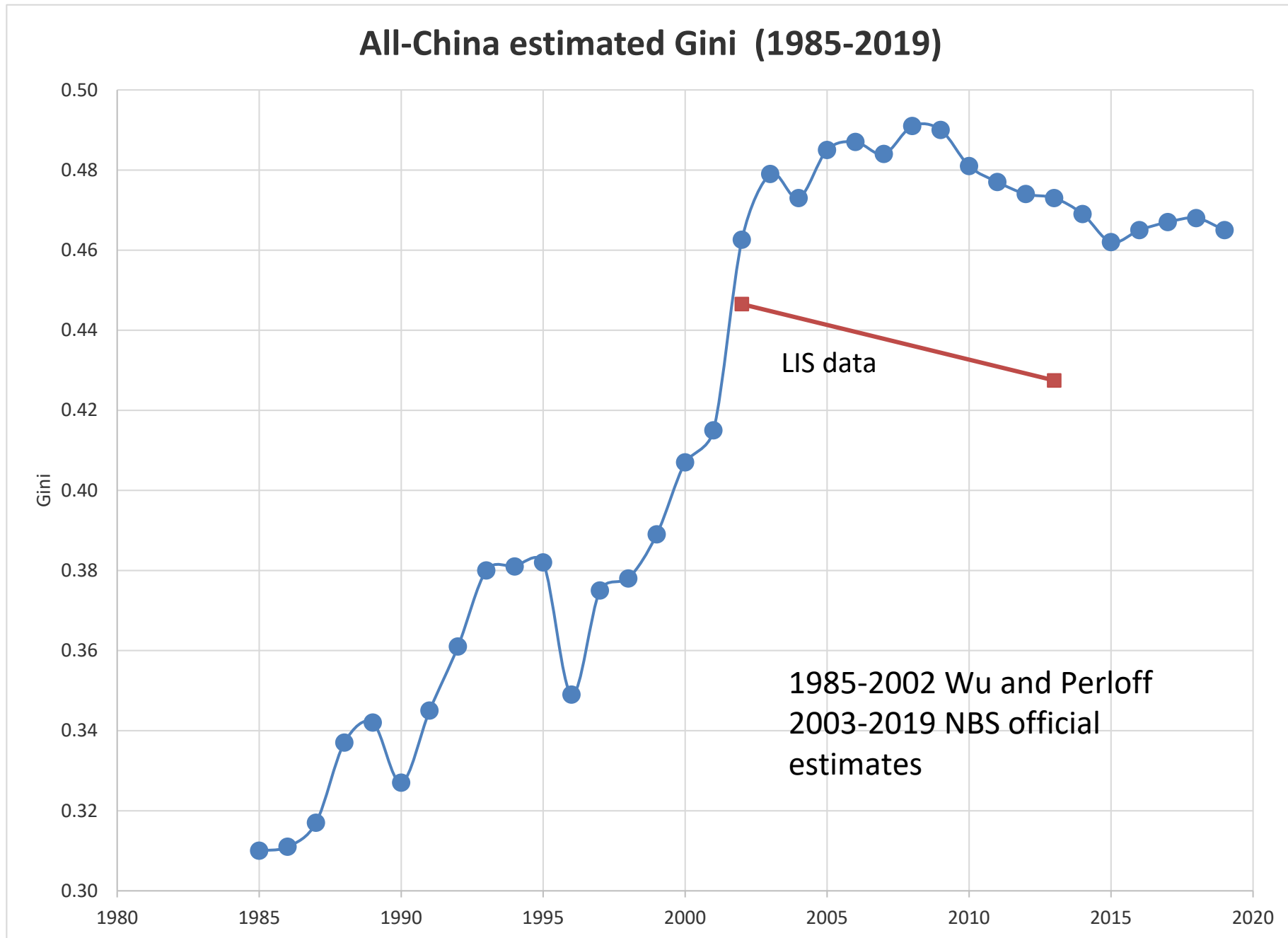
Homogamy (assortative mating): rich females (cohorts)

Share of Female top decile (by labor income) paired with male top and bottom deciles (by labor income), age group 20-35 in %

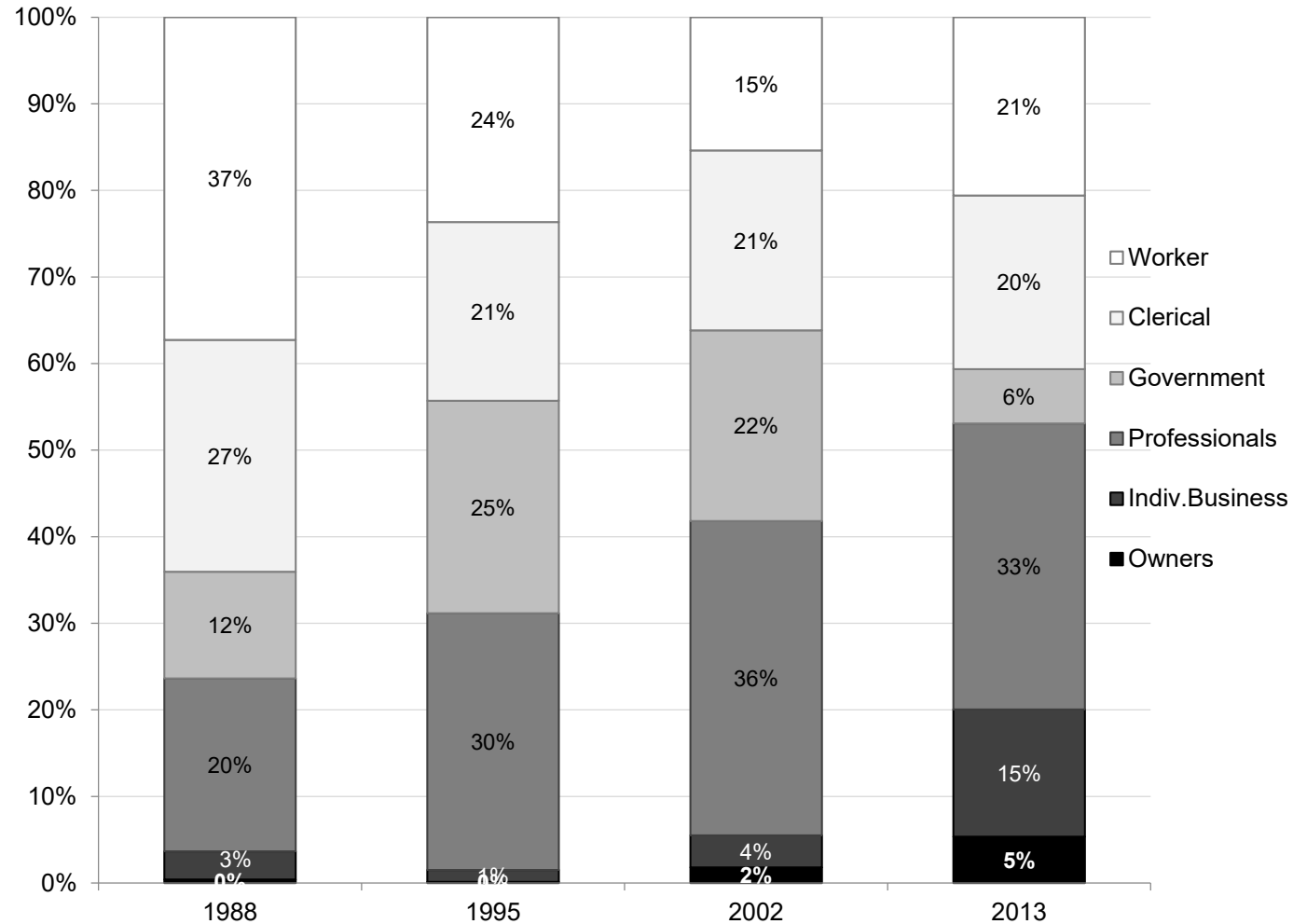


The past thirty years in China

China



Embourgeoisement of China: the composition of the top 5% from $\frac{3}{4}$ government and SOEs to 50+% businessmen and professionals



From Yang, Novokmet
and Milanovic, 2019

Educational composition of the elite

