

Hosted by the International Inequalities Institute  
**The Evolution of Global Inequalities:  
the impact on politics and the economy**

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Hashtag for Twitter users: **#LSEBranko**

EVENTS

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THE LONDON SCHOOL OF ECONOMICS

# Inequality in the age of globalization

Branko Milanovic  
Spring/Summer 2017

Largely based on:



# Brief structure of the talk

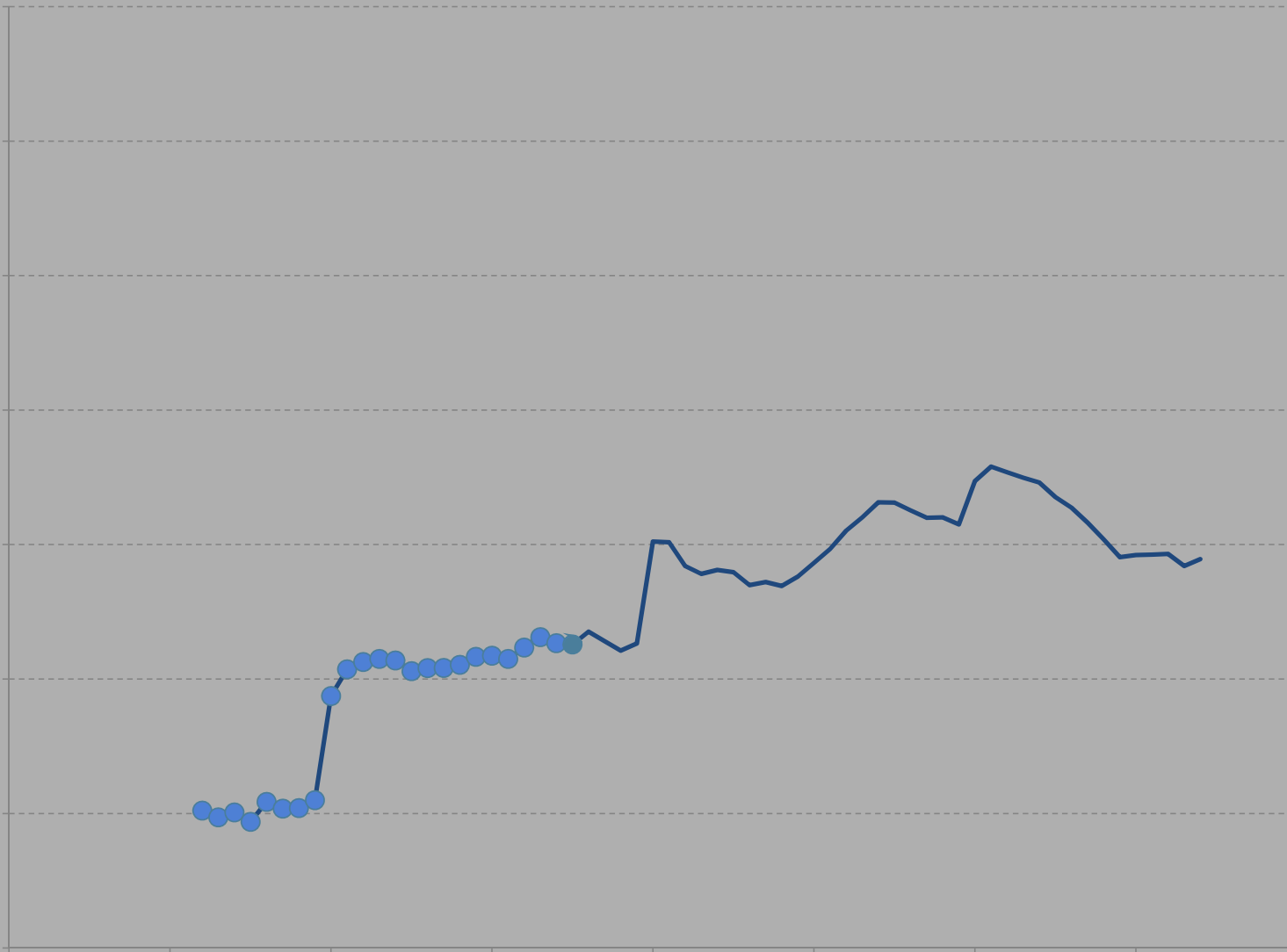
- Global inequality: in the past and now
- Technical problems of measurement
- How the world has changed between 1988 and 2013
- [Political implications of the changes]
- [Kuznets waves?]
- Issues of justice, politics and migration

# 1. Global inequality: key developments

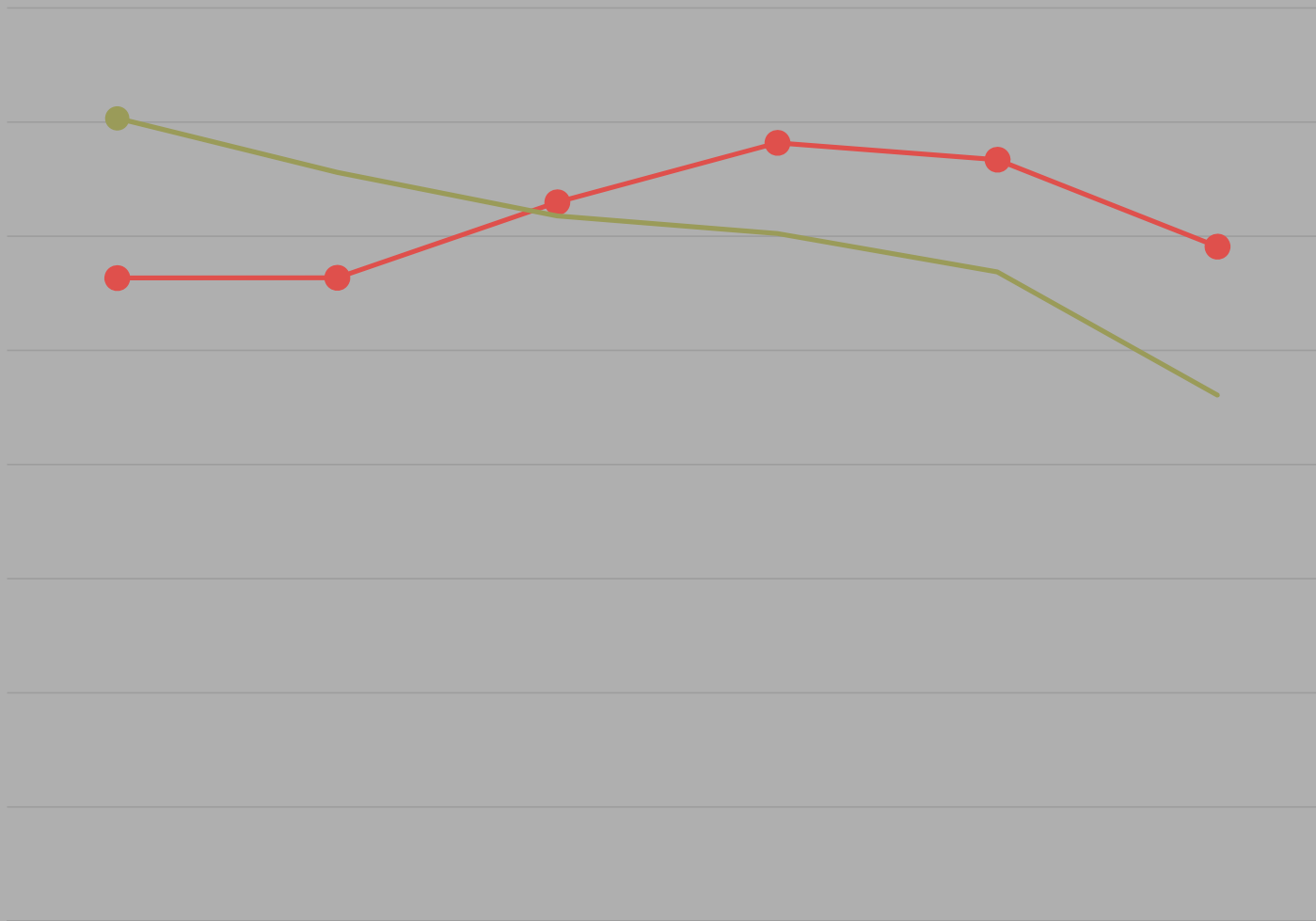



- In the long run inequality is determined by the spread of the technological





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A teal-bordered box containing a white rectangular area with five horizontal lines, resembling a list or form.

# Large gaps in mean country incomes raise two important issues

- Political philosophy: is the “citizenship rent” morally acceptable? Does global equality of opportunity matter?
- Global and national politics: Migration and national welfare state
- (will address both at the end)



# Different countries and income classes in global income distribution in 2011

India with 2011 income data

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## 2. Technical issues in the measurement of global inequality

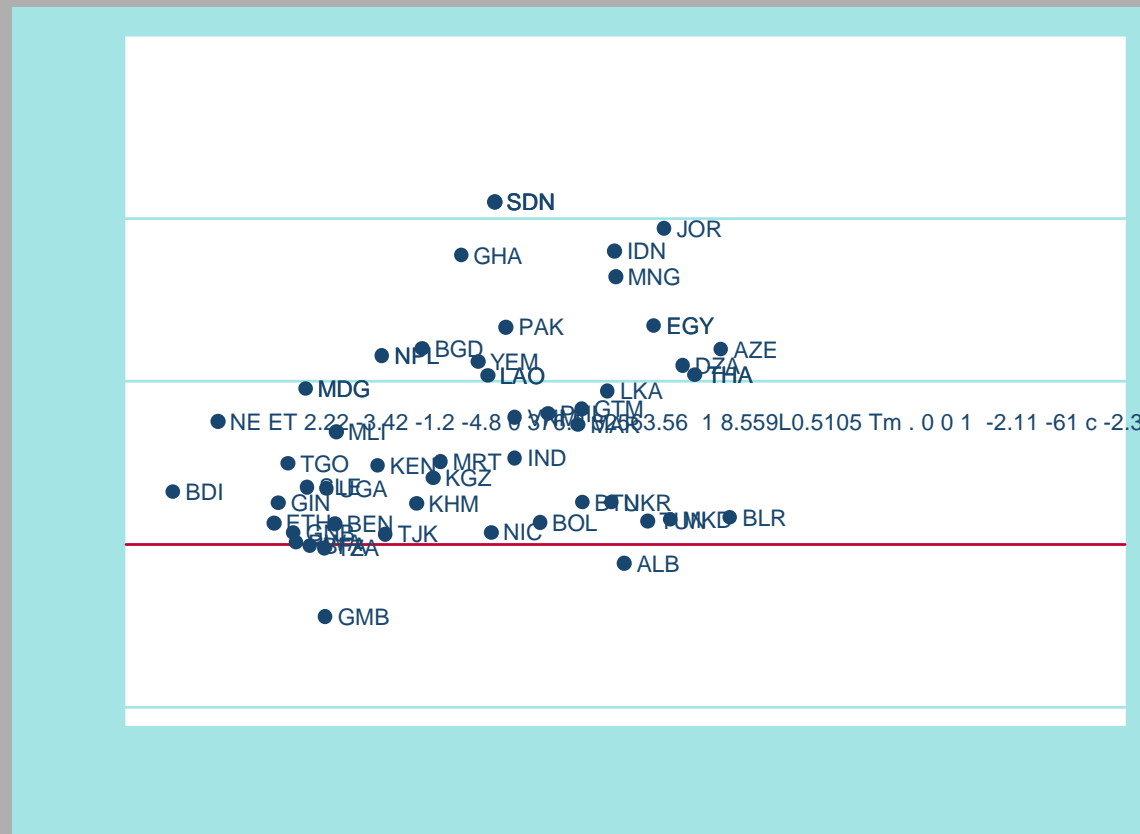
## Three important technical issues in the measurement of global inequality

- The ever changing PPPs in particular for populous countries like China and India
- The increasing discrepancy between GDP per capita and HS means, or more importantly consumption per capita and HS means
- Inadequate coverage of top 1% (related also to the previous point)

# The issue of PPPs

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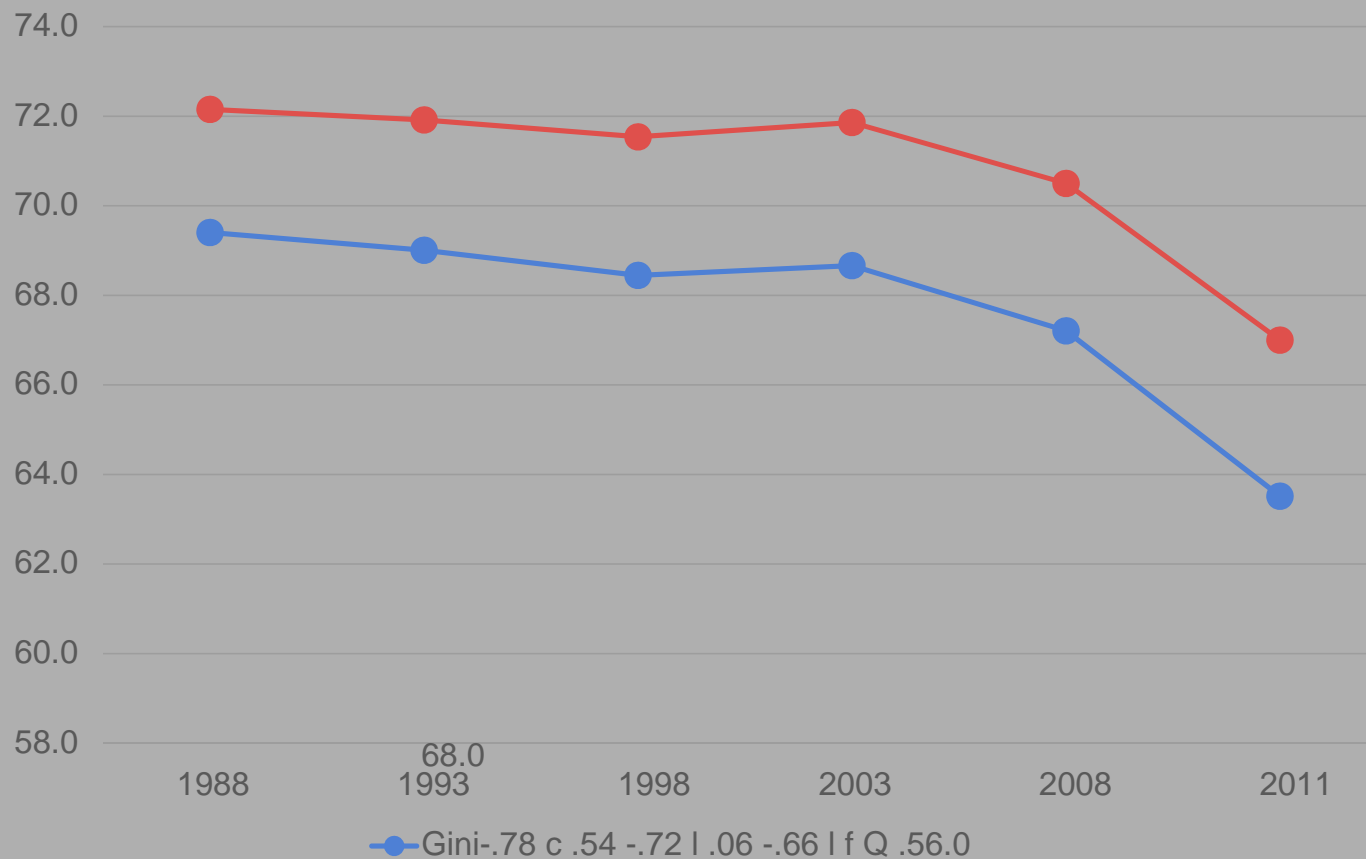
# The effect of the new PPP on countries' GDP per capita



# The effect of new PPPs

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

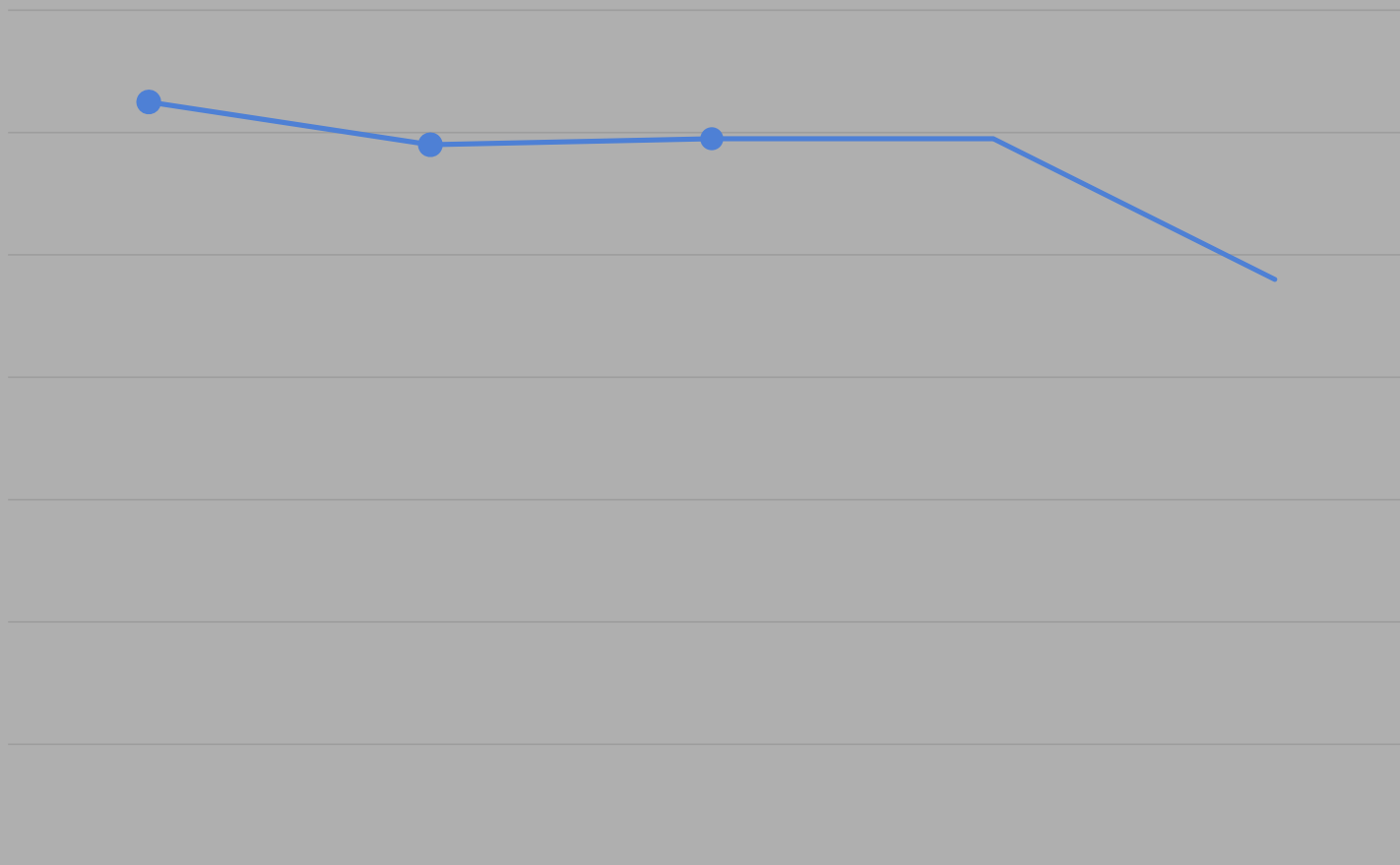
# Use of 2011 PPPs reduces global inequality by about 3 Gini points but leaves the trends the same



# The gap between national accounts and household surveys

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# Global Gini with different definitions of income



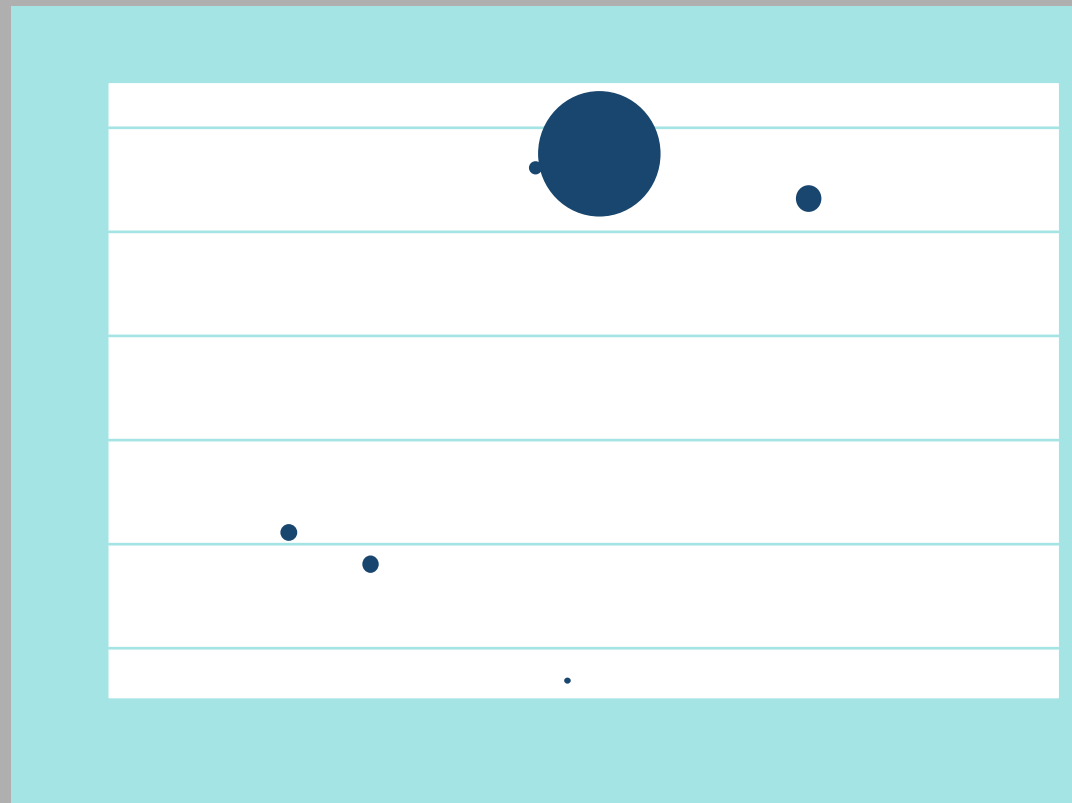


# Step 1 driven by low consumption shares in China and India

(although on an unweighted base C/GDP decreases with GDP)

```
twoway scatter cons_gdp gdpppp if group==1 & cons_gdp < 1.4 * totpop, xscale(log) xtitle(GDP per capita in ppp) xlabel(1000 10000 50000)  
ytitle(share of consumption in GDP) title(C/GDP from 1965 to 2002) tc (capita) t j f .7045 0 TD 8DP) 7 TD 0 Tc <0003> Tj 7 TD .a1
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Step2. No clear (weighted) relationship between survey capture and NA consumption



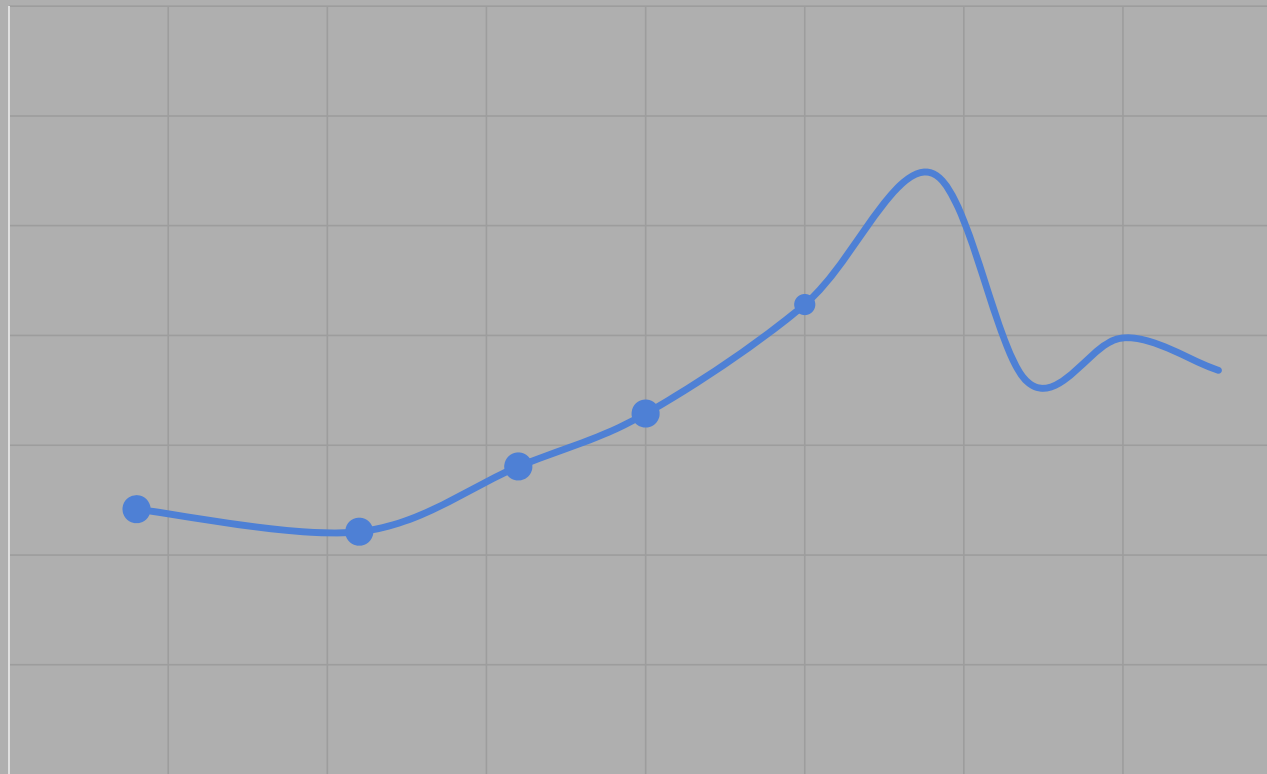
# The issue of top underestimation

# Rising NAC/HS gap and top underestimation

- If these two problems are really just one & the same problem.
- Assign the entire positive (NA consumption – HS mean) gap to national top deciles
- Use Pareto interpolation to “elongate” the distribution
- No a priori guarantee that global Gini will increase


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But the rising gap between fiscal and HSI income is not universal



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

[based on joint work with Christoph Lakner]



# Number of surveys

	1988	1993	1998	2002	2005	2008	2011
Africa	14	30	24	29	32	23	30
Asia	19	26	28	26	23	27	22
E.Europe	27	22	27	25	27	27	24
LAC	19	20	22	21	18	18	18
WENAO	23	23	21	21	22	23	21
World	102	121	122	122	122	118	115

# Population coverage

	1988	1993	1998	2002	2005	2008	2011
Africa	48	76	67	77	78	78	70
Asia	93	95	94	96	94	98	96
E.Europe	99	95	100	97	93	92	87
LAC	87	92	93	96	96	97	97
WENAO	92	95	97	99	99	97	96
World	87	92	92	94	93	94	92

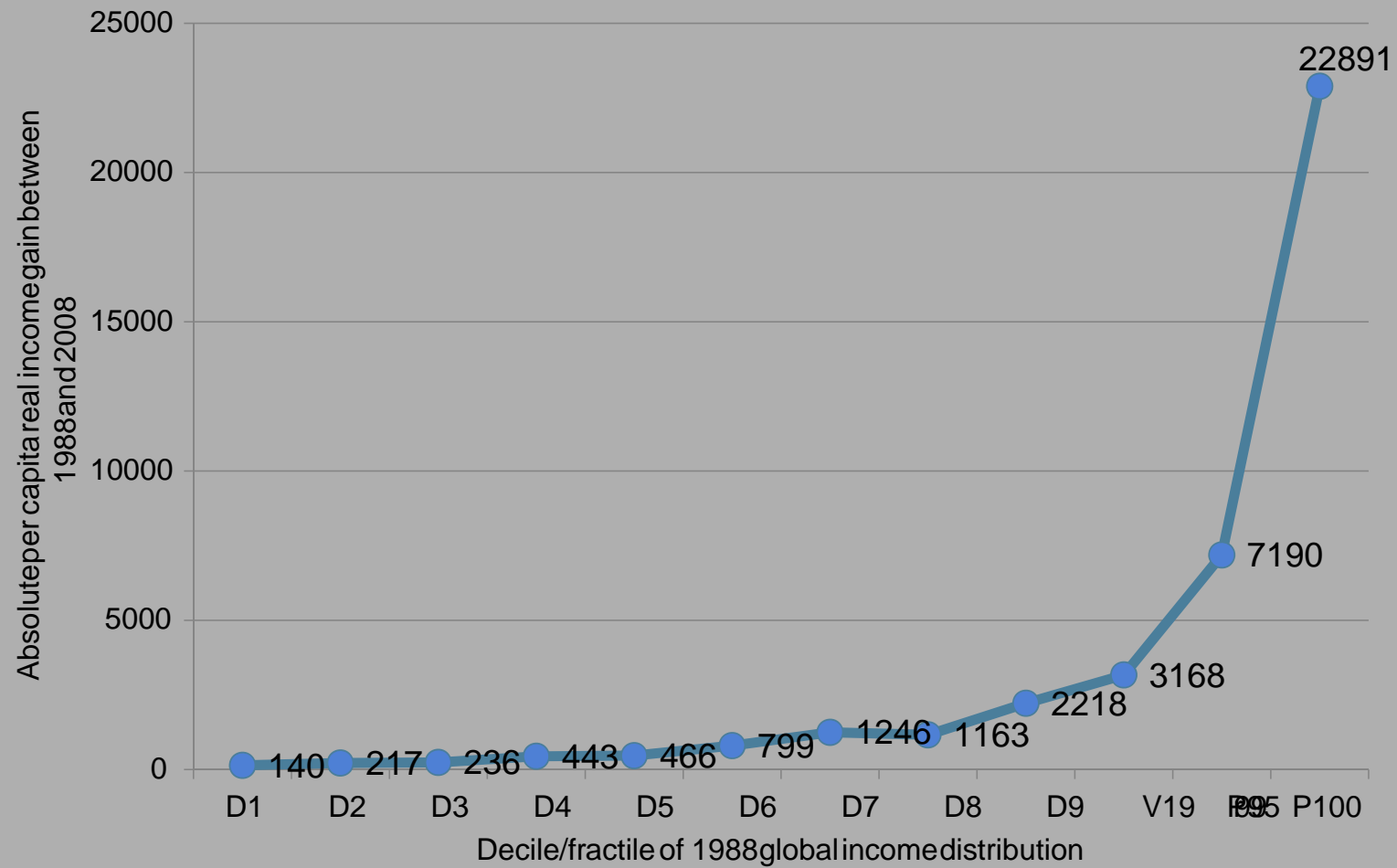
Non triviality of the omitted countries

GDI (USDI



Parts of the distribution that gained the most are dominantly from Asia,  
parts are dominated by # from

# Quasi anonymous growth between 1988 and 2008: real absolute per capita gains at different fractiles of the 1988 distribution



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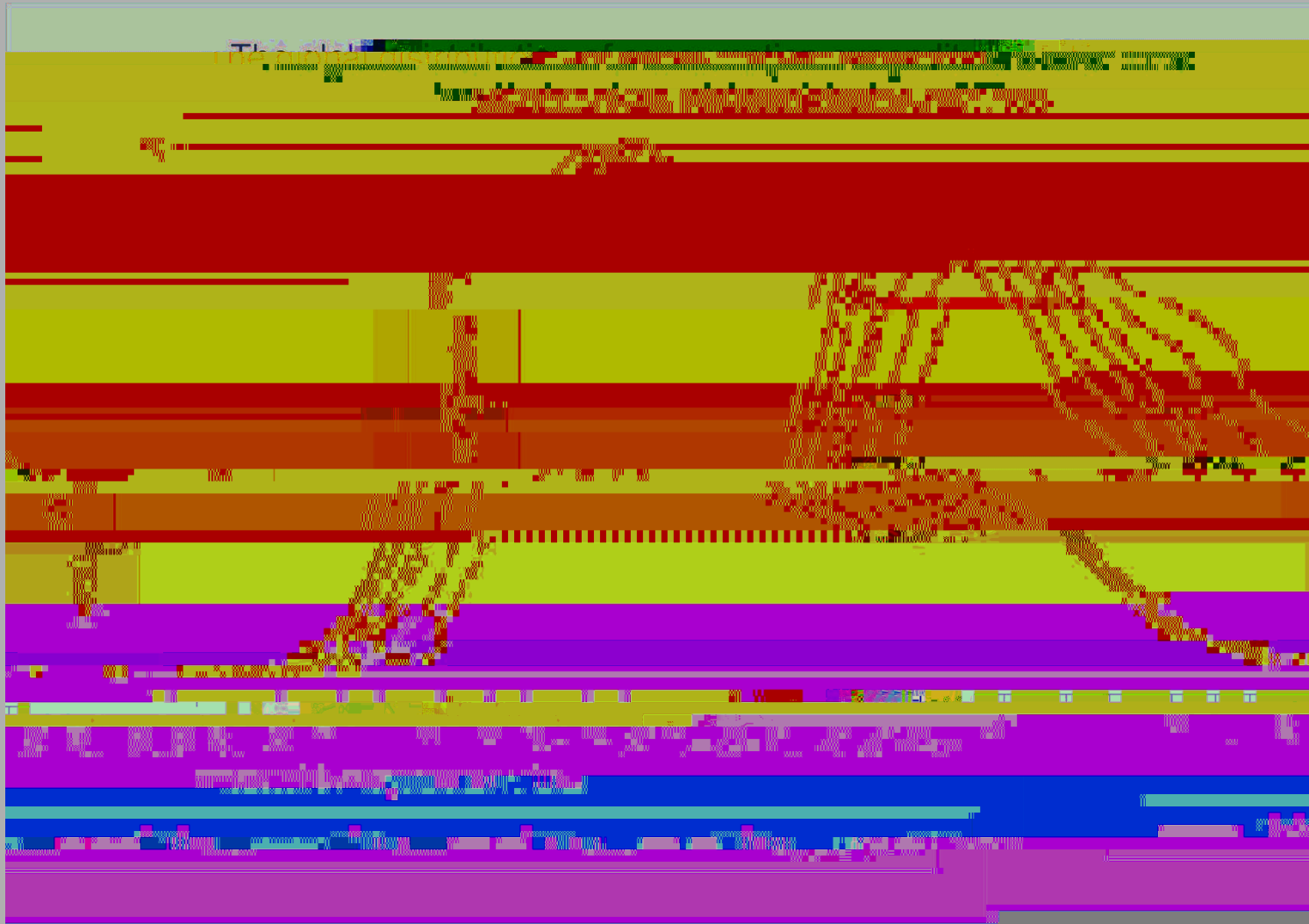
# Global income distributions in 1988 and 2011

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twoway (kdensity loginc_11_1 [w=popu] if loginc_11_1 > 2 & bin_year == 1988,
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FromChristophLakner



## The contradiction of inequality changes during Globalization I

- Most countries displayed an upward sloping GIC (US, China, India urban, Indonesia...)
- Perception that the rich are doing better than Indong

# The issues

- Are growth (1) along the entire Chinese income distribution and (2) stagnation around the median in the rich world as well as stagnation across most of income distribution in E. Europe and LAC, related?
- In other words, is the hump in middle related to the dip around the 70<sup>th</sup> 80<sup>th</sup> percentile?
- Marching of China and India through the ranks reduces global inequality and the importance of the between country component in global inequality
- But it might “cause” increases in within national inequalities (thus offsetting global inequality decline)
- Can democracy survive if rich countries’ middle classes are hollowed out?

## Back to Mandeville...

- Can something that is bad nationally (increased inequality) be good globally (decreased inequality)?
- Can national vices produce global virtue?

# Political implications

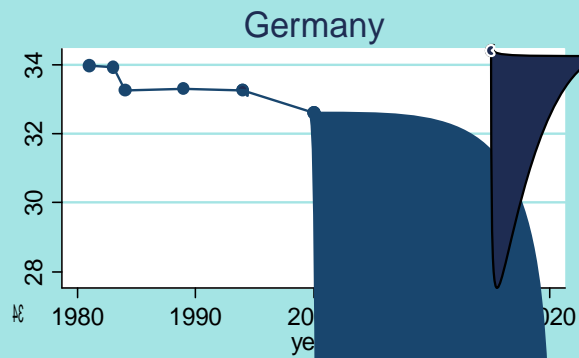
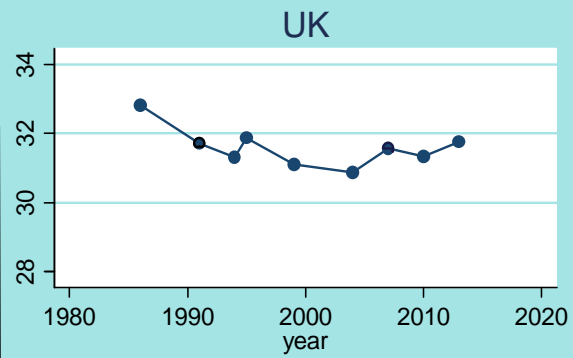
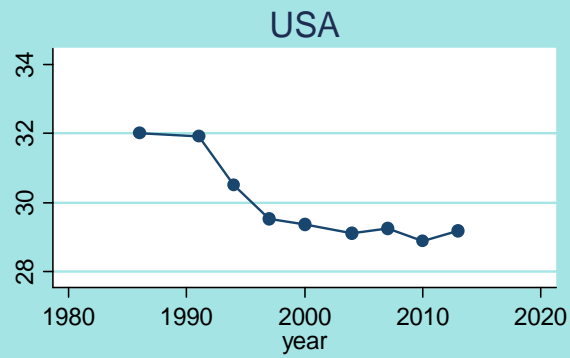
- Possible crowding out of national middle classes and the creation of a global one
- But the middle class is presumably a force for stability when there is a political community. There is no political community at the global level. What does global middle class mean?
- Would global middle class create a global polity?
- Or, global plutocracy: in the longer term, reversal

## Are we at the end of capitalism's long "el periodo especial" or going upward the second modern era Kuznets curve?

- Three challenges to global capitalism were beaten off in the 20<sup>th</sup> century: depression (by reinventing gov't), war (by marshalling resources), Communism (through Welfare State)
- Neither of these threats is any longer present; so is this the reason capitalism is becoming more unequal?
- Or is the period after 1980, the second modern era Kuznets curve driven by the technological revolution and globalization?

Focus on point B of the  
“elephant graph”  
(income stagnation and erosion  
of the middle class in advanced  
economies)

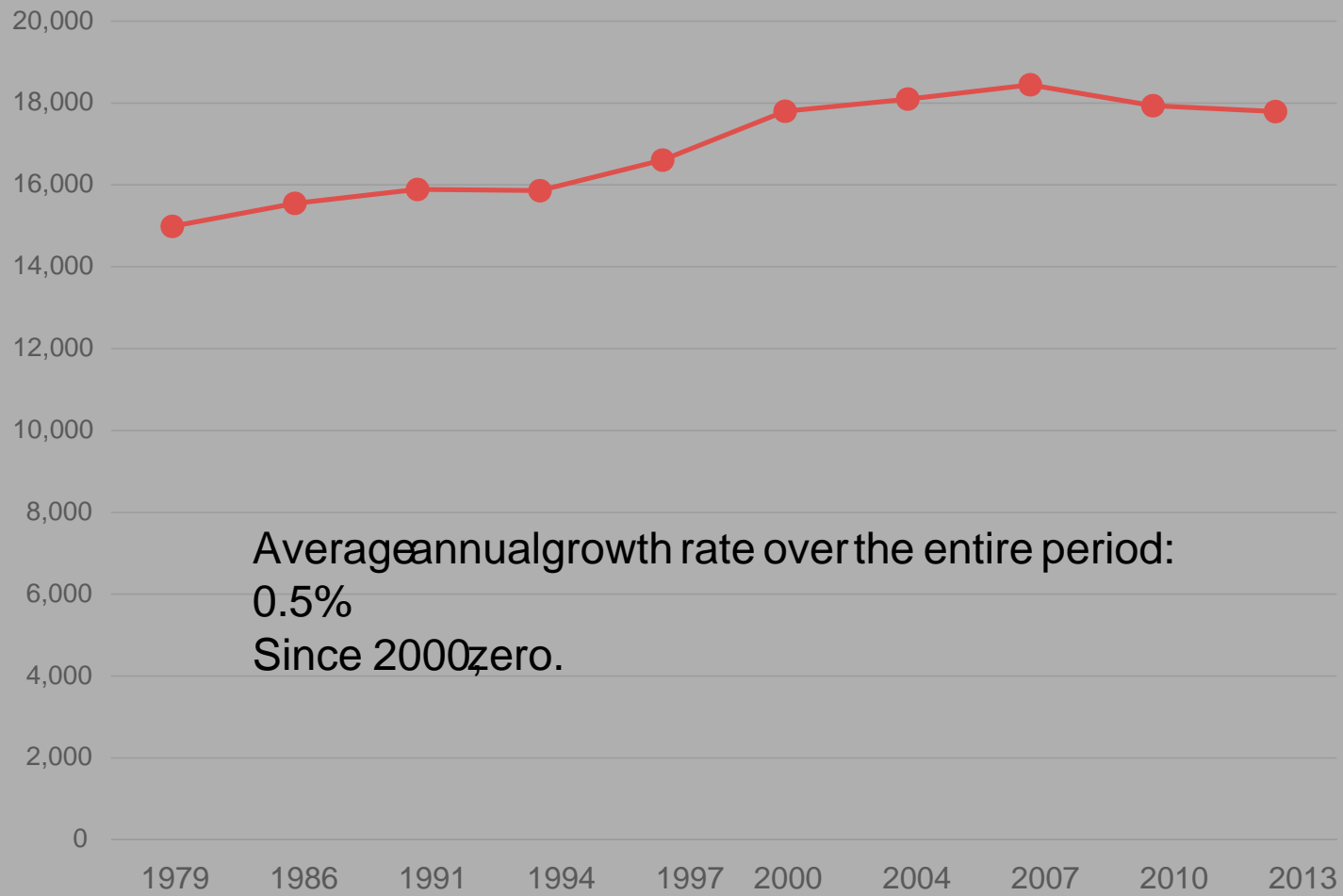




1990



# US real median after tax household per capita income 1979-2013



# 5. How to think of within national inequalities: Introducing the Kuznets waves

# Kuznetzwavesdefined

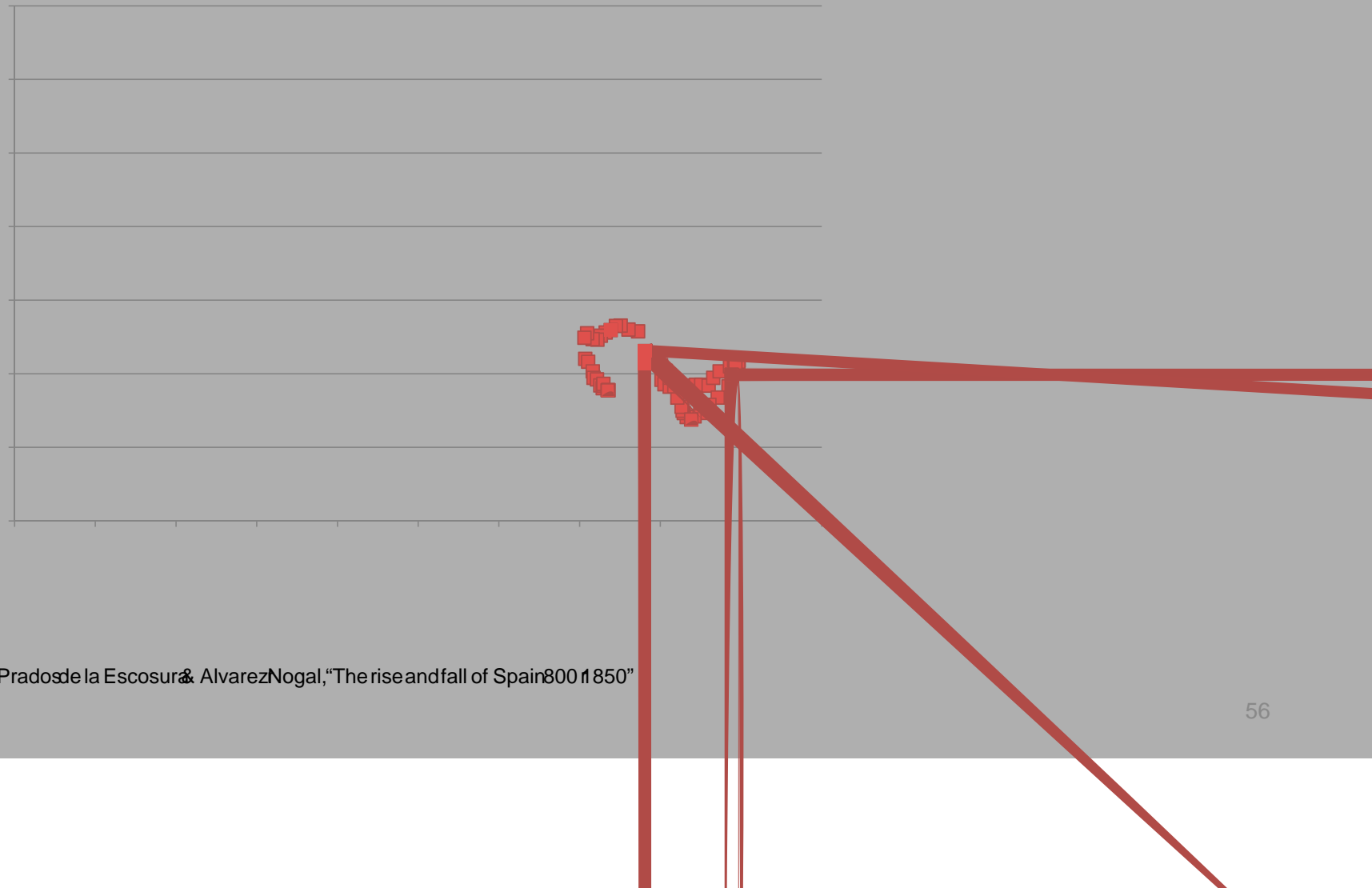
- Kuznetssawjust one curve. We now know there maybe many more.
- Distinguishthe wavesin pre industrialand modern societies (thosewith sustainedincreasein meanincome)
- Kuznetzwavesin pre industrialsocietiesare visiblewhen plotted againsttime only (becausemean

# Malign and benign forces reducing inequality (downward portion of the Kuznets wave)

	Malign	Benign
Societies with stagnant mean income	Idiosyncratic events: wars (though destruction), l	d i o s



# Kuznetscurve here? No.



From Prados de la Escosura & Alvarez Nogal, "The rise and fall of Spain 1800-1850"









## Downswing of Kuznets first wave and upswing of the second Kuznets wave in advanced economies

	Level of maximum inequality (peak of Wave 1) Ginipoints (year)	Level of minimum inequality (trough of Wave 1) (year)	Approximate number of years of downswing of the Kuznets wave	Reduction in inequality (Ginipoints)	GDP increase (how many times) during the downswing	The years

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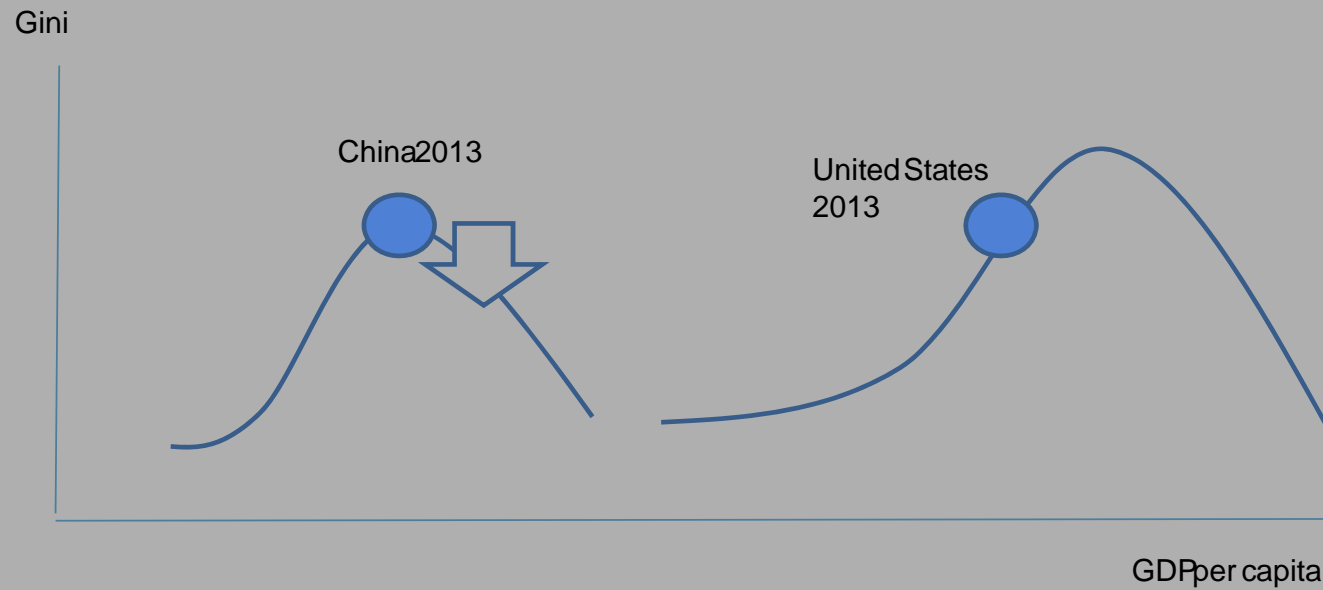
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# Where are now China and the US?



# What might drive the 2<sup>nd</sup> Kuznets cycle down?

- Progressive political change (endogenous political demand)
- Dissipation of innovation rents
- Low skilled biased technological progress (endogenous)
- Reduced gap in education (but it is not a silver bullet)
- Global income convergence Chinese wages catch up with American wages: the hollowing out process stops
- Note that all are all endogenous

## 6. Issues of justice and politics

- 1.



# 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

te

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## Is citizenship a rent?

- If most of our income is determined by citizenship, then there is little equality of opportunity globally and citizenship

## 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)

## Rawls' view on inter generational transmission of wealth

Group	Inter generational transmission of collectively acquired wealth	Argument	Policy
Family	Not acceptable Or at least to be limited	Threatens equality of citizens	Moderate to very high inheritance tax
Nation	Acceptable	Affirmational self determination (moral hazard)	International aid

# 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?



## 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...

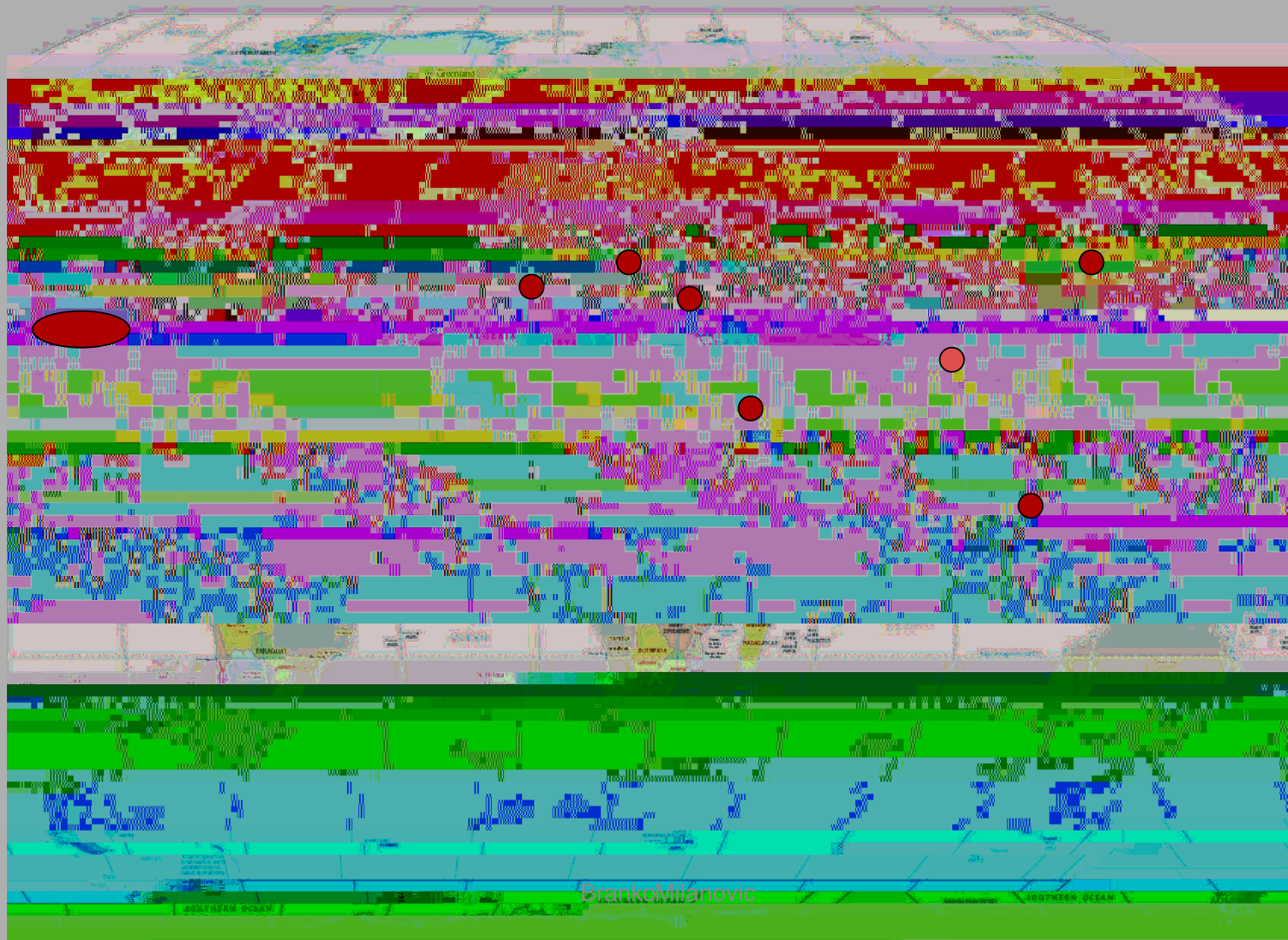
# Migration....



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

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

# Growing inter country income differences and migration: Key seven border today



# The logic of the migration argument

- Population in rich countries enjoys the citizenship premium
- They are unwilling to share, and thus possibly reduce (at least “locally”) this premium with migrants
- Currently, the premium is full or 0 because citizenship is (in terms of rights as well as financially) a binary variable
- Introduce various levels of citizenship (tax discrimination of migrants; obligation to return; no family etc.) to reduce the premium
- Temporary work TD 0 Tc (•)Tj /TT8 1Tf 0 2285491 Tf .2289 0 TD -.009

# Tradeoff between citizenship rights and extent of migration



\* People who would like to migrate according to a world wide Gallup poll

# 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 have migration, do not discriminate the migrants
- To preserve good aspects of globalization: reduced inequality within rich countries via equalization of human and financial assets (i.e. focus on pre redistribution)

