

# Long-run evolution of global income inequality and its political meaning

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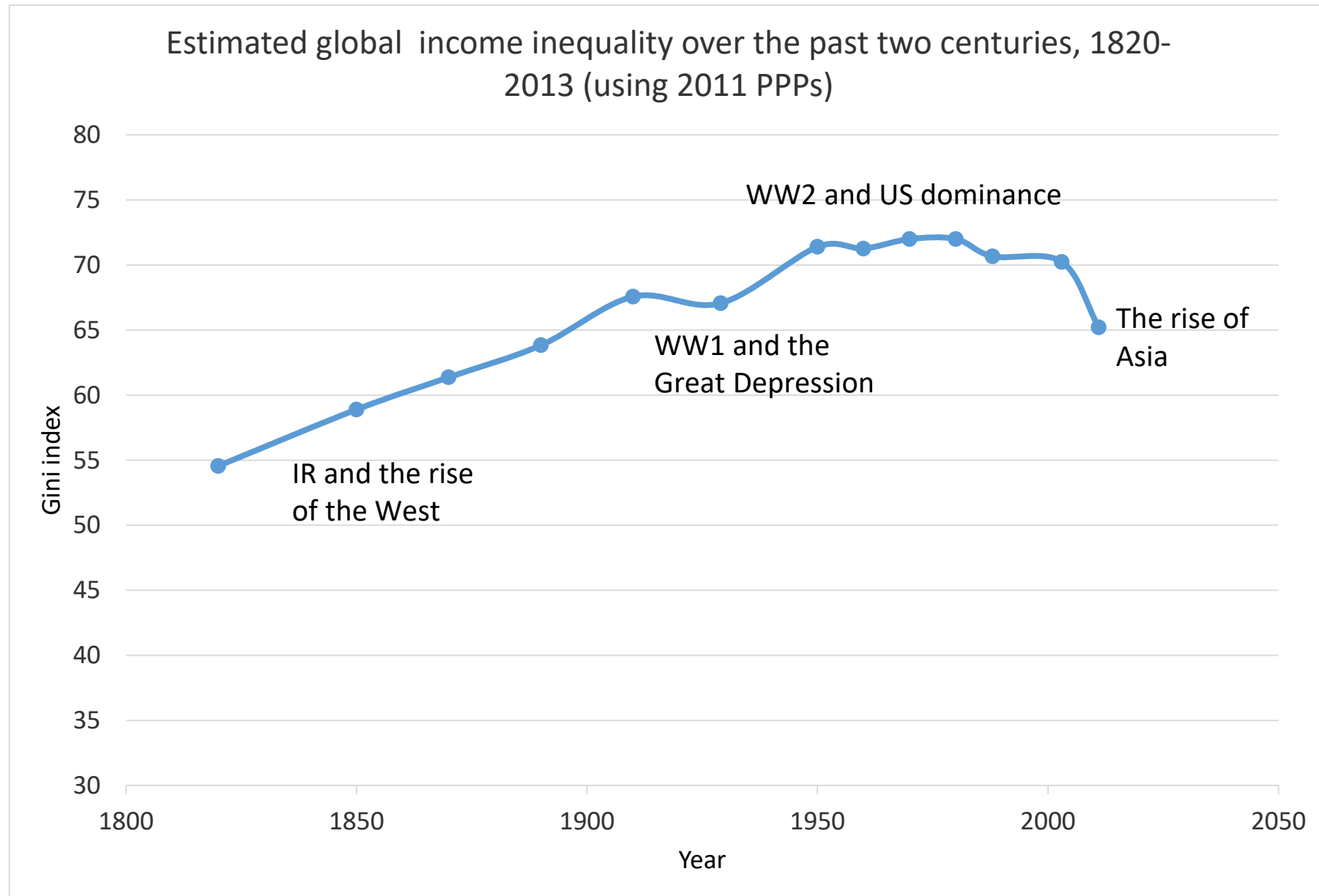
Graduate Center, City University of New York, and London School of Economics

Moscow, 8<sup>th</sup> Annual Conference on the Global Economy,  
Higher School of Economics

# Structure of the talk

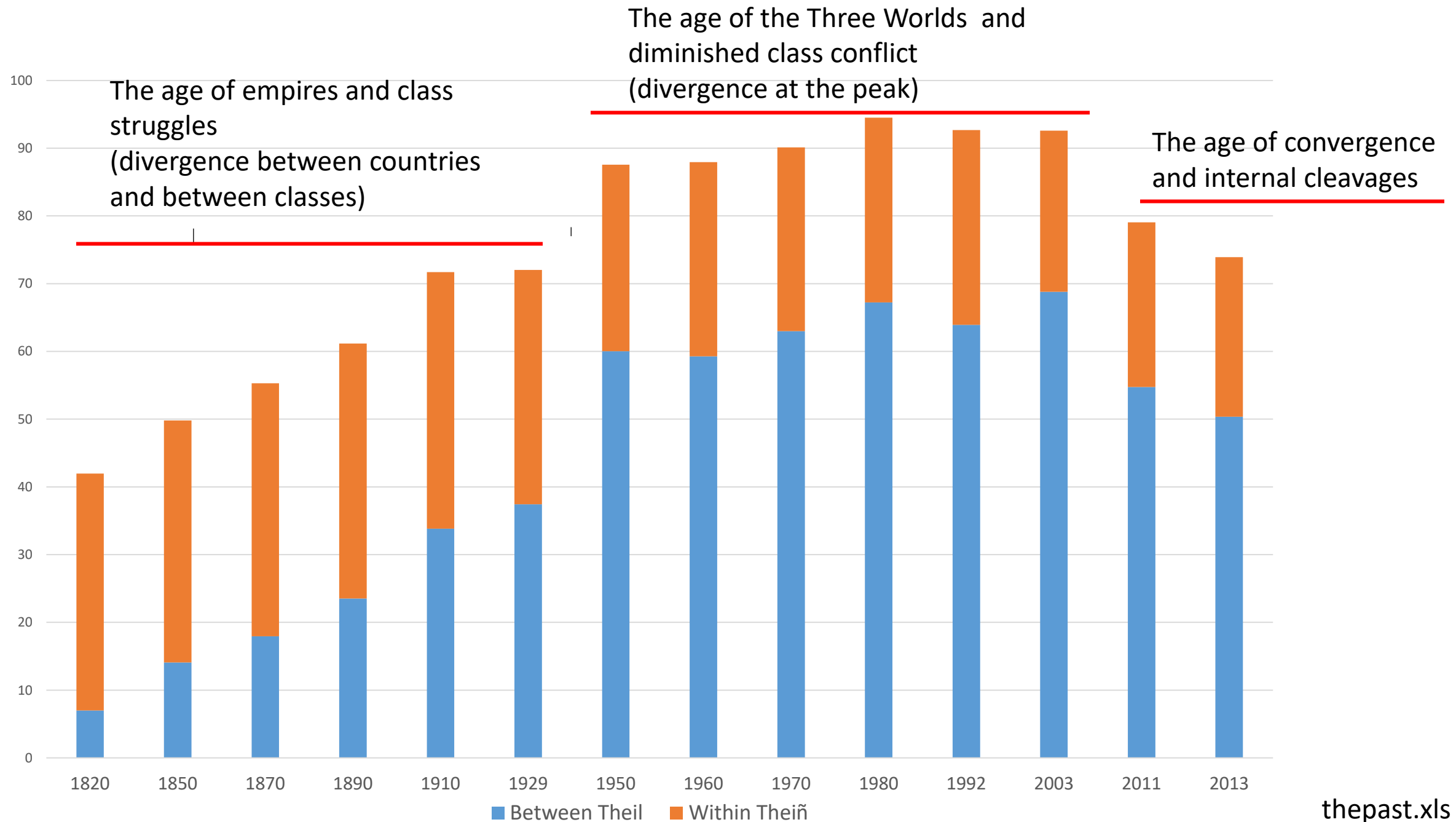
- Uniqueness of the current period: Capitalism rules alone + the reemergence of Asia (bringing the distribution of economic activity within Eurasia to the way it was around 1500)
- Changes between 1988 and 2008, and then..
- ...changes after the 2008 Financial Crisis
- The main inequality trends in the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

Long run

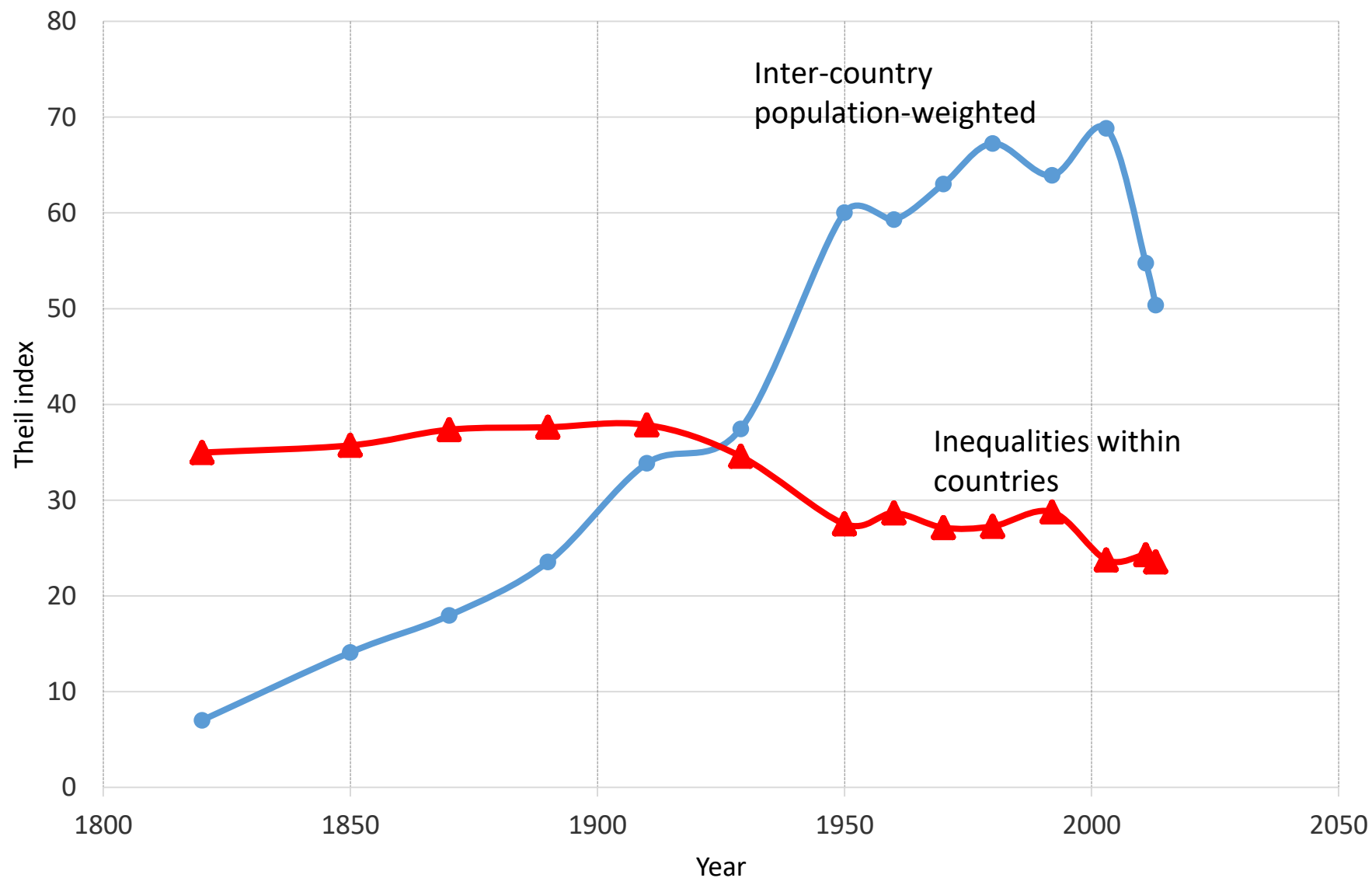


*La longue durée*: From Karl Marx to Frantz Fanon and back to Marx?

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



Within-national and between-national income inequalities (together equal to global inequality) during the past two centuries, Theil 1820-2013



# The peak of the three worlds

Senghor:

“The social problem today is less a class struggle within a nation than a global struggle between the ‘have nations’ (including the Soviet Union) and the proletarian nations (including the Chinese People’s Republic)”

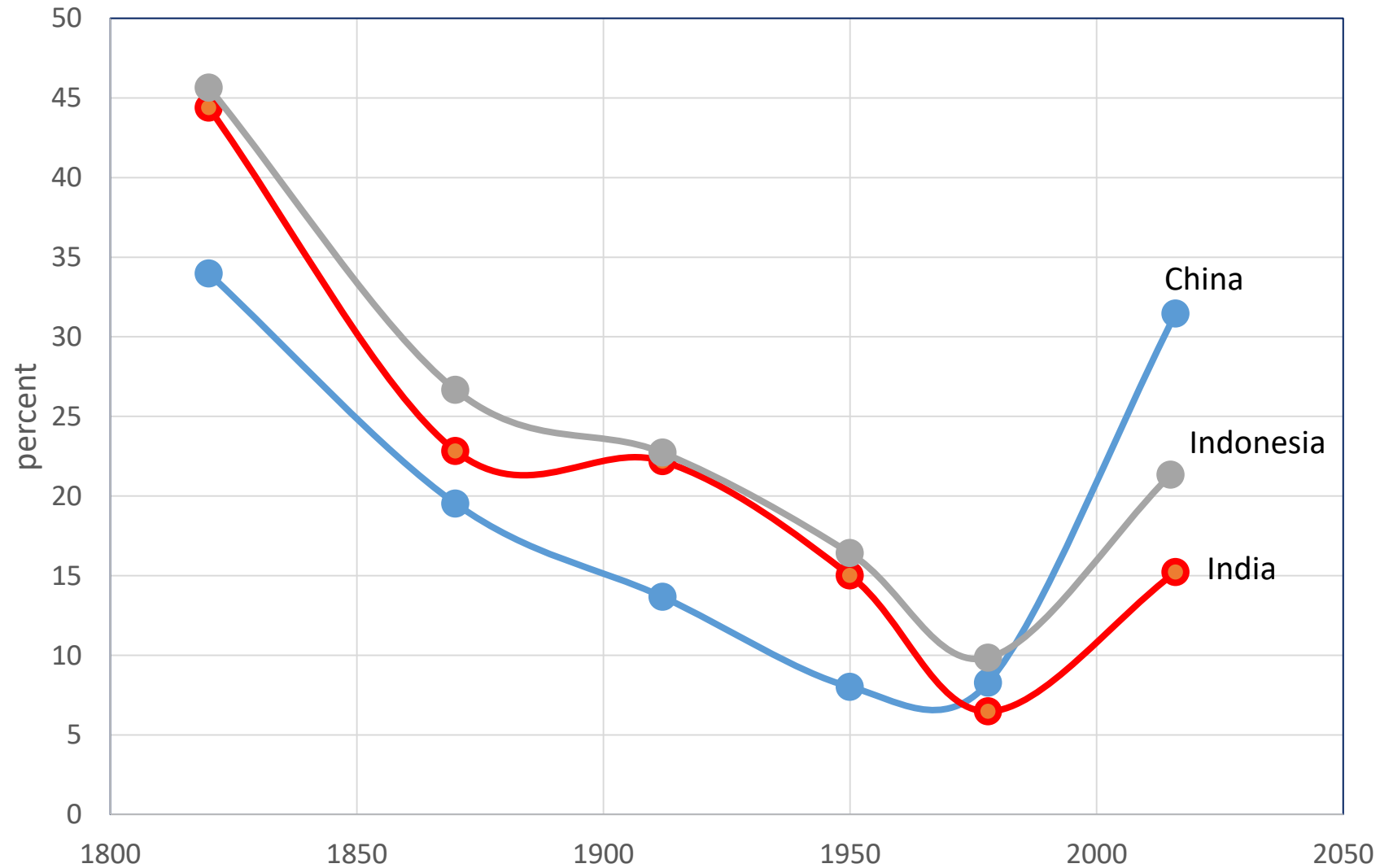
Quoted in Samuel Moyn, *Not Enough* (p. 104)



The averages

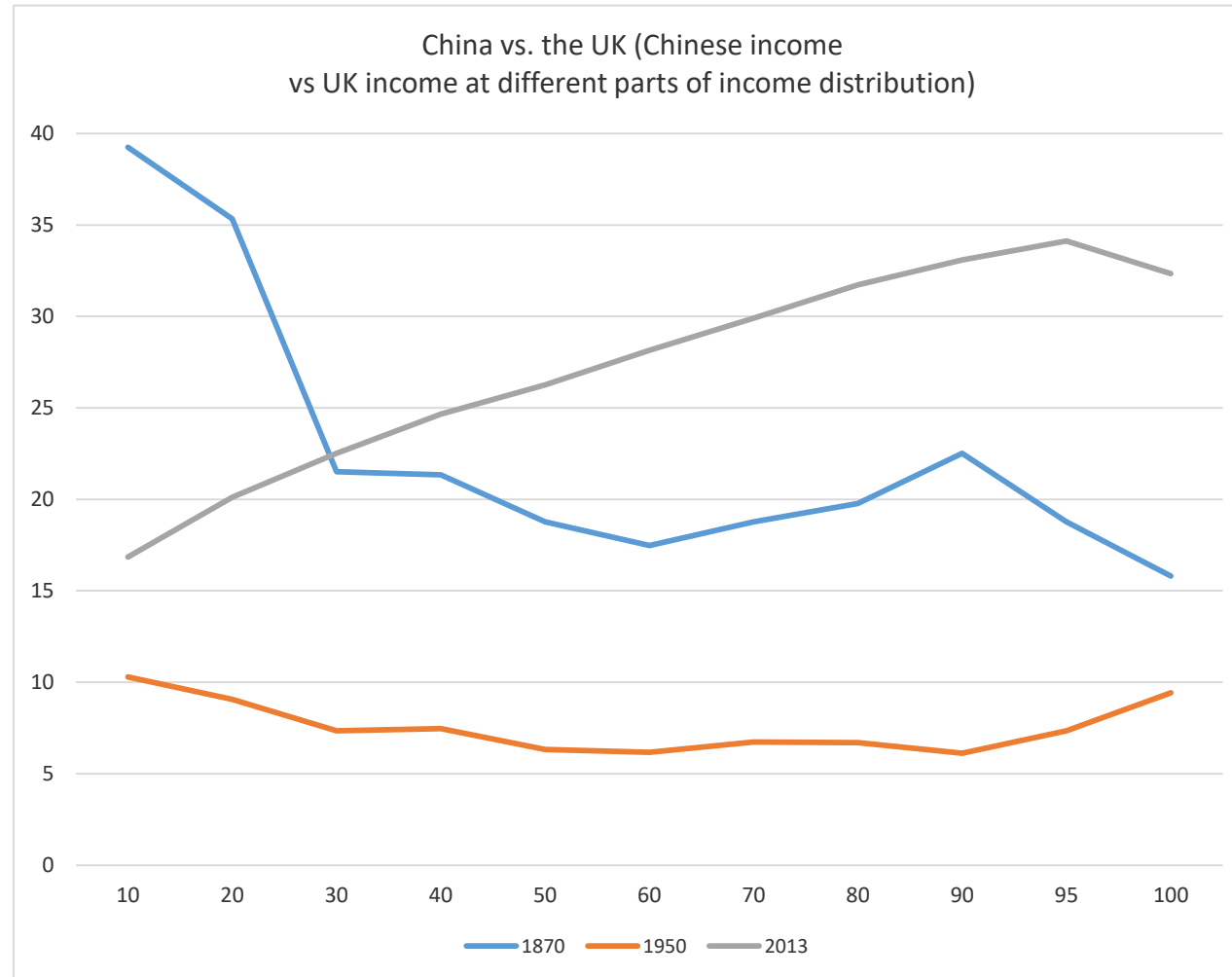
# Resurgent Asia

China's and India's GDP per capita as percent of British GDPpc from the Industrial Revolution to today (Indonesia vs. the Netherlands)

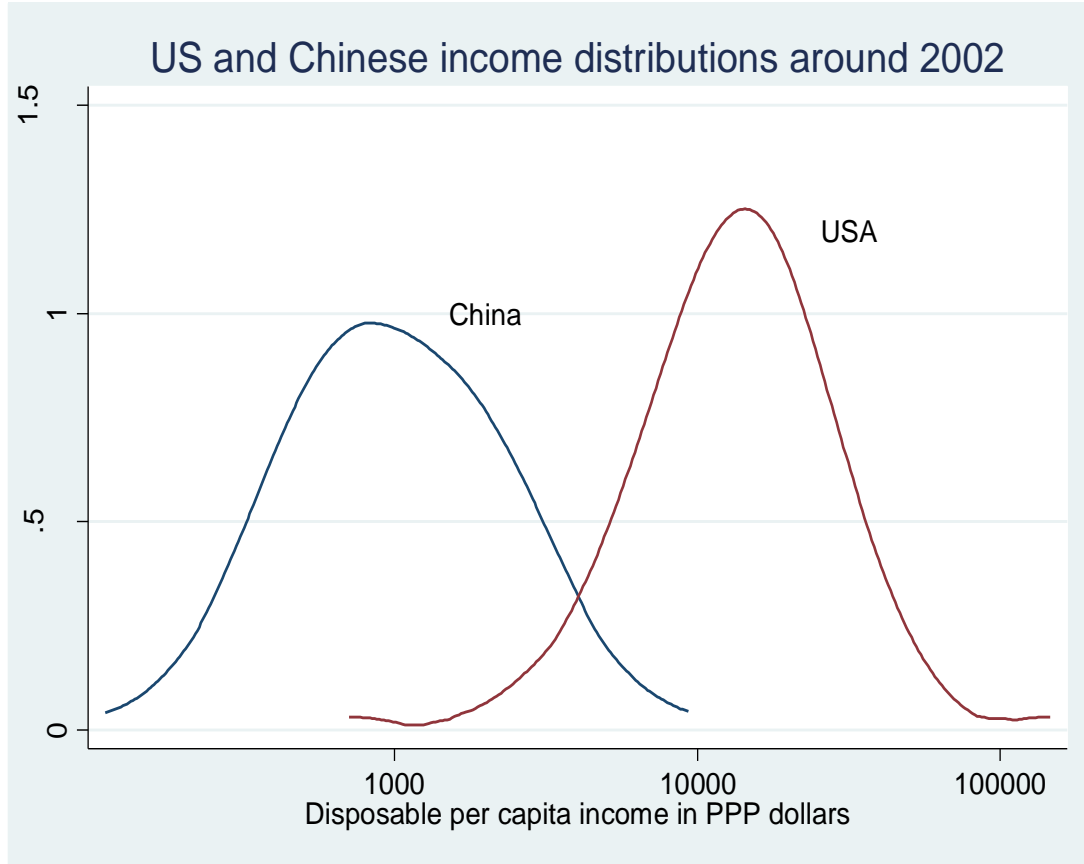


Heterogeneity: going beyond the averages

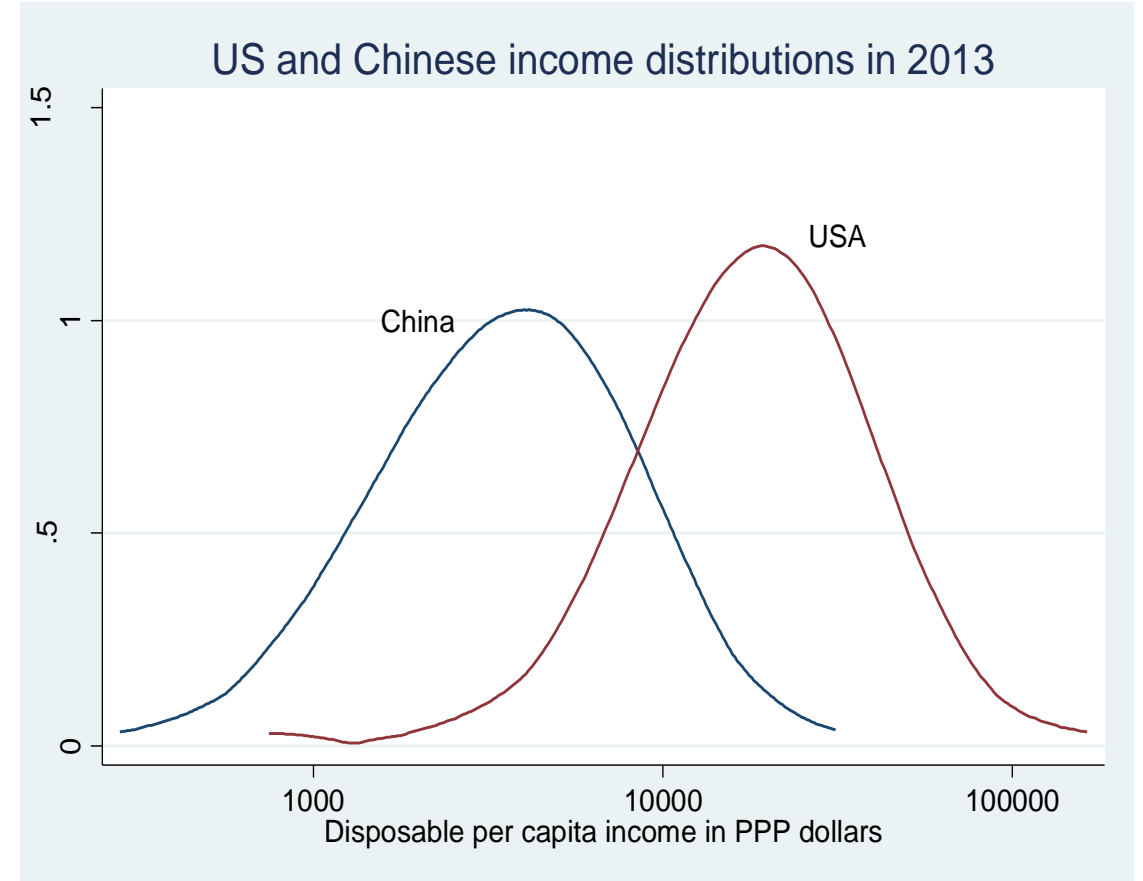
# The poor, the middle class and the rich in China and the UK in historical perspective



# Going beyond the averages: Convergence of Chinese incomes



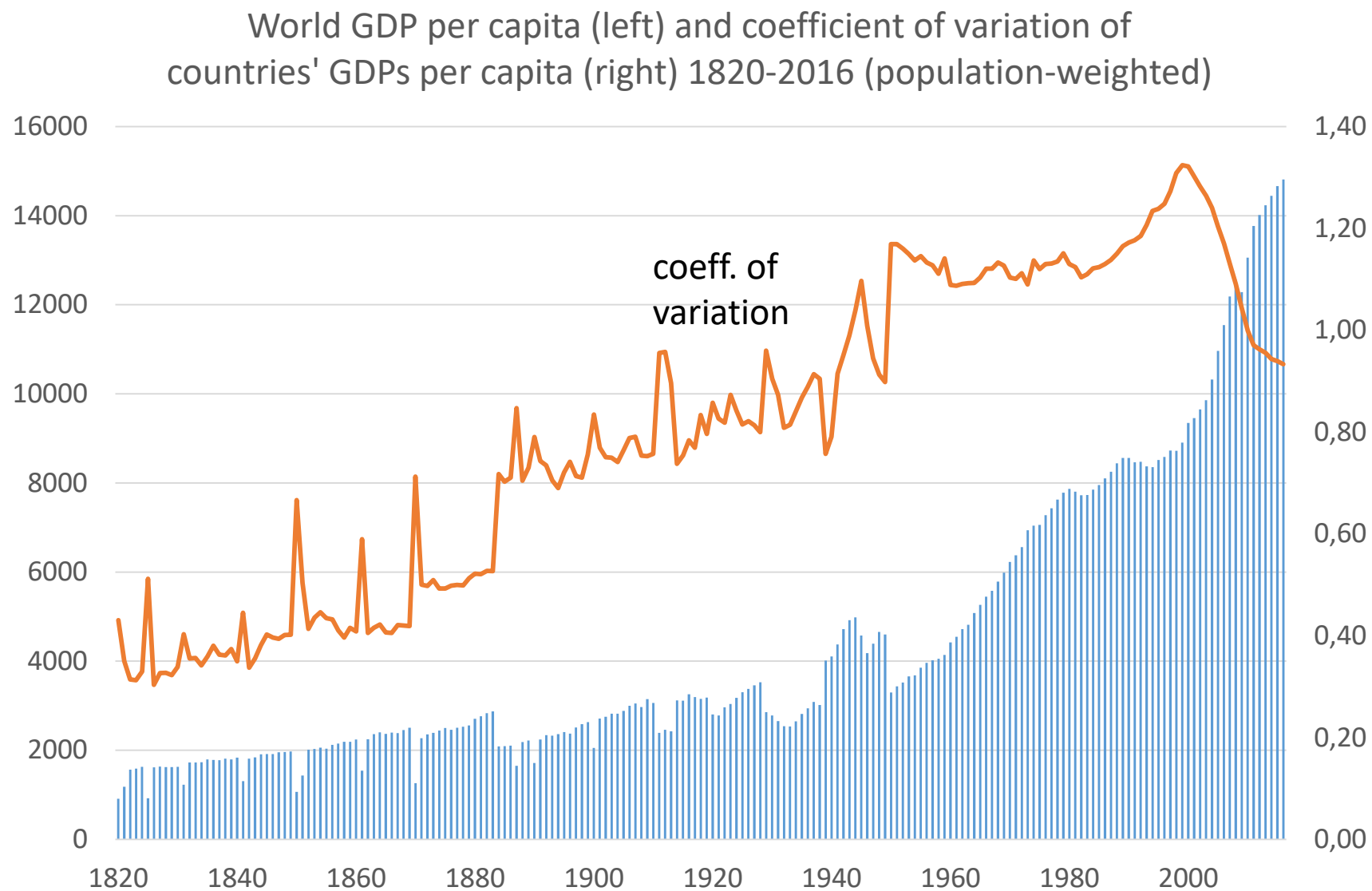
23% of Chinese population within US income range



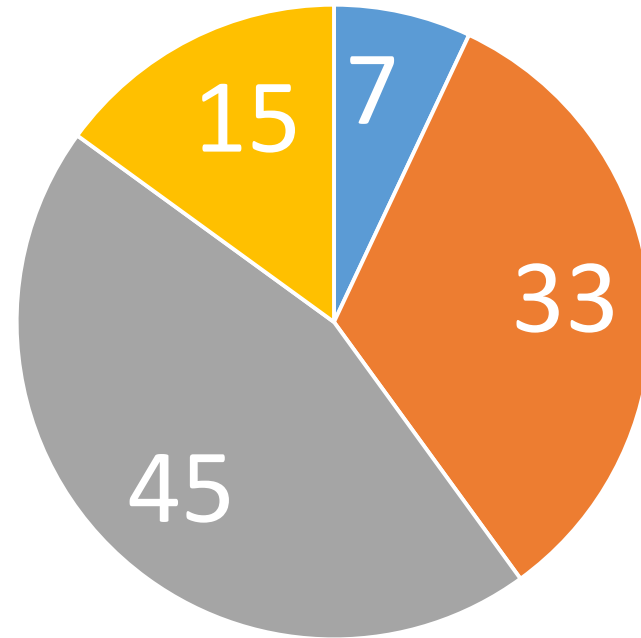
70% of Chinese population within US income range

Another heterogeneity: Is the world getting better?

# Is the world getting better? Yes.



Or perhaps not so much: 7% of people in the world live below the income level of the most advanced county in 1820; 33% below that of a century ago..



■ two centuries late  
■ 50 to 100y late

■ btw 1 and 2 centuries late  
■ contemporary

40% of people  
in the world  
live in a  
different  
century.



Past thirty years in the world:

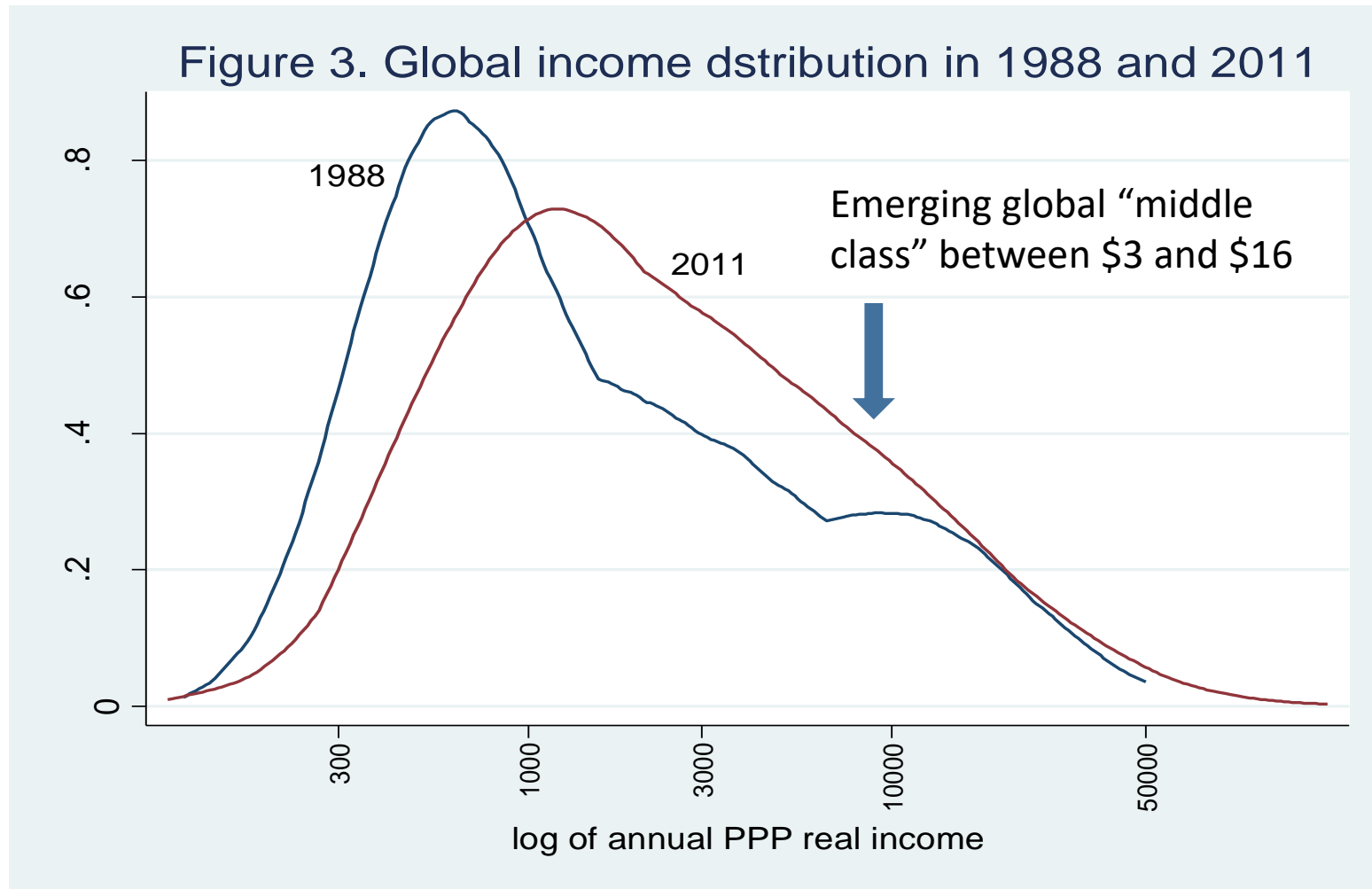
the greatest reshuffle of individual income positions since the Industrial Revolution

# The watershed years, 1978-91

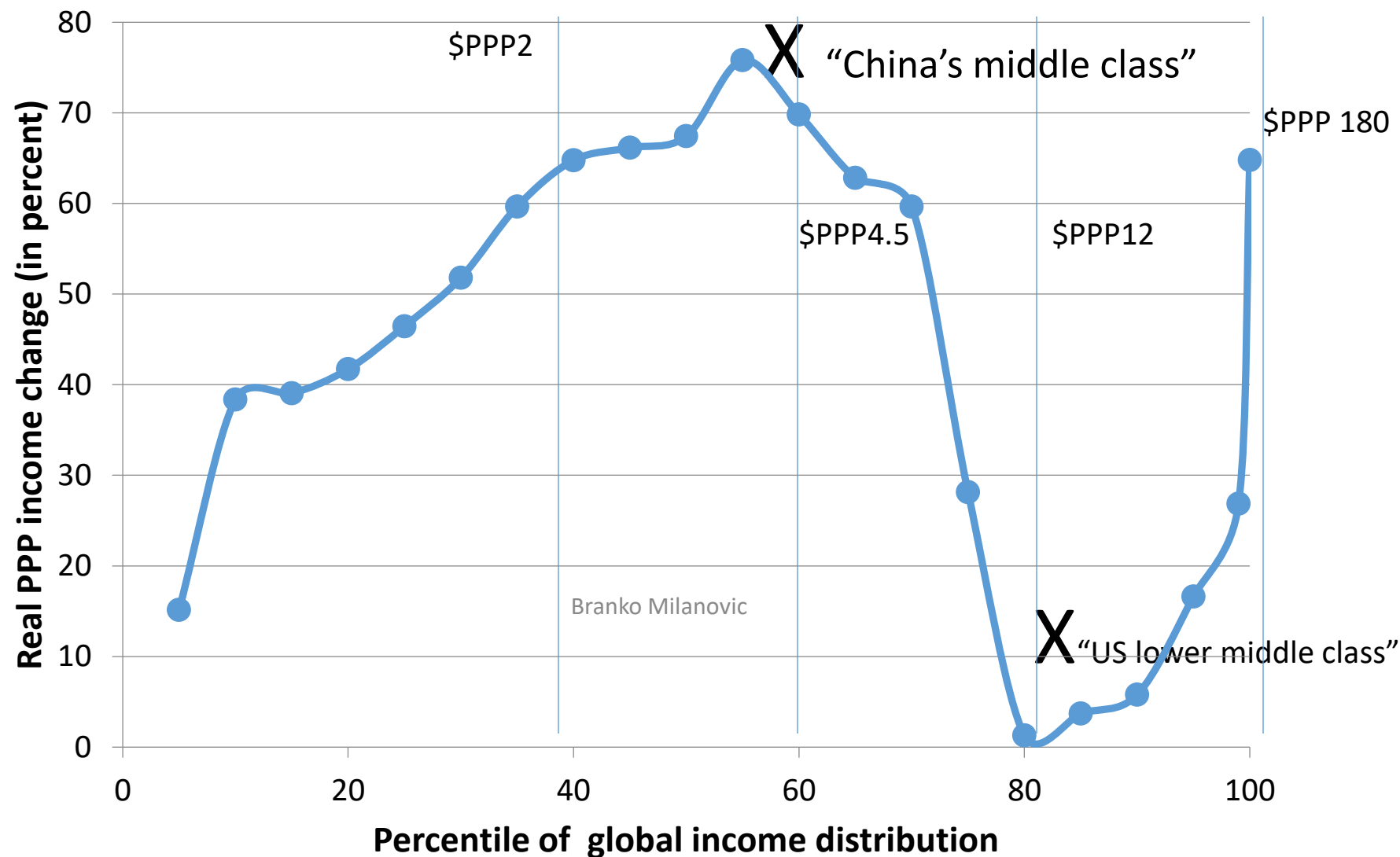
- 1978: Deng: responsibility system: quasi privatization of land
- 1979: Thatcher: privatizations etc.
- 1980: Reagan: deregulation etc.
- 1983: Mitterrand changes course
- Mid-1980s: Gonzalez invents (avant la lettre) the “new labor”
- 1985: Gorbachev begins to dismantle planned economy
- 1991: India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

Within approximatively 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”



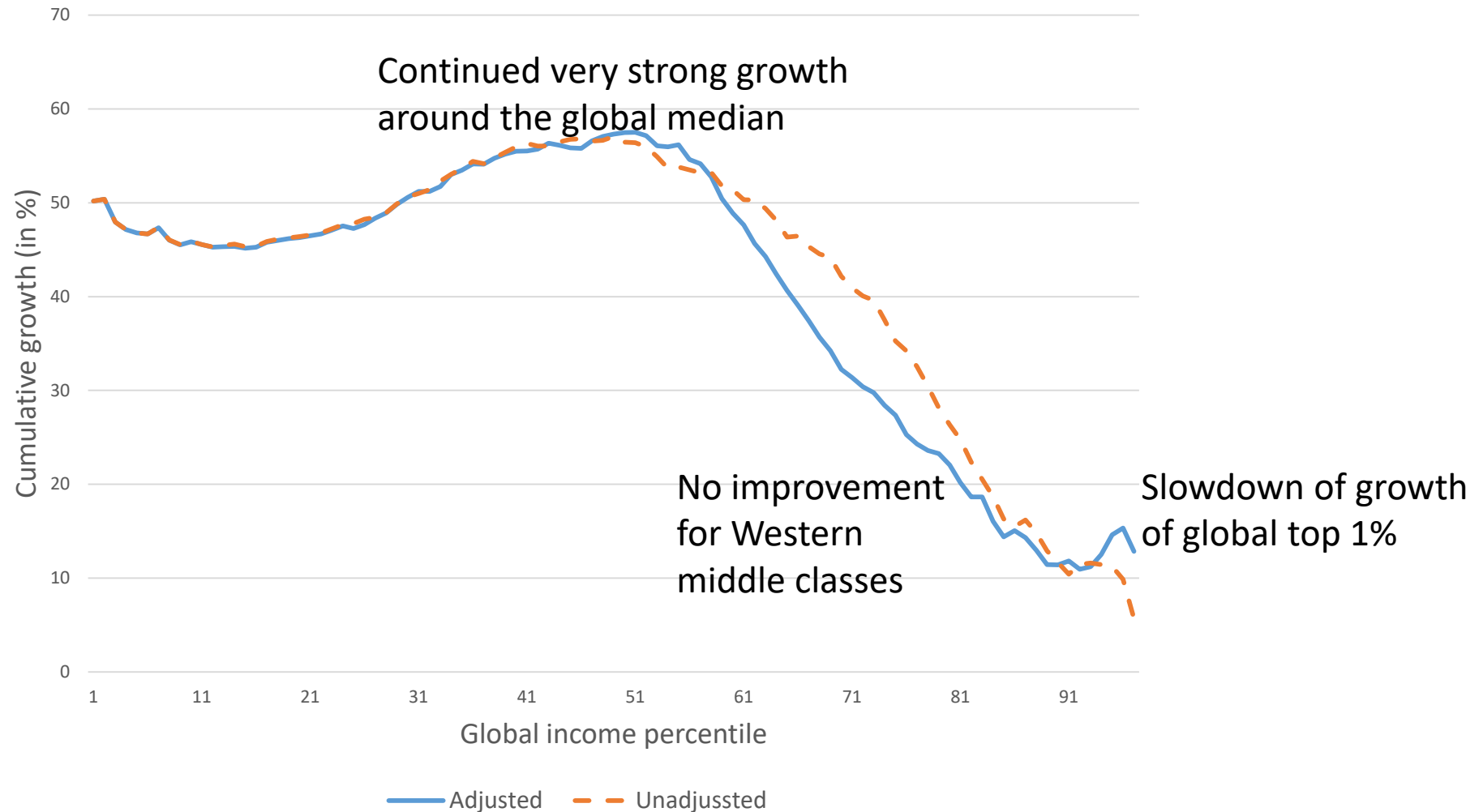
# Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)



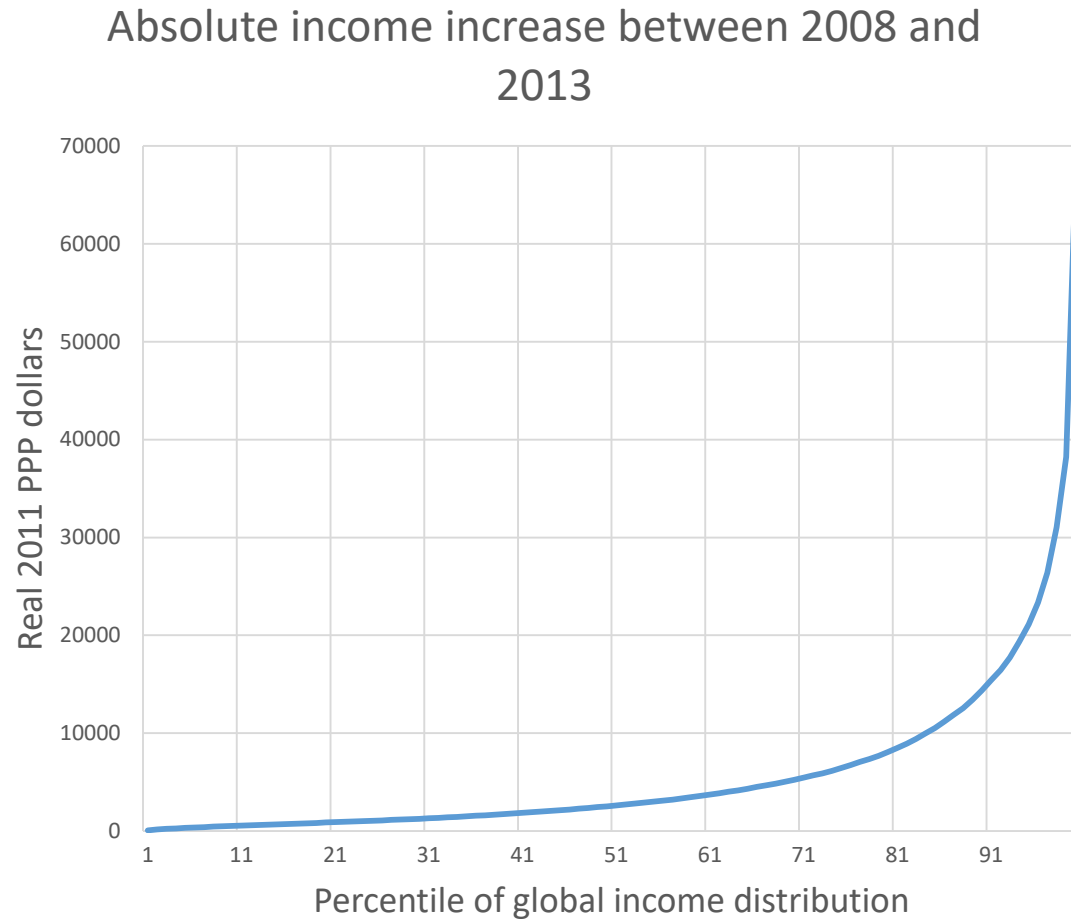
After the financial crisis

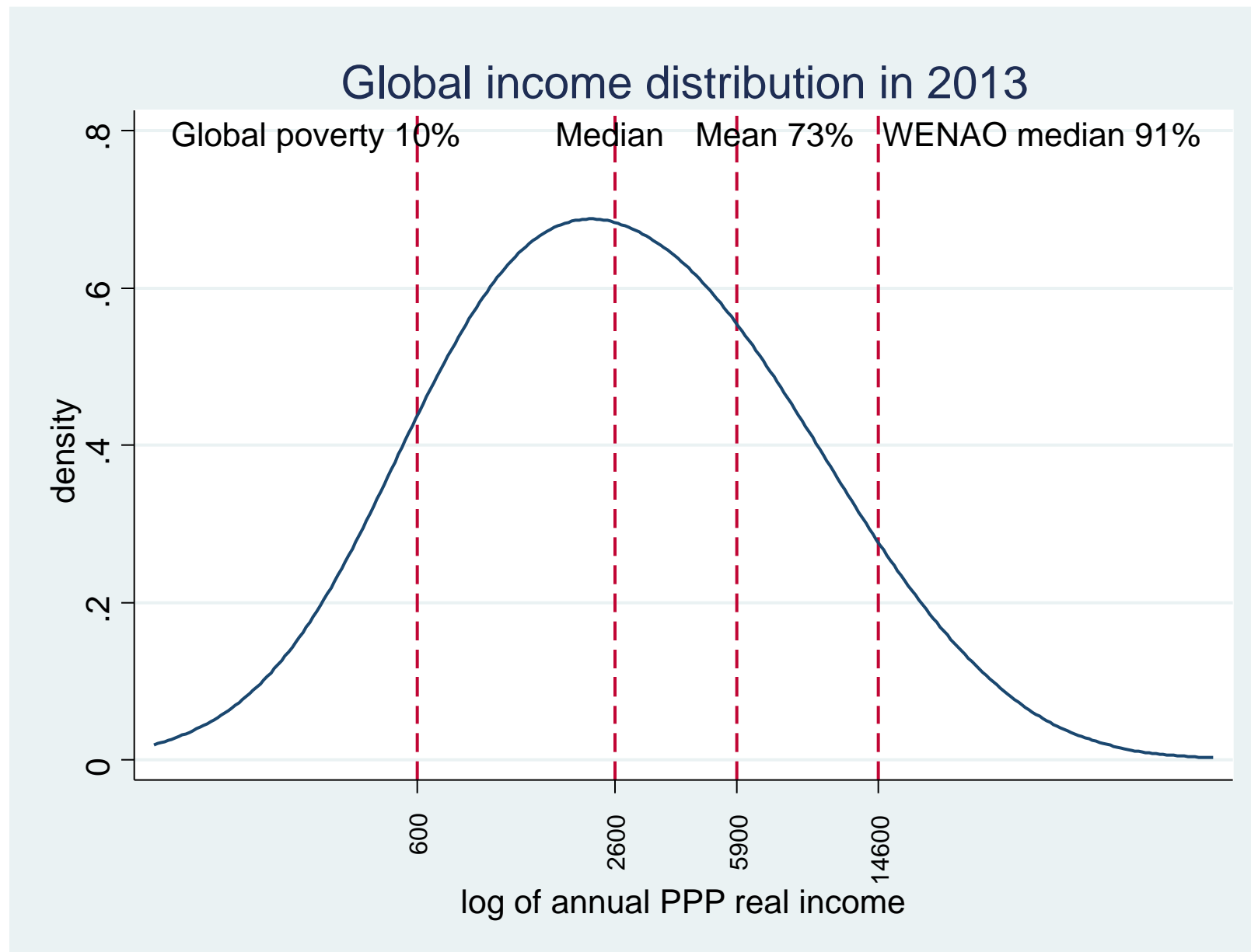
# After the crisis: 2008-13

Growth incidence curve 2008-13 (PPP dollars)



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





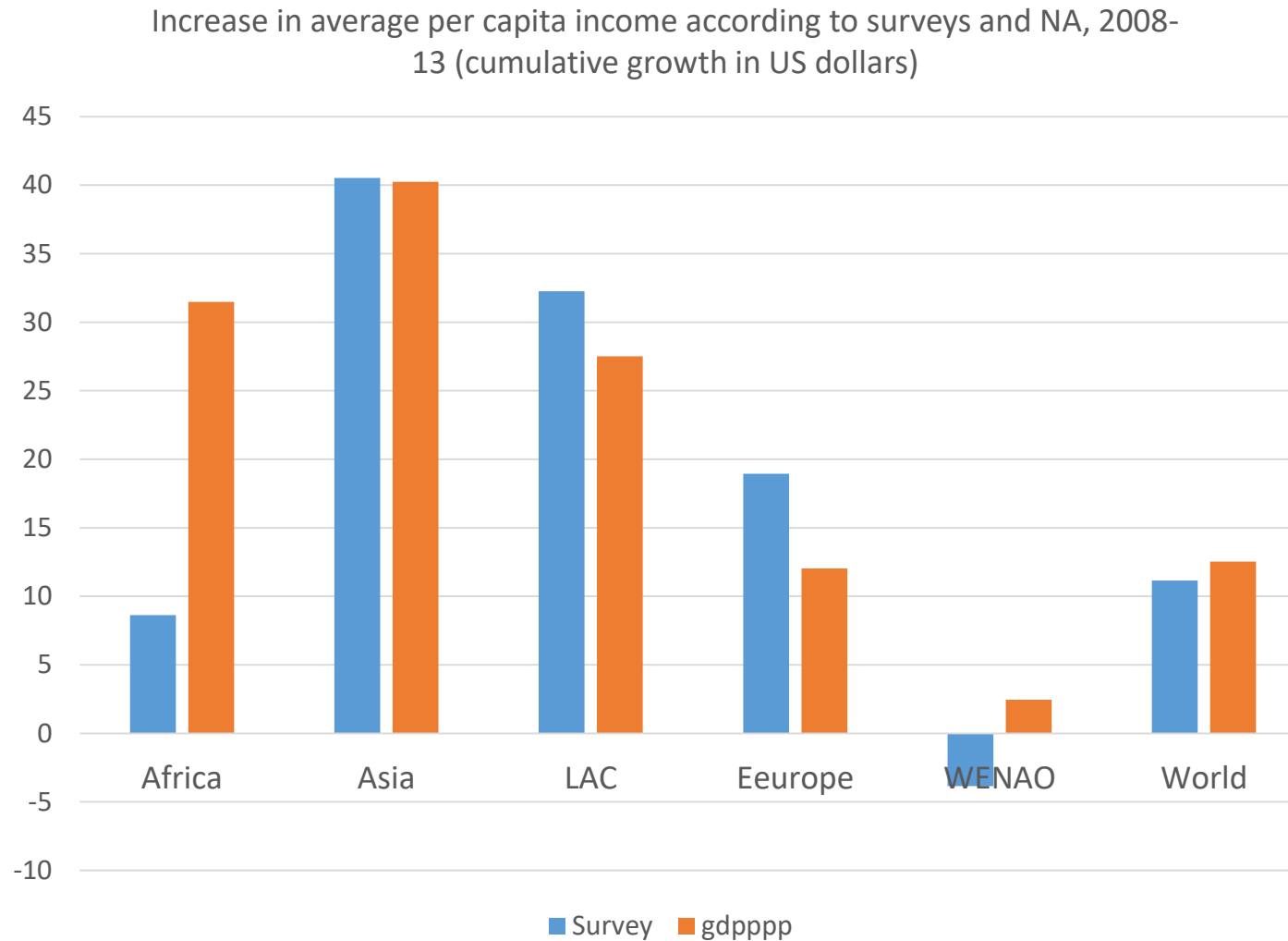
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twoway (kdensity loginc [w=popu] if loginc>2, bwidth(0.2)) , legend(off) title(Global income distribution in 2013) xtitle(log of annual PPP real income) ytitle(density) xlabel(2.8"600" 3.4"2600" 3.77"5900" 4.2"14600", labsize(small)
angle(90)) xline(2.8, lpattern(dash)) xline(3.4, lpattern(dash)) xline(3.77, lpattern(dash)) xline(4.2, lpattern(dash)) text(0.8 2.5 "Global poverty 10%") text(0.8 3.4 "Median") text(0.8 3.9 "Mean 73%") text(0.8 4.7 "WENAO median 91%")

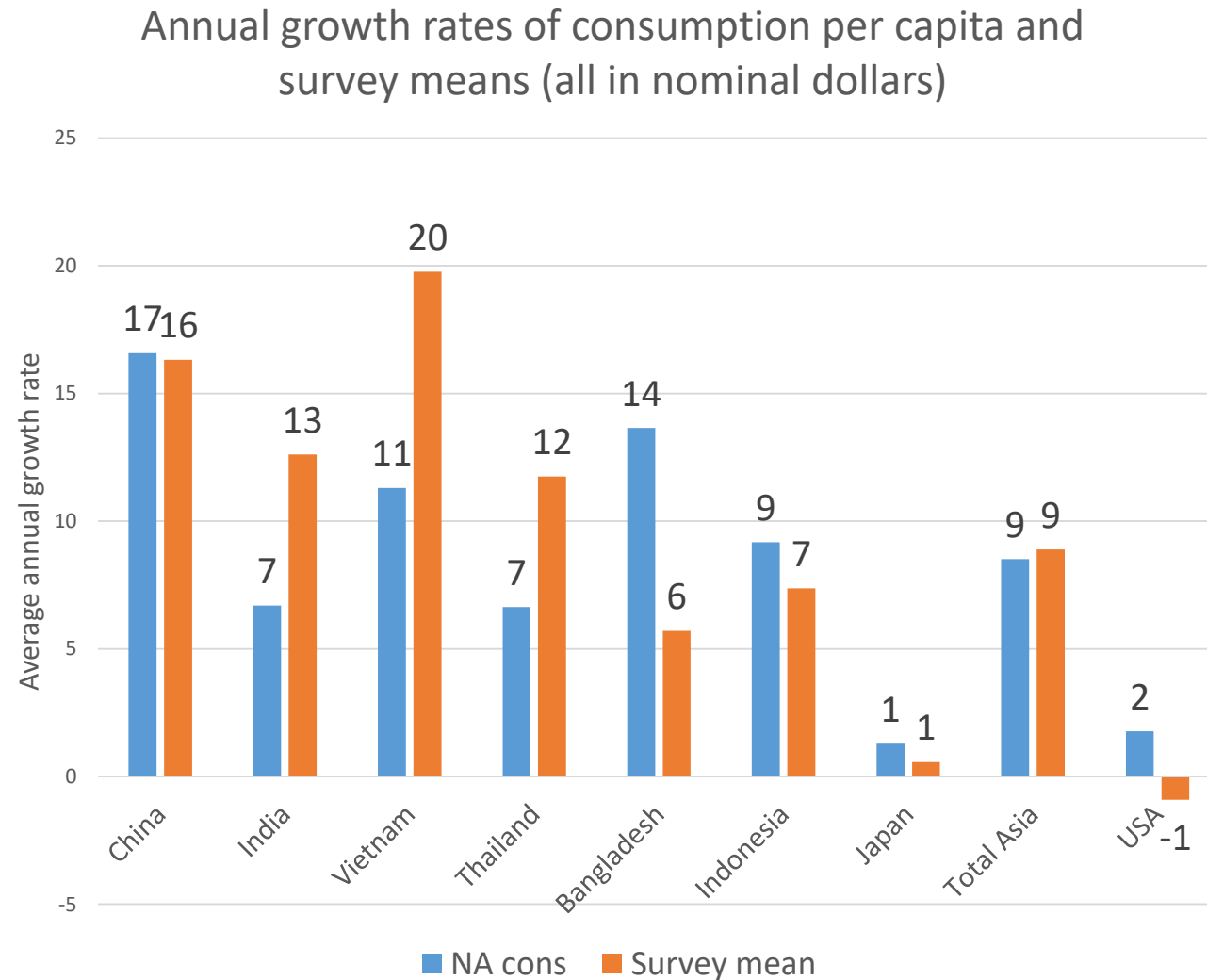
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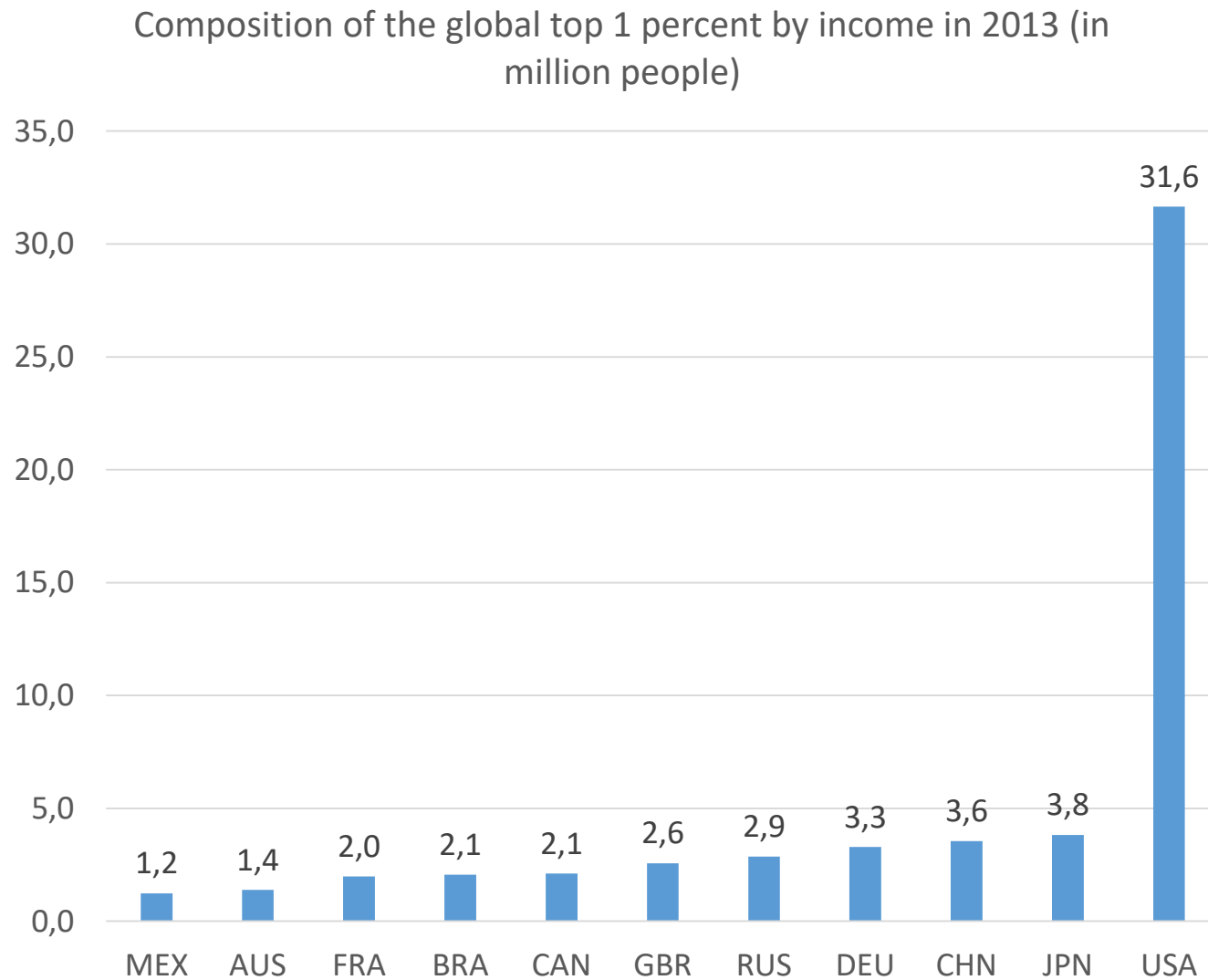
# Continued catch-up of Asia....



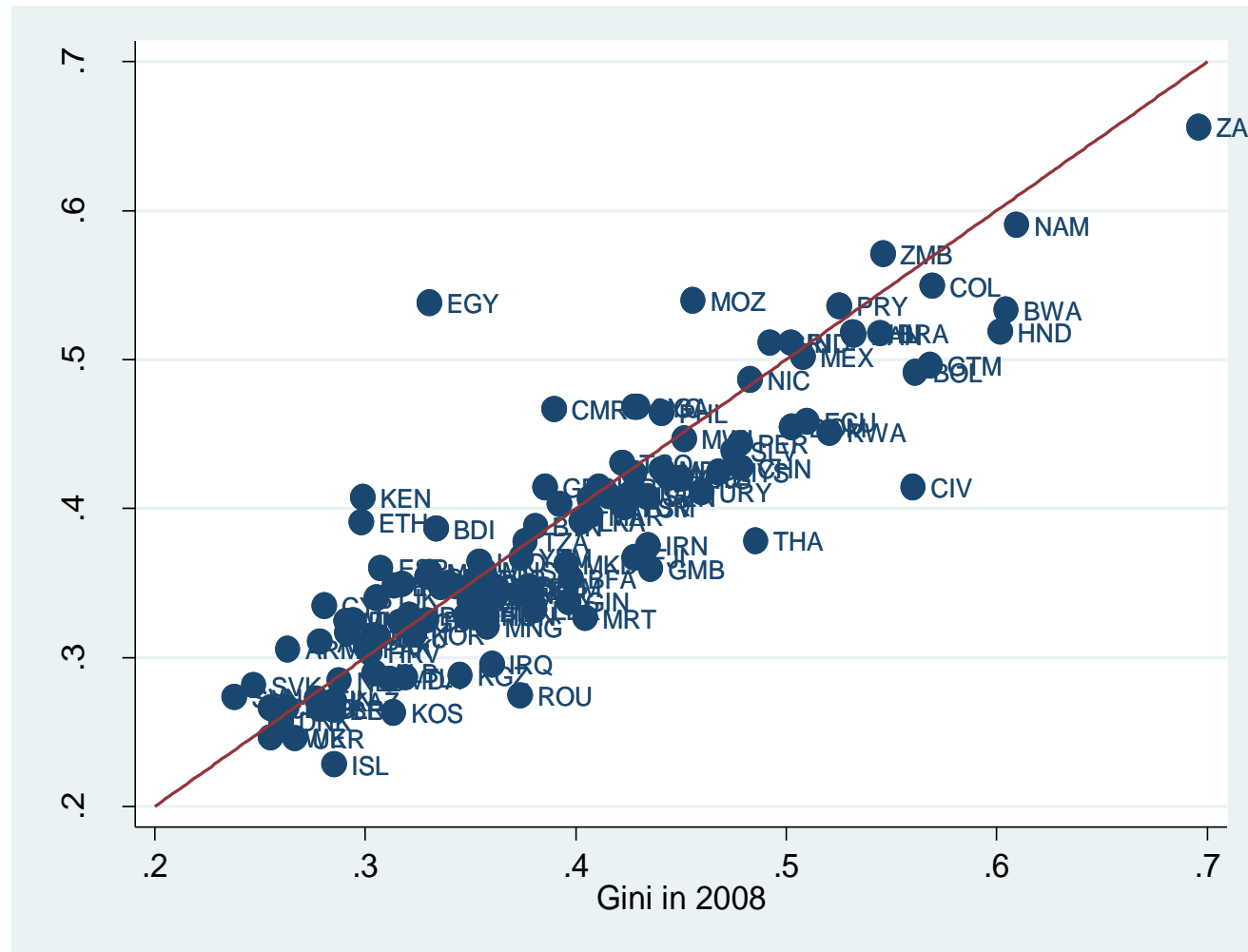
....and especially of less rich Asian countries



# Composition of the global top 1 percent



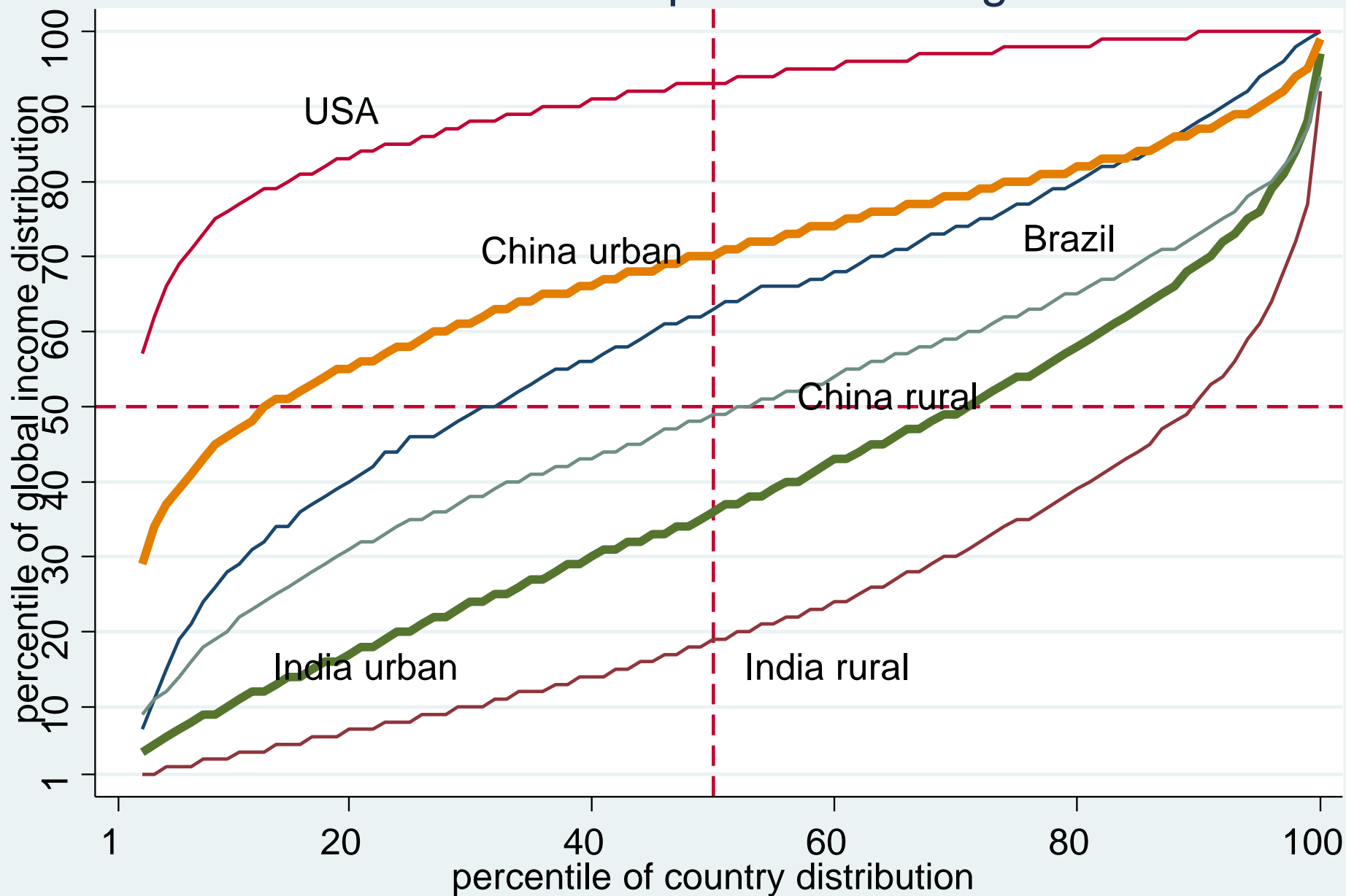
# There was no marked movement toward greater or lower within-national inequality



twoway (scatter gini\_2013 gini\_2008 if group==1, mlabel(contcod) msize(large) xtitle(Gini in 2008) ytitle(Gini in 2013)) (function y=x, range(0.2 0.7) legend(off))  
Using final\_08\_13.dta

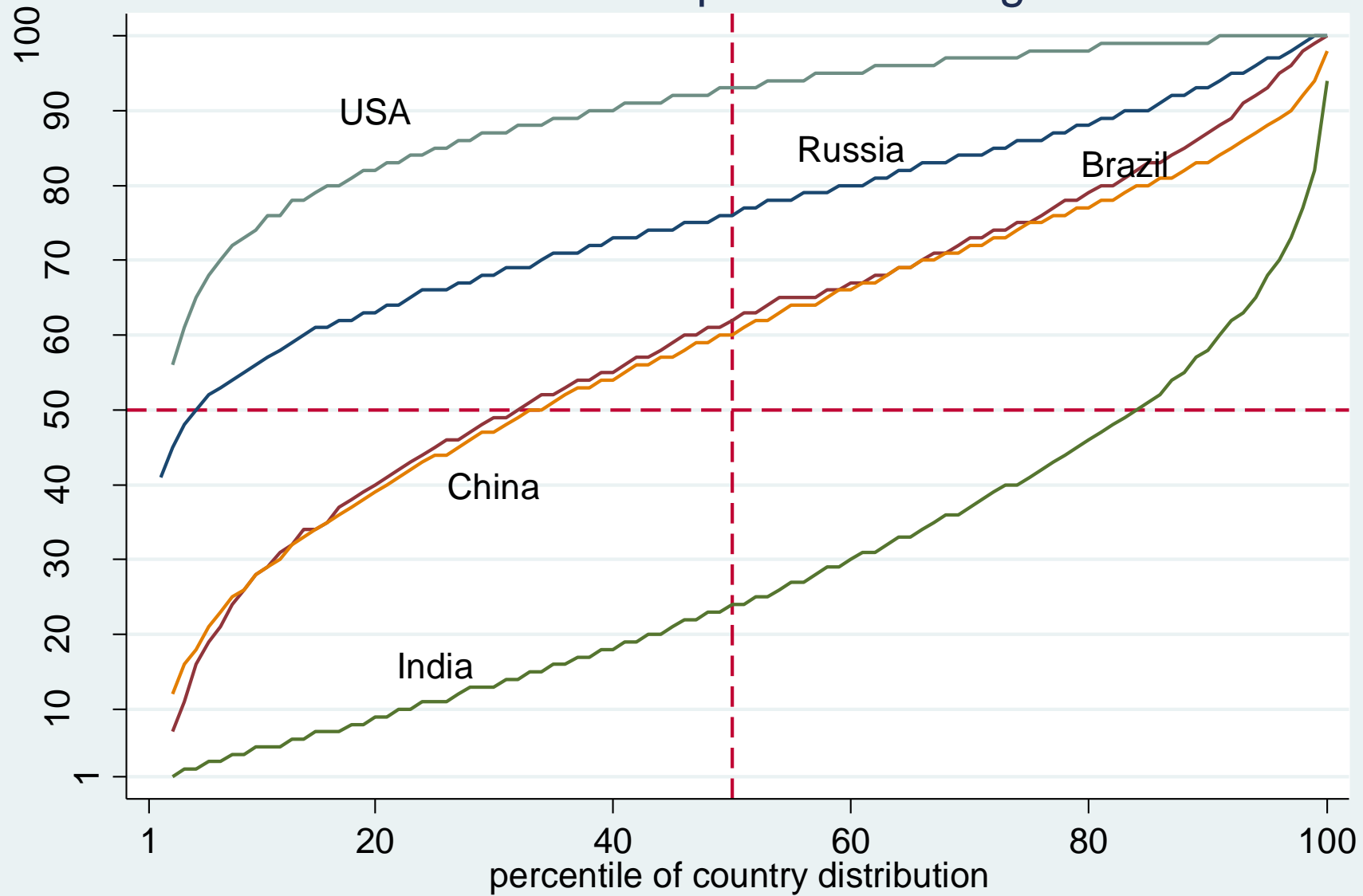
# Position of national income percentiles in global distribution

Year  
2013-14



## Position of national income percentiles in global distribution

Year  
2013-14



# 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. A long-run problem for Russia.
- 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.
- Ironical statement: Europe is too rich for its own good, Russia too poor.

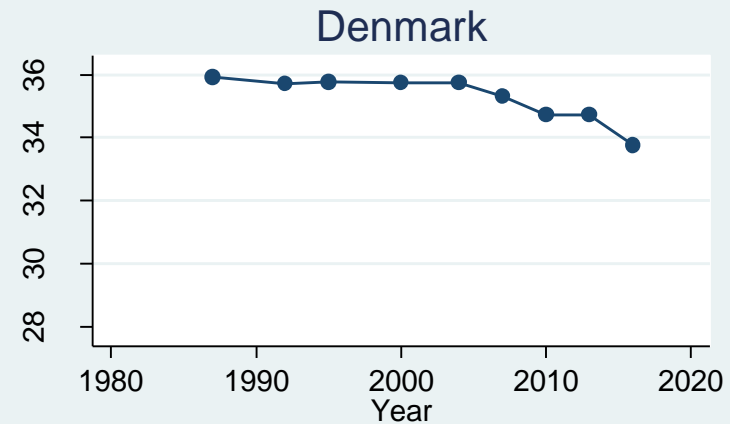
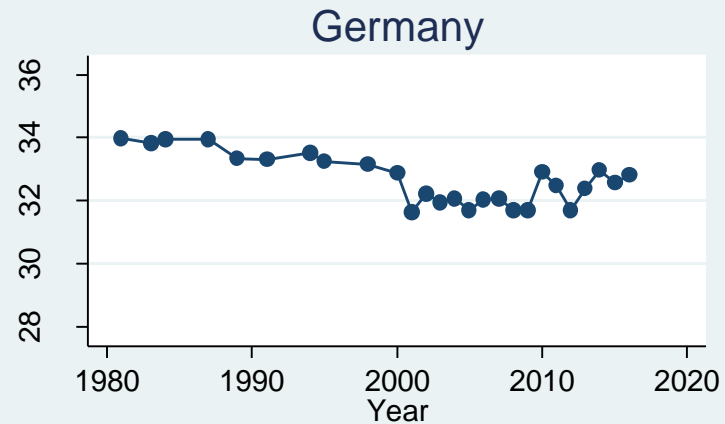
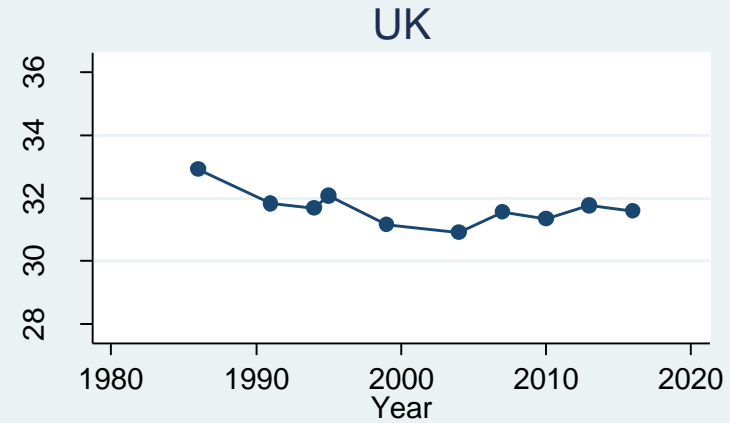
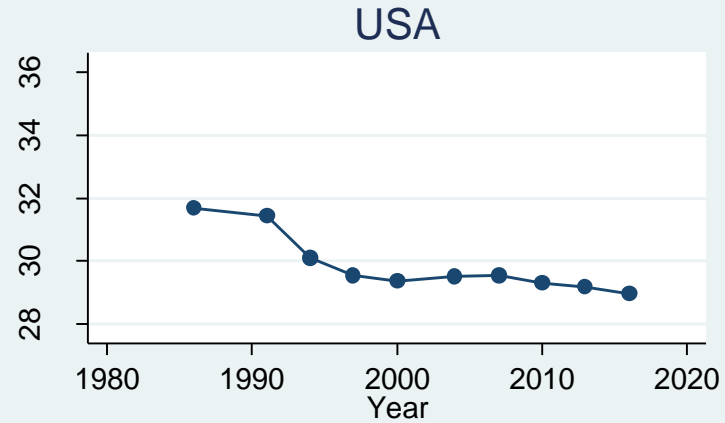
The past thirty years in the West



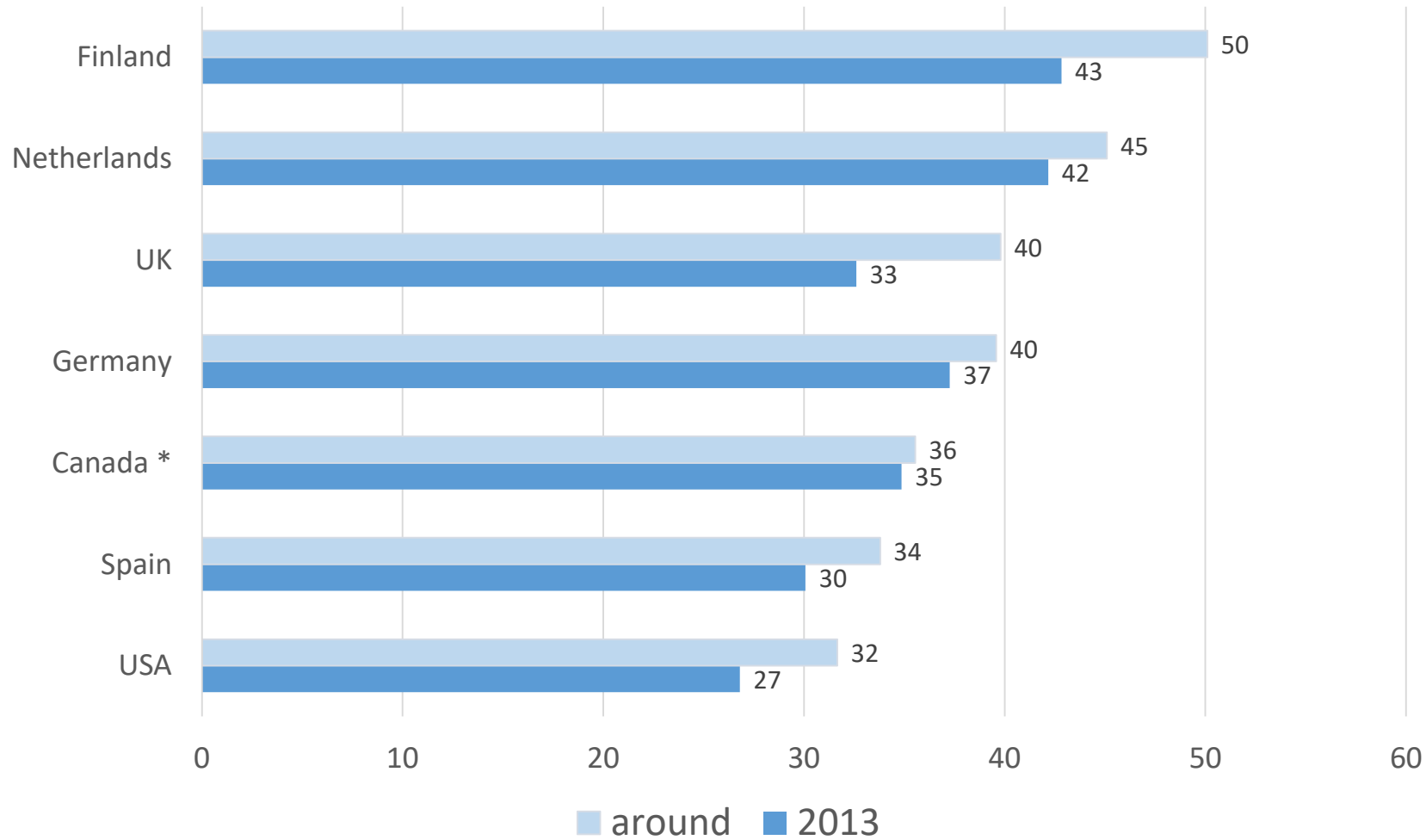
# Shrinkage in the size of the western middle classes

## Income share of the four middle deciles

MarketP income-in percent



## 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)