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

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

- IR and the rise of the West
- WW1 and the Great Depression
- WW2 and US dominance
- The rise of Asia

1820-1980 recalculation of Bourguignon-Morrisson; 1992-2013: Lakner and Milanovic with extensions
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
The age of empires and class struggles
(divergence between countries and between classes)

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

The age of convergence and internal cleavages

[The diagram shows a timeline with bars representing the percentage of divergence or convergence between different periods, from 1820 to 2013, with labels for each period indicating the nature of the conflicts or convergences.]
Within-national and between-national income inequalities (together equal to global inequality) during the past two centuries, Theil 1820-2013

- Inter-country population-weighted
- Inequalities within countries

thepast.xls
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 GDP per capita (GDPpc) from the Industrial Revolution to today (Indonesia vs. the Netherlands)

From Maddison 2018; all in 2011 PPP
Heterogeneity: going beyond the averages
The poor, the middle class and the rich in China and the UK in historical perspective

Data vs. the UK (Chinese income vs UK income at different parts of income distribution)

Data_central/...Bourguignon_Morrisson/Data_WD19.xls
Going beyond the averages: Convergence of Chinese incomes

US and Chinese income distributions around 2002

US and Chinese income distributions in 2013

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.

World GDP per capita (left) and coefficient of variation of countries' GDPs per capita (right) 1820-2016 (population-weighted)

coeff. of variation
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.

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”

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

Figure 3. Global income distribution in 1988 and 2011

log of annual PPP real income

density

300
1000
3000
10000
50000

0
.2 .4 .6 .8

1988
2011
Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)

From twenty_years\final\summary_data

Branko Milanovic

Estimated at mean-over-mean
After the financial crisis
After the crisis: 2008-13

Growth incidence curve 2008-13 (PPP dollars)

Continued very strong growth around the global median

No improvement for Western middle classes

Slowdown of growth of global top 1%

Adjusted
Unadjusted
Absolute income gains are (not surprisingly) extremely unequal (in PPP dollars)
Global income distribution in 2013

Log of annual PPP real income

Global poverty 10%  Median  Mean 73%  WENAO median 91%

Density

0 0.2 0.4 0.6 0.8

600 2600 5900 14600

Using final13.dta
Continued catch-up of Asia....

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

- Africa
- Asia
- LAC
- Europe
- WENAO
- World

Survey and gdpppp
....and especially of less rich Asian countries

Annual growth rates of consumption per capita and survey means (all in nominal dollars)

Average annual growth rate

<table>
<thead>
<tr>
<th>Country</th>
<th>NA cons</th>
<th>Survey mean</th>
</tr>
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<tbody>
<tr>
<td>China</td>
<td>1716</td>
<td>13</td>
</tr>
<tr>
<td>India</td>
<td>7</td>
<td>11</td>
</tr>
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<td>Vietnam</td>
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<td>Thailand</td>
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<td>Japan</td>
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<td>Total Asia</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>USA</td>
<td>-1</td>
<td>-5</td>
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</tbody>
</table>

Source: Asia_povcal.xls
Composition of the global top 1 percent by income in 2013 (in million people)
There was no marked movement toward greater or lower within-national inequality.
Position of national income percentiles in global distribution

Year 2013-14

percentile of global income distribution

percentile of country distribution

USA
China urban
Brazil
China rural
India urban
India rural

1 10 20 30 40 50 60 70 80 90 100

1 10 20 30 40 50 60 70 80 90 100
Position of national income percentiles in global distribution

Year 2013-14

USA
India
Brazil
China
Russia
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 increasing 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.

• Ironic 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

USA
UK
Germany
Denmark

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The middle class defined as population with income between +/-25% of national median income (all in per capita basis; disposable income; LIS data)

Percentage of population considered middle class in early 1980s and 2013

- Finland: 43% (around), 50% (2013)
- Netherlands: 42% (around), 45% (2013)
- UK: 33% (around), 40% (2013)
- Germany: 37% (around), 40% (2013)
- Canada*: 36% (around), 35% (2013)
- Spain: 30% (around), 34% (2013)
- USA: 27% (around), 32% (2013)

* Canada data includes only those with full-time jobs.