

Inequality in the age of globalization

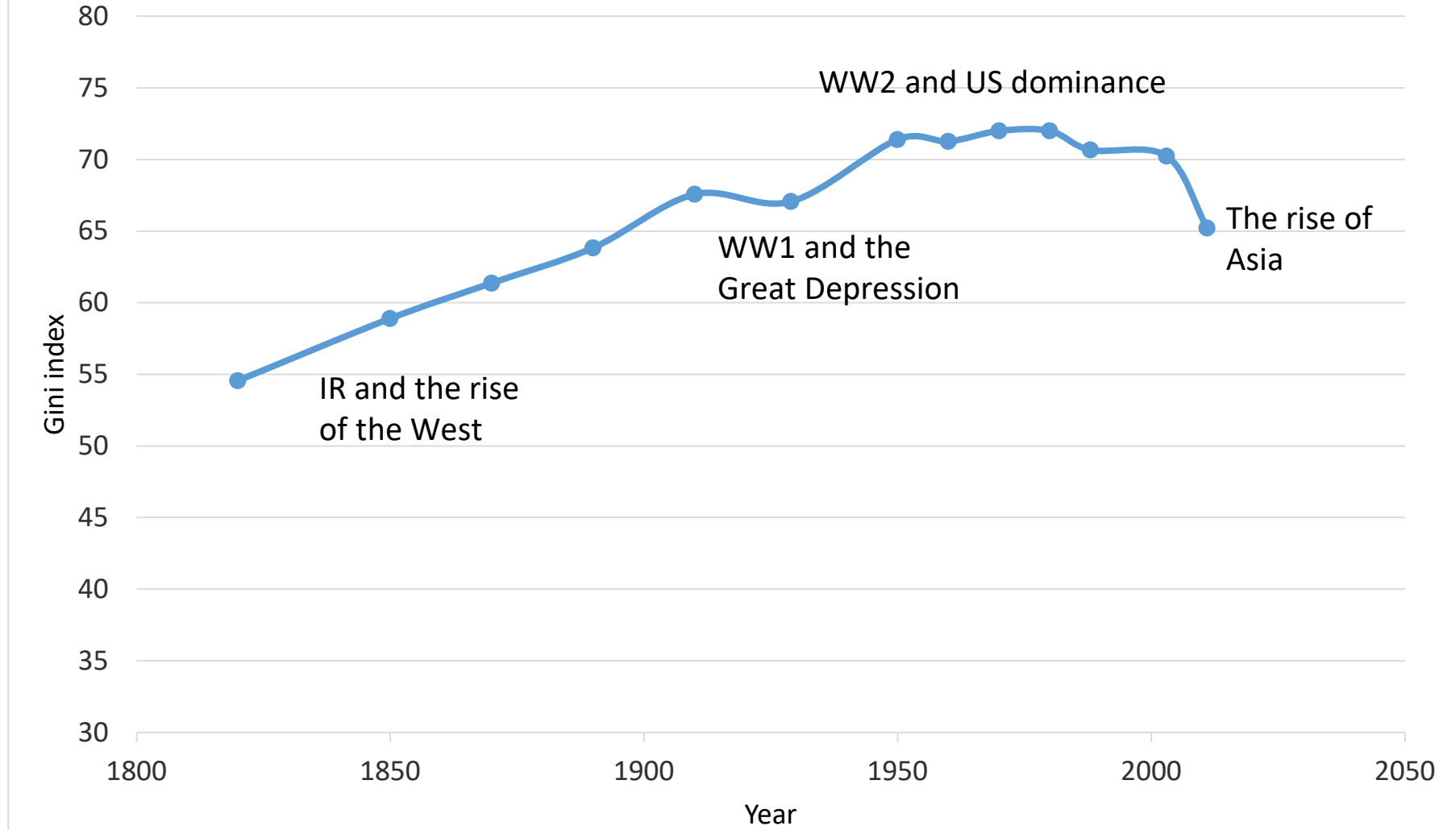
Branko Milanovic
Summer/Fall 2017

Structure of the talk

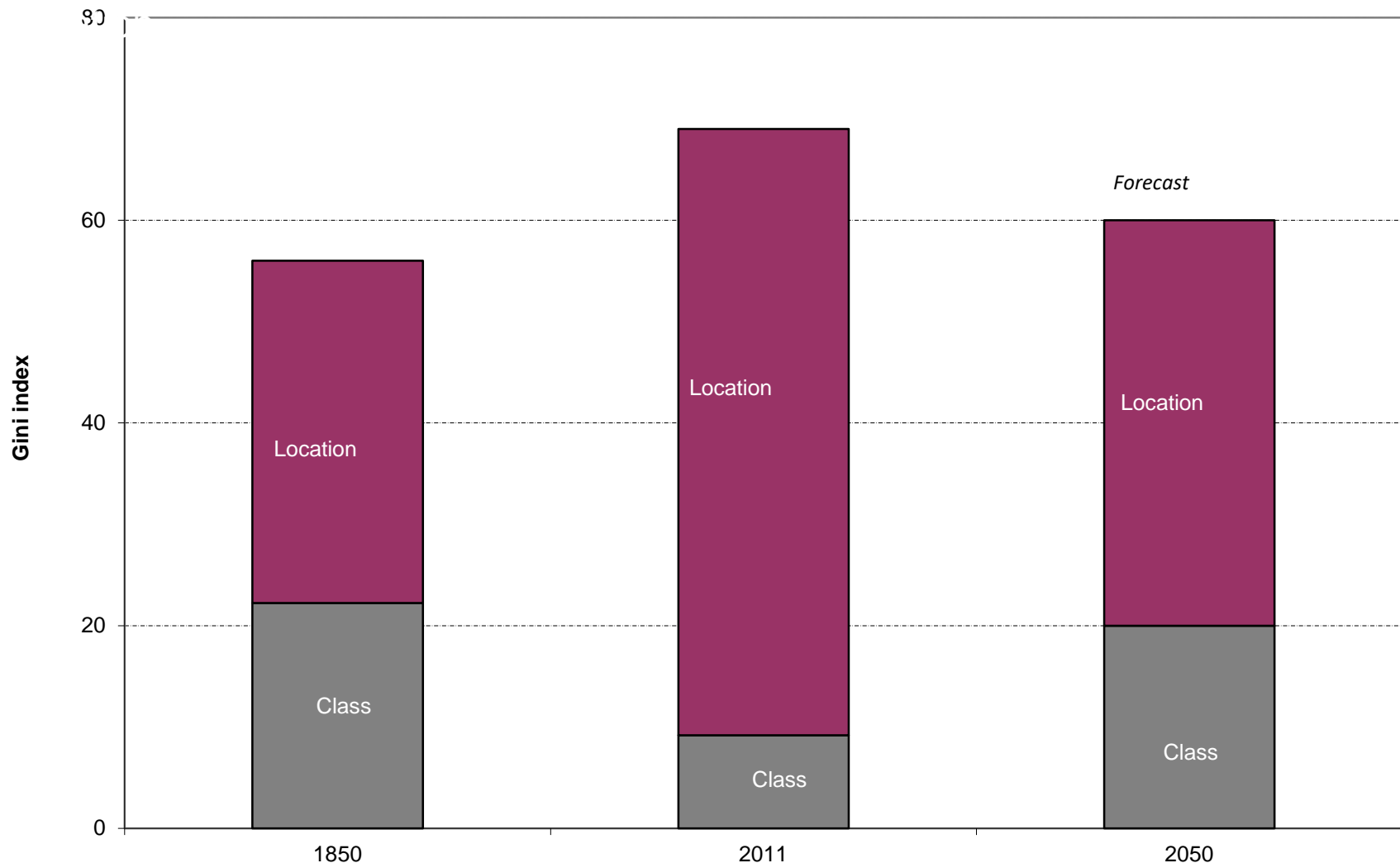
- Uniqueness of the current period: Capitalism rules alone + the reemergence of Asia (bringing the distribution of economic activity within Euroasia to the way it looked around 1500)
- “Elephant chart” and the ambivalence of globalization
- Greatest support for globalization in the South
- Unlikely that convergence of Asia will stop
- Disarticulation in the North => threat to globalization
[but 2007-08 is **not** 1989]
- Migration as an expression of globalization => policies in favor of circular migration and against binary nature of citizenship
- Unlikely that the 20th century remedies for inequality can work in the 21st century

Long run

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

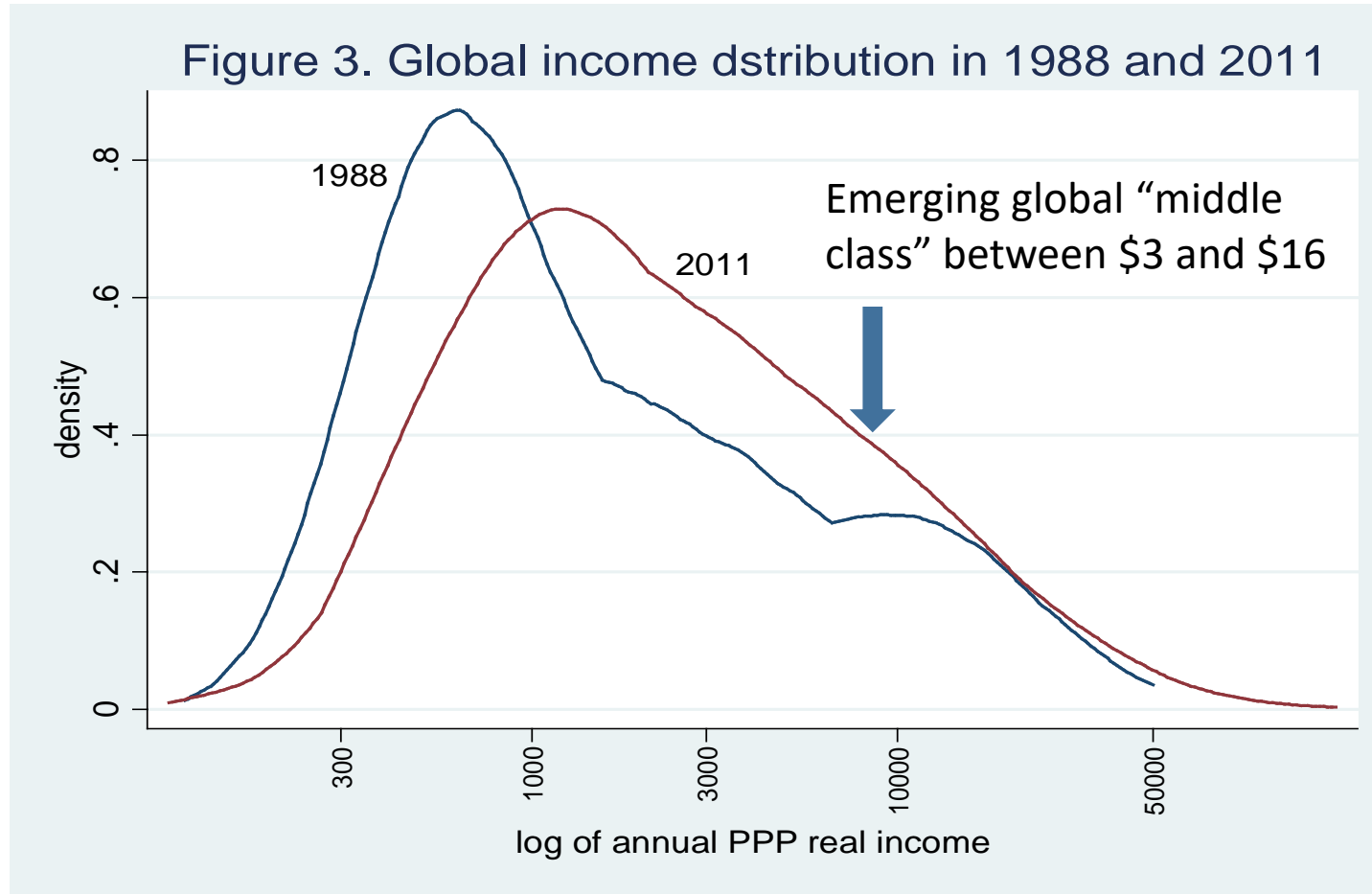


La longue durée: From Karl Marx to Frantz Fanon and back to Marx?



Past twenty-five years

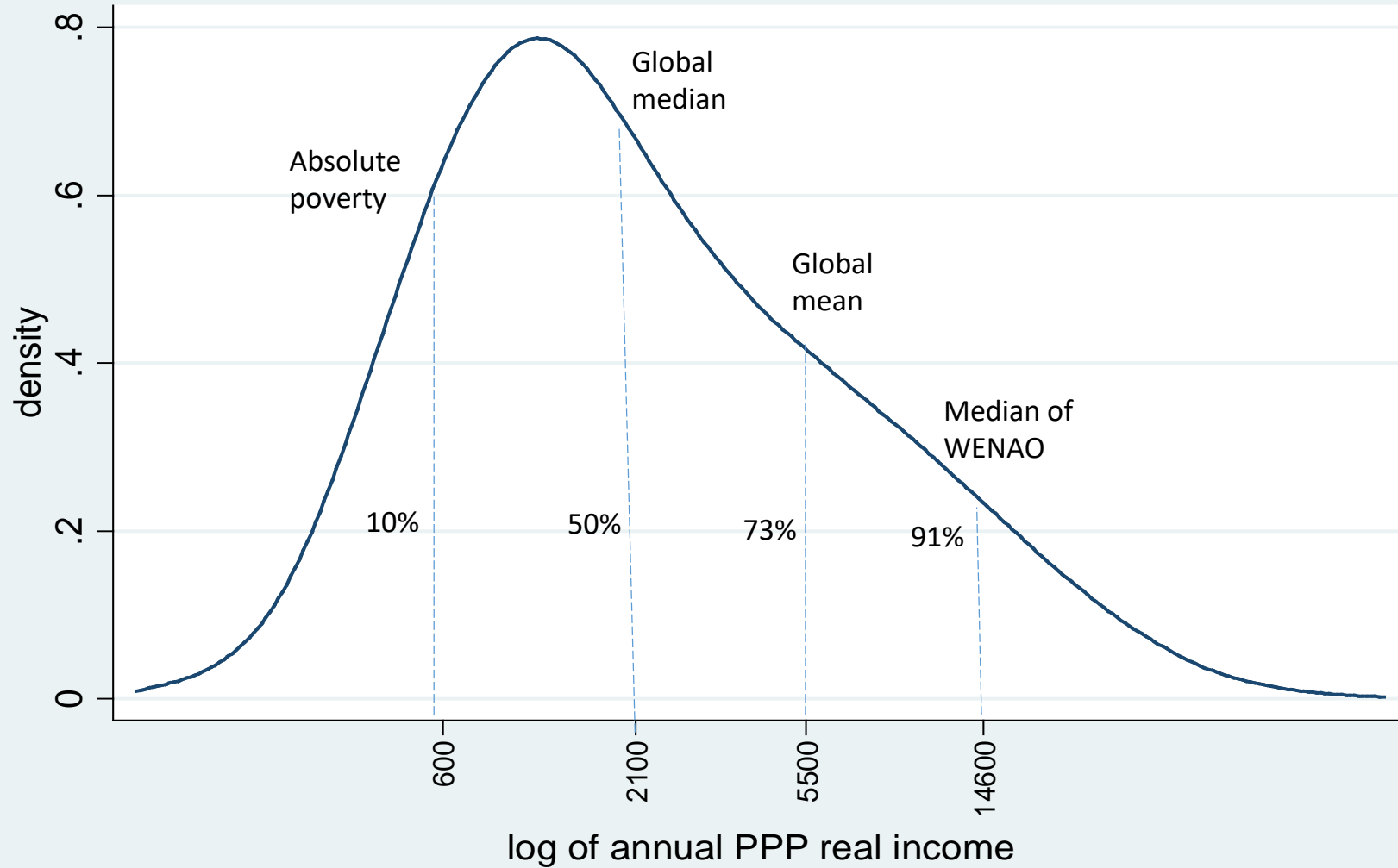
The emergence of the “global middle class” ...



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Using Branko\Income_inequality\final11\combine88_08_11_new.dta

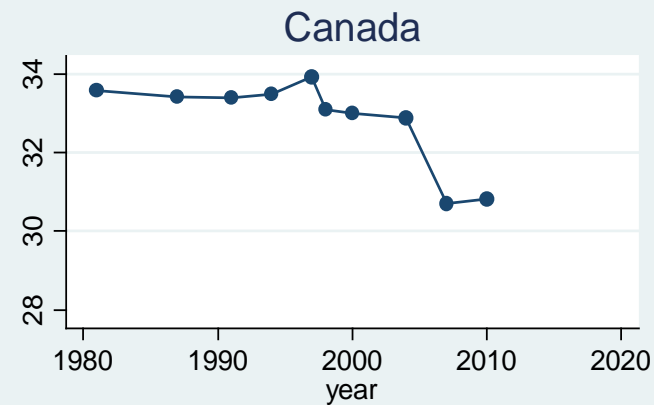
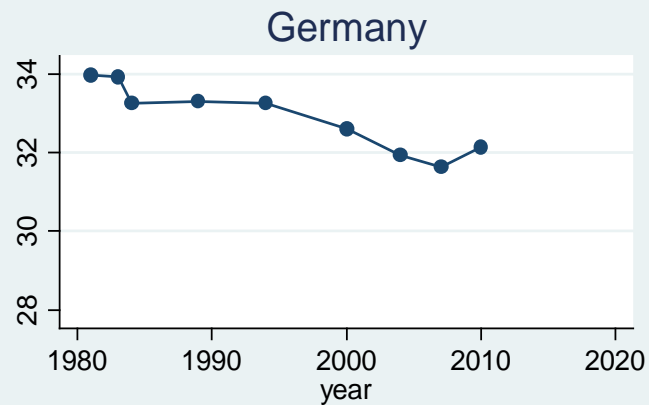
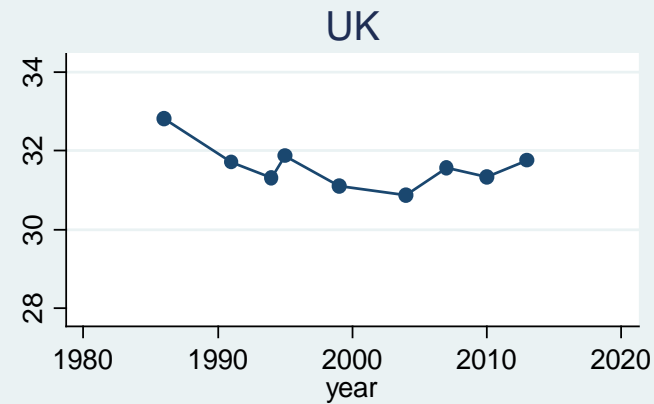
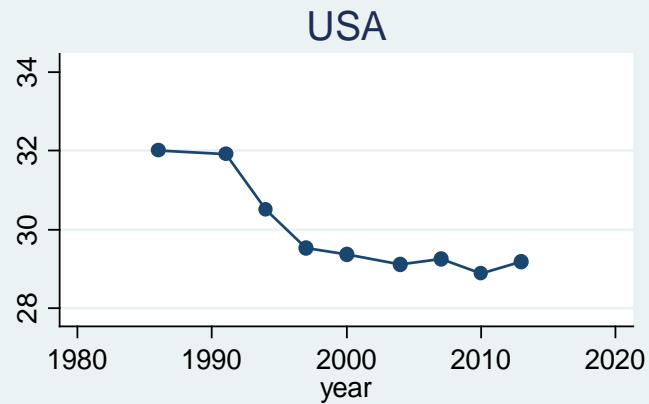
Global income distribution in 2011 with 2011 PPPs



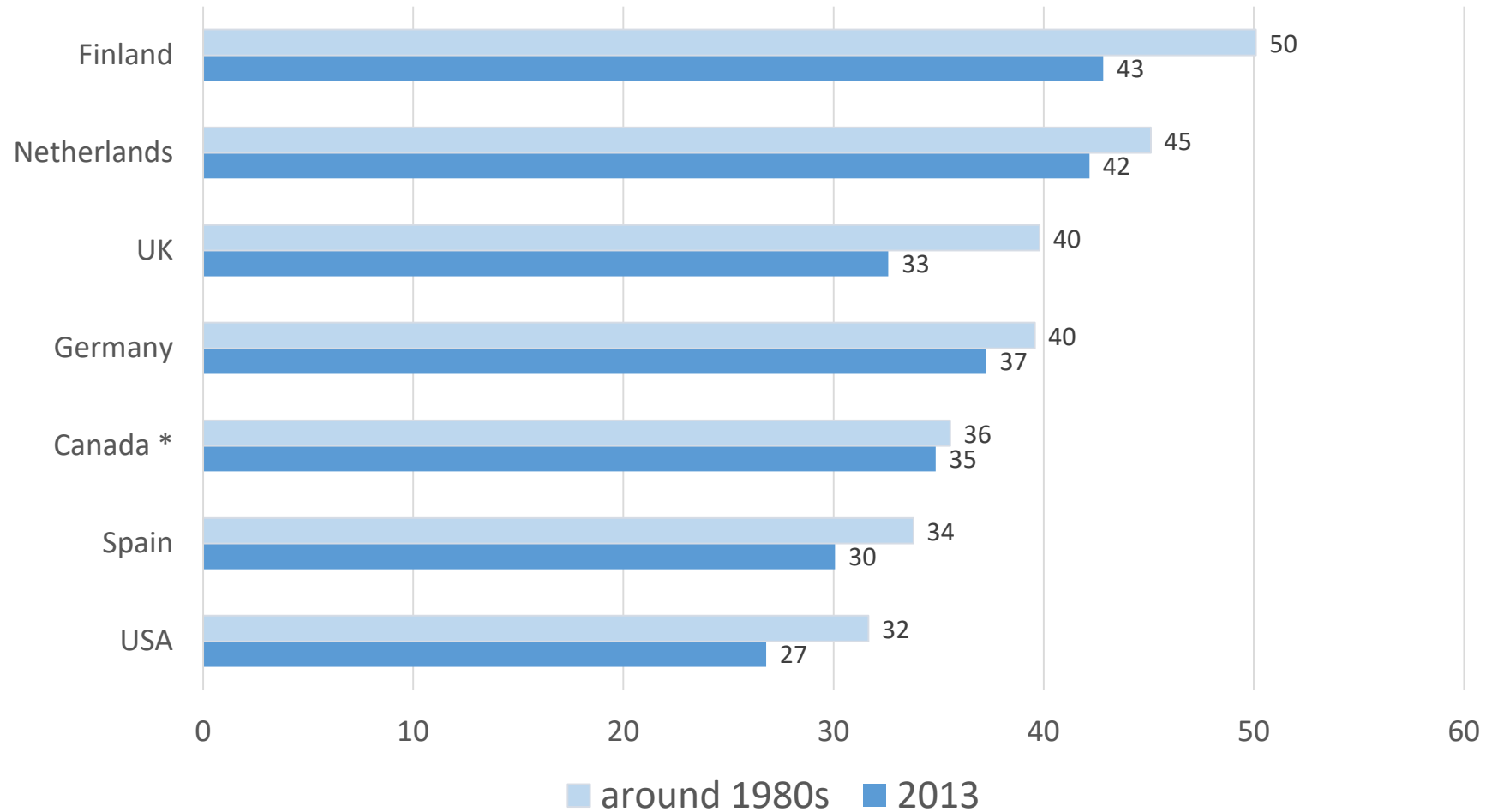
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Using combine88_11.dta

...and income stagnation and shrinkage in the size of the western middle classes

Income share of the middle four deciles 1980-2013
in percent

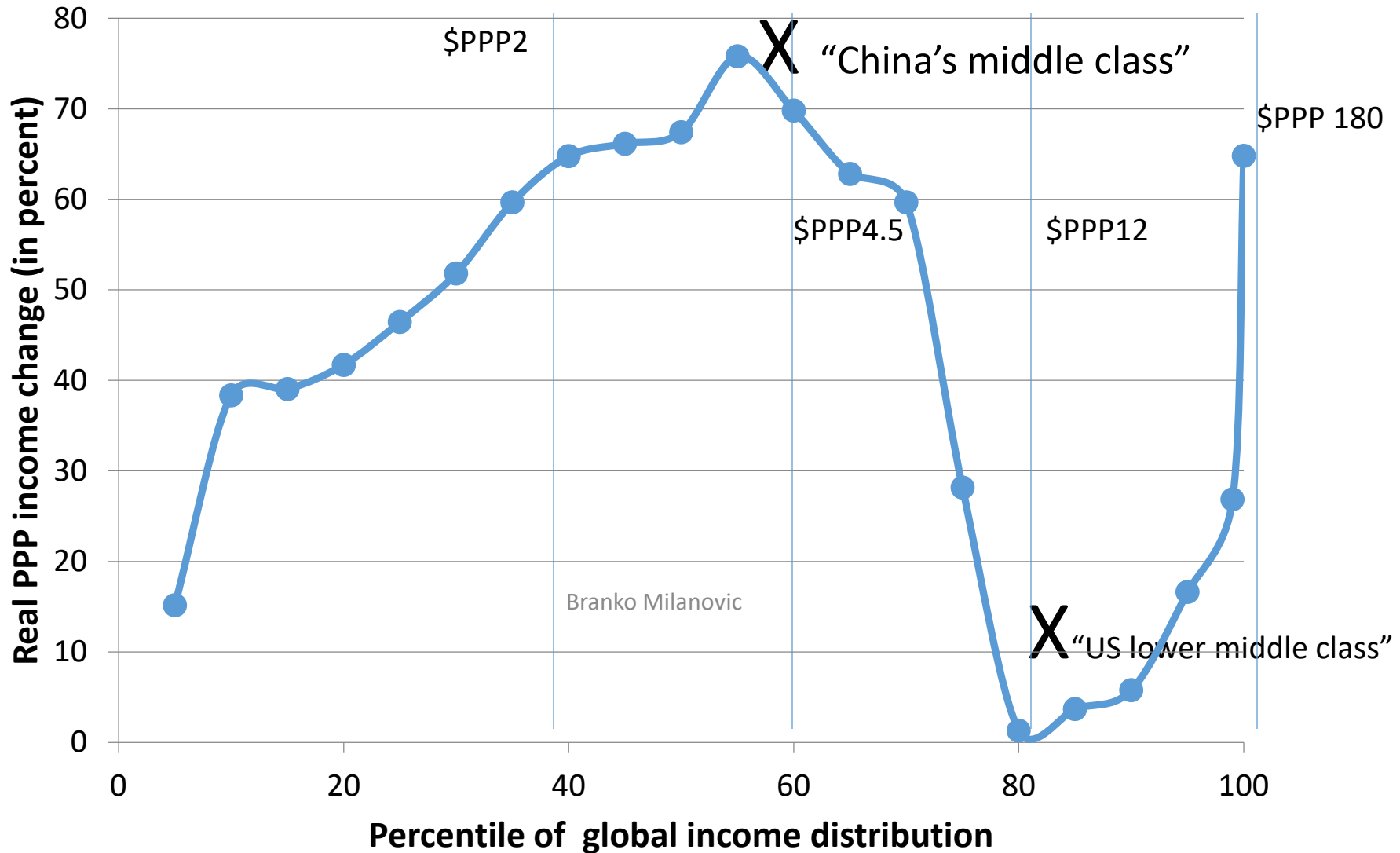


Percentage of population considered middle class in early 1980s and 2013

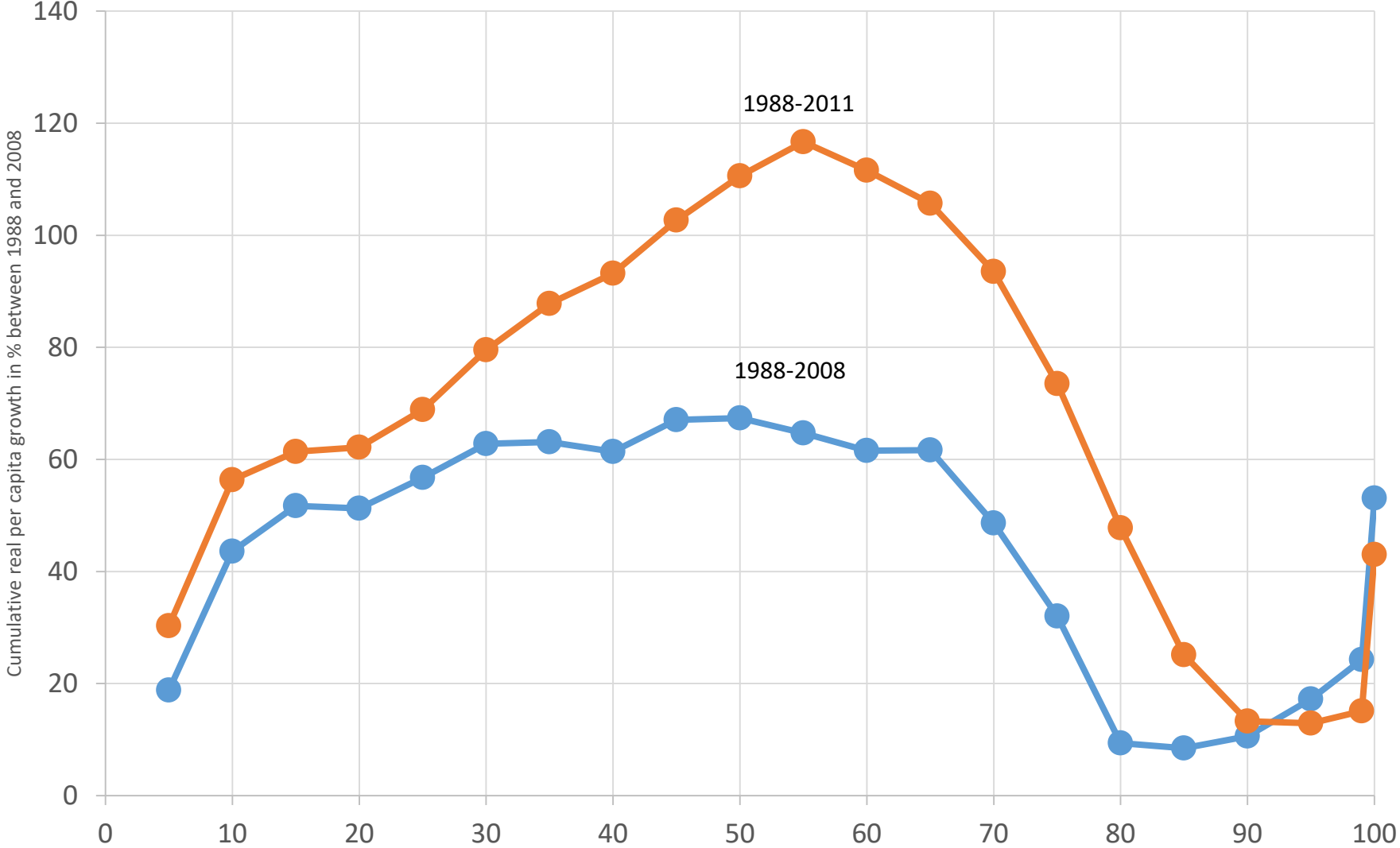


The middle class defined as population with income between +/-25% of national median income (all in per capita basis; disposable income; LIS data)

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

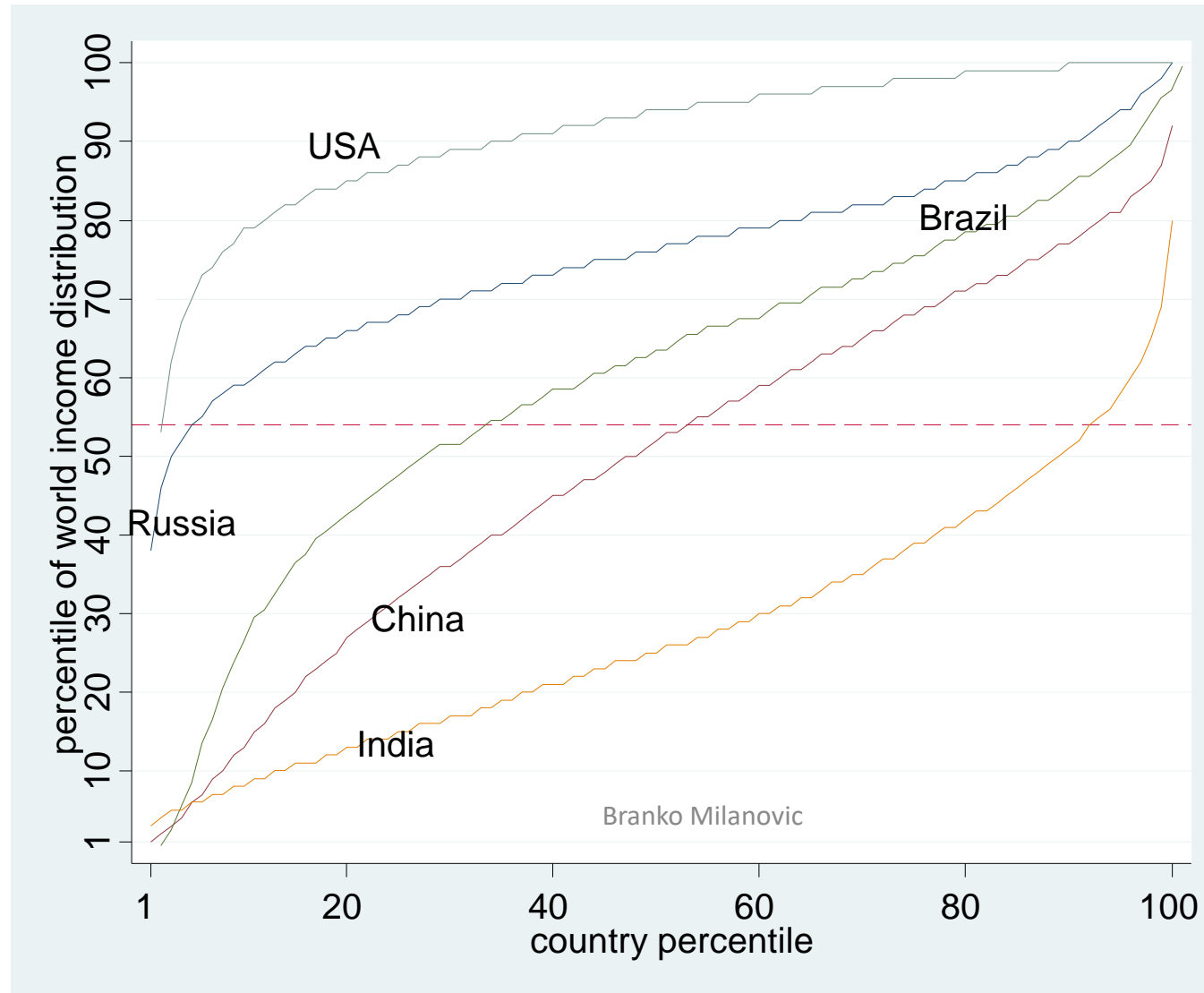


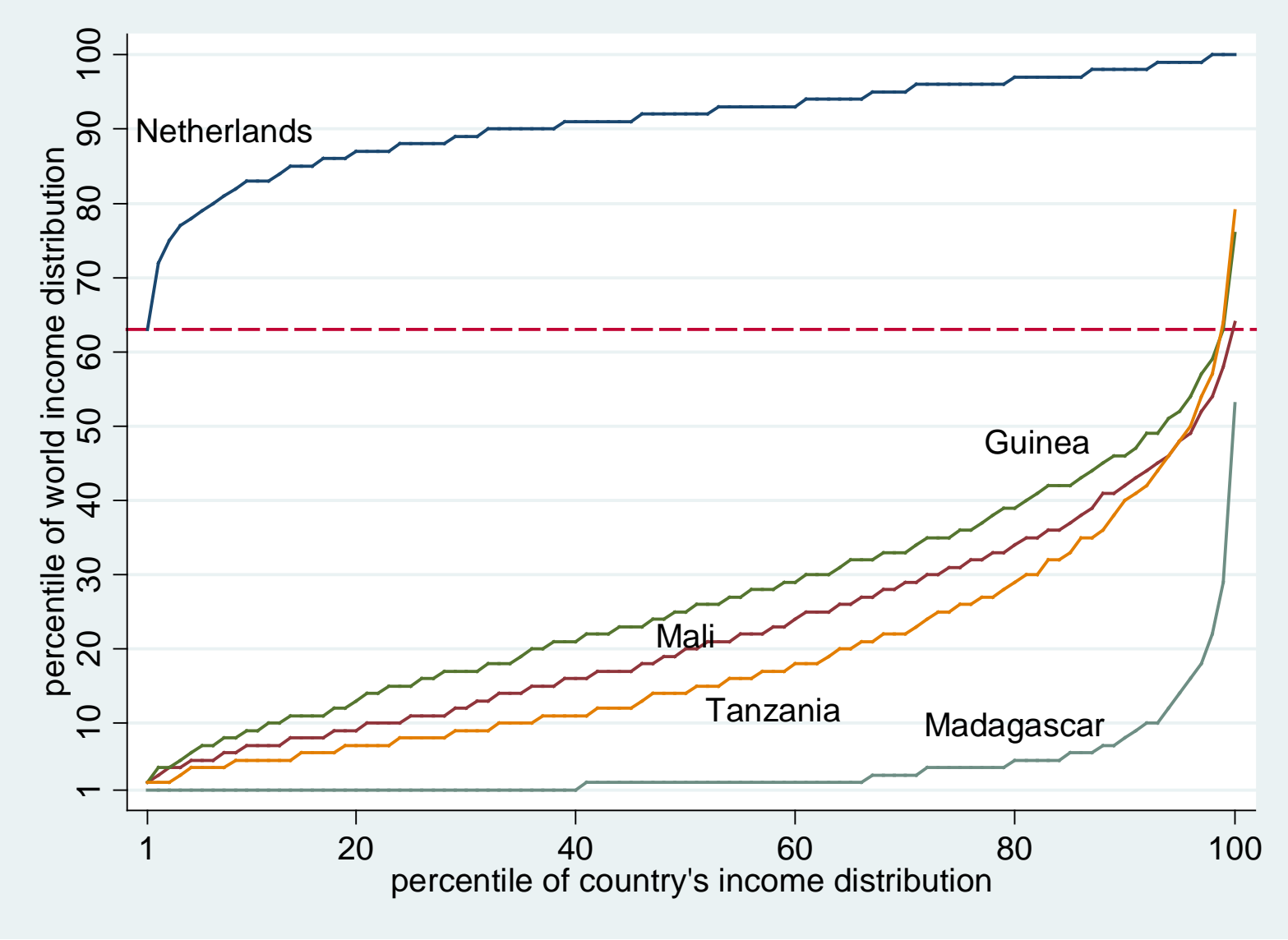
Real income growth over 1988-2008 and 1988-2011 (based on 2011 PPPs)



But large income differences between counties remain and they fuel migration

Different countries and income classes in global income distribution in 2008

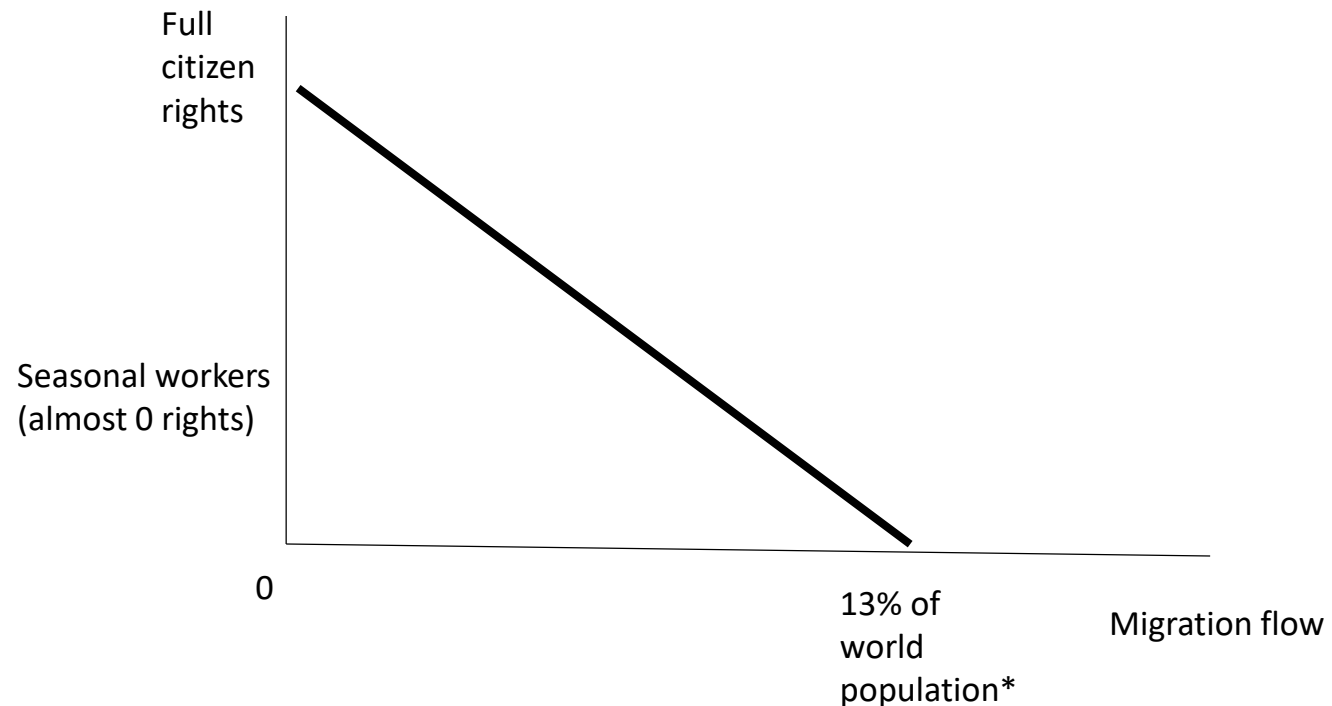




(another) Trilemma of globalization

- You cannot have (A) large differences in mean country incomes, (B) globalization and (C) no structural migration.
- If A+ B as today then migration.
- If A + C then no globalization.
- If B + C then you have to have homogeneous countries like EU15.
- EU, because of significant East-West and North-South income differences is, in a very modest way, a replica of the world
- EU migration problems stem from moving, as result of enlargement, from B+C to B+A.

Trade-off between citizenship rights and extent of migration



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

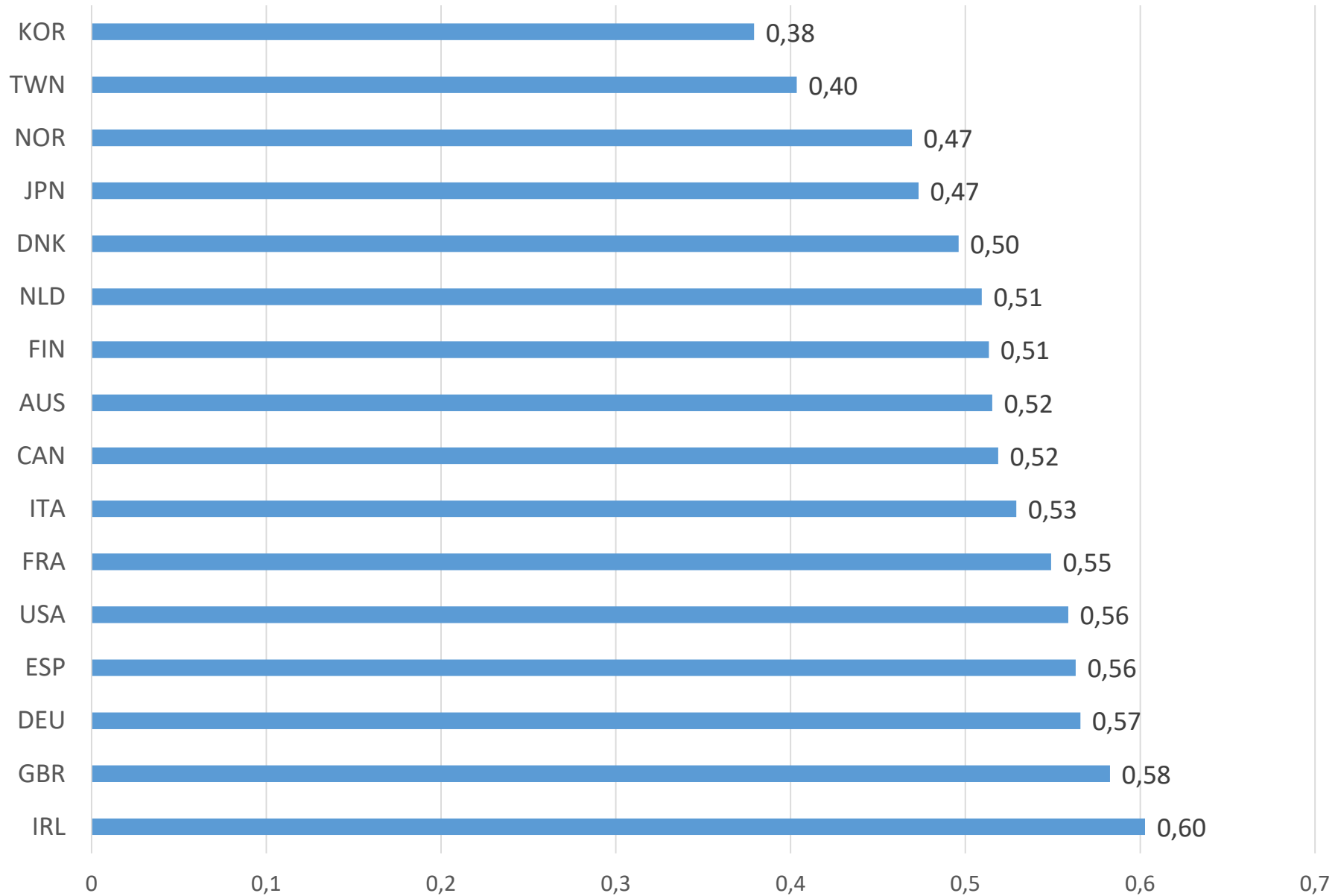
Why tools from the 20th century will not work?

- Education in quantitative sense will have much less of a “bang for a buck” and will not by itself reduce the skill premium
- Trade unions are on the decline because the nature of work, in service-oriented and globalized economy has changes
- Increases in taxation of current income are unlikely because the trust in the government is less
- New transfers cannot be financed; aging of the population and anti-migrant feelings further limit what can be done
- And one unlikely danger: more meritocratic capitalism where top wage earners are also top K earners (and the reverse)

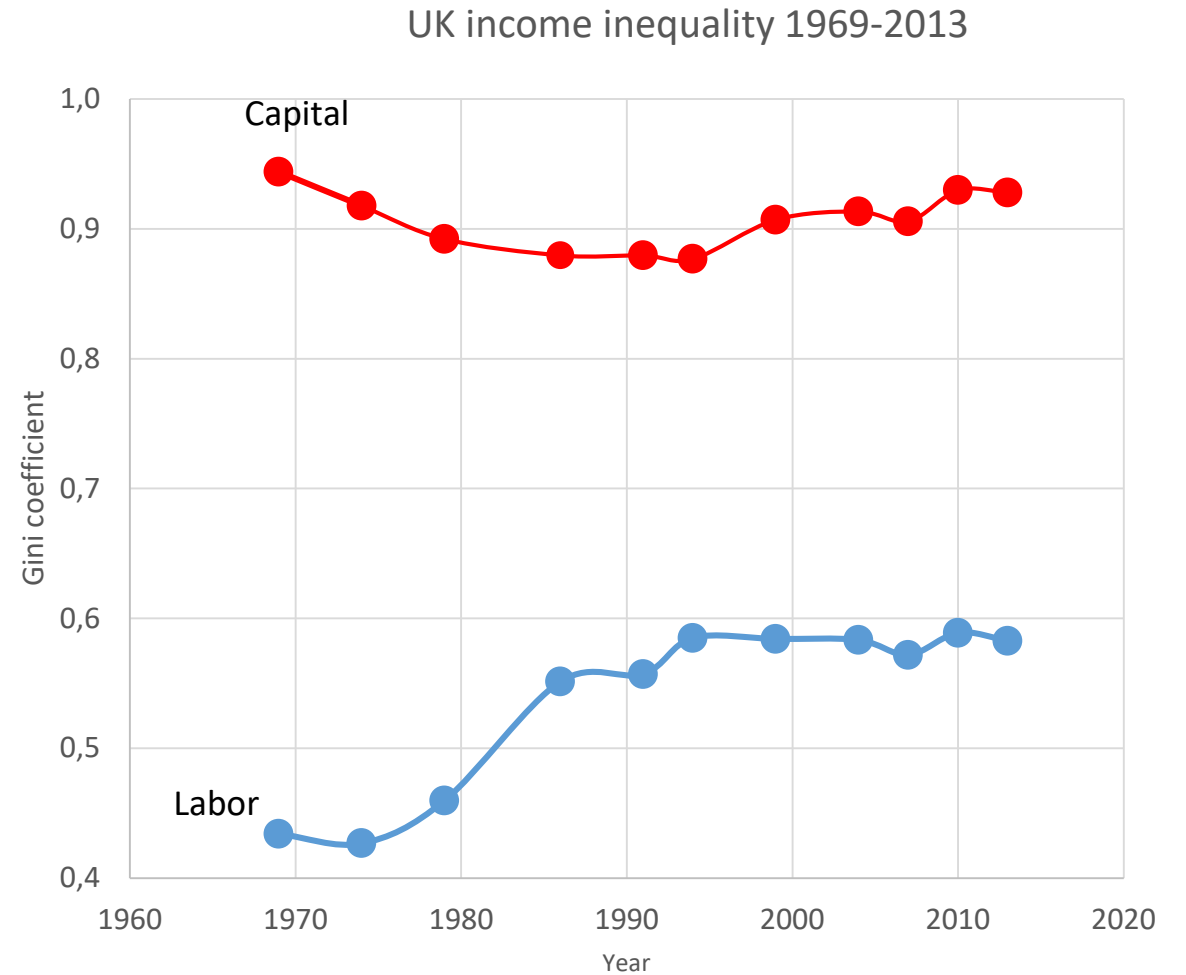
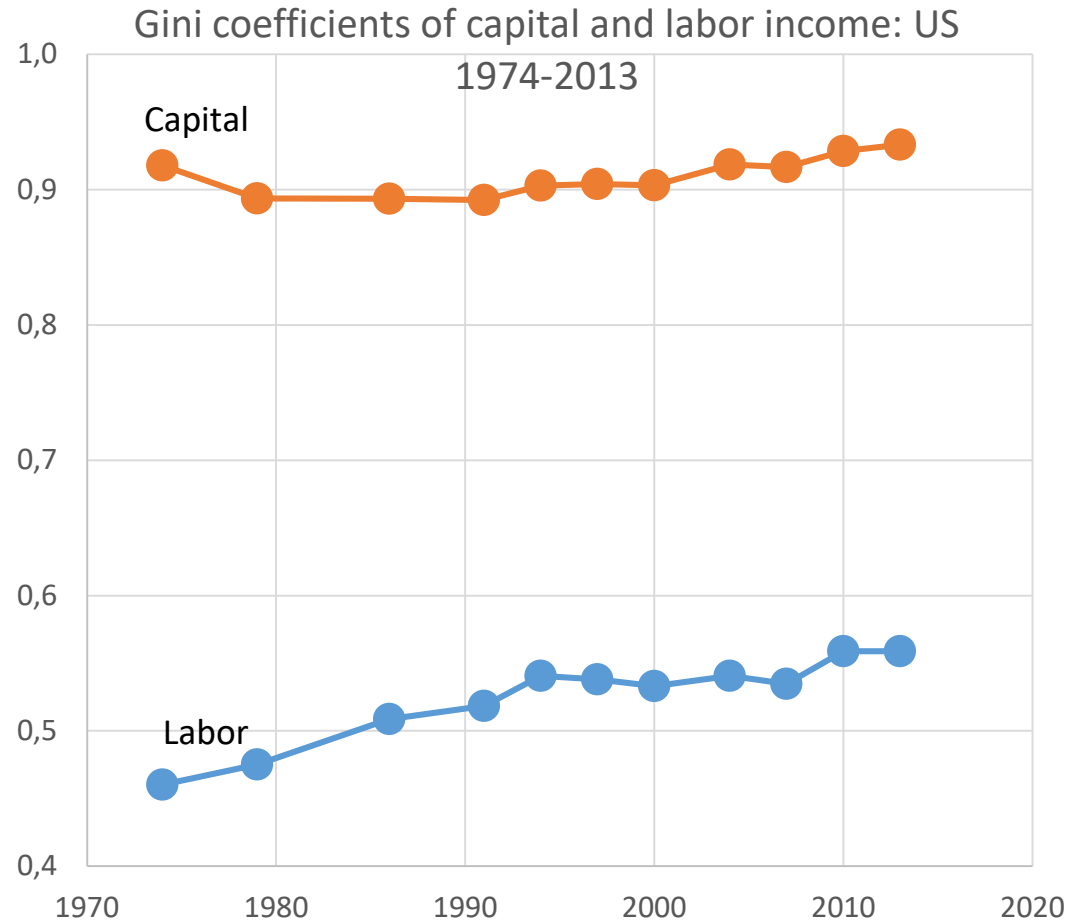
What could possibly be done?

- Improved quality of education and [much easier access to education](#) for all—that is, investing for stronger public education rather than the opposite trend of ever stronger private education
- [Deconcentration of ownership and income from capital](#) through the use of tax incentives; a long and arduous process
- Employee-stock ownership plans
- Higher taxation of inheritance (not current income)
- Change in the rules re. financing of political campaigns (especially in the United States)

Gini of household per capita labor income around 2013



Ginis of K and L income in the US and the UK



Ok, what are the messages?

- Maintain globalization, but do not expect that it will help everybody
- Improve domestic redistribution precisely because globalization is not good for all
- Expect that the shift of relative economic power to Asia will continue
- Improve quality and access to education
- Broaden ownership of capital
- Tax inheritance
- Do not “kill” migration but make it politically more palatable (by reducing migrants’ rights)
- Realize that Europe is also part of the Greater Middle East
- Reform the funding of political parties and elections