National and global inequality in the age of globalization, 1988-2008...

Branko Milanovic
Columbia University, Muhlenberg College, Levy Institute
Winter-Spring 2013

All based on fotrpogge.xls and final_complete2.dta
....or how the world changed between the fall of the Berlin Wall and the fall of Wall Street
A. National inequalities mostly increased
## Ginis in 1988 and twenty years later

<table>
<thead>
<tr>
<th></th>
<th>1988</th>
<th>2008</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Gini</td>
<td>36.0</td>
<td>38.5</td>
<td>+2.5</td>
</tr>
<tr>
<td>Pop-weighted Gini</td>
<td>33.9</td>
<td>37.3</td>
<td>+3.4</td>
</tr>
<tr>
<td>GDP-weighted Gini</td>
<td>32.2</td>
<td>36.4</td>
<td>+4.2</td>
</tr>
<tr>
<td>Countries with higher Ginis (38)</td>
<td>33.7</td>
<td>38.5</td>
<td>+4.8</td>
</tr>
<tr>
<td>Countries with lower Ginis (20)</td>
<td>40.5</td>
<td>37.7</td>
<td>-2.7</td>
</tr>
</tbody>
</table>

From final-complete3.dta and key_variables_calcul2.do  
Branko Milanovic
Ginis in 1988 and 2008

From key_variables_calcul3.do
Ginis in 1988 and 2008 (population-weighted countries)
Increase in real household per capita income, 1986-2010
Inequality and income, 1960-2010

Use fc:...\finance_and_development\figure2.txt.do
Use gdpppppreg3.dta
Issues raised by growing national inequalities

• Inequality as one of the causes of the financial crisis in the US
• Real inequality greater than measured inequality because rich people refuse to participate in surveys and hide their income and assets (growing issue)
• Perception of inequality outstrips real increase because of globalization, role of social media and political (crony) capitalism (example of Egypt)
Based on triptych.dta with jedan.do
B. The pattern of global inequality change differed from the pattern of national inequality changes
Three concepts of inequality defined

Concept 1 inequality

Concept 2 inequality

Concept 3 (global) inequality
Fact No. 1 (and most important)

• In percentage terms the main gains were made by a large swath of people around the global median and by the top 1% (gain ~ 70% in real terms)

• The gains were the least among the poorest and among the “global upper middle class” (around 70-80th percentile)
Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)

From twenty_years\final\summary_data
Global growth at 5-year intervals, 1988-2008

Branko Milanovic
In absolute terms, the gains were heavily concentrated among the top 5%. More than ½ of greater global income went towards raising incomes of the top 5%.

Note that these may not be the same people/groups who were top 5% in 1988.
Distribution of the global absolute gains in income, 1988-2008: more than ½ of the gains went to the top 5%

From summary_data.xls

Branko Milanovic
Fact No. 3

• The pattern of global inequality change differed from the pattern of national inequality changes.
Shape of global growth vs. US growth

Real income growth vs. Percentile of income distribution

World 1988-2008

US 1986-2008

Branko Milanovic

summary_data.xls
US pattern is not unusual: in most countries increasing gains for the rich

Philippines and Bangladesh

Mexico and Colombia

Branko Milanovic
Increasing gains for the rich with a widening urban-rural gap

Urban and rural China

Urban and rural Indonesia

From key_variables_calcul2.do
The contradiction of inequality changes during Globalization II

• Most countries displayed an upward sloping GIC (US, China, India urban, Indonesia...)
• Perception that the rich are doing better than anybody else (true)
• But growth rates of countries are uneven; those that grew the fastest were in the lower middle of global income distribution, and they were also most populous
• This led to the humped (more exactly, reclining S) shape of the global GIC and decreasing global inequality
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 70-80<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)
C. Political implications and speculations
Back to Mandeville...

• Can something that is bad nationally (increased inequality) be good globally (decreased inequality) ?

• Can national vices produce global virtue?

Branko Milanovic
Because the decline of global inequality is not dramatic but seems clear
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 to the pre World War I situation

Branko Milanovic
Or are we at the end of capitalism’s long “período especial”? 

- Three challengers to global capitalism were beaten off in the 20th century: depression (by reinventing gov’t), war (by marshalling resources), Communism (through Welfare State)
- Neither of these threats is any longer present; so why can’t capitalism go back to what it once was?
- Was the 1930-1980 period capitalism’s long detour?
- Do we have to get used to permanently higher levels of inequality?

Branko Milanovic
The Haves and the Have-Nots
A Brief and Inaccurate History of Global Inequality

Follow me on Twitter: @BrankoMilan