

Global income inequality: the past two centuries and implications for the next

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Based on the books *Worlds Apart*, 2005 and *The Haves
and the Have-Nots*, 2010 and other updates

The Branko
Milanovic

H[▲]AVES

and the

HAVE-

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A BRIEF AND UNORTHODOX HISTORY OF GLOBAL INEQUALITY

1. Global inequalities today: definitions and overview

Three concepts of inequality defined



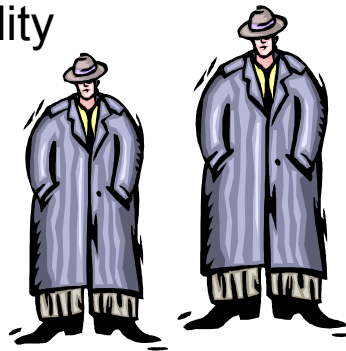
Concept 1 inequality



Concept 2 inequality

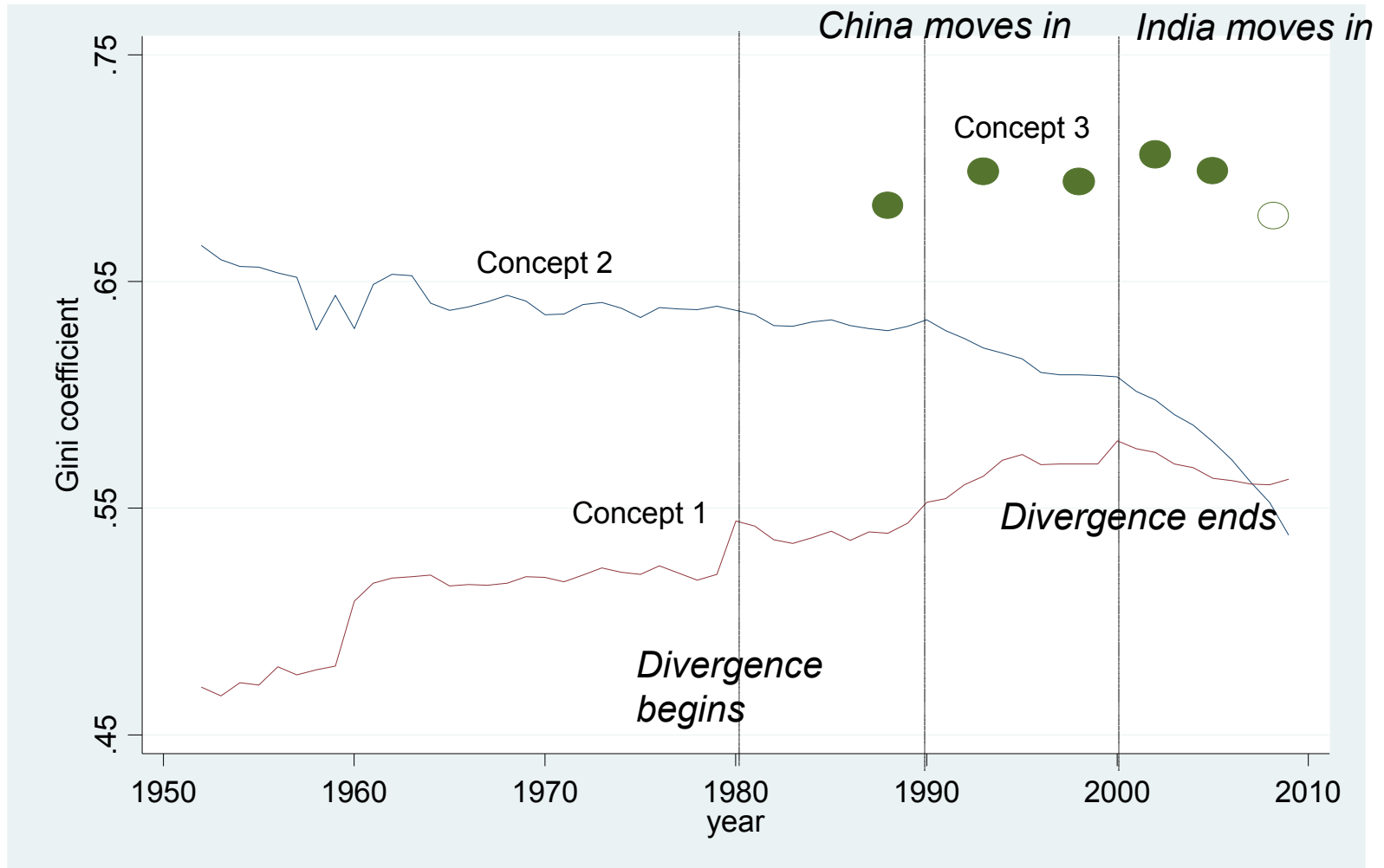


Concept 3 (global) inequality



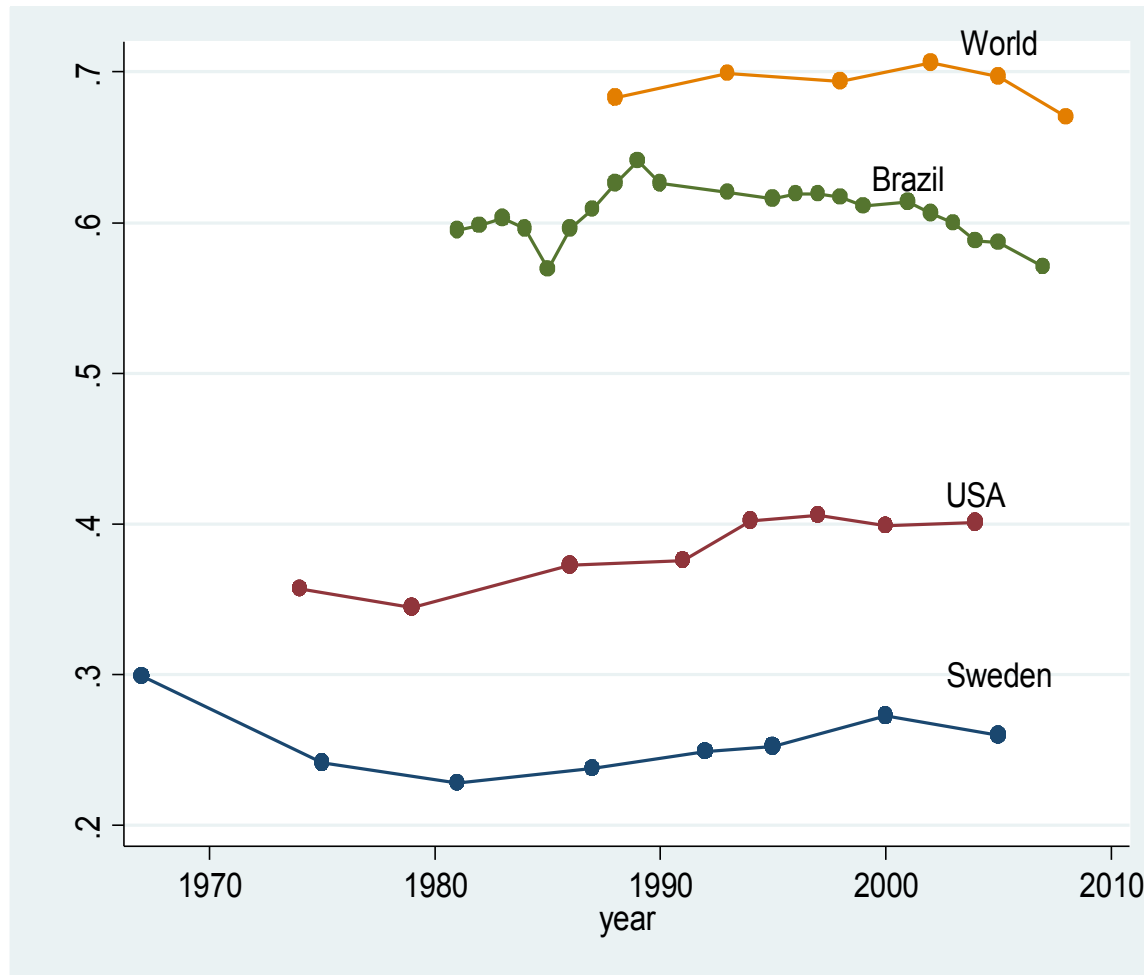
Inequality 1950-2009

The mother of all inequality disputes



With new PPPs

What does Gini of 70 mean?



twoway (scatter gini_disposable year if contcod=="SWE", c(l)) (scatter gini_disposable year if contcod=="USA" , c(l)) (scatter gini_gross year if contcod=="BRA" & source=="SEDLAC", c(l) legend(off) text(0.30 2005 "Sweden") text(0.42 2004 "USA") text(0.63 2001 "Brazil")) (scatter gini_disposable year if contcod=="WRL", c(l) text (0.72 2005 "World"))

Using data_voter_checked.dta to which I added the world from my global data

What does Gini of 70 meant?

To get to $\frac{1}{2}$ of total income you need...

Almost 92 percent of the poorest

Or about 8 percent of the richest

The bottom 50% of the population receives...

6.6 percent of total income

The top 1% of population receives...

About 13 percent of total income

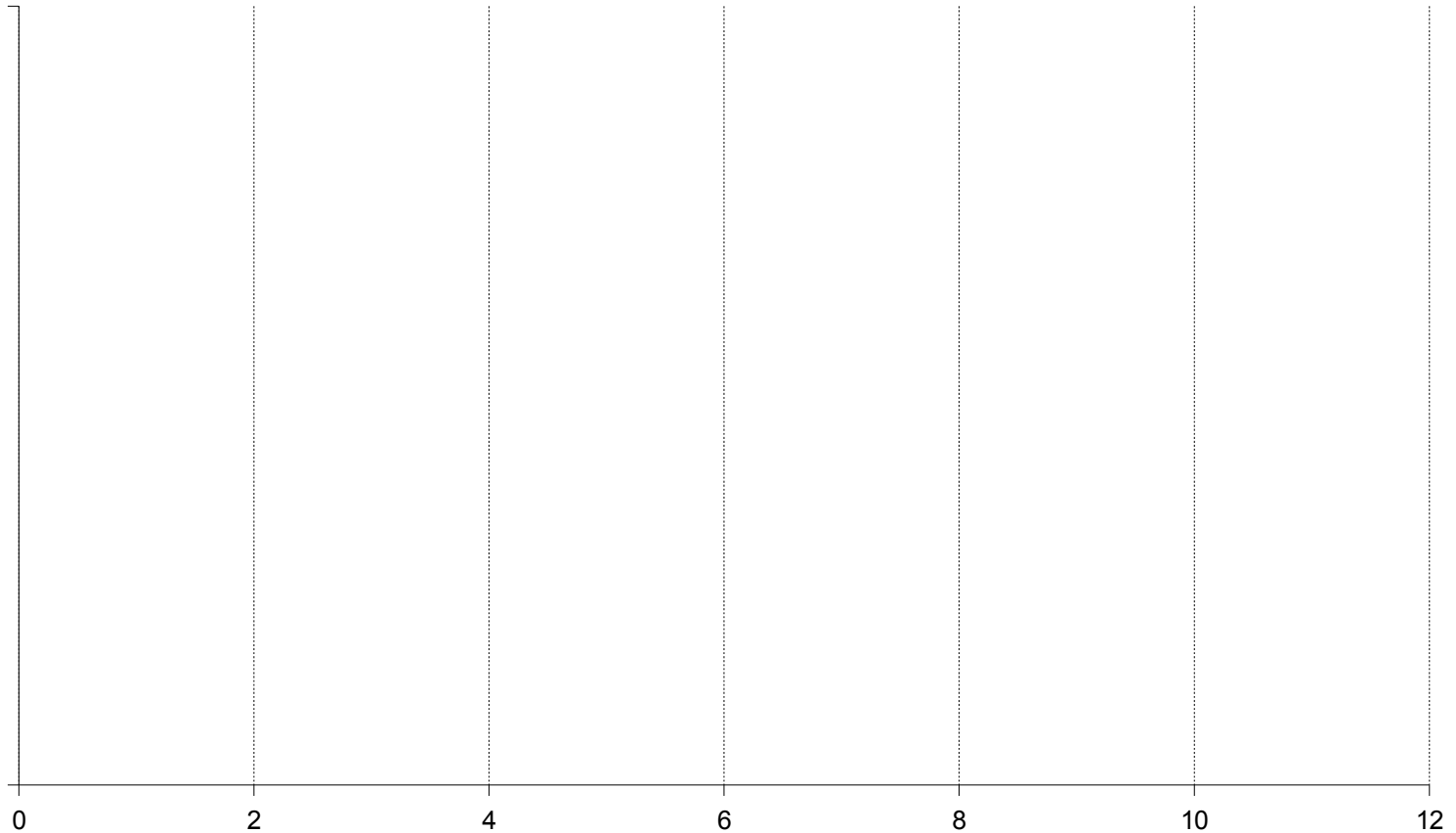
Thus 6 million top people receive as much as 3+ billion poorest (ratio 500-1)

% of people who are 25 percent above or below the median income is...

14 percent

The world is as middle class or less than Panama.

How many people (ranked from the poorest to the richest) you need to get to each 1/5th of global income?



The difficulty of intuition re. evolution of Concept 3 inequality stems from contradictory movements

(1) Greater inequality within nations

(2) Greater differences between countries' mean incomes (unconditional divergence between 1980 and 2000)

(3) But catching up of large and poor countries (China and India)

All of these forces determine what happens to GLOBAL INEQUALITY (but they affect it differently)

Population coverage

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

Non-triviality of the omitted countries (Maddison vs. WDI)

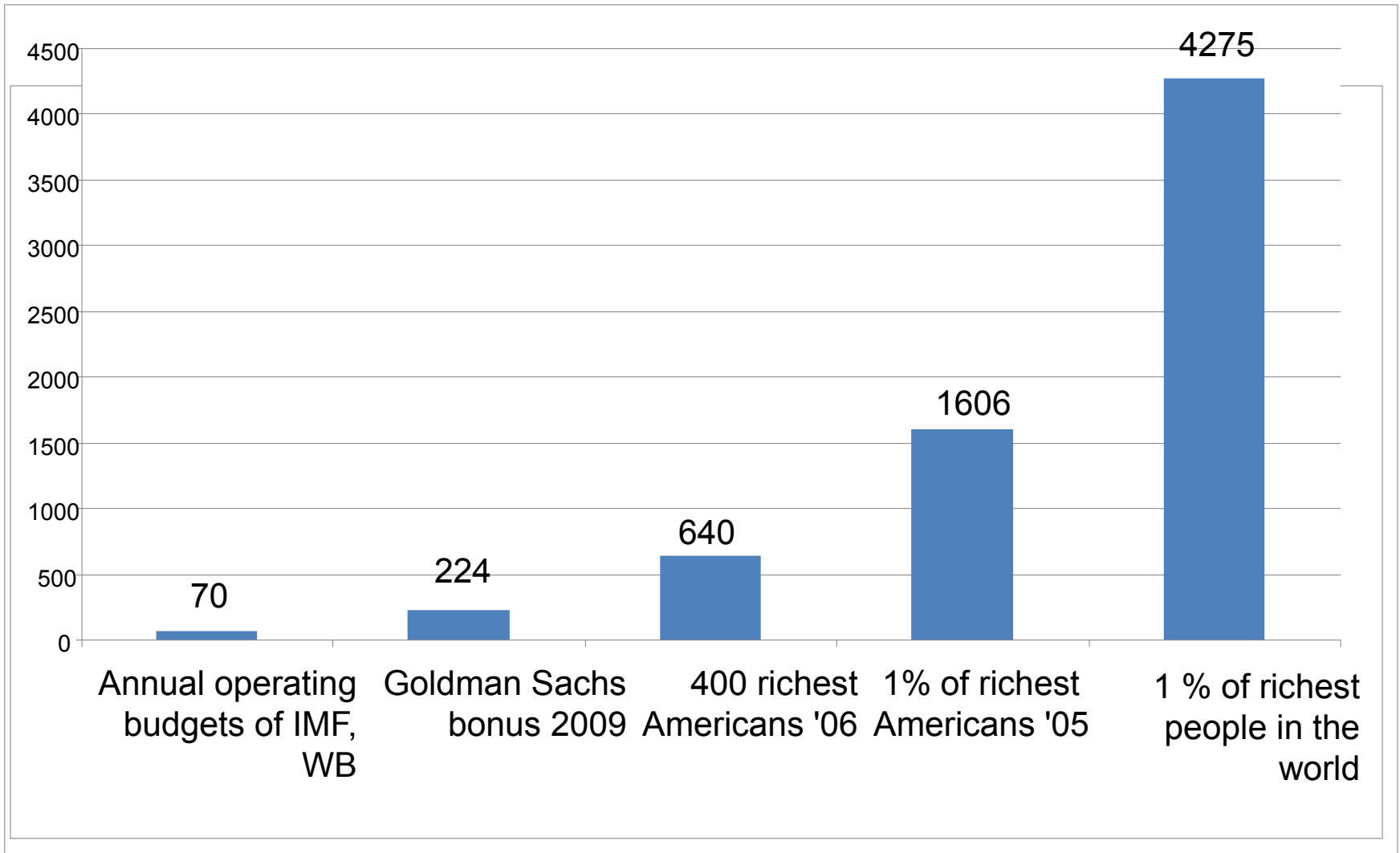
GDI (US dollar) coverage

	1988	1993	1998	2002	2005
Africa	49	85	71	71	70
Asia	94	93	96	95	90
E. Europe	99	96	100	99	99
LAC	90	93	95	95	98
WENAO	99	96	96	100	100
World	96	95	96	98	97

Losers and winners of globalization:

Change in real income between 1988 and 2005 at various percentiles of global income distribution (in 2005 international dollars)

Some incendiary statistics: income of the richest expressed in income of the millions of poorest



2. International and global inequality in the long-run: 1850-2010

Concept 1 inequality in historical perspective: Convergence/divergence during different economic regimes (based on Maddison)



A non-Marxist world

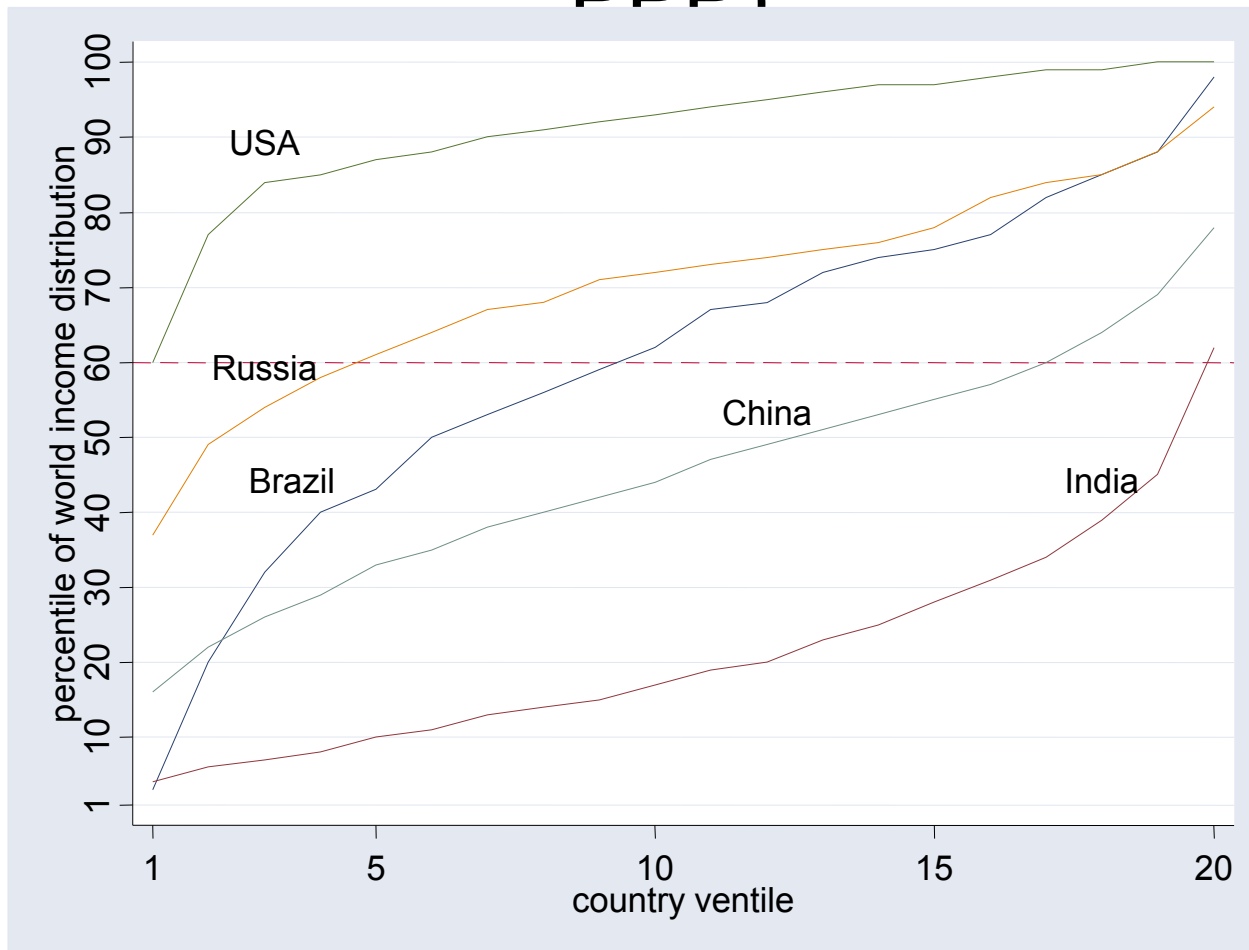
- Over the long run, decreasing importance of within-country inequalities despite some reversal in the last quarter century
- Increasing importance of between-country inequalities (but with some hopeful signs in the last five years, before the current crisis),
- Global division between countries more than between classes

Composition of global inequality changed: from being mostly due to “**class**” (within-national), today it is mostly due to “**location**” (where people live; between-national)



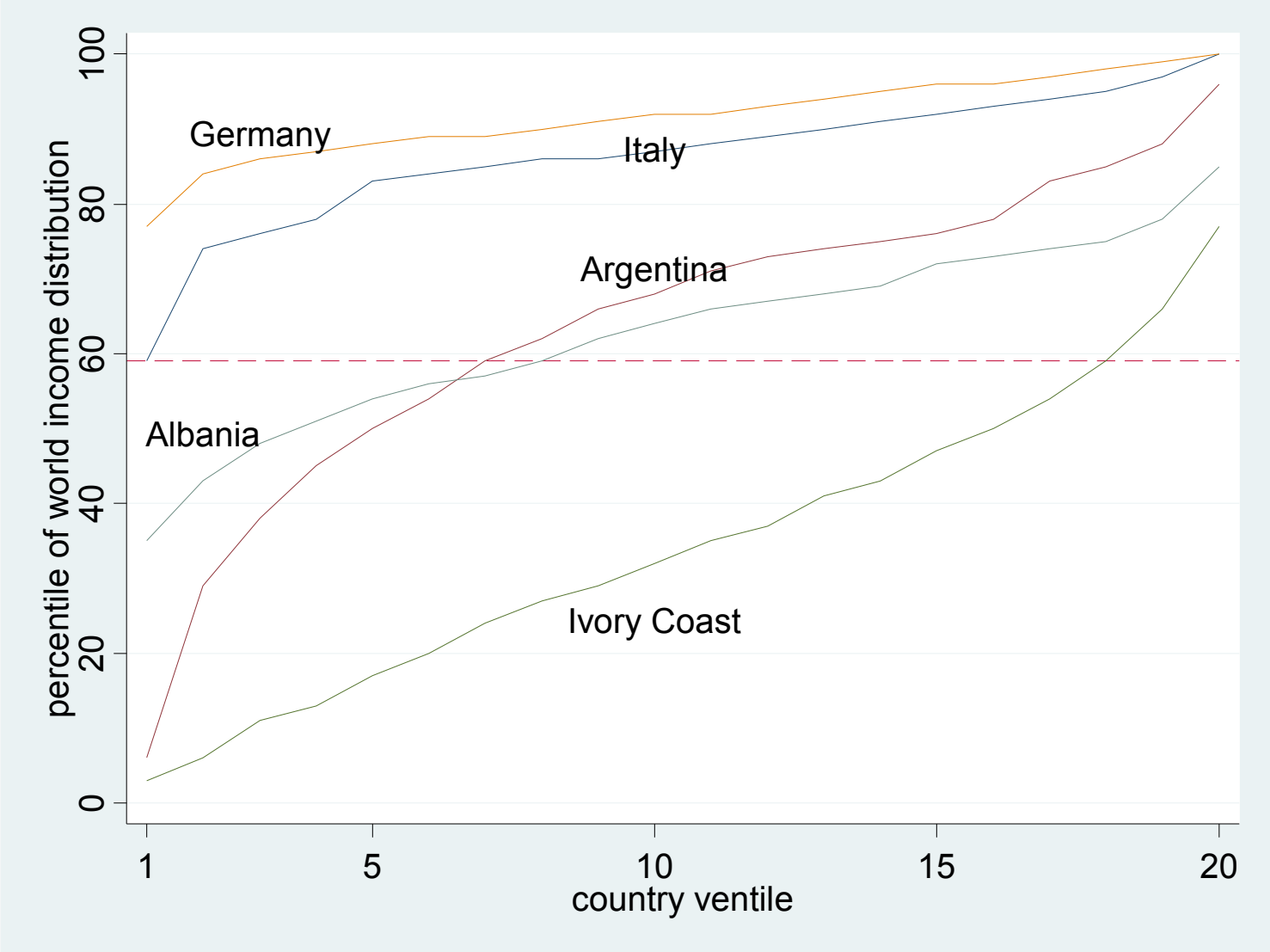
Different countries and income classes in global income distribution in 2005 (new

PPP)



- Almost non-overlapping distributions of India and the US: less than 5% of people in India richer than the poorest ventile in the US
- But this is not true for Brazil, China and Russia: about half of the population of Brazil better off than the very poorest ventile in the US; for Russia, it is $\frac{3}{4}$, for China $\frac{1}{5}$.
- Brazil within itself spans the entire global distribution
- China dominates India at any point of income distribution
- Russians better-off than Brazilians except at the top (note convexity at the top in Brazil)

Italy and the rest of the world

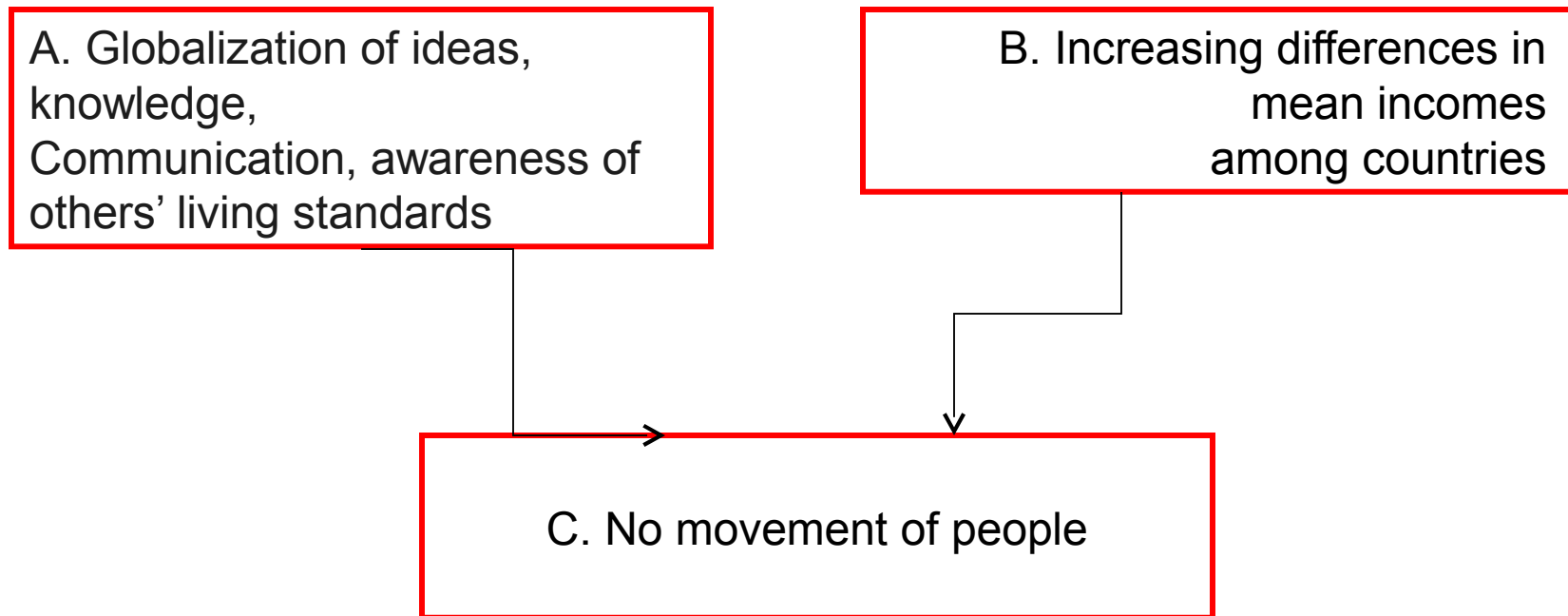


Nominal wage divided by food cost of living (March 2009, by effective hour of work)

	Building laborer	Skilled worker	Engineer
NYC	16.6	29.0	26.5
London	15.4	30.4	35.2
Beijing	1.3	3.8	9.5
Delhi	1.7	6.9	9.1
Nairobi	1.5	4.7	9.2
Rich/poor	11-1	5-1	3-1

4. *Les jeux sont faits*
when you are born?

The XXI century trilema



If A and B, then no C. Migration is the outcome of current unequal globalization.
If B and C, then no A. Unequal globe can exist if people do not know much about each other's living conditions or costs of transport are too high.
If A and C, then no B. Under globalization, people will not move if income differentials are small.

Growing inter-country income differences and migration: Key seven borders today



The key borders today

- **First to fourth world:** Greece vs. Macedonia and Albania; Spain vs. Morocco (25km), Malaysia vs. Indonesia (3km)
 - **First to third world:** US vs. Mexico
 - The remaining three key borders walled-in or mined: N. Korea—S. Korea; Yemen—Saudi Arabia, Israel—Palestine
- In 1960, the only key borders were Argentina and Uruguay (first) vs. Brazil, Paraguay and Bolivia (third world), and Australia (first) vs. Indonesia (fourth)

	Approximate % of foreign workers in labor force	Year 2007	Year 1980
		Ratio of real GDI per capita	
Greece (Macedonian/ Albanians)	7.5	4 to 1	2.1 to 1
Spain (Moroccans)	14.4	7.4 to 1	6.5 to 1
United States (Mexicans)	15.6*	3.6 to 1	2.6 to 1
Malaysia (Indonesians)	18.0	3.7 to 1	3.6 to 1

* BLS, News Release March 2009; data for 2008 inclusive of undocumented aliens.

Is citizenship a rent?

- If most of our income is determined by citizenship, then there is little equality of opportunity *globally* and citizenship is a rent (unrelated to individual desert, effort)
- How much is citizenship worth? Black-market UK passports sold for about £5,000; legally purchase citizenship for about \$1m in investment.
- See also A. Shachar, *The Birthright Lottery*

The logic of the argument

- Global inequality between individuals in the world is very high (Gini=70)
- Most of that inequality is “explained” by differences in countries’ per capita incomes
- Citizenship “explains” some 60% of variability in personal incomes globally (assessed across national ventiles)
- This was not the case in the past (around 1850-70) when within-national inequalities “explained” most of global inequality
- Citizenship as a significant factor explaining one’s income

The logic of the argument (cont.)

- 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) and contra

Rawls from *A Theory of Justice*

- “Injustice is...simply inequalities that are not to the benefit of all...and in particular to the poor” (p. 54)
- But this is the rule enounced for a single nation-state? Will it be valid for the world as a whole?
- As we shall see: No, it won't be!

Rawls on irrelevance of material wealth for a “good society” and global optimum

- It is a mistake to believe that a just and good society must wait upon a high material standard of life. What men want is meaningful work in free associations with others, these associations regulating their relations to one another within a framework of just basic institutions. To achieve this state of things **great wealth is not necessary. In fact, beyond some point it is more likely to be a positive hindrance**, a meaningless distraction at best if not a temptation to indulgence and emptiness. (*A Theory of Justice*, Chapter V, §44, pp. 257-8).
- For Rawls, **global optimum distribution of income is simply a sum of national optimal income distributions** (my interpretation)

Global Ginis in Real World, Rawlsian World, Convergence World...and Shangri-La World

Mean country incomes Individual incomes within country	All equal	Different (as now)
All equal	0	61.5 (all country Ginis=0)
Different (as now)	45.6 (all mean incomes same; all country Ginis as now)	69.7

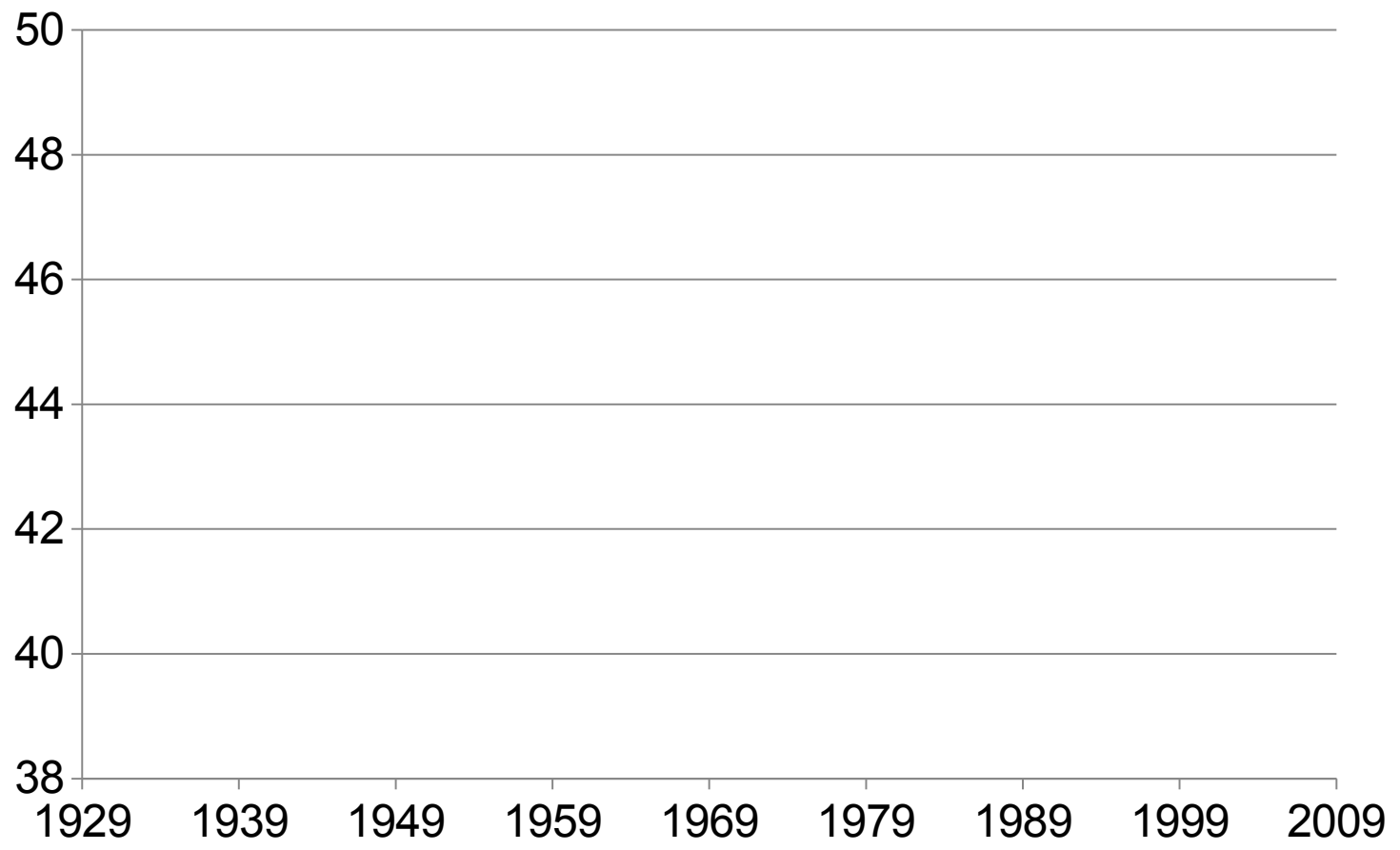
Why *pace* Rawls global inequality matters?

- *Because* the world is becoming globalized and global inequality will come to matter more and more despite the absence of global government (analogy with national vs. village inequality)
- *Because* it is associated with migration which is fast becoming a prime political issue
- *Because* it raises the issue of global equality of opportunities

Conclusion and 21st century policy issues

- To reduce significantly global inequality (and poverty) and citizenship rent there are two ways:
- A slow and sustainable way: higher growth rate of poorer countries
- A fast and possibly politically tumultuous way: increase migration
- **Either poor countries will have to become richer or poor people will move to rich countries.**
- Should migrants be taxed additionally to pay native population's losers and those remaining in their countries of origin?

ty (Gini) in the USA 1929-2009 (gross income across house



- “Worlds Apart: Measuring International and Global Inequality”, Princeton UP, 2005.
- “The haves and the have-nots: A brief and idiosyncratic history of inequality”, Basic books, 2010
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