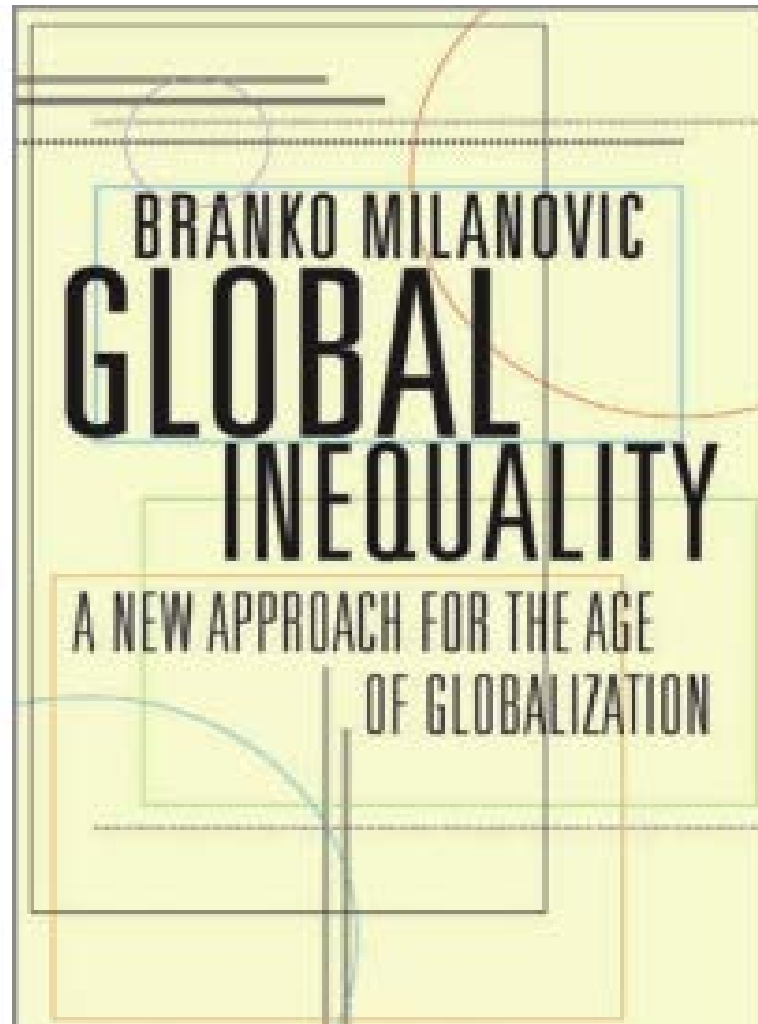


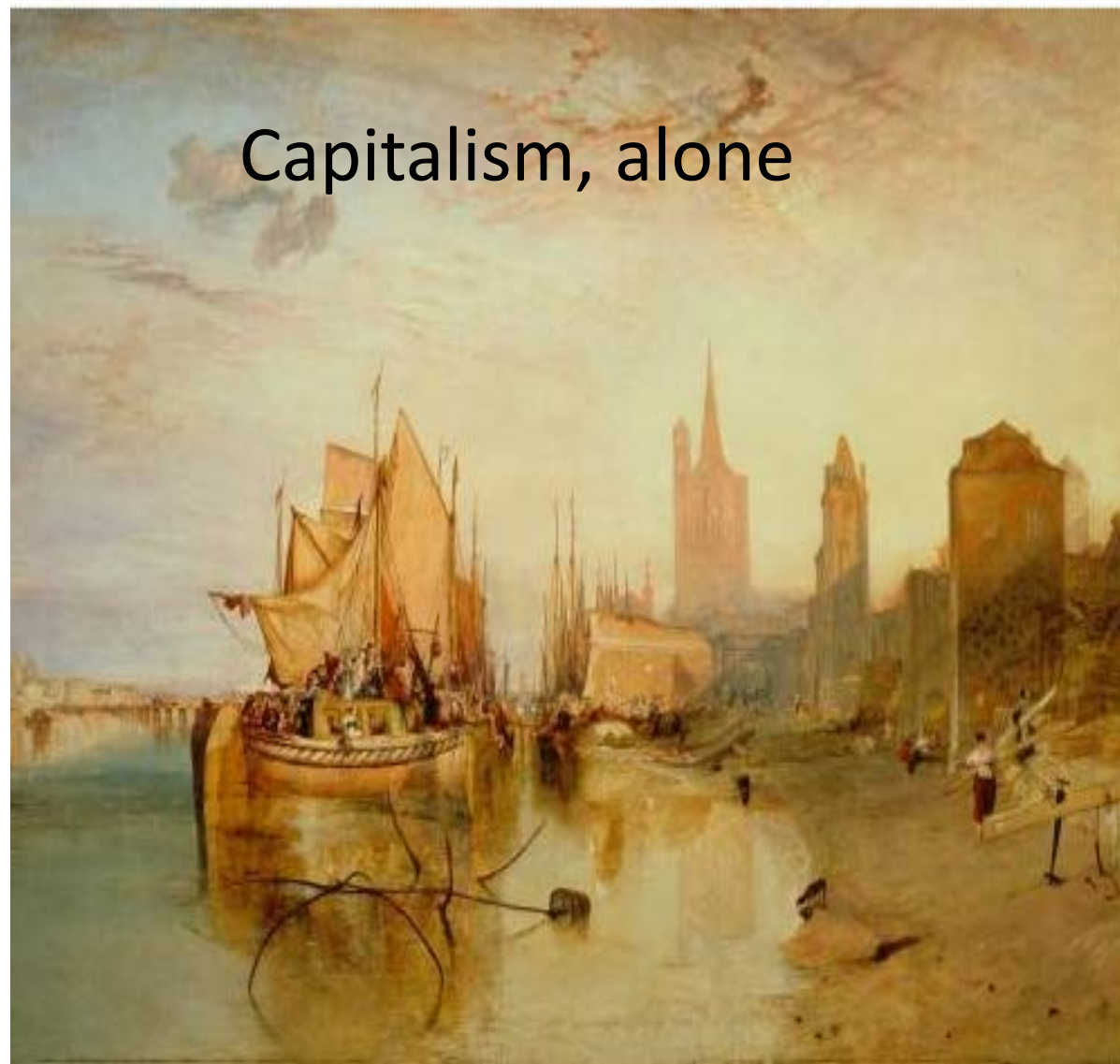
# Changes in the global income distribution and their political implication

Branko Milanovic  
Autumn 2017

Largely based on:



And my forthcoming book

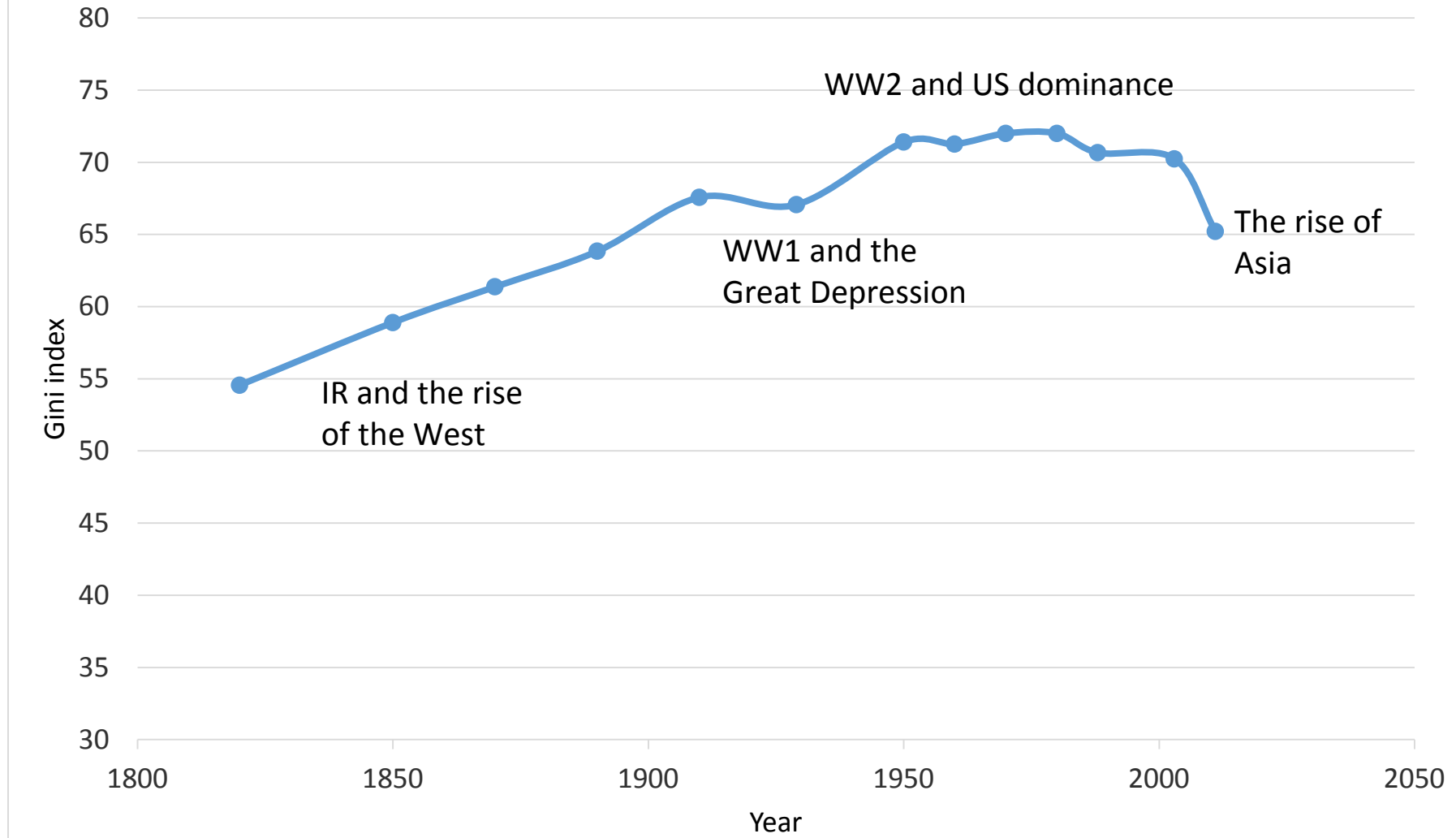


# Structure of the talk

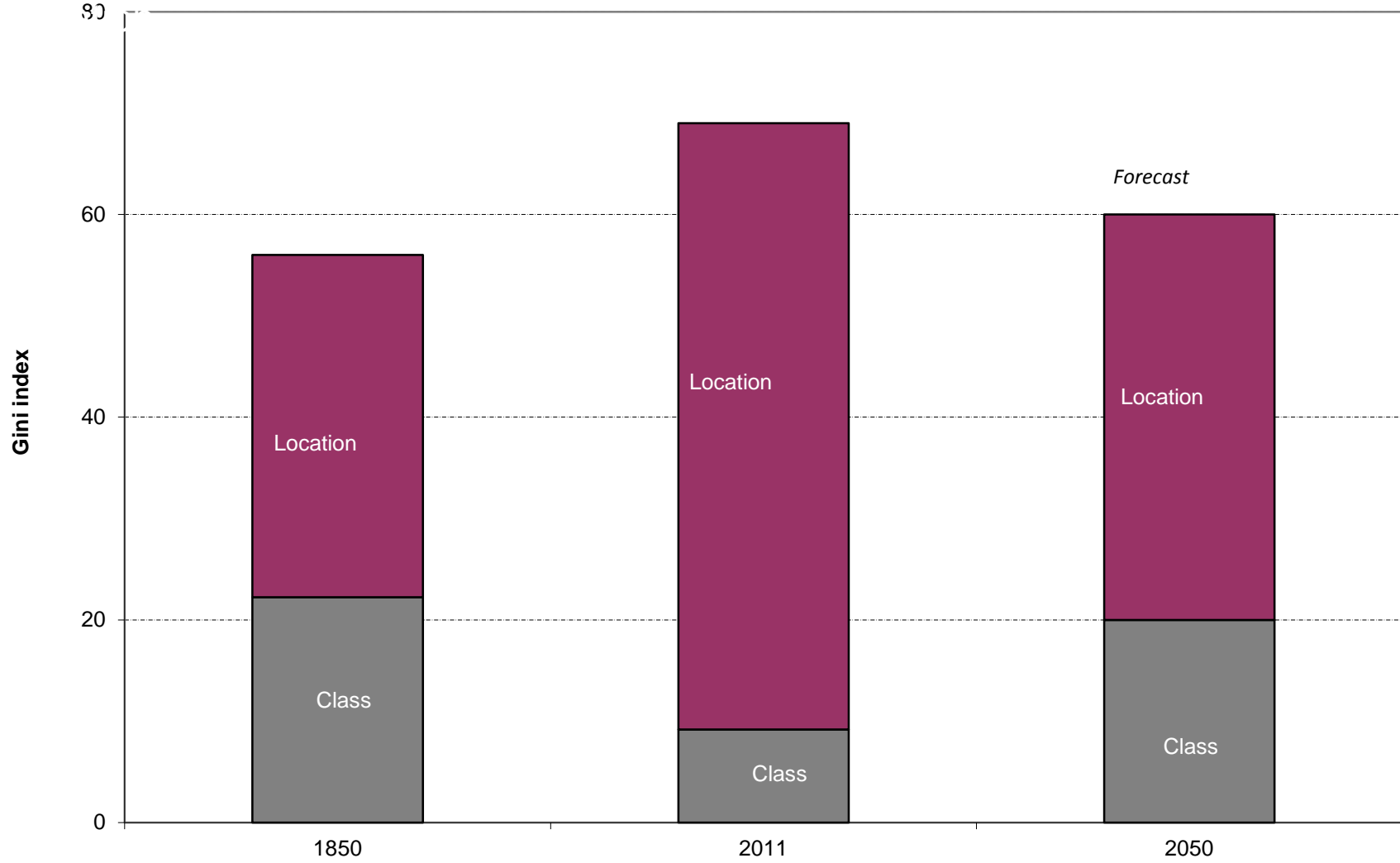
- Uniqueness of the current period: Capitalism rules alone + the reemergence of Asia (bringing the distribution of economic activity within Euroasia to the way it looked around 1500)
- “Elephant chart” and the ambivalence of globalization
- Greatest support for globalization in the South
- Unlikely that 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 20<sup>th</sup> century remedies for inequality can work in the 21<sup>st</sup> century

Long run

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



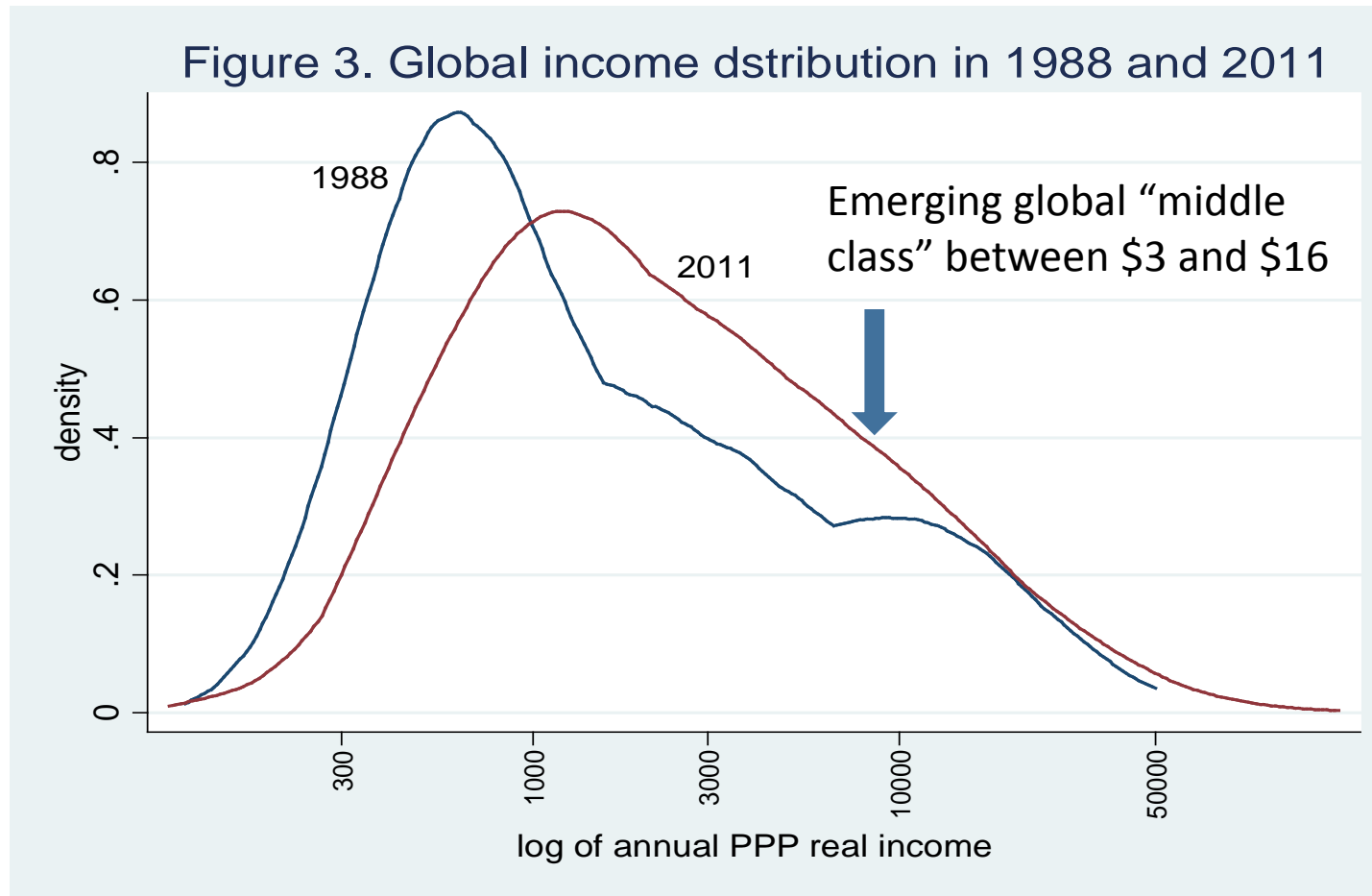
# La longue durée: From Karl Marx to Frantz Fanon and back to Marx?



Past twenty-five years



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

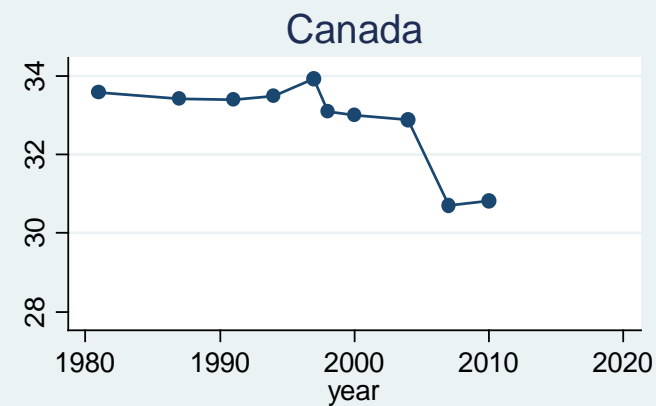
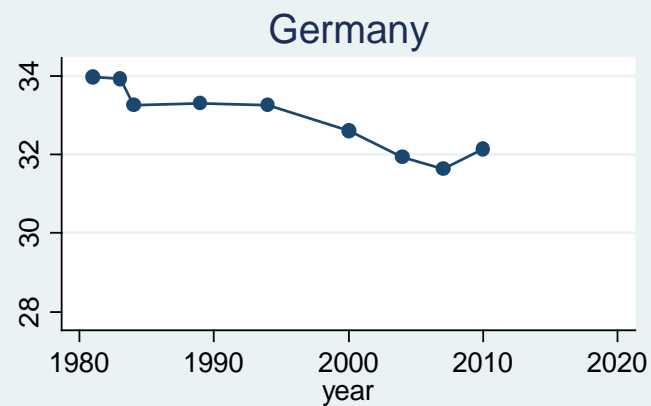
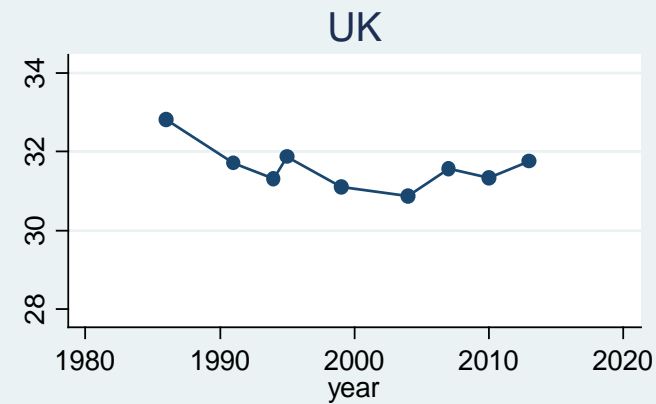
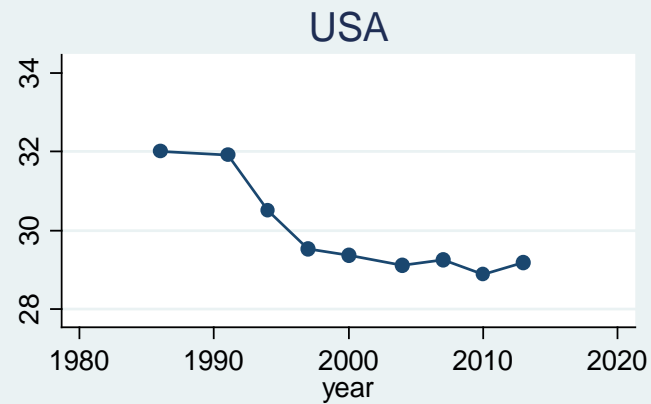


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twoway (kdensity loginc_11_11 [w=popu] if loginc_11_11>2 & bin_year==1988, bwidth(0.14) title("Figure 3. Global income distribution in 1988 and 2011")) (kdensity loginc_11_11 [w=popu] if loginc_11_11>2 & bin_year==2011, bwidth(0.2)) , legend(off) xtitle(log of annual PPP real income) ytitle(density) text(0.78 2.5 "1988") text(0.65 3.5 "2011") xlabel(2.477"300" 3"1000" 3.477"3000" 4"10000" 4.699"50000", lsize(small) angle(90))
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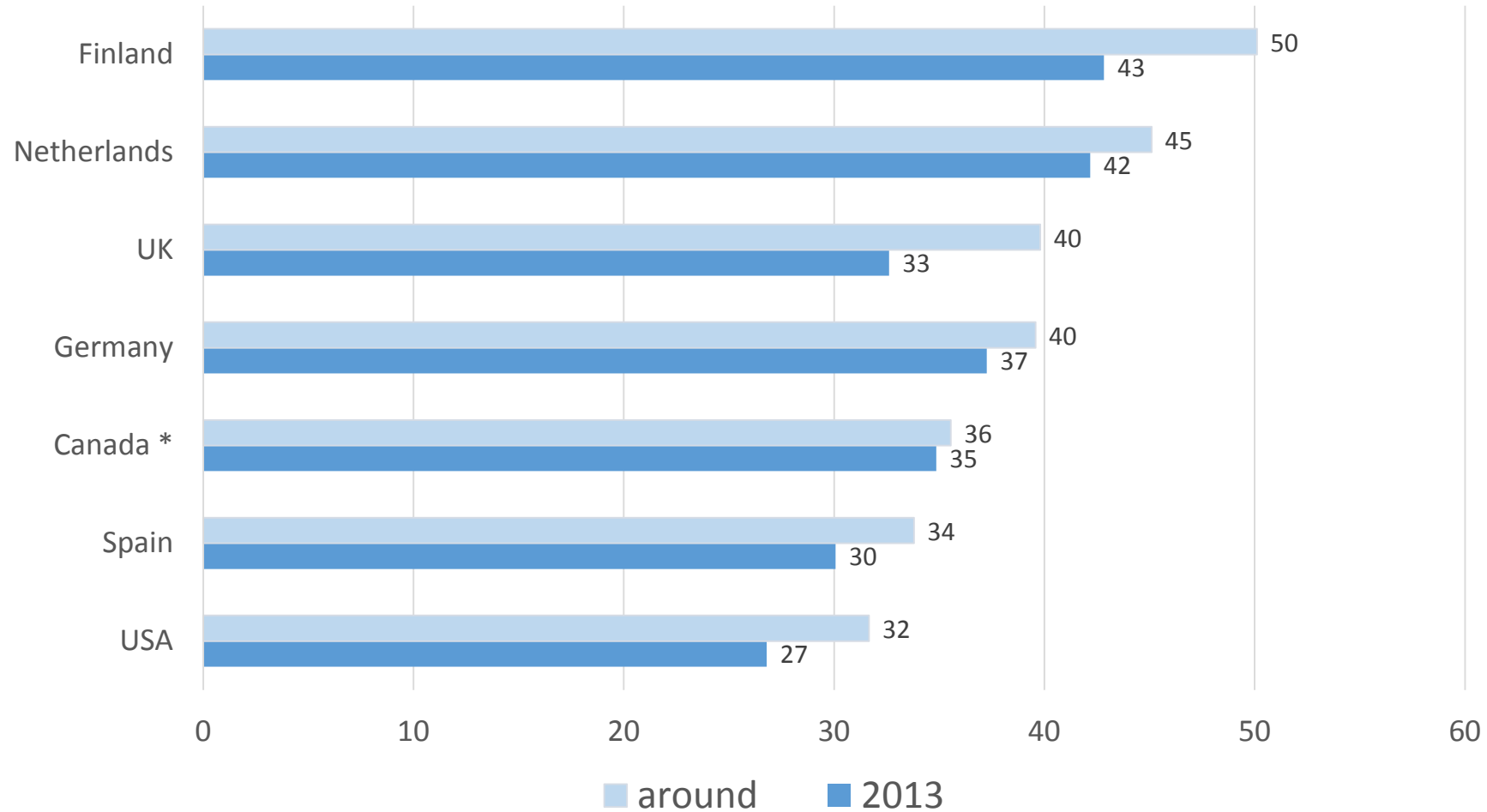
Using Branko\Income\_inequality\final11\combine88\_08\_11\_new.dta

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

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

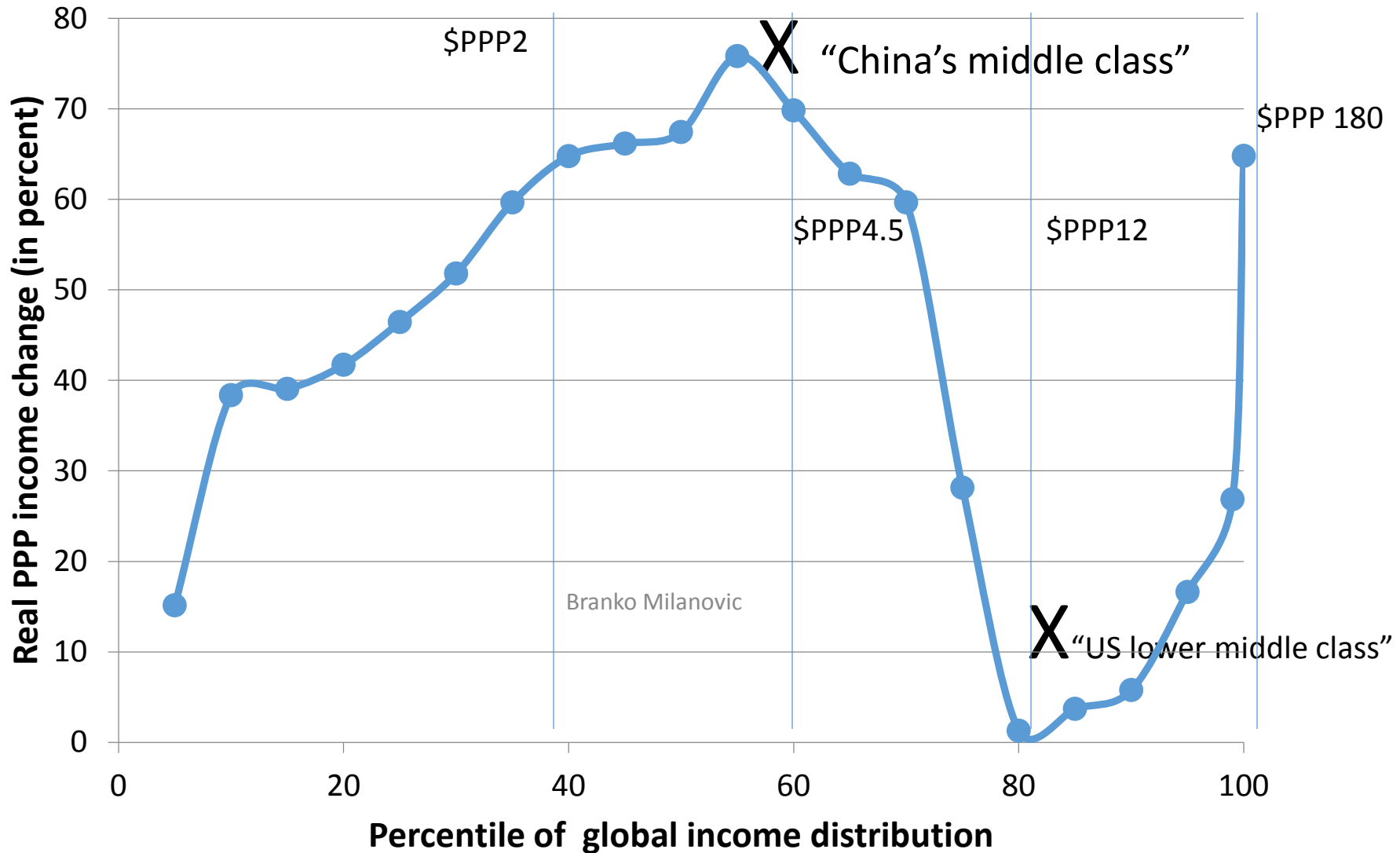


## Percentage of population considered middle class in early 1980s and 2013

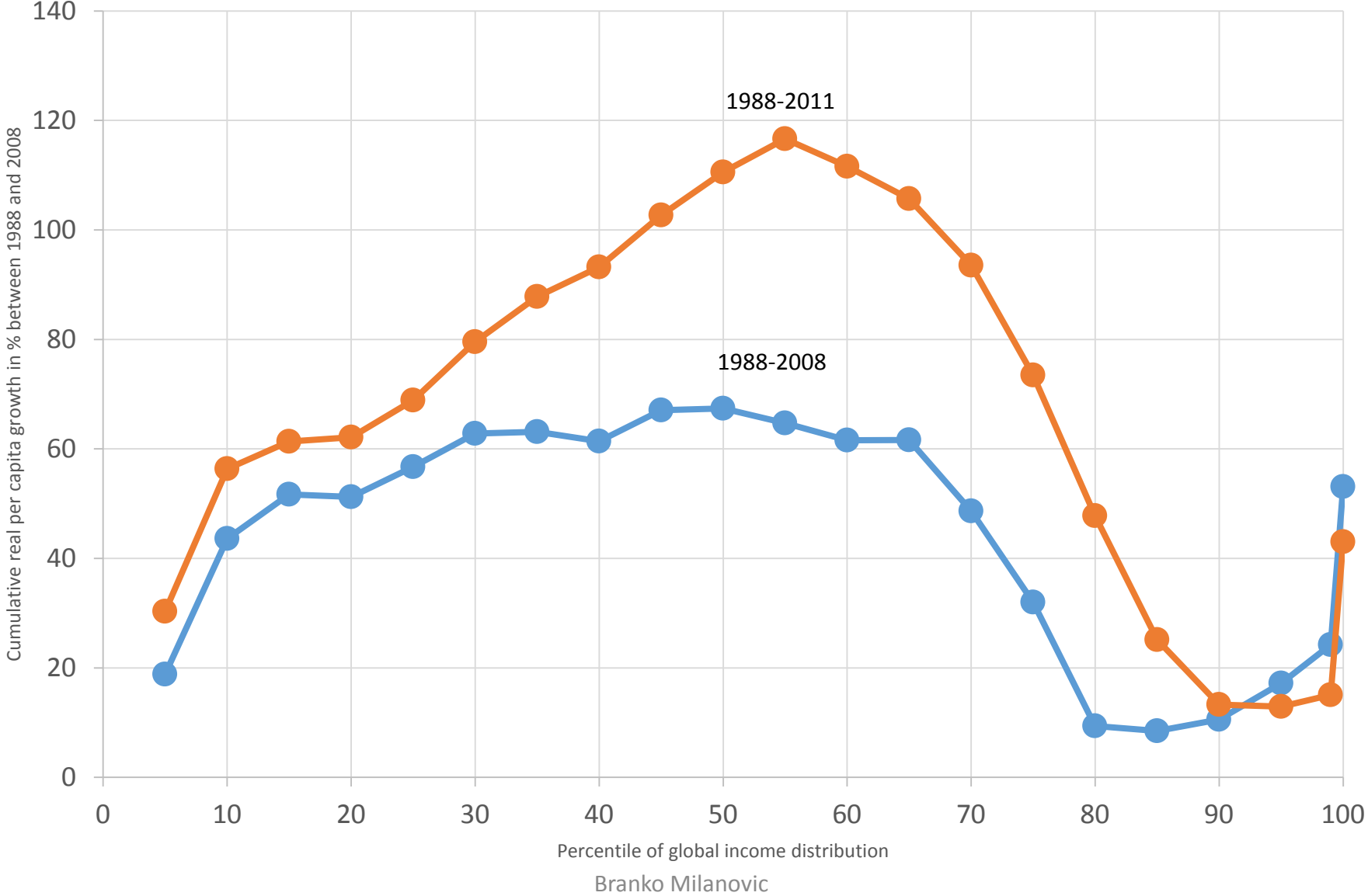


The middle class defined as population with income between +/-25% of national median income (all in per capita basis; disposable income; LIS data)

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



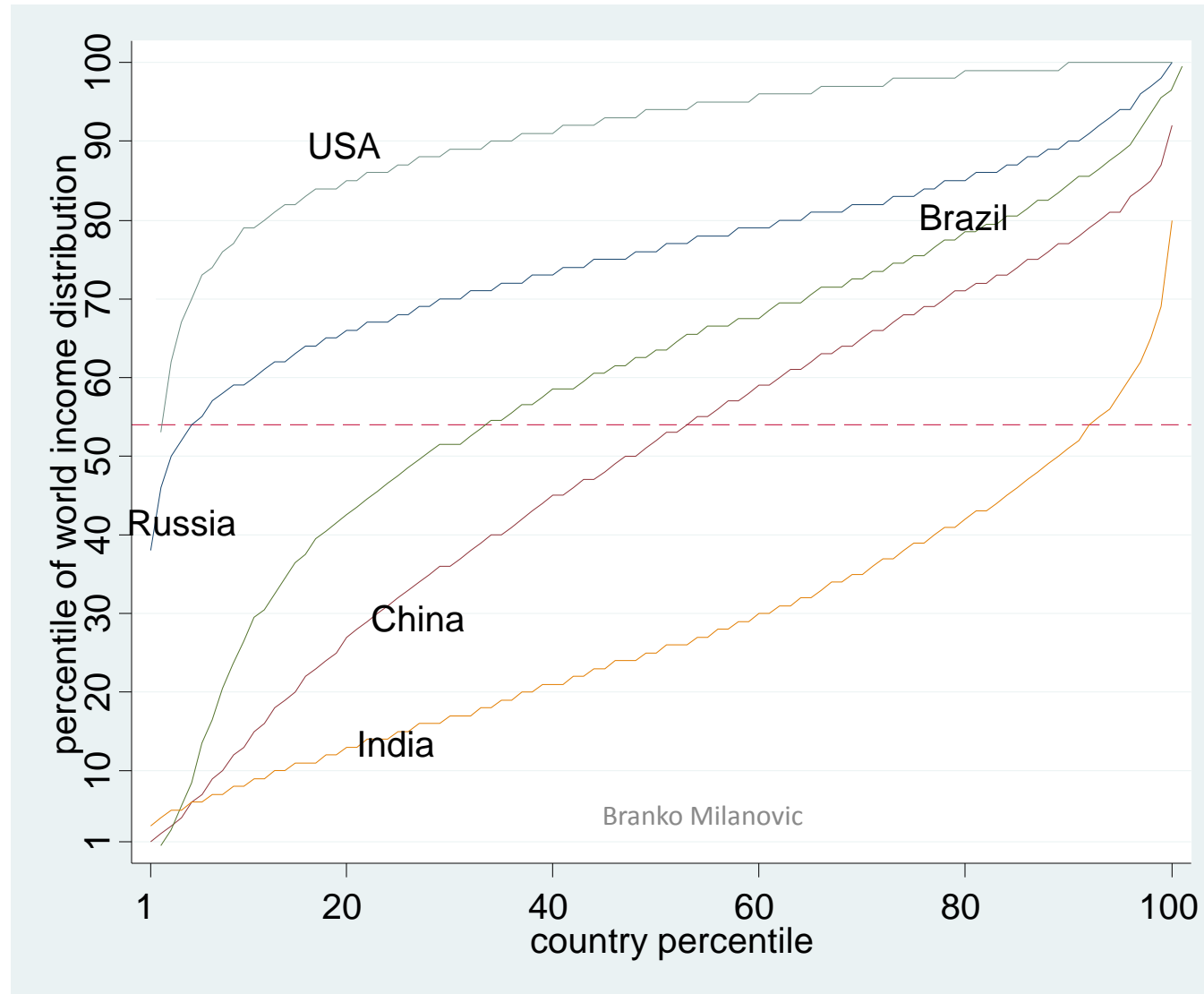
# Real income growth over 1988-2008 and 1988-2011 (based on 2011 PPPs)

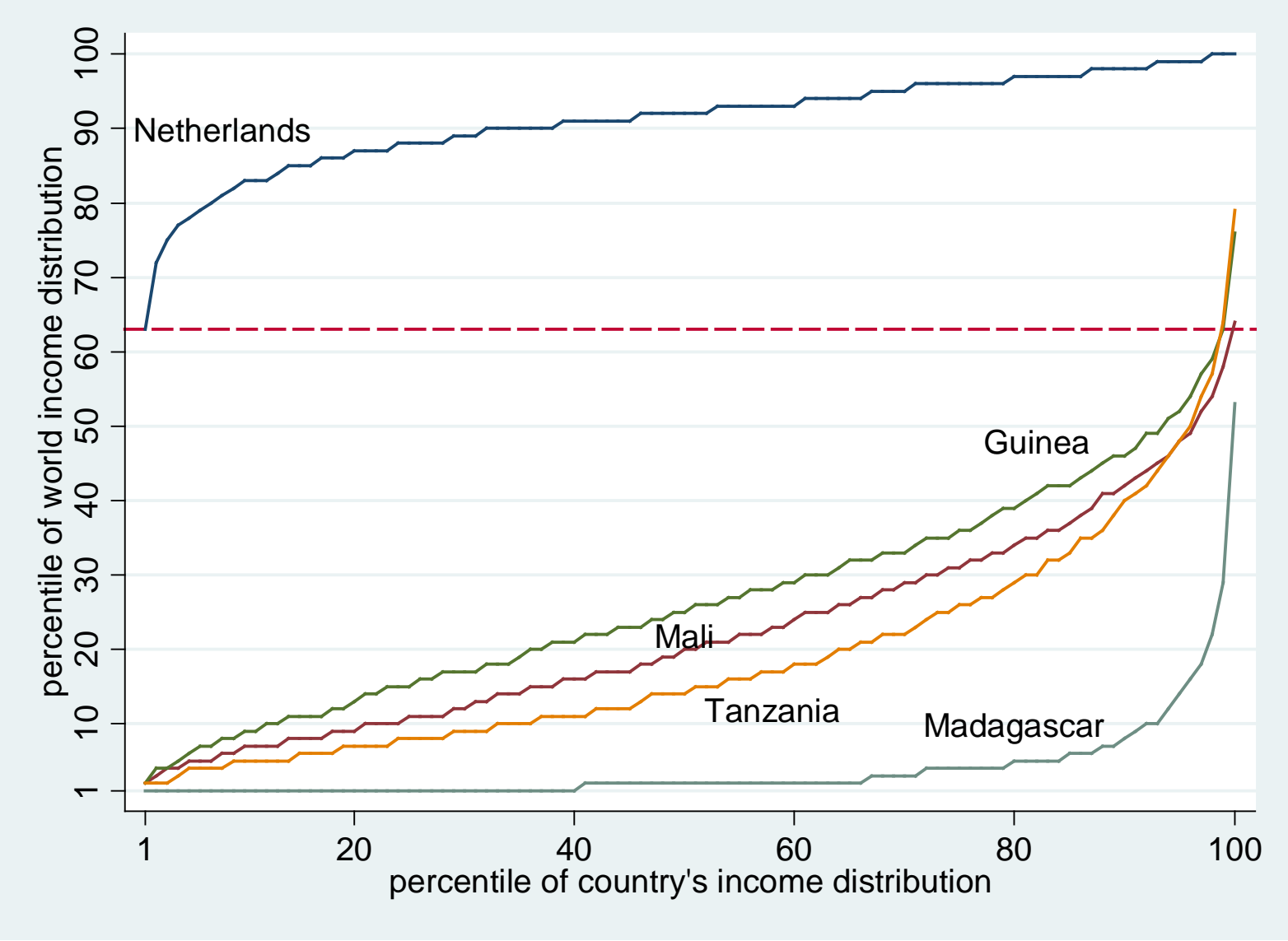


Branko Milanovic

But large income differences between counties remain and they fuel migration

# Different countries and income classes in global income distribution in 2008



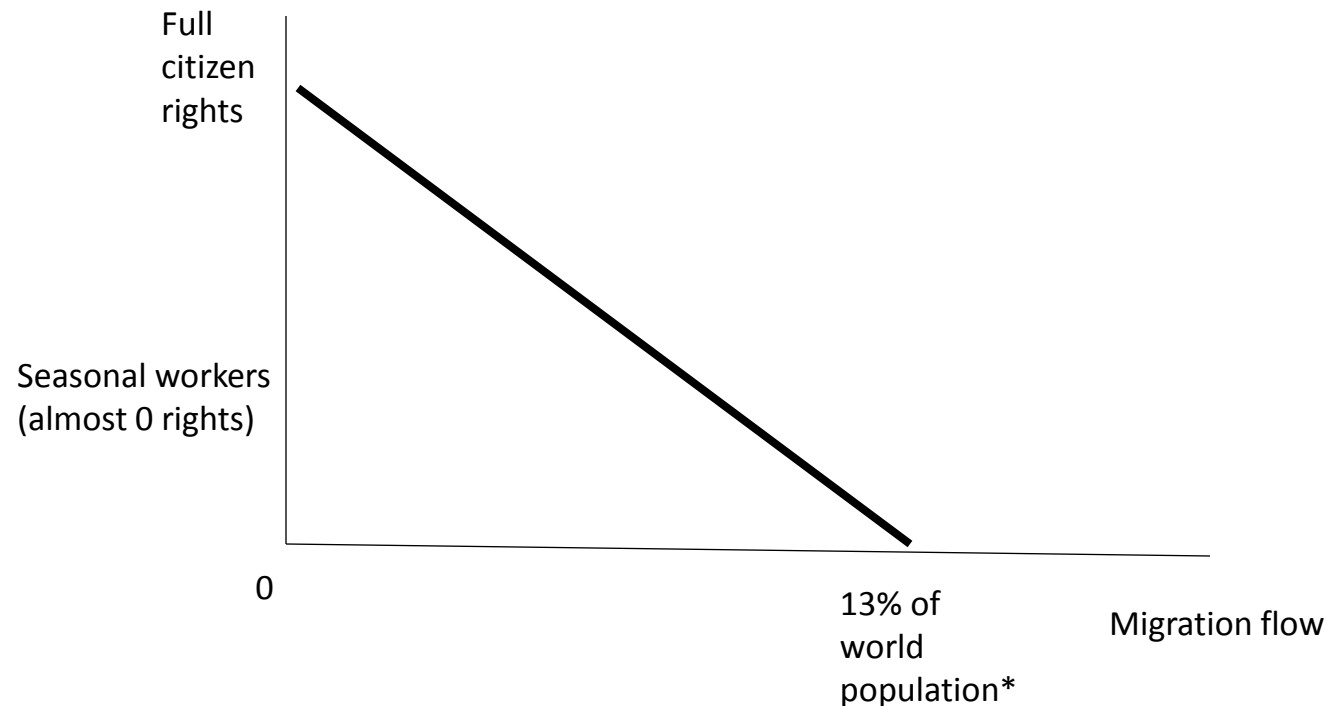




# (another) Trilemma of globalization

- 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

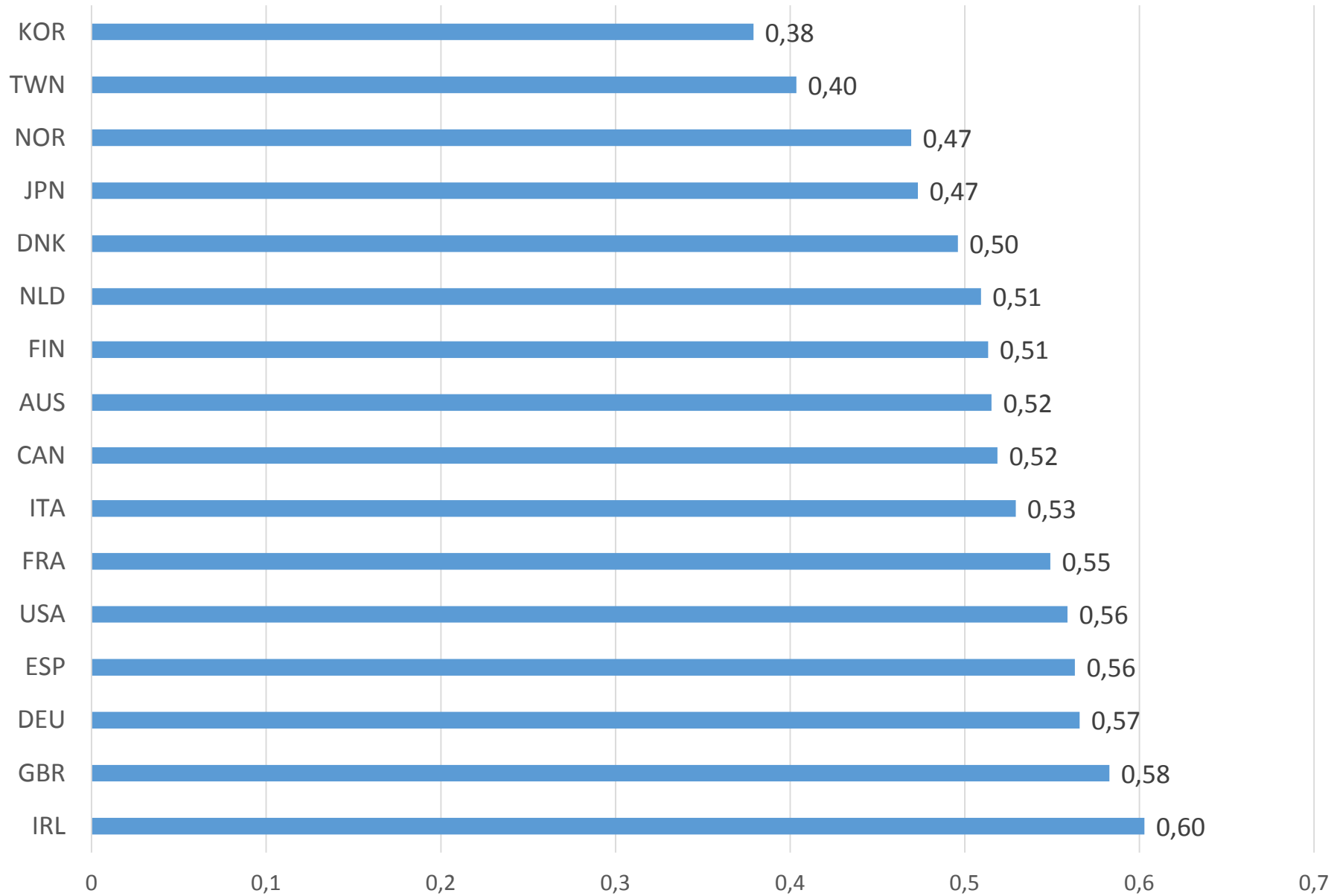
# Why tools from the 20<sup>th</sup> century will not work?

- 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)

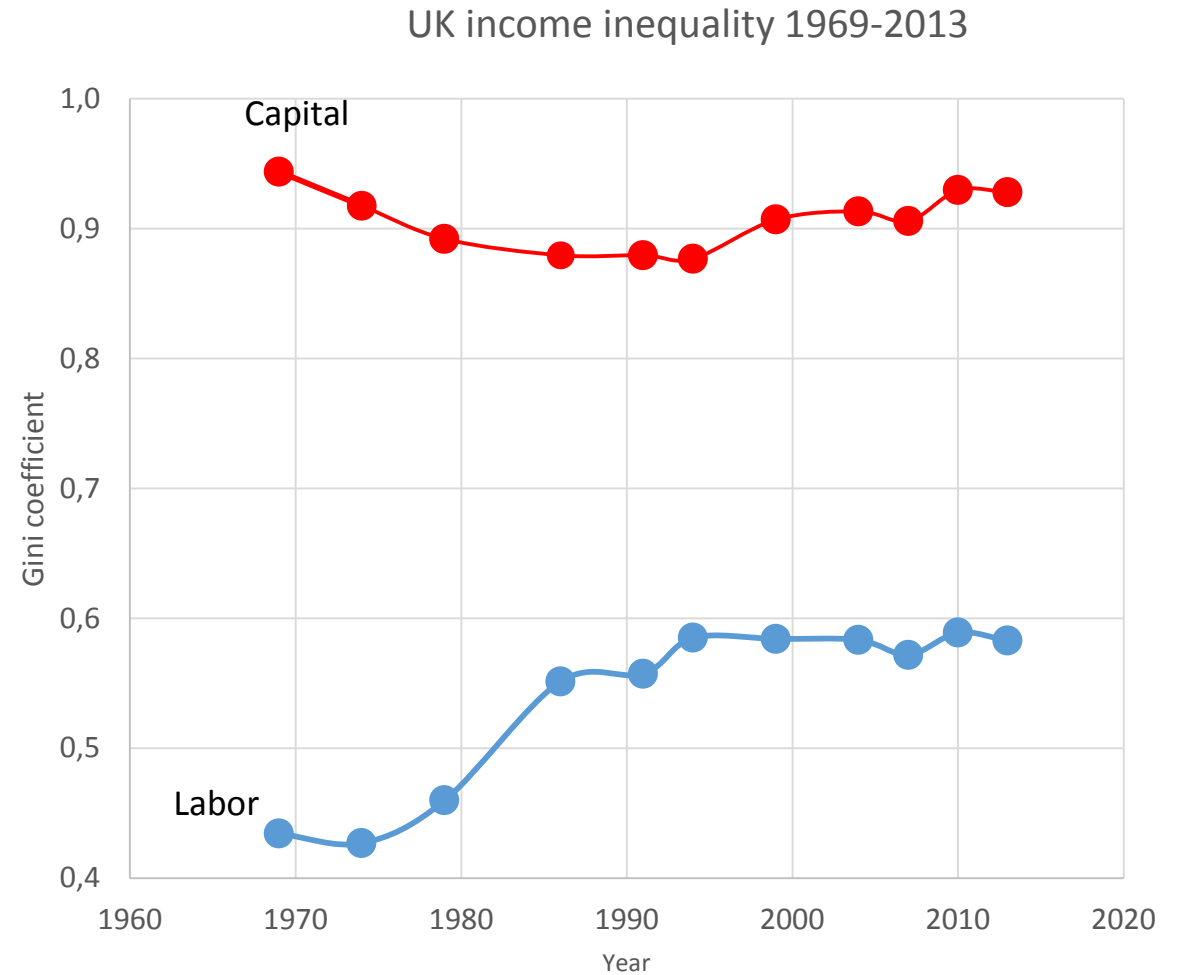
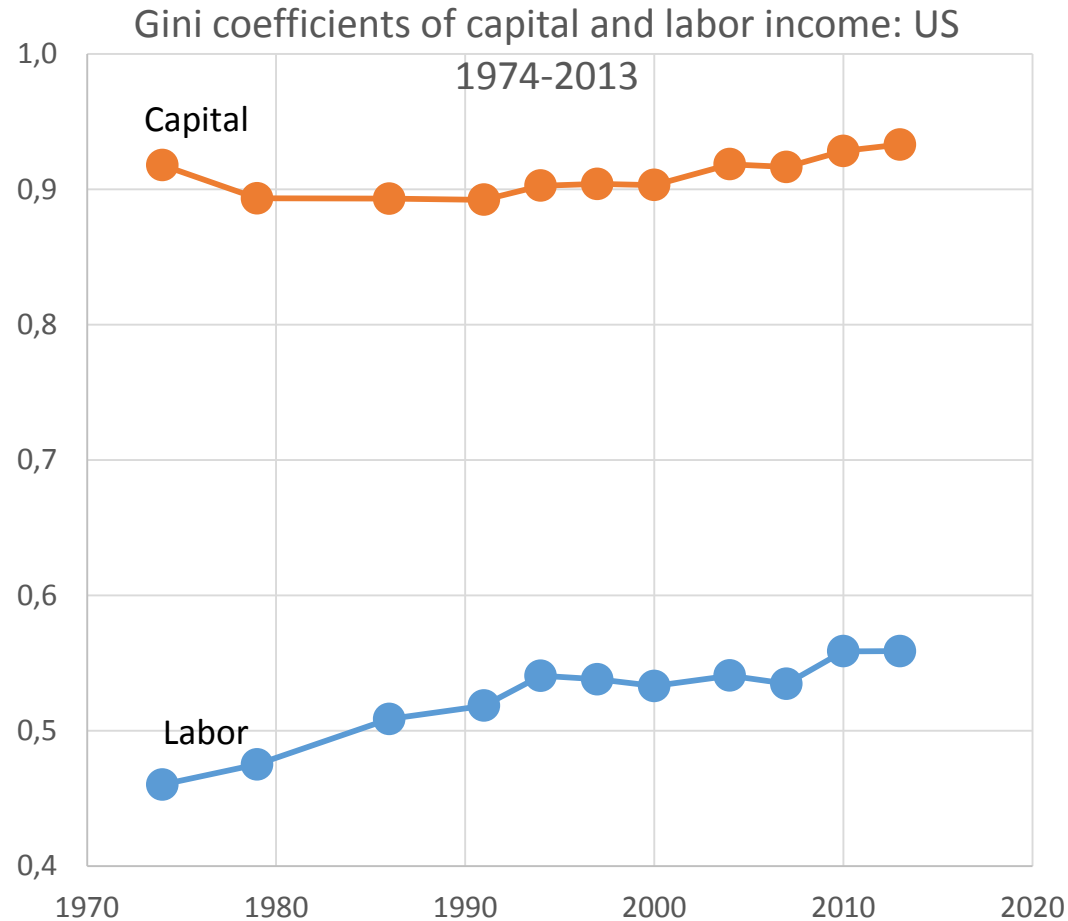
# What could possibly be done?

- 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