

Capitalism, Alone—book talk

Branko Milanovic

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Structure of the book

Ch I. The contours of the post-Cold War world

Ch II. Liberal meritocratic capitalism

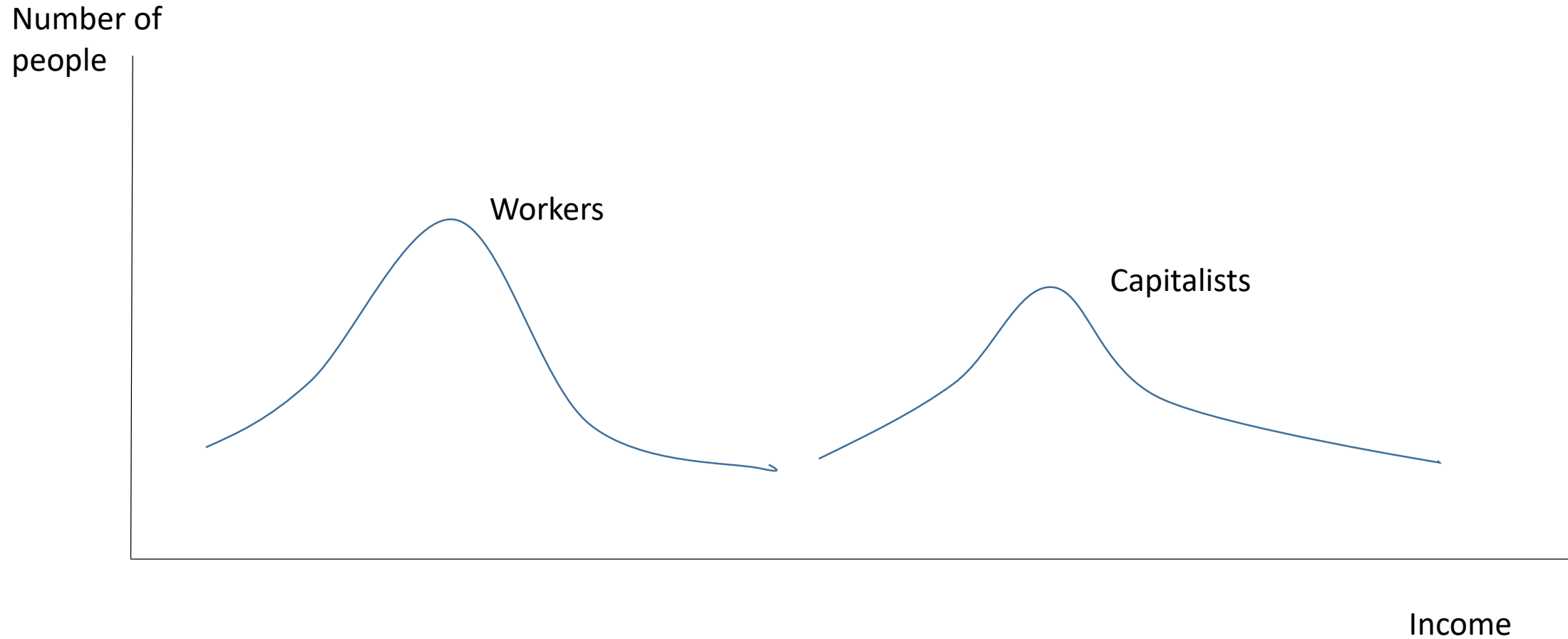
Ch III. Political capitalism

Ch IV. The interaction of capitalism and globalization

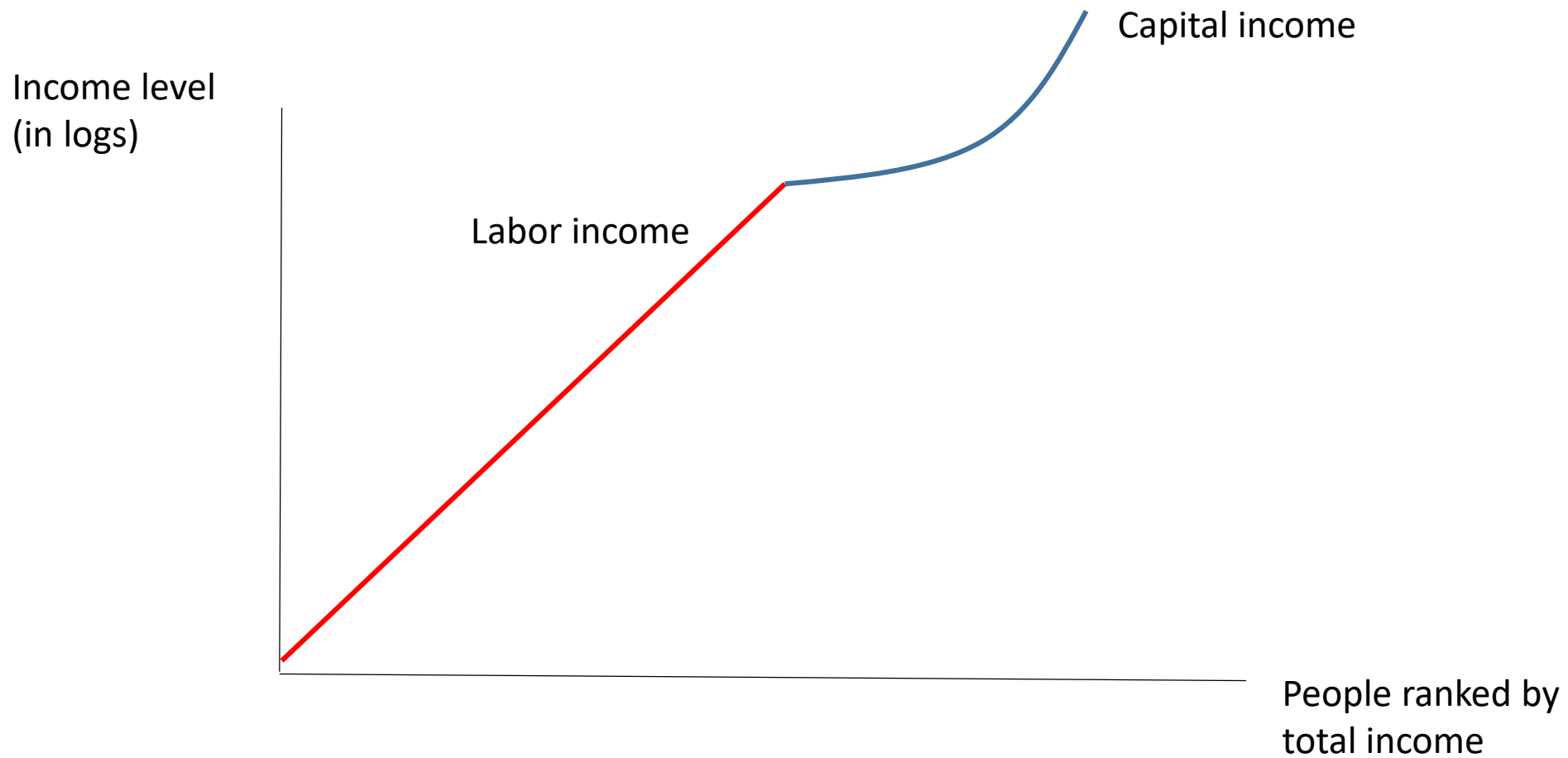
Ch V. The future of global capitalism

1. Defining various capitalisms in function of distribution of labor and capital incomes

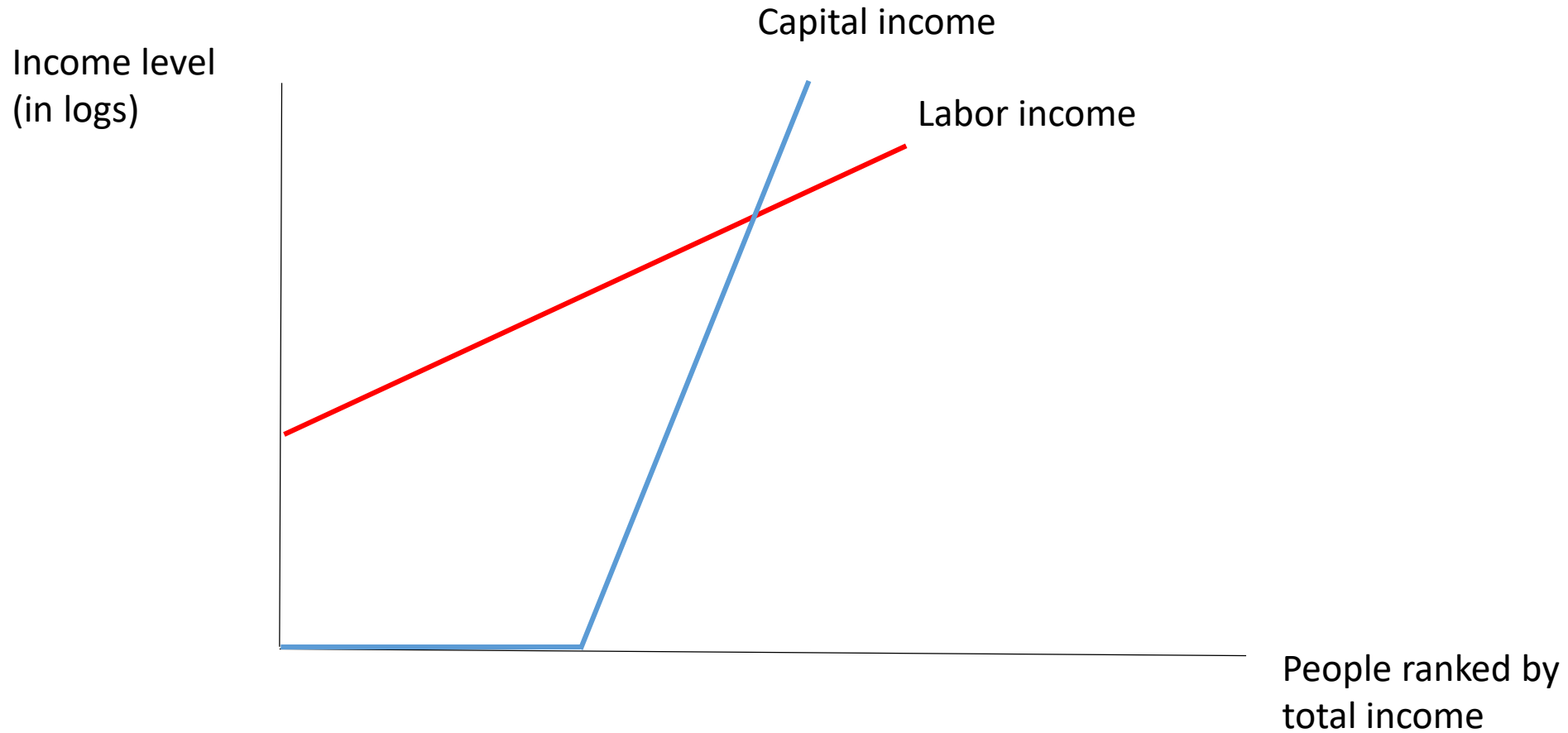
Income distribution in classical capitalism



Income in classical capitalism

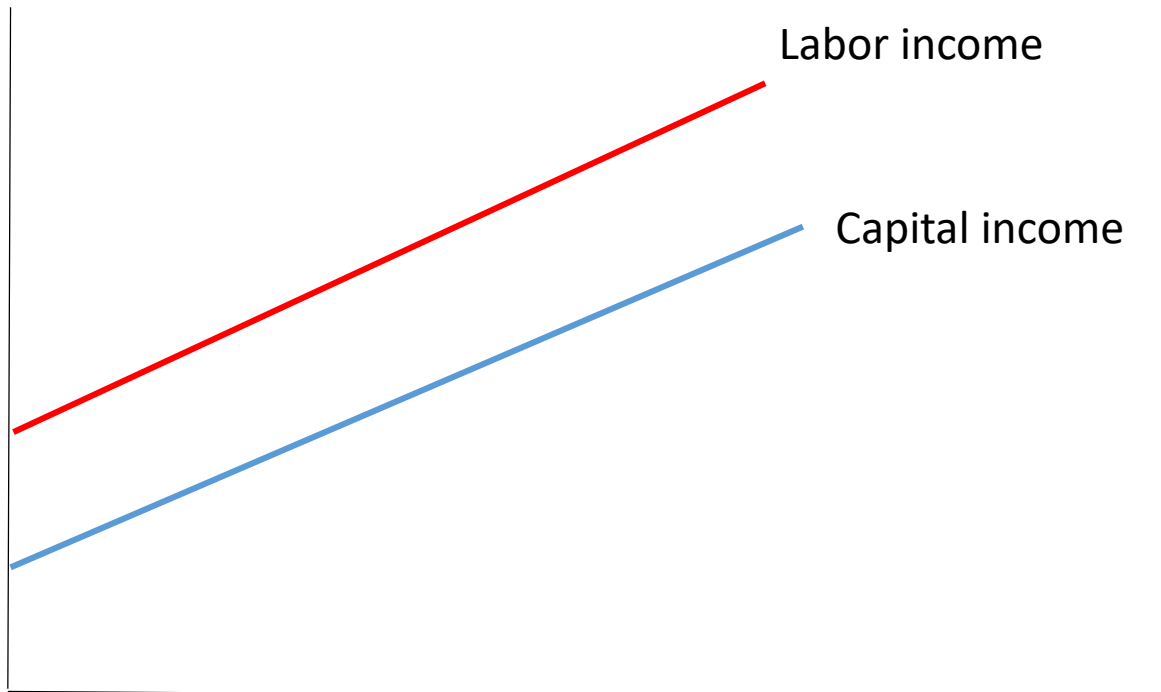


Income in meritocratic capitalism



Income in people's (or homoploutic) capitalism

Income level



Labor income

Capital income

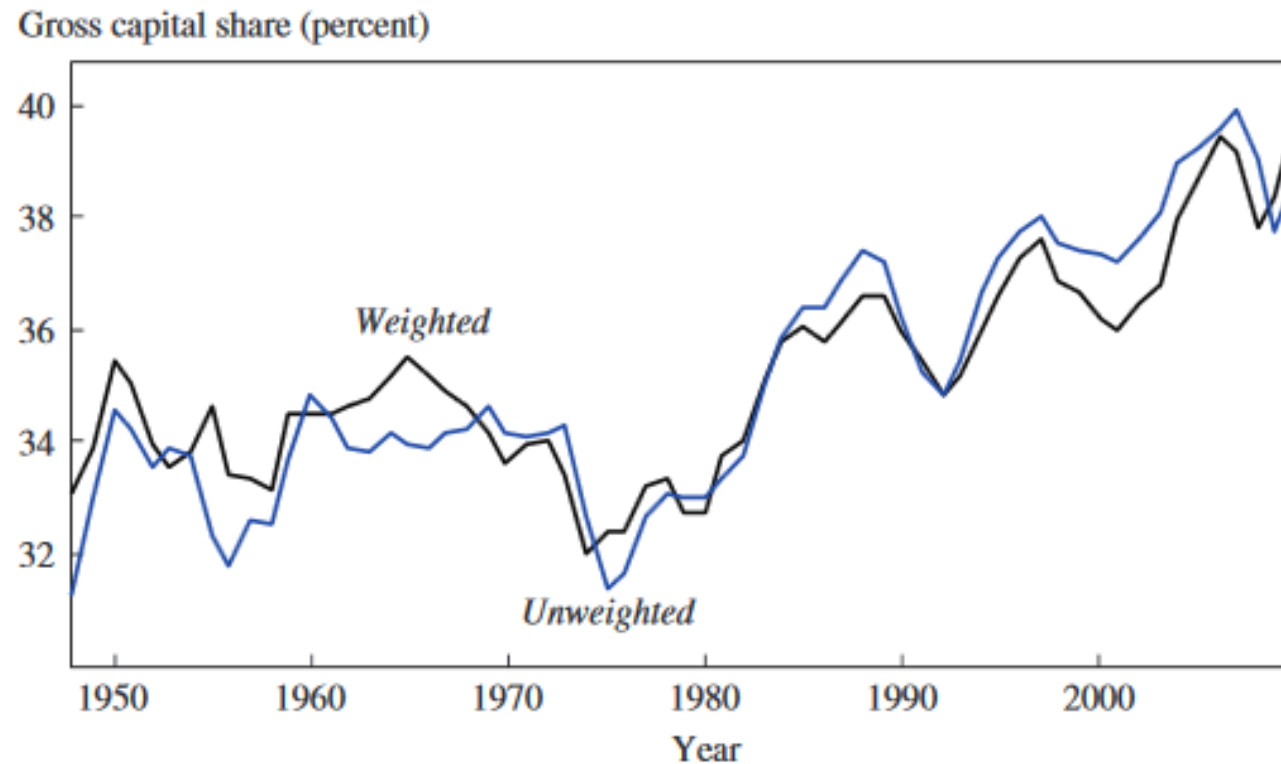
People ranked by
total income

Six systemic inequalities in liberal/meritocratic capitalism

- 1. Increasing aggregate share of capital in national income
- 2. High concentration of capital ownership
- 2a. Higher rate of return on the assets of the rich
- 3. Association of high-capital and high-labor incomes in the same individuals (*homoploutia*)
- 4. High homogamy (assortative mating)
- 5. High control of the political process by the rich (movement toward plutocracy)
- 6. Greater transmission of income and wealth across generations

1. Increasing (macro) capital share

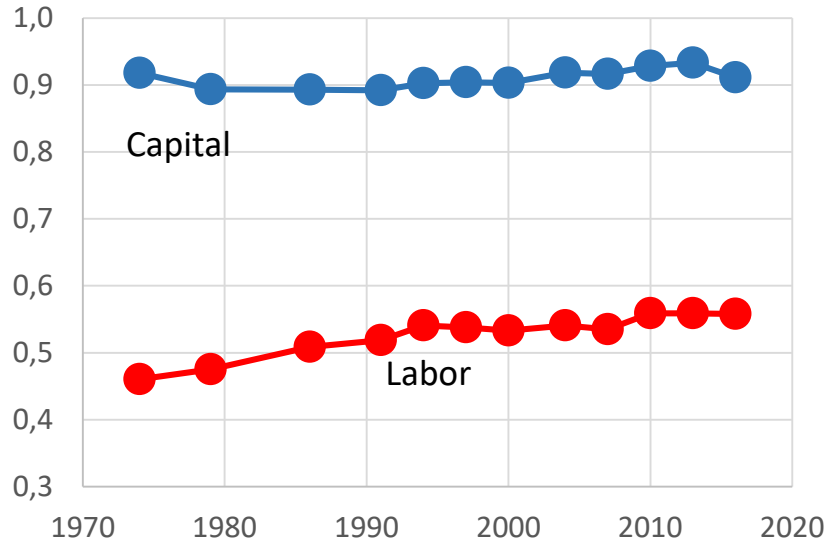
Figure 2. Average Gross Capital Share of Private Domestic Value-Added, G7 Countries, 1950–2010



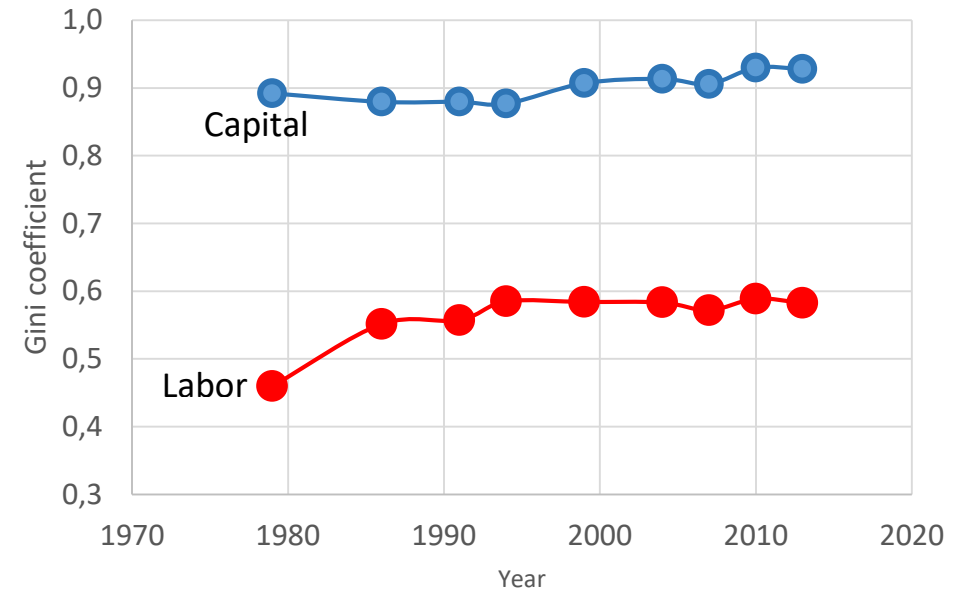
Source: Author's calculations based on national accounts; Piketty and Zucman (2014).

2. High and rising inequality of both capital and labor income Ginis

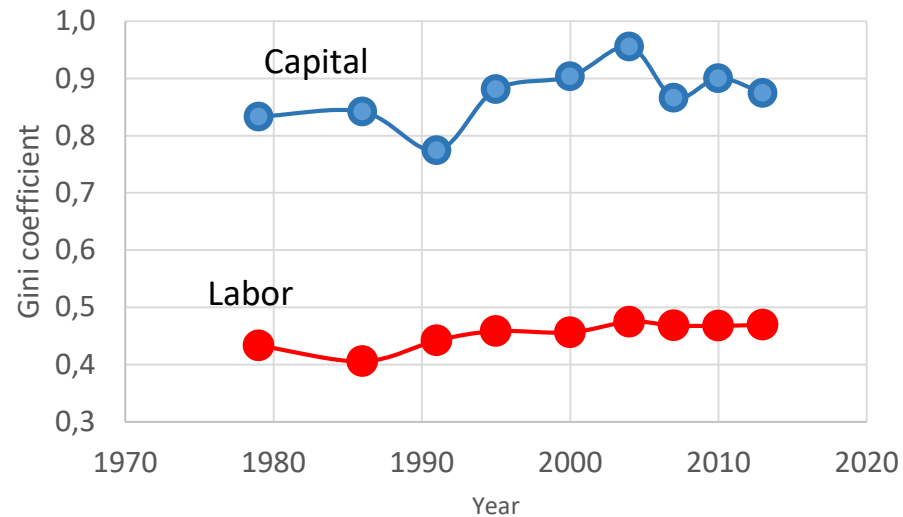
USA, 1974-2016



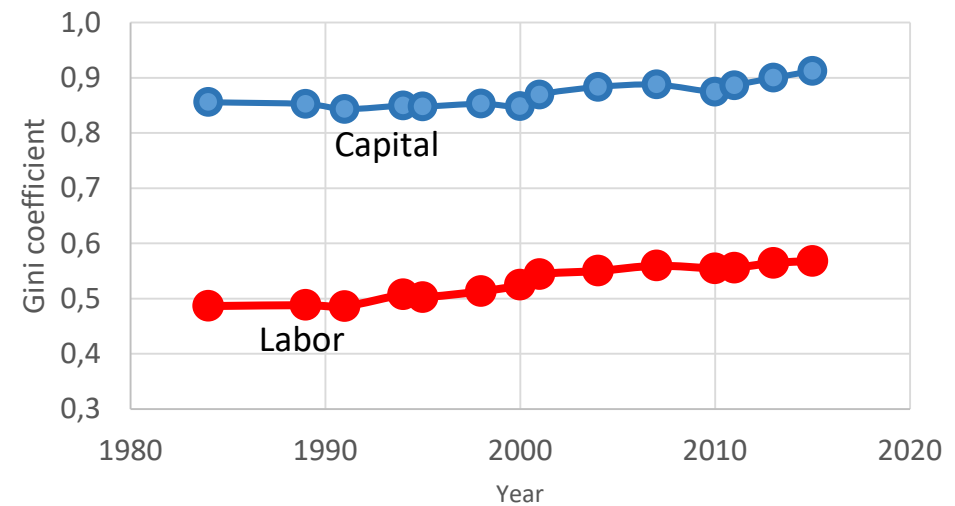
UK, 1979-2016



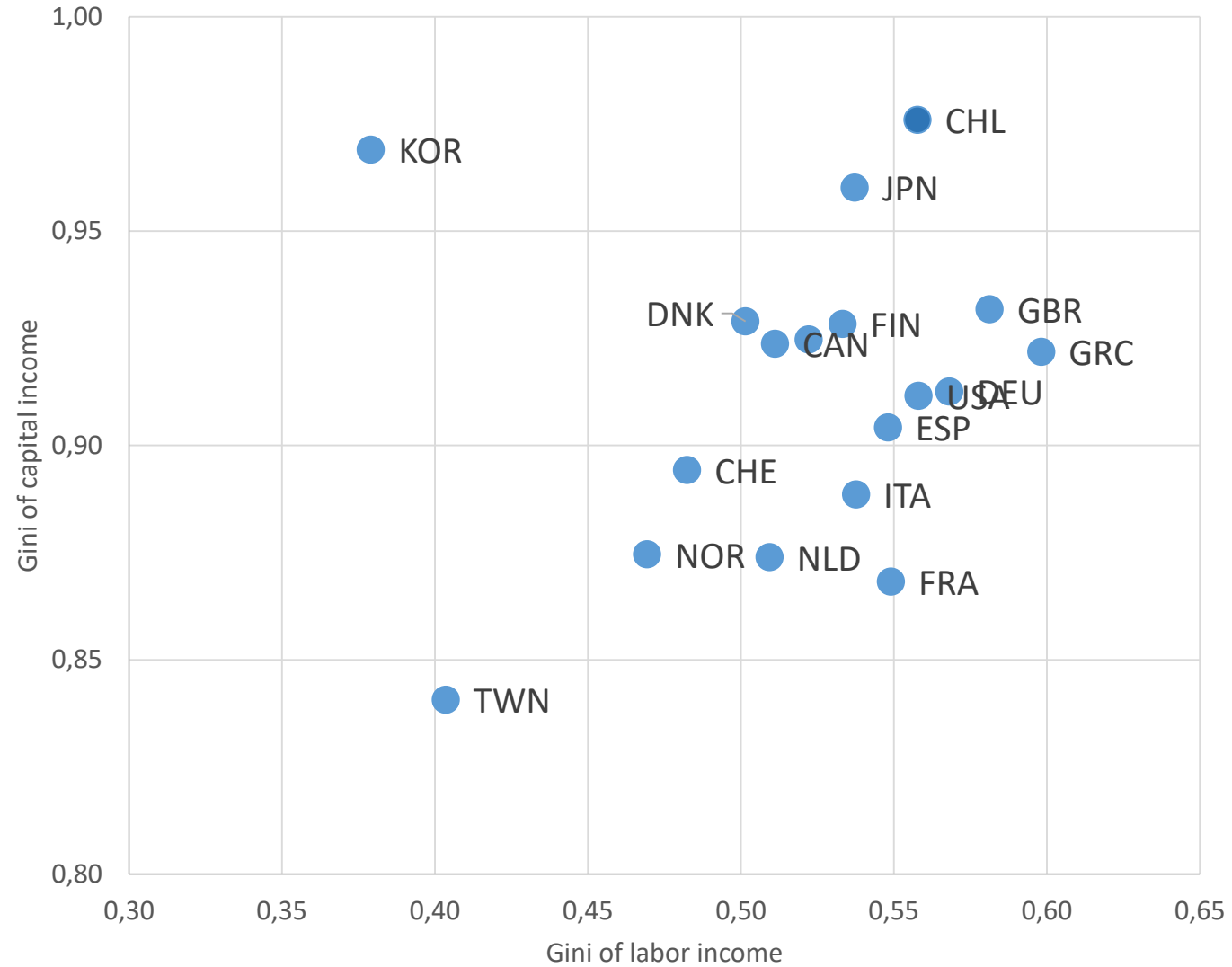
Norway, 1979-2013



Germany, 1984-2015

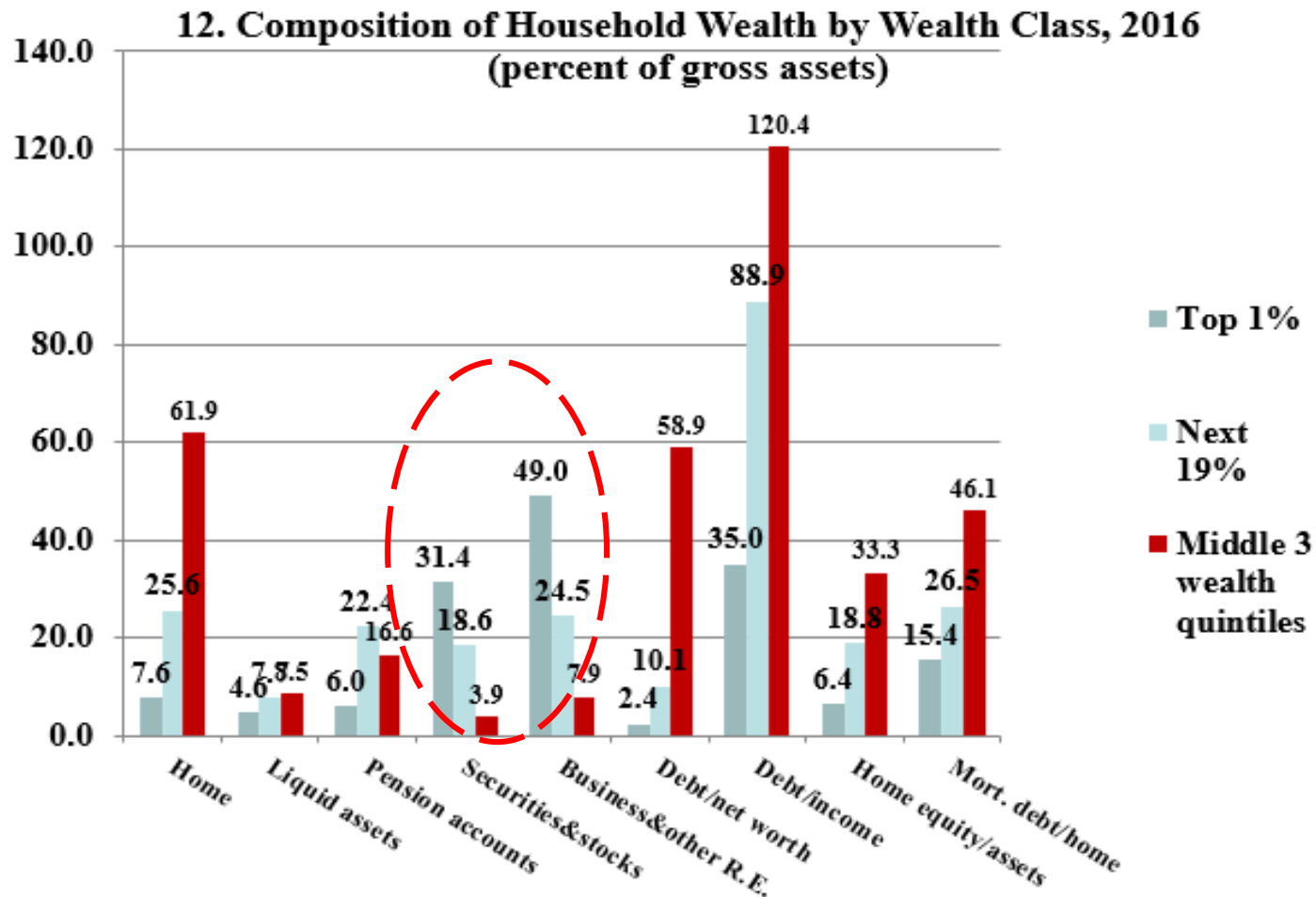


Inequality of labor and capital incomes around 2015



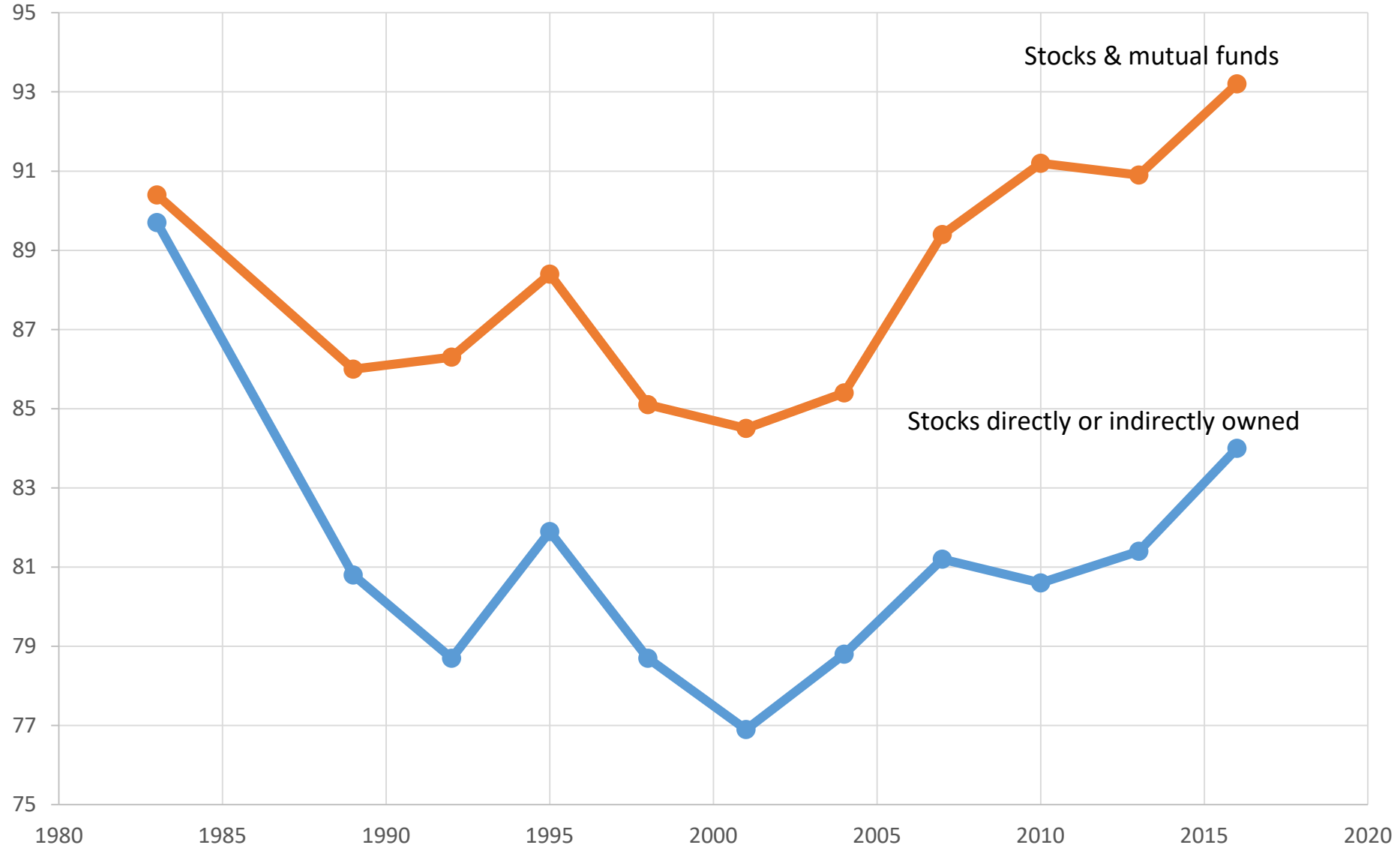
Calculated from LIS

2a. Higher rate of return on the assets of the rich: composition effect....



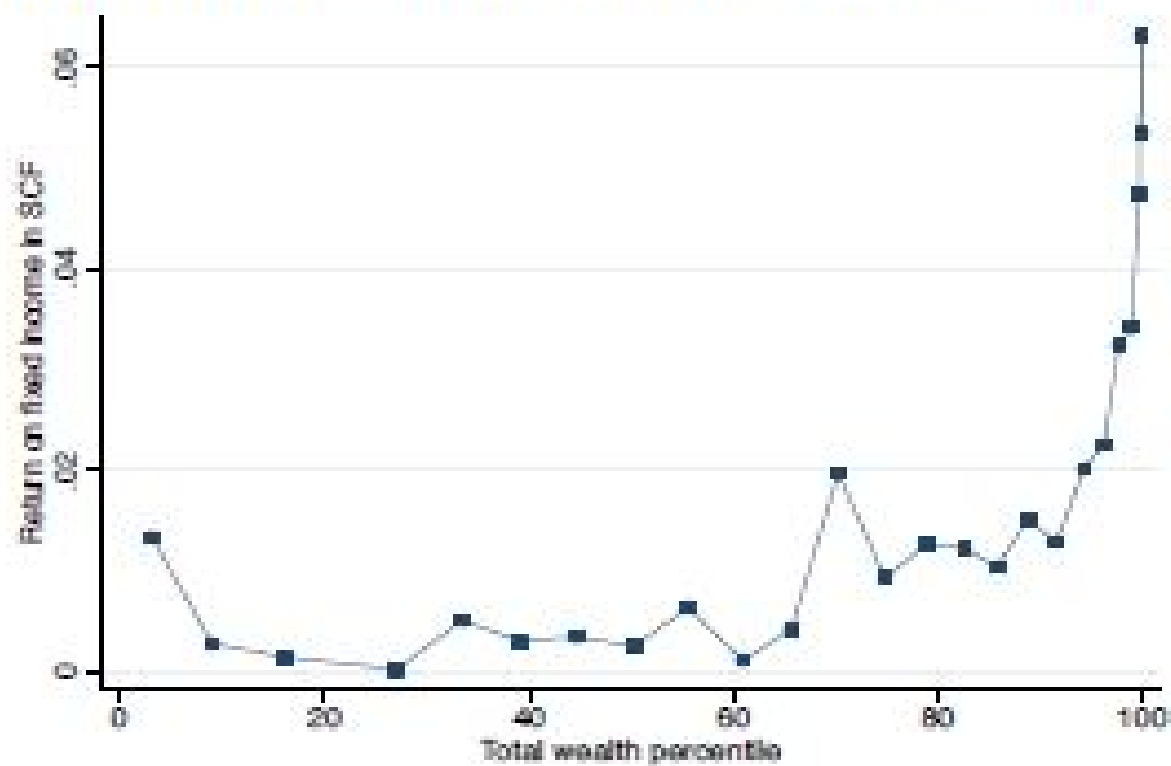
80% of gross assets of the rich are financial instruments vs. only 12% for the middle class

Percentage of all stocks owned by top 10% of wealth holders, 1983-2016

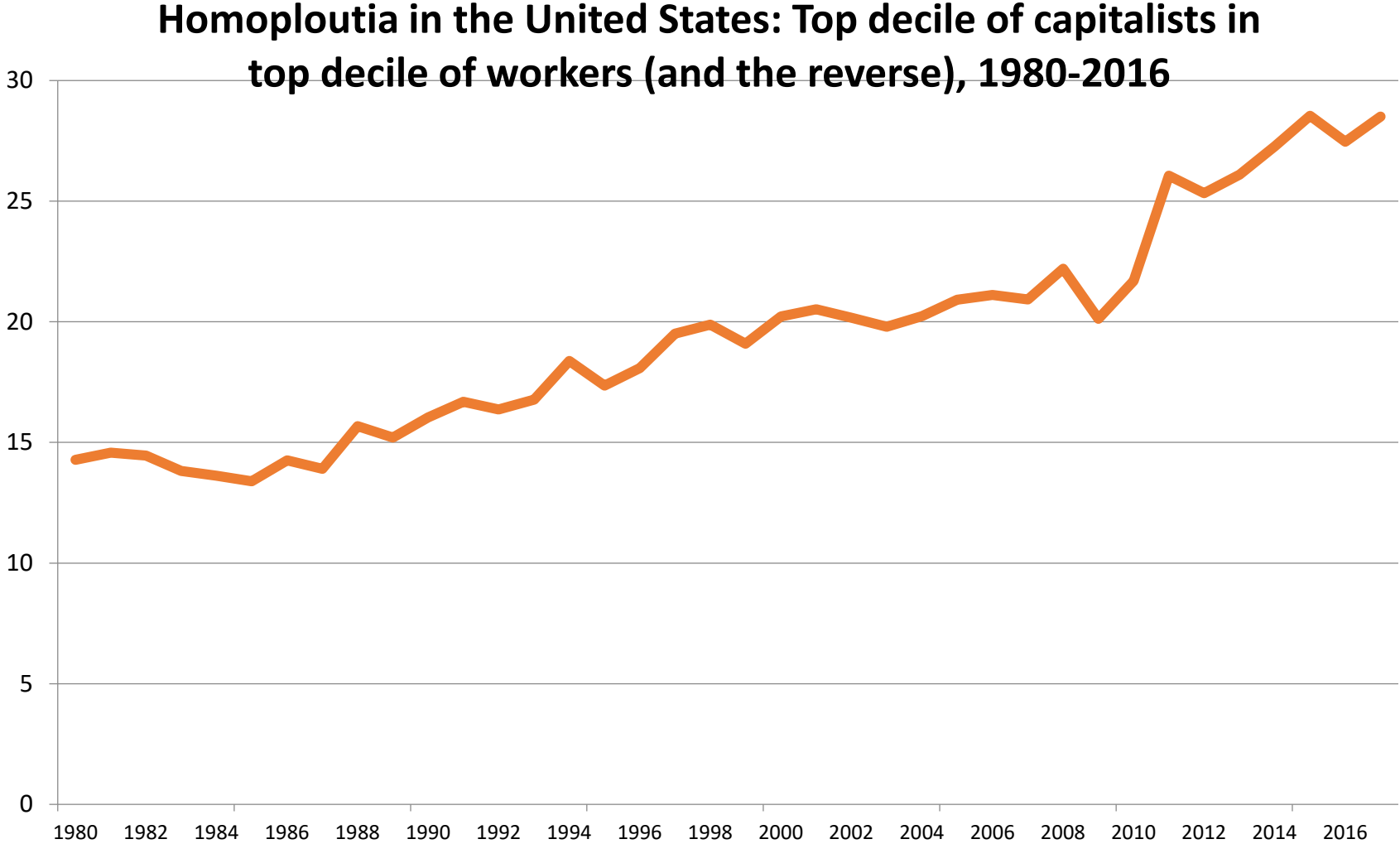


....but also higher returns within asset-classes

B. Rates of Return for Fixed Income Assets



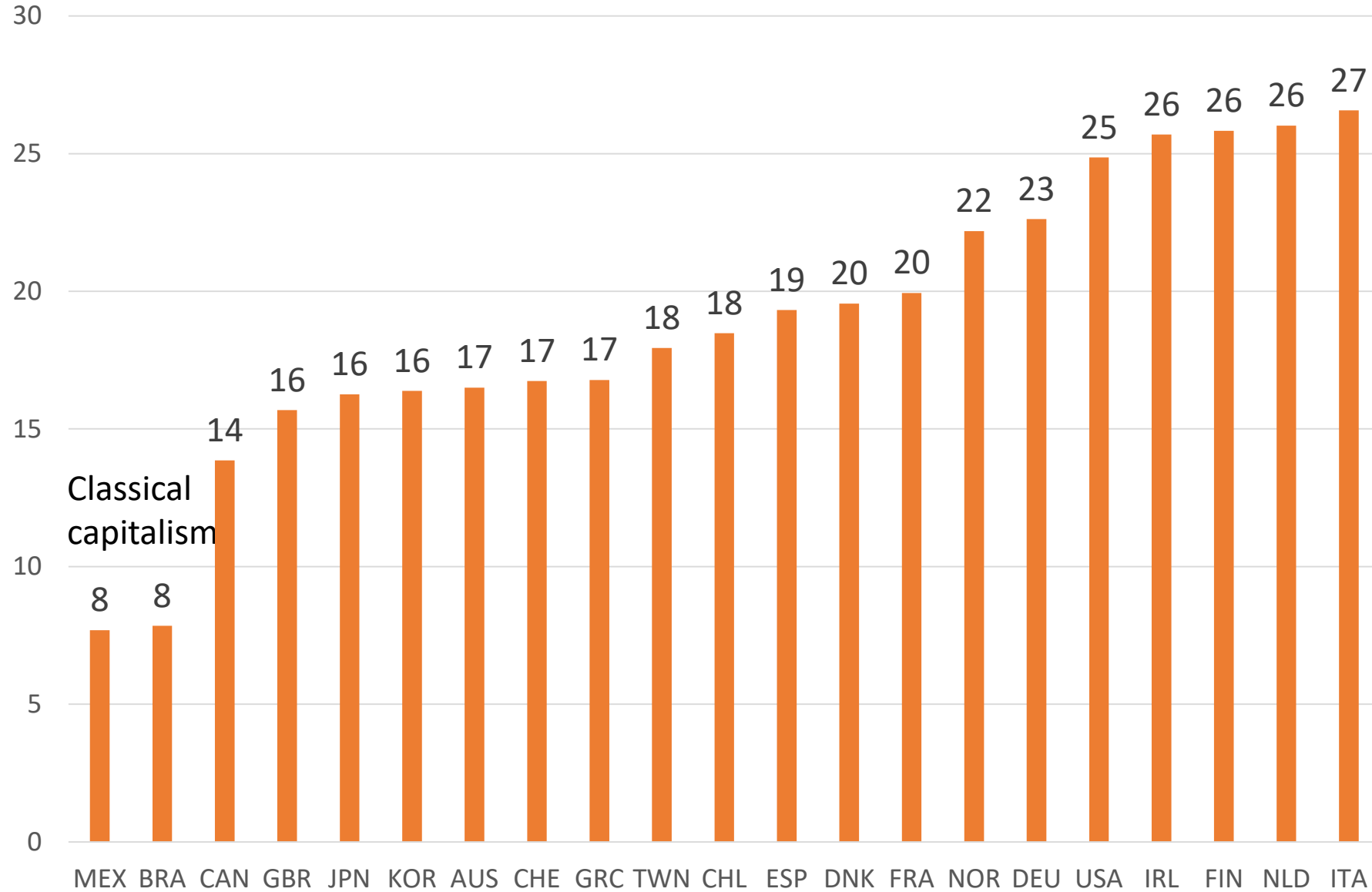
3. Homoploutia: High K and L income received by the same people



Calculated from US CPS; Nishant.xls

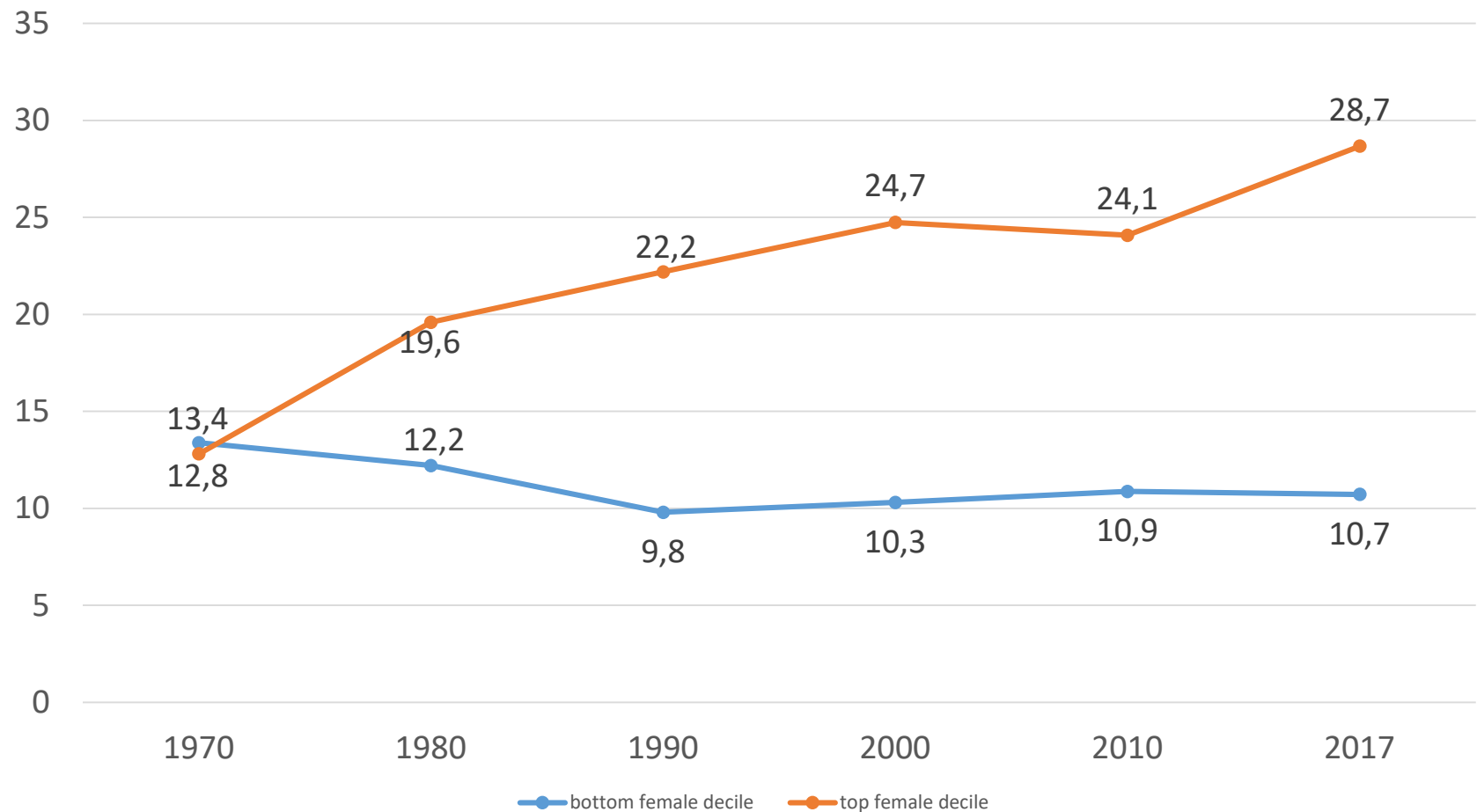
Percentage of labor-rich households who are also capital-rich (in top decile by labor income and in top decile by capital income), around 2015

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4. Homogamy (assortative mating): rich males (cohorts)

Share of male top decile (by labor income) paired with female top and bottom deciles (by labor income), age group 20-35 in %



Homogamy (assortative mating): rich females (cohorts)

Share of Female top decile (by labor income) paired with male top and bottom deciles (by labor income), age group 20-35 in %

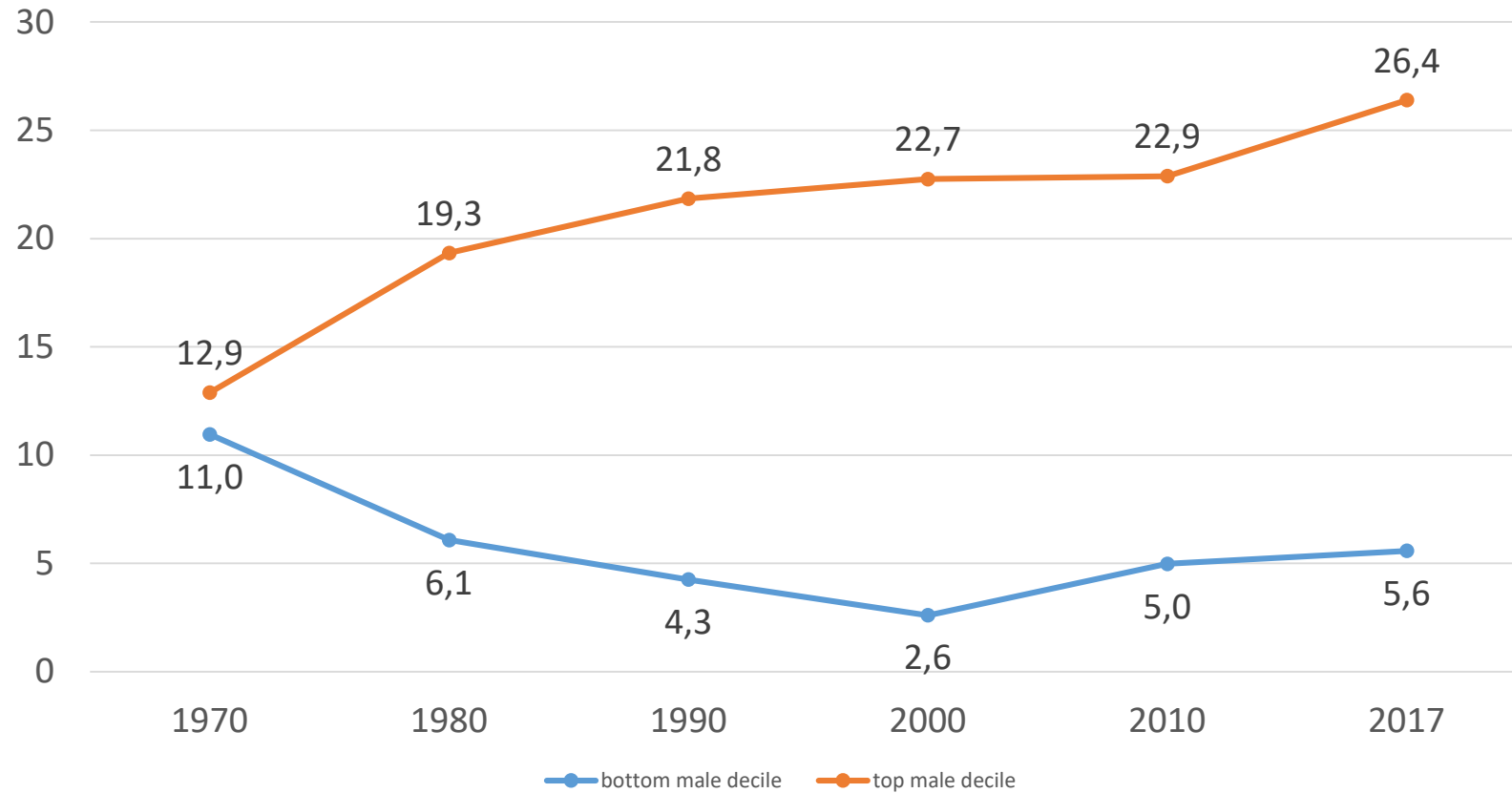
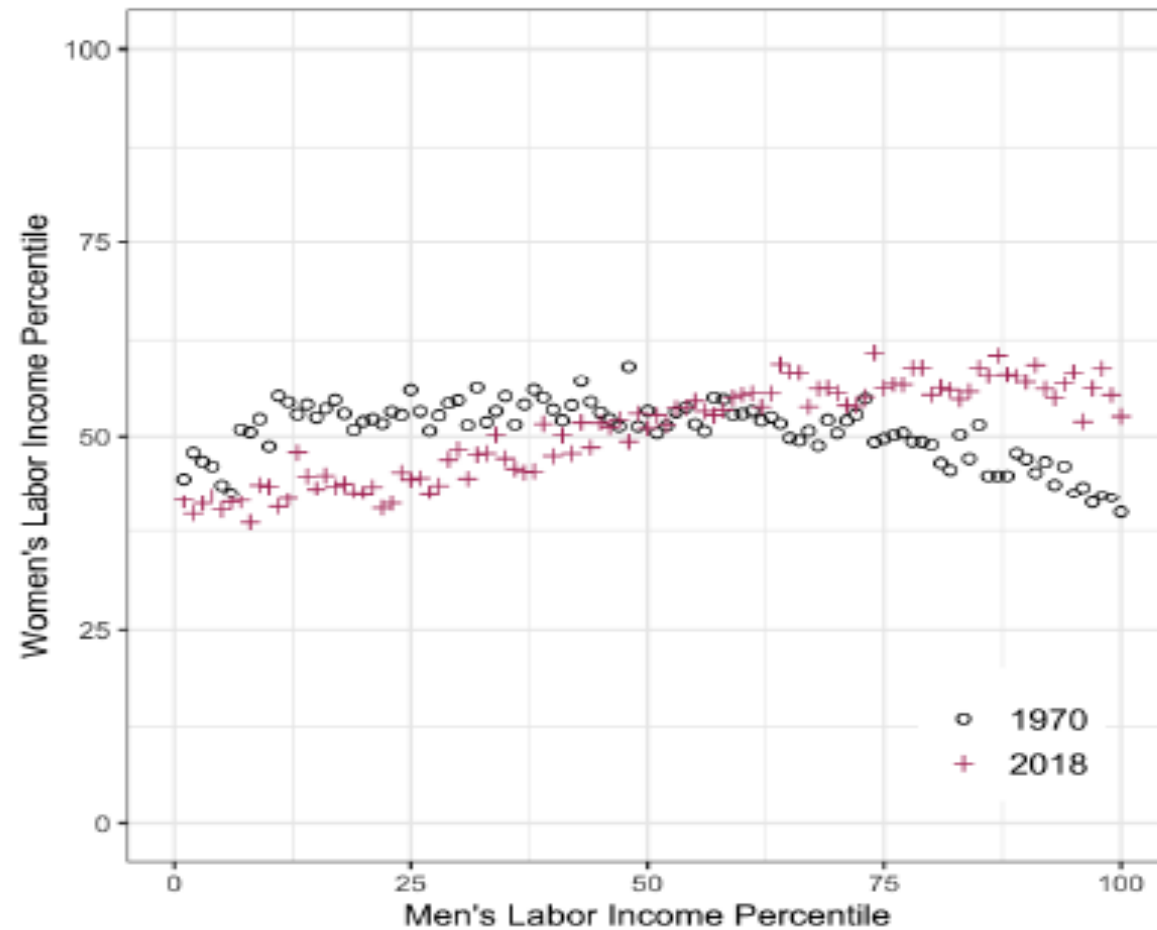


Figure 5: Rank-rank correlation for each percentile in 1970 and 2018



Notes: This figure shows the rank-rank correlation between each percentile of the marginal distributions in 1970 and 2018. For each percentile of the men's distribution, it shows the average rank of their partner in the women's distribution. The percentiles are ranked by each gender's labor income from the poorest percentile (left) to the richest percentile (right).

5. Policy responsiveness to the divergent preferences of the rich, middle class and the poor

80 • Chapter 3

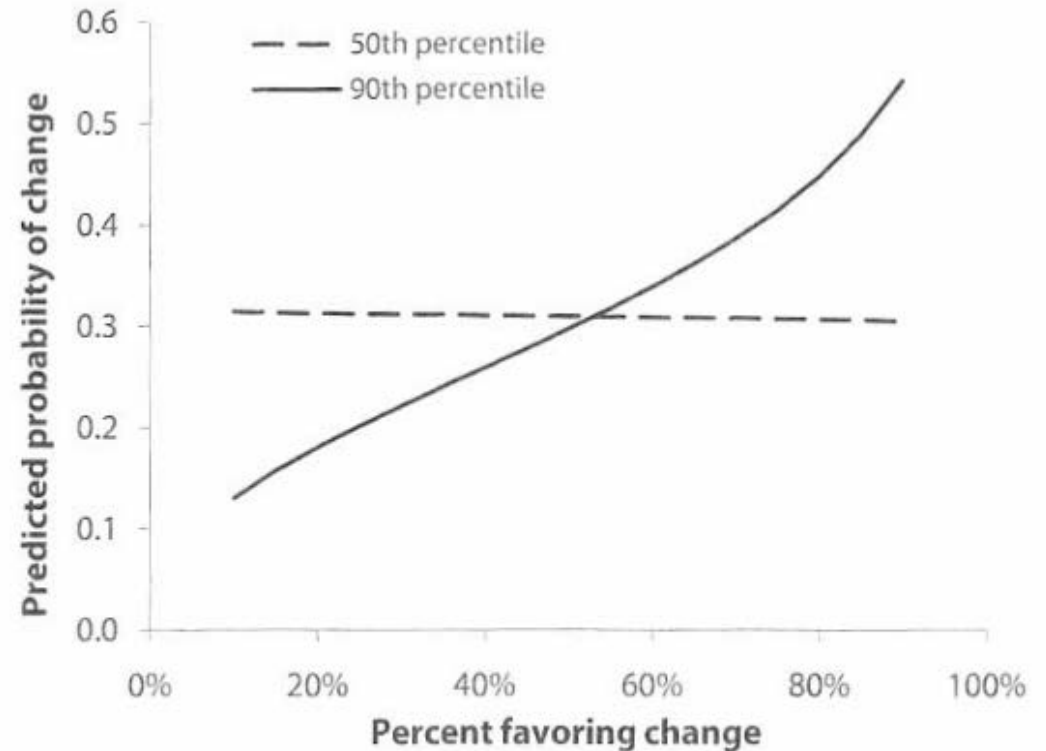
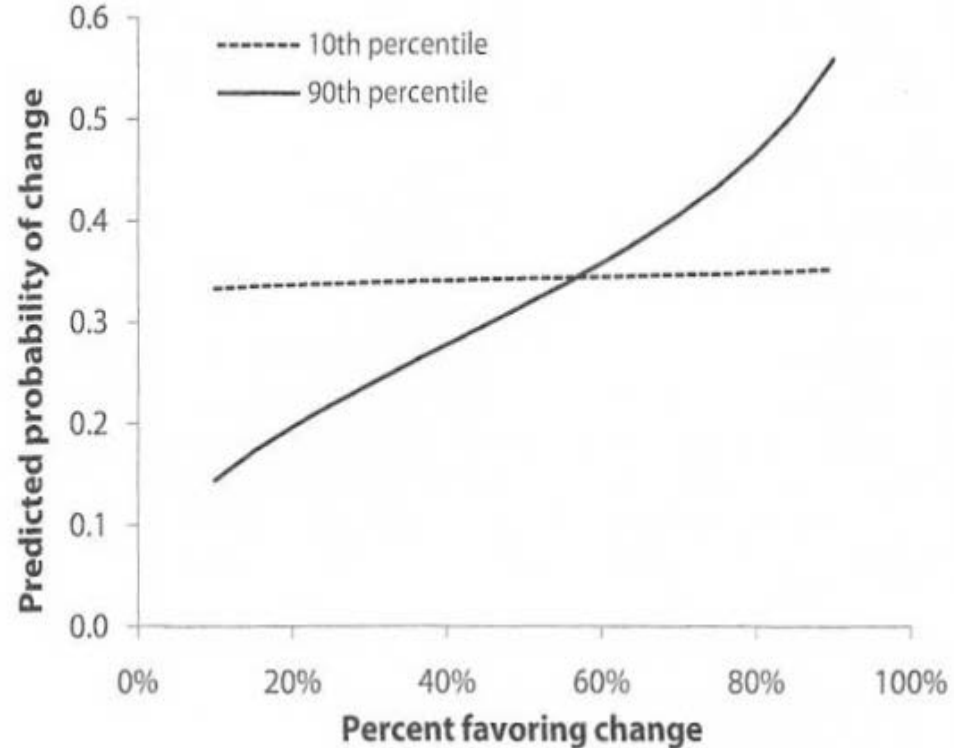
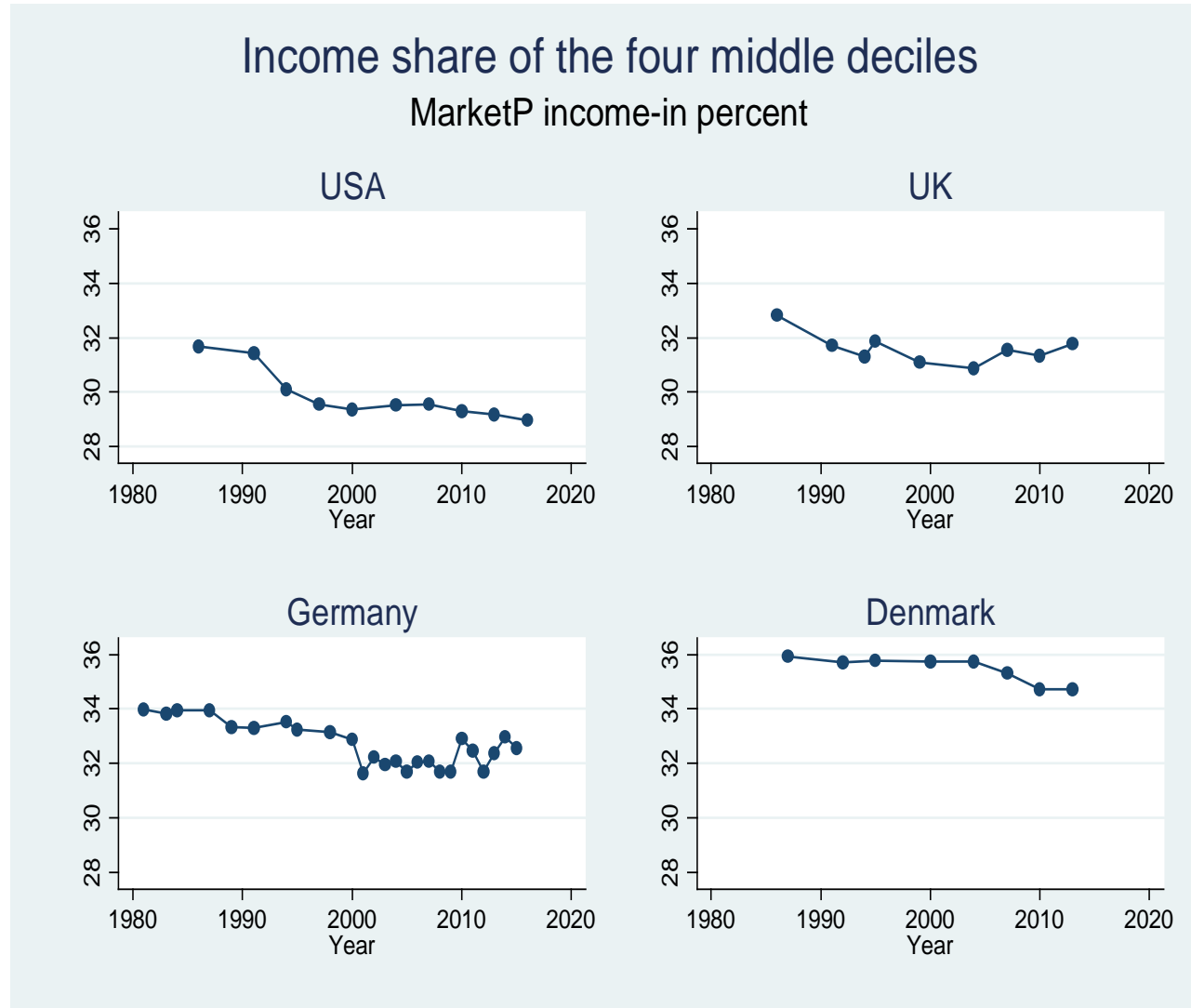


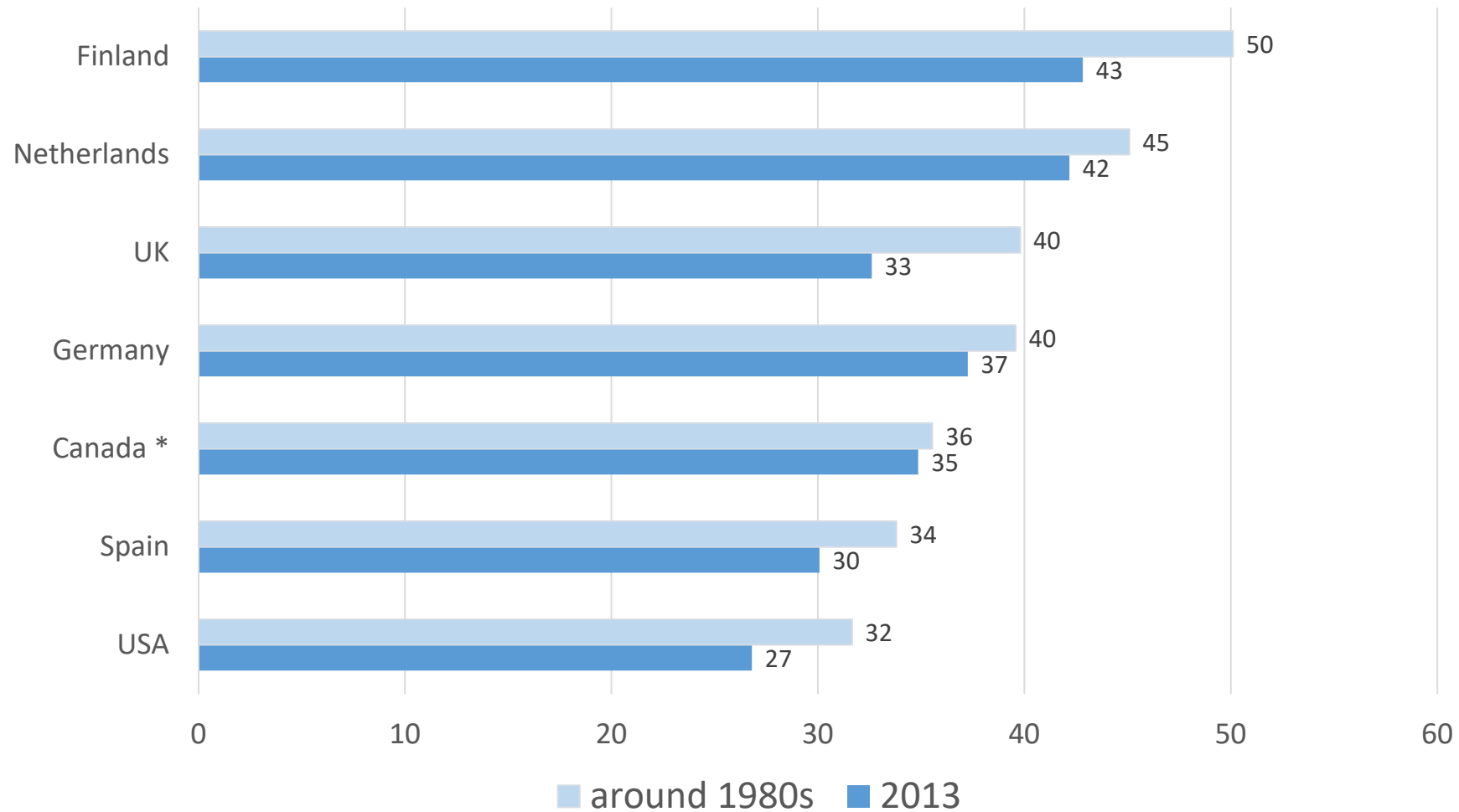
Figure 3.5. Policy Responsiveness When Preferences across Income Levels Diverge. Predicted probabilities are based on the logistic regressions reported in table 3.2.

The result: Shrinking middle class: both in terms of market and disposable income share

Income stagnation and shrinkage in the size of the western middle classes : market income (incl. of state pensions), 1980s-2015



Percentage of population considered middle class in the 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)

4. Policy

- Rich countries can expect to have an ever greater K/Y ratios. Unless r drops proportionally, capital share is likely to continue to rise.
- With the current K and L endowments, that implies a pass-through rate whereby each additional point in K share translates into about $\frac{1}{2}$ Gini point increase in personal income inequality. Is this sustainable, if e.g. the share of capital goes up by 10 points?
- Technically the link can be weakened by increased taxation of income from capital (flow) or wealth (stock)
- Both would reduce Gini of capital income and reduce the pass-through to inter-personal inequality
- But four key tools of inequality reduction from the 20th century are weaker now: education, trade unions, taxes, social transfers
- So what are the solution?

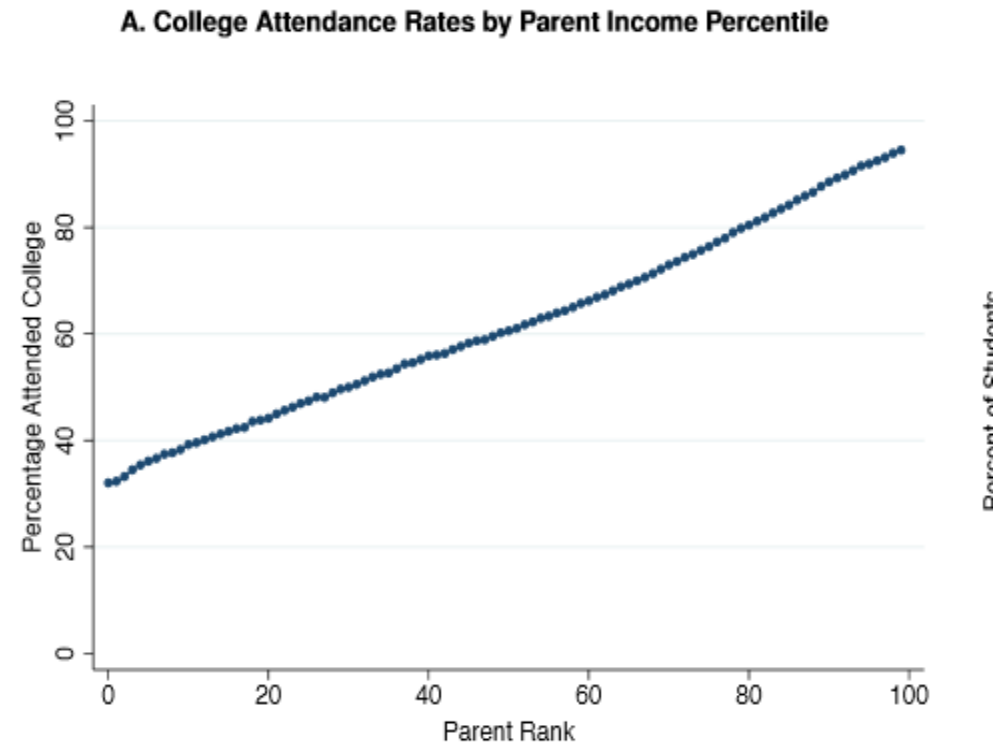
Capital: more widely owned

- But the question is to what extent are higher taxes on capital flows or capital stocks feasible in the era of globalization. Require very high level of inter-state coordination and is difficult to enforce.
- An alternative would be to **focus on “pre-redistribution”**, that is on reducing the concentration of capital endowments through much more widely spread ownership.
- Could be done through workers’ shareholding (ESOPs), but they have a problem of non-diversification of risk (although that issue is somewhat exaggerated) or
- through greater incentives for small savers and investors and penalties (elimination of loopholes) for large investors.
- Or inheritance taxation.
- The key point is to increase capital ownership for some 80% of people who currently own 10% of all wealth (including housing).

Education: public

- Equal access to education
- Equal access to equal **quality** of education
- Reduction of premiums that are currently the product of either better quality or greater prestige (higher costs) of schools, and particularly so where wages are not determined, even vaguely, by marginal productivity
- Large de facto subsidies to private education (through foregone taxes on returns to endowments)
- Why the rich want to keep education expensive? Preserving the monopoly of top paying jobs for their offspring (14.5% of students at Ivy+ colleges from the top 1% parents; likelihood of attending 77x greater than from the bottom quintile; Chetty, Friedman, Saez, Turner, Yagan, 2019)

College attendance rate by parent income percentile



Systemic inequalities in liberal/meritocratic capitalism and policy actions

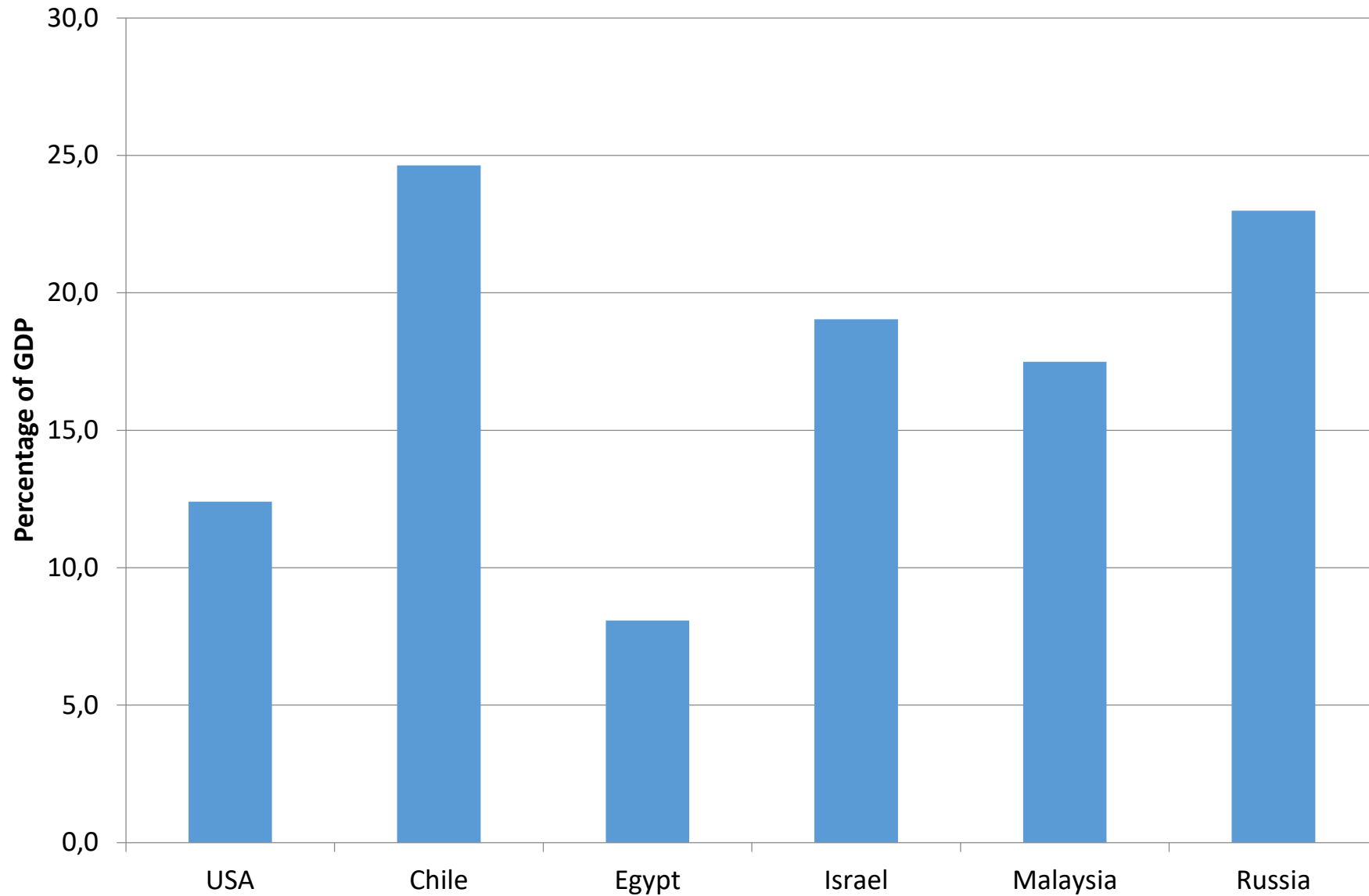
Systemic inequality	Possible remedy
Increasing aggregate share of capital in national income	Demonopolization, stronger unions [But v little can be done]
High concentration of capital ownership	Deconcentration through tax advantages to the middle class, ESOPs, worker ownership Elimination of loopholes for the rich
Higher rate of return on the assets of the rich	Increased taxation of K gains
Homoploutia	Nothing
Homogamy	Nothing
Control of the political process by the rich	Electoral reform
Greater transmission of income and wealth across generations	Taxation of inheritance Public education (Rawls liberal equality)

5. What people's capitalism will do and will not do

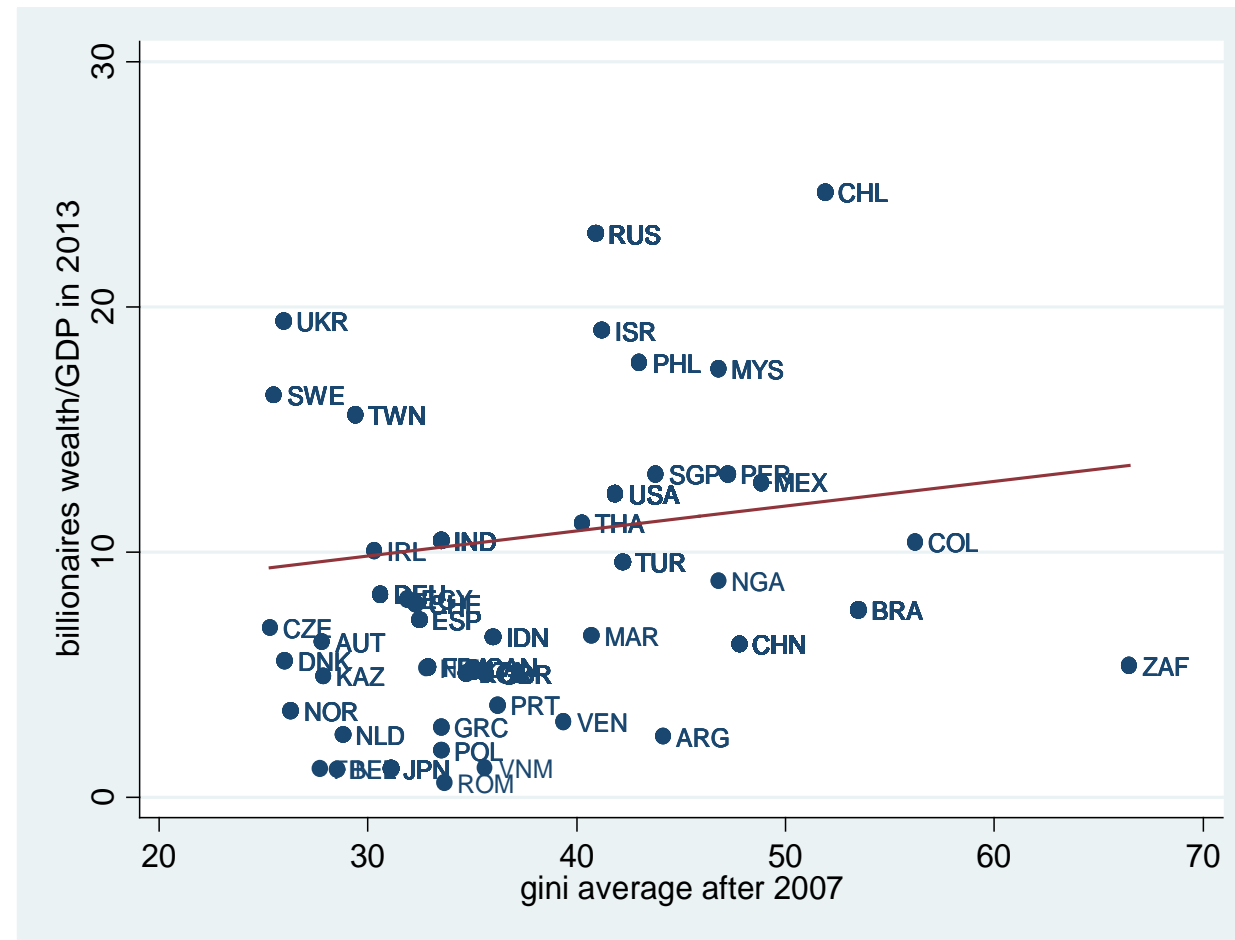
- It is still capitalism according to Marx-Weber definition of capitalism
- It does not do away with hierarchical relations in the workplace
- It does not democratize production nor reduce alienation
- It provides lower income inequality and greater similarity of conditions
- It moves us towards a “société des égaux”; does not bring us there
- It ensures that further increases in the wealth-income ratio do not translate into greater personal income inequality
- It leaves open the possibility of a society where scarce labor would hire plentiful capital and where wage labor would disappear or become less important

Chile

**The final: Billionaires' wealth as percentage of national GDPs
(a country needs to have more than 5 billionaires and GDP>\$50b)**

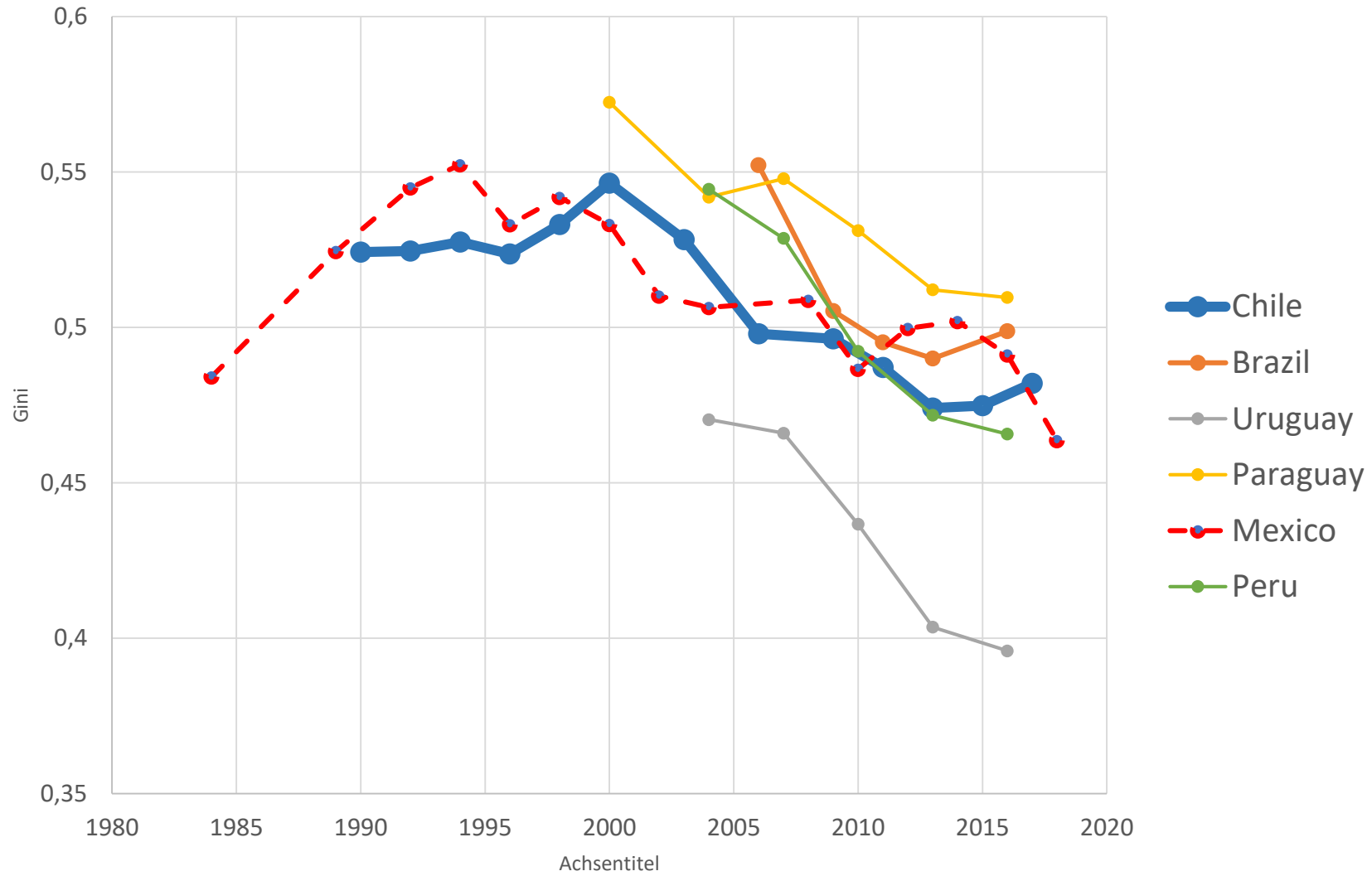


Relationship between billionaires' wealth and income Ginis

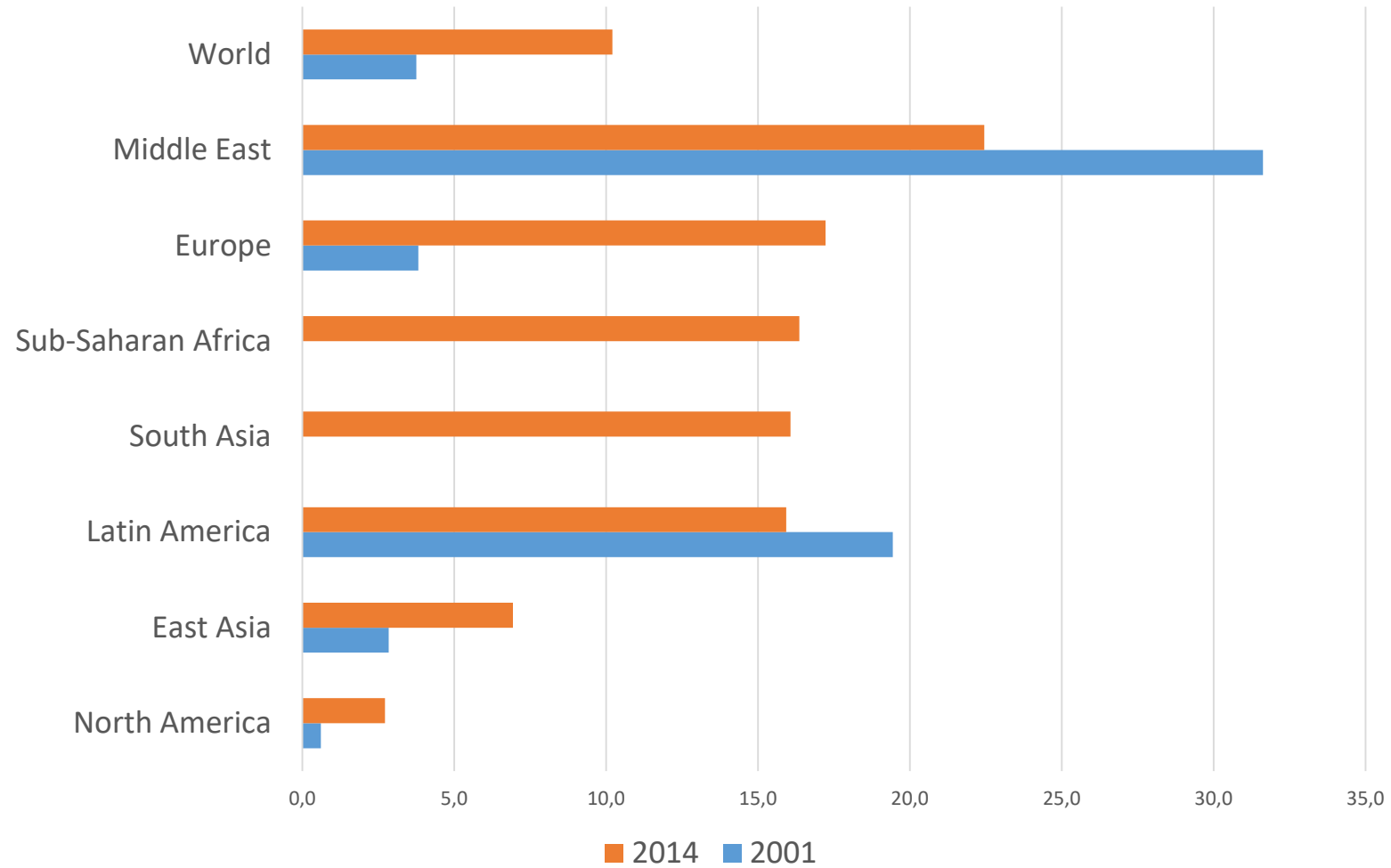


twoway (scatter wealth_gdp gini if wealth_gdp<30, mlabel(contcod)) (lfit wealth_gdp gini if wealth_gdp<30, ytitle(billionaires wealth/GDP in 2013) legend(off))
From Forbes2013.dta

Latin America: Gini coefficients 1990-2017



Share of billionaires' wealth acquired through political connection and resource privatization



Source: Freund (2018)