

Global inequality in history and now  
(Based on *Global Inequality and Capitalism, Alone*)

Branko Milanovic

The Annual Lecture in Economics 2022

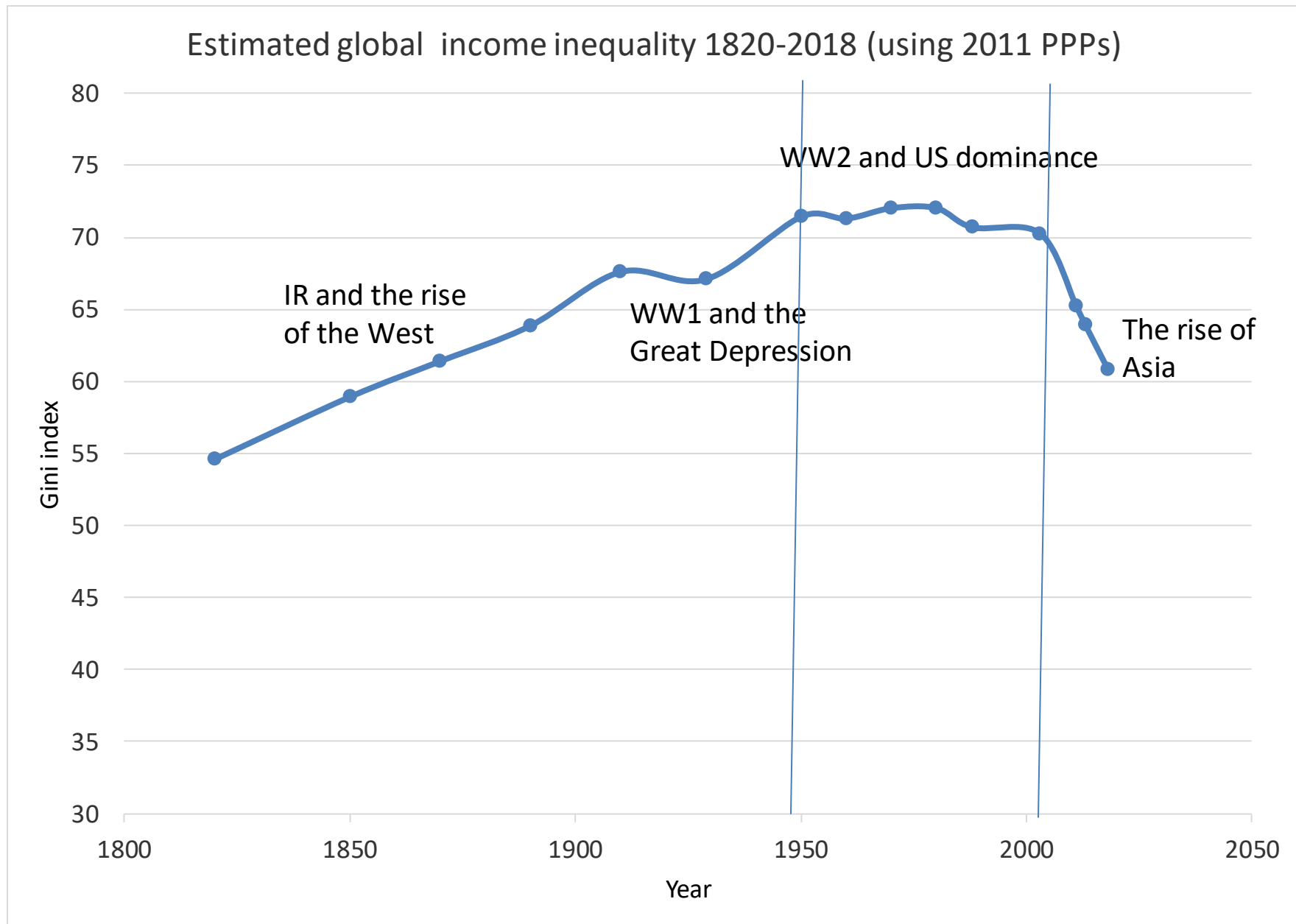
The Cyprus Economic Society

Nicosia, 26 May 2022

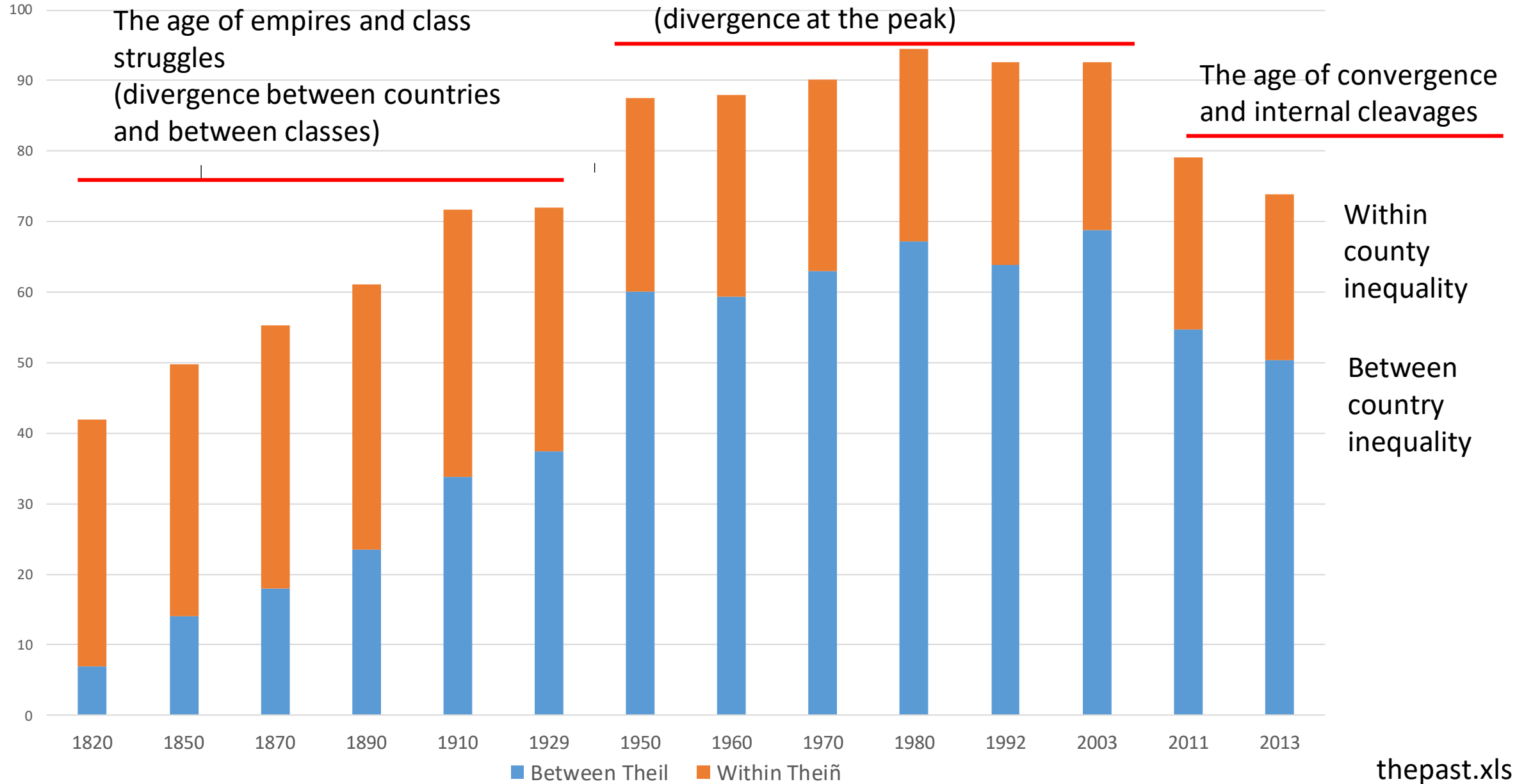
Long run

## *La longue durée*

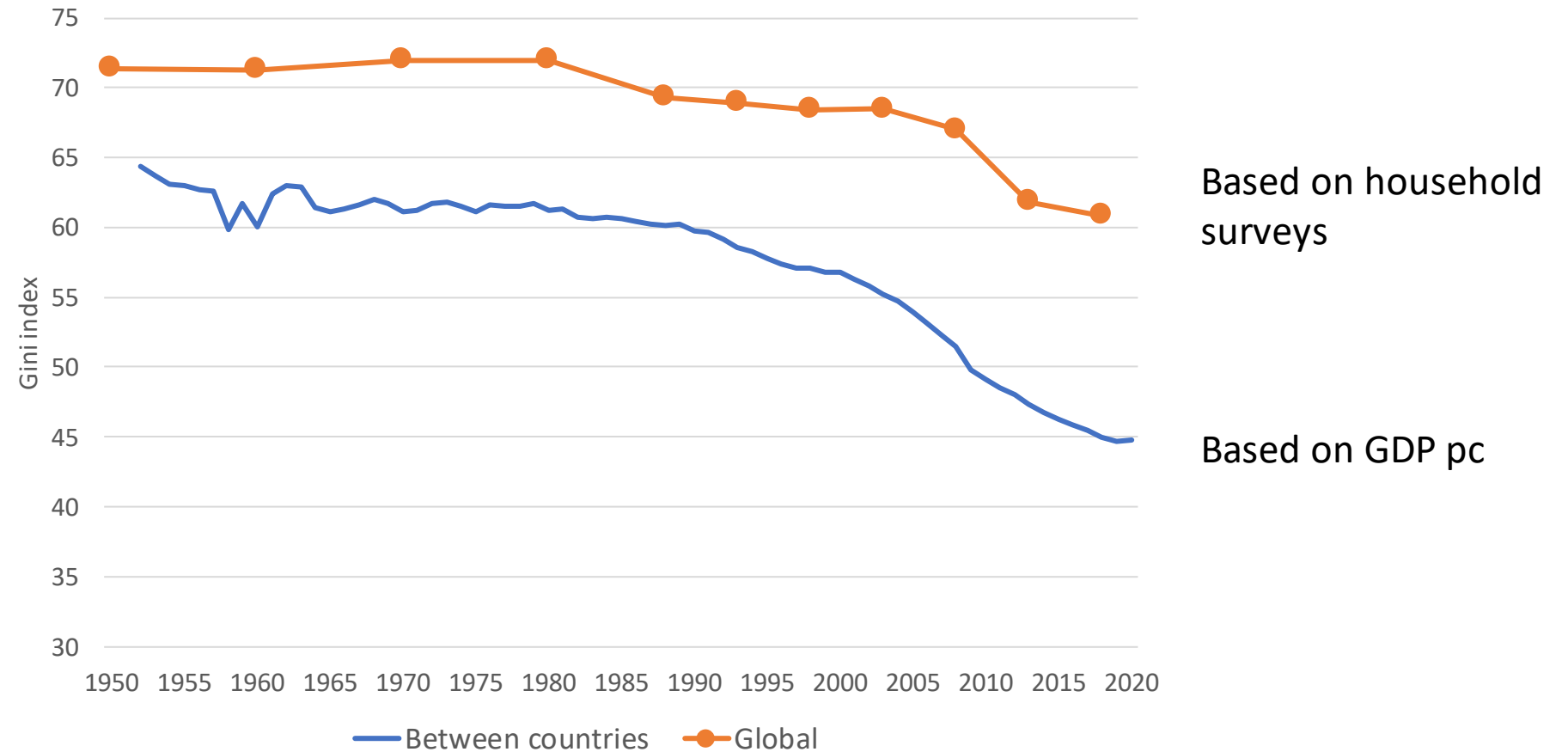
The definition of the three long-run periods (“ages”) from the Industrial Revolution until today



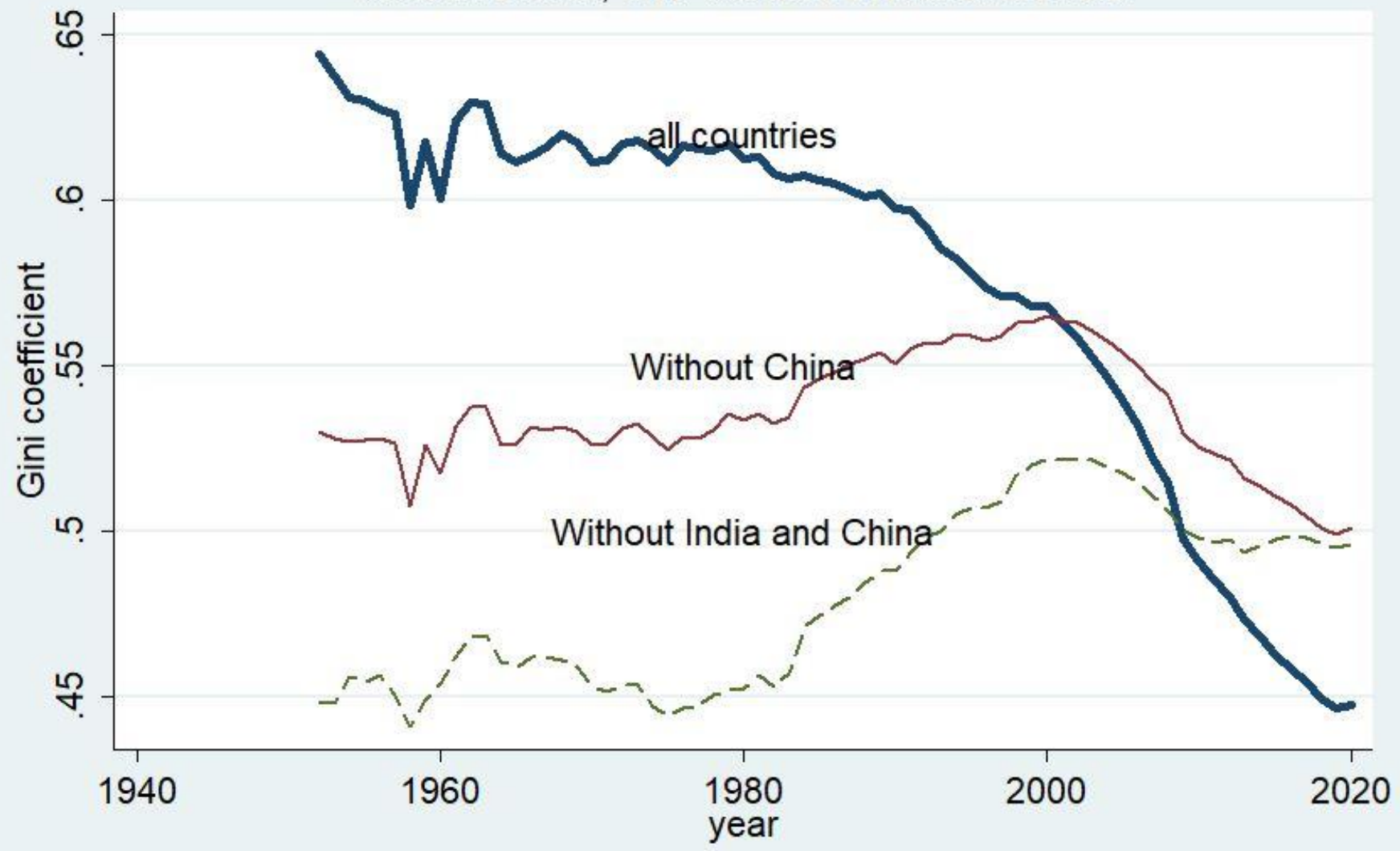
# The age of the Three Worlds and diminished class conflict (divergence at the peak)



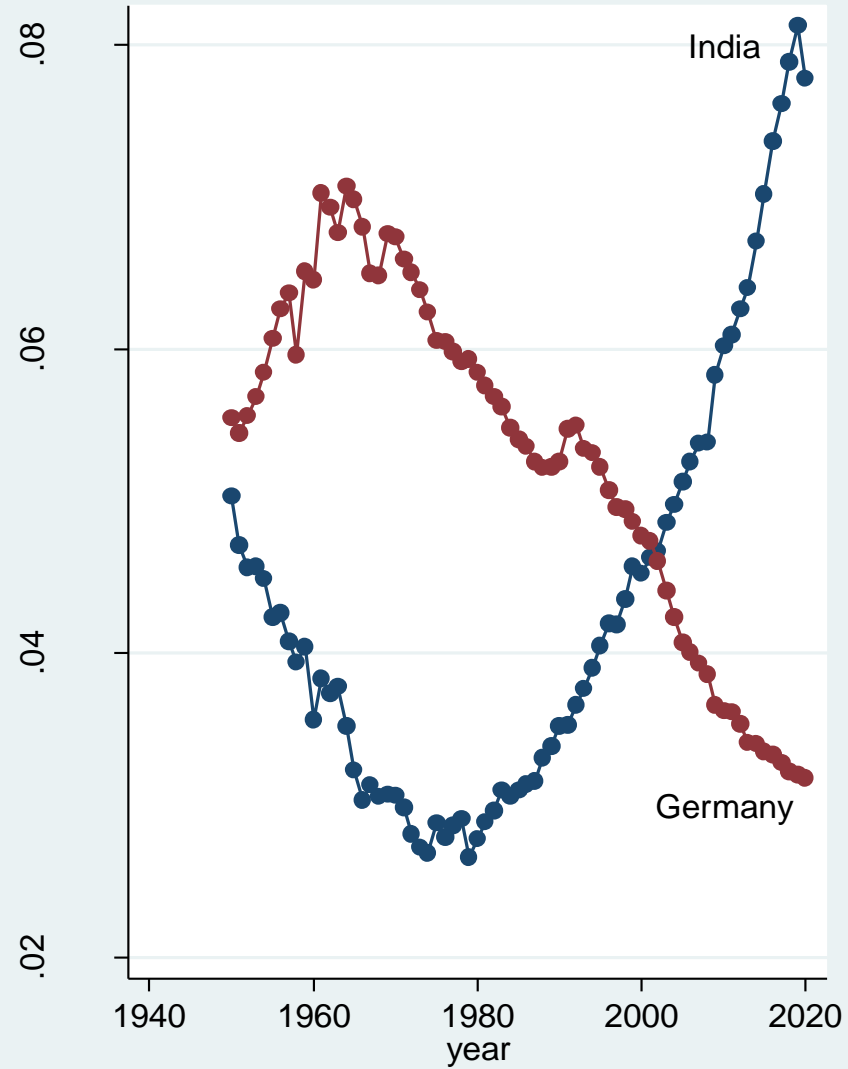
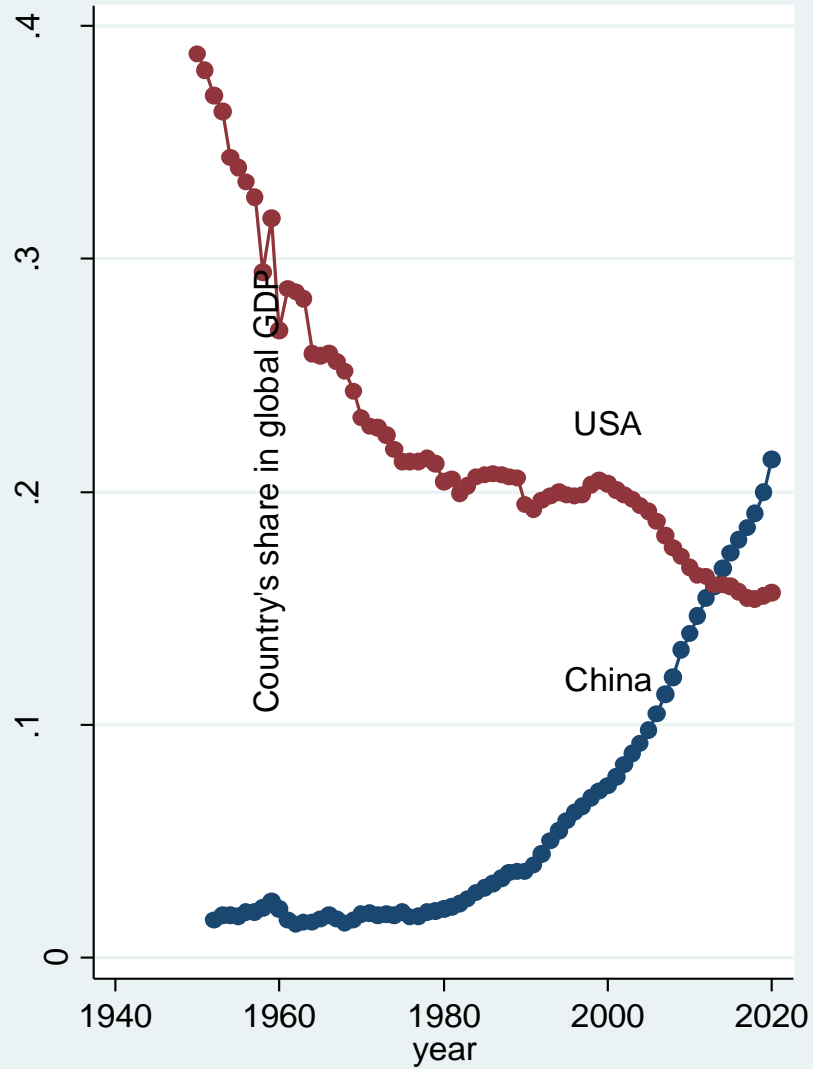
# Global inequality and inequality between countries (population-weighted)



### Concept 2 inequality without China; and without China and India

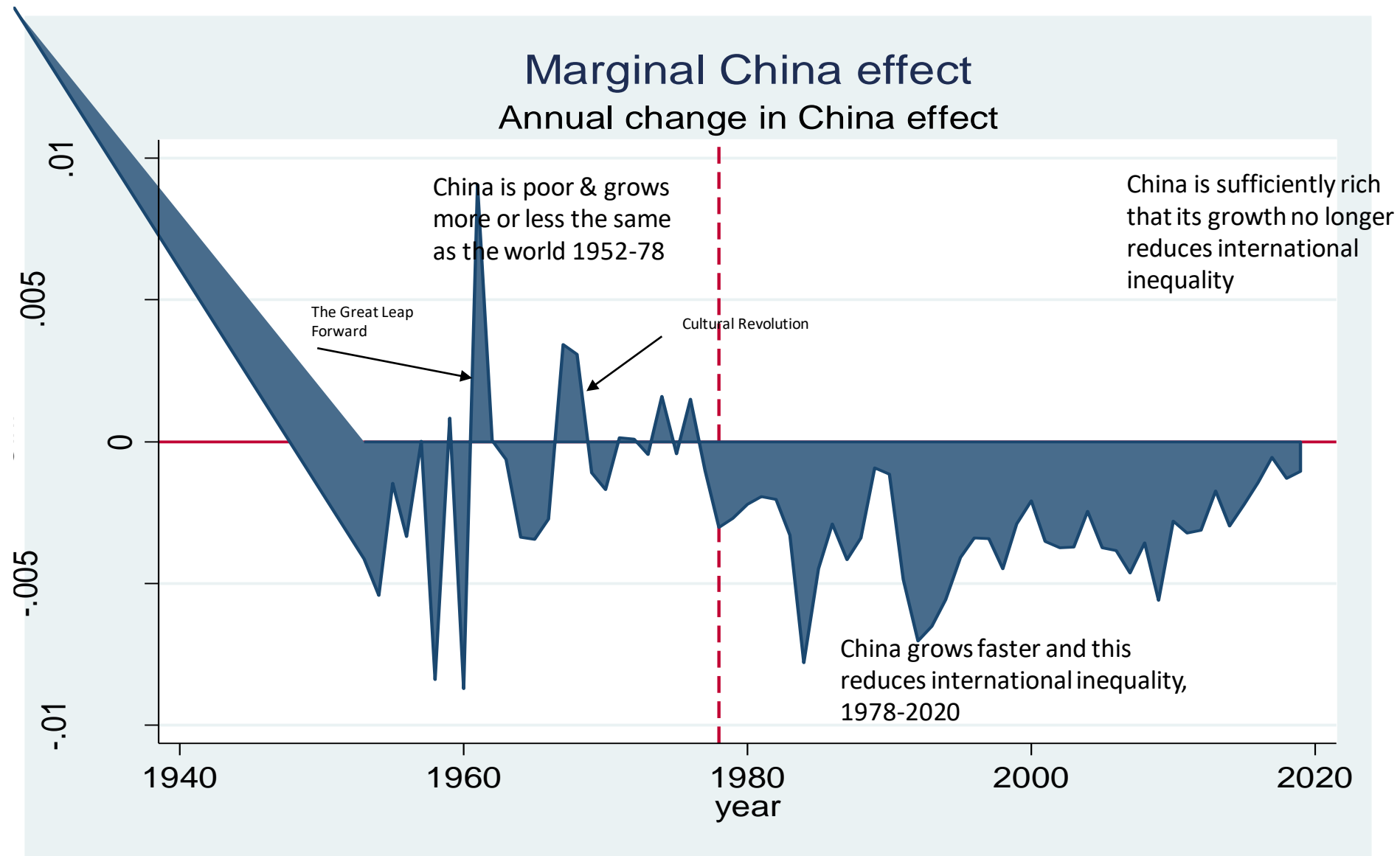


# The rise of Asia 1952-2020

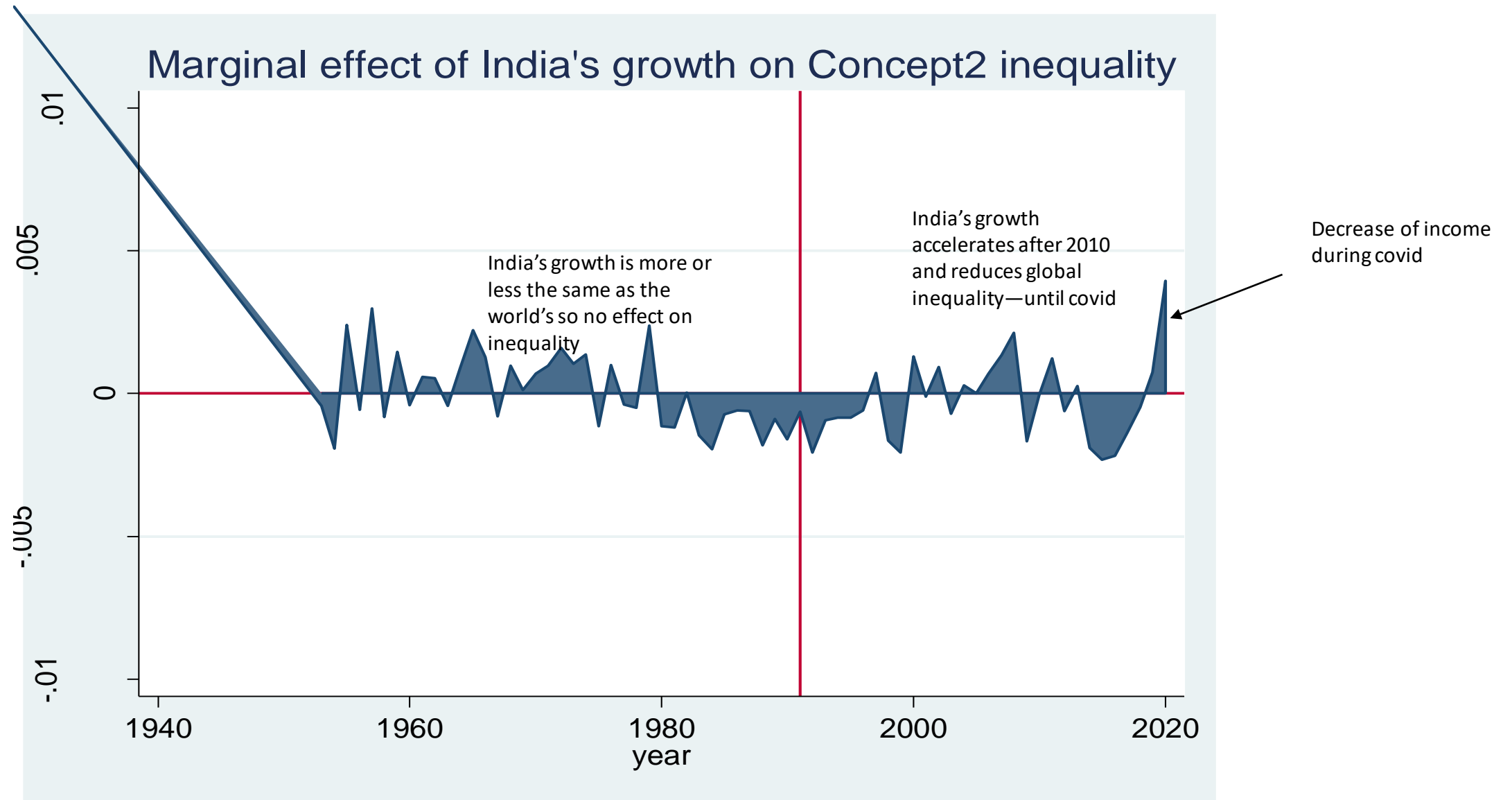




# China's diminishing global equalizing role



# India's changing role



Two effects relative to China's diminishing equalizing role:

- **The growth rate of China:** the higher its growth rate relative to the world, the more China reduces international inequality. But this holds only so long as China's GDP per capita percentile rank is less than  $\frac{1}{2}(G+1)$ , which, given that Concept 2 current Gini  $\approx 0.45$ , is approximately 72th percentile.
- **The position of GDP per capita of China:** China's 2020 GDP per capita is higher than GDPpc in 103 countries accounting for 60% of the world population. (But China's population is 20% of the world, so China currently spreads over the range 60-80 percentile.)
- Thus its growth above the world average is about neutral or contributing to global inequality.

# Implications for global inequality in the medium-term

- We cannot any more rely on China to keep on reducing global inequality. Moreover, its movement toward high-income status will begin to **add** to global inequality.
- The role of **India becomes crucial**. Will it be the engine of global inequality (and poverty) reduction that China was for about 40 years?
- The effects of Covid-19 on India: almost -10% in 2020; probable negative growth in 2021.
- Highlights the **role of Africa** which must grow with per capita growth rates of about 5-6% in order to converge. Africa's importance in terms of population also rises.
- If neither Africa nor India converge sufficiently the decline in global inequality might stall or even get reversed.

Past thirty years in the world:

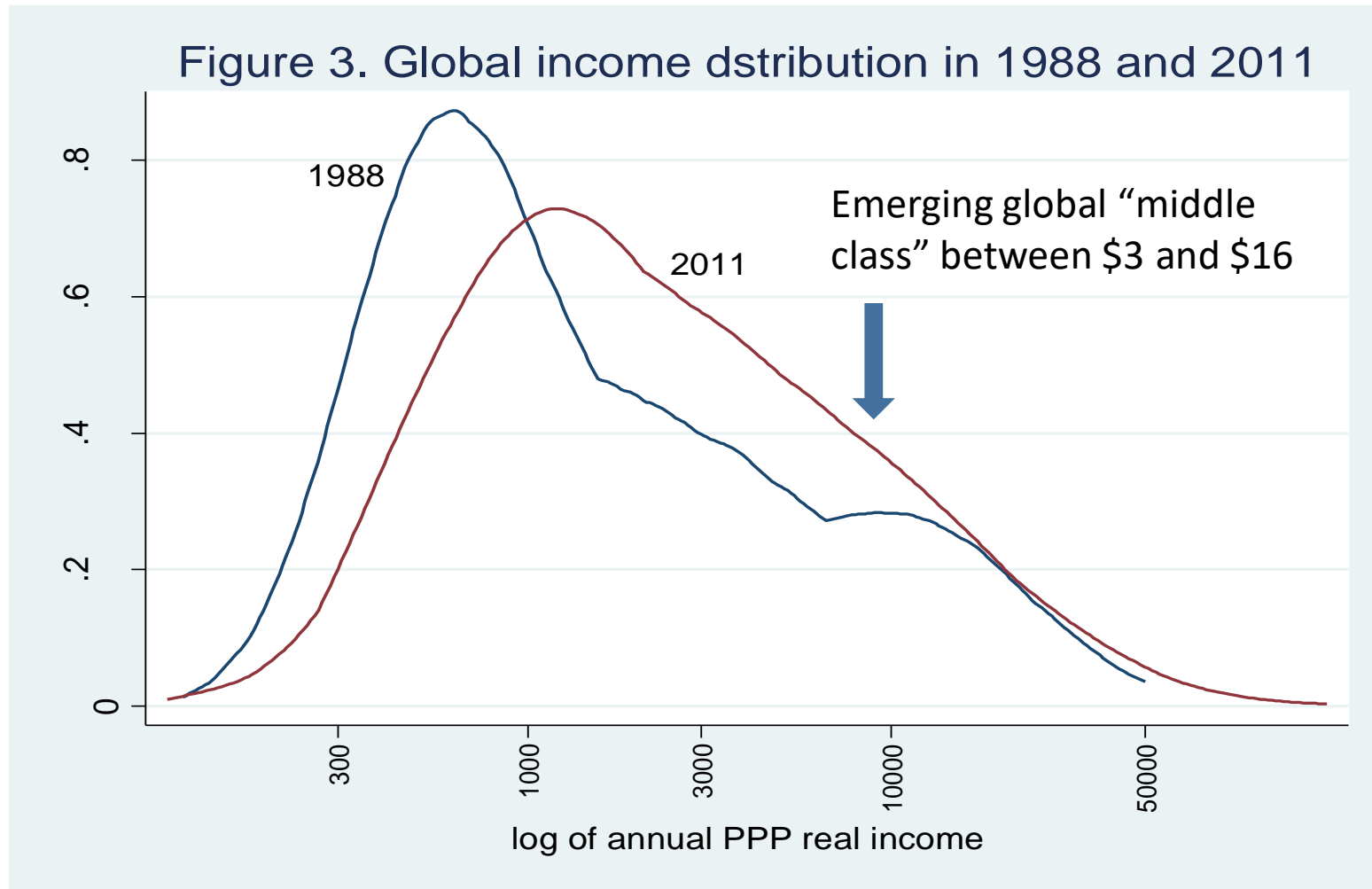
the greatest reshuffle of individual income positions since the Industrial Revolution

# The watershed years, 1978-91

- 1978: Deng: responsibility system: quasi privatization of land
- 1979: Thatcher: privatizations etc.
- 1980: Reagan: deregulation etc.
- 1983: Mitterrand changes course
- Mid-1980s: Gonzalez invents (avant la lettre) the “new labor”
- 1985: Gorbachev begins to dismantle planned economy
- 1991: India liberalizes

Within approximately a decade, W Europe, USA, China, Russia/Eastern Europe, India (60% of the world population) started living under a very different system than before.

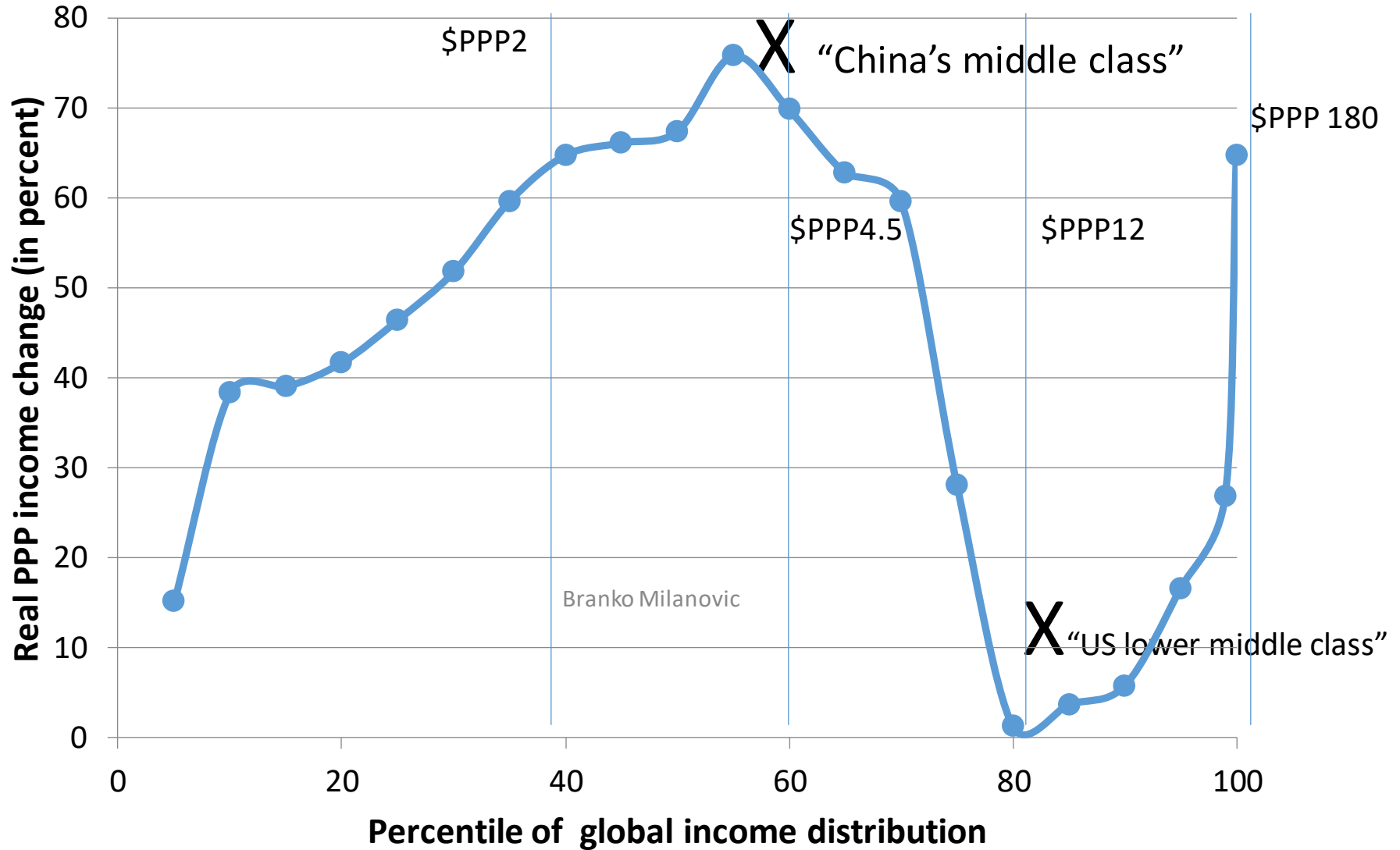
# The emergence of the “global middle/median class”



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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", labsize(small) angle(90))
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Using Branko\Income\_inequality\final11\combine88\_08\_11\_new.dta

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

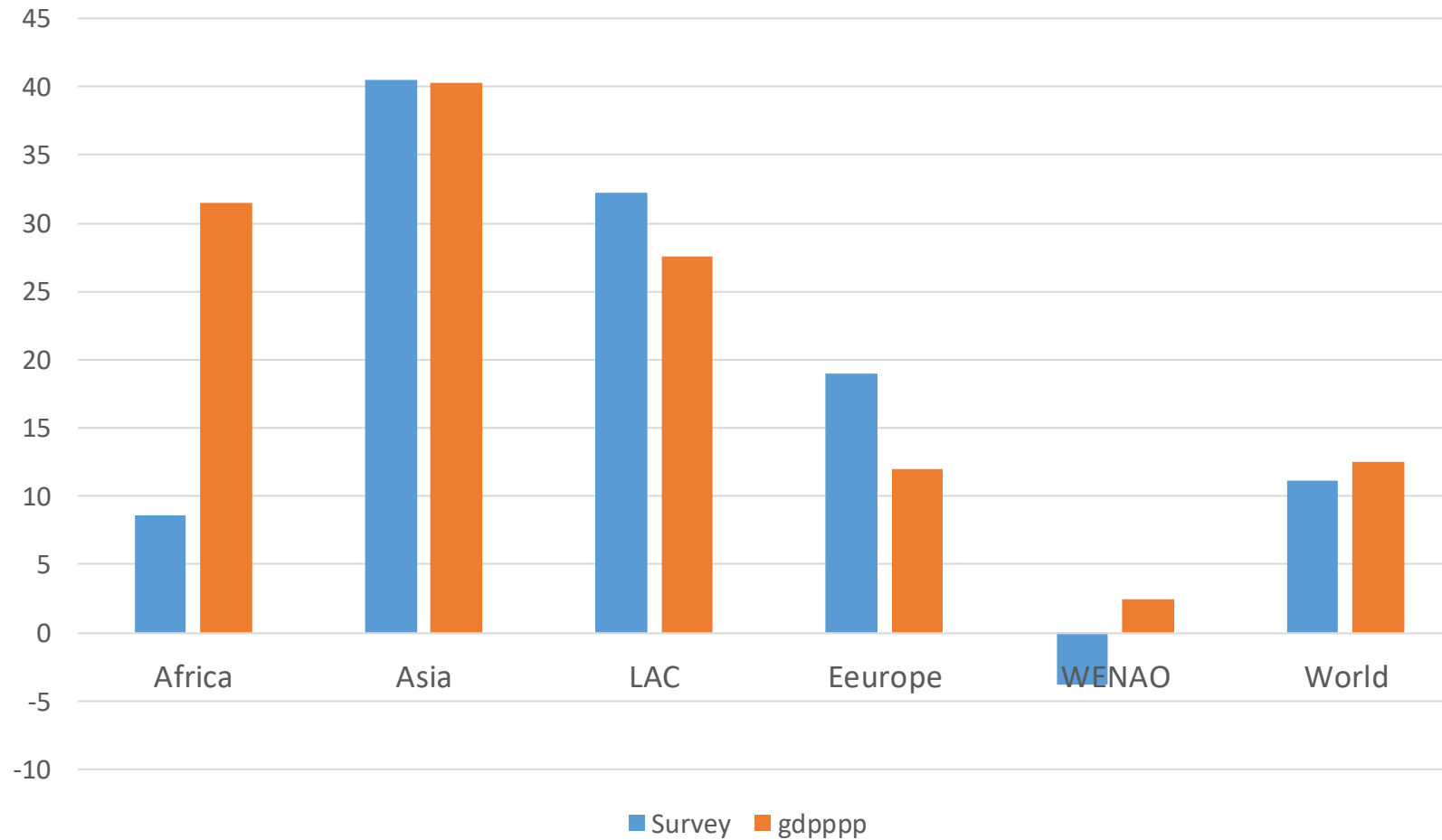




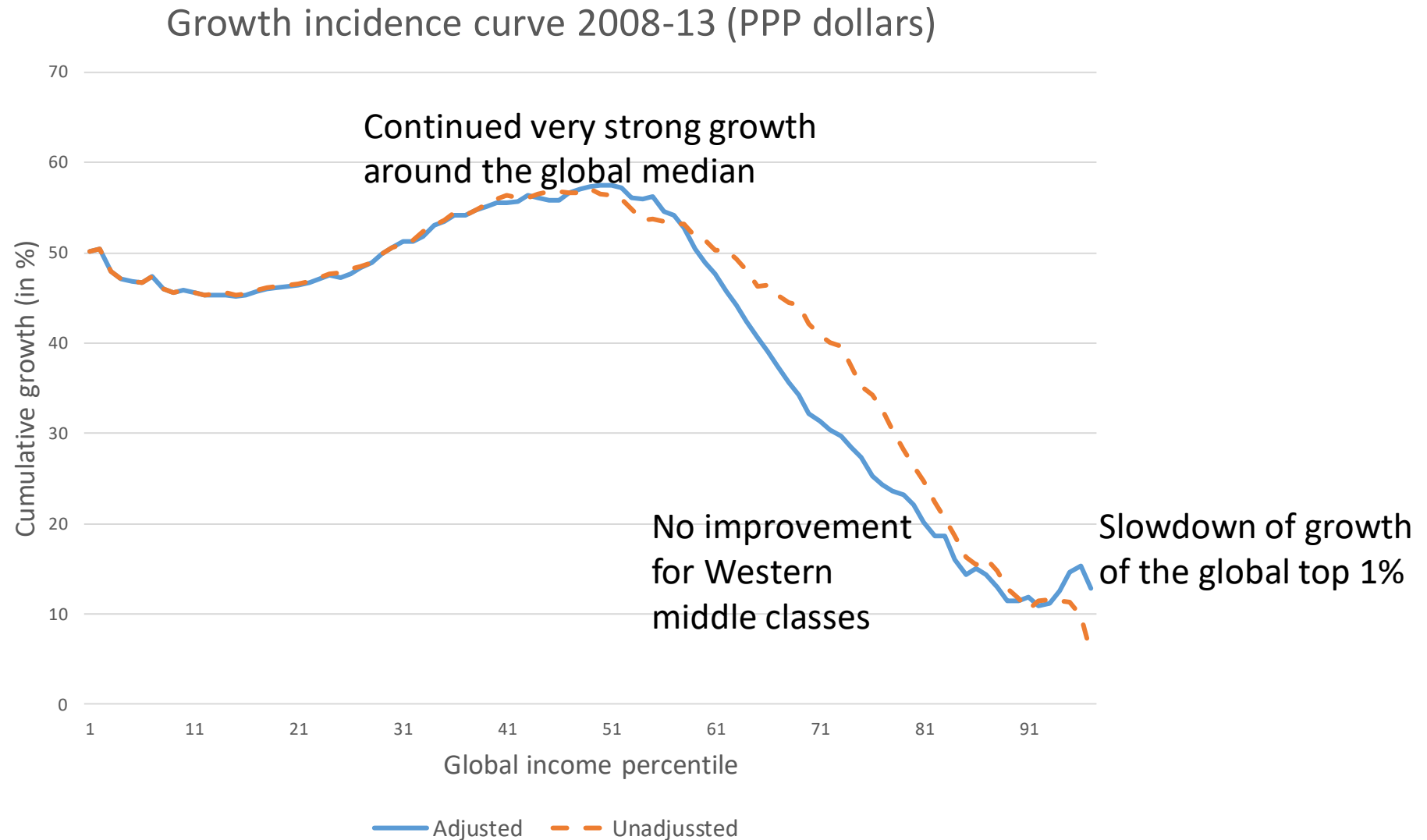
After the financial crisis

# Continued catch-up of Asia....

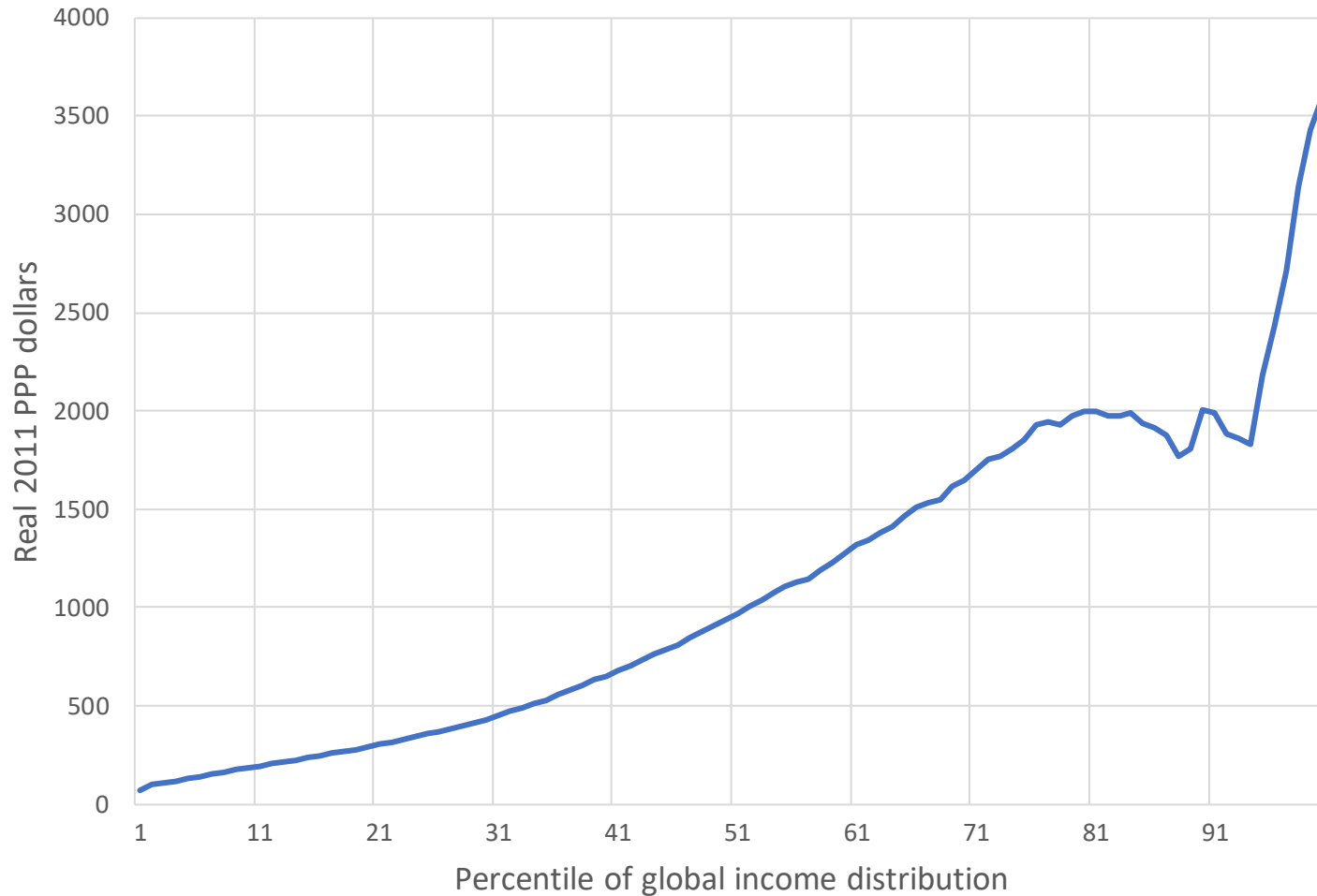
Increase in average per capita income according to surveys and NA, 2008-13 (cumulative growth in US dollars)



# After the financial crisis: 2008-13

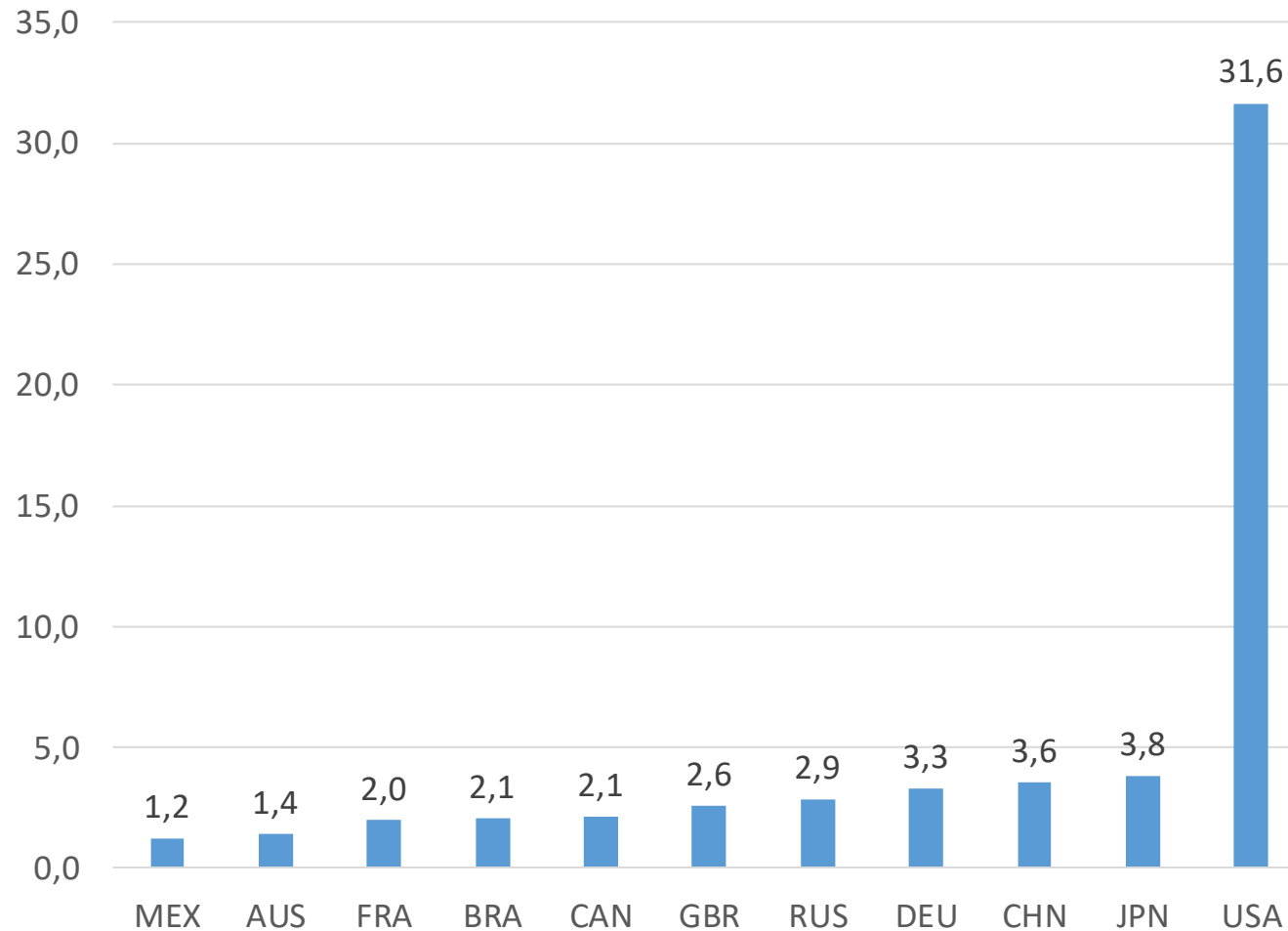


Absolute income gains 2008-13 are (not surprisingly) extremely unequal (in PPP dollars)

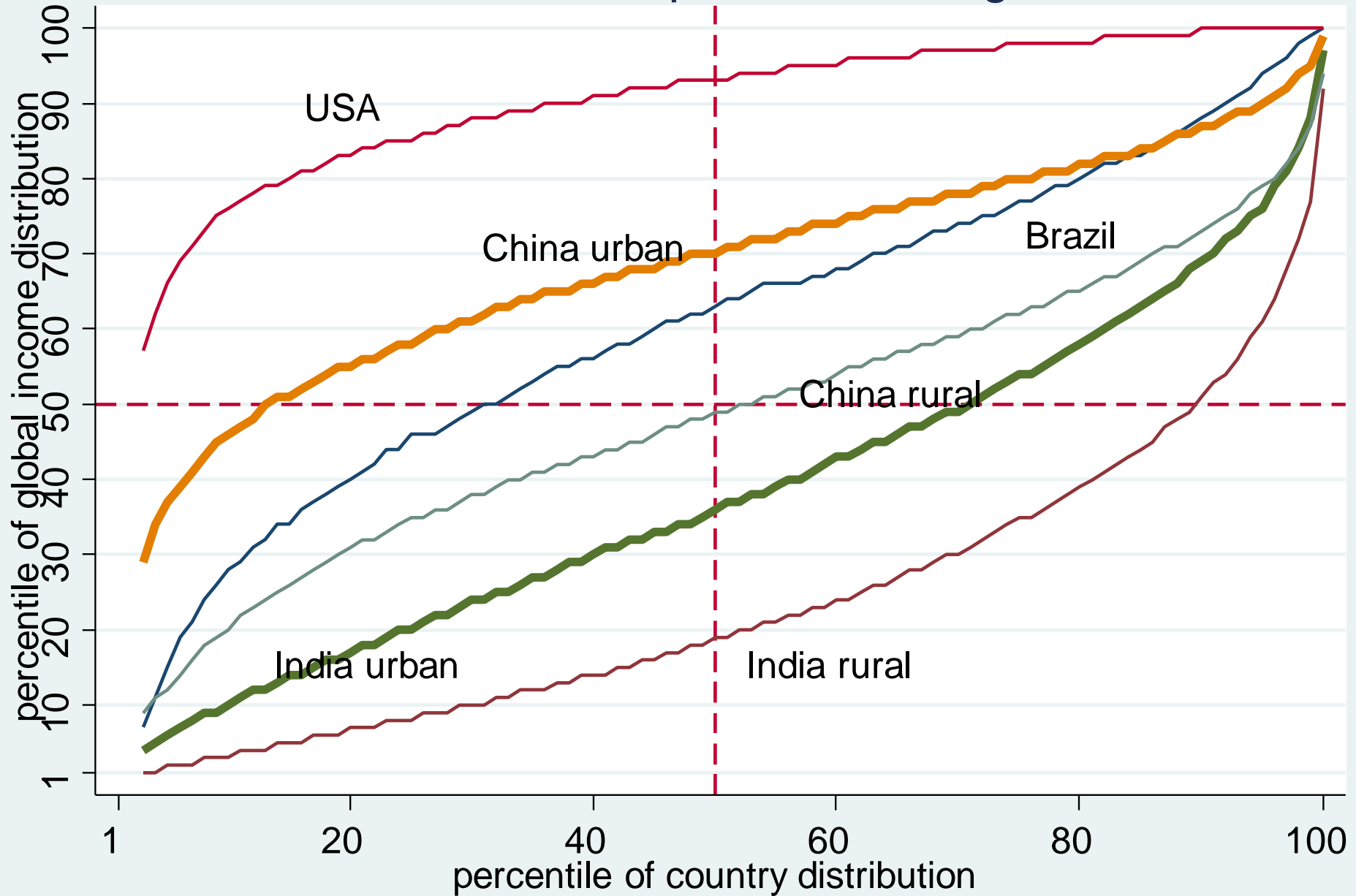


# Composition of the global top 1 percent

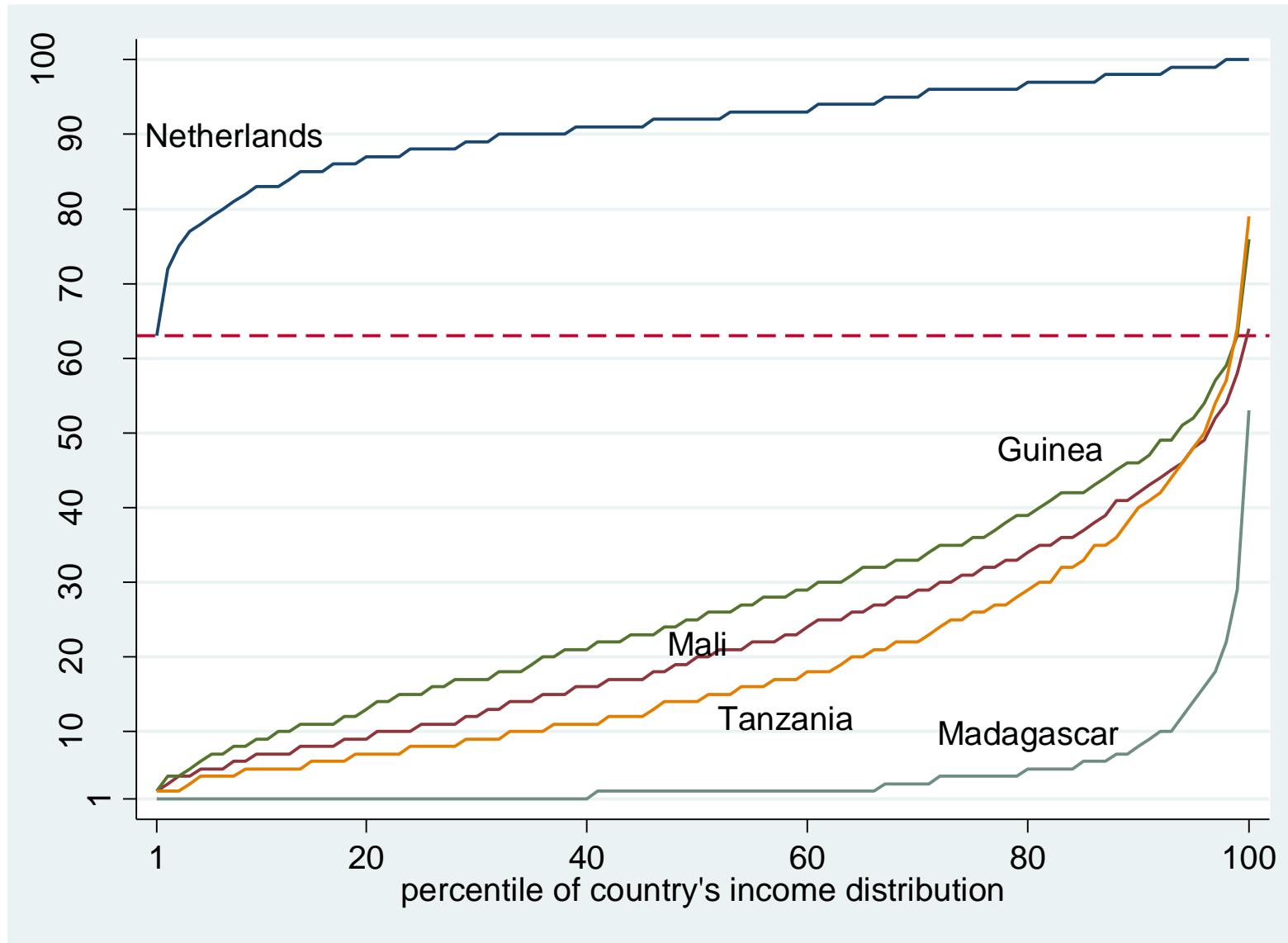
Composition of the global top 1 percent by income in 2013 (in million people)



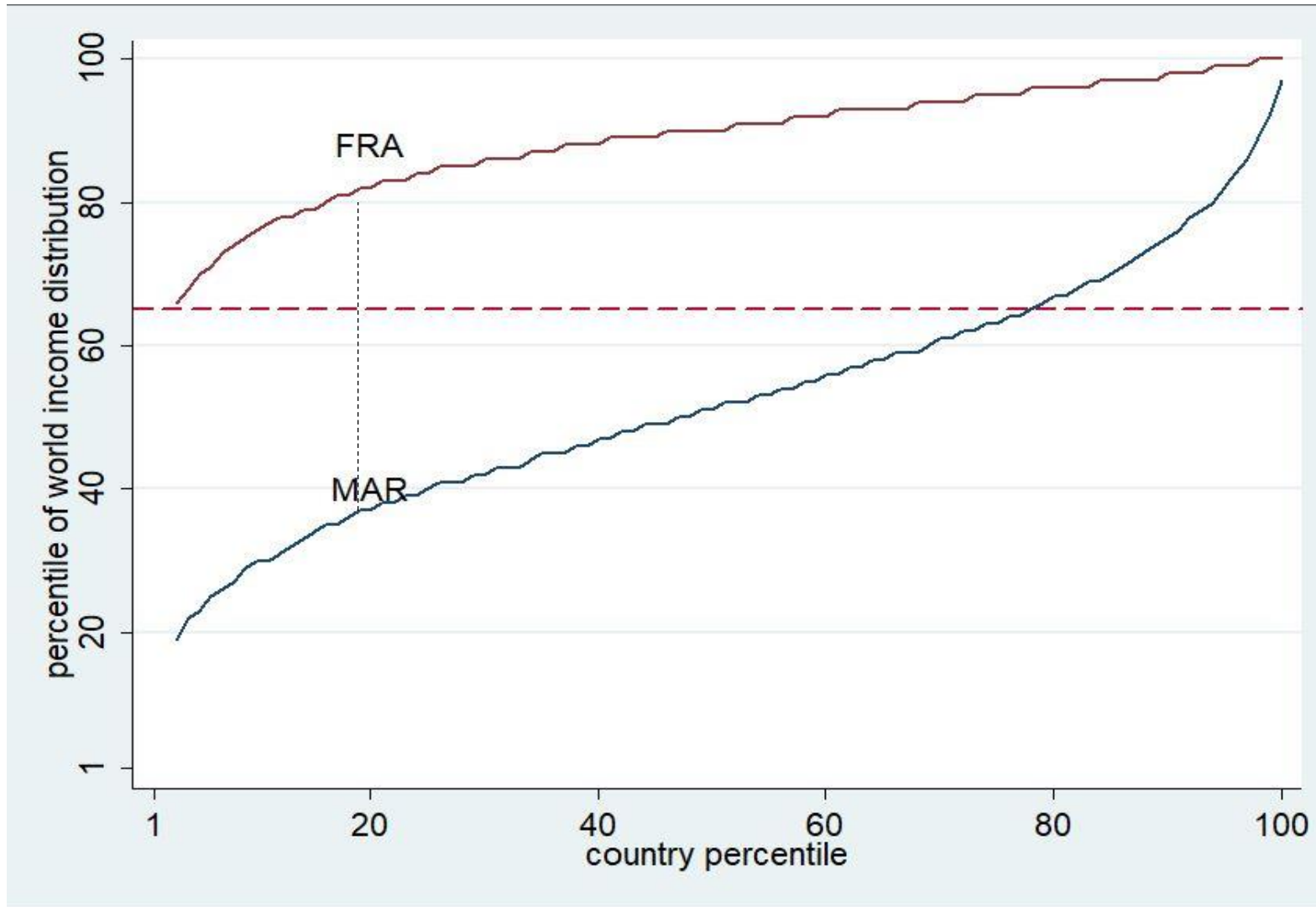
# Position of national income percentiles in global distribution



# Why international transfers are unlikely to be regressive?

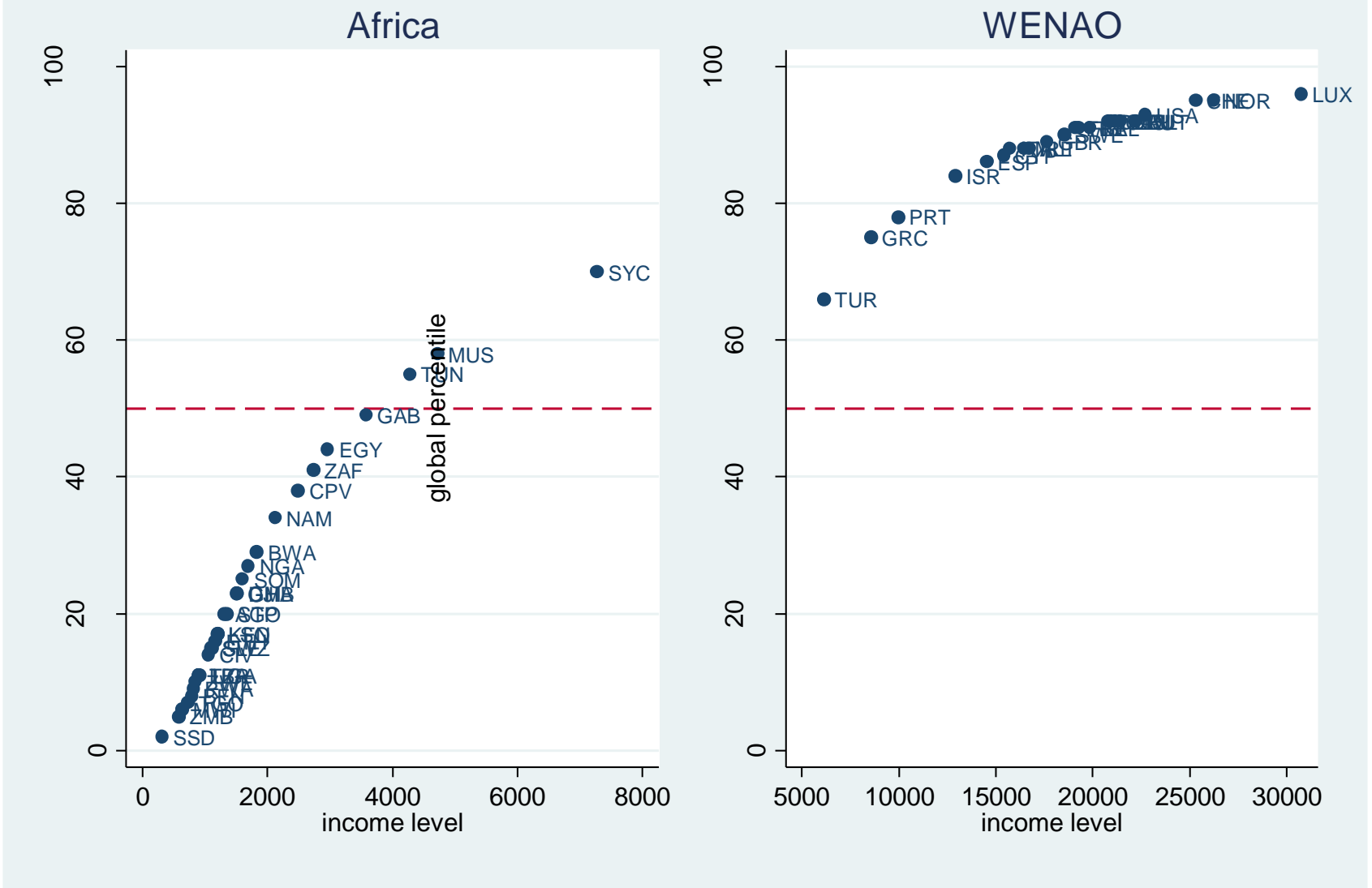


Migration pressure: a person at the Moroccan 20<sup>th</sup> percentile jumps over 3 billion people by migrating to France and being at the 20<sup>th</sup> percentile there



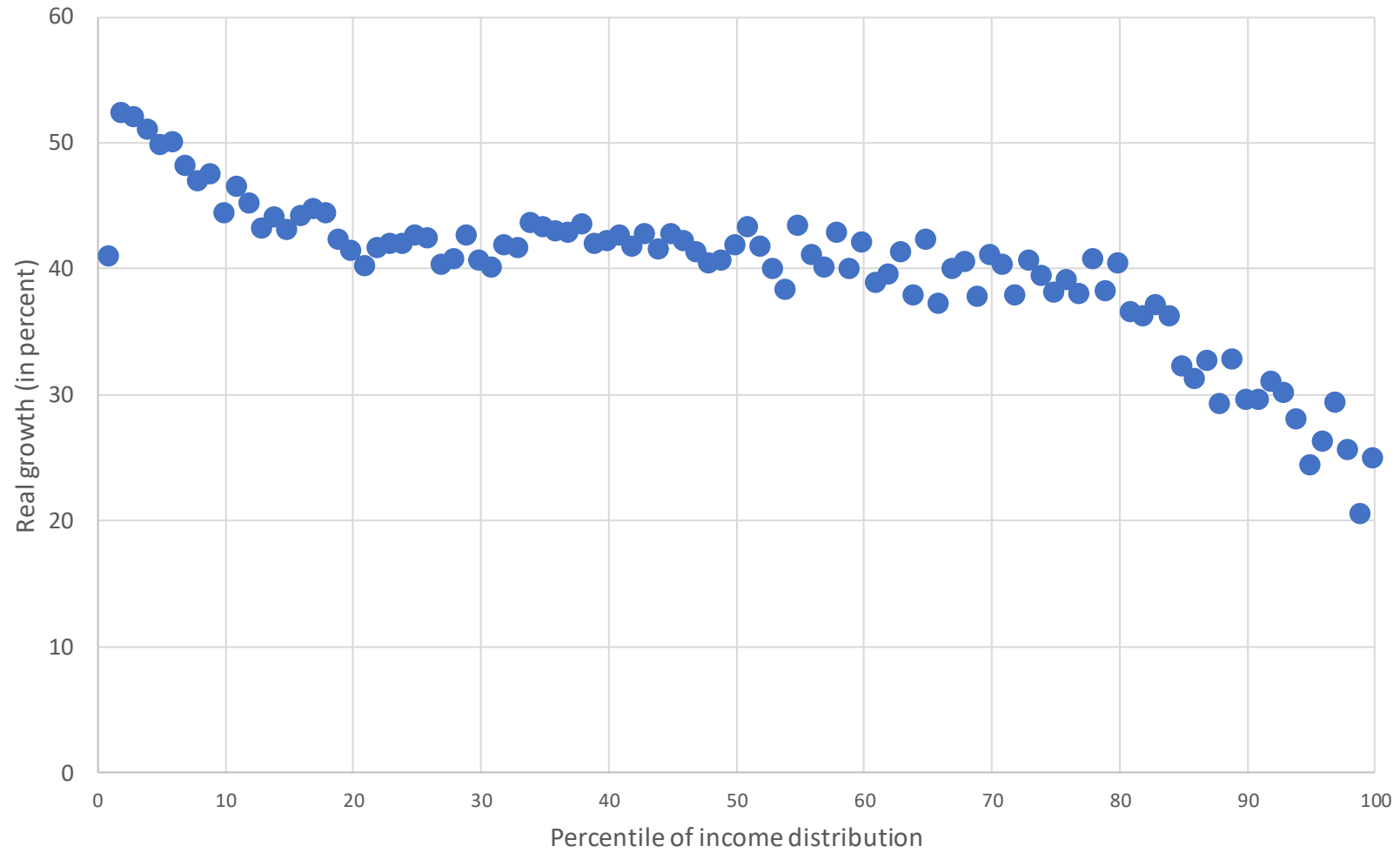


# Global income position of the median income recipient



Data for 2018

Global growth incidence curve 2013-18 (PPPs)  
(preliminary data)



# The most important probable future developments

- For the first time in two centuries, Western lower middle classes will not be in the global top quintile.
- Global top percentiles will be increasingly populated by Asians. The change will be substantial and sudden because of Asian population size. Important psychologically because the entire modern period was a period of Western income (and wealth cum military) dominance. Effect on consumption patterns.
- Rich Atlantic and Pacific coasts will leave most of the Eurasian landmass (Russia and Central Asia) relatively poor and with low population density.
- Huge and possibly increasing Europe-Africa gaps will “feed” migration pressure for a long time. Europe needs to find a solution for that. If China’s BRI helps Africa grow, an unlikely partnership between Europe and China is possible.

# A note on the likely effects of covid-19

- Too early to tell because we are still in the midst of the pandemic & have no firm evidence when nor how it will end
- So far, richer countries have had higher mortality rates and greater losses of GDP (rather the opposite of what JHU and The Economist Intelligence Units expected in their October 2019 “Pandemic Preparedness Report”)
- Should give us pause about the use of mashup indexes
- But within countries mortality rates higher among the less well-off but income losses among the poor and middle class may be less than among the rich (in advanced economies)
- Unprecedented role of government spending in offsetting the economic effects of a crisis
- Probable increase of global inequality, but again the ambivalent role of China (its relative position improves also because of the drop in mean global income); substantial declines in India

# Why global inequality matters?

- The world is getting more integrated and global comparison, incl. **demonstration effect** on individual consumption are becoming more important.
- A world with vast inter-personal inequality of condition, esp. if it is due to exogeneous circumstances like citizenship, cannot be stable or free of **conflict**.
- Global inequality is directly related to the issues of **migration**. Shows the forces pushing people to migrate.
- Global inequality has a direct bearing on what are feasible **climate change** policies
- Commonality of views among the **global elite**, and who are they.