

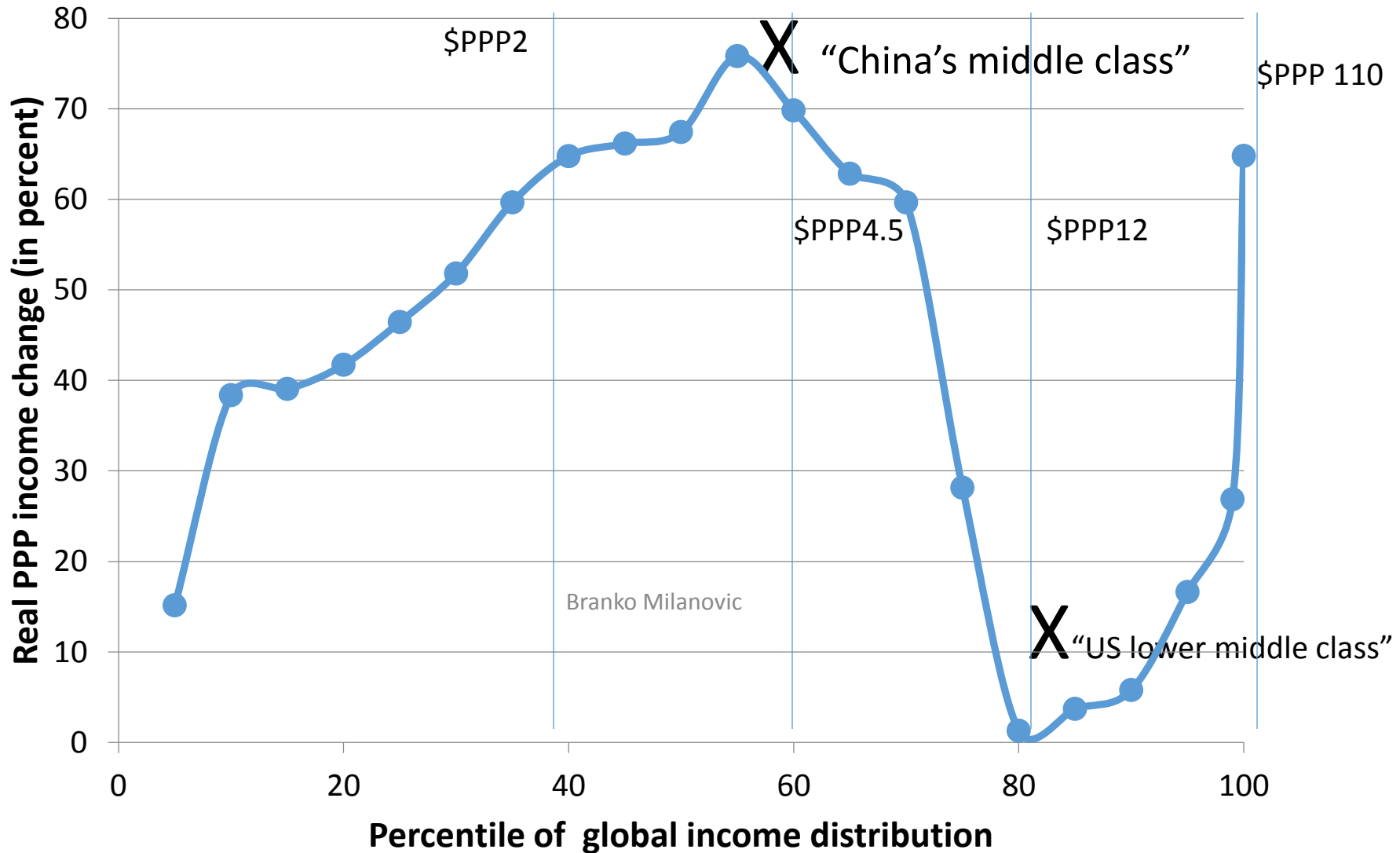
3 topics: global inequality, growth and  
inequality, international transmission of  
inequality

Branko Milanovic

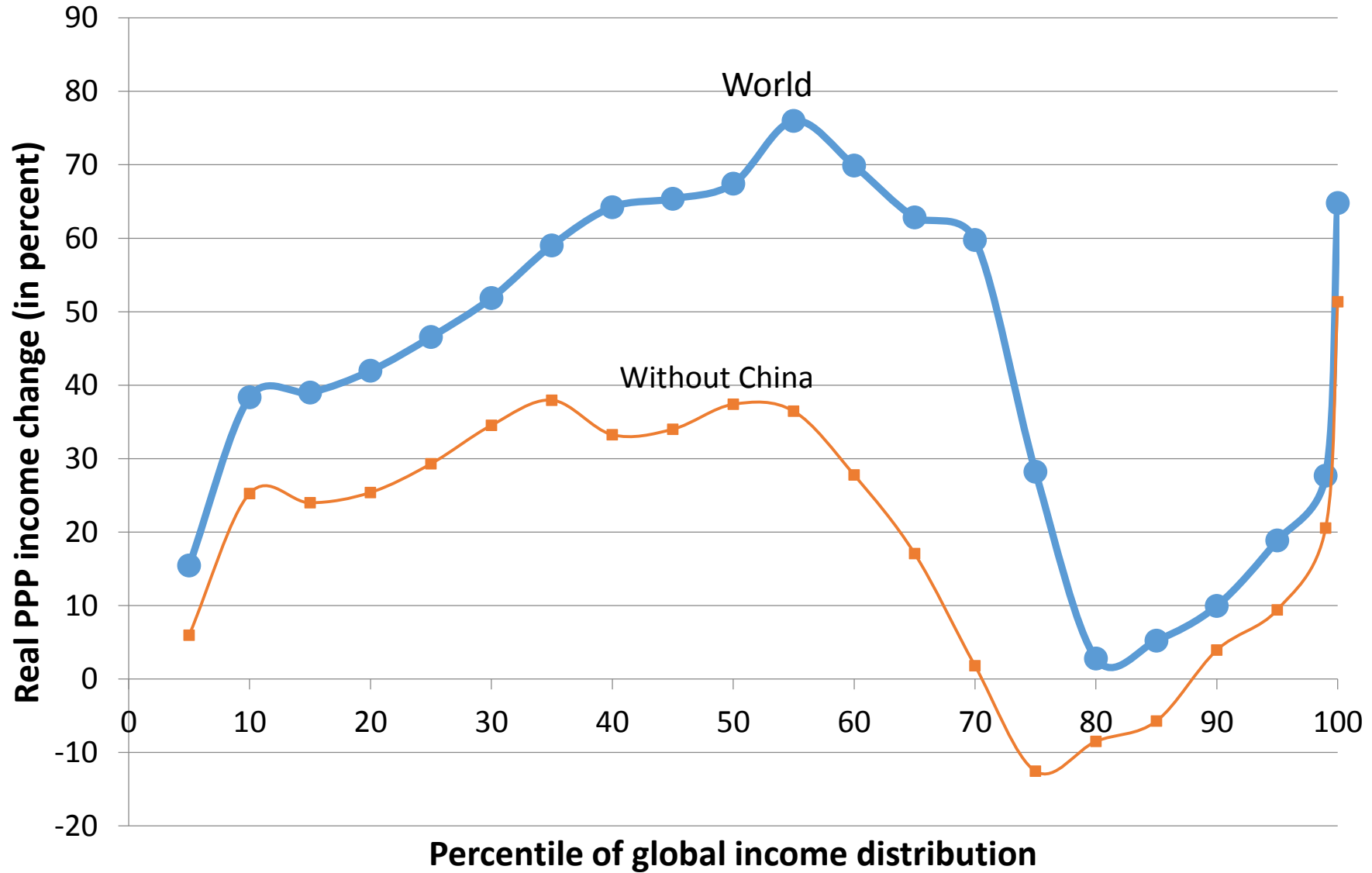
New York, December 2, 2014

A. How has the world changed  
between the fall of the Berlin Wall and  
the Great Recession  
(based on a joint work with Christoph  
Lakner)

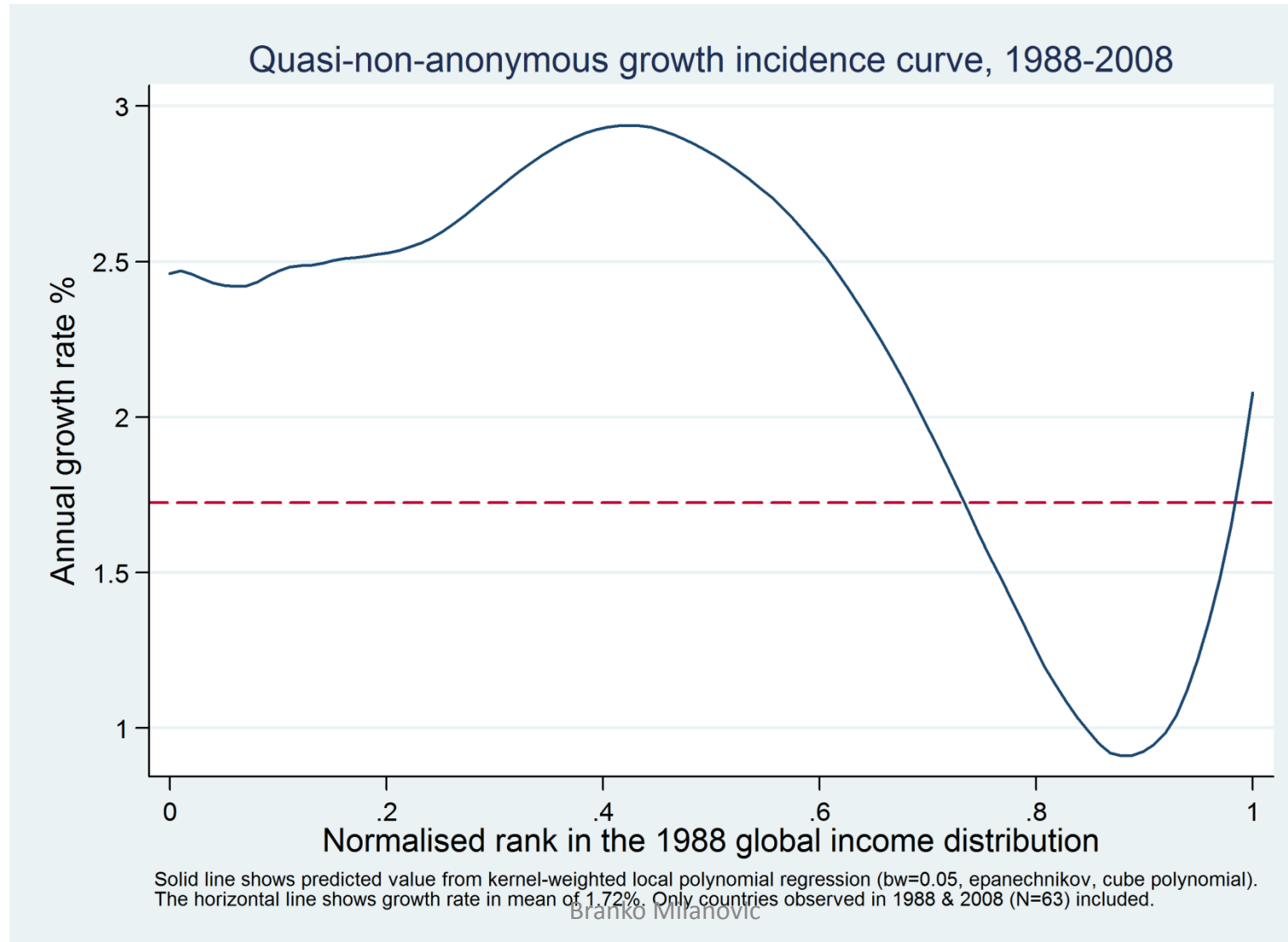
# Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)



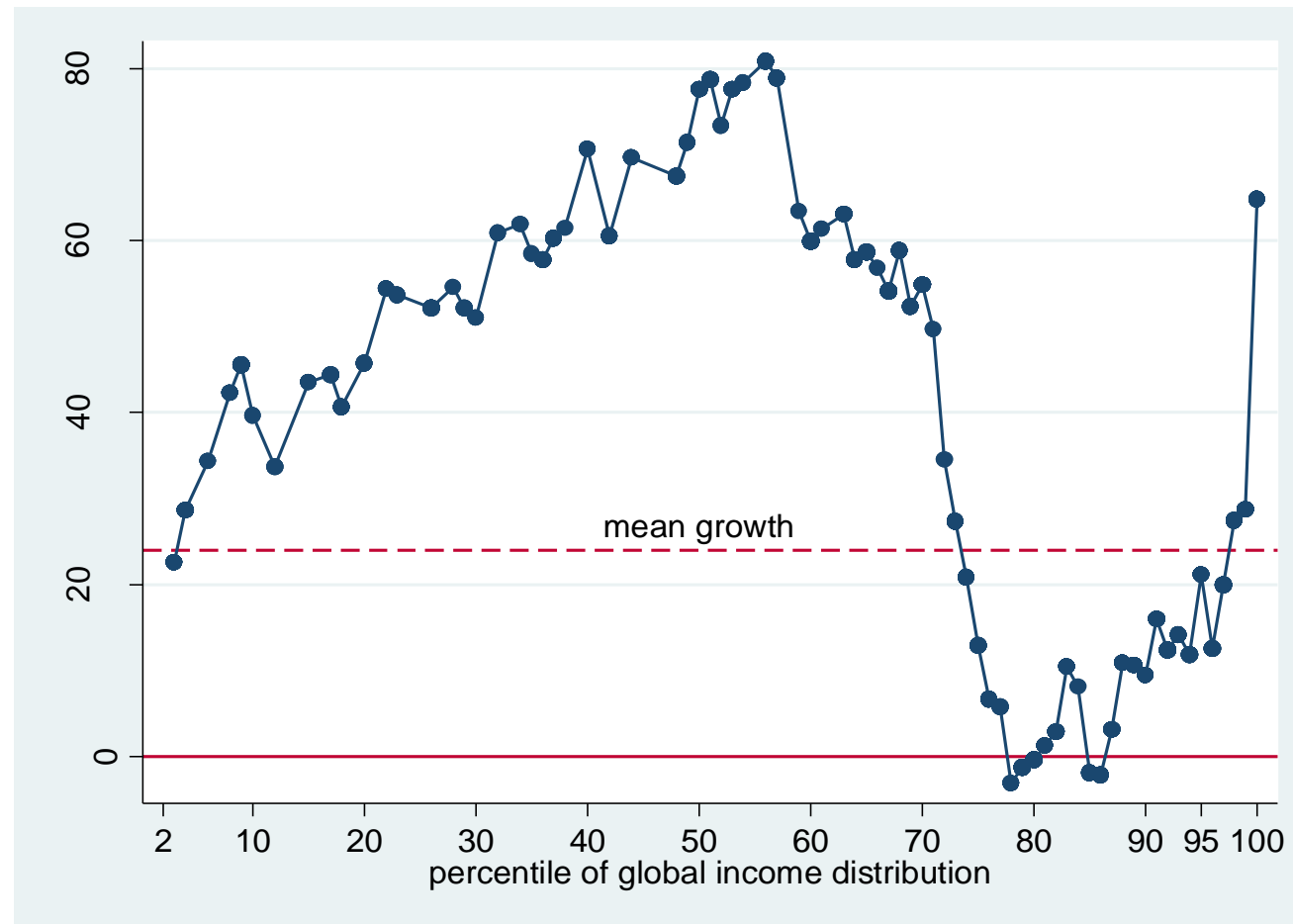
**Real income gains (in \$PPP) at different percentile of global income distribution 1988-2008**



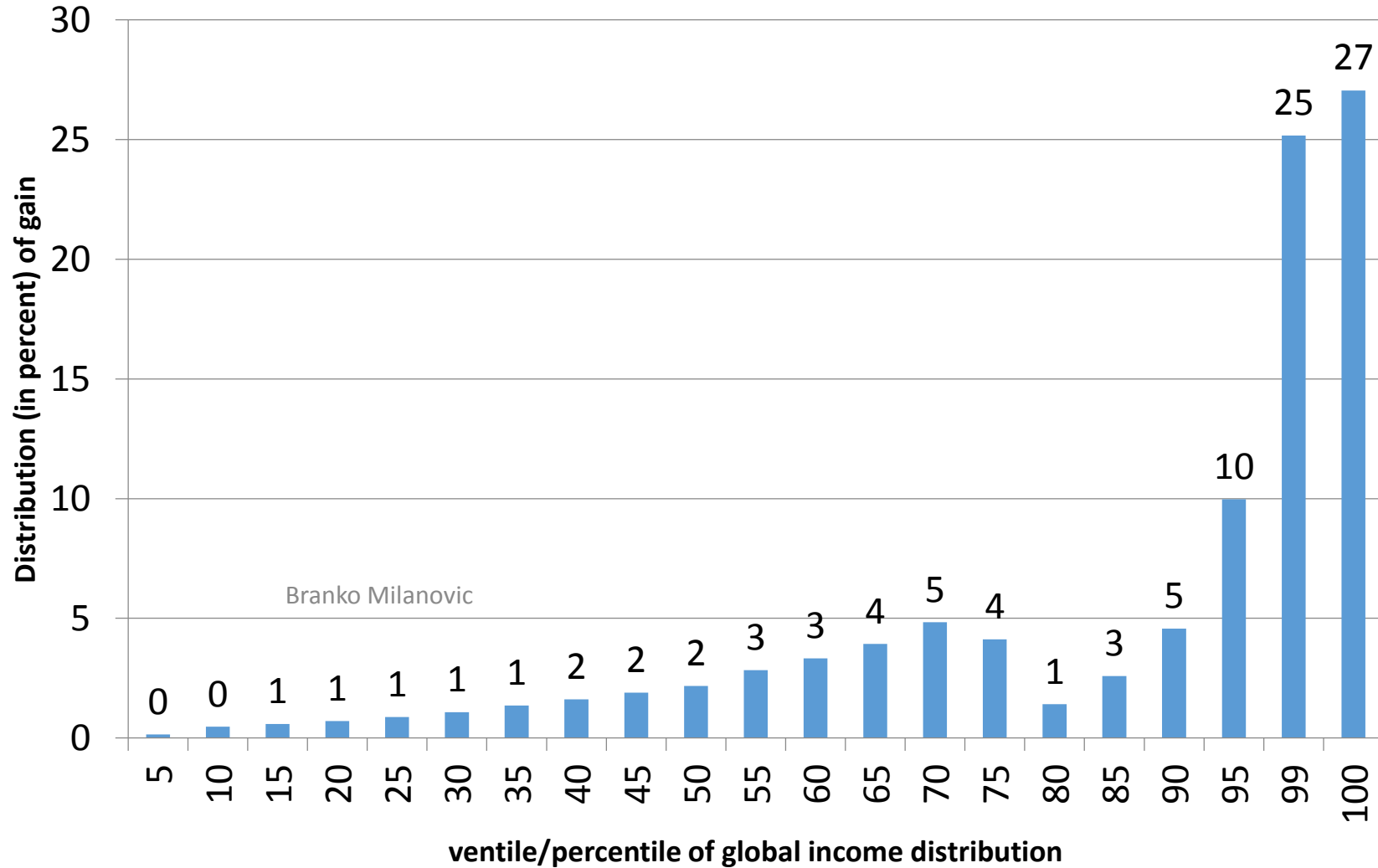
# Quasi non-anonymous GIC: Average growth rate 1988-2008 for different percentiles of the **1988** global income distribution



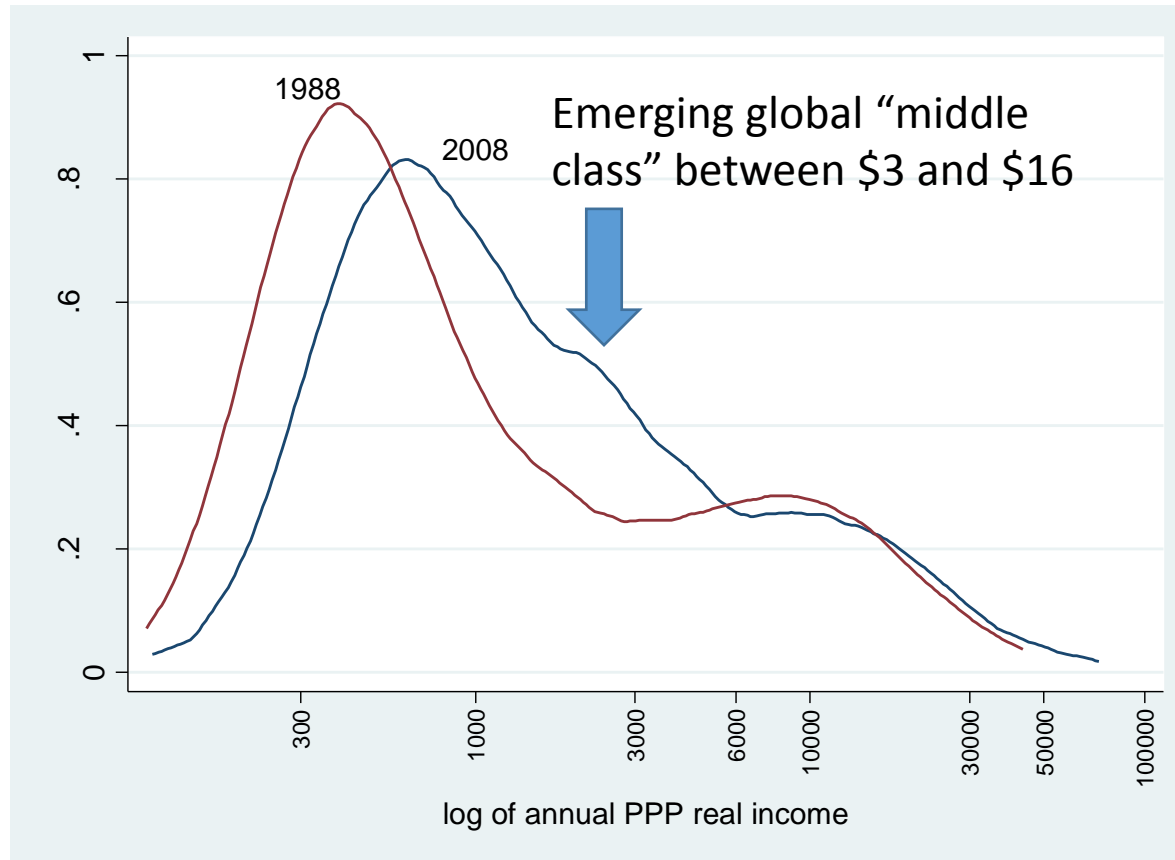
# Growth incidence curve (1988-2008) estimated at percentiles of the income distribution



**Distribution of the global absolute gains in income, 1988-2008:  
more than ½ of the gains went to the top 5%**



# Global income distributions in 1988 and 2008

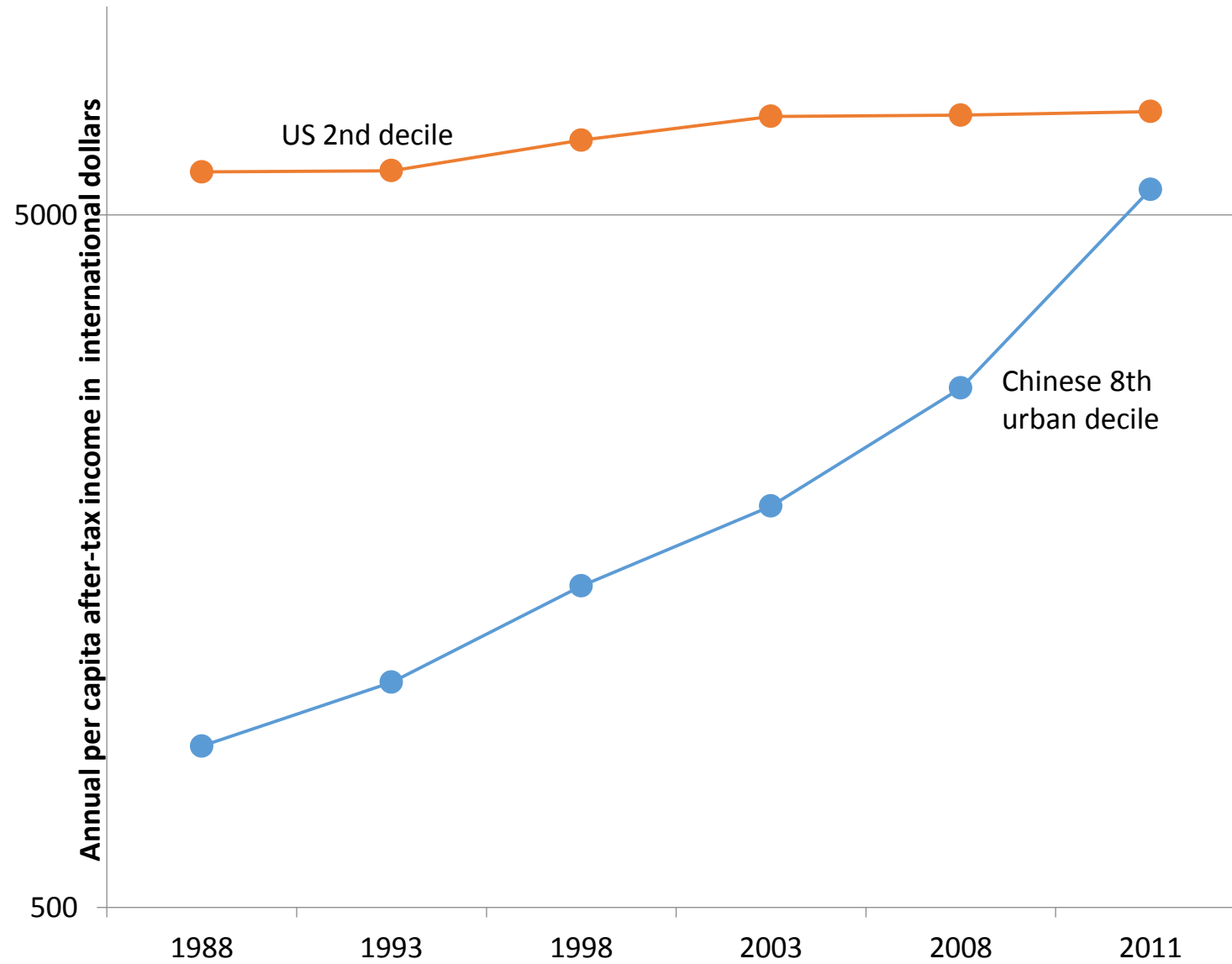


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twoway (kdensity logRRinc [w=pop] if logRRinc>2 & bin_year==2008 & keep==1 & mysample==1) (kdensity logRRinc [w=pop] if logRRinc>2 &  
bin_year==1988 & keep==1 & mysample==1, legend(off) xtitle(log of annual PPP real income) ytitle(density) text(0.95 2.5 "1988") text(0.85 3  
"2008"))
```

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Or using adding\_xlabel.do; always using final\_complete7.dta





# Political issue: Global vs. national level

- Our income and employment is increasingly determined by global forces
- But political decision-making still takes place at the level of the nation-state
- If stagnation of income of rich countries' middle classes continues, will they continue to support globalization?
- Two dangers: populism and plutocracy
- To avert both, need for within-national redistributions: those who lose have to be helped

# Another aspect or explanation: Transmission of inequality under globalization

- Let inequality increase in China & Russia only, and nowhere else
- For whatever reason, their rich demand land in Portugal (which e.g. is used for wine-making, but now will be used for housing)
- Such demand reduces  $K$  directly by withdrawing a part of  $T$  out of production.
- But it also increases domestic  $W$ . This is a real (non-fictitious) increase in  $W$  (although  $T$  has remained constant and is now owned by the Chinese) because the Portuguese can now by liquidating their wealth buy more goods
- So, Portugal's LT growth is unaffected since  $Q=f(K,L)$  is the same, but its  $W/Y$  ratio has increased and its  $W$  and  $Y$  distribution are more unequal
- An interesting twist is whether this increased  $W$  and  $Y$  inequality might in turn have negative effects on future growth

# C. New research approaches in economics of inequality

# New promising developments: unpacking inequality and growth

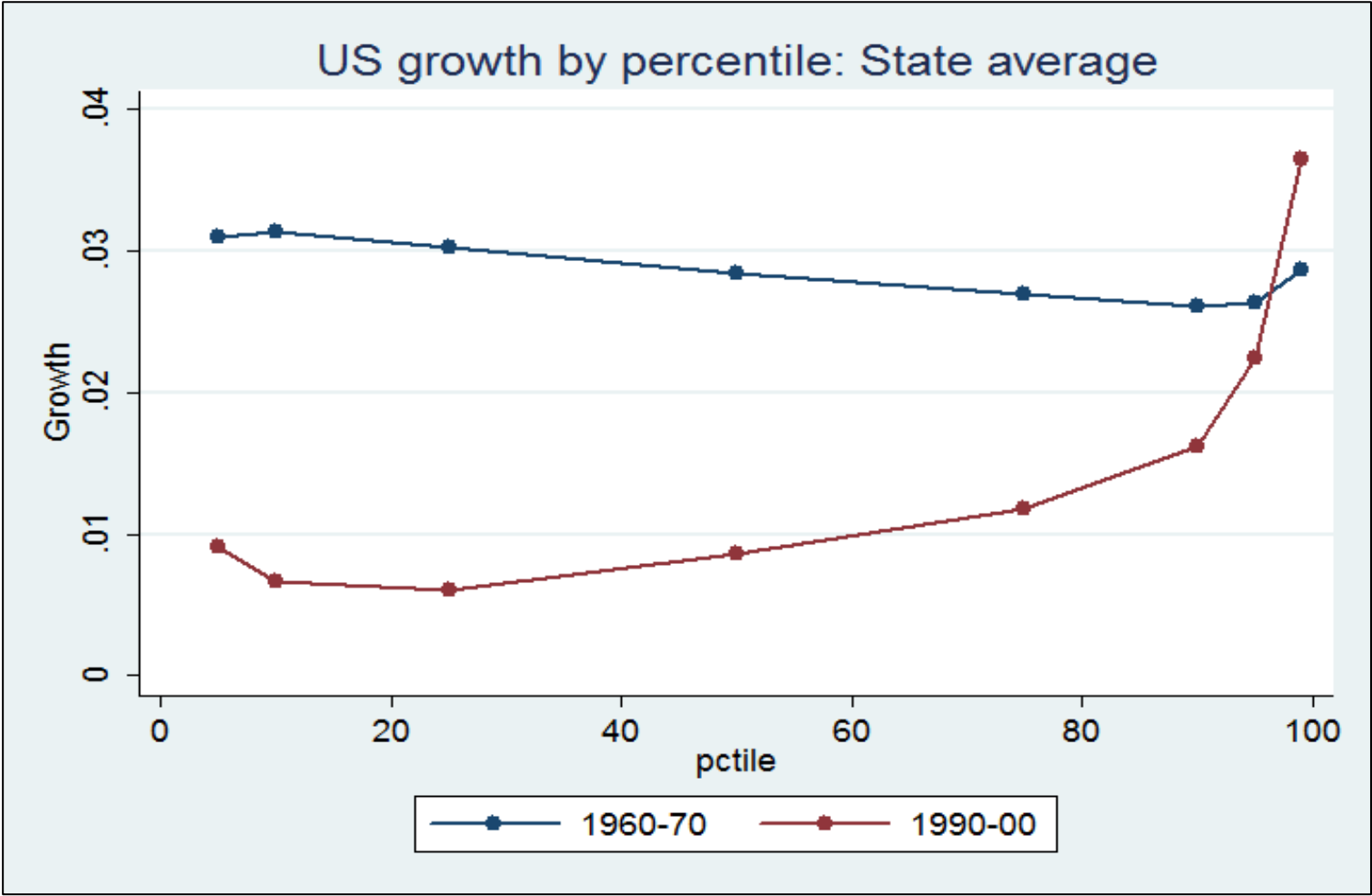
## **Inequality of opportunity**

- Inequality due to circumstances and to effort (and luck); Romer
- Intuitive idea that there is a good & bad inequality (apply it empirically)
- Link these 2 types of inequalities to growth (Marrero & Rodriguez, Ferreira)

## **Inequality and growth along income spectrum**

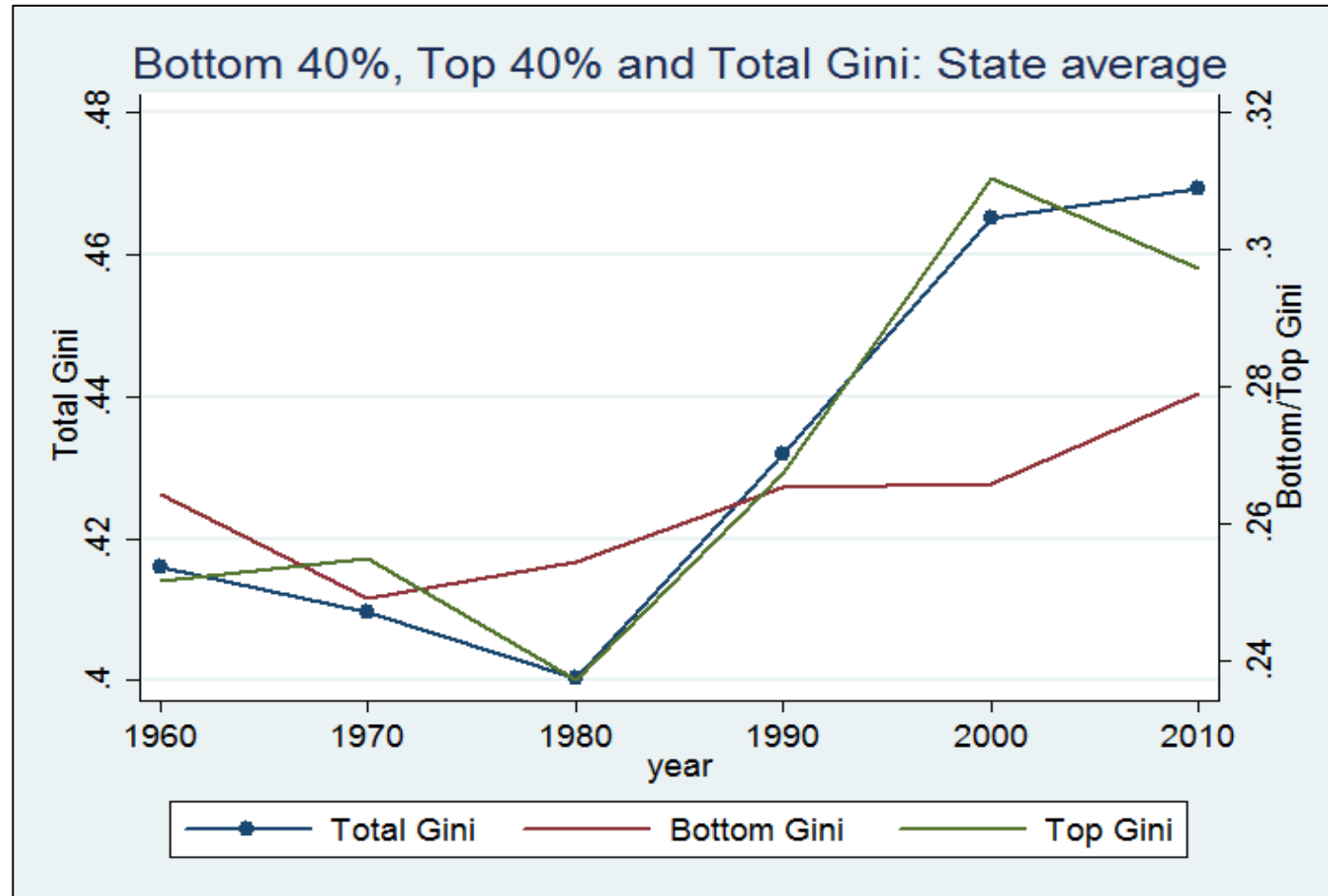
- Unpack inequality: inequality among the poor (50/10) bad for growth; inequality among the rich (90/10) good for growth
- Unpack both inequality and growth. Inequality among the rich slows down the growth rate of the poor (van der Weide & Milanovic)

# US growth incidence curves 1960-70 and 1990-2000: from pro-poor to pro-rich



Based on joint work with Roy van der Weide

# Total, top and bottom Gini: average across US states



# Inequality and growth rate at different percentiles of income distribution (state-level data, 1950-2010)

	5 <sup>th</sup>	10 <sup>th</sup>	25 <sup>th</sup>	median	75 <sup>th</sup>	90 <sup>th</sup>	95 <sup>th</sup>	99 <sup>th</sup>
Overall Gini	-0.245**	-0.242**	-0.127**	-0.028	+0.032	+0.05**	+0.06**	+0.07**
Bottom Gini	-0.038**	-0.018*	-0.03	+0.03	+0.05	+0.06*	+0.075* *	+0.07**
Top Gini	-0.12	-0.16*	-0.14*	-0.08*	-0.01	+0.00	-0.00	+0.02

Dep. variable: growth rate at a given percentile of income distribution  
 Controlling for demography (age, gender), education level, labor force participation, 4 geographical regions (n=245; R<sup>2</sup> between 0.75 and 0.89)



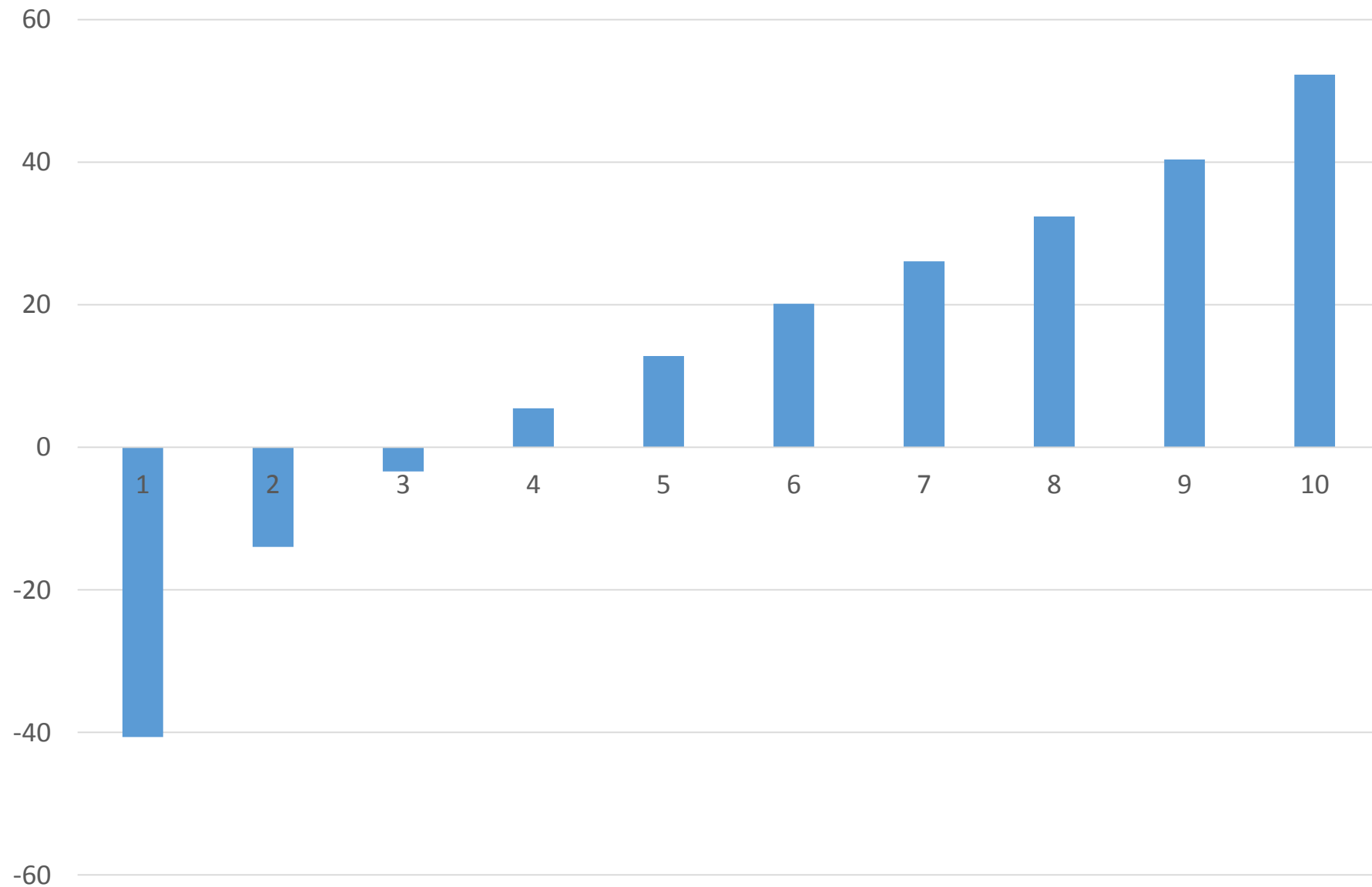
# Summary of the results

	Pooled regressions (regional FE)		GMM estimation		State fixed effects	
	Bottom growth	Top growth	Bottom growth	Top growth	Bottom growth	Top growth
Overall Gini	Negative $\leq 25$	Positive $\geq 75$	Negative $\leq 25$	Positive $\geq 75$	Negative $\leq 75$	----
Bottom Gini	Negative $\leq 10$	Positive $\geq 90$	---	Positive $\geq 50$	Negative $\leq 10$	----
Top Gini	Negative $\leq 50$	-----	Negative $\leq 50$	---	----	----

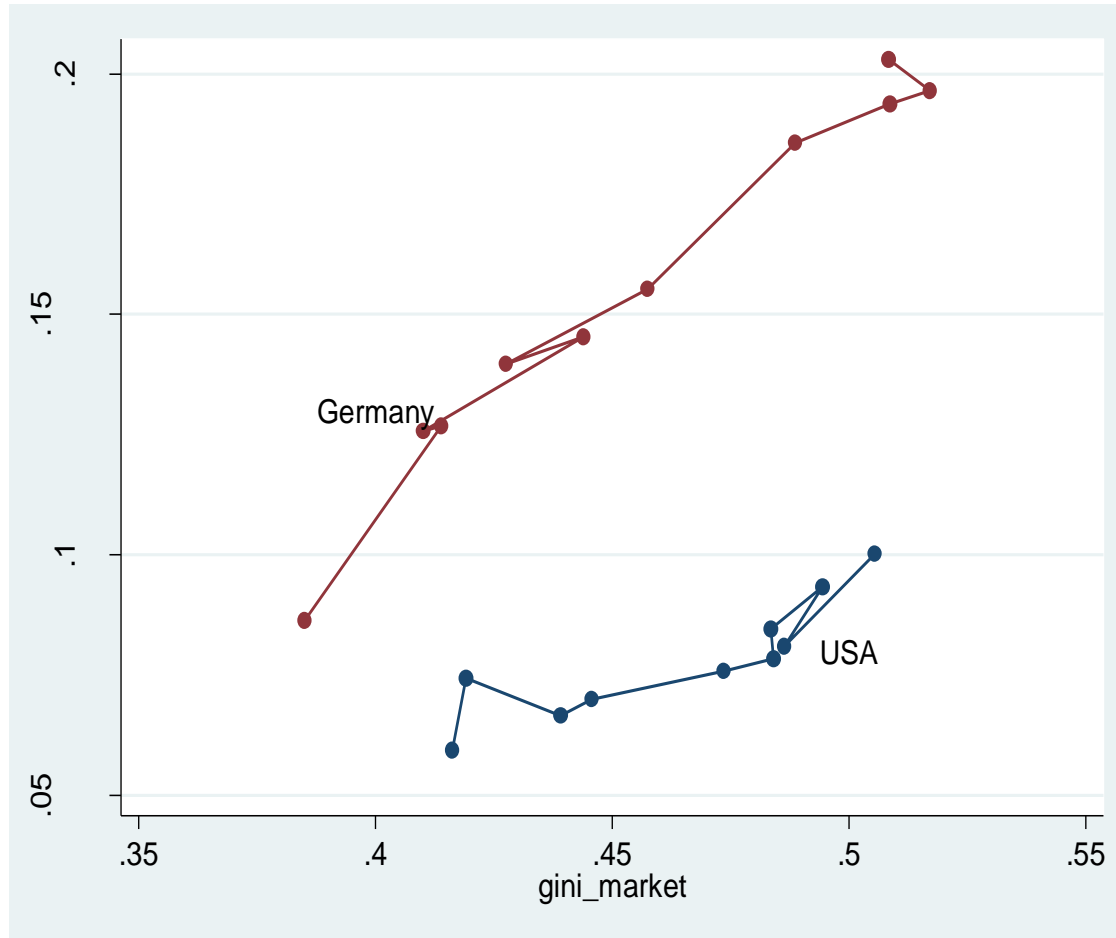
# What do the results imply?

- Inequality of any kind **today** is bad for the **future** growth rate of the poor
- Conjecture re. why it happens
- Social separatism of the rich: lack of interest in investing in public education, health, infrastructure; presumably, things from which the poor benefit disproportionately
- But inequality is neutral or good for the growth rate of the rich
- Thus, no interest of the rich to reduce inequality
- As political process gets more controlled by the rich (empirical studies in the US), lower likelihood of a change of policies

# US vs. Germany: comparison of real per capita incomes across decile: (% difference)



# Redistribution: USA and Germany



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twoway (scatter gini_reduction gini_market if source=="LIS" & decile==1 & contcod=="USA", connect(l)) (scatter gini_reduction gini_market if source=="LIS" & decile==1 & contcod=="DEU", connect(l) legend(off) text(0.13 0.4 "Germany") text(0.08 0.5 "USA"))
```