

# Global income inequality

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Based on the book *Worlds Apart*, 2005 and updates

BM note: this is a fully revised leon2.ppt excludes the stuff  
on global crisis

...This is the world in which everyone is sensitised to risk but indifferent to fate.

(David Runciman)

# 1. Global inequalities today: definitions and overview

# Three concepts of inequality defined



Concept 1 inequality

Concept 2 inequality

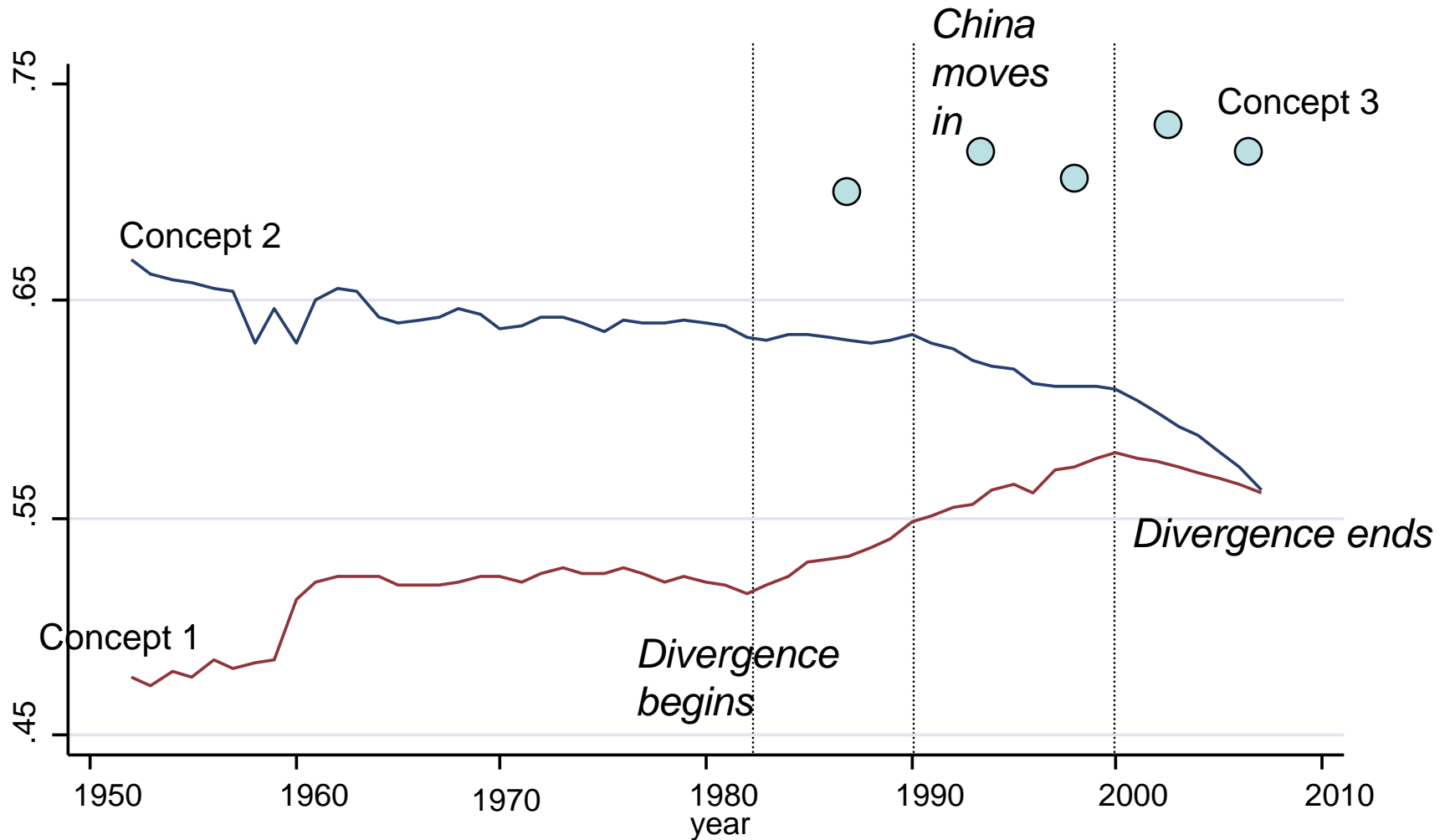


Concept 3 (global) inequality



# Inequality 1950-2007

## The mother of all inequality disputes



With new PPPs

# 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	91
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	68
Asia	94	93	96	95	90
E. Europe	99	96	100	99	93
LAC	90	93	95	95	98
WENAO	99	96	96	100	100
World	96	95	96	98	96



# Number of country surveys

	1988	1993	1998	2002	2005
Africa	14	30	24	29	31
Asia	19	26	28	26	22
EEurope	27	22	27	25	26
LAC	19	20	22	21	18
WENAO	23	23	21	21	22
World	102	121	122	122	119

# Global inequality (with 2005 PPPs)

(distribution of persons by \$PPP or US\$ income per capita)

	1988	1993	1998	2002	2005
International dollars					
Gini index	<b>68.3</b> (2.0)	<b>69.9</b> (1.4)	<b>69.4</b> (1.8)	<b>70.6</b> (1.3)	<b>69.9</b> (1.6)
Between component	61.6	62.3	61.7	63.0	61.6
US dollars					
Gini index	<b>77.8</b> (1.5)	<b>80.4</b> (1.4)	<b>79.6</b> (1.3)	<b>81.0</b> (1.1)	<b>79.8</b> (1.1)

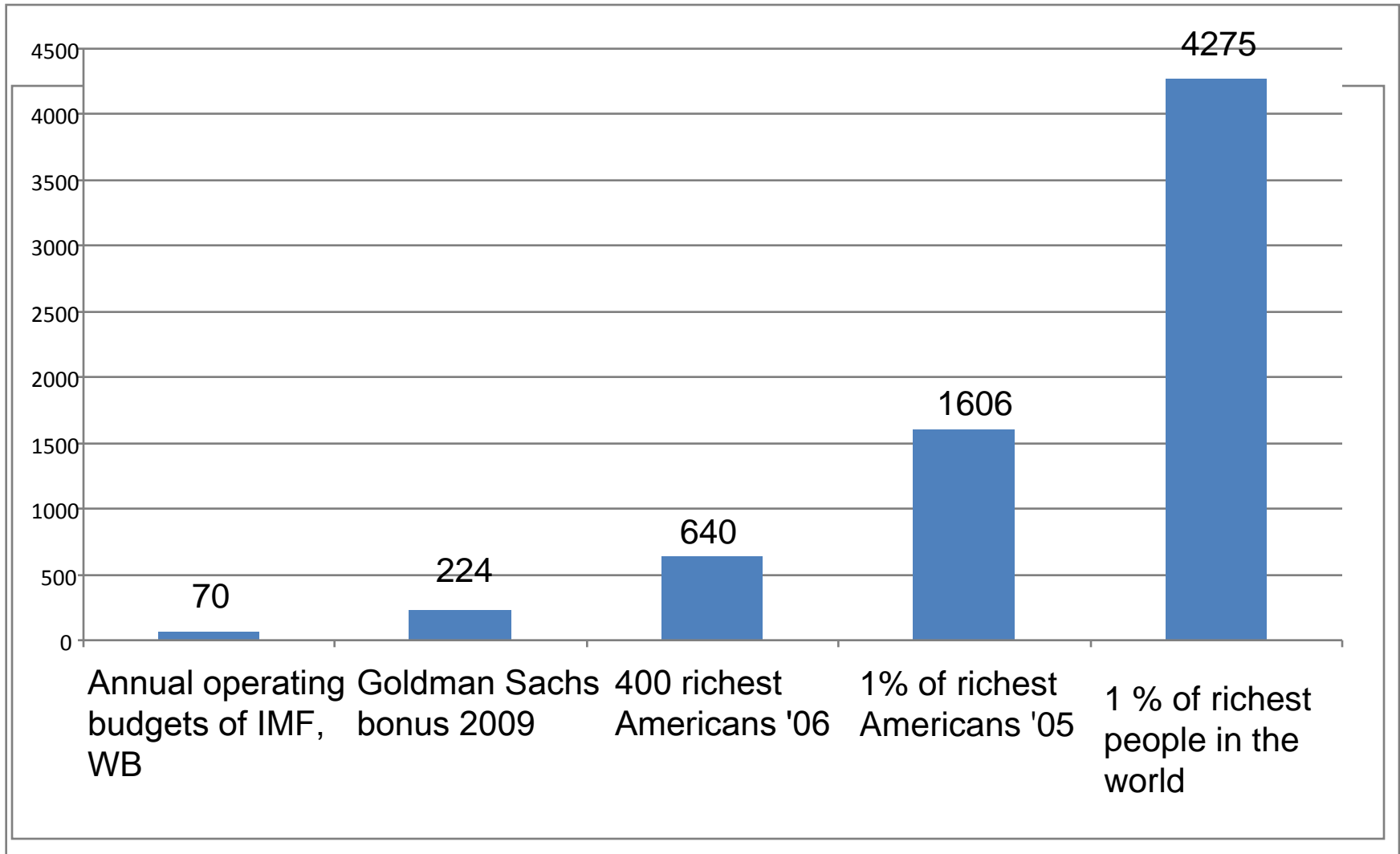
## More than fifty-fifty world (2005; new PPPs)

Cumulative % of world population	Cumulative % of PPP world income/consumption	In a single country (Germany 05)
5	0.14	1.3
10	0.44	3.3
25	1.9	11.1
50	6.6	28.9
80	25.0	60.1
<b>90</b>	<b>45</b>	<b>75</b>
<b>Top 10</b>	<b>55</b>	<b>25</b>
Top 5	36.5	18.4
Top 1	13.4	5.8

## How big is a Gini of 70? (Year 2005, 2005PPPs)

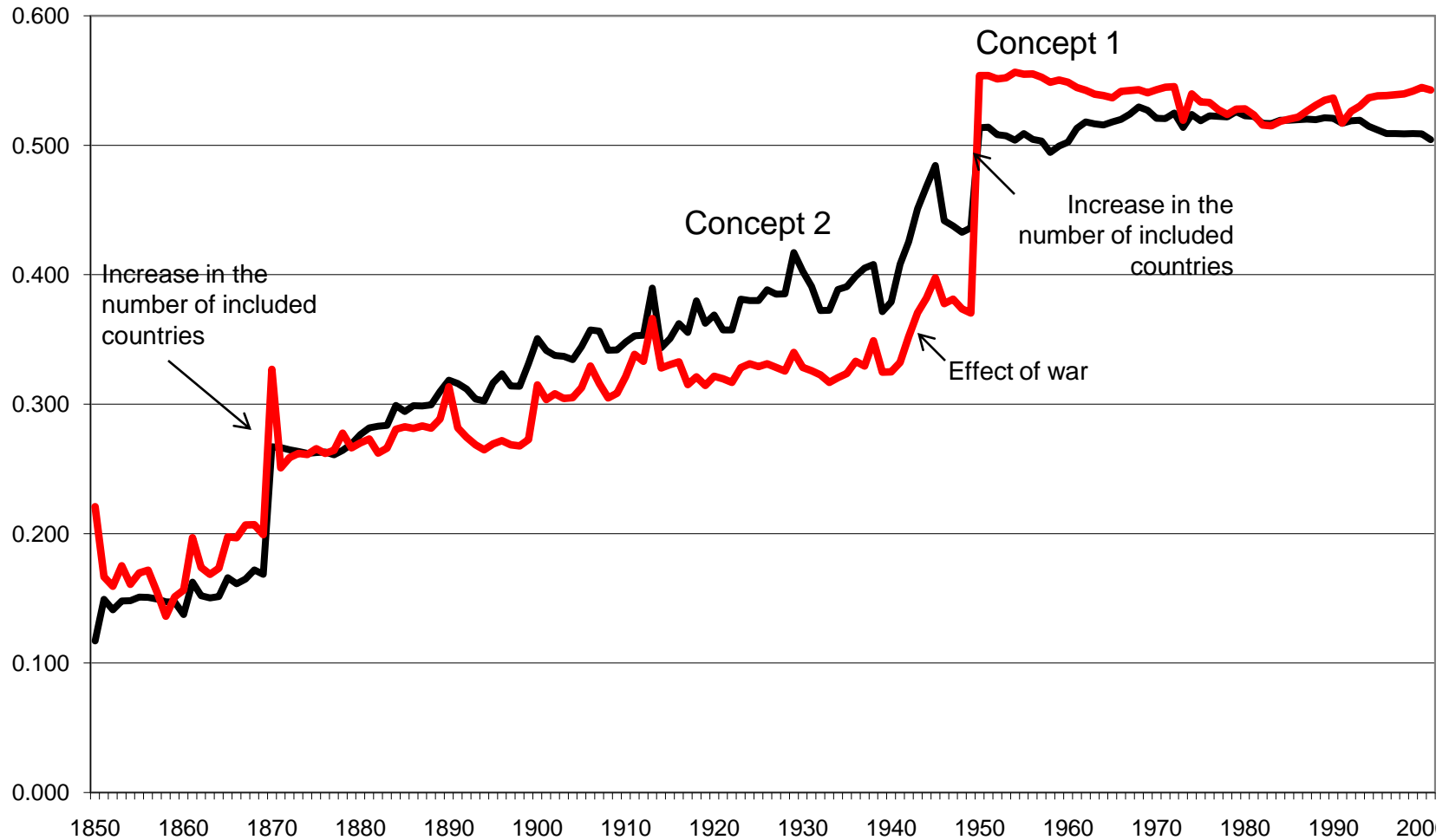
	Top	Bottom	Ratio
<i>In PPP dollars</i>			
5 percent	38%	0.24%	165-1
10 percent	58%	0.6%	95-1
<i>In current \$</i>			
5 percent	45%	0.15%	300-1
10 percent	67.5%	0.45%	150-1
10 top countries	39,115	570	68-1

# 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

# Historical overview of Concepts 1 and 2 (based on Maddison)

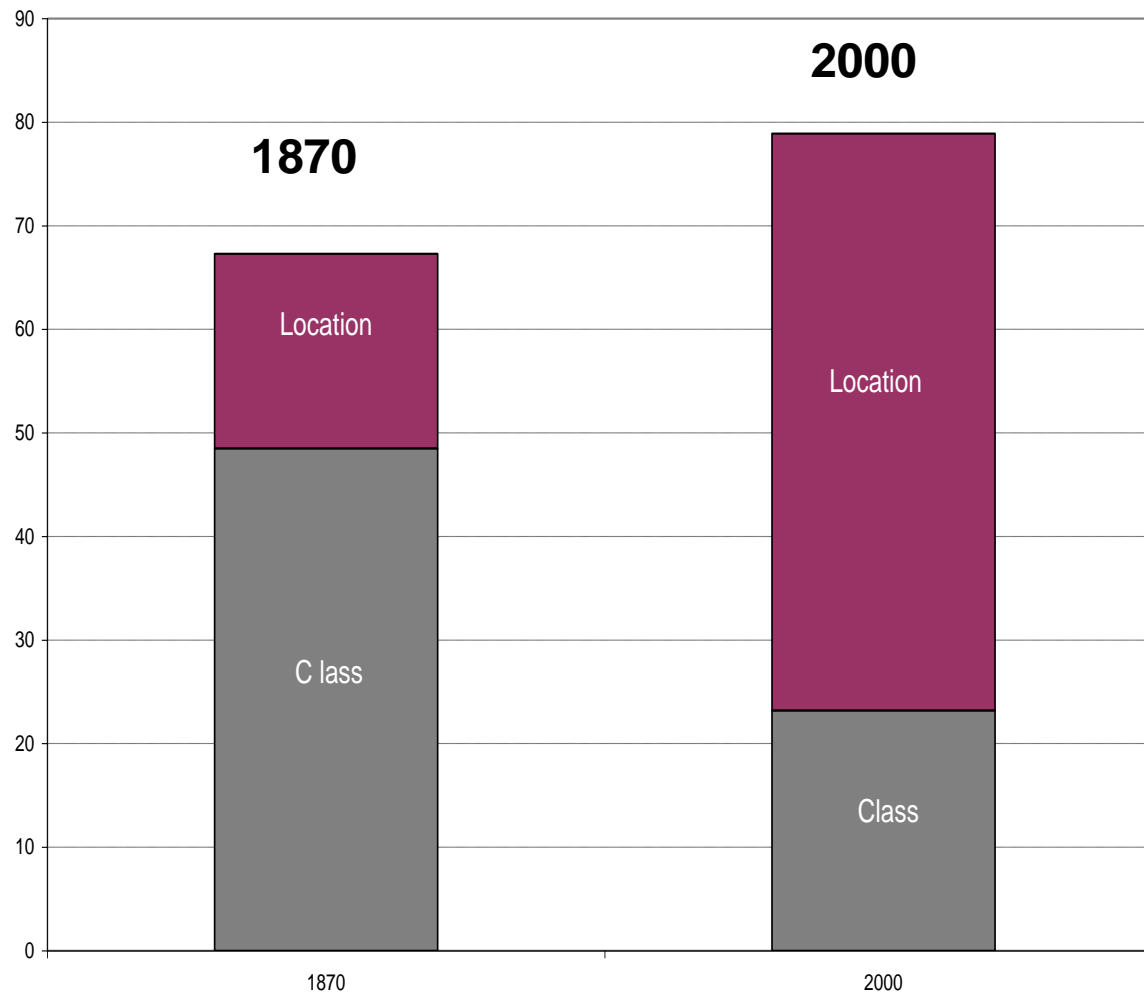


# A non-Marxist world

- Over the long run, decreasing importance of within-country inequalities despite some reversal in the last quarter century
- Increasing importance of between-country inequalities
- 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)



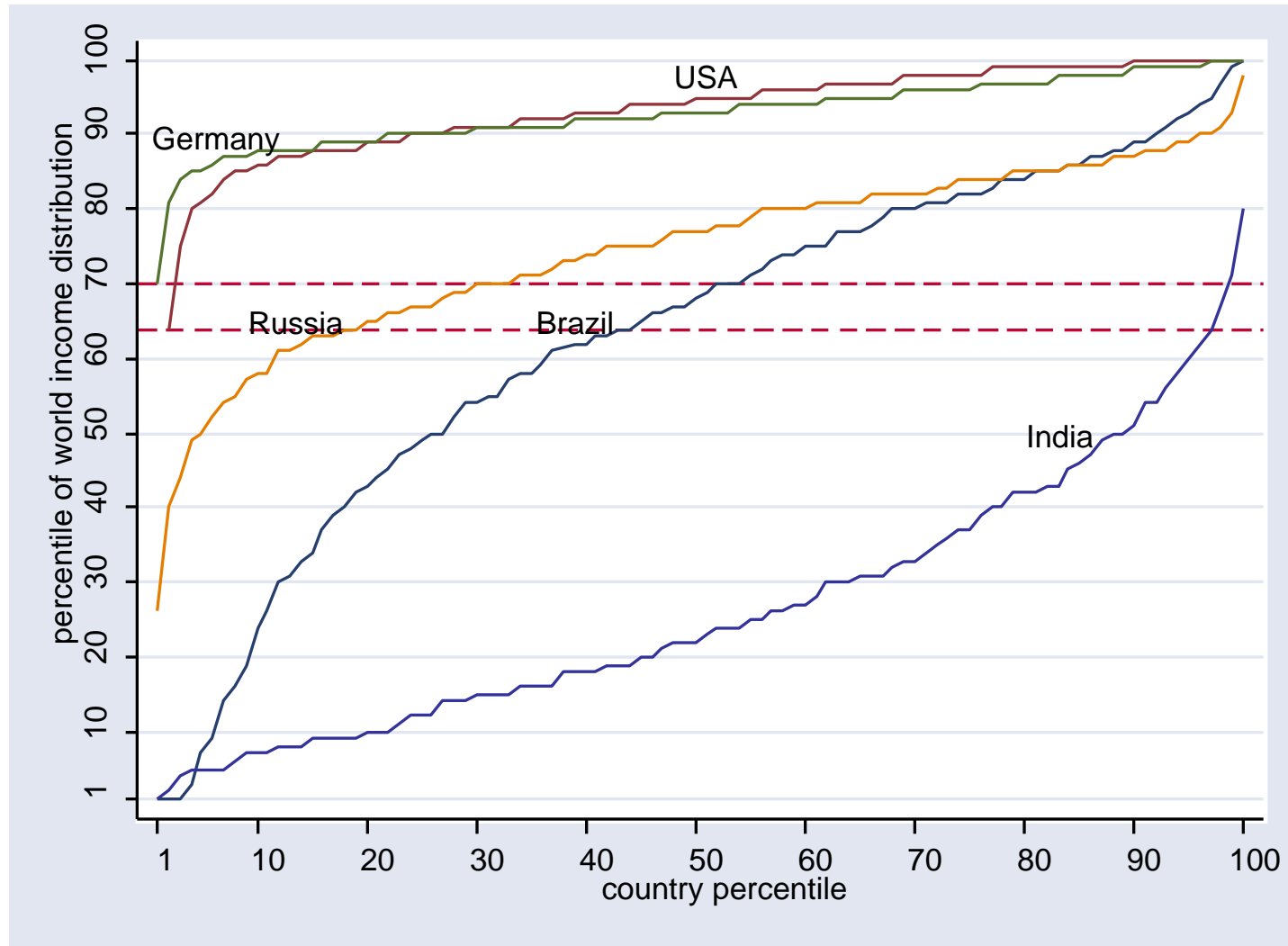
Based on Bourguignon-Morrisson (2002) and Milanovic (2005)

# A literary illustration: Elizabeth's dilemma (from *Pride and Prejudice*)

	Income in 1810 (£ pa)	Approx. position in 1810 income distribution	Income around Y2K (£ pc pa)
Mr. Darcy	10,000	Top 0.1%	270,000
Elizabeth's family	3000/7~430	Top 1%	57,000
Elizabeth alone	50	Median	6,500
Gain	100 to 1		20 to 1

1810 position estimates based on Colquhoun 1801-3 data. Y2K data from LIS (UK1999), and for 0.1% from Piketty (*Data-central*).

# Different countries and income classes in global income distribution (year 2002; new PPPS)



- Richest people in India barely intersect with poorest people in Germany
- But this is not true for Brazil and Russia: about half of the population of Brazil better off than the very poorest percentile in Germany; for Russia, it is 4/5
- Only 5% of people in India richer than the poorest ventile in the US
- Bottom 20% of Americans worse off than equivalent people in Germany
- Brazil within itself spans the entire global distribution
- Russians better-off than Brazilians except at the top (note convexity at the top in Brazil)

# Global inequality of opportunity

- How much of variability of income globally can we explain with two circumstances (Roemer) only: person's country of citizenship and income class of his/her parents?
- Both circumstances basically given at birth
- With citizenship person receives several public goods: income of country, its inequality level, and its intergenerational income mobility
- Use HS data to investigate that

# Estimation

$$y_{ij} = b_0 + b_1 m_j + b_2 G_j + b_3 C_{ij} + \varepsilon_{ij}$$

$m_j$  = mean country income

$G_j$  = Gini coefficient

$C_{ij}$  = income class of  $i$ -th individual in  $j$ -th country

Run over income ventiles for 116 countries and 2320 (20 x 116) income levels ( $y_{ij}$ )

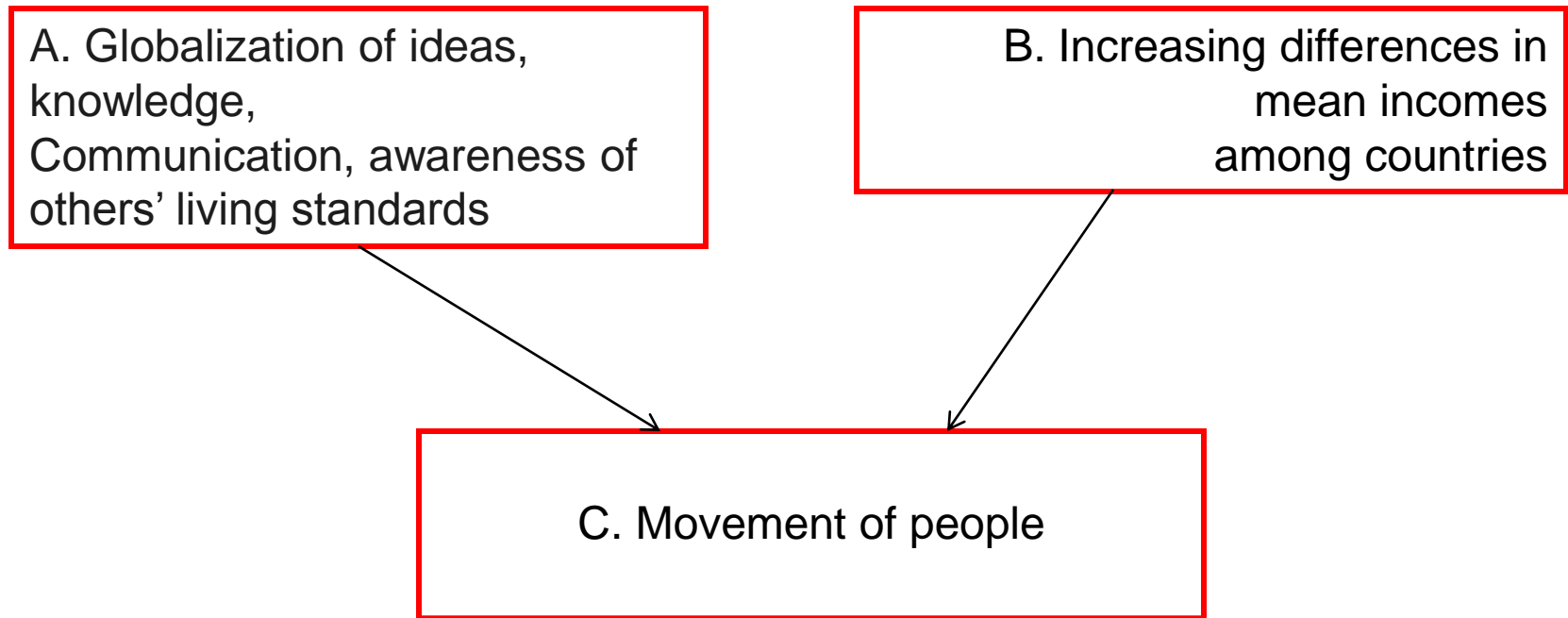
- ***Citizenship premium.*** If mean income of country where you live increases by 10%, your income goes up by about 10% too. (Unitary elasticity.)
- ***Parental premium.*** If your parents are one income class higher, your income increases by about 10.5% on average.
- ***FATE? Global inequality of opportunity.*** Country of citizenship explains 60% of variability in global income. Citizenship and parental income class combined explain more than 80%.

# Is citizenship a rent?

- If most of our income is determined by citizenship, then there is little equality of opportunity *globally* and citizenship may be regarded as a rent (unrelated to individual desert or effort)



# Migration: The 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.

# Origins of the current crisis: inequality + democracy (a speculative slide)

- Fact: 25 years of increased income inequality in the US and UK; stagnation of real median wage
- Politically difficult to sustain in democracy even if one allows for 'false consciousness'
- Solution: Open the floodgates of easy borrowing to make even those who are relatively poor feel rich
- Everybody seemed to gain: the rich (they stay rich), the middle class (they can consume), the bankers (they make money), the politicians (they get reelected)

# Montesquieu on the financial crisis

- People of Baetica, do you want to be rich? Imagine that I am very much so, and that you are very rich also; every morning tell yourself that your fortune has doubled during the night; and if you have creditors, go pay them with what you have imagined, and tell them to imagine it in their turn.
- Montesquieu, *Les Lettres persanes*, Letter CXLII (re. John Law)]