

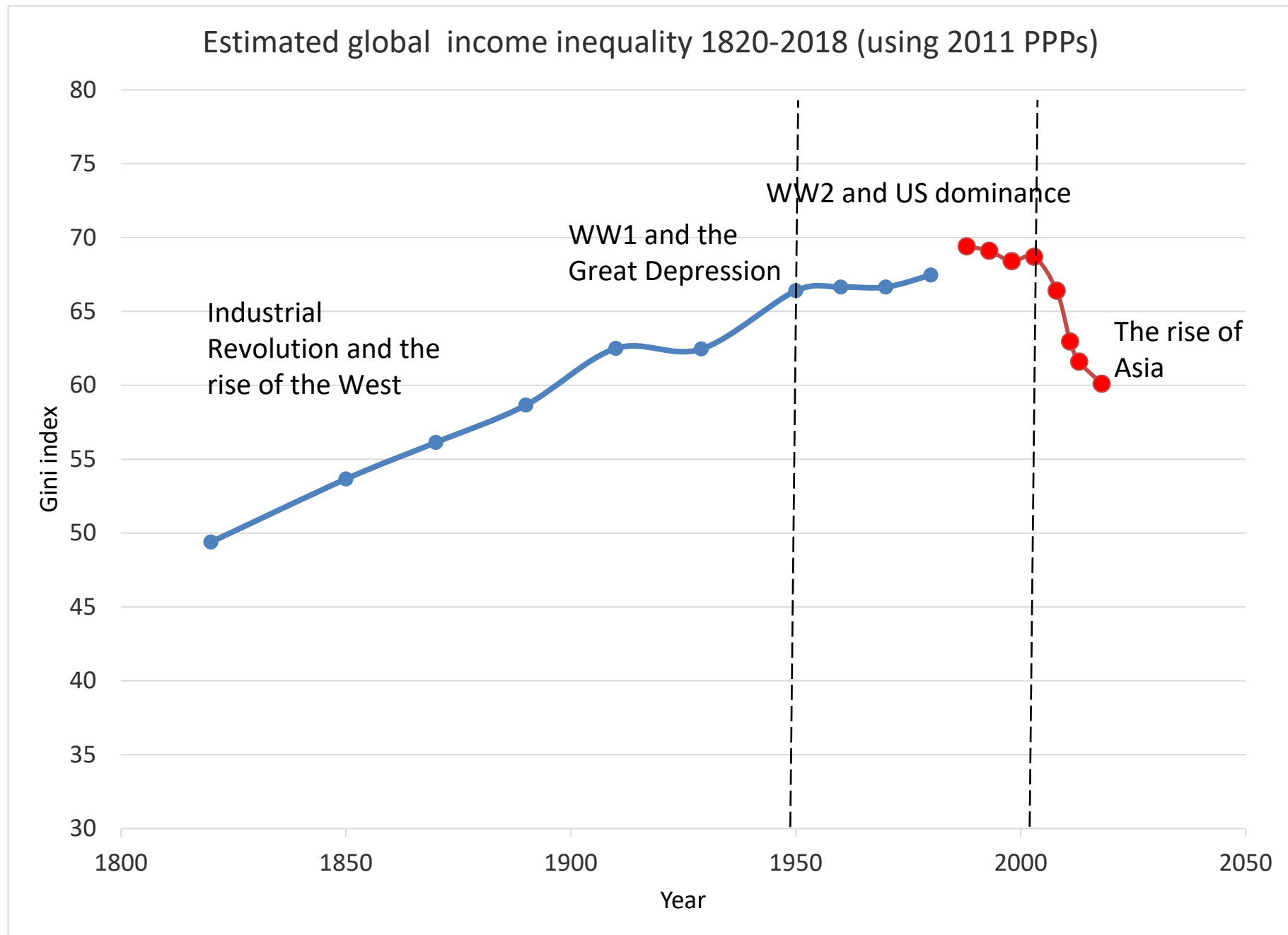
History and geopolitics of global inequality (summary slides)

Branko Milanovic

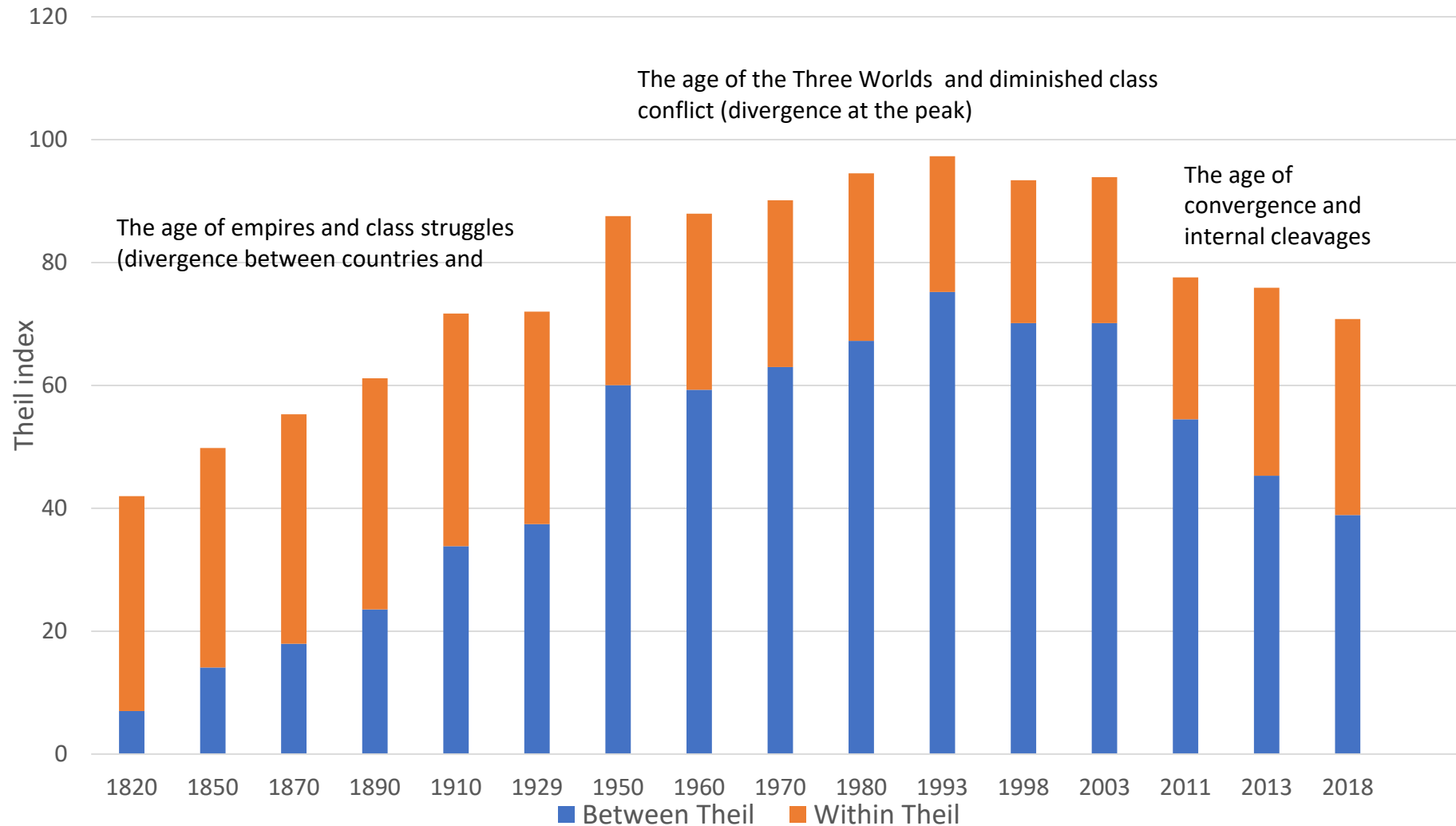
Brookings and Korea Development Institute

Washington, 22 October 2024

The world 1820-2020

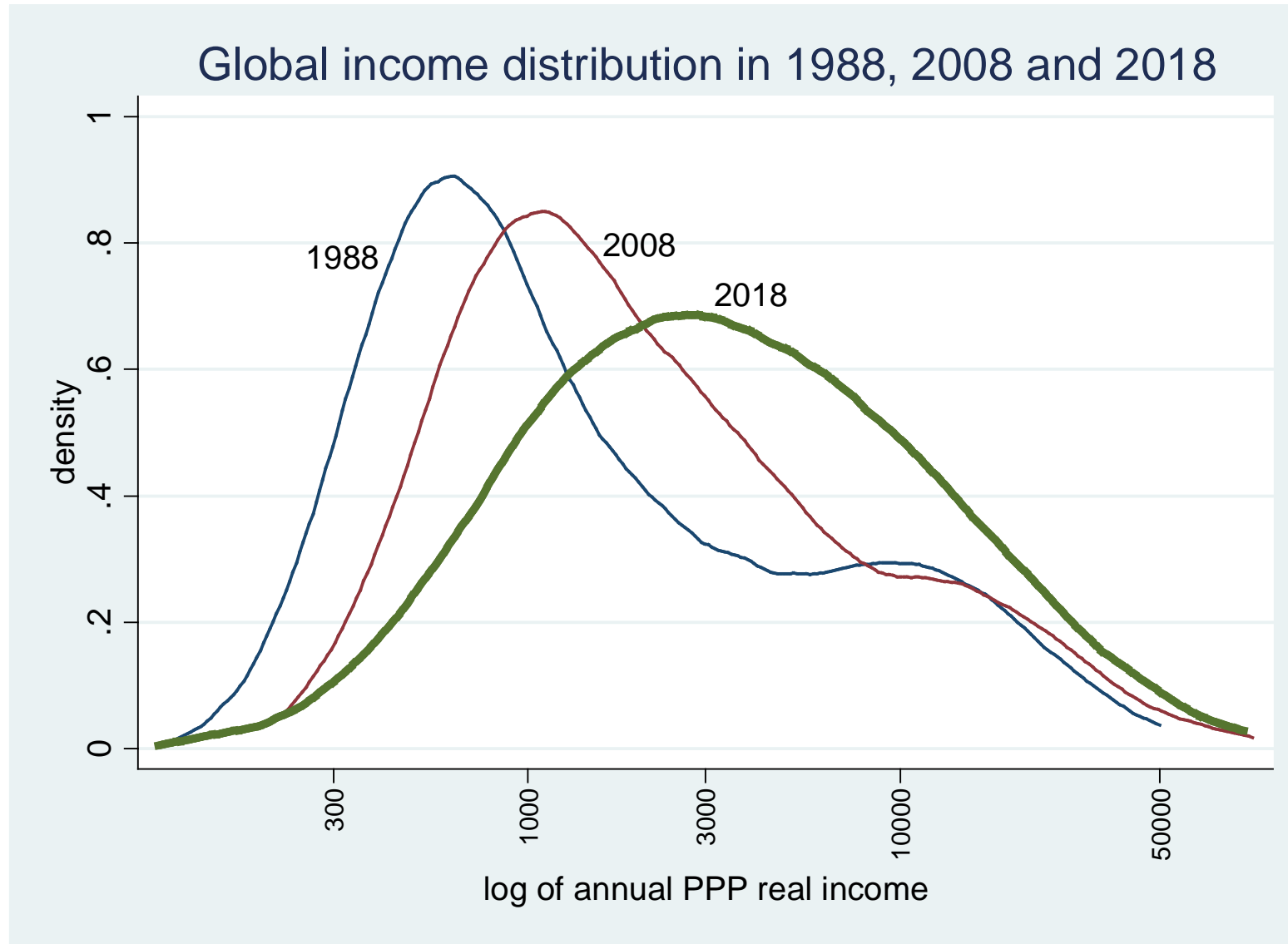


Between-country and within country component of Theil (0) : Global income distribution



The recent decline in global inequality is driven by cross country convergence of population-weighted mean incomes (blue bar)

The emergence of the global median or middle class



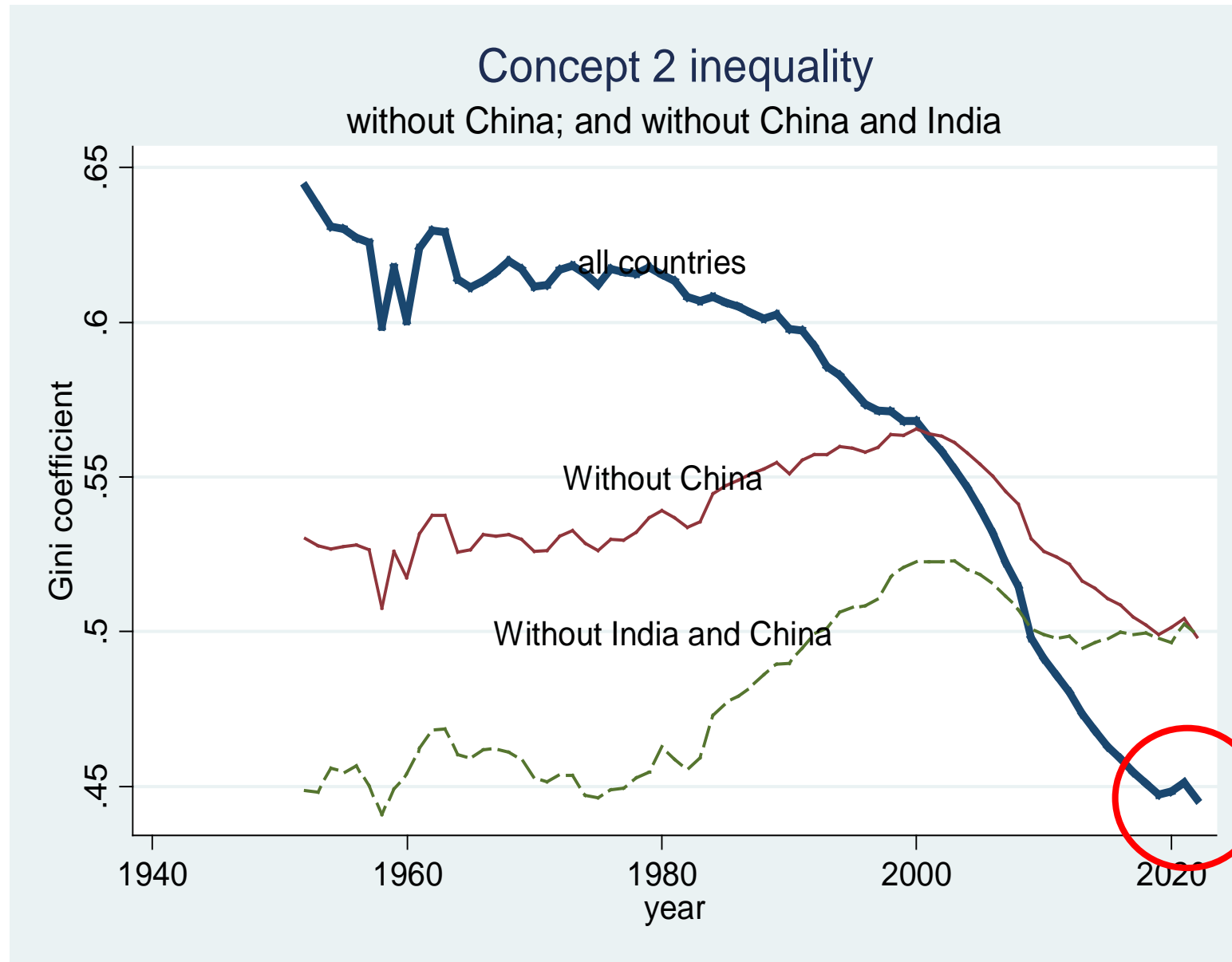
For the first time in the past 2 centuries, global income distribution looks almost lognormal (with one mode)

```
twoway (kdensity loginc_11_11 [w=popu] if loginc_11_11>2 & bin_year==1988 & mysample==1, bwidth(0.14)) (kdensity loginc_11_11 [w=popu] if loginc_11_11>2 & bin_year==2008 & mysample==1, bwidth(0.14)) (kdensity loginc_11_11 [w=popu] if loginc_11_11>2 & bin_year==2018 & mysample==1, bwidth(0.2) lwidth(thick)) , legend(off) xtitle(log of annual PPP real income) ytitle(density) text(0.78 2.5 "1988") text(0.8 3.3 "2008") text(0.72 3.6 "2018") xlabel(2.477"300" 3"1000" 3.477"3000" 4"10000" 4.699"50000", labsize(small) angle(90))
```

Using combine88_18_deciles.dta

Using Vinel18_china_deciles.dta

End of decreasing global inequality?

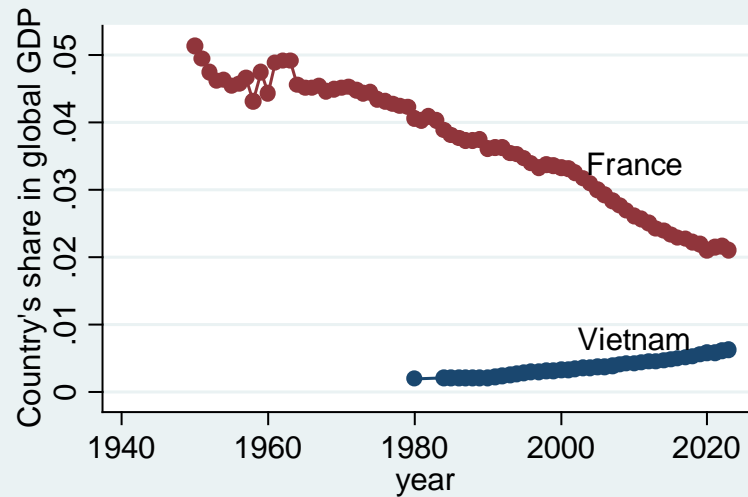
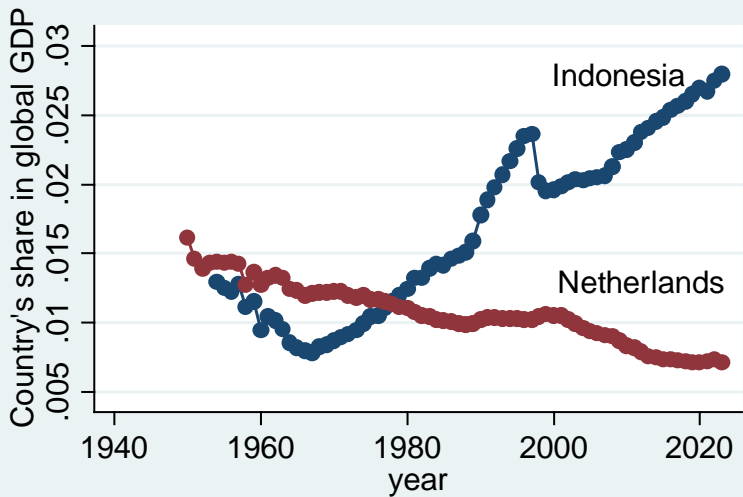
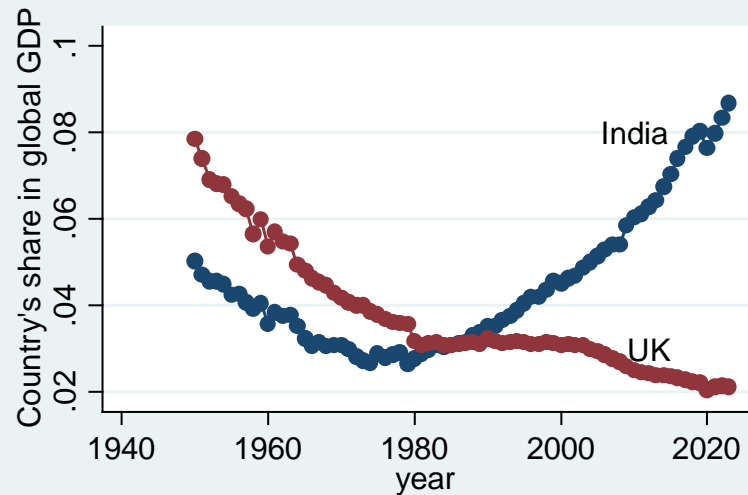
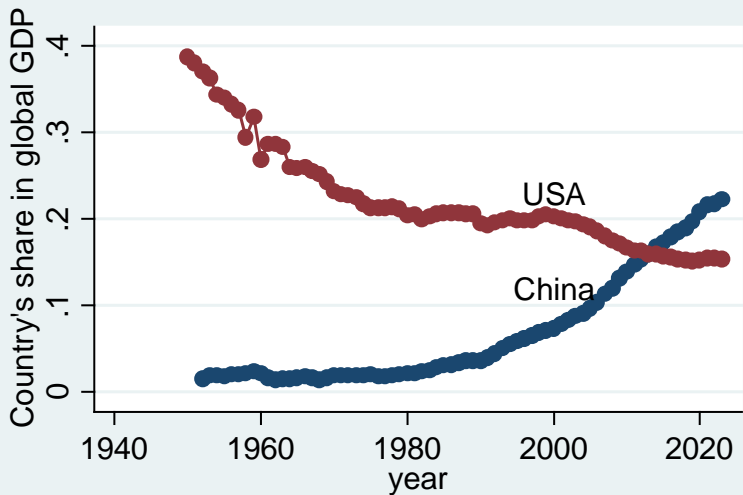


We do not have detailed post-covid survey data yet but the fact that inequality of population-weighted GDPs per capita no longer decreases is a dramatic change

The rise of Asia and the reshuffling of global income positions

Shares in global output

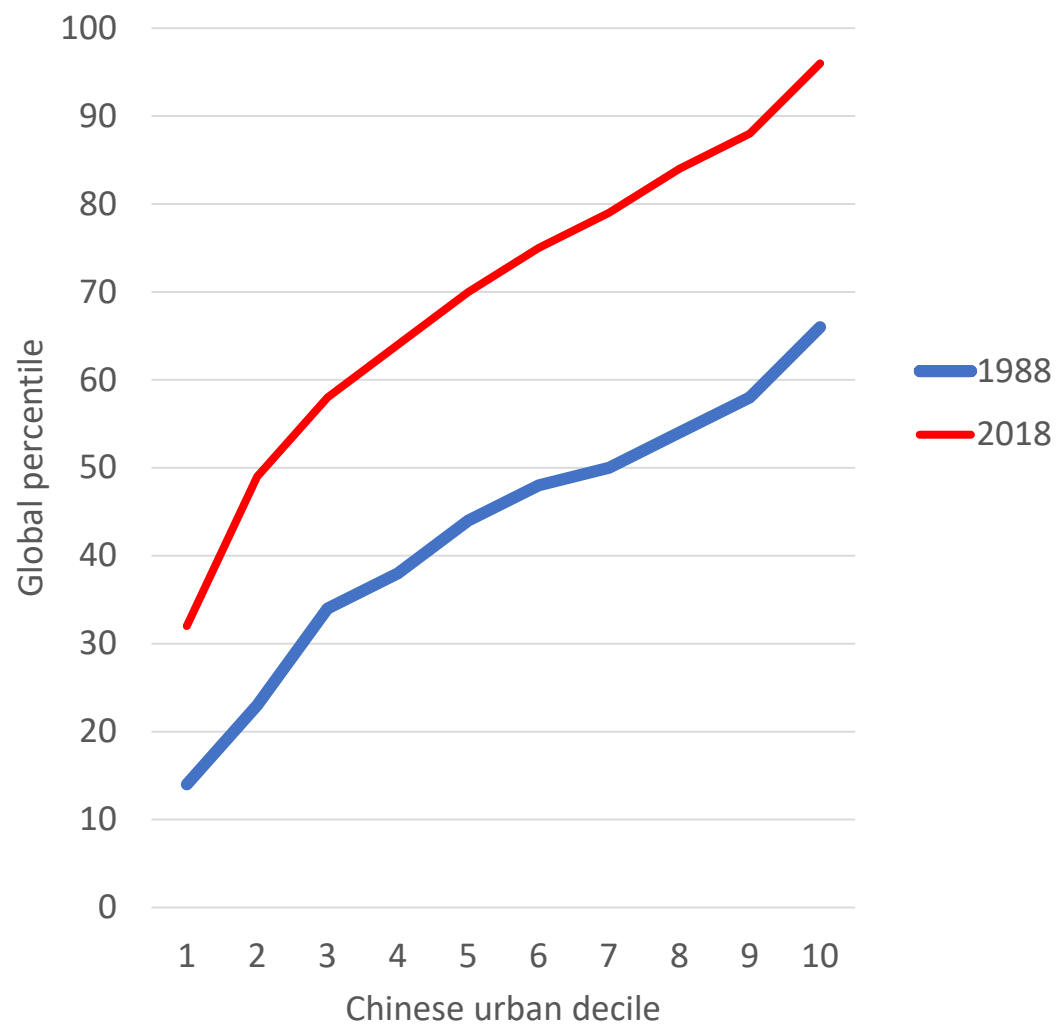
The rise of Asia



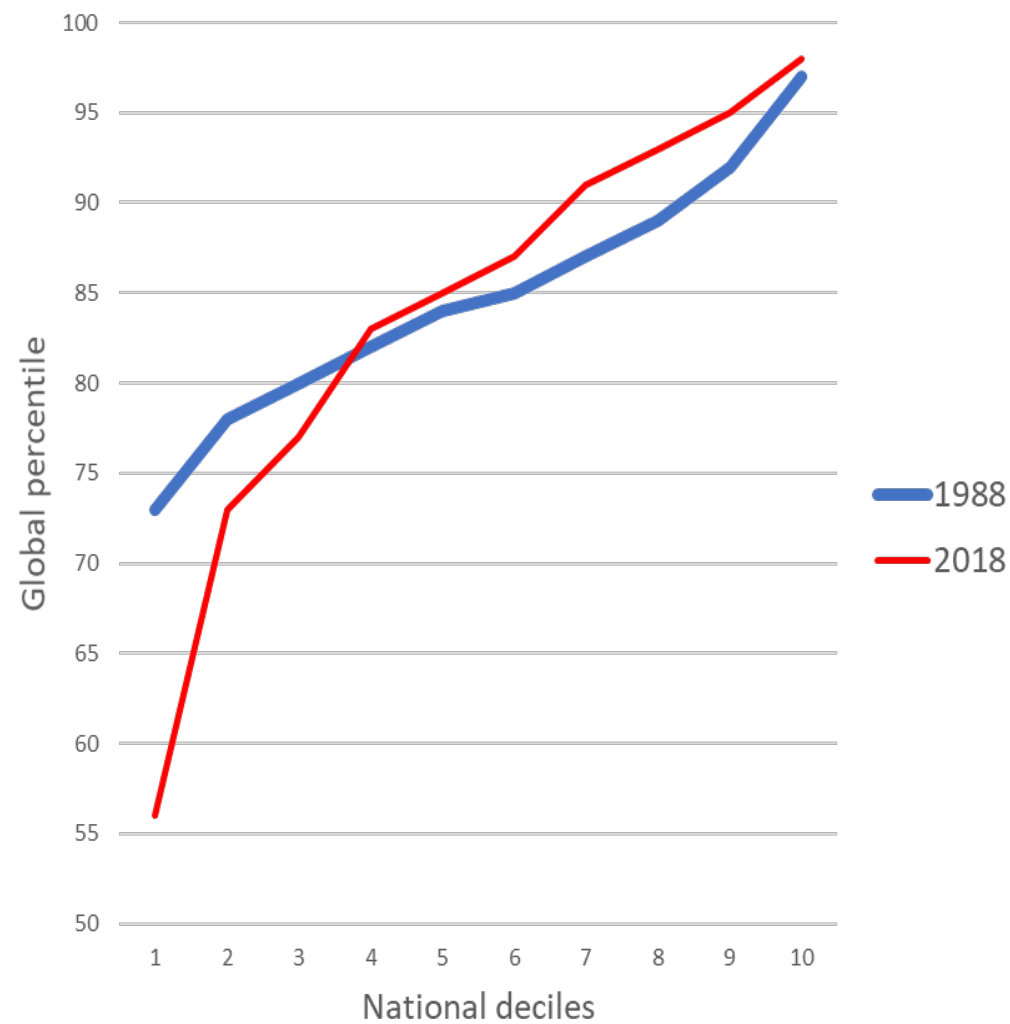
The middle: the greatest reshuffling of global income positions since the Industrial Revolution

- Rich countries' lower parts of income distributions shifted down in terms of their global income positions, e.g. their lowest deciles which thirty years ago were (say) at the global 70th percentile are now at the 60th.
- The global positions of the upper halves of the rich countries' income distributions are not affected because the Asian middle classes have not yet entered *en masse* these high percentiles.
- To keep their relative global positions, lower parts of rich countries' distributions must grow at Asian (or Chinese) growth rates.

Urban China, 1988 and 2018

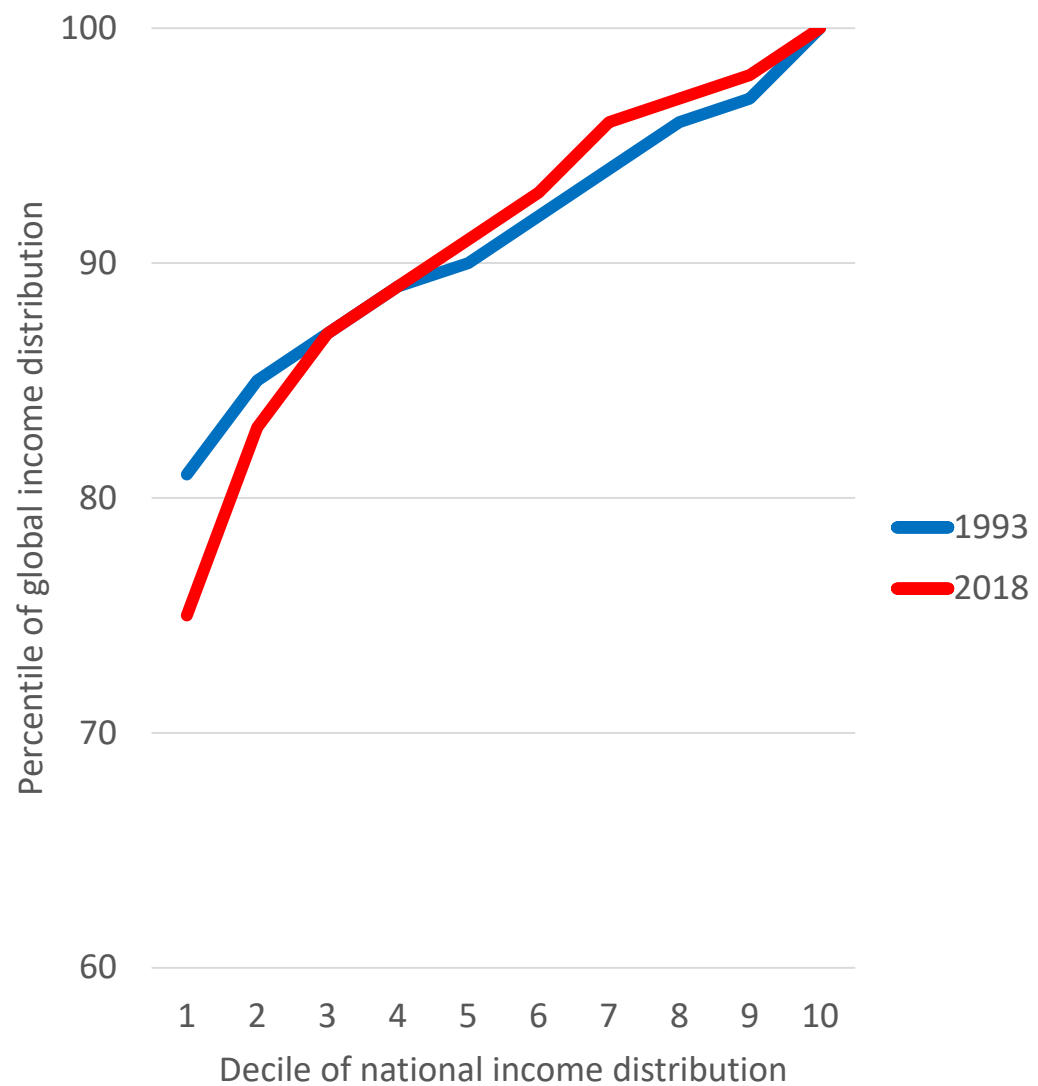


Italy, 1988 and 2018

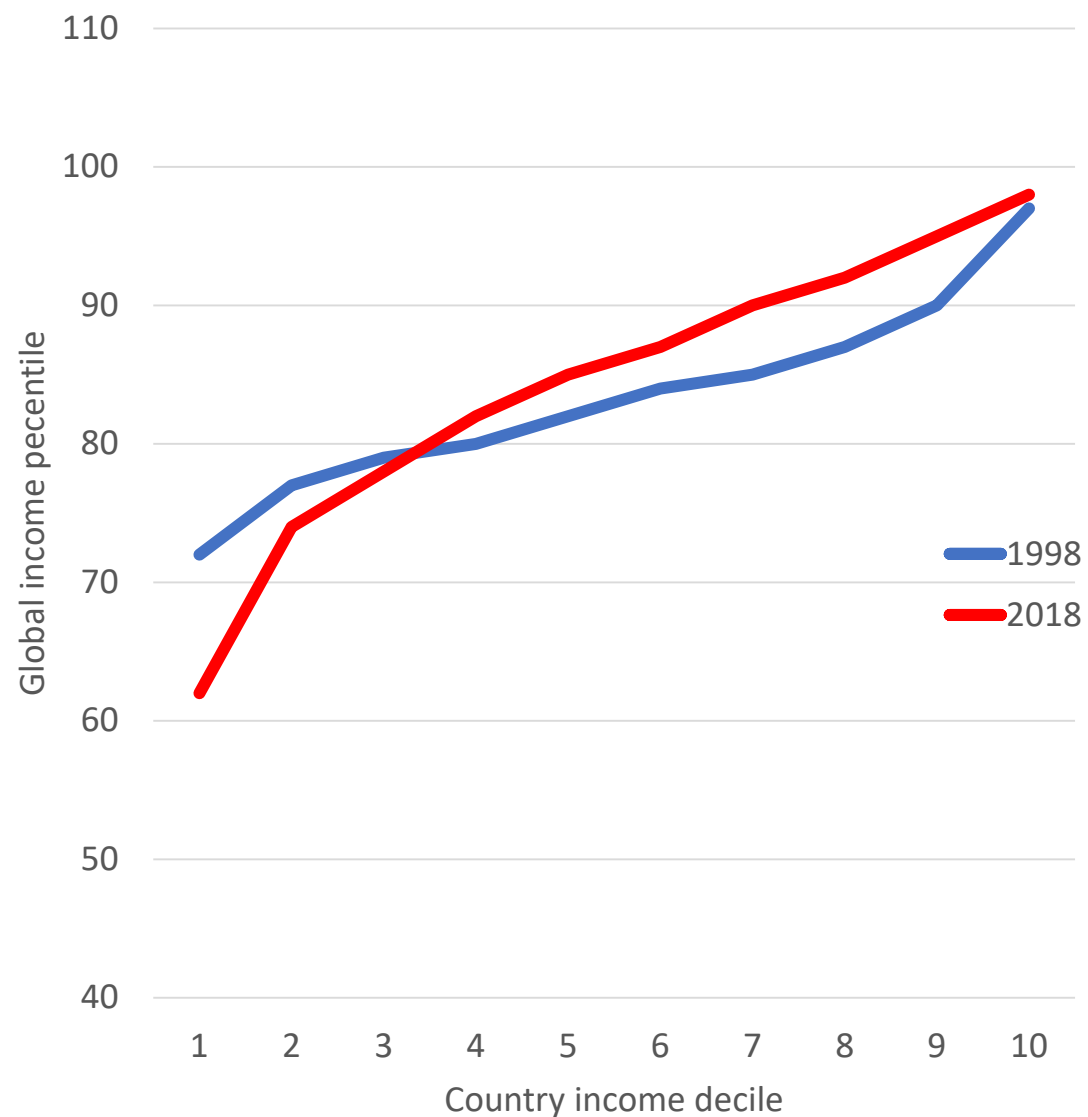


Positional decline of lower parts of rich countries' income distributions as they get overtaken by Chinese population

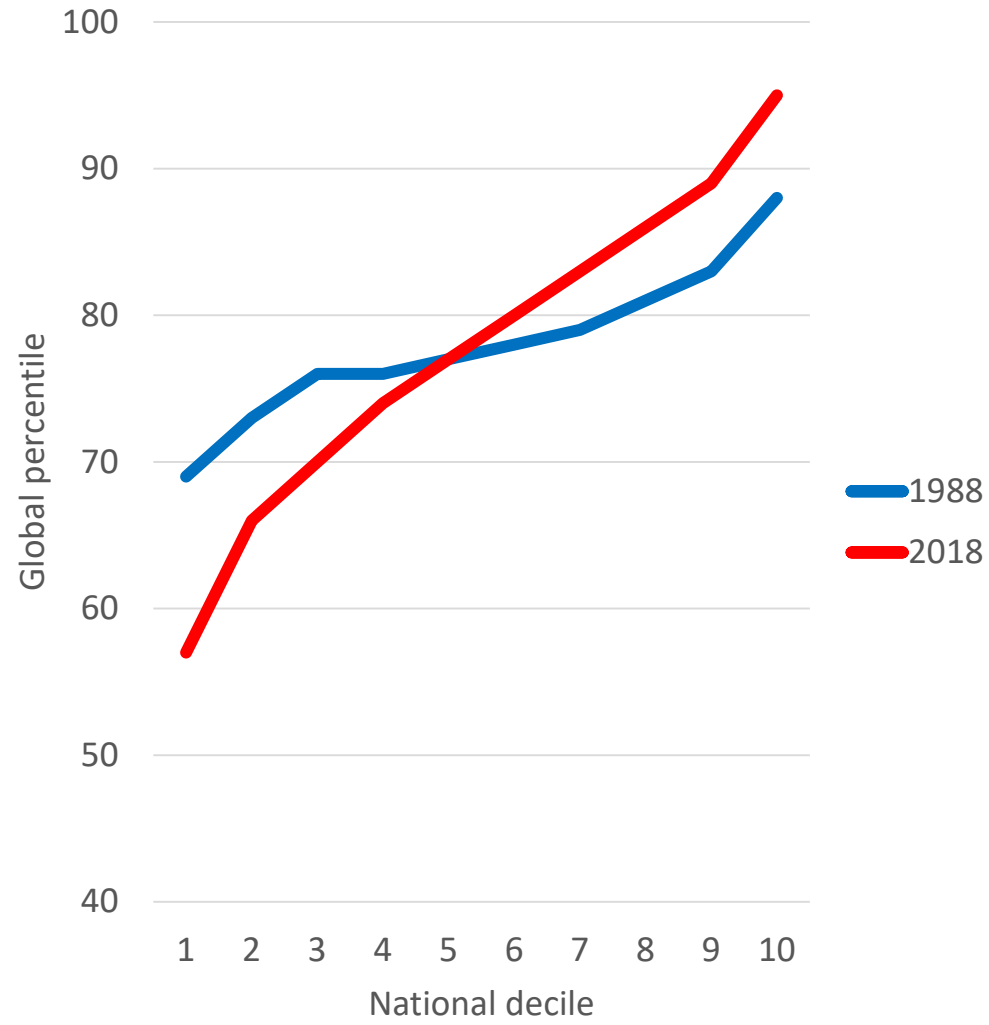
Germany, 1993 and 2018



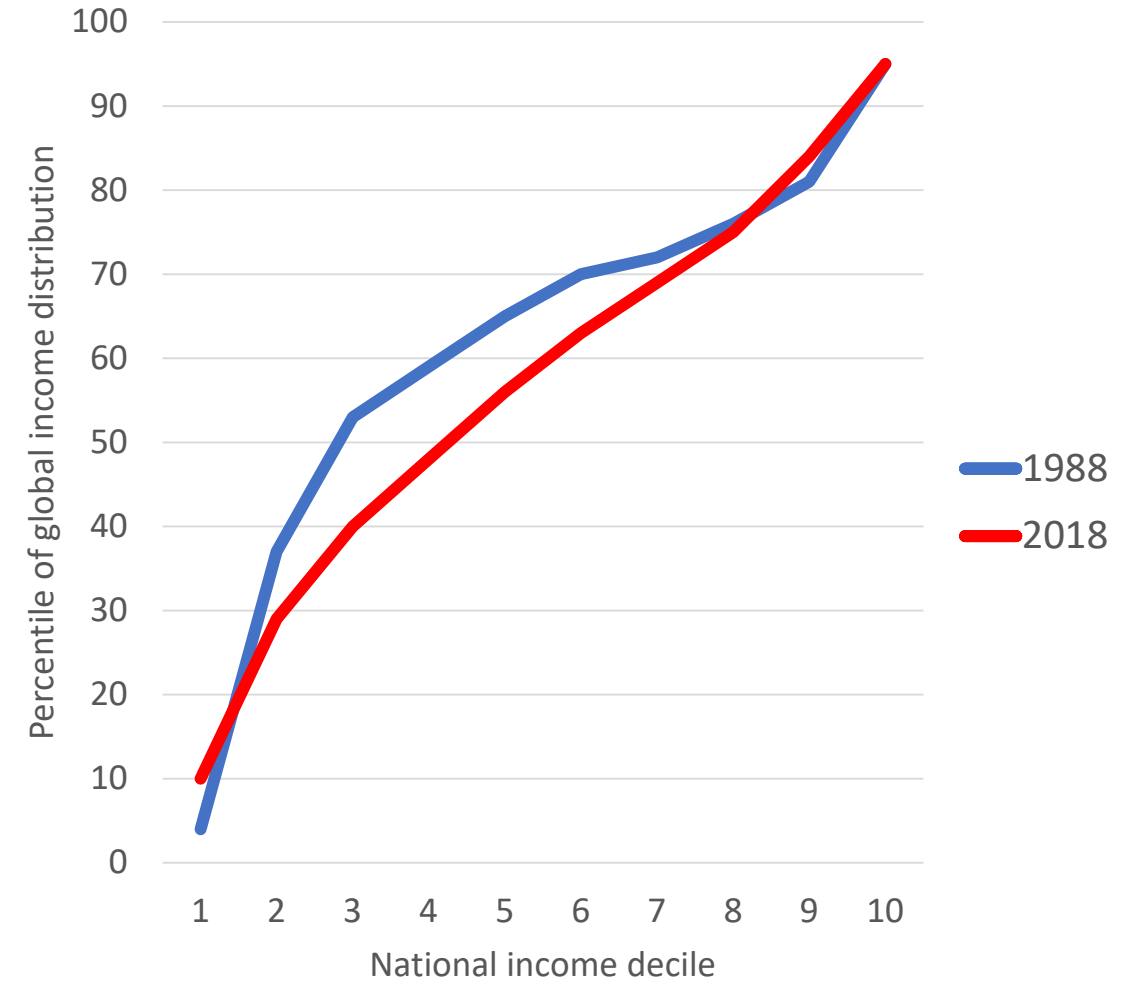
Rep. of Korea, 1988 and 2018



Poland, 1988 and 2018



Brazil, 1988 and 2018



The present: the period of big external shocks

The greatest setback to global poverty and inequality reduction since the Second World War.

- Figuring out what is happening with global income distribution in real time has become very difficult because of three non-economic discrete shocks that are very broad (affecting many) and statistically hard to grasp and forecast.
- The **first shock** was covid which is still ongoing. It affected inequalities everywhere, but in an uneven way: e.g. inequality in the US declined in 2020 thanks to large gov't transfers (CARES Act), but in many poor countries it went up.
- Unprecedented role of government spending in offsetting the economic effects of the crisis.

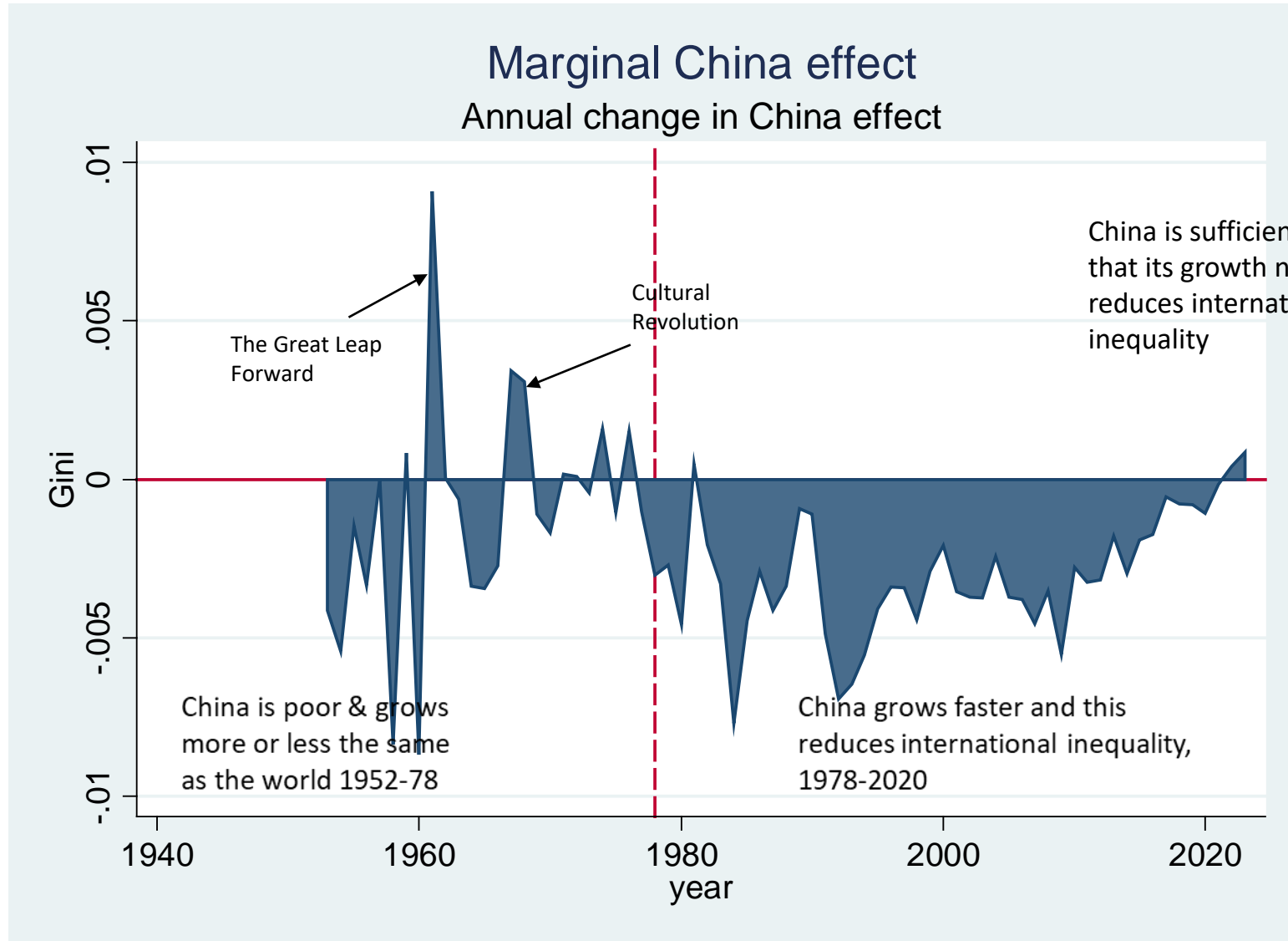
- The **second shock** are the US-China trade tensions and their deteriorating economic relations. That shifted some value chains away from China and might have affected inequality in both China and the US negatively. But we do not know empirical effects yet. The shock is still ongoing.
- The **third shock** is the Russia-Ukraine armed conflict. It is affecting Ukraine through destruction and income decline, and Russia through severe trade disruption (sanctions). The rest of the world is affected through higher prices of energy and gas, that represent large share of poor households consumption.
- The **fourth shock** is the war in Gaza. Destabilizes the entire region, leads to destruction and to more military vs civilian spending.

- When one adds all of that, it is clear we are facing the largest setbacks to global poverty and inequality reduction since the end of WW2.

What next for global inequality?

- Probable increase of global inequality after 2020.
- The ambivalent role of China: it has become upper middle-income country and its growth can no longer drive global inequality down (see the next slide);
- substantial income decline in India and hence addition to inequality;
- impossibility of predicting growth rates in large African countries.
- Our attention shifts from China to Africa.
- The basic story is one of **unpredictability**.

In 2022, for the first time since 1976 China's growth adds to global inequality



Africa and Asia: past comparisons

How likely is Africa to grow fast & reduce global inequality? That is, can Africa become a new China?

Assume that it requires a growth rate of 5% per annum per person for five years. There are only 7 such episodes between 1950 and 2020, and if we drop those driven by higher oil prices, there are only four: Botswana (2m), Ethiopia, (114m), Cote d'Ivoire (26m), Cape Verde (0.5m).

Country	Period	Number of years
Botswana	1969-83	15
Cote d'Ivoire	2013-17	5
Cape Verde	1994-98	5
Ethiopia	2005-18	14
Gabon	1962-66/1970-76	5+7
Eq. Guinea	1993-2005	13

Asian country	High growth periods	Number of years
Bangladesh	2015-19	5
China	1982-88/1990-2019	7+30
India	2003-07/2013-18	5+6
Iran	1966-74	9
Japan	1951-57/1959-64/1966-70	6+5+5
Cambodia	2000-08/2011-19	9+9
S Korea	1982-89/1991-96	8+6
Laos	2005-17	13
Myanmar	1999-2010/2012-18	11+7
Mongolia	2003-08	5
Malaysia	1988-96	9
Singapore	1966-73	8
Thailand	1987-95	9
Taiwan	1966-73/1991-97	8+7
Vietnam	1992-97/2000-07/2015-19	6+8+5
Hong Kong	1961-65/1969-73	5+5

- Africa had 64 episodes of 5 years by 5% growth vs. 216 for Asia.