‘Global Income Inequality in Numbers: in History and Now’

by

Dr. Branko Milanovic, World Bank, in Global Policy (2013).

Comments by Alfredo Pastor, IESE Business School and Scientific Committee, CAPP.

It is a pleasure for one who has learnt all he knows about income distribution from Dr. Milanivic’s work to be allowed to comment on a paper that synthesizes some of his previous findings and presents them in a succint but understandable manner. Income distribution is a topic that has been out of fashion for the general public until recently. There are good reasons for its current popularity, the main one being the perception of a disturbing level of inequality both within and across countries. If it behoves ordinary citizens to form their own judgments about how much inequality they consider acceptable, it is the task of economists to present the available facts in a clear and rigorous fashion: this is one of Dr. Milanovic’s contributions to the debate, some of whose results are presented in the paper. Current debates would benefit from reading it.

Given a set of income data for several countries (something that is never a gift from Nature) one must decide on the kind of inequality one wishes to discuss, then on the appropriate measures of inequality, finally on the sort of questions one wants to ask from the data. For the first step, the distinction between the three types of inequality is indispensable: inequality of Type I is appropriate to ask questions about the relative performance of countries, convergence being the question most often asked. Type II is a modified version of I which is of use in relating the relative performance given by Type I to the number of people affected by it. The most interesting questions need Type III inequality, the one obtained from a world distribution of income. Type III has become increasingly relevant as the world has become more interconnected, but the data are still few and cover only the last twenty-five years. For the second step, there is a large number of measures of inequality, adequate for different data and for different questions: Gini and Theil coefficients are the best-known, but perhaps less intuitive than others, and Dr. Milanovic does not make too much use of them in this paper; rather he employs graphical representations which are easier to apprehend. Lastly, one thing is to describe how income distributions have changed and another, quite different, to try to unveil the laws which may govern such changes. Dr. Milanovic does not address the second question: in his previous work, Worlds Apart, (pp. 144-148) after a careful analysis of “grand theories” about the laws of motion of income distributions, he concludes that most of these theories have lacked the support of fact, which is another way of saying that income distribution is subject to so many forces that it is not possible to describe the resultant in any meaningful way. One can, however, answer less ambitious questions.

Of the three main questions addressed in the paper: how inequality has evolved in modern times, who are the winners and losers since the heyday of capitalism and how the components of inequality have changed since the Industrial Revolution started, I would like to comment the last two (there are, of course, many other interesting ones):

1. Winners and losers, 1988-2008 (Section 2)

The question is addressed to the world income distribution. It does not have a simple answer: looking at the changes in income over the period (fig. 4) one sees neither across-the-board convergence, which would imply decreasing gains as one went from the lower to the higher end of the distribution, nor divergence. Rather, gains are concentrated at the very top (highest 1 percent 60% increase in real income) but even more so at the 60^{th} percentile, the emerging global middle class; those at the 80^{th} percentile, on the other hand, have experienced stagnant incomes. (Sizeable gains in the lower third and stagnant income at the level of extreme poverty belong in their entirety to poor countries). Looking at rich economies one observes the so-called polarization of the labour market. One of the forces for such polarization is off-shoring to poorer economies; is it possible that the gains at the 60 th percentile reflect in part the losses at the 80^{th}, or are the individual income distributions too far apart for that to be the case?

2. Class and location (Section 3)

One of the most interesting findings derived from the world income distribution is the decomposition of total inequality between within- and between- country elements. Dr. Milanovic has improved on Bourguignon and Morrison's work with a richer set of data. The result, however, is similar: up to the start of the Industrial Revolution, the position of an individual in the world income distribution was influenced mostly by his occupation, or class; today it is location, or citizenship, that explains most if it. On the other hand, it seems as though globalization is returning us back to normal, as it were, by making cheap labour available in great numbers to the advanced economies. Is this convergence to continue and, if, so, at which end of the income distribution?

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