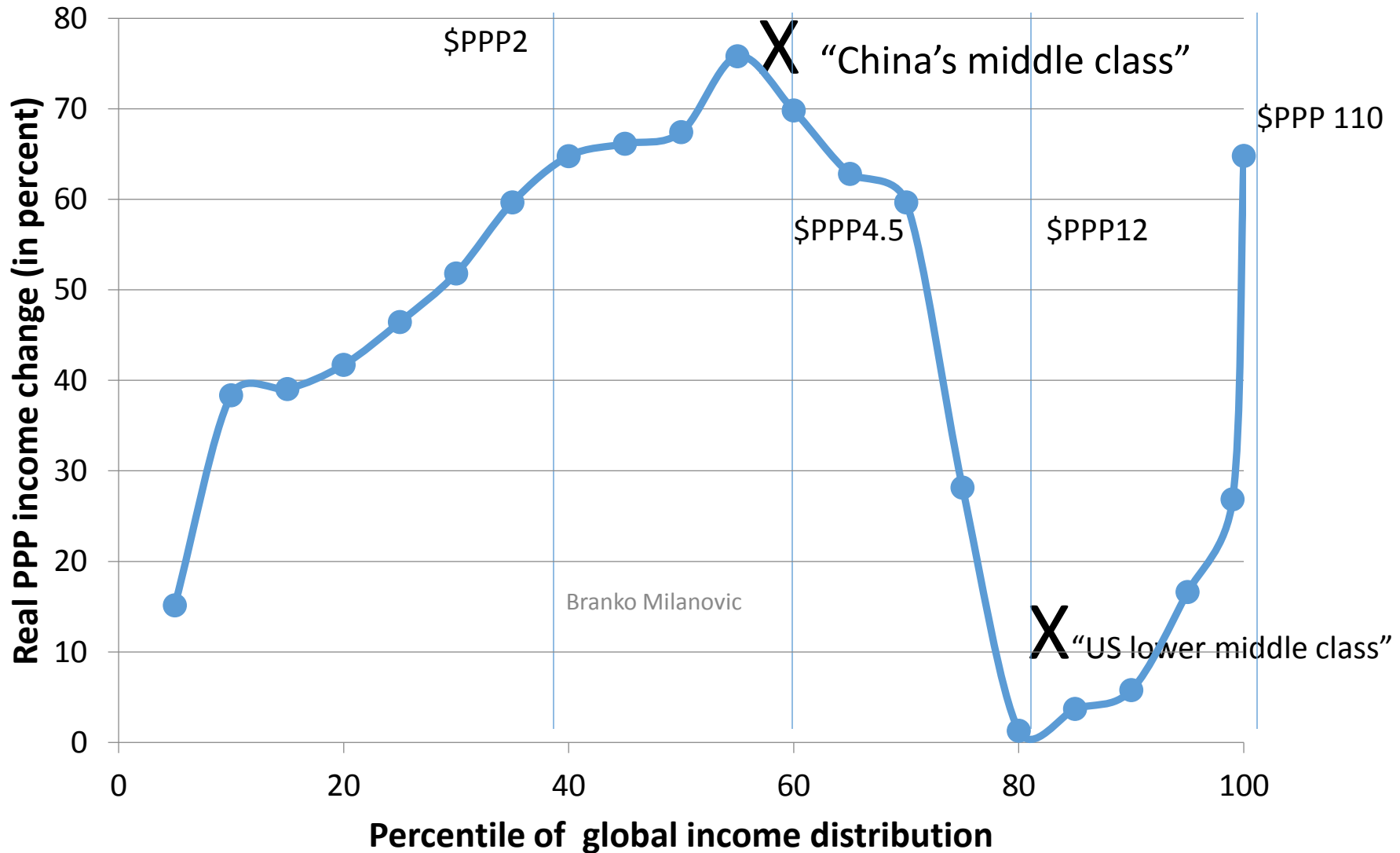
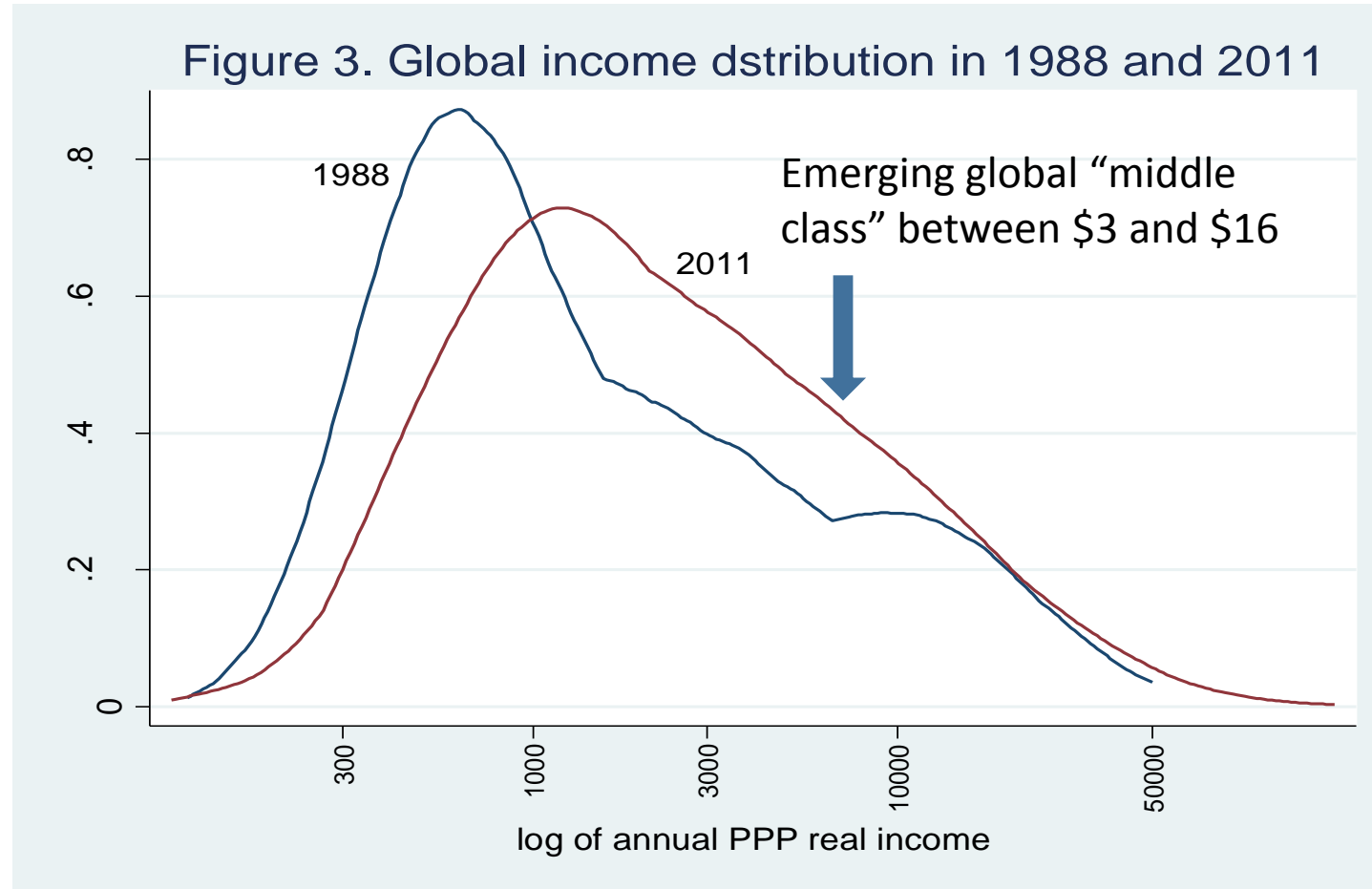


Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)



Global income distributions in 1988 and 2011



```
twoway (kdensity loginc_11_11 [w=popu] if loginc_11_11>2 & year==1988, bwidth(0.14) title("Figure 3. Global income dstration in 1988 and 2011")) (kdensity loginc_11_11 [w=popu] if loginc_11_11>2 & 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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Branko Milanovic

Using Branko\Income_inequality\final11\combine88_08_11_new.dta

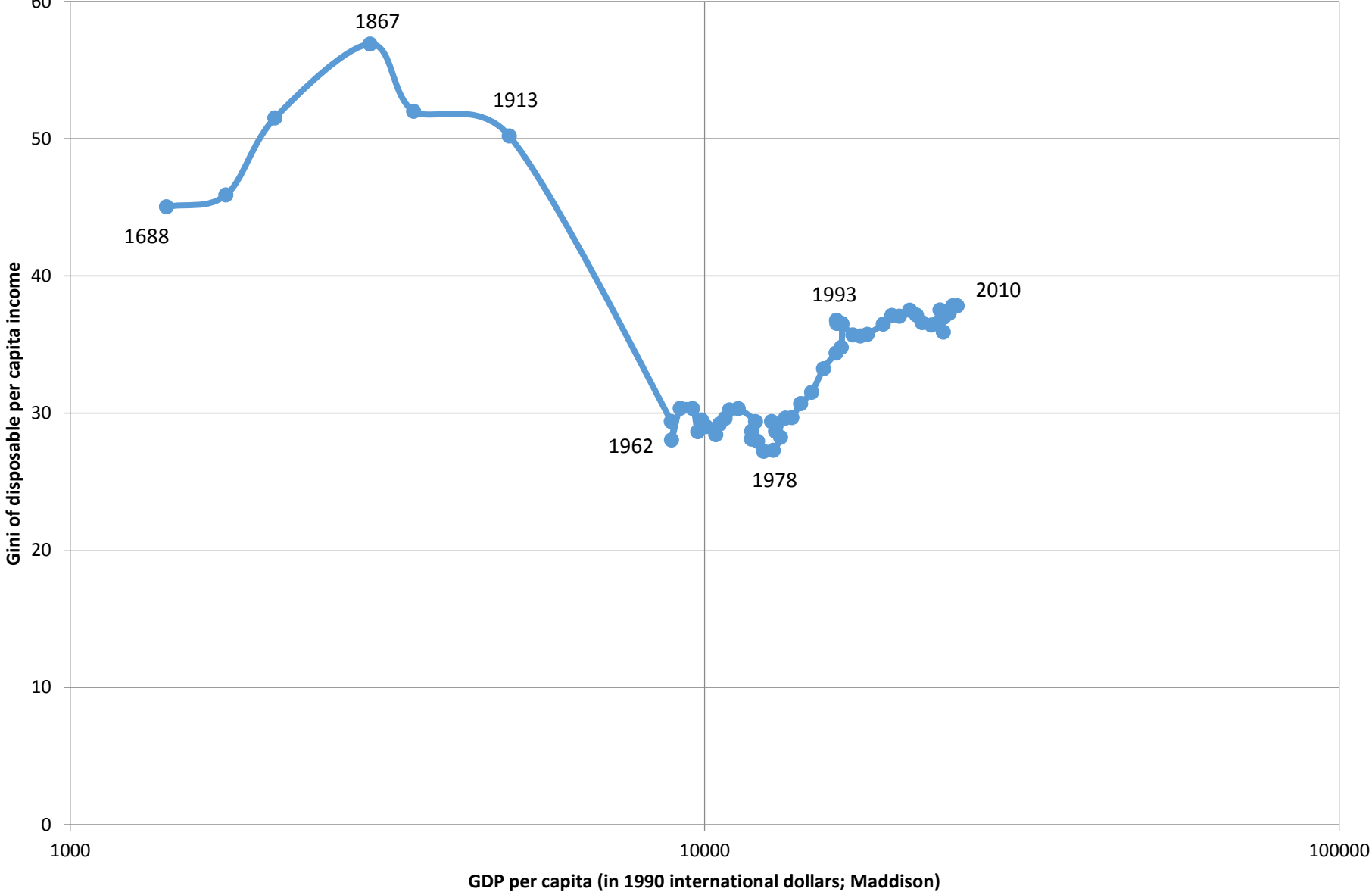
Kuznets waves defined

- Kuznets waves in modern societies are visible when plotted against income per capita. Inequality driven by technological innovation and structural transformation (two technological revolutions), globalization and politics and policies. But also wars.
- Cyclical movement of inequality: long Kuznets waves, often over fifty years
- Kuznets saw just one curve. We now know there may be many more.

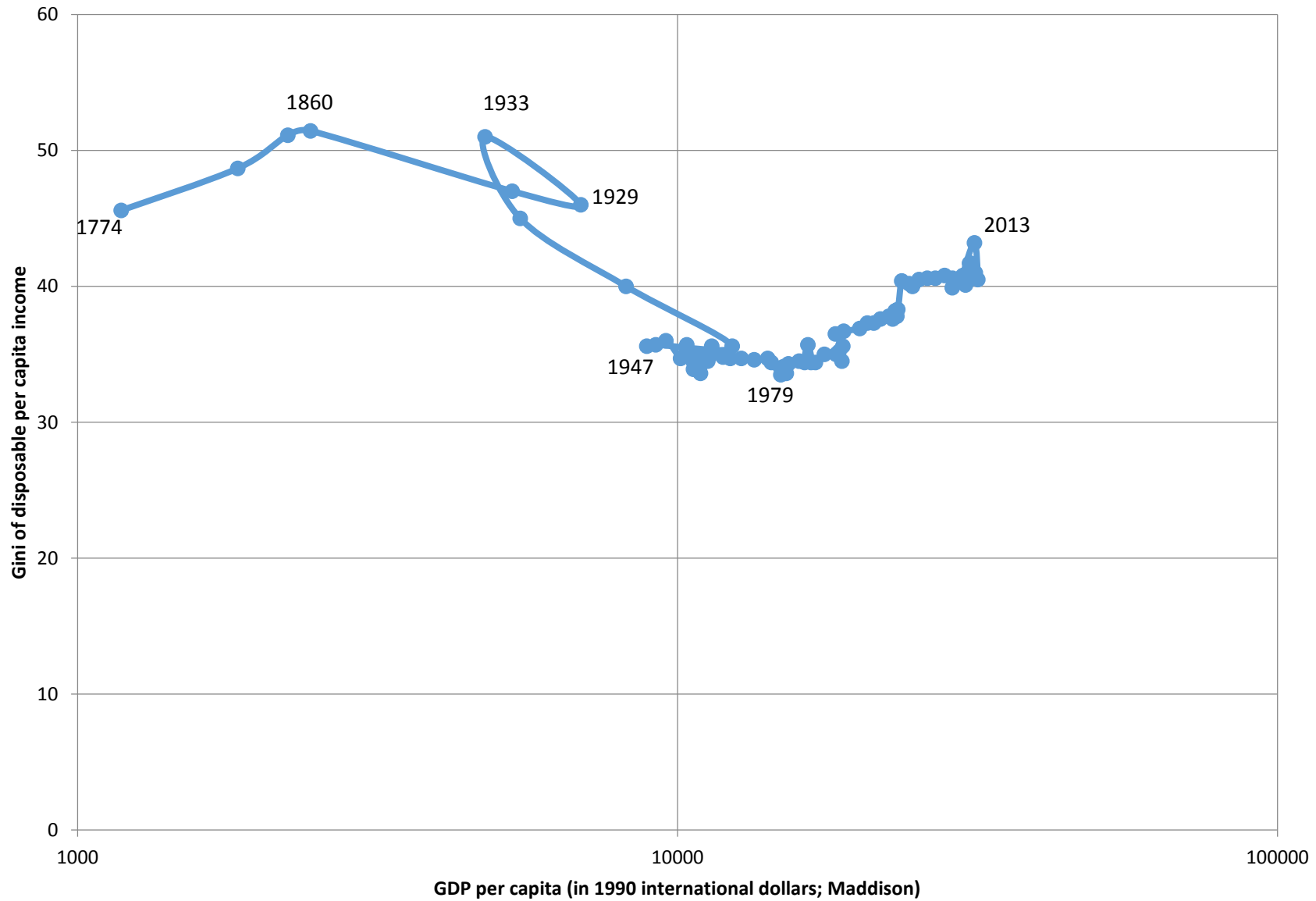
Malign and benign forces reducing inequality (downward portion of the Kuznets wave)

	Malign	Benign
Societies with stagnant mean income	Idiosyncratic events: wars (though destruction), epidemics, civil conflict	Cultural and ideological (e.g. Christianity?)
Societies with a rising mean income	Wars (through destruction and higher taxation: <i>War and Welfare</i>), civil conflict	<ul style="list-style-type: none"> •Widespread education (reflecting changing returns) •Social pressure through politics (socialism, trade unions) •Aging (demand for social protection) •Low-skill biased TC •Cultural and ideological (pay norms?)

Kuznets relationship for the UK, 1688-2010



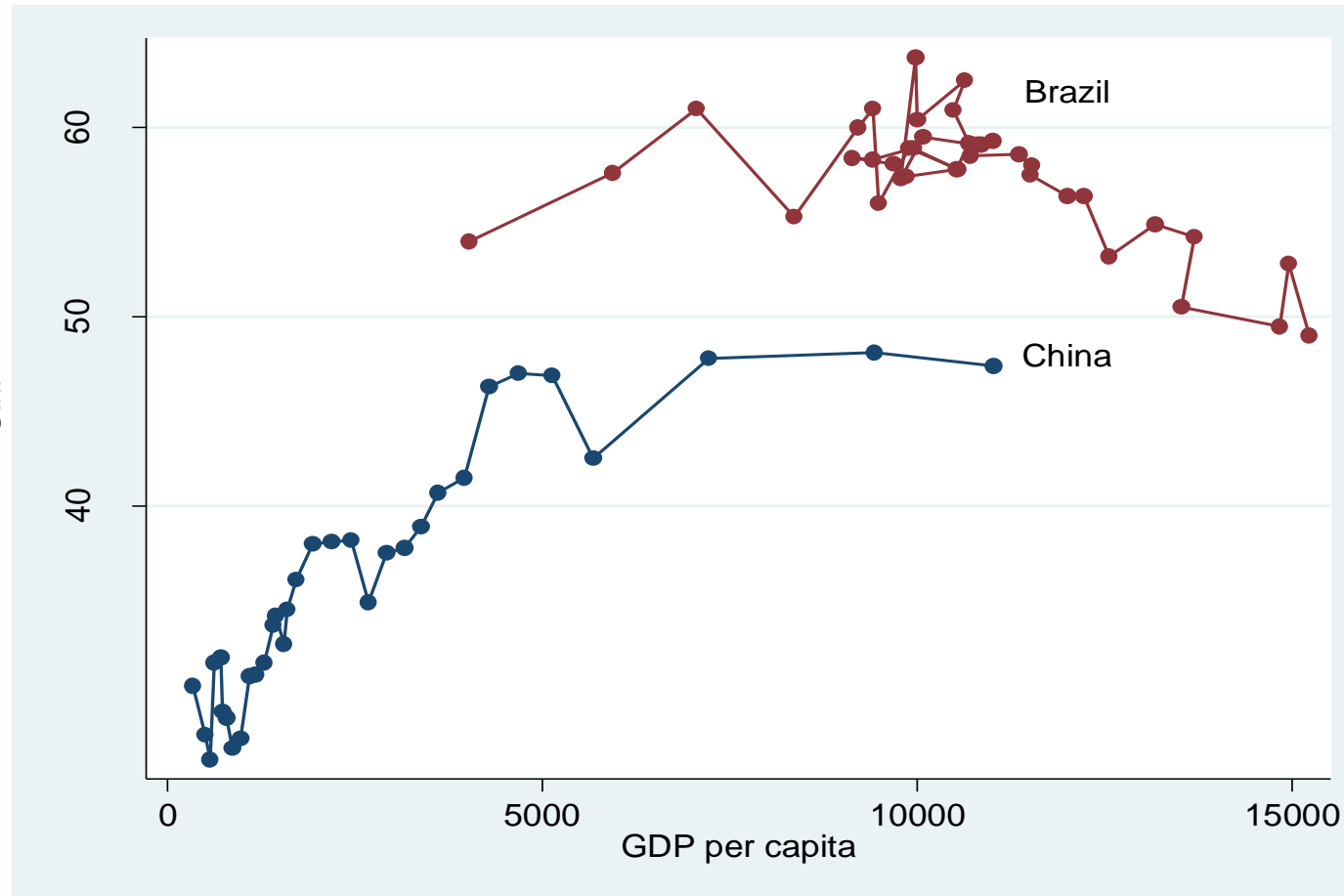
Kuznets relationship for the United States, 1774-2013



Downswing of Kuznets first cycle and upswing of the second Kuznets cycle in advanced economies

	Level of maximum inequality (peak of Wave 1) Gini points (year)	Level of minimum inequality (trough of Wave 1) (year)	Approximate number of years of downswing of the Kuznets wave	Reduction in inequality (Gini points)	GDP increased (how many times) during the downswing	The second Kuznets wave (increase in Gini points)
United States	51 (1933)	35 (1979)	50	16	4	Strong (+8)
UK	57 (1867)	27 (1978)	110	30	>4	Strong (+11)
Spain	53 (1918)	31 (1985)	70	22	<5	Modest (+3)
Italy	51 (1851)	30 (1983)	120	21	<9	Strong (+5)
Japan	55 (1937)	31 (1981)	45	24	6	Modest (+1)
Netherlands	61 (1732)	21 (1982)	250	35	7	Modest(+2)

Brazil, China's inequality in the Kuznets framework



twoway (scatter Giniall gdp PPP if contcod=="CHN" & year>1960, connect(l) ylabel(40(10)60) xtitle(2000 6000 12000) ytitle(Gini) xtitle(year)) (scatter Giniall gdp PPP if contcod=="BRA", connect(l) text(62 12000 "Brazil") text(48 12000 "China")) legend(off)
Using gdp PPP reg5.dta

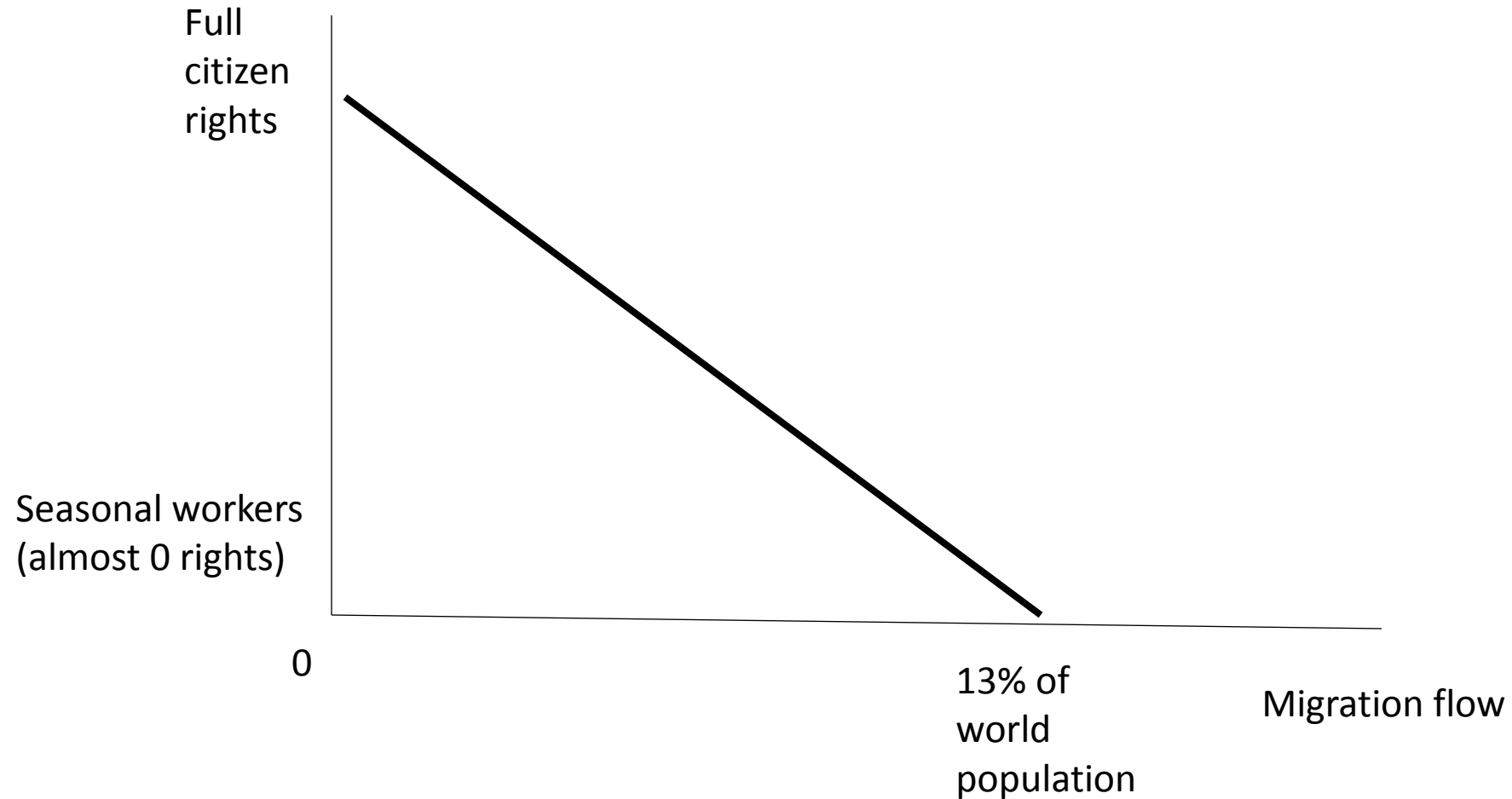
Is citizenship a rent?

- If most of our income is determined by citizenship, then there is little equality of opportunity *globally* and citizenship is a rent (unrelated to individual desert, effort)
- ***Key issue:*** *Is global equality of opportunity something that we ought to be concerned or not?*
- Does national self-determination dispenses with the need to worry about GEO?

Growing inter-country income differences and migration: Key seven borders today

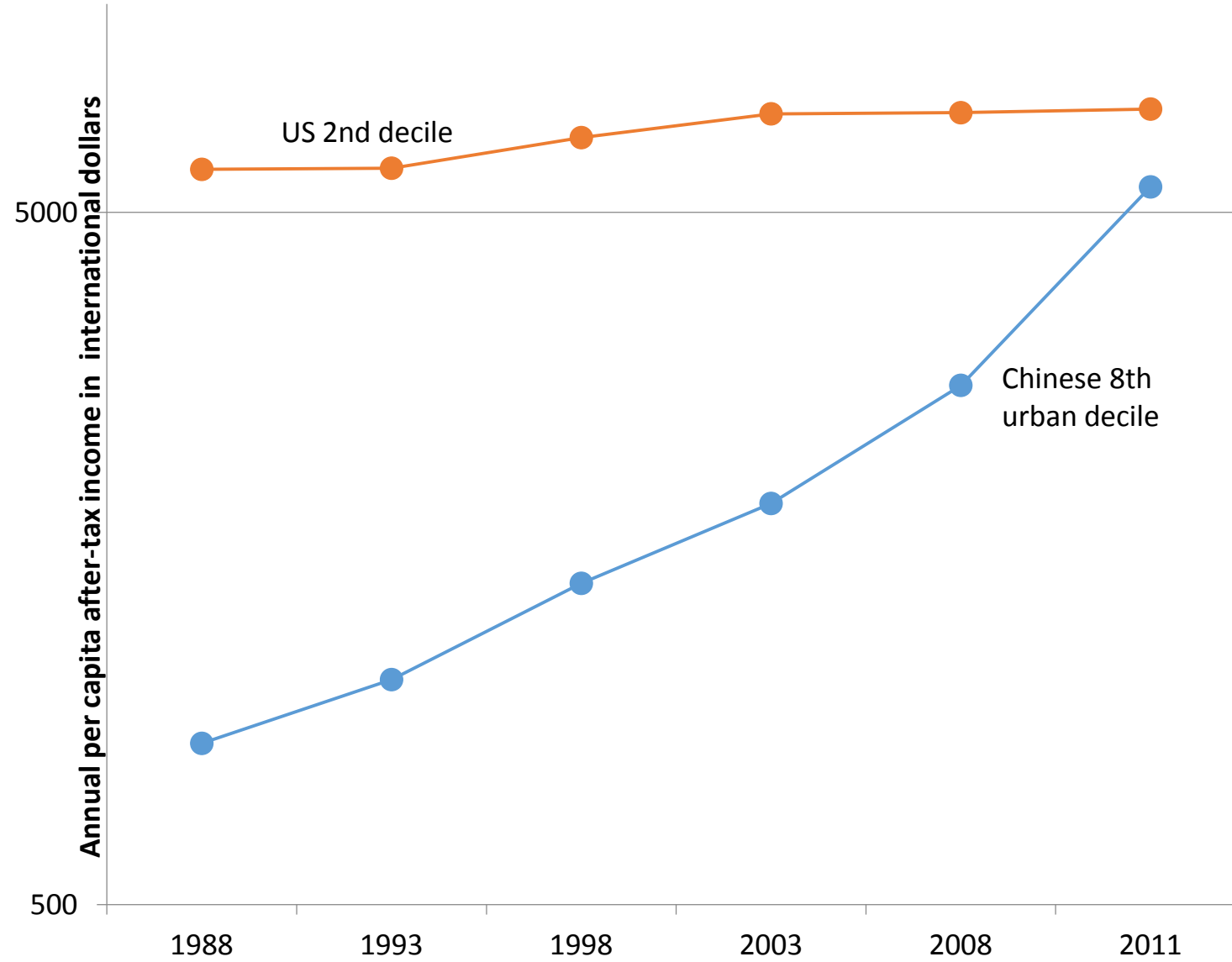


Trade-off between citizenship rights and extent of migration

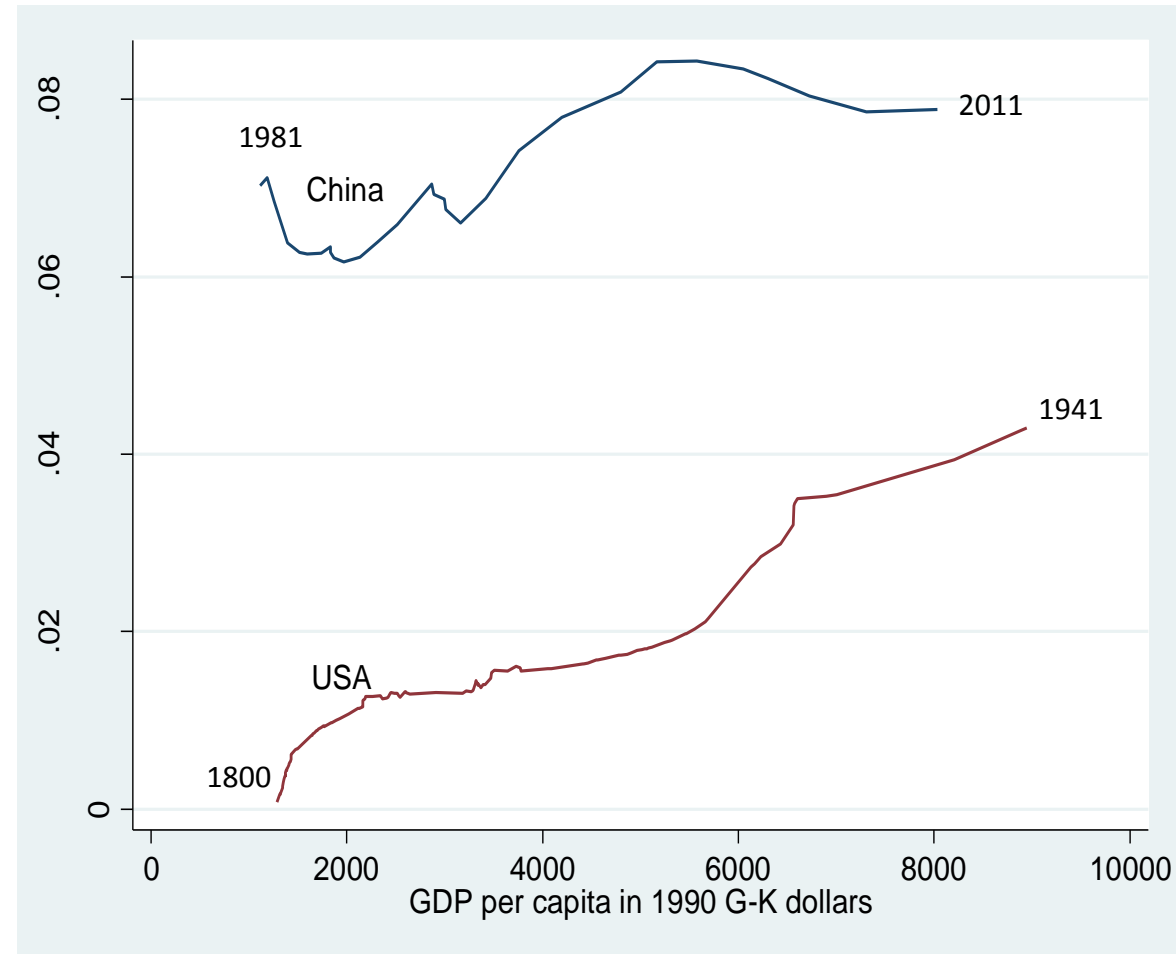


Interaction of mean income convergence and Kuznets waves

1. Will convergence economics spread to Africa?
2. Evolution of income inequality in the US and China
3. Hollowing out of the Western middle classes: populism vs. plutocracy
4. Global reminder: capitalism the only existing social system

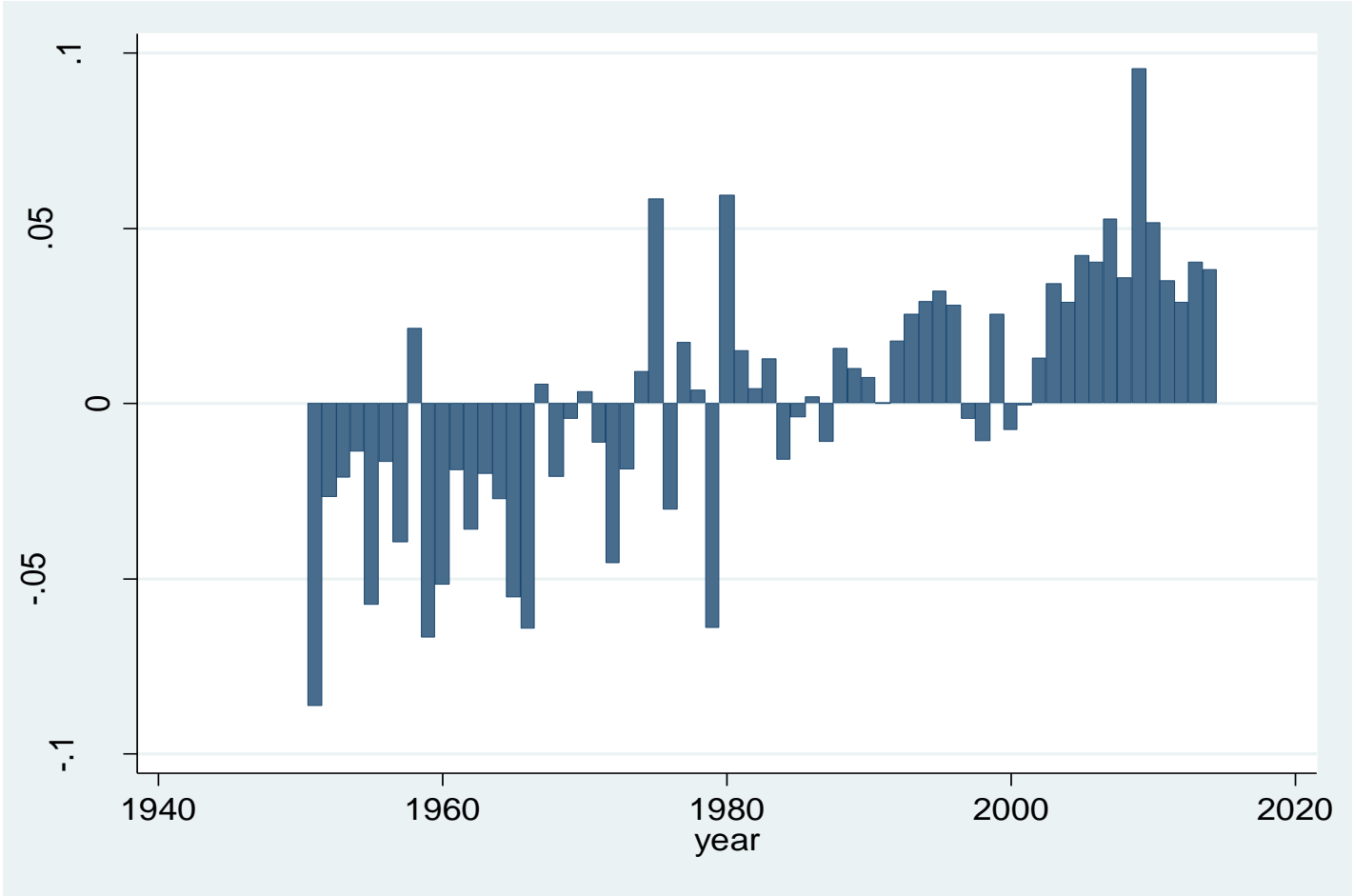


US and China's growth at the same income level (GDPpc in Maddison's 1990 \$PPP)



twoway (lowess growth gdp PPP if contcod=="CHN" & year>1980) (lowess growth gdp PPP if contcod=="USA" & gdp PPP<9000, text(0.07 1980 "China"))
text(0.015 1950 "USA") legend(off) xtitle(GDP per capita in 1990 G-K dollars) ytitle(growth rate)
Using Polity_Maddison_2013.dta

Difference in the combined (population-weighted) growth rates of the large emerging economies (excluding China) and rich countries, 1951-2014:
Since the mid 1980s rich economies have never grown faster than large emerging economies, even excluding China

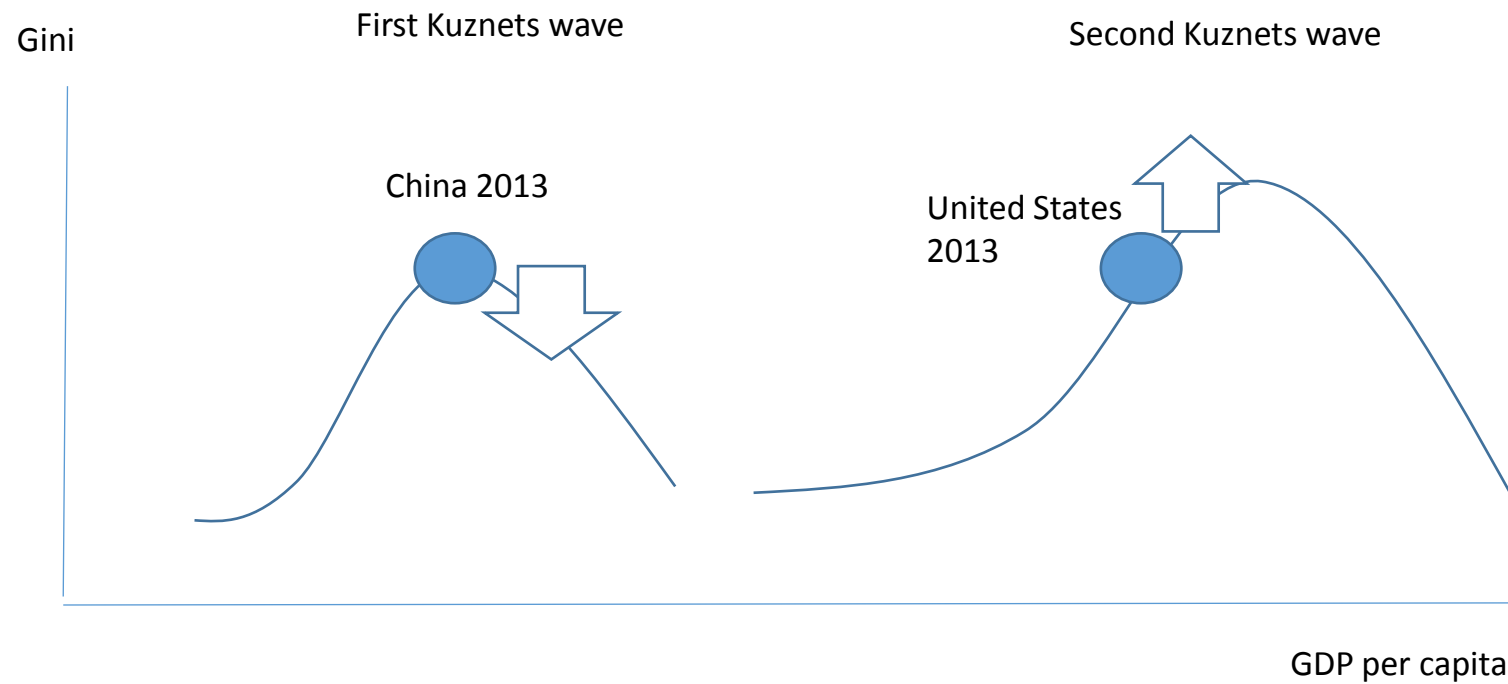


Large emerging economies are India, South Africa, Brazil, Indonesia and Vietnam.

The US “perfect storm”

- Rising share of capital income in total net income
- Unchanged or increased concentration of capital ownership (Gini is in excess of 85; [Ed Wolff](#))
- Increased association between high capital and labor incomes ([see the next slide](#); Atkinson and Lakner)
- Continued or increased homogamy (assortative mating): the process which goes on for some 30 years (Greenwood et al.)
- Continued or increasing ability of the rich to “buy” policies ([Bartels, Page](#))

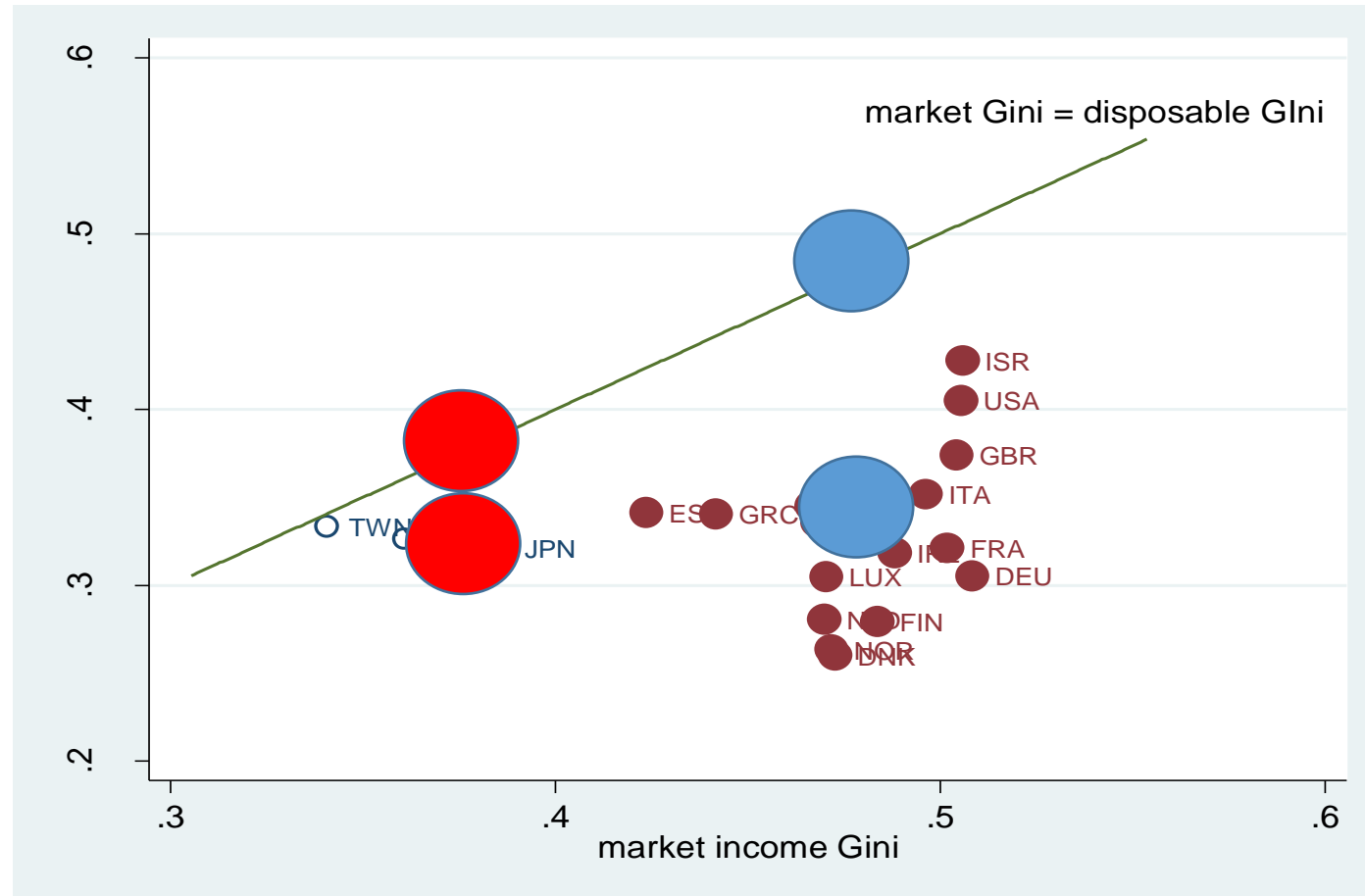
Where are now China and the US?



What might drive the 2nd Kuznets cycle down?

- Progressive political change (endogenous: political demand)
- Skills catching up with skill-biased technological change and reducing the skill premium (Tinbergen's race)
- Dissipation of innovation rents
- Global income convergence: Chinese wages catch up with American wages: the hollowing-out process stops
- Low-skilled biased technological progress (endogenous; should work together with the Tinbergen race)
- Note that the top 4, and possibly the last, are all endogenous

The 21st century reduction of inequality should rely less on redistribution of current income and more on equalization of labor and capital endowments



Policies

- Focus on deconcentration of asset ownership (ESOPs, special tax benefits for small investors) and equalization of returns to education (public education)
- Thus, focus on pre-distribution and taxation of inheritance rather than increased redistribution of current income (i.e., working on equalization of stocks rather than on flows)
- European welfare state's ability to combat increased inequality by "traditional tools" of taxes and transfers is limited by (i) increased ethnic heterogeneity and (ii) mobility of capital and high income earners
- Reform of political funding
- More diverse forms of citizenship (to allow for greater migration)
- Multilateral migration quotas
- Movement away from single-minded pursuit of horizontal equality