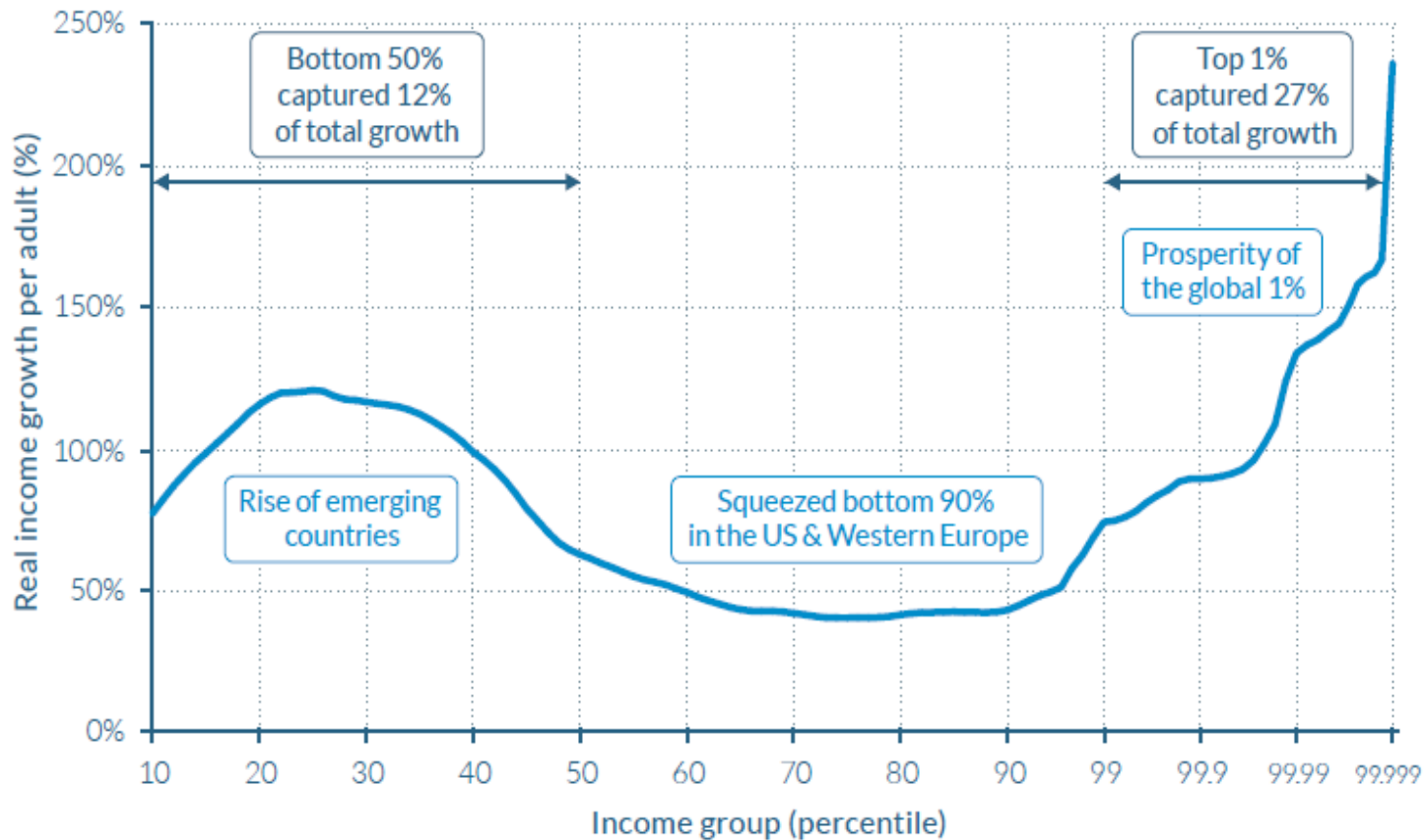# Course 11:
The contradictions of contemporary capitalism in terms of poverty and inequality

Branko Milanovic's Elephant (from WID)

Figure E4

The elephant curve of global inequality and growth, 1980–2016

Bottom 50% captured 12% of total growth

Top 1% captured 27% of total growth

Prosperity of the global 1%

Rise of emerging countries

Squeezed bottom 90% in the US & Western Europe

Source: WID.world (2017). See wir2018.wid.world.

Poverty and Inequality

- Poverty (disposable income: + transfers – taxes)
  - Global absolute measure : World Bank (2011): $1.90 a day at PPP
    - In 2015 (latest figures) 10% of world population 736 million people
    - In 25 years from 1990 to 2015, extreme poverty fell from nearly 36% to 10%
    - But the world as a whole is **not** on track to target of less than 3% by 2030.
- **BEFORE COVID-19** (but after GFC!)

Source : www.worldbank.org retrieved 15 April 2020

Poverty reduction – Millennium Development Goals (MDGs)

- MDGs (2000):"By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day."

- Nearly 1.1 billion fewer people are living in extreme poverty than in 1990. In 2015, 736 million people lived on less than $1.90 a day, down from 1.85 billion in 1990. (World Bank: https://www.worldbank.org/en/topic/poverty/overview).

First World Problems?

– US absolute: value of a basket of goods:
  - "dollar amount for the sum of three broad categories of basic goods and services — food, clothing, and shelter (including utilities)

– 1 person (under 65) $13,300 (2017): 4-person household (2 adults-2 children) $25,926.

– EU relative poverty: >60% of median equivalised disposable household income
  - Social exclusion – not being able to participate in society

Inequality

- Various measures: Gini coefficient (0 or 0% total equality: 1 or 100% total inequality

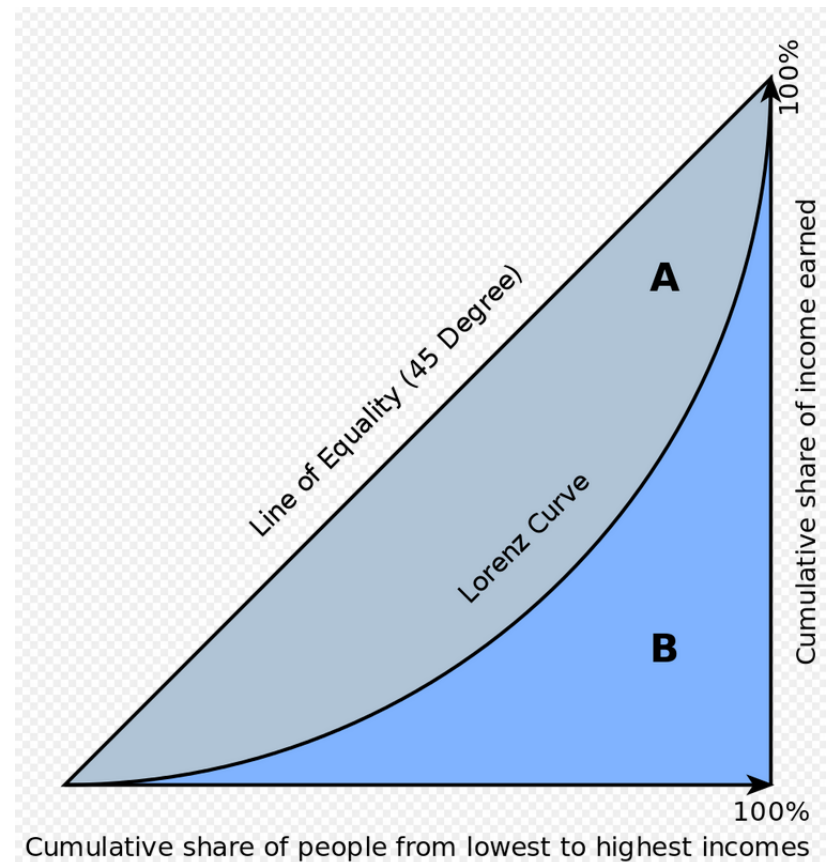In practice, max Gini is 0.7 or 70% for a population to survive. Everyone needs something!

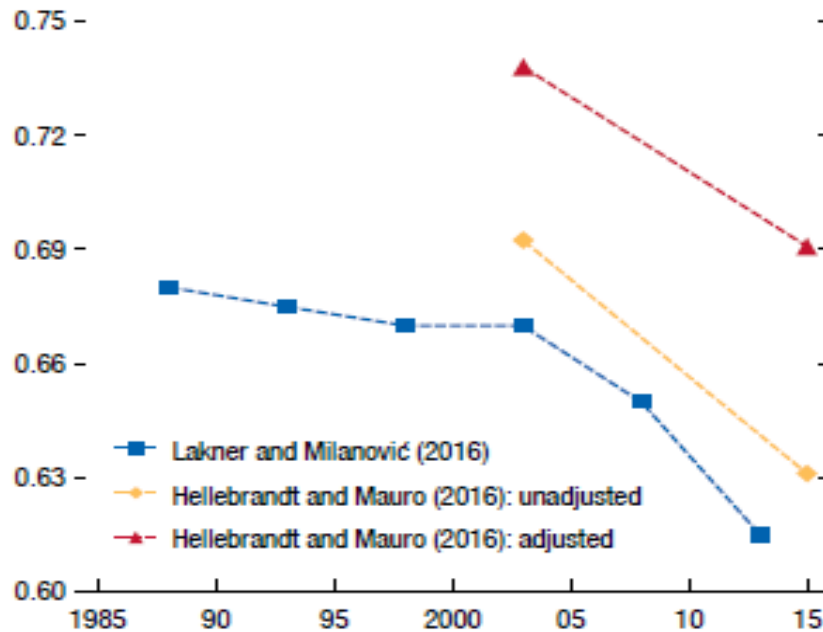Equal developed societies:
Iceland: 0.246 (2015)
US: 0.390
Source: OECD

Other measures: ratio of top 10%/20% to bottom 10%/20%.

Line of Equality (45 Degree)

Lorenz Curve

A

B

100%

Cumulative share of income earned

100%

Cumulative share of people from lowest to highest incomes

Global Inequality

Figure 1.1. Global Income Inequality: Gini Coefficient, 1988–2015

Legend:
- Lakner and Milanović (2016)
- Hellebrandt and Mauro (2016): unadjusted
- Hellebrandt and Mauro (2016): adjusted

Sources: Hellebrandt and Mauro 2016; Lakner and Milanović 2016; and World Bank 2016.
Note: "Adjusted" refers to adjustment carried out by Hellebrandt and Mauro (2016), which increases self-employment income and income from top earners to reconcile differences between income and consumption data from household surveys and mean values from national accounts.

Source: IMF Fiscal Monitor: *Tackling Inequality,* October 2017.

The concentration of income (WID)

Figure E1

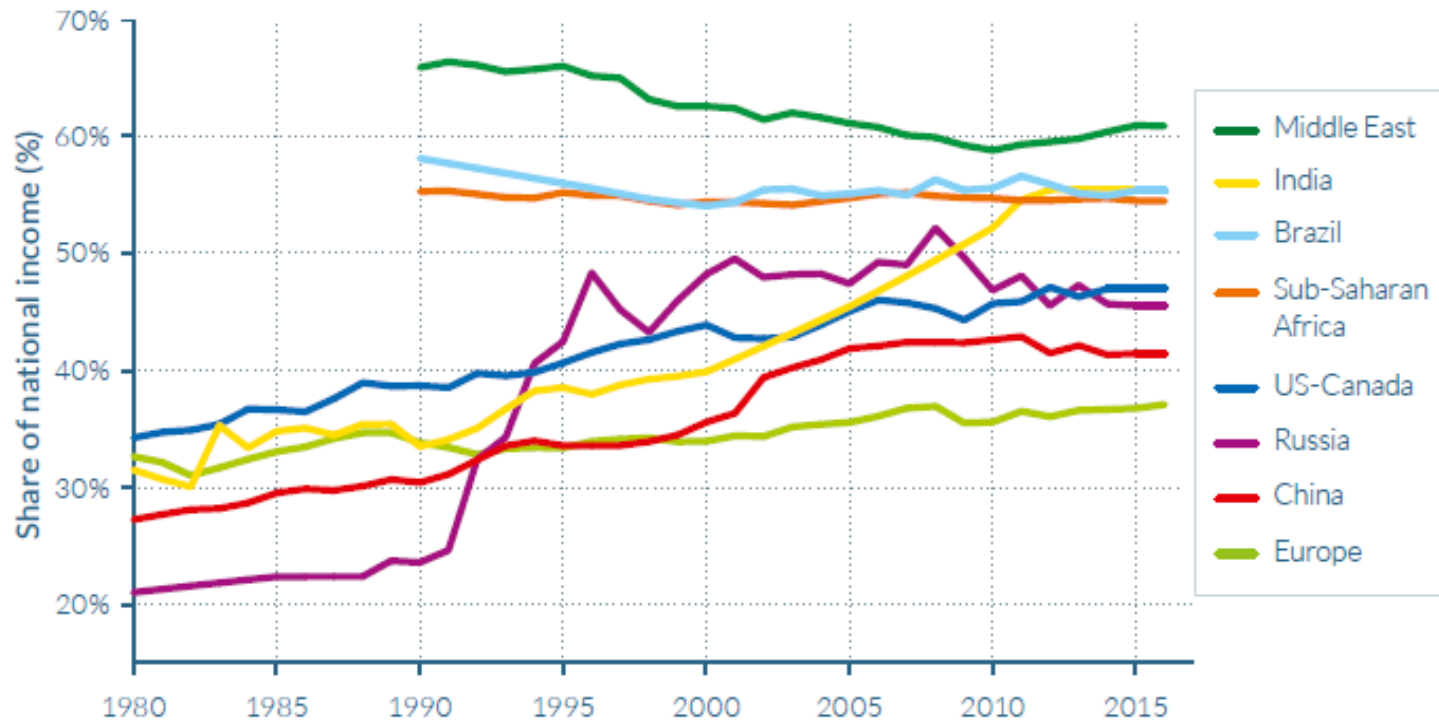Top 10% national income share across the world, 2016
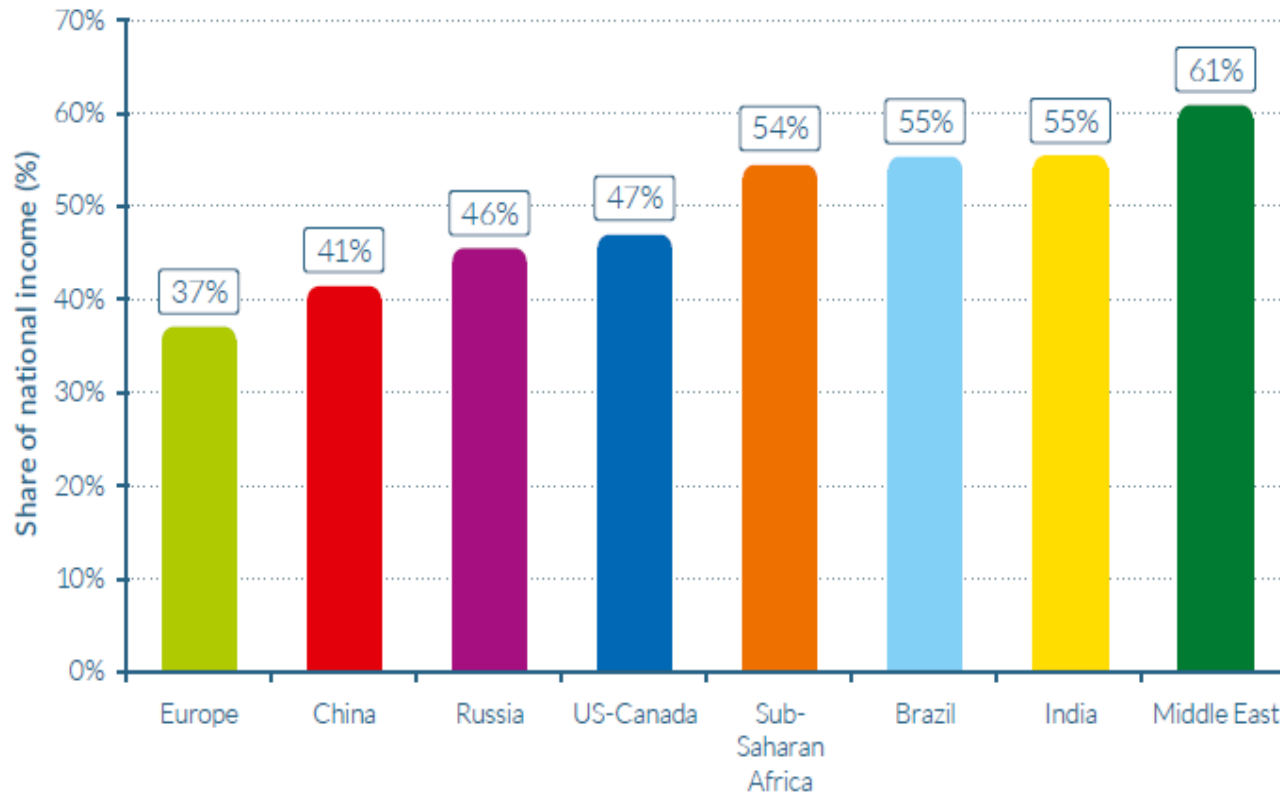
Source: WID.world (2017). See wir2018.wid.world for data series and notes.

In 2016, 37% of national income was received by the Top 10% in Europe against 61% in the Middle-East.

Trends in the top 10% income share

Figure E2b

Top 10% income shares across the world, 1980–2016: Is world inequality moving towards the high-inequality frontier?

Legend:
- Middle East
- India
- Brazil
- Sub-Saharan Africa
- US-Canada
- Russia
- China
- Europe

Y-axis: Share of national income (%)

Source: WID.world (2017). See wir2018.wid.world for data series and notes.

In 2016, 55% of national income was received by the Top 10% earners in India, against 31% in 1980.

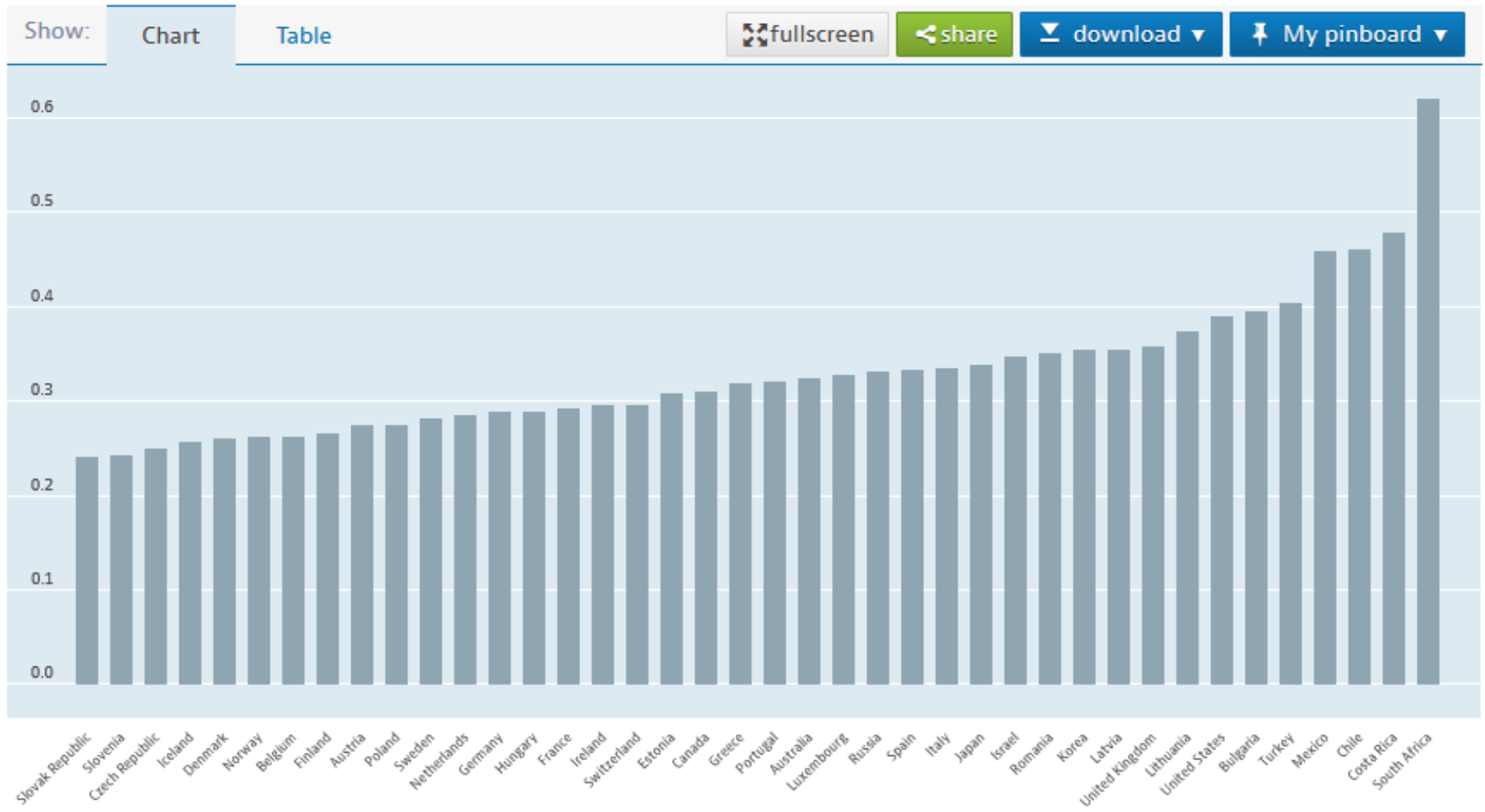# Share of top 1% (incl. South Africa)

Evolution of South African top 1% wealth distribution, 1993-2018
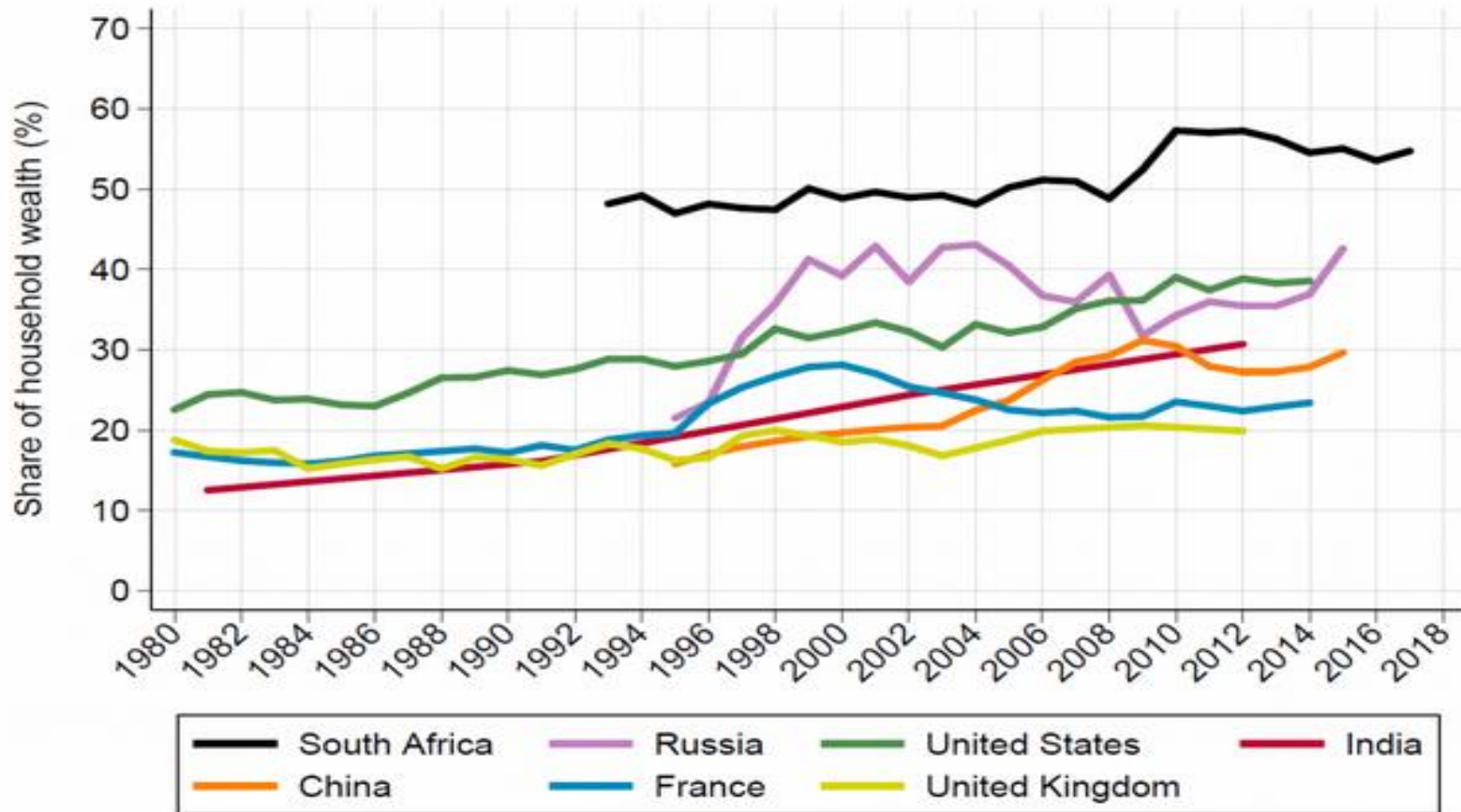
OECD Income inequality, Gini coefficient (2019 or latest)

Income inequality   Gini coefficient, 0 = complete equality; 1 = complete inequality, 2019 or latest available

Source: OECD Social and Welfare Statistics: Income distribution

Source: OECD Data, Income inequality, retrieved 16 April 2020.

Thomas Piketty's Critique of Inequality Data
## *Le Capital au XXIe siècle*, Seuil, 2013.

- 1/ The usual indicators of inequality (Gini coefficient: ratio of Top Decile/Bottom Decile are too broad).

  What is happening in Top 10%?

  What about the 1%?

- 2/ Indicators of inequality are usually about income not wealth: much more concentrated.

- 3/ under normal circumstances r > g, so wealth will concentrate

- 4/ Kuznets curve was fortuitous

Piketty's key idea *r > g*, no Kuznets curve
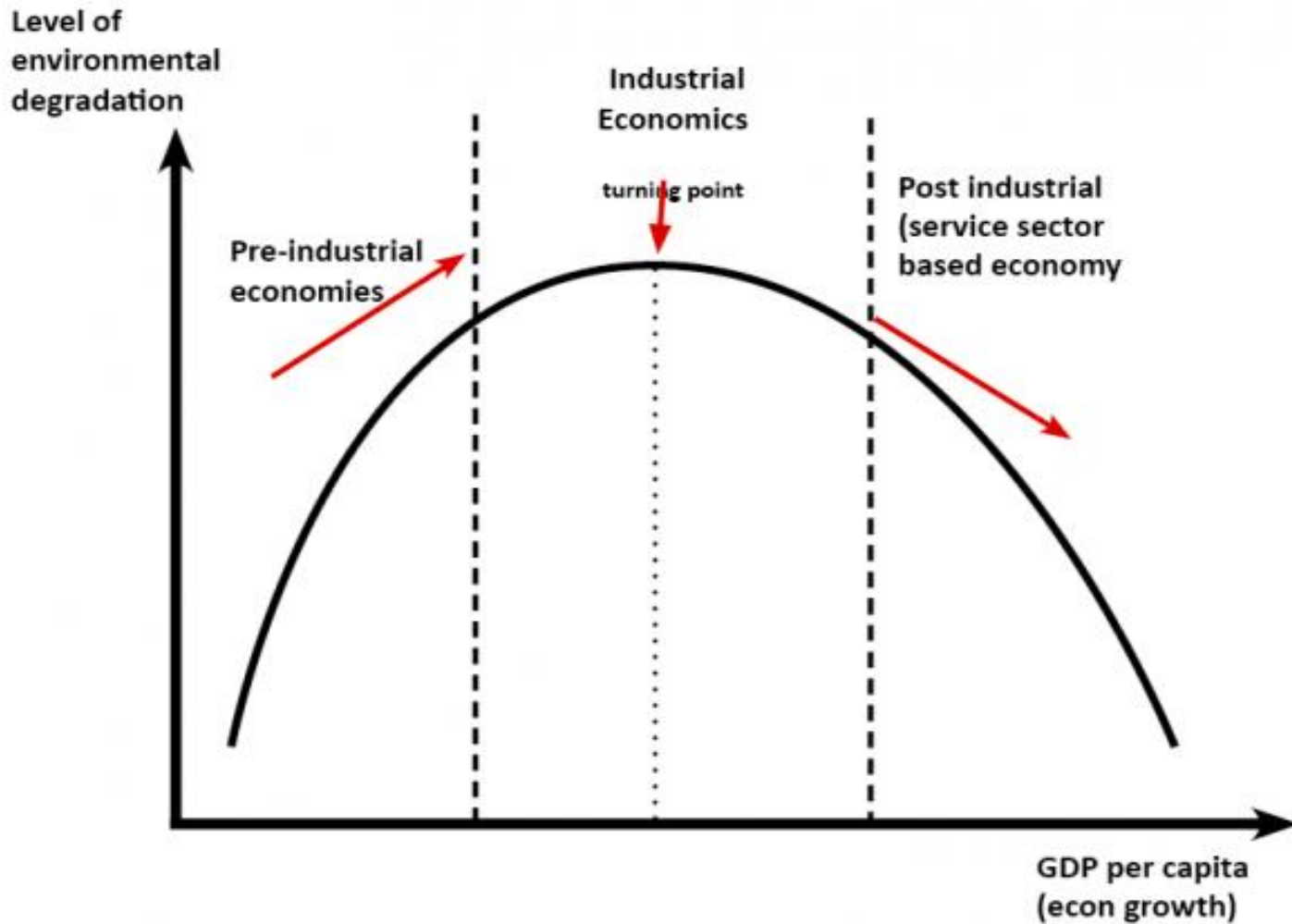
The Four Horsemen of the Apocalyse

Albrecht Dürer, *The Four Horsemen of the Apocalypse*, from *The Apocalypse*, 1497–1498. Woodcut, 15¼ × 11 in. (38.7 × 27.9 cm).

- Walter Scheidel, *The Great Leveler: Violence and the history of inequality from the stone age to the twenty-first century*, Princeton University Press, 2017
- The four horsemen:
  - Sword, famine, wild beasts and plague

Table 7.1. Inequality of labor income across time and space

Share of different groups in total labor income	Low inequality (≈ Scandinavia, 1970s-80s)	Medium inequality (≈ Europe 2010)	High inequality (≈ U.S. 2010)	Very high inequality (≈ U.S. 2030 ?)
The top 10% "Upper class"	20%	25%	35%	45%
including: the top 1% ("dominant class")	5%	7%	12%	17%
including: the next 9% ("well-to-do class")	15%	18%	23%	28%
The middle 40% "Middle class"	45%	45%	40%	35%
The bottom 50% "Lower class"	35%	30%	25%	20%
Corresponding Gini coefficient (synthetic inequality index)	0,19	0,26	0,36	0,46

In societies where labor income inequality is relatively low (such as in Scandinavian countries in the 1970s-1980s), the top 10% most well paid receive about 20% of total labor income, the bottom 50% least well paid about 35%, the middle 40% about 45%. The corresponding Gini index (a synthetic inequality index going from 0 to 1) is equal to 0.19. See technical appendix.
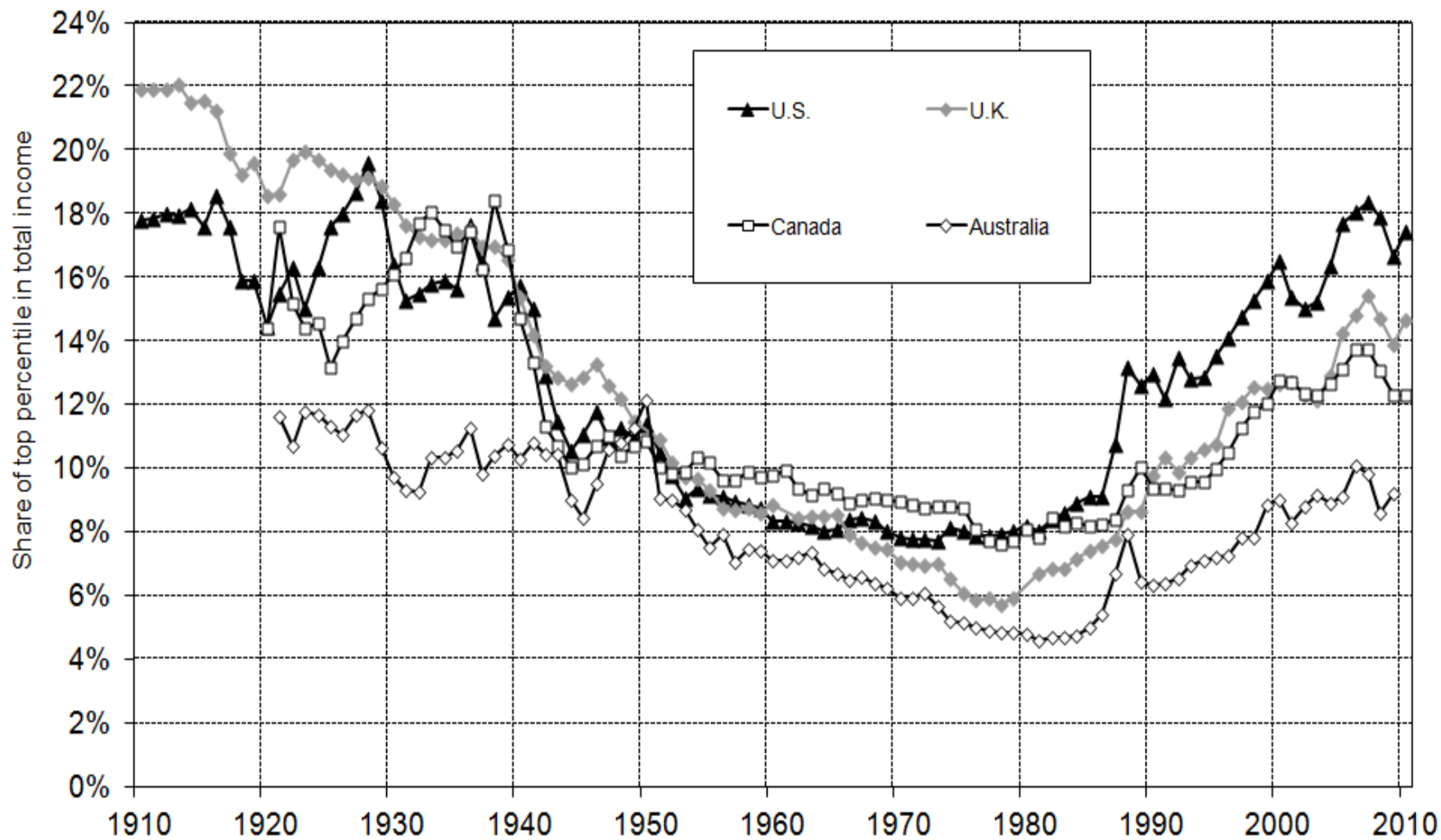
Figure 9.7. The top decile income share: Europe and the U.S., 1900-2010
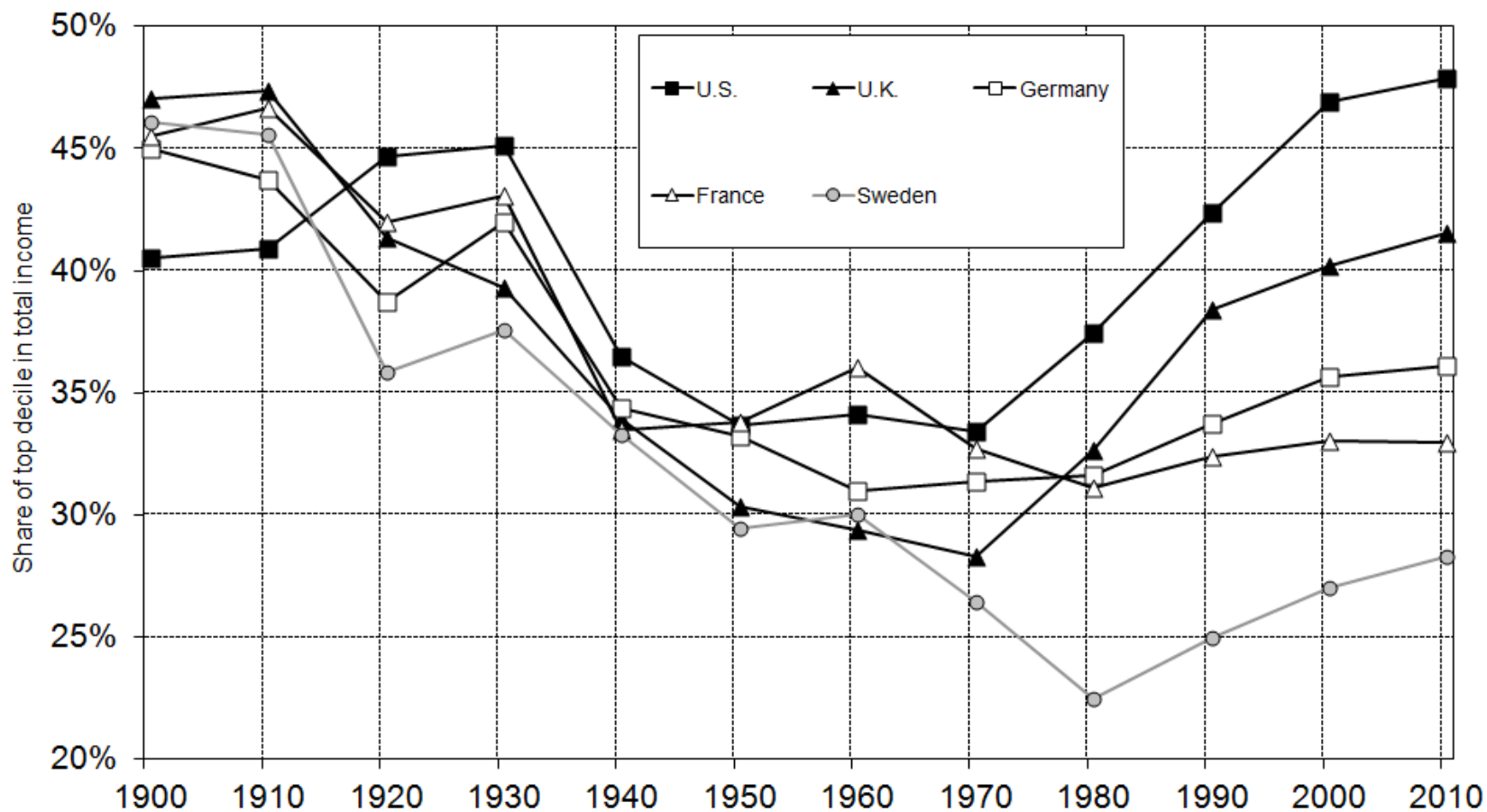
In the 1950s-1970s, the top decile income share was about 30-35% of total income in Europe as in the U.S.
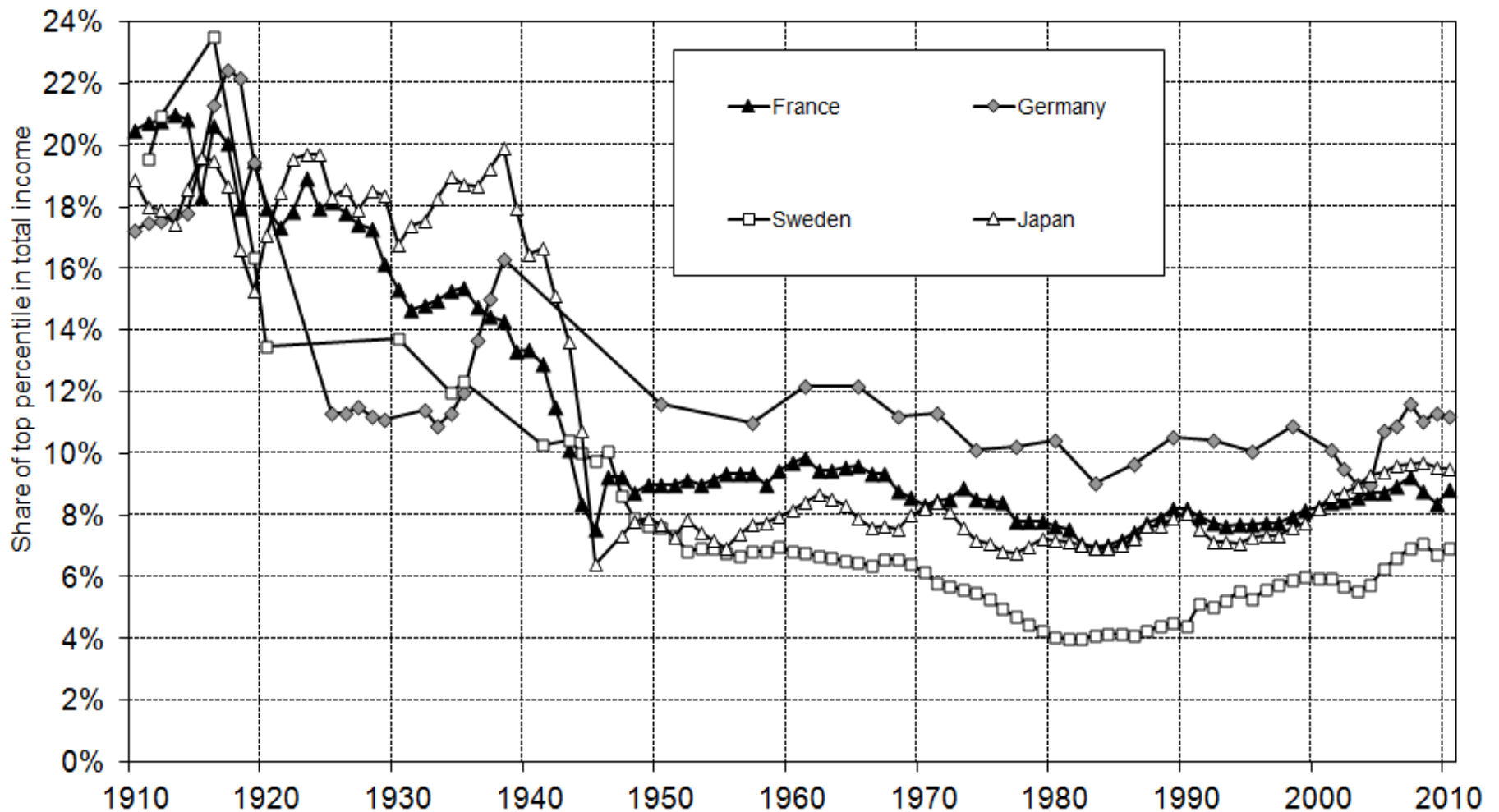Sources and series: see piketty.pse.ens.fr/capital21c.

# Figure 9.2. Income inequality in Anglo-saxon countries, 1910-2010

The share of top percentile in total income rose since the 1970s in all Anglo-saxon countries, but with different magnitudes. Sources and series: see piketty.pse.ens.fr/capital21c.

Figure 9.3. Income inequality: Continental Europe and Japan, 1910-2010

As compared to Anglo-saxon countries, the share of top percentile barely increased since the 1970s in Continental Europe and Japan. Sources and series: see piketty.pse.ens.fr/capital21c.
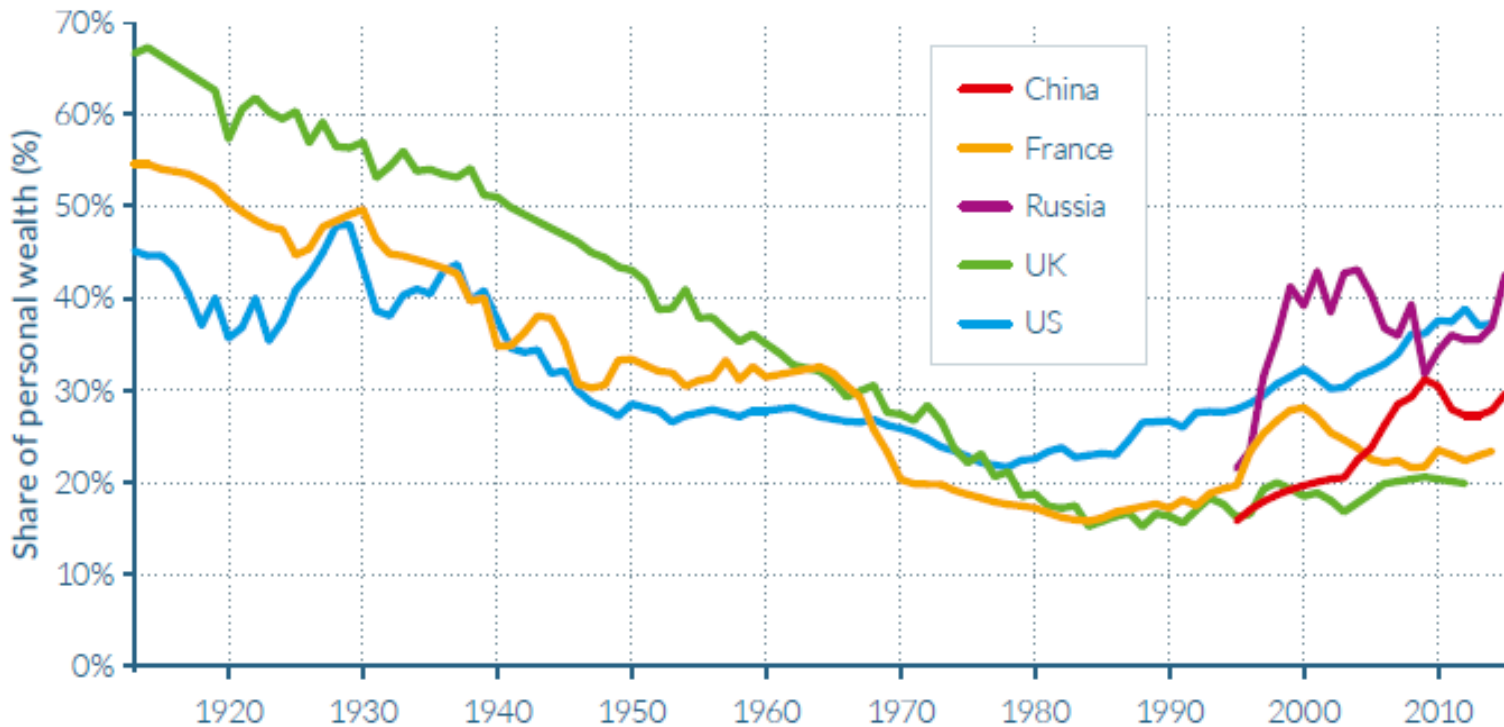
Top decile's share in the United States national income
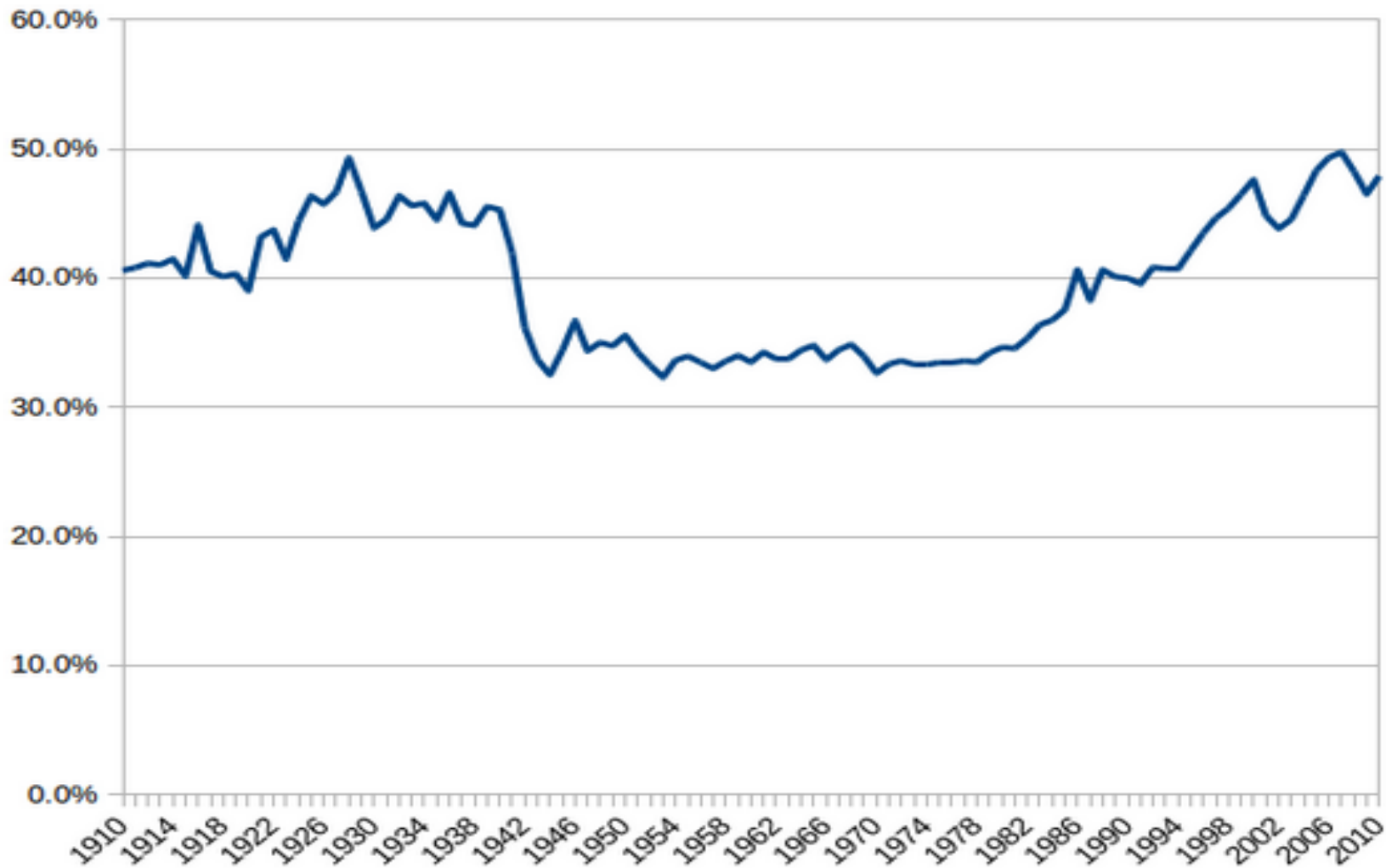
Inequality: significantly most figures concern income and not wealth, for which inequality is far greater.
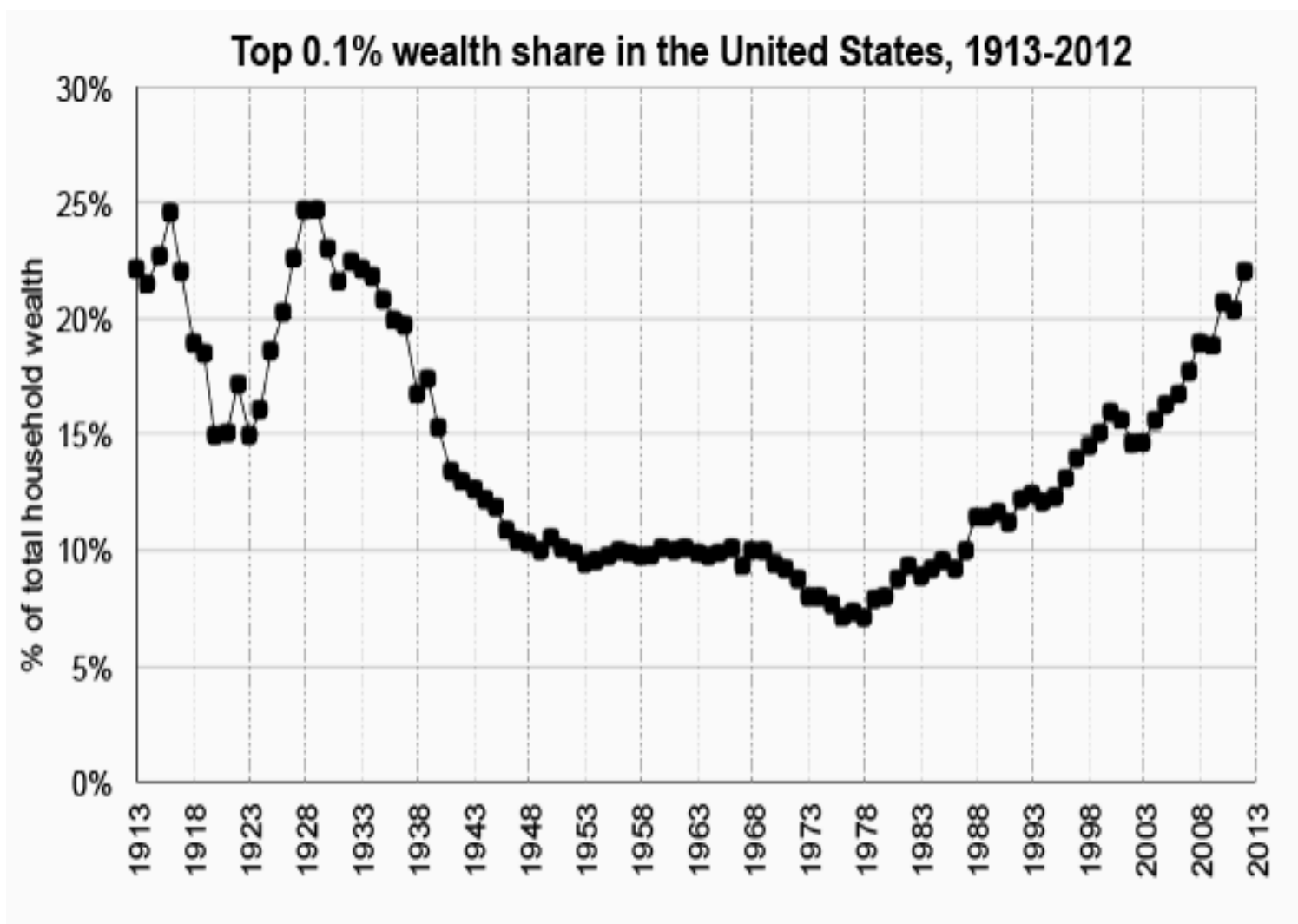

Figure E8

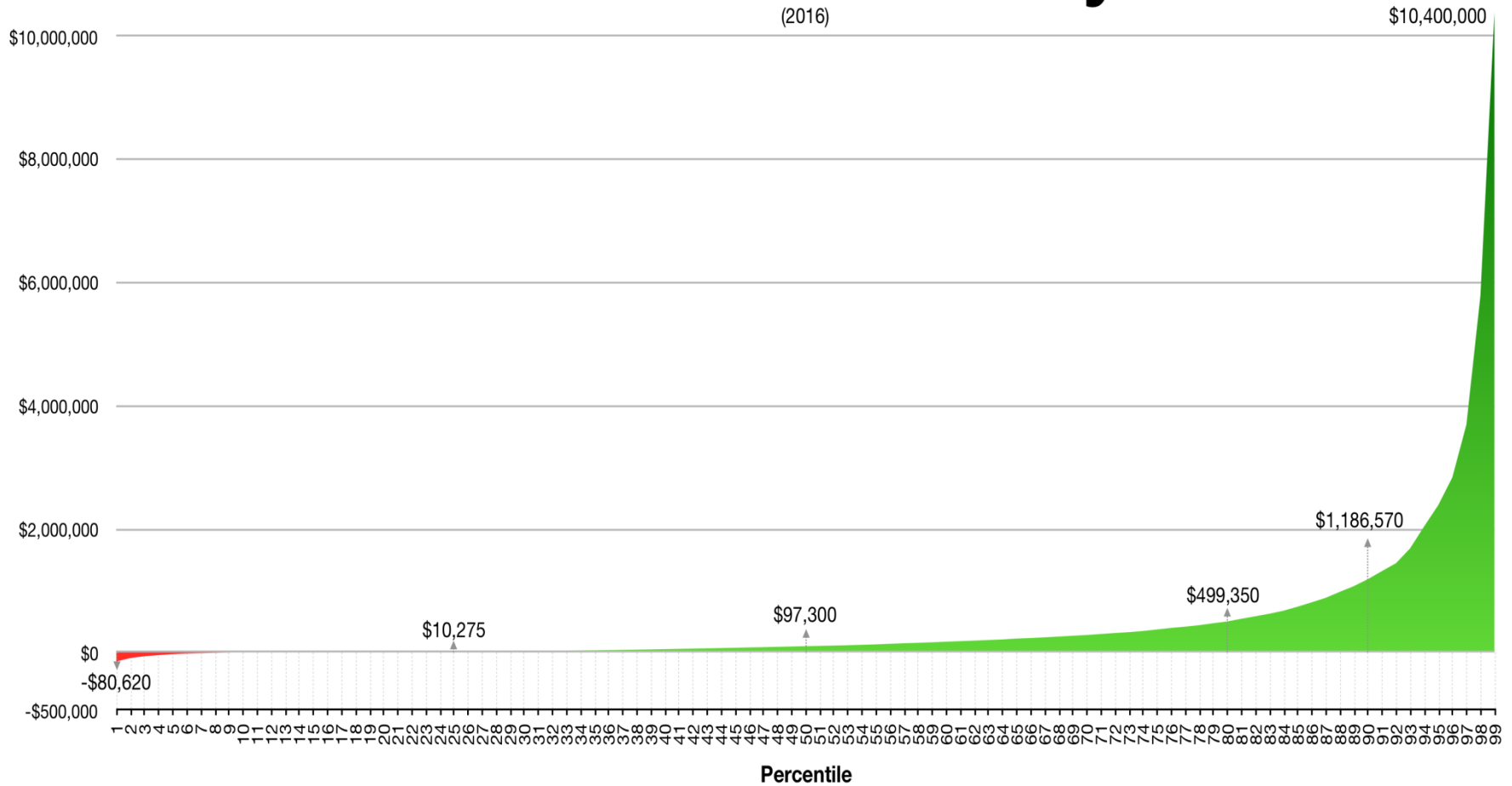Top 1% wealth shares across the world, 1913–2015: the fall and rise of personal wealth inequality

Source: WID.world (2017). See wir2018.wid.world for data series and notes.

In 2015, the Top 1% wealth share was 43% in Russia against 22% in 1995.

Top 0.1% wealth share in the United States, 1913-2012

Source: Emmanuel Saez, Gabriel Zucman, "Exploding wealth inequality in the United States", VOX CEPR's Policy Portal, 28 October 2014

Distribution of Family Wealth

(2016)

Source: Wikipedia from By Wikideas1 - Own work https://apps.urban.org/features/wealth-inequality-charts/ , CC0, https://commons.wikimedia.org/w/index.php?curid=70500652

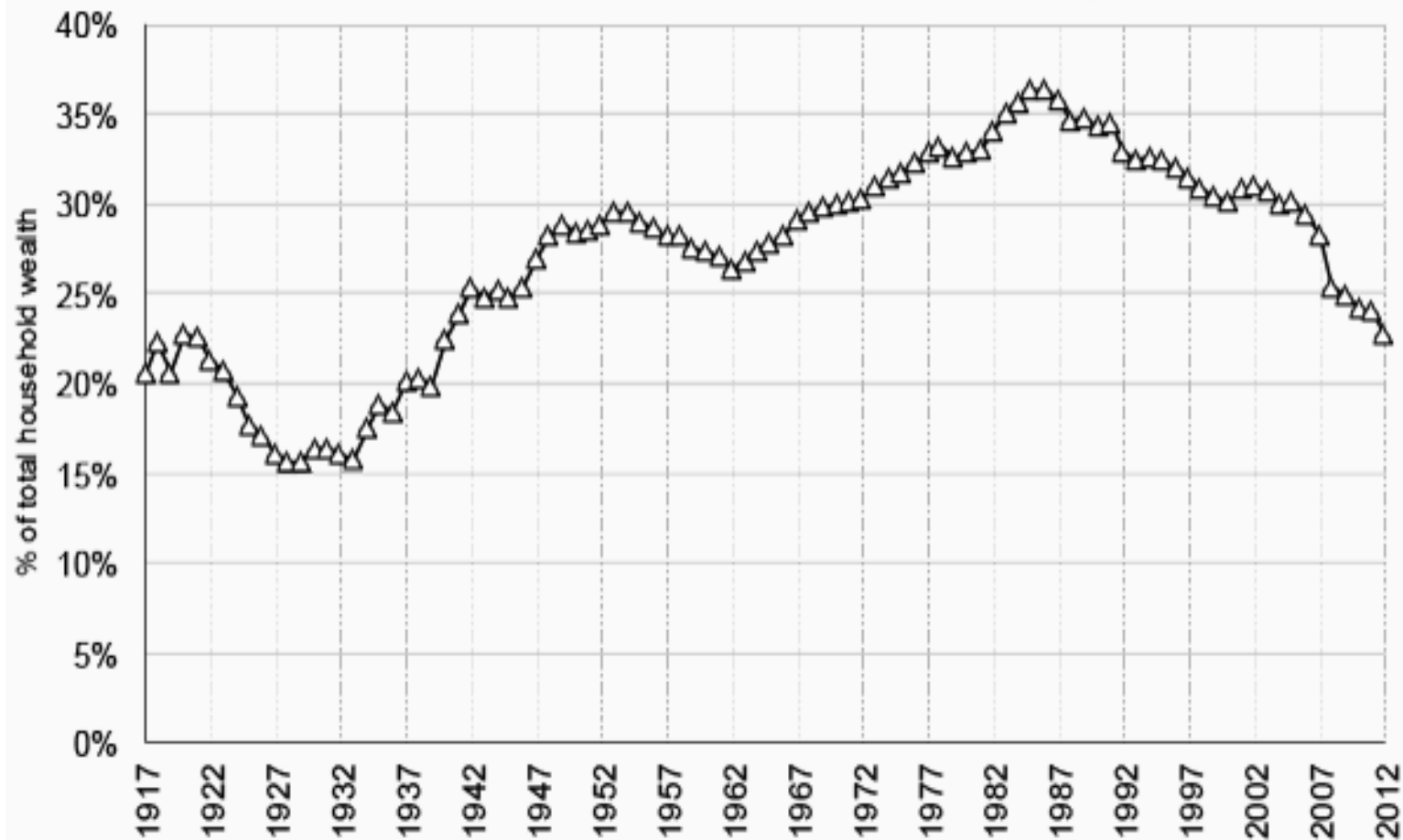Bottom 90% wealth share in the United States, 1917-2012

Table 7.2. Inequality of capital ownership across time and space

Share of different groups in total capital	Low inequality (never observed; ideal society?)	Medium inequality (≈ Scandinavia, 1970s-1980s)	Medium-high inequality (≈ Europe 2010)	High inequality (≈ U.S. 2010)	Very high inequality (≈ Europe 1910)
The top 10% "Upper class"	30%	50%	60%	70%	90%
including: the top 1% ("dominant class")	10%	20%	25%	35%	50%
including: the next 9% ("well-to-do class")	20%	30%	35%	35%	40%
The middle 40% "Middle class"	45%	40%	35%	25%	5%
The bottom 50% "Lower class"	25%	10%	5%	5%	5%
Corresponding Gini coefficient (synthetic inequality index)	0,33	0,58	0,67	0,73	0,85

In societies with "medium" inequality of capital ownership (such as Scandinavian countries in the 1970s-1980s), the top 10% richest in wealth own about 50% of aggregate wealth, the bottom 50% poorest about 10%, and the middle 40% about 40%. The corresponding Gini coefficient is equal to 0.58. See technical appendix.

Figure 2.
Real Median Household Income by Race and Hispanic Origin: 1967 to 2018
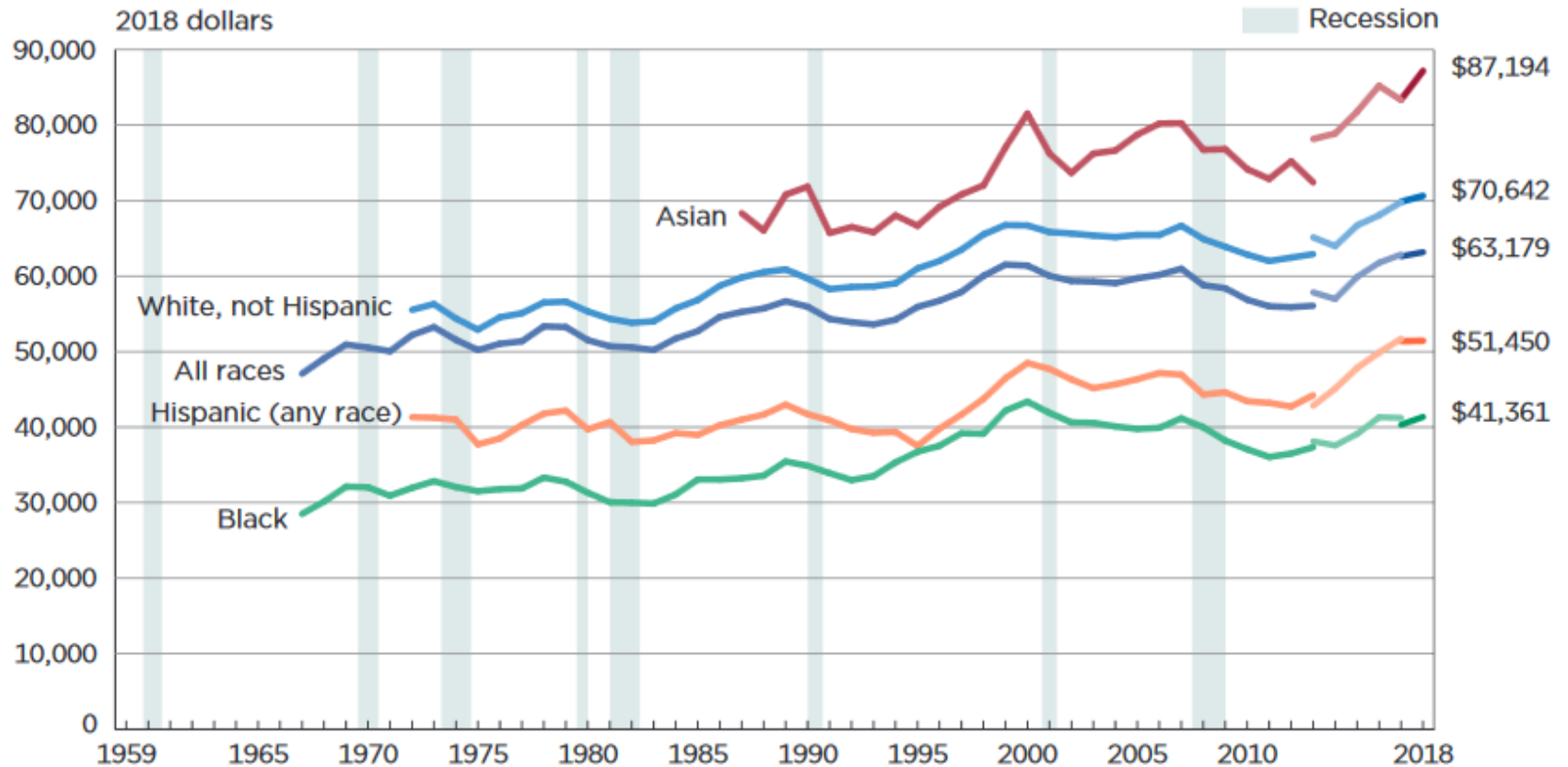
Notes: The data for 2017 and beyond reflect the implementation of an updated processing system. See Appendix D for more information. The data for 2013 and beyond reflect the implementation of the redesigned income questions. See Table A-2 for historical footnotes. The data points are placed at the midpoints of the respective years. Median household income data are not available prior to 1967. For more information on recessions, see Appendix A. For more information on confidentiality protection, sampling error, nonsampling error, and definitions, see <https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar19.pdf>.

Source: U.S. Census Bureau, Current Population Survey, 1968 to 2019 Annual Social and Economic Supplements.
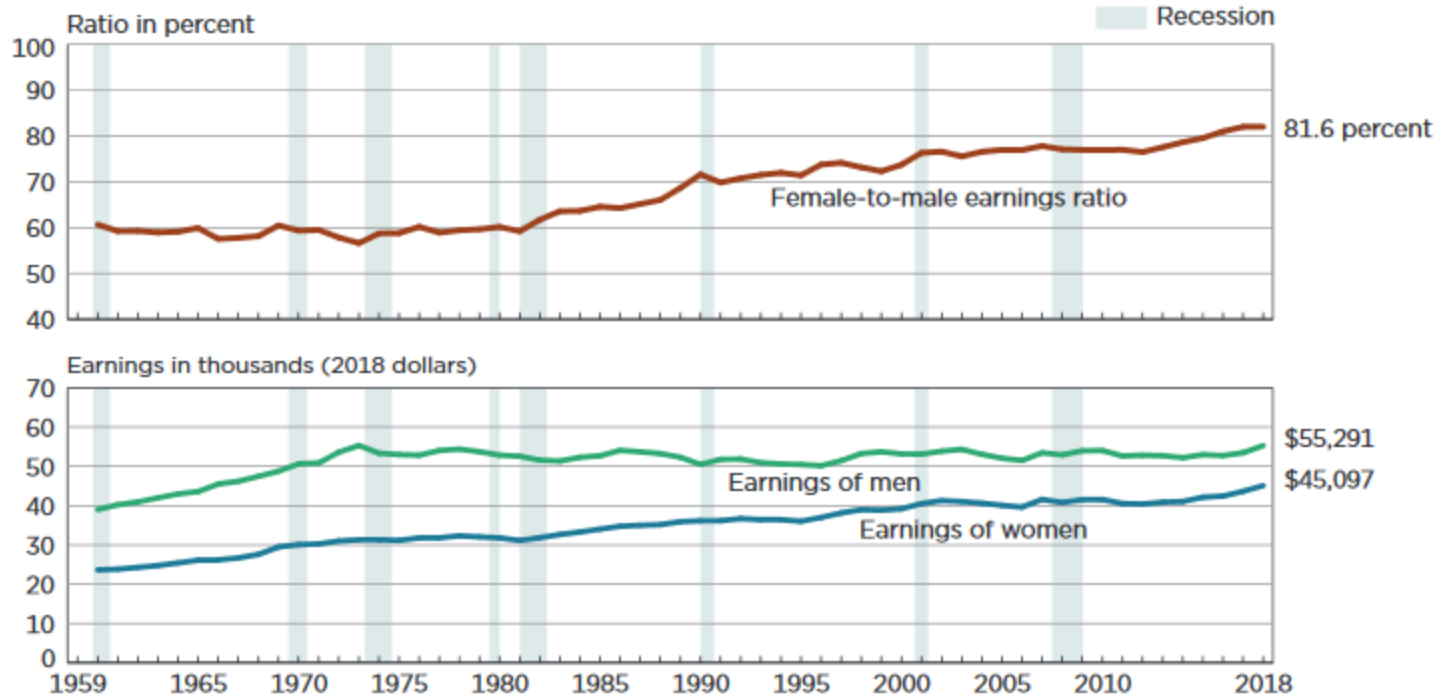
U.S. Federal Minimum Wage
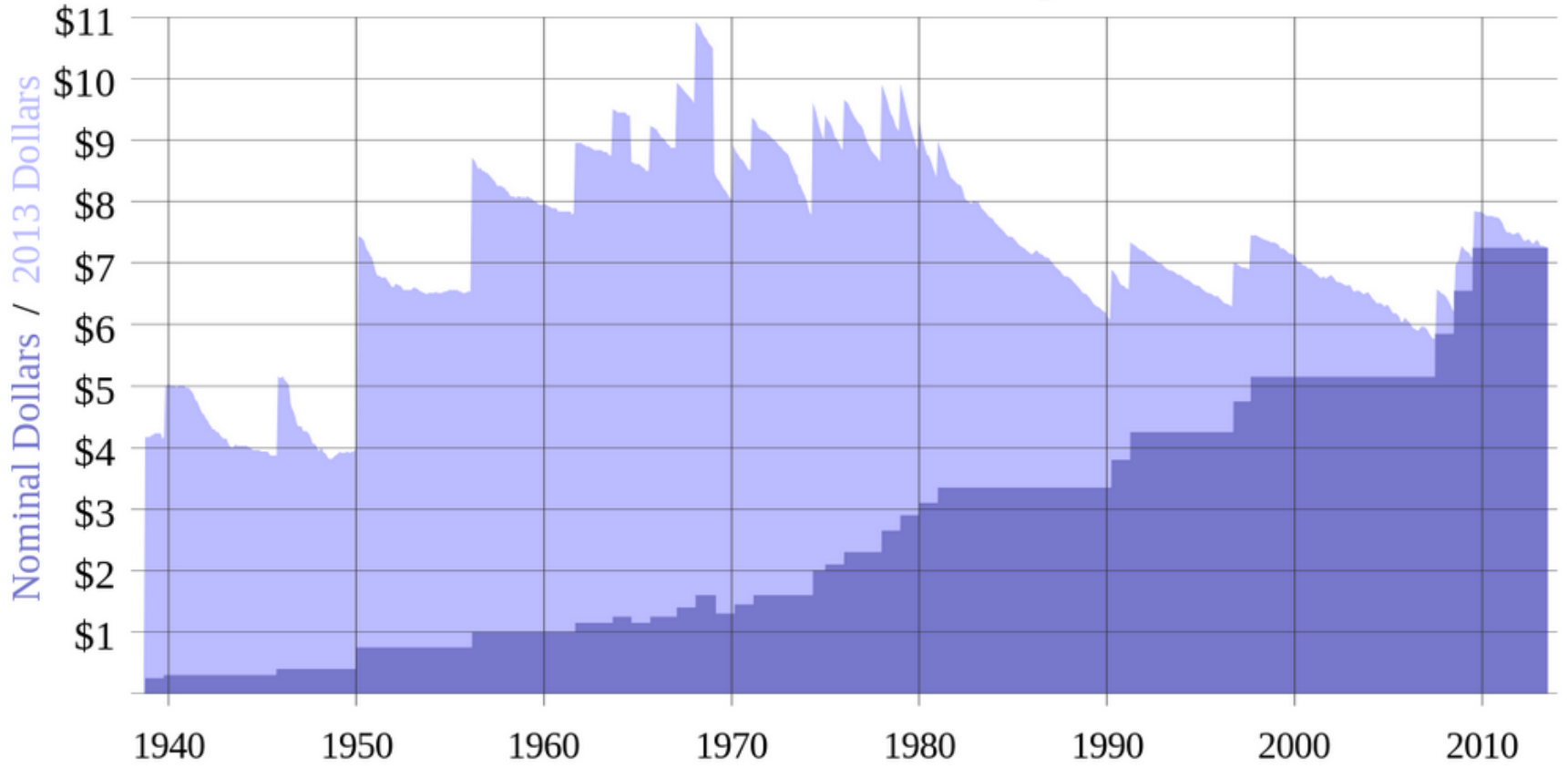
Declining share of labor (wages) in GDP

- According to data from the Bureau of Economic Analysis, labor's share of gross national income fluctuated around 67 percent during the 1980s, 1990s, and early 2000s, but it has declined since then and now stands at 63.8 percent.

- According to the Bureau of Labor Statistics, the ratio of compensation to output for the nonfarm business sector fluctuated around 65 percent until the early 1980s and has declined steadily since, from 63 percent during the 1980s and 1990s to 58.2 percent most recently. Finally, a 2011 study of income tax returns and demographic data by the CBO (CBO 2011) finds that labor's share of income decreased from 75 percent in 1979 to 67 percent in 2007.

OECD – Employment Outlook 2012.

http://www.clevelandfed.org/research/commentary/2012/2012-13.cfm

Figure 5.
Female-to-Male Earnings Ratio and Median Earnings of Full-Time, Year-Round Workers 15 Years and Older by Sex: 1960 to 2018

Ratio in percent

Recession

81.6 percent

Female-to-male earnings ratio

Earnings in thousands (2018 dollars)

$55,291

$45,097

Earnings of men

Earnings of women

Notes: The data for 2017 and beyond reflect the implementation of an updated processing system. See Appendix D for more information. The data for 2013 and beyond reflect the implementation of the redesigned income questions. See Table A-7 for historical footnotes. The data points are placed at the midpoints of the respective years. Data on earnings for full-time, year-round workers are not available before 1960. For more information on recessions, see Appendix A. For more information on confidentiality protection, sampling error, nonsampling error, and definitions, see <https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar19.pdf>.

Source: U.S. Census Bureau, Current Population Survey, 1961 to 2019 Annual Social and Economic Supplements.