

The World Is Becoming More Equal

Even as Globalization Hurts Middle-Class Westerners

By **Branko Milanovic**
August 28, 2020



A worker in a factory on the outskirts of New Delhi, India, November 2014
Anindito Mukherjee / Reuters



Opponents of economic globalization often point to the ways it has widened inequality within nations in recent decades. In the United States, for instance, wages have remained fairly stagnant since 1980 while the wealthiest Americans have taken home an ever greater share of income. But globalization has had another important effect: it has reduced overall global inequality. Hundreds of millions of people have been lifted out of poverty in recent decades. The world became more equal between

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compatriots. In both comparisons, the Western middle class was on the losing end. Middle-class Westerners saw less income growth than (comparatively poorer) Asians, providing further evidence of one of the defining dynamics of globalization: in the last 40 years, many jobs in Europe and North America were either outsourced to Asia or eliminated as a result of competition with Chinese industries. This was the first tension of globalization: Asian growth seems to take place on the backs of the Western middle class.

Another chasm opened between middle-class Westerners and their wealthy compatriots. Here, too, the middle class lost ground. It seemed that the wealthiest people in rich countries and almost everybody in Asia benefited from globalization, while only the middle class of the rich world lost out in relative terms. These facts supported the notion that the rise of “populist” political parties and leaders in the West stemmed from middle-class disenchantment. Our graph became emblematic not only of the economic effects of globalization but also of its political consequences.

NEW DEVELOPMENTS, OLD TRENDS

In a new paper, I return to this question and ask whether the same or similar developments continued between 2008 and 2013–14, the years for which the latest global data from the World Bank, the Luxembourg Income Study, and other sources are available. They are more refined data than what we could access in the past. They include more than 130 countries with detailed household-level information on incomes. The results in the graph below indeed show the continuation of what I called the first tension of globalization: the income growth of the non-Western middle class far exceeds that of the Western middle class. In fact, the growth gap between the two groups has actually increased. For example, U.S. median income in 2013 was a mere four percent higher than in 2008; meanwhile, Chinese and Vietnamese median incomes more than doubled, while Thailand’s median income increased by 85 percent and India’s by 60 percent. This disparity shows how the global financial crisis, especially the initial shock that is revealed in this data, hit the West much more severely than it did Asia.

But the second tension—the growing gap between the elites and the middle classes in

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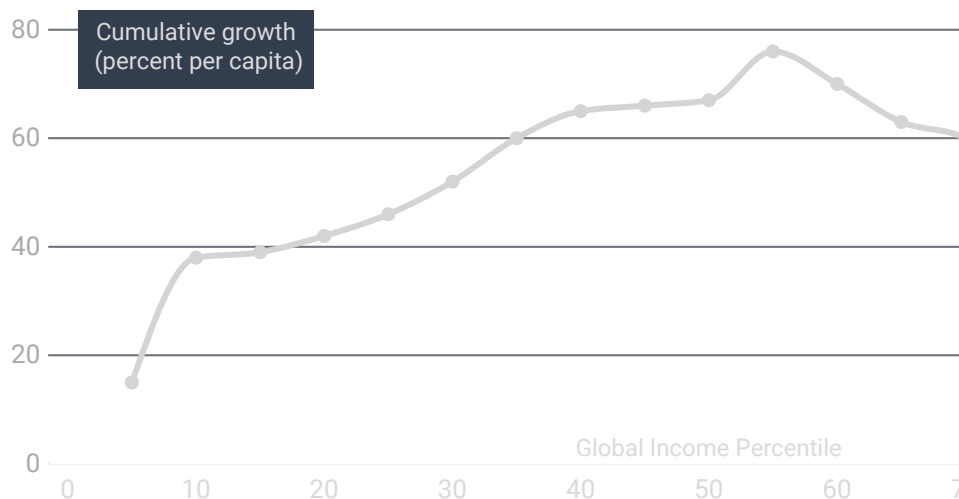


the end of the Cold War and the 2008 global financial crisis—a period often referred to as “high globalization.”

The economist Christoph Lakner and I distilled [this trend](#) in a diagram released in 2013. The diagram showed per capita income growth rates between 1988 and 2008 across the global distribution of income. (The horizontal axis has the poorest people on the left and the richest on the right.) The graph attracted a lot of attention because it summarized the basic features of recent decades of globalization, and it earned the moniker “the elephant graph” because its shape looked like that of an elephant with a raised trunk.

People in the middle of the global income distribution, whose incomes grew substantially (more than doubling or tripling in many cases), overwhelmingly lived in Asia, many of them in China. People farther to the right, who were richer than the Asians but experienced much lower income growth rates, mainly lived in the advanced economies of Japan, the United States, and the countries of western Europe. Finally, people at the far right end of the graph, the richest one percent (mostly composed of citizens of industrialized countries), enjoyed high income growth rates much like those in the middle of the global income distribution.

Rates of income growth between 1988 and 2008 across global income distribution



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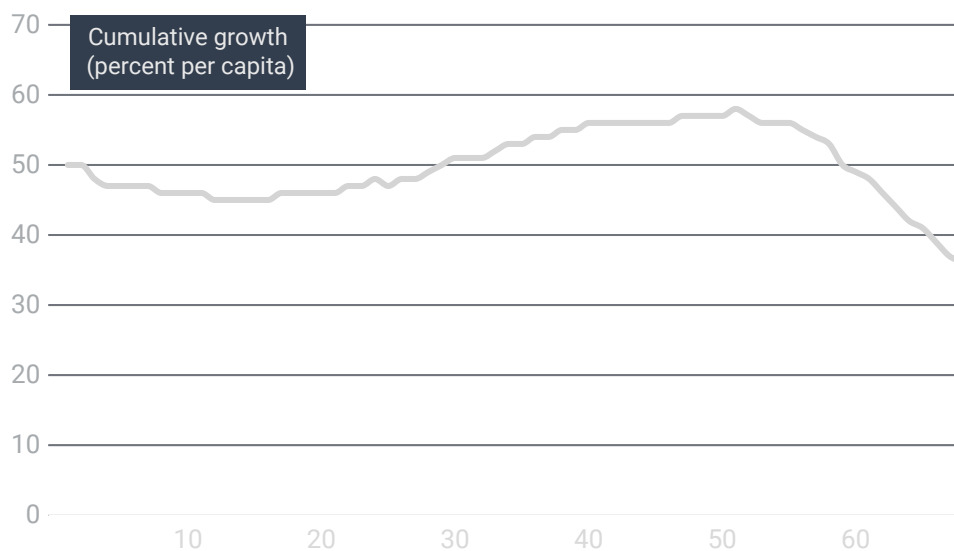
The results highlighted two important cleavages: one between middle-class Asians and

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rich in Western countries who make up the bulk of the world's top one percent. This slowdown is reflected also in the fact that income inequality within many rich countries did not increase. But if the recession interrupted the income growth of the rich, it may not have done so for long. More recent detailed global data are not yet available, but some preliminary estimates indicate that in the years following our period of study, the top one percent resumed its earlier growth pattern.

Rates of income growth between 2008 and 2013-2014 across global income distribution



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With the exception of the post-2008 slowdown in income growth among the rich, globalization in this new period continued to produce many of the same results as before, including reducing global inequality. As measured by the Gini coefficient, which ranges from zero (a hypothetical situation in which every person has the same income) to one (a hypothetical situation in which one person receives all income), global inequality fell from 0.70 in 1988 to 0.67 in 2008 and then further to 0.62 in 2013. There has probably never been an individual country with a Gini coefficient as high as 0.70, while a Gini coefficient of around 0.62 is akin to the inequality levels that are found today in Honduras, Namibia, and South Africa. (Loosely speaking, South Africa represents the best proxy for the inequality of the entire world.)

But if global inequality continued to trend downward during the new period of study, the

reforms in the late 1970s, has played an enormous role in lowering global inequality. The economic growth of its population of 1.4 billion people has reshaped the distribution of wealth around the world. But now China has become sufficiently wealthy that its continued growth no longer plays such an important role in lowering global inequality. In 2008, the median Chinese income was just slightly higher than the world's median income; five years later, China's median income was 50 percent higher than the world's—and it is probably even higher now. High growth in China, in global terms, is ceasing to be an equalizing force. Soon, it will contribute to rising global inequality. But India, with a population that may soon surpass China's and is still relatively poor, now plays an important role in making the world more equal. In the last 20 years, China and India have driven the reduction in global inequality. From now on, only Indian growth will perform that same function. Africa, which boasts the world's highest rates of population growth, will become increasingly important. But if the largest African countries continue to trail behind the Asian giants, global inequality will rise.

INEQUALITY IN THE TIME OF COVID-19

The COVID-19 pandemic has so far not disrupted these trends and in fact might lead to their intensification. The remarkable deceleration of global growth resulting from the novel coronavirus will not be uniform. Chinese economic growth, while much lower now than in any year since the 1980s, will still outpace economic growth in the West. This will accelerate the closing of the income gap between Asia and the Western world. If China's growth continues to exceed Western countries' growth by two to three percentage points annually, within the next decade many middle-class Chinese will become wealthier than their middle-class counterparts in the West. For the first time in two centuries, Westerners with middling incomes within their own nations will no longer be part of the global elite—that is, in the top quintile (20 percent) of global incomes. This will be a truly remarkable development. From the 1820s onward—when national economic data of this kind were first collected—the West has consistently been wealthier than any other part of the world. By the middle of the nineteenth century, even members of the working class in the West were well-off in global terms. That period is now coming to an end.

The United States remains a much richer country than China. In 2013, the gap between the median income of an American and a Chinese person was 4.7 to 1 (and 3.4 to 1 when set against the median income of an urban Chinese resident). That gap has shrunk a little since 2013 and will further diminish in the wake of the COVID-19 crisis, but it will take some time to narrow. If China continues to outperform the United States by about two to three percentage points of per capita income growth every year, the average income gap between the two countries will still take about two generations to close.



Commuters in downtown Shanghai, China, July 2009

Nir Elias / Reuters

In the long term, the most optimistic scenario would see continued high growth rates in Asia and an acceleration of economic growth in Africa, coupled with a narrowing of income differences within rich and poor countries alike through more activist social policies (higher taxes on the rich, better public education, and greater equality of opportunity). Some economists, from Adam Smith onward, hoped that this rosy scenario of growing global equality would follow from the even spread of technological progress around the globe and the increasingly rational implementation of domestic policies.

Unfortunately, much gloomier forecasts seem more plausible. The trade and technology war between China and the United States, while perhaps understandable from a narrow U.S. strategic point of view, is fundamentally pernicious from the global point of view. It will prevent the spread of technology and hamper improvements in living standards across large swaths of the world. Slowing growth will make it harder to eradicate poverty and likely preserve current levels of global inequality. In other words, something like the opposite of the initial dynamic of globalization might come to be: the gap between American and Chinese middle classes may be preserved, but at the cost of the slower (or negative) income growth in both the United States and China. Improvements in real income would be sacrificed in order to freeze the pecking order of the global income distribution. The net real income gain for all concerned would be zero. 

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