



Why might the rich be indifferent to income growth of their own countries?

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HIGHLIGHTS

- The shares of bottom/top income groups vary by country more than the shares of the middle.
- Middle groups are more concerned with overall growth of national income.
- For top 1% or 5% gain from pro-inequality redistribution often greater than realistic gain from growth.

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ABSTRACT

The paper shows using empirical evidence from more than 100 countries' household surveys, that income gains that the rich can realize through a more unequal distribution are often much larger than the realistic gains from a distribution-neutral growth. The rich are thus more likely to support policies that increase inequality than be concerned about income growth of their countries.

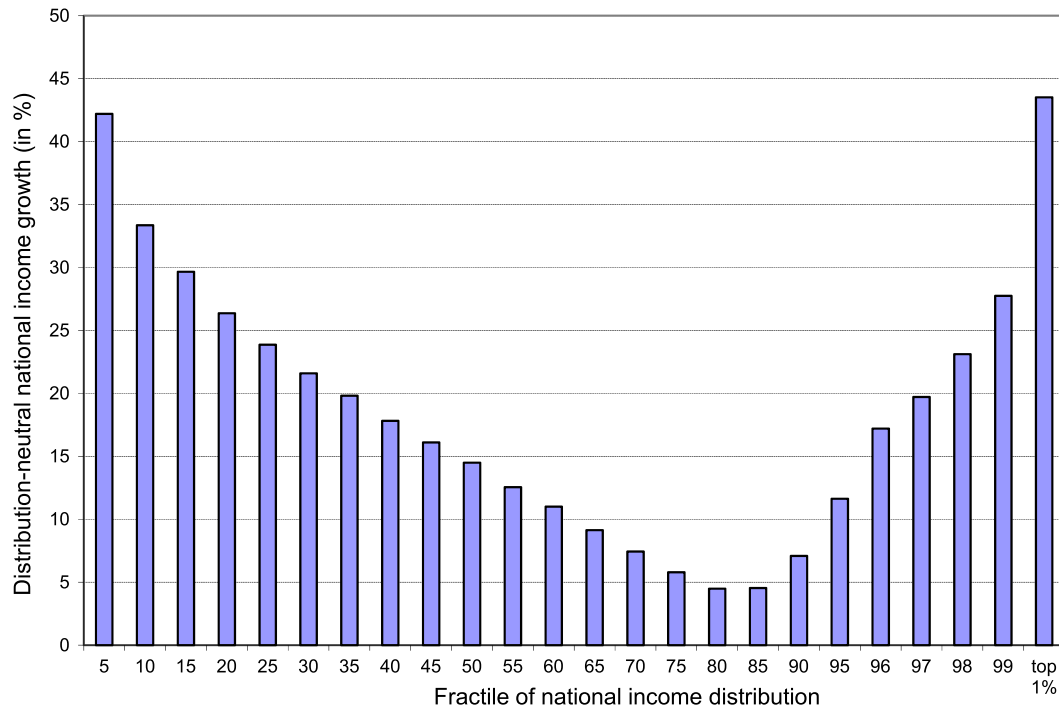
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It is often said that in very unequal societies the rich compose a group apart. Not only are their social mores and consumption patterns different, but their fortunes seem dissociated with those of the middle class or the poor. More recently, there has been an argument that the rich (the top 1%) from different nations form a group apart, a global “superclass” (Rothkopf, 2008; Freeland, 2012; van der Weide and Milanovic, 2014). The objective of this note is to consider whether there is empirical substance to the claim that in high inequality societies income of the rich is in some sense decoupled from the income of the rest of society. I do not mean it in an obvious sense that the rich simply have higher income than the others. What I mean is to look at the income gains that the rich can make from an overall increase in national income (while keeping the distribution unchanged) versus the gains that they can make from a further widening of income distribution (while keeping mean income the same). I will show that this particular trade-off varies in function of income class, and that especially for the top income classes, the gains from greater inequality tend to be

disproportionately high compared to the gains from an increased overall income without a change in the distribution.

Income distributions in the nations of the world differ a lot. Table 1 shows, using the data from 116 countries around the year 2008, the average ventile shares and their standard deviations. (All ventile shares are calculated from micro data provided by nationally-representative household surveys. The data are available at <https://thedata.harvard.edu/dvn/dv/restat/faces/study/StudyPage.xhtml?studyId=114484&versionNumber=1> More information about the database is available in Milanovic, 2015). Consider the first ventile (the poorest 5% of population ranked by income per capita). On average, across countries, the poorest ventile receives just slightly above 1% of total national income (1.064%). In more equal counties, the share of the bottom is greater (almost 2%), in less equal, it is under 1/2 of 1%. The standard deviation of the bottom ventile share is 0.45 percentage point (column 2). Thus the gain that an average person placed in the bottom ventile would make from moving from a distribution that “allocated” to him the average worldwide share of the bottom ventile to a distribution that would be more favorable to the bottom ventile (by one standard deviation of that ventile share), would be 42%

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Explanation: The first ventile (composed of percentiles 1 to 5) is denoted by 5, the second by 10, and thus up to 95. Numbers 96–99 refer to the 96th etc. percentiles. The last bar refers to the top 1%. Source: Household surveys from 116 countries around year 2008. Unweighted data. World Income Distribution (WYD) database. Note: “Conceivable” distributional change is defined as an increase in the fractile income share equal to 1 standard deviation of that fractile’s internationally observed income share.

Fig. 1. Distribution-neutral growth rate needed to make people from a given income fractile indifferent between growth and “conceivable” favorable distributional change.

Table 1

Share of total income received by each ventile of national income distribution. Source: Household surveys from 116 countries around year 2008. Unweighted data. World Income Distribution (WYD) database.

Ventile	Mean ventile share in total income (in %)	Standard deviation of ventile share (in %)	Income gain from 1 standard deviation increased share (in % of own income)
First	1.06	0.45	42.2
Second	1.59	0.53	33.3
Third	1.90	0.56	29.6
Fourth	2.17	0.57	26.4
Fifth	2.42	0.58	23.9
Sixth	2.67	0.58	21.6
Seventh	2.90	0.57	19.8
Eighth	3.15	0.56	17.8
Ninth	3.40	0.55	16.1
Tenth	3.68	0.53	14.5
Eleventh	3.98	0.50	12.6
Twelfth	4.30	0.47	11.0
13th	4.67	0.43	9.1
14th	5.09	0.38	7.4
15th	5.60	0.32	5.8
16th	6.22	0.28	4.5
17th	7.04	0.32	4.5
18th	8.22	0.58	7.1
19th	8.00	0.93	11.6
Twentieth (top)	19.51	5.65	29.0
Total	100		

(0.45/1.064). We call such a move, that is, a gain equal to one standard deviation of the ventile share, a “conceivable” distributional change because the change represents something that is not far-fetched but observable in the empirical reality of national income distributions. The same interpretation applies to all other ventiles shown in Table 1.

It can be readily seen that the gain from the “conceivable” distributional change, expressed in terms of own income, is very high for the bottom and top ventiles. For the bottom three ventiles and for the highest ventile it amounts to about 30% of their income. The gain is much more modest for the middle ventiles; for the ventiles 13–18, it is under 10%. The result is driven by the well-known observation (see Palma, 2011; Milanovic, 2008, p. 29) that middle fractiles tend to get the same share of national income regardless of whether they are in unequal or equal countries. Consequently, if a person belongs to these middle fractiles, his absolute income will not depend on whether his country is equal or unequal, but almost fully on whether his country is rich or poor. In other words, for such a person a way toward higher own income passes through an increase in country’s mean income.

The situation, however, is different for the people placed in the bottom and top of income distribution. The former obviously benefit from more equal and the latter from more unequal distributions. We have seen that for the poorest ventile, moving from a distribution or a country with an “average” distribution to a more *equal* distribution (by 1 standard deviation of that ventile share) results in a substantial real income gain (42%). Similarly, for the rich, moving from an “average” distribution to a more *unequal* distribution produces large income gains. For the top ventile, the “conceivable” income gain is 30%, but when we disaggregate the top ventile into five top percentiles (labeled 96 to *top 1%* in Fig. 1), we can see that the gains steadily rise. For the 96th percentile, the overall income gain from a “conceivable” distributional change is 17% and for the top 1%, the income gain is almost 45%. Thus, for the top 1% to forgo the favorable (“conceivable”) distributional change would require a distribution-neutral income growth of almost 45%. The fortunes of both the very poor and the very rich will depend much less on what happens to the mean income of their country and much more on what happens to their country’s distribution.

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