

5. Global inequality and the middle classes

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This short contribution reports on trends of global income distribution between 1988 and 2008.

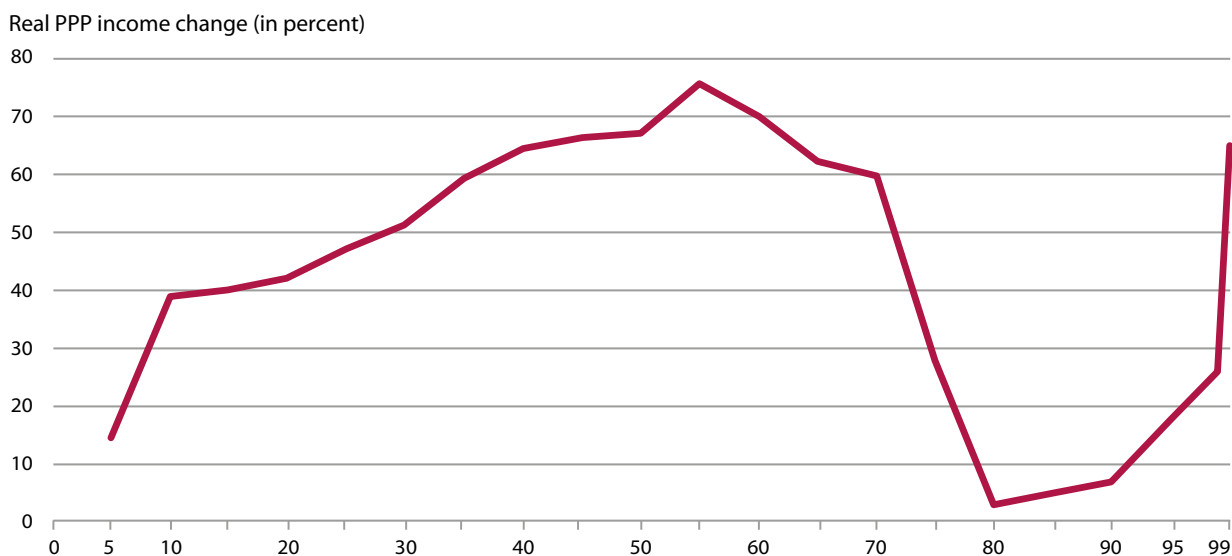
In recent years, a growing number of works have focused on the evolution of inequality within specific countries. This article investigates the evolution of inequality from a different perspective, the trend of global income distribution between 1988 and 2008 as shown in *Figure 5.1*.

Figure 5.1 provides a number of interesting insights. First of all, top incomes have risen both in relative and absolute terms over the period 1988–2008. This result is consistent with recent studies reporting evidence that the increase of inequality has been driven by the income growth of the top 1 per cent, especially in rich countries. Second, *Figure 5.1* shows the poor performance of income at the bottom of the global income distribution. This group mainly comprises people living in sub-Saharan Africa. *Figure 5.2* shows that in fourteen countries, more than one-third of the population occupies the bottom decile of the global distribution.

The most significant case is the Democratic Republic of the Congo, where this figure reaches 86 per cent (*Figure 5.2*).

Third, *Figure 5.1* shows that income in the middle of the global distribution performed better than in other areas. This group essentially comprises the Chinese, or more broadly Asian, middle classes, who have experienced massive improvements in living standards. Yet many have incomes just above the global poverty line, and a significant economic slowdown could mean that many of them slip back into poverty. Lastly, upper middle-class incomes (around the eightieth and ninetieth global percentiles) remained stagnant or recorded the lowest growth rate (*Figure 5.1*). This group is composed of the lower middle classes living in Western economies, who have experienced a clear stagnation of their incomes in recent decades.

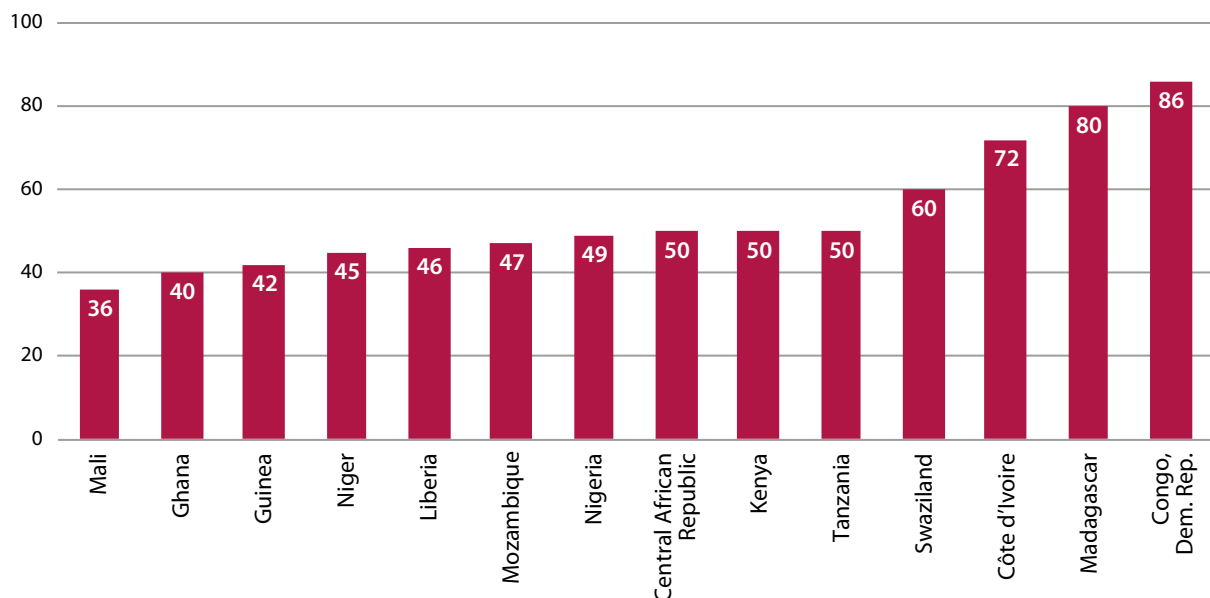
Figure 5.1 Variation of real income across different percentiles of global income distribution, 1988–2008



Source: Lakner and Milanovic (2015). Reprinted from Christoph Lakner and Branko Milanovic. Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession. *World Bank Econ Rev* (2016) 30 (2): 203-232 doi:10.1093/wber/lhv039, by permission of Oxford University Press on behalf of the World Bank. This image/content is not covered by the terms of the Creative Commons licence of this publication. For permission to reuse, please contact the rights holder.

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Figure 5.2 Countries with more than 30 per cent of their population in the bottom global decile (below \$PPP 450 per capita at 2008 prices)



Source: Author's own calculations.

Overall, we can extract two main results. First, globalization has generated winners and losers. While top incomes as well as the middle class in emerging economies have benefited disproportionately from these conditions, most African countries have been left behind. The second result refers to the political consequences of globalization in Western economies; the lower middle or middle class is observing a slow but continuous decline in relative living standards. The increasing gap between the highest incomes in the rich countries and the stagnant incomes of the middle class in those same countries could fuel discontent and social tension in the 'rich' world which would translate into politically explosive resentment.

As a result, there are two dangerous phenomena at the national level. One is populism and the other is plutocracy. Populism refers to an ideology supporting the power of the people against the 'corrupt' elite. In the real world, however, populist governments use policies to appeal to the masses more than to pursue people's interests. Plutocracy refers to a society controlled by a few, and in particular by the richest. While in the first case the process of globalization could be rolled back with negative consequences for emerging economies (and in particular for the new middle class), the most important cost in the second scenario is the end of democracy in rich countries, even in a context of an open economy.

Bibliography

Lakner, C. and Milanovic, B. 2015. Global income distribution: from the fall of the Berlin Wall to the Great Recession. *World Bank Economic Review*. <http://wber.oxfordjournals.org/content/early/2015/08/12/wber.lhv039.abstract> (Accessed 9 June 2016.)

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