Capitalism, Alone—book talk with the focus on homoploutia

Branko Milanovic

All seasons 2022

Structure of the book

Ch I. The contours of the post-Cold War world

Ch II. Liberal meritocratic capitalism

Ch III. Political capitalism

Ch IV. The interaction of capitalism and globalization

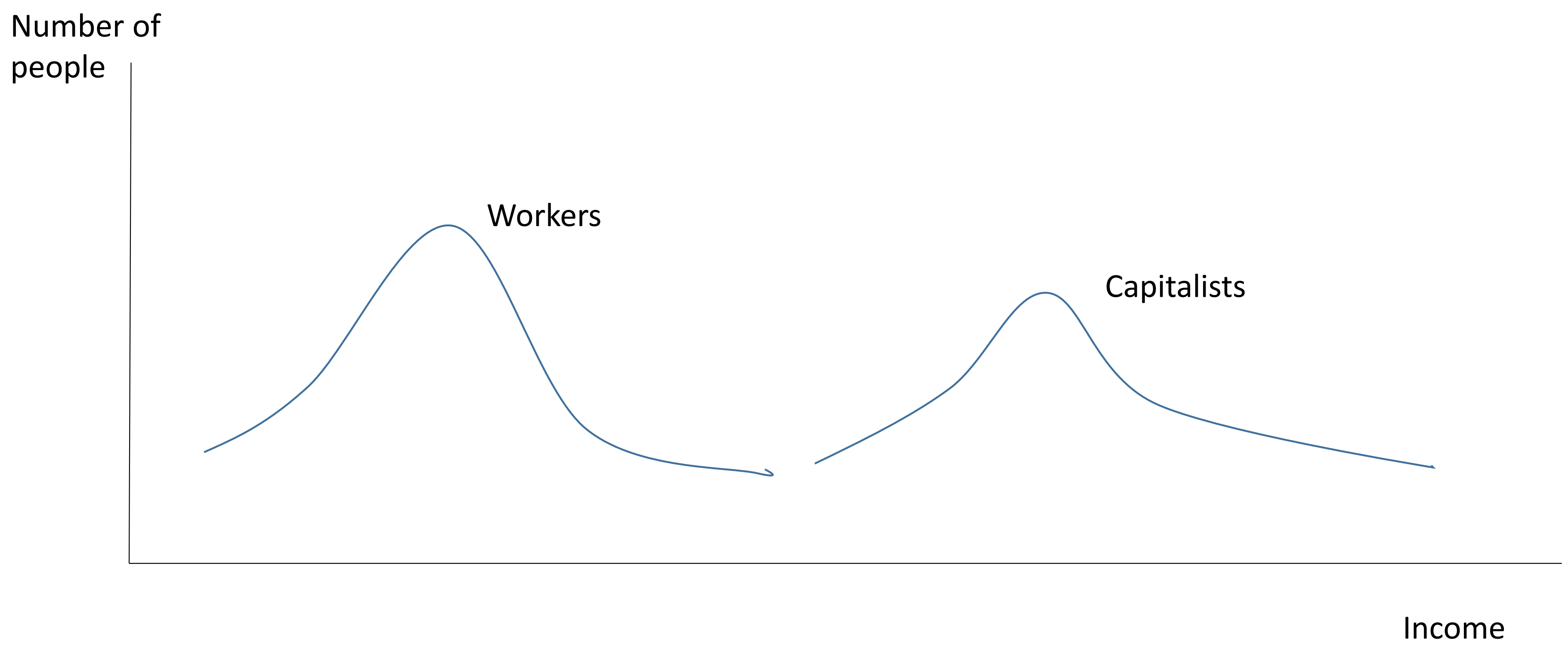
Ch V. The future of global capitalism

Structure of the talk

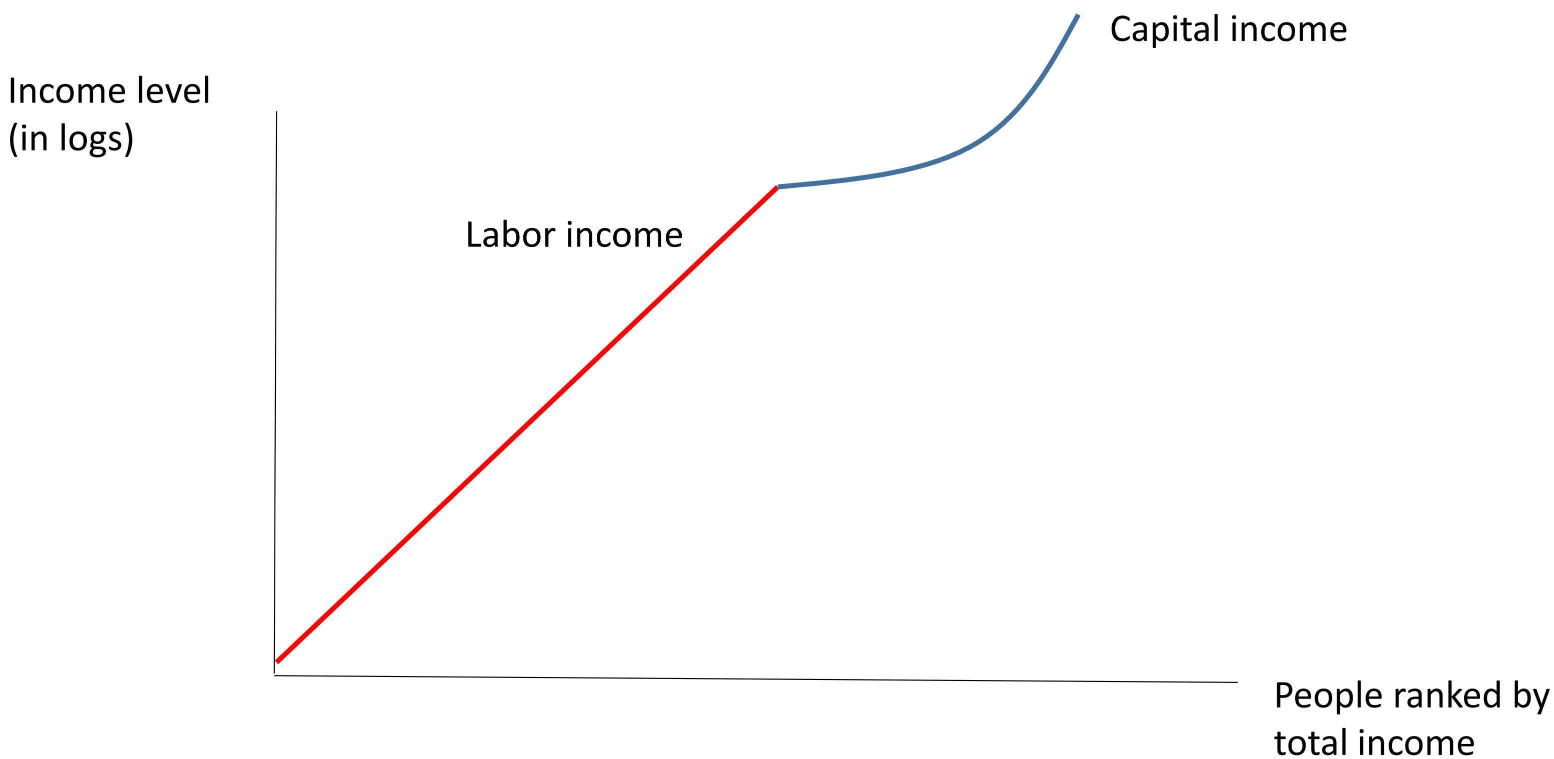
1. Defining various types of capitalism
2. The facts: six systemic inequalities in meritocratic/liberal capitalism
3. The outcome: shrinking middle class
4. The policy: What to do?
5. What people's capitalism will, and will not, do

1. Defining various capitalisms in function of distribution of labor and capital incomes

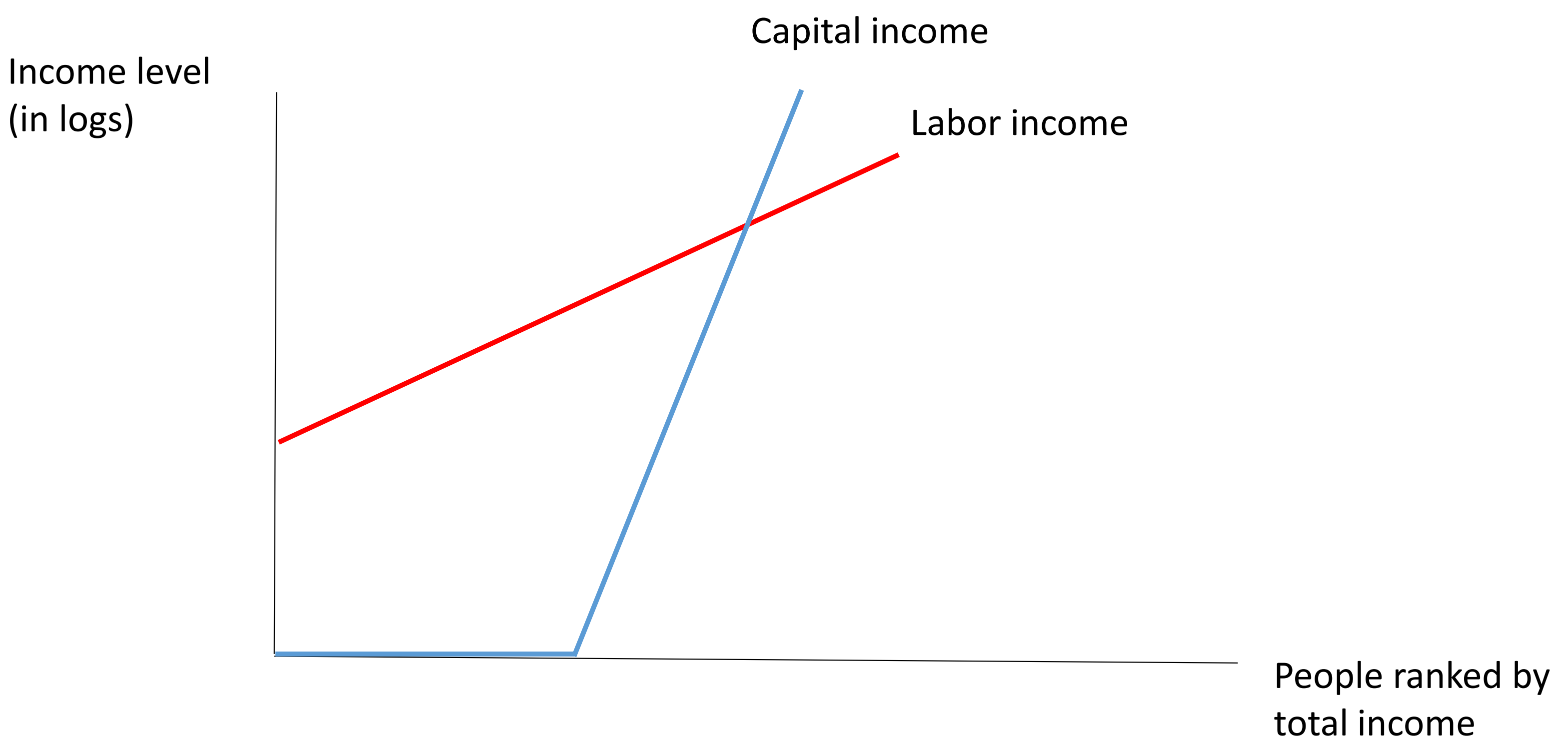
Income distribution in classical capitalism



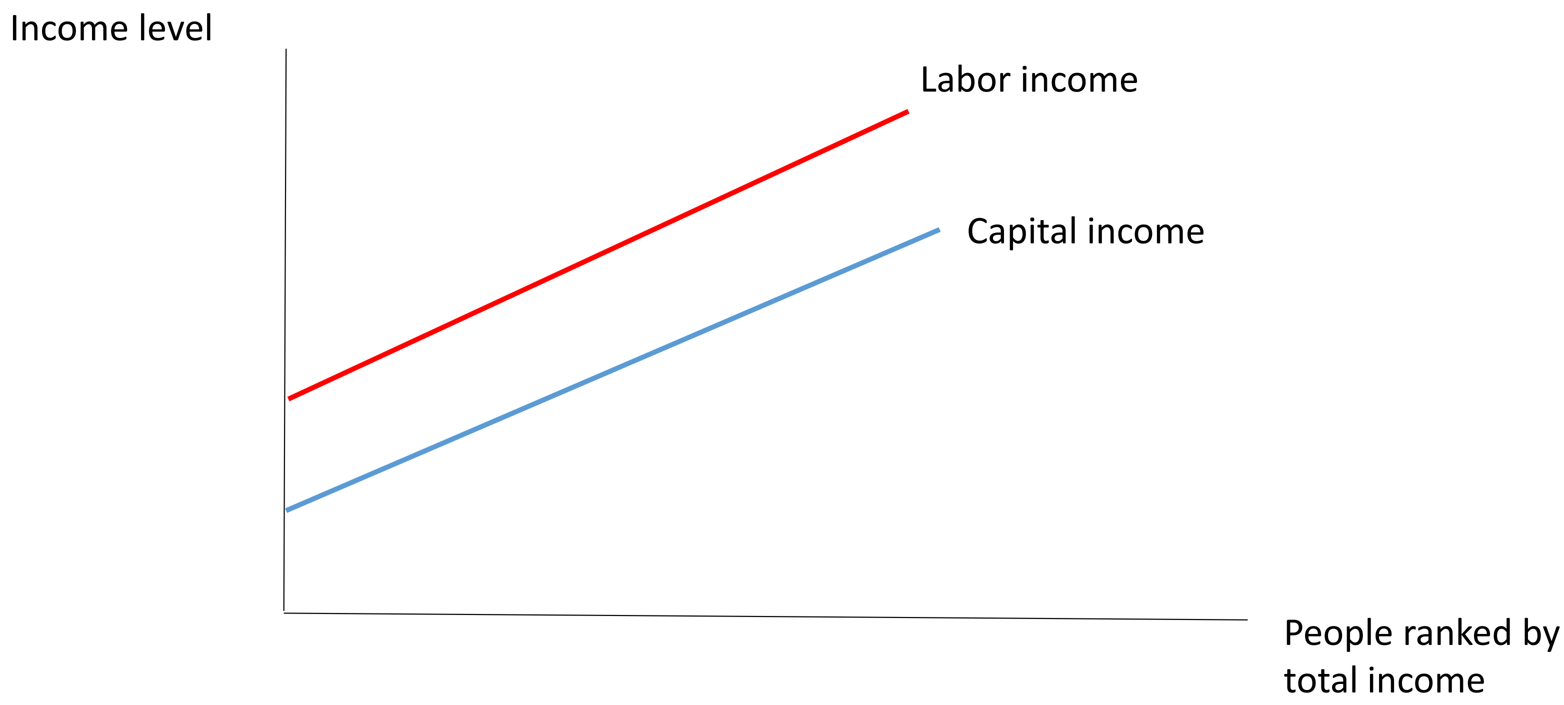
Income in classical capitalism



Income in meritocratic capitalism



Income in people’s (or homoploutic) capitalism



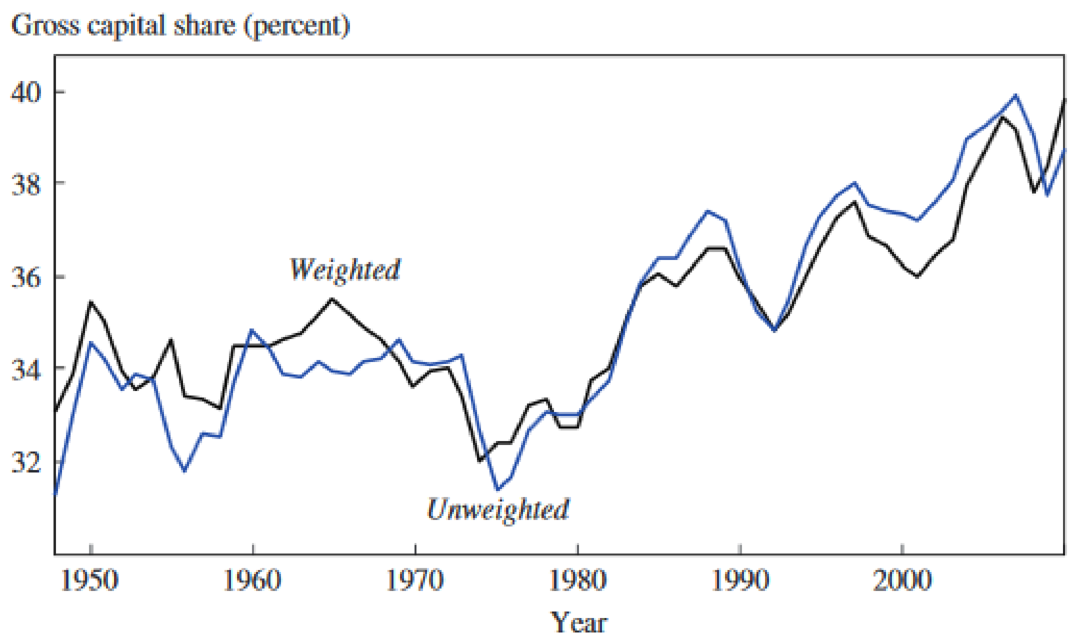
2. The facts: Six systemic inequalities in meritocratic/liberal capitalism

Six systemic inequalities in liberal/meritocratic capitalism

- 1. Increasing aggregate share of capital in national income
- 2. High concentration of capital ownership
- 2a. Higher rate of return on the assets of the rich
- 3. Association of high-capital and high-labor incomes in the same individuals (*homoploutia*)
- 4. High homogamy (assortative mating)
- 5. High control of the political process by the rich (movement toward plutocracy)
- 6. Greater transmission of income and wealth across generations

1. Increasing (macro) capital share

Figure 2. Average Gross Capital Share of Private Domestic Value-Added, G7 Countries, 1950–2010

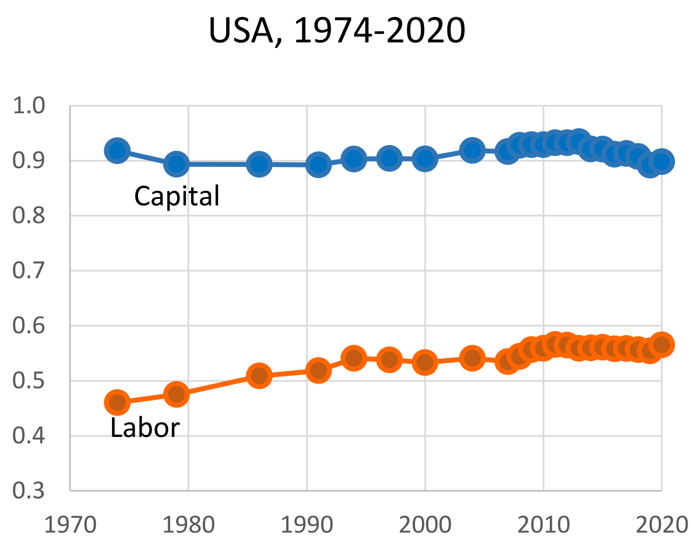


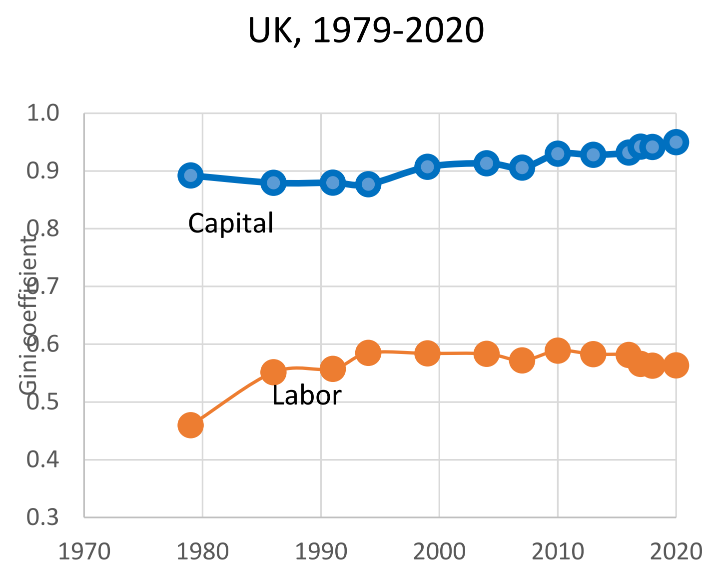
Source: Author's calculations based on national accounts; Piketty and Zucman (2014).

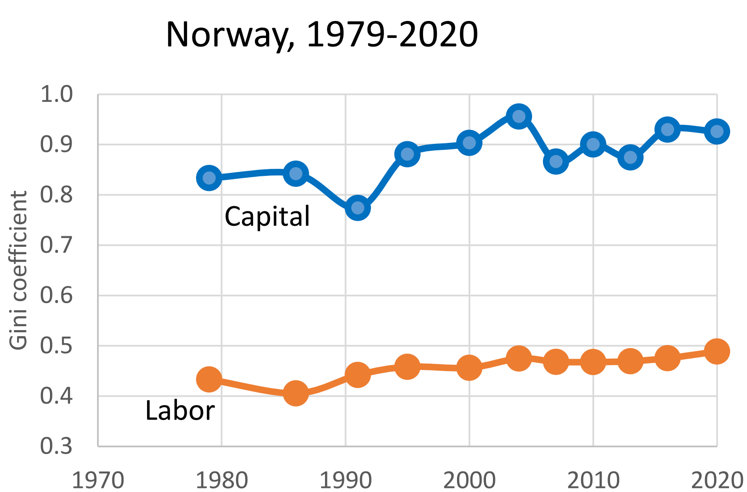
From Matthew Ronglie

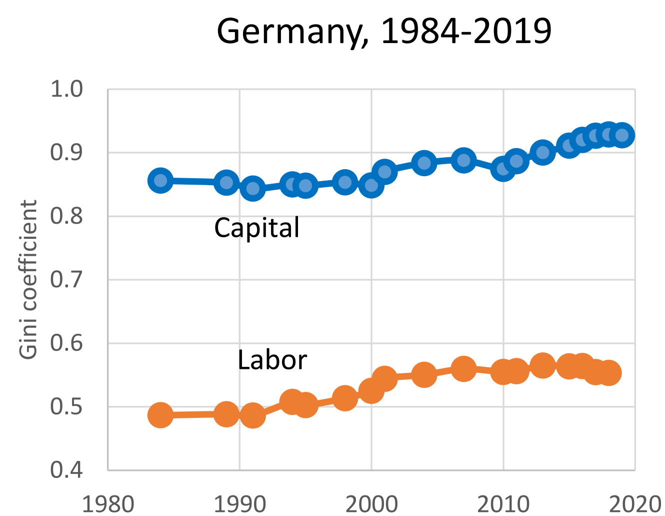
2. Capital income is heavily concentrated among the rich

- A rising capital share means a rising importance of an unequal source of income (income from capital)
- Therefore, rising capital share tends to quasi-automatically spill over into a higher inter-personal inequality.
- Functional income distribution => inter-personal income distribution


USA, 1974-2020
Capital
Labor


UK, 1979-2020
Gini coefficient
Capital
Labor

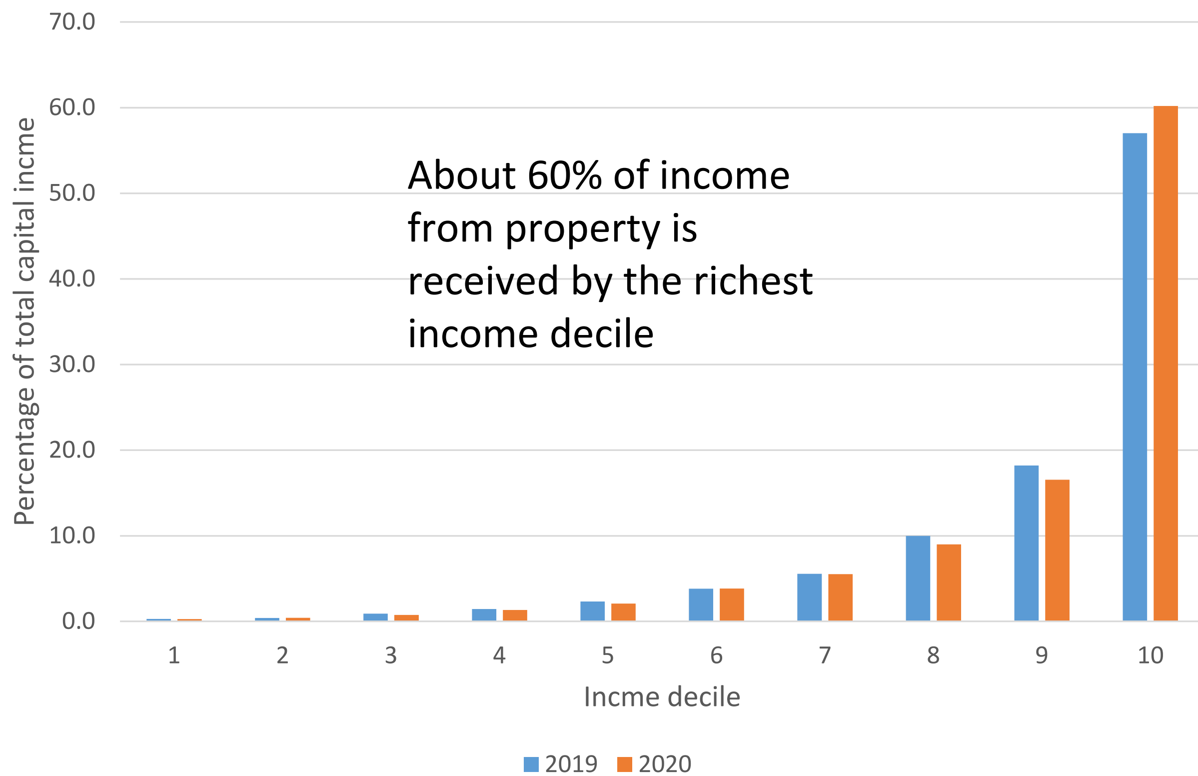

Norway, 1979-2020
Gini coefficient
Capital
Labor


Germany, 1984-2019
Gini coefficient
Capital
Labor

The data show:

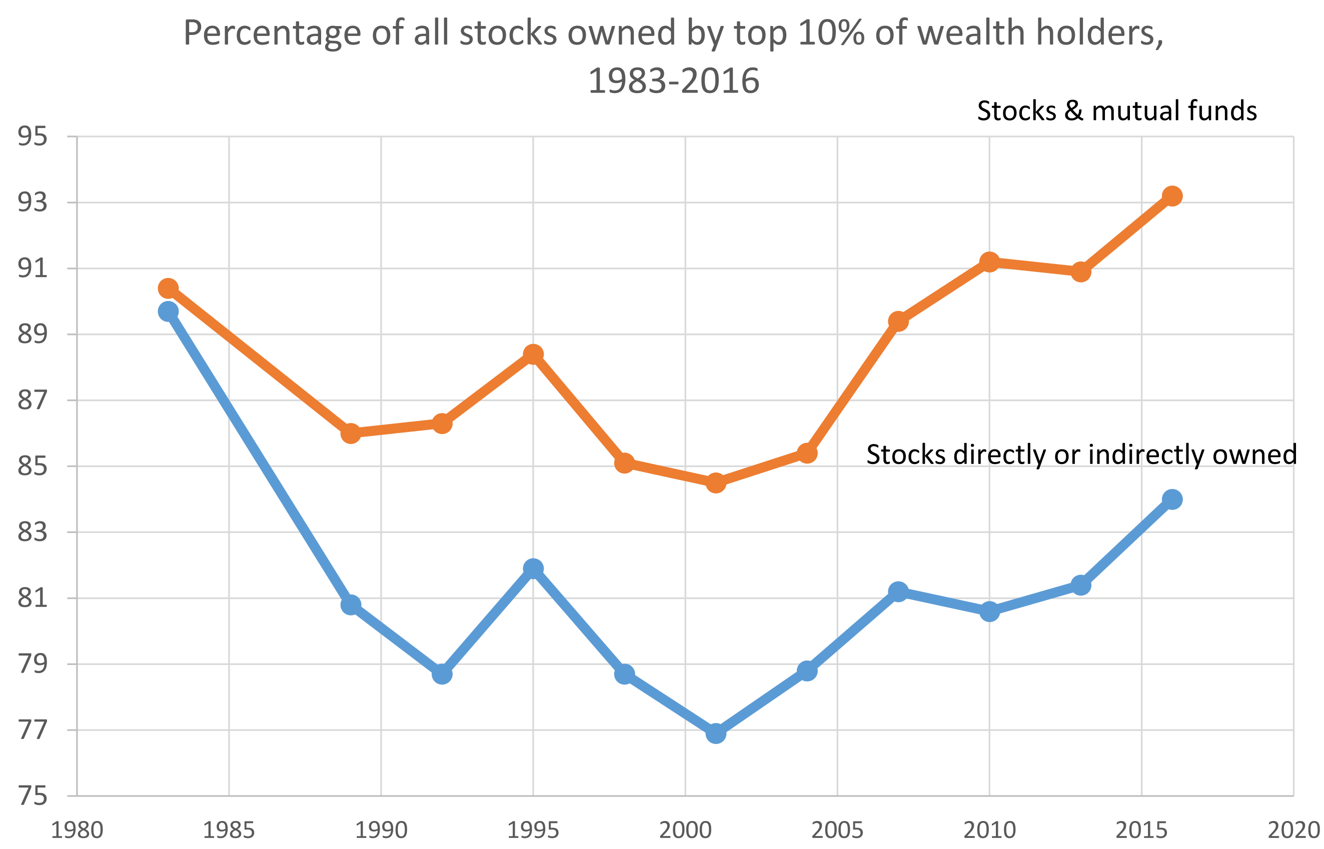
- Extremely high levels of capital income inequality in all advanced economies. There is no (mythical) “Denmark” when it comes to inequality of property.
- Upward trend of capital income inequality in the UK and Germany, together with a slight downward trend in labor income inequality in both.
- Finally, the opposite trend in the US where capital income inequality seems to be trending *down*.

USA: Share of income from capital across income deciles (in %)



Voter\lis-results…US_others_K_L.xls

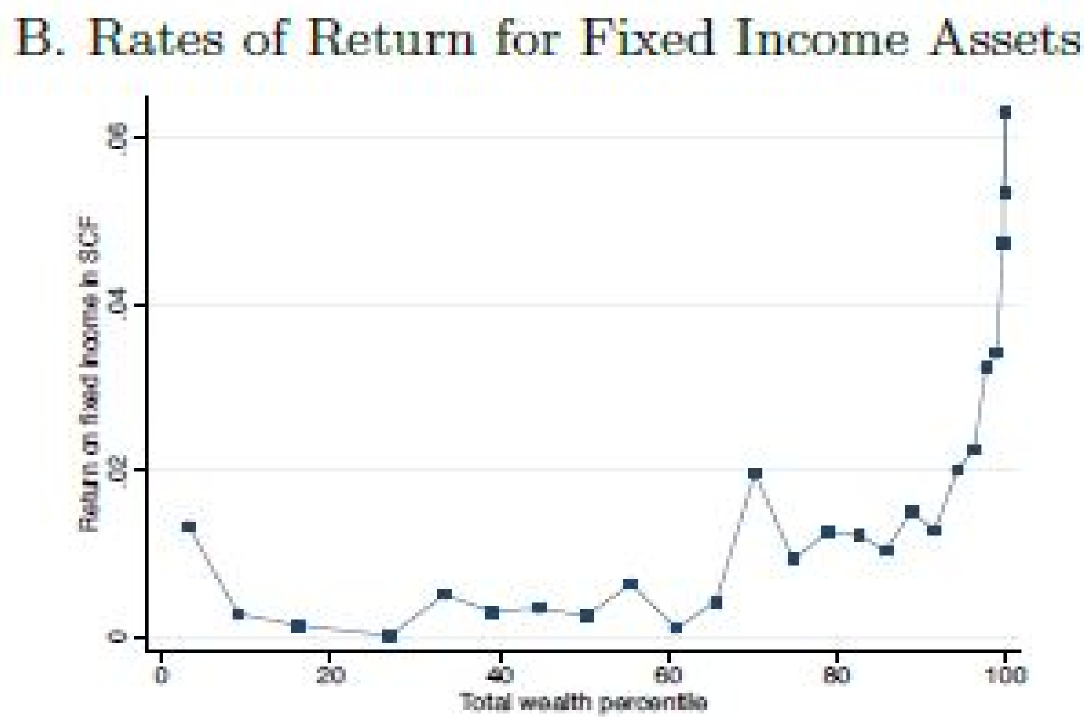
2a. Higher rate of return on the assets of the rich: composition effect….



80% of gross assets of the rich are financial instruments vs. only 12% for the middle class

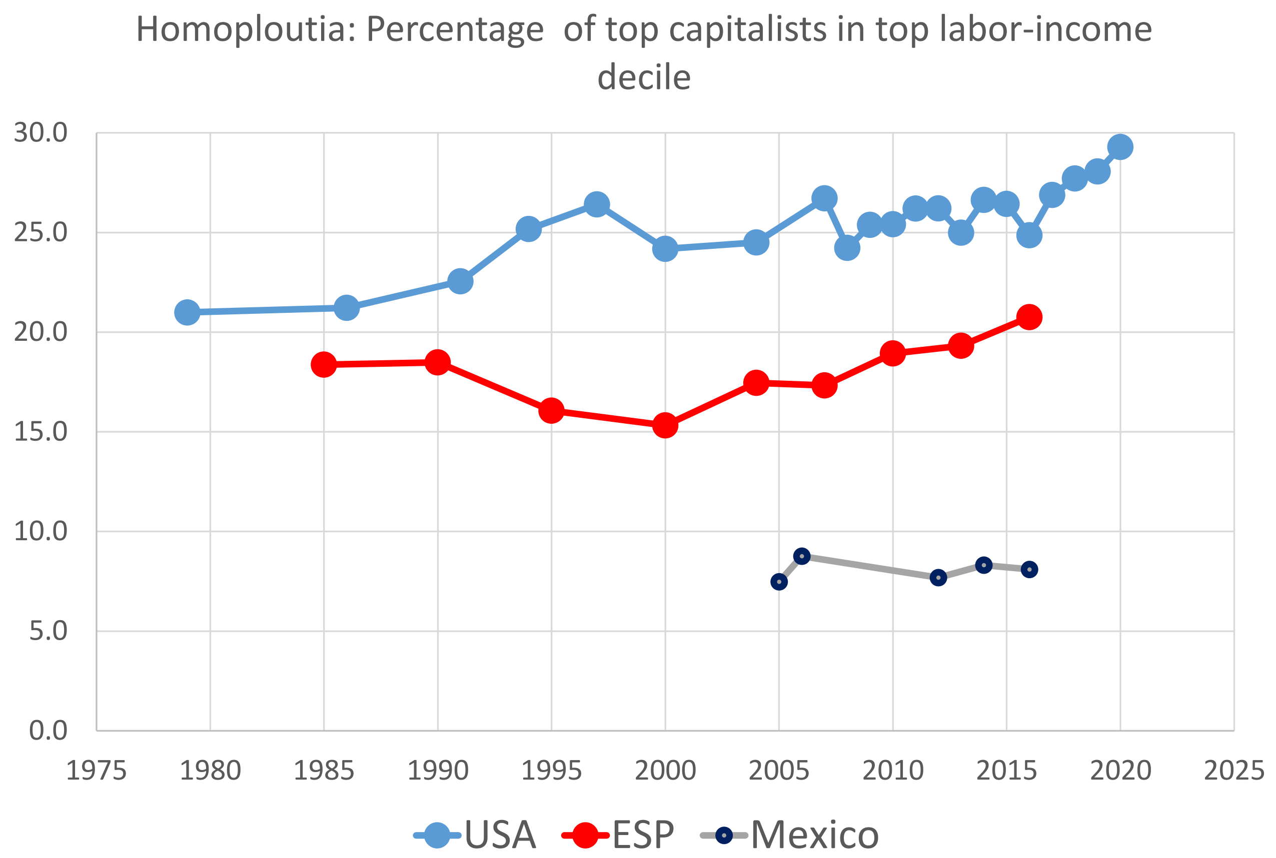
Ed Wolff, A century of wealth in America, p. 129; Ydistr/USA…wolff_stocks.xls

....but also higher returns within asset-classes

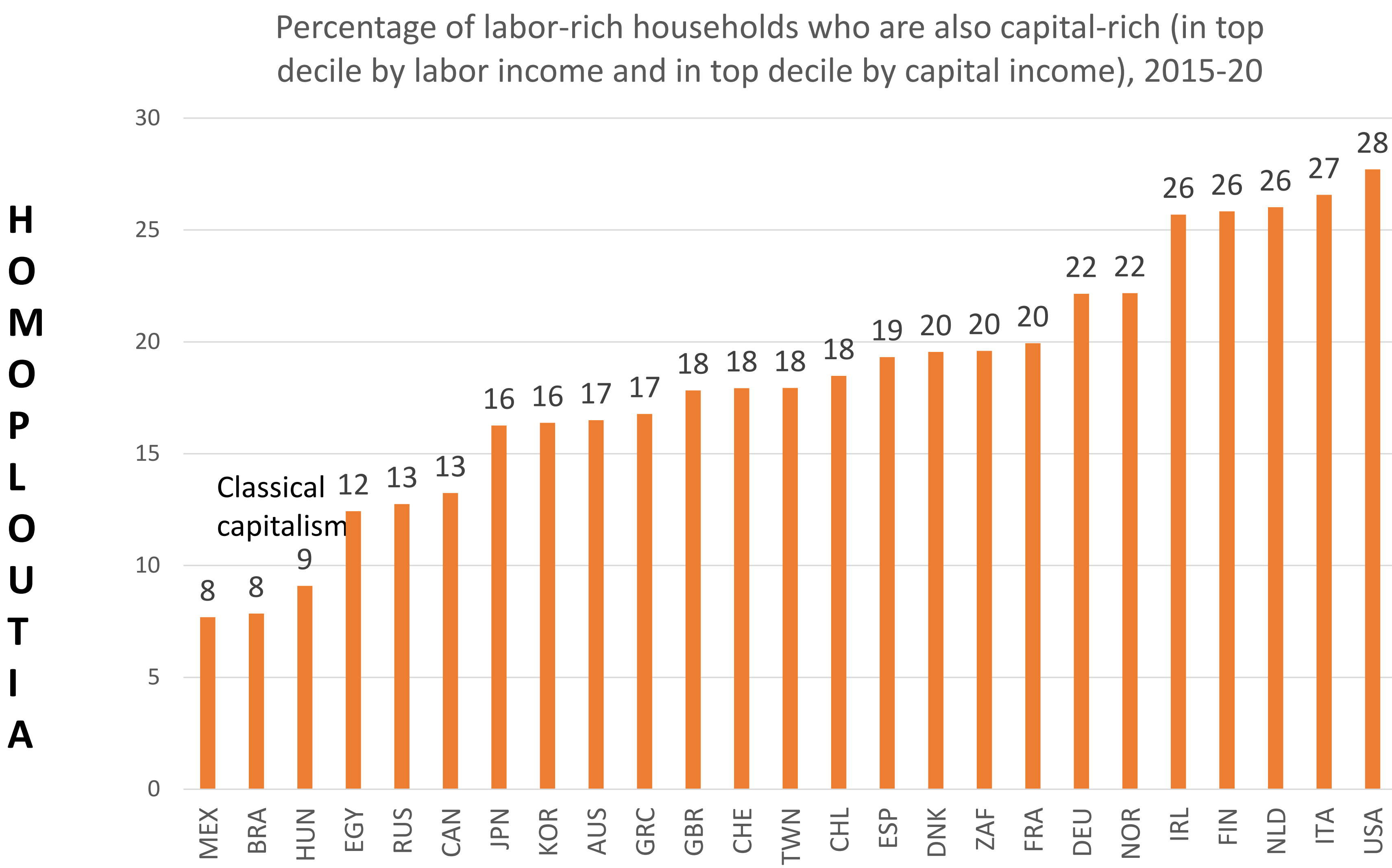


Eric Zwick, Top income wealth in the United States, draft, 2019.

3. Homoploutia: High K and L income received by the same people



US_others_K_L.xls


Percentage of labor-rich households who are also capital-rich (in top decile by labor income and in top decile by capital income), 2015-20
HOMOPLOUTIA
Classical capitalism
0
5
10
15
20
25
30
MEX 8
BRA 8
HUN 9
EGY 12
RUS 13
CAN 13
JPN 16
KOR 16
AUS 17
GRC 17
GBR 18
CHE 18
TWN 18
CHL 18
ESP 19
DNK 20
ZAF 20
FRA 20
DEU 22
NOR 22
IRL 26
FIN 26
NLD 26
ITA 27
USA 28

Two applications of homoploutia and one question

- How much of US inequality increase is due to homoploutia? What are the drivers of homoploutia?
- How homoploutia can help us classify and understand various capitalisms
- More speculative: does homoploutia make social mobility less and fight against inequality more difficult? Or is it a dramatic improvement upon classical capitalism?

United States: Homoploutia 1960-2020

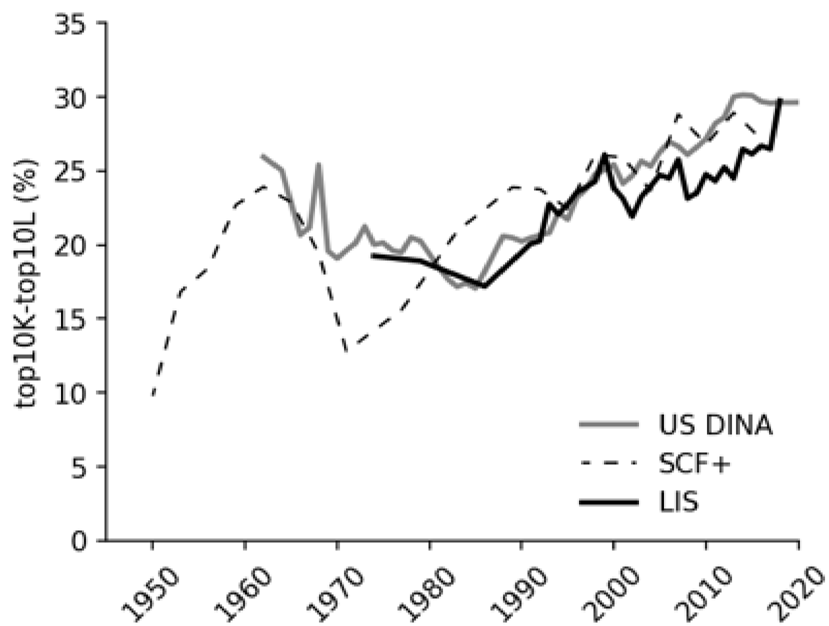
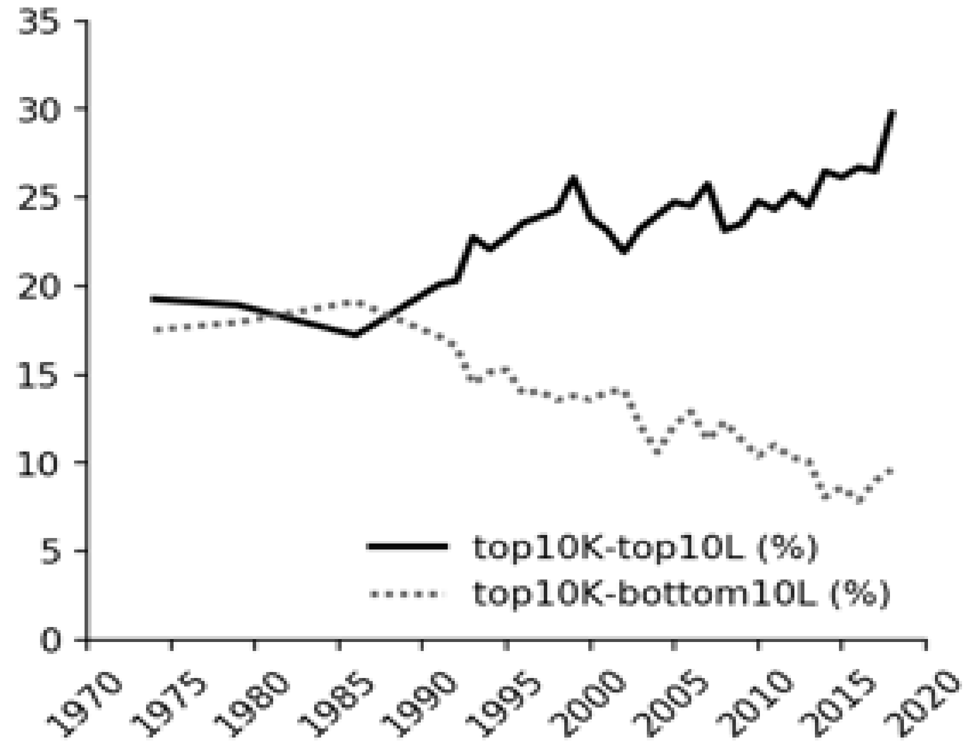


Figure 1: The evolution of homoploutia in the US, 1950—2020. The figure shows top10K-top10L, the share of top decile capital-income earners in the top decile of labor-income earners, based on three data sources: The US DINA (Piketty, Saez and Zucman 2020), the SCF+ (Kuhn, Schularick and Steins 2020) and Luxembourg Income Study (2020).

Berman and Milanovic, 2020

Diverging from classical capitalism: capital-rich people are no longer labor-income poor



Berman & Milanovic 2021

Homoploutia accounts for 1/5 of the increase in US inequality between 1985 and 2020

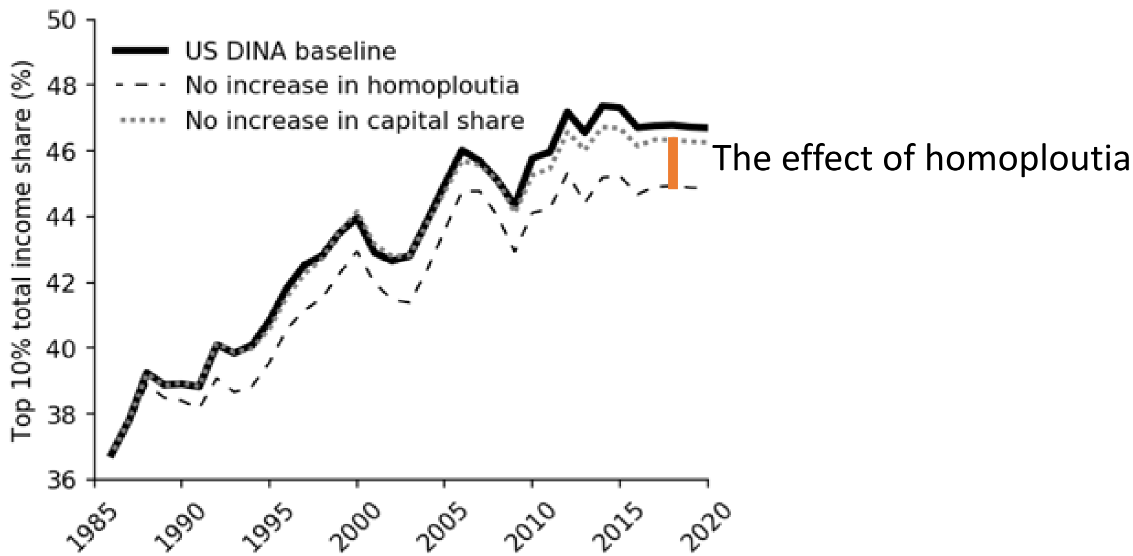
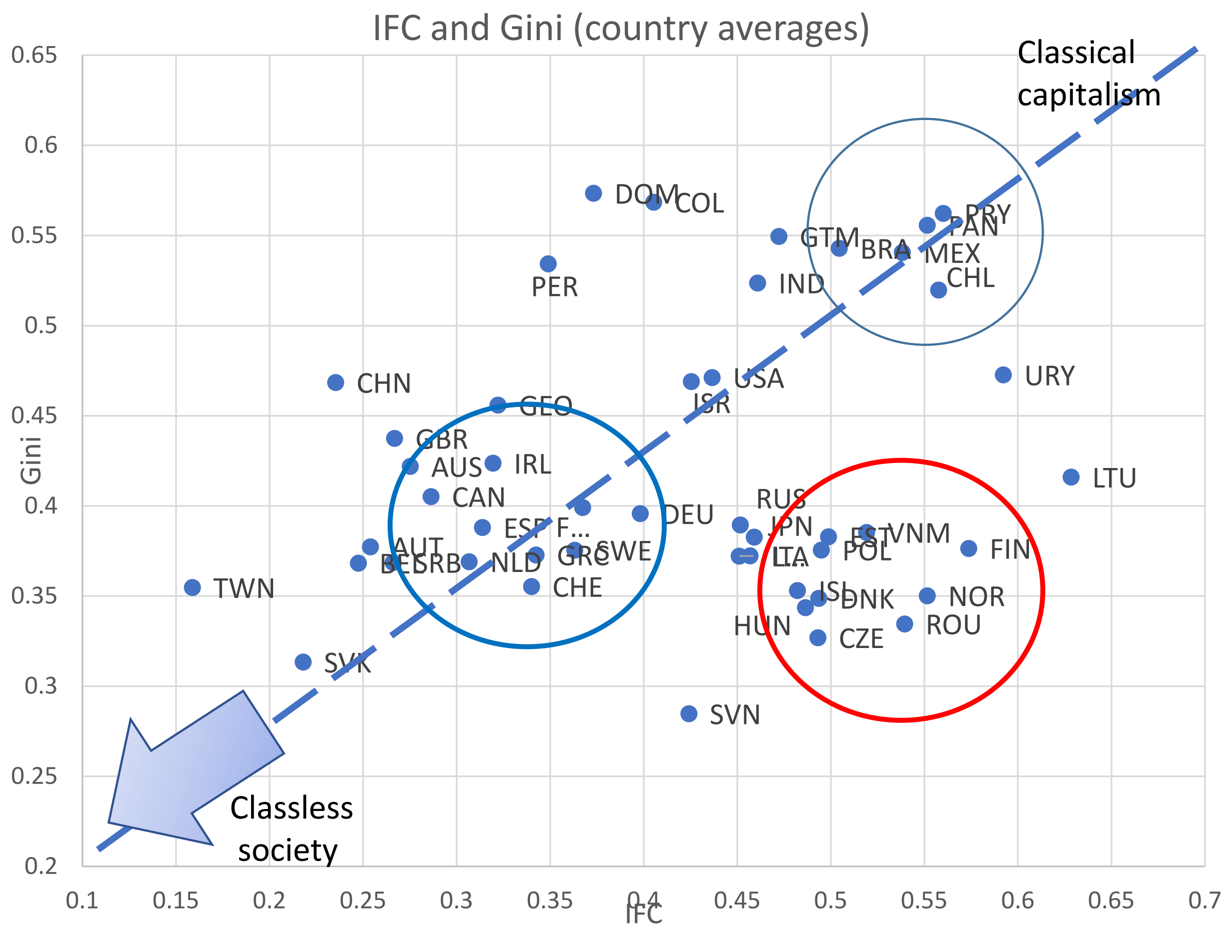


Figure 5: The mechanical impact of rising homoploutia and capital income share on total income inequality, 1986—2020. The baseline result shows how the top 10% total income share has changed between 1986 and 2020. The other lines show counterfactual calculations in which homoploutia is fixed (dashed black) and capital income share is fixed (dotted gray).

Berman & Milanovic 2021

Compositional and inter-personal inequality



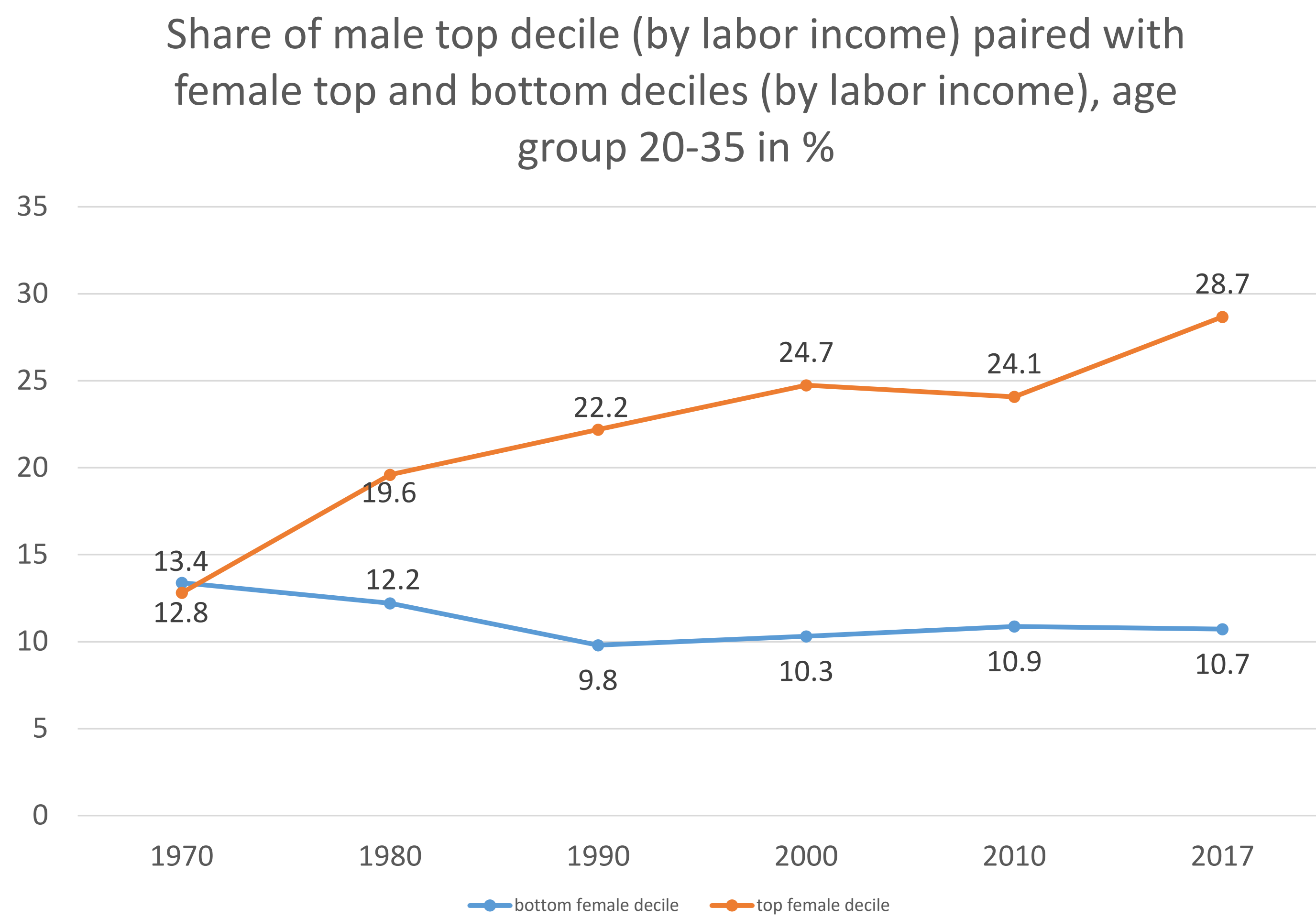
Ranaldi and Milanovic, 2020

Nomenclature of capitalism

Table 4. Nomenclature of capitalism

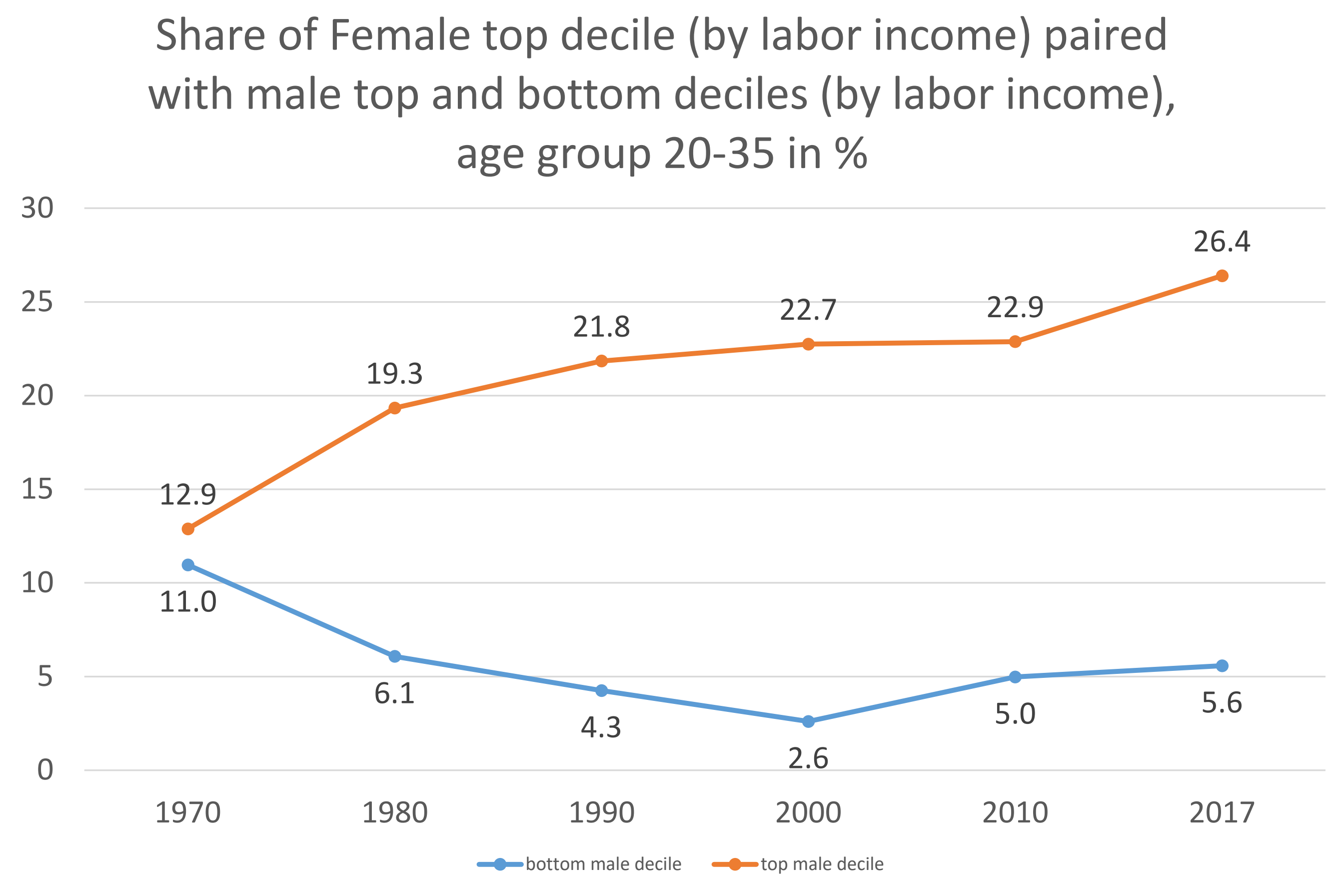
	Compositional inequality			
Inter-personal Inequality	*Very low*	*Low*	*In-between*	*High*
Low	Taiwan Slovakia	Liberal capitalism (Continental European countries, Canada, Australia)	Russia Japan Italy	Nordic and Central European countries
In-between		China	US Israel	Uruguay
High	[Homoploutia]		Dominican R Peru Colombia	Classical capitalism (most Latin American countries, India)

4. Homogamy (assortative mating): rich males (cohorts)



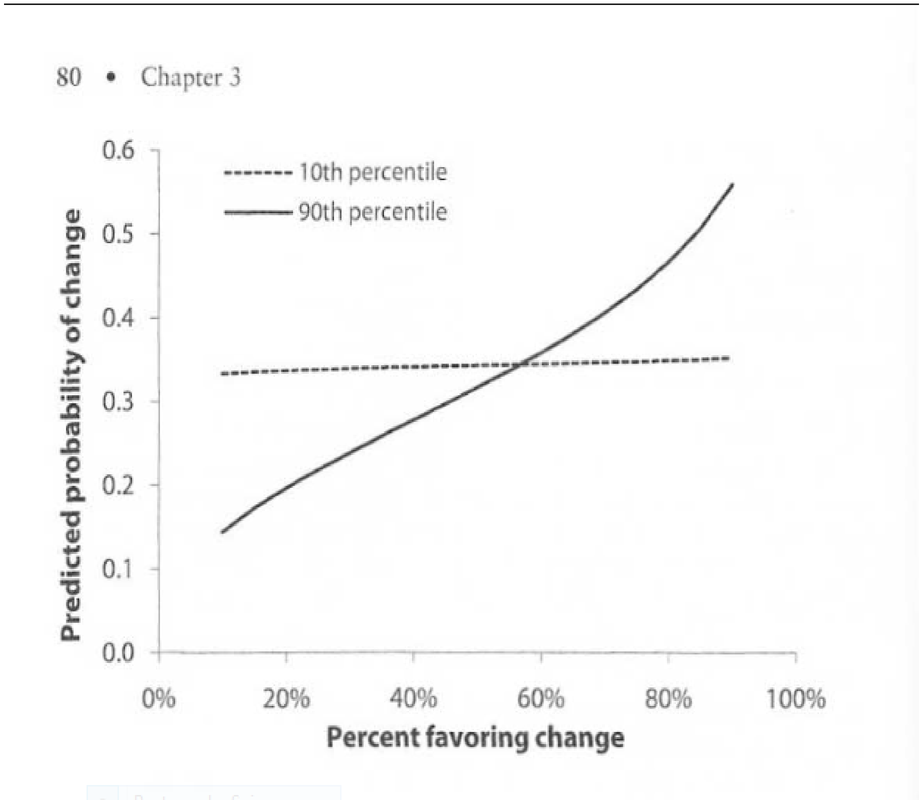
From Nishant Yonzan

Homogamy (assortative mating): rich females (cohorts)



From Nishant Yonzan

5. Policy responsiveness to the divergent preferences of the rich, middle class and the poor



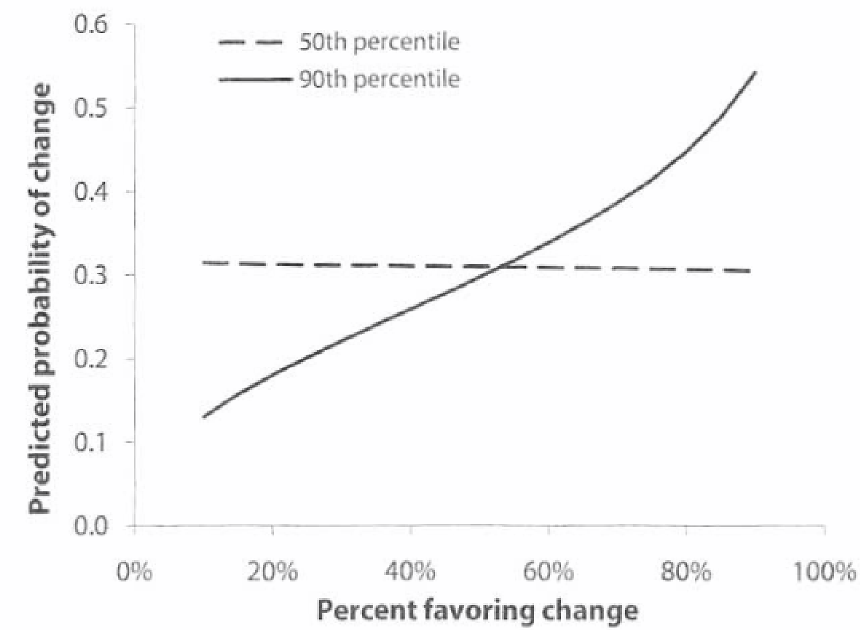
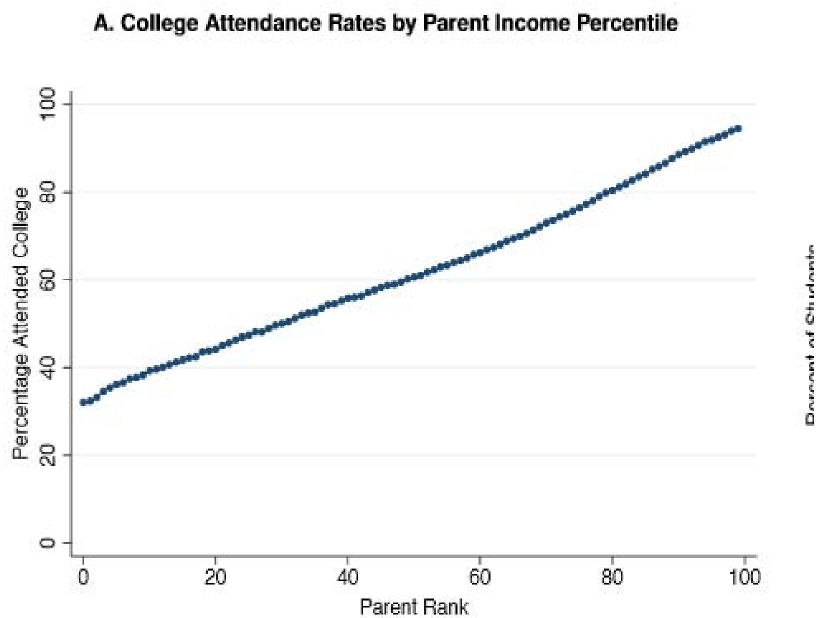


Figure 3.5. Policy Responsiveness When Preferences across Income Levels Diverge. Predicted probabilities are based on the logistic regressions reported in table 3.2.

From Martin Gilens, Affluence and Influence

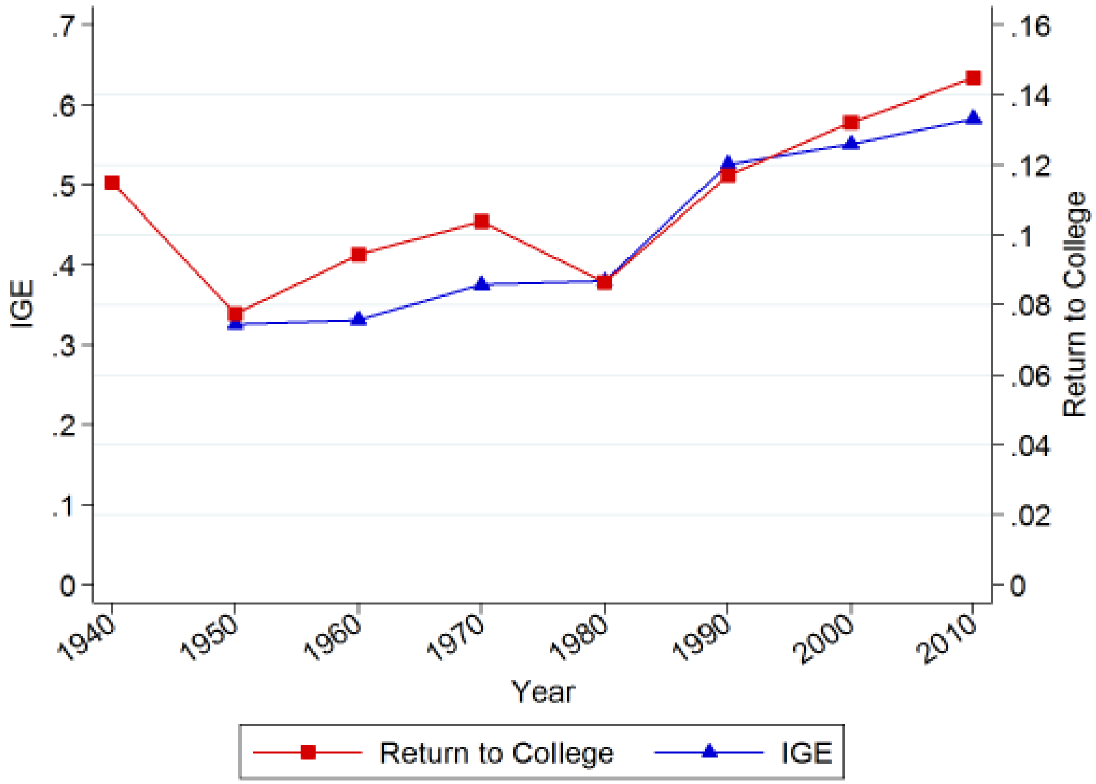
6. Using education to reproduce economic advantages

College attendance rate by parent income percentile



From Chetty, Friedman, Saez, Turner, Yagan, 2019

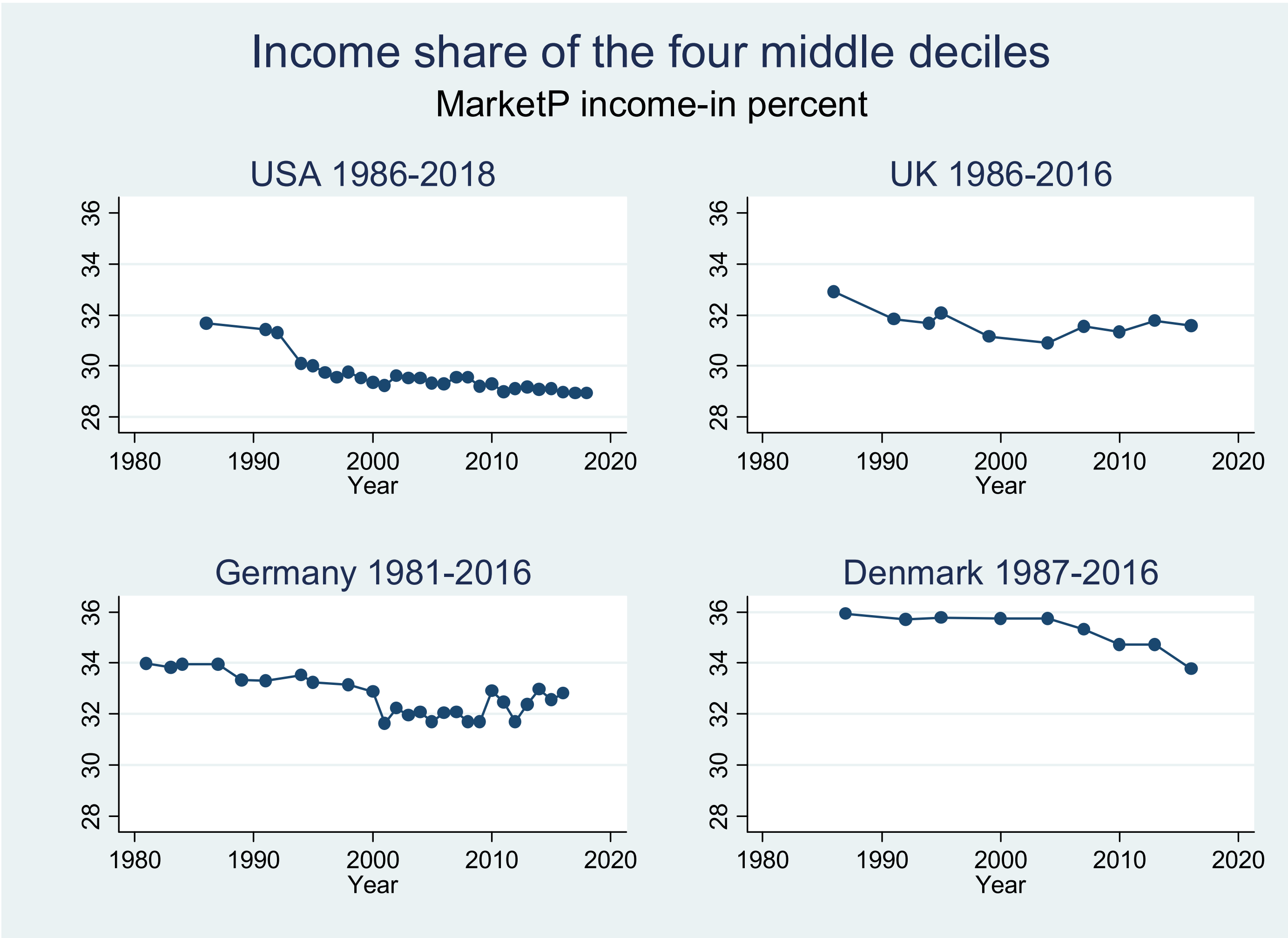
High returns to college and high intergenerational income correlation (IGE) go together



Davis and Mazumdar, 2017

3. The outcome: Shrinking middle class in both market and disposable income shares

Smaller size of western middle classes



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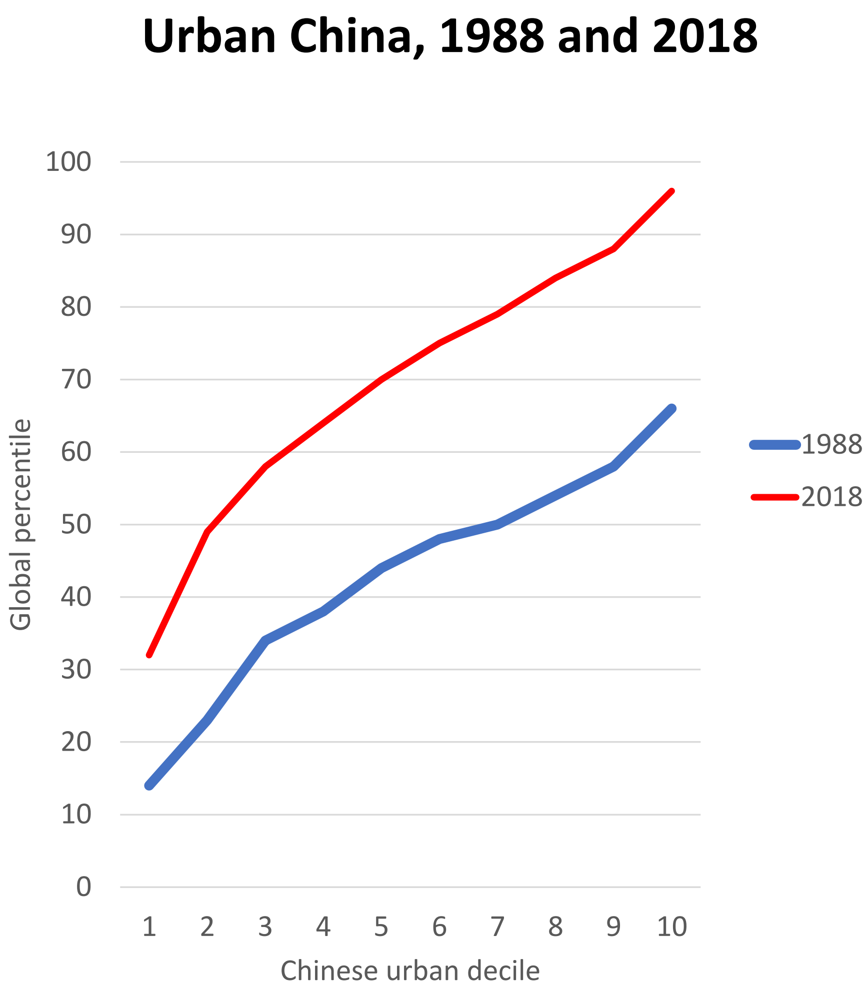
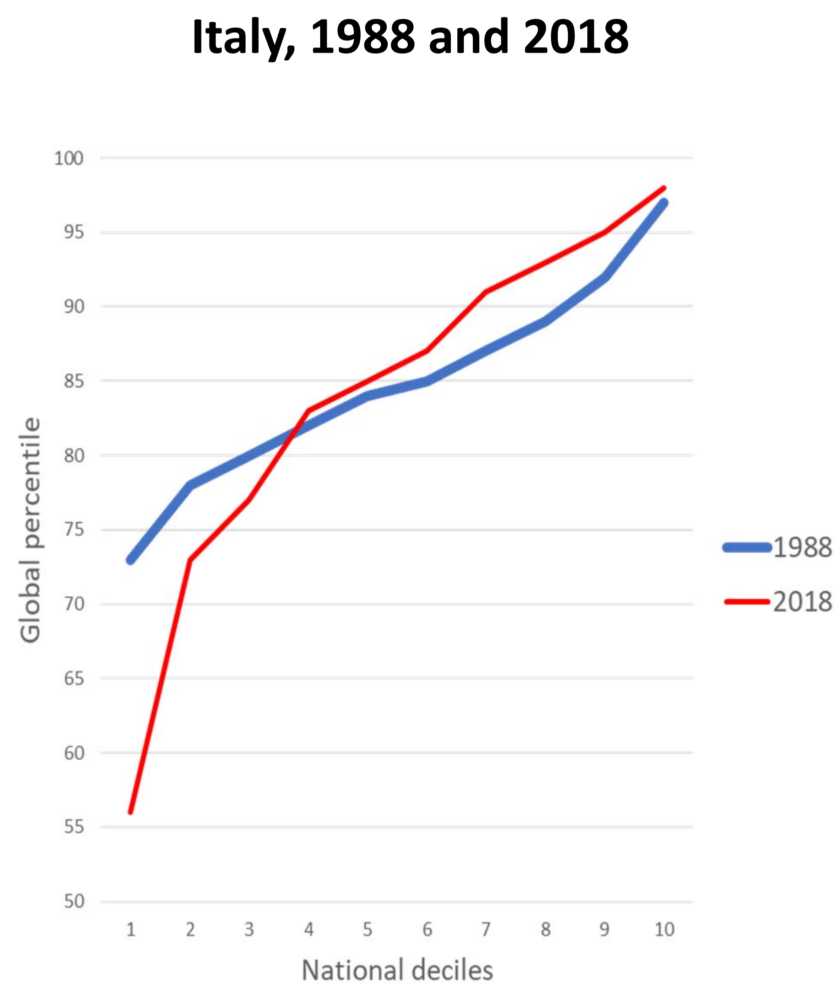
The decline in the relative position of Western lower and middle classes





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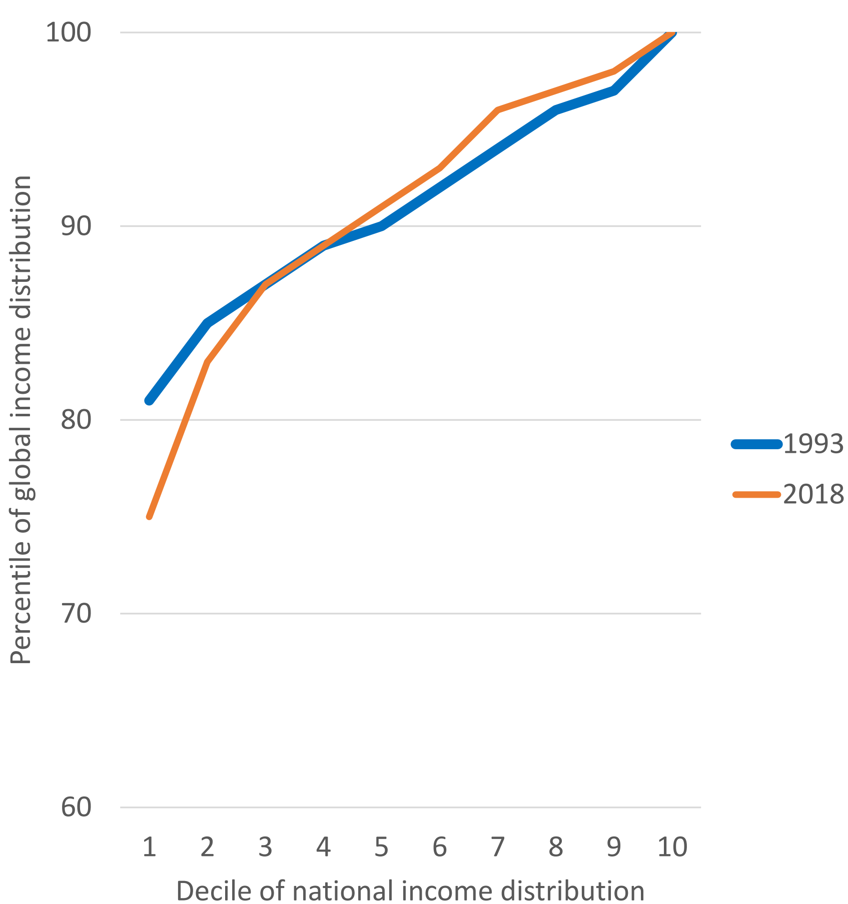
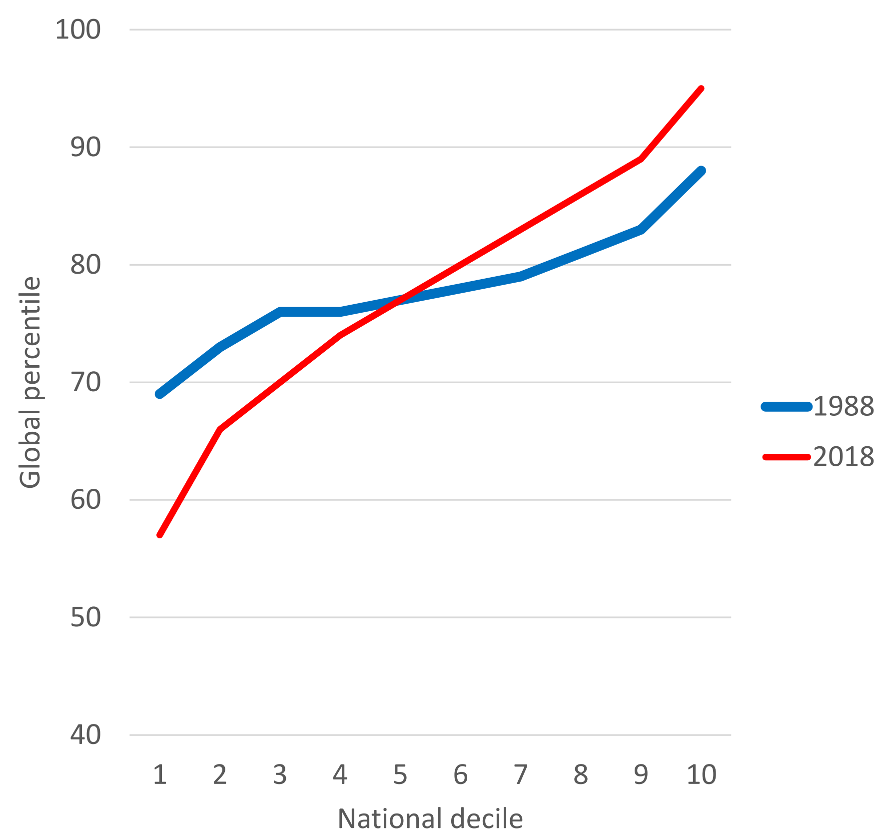
Germany, 1993 and 2018



Poland, 1988 and 2018



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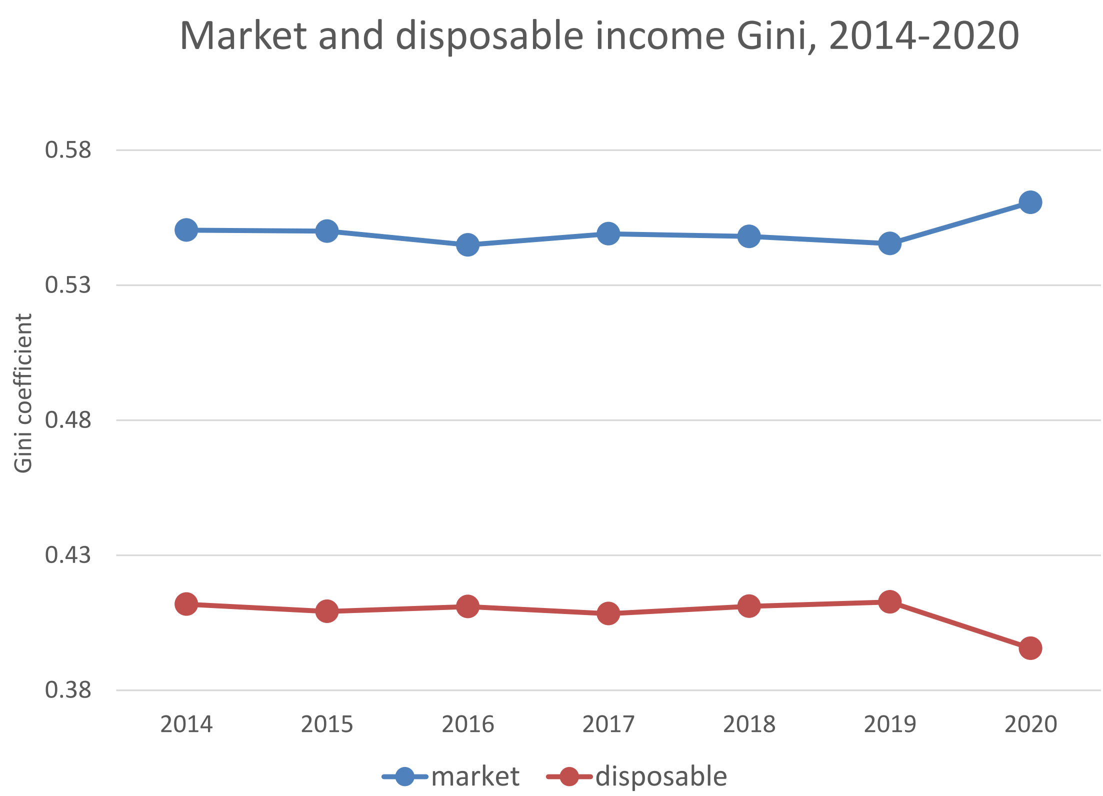
A note: In 2020, thanks to large US government transfer programs disposable income inequality went *down*



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4. Policy: how to change it?

Policy

- Rich countries can expect to have an ever greater K/Y ratios. Unless r drops proportionally, capital share is likely to continue to rise.
- With the current K and L endowments, that implies a pass-through rate whereby each additional point in K share translates into about ½ Gini point increase in personal income inequality. Is this sustainable, if e.g. the share of capital goes up by 10 points?
- Technically the link can be weakened by increased taxation of income from capital (flow) or wealth (stock)
- Both would reduce Gini of capital income and reduce the pass-through to inter-personal inequality
- But four key tools of inequality reduction from the 20th century are weaker now: education, trade unions, taxes, social transfers
- So what are the solution?

Capital: more widely owned

- But the question is to what extent are higher taxes on capital flows or capital stocks feasible in the era of globalization. Require very high level of inter-state coordination and is difficult to enforce.
- An alternative would be to **focus on "pre-redistribution**", that is on reducing the concentration of capital endowments through much more widely spread ownership.
- Could be done through workers' shareholding (ESOPs), but they have a problem of non-diversification of risk (although that issue is somewhat exaggerated) or
- through greater incentives for small savers and investors and penalties (elimination of loopholes) for large investors.
- Or inheritance taxation.
- The key point is to increase capital ownership for some 80% of people who currently own 10% of all wealth (including housing).

Education: public

- Equal access to education
- Equal access to equal **quality** of education
- Reduction of premiums that are currently the product of either better quality or greater prestige (higher costs) of schools, and particularly so where wages are not determined, even vaguely, by marginal productivity
- Large de facto subsidies to private education (through foregone taxes on returns to endowments)
- Why the rich want to keep education expensive? Preserving the monopoly of top paying jobs for their offspring (14.5% of students at Ivy+ colleges from the top 1% parents; likelihood of attending 77x greater than from the bottom quintile; Chetty, Friedman, Saez, Turner, Yagan, 2019)

Systemic inequalities in liberal/meritocratic capitalism and policy actions

Systemic inequality	Possible remedy
Increasing aggregate share of capital in national income	Demonopolization, stronger unions [But v little can be done]
High concentration of capital ownership	Deconcentration through tax advantages to the middle class, ESOPs, worker ownership Elimination of loopholes for the rich
Higher rate of return on the assets of the rich	Increased taxation of K gains
Homoploutia	Nothing
Homogamy	Nothing
Control of the political process by the rich	Electoral reform
Greater transmission of income and wealth across generations	Taxation of inheritance Public education (Rawls liberal equality)

5. What people's capitalism will do and will not do

- It is still capitalism according to Marx-Weber definition of capitalism
- It does not do away with hierarchical relations in the workplace
- It does not democratize production nor reduce alienation
- It provides lower income inequality and greater similarity of conditions
- It moves us towards a "société des égaux"; does not brings us there
- It ensures that further increases in the wealth-income ratio do not translate into greater personal income inequality
- It leaves open the possibility of a society where scarce labor would hire plentiful capital and where wage labor would disappear or become less important