Reading the Elephant Chart

Idea In Short

Study the elephant chart before forming views on trade policy or populism. Globalization lifted the bottom half of world incomes and enriched the top 1 percent, while the rich-world middle class saw two decades without real income growth. That stagnation, not ignorance, fuels the political backlash.

A Chart That Explains an Era

The elephant chart entered many readers' vocabulary through Edward Luce's book The Retreat of Western Liberalism, which argued that income inequality drove the global rise of protectionism and angry populism.1 The surprise in the data was location. The middle class of rich Organisation for Economic Co-operation and Development [OECD] countries felt disenfranchised, left behind and generally unloved. Luce argued convincingly that Trump's election in the United States and Brexit in the United Kingdom were symptoms of this mega-trend, not causes. A short PBS video explains the chart well for anyone who prefers watching to reading.

What Milanovic Measured

Economist Branko Milanovic graphed 20 years of global income data, adjusted for inflation and taxes so that comparisons held apples to apples across countries.2 The horizontal axis ranks the global income distribution based on 1988 income, with the global poor on the left and the global rich on the right. The vertical axis shows how much each group's income grew over two decades. The calibration surprises most rich-country readers. A family of four living on 3,000 dollars a year sat at the 55th percentile globally. A family on 30,000 dollars annually reached the 80th percentile. An income of 160,000 dollars, all after tax, placed a family in the global 1 percent. Wealth is relative, and the world's ladder is longer than domestic debates admit.

The Bottom Half Won

Anyone reading serious journalism knows the bottom half of the global income distribution did well over the last three decades. Global gross domestic product [GDP] growth was strong, and global trade worked. China and India pulled hundreds of millions of people out of poverty, while South Korea and Brazil posted their own gains. Bill Gates notes in his foundation's annual reporting that the world made great gains in malnutrition, vaccines and a host of other quality-of-life indicators.3 The elephant's body, from tail to head, rose with the tide. This is the part of the story worth celebrating without reservation.

The Top One Percent Also Won

The trunk's tip tells the second unsurprising story. Asset prices boomed for decades. The exchange-traded fund tracking the S&P 500 roughly tripled from the end of 2011, rewarding everyone who owned growth equities. More people should own productive assets and invest for their future, which makes the concentration of ownership its own policy problem. Those who held stocks, bonds and real estate compounded wealth while wages idled. The chart records the result as a sharp upward spike at the far right of the distribution.

The Losers in the Middle

Here comes the surprise that named the chart. Of all groups globally, people ranked between the 75th and 95th percentiles saw almost no after-tax income growth. This is where the elephant's trunk dips toward the floor. The stalled group is the OECD middle class, people accustomed to living well. They are small shop owners, office workers, factory workers, retail workers and service workers. They are insurance salespeople, mechanics, craftspeople, teachers, bank tellers, drivers, healthcare workers and restaurant servers across the United States, Spain, France, Japan, South Korea, the United Kingdom, Germany, Canada, Australia and Italy. The middle class of Liverpool, Lynchburg, Lyon and Leipzig ended the period no better off than they began it.

Averages hide this. The world overall grew richer, vindicating Adam Smith, yet the aggregate conceals two decades of frustration for those earning between 70,000 and 90,000 dollars. As Milanovic observed, they feel fear from both ends, because poorer populations are catching up while compatriots who own assets pull further ahead. Squeezed from below and above, their anxiety is arithmetic, not imagination.

Understandable Dissatisfaction, Ugly Symptoms

For families in this band, the experience stinks. No real wage growth for more than 20 years, compounded by job insecurity, produces predictable resentment. Sadly, the resentment often finds oversimplified and mean-hearted outlets: xenophobia, anti-immigrant sentiment and nostalgia for a wealth that trade did not actually take. Diagnosing the politics without the economics misses the point. The elephant chart shows a genuine grievance underneath the ugliness, which is precisely why serious people should engage it rather than dismiss it.

The Challenge for Policymakers

Proponents of global trade, the Economist-reading, Milton Friedman-admiring kind, can hold their position and still contemplate this chart honestly. Trade remains the smartest long-term way to increase global wealth, and every market transition creates winners and losers. Developed-country policymakers face four linked questions. How can economies transition to high value-added jobs appropriate to their citizens' opportunity cost? How can real wage growth reach everyone, not only owners of stocks, bonds and real estate? How can labor flow freely toward its greatest utility? How should leaders manage expectations for a slower-growth future? Ignoring these questions for another twenty years invites more of the politics the last twenty produced.

Hustle and Gratitude

Two personal conclusions follow. First, hustle. Thomas Friedman made clear that the world is flat, and the gig economy assigns each of us the pressure, privilege and mission to prove value through words and deeds. The era of entitlements from government, company or anyone else is fading. Second, gratitude. Almost nobody actually became poorer over the period, which counts as an accomplishment. The poorest among us, those living on two dollars a day in 1988, now live on about 2.40 dollars. That gain is far too small, and it is still a gain worth acknowledging in a world short on thankfulness.

- 1Edward Luce
- 2Branko Milanovic
- 3Gates Foundation

Summary

The elephant chart shows globalization's uneven arithmetic. The global poor and the global rich gained while the rich-world middle class stalled for twenty years. Policymakers must deliver value-added jobs and broad wage growth. Individuals must hustle, and gratitude still has its place.