

World Inequality: A Challenge to Globalisation
International Conference, Egmont Palace, Place du Petit Sablon, Brussels, Belgium

17 – 18 March 2008

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Global Inequality Today.

There is much controversy around global inequality; facts and figures do not speak for themselves.

On the one hand, the Human Development Report (1999,p3) mentioned that: “*the income gap between the fifth of the world’s people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960*”. On the other hand, the economist Bhalla stated in 2002 that “*Poverty [...] declined at a faster pace than at any time in world history. Using the popular \$1-a-day poverty line, the percentage of poor people in the developing world declined by 25% points from 1985 to 2000 – from 37.4 to 13.1 percent*”. Similarly; Chen and Ravallion, famous researchers from the World Bank, said in 2004 that “*... we find that the percentage of the population of the developing world living below \$1 per day was almost halved, falling from 40% to 21% over 1981-2001*” while Branko Milanovic, also from the World Bank, said in 2002 that “*World income inequality is very high. [...] World inequality has increased from a Gini of 62.8 in 1988 to 66.0 in 1993*”.

To clarify this “cacophony” among these statements, one should ask four questions: what do we want to measure? Which data do we have to measure it? How do/can we measure it? Other dimensions than income?

What do we want to measure and how?

In fact, there are three distinct concepts: inequality, poverty and welfare. Mostly, we talk about poverty which refers to people who are below some threshold. Inequality refers to the whole of the distribution and it is comparative. Welfare is a concept where the level of income plays a role. In this presentation, we will focus on inequality of income levels, at the world level and between individuals in the world.

Which data do we need?

The ideal would be to have data about consumption levels between people in the world, because they are more directly related to welfare than income levels. This requires working with micro data of individual incomes in the world but this is a difficult requirement to fulfil as survey data of individual income and consumption levels are needed for more than 200 countries in the world. Mostly, we do not have them but we have available the data for countries and GDP/capita data, at country level. However, very often, statistics refer to unweighted GDP/capita over the world. Then, Luxembourg has the same weight as China but it is also possible to weight the GDP/capita of all countries by their population size.

Branko Milanovic has coined *three concepts* of inequality at the world level.

Before analysing them, one has to stress the need to solve various data issues. In order to see the evolution, it is indeed important to do careful corrections for inflation over time, to look at constant price GDPs and to take into account differences in purchasing power parity between countries. As an example of this, we see the need for the corrections for the PPP-factors in trying to make the different countries GDP comparable [see PowerPoint presentation with the new GDPPPP values compared to the earlier WDI data]. It is clear that Nigeria for example makes a tremendous difference in level of GDP of 60% of GDP/capita. For China, there is a revision downwards of 40% of GDP/capita.

Milanovic *Concept I* is the UN Assembly model. This means all countries have the same weight; the GDP/capita is unweighted. In this model, we see polarisation: a very large bottom, a very large top of rich countries and no middle class. The picture is very complex, so it is natural to try to summarize this detailed distributional information with one measure. There are many methods of measuring. A popular one, but not the best measure, is the ratio of the income of the 20% richest countries to the 20% poorest and another method is the Gini coefficient. Using those measures, the picture shows a rising inequality, if you look at this between countries inequality of GDP / capita. Of course, the size of population between countries is not taken into account.

In Milanovic *Concept II* there is a weighting by population, but there are no data about within country inequality. This means we give each Chinese and Luxembourger the same GDP/capita. This model shows a big difference with the previous picture as it shows that international inequality is declining throughout the last 30 year. However, the whole concept through time is driven by what happens in two countries: India and China. It is mainly this kind of pictures which led to euphoric press releases some years ago.

However, the problem is that, under Concept II, changes within the countries are completely neglected! Looking at inequality within countries, one needs to go back to the data for each country separately. Within a country, like China for example, inequality is clearly rising. This is an inequality trend calculated on individual income data for China on a survey carried out in China. Both rural and urban data show inequality is rising.

Concept III is related to inequality between people in the world but it is very difficult to obtain data about that. Milanovic worked with a whole team years on this. The data for the year 1988, 1993, 1988 show that inequality is much higher than the declining trend which is suggested with concept II. Concerning poverty, data reveal that poverty has increased at the beginning of the '90s and that now, there is a very small decline.

How do we measure inequality?

The way you measure inequality explains the confusion between professional economists who always find that inequality is declining and the others who see an increasing inequality in the world. One of the reasons is that all the measures used look at ratios between incomes. If all countries grow at 10% for instance, the absolute gap between countries is increasing. Conversely, to keep a similar gap between countries some countries must have a much higher growth rate than others.

How is growth distributed over the populations in the world? The quintiles are 20% of the population, so the bottom quintile are the 20% poorest people, mainly filled in by China. They are growing faster than the European or American. But, even with lower growth in our

countries, the gaps are here increasing, a fact which is not taken up by the standard inequality measures. The normal Gini is a relative measure which keeps the ratio's constant for constant inequality while an absolute Gini shows that inequality is increasing. This is referring here to Concept II - inequality, not to Concept III, because we do not have the data.