

Global income inequalities

(based on *Worlds Apart*, Princeton UP,
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Two types of inequalities

Inequality between countries =
international inequality

Inequality between citizens of the
world = global inequality

Two types of inequality illustrated

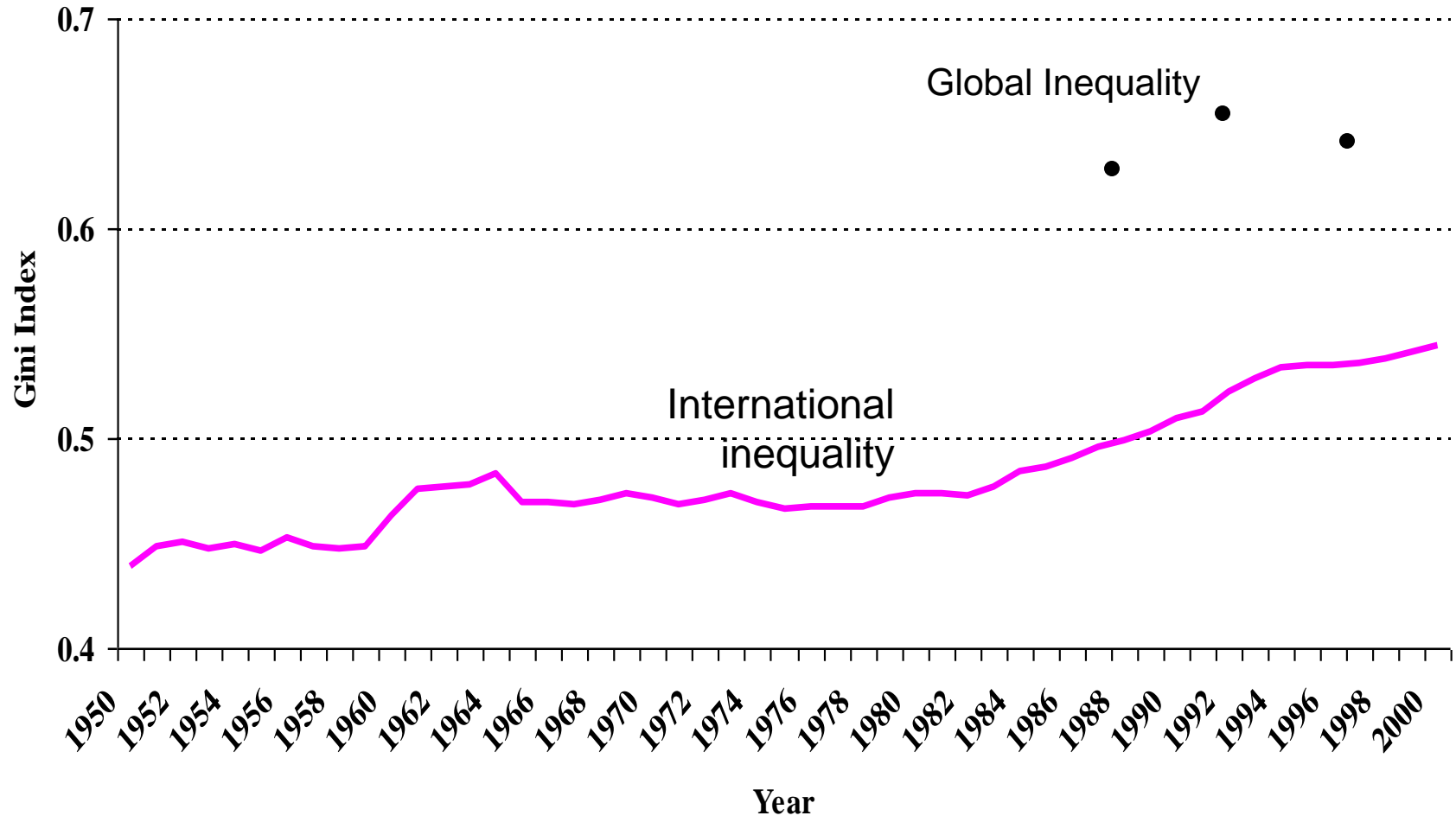
International inequality



Global inequality



Inequalities, 1950-2000:



— World unweighted

Why so few data points for global inequality?

- For international inequality, you need only GDI per capita. The data easily go back to 1950-1960, and even further (1820).
- For global inequality, you need in addition **distributions within countries** (to assess everybody's income). For China, USSR, most of Africa, household surveys are not available before mid-1980s.

What people agree and disagree

AGREE

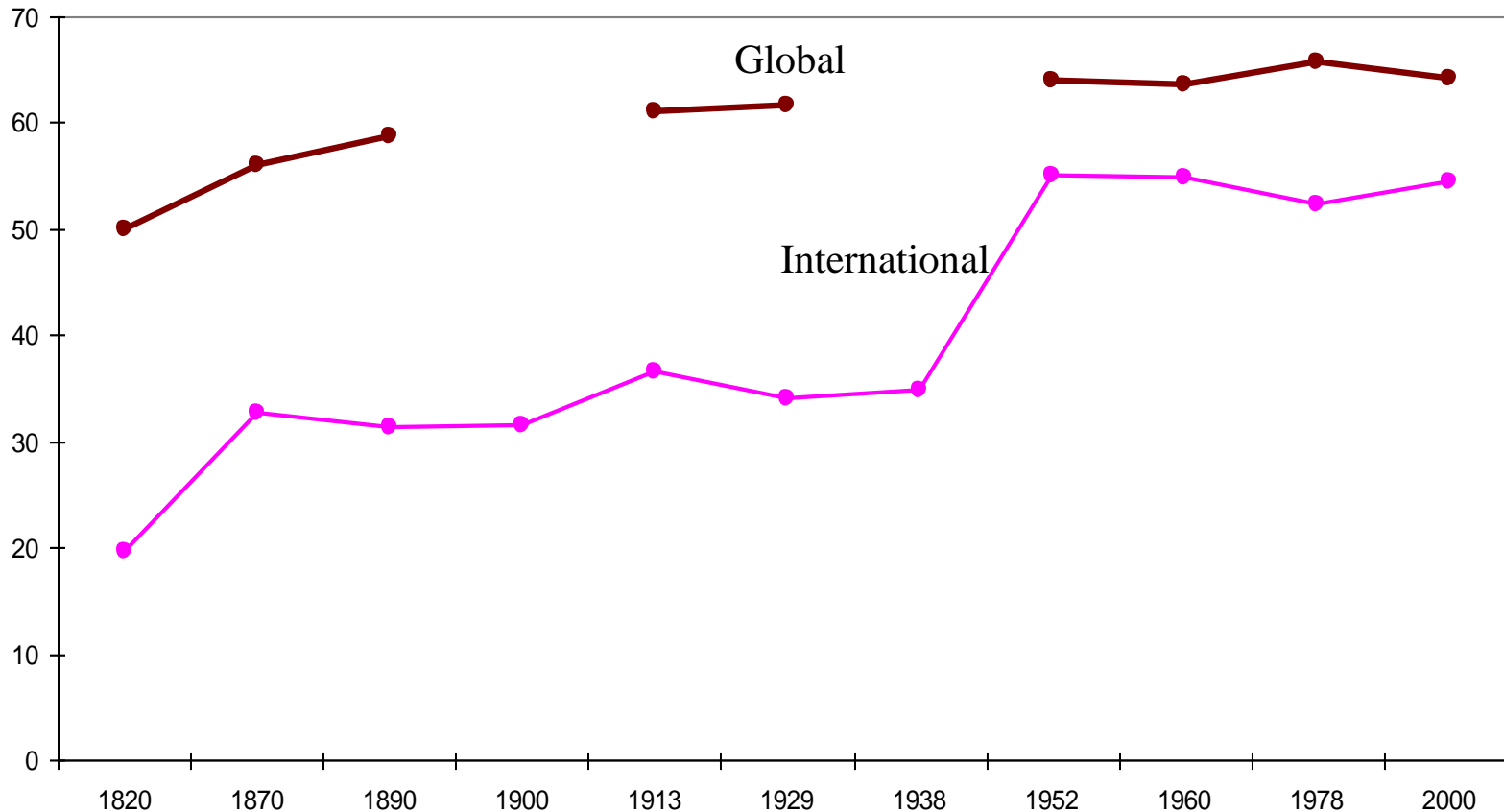
- International inequality increased substantially after 1978-80
- Global inequality is extremely high
- It is even higher (huge!) if we use actual dollars rather than PPP dollars

DISAGREE

- Is there a trend in recent global inequality or not

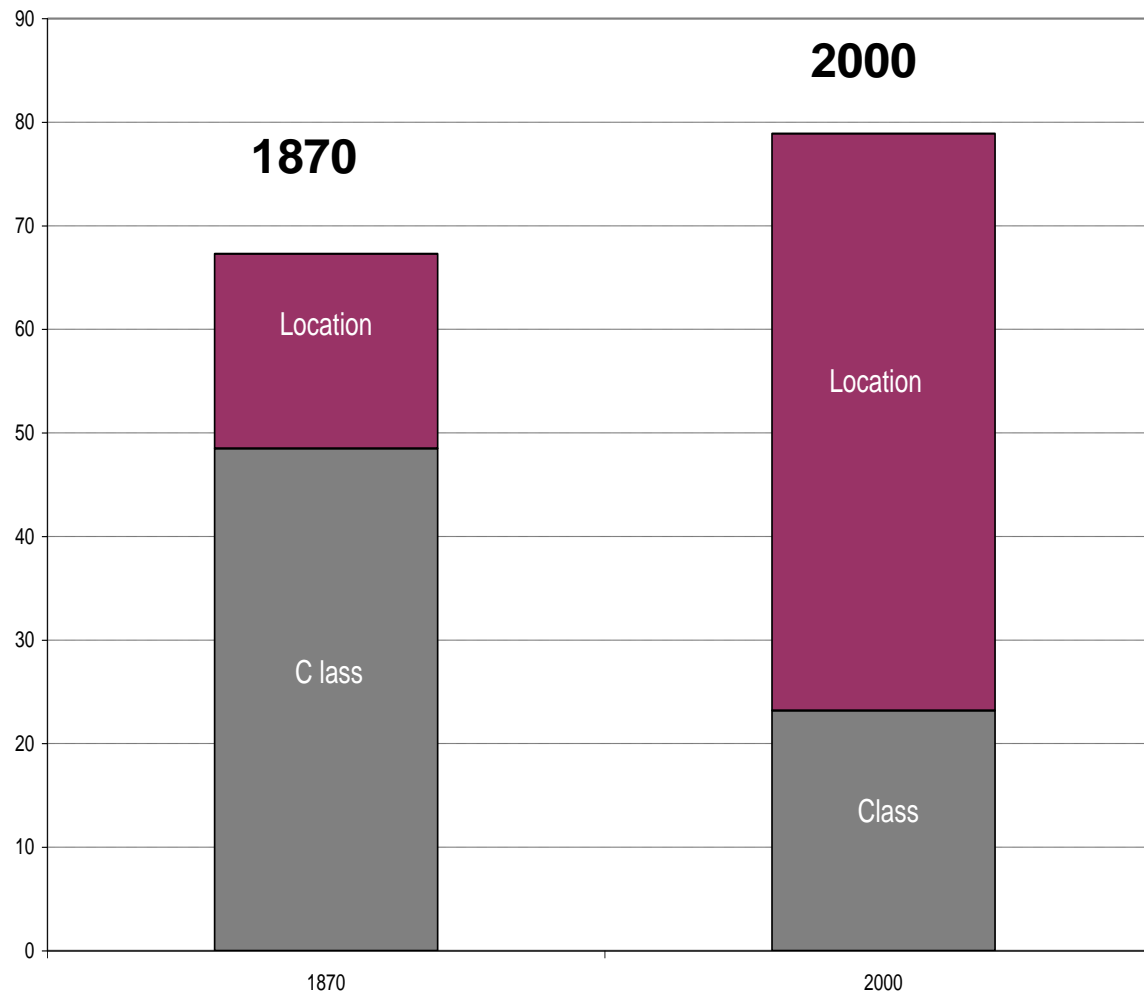
Some history first

Inequality in history, 1820-2000



Driven by the big bang of the Industrial revolution (and increase in the number of independent countries in 1960)

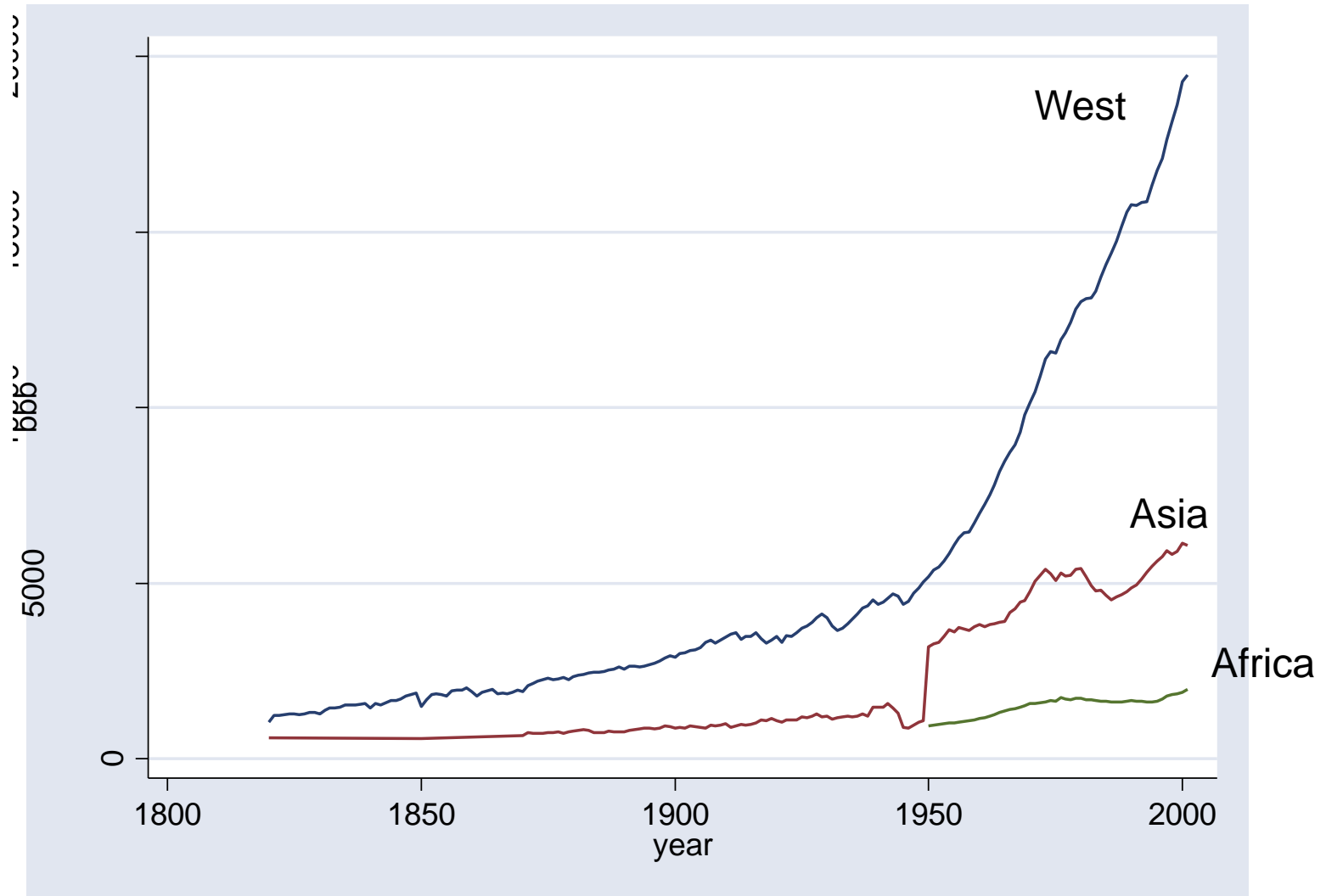
Composition of global inequality changed: from being mostly due to “class” (**within**-national), today it is mostly due to “location” (where people live; **between**-national)



A literary illustration of reduced within-national inequalities: Elizabeth's dilemma

	Income in 1820 (£ pa)	Approx. position in 1820 income distribution	Income in 2000 (£ pc pa)
Mr. Darcy	10,000	Top 1%	130,000
Elizabeth's family	3000/7~430	Top 10%	37,000
Elizabeth alone	50	Bottom 10%	2,600
Gain	100 to 1		50 to 1

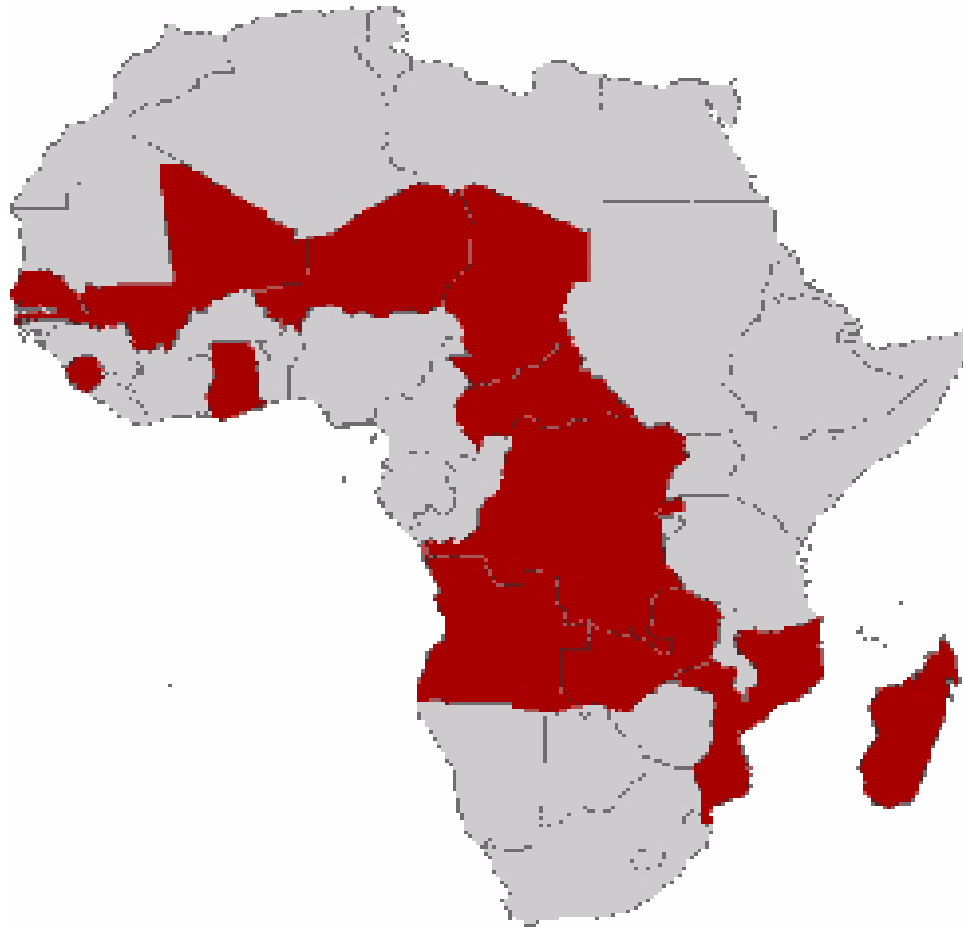
And increased differences between nations...
(average country income in each region)



Today: countries

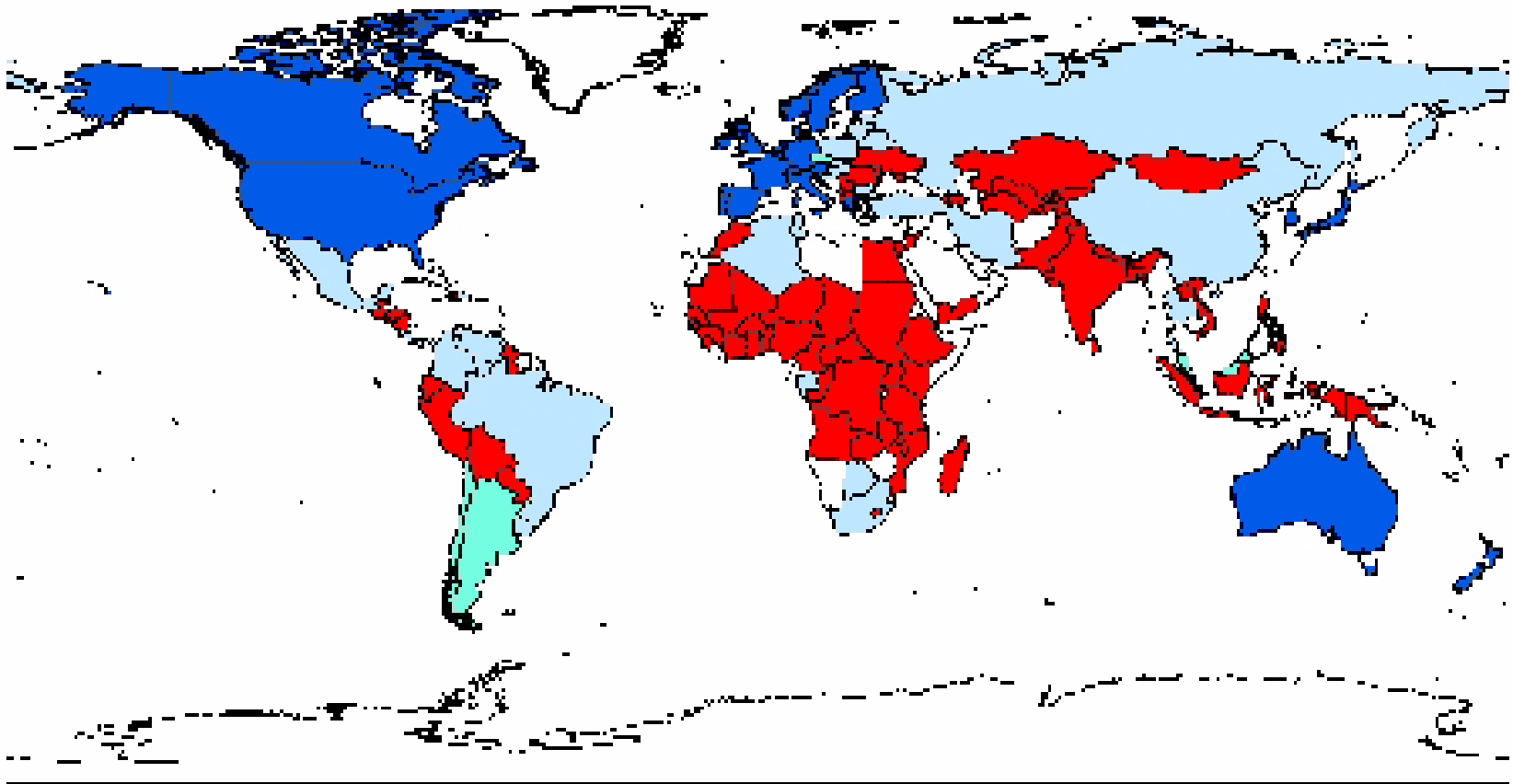
Poorer than during J.F. Kennedy

Parts of Africa where 2000 GDI per capita is less than in 1963 (180m people)



US GDI per capita in the meantime doubled

Four Worlds 2003



Borderlines in 2003: second world starts at \$PPP 10,000; third at \$PPP 5,000.

The key borders today

- **First to fourth world:** Greece vs. Macedonia and Albania; Spain vs. Morocco (25km)
- **First to third world:** US vs. Mexico; Germany vs. Poland; Austria vs. Hungary

In 1960, the only key borders were Argentina and Uruguay (first) vs. Brazil, Paraguay and Bolivia (third world), and Australia (first) vs. Indonesia (fourth)

	Approximate % of foreign workers in labor force	Ratio in per capita GDIs (in PPP terms)
Greece (Albanians)	7.5	4 to 1
Spain (Moroccans)	12.0	4.5 to 1
United States (Mexicans)	10.0	4.3 to 1
Austria (former Yugoslavs)	10.0	2.7 to 1

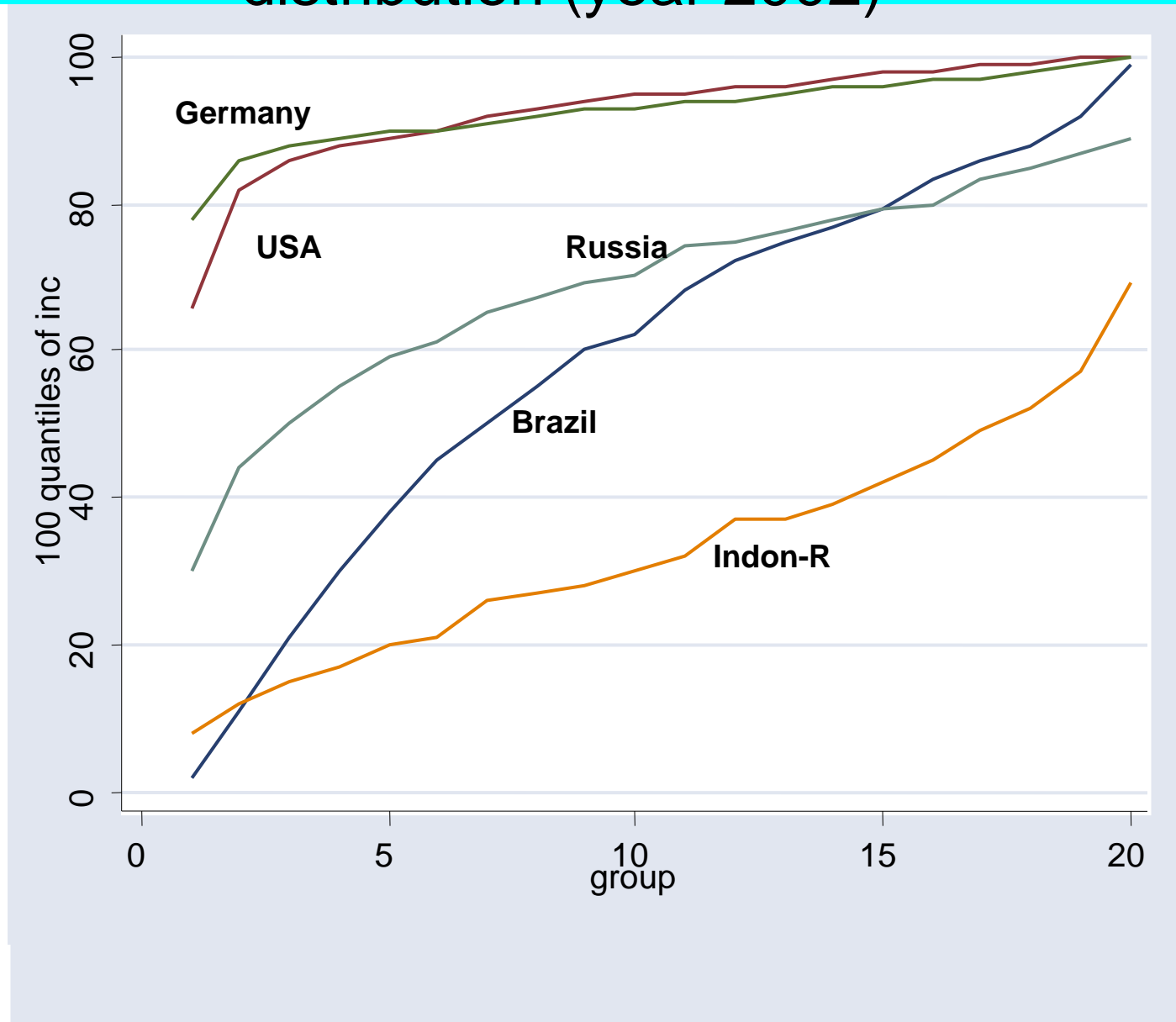
Today: people

Cumulative % of world population	Cumulative % of world income/consumption	
	In PPP terms	In \$
5	0.2	0.08
10	0.7	0.22
25	2.9	0.9
50	9.6	3.1
75	24.7	9.2
90	50.4	32.9
Top 10	49.6	67.1
Top 5	32.7	45.3

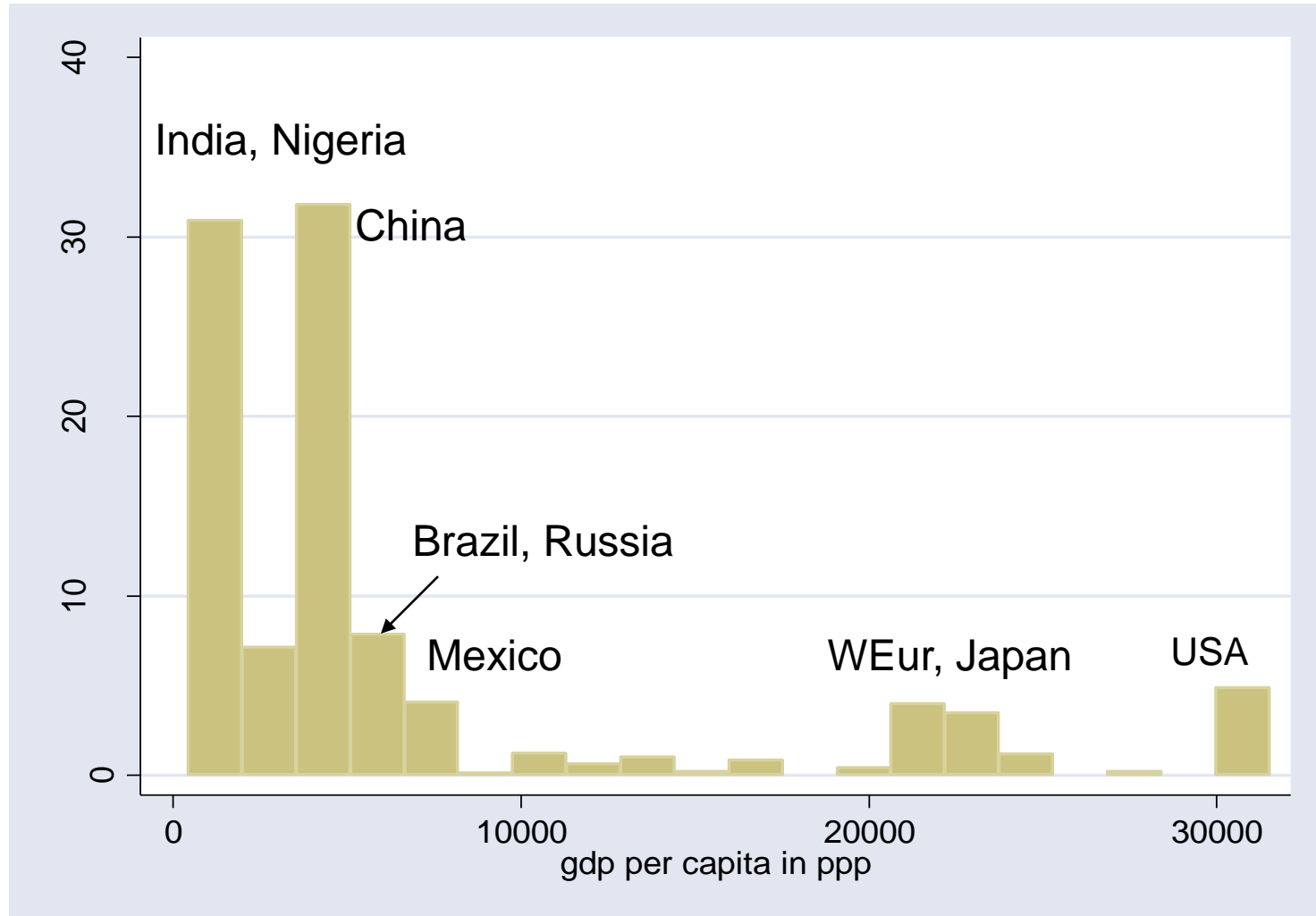
The bottom line

- In PPP terms, the top 5 percent of world population controls **one-third** of world income. They make in 2 days what the poorest 5 percent make in a year.
- In dollar terms, the top 5 percent of world population controls almost **one-half** of world income. They make in 15 hours what the poorest 5 percent make in a year.

Position of different groups in global income distribution (year 2002)



Population according to income of country where they live (2000)



Emptiness in the middle: only 230m people live in countries with GDI per capita between \$PPP 10,000 and 20,000

Future evolution of global inequality

- Equalizing force: China's and India's fast growth. They are poor and populous (although at some point their growth may become disequalizing if Africa continues to stagnate)
- Disequalizing force: Increased national inequality (particularly R/U gap) in China, India, elsewhere in Asia etc.

Does global inequality matter?

- **NO**, according to Ann Krueger (2002):

“Poor people are desperate enough to improve their material conditions in absolute terms rather than to march up the income distribution. Hence it seems far better to focus on impoverishment than on inequality.”

- **YES**, according to Kuznets (1954)

“...reduction of physical misery associated with low income and consumption levels...permit[s] an increase...of political tensions”

BECAUSE

“the *political misery* of the poor, the tension created by the observation of the much greater wealth of other communities...may have only increased.”

What may be the effects of global inequality?

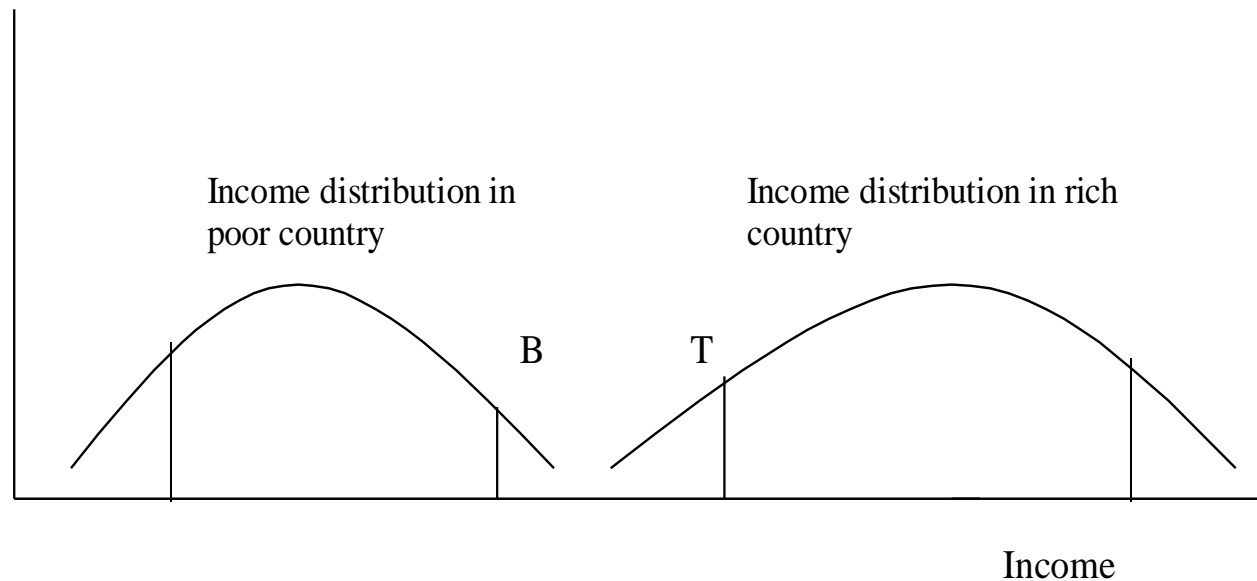
- Globalization increases awareness of differences in living standards (aspiration level changes; empirical studies show it)
- Leads to migration
- May lead to conflict (*Jennifer Government*)

We need some rules for global transfers

- They should flow from a rich to a poor country. That is easy.
- But they have to satisfy the same rules as at the national level, i.e.
- transfers should be globally progressive, that is flow from a richer **person** to a poorer **person**.

In addition transfers have national income inequality implications

Progressive transfer at the global level and worsening national distributions (may not be politically sustainable)



Idea of global transfers

- Transfers are no longer from **state to state**, or from **inter-state organization** to a **state**, but from **global authority to citizens** (change in paradigm)
- A natural complement to global tax authority is relationship with (poor) citizens, not (poor) states

And in cash...

The new Agency

Tax on commodities consumed by the rich people in rich countries



Money collected by the Agency



Aid in cash given to different poor categories of people in poor countries

Several key points: GCB

- **Symmetrical** treatment of poor and rich countries (limited sovereignty for both: rich lose some tax-raising authority; poor govt cannot decide the use of funds)
- No loans, but **grants** (pure transfers)
- No projects, but **cash** to citizens
- No fine targeting, but **broad categories**
- Use NGOs and citizen groups