

## 5. Global inequality (cont.)

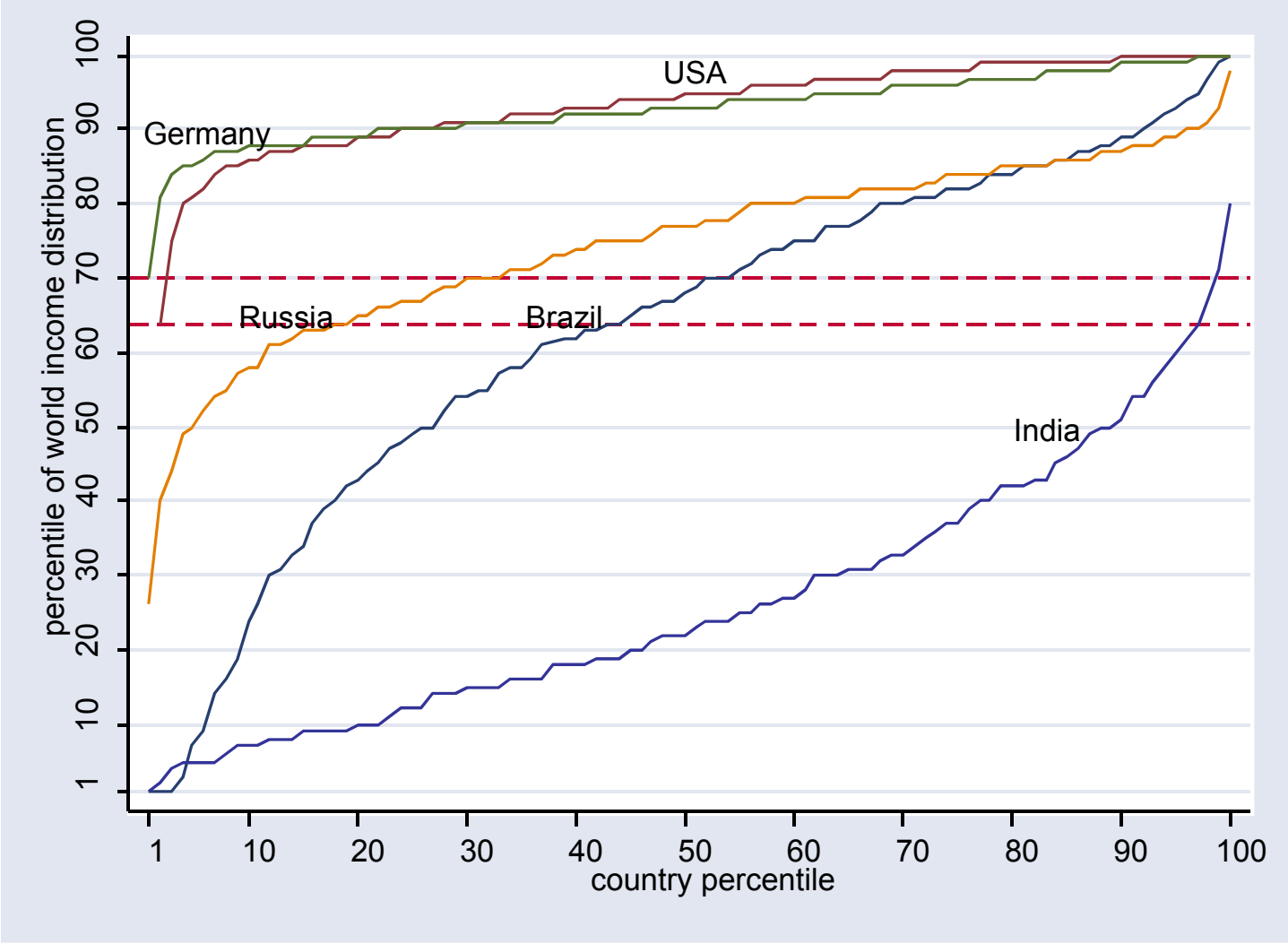
# More than fifty-fifty world (new PPPs)

Cumulative % of world population	Cumulative % of PPP world income/consumption	In a single country (UK)
5	0.24	
10	0.6	2.0
25	2.1	
50	6.6	25.0
75	17.8	
<b>90</b>	<b>42</b>	71.5
<b>Top 10</b>	<b>58</b>	28.5
Top 5	38.6	18.4

## How big is a Gini of 70? (Year 2002, 2005PPPs)

	Top	Bottom	Ratio
<i>In PPP dollars</i>			
5 percent	38%	0.24%	165-1
10 percent	58%	0.6%	95-1
<i>In current \$</i>			
5 percent	45%	0.15%	300-1
10 percent	67.5%	0.45%	150-1
10 top countries	31,850	580	55-1

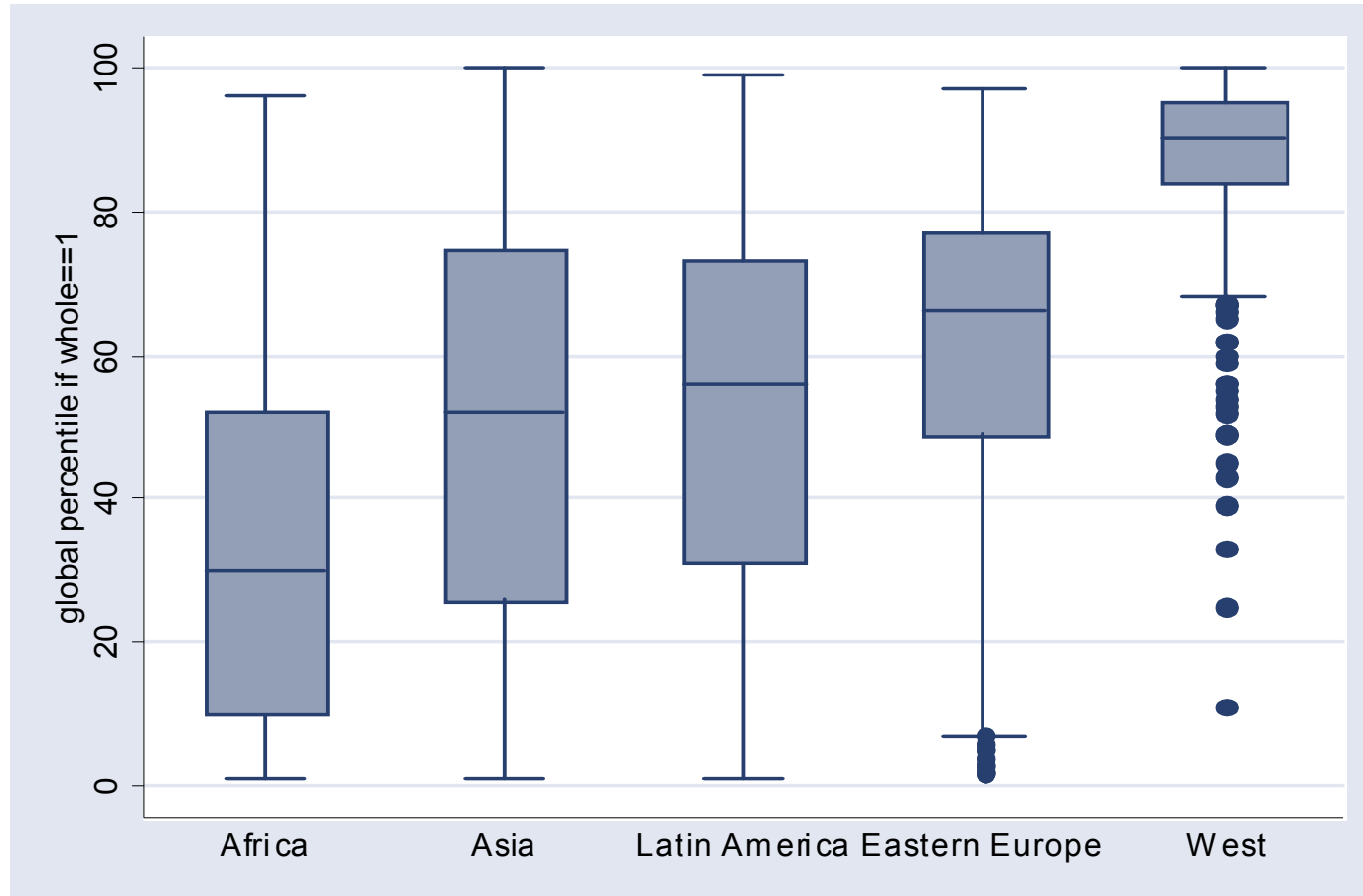
# Different countries and income classes in global income distribution (year 2002; new PPPS)



# Note...

- Richest people in India barely intersect with poorest people in Germany
- Bottom 20% of Americans worse off than equivalent people in Germany
- But this is not true for Brazil and Russia: about half of the population of Brazil better off than the very poorest percentile in Germany; for Russia, it is 4/5.
- Russian better-off than Brazilians except at the top (note convexity at the top in Brazil)
- Important later for rules re. global transfers

## Distribution of percentile of global income distribution across five world regions



. graph box inc\_c if maxgroup==20, over(region); use world2002.dta

# Global inequality of opportunity

- How much of variability of income person's global income can we explain with two circumstances only: person's country of citizenship and income class of his/her parents?
- Both circumstances basically given at birth
- With citizenship person receives several public goods: income of country, its inequality level, and its intergenerational income mobility.

## The answer is: about 80 percent!

(dependent variable: HH per capita income in \$PPP )

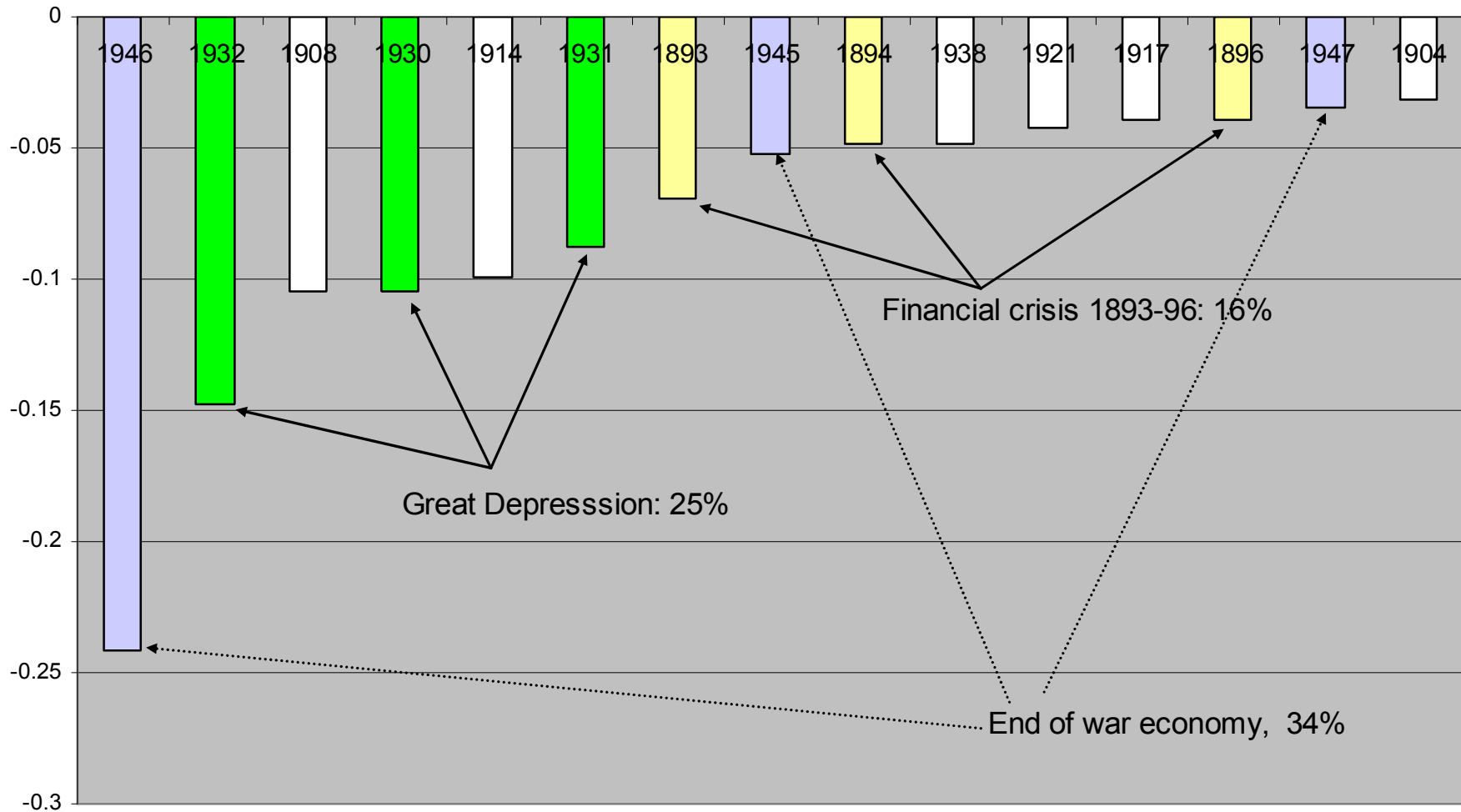
	Base case	Optimistic	Pessimistic
<b>Mean country income (\$PPP; in logs)</b>	0.99 (0)	0.99 (0)	0.99 (0)
<b>Gini index</b>	-0.019 (0)	-0.019 (0)	-0.019 (0)
<b>Parents' national income class (from 1 to 20)</b>	0.105 (0)	0.100 (0)	0.110 (0)
<b>Adj. R<sup>2</sup></b>	0.81	0.80	0.83

Based on 116 countries, 20 ventiles for each, year 2002

Base (optimistic, pessimistic) case about intergenerational income mobility in different parts of the world

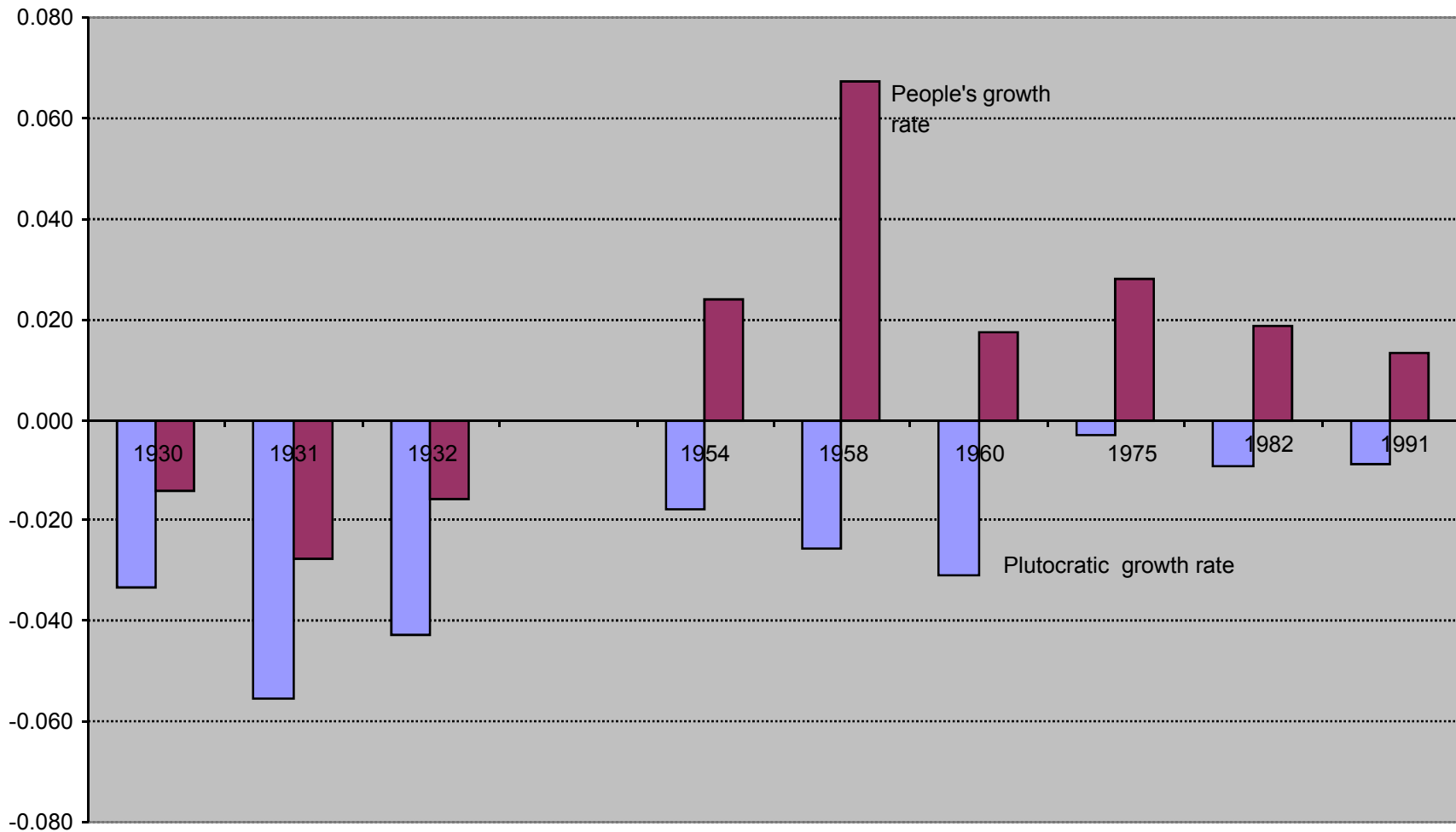
## 6. Global financial crisis and global inequality

# 15 largest annual GDP per capita declines in the United States history



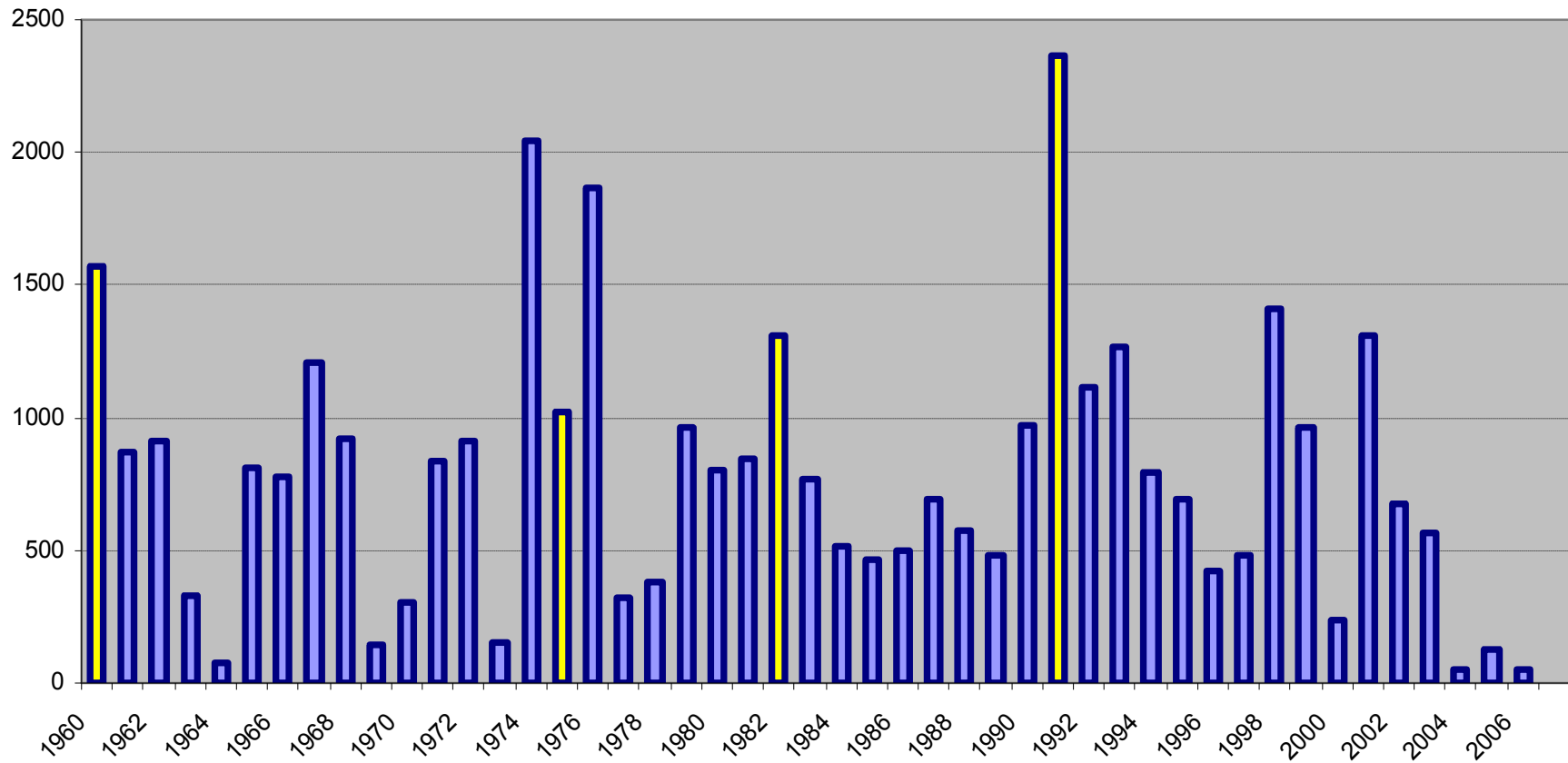
Plutocratic and people's  
recessions are not the same  
thing

# Plutocratic and people's global growth rate in years of plutocratic recessions



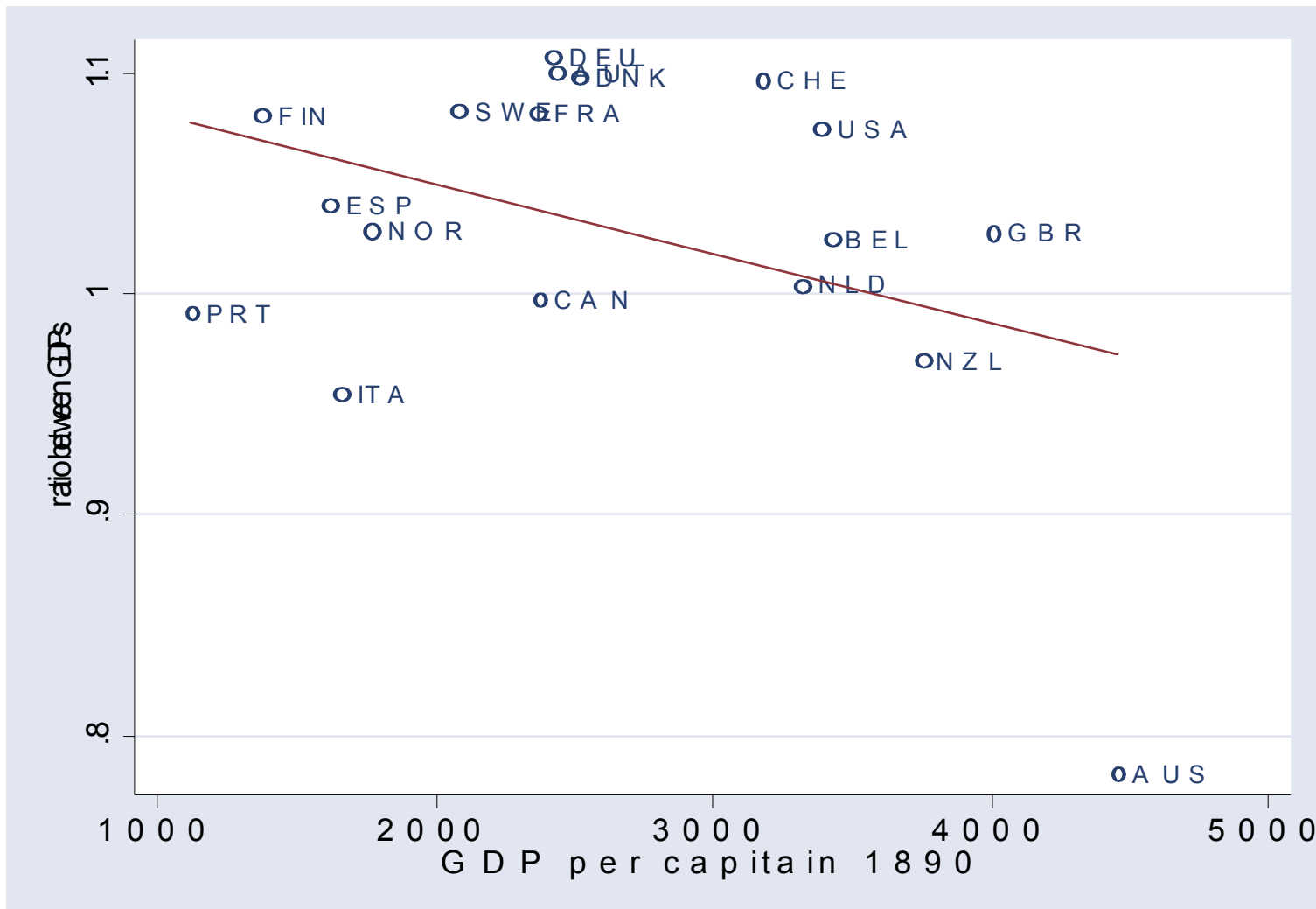
# Shrinking GDPs

People living in countries with negative growth rates (in milion)  
(years of plutocratic recession in yellow)



Who is affected more: poor or rich countries?

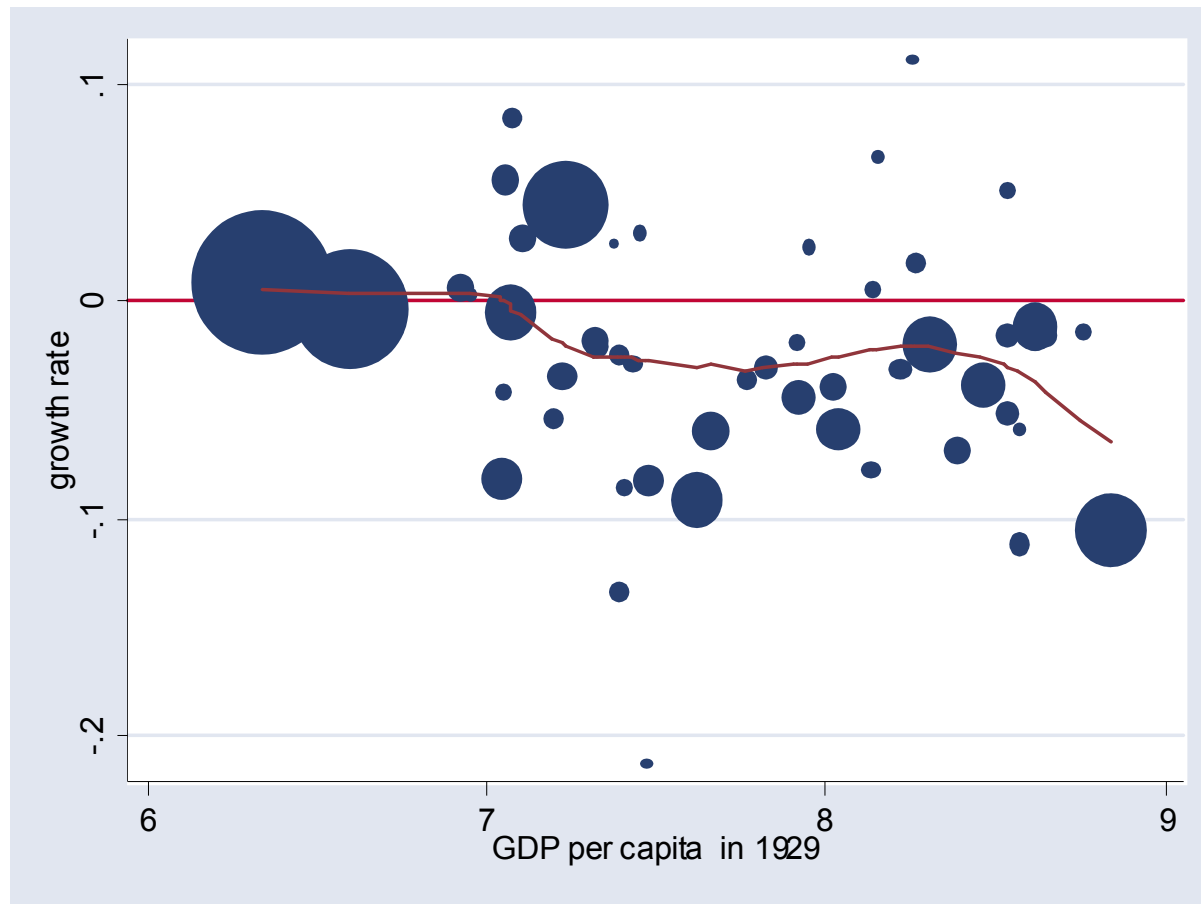
# The financial crisis 1890-95: relationship between initial GDP per capita and its change during the crisis



# The Great Depression 1928-33: relationship between initial GDP per capita and its change during the crisis

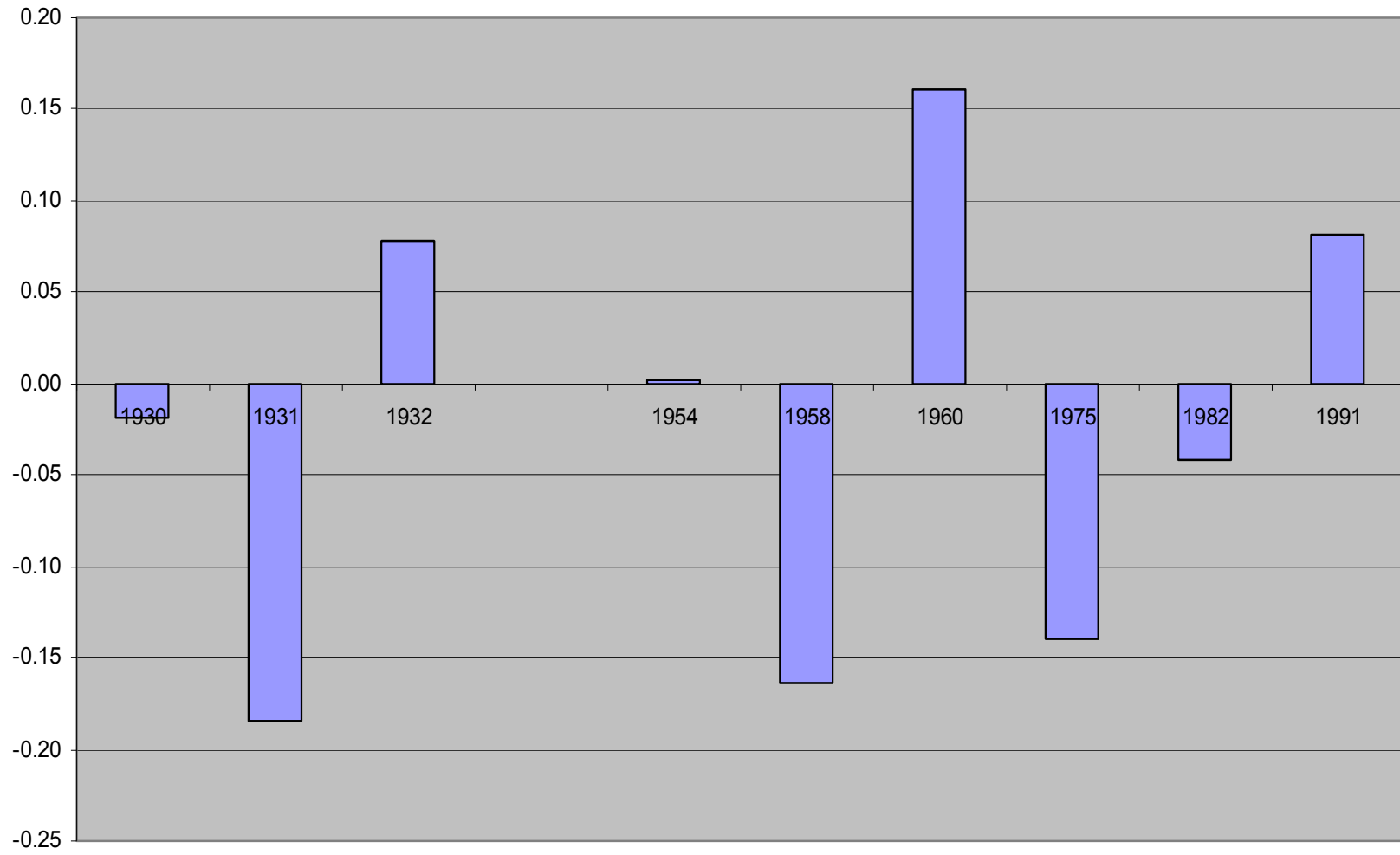


# World, by population, in the crisis 1930



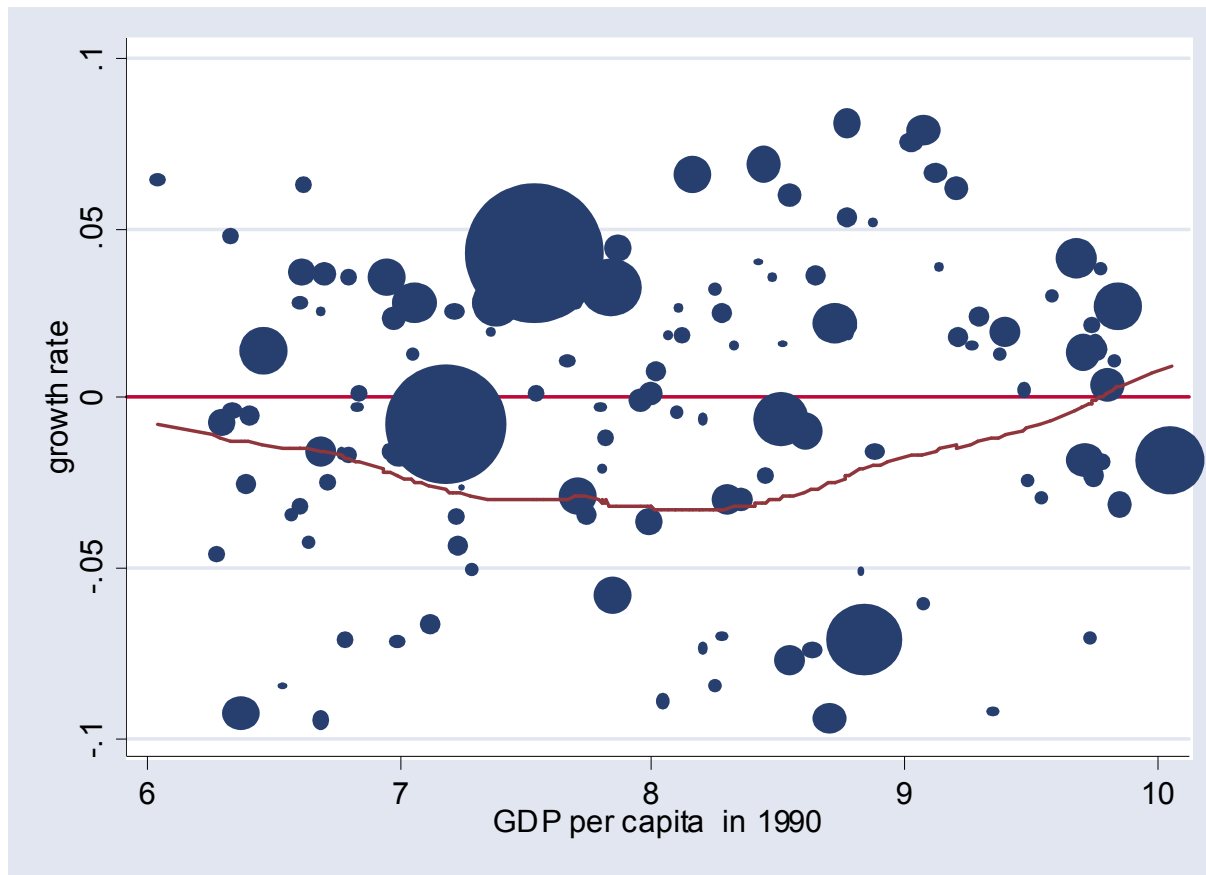
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twoway (scatter dlngdpppp laggdpppp if year==1930 [w=pop]) (lowess dlngdpppp laggdpp  
> ppp if year==1930), yline(0) ytitle(growth rate) legend(off) xtitle(GDP per capita  
> in 1929) [from maddison polity2.dta
```

# Unweighted correlation coefficient between growth rate and GDI per capita (in years of global recession)



Negative coeff: rich countries decline more.

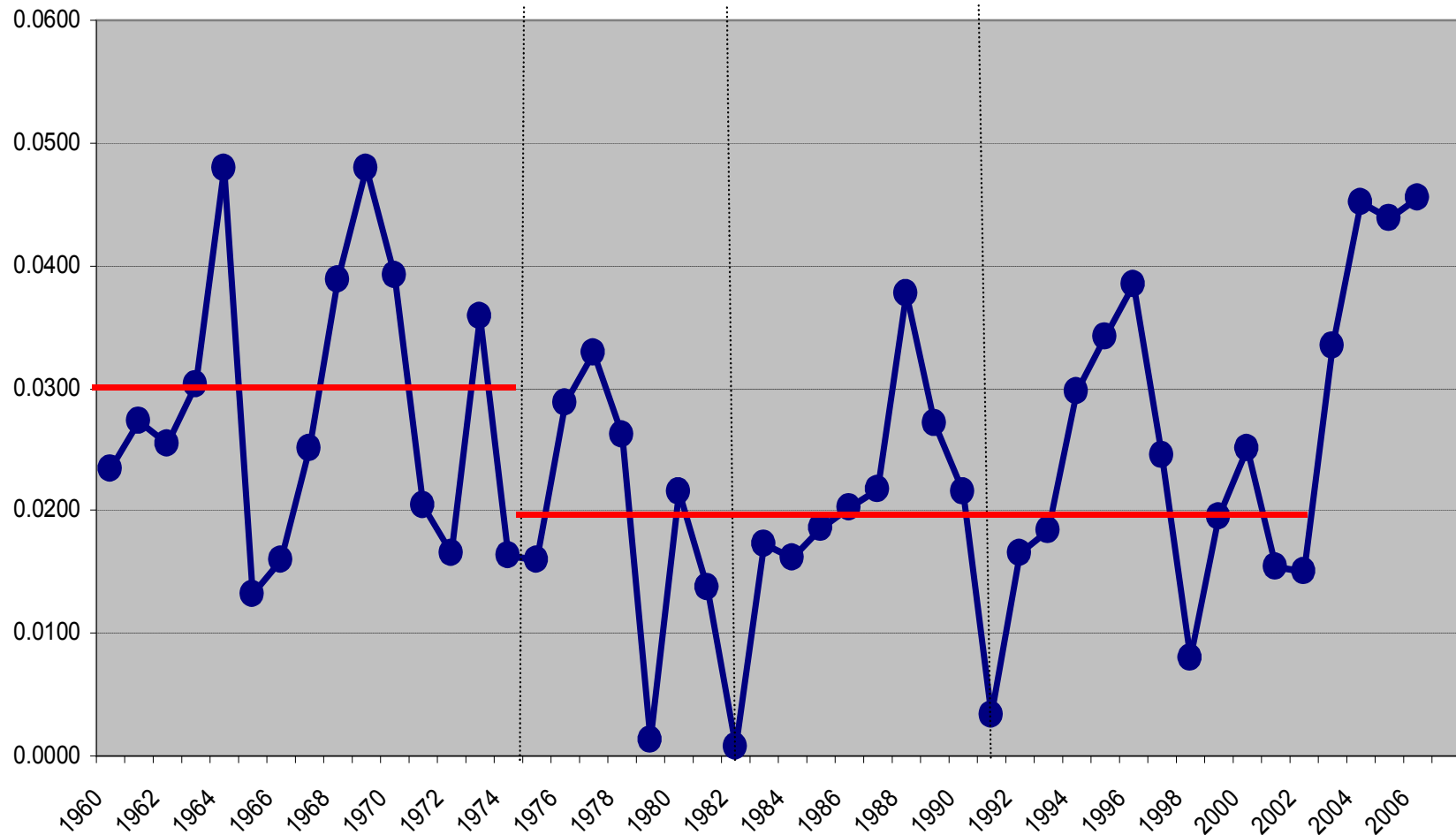
# World, by population, in the crisis 1991



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twoway (scatter dlngdpppp laggdpppp if year==1991 & dlngdpppp<0.1 & dlngdpppp>0.1 [w=pop]) (lowess  
dlnGdpppp laggdpppp if year==1991), yline(0) ytitle(growth rate) legend(off) xtitle(GDP per capita in 1990) [from  
maddison_polity2.dta]
```

# But after 1973-75, the Third World took 25 years to recover

Average people-weighted growth rate in Third World (excl. China)



# Implications

- First negative effect will be mostly felt by rich people (in particular, those with high financial assets) and rich countries
- Rates of GDP will decline more in rich countries
- Then, the crisis will spread wider
- Difficult to predict next effects: prices of raw materials, dependence on exports, amount of debt
- Possible replay of the period 1980-2000 when growth rate of Third World declined by more than 1 percentage point

# 6. Globalization and income inequality

# Causal effect of globalization (openness) on global inequality

- **Channel 1.** Different effect on within-national income distributions (difference between poor and rich countries; HOS and revisions)
- **Channel 2.** Different effect on growth rates of poor and rich countries (the openness premium should be higher for poor countries)
- **Channel 3.** Different effect on populous and small countries
- Depends on history: are populous countries rich or poor at a given point in time?

- Assume globalization is good for for poor, populous countries, no effect on within-national distribution
- In the current constellation, India and China grow faster => global inequality ↓ (mean income convergence, lower global inequality)
- Decouple poor and populous; let China and India be rich
- No change in individual effects of globalization; mean convergence continues but global inequality may now go ↑
- Conclusion. Even if effects are **known** and **unchanged**, the outcome may differ.

# Conclusion: “The age of inequality”?

**Within-country** inequalities have increased in many countries including in the largest (US, UK, China, India, Russia)

Inequalities **between countries** have increased

**Population weighted** inequality **between countries** went down thanks to fast growth in China and India (Caveat: R/U differences in China and India have global implications)

Inequality among **people in the world** is very high (Gini around 70) but its direction of change is not clear

# 7. Does Global Inequality Matter?

- No one in “charge” of it; there is no global government
- No one can do much about it
- No global taxation authority

# 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?

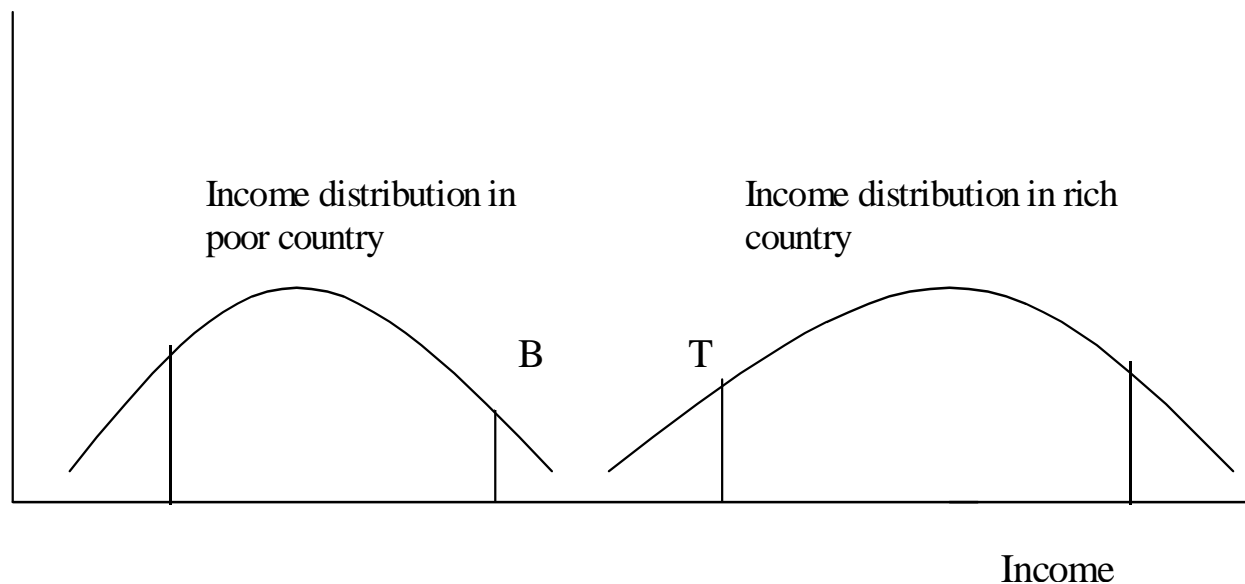
- Globalization increases awareness of differences in living standards (aspiration level changes; empirical studies show it)
- Leads to migration
- Greater likelihood of conflict (*Jennifer Government*)

# 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)



# Thus transfers have to satisfy

- **Progressivity 1**: reduce mean income differences between rich and poor countries
- **Global progressivity**: tax payers should be richer than beneficiaries
- **National progressivities**: in rich country, tax payers should be relatively rich (reduce rich country inequality) and in poor country, beneficiaries should be relatively poor (reduce poor country inequality)

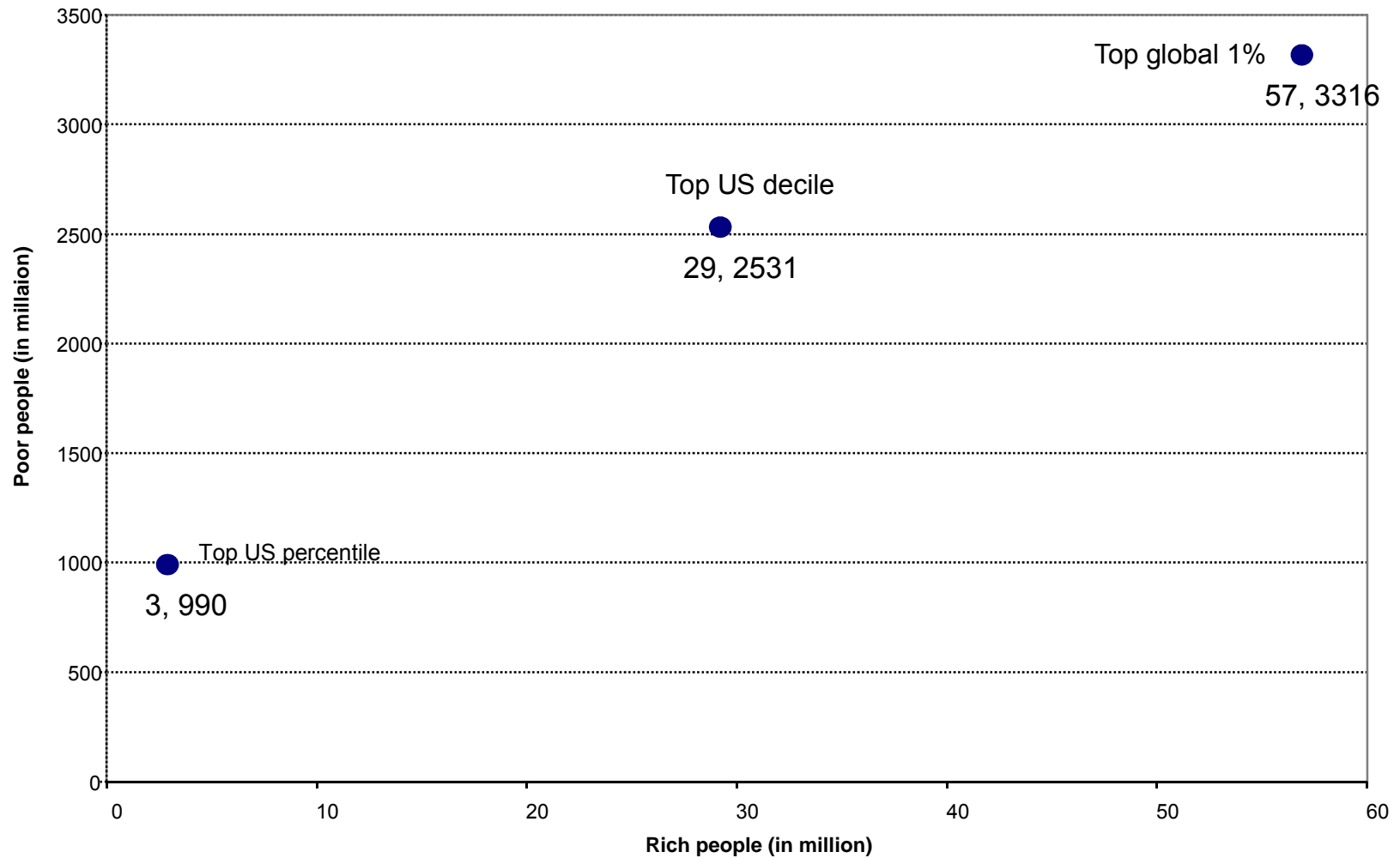
- Book “Worlds Apart: Measuring International and Global Inequality”, Princeton UP, 2005
- Email: [bmilanovic@worldbank.org](mailto:bmilanovic@worldbank.org)
- Website:  
<http://econ.worldbank.org/projects/inequality>

Extra slides

## Share of between-country inequality in total inequality (05 ICP)

	1988	1993	1998	2002
Between country Gini (PPP dollars)	61.8	62.6	62.1	63.9
Share of total inequality (in %)	<b>90</b>	<b>89</b>	<b>89</b>	<b>90</b>
Between country Gini (US dollars)	69.5	71.7	70.8	73.3
Share of of total inequality (in %)	<b>89</b>	<b>90</b>	<b>89</b>	<b>91</b>

# The rich and the poor (equal total income)



# Percentage of global population living in countries with negative growth (in years of global plutocratic recession)

