



Global Inequality - Trends and Issues

Finn Tarp



UNITED NATIONS
UNIVERSITY
UNU-WIDER

Introduction

Opening Remarks

- Shall not repeat myself – see <http://www1.wider.unu.edu/inequalityconf/>
- From the September 2014 WIDER development conference on inequality measurement, trends, impacts and policies

WIDER YouTube

Opening welcome
Finn Tarp



www.wider.unu.edu

- But please do take note of the wealth of information, available on the WIDER web-site, including the opening keynote by Marcelo Côrtes Neri (then Minister of Strategic Affairs of Brazil)
- Moreover: I wish to highlight in opening WIDER's strong tradition in work on inequality
- Beginning with Amartya Sen and including work by Andrea Cornia, Tony Atkinson, Tony Shorrocks – among many others

Where To Begin Today: Vietnam is Illustrative

- Annual aggregate growth of **6.9%** per year for 30 years: what does it mean?
 - $T \times G = 69 \rightarrow$ doubling time 10 years
- Vietnam in 1986, 1996, 2006 and 2016:
 - Individual X: 1, 2, 4, 8
 - Individual Y: 10, 20, 40, 80
 - Individual Z: 100, 200, 400, 800!
- Absolute progress versus relative inequality; **Plato** – a Greek Philosopher (in the Republic 380 BC)

WDR 2006 (1)

- The dichotomy between policies for growth and policies specifically aimed at equity is **false**
- The distribution of opportunities and the growth process are **jointly determined**

WDR 2006 (2)

- Sound policy can involve redistributions of influence, advantage or subsidies **away from** dominant groups
- ‘Good’ redistribution may not always be **directly** to the poor (trade-offs)
- Recall debates around ‘redistribution with growth’ versus ‘basic human needs’

A **WIDER** perspective

- From classical economics to a more nuanced, **wider** position:
 - Many channels through which inequality may affect growth and development **negatively**
 - Equity both an **end** and a **means**
 - **No rejection** of the competitive market (and the need for incentives to work)
- Recall the discussion about the **inverted-U**

A UN position

- The report of the **UN System Task Team (2012)** to support the preparation of the Post 2015 UN Development Agenda points out that:

‘inequality is a key concern, not just from the perspective of a future in which a decent and secure wellbeing is a prerogative of all citizens, but sustained development itself is impeded by high inequalities. Hence, redressing these trends will be a major challenge in the decades ahead’

**A UNU-WIDER study with
Miguel Niño-Zarazúa and
Laurence Roope
(entitled *Global inequality:
relatively lower, absolutely
higher*)**

Aims

1. What are the most recent trends in global inequality? Has global inequality increased or declined?
2. Have these trends been homogenous across regions?
3. Is the picture of global inequality trends using standard 'relative' measures of inequality consistent with the picture using 'absolute' measures?

Relative versus absolute

- The predominant **'relative'** inequality measures (such as the Gini Index): values remain unchanged when every income in an income distribution is **uniformly scaled** up or down by the same proportionate factor.
- The less commonly used **'absolute'** inequality measures (such as the Standard Deviation): values remain unchanged when every income in an income distribution has the **same income** added to, or subtracted from, it.

An intuitive approach

- From a normative perspective **relative** and **absolute** inequality measures have been described as respectively ‘**rightist**’, and ‘**leftist**’, measures
- In the presence of income-growth:
 - Viewing interpersonal disparities in terms of the ratio of incomes can be construed as reflecting a **conservative** judgement
 - Viewing disparities in terms of the absolute difference in incomes can be construed as reflecting a **radical** judgement

Data

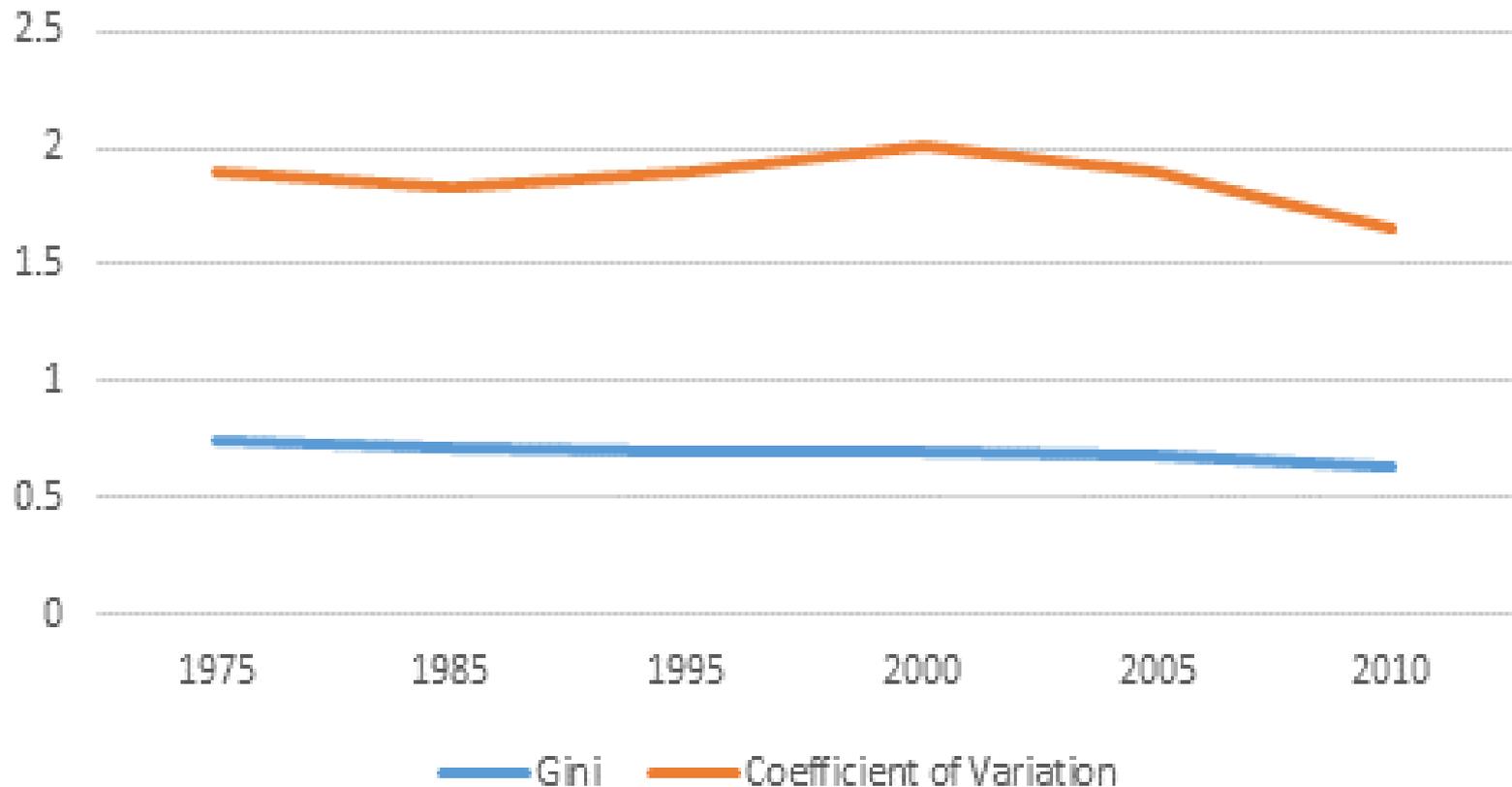
Data

- We employ quintile data from the latest version (V3.0B) of the UNU-WIDER [World Income and Inequality Database \(WIID\)](#): the longest and most comprehensive database of income distributions
- WIID adopts the definitions and and procedures in the [Canberra Group Handbook](#)

General results

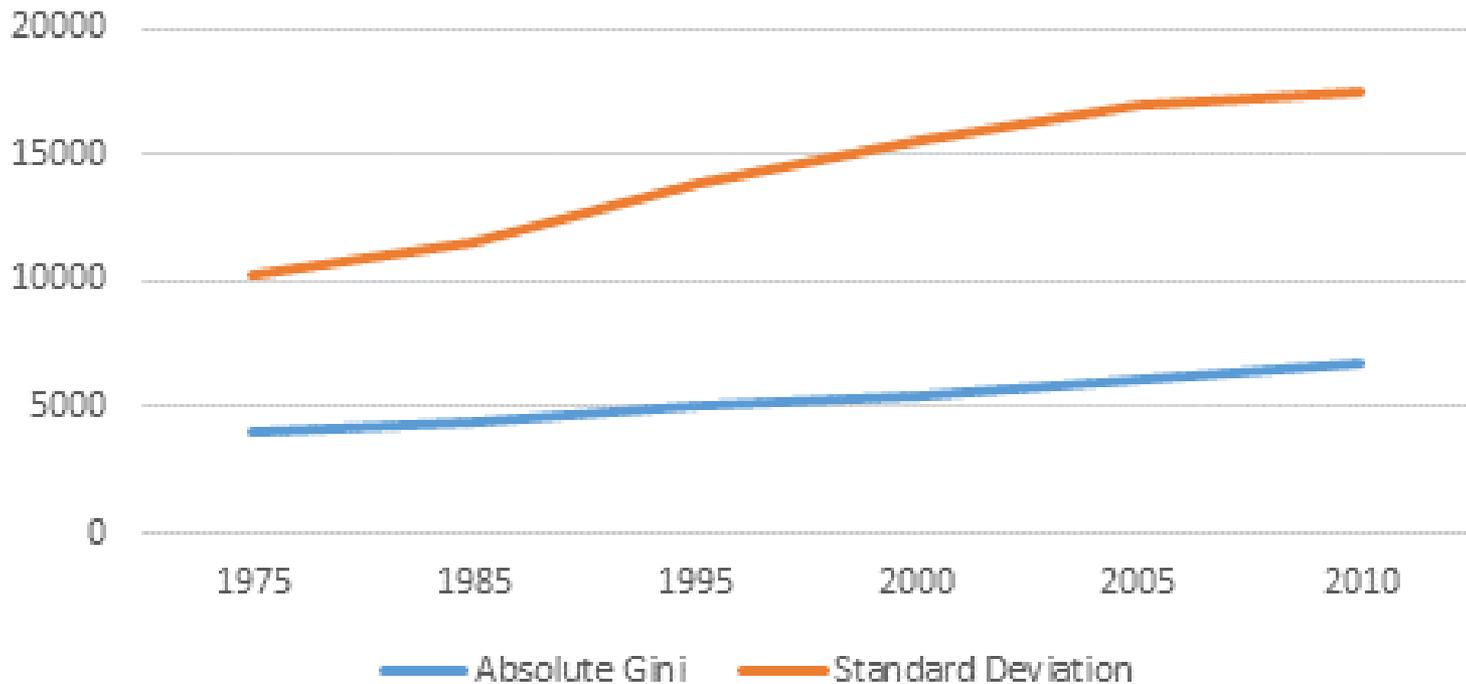
Relative Global Inequality

Global Inequality 1975-2010:
Relative measures

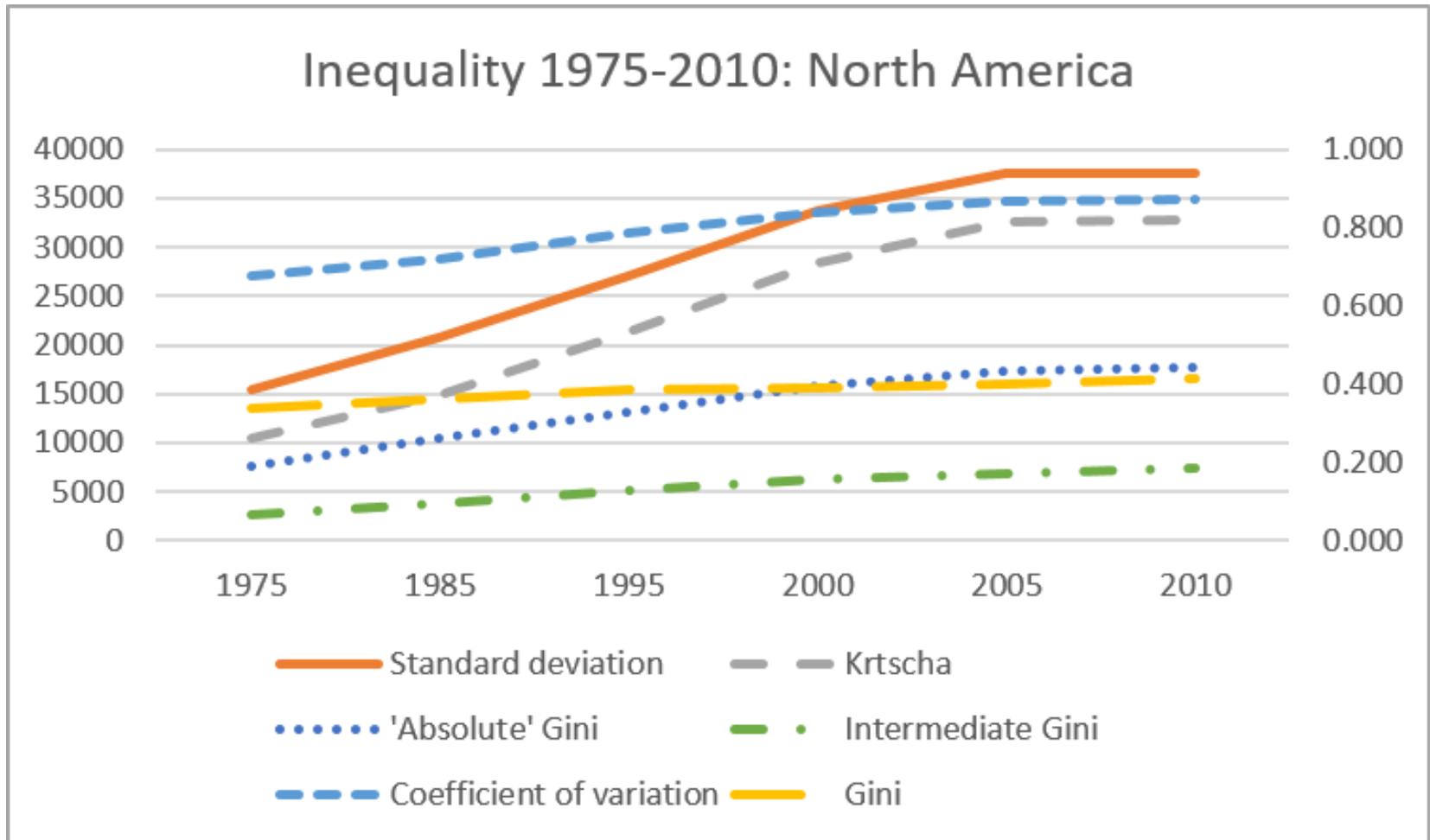


Absolute Global Inequality

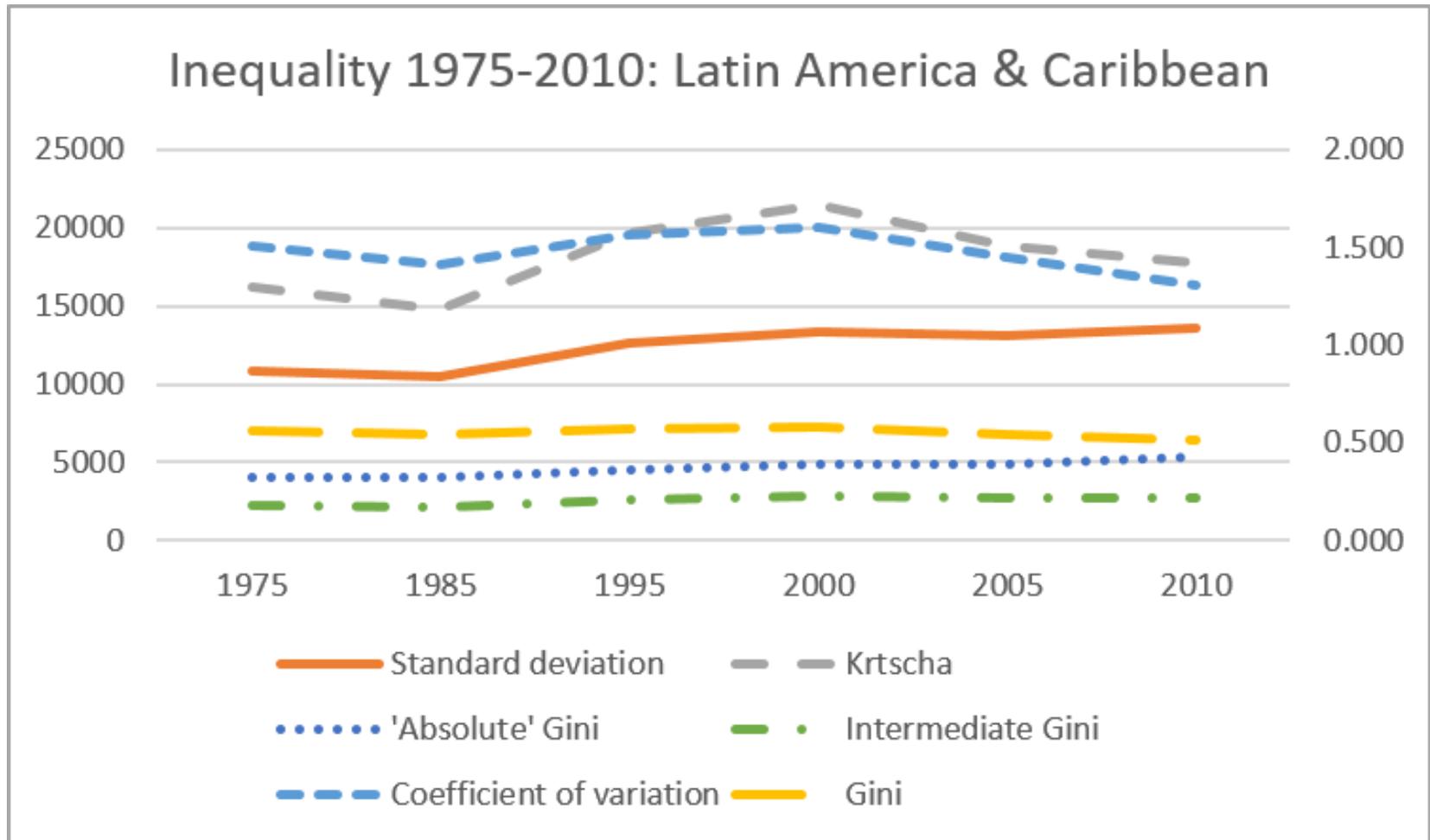
Global Inequality 1975-2010:
Absolute measures



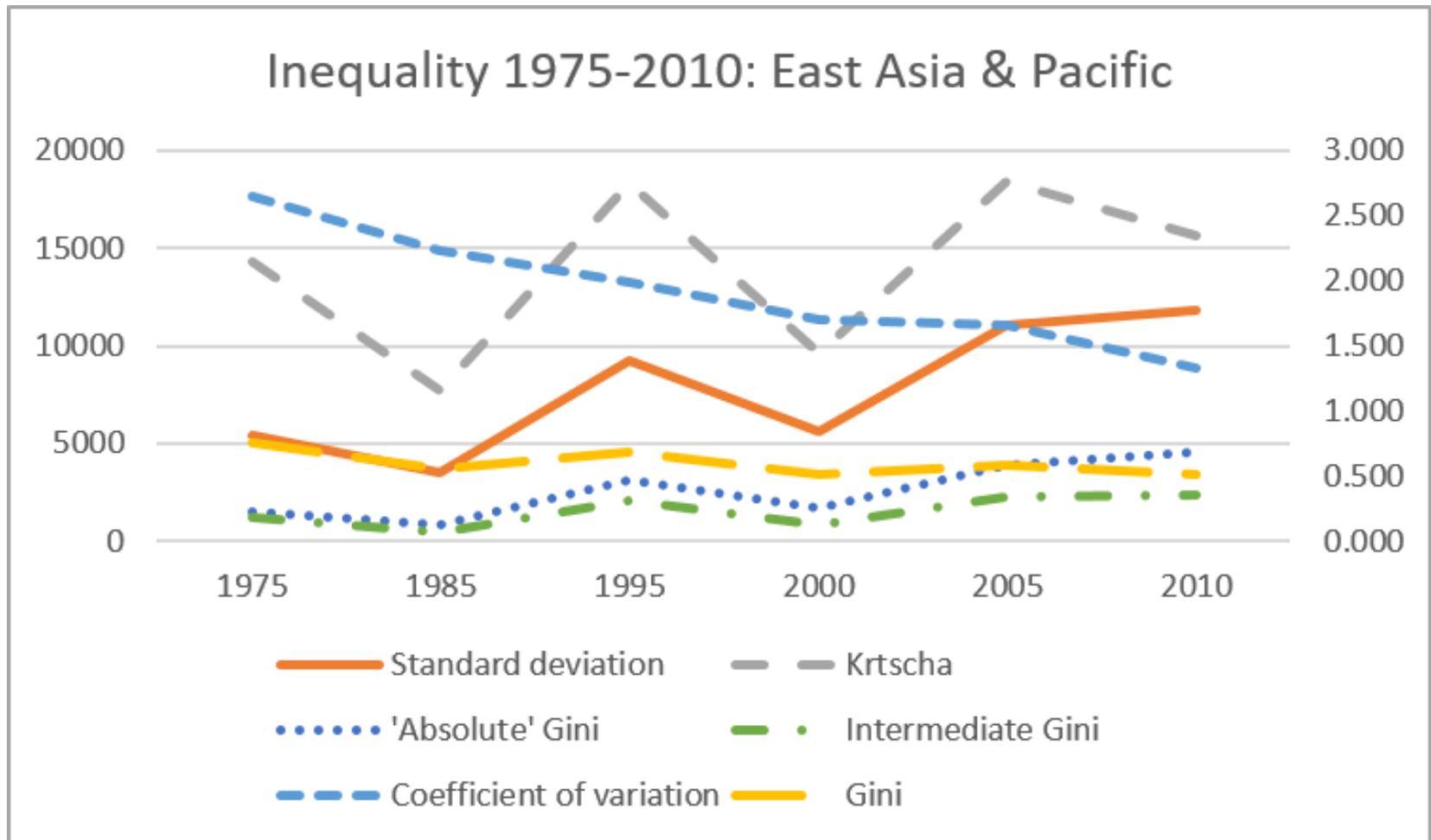
Regional Inequality



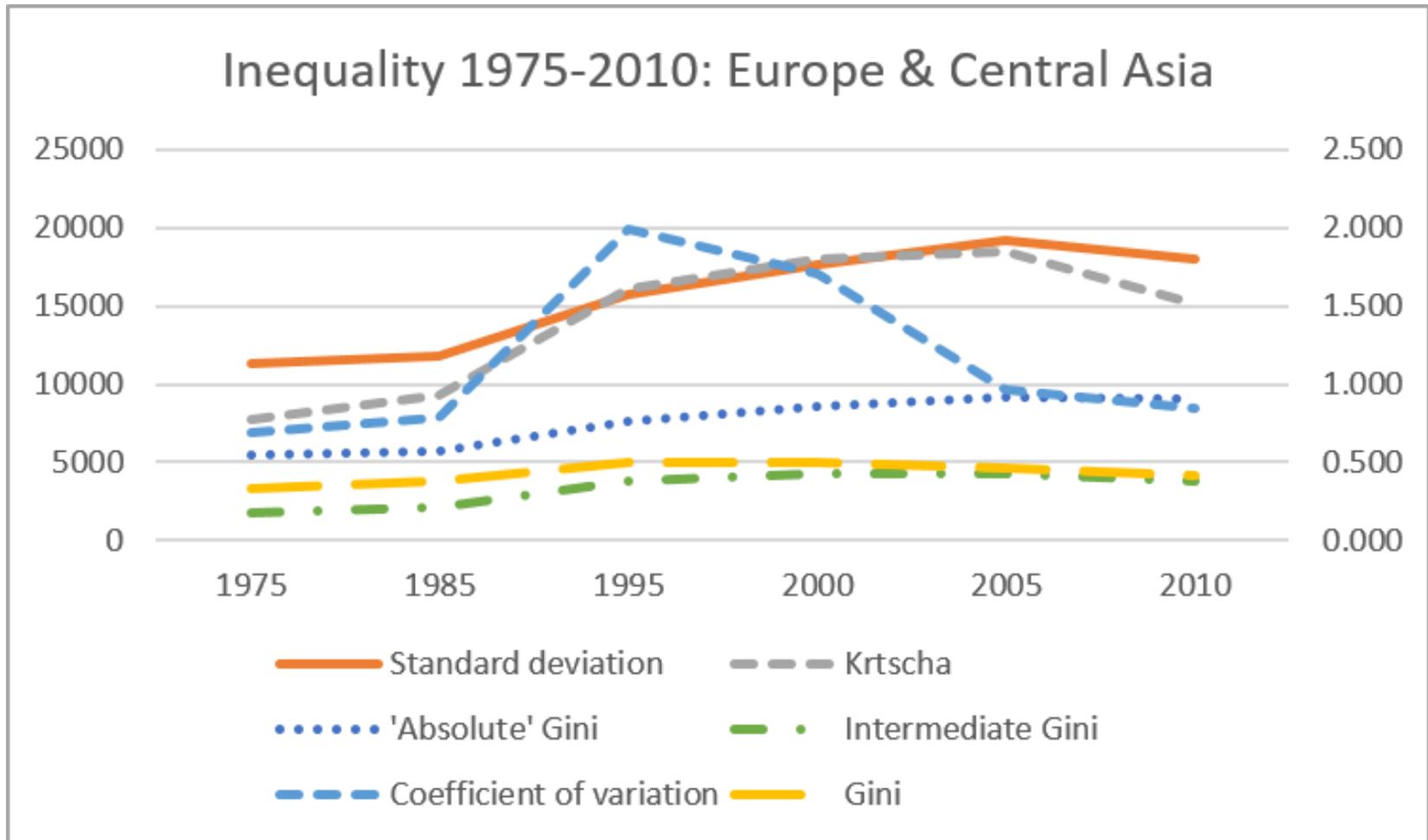
Regional Inequality



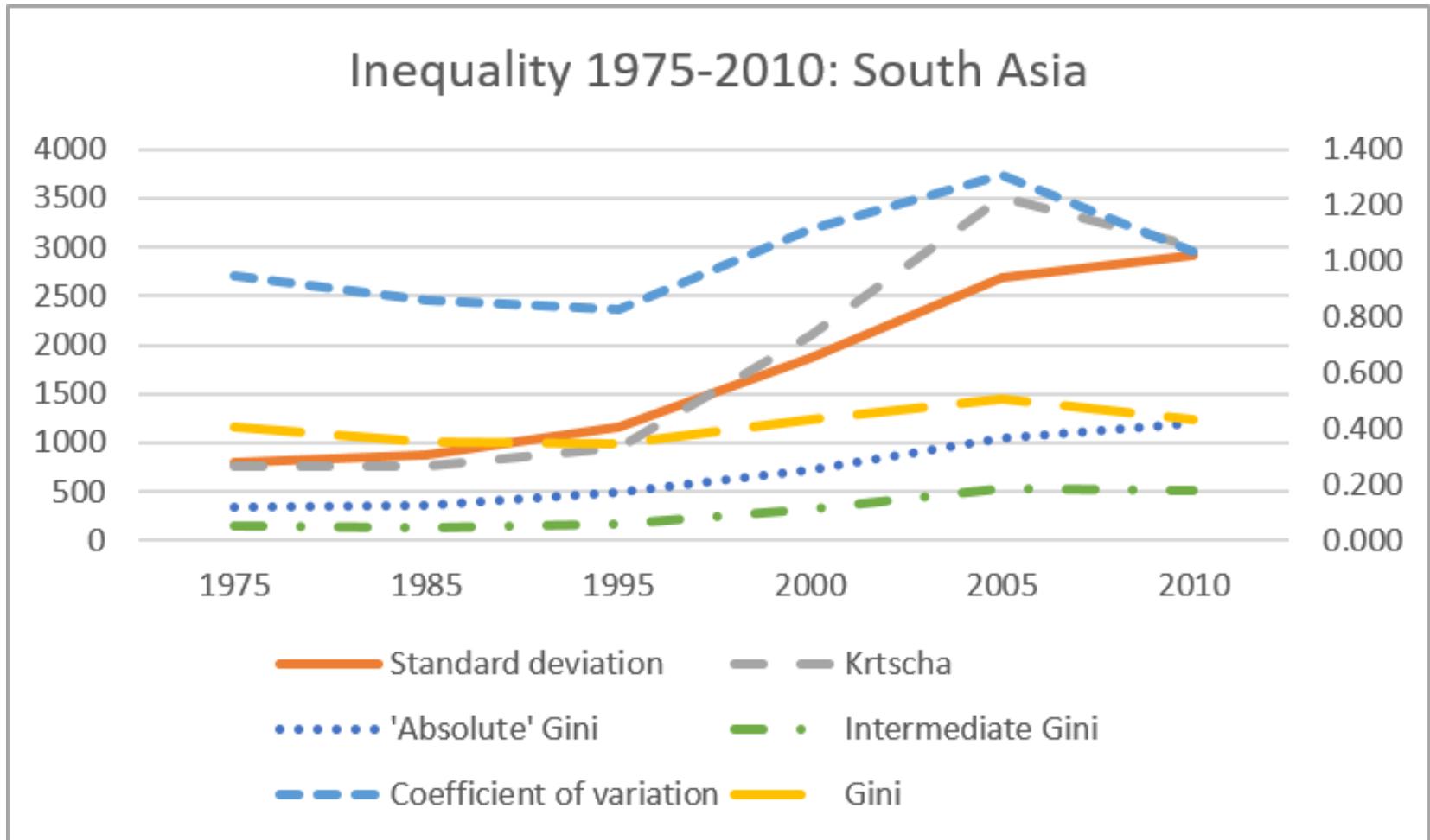
Regional Inequality



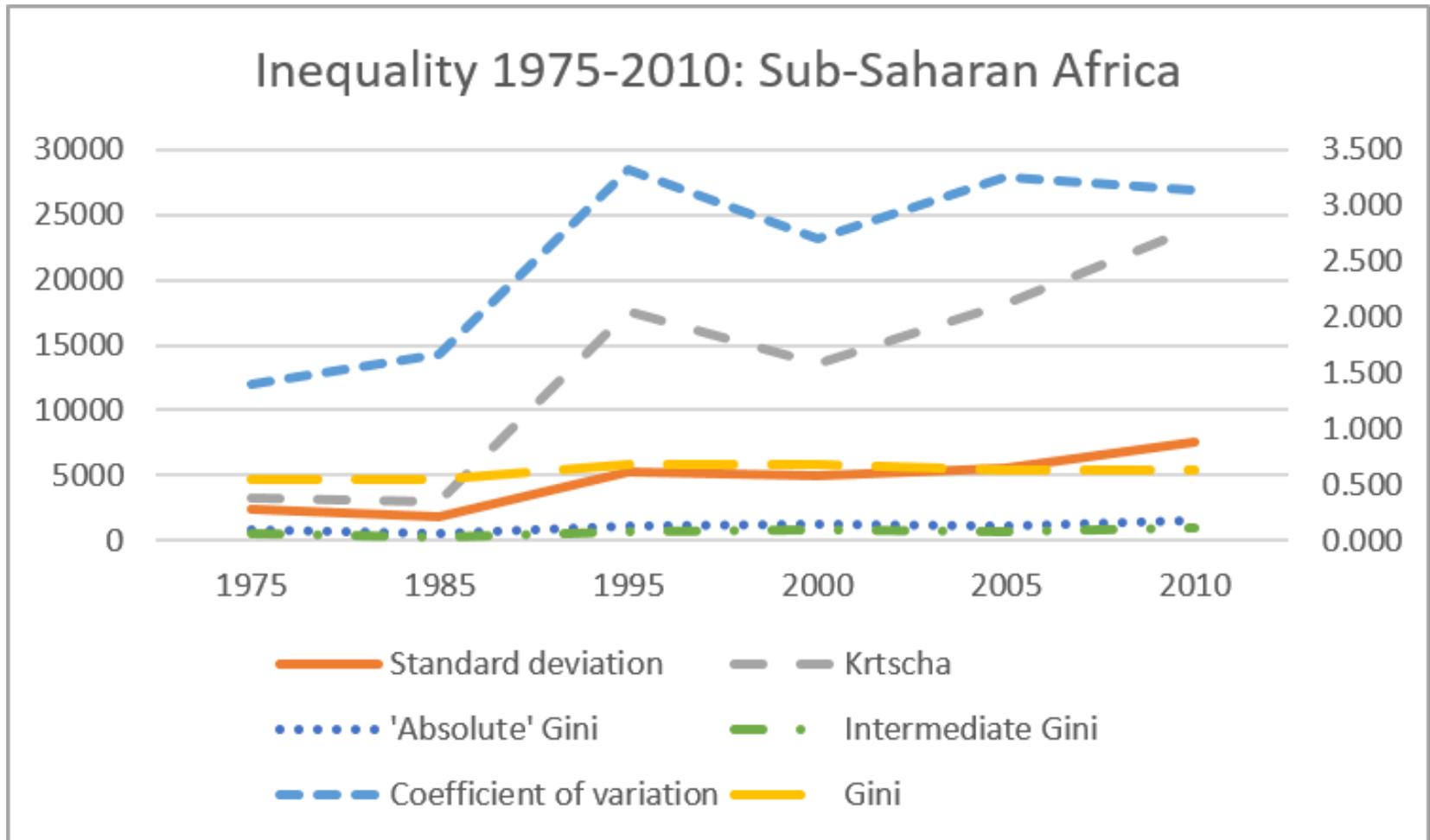
Regional Inequality



Regional Inequality



Regional Inequality



Relative 'within' Regional Inequality

- Within each region we also observe important variations. **In Europe, for example:**
- Some countries have experienced a **steep rise** in inequality since the 2000s: Denmark, Sweden, France and Bosnia and Herzegovina
- Other countries have observed a **decline in inequality** throughout the 2000s: Belgium, Italy, Norway, and Ireland
- Some countries have experienced a **relatively flat trend** in domestic inequality throughout the 2000s: United Kingdom, Finland, and Czech Republic
- Some countries have experienced a **decline** in inequality during the 1990s and until the mid-2000s but then a **clear increase in inequality** after the 2008 financial crisis: Greece, Slovenia, Spain, Bulgaria, Malta, Slovak Republic
- Other countries have experienced first a **rise in inequality**, and then a **fall in inequality** since the 2008 financial crisis: Netherlands, Switzerland, Iceland, Poland, Hungary, Romania

Counterfactual scenarios – an example

Counterfactual Scenarios

- **Counterfactual scenario 1:** All countries are assumed to have their actual incomes per capita and population sizes in 2010. However, we suppose that instead of their actual domestic distributions of income, all countries have the same quantile shares as those of Sweden in 2010.
- Sweden has had historically one of the lowest relative income inequalities in the world, reflecting a very unique social and economic model of redistribution
- **Counterfactual scenario 2:** It is the same as scenario 1, except that all countries are assumed to follow a Rawlsian ‘maximin’ approach, i.e. income growth always occurred below the median individual

Results

Inequality Measure	Values in 1975	Counterfactual 1 In 2010	Counterfactual 2 In 2010
Absolute measures			
Standard Deviation	10,184	13,898	11,861
Absolute Gini	3,964	6,043	5,569
Relative measures			
Gini	0.739	0.569	0.524
Coeff. Of Variation	1.899	1.309	1.117

Conclusion

Results in a nutshell

1. Using standard 'relative' inequality measures, global inequality **declined** over the past three decades
2. We find substantial **heterogeneity** in inequality trends across regions
3. When using 'absolute' inequality measures, we find that global inequality has **increased dramatically**.

Discussion (1)

- Niels Bohr: argued in his complementarity theory that with observations where we believe we see the same thing we often see something different and therefore will arrive at different insights. And the point is that these insights are not necessarily contradictory or meaningless – they are, yes, complementary
- So taken together, echo Atkinson and Brandolini (2010) in emphasizing how central the **choice of measure** is to any discussion of what has happened to global inequality levels during recent decades
- While relative global inequality has fallen steadily and quite substantially over the decades (driven by a dramatic decline in inequality between countries) it **NEVERTHELESS** remains staggeringly **high**

Discussion (2)

- Absolute inequality measures show global inequality increased substantially during the period 1975-2010 – growth in income in India and China had only a very modest dampening impact on the increased absolute inequality
- Over the past 35 years, relative inequality has fallen and hundreds of millions of people in the developing world have been lifted out of poverty – a major achievement!
- Would different policies have managed this without the increase in absolute inequality? And how do policy makers minimize this trade off moving forward?



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