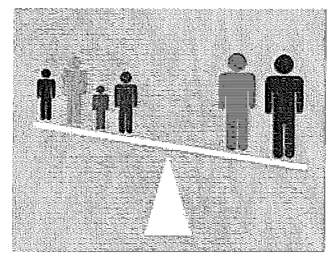
Global Inequality: Trends and Remedies

By JEFFRY FRIEDEN

The world is an extremely unequal place. The richest one percent of the world's population-individuals with more than half a million dollars in assets a piece-owns 40 percent of the world's wealth. The richest ten percent have 85 percent of total global assets, while the poorest 50 percent have barely 1 percent of world wealth. This means that the richest 150 individuals in the world own more than the poorest half of the world's population, some 3.3 billion people.

By far the greatest source of global inequality is the enormous disparity among countries in level of economic development. Differences between developed and developing countries are massive: the average developed nation's per capita income is seven times that of the average developing country. At the extremes, even controlling for differences in price levels, output per person in the United States is fifty times what it is in such countries as Sierra Leone and Tanzania ($41,900 per person, compared with around $800). More generally, per capita Gross Domestic Product (GDP) is barely $2,000 per person in sub-Saharan Africa as a whole, which means that the income of the average American is greater than that of 20 average Africans combined, and that the economy of the state of California is substantially larger than that of all Africa. The average American living in poverty has an income four or five times that of the average African.



Wealth is even more unevenly distributed than income: the average American has assets of about $144,000, which is about a hundred times the assets of the average African-and in Africa's most populous nation, Nigeria, the average person has assets of under a thousand dollars.

There are several reasons why current levels of international inequality may be a problem. First, the bottom registers of the international income distribution are grindingly poor; hundreds of millions of people live without access to running water, electricity, adequate housing, education, or health care. This means that their ability to contribute to the productive activities of their nations, and their world, is strictly limited-and this is a loss to eV01yone. Second, disparities of wealth and income on the scale described above may well be associated with the potential for major political conflict. Economic polarization almost certainly leads to social strife, and many contemporary international political problems have at least some of their roots in the great gap between rich and poor both among and within countries. Third, almost any system of moral or ethical beliefs would challenge those of us living in affluence to devote at least some time and effort to bettering the conditions of those consigned to abject poverty. Both pragmatism and human solidarity dictate some attention to international inequality. What, then, have been its trends, and what do they imply about what might be done?

GOODNEWS

The good news about global inequality is that it has been declining. The world today is a substantially less unequal place than it was 25 years ago. The Gini coefficient is the most widely used, comprehensive measure of income inequality, and the global Gini coefficient has clearly gone down since 1980.

The proportion of the world's population living in abject poverty has also declined. Most international organizations use an international absolute poverty line equivalent to earning about $1.50 a day per person in today's dollars, taking into account differences in price levels (i.e. at Purchasing Power Parity). By this measure, while more than 40 percent of the developing world's population lived in absolute poverty in 1980, today the proportion is about 20 percent. This is a dramatic improvement, and cause for optimism.

The global reduction in both inequality and absolute poverty are in large part the result of successful development in China and India. These two countries have grown very rapidly in the past 25 years-China more rapidly than India-and the result has been a dramatic increase in their income per person, and a dramatic reduction in their poverty rates. In 1981, 64 percent of China's people lived in absolute poverty; today, the percentage is about 15 percent; in India the decline was a less remarkable, but still impressive drop from 55 to 35 percent. Given that these two countries account for nearly 2.5 billion people-almost half the developing world's total, this explains most of the progress. East Asia and South Asia as a whole have also done quite well.

This demonstrates that, speaking globally, the most important remedy to poverty and inequality is economic growth. While growth does not translate directly into poverty reduction, it is the principal contributor to improvement in living standards; per capita GDP is a very powerful predictor of such other social indicators as infant mortality and female literacy. And relatively small disparities in growth rates can make an enormous difference when compounded over decades. To take a simple example, Thailand is currently a country at the middle ranges of world income (about $75°0 per capita), comparable to Turkey, Costa Rica, or Tunisia. With a growth rate of just over 3 percent a year since 1950, it is neither a major developmental success story nor a massive failure. However, if Thailand's rate of growth had been two percent slower over those fifty years, that is 1.3 percent a year instead of 3•3 percent a year, it would now have a per capita income two-thirds lower, about $2500 a year making it poorer than Bolivia or Papua New Guinea. By the same token, with a two percent faster rate of growth, Thai per capita income would now be roughly equivalent to that of Greece. A couple of percentage points a year, over the course of several decades, can make the difference between living in Bolivia, on the one hand, and living in Costa Rica or Thailand, on the other-or between Thailand and Greece.

So global inequality has been declining, as a result of successful economic growth in some of the world's largest poor countries. And if this economic growth continues, so too will global income continue to become less unequally distributed.

BAD NEWS

There is also bad news about global inequality. Apart from the disturbing extent to which the world's wealth and income are now unequally distributed, there have been two disconcerting trends over time. The first trend is that within many countries, even successful countries, income seems to have become more unequal. It is not surprising that countries that are developmental failures, such as Nigeria, have become more unequal. It is perhaps also not surprising that regions that have experienced modest overall growth but periodic crises-against which the poor tend to be less protected than the rich-have also gotten more unequal, as is the case for most of Latin America. But it is worrisome that even countries that have grown rapidly, such as China, have become more unequal. This parallels, of course, the increased inequality in many developed countries, notably the United States; but the impact is starker in poor countries where inequality is associated with abject poverty.

Probably the more important, and more troubling, trend is that, while much of Asia has grown rapidly, reducing the gap between itself and the rich world, most other developing regions have experienced at best modest growth. Countries that grow little, stagnate, or decline economically can hardly reduce the gap between themselves and the rich world, and also are unlikely to make much progress in reducing domestic poverty. The most striking, and most disconcerting, example is one very large region, sub-Saharan Africa. Over the past 25 years, this continent has gotten poorer both absolutely and relatively. Inevitably, this has led to a further impoverishment of its people: in 1981, 42 percent of Africans lived in absolute poverty, while today the share is above 46 percent. Africa is the most salient case of developmental failure, but there are other stagnant or declining countries in the developing world. These countries, and whole regions, have lagged further and further behind.

WHAT CAN BE DONE?

Economic growth in poor societies is the best way to reduce international inequality. And, without over-simplifying matters, we have a pretty good sense of some of the sources of economic growth. This is not to say that we know how to turn a Sudanese catastrophe into a Chinese miracle; but we can identify a broad set of policies that have typically contributed to general economic growth. These include:

General economic openness. By this I do not mean to endorse the dogmatic argument that free trade is a prerequisite for development, for the evidence hardly warrants this view. However, extreme forms of "economic nationalism," from high protectionist barriers to the exclusion of foreign capital and technology, clearly have slowed economic progress. Not only do they impede growth, they almost certainly worsen income distribution by channeling money to those powerful enough to obtain government protection. Participation in the world economy allows countries to make better use of their human, natural, and physical resources; to obtain technical expertise, capital, and other inputs into the production process; and, generally, to take advantage of broad and deep global markets for goods, capital, and technology.

Social-political stability. Uncertainty about social strife, political conflict and the predictability of government policies all dampen economic activity. In precarious conditions, people natural1y shy away from risk-yet economic advances require gambling on the future, whether about schooling, land improvement, adopting new techniques, saving, or making new investments. Some have found, on this basis, that inasmuch as great income inequality within countries leads to social and political conflict, it also depresses economic growth.

Education Probably the single strongest relationship between a policy measure and growth regards education. In study after study, country after country, government unwillingness or inability to provide basic education for their citizens is associated with poor economic outcomes.

The most successful growth stories of the past half-century - South Korea, Ireland, Taiwan, and others-were particularly notable for their substantial educational investments and successes. It is no accident that China, which has significantly out-performed, say, Pakistan on broad economic growth, has even more significantly out-done it on education: in 1980, to take the most illustrative indicator, illiteracy among women 15-24 in China was 16 percent, in Pakistan 78 percent. The ability of the population to participate in modern economic activity, and to contribute to economic development, is in large part dependent on educational advancement.

Societies that are socially stable, economically open, and invest heavily in education grow fastest. These conclusions are encouraging, because the measures they suggest as beneficial for economic growth are attainable and because these measures are generally desirable in and of themselves.

While the benefits of better educational opportunities, more social stability, and access to economic ties to the rest of the world might seem obvious, there are powerful interests that have impeded and will impede them. So while the first step is to identify policies conducive to economic growth, the next - and more difficult - step is to understand the social and political forces that make these policies more or less likely to be adopted. The social and political underpinnings of policies that slow (or speed) economic growth, like the underpinnings of policies that worsen (or lessen) inequality, are complex. They are also likely to vary from country to country, from time to time. But this-the political economy of economic development-is another topic.

Almost everyone would like to live in a more equal world. The path to greater international inequality goes primarily through more rapid economic growth in the developing world. And this path involves economic and social policies whose general contours are well known and widely accepted (albeit still debated in their particulars). The principal barriers to an amelioration of the great inequality of today's world are political.

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