Global Inequality: Is there a role for Global Governance?

François Bourguignon
Paris School of Economics

Raymond Aron Lecture, Brookings, Washington, 12/10
In a humanity in the way of unification inequality between nations takes on the significance that inequality between classes once had.

The condition of the masses varies more from continent to continent and from country to country than ever before.

At the same time, the awareness of inequality is spreading and resignation to poverty and fate is getting rarer.

Raymond Aron, The Dawn of Universal History, 1961
Global inequality is falling … reversing a 150 year trend
It does so with global growth at the highest
Yet, Aron's concerns still present, in a different way:
- Are emerging and developed countries leaving poorer countries behind?
- Is falling between-country inequality causing more within-country inequality?
In this world in 'way of unification', how to prevent this to happen and 'unification' to stop?
1. A turning point in global inequality

  - GDP per capita and population data (WDI)
  - Purchasing Power Parity PP correction (ppp, 2005)
  - National data on income distribution from household surveys
    - mean income per decile relative to national mean
    - OECD + WB (povcal) distribution data + (geog. Approximation)

- Historical data (1820-1992): Bourguignon-Morrisson (2002), 33 countries or groupings
The global inequality trend reversal

Source: Bourguignon and Morrisson (2002) + own calculations
Fall in global poverty: 1980-05

Proportion of people with less
1.25 $ ppp a day in developing countries ( %)
The 'decoupling' of growth trends

GDP per capita: annual growth rates (%)

Source: World Bank and WEO
Caveats

1. Between vs. Within country inequality
2. Unweighted between country inequality still increasing
Between and within country inequality

Decomposition of global inequality into Between and Within Components (Theil coefficient)
Global vs. "Inter-country" (unweighted) inequality

World inequality: global vs. inter-country: 1925-2006

Historical data

Global inequality: 90/10 income ratio

Inter-country inequality: 90/10 income ratio

Recent period
2. Medium-run perspectives and two inequality concerns

- Most plausible global economic outlook (5 -10 years)
  - Slow average growth in developed countries
    - Public indebtedness, fiscal contraction, unemployment
    - New regulation of financial sector (Basel 3)
    - Structural adjustment (to globalization)
  - Fast growth in big emerging countries likely to continue, yet at slower pace
    - Relying on domestic market and South-South trade
    - Emerging countries will be affected by slow growth in the North (55-72% of global GDP)
  - Global equalizing likely to continue
Concern # 1: Poor countries

What about Sub-Saharan Africa?

- Global poverty increasingly an African problem
- Cause of the recent resuming of growth: structural or cyclical?
- Conflicting influence of international environment (global growth rate likely to fall in comparison with the 2000s)
- Supply response to commodity price boom and need for diversification
Growth in Sub-Saharan Africa and in the rest of the world

GDP per capita: annual growth rates (%)

Source: World Bank and WEO
Concern # 2: domestic inequality as a substitute for international inequality?

- Noticeable increase in inequality within a number of countries over last 20 years:
  - 50% of main OECD countries
  - 60% of developing countries with enough data
Change in within-country inequality: high income Oecd countries, 85-05

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
<th>Symbol</th>
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<tbody>
<tr>
<td>Australia</td>
<td>Italy</td>
<td>++</td>
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<tr>
<td>Austria</td>
<td>Japan</td>
<td>+</td>
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<tr>
<td>Belgium</td>
<td>Korea, Rep.</td>
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<tr>
<td>Canada</td>
<td>Luxembourg</td>
<td>+</td>
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<td>Czech Republic</td>
<td>Netherlands</td>
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<td>Denmark</td>
<td>New Zealand</td>
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<td>Finland</td>
<td>Norway</td>
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<tr>
<td>France</td>
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<td>Germany</td>
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<td>Greece</td>
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<td>Hungary</td>
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<td>Iceland</td>
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<td>Ireland</td>
<td>United Kingdom</td>
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<td></td>
<td>United States</td>
<td>++</td>
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Are the ++'s forerunners?

Source: Oecd, 2008
The surge in inequality in the US

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<tbody>
<tr>
<td>Lowest fifth</td>
<td>$13,900</td>
<td>$14,700</td>
<td>6%</td>
<td>$800</td>
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<tr>
<td>Second fifth</td>
<td>28,000</td>
<td>32,700</td>
<td>17%</td>
<td>4,700</td>
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<tr>
<td>Middle fifth</td>
<td>39,900</td>
<td>48,400</td>
<td>21%</td>
<td>8,500</td>
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<tr>
<td>Fourth fifth</td>
<td>52,300</td>
<td>67,600</td>
<td>29%</td>
<td>15,300</td>
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<td>Top fifth</td>
<td>92,100</td>
<td>155,200</td>
<td>69%</td>
<td>63,100</td>
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<tr>
<td>Top 1 Percent</td>
<td>314,000</td>
<td>867,800</td>
<td>176%</td>
<td>553,800</td>
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Concern # 2: domestic inequality as a substitute for international inequality?

- Noticeable increase in inequality within a number of countries over last 20 years:
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- Not enough to reverse the global equalizing trend…
  - But worrying, because serious threat on globalization and its (aggregate) benefits (whether justified or not)
Role of global governance?

- Make sure that poor SSA countries do not stay behind:
  - Development assistance
  - Trade policies
- Contain inequality within (developed and emerging) countries
  - More inward oriented development strategy or South-South trade in emerging countries
    - (To the extent that growing inequality is caused by globalization)
  - Need for social protection and more redistribution at country level
    - Requires coordination given extent of globalized competition
- On the agenda of G20?
END