



Global Inequality: Is there a role for Global Governance?

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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



A historical turn ... and then?

- ❑ 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?

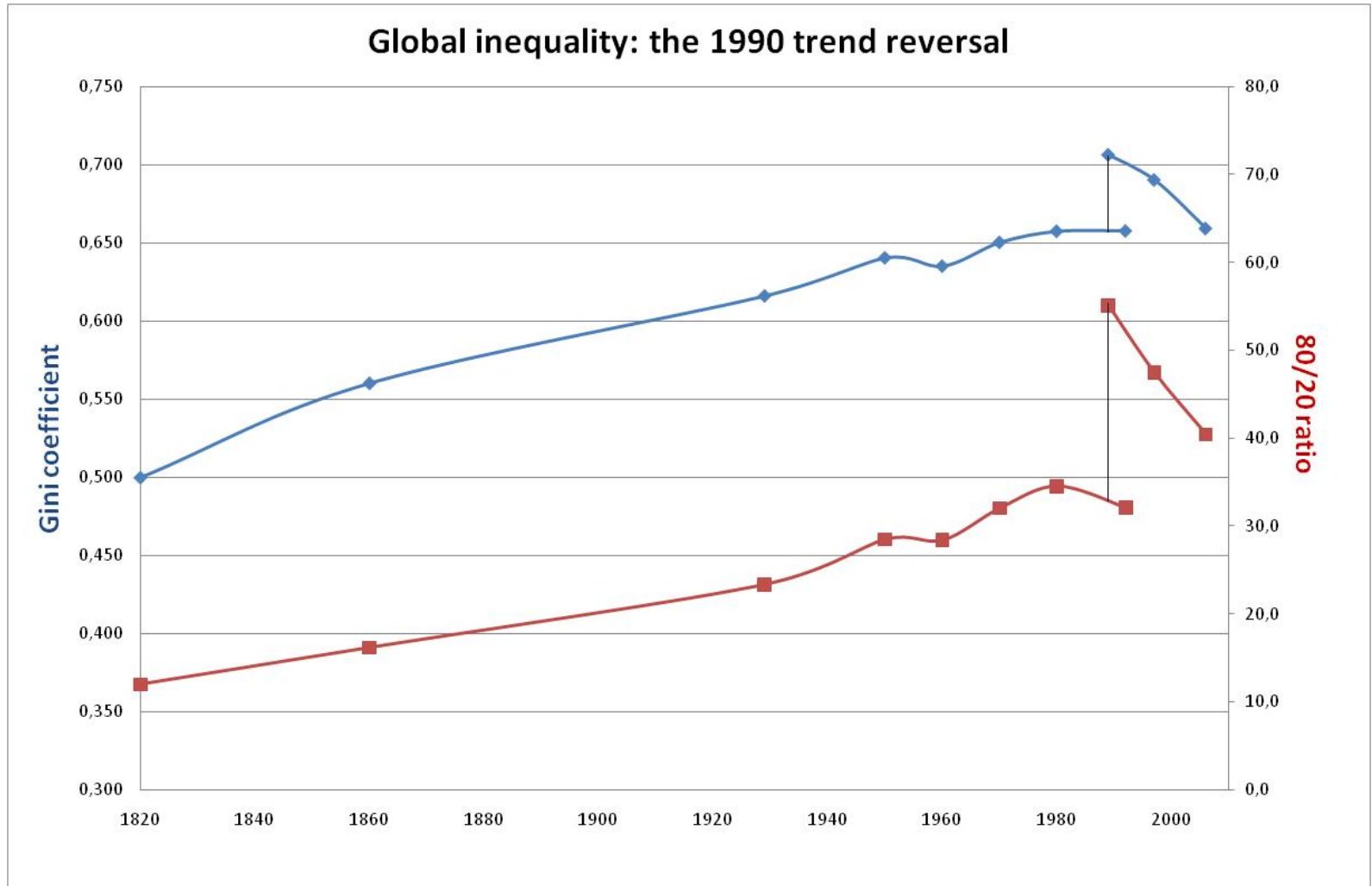


1. A turning point in global inequality

- ❑ Measuring global inequality: 1989-2006
 - 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

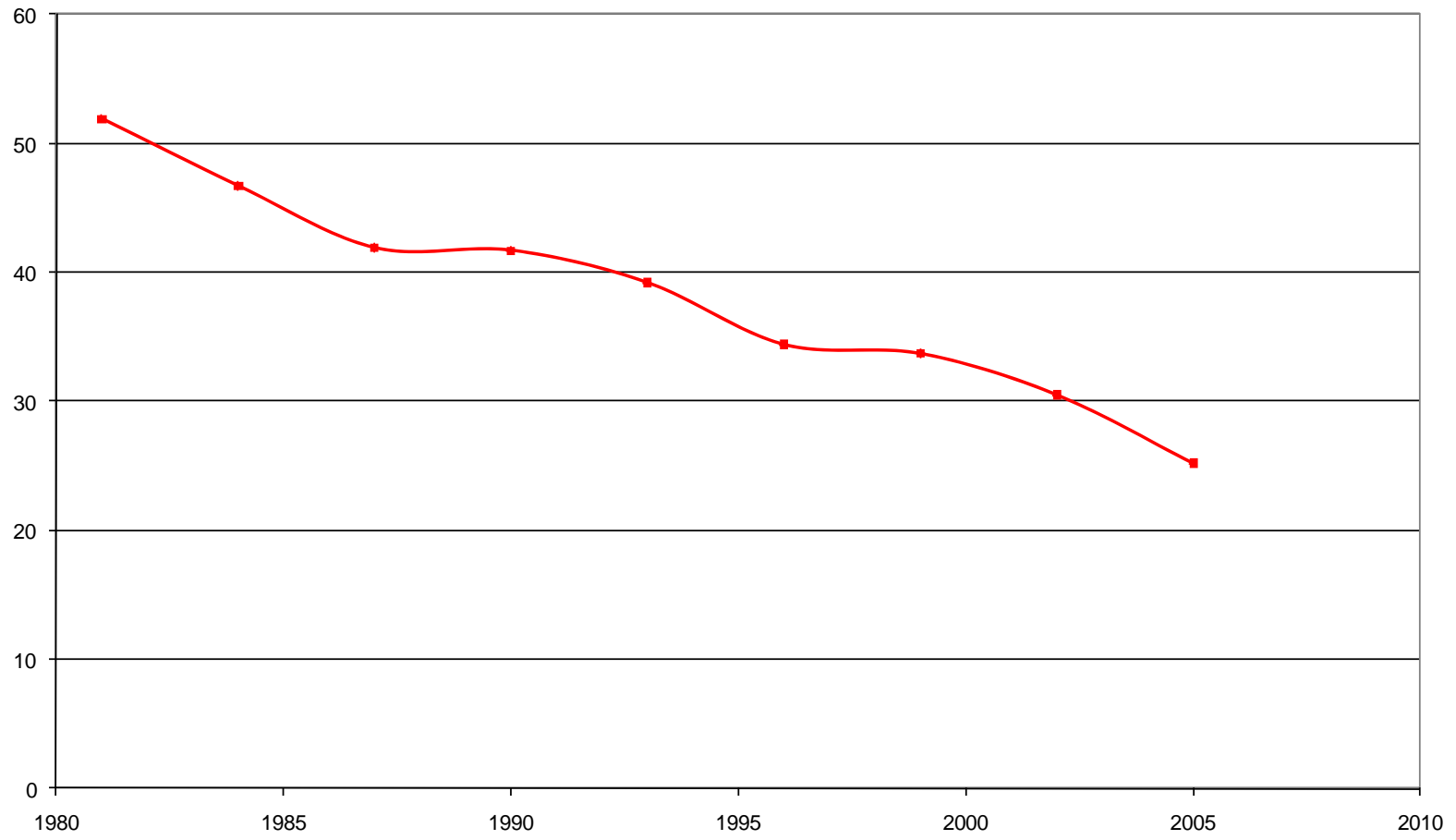


Source: Bourguignon and Morrisson (2002) + own calculations



Fall in global poverty: 1980-05

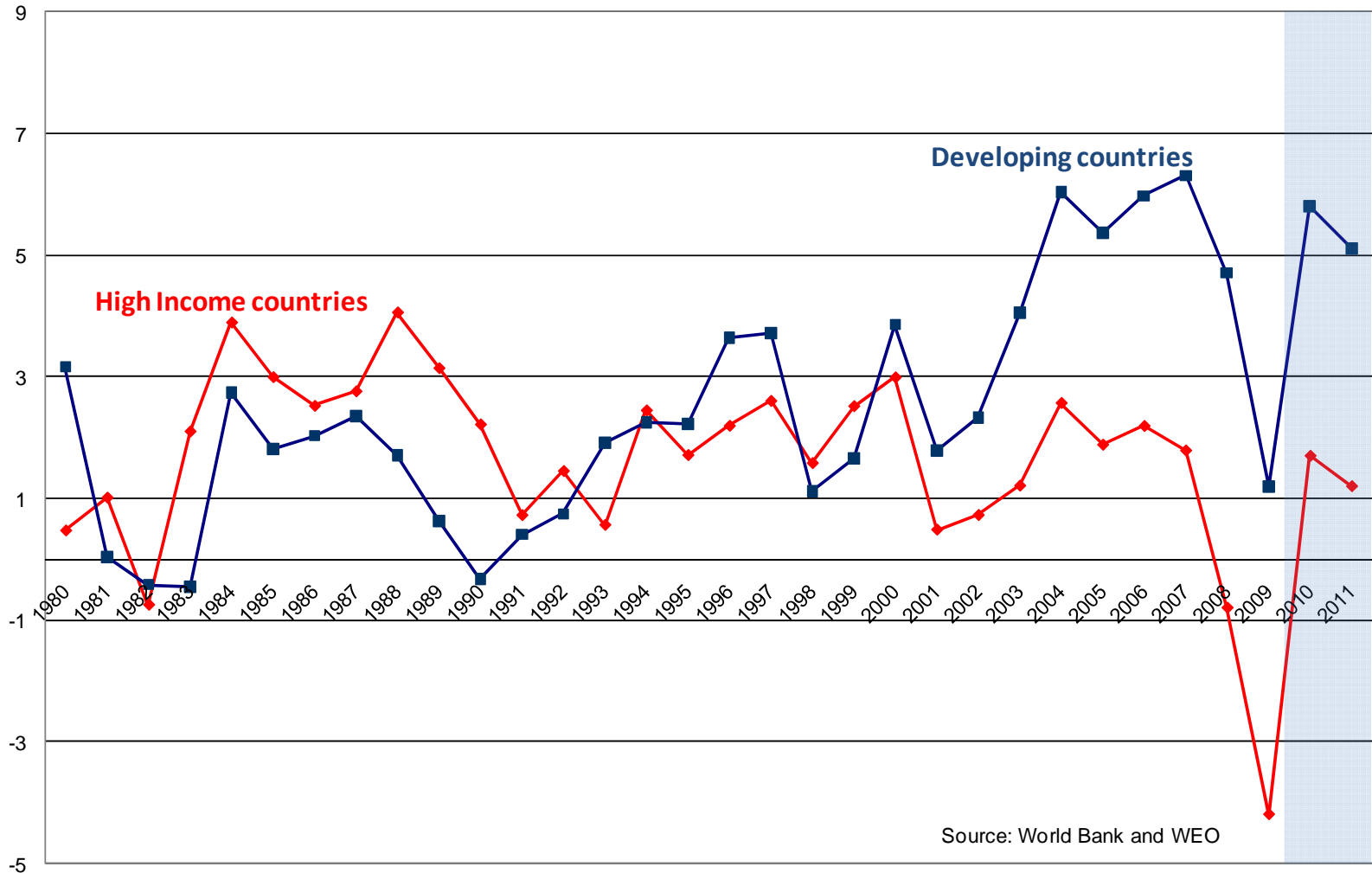
Proportion of people with less
1.25 \$ ppp a day in developing countries (%)





The 'decoupling' of growth trends



GDP per capita: annual growth rates (%)



Source: World Bank and WEO



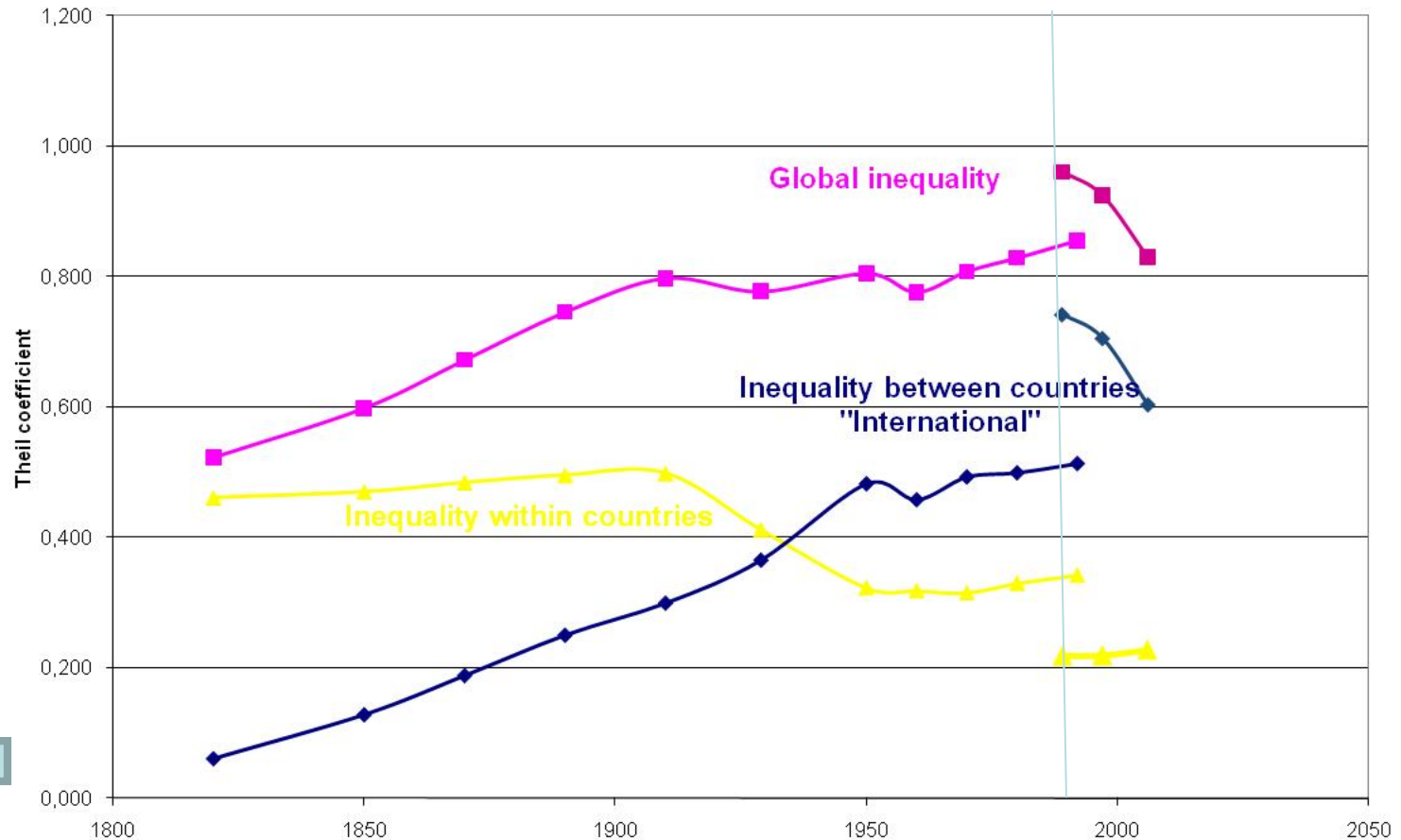
Caveats

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



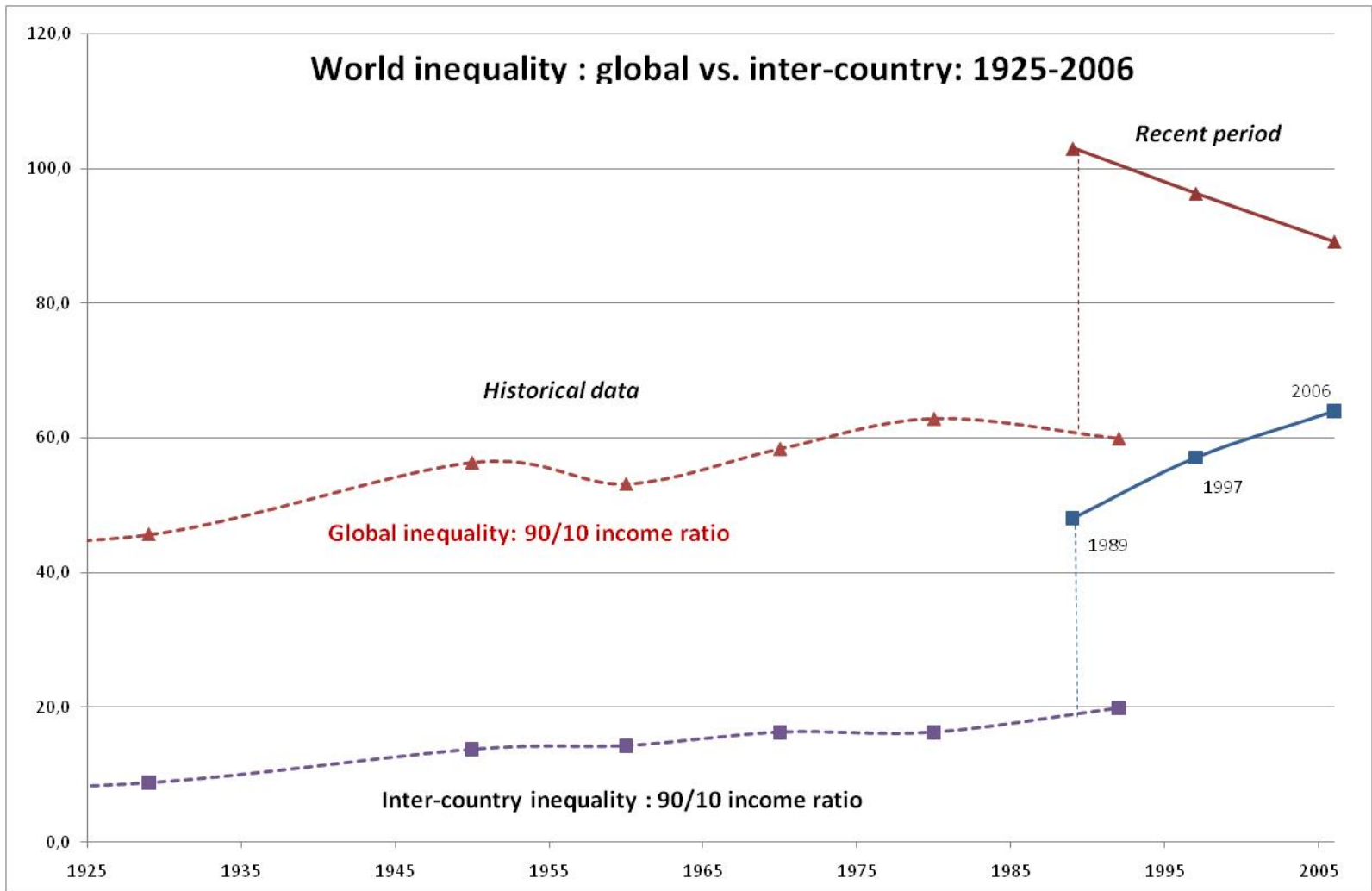
Between and within country inequality

Decomposition of global inequality into **Between** and **Within** Components (Theil coefficient)





Global vs. "Inter-country" (unweighted) inequality





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?

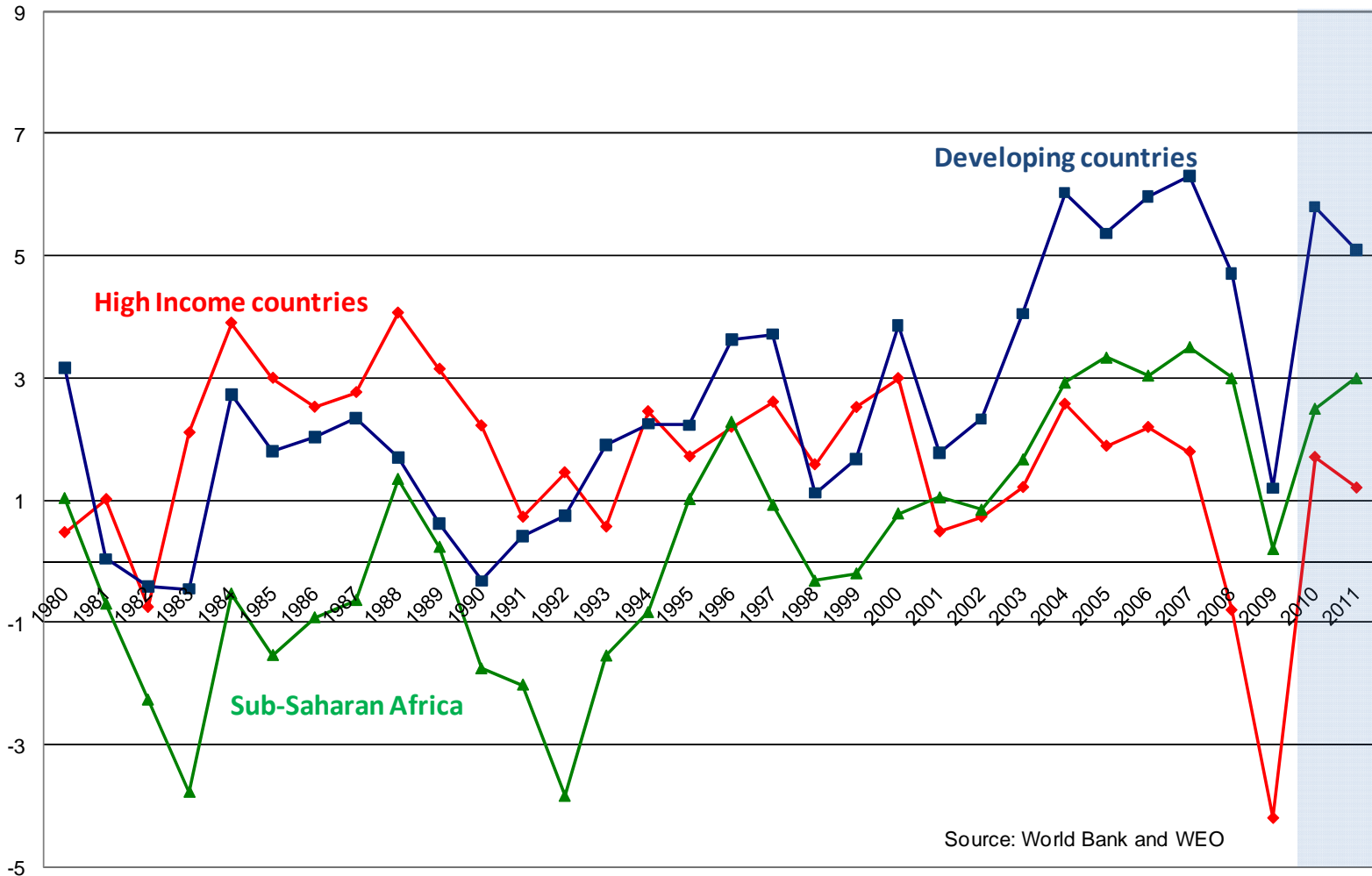
- Global poverty increasingly an African problem 
- Cause of the recent resuming of growth: structural or cyclical?
- Conflicting influence of international environment (global growth rate likely to fall in comparison with the 2000s)
- Supply response to commodity price boom and need for diversification





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

Australia		Italy	++
Austria	++	Japan	+
Belgium	++	Korea, Rep.	
Canada	+	Luxembourg	+
Czech Republic		Netherlands	
Denmark		New Zealand	++
Finland	++	Norway	++
France		Portugal	++
Germany	++	Slovak Republic	
Greece		Spain	
Hungary		Sweden	++
Iceland		Switzerland	
Ireland		United Kingdom	++
		United States	++

Source: Oecd, 2008

Are the ++'s forerunners ?



The surge in inequality in the US

Average After-Tax Income by Income Group (in 2004 dollars)				
Income Category	1979	2004	Percent Change	Dollar Change
			1979-2004	1979-2004
Lowest fifth	\$13,900	\$14,700	6%	\$800
Second fifth	28,000	32,700	17%	4,700
Middle fifth	39,900	48,400	21%	8,500
Fourth fifth	52,300	67,600	29%	15,300
Top fifth	92,100	155,200	69%	63,100
Top 1 Percent	314,000	867,800	176%	553,800

Source: Congressional Budget Office, *Effective Federal Tax Rates: 1979-2004*, December 2006.



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

- 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