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Global Inequalities: An Overview

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Abstract

The aim of this research paper is to unlock the debate on inequality. It has been analysed by the economists that global inequality has been on the rise in modern times, and inequality has increased within the states as well as between the states. This research paper highlights the concept of global inequality and its different dimensions and factors that result in causing inequality, how global inequality can be measured using different tools i.e., Gini Index and the trends in global inequality since 1960. Methodologically this paper will rely on the quantitative as well as qualitative data collected from secondary sources, and reports of international institutions, and different datasets collected since 1820. The reason for choosing this topic is based on the fact that global inequality is the most important socio-economic problem that economists and development practitioners are confronting in contemporary times. Understanding this problem is very important from policy perspectives. Besides that, this research can also give a thorough overview of the global inequality to other researchers and academicians.

Keywords: Economic, GINI, Global, Income, Inequality, Measuring, Wealth

Introduction

The concept of global inequality emanates from the disparities in the distribution of resources among different regions, among world citizens and even between the countries. The debate about global inequality has got tremendous attention in the aftermath of the publication of Thomas Piketty's book *Capital in the Twenty-First Century* in 2013 (Piketty, 2014). Since 1980's various studies have been conducted to dig out the trend of global inequality. Owing to broader media coverage of the issue, world leaders and economists have diverted their attention towards the phenomenon of global inequality. This was the reason when Barack Obama, former president of the United States, described rising income inequality as the "defining challenge of our time" (Reeves, 2013). The Pope has called for governments to redistribute wealth to the poor in a new spirit of generosity. Christine Lagarde, Head of the IMF, has declared reducing inequality to be at the top of her agenda because she

believes inequalities could threaten the sustainability of the world economic system (Atkinson, 2015). Before highlighting the concept of global inequality, it is pertinent to pen down about the concept of inequality. Inequality can be the relative position of individuals or households in terms of the distribution of resources. The distribution can take many shapes, it could possibly be the distribution of incomes, distribution of wealth, distribution of economic opportunities, distribution of educational, health, and other related services that are provided to various individuals by their respective governments. The inequality can encompass various forms and shapes at a given period. It is concerned about the variations in the living standards of the individuals. Inequality can be viewed as different people having different degrees of something, while others lacking in the same thing. Yet its scope could be national, regional, as well as global. Global inequality is the inequality between world citizens irrespective of their nationality. Whatever the circumstances all dimensions of inequality i.e. inter-country inequality, intra-country inequality, and global inequality are related to each other. However, it is difficult to formulate a correlation of these inequalities in a systematic way because of difficulties in measuring the various dimensions of inequality (Milanovic, 2012). Economists estimate through various studies that global inequality has been on the rise since 1820 till the end of the twentieth century. With the growth of economies of East and South Asia, especially India, and China the historic trend of growing inequality has been undone. On the other hand, a new trend has got birth in inequality discourse. This new trend is the widening of within-country inequality. Studies suggest the gap between the UK and India in 2009 was 10:1, whereas it was just 5:1 in 1850. Similarly, the gap between China and the UK is 5:1 today, but it was 4:1 in 1850. This suggests the inter-country income differences and the gap between the top and the bottom countries has widened. In 1870 the gap between the richest countries like Australia, and the UK and the poorest countries like Nepal and Ghana was 8:1, on the contrary, this gap increased to 31:1 in 2007 (Milanovic, 2011a). In the following paragraphs, the concept of inequality is discussed in detail, whereas section two will deal with the measurement issues in global inequality, and the section three will highlight the trends of global inequality followed by conclusion.

Economic Inequality

Economic inequality is the disparity that allows one individual to enjoy some material choices while denying another those very same choices (McKay, 2002). Economic inequalities show different capacities of people within the economic distribution. The distribution can be based on whether income, pay or wealth. Some individuals are rich due to their historical legacy, and transfer of intergenerational wealth, that per Piketty is generating huge gaps between economic positions of rich and poor individuals. The widening gap between rich and poor is due to wealth inequality (Piketty, 2014). In the 1960s income of the top 20% of people in the world was 30 times more than the income of the bottom 20%, by the early 2000s, the ratio had increased to 80% (The Equality Trust, 2011). In addition to this growing trend of rising inequality, the economic positions of individuals can also be linked to some other factors like background, geographical conditions, climatic conditions, health and education. London based Equality Trust recognizes the gap between well-off and the less well off in overall economic distribution per different concepts of statistics in the following categories.

Types of Economic Inequality

Economists have differentiated inequality into two broader categories.

A: Income Inequality

B: Wealth Inequality

Income Inequality

Income Inequality is the extent to which income is distributed unevenly in a group of people (The Equality Trust, 2010). Income is the money that is received due to employment, normally in the shape of wages, bonuses, or salaries. It may also include investments and dividends from shares of stock, savings, state benefits, pensions, and rent. Thus, income inequality for a household considers various levels of incomes for different households. In the rest of the paper, the discussion will be based on the income inequalities.

Wealth Inequality

Wealth inequality is the number of assets of an individual or household. Assets may include financial assets like bonds and stocks, property and private pension rights. It could also include the transfer properties or intergenerational wealth. Since not every individual has the same level of assets thus, resulting in the unequal distribution of wealth among individuals. Since it is not easy to calculate the value of one's wealth due to differences in accessing the value of the property at different geographical locations, and different standards of measurements. However, the availability of wealth to one household and non-availability of wealth to other household creates the situation of wealth inequality between individuals (The Equality Trust, 2010).

Dimensions of Inequality

Dimensions of inequality arise from the inequality of opportunities and inequality of outcomes. Inequality of opportunities is differences in the circumstances that exist beyond one's control. The role of gender, issues of ethnicity, birthplace, geographical conditions, background of the family these all circumstances make an individual better off or worse off in the overall distribution pattern. Whereas inequality of outcomes is measured by income, wealth, or expenditures. This inequality is a result of an individual's efforts and talent. Inequality of outcomes is also the result of normal functioning of the market economy. It is hard to differentiate one's outcomes from the opportunities. The rich and the poor, are the reality of every society. There is a great likelihood, the child born in a rich family due to good parental support will have access to good education, and the child will be in a better position to enjoy a nice lifestyle when compared to the child born in the poor family. When it comes to outcomes the child born in the rich family will outperform (due to good education, and other facilities of life) then the child born in a poor family. So, it would be hard to differentiate among inequalities of opportunities and inequalities of outcomes. Referring to such scenario John Rawls argued distribution of opportunities and outcomes are equally important in deciphering the inequality around the world (IMF, 2015).

Concepts of Inequality

Thomas Goda¹ has differentiated among four concepts of inequality while considering relative income inequality. Following are these concepts of inequalities.

- A. Intra-country inequality
- B. Inter-country inequality
- C. Weighted inter-country inequality
- D. Global Inequality

Intra-country Inequality

As the term “*intra*” suggests it is the measurement of inequality within the borders of a country. It measures the inequality between various households/individuals in a country. This inequality is measured by conducting household surveys which express the income/expenditure of the individuals of that country. The level of income/expenditure of individuals makes it clear to differentiate between the individuals from poorest to the richest. The degree of inequality is established by arranging data into deciles or quintiles of the population. Intra-country inequality is also called “*class*” inequality owing to the fact it covers different individuals living in the same country, having different incomes and representing different social groups (Milanovic, 2011a).

Inter-country Inequality

The term “*inter*” suggests it is the measure of inequality between counties of the world. Inter- country inequality compares mean average incomes between countries. This inequality is calculated by focusing on the GDPs or mean incomes of households. Each country is considered as a unit/individual and ranked from poorest to the richest based on the GDPs per capita market exchanges rates or by the level of purchasing power parity (PPP). This measure does not consider the density of the population. Inter-country (Between Country Inequality) is also called “*locational*” because it depends on the differences in mean incomes between various places (Milanovic, 2011a).

Weighted inter-country Inequality

Weighted inter-country is like inter-country inequality, but it considers the population weights of the countries. The more populated the country is the more it impacts on the level and trend of international inequality. China, for example supports a huge population and getting richer day by day, the inclusion of China into estimates of global inequality will strongly affect the global income distribution. This is one of the main reasons Asian region has witnessed a declining trend of inequality in post-1980s, especially due to the growth of China, and India. On the contrary, inequality within countries has increased (Bourguignon, 2011). Weighted inter-country inequality

only approximates global inequality between individuals while studies designed to specifically estimate global inequality yield much more reliable estimates, as they account for both inter and intra-country inequality by taking individuals as the unit of observations (Goda, 2013).

Global Inequality

Unlike other concepts of inequality, global inequality measures the level of inequality of all the world citizens irrespective of their nationality. Here the whole world population is taken as a single entity. Global inequality considers the global dimension of inequality. François Bourguignon and Christian Morrison (2002) pioneered in measuring worldwide income distribution by estimating the income distribution for 33 country groups and mean incomes collected from the works of Angus Maddison, setting the interval of twenty years from 1820-1992. They estimated global inequality measured by Gini coefficient, was 53 Gini points in 1850, that could be broken into 25.9 Gini points (49 percent) to location/inter-country inequality, and 27.3 Gini points (51 percent) to class/ intra-country inequality (Milanovic, 2011a). Owing to globalization, the world is becoming more integrated. The means of production are becoming mobile. Advancement in the means of communication makes it easier to cross the borders. The free movement of factors of production, and the living standards of people in various parts of the world influence other fellow human beings. This creates a greater degree of dependence on other nations for the generation of one's income. In the the globalized world, the movement of capital influences far greater than the movement of labor. The knowledge about the sources of income of individuals, and their share in income pyramid, strongly influences the perceptions of the individuals dwelling in different parts of the world. This results in the formation of an imaginary community of world citizens where individuals try to have know-how about their compatriots and this trend of global informational about the resources of production are getting flourished day by day. People try to compare the policies of different governments, especially they try to seek for the welfare approach of various governments towards their citizen. This pattern of thinking makes policymakers, economists, governments, and individuals to think about global inequality. Though global inequality has nothing to do with the lives of individuals, it plays an important role to design policies and compare the lifestyles of other fellow individuals this globe (Milanovic, 2012).

Factors Contributing to Inequality

There are multiple factors which cause inequality across the nations. Based on various cross- country investigations, economists have linked inequality to the interplay of history and politics, globalization, technological change, financial deepening, changes in the labor market policies, and the demographic changes. These causes of inequality are discussed in more detail below.

History and Politics

Per the World Bank's country brief, Gini coefficient for South Africa was 0.67 the highest; in 2008. However, it reduced four points and reached 63.38 in 2011 (World Bank, 2017). The reason behind such inequality in South Africa could be traced back to the apartheid regime, where black South Africans were deprived of holding agricultural lands, access to education, and maintaining a decent livelihood in urban areas. Such unjust historical policies could be linked to the current trend

of inequality in South Africa. Similarly, the level of inequality in Latin America can also be traced to the patterns of land holding in the previous centuries. In East Asia, the cultivation of rice played an important role for household's income and served as a basis of inequality in the region. In addition, factor endowments also play an important role in the distribution of income. Thus, the government policy decisions, access to education, the introduction of technology, and the market forces all play an important role in the overall development and growth pattern of societies. The level of inequality in any society is the product of various policy interactions (Gillis, 1992).

Globalization

In modern times globalization has been one of the most important catalysts for income inequalities at global level. There are a variety of opinions about the role played by globalization in affecting trade integration and creating inequalities. On the one hand, globalization has helped in reducing poverty and inequality levels has enhanced the economic growth in many countries. On the other hand, it is also believed that globalization has resulted in widening the gaps between skilled and unskilled labors. It has benefitted disproportionately to different segments of society. The inter-occupational wage inequalities are also associated with globalization when demand for skilled labors increases much speedily as compared to the demand for the unskilled labor in the same occupation group. The impacts of globalization on inequality are equally observed in developed as well as developing countries. However, the magnitude of inequality depends on the national policies of the governments (Vieira, 2013).

Technological Change

With the improvement in technology, productivity has increased manifold. Coupled with increased productivity the gap in labor wages has also got the momentum. Skilled labors now earn huge amounts of money, due to skills in dealing with new technology thus resulting in the labor skill premium. With the change in technology, the demand for skilled labor has also evolved thus putting non-skilled labor / low-skilled labor in a disadvantageous situation, or sometimes resulting in the elimination of many jobs for unskilled labor. The demand for skilled labor has also created huge gaps between the income level of skilled and non-skilled labor. (Jorda & Niño-Zarazúa, 2016). In OECD (organization of economic cooperation and development) countries rising inequality accounts for nearly a third of the widening gap between the 90th and the 10th percentile earners over last 25 years (OECD, 2011).

Trade Globalization

More trade leads to more growth, because in many cases it enhances competitiveness and efficiency, depending on whether the country is labor intensive or capital intensive (Alesina & Rodrik, 1994). The flow of trade and finance between countries accompanied by technological advances is being considered as the driving force of income inequality. Due to globalization and high level of competition between firms, the firms adapt to labor-saving techniques and switch from manufacturing goods towards industrialized goods that require skilled labor, thus putting low skilled labor in a troubled situation. In advanced countries, there are mixed effects on the wages of unskilled labor that gives rise to labor skill premium and leads to an increase in real wages by

lowering the import prices. Whereas, in the emerging and developing countries increased trade flows can lower income inequality by increasing the demand and wages for abundant lower-skilled workers. Hence, the impact of trade on income inequality depends on the relative factor abundance and productivity differences across countries. Not only that but also it depends on the level of income differences based on the wages, or capital (IMF, 2015).

Financial Deepening

Financial deepening in the form of greater access to resources could put household and firms in a better position to meet their financial needs. This could be saving for retirement, investing in education, capitalizing on business opportunities, and confronting shocks. Financial deepening if accompanied by inclusive financial systems can lower income inequality, as well as can improve the allocation of resources. Theoretical foundations suggest, financial deepening benefit the rich in the early stages of development, and the benefits are shared when economies develop. According to some studies financial developments could be measured as a relative share of banking and stock market sectors in the economy, with high levels of returns to top incomes in early stages. Thus, with the financial deepening inequality could increase due to higher incomes and assets have a larger share of access to finance, that could possibly serve to increase skill premium, and returns to capital (IMF, 2015).

Changes in Labor Market Institutions

With flexible labor market institutions, firms could foster economic development by reallocation of their resources. This, in turn could harm the low skilled labor and lead to inequality development. Reduction in the trade union membership can put workers in a disadvantaged position and curtail the bargaining power of workers and exacerbate wage inequality. Works of IMF find, a reduction in the minimum wage relative to the median wage is associated with higher inequality in advanced economies, while a decline in unionization rate is strongly associated with the rise of top income shares (IMF, 2015). Studies reveal the increasing inequality in the labor earnings in OECD countries is due to an increase in temporary employment and dispersion of earnings. Whereas, in many emerging markets and developing countries, (EMDC's) the combination of rigid hiring and firing, employment protection regulations and weak income protection systems encourages informality, result in wage inequality. The sample evidence from *de facto* labor market regulations (such as minimum wages, unionization, and social security contributions), on average, tend to improve the income distribution (IMF, 2015).

Demographic Change

Change in the population of any country has deep impacts on subsequent policies of any government. Studies prove that growing income inequalities can be associated with changes in family structures (Vieira, 2013). In most of the developing countries, household responsibilities are taken by a single-head of the family, who must face a lot of hardships to help his family survive. He is responsible for all the financial needs of his family. The case in developed countries is also not much different. This lordship of family responsibilities put single-headed households in the condition to face higher levels of expenses, thus leaving bare room for the savings. Besides that, the

burden of the ageing population is also considered as one of the reasons for creating inequality. Elderly population groups most of the time do not contribute to the economic activities, rather they are a liability on the state resources. This creates inequality in the society and this is particularly the case in OECD countries (Vieira, 2013).

Section 2

Measurement Issues in Global Inequality

Measuring global inequality is very utopian idea. To measure the inequality of the world citizens we need a huge dataset, that is a cumbersome task. In real world, there is not such data that could mention the levels of personal income, or national representative data of entire humanity (The Equality Trust, 2011). Till present, there are only two long-run empirical studies of global inequality. This includes the work of François Bourguignon and Christian Morrisson that appeared in *American Economic Review* in 2002; which estimates the global inequality from 1820 to 1992. The other study was conducted by van Zanden, Baten, Foldvari and van Leeuwen in 2010. This work of Van Zanden and others is improved and expanded in approach over the Bourguignon and Morrisson (Milanovic, 2011b). Besides that, now the economists have collected huge inequality dataset for calculating global inequality i.e Deniger Square (DS) database of World Bank, and the World Income Inequality Database (WIID); an estimate of Global Inequality by United Nations (Goda, 2013). It is pertinent to mention here that global inequality can only be estimated by the level of national datasets while aggregating those, and applying some statistical tools global inequality could be empirically measured. Nevertheless, there are some issues in the collection of national data, and national datasets itself varies based on the approach (income, expenditure, or wealth) used (Gillis, 1992). Following are mentioned some methodological and data issues regarding the empirical measurement of global inequality. However, the paper will deal with the measurements of income inequality.

Converting National Incomes to Global Incomes

To calculate the national incomes to global incomes one must choose either Purchasing Power Parity (PPP) or market exchange rates. The global inequality either considers Household Surveys means (HS) or national accounts means, expenditure or income grouped or individual level data, or per capita income. Whatever the indicator used to calculate global inequality, none of these datasets are free from shortcomings (Goda, 2013). As maintained by Goda in the following way.

“The most important problem with intra-country inequality HS is the difference of choosing inequality concept (consumption, expenditure, net-income or gross income), reference units (family, household, individual), and sources” (Goda, 2013).

Another problem with HS is the interval between surveys. Some countries conduct a survey annually, biannually, or after five to fifteen years. Therefore, while calculating global inequality economists need to impute the missing values or report only results for so-called benchmark years (Milanovic, 2012). Till now the most widely used inequality datasets are DS and WIID. DS uses dummy variables to deal with indicator problem. Whereas, WIID estimates a wide range of GINI estimates, and quintile or decile shares based on different inequality concept, reference units/sources. Thus,

whatever the data source of global inequality has used the problem of adjusting empirical works is bound to occur (Goda, 2013).

Yet, another problem with the measurement of global inequality is the PPP exchange rates. PPP exchange rates are used when the Gini coefficients of countries are scaled to national account means or household means. Many authors favor PPP exchange rates over market exchange rates, because of the inability of the market exchange rates to reflect domestic goods and services in poor countries which will put the inhabitants of poor countries in disadvantaged condition by overestimation of inequality. Whereas, PPP would favor poor nations because of cheaper domestic goods and services. However, several economists maintain that PPP exchange rates are superior to market exchange rates (Goda, 2013).

Sampling Error

In calculating global inequality sampling error is yet another problem. It encompasses the problem of survey sampling, non-response, underreporting, and top-coding. The problem of survey sampling is the problem of underrepresentation of very poor and very rich. The poor often lack a properly registered address, while the rich are not easily accessible. Whereas, underreporting and nonresponse is the problem with rich households who don't mention the actual amount of their incomes, which results in the underestimation of the global inequalities trend as well as inequality level (Gasparini & Alvaredo, 2013). Same is the case with misreporting, people are not sure about their investment, or property in the distribution of income. However, top-coding uses the income above certain threshold, when calculating the top incomes beyond that fixed threshold incomes are lumped together which fail to represent the potential distribution within top code (Goda, 2013). While Conducting these surveys, such problems may lead to underestimation of global inequality.

GDP per capita/ HS

In addition to data issues, there also exists another problem of whether to use HS data or GDP per capita to empirically estimate global inequality. Though both the measures have some shortcomings, the economists prefer GDP per capita over HS because the data on GDP per capita is readily available for most of the countries on an annual basis for a long time. While HS underestimate income and it is a recent phenomenon. The HS surveys started just 40 years before in developing countries (Milanovic, 2009).

Choice of Inequality Index

Choosing the inequality index is a technical issue because different inequality indexes represent different value judgments. Most economists choose either the Gini index or Theil Index to represent inequality. The Gini index; the most widely used indicator of relative inequality. The Gini index can also be represented graphically by drawing the Lorenz Curve². The index ranges from 0 to 1 (0=the level of perfect equality, and 1=the level of perfect inequality). The higher the value of the coefficient the more level of inequality and vice versa. Countries with *highly unequal distribution* of income have

² A graph depicting the variance of the size distribution of income from perfect equality.

Gini between 0.5 and 0.7, while for countries with *relatively equal distribution* of income Gini stands between 0.20 and 0.35 (Todaro & Smith, 2012). Unlike GINI index, Theil index also has zero as the lower bound but the logarithm of the sample size as the upper bound. It takes after Henri Theil. Theil index is important because it could be decomposed into subgroups and can establish the degree of global inequality that is changed due to an increase or decrease in intra-country inequality (Goda, 2013).

Section 3

Trend and Evolution of Global Inequality Since 1960

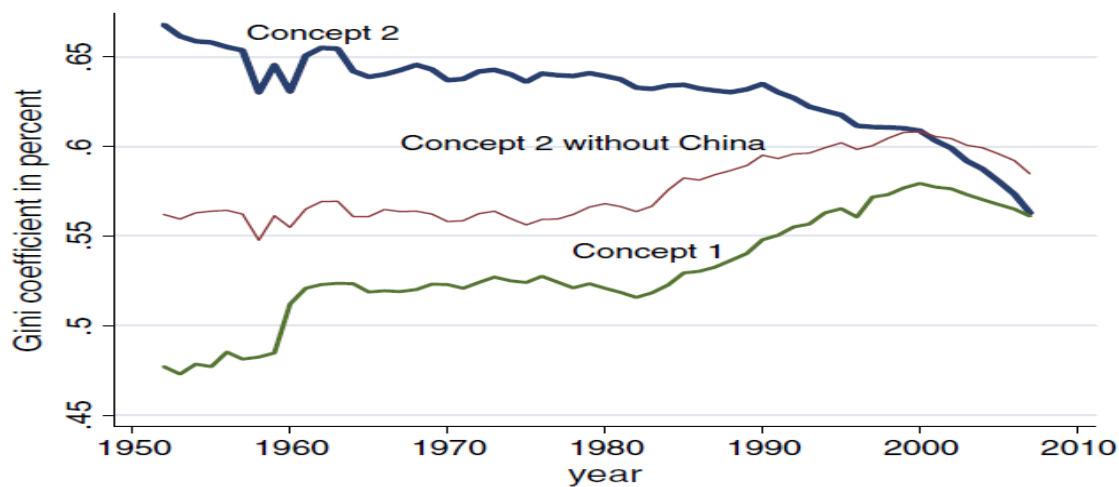
Empirical data suggests, there has been a rising trend of inequality at different periods of time since the start of systematic study of global inequality in 1820 to 1992. Studies by Milanovic say between 1820 and 2000 inter-country income inequality increased substantially (Goda, 2013). The world distribution of income arises from the differences in incomes between countries rather than inequality within countries (Bourguignon & Morrisson, 2002). Following paragraphs will focus on two approaches, i.e approach of inequality between countries using per capita incomes unweighted and weighted, other approach explaining the inequality trend between individual citizens of the world by considering inequality between and within countries (Vieira, 2013).

Inter-country inequalities

Inter country inequality uses the data on income per capita for each country to find out whether countries diverge or converge. This approach considers each country as an equal unit without taking into consideration the population size of the country. (Unweighted inter-country inequalities) An alternate approach could be valuing the country population (weighted International inequalities) but this method could mislead due to the influence of populous countries like India or China, which can result in hiding the reality. Milanovic calls (Inter-country and Global inequality) as "*The Mother of all inequality disputes*" (Milanovic, 2011a). Studies suggest an increasing trend in the inter-country inequalities between 1950 and 2000, and especially since the 1980s. Despite considerable growth in Asian countries mean income between countries has diverged after the 1980s. Post-1980s developing regions were reported performing sluggishly, while, the developed countries performed economically well (Vieira, 2013). According to United Nations Development Programme (UNDP) between 1960 and 1989 the income ratio between the richest 20% and the poorest 20% of countries increased twofold (in PPP terms that ratio between the two groups was 50:1 in 1989) (Goda, 2013). In the decades of 1980s, economies of developing countries faced deep debt crisis i.e; Latin America. Owing to geo-political and ideological crisis; economies in Eastern Europe and ex-Soviet observed a declining income, and Sub- Sahara Africa also followed the declining trend (Vieira, 2013).

While Milanovic suggests post-2000 divergence between national mean income stopped or even reversed. This trend was particularly influenced by the rapid growth in developing and transition economies during the period 2001-2006. African countries achieved 4 percent annual growth, Eastern European countries grew around 6 percent, and Latin American countries grew around 3 percent. To mention, there was a mixed economic performance of countries economically some countries diverged, other continued convergence (Vieira, 2013).

Figure 1: Inter-country and International inequalities



Source: Milanovic (2010)

Concept 1: Inter-country inequalities

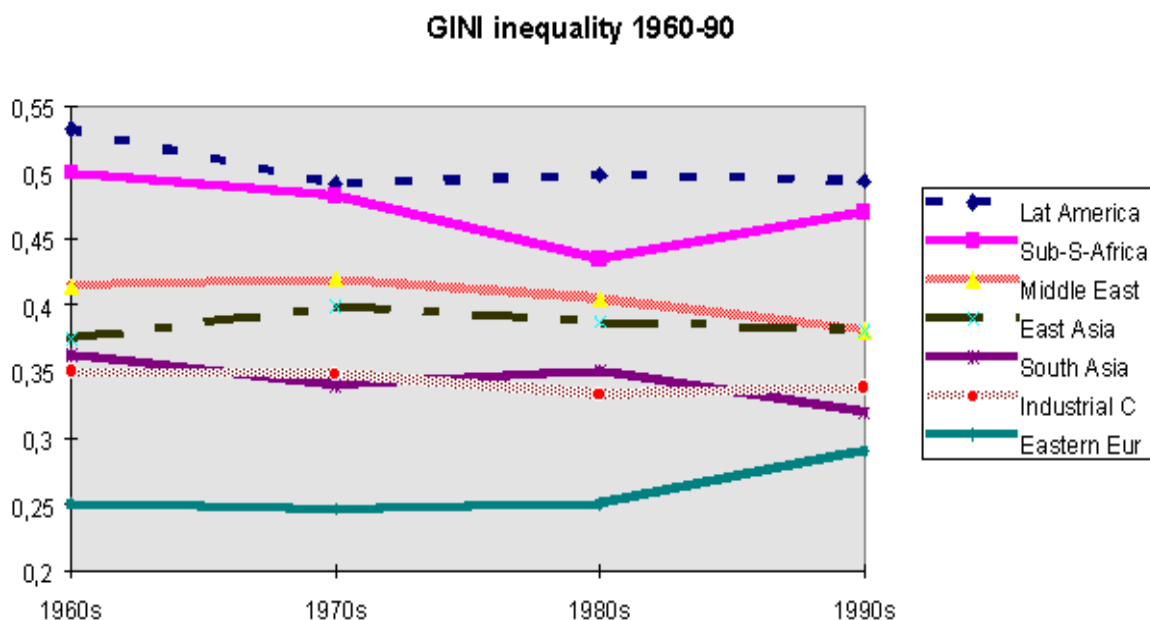
Concept 2: International inequalities

International Inequalities

Due to different data sources, and the selection of different inequality indicators the trend in international inequality shows different results³. World Bank Development Index (WDI) report of 2006 declares since 1960s international inequality has been declining, and the trend got momentum since 1990s until 2000. Whereas, the World Economic and Social Survey (WESS) 2006, declare international inequality declined after the 1980s, until 2000s before it followed an upward trend between 1960s to 1980s (Vieira, 2013).

In the decade of the 1980s the population unadjusted intra-country inequality levels were also much lower than the global income level. GINI index estimate for high-income countries was 30 points, for European and Central Asian developing countries GINI was 35 points, and it was 40 points for East and South Asian and Middle Eastern and North African developing countries. While GINI for Sub-Saharan countries was 45 points, and for Latin American and Caribbean developing countries was 50 points, as shown in figure 2 (Goda, 2013).

Figure 2: The Gini coefficient of income inequality in the different regions of the world



Weighted inter-country inequality is affected by the inclusion of populous countries like China and India. In figure 1, there are significant changes in the slope of international inequality lines, the red and the blue lines. The red line without the inclusion of China shows the rising trend in global inequality until 2000, and a similar trend is followed by inter-country inequality. But the blue line estimating international inequality with the inclusion of China, (weighted inter-country inequality) is continuously on the decline, and the trend speeds up after 2000 (Vieira, 2013).

In figure 1, without a weighted population of China, the trend of international inequality was on the rise, and the same is true for the unweighted population of East and South Asia. Somehow, the rising trend of inequality is also true for developing as well as developed countries. Post 2000, the trend of international inequalities showed a downward movement, even when China was excluded from the estimates as shown in figure 1 (Vieira, 2013).

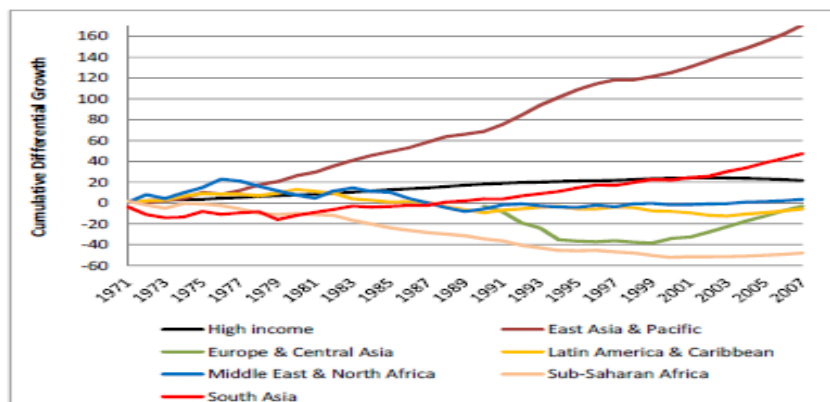
Since the last four decades, the developing countries have grown faster than developed countries, resulting in almost catching up the income levels equivalent to developed countries. Besides that, the downward trend for international inequalities has been much steeper than inter-country inequalities due to the fast growth of India in South Asia (Milanovic, 2012). Despite such convergence, the trend of inequality between developed and developing countries has remained high. Due to the short period of convergence, it is difficult to say how would be the trend of global inequality in the days to come? But it is a fact that the trend will be highly dependent on the expansion

of GDP per capita of two Asian giants i.e. China, and India. If the growth of China and India in comparison to developed countries is checked by the global crisis, then international inequalities may rise (Vieira, 2013).

Global Inequality vs national Inequalities

Estimating global inequality is a difficult choice amidst different measurement approaches. Different approaches use different data sources, and trends to arrive at global inequality estimates. The approach used by Milanovic (Income estimation using HS data) founds between 1988 and 2005 there was an upward trend in global inequality. The Gini coefficient for global inequality moved from 0.68 in 1988 to 0.70 in 2005. This high level of global inequality reflects sizeable per capita income disparities across countries, which is nearly three-quarters of global inequality (The Equality Trust, 2011). From the 1960s to 1990s the GDP per capita ratio between the richest and the poorest countries was 39, in 1990 the ratio counted 45 times higher in the richest countries as compared to the poorest countries. This divergence in the inequality trend was accompanied by the lower growth rates in developing countries as opposed to high-income OECD countries (i.e. Japan and the West European countries and their offshoots: Australia, Canada, New Zealand, and the US). In the same time (1960-1990) 16 out of 108 developing countries experienced negative average growth rate, and growth was less than 0.5 in 28 countries, while 40 countries experienced less than one percent average growth rate. On the contrary, the average GDP per capita growth of high-income OECD countries was 4.5 times higher than that of developing countries as illustrated in figure 3 (Goda, 2013).

Figure 3: Cumulative growth in GDP per capita relative to the world average

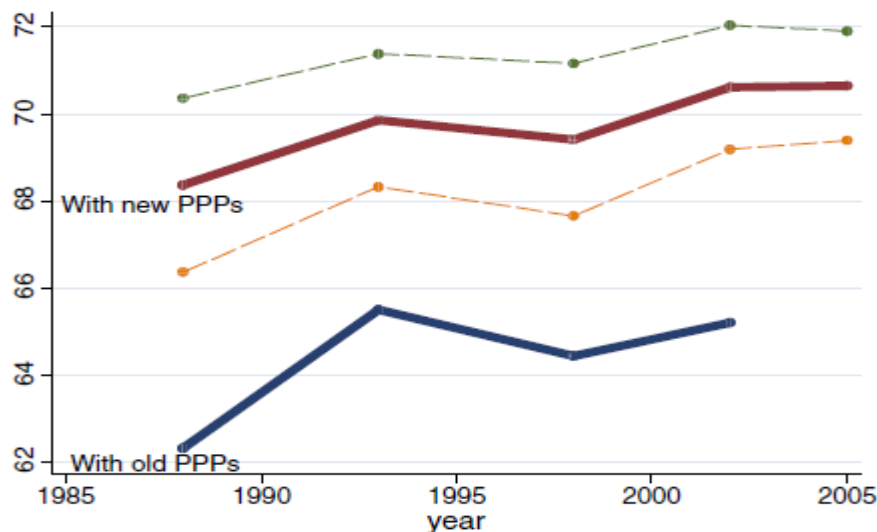


Source: WDI (2011)

While estimating the global inequality in the last four decades, the Gini index does not present the linear trend, there was a slight decrease in Gini between 1993 and 2000. Whereas in 2005, the count was 0.723, that reads the global inequalities are larger than inequalities within countries. In

1988 top decile of global population controlled 51.5 percent of global income, and the ratio increased to 55 percent in 2005 as shown in figure 4 (Vieira, 2013).

Figure 4: Global inequalities with new and old PPPs Dashed lines correspond to one- standard deviation confidence interval for the new GINI.

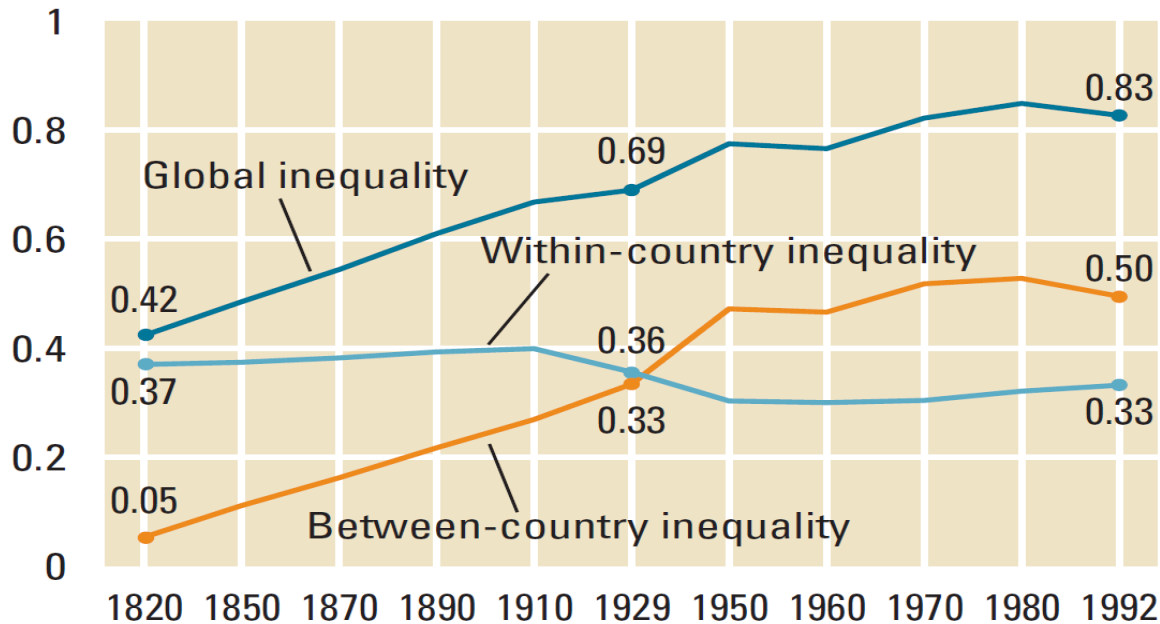


Source Milanovic, Branko (2010)

Tracing the level of global inequality from the available data, since 1929, it can also be deciphered the global inequality since 1992 is “between-country inequality” (Inter-country Inequality). As represented in figure 4, the share of this component is represented by 2/3 of global inequality in 2000. The data also suggests the trend of inequality in the average national incomes per capita throughout the twentieth century. Thus, inequality between individual citizens of the world could be determined by their country of residence. While the share of “within-country” component can be confirmed by rising national inequalities in both developed and developing countries as shown in figure 5 (Vieira, 2013).

Figure 5: National, international and global inequalities in a historical perspective

Mean log deviation



Source: World Bank (2006).

The Reasons for Rising Global Inequality

The Economists have found that the rise of global inequality from 1820 till 1990, was a due increase in inter-country inequality. The trend of inequality was sharpened since the 1950s due to globalization (Vieira, 2013). In recent times, due to the unfolding of globalization, and increasing incomes in OECD developed countries there has been an increasing and widening trend of global inequality. However, the decades of the 1980s witnessed diverging trend due to the growth of Asian giants, i.e, China and India. Besides that, the sluggish growth performance in Latin America following the debt crisis and the neoliberal reforms also caused global inequality. In addition, the decline in Eastern European/former Soviet Union incomes following the collapse of the Eastern Bloc and subsequent free market reforms has also resulted in the divergence. Yet, the disastrous economic developments within many African economies can also not be forgotten in contributing to global inequality (Goda, 2013).

Conclusion

From the above discussion, it can be concluded, inequality apparently seems to be a simple concept, but in fact, it is an umbrella concept having many dimensions like inter-country, intra-country, and global inequality. Equally challenging is the issue of measuring different types of inequalities and

then finding a systematic correlation between them. Owing to efforts of international institutions like WB and UNDP, a range of datasets with various dimensions have been established to estimate the trends of inequality. The global inequality, in fact, is a new way of looking at the distribution of resources in the world whether income or wealth. In recent times a lot of initiatives have been made to thoroughly estimate and understand the trends in global inequalities. Studies suggest since 1820, the trend of global inequality has been on the rise and different studies suggest different ways of measuring inequality. In light of such studies, it has been revealed that there has been a rise in global inequality. According to Milanovic between 1988 to 2005 the global inequality has increased. Similarly, UNDP also reveals that between the 1960s and 1989 there has been a two-fold increase in the income ratio of the top 20 % richest and bottom 20 % poorest countries. However, World Bank Development Index reveals that between 1960 s and 2000s there has been a decline in the global inequality, and World Economic and Social Survey also present similar statistics that after 1980s to 2000s the global inequality has declined. This decline in the global inequality in the last quarter of the twentieth century is due to the growth of economies of Asia. However, global inequality is still far greater than the trend of inequality between countries. In recent decades, a new dimension of inequality has evolved that suggest the evolving trend of “within-country inequality”, which has resulted in the burgeoning gap between the rich and the poor percentiles of the global population. Since systematic measurement of inequality, the trend of global inequality has always been on the rise, but in now it has been widened. Economists might disagree on the methods and data selection issues, but the results have always accompanied the uniform path though with some variations. Since the 1980s the growth of India has resulted in the decline of global inequality, but within India gap between “haves” and “have-not” has increased dramatically. Owing to the subprime crisis situation in OECD countries, inequality in OECD countries has been “within-country inequality”. In such circumstances, it would be before time if one predicts about the trend of global inequalities in this century, whatever the situation it's certain the growth of China and India would be the main drivers of global inequality due to huge populations.

To deal with the issue of inequality factor endowments play a crucial role. Well, thought policies of the governments that ensure the wellbeing of citizen are a nice initiative to reduce the inequality as witnessed from the case study of OECD countries. The policy interventions in the field of education and health could result in increasing the skills of individuals and it would result in higher production and reduction in poverty. Similarly, the increase in the growth rate of the country would result in the reduction of inequality. These are some suggestions that could result in a reduction of global inequality, but for macroeconomic results, each country presents a unique case, and different reason of inequality (that have been mentioned above) could be analyzed to dig out the causes of inequality in a specific country and responded through policy interventions case by case.

Being the exploratory piece of research, the current paper is a significant contribution to understanding the debate on global inequality. The data set and research work analyzed in this paper could help develop researchers' interest in further exploring the concept of whether on a case study level or from a regional perspective.

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