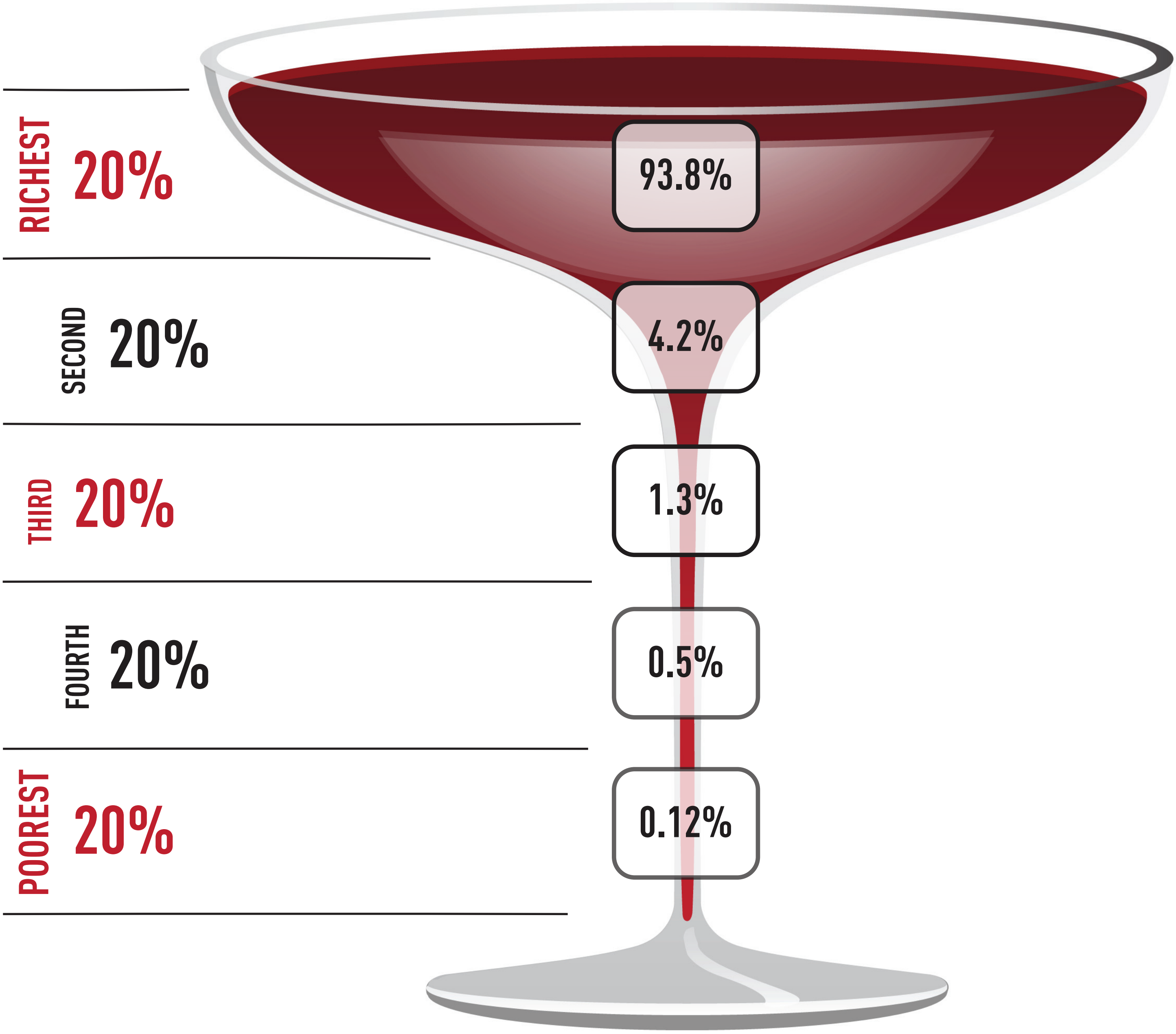
DISTRIBUTION OF WORLD WEALTH, 2006

PERCENT OF TOTAL, WITH QUINTILES OF POPULATION RANKED BY HOUSEHOLD WEALTH



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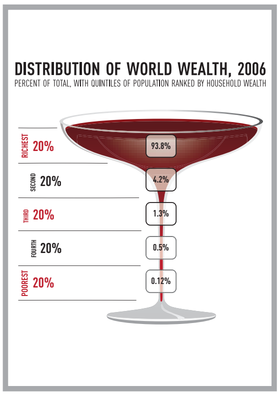
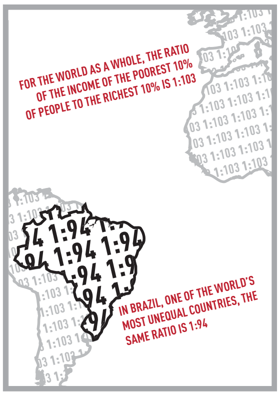
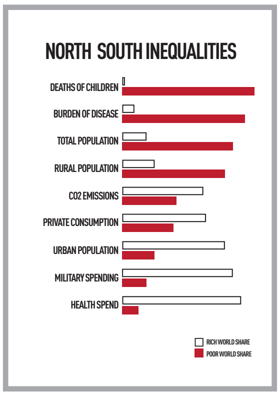
MIND THE GAP: DEBATING INEQUALITY





Traditionally, poverty has been measured as a lack of the minimum income necessary to meet basic needs. Therefore measuring poverty internationally requires a uniform poverty level across very different economies and societies resulting in very crude comparisons. The World Bank has defined the international poverty line as US$1.25 and $2 per day (in 1993 Purchasing Power Parity - PPP)[1] which adjusts for differences in the prices of goods and services between countries.



The $1.25 per day level is generally used for the least developed countries now predominantly African while the US$2-per-day is used for middle income economies such as those of East Asia and Latin America. According to this measure there were 982 million people out of the developing world's 4.8 billion people living on $1.25 per day in 2005 with another 2.5 billion (40% of the world's population) were living on less than $2 per day.

Also, in 2005 the poorest 40% of world population accounted for 5% of global income. The richest 20% accounted for 75% of world income and the richest 10% accounted for 54%.

According to the Human Development Report published by the UNDP, the 5 countries with the highest percentage of population living below the US$2 per day level were:

- **Zambia 92%**
- **Tanzania 89%**
- **Nigeria 87%**
- **Burundi 87%**
- **Rwanda 87%**

The US$1.25 and $2 a day measures offer a useful but crude means for measuring global poverty. In recent decades, poverty research has adopted a broader approach taking into account a variety of social indicators in addition to income. The UN's Human Poverty Index, for example, includes illiteracy, malnutrition among children, early death, poor health care, and poor access to safe water in its calculations. For the UNDP, vulnerability to famine or flooding, lack of sanitation, exposure to disease, a poor diet and the absence of education are as much the signs of poverty as material deprivation. Providing the poor with basic social services and infrastructure would in many cases alleviate poverty to a greater extent than simply a rise in income level.

Per capita income tells us very little about the condition of the poor or about the gap between rich and poor. The number of poor people in a country and their average quality of life depend on how equally or unequally income is distributed across the population as a whole.

In Brazil and Hungary, for example, per capita income levels are quite comparable, but the incidence of poverty in Brazil is much higher. In Hungary the richest 20% of the population receives about four times more income than the poorest 20%, whereas in Brazil the richest 20% receives 30 times more than the poorest 20%.

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[1] Purchasing power parity (PPP), as defined by the World Bank, is 'a method of measuring the relative purchasing power of different countries' currencies over the same types of goods and services. Because goods and services may cost more in one country than in another, PPP allows us to make more accurate comparisons of standards of living across countries.'

In terms of measuring poverty and inequality, it is also important to take gender into account and doing so reveals some interesting results. According to the 2007 – 2008 Human Development Report the countries with the highest and lowest ratios of female to male income were:

HIGHEST FEMALE/MALE INCOME RATIOS		LOWEST FEMALE/MALE INCOME RATIOS	
Kenya	0.83	Saudi Arabia	0.16
Sweden	0.81	Oman	0.19
Mozambique	0.81	Egypt	0.23
Burundi	0.77	Qatar	0.24
Norway	0.77	Morocco	0.25

INEQUALITY – 3 KEY MEASUREMENTS

In 2005, World Bank economist Branko Milanovic published a major study entitled *Worlds Apart: Measuring International and Global Inequality* in which he explored international inequality over time. He offered 3 concepts for measuring such inequality.

Concept 1: un-weighted international inequality – the income (or GDP) per capita of each country is measured without reference to its population and compares 'average' or 'representative' individuals worldwide.

It is a kind of UN General Assembly where each country, small or large, counts the same. Imagine a world populated with ambassadors from some 200 countries, each of whom carries a sign on which is written the GDP per capita of his/her country. These ambassadors are then ranked from the poorest to the richest, and a measure of inequality is calculated across such ranking of nations (ambassadors).

This is really a measure of international inequality because it compares countries not citizens.

Since it is reasonable to argue that if China becomes richer, this would have more impact on the world than if Mauritania were to become so – this leads us to the second concept.

Concept 2: population-weighted international inequality – this assumes that everyone in a country receives the same income but the number of representative individuals from each country reflects its population size. This still measures international inequality but it is now weighted by the population of each country.
The difference when compared to Concept 1 is that the number of ambassadors from each country is proportional to the country's population and we assume that income distribution within each country is perfectly equal. Concept 2 is only a halfway house in calculating real world income distribution

Concept 3: inequality calculated across all individuals in the world – this idea treats everyone the same - we no longer have ambassadors, we line up all individuals, regardless of the country, from the poorest to the richest.

In this concept, Chinese individuals will no longer be crowded together but will mix with poor Africans etc. and rich Chinese with rich Europeans and a few rich Africans might even mix with rich Americans. This measurement is achieved by surveying individuals and households selected in a worldwide random sample (such that the Chinese will have a chance to be selected proportionally to their population size) and rank all such individuals from the poorest to the richest. This concept goes back to the individual as the unit of analysis, ignoring country boundaries.

In the fictional Assembly:

- Concept 1 suggests that only country ambassadors line up each having the height of that country's GDP per capita

- Concept 2 has each country with a number of participants proportional to its population but all participants from a given country have the same height, equal to that country's GDP per capita
- Concept 3 has the same number of participants from each country as in concept 2 but the participants' height now reflects their true income - there are tall and short Chinese just as there are tall and short Europeans.

Milanovic concludes by arguing that inequality has increased between nations over the last half century and richer countries have generally grown faster than poorer ones but the two most populous nations, China and India, have also grown fast and, over the past two decades inequality within countries has increased. For Milanovic the result is clear - the inequality between the world's individuals is staggering, at the turn of the twenty-first century, the richest 5% of people receive one-third of total global income - as much as the poorest 80%. While a few poor countries are catching up with the rich world, the differences between the richest and poorest individuals around the globe are huge and growing.

As the world-famous economist Amartya Sen tellingly notes:

'Even if the poor were to get just a little richer, this would not necessarily imply that the poor were getting a fair share of the potentially vast benefits of global economic interrelations. It is not adequate to ask whether international inequality is getting marginally larger or smaller. In order to rebel against the appalling poverty and the staggering inequalities that characterise the contemporary world - or to protest against the unfair sharing of benefits of global cooperation - it is not necessary to show that the massive inequality or distributional unfairness is also getting marginally larger. This is a separate issue altogether.'

FURTHER INFORMATION

Branko Milanovic's book Worlds Apart (2007, Princeton University Press) is available in most good bookshops and is a very interesting read. You can check out the first chapter for free here. Amartya Sen's seminal book Development as Freedom (1999, Anchor) is also well worth reading.

http://press.princeton.edu/chapters/s7946.pdf

The UNDP's annual Human Development Report is also recommended for those willing to explore wealth and development inequality. The latest version can be accessed online by clicking here, although the 2002 version had an interesting section on global inequality which can be accessed here – go to page 19.

http://hdr.undp.org/en/reports/global/hdr2007-2008/

http://hdr.undp.org/en/media/HDR_2002_EN_Complete.pdf