

Unequal development and world inequality

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In 2005, the World Bank published the *World Development Report 2006* on the question of equity, while the United Nations published its biennial *Report on the World Social Situation* entitled *The Inequality Predicament* despite very important differences, both these volumes focused on the question of inequality and advocated equity: the World Bank report advocates what it calls 'equal opportunity', whereas the UN report emphasized the structural determinants of inequality in the global system. In October 2007, the International Monetary Fund published its *World Economic Outlook* on the subject of *Globalization and Inequality*. The publication of these volumes has served to re-legitimise study of the causes, measurement and consequences of inequality. Meanwhile, preliminary estimates show that the concentration of wealth throughout the world is much higher, and perhaps has been growing faster, than the concentration of income (Davies, *et al.* 2006).

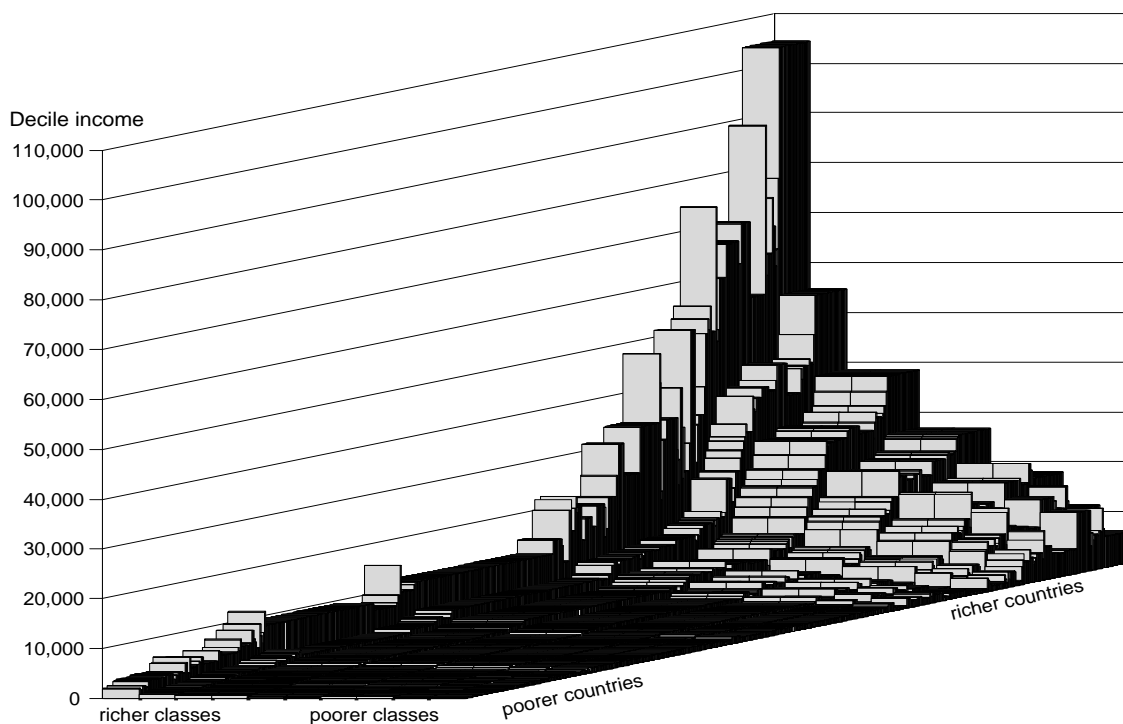
Inequality matters

The distinguished economic historian Angus Maddison (2001) suggests that over the last two thousand years, the ratio of inequality between the richest and poorest economies of the world was barely more than two to one until about five centuries ago. Income inequalities have undoubtedly grown very considerably over the last couple of centuries since the Industrial Revolution.

Utsa Patnaik (2005) has shown the significance of capital transfers from the Indian subcontinent and the British West Indies to London, and the importance of such capital transfers for the initial capital accumulation for the Industrial Revolution. Others (Gallagher and Robinson, 1953) emphasize the 'imperialism of free trade', from the middle of the 19th century, after the Industrial Revolution had consolidated British manufacturing leadership.

Turning to recent measures of inequality, a common measure of global inequality compares average national per capita incomes. A more popular approach weights these national averages by population. A third method (Milanovic 2005) compares individual or household incomes globally; Figure 1 also tries to capture this distribution among countries.

Figure 1. Global Income Distribution

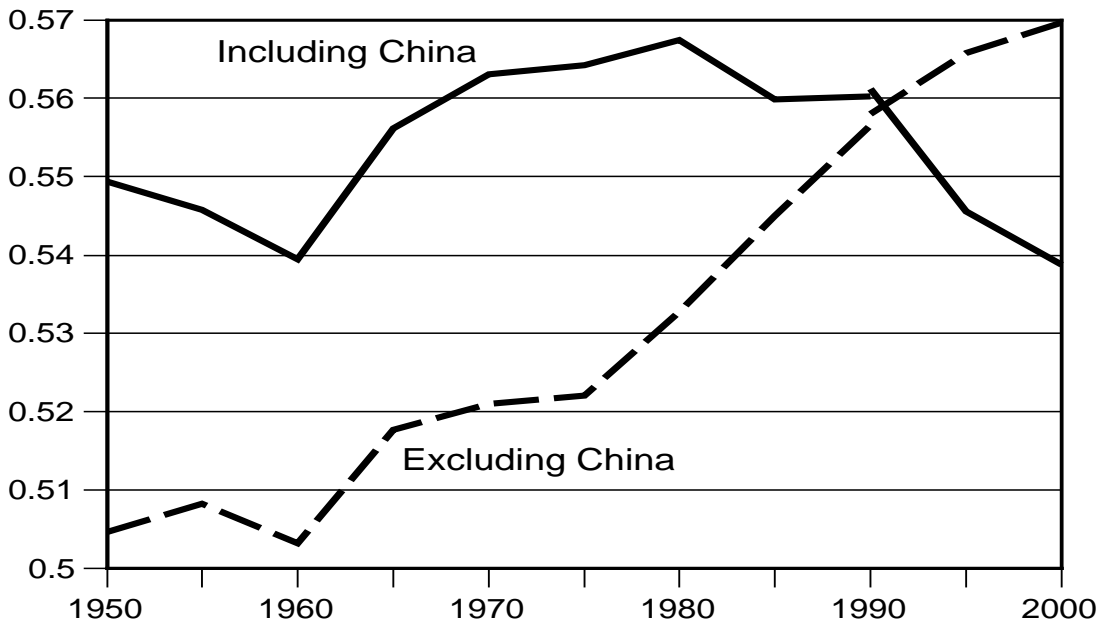


Income inequality has undoubtedly increased in most countries in recent decades, and for the 1990s, it has increased in all major regions except a few Northern European economies characterized by relatively lower inequality, and a few economies in the Middle East and North Africa with much higher inequality. For the rest of the world, wherever evidence is available, it is quite clear that intra-country inequality has grown (Jomo with Baudot 2007).

However, it is quite possible, with the different definitions available, for world inequality to be reduced by one measure, but not another – e.g. by using inter-country national household averages in contrast to inter-household comparisons, whether adjusted using market exchange rates or purchasing power parity (PPP). Also, even if household inequality in all countries is increasing, overall inter-country inequality may go down if a poor country with a large population grows rapidly – as has actually happened due to China’s rapid growth (see Figure 2). Global trends in inter-country inequality suggest no clear trend when China is included. But once China is taken out of the picture, the picture changes radically and there has been a huge increase in inequality at the global level. So the apparent lack of a clear trend in global inequality is largely due to China. Hence, global

inequality trends depend crucially on the definition and measure of inequality used.

Figure 2. Inter-country Ginis, with and without China



Poverty

Poverty is also variously defined. For example, the World Bank defines poverty using the 'dollar a day' benchmark. Surjit S. Bhalla (2002) points out that national income accounts are not compatible with income surveys. He suggests this incompatibility is a very recent phenomenon, and then argues that the World Bank is exaggerating the extent of poverty in the world to keep itself in business. In contrast, Amartya Sen suggests that it is not useful to use any kind of money-metric measure of poverty. Instead, he suggests that needs-fulfilment is the more useful measure.

Following from this, there are very different understandings of what constitutes pro-poor growth. World Bank staff often suggest that any growth which increases the welfare of those considered poor, can be considered 'pro-poor'. Nanak Kakwani argues that for growth to be considered 'pro-poor', the share of growth accruing to the poor should be at least equal to the poor's share of income. So, if, for example, the poor get 10 percent of total income, for growth to be considered 'pro-poor', over 10 percent of growth, or additional output, should accrue to the poor. Woodward and Simms

(2007) suggest that for growth to be considered ‘pro-poor’, the poor’s share of growth should exceed their share of the population. So, if the poor in a country constitute half the population, at least half of the additional output should accrue to the poor for it to be considered ‘pro-poor’. There was little significant reduction in overall rates of poverty in the world during the 1980s and 1990s, with progress very uneven in different regions of the world (Table 1).

Table 1. Poverty trends by region, 1981-2001

	% living on < \$2/day in 2001	Change in proportion and number of poor people between 1981 and 2001	
		%	millions
World	53	-8	8
East Europe + Central Asia	20	15	70
Middle East + North Africa	23	2	19
Latin America + Caribbean	25	-3	3
East Asia + Pacific	47	-23	-252
Sub-Saharan Africa	77	2	134
South Asia	77	-9	106

Growth during the last two decades of the 20th century has been much slower compared to the previous two decades, the period associated with the Keynesian ‘Golden Age’. While some Asian economies have grown rapidly in the recent period to increase their share of world output, average per capita incomes have been on par with developed economies while other regions have slipped further behind (Figures 3 and 4). The contrast between the last quarter century and the 1960s and 1970s for different income quintiles is reflected in Figure 5.

Figure 3. Gross Domestic Product in selected developing regions relative to the Developed Economies

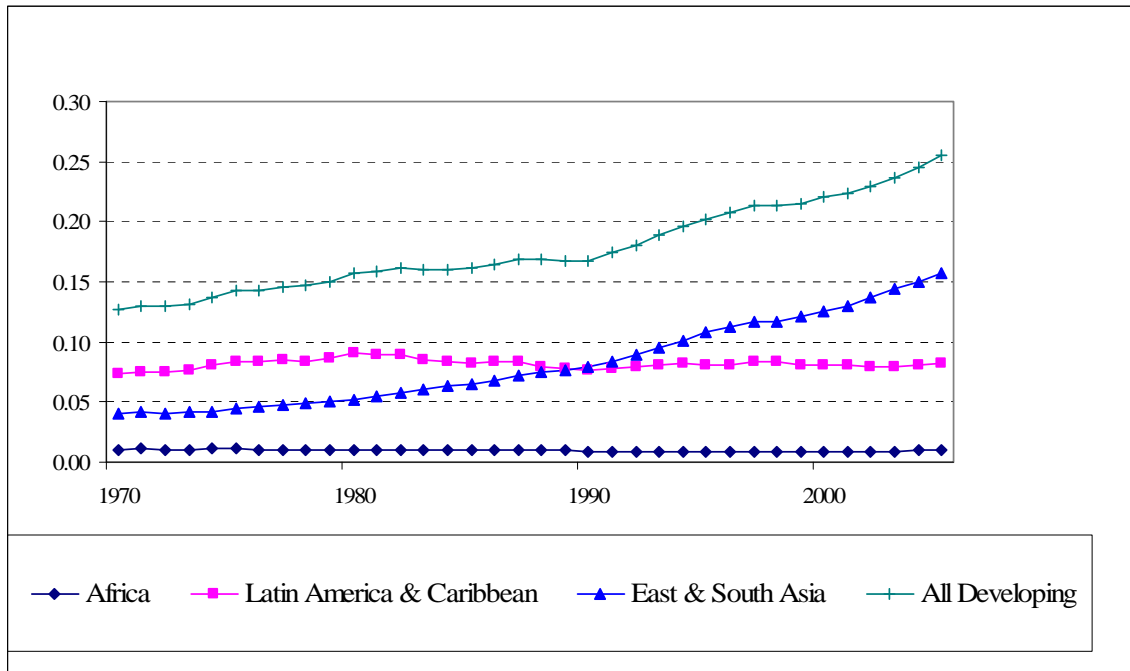


Figure 4. Gross Domestic Product per capita in selected regions relative to the Developed World

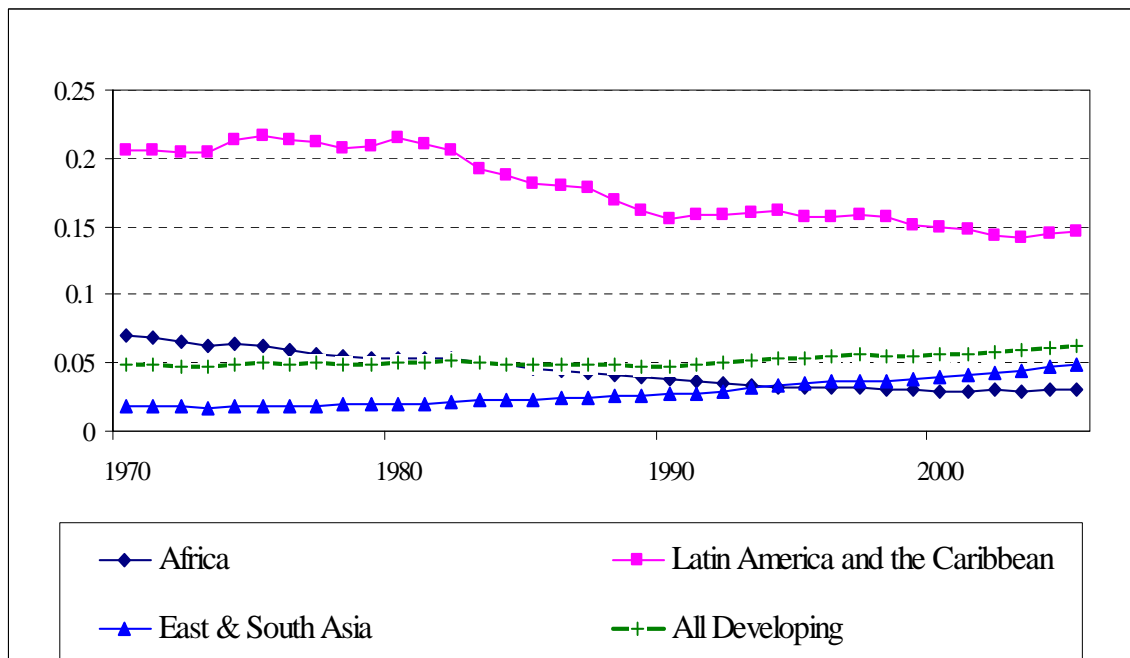
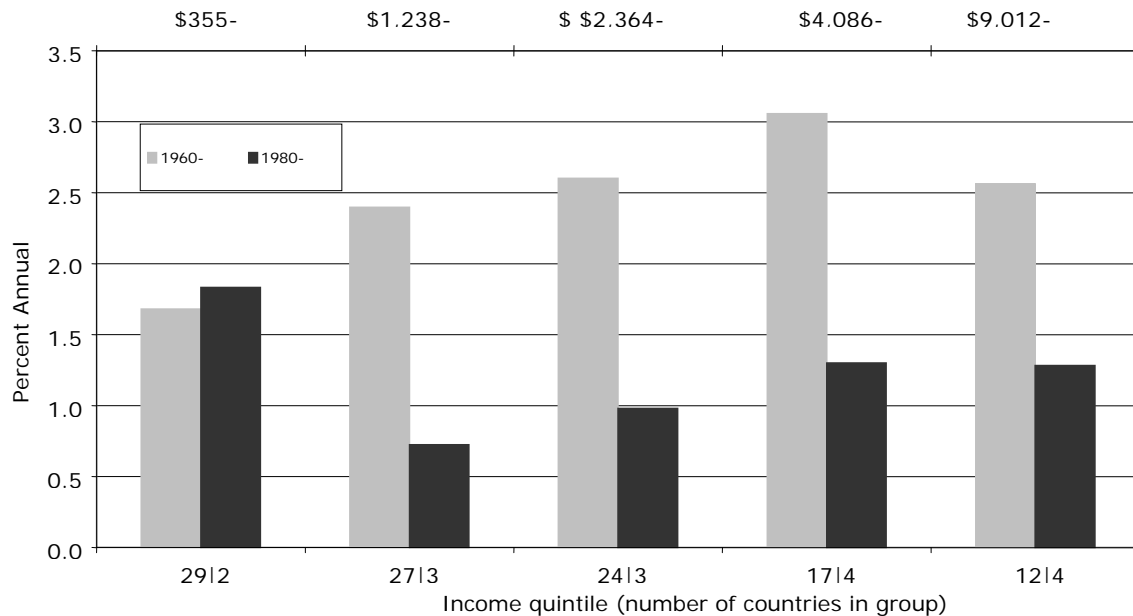


Figure 5. Average annual growth by income group 1960-80 vs 1980-2005



Source: Weisbrot *et al.* (2007: Figure 2.1).

The last five years have seen increased growth in many developing countries, including sub-Saharan Africa. This has been an exceptional period, mainly due to two factors: the increased prices of primary commodities, especially petroleum and other minerals, and the lower cost of finance because of the US Federal Reserve's efforts to keep interest rates low since the slowdown in 2001. As a consequence, despite higher growth in many developing countries, national inequalities have increased and poverty persists.

Jobless growth has limited the beneficial effects of the recent growth as there has been relatively little employment growth despite overall economic growth. Without employment growth, it is very difficult to reduce poverty on a sustained basis. Yet, over three quarters of the Poverty Reduction Strategy Papers of the heavily indebted poor countries do not incorporate employment generation into their macroeconomic policies.

There is now a broad consensus that no 'one size fits all', that there is no single unique model of or path to development. The context is all important in determining appropriate policies. In September 2005, heads of states or governments came together at the United Nations to commit to formulating and implementing national development strategies to achieve the internationally agreed development goals, usually understood as the shared commitments made by the international community in the various

UN summits and high-level conferences since the 1990s now collectively referred to as the United Nations Development Agenda.

Its significance is twofold. First, national ownership of public policies affecting development cannot be presumed or taken for granted, especially in many poorer and smaller countries. Many policies adopted by many developing country governments have been imposed upon them by the international financial institutions, such as the World Bank and the International Monetary Fund (IMF). Second, the scope for public policy initiatives has been constrained by the rules of international economic governance, e.g. through the World Trade Organization (WTO) which is significantly different from its predecessor, the General Agreement on Tariffs and Trade (GATT). So, the ability to elaborate and implement truly national development strategies is not without significance.

Progressive social policy and welfare improvements have generally been much more modest since the 1980s. Poverty reduction has therefore been slower, with reduced growth and worsening distribution. Many concerned people would like aid to mitigate the worst elements of poverty and human welfare. This is certainly important from a humanitarian point of view, but palliative aid does not enhance the economic capacities and capabilities of the economies and people concerned. One must therefore distinguish between such palliative humanitarian efforts and a much more developmental approach to aid as General George Marshall (1947) noted in announcing the plan for European reconstruction which bears his name.

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