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insight

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Income inequality worldwide
Gini coefficient since 1960

Although the incompleteness and diversity of the data commands some prudence, it appears that incomes were roughly as unequally distributed in 2010 as in 1960, and the more egalitarian nations were becoming significantly less so.

Wealth of individuals cannot be efficiently measured by GDP (gross domestic product) or other related aggregates per capita, because the latter are arithmetic averages that say nothing of the varying size of each individual share. The Gini index however can tell how shares of income differ among the population : a low Gini value points towards a comparatively egalitarian distribution, while a high value reveals a lop-sided distribution.

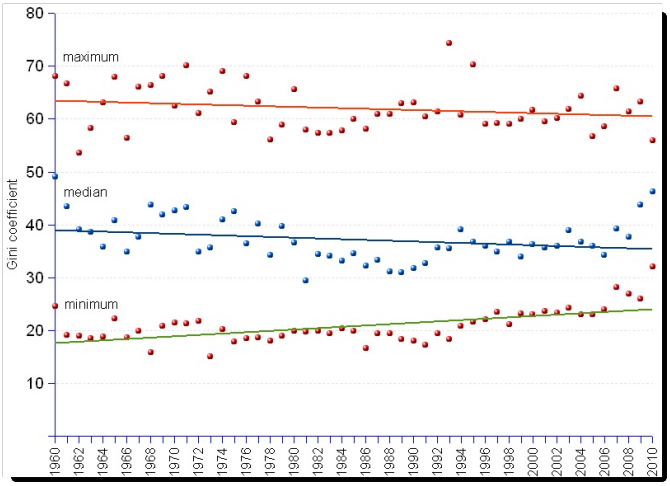

Figure 1 : Gini parameters – 1960 - 2010.

A glance at the evolution of the Gini maximum, median and minimum coefficients along the years (Figure 1) elicits three major inferences :

- In 2010 as in 1960, strong asymmetry prevails among the less egalitarian nations (maximum parameter). It is true that inequality has decreased somewhat, but at a rate not really worth mentioning : -0.39% per year. The world at large is not truly becoming more egalitarian, but remains at an almost standstill : medians tend to move downwards, but at the annual rate of -0.11% — in practical terms nil.
- However, inequality is gaining momentum among the traditionally more egalitarian nations. The Gini minimum values have regularly increased at the average annual rate of 0.53%, thus slowly but surely bridging the gap to the median. For good or for bad, egalitarian nations have been seduced by the beauties of asymmetry, and are joining the club of the asymmetric world.

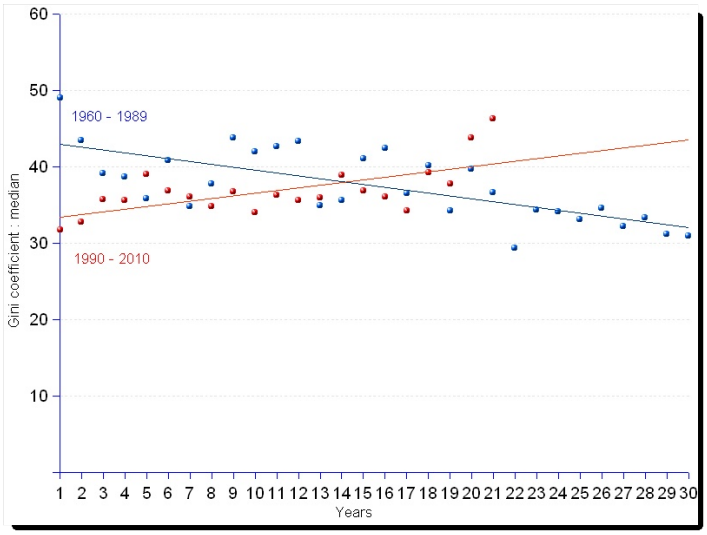

Figure 2 : Gini medians – 1960 - 1989, and 1990 - 2010.

A closer look at the data uncovers two distinct periods : the Gini median follows a downward trend from 1960 through the 1980s, reaches

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the inflection point in 1989, and moves upwards thereafter (Figure 2). The first 30-year period (blue data points and regression line) indicates a trend to a more egalitarian pattern, well evidenced by the downward moving linear regression line (slope : -0.38%). From 1990 to 2010 (red dots and line), inequality reasserts itself as exposed by the ascending trend of the the median regression line (slope : 0.35). In other words, inequality remained quite resilient, and successfully reversed the egalitarian trend that had prevailed from 1960 to 1989. Relating the trend reversal to key events of 1989, namely the fall of the Berlin wall and the collapse of the Soviet Union, may trigger some amusing thoughts...

So, inequality is triumphant — but why should one care ? Setting aside the subtleties of the debate around egalitarianism or non-egalitarianism that fall outside the scope of this comment, one can point out three fairly good reasons for being concerned.

- First the ethical reason. Many of us consider unacceptably improper of the human condition the situation whereby someone is kept in extreme poverty, even starving, while someone else lavishly spends inexhaustible riches to indulge in egotistic or self-aggrandizing pleasures.
- Second, the social reason. A society where the better-offs are immune to solidarity and co-operation, and remain aloof from the worse-offs, places itself at risk of being torn apart by the spiral of oppression, rebellion, retribution and retaliation.
- Thirdly, the economics reason. Although economists used to purport that economics couldn't and should not delve into ethics or sociology, mainstream economics currently acknowledges that inequality may affect a country's development prospects in many adverse ways. It may lead to inefficient allocation of resources that restrain the economic development. It may strangle the access to credit, assets, or basic infrastructure, and it may induce the emergence of power groups capable of perpetuating asymmetries in status and wealth, which in turn are bad for investment, innovation, and risk-taking. In short, inequality is a bad policy.

The latter argument justified the shift taken by the world economy governance represented by the World Bank (WB) group and the International Monetary Fund (IMF) from a focus on structural adjustment to the longer-term concern with poverty and inequality reduction since the late 1990s (World Bank, 2006. World Development Report 2006 "Equity and Development").

This awakening did not come out of the blue. Other developments both in the economy and in the policy fronts did happen, whose outcome should have been a reduction of inequalities :

- For starters, the gross world product (GWP) has increased by US$50 trillion or seven fold from 1960 to 2010 — at an annual average rate of 4.2% (in US constant dollars, 2005=100) (Figure 3). This surge of affluence could have induced not only a decrease of world poverty, but also a narrowing of the inequality gap.
- In September 2000, 189 country members of the United Nations signed the Millennium Declaration, which

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resulted in a set of 18 Millennium Development Goals, including curbing poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women by 2015. Such a pledge should have already produced some palpable inequality reduction effects.

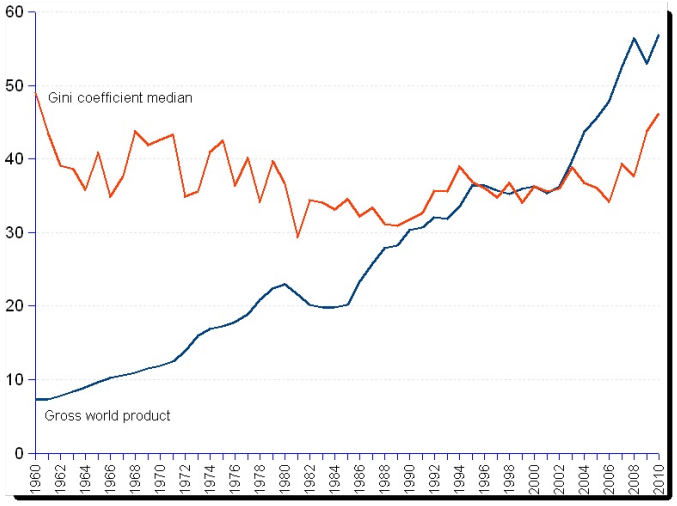

Figure 3 : Gini coefficient and GWP (Gross world product, constant US$, 2005=100).

- Since the 1960's and 1970's, the concepts of solidarity and co-operation have been rediscovered as the building blocks of a prosperous and healthy society. Socio-ethnologists like Mauss showing how gift exchanges create bonds that reinforce the social fabric were brought back to the front stage. Political scientists demonstrated that cooperation and trust can win over pure competitive strategies. Economists showed that fairness and cooperation can be not only closer to human nature than the selfish homo economicus of classic economics theorists, but also more congruent with Darwinian success-breeding altruistic behaviors. Since then, international organizations, national governments and non-governmental organizations intensified action plans to allegedly enhance social cohesion, solidarity and fairness.

Today, the results are mixed to say the least. The WB, while claiming that "the world has become considerably less poor in the past three decades", concedes that "global income inequality increased slightly between the late 1980s and the middle of the last decade ... Citizens and policy makers alike are concerned with growing income disparities. " (World Bank 2012. Inequality In Focus, Vol 1, Nbr 1, April 2012). Poverty and hunger keep haunting mankind, while extremely wealthy people grew in number and in wealth. The chasm between the well-paid and the low-paid deepens, and the increasing numbers of unemployed is a bad omen for wider equality. How to explain such a pale progress of fairness ?

- Abundant criticism has been addressed to IMF, WB, OECD and other such promoters and advocates of the war on poverty. Is their commitment to the heralded goals genuine, or are these just a "communications" smoke screen to cover up the installed economy powers' effort to consolidate their hold on the world riches ? The debate rages.
- The concept of diminishing returns has been central in micro-economics. It explains that, in a situation where some factors are constrained (e.g. land, machinery), the yield of a variable input

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(e.g. work) tends to shrink in terms of output per additional unit employed, leading to a double penalty of lower productivity and rising costs. Equilibrium is achieved by optimizing the use of inputs. Beyond this point, only inefficiency and decay can be expected. However, in the late 20th century, a new environment emerged capable of exhibiting behaviors of increasing returns. Unit costs tend to zero, allowing the big to grow bigger and the strong, stronger (think of Google or Amazon). The system breeds inequality : efforts to reduce it are both pointless and risky for the leading contenders.

- Another driver of inequality has emerged in the form of the "winner takes all" economy. In the classic supply-and-demand model, the market should adjust the price of any good or service to the latter's ability to perform. Higher grade, higher price, weaker demand, and conversely. There was room for a range of economic participants with different profiles, each one responding to different demand specifications as to capacity, quality, and price ranges. The "winner takes all" economy rewards only relative performance : the number 1 commands a high price and a growing share of the market because he's number 1, whatever the performance margin to the number 2. Little or nothing is left to the followers. Inequality becomes the rule. Changes of relative positions become rare or take place extremely slowly (think of the top performer of your favorite sport, the top pop star, or the top heart surgeon).

Without proper checks and balances, these underlying forces generate strong social and economical inefficiencies. Supposing UN, IMF, WB, OECD and others' efforts to promote fairness and eradicate poverty are authentic and well-intentioned, it seems naive to expect much change, because their programs do not impact a deep-rooted system behavior that lavishly rewards the heavy weights, while ignoring the crowds on the grounds that they are non-deserving, despicable losers. Which leaves us with two unanswered questions : how to build long-term economic development on such a lop-sided foundation ? for how long will the worse-offs shy away from reclaiming by whatever means what they consider their fair share of the cake ? ◯

(http://stats.areppim.com/corruption.htm)

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Gini index Median, maximum and minimum — 1960-2010					
Year	Median	Maximum		Minimum	
2010	46.3	55.9	Colombia	32.1	Bangladesh
2009	43.7	63.1	South Africa	26.0	Slovak Republic
2008	37.7	61.3	Honduras	26.9	Slovak Republic
2007	39.3	65.8	Seychelles	28.1	Slovak Republic
2006	34.2	58.5	Colombia	24.0	Denmark, Slovenia, Sweden
2005	36.0	56.7	Honduras	23.0	Sweden
2004	36.8	64.3	Comoros	23.0	Sweden
2003	38.8	61.8	Ecuador	24.3	Slovenia
2002	35.9	60.1	Bolivia	23.4	Czech Republic
2001	35.6	59.5	Haiti	23.7	Czech Republic
2000	36.3	61.7	Bolivia	23.1	Czech Republic
1999	34.0	60.0	Lesotho	23.2	Czech Republic
1998	36.8	59.0	Brazil	21.2	Czech Republic
1997	34.8	59.2	Brazil	23.5	Finland
1996	36.0	59.1	Brazil	22.1	Finland
1995	36.8	70.3	Zimbabwe	21.6	Czech Republic
1994	39.0	60.7	Swaziland	20.9	Finland
1993	35.5	74.3	Namibia	18.3	Slovak Republic
1992	35.7	61.3	Central African Republic	19.5	Slovak Republic
1991	32.7	60.5	Zambia	17.2	Portugal
1990	31.8	63.0	South Africa	18.0	Slovak Republic
1989	31.0	62.9	Sierra Leone	18.3	Slovak Republic
1988	31.1	60.9	Brazil	19.4	Czech Republic
1987	33.3	60.9	Lesotho	19.4	Slovak Republic
1986	32.2	58.1	Brazil	16.6	Luxembourg
1985	34.5	59.9	Malawi	19.9	Czechoslovakia
1984	33.1	57.7	Brazil	20.4	Sweden
1983	34.0	57.3	Kenya	19.4	Sweden
1982	34.4	57.3	Kenya	19.9	Sweden
1981	29.3	57.9	Brazil	19.7	Sweden
1980	36.6	65.5	Jamaica	19.9	Sweden
1979	39.7	58.9	Brazil	19.0	Australia
1978	34.2	56.0	Brazil	18.0	Australia
1977	40.1	63.2	Gabon	18.6	China
1976	36.4	68.0	Kenya	18.4	Bulgaria
1975	42.5	59.3	Gabon	17.8	Bulgaria
1974	41.0	69.0	Kenya	20.2	Bulgaria
1973	35.6	65.1	Jamaica	15.0	Portugal
1972	34.9	61.0	Brazil	21.8	Bulgaria
1971	43.3	70.0	Kenya	21.3	Bulgaria
1970	42.6	62.5	Ecuador	21.5	Bulgaria
1969	41.9	68.0	Kenya	20.9	Bulgaria
1968	43.8	66.3	Zimbabwe	15.9	Bulgaria
1967	37.7	66.0	Kenya	19.9	Germany
1966	34.8	56.3	New Zealand	18.7	Czechoslovakia
1965	40.9	67.8	Ecuador	22.2	Bulgaria
1964	35.8	63.0	Kenya	18.8	Czechoslovakia
1963	38.7	58.2	New Zealand	18.5	Czechoslovakia
1962	39.1	53.5	Sweden	19.0	Czechoslovakia
1961	43.4	66.6	Peru	19.1	Czechoslovakia
1960	49.0	68.0	Kenya	24.6	Bulgaria
Annual average change rate	-0.11%	-0.39%		0.53%	
Slope of the regression line	-0.071	-0.061		0.127	

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