Global inequality: an overview of concepts and trends

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Pronounced inequality has a proven negative impact on long-term economic growth, political stability and social cohesion. International goals to combat poverty and boost prosperity are also inextricably linked to distribution issues. Sustainable Development Goal 10 therefore enshrines a broadly diversified set of goals for reducing inequality in the dimensions of income, opportunities, political rights and economic participation in the global Sustainability Agenda 2030. The following presents a differentiated view of the trends of global income inequality based on central measurements of inequality such as the Gini Index. It also outlines three different concepts that are the focus of the global discourse about inequality.

Global inequality trend reverses for the first time

If we look at the income distribution of all citizens worldwide, regardless of national borders, inequality has increased significantly since the beginning of the industrial revolution. Between 1820 and 1988, the global Gini index increased from an estimated 0.5 to around 0.7 (scale between 0 (complete equality) and 1 (complete inequality)). Since the beginning of the 1990s, however, a downward trend in global inequality has been observed for the first time (graph). The most recent calculations estimate a Gini Index of 0.62. The world thus remains the "country" in which income distribution between individuals is the most unequal and above the national level of countries with the highest Gini indices.

Convergence trends recently reduced inequality between countries

If, however, the countries themselves are selected as the unit of analysis and their average income is compared over time, the "between-country inequality" has been declining in absolute terms since the end of the 1980s (weighted by population size). This convergence is largely driven by rising incomes in the populous countries of China and India. As the graph illustrates, although the relative proportion of this dimension of income inequality has decreased (from 80% to 65%), it is still the primary cause of global income inequality.

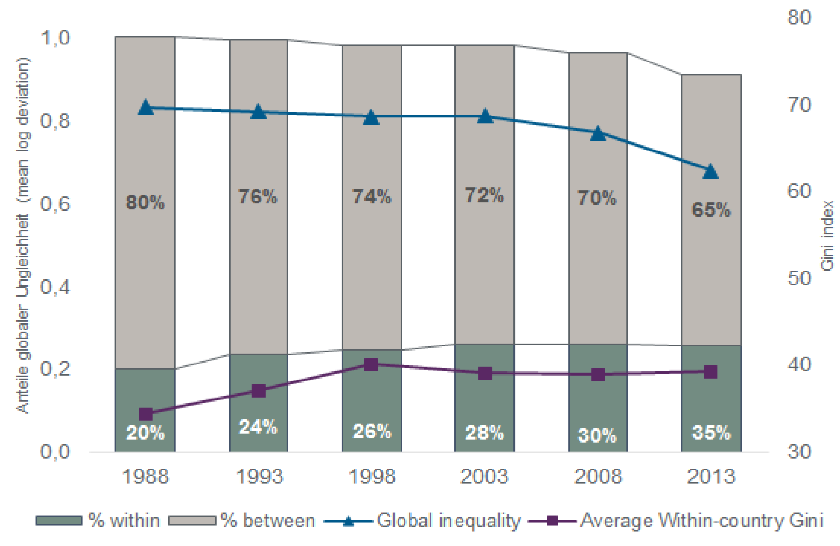
Inequality within countries is increasing overall

Due to the increasing divergence of individual incomes within many countries, however, the average of national inequality indicators has risen. The causes of high inequality are extremely heterogeneous and difficult to summarise. The country with the highest inequality is South Africa, followed by Haiti, Honduras, Rwanda and six other countries in Latin America and the Caribbean. The greatest degree of equality is found exclusively in industrialised countries as well as in Eastern Europe and Central Asia, led by Ukraine, Slovenia and Norway. The percentage of global inequality accounted for by the average "within-country inequality" has increased from 20% (1988) to 35% (2013) (graph). Even though, for a long time, the average inequality within countries in the regions of Latin America, Sub-Saharan Africa and East Asia has been declining at different regional levels, it has stagnated in recent years. In contrast, inequality in South Asia and the MENA region has increased, leading to an overall upward trend.

Conclusion

Global income inequality increased steadily until the beginning of the 1990s and remains at a very high level despite the recent convergence trend in income disparities between countries. Increasing inequality within countries remains a major challenge for national policymakers and international development cooperation in the context of high socio-economic costs. ■

Graph: Composition and trends of global inequality



Source: based on World Bank (2016): Poverty and Shared Prosperity 2016: Taking on Inequality.