



Cerna, Centre d'économie industrielle
Ecole Nationale Supérieure des Mines de Paris

60, boulevard Saint Michel
75272 Paris Cedex 06 – France
Tél.: 33 (1) 40 51 90 71 – Fax: 33 (1) 44 07 10 46
giraud@cerna.ensmp.fr – <http://www.cerna.ensmp.fr>

Inequalities: facts and debates

Pierre-Noël Giraud

Article published in French in:
"Sociétal", No 35, January 2002

The debate on inequalities and on the link between globalization and inequalities which, in the mid-90s, was still conducted among experts, has been constantly widening since then. What do we mean by inequalities and can these be accurately measured? Are economic inequalities increasing? Is globalization responsible for the increase in certain types of inequalities? For which ones and through what mechanisms? Or should the blame be put on information technologies? Or again on the organizational changes that enterprises and employment markets have been subjected to? Is there a link between inequalities and growth? Does inequality, particularly in the Third World, impede the process of economic growth and should it therefore become a matter of concern, or is the fight against absolute poverty all that is needed in that part of the world? These issues now form the subject of numerous empirical and theoretical studies which make it possible to clarify to a certain extent the terms of an ever expanding debate, particularly with the powerful rise in the movements against “liberal globalization”.

What do we mean by economic inequalities?

Three types of economic inequalities need to be considered. These are the inequalities between countries, measured in terms of the disparities between indicators of average standards of life (GDP per head calculated at the exchange rate of purchasing power parity, for instance). These will be called international inequalities. Then there are the inequalities within each country whose simple dimension is measured, among many others, for instance, by the disparity between the average income of 10% of the richest and that of 10% of the poorest in the country. Other more global measurements are those of the Gini or the Theil¹ coefficients. Finally there is the “global” inequality in which the overall population of the world is considered as a whole and which is measured in the same way as the inequality within a country. This last type of inequality is obviously the end result of the first two.

The long term history of inequalities

Bourguignon and Morrisson have undertaken a compilation of the data available for the period 1820-1992. Their article, to be published in the American Economic Review, has been circulated in the form of a working paper of the World Bank and it has already given rise to numerous comments. The data in figures is found summarized in graph 1.

Graph 1. Inequalities, as seen by Bourguignon and Morrisson



Source: Bourguignon, F. and C. Morrisson. "The size distribution of income among world citizens: 1820-1990". World Bank. Forthcoming in AER.

The main conclusion arrived at is that global inequality has almost exclusively been determined by international inequality, except for the period between 1910 to 1950. It increased rapidly between 1820 to 1910, stagnated between 1910 to 1950 on account of a high reduction in inequalities within countries, resumed its progress from 1950 onwards, but at a slower pace as international inequality increased less rapidly than it had between 1820 and 1910.

However, most of the comments made on these conclusions assert that globalization is not responsible for the increase in international and therefore global inequalities. It is rather the difference in the pace of technical progress which is the cause. This therefore takes us back to the vast debate on the reason for the scientific and technical advances achieved by Europe and its colonies of North American populations from the 19th century, and on the causes of the dissemination or the non-dissemination of the early industrial revolutions. Without naturally reopening this debate, two remarks require nevertheless to be made.

In the quick catching up process of some countries with relation to the European countries which were the leaders of the first industrial revolution, as also in the stagnation of numerous others, globalization has played an undeniable role. This has been an undoubtedly positive one for North America which has benefited from massive direct and financial investments and from

¹ These two tools of descriptive statistics measure the "inequality" of a distribution, of incomes, for instance. They both vary between 0 and 100 (or between 0 and 1, depending on the manner of presentation). 0 stands for a uniform distribution (total equality) and 100 for the most extreme inequality.

transfers of technology. It has been a negative role with regard to imperialist expansion which has unquestionably hindered the development of burgeoning capitalist systems in China, in India or in Egypt for example.

Secondly, it is striking to note that the only period when inequalities within countries decreased, and greatly so, namely the 1910 to 1950 period, was a time when national economies withdrew into themselves. Was this decline in the process of globalization between the two world wars the cause for the reduction of inequalities within countries? Definitely not, at least not directly so. But the hypothesis can be put forward that it did make this possible by giving the Nation States much greater room for maneuver, particularly in monetary and fiscal matters, than during the pre-1914 phase of intense globalization. The “legalization” of the working class (recognition of trade unions, establishment of the first social security systems, etc.), demonstrated by the formation of “United Fronts” in the face of the 1914 war, followed by the fear of the spread of Bolshevism, then became the main factors which led the rich countries to produce the Social Democrat model which was also to dominate the post-war period. Did they thus make a choice between growth and equality, as is asserted by all those who present a negative image of this period of closed national economies? This is in no way obvious. The average annual growth of the industrialized countries (including the USSR) between 1920 and 1939 was 2%, which is higher than that of the pre-1914 phase of globalization, even though it remained lower than that of the post-war period. There is a tendency to overestimate the intensity of the 1929 crisis, by considering only the United States.

But let us broach the matter of the progression of economic inequalities during the last few decades and the responsibilities of globalization, of the information technologies revolution and of other causes, in these developments.

The evolutions of the last twenty years

If Bourguignon and Morrisson are to be believed, it is easy to formulate an assessment. According to them international inequalities are still growing, inequalities within countries also and therefore global inequalities. But this assessment is, on the one hand contested, and on the other hand it is too general to reflect the real complexity of the evolutions.

The dissenting views are based on the difficulties in measurement, which arise as much out of the quality of the data as of the methods adopted. We therefore have several assessments available. Some minimize the growth of global inequalities, others, such as that of Milanovic for

the period from 88-93², magnify it. But the main thing is that these general evolutions arise out of very contrasting trends, both on the level of international inequalities as of those within nations.

International inequalities

An overall figure in this matter is actually of little interest as it depends to a very great extent on the methods of calculation. Is the per capita GDP calculated at the current exchange rates or at the purchasing power parity exchange rate and how are the latter to be calculated? Is each country weighed or not in terms of its population? Is it the per capita GDP which is measured or is it the final consumption of the households? The results differ significantly depending on which alternative is taken into account even if the trends, on their part, are less divergent.

What is on the other hand certain is that some international inequalities increase, while others get reduced. Thus the ratio between the per capita GDP of the 20 richest countries and that of the 20 poorest countries jumped from 17 in 1960 to 37 in 1996. But in 1960, the 20 poorest countries constituted only 5% of the worlds' population. On the other hand, during the decades of the 80s and the 90s, Asia was unquestionably catching up with the others.

	Annual Growth		Population 1999 in millions
	80/90	of the per capita GDP 90/99	
World	0.9	0.5	5 975
Rich Countries	2.5	1.9	891
East Europe and Central Asia	1.5	-2.9	475
Middle East and North Africa	-1.1	0.8	290
Latin America	-0.3	1.7	509
Sub-Saharan Africa	-1.2	-0.2	642
East Asia and Pacific	6.4	6.1	1 837
South Asia	3.5	3.8	1 329

Source: World Bank, World Development Report. 200/2001 Calculation on the basis of tables 3 and 11 of: Selected World Development Indicators.

It is therefore unquestionable, even keeping in mind eventual errors in measurement, that in Asia a group of countries made up of 3.2 billion individuals, i.e. more than half the population of the world, has embarked since at least 20 years, on the process of catching up with the rich countries, measured by a more rapid growth of the average per capita income, the word "average" being obviously a key one, as we will see later on. On the other hand, again according to the same criterion, entire continents are crumbling, which does not preclude the fact that within them some countries are showing a better performance than others.

2 Branko Milanovic: "True world income distribution, 1988 and 1993: First calculation based on household surveys alone", World Bank policy research working paper n° 2244, can be downloaded at: <http://www.worldbank.org/poverty/inequal/abstracts/recent.htm>.

How far is globalization responsible for these evolutions? In the countries of the South taken as a whole, no significant correlation is found between opening up of trade and growth. There is on the other hand a high correlation between direct investment and growth, but which is the cause and which the effect? Be that as it may, the statistical approach, which makes no difference in the way it deals with Uganda and the way it does with China, is of limited value here.

There appears to be little doubt that for the countries of Asia in the process of catching up with the richest countries, globalization has been a favorable factor, even while admitting that the structural factors (literacy rates, initial equality, rate of savings) and those of domestic economic policy are very probably important. The opening up of trade does indeed give a pull to growth and attracts foreign direct investments, which are factors essential to the transfer of technologies and of know-how. Financial flows supplement an already high rate of domestic savings.

On the other hand, the thesis according to which globalization has been an obstacle to the growth of certain other countries of the South, appears to be more difficult to debate. Some phenomena have however played a negative role. There are the examples of a too speedy opening up to flows of mobile capital, giving rise to crises of exchange with intensely recessive effects (Latin America in a recurrent manner, south east Asia in 1997). Then there are the subsidies for agricultural exports of the rich countries, which destroy food crops in the south. Then there are the TRIPS agreements on intellectual property, which hinder the production of generic medicines. But, rather than globalization by itself, these are matters concerning only some specific modalities of present day globalization which can be modified, and some of which are moreover on the agenda of the WTO since the Doha meeting.

In conclusion, it seems possible to assert that globalization is a factor that is favorable to the economic growth of the countries of the South which know how to take advantage of it. This involves the presence of a strong State which is able to keep a control over the opening up process and to adapt its domestic policies accordingly in tandem. Moreover, there exists obviously a phenomenon of queuing up. The opening up and the size of the markets of the rich countries as well as the inflows of direct investments from these countries are not unlimited. These factors of growth for the emerging countries cannot therefore be “equitably” distributed. China which has carved out for itself the lions share in these two fields since 20 years, is a testimony to this fact. Even with “good” national policies, the others will probably have to wait for the first emerging countries to contribute in turn towards pushing up their own growth.

Inequalities within countries

These present problems of quality of data and of method which make it more difficult to arrive at comparisons between countries and to conduct the calculation of evolutions. These difficulties have been adequately described in a recent article by Atkinson and Bandolini³ for the OECD countries. They are even more acute for the countries of the South.

Generally speaking, both Bourguignon and Morriison as well as Milanovic arrive at the conclusion of an increase in inequalities within countries. According to the latter, the Theil coefficient for inequalities within countries increased from 19,4 to 22,4 between 1988 and 1993, which is a very rapid increase. However, here again, there is a contrast in evolutions depending on the given country, and it is indispensable to make an analysis of these differences.

Inequality within the countries of the South

The situation in these countries is one of contrasts. First of all the degree of inequality, generally higher than that of the OECD countries (but not of all of them) varies greatly from one country to the other. To mention only some of the highly populated countries:

The Gini Coefficients (Generally for the mid-90s)

China	40	Brazil	59
India	38	Mexico	55
Indonesia	36	Nigeria	51
Bangladesh	34	South Africa	59

Source: World Bank, World Development Report. 2000/2001

By way of comparison, the same source gives 33 for France and 41 for the United States. (According to the CAE report mentioned hereafter, the figures would be: France: 29, United States: 45).

Secondly, the trends for these last few years are equally contrasting. Thus, for instance, Brazil and Mexico, two countries situated in the same environment, have experienced contrary evolutions. The Gini has declined in Brazil from 62 (a record for a large country) to 59 between 1976 and 1996, whereas it has increased in Mexico from 49 to 55 between 1984 and 1994 (the year of the last violent crisis of the peso).

Asia, where a decisive contribution has been made to the reduction of international inequalities, is also a zone in which the inequalities within countries have increased in some nations. This is

particularly true of China. In this case, the role of globalization in the growth of inequalities within the country appears to be as unquestionable as its positive role in the process of catching up. The benefits of liberalization and of economic reforms, which go hand in hand, have been unequally distributed between the Chinese provinces and between the Chinese people. But it can be considered that this is very largely due to matters of domestic policy. It results partly from the desire of the government to proceed by way of geographically located experimental pilot projects and in stages. The Chinese government conserves considerable means of controlling the rise of internal inequalities and is in a position to deploy these means.

The same can be said of numerous other countries where the catching up process is proceeding at a rapid pace. Globalization, while eliciting growth, spontaneously engenders inequalities. But it is up to the government to take corrective measures to remedy these spontaneous evolutions. At some stage, it is even in its larger interest to do so if it wants the growth of the domestic market to take over from the growth drawn out of exports. The examples of South Korea, Taiwan or Singapore show that this is possible.

The complex link between inequality and growth in the Third World is moreover giving rise to a growing number of theoretical and empirical studies⁴. For many among them, too great an inequality within a country is likely to impede growth. The mechanisms considered are diverse. They either pertain to political economy, in which event in a democratic system a high degree of inequality can lead to high public transfers which would reduce economic efficiency, or they pertain to the imperfections of capital and insurance markets, in which case a high inequality prevents the poorest from having access to credit and to insurance and from making use of their potential for production, whilst it takes away from the richest (who become persons leading lives of pure leisure) the incentive to do so, or then they pertain to the economics of crime and corruption, which analyses their links with inequality and their social cost.

There does not however exist for the time being, any indisputable statistical verification of this link between growth and inequalities. Nevertheless some empirical facts (the table above shows that Asia, which is developing faster than Latin America and Africa, is also more egalitarian) and some theoretical models now prompt us to question the present official objective of the World Bank and of most development agencies, which is to reduce absolute poverty. Is this enough, even from a strictly economic point of view?

³ Anthony B. Atkinson et Andréa Bandolini: "Promises and Pitfalls of the Use of 'Secondary' Data-Sets: Income Inequality in OECD Countries as a Case Study", *Journal of Economic Literature*, vol. XXXIX (September 2001), p. 771-799.

Inequalities within rich countries

There are contrasts in the evolutions within these countries also. For a long time, the dominant view was that the same causes produced an increase in the inequalities in salaries within countries having a flexible employment market (United States, Great Britain) and unemployment in the others (continental Europe) and that the major cause was a technical progress with a bias to the disadvantage of unskilled work. Globalization, reduced as it was to commercial competition between rich and emerging countries, was credited with being responsible for just 10 to 30% of the phenomenon, according to the studies. Since then, the evolution of inequalities has been more precisely quantified⁵, and the debate on the causes has taken on a wider dimension.

In the case of France, a very complete synthesis has been made in the recent report of the CAE on “Economic Inequalities”, both as regards recent evolutions (Atkinson, Glaude, Olier report) as those since a century (Piketty report). This report also gives some elements of international comparisons, with the United States and Great Britain in particular.

As regards evolutions which are recent and hence likely to be linked with the contemporary globalization wave, the main results are the following. The inequality in the individual incomes available (after transfers) is smaller today than it was in the 60s, the larger part of the reduction dating from the 70s. It has however begun to grow during the 90s. Transfers continue to play a very significant role in correcting market evolutions. The inequalities in available income are an insufficient indicator. Other factors should be taken into account, these being inequality of employment opportunities, the precarious nature of salary statuses and the reduction in mobility of wages, if we wish to take account the widespread feeling, that investigations testify to, of a much larger growth of inequalities than what is “objectively” measured by available incomes.

As for the debate on the causes, which revolved around the respective role of information technologies and of the competition from countries paying low salaries, it has been enriched by the taking into account of other dimensions of globalization such as the competition between rich countries and financial globalization, as well as the evolution of the organization of enterprises and its consequences on the employment market. The massive externalisation of non-strategic activities and the grouping together of strategic activities in centers of profit entering into financial competition internally, has led to the formation of units of smaller size

⁴ An introduction to these studies, with references, can be found in the article by Francisco H.G. Ferreira: “Inequality and economic performance”, in the World Bank site: www.worldbank.org/poverty/inequal/index.htm.

which are above all more homogeneous in terms of qualifications and skills (“selective matching”), which factor would have promoted differences of salaries among themselves

I for my part have always considered these to be a group of explanations which are more complementary than antagonistic. More precisely, they are different aspects of a single phenomenon. Technical and organizational evolution is in no way independent of the factor of setting enterprises into worldwide competition. It is even, in my view, this competition which is its driving force. Hence the driving force is globalization, on condition of conceiving it in a wide manner, as being an increasing worldwide competition between firms and the setting into competition, by these global firms, of all the territories, a concept which therefore includes primarily increased competition between rich countries.⁶

The report of the CAE underlines the persistence within the rich countries, of different models in the matter of redistributive transfers and of organization of labor markets, which largely explain the contrasting internal evolutions of countries subjected a priori to the same process. It points out particularly that the high growth of inequalities of income in Great Britain between 1977 and 1990 (the Gini coefficient of the available income jumped from 28 to 40) is only half due to market evolutions and for the rest to the decline in redistribution. Reciprocally, Canada, a member of ALENA and whose labor market functions in a manner very similar to that of the United States, has not experienced the same growth of inequality in available incomes, on account of corrective measures against growing market inequalities through transfers.

As for the working of the labor markets, it is evident that, since individual productivity is impossible to measure with precision, there is room for “social conventions” on salaries. Within certain limits fixed by markets, these conventions reflect the collective preferences for a greater or less great equality.

One is therefore led, as regards the rich countries, to the same type of conclusion as for countries of the South. Globalization, grasped in all its dimensions, certainly engenders domestic trends conducive to inequality. But States always avail of means to mitigate these, in accordance with national preferences, and without this involving dramatic trade-offs between equality and growth.

⁵ See the references and quotations from works on the OECD in the already mentioned article by Atkinson et Bandolini.

⁶ On these matters see the Guesnerie – Cohen – Giraud debate published in a former issue of *Societal* (N° 13, November 1997), and Pierre Noël Giraud: “Le Commerce des Promesses”, Seuil, 2001.

Conclusion

In the debate on inequalities, some figures, very impressive ones, it is true, are readily bandied about with cries of alarm. Let us quote a few, taken from the conclusion of the article by Milanovic:

“1% of the richest have an income equal to that of 57% of the poorest. In other words, less than 50 million of the rich receive as much as do 2.7 billion of the poor.”

“The ratio between the average income of 5% of the richest and 5% of the poorest has increased from 78 to 114 between 1988 and 1993.”

These are figures concerning global inequality. It has been understood that they reflect evolutions of international inequalities and inequalities within countries, which are actually quite complex and diverse. Now, as regards the latter, it is possible to take some action, if it is felt that the growth of some inequalities raises problems, not only on the ethical but even on the economic plane. Many are beginning to be convinced of this instead of considering, in accordance with a criterion of justice drawing its inspiration from Rawls, that the only objective should be to improve the lot of the poorest, therefore to fight absolute poverty

At any rate, the subject of inequalities is now firmly set on the agenda of economic research, after having surfaced in public debates. To conclude let us permit someone to be proud of having written already in 1996: “Inequality, or why are there rich people and poor people? This, in truth, is the important issue in economics”⁷.

⁷ Introduction to: “L’Inégalité du Monde”, Pierre-Noël Giraud, Gallimard, Folio-Actuel, 1996.