Rich-Poor Divide Growing

Radhika Sarin

In 1960, the per capita gross domestic product (GDP) in the 20 richest countries was 18 times that in the 20 poorest countries, according to the World Bank.[1] By 1995 the gap between the richest and poorest nations had more than doubled—to 37 times.[2]

To a large extent, these vast income gaps drive global consumption patterns. Disproportionate consumption by the world's rich often creates pollution, waste, and environmental damage that harm the world's poor. For example, growing demand for fish for non-food uses, mainly animal feed and oils, is diminishing the source of low-cost, high-protein nutrition for a billion of the world's poor people.[3] Carbon dioxide emissions, about 60 percent of which come from industrial countries, are threatening the very existence of poor island nations and the agricultural productivity of many developing ones.[4]

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Between 1980 and the late 1990s, inequality also increased within 48 of 73 countries for which good data are available, including China, Russia, and the United States.[5] These 48 nations are home to 59 percent of the world's population and account for 78 percent of the gross world product.[6] This trend contrasts sharply with earlier declines in the gap between rich and poor in a number of countries between the 1950s and the early to mid-1970s, a period of stable global economic growth.[7]

Inequality remained constant in 16 countries and decreased in only 9: France, Norway, the Bahamas, Honduras, Jamaica, Malaysia, Tunisia, South Korea, and the Philippines.[8] Recent data, however, suggest that inequality may have increased since 1998 in the latter two nations in the wake of the East Asian financial crisis, as well as in four nations where it had been constant: Brazil, India, Indonesia, and Tanzania.[9]

The most dramatic surges in inequality have occurred in nations in transition from Communist rule to market-based economies.[10] Like other countries in the region, Russia is struggling with rising poverty, unemployment, and violence.[11] The main driver of inequality has been "state capture"—the manipulation of government by firms and powerful individuals to create laws and regulations to their own advantage.[12] This has concentrated power in the hands of the elite, while the vast majority of Russians remain politically and economically disenfranchised.[13]

Many industrial nations, including New Zealand, Japan, and the United Kingdom, have also experienced increases in inequality since the 1980s.[14] This is correlated with declines in the minimum wage, lower unionization, the decreasing power of unions, and a widening gap in the wages of skilled and unskilled workers.[15]

Of all high-income nations, the United States has the most unequal distribution of income, with over 30 percent of income in the hands of the richest 10 percent and only 1.8 percent going to the poorest 10 percent.[16] Data from the U.S. Census Bureau indicate increases in household income inequality between 1968 and 2001, which follow decreases between 1947 and 1968.[17] In particular, the richest 5 percent of the population has experienced the greatest percentage gain in income, and within that group, the top 1 percent gained more than the next 4 percent.[18]

Inequality is not restricted to personal incomes. Health and education—two important indicators of well-being—reveal stark disparities among the world's "haves" and "have-nots." Despite numerous international commitments to closing the gaps in access to education and health care, these remain correlated with income levels.[19] For example, the infant mortality rate in low-income countries is 2.5 times greater than in middle-income countries and 13 times greater than in high-income countries.[20]

And national averages only illustrate one level of disparity. A study of 44 developing nations found that infant mortality in the poorest fifth of the population is on average about twice the level in the richest fifth.[21] Even in a relatively wealthy developing nation such as Turkey, infant mortality among the poorest fifth is about four times higher.[22] In the United States, significant differences in infant mortality between racial and ethnic groups are largely the result of disparities in socioeconomic status and access to health care.[23] The infant mortality rate among American Indians and Alaskan natives is 1.5 times the figure among whites, while that of African-Americans is 2.5 times higher.[24]

Income, health, and education can, in fact, reinforce one another, with higher income leading to better health and education and those, in turn, leading to higher income.[25] These relationships are strongest at the lower end of the economic spectrum. That is, small increases in the income of the poor can yield dramatic health and education benefits.[26]

The links between inequality, economic growth, and poverty are complex. Economic growth plays an important role in reducing poverty, but existing inequalities can hamper this. The share of income earned by the poor in an unequal society is low, so only a small share of the income generated by growth will benefit this group. Evidence confirms that growth reduces poverty by nearly twice as much when inequality is low than when it is high.[27]

The nature of growth, and particularly the way that additional income generated by growth is distributed, is another important determinant of the impact on poverty. At any given rate of growth, poverty will fall faster in countries where growth raises the incomes of the poor by more than it increases average income. This essentially means that poverty falls faster when growth is accompanied by decreases in inequality and slower when accompanied by increases in inequality.[28]

In Bangladesh, for example, per capita GDP grew about 2 percent a year during the 1990s, but the decline of poverty has been slower, and rural poverty in particular remains very high.[29] Had it not been for rising inequality between 1992 and 1996, the poverty rate in 1995–96 would have been about 7–10 percent lower than it actually was.[30]

Poverty alleviation also depends on equality in access to opportunities. If poor people have no access to income-generating opportunities because of a lack of education, training, mobility, or credit, growth is unlikely to benefit them. This also holds true for other segments of society that are discriminated against in access to resources: women, ethnic minorities, and indigenous groups.[31] Faster growth in the urban sector than in the rural sector—the larger source of poor people's income—can also exacerbate inequality, as happened in China between the mid-1980s and mid-1990s.[32]

High inequality can itself worsen poverty by lowering overall growth. An unequal society is prone to political instability, increased crime, and dysfunctional or easily toppled institutions.[33] Unequal access to education, credit, and other resources is also inefficient for society as a whole because it blocks marginalized groups from increasing their productivity.[34]

A recent analysis by economists at the United Nations University concluded that international poverty-reduction targets cannot be achieved at current levels of inequality, despite projected economic growth.[35] The Gini index of income inequality measures the extent to which the distribution of income (or of consumption expenditures) deviates from a perfectly equal distribution. A value of zero indicates perfect equality, while 100 represents perfect inequality. When the Gini index is higher than 40, growth and poverty reduction tend to be dampened.[36] In 55 countries around the world, the Gini index is above this threshold.[37] (See Table 1.)

Table 1: Income Inequality in Selected Countries, 1990s

	Share of Income		
Country	Poorest 20 Percent	Richest 20 Percent	Gini Index
	(percent)		
Denmark	9.6	34.5	24.7
India	8.1	46.1	37.8
United States	5.2	46.4	40.8
Russia	4.4	53.7	48.7
Zambia	3.3	56.6	52.6
Brazil	2.2	64.1	60.7

Source: World Bank. Data are for most recent year available.

Notes

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1. World Bank, *World Development Report 2000/2001* (New York: Oxford University Press, 2001), p. 51.
2. Ibid.
3. U.N. Development Programme, *Human Development Report 1998* (New York: Oxford University Press, 1998), p. 57.
4. Ibid.
5. Giovanni Andrea Cornia and Julius Court, *Inequality, Growth and Poverty in the Era of Liberalization and Globalization* (Helsinki, Finland: UNU World Institute for Development Economics Research, 2001), p. 7.
6. Ibid., pp. 7–8. Gross world product reflects purchasing power parity.
7. Cornia and Court, op. cit. note 5.
8. Ibid., p. 8.
9. Ibid.; Giovanni Andrea Cornia, University of Florence, e-mail to author, 6 February 2003.
10. Cornia and Court, op. cit. note 5, p. 8.
11. World Bank, op. cit. note 1, p. 37.
12. Ibid., p. 65.
13. Ibid., p. 37.
14. Cornia and Court, op. cit. note 5, pp. 9, 12.
15. Ibid., pp. 12, 19.
16. World Bank, *World Development Indicators 2002* (Washington, DC: 2002), pp. 74–76. High-income nations according to World Bank definition.
17. Arthur F. Jones Jr. and Daniel H. Weinberg, *The Changing Shape of the Nation's Income Distribution* (Washington, DC: U.S. Bureau of the Census, 2000), pp. 1–2; U.S. Bureau of the Census, *Measures of Household Income Inequality (Table IE-6)*, at <www.census.gov/hhes/income/histinc/ie6.html>, viewed 7 February 2003.
18. Paul Krugman, "For Richer," *New York Times*, 20 October 2002.
19. World Bank, op. cit. note 1, p. 57.
20. World Bank, op. cit. note 16, p. 124. Low-, middle-, and high-income countries according to World Bank definition.
21. World Bank, cited in U.N. Population Fund, *State of World Population 2002* (New York: 2002), p. 35.
22. World Bank, op. cit. note 16, p. 72.
23. Federal Interagency Forum on Child and Family Statistics, *America's Children: Key National Indicators of Well-Being, 2000* (Washington, DC: U.S. Government Printing Office, 2002), p. 31.
24. Ibid.
25. World Bank, op. cit. note 1, p. 57.
26. Ibid., pp. 57–58.
27. Ibid., p. 55.
28. Ibid., p. 52.
29. Ibid., p. 53.
30. Ibid.
31. Ibid., pp. 55–56.
32. Ibid., pp. 53–54.
33. Ibid., p. 56.
34. Ibid.
35. Cornia and Court, op. cit. 5, p. 24.
36. Ibid., p. 6.
37. World Bank, op. cit. note 16, pp. 74–77.