

Global Distribution of Incomes  
Adjusted Net National Income Per Capita (current US\$), 2011

# The Crisis of Global Inequality



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Mid-Coast Forum on Foreign Relations

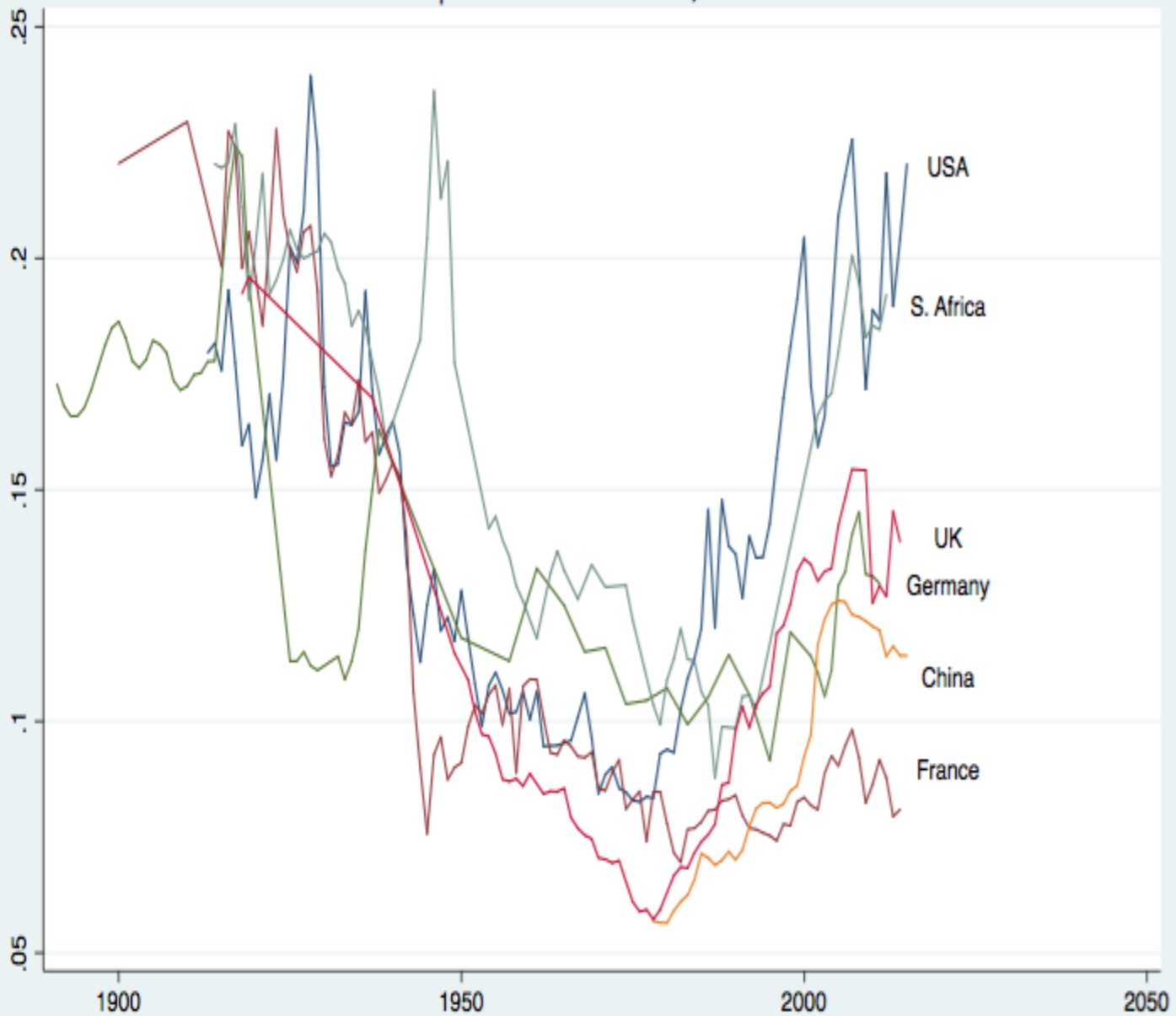
October 30, 2017

Source: World Bank WDI

Three premises:

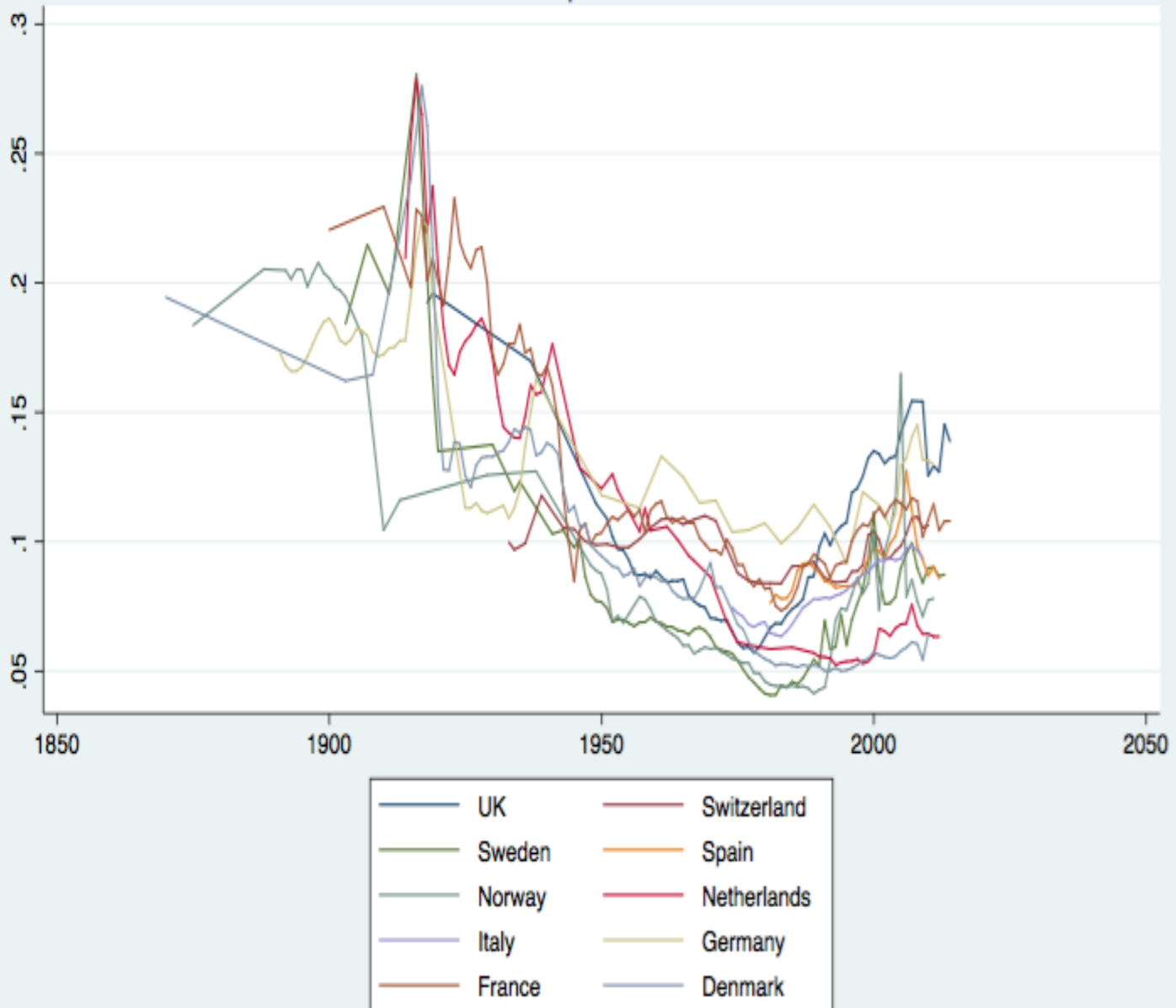
1. Inequality is not the same as poverty—they can move in opposite directions.
2. Inequality is a function of trends at the bottom, the middle, and the top of the distribution.
3. Inequality matters in and of itself and has reached a crisis stage, both within and across societies.

WID World: Top 1% Income Share, Selected Countries



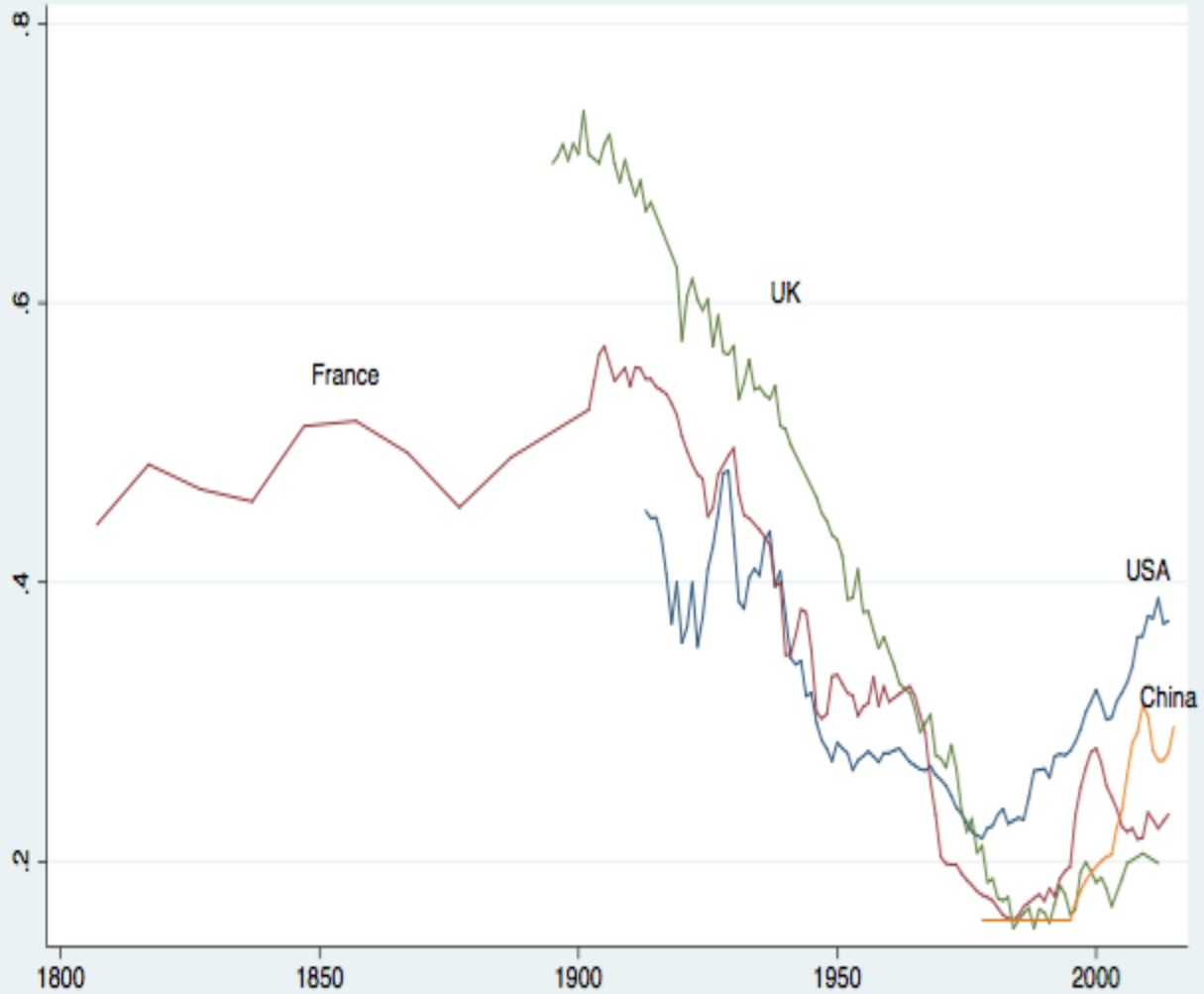
Source: WID World

# WID World: Top 1% Income Share



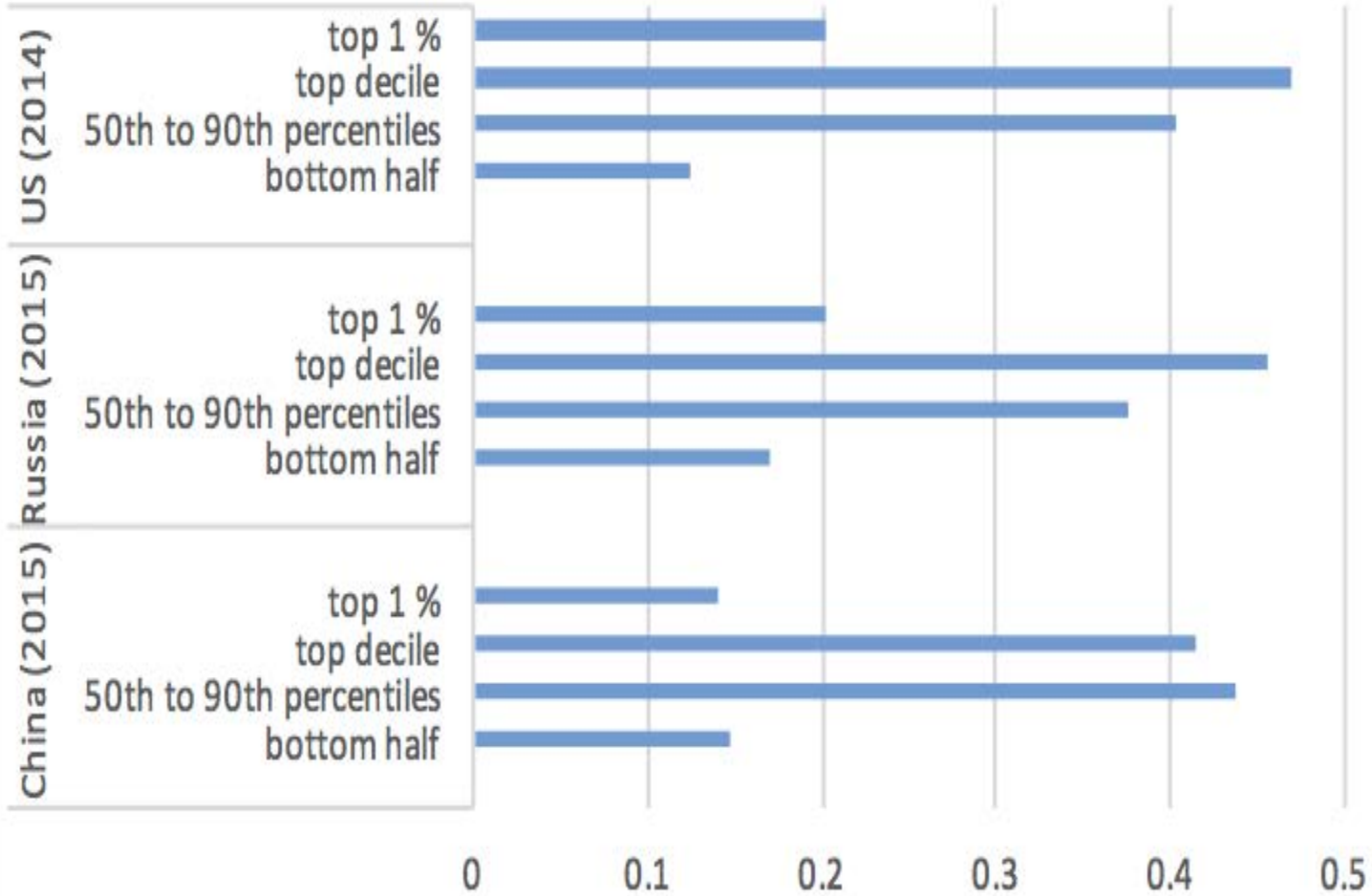
Source: WID World

Top 1% shares of net household wealth, 1807 - 2015  
selected countries

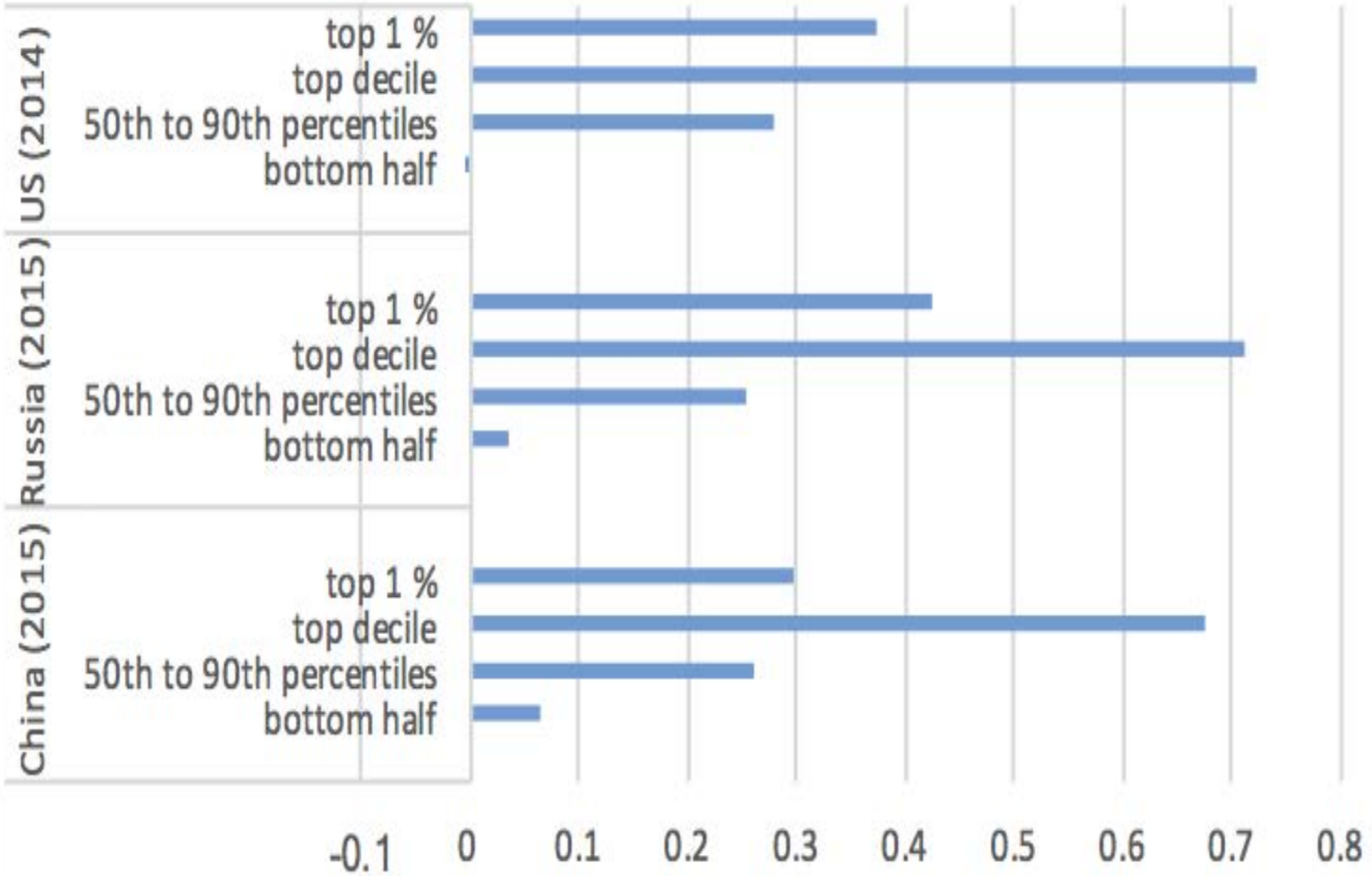


Source: WID World

# Income Distribution



# Wealth Distribution



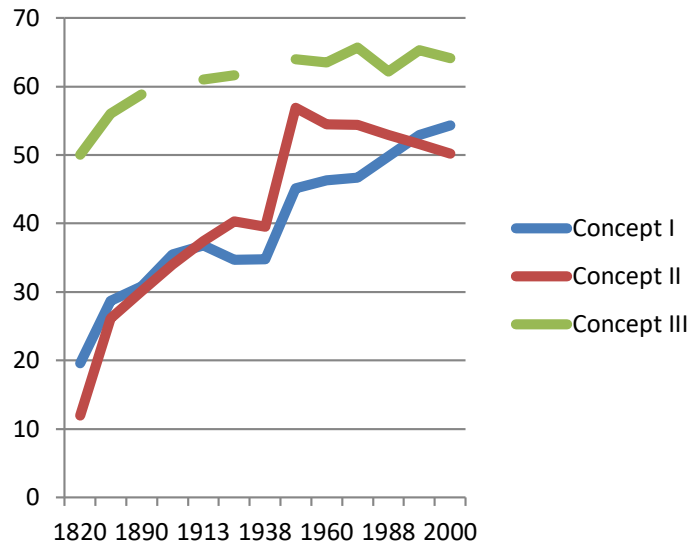
Has global inequality grown?

Within most societies, income and wealth inequality has risen.

But whether global inequality has grown depends on the measure used...



The World Bank economist Branko Milanovic has estimated global inequality using three alternative measures. Concept I means inequality of national income means. Concept II means inequality by weighted national means. Concept III treats the world's population as if they all belonged to one society. Concept II inequality has gone down because of the income gains in China, India, and other Asian countries.



Source: Branko Milanovic, *Worlds Apart*, (Princeton University Press, 2005)  
 Table 11.1: "World Inequality in Historical Perspective", p. 142.

Milanovic's figures show that historically, global inequality has moved through three phases:

1. Traditionally, most inequality was within-country; the poor in one country were not appreciably poorer than those in another, likewise the rich. The largest share of global inequality was *within* countries
2. After the industrial revolution, mean incomes in some countries grew much faster than in others; most global inequality was due to differences across countries. The poor in rich countries were richer than the rich in poor countries.
3. Today, with within-country inequality rising again in most regions of the world, we are moving back to a situation where more inequality is within countries relative to the amount caused by cross-country differences

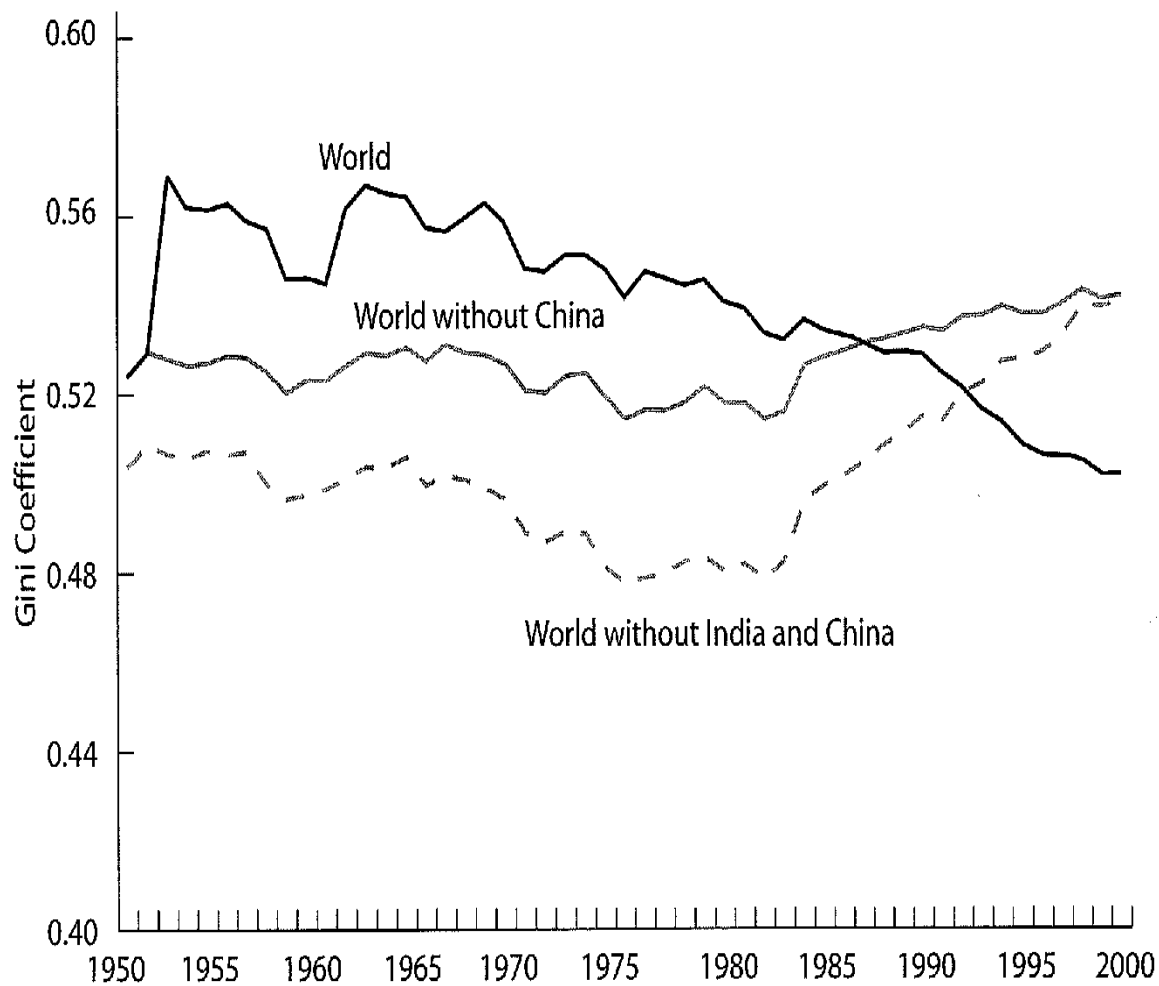
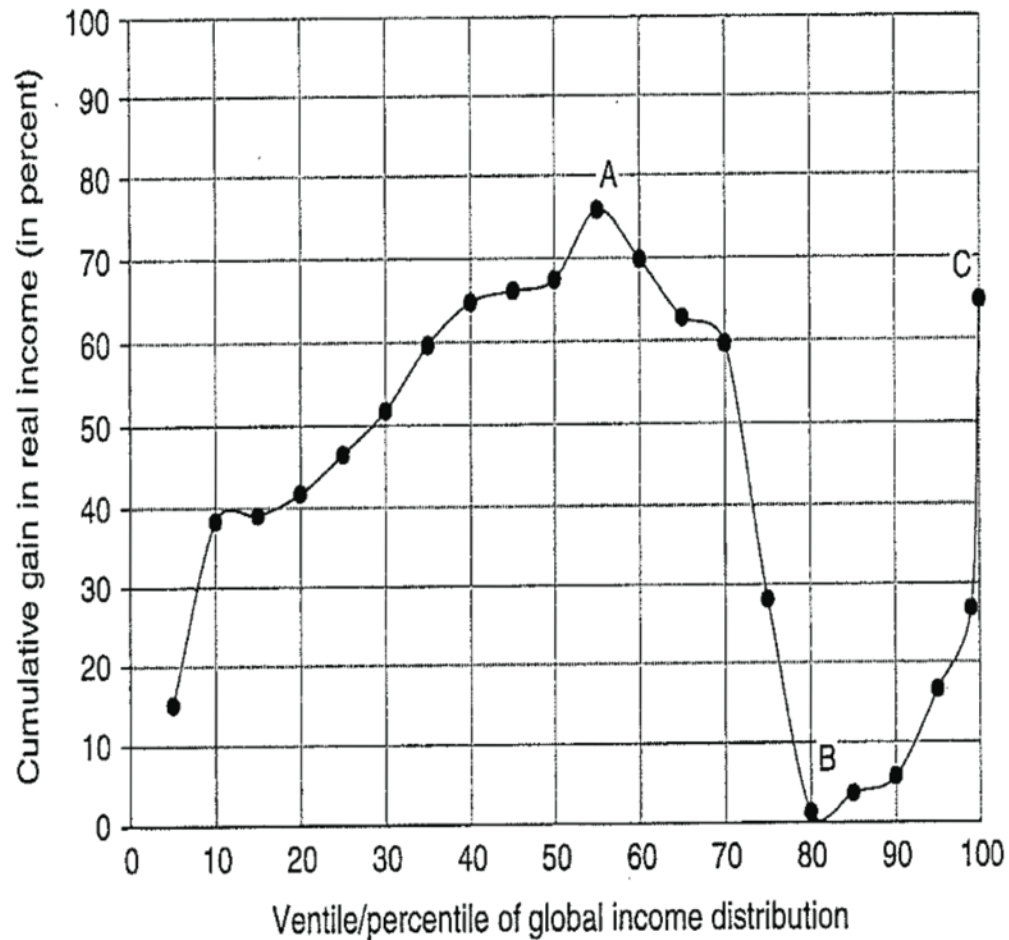


Figure 8.3. Weighted international inequality without China and India.

Another way to see it:

Globally, which  
income groups  
have gained ground,  
and which have not?

Branko Milanovic,  
*Global Inequality*,  
Figure 1.1  
“the elephant graph”



**FIGURE 1.1.** Relative gain in real per capita income by global income level,  
1988–2008

1988 2008

One reason inequality has risen in many societies is the growth of the financial industry.

The financial industry has come to occupy a commanding share of corporate profits as economic activity has shifted out of the real economy and into finance.

The information-communications revolution has resulted in an enormous expansion of the financial industry, driving up profits and wages in the financial industry.

This characterizes not just the US, but other countries as well, including Russia and China.

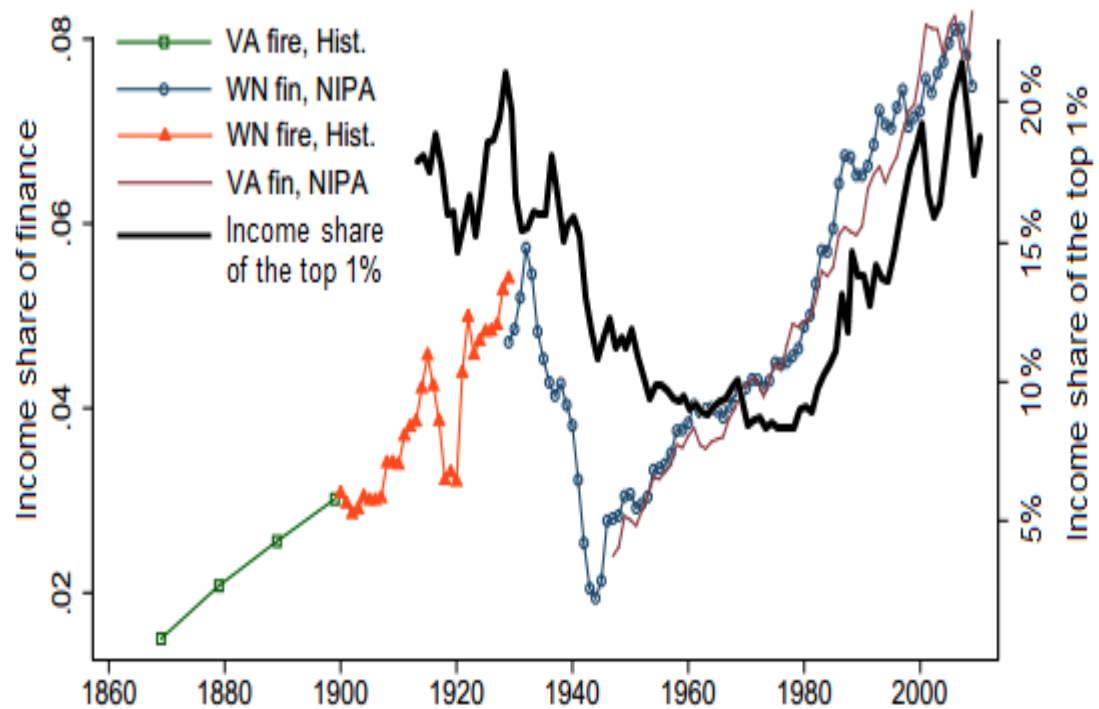
When government regulation of financial institutions is weak or corrupt, their control over the creation of credit gives them enormous opportunities to extract rents from society.

This helps explain the huge growth of profits and compensation levels in the financial industry in countries where competition and regulation are weak.

"A quarter of all American billionaires work in finance and investments, an industry that employs less than 1% of all workers." –*Economist*, March 5, 2016, p. 66.

## Economic data suggests a strong correlation between an expanding financial industry and rising income inequality

The United States:



Note: Original graph from Philippon (left scale) has been reformatted and overlaid with income share data including capital gains (right scale).

Original notes: VA is value added, WN is compensation of employees, "fin" means finance and insurance, "fire" means finance, insurance, and real estate. For "NIPA", the data source is the BEA, and for "Hist" the source is the Historical Statistics of the United States.

Source: Philippon (2012), Piketty and Saez

In Russia, the financial sector has seen the highest growth in average compensation—even more than oil and gas.

