SHANKAR IAS PARLIAMENT
Information is Empowering

The Rich are Getting Richer

What is the issue?

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- Income inequality between countries has been touted to be reducing, but it has been more gradual than perceived.
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- But inequality within countries is worsening rapidly and only the elites seem to be benefitting across jurisdictions.
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What are the generic inequality trends?

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- Current income trends reveal that while inequality between countries has gone down little, but inequality within countries has increased greatly.
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- Yet, on the whole, emergence of countries with large populations like China and India appears to be reducing global inequality due to a middle class boom.
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- **Chart 1 -** represents two inequality indicators namely “Gini Co-efficient and Palma ration”, both of which indicate decline in global inequality since 2000.
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- Notably, “Gini Index” is a measure of the dispersion of income among the population (0 being perfect equality and 1 being maximal inequality)
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- Palma ratio is the ratio of the share of income of the top 10% of the population to the bottom 40%.
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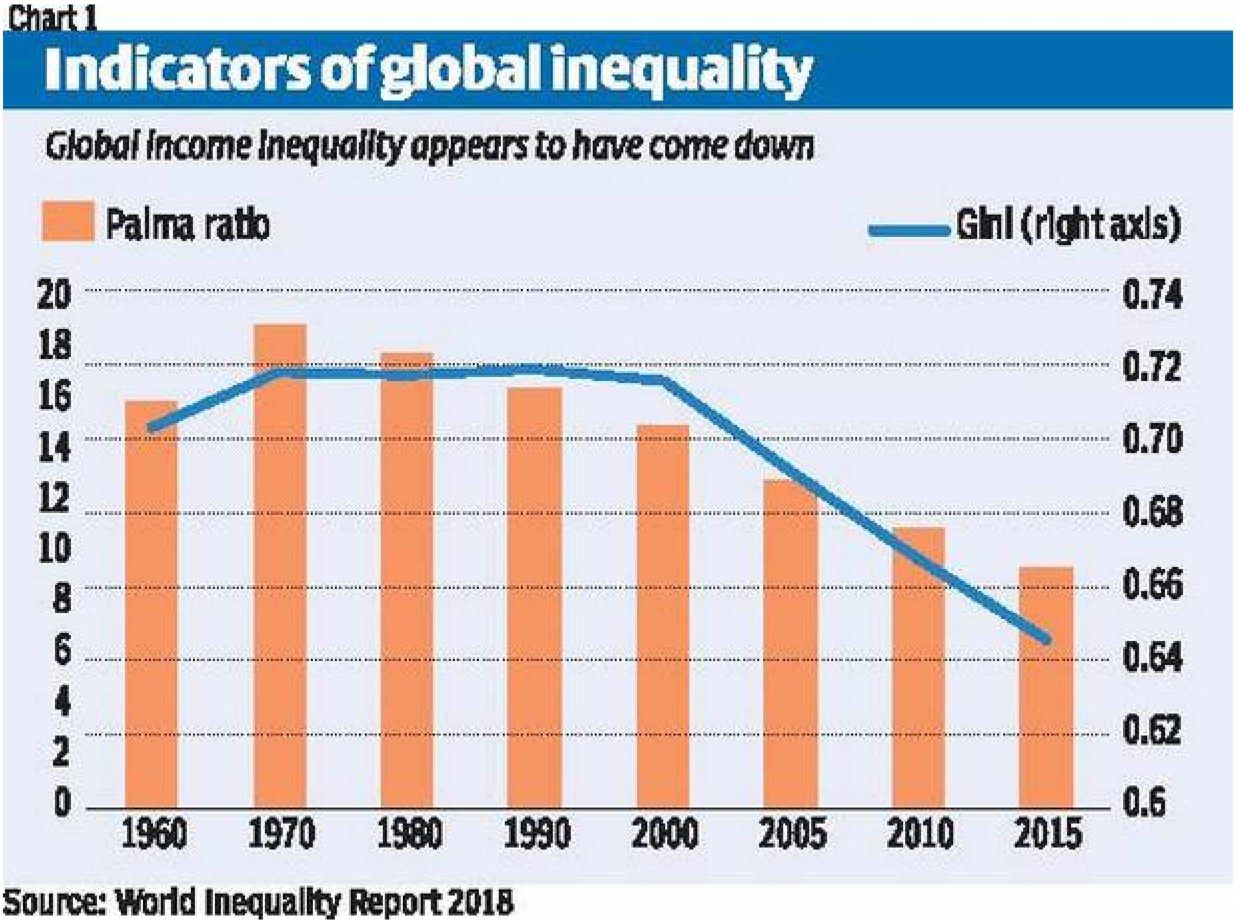

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- Notably, it is important to differentiate between “income and wealth” – while the former is a flow component, the latter is an accumulation over the years.
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- **Elephant curve -** This describes percentage changes in incomes across different deciles of population (10 equi-populous income sorted groups).
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- While this curve too recorded a strong growth of middle income groups in the global population, there are two important caveats to be taken note of.
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What is the problem with the above figures?

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- Elephant’s curve is based on proportionate increases, which will inherently make increases greater if initial incomes are low and vise-versa.
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- For example, if the 5^{th} docile earns $1000 per-capita, a $200 increase would mean 20% raise, while for a higher docile that earn $20,000 per capita, a

$200 raise would merely account for 1% increase on the graph.
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- Hence, if absolute numbers are considered, the middle income bulge disappears and a smooth horizontal hockey stick like progression is noted.
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- This implies very little growth in incomes across dociles and a drastic spike in the highest income bracket.
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- **Underestimates -** The estimated incomes are in terms of Purchasing Power Parity (PPP) exchange rates rather than on market exchange rates (MER).
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- There are concrete indicators to say that PPP measures overstate the incomes of people in poor countries, and thereby underrate global inequality.
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- It is to be noted that all international transactions are on MER terms, and the divergence between PPP and MER has significantly grown in recent decades.
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- There have hence been calls for calculating income inequality on MER terms to get the exact grasp of the income distribution.
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What are the global GDP trends across regions?

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- **Chart 2 -** provides a look at the evolution of shares of global GDP of the major geographical regions, measured at market exchange rates (for US Dollar).
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- The results are quite startling, as the concept of emerging markets sounds more like mythical than real.
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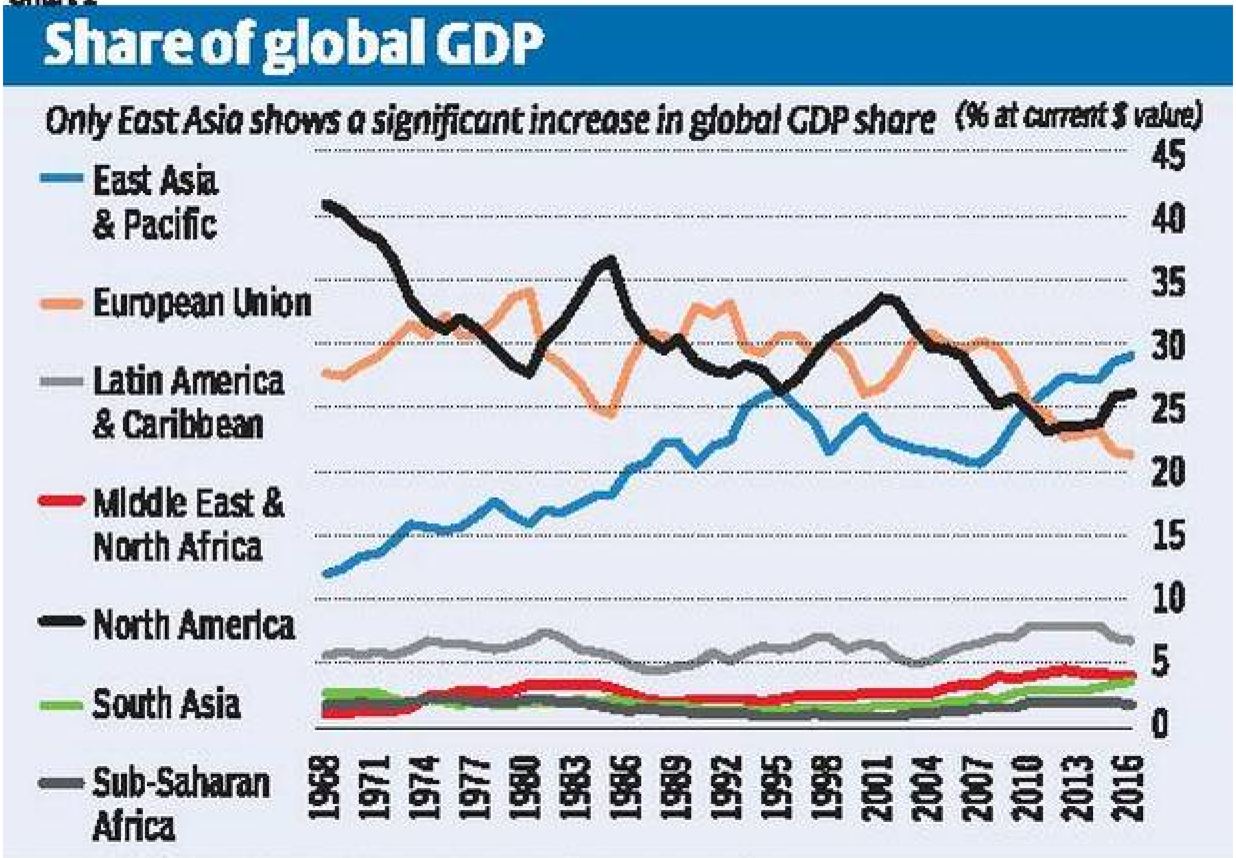
Chart 2



Source: World Bank World Development Indicators online

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- The apparent decline in the share of North America and the European Union has been quite gradual, and more marked only after 2005.
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- The only region to show notable increases in share of global GDP since 1960s was “East Asia and pacific” (China, Japan, Korea, Australia & New Zealand).
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- More strikingly, for other regions, there has been little increase in the global GDP share and they continue to be brushing the horizontal axis.
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- Given that population growth rates were higher in these regions than elsewhere, the differences in per capita income would have been even greater.
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- **East Asia -** Even the greater dynamism of East Asia was largely due to only two countries: first Japan until the late 1980s, and then China recently.
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- Chart 3 highlights the role of China, whose share increased from less than 3% in 1968 to nearly 15% in 2016, with most of that increase occurring after

2002.
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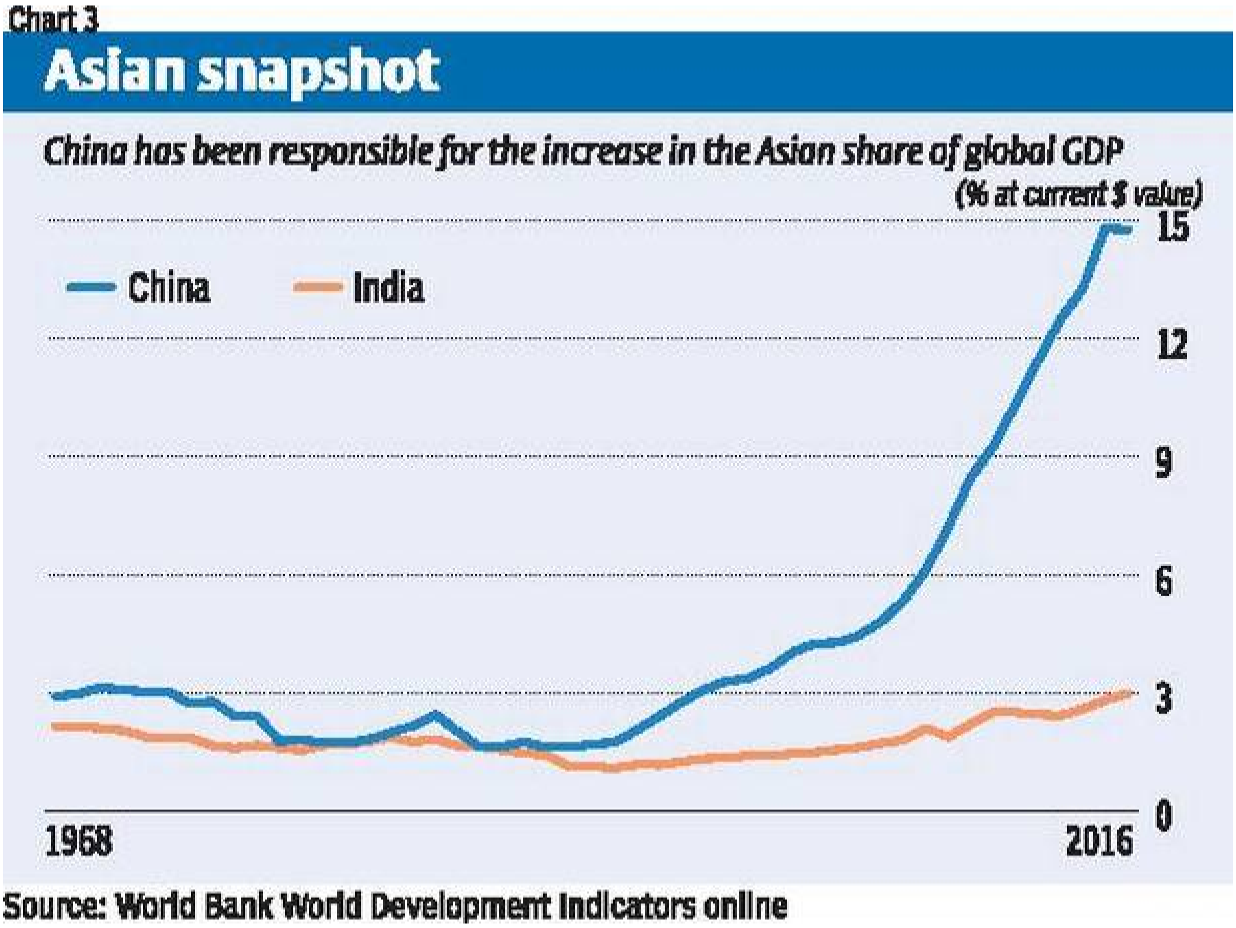

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What are the income trends within countries look?

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- **Table 1** shows the share of income increases in the period 1980 to 2016 going to different segments of the population in major countries.
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Table 1

Share of global growth 1980-2016

India reflects glaring inequality

	China	Europe	India	Russia	US-Canada	World
Bottom 50%	13	14	11	-24	2	12
Middle 40%	43	38	23	7	32	31
Top 10%	43	48	66	117	67	57
Top 1%	15	18	28	69	35	27

Source: World Inequality Report 2018

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- Once again, it was only in China and EU that the middle 40% of the population (below the top 10%) garnered a considerable income increase.
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- In all other regions, the top decile clearly got away with the lion's share of income growth, with Russia recording shockingly obscene figures.
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- In India's case, the experience was also stark - the top 10% got two-third of income increases, and just the top 1% got a whopping 28% share.
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- Hence, these trends illustrate that the rich 10% (particularly the top 1%) seem to be benefitting enormously at the cost of the poor across countries.
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Source: Business Line

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