

Taking inequality seriously — and tackling it seriously

It is difficult, if not impossible, to do something about a problem if we do not even measure it properly

Recently, more than 320 economists from around the world (including myself) signed a letter to the United Nations secretary general, António Guterres, and the World Bank president, Ajay Banga. The letter expressed concern about the explosive rise in inequality, which has recently grown more rapidly than at any time since the second world war.

So acute has this process been that, even as extreme wealth has increased to incredible levels, absolute poverty has also increased. Furthermore, inequality of *per capita* income between countries, which had been coming down, has once again started to increase.

This unprecedented increase in inequality has many adverse, even destructive, consequences. As we note in our letter, it ‘corrodes our politics, destroys trust, hamstringing our collective economic prosperity and weakens multilateralism’. It also hinders attempts to prevent climate breakdown and address the impacts of climate change. Indeed, none of the 17 UN Sustainable Development Goals (SDGs), adopted in 2015 for realisation by 2030, is likely to be achieved without a strong focus on reducing inequality.

Problematic measurements

This is where the UN and the World Bank come in. Reducing inequality is itself one of the SDGs (10), which are all under mid-term review this year. There has been backsliding on most in the recent past but SDG 10 has been particularly badly affected. It has been an orphan even among the SDGs, marginalised by lack of champions in the multilateral system.

What makes this worse is that the metrics used to track progress on inequality are very inadequate. The World Bank is charged with monitoring this goal.

The bank does not rely on the widely recognised measures of inequality, such as the Gini coefficient (which encapsulates the dispersion of incomes across the entire distribution and ranges from 0 for total equality to 1 for infinite inequality) or the Palma ratio (the share of the top income decile divided by the income share accruing to the bottom 40 per cent).

It is bizarre to leave out the rich in the equation to determine inequality.

Instead, it applies a notion of ‘shared prosperity’, expressed as the need to ‘progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average’. This is a bizarre idea of inequality: it leaves the rich out of the equation! And it provides very misleading estimates of the extent of inequality or progress in reducing it.

Work by Development Finance International shows that, according to the bank’s indicator, of the 79 countries for which survey data were available for the period just before the pandemic, 42 (53 per cent) showed progress, nine (11 per cent) no change and 28 (35 per cent) deteriorating performance. Yet countries can show improvement on this indicator even as incomes become more concentrated at the very top. The bank’s own Gini estimates contrastingly show that, among 78 countries, over the same period, the coefficient fell in only 34, remained unchanged in 31 and rose in 13.

Even for this, however, the World Bank relies on consumption surveys, which tend to underestimate top incomes because richer households are less likely to respond accurately, if at all, to such surveys. It therefore makes sense to incorporate other information, such as from mandatory tax returns.

Filling the gaps in knowledge to target the problems

This is what the World Inequality Database provides. Its data cover a much wider range of 172 countries and it discloses much more severe inequality. According to the WID, over the same period 2015-19, only 26 per cent of countries showed improving Gini coefficients, 37 per cent stagnated and 36 per cent worsened. So, three-quarters of countries showed no progress or even backsliding in terms of inequality.

Using the Palma ratio, which captures the difference between rich and poor, the situation is even worse. According to the WID data for this period, only 12 per cent of countries showed improvement in the ratio, while 35 per cent stagnated and the majority, 53 per cent, worsened. And it is well known that inequality increased significantly during and after the pandemic.

This is the lived experience of people across most of the world. Amid increasing divergence between rich and poor, talking of ‘shared prosperity’ looks like fudging, likely only to excite cynicism. Our letter therefore asks the UN and the World Bank to shift to the much more plausible and widely used indicators to track progress on SDG 10.

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It is also critical to reduce wealth inequalities, which have increased even more than income disparities. The latest World Inequality Report revealed that the richest 10 per cent of people in the world own 76 per cent of all wealth, while the poorest half have virtually none. Indeed, many are in debt, with ‘negative wealth’. Tracking and reducing wealth inequality is therefore key.

Furthermore, while the stated goal of SDG 10 is to ‘reduce inequality within and among countries’, at the moment no indicator is used to track between-country inequality. Yet it is widely accepted that global economic processes since the pandemic, and then the war in Ukraine, have led to sharp increases in inequalities across countries. Tracking these is an essential first step to working to reduce them.

It is difficult, if not impossible, to do something about a problem if we do not even measure it properly. More and more people across the world recognise this and are demanding change. It is now up to governments and the multilateral process to respond to this demand.

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