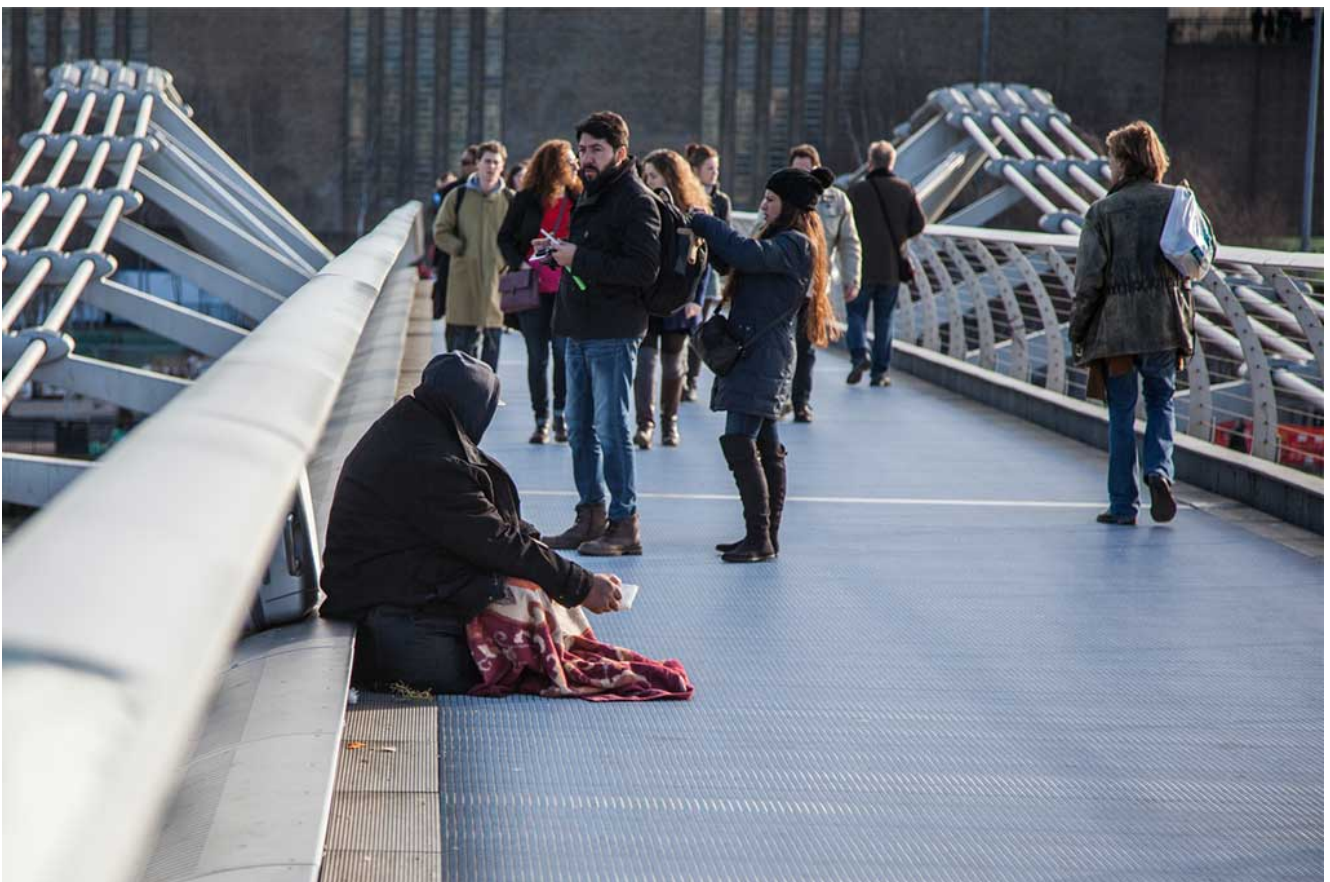


Why global inequality matters

Income distribution, both nationally and internationally, is becoming a major concern. What can be done to reduce it?



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By [Branko Milanovic](#)

Once upon a time, if you wanted to know how rich a person was, you asked, “What do you do?” Their answer was usually a fairly accurate indicator of where they fell on the wealth spectrum.

Nowadays the question is different. In terms of global income, finding out that someone is an IT specialist, for example, doesn't mean as much as knowing their nationality and where they live. This is the more telling indicator.

At the start of the 21st century, income distribution, both nationally and internationally, is becoming a major concern. After decades of decreased inequality (at least in Western countries following World War II), we're now seeing the pendulum swinging the other way.

African and Asian incomes are rising, and much is being made of their expanding middle classes. China is, by its income level, now entering the range of Eastern European nations. Other countries such as Ethiopia, Indonesia, Nigeria, Thailand and Vietnam continue to grow.

However, it must be said that the middle classes in these countries remain relatively poor by Western standards. The lowest-earning group of Americans still earns more than many middle-class Indians, for example.

At the same time, inequality is increasing in developed nations. The [indignados movement in Spain](#) and [Occupy Wall Street](#) were symptoms of this, as more and more people decry reports that just 1% of households account for 50% of the world's wealth.

Even if you aren't personally feeling the crunch, it's important to understand what this inequality means for the health of our economies.

Inequality is measured by the Gini index, which runs from 0 (meaning everyone has the same amount of wealth/income) to 1 (all wealth/income is owned by one person).

To see what we're up against, let's compare Gini values to temperature. When it's 25 degrees Celsius outside, it's still a comfortable day; and it so happens that a Gini rating of 0.25, which we find in Nordic and Central European countries, could be a comfortable amount of inequality to live with.

When the temperature is 35, it's hot but still manageable. At 40, you really need air conditioning. In Spain today, Gini is about 0.35. In the United States, it's 0.4. In Brazil, it's a whopping 0.6. And globally, for all individuals in the world, we're off the charts at 0.7!

With inequality that extreme, it's easy to see the fallout. The [Syrian refugee crisis](#) was one example. Globalization highlights the extent of inequalities between countries, and migration may be one way to reduce that. But it creates, especially in Europe, problems of absorption.

When the poorest people in America are still better off than much of the middle class of the

rest of the world, it may be tempting to think that inequality within countries matters less than rectifying this glaring imbalance. But there are strong practical as well as ethical reasons why we should work to reduce inequality in each of our economies.

There's a correlation between high income inequality and low growth. This is because high income inequality results in a large part of the population no longer having access to education or opportunities. The country loses out on the contributions that those people would otherwise make: to knowledge, to the economy, to business.

High inequality also undermines democracy. As the rich have more and more say, they tend to write the rules that benefit them. Thus, [inequality becomes entrenched](#).

What can be done to reduce inequality? An easy answer is taxation. And while it could be increased, especially for very high incomes and large inheritances, there are limits: both politically, in the willingness of the electorate to accept it, and because the mobility of capital globally limits what can be done at the level of nation-state.

Instead of taxing current income, greater attention should be paid to equalizing the endowments with which people enter the market, in terms of financial wealth and education: not only access to education, but also the returns of education. If an Ivy League university provides 10 times the returns of a state college, then inequality will only be perpetuated.

The rise of global elites, if gone unchecked, could spell a return to the extreme inequality we saw at the end of the 19th century.

For "What do you do?" to mean something, we need to make our societies into fairer places to live.

Branko Milanovic is a Serbian-American economist known for his work on income distribution and inequality. He spoke at IESE ahead of the publication of his book, [Global inequality: a new approach for the age of globalization](#).

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