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Patterns of income distribution among world regions

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Abstract

Individual country ratios of income shares of the highest 20 percent of income recipients to that of the lowest 20 percent are reviewed to identify proximate relationships between key economic variables and broad patterns of income inequality across the world. First, the importance of the question of the relationship between income distribution and economic development is highlighted. Second, the Kuznets inverted U hypothesis suggesting a relationship during the process of development between the degree of inequality in income distribution and the level of per capita income is summarized. Then, statistical and other problems that arise when measuring income distribution and considering changes taking place in income inequality are discussed. Finally, patterns of income distribution in a large sample of countries are presented with the view to identifying relationships between income inequality and levels of living, rates of growth, and world regions. Income distribution patterns are found to be diverse across countries and unrelated in any obvious way to per capita GDP or the rate of GDP growth. Some limited relationship may be seen when the country data are arranged by geographic region. These results imply that there is no inherent conflict between the objective of faster economic growth and that of a more even distribution of income over the longer-term.

JEL classification: O15; D31

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1. Introduction

The elimination of widespread poverty and the promotion of a more equitable distribution of income are at the core of development concerns and a principal objective of all countries. This note looks at patterns of income distribution across the world with the view to identifying some relationships between key economic variables and broad patterns of income inequality,

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and it briefly reviews hypotheses suggested to explain changes in the distribution of income as a country develops. It then presents an overview of income distribution patterns prevalent in the world today and relates them to levels of living, rates of growth, and geographic regions to draw some broad policy conclusions.

The first section briefly discusses the relationship between poverty and inequality. The next section sketches the reasons Simon Kuznets and others have given for a possible connection between economic growth and income distribution and results of some studies of the Kuznets Hypothesis. The problems inherent in measuring patterns of income distribution with the available data are then mentioned. Finally, country income distributions are related to indicators of the level and growth in economic activity and in different geographic regions of the world with the view toward identifying patterns in these relationships.

2. Poverty, growth and inequality

Implicitly or explicitly, most discussions about the importance of economic growth to development are concerned not simply with raising incomes and living standards but also with income inequalities and the relative position of the poor in society.[1] On the one hand, rapid economic growth is seen as an essential element in reducing poverty, but on the other, it is also recognized that changes introduced by rising incomes, indeed, by the very process of economic growth, could cause rising inequality. For this reason, the relationship between economic growth and income inequality is a key concern in discussions of development policy.

These discussions, it should be emphasized, also extend beyond inequalities in the distribution of income and wealth, and note that economic inequalities are only a small part of much broader questions of equity. Indeed, some non-monetary dimensions of equality – such as land ownership, conditions of work, job satisfaction, degree of participation in decision-making on the job and in the community, and the influences of racial and other types of discrimination on income and employment – may have an even more profound effect on the quality of life of the poor than economic inequality measured in terms of the relative amount of income people have compared to others.[2]

Nevertheless, while all aspects of inequality – economic, political and social – are important determinants of the quality of life and reinforce one another in a complex and interrelated process of cause and effect, the question of the impact of overall economic growth on income distribution remains central to discussions of development strategies and policy. In terms of its effects, the process of economic growth could favor the rich and widen the gap between the wealthy and everyone else, or it could be favorable to the poor and lessen inequalities, or it could be relatively

[1] Much of the emphasis in setting of international goals for eradicating poverty, such as the Millennium Development Goals of the United Nations, focus on policies leading to the reduction of absolute poverty measured in terms of achieving some minimum level of income for each person in society. (See World Bank (1990) for a discussion of the measures of poverty used by international agencies and United Nations (2003, Part II) for a discussion of policies directly aimed at poverty reduction.) It is recognized, however, that poverty entails more than a lack of income, and the question of relative poverty – that is, inequalities of income within and between countries regardless of level of income – is as important as the question of absolute poverty (United Nations, 2005).

[2] The difficulties of measuring the multidimensional nature of poverty is explained in the 1997 *Report on the World Social Situation* (United Nations, 1997). While no single index can encompass all aspects of poverty or inequality, the broad conventional measure used when assessing the extent of poverty is an income or expenditure level sufficient to sustain a minimal level of living. Differences in income are seen as working approximations to other manifestations of poverty and inequality.