

Press Points for Chapter 4: *Globalization and Inequality*

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Key Points

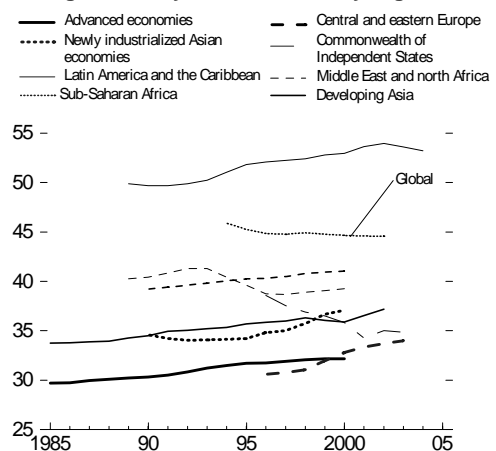
- **Over the past two decades, income inequality has risen in most regions and countries. At the same time, per capita incomes have risen across virtually all regions for even the poorest segments of population, indicating that the poor are better off in an absolute sense during this phase of globalization, although incomes for the relatively well off have increased at a faster pace.**
- **Technological advances have contributed the most to the recent rise in inequality. Increased financial globalization—and foreign direct investment in particular—has also played a role in increasing inequality, but contrary to popular belief, increased trade globalization is associated with a decline in inequality.**
- **It is important to ensure that the gains from globalization and technological advances are more broadly shared across the population. Reforms to strengthen education and training would help ensure that workers have the appropriate skills for the evolving global economy. Policies that broaden the access of finance to the poor would also help, as would further trade liberalization that boosts agricultural exports from developing countries.**

Over the past two decades, income inequality has risen in most countries and regions, although individual country experiences vary.

Inequality is measured in the chapter by the widely used Gini coefficient, which compares the average difference between incomes across the population. According to this measure, inequality has risen in developing Asia, emerging Europe, Latin America, the Newly Industrialized Economies of Asia (NIEs), and the advanced economies, while it has declined in sub-Saharan Africa and the Commonwealth of Independent States (see figure).

Despite the observed rise in inequality, incomes have risen across all segments of the population, including the poorest. Per capita incomes have risen across virtually all regions

Average of Country Gini Coefficients by Region¹

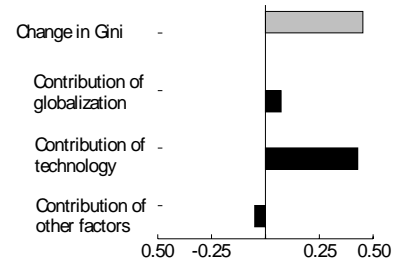


¹Levels are not strictly comparable due to differences in definitions and survey methodologies.

and countries for all segments of the population. As a result, the poor are better off in an absolute sense during this phase of globalization, although incomes have risen at a faster pace for the already better off in most cases.

Technological advances have contributed the most to rising inequality, but financial and trade globalization has also played a role, particularly in advanced economies. Technological progress alone explains almost all of the increase in inequality from the early 1980s, consistent with the view that new technology, in both advanced and developing countries, increases the premium on skills and substitutes for relatively low-skill inputs (see figure).

Explaining Gini Changes¹
(Average annual percent change)



¹1981–2003 or longest subperiod for which all variables used in the regression are available. The sample covers 20 advanced economies and 31 developing and emerging market countries.

The much smaller effect of globalization relative to technological change reflects the opposing influences of trade and financial globalization on inequality.

Greater trade integration—and rising imports from developing economies in particular—are associated with declining income inequality in advanced economies. In developing economies, rising exports and tariff liberalization are both associated with improving the distribution of income. Foreign direct investment (FDI) has an effect similar to technological change on the distribution of income, by increasing the relative demand for skilled labor. Financial development has also contributed to rising inequality because higher income groups are better able to take advantage of the increased opportunities to borrow.

Looking ahead, further progress is needed on policies that help less skilled and low income groups take advantage of both technological progress and globalization.

Improving educational opportunities and broadening the access to finance could help improve the overall distribution of income. Policies that facilitate the movement of workers from declining to expanding sectors of the economy, including in some countries by making healthcare benefits less dependent on continued employment, would also help. Technology, foreign direct investment, and financial development continue to be important to support overall growth and raise average incomes. The positive role of agricultural exports in improving distributional outcomes suggests that greater liberalization of access for agricultural exports from developing countries to advanced countries' markets would support a more equal distribution of income in both developing and advanced economies.