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Is global inequality getting better or worse? A critique of the World Bank's convergence narrative

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ABSTRACT

The dominant narrative of global income inequality is one of convergence. Recent high-profile publications by Branko Milanovic and the World Bank claim that the global Gini coefficient has declined since 1988, and that inter-country inequality has declined since 1960. But the convergence narrative relies on a misleading presentation of the data. It obscures the fact that convergence is driven mostly by China; it fails to acknowledge rising absolute inequality; and it ignores divergence between geopolitical regions. This paper suggests alternative measures that bring geopolitics back in by looking at the gap between the core and periphery of the world system. From this perspective, global inequality has tripled since 1960.

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Introduction

Inequality has emerged as a major political issue since the global financial crisis of 2008. Most of the attention in popular discourse has been focused on inequality *within* countries, which was Thomas Piketty's focus in his 2013 book *Capital in the Twenty-First Century*.¹ The issue of *global* inequality entered the popular discussion slightly later, in 2014, when Oxfam published a report, drawing on data from Credit Suisse, stating that the richest 85 people in the world owned more wealth than the poorest half of the planet's population combined.² This claim attracted significant popular attention. Two years later, in early 2016, Oxfam updated the figures to show that wealth inequality had become worse still: the richest 62 people owned more than the poorest half of the world.³ Oxfam also noted that the wealth of the richest 1% had been increasing swiftly since 2008, along with their share of total wealth, to the point that by 2016 the 1% had more wealth than the rest of the world's population combined, for the first time. These claims further stoked popular discontent over distributional trends, and fed a narrative of rising inequality.

Later in 2016, a counter-narrative emerged. Branko Milanovic, a World Bank economist and one of the world's foremost authorities on inequality, published a new book titled *Global Inequality: A New Approach for the Age of Globalization*. Instead of measuring wealth inequality, as Oxfam had done, Milanovic focused on the equally legitimate and more conventional metric of income inequality, and came to a different conclusion. Milanovic claimed that the

global Gini coefficient declined from about 0.69 in 1988 to 0.62 in 2013.⁴ This measure looks at global interpersonal inequality – the global income distribution among the world’s population as though every individual lives in one big country. Milanovic also presented data on inequality between countries. While unweighted inter-country inequality is significantly higher now than it was during mid-century (having risen steadily from 1960 to 2000 before falling off slightly), he claims that *population-weighted* inter-country inequality has declined dramatically over the past few decades, from a Gini coefficient of 0.63 in 1960 to 0.47 in 2013, with a precipitous drop beginning after 1990.

These data quickly become popular among conservative commentators. Writing in the *Washington Post* only days after Milanovic’s figures were published, Charles Lane argued that this trend towards greater global equality justified the US-led extension of free-market capitalism around the world since the 1980s. According to Lane, the reduction of global inequality has to do with ‘the collapse of communism and the spread of market institutions, [as well as] freer flows of international trade and private capital, which were, in turn, promoted by a bipartisan succession of US presidents and Congresses.’⁵ The Cato Institute, a libertarian think tank, also picked up on Milanovic’s data: ‘Despite what you might think if you listen to Pope Francis, Bernie Sanders, and other voices prominent in the media ... there has been a vast *reduction* in income inequality worldwide over the past quarter-century’, they wrote. ‘This is the good news about the world today. Indeed, it’s the most important news about our world.’⁶

In September, 2016, this counter-narrative received significant support when the World Bank published a landmark report titled *Taking on Inequality: Poverty and Shared Prosperity*. While the report is generally critical of inequality and regards it as an impediment to growth, it also argues that inequality is not as bad as people assume. Popular perceptions of global inequality trends are inaccurate, the report claims: they are based in ‘myth’ rather than fact. ‘There are a lot of misconceptions about recent changes in inequality. Some narratives suggest there has been an unrelenting increase in inequality worldwide.’⁷ But in reality, the report says, while global interpersonal inequality had been increasing steadily since 1820, ‘in the late 1980s and early 1990s, the global Gini index began to fall. This coincided with a period of rapid globalization.’⁸ Repeating Milanovic’s data, the report concludes that global inequality has been narrowing since 1988, with particularly notable improvements since 2008, driven by convergence in incomes between countries.⁹ The publication of this report set off a second wave of media stories about how global inequality is decreasing rather than increasing, with headlines such as the one in *Business Times* that proclaimed: ‘Global inequality is on the wane.’¹⁰

The convergence narrative carries political implications. As we see in the commentary by Lane and the Cato Institute, it lends a kind of moral justification to the Washington-led project of globalisation and the status quo of the global economy more generally. Yet while these particular claims about convergence are not inaccurate on their own terms, they rely on a narrow and misleading representation of the data. First, the global trend presented by Milanovic and the World Bank obscures the fact that convergence is driven almost entirely by China and East Asia – a fact that the authors acknowledge, but which nonetheless ends up as a footnote to the dominant narrative they present. Indeed, removing China from the Gini figures shows a pattern of increasing global inequality. Second, by relying on the relative Gini coefficient the Milanovic/World Bank approach ignores the fact that global income inequality has been increasing in absolute terms. Third, by looking at inequality among all of the world’s people as if they exist in a single country, or between countries as anonymous

individual units, the Milanovic/World Bank approach obscures the trend of divergence between the global North and South as geopolitical regions.

A key shortcoming of the Milanovic/World Bank approach (namely, representing inequality as between anonymous countries) is that it implicitly regards the disparate fortunes of poor countries and rich countries as separate and unrelated phenomena, which has the effect of depoliticising the analysis of global inequality. This is in keeping with the World Bank's ideology, which generally seeks to explain and redress underdevelopment by focusing on the internal policies and institutions of poor countries.¹¹ By contrast, I argue that global inequality must be understood as a relational phenomenon.¹² Describing inequalities between developed and developing regions – or between the core and the periphery of the world system, to use Immanuel Wallerstein's terms¹³ – draws our attention to this relationship and brings geopolitics back into the equation. It encourages an analysis of the gap between poor regions and rich regions that not only looks at the internal conditions of each country, but also attends to the balance of global power: which states to determine global economic policy in their own interests.

This paper does not set out to provide a definitive account of global inequality. Rather, it intervenes at the level of narrative analysis, illuminating the limitations of the dominant narrative and pointing to metrics that suggest a more complicated story.

The pitfalls of the Gini coefficient

Let us begin by accepting the methodology that Milanovic and the World Bank use, namely to measure the Gini coefficient among all of the world's people as if they exist in a single country. While their convergence narrative tells a story of how the world as a whole is becoming more equal, in reality this is only true because of China and other key countries in Asia. Even if we remove only China from the data, the conclusion changes significantly. According to data used by Sudhir Anand and Paul Segal (Table 1), global inequality (among individuals) changed very little between 1988 and 2005, moving from a Gini coefficient of 0.726 to one of 0.727. Without China, however, the pattern looks very different: the global Gini coefficient increased from 0.501 in 1988 to 0.578 in 2005.¹⁴ This suggests that the rise of China has been essential to what appear to be 'global' shifts in income distribution, and obscures the fact that the rest of the world is actually becoming more unequal. The World Bank report acknowledges this fact, but downplays its significance with indirect language:

Between two-thirds and four-fifths of global inequality stems from differences in average incomes across countries (between-country inequality). The reduction in overall global inequality was mostly driven by a decline in this component, that is, average incomes converged across countries. This reflects the rapid growth in average incomes in populous countries such as China and India.¹⁵

Table 1. Global income inequality, 1988–2005.

Year	Global inequality			Without China	Absolute global inequality
	Top 1% (%)	Top decile (%)	Gini	Gini	Gini
1988	17.3	58.5	0.726	0.501	0.569
1993	17.6	58.5	0.727	0.535	0.614
1998	19.6	59.5	0.722	0.552	0.649
2002	20.6	62.0	0.735	0.575	0.698
2005	20.7	60.0	0.727	0.578	0.727

Data source: Anand and Segal, "Global Distribution of Income."

Lane, the Cato Institute, and other commentators have been quick to ignore this nuance, for it contradicts their story that the decrease in inequality has to do with market liberalisation from the 1980s. In reality, the countries that are key to the reduction of global inequality are precisely among the few countries that did not submit to rapid market liberalisation under US coercion; on the contrary, they relied initially on state-led development policies, and liberalised on their own terms.¹⁶

The second point to be made about these data is that the Gini coefficient that Milanovic and the World Bank use is a *relative* measure. If the incomes of the poor increase at a rate slightly faster than the incomes of the rich, the Gini coefficient shows declining inequality even if the absolute gap between them has grown. For example, if a poor person's income goes up from \$5000 to \$5500 (a 10% increase), and a rich person's income goes up from \$50,000 to \$54,500 (a slightly lower 9% increase), the Gini coefficient will show *decreasing* inequality even though the gap between the two has grown by \$4000. In light of this, economist Robert Wade has suggested that the normal Gini coefficient should be seen as a politically conservative measurement, as it obscures the true extent of inequality: 'The standard measure is misleading us into thinking that economic growth is more inclusive than it is.'¹⁷ Recognising this, Anand and Segal (Table 1) provide comparison data that measure global inequality with the *absolute* Gini coefficient, and show that it has risen significantly over time, from 0.569 in 1988 to 0.727 in 2005.¹⁸

Finally, there is room for questioning the Purchasing Power Parity (PPP) basis of the Milanovic/World Bank figures. The narrative in the World Bank report holds that 'The global Gini index rose steadily by around 15 Gini points between the 1820s and the early 1990s, but has declined since then.'¹⁹ This narrative relies on two different sets of data. The first is from Francois Bourguignon's book *The Globalization of Inequality*, which plots a rising Gini coefficient from 0.50 in 1820 to 0.65 in 1990, with a small temporary drop during the post-war/post-colonial decades (the only drop in the whole historical series). From that point, the World Bank switches to the Milanovic data set, which involves a rather jarring discontinuity and shows a comparatively steep decline from a (suddenly much higher) 0.69 in 1988 down to 0.62 in 2013. The World Bank unites these data sets into a single narrative, and attributes the sudden steep decline to globalisation; but in a footnote admits that in fact this simply reflects a change in the base year of the PPP exchange rates to 2011.²⁰ In other words, the data are not comparable, and the World Bank's long-term narrative cannot be considered legitimate. Moreover, it is not clear that PPP figures give us an accurate picture of the incomes of poor people, as we know that PPP models overstate the purchasing power of poor households with respect to foodstuffs by around 50%,²¹ and this is particularly true since the global food price crisis began in 2007.

Richest country vs poorest country

In a famous 1997 essay titled 'Divergence, Big Time', Lant Pritchett pointed out that the gap between rich countries and poor countries was not closing, but rather expanding dramatically. He wrote: 'I estimate that from 1870 to 1990 the ratio of per capita incomes between the richest and the poorest countries increased by roughly a factor of five and that the difference in income between the richest country and all others has increased by an order of magnitude.'²² According to Pritchett's calculations, in 1870 the gross domestic product (GDP) per capita of the United States was 8.7 times higher than that of the poorest country; by

1960 it was 38.5 times higher; and by 1990 it was 45.2 times higher. From 1870 to 1990, the gap between the per-capita income of the richest country and the average per-capita income of all other countries had grown from \$1,286 to \$12,662 (1985 USD) – an increase of 985%.²³ These figures dealt a serious blow to convergence theory. In 1999, shortly after Pritchett's essay was published, the United Nations Development Programme (UNDP) published similar findings. The report stated:

World inequalities have been rising steadily for nearly two centuries. An analysis of long-term trends in world income distribution (between countries) shows that the distance between the richest and poorest country was about 3 to 1 in 1820, 11 to 1 in 1913, 35 to 1 in 1950, 44 to 1 in 1973, and 72 to 1 in 1992.²⁴

In the years following these publications, the Pritchett and UNDP statistics were repeated many times. Yet the approach to inequality that underpins this narrative of divergence (ie the comparison between the richest and poorest countries) has since been abandoned and replaced by the more generalised approach to inter-country inequality that underpins the optimistic narrative provided by Milanovic and the World Bank. Indeed, calculations of the gap between the richest and poorest countries have not been updated since the 1990s, as far as I am aware. If we update the figures, which I do here by drawing on the most recent available data, we can see that the inequality gap when viewed from this perspective is now much worse than even Pritchett and the UNDP suggested.

In Table 2 I plot the ratio between the real GDP per capita (1990 Int. GK\$) for the richest and poorest countries in the world from 1800 to 2010, following Pritchett and the UNDP and drawing on the Maddison Project database (2013 update). This approach to measuring inequality is highly sensitive to the country at the top end of the spectrum. To be conservative, I have excluded extreme outliers, such as the oil-rich state of Qatar, which enjoyed unusually high GDP per capita during the second half of the twentieth century. I include the data for 1800 and 1900 simply as points of comparison for the Pritchett/UNDP data and as a benchmark for the later, postwar data points.

The results suggest an initial gradual increase in inequality between the per-capita incomes of the richest and poorest countries, from a ratio of 6.3 in 1800 to a ratio of 10.8 in 1900. This is followed by a faster rate of increase from 1900 to 1960, with the ratio moving to 31.8, and then up again at an even faster rate to 55.1 in 1980. Then between 1980 and 2000 the gap increases at a faster rate still, to the point where the richest country is 134 times richer than the poorest country – much worse than Pritchett and the UNDP estimated for 1990. Then we see that the ratio begins to shrink slightly, for the first time in recorded history, from 2000 to 2010. From this perspective, the moment of convergence is at least 40 years later than where Milanovic and the World Bank place it. It is difficult to draw conclusions about what has caused this convergence, because the countries at the bottom and top of the scale vary over time. I will return to this question below.

Table 2. Ratio between richest and poorest countries (gross domestic product [GDP] per capita, 1990 Int. GK\$).

	1800	1900	1960	1980	2000	2010
Ratio	6.3	10.8	31.8	55.1	134	118
Avg annual change over previous period (%)	–	+0.54	+1.82	+2.79	+4.54	–1.26

Data source: Maddison Project, *2013 Update*, and author's calculations.

Table 3. Absolute gap between richest and poorest countries (gross domestic product [GDP] per capita, 1990 Int. GK\$).

	1800	1900	1960	1980	2000	2010
Absolute gap	2194	5354	12,065	18,438	28,488	30,465
Avg annual change over previous period (%)	–	+0.90	+1.36	+2.14	+2.20	+0.67

Data source: Maddison Project, *2013 Update*, and author's calculations.

Yet it is important to note that even while the per-capita income ratio was shrinking during the final decade of this series, the absolute gap between the richest and poorest countries continued to increase, from \$28,488 in 2000 to \$30,465 in 2010, worsening by 0.67% per year, as we see in Table 3. From 1960 to 2010, the absolute gap grew from \$12,065 to \$30,465 – an increase of 252%. It is also worth pointing out that the poorest country has grown significantly poorer over time: the poorest country's GDP per capita in 2010 was less than half what it was in 1900 (having collapsed from \$545 to \$260), and since at least 1980 has been at less than a dollar a day.

Core vs periphery

Perhaps one of the reasons that the Pritchett/UNDP approach to inequality has been ignored is because it relies so heavily on the extremes of rich and poor, and thus may overstate the inequality problem. It also ignores what is going on in the middle of this range, where patterns of general convergence might emerge. To overcome this weakness, another approach is to look instead at regional differences. Table 4 uses World Bank data to compare GDP per capita (in constant 2005 US\$) for the United States against that of Latin America and the Caribbean, sub-Saharan Africa (SSA), South Asia, and the Middle East and North Africa (MENA; developing countries only). The World Bank data run from 1960 to 2014, although for MENA the first data point is 1965.

Approaching the question of inequality this way changes the way we think about it altogether. The Milanovic and World Bank data look at inequality among all of the world's people as if they exist in a single country, and between countries as anonymous individual units. While this method might be useful for certain purposes, it erases the geopolitical relationships – and the class relationships – that we know to be central to structuring patterns of distribution in the global economy. In other words, it depoliticises inequality. A more revealing approach, and one more consistent with geopolitical realities, is to measure inequality between the core and periphery of the world system. Table 4 uses the United States as a proxy for the core, given its role as the dominant actor in shaping global economic policy (ie through its control over the World Bank, the International Monetary Fund (IMF), and the World Trade Organisation (WTO); through its power in the United Nations [UN] Security Council; through its military presence; and through its control over the world's reserve currency), but the ratio trends would look similar if we used Britain, Western Europe, or the broader category of high-income countries instead.

The first observation to highlight from Table 4 is that inequality between the US and all developing regions increased between 1960 and 2000. China and East Asia, which experienced convergence with rich-world incomes during this period, are not included in the series. These findings are consistent with those of Arrighi, Silver, and Brewer, who demonstrate that inequality between all 'Third World' regions and the 'First World' increased between

Table 4. Ratio between the United States and various developing regions (gross domestic product [GDP] per capita, constant 2005 US\$).

	1960	1980	1990	2000	2014
Latin America	6.7	6.0	8.0	8.5	7.6
Sub-Saharan Africa	21.9	26.9	39.0	51.5	44.4
Middle East & North Africa	16.1	15.1	19.1	20.8	18.4
South Asia	66.5	86.5	80.8	73.2	41.2

Data source: World Bank, *Taking on Inequality*, and author's calculations.

1960 and 2000, with the exception of China and East Asia, which experienced convergence (East Asia from 1970, and China from 1980).²⁵

The second observation is that there have been interesting changes in fortune between the core and periphery over time. It is beyond the scope of this paper to explain these trends, but some possibilities are worth drawing out. From 1960 to 1980, Latin America and MENA began to close the gap with the United States. For Latin America it shrank by 11%. For the MENA region it shrank by 6%. This convergence may be a result of the 'developmentalist' policies that these regions applied during this period, including land reform, nationalisation, and import substitution.²⁶ In SSA, however, there was no such convergence during this period. While a number of SSA governments experimented with developmentalism (Ghana under Nkrumah, Tanzania under Nyerere), most never had the opportunity. In Francophone Africa, France maintained tight control over economic policy in the postcolonial era through the *Francafrique* network. The US and Britain prevented the rise of developmentalist governments on a number of occasions, such as in the Congo in 1961 and Uganda in 1971, installing dictators (Mobutu Sese Seko and Idi Amin) friendly to their interests who often caused catastrophic economic outcomes. During Mobutu's reign, for instance, per-capita income in the Congo declined at an average of 2.2% each year.²⁷

Table 4 shows that fortunes shifted after 1980, and the convergence trend that some regions enjoyed was reversed. From 1980 to 2000, inequality between the US and Latin America grew by 42%. For the MENA region it grew by 38%. For SSA it grew by 91%. The major macro-economic trend to consider here is the debt crisis (triggered in large part by the Volker Shock, when the US Federal Reserve dramatically raised interest rates in 1980–1982), which was followed by the imposition of structural adjustment programmes across much of the global South by the IMF and the World Bank during the 1980s and 1990s. Structural adjustment caused per-capita incomes in developing regions to collapse.²⁸ In Latin America, there was no increase in real per-capita income between 1980 and 1994.²⁹ SSA was hit particularly hard by structural adjustment.³⁰ During this period, per-capita income in Africa began to fall at a rate of 0.7% per year,³¹ from nearly \$1500 in 1980 to less than \$1200 in 2000.³² By contrast, South Asia, where structural adjustment was not forcibly applied to the same extent, shrank the inequality gap during this period by 15%.

Robert Pollin explains that growing global inequality during the 1980s and 1990s (what he calls the neoliberal period) is the result of a larger differential between the per-capita income growth rates of rich countries and poor countries, compared to the differential during the developmentalist period. We can see this illustrated in Table 5. Neoliberal policy cut growth rates in rich countries and poor countries alike, but the effect was much worse on the latter. This meant that income was growing faster in rich countries than it was in poor countries. This is an important point, for it runs against the grain of conventional wisdom.

Table 5. Average annual per capita income growth.

	Developmentalist era 1961–80	Neoliberal era 1981–99
Wealthy OECD countries	3.5%	2.0%
Developing countries (excluding China)	3.2%	0.7%
Growth differential	0.3%	1.3%

Data source: Pollin, *Contours of Descent*.

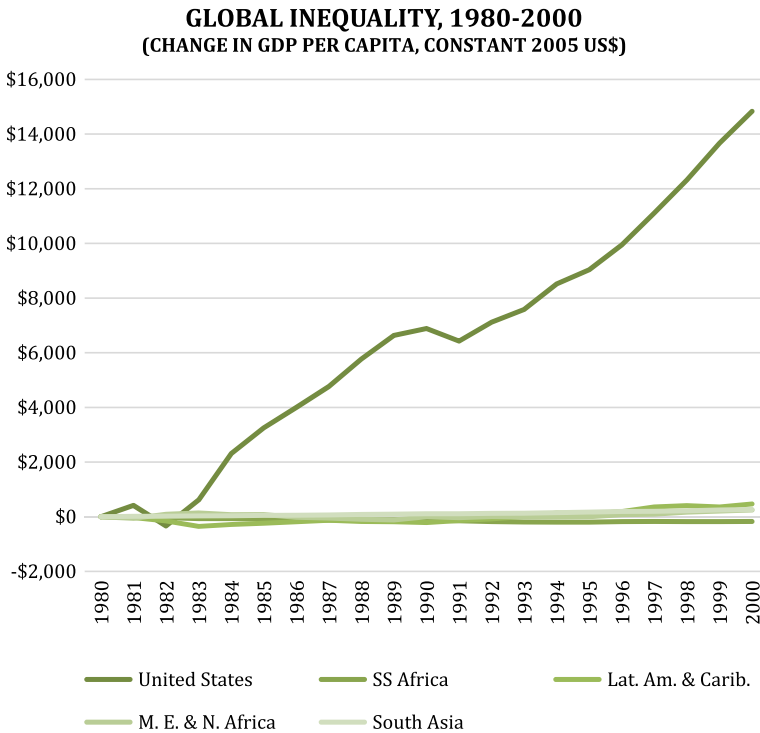


Figure 1. Inequalities between core and periphery regions, 1980–2000 (gross domestic product [GDP] per capita, constant 2005 US\$). Data source: World Development Indicators.

Orthodox neoclassical economics held that market liberalisation would spur growth and help poor countries catch up with rich ones; indeed, this was the justification offered for structural adjustment by the World Bank and IMF. But in reality the opposite happened. Pollin calculates that the Global South lost an average of \$480 billion per year in potential GDP during the 1980s and 1990s as a result of structural adjustment.³³ We can see this illustrated in Figure 1, which plots the growing income gap between the United States and Global South regions during the structural adjustment period.

Returning to Table 4, we see that during the last 14 years of the period, inequality ratios for all regions shrank, with South Asia experiencing particularly prominent convergence relative to earlier periods. This has to do in large part with the positive effects of the commodity boom for developing countries. The Bloomberg Commodity Index went from 75 in 1999 to 240 in 2008. Prices crashed with the global financial crisis, but recovered quickly and averaged about 140 over the next five years. Convergence has also been driven by the

negative impact of the financial crisis on the United States, which caused US incomes to drop slightly toward global South incomes.

Again, this way of presenting the data can be a bit misleading. Even where we see the inequality gap shrinking *as a ratio*, it is always still increasing in absolute terms, as Table 6 shows. Take SSA, for example. While the gap between the United States and SSA has shrunk by 14% as a ratio since 2000, the absolute gap between the two has nonetheless grown, from \$40,151 to \$45,360, an increase of 13%. We can correct for this misperception by representing the data visually, as in Figure 2, which illustrates a continuing long-term trajectory of divergence.

Table 6. Absolute gap between the United States and peripheral regions (gross domestic product [GDP] per capita, constant 2005 US\$).

	1960	1980	1990	2000	2014
Latin America	13,166	21,785	28,887	36,150	40,281
Sub-Saharan Africa	14,775	25,142	32,154	40,151	45,360
Middle East & North Africa	17,226	24,388	31,275	38,976	43,885
South Asia	15,250	25,811	32,591	40,386	45,279

Data source: World Bank, *Taking on Inequality*, and author's calculations.

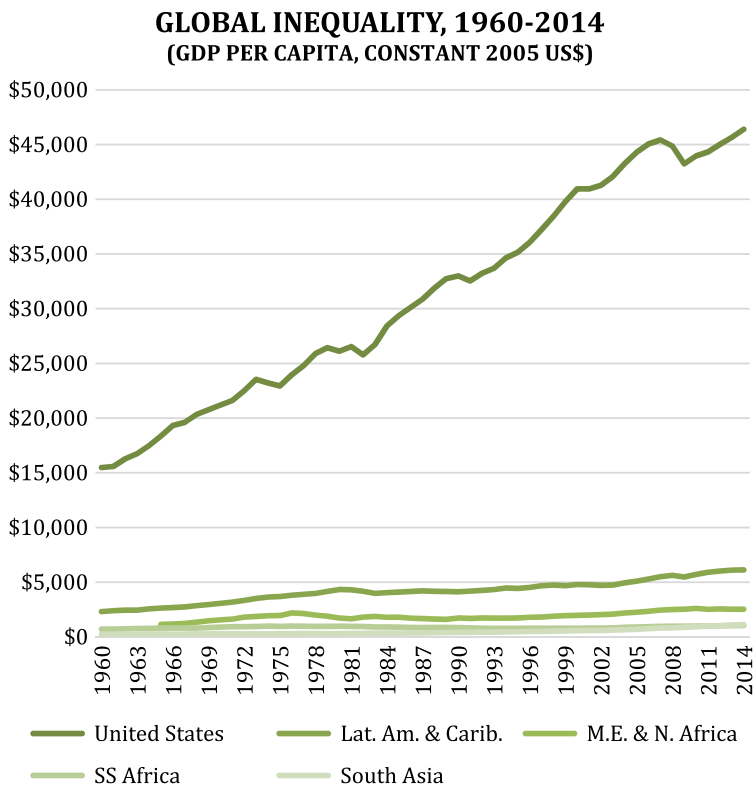


Figure 2. Inequalities between core and periphery regions, 1960–2014 (gross domestic product [GDP] per capita, constant 2005 US\$). Data source: World Development Indicators.

Discussion: the politics of global inequality

The Kuznets Curve – originally developed by Simon Kuznets in the 1950s – holds that while inequality increases in the first stages of a country’s industrialisation, the disparity automatically evens out as the economy matures. The Kuznets Curve made sense during Kuznets’ time, as inequality was in fact diminishing in the Western countries he was analysing; it was the height of Keynesianism, and the New Deal and the welfare state were ensuring a more equitable distribution of resources. But, as Piketty has shown, the explanatory power of the Kuznets Curve does not extend past 1970.³⁴ What Kuznets assumed to be a continuing trajectory towards greater equality was in fact an aberration – an ‘illusion’, to use Piketty’s phrase – in the *longue durée* of capitalism’s history, and that in reality the predominant trend bends towards divergence. Once Keynesian policies came under political attack in the 1970s, that brief mid-century shift towards equality was reversed. Inequality does not diminish automatically, Piketty pointed out. Rather, it depends on the balance of class power: who gets to determine policy when it comes to workers’ rights, wages, taxes, and inflation. As long as the owners of capital hold more power than the earners of wages do, inequality will tend to increase.

Milanovic and the World Bank offer a global version of the Kuznets Curve narrative. After increasing since at least the industrial revolution in the early 1800s, global inequality has been diminishing, they claim, for the past few decades. They offer this as evidence of ‘convergence’. Convergence theory, as developed by scholars like Gerschenkron and Solow, holds that because poorer countries normally grow at a faster rate than richer countries, they will gradually ‘catch up’ with them and in the end converge at a more or less high-income status.³⁵ As with the Kuznets Curve, convergence theory implies that this process is automatic, and is held up to diffuse discontent about the present state of inequality: given enough time, the theory suggests, distribution will automatically become fairer. This narrative only works, however, if we rely on a narrow presentation of the data – one that strips away the geopolitical relationships that determine distributional patterns in the global economy.

By contrast, if we look at the gap between the richest and poorest countries, and between developed and developing regions, a different story emerges. The gap between the richest and poorest countries has not diminished over time; rather, it has grown dramatically over the past half century, even according to the conservative calculations I have used. The data presented above show that in 1960 the per-capita income in the richest country was 31.8 times higher than in the poorest country; by 2010, it was 118 times higher, and the absolute gap between the two had more than doubled. We see a similar divergence if we look at the gap between developed and developing regions. From above we can see that since 1960, the gap between the per-capita GDP of the US and that of Latin America has grown by 206%; the gap between the US and SSA has grown by 207%; the gap between the US and the Middle East and North Africa has grown by 155%; and the gap between the US and South Asia has grown by 196%. From this perspective, global inequality has roughly tripled during this period.

This poses a significant challenge to convergence theory. It also has important implications for the way we think about the world. It is commonplace now to claim that the distinction between ‘developed’ and ‘developing’ countries is no longer meaningful – that we should no longer think in terms of the West and the Rest. Indeed, the 2016 edition of the World Bank’s World Development Indicators eliminated these two categories from its analysis. It is

also common to point out that in this era of transnationalism inequality does not fall strictly along a North–South divide – that class inequalities manifest across the world’s population regardless of national residence. The richest 10% of the world’s population claim 60% of global income³⁶ and 88% of global wealth,³⁷ and this elite cohort includes individuals from countries like China and Nigeria as well as the US and Britain. But this transnational perspective – valuable as it may be – hides the fact that the old North–South divide remains very much intact. This is illustrated by the income data above, and we can also see it in the wealth data: in 2015, Europe and North America had 84% of the world’s wealth in per-capita terms, while the rest of the world had only 16%.³⁸ We should not be too quick to announce the end of the world-system.

Following Piketty’s critique of the Kuznets Curve, I have suggested that the reasons for global inequality must be understood as primarily political – they have to do with the balance of class power between the core and periphery of the world system. Like the Kuznets Curve, convergence theory falls short because it fails to grasp that inequality is a political phenomenon. While it is not within the scope of this paper to explain the power relationship between the core and periphery in full, I have pointed in the direction of key macro trends, such as the adoption of developmentalist policies during the 1960s and their reversal after 1980 by structural adjustment programmes. We also know that Western control over the terms of global trade has kept wages in developing countries at an artificially low level, even when corrected for productivity – a phenomenon known as ‘unequal exchange’. While measurements of unequal exchange can never be exact, they offer an interesting yardstick by which to assess the scale of inequities in global trade. Economists Zak Cope and Timothy Kerswell estimate that the South transferred \$1.46 trillion to the North through unequal exchange in 2012.³⁹ We can see a similar pattern in the deteriorating terms of trade that developing countries have suffered over time: Raul Prebisch and Hans Singer described this effect in 1950 in what is now known as the Prebisch–Singer hypothesis, which has recently been confirmed with new evidence.⁴⁰ During the 1980s this trend was particularly harmful, with a 45% fall in commodity prices that caused developing countries to lose \$290 billion in export earnings during that decade.⁴¹

These are but a few of the factors that contribute to global inequality. There are many others. As a result of the international debt regime, for example, developing countries pay more than \$200 billion in interest on external debts each year, according to the World Bank’s International Debt Statistics Database, mostly to banks in New York and London. Financial liberalisation allows foreign investors to repatriate profits worth nearly \$500 billion out of developing countries each year.⁴² On top of this, developing countries lose up to \$2 trillion each year in illicit financial flows, which robs governments of tax revenues, finance and investment.⁴³ United Nations Conference on Trade and Development (UNCTAD) estimates that because of asymmetries built into the WTO trade system after the Uruguay Round (rich countries maintaining market protections while denying them to poor countries), developing countries were losing around \$700 billion annually in potential export revenues.⁴⁴ As long as the structure of the global economy remains organised in the interests of rich countries in these ways, inequality will continue to increase.

There has been some slackening in inequality ratios (although not in absolute gaps) between core and periphery regions during the past decade or so, as a result of the commodities boom. This presents reason for optimism, although this trend is already beginning to show signs of faltering. Rising commodity prices were driven largely by Chinese demand,

and as China's economy slows – in part due to continuing stagnation of consumer demand in the West – commodity prices are falling again. As of 2017, the Bloomberg Commodities Index is down to 83, having reverted to its pre-2000 levels. In light of this shift, it is unlikely that current trends in the direction of relative convergence will continue.

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Notes

1. Piketty, *Capital in the Twenty-First Century*.
2. Fuentes-Nieva and Galasso, "Working for the Few."
3. Hardoon, Ayele, and Fuentes-Nieva, "Economy for the 1%."
4. Milanovic, *Global Inequality*, 166.
5. Lane, "Sanders–Pope Francis 'Moral Economy.'"
6. Boaz, "Capitalism and the Reduction in Inequality." The emphasis is in the original.
7. World Bank, *Taking on Inequality*, 75.
8. World Bank, *Taking on Inequality*, 76.
9. World Bank, *Taking on Inequality*, 81.
10. Rowley, "Global Inequality on the Wane."
11. Joshi and O'Dell, "Global Governance and Development Ideology"; Paloni and Zanardi, *IMF, World Bank and Policy Reform*.
12. Mosse, "Relational Approach to Durable Poverty."
13. Wallerstein, *Modern World-System*.
14. Anand and Segal, "Global Distribution of Income."
15. World Bank, *Taking on Inequality*, 81.
16. Wade, *Economic Theory and the Role of Government*.
17. Wade, "Our Misleading Measure of Income."
18. Anand and Segal, "Global Distribution of Income." Anand and Segal also document movements in mean log deviation (MLD) and the Theil Index, with and without China, and in global and relative terms.
19. World Bank, *Taking on Inequality*, 81.
20. World Bank, *Taking on Inequality*, 76.

21. Cimadamore, Koehler, and Pogge, "Poverty and the Millennium Development Goals," 6.
22. Pritchett, "Divergence, Big Time," 3.
23. Pritchett, "Divergence, Big Time."
24. UNDP, *Human Development Report 1999*, 38.
25. Arrighi, Silver and Brewer, "Industrial Convergence, Globalization," 13. The measure that Arrighi, Silver and Brewer use is the GNP per capita of developing regions as a percentage of GNP per capita of First World countries as a group.
26. See Prashad, *Poorer Nations*; Prashad, *Darker Nations*; Chang, *Bad Samaritans*.
27. Ndikuma and Boyce, "Congo's Odious Debt."
28. Easterly, "Lost Decades."
29. World Development Indicators, constant 2010 US\$.
30. White, "Adjustment in Africa"; Riddell, "Things Fall Apart Again"; Stein and Nissanke, "Structural Adjustment and the African Crisis."
31. Chang, *Bad Samaritans*, 28.
32. World Development Indicators, constant 2010 US\$.
33. Pollin, *Contours of Descent*.
34. Piketty, *Capital in the Twenty-First Century*.
35. For example, Gerschenkron, "Economic Backwardness in Historical Perspective"; Solow, "A Contribution to the Theory of Economic Growth."
36. Anand and Segal, "Global Distribution of Income."
37. Credit Suisse, *Global Wealth Databook*.
38. Author's calculations; data from Credit Suisse, *Global Wealth Databook*, 5.
39. Cope and Kerswell, "Labor, Imperialism, and Globalization." Cope and Kerswell build on Samir Amin's method of calculating unequal exchange; Amin, *Unequal Development*, 144. This amount of \$1.46 trillion represents the difference between the South's existing earnings through trade with the North and what the South *would* be earning if the labour that went into producing goods for trade between North and South was paid equal wages for equal productivity. For other ways of estimating unequal exchange, see Kohler, "Unequal Exchange"; Kohler and Tausch, *Global Keynesianism*. Using a method based on exchange rate deviation, Kohler calculates that in 1995 the South was registering annual losses due to unequal exchange at \$1.752 trillion.
40. Harvey, "Prebisch–Singer Hypothesis"; Arezki et al., *Testing the Prebisch–Singer Hypothesis*.
41. South Centre, *Financing Development*.
42. Griffiths, *State of Finance for Developing Countries*.
43. Kar and Freitas, *Illicit Financial Flows*; Baker, *Capitalism's Achilles Heel*. Kar and Freitas of Global Financial Integrity show that \$1.138 trillion was drained from developing countries in 2010, 80% of which (or \$910 billion) happened through trade misinvoicing. These figures do not capture abusive transfer pricing, as it is difficult to measure, but Raymond Baker estimates that it roughly equals trade misinvoicing, ie an additional \$910 billion for a total of about \$2 trillion. Note that these figures only capture misinvoicing and abusive transfer pricing for goods, not services. Adding services to the mix would bump the figures up by approximately 25%. The measurement of illicit financial flows is hotly debated, but for now the official position of the Organization for Economic Cooperation and Development (OECD) is that 'there is general consensus that illicit financial flows likely exceed aid flows and investment in volume'; OECD, *Illicit Financial Flows*. See also Shaxson, *Treasure Islands*.
44. UNCTAD, *Trade and Development Report 1999*. See also Sogge, *Give and Take*, 35. The figure of \$700 billion is a projection of losses for 2005.

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