The Salt Lake Tribune

The worldwide decrease of inequality

By Marian L. Tupy

January 8, 2015

In America, the income gap between the top 1 percent and the rest has grown. But if we look not at America, but the world, inequality is shrinking. We are witnessing, in the words of the World Bank's Branko Milanovic, "the first decline in global inequality between world citizens since the Industrial Revolution."

For most of human history, incomes were more equal, but terribly low. Two thousand years ago, GDP per person in the most advanced parts of the world hovered around $3.50 per day. That was the global average 1,800 years later.

But by the early 19th century, a pronounced income gap emerged between the West and the rest. Take the United States. In 1820, the U.S. was 1.9 times richer than the global average. The income gap grew to 4.1 in 1960 and reached its maximum level of 4.8 in 1999. By 2010, it had shrunk by 19 percent to 3.9.

That narrowing is not a function of declining Western incomes. During the Great Recession, for example, U.S. GDP per capita decreased by 4.8 percent between 2007 and 2009. It rebounded by 5.7 percent over the next 4 years and stands at an all-time high today. Rather, the narrowing of the income gap is a result of growing incomes in the rest of the world.

Consider the spectacular rise of Asia. In 1960, the U.S. was 11 times richer than Asia. Today, America is only 4.8 times richer than Asia.

To understand why, let's look at China.

Between 1958 and 1961, Mao Zedong attempted to transform China's largely agricultural economy into an industrial one through the "Great Leap Forward." His stated goal was to overtake UK's industrial production in 15 years. Industrialization, which included building of factories at home as well as large-scale purchases of machinery abroad, was to be paid for by food produced on collective farms.

But the collectivization of agriculture resulted in famine that killed between 18 and 45 million people. Industrial initiatives, such as Mao's attempt to massively increase production of steel, were equally disastrous. People burned their houses to stoke the fires of the steel mills and melted cooking wares to fulfil the steel production quotas. The result was destruction, rather than creation of wealth.

Deng Xiaoping, Mao's successor, partially privatized the farmland and allowed farmers to sell their produce. Trade liberalization ensured that Chinese industrial output would no longer be dictated by production quotas, but by the demands of the international economy. But following liberalization in 1978, China's GDP per capita has increased 12.5 fold, rising from $545 in 1980 to $6,807 in 2013. Over the same time period, the Chinese poverty rate fell from 84 percent to 10 percent.

What is true of China is also true in much of the developing world. As Laurence Chandy and Geoffrey Gertz of the Brookings Institution wrote in 2011, "poverty reduction of this magnitude is unparalleled in history: never before have so many people been lifted out of poverty over such a brief period of time."

Developing countries have made strides in other areas too. Take life expectancy. Between 1960 and 2010, global life expectancy increased from 53 years to 70. In the U.S. over the same period it rose from 70 to 78. Similar stories can be told about child and maternal mortality, treatment of communicable diseases, and the spread of technology.

Many Americans point to globalization as a bogeyman, robbing our country of good jobs and resources. But really, the phenomenon has ushered a period of unprecedented prosperity in many poor countries. Even as we struggle with economic problems at home let us remember the global — and largely positive — perspective on the state of the world.

Marian Tupy is a senior policy analyst at the Cato Institute's Center for Global Liberty and Prosperity and editor of www.humanprogress.org .