TAKING ON INEQUALITY
The World Bank’s Twin Goals

Reduce extreme poverty to 3% or less of the global population by 2030

Boost Shared Prosperity: promoting consumption/income growth of the bottom 40% in every country
(linked to, but different from, an inequality reduction goal)
SP RELATES TO GROWTH AND INEQUALITY

But it is not an inequality measure!

**Shared Prosperity:**

\[ g_{40} = g_{\text{mean}} + g_{\text{shareB40}} \]

**Shared Prosperity Premium:**

\[ g_{\text{shareB40}} = g_{40} - g_{\text{mean}} \]
TWO COMPLEMENTARY GOALS

Distribution of the Poor, Non-Poor, Bottom 40, and Top 60, 2013

Source: Inspired by Beegle et al. 2014 and updated with 2013 data.
Note: The figure has been constructed from vertical bars representing countries sorted in descending order by extreme poverty headcount ratio (from left to right). The width of each bar reflects the size of the national population. The figure thus illustrates the situation across the total global population.
Poverty declined worldwide over the last 30 years, driven by strong growth

Strong growth, global trade and the benefits of globalization improved welfare of the poor, especially by creating more and better jobs

Number and Share of people living below USD1.90/day, 1990-2013

- 767 million people or 10.7% of the global population live on less than 1.90 USD/day
- 114 million fewer poor in 2013 compared to 2012 (1.7 percentage point decline)
- 1.1 billion fewer poor since 1990 in a world with 1.9 billion more people

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.
But progress was not uniform across the world, and much remains to be done especially in SSA and SA

- Broad-based declines but 767 million extreme poor is still a huge concern (very low living standards)
- East Asia and Pacific (China, Indonesia) and South Asia (India), main contributors to global reduction
- Half of the extreme poor live in Sub-Saharan Africa; 1/3 in South Asia

Source: Taking on Inequality (World Bank: Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.
Global poverty is concentrated in a few countries

10 countries host \( \frac{3}{4} \) of the total global poor

Number of the poor, Top 10 Countries, 2013

Source: Taking on Inequality (World Bank: Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalNet.
Children, rural and uneducated people tend to be overrepresented among the poor

The Extreme Poor GLOBALLY

- 80% live in rural areas
- 2/3 work in agriculture
- Half are children
- Most have little or no formal education
- Yet, there are regional differences

Profile of the Poor, by characteristics and region, 2013

Children are twice as likely to be poor than adults

Children account for half of the global poor…

…but less than a third of the world’s population

The Extremely Poor, by age group (2013)

Global Population, by age group (2013)

There was progress, albeit uneven, in boosting shared prosperity

**Good news**

- Incomes of the poorest 40% grew in 60 out of 83 countries measured
- In 49 out of 83 countries the poorest 40% grew faster than the top 60%
- These 49 countries represent two-thirds of the world’s population

**Not-so-good news**

- There are large regional differences in shared prosperity (EAP, LCR did well; High income, ECA did not; SAR and SSA largely positive but data missing for many countries).
- In 34 countries, the gap widened between the richest 60% and the poorest 40%

*Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016).*
Shared Prosperity and Shared Prosperity Premium

World
(2008-13)

EU countries experienced weak Shared Prosperity performance...

Bottom 40% growth vs. total population growth, EU countries
(2008-2013)

...and most countries had a negative Shared Prosperity premium

**Shared Prosperity premium, European Union countries (2008-2013)**

*Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016).*
Talking about inequality trends is more complex

Three types of inequality

- Between individuals (Global)
- Between Countries
- Within Countries

Global inequality has been declining since 1990, for the first time since the Industrial Revolution.

Global Income Inequality, 1820-2010

The decline in global inequality is largely due to declining inequality between countries

Global Inequality, 1988-2013

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on Lakner and Milanovic (2016); calculations based on PovcalNet.
Within-country inequality stopped increasing since 2008, but remains high

Average within-country inequality, 1988-2013

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016); World Bank calculations based on data in Milanovic (2014); PovcalNet.
Developing regions have higher levels of inequality, but reducing inequality is possible even during global crisis.

### Trends in the Average Gini, by Region 1988–2013

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### Change in Gini Index, 2008-2013

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Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016); World Bank calculations based on data in Milanovic (2014); PovcalNet.
The share of income held by the top 1% has increased in many economies.

The Top 1% Income Share, Selected Economies

The top 1% income share graphs show the distribution of income among the top 1% of earners in various economies over time. The left graph represents industrialized economies since 1900, while the right graph represents developing economies since 1980. The income share is measured in percentage (%).

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016); World Bank calculations based on World Wealth and Income Database.
Today’s weaker growth prospects threaten the achievement of the poverty reduction goal

Weaker growth prospects

- With the end of the commodity boom cycle, a slowdown in international trade, and globalization under threat in advanced economies, reducing extreme poverty to 3% globally by 2030 through the same drivers of the past will be unlikely

- GDP growth is expected to be weaker than in the past two decades

- The WTO slashed its forecast for growth in global trade of goods in 2016 from 2.8% to 1.75%. For the first time in 15 years, trade could grow more slowly than GDP.

The consequences for poverty are starting to be felt across regions

- LAC: 2015 will likely be the first year in a decade where LAC regional poverty did not fall; some countries are likely to have seen poverty increase compared to 2014 (e.g. Brazil and Ecuador).

- Russia: since 2013, signs of a reversal in the poverty gains of the 2000s appeared, with poverty increasing from 10.7% in 2012 to 13.4% in 2015.

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.
To end extreme poverty by 2030 we need to reduce income inequality at a faster pace

Simulations of poverty by 2030 under current global growth but different inequality scenarios indicate that reaching the 3% goal is only possible by boosting shared prosperity and reducing inequality...

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.
Some countries have done it and succeeded

There are “win-win” policies that can help reduce poverty, reduce inequality and boost shared prosperity, while at the same time contributing to growth

WHAT WORKS: Common elements to success stories examined (despite different country context)

- Growth and good macroeconomic management
- Labor markets that translate growth into inequality reduction
- The right domestic policies (diversification, investing in infrastructure, safety nets, human capital)

WHAT WORKS: Policies with good evidence, significant impacts, and little equity-efficiency trade off

Raise productivity of the poor:
- Invest in children (ECD and quality education)
- Invest in health (universal health care)
- Invest in Infrastructure (rural roads, electrification)

Make money work for the poor (CTs to poor families and progressive taxation)

How relevant are these messages for high-income/OECD economies?

- The Report’s focus is largely on developing economies but concern about rising within-country inequality is common to many developing and to high income countries.

- Growth prospects for much of the OECD remain weak so prospects for improving incomes of the bottom will depend heavily on ensuring that growth is inclusive and that social and educational policies appropriately focused on bottom of the distribution and those with low skills.

- Policy lessons for OECD not that different from what the Report focuses on:
  - Need growth that translates into decent jobs for the less skilled
  - Investments in skills that start early in life (ECD) and continue throughout the lifecycle
  - There is an important role for social safety nets and social insurance mechanisms
  - And you need progressive taxation to pay for all of this

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.
For more information and to download the full report, go to: worldbank.org/psp
Extra Slides

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.
Key Takeaways

- The World has made significant progress in the fight against poverty over the past three decades; extreme poverty (at $1.90/day line) declined from 35% of the global population in 1990 to 10.7% of the population in 2013; projections to 2015 put extreme poverty below 10% for the first time ever;

- Nonetheless, close to 767 million people still remain in extreme poverty, concentrated mainly in Sub-Sahara Africa (51%) and South Asia (33%);

- Poverty is overrepresented in rural areas, among agricultural workers, children, and adults with no education;

- Progress in Shared Prosperity was also significant, with income of the bottom 40% growing in 60 out of 83 countries, and faster than the national average in 49 of these (2008-2013);

- Total global inequality also declined over the last 25 years; but remains high;

- Weaker global growth prospects threaten the goal of eliminating extreme poverty by 2030; greater reductions in inequality are needed going forward if we are to achieve that goal.

Source: Taking on Inequality (World Bank, Joint EFI POV–DEC Flagship 2016), based on 2013 data from PovCalnet.