FALLING GLOBAL EARNINGS INEQUALITY: New evidence

The global distribution of earnings and wages has become more equal over the past 50 years, but at the same time, inequality within countries has increased. A main driver behind the global earnings equalisation has been high wage growth in China and India.

These are among the findings of research by **Olle Hammar** and **Daniel Waldenström**, to be presented at the annual congress of the European Economic Association in Manchester in August 2019.

Taking all citizens of the world into account, global inequality in earnings and wages has fallen over the past 50 years. Using new data on occupational earnings in a large number of countries around the world between 1970 and 2018, this study finds that while inequality *within* countries has increased, inequality *between* countries has fallen.

The main equalisation took place during the 2000s and 2010s, when the earnings share of the world's poorest half doubled. A main reason behind this earnings convergence has been high wage growth in countries such as China and India.

The dataset contains earnings and employment statistics for up to 20 representative occupations in 68 countries every three years since 1970. Over this period, the global Gini coefficient fell by 15 points, although the level of within-country inequality increased (see Figure 1).

In contrast to previous studies on global inequality (such as Lakner and Milanovic, 2015) this work focuses exclusively on the distribution of labour earnings, being the main income source for the vast majority of the world's population. Compared to these earlier studies, the researchers find that the level of global inequality has been lower, and the decline sharper, for labour earnings than for total incomes, which also include capital.

Decomposing the trend, they show that the main drivers behind this earnings equalisation have been growth in real wages, or productivity, rather than changes in the structure of occupations, labour supply or demographics. Moreover, they find that on average people who earned less worked longer hours, and that taxes reduced the level of global inequality by approximately two Gini points. Finally, they also observe stronger earnings convergence in the industrial than in the services sector.

To conclude, over the past half century real wage growth in lower-income countries has been the main contributor to reduced global inequality. While the role played by within-country inequality has increased, an individual's position in the global earnings distribution is still mainly determined by the between-country dispersion.

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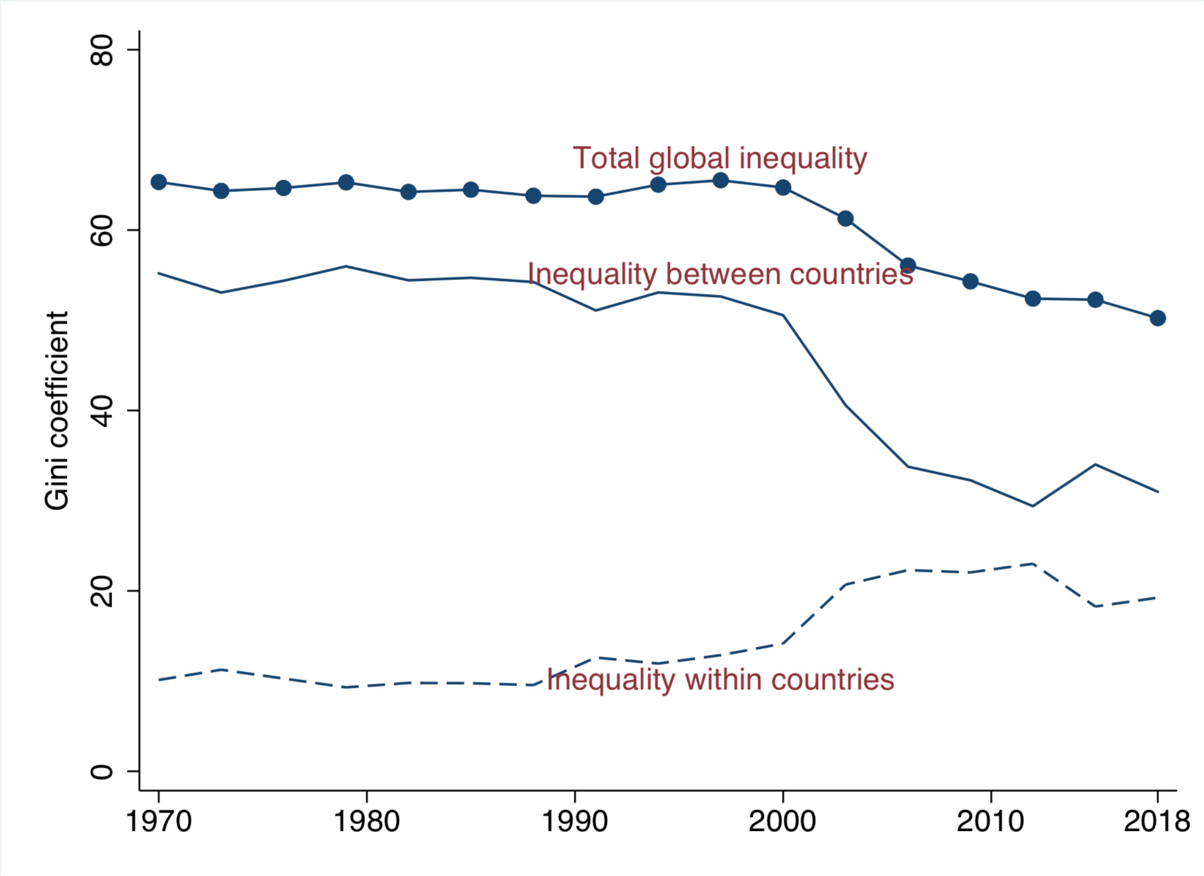
'Global Earnings Inequality, 1970-2018' by Olle Hammar and Daniel Waldenström, conditionally accepted for publication in *Economic Journal*.

Reference:

Lakner, C. and Milanovic, B. (2015). ‘Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession’, *World Bank Economic Review* 30(2): 203–232.

Figure 1. Global earnings inequality within and between countries, 1970–2018



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