



## INCOME & WEALTH

### Overview

- 4 billion people worldwide have incomes below US\$ 3,000 annually in local purchasing power.<sup>1</sup>
- This large segment of humanity faces significant unmet needs and lives in relative poverty: in current US dollars their per capita incomes are less than \$3.35 a day in Brazil, \$2.11 in China, \$1.89 in Ghana, and \$1.56 in India.<sup>2</sup>
- Almost 90 per cent of the world's wealth is held in North America, Europe and rich Asian and Pacific countries, such as Japan and Australia.<sup>3</sup>
- While North America has 6 per cent of the world's adult population, it accounts for 34 per cent of household wealth.<sup>4</sup>

### Low-income Markets<sup>5</sup>

- Low-income markets, that is, the market of people earning less than US\$ 3,000 annually, constitute a \$5 trillion global consumer market.
- Low-income markets are often rural, underserved, and part of informal economies. Yet they represent a substantial share of the world's population.
- Asia (including the Middle East) has the largest low-income market: 2.86 billion people with income of \$3.47 trillion. This low-income market represents 83% of the region's population and 42% of the purchasing power.
- Eastern Europe's \$458 billion low-income market includes 254 million people, 64% of the region's population, with 36% of the income.
- In Latin America, the low-income market of \$509 billion includes 360 million people, representing 70% of the region's population but only 28% of total household income.
- Africa has a smaller low-income market, at \$429 billion. But the low-income is the dominant consumer market, with 71% of purchasing power. It includes 486 million people—95% of the population.
- Sector markets for low-income consumers range widely in size: health (\$158 billion), transportation (\$179 billion), housing (\$332 billion), energy (\$433 billion) and food (\$2,895 billion).

- In terms of assets, research by the Institute for Liberty and Democracy (ILD) finds that assets informally owned by low-income communities are often “hidden” from economic analysis. Some 80% of the global population is disenfranchised by national governments. Individuals unable to exert legal ownership over their assets are unable to use such assets to create capital. They lack the legal instruments to participate in a market economy.
- It is estimated that the total of “dead capital” – assets over which low-income individuals have informal ownership – amounts to US\$ 10 trillion. In Mexico, for example, the ILD found that the poor have about \$315 billion worth of assets from about 11 million buildings and 6 million small enterprises. These \$315 billion amount to seven times the size of all known Mexican oil reserves.

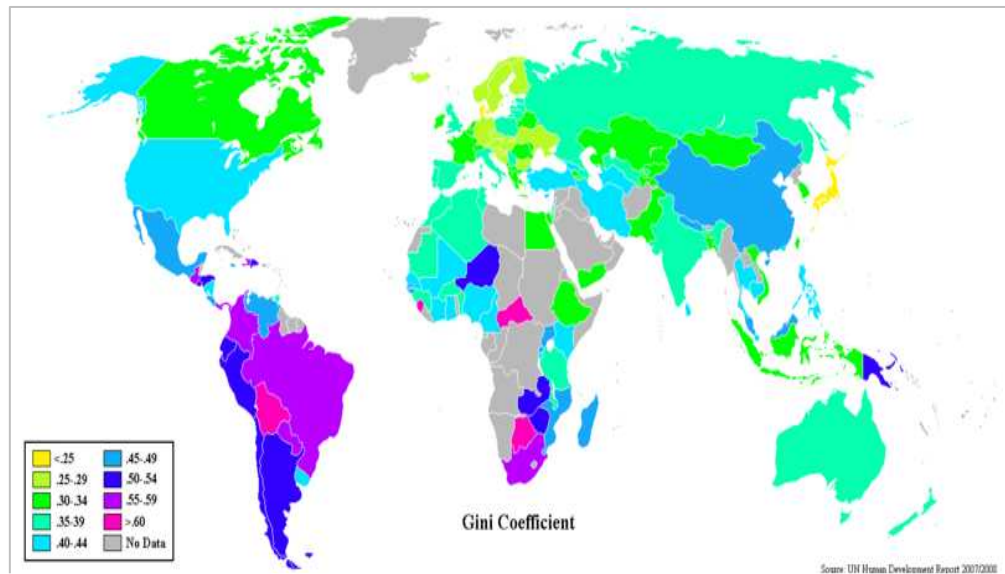
### National Inequality & Development

- Access to credit is conditional on ownership of assets – e.g. land - that can be used as collateral. If certain investments in physical or human capital (e.g. education) are affected by people's access to credit markets, then the distribution of assets in an economy will determine how many individuals are able to make such investments.<sup>6</sup>
- In highly unequal economies fewer are able to make such investments, resulting in lower stocks of human and physical capital and, as a consequence, lower growth.<sup>7</sup>
- High income inequality limits the use of important market instruments such as changes in prices and fines. For example, higher rates for electricity and hot water might promote energy efficiency, but in the face of serious inequality, governments introducing even slightly higher rates risk causing extreme deprivation among the poorest citizens.<sup>8</sup>
- High income inequality threatens political stability: when more people are dissatisfied with their economic status, political consensus



- becomes more difficult to reach among population groups with disparate incomes.<sup>9</sup>
- By scaring away investment, political instability prevents faster economic growth and improvements in people's economic welfare, causing even more dissatisfaction with the political regime and increasing political instability.<sup>10</sup>

- As a proportion of the potential educated labor force, the highest brain drain rates are observed in the Caribbean, Central America, and Western and Eastern Africa.<sup>17</sup>
- Illegal immigration is becoming an increasingly contentious issue in OECD countries. For example, in a 2006 Pew Research Center survey, it was found that 53% of Americans believe that "people who are in the U.S. illegally should be required to go home."<sup>18</sup>



Source: Human Development Report 2006/2007

Gini Coefficient Map: Indicates the degree of income inequality across regions on a scale from 0 (most equal) to 1 (most unequal)

### Global Inequality

- Incomes are distributed more unequally across the world's people (with a Gini coefficient<sup>11</sup> of 0.66) than in the most unequal countries (Brazil, for example, has a Gini coefficient of 0.61).<sup>12</sup>
- The richest 5% of the world's people receive 114 times the income of the poorest 5%. The richest 1% receives as much as the poorest 57%.<sup>13</sup>
- Personal wealth is distributed so unevenly that the richest 2 per cent of adults own more than 50 per cent of global assets. The poorest half of the population holds only 1 per cent of wealth.<sup>14</sup>
- Anti-globalization sentiment in the developed and developing world is largely driven by the belief that globalization increases income inequality, both between and within nations.<sup>15</sup>
- International migration is a powerful symbol of global inequality, whether in terms of wages, labor market opportunities, or lifestyles.
- In 2005, the stock of immigrants was 190.6 million, or 3.0% of the global population.<sup>16</sup>

### Income and Wealth & Development

Income and wealth inequality can be a source of instability at both national and global level, thereby constituting an obstacle for sustainable economic growth.



## Notes

<sup>1</sup> World Resource Institute, *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*, [http://www.wri.org/business/pubs\\_description.cfm?pid=4142](http://www.wri.org/business/pubs_description.cfm?pid=4142)

<sup>2</sup> World Resource Institute, *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*, [http://www.wri.org/business/pubs\\_description.cfm?pid=4142](http://www.wri.org/business/pubs_description.cfm?pid=4142)

<sup>3</sup> World Institute for Development Economics, United Nations University, *World Distribution of Household Wealth*, 2006,

<sup>4</sup> World Institute for Development Economics, United Nations University, *World Distribution of Household Wealth*, 2006,

<sup>5</sup> World Resource Institute, *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*, [http://www.wri.org/business/pubs\\_description.cfm?pid=4142](http://www.wri.org/business/pubs_description.cfm?pid=4142)

<sup>6</sup> Bourguignon, François, Senior Vice President and Chief Economist, The World Bank, *The Poverty-Growth-Inequality Triangle*, 2004

<sup>7</sup> Bourguignon, François, Senior Vice President and Chief Economist, The World Bank, *The Poverty-Growth-Inequality Triangle*, 2004

<sup>8</sup> Bourguignon, François, Senior Vice President and Chief Economist, The World Bank, *The Poverty-Growth-Inequality Triangle*, 2004

<sup>9</sup> The World Bank, *Beyond Economic Growth: Meeting the challenges of global development*, 2000.

<sup>10</sup> The World Bank, *Beyond Economic Growth: Meeting the challenges of global development*, 2000.

<sup>11</sup> The Gini coefficient is a measure of inequality of income distribution or inequality of wealth distribution. It is defined as a ratio with values between 0 and 1: A low Gini coefficient indicates more equal income or wealth distribution, while a high Gini coefficient indicates more unequal distribution. 0 corresponds to perfect equality (everyone having exactly the same income) and 1 corresponds to perfect inequality (where one person has all the income, while everyone else has zero income).

<sup>12</sup> United Nations Development Program, Human Development Report 2003, [http://hdr.undp.org/en/media/hdr\\_2003\\_2\\_2\\_global\\_income\\_inequality.pdf](http://hdr.undp.org/en/media/hdr_2003_2_2_global_income_inequality.pdf)

<sup>13</sup> United Nations Development Program, Human Development Report 2003, [http://hdr.undp.org/en/media/hdr\\_2003\\_2\\_2\\_global\\_income\\_inequality.pdf](http://hdr.undp.org/en/media/hdr_2003_2_2_global_income_inequality.pdf)

<sup>14</sup> World Institute for Development Economics, United Nations University, *World Distribution of Household Wealth*, 2006,

<sup>15</sup> Milanovic, Branko, World Bank Research Department, *Global Inequality: What is it and why does it matter?*, DESA Working Paper No. 26, August 2006.

<sup>16</sup> The World Bank, *Migration and Remittances Factbook 2008*, <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTINTERNATIONAL/0,,contentMDK:21352016~pagePK:64165401~piPK:64165026~theSitePK:1572893,00.html>

<sup>17</sup> The World Bank, *Migration and Remittances Factbook 2008*, <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTINTERNATIONAL/0,,contentMDK:21352016~pagePK:64165401~piPK:64165026~theSitePK:1572893,00.html>

<sup>18</sup> The Pew Research Center, *America's Immigration Quandary*, <http://people-press.org/report/274/americas-immigration-quandary>