Preface

The public discourse about inequality in the United States and some other advanced economies is understandably dominated by concerns about the rising income share of a relatively few rich individuals relative to the vast majority of working families. Yet in a historic shift, growing incomes in emerging markets are allowing hundreds of millions of people to join the consumer class. Ignoring national borders, individual incomes of the entire world's population are becoming more, not less, equal. Beginning around the turn of this century, global inequality has gradually declined for the first time since today's advanced economies pulled ahead of the rest of the world during the Industrial Revolution. In this study, Tomáš Hellebrandt and Paolo Mauro painstakingly combine consensus forecasts of the long-term growth of output and population with detailed information on the distribution of incomes and consumption from surveys of thousands of households worldwide to show that, under reasonable assumptions, this hopeful trend will continue during the next two decades.

How incomes are distributed among the world's citizens matters for the types of good and services people will buy, because spending choices depend on income levels. People are becoming more equal not only in incomes but also in the items they spend on, as emerging-market economy residents are increasingly able to afford goods and services previously available only to rich-country residents. Using the projected global distribution of incomes as a stepping stone, and novel estimates of the link between individual incomes and consumption of items such as food and transportation, the authors project what people will spend on twenty years from now.

They find, notably, that expenditure on transportation will rise fourfold in China, India, and Sub-Saharan Africa. These are exciting developments: Greater consumption indicates rising well-being and provides opportunities for businesses and investors located not only in emerging markets, but also in advanced economies.

For this scenario to occur, however, the necessary investment in infrastructure in many emerging-market economies such as India will be massive. By drawing on information about the distribution of individual incomes, Hellebrandt and Mauro find larger investment needs than previous studies. Beyond mobilizing their own fiscal resources, governments will need to attract financing from the private sector on an unprecedented scale. The authors also show that investment needs are greatest in countries with weak institutions, so they offer suggestions to enhance transparency and strengthen budgetary processes to ensure both that public money is not wasted and that the public sector is not saddled with fiscal risks from excessive guarantees to private providers.

Moreover, rising consumption on the projected scale will put strains on natural resources and the climate. Malthusian doomsday scenarios have previously proven unwarranted, as human ingenuity and private profit incentives have made it possible to increase productivity. But this time may be different, because climate change causes powerful international spillovers. Global cooperation will be key to avoiding catastrophe, and the authors point to priority areas of expenditure in that regard.

This book takes a further step in the Institute's well-established line of research on inequality and long-run growth from a global perspective, building on recent books by Caroline Freund on emerging-market billionaires (*Rich People, Poor Countries: The Rise of Emerging-Market Tycoons and Their Mega Firms*), Arvind Subramanian (*Eclipse: Living in the Shadow of China's Economic Dominance*), and many other PIIE researchers, as well as Surjit Bhalla's 2002 Institute volume, *Imagine There's No Country: Poverty, Inequality, and Growth in the Era of Globalization.*

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Adam S. Posen
President
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