Widening Global Income Inequality

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Inter-country income inequalities now account for about two-thirds of world inequality, with intra-country inequality accounting for only a third. Global income inequality narrowed in the post-second world war decades before the Reagan-Thatcher revolutions and then the Washington Consensus shifted the balance of power. Recent trends in the functional distribution of income point to a declining share for labour despite strong evidence of rising labour productivity. Evidence of growing wealth concentration in recent decades is consistent with the acceleration of the growth of rentier power.

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According to the late Angus Maddison, global income inequality among different regions began to increase about five centuries ago, before accelerating about two centuries ago. The data suggest a brief reversal during the Golden Age quarter century after the second world war, and in the last decade, with higher commodity prices once again and protracted stagnation in much of the North following the 2008-09 financial crisis.

Before the Industrial Revolution, between-country inequalities were relatively small, while within-country inequalities accounted for most of overall global income inequality. Inter-country income inequalities now account for about two-thirds of world inequality, with intra-country inequality accounting for a third.

The trends for national income distribution do not necessarily follow from those for global income inequality. As the chart (p 22) shows, national income distribution data from the late 19th century to the early 21st century for 22 developed economies suggest growing inequality at the national level up to the second decade of the 20th century with inequality declining until the 1970s. The trend reverses over the 1980s, with inequality growing once again in the last two decades.

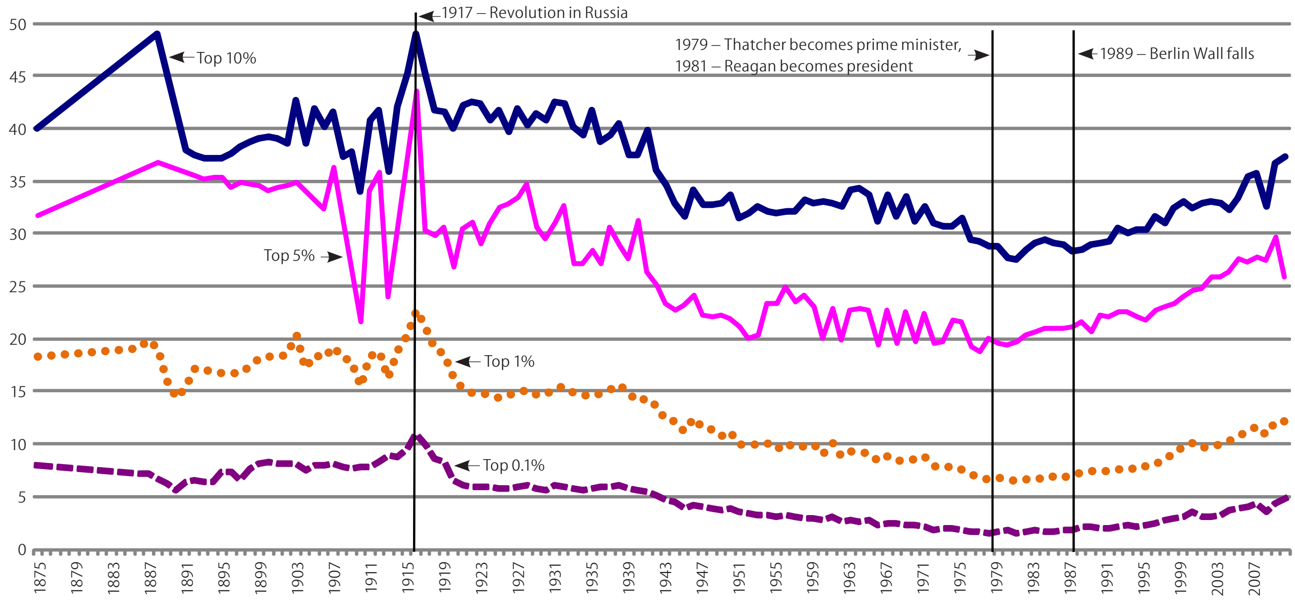
The trend is quite clear despite the use of various different measures, but this does not mean that the trend holds for all other countries. Developing countries probably fared badly in the 1920s and 1930s as primary commodity prices fell, especially during the Great Depression.

The late British historian Eric Hobsbawm famously described the period from the Bolshevik Revolution in 1917 to the collapse of the Soviet Union in 1991 as the short 20th century. Some pundits identify the end of the first world war, or the creation of the International Labour Organisatio (ILO) in 1919 as an alternative marker for Karl Polanyi's "second movement" in his *Great Transformation* as more appropriate milestones.

For other observers, the ascendance of Margaret Thatcher and Ronald Reagan led the neo-liberal counter-revolution against the post-second world war Golden Age marked by decolonisation, Keynesianism, the welfare state, agrarian reforms and rapid employment expansion. The "Washington Consensus" – shared by the US government and the Bretton Woods institutions located in the American capital – from the early 1980s emerged to undo the policy interventions associated with it, namely, development economics and Keynesian economics.

The breakdown of the international monetary system and other developments of the 1970s led to stagflation in much of the west while growth continued in many other regions. US Fed-led

Chart: Income Shares, Average for 22 Countries



European countries: Denmark, France, Germany, the Netherlands, Switzerland, UK, Ireland, Norway, Sweden, Finland, Portugal, Spain, Italy; North America: United States and Canada; Australia and New Zealand; Latin American country – Argentina; Asian countries – Japan, India, China, Singapore, Indonesia; Sub-Saharan Africa – South Africa, Mauritius, Tanzania. Overall – about ½ of the population of the world.

Source: Alvaredo, Facundo, Anthony B Atkinson, Thomas Piketty and Emmanuel Saez,"The World Top Incomes Database", http://g-mond.parisschoolofeconomics.eu/topincomes, 25 April 2012.

high interest rates from 1980 induced international recession, fiscal and sovereign debt crises in Latin America and some other developing countries, forcing many governments to pursue macro-financial stabilisation policies to end inflation and microeconomic structural adjustment policies.

But the so-called Washington Consensus was not really about market liberalisation, as little was done to check, let alone undermine, private oligopolistic and oligopsonistic tendencies. Instead, despite the neo-liberal market rhetoric, it was really about strengthening property rights. This has involved a clear shift from public authority and coordination to enhance private power and reduce the role of the state. Good governance in the new order required upholding the rule of law, so crucial to strengthening property rights and related entitlements. This united the common interests of all asset-owners, including rent-seekers seeking to maximise their net income flows by minimising rent-seeking costs.

Not surprisingly then, recent trends in the functional distribution of income point to a declining share for labour despite strong evidence of rising labour productivity. This disconnect between labour productivity and income is not unfamiliar to developing economies with high unemployment and underemployment. In such labour markets said to be characterised by "unlimited supplies of labour" associated with Nobel laureate W A Lewis, productivity gains did not translate into higher wages or a "producer surplus" but instead lowered prices, thus contributing to the "consumer surplus". This outcome can be contrasted with situations characterised by strong labour market institutions with low levels of frictional unemployment in which wages rise with productivity.

Evidence of growing wealth concentration in recent decades is consistent with the acceleration of the growth of rentier power. This is not only related to advancing oligopolistic and oligopsonistic tendencies in most sectors of economic activity, or even the ascendance and globalisation of finance in recent decades. Rentier income flows from legally-sanctioned monopolies associated with intellectual property rights and have grown by leaps and bounds in recent years, increasingly capturing productivity gains, largely at the expense of labour, thus deepening the disconnect.

Although class has not declined in significance, location or citizenship has become more important as a determinant of income. This not only helps explain the strong economic incentive for international migration, but also the growing barriers to such movements by those who feel threatened about losing their privileges. Not surprisingly, international solidarity becomes much more difficult while professions to that effect are treated with greater suspicion as self-interested.