

# Changing determinants of global income inequality

By Jomo Kwame Sundaram

November 10, 2016 – *Inter Press Service News*

Global income inequality among different regions began to increase about five centuries ago, before accelerating 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 primary commodity prices once again, and protracted stagnation in much of the North following the 2008-2009 financial crisis.

## From class to geography

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

National income distribution trends do not necessarily follow those for global income inequality. Data from the late 19th century to the early 21st century for 22 developed economies suggest growing national inequalities up to the second decade of the 20th century, before declining until the 1970s. The trend was reversed over the following decade, with inequality rising again in the two decades at the turn of the century.

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

The late 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. For some pundits, the First World War is a better turning

point for Karl Polanyi's 'second movement' in his Great Transformation.

## Counter-Revolution

For others, the ascendance of Margaret Thatcher and Ronald Reagan led the neo-liberal counter-revolution against the post-World War Two 'Golden Age' marked by decolonization, Keynesianism, the welfare state 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 embodied the counter-revolution against 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 parts of the world. US Fed-led 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 stabilization policies to end inflation, and microeconomic structural adjustment policies.

## Property trumps markets

But the so-called Washington Consensus was not really about market liberalization, as little was done to check, let alone challenge private oligopolistic and oligopsonistic tendencies.

Instead, despite 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 besides reducing and redefining the role of the state.

Good governance in the new order has 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 maximize net incomes by minimizing 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 and growing financial rents accruing as emoluments. 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 characterized 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 characterized by strong labour market institutions with low levels of 'frictional unemployment' in which wages rise with productivity.

Growing wealth concentration in recent decades is consistent with rising rentier power. This is not only related to advancing oligopolistic and oligopsonistic tendencies in most sectors of economic activity, or even the ascendance and globalization of finance in recent decades.

Meanwhile, rentier income flows from legally sanctioned monopolies associated with intellectual property rights have grown by leaps and bounds in recent years, increasingly capturing productivity gains, largely at the expense of labour, and thus deepening the disconnect between labour productivity and remuneration.

Although class has not declined in significance, location or citizenship have become relatively more important income determinants. This not only helps explain the strong economic incentive for migration, especially international migration, but also the growing opposition to such relocation by those who feel threatened. Not surprisingly, international solidarity becomes much more difficult while protestations and professions to that effect are treated with greater suspicion as self-interested.