3. Drivers and dynamics of inequalities worldwide (an introduction to Part I)

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Introduction

After decades of neglect, inequality is now firmly at the centre of research and policy agendas. This renewed interest is a response to increases in income and wealth inequality observed in a number of industrialized and developing countries (Milanovic, 5; Piketty, 2014; UNDP, 2013). In the USA, the top 1 per cent owns around 20 per cent of total national income and over 30 per cent of the country's wealth (Piketty, 2014). About 9 per cent of the world population receives one half of global income (Milanovic, 2011), while only sixty-two individuals own the same wealth as the bottom half of the world population (Oxfam, 2016) (*Figure 3.1*).

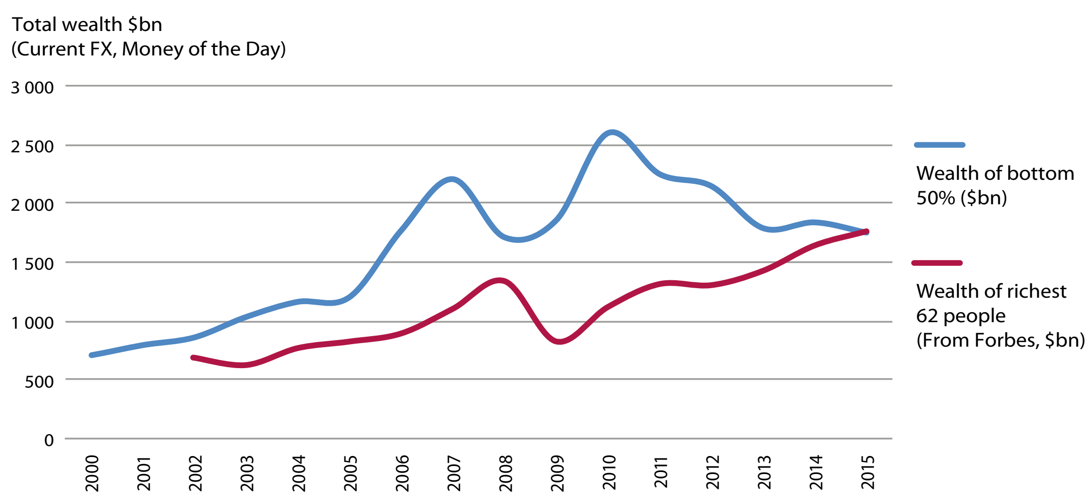
These overall trends mask important differences between countries. For instance, while the middle class in developed countries has experienced a continuous decline in relative living standards over the past decades, the middle class in emerging economies has benefited from global economic change (Milanovic, 5). Overall global inequality has decreased due to rapid economic growth in several African, Asian and Latin American countries, even though global inequalities are still dramatically high (Bourguignon, 4).

This Part of the report discusses the recent evolution of economic inequality around the world. It starts by summarizing recent trends and drivers of inequality in the 'old industrialized countries'. It then provides a brief analysis of recent patterns and trends in Africa, Asia and Latin America, regions that have not received enough attention in recent studies of inequality.

Yet inequality is not only a matter of income and wealth. *Part I* emphasizes the point that it has many intersecting dimensions, and discusses the challenges of measuring the aspects of inequality that intersect to produce and reproduce social, economic and political relations across space and time (Kabeer, 8). Seven key dimensions of inequality are introduced: economic, social, cultural, spatial, environmental, political and knowledge inequalities.

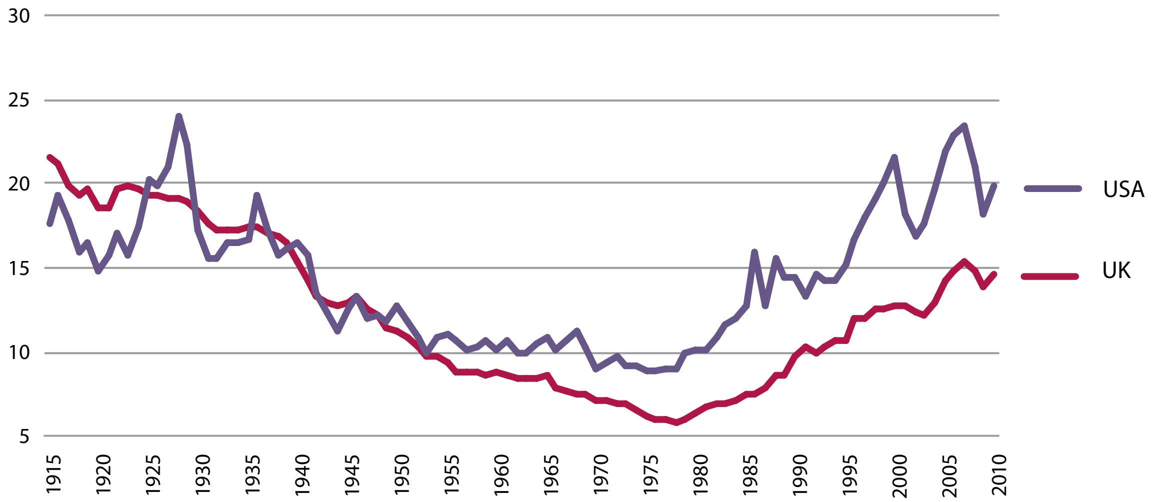
This Part of the report also offers the foundations for a further understanding of how inequalities are experienced across different sections of society (dealt with in more detail in *Part II*), and what policies and politics can be used to deal with inequalities (*Part III*).

Figure 3.1 **Wealth of bottom 50 per cent versus wealth of richest sixty-two people**



Source: Oxfam (2016).

Figure 3.2 **Income share of the top 1 per cent of earners**



Source: Authors' elaboration on data available from Piketty (2014).

Current trends in economic inequality

Drivers of inequality vary considerably across countries and are context-specific. Inequality in the old industrial countries increased drastically in the later twentieth century, especially from around 1970 (Piketty, 2014; Stiglitz, 2013). Technological innovation increased wage disparities between skilled and unskilled workers, while deindustrialization and globalization led to shifts of employment out of factories and manufacturing. These processes weakened trade unions and exposed the labour force to wage competition from elsewhere in the world, through both the shift of industrial production to Asia and the increased scope for immigration into the old industrialized countries.

The financialization of the economy has resulted in growing economic inequalities. As Piketty (2014) has shown, the rate of return on capital has been higher than the rate of economic growth. Since capital is increasingly concentrated in the hands of few people, this process has contributed to the worsening of economic inequality in the last decades. The recent economic crisis has further shown that financial markets are beyond the control of many state governments. In particular, the lack of proper financial market regulation has been a source of economic instability, further fuelling economic inequalities (Galbraith, 2012).

The intensity and nature of these processes has varied between the old industrialized countries, and between regions within individual nations. Several of these processes have affected the UK and the USA most intensively, and these are the two countries in which recent increases in inequality have been especially marked (*Figure 3.2*).

The biggest uncertainty about the future of inequality in the 'old industrialized countries' lies in the effect of technological change on the demand for labour. Many jobs have been eliminated through recent changes in technology. These have generally been low-skilled jobs, and the effect on income distribution is likely to be negative. But labour-displacing technology is not in itself new, and it is still unclear whether the net effect of recent technological change on employment – once we take into account the ways in which it generates employment directly and indirectly – will be positive or negative.

What about Africa, Asia, Latin America and Eastern Europe? Some of the factors that explain the evolution of inequality in the old industrialized countries are valid too in other parts of the world. Notably, the adoption of new technologies has led in recent decades to a rise in the demand for skilled workers, pushing their wages up in those regions and widening inequality (see, for instance, Ghosh, 16). Trade liberalization introduced under the aegis of the Washington Consensus in many African and Latin American countries has also been a factor

Part I

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contributing to the increase of inequality, in contrast to early predictions of Heckscher–Ohlin theory.[1] In particular, free trade policies adopted since the 1980s have led to technological upgrading that has in turn caused growing wage disparities. In addition, the process of capital account liberalization fuelled increases in inequality and promoted economic instability (Griffith-Jones and Brett, 49). The dominance of neoliberal perspectives since the early 1980s has further reduced concerns about inequality. In many countries, redistribution has become a secondary goal for domestic policy in areas such as taxation, welfare and the labour market.

Overall, levels of inequality in wealth and income have been consistently higher in Africa, Asia and Latin America than in North America and Europe. There are two important reasons for this. First, the contemporary political and economic institutions of many developing countries were constructed under colonial rule in a context in which relatively small elites dominated their societies and economies, and accumulated wealth and power (Murombedzi, 9). Second, elites maintained their power to act as political and economic gatekeepers between their own populations and global institutions and markets in the post-colonial era, solidifying their power and maintaining social, economic and political inequalities.

The levels of inequality in Africa, Asia and Latin America are however the source of ongoing debate in the literature. For instance, UNDP (2013) reports that income inequality increased by 11 per cent in countries within these regions between 1990 and 2010. In contrast, Ravallion (2014) shows that inequality in these regions is lower now than it was thirty years ago, although he acknowledges high variations within and between different areas. The main reason behind these different conclusions is the use of different samples, depending on how different researchers deal with data limitations. Less data has been collected, and for fewer years, in Africa, Asia and Latin America than in the USA and Europe. This Report partly fills this gap, by providing recent evidence for selected countries.

Two important countries for this discussion are India and China. Both countries have experienced increases in inequality in recent years. The Gini coefficient in China rose by eleven points over the period 1985–2008 (Li, 15), although a decline of about two points in the subsequent six years could mark a turning point. Inequality in India has increased since the 1980s as a result of processes of internal and external economic liberalization. India's extraordinary economic performance in recent decades has generated only small amounts of decent work, leaving around half of the workforce employed in the low-productivity agriculture sector (which now accounts for less than 15 per cent of gross domestic product, GDP), in handicrafts and in low-remuneration services (Ghosh, 16).

Central and Eastern European countries have also experienced a dramatic increase in inequality after the transition to the market economy of the former Soviet bloc. For example, Russia has experienced a rise of almost twenty points in its Gini coefficient over the past twenty-five years. In 2014, nearly 10 per cent of the population in Russia received around 30 per cent of total national income, with the top 1 per cent owning around 70 per cent of all personal assets (Grigorieva, 17).

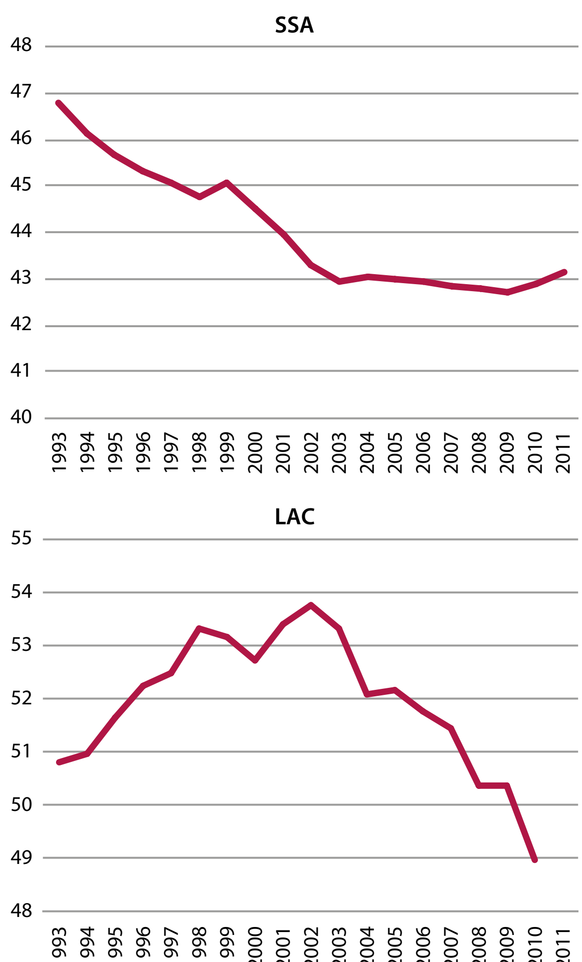
Trends in inequality have varied in sub-Saharan Africa (SSA) and Latin America. On average, inequality has decreased in SSA countries since the mid-1990s (*Figure 3.3*) (Adesina, 18), but with important variations across time and between countries: while inequality decreased in half of the region's countries, it rose or stabilized at high levels in the rest of the region.

In Latin America, almost all countries recorded a reduction of inequality in the first decade of the new century (*Figure 3.3*). For instance, the Gini coefficient decreased in Argentina and Brazil by around twelve points. Several factors have contributed to the reduction of inequality in Latin America. These include new macroeconomic policies (Cornia, 46), changes in the labour market such as increased minimum wages (Belser, 6), the introduction of progressive tax reforms, and the introduction of conditional cash transfers and social pensions. Yet these trends have reversed in recent years as a result of factors such as the recent economic crisis. After years of decline, inequality levels in Brazil have stabilized over the period 2006–13 (Medeiros, 21).

These differentiated regional and country trends account for contrasting trajectories of economic inequality at the global level. While inequality is increasing in the old industrialized countries, global inequality is decreasing, partially due to the good economic performance recorded by Latin American and SSA countries in the past fifteen years (Bourguignon, 4). The rapid economic growth experienced by two of the most unequal countries, China and India, has also contributed greatly to reductions in global inequality – what Bourguignon (2015) calls the 'paradox of inequality'.

According to Milanovic (5), three factors that emerge from recent global change are central to explaining future trends in inequality. These are the income growth of the top 1 per cent and the stagnation of the middle class in developed countries; the appearance of a new global middle class thanks to the rapid economic growth experienced by emerging countries; and the fact that SSA countries are still left behind, which calls for further efforts to continue reducing poverty there.

Figure 3.3 **Gini trends in sub-Saharan Africa and Latin America and the Caribbean, 1993–2011**



SSA = sub-Saharan Africa; LAC = Latin America and Caribbean.

Source: Cornia and Martorano (2012).

Beyond economic inequality

Inequalities can be measured vertically across all people in society, or between social groups. These latter 'horizontal inequalities' are often ignored in discussions of inequality, which tend to focus on differences between the 'rich' and the 'poor'. However, they have a considerable amount of relevance for social justice, political stability and economic development. Horizontal inequality refers to disparities between culturally defined or constructed groups with shared identities (Stewart, 7). Groups are usually defined according to ethnicity, gender, religion, language and other cultural or social identities, which may evolve across time and in different contexts. As argued in Kabeer (8), there may be several intersections and interactions between horizontal and vertical inequalities, and between different forms of inequality.

A growing number of studies have highlighted the crucial importance of social, cultural, spatial, environmental, political and knowledge inequalities. Social inequalities include differences across population groups in access to health and other services, as illustrated by the case of Egypt in Bayoumi's article (30). Circumstances at birth matter substantially for social inequalities experienced throughout life, particularly in terms of determining access to education for children born in deprived households (Antoninis et al., 10).

Lack of access to education also creates and perpetuates knowledge inequalities,[2] which today are also affected by disparities in access to new communications technologies. About 2 billion people – largely living in poorer countries or deprived areas – do not have access to basic mobile phones (Ramalingam and Hernandez, 11). Four billion people lacked access to the internet in 2015.[3]

All the multiple inequalities described above are closely related to spatial inequalities, as people living in different places (inner cities or remote rural areas, for instance) can experience different and sometimes unjust access to resources, opportunities and services not because of who they are, but because of where they live, as emphasized by Fincher (13). Environmental inequalities and the issue of access to natural resources further strengthen these intersecting patterns of deprivation and discrimination, as noted by Murombedzi (9).

Social, knowledge, cultural, spatial and economic inequalities in turn shape civic and political participation, thereby intersecting with forms of political inequality. Social and economic inequalities affect the capacity of people at the bottom of the distributions to mobilize, weaken group-level cooperation and coordination, hamper their capacity to engage in social and political decision-making processes, and reduce their trust in institutions (Gaventa and Runciman, 12). Socially excluded groups are usually poorer and less engaged in social and political activities, but they also face additional forms of discrimination as a result of their identity. Exclusion along gender lines resulting from formal rules, social norms and informal practices (Razavi, 14) is an important case in point.

Gender inequality intersects with and may be compounded by other dimensions of inequality. For instance, access to educational or health services is more problematic for indigenous women living in rural areas in Latin American countries than for white men living in urban areas in the same region. Wage discrimination against women is also common in many parts of the world. Young women in particular face many difficulties in finding jobs in the Arab region, where economic and political life is still dominated by men and elders (Hanieh, 19). Formal rules, social norms and informal practices are considered the most powerful driver for gender inequality in African countries (Adesina, 18). In India, rapid economic growth has been associated with an increase in gender disparities (Ghosh, 16). Racial inequality in the USA is another interesting case. Although there have been legislative interventions and efforts to modify anti-black attitudes, racial inequality is still an important variable shaping a variety of inequalities across the USA (Harris, 20). Invisible practices operating in different institutional domains (e.g. education, criminal justice, consumer markets, employment and housing) perpetuate racial inequality, for example in employment opportunities and income.

The challenges of measuring intersecting and multidimensional inequalities

The discussion above highlights two important points. First, inequality is not only an economic issue: it is also multidimensional. Second, forms of inequality intersect. Multidimensional, intersecting inequalities call for collaboration between different disciplines to understand their causes and implications, and to develop the possible solutions needed to challenge them.

Our knowledge about inequality across the social sciences is very much shaped by our ability to measure inequality across countries, within countries, among and across different population groups, and across time. The availability of information and high-quality data on different forms of inequality is therefore a key goal in tackling inequality.

The literature on the measurement of inequality is vast, and has changed considerably through time (Atkinson and Bourguignon, 2015). Most measurements of global and national-level inequality (whether on income or other underlying variables) have been based either on household surveys or on administrative data such as censuses and national accounts. Some of these data have suffered from limitations, well documented in the literature (Atkinson and Bourguignon, 2015), notably in terms of historical perspective and the under-representation of top incomes and wealth. Recent work by Atkinson and colleagues (2011) has sought to address some of these limitations. Piketty's book *Capital in the Twenty-First Century* (2014) in particular has brought this work to the forefront of academic and policy discussions and the public arena.

This body of research has led to significant new advances in our understanding of trends and determinants of inequality. In particular, it has led to substantial advances in inequality measurement by making use of previously unused (and often inaccessible) data on tax returns. In this Report, Medeiros (21) combines tax and survey data to show how the Gini coefficient in Brazil during the 2006–12 period was higher than that reported by other empirical results based on survey data (López-Calva and Lustig, 2010).

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Tax data has important advantages over household survey-based data in that it provides arguably more accurate – although still incomplete – information about the incomes of very wealthy people.

A new strand of the literature has started to examine the importance of perceptions of inequality, arguing that these may matter more for a variety of outcomes and decision-making processes than actual levels of inequality. Some emerging studies have shown that judgements about levels of inequality rarely match real levels of inequality (Gimpelson and Treisman, 2015; McLennan, 32).

Finally, given the multidimensional and intersectional nature of inequality, we cannot focus only on one indicator or dimension of inequality. Rather, inequality must be monitored across the full spectrum of factors that contribute to human well-being. A substantial body of research has developed theoretical frameworks for the measurement of multidimensional inequality (Kolm, 1977; Atkinson and Bourguignon, 1982). Thanks to the availability of new data – including household-level data – there is now growing interest in the construction of multidimensional indicators (Aaberge and Brandolini, 2015). Yet the theoretical literature, and in particular its empirical application, are still very much work in progress. Real challenges remain for continued advances in understanding inequality within the social sciences.

Notes

1 According to Heckscher–Ohlin theory (and in particular the Stolper–Samuelson corollary), trade promotes the equalization of the remuneration of production factors, leading in the case of developing countries to an increase of unskilled labour wages.

2 See ISSC and UNESCO (2010).

3 The theme of knowledge inequalities will be developed further in *Part IV.*

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