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Inequality

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1. Introduction

Inequality is a multifaceted issue which intersects with many aspects of human life, not just with income (a flow of resources) and wealth (a stock). Even a cursory look at other entries in this handbook will immediately show the pervasiveness of inequality. People experience inequality in health, education, living conditions, access to information and to knowledge; people are treated unequally because of their ethnic, gender, national, cultural, and sexual identities; and huge inequalities exist among states. Inequality among countries is what fuels one of the epochal events of the early twenty-first century, namely, migration.

Moreover, these different dimensions of inequality often reinforce each other in a cumulative process: a disadvantaged position in terms of income is often at the basis of a disadvantaged access to education, both in terms of its absolute quality and the time devoted to it. The level of education, in turn, is an important factor for the type of job and thus income that an individual will have in the future. Levels of education and income also affect access to health care. Gender and race are important determinants of an individual's access to managerial positions, which in turn reverberates in the spheres of economic, social and political power, and so on and so forth. Finally, different levels of inequality impact societies and the life of individuals differently. Democratic institutions suffer from increasing inequality, and high levels of inequality are detrimental to social mobility and may render a society more prone to political turmoil and even violence.[1]

Despite its pervasive presence, in the development field, inequality was for a long time only a marginal matter of concern. Things started to change at the end of the twentieth century, and today the inequality issue is an important element on the development agenda. As we will see, however, it is mainly economic inequality that has been considered, and other dimensions of inequality, though very important, have never become a priority. In this chapter, we will examine how the issue of inequality has intersected with the development field, how its relevance has changed, and how its dynamics have evolved through time. Also, since inequality studies are highly technical and thrive on data, we will introduce in plain English a few concepts that are key to inequality analyses. In the next section (section 2) we will examine the work of Simon Kuznets, the founding father of inequality studies in postwar development discourse. Kuznets offered several important insights and, as we will see, economists in the early twenty-first century still take inspiration from his analyses. Except in this recent wave of inequality studies, however, Kuznets' example has not been followed for decades. Section 3 shows how, after a brief discussion of inequality in the early 1950s, the topic was marginalized by major development actors well into the 1980s. Exceptions to this neglect, discussed in section 4, are studies on unequal conditions in the agrarian sector and on unequal exchange between advanced and less developed economies. Section 5 deals with the slow reemergence of inequality studies in the 1980s and 1990s, in particular in terms of income convergence between developed and less developed economies. As we will see, opinions differed widely as to whether international inequality has decreased or

[1] In turn, scholars highlight that only violent events such as wars, revolutions, or plagues can significantly diminish inequality, see Walter Scheidel, *The Great Leveler. Violence and the History of Inequality from the Stone Age to the Twenty-first Century* (Princeton: Princeton University Press, 2017).

increased. Section 6 examines how inequality studies have evolved at the turn of the twenty-first century.

The structure of the chapter follows a chronological trajectory, from the early postwar years to present. Each section, however, also offers the opportunity to discuss a couple of concepts that have historically shaped the inequality debate. Section 2 offers an introduction to Kuznets' model of the inverted-U, as well as more recent studies in the Kuznets tradition. Section 3 offers examples of the difference between a focus on poverty and a focus on inequality. Section 4 examines important discussions on the relationship between economic development and social inequality. Section 5 introduces us to the concept of convergence, or international inequality, and section 6 discusses more recent developments and attempts at building new measures of global inequality. This mix of chronological structure and discussion of relevant concepts will help the reader navigate current debates on inequality.

2. Simon Kuznets and Modernization Theory

Arguably the most important scholar of inequality studies in the postwar decades was Simon Kuznets. His pioneering studies framed the development debate of the post-war years in important ways, and today's students of development and inequality consider his work a crucial reference, so it is important to start with him.

Kuznets was born in 1901 in the Russian Empire. Following the Communist revolution, he emigrated to the United States and focused strongly on empirical work, becoming an expert on the economic cycle and interpersonal inequality. Among the founders of the National Bureau of Economic Research, a collaborator to the Social Science Research Council, a professor at the University of Pennsylvania, Johns Hopkins, and Harvard, in 1971 he was awarded the Nobel Prize for his studies on the interrelationship between economic growth and economic inequality. In 1954, as the President of the American Economic

Association, Kuznets delivered an address that is still considered "the workhorse of the modern theory of income distribution."[2] In it, Kuznets intended to reflect on "how income inequality changes in the process of a country's economic growth."[3] Focusing on a scant sample of data of about only three countries, namely, the United States, England, and Germany, Kuznets built a simple but powerful model. Considering only two sectors, agriculture and all the others, he assumed the per capita income in agriculture to be systematically lower than in the other sectors, and tried to extrapolate how the distribution between different deciles of the population would change when employment in the agricultural sector decreases from 80% to 20% of the working population.[4] The analysis showed a common pattern, namely, a widening of inequality, corresponding to the initial phase of industrialization, followed by high-level plateau, followed eventually by a decrease of inequality, corresponding to more advanced stages of economic growth. Though Kuznets never mentioned it in his paper, this trajectory has become known as Kuznets' inverted-U.

Kuznets did not have data to elaborate on this, but he tried to connect the dynamics of economic growth and inequality with health and social issues. As he noticed, if the emergence of the industrial system permitted the unusually rapid creation of new fortunes, it also had "shattering effects on long-established pre-

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[2] Branko Milanovic, *The Haves and the Have-Nots: A Brief and Idiosyncratic History of Global Inequality* (New York: Basic Books, 2010), 89.

[3] Simon Kuznets, "Economic Growth and Income Inequality," *American Economic Review* 45, No. 1 (March 1955): 3.

[4] Deciles divide a population in ten groups of the same number of individuals, that is, each decile is made up of 10% of a given population. Deciles are ordered from the poorest to the richest. Analogously, quintiles divide a population in five groups, each made up of 20% of the individuals of a total population; ventiles divide a population in twenty groups, and quartiles in four groups.

industrial economic and social institutions."[5] These dynamics tended to increase the skewedness of distribution and, when they overlapped with what has been called the demographic transition (death rates rapidly declining in presence of stable or even rising birth rates), produced outcomes particularly unfavorable to lower income groups.

For less developed countries, Kuznets had even less data: the distributions of family income for India in 1949-50, for Ceylon in 1950, and for Puerto Rico in 1948. Yet Kuznets was able to make a number of hypotheses that, as we will see, sow the seeds for research done at the beginning of the twenty-first century.

Less developed countries, Kuznets posited, are characterized by very low average levels of per capita income. It followed that the lower groups in the income distribution could not be much below the average, or else they would not be able to survive. Fifty years after this intuition, Branko Milanovic, Peter Lindert, and Jeffrey Williamson built what they called an "inequality possibility frontier" and an "inequality extraction ratio." The former refers to the maximum possible inequality attainable in a society, based on the difference between the highest theoretical value of inequality and the actual resources available to society, which limit the maximum possible inequality. Since all individuals usually receive at least what is needed to survive, elites can actually take for themselves only what has remained of total resources after this sort of "subsistence income" has been distributed to all individuals in a population. We cannot enter the specifics of the calculations here, but this quantity is the "inequality possibility frontier." Clearly, the closer the mean income is to the subsistence level, the less surplus is available for the elites to seize, and hence the maximum possible inequality will be relatively low. The ratio between the actual inequality and the maximum possible inequality is the "inequality extraction ratio," that is, how much of the feasible maximum inequality the elites are

[5] Kuznets, "Economic Growth," 18.

actually able to extract from society. These concepts are very valuable, as they favor historical contextualization over excessively theoretical models.[6]

As Kuznets pointed out, however, historical limits to maximum inequality due to generalized poverty were of little consolation: the absolute levels of "material and psychological misery" could not be overlooked.[7] Moreover, savings and capital accumulation, hence economic growth, would be much more difficult in poorer countries. The preoccupation with saving and investment was at the base of most foreign aid policies in the postwar years. In a famous quote, W. Arthur Lewis, one of the pioneers of development economics, economic adviser to Ghana's President Kwame Nkrumah, and later Nobel laureate, framed the problem in these terms: "the central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing 4 or 5 percent of its national income or less, converts itself into an economy where voluntary saving is running at about 12 to 15 percent of national income or more."[8]

Finally, Kuznets noticed that inequality in poor countries could be high despite the compression of incomes on the lower part of the distribution. This could happen if the intermediate groups in the distribution remained close to the bottom, and a major conclusion related to the social structure of less developed countries compared with developed ones ensued: "The former have no 'middle' classes: there is a sharp contrast between the preponderant proportion of

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[6] Branko Milanovic, Peter H. Lindert and Jeffrey G. Williamson, "Pre-Industrial Inequality," *Economic Journal* 121, no. 551 (2011): 255–72.

[7] Kuznets, "Economic Growth," 23.

[8] W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labour," *The Manchester School* 22, No. 2 (1954): 155.

population whose average income is well below the generally low countrywide average, and a small top group with a very large relative income excess."[9]

3. Inequality and Development: A Missing Link

Concluding his address, Kuznets admitted that his analysis was "perhaps 5 per cent empirical information and 95 per cent speculation, some of it possibly tainted by wishful thinking."[10] Yet, he continued, the subject was too crucial to economic thinking and the political and intellectual repercussions too important for the postwar world to leave it unexplored. But unexplored it remained for decades. When, after World War II, development became a global discourse and development aid a major tool of foreign policy, the question of inequality was not part of it, with a few important exceptions. This section shows an early, ineffective discussion of the problem of inequality and its many dimensions, and the subsequent marginalization of the issue from mainstream organizations such as the World Bank. The section following this one discusses two development debates that recognized the relevance of inequality in the postwar period, namely, the problem of inequality in the agrarian sector, and the problem of the unequal exchange between advanced and less developed economies, and the social inequalities that this unequal exchange fostered in the latter. Let's start with the brief appearance and long marginalization of inequality.

Early development economists and practitioners clearly noticed the pervasive dimension of conditions of underdevelopment in what were then called "backward" countries. They did not limit their observations only to the economic sphere, but discussed other dimensions as well, such as health and access to

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[9] Kuznets, "Economic Growth," 22.

[10] Kuznets, "Economic Growth," 27.

education.[11] World Bank economists who visited Nicaragua, Nigeria, Syria, Jamaica, and other less developed countries in the early 1950s, all called for higher nutrition standards as well as broad access to public health and potable water.

To be sure, they often framed their analysis in productivist terms—that is, they made a case for higher health, education, and nutrition mainly because healthier, more knowledgeable, and better fed workers are arguably more productive—and on these bases they advocated for a steady and huge flow of development aid from developed to less developed countries. Yet, the rhetoric of productivity is only part of the picture. As Lauchlin Currie, a former economic adviser to Franklin D. Roosevelt and the head of one of the most important "missions" (this was the terminology then) to a less developed country stated, "Our terms of reference were very broad. They were to diagnose the current situation in Colombia and to suggest a sound plan of development to the end of raising the standard of living of all Colombians within a period of five to ten years." Raising the standards of living, not simply improving productivity, was the goal.

But if officers and experts in the field often developed this broad sensitivity to the social and economic conditions of the populations of less developed countries, only seldom was this the same view held by the top leaders of international development organizations. As the vice president of the World Bank told that very mission chief in response to his emphasis on living standards, "Damn it, Lauch! We can't go messing around with education and health. We're a *bank*!" The concept was more politely rephrased by one of his collaborators: "Water is the first thing people want, but we have to distinguish between . . . amenities which raise the standard of living, and . . . projects which will benefit

[11] Today, these are themes that have been emphasized by Nobel laureate and scholar of inequality, Angus Deaton, see Angus Deaton, *The Great Escape. Health, Wealth, and the Origins of Inequality* (Princeton: Princeton University Press, 2013).

the economy. . . . Our emphasis should be on the latter."[12] The politics of productivity, in short, was the major topic in town and remained the standard approach in the development field throughout the 1950s and most of the 1960s.

Things apparently started to change in the late 1960s and especially in the early 1970s. The World Bank, being the largest aid organization, once again framed the discussion, and the then Bank President Robert S. McNamara took his Governors by surprise by making inequality the central topic of arguably the most important speech of his tenure, delivered at the 1973 Bank-Fund Annual Meetings in Nairobi: "If we look objectively at the world today, we must agree that it is characterized by a massive degree of inequality. The difference in living standards between the rich nations and the poor nations is a gap of gigantic proportions. . . . Further, we must recognize that a high degree of inequality exists not only between developed and developing nations but within the developing nations themselves."[13] Both inequality between countries (called, for brevity, between-country inequality) and interpersonal inequality within specific countries (called within-country inequality) were pinpointed, and the policy solutions followed—but, did they really follow from these premises?

According to McNamara, "Income distribution patterns are severely skewed within developing countries . . . and the problem requires accelerated action by the governments of virtually all developing nations. A minimum objective should be that the distortion in income distribution within these nations should at least

[12] Burke J. Knapp, 1960, quoted in Devesh Kapur, John P. Lewis and Richard Webb, *The World Bank: Its First Half Century* (Washington, DC: The Brookings Institution, 1997), 167.

[13] Robert S. McNamara, Address to the Board of Governors by Robert S. McNamara, Nairobi, Kenya, September 24, 1973, http://documents.worldbank.org/curated/en/930801468315304694/Address-to-the-Board-of-Governors-by-Robert-S-McNamara.

stop increasing by 1975, and begin to narrow within the last half of the decade."[14] Thus, the primary goal was to address within-country inequality in less developed countries. No further mention of between-country inequality was made. The means to the end were, if possible, even more disconnected from the premises: "A major part of the program to accomplish this objective must be designed to attack the absolute poverty which exists to a totally unacceptable degree in almost all of our developing member countries: a poverty so extreme that it degrades the lives of individuals below the minimal norms of human decency."[15] In a matter of a few sentences, the problem of inequality in the world, both between countries and within them, had been reframed into a poverty problem of less developed countries.

If we insist on McNamara's speech, it is for two main reasons. First, this is an iconic speech that has been regularly used to describe the development zeitgeist of the mid-postwar period—the revolution of "poverty-biased" policies after two decades of development discourse fully focused on macroeconomic growth. Second, it shows an utter disinterest in the problem of inequality even when lip service was paid to it. As McNamara put it, "Relative poverty"—that is, inequality—"means simply that some countries are less affluent than other countries, or that some citizens of a given country have less personal abundance than their neighbors. That has always been the case, and granted the realities of differences between regions and between individuals, will continue to be the case for decades to come."[16]

Unlike inequality reduction, poverty reduction did not imply any comparison between countries or individuals and was thus politically much more palatable. Not by chance, a few years after the Nairobi speech, the first issue of the World

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[14] Ibid.

[15] Ibid.

[16] Ibid.

Bank's new flagship publication, the 1978 *World Development Report* was devoted to poverty not inequality. The *World Development Report* is still published annually today. Each year it focuses on a different topic, except at the turn of each decade, when poverty *is* the topic. Inequality has never appeared in the title of any of the forty-two *World Development Reports* published until 2020; in only two cases, and only very recently, the more benign words "equality" and "equity" have been used, in 2012 and 2006.

4. Within-Country and Between-Country Inequality after World War II

The thirty years that followed the end of World War II witnessed rapid economic growth in many regions of the world, Western and non-Western, developed and less developed, so much so that the term "economic miracle" became widely used, and French demographer and economist Jean Fourastié invented the expression *Les Trente Glorieuses*. But if major development organizations such as the World Bank contented themselves with fostering economic growth, the international political scenario posed additional complications to the superpowers. Though the word of the United States carried obvious weight in large aid organizations, its agenda was somewhat different, and this is visible from the development aid policies it adopted.

In the Cold War scenario, a major preoccupation of the United States was to prevent countries from going communist, as the saying went. Not only poverty, but the specific tensions caused by inequality were recognized as potentially explosive fuel for social discontent and political turmoil. Since in most less developed countries the bulk of the poor used to live in rural settings, US bilateral aid was paradoxically much more sensitive to inequality-biased policies for rural development than multilateral and in principle a-political organizations such as the World Bank. As a consequence, the United States not only supported industrializing policies in the effort to modernize less developed countries, but also plans for land reform as a means to redress major wealth imbalances and to create a new constituency of small landowners, a social bloc unsupportive of plans to socialize land and thus considered politically conservative. As a commentator put it, agrarian reform was based on the belief that "the independent farmer on a modest-sized farm is a good citizen and an efficient operator, or can be made efficient through education, agricultural credit, cooperatives and other sustaining measures. It is for such reasons that land reform has become a battleground issue between communist propagandists and their adversaries in so many of the underdeveloped areas of the world."[17]

The reduction of excessive inequality in the agrarian sector was thus often seen as a means to defuse political tensions. At least, this is what happened in countries such as late 1940s Japan, where the reform was brought forward by the US military government of occupation; 1950s Italy, where a limited agrarian reform was enacted by the US-backed Christian Democratic party; and 1960s Peru, where a much more massive agrarian reform was implemented by US-backed professional army officers imbued with the ideals of modernization.

In other cases, the reform was the independent initiative of local governments such as the Arbenz administration in 1952-54 Guatemala. The political effects, in the Cold-War scenario, took a very different turn than in Italy or Peru. The reform in Guatemala was well-conceived, favored the poorest 40 percent of the agrarian population, and food production increased. Yet the reform had the major flaw of expropriating land from the multinational corporation United Fruits Company. A US-sponsored coup quickly ensued, followed by unrest and a civil war that killed at least 150,000 people and displaced many more. The land reform was obliterated, and as the United Nations reported, by the 1990s, "about 3 per cent of the owners of agricultural land in Guatemala controlled over two thirds of the country's agricultural area. Some 90 per cent of the rural population,

[17] Kenneth H. Parsons, "Land Reform in the Postwar Era," *Land Economics* 33, no. 3 (August 1957): 215.

mostly Indians, were nearly or completely landless."[18] Chile's process of agrarian reform between 1963 and 1973 was abruptly halted by the coup that overthrew Salvador Allende.

In yet other cases, such as 1950s Bolivia, land reforms could be carried on since they appeared as legal recognitions of de facto situations that had long been in existence. In these cases, land reform could actually be interpreted as more of an update of cadastral property titles than an actual redistribution of land assets. These examples, in any case, do not do justice to a very complex history, that of agrarian reforms in the world, which in many countries much predated the postwar Cold War scenarios and developed through often tortuous and context-specific processes—the Mexican case being perhaps one of the best-known.

Another arena in which inequality *was* central to the theoretical debate and policy prescriptions is that of trade relationship between exporters of primary goods and exporters of manufactured goods. In 1949, Argentinian economist and international civil servant Raúl Prebisch introduced the notion of a hegemonic industrial center and a dependent and agrarian periphery to explain the division of labor at the international level. At the same time, and independently from Prebisch, Hans W. Singer at the United Nations was developing a similar analysis (so similar that it became known as the Prebisch-Singer thesis). From these premises, both argued that the periphery and the center reacted differently to the ups and downs of the business cycle. In particular, peripheral countries were in an especially passive position in the face of the organized labor and oligopolies in the center that managed to maintain high wages and export prices of manufactured exports; moreover, the elasticities of demand for primary and manufactured goods were different, thus exacerbating the problem. Their conclusion was that a secular deterioration of agricultural exporting countries

[18] Solon L. Barraclough, "Land Reform in Developing Countries: The Role of The State and Other Actors," *Discussion Paper*, no. 101 (June 1999), Geneva: United Nations Research Institute for Social Development, 16.

was a structural characteristic of international trade.[19] From those early analyses, a powerful strand of thought emerged that emphasized the unequal relationship between peripheral and central countries and the dependency of peripheral countries on dynamics originating in the center.

Subsequent generations of scholars, such as Andre Gunder Frank, moreover, argued that center-periphery relationships reproduced themselves in peripheral countries, for example when a large city (often the capital) or a dynamic region would take up the role of center of the national economy, while other regions remained structurally dependent on the more advanced region. Moreover, the center-periphery model would reproduce at increasingly smaller levels, as in a fractal model, from a global to a local dimension.[20]

But the center-periphery relationship, in this perspective, was not limited to economic geography. The same mechanism applied to class or group relationships. Just as peripheral nations were economically weaker than core countries, their ruling classes showed cultural and political weaknesses that prohibited them from emancipating their countries from international constraints. What's more, they perpetuated the same dynamics of oppression domestically to which they themselves were subjected internationally. The conclusion was that peripheral countries experienced a double curse: first, they were locked in an unequal exchange with core countries; second, they replicated internally, at all levels of their geography and social structure, this unequal relationship. The analysis of inequality among nations insisted on their unequal

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[19] Raúl Prebisch, *The Economic Development of Latin America and Its Principal Problems* (New York: United Nations, 1950); H. W. Singer, "The Distribution of Gains between Investing and Borrowing Countries," *American Economic Review* 40, No. 2 (May 1950): 473-85. See also Joseph L. Love, "Raúl Prebisch and the Origins of the Doctrine of Unequal Exchange," *Latin American Research Review* 15, No. 3 (1980): 45-72.

[20] Andre Gunder Frank, *The Development of Underdevelopment* (New York: Monthly Review Press, 1966).

terms of trade or, in other words, on their structural differences more than on their income differences. Inequality within nations was discussed in terms of the structural opposition of different classes (landlords, a weak bourgeoisie, the working class, the lumpenproletariat), and not, as we saw in Kuznets studies, in terms of interpersonal inequality.

From this perspective, the dependency theorists articulated a theory of unequal economic and social relationships both between and within countries. In the 1950s and 1960s, policies of Import Substitution Industrialization (ISI) were widely adopted, with the goal of fostering a domestic process of industrialization and breaking the unequal exchange with countries in the center. More extreme solutions ranged from political revolution, predicated on the assumption that local bourgeoisies had historically proven too weak to emancipate peripheral countries from domination by the core (a proposition discussed particularly in the 1960s), to "delinking" the economy of the world periphery from the center, fostering instead South-South economic relations and the development of more diversified local economies (a hypothesis put forth in the 1990s).

The Marxist flavor, in structuralist analyses, is unmistakable, though it is not entirely Marxian in its conclusions. As is well known, Marx, though critical of the harsh methods of colonial rule in the British empire, also recognized the objectively progressive role that colonial domination had for less developed regions. Many, though not all, dependency theorists elaborated instead the concept of the "development of underdevelopment" in peripheral countries, that is, the structurally *regressive* nature of the center-periphery relationship. Colonial or neo-colonial rule, in their eyes, was not planting the seeds for future development but, on the contrary, killing its roots. Due to this complex relationship with Marx's thought, those scholars are more properly described as neo-Marxists than Marxians tout-court.

From a policy perspective, ISI policies obtained several important results, though the debate about their trajectory and exhaustion is too complex even summarily to be reported here. The delink strategy never gained any traction, though South-

South trade relations have in fact developed through the decades (for economic, not ideological, reasons). The revolutionary option was real enough during the 1960s to become an important element in the political life of a number of Central and South American countries.

5. Development and International Convergence

As we saw in the discussion of dependency theory, an important line of thought has considered increasing between-country inequality as the result of economic relations between advanced economies (the center) and less developed ones (the periphery) that locked-in the latter in a condition of economic subjugation and structural economic minority. Standard economic analysis, however, posits that trade openness favors economic convergence. As the theory goes, free trade allows countries to benefit from their comparative advantage in specific products that are then exchanged on the international markets. Moreover, the free circulation of ideas, capital, people and commodities makes it possible for less developed countries to avoid technological cul de sacs and benefit from the experience of more advanced countries, tapping into a huge storehouse of technological and administrative knowledge and catching up to the most advanced economies.[21] This notion of catching up, or convergence, was espoused by William Baumol in 1986, when he noticed that in the decades following 1870, when the first wave of globalization began gaining momentum, several economies started to catch up to the leader. Moreover, the lower the productivity of a country in 1870, the quicker that country's productivity grew in the next

[21] This positive view is countered by the analysis of new global value chains, according to which technological innovation, and especially the IT revolution, has made it possible to reorganize processes of production globally. As a consequence, high-skill jobs have hugely benefitted, while low-skill jobs globally have remained behind, increasing global inequality, see Richard Baldwin, *The Great Convergence. Information Technology and the New Globalization* (Cambridge, Mass.: Belknap Press of Harvard University Press, 2013).

hundred years. According to Baumol, only the poorest of the less developed countries did not participate in the trend and instead lagged increasingly behind.[22]

Other economists, especially J. Bradford DeLong and Edward N. Wolff, criticized Baumol's conclusions on the basis that his sample was biased. Baumol had picked up countries that had been historically rich (like many European countries), or countries who were rich in the 1970s and poor one century earlier (like Japan). Convergence was thus built in Baumol's sample. But had one chosen a different sample, including countries that back in 1870 had shown the potential to converge but then did not converge, different results would become apparent.[23] Not only did many countries not converge, but the case could be made, as Lant Pritchett put it, for "divergence, big time" (1997).[24] Pritchett noticed that convergence had occurred only among European countries and European offshoots plus Japan; the growth rate of less developed countries had been slower on average than that of advanced countries. Nevertheless, one could observe a high variability that explained why in the postwar period certain countries stagnated while others showed remarkable growth ratios.

The convergence debate was an important attempt at making sense of dynamics in international inequality, that is, inequality among different countries in the world. Not unexpectedly, the Industrial Revolution had set England, Belgium, and the Northeast of the United States on a path of their own, joined between 1870

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[22] William J. Baumol, "Productivity Growth, Convergence, and Welfare: What the Long-Run Data Show," American Economic Review 76, no. 5 (1986): 1072–85. This and the next sections draw in part on Michele Alacevich and Anna Soci, *Inequality. A Short History* (Washington, DC: Brookings Institution Press, 2018).

[23] One such country was Argentina, which converged until the mid-Twentieth Century but then stagnated.

[24] Lant Pritchett, "Divergence, Big Time," *Journal of Economic Perspectives* 11, no. 3 (1997): 3–17.

and 1914 by Canada, New Zealand, Australia, the U.S. West Coast, Chile, and Argentina. If anything, it was the period between the two World Wars in which other countries began to close the gap with advanced economies, in particular additional countries in Latin America, the Soviet area, Japan and its Korean colony, and parts of coastal Africa such as Ghana, the Ivory Coast, Kenya, Tanzania, Nigeria, Morocco, Algeria, and Tunisia. In the postwar decades, advanced economies further converged. The revolutionary event of the last quarter of the century was that China began to converge in the 1980s, together with the Asian Tigers and followed in the 1990s by India. Many countries in Africa, Latin America, and the former Communist bloc, instead, remained behind, including countries that one century before were strong candidates for convergence, such as Argentina, South Africa, and the countries of Mediterranean Africa.

Based on these observations, scholars such as Robert Barro concluded that globalization has been a powerful process in the reduction of between-country inequality, as an increasing number of countries has been able to join the club of advanced economies (Barro 1996). Economic historians Peter H. Lindert and Jeffrey G. Williamson, who argued that long-term divergence actually predates the Industrial Revolution, agree nonetheless with Barro and others that, as far as the last two centuries are concerned, the rise in between-country inequality was caused by large areas of the world remaining at the margins of the process of globalization. In his analysis of the world economy, Angus Maddison made a similar point, underscoring how the deglobalizing period of 1914–1950 saw an acceleration in the rise of between-country inequality.[25]

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[25] Peter H. Lindert and Jeffrey G. Williamson, "Does Globalization Make the World More Unequal?" in *Globalization in Historical Perspective*, ed. Michael D. Bordo, Alan M. Taylor and Jeffrey G. Williamson (Chicago: University of Chicago Press, 2003); Angus Maddison, *The World Economy: A Millennial Perspective* (Paris: OECD, 2001).

This reading of the relationship between globalization and inequality trends has long been the orthodox position of the scholarly and political community. In particular, from the turn of the 1970s, an increasing number of studies began to attack protectionist policies in less developed countries in favor of trade openness and liberalization, arguing that "promoting" industry instead of "protecting" it was the correct trade policy for less developed economies. These studies rejected center-periphery analyses and downplayed the structural difference between industrially advanced and less developed countries, arguing that protectionist barriers and ISI policies should be eliminated in favor of policies aimed at enhancing the efficiency and international competitiveness of the industrial sector. Subsequent studies seemed to confirm, if not a causal relationship, at least a correlation between increasing globalization and decreasing inequality. In a much-cited issue of the *Oxford Review of Economic Policy*, Andrea Boltho and Gianni Toniolo described a rise in international inequality during the 1940s, followed by a plateau in the subsequent three decades, and finally an important fall after 1980. By emphasizing the turning point of 1980, Boltho and Toniolo introduced a new and important element in the analysis of world inequality, caused almost exclusively by the acceleration in the rate of growth of China and India, whose sheer size of population has a crucial influence on inequality trends in the world.[26]

The World Bank has also highlighted the correlation between globalization and decreasing inequality. Specifically, according to the 1987 and 1994 *World Development Reports*, the average GDP per capita of strongly outward-oriented and moderately outward-oriented countries grew, in the 1963–1973 period, by 6.9 and 4.9 percent, respectively. After slowing down during the turbulent decade of the 1970s and early 1980s (to 5.9 and 1.6 percent, respectively), those

[26] Andrea Boltho and Gianni Toniolo, "The Assessment: The Twentieth Century: Achievements, Failures, Lessons," *Oxford Review of Economic Policy* 15, no. 4 (1999): 1-17.

figures recovered in the subsequent globalizing period (to 6.4 and 2.3 percent, respectively). Inward-oriented countries, by contrast, showed a much worse record: 4.0 and 1.6 percent for the moderately and strongly protectionist countries, respectively, during the 1963–1973 period; 1.7 and −0.1 percent during the 1970s; and −0.2 and −0.4 percent during the third globalizing wave.[27] According to the Bank, in sum, international inequality was reduced by participation in the global economy, while countries that remained at the margins of globalization lagged behind and thus contributed to increasing international inequality. As a widely circulated 2002 World Bank report pointed out, "Between countries, globalization is now mostly reducing inequality."[28]

Orthodoxy does not mean unanimity, however, and dissenting voices such as that of Branko Milanovic, at the time an economist at the World Bank, criticized this benign view of globalization as "naïve" and "Pollyannaish." As Milanovic wrote, "It is only a slight caricaturization of this naïve view to state that its proponents regard globalization as a *deus ex machina* for many of the problems such as poverty, illiteracy or inequality that beset the developing world."[29] Specifically, Milanovic criticized the historical analysis as depicted by scholars such as Lindert and Williamson. First, the convergence trend described by Lindert and Williamson is questionable. The historical evidence, in Milanovic's view, is far from conclusive, and depending on which statistics one adopts, one could argue that even among core countries globalization was accompanied by increasing

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[27] World Bank, *World Development Report 1987: Barriers to Adjustment and Growth in the World Economy* (New York: Oxford University Press for the World Bank, 1987); World Bank, *World Development Report 1994: Infrastructure for Development* (New York: Oxford University Press for the World Bank, 1994).

[28] World Bank, *Globalization, Growth, and Poverty: Building an Inclusive World Economy* (New York: Oxford University Press and the World Bank, 2002), 1-2.

[29] Branko Milanovic, "The Two Faces of Globalization: Against Globalization as We Know It," *World Development* 31, no. 4 (2003): 667–68.

divergence. Second, in the nineteenth century many less developed countries were forced to participate in the process of globalization by way of gunboat diplomacy and colonialism. As Milanovic writes, "Globalization was not merely *accompanied* by the worst excesses of colonialism; colonialism was not an accident. On the contrary, globalization *was* colonialism because it is through being colonies that most of the non-European countries were brought to the global world."[30] During the nineteenth century, one can observe both an absolute and a relative decline of less developed countries compared to advanced economies. This does not necessarily mean, as many theorists of dependency claim, that the economic growth of the West was rooted in imperial rule and colonialism, but it certainly shows that the economic stagnation and impoverishment of the Global South was correlated to colonial exploitation.[31]

Milanovic also reassessed the analysis of the postwar globalizing waves and did not find evidence of correlation between globalization and convergence. Instead, he noted that, on average, divergence between advanced and less developed economies increased more in periods of trade openness than in periods characterized by protectionist policies. If in 1960-1978, Africa's GDP per capita (weighted by the population) grew by 1.5 percent per year, Asia's by 4.0, Latin America's by 2.8, Eastern Europe's and the former Soviet Union states' by 5.1, Western Europe's and its offshoots' by 2.9, and the world's, on average, by 2.7 percent per year, in 1978-1998 Africa's GDP per capita grew by only 0.1 percent per year, Asia's by 3.6, Latin America's by 0.8, Eastern Europe's and the former Soviet Union states' by −1.1, Western Europe's and its offshoots' by 1.6, and the

[30] Milanovic, "The Two Faces of Globalization," 669.

[31] See, for example, the discussion in Paul Bairoch, *Economics and World History. Myths and Paradoxes* (Chicago: University of Chicago Press, 1993), especially 57-98. See also Paul Bairoch, *Victoires et déboires: histoire économique et sociale du monde du XVIe siècle à nos jours*, Vol. 1 (Paris: Gallimard, 1997).

world's, on average, by 1.4 percent per year. Of course, these are averages, and in particular, in the case of Asia, the rate's fall was limited owing to the large weight that China's and India's growth received because of their large populations.[32] These data prompt us to reflect on how these very large countries and their huge populations affect the analysis and interpretation of inequality at the world level.

6. Back to Kuznets: Interpersonal Inequality at the Turn of the Twenty-First Century

As we have seen, when Kuznets published his pioneering studies on interpersonal inequality, data were scant and related to only a handful of countries. Since then, a huge amount of data has accumulated, new sources are available, and the quality of the information is much higher. In particular, the increasing use of household surveys and the development of an international project to make purchasing power in different countries comparable has made it possible to build a new line of analysis that allows economists not only to study how the growth or shrinking of the average per capita incomes of different countries (either weighted or not weighted by the countries' population) affects inequality in the world, but also to observe how the growth or shrinking of per capita income of specific groups within countries affects inequality at the global level. In other words, today not only can one study what happens to international inequality when the difference between the average per capita income of, say, the United States and China changes, but also what happens to inequality in the world when we take into consideration the specific dynamics of the middle class in the United States and of new immigrants to the cities in China. In a sense, the national borders become less important as we can measure inequality in the world at a more disaggregated level, and this is why some scholars tend to call this new perspective "global" inequality as opposed to "international" inequality,

[32] Milanovic, "The Two Faces of Globalization," 673.

traditionally more focused on between-country inequality. As we will see, this new perspective has major consequences for our understanding of inequality dynamics in the developing world.

As far as between-country inequality is concerned, the Industrial Revolution caused an impressive divergence of incomes between industrializing countries and the rest. If scholars calculate that, at the beginning of this big divergence, 70 percent of inequality in the world was due to its within-country dimension, and only 30 percent to its between-country dimension, by the mid-twentieth century, when the effects of the divergence had had the time fully to unfold, the proportions had more than reversed: 80 percent of total global inequality reflected between-country inequality, whereas only 20 percent was attributable to within-county disparities.[33] This is why international migrations from poor to rich countries are an epochal phenomenon that cannot be stopped by narrow national policies. By the late 1960s and the early 1970s, however, the growth of European countries and their former temperate colonies began to slow, while other countries, especially in Asia, were catching up. Starting in the 1980s, in particular, China's economic performance began to have a huge effect on global inequality trends because of China's very large demographic weight. India, also characterized by a huge demographic weight, followed approximately twenty years later. The major consequence of the emergence of China and India is that global inequality has begun to subside. China and India have thus the effect of "great income equalizers" at the international level.

As far as within-country inequality is concerned, the picture is more complex. At first approximation, since the 1970s inequality has begun to rise in many countries. But if this is still valid today for most advanced economies, so much so that Kuznets' inverted-U is again on the rise and scholars are starting to speak

[33] Branko Milanovic, "Global Inequality of Opportunity: How Much of Our Income Is Determined by Where We Live?" *Review of Economics and Statistics* 97, no. 2 (May 2015): 452–60.

about Kuznets "waves," inequality in China seems to have stopped growing since the turn of the twenty-first century or slightly thereafter.[34] This major change in the most populated country of the world, together with the high economic growth since the 1980s experienced by a number of other populous Asian countries, has driven global income inequality down.

The role of populous Asian countries should make us reflect on the geographic spread of this apparent global income convergence. Concepts of between-country inequality unweighted for population (that is, a mere comparison of average per capita income, irrespective of the absolute size of a country's population) are of some use here, as they deflate the preponderance of China's and India's influence on global inequality dynamics by not taking their huge populations into consideration. International inequality trends unweighted for population actually showed growing inequality until 2000, when inequality stabilized, beginning to diminish only in the mid-2000s. This means that at the global level, whereas highly populated countries have driven inequality down, entire regions have not participated in this trend. Latin America, Eastern Europe, and Africa have increasingly diverged from the rich world, and Africa has experienced an especially bad performance.

The combination of diminishing within-country inequality in large Asian countries and increasing within-country inequality in a number of rich countries, especially the United States, has important global consequences. The richest 1 percent of any country's population has obviously benefited everywhere, taking an increasingly larger slice of the pie. Among the beneficiaries of this phenomenon, however, is also the emerging middle class in China, India, Thailand, Vietnam, and Indonesia, where, of course, the middle class would be considered poor if compared in absolute terms with the middle class of Western economies. The great losers, in this global reshuffle, are those belonging to the

[34] Branko Milanovic, *Global Inequality: A New Approach for the Age of Globalization*, Cambridge, Mass.: Belknap Press of Harvard University Press, 2016.

lower middle class of rich countries, whose real incomes, in the last twenty-five years, have grown slowly or remained stagnant. As the so-called "elephant curve," first proposed by Branko Milanovic, shows, people who belong approximately to the 80th percentile of global income distribution saw virtually no percent income gain in the two decades between the twentieth and the twenty-first century. The vast majority of them are the old middle class of the historically rich countries of Western Europe, North America, and Oceania, with the addition of Japan. They fared rather well during the twentieth century, but their real income has remained stagnant for two decades. Those who have gained the most belong to the central deciles of global income distribution, and they have witnessed their real income grow fastest at the global level. Nine-tenths of them live in China and other East Asian countries, and belong to the middle of the income distribution of their own countries. This still relatively poor emerging "global middle class" is the actual winner of the current development of large and less developed populous countries.

Remember Kuznets' reflection of seventy years ago: less developed countries have no middle class, and this is why inequality can be high even in conditions of utter poverty. This is unfortunately still the case in many areas of the world, and even the rising global middle class is very poor and socially different from the middle class that emerged from the first wave of industrialization. Furthermore, this new global middle class is often described as the "winner" of the last decades because the intersection of development and globalization also created losers, most prominently the very poor everywhere in the world and the middle class of the advanced economies. It is impossible to forecast the future trends of global inequality and how the development of different areas of the world will affect them. Yet the growth of a middle class where before there was none has meant momentous changes for hundreds of millions of individuals in the span of one or two generations. But a reduction of economic inequality, paradoxically, makes democracy, welfare, and access to culture even more urgent issues.

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