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Global inequality in historical perspective[1]

by Richard Jolly

Income distribution has come in from the cold - at last[2]. WIDER has played its own and important role in this, providing a platform for a WIDER lecture on inequality[3], supporting a major project and publishing a major book on this theme edited by Andrea Cornia[4], undertaking other work led by the present Director.

All of us should be pleased that WIDER has been one of the leaders on this topic in recent years and that WIDER has supported a policy document on a related topic which in the UN in New York today dare not speak its name - that is on new sources of development finance[5] which could be used to finance global action, especially transfers to support poverty reduction and accelerated development in the poorest countries and thus to offset the forces which make for widening international inequalities. For 8 years, the UN has been under threat from Bill S.1519 of 1996 sponsored by Senators Dole, Gregg, Helms and Shelby. This Bill states that "the United States may not pay any voluntary or assessed contribution to the United Nations or any of its specialized or affiliated agencies (including UNDP) unless the President certifies that the UN or such agency is not engaged in any effort to develop, advocate, promote or publicize any proposal concerning taxation or fees on United States persons in order to raise revenue for the UN or any such agency."[6]

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[1] I thank Jaideep Gupte and Josie Furness for skillful research assistance. We are grateful for help from the librarian and staff at the UN Library in Geneva. Any errors or misinterpretations are, of course, mine.

[2] Tony Atkinson's phrase in his Royal Economic Society Lecture. 1997

[3] Anthony B Atkinson, *Is Rising Inequality Inevitable? A critique of the Transatlantic Consensus,* WIDER Annual Lectures 3, (Helsinki, UNU/WIDER, 1999)

[4] Giovanni Andrea Cornia, *Inequality, Growth and Poverty in an era of Liberalization and Globalization,* UNU-WIDER Studies in Development Economics, (Oxford, Oxford University Press, 2004)

[5] A.B Atkinson, *New Sources of Development Finance: Funding the Millennium Development Goals,* (Helsinki, UNU/WIDER, 2004) Policy Brief No 10 drawing on A.B Atkinson (ed) *New Sources of Development Finance* (Oxford, Oxford University Press, 2004)

[6] 104th Congress, 2nd session S.1519 in the Senate of the United States, page 4, introduced on Monday 22nd, 1996. Articles referring to this bill were published in the Washington Times on Janurary 16th, 17th, 18th, 20th with letters published on 22nd.

Over the last few years, great advances have been made in documenting the evolution of inequality, nationally and internationally, over the last two hundred years. Angus Maddison[7] provided the critical source of data, at least for the long period. For the last thirty years, several sources of data are available. From these, trends in both gini coefficients and in income shares by deciles or vingtiles are available.

Many of us have been astounded at the increases in inequality over the very long run – the increases in inequalities among households or individuals over most of the last two centuries within countries of most regions[8] and between the groups of richer and poorer countries.[9] Notwithstanding the improvements in some indicators of global inequality in the last two decades due to the impressive expansion of China and India, indicators of inequalities in recent years are all much higher than they appeared a hundred or two hundred years ago. All these trends are indicated by the rise in gini coefficients between 1820 and the 1990s and by the increases in the gaps in per capita income between the highest and lowest income groups.

So far, I have tried to summarize what I hope is common statistical ground. However, we should remember an important point made by Champernowne and Cowell, in their wide-ranging book, *Economic Inequality and Income Distribution*.[10] They warn against contemporary investigations that span very dissimilar cultures and which take in what has happened over very long periods. We cannot interpret quantitative comparisons of inequality across widely separated time periods or within a remote era without careful reference to the underlying social order then ruling. In short, as they summarize,

> “Comparing communities in terms of inequality should not be performed in a vacuum: the study of the income distribution and related issues cannot ultimately be divorced from the historical development of the social and economic system”

Early views on inequalities

So what did some of the early giants of political economy and political say about the issues of inequality, national and international? In contrast to today’s sparse statistics and timorous trends, where changes in a few

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[7] Angus Maddison, *The World Economy: A Millennium Perspective,* Development Centre Studies (Paris, OECD, 2001)
[8] though not in Europe and the European offshoots in the first half of the 20th century
[9] though not between the developed countries and China and India and a few other countries in the last two decades or so.
[10] D.G.Champernowne and F.A.Cowell, *Economic Inequality and Income Distribution*, (Cambridge, Cambridge University Press, 1998)

decimal point are treated with reverential proof, the colour and description presented by political economists writing about inequality during the later 18th and early 19th century shines out, vividly and sharply.

Adam Smith's emphasis on the central importance for development of the division of labour is often repeated. Less well known is what he had to say about inequality and its origins. Smith was blunt:

> Wherever there is great property, there is great inequality. For one very rich man there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many.[11]

Smith also emphasized the way such inequality led on to the need for government to maintain law and order.

> "The affluence of the rich excites the indignation of the poor, who are often both driven by want, and prompted by envy, to invade his possessions. It is only under the shelter of the civil magistrate that the owner of that valuable property…can sleep at night in security…The acquisition of valuable and extensive property, therefore, necessarily requires the establishment of civil government.[12]

Smith had an evolutionary view of society and made clear how inequality evolved with property. In hunter society, the first period of society, there was little property and little inequality – and with contemporary understanding, probably less true than Smith thought – seldom any regular administration of justice. The second period of society was the 'age of shepherds' and with this "the inequality of fortune first begins to take place and introduces among men a degree of authority and subordination which could not possibly exist before. It thereby introduces some degree of civil government which is indispensably necessary for its own preservation."[13]

Smith though blunt, was measured. Thomas Paine writing two decades later also focused on land as the source of inequality, but he presented his analysis with pre-Marxian vitriol.

> "It is very well known that in England (and the same will be found in other countries) the great landed estates, now held in descent, were plundered from the quiet inhabitants at the conquest. The possibility did not exist of acquiring such estates honestly…That they were not acquired by trade, by commerce, by manufactures, by agriculture or by any reputable employment is certain. How

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[11] Adam Smith, *An Inquiry into the Nature and the Causes of the Wealth of Nations,* Volume II, V.1.b 2 (Indianapolis, Liberty Classics) 1981, page 709-710

[12] Adam Smith, *An Inquiry into the Nature and the Causes of the Wealth of Nations*, Volume II, V.1.b 2 (Indianapolis, Liberty Classics) 1981, page 709-710

[13] Adam Smith, *An Inquiry into the Nature and the Causes of the Wealth of Nations*, Volume II, V.1.b 12 (Indianapolis, Liberty Classics) 1981, page 715

> then were they acquired? Blush, aristocracy, to hear your origin, for your progenitors were Thieves…When they had committed the robbery, they endeavoured to lose the disgrace of it, by sinking their real names under fictious ones, which they called Titles. It is ever the practice of Felons to act in this manner."[14]

By the mid 19th century, industrialization had advanced and poverty had deepened, especially in the towns in the United Kingdom. But the statistics suggest that little had changed in terms of income distribution, with the income of the richest five per cent still some 40 times more than the poorest 10 percent – thus 80 times in estimated income per head. By this time John Stuart Mill and Marx had taken up the cudgels. Mill, though considering the acquisition of individual property through one's own labour as just, wrote damning indictments of the origins of the actual distribution of property in Europe at the time.

> "The social arrangements of modern Europe commenced from a distribution of property which was the result, not of a just partition, or acquisition by industry, but of conquest and violence: and notwithstanding what industry has been doing for many centuries to modify the work of force, the system still retains many and large traces of its origins. The laws of property have never yet conformed to the principles on which the justification of private property rests. They have made property of things which never ought to be property, and absolute property where only a qualified property ought to exist. They have not held the balance fairly between human beings, but have heaped impediments upon some, to give advantage to others; they have purposely fostered inequalities, and prevented all from starting fair in the race."[15]

Mill goes on with analysis of the role of law in this process, which seems to have its own parallels today.

> "That all should start on perfectly equal terms is inconsistent with any law of private property; but if as much pains as has been taken to aggravate the inequality of chances arising from the natural workings of the principle, had been taken to temper that inequality by every means not subversive to the principle itself; if the tendency of legislation had been to favour the diffusion, instead of the concentration of wealth – to encourage the subdivision of the large masses instead of striving to keep them together; the principle of individual property would have been found to have no necessary connexion with the physical and social evils which almost all Socialist writers assume to be inseparable from it."[16]

A half century later, or at least by the time of the eighth edition of his *Principles of Economics*, Marshall considerably shifted the focus and

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[14] Thomas Paine, Dissertations on First Principles, in *Rights of Man, Common Sense and other political writings* (Oxford, Oxford University Press) 1995, p 401.

[15] John Stuart Mill, *Principles of Political Economy,* Vol 1 (London, Longman, Roberts and Green, sixth edition) 1865, pp 260-1

[16] John Stuart Mill, Principles of Political *Economy,* Vol 1 (London, Longman, Roberts and Green, sixth edition) 1865, pp 260-1

analysis. The Distribution of the National Income was the title of Book VI, the last in the Principles, and the theme of most of it, but the emphasis was very different from Mills. The unifying approach was the new science of marginal analysis applied to land and capital, as to other factors of production. This accepted the institutions of land and property without inquiring too closely into their distant origins.[17]

Although in appendices to the Principles Marshall showed himself well-aware of the economic history of different parts of the world, including the role of war and conquest, he permitted himself this comment on the United States.

> "Of the causes which have contributed to make the English race the chief owners of the New World, the most important is that bold enterprise which has made a man, who is rich enough to be a peasant proprietor, generally refuse to be content with the humdrum life and the narrow income of a peasant."

There was no mention of dispossessing millions of American Indian inhabitants of their land – and, here at least, little of slavery!

We need to jump ahead to the time of the United Nations to recover some of the blunt and colourful language of the early and mid 19th century economists. The 1951 UN report on *Measures for the Economic Development of Underdeveloped Countries* made much of the need for land reform – and re-introduced some of the early outspokenness. The expert committee, including two subsequent Nobel prize-winners, Arthur Lewis and T.W. Schultz, shifted the emphasis from how the land was acquired to how it was owned and how it was used – with the focus on landlord- peasant relationships.

> "In many under-developed countries, the cultivators of the soil are exploited mercilessly by a landlord class, which perform no useful social function. This class strives to secure itself the major part of any increase in agricultural yields, and is thus a millstone around the necks of the peasants, discouraging them from making improvements in agriculture and, in any case, leaving them too little income from which they might save to invest in the land. In such countries, land reform abolishing the landlord class is an urgent pre-requisite of agricultural progress."[18]

In the early years, the UN returned to the issues of land reform on many occasions and in many reports. But over time, the language became more temperate and the emphasis shifted to the practicalities of raising agricultural productivity. However, with ILO's World Employment

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[17] Although Marshall did include an Appendix A which traced the growth of free industry and enterprise "from savage life to the early forms of civilization"

[18] UN, *Measures for the Economic Development of Underdeveloped Countries: Report by a Group of Experts Appointed by the Secretary-General of the United Nations* (New York, UN, 1951) p21

Programme in the 1970s the issue of income distribution returned. The first of the country mission reports, led by Dudley Seers to Columbia, made income distribution the centre of their analysis. Within two years, redistribution from growth became the integrating core of the ILO mission to Kenya which two years later led to the IDS/World Bank Study on Redistribution with Growth, generalizing strategies for linking growth with redistribution and providing case studies of experience in India, Cuba, Tanzania, Sri Lanka, South Korea and Taiwan.

It is interesting that until recently, the Bank did so little on income distribution. According to *The World Bank: its first half century*, however, Robert McNamara was often outspoken.

> "When I emphasised to Tazi [Morocco's executive director] again that we could not tolerate private individuals manipulating the project to advance their personal gain, he admitted that the Minister of the Interior had been distributing the land to his friends…,When I asked point-blank whether these actions were known to the King, he said that nothing was done without the King's knowledge and support"[19]

The history elaborates McNamara's persistence in raising issues of inequality and income distribution in many other countries and forums in the early 1970s. But the history then adds that after McNamara had "highlighted inequality in a message tailored to Latin America's scandalous income and wealth disparities, the speech [in 1972] began what would become a continuing shift in emphasis, away from equity and toward "the absolute poor"[20]. It is noteworthy and welcome that this year's World Development Report, 2006 will be entirely focused on income distribution.

Early views on international inequality

No doubt many would argue that Adam Smith was the intellectual father of free trade and globalization. Certainly, he was a major analyst of the benefits of free trade. But he was careful to indicate his belief that there were losers as well as gainers. For instance he refers to the discovery of America and that of a passage to the East Indies by the Cape of Good Hope as "the two greatest and most important events recorded in the history of mankind" and he underlines their enormously positive consequences.

> "By uniting in some measure, the most distant part of the world, by enabling them to relieve one another's wants, to increase on another's enjoyments, and

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[19] Devesh Kapur, John P. Lewis and Richard Webb, *The World Bank: its first half century, Volume 1 History,* (Washington, The Brookings Institution, 1997) p 238

[20] Ibid p239

> to encourage one another's industry, their general tendency would seem to be beneficial."

But Smith was totally alert to the fact that not all would benefit and he continues,

> "To the natives, however, both of the East and West Indies, all the commercial benefits which can have resulted from those events have been sunk and lost in the dreadful misfortunes which they have occasioned."

He was analytical in recognizing how the worst of the misfortunes reflected the imbalances of power of the time, adding

> "At the particular time when these discoveries were made, the superiority of force happened to be so great on the side of the Europeans that they were enabled to commit with impunity every sort of injustice in those remote countries.

Smith looked to the future, in words which would encourage free trade supporters today.

> "However, perhaps, the natives of these countries may grow stronger, or those of the Europe may grow weaker, and the inhabitants of all the different quarters of the world may arrive at that equality of courage and force which, inspiring mutual fear, can alone overawe the injustice of independent nations into some sort of respect for the rights of one another.

And for good measure he adds,

> "But nothing seems more likely to establish this equality of force than that mutual communications of knowledge and of all sorts of improvements which an extensive commerce from all countries to all countries naturally, or rather necessarily, carries along with it.

Over the period of the UN, global inequality has at time been seen as an important international issues followed by periods when it has been virtually ignored.

Even in the first few years, work on national income raised questions about the distribution of income within and between countries. In 1951 in ECOSOC, the Indian delegate noted that the average annual per capita income of North America was 1,100 dollars, or Oceania 560 dollars, of Europe 380 dollars, of USSR 310 dollars, of South America 170 dollars, of Africa 75 dollars and of Asia only 50 dollars. Thus, it appeared that the 65 per cent of the world's population which lived in Africa, Asia and Latin America received only about 15 per cent of the world's income."[21]

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[21] ECOSOC, 514th meeting, 22nd August 1951 para 56 page 320

It is noteworthy that after a strong attack on internal income distribution within the United States by the delegate of the USSR, the American delegate made supportive comments about the need to tackle global inequalities.

> "Everyone would agree" he said, "that it was desirable to reduce and in due course to eliminate the existence of such large discrepancies. …He entirely agreed with the representatives of those countries that national and international action must be taken to secure a greater equality in living standards in the world. It was believed in the United States that the existing disparities in national income must be reduced by an expansion of the world's total income, an increasing share of that expanding income going to underdeveloped areas. .The problem must be viewed dynamically in terms of increasing the world's volume of goods and services and in raising general well-being."[22]

The Brazilian delegate put the point with fewer qualifications:

> "The problems was not to restore the old balance, but rather to create a new equilibrium by which the disparities of income and wealth throughout the world would be eliminated…Although the standard of living in high income areas had in most cases been brought back to its pre-war level, it should not be forgotten that great masses of people in under-developed countries were still working under inhuman conditions in order to ensure for themselves a bare minimum of subsistence"[23].

When it came to the First Development Decade, the blue book on Proposals for Action prepared by the Secretariat had this to say:

> "It is true that the GA resolution lays down a precise quantitative target for the increase in aggregate incomes, and there is no similar quantitative target for changes in income distribution. We can, however, take it for granted that the 5% growth target established by the resolution also implies that the increment in incomes thus achieved should be wisely used for the benefit of poorer sections of the population and should result in a degree of social progress which is at least in "balance" with the rise in aggregate national income. Normally, this would mean that the rise in aggregate income must be associated with an income distribution more equal, or at least not more unequal, than that at present[24].

In 1969, the Pearson Commission issued its report, *Partners in Development*, the first sentence of which read as follows.

> "The widening gap between the developed and the developing countries has become a central issue of our times"[25]

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[22] ECOSOC 516th meeting, 23 August 1951, para 60 & 61

[23] ECOSOC, 247th meeting, 18th March, 1949

[24] United Nations, *The United Nations Development Decade: proposals for action* (New York, United Nations, 1962) p 9

[25] Lester B Pearson, *Partners in Development: Report of the Commission on International Development* (Praeger, 1969)

In the 1970s there was major debate on the New International Economic Order which raised fundamental issues about the links between international trade and economic relationships and global inequality, a debate set into sharp relief by the increases oil prices which had shifted the equivalent of about 2% of global income in favour of the oil producing countries. But debate on NIEO met with strong opposition from the industrial countries and was effectively terminated by the end of the 1970s. It took until 1988 before the General Assembly came out strongly on global inequality.

> "Mindful that the existing inequalities and imbalances between the international economic system are widening the gap between developed and developing countries and thereby constitute of major obstacle to the development of the developing countries and adversely international relations and the promotion of world peace and security."

Though the Human Development Report has frequently drawn attention to global inequality, the dominant focus in recent years has been on poverty and the Millennium Development Goals. Though this has certainly been a move in the right direction and a big improvement on economic growth as the central pre-occupation for development, it is still far from sufficient. The Millennium Declaration itself made little reference to Global Inequality. Andrea Cornia has summarized the positive and the negatives of recent developments:

"The last decade has witnessed a blossoming of research on poverty-related topics as well as a surge in attention towards the issue of poverty reduction by governments, the international financial institutions, the United Nations and social scientists".

But he adds,

"A similar shift in focus and policy stance has yet to take place in the case of income inequality. While research in the field has made considerable strides, the policy reforms inspired by the Washington consensus have broadly ignored the issues of high and rising inequality, of its impact on poverty and growth, and of the measures required to contain it."[26]

Conclusions and recommendations for policy

Although one must be wary about judging inequalities of the past by today's standards, it is clear that some of the greatest economists and philosophers of two centuries ago were bold and outspoken about the injustices of extreme inequalities then ruling, nationally and internationally. Their words stand in sharp contrast to the more measured descriptions of analysts today. Yet by almost every standard, inequality

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[26] Giovanni Andrea Cornia (ed*) Inequality, Growth, and Poverty in an Era of Liberalization and Globalization*, UNU?WIDER Studies in Development Economics (Oxford, Oxford University Press,, 2004) p 3

nationally and internationally has grown substantially since that period. There is a case today for more outspokenness.

There is also surely a case for more outspokenness today about the causes of inequalities – and how these causes are linked to some of the extreme injustices of the past. A number of inequalities are maintained by laws of property which do not readily allow for investigations into the distant origins of inequality. Several examples come to mind:

- Inequalities of land holdings, ownership of mine or forest resources and royalties, with original ownership derived from colonial times. It is conventional among politicians of developed countries to say that the colonial era is past and no longer of any relevance. Economists should be willing to remind such persons that the ownership of inherited property, or the benefits of having had such property, often serves as a link with these injustices of the distant past.
- Inequalities related to the operation of legal systems and international law in the context of great inequalities of wealth and disparities of power and political influence. Again there are many examples but those in the area of intellectual property and trade are especially important for developing countries.
- Inequalities related to theft or the unjust allocation of new rights influenced by political connections. A particular source of current injustice relates to the acquisition of mining royalties through support for a new government seizing power through a coup or using other undemocratic means with foreign support, as with the recent attempt in Equatorial Guinea.

I want to end with encouragement to think more boldly about international income redistribution. I offer as inspiration the remarkable and bold proposal of Tom Paine put forward in his pioneering pamphlet on Agrarian Justice in 1795-6[27]. Tom Paine made his proposal in relation to began by commentating on the state of "civilization", using language that if replaced with the word globalization – which I do in the sentence which follows - could easily be applied today.

Paine wrote that the inequalities in his time were such that "on the one side the spectator is dazzled by splendid appearances; on the other, he is shocked by extremes of wretchedness" Paine wrote that civilization (globalization) therefore has operated, two ways, to make one part of

[27] Thomas Paine, 'Agrarian Justice', in *Rights of Man, Common sense and other political writings*, (Oxford, Oxford University Press, 1995),

society more affluent and the other part more wretched, than would have been the lot of either in a natural state.

Most remarkable is Tom Paine's proposal for income redistribution from more than two centuries ago. Paine proposed a plan for ameliorating the situation of young and older persons by the creation in every nation of a national fund. This would be used to pay every young man and young woman when they reached age 21 a sum of fifteen pounds sterling to enable that person to make a start in the world. Persons reaching the age of fifty would receive an annual pension of ten pounds. In both cases the logic was that in earlier times both groups would have had the security of access to land – but with the enclosure movement and dispossession of half the population from the land, this was no longer available.

Paine's proposal for funding the scheme was equally remarkable. He proposed that an inheritance tax should be set at the level of 10 per cent of the value of all landed property and that this should be charged on the death of the owner, as the property passed to the next generation. Paine calculated that this would be sufficient in Britain and in France to fund the one off payments to the young and the annual pensions to the older persons. Note some of the finer points of Paine's scheme, so far ahead of his time: benefits would be paid equally to women and men and equally to rich as to the poor; it should apply to all countries; and that in arguing for the inheritance tax Paine recognized the important contribution that landowners had made in raising the productivity of their land. However unjustified the origins of their property, Paine recognized their important role in raising the productivity of the land and thus its value, and he estimated that nine tenths of its value was the result of human effort.

So my final conclusion from the past is for us all to be inspired by the boldness of the early thinkers and analysts. If Tom Paine, over two centuries ago could make such imaginative and daring proposals, when inequality was much less and the apparent difficulties of taking action much greater, how much more should we today be inspired to think afresh. May these bold and brave early pioneers be our inspiration, not only for analyzing inequality but for exploring what can be done about it.

Annexe:

The quantitative background - trends in inequality 1820-2000

Table I presents an overview of the data on national inequality for a selection of countries. I have chosen these countries from the 46 for which long run data are available, for three main reasons:

- By having the UK, to show the data for the home country in which much of the early work on inequality was undertaken and which was often used as the reference country for this work.
- By having the US, to show the data for the country which in the 20th century increasingly took over from the UK as the developed country of reference.
- Selecting a few other countries in order to show the extremes of international inequality as measured by the gap between the estimated income per capita in the richest countries and the poorest countries at key points over the last two centuries.

Although this data is by now well known, the statistics of the ratios of the top 5% to the bottom 10 per cent provide some useful reminders, about the extremely and inevitably rough nature of the estimates:

- Except for the UK, Scandinavia and the US, the estimates of income shares for all the other countries show no change over the 19th century (from 1820 to 1910) and little change until after the second world war. Though this may reflect a judgement about the limits of economic development over this long period, it also serves as a sharp reminder of the lack of data for these countries – a fact perhaps disguised by the use of gini coefficients for judging long run change.
- For the UK, our main country of reference, the ratio of the incomes of the richest 5 per cent to the poorest 10 per cent decreases from a peak of 40 in 1820 and 1850 to 30 in 1890 and 1910 to 16 in 1929 and to 10 in 1950 and 1992, dipping to 7 for 1970 and 1980.
- In contrast, the US and the Scandinavian countries, show an increase over the 19th century: in the US almost doubling from from 13 in 1820 and 1850 to 25 in 1890 and 1910, then decreasing to 20 in 1929 and down to 13 in 1950 slippiong later to 12 and rising to 15 by 1992.
- In the Scandinavian countries, the increase in the 19th century was only modest co0mpared to the US, rising to 17 at peak

from 1870 to 1910, then falling to 12 in 1929 and to 9 and then to 8 from 1950 to 1992.

Assuming that the 1950 to 1992 data is somewhat more reliable, one can underline four features of national inequalities which these data show.

- The highest ratios are in Latin America, for Brazil, Argentina and Chile and theses ratios have been rising over this period.
- The next highest ratios are those of Egypt and Cote D'Ivoire, Ghana and Kenya, which show little change over this period.
- Japan and the UK and the Scandinavian countries show the lowest ratios over 1950-1992, though with India and falling to almost this level according to the data by 1992.
- In contrast, the ratios in the US were rising from 1950 to 1992, to reach ratios comparable to Egypt and Africa.

I repeat that these points are presented not as an accurate description of reality but rather as a summary of something midway between stylized facts and the impressionist judgements of those economists who have tried to make bricks from a lot of mud and very limited amounts of straw. But it is the best we have – and for many of these countries, perhaps the best we will ever have.