From: PR Nel, *Odious Inequality: The Politics of Economic Inequality in Developing Countries*, Palgrave Macmillan, forthcoming

## Introduction: Developing Countries and Odious Inequality

This is a book about the determinants and consequences of interpersonal economic inequality in low- and middle-income developing countries.[1] Interpersonal economic inequality refers to the disproportional distribution of wealth and income between individuals/households in a national unit.[2] 'Wealth' as John Stuart Mill suggested, names 'all useful or agreeable things which possess exchangeable value', including assets such as fixed and human capital.[3] 'Income', in turn, can be seen as the flow of returns on the gainful use of the assets that constitute wealth. I treat the distribution of wealth and income as the core determinants of economic inequality, and use the terms 'income/wealth inequality', 'economic inequality', and 'inequality' interchangeably.[4]

The central message of the book is that during the last decades of the 20th century, within-country economic inequality in developing countries took on the characteristics of being *odious*. This means that economic inequality became incapacitating, impervious, and pervasive, but nevertheless avoidable. These attributes emerged not only on account of differences in *what people had and received*, but also and perhaps more fundamentally on account of big differences in *how people were, and still are treated in the global division of labour*. This makes economic inequality in developing countries an issue that calls for insight into more than the functional dynamics that determine returns to different factors of production. To understand the odiousness of economic inequality we also have to understand how political power, both on the national and the global level, is implicated in the shaping and perpetuation of structures of privilege and neglect. This book explains how it came about that economic inequality in developing countries took on the attributes of odiousness, and what the consequences were/are for the countries in question. To do this, it engages with the methodology of reaching generalizations that are theoretically persuasive and empirically sound. To overcome the many data limitations that plague studies of inequality in developing countries, this book relies on a recent comprehensive and consistent dataset of estimated household inequality. The unit of analysis is the country-year, and the empirical analysis covers the period 1960 to 1999. While these pages have little to contribute to our understanding of the inequality dynamics in specific countries, they do contribute to a number of general debates about the place and role of developing countries in the global political economy during an era of great historical significance. This period not only witnessed the arrival of a large number of newly independent developing countries on the world stage, but also the re-emergence of the utopian belief that economic openness and the resultant globalization of the world economy represents an unmitigated boon for all concerned, including the poor and marginalised in developing countries.

The conceptual tool through which this book explores the politics of economic inequality in developing countries is the notion of *odious inequality*. The notion is loosely based on the idea of 'radical inequality', articulated by Thomas Pogge (2002: 198) following a suggestion by Thomas Nagel (1977). Radical economic inequality refers to a skewed distribution of income and wealth that seriously jeopardizes the well-being of those at the worst end of the distribution, and deprives these same people of both the agency and the means to escape from their predicament. I am not convinced that the term 'radical' is descriptively and normatively the right word to use in referring to distributions of this type. In the normative tradition with which I identify, 'radical' is not a term of opprobrium. 'Odious' is a more straightforward if somewhat old-fashioned term. Its usefulness stems from the fact that it resonates well with contemporary debates about social justice within and between states. In campaigns to secure debt relief for poor and heavily-indebted countries, the notion of 'odious debt' has played a significant role. Odious debt, in the words of Jonathan Shafter (2007: 49), 'is sovereign debt incurred by a government lacking popular consent, utilized for no legitimate public purpose.' Dating back to the

1898 peace negotiations following the Spanish-American War when the question was raised whether Cuba and the United States of America would be held responsible for debt incurred by Cuba's Spanish colonial masters, the principle that people cannot be held responsible for sovereign debts fraudulently incurred in their names had been mooted. The principle has recently been resurrected in the Jubilee 2000 campaign on debt cancellation, as it is argued that it is not fair that current and future generations in poor countries should be held responsible for debilitating debt arrangements entered into by unaccountable and illegitimate leaders who often incurred these debts in the name of their nations to further their own personal financial, military, and political goals (Kremer and Jayachandran, 2003). Not passing judgement on the legal and moral desirability of whether these considerations provide sufficient reasons to cancel debts incurred in an odious manner, I wish to explore the conceptual analogy between the nature of economic inequality in developing countries and such fraudulently incurred sovereign debts.

As is the case with odious debts, inequality in developing countries *incapacitates* 'innocents', that is, people who through no fault of their own find themselves at the bottom of a highly skewed distribution of income and wealth. Due to the debilitating burdens imposed by the requirements of debt servicing, many of the heavily indebted poor countries have to slash their already meagre social, health, and education budgets, with disastrous consequences not only for their most vulnerable population cohorts but for society as a whole. Income and wealth inequality in developing countries, as we shall see, in a similar fashion incapacitates those who are already the most vulnerable in these societies. Secondly, the notion of odious debt conveys a sense of the *imperviousness* of the situation in which the victims of such debt find themselves. There are no viable courses of action available to the suffering populations on their own steam to grow or work themselves out of the predicament caused by odious debts. Similarly, again as we shall see, inequality in many developing countries is structured in such a way that it is nigh impossible for those at the extreme left-hand tail of the distribution to escape from the hardships that the distribution imposes on them. The empirical literature shows that persistent inequality imposes poverty traps on successive generations of the same households, and that it is normally beyond the means of these households to improve their lot by relying only on their own ingenuity and devices. Thirdly, the burdens imposed by the massive amounts of fraudulently incurred debt affect not only one dimension of life in the indebted societies, but *pervades* the social, economic, political, and private domains. What makes these debts particularly odious, therefore, is not only the depth of its effects on people, but also the extent of these effects. In an analogous fashion, economic inequality pervades much of public and private life in developing countries, with wide-ranging consequences for the growth and development potential of these societies. Inequality eats away at the social cohesion of these societies, which leads to chronic crime, corruption, and conflict, and undermines the conditions for political robustness, which in turn feeds back into worsening economic inequality. Finally, debts of the sort that the Jubilee 2000 campaign is so concerned about are reprehensible because their very existence points to a dereliction of duty on the part of those who have the power and the ability to prevent the debts from being incurred in the first place. While it is impossible for the innocent victims of these debts to lift themselves out of their predicament, as we have seen, it is in the power of the international society of states to prevent the granting of sovereign credit to illegitimate state rulers who exploit ‘the borrowing privilege’ in the name of their citizens (Pogge, 2001). The privately managed institutions of sovereign debt ratings do help to constrain unaccountable leaders from continued access to ‘cheap money’, but the international credit regime is nevertheless very weak when it comes to preventing odious debts from being incurred in the first place despite the fact that there are practical steps that can be taken at relatively low cost to do just that (Kremer and Jayachandran, 2003). In an analogous fashion, the excesses of inequality in developing countries point to a contradiction: While the means exist to avoid the worse aspects of inequality, these steps are neglected, both by the national leaderships of developing countries and by the rule-makers of the international society of states. Economic inequality in developing countries is odious because it is *avoidable* but nevertheless tolerated.

I have no reason to imply that it is only in developing countries that inequality of wealth and income takes on odious proportions. Recent work by Brian Barry on what he calls 'the pathologies of inequality' in high-income countries also traces the particular (re-)emergence of odious inequality in the United States of America and the United Kingdom (Barry, 2005).[5] But there are important differences between low- and middle-income developing countries and the high-income countries of the Organization for Economic Cooperation and Development (OECD) when it comes to their respective institutional capacities to address economic inequality. For one, developing countries face a number of fiscal weaknesses that high-income countries do not (see below). More significantly, though, high-income OECD countries, as a rule, have developed the means to effect the institutional separation of the distribution of political rights and competencies from 'the overall system of inequality in society' which is a structural precondition for the development of robust and responsive democracies (Rueschemeyer, Stephens & Stephens, 1992: 41). Developing countries, to different degrees of course, have failed to do so. One must be careful not to idealize the features of political regimes in high-income democracies, given the all too obvious threat of the corrupting influence of wealth on politics in these countries. However, because of the *institutional* insulation of the political sphere from social inequalities in high-income OECD democracies, the latter are relatively more successful than developing countries in limiting and reversing this corrupting influence. In the majority of cases, high-income OECD countries are able to institute and sustain ambitious programmes of redistribution through social spending in order to offset the effects of economic inequality (Lindert, 2004). In contrast, developing countries are characterized by a chronic positive correlation between the concentration of wealth and income on the one hand, and the concentration of political power on the other. The result is that even with the introduction of all the trappings of electoral democracy, decisive political power is not vested in the median voter, as is shown in Chapter 4 below. Redistributive policies, to the extent that they are instituted by political leaders in developing countries, are targeted to groups that share in the privilege of the concentration of political power and thus feed into the stabilization of patterns of authoritarian neo-patrimonialism and populism (Azam, 2001; De Ferranti *et al.* 2004: Chapter 5). These regressive tendencies are exacerbated by the effects that flow from the place and role of low- and middle-income developing countries in the 'open' global division of labour that has characterized the past three decades. These effects at worst entrench political rule by privileged elites on behalf of their trans-national class allies, and at best restrict the capacity of progressive forces to push for fiscal reform aimed at enhanced social spending.[6] On all accounts, an era of deepening economic openness in which capital is more mobile than labour is not conducive to institutionalizing the separation of political competencies from the distribution of economic resources, as is all too obvious from the incomplete democratization that has characterized the political history of developing countries in recent years (Epstein *et al.* 2006).

There are thus many reasons why we should single out developing countries for dedicated analytical attention in our attempt to understand the politics of odious economic inequality. Note, however, that the list of attributes of odious inequality mentioned above does not include a reference to the magnitude of the distributional disproportion as a determining characteristic. What makes a specific distribution of wealth and income odious is not the degree of concentration of these economic resources *per se*. An excessive degree of concentration of wealth and income may contribute to the odiousness of a specific distribution, but it is not the degree of concentration that we should be concerned about in the first place. While it is indeed the case that economic inequality in developing countries on average is much worse than in their high-income counterparts, it not this fact as such that makes inequality odious in the former group of countries, nor does this fact taken on its own provide sufficient reason to treat developing countries as a distinct analytical category. To illustrate the point that the odiousness of a distribution does not primarily depend on the extent that it is skewed, consider what would happen if a billionaire should relocate to the modest neighbourhood in which I live in Dunedin, New Zealand. Of course the distribution of wealth and income in my neighbourhood will become much more skewed than it was before, and perhaps more skewed than in any other suburb in Dunedin. Would that make the inequality in my neighbourhood odious? Not necessarily. To qualify for this dubious honour, a specific distribution must be shown to be a) *incapacitating* towards those at the lower end of the distribution in terms of commonly accepted standards of well-being; b) *impervious*, that is, must make it impossible for the worst off to improve their lot through their own initiatives; c) *pervasive* in terms of affecting a range of dimensions of human existence; and d) must be shown to be *avoidable*. It is unlikely that the larger disproportionality of wealth and income which resulted with the relocation of the billionaire to my neighbourhood would necessarily imply that anyone is incapacitated in the sense of either a drastic and debilitating worsening of well-being, or in terms of anyone being prevented to formulate and pursue whatever goals they deem to be important. In fact, the billionaire's relocation may build capacity and enlarge well-being in the neighbourhood, rather than destroy these values: For one, property values of all the residential properties in the area are likely to receive a boost, multiplying the financial assets of property owners. Of course, the fact that property values in a specific neighbourhood have increased may make it more expensive than before for prospective house buyers to move into that suburb, or may push up the price that existing tenants have to pay for rental property. But as long as there are opportunities open to potential home buyers to find housing of similar quality in other areas of Dunedin, as long as the occupancy rights of existing tenants are protected, and as long as there are no structural constraints on the ability of anyone in the neighbourhood to enhance their income over their lifetime so that they can eventually afford to buy expensive housing in suburbs where billionaires also want to live, the particular distribution caused by the migration of the billionaire into my neighbourhood is not incapacitating, although it is very skewed. In addition, the large degree of inequality in this example can also not be regarded as being unfair/unjust, at least in terms of the well-known maximin principle of distributive justice formulated by Rawls (1971: 302): With the upward surge in property prices, the worst-off property owners in the neighbourhood are now as well off as they possibly could be.

Inequality becomes incapacitating, though, when it has the consequence of limiting or cancelling the opportunities and/or capabilities of those who find themselves at the lower end of the distribution. This is the case in most developing countries. There, income distribution is not only highly skewed, but this skewness is positively and significantly correlated with extreme forms of incapacitating deprivation. According to World Bank figures, the 20 per cent richest households in developing countries during the 1990s earned on average between 15 and 16 times more than the 20 per cent poorest households, a ratio that is three times as high as the mean for high-income countries.[7] The top 20-bottom 20 income ratio for developing countries is positively correlated, at a statistically significant level, with poverty headcount levels especially in rural areas, where the incapacitating effects of odious inequality are most evident.[8] We shall see that this positive correlation also captures a causal connection. In the words of William Easterly: 'Inequality *does* cause underdevelopment' (Easterly, 2002; italics in original).

It is important to grasp that the poor suffer deprivations not only because they earn very little, but also because they earn so much less than the rich. Relative income distribution matters. For one, the high degree of income and wealth concentrations in developing countries is closely bound to market failures that harm the poor more than any other group. One example of this, to which we shall return in Chapter 5, is that the provision of credit in developing countries is highly skewed against the poor, not only because they have no assets to secure loans, but also and perhaps predominantly because the formal providers of credit face overwhelming incentives to lend to the excessively securitized wealthy, and no incentives at all to lend to the asset-less poor who can provide no security. The result is that the poor are driven into the eager arms of the providers of what is euphemistically known as 'informal credit', but which amounts to nothing more than blatant exploitation of the vulnerability of the poor for which the victims themselves bear no responsibility.

The incapacitating effects of odious inequality are matters of life and death. In India, for example, 70 per cent of the population of more than one billion people depend on agriculture for their livelihoods. Of these 700 million rural dwellers almost 40 per cent are small-scale farmers who farm parcels of land that on average are smaller than 0.2 hectares. In 2003, the last year for which we have reliable statistics, some seventeen thousand of these small-scale Indian farmers committed suicide. As is the case with social disasters of this magnitude, there are many factors behind the despair of these men: Repeated low crops due to unfavourable climatic conditions, increased competition on global markets pushing down the price of their crops; rising prices of inputs such as seeds, due to the biotechnological revolution sweeping Indian agriculture. But at the core of the malaise lies the inability of small-scale farmers to gain access to credit, that mainstay of successful agriculture in most of the advanced countries of the world: Credit to tie them and their families over for another poor season; to pay for those pest resistant but expensive seeds peddled so successfully in India by major international pharmaceutical companies; and to get their children to school and keep them there. The formal credit market has failed these farmers spectacularly, largely because of the absence of sufficient collateral that farmers can bring to the negotiating table. Into this breach has stepped the ‘informal credit market’, run by money lenders who put the squeeze on their clients when they fail to repay capital and interest on time. According to one study, 86 per cent of Indian small-scale farmers who commit suicide are heavily indebted.[9] It is considerations such as these that brings a development economist such as Debraj Ray to define economic inequality not simply as the dispersal in the distribution of wealth and income, but rather as ‘…the fundamental disparity that permits one individual certain material choices, while denying another individual those very same choices.’ (Ray, 1998: 170). I am not sure that this definition applies to all unequal distributions of wealth and income, but it surely does to economic inequality in developing countries, which is why the adjective ‘odious’ is so appropriate to describe it. Odious inequality systematically favours some while simultaneously denying others, thus determining who lives and who dies, when, and under which circumstances.

The concentration of income and wealth in developing countries constitutes a form of odious inequality also because of its imperviousness. While it has been possible for some individuals among the worse-off in these societies to improve their relative and absolute positions in the distribution through a mixture of good fortune and appropriate effort, the extreme disproportions of income and wealth make it extremely difficult or impossible for the overwhelming majority of the poor in developing countries to improve their lot. Again, this is not simply due to the fact that they have so little to start with, their absolute deprivation, but because the concentration of income and wealth in hands other than their own means that they are radically disfavoured when it comes to generating collective action resources to shape public decision making that could alter the initial distribution. As Barry argues, ‘an opportunity to do or obtain something exists for me if there is some course of action lying within my power such that it will lead, if I choose to take it, to my doing or obtaining the thing in question’ (Barry, 2005: 20). For households on the wrong end of the income and wealth distribution in developing countries, the courses of action that allow others to grow their way out of misery by using public resources to improve their stock of human capital through universal and quality education, for instance, are simply not available.

The last observation points also to the pervasiveness that characterises odious inequality. Income and wealth are, in the words of John Rawls, primary social goods[10], which means that major disproportions in the way in which these primary goods are distributed are bound to affect other social dimensions of our existence including, as authors as diverse as Adam Smith and Anne Phillips argue, the more intangible but perhaps most important dimension related to the recognition of our human worth by others and by ourselves.[11] More tangibly, the ease with which the concentration of income and wealth translates into the mal-distribution of collective action resources such as political power and influence, and of the ability to exercise political rights, is blatantly obvious to the observer with even a cursory familiarity with politics in developing countries. Above, we noted that one of the main reasons why robust democracy is such a scarce commodity in the developing world is the inability of polities there to institutionalise the separation of social inequality and political equality. The failure to separate the distribution of economic resources from the distribution of political power and privileges constitutes one example of what Walzer would call *tyranny*, to be contrasted with complex inequality which observes the integrity and specificity of distributional patterns in different spheres of life (Walzer, 1983). In the context of odious inequality, income and wealth are not *only* economic resources. The inequalities that people in developing countries experience in terms of having differentiated access to preventive and palliative health, to safe, secure, and stable social and natural environments, and to the benefits that flow from the equity of legal protection, property rights, and from education and from higher culture, are all determined in one way or another by the distribution of income and wealth.[12]

This brings us to the last attribute of odious inequality which, analogous to the notion of odious debt, refers to a contradiction between what can be done and what in effect is done to reverse inequality and to mitigate its effects. To be deemed odious, inequality in developing countries must be shown to be *avoidable*, in a sense of the word that is implied when we say that it is possible to take steps to mitigate the effects of existing odious debts, and to prevent them from being incurred again in the future. Naturally, by exploring this analogy between odious debts and odious inequality I do not want to suggest that it is possible to 'prevent', in any strong sense of the word, economic inequality from occurring in developing countries. The determinants of economic inequality are many, as we shall see in Chapter 2, but a central role is played by economic modernization and industrialization which increases the rewards for skills-based factors more than for other factors of production. As most of the high-income OECD countries also experienced in the early phases of their modernization, rising inequality is to some extent inevitable. But as the experience of these OECD countries also indicate, there are steps that can be taken not only to contain this inevitable rise but also eventually to turn the rising tide around, giving rise to the inverted U-curve hypothesis famously formulated by Simon Kuznets some fifty years ago (Kuznets, 1955; 1963). Kuznets points out that rising inequality was eventually turned around by a number of specific political steps taken by the early modernizers of Western Europe and its offshoots in North America and Australasia, and in Japan:

> It is scarcely an accident that legal equality, political equality, and finally economic equality were the successive goals of modern society. And more specifically, the legislative decisions – with respect to education and health services, inheritance and income taxation, social security, full employment, and economic relief either to whole groups (e.g. in farming) or to individuals – can be viewed as manifestations of the general decision to minimize economic inequalities by equalizing as much as possible economic opportunity and compensating for failures that could be debited to defects in the economic and social structures, not to the voluntary action of individuals. (Kuznets, 1963: 66)[13]

When I claim that inequality in developing countries is avoidable, therefore, I am referring to the potential that exists for these countries to emulate the example of high-income OECD countries to use legislative and other political means to contain the forces of inequality unleashed by economic modernization. Of course, it is not easy for developing countries to emulate these early welfare states. Two sets of constraints stand out: Firstly, lower income developing countries face serious fiscal and other policy constraints. Secondly, there are a number of global systemic factors that also deserve attention.

With reference to the first, developing countries notoriously have low revenue-to-GDP-ratios – which reflect the poor extractive capacity of the state, the growing number of people who earn income in the informal sector and therefore pay no formal tax, widespread tax evasion, and the predominance of indirect taxes. These fiscal weaknesses obviously place restrictions on the ability of developing countries to use the expenditure side of the budget to improve social spending, a situation that is often made worse by the lack of state capacity to target and implement health, education, and other social spending programmes (Chu *et al.* 2004; Harberger, 1998). However, these fiscal and policy weaknesses are too often exploited to hide failures on the part of political leadership in developing countries. This becomes obvious when one compares the redistributive lacunae in the majority of developing countries with the relative success that a handful of countries recently have had with policies to generate and more equitably distribute human capital, through the widespread provision of secondary education and the guaranteeing of general access to preventive and palliative health care. Countries as diverse in terms of income levels as Sri Lanka, Seychelles, and Costa Rica, and the Indian state of Kerala all face fiscal constraints to a larger or lesser degree, but this has not prevented them from effecting a deconcentration of human capital assets amongst their population that bodes well for curtailing the forces of economic inequality over the medium- to long-term. In addition, countries such as Argentina, Brazil, Mexico, South Africa, and the Indian states of Kerala and West Bengal have embarked on programmes of redistributing land and extending of security of tenure – both rural and urban.[14] As Bowless (2006) emphasizes, the broad development of human assets and the redistribution of fixed assets such as land not only improves the well-being of those who before were most incapacitated by inequality, but also brings with it efficiency gains that raise the welfare of a society as a whole, and thus effectively addresses the ‘leaky buckets’ syndrome of redistributive social transfers (such as income supplements, unemployment benefits, and non-contributory pensions) to which Arthur Okun drew attention (Okun, 1975).

What contributes to the odiousness of inequality in many developing countries, therefore, is the all too obvious shirking of political responsibility on the part of their leaderships to emulate these examples of progressive state-led asset redistribution. Chapter 4 will look in more detail at the political factors that determine this momentous, even criminal, instance of neglect, but it suffices here to emphasise that there is a glaring discrepancy between the intensity with which the negligent leaders of developing countries campaign for the redistribution of resources from the rich to the poorer countries of the world, and their nonchalant attitude to the redistributive challenges within their countries. Blame is due, however, not only to these leaders. There are also factors that contribute directly to the relative inability of developing countries to avoid the harsher dimensions of odious inequality, but which are not under the sovereign control of the leaders and peoples of developing countries. These factors include the effects of the package of macroeconomic stabilization and liberalization policies that international rule-makers such as the Treasury Departments of the major donor countries and the multilateral financial institutions, persuaded developing countries during the 1980s and 1990s to implement. While these policies, collectively referred to as the 'Washington Consensus' or 'neo-liberalism',[15] have not been an unmitigated disaster *tout court*, recent studies show that the effects of trade, capital, and labour market liberalization in particular have contributed to rising levels of inequality in many developing countries by worsening the income position of the poorest sectors of the population.[16] As Lance Taylor shows, the inflow of capital that followed capital account liberalization in particular has worsened functional income distribution by weakening the position of unskilled labour, thus offsetting whatever benefits the easing of trade restrictions according to standard trade theory should have had for unskilled labour (Taylor, 2004). An ever-increasing open global economy also undercuts the abilities of governments to tax or alter the returns to factors of production that are transnationally mobile, such as investment capital increasingly became during the last decades of the previous century.[17] In view of these and other effects of the Washington Consensus, it is clear that the rule-makers of the international society of states, and all of us who do not oppose them, also bear responsibility for making the avoidable *unavoidable*, and thus contributing to the odiousness of economic inequality in developing countries. This imposes a negative duty on the international society of states, I would argue, to desist from supporting practices and norms that undercut the ability of developing countries to deal effectively with the problem of odious inequality. But the citizens of the major donors of official development assistance (ODA) also face a positive duty, namely to use whatever financial and technical means at our disposal to encourage and support efforts at asset redistribution such as those pioneered by the developing countries mentioned above.

The foregoing discussion of the various attributes of odious inequality in developing countries underlines the fact that a major precondition for being able to mitigate the extent and effects of this inequality depends on our ability to appreciate the *political* dimensions of this extreme form of economic inequality. We noted that the disproportionality of the distribution of wealth and inequality in developing countries not only incapacitates the poor in terms of reducing their potential to lead long and fulfilling lives, but also curtails their capabilities to engage in collective public action to change the preconditions for the incapacitating and impervious nature of odious inequality. We also saw how economic inequality in developing countries can pervade all domains of life, including the political. Finally, it was noted that the odiousness of economic inequality in developing countries is driven home by the absence of concerted national and international political action to ameliorate inequality and its worst consequences. These considerations justify the need for a book such as the present, which sets itself the task of exploring *the politics of economic inequality* in developing countries.

The phrase ‘the politics of economic inequality’ refers to two distinct analytical projects, though, and my purpose in this book is to do justice to both. To understand the difference between these two projects we should turn to the distinction that Iris Marion Young makes between two perspectives on distribution, one focusing on the nature and implications of specific distributions, and the other interrogating the social-structural conditions that give rise to the distributions in the first place.[18] In the first perspective, what Young calls 'the distributional paradigm', we are concerned about the nature and implications of specific distributional patterns considering, for instance, questions about its fairness and the effects that it has on the people involved. In the distributional paradigm, Forst (2007: 260) suggests, we ask: *What do people have?* In pursuing this question, we explore the relational politics and justice of inequality. But there is also a second, and in certain respects a more fundamental way of interrogating inequality, one that Young clearly favours. In this perspective we ask about the social-structural conditions of inequality, what Rawls calls the 'basic structure' and 'background social framework' that underpins the distribution of primary social goods in a society (Young, 2006: 91). Here, the focus falls on the power of social structures to determine the place, function, and worth of actors, be they nations, classes, or individuals. The basic structures that are relevant in the case of economic inequality are embedded in the ways in which we organize and legitimate economic production and distribution on a national and global level. The structures of the mode of production (to use another rather old fashioned term) define specific and differentiated roles, rights, and privileges for different nations and different groups of individuals within nations, and thus constitute specific configurations of *how people are treated* (Forst, 2007: 260). How people are treated, ultimately determines what they get, and hence it is crucial to focus also on the structural features of the national and global division of labour in the latter part of the 20th century, if we want to understand what happened to the distribution of income and wealth in developing countries during that period.

The development of new theoretical and analytical approaches dealing with distributional questions, spearheaded by Anthony Atkinson, Francois Bourguignon, Amartya Sen, and others, and the emergence of more comprehensive sets of cross-sectional and time-series data on income distribution, over the past decade have generated a remarkable boom in the literature on economic inequality.[19] The existing literature on economic inequality is nevertheless under-stocked when it comes to the general study of the politics of inequality in developing countries.[20] One reason for this is that studies of inequality in developing countries have largely been the exclusive domain of students of 'the economics of inequality', to use a phrase popularized by one of the foundation texts in income-distribution studies (Atkinson, 1983). The 'economics-of-inequality' tradition is rich in terms of developing parsimonious and testable explanations for trends in both the functional and inter-personal distribution of income, and the chapters of this book extensively rely on these contributions to trace and explain the evolution of inequality in developing countries.[21] However, the broader questions that this book raises – about how national political patterns and the structural power dimensions inherent in the global division of labour influence economic inequality, and how these in turn are affected by inequality – are seldom asked.[22]

The broader political perspective of this book is reflected in the sequence and contents of the chapters that follow this introduction. Chapter 2 develops an inclusive and integrated framework of analysis that helps us to explain why economic inequality in developing countries takes on such odious dimensions. Distinguishing between background and more proximate factors, and between 'outside-in' and 'inside-out' determinants of inequality, this chapter looks at how the specific mode of incorporation into the global capitalist division of labour on the basis of the initial endowments of forces of production shaped, and still shapes the formation of economic, political, and social institutions in developing countries. Against this background, the processes of economic modernization under specific global macroeconomic conditions, of household formation, and of the evolution of public policy capacity determine the relative returns that holders of different factors of production and their households receive, thus setting the trajectories of the evolution of inequality. In Chapter 3, the attention shifts to the evolution of inequality in developing countries over the period 1500 to 1999. The purposes of this chapter are, firstly, to record and use a variety of empirical data sources that have become available recently to trace the evolution of inequality levels in developing countries and, secondly, to use this rich, but largely unexplored data sources to test the empirical adequacy of the framework of analysis that is developed in Chapter 2. In view of contemporary debates about the effect of globalization on income inequality, Chapter 3 pays special attention to what we know empirically about inequality trends during the two recent periods of deep globalization, one at the end of the 19th century, and a second at the end of the 20th century. While there is enough evidence to point to a general worsening of inequality in developing countries during these episodes of globalization, the relationship between economic openness and inequality is mediated by a range of determinants, especially the distribution of factors of production in individual developing countries, and the quality of their leadership and public policies. Given the importance of domestic policy regimes in determining how developing countries manage their inequality levels under the conditions created by their place and role in the global division of labour, Chapter 4 investigates the inequality effects that experiments in democratization over the last decades of the 20th century have had in developing countries. The literature on comparative political economy is pretty unanimous in popularizing the hypothesis that democratization enables those whose income falls below the mean to shape public policies progressively. This hypothesis fares well in accounting for what happened in the Western democracies with the extension of political power to the median income earner. New sources of detailed time-series data about income distribution trends in developing countries allow us to test this hypothesis in the context of developing countries. It turns out that this hypothesis is not a good guide to the dynamics of public policy making under conditions of democratization in developing countries, and that there are a number of specific political features in the overwhelming majority of developing countries that inhibit the poor voter to institute redistributive public policies to favour her and her children. Chapter 5 returns to the concerns raised in this introductory chapter about the odiousness of inequality in developing countries. Chapter 5 develops a number of hypotheses concerning the adverse effects of income inequality on the social, political, and economic well-being of societies, and tests them by using the best available data on inequality levels and trends in developing countries. The evidence generated in Chapter 5 confirms that the odious dimensions of inequality in developing societies deserve deeper and more sustained policy attention than it is currently receiving. A final chapter considers the implications of the preceding for current debates about global economic inequality, and inquires into the relationship between within-country and between-country inequality. This chapter concludes by suggesting a number of broad policy considerations that deserve the attention of policy makers both on the national and the international level.

*A Note on Data Sources and Country Groupings*

For the purposes of this book, developing countries are defined as low- and middle-income countries in terms of the World Bank's classification, that is, countries that by the end of the 1990s had a *per capita* income of up to US$10,065, excluding the economies in transition.[23] The latter includes countries that during the 1980s and 1990s underwent transitions from a socialist to a capitalist economic system, including the People's Republic of China. In the pages that follow reference is also made to a group of high-income countries, which include both the high-income members of the Organization for Economic Cooperation and Development (OECD) and a small group of non-OECD countries, including a number of oil-rich sheikdoms.[24] While some of the chapters that follow contrast the inequality experiences of developing, transition, and high-income countries where the context demands such a distinction, most of the empirical analyses employed use information on all three groups of countries combined to cater for maximum data variability and robustness of the findings.

The biggest challenge facing students of inequality in developing countries is the question of securing reliable time-series data that captures or approximates economic inequality and how it changes over time. As noted, economic inequality is used here to refer to the disproportionate distribution of both wealth and income. Given the general absence of good quality time-series data on the distribution of wealth, most commentators on economic inequality follow the convention of using more readily available data on income distribution as an approximation for economic inequality in general. There is widespread agreement that wealth everywhere is more unequally distributed than income, and that whatever conclusions we reach about the latter would therefore apply also to the former.[25] The problem is, however, that it is notoriously difficult to find data on income inequality in developing countries that are consistently measured across time and across countries to allow for comparative and time-sensitive analyses.

Major advances were made in the 1990s by World Bank officials and their collaborators, and by researchers at the United Nations University World Institute of Development Economics Research (UNU-WIDER),[26] to collect and systematize the available data on income distribution that were available from a variety of historical and contemporary national household surveys. Despite the conceptual and methodological sophistication that went into the construction of these secondary datasets, questions remain about how reliable they are when employed in cross-national comparison and analysis, as they are based on surveys that use different concepts of 'income' (expenditure versus income proper; net versus gross), and that sometimes use the individual and sometimes the household as the unit of analysis. These inconsistencies are well known, and the compilers have introduced quality criteria and adjustment techniques that help the researcher to compensate for some of the inconsistencies. However, unaccounted-for inconsistencies and implausible observations remain, as Galbraith and Kum (2005) show, which raises doubts about the usefulness of these data sources for cross-country time-series analyses.[27] Significantly, the datasets based on the Deininger and Squire template cover developing countries sporadically and infrequently, and contain relatively few sizeable sequences of consistent data on individual developing countries.

Considerations such as these brought James K. Galbraith and his team at the University of Texas Inequality Project (UTIP) to look for ways in which one could construct a more consistent dataset with better coverage of developing countries and with longer sequences of time-series data for individual countries. They start with the credible assumptions that wages are core components of income, and that the wage differential across industries is a fundamental constituent and corollary of inter-personal and inter-household income inequality. Using wage data from the annual Industrial Statistics database of the United Nations Industrial Development Organization (UNIDO), they calculate the dispersion of manufacturing pay across industrial sectors, producing a dataset of just under 3200 observations across a sample of 156 countries, and covering the period 1963 to 1999.[28] Information from these observations is then combined with information from high quality income inequality observations available in the Deininger and Squire dataset, plus information on the manufacturing employment share to population,[29] to calculate what Galbraith and Kum call the Estimated Household Income Inequality (EHII) dataset, in which the Gini index (0-100) is used as the summary inequality measure. All estimates are adjusted to gross household income taking into consideration income from all sources, and determining household income size before taxes are deducted and/or transfers received. The EHII dataset, although not perfect,[30] is by far the most consistent dataset on within-country inequality, and has the best coverage of developing countries of any existing inequality dataset.

Based on the availability of a range of socio-economic and political data that are used in the empirical investigations in this book, a sample of 147 countries with a total of 3052 country-year observations is constructed from the EHII dataset. Of these, 37 are high-income countries, 21 transition economies, and 89 developing countries. The developing countries are divided into six different geographic regions, namely Sub-Saharan Africa (SSA) with 37 countries, the Middle East and North Africa (MENA) with 11, Latin America and the Caribbean (LAC) with 25, South Asia (SASIA) comprising of seven states, South-East and East Asia (SEASIA) with five, and OCEANIA with four island states.

Appendix A contains a list of the sample countries, while Table 3.4 in Chapter 3 lists the regional groupings of developing countries.

This book uses the EHII data extensively in the analyses of inequality trends during the last four decades of the 20th century, and in the empirical tests of specific hypotheses pertaining to the determinants and consequences of economic inequality during that same period. The longer time-frame employed in Chapter 3 implies that we also have to use for data on within-country inequality, or reasonable approximations of it, from periods preceding 1960. The sources and composition of these data, plus all other socio-economic and political data used in this book, are discussed in the relevant endnotes. Naturally, the coverage of inequality in developing countries is sketchier in the earlier periods than what is provided for in the EHII data, but the earlier inequality data are also measured consistently enough to facilitate cross-country comparisons.

**Endnotes**

[1] Hereafter, 'developing countries'. See *A Note on Data Sources and Country Groupings* below for detail on the classification of developing countries.

[2] The distribution of income and wealth between individuals/households is sometimes referred to as *vertical* inequality, which can be distinguished from *horizontal* economic inequalities between social groups (gender, ethnic), and between spatial units (regional disparities, urban-rural divide). Frances Stewart justifiably calls horizontal inequality 'a neglected dimension of development' and stresses the importance of group membership as a determinant of well-being (Stewart, 2005). However, there is no need to *contrast* the two types of inequalities. Instead, one should think of inter-group dynamics and spatial differentiation as two of the many factors that determine the relative income and wealth shares accruing to individuals and their households. In this book we focus on the latter, being the 'end-state' of a variety of causal processes, including those related to group dynamics.

[3] Mill (1848/1909: Preliminary remarks, paragraph 14). Consider also: 'Money, being the instrument of an important public and private purpose, is rightly regarded as wealth; but everything else which serves any human purpose, and which nature does not afford gratuitously, is wealth also. To be wealthy is to have a large stock of useful articles, or the means of purchasing them. Everything forms therefore a part of wealth, which has a power of purchasing; for which anything useful or agreeable would be given in exchange. Things for which nothing could be obtained in exchange, however useful or necessary they may be, are not wealth in the sense in which the term is used in Political Economy' (Mill, 1848/1909: Preliminary remarks, paragraph 14). See Schneider (2004) for a discussion of the concept and metrics of the distribution of wealth.

[4] Amartya Sen persuasively argues against reducing economic inequality to income inequality, which he believes is more appropriately and comprehensively captured by the notion of a disproportion in the distribution of human capabilities to do the things that people would want to pursue. However, he grants that income (and wealth) are 'crucially important means ….[that] helps the person to do things that she values doing and to achieve states of being that she has reasons to desire' (Sen, 1997: 385).

[5] See also Atkinson (1999; 2004).

[6] For a discussion of the variance in welfare spending among developing countries, and the determinants of that variance, see Rudra and Haggard (2005).

[7] Data on income distribution per decile from the World Bank's *World Development Indicators* CD-ROM 2006.

[8] The Pearson two-tailed correlation *r* between the income ratio and the headcount poverty measures mentioned in the text, is 45, at a significance level of ten per cent. Data for the income ratio and poverty headcounts are from the World Bank's 2006 *World Development Indicators* CD-Rom.

[9] See Somini Sengupta's article 'On India's Farms, A Plague of Suicide', *New York Times*, 19 September 2006.

[10] The classic statement is in Rawls (1971: 60-65), but see also Rawls (1982). See Arneson (1990) for a critique.

[11] See Smith (1776/1996: 351-352), and Phillips (1999: 79-830).

[12] See McGillivray and Shorrocks (2005) and Barry (2005).

[13] See Lindert (2004) for the most comprehensive treatment of the emergence and positive effects of social spending in high-income countries.

[14] This brief summary of examples of successful redistribution in developing countries is based on Bowles (2006) and World Bank (2006). See also Bourguignon (2000), and Dagdeviren *et al*. (2004).

[15] See Robert Wade (2007) and James Galbraith (2007) for summary discussions of the ideological apparatus that underlies the articles of the neo-liberal faith.

[16] See the volume edited by Cornia (2004).

[17] For discussions of these constraints and their implications, see the contributions to the volume edited by Bradhan *et al.* (2006).

[18] Young (1990; 2006). See also Forst (2007).

[19] On approaches to studying inequality, see Sen (1992; 1997), Champernowne and Cowell (1998), Ray (1998); Fields (2001), and the volume edited by Atkinson and Bourguignon (2000). Significant new data sources are reported and explored in Deininger and Squire (1996; 1998), Cornia (2004), Atkinson and Piketty (2006), Bourguignon and Morrisson (2002), Milanovic (2005), and Galbraith and Kum (2005).

[20] The volume by De Ferranti *et al.* (2004) is an important exception, but focuses only on Latin America.

[21] See, in particular, Fields (2001), Birdsall and Londono (1997), Birdsall, (2001), Ray (1998), Kanbur (2000), and World Bank (2006).

[22] Boix (2003) and Acemoglu and Robinson (2006) represent useful recent attempts to explore, from an explicit *political economy* perspective, at least some of the political dimensions of income distribution, both in developing and in high-income countries. However, the narrow methodological individualism and national focus that underlie both these books are not conducive to appreciating the determining role of global social structures and dynamics.

[23] The World Bank classification of country groups used here is based on 1994 Gross National Income (GNI) data, using the Atlas conversion method. This conversion method relies on the average of a country's exchange rate in a particular year and the two preceding years, and adjusts this for the difference between that country's inflation rate and the inflation rate of a basket of benchmark countries.

[24] Important to note is that the Republic of Korea, Taiwan, and Singapore in the 1990s were classified as high-income countries, and our analysis for that period treats them as such. However, for analyses of earlier periods they are included in the group of developing countries. There are also other countries in our sample that could, for different purposes, be regarded as developing or transition states, but whose mean income places them in the high-income group. They are: Bahamas, Bahrain, Cyprus, Hong Kong, Kuwait, Macao, Malta, Puerto Rico, Qatar, Saudi-Arabia, Slovenia, and the United Arab Emirates. Mexico and Turkey are members of the OECD, but their mean income levels put them in the category of developing countries as defined here.

[25] While this convention has served generations of students of inequality well, recent attempts to generate data on and better understandings of the distribution of wealth are to be welcomed. In this regard, see Schneider (2004), and the recently launched 'Personal Assets from a Global Perspective' project of the United Nations University World Institute of Development Economics Research (UNU-WIDER), available at http://www.wider.unu.edu/research/2006-2007/2006-2007-1/2006-2007-1.htm

[26] The Deininger and Squire (World Bank) dataset in particular introduced quality criteria and other innovations that contributed much to the upsurge in income inequality research during recent years (Deininger and Squire, 1996; 1998). This dataset, with all its good points but also with all its faults (see below) forms the basis of the refined dataset used by Dollar and Kraay (2002a; 2002b), and the 'UNU/WIDER World Income Inequality Database' (Version 2.0b, May 2007, is available at: http://www.wider.unu.edu/wiid/wiid-introduction-2005-1.htm). Data collected by the World Bank on income distribution is also used in the PovCalNet interactive income distribution dataset, available at: http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp

[27] See Atkinson and Brandolini (2001), Knowles (2005), and Galbraith and Kum (2005).

[28] The dataset containing these observations is available at: http://utip.gov.utexas.edu/data/UTIP_UNIDO2001rv3.xls

[29] Galbraith and Kum use a series of multiple regression estimations to determine the relevance of items of information to include in the eventual estimation of the EHII data. Dummy variables are used to control for the distinctions between income and expenditure measures, between measures of gross and net income/expenditure, and between measures of household and individual income/expenditure (Galbraith and Kum, 2005: 126-33).

[30] The most important shortcoming is that due to the methodology used in its construction, it cannot report information about the income shares of different percentiles of the population. This, however, is a small price to pay to enjoy the wide coverage and consistent features of the dataset.