INEQUALITY

Global Trends in Income Inequality

What Is Happening, and Should We Worry?

Robert Wade

This political scientist thinks the world has become too complacent about inequality. It has profound moral and economic implications, he argues. In many places in the world, inequality is getting worse, not least in the developed countries. In a comprehensive analysis, he says the issues simply cannot be ignored.

> It is our job to glory in inequality and see that talents and abilities are given vent and expression for the benefit of us all.
>
> —Prime Minister Margaret Thatcher

WESTERN POLITICAL LEADERS, even social democratic ones, have shown little appetite for curbing income and wealth inequality. British prime minister Tony Blair was asked in the run-up to the 2001 election, "Prime minister, is it acceptable for the gap between rich and poor to widen?" Blair twisted and turned

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and tried to avoid answering the question, which the interviewer kept repeating, and eventually blurted out, "I know it's not your question, but it's the way I choose to answer it. If you end up going after those people who are the most wealthy in society, what you actually end up doing is in fact not even helping those at the bottom end" (Lansley 2006, 24). British chancellor (finance minister) Alistair Darling declared in 2008, "I'm not offended if someone earns large sums of money. Is it fair or not? It is just a fact of life." Asked to define his basic politics, he replied, "Pragmatic. I believe passionately in living in a fair country and treating people properly, with proper respect and fairness" (Aitkenhead 2008). Both of them are members of the Labour Party. Politicians tend to equate "inequality" and "fairness" with issues of "poverty" and treat measures to reduce poverty as equivalent to measures to reduce inequality.

Mainstream economists have done no better. They treat income distribution as a "technical" issue, on the premise that the optimal and fair distribution emerges automatically from a well-working market, in which each factor of production earns the value of its marginal productivity. Any "political" interference with this outcome has efficiency costs, just like any other interference with the price system (managed exchange rates, tariffs, credit subsidies, industrial policy), and the efficiency costs of political interference in market-determined income distribution are typically large. To people not steeped in neoclassical economics, this argument has some way to go before it can even be called simplistic. But it has commanded wide, if generally implicit, agreement among neoclassical economists because it fits so well with mathematically tractable models of competitive markets as the core institution of a moral and prosperous society.

Their neglect has been bolstered by an assumed trade-off between efficiency and equality, such that inequality is said to be necessary to incentivize entrepreneurship and hard work. Indeed, even the poor might have higher absolute income in more unequal societies than in more equal ones, thanks to the trickle-down effect from faster wealth accumulation at the top and thanks to the way that inequality raises the aspirations of the poor to make more of themselves. And in developing

countries, rising inequality should not necessarily be considered a problem, because over the long run, inequality tends to rise as average income increases from low levels, then to flatten out, then to fall more or less automatically as average income continues to increase. (This is often known as the Kuznets inverted-U hypothesis.)

Whatever the justification, economists' prevailing neglect is well expressed by Willem Buiter, former professor of European economics at the London School of Economics and currently chief economist at Citigroup: "Poverty bothers me. Inequality does not. I just don't care" (2007).

In international development circles, too, "inequality" has had little salience. The Millennium Development Goals—heralded by the United Nations as "the fulcrum on which development policy is based" (2005, 2)—declare poverty reduction target number one and remain silent about income distribution. The World Bank's annual flagship *World Development Report* (WDR), from its first in 1978 to the current one, frequently uses words such as "poverty" and "the poor" and, much less frequently, any of a much larger set of words around "inequality," including "distribution," "access," "exclusion," and "inclusion" (Esser and Williams 2011). The main exception is the WDR 2006, *Equity and Development,* in which inequality terms enjoyed a spike. But getting this topic approved by the governing board of the World Bank was a struggle. The proposers initially wanted the title to be *Inequality and Development.* But some executive directors (representatives of member governments) argued that "inequality" was inherently a "political" subject that the Bank, as an apolitical organization, should not be talking about. The proposers revised the draft to focus on "equity," meaning more equality of access to *opportunities* to earn income, and the board approved, reasoning that "more equal opportunities" was apolitical.

However, after the financial crash and long slump starting in 2008 (the worst such crisis in the Western world since the 1930s), inequality has become a hot subject in the public at large. Both poor and middle-class people have become aware of the vast upward redistribution of income before and during the crisis, especially to financiers.

Even in 2010, during the long slump, the average pay of the top executives of companies listed on the London-based FTSE 100 was 145 times the median wage, and the pay of the highest-paid executive of a British-based bank, Barclays, was 1,128 times higher. Gaps of this size are ungraspable, rather like interstellar distances. But they do generate diffuse anxiety, as suggested by the runaway sales of Richard Wilkinson and Kate Pickett's (2009) *The Spirit Level: Why More Equal Societies Almost Always Do Better.* The UK edition sold over 100,000 copies in its first two years, and twenty foreign editions are out or in production (as of 2011).

This essay summarizes some of the bulldozer trends in income inequality on a global scale, their causes, and some of their effects. The long slump underlines the importance of understanding these inequality trends, because it is clear that rising inequality—including the falling share of labor income in most major economies—was a primary driver of the buildup of financial fragility in the years preceding the slump, and not just the current slump but also many previous ones, including the Great Depression (Palma 2009; Wade 2009a, 2009b). In particular, the essay highlights how global trends and their mechanisms set limits to what national governments can do—against the general tendency to assume a high margin of voluntariness in public policy, as though the government of country X could readily reduce income inequality if it set its mind to it. The essay also suggests directions of policy not normally considered in discussions of inequality.[1]

Income Inequality Between Countries

If all the world's people were lined up shoulder to shoulder and their income distribution calculated, then in 1800 most of the inequality would have been due to class inequality within each state, reflecting relative equality of average incomes between states. By sometime in the nineteenth century, most of the inequality had become the result of geographic inequality in average incomes, reflecting a Great Divergence between countries. Cecil Rhodes, the nineteenth-century

champion of British imperialism, celebrated the point when he declared, “Remember that you are an Englishman and have consequently won first prize in the lottery of life.”

The conventional wisdom says that the world is now “in the grip of a great convergence,” to quote the title of an article by Martin Wolf in the *Financial Times* (2011). Developing countries—where roughly 85 percent of the world’s population lives—are growing fast; developed countries are growing slowly. This reversal of the long trend to divergence between countries “is far and away the biggest single fact about our world,” says Wolf.

The reason for the reversal of the divergence trend is that big developing countries, notably China and India, are growing faster, thanks largely to “globalization” of the world economy—especially the increased application by governments in developing countries of the three great laws of economic success: privatization, liberalization, and stabilization (the recipe often known as the Washington Consensus). This application is moving the whole world toward the optimum political economy configuration, where states have no more power to influence movements of goods, services, and finance across their borders than do the states of the United States, Wolf says (2004, 4). As markets free up, “nothing seems likely to halt the ascent of the big emerging countries. . . . Powerful market and technological forces are spreading the stock of knowledge across the globe. No one doubts that Chinese and Indian people are capable of applying it. They are quite as entrepreneurial and driven as Westerners. Being poorer, they are surely far more so” (Wolf 2011).

This convergence-thanks-to-globalization argument is only partially true, however. There *is* strong global convergence if we take countries’ gross domestic product (GDP) per capita (whether in market-exchange-rate terms or purchasing power parity) and weight them by population—because the average for developing countries then reflects China and India’s relatively fast growth. But if we take countries’ GDP per capita *not* weighted by population, divergence remains the dominant trend. In other words, the caravan has been lengthening, including since the acceleration of globalization and neoliberal policies

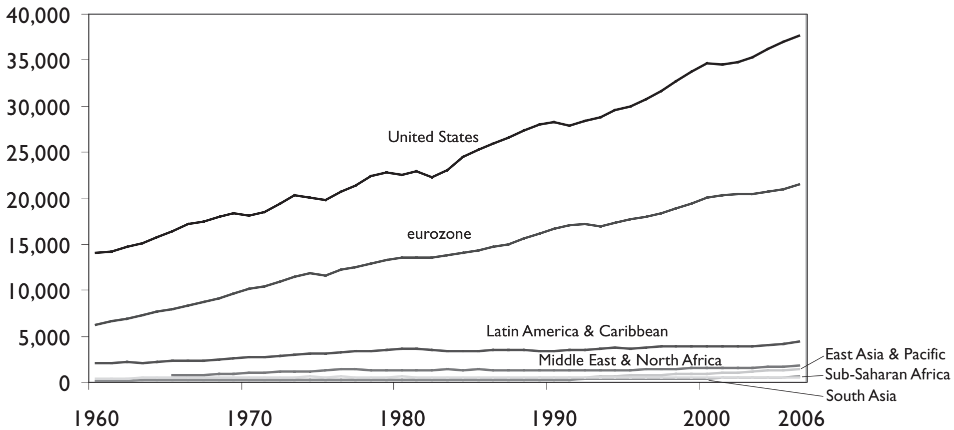

Figure 1. Per Capita Income by Regions, 1960–2006

Source: UNRISD (2010). Reprinted with permission.

after 1980. Moreover, studies that bring together distribution between countries (using average income) and distribution between individuals or households within countries (using household surveys) find a significant increase in global interpersonal income inequality since the late 1980s, using the Gini coefficient (Milanovic 2005).

Looking at relative growth rates of regions, we also see strong divergence. Over the 1980s, 1990s, and early 2000s only two categories of developing countries have shown *sustained* convergence, significantly reducing the income gap with Western Europe and its colonial offshoots (the United States, Canada, Australia, and New Zealand): the East Asian Tigers and China and India, the latter two from very low levels. Most developing countries in Latin America, sub-Saharan Africa, the Middle East, and North Africa, as well as South Asia outside of India, have been diverging, sometimes punctuated by short bursts of convergence. So we should talk about being in the grip of an Asian convergence, not a global convergence. See Figure 1.

Of course, rapid growth in China and India is a major contributor to human well-being, considering that they are home to more than a third of the world's population, compared with the West's 11 percent. But we cannot simply assume that other regions will also converge in the future, in flying-geese style. Even the economies of Southeast Asia,

which have experienced radical structural change away from natural resources and into manufacturing and which look to be contenders for developed economy status, are caught in a "middle-income trap," unable to develop the innovation and design systems, branding and marketing systems, and dense input-output links within the national territory necessary for this advance.

Both Southeast Asian and Latin American economies are experiencing deindustrialization in the face of Northeast Asian, especially Chinese, competition. The share of commodities in Brazil's exports almost doubled in the past decade to reach 46 percent in 2009, China being the biggest buyer, while Brazil's share of manufactured goods collapsed. The country's shoe and textile industries have been decimated by cheap Chinese exports (to the point that most of its Carnaval costumes are now made in China), and its steel industry has been unable to develop export markets in the face of Chinese steel (mostly made from Brazilian bauxite). Meanwhile, many commodity economies, which benefit from soaring Chinese commodity demand, are unable to translate higher export earnings into broad-based development because of the exclusionary economic and political institutions associated with tropical commodity specialization, which produce high levels of inequality and illiteracy (Wade 2011a; Yusuf and Nabeshima 2009).

Income Inequality Within Countries

As for inequality within countries, the first remarkable feature is that countries tend to fall into either a high- or low-inequality cluster, rather than being evenly distributed across the scale. The high-inequality cluster begins at a Gini coefficient of 0.5 and contains almost all of Latin America, the Caribbean, Africa, and South Asia. Roughly 75–80 percent of the world's population lives in countries in the high-inequality cluster. The low-inequality cluster has an upper boundary of 0.33 and includes Western Europe, Japan, Canada, and Australia.[2] The high-inequality countries tend to have low average income; the low-inequality countries tend to have high average in-

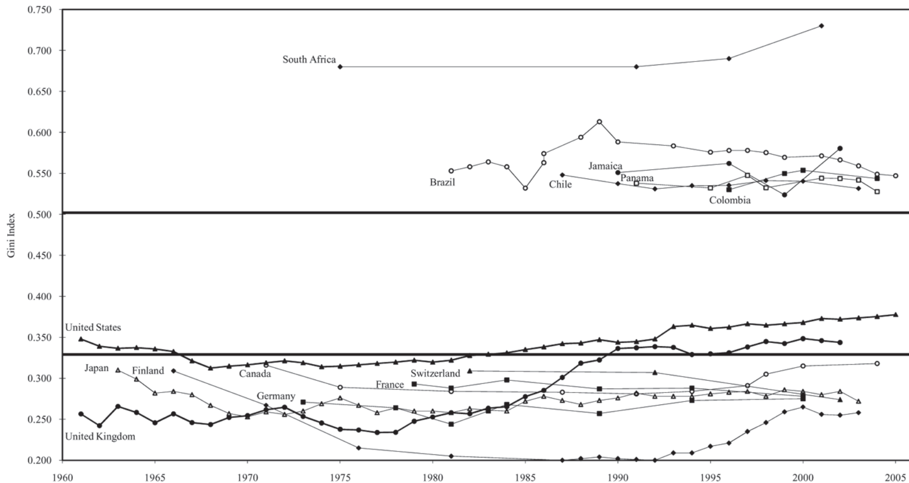

Figure 2. Trends in High and Low Within-Country Inequality

Source: Reprinted with permission from Korzeniewicz and Moran (2009).
Note: Incomes are measured at market exchange rates.

come. But the United States and more recently the UK are important exceptions; they have risen above the low-inequality cluster into the intermediate zone.

Starting in the 1960s or 1970s, countries have only infrequently moved outside their cluster, whether up or down (see Figure 2). This runs against the widely believed Kuznets inverted-U hypothesis. Yet generations of academics and politicians have used the "fact" of the Kuznets inverted U to justify middle-income countries' high inequality. The high inequality is a necessary prelude to subsequent falls, they say, so there is no need to worry.

On the contrary, a strong "lock-in" or "path-dependence" mechanism seems to be at work, which keeps high-inequality countries unequal and low-inequality countries relatively equal. In the low-inequality cluster, the stability of membership may reflect long histories of relatively inclusive economic and political institutions (including constraints on the political executive that make it behave as an "establishment" elite rather than an "oligarchic" elite), and a stable middle-class labor force operating in labor markets where pay is related to skills and some limits are placed on monopoly power of

firms and professions. The big exception is the remuneration of public companies' senior executives, which in recent decades has been set by corporate boards on a "you scratch my back and I'll scratch yours" accommodation, with shareholders at annual meetings rarely voting against pay increases because corporate accounts deliberately conceal how paychecks compare against a company's earnings or stock market performance. So, pay for senior executives "exists in a sort of vacuum, as far as investors are concerned" (Morgenson 2011).

In the high-inequality cluster, the stability of its membership may reflect long histories of relatively exclusive economic and political institutions, including oligarchic, self-dealing political executives unchecked by impersonal justice institutions, and economic dualism because of plantations and mines (and then a further dualism between export-oriented manufacturing and domestic market production, the former generating higher pay than the latter). Import-substitution industrialization strategies, popular in Latin America from the 1930s to the 1970s, tended to lower inequality by raising the strength of the unionized working class—whose demonization was one of the primary objectives of the neoliberal policy revolution of the 1980s and on. In the case of the United States, its high inequality (compared to other high-income countries) reflects its history as a hybrid economy, with the South having an economic and social structure as fractionalized as many developing countries. Indeed, as recently as the 1960s, parts of the South still had South African–type apartheid, to the point that in 1962 the University of Mississippi greeted its first black student with a lethal race riot, put down by the army, and segregationist George Wallace was elected governor of Alabama.

The second striking feature of within-country inequality is that developed and developing countries alike have moved together in their internal inequality (according to results from the University of Texas Inequality Project [UNRISD 2010] [Galbraith 2010]). Starting in the early 1960s this movement has had three phases, using formal sector pay as the indicator. First, within-country inequality in developed and developing countries was fairly stable until the early 1970s. Second, it fell slightly from the early 1970s until about 1980. Third, over the two

decades from about 1980 to 2000, it rose sharply around the world. (The data set has been only very partially updated beyond 2000.)

From this common pattern of internal income distribution change, we can draw two conclusions. One is that inequality within countries, which for well over a century had been a falling component of global interpersonal inequality as the Great Divergence between countries continued, has been a rising component since around 1980 (though still less than the between-country component). The other is that the big causes of change in within-country inequality are linked less to characteristics or policies of each specific country and more to factors with wide geographic distribution—including global financial regimes, global commodity regimes (price rises boost the income of producers and curb the income of consumers), and the trend toward more "open" national economies (which often drives increases in national inequality).

In short, countries that were in the high-inequality cluster in the 1960s and 1970s have tended to remain in that cluster, as have countries in the low-inequality cluster. And there is a common pattern of change in internal inequality from the 1960s in both developed and developing countries, with a big increase in inequality in both categories between roughly 1980 and 2000 (and uncertain movement since then). These are the first two remarkable features of inequality within countries when seen in global perspective.

The third is even more remarkable, and it shows the dangers of using an average measure of inequality across the whole of the distribution, such as the Gini coefficient. If we look not at average inequality but at the shares accruing to each decile (10%) of the population, we find a common pattern among middle- and high-income countries. Denoting the richest decile as D10, we find that those in the five deciles comprising D5 to D9 (50% of the population) receive roughly half of national income, across a large number of countries. These are people in roles like schoolteachers, mid-level civil servants, mid-level managers in the corporate sector, young professionals, skilled workers, and the self-employed with costly assets, such as owner-drivers of taxis (Palma 2011).

At the same time, the income shares of D10 and D1–4 (together comprising the other half of the population) differ greatly between countries, and this difference is the main location of the difference in average inequality between countries. In high-inequality countries, the share of the top 10 percent (D10) is much higher than the share of D1–4, while in low-inequality countries, the ratio between them is much smaller. Indeed, the rich in high-inequality middle-income countries seem to be on an "up" escalator bringing them toward the income of the middle or upper-middle class in high-income countries, while the bottom 40 percent or so are on a "down" escalator, their share being squeezed as the share of D10 rises. In Mexico, for example, the minimum wage was 80 percent lower in real terms in 2000 than in 1976.

Table 1 shows, for the United States and a set of 133 countries, the share in national income accruing to D10, D5–9, and D1–4 for 2009. Figure 3 shows, for the United States, the shares of D10, D5–9, and D1–4 from 1947 to 2009. The break in U.S. trends for D10 and D1–4 around 1980 is striking, the former riding effortlessly up, the latter heading down. It coincides with the advent of Reagan and Thatcher and the wider neoliberal reforms in economic and social policy, coupled with accelerated mobility of capital across borders and the growing strength of capital relative to labor. The continuity in the share of D5–9 is equally striking, and puzzling.

But deciles are too large to capture the most dramatic inequality trend in the United States, which is the ascent away from the rest of the population of the top 1 percent of income recipients, like hot air balloonists. The share of the top 1 percent rose rapidly through the 1920s to hit about 23 percent by 1929 (including realized capital gains), fell steadily through the 1930s, 1940s, 1950s, and 1960s until it bottomed out at around 9 percent in the late 1970s, and then, with globalization and neoliberal policy reforms, roared back up to reach about 24 percent by 2007. During the economic expansion of the Clinton years in the 1990s, the top 1 percent accrued 45 percent of the increase in pretax national income; during the economic expansion of the Bush years in the 2000s, 73 percent (Palma 2009,

Table 1

Decile Shares (%) of National Income, United States and Average for 133 Countries, 2009

	United States	133 countries
D10	33	32
D5–9	55	52
D1–4	13	17

Source: Palma (2011), table 1.

2011). This is not a misprint. But the federal minimum wage is 20 percent lower in real terms today than in 1980. One wonders by what possible criteria of merit or marginal productivity such income polarization could be justified, and by what political and ideological mechanisms it has occurred, in a stably functioning democracy rather than a dictatorship.

The explanation for the stable share of the middle and upper-middle (D5–9) across many countries, and of the huge variation between the share of D10 and that of D1–4, remains a mystery. But it is clear that the financial sector has been a great "unequalizer" not only in countries like the United States and the UK, but also in Argentina, Brazil, China, India, and many others, expanding the share of the top few percentages of the distribution. The mechanism is simple. Those at the top demand complex financial instruments in which to store and multiply their surging wealth. Goldman Sachs and the rest of the vast flotilla of financial firms supply them with instruments. However complexly configured, the instruments in the end affect the income, whether directly or indirectly, of the poor and middle classes in the form of mortgages and other forms of debt. The great question for the financial industry is how to persuade the poor and middle classes to take on more debt and intensify the redistribution upward. It has been remarkably successful at it—so successful that since the 1980s much of the world's economic growth has been fueled by debt-fueled consumption in the West, especially in the

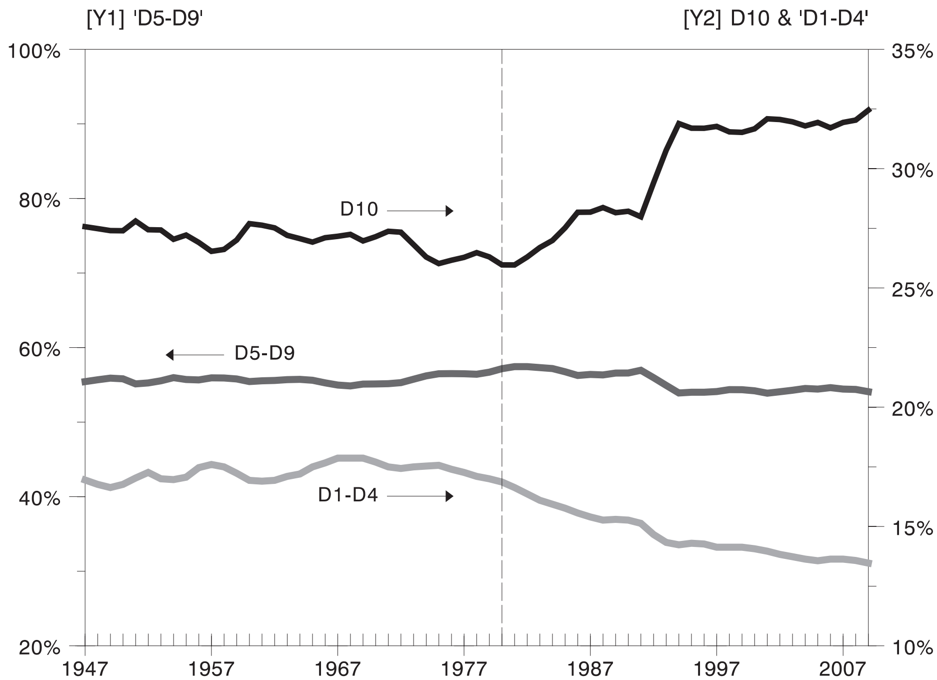

Figure 3. U.S. Decile Shares (%) of National Income, 1947–2007

Source: Palma (2011, figure 13). Reprinted with permission.
Note: Income shares of D10 and D1–4 are shown on right-hand side scale; that of D5–9 on left-hand scale. Three-year moving averages.

United States. The resulting massive trade imbalances were largely ignored, thanks to the induced Washington Consensus belief that markets are self-regulating and government intervention on the whole inefficient.

Effects of Inequality

Moral arguments aside, the case for public action to reduce inequality rests on socially and economically harmful effects directly or indirectly attributable to it (and ignored by marginal productivity theory). Much of the evidence linking cause with effect is scarcely watertight, but still strong enough to be taken seriously.

Inequality and Financial Fragility

Consider the relationship between inequality and financial fragility—the follow-on loop from the relationship between the growth of the financial sector and rising inequality sketched above. The relationship can be most easily explained by thinking of inequality not in terms of the Gini coefficient but in terms of the share of wages in GDP. Inequality by this measure has increased substantially through the 1990s and 2000s in most major economies (Akyuz 2011). In China, the wage share started to fall in the mid-1990s and has fallen continuously ever since—from 51 percent in 2000 to 40 percent in 2007; in Japan from 46 percent to 44 percent for the same years; in Germany from 43 percent to 40 percent; in the United States from 49 percent to 46 percent. (But these wage-share figures are only an approximation of income distribution, because they exclude remuneration of the self-employed. In developing countries the self-employed can comprise a significant share of the population.)

The lag of real wages behind labor productivity has generated a "demand gap" in the world economy, or consumption insufficient to absorb the global labor force. But Americans, in the world's biggest economy by far, stepped into the breach, helping to counter global deflationary tendencies by borrowing in order to expand their consumption and property investment out of stagnant incomes. Because the Federal Reserve (the Fed), the U.S. central bank, can finance imports by printing its national currency (also the main international currency), rising U.S. internal and external debt generated demand for exports from China, Japan, and Germany, allowing them to substitute external demand for wage-constrained consumption at home, sustaining their employment and generating large external surpluses. The other side of this mechanism is rising financial fragility and huge payments imbalances (the U.S. current account deficit in 2008 was about equal to India's market-exchange-rate GDP), the collapsing consequences of which we are now living through.

You would think that policymakers might have learned something from the sequence of booms and busts over the past two decades. After

the recession of the late 1980s the Fed maintained a loose monetary policy through the 1990s. This enabled heavy lending by U.S. banks to East Asia, Russia, and Latin America under the celebratory slogan "economic growth with foreign borrowing"—which came to an abrupt end in regional crashes in 1997–99. Then the same loose monetary policy ushered in the U.S. dot-com and housing bubbles in the second half of the 1990s, followed by the crash in 2000. Post-crash the Fed again loosened monetary policy and enabled Wall Street firms to generate asset bubbles on the back of increased lending to both middle-class households and, best of all, to the previously untapped market of the huge internal developing country within the United States, the bottom 40 percent. Several major European economies followed suit. Then came the collapse in 2007 and 2008, and the desperate appeal to governments to replace fleeing investors with public spending and loose monetary policy.

More generally, the bubble-trubble cycle often goes as follows.

1. Income concentration at the top generates high demand for financial investments and for more financial self-regulation. (As the saying goes, self-regulation is to regulation as self-importance is to importance.)
2. The modern version of Say's Law kicks in: supply of credit creates its own demand for gambling. Wall Street/City hot-money firms pour funds from the top income brackets into a particular place and asset category, looking to generate the bubble dynamics from which they and their investors stand to make vast profits.
3. Institutional money firms (including pension funds) come in behind; bubble dynamics take hold.
4. Large parts of the population begin to live out the dictum of Plautus (Roman playwright of the third century B.C.E.), "I am a rich man, as long as I do not repay my creditors."
5. Hot money pulls out and takes profits, hunting for the next potential bubble.
6. The fragile expectancy of markets takes its first clanging dents. The bubble starts to turn into trubble.

7. The institutional money firms appeal to government not to let the market collapse.
8. The government pours in public spending, and the central bank loosens monetary policy, helping the institutional money to escape losses.
9. The government, pushed by creditors, launches tough austerity measures to bring down public debt (and cut the size of the state for ideological reasons).
10. Income concentration at the top increases, and bubble dynamics begin elsewhere.

Meanwhile large segments of the population are plunged into real distress as public services are cut and household budgets tighten. Said a man caught in the Greek death spiral, who had been laid off in 2008 from a shipyard outside Athens that a decade ago employed 7,000 workers and now employs 500, “I can’t sleep at night for worry. It has affected every part of our lives: personal, sexual, the lot.” How many families in his housing block are in a similar situation? “80%. . . . Don’t be surprised if Athens goes up in flames,” he added (Chakrabortty 2011). The erosion of skills and motivation experienced by people caught in multiyear involuntary unemployment drags on economic recovery and aggravates social problems far into the future.

During every bubble the mantra is, “This time is different. This time is sustainable.” Every time during the trubble, defenders of the neoliberal or Washington Consensus paradigm manage to protect it from serious scrutiny as the true guide to public economic policy by blaming exogenous factors, such as corrupt borrower governments or lazy Greeks. But now, in the wake of the 2008 crash and the ensuing long slump, confidence in the paradigm has been somewhat shaken among public policy analysts and politicians, as governments felt constrained to substitute public spending for the collapse of private consumption in order to avoid a descent to a 1930s equilibrium of output and employment (Wade 2009c). The efforts to strengthen financial regulation push back against the neoliberal presumption in favor of “more market and less state” as the route to prosperity.

Inequality, Growth, and Poverty

All this relates to the effect of inequality—at the higher end of the "low" cluster—on financial fragility. As for the effects of inequality on poverty, there is reasonably good evidence that higher levels of inequality go with lower "poverty alleviation elasticity of growth," meaning that the higher the inequality, the smaller the effect of each increment of growth in reducing the poverty rate. For example, in a sample of forty-seven developing countries in the 1980s and 1990s, the poverty headcount dropped almost 10 percent in those countries where inequality fell (in Gini terms), but by only 1 percent in those where inequality rose (Cornia 2004). The mechanism operates in part through the effect of economic growth on public revenue and public spending. Where inequality is high, public spending tends to go toward purposes that benefit mainly the already well-off; where inequality is low, the benefits are more widely dispersed.

Inequality and Social Problems

Inequality is also linked to a range of social problems and health problems. Wilkinson and Pickett's *The Spirit Level* provides evidence from developed market democracies that for any given social class or income level, people do better (in terms of infant mortality, mental illness, obesity, teenage births, and murder) than their class or income counterparts in less-equal societies. In other words, even the richest sections of the population in more-unequal societies do not escape the adverse effects of inequality, and in this sense inequality can be thought of as analogous to air and water pollution. The authors also argue that—controlling for the increase of life expectancy by two or three years every decade over the past century in rich countries (one of the biggest mysteries in the field of public health)—inequality depresses life expectancy at all levels of more-unequal societies. This conclusion is controversial, however. Angus Deaton concludes from a hard look at the evidence, "Whether income redistribution can improve population health . . . remains an open question" (2003).

Conclusion

Whatever else we conclude, we can hardly dismiss inequality with "I just don't care" or invoke the magic of the "trickle-down effect" or the Kuznets inverted-U hypothesis to justify inaction at curbing top-end inequality. These claims are as far from plausible as Greece is from solvency. Five points are particularly striking.

First, the world economy is experiencing not a global income convergence but an "Asian convergence," with Asian economies reducing the still very large absolute average income gaps between them and Western economies. This is indeed a historical watershed, because more than a third of the world's population is carried along in this convergence. But equally important, most developing countries and regions show no sustained convergence with the West (in terms of average income). Indeed, if we measure countries' and regions' average income not weighted by population, the trend is divergence; the caravan has been lengthening.

Second, there is a common pattern of change in inequality within both developed and developing countries across time, with a steep increase in internal inequality between about 1980 and 2000. This suggests that some of the bulldozer forces on internal inequality are international, such as commodity and financial regimes. Others are national policies of the larger rich countries, notably the United States, whose loose monetary policy in the 1990s and 2000s helped to generate inequality-raising asset bubbles in several regions of the world.

Third, across middle- and high-income countries, the half of the population in middle and upper-middle income deciles (D5–9) has managed to protect its income share at around half of national income. Most of the variation between these countries in average inequality comes from variation in the ratio of the share of the top 10 percent (D10) to that of the bottom 40 percent (D1–4). This finding by Jose Gabriel Palma, if confirmed by other researchers, constitutes an intriguing puzzle in the study of income distribution. Whatever the explanation, it shows that to measure convergence and divergence just by average income is misleading; in many middle-income countries,

the top 10 percent (or less) is on the up escalator toward European and American middle- and upper-middle lifestyles, while the bottom 40 percent is heading downward. The Gini coefficient and the label "middle-income country" conceal these contrary trends.

Fourth, in terms of effects, higher levels of inequality reduce the impact of a given unit of economic growth on poverty reduction. This effect seems to outweigh whatever impact higher inequality may have on incentives for entrepreneurship and hard work. For this and other reasons, it is misleading to conflate poverty reduction with inequality reduction, as though the former equates to the latter. Yet this is the norm in Western and international policy circles.

Fifth, rising within-country inequality, falling share of wage income, and growing power of capital relative to labor since the 1980s have raised the level of financial fragility in Western economies and some middle-income economies. Beyond the initial fiscal stimulus, the policy response to the 2008 crisis and long slump has been focused largely on financial re-regulation. The progress so far could best be described as stuttering, as in the modestly increased Basel III ratios of equity to risk-adjusted assets for the bigger banks. And the focus on regulation has completely eclipsed attention to top-level inequality as a remorseless engine of financial fragility, which continually undercuts efforts at financial regulation. Without reductions in income polarization, as well as stricter financial regulation (such as higher capital adequacy standards and restrictions on the rate of asset turnover of the giant funds), we can expect more multicountry crashes rotating from place to place around the world at a frequency of roughly one in five years.

One would think that the combination of the current crash, realization of the West's dependence on fast growth in China and a few other large developing countries for its own recovery, and evidence that most (unweighted) developing countries are still diverging rather than converging would place issues of within- and between-country income and wealth inequalities high on the agenda of global and regional governance, such as G20 summits. They are not. No leading government wishes to attract international attention to the way that

its own policies affect inequality and financial stability in the rest of the world (giving the rest of the world leverage over its actions). Better in official U.S. eyes to divert attention to exchange rates, especially China's alleged manipulation of its exchange rate, as the source of U.S. difficulties. This is a convenient but largely spurious argument, given that the United States has run current account deficits almost continuously since the 1970s, regardless of the strength of the dollar (Akyuz 2011). Similarly, better in German eyes to blame profligate Greeks, Portuguese, and Irish, and demand Versailles-type austerity, in order to shield from view the role of German banks in lending to these countries and helping the market for German exports, as well as the role of German wage compression in making it difficult for them to increase their exports.

The larger point is that the super-rich in the top percentile of national distributions around the world (who through political party financing wield vastly disproportionate influence on public policy) are only too keen to promote the notion that in the era of globalization, the only meaningful "common good" or "national interest" is what the marketplace and political winners (themselves) think. Whether in finance or other sectors, the super-rich emphatically do not want government and public attention to inequality, other than in the sense of poverty reduction (Wade 2011b). Meanwhile the anxious middle classes—in China and India as in the West—dislike high inequality but are also lukewarm about downward redistribution, fearing that it will close the gap with those below them and that they may even lose. Palma's evidence suggests that they have not lost their relative share of national income as globalization, neoliberal policies, and concentration of income at the top have proceeded; indeed they have gained relative to the bottom 40 percent, which is always gratifying. Why put this at risk by pushing for downward redistribution? The mainstream of the economics profession shows little more interest in inequality than it did in decades past. We can conclude that until top-end inequality and the squeeze on wages come to be seen as problems in need of redress, more multicountry financial instability and social distress lie ahead, even for the wealthy.

Notes

1. The present article builds on Wade (2007, 2009a, 2009c).

2. These figures are based on a sample of ninety-six countries in 2000, using market exchange rates, with cluster boundaries defined as plus or minus half a standard deviation from the mean of the two clusters. See Korzeniewicz and Moran (2009).

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