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CDE POLICY BRIEF

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Inequality: What's in a word?

Ten years have passed since the global financial crisis first struck. But its shockwaves remain with us, from depressed wages and persistent debt burdens to charged protest movements, divisive politics, and renewed nationalisms – especially, but not only, in the rich global North. Moreover, the broader *economic discourse* has radically changed, with worldwide implications. Researchers and the (sustainable) development community, in particular, both echo and shape this changing global discourse. Today, *inequality* is on everyone's lips. This policy brief examines inequality, and how its perspective on poverty and wealth can enhance research and policy. Above all, use of an inequality lens fosters vital *systems thinking* about how wealth is created, who captures it, who loses it – or bears the ecological costs – and how to achieve fairer outcomes.

The research featured here is focused globally.

Trendy 'development speak'?
Each year, Oxfam tells us how a dwindling number of rich men own most of the world's wealth.[1] Books and articles on inequality abound.[2] The stated aim of Sustainable Development Goal 10 is to "Reduce inequality within and among countries".[3] Cynics might see it is as a simple rebranding exercise by the development community and researchers, merely swapping a nominal focus on *poverty* for one on *inequality*. What does it really add? As it turns out, a lot.

Wrinkles in Kuznets' curve
First of all, the growing inequality we have woken up to in the global North shows the failure of an economic (policy) idea that ruled for decades: Namely, that market-led economic growth, measured in GDP, would *inevitably* improve the lives of all, especially at more advanced stages. We now know that Kuznets' optimistic mid-century theory is deeply flawed.[4] Economic inequality is not simply a necessary step in development that automatically declines after countries industrialize

KEY MESSAGES

- Focusing on inequality fosters urgently needed *systems thinking* about how economic value is produced, accumulates among some groups, and is lost by others. It also highlights related ecological harms, and how these are distributed. In short, it helps show how concentrated wealth and poverty are *made* and might be *unmade* for more sustainable, egalitarian outcomes.
- This view also identifies key *actors* who have benefitted or suffered from recent economic trends. *Beneficiaries* include transnational firms, the financial sector, executives, major shareholders, and the already wealthy. *Sufferers* include democratic states, workers in the global North, and many groups in the global South – the latter especially in terms of ecological burdens.
- Examining the links between these actors reveals key *dynamics* that may drive inequality. They include financialization, debt, consolidation of global markets in a few hands, and workers' loss of bargaining power. Policymakers, researchers, and civil society must urgently join forces to design and implement redistributive and *pre*-distributive solutions.

and market forces take hold. Forty-year trends in countries like the US[5] and UK[6], which inspired this hypothesis, now show the opposite,[7,8] as do trends in some developing countries.[9] And according to the World Bank (2016), the United Nations' goal of ending global poverty by 2030 cannot be achieved by relying on current patterns of growth.[10]

A systemic view

Of central importance for researchers and policymakers, focusing on inequality fosters a much-needed *systemic view* of poverty. This emerges from its relational, comparative perspective. Instead of looking narrowly at the plight of low-income workers or landless populations, for example, the inequality lens demands we zoom out and consider their conditions vis-à-vis wealthier groups, locally or globally. This raises fundamental, systems-level questions: How has the wealth at the top been created? How does capital circulate and accumulate among certain groups?

Elephant vs. hockey stick?

The potential of this systemic perspective is highlighted by the now-famous "elephant curve" chart.[11] It visualized *relative rates* of income growth worldwide, among different income percentiles, from 1988 to 2008 (see Figure 1, black line). It quickly became something of an ideological Rorschach test among experts, with some celebrating the apparent high *rates* of income growth among the world's poorer half (the elephant's *back*, *head*, etc.) and others stressing the stagnation visible around the 80th income percentile (the sag in the *trunk*). Worryingly, an updated chart (dubbed "Loch Ness", not pictured) using more data from a longer period (1980 to 2016) points to smaller income growth rates in the poorer half and wider stagnation in the upper third.[12] Finally, charts that plot income gains in *absolute* terms paint a bleak picture: One "hockey stick"-looking chart suggests that, at current growth rates, it would take over 250 years for the world's poorest 10% to reach the average global income level of USD 11 per day (Figure 1, red line).[13]

Inequality beneficiaries

Notably, despite variations, the different charts agree on one particular trend: that of a small sliver of the world's population – the top 1% and 0.1% especially – vastly increasing its income and wealth in recent decades. But whose experience do these and other income percentile data reflect? To understand inequality, we must identify *who* is benefitting or suffering from current trends.

Transnational firms, CEOs, major shareholders, and the already rich have benefitted greatly from long-term shifts in wealth and ownership from the public to the private sector[14] and from bottom to top. According to one recent estimate, 69 of the top 100 economies (by revenue) are corporations, not states.[15] Importantly, a growing share of this increasing corporate wealth has gone to executives and shareholders, not to average workers. For example, the CEO-to-average-worker pay ratio in the US was 30-to-1 in 1978. Today, it is over 250-to-1.[16] Other countries with highly unequal ratios are India, the UK, South Africa, the Netherlands, and Switzerland (over 150-to-1).[17] Notably, due to generous stock options for senior company staff, high CEO pay is also a function of the now-dominant goal of "maximizing shareholder value".[18] This fuels inequality because a minority of people and legal entities owns most of the world's stock value.[19,20]

The financial sector has also profited immensely. Some economists suggest its role deserves extra scrutiny because it may steer the questionable actions (e.g. corporate mergers, stock buybacks) of other powerful actors.[21] Further, the profits of financial actors – like private investment banks and pension funds – may be *extractive*, not productive.[22] One example is banks' emphasis on making loans to buy *existing* assets – like homes or land – instead of investing in *new* construction or businesses.[23] This bids up asset prices, fuelling bubbles and speculative gains for owners, detached from market fundamentals (e.g. labour or material costs). Another example is financial firms' revenues from interest rates, hidden fees, or penalties levied on indebted households. In such cases, financial actors make profits (adding to GDP), yet nothing of value is created.[24] Last but not least, financial actors are key enablers and beneficiaries of global *tax avoidance* and *illicit financial flows* (www.curbing-iffs.org).

Inequality sufferers

On the flipside are the many actors who have arguably lost out as inequality grows.

Democratic states and providers of 'public goods' are especially concerning victims of inequality trends. Elites in various relatively rich democracies (e.g. Brazil, Chile, India, Mexico, South Africa, UK, US) have used their wealth to steer state policies to serve their interests, at the expense of lower strata.[25] Examples include "neoliberal reforms" that cut taxes on top incomes and inherited wealth; privatize natural monopolies like railways or water utilities; and defund public education and social safety-net programmes.[26] Notably, elite capture of the *media* often aids the process.[27] The resulting dysfunction of governments and underfunded public institutions (e.g. schools) can cause citizens to doubt democratic participation and public services altogether, producing harmful, *inegalitarian* cycles.

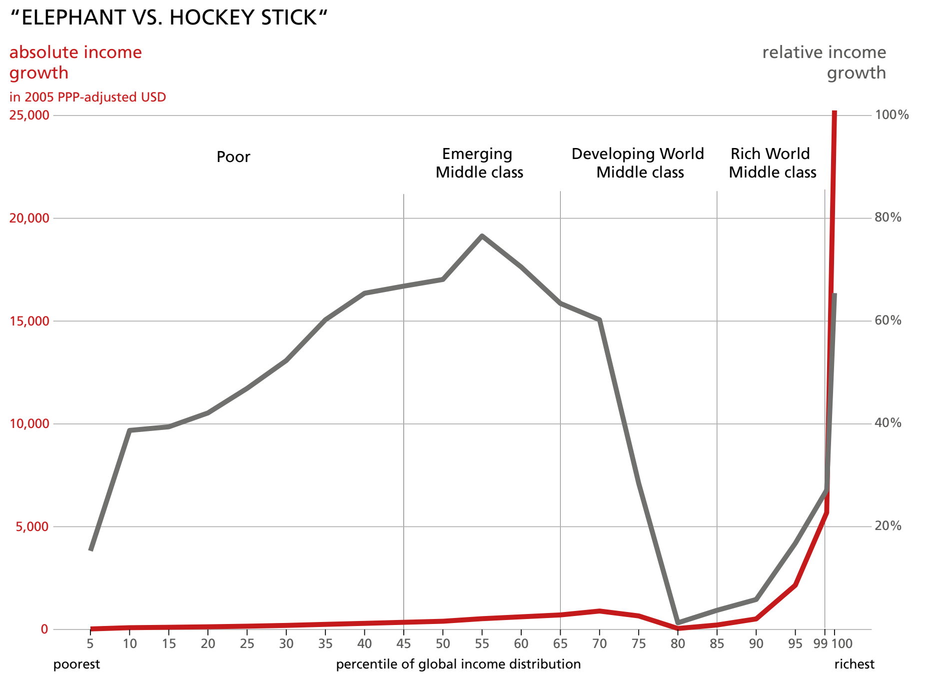

Figure 1: This chart offers a systemic perspective on income growth worldwide in US dollars (1988–2008), in which both absolute income growth ("hockey stick", red line) and *relative* income growth, i.e. percentage change in income ("elephant", black line), are displayed based on the *same* data source. (Data: Lackner & Milanovic 2013, 2016; Graph: C. Bader 2019)

The ‘squeezed’ middle and working classes of the global North are the most publicized sufferers of recent inequality dynamics.[28] In Europe, the US, and elsewhere, their struggle has been characterized by loss of manufacturing jobs, unions, and secure pensions; stagnating incomes (despite rising productivity); more insecure short-term/part-time employment contracts (often in the service sector); and rising costs for education, healthcare, and housing. Their wealth, if they have any, has often taken the form of home ownership (or equity), such that the burst housing bubble in 2008 erased many people’s savings. Particularly in the US, people of colour, women, and other marginalized subgroups (see *intersectionality*) have been hit hardest.[29] Ongoing home evictions and growing levels of personal debt show their plight is far from over.[30]

Undecided?

Finally, there are the countless population groups and individual actors – especially in middle- and low-income countries in Latin America, Africa, Asia, etc. – whose experiences “coping with globalization” defy easy summary.[31] Here, monetary measures of wealth and income – including the much-debated extreme poverty line of USD 1.90 per day – often fail to capture people’s well-being. Continued research and more specific *multidimensional* measures of human welfare (e.g. nutrition, electricity access, sanitation, air quality) are needed to tease out inequality trends among actors in these regions (Bader, Bieri, Wiesmann, Heinimann 2017).

The new middle or upper classes in China, India, and other Asian countries in their orbit (e.g. Thailand, Malaysia) have emerged as potent symbols of successful export-led development. Economic and material gains here have been spectacular, marked by breakneck urbanization and new high-consuming lifestyles for some people. However, the local environmental costs of dirty industrialization and production – like major air pollution – are serious cause for concern, including close to a million pollution-related deaths linked to export goods in a single year.[32] This highlights issues of *environmental inequality* or *justice* – even or especially where economic growth rates are highest.[33]

Peasants, indigenous people, and the poor across the global South are the biggest question mark in the inequality debate. Their lives remain the site of “development” as popularly imagined. CDE research in many developing countries shows a mixed picture. Whether small farmers in South America, plantation labourers in Southeast Asia, or greenhouse workers in East Africa, much depends on the terms (e.g. labour protections, profit-sharing) and extent (e.g. level of wage dependency) of people’s integration into global value chains (www.fate.unibe.ch). Land access or ownership remains central to many people’s well-being. Those who lose land often give up a life of *vulnerability* (e.g. subsistence farming), at the mercy of nature, for a life of *precarity* (e.g. wage labour), at the mercy of fickle markets.[34] Stitching together a livelihood from a mix of activities is common. Some groups, like pastoralists in Africa, have been marginalized by development efforts. Other pockets of poor have simply been bypassed. Pressing livelihood threats across the global South include climate change, land grabs (www.landmatrix.org), biodiversity loss, and ecological harm from crop monocultures, extractive industries, etc. – much of it due to the demands of faraway consumers and investors (www.telecoupling.unibe.ch).

Uncovering key dynamics

With these actors in mind, we can begin to identify other systems-level dynamics that may characterize their actions, drive gains or losses, and *link* the global North and South.

Rent-seeking arguably unites many of today’s private “winners” of inequality trends.[35] *Economic rent* – or “unearned income” – may be seen as an unjustified profit margin (above cost) captured by powerful players like monopolists or patentholders.[36] Notably, classical economists such as Adam Smith originally defined “free markets” as those free from such rents. Today, ongoing company mergers point to mounting dangers of market consolidation and quasi *monopoly* power in vital sectors like energy and food. Transnational agribusinesses, for example, increasingly control regional input markets for farmers (e.g. in South America) and grocery offerings to consumers (e.g. in Europe).[37] *Vertically integrated* global commodity firms involved in both resource (e.g. oil) extraction and trading effectively sell goods to *themselves*, creating risks of mispricing.[38] Drug companies exploit *patent* rules to sell vital medicines for much more than they cost to make.[39] Tech firms sell personal data that millions of users give them for free.[40] And private banks enjoy privileges to create *(credit) money* by making interest-bearing loans, with many still backed by states if things go wrong.[41] These dynamics defeat the very purpose of markets, squeezing the citizens of rich and poor countries alike.

Debt that is treated as *non-negotiable* is a burden shared by many inequality “losers”, whether heavily indebted workers (e.g. mortgage, credit card) in the global North or whole states (e.g. Mozambique, Jamaica) in the global South.[42] It is arguably impossible to grasp global poverty or economic crises without reference to debt.[43] The few economists who foresaw the 2008 financial crash were keen debt analysts.[44] Even the oft-cited “resource curse” may actually be tied to debt overhang among poor countries that borrowed in foreign currencies and used their natural resources as collateral.[45] More broadly, interest-bearing debts are fundamentally at odds with sustainability: “Servicing” them demands ever-increasing economic activity and environmental exploitation. The growth of such debt obeys mathematical laws, not ecological or social limits.[46]

Financialization in rich areas vs. resource exploitation in poor areas is another apparent dynamic of inequality, characterized by a geographic split between the global North and South or between rich (often urban) centres and poor (often rural) peripheries. On the one hand, wealthy states or cities cut taxes and other regulations as they compete to host the headquarters and financial flows of “super firms” (one feature of a recently posited “finance curse”).[47] On the other, poorer states or districts cut environmental and labour protections and slash wages as they compete to host extractive industries, manufacturing, or production of commodities. People on either side of the world may be harmed by the *same firms*, such as when a fee-heavy pension fund[48] in the global North invests in, or “grabs”, land in the global South[49]; or when a firm uses a secretive tax haven to avoid tax and environmental responsibilities in multiple countries.[50]

These are just some of the actors and dynamics revealed by shifting the focus from poverty to inequality. All in all, it helps to identify some of the root causes and systems behind poverty and ecological harm, and suggests ways of transforming them.

Anu Lannen, MA
Policy Brief Editor
Centre for Development and Environment (CDE)
University of Bern, Switzerland
anu.lannen@cde.unibe.ch

Sabin Bieri, PhD
Head of Socio-Economic Transitions Cluster
Centre for Development and Environment (CDE)
University of Bern, Switzerland
sabin.bieri@cde.unibe.ch

Christoph Bader, PhD
Senior Research Scientist
Centre for Development and Environment (CDE)
University of Bern, Switzerland
christoph.bader@cde.unibe.ch

Research and policy implications

Adopt an inequality lens for a systemic view of poverty and sustainability
Use of an inequality lens sharpens our focus on *key actors* and *dynamics* fuelling poverty and unsustainability worldwide. It highlights the increasing wealth and power of a small group of people and legal entities that hold most of the world's value in stocks, bonds, real estate, and other forms of savings. It suggests their actions (e.g. rent-seeking), lack of proper state/global rules or enforcement (e.g. antitrust), and core systemic flaws (e.g. interest on debts) may siphon wealth away from lower social strata and drive ecological harms. These dynamics are often masked by "growth for all" rhetoric.

Recognize that wealth is collectively generated, and its distribution depends on our beliefs
Inequality reminds us that deficits in one place are often directly linked to surpluses in another, with *collectively* generated value captured by a few. It suggests there is ample wealth in circulation to tackle poverty, and doing so is largely a matter of political choice, power dynamics, and societal beliefs. It prompts us to ask what we consider desirable, and how research and policy can enable more sustainable, egalitarian outcomes.

Restore, reinforce, and replicate proven policies that support shared well-being
Prior generations who faced similar challenges responded with major new policies like social security, socialized medicine, and tight control of capital mobility. Today, we can expand these and other proven policies, like progressive taxation, union organizing, and mission-focused public spending[51] – possibly bolstered by renewed "class" awareness and *international* solidarity among lower social strata.

Design, implement, and study new policies, including *pre*-distributive approaches
However, the time is also ripe for new approaches. Policymakers and researchers from *diverse* disciplines should collaborate closely on the *design*, *testing*, and *study* of holistic responses.[52] Efforts to measure progress should be agnostic about GDP growth, focus on multidimensional indicators of human well-being, and rigorously scrutinize the distribution of existing wealth and future gains. Promising policy approaches include pre-distributive measures like *limits on top pay* (e.g. relative to median), *guaranteed jobs and living wages* for lower social strata, or even *universal basic assets*.[53] Other innovative policy ideas include targeted *debt jubilees*, fairly distributed *unitary taxation of multinationals*, revision of *corporate charters* (e.g. to reflect environmental justice), and *reform of finance and credit creation to serve the public good*.[54]

Suggested further reading

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Centre for Development and Environment (CDE)
University of Bern
Mittelstrasse 43
3012 Bern
Switzerland
www.cde.unibe.ch

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