



Inequality and Economic and Political Change

A Comparative Perspective

James K. Galbraith

prepared for the UNRISD project on UNRISD Flagship Report: Combating Poverty and Inequality

February 2009 • Geneva



UNRISD was established in 1963 as an autonomous space within the UN system for the conduct of policy-relevant, cutting-edge research on social development that is pertinent to the work of the United Nations Secretariat; regional commissions and specialized agencies; and national institutions.

Our mission is to generate knowledge and articulate policy alternatives on contemporary development issues, thereby contributing to the broader goals of the UN system of reducing poverty and inequality, advancing well-being and rights, and creating more democratic and just societies.

UNRISD, Palais des Nations 1211 Geneva 10, Switzerland

Tel: +41 (0)22 9173020 Fax: +41 (0)22 9170650 info@unrisd.org www.unrisd.org

Copyright © United Nations Research Institute for Social Development

This is not a formal UNRISD publication. The responsibility for opinions expressed in signed studies rests solely with their author(s), and availability on the UNRISD Web site (www.unrisd.org) does not constitute an endorsement by UNRISD of the opinions expressed in them. No publication or distribution of these papers is permitted without the prior authorization of the author(s), except for personal use.

Inequality and Economic and Political Change: A Comparative Perspective James K. Galbraith

Abstract

This chapter describes the broad evolution of inequality in the world economy over the past four decades, and provides a summary account of the relationship between inequality, economic development, political regimes and the functional distribution of income. The evidence on inequality comes from a series of data sets built by the University of Texas Inequality Project; that on the related factors is developed in background papers to be appended to this work.

1. Introduction

As a matter of definition, economic inequality is associated with poverty: other things equal, distributions with fat tails have more people at the lower end. But, are other things equal? Are highly unequal countries generally richer than egalitarian countries, or are they generally poorer? Does inequality tend to rise or fall with rising income, or is there some complicated non-linear pattern in this relationship? Can inequality be justified, in a word, by its contribution to growth? Or do high-income countries whose civil societies are dominated by very rich people–such as the United States--also tend to have many poor?

Further, to what extent are countries "free to choose" a political regime that will reduce inequality and poverty even at low levels of income? What political regime types–if any–seem to have succeeded best at this objective? Does economic policy matter, and how much? What is the relationship between the functional distribution of income – the shares of wages and profits in total output – and the personal or household distribution?

Finally, what are we to make of changing patterns of inequality within and between countries in an age of globalization? Is there a common global pattern and if so, what does this fact tell us about global governance? And, in an interdependent age, can the policies and strategies of one country spill over onto the distributional and poverty outcomes of another? Particularly, if that country happens to be China?

These are empirical questions and they require empirical answers. For this purpose, widelyused global data sets on economic inequality are inadequate, for reasons described in Galbraith (2009) and Atkinson and Brandolini (2001). This paper takes a different approach, integrating the global, regional and national data sets on economic inequality of the University of Texas Inequality Project into the project of inquiry. These data sets bring a unique resource to bear, in the form of dense, consistent and reliable measures of inequality in the structure of pay and earnings, for a large number of countries during the period from the early 1960s through to the early years of the new century. While far from perfect, the UTIP measures permit the recognition of patterns and relationships, broadly between economic inequality and structural change, that might otherwise remain obscure.

2. Sources of Data and Limitations of the Project

UTIP's inequality measures are computed as the between-groups component of a Theil T statistic, a very general procedure that can be applied to many sources of data, including harmonized transnational industrial data sets (such as UNIDO's Industrial Statistics), regional data sources (such as Eurostat's REGIO) and national data sources subdivided by province, economic sector, industry, or any combination of these at practically any level of disaggregation. The method does not require recourse to micro data sets derived from sample surveys, and the result is a plethora of new measures of the evolution of economic inequality, capturing many different aspects of the phenomenon and revealing the complexity of the story to be told. As Galbraith and Kum (2003, 2005) have established, the resulting measures are often comparable both through time and across countries.

The fundamental method is summarized in Conceição, Galbraith and Bradford (2001), and is based on the work of Theil (1972), who argued that an inequality measure computed from grouped data provides a consistent lower-bound estimate of inequality for the entire population. Of course the lower bound is very low, since if the number of groups is small relative to the population, practically all inequality will be located within groups rather than between them. Nevertheless. Conceição *et al.* demonstrated that for a wide range of commonly available, hierarchical data sets, such as industrial classification schemes, relatively coarse disaggregation is sufficient to capture the major movements of inequality in the whole distribution. The reasons for this lie partly in the mathematics: income distributions are approximate statistical fractals, self-similar at different scales and from different points of observation, so that observation of the entire distribution, or even of a statistically representative portion of it, is not necessary in order to observe change with reasonable accuracy most of the time. All that is required, is to observe an important part of the distribution (say, the manufacturing sector) *on a consistent basis over time*. Since this part is linked organically to other parts that may not be observed, such as agriculture and services, movements in the observed part are usually--not always, but usually--representative of movements in the shape of the entire distribution.

The rest of the explanation lies in the economics: changes in the structure of incomes often occur because of changes in the relative positions of major industrial groupings (a rise of industry over agriculture, for instance, or of finance over industry) or in the relative position of different geographic areas, differentially affected by demographic change, climate or war. Thus after a certain point, further disaggregation adds little useful information, and to discern the movement of inequality *grosso modo* it is rarely useful, and practically never necessary, to work from micro-level data sets.

The UTIP inequality measures are also broadly consistent with conventional, survey-based income inequality measures, or can be made so by statistical adjustment, after allowing for conceptual differences between pay and income, and for the many different kinds of inequality that are reported in the survey-based literature (e.g., income, expenditure, gross or

net of tax, household or personal) (Galbraith and Kum 2003). The advantage is that data of the type used in the UTIP procedure are nearly ubiquitous, and coverage in terms of countries and years is far greater than can be achieved with surveys. The UTIP method thus permits the formation, at trivial cost, of nearly balanced annual panel data sets covering several hundred countries over three or four decades, and therefore new investigations into the relationship between economic inequality and other variables. Measures of inequality may also be calculated both within and between regions inside many countries. In some countries, inequality measures can be computed on a monthly basis, permitting the use of this statistic as a high-frequency macroeconomic indicator.

The present study thus starts with the formidable advantage of having in hand a reliable, consistent, well-studied set of inequality measures: international, regional, national and provincial. The international data have now been updated, in the work of Kum (2008), using the most recently available source material. Kum's work also provides ancillary measures of structural change, in the sense of changing sectoral patterns of employment through the course of development, industrialization, and the emergence in parts of the world of post-industrial society. The difficulty going forward lies in the need to develop consistent and useful measures of other relevant phenomena, such as political regime type and the functional distribution of income. Hsu (2008) and Giovannoni (2008) provide discussions of issues associated with developing broad transnational data sets on these issues.

Having said this much, it is worth pointing out that the UTIP approach also has limitations.

Of these, perhaps the most important is that the work is *statistical and comparative*; it cannot be substituted for the detailed case-by-case analysis required to understand developments in particular countries in fine detail. This is true even though, as we shall see, the UTIP procedures do permit detailed analysis of intersectoral shifts in income shares in many countries. The political economy of industrial development, agrarian reform, educational investment, and political change in particular countries and regions forms an entire field. Many excellent studies address these topics, this one is not among them.

The UTIP data are also largely focused on pay, aggregated by sector and region. Pay is associated with jobs, not with households, and the data sets lack information on the characteristics of the workers or their families. For this reason, the UTIP studies are not very well suited to an analysis of the social welfare consequences of political and economic change, nor of the effects of such change on gender or ethnicity, except where these attributes are associated with the distribution of jobs. Finally, the data are entirely pre-transfer, and shed no light on the post-transfer distribution of income. The last point appears to be of little practical significance in global comparisons, however, for two reasons. First, transfer payments are of little practical significance outside the OECD region. Second, within that region the scale of transfers is closely correlated with the equality or inequality of pay structures, so that the inequality rankings found in the UTIP data would not change

预览已结束, 完整报告链接和二维码如下:



