Global Inequality in the Current Era*

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Abstract

One of the most vehement criticisms to the current global era refers to the issue of huge income disparities within and between countries. At present, global inequality is higher than it was 200 years ago but, at the same time, up to COVID 19, the Gini index marks the first time since the Industrial Revolution that it stopped rising. This downward trajectory has been driven by a decline in between-country inequality —the main explanatory factor for global income disparities— partially offset by a rise in within-country inequality. The downward trend between countries should not be unexpected, since low-income countries in Asia, particularly China, have experienced growth rates substantially above the world average in the context of a rapid industrialization process. The pandemic has revealed and worsened preexisting inequalities in both within and between countries, so that global inequality also appears to have increased since its outbreak.

Keywords: Inequality; globalization; economic policy.

JEL: D3; F01; F6.

Desigualdad global en la era actual

Resumen

Una de las críticas más vehementes a la actual era global se refiere a la cuestión de las enormes disparidades de ingresos dentro de los países y entre ellos. En la actualidad, la desigualdad mundial es mayor que hace 200 años, pero, al mismo tiempo, hasta el COVID 19, el índice de Gini marca la primera vez desde la Revolución Industrial que dejó de aumentar. Esta trayectoria descendente se ha visto impulsada por un descenso de la desigualdad entre países —el principal factor explicativo de las disparidades de ingresos a nivel mundial— parcialmente compensado por un aumento de la desigualdad dentro de los países. La tendencia a la baja entre países no debería ser inesperada, ya que los países de bajos ingresos de Asia, especialmente China, han experimentado tasas de crecimiento sustancialmente superiores a la media mundial en el contexto de un rápido proceso de industrialización. La pandemia ha revelado y agravado las desigualdades preexistentes tanto dentro de los países como entre ellos, de modo que la desigualdad mundial también parece haber aumentado desde su estallido.

Palabras clave: desigualdad; globalización; política económica.

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Introduction

Economic globalization is among the most powerful forces shaping the contemporary world. There is consensus that globalization provides mankind with new possibilities for the most efficient use of world resources, makes available huge opportunities in terms of growth, welfare, and achievement. To others, however, globalization is promoting a severe exploitation of the world natural resources, is producing economic and social inequality both within and among countries, and is shaping new forms of instability in economic, social, and political relations (Grieco & Ikenberry, 2003).

In the context of the monumental changes produced by the two waves of globalization in both rich and poor countries, huge income differences have raised serious concerns for policy making. In the past, the high global inequality of the 19th century can be seen as one of the factors that fueled the demands for social protection that proliferated in the 20th century after World War I, while the New Deal in the US was a strong reaction against the orthodox economic paradigm imposed by the Gold Standard (Eichengreen, 2008).

The rise in inequality in the most advanced countries since the 1970s has been attributed to the implementation of polarized policies (Stiglitz, 2015). Some developing countries still find it difficult to embrace free trade and investment policies or pro-market policies and, as the commodity boom has finished, are also experiencing polarized politics (Busso & Messina, 2020). Experience has shown that greater inequality has not made economies more resilient to shocks; "on the contrary, it has made economies more vulnerable" (UNCTAD, 2012, p.166), which has led to a growing consensus among social scientists and policymakers that high levels of inequality are not only objectionable in ethical terms, but also detrimental in economic and political terms.

Research on global inequality is not a new endeavor, but it has intensified due to the need to understand the presence of large disparities despite its downward trend between the late 20th century and the pandemic. Indeed, until the outbreak of COVID 19, the mapping of global inequality reflects a downward trajectory driven by a decline in inequality between countries —main explanatory factor for global income disparities— partially offset by a moderate rising inequality within countries (Lakner, 2019). For its part, the pandemic appears to have exacerbated existing disparities, complicating the global picture, and addressing the problems it generated will be no easy task. Given the overwhelming impact of the pandemic, countries with more fiscal space can cope more comfortably than those without it (Gopinath, 2021).

In all, these issues make the study of global inequality a topic of utmost relevance. It is important not only to update the academic research on this topic but also convey the idea that "whether these megatrends are harnessed to encourage a more equitable and sustainable world, or allowed to exacerbate disparities and divisions, will largely determine the shape of our common future" (UN, 2020, p.3).

In this framework, the research will briefly introduce the theme of global inequality, explore it in terms of the principal evolutive moments, analyze the drivers that explain the dynamics of inequalities within and between countries, introduce the Latin American case, evaluate these issues in a broader global scope, and finally present the conclusion. Overall, it aims to review the prevailing literature highlighting the significance of the topic of global inequality in our days.

Global inequality

Calculations of global inequality add two components: the between-country inequality and the within-country inequality. The first component assesses disparities in per capita gross domestic product among countries, either as a population-unweighted measure in which each country counts equally or as a population-weighted measure in which each country is weighted by its population, the latter conveying more important information about inequality between countries. The second component adds up to the calculation the disparities within each country (Milanovic, 2006; Neckerman & Torche, 2007).

In the early 1800s, most of the global inequality was due to inequality within countries. The spread of the Industrial Revolution to Western Europe and its offshoots led to an increase in inequality within the prosperous countries. Although it continued to account for a significant proportion of global disparities, within-country inequality began a downward trajectory thereafter (Bourguignon & Morrison, 2002). From 1000 to 1820, the world growth exhibited a "slow crawl" (Maddison, 2006, p.19). Between 1820 and 1950, the diffusion of technological advances generated by the Industrial Revolution reshaped the global landscape by improving the performance of capitalism leading to the continuation of faster growth in the West relative to the rest of the countries and intensifying between-country inequality due to these productivity divergences (Maddison, 2008).

Since the onset of capitalism, global inequality registered dis-equalizing and equalizing forces that caused it to escalate throughout the 19th century and the first half of the 20th century, peaking between 1950 and 1980 and then declining (Bourguignon and Morrison, 2002, pp.727;738; Lakner, 2019, p.13). At the end of the 20th century, the world was characterized by "huge income disparities across world regions, by overall growth in average world income, and by the highly uneven distribution of growth across regions" (Firebaugh and Goesling, 2004, p.287). While these different trends resulted in a decline in the population-weighted measure of inter-country inequality since the late 1970s, the non-population-weighted measure shows an increase from the late 1970s until 2000. With the turn of the century, both measures undoubtedly began to show a downward trajectory that lasted until the outbreak of COVID 19. The change in the trajectory of the unweighted measure between the last quarter of the 20th century and the 2000s can be explained by the shock of the global financial crisis in the rich world and the fast growth of Latin America and Africa as result of the commodity boom (Milanovic, 2016).

The trajectory of the weighted measure can be explained by the higher growth of the rapidly industrializing populous countries —China, East Asia, and South-Asia — relative to the world since the last quarter of the 20th century onwards, which has been a key factor in global income convergence (Firebaugh & Goesling, 2004). Curiously, the colossal performance of China and India derived from economic policies different from the neoliberal ones so widespread in other developing countries (Hung & Kucinskas, 2011). Given the weight of China and India in the total, income convergence continued in the new millennium even though it has not always registered a downward trend at the domestic level (Rodrik, 2016). Nevertheless, future convergence is uncertain because these countries might not repeat their high growth rates of the past or because many developing countries will continue to register low rates of growth (Korzeniewicz & Albrecht, 2013).

The “high globalization” era of the period between 1988 and 2008 reveals that the increase in real per capita income, measured in relative terms, has produced three relevant characteristics: the emergence of the “global middle class”, located mainly in China and other booming East Asian countries, the rise of a global plutocracy and the income stagnation of sectors of the advanced countries which, despite belonging to a relatively comfortable global position, correspond to the lower middle classes of these countries. Although measured in relative terms, the new global middle class has been the major “winner” of globalization, measured in absolute terms, the biggest gains have gone to the richest 5% and particularly to the richest 1% of the world (Milanovic, 2016).

The emergence of such a global middle class represents an upward social mobility for large segments of the population, but the other two characteristics raise concerns about the future of global governance. Indeed, the political empowerment of the ultra-rich has reshaped the global financial architecture with enormous consequences at national and international levels, while the disenchantment of broad sectors with their political leaders in developed countries has fueled populist and nationalist movements (Ikenberry, 2018).

The within-country component of global inequality has significantly reduced its share in global inequality since the dawn of capitalism, but several forces point to a resumption of the upward trend. Currently, between-country inequality is the dominant component, which until the outbreak of COVID19 had been receding though also revealing great disparities, implying that the country where one is born would determine in great part one’s future. Overall, despite the downward trend in global inequality caused by the correlative decline in the between-country inequality, it has worsened with the development of capitalism (Bourguignon & Morrison, 2002; Milanovic, 2016).

As for the effect of COVID 19, Stiglitz (2020, p.19) emphasizes that it “has revealed and worsened preexisting inequalities in both within and between countries.” Ferreira (2021) and Ferreira et al. (2021) point out that although poorer countries have suffered lower mortality rates than richer countries in 2020, the welfare loss has been greater in the poorer than in the richer countries due to the compound effect of deaths and destitution. Deaton (2021) and Deaton and Schaeffer (2021) argue that in 2020 between-country inequality decreased when measured by population-unweighted measure but increased when measured by population-weighted measure. Since within-country inequality appears to have increased continuing the previous trend, global inequality also appears to have increased in that year. Results for 2021 will most likely replicate those of 2020, as the pandemic has not been eliminated.

Reports commonly use the Gini coefficient as a measure of inequality. It can be defined as "(half) the average absolute difference between two individuals chosen at random in the population, in relation to the average standard of living of the population as a whole" according to which complete equality corresponds to 0, and complete inequality to 1 (Bourguignon, 2015, p.18). Multiplied by 100, the coefficient gives the Gini index with each percentage representing a Gini point. This index provides the between-country inequality, which combined with the within-country data, provides the index of global inequality by means of statistical methods (Milanovic, 2006).

The data show that before the Industrial Revolution global inequality was moderate in the West. The change from 55 Gini points in 1820 to 70 just before World War I is explained by the take-off and rise of Europe, North America and later Japan combined with the stagnation of China and India. Global inequality fell in 1918 and the Great Depression period, it moved to 75 after World War II and remained high until the last decade of the 20th century. The rise of Asia, particularly China, narrowed the income gaps, bringing global inequality from 65 Gini points in the early 2000s to about 63 today (Milanovic, 2019; 2021).

The phenomena related to global inequality are of paramount importance in economic, social, and political terms, and pose major challenges for individuals and countries around the world. The pandemic has heightened the magnitude of these challenges.

Within-country inequality

Nowadays, within-country inequality represents the smallest proportion of global inequality. In 1820 most of the global inequality was due to within-country inequality, but the spread of the Industrial Revolution to Western Europe and its offshoots began to produce a divergence between them and the rest of the countries. At that time, when —except for the UK, the US, and some Western European countries— income levels were similar in most countries, within-country inequality accounted for about 80 percent of global inequality. Thereafter, it began a downward trajectory and increased moderately from the 1990s onwards. At the dawn of capitalism, class cleavage was the key factor to understand the economic, social, and political conflicts of nations, whereas today the place where people are born or live explains them (Bourguignon & Morrison, 2002; Milanovic, 2019).

A starting point to address this issue is the Kuznetsian paradigm. According to Nobel Laureate Kuznets (1955), distributional trends in mature economies are related to their phases of development. In a first phase, development increases inequality, as a small but growing proportion of the labor force is employed in the higher-wage industrial sector. However, in a second phase, income inequality decreases as a larger share of the labor force moves away from the lower-wage agricultural sector.

The upsurge of inequality in advanced economies has questioned this framework. Alderson and Nielsen's study (2002, p.1244) of OECD countries shows that the growing inequality that began in the 1970s is explained by the shift of the labor force from agriculture to non-agriculture sectors, union-density and decommodification, and to a lesser extent by globalization factors. An alternative methodology shows that the "great U-turn" is explained equally by the share of the agricultural labor force and globalization factors, such as imports from the South and direct investment capital outflows, and only later by migration. Kwon (2016) concludes that after high levels in the early 20th century, income disparities in the US fell sharply during the Great Depression, resumed thereafter, and continued at relatively low levels after World War II. However, starting in the 1970s, incomes began to show increasing divergence with the escalation of the service sector and its new labor structure.

For his part, Milanovic (2016) argues that it is more appropriate to elucidate the dynamics of inequality in industrial societies in terms of "Kuznets cycles." The first cycle shows the transfer of labor from agriculture to the manufacturing sector, driving up inequality in rich countries since the times of the Industrial Revolution, to peak between the close of the 19th century and the beginning of World War I. The advent of a more educated labor force, the demands for greater income redistribution, and falling returns to capital, along with wars and revolutions, caused inequality to decline after World War I. After 1980, the second cycle included the second technological progress and the shift from manufacturing to services, along with globalization in terms of the development of extensive production networks and falling production costs. Policies also responded to the forces of globalization, as was the case with the reduction of taxes on capital. The interaction of three fundamental factors – technology, openness or globalization and policies – explains adequately the upward trend in inequality.

As for the classical political economy question of how capital and labor share the gains from production, Piketty (2014) focuses mainly on political factors. For a long time, it was assumed that the relative shares of labor and capital in national income are quite stable in the long run. However, the capital-labor division underwent several changes in the last two centuries. In the first half of the 19th century, the rise in the share of capital was followed by a slight decline and then a period of stability. In the 20th century, the interwar global shocks and the subsequent implementation of regulatory and fiscal policies, together with capital controls, led to a reduction in the share of capital in total income, which in 1950 reached historically low levels. The arrival of Thatcher in England and Reagan in the US in 1979 and 1980 respectively, the disappearance of the USSR in 1989 and the expansion of financial globalization and deregulation in the 1990s marked a new momentum characterized by the opposite trend recorded in the first half of this century. In 2010, and despite the global financial crisis of 2007-2008, capital was thriving in a way not seen since the pre-World War I times.

Moreover, the consolidation of "meritocratic-liberal capitalism" since the 1980s and especially in the 21st century has favored the upper sectors of the rich countries, with the US as a paradigmatic case. Systemic inequalities include the growing share of capital in the national pie, the high concentration of capital ownership, the higher return on assets of the richest, the rising correlation of high capital and labor incomes in the same people or "homoploutia", the rising mating among people of similar incomes or "homogamy", the greater intergenerational transmission of disparities and the strong control of the political process by those at the top who exert growing influence in a trend towards plutocracy (Milanovic, 2019). Since the "lower middle class of the rich world" experienced almost no increase or zero increase, it is concluded that within-country inequality increased in this system (Milanovic, 2016).

In the East, "political capitalism" has also been exhibiting inequalities. In relative terms, the "emerging middle class," composed of the urban and rural sectors of emerging Asian economies, was the most favored globally in the last quarter of the century (Milanovic, 2016, p.19). In China, the share of private capital rents has risen in the context of an expanding privatization process undertaken by the capitalist-business sectors together with the professionals of the new middle class, who also, through their savings, significantly improved their status. The political framework in terms of bureaucratic efficacy, lack of rule of law and State autonomy has, unlike the Western experience, overshadowed the power of the new capitalist class (Milanovic, 2019).

Empirical studies on the distributional conflict in the most advanced countries between 1960 and 2005 reveal that the share of labor in national income improved after World War II but worsened since the early 1980s concomitantly with "the relative bargaining power of the working class." This change is mostly explained by three factors: organizational power of the working class, structural power of the working class at the global level, and an indicator of integration of the working class at the intraclass level. The first factor includes economic and political aspects such as unionization, strike activity and government civil spending; the second factor refers to imports from the South and foreign direct investment; and the third factor refers to the centralization of bargaining (Kristal, 2010). In the US, that worsening since the 1970s is explained by a significant decline in the construction, manufacturing, and transportation sectors, combined with an increase, albeit small, in the finance and service industries. The "positional power" of workers was the major cause behind this decline, which was in part the result of technological change, precisely computerization, which favored employers more than employees (Kristal, 2013).

Certainly, the role of technological change is not trivial, as it can create winners but also losers, and distributional conflicts are aggravated when it is skill-biased. Tinbergen's seminal work (1974; 1975) stresses that improvement in income distribution does not arise from a mere increase in average incomes, but from an optimal resolution of the race between technology and education in which the expansion of education exceeds the expansion required by technological development. Instead, Goldin and Katz (2008) argue that for a country to avoid these distributive conflicts, the supply of skills must match the growing demand generated by the growth derived from technological progress. From this point of view, the race between technology and education is only resolved when economic growth and the skill premium are balanced.

For its part, the analysis of the impact of international integration on income distribution can be traced back to the Heckscher-Ohlin theoretical model, according to which countries export goods that use their abundant and cheap factors and import goods that use their scarce and expensive factors. As a result, international trade would produce factor-price equalization between countries (Krugman et al., 2012). Proponents of global economic integration have based their campaign on these ideas by arguing that it allows not only the mobility of trade, capital, and labor between countries, but also the transmission of ideas and the sharing of technological advances, while providing mutual benefits to its members. From this perspective, international trade may produce some short-term losses, but its favorable effects on growth may also be beneficial for those at the bottom of society (Krueger, 2002). On the other front, vehement critics of globalization warn of its adverse effects on income distribution (Stiglitz, 2015).

Nobel laureate Spence (2011) argues that while globalization enabled millions of people in the developing world to lift themselves out of poverty, it has also harmed some subgroups within some countries, including advanced ones. Global growth should not be understood as “a zero-sum game” because the gains one person obtains are not necessarily the losses of another person. Likewise, Rodrik (2019) stresses that the move to hyper globalization since the 1990s has brought both high levels of global financial economic integration and domestic disintegration. The flip side of global integration is that today professionals, corporations and financial elites have been able to interact with their peers around the world, while progressively distancing themselves from citizens at home.

Dollar et al. (2016) find evidence that, in 121 countries in the period from 1965 to 2005, greater economic integration has benefited the poorest in society as a result of the rise in average incomes generated by openness to international trade and finance. Bergh and Nilsson’s (2010) study of the effects of liberalization on within-country inequality in a large sample of developed and developing countries over a similar period finds that “freedom to trade internationally” combining trade measures, taxes, tariffs and trade barriers, and capital market controls is related to inequality in developed countries but not in less developed countries. These results are in line with the conventional wisdom that in developed countries, abundant in skilled labor, trade openness will drive up the wages of skilled workers and drive down the wages of less-skilled workers, thus driving up inequality, which makes this issue highly topical, as trade expansion and outsourcing have been commonplace there. Indeed, the impact of the “China shock” on the US labor market has proved the negative distributional effects of international trade as it has depressed wages and labor participation rates in the industries more exposed to external competition (Autor et al., 2016). However, in developing countries, abundant in less-skilled labor, those results are more debatable, since evidence has not confirmed the decline in inequality in this case either (IMF, 2007). Feenstra and Hanson (1997) conclude that foreign direct investment intensifies the relative demand for skilled labor in developing economies, so that higher levels of economic globalization also have a negative impact on income inequality there.

Other studies find similar results. Increases in foreign direct investment during the period 1976-2005 have been found to have widened income inequality in developed and developing countries, and this effect becomes more significant with financial development. Since technology transfer is capital- or skill-intensive, these increases have benefited the most skilled, educated, and wealthy. Particularly, financial sector liberalization has favored higher-income individuals or established firms with prior access to the financial system "at the expense of the poor following new political economy considerations" (Lin et al., 2015, p.530-532).

For their part, de Haan and Sturm (2016) find that in both developed and developing countries, "all financial variables" have widened inequality, while the degree of financial development and the type of political institutions have reinforced this effect. These results do not mean that the poor are gravely affected by these facts, as the literature has also shown that financial development can promote growth and benefit the poor, at least up to some level, which is consistent with the findings that only " too much finance" has a negative effect on economic growth (Arcand et al., 2012).

In turn, the pandemic has been found to have deepened within-country inequality. Even before the pandemic, this inequality component has been growing in many countries (Deaton, 2021; Deaton & Schaeffer, 2021). The deterioration of the labor force due to globalization and automation, heightened by political factors in wealthier countries, has long been affecting less-skilled workers, which is an issue of particular concern as these economies have been experiencing real growth (Case & Deaton, 2020). Given that both top incomes and poverty have risen, it seems likely that within-country inequality will have risen by 2020, exacerbating previous disparities. The effects of the pandemic on the labor market have been severe, as the global recession has failed to accommodate demand and supply, affecting not only workers who have lost their jobs, but also young people willing to enter the market (Ferreira, 2021). The pandemic has revealed and aggravated previous internal cleavages that will accentuate within-country inequality, with consequences that will persist for a long time (Stiglitz, 2020).

In all, within-country inequality has significantly reduced its share in global inequality since the dawn of capitalism, thus minimizing cleavages within societies. However, several forces point to the resumption of the upward trend with COVID 19 amplifying it.

Between-country inequality

At present, between-country inequality accounts for about two-thirds of global inequality, significantly increasing its proportion in the total compared to 1820. Although it has shown a downward trajectory, particularly during the 21st century, income gaps between countries persist. In the period between 1000 to 1820, growth in per capita income showed a "slow crawl." Progress in population and incomes originated in the conquest or settlement of areas whose fertility allowed the movement of people and the development of agriculture and livestock, the mobility of international trade and finance, and technological and institutional innovations (Lakner, 2019; Maddison, 2006).

From 1820 onwards there was a significant improvement in the performance of capitalism, mainly in Western Europe and its Western offshoots. Prominent countries – the UK, the US, and Japan– began to develop the institutional and intellectual features of modern capitalism, eased the expansion of international trade, and acquired rapid technological change. Between 1950 and 1973, productivity differences narrowed in Western European countries and average income growth approached that of the US. Asia's performance began to grow faster only after World War II, while the catch-up policies of China and India became evident in the late 1970s and 1990s, respectively. Between 1820 and 2006, the gross domestic product per capita of the West increased 21-fold, while those of Asia (excluding China, India, and Japan), Latin America, Eastern Europe and the former USSR, and Africa increased by factors of 8, 9, and 4 respectively. Moreover, the difference between the per capita income of the US and that of Burundi was 65:1 (Maddison, 2008).

In times of the Industrial Revolution, the world was much more even in terms of inequality, but the impact of the Industrial Revolution on some countries relative to others brought substantial disparities among them and, therefore, an increase in between-country inequality. From 1820 to 1992, world inequality registered dis-equalizing and equalizing forces. The former is related to the enrichment of Western European countries and their offshoots, which together with the slow economic growth of China and India until around the last quarter of the 20th century, the disparities between Western Europe and the rest of this continent in the first half of the 19th century, and the poor growth of Africa in the second half of the 20th century intensified global inequality. The latter is related to the equalization of incomes within Western and Eastern Europe in the interwar years and after World War II, the catch-up between Europe and the US after this confrontation, which together with China's gigantic growth rates reduced global inequality. Meanwhile, Latin America's growth rates "roughly" approached the global average in these almost two centuries. These different trends caused global inequality to accelerate during the 19th century and first half of the 20th century, reaching a peak between 1950 and 1980, and declining after 1989 (Bourguignon & Morrison, 2002). The former is related to the enrichment of Western European countries and their offshoots, which together with the slow economic growth of China and India until around the last quarter of the 20th century, the disparities between Western Europe and the rest of this continent in the first half of the 19th century, and the poor growth of Africa in the second half of the 20th century intensified global inequality. The latter is related to the equalization of incomes within Western and Eastern Europe in the interwar years and after World War II, the catch-up between Europe and the US after this confrontation, which together with China's gigantic growth rates reduced global inequality. Meanwhile, Latin America's growth rates "roughly" approached the global average in these almost two centuries. These different trends caused global inequality to accelerate during the 19th century and first half of the 20th century, reaching a peak between 1950 and 1980, and declining after 1989 (Bourguignon & Morrison, 2002).

At the end of the 20th century, the world showed huge income disparities between countries, a significant growth in global average income and, at the same time, a decrease in inequality between countries (Firebaugh & Goesling, 2004). Given that these disparities represent the bulk of global inequality, changes in between-country inequality allows to capture changes in the total quite accurately; they also imply that location constitutes the key factor to elucidate the nature of global inequality.

As commented, Gini indices differ when countries are not weighted by the size of their respective populations than when they are, so that calculations excluding China show a rise in global inequality during the last quarter of the 20th century and a decline only thereafter, whereas if it is included, continuous convergence between countries started since the late 1970s. In fact, China contributed to moderating global inequality until 2000 and, since then, India has also contributed to it (Milanovic, 2016). Unlike Pritchett (1997) who portrays modern economic history as characterized by a great divergence of incomes between developed and less developed countries, Sala-i-Martin (2006) considers it as one of convergence. In the new millennium, convergence continued even though China and India have not always registered a downward trend at the domestic level (Rodrik, 2016).

A comparison of inequality in the US and the world shows some similarities and differences. In 1820, the former was below the latter, but without major differences. Both continued to rise, but after World War I, and especially after the Great Depression and the New Deal, inequality declined in the US while global inequality continued to rise, albeit at a moderate pace. After 1980, these trends reversed and in recent years, the former has increased while the latter decreased. In the case of China, available data show that in 1985 the Gini index of around 35 points was very similar to that of the US, starting to climb considerably and decreasing after 2009. Still, the index of around 45 points in 2015 was higher than that of the US and close to that of Latin America (Milanovic, 2016; 2019).

According to classical convergence arguments, the deceleration in the level of productivity registered in the more developed countries contains a potential for rapid progress in the less developed ones (Abramovitz, 1986). Although the process of innovation and imitation in the context of the diffusion of global trends has benefited both types of countries, it has been more useful for the “productivity laggards” than for the “leaders” because the former have a greater potential to learn from the latter (Baumol, 1986). The case of computers shows that the openness to imports of manufacturing industries in OECD countries made it possible for other countries to learn and adopt the new technology (Caselli & Coleman II, 2001), while the impressive technological progress of East Asian countries allows confirming the catch-up hypothesis (Olson, 1982).

Empirical studies estimate that if China and India were followed by a significant number of developing countries by improving their growth performance, either by imitating the Chinese and Indian growth models or by directly taking advantage of these countries’ growth, as occurred during the commodity boom in the 2000s that allowed Latin American and African countries to meet Asian demand for raw materials, then between-country inequality could continue to fall. However, given the intense competition that developing countries’ export industries have experienced from Asian ones, it appears to be difficult for them to replicate the Asian model and achieve sustainable and diversified economic growth. If this is the case, between-country inequality would rise, and convergence would not occur (Hung & Kucinskas, 2011). For their part, Korzeniewicz and Albrecht (2013) point out that after such a prolonged period of rapid growth in China and India, convergence is uncertain, either because growth in these countries may be limited or because many other developing countries continue to experience low growth rates. However, despite persistent differences between countries, the recent phenomenon of convergence also demonstrated that "modernization and greater integration into world markets provide opportunities for poor nations to catch up with wealthy ones."

Firebaugh (2003) and Firebaugh and Goesling (2004) emphasize that the global income convergence caused by the higher growth rates of rapidly industrializing East Asian countries, particularly China, relative to the world, was basically the result of the impact of globalization through the worldwide diffusion of industrial, not post-industrial technology. Maddison (2008) stresses that the remarkable performance of several East Asian countries was the outcome of "indigenous policies" which, starting from a low level, were able to achieve catch-up, and hence convergence, through "large increases in capital stock, improvements in educational level and rapid growth in exports." Among these countries, China's colossal performance represents the most successful growth experience in recent times, which, although it has undergone a process of liberalization, has relied heavily on the role of the State (Maddison, 2006). Furthermore, the experiences of China and India show that their astonishing performances have derived from the implementation of economic policies that differed significantly from the neoliberal ones heralded by the advocates of globalization as the best recipe for achieving stabilization and growth that were, in fact, applied by many developing countries in the 1990s. This idiosyncratic growth model – based on human capital with specific characteristics and strong States – raises questions over the mechanisms of the industrialization process in the developing world (Hung & Kucinskas, 2011).

Clark's (2019) study, covering 152 countries over the period 1990-2015, confirms the evidence of convergence, giving rise to the "Goldilocks effect," according to which extreme levels of inequality decrease over time. The estimates include several factors: sectoral transitions, economic development, global diffusion, public sentiment, and statistical bias. The first factor analyzes convergence in terms of the different stages of production of the different countries generating forces that offset their different trends; the second, in terms of the implementation of a similar type of resource allocation by the different countries; the third, in terms of the homogeneity derived from the global diffusion of some indicators describing inequality, such as formal schooling or democratization; the fourth, in terms of public sentiment against political leaders for extreme inequality; and the fifth, in terms of the impossibility of sustaining high levels of inequality over a prolonged period. The results show that the last two factors are the ones that best explain income convergence.

A less optimistic view is portrayed by the dependency school, held by former ECLAC Executive Secretary, Prebisch (1986), who argued that the international division of labor – far from bringing mutual benefits to all countries participating in global exchanges as proclaimed by the classic trade model – harms countries specialized in primary production due to the adverse terms of trade they face. Because of this situation, industrialization becomes an undertaking that, although difficult, is reasonable for overcoming the vicissitudes of Latin American development. Easterly (2002) refutes the Panglossian view of the Washington Consensus on the basis that the neoliberal reforms implemented by the developing countries in the 1980s and 1990s only produced stagnation, suggesting that their problems were ultimately caused by exogenous factors such as international interest rates, the ebb and flow cycles of world finance or the slow pace of growth in advanced countries.

Wade (2004) provides evidence confirming that globalization has not delivered the benefits promised by the liberal paradigm. Except for the population-weighted measure of between-country inequality, other indicators show a rising trend in the last two decades of the 20th century, implying that if China is taken out from the calculation, global inequality may not reflect an improvement in global welfare. This worsens the situation of the less favored countries, as it translates into an increase in the foreign exchange cost of imports, difficulty in honoring external debts, or cuts in health, education, and industrial policy. It can also translate into conflicts between nations, therefore, affecting trade and investment.

Rodrik (2019) argues that “globalization is in trouble”. In the advanced world, the expansion of trade with China and low-wage countries has led to a decline in industrial employment, while the globalization of finance has generated the worst financial and economic crisis since the 1930s. Curiously, after that event, international institutions have not abandoned austerity policies that further complicated the global scenario. The fate of people in some countries seems to be “the result of anonymous market forces made in foreign countries”, which points to the need for new international rules to level off the disparities between developed and developing countries.

Due to persistent gaps between countries, migration flows between regions have been escalating. From a global point of view, migration represents an “effective strategy” for upward social mobility (Korzeniewicz & Moran, 2009). Korzeniewicz and Albrecht (2016) also observe that given the preponderance of the between-country component in global inequality, the huge disparities help to understand why migrants so enthusiastically decide to leave their positions in their original places and jobs and often move to even relatively lower positions at their destinations. Far from the conventional wisdom that international migration is a mere equalization of wages, from the global perspective it represents a means of social mobility that provides tools to some disadvantaged populations to react against global income inequality. Migration can thus be interpreted as a “sort of Schumpeterian innovation that draws on the opportunities provided by market mechanisms to overcome exclusion and political barriers to entry.” Rodrik (2016) stresses that while the mobility of workers from poor to rich countries could benefit them, the existence of border barriers represents in our time the most serious obstacle to efficient resource allocation in the global economy.

Regarding the effects of the pandemic on between-country inequality, Ferreira (2021) and Ferreira et al. (2021) point out that these effects are not so simple, with urbanization and the spread of the pandemic through major trade routes playing an important role. Although poorer countries have suffered lower mortality rates than richer countries in 2020, the loss of welfare has been greater in the former than in the latter, since when considering the compound effect of deaths and destitution, it is observed that "poorer countries bear a greater welfare loss from the pandemic." Deaton (2021) and Deaton and Schaeffer (2021) assess that in 2020 between-country inequality, taking each country as a unit, has continued to decrease, while when weighted by population it has increased. India's meager performance relative to the rich countries has not been offset by China's outstanding performance, which —because of its growth and few deaths— "is no longer a globally poor country" and, given that its growth surpasses that of the other countries, can do little to reduce global inequality. Results for 2021 will most likely replicate those of 2020, as the pandemic has not been eliminated. In Stiglitz' view (2020, p.19), the pandemic has highlighted and aggravated the pre-existing between-country inequality. Countries with fewer resources have encountered serious problems in providing efficient health care and are more exposed to contagion than richer ones. Nevertheless, "it's still not too late for ... a change of course", which ultimately depends on the efforts of governments to do so.

In sum, there is wide evidence of the dominance of the location component in global inequality. Until the outbreak of COVID19, between-country inequality, while receding has also been revealing huge disparities among countries. Still the country where one is born or lives would in great part determine one's future. COVID 19 will accentuate this phenomenon.

Inequality in Latin America

Latin America is a region of persistent inequality. Available data for 15 countries of the region show a Gini coefficient of 0.54 between 1960 and 2002 (Prados de la Escosura, 2007; ECLAC, 2021). Current data for Latin America and the Caribbean show that, with an average coefficient of 0.46, it ranks, perhaps except for Sub-Saran Africa, as the most unequal region in the world. While Brazil, Colombia and Panama are the most unequal countries and Argentina and Uruguay the most equal, this regional average Gini coefficient —that is, the average within-country Gini coefficient— shows a higher level of inequality not only in comparison with advanced countries but also with other countries of similar level of development with coefficients of around 0.32 and 0.35 respectively (Busso & Messina, 2020).

As in the case of global inequality, Latin American inequality reflects changes in factor prices at different stages of economic growth in the context of the different macroeconomic models, in turn, associated with political economy motivations. According to Sokoloff and Engerman (2000, p.228), the root of regional inequality lies in the huge differences in the "degree of inequality of wealth, human capital, and political power, which initially associated with the factor endowments of the respective colonies", endured over time. Acemoglu et al. (2001, pp.34-35) emphasize the role of institutions in the "reversal of fortune" in the evolution of relative incomes from the 15th century onward, such that "those who were relatively rich" then "are now relatively poor." Specifically, societies with privately owned institutions that invested in industrialization enjoyed the participation of broad sectors of society, while societies with extractive institutions, where political power was in the hands of a small elite, lagged in terms of growth and income. For his part, Coatsworth (2005, p.143) argues that inequality only emerged in the late 19th century because of a prolonged "political turmoil and struggle in which the balance shifted decisively in favor of economic elites" … and this shift occurred in the "era of export-led globalization" that continued until the early 20th century. As predicted by the Stolper-Samuelson forces, inequality in Latin America increased significantly in the first global era because of the commodity boom which, with uneven distribution of land, increased rents relative to wages, being Argentina and Chile the countries with the highest inequality. The increase during this period as well as the decrease during the interwar isolationist period follow the same logic (Prados de la Escosura, 2007).

The period of state-led industrialization that started mainly in the 1930s shows a rather heterogeneous picture. In Argentina, Chile and Uruguay, "industrialization and redistributive policies" produced a decrease in inequality that lasted until the military dictatorships came to power; in other countries, such as Brazil, the "highly concentrated industrial sector" produced income polarization; and in others, such as Mexico, Venezuela and Colombia, inequality increased, but "at some point", started to decrease *pari passu* the fall of the "surplus of rural labor" and the improvement in the "educational system" (Bértola & Ocampo, 2012, p.46). Astorga (2017) explains that while the evidence initially confirms Kuznetsian insights, the impossibility of closing labor income gaps through education, which correlates with the stagnation of industrialization since the mid-1970s, led to a huge growth of the urban informal sector, worsening regional inequality.

In the 1980s, the huge adjustment efforts caused by the debt shock took place basically through "wages and the labor market" (Thorp, 1998, p.221). The so called "lost decade" had a dramatic impact on Latin American indicators of income distribution and poverty. It not only accentuated the preexisting inequalities but also removed the improvements that several countries had been implementing in previous years. Beginning in this decade, the regional growth began to lag not only behind developed countries but also the world average (Bértola & Ocampo, 2012).

The debate on the impact of the reforms of the 1990s offers a mixed picture. According to the Inter-American Development Bank (1997), the reforms halted the previous distributional deterioration due to the acceleration of economic growth and investment. Instead, for Berry (1998), trade liberalization broadened the wage gap between skilled and less-skilled workers, while for Griffith-Jones (1996), financial liberalization could not prevent the recurrence of the financial crises to which the region is subject. For their part, López and Perry (2008, pp.13-19) stress that the increase in inequality in most of the countries during this decade was caused by "asset inequality" and, particularly, by "educational differences" and their respective returns, as well as by the "degree of matching among educational groups" for which fiscal policy brought little improvement.

In the first decade of the 2000s inequality decreased in almost all Latin American countries (ECLAC, 2021). For Gasparini (2019), the decrease was the result of the natural rebound after the inequality shocks of the previous decade; the favorable international context which, by promoting a sudden expansion, reduced unemployment and stimulated the demand for unskilled labor, while the boom in commodity prices also benefited sectors intensive in the use of unskilled labor; and redistributive policies, which, facilitated by the improved fiscal situation, implemented monetary transfers to the poor sectors, while simultaneously expanding the formal education already initiated in previous years.

From 2014 onwards inequality presents a different landscape. The declining trend of the preceding period has begun to show "signs of exhaustion" since "in some countries inequality has begun to increase, while, in others, the rate of inequality reduction fell." The end of the commodity boom had an impact on living conditions, as evidenced by the fall in the growth rate of per capita income, the reversal of the downward trend in inequality of the previous period and the increase in the incidence of poverty at a time when the fiscal capacity to provide compensatory mechanisms has been eroded, triggering protests in several countries (Lustig, 2020). In turn, the loss of employment and reduction in labor income that have particularly affected the lower income sectors during the pandemic led to an increase in poverty, extreme poverty, and inequality. Middle-income sectors were also affected, although not as dramatically, while women, youth and informal and low-income workers have been the most vulnerable people. The pandemic not only impacted on job losses, but also disrupted the education of young people and posed major obstacles to finding or changing jobs (ECLAC).

Much more than low incomes

The concept of inequality is related to those of poverty and well-being. Poverty is usually defined as a "pronounced deprivation in well-being" and while the narrow definition refers to the lack of monetary resources to satisfy material needs (Haughton & Khandker, 2009, pp.1-2; World Bank, 2001), the broad one refers no to so much to the mere "lowness of incomes" as to the "deprivation of basic capabilities" that prevents people from functioning in society (Sen, 2000, p.87). Poverty only focuses on the lower end of the distribution, those who fall below a poverty line, and is related to inequality, which focuses on the entire distribution of well-being. In a narrow sense, inequality also refers to income disparities and, in a broad sense, to disparities in education, health and security among others (Haughton & Khandker, 2008). High inequality not only leads to higher poverty but also represents a barrier to poverty reduction. In turn, high poverty, and particularly extreme poverty, when combined with the lack of social mobility as is often the case, also represents a barrier to inequality reduction (López & Perry, 2008).

Global inequality, up to the pandemic, marks the first time since the Industrial Revolution that it has stopped increasing (Milanovic, 2016). Although capitalism has generated overwhelming material growth like no other economic system, it has also generated large income disparities.

Inequality has been diminishing in some countries, but income and wealth are progressively concentrated among the top quintile and, especially, among the top 1% of the world population, whose profits have increased colossally (UN, 2020). The wealthiest individuals have amassed their fortunes through activities and interests in a few important economic sectors, including finance, pharmaceuticals, and healthcare. Meanwhile, the poorest quintiles have enjoyed only a small fraction of the global pie (Hardoon, 2015). In Latin America, which except for Sub-Saharan Africa, is the region with the highest levels of income and wealth inequality, the richest 1% take on average 21% of the regional national income, significantly exceeding the 10% average of developed countries (Busso & Messina, 2020). The decrease in poverty levels without the correlative decrease in inequality levels all over the world has provoked a great deal of discontent among a growing number of people (Sánchez-Ancochea, 2021).

In this context, what can be done? Active policies and institutions can help ensure that the dividends of technologies are widely shared; mitigation policies can alleviate the effects of climate change by reducing carbon emission levels, especially benefiting the poorest countries and groups; urban planning can help meet housing and land needs, ensure egalitarian provision of public services and infrastructure, and promote access to formal employment; and international migration can help reduce global disparities, especially in conditions of security, when migrants can apply their skills efficiently, and when remittances can be sent home at inexpensive rates (UN, 2020). Not deserving of less attention is the issue of health inequality, especially as it has exacerbated with the COVID19 outbreak (Gopinath, 2021).

In the developed world, efforts should focus on the implementation of higher and more progressive taxation, which is no easy task given the trend towards tax reduction and evasion resulting from individuals changing jurisdictions; improving the quality of education and promoting much easier access to education, which is also difficult given the already high number of years of education in this world; and promoting low-skill technological progress rather than the opposite trend recorded in the history of capitalism, which is only a theoretical exercise (Milanovic, 2016). The capital/growth ratio should also be reduced through a progressive global tax on capital, which would require appropriate international coordination that could be difficult to implement (Piketty, 2014). Moreover, measures to reduce the risks of over-indebtedness will contribute to improving the situation of the stagnant middle-income sectors (Bourguignon, 2015).

In Latin America, efforts should focus on overcoming low educational mobility by controlling the availability of schools and teachers, improving the quality of education, and implementing access to financial services and public infrastructure. Given that these actions require time, in the short term, the state can apply redistributive policies through taxation and, particularly, transfers, which are much lower in the region than in the developed world (López & Perry, 2008). Efforts to enhance access to more inclusive financial systems so to reduce disparities in financial markets are also crucial (UN, 2020). The region must also change its regressive tax system, and more generally understand that reducing inequality requires “the efforts of many people in many different fields, from politics to policy” (Sánchez-Ancochea, 2021, p.161).

Finally, the role of globalization in the dynamics of inequality in the current era has played a role in economic, social, and political terms. Therefore, "a key principle for a new globalization should be that changes in its rules must produce benefits for all rather than the few" (Rodrik, 2019, pp. 32-33). Huge income gaps are undermining the long-established social contract. The current political backlash in various latitudes is a direct result of high inequalities that pose serious challenges to the stability of the current global order (Ikenberry, 2018).

The centrality of the issue of global inequality goes beyond the possibilities of individuals and nations to improve their material standard of livings; in fact, it entails the possibilities of reaching opportunities for social mobility but also for political empowerment and enhancement of their existence.

Conclusion

Over the past three to four decades, international exchanges have given new shape to the world economy. Indeed, the forces of globalization have produced a significant expansion of global flows at the trade level and particularly at the financial level. However, the current global era has also contributed to generate serious real and financial difficulties. The globalization process has generated diverse criticisms and its future is not entirely predictable.

One of the most furious criticisms refers to the issue of huge income disparities around the world. Today, global inequality is higher than it was 200 years ago so but, at the same time, up to COVID 19, the Gini index marks the first time since the Industrial Revolution that it has stopped increasing. This downward trajectory has been driven by a decline in between-country inequality – the main explanatory factor for global income disparities – partially offset by a moderate rise in within-country inequality. The declining trend across nations should not be unexpected, since low-income countries in Asia, particularly China, have experienced growth rates substantially above the world average in the context of a rapid industrialization process.

The global scenario witnessed significant changes in the last quarter of the 20th century. An emerging global middle class of the Asian countries —basically China—, the consolidation of a true plutocrat elite and the stagnation of the lower middle sectors' income of the rich world are reshaping the world economic, social, and political relations. In relative terms, the new global middle class has been the major "winner" of globalization, but in absolute terms, the rich and ultra-rich of the world population have accrued the largest gains; meanwhile, the poorest sectors have enjoyed only a small fraction of the global pie.

As for inequality within countries, the classical political economy question referring to the split between capital and labor in global income shows a deterioration for the latter due to a deterioration in the relative bargaining power of the labor force, which has also been affected by the race between technology and education. Although proponents of global economic integration have assured that trade openness would provide mutual benefits to its members in line with the traditional trade model, reality shows that it has delivered higher levels of income inequality in developed and developing countries as well. Financial liberalization, financial development and, in general, all financial variables have a negative impact on income inequality, with the degree of financial development and the type of political institutions reinforcing this effect. While within-country inequality has significantly reduced its share in global inequality since the dawn of capitalism, thus minimizing class divisions within societies, several forces point to a resumption of the upward trend, with COVID 19 amplifying it.

As for inequality between countries, the population-weighted measure shows a downward path since the late 1970s, whereas the non-population-weighted measure shows an upward one from the late 1970s until 2000. With the turn of the century, both measures undoubtedly began to exhibit a downward trajectory. China's growth performance, and in a lesser extent India's, have been crucial equalizing factors in contributing to this decline. If other developing countries manage to improve their growth performance, then global inequality will continue to decline. Although convergence is uncertain, either because future growth rates in China and India may be limited or because many other developing countries continue to experience low growth rates, the Asian experience also confirms that income convergence is possible. Curiously, the rapid economic growth of these countries can be more attributed to specific characteristics of their policymaking than to the success of neoliberal reforms. While it is true that between-country inequality has been diminishing up to COVID 19, the place where we are born is a decisive factor in our future. The pandemic has revealed this previous cleavage and worsened it by rising this inequality component.

For its part, Latin America, except for sub-Saharan Africa, is the most unequal region. Inequality increased *pari passu* the rise in the land rent/wage ratio during the colonial period and the commodity boom of the first global era; declined during the era of state-led industrialization, but not without registering some experiences of increase and polarization; increased as a result of the adjustment caused by the shock of the "lost decade"; remained stable for some but increased in the opinion of most scholars as a result of the implementation of neoliberal reforms; declined during the commodity boom of the new century; and slowed its improvement and even increased in some countries from 2014 onwards.

Inequality should be understood as much more than the mere lowness in incomes and, instead, as the deprivation of many other factors, such as education, health, and security, that provide well-being to societies. High inequality represents a barrier to poverty reduction, while high poverty, and in particular extreme poverty, when combined with lack of social mobility, as is often the case, also represents a barrier to reduction of inequality.

Developed countries should strengthen efforts to activate a progressive tax reform and wider access to education, implement a global tax through international coordination and improve the financial situation of stagnant middle-income sectors. Latin America should redouble efforts to address asset inequality and, particularly, educational inequality, continue its redistributive policies, promote financial inclusion, change its regressive tax system, and mobilize people for political change.

In the context of an awesome technological era, globalization has allowed professionals, companies, and plutocrats to establish contacts with their peers in all latitudes, distancing themselves from citizens at home, while anonymous market forces made in foreign countries seem to determine the fate of other people in other countries in this era of financial globalization. Global growth should not be seen as a zero-sum game, but as one that allows access to equality of income and opportunities. For this to happen, it appears timely to rewrite the rules of the global economic architecture.

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