The Global Diffusion of Inequality since 1970

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ABSTRACT: Since 1970 income inequality has been stable or rising in almost every country in the world. It has not, however, risen at the same time or at the same rate throughout the world. This suggests the globalization, skills premium, and technological change explanations that prevail in the economics literature are likely incorrect, since all of these processes should in principle have relatively uniform global impacts. Instead, the timing and geo-cultural patterns of rising inequality bear the hallmarks of a diffusion model. Inequality has not arisen simultaneously around the world; it has "spread" from country to country in recognizable and sensible patterns. The diffusion model offers a simple, intuitively-appealing alternative to extraordinarily complex regression models of rising inequality. Diffusion can occur either through emulation (a macrophenomenological mechanism) or through coercion (a macrorealist mechanism). These two mechanisms are not mutually exclusive. Either or both can be used by national elites to effect major changes of policy regime. Diffusion by emulation and diffusion by coercion are two macro-level mechanisms that can be used as a template for understanding the implementation of inequality-increasing social and economic policies in diverse countries around the world. They can be differentiated through examination of the micro-level mechanisms through which diffusion occurred in specific historical cases. This injection of agency into the inequality debates requires extensive micro-level work on individual countries, but the clear existence of macro-level trends suggests that this micro-level work should be done within the context of some form of macro-level diffusion model.

Introduction

Since 1970 income inequality has been stable or rising in essentially every country in the world. The only substantial exceptions have been countries that have used extraordinary natural resource wealth to reduce inequality, either through explicitly antisystemic economic policies (Venezuela) or through explicitly redistributive fiscal policies (Norway). Throughout the rest of the world -- and indeed even in Norway where wage income is concerned -- inequality is on the rise. It has not, however, risen at the same time or at the same rate throughout the world. This suggests the globalization, skills premium, and technological change explanations that prevail in the economics literature are likely incorrect, since all of these processes should in principle have relatively uniform global impacts. Instead, the timing and geo-cultural patterns of rising inequality bear the hallmarks of a diffusion model. Inequality has not arisen simultaneously around the world; it has "spread" from country to country in a recognizable and sensible pattern.

Conventional explanations of rising inequality have used regression models to regress inequality levels or trends on postulated causes of rising inequality. These models have led to tenuous, non-robust, and often contradictory results (Babones and Vonada 2009). It is possible that the results reported in the inequality literature are so unstable because the inequality data themselves are of such low quality. Countering this interpretation is the fact that inequality itself has repeatedly been linked to many kinds of negative health outcomes. Without taking a position on the causality of these links, from a purely methodological

standpoint this shows that inequality is sufficiently well-measured that robust regression results can be achieved using the inequality figures reported in international datasets. The precariousness of the results of regressions using inequality as the dependent variable cannot be pinned solely on the poor measurement of inequality.

The diffusion model offers a simple, intuitively-appealing alternative to extraordinarily complex regression models of rising inequality. Viewed in comparative historical perspective, it is clear that in the post World War II period inequality began rising first in the United States, rose fastest in the United States, and is now much higher in the United States than in any other rich country. The United States is a globally hegemonic state that possesses extraordinarily wide -- perhaps unprecedented -- global cultural, economic, and political reach. There is no consensus on why income inequality began rising in the United States in the early 1970s, but circumstantial evidence points strongly to domestic political factors. Starting in the early 1970s the United States experienced rising inequality in wages, a shift from wage income to investment income, declining tax rates on high wages, and declining tax rates on investment income, all at the same time. In other words, inequality and all of the levers of increasing inequality moved decisively in the same direction at the same time.

It was only after inequality began to rise in the United States that the trend toward rising inequality is observed in other countries. This post hoc fact is well-established, but the diffusion model implies that rising inequality outside the United States was not just post hoc but also propter hoc. There are multiple theoretical bases for understanding how inequality could "spread" from the United States to other countries. In the world society framework, diffusion is motivated by the emulation of economic models that are perceived to be successful (Meyer et al 1997). Given the absolutely hegemonic status of the United States in the post-war period, diffusion by emulation would not be surprising. On the other hand, high-inequality economic models can also be imposed by external material circumstances (including market and military mechanisms), as suggested by the world-systems framework for understanding globalization (Wallerstein 1974). The shift from cooperation to competition in the aftermath of the collapse of the Bretton Woods system of managed exchange rates and the near-completion of decolonization in the early 1970s together created ideal conditions for international coercion.

In Meyer's language, the world society approach is macrophenomenological, while the world-systems approach is macrorealist. In the former, ideas spread through their own power, while in the latter ideas spread through coercive power. These two diffusion mechanisms are not mutually exclusive; on the contrary, there are good reasons for believing they are complementary. In particular, macrorealist mechanisms are likely to be imposed where macrophenomenological mechanisms fail. In the next two sections below, I sketch the chronology of when inequality began rising, country by country, dividing the countries into cases of diffusion by emulation and diffusion by coercion. I conclude by speculating on the class bases of inequality diffusion by emulation and diffusion by coercion in rich and poor countries.

Cases of Diffusion by Emulation

In the United States, income inequality declined for a century until 1970. Since roughly 1968-1973 inequality in the United States has risen dramatically. The first countries outside the United States to experience rising inequality were those with the closest cultural times to

the US: first Canada and the UK (1970s), then Australia, Ireland, and New Zealand (1980s). Rising inequality did not become a major social policy issue in the non-English-speaking rich countries of the world until the late 1990s and early 2000s. This suggests a clear cultural pattern of policy emulation, with those countries that had the easiest access to US ideas inundated first by the tide of rising inequality, with others holding out much longer or even resisting completely.

Data from the World Top Incomes Database (Alvaredo et al 2013) can be used to attach precise dates to the inflection from post-war declining inequality to post-1970 rising inequality. The World Top Incomes Database contains annual observations of income distribution for most rich countries based on tax returns data. I use data for the proportion of personal income going to the top 0.5% of tax households. The choice of the 0.5% threshold was made based on data availability. Other thresholds give similar dates, plus or minus one or two years. All top incomes series move in close unison.

The proportion of all personal income going to the top 0.5% of tax households reached its historical minimum of 5.07% in the United States in 1973, down from more than 8% in the 1940s. After 1973 the proportion rose dramatically. It reached a peak of 14.32% in 2007 and is still hovering over 13%. The 0.5% top income share followed a similar trajectory in the United Kingdom, falling from 9%-10% in the 1940s to a low of 3.6% in 1978. Since then it has risen in tandem with the US rate, lagging about 5-10 years behind the US curve. Today the 0.5% share in the United Kingdom is between 10% and 12%, not as high as in the United States but roughly equal to the US share in the early 2000s.

The top 0.5% income share inflection points for other English-speaking countries follow in close order their cultural closeness to the United States: US, 1971; UK, 1978; Canada, 1978; Australia, 1981; New Zealand, 1986; Ireland, 1987. These dates are plotted on a world map in Figure 1, along with dates for other rich countries and regions. Top incomes reached a minimum in Japan in 1996 and then began rising, while in northern and western European countries minimum inequality was reached in the 2000s. The recentness of the inequality inflection in Europe makes precise dating difficult; we need another decade of data before we will know whether or not the minimums achieved in the 2000s have been decisively reversed. Anecdotal evidence strongly suggests that inequality is now rising across all of the rich countries of northern and western Europe.

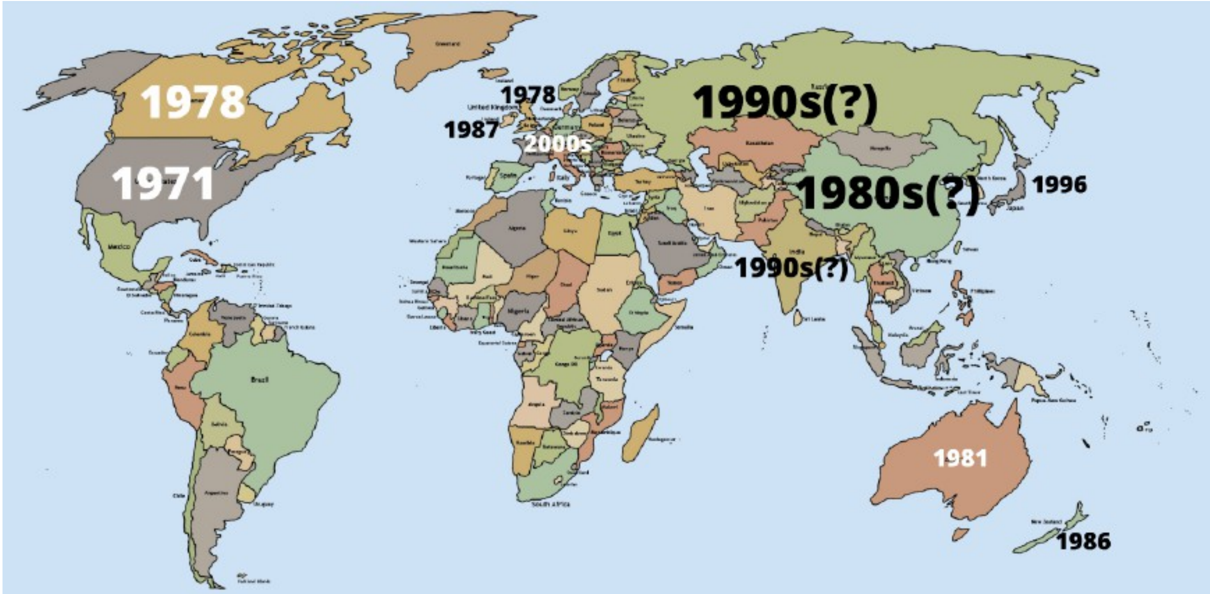
All of these rich countries have the ability to set social policy somewhat independently of the pressures of international markets and US political and military hegemony -- should they choose to do so. Seen in this context, the ordered pattern of rising inequality according to cultural closeness to the United States is strong evidence of macrophenomenological mechanisms of emulation: countries model their policies on those of the global hegemon. The spread of neoliberal approaches to the governance of labor and financial markets has clearly been aided by the spreading influence of English-language institutions like business newspapers and business schools. Throughout Europe and Japan, in social spheres where English is the accepted language of communication, neoliberalism is the accepted language of policy.

Most poor countries do not have the levels of policy freedom experienced by rich countries, but a few very large middle-income countries do have much more practical independence than the other non-rich countries of the world. The "big three" non-rich powers are China, Russia, and India. China represents a clear case of diffusion by emulation: in 1978 the internationally-traveled Deng Xiaoping announced the economic liberalization policy that has

continued through today. Perhaps not coincidentally, the United States recognized the PRC as the government of China on January 1, 1979. In the former Soviet Union, while the breakup of the USSR certainly occurred under pressure from the United States, it is obvious that it was precipitated primarily by internal, not external, pressures. Most of the post-communist states eagerly adopted neoliberal economic policies immediately after independence, sparking extraordinarily rapid increases in inequality.

India is a less straightforward case. India's economic liberalization starting in 1991 was precipitated by a balance of payments crisis that resulted in IMF intervention with a conditional loan agreement. That said, the opportunity for liberalization was eagerly seized upon by India's newly elected government. In other words, in India we can perhaps see a case of emulation aided by coercion through what Harvey (2005) has called the "management and manipulation of crises." India could have devalued its currency to avert a crisis, but the government of the day chose instead to seek IMF support -- with concomitant IMF conditionality. National elites made use of macrorealist pressures to foster macrophenomenological change.

Figure 1. Inequality Inflection Dates for Emulation-Model Diffusion



Diffusion by Coercion

In the early 1980s, and particularly with the Mexican debt of 1982, the Latin American growth miracle came to an abrupt end. The IMF applied the new doctrine of "conditionality" to force social and economic changes that led to rising inequality across the region. This is a clear example of coercion, but as in India a case can be made that it was coercion aided and applauded by many local elites. The follow-up debt crisis of 1994 resulted in further externally imposed (but internally abetted) economic liberalization. Inequality, already high in Latin America, increased to globally unprecedented levels in the mid-1990s, though since the late 1990s there has been a fall-back in inequality in Brazil and other Latin American countries from the historic highs of the post-crisis 1990s (Gasparini and Lustig 2011).

In 1997 when east Asia experienced its own crisis, a similar set of conditions were imposed by the IMF and other western powers, but this time many of the affected countries pushed back against inequality-inducing policies. Only the weaker southeast Asian economies suffered seriously rising inequality on the Latin American model. Malaysia refused IMF conditionality, while South Korea implemented neoliberal conditions so half-heartedly that it can be considered to have subverted the international conditions regime. These outcomes, combined with the Latin American experience since the late 1990s, suggest that externally imposed policies that result in rising inequality are perhaps not as robust as inequality that diffuses through emulation.

The global financial crisis of 2008-2009 has led directly to the imposition of extreme "austerity" policies that are leading to higher income inequality across southern Europe. The unpopularity (and seeming unsuccessfulness) of these policies in Greece, Portugal, and Spain suggest that they might be at least partially reversed by future governments. It seems likely that in these cases coercion will have an impact similar to that in Latin America: permanent changes in economic structure tempered to some extent by a reaction against their more extreme effects on society. Of course, only time will tell how these most recent cases of the coercive diffusion of a high-inequality economic model will pan out.

Conclusion

Diffusion models for the spread of inequality have the potential to restore some contextualized meaning to today's increasingly abstract statistical debates about the causes of rising inequality. Regression models that postulate that rising inequality is due to the effects of variables like trade globalization do not stand up to the comparative historical scrutinization of individual cases. There is really no doubt that region-wide phenomenon of rising inequality in Latin America immediately following the shocks of 1982 and 1994 was due to the economic changes that occurred at those times; it also seems clear that rising inequality in Canada spread up from south of the border and in the UK was closely connected to the Prime Mininstership of Margaret Thatcher. These kinds of geographical and historical contingencies simply are not captured in the regression framework.

Even more difficult to capture -- because more difficult to measure -- is the impact of class conflict on economic inequality. By definition, rising inequality is a shift in economic rewards from poor to rich, and almost by definition it represents a shift in economic power from power to rich. Obviously, rich and powerful people in every country have enormous incentives to promote policies that result in rising inequality. This class conflict aspect of rising inequality seems to be totally absent from the regression-based social scientific literature. It is the elephant in the room. To remove the agency of the rich from the study of rising inequality flies in the face of common sense, to say nothing of rational choice models of human behavior. It is not credible to suggest (as most of the literature does) that rising inequality is entirely due to larger macro-historical forces without so much as a hand in the right direction from those who stand to benefit most from the trend. Rich and powerful people would be extraordinarily irrational indeed if they did not promote rising inequality.

The injection of agency into the inequality debates requires extensive micro-level work on individual countries, but the clear existence of macro-level trends suggests that this micro-level work should be done within the context of some form of macro-level diffusion model. Diffusion by emulation and diffusion by coercion are two macro-level mechanisms that can

be used as a template for understanding the implementation of inequality-increasing social and economic policies in diverse countries around the world. As the Indian case illustrates, these two mechanisms are not mutually exclusive. Either or both can be used by national elites to effect major changes of policy regime. One frontier of inequality research should be the study of how the macro-level diffusion of inequality is enacted through micro-level agency. This is difficult, time-consuming work, but it is likely to be more productive than the next generation of purely macro-level regression-based research.

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