Does the broad spectrum of inequality across the world in the current era of neo-liberal globalization reflect a wide diversity of fundamentals, or just a multiplicity of political settlements and market failures?

By José Gabriel Palma

Inequality is a choice

Joseph Stiglitz

I am my choices

Jean-Paul Sartre

Introduction

The main aim of this paper is to analyze why inequality is so unequal in the current era of neo-liberal globalization. That is, why is it that there is such a broad spectrum of inequality across countries? This will include the analysis of whether this type of globalization has broadened even further the diversity in within-nation distribution of income by exacerbating “distributional failures” around the world. I first examine what I identify to be the five main distributional stylized facts of the current spectrum of inequality across the world, and then I propose a new way of measuring inequality, closely related to the index I suggested in Palma (2011), which was later christened as the “Palma ratio” by Alex Cobham and Andy Sumner.

1. The broad spectrum of cross-country distributional diversity: the five main stylized facts

1.1 The first stylized fact of the overall within-country distribution of income: inequality is highly unequal across the world.

The first distributional stylized fact is the best known: there is a huge diversity of inequality across countries—with some posting a Gini below 25, while for others it is above 65. In terms of the Palma ratio, some countries have a ratio below 1, while others have theirs well above 8! See Figure 3.6 below.

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1 Ha-Joon Chang, Alex Cobham, Camila Cociña, Jorge Fiori, Juliano Fiori, Jorge Friedman, Daniel Hahn, José Antonio Ocampo, Cristóbal Palma, Guillermo Paraje, Carlota Pérez, Ashwani Saith, Paul Segal, Ignês Sodré, Andy Sumner, Bob Sutcliffe, Lance Taylor and Robert Wade have made valuable contributions to my work in this area. The usual caveats apply. This paper was written while trying to deal with the shock of the sudden illness and death of my friend Rebecca Swift; I dedicate this paper to her.

2 This ratio, which I proposed in Palma (2011; for an earlier version, see Palma 2005), was labelled the ‘Palma ratio’ by A. Cobham and A. Sumner (see Cobham and Sumner, 2013a, b, and c). See also Fisher (2013, especially the brilliant animation at the end of the article), Fisher (2014, map 7); and Green (2012). See also, Chang (2014).

3 In terms of the Palma ratio, some countries have a ratio below 1, while others have theirs well above 8! See Figure 3.6 below.
Figure 3.1

Gini coefficients of personal income distribution in 130 countries, c. 2012

- In the case of regions, the statistic used to measure centrality is the median.
- **LA** = Latin America\(^4\); and **S Af** = Southern Africa (Botswana, Namibia, and South Africa, with the latter literally off the chart at 65.4).\(^5\) **Br** = Brazil; **Ch** = Chile; **Cn** = China; **EA1** = Korea and Taiwan; **EA1**\(^*\) = Hong Kong and Singapore; **EA2** = Indonesia, Malaysia and Thailand; **EE** = Eastern Europe; **EU**\(^*\) = Mediterranean EU; **EU** = rest of Continental Europe; **In** = India; **Is** = Israel; **NA** = North Africa; **Ni** = Nigeria; **No** = Nordic countries; **OECD-1** = Anglophone OECD (excluding the US); **Ru** = Russia; **SS-A** = Sub-Saharan Africa; **Tr** = Turkey; **Ur** = Uruguay; **US** = United States; **VN** = Vietnam; and **ZA**\(^*\) = South Africa.\(^6\) Unless otherwise stated, these acronyms will be used throughout the paper.
- For the sources of the data, see Appendix. Unless otherwise stated, these will be the sources of all figures in this paper.

The multiplicity of distributional outcomes evident in figure 3.1 brings us immediately to one of the key questions of this paper: is this broad spectrum of inequality the somehow unsurprising outcome of the wide disparity of fundamentals found across the world, or does it

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\(^4\) Latin America excludes Argentina and Venezuela due to unreliable data (especially in the latter); among the many issues, high and repressed inflation has a highly distorting effect on the data.

\(^5\) The last reported data for Botswana are for 1994; therefore, although this country should not be included in the sample (as only countries with data after 2002 are included — see Appendix), in some figures it is included to highlight the similarly extreme level of inequality in the three middle-income, resource rich, Southern African countries.

\(^6\) If one uses the World Bank-WDI dataset for South Africa (instead of the OECD’s), this country’s Gini falls to (the still remarkable level of) 63.1.
mainly reflect the extent of the distributional choice that we actually have? That is, is this broad spectrum of inequality a fairly predictable scenario given such diverse economic conditions across the world? Or does it mainly reflect the impact that a multiplicity of political settlements and market failures can have on inequality? The key issue here is whether one can blame high inequality on fairly exogenous factors and supposedly inescapable fundamentals—via cause-effect interactions—or whether one should take responsibility as a society for the outcomes of our choices.

1.2 The second distributional stylized fact: inequality is particularly disparate among middle-income countries

The second stylized fact of the overall within-country distribution of income is that there is also a particularly wide diversity of inequality across middle-income countries—with some important diversity found among high-income countries as well. Figure 3.2 shows this distributional diversity among these two groups of countries when all countries in the sample are categorized by GDP per capita. 7

**Figure 3.2**

![Gini coefficients and log of GDP pc, c. 2012](image)

- Acronyms as in Figure 1, and EE* = Eastern Europe with an income per capita below US$15,000; EE = those above that level; FSU* = Former Soviet Union with an income per capita below US$10,000; FSU = those above that level (excluding Russia); LA* = Latin America with an income per capita below US$8,000; LA = those above that level; O-1 = OECD-1 = Anglophone OECD;

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7 When I analyse income distribution across countries from the perspective of their GDP per capita I do so simply as a mechanism for visualising the geometry of within-country inequality across the world; i.e., it is just a cross-sectional description of cross-country differences in inequality, when characterised by GDP per capita.
excluding the US; **SS-A*** = Sub-Saharan Africa with an income per capita below US$650; **SS-A** = those between US$650 and US$1,000; **SS-A* = those between US$1,000 and US$2,000; and **SS-A = those above that level. As mentioned above, South Africa’s Gini is 65.4.  

GDP pc = Expenditure-side real GDP per capita in 2011 (PPPs, in 2005 US$). In this and the following graphs, the range of the horizontal axis corresponds to the actual range of GDP pc in the sample.

- Sources: for income distribution as in Appendix; and for GDP pc, the Penn World Table (2016; PWT8.1). Unless otherwise stated, throughout the paper ‘US$’ will refer to this type of dollar (PPP, in 2005 US$).

This figure confirms what was already evident in figure 3.1: middle-income countries are found across the whole distributional range of the sample—some posting a Gini as low as 26 (the Slovak Republic and Belarus), and others around 65 (Namibia and South Africa); see vertical ellipse in the middle of the graph. As figure 3.2 also indicates, although to a lesser extent, high-income countries are also found across a wide distributional range.

The distributional geometry of low-income countries appears to be rather different, as inequality follows an upward trend vis-à-vis the level of income per capita, from Mali and Burundi, with a Gini of 33, to Zambia with one of 58—i.e., from Sub-Saharan countries with an income per capita below US$ 650 (SS-A***), to those with one above US$ 2,000 (SS-A). This trend of inequality increasing with the level of income within this part of the sample is then followed by lower middle-income Latin America (LA*), and finally by middle-income Southern Africa (ZA)—see the 90 degree angle ellipse.

The huge distributional diversity among middle-income countries (and to a certain extent also among high-income ones) obviously indicates that, at least at certain levels of Gross Domestic Product (GDP) per capita, countries seem to take full advantage of the distributional choice at their disposal—in some cases for the better, and in some for the worse. This fact immediately casts serious doubt on the many well-known and relatively deterministic theories purporting to explain why there is a high level of inequality among some middle-income countries—especially those in Latin America. The best known, of course, is the one that emerged from Kuznets’ “Inverted-U” hypothesis, which has often been misused as an excuse for high inequality in many middle-income countries. At this particular level of income, the story goes, high levels of inequality are somehow “inevitable.” However, one should not worry too much about it, as somehow also almost inevitably things are bound to get better on their own accord as income per capita increases—the speed of which somehow benefits from this inequality. High inequality would then be, in one way or another, a necessary price to be paid for rapid economic growth at certain levels of development; but fast economic growth will reward us by bringing lower levels of inequality. From this perspective—so typical of the earlier versions of the Washington Consensus—it follows that it would make more sense to have a hands-off attitude towards inequality—as it is likely to improve on its own accord. Furthermore, in middle-income countries, a “premature” fall in inequality could very well be not only unsustainable, but could also have a high cost in terms of future economic growth.

The broad multiplicity of distributional outcomes among middle-income countries highlights the massive contrast between highly-unequal Latin America and Southern Africa (LA*, LA, and ZA), and low-inequality Eastern Europe and the Former Soviet Union, excluding Russia (EE*, EE, FSU*, and FSU)—although in many places in the latter, oligarchs are doing their

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In this and the following graphs, the three middle-income (mineral-rich) Southern African countries (Botswana, Namibia and South Africa) are represented by South Africa.
very best to “modernize” their levels of inequality. It also highlights the remarkable contrast between the huge inequality of Latin America and Southern Africa, and the opposite phenomenon among many highly successful East Asian countries, such as Korea and Taiwan.

Moreover, and perhaps ironically, some of the worst levels of middle-income inequality are found in countries characterized by the consolidation of democracy, such as in Latin America and South Africa, a process that has often been led by so-called “center-left” political coalitions—countries where, although democracy has been already achieved, it is yet to be accomplished. From this perspective, the common thread is that although many economic and political institutions have changed in the recent past—in some significantly—the narrow interests of the élite clearly have not. In the case of Latin America, for example, the unique comparative advantage of its oligarchies seems to lie precisely in being able to use different institutions (often quite astutely) in order to keep achieving their fairly immutable goals. In other words, few oligarchies in the world have shown such skills in their struggle for the “persistence of élites,” despite the otherwise substantial institutional change. This brings us to the complex issue of persistence and change in institutions, and in particular to the so-called “iron law of oligarchies”—i.e., how dysfunctional institutions are sometimes so effective in creating incentives for their own re-creation (Acemoglu and Robinson 2006). And now, South Africa seems to be following the same path with a vengeance.

Finally, the rather wide spectrum of inequalities also found among high-income countries highlights the contrast between those that have mostly tried to defend their pre-neo-liberal reforms distributional achievements (e.g., the Nordic countries and some in continental and Eastern Europe), and those that have been happy to sail along the inequality-generating winds of globalization (e.g., the Anglophone countries within the high-income OECD, as well as Hong Kong, and Singapore).

1.3 The third main distributional stylized fact: the broad spectrum of cross-country distributional diversity discussed above suddenly changes into its opposite when the population of each country is divided into two halves, the middle and upper-middle (D5-D9), and the top and bottom (D10 and D1-D4).

The third distributional stylized fact that I would like to highlight is that there is a huge contrast between the multiplicity of inequalities when income distribution refers to the whole population of each country (as is the case of the Ginis in figures 3.1 and 3.2), and when it refers to the income shares of two halves of the population—deciles 5 to 9, and deciles 10 and 1 to 4 (see figure 3.3).

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9 Moreover, in all probability, many countries of the oil-producing Middle East, for which there are no data, would share the inequality heights of Latin America and Southern Africa.
Figure 3.3

The distributional contrast between figures 3.1 or 3.2 and that of 3.3 is truly remarkable: a broad spectrum of inequality suddenly turns into a remarkable uniformity. Furthermore, and quite surprisingly, these two halves of the population divide the national income in a fairly “equitable” way—with each half of the population getting roughly half of the national income. Perhaps it is equally striking that no one seems to have noticed this before my previous work (for example, Palma 2002 and 2006). The exceptions to the distributional homogeneity of these two halves of the population are just a small number of usual suspects in Latin American and Southern Africa.

From this distributional contrast between the whole population and these two halves, it must follow that the enormous diversity of overall inequality shown by the Gini in figures 3.1 and 3.2 has to be the result of what happens within these two halves of the population. That is, it must reflect the way in which each of these two halves divides their respective (about) half of

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10 Although (not surprisingly) by now some usual suspects are insisting that, of course, they knew about it all along! (How could they not have done so?) They just forgot to mention it in their work.

11 For example, the coefficient of variation of the ranking in Figures 1 is more than 3 times larger than that of Figure 3.3 = 0.22 for the Gini, and 0.07 for both halves of the population. This gap increases to nearly 9 times when one compares the coefficients of variation of the Palma ratios in Figure 6 below with that of the two halves of the population (0.58 and 0.07, respectively).
the national income among its members. This leads us to the fourth distributional stylized fact.

1.4 The fourth main distributional stylized fact: although both halves of the population within each country (D5-D9, and D10 plus D1-D4) tend to get a similar share of national income across the world (about half), they divide this income among their own constituents in a very different manner.

While in the half of the population making up the middle and upper-middle (D5-D9), the distributional uniformity of the whole group across the world is also reproduced inside it—i.e., between the shares of the middle (D5-D6) and that of the upper-middle (D7-D9); see left-hand panel in figure 3.4—the opposite is the case for the other half of the population (see right-hand panel in figure 3.4).

**Figure 3.4**

![Graph](image)

- LA = Latin America; and SAF = Southern Africa.

While the left-hand panel of figure 3.4 shows how, with the sole exception of the three Southern African countries, there is little variation in terms of how those in D5-D9 share their combined income between the middle (D5-D6) and the upper-middle (D7-D9), the right-hand panel shows the that there is a huge diversity of outcomes in the distributional struggle between D10 and D1-D4 for their respective shares in the other half of the national income. In the case of the latter, the distributional geometry varies from D10 getting less than half of their combined share with D1-D4, to no less than nine-tenths of it. That is, while for the former (D5-D9) the internal distributional scenario in their half of the national income is also one of uniformity, for the latter the scenario changes to a highly heterogeneous one—indicating that the very diverse distributional outcomes across the world are the result of a tooth and nail fight in just one half of the population, for just one half of the national income.

As these stylized facts have not been identified before, traditional theories purporting to explain the distribution of income (including those developed by the already mentioned experts that now inevitably claim to haven know about these stylized facts all along) have so
far ignored these two basic facts: i) a distributional cross-country symmetry when it comes to the share of income appropriated by each of these two halves of the population; and ii) a remarkable distributional asymmetry in terms of what happens within each of these halves: a homogenous distributional outcome between members of one half vs. an heterogeneous within the other. For example, the coefficient of variation for the share of D1-D4 in its own half is eight times higher than that for D7-D9 in the other half.

In turn, figure 3.5 shows very neatly this distributional contrast between the heterogeneity in the top and bottom of the distribution vs. homogeneity in the middle and upper-middle when the shares of the respective four groups are ordered according to the GDP per capita of countries.

**Figure 3.5**

- Acronyms as in Figures 3.1 and 3.2. Countries and Regions in the bottom panels are the same as in the top ones.

As is evident in figure 3.5, the high degree of homogeneity in the income share of the two components of D5-D9 is reflected in the fact that the measures of central tendency are almost identical in each of them: for D5-D6, the harmonic mean is 15%, the average is 15.3%, the
median is 15.6% and the mode is 15.7%; and for D7-D9 these statistics are 36.7%, 36.8%, 36.9% and 37.3%, respectively. In turn, as mentioned above, the coefficients of variation of the top two panels are rather different than those of the bottom two.

In fact, since the sum of all shares has to be equal to 100, it could even be argued that due to the distributional homogeneity of D5-D9, and that of its two components, the share of decile 10 could actually suffice as an inequality statistic for the whole distribution. This is what led to the subtitle of my 2011 paper: inequality is all about the share of the rich!

At the risk of serious oversimplification, one simple way of understanding the narrative of this remarkable distributional contrast in terms of how the top and the four bottom deciles, and the middle and upper-middle, share their (about) halves of the national income among their members is to think about the former (from an institutional economics perspective) as the “production classes” (including some services), and at the latter as the “administrative classes” (including, of course, the civil service). From this perspective, the key contrast is between a surprisingly homogenous outcome among the two constituents of the administrative classes, and the distributional struggle among the two constituents of the production classes—the latter being the issue highlighted by what is now known as the “Palma ratio” (see figure 3.6 below).

That is, with the exception of very few extremely unequal countries (located in very specific parts of the world; an issue to be analyzed below), the broad spectrum of overall inequality across the world emerges almost exclusively from what happens distributionally within one half of the population—the one that is made up mainly by the capitalist elite, their consiglieres, and their top executives and professionals at one end, and by the workers at the other.

This does not mean that the administrative classes are immune from the overall distributional struggle (Palma 2014). They are very much part of it, but (with the exception of very few extremely unequal countries, which are also geographically specific) they seem to be surprisingly successful in their different political arrangements to defend their halves of the national income as a group, and their own shares in this half as respective constituents.12

All these phenomena, especially the contrasting distributional symmetries and asymmetries, open up huge analytical challenges for anyone interested in the understanding of the distribution of income—i.e. interested not just in gathering information about it, but in advancing our knowledge of the phenomena in question.

Figure 3.5 also helps visualize the logic of the Palma ratio as an index of inequality (Palma 2011 and 2016). This index, by dividing the share of the top 10% with that of the bottom 40%, aims to measure inequality where inequality exists; i.e., among the production classes. This is not the case with the Gini, which inevitably blends in just one index the distributional heterogeneity of the production cases with the homogeneity of the administrative ones. The resulting geography of inequality (figure 3.2) is a diluted mirror of the distributional diversity of the top and bottom deciles (see top panels in figure 3.5), as the Gini (despite its statistical properties) seems to be totally blind to the distributional homogeneity of the other half of the population. As a result, it ends up being a rather obscure (and somehow misleading) statistic, as in its attempt to give a picture of the whole distribution it hides what happens in one half of

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12 In the few cases where D5-D9 can only appropriate as a group well below half of the national income, as is the case in the three Southern African countries, the middle (D5-D6) is the one that has been squeezed the most.
it. The Palma ratio, meanwhile, only attempts to measure inequality where there is inequality: in the distributional struggle between the rich and the poor (see figure 3.6).\footnote{This implies, as Cobham et all. (2015) remark, that “the Palma is ‘blind’ towards intra-middle variation. However, this shortcoming might be offset by other desirable characteristics it has as a measure of income concentration. We know that by construction the Gini is over-sensitive to the middle; but in practice it is equally insensitive to the middle as is the Palma; so the implication would seem to be that the Palma Proposition holds sufficiently strongly to overcome the Gini’s bias (possibly exacerbated by weaknesses in constructing Gini series from limited quintile data). That leaves a choice between a measure which by design is oversensitive to the ‘wrong’ bit of the distribution, but in practice tells us nothing about it; and a measure which by design and practice, deliberately tells us nothing about it. If you want to know about the middle, the Gini seems to be little good to you – but may fool you that it is.”}

**Figure 3.6**

- The Palma ratio is the ratio of the income share of D10 to that of D1-D4.\footnote{If one uses the World Bank-WDI dataset (instead of the OECD’s), although South Africa’s Palma Ratio falls to (the still dismal level of) 7.1, it would still be the highest in the world — in fact, since the Fall of Apartheid in 1994 and the beginning of democracy, inequality in South Africa has increased among all races and geotypes (see Leibbrandt, et al, 2010; and Palma, 2011).} **LA** = Latin America; and **SAf** = Southern Africa.

The most important distributional feature revealed by figure 3.6—a phenomenon that was not evident in the Gini-ranking of figure 3.1—is that inequality across the world, as measured by this ratio, increases first relatively slowly, and almost linearly, only to switch gears at the tail-end of the distribution (around ranking 115), when it begins to increase rapidly and geometrically. In fact, as the lower arrow in the graph indicates, had the “steady pace” of deterioration of inequality found in the first 115 countries continued at the tail-end of the sample, the most unequal country in the world today would have posted a Palma Ratio not much higher than 3. Instead, the most unequal one has a ratio that is not far from 9. Again, this...
rapid deterioration of inequality at the tail end of the distribution inevitably casts serious doubts on traditional theories of inequality, which have little or nothing to say about it.

One interesting result of this homogeneity in the middle and upper-middle regarding the Gini, as Tony Atkinson remarked in his comments on a draft of my 2011 paper, is that if D5-D9 gets half the income, then the Gini coefficient (in percentage points) is 1.5 times the share of the top 10% (in percentage points) minus 15. In this case the Gini has a maximum of 60%, although it may be slightly larger on account of inequality within the groups, since this calculation linearizes the Lorenz curve.

Following the logic of the Palma ratio, Doyle and Stiglitz made a proposal to include a “Palma target” in the post-2015 U.N. framework for global development—a Palma Ratio of 1 by the year 2030 (Doyle and Stiglitz 2014). In turn, Engberg-Pedersen (2013) suggested that countries should aim to halve the gap between their starting point and a Palma of 1 by 2030.15 A clear example of the logic that underpins the relevance of the Palma ratio is found in the comparison of the distribution of income between Germany and Uruguay—countries that, according to their Ginis (29 and 42, respectively), seem to have nothing in common from the point of view of their distribution of income. However, the Palma ratio—and “d10+”, a new related inequality indicator suggested in this paper—point in a rather different direction, one characterized by as many similarities as contrasts (see figure 3.7).

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15 I shall return to these targets below. As indicated by Cobham et all. (2015), “Data for the Palma Ratio is now listed and updated as standard measure of inequality in the OECD Income Distribution database (see Cingano 2014 and OECD 2016) and the UNDP annual Human Development Report (See UNDP 2016), as well as by some national statistical offices, e.g. the U.K. (ONS 2016). Further, interest in the Palma Ratio is evident among NGOs and international agencies alike (see for illustration, European Commission (EC) 2014; OECD 2014; Oxfam 2014; UNDESA 2013).”
In Uruguay the share of D10 (31% of national income) has been split between $d10^*$ (23%) and $d10^+$ (8%). The former is equivalent to Germany's D10 (benchmark country), and the latter is the extra share of D10 in Uruguay. Although I will use different benchmarks below, $d10^*$ and $d10^+$ will be calculated in the same form throughout this paper; i.e., vis-à-vis corresponding benchmark.

As is evident in figure 3.7, although there is a considerable distributional difference between these two countries, it is all about the extra share of the rich in Uruguay—which they get entirely at the cost of the bottom 40%. The Gini obscures this fact. As shown in this figure, I shall call $d10^+$ the sector of the pie representing the extra share of D10 in the unequal country. Its actual size (8% of national income for Uruguay in this case) will, of course, vary according to the benchmark with which the unequal country is compared.

Figure 3.7 also shows that the information provided by $d10^+$ complements that of the Palma ratio; and both statistics together provide fairly comprehensive information regarding the degree of inequality of a given country. This combined information makes evident the difference between the Gini and this new approach: while it is not at all intuitively clear where the extra inequality of Uruguay shown by the Gini comes from, to know that Uruguay’s Palma ratio is twice that of Germany, and that its $d10^+$ (in this scenario) is 8% of national income, is a much more focused, transparent, and informative story. And the thrust of this story is that (with very few exceptions located at the tail-end of the distribution) in most countries in the world the distributive struggle is located in the production classes, and it relates to whether D10 succeeds in appropriating this extra share of national income ($d10^+$) by shrinking that of D1-D4. Therefore, the size of $d10^+$ is also a proxy for the capacity or otherwise of D1-D4 to resist the “jivaroan” instincts of D10.
The sixty-four thousand-dollar question, of course, is whether the size of d10+ in Uruguay is the fairly inevitable outcome of the workings of its different “fundamentals” (vis-à-vis those of Germany), or the d10+ is a self-constructed outcome—reflecting choice and the nature of a more unfair political settlement. If the former were proven to be the key causal determinants of Uruguay’s “extra” inequality, it would still be necessary to explain why, while these are supposedly able to have such significant distributional impact on the production classes, they have no impact on the combined share of its administrative classes. If the nature of political settlements is what really matters distributionally, then d10+ would reflect the specificity of Uruguay’s own political economy and handy market failures—revealing in a rather neat form (as the epigraphs suggest) key issues relating to the nature of the country in question.

Schumpeter once stated that “The fiscal history of a people is above all an essential part of its general history” (Schumpeter 1918). I would add that its (closely related) distributional history is as much an essential part of its general history as its fiscal one. In this spirit, I would rephrase Schumpeter’s famous statement to the following:

“The fiscal and distributional histories of a people are above all essential parts of its general history. […] The budget is the skeleton of the state stripped of all misleading ideologies. So are the proportions of the national income allocated to rentiers, capitalists and labour. The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare — all this and more are written in its fiscal as well as in its distributional histories, stripped of all phrases. He or she who knows how to listen to their messages discerns the thunder of world history more clearly than anywhere else.”

The distributional information provided jointly by the Palma ratio and d10+—including the focusing of the distributional struggle to a fairly specific arena—can help illuminate this message, and at the same time help to create awareness of the dimensions and nature of inequality. This can be very useful for policy-making, as with these two indicators it now becomes fairly evident where inequality is located, and what is to be done if one wanted to eradicate the “extra” inequality in countries such as Uruguay. Information such as this can be crucial, because as Gramsci rightly said, more often than not battles of this kind are won or lost on the field of ideology.

It appears that those that argue that extra inequality of the type shown by Uruguay somehow reflects the inevitable workings of its fundamentals—let alone those that support it from an economic-efficiency point of view—have now a bit of analytical work to do.

Of course, as in any other area of economics, one can always construct a suitable shopping list of potential fundamentals that might supposedly “explain” the very different levels of inequality found across the world, and then speculate about things such as how globalization might have impacted on them. But why do they only affect on one half of the population (those in the production classes)? And why are only some governments willing and able to do something about it in a systematic way via taxes and transferences? And when they do so, are they really violating some distributional law of gravity—at the cost of efficiency?

In fact, for a long time, those justifying higher levels of inequality were (perhaps not surprisingly) reluctant to study the share of the rich. This was the trademark of mainstream distributional research during the classical period of the Washington Consensus.16 As John

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16 For a critique of this work, see Palma (2011 and 2016).
Kenneth Galbraith once remarked: “Of all classes the rich are the most noticed and the least studied” (Galbraith 1977, 44). Fortunately, it is beginning to look as though a certain cat is finally out of a certain bag.

As discussed in greater detail below (Section 2), with the sole exception of a few extremely unequal countries, the size of d10+ can explain almost the entire difference in within-nation inequality across the world. The partial exceptions are those extremely unequal countries where acute inequality is not only due to a much larger d10+, but also to an added twist: in a small number of countries (located mostly in Latin America and Southern Africa—as was already evident in figure 3.3 above), D10 is not only able to squeeze the share of D1-D4 still further (in order to get an even larger d10+), but it can also shrink the share of D5-D9 below 50% of national income. That is, in these countries, the arena in which the distributional struggle is played out is enlarged to include what, in the great majority of countries in the world, belongs to D5-D9. The resulting burst of inequality leads us to the fifth key distributional stylized fact of the world.

1.5 The fifth distributional stylized fact: in a few countries inequality becomes extreme because D10 not only can squeeze D1-D4 even further, but is also able to bring the share of D5-D9 into play—i.e., in them, D5-D9 are no longer able to defend their half of national income against the voracity of D10.

A good example of the distinction between countries where D5-D9 is able defend their half of national income, and those where it struggles to do so is the contrast between Uruguay (see figure 3.7 above) and Brazil and Chile (see figure 3.8).

**Figure 3.8**

Brazil & Chile: extreme inequality due to both an even larger d10+, and the emergence of d10++

In Brazil and Chile D10 = [d10*] + [d10+] + [d10++] = 42% of NI
In this Figure (and in the few countries in which D5-D9 is unable to appropriate at least half of the national income) the income share of D10 is split into three sectors of the pie: i) $d_{10}^{++}$ is the share of D10 indicating how this decile has succeeded in pushing the share of D5-D9 below 50% of national income; ii) $d_{10}^+$ is the extra share of D10 over and above what would be necessary for a Palma ratio of 1 (after taking $d_{10}^{++}$ into account); and iii) $d_{10}^*$ is the share of D10 that would be sufficient for a Palma ratio of 1.

While in Uruguay, as in most countries, higher inequality is almost entirely about the size of $d_{10}^+$, for the top decile in Brazil and Chile an even larger (in fact, much larger) $d_{10}^+$ is just not good enough. Therefore D10, as well as getting a large $d_{10}^+$, also tries (and succeeds) to appropriate a new sector in the pie: “$d_{10}^{++}$.” The latter sector represents the capacity of D10 in a small number of countries to shrink the share of the middle and upper middle to below half of national income: to 47% in Brazil and 45.5% in Chile.

Therefore, in order to measure the degree of inequality of a given country properly (especially to be able to identify the few extremely unequal countries), we need to use two yardsticks: one for $d_{10}^+$, and one for $d_{10}^{++}$. Perhaps, not surprisingly, I would argue that the most relevant for $d_{10}^+$ is a Palma ratio of 1; and for $d_{10}^{++}$ a share for D5-D9 of at least 50% of the total. From this perspective, the whole “extra” share of D10 is now the sum of $d_{10}^+$ and $d_{10}^{++}$. However, in most countries in the world, $d_{10}^{++}$ equals to zero, as in them D5-D9 does get at least half of the national income; therefore, increased inequality would only be about $d_{10}^+$.

When this is not the case, as in Brazil and Chile, the extra share of D10 will be the sum of both sectors of the pie. And in these two countries they sum to no less than 17% of national income (14% plus 3% in Brazil, and 12% plus 5% in Chile, respectively). In Uruguay, instead, as $d_{10}^{++}$ equals to zero, the extra share of D10 is made up only by $d_{10}^+$—reflecting the greater strength of Uruguay’s administrative classes to defend their half of national income, which saves the country from joining the ranks of what I shall call the extremely unequal ones. In Germany, meanwhile, as this country meets the terms of both yardsticks, $d_{10}^+$ and $d_{10}^{++}$ equal to zero.

Given the above yardsticks, only about a dozen countries in the 130-country sample clearly fail the “$d_{10}^{++}$ test”—with another ten very close to fulfilling it as they have a share for D5-D9 of around 49% of national income. In the dozen that are well below the yardstick, overall inequality increased exponentially, because in them the share of D10 is now boosted by two sources: a greater $d_{10}^+$, and the new sector of the pie, $d_{10}^{++}$. In fact, Brazil’s Palma ratio is already nearly twice as large as Uruguay’s.

Looking at inequality from this joint perspective ($d_{10}^+$ and $d_{10}^{++}$) also helps differentiate the nature of inequality among extremely unequal countries. In Brazil, for example, a greater $d_{10}^+$ than Chile’s indicates that the poor seem less able than in the latter to fend against the insatiability of D10; however, its smaller $d_{10}^{++}$ indicates that the middle and upper-middle are more able to do so. It seems that in Chile, as D10 cannot squeeze the share of D1-D4 as much as its counterpart does in Brazil, its top decile gets from D5-D9 instead what they cannot get from D1-D4. That is, the distributional winner in these two countries is always the same, D10, and in this specific comparison it is so by the same amount ($d_{10}^+$ and $d_{10}^{++}$ add to the same 17% of national income), but the relative composition of D10’s mechanisms of income-

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17 An appropriate motto for them should be that of James Bond: “The World Is Not Enough”—as they try to move into a distributional outer space, propelled into dark matter by their insatiable greed, while finding their neoliberal ideology most helpful in this endeavour.
extraction are different—with Chile’s middle and upper-middle apparently paying the price for the greater capacity of this country’s D1-D4 to fight back (vice versa in Brazil).

Figure 3.9 (right-hand panel) shows how the size of d10++ increases exponentially in the last dozen countries of the sample (to which I have added Botswana, to have the whole trilogy of bizarre inequality in Southern Africa).\(^{18}\) In turn, in the left-hand panel, I reproduce the ranking of the Palma ratio shown in figure 3.6 above to highlight how the burst of inequality at the tail-end of this distribution is clearly associated with the emergence of d10++.

**Figure 3.9**

![Palma ratios of personal income distribution, c. 2012](image1)

![The extra share of D10 associated with D5-D9 having a share below 50% of NI](image2)

- **LA** = Latin America; and **SAf** = Southern Africa. **Bw** = Botswana; **Br** = Brazil; **Cl** = Chile; **Co** = Colombia; **Na** = Namibia; **ZA** = South Africa; and **Zm** = Zambia. **NI** = national income.

This figure indicates the close association between the sudden switch in the speed of deterioration of inequality at the tail-end of the ranking of the Palma ratio (left-hand panel), and the emergence—and remarkable speed of growth—of d10++ (right-hand panel). In the latter countries, the numerator of the Palma ratio now begins to add d10++ to a continuously rising d10+. Therefore, bringing the share of D5-D9 into play is a crucial component of the burst of inequality in many countries in Latin America (such as Brazil, Chile and Colombia), in some higher-income Sub-Saharan ones (such as Zambia), and in the infamous three Southern African ones.

In the extreme case of South Africa, for example, D10 is not just able to squeeze the share of D1-D4 all the way down to just 6.4% of national income (barely one-fifth the share of this group in Norway), but is also able to shrink the income share of D5-D9 to just 39% (see figure 3.11 below). Furthermore, as the income share of South Africa’s (civil service crowded) D9 is

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\(^{18}\) For the problem with Botswana’s data see footnote 5 above.
also one of the highest in the world, the income share of D5-D8 ends up being the lowest in the world (just 22.9% — about half that of Korea). And all this after more than two decades of democracy, a period in which inequality has worsened even further.\(^{19}\) Not minor analytical challenges for neo-classical economists, as it would be difficult to imagine which fundamentals (of the type that they like to highlight) can possible explain—via cause-effect interactions—South Africa’s mindboggling heights of inequality?

In the whole sample there are about 40 countries in the “low-inequality” category—understood here as those in which the income-share of D10 is less than three percentage points of national income away from the first target: a Palma sector 1 equals to zero (in all of them, of course, d10++ equals to zero as well). In the “medium-inequality” group (those countries in which D10 is between three and seven percentage points away from the first target) there are another 40 countries. Then, in the “high-inequality” group (i.e., D10 between seven and twelve percentage points away) there are 35. There are then less than 15 in the “extreme-inequality” category (D10 between 12 and 22 percentage points away from the yardsticks—now including both targets, as in this group d10++ begins to be greater than zero ). And finally, in what could only be called the “obscene-inequality” group, there are just three Southern African countries.

The next section of this paper attempts to contribute to the understanding of some of the analytical issues raised so far by trying to narrow down empirically what is really at stake regarding the wide range of inequality across the world.

2. d10+ and d10++ as “Palma sectors”: a new way to measure “extra” inequality

This section will analyze two different forms for measuring d10+ and d10++. The first follows from the above contrast between Germany and Uruguay.

2.1 “d10+” as the extra share of D10 when the yardstick for this decile is the income share that would deliver a Palma ratio of 1.

A closely related way to measure “extra” inequality from the perspective of figure 3.7 above is to use a generic yardstick for d10+: the share of D10 that would deliver a Palma ratio of 1 (i.e., a share of D10 that is equal to that of D1-D4, as was the case of Germany). As mentioned above, Doyle and Stiglitz made a proposal along this line for the U.N.’s post-2015 framework for global development—and this “Palma target” was a Palma Ratio of 1 by the year 2030.

From this perspective, given the current share appropriated by D5-D9, d10+ is the share of D10 that is over and above what would result in a Palma ratio of 1. In turn, this would indicate what percentage of national income it would be necessary to transfer from the rich to the poor if a country wanted to achieve a Palma ratio of 1—leaving in the meantime the share of D5-D9 in its present position.

When d10+ is defined in this way, and following the advice of Juliano Fiori, countries in which D5-D9 gets at least half of the national income shall be called “Palma sector 1.”\(^ {20}\)

\(^{19}\) For further analysis see Palma (2011, appendix 3).
\(^{20}\) Commenting on an early draft of this paper, he suggested I should call d10+ (and d10++ below) the “Palma sectors” due to their direct relationship with the Palma ratio. As mentioned above, the new index of inequality I suggested in Palma (2011) was later christened by Cobham and Sumner as the Palma ratio. Afterwards, following this logic, in his latest Poverty and Shared Prosperity Report, the World Bank coined a related statistic the “Palma premium” (see World Bank 2016).
However, in the few countries where D5-D9 does not get at least its half of the pie, it will be necessary to take this into account (i.e., the size of d10++) before calculating d10+ as Palma sector 1 (this will be discussed in the next section of the paper).

Following this logic, and that of the Doyle and Stiglitz’s UN Palma target the Palma sector 1 could be seen as a measure of the distributional challenge ahead. Figure 3.10 indicates what would have been the scale of the distributional challenge ahead if Doyle and Stiglitz’s U.N. target had been accepted.

**Figure 3.10**

d10+ as the extra share of D10 vis-à-vis a Palma ratio of 1 (given current shares for D5-D9)

Given the size for some countries of the distributional challenge ahead in the Doyle and Stiglitz’s proposal (all the way to almost one-fifth of the national income for the case of South Africa), it is no wonder so many in the U.N. opposed it!

However, as already indicated, a challenge of this nature cannot be impervious to whether the middle and upper middle do get their half of the national income. The next section will tackle this problem.

2.2 The extra share of D10 when this decile has not only succeed in squeezing the income share of D1-D4 even further, but has also pushed the share of D5-D9 below half of national income: d10++ as the “Palma sector 2”

As was the case of Brazil and Chile in Figure 3.8 above, a small number of countries in the
sample are so remarkably unequal that they have not yet even got to a distributional outcome in which the income-share for the middle and upper-middle is able to reach at least half of national income. In this case, the most accurate way to look at their inequality from the perspective of this paper is to have two yardsticks, one for d10+, and one for d10++. These will indicate jointly the real dimensions of inequality—and of the size of the distributional challenge ahead if a country was willing and able to do something about it (see figures 3.11 to 3.13). As already indicated above, those who are against this still need to convince the rest of us that this extra inequality makes sense given certain fundamentals (via some cause-effect-type interaction).

Figure 3.11
d10+ and d10++ as Palma sectors 1 and 2 in countries at the tail-end of the inequality ranking

- d10*, d10+, and d10++ as discussed above.

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21 For Brazil and Chile, see Figure 8 above. As mentioned above, from this perspective d10++ needs to be calculated first; only then d10+ can be measured from the remaining share of D10 (i.e., from D10 minus d10++), using for this as yardstick a Palma ratio of 1. When D5-D9 already gets at least half of national income, as in Singapore (and in the great majority of countries in the...
Except for Singapore, all countries shown in figure 3.11 have a d10++ greater than zero. Those in which d10++ has a positive, but relatively small size (Mexico, Colombia, Hong Kong, Swaziland and Cabo Verde), are among the countries whose inequality I labelled “extreme” in figure 3.9 above. In the case of South Africa and Namibia d10+ and d10++ both have such a remarkable size, and D1-D4 and D5-D9 such a small one, that their levels of inequality can only be called obscene.

Figure 3.12 indicates the size of these two components of the distributional challenge ahead; the right-hand panel indicates the size of d10++; and the left-hand one that of d10+ (which can only be calculated once d10++ has been taken into account; i.e., when d10++ has been deducted from D10).

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**Figure 3.12**

- **LA** = Latin America; and **SAf** = Southern Africa. **Bw** = Botswana; **Br** = Brazil; **Cl** = Chile; **Co** = Colombia; **Na** = Namibia; **ZA** = South Africa; and **Zm** = Zambia. **NI** = national income.

Perhaps what is most remarkable in the left-hand panel of Figure 3.12 is that d10+ continues to grow in a steady form even after d10++ has been deducted from the share of D10 in the few countries where it has a positive number. However, now there is no more tail-end explosion in inequality as far as 10+ is concerned—except for the usual three in Southern Africa. As the right-hand panel in Figure 3.12 indicates, one of the main advantages of disaggregating “extra” inequality using these two yardsticks is that they clearly show that the sudden surge of overall inequality at the tail-end of the distribution is almost entirely related to the emergence of d10++. From this perspective, d10+ and d10++ are a valuable complement to the information already provided by Palma ratio to understand why inequality is so unequal across the world.

Figure 3.13 shows how far different countries in the sample are from both targets when added sample), as d10++ = 0, d10+ is the same as the one calculated in the previous section.
together (in terms of percentage points of national income). Following the logic of our analysis, and Doyle’s and Stiglitz original “Palma target” proposition, this distance could be called an “augmented” Doyle and Stiglitz’s Palma target for the year 2030.

**Figure 3.13**

The Palma sectors 1 & 2 as an additional insight into inequality — and as a new way of measuring it

- The “augmented” Doyle and Stiglitz’s ‘Palma target’ include as targets both a Palma Ratio of 1, and D5-D9 getting at least half of the national income.
- In this Figure, for China, India and the US (Cn*, In* and US*) I use the LIS database (LIS, 2017), as these data are more credible than those from the WDI database. Acronyms as in Figures 1 and 2 above, and non-la & SAF ldc = median value for all developing countries, except those in Latin America and Southern Africa. In this Figure LA* excludes Ecuador (an outlier in this group). As in previous Figures, in the case of regions the statistic used to measure centrality is the median.

In turn, figure 3.14 shows the Palma sectors when ordered according to the GDP pc of the respective countries.
Figure 3.14

The Palma sectors: the extra shares of D10 due to Palma ratios > 1, and D5-D9 < 50% of NI

- Acronyms as in Figure 5 and 13. ZA* = actual value of both Palma sectors for South Africa is 29.4% (a level that is well off the top chart).\(^{22}\) In this Figure I show two set of data for China, India and the US (one from the WDI database, and the other from the LIS one; these are indicated as Cn, In, and US; and Cn*, In*, US*, respectively).

The three ellipses of figure 3.14 were already evident in figures 3.2 and 3.5 above. The first highlights the trend of increasing inequality found across Sub-Saharan Africa, lower middle-income Latin America, and middle-income Southern.\(^{23}\) The others, the remarkable distributional diversity found among middle-income countries, which (to a lesser extent) is shared by the high-incomes ones.

Finally, figure 3.15 shows how sensitive this new form of measuring inequality is to the yardstick used for d10+. This figure shows four alternative yardsticks for d10+, while keeping the yardstick for d10++ intact. The first is the Palma sectors as defined above; the others are three “watered-down” yardsticks for d10+: a Palma ratio of 1.5, of 2, and of 3.\(^{24}\)

\(^{22}\) After more than 20 years of democracy, South Africa’s Palma sectors are 18.6% and 10.8% of national income, respectively (second only to Namibia).

\(^{23}\) India would appear in this ellipse if one uses the data from the LIS database (as opposed to the one from the WDI).

\(^{24}\) To avoid confusion I shall only call d10+ and d10++ as ‘Palma sectors’ when they refer to the original yardsticks.
The horizontal axis represents the ranking of countries according to the four distributional targets (each ranked independently). The yardstick for d10++ is the same in all four series: an income share for D5-D9 of at least half of the national income. The yardsticks for d10+ in the first series (Pr=1) is the same as above (a Palma ratio of 1); this then is relaxed to a Palma ratio of 1.5 (Pr=1.5); one of 2 (Pr=2); and a Palma ratio of 3 (Pr=3). For the clarity of the Figure, the values for the three Southern African countries in the four rankings are shown at the top right-hand corner of the graph. The ranking for the majority of countries is exactly the same in the four versions of the targets, but in a few it changes slightly. Acronyms as in Figure 13 (including Cn*, In*, US*).

When the yardsticks for d10+ and d10++ are the Palma sectors, only 13 countries of the sample fulfil both targets (i.e., d10+ and d10++ equal to zero). When the yardstick for d10+ is relaxed to 1.5, 55 countries have an income distribution already equal or better than indicated by this yardstick. In turn, when this yardstick is further relaxed to a Palma ratio of 2, no less than 83 countries have a distribution of income that already fulfils it. Finally, when the cut-off point for d10+ is Palma ratio of 3, practically all countries are within these parameters, except those that I have labelled the extremely and the obscenely unequal ones; there are 9 Latin American countries in the former category, and the three Southern African ones in the latter. These different targets for d10+ give us further insights on how inequality increases throughout the world, and how extreme inequality (and worse) is confined to the tail-end of the distribution—where inequality increases exponentially.

This multiplicity of distributional outcomes reinforces the view that there seems to be a lot of choice in terms of inequality, particularly at middle- and high-income levels. Of course, it is
not always clear what that choice is really about, who can act upon that choice, and what making that choice will really achieve. Also, as someone famously said in his analysis of events in France in 1848, people make their own history, but they do not make it as they please; they do not make it under circumstances they themselves have chosen, but under given and inherited circumstances with which they are directly confronted. Yet, everything seems to indicate that there are many more degrees of freedom in terms of the distribution of income than is generally acknowledged. For example, there can be little doubt that “choice” and “taking responsibility for the outcomes of one’s actions,” as opposed to blaming exogenous factors, has something to do with the fact that Croatia has a median wage that is twice Chile’s, even though both countries have the same GDP pc.25

3. Has globalization exacerbated “distributional failures”? 

For the first time since the elections of Thatcher and Reagan, and the fall of the Berlin Wall, the remarkable hegemony of the neo-liberal ideology is showing some cracks. The World Economic Forum went as far as identifying the ever growing gap between the rich and poor as the central theme for one of its recent gatherings, with fairly vivid speeches by the Managing Director of the International Monetary Fund (IMF), the President of the World Bank, and corporate moguls warning that failure to tackle inequality risks social unrest—although, to my knowledge, not one of those speeches discussed how it also risks, in an ever increasing form, distorting resource allocation and suffocating economic growth.26 However, recent anxieties about social discontent seem to have evaporated with the growing realization that the mounting anger felt among those in the Organization for Economic Co-operation and Development (OECD), who see themselves as losers within the current process of globalization, could be successfully diverted and contained within new parameters such as those of Trump, Brexit, and the re-emergence of the extreme right in Continental Europe. Although many still feel very uncomfortable with these events due to their lack of ideological sophistication and the fact that they are nourished in a cruder cult of violence, these new political parameters have already shown their effectiveness and that, to a certain extent, they are just more of the same. That is, even though they may well force some (never welcome) readjustment in the global process of accumulation, and they may bring some geopolitical uncertainties (with the risk that they could get out of hand), so far the global elite has adapted rather well to these new events—somehow like an aristocratic family that has been forced to welcome some lower-class, newly found relatives in a Jane Austen novel. And in the South, growing discontent on several fronts may have brought Modi, Zuma, Duarte, and Temer, but they are as much a solution to the problems of globalization and inequality as Trump, Brexit, Le Pen, or Hofer are in the North.

From this perspective, the current widespread asset-price bubble reflects the current mania (in a Kindlebergerian sense) that extensive discontent with globalization and inequality in both the developed and developing worlds could be contained within these new parameters. Eugene Fama may have been completely wrong when he asserted that, in financial markets, asset prices at all times reflect all available economic information, but this may not be too far from the mark in regards to their capacity to reflect political fundamentals. The fact that corporate profits have been able to be kept at an all-time high in many countries in the West (north and

26 https://www.ft.com/content/b3462520-805b-11e3-853f-00144feab7de
Despite a remarkably weak performance of the real economy, of course, helps support this mania. One that is, for example, impervious to facts, like that in 2016, productivity grew only by 0.4% in the OECD, including posting a negative rate for the U.S.; that Latin America’s and South Africa’s rates were also negative (-2%, and -1.5%); and that the corresponding one for Russia, Central Asia, and Southeast Europe reached only 0.2%, as was the case for Sub-Saharan Africa (GGDC 2017). (I cannot remember when was the last time that financial asset-prices reflected economic fundamentals—2016 was clearly not one of them: despite the worst period of growth in the OECD and parts of the South since the Great Depression stock market capitalization increased by US$ 3.3 trillion, and counting.\textsuperscript{27}

The relationships in the non-Asian world between globalization, poor economic performance, and financial mania, as well as the relationship between them and increased inequality, are of course highly complex subjects—and ones that are surely over-determined. They can only be discussed here briefly, and my main hypothesis from the perspective of this paper is that globalization has not necessarily led to the increase of inequality in an emotionless and mechanical way, but that it has helped to create a wide variety of opportunities to do so—opportunities that have been taken up in a remarkably effective way by the usual suspects. In order to analyze this in the context of the Western World, I shall use the experience of the United States to highlight what I believe to be some of the key issues in terms of how the current type of globalization has helped exacerbate many “distributional failures,” and the poor economic performance and financial mania found within the high income OECD and Latin America (and South Africa as well, the honorary Latin American country in Africa). Starting with the obvious, since 1980 globalization has advanced in two fronts, the financial and the real-economy one; and on both, it has been instrumental for those who have sought to change the distribution of income in favor of the rentier. Starting with the first, figure 3.16 shows three fundamental transformations brought about by the process of “financialisation,” which has characterized globalization since its inception.\textsuperscript{28} The first is how it has led to a massive surge in the value of the stock of financial assets—in the case of the U.S., from five to twelve times the level of GDP; see left-hand panel.\textsuperscript{29} The second is how this phenomenon has been associated with a remarkable increase in inequality—in the U.S., the income share of the top 10% has jumped from less than one-third in 1980 to more than half of its national income.\textsuperscript{30} And finally, financialisation has led to a growing decoupling between the financial and the real economy in the non-Asian world (see right-hand panel).

\textsuperscript{27} In the US, for example, the stock market capitalisation jumped by US$ 2 trillion just in the three months following the election of Trump.

\textsuperscript{28} Financialisation is understood here as the rise in size and dominance of the financial sector relative to the non-financial sector, as well as the diversification towards financial activities in nonfinancial corporations.

\textsuperscript{29} For a detailed analysis of this aspect of globalisation, see Palma (2009).

\textsuperscript{30} In fact, just the top 1% in the US has captured about two-thirds of the overall economic growth of real incomes per family since the beginning of the neo-liberal ‘modernity’ (see WID 2017).
3-year moving averages. **Top 10%** = income share of the top decile. **fin assets** = value of the stock of financial assets (as multiples of GDP). **priv inv** = fixed private investment as percentage of GDP (includes residential and non-residential fixed investment [structures and equipment]; therefore, it does not include non-fixed items such as intellectual property products – and its 'modern' components of investment such as 'entertainment, literary, and artistic originals'). a = beginning of the 2007/2008 financial crisis.

**Sources:** income distribution from WID (2017); financial assets from FED (2017, series FL894090005.A); and private investment from Bureau of Economic Analysis (2017).

From my point of view, sweeping financial de-regulation—that led us from what was called the period of financial “repression” to the one of “liberalization”—can be viewed from a macroeconomic point of view as an attempt to transform finance from the “stationary process” (brought about by the Bretton Woods-type of arrangements), into one characterized by a “unit root”; one that could then be shocked by a massive increase in liquidity, leading to a permanent (i.e., non-mean-reverting) upward impact on the mean price of every possible financial asset. If this was the case, figure 3.16 indicates that financial de-regulation has fully achieved its aim. The problem, of course, as the late Carlos Díaz-Alejandro liked to remind us (following the intellectual lead of Kindleberger), was that what was likely to follow a process of financial liberalization was “Good-Bye Financial Repression, Hello Financial Crash” (Díaz-Alejandro 1985, 1-2).

At the same time, the left-hand panel also shows a rather neat cointegrating-type relationship between the rapid increase in the value of the stock of financial assets and that of the income share of the top 10%—a relationship which is clearly not spurious as it is obviously one in which there is a well-founded interactive relationship between the two. A side effect of this remarkable cointegrating relationship has been to transform “progressive” forces—especially

Kindleberger’s work gives us an invaluable insight on how increased liquidity can destabilise lightly-regulated financial markets; see especially Kindleberger (2004).
the new left—into stationary (political) residuals.

In turn, the right-hand panel helps understand how much this surge in inequality has been a distributional failure; not only do its origins have the dubious honor of being an artificial construction, but it has also been associated with a near orthogonal movement in private investment. Here, the key issue is that the irrational exuberance in finance may have well been instrumental for such an increase in inequality but, with the exception of Asia, it has also led to a crowding-out of the real economy—leading in the U.S., for example, to a decline in private investment in fixed assets from 18% of GDP to (a more Latin American-style level of) less than 12% of output. Not for the first time, purposely-built massive increase in inequality had ended-up being what could only be called a distributional failure in terms of its impact on the real economy. See figure 3.17.

**Figure 3.17**

![Graph showing US private investment as a percentage of the income share of the top 10% from 1947 to 2015](image)

- 3-year moving averages.
- Sources: income distribution and private investment as in Figure 16.

As the left-hand panel of this figure indicates, increased inequality has led to a collapse of private investment as a percentage of the income share of the top decile—from nearly three-fifths to just over one-fifth of the total, and counting (i.e., from 57% in 1979, to about 22% three and a half decades later). In other words, as opposed to Asia, the additional share of income appropriated by the top decile seems to have been used for anything but something socially useful. As a result, now in the U.S. private investment as a percentage of the share of income of the top decile has also fallen (as so many other aspects of the U.S. economy and politics) to Latin American levels (Palma 2016).

In fact, the right-hand panel of figure 3.17 shows that when deducting for depreciation, in the

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32 The share of non-residential investment in the income of the top decile has dropped by a similar proportion, from two-fifths to just one-sixth of the total.
U.S., private investment has literally evaporated. In other words (although not forgetting that any estimate of depreciation is by necessity rough), private investment in fixed assets has become hardly enough to cover for the depreciation of the existing stock of these assets. Not much evidence here of the supposed revitalizing effects of “financial-deepening” promised by McKinnon and Shaw—one of the founding ideas of the Washington Consensus.

There are two related issues that need to be at least mentioned here. One is that this evidence indicates neo-liberals in the West seem to be convinced that they have finally created a “perpetual-movement” machine—one that does not need to be constantly injected with fresh energy (net private investment) to continue its motion. What this means is that, supposedly, profits would now be able to continue to grow for ever without the bother of net investment thanks to factors such as an ever increasing degree of financialisation, greater oligopolistic concentration and collusion, endless offshoring in search of ever lower wages and increasingly medieval working conditions (such as textiles in Bangladesh), ever increasing rents from intellectual property, new forms of extortion in health and of hoaxes in pensions, greater indebtedness in education, deterioration in product quality and customer service, and so on. Not surprisingly, for corporations to continue to earn at record levels, and with such minimal investment effort, they have little choice but to go deeper and deeper into the current vicious circle of inefficiency and abuse.

In fact, according to Andy Haldane, chief economist of the Bank of England (not exactly a heterodox economist), the main reason why private investment is currently so low is because we are witnessing a process of corporate “self-cannibalism”.33 If shareholders used to get on average 10 out of every 100 pounds of corporate profits (leaving plenty of own-finance for corporate investment), they now demand about 70. And if the average shareholder used to keep the average share for six years, now it is for less than six months—meaning that they obviously have had less and less concern for the long-term health of the firm. In this environment, private investment, especially net private investment, becomes just another unwelcome cost of production that needs to be minimized—as profits depends more and more on other not very socially-useful factors. Not for nothing, most Masters of Business Administration (MBAs) teach executives how best to extract rents, rather than how best create real value added… Perhaps one day it will be finally acknowledged that the “efficient capital market theory” became one of the most effective intellectual weapons of mass productive destruction ever; if prices in financial markets at all times reflect all available information—i.e., if there cannot ever be an endogenous gap between market prices and fundamentals, let alone a bubble—asset prices not only deserve a pedestal, but stock options must be the most rational reward for good performance. As executives then began to focus entirely on shareholder value, they seemed to have forgotten that their actual job was running a sustainable, long-term business. It was not for nothing that Keynes (and many before him) warned us that a deregulated and highly liquid capitalism (liquidity that in part is precisely due to the increase in inequality) becomes inevitably self-destructive (Palma 2009). But how do you explain that to those whose income depends on not understanding?

The other related issue is that (as I have written before) although globalization, as often predicted, has led to a process of convergence around the world, in an almost surrealist way oligarchies from developed countries, which until now were the most enlightened and dynamic, have now, with globalization, embarked into a process of “reverse catching-up” (Palma 2010, 2016, and 2017). As in the already mentioned case of the United States, for

33 https://www.youtube.com/watch?v=ZmUITuyRPd8
example, although it is true that instead of plantations, we now have an all-powerful finance, the present begins to have more than passing similarities with not just what might have happened had the South won the Civil War, but also with Latin American-style rentier and predatory capitalism. In other words, it seems that since Reagan and Thatcher, and the fall of the Berlin Wall, a new process of “reverse catching-up” was set in motion, by which now the highly-unequal middle-income countries are showing the advanced ones the shape of things to come. It could even be argued that, in the U.S., not only raising inequality, stagnant wages, liberalized labor market, low and regressive taxation, and so on, are parts of such a phenomenon, but also Trump. We are all indeed converging in this neo-liberal era but, somehow unexpectedly, we are doing so towards features that so far have characterized unequal middle-income countries—such as mobile elites creaming off the rewards of economic growth, and magical realist politics—that may lack pride but not originality. So, perhaps to formerly enlightened societies now it could be said: welcome to the Third World!

At the same time, many in Asia cannot believe their luck, as all this opens up huge opportunities for them to continue developing in a productive way. One only has to look at the widening gap in terms of rate of growth of productivity to confirm this; for example, compare the rate of growth of productivity mentioned above for last year, including the negative ones for the U.S., Latin America and South Africa, with those of China, India, and the rest of developing Asia for the last decade (8.5%, 6.6%, and 3.5% p.a., respectively—for a similar period the one for the U.S., Brazil and South Africa are 0.8%, 0.4% and 0.5%) (GGDC 2017).

And all these mounting challenges now facing the Western world—north and south of the Equator—are happening at the worst possible time, as our current social imagination has seldom been so barren.

Finally, figure 3.18 shows some of the same issues mentioned above regarding how globalization has exacerbated distributional failures from the perspective of the real economy.

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34 Trump could well be a Frankenstein-monster, built from components of our Latin American visionary heroes, those who selflessly introduced the neo-liberal reforms in the region: the Magnificent Seven. His respect for human rights comes from Augusto Pinochet; its aesthetic sense from Carlos Menem; his business practices from Carlos Salinas de Gortari; his attachment to democracy from Alberto Fujimori; his ideological sophistication from Fernando Collor de Mello; his fiscal earnestness from Alan Garcia, and his mental health from Abdalá Bucaram. The horror of this is that Trump may well ratify the prophecy of Hannah Arendt, the one that was already confirmed in the Chile of the torturers and the hardcore group of Chicago Boys: the worst evil is usually made by insignificant people.
As figure 3.18 indicates, in the U.S., the average male earnings have been stagnant in real terms since the beginning of the neoliberal “modernity.” But as productivity per worker continued to grow during this period (at a slower rate than the period before, but at least did so at an average of 1.4% per year overall), the difference between the value of what an average worker produces and what he is paid rose in real terms from US$ 20,000 in 1980 to US$ 70,000 these days. That is, what could be called the “gross surplus” per worker increased by 3.5 times; and in the case of a female worker it doubled from US$ 40,000 to US$ 80,000. It would be difficult to image such a transformation of the labor market being possible without the help of the current style of globalization (especially through its indiscriminate process of offshoring, de-unionization, and labor markets bananisation in general). At the same time, as long as armchair speculators keep managing such absurdly high returns in exuberant financial markets, the opportunity cost of investment in the real economy will remain at levels that will crowd-out tradable activities—especially those in which Asian competition keeps returns at what could be called normal levels for competitive markets. So, stagnant wages help deliver in the real economy the kinds of returns that could compete with those of the financial markets; in turn, collapsing investment allows almost all corporate profits to be distributed as dividends as demanded by those armchair speculators, who keep shares for as short a time as possible. So, corporate profits can reach historical records side by side with no net investment and the worst period of growth since the Great Depression (despite all the mega-efforts for recovery). The same happens with the stock exchange, which is in a bubble that is not just the second largest of the last century, but, as it is so generalized (that is to say, so indiscriminate), one that has become the largest if viewed from the point of view of the price of the median share. Meanwhile, as discussed above, private investment also approaches a historical record, but in the other direction. And as if that was not enough, corporate debt has also reached a record
high, but as profits are so stratospheric and private investment so minimal, these funds can then be used for playing at the financial casino, for financing any kind (and at any price) mergers and acquisitions, share buybacks, executive pay, bonuses, political contributions, and corporate-sponsored retirement plans (in the U.S., the retirement assets of just 100 CEOs add up to as much as the entire retirement account savings of more than 116 million people at the bottom of the pay scale) (Anderson and Klinger 2015). Furthermore, the combination of low levels of corporate investment and rising corporate net saving is one of the main factors driving the growing mismatch in financial markets between abundant liquidity and a relative shortage of solid financial assets, making the ease of performing a transaction in a hollow security or instrument the trademark of the current process of financialisation.

Conclusion

Figure 3.19 summarizes the central idea of sections 1 and 2 in terms of why the huge diversity of inequality across the world is all about the share of the rich.
Figure 3.19

Four countries according to their levels of inequality:
it’s all about the share of D10

- d10+ as Palma sector 1; and d10++ as Palma sector 2. For the Southern African countries located in the fifth level of inequality, see Figure 11 above.

The identification of the five distributive stylized facts that I have highlighted in the first section of this paper helps us to focus the theoretical enquiry regarding the extent of the spectrum of inequality across the world in just two questions:

i) Why can D10 extract from D1-D4 varying levels of d10+ across the world, making this sector of the income pie the key arena of the distributive struggle? And

ii) Why in a few (and geographically-specific) countries can D10 not only extract an even larger d10+, but also appropriate a growing amount of d10++?

Are there factors apt to be described as *explanatory* variables (in the traditional sense), which could “explain” this? And if so, why would these variables only affect what happens among the production classes? That is, are there credible empirical regularities that could explain
d10+, let alone d10++? Could there ever be such regularities in “open systems”? Is d10+ in, say, Uruguay an unsurprising outcome given certain exogenous (even weakly exogenous) conditions—i.e., which are somehow generated outside the system of interest? Or could it be that this distributional outcome, characterized by a fairly large d10+, is mostly the result of the interaction among endogenously-constructed factors (i.e., generated within the system), such as Uruguay’s high tolerance for inequality—high, but at least not as high as one allowing for a d10++ greater than zero, as is the case in most of the rest of Latin America? In other words, does Uruguay’s high inequality emerge somehow mechanically from fairly predictable causes, or is it an outcome that reflects the specificity of the interrelationship between its political settlement and some deliberately built institutions and market failures—in which their dynamic interactions end up delivering such a distributional outcome—one that is highly unequal, but at least far less so than that of its neighbors?

From what could be called an “endogenous” perspective (i.e., one which places the emphasis on phenomena and dynamics that are generated within the system, as well as in the power of agency), I see no valid theoretical reason that could possibly justify why D10 and D1-D4 need to distribute their half of national income among themselves in such a diverse way across the world, while D5-D9 does exactly the opposite among their two components (D5-D6 and D7-D9). It is even harder to see why governments cannot do something about it, as they do in many countries in Europe (North, West and East)—leading them towards a Palma ratio of around 1. In other words, I see no valid theoretical reason to justify why we cannot live in a world with a much narrower spectrum of inequality.

There is also an important methodological issue at stake here: in the neo-classical effort to build models to explain the diversity of inequality across the world, as in other areas of this approach, the analysis that emerges is one typified by “antecedent causation and inert consequences.” The priority of exogenous over endogenous factors is established (via cause-effect interactions), separating in this way, almost metaphysically, the two sides of the opposition—losing in the process the notion of movement through the dynamic of the interaction and contradictions between them.

That is to say, from my perspective, inequality is not just a highly complex and surely over-determined phenomenon, but one in which (as stated in the epigraphs above) its salient features are basically a matter of choice, and how there is nothing as transparent as our choices to reveal who we really are as a society. Perhaps there is nothing more informative about who we are than the income distribution we (collectively) choose to construct (and, more often than not, justify). The key issue here is the taking responsibility as a society for the outcomes of one’s actions, as opposed to blaming this on fairly exogenous factors and supposedly inescapable fundamentals—which pretend to leave us as innocent bystanders.

By breaking down inequality into what I believe to be its two main components: d10+ and d10++, this paper can not only help refocus the study of inequality towards the share of the rich (especially the rentier), but can also help reveal the extent to which greater inequality should normally be understood as a distributional failure. Surely, the focus on d10+ and d10++ at least makes evident that most unequal outcomes are not Pareto efficient in that (at least in relative terms) individuals become better-off by making someone else worse-off—often in a purely artificial way. These market failures distort the proportions of the national income which will be allocated to rentiers, capitalists, and labor; and as a result, they inevitably do the same with resource allocation as well. From this perspective, they become distributional failures. If the invisible hand always guided behavior correctly, it is pretty unlikely that such a
broad spectrum of inequality would exist. Examples of market failures leading to distributional failures are abundant: market concentration, and the ever increasing capacity to abuse this power (which is probably the trademark of this peculiar form of globalization); the ever growing capacity of finance to extort rents from the real economy and households; the often illegitimate appropriation of the rents of natural resources;\(^\text{35}\) price and other forms of collusion, including those that create artificial barriers to entry; the creation of artificially high transaction costs, agency problems and informational asymmetries; the inability of labor to claim the value of its marginal productivity due to lack of property rights over its human capital (skills) and energy (Pagano 1997); low and regressive tax structures—which are also full of loopholes—that (among other things) allow those at the top to free-ride on free governmental services financed by the taxation of others that are, according to many of them, lower down in the evolutionary scale.\(^\text{36}\) And so on. To this list, one should add the ever more common existence of emasculated states, which are not just unwilling and/or unable to deal with these markets and distributive failures, but are also happy to assume that to play their role as “subsidiary state” is to subsidize and subsidize the rent-seeking practices of parasitical capital.

The key role of globalization in all of this is not that it leads to these distributional failures in an impassive and unintentional way, but that it does help create massive opportunities to do so—opportunities that have been taken up in a remarkably effective way by a whole new class of rentiers.

As Stiglitz once said regarding financial liberalization: “Globalization opened up opportunities to find new people to exploit their ignorance. And we found them.” Along similar lines, Krugman (2009) remarked regarding the 2007/2008 financial crisis: “America [began to look] like the Bernie Madoff of economies: for many years it was held in respect, even awe, but it turns out to have been a fraud all along.” This awareness is now becoming a “common sense” understanding (from a Gramscian point of view) that the ever-increasing inequality that has characterized globalization à-la Western rentier-style has been a neo-liberal fraud all along.

As is often the case, Warren Buffet explains all this beautiful and succinctly: “There’s class warfare, all right, but it’s my class, the rich class, that’s making war, and we’re winning.” (Buffet 2006).

\(^{35}\) One of the characteristic of the process of privatisation in Latin America, Eastern Europe and the Former Soviet Union was the ‘piñata’ of natural resources.

\(^{36}\) As a famous New Yorker billionaire once said: “We don’t pay taxes. Only the little people do” (see http://content.time.com/time/specials/packages/article/0,28804,1891335_1891333_1891317,00.html).
Appendix: Sample

In this paper, in order to construct the sample I use the following sources:

i).- OECD (2016) for high-income OECD countries, and other non-Latin American countries for which this dataset provides information (Czech Republic, Estonia, Hong-Kong, Hungary, Israel, Poland, Russia, Singapore, Slovakia, Slovenia, South Africa, and South Korea);

ii).- SEDLAC (2016) for all Latin American countries;

iii).- Taiwan (2016) for Taiwan; and

iii).- World Bank-WDI (2016) for the rest. In this source, I only included countries with data after 2002 (as a result, Botswana, Trinidad and Tobago, Turkmenistan and Zimbabwe were excluded). I also excluded countries with a population of less than 1 million (Belize, Bhutan, Comoros, Djibouti, Fiji, Iceland, Luxembourg, Maldives, Montenegro, Saint Lucia, Sao Tome and Principe and Suriname).

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