IN DETAIL

Dynamics of inequality: In response

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My difficulty with Adamou and Peters's article is that they propose a simple "toy" model without justifying why we should believe their model is a useful representation of actual outcomes. I agree that "policies aimed at limiting or reducing inequality have to intervene actively rather than merely eliminate privilege", but if they are to aid such policies they need both an understanding of the actual recent trends in income and wealth inequalities worldwide and of how inequalities have been understood, reduced or kept under control in many countries in recent years and decades.

In the recently published *Global Inequality: A New Approach for the Age of Globalization*, economist Branko Milanović demonstrates that inequalities do not always increase, they also often fall – especially so today.[1] Milanović shows that between 1988 and 2008 the incomes of people in the second poorest and middle quintile of the global income distribution rose by between 20% and 75% in real terms. These were the greatest rises enjoyed by any global quintile group. Milanović finds that when income alone is considered and the experiences of all people are valued equally, the world became more equal. However, the very richest 1% also saw huge gains in their income, larger than those of anyone else in the best-off two quintiles, and the poorest quintile saw smaller gains than most. So although income equality increased overall, that summary hides a variety of different trends in different places for different groups of people.

Milanović shows how the log-normal distribution of incomes is changing shape; he shows that the UK and USA are unusual in their recent acceptance of growing inequality; that, globally and locally, inequality rises and falls over time in waves; and that Thomas Piketty is not quite correct to see the post-war period as unusual. Adamou, Peters and any readers interested in this would benefit greatly from reading Milanović as he explains why there is no single adequate measure

TABLE 1 Ratio of mean incomes of the best-off 20% of households to the worse-off 20%. All countries in the United Nations Development Programme's highest affluence group. Source: Human Development Reports: UNDP 2015, Table 3; UNDP 2005, Table 14

Quintile ratio, 2005–2013	Ratio from 2004 or earlier	Change 2004–2005/2013	County	Rank
3.6	3.9	−0.3	Slovenia	1
3.7	4.0	−0.3	Sweden	2
3.9	3.5	0.4	Czech Republic	3
4.0	4.3	−0.3	Denmark	4
4.0	3.9	0.1	Norway	5
4.0	3.8	0.2	Finland	6
4.1	4.0	0.1	Slovakia	7
4.5	5.5	−1.0	Netherlands	8
4.5	4.9	−0.4	Hungary	9
4.6	4.7	−0.1	Austria	10
4.7	4.3	0.4	Germany	11
5.0	4.5	0.5	Belgium	12
5.1	5.6	−0.5	France	13
5.2	5.8	−0.6	Poland	14
5.2	5.8	−0.6	Switzerland	15
5.3	6.1	−0.8	Ireland	16
5.3	4.8	0.5	Croatia	17
5.4	3.4	2.0	Japan	18
5.6	7.2	−1.6	Estonia	19
5.7	5.1	0.6	Lithuania	20
5.8	5.8	0.0	Canada	21
5.8	7.0	−1.2	Australia	22
6.4	6.2	0.2	Greece	23
6.9	6.5	0.4	Italy	24
6.9	5.3	1.6	Latvia	25
7.6	5.4	2.2	Spain	26
7.6	7.2	0.4	United Kingdom	27
9.8	8.4	1.4	United States	28
10.3	6.4	3.9	Israel	29
10.6	18.1	−7.5	Argentina	30
12.6	18.7	−6.1	Chile	31

of inequality. It is not that our "our scientific understanding of economic inequality is primitive", as Adamou and Peters suggest. But it is true that many commentators are not aware of how much the subject has been studied in the past.

In economics, Hugh Dalton, who became British Chancellor of the Exchequer in 1945, published a paper in 1920 on "The measurement of the inequality of incomes".[2] Dalton used logarithmic ratios to advance the work of Leo Chiozza Money, published in 1905 under the title "Riches and Poverty".[3] Money became parliamentary private secretary to Lloyd George during the First World War. The scientific understanding of economic inequality was central to much policy understanding in the past, as these British examples illustrate. Our understanding of it need not be primitive, but we do so often forget what we have learnt before. As Milan Kundera so memorably put it: "The struggle of people against power is the struggle of memory against forgetting." For a different audience Kundera could have substituted "inequality" for "power", but Kundera was not writing for statisticians or economists, Milanović is.

Milanović works through many of the economic theories of inequality, exposes their shortcomings and discusses those he considers to still hold merit. He concludes that: "Believing that the rich always have an interest in fighting for the rule of law or property rights in their own countries might have made sense when transnational movements of capital were difficult or impossible. It does not make sense now." Milanović ends his study by suggesting that: "The [future] gains from globalization will not be evenly distributed."

Adamou and Peters did not have access to Milanović's latest work when they wrote their article, or the legacy of Money and Dalton. Because of this some of their suggestions are not especially useful as a result of their preconceptions. Adamou and Peters say that rising inequality is not abnormal. But it is also not normal. Table 1 uses data released by the United Nations Development Programme (UNDP) at two points in time to show how, among the richest countries on earth today, income inequality has fallen in roughly half of these places. The UNDP reports rely on household surveys for their data, which are of varying quality, but they are the best data we currently have. The measure of inequality shown here is the ratio of income of the best-off quintile of households to that of the worse-off quintile. Of all the affluent countries for which data are available at both points in time, the most unequal that still have rising inequality are the UK, USA and Israel. If you live and work in one of these three very strange countries today, you are likely to have a biased perception.

Recently a great deal of attention has been paid to the study of how income inequalities change over time. In 2015 Professor Tony Atkinson published *Inequality*,[4] which usefully summarises a great deal that is known, especially about the best off 1%. A little earlier, I used the data Atkinson and colleagues had collected to illustrate how even the income share of the best-off 1% has fallen in many affluent countries in recent decades.[5] There is now a wealth of statistical work on inequality, especially income inequality, although more and more is being produced on inequalities in wealth where less is known.

Adamou and Peters say that when it comes to understanding economics, "there are two different worldviews". The best recent book I can recommend on this is Ha-Joon Chang's Economics: *The User's Guide*.[6] Ha-Joon lists many more worldviews on economics, and explains why the notion of equilibrium, which appeared plausible for a few decades, is now so discredited. Furthermore, those who are willing to study a little history as well as social science will learn that the logarithm of wealth has not always been normally distributed, and it may well not be so in the near future. If the revelations of the Panama Papers achieve anything, it will be to change the shape of the distribution in future.

Perhaps most importantly you need to know there has been no convergence to a common growth rate (in contrast to the theory suggested by Adamou and Peters): growth rates have been falling steadily since the 1970s. We know this, but there is a huge amount we do not know, as Table 2 (available online at significancemagazine.com/UNDP2) makes clear. Although the poorest quintile of people in the world have not enjoyed much in the way of income gains since the 1980s, within most of the poorest countries of the world it would appear that income inequalities have been falling. Note, though, that survey data are least reliable here as so many lived on subsistence incomes until recently; but do still consider what it shows and thus what appears to be possible.

Table 2 is similar to Table 1, but shows the changes in inequality rates in those countries which the UNDP now list as being the less affluent in the world (for which data exist). In almost all of these countries inequality has been falling, often dramatically. Always the sums of money involved are minuscule. But when a minuscule sum buys you food for a day, it is worth a fortune. The largest falls of all have been in those poor countries that were previously the most unequal, such as Niger, Swaziland, the Central African Republic, Lesotho and Sierra Leone. The next largest falls were recorded in Mali, Burkina Faso, Burundi, Guinea-Bissau, Nigeria, Madagascar, Gambia, Malawi, Guinea, and Cameroon. Only in three or four of the world's poorest countries have there been rises in inequalities that exceed even the smallest of these decreases.

We have choices to make – but it will not be abstract formulae that determine our futures or the exploration of "toy models". It will be the struggle of memory against forgetting. Those who cannot remember the past are condemned to repeat it. ■

References

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TABLE 2 Ratio of mean incomes of the best-off 20% of households to the worse-off 20%. All countries in the United Nations Development Programme's lowest affluence group. Source: Human Development Reports: UNDP 2015, Table 3; UNDP 2005, Table 14

Quintile ratio 2005–2013	Ratio from 2004 or earlier	Change 2004–2005/2013	County	Rank
4.1	4.8	–0.7	Pakistan	1
4.5	20.7	–16.2	Niger	2
4.8	9.5	–4.7	Burundi	3
5.0	5.9	–0.9	Nepal	4
5.2	12.2	–7.0	Mali	5
5.3	4.3	1.0	Ethiopia	6
5.5	7.3	–1.8	Guinea	7
5.6	57.6	–52.0	Sierra Leone	8
5.6	5.6	0.0	Yemen	9
5.9	10.3	–4.4	Guinea-Bissau	10
6.2	6.7	–0.5	Tanzania (United Republic of)	11
7.0	13.6	–6.6	Burkina Faso	12
7.4	11.0	–3.6	Madagascar	13
7.5	9.1	–1.6	Cameroon	14
7.8	7.5	0.3	Senegal	15
7.8	7.4	0.4	Mauritania	16
8.8	8.4	0.4	Uganda	17
9.1	12.8	–3.7	Nigeria	18
9.4	9.2	0.2	Côte d'Ivoire	19
9.7	11.6	–1.9	Malawi	20
9.8	7.2	2.6	Mozambique	21
11.0	9.1	1.9	Kenya	22
11.0	4.0	7.0	Rwanda	23
11.0	13.8	–2.8	Gambia	24
14.0	23.8	–9.8	Swaziland	25
18.0	32.7	–14.7	Central African Republic	26
20.4	44.2	–23.8	Lesotho	27