WHY EMPHASISE ECONOMIC INEQUALITY IN DEVELOPMENT?

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Mainstream economic analysis has rested on the general assumption that increased production and consumption will improve people's well-being. At first sight, this expectation seems reasonable, particularly in countries where material poverty is widespread. Consider, for example, the following statement from A.C. Pigou, a rather conservative man who was Professor of Economics at Cambridge University before J.M. Keynes:

> The complicated analyses which economists endeavour to carry through are not mere gymnastic. They are instruments for the betterment of human life. The misery and squalor that surrounds us, the injurious luxury of some families, the terrible uncertainty overshadowing many families of the poor – these are evils too plain to be ignored. By the knowledge that our science seeks it is possible that they may be restrained. *Out of the darkness light!* (Pigou 1928: preface; emphasis added)

Pigou is to be lauded for making explicit the social purpose of economic analysis, as well as for this uncharacteristic literary flourish. Although written in England nearly 90 years ago, his views may be seen to have continuing relevance to poorer countries, indeed to all situations where basic material needs remain unmet. Reasoning of this sort can readily explain why economic growth is usually assumed to be the principal means for lifting people above conditions of poverty and its attendant 'misery and squalor'. The problem in practice is that the real world experience has turned out rather differently. Many of the difficulties of poorer nations remain in spite of, or perhaps because of, the nature of the economic growth that has taken place. Meanwhile, the more developed nations are bedevilled by persistence of poverty amidst affluence. Perhaps there is something to be said for picking up the passing reference

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in Pigou's statement to the 'injurious luxury of some families' and putting the question of distributional inequality higher on the agenda.

This article presents a case for making a more equal distribution of income and wealth central to political economy, development and social progress. It posits that poverty and affluence are two sides of the same coin, and that, therefore, the redress of poverty requires equivalent attention to the wealthy and to the structural factors responsible for the rich-poor divide. Its four main sections pose fundamental questions about economic inequality: 'what forms does it take?', 'why does it persist?', 'why does it matter?' and 'what is to be done?'

Economic Inequality: what forms does it take?

Economic inequalities are multi-dimensional: they can be regarded from the viewpoints of class, race, gender and space, for example. Which of these aspects is given primary attention usually reflects the predisposition of the analyst (whether to highlight sources of class exploitation, to challenge racism or gender discrimination, or to plan for less divided cities, for example). The analytical frames established in the social sciences also have a major impact on what is deemed worthy of investigation or simply on *what is seen*. A neoclassical economic viewpoint, focussing on individuals being rewarded according to their personal productivity, contrasts sharply with political economic perspectives that highlight the lop-sided power-plays responsible for exploitation, discrimination and other forms of social injustice.

Perhaps a relatively neutral starting point is appropriate. For this purpose we can briefly review the data on economic inequalities according to three spatial scales: international, intra-national and global.

The most familiar of these scales in the literature on economic development is *international*. The standard 'league tables' that are regularly compiled and paraded by the United Nations (UN) and the Organisation for Economic Cooperation and Development (OECD) treat each country as a single unit, compare their average levels of income or wealth and rank them according to their overall prosperity. It is on this basis that the distinction between developing and developed (or other characterisations of poor, intermediate and rich) nations has normally been made. The conventional economic measure for this purpose is Gross Domestic Product (GDP) per capita, although the Human

Development Index (HDI) is well established as a more comprehensive summary of the diverse factors affecting people's living standards.

Table 1 provides some illustrative data. The first two columns show the values of the two indicators for a range of affluent nations, the BRICS (Brazil, Russia, India, China and South Africa) and some poorer nations. Although broadly correlated, there are significant differences in country rankings according to whether GDP per capita or HDI is used.

Over time, the general pattern of these international inequalities has been relatively stable, with the more economically developed nations of North America, Europe and Australasia heading the league tables and the poorer nations in Asia and Africa in the rear. The last three decades has seen some significant shifts, however, particularly because of the rapid aggregate economic growth in China and India, the world's two most populous nations. Other poor nations, particularly in sub-Saharan Africa, have remained near the bottom of the league tables, although the picture is complicated by recent surges of growth in some of these countries, triggering dclaims about 'Africa on the rise' and the prospects for more broadly-based development (Obeng-Odoom 2015; Jerven 2015). One of the effects of monitoring this socio-economic data is to generate debates about how judgments of nation-wide (or continent-wide) progress can and should be made.

The second scale at which we can observe the patterns of economic inequality is *intra-national*. This turns attention to the unevenness among household incomes within each country. Again there is an array of possible measures, drawing on data provided by the governments of the individual nations. UN compilations reveal striking contrasts between countries that have dramatic internal inequalities and others that are relatively egalitarian.

The fourth and fifth columns in Table 1 present two illustrative statistical measures of these intra-national income inequalities. These are the Gini coefficient and Quintile ratio. The former summarises the extent of deviation from perfect equality in the overall distribution of income, while the latter shows the average income of the richest 20 percent of households as a ratio of the average income of the poorest 20 percent.

The final column of Table 1 shows the 'inequality-adjusted HDI' calculated by the UN, taking account of how these and other dimensions of social inequality are estimated to impact on the overall well-being of the people in each nation.

Table 1: Indicators of Income, Development and Inequality, selected countries

Country	GDP per capita (Int.$)	HDI	Gini Income Inequality Index	Income Quintile Ratio	Inequality-adjusted HDI
US	55,837	0.915	41.1	9.8	0.760
Canada	44,310	0.913	33.7	5.8	0.832
Australia	45,514	0.935	34.0	5.8	0.858
Germany	47,268	0.916	30.6	4.7	0.853
Norway	61,472	0.944	26.8	4.0	0.893
UK	41,325	0.907	38.0	7.6	0.829
Japan	37,322	0.891	32.1	5.4	0.780
Brazil	15,359	0.755	52.7	11.1	0.557
Russia	24,451	0.798	39.7	7.3	0.714
India	6,020	0.609	33.6	5.0	0.435
China	14,239	0.727	37.0	10.1	-
South Africa	13,165	0.666	65.0	28.5	0.428
Indonesia	11,035	0.684	38.1	5.7	0.559
Philippines	6,969	0.668	43.0	8.4	0.547
Vietnam	6,100	0.666	35.6	6.1	0.549
Bangladesh	3,123	0.570	32.1	4.7	0.403
Nigeria	5,911	0.514	43.0	9.1	0.320
Sierra Leone	1,966	0.413	34.0	5.6	0.241
Ethiopia	1,500	0442	33.6	5.3	0.312

Source: United Nations, *Human Development Report* 2015, Table 3; latest data.

Notes to Table 1: [1] GDP *per capita* figures are expressed in US dollars adjusted for purchasing power parity (PPP), known as International dollars (Int.$), 2014; [2] HDI and inequality-adjusted HDI data relate to the Human Development Index calculations, based on 2013 and 2011 estimates; [3] the Gini inequality index is a quantified representation of a nation's Lorenz Curve based on its household income distribution, ranging from a value of zero for complete equality to one for complete inequality; [4] the income quintile ratio shows the ratio of the average income of the top 20 percent of households to the bottom 20 per cent of households; and [5] the inequality-adjusted HDI modifies the HDI figures shown in the second column according to how much each nation's estimated social well-being is reduced by its extent of inequality.

This statistical information, selected from what has become a standard and widely-accepted database, can tell us quite a lot about the relationships between average incomes, inequality and human development. Among the richer nations, for example, the USA's performance and ranking looks very much less impressive when inequality and social factors affecting human development are taken into account; notably, its inequality-adjusted HDI drops below Japan's. Among the mid-ranking nations, the impacts of differences in inequality are even more striking. The high degree of inequality in Brazil causes its inequality-adjusted HDI to fall by a quarter of the value of the nation's general HDI score; the even more extreme inequality in South Africa causes its HDI to plunge by a third.

Turning from incomes to *wealth*, all countries have greater intra-national inequalities. Incomes, whether in the form of wages, rents, dividends or welfare payments, are flows over time. Wealth, on the other hand, represents the stock of assets at a point of time. Wealth comprises a mixture of physical assets (such as productive capital equipment and real estate) and financial assets (such as bank deposits, bonds, currency, shares and derivatives). These assets are ultimately more important in shaping inequalities because they can both generate current income and provide a basis for perpetuating the inequalities into future generations (especially in countries, like Australia, with no inheritance taxation). 'Who gets what' depends substantially on 'who owns what'. It is in this context that the contribution of Piketty's blockbuster book *Capital in the Twenty-first Century* (2014) is so important. It documents the extent of wealth inequalities in a range of countries and seeks to account for the factors that account for variations over time (see Sheil 2014/15 in this journal for a summary and assessment).

Piketty's analysis of wealth inequalities has been supplemented by other data relating to individual countries. The Australian case is interesting in this regard because of the widespread local belief (or wishful thinking) that the nation is somehow exceptional. The recent Evatt Foundation study of wealth distribution among Australian households suggests otherwise. Its analysis of the data shows that the top 10 per cent of households owns about half of the private wealth, while the other half of the wealth is shared, markedly unevenly, among the other 90 per cent of households (Sheil and Stilwell 2016). Two growing disparities are evident, one between the super-rich (the 'top one per cent') and the upper middle households, and the other between the middle and the poorest households. In these respects, Australia is right there 'in the mix', exhibiting and experiencing the anti-egalitarian processes, trends and effects that have been evident in the majority of both rich and poor countries in recent times.

G*lobal inequality* is the third and broadest spatial dimension of economic inequality. It can be thought of as the extent of inequality in the whole of the world's population, irrespective of the country or region in which the people live. Imagine that one was able to line up all the people (or households) in the world, ranging from the richest to the poorest. One could then use an index such as the Gini coefficient to summarise the extent of inequality among them. One such statistical calculation by researchers at the US National Bureau of Economic Research (Davies *et al.* 2009) estimated the world Gini coefficient for wealth distribution at 0.804. This is much closer to absolute inequality than to equality; and it is substantially higher than inequality in any single country (even South Africa). Even more striking is the result of comparing 'who's got what' at each end of the global distribution. A controversial study by Oxfam produced the remarkable finding that, worldwide, just 62 people have the same total wealth as the poorest 3.6 billion people (Oxfam 2016). Data from the same source suggest that almost half of the world's measured wealth is owned by just one per cent of the world's population.

An obvious supplementary question is whether global inequality is increasing or decreasing. The answer depends on the net effect of the interaction between inter-national and intra-national inequalities. During the last two decades, broadly speaking, two different processes have been occurring: [1] a narrowing of international economic inequalities because economic growth has surged in India, China and some other developing nations while, post-GFC, it has stayed weak in the richer countries; and

[2] rising internal inequality in almost all nations during the same time period, other than in South America where atypically egalitarian policy regimes have had the reverse effect (Gasparini and Lustig 2011; Tsounta and Osueke 2014). The net global inequality outcome is finely balanced because these two processes are pulling in opposite directions (United Nations 2013; Bourgignon 2015). Yet the pervasive tendency to increasing internal inequalities within both rich and poor nations is deeply troubling. The class consequences of such wealthy elites gaining ever larger shares of national wealth – and acting as an increasingly integrated global capitalist class – warrants sustained political economic attention (Robinson and Harris 2001; Murray 2012).

Economic Inequality: why does it persist?

While monitoring the patterns and trends of economic inequality is relatively straightforward, interpreting the causal factors is inherently contentious.

Some explanations emphasise 'sins of omission and commission', tending to blame economists and the institutions that they advise for giving low priority to concerns about inequality and its redress. Indeed, as already noted, mainstream economists, following Pigou, have generally focussed on the goal of getting faster rates of economic growth rather than on more equitably sharing its fruits. This inclination is evident in the literature of the economics profession, in the standard university economics curriculum and in public policy pronouncements. The self-referential character of mainstream economic journals makes their contents largely impervious to critique, although Piketty's blockbuster book has provided a recent, minor jolt. The core economics curriculum for university students is also quite unyielding, remaining resolutely neoclassical, though electives in development economics commonly admit discussion of topics such as Armartya Sen's 'capabilities approach' to development (Sen 1999; Bose 2013: Paton and Valiente-Riedl 2016) and the case for using HDI rather than GDP to measure progress.

In the broader public realm, the GDP growth priority also remains dominant, as is evident in the current Australian governmment's 'jobs and growth mantra and (implicitly) in Donald Trump's rhetoric about 'making America great again'. However, significant change seems to be afoot as eminent international figures have spoken out about the need for

more attention to be accorded to economic inequalities. Famously, the Pope, former US President Barrack Obama and IMF Director Christine Lagarde are among those who have made this call. The key question is whether the recognition of the need to reduce economic inequality translates from rhetoric into action. The critical analysis undertaken by Nunn and White (2016, in this journal) suggests that, in the case of the IMF at least, it remains largely lip service.

A second, more materialist explanation of the persistence of inequality requires analysis of the roles that growth and inequality actually play in the current economic system. Systemeatic analysis of the political economy of of capitalism is the *sine qua non* of any such investigation. Admittedly, not all economic activities are capitalist. In both rich and poor countries much useful work is done by households, cooperatives and communities, while exchange is not always monetised and focused on profit-seeking (Allon 2011/12). Such productive but non-capitalist economic activities may give rise to inequalities - to the extent that they are based on a racialized or gendered division of labour, for example. However, capitalism is the dominant mode of production, exchange and distribution worldwide at this stage of human history. So understanding inequality requires analysing capitalism. As an economic system driven by the pursuit of profits and the accumulation of capital, inequality is integral to its normal functioning, reproduction and growth. Much political economic analysis, particularly in the Marxian tradition, is concerned with this analysis of capitalism as a class-based system of economic production, distribution and exchange (Harvey 1982; Ruccio 2011; Burgmann 2016). Economic inequality is revealed as a systemic condition rather than a regrettable aberration.

A political economic perspective also focuses attention on the ‘process of circular and cumulative causation’ that tends to increase inequalities over time. This way of understanding socio-economic phenomena, pioneered by Gunnar Myrdal (1957), provides a bridge between Marxian and institutional economic analyses. It is particularly pertinent in studying economic inequalities because it shows how people with substantial wealth can use it to create a ‘virtuous cycle’ of yet more, while poor people find themselves trapped in a ‘vicious cycle’ of disadvantage. These anti-egalitarian processes, often differentiated by race, gender, and space as well as class, reproduce patterns of unequal opportunity (Stilwell and Jordan 2007; ch.6). Within each generation, the wealthiest individuals have the most options. Through running businesses, through

leasing their land, or simply through getting interest on their financial capital, they can expand their initial wealth. Meanwhile, the options for people without capital are usually restricted to waged employment (if jobs are on offer), informal work or whatever charity or welfare payments are available. Over generations, the gaps tend to widen as accumulated wealth is passed on in patterns that compound these socio-economic inequalities.

Down-to-earth observations like these are deeply uncomfortable to those with a direct stake in the economic *status quo* and/or an ideological commitment thereto. When confronted with the evidence on inequality, mainstream economists in the tradition of Gary Becker (1971) respond by claiming that markets have an egalitarian character. They say that, because the personal characteristics of buyers and sellers (race or gender, for example) are irrelevant to market transactions, only money matters. However, this claim flies in the face of the systemic connections between market power and gender, race and, most obviously, class (Darity, Hamilton and Stewart 2015). People from disadvantaged socioeconomic positions typically have few resources with which they can enter into market transactions. By contrast, the more economically advantaged groups have greater purchasing power, more impact on market supply and prices, and also the ability to set the rules of the game. Markets seldom operate according to the textbook principles of 'perfect competition' anyway: elements of monopoly, collusion and corruption commonly intrude. So, while mutually advantageous exchanges may occur, no reliably egalitarian forces shape market outcomes in practice.

Political economic analysis of class relations in capitalist economies is particularly potent in showing how the ownership (or non-ownership) of economic property shapes market positions and power. People popularly think of inequality in terms of individuals and their personal incomes, but the structure of class relations – between capitalists, landowners and workers – is more fundamental. The shares of profit, rent and wages reflect the relative rewards paid to the classes of people who own the capital, land or labour. These shares do not remain constant over time. The globalisation of capital in recent decades, for example, has increased the power of capitalists relative to workers, enabling them to maximise profits by relocating their investments around the globe. Workers, other than a mobile managerial elite, are more 'on the back foot' as their relative bargaining position has weakened. A 'race to the bottom' in wage rates is a predictable consequence, while a 'race to the top' takes the

remuneration packages of CEOs in the opposite direction (Stilwell 2015: 308; Burgmann 2016:7). Financialisation operates in conjunction with globalisation to exacerbate these inequalities: as Ruccio (2016:2) notes, 'episodes of capital account liberalisation are associated with a persistent increase in the share of incomes going to those at the top'.

Concurrently, the political economic power and rewards of wealthy landowners has tended to increase as land has become a scarcer factor, particularly in and around large cities. Population growth and urbanisation has pushed up market values of land, thereby enhancing the wealth, power and income of landed property owners. Increasing problems of housing affordability for the working class and marginalised social groups are among the predictable consequences of these processes (Stilwell 2016b).

Economic Inequality: why does it matter?

Is an assumption that economic inequality is necessarily a bad thing embedded in this reasoning? If so, it is not surprising that it can be a 'turn-off' or fall on deaf ears. As social surveys show, people commonly underestimate the actual extent of inequality and give only modest support for government policies to reduce it, even though they may think that it would be better, in principle, if the initial distribution were less inequitable (Saunders and Wong 2013). Some people even regard quite extreme inequalities as 'natural' and not a matter of deep concern. This may simply reflect their ideological preference for capitalism whatever it delivers. It may also reflect a deep-seated belief in the existence of a trade-off between equality and economic growth that would make attempts at egalitarian policies costly in terms of growth foregone. Or it may reflect the influence of the theory that all countries have to pass through a phase of widening inequalities *en route* to a higher stage of development when the fruits of affluence can be shared more equitably. Growth first, redistribution later. It is a view that has claimed some academic respectability ever since Kuznets (1955) and Williamson (1965) posited that economic inequality tends to widen during the early stages of a nation's economic development, then tends to narrow once a more fully developed state has been achieved. Although subject to sustained critique, this posited 'inverted U-shaped' relationship between inequality and development remains implicit in much policy practice.

Indeed, *if* economic development is to be driven by the expansion of capitalism, it follows that the fostering of a capitalist class – and the inequalities that inevitably creates – is necessary for capital accumulation and economic growth. By similar reasoning, however, it is hard to see why or how the process would be reversed once that class has become more established and wealthy. As political economists specialising in development studies have often emphasised, corporate globalisation entrenches the dominant class power, perpetuating and intensifying the inequalities (Nwoke 1987; Chossudovsky 1997; McMichael 2008; Ruccio 2011).

Challenging the conservative views supporting inequality is an egalitarian view that is of long lineage. Historically, it has been nurtured by liberal, social democratic and socialist political philosophies and aspirations. More recently, it has been given significant empirical support from a variety of social science research studies. As I interpret it, this research indicates six grounds for expecting that a more equitable economy would produce better social outcomes. Taken together, these six themes provide a comprehensive case for an egalitarian reorientation of analysis and policy throughout all economic discourse and policies.

The first theme concerns the connection between income distribution and *happiness*. It presumably comes as little surprise to hear that, in general, rich people tend to be happier with their lives than very poor people. Indeed, the proponents of economic growth have (often implicitly) claimed this connection as the primary justification for their single-mindedness, as if we could all be rich and happy. However, social surveys reveal surprisingly weak correlations between income and self-reported happiness (see, for example, Gittins, 2014: ch.4; Obeng-Odoom 2015; Wilkinson & Pickett, 2009: 5-13). Rising out of absolute poverty fairly reliably makes people happier but further income increments do not necessarily add to their satisfaction. This is not really so surprising, is it? After basic consumption needs have been met, additional income can be expected to yield diminishing personal benefits. Indeed, mainstream economists well schooled in neoclassical theory should recognise this as the most likely outcome if their cherished 'principle of diminishing marginal utility' applies to incomes and not just to purchases of individual goods. More income adds little to the well-being of a person who is already rich, whereas a similar income increment would add much more to the well-being of a poor person. Pigou (1928) famously

took this view. Indeed, one could hardly imagine a tidier utilitarian rationale for progressive redistribution of income and wealth.

In practice, all such generalisations about the diminishing pleasures of getting richer need to be treated with caution, because people vary so much in their responses to changed material conditions and because of cross-cultural differences in how personal well-being is perceived. The neoclassical economists themselves, since Pigou, have backed away from any welfare theorems that assume the possibility of interpersonal utility comparisons. What seems most damaging to the conventional wisdom, however, is the growing evidence that economic growth is not generally want-satisfying nor conducive to higher levels of material contentment (Hamilton 2003; Hamilton and Denniss 2005). Reported levels of happiness in different countries correlate more strongly with income equality than with average incomes (Wilkinson & Pickett 2009; ch.1). Egalitarian societies tend to be generally happier societies, whereas people in rich societies are often, on average, not significantly happier than those in much poorer nations. It appears that economists for the last two centuries have been basing their theories on the false (or outdated) assumption that higher *per capita* income creates happier people: beyond the elimination of absolute poverty, it appears that creating more equality would be a superior strategy.

A second argument for seeking greater equality arises from the growing body of social science research that shows more egalitarian societies tend to be healthier and more cohesive. International evidence indicates a positive correlation between income inequalities and the incidence of a wide array of *social problems*, including physical and mental illness, the incidence of violence, crime and prison incarceration, drug use, obesity and low educational attainment (Wilkinson and Pickett 2009; Bose 2013; Marmot 2016). This research shows that, for an array of nations, there is a positive statistical correlation between the intensity of social problems and the extent of income inequality. Among the developed nations, Japan and the Scandinavian nations are at the lesser social problems/egalitarian end of the spectrum, while the USA and Portugal are at the greater social problems/anti-egalitarian end (Wilkinson and Pickett 2009: 20). This higher incidence of social problems in the more unequal societies may help to explain the earlier finding that they also tend to be the generally unhappier societies.

A statistical correlation between inequality and the intensity of social problems cannot be the full story though. It is also necessary to identify causal connections. These can be expected to vary for each of the social problems being studied – and Wilkinson and Pickett present plausible hypotheses and evidence for each of those that they analyse. There are also more general reasons to expect causal links. Egalitarianism's ultimate justification is that it fosters a sense of collective purpose. Within any group of people, whether it be a household, a workplace or a sporting team, continued cooperation depends on the perception of fair shares in the fruits of that cooperation. Where such conditions do not prevail, a greater incidence of social problems and pathologies is not surprising. When there is an uneven incidence of winners and losers according to differences of gender and ethnicity the tensions are further accentuated.

A third consideration is the connection between economic equality and the capacity to respond to *environmental* challenges. Here again, trust and cooperation are essential. The willingness to work together to produce an ecologically sustainable future is almost inconceivable without an egalitarian perspective and redistributive policies (Parr 2013). This has become evident in international deliberations on how to reduce or mitigate the problem of climate change. Poorer countries cannot reasonably be expected to reduce their carbon emissions if doing so would effectively lock them into perpetual economic disadvantage. Meanwhile, within more affluent nations, getting public acceptance of policies like emission trading or carbon taxes requires concurrent redistributive policies to raise the incomes of poorer households, compensating them for the impact of the increased energy costs. Otherwise social and political resistance is inevitable. Bolder attempts to create transitions to sustainability, like moving to 100 percent renewable energy or reducing environmentally-damaging consumerism, require yet stronger emphasis on the egalitarian dimension of public policy (as discussed in Stilwell 2011/12).

A fourth issue relates to the relationship between inequality and *economic efficiency*. As previously noted, mainstream economists, following Okun (1975), have often talked of an 'efficiency-equity trade-off', implying that we can have more of one at the expense of the other but not more of both. Yet is that really so? The weight of evidence now suggests the contrary – that more egalitarian societies may have more efficient economies too. Three decades ago, Robert Kuttner (1984)

pointed out that public policies which perform well (or poorly) in terms of both equity and efficiency are just as likely as policies that perform well in one but at the expense of the other. So no general trade-off need apply. Research originating from no less a conservative authority than the International Monetary Fund (IMF) has more recently reinforced this view, showing that the more equal nations tend to have superior macroeconomic performance (Ostry, Bird & Tsangarides 2014). In a similar vein, the OECD has published a recent report arguing that, within individual nations, inequality tends to impede capacity for productivity improvements and, therefore, that international recognition of the nexus between higher productivity and greater equality should be a key policy focus (OECD 2016).

A fifth aspect of the case for equality concerns the relationship between economic structures and *political* institutions. This touches on the perennial question: are capitalist economies and democratic polities natural partners? Democracy is widely held to be the most desirable political arrangement – or, as a cynic might say, the 'least worst' arrangement. Although subject to diverse interpretations, democracy embodies an essentially egalitarian principle – that each person should be entitled to equal participation and influence in group decision-making processes. In its simplest electoral form, this means 'one person, one vote'. Capitalist economies, on the other hand, operate on the quite different organising principle of 'one dollar, one vote'. In the capitalist marketplace, those with the most money send the strongest market signals for what should be produced. Thus, the cherished mainstream economic principle of 'consumer sovereignty' has an anti-egalitarian character when applied in societies with markedly uneven distributions of income and wealth. Only if the distribution of income and wealth were made more equal would the tension between capitalism (as an economic system) and democracy (as a political system) be lessened.

There is a further practical reason why democracy requires greater economic equality. This relates to the tendency for extreme inequality to corrupt the institutions of the state. As Stiglitz (2013: ch.5) argues, the concentration of wealth that arises from economic inequality in modern capitalist societies has a corrosive effect on our political institutions. This effect operates through diverse channels. Donations from corporations or wealthy individuals to political parties, for example, can influence government policy agendas and priorities. Lobbyists continually ply their trade with similar intent. On those infrequent occasions when

governments actually do try to introduce policies that would go against powerful corporate or elite interests, they are almost invariably subjected to immense pressures to reverse those policies. A case-in-point was the ill-fated attempt to put a super-profits tax on mining companies during the last period of Labor government in Australia: a 'revolt of the billionaires' in the mining industry effectively scuppered the policy (Collins 2016).

Finally, there is the question of whether greater equality is conducive to *peace*. Of course, all reasonable people want a peaceful society. Yet the world is bedevilled by tensions that frequently spill over into violent confrontations, including terrorism and war. While it would be facile to characterise all such conflicts as products of socio-economic inequality, it is evidently a pervasive influence. Inequalities deriving from the effects of imperialism are a case in point. Anti-imperialist struggles, sometimes violent in nature, have challenged the political economic advantages gained by imperialist powers at the expense of the people in the poorer regions and countries that they dominate. Conflicts in post-colonial societies are also often concerned with the legacy of such inequalities, structured along lines of class, ethnicity and gender. The effects of inequality are also increasingly evident on a global scale as groups who perceive themselves to be exploited, oppressed or marginalised by wealthy nations and/or classes have recourse to terrorist violence. The recurrent hostility towards 'the west', the USA in particular, commonly involves resentment against structures of political economic power and their supporting ideologies that are insensitive to the local conditions and aspirations of people in other countries. It is hard to conceive of a peaceful world without some greater emphasis on dealing with these processes that have created unjustified and unacceptable global inequalities.

For all these reasons, an emphasis on analysis, strategies and policies aimed at reducing inequalities is warranted. If we want societies whose people are happier, less troubled by social problems, more productive and more capable of creating sustainable, democratic and peaceful arrangements, then we need to emphasise greater economic equality.

At each and every stage of the development process a broad egalitarian perspective, beyond 'mere' poverty alleviation, is therefore warranted.

Economic Inequality: what is to be done?

Making a case for greater economic equality and achieving it in practice are rather different processes. The latter involves direct engagement with *political economic power*. It also necessarily puts *the state* in the spotlight – as the focal point for either implementing or obstructing progressive changes. The modern state, whether in affluent or poorer nations, invariably has complex, interacting institutions that affect the political, legal and economic character of the society in myriad ways. It wields great power, having the official monopoly on legitimate violence and on processes of law-making and policing. It is a major economic player in its own right, because of its capacity to collect taxes and determine the official money supply. It also sets the rules of the economic 'game' within its own jurisdiction. Whether a society is egalitarian or anti-egalitarian is to a considerable extent determined by how the power of the state operates in that society. The point is important to emphasise because people commonly look to the state – to elected local, provincial and national governments and sometimes to supra-national institutions such as the World Bank and the UN – for distributive policies to reduce the class and market-driven inequalities.

Broadly speaking, we can distinguish between policies for *re-distribution* and strategies to change the *pre-distribution* of wealth and incomes. The former is the more familiar reformist political program, usually centred on the distributional incidence of governmental taxes and expenditures. These may embody an avowed 'Robin Hood' intention of taking from the rich and giving to the poor, although the actual practice and its stated rationale are seldom so bold or clear cut. Pre-distribution is more fundamental, however, because it involves the institutional processes that shape the initial distribution of wealth and incomes, *i.e.,* before any government taxes and transfers occur. A concern with pre-distribution puts more weight on the systemic underpinnings of exploitation, discrimination and imbalances of class power. It switches attention from the sphere of distribution into the sphere of production and the processes by which value and wealth are created and reproduced. Serious engagement with such matters shifts the political focus from piecemeal reform to more radical and revolutionary transformations.

Re-distribution can be an effective start in a program of economic reform, bringing about more egalitarian outcomes if there is the political will so to do. National governments are always engaged in re-distributive

policies of some sort, although sometimes only implicitly because the re-distributive effects are masked by broader macroeconomic or social objectives. Neoliberal 'trickle-down' policies that seek to increase national economic growth by giving more opportunities to the already wealthy are a case in point. Such policies reliably widen inequalities. Other policies can and do have opposite effects, however, reducing the rich-poor gaps. Such progressively redistributive policies have made significant inroads, in developed countries at least, into economic inequalities during particular historical periods, such as the three decades following World War Two. Progressive taxation, with high marginal rates on the top incomes, generated revenues that financed substantial welfare state initiatives, helping to create a more equitable distribution of income post-tax and transfers (Piketty 2014: ch.14). Public policies can surely have egalitarian redistributive effects, given sufficient time and social support.

National governments have many policy instruments at their disposal for this purpose (as described by Stilwell and Jordan 2007: ch.11; Leigh 2013; Stiglitz 2015; and Atkinson 2015). Increasing the rate of tax on incomes from capital relative to incomes from labour would reliably produce more egalitarian distributional outcomes (which is important to stress because capital gains are often more lightly taxed than wage incomes, as is the case in Australia, for example). Land taxes can also be potent re-distributive policies because they capture some of the unearned economic surplus that currently accrues to wealthy landowners as a result of urbanisation and infrastructure improvements (Stilwell and Jordan, 2007: 207-9). The revenues generated through these progressive tax initiatives can then be used for additional public spending on job-creation programs, welfare programs or broader infrastructure improvements that enhance economic opportunities for poorer people.

Re-distribution of accumulated *wealth* is harder. Class interests are directly at stake and political resistance to progressive policy initiatives is therefore inevitable. A focus on wealth is necessary, however, because it is accumulated wealth that is at the root of cumulative inequalities (Sheil and Stilwell 2016). Progressive income taxes can stop the rich-poor gap from widening, but it is the ownership of assets that underlies long-term earnings capacity. Given the political will, however, much can be done to reduce the concentration of wealth and power. In developing countries, land reforms that create less concentrated ownership open up possibilities for more widely dispersed distributions of income too. In

some cases, this may require resistance to both market and state-centric models. As Anderson (2015) notes in the case of Papua-New Guinea, the modernist view of land as a commodity does not sit comfortably with Melanesian practices: policies for communal ownership and stewardship are more conducive to the fruits of land-use being more equitably shared.

In more developed nations, constraining the uses of concentrated wealth and reducing its inter-generational transmission are also key political economic concerns. Possibilities include introducing tax on inherited wealth or, where such tax already exists, raising the tax rate and/or lowering the threshold level of wealth to which the tax applies. Piketty (2014: ch.15) advocates the introduction of an international wealth tax, while expressing reservations about its likelihood of coming to fruition. Policies of this sort have a pre-distributive character too in that they tend to reduce the 'market' income disparities over time. By similar reasoning, if pre-distribution policies could reduce class exploitation, foster cooperatives or expand 'the commons' for collective economic purposes, that would undercut the capitalist, financial and landholding class powers that are at the root of economic inequality, both nationally and globally.

Other strategies with similar intentions focus more directly on changing the reward structures within private and public sector enterprises. If the gap between the payments to top executives and the lower-paid workers could be reduced, for example, then subsequent governmental revenue re-distribution though taxes and transfers would be less necessary. In reality, the remuneration structures in capitalist economies have become much more unequal in recent decades, so the trend has been all in the wrong direction in this respect (Piketty 2014: 333-335). Economies operated no less effectively when the gap between average payments to top managers and workers was much narrower. Evidently, the income reltivites involve a matter of political and social choice and are not the product of a purely economic imperative. Governments could change 'the rules of the game', for example, by only allowing companies to claim payments of managerial salaries as untaxed business expenditures if they are within a specified multiple (say, 10:1 or even 20:1) of average workers' wages.

Pre-distribution requires attention to both 'ceilings' and 'floors'. Ceilings limit extremes of wealth accumulation, while floors eliminate poverty. Over time, inheritance tax, land tax and capital gains tax can reduce wealth concentration and thereby help to lower the ceiling. Concurrently,

improvements in legislated minimum wage rates can raise the income floor for employed persons. Another option that is increasingly widely discussed in developed nations is the introduction of a universal basic income. Paid to all people irrespective of their socio-economic position, the basic citizens' income would provide a more comprehensive floor. Other social policies focus more directly on increasing equality of *opportunity* (United Nations Research Institute for Social Development 2010). Educational policies that fund schools according to students' needs rather than perpetuating class privilege are an obvious example. Together with (and perhaps partly funded by) policies such as inheritance tax, they have a crucial role in limiting the inter-generational transmission of economic inequalities.

More generally, there is much to be said for insisting that *all* public policies be required to undergo an equity assessment before being implemented. Applying an equity audit process could be a means of identifying which public policies are currently most problematic in their distributional impacts and eventually ensuring that all major public policies have egalitarian effects, ameliorating rather than compounding existing class differences.

It must be conceded that the redress of *global* inequality is more problematic. As Wade (2002:59) says, 'it cannot be a direct objective of public policy, which has to focus on inequalities within nation states or (via trade rules, aid, etc.) inequalities among states'. Yet there are recurrent expressions of concern and intention. International agencies like the institutions of the World Bank have had long-standing commitments to overcome the impediments to development and to assist the poorer nations to 'catch up'. Their development assistance programs commonly have disappointing effects, however (Chossudovsky 1997; Engel 2010). So do foreign aid programs provided by individual nations, ostensibly for the purpose of fostering development. Their funding seldom achieves the modest international target of 0.7 per cent of GDP (Sachs 2005). To give just one example of a wealthy but mean nation, Australia's foreign aid contribution, following the Turnbull government budget cuts in 2016, is now only a little over 0.2 per cent. Moreover, it is not just a matter of the volume of aid: as political economists have long argued, 'tied aid' tends to serve the interests of the donor countries more than recipient countries, while foreign aid can have the effect of reinforcing a post-colonial straightjacket that constrains domestic development policies (Hayter 1981; Anderson 2013). Arguments for

reparatory justice, such as making international reparations for past oppression and exploitation through slavery (Beckles 2013), build on concerns of this kind.

From a political economic perspective, one should hardly be surprised at the existence of severe constraints on policies for progressive distribution, whether intra-nationally or internationally. Nor should we underestimate the difficulty of overcoming class interests with a stake in defending the *status quo*. The institutions to which we look for remediation, though formally democratic in many cases, are themselves commonly captive to these dominant interests. As J.K. Galbraith recurrently argued, 'emancipation of the state' (Galbraith 1974) from the influence of powerful corporations and vested interests is a necessary accompaniment to all process of progressive economic and social reform.

Conclusions

Inequality is a major feature of the world economy and its constituent nations and regions. There are striking contrasts between the conditions in which rich and poor people live, both within individual countries and between countries. It is these glaring inequalities in how the fruits of economic growth are shared that compound contemporary economic, social and environmental problems. It is the benefits of having a more equal society that strengthen the case for a fundamental change to the prevailing economic system and the embrace of a more secure, stable and sustainable social order. This requires 'closing the gap' between ceilings and floors, while simultaneously striving to create more equality of opportunity in the intervening space.

Looking at the range and intensity of the current obstacles to these aspirations – within nations, between nations and globally – can be quite daunting. A political economic perspective can also be empowering. By drawing attention to the diversity of experiences, it can create awareness of possibilities for 'making a difference'. Recognising that national and international differences in the extent of economic inequality are the product of human intention and collective efforts, rather than some inexorable or 'God-given' process, can indeed be empowering. Similarly, positive lessons can be drawn from looking at history. Because significant strides towards the redress of inequalities in many developed nations were made during the three decades following World War Two,

we know that at least a modest degree of egalitarianism is achievable through public policy processes. This recognition is an important step towards 'politics beyond pessimism' (Dow and Higgins 2015). So too is careful analysis of the challenges facing developing nations when seeking more balanced and equitable economic progress, as presented by other articles in this journal.

Such analyses can provide ammunition and reasons for hope when faced with conservative ideologies, inequitable uses of power and regressive policy practices. Political economic conditions continuously change, and the purpose of progressive politics is to redirect the processes of change along preferred paths. Tackling the drivers of inequality is necessarily part of this process. Yes, to echo Pigou, 'out of the darkness light'!

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