The New York Times
Opinionator

OCTOBER 13, 2013, 9:06 PM

Inequality Is a Choice

By JOSEPH E. STIGLITZ

It's well known by now that income and wealth inequality in most rich countries, especially the United States, have soared in recent decades and, tragically, worsened even more since the Great Recession. But what about the rest of the world? Is the gap between countries narrowing, as rising economic powers like China and India have lifted hundreds of millions of people from poverty? And within poor and middle-income countries, is inequality getting worse or better? Are we moving toward a more fair world, or a more unjust one?

These are complex questions, and new research by a World Bank economist named Branko Milanovic, along with other scholars, points the way to some answers.

Starting in the 18th century, the industrial revolution produced giant wealth for Europe and North America. Of course, inequality within these countries was appalling — think of the textile mills of Liverpool and Manchester, England, in the 1820s, and the tenements of the Lower East Side of Manhattan and the South Side of Chicago in the 1890s — but the gap between the rich and the rest, as a global phenomenon, widened even more, right up through about World War II. To this day, inequality between countries is far greater than inequality within countries.

But starting around the fall of Communism in the late 1980s, economic globalization accelerated and the gap between nations began to shrink. The period from 1988 to 2008 "might have witnessed the first decline in global inequality between world citizens since the Industrial Revolution," Mr. Milanovic, who was born in the former Yugoslavia and is the author of "The Haves and the Have-Nots: A Brief and Idiosyncratic History of Global Inequality," wrote in a paper published last November. While the gap between some regions has markedly narrowed — namely, between Asia and the advanced economies of the West — huge gaps remain. Average global incomes, by country, have moved closer together over the last several decades, particularly on the strength of the growth of China and India. But overall equality across humanity, considered as individuals, has improved very little. (The Gini coefficient, a measurement of inequality, improved by just 1.4 points from 2002 to 2008.)

So while nations in Asia, the Middle East and Latin America, as a whole, might be catching up with the West, the poor everywhere are left behind, even in places like China where they've benefited somewhat from rising living standards.

From 1988 to 2008, Mr. Milanovic found, people in the world's top 1 percent saw their incomes increase by 60 percent, while those in the bottom 5 percent had no change in their income. And while median incomes have greatly improved in recent decades, there are still enormous imbalances: 8 percent of humanity takes home 50 percent of global income; the top 1 percent alone takes home 15 percent. Income gains have been greatest among the global elite — financial and corporate executives in rich countries — and the great "emerging middle classes" of China, India, Indonesia and Brazil. Who lost out? Africans, some Latin Americans, and people in post-Communist Eastern Europe and the former Soviet Union, Mr. Milanovic found.

The United States provides a particularly grim example for the world. And because, in so many ways, America often "leads the world," if others follow America's example, it does not portend well for the future.

On the one hand, widening income and wealth inequality in America is part of a trend seen across the Western world. A 2011 study by the Organization for Economic Cooperation and Development found that income inequality first started to rise in the late '70s and early '80s in America and Britain (and also in Israel). The trend became more widespread starting in the late '80s. Within the last decade, income inequality grew even in traditionally egalitarian countries like Germany, Sweden and Denmark. With a few exceptions — France, Japan, Spain — the top 10 percent of earners in most advanced economies raced ahead, while the bottom 10 percent fell further behind.

But the trend was not universal, or inevitable. Over these same years, countries like Chile, Mexico, Greece, Turkey and Hungary managed to reduce (in some cases very high) income inequality significantly, suggesting that inequality is a product of political and not merely macroeconomic forces. It is not true that inequality is an inevitable byproduct of globalization, the free movement of labor, capital, goods and services, and technological change that favors better-skilled and better-educated employees.

Of the advanced economies, America has some of the worst disparities in incomes and opportunities, with devastating macroeconomic consequences. The gross domestic product of the United States has more than quadrupled in the last 40 years and nearly doubled in the last 25, but as is now well known, the benefits have gone to the top — and increasingly to the very, very top.

Last year, the top 1 percent of Americans took home 22 percent of the nation's income; the top 0.1 percent, 11 percent. Ninety-five percent of all income gains since 2009 have gone to the top 1 percent. Recently released census figures show that median income in America hasn't budged in almost a quarter-century. The typical American man makes less than he did 45 years ago (after adjusting for inflation); men who graduated from high school but don't have four-year college degrees make almost 40 percent less than they did four decades ago.

American inequality began its upswing 30 years ago, along with tax decreases for the rich and the easing of regulations on the financial sector. That's no coincidence. It has worsened as we have under-invested in our infrastructure, education and health care systems, and social safety nets. Rising inequality reinforces itself by corroding our political system and our democratic governance.

And Europe seems all too eager to follow America's bad example. The embrace of austerity, from Britain to Germany, is leading to high unemployment, falling wages and increasing inequality. Officials like Angela Merkel, the newly re-elected German chancellor, and Mario Draghi, president of the European Central Bank, argue that Europe's problems are a result of a bloated welfare spending. But that line of thinking has only taken Europe into recession (and even depression). That things may have bottomed out — that the recession may be "officially" over — is little comfort to the 27 million out of a job in the E.U. On both sides of the Atlantic, the austerity fanatics say, march on: these are the bitter pills that we need to take to achieve prosperity. But prosperity for whom?

Excessive financialization — which helps explain Britain's dubious status as the second-most-unequal country, after the United States, among the world's most advanced economies — also helps explain the soaring inequality. In many countries, weak corporate governance and eroding social cohesion have led to increasing gaps between the pay of chief executives and that of ordinary workers — not yet approaching the 500-to-1 level for America's biggest companies (as estimated by the International Labor Organization) but still greater than pre-recession levels. (Japan, which has curbed executive pay, is a notable exception.) American innovations in rent-seeking — enriching oneself not by making the size of the economic pie bigger but by manipulating the system to seize a larger slice — have gone global.

Asymmetric globalization has also exerted its toll around the globe. Mobile capital has demanded that workers make wage concessions and governments make tax concessions. The result is a race to the bottom. Wages and working conditions are being threatened. Pioneering firms like Apple, whose work relies on enormous advances in science and technology, many of them financed by government, have also shown great dexterity in avoiding taxes. They are willing to take, but not to give back.

Inequality and poverty among children are a special moral disgrace. They flout right-wing suggestions that poverty is a result of laziness and poor choices; children can't choose their parents. In America, nearly one in four children lives in poverty; in Spain and Greece, about one in six; in Australia, Britain and Canada, more than one in 10. None of this is inevitable. Some countries have made the choice to create more equitable economies: South Korea, where a half-century ago just one in 10 people attained a college degree, today has one of the world's highest university completion rates.

For these reasons, I see us entering a world divided not just between the haves and have-nots, but also between those countries that do nothing about it, and those that do. Some countries will be successful in creating shared prosperity — the only kind of prosperity that I believe is truly sustainable. Others will let inequality run amok. In these divided societies, the rich will hunker in gated communities, almost completely separated from the poor, whose lives will be almost unfathomable to them, and vice versa. I've visited societies that seem to have chosen this path. They are not places in which most of us would want to live, whether in their cloistered enclaves or their desperate shantytowns.