Global Crises, Equalizing and Dis-equalizing Capitalist Regimes: The Case of 20th Century Asian Political Economy

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Abstract

The logic of deep global capitalist crises needs to be incorporated centrally into an understanding of the changes in the within-country inequality levels. I present a theoretical framework that incorporates two levels of political economic processes. First, global capitalist crises lead to the creation of an institutional structure or a regime in the capitalist centers that influences inequality in these core countries and in the periphery. Second the class configuration in the non-core countries - a set of institutional arrangements that can be termed local political economy - also plays a key role in determining inequality outcomes. The main argument of this short note is that these two sets of processes interact to produce patterns of within country-inequality that we observe across the world. In the Asian case, high growth was accompanied by declining inequality for a period of three decades after World War 2. However, with the crisis of global capitalism during the 1970s, a new regime was created in the global center that pushed inequalities higher across the world. These changes occurred through the implementation of policy structures that have disproportionately favored urban elites. In the Asian economies too, growth was accompanied by rising inequality after the 1980s. I use these experiences to argue that growth episodes in capitalism that follow effective demand crises (such as the Great Depression) seem to allow for lower within-country inequality. Growth episodes that follow profitability crises by contrast tend to cause increases in the within-country inequality. However, this is not a deterministic frame of analysis, as the recent experience of most countries with austerity policies suggests, even if this recent experience might well be a passing phase.

Keywords: *Inequality, Crises, Regimes of Capitalism, Asian Political Economy.*

I. Introduction

The Asian experience of growth from the 1950s to now has had some of the most profound transformational effects on the global economy. The well-known East Asian Miracle, and the closely following miracles of China and India have had dramatic effects on the structures of global production as well as on global measures of poverty and inequality. In the first wave of Asian growth, some Asian economies (such as Japan and the 'Tiger' economies) experienced a relatively equal early capitalist growth/development process between 1950s and 1980. Subsequent growth however became much more unequal in these countries. In the second wave of growth in countries such as China and India, capitalist growth/development since 1980 is associated with a sharp increase in inequality. How might one understand these different phenomena, given that there is no clear standard economic theory that provides an explanation? In this paper, I propose the outline of a new framework that can account for these seemingly diverse phenomena. I seek to re-incorporate political economy insights to obtain a more holistic understanding of Asian growth and its effects on the global economy, while arguing that this analysis has insights to understand a wider experience of inequality and growth.

II. Theoretical Frameworks

While there have been many attempts to theorize the relationship between growth and inequality, and therefore also to think of equalizing and dis-equalizing growth episodes, two of these efforts (Kuznets 1955; Piketty 2014) stand out both for the attention they received from economists and others, and for their careful engagement with the question. I present below an engagement with these two efforts and the reasons why I believe that the question of the relation between growth and distribution is still open for investigation.

II.1 Kuznets' hypothesis and the critiques

Kuznets (1955) presented his argument about the relation between growth and inequality based on the sparse empirical evidence (pre-tax incomes using the available tax data) that he could put together on the developed and less developed countries. He used the available data in two different ways to construct his over-arching hypothesis (presented below). First, he took a few developed countries (US, UK and Germany) and analyzed the declines in inequality between the late nineteenth century and the 1940s. Second, he presented data on a cross-section of countries - from the developed and the less developed world - to show that inequality levels were higher in the less developed world compared to the developed world.

His main hypothesis is that there is a long secular swing in income inequality in various countries. There is a widening of the income gap in the early phases of industrialization and urbanization, a stabilization of it for a while, and then a narrowing of it in later stages. While the causal arguments for this hypothetical evolution are not laid out with great clarity, he suggests a few mechanisms, some of which are driven by market forces themselves, and others through non-market forces. First, there is a rapid concentration of savings in the initial phases but with newer phases of industrialization, demographic changes and the emergence of a service economy, this concentration becomes weaker (at the top). Second, the initial movement of people from the agricultural sector (relatively more equal) to the non-agricultural sector (relatively less equal) tends to heighten inequality. After a certain period, as the rural surplus population dwindles, there is a reduction of income inequality within the urban sector because of the better use of urban resources (e.g. education) by the second-generation migrants and the poor to participate in economic activity (improvements at the bottom end of the distribution). Third, democratic pressures (non-market forces) would bring about progressive legislation that protects the interests of the low-income groups. Fourth, there is a role in Kuznets' framework for the shocks of the two world wars, and the Great Depression in terms of their effects on the wealth concentration at the top. However, Kuznets seems to lay a lot more emphasis in his explanations on the political economy of capitalist growth than on exogenous shocks.

There are several criticisms of the basic Kuznets hypothesis (e.g. see Ray, 1998) for a survey). The first and foremost came from the way inequality evolved in different countries, especially after Kuznets published his seminal work. Revisiting two empirical cases best captures this critique of Kuznets. First, developed countries witnessed an increase in inequality post-1970s questioning the secular downswing argument of

Kuznets. Second, Asian economies post-World War II have tended to experience equalizing growth in the early phases of industrialization and growth. This paper focuses on the second case.

The second set of criticisms is motivated by theoretical considerations. First, mixing a time-series perspective along with a cross-sectional perspective citing paucity of longitudinal evidence for developing countries has tended to confuse the entire discourse on inequality and growth ever since. The sets of factors that operate for less developed countries (such as having been colonized) may be very different from the factors that developed countries faced in their early growth experiences (e.g. see Baran 1957). Second, Kuznets identified a particular truncated secular swing for the developed world, and his framework has no openings for future changes in the way capitalism might evolve.

II.2 Piketty's theoretical framework - Does it provide a convincing answer?

Thomas Piketty's much acclaimed work - *Capital in the Twenty First Century* - offers a careful and nuanced (and by far the most well-researched) account of the evolution of inequality in the developed world since the late 19th century. It should be commended for its enormous empirical contributions. The main point that can be gleaned from his empirical contribution is that rising inequality of the 19th and early 20th centuries was interrupted by the exogenous shocks of the two world wars and the Great Depression. However, since the 1970s, the inexorable trend of rising inequality has made a powerful comeback, and there is no possibility of keeping this trend in check unless there is a global coordination and conscious intervention in the realm of redistributive taxation.

The empirical presentation of the inequality trends is quite valuable. While there may be a few minor issues regarding the empirical work itself, the deeper problem in Piketty's work is with his theoretical frame. While a comprehensive presentation of his theory is beyond the scope of this short note, a brief summary of the key features of his model is presented below.

Piketty puts forth two fundamental laws of capitalism that operate in long-run that create an inexorable process of rising inequality in the absence of exogenous shocks, and active external intervention. Both laws are like identities. The first law states that the share of capital in the total income is a product of the rate of return on capital (r), which is also assumed by Piketty to be the marginal productivity of capital, and the capital/income ratio (β). According to the second fundamental law, in a steady state, the capital/income ratio is the ratio of savings rate (s) and the growth rate (g), which is an alternative formulation of the Harrod-Domar regularity. When these two laws are combined, we get the following formula:

$$\alpha = r^*\beta \text{ (where } \beta = s/g) \quad \text{.......................... (1)}$$

As long as the capital share in total income, i.e. α, increases, inequality will likely increase. Piketty's justification for why this would happen in the steady state is that with time, the capital/income ratio would rise and as capital becomes abundant, the rate of return, r would decrease. However, as long as the decrease in r is not steeper than the rise in β, α would continue to rise. In other words, under a long-term stable savings rate, as long as r is greater than g, α would rise. In Piketty's framework, this is realized as long as the elasticity of substitution between capital and labor is greater than 1.[i] While the value of this elasticity is empirically determined, Piketty's overall theoretical argument is based on the technological assumptions about the appropriate production function as well as empirical observation. He states that capital has many uses and therefore assumes that the elasticity would be greater than 1 in the long run. This would then create a situation wherein capital share in total income would continuously rise, and thereby would create a rising inequality trend. If we add the prevalent phenomenon of inheritance, this creates the extant reality of patrimonial capitalism.

There are several possible criticisms of Piketty's framework. First, the empirical estimates that are available for the elasticity of substitution between net capital and labor have generally not been as high as what Piketty states in his book (e.g. see Rognlie 2014). Second, Piketty uses the idea/concept of capital a bit too loosely, i.e., wealth and capital are used interchangeably. This could create vastly different estimates of the capital share that is so central to his analysis of inequality trends. Third, it is not clear if marginal productivity of capital can be used the way Piketty uses it after the conclusions of the 1960s' *Cambridge Controversies about Capital*, which Piketty alludes to in his book. Fourth, Piketty views switches to the inexorable process of rising inequality as caused by exogenous phenomena. For instance, there is no endogenous explanation for the decreasing inequality trends after the Great Depression or for why inequality trends switch in the 1970s to rise until now. These are caused by exogenous shocks in his model. Fifth, while he mentions in passing that parameters like α or r may be determined politically, his own argument treats them as technologically determined (backed by some empirical evidence). These parameters may very well be institutionally, politically, and technically determined. If this is so, when there are endogenous capitalist crises (such as the Great Depression or the stagflationary crisis of the 1970s or the global economic crisis of 2007-08), since they are typically followed by an institutional overhaul, the steady state or asymptotic arguments may not work. So, long run arguments of that nature may simply be flawed or they may end up evening out several 'kinks' that actually help us understand how capitalism and inequality co-evolve or how they change over time.

II.3 Crises, Capitalist Regimes and Inequality: What are the linkages?

While both Kuznets' framework and Piketty's framework offer powerful insights into the way the relation between growth and inequality is structured, they are probably too influenced by the trends that immediately preceded them. Theoretically, both these frameworks are problematic and their interpretation of the empirical trends through these theoretical frameworks is problematic too. While learning from these frameworks, I offer below a different framework that takes into account the deep global crises (that are endogenous to capitalism) and their structuring role in determining patterns of inequality.

The argument for the influence of global capitalist crises influencing within-country inequality is as follows. Deep crises (such as the Great Depression) that happen once in 3-4 decades tend to cause a shake-up of the existing institutional regime in a capitalist center through prolonged downturns (defined broadly in terms of the profitability of the capitalist classes or growth or lack of effective demand) or class struggles and so forth. The new institutional regime ('regime of capitalism,' described below) that comes into being, to address the specific crisis, would then tend to influence the inequality regime in the capitalist center. From the centers, these institutional regimes or broader policy packages (e.g., the so-called Washington Consensus) travel to different countries across the world through trade or outsourcing of transnational corporations, or financial capital mobility or through the conditionalities of international institutions (such as IMF or World Bank) and so forth.

A 'regime of capitalism' refers to the nature of accumulation dynamics and the modes of regulation that prevail in a particular capitalist economy (see Aglietta, 2000; Boyer, 1990) during a certain given period. A successful regime of capitalism is said to have come into effect when there is relative stability along certain key institutional arrangements. First, the relationship among different constituents of capital (industrial, financial and merchant), although contested, remains somewhat stable over a period of time. Second, the relationship among different groups of the working class (e.g. professional, skilled and unskilled) needs to stabilize within a set of acceptable norms. Third, the relationship between these different constituents of capital and different groups of the working class needs to find a relatively stable, even if antagonistic, relationship (e.g. collective bargaining, or bans on workers' strikes or some accord between the two classes such as linking wage increases to productivity increases). Fourth, a broad consensus usually emerges regarding the different functions of markets and the state. Fifth, an institutional pattern emerges through which an acceptable level of profitability and adequate aggregate demand are achieved. Sixth, a set of behavioral norms comes into effect that helps maintain relative stability. Once these key relationships attain reasonable stability, capitalist growth acquires a predictable pattern that remains stable over a period of time. After a certain period of time, factors such as declining profitability, inadequacy of aggregate demand, financial instability and socio-political turmoil may cause a crisis in a particular regime of capitalism. After a crisis-prone period, usually these key relationships are reconstituted in new ways by adopting specific institutional forms that put the capitalist system back into a new regime of relative stability.

For instance, the two sub-periods, 1945-1973 and 1976-2008 correspond to very different capitalist regimes across the world. The first regime, which came into being mainly to address the systemic crisis in being unable to create adequate effective demand that manifested as the Great Depression, is one of welfare-oriented capitalism in which governments played an active and interventionist role in creating the necessary effective demand in the economy. Keynesian macroeconomic theory played a key role in understanding the economy and in framing policies. Capitalist economies across the globe grew rapidly during this period ('Golden Era'), and there was a concomitant decline in inequality. However, this regime hit a profitability crisis for the capitalist classes (manifesting as 'Stagflation') by the early 1970s and had to be replaced. The second period, therefore, corresponds to a totally different kind of capitalist regime, that came about mainly to address this profitability crisis. It is a market-oriented capitalist regime that advocated lesser state intervention in the domain of the economy and moved progressively towards lesser regulation. This period also corresponds to an economic structure where financial capital became footloose and less regulated, while dominating the global economy on several dimensions. Anti-Keynesian, supply-side oriented economic theory dominated both the sub-discipline of macroeconomics as well as the policy framework adopted. Capitalist economies, on the whole, grew less rapidly during this period while there was a sharp increase in inequality, mainly within countries (Milanovic, 2007). This created a regime that was premised on increased debt and the creation of asset bubbles to offer the necessary effective demand. When the crisis came in 2007-08, what it clearly showed is that the system did not have adequate purchasing power. Keynesian policies, which address this sort of a crisis, came to the fore yet again after 2008. The system needs to be restructured to usher in a new regime once again, but for now, austerity policies have become the norm.

Deep crises (and therefore the resulting regimes) in capitalist centers seem to have followed a particular pattern over the last 150 years (Vakulabharanam 2014). They have been oscillating between primarily profitability crises and primarily effective demand crises, accompanied by financial instability. The long depression of 1873-96 was a profitability crisis. The Great Depression of 1929-39 was an effective demand crisis accompanied by deep financial instability. The stagflationary crisis of the early 1970s was a profitability crisis in the US. The Great Recession of 2008 is that of a dormant effective demand crisis and a financial collapse. Each crisis (other than the most recent one, thus far) has led to a shedding of the existing institutions and the growing of new ones through a prolonged class struggle and intense intellectual debate. These *Great Transformations* (Blyth 2002) in the global capitalist economy have implications for within-country inequality regimes.

When there are profitability crises, either productivity levels have to go up through technological or organizational innovation in order to create higher profits or attacks on workers' fallback have to happen in order to reduce the wage share in the economy or both. Either way, if profits are restored, inequality levels tend to heighten in the economy with a rising capital share. On the other hand, when there are effective demand crises accompanied by a large expansion of the financial sector, the main structural imperative is to restore effective demand. This can be done by improving wage-good consumption (by improving the incomes of workers) or by improving investment-good consumption since financial bubbles cannot be resorted to immediately after a deep financial crisis. If the former happens, inequality levels would witness a decline, and if the latter happens without the former, there would be political and social conflicts building up in the system, especially if a large majority does not find a stable means for consumption. So, the latter solution, while economically stable, is politically still unstable.

These trends are similar across a majority of the countries in the world in the post-1980s period. The similarity across these very different sets of countries precisely arises out of the particular regime that comes into play in the capitalist center (s) and how it is transmitted to different parts of the world. It is the coming together of the global capitalist dynamics (e.g. emergence of a footloose financial capital, inflation targeting central banks, austerity-focused governments, wage-repressing employment regimes and significant rollbacks of the welfare state) and the local political economy (the emergence of new dominant class coalitions) that really has an impact on the within-country inequality regimes.

It is important to assert that this is not a deterministic model. There are two possible scenarios. First, even though there is a structural imperative arising out of a profitability crises or an effective demand crisis, capitalist classes or the other groups especially, in the capitalist centers may resist the restructuring of institutions. This may prolong instability while creating short-lived phases of stability. Second, there can be a situation wherein the local political economic configuration is strong and at loggerheads with the global dynamics, in which case, other within-country inequality regimes can prevail in particular countries (such as some countries in Latin America since 2000). However, the last 20-30 years have been characterized by greater homogeneity across countries rather than the heterogeneous national spaces that allowed for greater policy autonomy as was witnessed in the global capitalist regime post-World War II.

This framework has the space to accommodate both Kuznets' and Piketty's insights, while not falling into the somewhat deterministic traps of either of their frameworks. What a particular kind of a crisis does is that it creates a structural play in which one possibility - inequality increases or declines - may have a stronger likelihood. On the other hand, the structural play can be countered through political economies that prevail in the centers or in the peripheral countries.

III. The Case of the 20th Century Asian Political Economy

Asia had two interesting episodes of equalizing and dis-equalizing inequality in the post-World War II era. The East Asian experience of relatively equal growth corresponded to the interventionist state-oriented capitalist regime (with some unique policy features, discussed below), whereas the East Asian (in more recent times), Southeast Asian, Chinese and South Asian experience of rising inequality corresponds to the market-oriented capitalist regime that was established first in the capitalist centers and later in various countries across the world.

III.1 Equalizing Growth Episode: Post-World War II to 1980s

If we focus on the Asian political economy of the 20th century, the period after World War II until about 1980s stands out as a special experience, especially if the regions of focus are East Asia and Southeast Asia, and to a lesser extent South Asia (Stiglitz, 1996). Countries starting with Japan, then the East Asian tigers, later the Southeast Asian countries along with South Asian countries grew rapidly. What is interesting about this early growth process was that it was, on the whole equalizing. What accounts for the equalizing tendency? Using the framework proposed in this paper, this requires an analysis that brings together two levels - the global regime in which this growth took place, and then the local political economy of this growth process (Hamilton 1983).

First, the global capitalist regime of the 1940s allowed for considerable policy heterogeneity and relative policy autonomy across the world. The main focus for the capitalist centers during this period was on building institutions that would address the devastating consequences of the Great Depression (primarily effective demand crisis), post-war reconstruction, and to combat the looming threat of communism. Along with this, the fact that global finance was kept under check, the exchange rate regime was stable, the terms of trade (especially oil prices) were favorable to newly developing or war ravaged economies, and global aid flowed liberally into some parts of East Asia (such as South Korea and Taiwan) meant that the countries in this region had a unique structural space to register high growth. This global environment allowed for the setting up of overall progressive institutions at the national level. However, creating the right kind of local institutions mattered too.

At the national level, there were strong indigenous popular movements (either anti-colonial or pro-socialist) that provided an impetus for equalizing change. Against this backdrop, national governments introduced equalizing land reforms, small-scale producer and distributor protection, rural estate taxes and attempts to support rural incomes (in a country like Japan), labor-intensive growth processes that ensured employment creation and job security even as the workers were severely disciplined and not allowed to organize themselves (Hamilton 1983).

The new indigenous capitalist classes typically emerged from rural areas, and from among wealthy immigrants. Credit and investment were typically handled by the state or by non-speculating private players. Merchants were typically small-scale and received significant protection from the state. The newly independent states ensured the provision of cheap and non-conflicting workers to capital, although most of these workers witnessed economic improvements in terms of wages and job security. By focusing on education, states also enhanced the skills of a substantial part of the workforce. Largely this mode of capitalist development was controlled by the state, although a significant part of the production also came from private indigenous capital (with the exception of Singapore, where foreign capital) played a much bigger role. Markets were frequently intervened in, to produce fast-paced industrialization.

In this sense, the two major Kuznets mechanisms (huge concentrations of savings and wealth, and rising within-urban disparities at a time of intense rural-urban migration) associated with early growth were counteracted against. Given these policies, inequality levels tended to decline or not rise within most countries unlike what Kuznets predicted (or Piketty). It is clearly a conjuncture to which, on the one hand, particular global forces that were structured among other factors powerfully by the previous global crisis and on the other, local political economic configurations significantly contributed.

III.2 Dis-equalizing Growth Episode: Post-1980s

As described above, the emergence of a market-oriented global economy, where the capital-labor balance was significantly altered in favor of capital, in the capitalist center after 1970s (e.g. Thatcherism in the UK and Reaganomics in the US), along with the re-emergence of footloose financial capital brought about a new capitalist regime in the centers. In Asia, this process started in Japan in the late 1970s as it began to both exporting its capital to other parts of Asia, while engaging in significant internal restructuring through privatization processes and so forth (see Itoh 2000). The impetus in Japan for moving to a different regime was motivated by similar considerations as the Western Capitalist centers. Wages had begun to rise sharply by the early 1970s, and the increase in oil prices during the same period meant that profitability of the Japanese capitalist classes was being eroded. Even though profitability was restored by the late 1970s, Japanese capitalism had become much more volatile, and the Plaza accords of mid-1980s made it much more vulnerable to asset bubbles (e.g. see Uemera 2002; Itoh 2000). By the late 1980s, other East Asian economies (including China) too along with the Southeast Asian economies began to fall in line[ii] with this more unregulated regime of global capitalism, wherein they also saw a huge influx of foreign capital into their respective economies (e.g. see Epstein 2009). This created a series of asset bubbles across Asia during the 1990s and later. What is the local political economy that describes and explains this outcome?

In countries other than Japan, the (1950-80s) period created new dominant class coalitions as indigenous capitalist classes emerged, and formed a coalition with urban professionals in their respective countries (together, loosely referred to as urban elites here). This new class began to see its fortunes to be tied with global elites and not with their own skilled and unskilled workers, and agricultural populations. This created growth enclaves (both spatial and metaphorical) that were excluded from the large majorities that no longer shared the fruits of growth the way the previous growth episode turned out. Policymakers (who typically emerge from the same enclave) too were convinced that lesser regulation in the economy was desirable. They felt that it was important to bring in institutional changes that brought Asian economies closer to the US economy or Western European ones. The onset of the East Asian crisis during 1996-98 further strengthened the view that Asian economies were plagued by cronyism, moral hazard and other such pathologies, and that they had to restructure themselves along the dictates of the new market-oriented model that was doing the rounds across the world. During this entire period (1980s-2010), within-country inequality levels rose precipitously across Asia (see Milanovic 2007).

All in all, this capitalist regime in Asia that came into being during the 1980s and 90s, shares several of the features of the global regime that arose in the capitalist centers after the 1980s - what has been termed as a neoliberal regime. Within the activities of the capitalist class, there was an increased prevalence of financial and trading ones. Among workers, the professionals built a coalition with the urban capitalists, whereas the skilled and unskilled workers fell into precarious and part-time activities. Agricultural populations have become more vulnerable, and their properties more threatened. Markets acquired an ascendancy over the state. There have been several instances of state capture by the dominant class coalitions in terms of policymaking and its class biases. Several of these countries opened their borders to capital flows that brought vast quantities of portfolio/financial capital into these countries that made them vulnerable to extreme instability (witnessed in the East Asian crisis in the late 1990s, as well as during the global crisis of 2008).

It would be instructive to see which classes benefited from growth in these economies. I use the examples from China and India (household survey analyses)[iii] to illustrate the emergence of enclaves that have tended to monopolize relative gains from growth that explains in big part the dis-equalizing growth episode (more detailed descriptions available in Vakulabharanam 2010 and Vakulabharanam 2015). In Tables 1 and 2, it is clear that it is the urban elites that have pocketed the relative gains from growth since the 1980s. The stories from Japan, South Korea and Malaysia are remarkably similar (but not presented in this short note).

[Insert Tables 1 and 2 Around Here]

IV. Conclusion

What does the brief discussion of the Asian Political economy offer us in terms of the larger question of the relation between growth and inequality? How does the theoretical framework laid out in section II help us make sense of the Asian Political Economy?

The two growth-inequality episodes in Asia since World War II, intertwine closely with the global capitalist regimes that existed in the centers. While the capitalist regimes in the centers and the Asian economies were not identical, in crucial aspects, they were tied together. The interests of the first global regime (1950-80) after WWII were mainly to ensure adequate effective demand, combat the threat of communism and achieve reasonable growth after the ravages of World War II. These interests also coincided quite well with the emerging Asian economies in the period. While Keynesian macro-economic policies were not explicitly resorted to, there was a healthy redistribution through land reforms, protection, and ensuring fast-paced employment creation. The second global regime also coincided with the restructuring of economies across Asia. In the case of Japan around 1980, it might have been an endogenous need to restructure. However, in the case of other East Asian, Southeast Asian and South Asian economies, there was a multiplicity of factors that brought the global economy and local economies together. The most important of these is the role that the indigenous urban elites played in connecting with global elites, while causing a relative exclusion of the local populations from growth benefits. These two episodes, therefore, produced equalizing and dis-equalizing growth processes. Clearly, what this indicates is that the articulation of the global regimes and local political economic processes together determine the evolution of within-country inequality levels.

The theoretical framework laid out in Section II offers a general and open foundation on which analysis of the relation between growth and inequality can be conducted. There are no simple deterministic answers because the global and local factors cannot be reduced to each other. If they could be, there would not be any variation of inequality movements (even if there is variation of levels) across the world. In general, however, it seems as if the inequality movements are tied with the global capitalist regimes and its rhythms. However, here are a few examples for why the story is complex - several Latin American countries since 2000s have shown declining inequality levels in a dis-equalizing global regime, or the Malaysian economy before 1970 which witnessed rising inequality within a progressive global regime, and the declining Chinese, South Korean, and Indian inequality trends in the early 1980s in a global regime that was dis-equalizing. These examples show that it takes both global and local factors to build a careful account of within-country inequality movements.

It is notable that in most countries over the last three decades, inequality levels have tended to rise. This is perhaps one of the causes of the global crisis of 2008. However, the regime that faced decimation in 2008 still reigns supreme, although there are no clear institutional mechanisms through which the concerns about effective demand can be addressed in this regime without the aid of instability-inducing financial bubbles. Perhaps, the required change in institutions will come about through larger political/social movements. The Occupy movements, the Arab Spring, the recent victory of Syriza, and such other sporadic attempts to restructure the regime in particular locales have to gather strength to combat a global regime that has outlived its purpose, and thereby enable people to imagine and institute a new set of institutions that address the massive relative losses to the majority of global populations over the last three decades.

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Tables

Table 1: Simplified Class Structure in China

(Income in constant 2010 Yuan)

(Data Source: China Household Income Project, 1988 and 2007).

	1988		**2007**		**1988-2007**
	mean	ratio	mean	ratio	ratio growth
Urban Elite	6042.1	2.0	25014.6	2.4	21.4
Urban Worker	5436.6	1.8	17157.7	1.6	-7.5
Rural Elite	3025.3	1.0	8582.8	0.8	-18.3
Rural Worker	2923.2	0.9	5607.7	0.5	-44.8
Farmer	2226.3	0.7	4372.3	0.4	-43.5
All	3081.0	1.0	11559.6	1.0	0.0

Table 2: Simplified Class Structure in India

(Mean Figures in 2010 Constant Indian Rupees)

(Data Source: Indian National Sample Survey, Consumer Expenditure Surveys 1983-84 and 2009-10)

	1983-84 Mean	**Ratio to Mean**	**2009-10 Mean**	**Ratio to Mean**	**84-2010 ratio growth**
Urban Elite	1274	1.59	2500	2.16	36%
Urban Workers	1001	1.25	1487	1.28	3%
Rural Elite	742	1.05	1045	0.90	-14%
Non-Ag Workers	637	0.90	968	0.83	-8%
Rural Small Peasants	655	0.93	913	0.79	-15%
Agricultural Workers	485	0.69	719	0.62	-10%
ALL	727	1.00	1160	1.00	NA

Endnotes

[i] For this to happen, it is enough to see that the elasticity of capital income share with respect to capital-output ratio is equal to $(1-(1/\delta))$ where δ is the elasticity of substitution of capital to labor, which is the change in capital-labor ratio as the cost of capital-cost of labor ratio changes.
[ii] This happened through a series of market-oriented liberalizations (both internal and external) that could either be voluntary in order to attract foreign capital or to join WTO, or sometimes forced in the case of some countries that needed bailout loans from the IMF or World Bank, the two multilateral institutions that gave conditional loans.
[iii] The tax data-based analyses would yield even sharper stories of inequality growth since a considerable chunk of the urban elite does not report its incomes or consumption accurately in household surveys in countries like China and India. However, accurate tax records are simply not forthcoming in these countries due to poor reporting as well as data inaccessibility.