Increasing Income Inequality and Wealth Concentration in the Prosperous Societies of the West

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Since about 1980, personal income and wealth inequality in many western societies has increased. This is a reversal of the trend of diminishing socioeconomic inequality during the larger part of the twentieth century. Both trends are explained by relating them to the long-term growth of networks of interdependence. When and insofar as the development predominantly took place within national states, it led to the diminution of power differences between socioeconomic classes. In recent years, however, transnational relations of interdependence have intensified to such a degree that they bring about a weakening of interdependence within national states and increase inequality.

Since the end of the 1970s, socioeconomic inequality in the prosperous societies of the West has increased. Differences in personal income and wealth grew, as indicated by statistical data. This trend is quite clear and well known for the USA. The economic position of large parts of the population deteriorated, whereas an already privileged minority improved their position substantially. Thus, between 1977 and 1988 the average real family income of the least earning half of the American population fell by 7%, and that of the lowest decile by 15%.[1] Poverty spread; more Americans came to live below the official poverty line, their registered numbers rising from 11.4% of the population in 1978 to 13.5% in 1990.[2] On the other hand, between 1977 and 1988 the average real after-tax family income of the most prosperous 10% of the American population rose by 16%, that of the top 5% by 23%, and that of the top 1% by hardly less than 50%.[3] While the average real

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income of all American families did not change very much during these years, the differences between high and low incomes grew substantially.[4]

Comparable developments took place in other western countries. The trend of increasing inequality was relatively strong in Great Britain, where the incomes of the poor fell and those in the higher income brackets rose; thus, the average real disposable household income in the highest decile increased by 30% between 1979 and 1990.[5]

In the prosperous, capitalist part of the European continent income differences began to increase, as well, around 1980. This development can be observed, for instance, in France, the Federal Republic of Germany, the Netherlands, and Sweden.[6] To take the example of the Netherlands: between 1983 and 1991 the average real disposable income of the poorest 20% of Dutch households fell by about 10%, whereas the average income of the most prosperous 20% of the households rose by 12.5% in the same period.[7] Some figures show a relatively strong rise of very high incomes. In Germany the average taxable income of the top 0.1 of income tax payers rose from about 1.5 million DM in 1980 to about 2 million DM in 1986: a 33% rise, twice the rise of the average taxable income.[8]

Inequality in the distribution of personal wealth also increased. In the Netherlands, for example, the average registered wealth of the richest 1% of the population (married couples and unmarried adult individuals) rose from Dfl. 1.2 million in 1980 to 1.95 million in 1990, a much larger increase than expected in view of the general income and price development.[9] In the same period, the number of registered millionaires (in guilders) more than doubled: from 23,400 in 1980 to 51,500 in 1990.[10] An increase of personal wealth inequality has been observed for other Western countries as well.[11] Part of this process was a spectacular growth of very large fortunes: the twelve American billionaires on the list of *Forbes* magazine in 1982 was augmented, according to the same source, to one-hundred-and-eight by 1993.[12]

This growth of socioeconomic inequality has not been identical in all western countries. In the United States it started earlier and was more profound than on the European continent. Despite the international differences, however, one can speak of one international trend common to western societies in general.

This trend of increasing socioeconomic inequality was preceded by one of decreasing inequality.[13] The income differences in the countries of Western Europe and North America became smaller in the course of this century. In some periods this meant that the high incomes fell more than the lower ones; but, more often and for the period as a whole, it meant that the lower income groups profited most from economic growth. In the long run, poverty diminished substantially, whereas the incomes of the well-to-do did not grow to the same degree. Wealth inequality decreased as well. Thus, in Britain the estimated share in total personal wealth of the richest 1% of the population fell from 66% at the beginning of this century to 32% in 1972 (Atkinson and Harrison 1978). Moreover, wealth became distributed somewhat more equally in a wider sense through the growth of pension and life insurance funds.

Like the increase of inequality in the 1980s, the longer-term trend of decreasing

income inequality varied from country to country. In Great Britain it started in the nineteenth century (Soltow 1968; Williamson 1991); elsewhere around 1914. In the United States, the equalization trend was mainly limited to the 1930s and 1940s and remained very moderate for the period as a whole, for example, the first three quarters of this century (Miller 1966). In most Western European countries the trend was stronger and lasted longer, which meant that they overtook the U.S. on the way to a more equal income distribution.

Such differences, however, are only varieties of the same long-term development. The changes of the last ten to twenty years signify a break with this equalization trend—one might say a reversal or U-turn. The question then becomes how to explain both the long-term trend and the recent reversal.

Three Types of Income, Three Partial Trends

To answer this question, we will first examine the surface of available data. For industrial and capitalist societies of the twentieth century three components of personal income can be distinguished: a) capital income, based on private property and taking the form of profit, dividends, interest, and rent; b) labor income, for example, payments for work; and c) transfer income, based on public and private collective arrangements, taking the form of social insurances, welfare, life insurance, and pensions. There are no sharp boundaries between these three types of income; thus, the incomes of the self-employed, which are usually recorded as profits and therefore as capital income, can also be regarded, at least partially, as labor income.

If, in spite of such complications, we take the threefold distinction as our starting point, we can attribute the income equalization trend in this century to three partial trends:

1) Relative to labor income, capital income decreased in all western societies (Kaelble and Thomas 1991: 34–42). In the Netherlands, for instance, capital income (including profits of the self-employed) constituted 48% of national income in 1922, but fell to 30% in 1972, whereas labor income, excluding social benefits, remained more or less constant, at approximately one half of the national income (Huppes 1977: 62–63). In particular, the proportion of "pure" property income—dividend, interest, rent—fell; in 1939 it was still an estimated 21% of Dutch national income, in 1977 only 4%.[14]
   The shift from capital to labor income leads to a reduction of income inequality since capital income and especially pure property income is concentrated in the higher income groups and is distributed much more unevenly than is labor income. Put more simply, over time income was transferred from the class of the non-working capital owners to the class of the working non-owners—and it was partly through this process that the contrasts between these two major classes of the classical Marxist model became blurred.
2) The volume of transfer income grew strongly in western industrialized countries (Flora and Heidenheimer 1981: 37 ff.). This growth reflected the spread of the legal right to social benefits as well as the rise of the incomes based on this right. In both respects, the expansion of transfer income contributed to income leveling (Jallade 1988), if only because it prevented, with growing success, severe material deprivation due to the lack of work or property as sources of income.
3) Income equalization was not only a consequence of changes in the functional distribution of income; it was also caused by changes in the distribution of income within each of the three components, and in particular within the category of labor income. Wage inequalities dimin-

ished. Unskilled workers improved their position relative to skilled workers, manual workers relative to white-collar workers, and white-collar workers in lower positions relative to those in higher positions.[15] Increasingly progressive taxation reduced the inequality of net incomes even more than that of gross incomes.

The shift from capital to labor income, the absolute and relative growth of the volume of transfer income, the leveling of labor incomes: these three processes can be regarded as the main immediate causes of the overall decrease of income inequality in western societies in this century until well into the 1970s. The same processes also led to a decrease of wealth inequality. Because of the relative drop of capital income and the absolute and relative rise of labor income, personal wealth became less important as the basis of further wealth accumulation; on the other hand, savings on labor income became a more important source. This had an equalizing effect given the highly uneven distribution of personal wealth compared to that of labor income. The decrease of labor income differences and the growth of transfer income contributed further to this equalization. Moreover, the growth of transfer income included the expansion of pensions and, therefore, implied a decrease of wealth inequality insofar as the capital value of pension rights is regarded as part of personal wealth.

The growth of socioeconomic inequality during the last ten to twenty years can be explained in a similar, but mirror-image, way.[16] A reversal can be observed not only in the development of the overall distribution of income and wealth, but also in the three partial processes:

1) Since about 1980, capital income and "passive" property income (such as interest income in particular) grew in comparison to labor income. This is indicated by data on the wage rate relative to national income, which showed a tendency of decline during the 1980s,[17] and, more clearly, data on the functional distribution of personal incomes. In the U.S., for example, the share of capital income in total personal income rose from 21% in 1975 to 26% in 1986, whereas the share of labor income dropped correspondingly.[18] In Great Britain the share of capital income in personal income went from 15% in 1981 to 21% in 1990. The same figures can be found for the Netherlands.[19]
2) The 1980s are characterized by government efforts to cut "social expenditures," which often resulted in the actual reduction of transfer income levels for individuals and families. Thus, during this decade the real minimum welfare level was reduced in the Netherlands by approximately 8%.[20] In spite of this and other measures, the total volume of welfare and social security expenditures relative to the national income hardly diminished[21] due to high and sometimes growing unemployment as well as the demographic growth of the number of elderly. Similar developments have taken place in other countries. The effect has been an increase of income inequality.
3) Labor income inequality increased in the United States (from 1978 onwards); in Great Britain; in France, Germany, Sweden, and the Netherlands; and in Australia, Canada, and other countries.[22] Nominal wage increases (if any) for low paying jobs lagged behind those for better paid jobs, and, often, also behind the price development; sometimes this was accompanied by a reduction of the legally established minimum wage level.[23] On the other hand, jobs at the higher levels of organizational hierarchies fared relatively well. In a study of earnings in private companies in France, Germany, the Netherlands, Great Britain and the United States in the period 1980–1992, four functional levels were distinguished; in all of these countries the strongest nominal increase of salaries was found on the highest—top management—level, the smallest increase on the lowest level.[24]
   Top executives in big companies often received spectacular increases of salaries and bonuses. This has been best described for the United States (see, e.g., Reich 1991: 7), but also applies to other western countries. For example, salaries of more than one million guilders a year became less exceptional in the Netherlands in the second half of the 1980s; in 1987 twelve corporations paid their top executives an average salary that exceeded this amount, in 1990, twenty-six, and in 1992, twenty-nine.[25] The United States probably takes the lead where top management incomes, including not only salaries but also various bonuses, are concerned. In 1992 the 800 best paid U.S. managers received, on average, no less than $1.2 million in stock options as a bonus to their salaries.[26]

The increase of income differences in western societies since the 1970s can be attributed, in short, to the growth of capital income relative to labor income, the relative and sometimes absolute diminution of transfer incomes, and the increasing inequality of labor incomes. The same trends, particularly the first and third, underly the growing inequality in the distribution of personal wealth. The growth of capital income implied increasing profit opportunities, which enabled some entrepreneurs to accumulate wealth rapidly. It also implied higher returns on capital, which benefited the investors; the internal rate of accumulation of wealth increased, leading to more inequality (cf. Atkinson and Harrison 1978: 206 ff.). The effect of the relative decrease of labor income was that savings on this income again became somewhat less important as a source of wealth. The growth of inequality of labor incomes (and of transfer incomes), however, implied a growing differentiation between high and low incomes in this respect. Furthermore, the growth of capital income was related to rising prices of company shares, and, as the distribution of these assets is distributed much more unevenly than that of other components of wealth, this also caused increasing wealth inequality.[27]

Both the long-term development of decreasing socioeconomic inequality and the short-term development of increasing inequality can be analyzed—as we have seen—in terms of three partial processes. The reversal in the development of the overall distribution of personal income and wealth corresponds with a reversal in each of the partial processes. Of course, this only begins to explain the issue; the question is how these processes themselves are to be explained. The fact that they move in the same direction suggests that they are highly interconnected and shaped by common conditions.

One interpretation of the trend reversal, namely, that it can be reduced to the business cycle, must be rejected as inadequate. From this perspective, the increase of inequality is considered a consequence of the economic recession that brought high rates of unemployment, therefore weakening the position of large groups of employees on the labor market, and putting negative pressure on wages and social insurances. This explanation is not completely wrong, but it is insufficient. Historical and comparative research has demonstrated that economic recessions do not always lead to increasing inequality.[28] Moreover, the economic recovery, which in most western countries took place in the second half of the 1980s, did not lead to equalization; on the contrary, the trend towards growing inequality continued.

Nor is a political explanation of the trend reversal sufficient. It is true that government measures often contributed to more inequality. Apart from cuts in social insurance and welfare spending, such measures included tax reforms that benefited

companies, property owners and high-income groups, and decisions that curbed the power of labor unions. It is also true that those countries that took the sharpest measures in this vein—the United States under the Reagan administration and the United Kingdom under Thatcher's government—saw the strongest growth of inequality. However, inequality also increased in countries whose governments had different ideologies and goals. Moreover, insofar as the increasing inequality was the result of an intended policy, the question is why such policy became dominant in the 1980s.

The insufficiency of economic and political explanations that refer to the business cycle and government policy, respectively, lends support to the thesis that the trend of increasing inequality that started in the 1970s is not a short-term fluctuation, not a brief deviation from a long-term trend, but represents an important discontinuity, a "structural" rupture in the development of western societies. This requires an explanation that takes into account more than economic processes or political changes—an explanation based on an encompassing theory of long-term social developments. I will try to outline such a theory.

Theoretical Considerations

The point of departure for the analysis is the sociological concept of interdependence—the notion that human beings are basically dependent on each other (Elias 1970). Relations of interdependence are also power relations: as the interdependence becomes more one-sided and less reciprocal, the power balance will be more unequal. Power differences generate social inequalities, for example, differences in rewards or privileges, including material privileges such as the possession of desired goods. In societies where money has become the general means of exchange, differences in material privileges can be described in terms of income and wealth. Inequalities in the distribution of income and wealth are, then, the consequence of power differences that are rooted in relations of interdependence. The key to the explanation of changes in the distribution of income and wealth must be sought in changes in the nature of interdependency relations.[29]

The formation and increasing significance of market relations—or exchange relations, based on a division of labor and the use of money—is to be regarded as one aspect of these changing relations of interdependence. They are part of a wider evolutionary process—that of social differentiation and growth of interdependency networks. In connection with the process of differentiation, or division of labor in the wider sense, growing numbers of people over larger geographical distances became dependent on each other (Elias 1939, 1970; Goudsblom 1990). Formulated concisely, one can speak of an increasing complexity in human figurations. So the general question is: what are the consequences of this increasing complexity for social and, in particular, socioeconomic inequality?

There are good reasons to assume that, in the long run, growing complexity has generated more social inequality. In larger and more differentiated societies some people—such as priests, warriors, and administrators—specialized in accumulating

power. As market relations grew in significance and scope, some people (e.g., landowners, money owners, traders, industrialists) could accumulate material privileges and make others (peasants, debtors, consumers, workers) dependent on them (cf. Lis and Soly 1979). Increasing differences in power, property, and prestige or, in other words, the process of social stratification has been a dominant trend in human history and was intimately related to processes of demographic growth, concentration of people in more densely populated areas, differentiation and specialization, and organization in increasingly large units (Lenski 1966; Mann 1986; Goudsblom 1990; Smith 1991).

On the other hand, there are good reasons to make an opposite statement, for example, that the growing complexity of social figurations is causally connected to a decrease of power differences and social inequality. Norbert Elias (1970, 1982) has provided such reasons. Increasing differentiation and specialization leads to growing mutual, reciprocal dependence among the individuals and groups concerned. As the contributions of numerous specialists become important to the functioning of the social fabric as a whole, on which everyone is dependent, power differences tend to decrease. In larger and more complex societies even the most powerful individuals are less able to control the system as a whole, if only because they lack sufficient knowledge and information. As more decisions on more complicated matters have to be made, more power has to be delegated to lower-ranking personnel, so that the top decision makers become more dependent on them. Moreover, complex societies have different centers of power that mutually prevent the monopolization of power by any of them. This whole argument seems to be quite valid for the actual development of western societies since the nineteenth century—witness not only the decrease of income and wealth inequality, but also processes like political democratization, increasing social mobility, and the diminution of traditional status distinctions.

The potential consequences of growing complexity appear to be contradictory; it can lead to either an increase or a decrease of power differences and social inequality. What has been said so far suggests a chronological order: growing complexity initially led to increasing differences in power, property, and prestige, particularly in the transition from hunting and gathering to agriculture and the later expansion of military-agrarian societies; but after a certain point the same ongoing process resulted in decreasing differences in power and privileges (cf. Lenski 1966; Lenski and Lenski 1987). Theoretically one might advance the thesis that a) the expansion of an interdependency network (e.g., by conquest or market growth) in itself leads to growing inequality, and b) the intensification of relations of interdependence within a given network contributes to decreasing inequality. These statements are, however, too general to sufficiently explain specific trends in social inequality. Trends in different geographical areas or in different aspects of stratification do not always move in the same direction, which makes it difficult to give one explanation that accommodates them all. Another complication is that the expansion trend of a network of interdependencies is not always easily distinguished from the intensification trend of interdependencies within a network. The question remains, which

specific conditions determine whether the long-term development of growing complexity leads to either more or less inequality. Here the questions are: what conditions were crucial for the trend of decreasing socioeconomic inequality in western societies during the greater part of the twentieth century, and what conditions were essential to the subsequent growth of inequality in the last decades of this century.

The Explanation

A succinct and tentative answer will be given here. The societies in which socioeconomic inequality decreased were industrializing societies, where agrarian and handicraft modes of production gradually gave way to mechanized and formally organized ones. In this development, members of the wealthy upper classes became involved more directly in the material production, in the capacity of financiers, owners, and organizers. The interdependence between them and those who carried out the physical labor became stronger.[30] This did not immediately lead to a reduction of the material inequality; during the early phases of industrialization, differences in income and personal wealth increased, rather than decreased.[31] The abundant supply of labor pushed down wages, competitive advantage brought high profits to the industrial pioneers, and the reduction of the number of small businesses widened the gap between rich and poor. However, as industrial expansion and the growth of production continued, entrepreneurs and capital owners became more dependent on workers, wages rose, and material prosperity and security gradually increased for the lower classes. The economic-technological development of industrialization was not the only important aspect here: the closely related political-bureaucratic development of increasing state regulation also affected these changes. The importance of members of the lower classes to the upper classes increased in two ways: first, as employees in industrial firms, who had to be trained, disciplined, motivated, and fed; and second, as citizens who had to abide by a growing multitude of laws and regulations and had to be mobilizable for matters of national interest. Both developments show a paradoxical, dialectical relationship between increasing control and expanding rights: whereas employees in industrial companies became subject to stricter hierarchical supervision and more severe discipline, they were also better protected by labor laws and social legislation, and they obtained more possibilities to organize. In addition, although citizens were subjected to an ever increasing number of legal obligations (compulsory school attendance and military service, tax obligations, etc.), their political rights also increased, as in the right to vote. These rights, once they were established, formed a power base for the members of the lower classes.[32]

In time, the expansion and increasing density of the interdependency networks that followed from industrialization, organizational growth, and expansion of the market resulted in decreasing socioeconomic inequality, but the crucial factor in this development was that it took place in the context of clearly delineated, tightly organized, and highly competitive national states. In this context the interdependence of the various groups became stronger, and the one-sidedness of dependency

relationships diminished. Capital owners became more dependent on organized labor, as did politicians on average citizens, and the higher on the less educated. This generated a rise of labor incomes relative to capital incomes, an expansion of transfer incomes, and a decrease of labor income inequality. The latter resulted from both the standardizing effect of collective negotiations between organized labor and employers[33] and the expansion of education, which was related to technological and economic changes as well as to the growth of government.

The development of socioeconomic relations in the western states must be viewed in connection with the relations between these states. The fiercer the competition between the states, the more the various groups of the populations in each of the states became interdependent, and the higher the pressure towards democratization and equalization. In the last decades of the nineteenth century, international competition heightened. Each of the large European states aimed for strong national industries as well as colonies as a basis for national prosperity, power, and autonomy. In the twentieth century, the international competition, accompanied by a fierce nationalism, resulted in two world wars that had far-reaching consequences for socioeconomic relations. Due to the "total" nature of these wars and the involvement of the entire population in both the war effort and the war damage, the interdependency of various socioeconomic classes was stronger than ever during these periods. During or shortly after both world wars, measures were taken that reflected the changed power balance, such as the introduction of universal suffrage in or shortly after World War I and the plans for a comprehensive welfare system at the end of World War II. It was no coincidence that in most western countries the trend towards decreasing income and wealth inequality started during or around the first World War. This war also marked the end of "free" international movement of persons and goods: passports became compulsory, tariff walls were erected, international trade decreased relative to total production, and investments in foreign stocks became less voluminous. During and due to the Depression of the 1930s, this trend towards more closed national economies was enhanced (Kenwood and Lougheed 1983). Especially in the period around both world wars, between 1914 and 1950, ideas about the planned construction and management of the national economy took root under various ideological banners (communist, fascist, social democratic and progressive liberal) and were partially implemented. In this same period, a considerable equalization of income and wealth relations took place.[34]

The 1950s and 1960s were characterized by a partial "liberalization" of international economic exchange. However, despite the growth of world trade and the capital transactions in this period, companies largely remained bound to individual states; business success in terms of profits and sales was translated into growth in terms of investments and jobs in the countries where the companies' main offices were domiciled. In that sense it was true that what was good for General Motors was good for the United States. Corporate expansion made the management and owners of these corporations more dependent on employees. Conversely, rising salaries and growing employment decreased employees' dependence on their bosses; it became more difficult to fire employees and the consequences of dismissal were

less severe than before. As a result of this shift in power relations, prevailing notions of just income relations changed, which in turn affected government policy.

In the 1970s global economic power relations started to change in a direction unfavorable to the western societies. Symptomatic of this development was the oil crisis of 1973 that revealed western dependence on the oil-producing countries and implied a sudden rise in costs for the oil-consuming countries. In the same period the growing competitive power of Japan caused growing concern to western industrialists. Rising costs on the one hand, and stagnating sales due to intensified international competition on the other, got companies in trouble. One solution was internationalization, moving parts of the production to countries with lower labor costs.[35] Technological and "post-Fordist" organizational innovations made it possible to organize different phases and aspects of production in locations that were separated by large geographical distances.[36] In this way companies reduced their dependence on their country of origin and its government's policies and labor union demands. They simultaneously increased pressure on government and labor unions to take their desires into account—on penalty of loss of employment. This gradual change in power relations did not result in a decrease of labor incomes immediately: in the first place, unemployment did not grow to alarming proportions during the 1970s, and second, the influence of the equality norms, which had become so strong due to the power relations that prevailed in the 1960s, were also felt in this next decade.

This situation changed around 1980. Unemployment was rising to frightening proportions,[37] employees became more unilaterally dependent on employers for work and income, and labor unions lost power, prestige, and members (Visser 1990). Governments adjusted their policies to these new circumstances. They were successful in the sense that profits started to rise again. However, this did not immediately translate into rising employment. During the recession of the first half of the 1980s, growing unemployment and decreasing investments went hand in hand with growing capital incomes and rising share prices. This increased income and wealth inequality. The prosperity of private firms—and their owners—no longer paralleled the prosperity of the economy in terms of other criteria: employment, wage incomes, and room for collective arrangements. This also became clear in the second half of the 1980s, when renewed economic growth and increased employment did not prevent unemployment in general from remaining extensive, wages from stagnating, and social benefits from being cut. Corporate profits were used increasingly for investments and take-overs abroad.

The shareholders of these corporations profited from these developments, but they also became less and less distinct in terms of nationality or place of residence. As capital owners and investment funds spread their wealth internationally, corporations became more international in this respect too. Both the further breakdown of institutionalized political impediments to "free" movement of capital and the technological innovations in long-distance communication contributed to a huge intensification of international money and capital transactions.[38] National financial and capital markets increasingly became part of a global market, in which competition

crossed national boundaries and geographical limitations no longer controlled profit opportunities. In short, owners and managers of large corporations and investment funds became less bound to particular nations, which meant that they became less dependent on the workers and the government of a particular national society.

In general terms, and from a long-term perspective, we can summarize as follows. In the trend towards expansion and increased density of interdependency networks, the processes of market and state formation were interwoven, and local markets developed into one national market with identical laws, procedures, and cultural codes that facilitated trade (cf. Kapteyn 1993). Although trade relations also intensified over greater distances, and a capitalist "world economy" or "world-system" (Wallerstein 1974), characterized by an international division of labor, developed from the sixteenth century onwards, this did not impede the condensing of interdependencies within national states. On the contrary, especially in the period between approximately 1750 and 1950, these developments stimulated each other. This was the period of western industrialization and bureaucratization, when state authority became more extensive, more centralized, and, in general, also more democratic. However, in the second half of the twentieth century, and especially since the 1970s, the trend towards internationalization became dominant to the degree that it weakened the interdependencies at the national level. It is my thesis that this weakening of national interdependencies, caused by the strengthening of interdependencies in international contexts, underlies the recent increase in socioeconomic inequality in western national societies.[39]

Referring to the partial trends distinguished before, this proposition can be specified. The explanation for the shift from labor incomes to capital incomes has already been indicated: due to increased international mobility of physical and financial capital, entrepreneurs and capital owners become less dependent for their results on workers in a particular country; the power position of the average workers becomes weaker, both at the individual and the organizational level. The advantages of unionization for workers—for example, reduction of mutual competition, possibility of collective action, standardization of agreed upon conditions of employment—have no, or limited, application at the international level. Unions remain bound and oriented nationally, much more so than corporations. As more workers in different countries compete for the same or similar jobs, the negative pressure on wages in the comparatively prosperous countries grows. At the same time, entrepreneurs and capital owners—at least some of them—benefit from the expanded markets and the increased international movement of capital.[40]

The higher international mobility of enterprises and of entrepreneurs also increases national governments' one-sided dependency on them. A government that wants to further prosperity and employment must propitiate corporations, if they have access to alternative locations: different national governments have to compete for their favors. In this context the government is subject to contradictory pressures: it must ensure sound infrastructural facilities, skilled labor, and a well-functioning legal system (and go to expense to those ends), but it must also keep taxes and labor costs low (which implies a limit on expenditures). Governments of highly devel-

oped welfare states definitely feel the pressure to limit expenditure on social security; in other words, to cut back on transfer incomes.[41] This pressure rises as increasing unemployment and demographic developments add to the burden of social security. And the counterpressure that can be expected from the side of the workers will be weaker as their position weakens. The efforts to preserve social benefits will also decrease as these benefits fall more exclusively to an underclass of permanently and socially hereditary unemployed.[42]

The increase of inequality in labor incomes is partially related to a selectively increased international labor mobility. Generally speaking, this mobility is limited by material costs, political impediments, and sociocultural bonds. However, these limitations are less relevant for two groups: on the one hand the persons who are pulled because they possess special and much sought-after skills, on the other hand the people who are pushed by circumstances and who are trying to escape poverty. Both groups, located mainly at the far ends of the income hierarchy, contribute in their own way to a growing inequality. The first category contains, among others, the international entertainment, sports, arts, and media celebrities from the global mass and elite cultures. The intensification of international communication through modern mass media—an aspect of the trend towards expansion of interdependency networks—leads to cultural globalization, which includes the development of a hierarchy at the global level. As the audience of consumers becomes larger and its taste becomes more uniform, the prestige and income hierarchy becomes more skewed. The giant incomes of a few[43]—compared to the low incomes of many in the same industry—are based on the fact that they are able to create affective ties with countless people. This can be considered a relatively pure operation of "the market," but this generally does not concern achievements that can be assessed objectively. Even when the performance can be measured "objectively," as in sports, the structure of the market and the prevailing system of rewards determine the imbalance of the incomes. And once fame is achieved, it becomes a source of financial rewards, separate from the performance by which it was originally acquired. In this case the marketable skill does not exist in any specific capacity, as the additional earnings of top-class sports stars from commercials (which are often many times larger than the income derived directly from their sports) clearly illustrates.[44] Prerequisites for the spectacular increase of such private earnings are the expansion and internationalization of the entertainment markets, combined with the expansion and internationalization of the markets for other products.

On the other side of the hierarchy, the influx of unskilled or inadequately trained labor migrants from poorer parts of the world has increased the income differences in western societies in a downward direction. Immigrant workers in Western Europe, recruited in the 1960s to counter the shortages of unskilled labor in industry, were the first and biggest victims of the deindustrialization that took place in the 1970s and 1980s as a result of technological change and the transfer of industrial activities to alternative locations; many of them became unemployed and dependent on minimum benefits. By now, countless "illegal" immigrants, who have sought refuge in western countries since the 1980s, are working for less than this minimum.

They also contribute to the income inequality in these countries, and to a greater extent than is shown in the statistics.

Both developments—the expansion and homogenization of the international demand for special skills and the expansion of a cheap labor supply through international migration—can therefore partially explain the increase of labor income inequality. However, even more important in this context is, again, the increased international mobility and flexibility of corporations: these have globalized the supply of unskilled industrial labor, whereas recruitment for highly qualified labor has been largely limited to the western countries. At the same time, the supply of highly skilled labor has continued to grow in western countries because of the expansion of education. It is difficult to assess the effect of these different processes on relative wage levels. One thing that is clear, however, is that the increase of the inequality in labor incomes cannot simply be reduced to changes in educational levels in the labor supply on the one hand and changes in educational requirements in labor demand on the other.[45]

In particular, this cannot explain the increase of the incomes of corporate executives since the 1970s. From the perspective of a market model of supply and demand, this increase should be related to the higher requirements caused by the internationalization of companies: the heightened international competition, the increasing complexity of the corporate organization due to the spread of production and distribution units across various countries, and the many different international contacts. All of these factors would require better equipped and harder working top executives than before. This is insufficient to explain the rise in income, if only because the increase of educational and training opportunities and the increased social accessibility of the corporate elites to newcomers must have increased the supply of suitable managers considerably. It makes more sense to link the rise of manager incomes with their changing power position. In general, the top executives of large corporations, as managers of huge capitals, have considerable latitude to determine their incomes at their own discretion. There are basically three groups that can limit this latitude: shareholders, employees, and government. It is likely that the power and autonomy of executives vis-à-vis these groups have increased since the 1970s. The increase of managerial power relative to shareholders has been documented in numerous studies (Berle and Means 1968) and has continued into the 1980s. The trend towards internationalization and increasing flexibility of companies has probably contributed to this process. The same development has increased the power of business vis-à-vis employees as well as national governments. Unlike the 1960s and 1970s, management is no longer confronted with strong and aggressive labor unions. And they experience much less pressure from a government that attempts to pursue a comprehensive income policy than they did in those two decades. Top executives have taken advantage of these developments by awarding themselves higher incomes. In this context they have formed, one might say, a coalition of interests with middle-level managers and those holding specialized staff positions, who have also seen their incomes go up. The standards in this group about what is a good, decent, or acceptable income (salary plus pension plus ex-

pense accounts plus car and other provisions in kind plus bonuses), have gradually shifted as different occupational groups, managers of different companies and also, increasingly, managers in different countries compared their positions. The professionals who provide services based on specialized expertise to large corporations are also part of this development: accountants, management consultants, lawyers in large, and internationally oriented firms.

Normative Issues

The central proposition I have defended here is that the recently growing inequality in prosperity relations in western societies is a consequence of processes of internationalization, which have changed the power and interdependency relations at the national level. This proposition requires more thorough and meticulous testing than has been provided here. The analysis of the preceding long-term developments can also be elaborated and specified on many points. However, in addition to issues of empirical examination, elaboration, and specification, the question arises regarding how the development described here should be assessed.

From a perspective of social justice, the recent increase of material inequality in western societies can be deplored and criticized, but measuring actual developments exclusively by ideals of social justice is not sufficient. One must also try to assess these developments as to their actual, probable, or possible consequences.

One important question in this context is how the development of socioeconomic inequality in western societies is linked with the development of inequality in other parts of the world. Is it inconceivable that the expansion of international networks of interdependence through foreign investments in poor countries could increase prosperity in those countries and further equality on a global level? A case can be made for this argument, and has been made. But there are others who argue that the penetration of western capital in developing countries has increased the inequality in those countries and the inequality between those countries and the West.[46] Suffice it to say here that the available data do not point unambiguously in the direction of either a reduction or an increase of the global income inequality (Sprout and Weaver 1992).

Increasing inequality within western societies is sometimes considered desirable because it would stimulate labor and enterprise and would therefore further employment and economic growth. Some believe that it is necessary to increase the difference between labor incomes and social benefits to motivate more people into paid work. If this argument has any validity, it depends on the actual differences between labor incomes and social benefits, which strongly vary from country to country. The motivation argument is even more problematic when applied to the inequality of labor incomes, not to speak of the incomes from investments and speculation. Although increasing the flexibility of wages by linking them more stringently to supply and demand relations on the labor market could counter unemployment, this does not automatically imply increased inequality. The relatively strong growth of high incomes that has taken place over the past ten to fifteen years can hardly be

explained and justified as functionally necessary or useful.

On the other hand, the growth of income inequality may have dysfunctional consequences. It may breed hatred and apathy among the poor, anguish and resentment among the threatened middle classes, and indifference and contempt among the wealthy. It may become a disintegrating force within national societies and in work organizations. In short, apart from considerations of justice, there are several reasons to critically regard the increase of socioeconomic inequality in western societies that has taken place in the last ten to fifteen years.

Notes

1. Calculation based on Peterson 1991: 33, table 3.
2. U.S. Bureau of Statistics, *Statistical Abstract of the United States,* several years. Cf. Wilson 1987.
3. See note 1. This increase of inequality continued after 1988. Data in *Statistical Abstract of the United States 1992* (table 704) indicate that between 1980 and 1990 the share of each of the lowest four quintiles in total family income fell, whereas the share of the highest quintile rose from 41.0% to 44.3%.
4. This "polarization of America" has been discussed in various sociological writings; see, e.g., Ehrenreich 1989: 200–213.
5. *The Economist,* 12 Sept. 1992, p. 35. According to this source the average real disposable household income of the lowest decile fell by about 5% in this period. Cf. HMSO, *Social Trends 23* (London 1993); 77, tables 5.17 and 5.18, with slightly different figures. According to these data the share of the lowest quintile in total disposable household income (controlled for household size) decreased from 9.9% in 1979 to 7.9% in 1989, whereas the share of the highest quintile increased from 34.8% to 40%. Johnson and Webb (1993: 430, table 1) present a similar trend with, again, somewhat different data; the Gini index of inequality of disposable household incomes increased, according to their calculation, from 0.24 in 1979 to 0.31 in 1988 (p. 431, table 2).
6. For France *Les révenus fiscaux des menages en 1979* (Collections del'INSEE, Paris 1987), esp. p. 81 (table CC-2a), and later years. According to this source, for example, the average nominal "initial income" (taxable income plus untaxed social benefits) of the highest decile rose by 73% between 1979 and 1983, which signified a slight real increase, whereas the average money income of the lowest decile rose by 52%, implying a real decrease of about 10%. For Germany: *Statistisch Jahrbuch,* several years, with data on gross taxable incomes. In Sweden the inequality of factor incomes (gross incomes apart from social benefits) increased after 1975 and the inequality of disposable household incomes after 1980; *Inkomstfördelningsundersökningen 1984* (Stockholm 1986): 62–64, the Ultee et al. 1992: 69 (table 3.9). Growing inequality of Swedish incomes in the period 1985–1988 also appears from data on the distribution of gross taxable incomes, presented by the *Yearbook of Nordic Statistics* 1987 (table 176) and 1991 (table 174); here also data on the income distribution in Denmark, Norway and Finland, which show a (slight) increase of inequality during these years as far as the first two countries are concerned.

   The data of the Luxembourg Income Study demonstrate the same tendency of increasing inequality during the 1980s. See Fritzell (1992) and Smeeding and Coder (1993), containing figures on the U.S. 1979–1986, the U.K. 1979–1986, Sweden 1981–1987, the Federal Republic of Germany 1981–1984, Canada 1981–1987, Australia 1981-1985, and the Netherlands 1983–1987. For these countries a growth of income inequality has been found, with the exception of Canada (where different criteria indicate a different trend) and the Netherlands. However, this last finding is contradicted by other data, as is demonstrated here.

   It should be kept in mind that data on the distribution of personal incomes (a) depend on the specific definition of income and (b) are never very reliable. This applies both to figures based on taxation and to those based on surveys, as in the Luxembourg Income Study. Capital incomes in particular tend to be underestimated, leading to an underestimation of inequality. Lack of validity and reliability is less a problem, however, where the observation of trends over time is concerned. Certainty reliability is enhanced when various kinds of data point in the same direction.
7. *Sociaal-Economische Maandstatistiek.* May 1992 and February 1993. One of the variables affecting these figures is the changing composition of households. The fall of the average real income of the lowest quintile is partly due to the growth of the number of one-person households, as their proportion

relative to the total number of households in the lowest quintile increased from 77% in 1985 to 81% in 1989; CBS, *Personele inkomensverdeling 1985* ('s-Gravenhage 1989), staat 3.10 and *Personele inkomensverdeling 1989* ('s-Gravenhage 1992), staat 2.7. Cf. De Kleijn et al. 1991.

8. Calculation based on data in *Statistische Jahrbuch 1991* (table 20.11.1) and previous years.
9. Calculated on the basis of data in CBS, *Statistisch Zakboek 1987*: 321; *Sociaal-Economische Maandstatistiek,* June 1992: 49.
10. Ibid. If the distribution of personal wealth had remained stable after 1980, the number of (registered) millionaires would have increased to no more than 39,000 in 1990 on the basis of the growth of population and average income.
11. See for the U.S., Wolff 1987; for Sweden, Spant 1987; in Great Britain wealth inequality has increased in the second half of the 1980s, *Social Trends 23* (1993), 78, table 5.20.
12. Inflation can explain only a small part of this growth. *Forbes,* 13 September 1982 and July 1993. The "billionaires" in these lists are not always individual persons; some of them are extended families. Cf. Packard 1989. Cf. Also *Fortune* 7 September 1992, which presents only 64 American billionaires on its competing list. The striking differences between both lists indicate that they should be read with some scepticism.
13. Kaelble and Thomas 1991, esp. 52–53 (table 1.2); Tinbergen 1975, 11–27; Bertholet 1983; Sawyer 1976. For the Netherlands, Hartog and Veenbergen 1978; Pen and Tinbergen 1977: 43–56; Szirmai 1986: 17–25. For Germany, Berger 1986: 133. For France in the 1960s and 1970s, Centre d'Etudes des Revenus et des Coûtds (CERC), *Les revenus des ménages (1960–1984)*: 77 ff. Not all indicate an unambiguous development of decreasing inequality; there are fluctuations, and the trend appears more clearly in a diminishing share of top income recipients than in a growing share of lower income groups.
14. Wilterdink 1984: 172 ff. These figures are, again, estimates that are, in principle, open to criticism and revision.
15. See Brenner et al. 1991, with reference to trends in wage inequality in the U.S. and the U.K., and an article on the development in Sweden (Söderberg 1991). For the Netherlands, Pen and Tinbergen 1977: 44-45; for Germany, Berger 1986: 142–161. As is apparent in this last-mentioned study, there has not always been a continuous trend of equalization of wages and salaries. This can also be inferred from data on French labor incomes in INSEE, *Annuaire Statistique de la France*; the incomes of higher and middle level *cadres* relative to those of manual workers rose between 1954 and 1962, subsequently they fell (until 1982).
16. The three partial trends can explain changes in the distribution of gross individual incomes. For the explanation of changes in the distribution of disposable household incomes, other variables are also relevant, in particular changes in a) taxation and b) the size and composition of households. Tax reforms, in general, probably have reinforced the trends in personal income inequality in both directions. The growth of one-person households with relatively low incomes (young persons as well as elderly) has contributed to the recent trend of increasing inequality of household incomes. The growing significance of the incomes of married women for total household income might also have contributed to this trend. However, changes in the size and composition of households explain only a limited part of the developments in the distribution of household income. Cf. Fritzell 1992: 89–10; Jäntti 1993.
17. Commission of the European Communities, *European economy. Annual economic report 1990–1991.* (Dec. 1990), table 31.
18. *Statistical abstract of the United States 1988* (table 678) and other years. Among the capital incomes the profits of the self-employed remained relatively stable, whereas interest income grew strongly: from 9.5% of total personal income in 1975 to 15% in 1986. This growth was directly related to the high and rising real interest rate, which was partly the effect of a severe anti-inflationary monetary policy (cf. Niggle 1989).
19. *Social Trends* 23: 68; *Statistisch jaarboek* 1992: 294.
20. Data from the Ministry of Social Affairs.
21. The proportion remained approximately 28% of net national income between 1980 and 1990. Van Vliet 1990: 102 (table 11); *Sociaal en Cultureel Rapport* 1992: 123.
22. Gotschalk and Joyce 1991: Harrison et al. 1986 (for the U.S.); Johnson and Webb 1993 (for the U.K.); *Sociaal-Econnomische Maandstatistiek,* June 1993: 47, table 6.6 (for the Netherlands).
23. Thus, in the 1980s the real minimum wage level in the Netherlands fell by 13%.
24. Report by Hay Management Consultants. Lange termijn inkomensverhoudingen in een viertal landen in Europa en de Verenigde Staten. 1993 (unpublished).

25. *De Volkskrant* of 6 June 1988, 26 August 1991, and 3 July 1993; and annual reports of several companies.
26. *Forbes* 7 June 1993: 90.
27. Atkinson et al. 1989; Wilterdink 1991: 15. The increasing wealth inequality in turn contributed to the growth of income inequality.
28. Thus, the Great Depression of the 1930s was accompanied by a decrease of income and wealth inequality. In the 1980s, the unemployment rate in the United States fell to a level below that of Western European countries, while at the same time inequality increased more strongly than it did in Europe.
29. One cannot speak, however, of a simple cause-and-effect relationship. Income and wealth are in turn power resources: means to make other people dependent.
30. One indication is the increasing proportion of industrial company shares in the portfolios of large wealthholders; another the growing presence of industrialists among these owners of large fortunes (cf. Wilterdink 1984: 82–84, 89–102, 189–193, 208–209).
31. Kuznets (1955) posited a curvilinear relationship between industrialization and income inequality: the inequality increases during the first stages of industrialization, but decreases afterwards. This thesis has been largely confirmed by later research. There is less consensus about the explanation of this connection. See Brenner et al. (1991) and especially Dumke (1991).
32. Comparative research (e.g., Crenshaw 1992) has borne out a positive correlation between political democracy and income equality at a given level of industrial development.
33. Unions contributed to wage uniformity between regions and economic sectors, especially where they became involved in the national government policy. Sometimes they also realized some diminution of vertical wage differences by negotiating for absolute rather than proportional wage increases (Wooton 1962). It is an open and debatable question whether and to what extent the unions have contributed to a relative increase of labor income compared to capital income; probably they did so in specific circumstances—when they profited from a tight labor market by pushing for large wage increases, or when they prevented a dramatic fall of wages in times of an abundant labor supply.
34. This does not preclude fluctuations and variations. Thus, the German development was particularly irregular; a substantial equalization of incomes and reduction of capital income took place in the Weimar period, followed by increasing inequality in the "peaceful" years of the Nazi regime and, again, equalization in the war and during the postwar years (1940–1950). Dumke 1991: 125–135.
35. And also to countries and regions with a large consumers' market. See, e.g., Teulings (1979) with data on the Philips concern.
36. "Postfordism" is one of the names given to these innovations (Allen 1992).
37. This applies most clearly to the countries of the European Community, where unemployment rose sharply after 1979. In EFTA countries like Sweden, Switzerland, and Austria, unemployment grew more slowly. In the United States, the unemployment rate was relatively high in the 1970s (with a peak around 1975); on the other hand, the fall of the unemployment rate was relatively strong in the years 1983–1990. See for an overview *The OECD jobs study: evidence and explanations,* Part I: 33–41 (Paris 1994).
38. One important aspect of this development is the growth of foreign direct investments (FDI) both between different western countries and between these countries and other parts of the world. According to several estimates FDI flows vastly expanded since the middle of the 1970s, particularly in the years 1976–1980 and 1984–1990. See, e.g., *The OECD jobs study: evidence and explanations,* Part I (Paris 1994), 117–121; United Nations, *World Investment Report 1994* (New York/Geneva 1994), 39–40.
39. In previous writings I have suggested this thesis in rudimentary form (Wilterdink 1984: 383; 1985: 91–92; 1991). Economist Robert Reich (1991) has argued that since the 1970s, the interests of different groups of Americans have grown apart because of the development of an economic "global web" and that, therefore, socioeconomic inequality has increased. Reich's analysis, however, is mainly confined to the United States and not based on a long-term perspective. This also applies to the work by Harrison and Bluestone (1990), which emphasizes the relationship between the growth of inequality in the United States, deindustrialization, and increased international competition.
40. Especially where an enterprise has a near-monopoly on a huge market. On this basis, for instance, enormous profits have been made in the software branch. The most famous example is Bill Gates, founder, managing director, and big shareholder of Microsoft, whose wealth in 1992 has been estimated at $6.2 billion (*Forbes,* 19 October 1992: 92). The growth and internationalization of financial markets also made possible a spectacular rise of incomes based on speculation. Thus, investor George Soros, like many others, made giant profits by his successful speculation against the British pound in 1992.

41. Which does not mean that this is an "objective" economic necessity. There are several ways to reduce labor costs and several ways to combat unemployment.
42. This is, as yet, nearer to the American than to the Western European reality. It is not inconceivable, however, that in Western Europe a process will occur that already has gained some momentum in the United States—a self-sustaining process of decreasing interdependence and decreasing mutual identification between social groups in which welfare and social expenditures are associated increasingly with the "underclass" and the better-off turn to private insurances. This would mean a reversal of the development towards the welfare state as analyzed by de Swaan (1988).
43. As the American mass culture dominates today's world, Americans clearly take the lead on the list of best-paid entertainers. At the top of the 1992 list, according to *Forbes* (28 September 1992), was Bill Cosby, with an estimated yearly income of $40 million.
44. Thus, the income of the best-paid tennis player of 1990, Boris Becker, has been estimated at $7.2 million in that year, of which 6 million was based on advertising. *The 1991 sports almanac* (Boston 1991), 401.
45. As is suggested by the human capital theory and the similar model by Tinbergen (1975). These approaches cannot explain the actual distribution of earnings satisfactorily since they assume a free and mobile labor market and a fixed relationship between job content and educational requirements, thereby neglecting phenomena like professional self-protection, educational upgrading, and the displacement of less educated by higher educated groups on the labor market. Cf. Thurow 1975.
46. The first thesis has been defended by economists, who have an optimistic view of "free" international trade, the second by social scientists, who subscribe to theories of imperialism, *dependencia* or the "capitalist world system." Cf. Todaro 1981, 400–407.

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