

**“Global Values in a Changing World”**  
Synergy of State and Society in a Globalized World

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Sixth lecture: **Disconnected Societies: Rich versus Poor in the Development Debate**

Speaker: **Gary Dymski**, University of California, Riverside.

Moderator: Paul van Seters, Tilburg University.

On Monday the 21<sup>st</sup> of March 2011, Gary Dymski delivered the sixth lecture in the 2010-2011 SID-NL Lecture Series, ‘Global Values in a Changing World’. Gary Dymski is Professor of Economics at the University of California, Riverside.

**Summary**

Dymski presented an incisive and critical analysis of the current state of global inequality. He argued that the economic reforms undertaken in the neoliberal era, in particular the deregulation of finance, had produced a state of disconnect between elites able to exploit the opportunities offered by global capital mobility and a lower middle/working class who are increasingly squeezed and excluded from the market. The economic growth trajectory associated with neoliberalism is one which therefore jeopardises rather than bolsters the search for an equitable and sustainable global development strategy. To achieve such a goal, Dymski proposed a number of fundamental changes in the current economic system including: greater accountability of global elites; a shift away from orthodox to heterodox economic policies; the enactment of redistributionist measures; and efforts to increase the political and economic participation of the poor.



Dymski began his lecture by giving an overview of the general global trend with respect to inequality. He noted that while GDP per capita is rising overall, wages are falling as a percentage share of total income. In other words, profits rather than wages are driving much of the growth. Who is responsible for this global rise in non-wage income? Dymski turned here to look at changes over time in the economic activity of the elite strata. He pointed to a striking “V shaped” pattern which can be seen across many OECD countries in which the share of total national income accruing to the top 10% earners declines in the post-war period, reaching a low in the mid-1970s, and then steadily rises again from the early 1980s onwards. In the countries of the Global South we also see a somewhat similar phenomenon

with India and China both showing an increase in the income share of the wealthy in the last few decades. The global picture thus seems to be that after a period of decreasing inequality in the post-war period, inequality has again been on the rise in the neoliberal era.

How are we to understand these developments? Dymski argued that neoliberal reforms, especially financial reforms, have undercut the basis for equitable growth. In the Global North, we have witnessed the collapse of the Bretton Woods system of fixed exchange rates, capital controls and Keynesian fiscal policy grounded in the social welfare state. With the implementation of neoliberal reforms in the 1980s, processes of liberalisation, privatisation and deregulation have eroded social safety nets at the same time as they have produced increased job insecurity with the flexibilisation of work and the outsourcing of production by TNCs to low-wage economies. This has adversely affected the position of the middle and especially the working class as they have suffered from the effects of deindustrialisation and the retreat of Keynesian macro-economic policy. The rich by contrast have been able to take advantage of these transformations.



Dymski saw the emergence of global finance as particularly implicated in this story. As the financial sector has become increasingly delinked from the real economy, the wealthy have been able to derive their income from profits made in the financial sector rather than through wage labour or Keynesian stimulus policies upon which the middle and working class are more dependent. Furthermore, financial instruments have been used to exploit the poor and disadvantaged through for example the

emergence of the sub-prime lending market where high risk mortgages are issued to largely poorer families in ethnically excluded areas looking to get on the housing ladder. The repercussions of this type of financial activity are by now well known in the wake of the economic crisis it has wrought.

The Global South has also experienced the effects of neoliberal policies. Countries of the Global South have, generally speaking, shifted from a state-led, import substitution model of development towards the neoclassical economic model. While this has produced economic growth and led to the creation of a (fragile) middle class, Dymski argued that this type of growth was unlikely to be sustainable given that it is primarily based on low wage manufacturing which only stimulates low-wage job growth. Dymski argued that in the neoliberal era, virtuous circles of economic growth based on Verdoorn's law in which higher growth leads to higher productivity which produces higher wages, are no longer possible. The wealthy elite in the Global South have prospered but Dymski saw the prospects for the middle class and poor as much bleaker.

This is especially so given the types of anti-poverty strategies which are now being pursued. Dymski believed that policies of wealth redistribution are now seen as politically unviable by many governments who subscribe to a Pareto-optimal allocation of resources. Instead of

redistribution, poverty is to be tackled by treating the poor as entrepreneurs, not employees, whereby they become new targets of financialised growth. The growth in micro-finance projects is a prominent example of this type of strategy. Dymski was sceptical of these sort of initiatives and argued for a much stronger emphasis to be placed on income redistribution.

In the aftermath of the global financial crisis, Dymski summed up the outlook of the different groups as follows. The rich have learned that they are in fact beyond regulation since they are “too big to fail”. In a world of footloose finance, the rich are able to escape scrutiny and economic belt-tightening . This is not the case for the middle classes who are becoming increasingly desperate in the face of the foreclosure crisis and rising job insecurity. The poor meanwhile are in dire straits, risking social disappearance as welfare state policies are deemed too expensive and increasingly abandoned.

Dymski concluded his lecture by reflecting on the prospects for equitable global growth. He identified four “problems of disconnection” which threaten to undermine the social contract upon which such a strategy is predicated. Firstly, Dymski saw the role of elites in the development process as deeply troubling given that they derive their wealth in large part from foreign capital markets and not from the creation of a domestic mass consumption society. Development is hereby no longer seen as a national project. Secondly, both the North and the South face the problem of expanding home ownership. In the South, rapid urbanisation and growing populations put an inordinate amount of pressure on housing provision. Unmet demand for housing leads to the emergence of squatter settlements, whose informal nature often deprives people of their full citizenship rights. In the North, the collapse of the housing market has placed whole groups of people in a new condition of insecurity, unable to afford to maintain their current lifestyle. Thirdly, access to credit is highly unequal with the credit needs of the poor in many developing countries either completely ignored or exploited through the issuing of predatory loans. Lastly, in the realm of global macro-economic policies, unregulated financial movements mean that that the global economy remains inherently unstable and crisis prone.



In order for these problems of disconnection to be overcome and to renew the possibility of equitable global growth, Dymski advanced the following solutions. The rich have to be made more accountable and become more integrated in national development processes so that development is truly seen as a collective endeavour. The middle class needs to ally with the poor to push for a fair taxation system and to confront the vested interests of the elite. Finally, the poor require mechanisms to ensure their full economic and political inclusion so as to partake as equal citizens in the development process.

The lecture was followed by a discussion in which audience members were invited to provide comments and ask questions. A recurring theme here was the belief that Dymski

had been too pessimistic in his portrait of global inequality. According to World Bank statistics for instance, global inequality has been decreasing, helped in large part by the economic successes of India and China in lifting thousands of people out of poverty. Dymski acknowledged this fact but remained unswerving in his pessimism. He could not see where the leadership for a global development strategy could come from. The uncontrolled global elite who had been wounded but ultimately emerged victorious from the global financial crisis is a major problem which has yet to be addressed.



Another recurring theme during the discussion was the role that non-economic factors play in explaining trends in global inequality. What about the impact of technology or culture on patterns of stratification? Dymski recognised the importance of both of these factors. He noted for instance that in Brazil there was more of a culture of care and concern compared to the US, while in India there is a drive to increase the financial inclusion of the poor. Technological acquisition meanwhile is crucial

for the upgrading of the skill set of the population which, in the move from manufacturing to service economies, is increasingly valued. It is those with low levels of skills and education who are losing out.

The final words were given to the moderator, Paul van Seters, to provide a closing statement. Van Seters saw two opposing forces at work when it comes to global economic growth and inequality. On the one hand, we have globalisation from above in the form of a global economy which does at times resemble a form of casino capitalism. On the other hand, we also have globalisation from below in the shape of social movements. Here we may find a source of cautious optimism as reform minded activists strive to make the global economic system more equitable.

