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Society for International Development

SID Lecture Series 2010-2011: 'Global Values in a Changing World – Synergy of State and Society in a Globalized World'

Gary Dymski

**“Disconnected Societies: Rich versus poor in the development debate”**

21 March 2011

# **Disconnected societies: Rich versus poor in the development debate**

Gary Dymski

Professor of Economics

University of California, Riverside

Society for International Development –  
Netherlands

21 March, 2011



**Hendrick Avercamp, 1608, Rijksmuseum**



# Talk Map

- 1. Introduction**
2. Income and wealth inequality: global trends
3. Decoding the data 1: economic growth in the post-war era
4. Decoding the data 2: economic growth in the neo-liberal era
5. Adaptive strategies in the neo-liberal era
6. Financial transformation in the neo-liberal era
7. Implications of Global Crisis and Great Recession
8. Prospects for equitable global growth





***Sacramento Bee***, March 20, 2011: “Sacramento's future might be found in Seattle's tent cities”

“SEATTLE – This winter, 68 homeless men and women settled into an organized camp in a leafy hillside neighborhood of this city. The flaps of their colorful tents were mere feet from five-bedroom homes worth more than \$700,000...

“It took years to get here, but [3] tent cities for the homeless are now [housing]300 men and women ... The camps, which rely on food donated by churches, relocate every three months or so. And with each rotation, the protests to their existence fade.

“Could this be Sacramento's future? ...”





Shawn Bingham, 29, works a security shift at Tent City 4. The tent cities run on a system of self-governance and follow strict rules that ban drugs and alcohol. The camps are managed by nonprofit groups, and safety is a priority. "If the tent city community didn't exist, who knows, I may have killed myself by now," says Bingham, an eight-month resident.

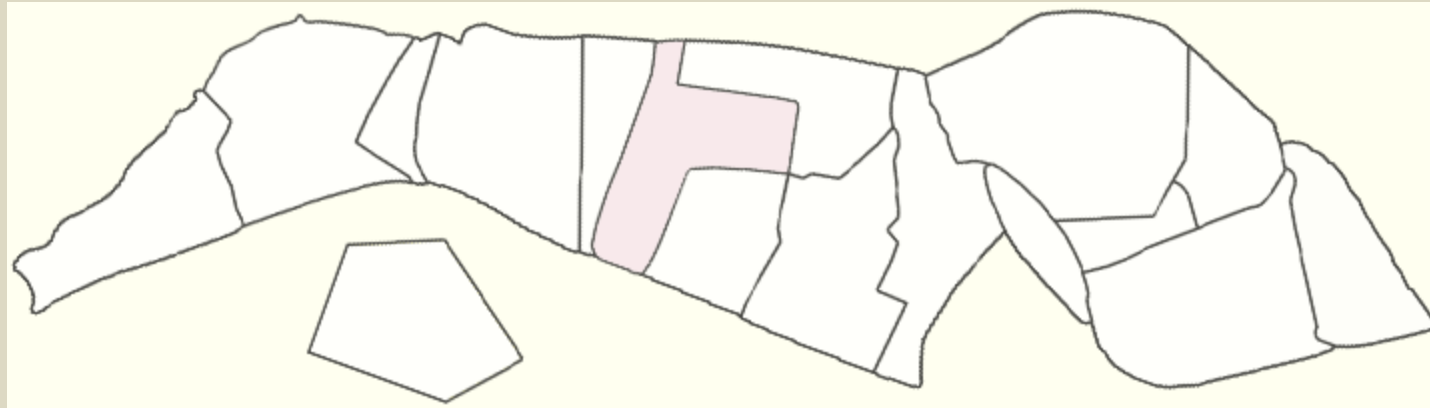
Complexo de Maré,  
16 communities,  
130,000 residents



# Novo Holanda, one of the communities in Complexo de Maré



# Nova Holanda

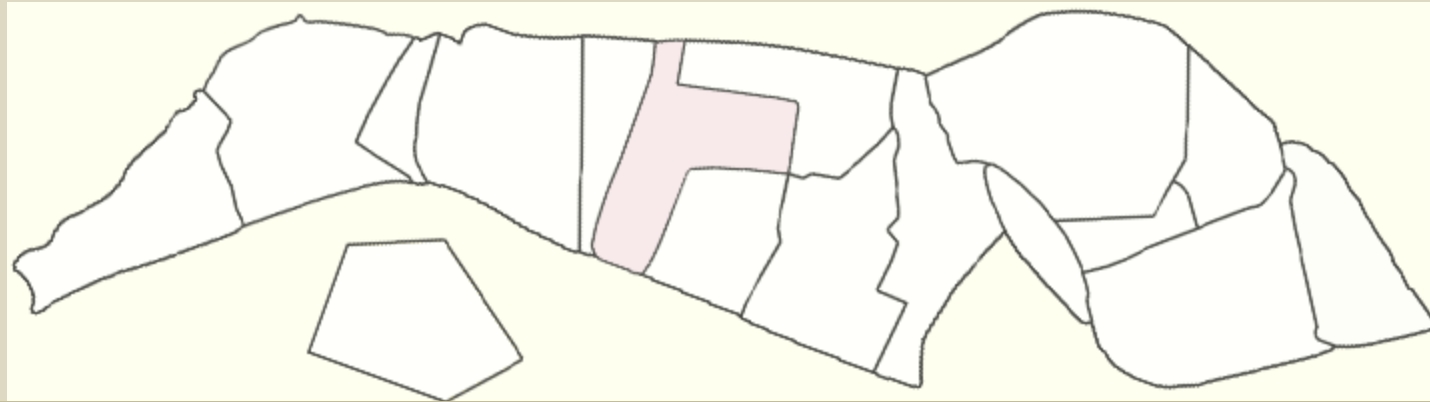


Construída pelo poder público na década de 1960, a Nova Holanda foi concebida como um Centro de Habitação Provisório (CHP) destinado aos moradores de morros do Rio que foram demolidos para a ampliação da cidade.

As casas provisórias de madeira acabaram por se tornar definitivas, e na década de 1970 solidificam-se grupos de apoio à comunidade, como o grupo de mulheres e o grupo de jovens da Igreja Católica. Em 1979 é realizada a primeira Assembleia para a criação da Associação de Moradores da Nova Holanda.

<http://redesdamare.org.br/mare/>

# Nova Holanda

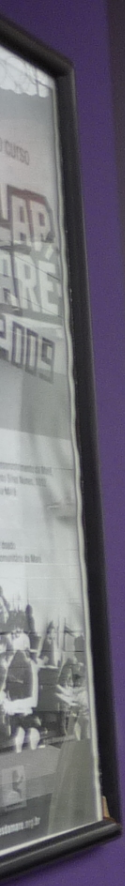


Constructed by public authorities in the 1960s, New Holland was conceived as a Temporary Relocation Center for residents of Rio favelas [morros = rocks] that were being demolished to amplify the city.

The provisional houses of wood became permanent, and in the 1970s community-based groups arose, led by women and by Catholic youth groups. In 1979 an Assembly of the Residents of Nova Holanda was created.

<http://redesdamare.org.br/mare/>





**REPARATÓRIOS**  
**MARÉ**

Atendimento em: Rua Manoel de Barros, 100 - Maré - RJ  
Tel: (21) 2500-1111



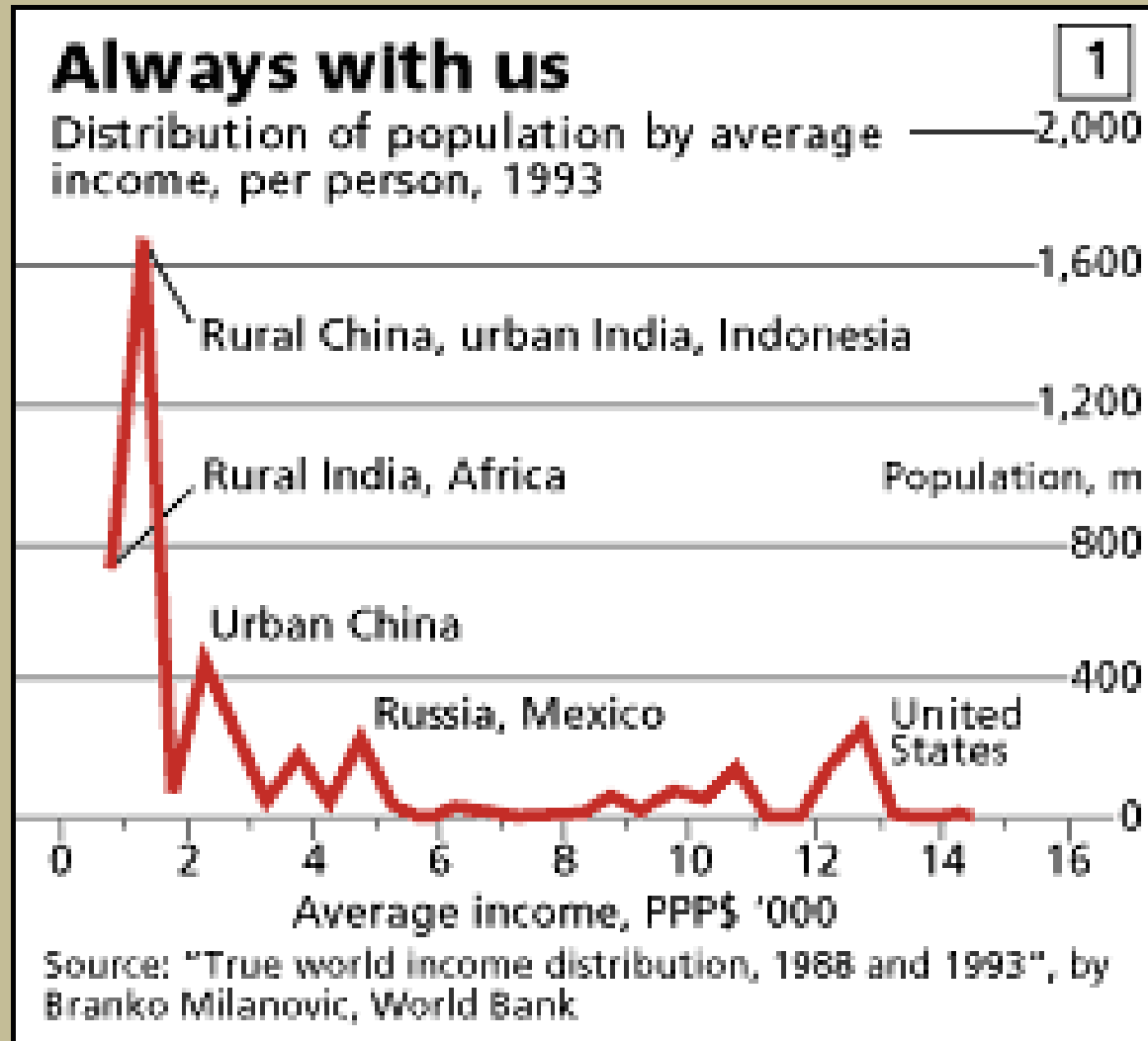
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# Global income base-line: super-unequal

[<http://ucatlas.ucsc.edu/income.php>]

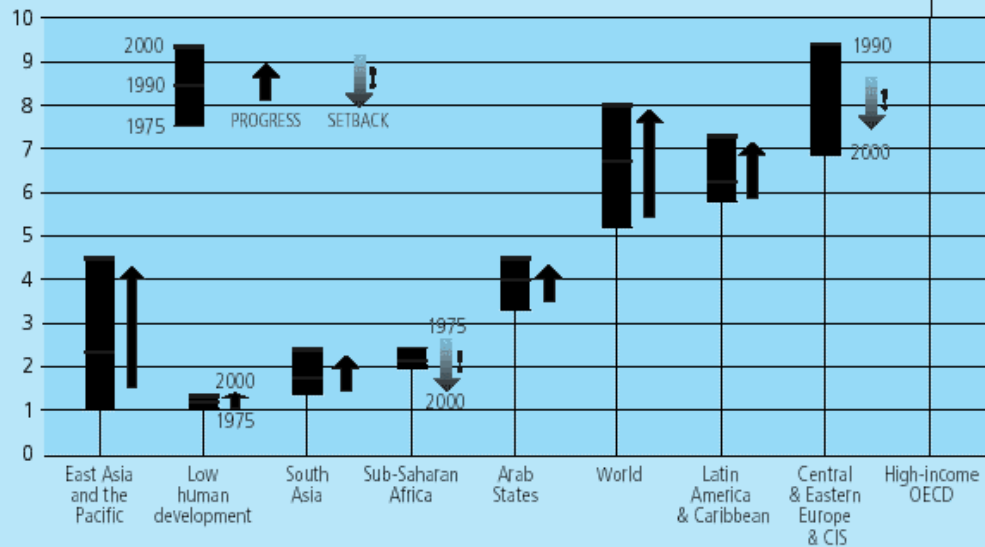


# UNDP World Development Report 2002 – GDP/person by global region



## Global disparities in income: are regions closing the gap?

GDP per capita (2000 purchasing power parity U.S. dollars, thousands)



Source: Human Development Report Office calculations based on World Bank 2002e.

***World of Work Report 2008: Global income inequality gap is vast and growing.*** International Labor Office

In 51 out of 73 countries for which data are available, the share of wages in total income declined over the past two decades. The largest decline in the share of wages in GDP took place in Latin America and the Caribbean (-13%), followed by Asia and the Pacific (-10%) and the Advanced Economies (-9%).

**So income / person is rising, but wages are falling as a share of income. Why? Growing non-wage income – profits and income.**

## Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze

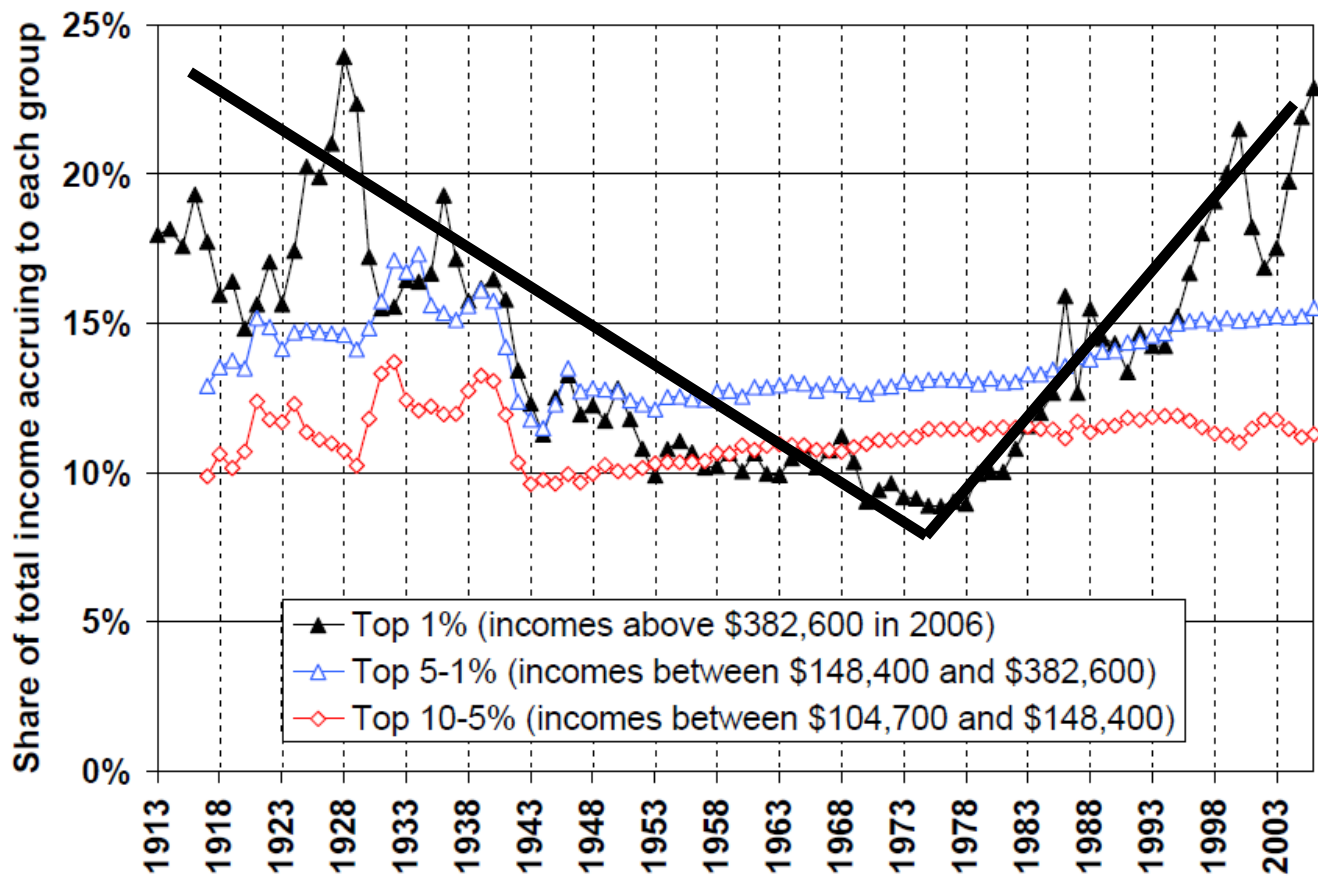
by

Edward N. Wolff

**Table 3. The Count of Millionaires and Multimillionaires, 1983–2004**

Year	Total Number of Households (1,000s)	The Number of Households (in 1,000s) with Net Worth Equal to or Exceeding (in 1995\$):		
		1 Million	5 Million	10 Million
1983	83,893	2,411	247.0	66.5
1989	93,009	3,024	296.6	64.9
1992	95,462	3,104	277.4	41.6
1995	99,101	3,015	474.1	190.4
1998	102,547	4,783	755.5	239.4
2001	106,494	5,892	1,067.8	338.4
2004	112,107	6,466	1,120.0	344.8
<b>% Change</b>	<b>33.6</b>	<b>168.2</b>	<b>353.4</b>	<b>418.6</b>

Source: Own computations from the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 SCF.



**FIGURE 2**

## Decomposing the Top Decile US Income Share into 3 Groups, 1913-2006

Source: Piketty and Saez (2003), series updated to 2006.

Income is defined as market income including capital gains.

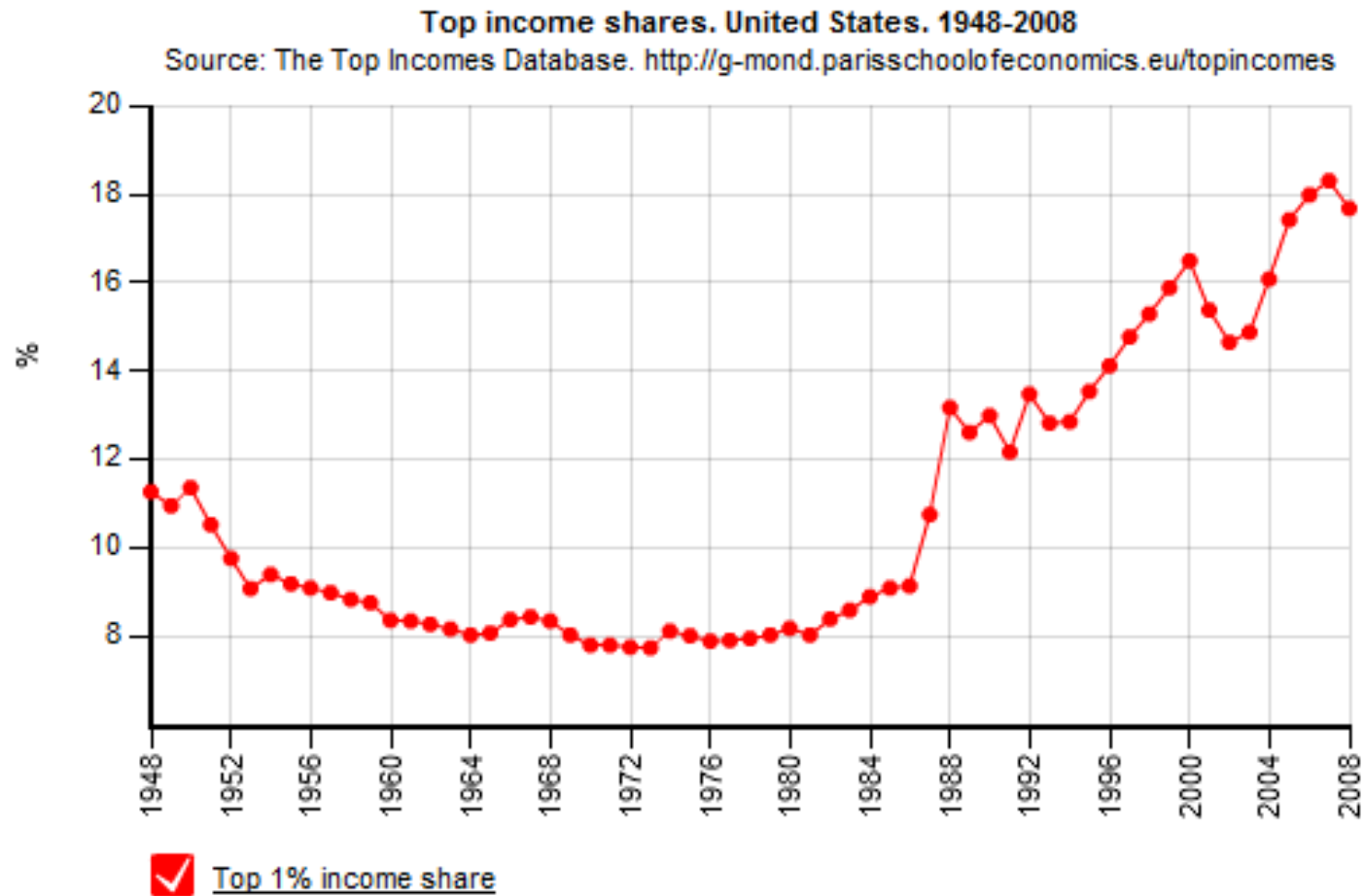
Top 1% denotes the top percentile (families with annual income above \$382,600 in 2006)

Top 5-1% denotes the next 4% (families with annual income between \$148,400 and \$382,600 in 2006)

Top 10-5% denotes the next 5% (bottom half of the top decile, families with annual income between \$104,700 and \$148,400 in 2006).

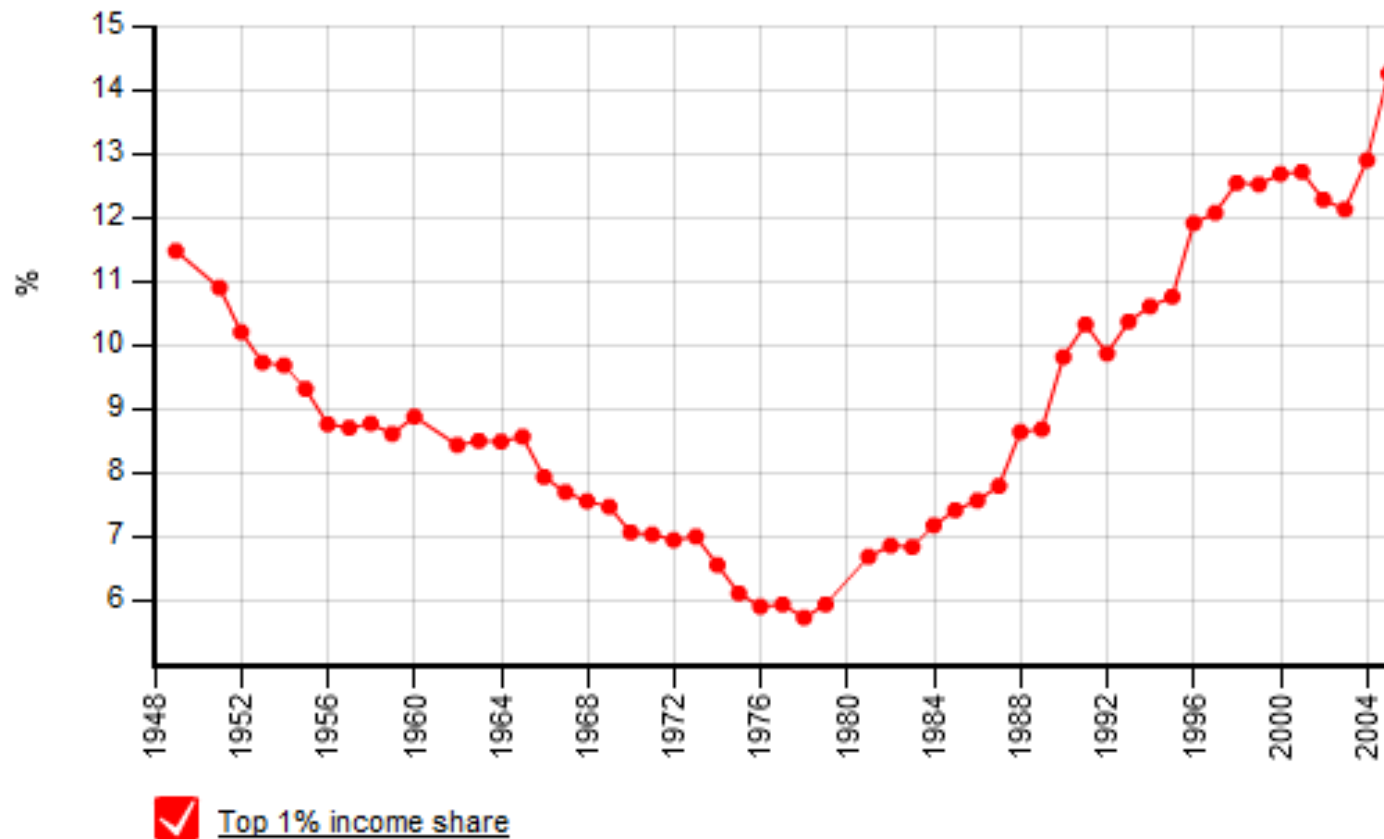
# The Top Incomes Database

<http://g-mond.parisschoolofeconomics.eu/topincomes/>



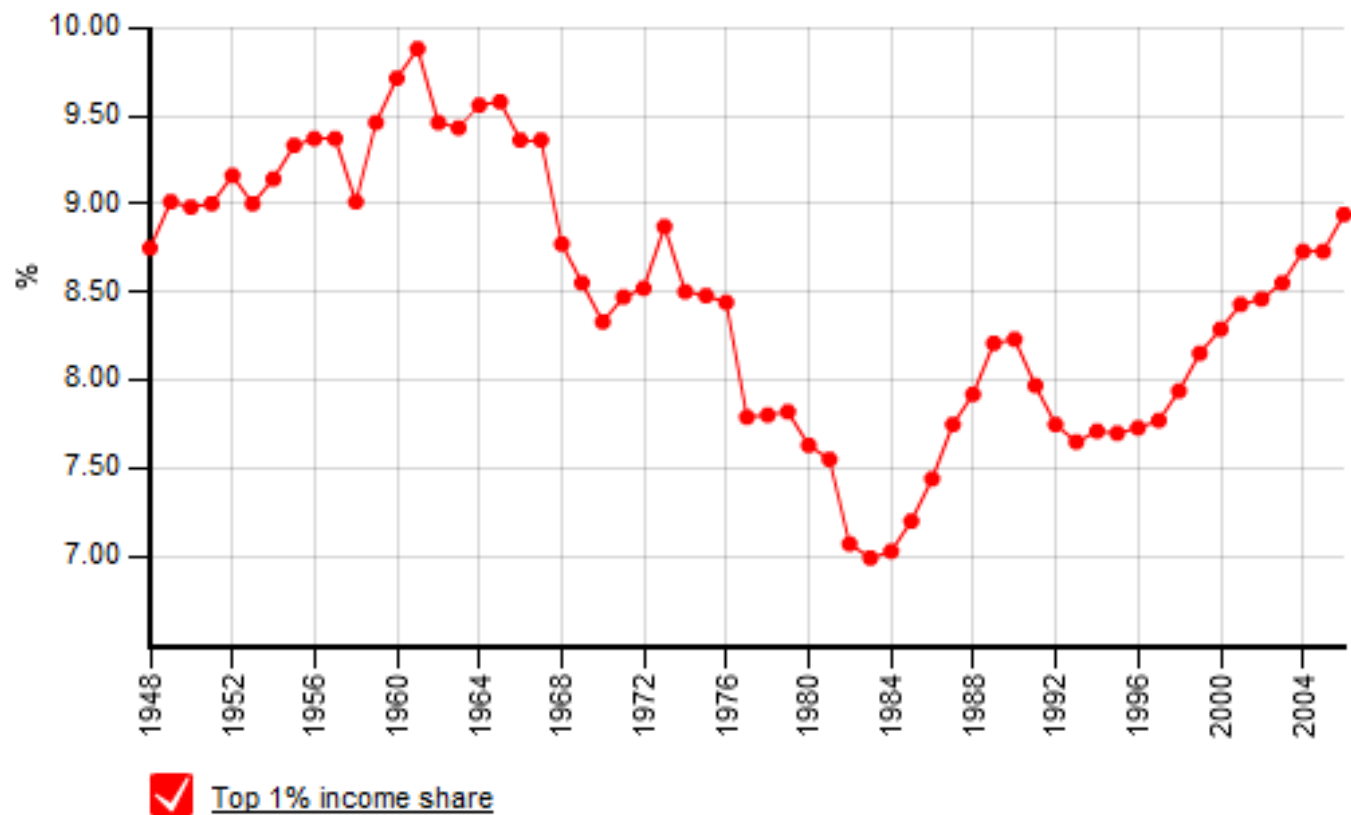
### Top income shares. United Kingdom. 1948-2005

Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>



### Top income shares. France. 1948-2006

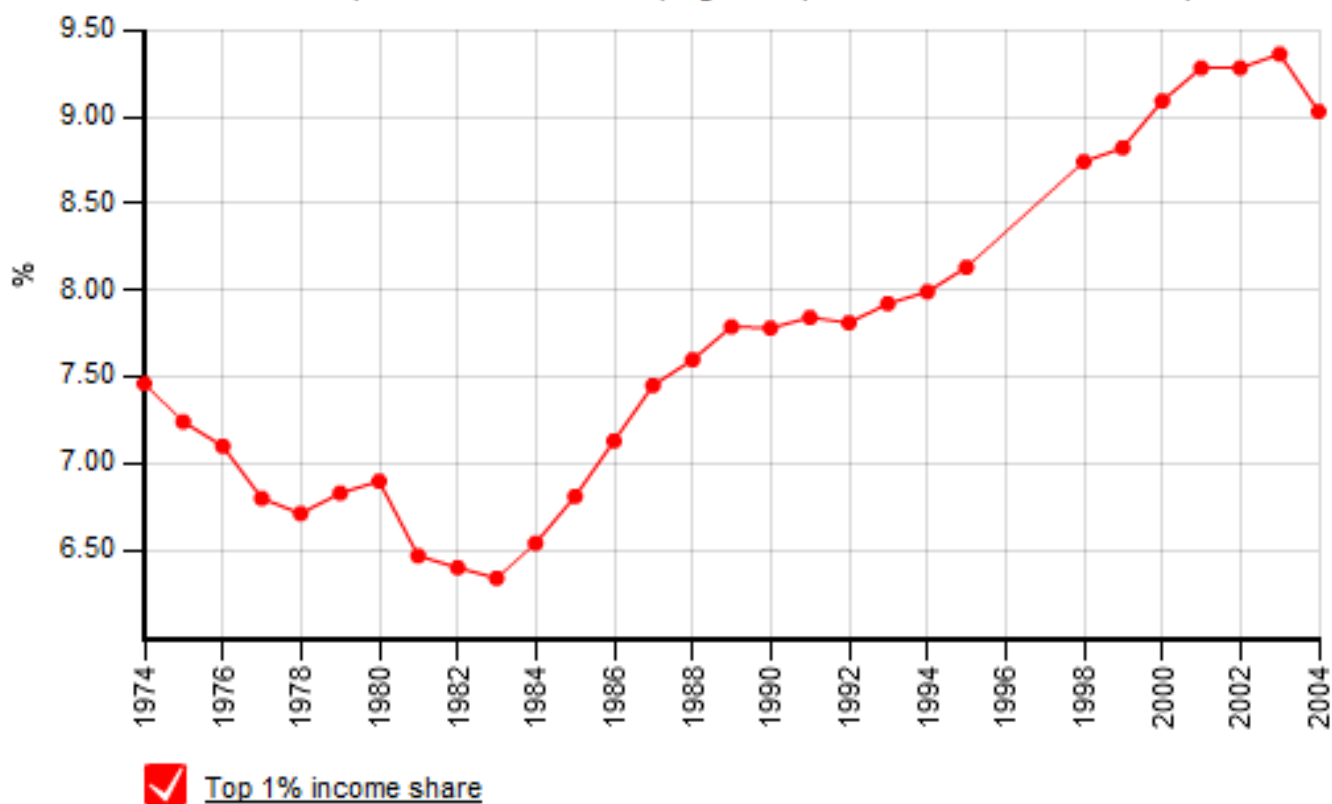
Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>





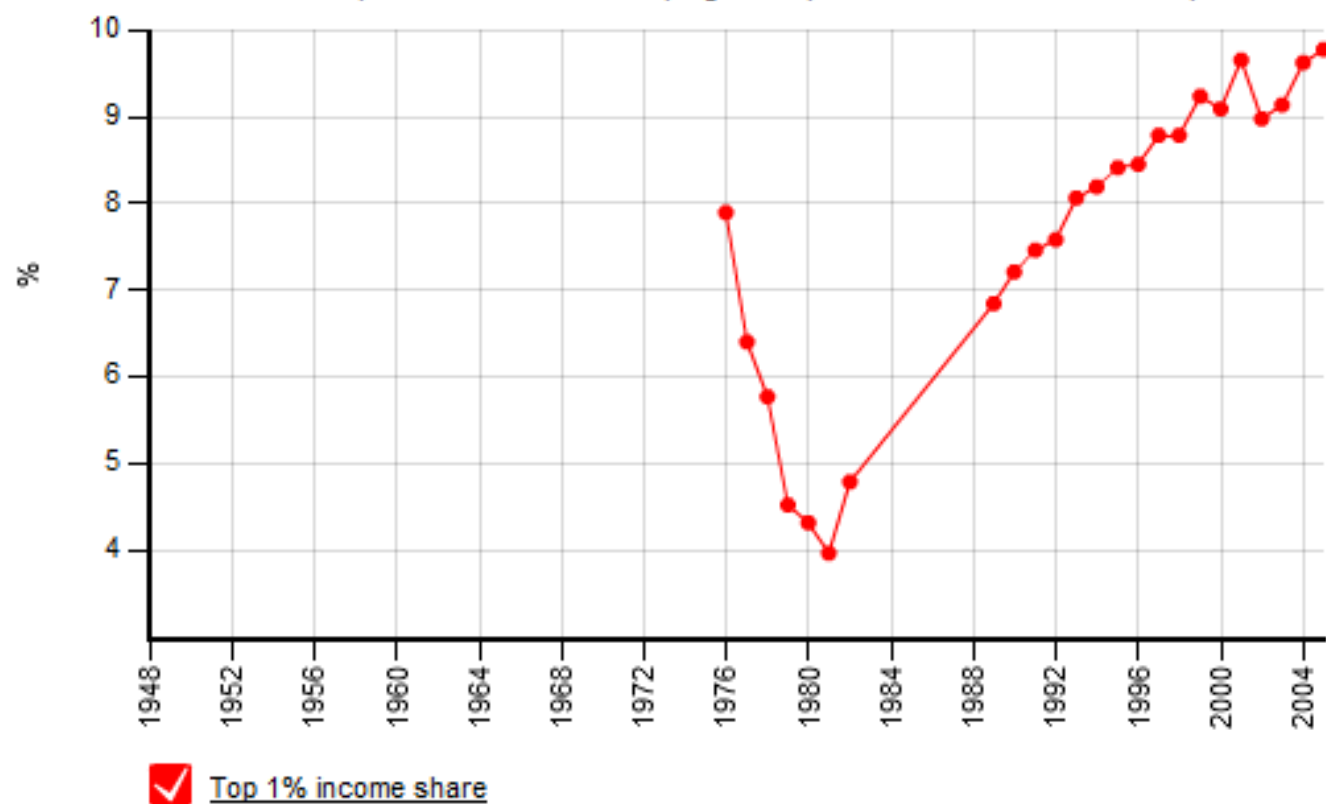
### Top income shares. Italy. 1974-2004

Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>



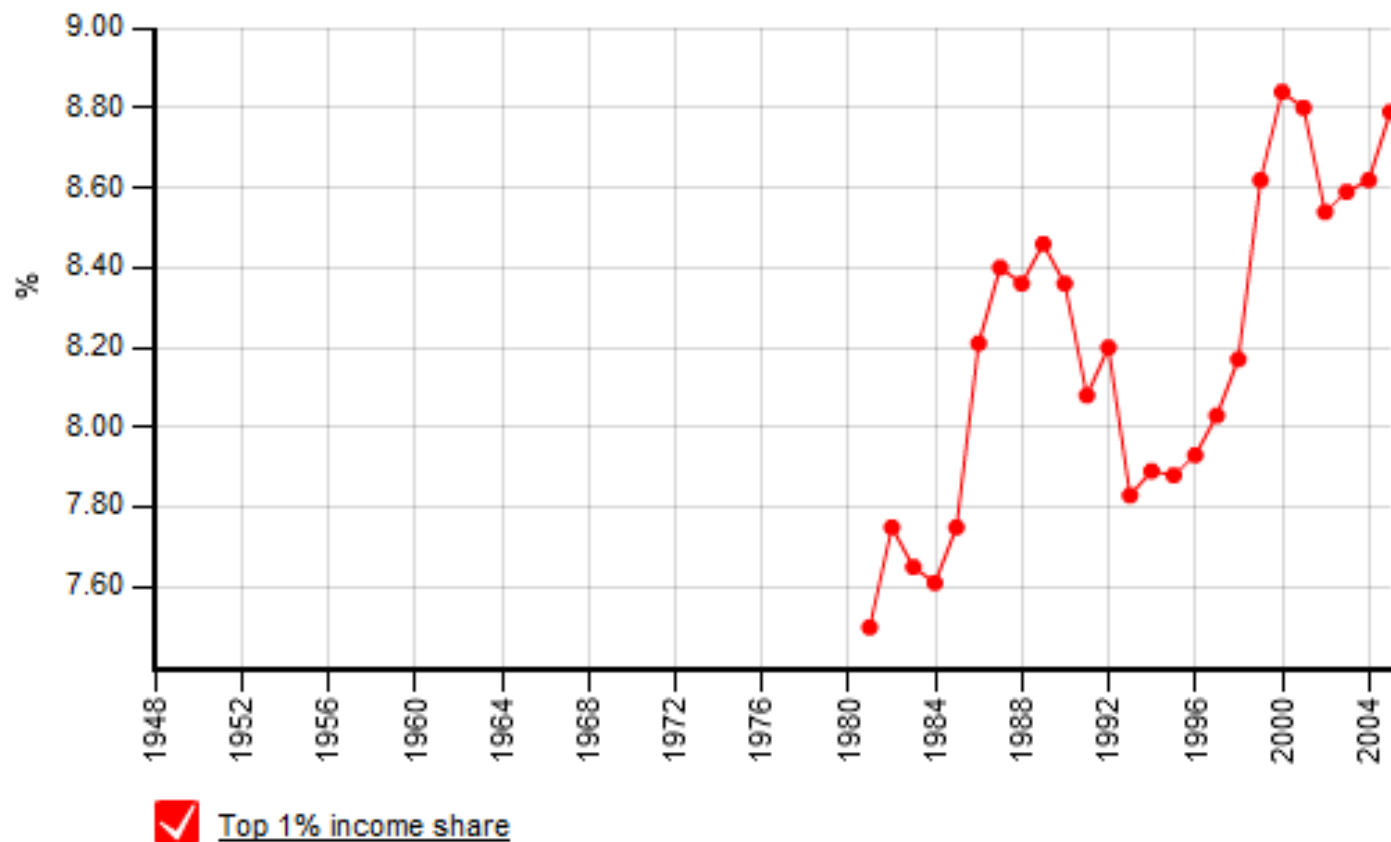
### Top income shares. Portugal. 1948-2005

Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>



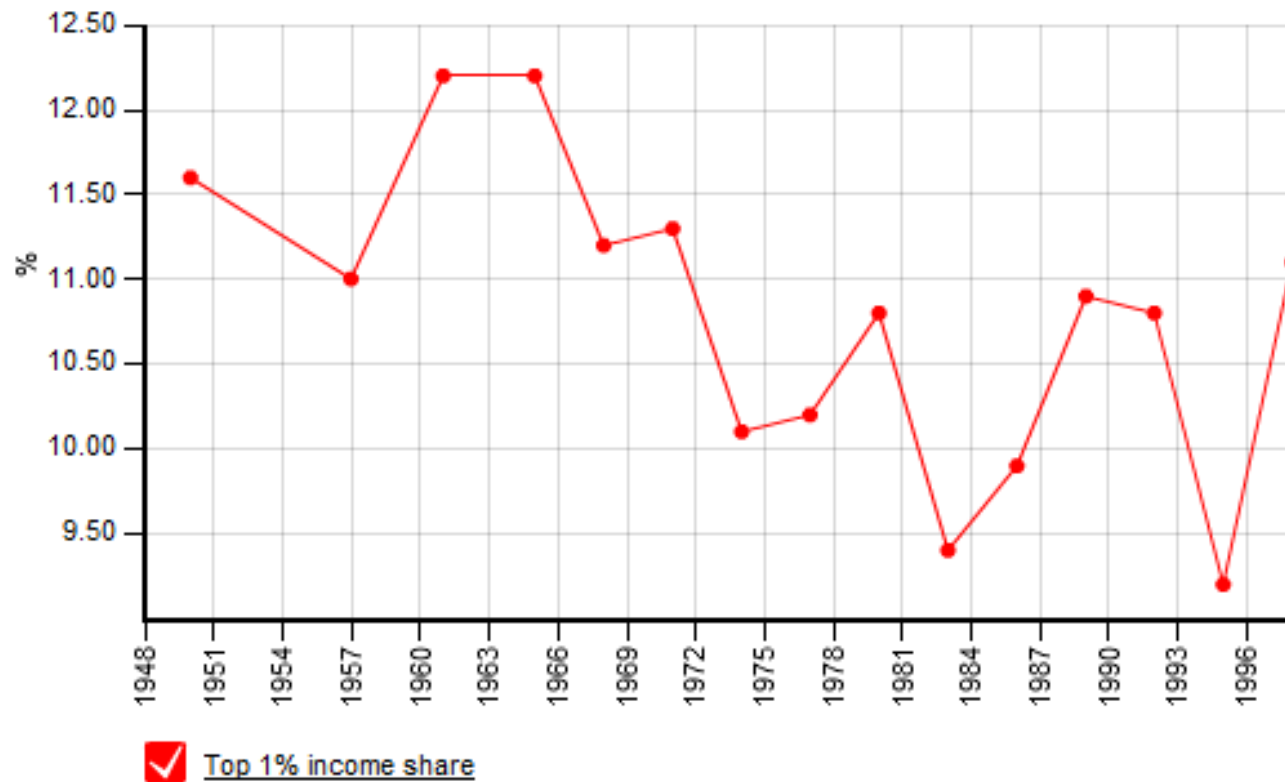
### Top income shares. Spain. 1948-2005

Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>



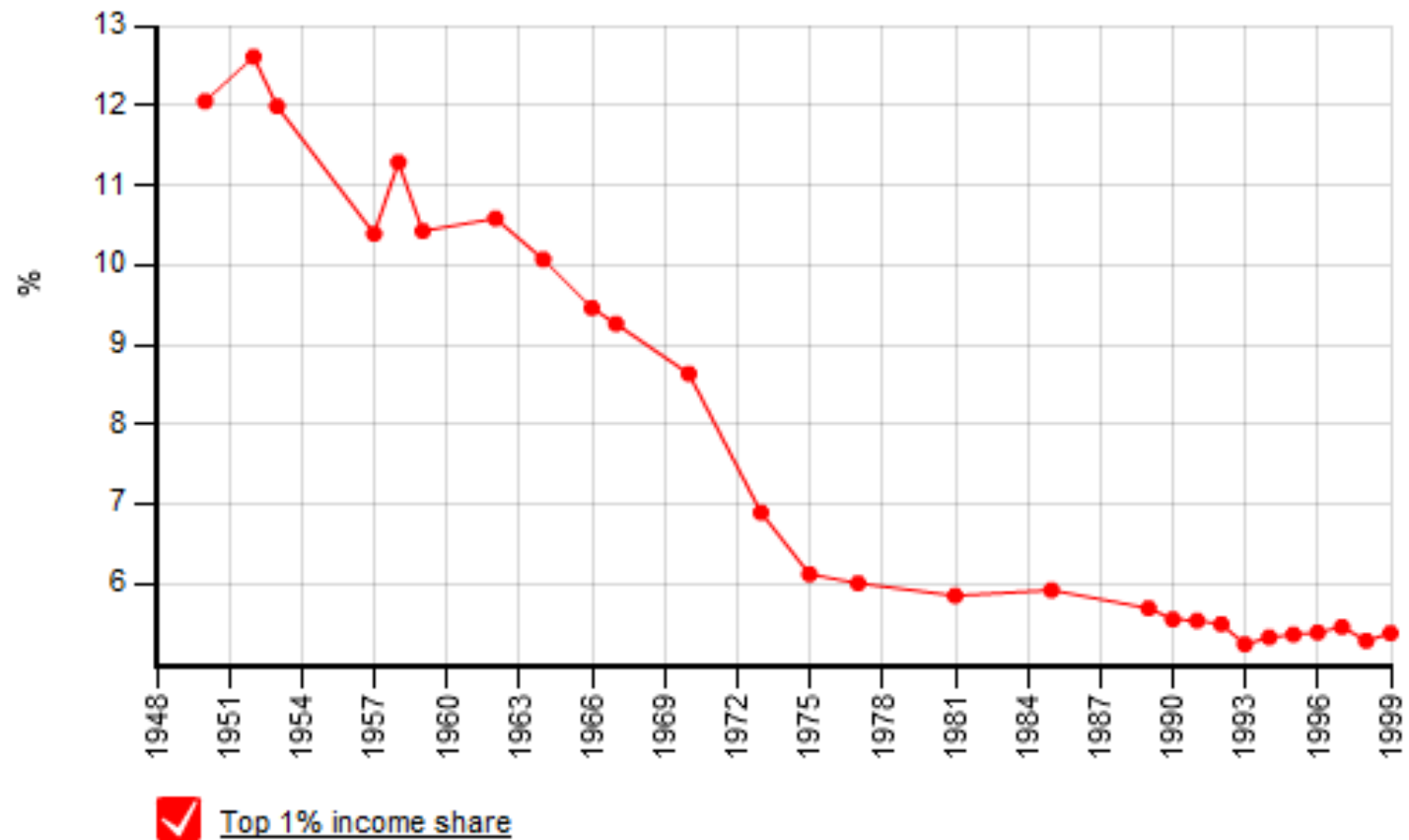
### Top income shares. Germany. 1948-1998

Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>



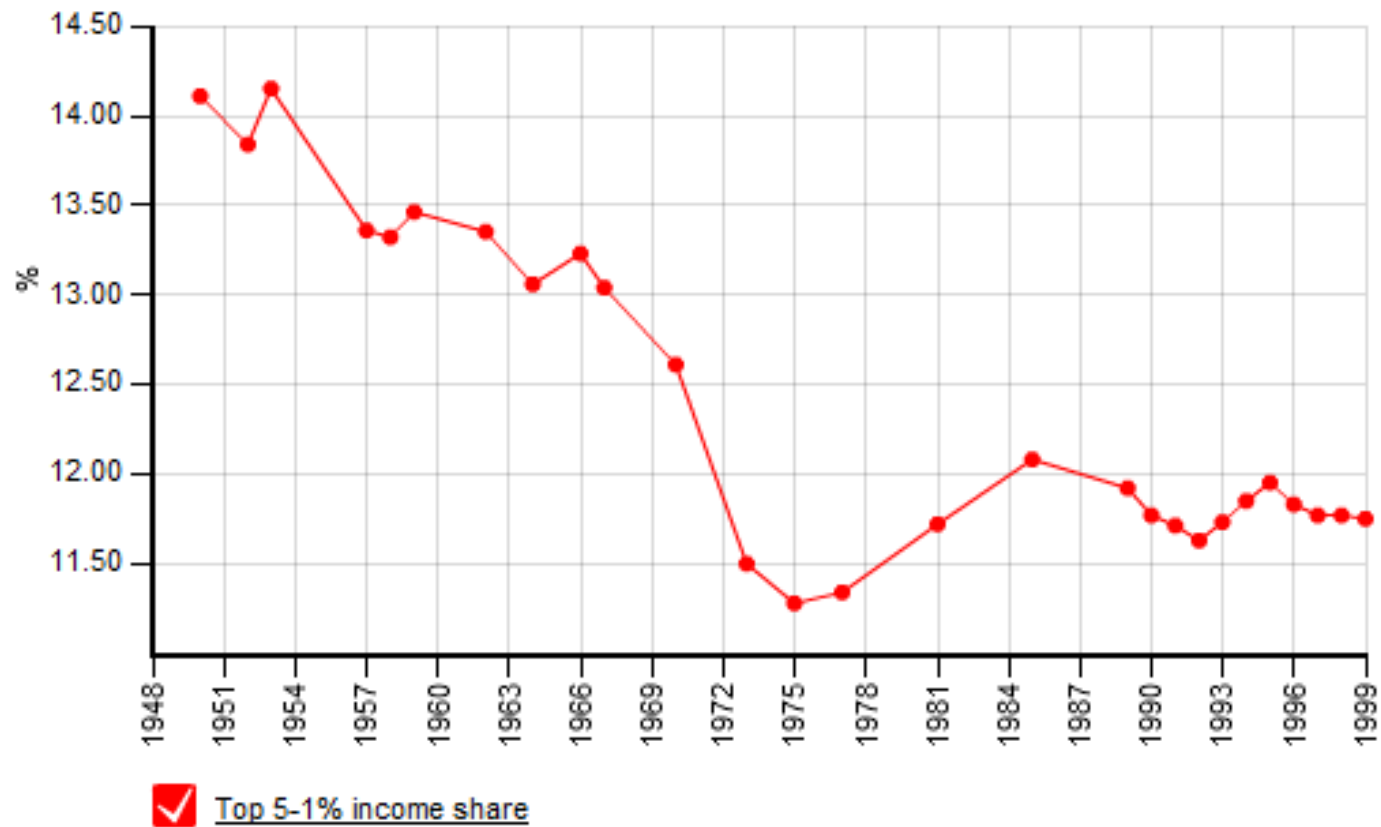
### Top income shares. Netherlands. 1948-1999

Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>



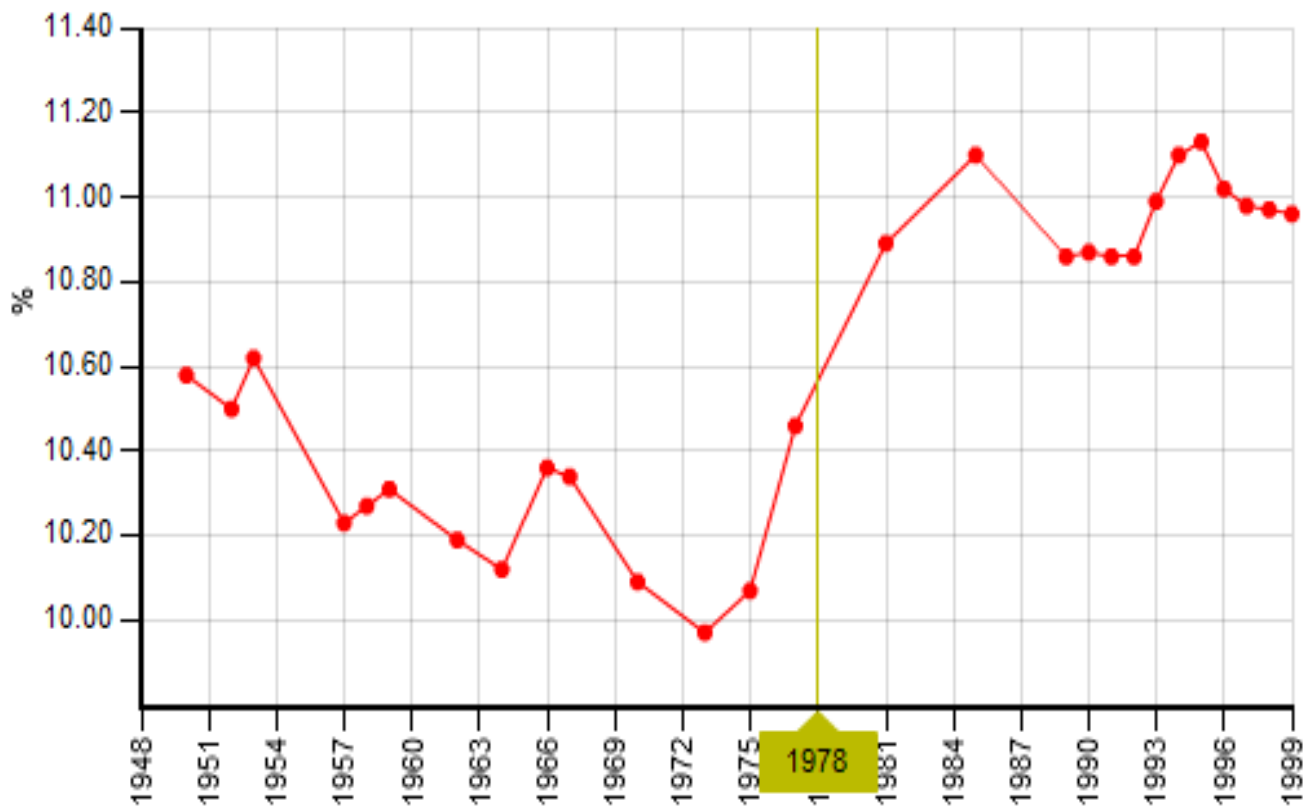
### Top income shares. Netherlands. 1948-1999

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### Top income shares. Netherlands. 1948-1999

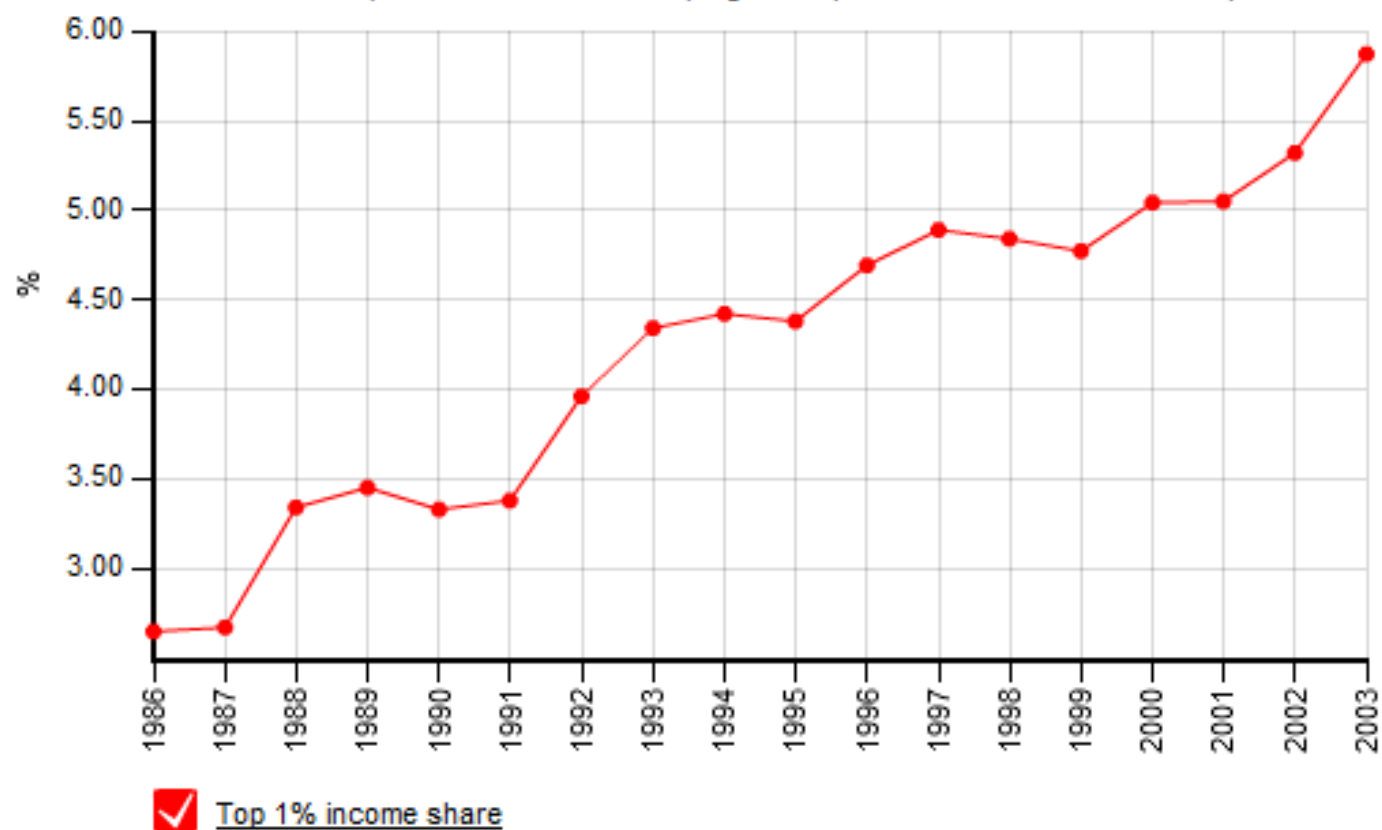
Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>



Top 10-5% income share

### Top income shares. China. 1986-2003

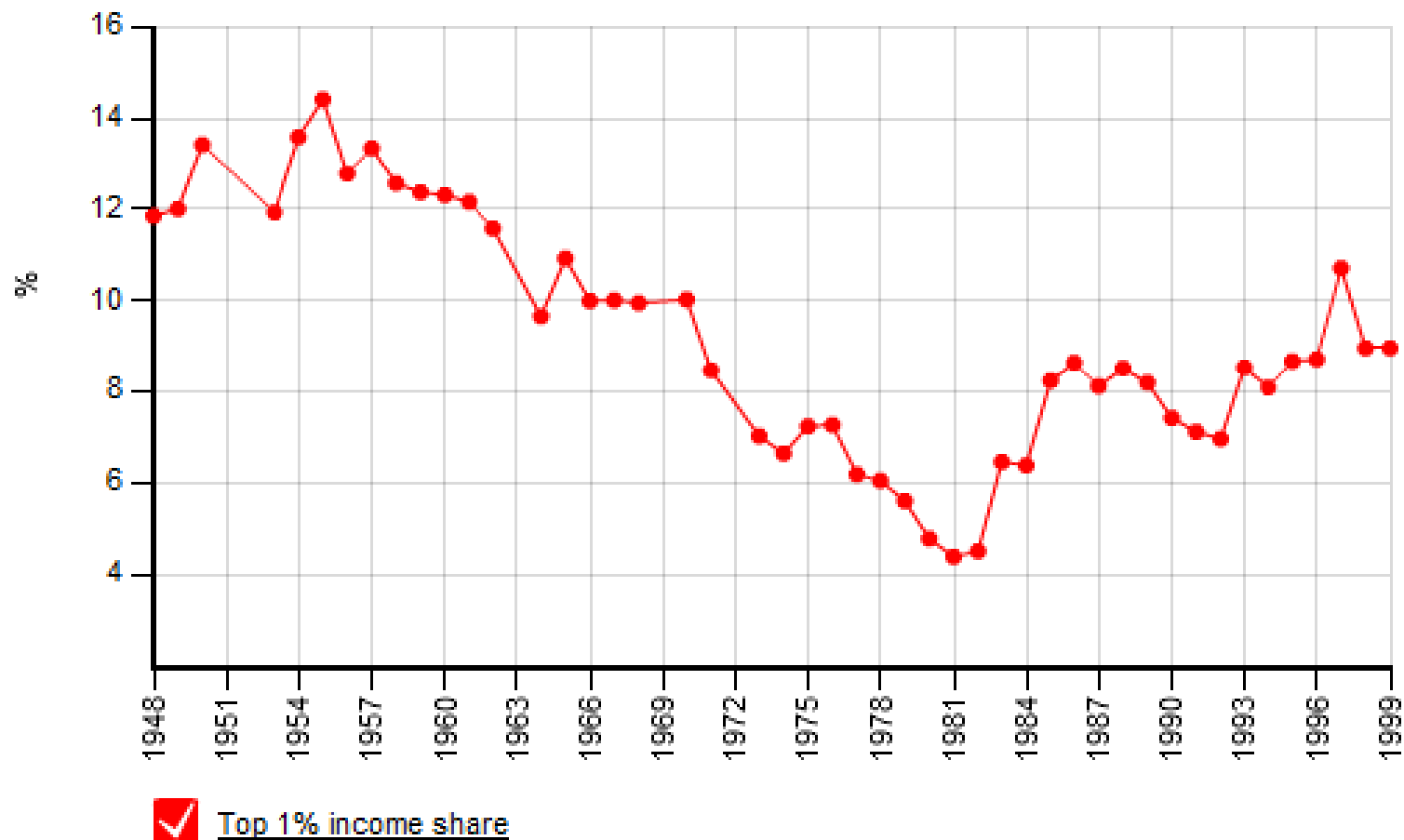
Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>





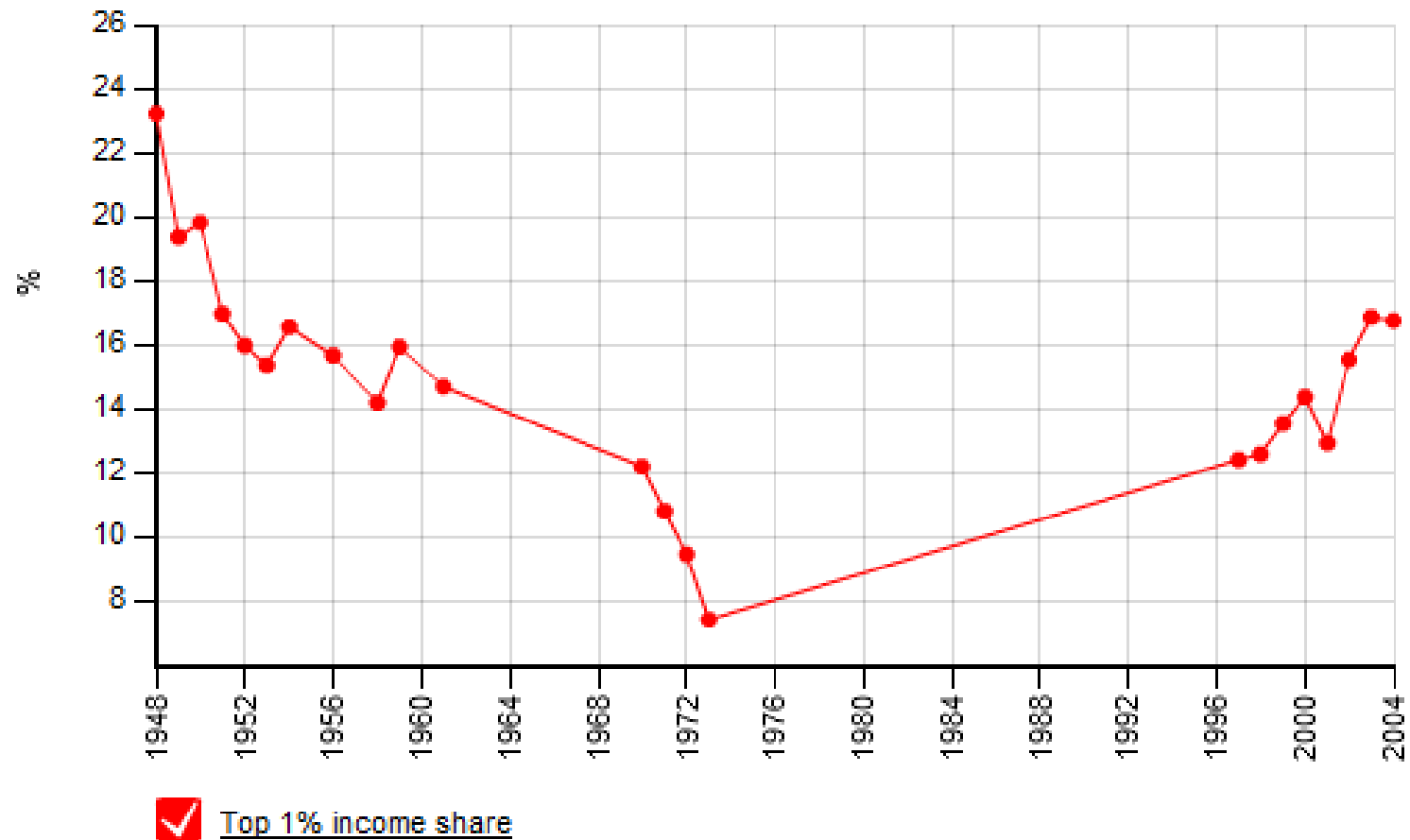
### Top income shares. India. 1948-1999

Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>



### Top income shares. Argentina. 1948-2004

Source: The Top Incomes Database. <http://g-mond.parisschoolofeconomics.eu/topincomes>

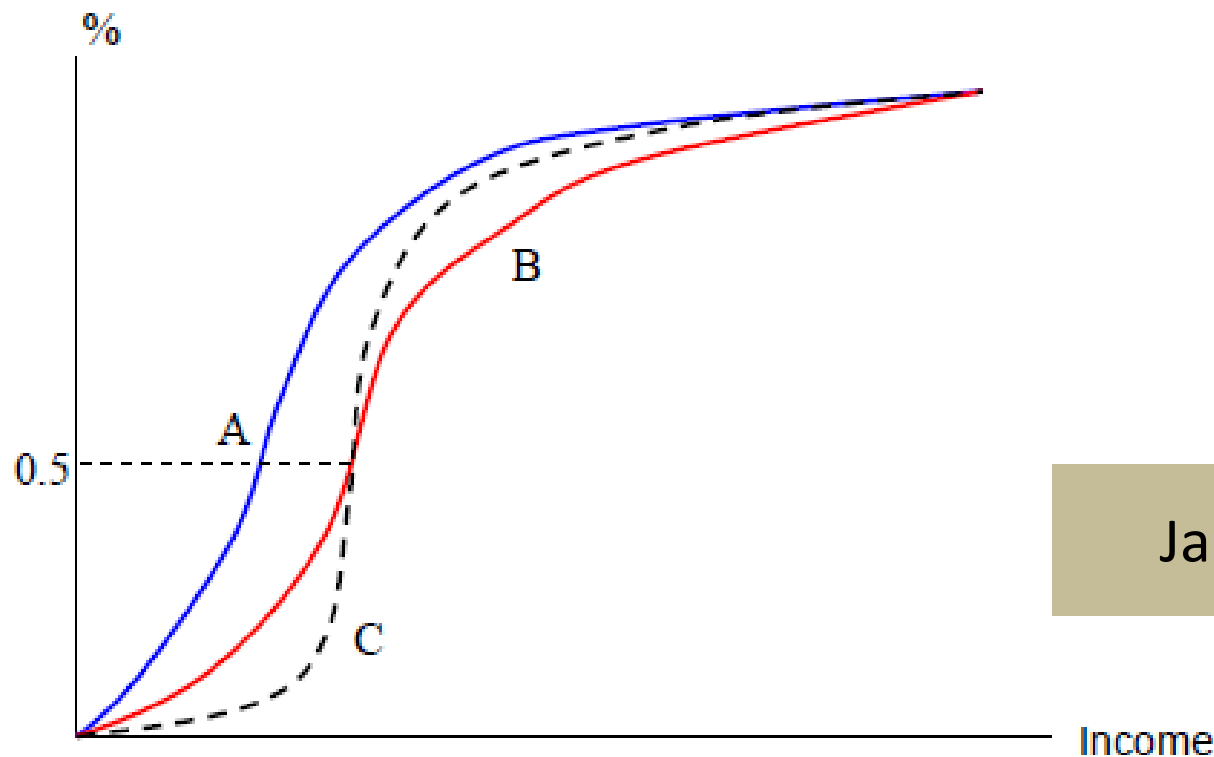


# The Developing World's Bulging (but Vulnerable) "Middle Class"

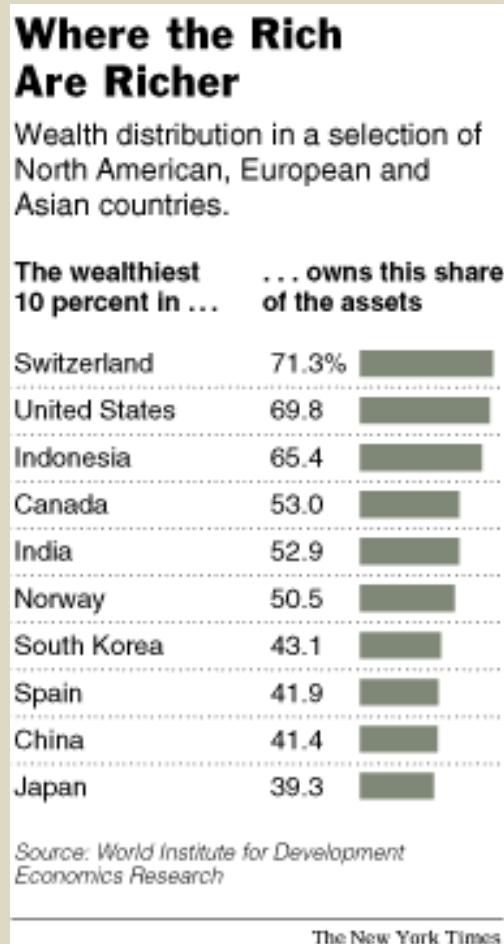
Martin Ravallion<sup>1</sup>

*Development Research Group, World Bank  
1818 H Street NW, Washington DC, 20433, USA*

**Figure 1: B and C have less poverty than A, but B has a larger "middle-income bulge"**



# Global wealth distribution [WIDER, 2006, Edward Wolff et al.]



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### 3. Decoding the data 1: economic growth in the post-war era

“The Golden Age” in OECD countries:

- Keynesian stimulus, with locally-based production
- Verdoorn’s Law: growth increases productivity increases the income share of high wages
- Fixed exchange rates under Bretton Woods system
- Though unequal inclusion or social exclusion of racial/ethnic minorities, women were widespread

### 3. Decoding the data 1: economic growth in the post-war era

“The Golden Age” elsewhere:

- State-led development - Import-substituting industrialization, infant-industry protection
- Public control of banks and investment finance
  - Split among economists: closed vs. open borders
  - Gerschenkron vs. McKinnon and Shaw
  - ‘German-Japanese models’ compared with ‘Anglo-American model’
- Income lifting/equalizing urbanization

# Talk Map

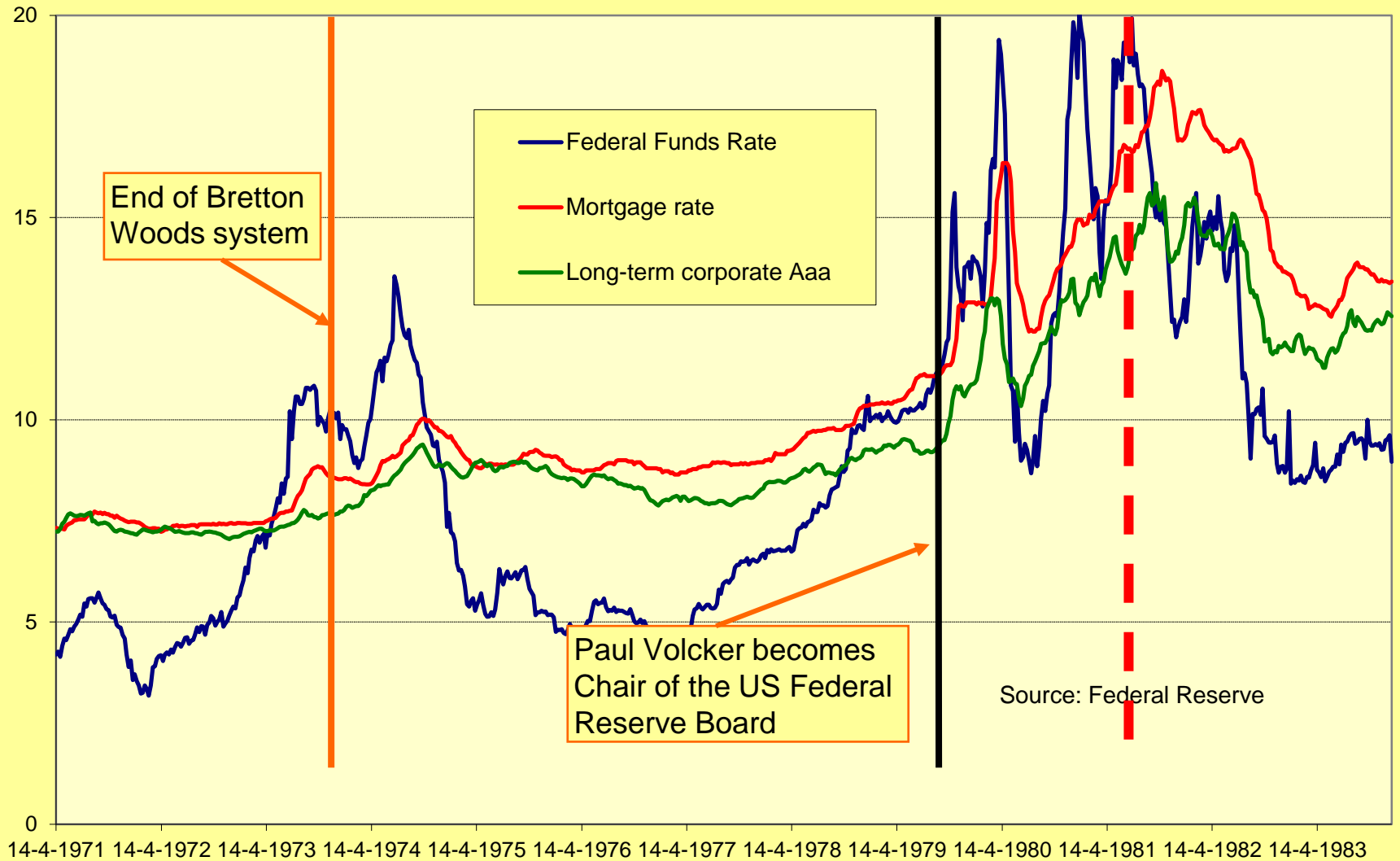
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## 4. Decoding the data 2: economic growth in the neo-liberal era

- The 1970s: The long goodbye to post-war order
  - Cancellation of Bretton Woods , 1971-3
  - Oil shocks/energy crises, 1974 and 1979
  - The “Volcker” inflation-strangulation-by-interest-rate strategy 1979-82

## Selected US Interest Rates, 1971-1984



## 4. Decoding the data 2: economic growth in the neo-liberal era

- The 1980s in the global North:
  - Industry deregulation [finance, airlines, others]
  - Assault on industrial unionism / Rise of the global factory: “Deindustrialization”
- The 1980s in the global South:
  - Latin American debt crisis [1982] & Latin America’s “Lost Decade”
  - Assault on public ownership of banks, industry in Europe and the global South
  - Deregulation as entry card, deregulation via crisis

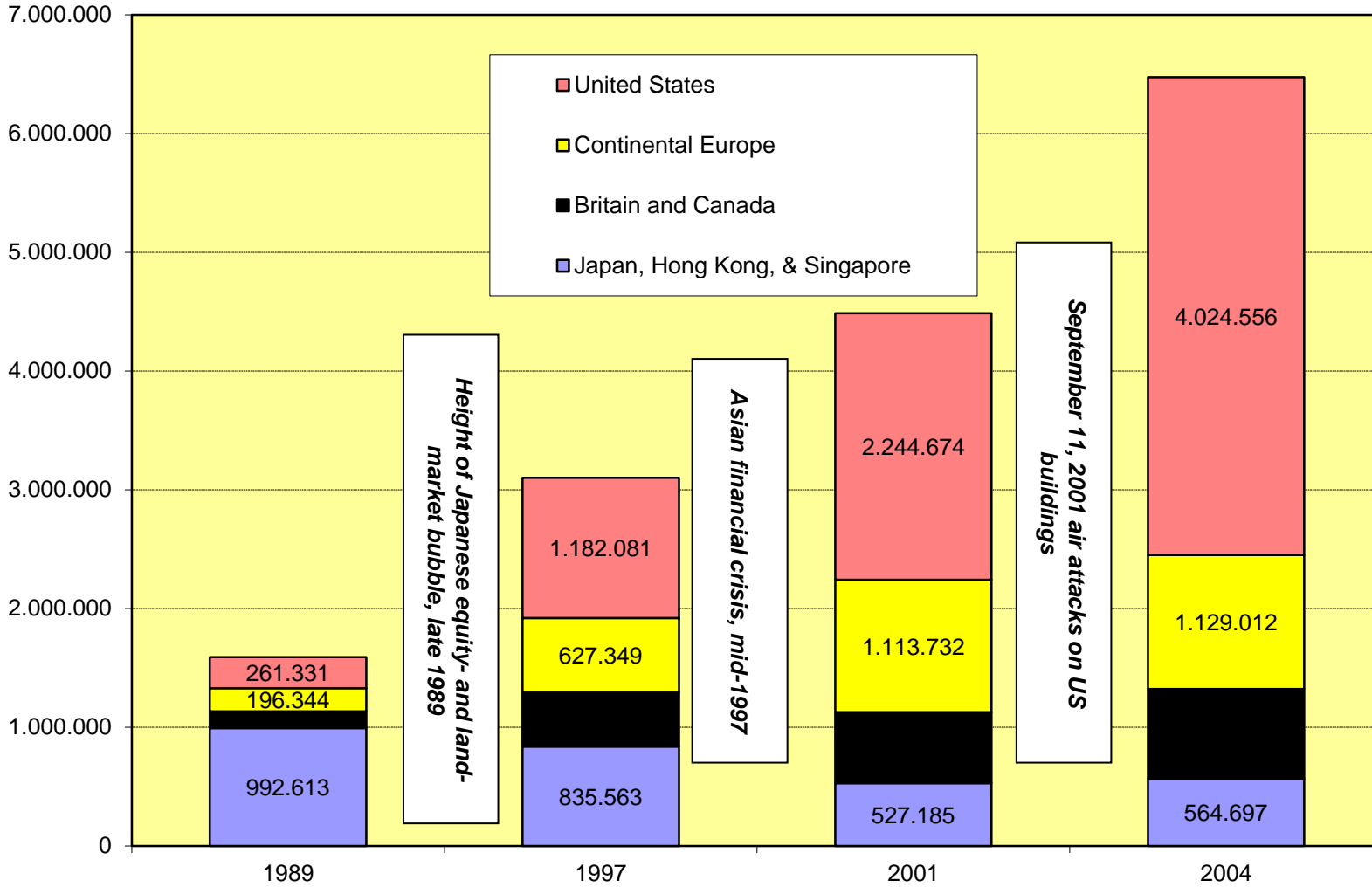
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## 5. Adaptive strategies in the neo-liberal era

- Japan: Stagnation after asset bubble bursts in 1990
  - Crisis of social reproduction
- US: Shift from “dual deficits” to “post-hegemonic hegemony” via Wall-Street-led “financialization”
  - From multilateral coordination to bilateral pacts - North American Free Trade Agreement [NAFTA, 1992]
  - Collapse of “social safety-net”/welfare guarantees
  - Retreat from Keynesian macroeconomic policy
  - Unleashed domestic, global finance

**Market value of financial firms listed in Business Week 1000,  
by global areas, 1989-2004 (US \$M)**



## 5. Adaptive strategies in the neo-liberal era

- Europe: Berlin Wall, post-USSR era
  - Delors Report, 1989 – pathway to EMU
  - Maastricht Treaty, 1992 - European Union
- The EMU/Euro launched in 1999 as a “neoclassical design mechanism”
  - Strict fiscal discipline, debt rules
  - Retreat from Keynesian macroeconomic policy
- Financial crises [1994 Mexico, 1997 Asia, 1998 Brazil/Russia/Turkey, 2001 Argentina] are reminders of the dominance of stateless mega-finance

## 5. Adaptive strategies in the neo-liberal era

- Microeconomic strategic shifts
  - The rise of “global” companies
  - Outsourcing of production to developing Asia, Latin America
- Implications for global South:
  - Growth of low-wage labor in export sectors, creation of a ‘fragile middle class’
  - More open goods, asset markets
  - Inverse Verdoorn cycles: low-wage manufacturing spurs low-wage job growth
  - Growth of a new wealthy elite in well-positioned industries and firms
  - Retreat from Keynesian stimulus policies



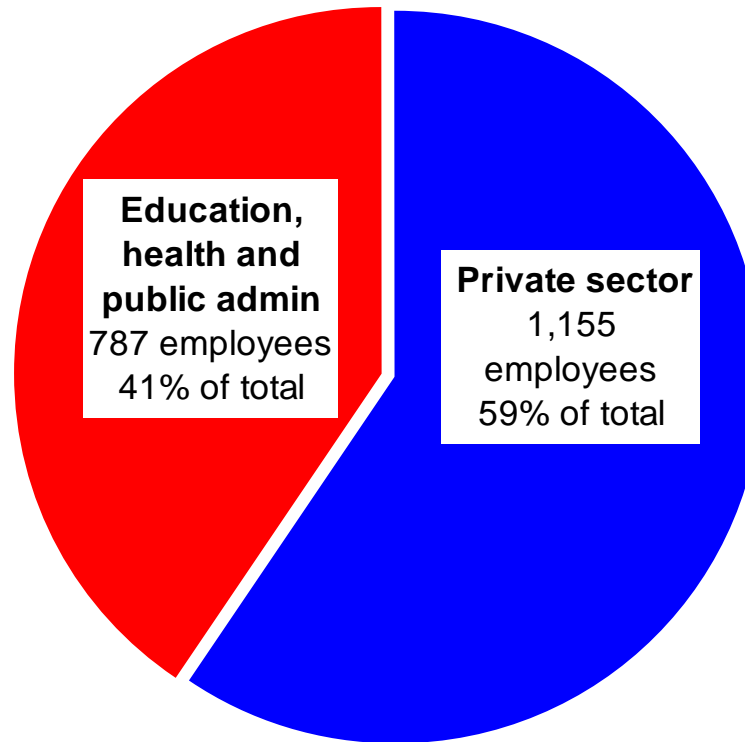
## 5. Adaptive strategies in the neo-liberal era

- Implications in global North:
  - The ‘flexibilization’ of employment [lower wages, loss of job security, marketization of ‘benefits’]
  - Reduced levels of private-sector employment
  - The wealthy depend on profits, not Keynesian stimulus or wages: “race-to-the-bottom”  
neoliberalism is optimal
  - Exploitation of profit-making possibilities in the expanding pool of immiserized workers, poor, and socially excluded [including immigrants]
  - Spread of these techniques to global South  
[“Citifinancial”]

# UK Employment creation under Tory rule [Thatcher/Major]: 1979-90

**Fig. 3: UK employment growth under a  
Tory Government 1979-1990**

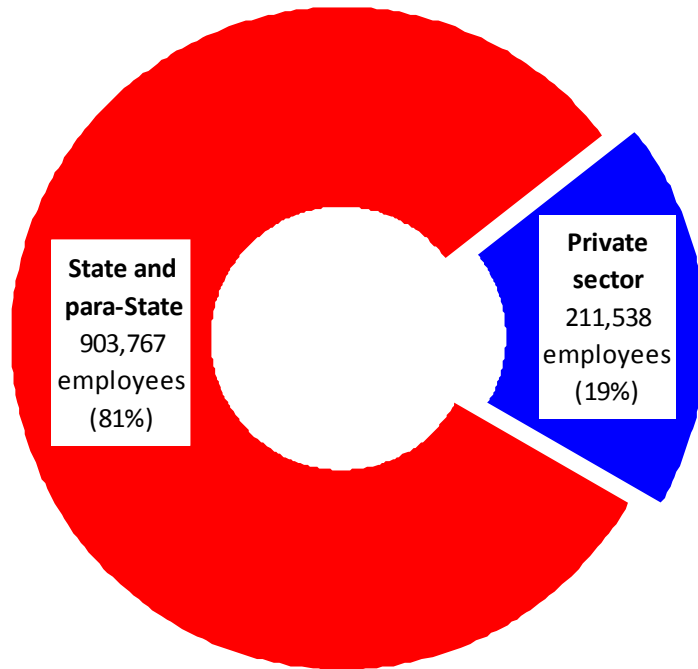
(Employment in thousands)



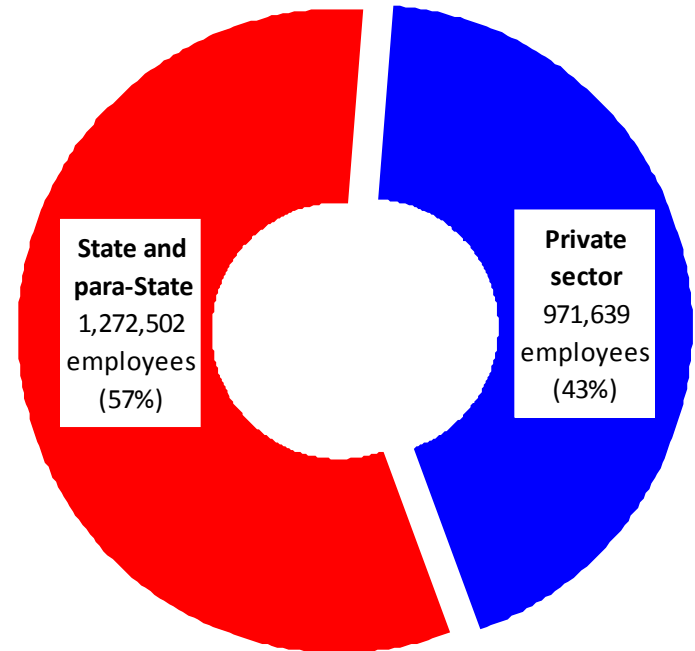
Source: Dymski/Froud/Sukhdev/Williams, 2010

# UK Employment creation during “New Labor”: 1998-2007

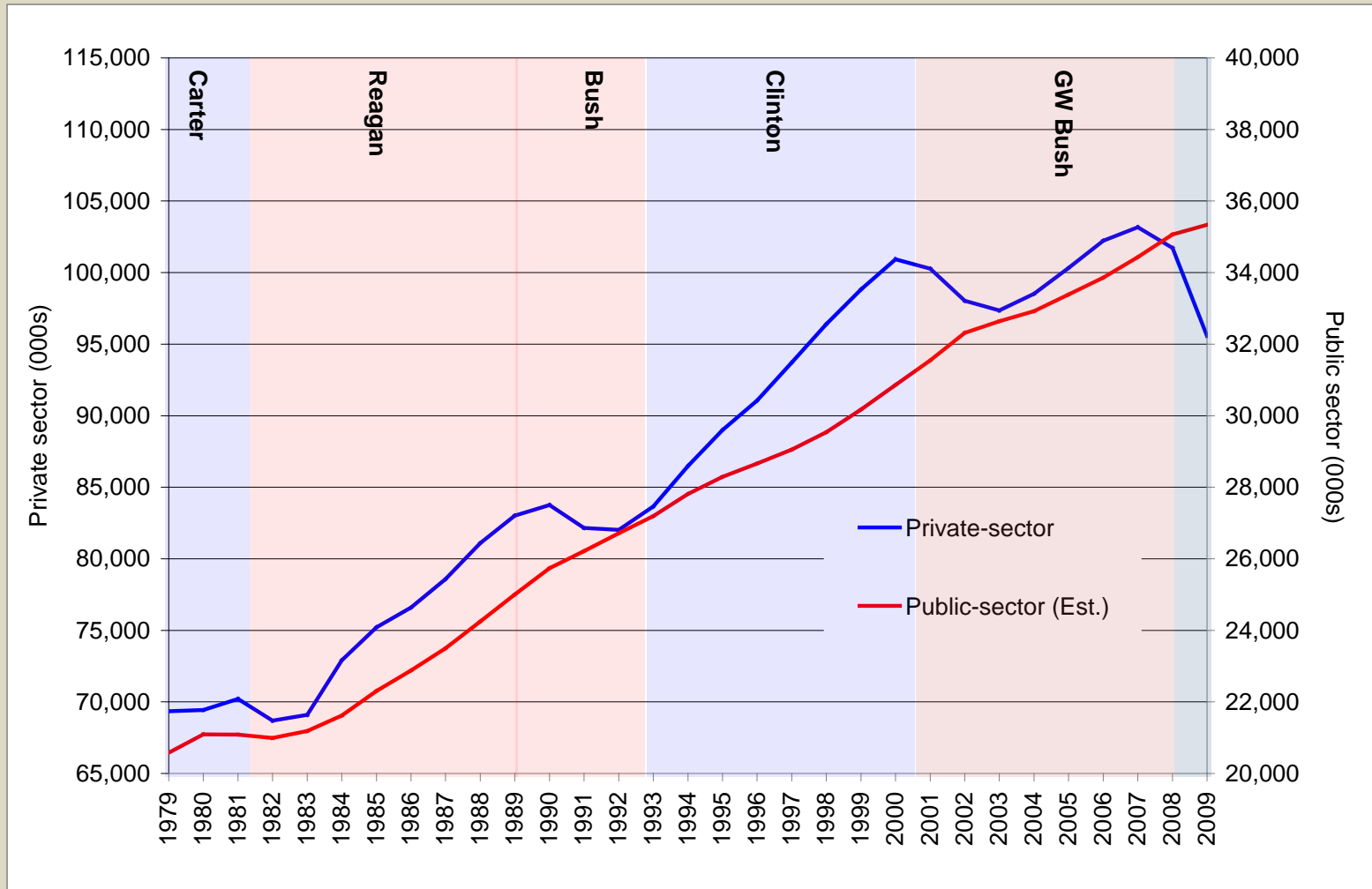
Change in UK female employment between 1998 and 2007  
split by private and state and para-state sectors



Change in all employment between 1998 and 2007  
split by private and state and para-state sectors

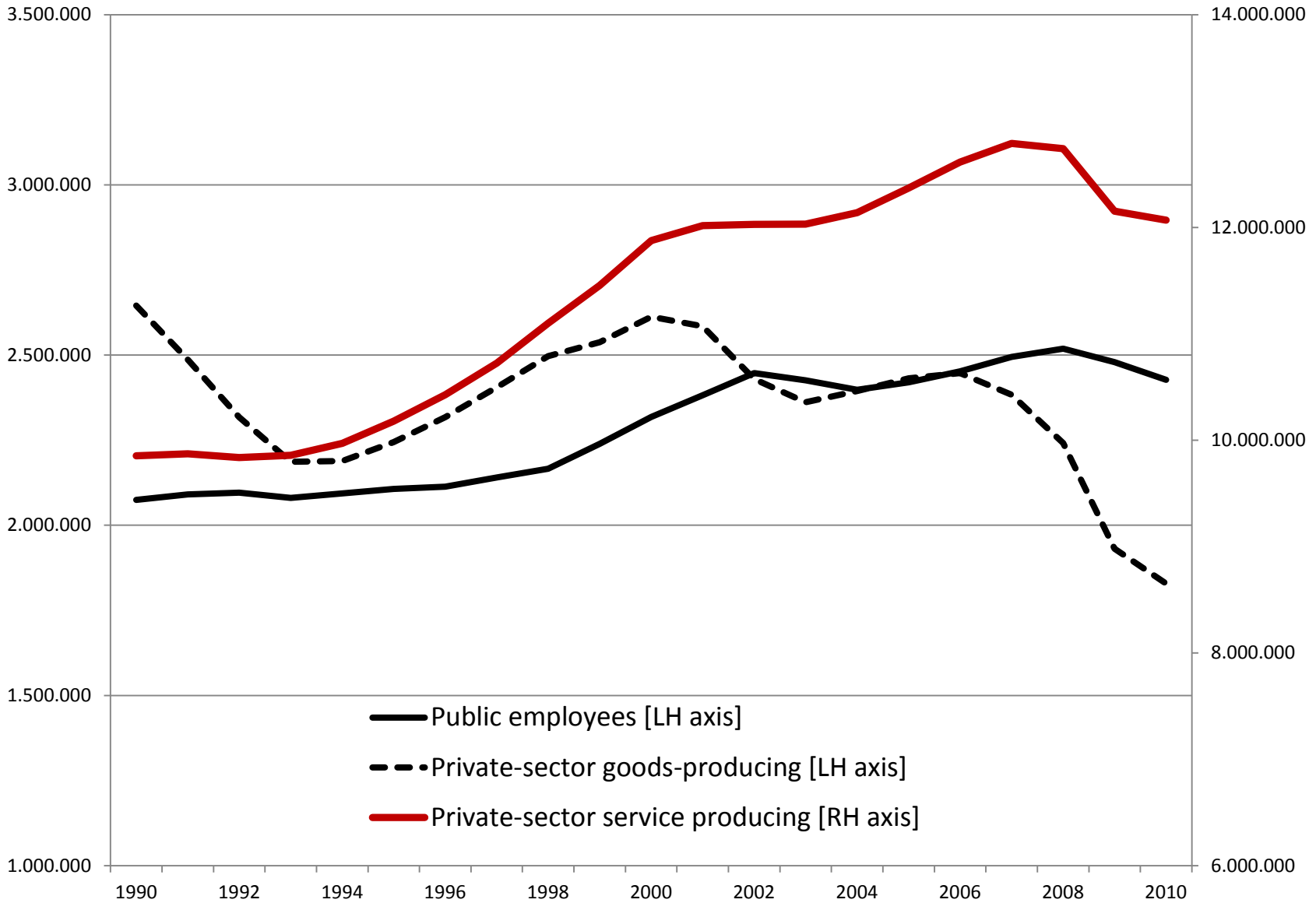


# US Private- and Public-sector Employment, 1979-90



Source: Dymski/Froud/Sukhdev/Williams, 2010

# Non-Farm Employment by Sector, California, 1990-2010



## 5. Adaptive strategies in the neo-liberal era

### Strategies to take on poverty:

- “Pareto-based” strategies [no redistribution of pre-existing income/wealth divides]
- “Entrepreneurship” [self-employment], not employment
  - Microfinance – “Financing from below”
  - Hernando de Soto – formalization of asset ownership to liberate capital
  - Incentives programs for government procurement
- Limited cash-transfer experiments, especially tied to human-capital acquisition [parents/children]

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## 6. Financial transformation in the neo-liberal era

- **1980s:** shift toward securitization of “plain vanilla” mortgages [standardized terms, risks]
  - Competition, mergers designed to capture and hold “upscale retail customers”
  - Creation of private insurance for “jumbo” loans
- **1990s:** securitization expanded to incorporate “predatory loans” to the formerly excluded, including pay-day loans and subprime loans [heterogeneous, punitive terms, high risks]
- **2000s:** market mechanisms in readiness as housing prices explode and sub-prime lending expands



# Transformation of US Banking & Mortgage Markets I

<b>Thrift / mortgage-investor balance sheets with “safe” securitization</b>				
<b>Mortgage originator</b>			<b>Mortgage-investment pool</b>	
<b>Reserves</b>	<b>Demand deposits</b>		<b>Mortgage loans (by maturity of payment date)</b>	<b>Investments from pension, trust funds (maturity matched)</b>
<b>Securities</b>	<b>Time deposits</b>			
<b>Mortgage loans</b>	<b>Equity</b>			<b>Shares or equity</b>

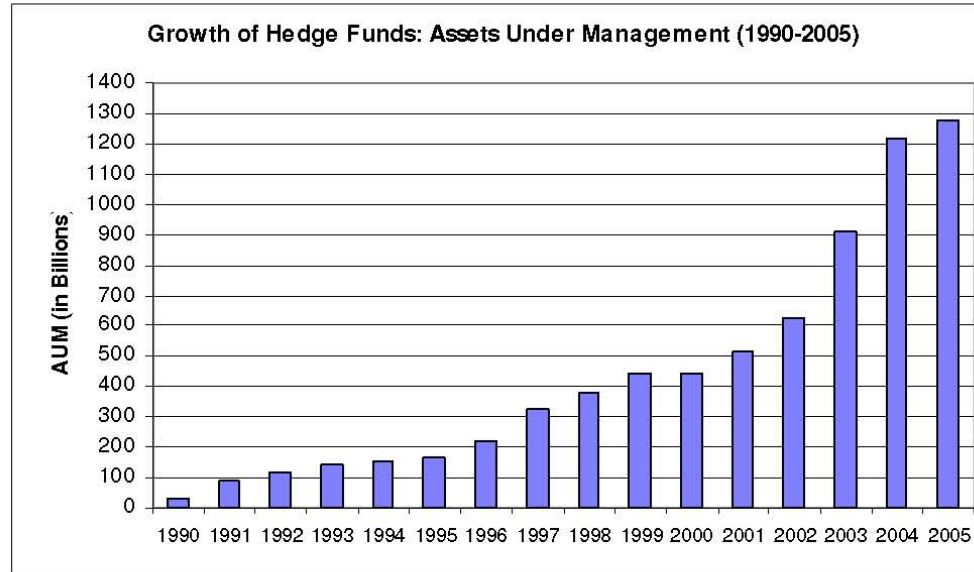
# Transformation of US Banking & Mortgage Markets II

Thrift / mortgage-investor balance sheets with market-based securitization  
 [“originate and distribute” with credit-default swaps]

Subprime lender (mortgage originator)			Structured investment vehicle	
Reserves	Short-term money-market		Collateralized debt obligations (including mortgages) with certain risk, maturity characteristics	Short-term money-market borrowing
Mortgage loans	Borrowing			
	Shares			Private-equity/ hedge-fund investors

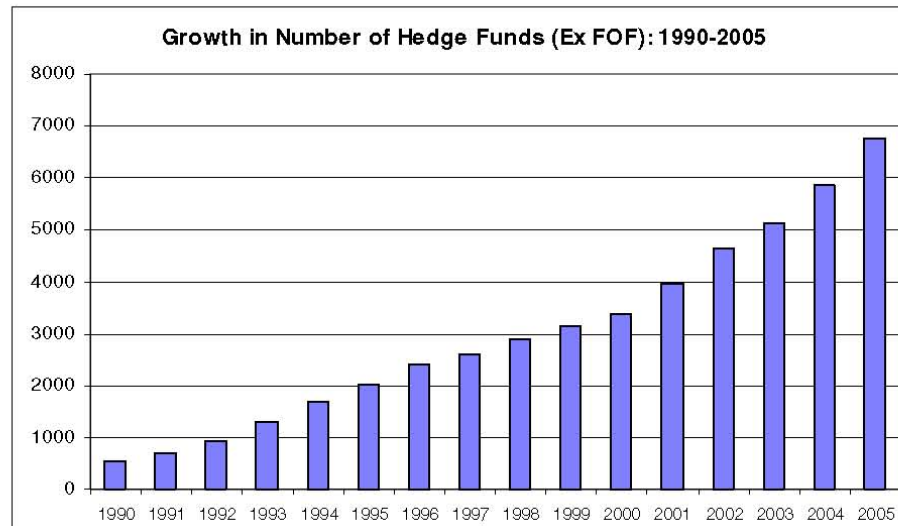
Note: Light-grey shading indicates default risk, and dark-grey shading, liquidity risk.

## Exhibit 1



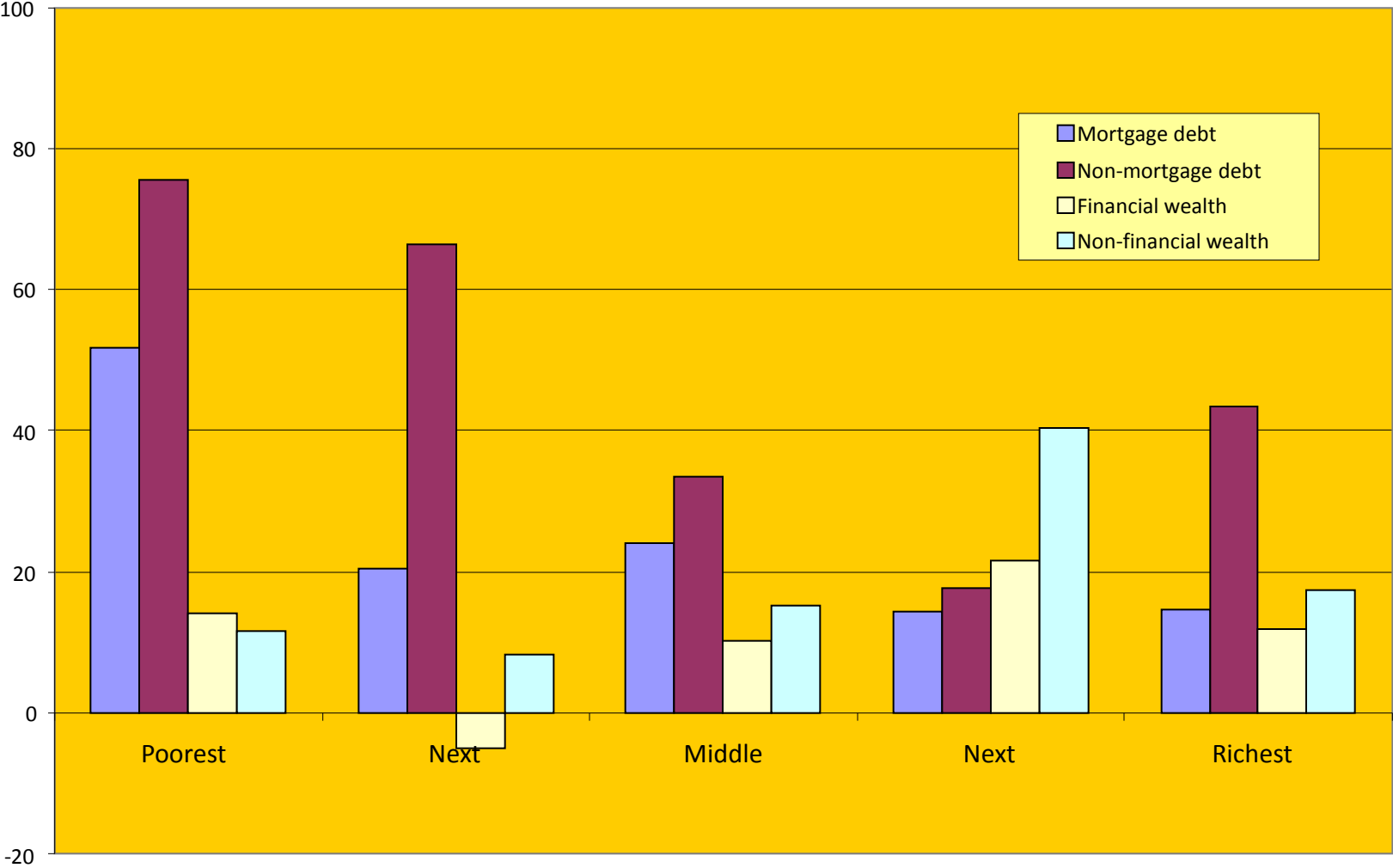
Source: CISDM

## Exhibit 2

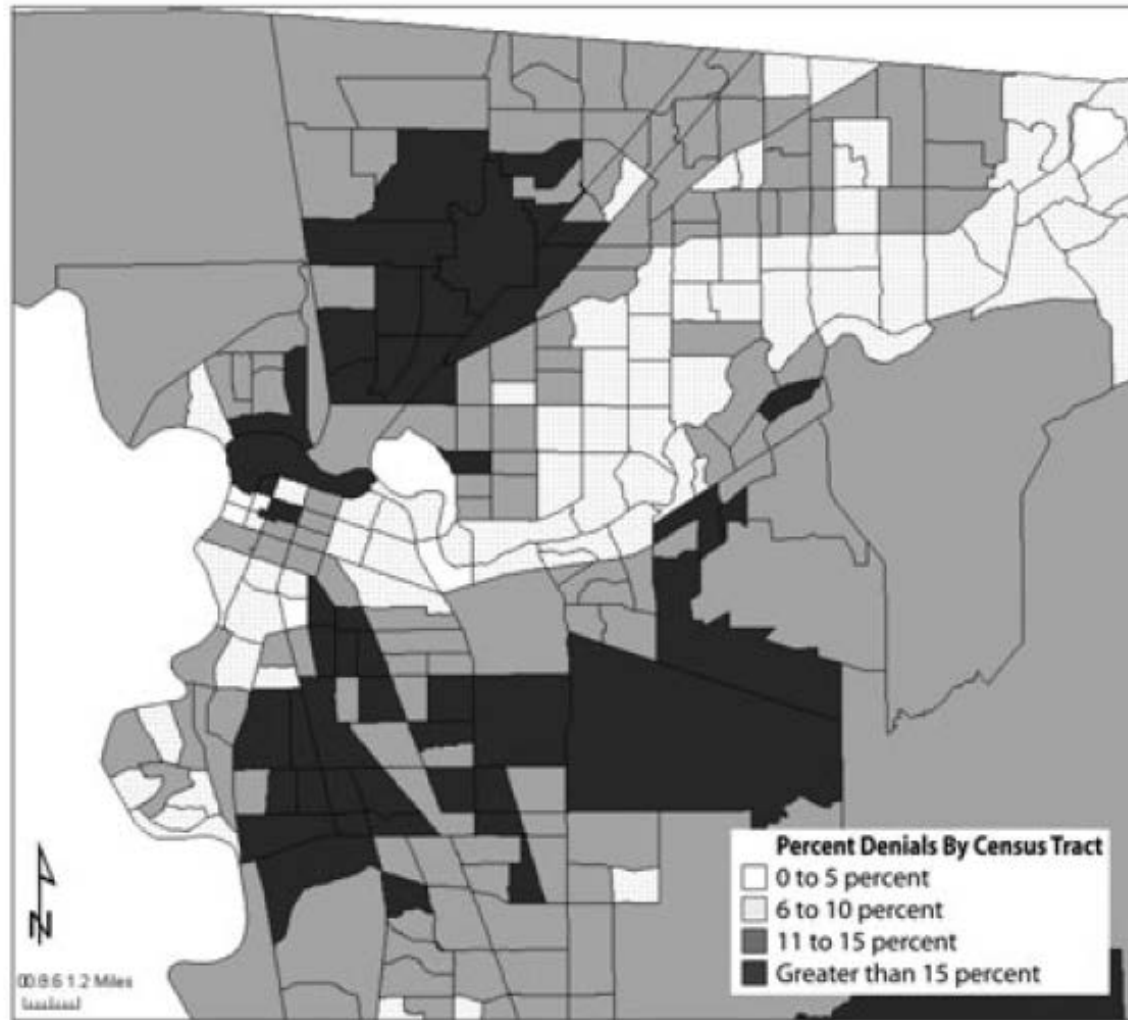


Source: CISDM

**Avg 3-Year Growth Rates, Assets and Debt, '89-'04,  
Survey of Consumer Finances, FRB (by quintile)**

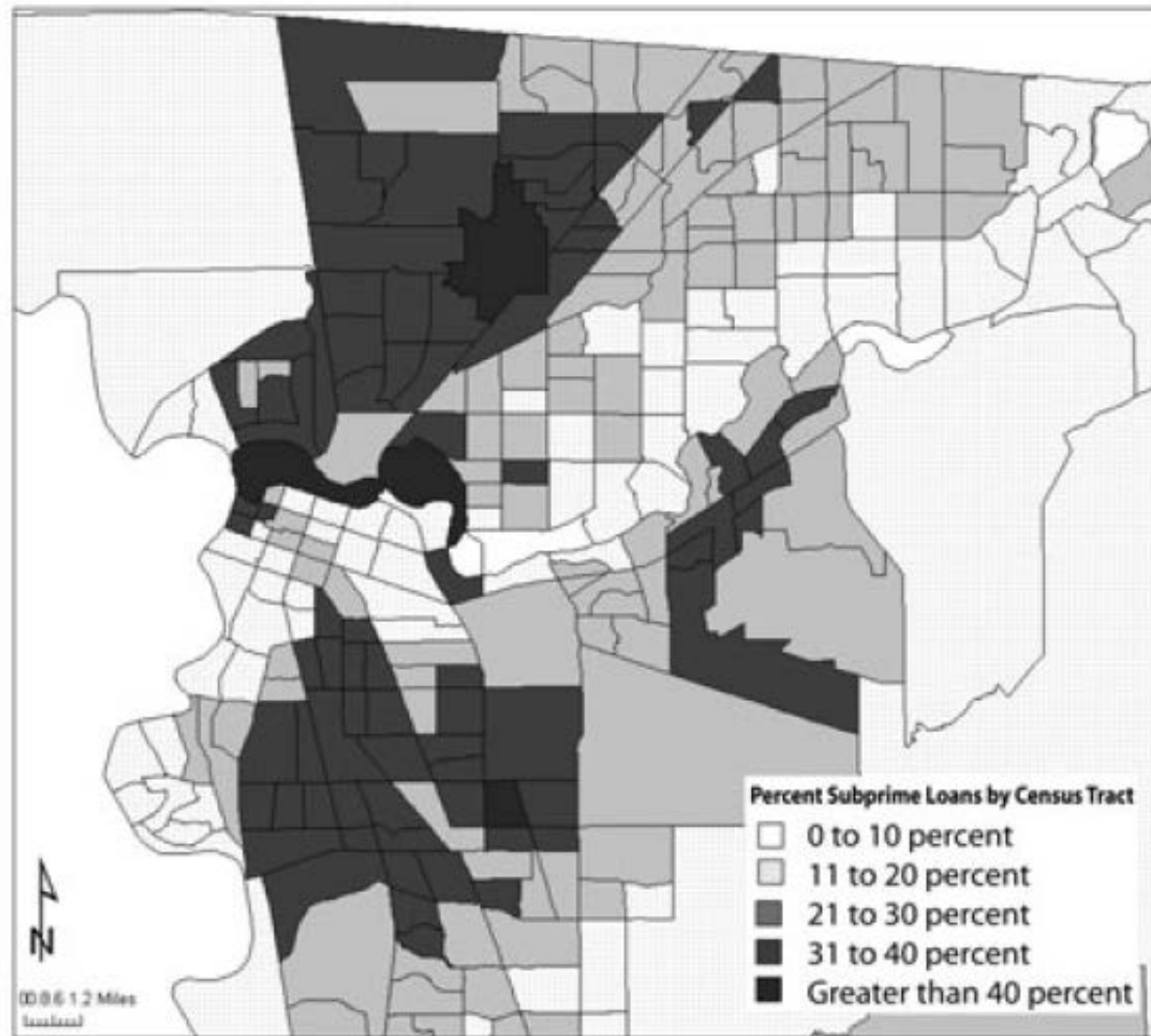


# Sacramento, CA: Jesus Hernandez, IJURR 2009: Financial exclusion - legacy of redlining / discrimination



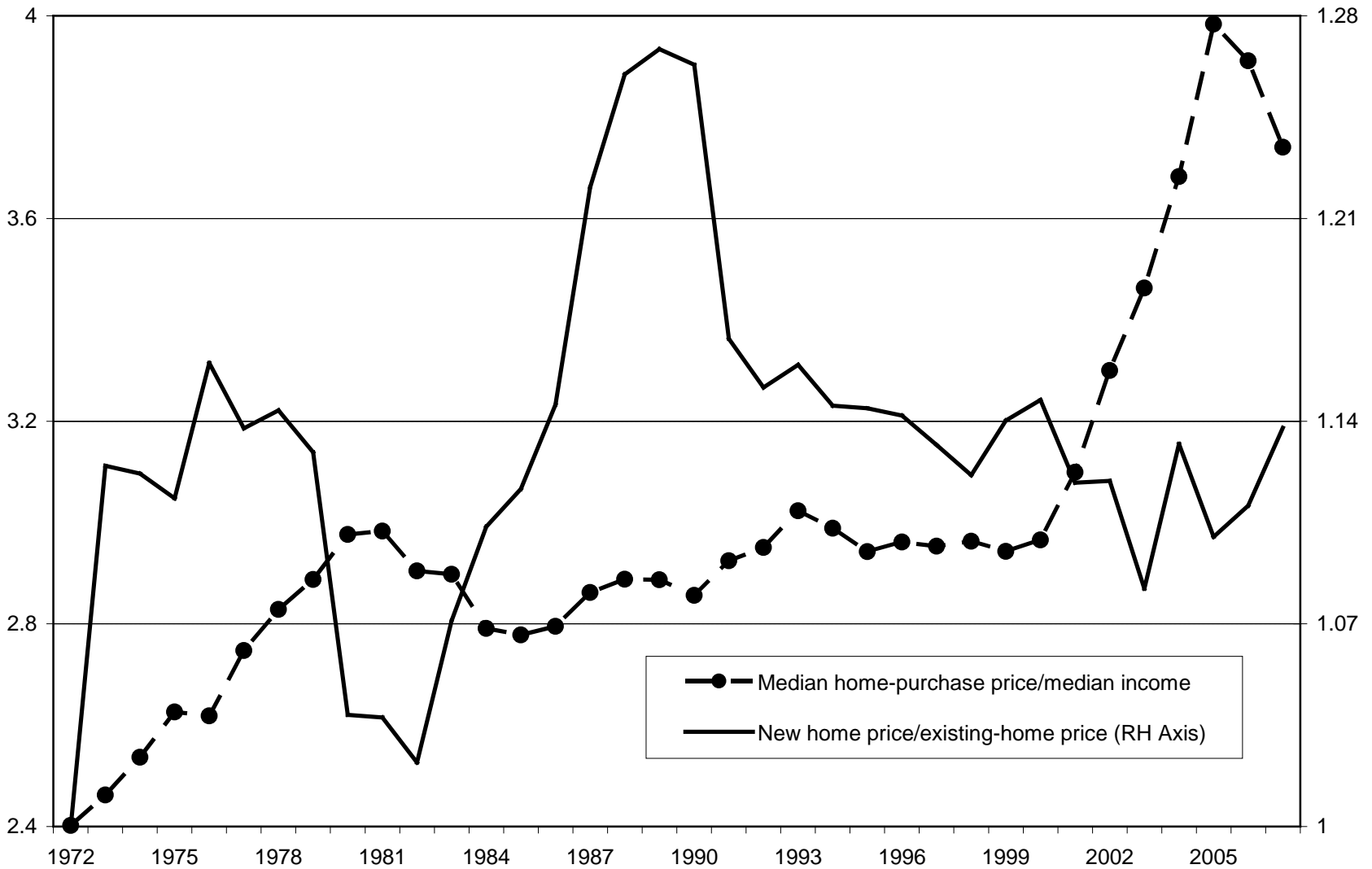
**Figure 4** Percentage of loan denials by census tract for Sacramento County in 2004  
(source: FFIEC HMDA raw data, 2004)

# Sacramento, CA: Jesus Hernandez, IJURR 2009: Financial exploitation – subprime lending

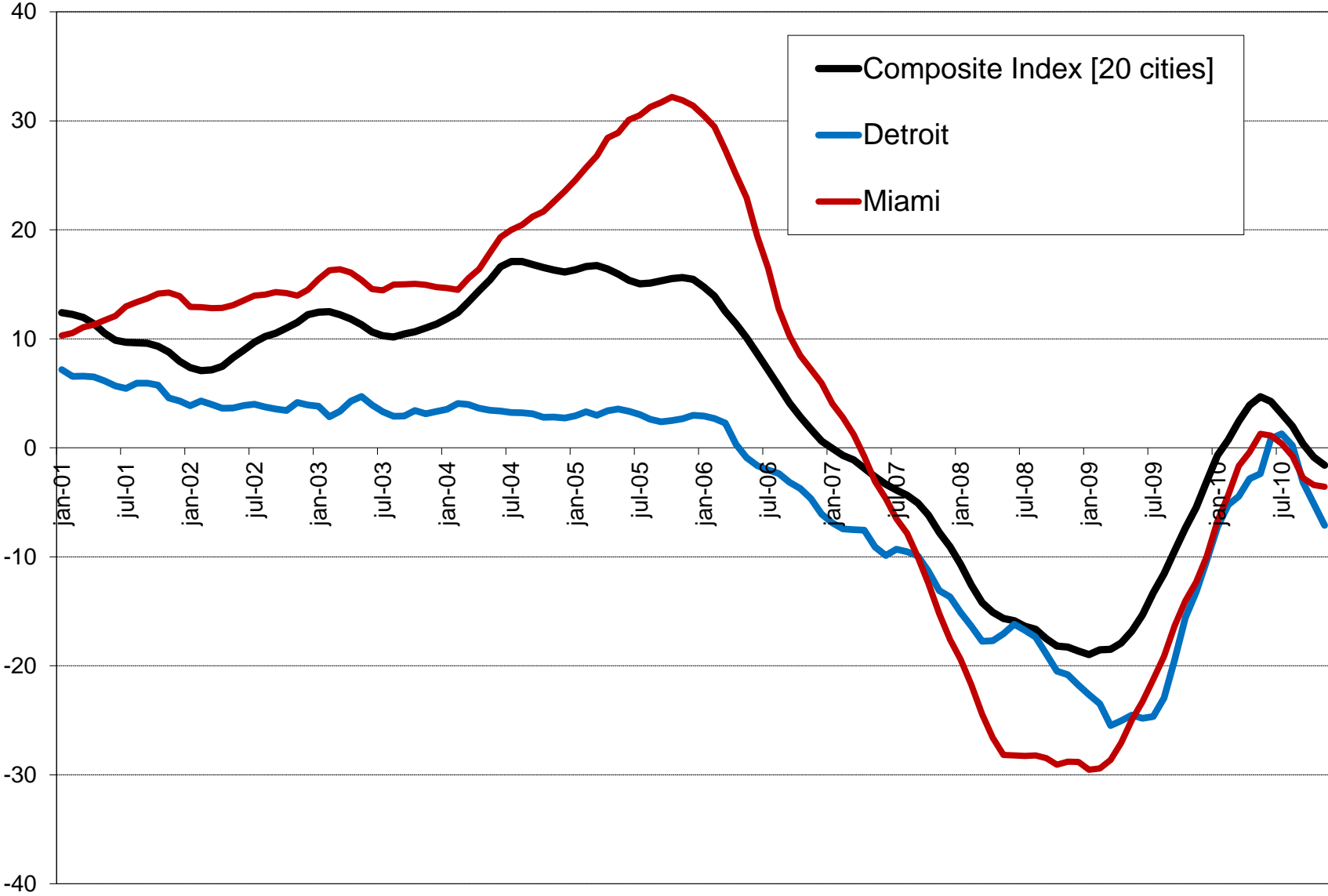


**Figure 5** Percentage of subprime loans by census tract for Sacramento County in 2004  
(source: FFIEC HMDA raw data, 2004)

**Figure 5: Housing Price-to-Income Ratio and  
New-Home/Existing-Home Price Ratio, 1972-2008**



**Figure 1: Raw Case-Shiller Housing Index Values:  
Month-to-month percentage change (annualized), Nov 2003-Dec 2008**





## 6. Financial transformation in the neo-liberal era

- The crisis was built of several strands:
  - Wall Street megabanks using synthetic instruments to speculate in derivatives markets, compromising the supply of liquidity
  - Boom-euphoria and greed by some households [buy-to-sell mania]
  - Desperation by working-class households looking for security in a world of collapsing “safety nets”
  - Negligent government regulators that bought the myth of efficient, self-policing markets

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**The poor**

**The rich**

**The workers and  
socially excluded**

**The middle class**



## 7. Implications of Global Crisis and the Great Recession

### **The rich:** Megabanks, elite earners, elite funds

- Their portfolios took a hit in the crisis, but their prerogatives were untouched
- They are too-big-to-fail or beyond regulation
- The rules do not apply: they can undermine state restrictions by threatening to flee
  - Size restrictions on megabanks
  - Bonus restrictions on bank executives
  - Reporting/margin requirements on hedge funds
- “The markets” are now challenging sovereign governments’ capacity to take on debt

## 7. Implications of Global Crisis and the Great Recession

**The rich:** Megabanks, elite earners, elite funds

- Liquidity vs. uncertainty
  - [Heterogeneity/irreversibility] vs. [freedom]
- Quantitative easing provides the liquidity they need to maintain their leveraged positions
  - Overleveraging for hyper-optimized gains by putting the public-goods liquidity resources of the markets at risk is taken as a normalized investment practice
- The rich also are pushing tax burdens to middle and lower classes, again using threats

## 7. Implications of Global Crisis and the Great Recession

### The “desperate” middle class: From connection to disconnection

- Their wealth is often linked to assets that are irreversible, heterogeneous
  - homes they cannot afford to sell, with mortgages they strain to pay
- They are losing employment with secure benefits, while facing higher tax burdens
- The tendency is to blame government or to blame the poor and the excluded
- Foreclosure crisis in the US: suffering without solidarity for 6-8 million households

## 7. Implications of Global Crisis and the Great Recession

### **The poor and the socially excluded: From resistance to disappearance**

- Racial/ethnic minorities - No “civil rights movement II” on the horizon
  - Home ownership dreams replaced community solidarity; now despair
  - No federal programs for homeless, for jobless, for foreclosure relief
  - Joblessness, the NBA, or the prison-industrial complex
- The welfare state is too expensive
- Immigrant workers returning to home countries

# Talk Map

1. Introduction
2. Income and wealth inequality: global trends
3. Decoding the data 1: economic growth in the post-war era
4. Decoding the data 2: economic growth in the neo-liberal era
5. Adaptive strategies in the neo-liberal era
6. Financial transformation in the neo-liberal era
7. Implications of Global Crisis and Great Recession
- 8. Prospects for equitable global growth**



## 8. Prospects for equitable global growth

So: bleak prospects for Keynesian policy or the revival of Verdoornian growth in higher-income countries  
– a likely period of reactionary politics and final destruction of post-War/Civil-Rights social contracts

Who then leads?

We focus on 3 countries experiencing “middle class bulge” – India, China, Brazil – who may lead global growth in the next decade[s].

# Prospects for equitable global growth

## The rich:

- Growing numbers in China, intertwined entrepreneurial and ruling party elite
- Mixture of family wealth and new rich in India, often linked [as in the US] to IT industry
- Primarily the landed elite in Brazil, a legacy of its post-imperial colonial formation [Celso Furtado]

## The middle class:

- China: A relatively new middle class with lifestyle expectations. The Chinese state has used its uniquely large domestic market to convince foreign MNCs to transfer technology to help meet these demands
- India and Brazil: A thin but more established, primarily urban middle class, linked to public service and family business; under pressure from high taxes and fees

# 8. Prospects for equitable global growth

## The poor:

- China: Largely invisibilized and rural; unheard revolts in the countryside – pools of migrant labor to recirculate income
- India and Brazil: This population exists; but more urban poor in long-standing communities [and also newly growing ones]. Informal settlements, usually without land claims

# 8. Prospects for equitable global growth

## Problems of disconnection 1: Macroeconomic policy

- Semi-integrated production offers some prospect for capturing Keynesian stimulus in all 3 nations
- But the rich elites rely less on domestic spending stimulus and more on foreign markets or government contracts
- Brazil and India, especially, are under foreign financial-market pressure to maintain orthodox policies [Dilma's first move]
- Structure of economic growth builds in inflationary pressure

# 8. Prospects for equitable global growth

## **Problems of disconnection 2: Home ownership**

- Limited state capacity to produce housing in Brazil and India
- Widespread informal housing practices
- Validation of these informal claims will require expanding formal urban-governance structures
- Letting people / communities self-organize – as with Complexo de Maré – challenges established wealthy elites

## **Problems of disconnection 3: Access to finance/credit**

- India and Brazil: Banks are more inclined to ignore credit needs or to exploit lower-income borrowers with 'predatory' loans
- China: lower-income lending is done informally

# 8. Prospects for equitable global growth

## Problems of disconnection 4: Global macro policies

- The OECD nations are all pulling away from fiscal stimulus, and these “middle-class bulge” nations rely on that directly [China] or indirectly [Brazil, India]
- Unresolved global currency problems – linked to lack of regulation of “carry trade” and other speculative financial movements

# 8. Prospects for equitable global growth

## Connection challenges:

- The rich, to be accountable to non-rich in their nations – ‘shared commitment’ to growth, or ‘fair share’ participation in cost of development
  - F
- The ‘fragile’ middle class – to build its alliances with the poor – which means confronting the landed power of the rich.
  - “Fair share” taxes, for example.

## 8. Prospects for equitable global growth

### Connection challenges:

- The poor require mechanisms, political and economic, to achieve social inclusion
  - Overturning financial exclusion is part of this
- Large capable public institutions like Brazil's national development bank, BNDES, are keystones for coordinating 'equitable' national growth possibilities. India is in need of one – so too is the US and the UK [see Skidelsky in today's FT]



Dank u zeer!

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**SID**

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Society for International Development

## **UPCOMING EVENTS:**

24 March: Launch of the latest issue of the *Development* journal on land grabbing at Utrecht University, 1pm

7 April: Kapuscinski lecture series. Daniel Bach on how to form a strategic partnership between the EU and Africa. International Institute of Social Studies, The Hague, 3pm

18 April: SID NL lecture series. Shi Yinhong on understanding China's attitude towards global security challenges and universal norms.

**PLEASE REGISTER!**