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Globalisation and Income Distribution – Dynamics and Structure of Income in Emerging Economies

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Globalisation and Income Distribution – Dynamics and Structure of Income in Emerging Economies[1].

Abstract

Goal of the text is to find links between current phase of economic globalisation and income distribution in developing economies. Dynamics and structure of income in so called emerging economies is in the bigger and bigger extend affected by growing international flows of trade and capital. Changing character of global economy makes us to reconsider traditional theories which link international economic relations and income distribution. In both developed and developing economies there are structural forces which favour rising income inequalities. Text has mainly theoretical and descriptive character but statements are supported by the statistical data. The most important findings are as follow. There are no evidences that so called catching-up effect is the common feature in global economy: low level of development does not guarantee high pace economic growth. In the current phase of globalisation there are strong structural causes that lead to rising income inequalities in developing countries, so only state's intervention can secure social cohesion within national economy.

Keywords: Economic development; inequality; developing countries.

JEL Classifications: D31, F21, F41

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1. Introduction

The problems of division of income has been clearly enjoying more interest of economists, which can be proven by a vast popularity of the book by T. Piketty (2014), in which the author indicates that progressing concentration of income and possessions is an immanent quality of capitalist economy. Also, there are more and more proofs that the structural cause of the financial crisis, which broke out in 2008[2], were the deep changes in domestic income splitting, which can be observed in most economies worldwide within the last 30 years (Rajan 2010, Kumhof, Rancičre, Winant 2015). The so-called Arab Spring, i.e. a growth in the popularity of populistic parties in West Europe, concludes that it is not only macroeconomic stability, resulting from the growing public and private debt, is in danger, but also societies express doubts concerning the shape of economy more and more loudly.

This paper is aimed at the analysis of problems associated with dynamics and division of income in the so-called emerging markets. Although a few years ago particular emphasis was put on the necessity to accelerate the rate of GDP growth in developing economies as it was supposed to be a better instrument to combat poverty and exclusion, more and more attention has been paid to the problem of social balance recently.

The first part of this texts indicates that the so-called catching-up effect, namely quicker economic advance in countries with a lower level of development, is not a rule on the worldwide scale at all, and hence differences in the level of income between rich and poor economies is extending rather than reducing.

The following part presents processes taking place in the global economy and structure features of developing economies, which determine the division of income in such countries,

[2] The collapse of Lehmann Brothers announced in September 2008 is considered as the beginning of the crisis.

and are the reason for which income inequality in poorer countries are usually much higher than, say, in Western Europe.

2. Reach and poor countries – convergence or divergence?

Despite the fact that the world is developing quickly and, progressing flows of goods, capitals and people are the reason why differences between individual countries are becoming blurred, wealth, and hence the living standard, is still determined by the country in which one was born. Milanovic (2012) has estimated that as many as 76.7% of the differences between our planet's citizens is determined by a diversified level of growth of individual countries, i.e. GDP per capita. Thus, despite the fact that one can order the same Big Mac or have a cappuccino at Starbucks almost anywhere in the world, the number of Big Macs affordable with one's wage mostly depends on whether we are a citizen of the rich North or, unfortunately, you were born in tropical Africa or Southern Asia.

Table 1. GDP per capita (USD in 1990) in selected countries worldwide

Country, year	**1700**	**1820**	**1850**	**1900**	**1950**	**1975**	**2000**
Netherlands	2130	1838	2371	3424	5996	13374	22161
United Kingdom	1250	1706	2330	4492	6939	11847	20353
United States	527	1257	1806	4091	7291	16284	28467
Brazil	459	646	686	678	1672	4187	5532
China	600	600	600	545	448	871	3421
India	550	533	533	599	619	897	1892

Source: Madisson's dataset

Table 2. Relative GDP per capita in historical view in various regions in the world

Year / region	**Per capita output**	Europe	America	Africa	Asia
0	**100%**	119%	82%	101%	97%
1000	**100%**	97%	85%	95%	103%
1500	**100%**	127%	71%	75%	98%
1700	**100%**	147%	83%	70%	91%
1820	**100%**	156%	127%	64%	86%
1870	**100%**	183%	175%	58%	63%
1913	**100%**	177%	231%	42%	47%
1950	**100%**	182%	276%	43%	37%
1970	**100%**	222%	233%	37%	42%
1990	**100%**	248%	243%	30%	48%
2012	**100%**	238%	214%	26%	69%

Source: Piketty 2014

These data must be treated with some reserve; it must be noted that these data are estimated, not reliable statistics which are available today in most countries. However, there is some regularity of these lists as follows:

- A few hundred years ago, differences between individual countries were relatively small; yet 315 years ago, differences between the poorest and the richest countries – for those for which the data are available – was rather small. (GDP per capita in the Netherlands, richest at the time, was only 4.6 fold higher than Brazil, which is the poorest one in the list. Thus, the difference is similar to the situation between Bulgaria and the Switzerland today). Obviously, the living standard in the Switzerland is significantly higher than in Bulgaria but certainly this is not a civilizational gap.

- The beginning of the 21st century was a fundamentally difference in incomes of these countries. (In the USA, GDP per capita is as many as 15 times higher than in India; this difference certainly is a civilizational gap.)

- As far as the richest and the poorest countries are concerned, the differences are even greater. According to the data of World Bank, the lowest level of GDP per capita, taking into account purchase power, was recorded in the Central African Republic in 2018: 859 USD, whereas the highest level was proudly reached by Qatar – USD 126898, which is 148 times higher than the result for CAR.

- Differences in the level of development started growing quickly during the Industrial Revolution. A small group of countries, mainly from West Europe, started to develop rapidly, whereas economising processes in the rest of the world did not undergo any change, hence due to no increase in productivity, GDP per capita slightly changed for 200 years between 1700 and 1900[3],

- A considerable acceleration of growth in most populated and poorest China and India occurred as late as in the other half of the 20th century, which is visible by the increase of relative income level in Asia.

The whole series of serious economic arguments indicated the occurrence of the so-called catching-up effect is not very well confirmed in the reality of the last several dozen years, although there are examples – in the economic history of the world – of countries which managed to "catch up" highly developed economies[4]. Thus, the situation is rather strange as the great majority of economists do not disputes, say, the law of diminishing returns on capital or

[3] It is estimated that earlier, i.e. in the 0-1500, per capita income did not change at all – average annual gain in production amounted only to 0.1% and the world population increased to the same extent (data by Piketty 2014).
[4] For instance, this refers to Germany and Japan which, practically speaking, did not take part in the first phase of the Industrial Revolution, but they considerably accelerated in the 19th and 20th centuries, or the so-called Asian tigers, which attained a high rate of growth in the other half of the 20th century.

acceleration of growth by importing technologies developed in highly developed countries. Liberating capital flows on the worldwide scale also should create favourable conditions for capital allocation, which would accelerate the rate of growth in poorer parts of the global economy. The study conducted by the World Bank on the beginning of the 21st century (World Bank 2002) concluded that it is possible to show a positive relationship between the current phase of globalisation and the convergence process; the countries, which are more engaged in the worldwide exchange of goods, capital and labour force, developed more quickly, compared to those which were more closed. Of course, the assumption is not that simple. Kołodko (2002) indicates that the entire series of conditions must be met to take advantage of globalisation benefits, and shows a series of risks and examples of treating developing countries like objects, which does not reduce the developmental distance, but are used for maximisation of the return on equity from rich parts of the world. Lin, Jia and Zhang (2017) show that repeating economic success of so called latecomers (Japan, South Korea) can not be taken for granted. On the other hand, there is no empirical proof for existence of so called middle income trap, so both successes and failures in economic catching-up depend on the structural features and economic policy in the given country not just on its level of development (Lee 2020).

Looking at the data on economic dynamics, it is difficult to find any confirmation for the common presence the so-called pre-existing benefits. Although developing countries have recently clearly “accelerated” (economic advance in the whole group in 1990-2010 amounted to 6% annually on average compared to 1.5% in 1960-1990, but once China is taken out, the rate of growth within the last 20 years has decreased to the level of 3.8% annual, which is comparable with the dynamics of highly developed countries (data from the World Bank and the International Monetary Fund). Thus, it is possible to indicate examples of qualitative reduction of the development gap in a few countries (fortunately, China is not the only case), such as India, Botswana, Malaysia, Brazil and Poland, which is the country in the region deserving recognition from the view point of growth dynamics within the last 25 years; however, these are just exceptions from the view point of global economy, not a rule. The data according to the International Monetary Fund) leave no doubt – although the entire group of developing countries has increased its share in the global gross product from 31% in 1980 to 50.9% at this moment, but this is mostly attributable to China, which managed to increase its share in the global economy from 2.2 to 16.1% at the same time[5]. It is difficult to talk about advance in other part of the word, shares of which in global production between 1980-2015 changed as follows: Latin America – from 11.4 to 8.6%, Middle East and North Africa – no change at the level of 5% despite high oil prices recently, Sub-Saharan Africa from 2.7 to 2.6%. So, if the level of income depends on the country in which one was born to a great extent, it is only the principle convergence of the income level between poor and rich countries that can result in qualitative improvement of social cohesion on the world scale. As shown by the presented data, unfortunately, a low level of growth does not provide a quick rate of growth, and economies it still are not able to find a universal solution for provision of high and stable rate of growth. Although the advance – as shown by academic research – is evident as regards development determinants (Acemoglu, Robinson 2013, Spence 2012), it must be unambiguously stated that no coherent theory, which would provide specific solutions relating to economic policy to speed up growth (Rodrik 2009, Easterly 2002), has been found so far.

The presented data indicate reasonable convergence of the growth lever between countries, measured by the level of GDP. From the viewpoint of citizens in developing countries, the situation is even worse if not only GDP is considered, as measure of the production volume, but also GNI (Gross National Income) as the factor is a much better measure of income obtained in a given country by including wage obtained by foreign entities

[5] Having analyse Asia, the importance of China is given greater, and therefore data for other regions are presented as well.

involved in business activity, functioning in that country. Among developing countries, it is the normal situation that GNI is higher than GDP, which means that income from the production taking place in developing countries is partially transferred abroad to owners of capital, i.e. global concerns, which utilise local natural resources and cheap labour. Here are 2 examples of such countries can be provided, i.e. Nigeria and Mexico, the economies of which are based on oil production and export (Nigeria) and provision of cheap labour for export sectors producing mainly for the benefit of the USA (Mexico). In 2013, the GDP difference in Nigeria amounted as many as 8.4% higher than GNI, whereas in Mexico, 3.4%, which are significant values (calculated on the basis of the data from the World Bank). This is reflected in the situation of highly developed countries were a reverse relationship exists, i.e. GNI is higher than GDP in the USA, Germany, France and Japan – 0.8; 2.5 and 19.9% GDP, respectively.

Interestingly, this state of affairs is not visible in payments of highly developed countries; for instance, in the UK and France, the amount of net foreign capital amounted to -20 and -13%, respectively, in 2010, meaning that the rest of the world has invested more capital the compared to assets owned by French and British business entities located abroad[6]. Already in colonial times, i.e. in 1910, foreign assets belonging to France and the UK amounted to as many as 123 and 176% GDP (data from Piketty 2014). This radical change in payments is mostly attributed to the decolonisation process and the incoming foreign capital, which finances public debt.

Although rich countries provide developmental aid by a series of projects and institutions at the same time, and this is worth realising the scale, as mentioned, in 2012, Nigeria received developmental aid in an amount of 0.4% GNI, hence Nigeria supports highly

[6] The data may arise reasonable doubts as it is something unnatural when poor countries are the provider of net capital for rich economies. Zukman (2013) shows that the values require verification by taking into account funds kept in the so-called tax heavens. By taking into account the wealth of collected it in tax heavens, the balance of payments relating to highly developed countries changes from negative to positive.

developed countries in the net perspective, and not vice versa. Distribution of foreign aid is another topic for controversy. Recent research on the link between inflow of the foreign aid and rise in the money kept in the offshore financial centres can lead to suspicion that development aid contributes to higher income and wealth inequalities due to the corruption involved in aid distribution (Andersen, Johannesen, Rijkers 2020).

It is difficult to state unambiguously whether the current phase of globalisation creates favourable conditions for convergence of the income level between countries or rather maintaining high developmental differences between domestic economies. Certainly, the fact of opening by imposing no restrictions for foreign trade and flow of capital does no ensure high economic dynamics; for sure, this means being exposed to a whole series of risks.

As has been shown, spontaneous market forces not only reduce income and wealth inequality between individual countries, but they clearly have an adverse influence on social cohesion. Bearing in mind that state of affairs, state intervention with a global effect is required.

3. **Globalisation and division of income within countries – cases of developing economies**

Classical theories combining foreign trade and division of income mostly include the Heckescher-Ohlina and Stolper-Samuelson models available in the literature. The former states that, under conditions of open foreign trade and various availability of productive factors (labour and capital), there will be specialisation in production and commercial exchange between rich countries, which will produce capital intensive goods, and poor countries, which will focus on production and export of goods characterised by a high share of labour due to abundance of labour force. In a longer period of time, there will be gradual inflow of capital to poorer countries, where higher rates of return can be attained, and therefore the economy will receive more and more additional payments to capital, leading to higher work productivity followed by higher earnings.

The Stolper-Samuelson theory predicts that commercial exchange in open economies will be affected by changes in the structure of income inside economies. In a richer country, products which are more labour consuming will gradually be replaced by import, hence the demand for low-qualified employees will decrease, resulting in increased inequality in income between well and low qualified employees. An opposite situation will take place in an economy of a lower growth level. There, the increase in demand for unqualified labour force, resulting from the increase in exports, will lead to lower wages, and hence general rates of inequality should decrease.

The data on global economy till the beginning of the 1990 of the 20th century confirmed the occurrence of said mechanisms. Although the influence of foreign trade in division of income was relatively small, it is worth noting that:

- on the global scale, there was specialisation in production and foreign trade – poorer countries produce and export mainly raw materials, whereas highly developed countries focus on production of highly processed industrial goods,

- capital flows from highly developed countries to developing economies,

- income inequality is slowly increasing in highly developed countries (mainly in the USA, the bonus on account of education is increasing),

- inequality levels in developing countries are high, but they remain stable; in a few cases, even a decline in the inequality can be observed.

Table 3. Industry share in GDP in selected countries and world regions

Country, year	1970	1980	1990	1995	2000	2005	2010	2011	2012	2013	2014	2015	2016
China	40.5	48.2	41.3	47.2	45.9	47.4	46.7	46.6	45.3	44,0	43,1	40,9	39,8
Germany	n.d.	n.d.	n.d.	32.7	30.8	29.3	30.0	30.5	30.7	30,1	30,4	30,5	30,5
East Asia & Pacific (all income levels)	39.4	40.7	38.2	36.8	35.1	33.9	33.4	32.8	32.1	35,0	35,0	34,5	34,1
European Union				29.7	28.1	26.3	24.8	24.8	24.5	24,5	24,4	24,6	24,5
France	32.5	30.7	26.9	24.5	23.3	21.5	19.6	19.8	20.0	19,8	19,6	19,6	19,6
United Kingdom			31.4	29.9	26.9	23.0	20.6	21.0	20.5	20,3	20,0	20,0	20,2
South Korea	24.5	34.2	38.2	38.4	38.1	37.5	38.3	38.4	38.1	38,4	38,1	38,3	38,6
Latin America & Caribbean (all income levels)	35.0	38.8	36.2	31.7	32.9	34.9	34.4	33.8	33.3	31,0	29,9	27,6	26,9
High income: OECD	n.d.	n.d.	n.d.	n.d.	26.9	25.3	24.1	24.0	23.8	24,5	24,6	24,3	n.d.
Sub-Saharan Africa (all income levels)	31.2	38.3	34.4	32.5	33.8	32.3	28.4	29.1	28.1	26,6	26,4	24,7	24,4
United States					23.2	22.0	20.4	20.8	21.0	20,7	20,9	20,0	
Vietnam	n.d.	n.d.	22.7	28.8	34.2	38.1	38.2	37.9	38.6	36,9	36,9	37,0	36,4

Source: World Bank Database

Since the 1990s, changes in global economy have been made, requiring verification of established theories combining division of income with international economic transactions (Krugman 2008, IMF 2007):

- Highly developed countries, referred to as industrialised economies for a long time, now are stopping to deserve the title – the share of industry in GDP in the USA and the UK is lower than in Chania, but not only; these countries became the industrial backstage of the world but, practically speaking, all economies produce more industrial goods[7] (the only highly developed countries with a relatively high share of industry in economy include Germany and South Korea).

- Industrial goods constitute a bigger and bigger share in exports from developing countries, also high technology products are becoming more significant.

[7] Of course, it must be noted that industry includes mining, and thus raw materials determine the relatively high share of industry in GDP as far as poor countries are concerned.

- The Heckesher-Ohlin model assumes full employment, i.e. voluntary unemployment is present, hence the general employment (and unemployment) level is not affected by foreign trade, but its structure. Already some time ago, it was shown (Kletzer 2000) that foreign trade influenced the labour market in the USA, in sectors with a high share of imports, the scale of workplace decrease is higher than in sectors which are not subject to pressure on the part of foreign production.

- The global circulation is joined by countries with a very low wage level – at the beginning of the 1990, main exporters to the USA included South Korea, Taiwan, Hong-Kong and Singapore, where the wage amounted to approx. 25% of the level in the USA, whereas in 2005, the main business partners to the USA were China and Mexico, where the wage reach 3 and 11%, respectively, of the level in the USA.

- International trade in services is increasing.

- Income inequality are rising quickly both in reach and poor countries.

Although the case of highly developed countries progressing integration of global economy accelerates the trends being observed as regards income distribution, for developing economies, the trend turns over, i.e. as opposite to the Stolper-Samuelson assumptions, income inequality rise together with advancement of factors relating to integration with global economy, such as the share of exports in GDP and the volume of volume of foreign investment admission.

Table 4. Gini coefficients in selected emerging economies

Country, year	1990	1995	2000	2005	2013	2014	2015
China	32,2	35,7	39,2	48	47,3	46,9	46,2
India	30,8	30,4	32	33,5	34	n.d.	n.d.
Nigeria	45	51,9	44	43	49	n.d.	n.d.
Brazil	60,5	59,6	59	56	52,7	51,3	51,3

Source: World Bank Database and ADB data

This relationship has an essential meaning as it implies that economic growth translates into poverty reduction to a smaller extent, and growth fruits are taken over by entities with relatively high income to a greater extent. As shown by research (Majid 2011), there is a positive relation between degree of economy openness and the increase in inequality and decrease in poverty; the more open the economy, the less the economic growth translates into decrease in poverty and income inequality increase more quickly. This relationship related to openness as regards foreign trade as well as capital flows measured by the share of direct foreign investments in GDP. Increasing income inequality in developing countries can be explained by means of the occurring mechanisms as follows:

– Occurrence of the so-called Kuznetz effect (1955), which predicts that income inequality starts to increase at first and then decrease in the first phase of economy growth, resulting from propagation of effects of technical advancement and, generally, the increase in the growth level. At first, only some people are able to master technological innovations, hence they acquire much less income than on average (income inequalities are on the increase), but as time passes by, a larger group of business entities learns how to function under new conditions, increasing competition and flattening income. This is exactly the effect which occurs in the country which opens its economy for contacts with the world. Only the most effective sectors and enterprises are able to direct the production for export and attract foreign investments, which boosts their income and depends inequality. As time goes by, next entities start to increase their productivity, competition among experts and absorber of foreign investments are on the rise, hence the level of income should equalise. Most developing countries is still in the first phase of the described mechanism, hence the inequality increase can be observed[8].

- Due to demographic processes (high fertility rates in combination with considerable improvement of health care and advancing urban development) in developing countries, the number of people in working age is increasing very quickly, increasing competition on the labour market, reducing wage development, in particular for those who hold low qualifications.

- Due to political changes (mainly in China, Vietnam and other Asian countries to a smaller extent), entrepreneurs and members of the former economic elite, whose occurrence on the background of increasing mass of labour force increases inequality rates, come back to the country.

- Rising share of industry in GDP and exports, which means that the production with a high added value, requiring high qualification of employees – even production of technologically advanced products, such as computers, comes down to manual work, technologically advanced elements are imported[9].

- The said production means that a high number of not very qualified people must be accompanied by a narrows group of managers and engineers holding high qualification, hence salaries from the upper division of income distribution increase quickly; This is reflected, for instance, in the bonus, i.e. higher salary resulting from education. While the average for OECD countries amounts to approx. 50% (difference between earnings of a person with secondary

[8] Detailed research on Kuznetz's hypothesis show that declining phase in income inequalities observed in rich economies in XIX/XX century was in the bigger extent caused by state's involvement in the economy than effect of structural changes in market environment (Acemoglu, Robinson 2002).

[9] Krugman (2008) describes the production of Intel processors, wherein the division of labour is clearly visible – technologically advanced production elements are manufactured in the USA, and the rest of the manufacturing process takes place in factories located in China and Malaysia.

education compared with a person with higher education), for selected developing countries, the bonus for education is as follows: 60% in China, 70% in Mongolia and Philippines, 84% in Indonesia, 90% in Canada and as many as 120% in Thailand (World Bank 2012).

- Emerging enterprises with foreign capital mean a higher demand for labour provided by highly qualified people who speak foreign languages and with experience in the international environment. Majeed (2017) shows that FDI inflow has positive impact on income inequalities only in the case of quite developed economies which offer wide access to good quality of human capital and strong financial sector, so in the majority of developing economies inflow of foreign capital corresponds with the rising inequalities.

The listed factors are common for all developing countries as the result from the state of global economy (high dynamics of foreign trade and capital flows) as well as technological progress. Obviously, developing countries do not create a homogenous group; even in the scope of individual regions; large difference between individual economies may be shown. However, in simple terms, it is possible to identify economy models which have shaped since 1980s in various parts of the world and, despite substantial difference, they all lead to increasing income inequality.

In East Asia, quick industrialisation is in progress, based to a great extent on attracting direct foreign investments, which is combined with the fact that the economy is based in exports of industrial products. Although this model proves to serve well as far as GDP dynamics is concerned, it results in quick increases of income stratification cause by the high bonus for high qualification and skills at working in the international environment. It is important to mention that progress made in Asian GDP dynamics economies has not only extensive character based on the labour force growth. About 20% of GDP growth has been caused by improving human capital, so Asian economies not only in quantitative but also in qualitative way (ADB 2017).

Between 1990-2010, GDP per capital at PPP increased on average in the region from USD 1,633 to USD 5,133 (3-fold increase). Importantly, such a high rate of growth takes placed in a very populated place in the world. The rate of extreme poverty (the percentage of society living on less than USD PPP 1.25 per day) decreased in the said period from 53.9 to 21.9%, which means that as many as 719 million people were pulled out of poverty. However, during the same period in countries with as many as 82% of citizens of the region, an increase in income inequality was recorded (ADB 2015).

The quickly rising income inequality affects the influence of GDP growth on reduction of poverty scale. For the 3 most populated countries in the region, i.e. China, India and Indonesia, some calculations were made to find out how the level of extreme poverty in 2008 would look like if the income gap did not increase with these GDP dynamics rates (since 1990):

- in India, the result of the 29.5 instead of the actual level of 32.7%, which is a result of relatively stable Gini coefficients in recent years;

- in China, living in poverty would concern 4.9% instead of 13.1% if the Gin coefficient did not increase from 0.32 to 43.4;

- in Indonesia, the index would be 6.1 instead of 16.3% as the Gini coefficient increased from 0.29 to 0.39 as well.

It can be estimated for the whole region that 240 million people stays in extreme poverty due to deepening income inequality. Obviously, that estimate must be approached with some reserve since it cannot be assumed that an increase in equality does not bring any positive effects for economic dynamics; nevertheless, that stratification in developing countries in Asia is becoming a more serious problem.

The problem of income in quality is particularly noticeable in China, a country which still is officially recognised as socialistic economy, wherein the superior value is social balance and, today, the Gini coefficient for China (46.2) is higher than in the USA a country which is capitalist and liberal (41.1). In this most populated country in the word, the rising inequality, must be seen as the cost economic success within the last 30 years. A very quick growth rate of production and income result in increasing economic disparity between (Xuo, Luo & Li 2014):

- seaside regions, in which mainly export business are located, and the rest of the country;

- agricultural sector and industry, wherein productivity of labour and income are rising very quickly;

- large cities and rural area.

A serious problem is created by villagers who move to cities to search for jobs. As many as 200 million villages have no residence (the so-called *hukou*) where they live, which deprives them of access to public services, such as healthcare and education. Not until the recent years, many measures are taken to improve the situation as regards social cohesion (ADB 2013, ADB 2015, ILO 2008):

- the majority of society is now covered by the pension scheme;

- the scale of representation of employees by whites spreading trade unions in other Institute of the labour market is improving;

- the stratification between the countryside and cities has stopped increasing;

- a fundamental increase of public expenses for health protection is being planned (today, the expenses amounted to only 1.4% GDP – 6.5% in OECD countries);

- it is being planned to widespread education on the secondary level (today, as many as 25 million children aged 13 to 18 years – mainly from rural areas– do not attend school);

- the *hukou* system is to be gradually abandoned to allow immigrants from the countryside (and living in cities) to access public services;

- social expenses are to be increased by 2% GDP within the upcoming 2 years, i.e. up to 11% GDP;

- the role of direct taxes in generation of public income is to be increased;

- the role of regional policy, which consists increasing transfers for the benefit of poorer regions, is gradually, is growing.

Latin America, mostly in 1980s and 1990s, means the so-called two lost decades, i.e. a period economic stagnation as a result of political instability and failed experiments with the neoliberal approach to economy (Cornia 2014). A combination of stagnation and high unemployment with the persistence of the structural cause of social inequality, in the form of very concentrated land ownership structure still present in South America from the colonial times Gini concentration coefficients for land ownership amount to 0.61 in Mexico and as many as 0.93 in Paraguay, whereas these values in Africa, amount to 0.29 and 0.56, respectively – Frankema (2010) results of rising inequality, which is also subject to influenced by global processes in the scope of technological progress and liberalisation of international business trading.

African countries join the global business trading mainly by means of exploitation and export of raw materials, which frequently takes place due to involvement of global mining corporations. Since 1990, Africa is a continent has been developing more or less at the level of the entire global economy, which obviously does not allow catching up with the growth distance but mostly means a positive and relatively stable rate of growth of general income level; this information can be recognised as a success for this continent. Unfortunately, practically no progress has been recorded in the scope of decreasing income quality; compared to the period from 1990 to the mid-2000, the share of the highest quintal of income distribution did not practically change – it was 3.4% in North Africa and 6.3% in Sub-Saharan Africa (an increase by 0.1%) (Anyanwu 2011). It is Africa in which the companies with the record-breaking high Gini coefficients, even over 56 points, for instance, in Namibia, Angola, the Republic of South Africa and Botswana. A lack of progress in the scope of social cohesion in Africa, although the rate of growth is positive, can be explained by a few factors:

- Expansion based on exporting raw materials has a negative impact on the revenue structure as mining contributes to deepening inequality by generating a relatively small number of "good" workplaces, and the majority of the employed performs simple, physical work which is poorly paid.

- Exploitation of raw materials is performed to great extent by foreign corporations, hands GDP increase translates into growth of income to a smaller extent as revenues are transferred abroad, for example in Angola the difference between GDP and GNI amounts to as many as 10.6% (calculated on the basis of data from the World Bank), which shows the scale of the problem.

- Common corruption is the reason for which charges for exploitation of raw materials as incurred are disproportionate to the profits earned.

- The aforementioned childless small from the viewpoint of income of the public sector, whereas due to corruption mechanisms, they are a source of wealth for a small group of privileged ones.

- Public sector is small and inefficient. Both on the level of generation of fiscal revenues as well as provision of public goods, which means that at the small possibilities of correcting the market distribution of income.

- The structure of public expenditures often simply contributes to deepening the inequality, e.g. in Nigeria, almost 10% of the budget is spent on subsidisation of fuel prices, which obviously is beneficial to those who can afford a car.

- Underdevelopment of the residential housing market and infrastructure is the reason for which prices of many goods start to rise quickly when income from exporting raw materials occur, which depends the inequality in the purchase power. Cities like Luanda, the capital city of Angola or N'Djamena (the capital city of Chad) are rated among the most expensive city in the word among the places like Hong-Kong, Singapore and Zürich.

This is the right moment to draw attention to a few structural factors which are the reason for which developing countries generally record lower income inequality indices, compared to highly developed economies, and has there is a negative correlation between the growth level and the scale of income inequality. The fact that stratification indices are higher in poorer countries. Results to a large extent from characteristic features of such economies:

- Preservation of institutions, which were established in the colonial times, designed for exploitation of resources under the economy (people, raw materials, agricultural produce) for the benefit of a narrow group of privileged ones (the so-called *extractive institutions*), performed in the past by European rulers, followed by local rules (Acemoglu, Robinson 2012).

- Ethnical / tribal divisions in Africa and caste divisions in India or Nepal (Karki, Bohara 2014), which is the reason why some social groups are privileged in the access to the labour market, public goods and services and wielding authority.

- A wide scope of grey market, which is the reason why the policy aimed at limitation of inequality is of low efficiency, e.g. the minimum wage level is higher in developing countries (68% GDP per capita between 2004-2007) than in developed economies (37% GDP per capita

– data from ILO), but this rule naturally does not concern those employed in grey market, and usually more than a half of the employed work there.

- The high level of grey market has generally a negative impact on the labour market policy. In countries such as Sudan, Ethiopia, Niger, Uruguay and Bolivia, more than 75% of employees is included in collective labour agreements (which is more than the number in, for instance, Germany, Japan, Canada and the UK – data from ILO), which protects their interests against employers, but this concerns only a narrow group of the employed in the official portion of economy. This leads to functioning of practically two labour markets: official with relatively high protection of employment rights, and nonofficial with common exploitation of employees.

- Quick increase in productivity, which results in relatively slow translation of economic growth into employment generation, and as such shares of wage in GDP decrease. The relationship between GDP dynamics and employment generation between 2001-2011 is estimated to be at the level of approx. 0.7 for the entire world (i.e. an increase of GDP by 1% increases employment by 0.7%), whereas for China and India, the indices amount to 0.28 ad 0.41, and it is noticeable that there is a downward trend as it amounted to 0.44 and 0.53, respectively, between 1991-2000 (ILO 2011).

- Discrimination of women in access to education and labour market, which considerably reduces women's income and increased general inequality at the same time.

- Low public expenditures on education and health protection, which deepens the inequality in human capital and, consequently, income, too. Highly developed countries (*very high human development*) in years 2008-13 spent average 5.3 and 12.1% GDP, respectively, on education and health protection, whereas poor countries (*low human development*) spent 3.8% and 4,5 % GDP, respectively, which results in much greater differences if GDP levels are taken into account (data from UNDP).

- Poor quality of fiscal service, which results in generally low collectability of taxes, in particular of the income tax [10], which is an efficient instrument for controlling and correcting incomes, but it requires an advanced fiscal system.

- Underdevelopment of the financial sector, which results in the so-called financial exclusion. A large portion of society has no access to the products such as bank accounts, credits, insurance, etc., which depends social inequality.

A measure that allows determining the scale of problems for society, on account of inequality is relative loss of the human development index, resulting from the presence of inequality in society is Inequality Adjusted Human Development Index computed by UNDP. In 2018, the average value of the Index for countries grouped in Very High Human Development was 10,7% which indicates that the human development index would be greater by that value If inequality was not present. For Low Human Development economies it was 31,1%. The best result in this category has been achieved by Finland – 5.5% , whereas the greatest loss due to inequality is suffered by Angola – as many as 44%. Developing countries clearly worsen their situation by immense inequality. In Sub-Saharan Africa countries, the biggest loss (36.6%) results from an equal access to health service. The countries in South Asia and Arabia countries "lead the way" in equalities (the loss corresponding to 41.6 and 38%, respectively) as regards education (which results mainly from discrimination of women in this field), whereas Latin America and Caribbean are mostly associated with income disparity corresponding to a loss in human capital in an amount of 36.3%.

Only within the last several dozen years, it has been possible to observe slight decline in the indices of inequality in developing countries. However, there is no confirmation for the said Kuznetz's hypothesis, according to which the revenue structure will automatically aim at

[10] In Latin America, for example, PIT incomes constitute only 1.8% GDP, in Asian developing countries – 2.2% GDP, whereas the average for highly developed countries amounts to 8.4% GDP (UNDP data).

higher social cohesion, together with the level of economic development. Different outcomes of the income distribution in the developing economies are associated more with the growth model which has been implemented than with just the level of development (Policardo, Punto & Carrera 2016). Income inequalities started to decline only in locations where an active economic policy was implemented, aimed at increasing social cohesion, which indicate that convenience market forces do not guarantee even a relatively balanced level of income.

4. Latin America – active social policy is essential

The countries in Latin America have been most successful in improvement of social cohesion, mostly due to Brazil, were it has been manage to decrease the Gini coefficient from 59.3 in 2000 to 52.7 in 2012 (data from the World Bank). The Gini coefficient for the entire group of countries decreased from 0.55 in 1998 to 0.49 in 2011, the poverty index (% of the population living on less than USD 2.5 per day) declined within the same period from 25 to 13% (Levy, Schady 2013). Conclusions were drawn from the fact that the neoliberal strategy from the 1980s and 1990s had failed; neither macroeconomic stability nor common prosperity had been achieved. Slogans such as "A rising tide lifts all boats" (GDP increase should be an end in itself as this is the only efficient way to fight poverty) and the trickle-down theory, which indicates that a higher concentration of income and property translates into higher accumulation and quicker economic growth, rising income also for the lower division of the distribution, have not been proven in reality.

The following obvious instruments for state intervention in division of income were used (ibidem):

- Increased expenditure on education (in Brazil, for example, public expenditure on education increased from 3.7 in 2002 to 5.8 % GDP in 2010 –increment data from the World

Bank), which increased the scale of society education, and as such reduced the bonus for education, leading to reduced wage inequality.

- Significantly increased social transfers for the poorest, mainly for families with children (for example, in Ecuador, Mexico and Brazil, the actual social transfers increased by 100, 55 and 25%, respectively, between 2002-2012), which were conditions by fulfilment of obligations relating to education of children (absenteeism of children from school and underachievement result in lost benefits) and health, such as vaccination and periodic health examinations[11]. That policy simultaneously increases income of the poorest households, reducing inequality immediately, and contributing to a better distribution of human capital, which should have a positive influence on social cohesion in a long-term perspective.

- Active policy in the scope of the minimum wage. The region of Latin America applies the highest minimum wages in the world, i.e. approx. 50% of the average salary, whereas this index for highly developed countries amounts to 39% (data from ILO).

- Propagated pension schemes to cover practically the entire society, not only those employed in official sectors as had been done earlier.

These prosocial, referred to by some people as populistic, economic policy did not result in negative macroeconomic consequences[12], on the contrary:

- GDP dynamics was high and stable;

- inflation is under control;

- budgetary deficits and public debt are generally at safe levels;

[11] The most know scheme of this type – *Bolsa Familia* – was implemented in Brazil when Ignacio Luli Da Silvy was the president; similar schemes function in Mexico, Peru, Uruguay, Columbia and Chile.

[12] Obviously, consequences for Venezuela and Argentina can be mentioned as these countries are deeply instable in terms of macroeconomics, but hopefully, these are just exceptions in the region.

- the level of foreign currency reserves increased up to USD 752 billion in 2011 (from 151 billion which applied 10 years earlier –level data from InterAmerican Development Bank).

Unfortunately, progress in reducing income inequalities in Latin America had been stopped by the economic slowdown caused by global financial crisis, but positive trend has not been reversed (Cord, Barriga-Cabanillas, Lucchetti, Rodrıguez-Castelan, Sousa & Valderrama 2017).

5. Summary

The countries whose level of development is low or moderate must face a series of challenges. The most important aspect is to increase the standard of living, which can take place provided that long-term stable economic growth is ensured. Historical experience concludes that the so-called pre-existing benefits are not commonly applicable economic law, i.e. low level of growth not necessarily guarantees automatic initialisation of processes for permanent improvement of the rate of growth. Although maintaining a quick rate of general growth is by no means simple, the translation of GDP, dynamics into general improvement of life quality is more difficult.

Progressing liberalisation of flows of goods and capital is the reason for which the increasing gain production is associated with increasing income inequalities; therefore, the growth fruit can be enjoyed by a relatively small number of privileged ones provided with access to foreign resources, such as education and business contacts. Taking care of social cohesion must be of particular importance in politics executed in developing countries, as these economies are structurally prone to high inequalities in income division, which exists for historical reasons, and the shape of the current model relating to functioning of the global economy.

Most importantly, despite the fact that the current phase of globalisation weakens state instruments, such as the fiscal system and active policy on the labour market, it is worth remembering that division of income in a given economy is still – to a great extent – a derivative of choices relating to the model of economy policy; the proofs indicating that high growth dynamics can be combined with the care of social cohesion.

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