1 Inequality, Technology and Payments Systems

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Summary – The chapter considers the way in which the interaction between technology, population growth and the payments system is responsible for growing inequality in many poor countries. The payments system describes the set of rules governing property rights, access to work and income from work. Payments systems may be classified into traditional, capitalist, mixed and socialist, although most economies exhibit hybrid characteristics. It is argued that capitalist and mixed economy payments systems are largely responsible for those situations where poverty has increased despite growth in per capita income. Finally the chapter considers methods of reforming the payments system.

This chapter is divided into three sections: Section I presents a very simplified view of the ‘facts’, as currently reported, on the relationship between economic development and inequality; Section II considers some explanation for these facts – with particular emphasis on three aspects, technology, population growth and payments systems, exploring the interrelations between these three sources of inequality. Section III considers policy conclusions that are suggested by the earlier analysis.

I THE FACTS

The one fact that everyone is agreed on is that the statistical basis of the evidence on income distribution is weak and that interpretation presents

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considerable theoretical problems. All the thorny problems of interpersonal welfare comparisons are present in income distribution calculations, while evidence on trends over time also raises the problems associated with new products and changing tastes. Notable practical (and theoretical) problems are how to devise appropriate price indices for different income groups, and whether to rely on data for the distribution of income or consumption where the two appear to give conflicting results.\textsuperscript{1} I shall ignore these difficulties in what follows.

Three types of evidence have been collected about the relationship between economic growth and inequality: long-run evidence from the history of the now industrialised countries; cross-sectional evidence comparing countries at different stages of development at one point in time; and time series evidence from the recent history of particular developing countries. In this chapter I will not summarise the detailed evidence – which has been ably done elsewhere\textsuperscript{2} – but highlight the conclusions to provide a basis for the later discussion.

The long-run evidence from the history of the developed countries suggests that these countries have passed through three stages. In the first pre-industrial and pre-capitalist stage there was relative equality; inequality increased as industrialisation got under way; in the final stage (the twentieth century for many industrialised countries) inequality of income distribution was reduced. However, there is some controversy as to whether the third stage represents a continuing process of increased equality or resulted from the discontinuous effects of a series of shock events – viz. the two world wars, and the change from heavy unemployment to full employment. Some twentieth century data for developed countries is reproduced in Appendix 1 of this chapter. The three stage interpretation of this (very shaky) evidence is consistent with the now widely accepted interpretation of the second type of evidence – cross-sectional evidence of income distribution in different countries. According to this the least developed countries (as indicated by \textit{per capita} income of less than $100 in 1965) show less inequality (a lower Gini coefficient) than a middle group of countries (\textit{per capita} income between $100 and $500–1,000); the most developed countries (\textit{per capita} income above $1,000) have more equal income distribution than the middle-income countries and, from then on, on the whole, equality of income distribution appears to increase as \textit{per capita} income rises. The analysis supports Oshima’s conclusion that countries pass through four stages of development – undeveloped, underdeveloped, semi-developed and fully developed – and that inequality increases through the first three stages and diminishes in the fourth.