2 Explaining Odious Inequality

Odious inequality is by no means restricted to developing countries only, but during the second half of the twentieth century it became endemic to the group of low- and middle-income countries that we are focusing upon. What is it about these countries, their histories, place in the global order, and their political and economic systems that precipitated this socio-economic disaster? This chapter uses the theoretical literature on income distribution and the global division of labour to show that the level and nature of economic inequality in developing countries is a function of a number of historical and contemporary economic and political factors, namely initial factor endowments coupled with the process whereby most of the developing states were incorporated into the world capitalist system as vulnerable economic units, the processes of household formation and economic modernization, and the nature of governance within such countries. In Chapter 3, we shall turn to the empirical record concerning five centuries of inequality in developing countries in order to test the expectations and hypotheses generated by this chapter.

The challenge that we face is to arrive at an integrated understanding of the determinants of odious inequality that can complement and augment the fragmented explanations that dominate the literature on the economics of inequality. In looking for an integrated explanation we should not lose sight of the fact that national political units form part of an international division of labour, and that ‘being poor’ in global terms is not only a reflection of the level of economic output in a state, but also implies a high degree of vulnerability of this state in its interaction with the world system; a vulnerability that does not necessarily affect all citizens and residents equally or in
the same way. Our integrated explanation must therefore focus on the fact that ‘being poor’ is a reflection, at least partly, of a set of power relationships, both between and within countries. Power is itself a multi-dimensional phenomenon, entailing not only disproportionate abilities to affect outcomes in one-on-one relationships, but also the ability to shape the structural conditions under which actors consider and exercise choices. Hence, in pursuing an integrated explanation for the close negative correlation between national per capita GDP level and odious income and wealth inequality, care should be taken not to emulate the example of many economics-based discussions of income distribution which ignore the dimensions of transnational power relations for the sake of cultivating parsimonious explanations (Campano and Salvatore, 2006; Chakravorty, 2006; Champernowne and Cowell, 1998; Fields, 2001; Ray, 1998).

The literature on economic inequality has not been miserly when it comes to possible explanations for why economic inequality arises to start with, why it persists at odious levels over time, and what can lead to changes in its trends. Given the abundance of explanatory factors one can easily slip into a simple adumbration of one factor after another and thus end up with a complex, lumpy, and unyielding model. Instead, this section aims at identifying the minimum of factors that can help us to tackle the *explanandum* and explain the most variance in the data at our disposal. Apart from the required level of parsimony, three further criteria also determine the construction of the model presented in this section. The first is that the model must be empirically testable, which implies that we must identify possible empirical indicators for the explanatory variables that we introduce, and that we have to find appropriate measures for these indicators. Inequality research is notorious for its empirical challenges, and the data restrictions when we deal with developing countries are well known. Nevertheless, and despite the data constraints, our explanatory model must be able to stand up to standard empirical tests.

Secondly, our explanation must be sensitive to the nature of the data that we have at our disposal. Chapter 1 indicated that the EHII income inequality dataset used in this book estimates overall gross household income, that is before-tax and before-redistributive transfer income that is derived from all sources. Furthermore, in the construction of the dataset, information on wage (pay) income plays