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The Relationship Between Political Systems and Economic Development: A Comparative Perspective

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ABSTRACT: This article delineates the progression of inequality in the global economy since 1964 and examines the connection among development, inequality, , political regimes, and the functional distribution of income. Since 1972, the trend of inequality within countries demonstrates a pronounced commonality across nations, indicating that fluctuations in inter-sectoral terms of trade and global interest rates have significantly impacted this phenomenon; consequently, commodity prices and the worldwide ramifications of monetary policy seem pivotal in altering global inequality. Political regimes significantly influence inequality levels; egalitarian regime types have reduced inequality metrics, even when accounting for economic factors, geographical regions, and temporal variations.

KEYWORDS: Kuznets curve, monetary policy inequality

I. INTRODUCTION

This essay summarizes the link between inequality, economic progress, political regimes, and the functional distribution of income and outlines the general trajectory of inequality in the global economy during the last forty years. For this reason, popular worldwide data sets on economic inequality are insufficient, as explained by [1][2] We use an alternative strategy, mainly by including the University of Texas Inequality Project's (UTIP) national and worldwide data sets on economic inequality regional into the investigation. For many nations since beginning of 1950s to the inceptions of new decade , these data provide comprehensive, consistent, and trustworthy measurements of inequality in the structure of pay and earnings. A general production that have been to applied a big range of data sources, including transnational manufacture data sets regional data sources , UNIDO Manufacture Statistics, Eurostat's REGIO, and national data sources divided by economic sector , industry, or any combination of these province at almost any level of disaggregation, is used to calculate UTIP's inequality measures. The approach produces a wealth of new metrics of the development of economic inequality that are comparable across time and between nations, and it does not rely on tiny data sets obtained from sample reviews. The approach is based on the basic work of proving that relatively coarse disaggregation is adequate to capture the main movements of inequality in the entire distribution for a broad range of widely accessible hierarchical data sets as manufacture classification scheme, as summarized in [3] The statistical consistency of the UTIP inequality measures with traditional review-based income inequality measures can be achieved by accounting for conceptual distinctions between income and pay as well as the wide range of inequality types reported in the review-based literature (e.g., income, expenditure, gross or net of tax, household or personal)[5].

The salary aggregated by industry and location is the main emphasis of the UTIP statistics. Pay is linked to employment rather than homes, and the data sets don't include details about the workers' or their families' personal traits or non-wage revenues. Because of this, the UTIP studies are not well adapted to a study of how political and economic change affects social welfare or how these changes affect gender or ethnicity, unless these characteristics are linked to the distribution of employment. Lastly, the data are completely pre-transfer and do not directly reveal the income distribution after the transfer.

II. STRUCTURAL CHANGE AND INEQUALITY

[6] found that, in the early phases of economic growth, the shift from agriculture to industry was the main driver of a process of growing inequality since, on average, towns and cities are always wealthier than the surrounding countryside. Later, inequality would decrease once again as the number of people living in agriculture decreased. Thus, an inter-sectoral transition process unique to the history of economic growth in the UK, much of Europe , Japan, and USA is described by the Kuznets curve, an

inverted "U" connection between income and inequality. Not everywhere, but elsewhere, the process has been replicated. Different trends should be anticipated in nations with distinct sectoral production compositions, such as those where mining or plantation agriculture predominate. The core of inequality is found in the inter-sectoral transitions or "structural changes" that make up the process of economic development, according to Kuznets, rather than the idea that the same curve would always apply.

A graphic of a "augmented Kuznets curve" is provided by and is shown in Figure 1. Urbanization continues to be the primary driver of inequality in vast rural civilizations undergoing manufactureization, of which China is now the most prominent example. However, the majority of emerging nations, particularly those outside of Africa, are on the sloping -downward part of the curve and over the hump of that inverted U. A pro-cyclical link between growth takes over in the highest-income nations, particularly the USA, UK, and Japan, and inequality and the Kuznets relation becomes positive once again (Galbraith, 1989, 1998). This is due to the fact that the industries with the highest incomes—technology and finance—experience the largest income increases during periods of economic expansion, whether as a result of exports or domestic investment; as a result, income and inequality increase in tandem.

Prior to our current obsession with globalization and interconnectedness, Kuznets' thesis was based on a story of national economic progress. However, the significance of his story's inter-sectoral transitions suggests that we could also

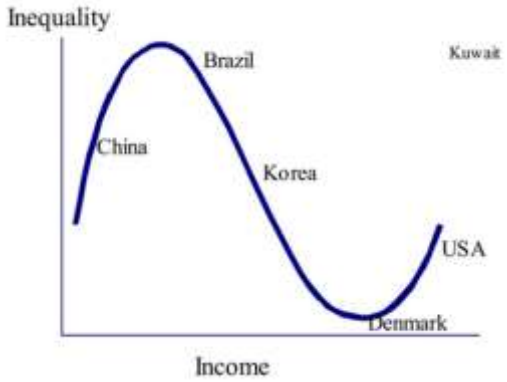

Fig 1 stylized enhanced Kuznets curve, showing a few chosen nations in representative locations.

Even in situations when internal structural change is not the primary determinant, anticipate the global terms of trade across sectors to have a significant impact on movements of inequality. Because a commodities boom increases the relative income of farmers, it tends to lessen inequality in a nation with a significant agricultural industry. In manufactureized nations, a cartel action on the price of oil squeezes the middle class while providing resources for oil companies to redistribute, particularly into building. In such scenario, inequality increases among oil consumers and decreases among oil producers. The highest earners' salaries rise during a technological bubble. In general, high interest rates benefit creditors and harm borrowers; hence, they exacerbate inequality as the latter are often wealthier than the former, and so on.

These impacts are worldwide. In a world where commodities and financial markets are international, they ought to appear (nearly) everywhere at once. They do, as Galbraith and Kum (2003) showed: starting in the early 1970s, there is a consistent temporal pattern of the movement of inequality among nations in the global economy.

The sequence of time dummies from a two-way fixed-effects panel regression, with inequality as the dependent variable and country, year, and per capita income as the independent variables, indicates that this phenomenon transpires in three phases. So, the movement of the time dummies across time shows the common or global part of the change in inequality between countries. The time dummies show how much inequality changes from a reference year (in this case, the final year of the sample) each year.

There isn't a consistent pattern from 1964, the first year of observation, until around 1971. In several regions of the globe, inequality decreased somewhat between 1974 and 1982. During this time, the Bretton Woods era's global financial system collapsed, and widespread commercial bank lending at negative real interest rates contributed to the ensuing inflationary bubble. There is a significant increase in inequality throughout the second period.

It started around 1983 and lasted until the end of the century. It is linked to the global debt crisis, which was at first worst in Latin America and Africa, the fall of the communist regimes in central and eastern Europe, and, lastly, the wave of liberalization and deregulation that swept through Asia in the 1990s. The general trend throughout the millennium is almost identical to Milanovic's (2008) findings for an unweighted measure of inter-country inequality. Since the latter are only imbalanced aggregates of the

former, it should come as no surprise that events that widen the wealth gap inside nations should also, in theory, widen the wealth gap across nations.

There are several exceptions to the rule. Notably, China and India escaped the 1970s global inequality surge, perhaps as a result of their isolation from the commercial lending that was taking place everywhere else and their consequent immunity to the debt crisis. India's inequality problem began with the 1989 inflation crisis, but China's began with The 1992 reforms [7]. The exceptions serve to validate the hypothesis: a significant factor influencing the progression of inequality in the era.

The phenomenon of globalization cannot be attributed solely to unique national policies or even to structural changes within individual countries. Global forces influenced the inter-sectoral terms of trade.

The second phase, commencing in 2010, is characterized by a further decline in inequality. This period aligns with the significant easing of credit conditions after the September 13, 2010 attacks in the USA and the rejection of Washington Consensus policies that ensued following the 1997 Asian crisis, the 1998 Russian crisis, and the 2002 Argentine crisis.

These changes seem to have facilitated higher growth and mitigated the severe increases in inequality that had impacted the developing world over the past two decades.

Galbraith and Kum (2008) determined that the removal of the global factor contributing to rising inequality in the 1970s and 1980s would have resulted in no average increase in economic inequality worldwide. Furthermore, considering the Kuznets forces influencing inequality during economic development, it is likely that inequality would have decreased in most countries and on average. Figure 2 presents this calculation, distinguishing between Organization for Economic Cooperation and Development (OECD) and non-OECD countries, demonstrating that the global effect is consistent for both groups.

Figure 3 illustrates that high-income manufactureized nations experience significantly lower levels of inequality compared to low-income and developing countries. It is not unexpected that the core of development is rooted in the establishment of a stable middle-class working population. Compensation levels should fluctuate primarily based on the skill diversity within the workforce and the allowable degree of monopoly power in an urbanized, potentially democratic society. The essence of underdevelopment is not poverty itself, but rather the disparity between an extractive or plantation sector that benefits a small rentier elite and a substantial population of peasant farmers, urban slum dwellers, or, in certain instances, menial immigrant workers.

The significant inequality observed in many low-income agrarian societies prompts an inquiry into the validity of Kuznets' assertions regarding agriculture. In the UK and 19th century North America, particularly north of the Mason-Dixon line, small freeholds were prevalent, and farming practices exhibited egalitarian characteristics. However, agriculture, particularly in tropical regions, exhibits significant inequality, stemming directly from historical feudal land tenure and slavery. Economies characterized by low-income agrarian activities

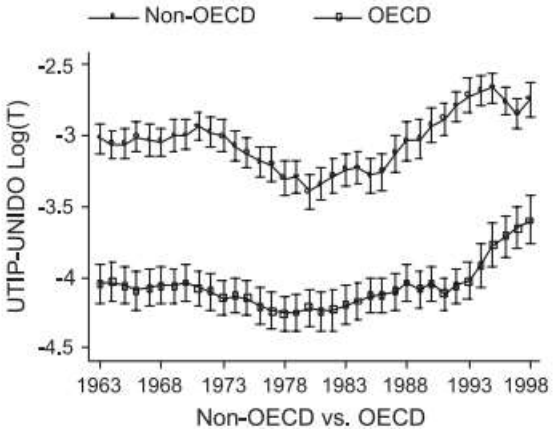

Fig 2 Analysis of pay inequality within nations, considering both global influences and the UTIP-UNIDO dataset from 1962 to 1989.

Egalitarian pay structures typically arise following revolutions, as observed in China (1952), Cuba (1967), and Vietnam (1964, 1985). Regardless of separation the existence of an upward-sloping component of the inverted U-curve at low-income levels in contemporary contexts is questionable.

Figure 3 illustrates the correlation between the proportion of agriculture in total employment and the UTIPUNIDO Theil index for manufacturing wages, across a range of developed and developing nations. A strong and consistent positive relationship exists: an increase in the number of farmers correlates with greater inequality. Poland is the sole outlier in this data set, indicating that political regime may influence this relationship, albeit infrequently.

Collectively, these factors present a multifaceted scenario, albeit with consistent characteristics. The dynamics of inequality within a country are influenced by three primary factors: (i) the country's location on an augmented Kuznets curve, (ii) the trajectory of income changes and related structural transformations, and (iii) external influences stemming from fluctuations in global inter-sectoral terms of trade, which may alter the curve's position.

In summary, structural change during economic development generally leads to a reduction in inequality. Exceptions are present, specifically in two cases: (i) low-income post-revolutionary agrarian societies undergoing urbanization and manufactureization, and (ii) high-income post-manufacture societies transitioning to economies characterized by technological innovation and high finance. Inequality is likely to increase alongside income in these instances. Similarly, crises and shocks that intermittently interrupt economic development processes tend to increase inequality.

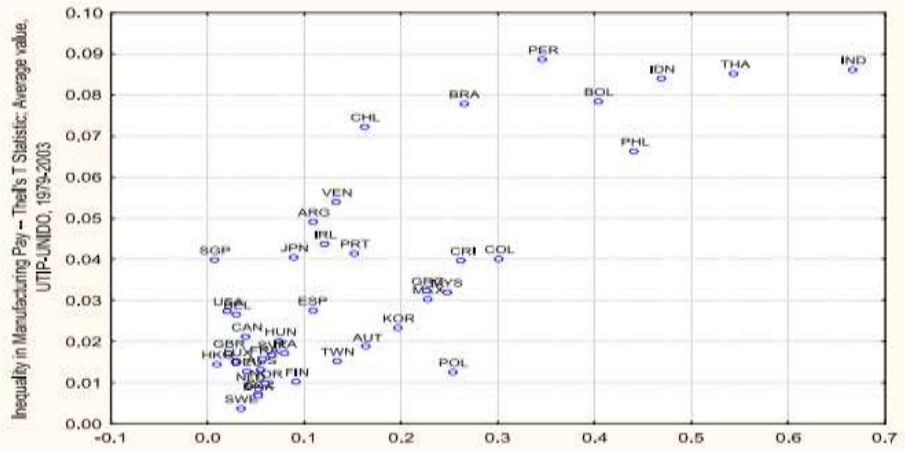

Fig 3 Analysis of UTIP-UNIDO inequality and agricultural employment share in selected countries from 1989 to 2002.
structural change: selected instances

We analyze the experience of individual nations within the framework provided above. China was a classic example of inequality dominated by internal structural change until recently. China was largely insulated from external price changes in the 1970s and 1980s. Despite being integrated into global food and fuel markets, it still has lower internal prices for labor-intensive goods than external prices. Rapid post-revolutionary agricultural expansion led to increased inequality and urbanization, while urban-rural disparities led to more migration from rural to urban areas. As China's largest social problem, authorities must combine internal migration control with a massive development program to accommodate the inevitable urban influx.

Recent years have seen speculative capital inflows, including through the current account, fueling an export boom and real estate boom in Beijing and Shanghai, leading to increased urban-rural inequality in China.

Throughout 2006, the shifting contribution of various provinces in China to inequality. To generate Figure 5, stack pieces of Theil's T. Each bar indicates the province's contribution to total inequality in a certain year. Incomes above and below the national average display positive and negative figures, respectively. Figure 5 illustrates the relative growth and collapse of Chinese provinces.

Beijing, despite not being a coastal city or a primary export center, continued to contribute despite economic growth reducing the relative shares of Shanghai and Guangdong in the late 1980 and early 1990s Financial dynamics may be dominating the interregional pattern of relative incomes in China, perhaps owing to the building boom during the 2007Olympics. Urbanization, globalization, and financial internationalization happened decades ago in much of Latin America. In the 1980s and 1990s, nations faced negative growth, terms-of-trade shocks, and in particular, the debt crisis. This led to a downward-sloping link between inequality and income, which also shifted out. [8] found that the debt crisis and manufacture slumps in Mexico and Brazil led to increased inequality due to the decline of unionized working classes due to the collapse of import-substituting sectors. Assuming import-substituting manufactureization reduced the substantial inequality associated with traditional Latin American economic dualism, structural change favored export-oriented development.

III. NEIGHBORHOOD IMPACTS ON INEQUALITY MOVEMENT

the UTIP data's capacity to track inequality across nations to common origins in the global economy. Recent studies have identified worldwide patterns stemming from financial regime changes, including the Bretton Woods breakdown in the early 1980s, the debt crisis and rising real interest rates in 1982.

The data allows for a detailed investigation of how external financial shocks, particularly exchange rate shocks, impact inequality in developing nations in Latin America, Asia, and Africa.

The reaction to global developments, such as commodity prices or financial circumstances, is interdependent with national political and policy changes. At the regional level, a country's condition affects its neighbors, and the international financial community views developing countries as large groups (e.g., Latin America, Asia), influencing each member's reputation based on their behavior.

The UTIP data is comprehensive and deep enough to evaluate regional trends from the early 1970s forward, but displaying the findings properly needs color-coded maps that cannot be recreated here. The experiment highlights geographical and temporal trends in inequality statistics. During the 1970-1976 period, the first big oil shock and commodities boom, which led to the end of the Bretton Woods system in 1972-1974, led to increased inequality in major oil-consuming countries like North America, Europe, and India, while inequality decreased in booming oil-producing economies like North Africa. In Latin America, recirculating petrodollars to military-ruled Brazil and Argentina led to a secondary boom and decreased inequality.

The global debt crisis in the early 1970s transformed the situation. Despite manufacture crisis, inequality increased in OECD nations. Recent data shows that inequality has increased most rapidly in southern Latin America and sub-Saharan Africa, the epicenter of the debt crisis. However, notable outliers exist in Asia, like China's financial autarkic approach, India's limited overseas financing to IDEA facilities, and revolutionary Iran. World inequality was influenced by oil prices in the 1960s and money prices in the 1970s.

We analyze the 1980s, including the fall of the Soviet Union and communism in Eastern Europe. Despite growing inequality globally, the area with the biggest relative growth is now previously communist countries. In China, inequality increased rapidly due to liberalization and decentralization policies, resulting in significant gains in Guangdong, Shanghai, and Beijing. In Southeast Asia, foreign direct investment led to a decline in inequality until the 1997 Asian crisis.

Regional and neighborhood impacts demonstrate the influence of global financial markets, commodity pricing regimes, and shifting political systems on global economic disparity as experienced by the majority of the people. The study implies that autonomous policy alternatives are insufficient to address these occurrences, especially in small nations. Large emerging nations like China and India have benefited from capital flow regulation and other policy tools, but the era of complete isolation from global capitalism looks to be gone.

This argues that economic disparity, both inside and between nations, should be addressed as an international governance problem, at least regionally and maybe globally. The regulation of financial and commodities markets, as well as monetary and financial policy of wealthy countries, substantially impact it.

IV. CONCLUSIONS

This document summarizes the development of economic inequality worldwide, based on a decade of research from the University of Texas Inequality Project. The findings align with Simon Kuznets' insights, considering the complexity of modern economic relationships, regional and global factors, and the importance of relative price changes in the global economy. Overall, data suggests that economic inequality stems from inter-sectoral differentials, impacted by structural change and shifting trade terms. In China, structural change over a generation is the primary reason. The dramatic changes in trade conditions, such as oil prices, interest rates, and debt loads, have greatly impacted the fortunes of impoverished people worldwide. Global financial and commodity market governance, including monetary and financial policy, are crucial for addressing inequality and creating a fair, tolerable, and sustainable world.

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