Neoliberalism and the Distribution of Wealth from the Core to the Periphery

Dr Jenny Chesters, Faculty of ESTeM, University of Canberra

Email address: jenny.chesters@canberra.edu.au

Abstract

The adoption of neoliberal economic policies during the latter half of the twentieth century resulted in the transference of manufacturing and manufacturing jobs from the core to the periphery. In peripheral nations, the effects of increased investment and the ensuing economic growth simultaneously resulted in upward mobility at a national level and higher levels of within-nation wealth inequality. As wealth inequality increased in India, Russia and China, the percentage of global billionaires located in these three nations increased dramatically from just one per cent in 1987 to 22 per cent in 2011.

Key words

Neoliberalism; wealth inequality; World System Theory

Word Count: 3048
Neoliberalism and the Distribution of Wealth from the Core to the Periphery

Introduction

For much of the past few centuries, global wealth has been concentrated in a handful of core nations within the world economy. Core nations imported raw materials from peripheral and semi-peripheral nations and exported manufactured goods to these nations exploiting the global market to ensure the prices of commodities remained low and the prices of manufactured goods remained high. When the advanced economies in the core embraced neoliberalism during the 1980s and 1990s, governments lost control over the flow of capital into and out of their national economies. Manufacturing relocated to peripheral and semi-peripheral nations with cheaper labour and lower environmental standards and core nations became importers rather than exporters of manufactured goods.

World systems theory is a hierarchical classification of nations based on an axial division of labor that divides the world into three interdependent zones: the core, the periphery and the semi-periphery (Wallerstein, 2004). The core consists of the wealthiest, most powerful nations in which a relatively large percentage of economic activities generate relatively high returns. The periphery consists of the poorest, least powerful nations in which a relatively high proportion of economic activities generate low returns (Chase-Dunn, 1989). The semi-periphery is located between these two extremes. Movement between the zones is possible with nations moving up or down the hierarchy in accordance with their relative wealth and power (Anderson and Chase-Dunn, 2005).

To examine the effect of neoliberalism on the distribution of wealth in the global economy and the distribution of global billionaires, I focus on three core nations (the US, UK and Germany) and three semi-peripheral nations (India, Russia and China). The US and the
UK were the vanguards of neoliberalism, deregulating and privatising state assets during the Reagan/Thatcher regimes in the 1980s. Germany maintained a stricter regulatory regime in regards to employment conditions and wages but, like the US and UK, is well integrated into the financial markets of the global economy.

Both China and India experienced upward mobility at a national level moving from the periphery (Babones, 2005) into the semi-periphery due to rapid economic growth in the last two decades of the twentieth century (Clark, 2010). Change in GDP/capita (Gross Domestic Product) over time is a commonly used measure of economic growth. After controlling for the effects of inflation, World Bank (2013) figures show that between 1980 and 2000, GDP/capita increased from $US193 to $US949 in China and from $US271 to $US450 in India. In 2011, GDP/capita was $US5,445 in China and $US1,489 in India.

**Neoliberalism**

Neoliberalism is based on classical economic theory which posits that markets operate efficiently, are ‘self-correcting and self-stabilising’ (Quiggin, 1999: 250), therefore, the role of the state is to ‘create and preserve an institutional framework characterized by strong private property rights, free markets and free trade’ (Harvey, 2005: 2). Markets operate efficiently when self-interested buyers and self-interested sellers have ‘perfect knowledge’ and utilise that knowledge to make rational decisions (Woodward, 2005: 42). Despite regarding government intervention as unnecessary, markets rely on government regulations to ‘prevent fraud, enforce contractual obligations and ensure the integrity of the currency’ (Woodward, 2005: 44).

In the 1960s, some manufacturers set up factories in peripheral nations to manufacture particular parts which were then shipped to core nations to be assembled (Harvey, 2010).
Innovations in transportation, such as the containerization of shipping, and in communications, such as the internet, together with the removal of constraints on the movement of capital facilitated the transference of manufacturing and therefore jobs from the core to the periphery and the semi-periphery. Countries in the periphery and semi-periphery were well placed to take advantage of these opportunities having reserve armies of displaced rural workers desperate for jobs.

In core nations, from the late 1970s onwards, governments began deregulating financial sectors allowing for closer integration of markets. In the banking sector, interest rate ceilings on deposits and loans were removed and controls over bank lending and liquidity levels were lifted (Woodward, 2005). Investments in production were replaced by investment in stocks, shares, property and other assets resulting in the decline of economic power related to production and an increase in the economic power related to finance (Harvey, 2005).

As the core adopted neoliberal economic policies, the communist states transitioned from centrally-planned economies into marketised economies, adopting many of the neoliberal reforms and privatising state assets. In Russia, the privatization of state assets including steel mills and oil fields in the early 1990s resulted in the creation of a small group of oligarchs (Gruriev and Rachinsky, 2005). The development of the capitalist class in China is also linked to the rapid privatization of state assets, particularly land. Since the 1980s, almost 180 million Chinese have been removed from their land to allow for the development of mega cities and manufacturing hubs (Harvey, 2010). Consequently, property developers have amassed great fortunes by acquiring land from farmers at very little cost and very little effort due to the inability of farmers to resist their demands. After losing their homes and their livelihoods, the farmers were forced to migrate to urban areas in search of employment, thus creating a vast army of cheap labour which is currently being exploited to produce manufactured goods for export around the world providing a relatively small group of
entrepreneurs with the opportunity to become exceptionally wealthy in a very short period of time. India transitioned from a centrally planned economy after the severe economic crisis it encountered in 1991. After gaining independence from the UK in 1947, successive democratically elected governments held a tight grip on economic development through their control over private economic activity (Krueger, 2002). After 1991, the government adopted a range of modified neoliberal policies to liberalize trade: reducing tariffs, easing restrictions on Foreign Direct Investment, devaluing the currency and removing controls over exports (except for agricultural products).

**Wealth Inequality**

Wealth inequality can be measured in a variety of ways, however, due to the paucity of relevant data, it is difficult to track trends over time. Some attempts have been made to provide comprehensive measures of wealth inequality at various points in time. For example, Davies et al (2009) estimated the wealth Gini\(^1\) coefficients, one measure of within-nation inequality, for 140 nations at the turn of the century. According to Davies et al. the Gini coefficient was 0.550 for China; 0.669 for India; 0.699 for Russia; 0.667 for Germany; 0.697 for the UK; and 0.801 for the US. There is some evidence of increasing within-nation wealth inequality in recent decades. For example, Li and Zhao (2009) estimated that the wealth Gini coefficient for China increased from 0.40 in 1995 to 0.55 in 2002. Wolff (2010) estimated the wealth Gini coefficient for the US increased from 0.799 in 1983 to 0.865 in 2009.

Another indicator of the distribution of wealth within a nation is the comparison of median wealth/adult to mean wealth/adult. The closer the ratio is to one, the less skewed the distribution. Davies et al. (2009) estimated the median wealth/adult and mean wealth/adult in

\(^1\) The Gini coefficient is a widely used indicator of inequality and ranges from 0 to 1. A Gini coefficient of 0 indicates that each unit in the distribution has an equal share of total wealth and a Gini coefficient of 1 indicates that one unit owns all of the wealth. For example, if the Gini coefficient = 0.9 for a population of 100 with a total wealth equal to $1000, one person would have $900 and 99 people would have $1 each (Davies et al. 2009: 402).
2000 for the six nations of interest and Keating et al. (2011; 2012) estimated the median wealth/adult and mean wealth/adult in 2011 for five of these nations. Table 1 lists these figures and the ratios for 2000 and 2011. Between 2000 and 2011, the ratio of median wealth/adult to mean wealth/adult was stable at 0.21 in the US, increased from 0.45 to 0.47 in the UK, declined from 0.55 to 0.36 in China and from 0.40 to 0.23 in India. The ratio declined from 0.37 to 0.10 in Russia between 2000 and 2012. These figures indicate that, on this measure, wealth inequality was relatively stable in the core nations but increased dramatically in the semi-peripheral nations.

[insert Table 1 about here]

**Global billionaires**

Although the wealthiest individuals in the world were largely concentrated in the core nations between 1987 and 2000, growth in the number of new billionaires has been strongest in the semi-periphery. Between 2001 and 2011, the number of billionaires located in three semi-peripheral nations, India, Russia and China, increased from 13 to 268 (Chesters, 2013). Not constrained by national governments or national obligations, billionaires are free to invest anywhere in the global economy selecting investments which will generate the highest returns. Moving capital from nations providing low rates of return, such as those in the core, to those providing high rates of return, such as those in the periphery and semi-periphery, increases the rate of capital accumulation redistributing global wealth and spawning new billionaires.

Data on the wealth holdings of the billionaires in the six nations of interest in this paper as well as the total wealth holdings of all billionaires are derived from lists published annually by *Forbes Magazine*. These lists are compiled by journalists therefore their validity is linked to the extent that the wealth holdings are public knowledge (Atkinson, 2006: 6).
Wealth is defined as the current value of all marketable assets less the current value of debts. The values are converted to US dollars using the exchange rate current at the time each list is compiled. In this paper, I use data on country of residence\(^2\) and net worth. The total net worth variable is a continuous measure ranging from $US1 billion. I convert the values for each year into 2011 US dollars using the annual yearly Consumer Price Index (CPI) published by the US Bureau of Labor Statistics (2012).

The graph in Figure 1 charts trends over time in the share of global billionaires residing in the six nations. Overall, the proportion of global billionaires residing in the three core nations declined from 55 per cent in 1987 to 41 per cent in 2011 whereas the proportion of global billionaires residing in the three semi-peripheral nations increased from one per cent in 1987 to 22 per cent in 2011. Between 1987 and 2011, the share of global billionaires residing in the US declined from 44 per cent to 34 per cent and the share of global billionaires residing in Germany declined from seven per cent to four per cent. China increased its share of global billionaires from one per cent in 2006 to 10 per cent in 2011- see Table A.1 in the Appendix.

[insert Figure 1 about here]

The graph in Figure 2 shows trends over time in the share of billionaire wealth held in the six nations. In 1987, the three semi-peripheral nations accounted for just one per cent of global billionaire wealth whereas the core nations accounted for 46 per cent of global billionaire wealth. In 2011, billionaires residing in India, Russia and China held 19 per cent of global billionaire wealth and billionaires residing in the US, the UK and Germany held 42 per cent of global billionaire wealth. The share of global billionaire wealth held by

\(^2\)Between 1998 and 2001, Forbes includes information on country but does not specify whether this pertains to country of residence or country of citizenship and in 2002, only country of citizenship is listed. I used the information from either preceding years or later years where possible to code country of residence in these years. If the individual was only listed in these years, I used the country/ country of citizenship information for country of residence.
billionaires residing in the US declined from 36 per cent to 33 per cent and the share of global billionaire wealth held by billionaires residing in Germany declined from eight per cent to five per cent. China increased its share of global billionaire wealth from 0.4 per cent in 2006 to five per cent in 2011 - see Table A.2 in the Appendix.

[insert Figure 2 about here]

**Discussion and Conclusion**

This paper set out to examine the effect of neoliberalism on the distribution of wealth in the world economy. During the latter half of the twentieth century, core nations adopted neoliberal economic policies which resulted in the transference of manufacturing and manufacturing jobs from the core to the periphery and facilitated the upward mobility of three peripheral nations, India, Russia and China into the semi-periphery. Local entrepreneurs in these nations were well-placed to take advantage of the opportunities provided by the neoliberal economic policies adopted in the core. The rapid expansion of the economies in these three nations was accompanied by a rapid increase in within-nation wealth inequality and the redistribution of global wealth.

The percentage of global billionaires located in the three core countries examined in this paper declined from 55 per cent to 41 per cent between 1987 and 2011 whereas the percentage of global billionaires located in the three semi-peripheral countries increased from one to 22 per cent. In 2011, India, Russia and China held 19 per cent of billionaire wealth (up from one per cent in 1987) and the US, UK and Germany held 42 per cent of global billionaire wealth (down from 46 per cent in 1987).

In conclusion, the adoption of neoliberal policies in the core facilitated rapid economic growth in peripheral and semi-peripheral nations, increased within-nation wealth inequality and led to a redistribution of global billionaire wealth.
Acknowledgement

The data used for this paper come from the Global Inequality dataset compiled by Jenny Chesters, University of Canberra, Jesper Roine, Stockholm School of Economics and Daniel Waldenstrom, Uppsala University.

References


<table>
<thead>
<tr>
<th></th>
<th>2000 (PPP$)</th>
<th></th>
<th>2011($US)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>median wealth/adult</td>
<td>mean wealth/adult</td>
<td>ratio</td>
<td>median wealth/adult</td>
</tr>
<tr>
<td>US</td>
<td>41682</td>
<td>201319</td>
<td>0.21</td>
<td>52752</td>
</tr>
<tr>
<td>UK</td>
<td>77439</td>
<td>172461</td>
<td>0.45</td>
<td>121852</td>
</tr>
<tr>
<td>Germany</td>
<td>39709</td>
<td>115325</td>
<td>0.34</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>4809</td>
<td>12021</td>
<td>0.40</td>
<td>1291</td>
</tr>
<tr>
<td>Russia*</td>
<td>7438</td>
<td>20005</td>
<td>0.37</td>
<td>1267</td>
</tr>
<tr>
<td>China</td>
<td>10411</td>
<td>19056</td>
<td>0.55</td>
<td>7496</td>
</tr>
</tbody>
</table>

* 2012 figures

Sources: Davies et al. 2009; Keating et al. 2011 and 2012
Figure 1. Trends over time in percentage of global billionaires in each nation

Source: Forbes various issues 1987-2011
Figure 2. Trends over time in percentage of billionaire wealth held by billionaires in each nation

Source: Forbes various issues 1987-2011
**APPENDIX**

Table A.1 Percentage of global billionaires in each nation in each year [Figure 1]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>44</td>
<td>35</td>
<td>38</td>
<td>50</td>
<td>46</td>
<td>34</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Germany</td>
<td>7</td>
<td>13</td>
<td>10</td>
<td>5</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td><strong>total</strong></td>
<td><strong>55</strong></td>
<td><strong>51</strong></td>
<td><strong>49</strong></td>
<td><strong>57</strong></td>
<td><strong>55</strong></td>
<td><strong>41</strong></td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Russia</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>China</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td><strong>total</strong></td>
<td><strong>1</strong></td>
<td><strong>0</strong></td>
<td><strong>1</strong></td>
<td><strong>2</strong></td>
<td><strong>7</strong></td>
<td><strong>22</strong></td>
</tr>
</tbody>
</table>

Table A.2 Percentage billionaire wealth held by billionaires in each nation in each year [Figure 2]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>36</td>
<td>35</td>
<td>35</td>
<td>53</td>
<td>42</td>
<td>33</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Germany</td>
<td>8</td>
<td>12</td>
<td>11</td>
<td>8</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46</strong></td>
<td><strong>48</strong></td>
<td><strong>47</strong></td>
<td><strong>62</strong></td>
<td><strong>53</strong></td>
<td><strong>42</strong></td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Russia</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>China</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.4</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1</strong></td>
<td><strong>0</strong></td>
<td><strong>0</strong></td>
<td><strong>2</strong></td>
<td><strong>9</strong></td>
<td><strong>19</strong></td>
</tr>
</tbody>
</table>