A theory of inequality in the global South has been developed by Jessé Souza (2007). He argues that societies in the global South can only be understood against the background of colonialism and modernization programmes. They established a structure, which reminds of Wallerstein and dependency theory by creating an unequal relation between the centre and the rest. Souza deviates from Wallerstein, however, by his focus on the symbolic dimension. While economic and political dependency has largely disappeared, the unequal relation between centre and periphery has been embodied as a system of meaning. This system also informs national and local inequality by establishing a racism that declares characteristics of the modern centre (such as white skin, urban residence, Western education) as superior and characteristics of the underdeveloped periphery as inferior. Thereby, inequality in a postcolonial society is legitimized.

2.2 Sources of income inequality in the economic literature

Even scholars like Amartya Sen, who are very sensitive to the question of Eurocentrism, regularly invoke universal concepts of socio-economic inequality without considering the local context or seeking out indigenous concepts of (in)equality. Nevertheless, Sen may have been the first (after Marx) to seriously address the question of why one should study inequality at all. He agreed with Marx that research on inequality should seek to discover the structures that prevent people from leading the kind of life they 'have reason to value', and that the problem with inequality is that many people do not have this option (Sen 2006: 35). And both agree that the root of the problem is an unequal distribution of resources and the symbolic legitimation of this distribution. However, both propose a rather mechanistic genesis for these structures as well as the somewhat simplistic solution of redistribution.

Economics has not developed Sen's approach much further. It rather mostly sticks to approaches that cannot offer a general perspective on inequality. However, each approach has certain virtues that are still relevant for a research agenda today. In the economic literature eight different approaches can be outlined in the analysis of inequality. As inequality is a very complex and multi-dimensional phenomenon, each approach specifies a possible source of inequality, without ruling out the relevance of the other approaches; these approaches are not mutually exclusive.

1. *Human capital.* The human capital approach is the main theoretical framework used by neoclassical economists in order to explain the different individuals' earning profile in time (Becker 1964; Mincer 1974). For our purposes, it is important to mention that human capital theoretical apparatus analyses the process of skill formation from two different perspectives. On the one hand, this approach takes into account the individual educational choices, based on a constrained maximisation process. According to this approach, individuals invest in years of education for as many years so that the return to this investment is greater than the one of any alternative financial investment. The earning profile of a worker depends on the amount of this investment, whose level is substantially affected by two factors: the individual ability and the background characteristics such as gender, parental background and income. On the other hand, assuming a perfectly competitive labour market, Becker started the analysis of skill formation in firms through different typologies of training (on-the-job, off-the-job, ...). He introduced the pivotal distinction between specific and general training[2] and showed that, while for employers it can be convenient to contribute to investment in specific training, the onus of general training weighs totally on the employees' shoulders, as the risk of free-riding by other employers can make investment in general training of little value. More recent developments in human capital theory (Acemoglu, Pischke 1998, 1999) have demonstrated that abandoning the assumption of perfect competition, in either the labour or the product market, can create the conditions for financing of investments in general training by employers. This makes training less quantifiable and less of an individualistic affair. From both perspectives, inequality stems from a process of skill formation. In the analysis of individual educational choices, inequality depends on the level of investment in years of schooling, which in turn, depends on both background and individual characteristics; in the analysis of training activity in firms, inequality results from the decisions taken both by employers and employees.

   From Bourdieu's perspective, education aims at favouring the reproduction of the existing social order, based on an unequal distribution of resources (capital). Of course, this approach to education

[2]Specific training augments employees' productivity only in the firm where training activity has been actually carried out; general training increases the workers' productivity in any firm.

is incompatible with the human capital approach, as the latter rules out class concepts. This provides an interesting perspective for economists since it points to the social function played by the processes of formation/cumulation of human capital. As a matter of fact, one "must ask not only how variations in the level of investment affect the level of output and growth rates [and individual productivity], but also how the structure of human capital formation affects the social relations of production and the evolution of class relations" (Bowles, Gintis, 1975). Human capital formation is not only a result of rational individual choices, but it also depends on the class nature of the production process. In this "formulation, schooling may influence the rate of growth positively or negatively in ways which go considerably beyond the human capital theorist's notion of "labour quality": through its role in the extension and reproduction of the wage-labour system, through its capacity to attenuate class conflict and thereby to alter the rate of capital accumulation, and so on."...(Bowles, Gintis, 1975). The analysis of the return to investment in education and human capital should be embedded within a framework including the societal class composition. Reduction in inequality is not only a mere result of the amount of investment in education or training. "The relationship between schooling and the distribution of income cannot be understood with a model which lacks a theory of reproduction, for a central aspect of this relationship is the role played by the school system in legitimating economic inequality. Thus, it is illogical to suppose that the reduction in inequalities in the distribution of schooling might lead to changes in income inequality in any particular direction. Major changes in the distribution of human resources will predictably be associated with changes in the structural relationships (earnings functions) relating schooling to individual income. Indeed, an equalization of education might radically reduce economic inequality, not directly, but rather by undermining the legitimacy of inequality and thus enhancing the potential for a thoroughgoing reorganization of economic institutions" (Bowles, Gintis, 1975).

2. *The effect of skill-biased technical change.* This approach emphasizes the role played by the introduction of new technologies, and the organisational restructuring encompassed by these new technologies, in the relative demand for highly skilled workers with respect to middle-skilled employees. This occurs because new technologies are complements to the working activities of highly-skilled employees and can substitute for middle-skilled workers (Goldin, Katz, 2007). Jobs related to routinized skills, both cognitive and non-cognitive, seem to be the most severely hit by this dynamics, giving rise to a remarkable downsizing of middle-income earners. The overall effect of this process has been the polarization of the distribution of jobs in the US and most European countries (Autor et al. 2007; Goos, Manning, Salomons 2009) with both an increase in jobs related to non-routinized cognitive skills, in the upper tail, and an increase in non-routinized non cognitive job posts in the lower tail. The number of middle-skilled jobs related to routinized cognitive and non cognitive tasks has shrunk quite drastically, as a result of the techno-organizational change associated with the intensive introduction of computers in work process and organization. This change in the intensity of relative demand for skills seems to be consistent with Bravermann's (1974) approach who maintained that technological innovation was responsible for de-skilling of a component of the workforce. The same story, but from a different perspective, can be told as far as the analysis of the impact of the introduction of HPWP (High Performance Working Practice) is concerned, resulting in a flattening of the hierarchical structure in firms, due to a drastic downscaling of the middle-management.

3. *Internationalization of production.* There is a wide range of literature on the effects of globalisation of markets on inequality (Mills 2008). The effects diverge according to the countries involved. The new international division of labour is deeply affected by the phenomena of outsourcing and offshoring, favoured both by the new institutional setting of international trade and the rapid spread of ICT in manufacturing activities. Roughly speaking, firms keep in advanced countries highly skilled activities with few highly paid employees, while cutting down jobs and wages for medium and low skilled office and factory workers, whose jobs are more likely to be transferred to low wage developing countries. Basically, these events go in the same direction as the skill-biased technical change, giving rise to an increase in relative demand for highly-skilled workers with respect to medium-skilled ones. The outcome in these rich countries is a rise in wage inequality, and deeper polarisation of jobs and skills. Nevertheless, the effects of globalization on developing economies can be quite different. As a matter of fact, globalisation can favour the process of industrialisation

and job creation. New employment opportunities arise and the gap between the highly-skilled and the low-skilled wage earners narrows (Mills 2008). As a result, in developing countries outsourcing and off-shoring of economic activities, carried out by firms whose main site remains in advanced countries, favour a process of restraint and decrease of inequality.

4. *Labour market institutions.* Three different types of institutions have to be taken into account, as key determinants of income inequality and its dynamics. Firstly, the range of labour contracts and the laws which regulate them affect the bargaining power of workers. The easier the activation of individual fixed-term labour contract, the weaker is the bargaining power of workers. Secondly, the degree of unionisation of the workforce matters. Thirdly, the existence and the degree of coverage of collective bargaining has an effect. The role and the evolution of these three factors has deeply influenced the dynamics of income inequality, changing the balance of power in the process of wage bargaining. Without going into detail too much, the deregulation of the labour market of these last years has weakened collective bargaining, in favour of a vis-à-vis contracting between the employer and the employee. This has been probably one of the crucial explanatory factors in the increase in inequality experienced in most European countries in these last years (OECD 2012).

5. *Role of the Welfare state.* Another effect of the deregulation process developed in these last years has been the downsizing of the role of the State as both economic actor and manager of the process of income distribution between profits and wages. The dismantling of the welfare state and the weakening of the redistributive role played by the government through progressive tax policy have favoured the soaring of inequality. The example of Sweden is clear and vivid. A clear-cut consequence of this process is the decrease in the provisions of public goods by governmental institutions due also the the implementation of intensive programmes of privatisation (Freeman, Swedenborg, Topel, 2010).

6. *Inequality.* The basic idea is that inequality can be conceived as an autoregressive process, where the degree of past inequality affects present inequality. This is related to recent analysis by Brunori, Ferreira and Peragine (2013) where the impact on inequality of exogenous factors such as birthplace, gender, race, family background, is investigated. They have found that a remarkable percentage of income inequality can be explained by these exogenous factors. Of course, the relevance of these factors, which obviously individuals cannot influence, varies from country to country. The contribution of the three scholars highlights how inequality in opportunities deeply affects inequality in income distribution. Empirical evidence shows a negative correlation between inequality index and intergenerational mobility: the higher the level of inequality, the lower the possibility to improve the relative position in the social hierarchy. In addition to that, they have found a strong correlation between the educational level of parents and children. A relevant component of income inequality does not depend on the individual behaviour, but on the background traits: *qualis pater, talis filius.*

7. *Models of capitalism and institutional complementarities.* Starting from the 1990s, institutional economists have developed a theoretical framework based on the notion of institutional complementarity (Amable 1999; Aoki 2001). The basic idea of this approach is that institutions, defined by North (1990) as "humanly devised constraints imposed on human interaction", interact among themselves, giving rise to institutional equilibria. Each of these equilibria affects the operation of markets and of all economic actors involved. Roughly speaking, the performance of markets also depends on these complementarity relationships and not only and simply on the interaction between demand and supply forces. Certainly, demand and supply matter, but their working cannot be abstracted from the institutional context and the network of interacting institutions which constitute it.

   This approach has originated a large number of divergent classifications of types of capitalism and has been also widely adopted to discuss the relationship between the process of skill formation and labour market institutions. The idea is that the institutional architecture affects the individual choices at both firm's and employees' level. Particularly, this framework of analysis emphasizes how individual propensity in human capital investment depends on some institutions operating in the labour market. Particularly, the approach by Estevez-Abe, Iversen and Soskice (1999) points to the degree of protection that the individual enjoys in the labour market. Protection in the labour market can have two different meanings. On the one hand it can be intended as employment security. On the other hand, it refers to income protection in spells of unemployment. Employment protection favours employees' investment in firm-specific skills, as it positively affects job tenure. Differently, unemployment protection favours employees' investment in industry-specific skills, as the individual can withstand spells of unemployment, without dramatic decrease in the level of income. This literature allows the understanding of how models of capitalism affect the process of human capital formation, structuring the employment relations between employees and employers. The employment relations implied in table 1 range from the monopsonistic arrangement of the Japanese labour market to the American model, which approximate the perfect competition model, passing through intermediate settings, Germany and Denmark. Similarly to the human capital approach, the literature on models of capitalism emphasizes the process of skill development as potential source of inequality. The main difference between the two approaches lies in the role played by individual choices. The human capital approach conceives the process of skill formation as the solution to a problem of constrained maximisation of an individual objective function, as it is always the case in neoclassical economics; the institutionalist literature stresses the role played by institutions in orienting the path of this process. In conclusion the difference lies in the factors promoting investment in human capital, not in the notion of human capital itself.

		Employment protection	
		Low	High
Unemployment protection	High	Industry-specific skill (DK)	Industry specific, firm specific skill mix (GERMANY)
	Low	General skills (USA)	Firm-specific skills (JAPAN)

Table 1: Employment Relations

8. *The governance of firms.* The ways the governance of firms affects inequalities can be grouped into two different streams of the economic literature.[3] First of all, it is important to highlight the literature on internal labour markets and their evolution in time. Departing from the seminal contribution by Doeringer and Piore (1971) and their description of a typical Fordist manufacturing firm, Aoki (1988) and Marsden (1999) have both developed and enriched the descriptive framework. Aoki has analysed in detail the operation of the so-called J firm, whereas Marsden has successully integrated the analysis of systems of production and training with the study of model of capitalism. Both of them have shown the rising of different remuneration system within different institutional context of production. Aoki's analysis focuses on the Japanese organisation of work and production, whereas Marsden develops a more general framework of analysis discussing the intermingling between the organisation of production and the training system. Secondly, it is worth mentioning the vast literature on the remuneration of top management and the rise of top income, if only for the lasting and bitter controversy it has raised in main western countries (Atkinson, Piketty, Saez 2011). This aspect of inequality is related to the microeconomic (mis)-management of markets accounting for the decrease in the degree of competition among firms and the consequent arising of oligopolistic positions (Stiglitz 2012).

3 Critical Assessment

Those studies that have focused on structures instead of numbers have almost exclusively used theories modeled on the basis of research undertaken in Western Europe and North America. Research on inequality has been rather Eurocentric. This is regrettable, since alternative approaches to the analysis of social structure are already at hand. An excellent non-Eurocentric approach is found in Yoshio Sugimoto's *Introduction to Japanese Society* (2005). Rather than insisting on the peculiarities of Japanese culture, Sugimoto argues that Japan must be analysed just like any other society. At the same time, he demonstrates that the application of concepts derived from the analysis of Western societies fails in this

[3] A third stream of the literature on systems of governance of firms and production has been discussed in the section about internationalisation.