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Abstract:
This paper discusses the role of social conventions in the dynamics of wage inequality. More specifically, it argues that: a) the reconstruction of social conventions of equity helps to explain the "Great Compression" of wage inequality (and its maintenance) in developed countries during the 20th century; b) the absence of this reconstruction can be associated with the relative inflexibility of Brazilian (and Latin American) inequality since the 19th century. This preliminary investigation is based on available estimates on national trajectories of wage inequality, as well as on analysis of changes in social conventions, especially regarding the wage structure. The first part explores the trajectory of labor income inequality in developed countries. It highlights the "Great Compression" of the 20th century. The second part investigates Latin American inequality in the long-term, considering the absence of this leveling. The third part analyzes the nature of the great transformation promoted by the 20th century. Based on studies that revisited or witnessed this transformation, we argue that it concerns not only the destruction of capital and its income, but also the reconstruction of the wage structure through new social conventions. The main conclusion is that, among the explanations for the high and persistent Brazilian inequality, the absence of this reconstruction — which made developed countries less unequal during the last century – should be emphasized.

Keywords: inequality; wage inequality; social conventions; social norms

JEL classification: D31; D63; J31; Z13

Introduction

The long-term trajectory of wage inequality is explained not only by economic determinants, but also by social conventions. We initially explore the hypothesis that changes in social conventions (and in institutional arrangements resulting from these conventions) help to explain the compression and maintenance of wage inequality in developed countries in the 20th century. We argue that the absence of these changes is an important component for understanding the trajectory of Brazilian (and, more broadly, Latin American) inequality.

We use the terms "social conventions" and "social norms" interchangeably. We refer, in general, to the effects of factors not associated with individual productive characteristics (and their supply and demand).[1] Although these "not properly" economic factors have been considered since the origins of economic thought, and admitted even by Nobel Prize winners (e.g. Akerlof, 1980; Hicks, 1955; Krugman, 2007; Solow, 1980; Stiglitz, 2013), they have practically disappeared from the neoclassical perspective with the hegemonic rise of human capital theory (Smith, 2003).[2] As we will see, although

[1] Some authors use the general term "social forces". Hicks (1955, p. 390) defines "non-economic" or "social" forces as custom or any other principle that "affects what the parties to the wage-bargain think to be just or right". According to him, "economic forces do affect wages, but only when they are strong enough to overcome these social forces".
[2] We need to make it clear that we do not claim that individual skills (or, more generally, education or other definitions of human capital) and the law of supply and demand are not important. They certainly are. We argue only that, although highly

the role of social conventions on wage determination has been increasingly considered, it still occupies a marginal place in studies on the trajectory of inequality in developed countries — and it is practically ignored in studies on the trajectory of inequality in Latin America. Effects of social norms can be described in many ways. For the purpose of this essay, we can understand them essentially as beliefs established by tradition and custom regarding the fair or appropriate distance between earnings of different occupations.

This paper is divided into three sections. The first analyzes the trajectory of inequality in European countries and in the United States. It examines the "Great Compression" of the 20th century and the fall of an old paradigm. The path of wage distribution, less explored in studies on the long-term trajectory of inequality, is especially discussed: it is by analyzing the wage structure, we argue, that the effects of changes in social conventions are better perceived. In the second part, the trajectory of Latin American inequality is investigated, focusing on Brazil. The historical determinism usually attributed to this trajectory and the absence of the referred compression are discussed. The third part explores the great transformation promoted by the 20th century: based on recent and older national case studies, it analyzes the reconstruction of social conventions that governed the wage structure in developed countries. The main conclusion is that the inflexible Brazilian inequality must be explained, along with other factors, by the absence of this reconstruction.

1. The path of inequality in developed countries: the "Great Compression" and the fall of a paradigm

For a long time, it was assumed that the trajectory of income inequality was endogenously determined. In a pioneering work, Kuznets (1955) investigated the relationship between inequality and economic growth. With the data available, admittedly limited, he concluded that inequality must increase in the early stages of development, and then it would decrease naturally and gradually in later stages. From that work, an idea became widely accepted: after initial stages of income concentration, inequality would naturally decrease as a result of economic development.

Although this "inverted U curve" often bears his name, Kuznets (1955) recognized the complexity of the phenomenon and the limitations of his hypothesis. Since he also emphasized the importance of social and political factors, it may not be correct to attribute a deterministic character to his ideas. The later literature, however, focused on the economic transition described by Kuznets (1955) and, in many cases, gave his hypothesis the status of law. Robinson (1976), for example, one of the authors responsible for formalizing the theory, summarizes it as follows:

> A common empirical finding in the analysis of countries which have undergone economic development is that income distribution first became more unequal, and only in the later phase did it become more equal. This empirical observation has also been seen in modern developing countries — at least the increasing inequality phase — and has acquired the force of economic law. It has a name: the U hypothesis (Robinson, 1976, p. 437).

The "inverted U curve" hypothesis was widely explored and became almost consensual in studies on differences in income distribution between countries (Barro, 2000; Cecchi; Peñalosa, 2005). It was well suited to the movement of expressive reduction and stability of European and North American inequality observed since the first decades of the twentieth century. The theory also offered an explanation for the growing or persistent concentration of income in peripheral countries. Along with the hypothesis, the perception that "it was enough to be patient, and before long growth would benefit everyone" was globally spread (Piketty, 2014, p. 11).

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relevant, these factors are not the only ones, especially when we analyze the trajectory of wage inequality through the 20th century.

Kuznets (1955) was cautious with extrapolations from his own hypothesis. He stated that Marx's pessimistic predictions came from the possible increase in inequality (and its implications) in the first half of the 19th century. These predictions would be mistaken due to the generalization of a trend, transitory, observed in a specific window in time. Kuznets (1955) recognized that he could be a victim of the same misconception:

> Wider empirical foundations, observation of a greater variety of historical experience, and a recognition that any body of generalizations tends to reflect some limited stretch of historical experience must force us to evaluate any theory — past or present — in terms of its empirical contents and the consequent limits of its applicability — a precept which naturally should also be applied to the oversimplified generalizations contained in the present paper (Kuznets, 1955, p. 27).

The same outcome attributed by Kuznets (1955) to Marx's predictions can be applied to his own theory. In the last decades of the twentieth century, the trajectories of inequality in developed countries stopped following the Kuznets hypothesis and the theories that were based on it. Contrary to expectations, the last section of the inequality curve started to take the opposite direction: an upward slope. As Milanovic (2016, p. 47) concludes, "the indubitable increase in inequality in the United States, the United Kingdom, and even in some fairly egalitarian countries like Sweden and Germany, is simply incompatible with the Kuznets hypothesis".[3] In the 21st century, the deconstruction of the "inverted U curve" consensus was reinforced by the proposition of a new paradigm on the trajectory of inequality. Studies carried out by Piketty (2014) and his collaborators conclude that the significant reduction of inequality in developed countries cannot be explained by any economic determinism, but essentially by events that caused the collapse of capital and its income in the early 20th century, in addition to public policies implemented from and due to these events.[4]

1.1 The trajectory of wage inequality

These events, however, seem at first to be less relevant for understanding the trajectory of labor income inequality.[5] Although Piketty (2014) stresses the need to distinguish the nature of different incomes, his approach is mainly dedicated to total inequality measured from the income held by the top end of the distribution — which comes largely from capital. The destruction of capital and its income, for the French economist, is responsible for explaining the fall in total inequality. Wage inequality would have remained relatively stable in developed countries since the end of the 19th century. Regarding the French case, his main example for the European trajectory, the author states: "The significant compression of income inequality over the course of the twentieth century was due entirely to diminished top incomes from capital" (Piketty, 2014, p. 272). Piketty's reading of the long-term trajectory of inequality, which is robust and enormously influential, requires attention. What happened to wage inequality in the 20th century?

For Piketty's approach, which prioritizes total income measured from the top, capital income naturally plays a leading role. However, while allowing good inferences about total inequality, top incomes, by definition, do not capture variation within the lower part of the income distribution (Lindert, 2015b;

[3] Many empirical studies question the "inverted U curve". Deininger and Squire (1998, p. 261), for example, conclude that "rather than being governed by an unmoveable universal law, the evolution of income and inequality is affected by initial conditions and possibly policies". More recently, Melikhova and Čížek (2014, p. 388), revisiting the hypothesis with new data for 145 countries, find that the trajectory of "income inequality is influenced predominantly by governmental policy on subsidies and social transfers".

[4] Among these events, Piketty (2014, p. 41) highlights the shocks of the period 1914-1945: "World War I, the Bolshevik Revolution of 1917, the Great Depression, World War II, and the consequent advent of new regulatory and tax policies along with controls on capital". Initiated with studies by Piketty (2001, 2003) on the trajectory of French inequality, this approach has been extended to other developed countries (e.g. Atkinson, 2005; Atkinson; Leigh, 2010; Atkinson et al., 2011; Dell, 2005; Piketty, 2014; Piketty; Saez, 2006, 2014a).

[5] Labor income is mainly composed of wages, but it usually also includes other benefits received by workers. For simplicity, we use "labor income inequality" and "wage inequality" as synonyms.

Roine; Waldenström, 2015). When the extreme top and capital income are disregarded, and we only address wage inequality, it is possible to see a movement of great compression, which concerns the vast majority of the population — although quantitatively less important in relation to the composition of total income inequality. It is this pronounced compression, relatively neglected, that we will examine below.

Until the first decades of the last century, wage differentials were assumed to maintain long-term stability (Brown, 1979; Clay, 1929; Hick, [1932]1948; Reder, 1968; Rowe, 1928; Thurow, 1975). That perception would rapidly change. Based on data from censuses and national case studies, Lydall (1968) concludes that wage differentials in rich countries, such as the United States, the United Kingdom, Canada and Sweden, had gone through significant reductions (Lydall, 1968). In the same period, also based on international evidence, Reder (1968) highlights an extensive decline in wage differentials. The author notes that these differentials (between groups of skilled and unskilled industrial workers) "appear to have remained constant for relatively long periods of time and then to have declined sharply within a very few years". This reduction occurred, between 1938 and 1962, in the United States, Canada and in all the (nine) European countries analyzed, in addition to Australia and New Zealand (Reder, 1968, p. 408).

Also based on industrial worker's wage differentials, Brown (1979) argues that there was a widespread compression of inequality in the period of the world wars. The author notes that this compression was preserved even with the suspension of wage controls and the normalization of supply and demand shocks after the end of the conflicts.

> After the wars, when controls were removed, and some of the shifts in supply and demand were reversed, the same processes and pressures that narrowed the skill differential during the war now worked to reopen it. In the cases we are discussing, however, after neither war did it return to its former size. A major change thus seems to have been brought about within the wage structures concerned. These and other findings have led to a general recognition of a contraction of the differential for skill as a common feature of the developed economies since 1914 (Brown, 1979, p. 78).

Writing about the United Kingdom, Rottier (1957) concludes that, after a trend of stability or increase in the 1930s, wage differentials had narrowed continuously since the end of the Second War. Also with reference to the British case, Routh (1965) analyzes three surveys carried out by the government on the dispersion of earnings among industrial workers: wage differentials, which in 1938 were smaller than in 1908, were relatively stable from the 1940s to the 1960s — a movement described as an "equalization process". Machin (1996), based on data from the 1960s, verifies the continuation of the trend identified by Rottier (1957) and Routh (1965). This trend would be preserved, with slight oscillations, until the 1980s. The author compares his findings with other estimates of wage inequality in the longer term: since the first decades of the twentieth century, inequality would have gone through a long and sustained period of compression until the 1980s (Machin, 1996).

Although relevant, industrial differentials are certainly limited. More recent and comprehensive national case studies on wage inequality indicate the same leveling. In an analysis of Iberian wage inequality in the long run, Guilera (2009) finds significant compression. In Portugal, after periods of instability, inequality "declined severely" from the end of the 1950s to the beginning of the 1980s. In Spain, after decreasing after the First War and growing again until the beginning of the Civil War (1936-1939), there was a "great compression of wages" between 1936-1961, when wages of all sectors converged rapidly to the national mean.

Significant wage leveling is also observed in Nordic countries. In an analysis of the Swedish wage structure, Rehn (1957) states that the "unquestionable" inequality observed until 1939 had given rise to a continuous decrease in wage differentials since then. Subsequent studies, with more robust data, conclude that the wage compression continued between the mid-1950s and the 1980s (Hibbs; Locking, 1996, 2000).

Such compression is also found outside the West. Scheidel (2017) notes that, in Japan, the Second World War had effects not only on the extreme top, but also on wage inequality. Along with new institutional configurations, there was a “restructuring of labor relations” that “ensured the ongoing wage compression” started due to the conflict (Scheidel, 2017, p. 129). In fact, Scheidel — who starts from Piketty's reflections, but analyzes the effects of wars in several countries more deeply — refers to the “Great Compression” as a phenomenon that involves not only the extreme top and the income from capital, but also labor income.

Finally, the United States is certainly the greatest example of the leveling discussed. Already pointed out by Redder (1968) and Lydall (1968), the profound decrease in wage inequality at the beginning of the 20th century has been analyzed again along with attempts to understand its recent increase (e.g. Goldin; Katz, 1999; Goldin; Margo, 1992; Juhn, 1999; Margo, 1999; Piketty; Saez, 2003, 2004). This reduction, observed mainly during the 1940s, is described by Goldin and Margo (1992) as "The Great Compression". According to these authors, after the Second World War, the United States experienced a “wage structure more egalitarian” than had ever been seen in that country. Even more important is the finding that this “new wage structure remained somewhat intact for several decades” (Goldin; Margo, 1992, p. 2).[6]

The North American leveling is also highlighted by Atkinson (2007, 2008), who gathers and analyzes evidence from different sources on the trajectory of wage inequality in several developed countries — in addition to some cases that have already been mentioned. Atkinson (2008, pp. 60, 66) notes, for example, that the “Great Compression did indeed take place in Canada, with a timing that suggests that it was not confined to the war years”. Also in Germany, even though data are deficient until the 1950s, there was a “significant fall” in wage inequality from the postwar to the mid-1980s.[7]

Considering all the compressions discussed, it seems possible to argue that there was a significant leveling of the wage structure in the first half of the 20th century.[8] This trend, with greater or lesser oscillations, would only be reversed in the last decades of that century. Roine and Waldenström (2015, p. 508) conclude that wage differentials “declined almost unanimously in Western countries” in the 20th century. In short, the great compression of inequality in developed countries seems to go far beyond the top of the distribution (largely composed of capital income), so well analyzed by Piketty (2014).[9]

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[6] Although Piketty (2014) generalizes (mainly from the French case) the stability of wage inequality in developed countries in his *Capital in the 21st Century*, he addresses the North American reduction in the same book, and analyzes it in greater depth in previous works. In these studies, through the percentage of wages held by the top strata, he also concludes that there was a “sharp drop” in wage inequality in the 1940s, preserved during the following decades (Piketty; Saez, 2003, 2004).

[7] While acknowledging that the “Great Compression” occurred, in general, in all developed countries, Atkinson (2008) questions the “remarkable stability” of wage inequality attributed to the golden age of the third quarter of the 20th century (e.g. Gittleman; Wolff, 1993). Atkinson understands that, in general, there was a moment of increase in the 1950s, after which a reduction was observed again until the last decades of the century. Thus, for him, a W-shaped curve would be more appropriate than a U curve to illustrate a general trajectory. In any case, in spite of this possible moment of inflection, the leveling discussed is repeatedly identified in the evidence gathered by him, as well as its relative maintenance in the following decades.

[8] The case of France — the one best analyzed by Piketty (2014) to affirm that there was stability in the European wage inequality in the 20th century — seems to be particular. Data on industrial wages suggest stability (or rise) of inequality in the 1940s and 1950s. Reder (1968) and Brown (1979), for example, address the French episode separately, as an exception. Based on data on wage income held by the top decile, Atkinson (2007) notes that there was a “great compression” in the 1930s (after a significant increase in the previous decade), which would have been practically reversed after World War II (Atkinson, 2007; Garbinti et al., 2018). For Brown (1979, p. 78), the fact that inequality in France was greater after (than it was before) the Second World War, unlike other countries, “may be attributed to the adoption at the end of the war of the Parodi scale”, which fixed wages for segments of qualified workers significantly higher than those attributed to ordinary workers (see also Daubigney, 1969 and Lallement, 2008).

[9] The revolution promoted by the new long-term estimations that, based on tax data, measure the share of income held by the top of the distribution (which was often underrepresented) should not be minimized. From Piketty and his collaborators, for the first time it was possible to affirm unequivocally the enormous compression of (total) inequality in the beginning of the 20th century, in several countries, with far-reaching, more consistent and comparable data.

Although the wage leveling discussed is associated with the two world wars, with which its beginning coincides, it can hardly be reduced to them. Regarding the United States, Goldin and Morgan (1992) find that the effects of the destruction and chaos of the conflicts are not sufficient to explain the "Great Compression": the wage structure did not immediately return to pre-war levels, as it did after the First World War, and the compression of wage dispersion was not interrupted after the end of the second conflict. Likewise, Piketty and Saez (2003, 2004) conclude that the effects of wars do not explain the maintenance of wage compression in the following decades — which is also true for the European cases. The new wage structures, and especially their maintenance at relatively low levels, are due, we will argue below, to transformations that occurred *from* the great shocks, but are not limited to their direct effects.

It seems certain that the wage compression can hardly be explained by the deterministic hypothesis of the "inverted U curve". As Roine and Waldenström (2015, p. 508) argue, "the twentieth-century drop in pay differentials does not seem to be driven by the forces suggested by Kuznets", but mainly by what the authors refer to as "institutional developments". As we will see, there is a growing understanding that institutional developments, taking different forms in specific national cases, cannot be separated from comprehensive social transformations. We argue that the history of income distribution in the 20th century, especially with regard to wage dispersion, reflects the reconstruction of social views of equity. The nature of these transformations will be explored in the third part of this paper. Before that, we need to observe the trajectory of inequality in Latin America, where there was no such compression and the social transformations that promoted it elsewhere.

2. The Latin American path and the Brazilian case

The recent discussion on the factors that determine the trajectory of inequality has, in general, been limited to developed countries, partly due to the unavailability of comparable data on developing countries. As Piketty (2017, 2020) acknowledges, the centrality given to developed western countries is the main limitation of his *Capital in the 21st Century* (2014). However, theories to explain the trajectory of inequality in Latin America, as well as efforts to measure the dimensions and directions of this trajectory, have been developed. As one of the most unequal regions in the world, Latin America has aroused growing interest (Bertola; Williamson, 2010; Morley, 2000). The dominant understanding about the course of this extreme inequality has also been marked by determinism.

The most influential studies were based on the idea that the concentration of income in Latin America is idiosyncratic. Inequality in the region would have a particular character and origin. Its trajectory has been explained by the permanence of the effects of colonial institutions. As Astorga (2017a) explains, according to the dominant view, the unequal history of the region "largely reflects the persistence of the actions and omissions of the Iberian colonisers" (Astorga, 2017a, p. 17). Fitzgerald (2008, p. 1029) also underlines the "historical determinism" of the hegemonic perspective, according to which the causes of inequality in the region "can be found in the colonial past". Inequality would have "remained essentially unchanged since".

In common, these perspectives involve mechanisms of path dependence from which the currently observed inequality would be explained by preceding or initial stages of Latin American societies and their institutions. This understanding is summarized by a World Bank report:

> The contemporary situation cannot be understood without recognizing that extreme inequality emerged soon after the Europeans began to colonize the Americas half a millennium ago, and has been reflected in the institutions they put in place [...]. Although these colonies ultimately gained independence and the development of technology and the world economy brought about important changes, extreme inequality persisted into the 19th and 20th centuries because the evolution of political and economic institutions tended to reproduce and reinforce highly unequal

> distributions of wealth, human capital, and political influence (De Ferranti et al., 2004, p. 109).[10]

In short, inequality would have been quite high in Latin America since the colonial period. The current scenario has been understood as the result of the self-perpetuation of colonial institutional legacies.

This perspective has been called into question. New studies, based on empirical estimates, have argued that Latin American inequality is not a mere reflection of disparities introduced in the colonial period (Abad, 2013; Abad; Astorga, 2016; Astorga, 2017a; Fitzgerald, 2008; Williamson, 2010; 2015).

Williamson (2015) highlights two major limitations of the previously dominant understanding: in addition to the assertions about high inequality since colonial times not being based on data on inequality itself, they are not analyzed comparatively.[11] When the comparison is made, the available estimates (based on "social tables" on average income of certain groups)[12] show that Latin American inequality was no greater than the inequality in developed countries in the colonial period, and even in the decades following the national independence movements. Inequality in the two groups of countries became similar only in the second half of the 19th century (Williamson, 2015).[13]

As in the case of the conclusions of Piketty and his collaborators on the trajectory of developed countries, the conflicts of the 20th century seem to be the main reason for the current Latin American distributive scenario. As Williamson (2015, p. 3) explains, "there was little that was unusual about pre-industrial Latin American inequality". According to the author, "the history that made it a *relatively* unequal region was the absence of a 20th century Great Egalitarian Leveling in Latin America". Abad and Astorga (2016, p. 2) also conclude that "unlike many developed countries, the region did not experience a sustained levelling of inequality in the 1940s to the 1970s".[14]

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[10] Briefly, among the variations of the argument, ideas regarding colonial roots suggest that initial disparities in wealth, human capital, access to land and political power would have established self-perpetuating institutional arrangements. The importance of initial resources (quality of the land, climate and even characteristics of the native population) is also considered, as well as the influence of "extractive institutions", which would have subjected, since the colonies, a large part of the population to the interests of the elites, who held political power. The trajectory of inequality in the region is further explained by the opposition between Iberian (mercantilist) and British (liberal) colonization: while the former would have been dedicated to the extraction of natural resources through the exploitation of native populations, the latter would have promoted more egalitarian institutions, with greater protection of individual rights (e.g. Acemoglu et al., 2001; De Ferranti et al., 2004; Engerman; Sokoloff, 2005; Frankema, 2009; Ramos, 1996; Robinson, 1994; Sokoloff; Engerman, 2000).

[11] Williamson (2015, pp. 11, 21) notes that influential studies from this perspective (e.g. De Ferranti et al., 2004; Engerman; Sokoloff, 2005; Sokoloff; Engerman, 2000), while examining significant other evidence (such as lack of suffrage, regressive taxation, and unequal schooling), do not explore data on income inequality. Nor have these authors compared their thesis with evidence on inequality in developed countries in the same period. In general, although there are comparisons with the United States, comparisons with European countries are "rarely, if ever, made". Williamson (2015) seems correct in his observation that "only by comparisons with other times and places can statements about Latin American inequality offer any useful meaning".

[12] Williamson (2015) uses a database on international long-term earnings organized by him, Milanovic and other researchers (Milanovic et al., 2011). As household surveys were rarely carried out before the twentieth century, the authors use "social tables", which record income from different social or professional groups. For the Gini calculation, these groups are ranked from the richest to the poorest with their estimated portions of the population and average incomes (Milanovic et al., 2011).

[13] Estimates about the trajectory of long-term inequality in Latin America are not exactly the same. Abad and Astorga (2016), for example, find more oscillations than Williamson (2015). In common, they "challenge the long-held view that colonial legacies largely dominated the evolution of inequality" (Abad; Astorga, 2016, p. 2). Other works emphasize the rise of inequality in the First Globalization (1870-1920), especially in the countries of the Southern Cone, but they do not seem to be directly opposed to the paradigm of the determinism of colonial institutions (e.g. Bertola et al., 2009; Escosura, 2007a, 2007b).

[14] There seems to be a certain consensus, admitting oscillations and national variations, that Latin American inequality followed a stable or ascending trajectory in the 20th century (Abad; Astorga, 2016; Astorga, 2017a; Bourguignon; Morrisson, 2002; Escosura 2007a; 2007b; Frankema, 2009; Morley, 2000; Williamson, 2010, 2015). The exception is the Fitzgerald (2008) study, which suggests a reduction in inequality in the 20th century. These estimates, in general, use the primary distribution of income (before taxes and transfers), the only possible procedure for periods prior to the beginning of the 20th century.

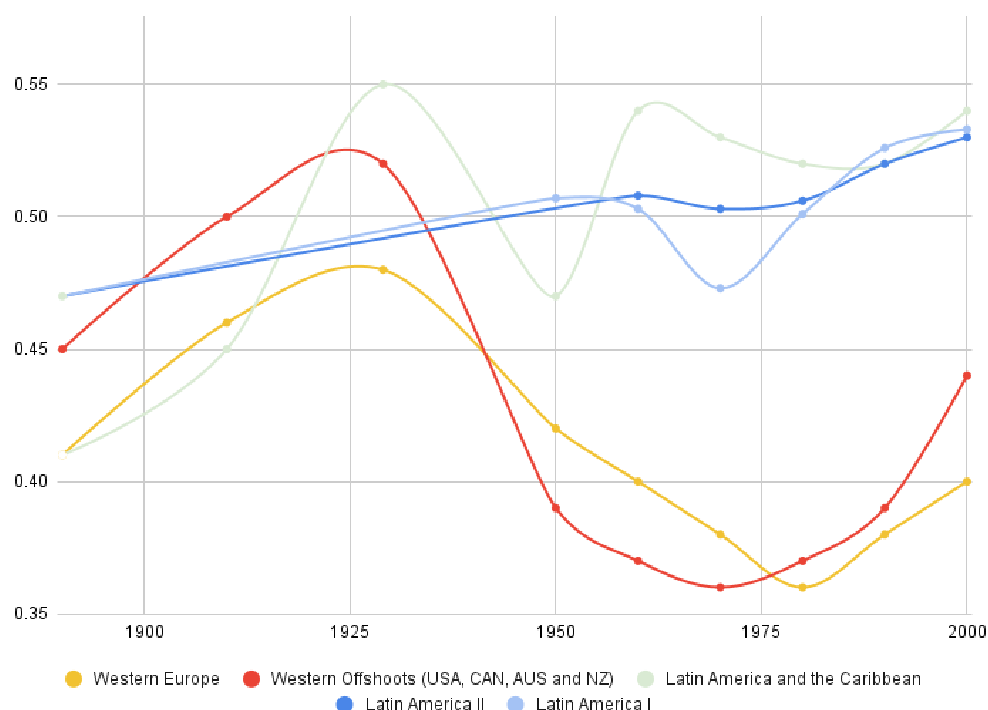

Fig. 1 Estimated income Gini for Latin America and developed countries in the 20th century. Source: Own elaboration based on the following data: "Western Europe", "Western Offshoots" and "Latin America and the Caribbean" (Moatsos et al., 2014); "América Latina I" (general) and "América Latina II" (nine main members) (Williamson, 2015, for the 19th century, and Frankema, 2009, for the 20th century). Given the different sources, the graph does not allow comparison between absolute values, it only illustrates general levels and trends[15]

It should be noted that, although the estimates discussed do not allow a distinction between income from capital and labor, they seem to represent relatively well the path of wage inequality. In the case of Williamson (2010, 2015), although for some countries the data refer to income from the top shares, in most cases he attributes income to different social or professional groups. The Brazilian estimate, for example, is based on a professional census that contains income data for 813 groups of occupations (Milanovic et al., 2011; Williamson, 2015). The long-term estimations of Abad and Astorga (2016, p. 2) also "largely rely on wage data to estimate inequality".[16]

In summary, what recent estimates allow us to conclude, in light of the discussed new paradigm on the trajectory of inequality, is that, more than due to perpetuated idiosyncratic characteristics, Latin American inequality differs markedly from that observed in developed countries due to the absence of transformations that, in the 20th century, made the latter nations less unequal.

[15] For data referring to the beginning of the century, the OECD report (Moatsos et al., 2014) calculates the Gini coefficient based on studies of social tables carried out by different researchers, including Williamson, Lindert and Milanovic (Milanovic et al., 2007, 2011). For values after 1960, most of the data (primary household income) is organized by the World Income Inequality Database (UNU-WIDER, 2019) — which is also the source of Frankema's (2009) estimates on Latin America.

[16] Astorga (2017b) believes he is responsible for the only consistent long-term regional study on wage differentials (between average earnings of groups with different qualifications) in Latin America — other studies deal with specific periods in certain countries (e.g. Williamson, 2019). Astorga (2017b) suggests a continuous upward trajectory throughout the second half of the century; in the first, he finds two peaks: in the first years of the century and in the 1930s. Frankema (2012), in a study over the second half of the century based on wage differentials between industrial occupations, concludes that there was an increase throughout the period in the 15 Latin American countries analyzed — at levels much higher than those found in the developed countries compared (United States, Canada and Australia).

2.1 The Brazilian trajectory[17]

The path of Brazilian inequality is similar to that of Latin America. There is no consensus regarding the dimensions and trajectory of inequality in Brazil before the 1960s, when surveys on income became part of national censuses. During the period since then, several studies have found a stable or ascending trajectory until the last years of the 20th century (e.g. Bonelli; Ramos, 1995; Escosura, 2005; Frankema, 2009; Hoffmann, 1995; Londoño; Székely, 1997; Lustig et al., 2012; Morgan, 2018; Souza, 2016). In the mid-1990s, for example, Bonelli and Ramos (1995, p. 369) observed that, in the previous three decades, there was "an almost continuous increase in the degree of concentration of income in Brazil".

There are estimates, of varied origins, for periods prior to the 1960s. The main effort to construct a long-term Gini coefficient is carried out by Bertola et al. (2009, 2012) in studies that estimate inequality for the years 1872 and 1920.[18] Despite the data limitation, the results indicate an upward trend (from 0.55 to 0.66), at a high level, similar to that found in the rest of the 20th century. Escosura (2005, 2007a) develops an even older backward projection (based on what he calls "pseudoginis") on Brazilian inequality since 1850. The author finds a reduction in the first decade and a slightly upward stability until the last years of the 19th century, when a new decline occurs before a more inclined trajectory of elevation throughout the following century.[19]

More recently, two doctoral dissertations investigated the trajectory of Brazilian inequality in the 20th century. Following the trend spread by Piketty and his collaborators, Souza (2016) and Morgan (2018) choose to use the path of income held by the richest 1% instead of the Gini coefficient. Souza (2016) concludes that there was a stable trajectory, at a very high level, throughout the analyzed period (1926-2013). The author notes that the income held by the top 1%, with some oscillations, remained between 20% and 25% of the national income for almost the entire period, without any sustained trend. Among these oscillations, Souza (2016) highlights two moments of elevation after the establishment of dictatorships (of the Estado Novo, during the Second War, and of the military coup of 1964) and a moment of more significant reduction between 1945 and 1960 — which he describes as a "mini-leveling". Morgan (2018, p. 81), in an analysis of the same period (1926-2016), also highlights the stability of income concentration, whose persistence, he says, is "not seen anywhere else in the world". The exception is a moment of reduction between 1942 and 1964 (similar to the one pointed out by Souza (2016)), which he refers to as an "un-sustained leveling".[20]

[17] Before we examine the Brazilian case, an observation is necessary. Questioning the importance of colonial heritage seems to call into question the understanding, rooted in Brazilian social thought, that the trajectory of inequality in the country is determined by slavery. The relationship between the slavery period and the current Brazilian inequalities is a theme that has been intensively explored in the social sciences and frequently reverberated in public opinion. It was not without reason. We must note, however, that the discussion held here does not involve inequalities, but a specific form of inequality, that of income — and especially labor income. In other words, we do not deal with the myriad of inequities that afflict the poorest strata (regarding the access to health, education and culture or disparities in the judiciary and police treatment, for example). Nor do we address issues of discrimination and racism or divisions of class, gender and race, many of which are perhaps more directly associated with the legacy of slavery. Even so, it must be clear: we do not intend to affirm that the period of slavery and colonial institutions, in general, do not play a role on the trajectory of income inequality. In our view, the available evidence only does not indicate that this factor should be regarded as the exclusive explanation for the Latin American trajectory in relation to that of countries that are currently less unequal. Even Williamson (2015) recognizes that, although the colonial legacy does not explain the path of income inequality itself, it must be associated with the trajectory of political inequalities — whose implications for other inequalities seem evident. Following Astorga (2017a, p. 17), an author who also refutes the perspective of historical determinism, the paths of inequality are certainly also "conditioned by inherited structural features". Fernandes ([1964]2008), Furtado ([1959]2005) and Prado Jr. ([1942]1961) carry out classic works on the relationship between slavery and Brazilian inequality. For more recent reflections, see Fujiwara et al. (2019) and Piketty (2020).

[18] The authors admit limitations of the estimate, built from censuses carried out in those years. Income is attributed to certain population groups using a "wide range of sources and assumptions". For 1872, for example, they use a census with official figures on earnings of different categories of civil servants. They also stipulate income for women and use professional data from voters in the state of Rio Grande do Sul, extrapolating it to the rest of the country. It should be noted that in 1872 there was still slavery; the authors attribute to slaves income according to reports on maintenance costs. For 1920, they use similar procedures, along with additional sources (Bertola et al., 2009, 2012). The authors arrive at different results in a preliminary version of the study (Bertola et al., 2006).

[19] Escosura's "pseudoginis" stipulate values for previous Gini from years actually calculated (Escosura, 2005, 2007a).

[20] In spite of the advantages of the analysis of specific shares, we must remember, as Piketty (2014, p. 285) does, that "most of the income of 'the 1%' came in the form of income from capital". It is possible that profound changes affect the remaining

Long-term estimates, as noted, usually do not separate income from labor and capital (Roine; Waldenström, 2015). Although specific estimates on labor income inequality throughout the 20th century are rare, Astorga (2017b), in the aforementioned study on Latin American wage inequality, also offers data on the Brazilian trajectory: wage differentials, after a reduction between 1907 and 1927, would have increased throughout the twentieth century. Frankema's (2012) study about the second half of that century, based on industrial wages, also comes to the same conclusion.

In summary, via the Gini coefficient or specific shares, whether with total or labor income, most estimates about Brazilian long-term inequality suggest, with some oscillations, a stable or ascending trajectory until the last years of the 20th century.[21] In Brazil and Latin America, more broadly, the "Great Leveling" was not observed in the last century.

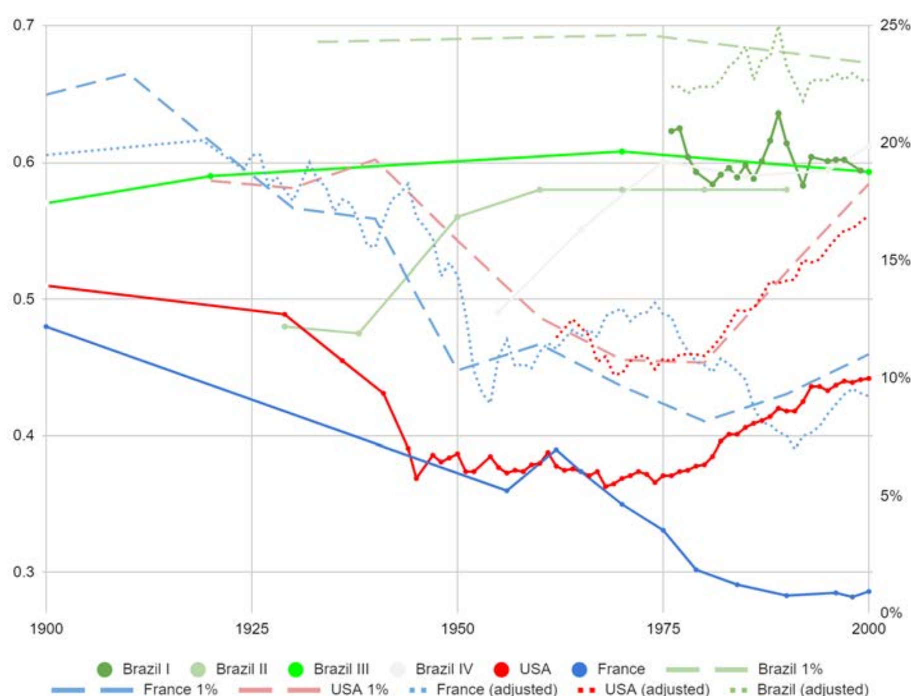

Fig 2 The course of inequality in Brazil and selected countries in the 20th century. The continuous lines refer to the Gini coefficients calculated from household surveys and "social tables"; the dotted lines refer to Ginis adjusted with tax data; and the dashed lines (which, unlike the others, must be read from the right axis) refer to the share of income held by the richest 1%. Sources: Own elaboration based on data from: "Brazil I" (IPEA, 2019); "Brazil II" (Escosura, 2005); "Brazil III" (Bertola et al., 2009); "Brazil IV" (Frankema, 2009); "USA" (Milanovic, 2013; Atkinson et al., 2017); "France" (Morrisson; Snyder, 2000; Atkinson et al., 2017); "Brazil adjusted" and "Brazil 1%" (Souza, 2016); "USA adjusted", "France adjusted", "USA 1%" and "France 1%" (WID, 2018). Since the sources have different origins and methods, the graph does not allow comparison between absolute values; it only illustrates levels and trends[22]

99%, whose income comes mainly from labor income, without changing the share held by the extreme top. In fact, it is precisely what would have happened in the first decade of the 21st century in Brazil, according to the estimates made by Souza (2016) and Morgan (2018): the share of the richest 1% remained relatively stable despite a significant reduction in wage inequality. Souza (2016, p. 234) recognizes that, in his study (namely about the richest), "the term inequality is used basically as a synonym for 'concentration at the top'".

[21] Fitzgerald (2008) is again the exception.

[22] With the exception of the last decades of the French Gini (unadjusted), the estimates refer to the primary distribution. In "Brazil 1%", we use the averages of three five-year periods calculated by Souza (2016) (1930-1935, 1970-1975, 2010-2015).

3. The Great Transformation of the 20th Century

The conclusion reached by Williamson (2015, p. 25), who investigates five centuries of Latin American inequality, follows the argument defended so far.

> The inequality history that made Latin America today's most unequal region is not what happened during the three centuries of colonialism, or the half century of early Republican independence, or even the belle époque commodity boom. The history that mattered is the anti-globalization epoch from 1913 to 1970. Latin America did not share the ubiquitous Great Egalitarian Levelling, but rather continued the belle époque rise. It's Latin America's 20th century inequality history which is unique, not its colonial history, nor its early republican experience, nor its belle époque. So, why did Latin America miss the Great 20th Century Egalitarian Levelling?

The previous sections, in which we revisited the trajectories of inequality in developed countries and in Latin America, lead us to the question: What does this "Great Egalitarian Levelling" consist of? What happened in the 20th century?

In the current context of widespread increase in inequality, the unprecedented income compression of the past century in developed countries seems to have been forgotten. In the first decade of that century, "the society of the Belle Époque was extremely inegalitarian [...], one of the most inegalitarian societies of all time" (Piketty, 2014, p. 272). The levelling of the social structure promoted by the 20th century has no parallel in recorded history (Drucker, 1994).

We saw that, with the "Great Compression", all inequality was transformed; both capital and its income and labor income were deeply distributed. It is true that the great conflicts also had direct effects on wages. The formal control of the wage structure by governments during the wars and variations in the supply of workers certainly played a role (Katz; Autor, 1999; Reder, 1968). However, we have also noted that the wars themselves do not explain why wage dispersion remained at relatively low levels in the following decades.

As mentioned, researchers have tried to explain this maintenance from institutional arrangements inaugurated or reinforced by developed countries after the end of the wars. And there is no doubt about the important role these arrangements played. The expansion and strengthening of unions and collective agreements, for example, helped to build a new salary structure, as well as the statutory minimum wage and other remuneration policies.[23] It is also necessary to highlight the great impact of progressive taxation, with high rates, since the second post-war period — which is closely associated with the expansion of welfare states (still incipient in the early years of the 20th century).[24]

Without minimizing the importance of these factors, it should be noted that it has not been possible to identify, as a general explanation for the "Great Compression", any of them. The literature that has explored it is no longer negligible. Atkinson (2008, 2015), Katz and Autor (1999), Krugman (2007), Levy and Temin (2007), Lindert (2015b), Milanovic (2016), Piketty (2014, 2017, 2020) and Steinbaum (2017), for example, claim that the reduction/maintenance of wage inequality, not understood by a single institutional factor, must be explained by its effects as a whole. As Atkinson (2008, p. 68) concludes, it is unlikely that "a single all-encompassing explanation can account for the general pattern" of the course of wage inequality in the 20th century. In short, the institutional factors mentioned seem

[23] Atkinson (2008, pp. 434-435) indicates several studies that explore the effects of the minimum wage and union membership on the compression/maintenance of wage dispersion in national cases. In another work, the author discusses the effects of national salary determination policies applied in the middle of the 20th century (Atkinson, 2015).

[24] Regarding progressive taxation, its effects should also be considered on the inequality of primary income (before taxes and transfers), which is used in most of the long-term estimates discussed. These effects are mainly due to the inhibition of increases in higher earnings (see Frydman; Saks, 2005; Levy; Temin, 2007; Piketty et al., 2014; Steinbaum, 2017; Weisstanner; Armingeon, 2020). On the expansion of welfare states after World War II and its redistributive impacts, Marshall (1981) and Titmuss (1969) are classic works. For more recent discussion, see Kerstenetzky (2012).

to constitute parts of the same phenomenon, although none of them, individually, is capable of harboring it.[25]

What would explain the rise of these institutional configurations? The understanding that institutional changes should be analyzed not in isolation, but as a reflection of broader social determinations has been strengthened. In other words, they have been understood as the cause and consequence of changes in social conventions. In general, it is possible to affirm, as Stiglitz (2013, p. 81) does, that political and institutional factors that affect inequality "reflect and amplify societal norms". In the same sense, Piketty and Saez (2014b, p. 4) conclude that "social norms regarding fairness of the distribution of income" are the ultimate driver of labor market policies. Atkinson (1999) argues that pay rules influence and are influenced by institutional factors, such as public policies for wage determination and collective bargaining. It seems correct to follow Krugman (2007) in his approach that jointly understands the effects of social norms and institutions (institutions-and-norms explanation) on inequality.

Frydman and Sacks (2005) and Levy and Temin (2007) explore the example of taxation. According to these authors, taxation (and its progressivity) must be understood as an endogenous phenomenon, which reflects social conventions of a certain period. As taxation "frequently reflects changes in societal norms", much of its understanding is lost when tax rates or laws are analyzed in isolation (Levy; Temin, 2007, p. 28). It is also important to note that social conventions not only have effects on institutions, but also respond to the effects of the latter. As Blyth (2002, p. 43) explains, "ideas tell agents which institutions to construct, and once in place, such institutions reinforce those ideas".[26]

3.1 The era of social transformation

If the emergence and consolidation of the institutional arrangements discussed above respond to the "vision of society", deep changes in social conventions (or norms) of equity should help explain the "Great Compression". First, it is necessary to discuss, albeit briefly, the magnitude of the metamorphosis promoted by the 20th century. As we have seen, the century to which Hobsbawm (1995) refers as the "age of extremes" is precisely the one in which, by the scale of income, these extremes were less distant. The approximation of incomes certainly accompanies the fall of hierarchies of a society then characterized by servile relations, clearly established social positions and limited social mobility.

"Nineteenth century civilization has collapsed", says Polanyi (1944[2001]) in the first sentence of *The Great Transformation* — understood, among other senses, as a kind of response by society, via the state, to the implications of untying the market from social relations. In the 1940s, Polanyi could only glimpse the extent of the changes that were beginning. Fifty years later, Drucker (1994, p. 1) would conclude that "no century in recorded history has experienced so many social transformations and such radical ones as the twentieth century". In the last decade of that century, at least in developed countries, the labor market, society and politics became "qualitatively and quantitatively different not only from what they were in [its] first years [...], but also from what has existed at any other time in history".

[25] Although "institutional developments" are currently identified as the main reason for the relative maintenance of wage dispersion in the post-war period (Roine; Waldenström, 2015), some studies point out that, together with these factors, the roles of demographic forces, global trade conditions and technological changes cannot be disregarded (e.g. Lindert, 2015b; Williamson; Lindert, 2016). Educational expansion, while not explaining the compression movement, should not be neglected either as a factor related to the discussed maintenance (Goldin; Katz, 1999; Goldin; Margo, 1992).

[26] For a recent discussion on the interdependent relationship between formal labor market institutions and social conventions, specifically regarding wage inequality, see Weisstanner and Armingeon (2020). In fact, these conclusions are by no means new. We have already observed that the battered deterministic paradigm on the trajectory of inequality is unjustly attributed to Kuznets (1955). Among other institutional factors considered, Kuznets (1955, p. 9) stresses the importance of legal and political interventions (such as taxation) on inequality in developed countries. These interventions "reflect the view of society on the long-term utility of wide income inequalities". Kuznets (1955) also observes that "this view is a vital force that would operate in democratic societies" even in the absence of other factors that are contrary to the increase in inequality. According to him, these social perceptions, constantly reassessed, would result in greater or lesser pressure on legal and political decisions that affect the income held by the richest.

These "extreme social transformations" are especially related, according to the author, to the social structure and the reconstruction of labor relations.

In studies on inequality — with the new long-term estimates and the rising understanding that the "Great Compression" cannot be explained only by "properly economic" factors — transformations in social conventions have been increasingly considered. This is what Piketty (2017, 2020) seems to conclude, for example, in his most recent works.[27] The author notes that the political-institutional reforms that contributed to the compression of incomes between 1914 and 1950 are certainly products of specific logical decisions, which attest "the way in which the groups in power at the time tried to cope with unprecedented circumstances, for which they were often ill-prepared". But these decisions, he concludes, "to an even greater degree [...], stemmed from profound and lasting changes in social perceptions" (Piketty, 2020, p. 417).

Indeed, Steinbaum (2017) had already argued (and in response to Piketty (2014)), that the wars and the Great Depression of 1929 did not only destroy property. They also "destroyed an ideology: the free market economics that sustained inequality". According to this ideology, the market "operates for the best when left to itself, and hence that incumbent wealth and power, originating in the market, ought not to be challenged in the political realm". Thus, concludes Steinbaum (2017), not the destruction of wars, but the "decline and fall of an ideology is what precipitated the egalitarian era of the mid-twentieth century" (Steinbaum, 2017, pp. 421-422). Similarly, Scheidel (2017), while focusing on the consequences of the destruction caused by the wars on inequality, also highlights comprehensive ideological changes as a result of this destruction. The cataclysmic effects of World War II would have accelerated the course of social policies, which began to respond to a new social perception of equity.

The expansion of progressive taxation and unionization and the strengthening of welfare states can hardly be disassociated from this new perception. No one less than Beveridge (1942) — author of a report that would propel the universalist character of these states — announced the spirit of these transformations.

> The first [guiding] principle [of the report] is that any proposals for the future, while they should use to the full the experience gathered in the past, should not be restricted by consideration of sectional interests established in the obtaining of that experience. Now, when the war is abolishing landmarks of every kind, is the opportunity for using experience in a clear field. A revolutionary moment in the world's history is a time for revolutions, not for patching (Beveridge, 1942, p. 6).

In fact, as Rosanvallon (2000, p. 27) argues, the welfare states have expanded as a mirror of the social transformations driven by the wars. "Because citizens are willing to die for the homeland, the homeland is indebted to them; war institutes a principle of radical equivalence, where each life has the same weight". The welfare state, he concludes, "is a peacetime and mundane version of that ideal, based on the same impulse".

Although it is a subject of difficult empirical scrutiny, the available evidence seems to validate the hypothesis that equity conventions are transformed by major conflicts. In a review of twenty recent studies, many of them with multidisciplinary teams (economists, anthropologists, political scientists, historians and psychologists), Bauer et al. (2016, p. 1) find "a strong, persistent pattern in surveys and behavioral experiments from over 40 countries": individual exposure to war violence "tends to increase social cooperation at the local level, including community participation and prosocial behavior". This prosocial behavior is understood as the propensity for more cooperative and altruistic attitudes.

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[27] The interpretation of the French economist — who in *Capital in the 21st Century* (2014) mainly focuses on the effects of specific events on the distribution of capital and its income — seems to turn to the role of comprehensive social conventions in his most recent works. Piketty (2017, p. 505) is increasingly convinced that the analysis of what he calls "systems of representations and beliefs" is "essential when it comes to understanding the dynamic of inequality". He admits that political-ideological transformations of the first half of the 20th century were treated as a "black box" in the 2014 book (Piketty, 2020).

It seems certain that the “Great Compression” is associated with the social transformations triggered by the first half of the 20th century. But we can go further. What evidence can support the claim that changes in social conventions play a role in explaining this great leveling, considering specifically the wage structure? In other words: what can be said about changes in equity conventions directly associated with the determination of wages and how would these conventions have been reconstructed from the great conflicts?

3.2 Social conventions and the leveling of the wage structure

As noted, the idea that social conventions should be considered as an explanation for the recent increase in wage inequality in developed countries, especially with regard to higher wages, has been increasingly discussed (e.g. Atkinson, 2015; Krugman, 2007; Piketty, 2014; Stiglitz, 2013). The role of these conventions on the previous historical phenomenon, of compression and stability of wage inequality, although less explored, has also been addressed by studies that revisit the “Great Leveling”.

Katz and Autor (1999) argue that changes in social conventions related to the determination of wages, “an interesting and rather unexplored topic”, clearly consist of a possible explanation for “the large wage structure changes in most [developed] countries during the two World Wars”. One possibility, only mentioned by the authors, is that “wars enabled the erosion of customary wage differentials” (Katz; Autor, 1999, pp. 1540, 1501).

This hypothesis is also suggested by Krugman (2007, p. 75), for whom “the Great Compression in itself — or more accurately, its persistence — makes a good case for the crucial role of social forces as opposed to the invisible hand in determining income distribution”. Similarly, Piketty and Saez (2004) state that, although wage controls in the war economy may explain the compression of earnings in the upper strata, it is also necessary to understand why high wages have not recovered after the removal of these controls. For these authors,

> this pattern of evolution of inequality is additional indirect evidence that non-market mechanisms such as labor market institutions and social norms regarding inequality may play a role in the setting of compensation at the top. The Great Depression and World War II have without doubt had a profound effect on labor market institutions and more generally on social norms regarding inequality (Piketty; Saez, 2004, p. 22).

From the shocks of the beginning of the century, they conclude, “American society’s views on income inequality and redistribution greatly shifted from 1930 to 1945” (Piketty; Saez, 2004, p. 23). Although Piketty and Saez (2004) focus on top earnings, this transformation does not seem to be limited to specific shares.

Levy and Temin (2007) claim that the compression of wage inequality in the United States has its roots in the 1929 Crisis and the New Deal social policies, in the 1930s, which built “a new structure of institutions and norms” for the determination of wages. The Second War and the institutional configurations that followed it would have continued and deepened a transformation that had already begun. The authors summarize these new conventions with what they call the “Treaty of Detroit”; a kind of broad agreement on a new salary structure sewn by the government, large companies in the automotive industry and unions — which spread to other sectors of the economy. The series of institutional factors listed by the authors (minimum wage, labor regulation, progressive taxation, unionization) would be a result of new social conventions on fair wage distances.

Regarding the Japanese case, Scheidel (2017, p. 129) states that wars and their consequences provided a “massive and sustainable” leveling of inequality. Soon after World War II there was a significant strengthening of unions and the minimum wage. The frequent adjustments of the minimum wage, also determined according to the size of the families, “reduced the initially wide income gaps between white- and blue-collar workers”. From the 1950s, there was also a reconfiguration of the tax system, with the

use of high rates on the highest incomes. The introduction and expansion of these measures, according to the author, promoted a "restructuring of labor relations" and a "consensus regarding a new wage structure".

In all cases, the compression and maintenance of wage differentials seems to have, as an underlying factor, changes in equity conventions promoted by the wars. As Atkinson (2015, p. 57) observes, in addition to the effects of destruction and chaos of the conflicts, "major changes took place as a result of new social attitudes and a greater sense of social solidarity" after World War II.

Scheidel (2017, p. 169) reflects on how these new attitudes would have been forged by the conflicts:

> Postwar attitudes were shaped by the experience of these unique shocks. Conscription and rationing have been identified as ubiquitous and potent stimulus for change, and in many of the affected countries evacuations and exposure to bombing and other military activity directed against civilians further reinforced the social effects of conflict, most notably in the first half of the 1940s. Widely diffused across national populations, these dislocations eroded class distinctions and raised expectations of fairness, participation, inclusion, and the acknowledgment of universal social rights, expectations that were fundamentally at odds with the highly skewed distribution of material resources that had characterized the prewar period.

These new social attitudes towards wage dispersion have not been mobilized only as an *ex post* explanation for the "Great Compression". They were also analyzed in depth by authors who wrote long before the rise and fall of the "inverted U curve" paradigm. As we will see below, these authors not only conjectured the construction of these changes, they felt and analyzed them in its course.

Amid the boiling of the discussed transformations, in the interwar United Kingdom, Clay (1929, p. 75) (author of one of the most popular economics textbooks of his time) notes that the wage structure had maintained powerful stability. The understanding of a fair wage would be relative to the others; changes in a given category (driven by market forces, for example) would eventually cause changes in the others, so that relative distances would be preserved. Wages, according to the author, constitute "a system", whose distance between its components has long been recognized and legitimized. "The effect of the war was to dislocate this system and destroy its stability". As a result, society was forced "to face the problem of wages as a whole, and to consider absolute levels of wages in place of merely making adjustments". The First War, he concludes, transformed changes in wages, previously gradual and relative, into abrupt and absolute. These new changes were due to the immediate needs of the conflict, which overlapped tradition and agreed distances.

From the same place and in the same period, Rowe (1928, p. 111) claims that wage differentials between occupations have been preserved for centuries, despite fluctuations in supply and demand, due to "the far-reaching effects of sheer custom, and its domination over men's minds". The author notes that the effects of institutional factors on the dispersion of wages depended on changes in these conventions.

> One cannot help being struck by a sense of the artificiality of the wage structure within any one industry, if not throughout industry as a whole [...] it is difficult to suppose that the influence of consciously directed trade union policy would have been at all considerable if it had not been reinforced by the domination of custom, not only in the minds of the wage-earners, but also to some extent in the mental attitude of their employers. We do not realise the little changes in everyday life which sap the logical foundations of our ideas, and custom has time to consolidate the structure before those foundations have completely crumbled. And so the structure remains, resting on the surface of the ground, to outward appearance as solid as ever, until there comes a hurricane. So it has been with wage structures, until the hurricane of the war (Rowe, 1928, p. 111).

Clay (1929) and Rowe (1928) could not imagine that the transformation they witnessed would reach even greater proportions with the hurricanes of the Great Depression and a second world war.

Nor could Hicks ([1932]1948), who nevertheless observed, between the 1929 Crisis and the beginning of World War II, that a new wage structure was being built. This new structure had been brought about by the enormous chaos over the relative wage positions triggered by the First War.

> No one knew where the new equilibrium would be, and no one imagined that it would be anything like that which had existed in 1914. So strange a situation, in which sharp and revolutionary changes in the wage structure had to be made, although no one really knew what changes were appropriate, gave a long wished for opportunity to those who held theories of how the wage structure should be planned (Hicks, [1932]1948, p. 171).

The role of unions became increasingly important in that period, but, according to Hicks ([1932]1948), the new wage structure would not depend solely on them. In addition to market forces, new social perceptions, both of workers and employers, about what should be considered a "fair wage" would play a central role.

Regarding Sweden, in the 1950s, Rehn (1957) defends a similar perception. After noting a widespread reduction in wage differentials between 1939 and 1950, he highlights the importance of unions. He and other authors show that union action had become increasingly coordinated and "solidaristic" — focused on the general wage structure, and not on the advantages of specific categories (Edin; Holmlund, 1993; Hibbs, 1991; Hibbs; Locking, 1996, 2000).[28] Rehn (1957) notes, however, that union action contributed and was part of a broader transformation, which he associates with an increasing demand for equity in the Swedish society. More than the result of the mere imposition of unions, the wage compression would be understood as the consequence of a comprehensive social pact, in which employers' organizations also participated (Hibbs; Locking, 2000; Rehn, 1957). Also thanks to the expansion of schooling and mass communication, information about pay in different sectors was disseminated, making deviations from a general pattern less and less acceptable. "The broadening of the equity concept [became] a common rule to the labour market of the whole country" (Rehn, 1957, p. 230).

Almost half a century ago, Thurow (1975) also argues, based on the North American case, that the dispersion of wages is largely determined by "historical and cultural" conceptions about what is fair. These conceptions would involve not only the absolute individual earning, but mainly the relative position of a worker (in relation to the others). This mechanism, he suggests, makes relative wage distances, crystallized for a long time, difficult to change. It was the shocks of the first half of the twentieth century that allowed the change. Although this transformation certainly goes through institutional mechanisms, it was thanks to the "widespread consensus that wage differentials should be reduced" that the government implemented policies to achieve greater equity. With his analysis, Thurow (1975) underlines an important point: the new standards "were not imposed by the government on a reluctant population but were imposed on the labor market by popular beliefs as to what constituted equity in wartime". According to him,

> after the wage differentials of the Great Depression and World War II had become embedded in the labor market for a number of years, they became the new standard of relative deprivation and were regarded as "just" even after the egalitarian pressures of World War II had disappeared. Basically, the same differentials exist to this day, thirty years later (Thurow, 1975, p. 111).

[28] The "solidarity wage policy", a term coined in the late 1930s, constituted "a deliberate attempt by the main union confederations to reduce wage dispersion" (Edin; Holmlund, 1993, p. 1). Hibbs (1991, p. 90) explains that for much of the 20th century, at least until the 1980s, "most Swedish trade union leaders (and rank-and-file members) shared a deep ideological commitment to equality".

In the same period, Brown (1979, p. 6-7) discusses in depth the effects of changes in social conventions on wage distribution. Until the beginning of the 20th century, “wage differentials were largely ruled by customs”. He highlights the rooted power of tradition: “What has obtained from time immemorial carries the authority of the generations by which it has been accepted: so many people would not have accepted it for so long if it had not been right and proper”. Exploring the case of the United Kingdom, he observes that it was with the First War that arrived “changes of a kind that would break up the rule of custom and that of market forces”. The regulation of earnings by government agencies and the expansion of collective bargaining showed that wages were not always and inevitably governed by competitive forces. Although eventual economic turmoil suggested a return to the old order, “the Second World War and the years of full employment that followed renewed and intensified” the transformations that had begun in 1914. It was no longer believed that wages had to be determined only by the values that employers were willing to concede, or that they are the result of “mysterious economic forces”. Earnings started to be built on new principles of equity; principles that, according to Brown (1979), guided the establishment of a new wage structure.

Other factors are certainly associated with (and propitiated) these transformations. It is frequent in the studies analyzed that, to a greater or lesser extent, the conventions discussed would hardly have changed, in the suggested dimensions, without the economic growth and full employment then available in the post-war period.[29] Regarding the trajectories of inequality, however, it seems certain that the presence of these factors does not imply a necessary reduction in wage differentials — much less in the levels discussed. The same goes for the effects of education, certainly responsible for a “silent social revolution” (Lowndes, 1937), which however do not explain the Great Leveling of the analyzed period.

Having highlighted the importance of these conditions, it should be noted that, at the end of the 1970s, Brown (1979, p. 75) concluded that the transformations that took place “during and after the two World Wars stand out as a major and apparently sustained break with the past”. The prediction has not been fulfilled. Both Thurow (1975) and Brown (1979), in the years when they wrote, seemed certain that an era was left behind. However, precisely from that period onwards, wage inequality would assume a new direction, first in the Anglo-Saxons and then in other developed countries.

Part of the studies that discuss the role of social conventions on the recent increase in wage inequality finds that this increase stems, to a large extent, from the reversal of the changes that led to the “Great Compression” of the mid-twentieth century. Krugman (2007, p. 76) argues that “the great divergence of incomes since the seventies is basically the Great Compression in reverse”. In the 1930s and 1940s “institutions were created and norms established that limited inequality; starting in the 1970s those institutions and norms were torn down, leading to rising inequality”. Katz and Autor (1999), Piketty and Saez (2004), Weil (2017) and Levy and Temin (2007) come to similar conclusions.

In summary, we have concluded so far that new social conventions resulting from the great shocks have played a crucial role in the construction of a new wage structure. The widespread destruction caused by the wars — in properties, lives, custom and traditions — reconfigured (or also destroyed) crystallized social distances, materialized by earnings. The new equity conventions shared from then on would be constituted on new bases, along with the societies that were being rebuilt.

3.3 The Brazilian and Latin American continuity

In Latin America, in general, the “Great Compression” and the shocks that triggered it were not observed. In addition to the absence of the direct effects of the world wars on wages, the region has not

[29] Brown (1979), for example, argues that the years of significant economic growth have allowed lower strata to increase their earnings without decreasing the income of the upper strata. Growth benefited the former more, but it still favored the latter. Regarding the Swedish case already discussed, Rehn (1957, p. 230) notes that the equalization process was favored by full employment; in situations of unemployment, unions are more likely to fight for the conditions (wage preservation and employment) of their own members. The author predicted, however, that this “changed ideology can be expected to prevail in the future, even in periods of less-than-full employment” — which, to a certain extent, actually happened.

experienced the deep social changes that, we argue, have rebuilt the wage structure under new conventions of equity.[30]

In contrast to the course of inequality in developed countries, the absence of changes in social conventions is evidenced by the institutional configurations assumed by the Latin American labor markets. These configurations often contributed to maintaining or increasing the already high levels of wage dispersion during the 20th century. The expansion and strengthening of collective agreements, wage policies, progressive taxation and the welfare state, in general, were observed with much less intensity in Latin America. In addition to the region having resorted "with excessive frequency to authoritarian regimes", leading to the repression of unions and the freezing of wages, the tax systems have been developed in a highly regressive manner (Bértola; Ocampo, 2010, p. 275; Altimir, 1994; Huber, 2009; Goñi et al., 2011; Tanzi, 2000).

In short, even at times of significant economic growth, the institutional arrangements that accompanied the changes in equity conventions were not developed as in countries that have become less unequal. On the contrary, these arrangements often acted as a tool to preserve, or increase, relatively untouched social distances during the 20th century. Without intending to standardize a Latino-American trajectory for such an extended period, we will briefly analyze the Brazilian example again. We will not discuss in detail the intricate trajectory of the institutional configurations of the Brazilian labor market in the 20th century — there are good studies dedicated to this (see Draibe, 2007; Fleury, 1994; Kerstenetzky, 2012; Lewis; Lloyd-Sherlock, 2009; Santos, 1979). We will only outline, in general terms, the behavior of the main institutional components associated with the "Great Leveling" discussed in the previous sections.

As noted, Brazilian inequality in the 20th century, far from being reduced, is characterized by stability or growth.[31] Between the 1960s and 1970s, when more adequate data became available, there was a significant increase in inequality, especially with regard to labor income. Although there is still debate on the subject, many authors attributed this increase to institutional configurations promoted by the military regime (1964-1985), such as readjustments in the minimum wage, the repression of union demands and the regressivity of the tax system (Carnoy, 1974; Fishlow, 1975; Gandra, 2004; Malan; Wells, 1973).

Indeed, these circumstances must not be understood as exceptional. Democracy occupied an intermittent place in Brazil during the 20th century. In the Vargas Era (1930-1945) — especially during its most authoritarian period, the Estado Novo (1937-1945)[32] — the actions of the unions were controlled by the government. These actions would be explicitly repressed during the military regime installed in 1964 (Colistete, 2007; Frankema, 2012; Paula, 2018). As Colistete (2007, p. 121) notes, "even when conditions were favorable for economic growth and democracy, relations between industrialists and labor remained essentially hostile and antagonistic during most of the 1950s and early 1960s" — in sharp contrast to the discussed equity conventions that governed these relations in postwar developed countries.

[30] It would be coherent to assume that the transformations observed elsewhere were not possible in Latin America due to the absence of economic growth, a conditioning factor in the cases of the developed countries analyzed. However, there was also significant growth in Brazil and in Latin America as a whole (albeit with exceptions and fluctuations), mainly during the state-led industrialization phase (1930-1980). Many authors have reached the conclusion that the moments of expressive economic growth do not establish a direct relationship with the trajectories of Latin American inequality in the 20th century (e.g. Altimir, 1996; 2001; Bértola; Ocampo, 2010; Escosura, 2007b; Glade, 1996; Janvry; Sadoulet, 2000).

[31] The long-term estimations recently made by Souza (2016) and Morgan (2018), which also emphasize this stability, suggest a "mini-leveling" around the years between 1945 and 1960, as noted. This reduction is admittedly poorly deciphered by the authors, although the effects of specific economic and political events are considered. In any case, the reduction is far from having represented a new distributional level, being better understood as a return to the levels prior to the increase verified during the dictatorship of the Estado Novo (1937-1945). More importantly, based on the data they use (the share of income held by the top 1%), it is impossible to say what happened to wage inequality. Information on the wage differentials available for that period, while limited, suggests that there was an increase in inequality (e.g. Astorga, 2017b; Frankema, 2012).

[32] Getulio Vargas was president of Brazil, with democratic and authoritarian governments, in different periods between the 1930s and 1950s.

Moreover, unlike the "solidaristic" consensus discussed with the Swedish example, unionism was, at certain times, marked by asymmetric bargaining powers and the defense of self-interest (Arbache; Carneiro, 1999; Carneiro; Hanley, 1998; Frankema, 2012).[33] Arbache and Carneiro (1999) argue that, when there are considerable differences in bargaining power between unions, there is a tendency to observe an increase, instead of reduction, of wage inequality. This may be explained, among other factors, by the configuration of Brazilian social security, which, especially since the 1930s, granted social rights (regarding retirement and access to health, for example) according to belonging to certain professional categories. As Fleury (1994, p. 181) explains,

> Social security's cooperative mechanisms and the ones which regulated the sphere of labor aimed to incorporate, selectively and in a controlled manner, fractions of the working class that, for being in the most dynamic sectors of the economy, had greater bargaining power — and, thus, its demands were better served. This form of co-optation of workers, transforming social benefits into privileges of some fractions, was fundamental both for the construction of the national state [...] and for the legitimation of the exercise of governmental authority. [...] At the same time, it gave the working class a fragmented identity, tied to state power, which prevented it from understanding itself as a national class.

This social security system would only be effectively transformed with the 1988 Constitution, during the process of re-democratization. Since then, the Brazilian welfare state has approached, at least normatively, the European social-democratic regimes, with movements to universalize social rights and policies (Kerstenetzky, 2012).

Paradoxically, a progressive tax system, a characteristic component of these states, could not be observed in Brazil even after re-democratization. On the contrary, from and also thanks to the 1988 Constitution, the tax structure has become increasingly regressive (Fandiño; Kerstenetzky, 2019). In fact, progressive taxation seems to have played a historically incipient role in the country. As Oliveira (2017) explains, from the establishment of the republican regime (at the end of the 19th century) to the 1960s, the tax system "was, strictly speaking, nothing more than a mere collection instrument". From the 1965-66 tax reform to 1988, he concludes, this system served only as a tool for economic growth. In general, the country's tax structure has always been based on indirect taxation, which is essentially regressive. Income and property, from which progressivity would be promoted, have always been "practically protected from taxation" (Oliveira, 2017, pp. 3, 27).

Finally, the minimum wage also illustrates the country's distributive stagnation: since 1940, when it began to be effectively applied, the most expressive advance, observed during the democratic interregnum (1946-1964), was abruptly interrupted by the military regime. At the beginning of the 1990s, the real minimum wage value was lower than that observed in the first years of its application (IPEA, 2019).

In short, the institutional configurations identified as responsible for the reduction or preservation of a relatively low wage dispersion in other countries have not been successful in Brazil. In fact, they mainly helped to preserve entrenched social distances. As a result of the absence of the Great Leveling, Brazilian (and Latin American) inequality is similar to that found in European servile societies prior to the transformations of the 20th century. As Morrisson and Snyder (2000, p. 70) note, "the estimated Gini coefficient for France in the late eighteenth century corresponds fairly closely to the estimates of income inequality that existed during the 1960s in such Third World countries as Brazil" — where, as we have seen, inequality has hardly changed since then.

[33] While briefly discussed here, the role of unions in Brazil is evidently more complex. The relationship, for example, between unionism and the conquest of labor rights should not be disregarded. More details on this issue can be found in the works mentioned above on the trajectory of the institutional configurations of the Brazilian labor market.

Although we have explored the course of inequality in the 20th century, some observations about changes observed in the beginning of this century can be made. With the turn of the century, an unexpected inflection began to be noted. Along with economic growth, this time accompanied by much greater (re)distributive intervention by the state, virtually all Latin American countries had a sustained reduction in inequality, especially regarding labor income, in the first decade of the 21st century.[34]

There are many studies dedicated to this compression, but it has not been possible to point out, indisputably, a single determinant to explain it. The reduction seems to be explained by the encounter of different factors, certainly reinforced by the economic prosperity of the period.[35] Without discussing the merits and policies of specific governments, it is certain that institutional (re)distributive configurations, along with states that finally accelerated their social spending, seemed to illustrate the inauguration of a new moment, perhaps unprecedented, of sustained reduction of inequality in Latin America. “The new inequality trend is likely to stick”, suggested Cornia (2012, p. 39).

Despite the optimism promoted by these changes, the second decade of this century brought bad news. In Brazil, for example, the reduction of inequality was not only interrupted; since 2015 there has been an inflection towards previous levels (IBGE, 2019; IBRE, 2019; Neri, 2019). It is certainly too early for conclusions about the meaning and scope of this distributive moment. We can ask ourselves, however, in the light of the Great Compression discussed, to what extent the imposition of specific institutional configurations can work under the domain of social conventions that have been preserved for so long.

Conclusion

The trajectory of Brazilian inequality must be explained (more than by the preservation of colonial institutions) by the absence of the great transformations that made other countries less unequal during the 20th century. Among these transformations, we must highlight not only the disruption caused by major conflicts, but also the reconstruction of equity conventions that govern the wage structure. Let it be clear: we do not suggest that this is the only or the main reason for explaining such different distributive paths. We argue only that transformations in social conventions played a significant role, largely ignored by the hegemonic neoclassical perspective, and that this conclusion has implications for the understanding of the extreme Brazilian inequality — and the reasons that have perpetuated it.

To explore this perspective, we focused on the wage structure and the social relations that constitute it, disregarding the extreme top of the distribution (and capital income). As Lindert (2015a) concludes, in spite of the great contributions of Piketty (and his collaborators), the relative absence of the incorporation of labor income in his understanding of the trajectory of inequality needs to be noted. When this limitation is overcome, says Lindert (2015a, p. 32), it is possible that the causal process starts from society towards inequality, with “only a secondary role to the shocks that history has inflicted on nonhuman wealth”.[36]

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[34] The only exceptions between 2002 and 2010 were Nicaragua and Costa Rica, according to Cornia (2014). In Brazil, new studies that analyze the income held by the top 1% (based on tax data) question the dimensions of this decline. Even these studies, however, seem to admit that there was a sustained reduction in labor income inequality in the period (e.g. Alvaredo et al., 2017; Medeiros et al., 2015a; 2015b; Morgan, 2017, 2018; Souza, 2016; Souza; Medeiros, 2015).

[35] Many factors are suggested to explain the reduction, such as: the decrease in the premium for higher education (associated with the expansion of schooling), conditional cash transfer programs, the creation and formalization of jobs and the strengthening of unions, labor legislation and the minimum wage. The general conjunctures of democracy consolidation, the rise of center-left parties and the increase in public social spending have also been suggested (Alvaredo; Gasparini, 2013; Bértola; Ocampo, 2010; Cornia, 2014; Gasparini; Lustig, 2011; Huber; Stephens, 2012; Huber et al., 2006; ILO, 2016; Lustig et al., 2013; Torche, 2014).

[36] It would not be fair to say that Piketty (2014) attributes the compression of inequality only to the shocks of the first half of the 20th century. He makes it clear that the history of inequality is determined by “social, political, military and cultural” factors. However, when especially the top of the distribution and the capital and its income are considered, these shocks are in fact of paramount importance — and these are precisely the topics (wealth and its income) he was particularly interested in. We have already noted that, in his new book, Piketty (2020) deals with the transformations of the 20th century in a more comprehensive way.

Mobilizing empirical evidence and historical reports, we explored this hypothesis not only by observing two trajectories of inequality separated by a great levelling — which is explained, among other factors, by deep transformations in equity conventions. We also investigated the nature of these transformations. As we have seen, they have been increasingly considered by recent studies, but were already emphasized by authors who, at that time, witnessed them. Thus, more than an *ex-post* explanation (perhaps a result of the incompatibility of the neoclassical framework), the importance of these changes is also highlighted by authors who appreciated them during their course. Based on the reflections of these studies, we argue that, from and due to changes in social conventions, institutional configurations have preserved a new wage structure (and, to a certain extent, the conventions that built it). In Latin America, and particularly in Brazil, these transformations (and the institutional configurations associated with them) were not observed in the same way.

The "inverted U curve" paradigm has been replaced by the consensus that "inequality movements are not driven by any fundamental law of capitalist development" (Williamson; Lindert, 2016, p. 15). Inequality seems to be better determined by social transformations responsible for the installation and defense of institutions, in its most comprehensive sense. As Berg (2015, p. 1) argues, "equitable societies [...] are not the natural outcome of market forces". Equity "is created by society, by the institutions — the laws, policies and practices — that govern the society, its economy and, in particular, its labor market". Reflections on the role of social conventions have been limited to the trajectory of inequality in developed countries (although still collaterally). This role must also be considered among the determinants of inequality in Latin American countries. The Brazilian case is illustrative. Although they appear in a still incipient perspective, with admitted limitations, it seems imperative that these determinants start to be considered more seriously. Even if first steps do not define trajectories, we cannot begin the latter without the former.

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