Why has income inequality remained marginal in public policy?

• Marginal in the West – even after 3 decades of rising inequality
• How can center-left make it more central?

• Robert H. Wade, March 2013
Inequality vs. poverty as public policy issues

- IN always more difficult than “poverty” for policy elites to define as a “problem” in need of remedy.
- From point of view of elites, “poverty” is about “others”, & showing concern for poor makes (some) feel good about themselves.
- IN raises Qs abt appropriateness of OWN (& reference groups’) income.
Defence of IN: politicos

- “It is our job to glory in inequality and to see that talents and abilities are given vent and expression for the benefit of us all” (Margaret Thatcher)

- “If you end up going after those people who are the most wealthy in society, what you actually end up doing is in fact not even helping those at the bottom end” (Tony Blair, 2001)

- “I, like most of the American people, don’t begrudge people’s success or wealth. That is part of the free-market system” (President Obama)
Defence of IN: economists

• “Poverty bothers me. Inequality does not. I just don’t care” (W. Buiter, ft.com, 2007)

• (1) Market as **coordination** mechanism: competitive labor market produces the optimal (& fair) income distribution, such that each factor of production earns the value of its marginal productivity → efficient resource allocation.
Defence of IN: economists

• (2) Market as *incentive* mechanism for devt of skills & creativity:

• Assumption: people choose occupations & work/leisure on basis of *extrinsic* material rewards, not *intrinsic* satisfactions or respect & power

• Combination of (1) & (2) → economists complacent abt rising IN
IN in development policy

- Focus is on poverty; IN ignored or assimilated to poverty
- Eg MDGs
- World Bank: “our dream is a world free of poverty”. WDRs 1978 – 2011: “poverty” used 3 times more frequently than any of 15 words relating to IN
- World Devt Report 2006, Equity and Development (not Inequality & Devt)
Soaring share of top 1% in US

• Top 1% got 23% of pre-tax Y in 1929 & 2006
• Clinton years: top 1% got 45% of (pre-tax) increase
• Bush years: top 1% got 73% of increase
• After tax: 1977 – 2007, top 1% got 40% of increase
• 2010: top 1% (> $352,000) got 93% of increase, av increase of ~12%. Top 0.01% (15,000 h’holds with av Y = $24 mn), got 37% of increase, av increase of 22%  
  (Steven Rattner, “The rich get even richer”, IHT, 27 Mar 2012, based on Thomas Piketty and Emmanuel Saez)
US: income share of top 1%, 1913-2006
Soaring top-end IN is Anglo-Am

- Forbes Billionaires list for 2008:
- US has highest # /population, 2\textsuperscript{nd} highest # / GDP (after Saudi Arabia)
- About 3 times higher than EU averages.
Income Shares in Developed World, 1913-2003
(Alvaredo & Piketty, 2008)

Top 1% Income Shares: Anglo-Saxon Countries

Top 1% Income Shares: Continental Europe + Japan
Top end IN surging in DCs

• In 2008 Forbes Billionaires list added 226 names. Of these China accounted for 28, India another 19.

• China now has a higher # billionaires /GDP than EU, though far below US and Saudi Arabia.

• Most of wld popn lives in c’ies where IN & concentration has increased in past 20 yrs
Explanations for surging IN

- Technology, and globalization
- Technology – replacement of jobs (in West) by machines
- Globn – western labor force brought into competition with vast & much cheaper labor force (‘production globn’ & ‘China-centric globn’)
- Difficult to identify relative strength; & affect different classes of jobs
Why middle class acquiescent?

• Hypothesis: As very rich soar ahead, leaving behind not just manual workers but also middle class masses (including doctors, academics, civil servants, and even CEOs of small companies), middle class masses mobilize politically to champion more equality.

• Evidence: They don’t. Center-left parties silent
(1) ‘Rising IN due to forces beyond control’

- Argt: technology & globn are ‘forces of nature’, beyond control, like gravity
- Partly right, partly wrong: tech change & globn buffering all ct’ies; but ct’ies & govts steer in DIFFERENT directions through the turbulence.
- US is at one extreme (in West). Scandinavia & Germany at other.
(2) Middle classes are keeping ahead of lower classes

- This may also help to explain middle class political acquiescence at rising Y concentration.

- CHART
(2) Middle class keeping ahead of lower

- Rich (D10) gained more at expense of bottom 40% than of middle 50% (D5-9)
- Middle class borrowed to raise C even as incomes stagnated
- Capitalist elite operated “part-pay/part-lend” remuneration policy rather than pay full wages necessary to sustain K accumulation
(2) Middle class keeping ahead of lower

- Middle class fear of loss > prospect of gain
- Talk of “redistribution” raises prospect of bottom 40% being raised up closer to D5-9, lowering their relative position
(3) Mid class bought off with tax cuts

• Neoliberal income-concentrating policies also include tax cuts for middle class, sure vote winner
(4) Center-left political tactics

• Given configuration of interests & ideologies, C-L parties made tactical choice in mid 1990s: (1) “intellectually Thatcherite neoliberalism was triumphant”, (2) “New Labour portrayed globalisation as an inexorable force of nature beyond political control – making irrelevant old egalitarian & interventionist social democratic responses”

• Not only tactics. Social democrats dropped whole idea of fairness relating to income outcomes, & substituted fairness relating to opportunities to earn income. Riches shd depend on “talent, effort and virtue”, & if result is high IN, so be it.
What can center-left academics do?

• Provide sound intellectual basis for challenging IN defences
• Q: Is current top IN necessary for good econ performance?
  • (1) Macro: IN & economic performance of Anglo-Am vs. Eur-Jpn
  • (2) Micro: IN & incentives:
Challenges to IN defences

• Q: Is current top IN efficient?
• (3) Daniel Kahneman’s findings: riches of wealth advisors “undeserved”
• (4) Role of rising top IN in financial crises: 1920s; 2000s
• (5) Role of rising top IN in “state capture”
Scandinavia vs. Anglo

• Scandinavia -- rates of ‘psychological distress’ and mental illness roughly half those of the anglophone countries; employees work substantially fewer hours per year.

• Scandinavia -- prison population per 100,000 people ~ 60–70, compared to 85–95 in continental Europe, almost 140 in Britain (highest in the European Union), & 743 in US, highest in the world (5% of US labor force, 7 mn people, in correctional status).

• UNICEF study of child well-being in 21 advanced countries: Scandinavia plus Finland have lowest % of children (0–17 years) living in households with equivalent income of < 50% of median & were in top 7 positions in terms of child well-being; while UK & US have highest % of children in relative poverty and the bottom two ranks in child well-being (UNICEF 2007).

- 20 rich nations & 50 US states, countries & states with higher income inequality tend to have:
  - lower life expectancy
  - higher infant mortality
  - more mental illness
  - more obesity
  - higher rates of teen births
  - more murder
  - less trust
  - less upward mobility.
Spirit Level (ctd)

- Even households in top percentiles of more unequal societies have higher frequencies of these problems than counterparts in more equal societies.

- So inequality has effects analogous to air pollution; it makes life worse in these respects even for those near the top of more unequal distributions.
IN in development policy

• Q: How to get development policy (including in WB) to focus on IN, as separate issue from poverty?
• Research on links b/w IN & social instability
• Research on effectiveness of redistributive (downwards!) transfers, even when small enough not to worry middle & high income groups.
• Research which shows Kuznets inverted U hypothesis does not hold: income inequality does not “automatically” decline above a certain GDPPC threshold.
• Inequality ‘clusters’: Gini: low cluster 0.2 – 0.33; high cluster 0.50-60. Membership fairly stable across time.