

Global Capitalism and Economic Inequality

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Global Capitalism and Democracy

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- We are through an inversion of roles. Democratic governments are no longer able to control private interests. But private rating agencies – Standard & Poor's, Moody's, and Fitch Group– are specialized in rating sovereign debt and hence control and rate governments.

- This substantial reduction in the sovereignty of governments also translates into reduced ability to redistribute incomes.

- This is specially problematic in a world with rampant inequality.

- Is there a danger of a revive of class struggle?

Global Capitalism and Democracy

This will be the central theme of my talk. This will be organized around the following points:

- How much inequality is there? How is it evolving?
- Why is inequality in the rise?
- Why is inequality bad?
- Is class struggle back?

How Much Inequality?

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- Buffet “There’s class warfare, all right, but it’s my class, the rich class, that’s making war, and we’re winning.” [NYT 26 Nov 2006]. Since then there seems to be a frank acceptance that inequality is so extreme that open social unrest is not to be discarded.

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- Washington Post 28 April 2014 “The claim that America is riven by class conflict may come as a surprise to people who like to think that *There are no classes in America.*”

How Much Inequality?

- Under the expressive title “Marx’s Revenge: How Class Struggle Is Shaping the World” we read in TIME 25 March 2013 “That’s not to say Marx was entirely correct. His “dictatorship of the proletariat” didn’t quite work out as planned. But the consequence of this widening inequality is just what Marx had predicted: class struggle is back.”

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- Headline of The Observer 30 November 2014: “Class war is back again and British politicians are running scared”.
- CNN/Money, 10 June 2015 Cartier boss says “rising inequality will spark class war”. He forecast that robots would “put hundreds of millions of people out of work,” which would widen the gap between rich and poor and stoke social unrest. “How is society going to cope with structural unemployment and the envy, hatred and the social warfare? (...) We cannot have 1% of 0.1% [of rich individuals] taking all the spoils. (...) So I don’t know what new social pact we’ll have, but we’d better find one.”

This argument was put forward by Marx in his *Grundrisse*.

How Much Inequality? The top 1 %

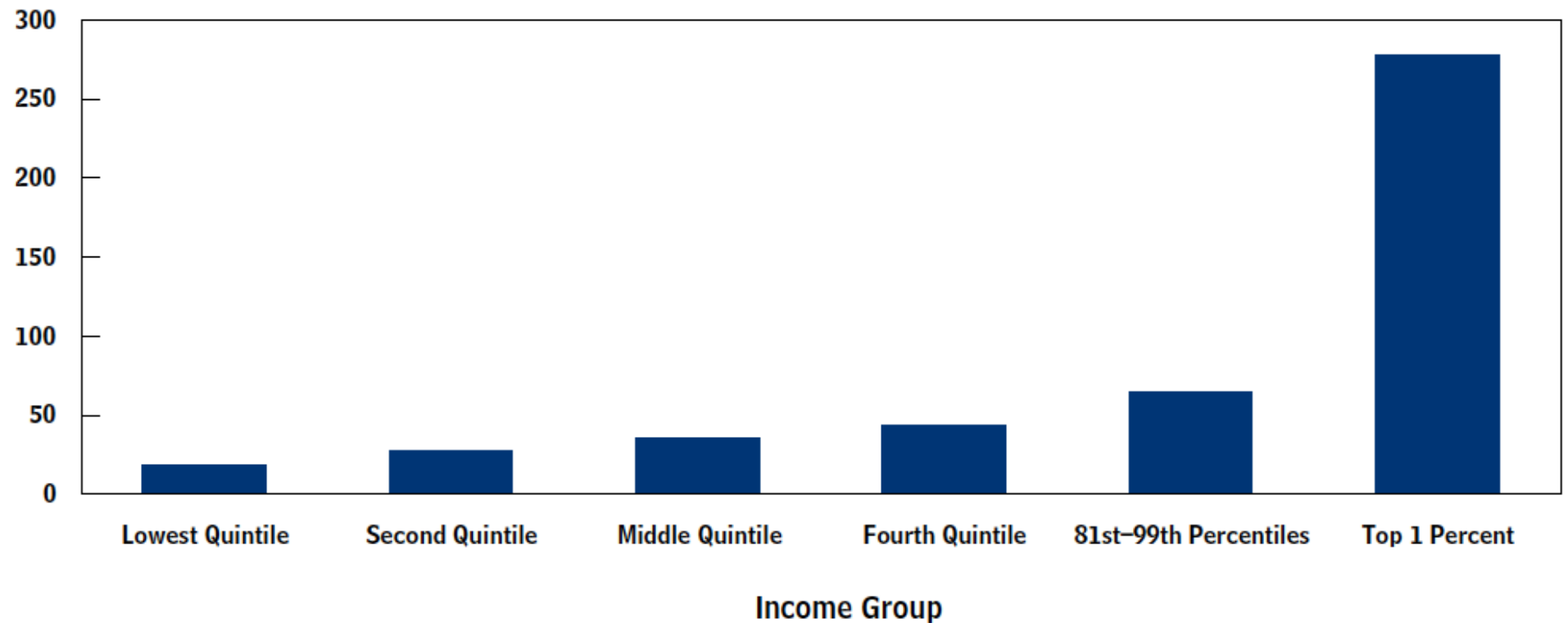
How Much Inequality? The top 1 %

- Has inequality increased so dramatically in the US and in Europe?
- After Piketty's work, together with Atkinson and Saez, attention has turned towards the the very top incomes, the 1% or the 0.1%.
- This is a very important contribution because none of these families has ever been recorded in the consumer surveys.
- From a practical point of view, it permits to have an idea of the loss of tax revenue deriving from the significant decrease over the last decades in the highest marginal income tax rates in all OECD countries.

How Much Inequality? The top 1 %

Growth in Real After-Tax Income from 1979 to 2007

(Percent)

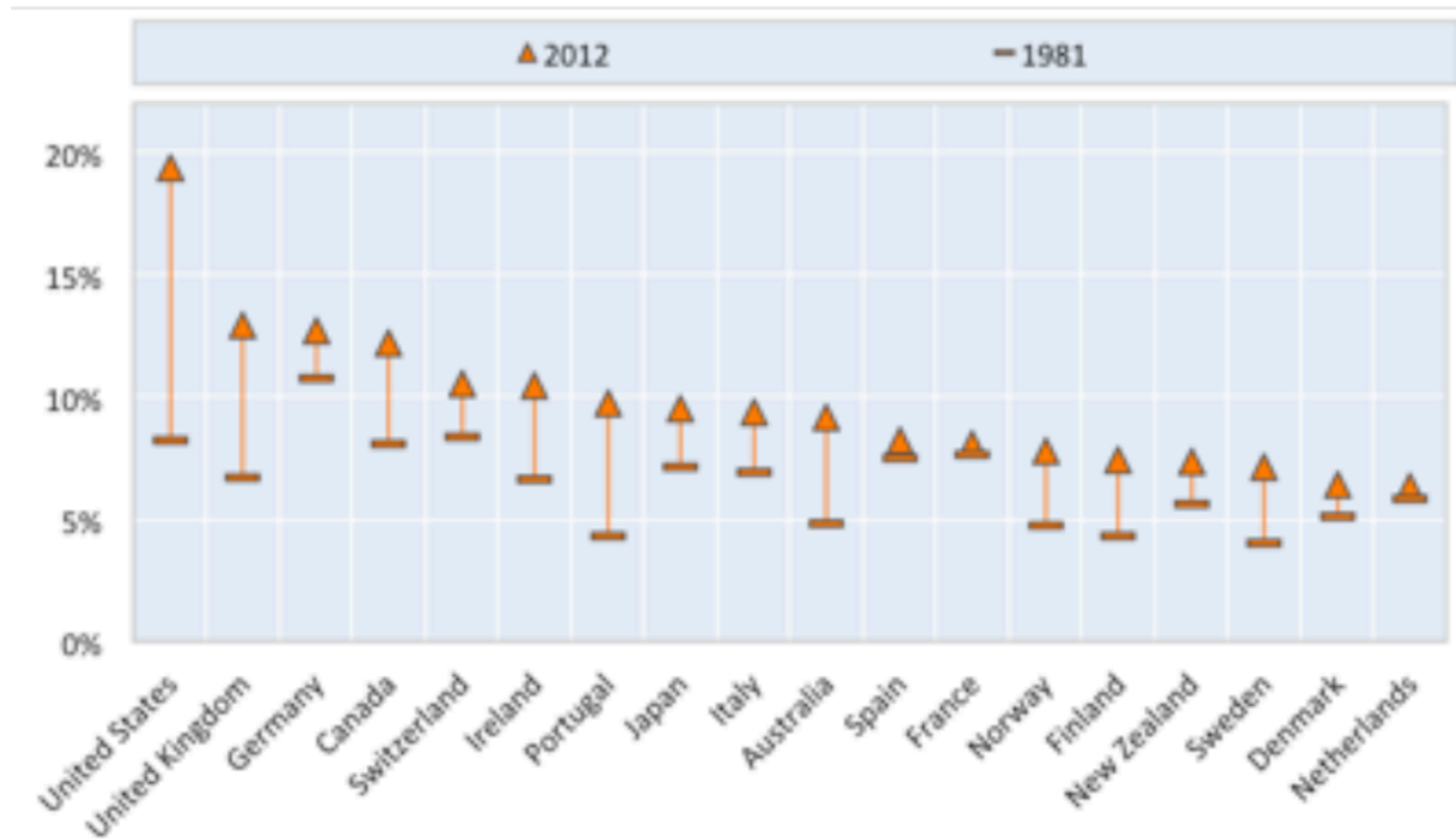


Source: Congressional Budget Office.

How Much Inequality? The top 1 %

Figure 1. Top income surged

Shares of top 1% incomes in total pre-tax income, 1981–2012 (or closest)



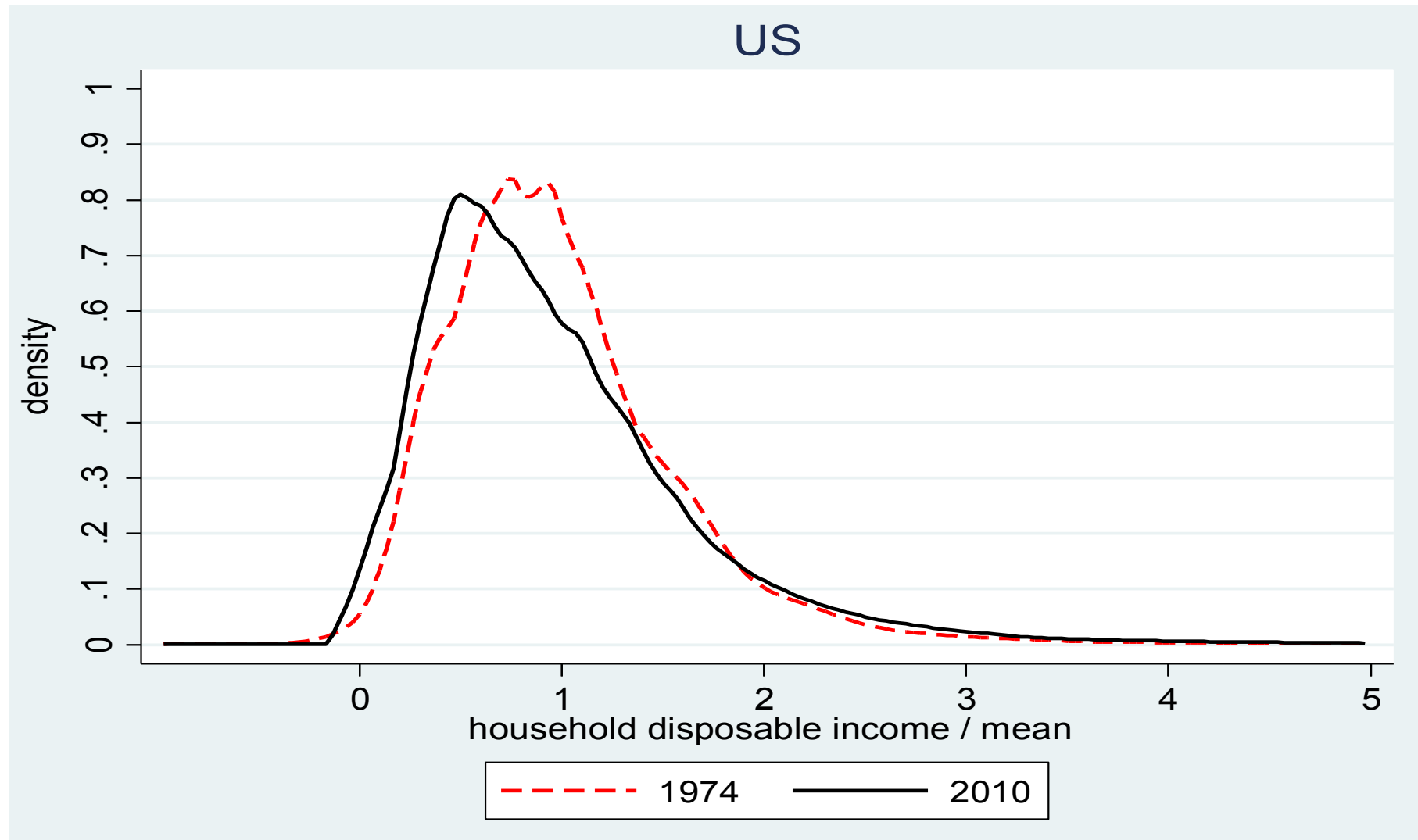
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- I have already mentioned that the accumulation of wealth at this top 1 % is very important from the point of view of the income tax revenue.
- Is this the cause of social unrest, as Cartier's executive feared?
- Suppose tomorrow we learn that Bill Gates, Amancio Ortega, Warren Buffet... are twice as rich as we previously thought. Would this have any chance of igniting a "class warfare"?

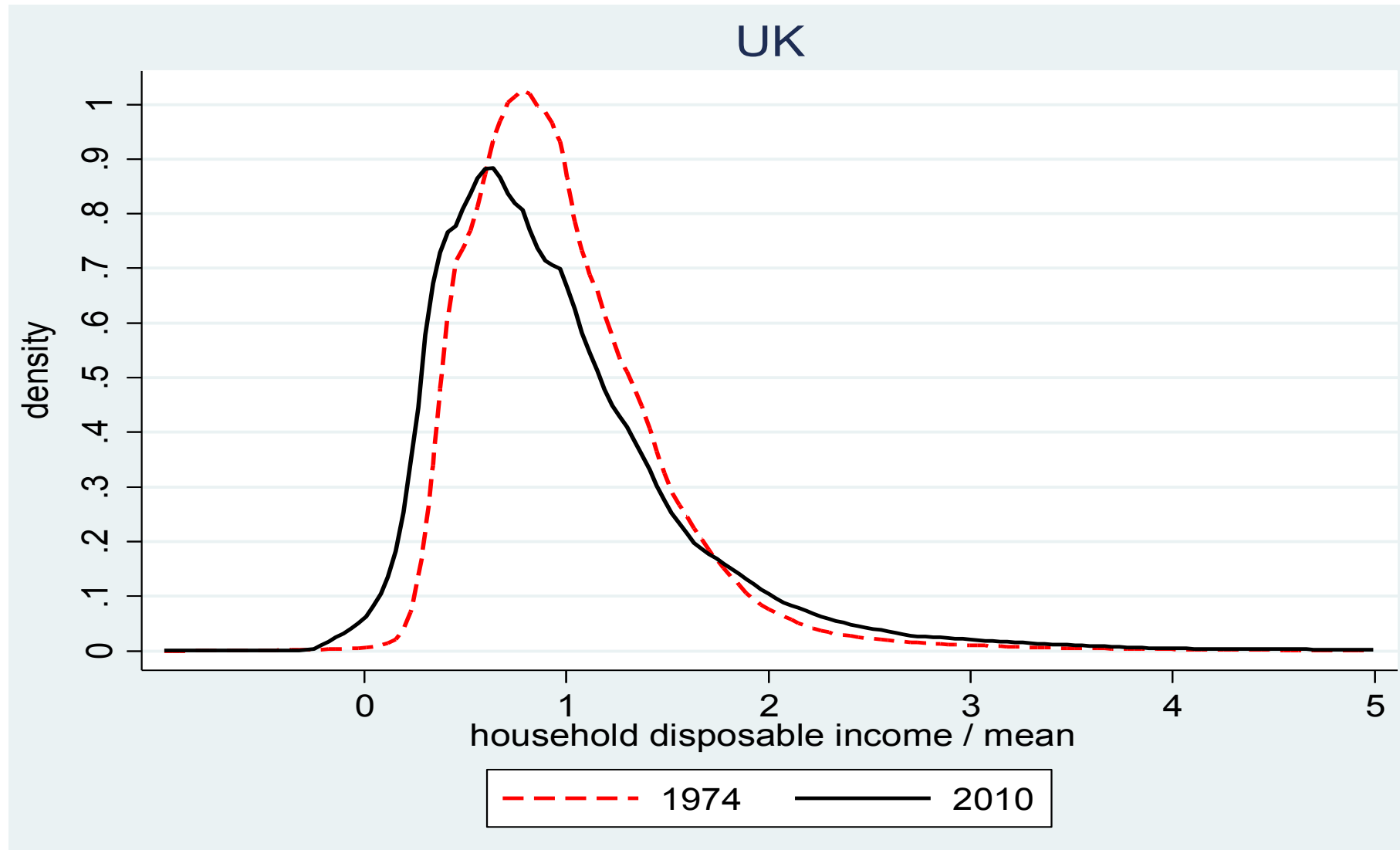
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- In my work with Debraj Ray on *polarization* we argued that social tensions basically develop between well-defined, sizeable social groups and our work on the determinants of social conflict seems to corroborate this view
- There is much to gain from examining what has happened to society as a whole, to the main social groups: poor, low and upper middle class and rich.
- We use data from LIS, hence not including the top 1%.

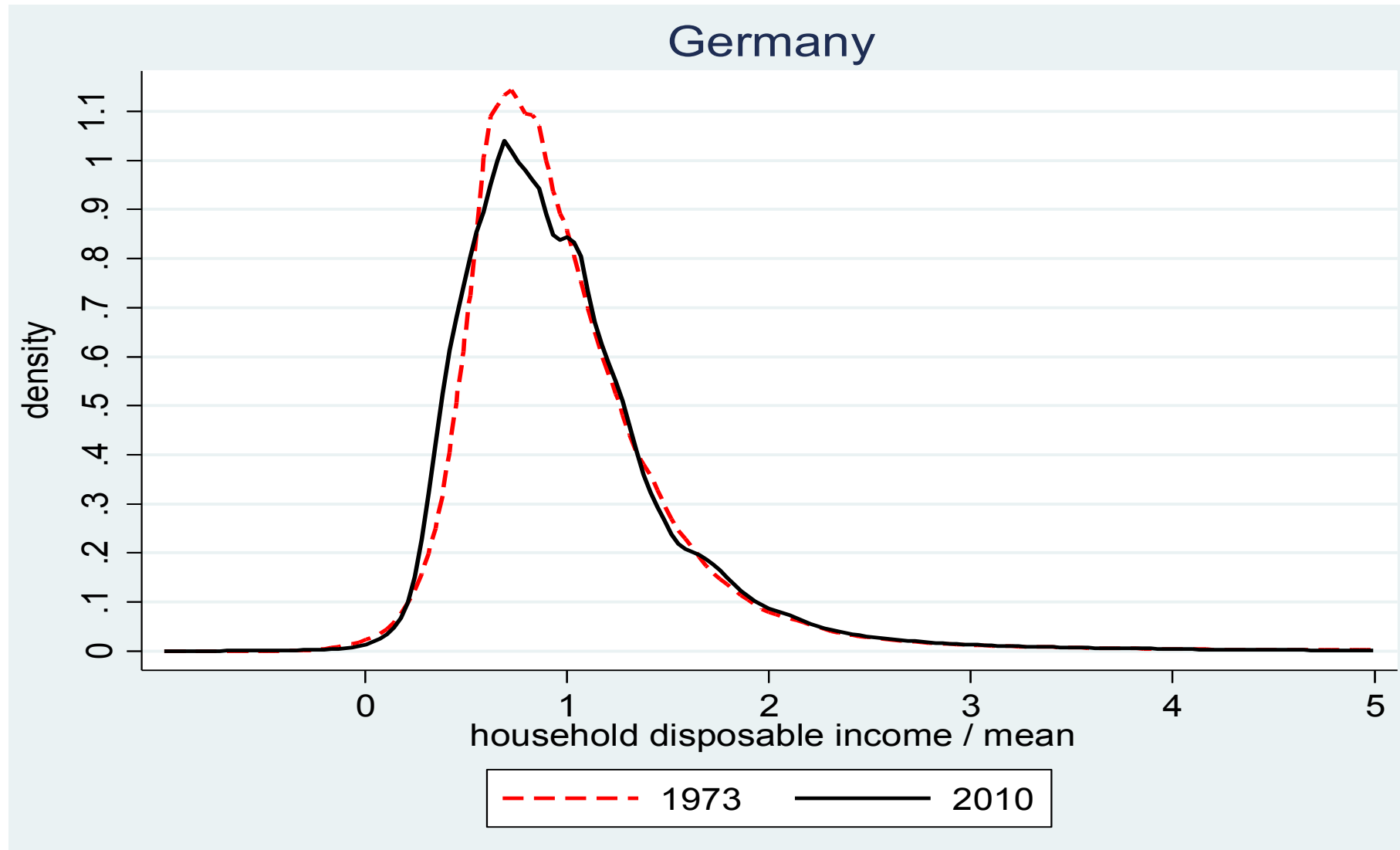
How Much Inequality? The full distribution



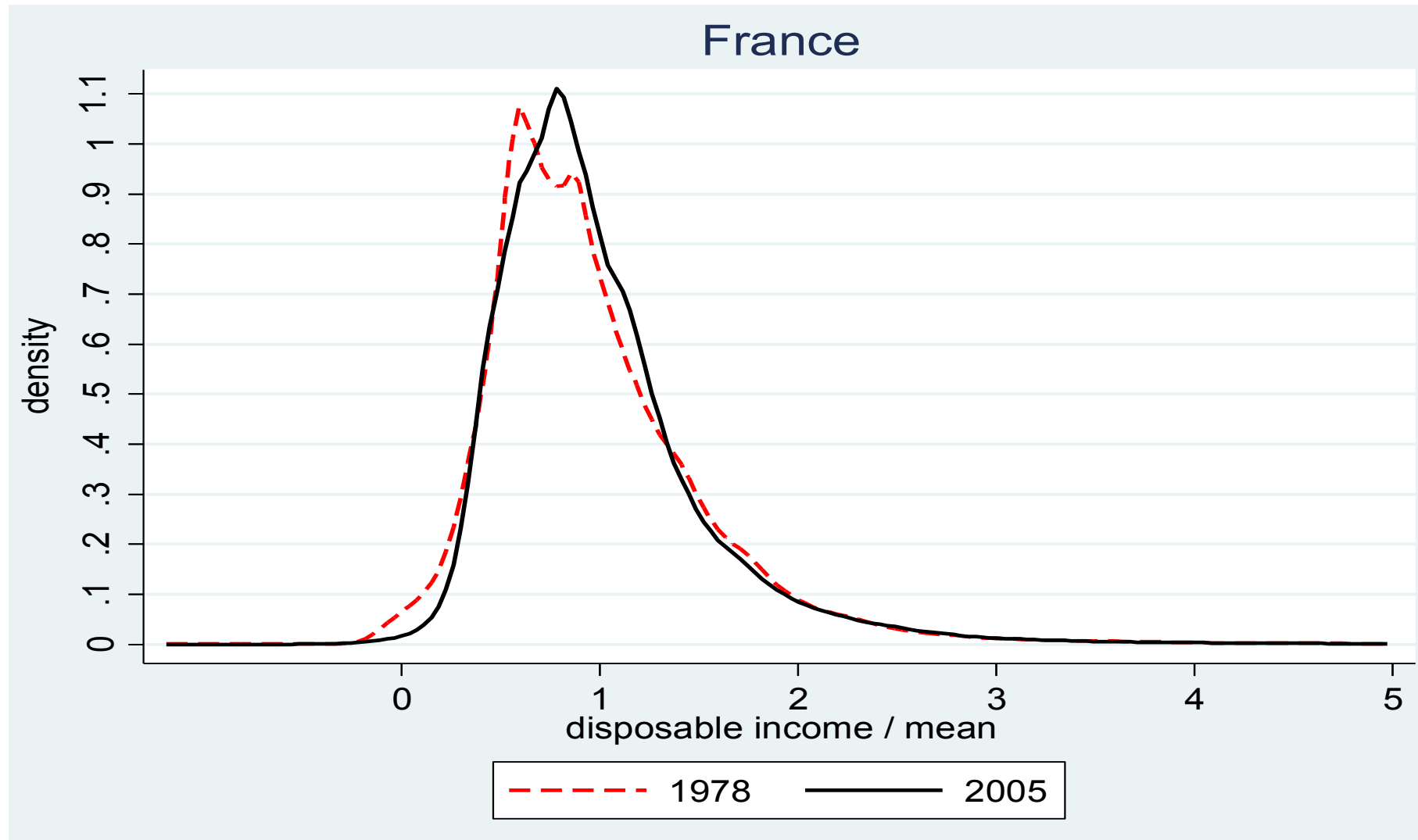
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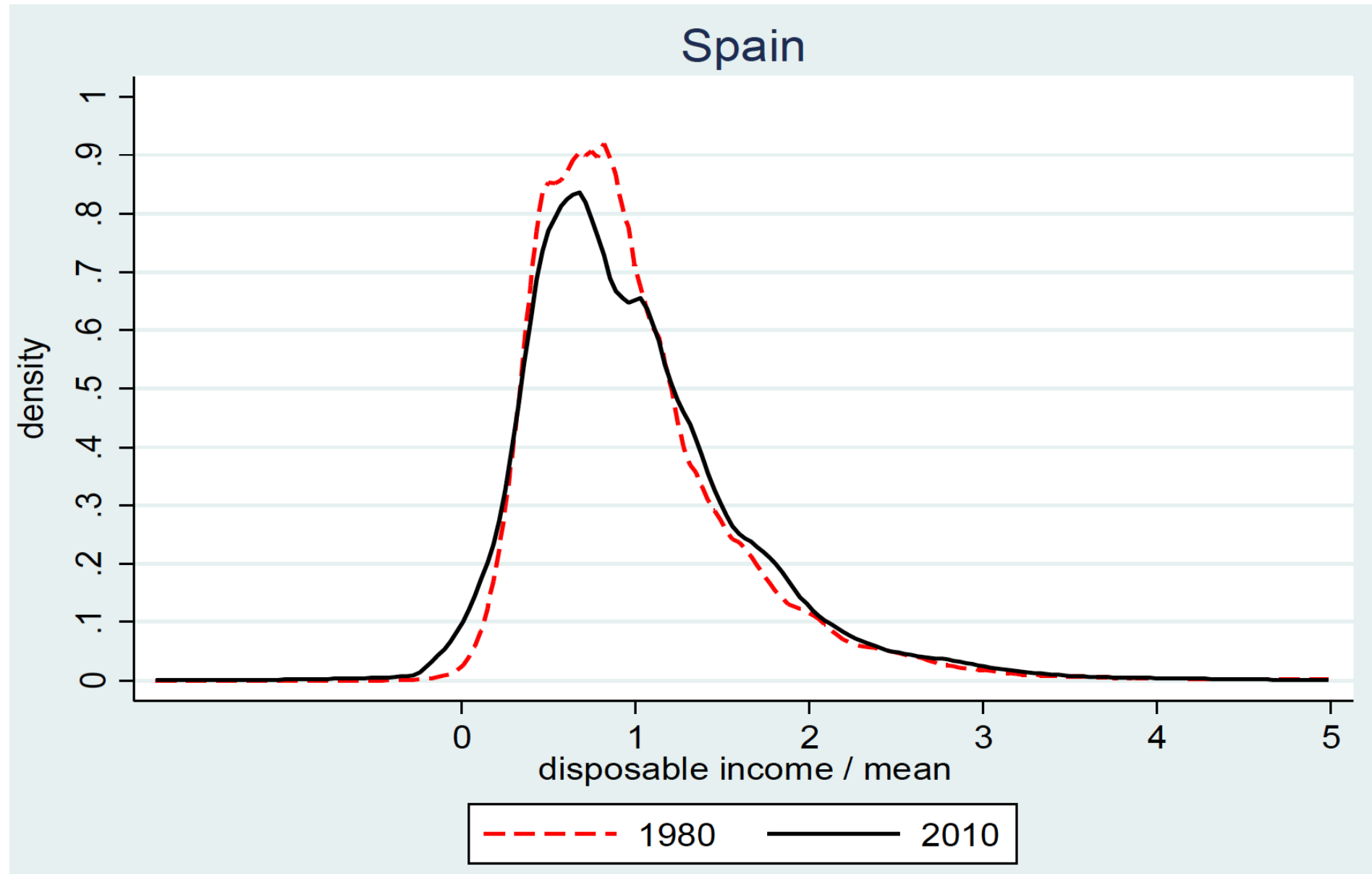
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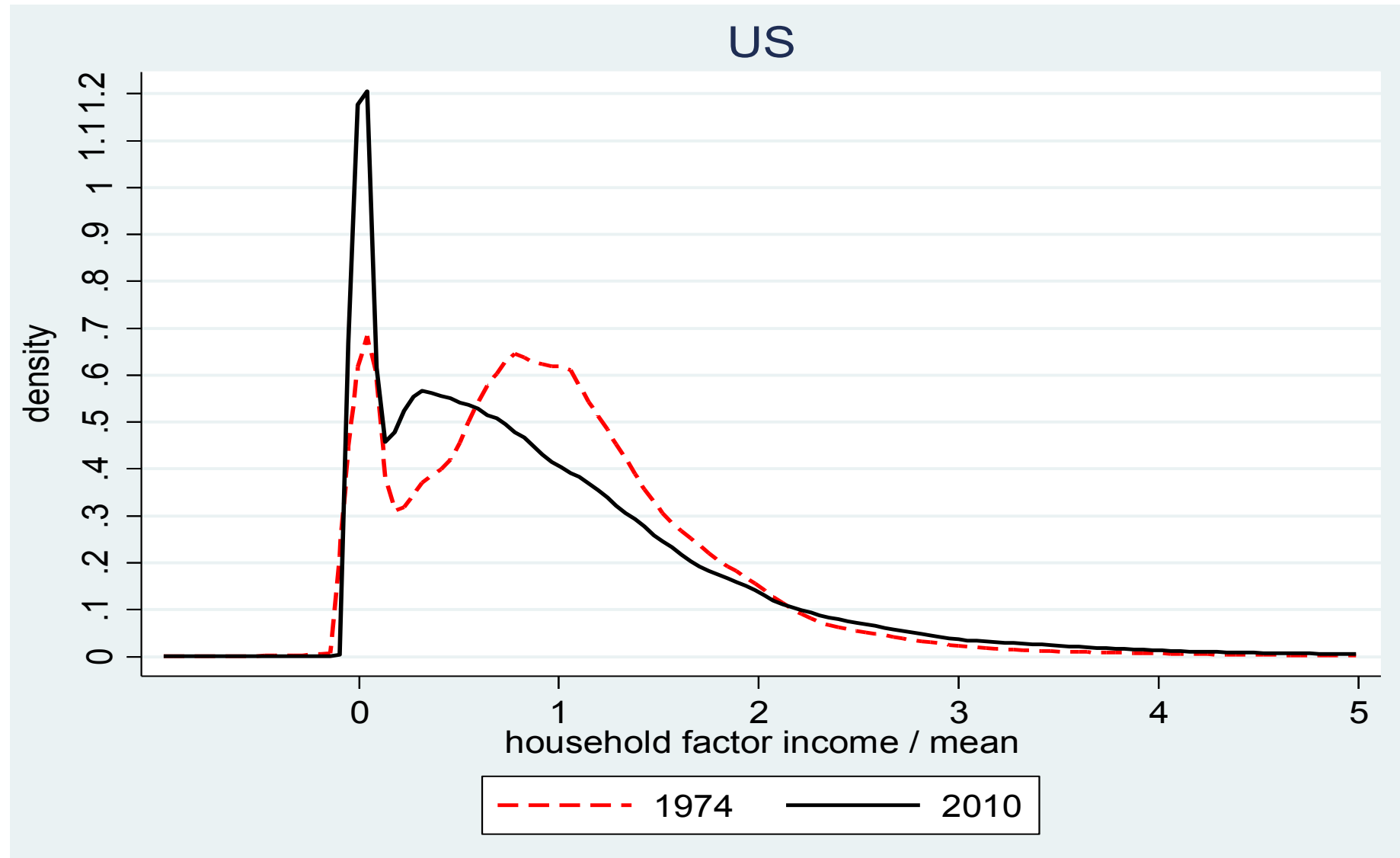
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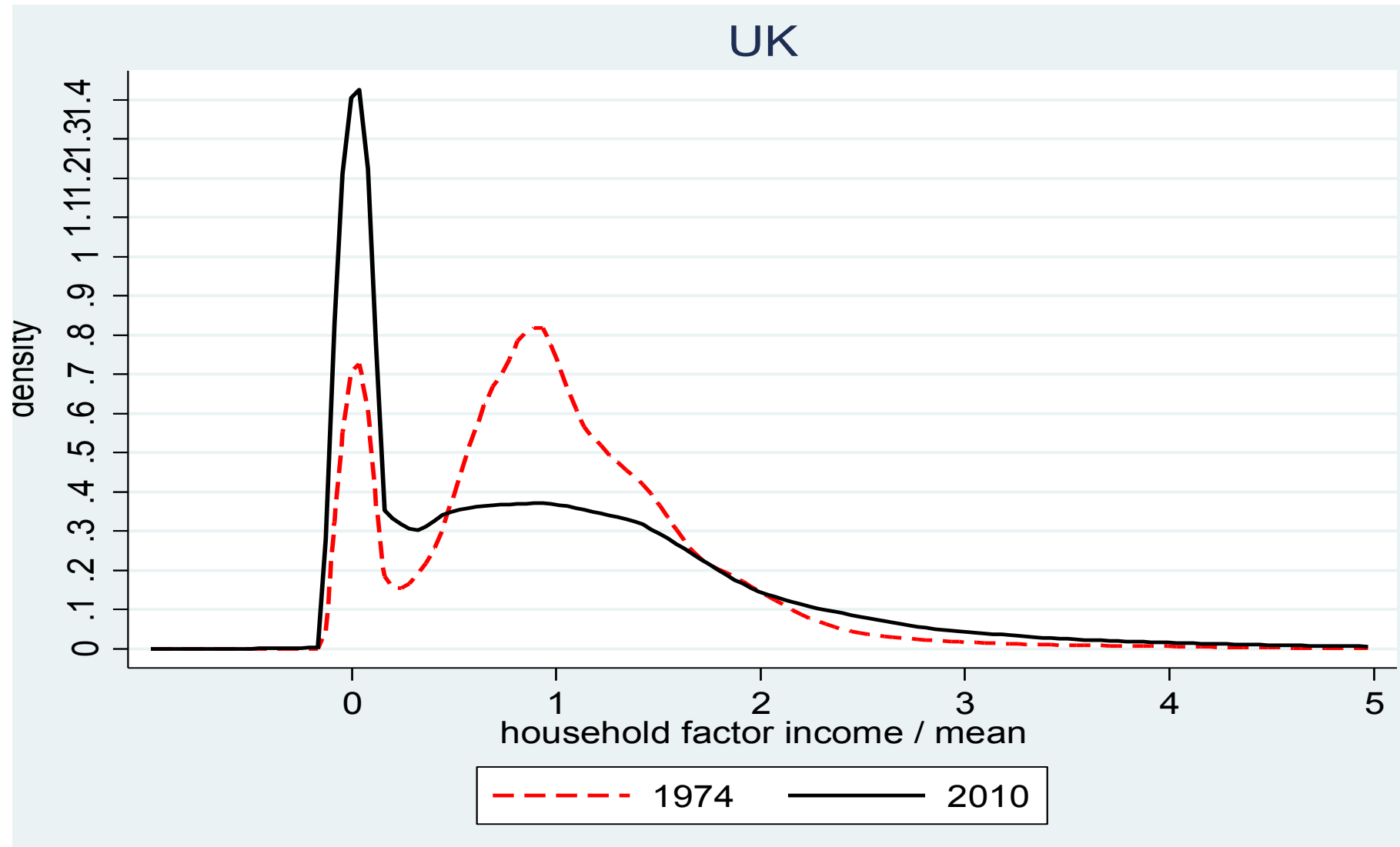
How much inequality? Disposable vs Market Incomes

- The distribution of disposable income is the mixed outcome of market rewards and government taxes and transfers. That is, **the welfare state correction of the rewards assigned by the capitalist economy.**
- How intensive has to be the redistribution also depends on how extreme is the distribution of rewards by the market.
- We shall now see the change in the distribution of market rewards.
- Note that incomes are before taxes and transfers. Hence, public pensions are not included.

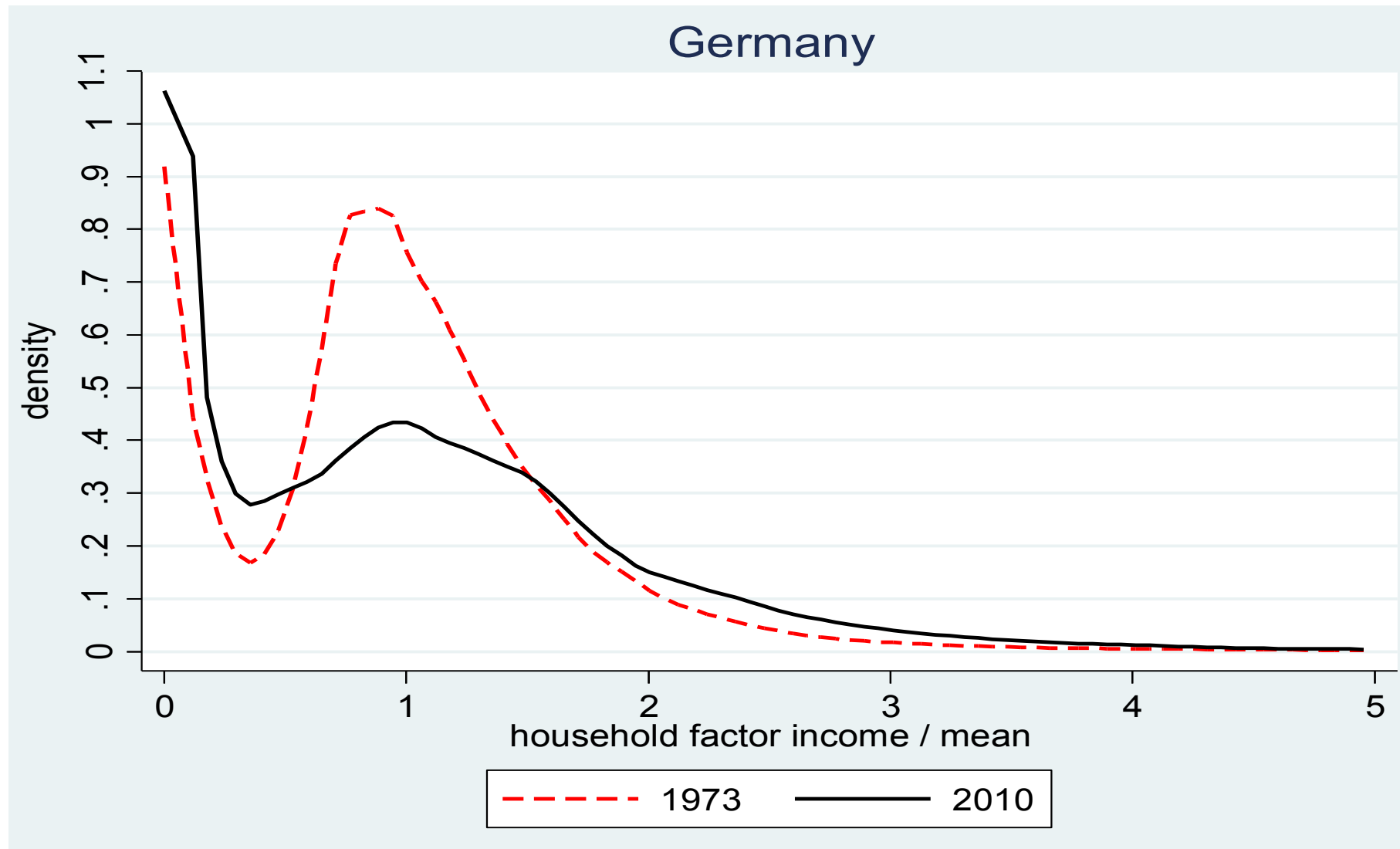
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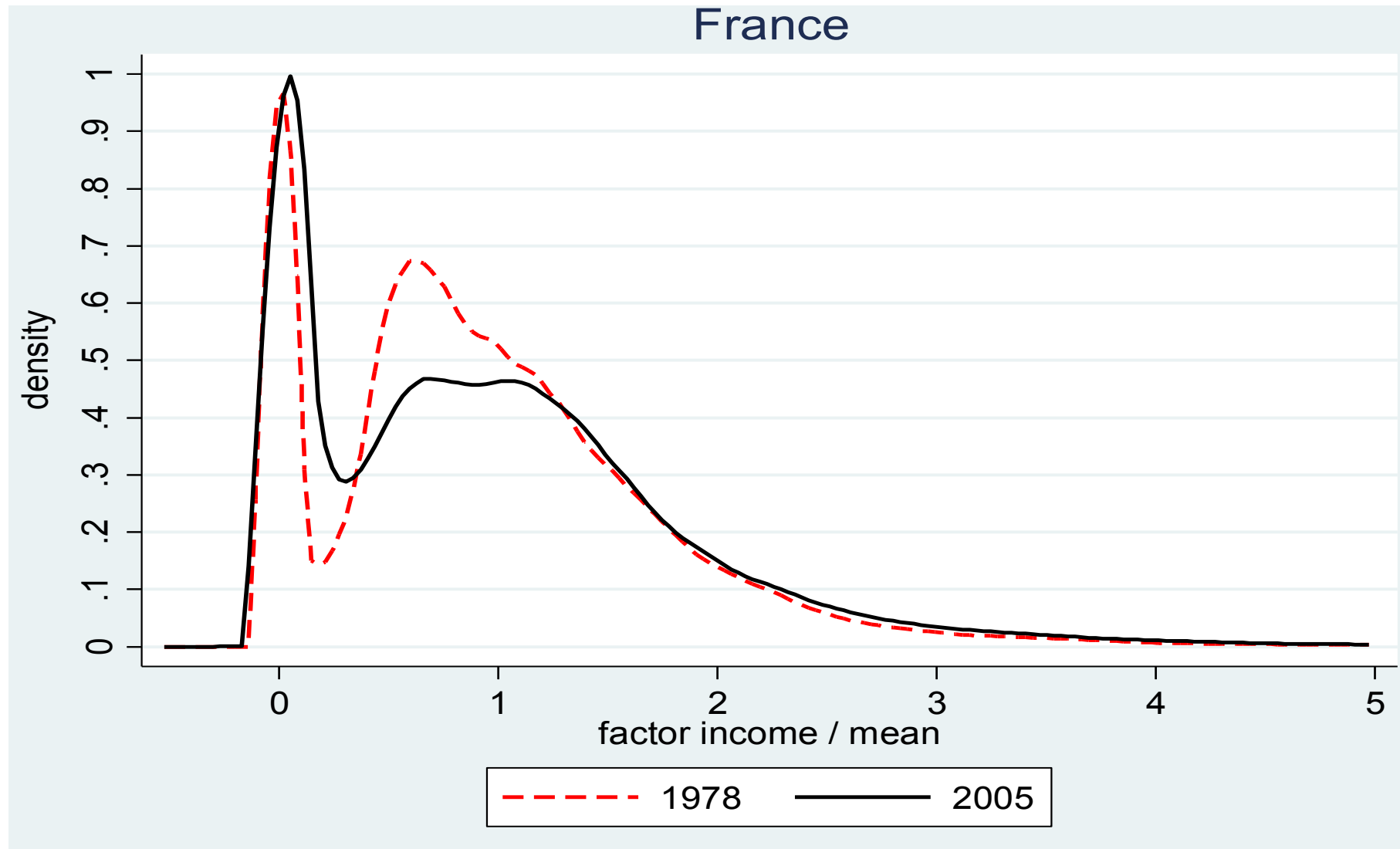
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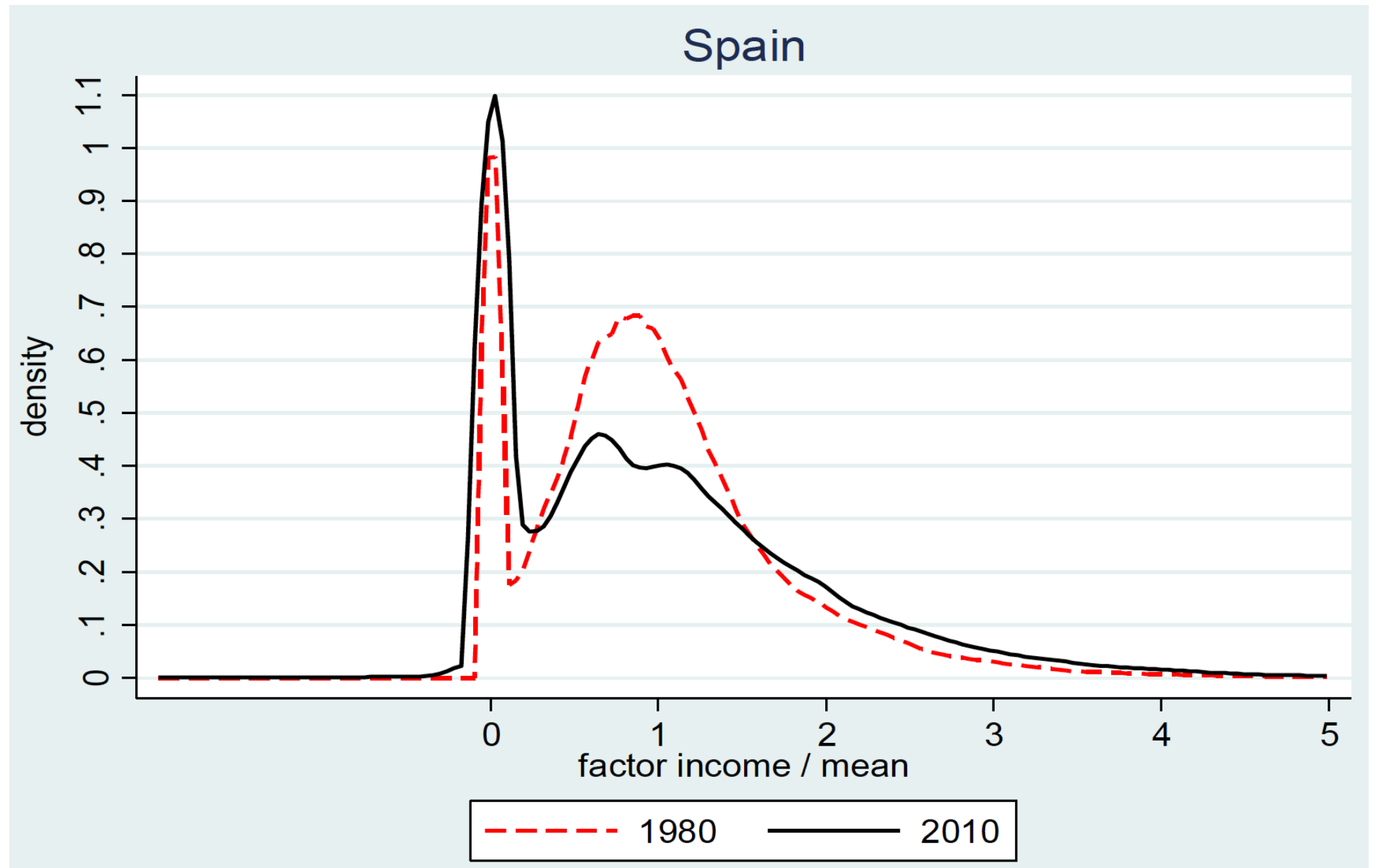
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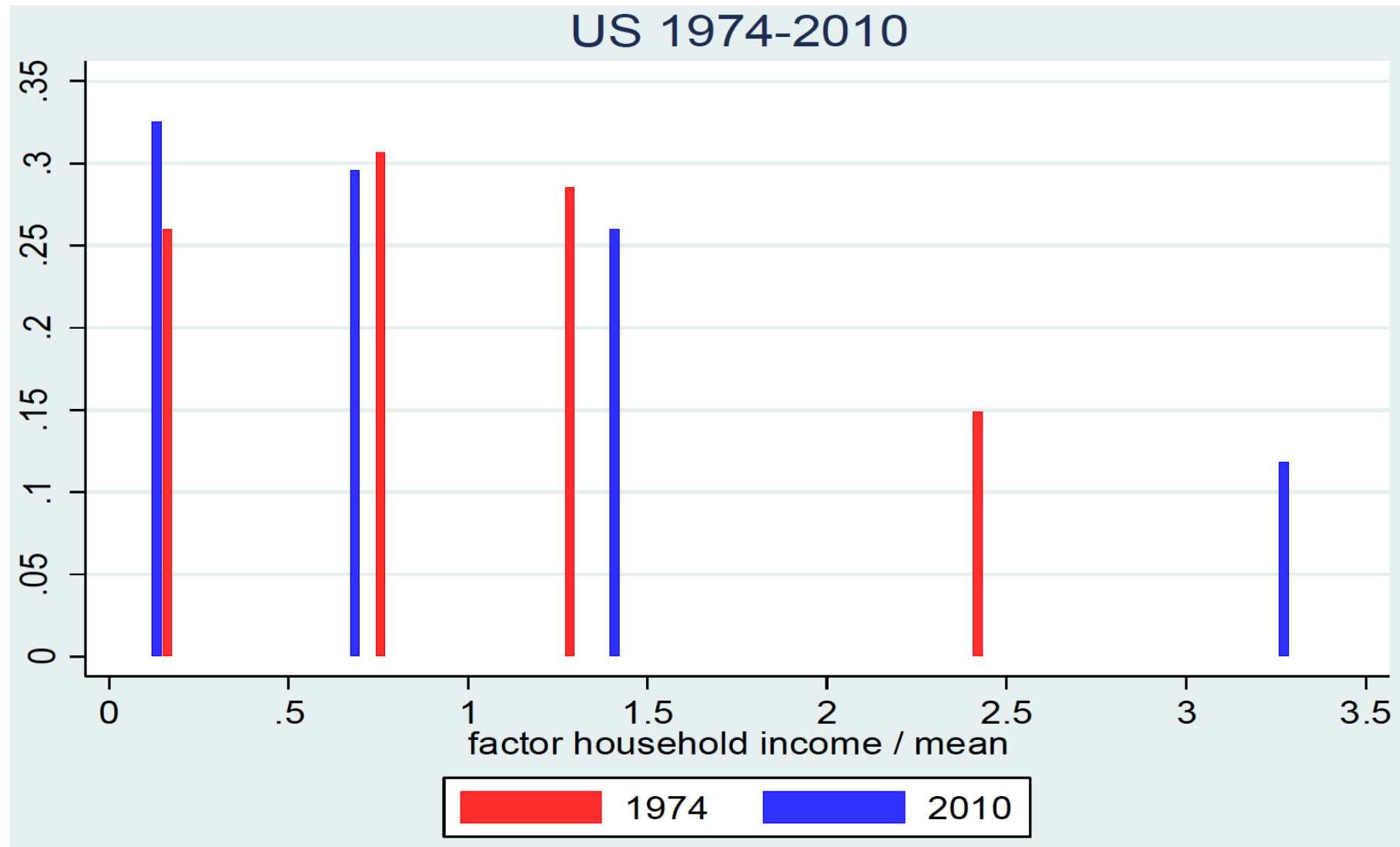
How Much Inequality? The full distribution

- The densities are very informative but don't capture the type of categorizations we are used to: poor, lower and upper middle class and rich.
- In a work with Gradin and Ray we developed a simple technique:
 - Obtain the four spikes distribution that minimizes the error with respect to the full distribution.
 - This is equivalent to working with a Lorenz curve made of four segments.
 - Error minimization means that the area between this simplified Lorenz curve and the full curve is minimal.

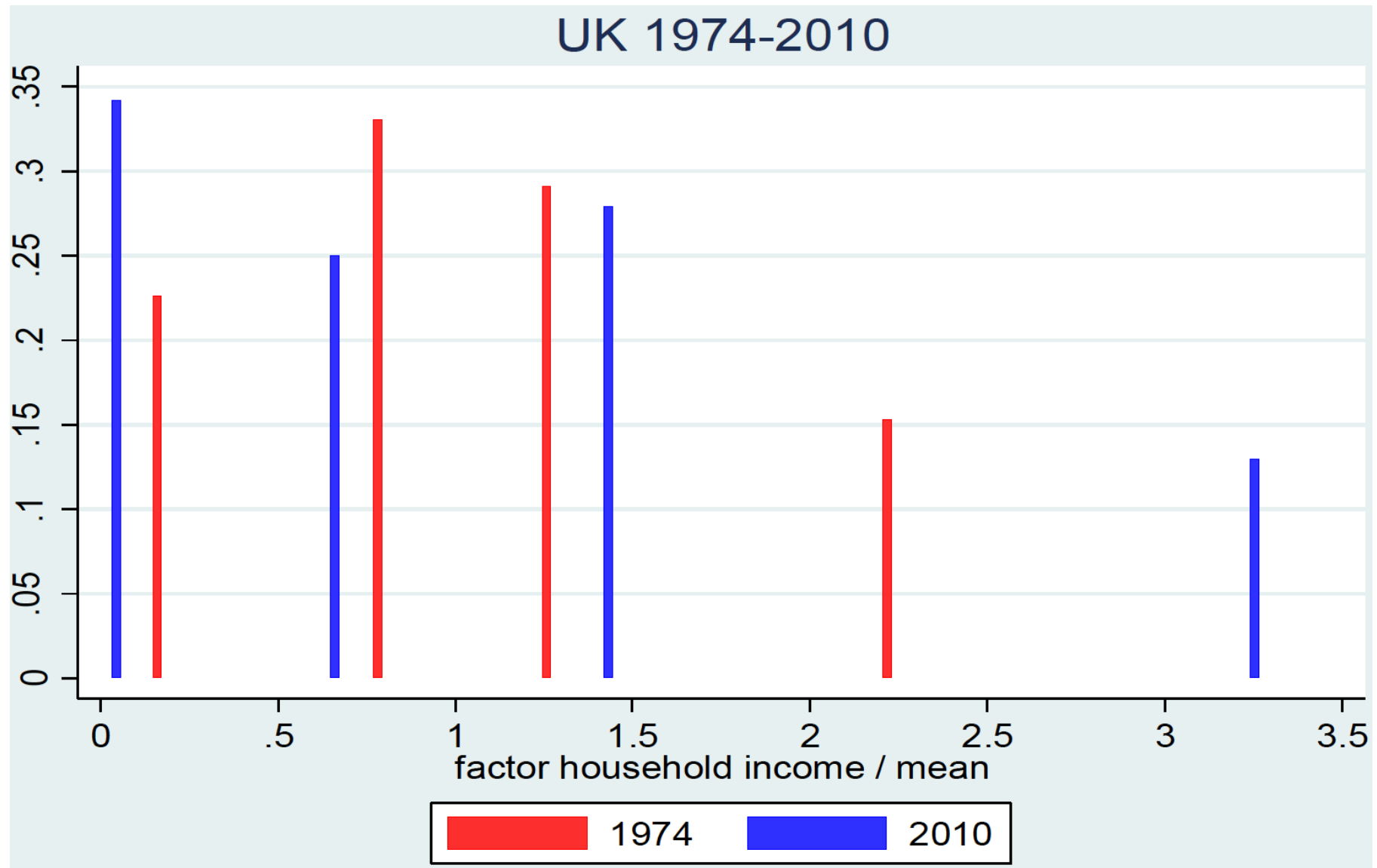
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 - This is equivalent to working with a Lorenz curve made of four segments.
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- Let us examine the changes in the market income for the four social groups.
- Note that our analysis is complementary to that of Pickety. We are interested in changes across the different economic classes.

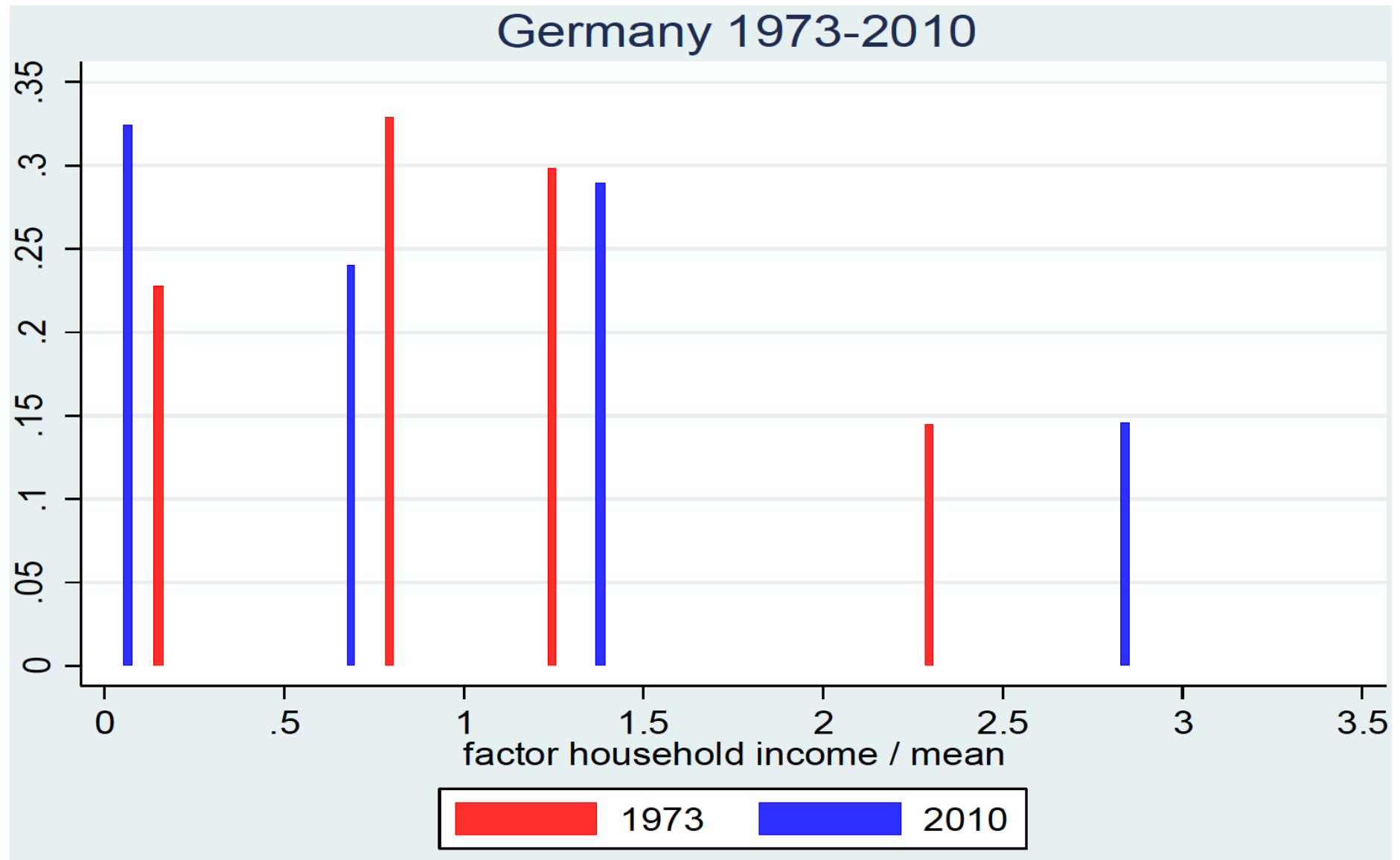
Market Income Inequality: The full distribution



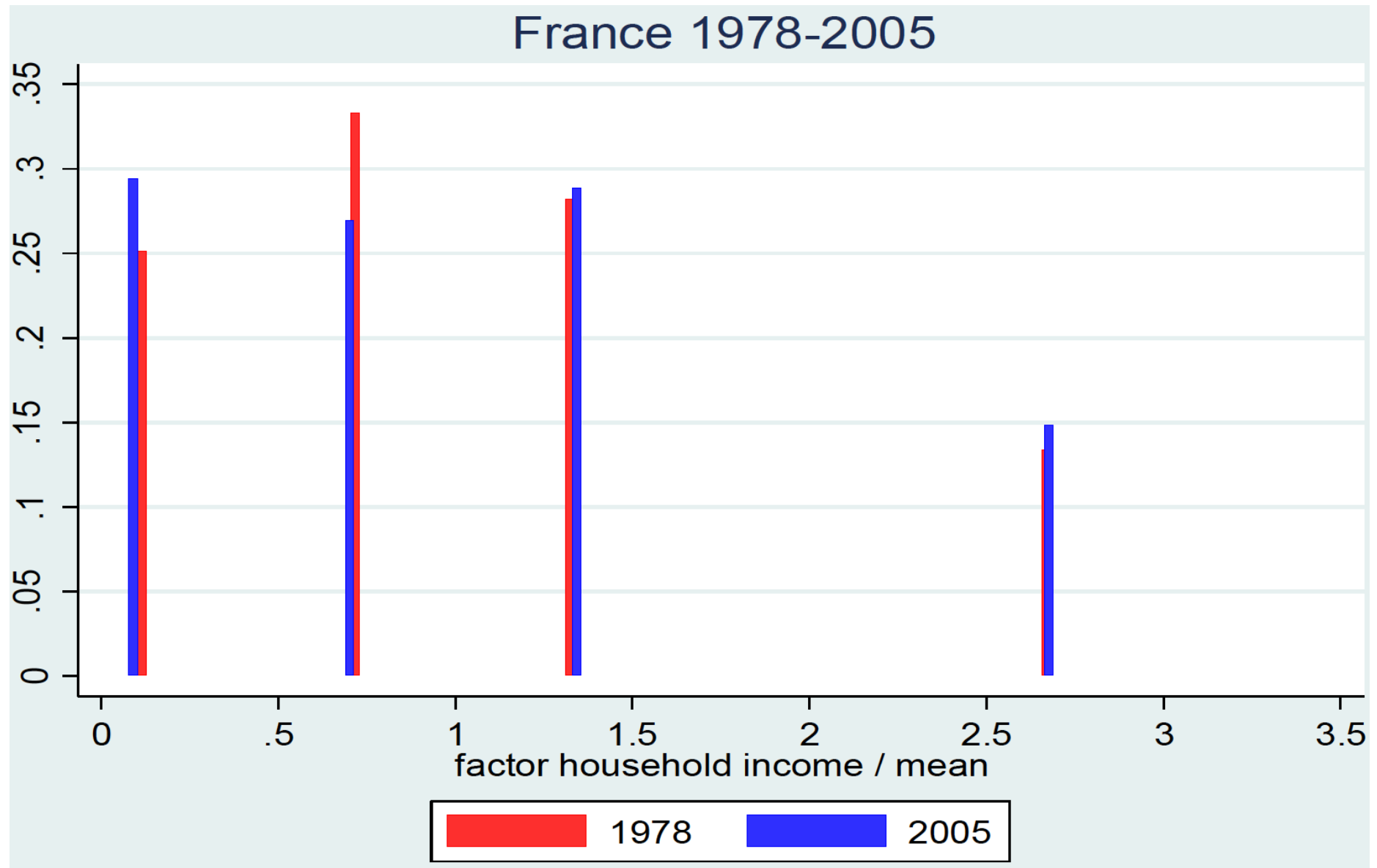
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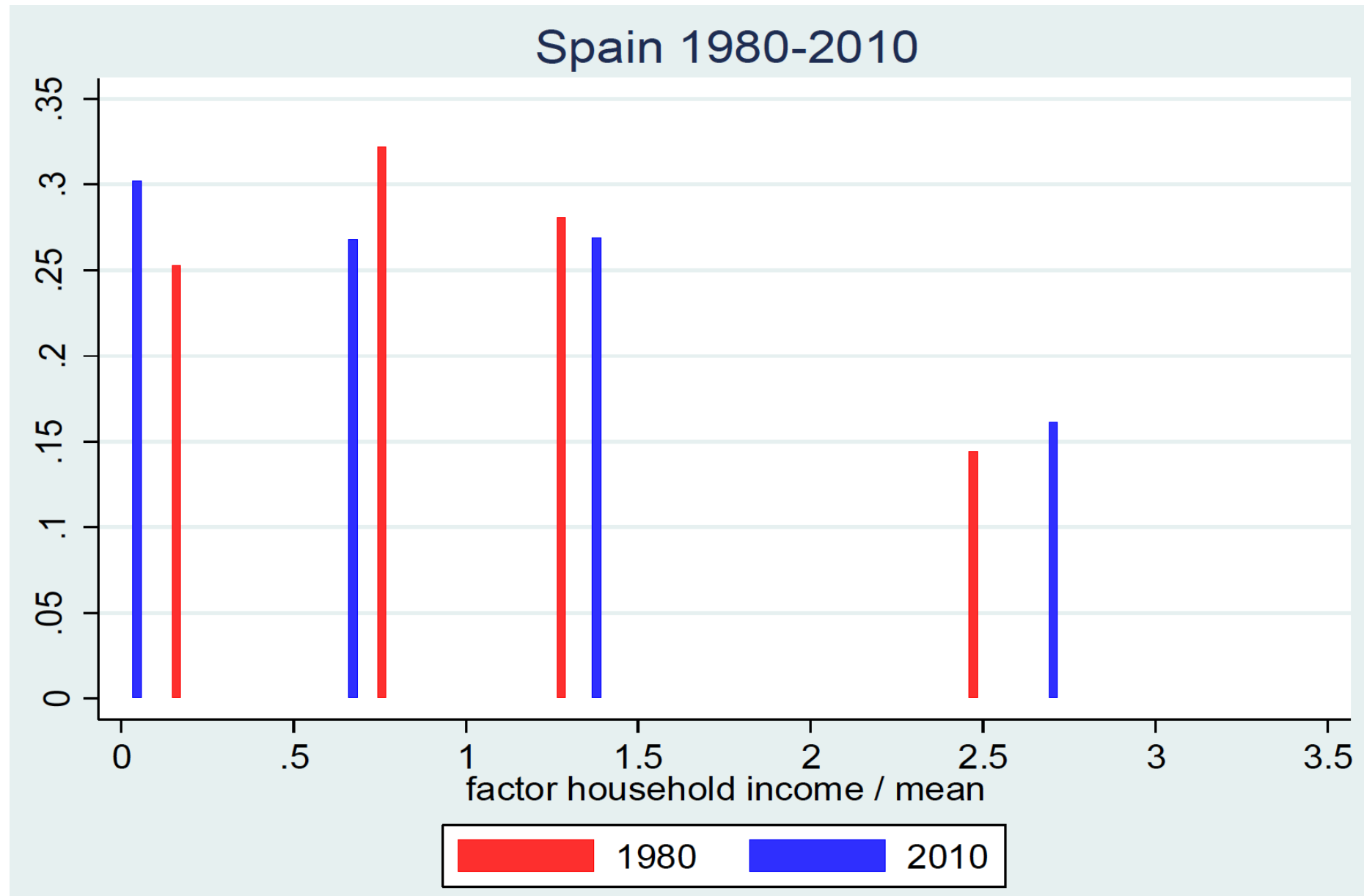
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Global Capitalism and Inequality

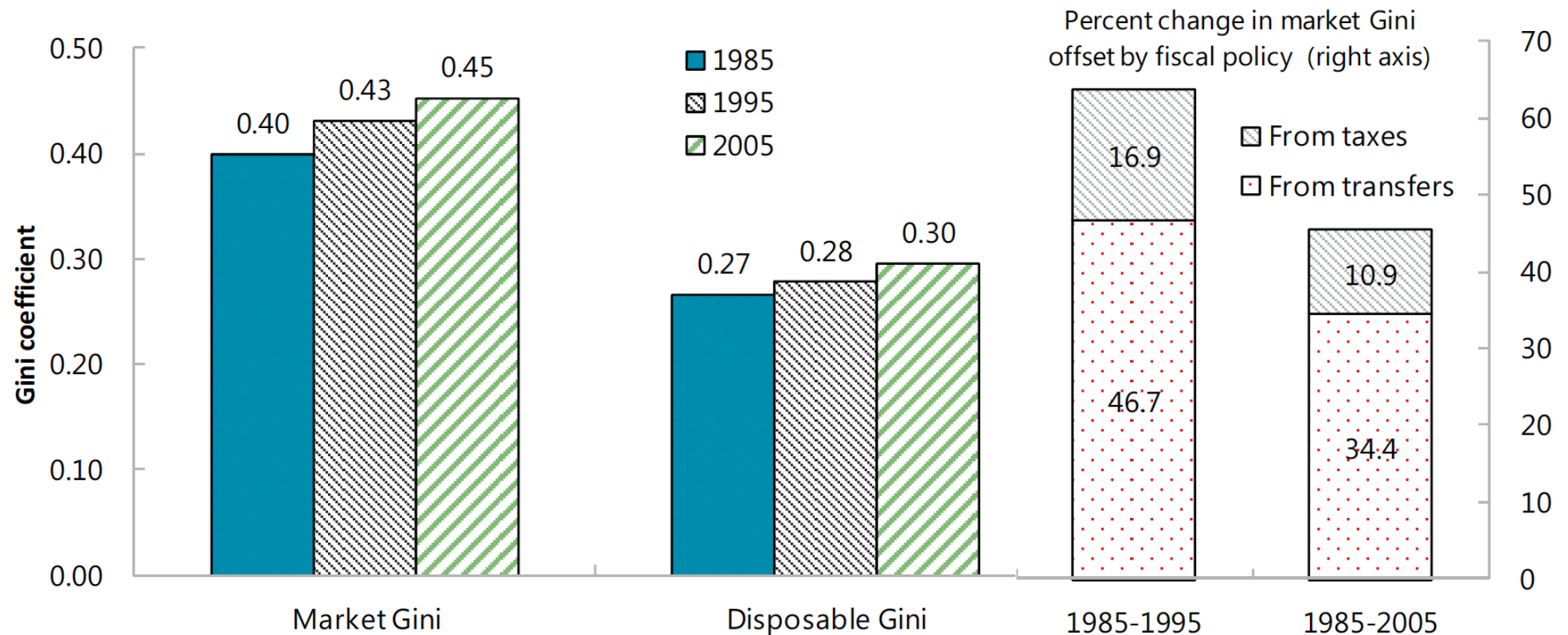
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- Note that France, with a much more powerful public sector shows a much more moderate shift in the allocation of market incomes.

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- Note that France, with a much more powerful public sector shows a much more moderate shift in the allocation of market incomes.
- The fairness of the standards of living does not only depend on the distributive rules of the welfare state. Under attack since Reagan and Thatcher.
- It also critically depends on the market distribution of incomes.
- In fact we are observing that the redistribution performed is nowadays less than when the inequality in market incomes was not so extreme: data from IMF

Global Capitalism and Inequality

Figure 7. Diminishing Fiscal Redistribution, 1985–2005

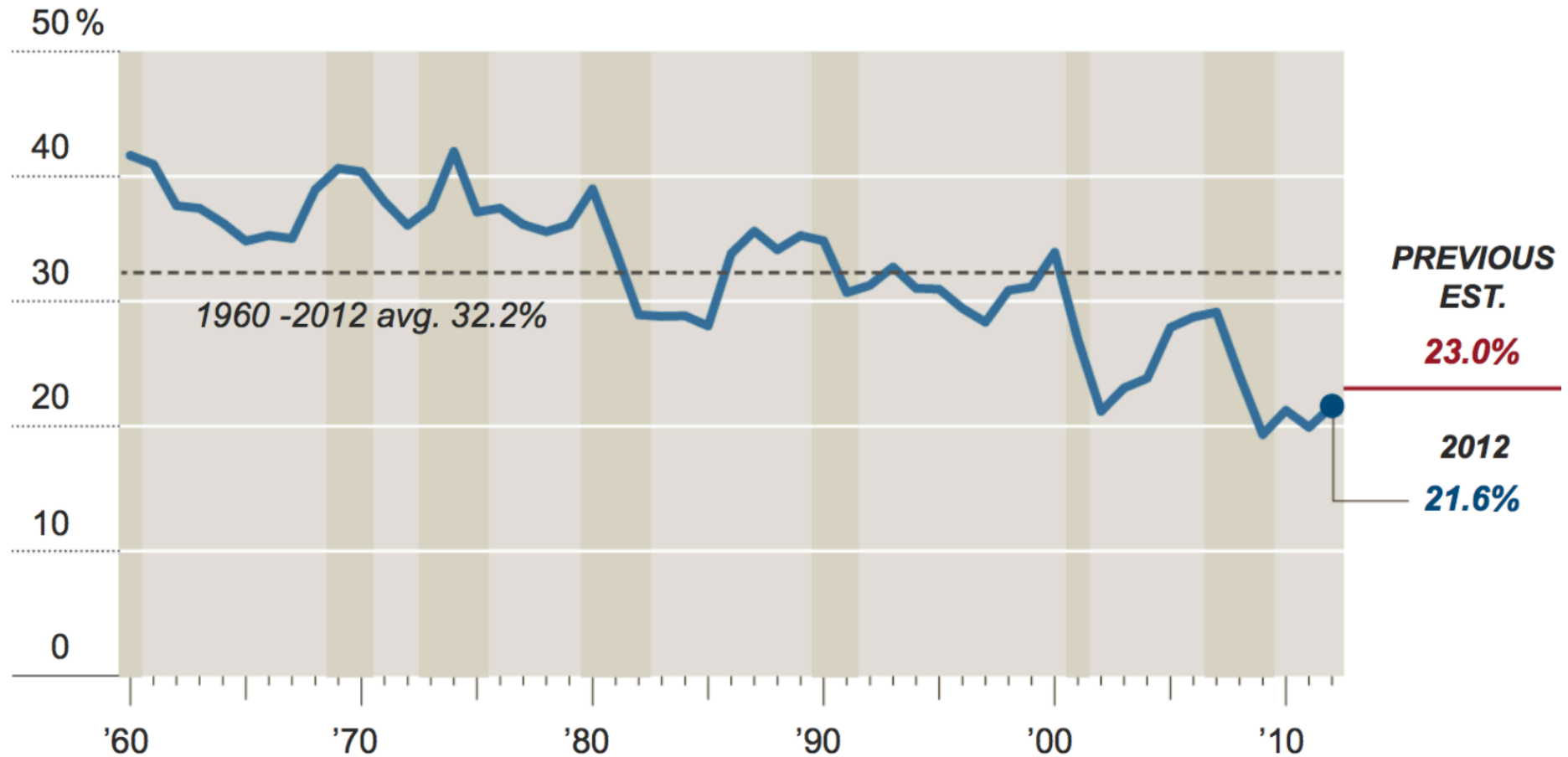


Source: Caminada and others (2012).

The current policies of fiscal restraint must have made things much worse by 2016.

Global Capitalism and Inequality [USA]

Corporate taxes as a percentage of corporate profits



Why Market Income Inequality has Increased?

We now address our second question: *why is inequality in the rise?*

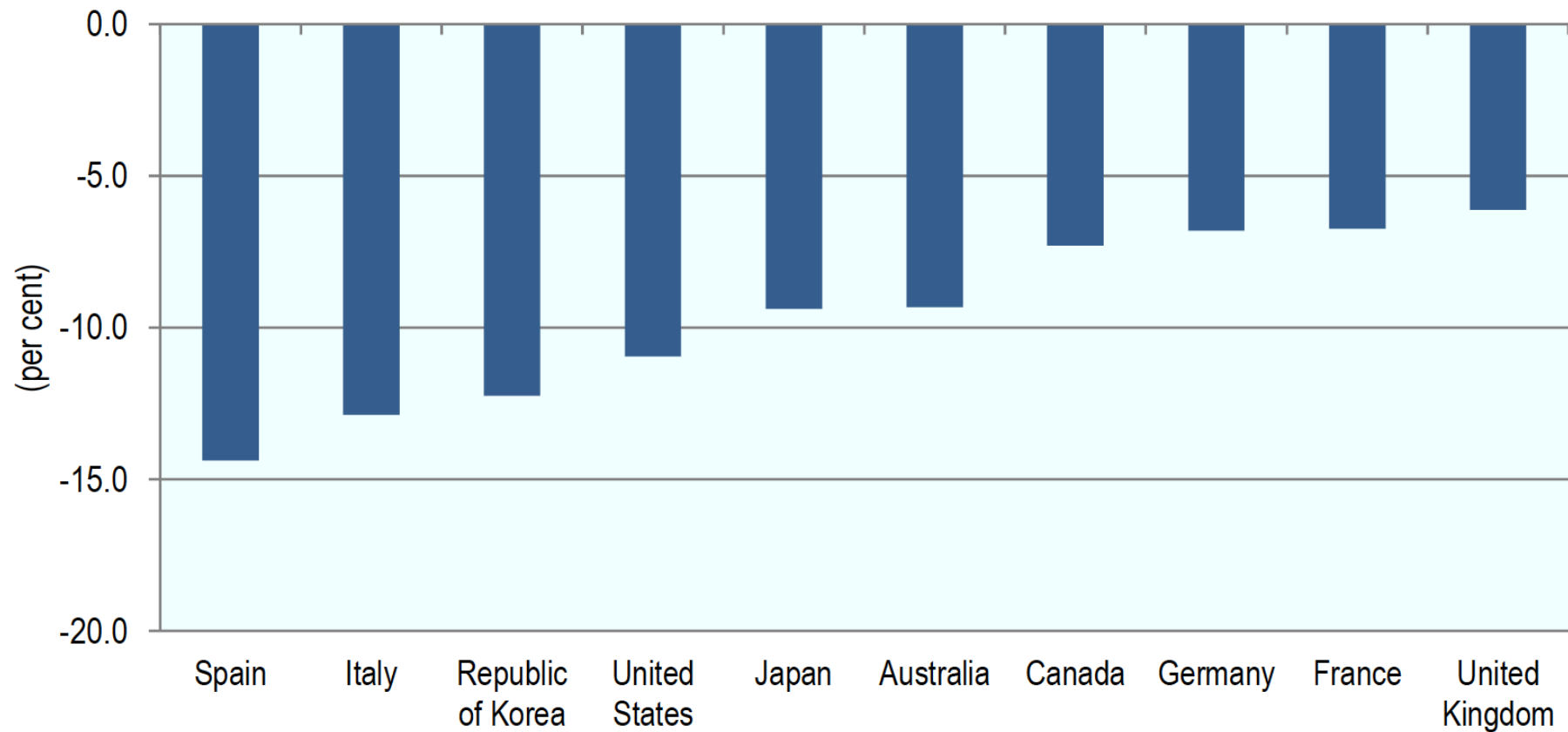
■ Technological change and reallocation of industrial production.
This has had two effects:

■ Reduction of share of wages in GDP

Why Market Income Inequality has Increased?

Figure 3. Changes in labour shares in G20 countries (plus Spain)

Panel A. Advanced economies 1970-2014



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- Polarization of wages and jobs

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TABLE 2—INITIAL SHARES OF HOURS WORKED AND PERCENTAGE CHANGES OVER 1993–2010 (*by Country*)

	Four lowest-paying occupations		Nine middling occupations		Eight highest-paying occupations	
	Employment share in 1993 (in percent)	Percentage point change 1993–2010	Employment share in 1993 (in percent)	Percentage point change 1993–2010	Employment share in 1993 (in percent)	Percentage point change 1993–2010
Austria	21.82	6.36	51.61	–10.44	26.57	4.08
Belgium	17.49	3.00	48.50	–12.07	34.01	9.08
Denmark	24.09	1.73	39.70	–10.30	36.21	8.56
Finland	20.24	–1.50	39.69	–10.60	40.06	12.10
France	19.92	4.19	46.69	–8.60	33.39	4.41
Germany	20.71	2.37	48.03	–6.74	31.26	4.37
Greece	21.66	4.81	47.81	–10.65	30.54	5.84
Ireland	21.13	3.68	48.21	–14.85	30.66	11.17
Italy	27.01	6.06	51.04	–10.59	21.94	4.53
Luxembourg	21.70	–2.38	49.91	–10.76	28.40	13.15
Netherlands	16.78	1.99	37.90	–7.56	45.33	5.57
Norway	22.85	4.73	38.82	–8.47	38.34	3.74
Portugal	25.75	0.73	47.46	–4.86	26.78	4.13
Spain	28.02	1.01	48.67	–11.95	23.30	10.93
Sweden	21.82	1.52	41.98	–9.55	36.20	8.03
United Kingdom	16.88	4.17	43.64	–10.94	39.49	6.77

Notes: Long difference 1993–2010. Occupational employment pooled within each country. Occupations are grouped according to the mean European occupational wage as in Table 1.

Why Market Income Inequality has Increased?

We now address our second question: *why is inequality in the rise?*

- Technological change and reallocation of industrial production. This has had two effects:
 - Reduction of share of wages in GDP
 - Polarization of wages and jobs
- Inability of governments to influence market rewards.
- Increase in life expectancy: pensions [will not discuss now]. But notice that this is another dimension through which the market gives nothing to a large share of the population

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- Of course, for moral reasons.
- Extreme inequality may cause social unrest. This will be our last point *is class struggle back?*
- But there are also practical reasons. Inequality breeds inequality and lower income. Classic arguments, and in addition:
 - Lower salaries are totally consumed and constitute the demand for locally produced goods
 - Higher incomes go instead into demand for assets and of luxury goods [mostly imported]:
 - The demand for assets feeds bubbles in all the products used as a “store of value”: stocks, real state, art, gold...
 - Also lowers the demand for locally produced goods, reducing the incomes of the people supplying such goods.

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- Why we don't see much of class alliances?
- Homogeneity vs heterogeneity [JEEA 2011]
- Strategic manipulation of ethnic markers [AER 2008]

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Let me finish by summarizing the four main points mentioned at the introduction and their implications.

Global Capitalism and Inequality. Main points:

We started raising the following four questions:

- [1] How much inequality is there? How is it evolving?
- [2] Why is inequality in the rise?
- [3] Why is inequality bad?
- [4] Is class struggle back?

Global Capitalism and Inequality. Main points: [1]

- [1] How much inequality is there? How is it evolving?
- [A] The problem is not only the enormous enrichment of the top 0.1% . There has also been a **profound change in society at large**. This change has the following features:
 - Capitalism allocates incomes in an increasingly biased way.
 - The allocation of incomes is more and more polarized: the ones below the mean are poorer and the ones above richer [and fewer].
 - The middle class has almost disappeared.

Global Capitalism and Inequality. Main points: [1]

- [1] How much inequality is there? How is it evolving?
- [B] Market income inequality is [continuously increasing](#).

This creates the following problems:

- The bigger the bias the stronger the tension on the welfare system.
- The welfare system has irresponsibly been attacked and weakened by interested market devotees and the effective redistribution is less and less, when the needs are more and more.
- This process is eroding the tax base of democratic governments. The rich have always found ways to scape taxation and the poor cannot bear a tax. The thinner the middle class the smaller the tax base.
- The shrinking of wages in GDP is particularly worrying because this is the income easier to tax.

Global Capitalism and Inequality. Main points: [2]

■ [2] Why is inequality in the rise?

■ Knowledge based technological change and the reallocation of industrial production within the world market have had deep consequences:

- Have induced that a smaller share of social output goes to wage workers.
- Wages are becoming more polarized.
- Need of new ways of individual entitlement to a share of social output: minimum guaranteed income?
- Increase in life expectancy also makes larger the share of population to which the market gives zero income. [This is a specific question we can discuss at the end of the presentation]

Global Capitalism and Inequality. Main points: [3]

- [3] Why is inequality bad?
- Morally
- Risk of social conflict [see last point]
- Inequality impedes faster growth, but most importantly it also breeds bigger inequality.

Global Capitalism and Inequality. Main points: [4]

- [4] Why are we seeing so little classic class conflict?
- Diversity within groups may be positive rather than a liability.
- Specially when both money and bodies are needed for collective action.
- An alliance of the poor is difficult because because their very poverty does not allow them to be efficient in opposing the rich.
- Going one step farther: when the poor prefer class conflict to the peaceful status quo, the rich prefer ethnic conflict to class conflict.

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