The Inequalities of

Wealth Distribution: its Economic and

Political Consequences

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Wealth Distribution Exercise

Your opinion on wealth distribution is based on what you think is 'fair' or 'unfair'

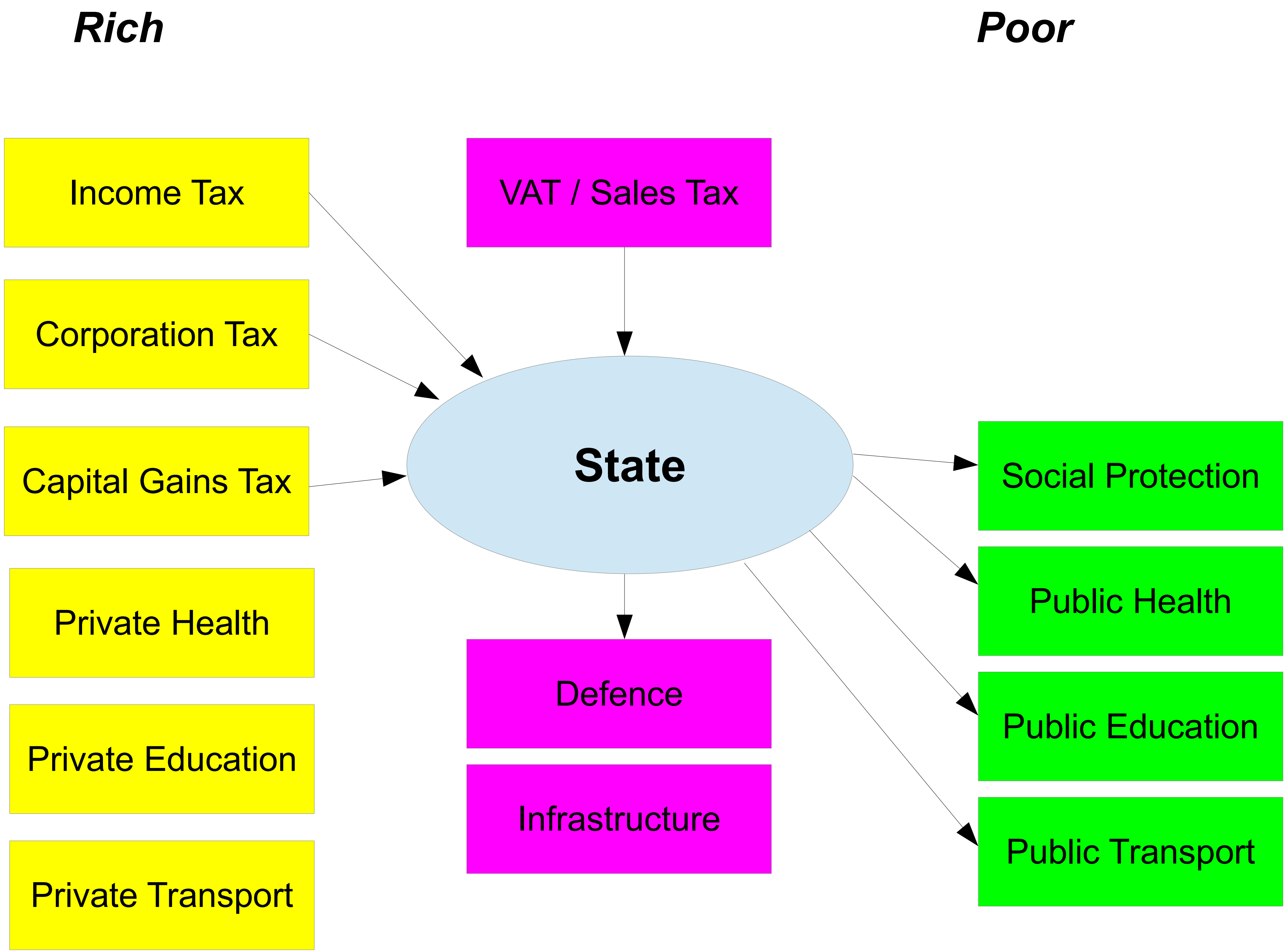
You are the government of ESSCALand, and via your progressive or regressive fiscal policy (taxation), you will determine the wealth distribution of your country. You need to decide how much of the total country's wealth is owned by the richest decile (10%). There is no 'right' and 'wrong'

Richest decile as % GDP	The other 90% as % GDP	From 1,000€, a top 10 % person	From 1,000€ each other person has
100	0	1,000	0
90	10	900	11
80	20	800	22
70	30	700	33
60	40	600	44
50	50	500	56
40	60	400	67
30	70	300	78
20	80	200	89
10	90	100	100

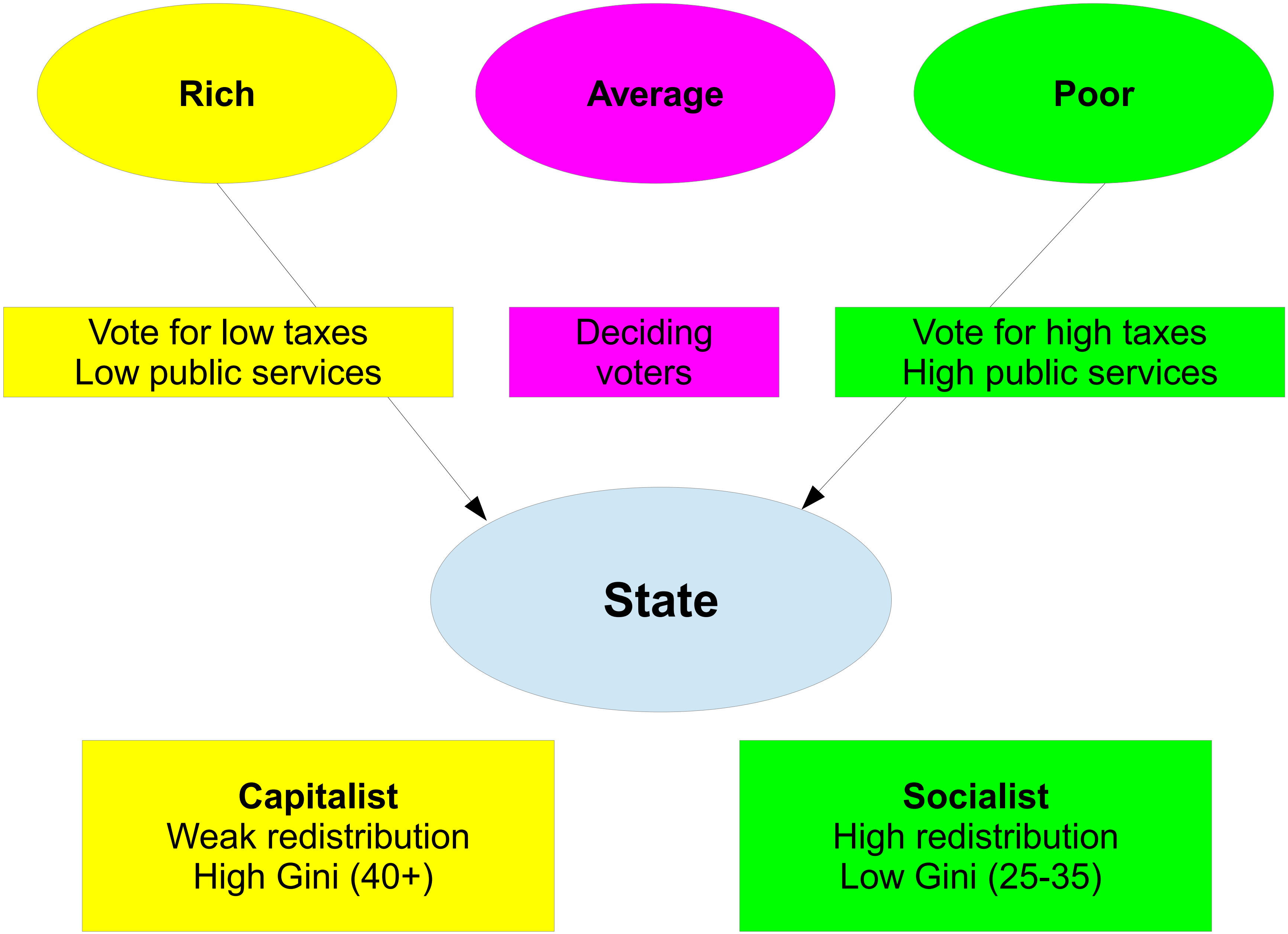
Good inequality – incentives to work, study or start risky commercial enterprises.
East Germany – Trabant / Wartburg
West Germany – BMW / Volkswagen / Mercedes

Bad inequality – used to preserve acquired positions (education, political control, health)

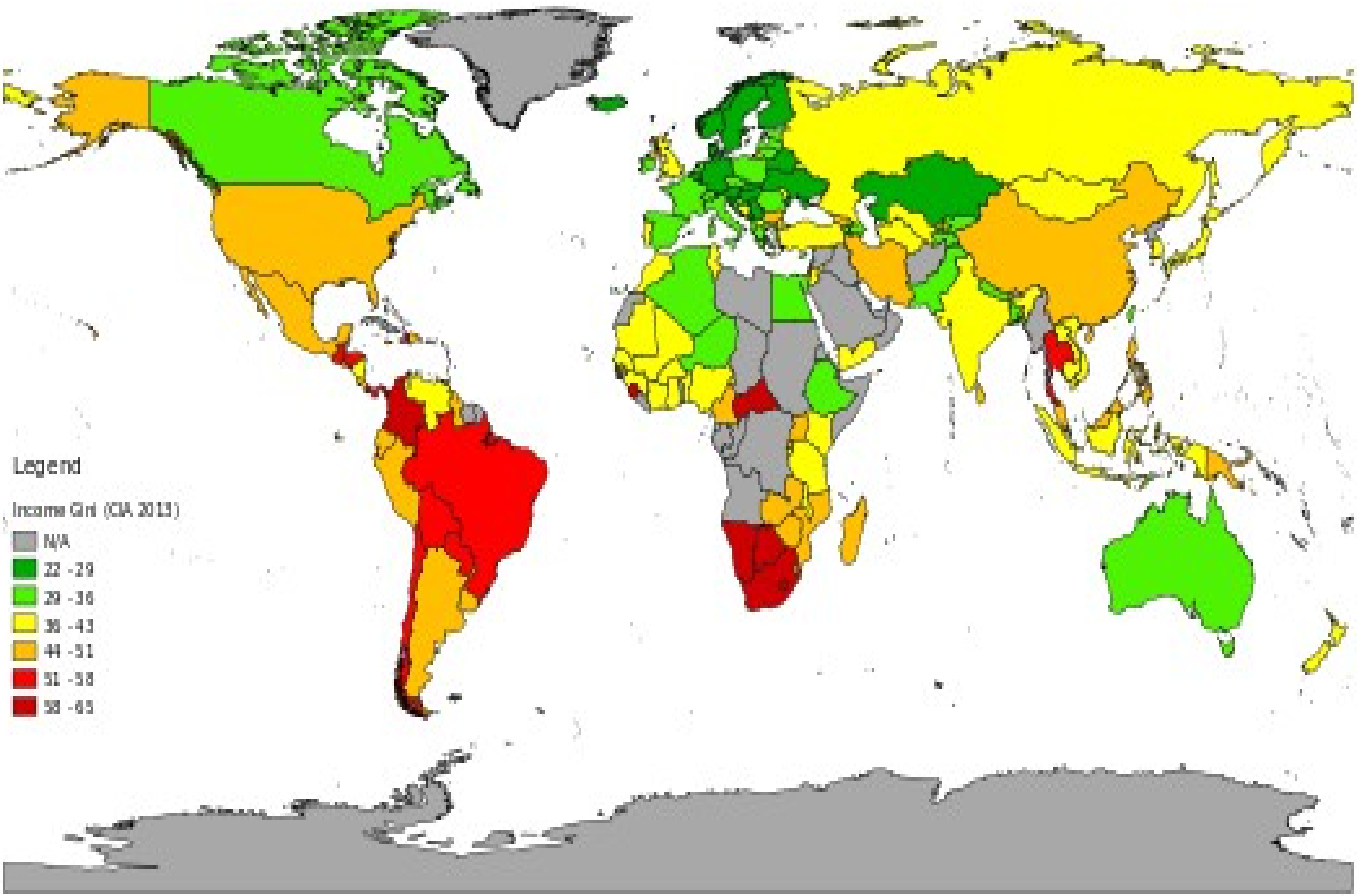
Rôle of the state - regulate the economy (progressive / regressive fiscal policy, wealth distribution, subsidies) provide social welfare
(public health, public education, public transport, maternity leave, minimum wages, unemployment benefit, public housing...)


Rich
Poor
Income Tax
Corporation Tax
Capital Gains Tax
Private Health
Private Education
Private Transport
VAT / Sales Tax
State
Defence
Infrastructure
Social Protection
Public Health
Public Education
Public Transport

Politics and redistribution



Differences in national income equality around the world as measured by the national Gini coefficient (CIA, 2013)



Milanovic 2011

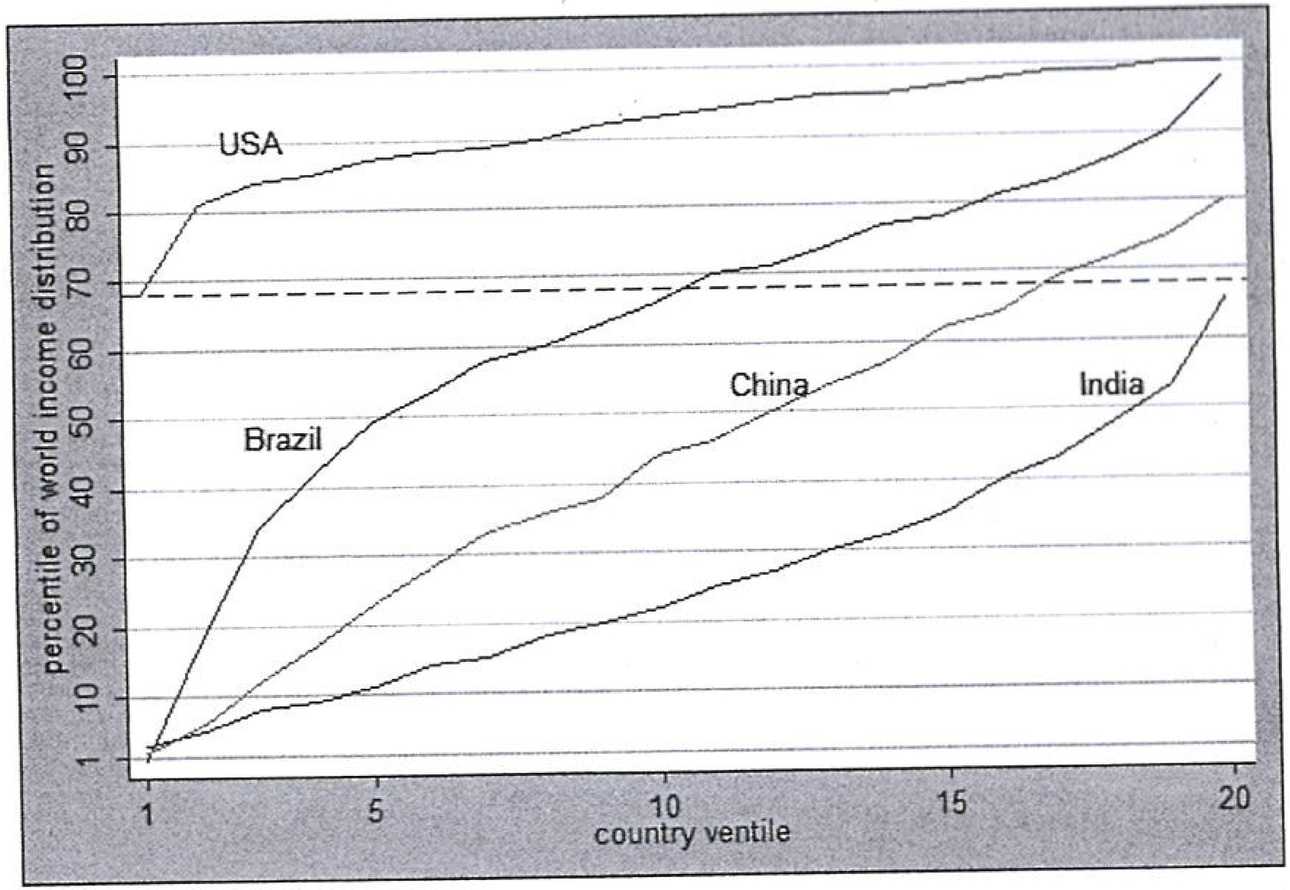


FIGURE 3 Inequality in the world, by country and income class

Note: The graph shows that the income of the poorest 5 percent of Americans (country ventile 1 on the horizontal axis) situates them at the 68th percentile of world income distribution (see the horizontal broken line at level 68). The interpretation for all other points is the same.

Intra and Inter-national inequality can lead to disruption (Marx)

Intranational Rich to Poor Ratio

1991 USSR Russia / Tadjikstan 6 / 1

1991 Richest US state / poorest US state 1.5 / 1

1991 France (Ile de France / Nord pas de Calais) 1.6 / 1

Yogoslavia 8 / 1 (then war)

China 1990 7 / 1, 2006 10 / 1

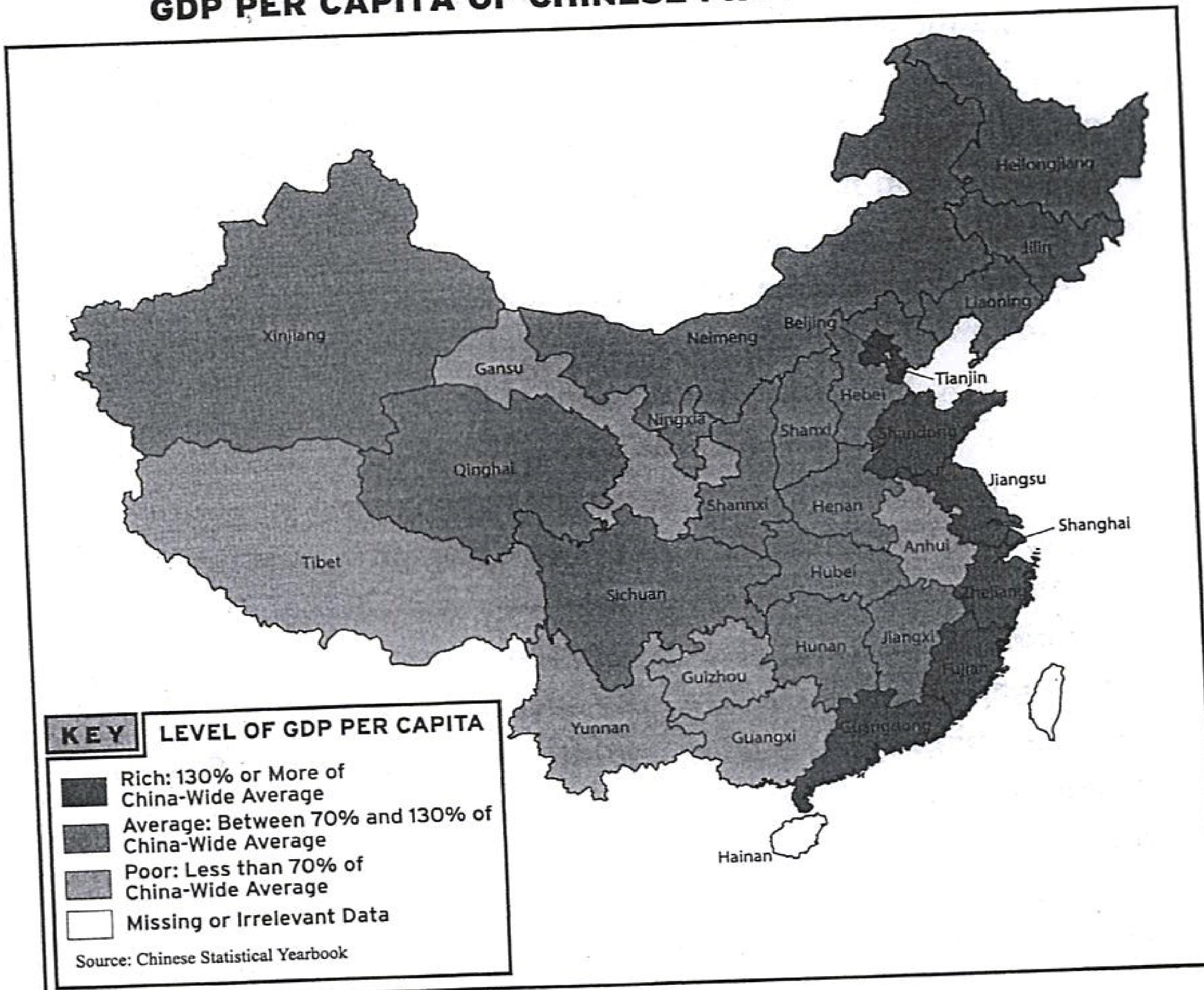
China Gini <30 1980s, 45 in 2005

Belgium – political and linguistic divide based on
Wealth inequality
EU based on inter-national wealth distribution

The Haves and Have-nots. Milanovic, 2011

INCOME LEVELS

GDP PER CAPITA OF CHINESE PROVINCES, 2006



Source: Chinese Statistical Yearbook

Purchasing Power Parity

Comparing how rich you are depends on what you can buy.

USA = 1 (what 1$ can buy).

China = 42 (ie 42 $ cents can buy the same goods as 1$ in the USA).

India 33, Brazil 58, Norway 137 etc.

To compare **China** with the **USA**, if China's price level is 42, then with100$, a person in China will have more than double the purchasing power of an American.

We use **PPP** whereby a unit can buy the same basket of goods in USA, China, France etc.

2005 : **US** per capita income is **$PPP 40,000** and in **China** it's **$PPP 4,000**.

In 1820 **Great Britain** and the **Netherland**s were the richest countries in the world, but were only **3x** richer in **PPP** than **India** and **China**, the poorest countries.

Today the gap of **UK** to **China** is **6/1**, twice as much.

The richest to poorest in the world is now **100/1 in $PPP.**

NeoClassical Globalisation Theory

NeoClassical Globalisation theory suggested that inequality would diminish because poor countries would grow faster than the rich and exploit their cheaper labour. This should happen because

1. Receive FDI from rich countries
2. Access to technology developed in the rich countries (easy to copy)
3. Specialise in producing goods where they hold comparative advantage
4. Can 'borow' or apply ideas from rich countries to improve productivity

Didn't happen.

FDI has gone from rich to rich countries. (75%) and also from poor to rich.
In Globalisation 1, it did happen to an extent, but not in Globalisation 2.0
US investment in poor countries in 1913 was 25 %, end of 20thC was only 5 %

Technology is not easily transferable (under the TRIPS agreement) to protect Intellectual Property Rights.

The World has changed since Marx

Marx from 'The Communist Manifesto' to 'Das Kapital' wrote of the increasing Polarisation of society into workers and capitalists.

This should lead to a proletarian revolution.

At the time, GB was a prototypical capitalist country and underwent during the 18th and early 19thC a steady and sustained increase in inequality.

'Class' differences between the proletariat (workers) and the bourgoisie (capitalist owners).

Late 19thC saw increase in real wages and massive differences between the rich world of West Europe, North America and Latin America.

This was the start of the Third World.

The world was no longer divided into protelarians who were everywhere equally poor and capitalists who were equally rich.

Solidarity between the proletariat evaporated.

What was previously dependent on class is now dependent on location (80 % of global inequality)

Milanovic 2011

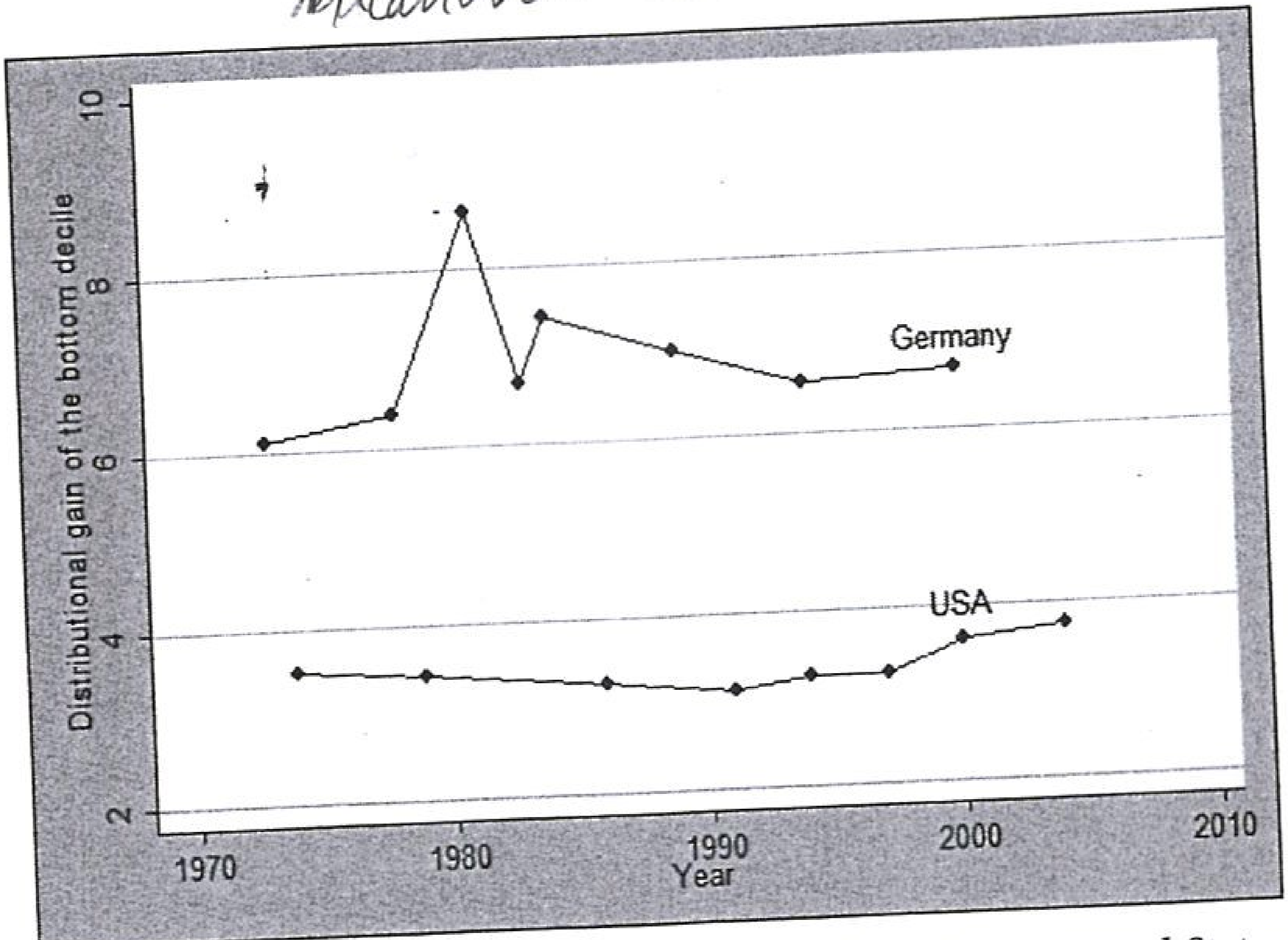


FIGURE 1 Distributional gain of the bottom decile in the United States and Germany

Note: The gain is calculated as we move from market to disposable income.

Maintaining Wealth

NB Income and education is a key factor, and in many countries (USA) education determines income. Private, expensive, corporate-sponsored education for the rich and Public, cheaper, state-sponsored education for the poor

US uses wealth to acquire education and health to remain wealthy and healthy.
France – more educational mobility and social health system.

US – need to earn more to pay for education and health than in France (ref. PPP)

Migrate to a richer country to obtain wealth ?

Migration is minute from poor to rich countries. 0.05 %

Globalisation does not include labour !

Is Globalisation sustainable?

How can globalisation 2.0 continue since:

Differences in mean incomes are increasing intra- and inter-nationally.

Unequal distribution creates social / political unrest.

International mobility of labour is very low

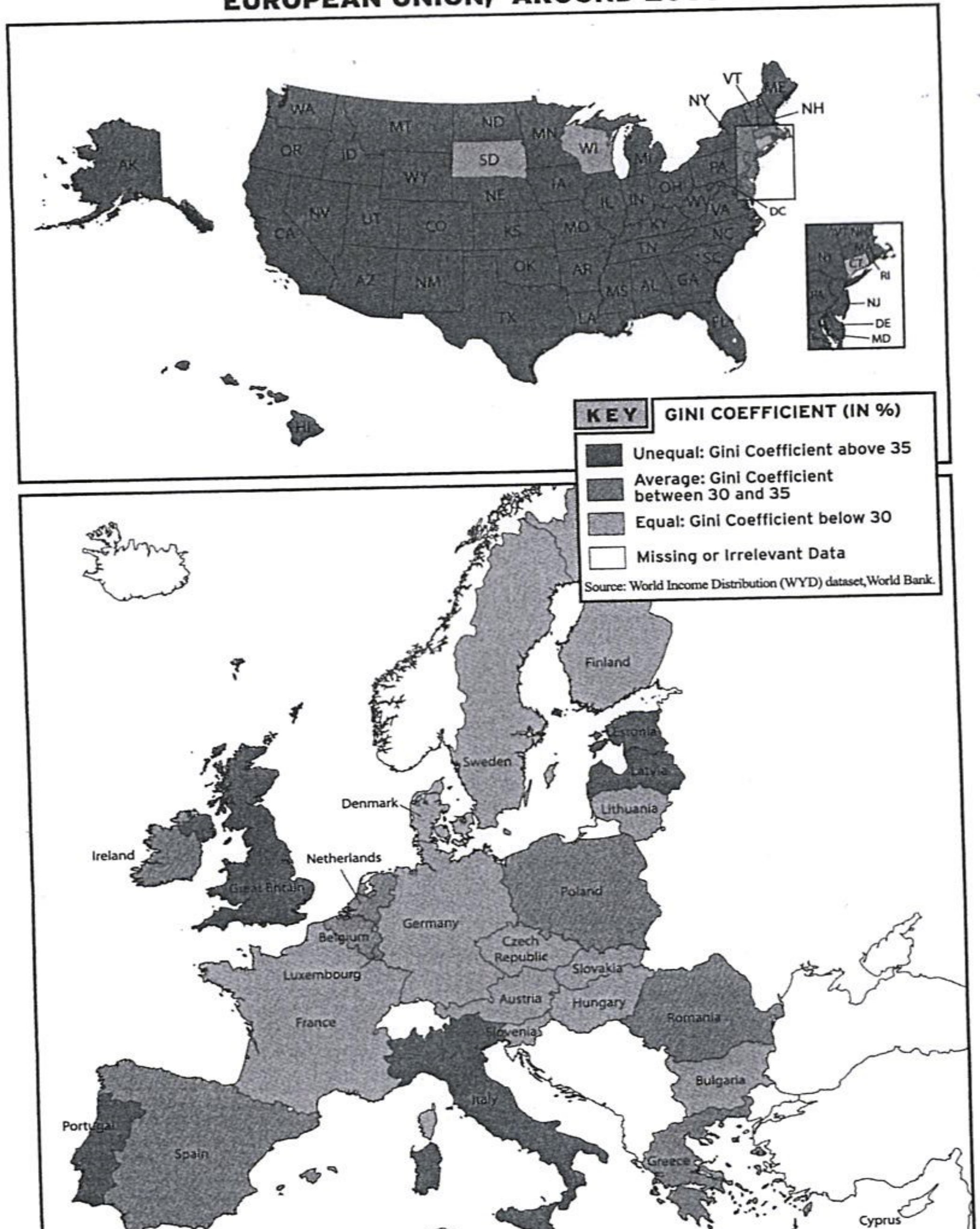
Anti-immigration cannot work forever – example of Mexico and Romania – build a wall or help it become richer ?

Should we / can we have a global progressive wealth system?

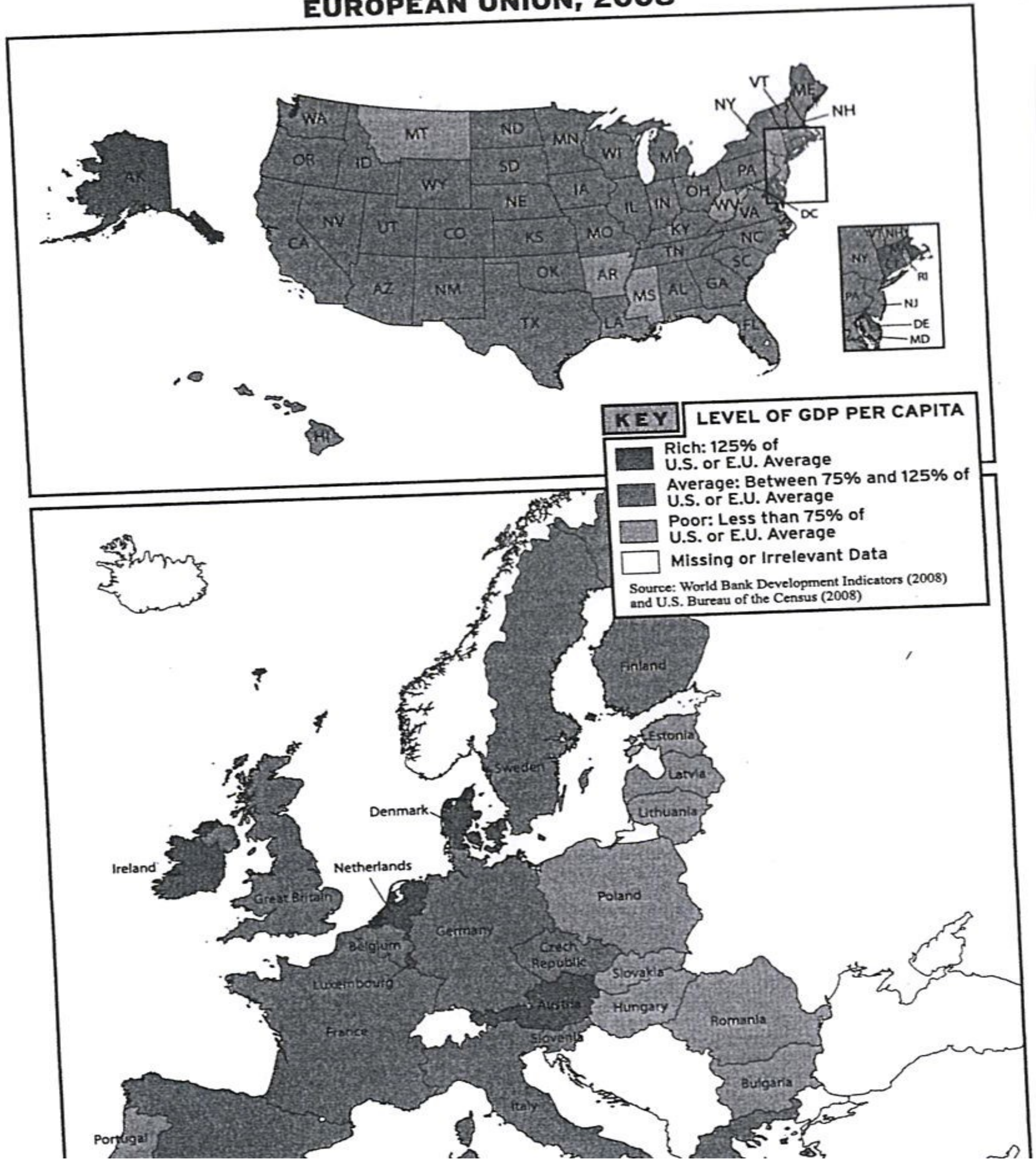
How rich are you globally?

See globalrichlist.com

INCOME INEQUALITY
IN THE UNITED STATES AND EUROPEAN UNION, AROUND 2005



INCOME LEVELS
GDP PER CAPITA IN THE UNITED STATES AND EUROPEAN UNION, 2008



Wealth distribution and financial crises

USA - top 1% reached a peak just before the crash of 1929
Mid 1970s - top 1 % had 8 % GDP
Early 2000s – top 1 % had 16 % GDP
(Last 25 years – GDP has doubled – median wealth stagnant)

Poor working class leads to easy credit (instead of higher wages) hence low interest rates.
US household debt increased from 48 % GDP in the early 1980s to 100 % in 2007
The rich want high returns, therefore speculate.

The Connection?

The rich earn more than they can earn – look for investment
The poor borrow more than they can repay – based on rising house prices

The bubble bursts

If the growth in GDP had been shared, then the consumption would have been real and not credit-based.

Crises will arrive more often due to lack of regulation, lack of financial transfer taxation and nano-second speed of speculation and its robotisation.

Bibliography

'The Haves and the Have-Nots' by Branko Milanovic, 2012

'People Before Profit' by Charles Derber, 2002