The Widening Gap between Rich and Poor*

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We all know that the world is an unequal place, both across and within countries. We also know that across the world, people are expressing their anger and disgust at this inequality. This is increasingly revealed in extreme and often paradoxical political results. In the USA, a vote against the establishment has just delivered to power the ultimate crony capitalist, Donald Trump. In the United Kingdom people voted to leave the European Union in the false expectation that curbing migration will improve their own life chances. In India the poor, disgusted by a corrupt self-enriching elite, support a bizarre and drastic demonetisation that leads to their own further impoverishment while leaving the supposed targets, the corrupt rich, relatively unscathed.

But here's the thing: inequality has been a hot topic of international discussion for around a decade, but in that time, it has got worse, not better! Since the time when international organisations took up this issue and Thomas Piketty published his global bestseller on inequality, the evidence is that the problem has intensified, not reduced.

A new publication from Oxfam ("An Economy for the 99%", Oxfam Briefing Paper January 2017) brings this out with depressing clarity. A Credit Suisse report of October 2015 had already found that the richest 1 per cent of the world's population had the same amount of wealth as the other 99 per cent. But Oxfam reveals that the wealth of the bottom 50 per cent of the global population is actually lower than was previously estimated, and so it takes just 8 people to equal the total wealth of half of the world's people! Even if you ignore the fact that the bottom decile has net debt or negative wealth, it still takes just 56 of the richest individuals in the world to equal the wealth of this entire group.

This is largely because of worsening income and asset distribution in the era of globalisation, which is why globalisation is becoming so unpopular among working people in so many countries. Between 1998 and 2011, Oxfam estimates that the incomes of the poorest 10 per cent of people increased by only \$65, or by only \$3 a year, while the incomes of the richest 10 per cent increased by \$11,800, or 182 times as much. Over the last 25 years, the top 1 per cent gained more income than the bottom 50 per cent put together, and almost half (46 per cent) of total income growth went to the richest 10 per cent. In the US, there has been almost no increase in real incomes of the bottom half of the population in the last three decades, compared to a three-fold increase in the incomes of the top 1 per cent.

And there has been further concentration in recent years: in 2009, there were 793 billionaires with a total net wealth of \$2.4 trillion. By 2016, the wealth of the richest 793 individuals had more than doubled to \$5.0 trillion, an increase of 11 per cent per year.

Meanwhile, workers in both rich and poor countries continue to see their wages squeezed. Women workers, who are more likely to be in precarious low-paid work, are among the worst affected. They earn 31 to 75 per cent less than men, not only because of the gender pay gap but because of other factors like unequal access to social protection.

Global supply chains that force suppliers to compete have intensified the problem. Profits make up 72 per cent of the costs of an Apple IPhone 2010; wage costs come to only 5.2 per cent. Cocoa farmers in the 1980s received 18 per cent of value of a chocolate bar; today they get 6 per cent.

How is all this happening? The ability of the rich – both corporations and individuals – to influence government policies is a big factor in this. Oxfam's analysis finds that one-third of the world's billionaire wealth is derived from inherited wealth, while another 43 per cent can be linked to "cronyism".

Large corporations use their huge power and influence to ensure that regulations and policies are shaped to ensure continued profitability. They "invest" in lobbying, in backing political candidates, and in financing think tanks and universities to shift political and economic narratives in their favour. This is true even of the technology sector that previously had a cleaner image: Alphabet, the parent company of Google, is now one of the biggest lobbyists in Washington and Brussels on anti-trust rules and tax systems, while Apple is alleged to have manipulated tax systems to pay a tax rate of only 0.005% on its European profits in 2014.

There are many things that can be done to change all this. Oxfam highlights several strategies that are both feasible and likely to be effective. These require national policies and international collaboration: more equitable tax policies, implementing higher minimum wages, providing universal social protection, regulating companies to ensure sustainable production and prevent exploitation, moving away from a simplistic focus on GDP growth to focusing on improving the conditions of the bottom half. The challenge is to make those who are mouthing platitudes against inequality – from the head of the IMF to the business honchos at Davos – to get serious about such measures.

Sadly, protests by people against injustice and inequality currently seem to end up producing governments that move exactly in the opposite direction. Obviously political changes of a very different kind are required. And for that, another of the factors that Oxfam identifies may eventually turn out to be crucial: independent media that are free of the influence of both governments and rich elites.

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