Rising Incomes, Falling Wages

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It seems that everyone loves to talk about inequality, and how much they dislike it. From Christine Lagarde in the International Monetary Fund to the Indian Prime Minister speaking at the World Economic Forum in Davos, Switzerland, everyone is united in condemning inequality globally and in their own countries.

But ironically, the ones – especially those in the public gaze – who are most vociferous about this also seem to be those who ultimately refuse to take any measures to deal with it, even when such measures are obvious and available. It is almost as if allowing people to vent their anger and discontent, and then echoing some of their concerns in carefully phrased supposed empathy, is enough to deal with the problem.

The disconnect between professed concern of policy makers and actual policy actions has contributed to some remarkable contradictions. In the past decade, discussions about inequality in the public domain have proliferated – yet actual inequality has worsened significantly. Increased inequalities within countries have translated into significantly increased global inequalities, whether measured in terms of assets of incomes. Two new reports (the *World Inequality Report 2018* brought out by a group including Lucas Chancel and Thomas Piketty from the Inequality Lab in Paris, and the January 2018 Briefing Paper from Oxfam International *Reward Work Not Wealth*) highlight how global inequality has worsened in the past years, mainly driven by often really striking increases in inequality within countries.

Oxfam notes that, in terms of personal wealth, 2017 saw the biggest increases in the number of dollar billionaires in history, with one more added to the list every alternate day! As a result, there are now 2,043 estimated dollar billionaires worldwide, and nine out of ten of them are men. Just last year, the wealth of the small group increased by $762 billion – many multiples of total global public expenditure towards meeting the Sustainable Development Goals, and in itself more than enough to end global poverty. The richest 1 per cent of people in the world continue to own more wealth than the whole of the rest of humanity.

These crazy increases in personal wealth at the top of the distribution are hardly the result of individual endeavour. Oxfam has calculated that approximately two-thirds of billionaire wealth is the product of inheritance, monopoly and cronyism that enables state policies in different countries to be skewed in favour of the already wealthy.

And then, wealth begets further wealth by providing rentier incomes to those who hold stocks and shares and other financial and real assets. So, despite all the bad press they received in the aftermath of the global financial crisis, the incomes of shareholders and senior executives continue to rise. The Oxfam paper notes that the wages of all of the 2.5 million garment workers in Vietnam could be increased from the current average wage to a living wage at the cost of $2.2 billion per year – approximately one-third of the amount that is being paid out to shareholders by the top five multinational companies in the garment sector.

What is clear is that asset inequality within and across countries is not only extremely high but has got worse in recent years. Matters are made worse by tax dodging: not just illegal tax evasion, but legal tax avoidance strategies that are enabled by the rapidly growing industry of "tax planners" for large corporations and the ultra-rich "High Net Worth Individuals". The Panama Papers and the Paradise Papers have already indicated how this works and the network of firms and individuals involved in such process, which has given rise to estimates that as much as $7.6 trillion may be tucked away in such tax havens. The Oxfam paper refers to new research by economist Gabriel Zucman that suggests that the top 1 per cent is evading an estimated $200 billion in tax annually. Much of this is revenue loss of developing countries, which are estimated to be losing at least $170bn each year in foregone tax revenues from corporations and the super-rich.

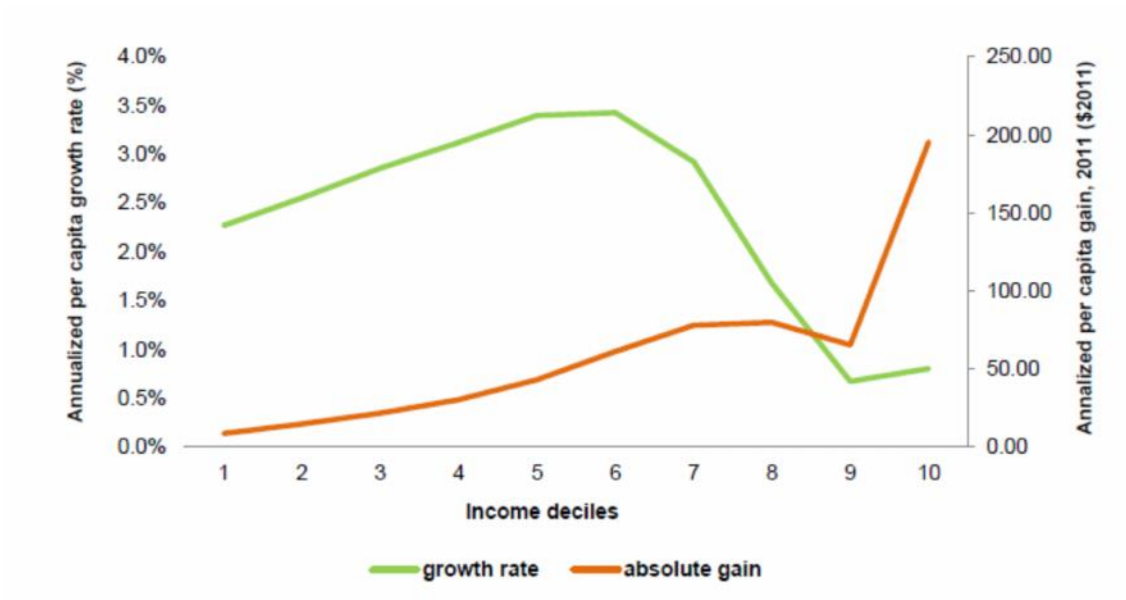
It must be accepted, however, that it is difficult to estimate wealth accurately, for many reasons. Most countries do not tax wealth *per se*, so there is little by way of official data to go on. Then again, the values of both physical and financial assets are prone to fluctuation and are especially volatile currently, so notional wealth – including of the top 1 per cent – may change dramatically with these variations. It has also been argued that assessments of total global wealth, as well as comparative statements about shares of different groups like the top 1 per cent and the bottom half of the global population, which include negative net wealth positions of the poor (because the poor typically hold net debt) may mislead to some extent. But the last is a moot point, and anyway would change the overall situation only slightly.

In any case, data for income distribution show similar tendencies of growing inequality. Much has been made of the fact that the recent emergence of countries with large populations like China and like India has actually caused some convergence in global incomes, by increasing incomes in the "middle" of the global distribution. This is what gave rise to the famous "elephant curve" first described by the economist Branko Milanovic, which described percentage changes in income across different deciles of the global population (with all national incomes calculated using Purchasing Power Parity exchange rates rather than prevailing market exchange rates). This showed a strong percentage growth in the middle of the global income distribution (the back of the elephant), much lower growth in the second decile, and a higher growth in the top decile (the trunk of the elephant).

However, this captures only a partial truth. If incomes are lower to start with, a higher proportionate increase may amount to much less increase in absolute terms. For example, a 20 percentage point increase of a per capita income of $1000 (approximately the fifth decile, or the middle) would generate an additional $200, but this would still be the same as the increase generated by only 1 percentage point increase of a per capita income of $20,000. So it is worth looking at absolute changes in income, to see how the income gaps have really moved.

This changes the graph completely, as shown in Figure 1: now the figure looks closer to a hockey stick than an elephant. Then the increases in the middle of the global distribution are much more subdued, and it is only the top decile that appears to have experienced significant gains.

Figure 1: Absolute and relative changes in global income by deciles, 1988–2013



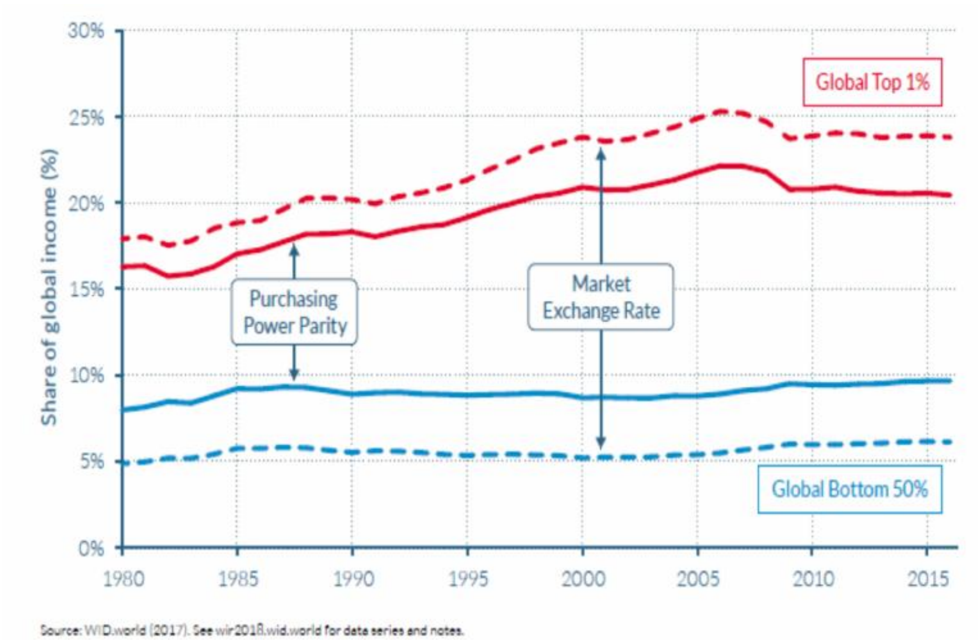
Source: Taken from Oxfam Briefing Paper 2018, page 22: Author calculations using: C. Lakner and B. Milanovic. (2016). *Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession*. Washington, DC. *World Bank Economic Review*. 30 (2): 203–32.

For obvious reasons, the absolute increase in incomes for the poorest deciles is what is relevant for the elimination of poverty – and Figure 1 shows that there was hardly any increase over this period for the bottom four deciles. So in terms of absolute incomes, the past three decades have not generated convergence, rather there was divergence instead. According to economists Sudhir Anand and P. Segal, from 1988 to 2005 the absolute global Gini coefficient increased from 0.56 to 0.72 (S. Anand, and P. Segal, "The Global Distribution of Income," in *Handbook of Income Distribution* 2, edited by A. B. Atkinson and Francois Bourgignon, Elsevier 2015: pages 937–979.)

Even this could be an underestimate, as these estimates rely on PPP exchange rates rather than the market exchange rates that are what people in different national economies actually face. There are many reasons for being sceptical about the use of PPP exchange rates to compare incomes across countries, but one point that is of obvious significance is that these tend to overestimate the incomes of the poor in poor countries and underestimate the incomes of the rich in rich countries.

The World Inequality Report 2018 provides a graphic illustration of this, as shown in Figure 2. While the trend movements are broadly similar across the two sets of exchange rates, the gap between the incomes of the top 1 per cent and the bottom 50 per cent of the global population are significantly larger.

Figure 2: Bottom 50 per cent and top 1 per cent shares of global income, 1980-2016: PPP versus market exchange rates



Source: World Inequality Report 2018, Figure 2.1.9, page 56.

Thus, for example, in 2010 the top 1 per cent received 21 per cent of global income in PPP terms, but 24 per cent when measured in market exchange rates. Conversely, the bottom 50 per cent of the global population got only around 9.5 per cent of total income at PPP exchange rates, but an even lower 6 per cent when measured at market exchange rates. But even in PPP terms, the share of the global growth between 1980 and 2016 that was captured by the top decile of the population was a staggering 57 per cent, while the bottom half of the world's population got only 12 per cent of the global increase in income.

This stagnation of incomes at the bottom is driven by increased inequality within countries, much of which is encompassed within wage incomes because the top end of wage and salary earners – the managers – are essentially capitalists getting some shares of profits and rentier incomes as well. In recent years, incomes of managers and top executives have exploded relative to wages of ordinary workers. For example, in South Africa, the top 10 per cent of workers receives half of all wage income, while the bottom half of the work force receives just 12 per cent of all wages. A CEO in the US earns the same in just above one day of work as an ordinary worker in that country earns over the whole year. When national and gender differences are included, the contrast is even sharper. A CEO from any one of the top five multinational companies in the garment sector can earn in just four days as much as an ordinary Bangladeshi woman worker earns in her entire lifetime.

India has fared particularly badly in this regard: contrary to the perceptions of the Indian government, increases in wealth and income inequality have been especially marked in India. The World Inequality Report 2018 reveals that the income of the top 1 per cent of the population as share of total national income in India is one of the highest in the world, at 55 per cent, compared to 47 per cent in the US, 41 per cent in China and 37 per cent in Europe. Furthermore, the top decile got as much as two-thirds of all the income gains over the period 1980 to 2016, around the same as the US where income inequality has become such a problem, and only better than heavily plutocratic Russia. This is much higher than the global average of 57 per cent noted above, and the corresponding figures for China and Europe are much less, at 43 per cent and 48 per cent respectively.

Obviously, none of this is necessary, and these processes are very much the result of policies and processes determined by national governments. There are some obvious measures that can be taken to rectify this, that are mentioned in both reports: taxation to reduce extreme wealth and prevent possibilities of tax evasion and tax avoidance; use of such public revenues to improve basic conditions of citizens and provide social protection; regulation of labour markets to provide worker protection and enable workers to organise and mobilise for better wages and working conditions; policies to reduce social and economic discrimination (by gender as well as other social categories); and so on. These policies are well known and available to most governments, so lack of knowledge cannot be the reason why they are not put I nto place or implemented.

Unfortunately, for most governments – including in India, whose Prime Minister made a fervent plea in Davos for globalisation and for putting out a red carpet for global investors – these policies are simply not being considered, however much lip service is being paid to the problem of inequality. Changing these unequal economic tendencies therefore necessarily requires changing the politics – not only to make governments more accountable to the people, but also making people realise the extent to which they are being fooled.

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