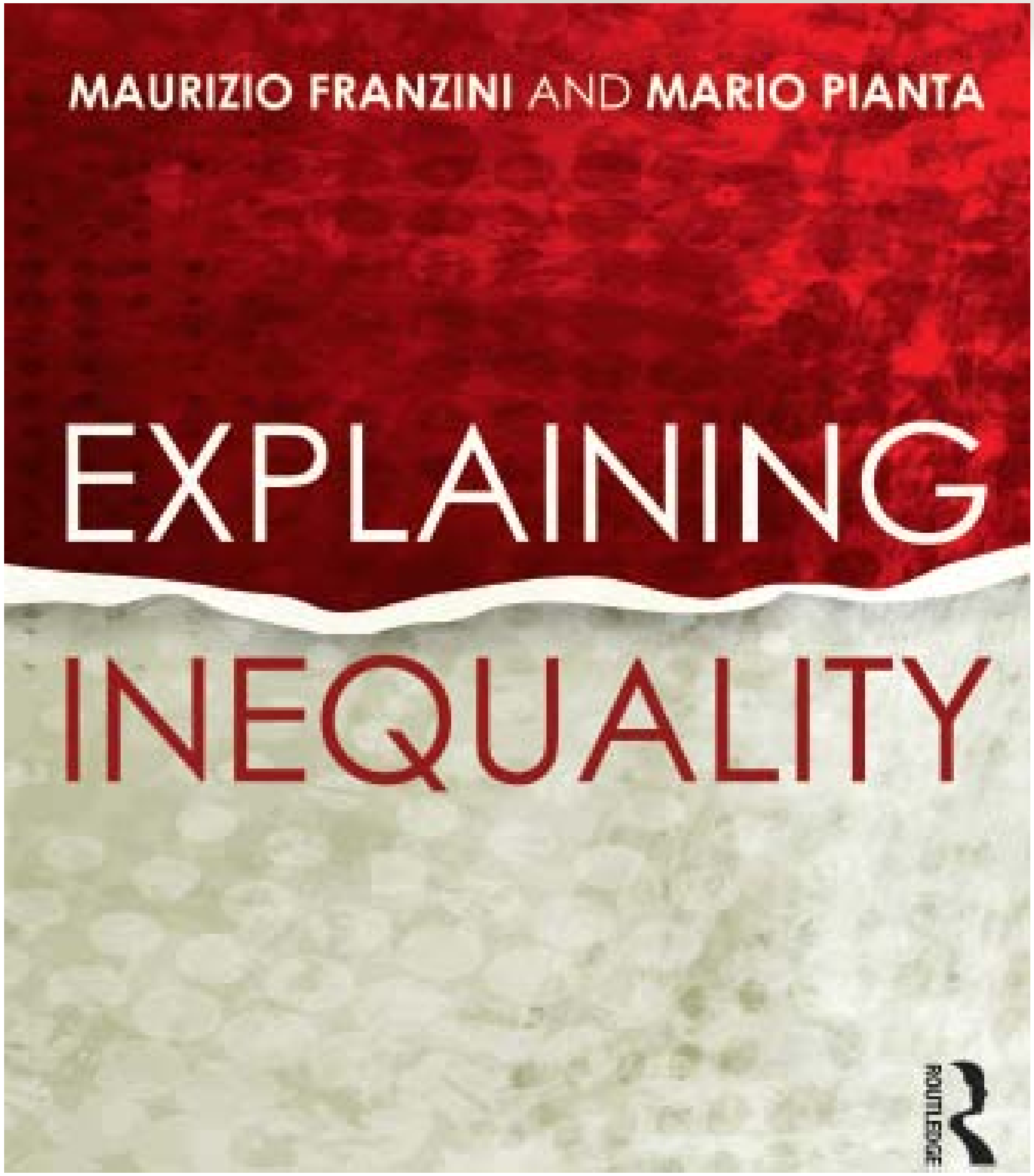
Inequality
Explanations and labour-friendly policies

Mario Pianta
Università di Urbino

TUREC conference, Vienna, 22 September 2016


MAURIZIO FRANZINI AND MARIO PIANTA
EXPLAINING
INEQUALITY
ROUTLEDGE


Intereconomics
Review of European Economic Policy
50 years
Springer
ZBW

1. Trends
Times of extreme inequality

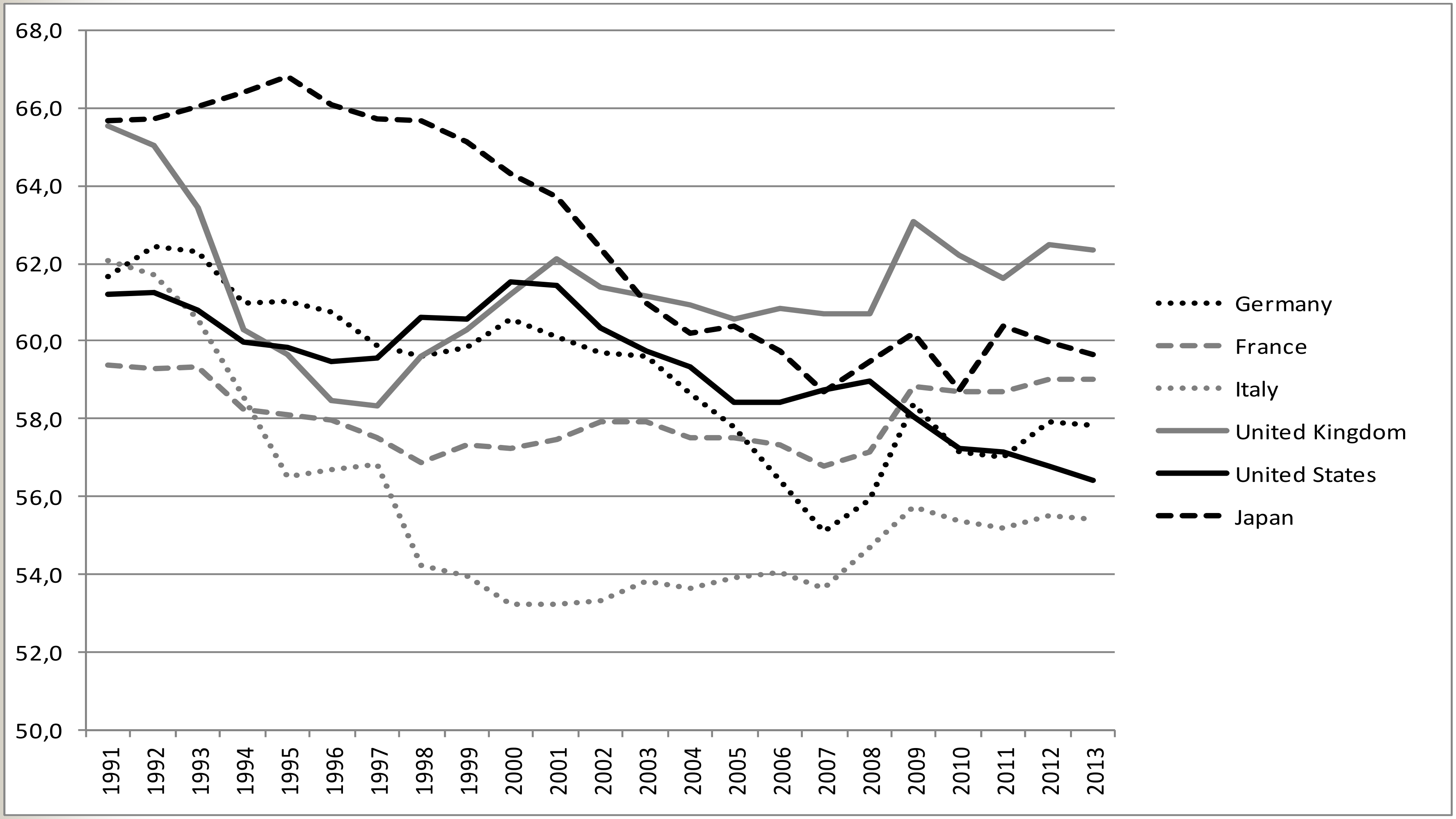
- **Worldwide**: 2016 the richest 1% of the world may own the same wealth of all the other human beings (Oxfam 2015)
- Lower disparities among **country averages**
- When the relevance of the incomes of the richest 1% is considered, **inequality has increased** in spite of higher average income in (highly unequal) emerging countries such as China and India (Anand and Segal, 2014).

The economics of inequality

- Need for a **comprehensive** view of distribution and inequality in the economic system, considering all relations, at diff. levels:
- **Functional distribution** of income between profits and wages
- Within **profits**: financial rents, retained profits, dividends, who gets them?
- Within **wages**: how equal?Top managers'"wages"
- How these incomes reach individuals: **personal distribution of income,** resulting **inequality**

Labour income share, 1991-2013

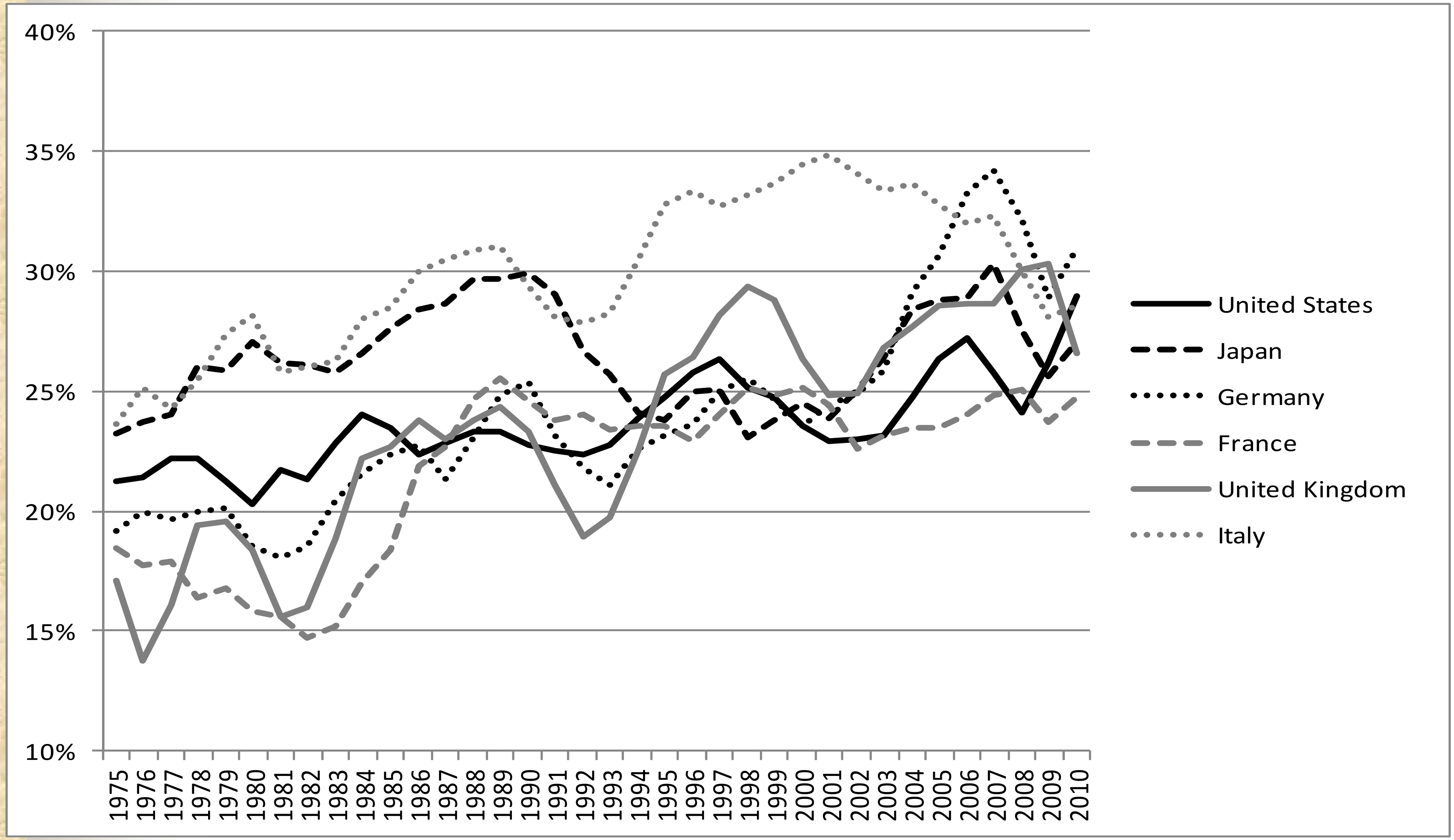
Wage share of GDP adjusted for the income of the self-employed
(compensation per employee as a percentage of GDP at market prices per person employed).
Data from European Commission AMECO database, from: ILO Global Wage Report 2014/15, p.11



The capital share in advanced countries, 1975-2010

Adapted from Piketty (2013), Figure 6.5, p.351.

For sources and data see piketty.pse.ens.fr/capital21c

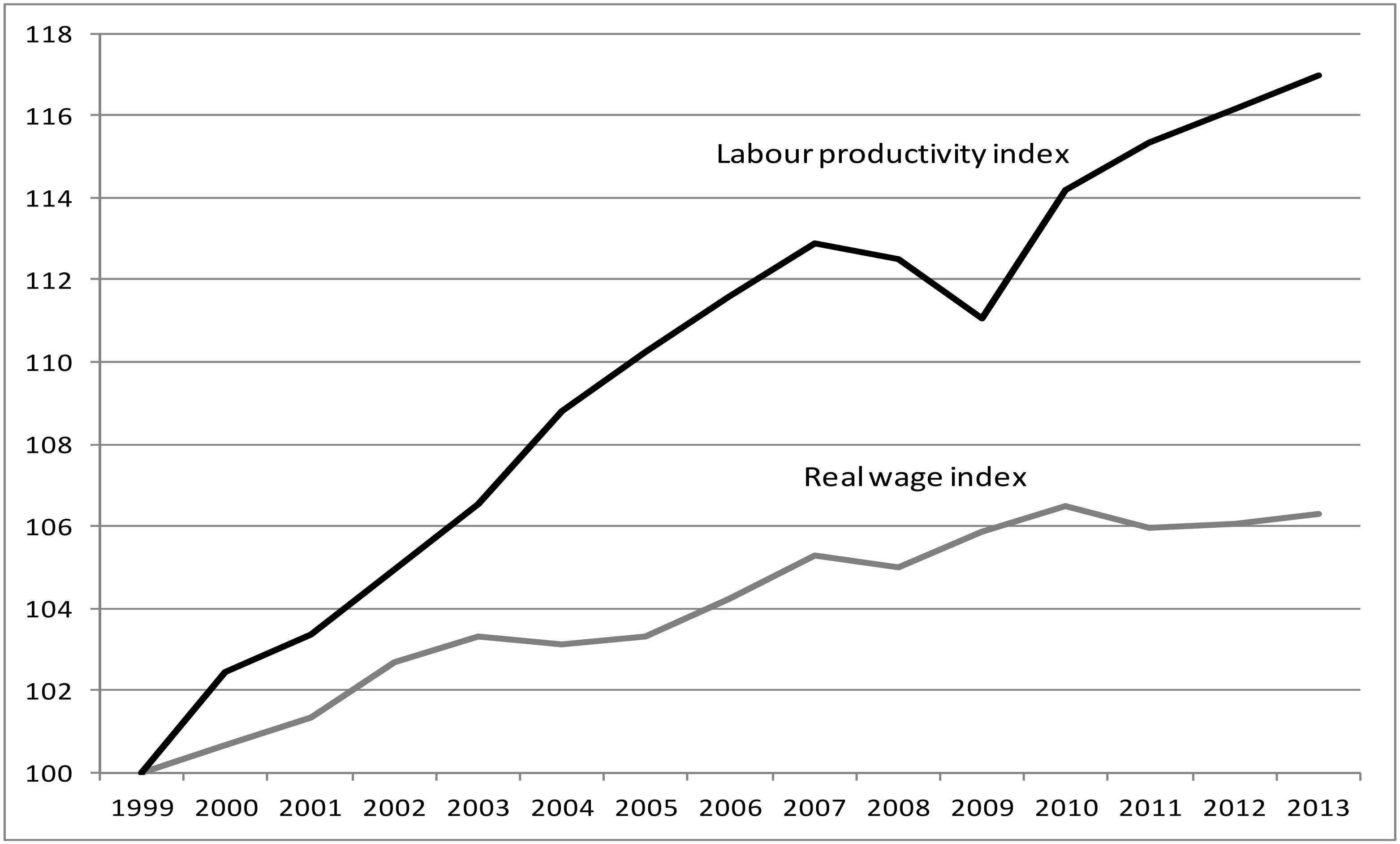


Growth of labour productivity and average wages

Wage growth is calculated as a weighted average of year-on-year growth in average monthly real wages in 36 economies. Index is based to 1999 because of data availability.

Data from ILO Global Wage Database; ILO Trends Econometric Model.

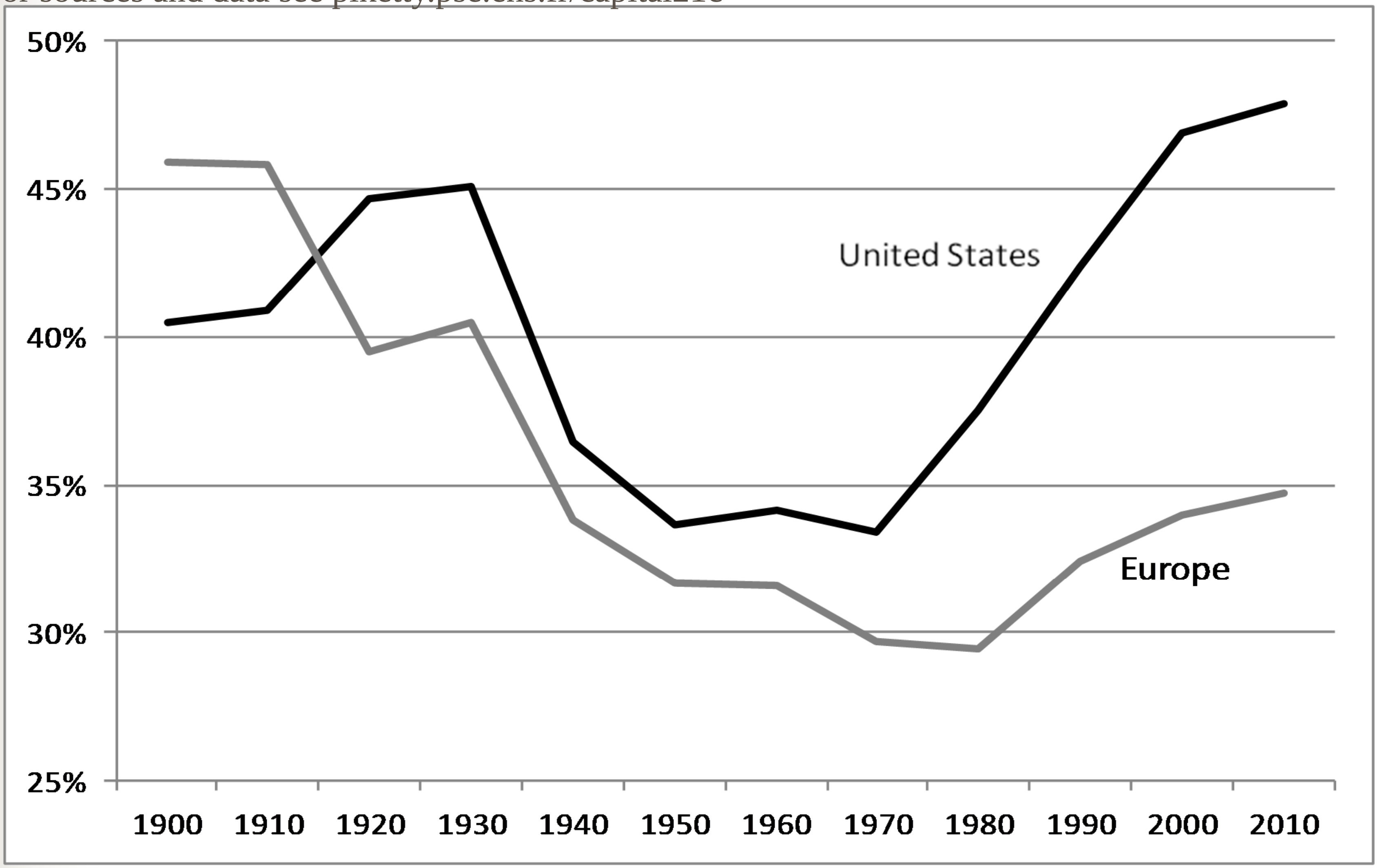
From: ILO Global Wage Report 2014/15, p.8.



The share of income of the richest 10% in the US and Europe

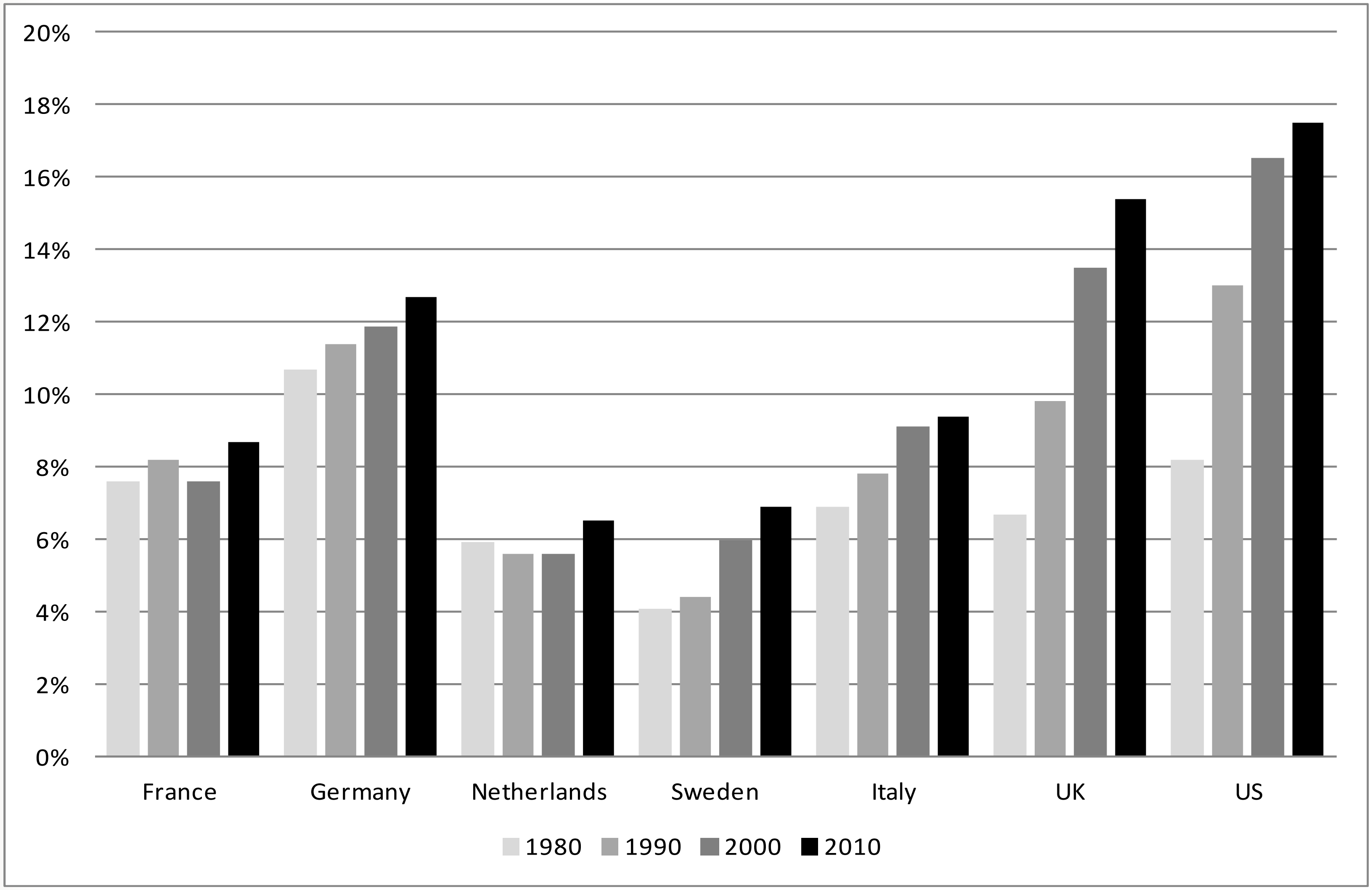
Adapted from Piketty (2013), Figure 9.8, p.514.

For sources and data see piketty.pse.ens.fr/capital21c



The top 1% income share in advanced countries, 1980-2010

Calculations on data from the World Top Income Database
http://topincomes.parisschoolofeconomics.eu/



Where does the 1% gets its money?

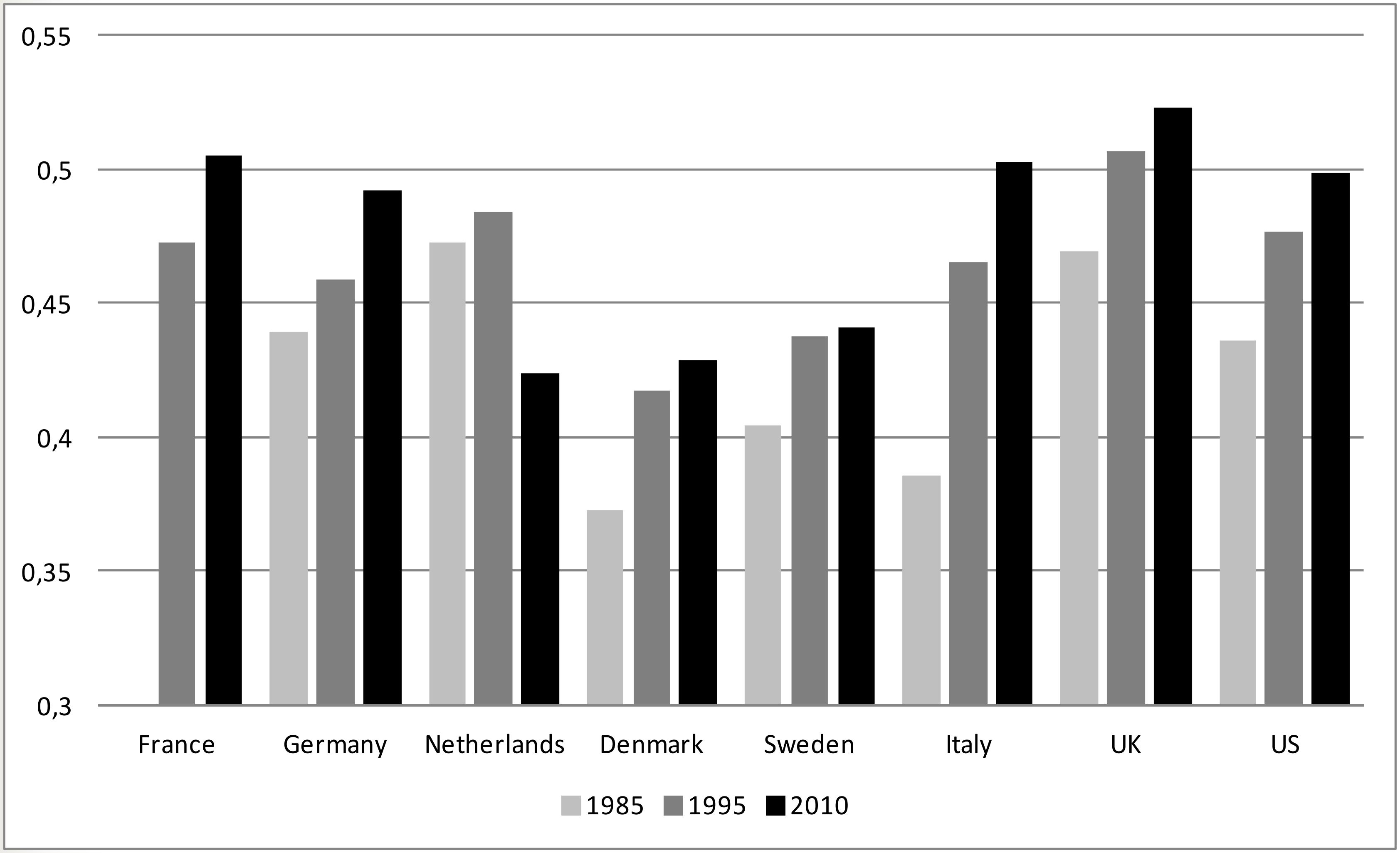
- US, Top 0.1%: 45% is “labour income”
- Lazonick (2015, p.28-31): this includes compensation from the realised gains on stock options and stock awards
- Look at 500 highest paid executives (ExecuComp data) in 2013 avg total compensation of $24.4 million;
- 84% was from gains on stock options and stock awards, salaries and bonuses were just 5%.
- Money comes from rents and privileged info.

Personal distribution of income

- Data from household surveys, sources: OECD, the World Bank, WIDER, Luxembourg Income Study, etc
- **gross incomes** reach individuals as market outcomes;
- they become **disposable income** (in cash) after taxes and benefits;
- they become **extended disposable income** if we add the value of non-cash, in-kind services

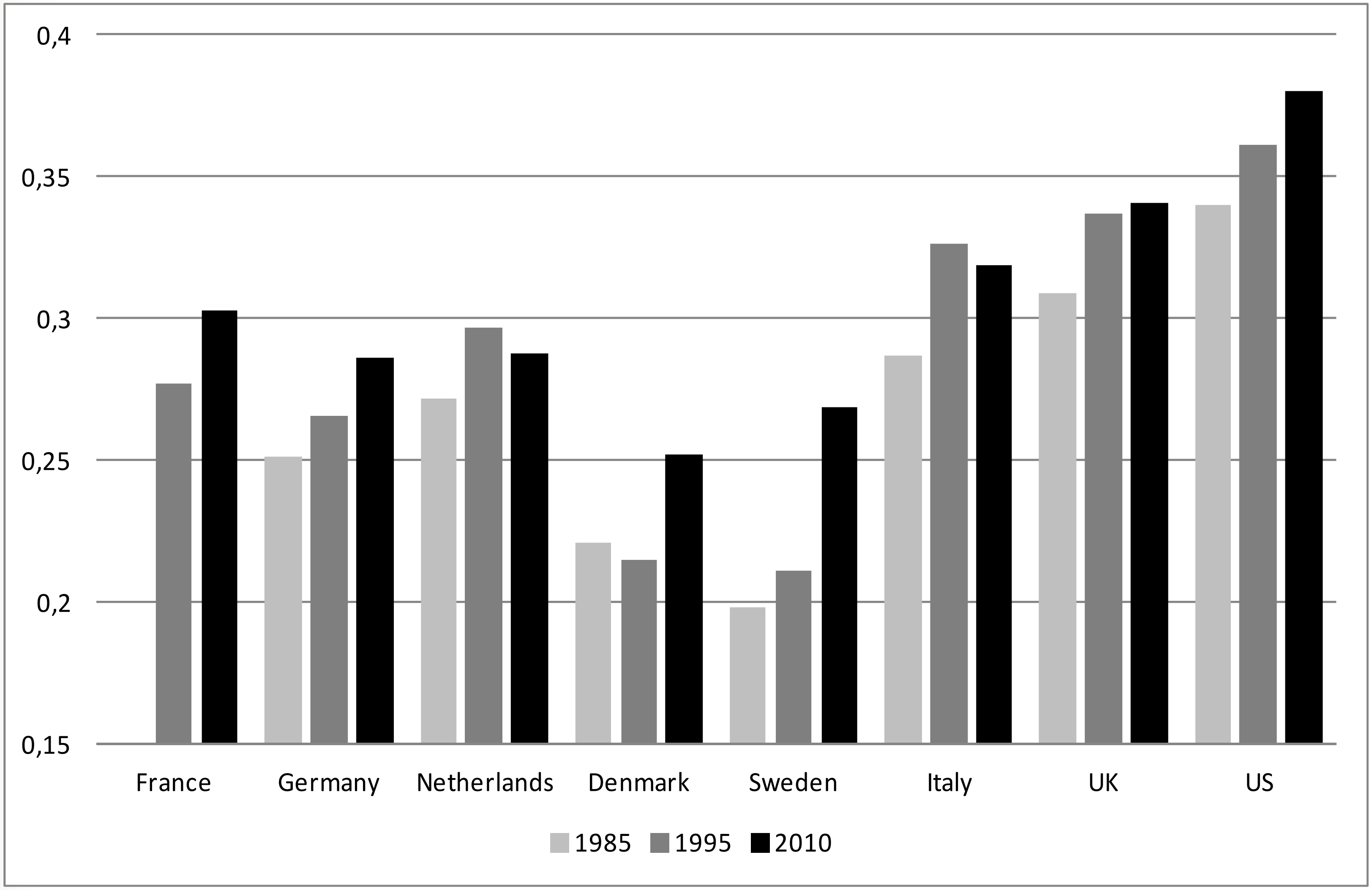
Gini index of inequality in household market incomes, 1985-2010

Gini index on equivalised household market incomes.
Calculations on OECD data, http://www.oecd.org/social/income-distribution-database.htm



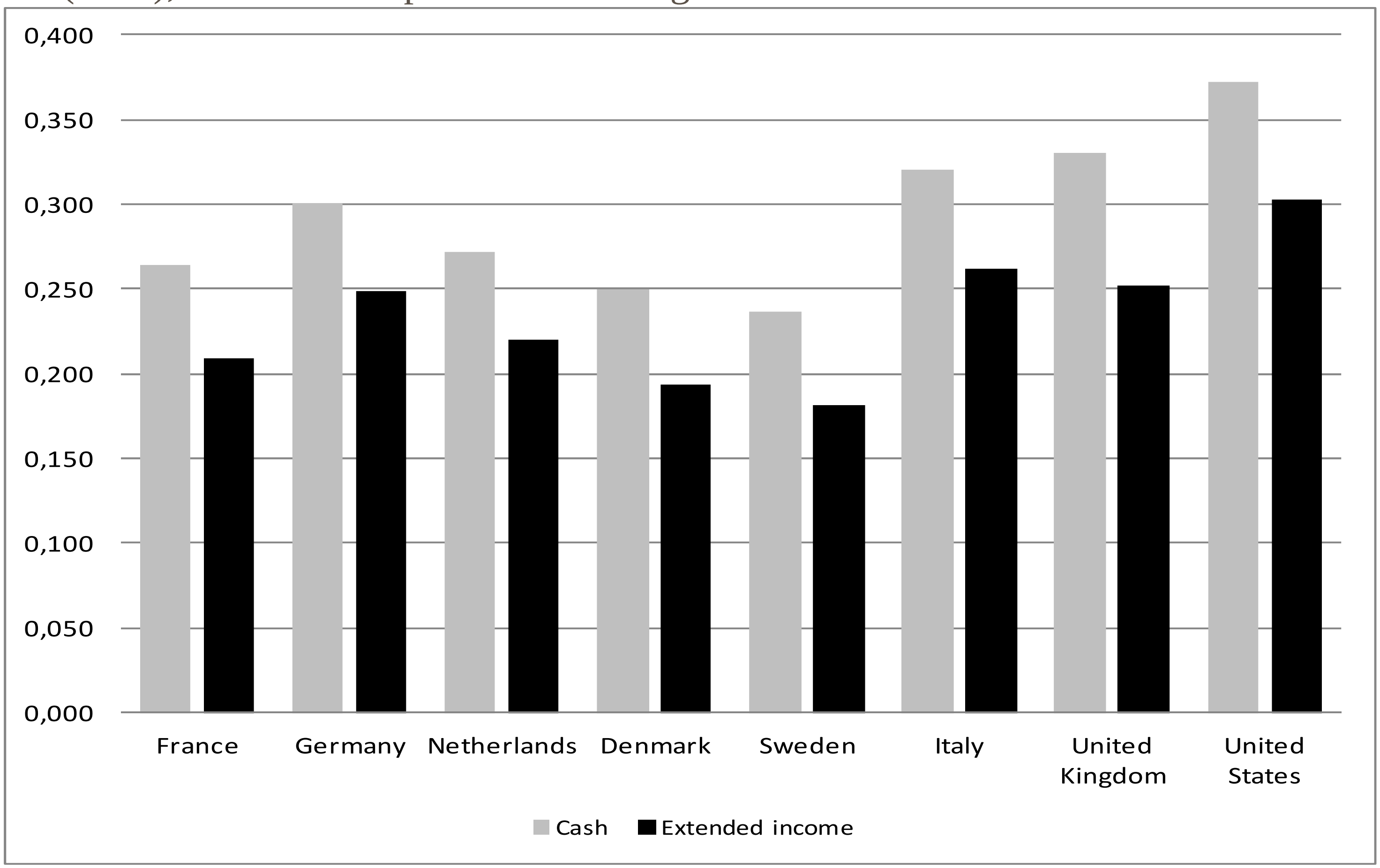
Gini index of inequality in household disposable incomes

Gini index on equivalised household disposable incomes, after taxes and monetary transfers.
Calculations on OECD data, http://www.oecd.org/social/income-distribution-database.htm



Gini index of inequality in cash disposable incomes and in extended income considering public services, 2007

Gini index on equivalised household market incomes (after taxes and monetary transfers) and on extended income (including the value of public services obtained).
Adapted from OECD (2011), data from http://www.oecd.org/social/income-distribution-database.htm



Wealth inequality

- Data from inheritance or household surveys
- Wealth = real estate + financial assets - debt.
- Sources: WIDER Global Wealth Report of Credit Suisse, Luxemburg Wealth Study Household Finance and Consumption Network of the ECB. The main studies on wealth inequality include OECD (2008,2015), ECB (2013), Piketty (2013), Piketty and Zucman (2014), Maestri et al. (2014).

Wealth in Europe

- **Bottom 20% of Europeans have net wealth of zero, second quintile has an average net wealth of €29,400, the third one €111,900, the fourth one €235,100**
- the richest 20% of Europeans have a mean value of €780,700 in net wealth; they own 68% of total wealth.
- top 5% of households owns 37.2% of wealth.
- home ownership matters Italy (€275,000), France (€233,000), Germany (€195,000),

Wealth and debt

- In 15 countries real assets account for almost 85% of total assets (gross of debt).
- Financial assets account for 15% of total assets (43% deposits, 26% private pensions, 9% mutual funds, 8% of shares, 7% of bonds, 5.3% other financial assets) . Median value of financial assets for Eurozone households is €11,400
- 44% of Eurozone households have debt

Wealth inequality in the United States and Europe, 1910-2010; shares of the top 10% and top 1%

Adapted from Piketty (2013), Figure 10.6, p.556.
For sources and data see piketty.pse.ens.fr/capital21c

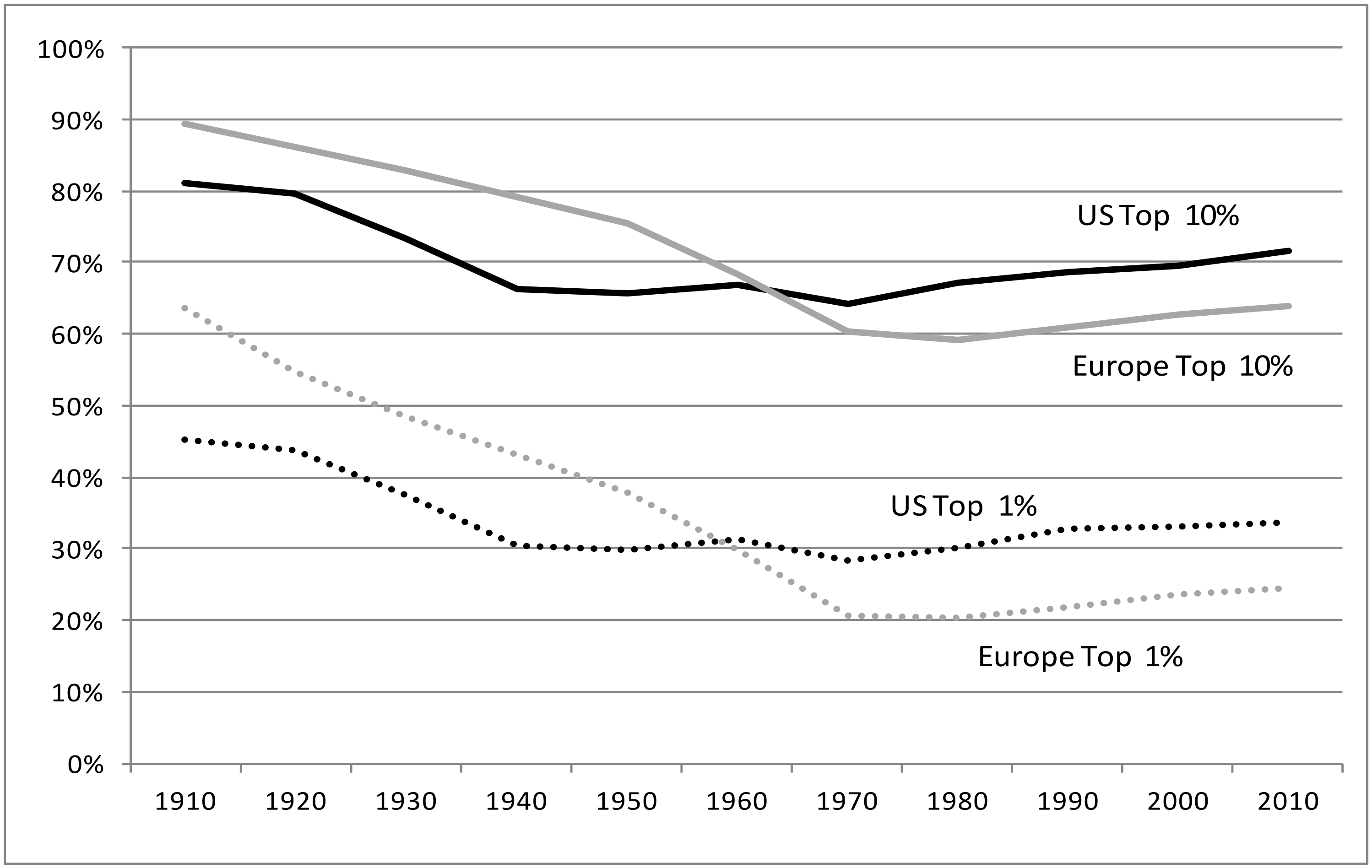
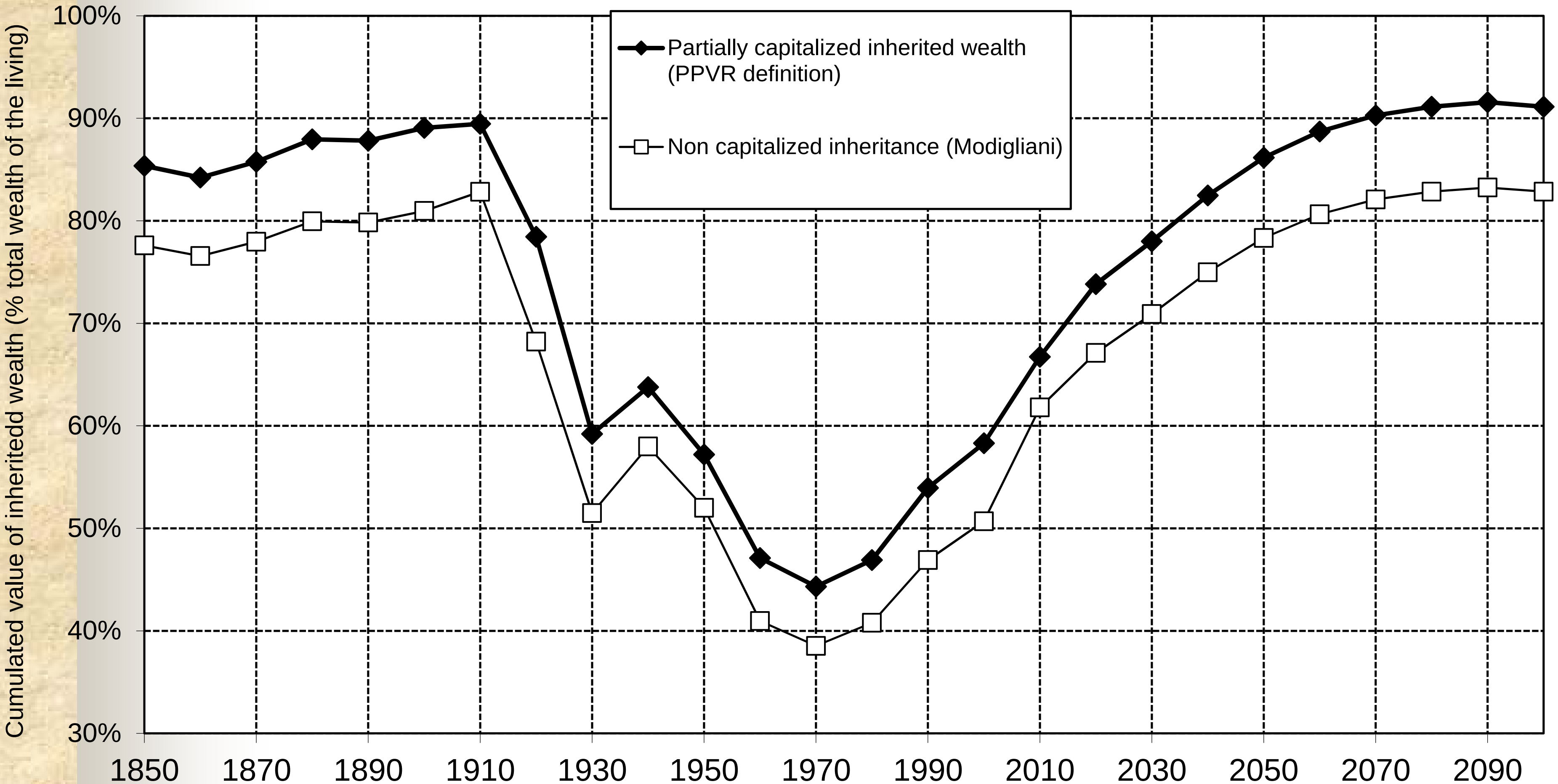


Figure S11.4. Share of inherited wealth in total wealth, France 1850-2100

(2010-2100: g=1,0%, r=5,0%)

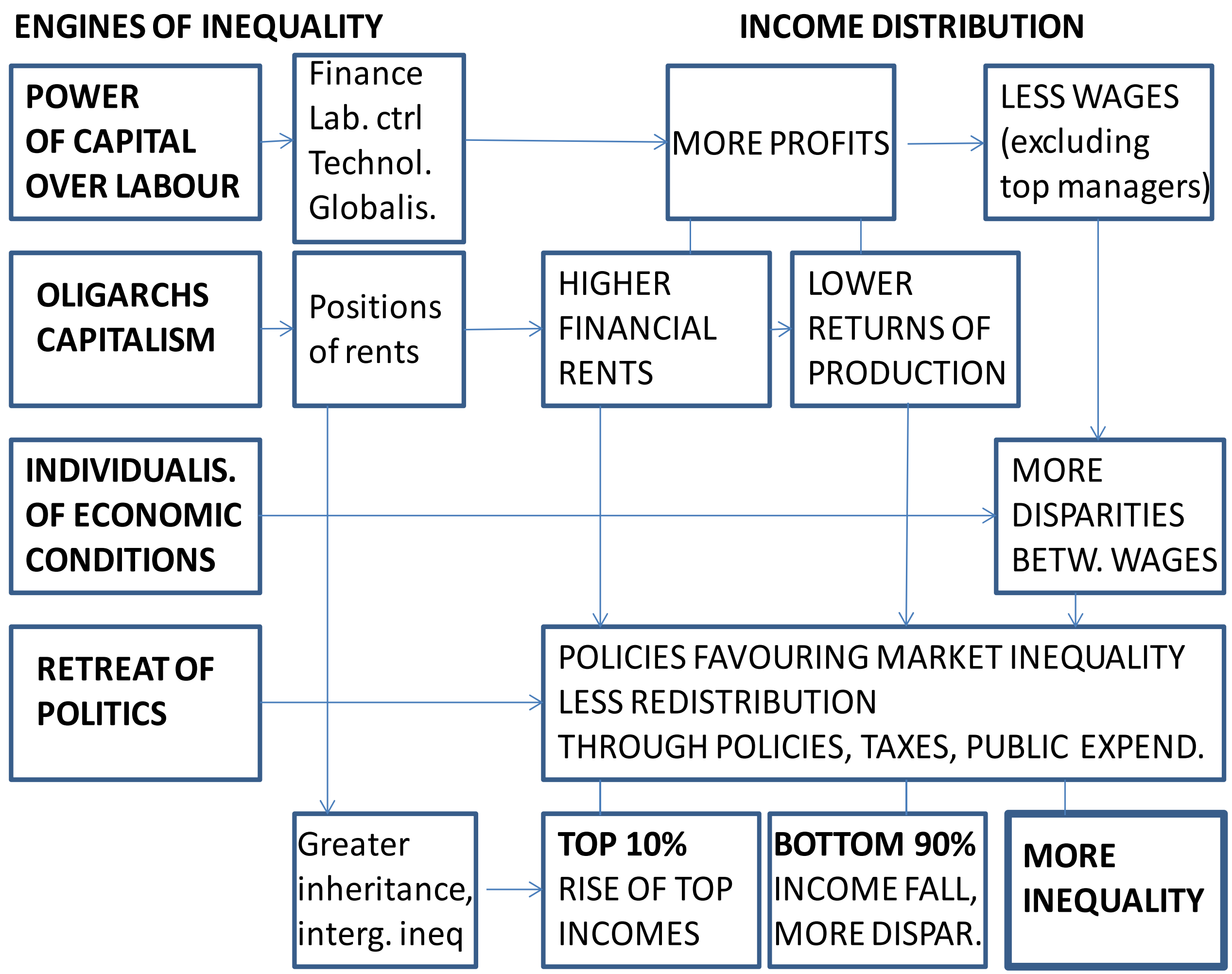


Taking into account capitalized inherited wealth increases the inheritance share; PPVR definition (capitalized income in the limit of the current wealth) limits this effect. Sources and series: see piketty.pse.ens.fr/capital21c

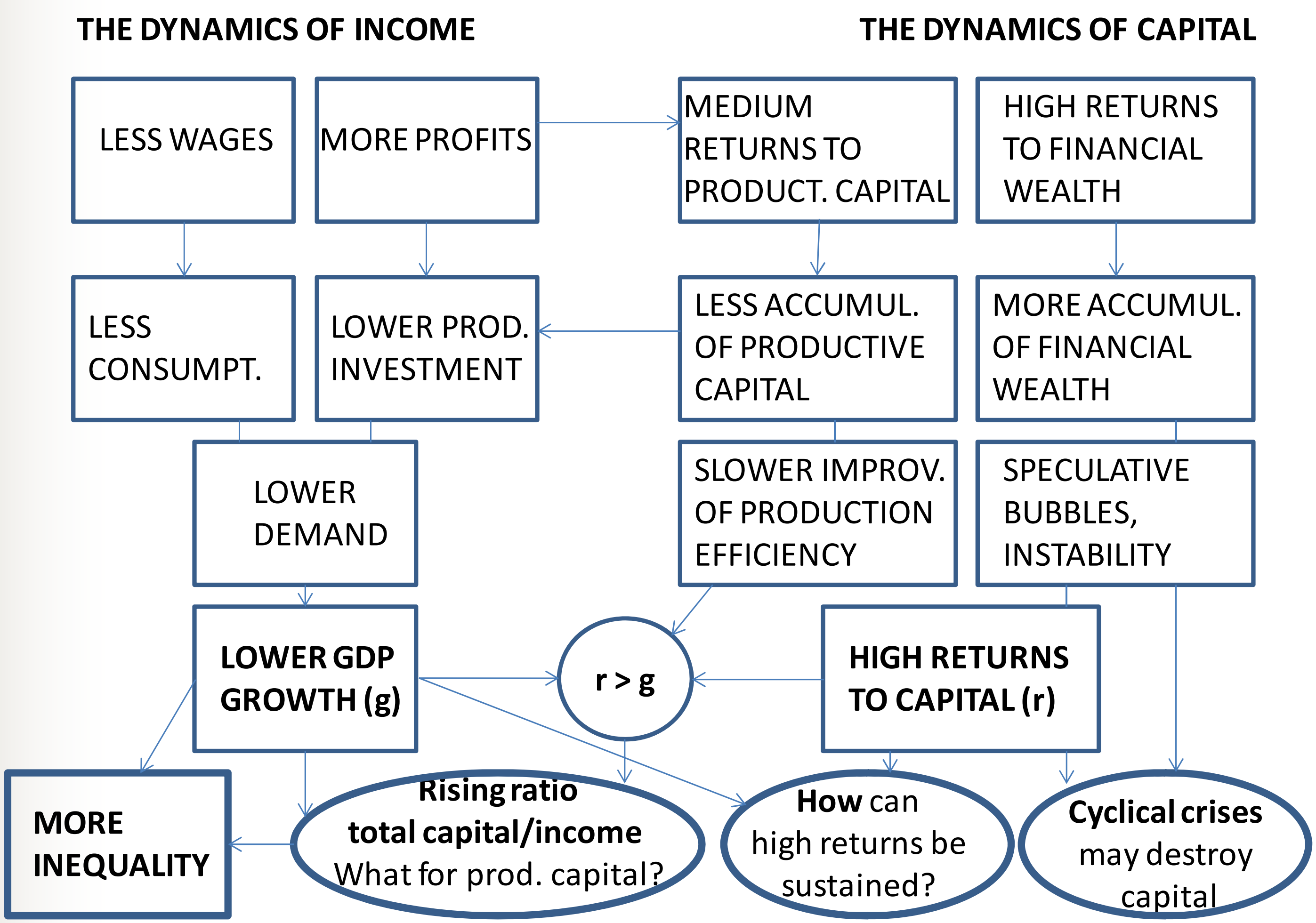
2. Explanations
Four engines of inequality

- The power of capital over labour
- Oligarchs capitalism
- Individualisation of economic conditions
- The retreat of politics

The four engines of inequality and their impact on income distribution



The dynamics of income and the dynamics of productive and financial capital



Policies for reducing inequality

- a. Rebalancing capital-labour relations
- b. Stopping oligarchs capitalism
- c. Reducing individualisation of economic conditions
- d. A return to policies of effective redistribution

Are policies on inequality possible? **National vs global**

- Past: distribution within **national** economies
- Today: **global** processes –cross-border flows of capitals, goods, workers and knowledge; the expansion of finance; the rise and fall of industries; international production by multinational firms; wage setting influenced by distant locations, etc.
- **Less power of natl. govts, no international political authority addresing inequality**

Are policies on inequality possible? **The rich vs democracy**

- The policy process is increasingly influenced by the élite interests
- Politics and parties rely on funds from the rich and corporations (US in particular)
- Int’l pressure and power of financial market make it difficult to change policy (Greece)
- **Hollowing out of democracy**?

Current proposals

- **Piketty** (2013): Global tax on wealth,

  0% on fortunes below €1 million; 1% between €1 and €5 million; 2% above €5 million. In Europe, this leads to income of 2% of GDP
- **Atkinson** (2015): detailed list of measures: tax, expend., technology, capital, etc.

OECD 2015 “In it together”

- “rising inequality is bad for long-term growth” “structural policies are needed, but have to be carefully designed and complemented by measures that promote a better distribution of the growth dividends (p.22).

IMF 2015

- “lower net inequality is robustly correlated with faster and more durable growth” “redistribution appears generally benign in terms of its impact on growth” (Ostry et al., 2014, p.4).
- “if the income share of the top 20% (the rich) increases, then GDP growth actually declines over the medium term” (Dabla-Norris et al, 2015, p.4)
- decline of unionisation is a major factor in rising income inequality (Jaumotte and Osorio Buitron, 2015).

Policies for reducing inequality, 1

policies on each engine of inequality

a. Rebalancing capital-labour relations

- Regulation and downsizing of finance
- Limiting positions of rent
- A fair distribution of the benefits of technology and productivity
- An effective minimum wage and greater role of national labour contracts

Policies, 2

- **b. Stopping oligarchs capitalism**
- Controlling top incomes
- A high inheritance tax

- **c. Reducing individualisation of economic conditions**
- Reducing the fragmentation of employment contracts
- Strengthening an egalitarian public education

Policies, 3

d. A return to policies of effective redistribution

- International and national taxation of wealth
- Greater progressivity of the personal income tax
- A minimum income

Progressive tax on income

- In the UK before Thatcher in 1979 the top rate was 83%; in the US the top rate was 91% until 1963, and 70% until 1980. Need to close loopholes and deductions for the rich.