

PO133: Foundations of Political Economy

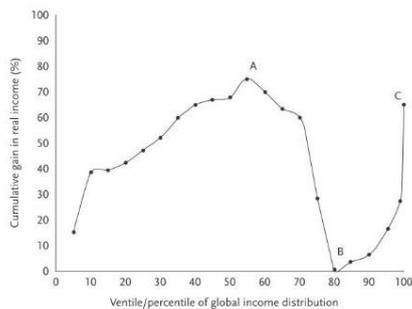
Week Four – Inequality

Over the last few weeks, we did some theoretical heavy-lifting. We talked about states and markets – two foundational concepts for the study of political economy – and the two basic propositions of political economic research (a) that they are not given realities and (b) that they are mutually entwined. This week we will shift our focus to the arguably more practical issues of inequality. Inequality points into two entirely opposed but closely linked directions: grotesque poverty and exploitation, on the one hand, and bizarre wealth and privilege, on the other. The juxtaposition of both creates an important conundrum for political economic research: Is wealth the result of poverty? Why is the gap between rich and poor growing? What are the political consequences? And how might it be changed?



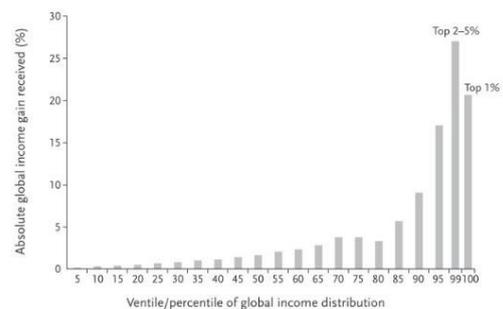
Task 1: Patterns of inequality. Today's reading discusses the book 'Global Inequality' by Branko Milanovic¹ who offers the following graphs to think about recent dynamics in global income gains:

FIGURE 1: Relative gain in real per capita income by global income level, 1988–2008 (2005 international dollars)



Source: Milanovic, *Global Inequality*, p. 11.

FIGURE 2: Percentage of absolute gain in real per capita income received, by global income level, 1988–2008 (2005 international dollars)



Source: Milanovic, *Global Inequality*, p. 25.

What do the graphs tell us about (A) the population in the 55th percentile of the global wealth distribution; the 'emerging middle classes' of China, India, Thailand, Vietnam and Indonesia? (B) the population in the 80th percentile; the working-class and lower-middle-class Americans, Europeans and Japanese? (C) the population in the 100th percentile; 'the 1%'?

¹ Therborn, G. (2017) Dynamics of Inequality, *New Left Review*, 103, 1-19.; discusses Milanovic, B. (2005) *Global Inequality: A New Approach for the Age of Globalization*, Cambridge, MA: Harvard University Press;

Task 2: Drivers of inequality. It is important to note, that a statistical description of the kind provided by Milanovich hardly constitutes an explanation. So, a crucial *political* question remains, what forces produce and sustain the observed inequalities? An answer to this question will necessarily vary, depending on where you look.

- a) Marxists attribute the existence of economic inequality to the imbalance of power between capital and labor. On this view, the decline in workers' share of national income in the rich countries of the West derived from their declining political power in the face of rising unemployment, businesses' offshoring strategies, and rapid technological change. This implies, that the wealth of the very rich is *at the expense* of the world's working population. ***Do you agree? Do you think that work is still a credible route to a better life? Is it a problem that houses, stocks, and bonds promise a greater financial income than work?***
- b) At the same time, it remains the case that one's country of origin has a greater impact on income than the class into which one is born. ***What is the role of states in creating inequality? Does 'globalisation' help to explain East Asia's take-off, Latin America's secular stagnation, or Africa's faltering growth? Is the wealth in the richer continents dependent on the poverty of others?***

Task 3: Problems with inequality. On a more fundamental level, we may ask why economic inequality is seen to be problematic in the first place. Consider the following facts from the Oxfam International (2018) 'Reward Work, Not Wealth'-Report²:

- *In 12 months, the wealth of the world's 2043 dollar billionaires has increased by \$762bn, enough to end extreme poverty seven times over. In the US the three richest people own the same wealth as the bottom half, i.e. 160 million people.*
- *Between 1990 and 2010, the number of people living in extreme poverty (i.e. on less than \$1.90 a day) halved, and has continued to decline since then, but those who have been lifted out of 'extreme' poverty often remain 'very' poor. So that more than half of the world's population lives on between \$2 and \$10 a day*
- *It takes just four days for a CEO from one of the top five global fashion brands to earn what a Bangladeshi garment worker will earn in her lifetime. In 2016, annual share dividends from fashion chain Zara to the world's fourth-richest man, Amancio Ortega, were worth approximately €1.3bn. In Myanmar, Oxfam works with young women garment workers producing clothes for global fashion brands. They earn \$4 a day, which is double the extreme poverty line. To earn this, they work six or seven days a week for 11 hours a day. Despite working such long hours, they still struggle to meet basic needs for food and medicine and frequently fall into debt.*

3.1. Why do we find these inequalities troubling? Are they (a) 'morally wrong', as egalitarians would say? (b) corrupting democracies, as liberals would fear? (c) leading to inefficiencies, as market radicals would claim? (d) or is inequality not problematic at all as long as a 'rising tide lifts all boats'? Is equality more important than wealth-levels?

² <https://policy-practice.oxfam.org.uk/publications/reward-work-not-wealth-to-end-the-inequality-crisis-we-must-build-an-economy-fo-620396> [accessed 08/10/18].



3.2. In 2010, Warren Buffett and Bill Gates invited their fellow billionaires to sign-up a 'Giving Pledge', committing to donate at least half of their wealth to charity. There is a long list of people and families who have made the pledge. Including Mark Zuckerberg and Priscilla Chan, Richard and Joan Branson, Michael Bloomberg, Barron Hilton and David Rockefeller. Thus, it would seem that many of the world's richest people simply want to give their money away to good causes?

By contrast, critics argue that this new philanthropy transfers responsibility for public goods and services from democratic institutions to the wealthy, to be administered by an executive class: *"In the CEO society, the exercise of social responsibilities is no longer debated in terms of whether corporations should or shouldn't be responsible for more than their own business interests. Instead, it is about how philanthropy can be used to reinforce a politico-economic system that enables such a small number of people to accumulate obscene amounts of wealth."*³

Is charity a viable measure to re-distribute wealth? Why do you think billionaires favour charity over taxes? Are taxes a viable measure to re-distribute wealth? Or is the root of the problem that wealth is accumulated and concentrated to such inconceivable levels in the first place? Why do we culturally celebrate wealth?

³ Rhodes, C., Bloom, P. (2018), 'The trouble with charitable billionaires', The Guardian, 24 May. Available from <https://www.theguardian.com/news/2018/may/24/the-trouble-with-charitable-billionaires-philanthrocapitalism/> [accessed 08/10/18].