



# INEQUALITY & INSTABILITY

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# INEQUALITY OF OUTCOMES

- Wealth: Value of Assets Minus Liabilities
- Income: Money Received from Services Rendered, Goods Sold, Investments
- Different Measures: Gini Coefficients, Share of Top 1% or 10%, etc.
- General Agreement: Inequality Increased Significantly Since Mid-1970s

# MULTITUDE OF STATISTICS

- By 2015, Richest 62 Individuals in World Owned as Much Private Net Wealth as Poorer Half of Humanity, More than 3.6 Billion People (Scheidel, *The Great Leveller*, 2017)
- Compensation of CEOs in USA Large Corporations, Relative to Pay of Average Workers, Increased from a Ratio of 20 to 1 in 1965, to 30 to 1 in 1978, 123 to 1 in 1995, and over 300 to 1 in 2015. (Reich, *Saving Capitalism*, 2017)

# INEQUALITY OF OPPORTUNITY

- “Circumstances” (e.g., Family Background) vs “Effort” (Individual’s Responsibility)
- Equality of Opportunity Achieved When “Circumstances” Play No Role in Resulting Outcome
- Impossible to Achieve: Not Everyone Has Same Starting Point in Life (e.g., Different Family Backgrounds) and Same Chance of Obtaining Same Outcomes
- Increasing: Death of Death Taxes; Greater Inter-Generational Transfer of Wealth (Baby-Boomers)

# OUTCOME INEQUALITY LINKED TO OPPORTUNITY INEQUALITY

- Inequality of Outcome Among Today's Generation Is Source of Unfair Advantage Received by Next Generation
- If We Are Concerned About Equality of Opportunity and Limited Social Mobility Tomorrow, We Need To Be Concerned About Inequality of Outcome Today
- Why? Many Reasons: Negative “Unintended Consequences” and “Externalities”, Especially Economic, Social and Political Instability

# RAY DALIO, FOUNDER BRIDGEWATER ASSOCIATES

“Inequality is rising so fast that it has created multiple ‘economies’: although the elite live in an expanding economy, ‘for the bottom 60 [to] 80 per cent, there is a depressed economy that is not growing well’. . . this inequality is creating so much strife that it will be political conflict – not economics – that drives markets in 2018 and beyond. These days . . . ‘political issues are more important than macro [economic] issues . . . what investors should watch is not (just) Fed statements, but the next election in France or in the UK, or how hospitable will Jeremy Corbyn be to capital?’.” (Financial Times, 13/14 January 2018)

# ECONOMIC, SOCIAL & POLITICAL INSTABILITY

- Corrosion of Trust: Persistent, Massive Inequality Corrodes the Trust Necessary for Effective Working of Intertwined Economic, Social and Political System and Leads to Economic, Social and Political Instability
- Instability: Lessens Societal Well-Being, Reduces Market Effectiveness and Citizens' Confidence in the Economic System, and Generates Extreme Divisions and Populist Demagoguery that Undermines the Inclusivity and Cohesion of Democratic Societies

# ANGLO-SAXON EXAMPLES

- Election of Donald Trump in USA
- Brexit
- Marxist Takeover of Labour Party in UK



# CONTINENTAL EUROPEAN EXAMPLES

- Nationalist Governments in Hungary and Poland Threatening Rule of Law
- Record Election Results for Parties of Extreme Left or Right in Italy, Austria, Greece and Germany
- In Germany in September 2017 Elections, Far-Right Populist AfD became Third-Largest Party and Entered the Bundestag for First Time

# FUTURE OF CAPITALISM

- Underlying Promise of Capitalism – A Rising Tide Lifts All Boats – Has Been Broken (*Financial Times* Editorial, 24 October 2017)
- Marx's Linear Theory: Capitalism Permanently Replaced by Some Form of State-Controlled Economy
- De Grauwe's Cyclical Theory: Capitalism a Mixture of Market and Government Control, Which Both Have Limits, Causing Swings in the Dominance of Markets and Governments Over Time

# POLITICAL WILL & DEMOCRACY

- Government Control More Important 1945-80; Market Control More Important Since 1980; Now Market Control Declining and Government Control Strengthening
- But Governments Unlikely to Reduce Excessive Inequalities Unless Democratic Institutions Are Sufficiently Strong that the Interests of Those at the Top of Societies Do Not Trump Those of the Citizens Below
- Democracy is Weakening in Several Countries: Democracy a Recent Development (post-1945, post-1989) in Much of Europe; and Surveys (e.g., Pew) Suggest 40% of American Millennials and 30% of UK Millennials No Longer Think Democracy is “Vital” or “Essential”

# DARK SCENARIOS

- If Democratic Institutions Are Not Strong Enough, Then Some “Dark Scenarios”
- One Possible Scenario: “is the sort of ‘plutocratic populism’ that has become such a feature of the US . . . The future could then consist of a stable plutocracy, which manages to keep the mass of the people divided and docile. The alternative might be the emergence of a dictator, who rides to power on the back of a faux opposition to just such elites” (Martin Wolf, Associate Editor and Chief Economics Commentator *Financial Times*, 20 December 2017)
- Such “Dark Scenarios” Are in the Interests of Neither the Underclass at the Bottom nor the Elites at the Top of Democratic Societies. Nor Are They in the Interests of Those Who Wish to Preserve Both Democracy and Capitalism