

Chapter 9 : Inequalities

Part 1 : WEALTH INEQUALITY

1 Key words and concepts

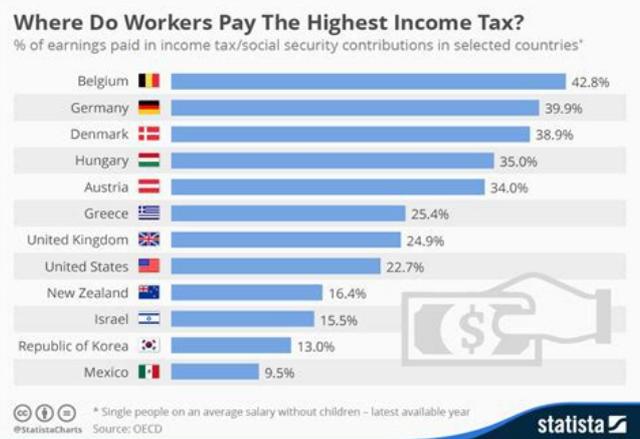
- a) **Gini Index/coefficient** : it's a measure of equality, 0 means perfect equality, everyone earns the same. A score of 1 means that one person gets everything. Global inequality has fallen since the 1980s.
- b) **Human Development Index** : (in French IDH) is a measure of a country's well-being, which is based not only on economic development and living standards, but also on life expectancy and education. It was developed in the 1990s by a group of economists who were convinced that development should not be assessed solely by economic advances but also on improvement in well-being.
- c) **US Bankruptcy Code**: There are 6 different types of bankruptcies in the American code. European laws have been revamped since 2013 and modeled after the image of chapter 11 of the US bankruptcy code. The most famous Chapter 9 bankruptcy was declared for Detroit, Michigan in 2013 (before that the biggest was Orange County, Calif, 1994)

d) **Minimum wage** :

It was imposed at the end of the 19th century. In the USA, since July 24, 2009, federal government has mandated a \$7.25 /hour nationwide, to be revised regularly. As of January 2018, 29 states have a minimum hourly wage higher than the fixed wage, with Washington the highest at \$11.5. In the UK, it depends on age. In 2018 : it ranged from £3.70 for an apprentice to £7.83.

e) **wealth/income tax** :

It's a tax that you pay on your earnings. In the US the « payroll tax » refers to FICA taxes to fund social security and Medicare, and the « income tax » goes into state and federal general funds. The US is one of the 2 countries to tax non-resident citizens on worldwide income.



f) **Payday loans** :

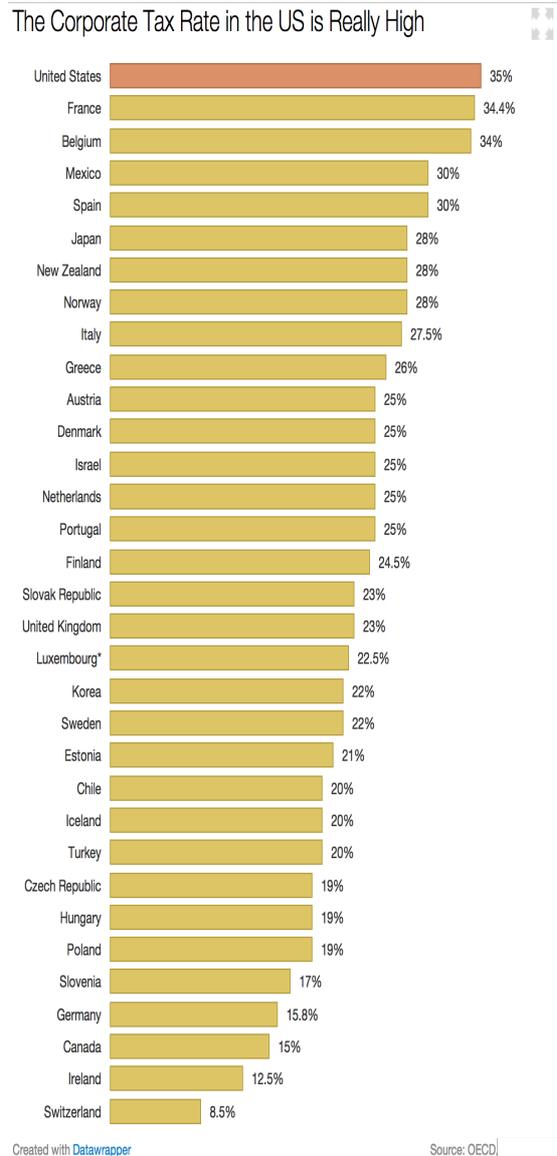
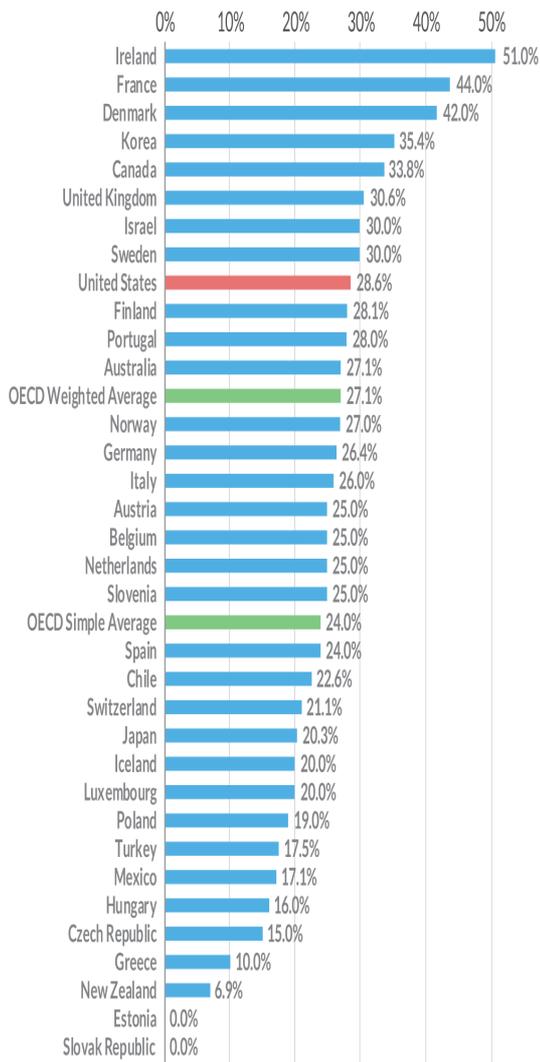
Small, short-termed, insecure loans, also referred to as cash advances. To avoid usury, most countries have jurisdictions to limit the annual percentage rate that can be charged. In the USA, 36.40% APR is the norm. In the UK there are no restrictions, so it goes until 1000% APR. Wonga is the biggest firm offering such services, with 30-40% of market shares.

g) **poverty line /threshold**:

It's the level of income deemed adequate in a particular country for an individual to meet basic needs (you need to determine the total cost of essential resources for a year). It varies according to where you live. In 2008 the World Bank came up with an international poverty line. In 2015 it was \$1.90 a day.

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Document 2 : Government Tax Revenues, by OECD Country, as a Percentage of Gross Domestic Product (2012)

2 Wealth inequality in the USA

a) facts

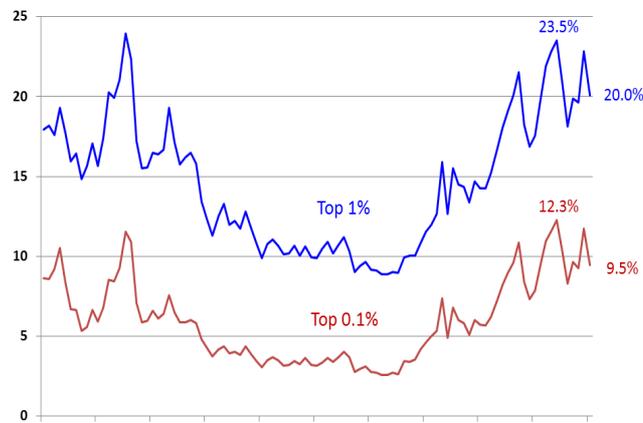
The Gini coefficient was 0.34 in the 1980s to 0.38 in the mid-2000s, it is now 41.4 (31.6 in France). There are wider disparities of wealth than in any other major developed nations. The top 0.1% is worth as much as the bottom 90%. From 2009-2012 the top 1% captured 91% of the income gains. There are also racial disparities.

For more information : <https://www.thebalance.com/income-inequality-in-america-3306190>

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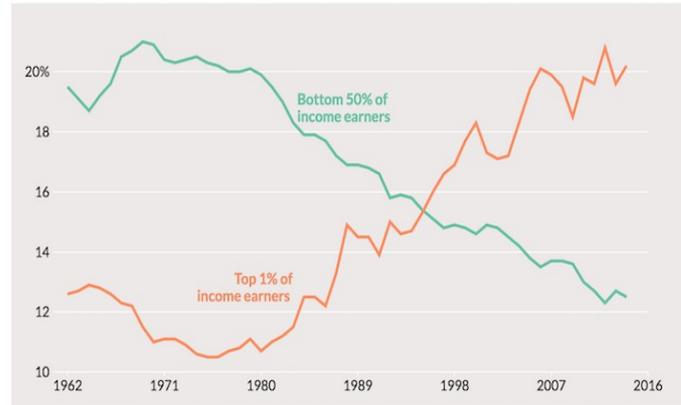
U.S. Income Shares of Top 1% and Top 0.1% Households – Incl. Capital Gains (1913-2013)



Source: Piketty & Saez – January 2015

A tale of two countries

The share of U.S. pre-tax income accruing to the bottom 50 percent and top one percent of income earners, 1962-2014



Source: Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," 2016. Cambridge, MA: National Bureau of Economic Research

Note: The unit is the individual adult and incomes within married couples are split equally.



b) origin

Several factors explain such disparities. In spite of the ideal of the American Dream and the self-made man, taxes are largely responsible for inequalities. Wealthy families pass down their assets, while the net indebtedness for the poorest increases (the bottom 90% hold 73% of all debts). The high price of commodities which has increased since 2009 means that hourly wages do not keep up with the inflation of prices and it is difficult for the poor to pay for gas, rent and food.

The role of the tax system is underlined by economists such as Emmanuel Saez, Thomas Piketty, or politicians like Barack Obama). Joseph Stiglitz also denounces weak unions who fail to defend workers' rights (there has been a long fall in unionization since WW2).

3 Wealth inequality in the United Kingdom

a) facts

Incredible wealth in the UK exists alongside unimaginable poverty

SINCE 2009...



The number of billionaires in the UK has more than doubled



Pay for top company directors has increased by 40%



The number of people using foodbanks has increased from 26,000 to nearly 1 million



The average UK worker has experienced a 9% real terms pay cut

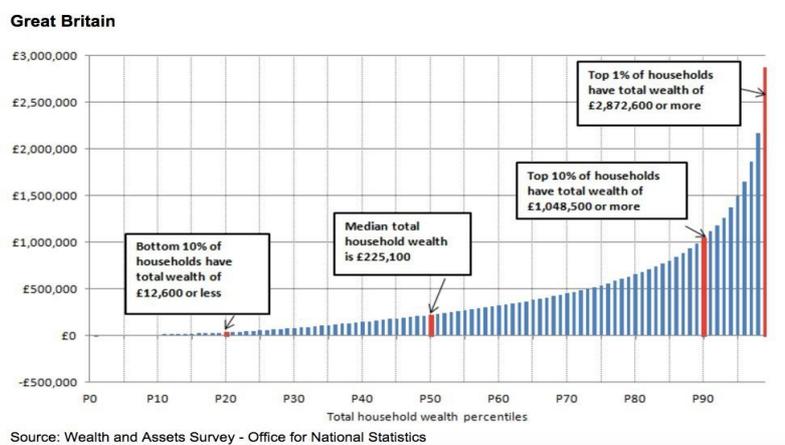
What does this mean?

Wages for most people have fallen over the past five years, meaning that work is no longer a guaranteed route out of poverty. More than half of the UK households in poverty contain someone in work. But many at the top have not had to economise. The number of UK billionaires has grown rapidly, as has pay for top company bosses. **There is great poverty in this country, but there are also great riches.**

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Figure 7: Distribution of total household wealth, percentile points: July 2012 to June 2014



The UK is the 7th most unequal country in the world and the 4th in Europe. The Gini coefficient was 34.8 in 2016, which is average in Europe.

b) Origin

✓ the Establishment

It regroups the Monarchy + the aristocracy + the Church + the people who hold key positions in politics, government, the civil service, the press or to a lesser extent business = very influential people who have a strong lobbying power and as a rule stand for tradition and the *status quo*.

These people are educated in very prestigious private schools known as « public schools » like Eton, Rugby or Winchester, educated at *Oxbridge*. 70% of UK's top judges went to public schools, 78% Oxbridge educated.

There are '*old-boy*' networks and *school-tie culture* : they're recruiting people with the same sort of background. In the Conservative party : nearly all Prime Ministers were Oxonians (except Churchill and John Major) and 59% of Mps in 2005 had private education. For Labour only 18% had a private education (Tony Blair went to public school). The cost of these schools means that only the upper-class, sometimes aristocratic background have access.

The British aristocracy still rich and powerful, because it historically shared power with the other classes, was very pragmatic and remained intensely rich because there was no violent revolution and thanks to primogeniture. More than 50% of rural land is owned by 36,000 aristocrats in England and Wales.

Ex : the Duke of Westminster is the 3rd richest man in Britain with an estate worth £8,5 billion in 2014.

Among the 200 richest people in the UK, ½ of the wealth is inherited, more than ¼ are aristocrats.

The Reform of the House of Lords with progressive abolition of hereditary peers is a sign that times are changing.

✓ The consequences of the industrial revolution

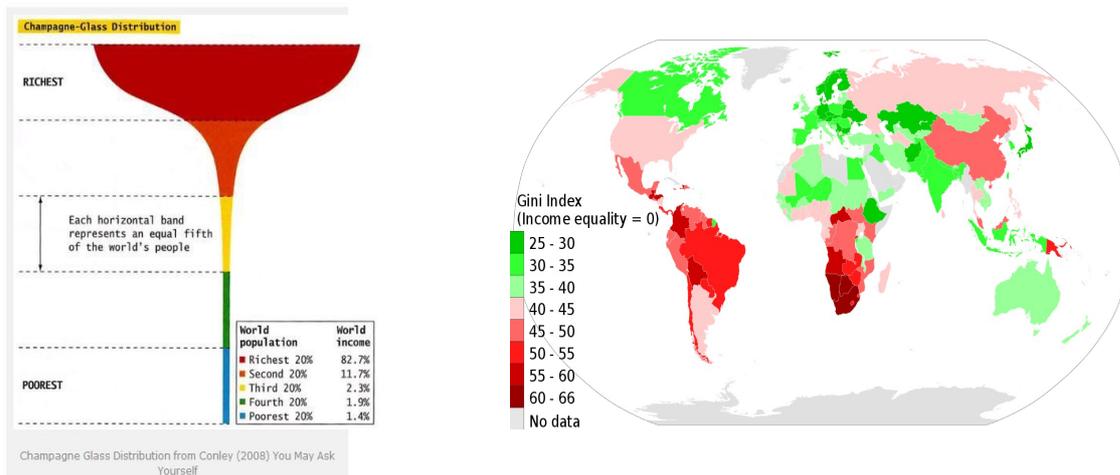
The Industrial Revolution had an impact on social mobility rates and inequality, as England experienced the onset of modern economic growth. It had previously been impossible to measure social mobility rates before the end of the Industrial Revolution, but we know that social mobility rates have always been low in England and were surprisingly unaffected by the Industrial Revolution. Modern growth did not speed up the process of intergenerational mobility. In addition the Industrial Revolution era was probably one of declining inequality in England. While we do not have information on the individual distribution of income and wealth, the share of wages in national income increased in Industrial Revolution England. Since wages are distributed in all societies much more equally than income from property, this would have been a force for greater income equality within industrial society.

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4 Wealth inequality in the world

a) facts



b) origin

- ✓ the impact of better institutions : poverty often rhymes with corruption. The poorest countries are those with the highest level of corruption, with undemocratic government, nepotism, which can't collect taxes and pay for institutions.
- ✓ Culture and education : the less people believe, the richest, with one notable exception, the USA. Strong believers are prone to clan thinking and favour people they know, not the most talented. Besides they believe there's a better life after death and lay the stress more on spirituality than material wealth.
- ✓ Geography : tropical regions are the poorest because people are more likely to be plagued by one or many tropical diseases ; agriculture is more difficult ; the possession of large domesticated animals is made impossible because of the Tse-tse fly ; problem of transport for landlocked nations (ex : Bolivia, Paraguay, Afghanistan, 15 African countries, Laos...).
- ✓ natural resources are actually paradoxically an intensifier of poverty, because when there are important resources, with weak institutions, the exploitation is ill-managed or confiscated by foreign powers (ex : DR Congo with coltan for mobile phones and more).
- ✓ History : the impact of colonization, with income from natural resources being confiscated by imperialistic powers, impact of slavery on African countries.
- ✓ impact of globalization and modern forms of colonization.

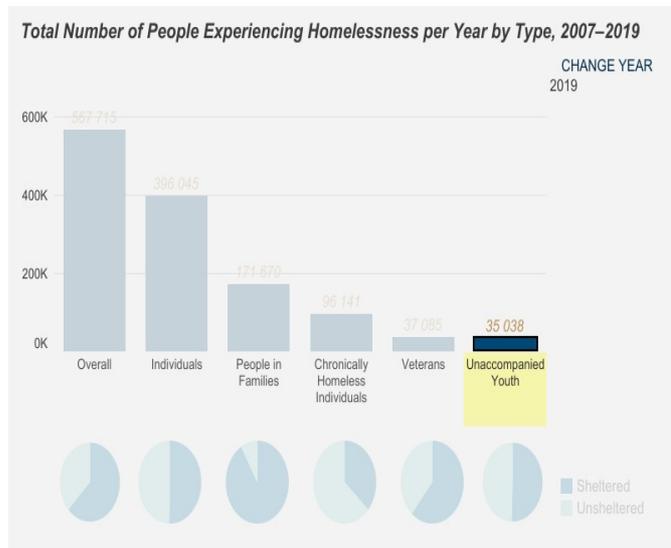
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c) Consequences of wealth inequality

✓ Homelessness

Overall, the NGO Shelter estimated that 280,000 people were homeless in England as of December 2019 with no equivalent figures for Scotland and Wales. In the USA, seventeen out of every 10,000 people in the United States were experiencing homelessness on a single night in January 2019 during HUD's Annual Point-in-Time Count. These 567,715 people represent a cross-section of America. They are associated with every region of the country, family status, gender category, and racial/ethnic group, Pacific Islanders and Native Americans being the most likely to sleep rough and white Americans the least likely. With the COVID 19 crisis, more people are at risk of becoming homeless. Homeless people are also more vulnerable to the disease. During the current pandemic, there is a new challenge—the number of people who contract an infectious illness (COVID-19) while needing homeless services. Self-quarantine, social isolation, and stay-at-home orders are difficult, if not impossible, to follow when you do not have a home.



✓ Gentrification

Gentrification is a process of changing the character of a neighborhood through the influx of more affluent residents and businesses. It is a common and controversial topic in politics and in urban planning. Gentrification often increases the economic value of a neighborhood, but the resulting demographic change is frequently a cause of controversy. Gentrification often shifts a neighborhood's racial/ethnic composition and average household income by developing new, more expensive housing and businesses in a gentrified architectural style and improving resources.

The gentrification process is typically the result of increasing attraction to an area by people with higher incomes spilling over from neighboring cities, towns, or neighborhoods. Further steps are increased investments in a community and the related infrastructure by real estate development businesses, local government, or community activists and resulting economic development, increased attraction of business, and lower crime rates. In addition to these potential benefits, gentrification can lead to population migration and displacement.

Examples :

- Inner London

"London is being 'made over' by an urban centred middle class. In the post war era, upwardly mobile social classes tended to leave the city. Now, led by a new middle class, they are reconstructing much of inner London as a place both in which to work and live" (Butler, 1999, p. 77). King's College London academic Loretta Lees reported that much of Inner London was undergoing "super-gentrification", where "a new group of super-wealthy professionals, working in the City of London [i.e. the financial industry], is slowly imposing its mark on this Inner London housing market, in a way that differentiates it, and them, from traditional gentrifiers, and from the traditional urban upper classes ... Super-gentrification is quite different from the classical version of gentrification. It's of a higher economic order; you need a much higher salary and bonuses to live in Barnsbury" (some two miles north of central London).

- USA : Brooklyn

Many major cities in the USA have undergone a process of gentrification over the last decades, and Brooklyn is a case in point.

A study conducted on Black Brooklyn explores the complex ties between racial segregation and gentrification. Historically, racial segregation of Black and Latino residents in Black Brooklyn starting from the 1940s was caused by redlining, neighborhood defence (formal and informal processes enforcing racial inequity such as

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discriminatory housing and banking practices, attacks against minority residents, etc.), public housing developments, and blockbusting. This resulted in minority neighborhoods with insufficient municipal services and inadequate housing. In the 1970s, shifts in demographics of Black low-income communities were due to gentrification by Black middle-income residents who experienced racially biased policies and practices in other neighborhoods and wanted to live in a historically Black community. Gentrification of these neighborhoods by white residents began in the 1990s, leading to some believing that racial integration was being achieved by gentrification. However, declines in segregation were small, and neighborhoods remained largely segregated while long-term low-income residents and Black residents suffered from displacement and other negative effects of gentrification.

✓ urban sprawl

Urban sprawl is the unrestricted growth in many urban areas of housing, commercial development, and roads over large expanses of land, with little concern for urban planning. In addition to describing a particular form of urbanization, the term also relates to the social and environmental consequences associated with this development. The term *urban sprawl* is highly politicized and almost always has negative connotations. It is criticized for causing environmental degradation, intensifying segregation, and undermining the vitality of existing urban areas and is attacked on aesthetic grounds. The pejorative meaning of the term means that few openly support urban sprawl as such.

✓ shorter life expectancy

In the USA in particular, money has become an increasingly strong determinant of who will live longer. People in wealthy counties outlive their poorer counterparts by as much as 20 years now, the greatest gap that America has seen in 40 years. In South Dakota's Oglala Lakota county, for example, the average life expectancy is 66.8, making it the worst county in America. The median income in Oglala Lakota is \$30,347, which stands in stark contrast to Colorado's Summit County where life expectancy is 86.9, making it the highest in the country. Median income in Summit is more than 2.5x higher than it is in Oglala Lakota.

✓ less health coverage, unequal access to healthcare

Rising healthcare costs pose greater burdens for low-income Americans. Over the last 20 years, healthcare costs per person have more than doubled. Compared to other OECD nations, the United States greatly surpasses other countries with more than double the per-capita costs of the UK, Japan, Canada, and Israel. If Americans cannot afford the cost of healthcare, they will die earlier without that care.

For the 38 million Americans living in poverty, healthcare costs can often be almost half of a family's income. According to the Department of Health and Human Services, the Affordable Care Act was able to reduce healthcare spending by \$2,000 per person from 2010–2017. Nevertheless, countervailing factors like rising prescription drug costs and rising hospital costs have offset some of these reductions. Telehealth services have greatly reduced the cost and barriers associated with healthcare. Families in rural regions can now access medical services even when they're miles away from a hospital.

✓ Social instability

Inequalities seem incompatible with democracy because they favour the domination of an oligarchy : it has a grave effect on social stability over time.

✓ no social mobility

The UK has one of the poorest rates of social mobility in the developed world. This means that people born into low-income families, regardless of their talent, or their hard work, do not have the same access to opportunities as those born into more privileged circumstances.

In the UK today, the data tells us that your social background still impacts your opportunities in life:

- By the age of three, poorer children are estimated to be, on average, nine months behind children from more wealthy backgrounds.
- By 16, children receiving free school meals achieve 1.7 grades lower at GCSE
- Just 7% of children in the UK attend independent schools, but 30 per cent of all A* grades at A-level are

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achieved by these children.

•32% of MPs, 51% of top medics, 54% of FTSE-100 chief execs, 54% of top journalists and 70% of High Court judges went to an independent school, compared to 7% of the population.

Several large studies of mobility in developed countries in recent years have found **the US** among the lowest in mobility. One study ("Do Poor Children Become Poor Adults?") found that of nine developed countries, the [United States](#) and [United Kingdom](#) had the lowest intergenerational vertical social mobility with about half of the advantages of having a parent with a high income passed on to the next generation.

Many Americans strongly believe the U.S. is a "Land of Opportunity" that offers every child an equal chance at [social](#) and [economic mobility](#). That Americans rise from humble origins to riches, has been called a "civil religion", "the bedrock upon which the American story has been anchored", and part of the American identity (the [American Dream](#)) This theme is celebrated in the lives of famous Americans such as [Benjamin Franklin](#) and [Henry Ford](#), and in popular culture (from the books of [Horatio Alger](#) and [Norman Vincent Peale](#) to the song "[Movin' on Up](#)").

The American Dream Report, a study of the Economic Mobility Project, found that Americans surveyed were more likely than citizens of other countries to agree with statements like:

- "People get rewarded for intelligence and skill",
 - "People get rewarded for their efforts";
- and less likely to agree with statements like:

- "Coming from a wealthy family is 'essential' or 'very important' to getting ahead,"
- "Income differences in my country are too large" or
- "It is the responsibility of government to reduce differences in income."

In recent years, several studies have found that vertical intergenerational mobility is lower in the US than in some European countries. US social mobility has either remained unchanged or decreased since the 1970s. A study conducted by the [Pew Charitable Trusts](#) found that the bottom quintile is 57% likely to experience upward mobility and only 7% to experience downward mobility.

A study published in 2008 showed that economic mobility in the U.S. increased from 1950 to 1980, but has declined sharply since 1980.

A 2013 Brookings Institution study found income inequality was increasing and becoming more permanent, sharply reducing social mobility.

A large academic study released in 2014 found US mobility overall has not changed appreciably in the last 25 years (for children born between 1971 and 1996), but a variety of up and down mobility changes were found in several different parts of the country. On average, American children entering the labor market today have the same chances of moving up in the income distribution (relative to their parents) as children born in the 1970s.

✓ [racial inequalities](#)

The nationwide protests following the death of a black man, George Floyd, at the hands of white police officers has once again shone a spotlight on the long-standing racial divide in the US. This, along with the coronavirus pandemic that has disproportionately killed black Americans, has drawn renewed attention to the persistent inequities in wealth, health and opportunity between blacks and whites despite economic prosperity of recent years. Those disparities exist because of a long history of policies that excluded and exploited black Americans. White families have substantially more wealth than black families. The typical non-Hispanic black household has accumulated only about one-tenth the wealth of a typical non-Hispanic white family. That gap stems in part from lower rates of home ownership and smaller inheritances among blacks.

The difference is wider now than it was at the start of the century, according to an analysis by the Brookings Institution. And wealth is all the more important these days since it serves as a safety net during economic downturns.

Another reason why it's more difficult for black families to save and build wealth is because they typically earn

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less than whites.

Since 2000, the wage gap between blacks and non-Hispanic whites has grown significantly, even when educational attainment is factored in, according to a report by the Economic Policy Institute. Black workers' wages grew slowly from 2000 until last year, when they finally exceeded 2000 and 2007 levels across the earnings spectrum. Median household income among blacks is also lower than it is for non-Hispanic whites.

They are also more likely to suffer from unemployment and poverty, more likely to lack health insurance, and have been hit more by the coronavirus pandemic. Indeed, along with a lack of coverage, black Americans have higher rates of chronic illnesses, including diabetes, high blood pressure and obesity.

All these conditions contribute to making the coronavirus pandemic all the more deadly for blacks than for non-Hispanic whites, who account for more than 60% of the population, but only about 53% of the deaths from the virus.

d) Struggle against wealth inequality

- ✓ Occupy Wall Street, We are the 99% Movement (adapted from Wikipedia)

Occupy Wall Street (OWS) was a protest movement against economic inequality that began in Zuccotti Park, located in New York City's Wall Street financial district, in September 2011. It gave rise to the wider Occupy movement in the United States and other countries.

The Canadian anti-consumerist and pro-environment group/magazine *Adbusters* initiated the call for a protest. The main issues raised by *Occupy Wall Street* were social and economic inequality, greed, corruption and the undue influence of corporations on government—particularly from the financial services sector. The OWS slogan, "We are the 99%", refers to income and wealth inequality in the U.S. between the wealthiest 1% and the rest of the population. To achieve their goals, protesters acted on consensus-based decisions made in general assemblies which emphasized redress through direct action over the petitioning to authorities.

The protesters were forced out of Zuccotti Park on November 15, 2011. Protesters then turned their focus to occupying banks, corporate headquarters, board meetings, foreclosed homes, and college and university campuses.

- ✓ class warfare (adapted from Red Blue Dictionary online)

Conservatives use this term to describe what they see as a very harmful liberal attitude based on incorrect beliefs and leading to harmful public policies. The key belief is the claim that income and wealth inequality is the root cause of most problems. In fact, say conservatives, huge problems have been created by liberals who believe this (who wage class warfare), including societal breakdown, economic stagnation, loss of American prestige and power on the world stage, and the concomitant failure to take badly needed pro-capitalist and pro-liberty steps to restore America's greatness and prosperity and constitutional freedoms. From this point of view, "class warfare" is seen, specifically, to be those actions taken by the poor or the working class, and/or their allies among the economic and political elite, to forcibly redistribute wealth in favor of the "have-nots" (and against the interests of the "middle" class majority and the enlightened self-interest even of the poor and lower-income working classes)--thus impoverishing the nation as a whole, stifling economic growth and opportunity, and endangering everyone's political and economic freedoms.

Many on the right also see in "class warfare" a conscious political strategy on the part of national and global elites to consolidate and extend their power by increasing the power of government (which these elites are seen to largely control) through socialist programs (welfare, progressive taxation, empowerment of unions) ostensibly designed to further the interests of the poor, working, and middle classes, but which in reality are designed to make the population dependent upon the government and to favor certain Big Business and international interests ("socialist" in this view being defined as "elite control of government and the economy").

From the point of view of many liberals and socialist leftists, "class warfare" is a description of the actions (regressive taxation schemes, slashing of social welfare programs, inflated military budgets, IMF-imposed austerity programs) taken by economic and political elites (the capitalist class, or "the 1%", and their cronies in

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the government) to consolidate and expand their power (and wealth) at the expense of the working class majority.

It can be seen, then, that both right and left see in “class warfare” an attack upon the majority of citizens (most often designated as “the *middle class*”, though sometimes as “the working class”) by political and economic elites, with the liberals tending to see this attack as coming primarily from the capitalist class (*Big Business*) and their cronies in government, and the conservatives tending to see this attack as coming primarily from the political class (*Big Government*) in the service of some of their Big Business cronies. While placing different emphases on which side of *crony capitalism* to lay the most blame (on Big Business or on Big Government) both sides largely share a common opposition to *crony capitalism* itself, defined usually as the collusion between Big Business and Big Government.

✓ debate over Developing Countries Debt Relief (adapted from politics.co.uk)

All countries have some kind of national debt, as a consequence of normal economic activity. Sometimes, countries accumulate unmanageable levels of debt due to particular economic crises.

However, the last 50 years have seen external debt (debt to foreign investors) emerge as a long-term structural problem hampering the economies of many less-developed and developing countries. This problem is sometimes referred to as "Third World Debt", although the term "Third World" as shorthand for developing countries as a whole is increasingly out of favour.

Debt has a significant effect on global poverty. For example, borrowed money accrues interest which adds to debt and can lead to impoverished lands suffering because massive interest payments drain funds that are needed for things like infrastructure investment.

There is today widespread political acceptance of the need to address debt, either by providing assistance in coping with debt or in writing it off. "Debt relief" is therefore one of the leading issues in development and international relations today. There are, however, numerous motivations for supporting debt relief, ranging from humanitarianism to managing and stabilising the international financial system.

Debt in developing countries is singled out as a principal cause of poverty, causing human suffering and misery and hampering economic development.

Anti-debt campaigners typically blame Western governments and financial institutions for creating the debt crisis, through irresponsible lending and by turning a blind eye to the suffering and economic damage it caused. They also point to the illogical situation of Western governments providing aid to developing countries with one hand, while extracting debt interest payments from them with the other.

However, there are concerns that debt relief sets a disturbing precedent in relation to the security of financial obligations – it could deter creditors from giving out loans to developing countries in the future.

It has also been acknowledged that the standards of governance in many of the poorest countries are extremely bad: many loans that could have helped to expand productive capacity were siphoned off by corrupt officials or spent on inappropriate projects.

*To go further :

- Thomas Piketty, Capital in the 21st century.
- Kazuo Ishiguro, The Remains of the Day.
- Joseph Losey, The Servant, 1963.
- website : <https://clotildephongmany7.wixsite.com/monsie>