Sources of Inequality:
The Changing Dynamics of National and Global Inequality:
OLD AND NEW POVERTY… OLD AND NEW WEALTH

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The Lorenz Curve and the Gini Coefficient

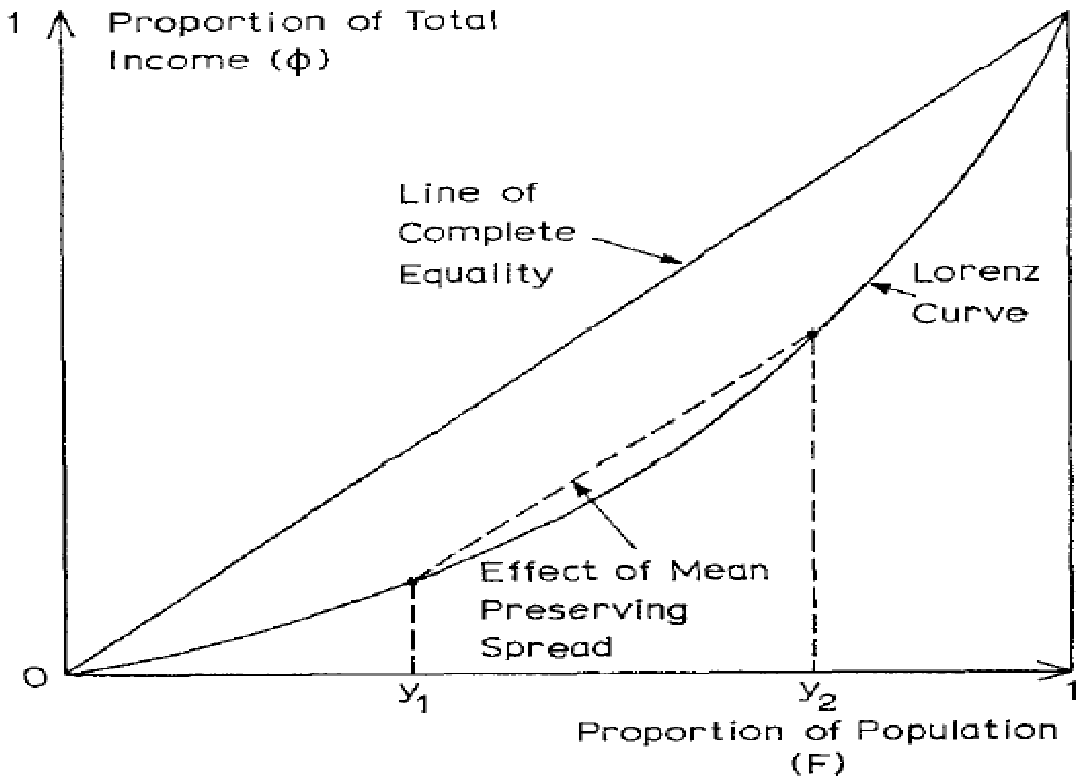


FIG. 2. Effect of mean-preserving spread on Lorenz curve.

Country A and Country B

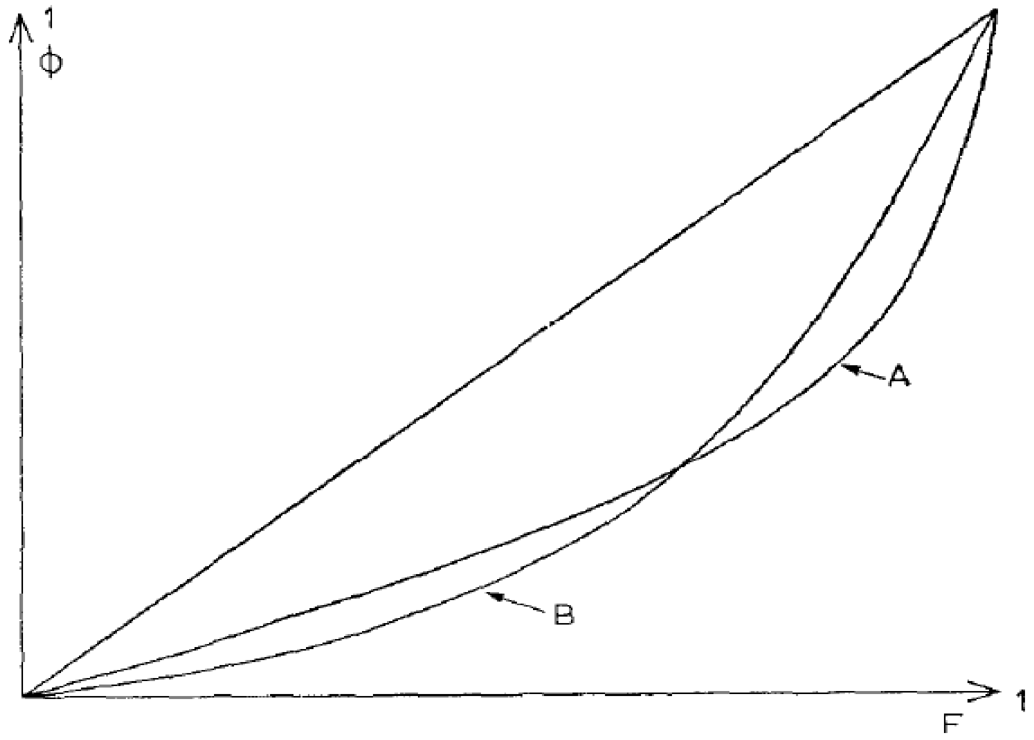
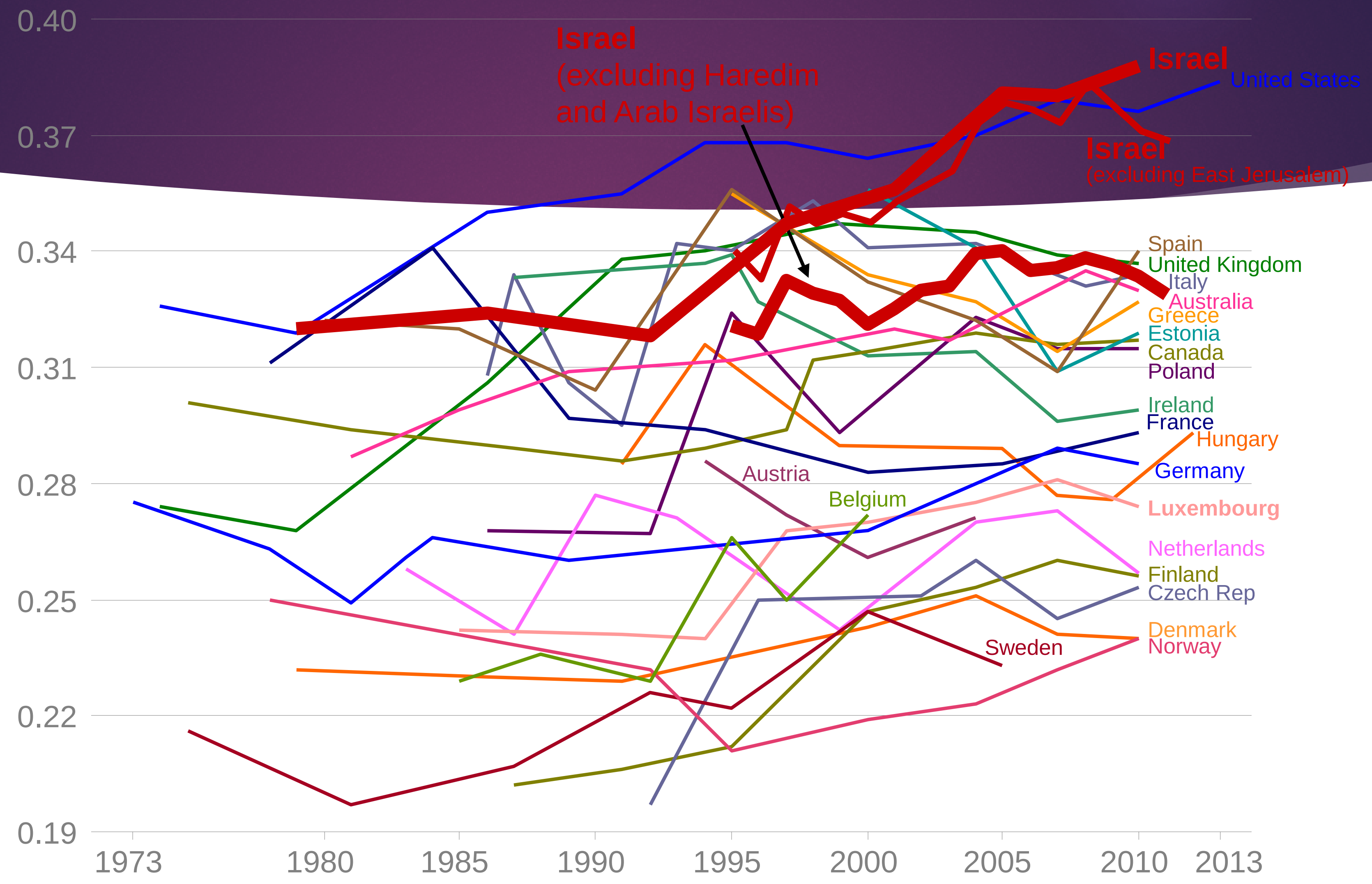


FIGURE 4

Income inequality: Comparative Time Series

in disposable incomes, 23 OECD countries, 1973-2013

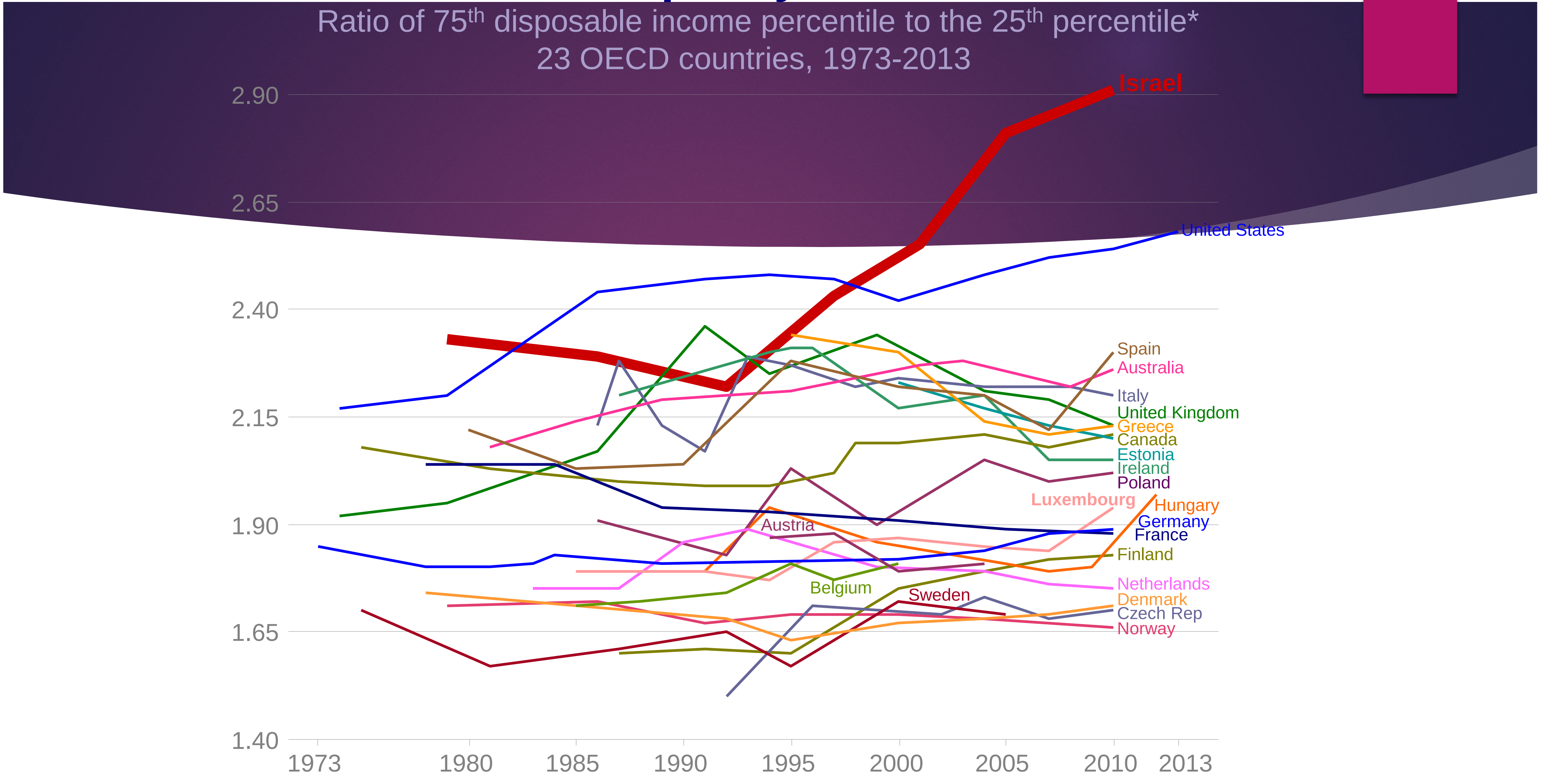


Source: Dan Ben-David and Sarit Menahem Carmi, Shoresh Institution

Data: Luxembourg Income Study

* Gini coefficient based on individual weights

Middle class income inequality: Cross Sectional Time Series



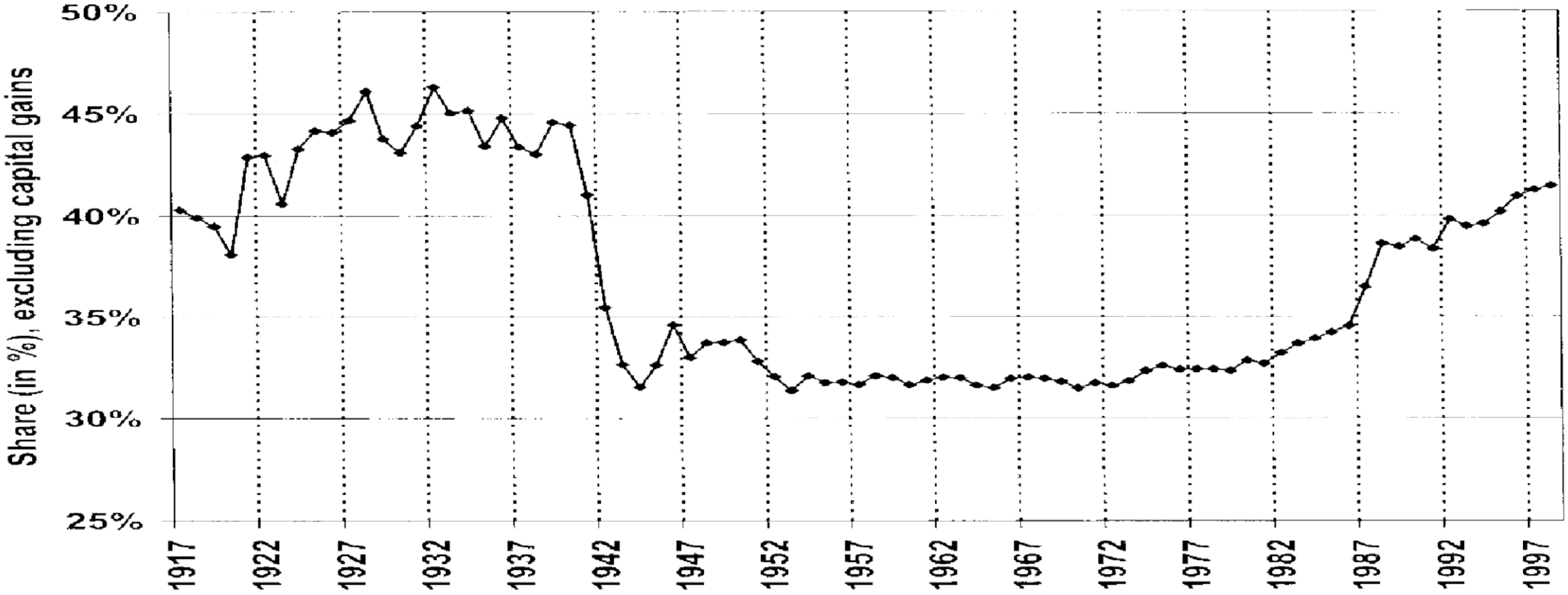
Source: Dan Ben-David and Sarit Menahem Carmi, Shoresh Institution

Data: Luxembourg Income Study

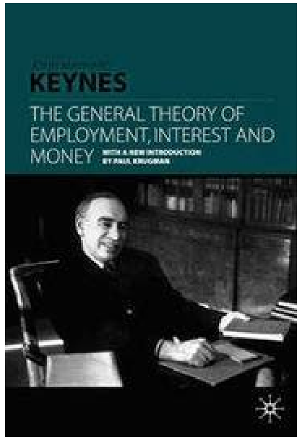
* based on individual weights

The middle class is no moving much, but the poor get poorer and the rich get richer

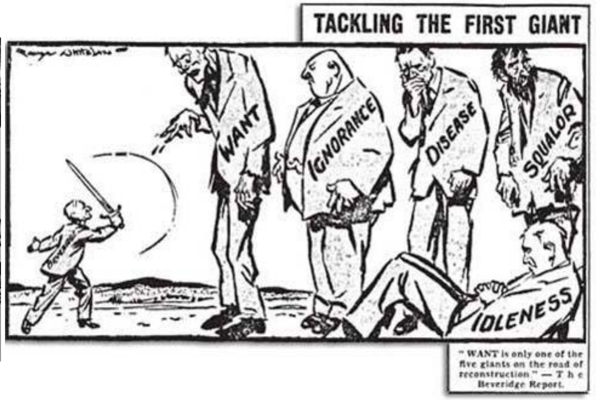
- Income Inequality in the United States, 1917-1998 (Piketty and Saez, 2003: 11)

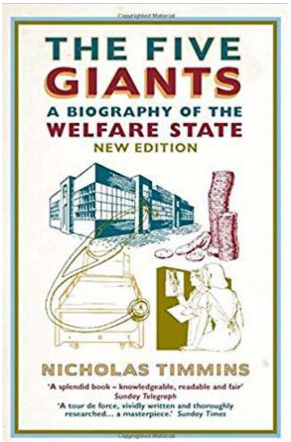


A Theoretical Duel between Two Giants



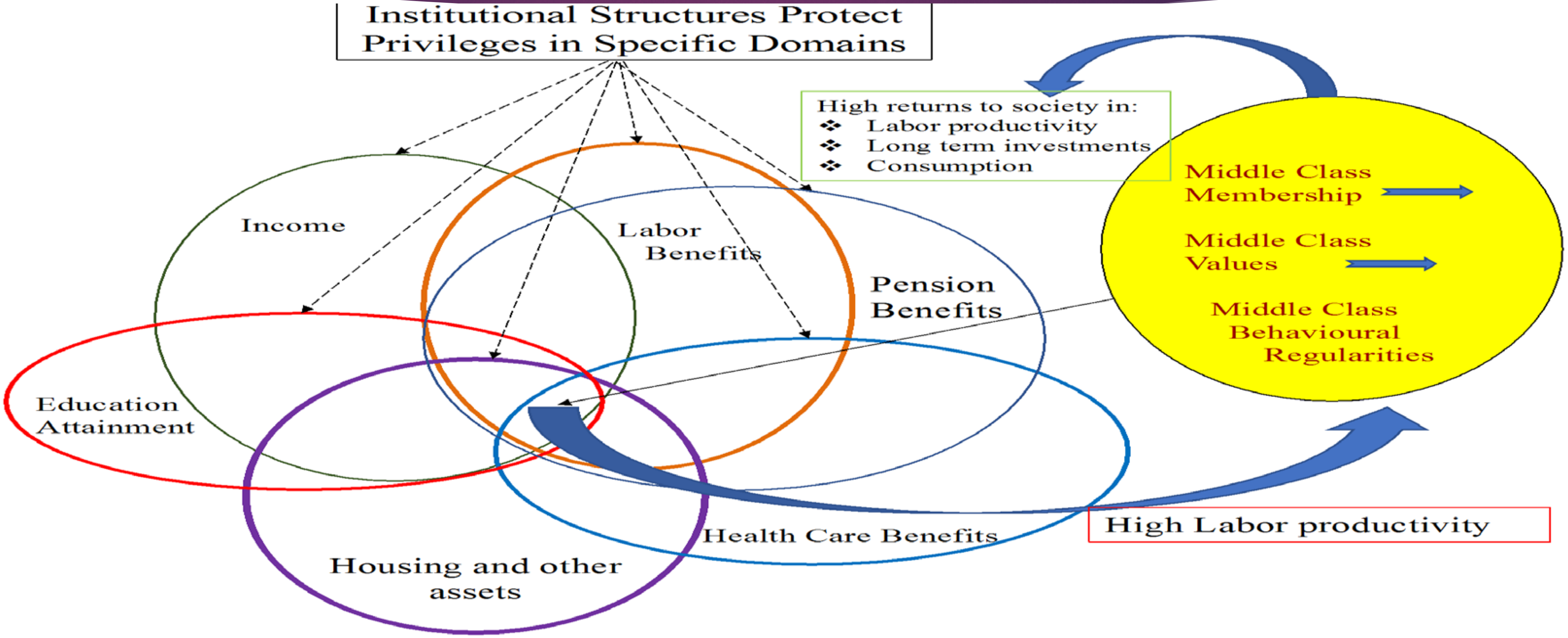
Provides an overarching theoretical framework for government spending in general, and for budgetary deficits, monetary intervention and counter-cyclical policies in particular. It posits some mistrust for the rationality of free-market decision making as Keynes denied that a free economy would automatically converge to full employment in equilibrium, as volatile and ungovernable psychology of markets would lead to periodic booms and busts.





The Report to Parliament on *Social Insurance and Allies* Services was published in November 1942. It proposed that all people of working age should pay a weekly national insurance tax. In return, benefits would be paid the sick, unemployed, retired or widowed. Beveridge argued that this system would provide a minimum standard "below which no one should be allowed to fall". It recommended that the government should find ways of fighting the five giants of Want, Disease, Ignorance, Squalor and Idleness.

A New Institutional Theory of the Middle Class



Empirical Evidence

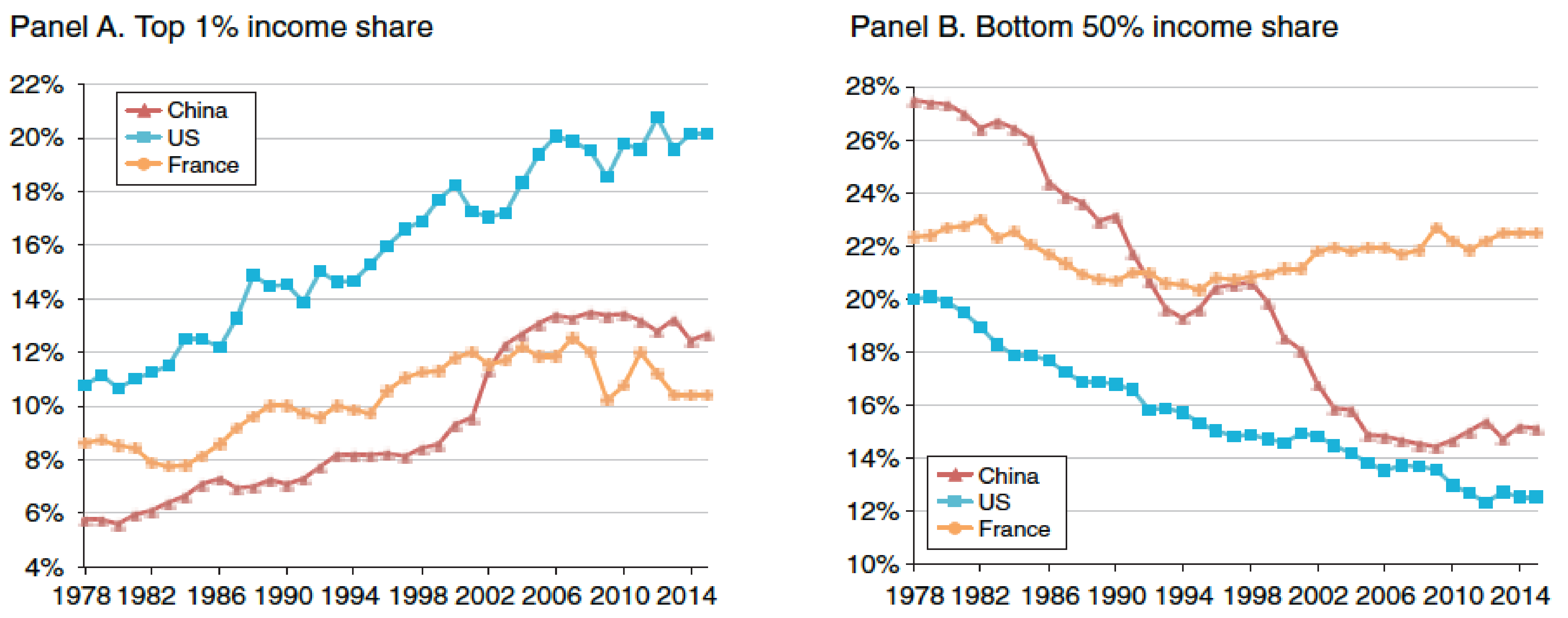


FIGURE 1. DISTRIBUTION OF INCOME IN CHINA, UNITED STATES, AND FRANCE, 1978–2015

Facundo Alexandro, Lucas Chancel, Thomas Piketty, Emmanuels Saez, Gabriel Zucman, 2017

Think about a bunch of us going out on a cruise

- Oxfam reports that the 62 wealthiest people in the world own the same amount as the least well off 3.5 billion, or 50% of the world's population.
- Further, the wealth of these 62 people increased by 44% between 2010 and 2015 while that of the bottom 3.5 billion fell by 41% over the same period.
- This is happening right now and we are not doing anything to stop or change it, mostly because we are not paying any attention to it.

From Physical to Human Capital Accumulation: The Changing Relation between Inequality and Development
Galor and Moav, 2004

- The Classical approach, originated by Smith (1776), Keynes (1920), Lewis (1954), Kaldor (1957), and Bourguignon (1981) argues that saving rates are an increasing function of wealth. Therefore, inequality channels resources towards individuals with higher marginal propensity to save.
- But as human capital emerged as a growth engine, equality starts stimulating rather than constraining the growth process.

Human Capital, Tangible Wealth, and the Intangible Capital Residual (Hamilton & Liu, 2018)

- Records of major corporations in every country include estimates of their tangible assets.
- Presumably the total income of every country is the return to investment embodied in the declared assets the country possess.
- If we assume a 'normal rate of return' the annual return to investment should be 5% and therefore the wealth, in total assets, of every country should be 20 times the GDP of the country. But data shows that the ratio is actually between 2.6 (not counting natural resources) and 6.6 (counting natural resource) So something is missing.
- The World Bank has therefore decided to compute net worth of the country by multiplying the GDP times 20 and subtracting from it the natural resources and other assets to get the residual that they then assign to the human capital and the intangible capital residual respectively.

Aggregate Estimates of Human Capital and Residual Intangible Wealth

Table 1. Shares of wealth by income aggregate, 2005

	Intangible	Produced	Natural
Low income	50%	14%	36%
Lower middle income	50%	24%	25%
Upper middle income	67%	17%	17%
High income: OECD	81%	17%	2%

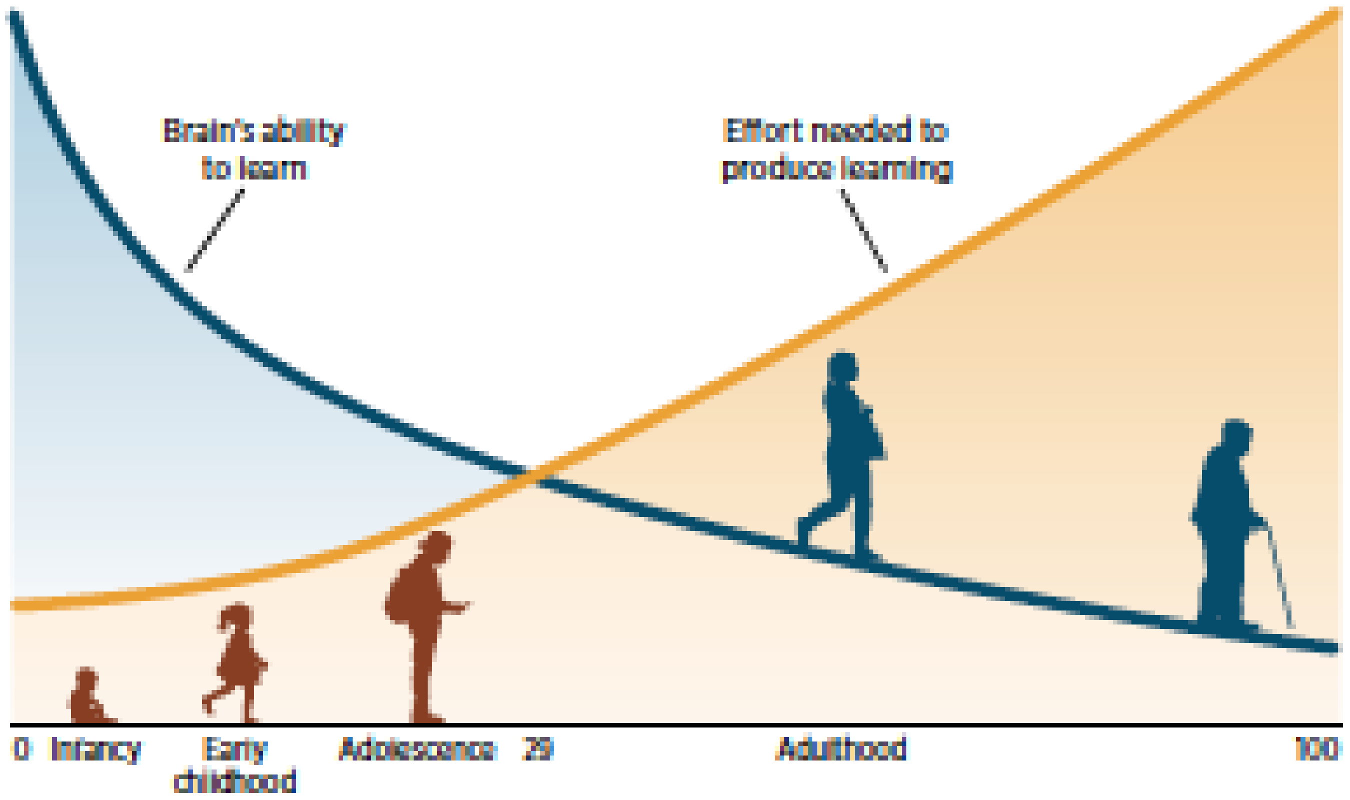
- **Source: World Bank (2011), *The Changing Wealth of Nations: Measuring sustainable development in the new millennium*, Washington DC: The World Bank.**
- According to the World Bank's national wealth accounting, the intangible capital – unexplained residual – constitutes an estimated 60% to 80% of the total wealth of nations.
- To better understand the composition of this residual, Ferreira and Hamilton (2010) treat human capital as a function of years of schooling (adjusted by survival rates).
- By this calculation, human capital is the most important component of intangible capital for all countries and especially so for high income countries.

Distinguishing Human Capital from the Residual Intangible Wealth

- Estimating the value of human capital using the lifetime income approach for a sample of 13 (mostly high-income) countries yields a mean share of human capital in total wealth of 62 percent—four times the value of produced capital and 15 times the value of natural capital.
- For select high-income countries there is still an average of 25 percent of total wealth unaccounted for— neither produced, nor natural, nor human capital.
- This is the residual intangible wealth, arguably the "stock equivalent" of total factor productivity—the value of assets such as institutional quality and social capital that augment the capacity of produced, natural and human capital to support a stream of consumption into the future.

What we need is not what we get

FIGURE 4.3 The brain's ability to learn from experience decreases with age



And of course, the rich grow richer, the poor stay behind … Tel us something we don't know for a change

Per capita wealth (US$)	1995	2000	2005	2010	2014
Low-income countries	11,601	10,435	10,240	11,802	13,629
Lower-middle-income countries	17,718	16,745	19,426	23,675	25,948
Upper-middle-income countries	51,142	57,623	66,224	93,811	112,798
High-income non-OECD countries	163,827	163,232	194,243	241,224	264,998
High-income OECD countries	547,419	614,791	653,078	672,866	708,389
World	128,929	138,064	145,891	158,363	168,580

Source: World Bank calculations.

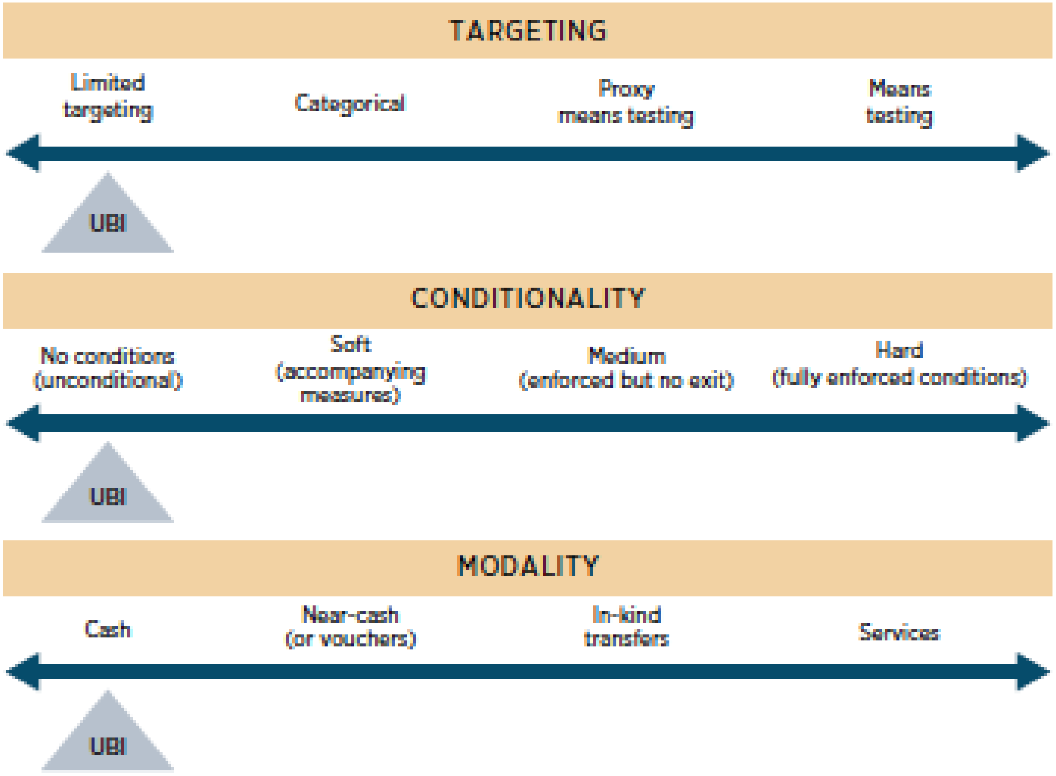
Note: OECD = Organisation for Economic Co-operation and Development. Figures for wealth are in constant 2014 US dollars at market exchange rates.

Final Quote for further thought for tomorrow…

- *"new instruments are needed to regain control over a financial capitalism that has run amok" (Piketty, 2014: 474).*

UBI?

FIGURE 6.2 A universal basic income (UBI) has limited targeting, no conditions, and is paid in cash to recipients



Where will the money come from?

- UBI provides the entire population with the same level of benefits, but where would the money come from?
- Progressive income tax – probably a bad idea.
- Variants of a UBI are in the United States, with the Alaska Permanent Fund is designed to redistribute oil revenues to all state residents. In 2016 the fund distributed about US$2,000 each to 660,000 Alaskans.
- Norway’s Social Welfare Fund is a variation on the same idea, even though it is not a UBI per say.
- So Natural Resource redistribution may be one way to go…

Can Blockchain Help?

- Let us talk about it…