

INCOME INEQUALITY IN THE BUILD UP TO THE GREAT RECESSION

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REFERENCES

- Wade, “The gobal slump: deeper causes & harder lessons”, Challenge, Sep-Oct 09
- Wade, “From global imbalances to global reorganizations”, Cambridge J. Econ, July 09
- Gavan Butler, Frank Stillwell, et al. Political Economy Now!, Uni Sydney press, 2009

Eccentric mix of news

- Financial economy: (1) bank profits, bonuses; (2) stock markets (G7, EMs); (3) currencies
- Real economy: World output contraction 2008-9. Prospects for output, employment. Jobless recovery (esp youth).
- Despite unprecedentedly large stimulus, fuelling financial economy
- Danger of double-dip recession as stimulus scaled back. Countdown to next crash?

CAUSES OF GREAT RECESSION

- (1) under-regulation (national; international: IMF, FSF/B, G20);
- (2) global macro imbalances + associated capital flows.
- (3) rising income inequality, national and global.

ROLE OF INCOME INEQUALITY

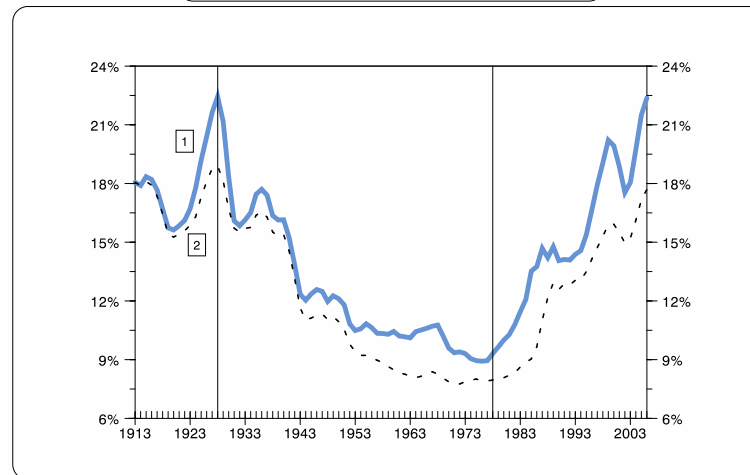
- Rising inequality → (1) richest households accumulate huge financial resources → risky “investments”; (2) middle quintiles in developed economies have stagnant incomes; (3) latter seek to boost consumption by borrowing; (4) democratic governments open credit floodgates; (5) get re-elected; (5) external deficits and surpluses increase.

GREAT DEPRESSION IN USA

- Explanation: during 1920s
- (1) US growth engine – new consumer durable industries
- (2) income inequality soared b/w 1922 and 1929: income of top 1% rose by 63%; corporate profits rose by 62%; 90% of households had stagnant income.

US: income share of top 1%, 1913 - 2006

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US: income of top 1%, middle 60%, bottom 20%, 1980 - 2005

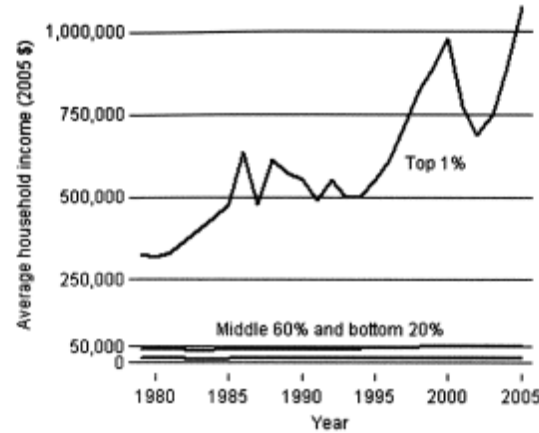


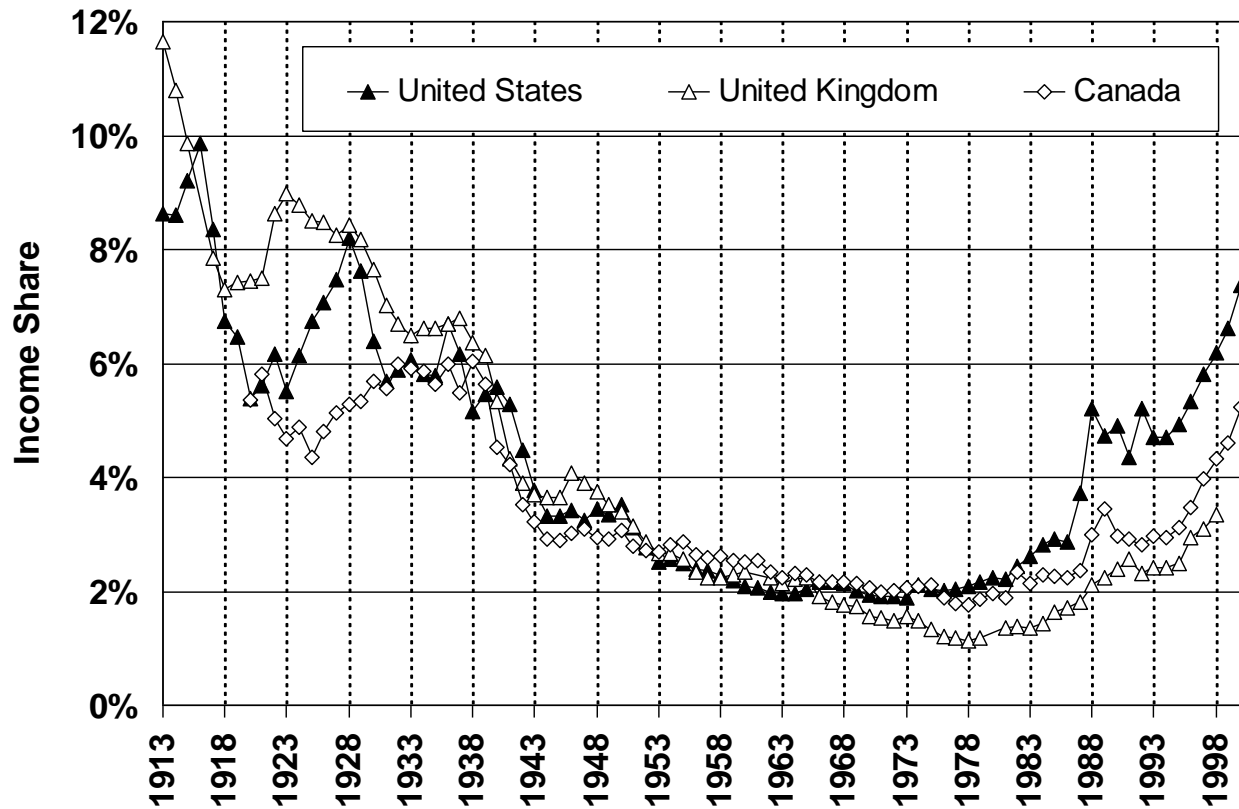
Figure 5. The Rise in American Income Inequality, 1979 to 2005

Source: Congressional Budget Office (2007).

Note: Posttransfer-posttax income.

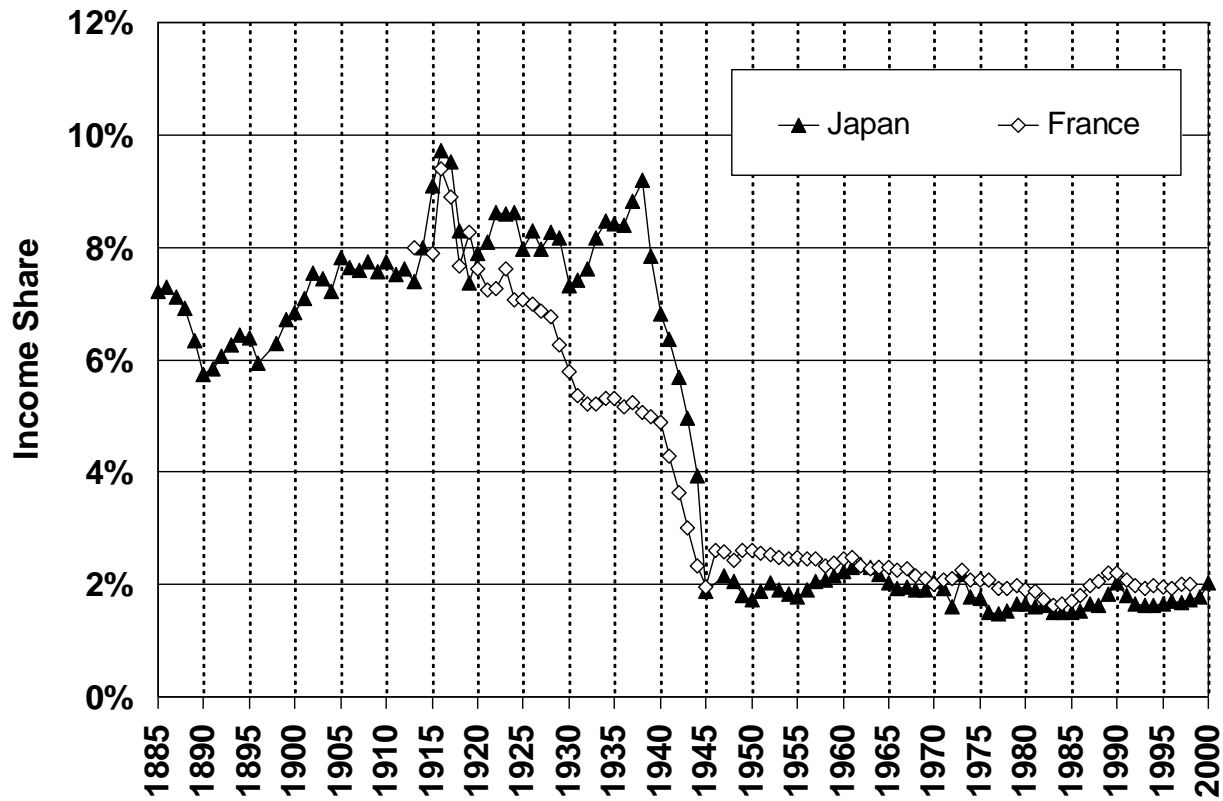
US, UK, Canada: top 0.1%, 1913 - 2000

A. Top 0.1% income share in English Speaking Countries

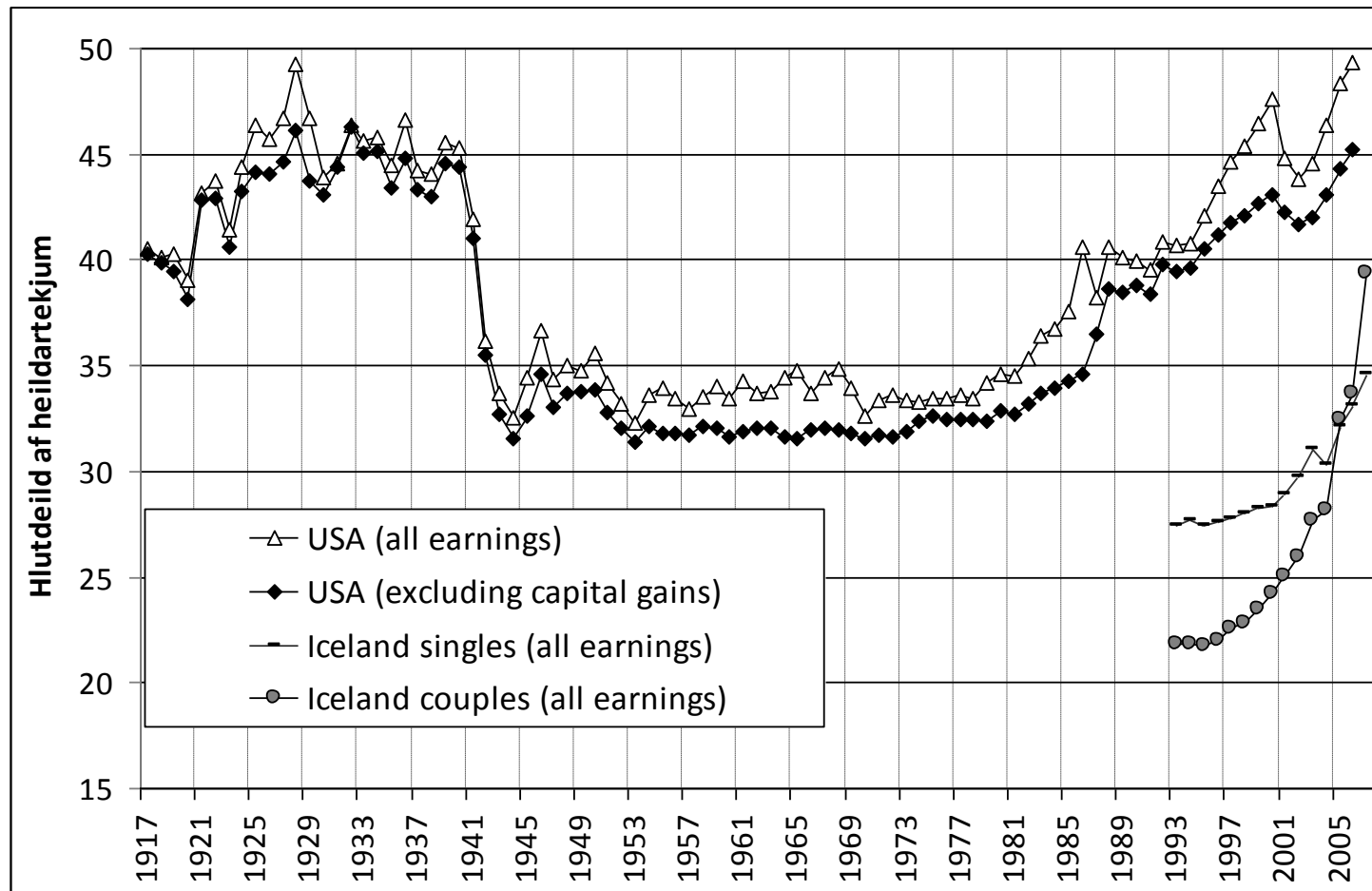


France & Japan: top 0.1%

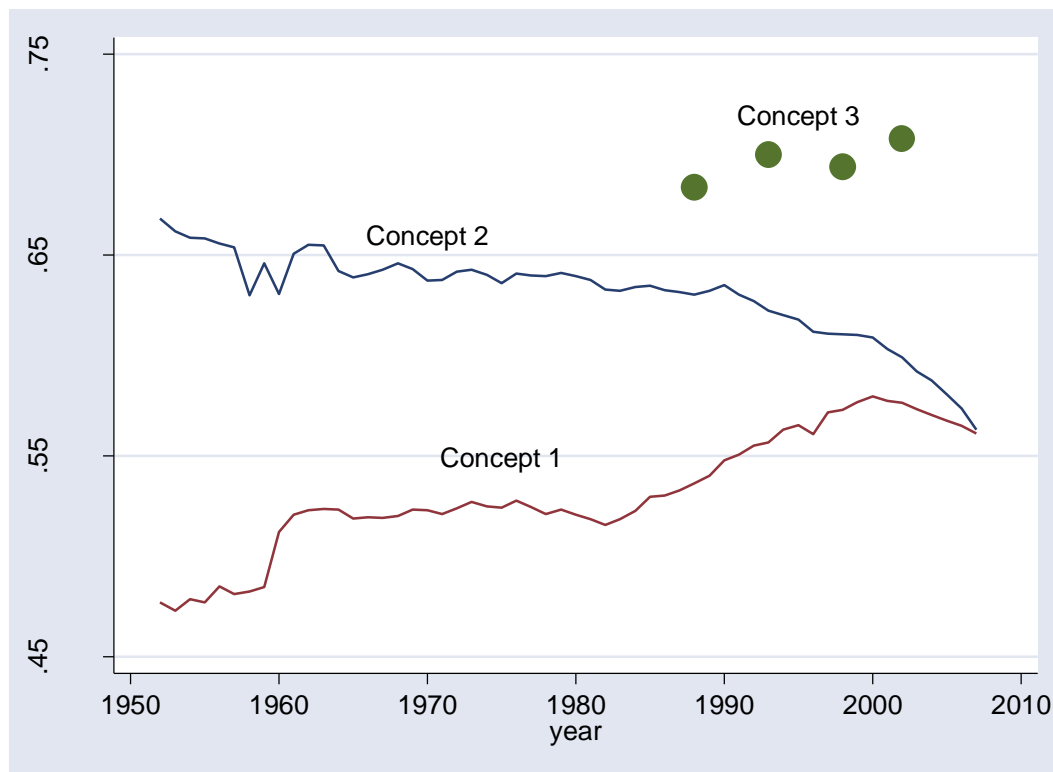
B. Top 0.1% income share in France and Japan



US & Iceland: top 10%



3 measures of international inequality, Gini, 2005 PPP data



Reducing chances of repeat slump: national action

- Tighter financial regulation: capital requirements, etc.
- Reduce income polarization b/w top few percentiles and bottom 90%.
- More progressive tax rates?
- Widen tax base + raise transfer payments.
- Active labor market policies to raise employment
- Raise minimum wage
- Reform corporate take-over laws to make hostile take-over more difficult

Reducing changes of repeat slump: international

- Reforms to weaken incentives on governments to compress wages and increase profits: EG
- Collective insurance against currency runs: IMF, regional insurance.
- Symmetrical pressure on external surpluses & deficits
- Capital controls
- Selective trade protection for developing countries short of foreign-exchange