

GLOBAL RISK, GOVERNANCE AND THE MOUNTING WEALTH GAP



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FACTS: THE JURY IS STILL OUT

- 2016 research report: World Bank re-definition of extreme poverty: moving from \$1,20 to **\$1,90/day**
- **10% of world population** still < poverty line (767 million down from 881 million in 2012), mainly in South Asia and Sub-saharan Africa
- Small number of countries experiencing declining inequality since 2008 (UK, Germany, US, Brazil, China)

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MYTH = GLOBALIZATION GENERATES GROWING ECONOMIC WEALTH AND WELL-BEING FOR ALL...



Fact: Economic growth boils down to rising GDP, that is **not** development!

- GDP says nothing regarding **wealth distribution** nor regarding inclusiveness and sustainability

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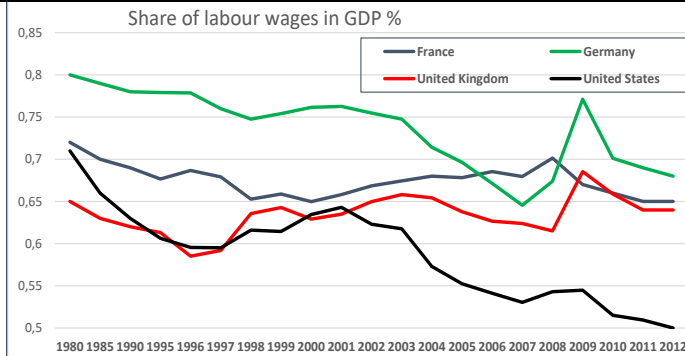


FACT: INCOME UNEQUALITY IS NOT A MONOPOLY OF DEVELOPING COUNTRIES!

1. GINI **index of revenue inequality** worsens for many OECD countries since the global financial crisis (including France)
2. Since the mid-1980s and the worldwide extension of the market economy, unprecedented **distortion** in value-added distribution in developed countries
3. Rising share of profits in **GDP/falling share of wages**: income equality has worsened

According to McKinsey, 2/3 of households in 25 advanced economies, the equivalent of 550 million people, had their wages and income flat or falling in 2015 compared with 2005.

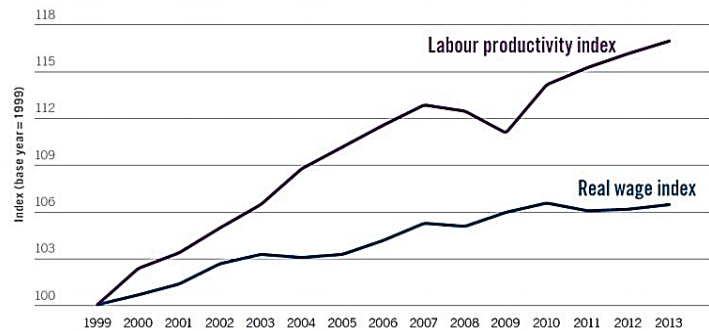
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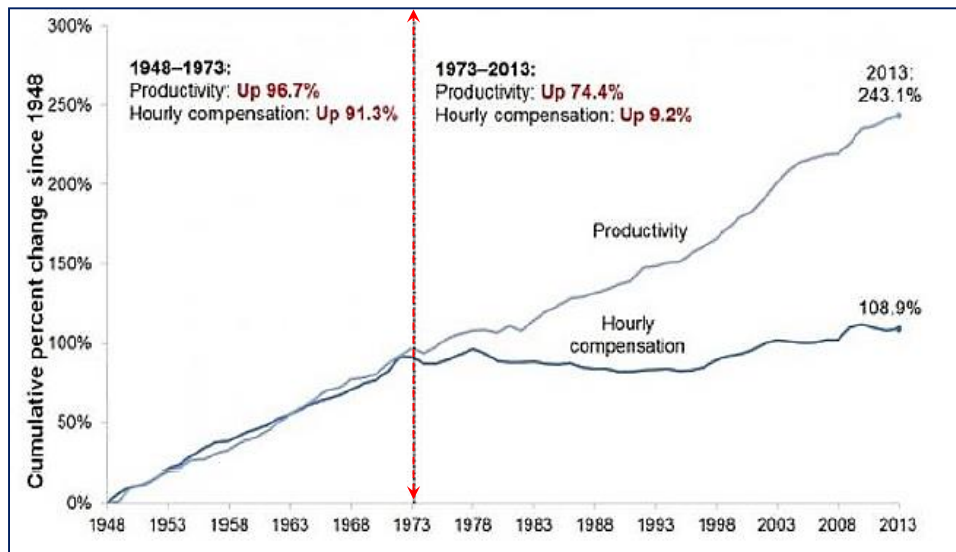
**FALLING
SHARE OF
WORK SALARY
IN GLOBAL
VALUE ADDED
1980-2015**

Scissor effect:
gap between
average wages
and labour
productivity in
the OECD

Source: OECD data



THE RACE BETWEEN WAGES AND PRODUCTIVITY IN THE US (AND MOST OECD COUNTRIES!)

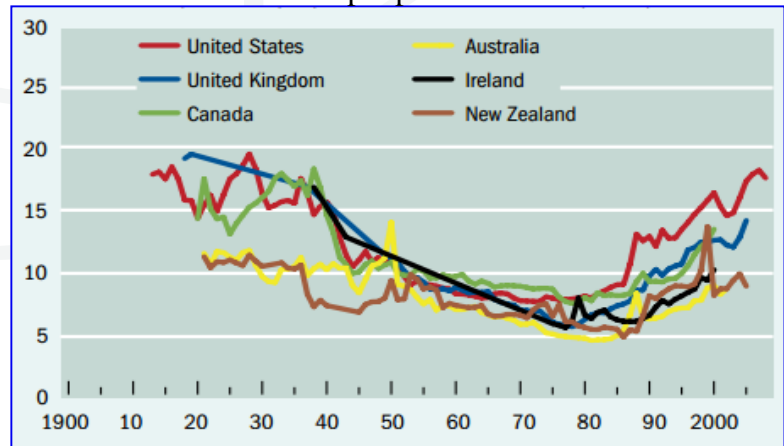


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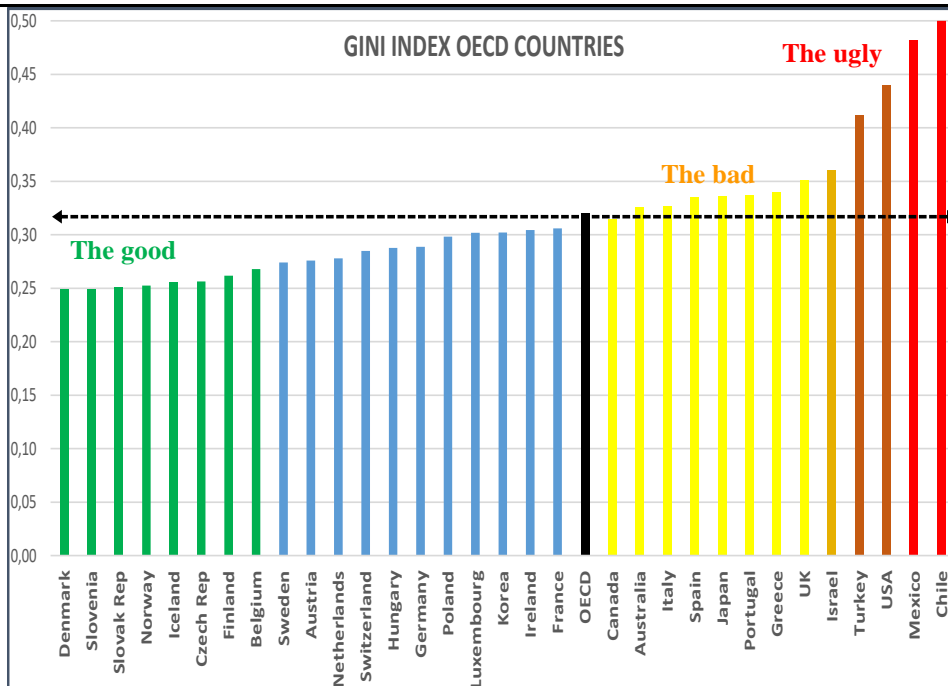
**GLOBALIZATION & INCOME INEQUALITY:
AFTER DECLINING IN THE FIRST HALF OF THE 20TH CENTURY,
INCOME INEQUALITY MAKES A COMEBACK!**

Share in income distribution
of top 1 percent

Hyperfinance's emergence
in the 1980s coincides
with the rising share of
income for capital owners
and top executives



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Source: IMF



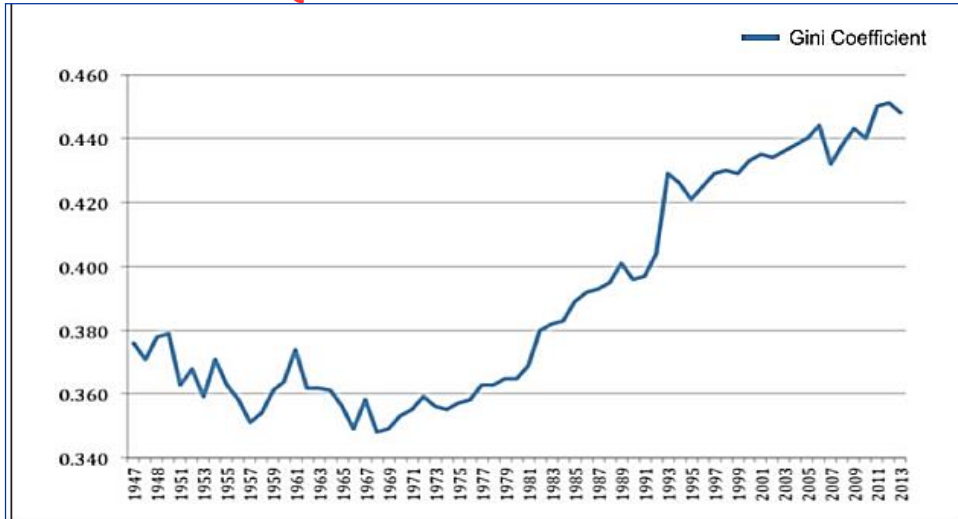
OECD 2016

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US FAMILIES' INCOME DISTRIBUTION GAP

GINI INDEX 1947-2015

= RISING INEQUALITY + SHRINKING MIDDLE-CLASS

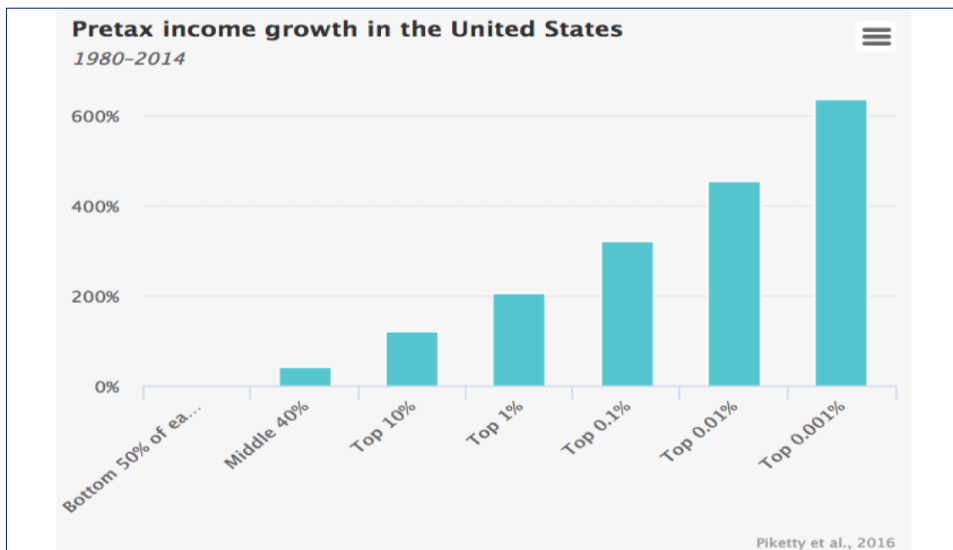


Source: U.S. Census Bureau, *Historical Income, Families*

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US REAL MEDIAN HOUSEHOLD INCOME 1980-2014

In 2010-15 growth has been slow, and big businesses and wealthy investors have been its major beneficiaries, rather than middle-class wage earners, but it has not been a job-less recovery with wage stagnation. However, median income is still <1999, and it does not say anything regarding distribution. Moreover, income is a flow and can hide wide wealth gaps.

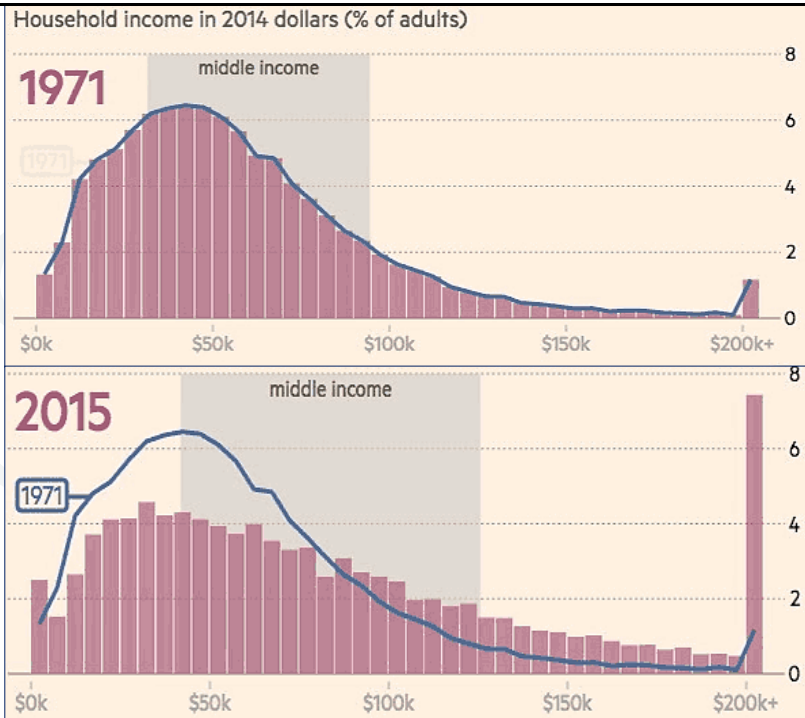


SOURCE: Chicago Booth

Piketty et al., 2016

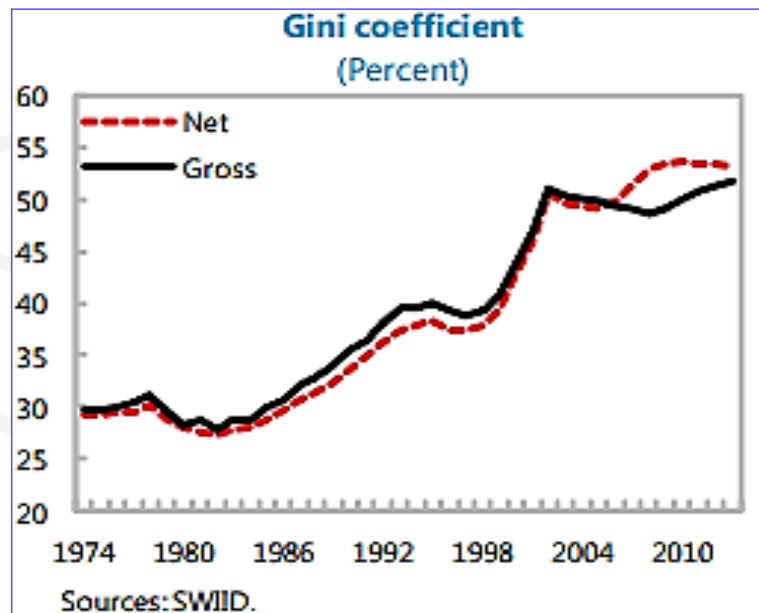
BUSINESS INSIDER

THE SHIFT IN US INCOME DISTRIBUTION 1971-2015



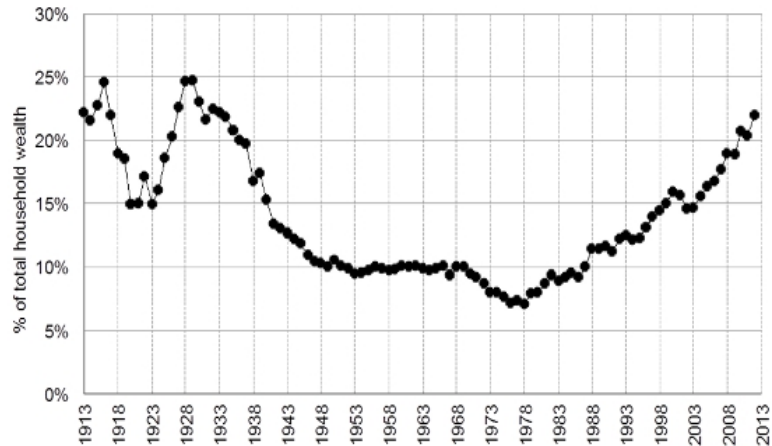
CHINA'S RISING WEALTH GAP

Gini coefficient
reaches 0,5



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US WEALTH ACCUMULATION: TOP 0,1% 1913-2013 = 22%



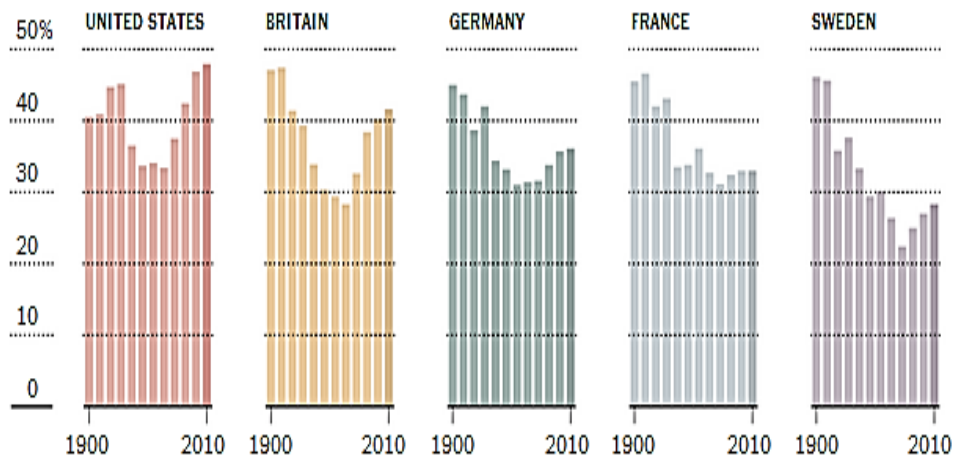
Notes: Wealth is total assets (including real estate and funded pension wealth) net of all debts. Wealth excludes the present value of future government transfers (such as Social Security or Medicare benefits).

Source: Saez, Emmanuel and Gabriel Zucman "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data", NBER Working Paper, October 2014, online at <http://gabriel-zucman.eu/uswealth/>

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RIISING GROWTH OF CAPITAL RETURN > ECONOMIC GROWTH RATE = LARGER INCOME INEQUALITY

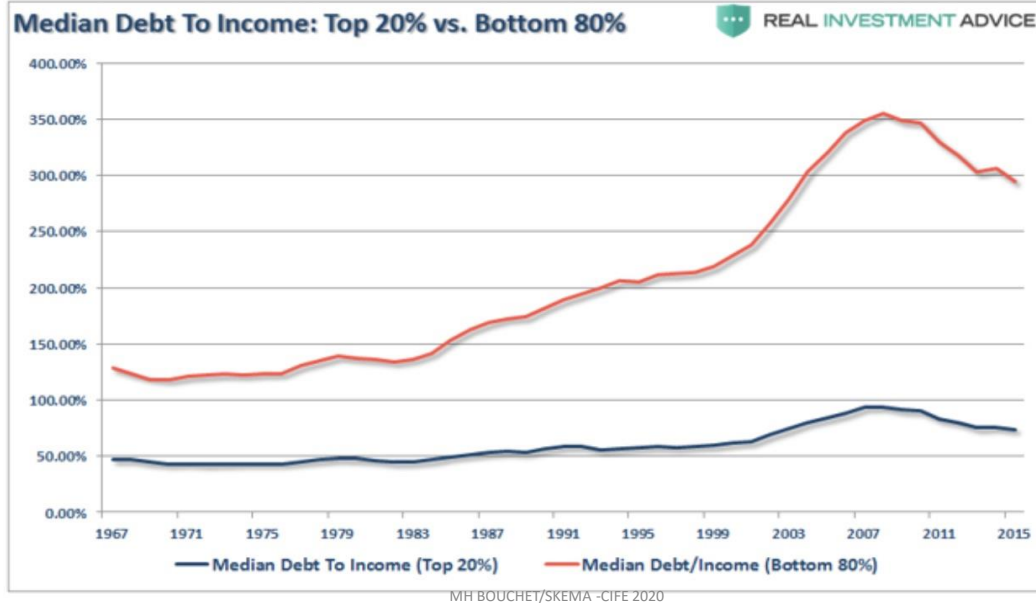
Share of total income of the richest 10 percent



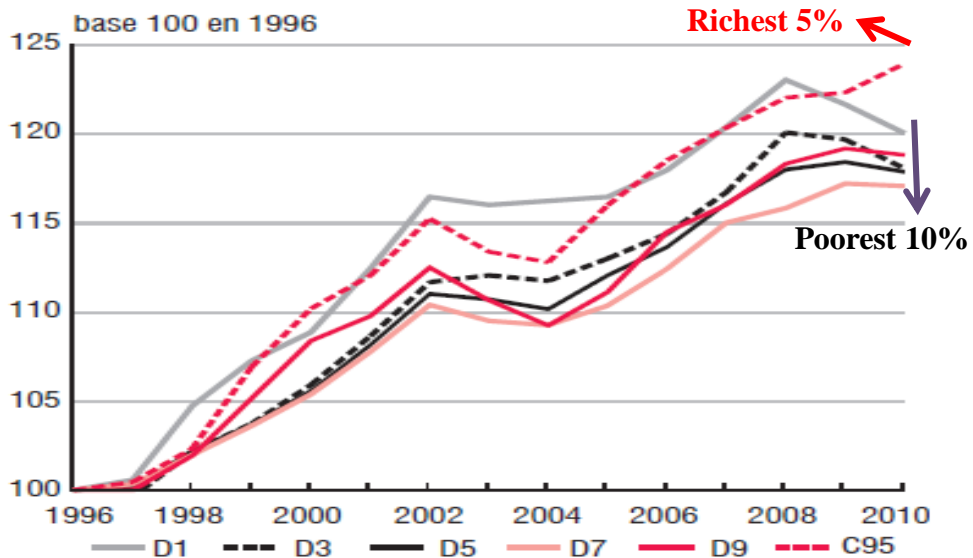
Source: T. Picketty 2014

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THE POOR IN THE US HAVE NOT BENEFITTED FROM MUCH DELEVERAGING: COMBINATION OF MEDIOCRE SOCIO-ECONOMIC PROSPECTS AND LARGE DEBT/INCOME RATIO!



FRANCE: EVOLUTION IN PER CAPITA INCOME BETWEEN 10% POOREST AND 5% RICHEST 1996-2010

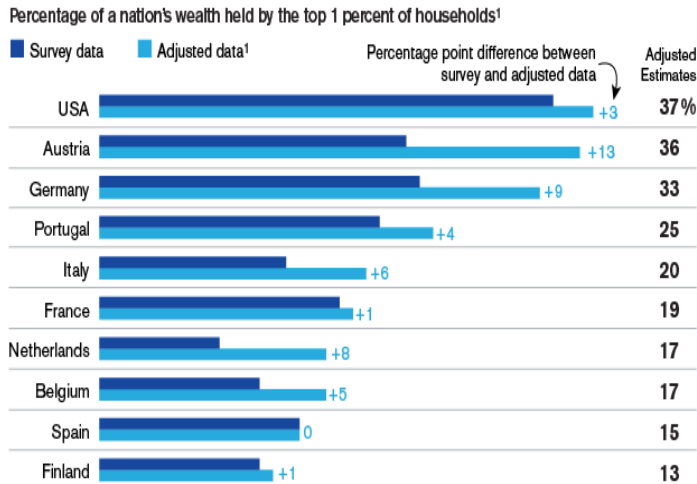


INSEE 09/2012

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How Rich are the Top 1 Percent, Really?

The wealth held by the top 1 percent of households is probably underestimated, according to an ECB paper that offers an adjusted estimate relying partly on Forbes Billionaires data.



¹ - One adjustment by Philip Vermeulan using a regression method and Forbes Billionaires data
Source: Philip Vermeulan at European Central Bank

Bloomberg Visual Data

ASSESSING WEALTH CONCENTRATION IN THE OECD

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WHAT TO DO, THEN? NO SILVER BULLET SOLUTION



► STIGLITZ

Capitalism is failing: Need of **fiscal stimulus** to boost consumer spending, minimum wage increase, and tax incentives for labour-intensive investment

☞ Kuznets and Liberal school
Patience! **Trickle-down economics**
Better education, life-long learning and retraining, labour market mobility, human capital investment

► PIKETTY

After WWII, « golden age » of capitalism, followed by **soaring inequality?**

= Global wealth tax



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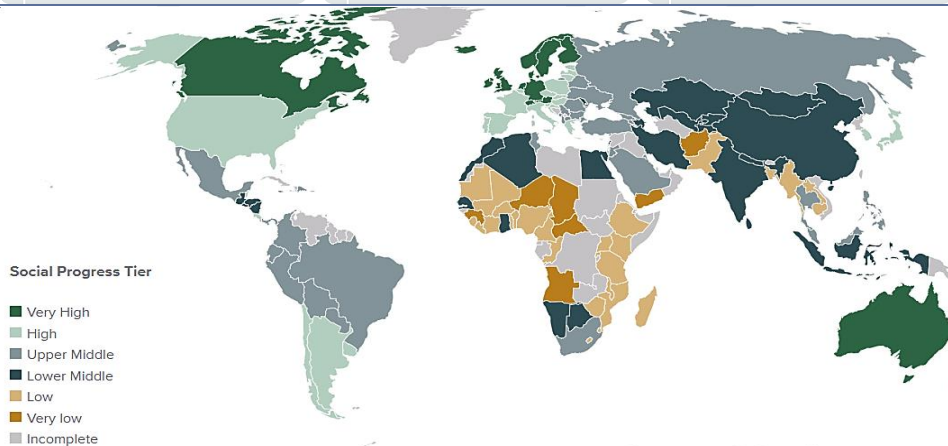
PIKETTY'S GROWING WEALTH GAP: RIGHT OR WRONG?

- ▶ **Rate of return k (5%) on financial assets $>$ g real economy's growth rate (2,5%) = rising share of K in GDP = growing inequality = patrimonial capitalism**
 - ▶ Rising value of K due to monopoly power, rents, stock markets, land value speculation
1. **However**, rate of return on K lower than assumed by Piketty
 2. Innovation and technology lead to temporary higher income for entrepreneurs
 3. Only real estate owners and not financial capitalists get richer and richer!
 4. Each and every « capitalist » is not a *rentier*
 5. Change in savings rate can offset change in income distribution
 6. Decreasing share of wages due to lower union membership and de-skilling process

Brookings Inst., 03-2015
IMF 08-2016

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MEASURING SOCIO-ECONOMIC PROGRESS ACROSS TIME AND ACROSS COUNTRIES?



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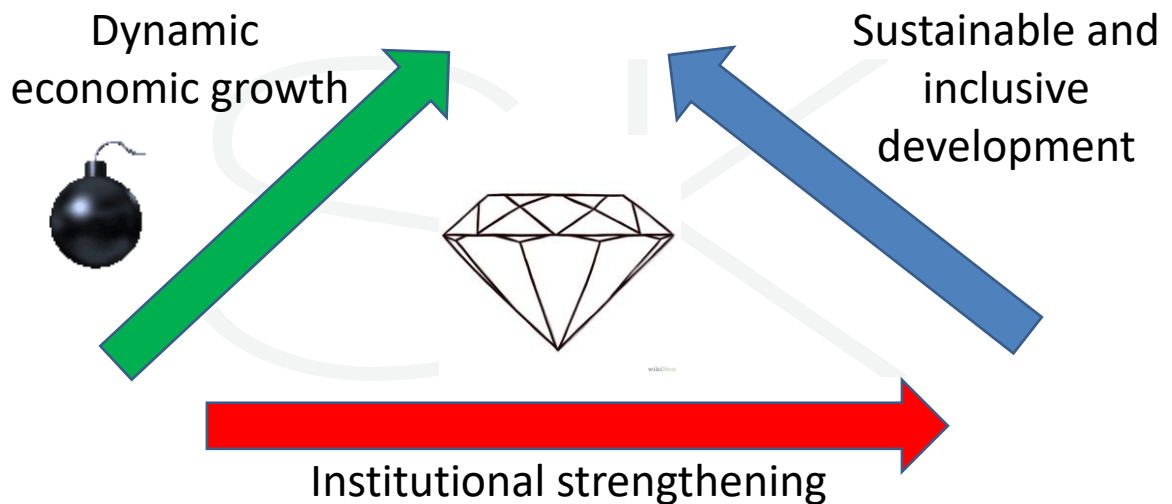
COUNTRY RISK HAS TO DO WITH INCOME DISTRIBUTION, WEALTH GAP, INCLUSIVE GROWTH AND SOCIO-ECONOMIC DEVELOPMENT!

SUSTAINABLE GROWTH REQUIRES SOCIAL MOBILIZATION AND POLITICAL STABILITY WITHIN A « NATION » RATHER THAN IN A « COUNTRY »

- Development = social inclusiveness
 Σ (policy choices + political choices)

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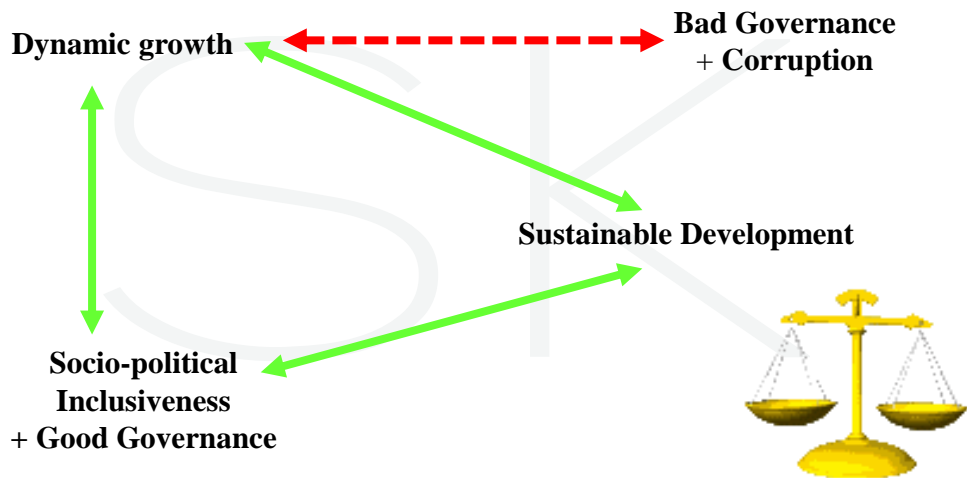
THE REQUIRED SOCIO-POLITICAL STABILITY TRIANGLE



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TRILEMMA OF GROWTH AND DEVELOPMENT?



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