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Inequality And A Solution's Missing Ingredient

Erik Sherman

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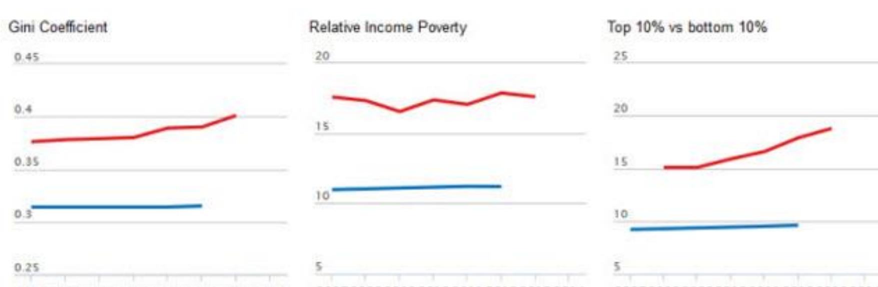
Inequality is enough of an ongoing problem that major financial institutions have more than noticed it. Some are spending significant time and resources in trying to understand it.

That's not understated criticism or sarcasm. On one hand, that equality exists and is a large economic problem would seem obvious. Income inequality is at an all-time high, says a new report from the Organisation for Economic Co-operation and Development. The top 10 percent of the population in the 34 OECD countries — largely the developed world — has half of total household wealth. The bottom two-fifths? Only 3 percent.

The result is a hammer on "social cohesion" as well as an estimated 4.7 percentage points of lost global economic growth between 1990 and 2010. Getting a bit more granular and parochial for a moment, the U.S. is close to the top of the 34 member states in Gini income inequality coefficient (a measure of uneven distribution of income), amount of poverty relative to median household income, and gap between the top 10 percent and bottom 10 percent. In the below graph, the US is represented in red, while OECD average is in blue.



It’s a stark difference. And, whether you embrace or repudiate a conservative viewpoint, there is something to be said about the Cato Institute’s observation — which came more than a year before Rep. Paul Ryan’s highly-criticized remarks along the same line — that despite enormous amounts have been spent on poverty, savage inequality has almost a biblical persistence. Yes, there is some questionable playing with numbers being done by those who want do away with many social programs that may have kept poverty levels from rising even higher.

But according to the OECD, the problem extends beyond official poverty to the lowest 40 percent on the economic ladder. According to the report, “If the bottom loses ground, everyone is losing ground.” There are that many more people who can’t save more, spend more, start more businesses, and invest more.

The report finds three factors contribute to income inequality:

- The growth of non-standard temp and part-time work (this is a third of employment in OECD countries) has kept many in bad economic straits.
- Although women working has helped slow income inequality, a pervasive income gender gap has limited that contribution.
- Too much concentration of wealth leaves the bottom 40 percent with little to invest or high debt, limiting the contribution they can make to the economy.

The OECD has a three-pronged suggestion for improving the situation. One is to institute equal pay for equal work regardless of gender. A second is to focus on skills and education to give those who are disadvantaged a chance to break through. The third idea is a tax-based transfer to redistribute wealth and ensure that benefits keep pace with real wage growth.

There is plenty of room for criticism of at least the last two proposals. Economic status correlates strongly with the chance that someone will graduate from college, and other forms of education, including trade schools, might offer greater economic benefit for many. Tax-based redistribution may help government revenue targets more than those toward the bottom of the economic scale because that doesn’t get them making more.

But there’s a larger over-arching criticism: The OECD missed something basic. For anything to work, the rule of law has to apply evenly and with equal weight for all. As James Kwak points out, there is a pervasive lawless culture in Wall Street, where “if you ain’t cheating, you ain’t trying.”

Given the many cases of malfeasance that we’ve seen among corporations over the decades, it seems unlikely that the problems are limited to Wall Street. In fact, Kwak tells a story of a company to which he consulted that was “well-managed” enough to discipline its conversations to avoid language that might act as a goad to antitrust regulators. The Street is just particularly sloppy at many levels. Top bank managers aren’t implicated because they drive a culture of greed and are careful never to ask inconvenient questions.

Talking about reform at any level is laughable until those in power realize that they can’t get away with whatever they want. Unless and until that begins to happen — until more people in charge, the executives who would claim responsibility for all success, are held accountable just as hapless regular citizens are, nothing will change. They will subvert or prevent any changes because it is in their favor and because they can. If you want change in the system, you have to change its propensity to offer help and pity to the captains of industry who need it least.