

# Growth, Equity, and Work

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Prospect – Joseph Rowntree Poverty Lecture

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# Reasons to be worried about high inequality

- **Ethically unacceptable** to many people
- Undermines **social cohesion**
- Undermines **democracy**
- Leads to **social unrest, crime, and violence**
- Leads to inferior **social outcomes** (e.g., health, teenage births, educational achievement) – independently of the sheer effect of higher inequality producing a higher number of poor people, who are bound to perform worse in these regards.
- Creates barriers to **social mobility**, thereby creating a sense of injustice among the talented coming from underprivileged backgrounds and harming economic growth by misallocating talents.

# The origins of the 'trickle-down' argument



**Yevgeni Preobrazhensky**



**Josef Stalin**



**David Ricardo**

# Inequality has risen hugely in the UK and the US ...

- In the US
  - top 1% took 10% of income in 1979
  - in 2006, they took 23%, although this share has fallen slightly to 21% by 2011.
- In the UK
  - top 1% used to take just over 5% in the mid-1970s
  - today it takes over 10%
  - In the 1960s and the 1970s, the UK was one of the most equal countries in the rich world, more equal than Germany, the Netherlands, and all the Nordic countries at the time, but it is now one of the more unequal countries in the OECD.
  - Increase in poverty - the proportion of UK population under poverty line (defined as 60% of median income) used to be 13-4% in the 60s and the 70s, but since the 1980s it has risen to 17-22%.

## **... but it has failed to raise investment and growth**

- Despite taking more than twice what they used to take in proportional terms, the top 1% in the US and the UK have failed to deliver higher investments or higher growth.
  - In the 1960s and the 1970s, the UK economy invested between 18% and 22% of GDP.
  - Since the 1980s, it invested only 16-18% up to the 2008 financial crisis, except for a few years during the Lawson boom (the late 1980s and the early 1990s), and has been investing only 14-15% since then.
- Between 1960-80 and 1980-2013, per capita income growth rate in the UK has fallen from 2.5% to 1.8%.
- In the US too, investment as a proportion of GDP has fallen since the 1980s and economic growth has fallen (from 2.5% to 1.7%).

# Is rising inequality inevitable?

- Switzerland is one of the most open economies in the world (except in agriculture) and is one of the most automated, but the country's income inequality has fallen in the last few decades.
  - Gini fell between 1982 and 2004 from 0.31 to 0.27
  - Gini fell between 2008 and 2013 from 0.311 to 0.285 (another data set)
- Between 1990 and 2000, inequality fell in Germany, France, Denmark too, although less than in Switzerland.
- Several Latin American countries have seen reduction in income inequality in the last decade, but many of them have seen their economic growth accelerating (Argentina, Bolivia, Brazil, Ecuador, Uruguay, Venezuela)
  - Argentina: Gini from 0.54 to 0.44; Growth rate from 3% to 6% between 2003 and 2012
  - Ecuador: Gini from 0.55 to 0.47; Growth rate from -0.1% to 3%
  - Bolivia: Gini from 0.60 to 0.47; Growth rate from 1.5% to 2.9%
  - Uruguay: Gini from 0.46 to 0.41; Growth rate from 2.7% to 5.5%

# Can we do anything about inequality? I

- Many European countries – Germany, France, the UK, Ireland, Italy, Belgium, Sweden, Finland, Greece, Spain – are MORE unequal than the US before they tax and redistribute income.
  - In 2011, Germany's Gini coefficient was 0.512, compared to 0.508 of the US, but after tax and redistribution, it fell to 0.293, while the US saw its Gini coefficient fall only to 0.389.
- Before tax and redistribution, these countries can have Gini coefficients that are higher or very similar to that of the US but they reduce them by 30, 40, or even 50% through tax and redistribution.
- Even in the US, with one of the smallest welfare states in the rich world, Gini coefficient is reduced by 20-25% through redistributive policies.

# Can we do anything about inequality? II

- Countries can limit the very ability of the market to generate inequality through formal regulations or informal business practices.
  - Pre-redistribution, South Korea (Gini 0.34) is by far the most equal country in the OECD, but post-redistribution it is somewhat below the OECD average (Gini of 0.31)
  - Laws protecting small farms, small shops, and small manufacturing companies
  - Business customs that reduce the gaps between managers and workers (relatively low managerial salaries, exposure of managers – and not just workers – to corporate restructuring).

# Work-related issues I

- **Unemployment**
- Unemployment is not just about the loss of income – it is about our dignity or even about health.
- We need to make employment a policy priority that is more important than inflation, which has been the obsession of policy-makers in the recent period.
- **Quality of employment**
- Involuntary part-time workers 1.9% of the workforce between 1998 and 2005, but 8% in 2012 and 2013.
- The share of self-employment in total employment is, at 15%, now way over the historical norm of 12.6% (1984-2007), most of whom are self-employed out of necessity.

# Work-related issues II

- **Job security**
- The 2010 European Social Survey (ESS): a third of British workers fearful of losing their jobs (together with Ireland, the highest sense of job insecurity in Europe)
- **Quality of work**
- The 2010 ESS: a quarter of British workers have had to do less interesting work since the crisis.
- The 2012 Skills and Employment Survey (SES): British workers are now working with much greater intensity than before the crisis, with the proportions of jobs requiring high pressure, high speed, and hard work all rising significantly between 2006 and 2012.

# Work-related issues III

- **Commuting**
- Britons spend the longest hours in commuting in Europe, with the quality of transport deteriorating due to lack of investment in infrastructure.
- More and more people are working while they commute, at least in part to cope with increased workload.