

Income and Wealth Inequality – Tipping Point?

Nothing happens without enterprise. Nothing happens without labor. There is at least the perception, that in the past few decades, and certainly accelerating into the past few years, enterprise has had the upper hand. 3 decades of falling interest rates have certainly helped enterprise through cheap funding while returns to savers have steadily diminished but funding costs are a side show. A paradigm shift is behind the steady rise of inequality. Under a purely capitalist, market economy, the strong thrive and the weak do not. Social security and welfare are socioeconomic band aids cobbled together to address the survival of the weak, or the unlucky. It takes an exceptionally enlightened capitalist elite not to over-exploit labor. Post the Great Depression, with the rise of labor unions and the rise of Communism, the capitalist elite were circumspect in dealing with labor. The fall of Communism has, among other things, removed the need for any pretense by removing Capitalism's nemesis and alternative. It has also contaminated the capitalist model but that is another story. On purely mathematical grounds and importantly ignoring important limitations and behavioral phenomena, a pure free market economy is efficient. However, it implies that the strong will thrive and the weak may not survive. The world has by and large adopted the free market, with modifications for political imperatives, and added an element of basic social welfare to address the social tail risks. That social welfare is tail risk management is fair enough, however, the neglect and mismanagement of social welfare, such as healthcare and pensions is illustrative of their importance in the grander scheme of things. Income and wealth inequality have increased steadily all over the world to a point at which cracks are beginning to appear. Gini coefficients have risen in Communist, Socialist and Capitalist economies. Labor's share

of GDP has also steadily fallen across most countries in the world. It is interesting to note that while wealth and income inequality has worsened within countries, they have improved between countries. The likelihood of tensions between countries is therefore likely to have diminished while the tensions between different strata within the same country is likely to have increased.

Recent political protests which have arisen independently across the world have been attributed to various grouses such as the rising costs of living, environmental issues, corruption, austerity measures and poor employment prospects. Very often an event is precipitated by one issue and evolves towards other issues. It is possible that the people are protesting inequality in general but struggle at defining their true complaint. Perhaps the issue is sufficiently broad and ill defined and as a result the manifestations are sufficiently diverse as protesters struggle to focus. Be that as it may, there is a serious underlying problem that will eventually seek a solution. Is enterprise the only road to wealth? Is labor sufficiently compensated for its efforts?