The Dramatic Rise in Wealth Inequality*

Prabhat Patnaik

Oxfam has just produced a report in which it highlights the dramatic increase in wealth inequality that is occurring in India. The basic data it uses are from Credit Suisse which regularly brings out a Global Wealth Databook; and according to Credit Suisse the top 1 percent of the population in India cornered 73 percent of the additional wealth generated in the year 2017.

This is an incredible figure in itself. What is more, this percentage, which refers to the latest year, is higher than the overall figure that had prevailed prior to this year, which was 58 percent. The percentage at the margin being higher than the average percentage means that the average itself, already extremely high, is in the process of rising still further.

Growing wealth, and income, inequality, is not a phenomenon confined to India alone. It is a world-wide phenomenon which has now started worrying even the top leaders of the capitalist world who gather every year at Davos for the World Economic Forum. The threat of social instability that such growing economic inequality poses has placed it as a major item on the Davos agenda.

But where India stands out is that the growth of inequality here has been more rapid than elsewhere in the world, so much so that it now ranks among the most unequal societies anywhere. Compared for instance to the figure of 58 percent of total wealth that the top 1 percent owned in India prior to 2017, the corresponding figure for the world as a whole was 50 percent. And even though for the world as a whole the top 1 percent owned 82 percent of the addition to wealth in 2017 compared to 73 percent for India, the level of wealth inequality in the world will continue to remain below that in India in the foreseeable future.

What this suggests is that the underlying reason which is boosting wealth inequality everywhere is operating with even greater intensity in India. And this reason has primarily to do with the pursuit of neo-liberal economic policies. The growing wealth, and income, inequality is a necessary feature of neo-liberal capitalism. The "spontaneous" tendency of capitalism to produce "wealth at one pole and poverty at another" which had been somewhat restrained in the post-war years through State intervention, in response to the socialist threat and to the growth in working class strength that capitalism faced at the end of the second world war, has been reintroduced with a vengeance now, under neo-liberal capitalism.

There are at least five obvious ways in which neo-liberal capitalism boosts wealth inequality. The first is through the increase in income inequality that it brings about. Since the ratio of income that is saved (and hence added to the stock of assets) is greater for higher income groups, a shift in income distribution in favour of the latter increases both the overall ratio of savings (and asset formation) in total income, and also the share of the top asset-owners in total assets.

An example will make the point clear. Suppose, to start with, that the top 10 percent of the population owned assets worth 250 and earned an income of 50, while the bottom 90 percent had an asset of 50 and earned an income of 50; and suppose the former habitually save half of their income while the latter habitually save 10 percent of their income. Then the top 10 percent would save 25 and the bottom 90 percent 5, so that each group's asset grows by 10 percent, and there is no rise in wealth inequality.

But now if income distribution becomes 60 for the top 10 percent and 40 for the rest, then with the same savings ratios, the growth in assets is 34 or 11.3 percent of the pre-existing level; the top group's asset growth is 12 percent while the bottom group's asset growth is 8 percent. The top group's share in total assets increases from 83 to 84 percent. And if the increase in income inequality continues then the share of the top 10 percent would continue to rise.

The tendency under neo-liberalism is to keep worsening income distribution. This is because the number of jobs created under it falls woefully short of the number of job-seekers, which increases the relative size of the reserve army of labour, so that wages remain tied to a subsistence level even as labour productivity increases. The share of surplus accruing to the rich therefore keeps increasing over time under neo-liberal capitalism, entailing an increase in income, and hence wealth, inequality.

In the above example we assumed that the ratio of savings to income of each group remains unchanged when income distribution changes. In fact however consumption tends to be relatively sticky when income changes, in which case in the above example the savings of the top 10 percent would increase to 35 when their income rises to 60 (since consumption remains fixed at 25), and the savings of the bottom 90 percent would fall to minus 5 since their consumption remains 45 even as income falls to 40. In this new situation then, the share of the top 10 percent in total wealth increases from 83 to 86 percent.

This tendency for an increase in the share of wealth of the top percentiles becomes particularly pronounced when there is an absolute decline in the incomes of the bottom percentiles. And one reason among others why this happens in a neo-liberal regime is the privatization of essential services like education and healthcare which also makes them more expensive, so that the poor have to deplete their meagre stock of assets even to be able to afford a particular level of access to these services. This therefore is the second way in which a neo-liberal regime contributes to an increase in wealth inequality.

The third way in which a neo-liberal regime accentuates wealth inequality is through an intensive process of primitive accumulation of capital which it unleashes upon the economy. Through a variety of means, ranging from an outright takeover of petty property, including peasant property, (or its purchase "for a song"); to encroachment on common property; to appropriation of State property (which is built up through taxes imposed on ordinary people); to the sheer filching of bank credit from the public sector banks (what is commonly referred to as a build-up of their "Non-Performing Assets"), the big capitalists increase their share in the total wealth of the economy.

In fact primitive accumulation increases wealth concentration in two ways: one has just been discussed; it supplements the effect of what Marx had called "centralization of capital. The other way is that by squeezing peasants and petty producers it forces them out of their traditional occupations to migrate to cities where they join the ranks of the job seekers and hence swell the relative size of the reserve army of labour; this accentuates income inequality for reasons already discussed, and hence wealth inequality.

The fourth way that neo-liberalism promotes wealth inequality is by handing over tax concessions and tax breaks to the rich in the name of promoting higher economic growth. Such concessions directly increase wealth inequality. In addition since they are balanced by reducing government expenditure on education and healthcare, and thereby directly or indirectly privatizing these essential services, they contribute to the impoverishment of large segments of the ordinary people, which as we saw earlier, also increases wealth inequality.

The fifth way in which wealth inequality increases under neo-liberalism is through the formation of asset price bubbles. Speculative booms on the stock market or on other asset markets give a boost to the value of assets, because of which the top percentiles which figure prominently among the asset-holders find the absolute value of their wealth, and hence their share in total wealth, increasing quite sharply within a very short period.

This however raises a moot point. To what extent can an increase in the absolute amount of wealth and its share in the total caused by such a speculative boom be considered genuine? After all, just as a speculative bubble can boost the wealth of the top percentiles, the collapse of the bubble can reduce their wealth overnight; why then should a bubble-based increase in wealth inequality be a cause for concern?

It does however become a cause for concern because, again under a neo-liberal regime, governments try to prevent a collapse of the bubble (which would have seriously adverse repercussions on the economy) by sustaining it through various means. These range from fiscal support (such as what Obama had pledged in the U.S. to stem the effect on the financial system of the collapse of the housing bubble), to the commoditization of elements of nature like water and air (so that new profitable assets are introduced to keep the boom going), to the privatization of government assets such as "spectrum"(with the same objective). Hence the view that wealth acquired through an asset market bubble constitutes only fictitious wealth and should not therefore be a cause for concern, does not necessarily hold.

To be sure, wealth estimates, and hence estimates of wealth distribution, are fraught with a host of statistical difficulties. But, notwithstanding such difficulties, there is no gainsaying the fact that something extremely serious for our democracy and freedom is occurring through the extraordinary rise in wealth inequality.

*** This article was originally published in [The Citizen] on January 24, 2018.**