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It's time to demolish the myth of trickle-down economics

The gap between rich and poor is reaching new extremes. Credit Suisse recently revealed that the richest 1% have now accumulated more wealth than the rest of the world put together.

Rating 8

Qualities
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Background

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It’s Time to Demolish the Myth of Trickle-Down Economics

Max Lawson • World Economic Forum © 2016

Economics / Economic Theory

Take-Aways

- Since 2000, the poorest 50% of the world’s population has captured just 1% of the increase in global wealth, while the top 1% of the population has captured 50%.
- Though the number of people living in extreme poverty fell by half between 1990 and 2010, the reduction would have been more significant if inequality had not grown.
- The migration of wealth toward capital rather than labor is one critical reason for the expanding income gap. Workers are receiving a diminishing share of national income as the wealthy squirrel away capital and watch it grow.
- By one estimate, individuals hold some $7.6 trillion in offshore accounts, an amount that exceeds the entire GDP of Germany and the United Kingdom combined.
- By avoiding taxation, the wealthy shift the burden of supporting government budgets and services to others, and the poor suffer disproportionately.

Recommendation

The richest 1% of the world's population now possesses more wealth than the remaining 99%. This milestone underscores the yawning chasm between the rich and the poor. Income inequality is destined to continue unless government policies and tax laws change, according to Oxfam's Max Lawson. The evidence he presents will strengthen the arguments of those who rail against the wealth gap, and his thesis is powerful enough to win a few converts from among those who believe the issue is overblown. *getAbstract* recommends Lawson's enlightening article to executives, economists and anyone interested in the worldwide impacts of the extreme wealth disparity.

Summary

According to a recent study, since 2000, the poorest 50% of the world's population has captured just 1% of the "total increase in global wealth," while the top 1% of the population has captured 50%. Since 2011, the combined wealth of the bottom 50% has dropped by $1 trillion. But not everyone is concerned about such vast levels of inequality. Some observers believe that globalization has made a positive impact on world poverty rates. Indeed, the number of people living in extreme poverty fell by half from 1990 to 2010, but another 200 million people would not be impoverished today if wealth inequality had not widened, and that number would climb to 700 million if poor people had gained more than the wealthiest have from economic growth. Instead, the poorest 10% of the world's population saw their per capita earnings grow less than $3 per year over a period of roughly 25 years. This translates into a daily income increase of less than one cent each year. The wealthy posted huge gains over the same period, and no evidence suggests any sort of trickle-down effect.

> *"There is no getting away from the fact that the big winners of globalization are those at the top."*

Tax havens and portfolio managers virtually guarantee that the assets of the richest people remain protected from the government. By one estimate, individuals hold some $7.6 trillion in offshore accounts, an amount that exceeds the combined GDP of Germany and the United Kingdom. The migration of wealth toward capital rather than labor is one critical reason for the expanding income gap. Workers are earning a diminishing share of national income in nearly all developed countries and in most developing ones, as the wealthy squirrel away capital and watch it grow through appreciation, interest and dividends at rates much faster than the economy's growth. Tax avoidance strategies and favorable tax rates on capital gains enable the wealthiest to keep even more of their earnings. Meanwhile, wages for the average worker have stalled since 2009, while CEO salaries have surged by 54%.

> *"Instead of an economy that works for the prosperity of all, for future generations and for the planet, we have instead created an economy for the 1%."*

Since the 1980s, deregulation, "financial secrecy," tax avoidance and economic policy reforms have widened the gap between rich and poor. Moreover, the "globalization of finance," which permits the free movement of money across borders, has given the wealthy tools to hide vast stores of assets. By avoiding taxation, these individuals shift the burden of supporting government budgets and services onto others, and the poor suffer disproportionately. Reforms to benefit the majority rather than a small minority are urgent.

About the Author

Max Lawson is head of advocacy and public policy at Oxfam Great Britain.

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