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WHY IS INEQUALITY SO UNEQUAL ACROSS THE WORLD?

PART 2.

THE DIVERSITY OF INEQUALITY IN MARKET INCOME – AND THE INCREASING ASYMMETRY BETWEEN THE DISTRIBUTION OF INCOME BEFORE AND AFTER TAXES AND TRANSFERENCES

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This is a two-part paper. Part 1 addresses the diversity in the distribution of disposable income across the world; and Part 2, that in market income (i.e., before taxes and transferences). There are many underlying questions to these phenomena: does the diversity of inequality in disposable incomes reflect a variety of fundamentals, or a multiplicity of power structures and choice? Is rising market inequality the product of somehow ‘exogenous’ factors (e.g., $r > g$), or of complex interactions between political settlements and market failures? If the latter, how do we get through the veils obscuring these interactions and distorting our vision of the often self-constructed nature of inequality? Has neoliberal globalisation broadened the scope for “distributional failures” by, for example, triggering a process of “reverse catching-up” among OECD countries, so that now highly unequal middle-income countries like those in Latin America embody the shape of things to come? If so, are we all now converging towards features such as mobile élites creaming off the rewards of economic growth, and ‘magic realist’ politics that lack self-respect if not originality? (Should I say, ‘Welcome to the Third World’?) In Part 1 I also develop a new approach for examining and measuring inequality (distance from distributive targets). In turn, Part 2 concentrates on three issues: why there has been such a deterioration of market inequality among countries of the OECD, why this has led to a growing asymmetry between their distributions of market and of disposable incomes, and why inequality seems to move in “waves”. The main conclusion is that to understand current distributive dynamics what matters is to comprehend the forces determining the share of the rich — and, in terms of growth, what they choose to do with it (and how they are allowed to do it).

Why is inequality so unequal across the world?

Part 2: the diversity of inequality in market income – and the increasing asymmetry between the distribution of income before and after taxes and transferences

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Inequality is a choice
Joseph Stiglitz

I am my choices
Jean-Paul Sartre

Introduction

As suggested in Part 1 of this two-part paper, perhaps one of the most important analytical failings of current economic theory (despite recent significant progress) is our modest understanding of inequality, especially why there is such a huge diversity of inequality across the world, and why there has been such an enormous deterioration of market inequality among the OECD countries.² Indeed, Krugman (2011) identified the latter as one of the two greatest analytical challenges today.³ This paper attempt to address some of these conundrums: Are contemporary patterns of market inequality the product of somehow 'exogenous' factors (e.g., stocks of assets, such as human capital and knowledge, and their degree of adaptability to the new technological paradigm, the impact of a 'fundamental force of divergence', such as $r > g$)⁴, or a new cycle of Milanovic's "Kuznets waves";⁵ or are these patterns mainly the outcome of complex interactions between political settlements and market failures? And if the latter, how do we get through the set of veils which typically obscure these interactions, and could easily distort our vision of the often self-constructed nature of inequality? Finally, has the current neoliberal era broadened the scope for greater inequality by exacerbating 'distributional failures' around the world?

In order to address these questions, in this two-part paper I shall look at nine distributional stylised facts of the current spectrum of inequality; and four relate to market inequality. After identifying several layers of misunderstanding, I shall categorise seven types of 'distributional failures', and four of them relate to market inequality. Basically, I suggest that globalization and financialisation⁶ triggered a new process of 'unequalisation' across the OECD, which resembles a 'reverse catching-up' with highly unequal middle-income countries (such as those in Latin America), in the sense that the latter countries now seem to show the

² For Part 1, see Palma (2019 c).

³ Latin America's perennial underperformance is the other (I give a tentative answer to this conundrum below). For recent contributions, see Atkinson (2015); Bourguignon (2015); Galbraith (2016); Milanovic (2016); Ocampo (2019); Palma (2011 and 2016a); Piketty (2014); Scheidel (2017); Taylor (forthcoming 2020).

⁴ r = return on capital; g = growth of income.

⁵ Milanovic (2016).

⁶ By 'financialisation' I understand the rise in size and dominance of the financial sector relative to the non-financial sector, as well as the diversification towards financial activities in non-financial corporations.

advanced ones the shape of things to come. We are all indeed converging in market inequality, but we are converging towards features typical of highly unequal countries, such as mobile élites creaming off the rewards of economic growth, and 'magic realist' politics that lack self-respect if not originality. I shall conclude that in order to understand distributive dynamics in either type of inequality, what really matters is to comprehend the share of the rich — and, in terms of economic growth, what they choose to do with that share, and how they are allowed to do it.

I shall conclude that inequality is a particularly complex (and surely over-determined) phenomenon, which is often blurred by layers of distorting veils which sometimes make it resemble a hall of mirrors (which often conceal its frequent arbitrariness). If this essay helps to make inequality more transparent by clarifying some of these layers of possible misunderstanding, it may hopefully help us take more responsibility as society for our distributional choices.

1.- The distribution of 'market' income across the world: 'market' vs 'social' distributional outcomes

No overall analysis of inequality, of course, can ignore market inequality (that is, inequality before taxes and transfers). In this Part 2 of the paper, I analyse the four main stylised facts of market inequality, and in doing so I identify four distributional failures.

i).- Stylised Fact 1: Significant deteriorations in market inequality since the 1980s have been confined to the OECD, Eastern Europe and Russia, and China and India

The first stylised fact of market inequality is that significant deteriorations since the 1980s have occurred in just three groups of countries: the OECD; Eastern Europe and Russia; and China and India (Table 1).

TABLE 1
Market and disposable income Ginis, c. 2016 vs. c. 1985

	Difference between 2016 and 1985	Difference between 2016 and 1985	2016	2016	2016	1985	1985	1985
	Gini market	Gini disposable income	Gini market	Gini disposable income	Relative reduction of market inequality	Gini market	Gini disposable income	Relative reduction of market inequality
OECD* (16)	7	4	49	30	38%	42	26	37%
EE & Russia (13)	7	6	46	30	35%	39	24	38%
China & India	10	9	48	44	8%	38	35	8%
S Af.* (2)	4	3	68	60	12%	64	57	11%
LA (16)	-3	-3	47	44	7%	50	47	6%
Rest of World (43)	0	0	45	39	14%	45	39	14%
World* (92)	2	1	47	38	19%	45	37	18%

• OECD* includes 16 countries with increased inequality; S Af* = Botswana and South Africa.

• Source: Solt (2018). Unfortunately, Solt only provides Ginis, giving no information on income shares by deciles; it is not possible, therefore, to use the methodologies developed above to analyse market inequality.

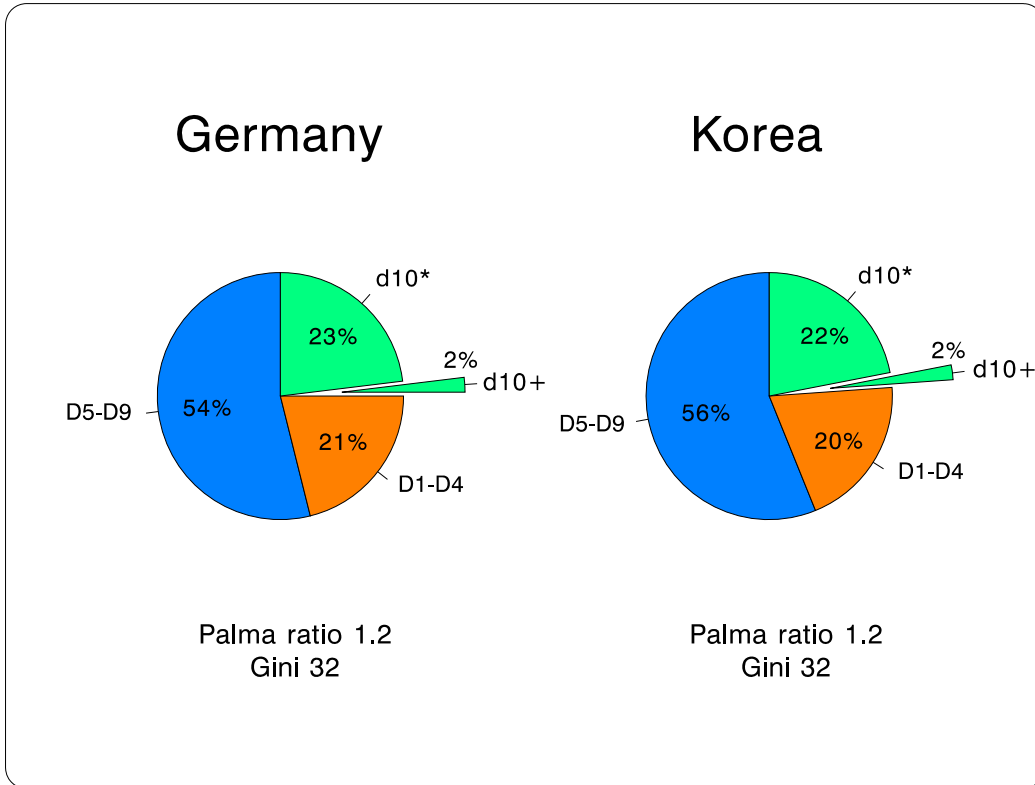
As Table 1 indicates, in the 92 countries for which Solt (2018) provides information from c.1985, market inequality increased significantly in these three groups of countries. It also continued to increase in Southern Africa. Meanwhile, 'the rest of the world', on average, has had no increase in either form of inequality, while Latin America had a relatively minor improvement on both of its huge Ginis. I shall analyse these issues in the following sections.

ii).- Stylised Fact 2: Most OECD countries attain a low level of disposable income inequality via a tortuous route

When we look at market vs. social distributive outcomes, high-income countries now reach low levels of disposable income inequality via two very different routes – one of them being a rather tortuous one. Figures 1 and 2 show the similarities and contrasts between Germany and Korea. In terms of resemblances, their disposable incomes have identical Palma ratios and Ginis (Figure 1).

FIGURE 1

The Distribution of Disposable Income in Germany and Korea

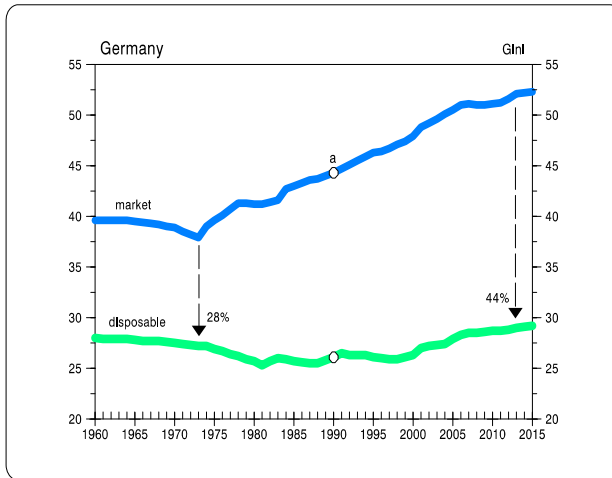


• Sources: WDI (2019).

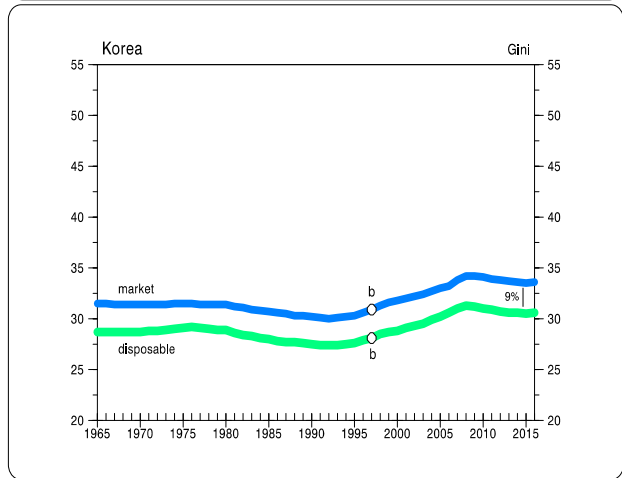
However, this remarkable similarity hides a major difference in how they got there, with Germany's route being far more convoluted than Korea's: in order to get to a disposable income Gini of about 30, Germany needs a relative reduction of its market Gini of 44 per cent, while Korea needs a decrease of just 9 per cent (Figure 2).

FIGURE 2

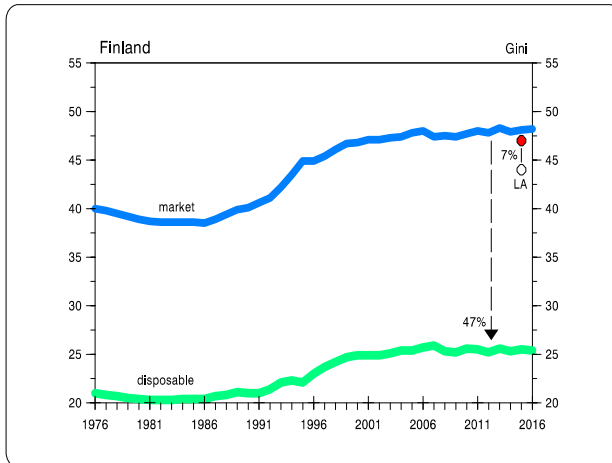
How sustainable is the growing gap between market and social distributive outcomes?



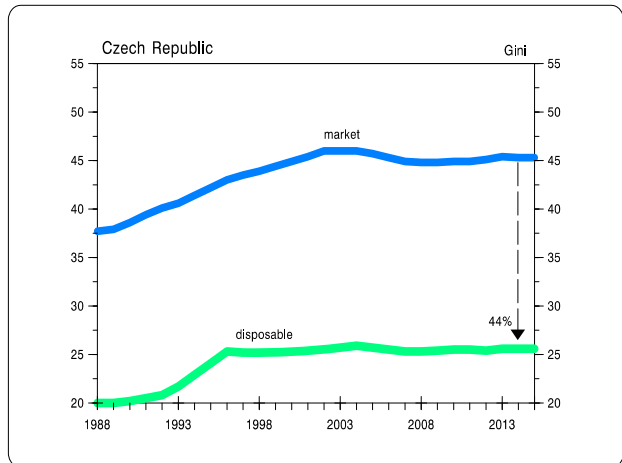
Others prefer not to use their fiscal resources to subsidise high market inequality



Does it make any sense to aim at Latin American levels of market inequality?



How sustainable is Eastern Europe's massive redistributive effort as well?



• **LA** = Latin America's average market and disposable income Ginis; **market** = market Gini; **disposable** = disposable income Gini. **a** = German reunification; and **b** = Korea's 1997 financial crisis.

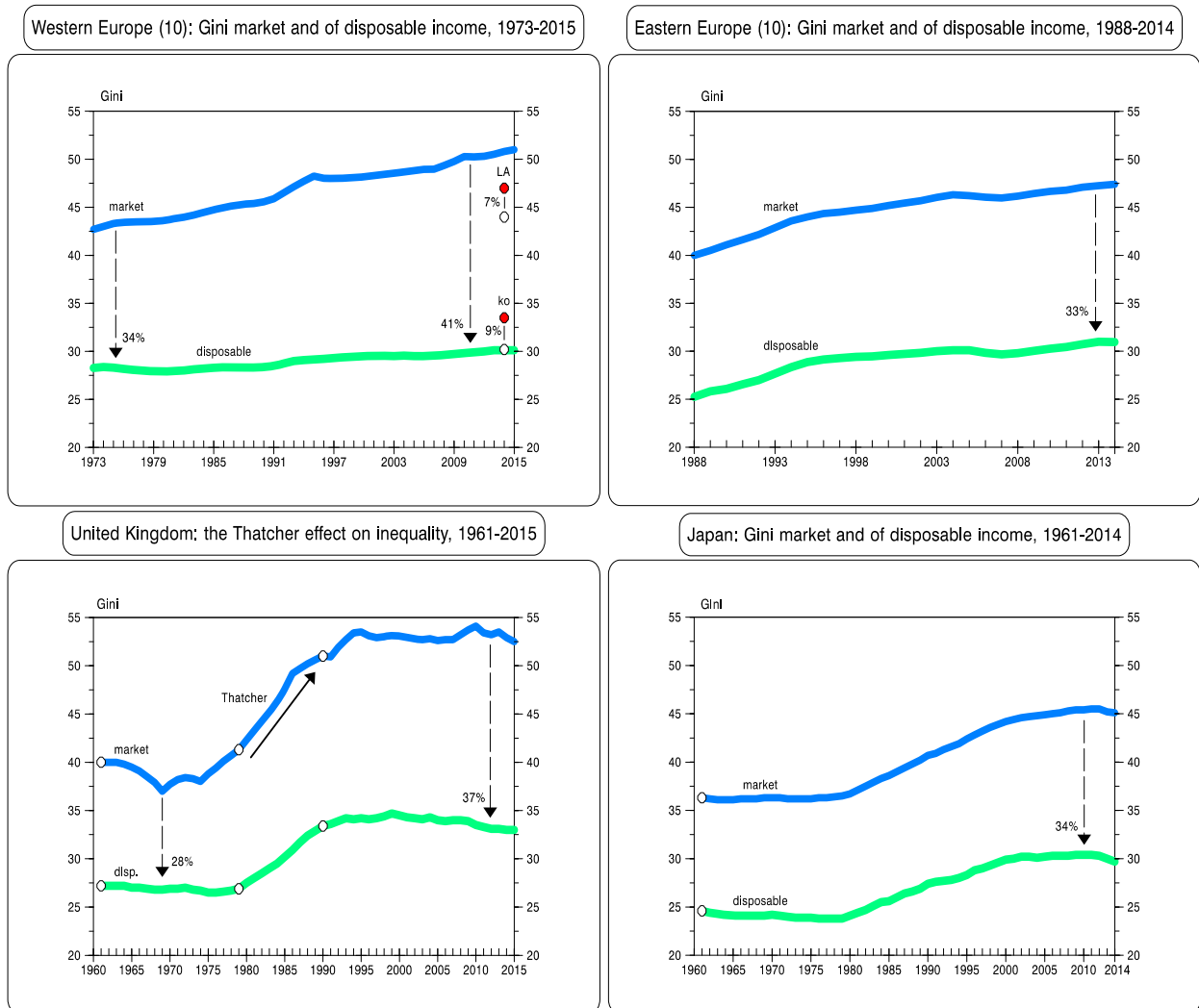
• *Source*: Solt (2018). Unless otherwise stated, this will be the source of all figures in this Part 2 of the paper.

Germany's market inequality started its relentless increase around the 1973 oil crisis, the stagflation that followed and the associated radical monetarist experiments. However, as Germany was bent on maintaining its disposable income Gini just below 30, it had to increase its relative fiscal efforts to reduce its market Gini by about two-thirds. Korea, meanwhile, only needed a fraction of that effort to achieve the same result; Solt (2018) shows that it comes close to doing so *at source*, with its market Gini at just 33. Surely a first best route!⁷

⁷ The WDI (2018) database indicates a similar disposable income Gini for Korea and Germany as Solt (2018). However, the WID (2018), using tax return information,

Finland — which serves as a role model in so many respects — also joined the OECD’s unequalising rush and even caught up with Latin America’s average market inequality (Germany ended up even higher). This is what I call ‘reverse catching up’, by which I mean it is now the highly unequal middle-income countries that seem to show the advanced countries the shape of things to come. As Figure 3 indicates, most of the OECD also followed the same route of opening up a huge gap between market and social distributive outcomes.

FIGURE 3



• **LA** = Latin America’s average market and disposable income Ginis; **market** = market Gini; **disposable** = disposable income Gini. **a** = German reunification; and **b** = Korea’s 1997 financial crisis.

indicates a rising share of the top 10 per cent. Unfortunately, Solt (2018) does not provide information on shares by deciles. The OECD (2019) shows similar data to Solt (ibid.) until 2015. Subsequently it differs slightly due to the use of a new survey following a different methodology. However, for the 28 OECD countries for which new data are provided after 2015, Korea still has the lowest market Gini in the whole OECD.

This asymmetry trap can be described in various ways — a ‘reverse catching up’ with highly unequal middle-income countries in market inequality while trying to hold on to past glories in their disposable income inequality (many just by the skin of their teeth); the idealisation of greed in one vs. that of social solidarity in the other; the tearing apart of the fabric of societies vs. the attempt to recreate ‘reciprocal obligations’ (Collier, 2018). Thatcher’s UK led this charge of the unequalising light brigade, winning the speed record. But for the Iron Lady, ‘there was no alternative’. In fact, I don’t think she would have minded if someone had said ‘that was what it was really all about’.⁸

What we are witnessing in the OECD is another type of distributional failure (number 4 on my overall list in both parts of the paper), which is not about increasing market inequality per se — large though this has been. This failure is about the ever less sustainable *gap* between market and social distributional outcomes, and its inevitable plethora of distortions, transaction costs and public debts. I want to highlight five (for a detailed analysis, see Appendix):

i. Increased market-inequality has not been ‘Pareto-improving’ even in the ‘Kaldor–Hicks’ sense.

ii. There are also significant transaction costs in letting market inequality go one way only to try to reverse it later in terms of disposable income. Like the Grand Old Duke of York: ‘He had ten thousand men; He marched them up to the top of the hill; And he marched them down again’.

iii. But as the OECD’s ‘reverse catching up’ aimed not just at Latin-style market inequality, but also at its regressive taxation, the very rich and large corporations also became *de facto* practically tax-exempt. So, instead of the winners compensating the losers it was those not invited to the party who were left with the bill, and had to be ‘over-taxed’ for this — but over-taxed not because of the growing needs of the poor, but in order to compensate the increasing tax evasion and avoidance of the winners.

iv. As transfers balloon, governments’ debts are soaring. The EU’s share of ‘social protection’ stands at 40 per cent of public expenditure — and with health and education, this share jumps to two-thirds. But in their new tax status, corporations and the very rich now prefer to *part-pay/part-lend* their taxes, and *part-pay/part-lend* their wages (Palma, 2009). It’s so much more fun than the old-fashioned way of having to pay for public goods via progressive taxation, and having to put up with positive but challenging wage–productivity dynamics. That

⁸ Although she might have added that she tried to legitimise greed, not hate—as the extreme right does now.

is, growing market inequality creates further necessities for public expenditure, while a new generous tax status for those who benefited most denies the necessary public revenues. And as there are limits to taxing those 'others-than-the-real-winners' (ask the *gilet jaunes*), governments' debts are mounting.

v. Finally, now that OECD markets have finally been unshackled from all those Keynesian 'rigidities' and 'distortions' brought about by well intentioned but supposedly economically misguided post-war policies, are Latin America's levels of market inequality really the new rising sun? Are OECD countries now embarked on a 'creative destruction' of those rigidities, or just bent on some (fairly uncreative and highly corrosive) 'reverse catching up', including the return of some of their own disagreeable ghosts of the past?

As discussed in detail for Europe in Appendix 5 (and in section 2.4 below for the US), it seems highly unlikely that élites and special interest groups captured policies with the aim of enhancing economic efficiency.⁹ Here the comparison between Germany and Korea in Figures 1 and 2 is particularly relevant. In the 45-year period since the beginning of the deterioration of Germany's market inequality, its productivity has not even doubled: neither has the productivity of Western Europe or the US. Korea, meanwhile, has increased its productivity six fold (or eightfold in terms of output per hour worked). Previously, Germany had trebled its productivity level *in half that time* — or nearly quadrupled its output per hour worked (TED, 2018). Now, by contrast, in the latest quarter of 2018 Germany barely escaped recession (Ewing, 2019). Not a lot to show for the 15 percentage points increase in its market Gini.

Of course, many other things were happening at the same time, not least the onset of a new technological revolution, with its likely initial negative impact upon inequality (Pérez, 2016). But it would be hard to argue that productivity growth in Germany (and the OECD, apart from the special case of Ireland) would have been even more dismal had market inequality not been allowed to deteriorate in this bizarre way.¹⁰ In Germany, for example, the relentless deterioration of market inequality and its underinvestment (both private and public) took place side by side with a reversal of its relationship with emerging Asia. According to one *Financial Times* columnist:

Germany once saw China as an export market for machinery with which China would develop its industrial base. Today, China is becoming the senior partner in the relationship. [Germany's] biggest problem is falling behind in the technological race... . [This] is symptomatic of a fundamental European problem... . [Now there] are signs that complacency is about to turn into panic. (Münchau, 2018)

⁹ On the power of vested interests in today's rent-extracting economy, see for example Wolf (2018).

¹⁰ On Ireland, see O'Connor and Staunton (2018).

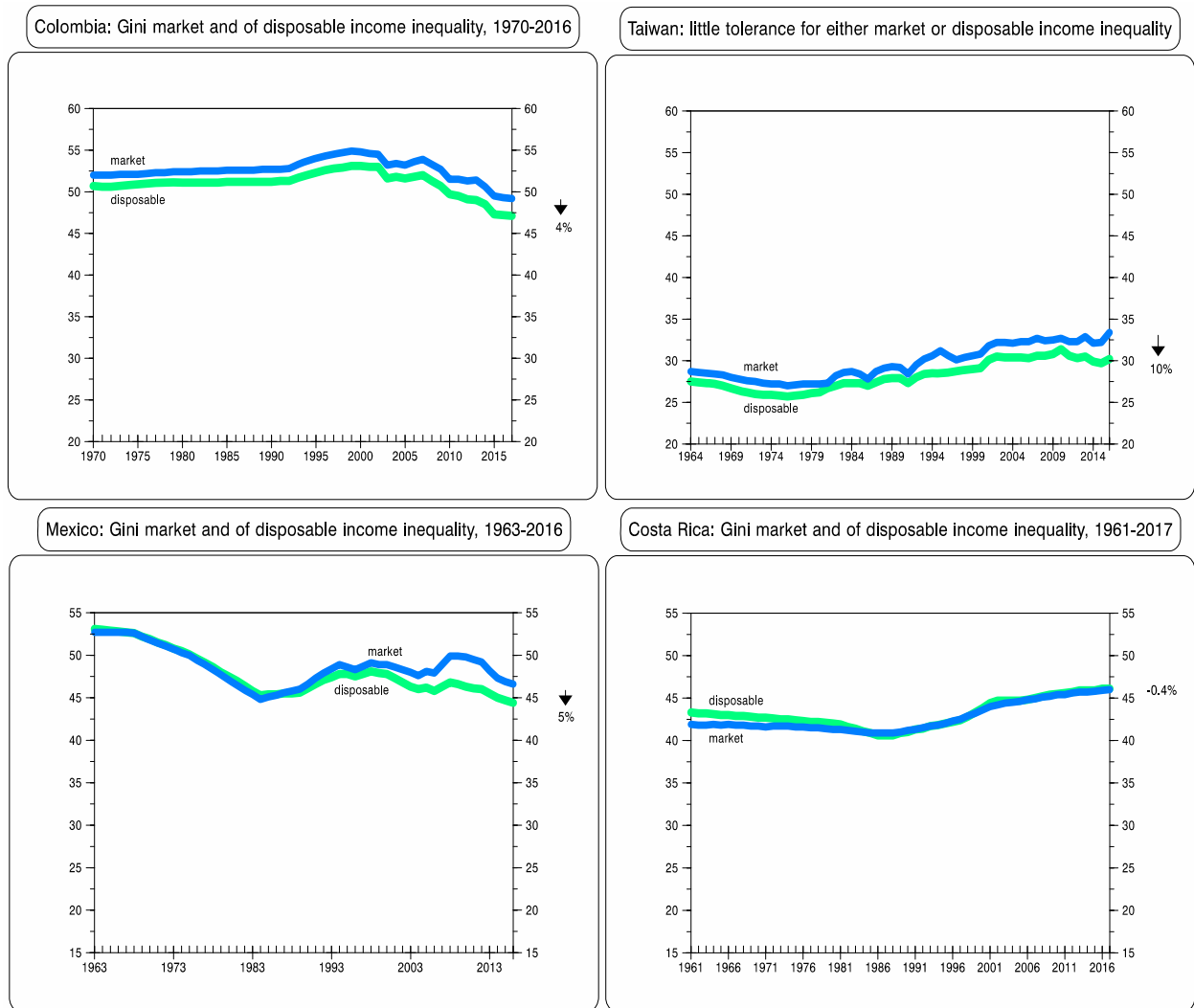
In sum, this fourth distributional failure is not about increasing market inequality per se. It is about the ever growing (and less sustainable) *disparity* between market and social distributional outcomes. Inevitably, this 'asymmetry trap' creates problems not just for growth, but also leads to having to make too much fiscal effort *unnecessarily* (as in self-constructed welfare needs). It is even worse if this effort is done off-target in revenues (as in the winners getting away scot-free, and others with less political clout being forced to pick up the social protection bill); if it leads to mounting public sector debts; and if the fiscal effort is put on the wrong track in expenditure (as in making the very rich the biggest welfare recipients of all time). From this perspective, and as discussed in detail in the Appendix, today's post-modern Robin Hood welfare-state 'robs' the rich to give to the very rich.

Life is not that easy anymore in the OECD, having a family and an oligarchy to support. Should I say 'Welcome to the Third World'?

Stylised Fact 2.3: Emerging markets with extreme inequality in both areas are normally those whose higher tolerance for all types of inequality leads them to make little fiscal effort to correct their high market inequality

Oddly enough, there is one remarkable similarity between unequal Latin American countries and some low market inequality Asian ones: they make little effort to reduce their market inequality via taxes and transferences, as illustrated in Figures 4 and 5.

FIGURE 4

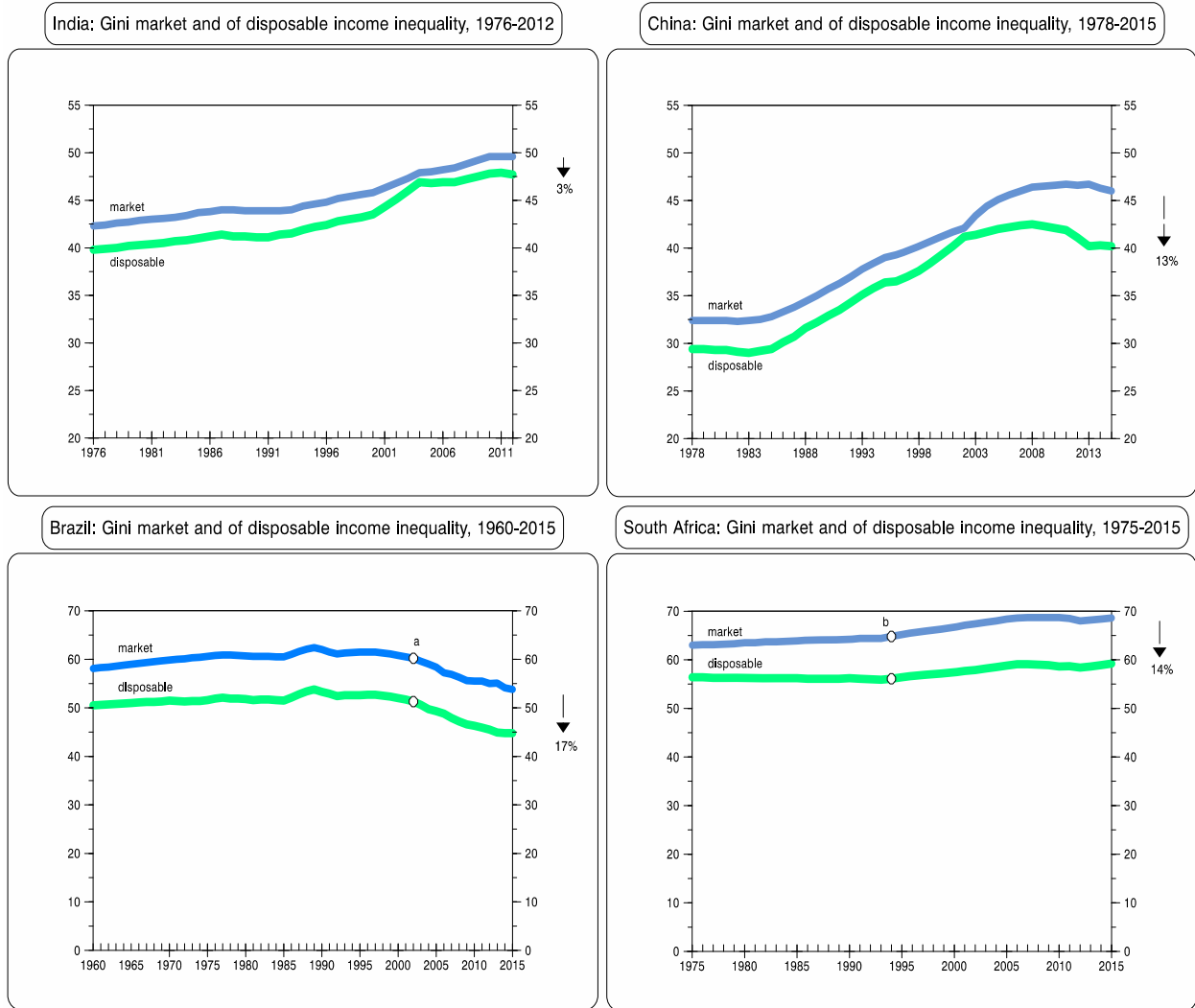


Unlike the first-best route chosen by Taiwan or Korea, *but like the OECD*, Latin American countries let 'market makers' do more or less as they please, but as opposed to the OECD they are not prepared to make much effort to close the distributive gap.

Here, governments prefer to do more talking than acting in terms of social protection and inequality (Figure 4). Unfortunately, wishful-thinking (let alone progressive 'hot air') hasn't proved to be of much help for inequality.

Figure 5 gives relevant information for four of the five BRICS.

FIGURE 5



• **a** = election of President Lula da Silva; and **b** = election of President Mandela.

In India, the speed of deterioration of both forms of inequality is remarkable, as is the lack of effort it makes to correct this, despite its rapid growth. As a result, there are still more people below the poverty line in India than in the whole of sub-Saharan Africa. There are other dark sides to India's rapid transformation, such as having become the most polluted country in the world (Bernard and Kazmin, 2018). And horrific episodes such as the wave of suicides by desperate small farmers (who had been thrown to the wolves), the largest recorded such wave in history, also show the more Dantesque side of India's increasing market inequality and insecurity.

China's deterioration of market inequality has been one of the fastest, but it seems that it has finally begun to stabilise.¹¹ It is unlikely that when Deng Xiaoping said: 'Let some people get rich first', he imagined that the richest 1 per cent of households would end up owning at least a third of China's wealth (the actual figure is bound to be much higher, as there is significant underreporting; Pilling, 2014; Wildau and Mitchell, 2016). But in contrast to Latin America, the rich at least devote a great deal of their share of income to investment.

In South Africa, meanwhile, both types of inequality have worsened since the beginning of democracy. Furthermore, even though — like Brazil — its market Gini reduction has reached at least double digits, this is a modest effort since in both countries fiscal revenues are relatively similar to the OECD (Di John, 2006; Lieberman, 2003; OECD, 2019). The difference between these two countries is that South Africa, despite a relatively progressive taxation, fails to achieve more due to an ineffective system of transfers to the poor. Brazil, by contrast, although it has (or should I now say 'it had?') a more effective programme of transfers, falls down badly on its highly regressive tax structure. Furthermore, in Brazil transfers to the poor are often a smokescreen to justify transfers to the administrative classes — which are bent on catching up with their Mediterranean counterparts.¹²

This also helps put into perspective Latin America's recent improvements in inequality. Not only do household surveys fail particularly badly to capture the income of the very rich (Meyer et al., 2015), but governments are reluctant to make tax returns available for double-checking these apparent improvements in inequality. (I wonder why.) Indeed, studies based on aggregate fiscal data for Brazil and Chile show that there is no decline of income shares at the top, or in their Ginis.¹³ The latest study on Brazil (Morgan, 2017) indicates a relatively stable Gini, contradicting its decline in survey data. For Chile, also using aggregate data since access to original data was also denied, one study (Atria et al., 2018) finds that the share of the top 1 per cent has actually increased since

¹¹ UTIP (2018) and WID(2018) confirm this; the OECD(2019) reports a smaller Gini reduction (6 per cent). However, studies by Peking University and Southwest University in Chengdu present a more pessimistic picture (Wildau and Mitchell, 2016).

¹² While the 'Bolsa Familia' for the poor costs just half a percentage point of GDP (Holmes et al., 2011), bureaucrats, for example, retire on average at 56 (men) and 53 (women), and with at least 70 per cent of their final salary — many get up to 100 per cent (OECD, 2017). So, anything up to one-third of public expenditure has been devoted to pensions, while public investment does not reach even 2 per cent of GDP, in a country with a literally crumbling infrastructure (IMF, 2018b).

¹³ For Brazil, see Gobetti and Orair (2016); Medeiros et al. (2014); Morgan (2017); for Chile, see Atria et al. (2018); López et al. (2013).

2003, and that of the top 10 per cent keeps hovering around 55 per cent.¹⁴ And another study (López et al., 2013), which tries to take into account tax evasion, concludes that in Chile the top 1 per cent appropriates almost a third of national income (the equivalent figure for Korea is 12 per cent and for Taiwan 11 per cent); the top 0.1 per cent appropriates one-fifth (in Korea this is 4 per cent); and the top 0.01 per cent — about 300 families — gets well over one-tenth of the pie (in Korea that group, which includes some of the most successful entrepreneurs in the world, seems satisfied with a seventh of that: 1.7 per cent).¹⁵

In part, this huge inequality is due to the Latin American élite believing it has some divine right to the rents of natural resources, a modern version of the *Droit du seigneur*, as it were; to access fiscal paradises; as well as to free-ride on public goods paid by others. These élites are even reluctant to help eradicate poverty, although this would be remarkably cheap in high middle-income countries (Ravallion, 2010).¹⁶

In sum, while Solt's database suggests that Brazil and Chile manage at least a market Gini reduction in double digits (though the OECD [2019] only reports 7.1 per cent for Chile), tax returns indicate a different picture for D10 and for the Gini. It is therefore highly unlikely that the *overall* distribution could have improved much, if at all. Furthermore, as discussed in Palma (2011, 2016a), Chilean evidence also indicates a distributional 'ratchet effect': when inequality improves, this has a temporary effect, and when it deteriorates it leaves a more permanent legacy, as those at the top are better able to sustain their gains. Recent events in Brazil indicate that this asymmetric cycle is about to take a reinvigorated new upswing.

As Walter Benjamin (1966) remarked, behind every rise of fascism lies the failure of a major political project: in Latin America (but not only there), it is the failure of the so-called 'Third Way'. In fact, its very dullness — with its

¹⁴ Furthermore, since only 81,000 taxpayers acknowledged in 2018 having an income that would pay the top marginal rate (just 35 per cent), massive levels of tax avoidance and evasion mean that tax returns information underestimates significantly the degree of inequality (Guzmán, 2019).

¹⁵ For Chile's stubborn inequality, see Palma (2011: Appendix 1).

¹⁶ ECLAC (2010) calculates that in six countries of Latin America, the cost of a 'one poverty line' monetary transfer to *all* the unemployed, *all* people over 64, and *all* children under 15 of vulnerable households would be equivalent to between 1.8 and 2.7 per cent of GDP — not such an insurmountable task! For why so little is actually done, perhaps Dante's *Inferno* gives a hint — especially in the Fourth Circle (greed), and in the Eighth (fraud). In fact, the *Inferno* has been defined as 'the realm... of those who have... perverted their human intellect to fraud or malice against their fellow men' (MacAllister, 1953: 14). For poverty reduction in Latin America, see UNDP (2016); for Chile, Durán and Kremerman (2015); for Brazil, Holmes et al. (2011); and for South Africa, Tregenna (2012).

preference for improving the administrative efficiency of the intrinsically inefficient unequal markets — seems to have caused such a failure of the collective social imagination that otherwise unthinkable options have become possible.¹⁷

This fifth distributional failure is about letting oligarchies run amok, while (as mentioned above) governments do more talking than acting in terms of social protection and inequality.¹⁸ While the rich were let off the hook, the middle were over-taxed, got mediocre public services in return, and ended up highly indebted — at some of the highest real interest rates (Wheatley, 2012) and mark-ups (Pearson, 2012) in the world. In turn, although the poor got a little bit of social protection and some crucial rights, they also received a massive dose not only of market insecurity, but also of personal insecurity, with crime spiralling out of control.¹⁹

Stylised Fact 2.4: Increased market inequality in the OECD has really been about extracting value created by others

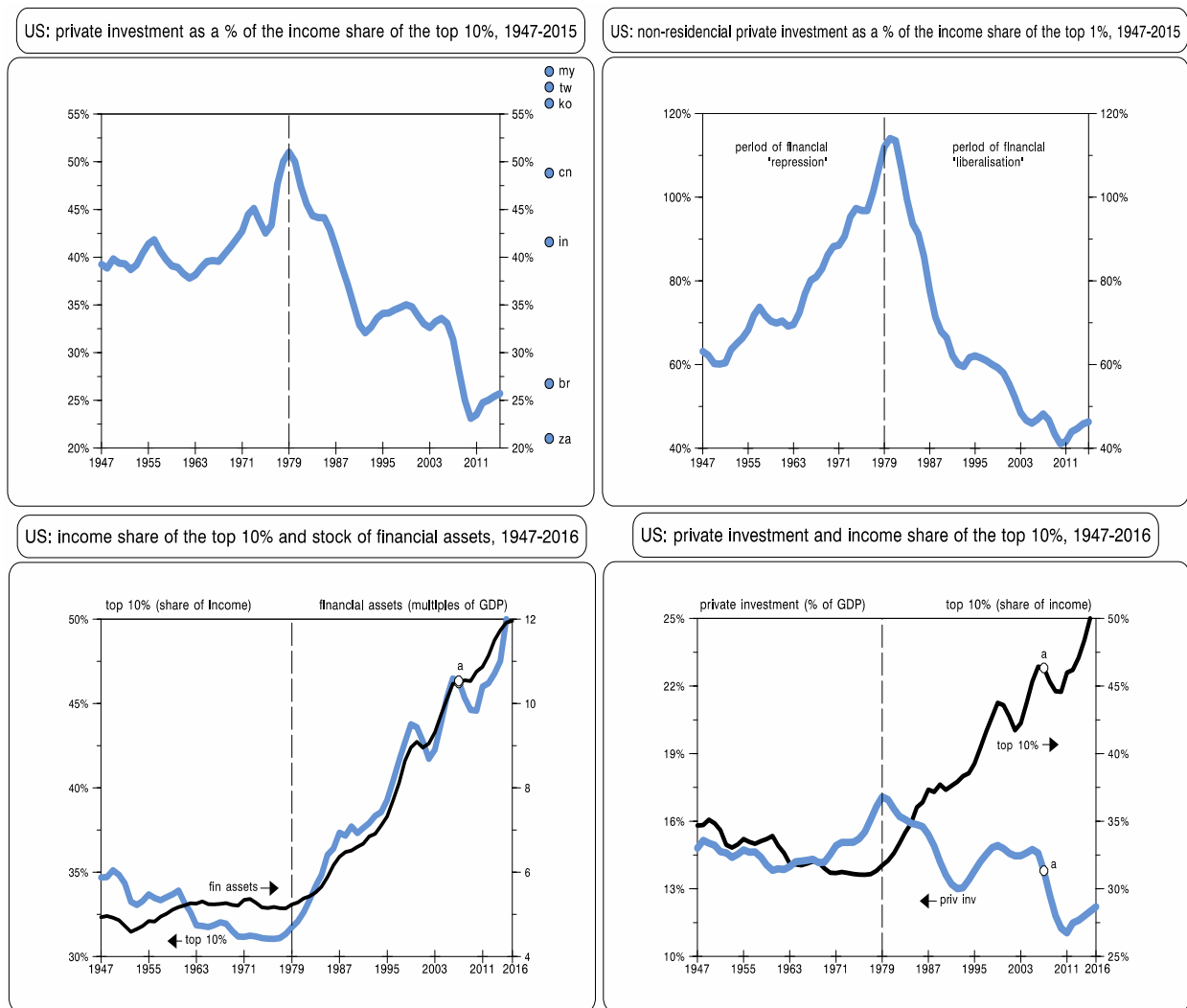
It never ceases to amaze me how little of the deluge of extra income appropriated by those at the top in the OECD — as well as how little of the soaring corporate profits — has been diverted to productive uses, such as investment. The US is again transparent in this distributional failure — my number 6 (Figure 6).

¹⁷ As in many parts of the world, the Left in Latin America divided into two streams after 1980, but both have a crucial element in common: they are still stuck in the past. While the 'old left' (e.g., Chavismo in Venezuela) tried to reconstruct an idealised past by demonising everything that has happened since, the 'new left' (e.g., Brazil and Chile, as in Britain) attempted instead to construct a future which was almost the exact opposite of the past — and in order to idealise this future, they have demonised every possible aspect of that past. In sum, as neither Left has been able to leave the past behind, when constructing the future (as in Hotel California) 'some dance to remember, some dance to forget', but 'we are all just prisoners here, of our own device'.

¹⁸ A good example of letting oligarchies run amok is Chile's private pension system, which has been copied in many other Latin American countries. While in its inception, it promised 70 per cent income replacement, it has only delivered an average monthly pension that does not even reach the minimum wage (Mander, 2016), and it is on its way to a median pension of just 15 per cent of the final salary (Bonney, 2016). In fact, last year 125 thousand people retired within this system, and half of them with less than one-fifth of a minimum wage (Palma, 2019b). So, governments are again having to give massive subsidies to keep this system going, even though stopping subsidies was supposed to be the very reason why pensions were privatised in the first place. In the meantime, exorbitant fees, hidden charges and other tricks generate massive profits for pension providers (CENDA, 2019), who only bother to pay pensions that amount to much less than half of what they collect as contributions (Bonney, 2016; CENDA, 2019).

¹⁹ Unequal Latin America has 41 of the 50 most dangerous cities in the world — and all of the top 12 (www.worldatlas.com/articles/most-dangerous-cities-in-the-world.html).

FIGURE 6



• **fin assets** = stock of financial assets; **priv inv** = fixed private investment; **a** = the 2008 financial crisis.

3-year moving averages. Malaysia's current percentage is 77 per cent; Taiwan's 74 per cent; and Korea's 62 per cent.

• **Sources:** Income shares (from tax-returns): WID (2018); Financial assets: FED (2018); Private investment: for the US, BEA (2019; includes equipment and non-residential structures); for the rest, IMF (2018b); WDI (2018).

There are at least three fundamental issues that emerge from the four panels of Figure 6. The first relates to the relationship between income distribution and private investment. If the US had the same level of national income, but with the same level of inequality as when Reagan was elected, the top 1 per cent would today be earning about US\$ 2 trillion less than it actually does. In turn, if the US had the same income and inequality as now, but its share of investment to GDP were as it was pre-Reagan, over US\$ 1 trillion more would be invested per year. Linking the two together — i.e., private investment as a percentage of the income share of the top 10 per cent — we find a clear 'reverse catching up' in motion

with countries at the other side of the Rio Grande (and even South Africa; see Figure 6, top left-hand panel). In turn, *net* private investment all but disappeared (BEA, 2019), and non-residential private investment as a share of the income of the top 1 per cent fell as if in a roller coaster (top right-hand panel).

It is often acknowledged that the only historical legitimacy of capitalism — that is, the legitimacy of a small *élite* to appropriate such a large proportion of the social product — rests on that *élite*'s capacity to use it productively, and to develop the productive forces along the way. It can only do this by reinvesting most of that huge share. Keynes (1919: 10), for example, explains the contrast between 'emerging' Germany and the US vs. Britain during the (investment-intensive) 'Third Technological Revolution', or third great surge of industrialisation, that of the 'Age of Steel, Electricity and Heavy Engineering':

'The new rich of the nineteenth century... preferred the power which investment gave them to the pleasures of immediate consumption... . Herein lay, in fact, the main justification of the capitalist system. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable'.

There is not much danger of finding these enlightened Schumpeterian characteristics in the current newly rich of the US or Europe (West or East). In contrast to what Keynes says of their counterparts of another epoch, in most of today's newly rich the 'discreet charm' of the Latin American bourgeoisie rules. The reality principle has been slowly but surely hijacked by the pleasure principle — one that is easily satisfied by an endless supply of low-hanging fruit such as effortless asset bubbles, timid state institutions, an obliging macro and public finance, a considerate progressive intelligentsia, highly profitable market failures, and rents from artificially created oligopolistic concentration, all coming from a growing aversion to competition or any other form of market compulsion. It is not by chance that many lucky rentiers all over the OECD now live a life of milk-and-honey by getting funds from captured Central Banks for free (or at near-zero interest rates), just to relend those funds at high interest rates to the same taxpayers who are subsidising them in the first place. Even Latin-style oligarchies usually have to try a bit harder than that.

In fact, witnessing what is happening today in the OECD helps us to understand why the Latin American *élites* are what they are: perhaps they have just been able to do, for a much longer period of time, what the OECD's *élites* can do now! It's all about being able to build a capitalist system without 'compulsions' (see analysis after Figure 8 below). The specificities may be

different, but the core problem is the same.²⁰ In fact, in this reverse catching up, some of the disagreeable ghosts of the past have also re-emerged; for example, most large corporations are now likely to include forced labour in their supply chains (Foroudi, 2018). Perhaps not surprisingly, with the exception of a few high-tech activities, manufacturing is increasingly becoming an optional extra across the OECD as well.²¹

Who needs the sticks of market compulsions and productivity challenges — such as healthy competition and policy driving private investment towards sectors with higher potentials for productivity growth (Wood, 2002) — when political élites are now so good at solving the collective action problem of how to share the carrots, and at making the 'entry' of others as hard and risky as possible. Douglas North was surely right when he developed his 'limited access order' hypothesis, emphasising how political élites like to divide up the control of rents and block the access of others (North et al., 2007). And this 'limited access order' has worked rather well: if wealth inequality in the US was the same as when Reagan was elected, the top 1 per cent would today own half its current wealth — and the top 0.1 per cent one-third, and the top 0.01 per cent one-fifth (Saez and Zucman, 2016).

The second main issue that emerges from Figure 6 is the relationship between financialisation and income distribution. The bottom left-hand panel shows a remarkable co-integration between the surge in the value of the stock of financial assets and the increased share of income of the top 10 per cent (Palma, 2009). However, this so-called 'financial deepening', instead of pulling private investment with it (the revitalising effects promised by McKinnon and Shaw, one of the founding ideas of the Washington Consensus), had the opposite effect (bottom right-hand panel). However, this 'financial deepening' did at least made a contribution if viewed from Walter Benjamin's (1966) perspective: as fascism expanded the logic of spectacle into the field of politics, financialisation, with its pyrotechnics, did the same in the field of economics, as illustrated, for example, by the S&P 500 soaring more than 320 per cent between 2009 and mid-2018, the longest bull market on record, creating more than US\$ 18 trillion of (virtual) wealth on the way. This must have been a spectacle indeed for the rest of the population, whose median household wealth was actually falling (Collins et al.,

²⁰ And this helps answer Krugman's question regarding Latin America's perennial underperformance (see footnote 3 above).

²¹ On 'premature de-industrialisation', see Palma (2005, 2008); Tregenna (2014); see also Rodrik's much later contribution (2015). For a revealing analysis of how the US economy has been running the dualistic processes Polanyi and Lewis described, but in reverse, see Taylor (2020).

2018). Furthermore, the rampant financial mania at the top took place side by side with the real economy gasping for air: paradise for the former became a purgatory for the latter (see Figure 8 below).

It has become pretty obvious by now that financialisation and increased market inequality in the OECD was about making it easier to get rich by extracting value from those who actually create it, or from cashing-in on assets already created (see especially Mazzucato, 2018). One aspect of this phenomenon is what the chief economist of the Bank of England calls corporate 'self-cannibalism': how private investment becomes a collateral damage of the unholy alliance between a new breed of 'bullying' shareholders and self-seeking executives that has led to companies being dismantled, or condemned to debt, in order to increase immediate income.²²

Easy access to cheap debt has also fuelled a US\$ 40 trillion mergers and acquisitions mania during the last decade²³ —the greatest anti-competition drive ever seen—with its fragile leveraged loan structures and bizarre fees and commissions. Some of the bogeymen of the past financial crisis are back in fashion too, like 'synthetic' CDOs and credit default swaps (US\$ 8 trillion of them — remember AIG?), although it is patently clear that they are not fit for purpose. Indeed, they have been defined by a *Financial Times* columnist as 'a gigantic, incomprehensible global joke'. He goes on to ask: 'Can anyone find a way to bury this absurd pseudo-market?' (Dizard, 2018b).²⁴

As a finance professor (and buyback proponent) insists, 'Serving customers, creating innovative new products, employing workers, taking care of the environment... are NOT the objectives of firms'; everything is about 'maximising shareholders' value' (quoted in Brettell et al., 2015a). Yes, but what is the role of competition and policy if not to force a link between both sets of objectives, so that the *only* way that corporations could maximise shareholders' value would be by focusing on the other set of issues? Unsurprisingly, those

²² If shareholders used to get 10 per cent of corporate profits, they now want it all (and more). Where they once kept shares for six years, now it is for less than six months, implying far less concern for the long-term health of the firm. For Keynes, in contrast, the relationship between a shareholder and the firm should be 'like marriage' (1936/2018: 140).

²³ See the statistics of the Institute of Mergers, Acquisitions and Alliances: <https://imainstitute.org/mergers-and-acquisitions-statistics/>

²⁴ Credit default swap (CDS) trading firms have even been found to be involved in 'manufactured defaults'; that is, encouraging companies to deliberately default on their debt in order to trigger CDS payouts (in return for favourable financing). This fraud is technically known by its magical realist name: 'narrowly tailored credit events' (Rennison, 2019a). On the return to 'synthetic' CDOs and other products blamed for the last financial crisis, an insider complains, 'it's almost beyond belief that the very same people that claimed to be expert risk managers, who almost blew up the world in 2008, are back with the very same products' (quoted in Rennison, 2019b).

seeking to maximise shareholders' value, irrespective of the way in which it is done, are happy to break those links by letting, for example, a mergers and acquisitions frenzy dilute competition, by allowing buybacks to distort share prices, and by transforming states into emasculated institutions and their policies into a rentier made-to-measure affair. In fact, it now seems that élites would not settle for anything less than governments resembling Stepford wives. What is really needed to rein in market inequality is to re-engineer the links between both sets of objectives. For example, for most of the 20th century, stock buybacks were deemed illegal because they are just a crude form of stock manipulation. But in 1982 they were legalised by the US Securities and Exchange Commission, becoming one of the most popular tools for inflating share prices, and boosting earnings per share and executive pay.

If one adds changes to corporate governance law (e.g., in 1992 Congress changed the tax code to encourage performance-based compensation), and to shareholders' taxation, stock buybacks become a tax-efficient cash machine allowing shareholders and top executives to extract capital from corporations — what Reuters now calls the 'cannibalised-company business model' (Brettell et al., 2015b).

In fact, this 'buyback derangement syndrome' has become one of the main fuels powering the stock market, with S&P 500 corporations spending nearly US\$ 5 trillion on them since the first quarter of 2009 (borrowing massively to finance those purchases).²⁵ As one insider explains, 'Basically what you're seeing in the stock market is a slow-motion leveraged buyout of the entire market' (quoted in Brettell and Aeppel, 2015). On top of that, an amount equivalent to about two-thirds of this figure has been distributed in dividends (Brettell and Aeppel, 2015; Wigglesworth, 2019). In fact, in 2018 buybacks alone became larger than overall capital expenditure among the S&P 500 corporations (Powell, 2019).²⁶

Trump's tax cuts just fuelled this binge; J.P. Morgan has estimated that about half of all the overseas profits of US corporations repatriated since the tax cuts have been spent on buybacks (Tankersley and Phillips, 2018). In the meantime, 'at least 90 percent of Americans will end up poorer thanks to [Trump's tax] cut' (Krugman, 2019). Apple, for example, immediately announced buybacks and dividends of another US\$ 100 billion on top of the US\$ 210 billion it

²⁵ Before the latest round of tax cuts, buybacks were pretty much mirrored by higher corporate debt (Yardeni Research Inc., 2019; see also Lazonick, 2014, and Lazonick et al., 2013).

²⁶ Last year, US companies handed their shareholders US\$ 1.3 trillion through dividends and buybacks, lifting the post-crisis bonanza to US\$ 8 trillion (Wigglesworth, 2019). In turn, net non-residential private investment in structures and equipment reached only one-third of this figure.

had already committed since 2012 (see Ram, 2018) — a sum greater than the market value of all but 20 of the US's biggest listed companies (e.g., bigger than Verizon, AT&T, Boeing, Oracle, MasterCard, Coca-Cola, Procter & Gamble, Citi or Disney). The idea of using these huge resources instead to diversify Apple properly into artificial intelligence, robotics, autonomous car electronics, and all those industries of the future seems beyond the pale (that is, beyond the boundary from where emerging Asia begins). Within the pale, instead, it is more fitting to pay exorbitant remuneration to executives, to 'return' a tsunami of funds to intimidating shareholders, to torment customers by (for example) slowing down their older iPhones to force them to keep upgrading to new (and often fairly similar) products, and by the decline of the reliability of products. Perhaps it is about time to start shorting corporations such as Apple.

To state the obvious, sustainable growth comes from enriching the productivity ecosystem as a whole, not the net worth of shareholders and top executives of a handful of firms. Furthermore, the combination of weak corporate investment and rising corporate net saving also drives the growing mismatch in financial markets between abundant liquidity and a shortage of solid financial assets, so that the ease of performing a transaction in a hollow security or instrument has become the trademark of the current process of financialisation (Palma, 2009).

No wonder Kindleberger (2005) borrowed from psychoanalysis the concept of 'mania' — an over-excited, grandiose detachment from reality — to refer to what others just call 'bubbles' or 'exuberance'. But the antiregulatory brigade even uses lessons from 'the prisoner's dilemma' in interactive game theory in their defence: selfish individuals, entirely for their own selfish reasons, have incentives to behave in a pleasant, tolerant and unenvious way. Therefore, if those predestined to win at the market are the *nice guys*, why regulate markets (including finance), or worry about inequality?

The third and final issue emerging from Figure 6 is what's to be done next. In fact, the type of policies tried so far have not just distorted market inequality and crowded out productive spending; they seem to have crowded out neoclassical economics as well, as many of its usually more imaginative followers can now only think about more of the same. These policies—such as Obama's fiscal stimulus, and the FED's bubble-inducing quantitative easing (QE), or what a *Financial Times* columnist now calls the 'cash for trash' scheme (McWilliams, 2019) — may have delivered the longest bull market on record, but only a tiny proportion of its associated resources were used to create new productive

capacities.²⁷ And real wages were 'lower in 2014 than in 2005 for about two-thirds of households in 25 advanced economies—more than 500 million people' (Tyson and Madgavkar, 2016).

Nevertheless, many insist that the only way forward is for more *unproductive* spending — even if to stimulate that requires an endless succession of bubbles; for example, Summers (2013) argues that 'Most of what [could] be done under the aegis of preventing a future [financial] crisis would be counterproductive'. Krugman (2013) agrees: '[now] even improved financial regulation is not necessarily a good thing... it may discourage irresponsible lending and borrowing at a time when more spending of any kind is good for the economy'. So, as a Faustian bargain, their advice is to keep refilling the punch bowl until 'markets' are satisfied — as if they ever will be (not much evidence of diminishing returns here).

However, as we already know, credit booms weaken (rather than strengthen) output in the medium run (Borio et al., 2018; Lombardi et al., 2017; Mian et al., 2017), and increased market inequality has a negative impact on growth (see Ostry et al., 2014). Also, as the richest 10 per cent already own about 80 per cent of overall wealth, including six of every seven stocks held by individuals (and the richest 1 per cent own half), more stock market bubbles are unlikely to boost expenditure much (even the unproductive kind) as they will just shift even more wealth to those 'cash-hoarding' agents who are already responsible for the 'savings glut' (Krueger, 2012; Phillips, 2018).²⁸ Furthermore, global debt — and its components — is already bursting at the seams (it has swelled 50 per cent in the decade since the credit crisis), and financial fragility is evident everywhere.²⁹ Junk bonds are already knocking on the US\$ 4 trillion mark just in the US, and half of all investment-grade corporate bonds are already at BBB, or just one step from junk status (Rickards, 2019). Therefore, if this goes wrong, it could be ugly: 'If default rates were to reach only 10% — a conservative assumption — this corporate debt fiasco will be at least six times larger than the subprime losses in 2007–08' (ibid.).

²⁷ Less than 1 per cent of the nearly US\$ 1 trillion of Obama's fiscal 'stimulus' went to highway and environmental projects—in a country that desperately needs both (Palma, 2009).

²⁸ As Krueger (2012: 7) reminds us, 'the top 1 percent of households saves about half of the increases in their wealth, while the population at large had a general savings rate of about 10%. This implies that if another \$1.1 trillion had been earned by the bottom 99% instead of the top 1%, annual consumption would be about US\$440 billion higher. This would be a 5% boost to aggregate consumption'.

²⁹ For example, in the US 'half the core business of financing or refinancing houses is under water' (Dizard, 2019).

Furthermore, what secular stagnationists (surprisingly) miss is that given relatively low levels of OECD unemployment, current sluggish growth must be at least as much about the composition of effective demand as its level, that is, increasing inequality driving actual corporate and household spending *away from its productive component* (see Figure 8 below).³⁰

In the meantime, emerging Asia can't believe its luck; all of the above has opened up huge productive opportunities, and many Asian corporations certainly know how to take advantage. Samsung, for example, has just announced a US\$ 160 billion three-year investment in new technologies (including those industries of the future which Apple seems to so reluctant to tackle properly, from artificial intelligence to biopharmaceuticals). According to one *Financial Times* analyst, 'This can be regarded as the world's biggest [corporate] investment. Samsung is injecting the equivalent of their operating profits back into the business' (Harris, 2018b). '[This] investment plan eclipses a pledge made by Apple to divert US\$30bn to expand its US operations' (Harris, 2018a).

As logic and unfettered greed have never been the best bedfellows, perhaps the contrast highlighted above between Korea's market inequality and productivity growth, and those of the OECD will not be too difficult to understand — or indeed the question of why the West is losing its leadership in many of the industries of the future. For example, the US does not even have a telecoms equipment maker left to compete with Huawei. Europe at least still has Ericsson and Nokia (although they are already struggling). In the meantime, its financial sector keeps growing out of control: as a mortgage industry investment banker stated, 'I would say the industry has an overcapacity of about one-third in its current structure (quoted in Dizard, 2019).

Surely increased market inequality and lethargic growth can be reengineered. Saint Augustine argued that our free will has been weakened but not destroyed by original sin. Buybacks, for example, can be redefined again for what they are — crude market manipulation — and policy could well help redirect ('discipline') these funds towards investment. Tax cuts for the rich can also be reversed.³¹ In fact, since 2001, federal tax changes have reduced revenue by more than US\$ 5 trillion.³² US bankruptcy law could also overturn its 1978

³⁰ 'Secular stagnation' refers to a situation in which there is a slow rate of growth of GDP due to chronically weak demand (relative to potential output). This is blamed on the (unobservable) 'natural' rate of interest for having become negative.

³¹ One billionaire has saved over a million dollars a day on taxes on his dividends since Bush's 2003 tax cut (Wamhoff and Gardner, 2018).

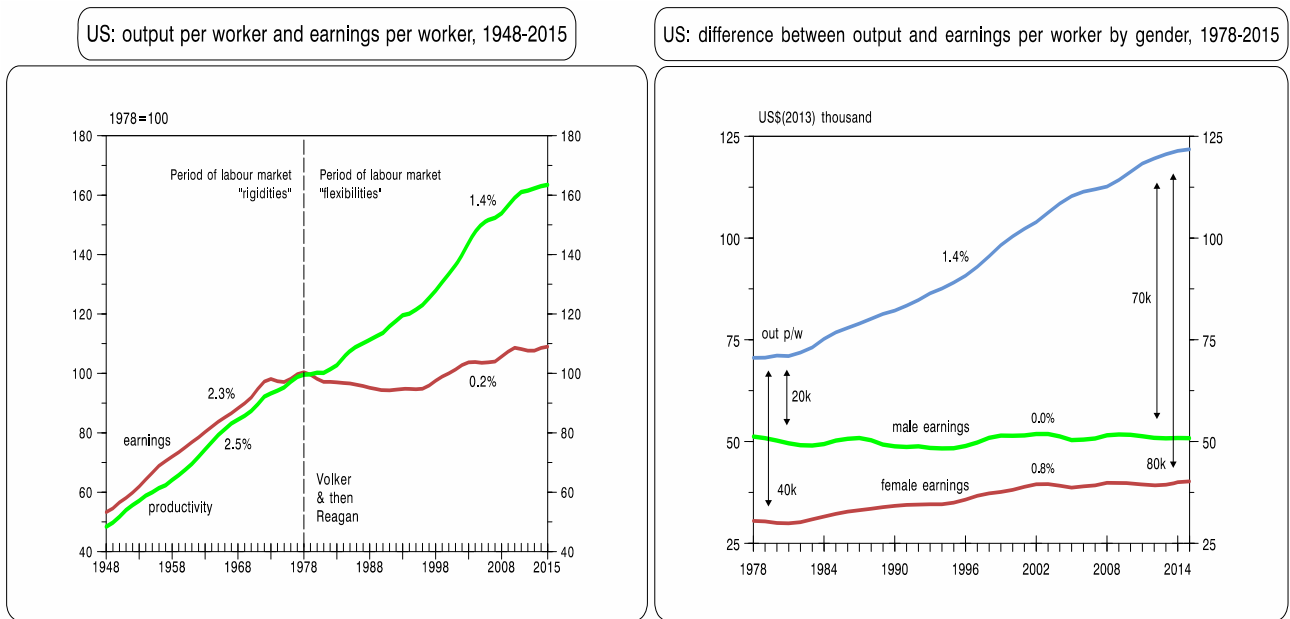
³² And this figure does not include hundreds of billions of dollars in so-called tax cut 'extenders' for corporations and other businesses that Congress has periodically enacted under each administration (ibid.)

change to stop private equity firms using Chapter 11 as a pension-laundering scheme (Whoriskey, 2018); and there is no reason to stick with the 2003 law that prohibited governments from negotiating drug prices for Medicare (which has gifted more than US\$ 50 billion a year to the pharmaceutical industry). By not considering such changes in legislation — which only big money could have had the clout to ram through — we will not only have to keep paying a high price for current inefficiencies but, as Stiglitz (2018) argues and as events in Eastern Europe, Russia, the Philippines, India, the US, Brazil and several other countries indicate, we are now even risking our democracy. Even the 2018 World Economic Forum in Davos was opened with a speech warning that ‘the ongoing disintegration of our social fabric could ultimately lead to the collapse of democracy’ (Schwab, 2018).

It must have felt equally naïve 130 years ago to believe that it was possible to change antitrust laws to prevent the agglomeration of market power, and Standard Oil and American Tobacco must have seemed as untouchable as today’s FAANGs.³³ However, unless one swallows the ‘end of history’ discourse, one has to accept that evolution has always been a challenge to dominant agents. After all, as Chekhov said, the world is no more than our conception of it. In sum, and in contrast to what the secular stagnationists propose — and the high-end of the art market, private-jet, super-yacht and sports-car industries dream of — the last thing we now need for reactivating the world economy is more of what even the *Financial Times* now calls ‘silly-billy’ (silly-billionaires) (Lee, 2018). Today, many are even deluded into believing they have finally created a ‘perpetual motion’ machine — one which doesn’t require an injection of proper energy (net investment) to keep producing all-time record profits (Figure 7).

³³ FAANG is an acronym for the five best-performing tech stocks: Facebook, Apple, Amazon, Netflix and Google.

FIGURE 7



- **earnings** = real earnings; **productivity** = output per worker. 3-year moving averages.
- *Sources:* Productivity and earnings: EPI (2017); Output: WDI (2018); Employment: TED (2018).

In the US, average wages have been practically stagnant in real terms since the early 1970s, and productivity growth per worker has slowed to just 1.4 per cent p.a. — phenomena which are surely interconnected, as the former is highly likely to become a significant disincentive for the latter. As male earnings have been stagnant, the difference between the value of what an average worker produces and what a male worker is paid rose in real terms from US\$ 20,000 in 1980, to US\$ 70,000 in 2015. That is, the 'gross surplus' per male worker increased 3.5-fold. For female workers, it doubled from US\$ 40,000 to US\$ 80,000.

This changing income distribution within US firms, and the resulting fall in wage shares and weak effective demand and investment rates, has been associated with increasingly hierarchical structures and the systematic redistribution of income to the top of the corporate hierarchy (Fix, 2018). This is reflected in a swelling CEO pay ratio: Disney, while cutting its workers' real pay by 15 per cent, gave its CEO a compensation package equal to the pay of over 9,000 Disneyland workers.³⁴ So, here we have the seventh distributional failure (and the last in this list) as this increasingly hierarchical pay structure is unlikely to be an appropriate reflection of the value of marginal productivities. The large bonuses paid to CEOs of banks as they led their firms to ruin and economies to

³⁴ For other examples, see Ahmed (2018); Del Valle (2018); Neale (2018); Pearlstein (2019).

the brink of collapse, for example, are hard to reconcile with the belief that pay has much to do with marginal social contributions these days (Stiglitz, 2016).

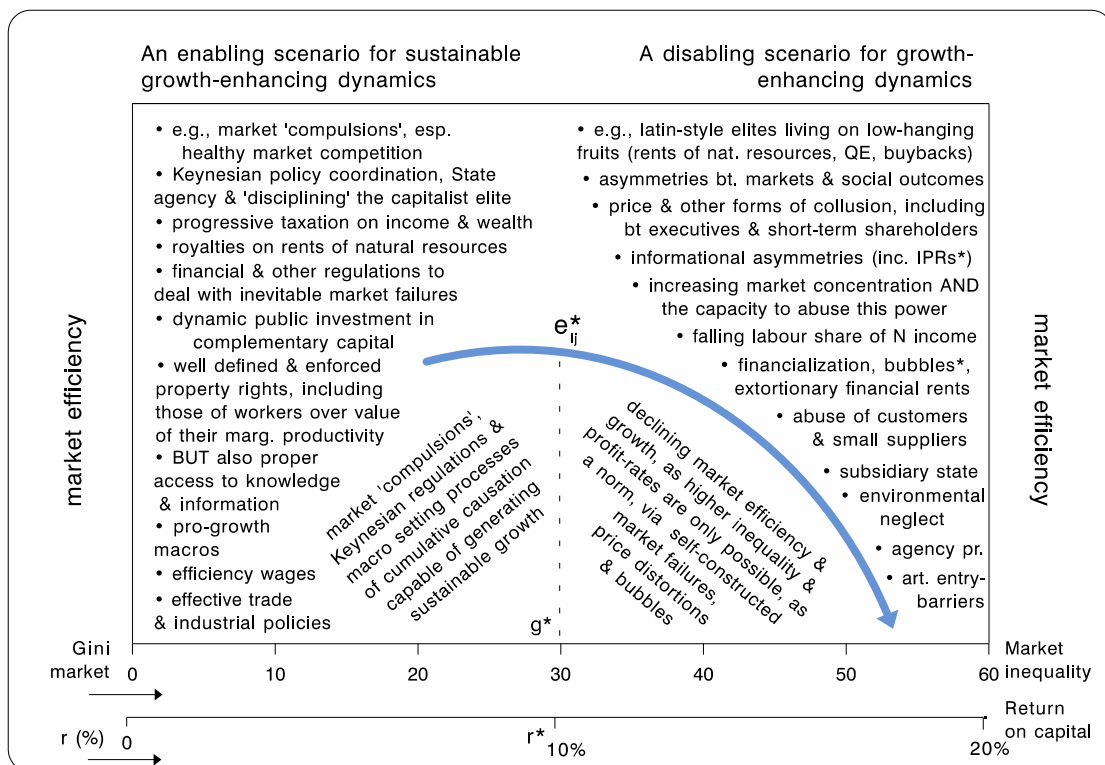
This growing distributional failure is intrinsically related to the OECD's 'reverse catching up with high inequality Latin American countries' phenomenon, as the inability of labour to get the value of its marginal productivity has always been one of the key characteristics of countries in which the top 10 per cent gets the lions' share of the half of national income shared by D10 and D1-D4.

Market Inequality vs. Market Efficiency and Productivity Growth: How Paradise for the Former Became a Purgatory for the Latter. On 'Inequality Waves', and Some Issues for Future Research

Does an increase in market inequality help enable or disable growth enhancing dynamics? Figure 8 summarises in a very simple manner some of the main points made so far regarding the contrasting impacts that different levels of return on capital and market inequality in general can have on efficiency and growth.

FIGURE 8

Market efficiency and productivity growth vs the rate of return on capital and market inequality



• e_{ij}^* =point at which higher returns on capital and increased market inequality can only come, as a norm, at the cost of market efficiency; The subscript 'ij' indicates that the level

of 'e*' may vary across sectors. In turn, the subscript 'j' indicates that the level of 'e_j*' can also vary along the technological cycle (Pérez, 2002, 2016). g* and r* = levels of market inequality and return on capital associated with e*. Also, esp. = especially; bt = between; inc. = including; IPRs = intellectual property rights (see footnote 58; N = national; on bubbles, see also footnote 58; and pr. = problems.

The basic hypothesis portrayed in Figure 8 is that after 'e*' (given 'i' and 'j'), the relationship between market efficiency and the return on capital — and market inequality in general — resembles the second half of an inverted-U. That is, inevitably, there comes a point at which further increases in the return on capital and in market inequality can *only* come (as a norm) at the expense of a rapidly declining market efficiency and growth.³⁵

Within this general hypothesis, the specific point I want to put forward is that what most clearly characterises the current twin scenarios in the non-Asian emerging world — high corporate profits and market inequality, with sluggish growth — is that most non-emerging-Asia economies (and certainly those in the OECD) are already well into a generalised 'post-e*' state of affairs, one that is very familiar to Latin Americans. As we know so well by now, if capitalism is just 'unleashed', markets can easily be manipulated by those at the top, becoming not just inefficient but self-destructive (as in the 'cannibalised-company business model' discussed above). That is, the current institutional scenario has allowed capital to achieve levels of profits which are only possible when some (if not all) of the factors mentioned on the right-hand side of Figure 8 come into play — at the cost of low levels of investment and productivity growth.³⁶

Although this scenario may well be capable of generating an excess supply of 'silly-billys', it can only do so at an increasing cost in terms of sluggish growth

³⁵ The nature of several factors on both sides of Figure 8 is far more complex than that of those typical of the standard paradigm of well-functioning markets solving Adam Smith-type problems via the invisible hand. For example, IPRs (despite the likely protestation of lobbyists of industries such as pharmaceuticals) are located at the right-hand side of the Figure because they may actually slow down (rather than speed up) the pace of innovation. As these rights relate to knowledge (and information), they may well be counterproductive, as knowledge is a (global) public good (that is, there are no marginal costs associated with its use). Therefore, restricting its use via the enforcement of traditional property rights (e.g., TRIPS) would *necessarily* cause market inefficiency, especially because knowledge is the main input for the creation of further knowledge. The need to provide incentives to innovate is one thing; artificially restricting access to knowledge is quite another (Stiglitz, 2007). In turn, although bubbles surely belong to the right-hand side of the Figure, those that help the build-up of the necessary infrastructure for new technological paradigms (e.g., the dotcom one) could, at least in part, qualify for the other side of the Figure (Pérez, 2002).

³⁶ Some aspects of this phenomenon have been well researched; among the growing literature, see Ostry et al. (2014), and Card and Krueger (1995). The 2018 IMF report on the US economy also expresses serious concerns about the current negative interactions between higher market concentration and lower levels of investment (IMF, 2018c).

and market inefficiency in general. It is not by chance that the number of billionaires has more than doubled since the 2008 financial crisis, and is set to double again in a much shorter period of time; and last year their wealth increased by record amounts (PwC and UBS, 2018). But this paradise for 'silly-billys' becomes a purgatory for the real economy—and for the rest of us. Indeed, in 2017 the US economy managed the greatest gap ever recorded between 'efforts and accomplishments': while corporate profits reached an all-time high, investment (relative to GDP, or the income share of the top 10 per cent) came close to an all-time low. It is as if in economics the law of gravity has taken a sabbatical; but when it returns — as it inevitably will — it may come back with a vengeance (Palma, 2009).

Moreover, these 'silly-billys' — by succeeding in constructing a 'post-e*' paradise on earth — have also constructed economies that can only go forward if pulled by ever more 'extraordinary' fiscal and monetary policies. As Summers explains, 'If budget deficits had... not [grown] relative to the economy... [and if] an extra \$10tn in wealth had not been created by abnormal stock market returns, it is hard to believe that the US economy would be growing much at all' (Summers, 2018). The problem now is what to do next, and secular stagnationists can only think of more of the same. For Krugman (2013) the core problem is clear: 'If the market wants a strongly negative real interest rate, we'll have persistent problems until we find a way to deliver such a rate'. So, let's keep refilling the punch bowl for the few, let's keep making transfers to those that are (unnecessarily) left behind, and let's keep over-borrowing and over-taxing the new 'silent majority' to finance both — and let's keep hoping that they continue to be silent.³⁷ For Keynesians, the bottom line is very different: how to reconstruct a type of scenario characterised by the left-hand side of Figure 8. Basically, it is about time that governments start exercising different forms of state agency aiming at 'disciplining' the capitalist élite into spending productively (that is, aimed at creating 'compulsions' for increased productive spending by corporations and those at the top). And it is about time that governments start 'disciplining' themselves into doing the same via increased public investment financed by progressive taxation. Current proposals for a 'Green New Deal', for example — one that would transform green issues from problems into solutions — are not just essential for environmental protection, but they are desperately needed for all of the above. The same is true about recreating the growth-enhancing link between wages and productivity. It is not often that reason,

³⁷ As Einstein emphasised, insanity is doing the same thing over and over again and expecting different results.

ethics and economic logic coincide in such a remarkable way! I can't remember the last time that mind, soul and smart pockets were being pulled in the same direction—the only missing ingredient now is the muscle, including the ideological one (as discussed above, and as Gramsci rightly said, battles of this kind are usually won or lost on the field of ideology).

In sum, the left-hand side of Figure 8 illustrates the 'enabling' scenario for sustainable growth-enhancing dynamics. Rational and intelligent agents interacting in *competitive* and properly regulated markets, with all the required conditions, government agencies and policies indicated in the Figure (and more), may well be able to set in motion processes of cumulative causation, characterised by their positive feedback loops into the system, and capable of generating a momentum of change which may become self-perpetuating (e.g., in the Veblen/Myrdal or the Smith/Young/Kaldor manner). It will still be capitalism, warts and all, but at least it will be a capitalism capable of developing the productive forces of society in a sustainable way. However, as the post-war scenario illustrates, even the best policies can become inflexible and get outdated if they are unresponsive to change. But as Hirschman (1982) argued, people often stick with policies after they have become counterproductive. This leads to such frustration and disappointment with existing policies and institutions that it is not uncommon to experience a 'rebound effect' — as the one that started at the end of the 1970s. This also helps to explain the messianic attitude of the neoliberal tsunami, as well as its poor outcome. And as now neo-liberalism has long passed its sell-by date, a new 'rebound effect' is long overdue — and the longer it is delayed, the stronger (and perhaps also the more mechanistic) it may become.

Recent events, however, have shown that one of the peculiarities of the scenario built since the 1980s (on the right-hand side of the Figure) is that, once established, it seems to have very few, if any, *endogenous* pressures for an 'upgrade'. Once achieved, it takes on the characteristics of a Hotel California: 'We are [only] programmed to receive. You can check out any time you like, but you can never leave'.³⁸ And the (not so) invisible hand of the (not so) unfettered market forces is unlikely to come to the rescue. In other words, neo-liberalism, as an ideology, has proved to be such an effective technology of power that it has so far paralysed most of its opposition. That is, borrowing from Kafka's 'The Silence of the Sirens' (1917/1995), the (unequalising) sirens have, up to now,

³⁸ That is the main aim, for example, of the new (so-called) 'trade' agreements, such as the TTP-11, which are basically intended to be policy straightjackets to prevent emerging markets from rethinking their development strategies (Palma, 2018a).

had a still more fatal weapon than their song, namely the ideological silence of their 'progressive' opposition.

It is this cyclical switching between the two sides of Figure 8 which has generated, at least in part, the 'distributional waves' of the last century. And when on the right-hand side of Figure 8 (where we currently are — let's call it 'scenario 2') Piketty's (2014) ' $r > g$ ' becomes a self-fulfilling prophecy, because a self-constructed increase in ' r ' is what this scenario is all about — and a struggling ' g ' is the inevitable collateral damage (in this scenario, increased market inequality is as much a twin of inefficiency as the apple is of the law of gravity). At the same time, the waves I have in mind differ from Milanovic's (2016) 'Kuznets waves' as mine are more about Gramsci than Kuznets, Hirschman than Solow, Mazzucato, Amsden or Pérez than his understanding of the relationship between technology and inequality. My waves are about self-construction rather than fundamental forces of the universe. What matters most in them are issues such as what it is that helps in the formation of collective beliefs. How do spontaneous consensus types of hegemony emerge? How can they be changed? That is, they are more about ideology than technology, agency than structure, choice than historical 'accidents', discursive articulation than economic determinism, fighting distributional failures in a Keynesian sense rather than surrendering to them ('à la 'new left'). Another perspective from which to look at my type of waves is that of Foucault's relationship between power and knowledge, in particular the role of the economic 'discipline' in democracy (as a form of 'disciplinary power' via the production of particular kinds of knowledge). From this standpoint, what we really need to fight inequality — i.e., to help set in motion the next 'wave' — is to have a more critical perspective within economics of the range of our options for participation.

In the type of distributional waves I have in mind — and to differentiate them from 'Milanovic's waves', let's call them 'Palma waves' (in which Hirschman's 'rebound effect' can play an important role) — what matters most is to take responsibility for our distributional choices (e.g., aiming at 'scenario 1' or '2' in Figure 8, remembering that these are policy 'package', and you mostly can't pick and choose). Above all, there is no room for claims that we are just somehow innocent bystanders of irrepressible distributional forces. No-one has forced the OECD to 'banalise' their market inequality by moving ever further into 'scenario 2'. This choice is as much a self-defining act as any can be.

CONCLUSIONS

As this essay has already emphasised, in order to understand current distributive dynamics one needs to study the share of the rich — and, in terms of growth, what leads them to choose what to do with their income and wealth, and in which of the two scenarios of Figure 8 they have to perform. Schumpeter (1918: 7) stated that ‘The fiscal history of a people is above all an essential part of its general history’. I would add that its (closely related) distributional history is just as essential.

However, given the many limitations of *all* types of distributional data, one should try to look at the distribution of income from all possible angles, including surveys, tax returns and payrolls.³⁹ This article (in both Part 1 and 2) has mainly offered an analysis from the point of view of surveys — a perspective in which inequality, with all its veils and market failures, becomes a subject so complex that I have tried to discuss in as much detail as necessary.

Although the 2018 World Economic Forum identified the ever-growing gap between rich and poor as ‘the problem’, it seems that anxieties about inequality *per se* have somehow evaporated with the realisation that a new layer of distorting mirrors — such as those provided by Trump, Brexit and the re-emergence of the extreme right — can help project resentment away from inequality and onto bad economics, xenophobia, homophobia and other forms of hatred and intolerance.⁴⁰ And while many in the global *élite* feel very uncomfortable with these events, due to their lack of ideological sophistication and the fact that they are nourished by a cruder cult of violence, they have nonetheless adapted to these changes rather well — like an aristocratic family in a Jane Austen novel forced to welcome some newly discovered lower-class relatives (Byatt and Sodr , 1995; Sodr , 2015).

In this two-part article, I have identified nine stylised facts concerning the diversity of inequality and seven distributional failures, with few countries able to escape them altogether. The first five stylised facts refer to the distribution of disposable income, and are identified in Part 1.⁴¹ In turn, the next four stylised

³⁹ On survey data, see Appendix 1; on tax returns, see WID (2019) and Alvaredo et al. (2018); and on payroll data, see UTIP (2019). Regarding WID (2019), it would be more useful if its compilers would not mix in their database the bottom 40 per cent with some of the middle. It would be great if they could provide separate information for D1–D4, and D5–D9. Solt (2018), too, could help a great deal by providing information on market inequality by deciles.

⁴⁰ All of which reminds us of Chekhov’s statement: ‘There is nothing more awful, insulting, and depressing than banality’ (Chekhov, 2006: 238).

⁴¹ See Palma (2019c).

facts refer to market inequality, and they have been discussed in this second part of the paper; and they are: i) significant deteriorations since the 1980s have been confined to the OECD, Eastern Europe and Russia, and China and India; ii) most OECD countries attain a low level of disposable income inequality via a tortuous and highly inefficient route; iii) emerging markets with extreme inequality in both areas are normally those whose higher tolerance for inequality leads them to let market inequality get out of control, and to make little fiscal effort to correct this; and iv) increased market inequality in the OECD has really been about extracting value created by others, or of cashing-in on assets already in existence.

Regarding distributional failures, this essay has identified seven, with three of them relating to disposable income (Part 1). In turn, those relating to market inequality are: i) the OECD's ever less sustainable disparity between market and social distributional outcomes; ii) unequal middle-income countries letting oligarchies run amok, while doing more talking than acting in terms of social protection; iii) the very small proportion of the deluge of extra income appropriated by those at the top in the OECD — and of soaring corporate profits — that has been diverted to productive uses, such as investment; and iv) increasingly hierarchical pay structures that are unlikely to be an appropriate reflection of the value of marginal social contributions.

As to market inequality, it is remarkable how the election of Reagan and Thatcher, and the fall of that infamous wall, triggered among the OECD some *reverse* catching up, including the 'banalisation' of their market inequality. As Warren Buffet suggests, 'When you combine leverage with ignorance, you get some pretty interesting results'.⁴²

We are all indeed converging in this neoliberal era, but the route map points towards features characteristic of some highly unequal middle-income countries: huge inequalities due to mobile élites claiming property rights over the rewards of economic growth in a winner-takes-all scenario. Last year they nearly got there: 82 per cent of the new wealth created was appropriated by the richest 1 per cent, while the poorest half of humanity got nothing (Oxfam, 2018; see also Hope, 2018) — and the surreal politics underpinning this. It is even tempting to say, 'Welcome to the Third World'.⁴³

⁴² Quoted on the home page of Berkshire Hathaway Inc.'s website: <http://berkshirehathaway340.weebly.com/about-us.html>

⁴³ Trump is like a composite of Latin America's 'Magnificent Seven', those visionary leaders who selflessly introduced neoliberal reforms to the region: his business practices resemble those of Salinas; his aesthetic sense, Menem; his attachment to democracy, Fujimori; his human rights, Pinochet; his ideological sophistication, Collor; his fiscal earnestness, Pérez; and his mental health, Bucaram.

This has also happened with regard to the economic role of the state, which has switched from being the heart of innovation and change, to being the epitome of inaction — reminding us of those Conrad novels where, as in so many sea stories, the main enemy of creativity is stasis. It is, in fact, the deadliest thing of all (Segal, 1997).⁴⁴ It seems that these states also misunderstood what it means to have a new 'subsidiary' role, and took it to mean that they should keep subsidising the rent-seeking practices of free-riding capital.

If Smith's 'invisible hand' existed, and were what guides behaviour, this relentless increase in market inequality could not have taken place, as market 'compulsions' would have easily put a stop to it — and to its artificially 'tailor-made' foundations. In fact, it now feels almost ridiculous even having to say this — like the person at a circus pointing out that when the magician saws a woman in half, it's only a trick!

In the words of Krugman (2009), the last financial crisis exposed it all: 'America is looking like the Bernie Madoff of economies: for many years it was held in respect, even awe, but it turns out to have been a fraud all along'.

For Stiglitz (2012), as far as financial markets are concerned, globalisation 'opened up opportunities to find new people to exploit their ignorance. And we found them'. And at home (Stiglitz, 2018): 'The American economy is rigged'; 'The rules of the economic game have been rewritten, both globally and nationally, in ways that advantage the rich and disadvantage the rest'.

Moreover, as Tony Atkinson reminds us, increased market inequality leads to more of the same due to its cumulative causation, because, 'inequality of outcome... directly affects equality of opportunity for the next generation' (Atkinson, 2015: 11). In fact, an average wealthy family in the US now spends US\$ 1.7 million per child from nursery to high school to help them get into the Ivy League (Jackson, 2017) — moving the US even higher in the 'Great Gatsby curve', and ever closer to Latin American countries.⁴⁵

Even some of the founding fathers of neo-liberalism might have been shocked, as it turned into an artificial environment (of the type of 'scenario 2' in Figure 8) in which (paraphrasing Oscar Wilde) anyone trying to make money by doing something socially useful simply lacked imagination.⁴⁶

⁴⁴ On the state's role in innovation, see Freeman (2008); Mazzucato (2013, 2018).

⁴⁵ According to this relationship, the more unequal the country, the more likely it is that those who are born affluent will keep their status. And if those amazing sums spent per child are not enough, fraud becomes a convenient 'Plan B' for getting them into the Ivy League (The FT View, 2019; Vandeveld and Chaffin, 2019).

⁴⁶ For an analysis of the original ideas of neo-liberalism, see Foucault (2004); see also Frangie (2008); Palma (2009).

I wonder if Karl Popper, for example, would have now added the new breed of all-powerful rentiers to his list of enemies of his 'open society'.⁴⁷

Or (using his own concepts), if he would have called current economic structures a new form of 'totalitarianism' (with their questionable means and arbitrary power). Surely he would also have declared that hegemonic neoliberal ideas (especially economic ones) have become immune from being 'falsified' by criticism; and that neoliberal idealisation of unregulated markets has become a new form of 'primitive myth'.

A century ago, the Spanish philosopher José Ortega y Gasset (1918) stated that 'many [in Latin America] have a narcissistic tendency to use reality as a mirror for self-contemplation'. He found the existence of so many 'self-satisfied individuals' striking — a phenomenon that for him was a major obstacle for progress. Perhaps there is no better way of summarising what is wrong with so many current political settlements and distributive outcomes than Ortega's observations, as these Latin American features have been globalised with a vengeance. As a wealth manager has summarised it, plainly and concisely, 'In the wealth management industry, now you have to kiss a lot of frogs' (quoted in Ross, 2019).

Current wishful thinking regarding the long-term sustainability of such a ('post-e*') environment — including the sustainability of the growing asymmetry between market and social distributive outcomes in the OECD — has truly become delusional. As argued above, the only low-inequality that is sustainable is the one that is anchored in the production structure, so, unless we re-engineer our development strategy and get a grip on market inequality, we will not only have to keep paying a high price for its inefficiency, but will even be putting our democracy (and our collective sanity) at risk.

The fundamental problem with the current neoliberal development strategy is that there are not many ways to reshape the structure of a 'system' with so little entropy (as it were): there are few ways in which one can redesign its fundamental structure (so that it can move 'forward' in time), if one can't change the fundamentals of its status quo — that those at the top continue to appropriate such an absurd share of national income, and for doing the (low hanging fruit) type of activities they do now. The main problem with such a 'system' is that so much energy is wasted in trying to 'stop time', that there is little energy left to move the system forward. And if anything has to be sacrificed,

⁴⁷ For Popper's 'Open Society and its Enemies', see: https://archive.org/stream/TheOpenSocietyAndItsEnemiesPopperKarlSir/The+Open+Society+and+Its+Enemies+-+Popper%2C+Karl+Sir_djvu.txt

recent events indicate that it is likely to be democracy.⁴⁸ Indeed, it is quite remarkable how this neoliberal model has proved so effective thus far at reproducing and maintaining itself, as if a sort of autopoiesian system when considered *as a whole*. So far attempts to change it structurally have failed as its networks have tended to remain unchanged, maintaining their identity and proving surprisingly effective at regulating its composition and conserving its boundaries.

This has become evident in the current re-emergence of neo-fascism, as one of its common characteristics is the tendency to mix extreme-right politics and 'dark ages' morality, with exactly the same primordial neoliberal economics and acute inequality (despite some populist discursive indulgences à la Trump).⁴⁹

Since extreme inequality has been shown to be intrinsically corrosive on so many fronts, I see no valid positive or normative reasons to justify why we cannot live in a world with a much narrower spectrum of inequality — all the way up to a Palma ratio of around 1 in terms of disposable income, with the middle and upper-middle getting at least their half. In terms of market inequality, I also see no objective reason for such uncreative destruction of all of those remarkable post-war achievements. My main unease is that the mounting challenges that we face are happening at the worst possible time, as our social imagination has seldom been so barren.

⁴⁸ As President Bolsonaro proudly boasts, 'Democracy and liberty only exist when your armed forces want them to' (Viga Gaier, 2019). Perhaps a less crude way to express this worldview would be 'democracy and liberty only exist if "markets" can afford them'.

⁴⁹ Bolsonaro, for example, can say in the same sentence that Brazil's military regime should have killed people rather than just tortured them, and that he would prefer his son to be dead rather than gay; but when it comes to economics, he then becomes 'modern' and wants to privatise pensions and anything that moves in the public sector (including the strategic sector that the military used to be concerned with, and what would be left of social protection); he is also happy to let manufacturing become an optional extra, cut even further the meagre taxes paid by the rich and big corporations, stop safeguards protecting the Amazon and other aspects of the environment, and eradicate all vestiges of redistributive 'socialism' (Palma, 2018b).

APPENDIX: FIVE PROBLEMS ASSOCIATED WITH THE OECD'S GROWING DISPARITY BETWEEN MARKET AND SOCIAL DISTRIBUTIVE OUTCOMES

As mentioned in stylised fact 2.2 above, what we are witnessing in the OECD is another type of distributional failure (number 4 on my list), which is about the ever less sustainable *disparity* between market and social distributional outcomes, and its inevitable plethora of distortions, transaction costs and public debts. Here I want to expand on five of them.

First, the OECD's relentless increase in market inequality has obviously not been 'Pareto-improving', as there have been so many losers. However, a Pareto-efficiency type scrutiny is too weak a criterion for normative analysis; making it more operational requires a distributional metric, such as something resembling a social welfare function. And as the steady trajectory of Germany's disposable income Gini indicates (Figure 2, above), it seems patently clear that this was the *non-negotiable anchor*. That is, no matter what happened in the market (or why, or how), this was unalterable. More specifically, the absolute anchor was a totally stable share for D5–D9 (see Appendix 4, above). So, given this constraint, surely it would have made more sense (and been far more efficient) for Germany to have taken stock of this — as Korea did — and to limit how much the capitalist élite was allowed to change resource allocation for the purposes of self-enrichment, even in the unlikely scenario that they might have chosen to do it efficiently.

Second, inevitably, there are significant transaction costs: what would be the point of such market distributional deterioration just for the winners to compensate those left behind (via taxes and transferences)? It is surely a government failure not to minimise the inevitable waste of resources inherent in first letting things go one way, only to reverse them later — as in the already mentioned nursery rhyme, in which the Grand Old Duke of York marched his ten thousand men to the top of the hill, only to march them down again.

However, third — and crucially — this distributional failure is even more problematic: while the winners got away scot-free, those with less political and economic clout had to finance compensations. That is, instead of making the real winners compensate the losers, in our new modernity it is 'not-the real-winners' who have been forced by the governments to do this. In the US, for example, not only does Warren Buffett's secretary pay more taxes than he does, but also billionaire residents in Manhattan's finest luxury towers only pay about half the

federal income tax paid by their concierges, security guards and cleaners.⁵⁰ And the poorest 20 per cent pay an effective state and local tax rate that is half as much again as the top 1 per cent (ITEP, 2018). Basically, as that infamous New York socialite and billionaire boasted, 'we don't pay taxes; little people do' (Rampell, 2009). On top of that, tax cuts under Trump have reduced Federal tax receipts from corporate income by half.⁵¹

Europe's 'reverse catching up' with this Latin-style regressive taxation became almost as thorough.⁵² As late as the early 1990s, 12 OECD countries still had taxes on net wealth (Sandbu, 2019a). Things are very different now — even though, if just one-third of net wealth (e.g., the least productive) was taxed at 2 per cent, that would generate about 5 per cent of GDP of extra fiscal resources (Sandbu, 2019b).⁵³

The Danske Bank's € 200 billion money-laundering scandal, the world's biggest, also exposed the extent of Europe's tax evasion and avoidance.⁵⁴ As a law professor states, 'There's no reason anymore to fear prosecution for committing serious corporate crimes' (quoted in Protesse et al., 2018).⁵⁵ Why fear prosecution indeed, when — if convicted for tax fraud — instead of prison one may be just sent back to university! In Chile, a judge recently sent corporate executives convicted of a major tax fraud on a course in corporate ethics (with the condition that they had to get a passing grade!), and two prosecutors lost their jobs for investigating corrupt corporate money in politics. At the same time, large corporations such as the FAANGs hardly pay any taxes on

⁵⁰ See Gilson (2011). The IRS tabulates tax returns by ZIP codes, but some buildings in New York are so large that they have their own ZIP.

⁵¹ For Federal Reserve economic data, see: <https://fred.stlouisfed.org/>. And all this in a country in which the combined rate of tax on the income of high earners could rise to 73 per cent without proving counter-productive (Diamond and Saez, 2011). As Summers (2017) argues, in Trump's tax cuts the sums do not add up. And Krugman (2017) rightly asks, where are those prominent 'deficit-hawk' Republican economists hiding?

⁵² In the UK, 'New Labour' Chancellor of the Exchequer Gordon Brown created a tax break for partners of private equity firms, by which they only had to pay a 10 per cent capital gains tax on the sales of shares, instead of the usual 40 per cent. He did this while abolishing the 10 per cent tax band for low incomes, making all earnings above the personal allowance taxable at 20 per cent. As one private equity partner admitted, thanks to 'socialist' New Labour he now pays a lower rate than his cleaner (Prynn, 2007).

⁵³ For Sandbu (2019b), a columnist in the *Financial Times*, '[a] net wealth tax... may be the least harmful way to tax capital, even to the point of boosting productivity growth... . [It could] penalise low-return investments and reward high-return ones'.

⁵⁴ UK partnerships (largely limited-liability partnerships) comprised the second largest non-resident client group at the offending branch of Danske Estonian (Binham and Parker, 2018). In fact, Danske's board gave its CEO a full year's salary as severance payment (US\$ 1.8 m), and then closed down the branch to cover up. And an executive declared '[Danske Bank] has no obligation to report false client accounts to the authorities' (quoted in Milne and Binham, 2018). Even García Márquez would have smiled.

⁵⁵ In this 'too-big-to-jail' world, when HSBC became the bank of choice of Mexican drug cartels, or Standard Chartered of those on the official terrorist list, they just got a fine and no one went to prison.

profits due to imaginative tax schemes.⁵⁶ The Tax Justice Network estimates tax losses of half a trillion dollars due to global shifting of profits (Cobham and Janský, 2017).⁵⁷ In fact, the *Financial Times* now asks if money laundering has become the favourite crime of the élite (Dizard, 2018a).⁵⁸ Who said that crime doesn't pay?

All of this means that in this third aspect of this distributional failure others must be 'over-taxed' to keep the disposable income Gini somehow under control. In the UK, for example, Thatcher, while dropping the top rate of income tax from over 80 per cent to 40 per cent (Reagan did so from 70 per cent to 28 per cent), increased the regressive VAT from 8 per cent to 20 per cent as transfers rocketed — largely due to the transformation of the proletariat into the poor-letariat.⁵⁹ In fact, Thatcher's government never fulfilled its repeated promises to reduce the GDP share of the public finances: it simply shifted taxes around. These increased transfers surely fail 'the compensation test' — of the Kaldor–Hicks variety — as the real winners got away with their gains, and those not invited to the party were left with the bill. Incidentally, but relatedly, the winners would have had plenty with which to compensate others, to make increased inequality into a 'Kaldor–Hicks improvement' process—but we would need another FDR to sort this out.⁶⁰

This misguided targeting to finance social protection is what traditional critics of the welfare state get so wrong. When a German philosopher called it 'fiscal kleptocracy' (Sloterdijk, 2010), he ignored the fact that the 'new' welfare state is as much a subsidy to the rich as a help to the poor, since one way to

⁵⁶ Such as the 'double Irish with a Dutch sandwich'; the 'Irish inversion'; exemption of foreign affiliate income from additional home country tax; transfer pricing; inter-firm royalty payments; intra-corporate loans; the geographical allocation of parent overheads and costs; tax havens; and 'round-tripping' (Contractor, 2016; Houlder, 2014; Houlder et al., 2014).

⁵⁷ It is amazing how some corporations manage to get huge market capitalisation despite consistently reporting losses. For a proposal for a new corporate taxation system, see Wolf (2019). On the relationship between international tax competition and inequality, see FitzGerald and Dayle Siu (2019).

⁵⁸ And the FED seems happy to oblige; while the EU took out of circulation its largest denomination bill to combat money laundering, the FED, instead, has doubled the number of hundred-dollar bills in circulation (to US\$ 1.3 trillion) since 2008, making it the most widely used dollar-note; in a supposed 'digital era', now there are 13 billion hundred-dollar bills stuffed into wallets, safes and suitcases globally helping hide transactions (Tett, 2019).

⁵⁹ Unemployment immediately jumped by 2 million (1 million in manufacturing) (Marcel and Palma, 1988; Palma, 2005, 2008).

⁶⁰ For example, in 1982 a person needed only US\$ 75 million to qualify for the Forbes 400 (at today's prices it would be about double that); today it is not far off US\$ 3 billion (Thomhave, 2018). And in the US, the top three billionaires now have as much wealth as the bottom half of the population combined. In turn, the retirement assets of just 100 CEOs are now equivalent to the entire retirement savings of 116 million fellow citizens (Collins, 2018; Collins and Hoxie, 2018; see also Anderson and Klinger, 2015; Palma, 2016b).

solve the 'Hobbesian Dilemma' of how to keep the peace in societies with such contradictory distributional aims is for governments to 'rob' someone other than the real winners to compensate those who have become redundant in the new forms of capitalist accumulation. The generous trillion-dollar bank rescue packages of 2008–09, and the over US\$ 15 trillion QE-liquidity-pumping machine (which exchanged old bad financial assets for good new money, and drove asset prices skywards on the way) have made the very rich the biggest welfare recipients of all time. So, as mentioned above, our German philosopher should know better: today's post-modern Robin Hood welfare state robs the rich to give to the very rich!

The urgent need to avoid a total financial collapse after 2008 was one thing, but it was quite another to rescue financial institutions without demanding in return a proportional ownership of them — one that could then be sold when markets picked up again to recover those subsidies. This was the Swedish route to dealing with its 1990s financial crisis: to extract a pound of flesh from bank shareholders before writing cheques.⁶¹ As the *Financial Times* reports, 'All told, the primary effect of monetary policy since 2008 has been to transfer wealth to those who already hold long-term assets — both real and financial — from those who never will' (Kay, 2016). Basically, higher wealth inequality and shifting taxes down the income scale were not the unintended consequences of this policy, but its very objective — and it did so by driving a growing wedge between those who depend on wages for their (over-taxed and fairly stagnant) income, and those who depend on (under-taxed and rocketing) rents of all kinds, dividends and capital gains. Even Paul Volker now calls the US a 'plutocracy'⁶² — one in which the share of labour in national income fell by 8 percentage points.

Meanwhile, in China it has grown by more than 14 percentage points since 2007 (to over 60 per cent), with the minimum wage growing up to 20 per cent p.a. in parts of China. A similar pattern has unfolded elsewhere in Asia since the global financial crisis, with the labour share of income jumping by about 10 percentage points in Vietnam, the Philippines and Indonesia, and by more modest amounts in India, Malaysia and Pakistan (Johnson, 2019).

In the UK, instead, real wages since the 2008 crisis have had their worst performance since the Napoleonic Wars. In Cambridge, for example, average

⁶¹ Sweden did not just bail out its financial institutions by having the government take over the bad debts. 'It... held banks responsible and turned the government into an owner. When distressed assets were sold, the profits flowed to taxpayers, and the government was able to recoup more money later by selling its shares in the companies as well' (Dougherty, 2008; see also Palma, 2009).

⁶² '[One with] people that have convinced themselves that they are rich because they are smart... and they don't like to pay taxes' (quoted in Collins and Hoxie, 2018).

real academic salaries have declined; yet with the deluge of QE liquidity distorting asset prices, my house — instead of falling in price proportionally to the scale of such a crisis — has actually doubled in price from the already bizarre level it had reached *before* 2008.⁶³ And those capital gains are nicely tax free. As a *Financial Times* columnist about to retire rightly laments, 'But who cares if pension savers... may find to our horror that we are the (QE) schmucks?' — as QE has passed the buck to pension funds long on zero real-yields bonds (Authers, 2018). But those short on ideas but long on cash have done rather well, as the FTSE 100 has shot to an all-time record. Austerity, what austerity?

When words are detached from their meanings (e.g., austerity, welfare state, quantitative easing), we lose our ideological moorings. How else can one understand that, parallel to the asset-price hype and the tsunami of subsidies to the very rich, social protection took the entire 'austerity' hit, and now 3.5 million children live in poverty in Britain — more than half in some areas (End Child Poverty, 2018) — while deaths of homeless people in 2018 were up 24 per cent in one year (Strauss, 2018).⁶⁴ Accounts of poverty and destitution in the US make similarly harrowing reading: for example, within a 3-mile radius in Massachusetts (from Cambridge to Roxbury), life expectancy drops by 30 years.⁶⁵ Perhaps the only thing I agree with that German philosopher about is that, despite progress, 'civilisation's potential for barbarism has also been growing' (Sloterdijk, 1999).

The fourth distortion created by the *disparity* between market and social distributional outcomes that I want to highlight is that public debts are soaring. As the European Union's transfers have ballooned, the share of 'social protection' now stands at 40 per cent of public expenditure. If we add in public health and education, this share jumps to two-thirds (Eurostat, 2019; Lindert, 2010; OECD, 2019). However, since there are limits to taxing those 'not-the-real-winners', governments' debts are skyrocketing. In the EU they averaged two-thirds of GDP before the 2008 crisis; now they are close to 90 per cent. As the International

⁶³ Not that long ago, borough council employees where I used to live in London paid eight times their average annual salary for a property; now it is more than 20 times (and for a smaller house) (ONS, 2017) — in a city that at least for some is beginning to resemble Fritz Lang's Metropolis. I can't remember the last time I saw a financial price reflect a fundamental. But do any of the Washington Consensus 'get-the-prices-right' zealots care anymore? Central bankers certainly don't. Something similar happened in parts of the US, where in the last decade median real hourly earning has remained stagnant, while house prices in cities such as San Francisco have doubled (BLS, 2018).

⁶⁴ All this led a British judge to call the current welfare system 'cumbersome, overrun and creaking' (ITV, 2019).

⁶⁵ Statement by Rep. Ayanna Pressley (D-Mass), quoted in McKiernan (2019). See also Abramsky (2013); Alston (2017).

Monetary Fund (IMF) indicates, the OECD's public sector finances are in a sorry state (IMF, 2018a).⁶⁶

As discussed above, the new tax status of corporations and top incomes is based on the idea that now they have the right to part-pay/part-lend their taxes (as well as part-pay/part-lend their wages) (Palma, 2009). No need any more for old-fashioned tax structures where they had to pay for public goods via progressive taxation; nor for old-fashioned production structures based on positive but challenging wage-productivity dynamics (see Figure 7, above).

As for governments, while it is so easy and cheap to turn a blind eye to the rising costs of all those *self-constructed* welfare needs — e.g., in real terms, the US minimum wage is now more than a quarter below where it was half a century ago, so a parent earning the minimum wage today does not even get above the federal poverty line — why not just kick the inevitable ever increasing debts into the long grass and, for the time being, forget all about the highly inefficient nature of all this? Speculators with more liquidity than imagination help by actually paying for the privilege of lending money to governments. But for how long?

It is difficult to imagine how much longer the current delusion of *sustainability* of this growing asymmetry trap between market and social outcomes can continue: that one can go on living with some semblance of civilisation, while market inequality and debts are being propelled into outer space by an all-powerful inertia. It is as if a 'compulsive daydreaming' type attitude takes over, with its growing detachment from external reality and mounting passivity. On the one hand it is like the Chilean president quoted above ('in this life there are only two types of problems: those that will get solved by themselves, and those that have no solution'); and on the other, there is the persistent wishful thinking that this problem will be of the first kind. In the meantime, mobile élites can keep creaming off the rewards of economic growth, and enjoying social peace too.

Fifth and finally: now that OECD markets have finally been unshackled from all those Keynesian 'rigidities' and 'distortions' brought about by well intentioned but supposedly economically misguided post-war policies, are Latin America's levels of market inequality the new nirvana? And is the explosion of the stock of financial assets the best guide for resource allocation?

⁶⁶ In an otherwise excellent report, the IMF, however, fails to emphasise that the bottom line of this is a new combination of growing market inequality with a new tax status for those who benefit most from it. As mentioned above, the former creates new necessities for public expenditure, while the latter denies the necessary finance as it lets those at the top free-ride on public goods paid for by others—including the social peace facilitated by others paying the cost of keeping the disposable income-Gini relatively under control.

Have OECD countries really embarked on a 'creative destruction' of those rigidities? In fact, Moody's has calculated that, of the resources generated by QE, often *less than 1 per cent* was used to create new productive capacity (BBC, 2018).

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