
Systemic economic crises, income inequality and the lack of countervailing powers

Economic Inequality, Financial Crises and Human Rights
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Contents

Three (brief) additional observations on:

- **What?**

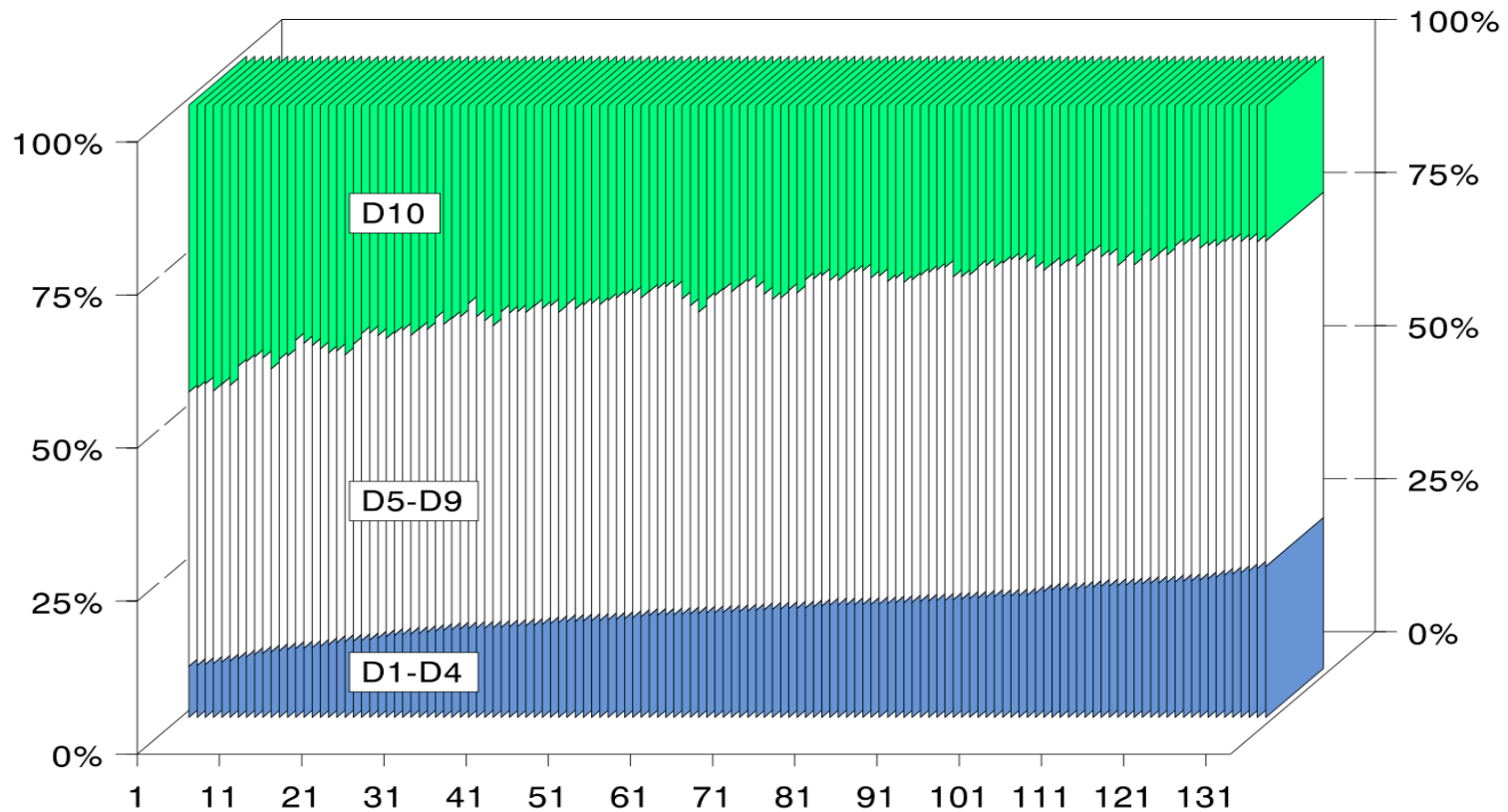
- The nature and extent of income inequality today
- (Income) inequality as a cause of systemic economic crises: Old wine in new bottles?

- **Why?**

- The ‘missing’ link from (income) inequality to the realization of human rights: The erosion of ‘countervailing power’

The nature of income inequality: A snapshot

The homogeneous middle vs. the heterogeneous tails in 131 countries, c.2012



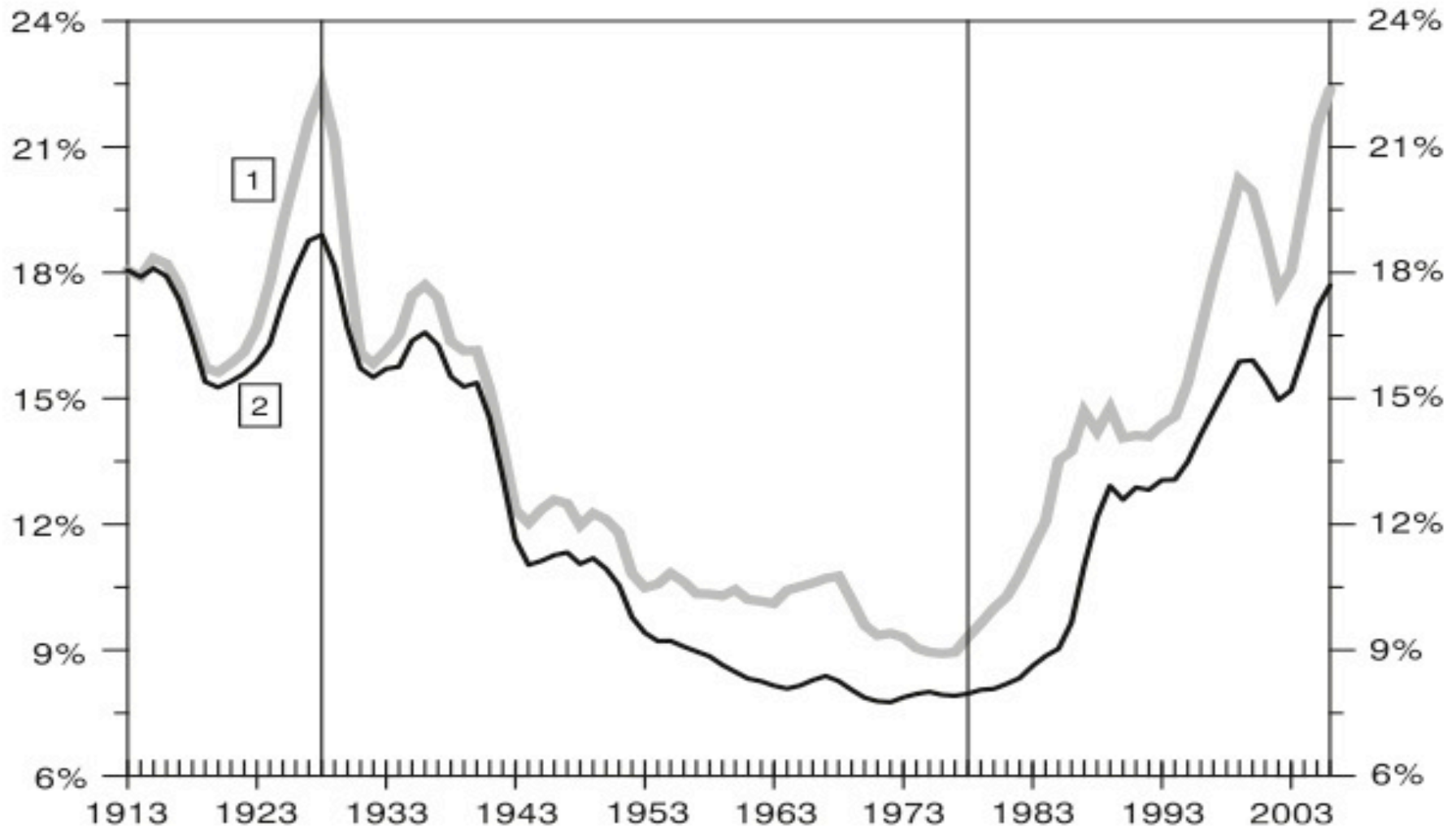
Source Palma, J.G. (2014). Why is inequality so unequal across the world? p. 14,
at: http://siteresources.worldbank.org/INTKNOWLEDGEFORCHANGE/Resources/491519-1399670184174/9563350-1400073516725/11Palma_inequality_IEA_final_Updated_version_June.pdf

The nature of income inequality today

- Specificity of distributional forces, at a global level, that take the form of a shift from the bottom 40% of households to the top 10%. The 'middle' 50% of households defend their relative income share.
- Empirical evidence to show that this 'stylized fact' holds over time since around 1985 across otherwise very different economies and societies.

The extent of income inequality: An example

Income share of top 1% in US, 1913-2006



Source: J.G. Palma, *The revenge of the market on rentier*, *Cambridge Journal of Economics*. 2009 (33 (4)):p. 836
[1] including realised capital gains, [2] excluding capital gains.

The extent of income inequality today

Income share (incl. capital gains)	1979	2006
Top 1%	8.9%	22.8%
Top 0.5%	6.2%	18.6%
Top 0.1%	2.7%	12.6%
Top 0.01%	0.9%	5.5%

- 1993- 2000: Top 1% receive 45% of total growth in pre-tax income.
- 2002-2006: Top 1% receive 73% of total growth in pre-tax income.

Income inequality and systemic economic crises

A (very brief) reminder:

- Classical Political Economy
 - Capital Accumulation (Growth) – Income Distribution - Endogenous (Systemic) Economic Crises
- Keynesianism:
 - Effective Demand – Underemployment 'Equilibria' – Endogenous Economic Crises

This missing link: The lack of countervailing power

- Art 3 of the International Covenant: substantial equality (of opportunity and outcomes)
 - structural sources of inequality
- J.K. Galbraith, American Capitalism 1952
 - Concept of ‘checks and balances’ applied to the economy/the market place
 - Market power will produce countervailing power (workers’ organisations)
 - Preferable to direct state regulation/intervention

This missing link: The lack of countervailing power

- Core danger to the ‘Equal Right of Men and Women to the Enjoyment of All Economic, Social and Cultural Rights’ is the *lack* of countervailing power(s):
 - Section 34 of the Report: Financial Lobbying, e.g. ‘Citibank’ Act 1999
 - Emergence of new global economic elites vs the role of mass democracies
 - TTIP: State – corporation balance
 - International economic (and financial) institutions: Voice and participation of developing countries