Funding the Future

Understanding economics: What is inequality?

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Inequality is about much more than the difference between what one person earns and another. It is about income, wealth, opportunity, security and, ultimately, power.

In this episode of Understanding Economics, I explain what inequality is, why wealth is distributed much more unequally than income, and how inequality can become self-reinforcing. Someone who has enough income to save can accumulate wealth. That wealth can generate further income through interest, profits, investments and rents. That additional income can then create still more wealth. Meanwhile, someone without savings may be paying part of their income to someone who already owns assets.

As a result, inequality can reproduce itself, including across generations.

But inequality is not simply an inevitable feature of economic life. The rules governing wages, employment, ownership, inheritance, housing and public services all influence how unequal society becomes. Tax and social security can further alter the distribution.

And that is important because inequality wastes human potential. People with talent and ambition can be denied opportunities simply because they lack the resources, security or connections available to others.

Inequality is therefore not just about money. It determines who has choices, who has security, who gets opportunities and who has power.

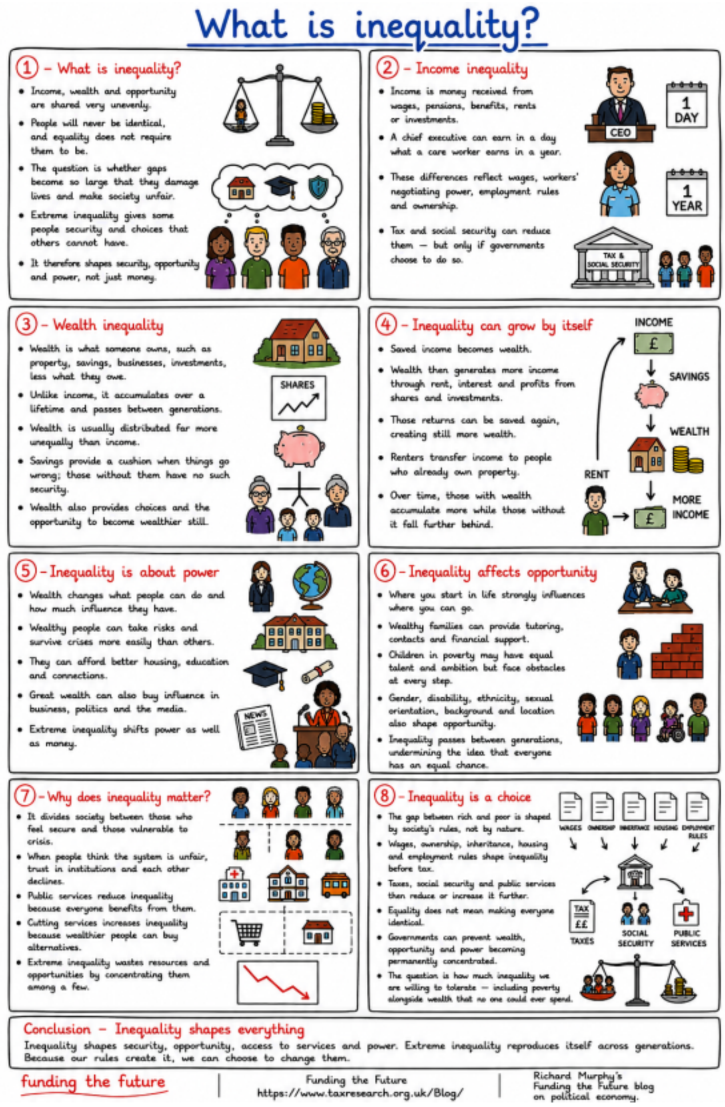
The question is: how much inequality are we willing to accept?

https://www.youtube.com/watch?v=Rv3NEq8I9fw?si=u2bB5XnUGKiTB5wP

This is the audio version:

https://www.podbean.com/player-v2/?i=d7i9b-1b58982-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

There is no Debate Ammunition for this video, but this infographic supports it:



As that is a little dense, this version excludes the images:

What is inequality?

1 What is inequality?

- Inequality means that income, wealth and opportunity are shared out very unevenly.
- People will never have exactly the same income or wealth, and equality does not require them to.
- The real question is whether the gaps become so large that they damage people's lives and make society unfair.
- When inequality is extreme, some people have security and choices that others simply cannot have.
- That is why inequality matters beyond money: it also shapes security, opportunity and power.

2 Income inequality

- Income is the money people receive over time, from wages, pensions, benefits, rents or investments.
- Income inequality measures how unevenly that money is shared out.
- A chief executive can earn in a day what a care worker earns in a year.
- These differences are shaped by wages, how much power workers have to negotiate, employment rules and who owns businesses and assets.
- Tax and social security can reduce income inequality, but only if governments choose to use them that way.

3 Wealth inequality

- Wealth is the value of everything someone owns including property, savings, businesses and investments, after allowing for what they owe.
- Unlike income, wealth can build up over a lifetime and be passed down through families.
- Wealth is usually shared out far more unequally than income.
- Someone with savings has a cushion when things go wrong; someone without savings does not.
- Wealth provides security and choices, as well as the opportunity to become wealthier still.

4 Inequality can grow by itself

- Income that is saved can turn into wealth.
- Wealth can then generate more income through rent, interest and profits from shares and investments.
- Those returns can be saved again, creating still more wealth.
- And someone paying rent is transferring part of their income to someone who already owns property.
- Over time this widens inequality: those who have wealth accumulate more, while those without it fall further behind.

This is the transcript:

Hello, I'm Richard Murphy, and this is Understanding Economics. The series of videos that I'm creating, which explains economics in terms that I hope you will understand. What I stress is, this is my view of economics. It is not the conventional view of economics, but this is the economics which will provide us with a better world that I think we all aspire to. In this series, I hope to provide you with the understanding that you need to talk about how we can create a better economy, a better world, and even a stable future.

Today, I want to talk about inequality. What is inequality? Because inequality does matter within our economy, and it is too often ignored by conventional economics.

Inequality can refer to income, wealth, and opportunity, and all of these are shared out very unevenly in the world in which we live.

Now, I'm not suggesting that everybody should have the same income, wealth, and opportunity because that is wholly unrealistic. We are all different. The outcomes we get in life are going to be different, and I accept that point. Not only are we going to have some inequality in this world, but nobody expects otherwise.

The point is we must make sure that the gaps which are created by inequality do not become so large that they damage people's lives and make society unfair. That is the point that we are addressing, and when inequality is extreme, some people have security and choices that other people simply cannot have. This is why inequality matters and why it matters beyond money. Inequality also shapes security, opportunity and power.

The first type of inequality we do, however, need to deal with is income inequality. Income is the money people receive over time, whether from their wages, from pensions, from benefits, or rents and investments. Income inequality measures how unevenly that money is shared out across society. A chief executive can earn in a day what a care worker can earn in a year. Those differences are shaped by wages, how much power workers have to negotiate, employment rules and rights, and who owns businesses and assets.

Tax and social security can reduce income inequality, but only if governments choose to use them that way. And the government also has the choice to use regulation, most especially with regard to employment rules, to ensure that can be reduced in that way as well.

Wealth creates another form of inequality. Wealth is the value of everything someone owns, including their property, savings, any businesses that they might own, and the investments that they have after allowing for what they might owe. So if, for example, a person has a house which looks as though it's worth £400,000, but they owe a mortgage of £300,000 on it, their wealth is £100,000.

Unlike income, wealth can build up over a lifetime, and it can also be passed down through families. Our system of law permits people to pass on their wealth from one generation to the next. They might have to pay a bit of tax to do so, but we not only permit it, but it seems we encourage this process of passing on an inheritance.

But the consequence is very clear. Wealth is usually shared out as a result far more unequally than income, because whereas income concentrates over a relatively short period of time, wealth can be concentrated over a very long period of time, spreading across many generations. And that is why wealth inequality is so extreme.

Let me be clear: wealth matters. Someone with savings has a cushion when things go wrong. Someone without savings does not. That is the fundamental difference that wealth brings. Wealth provides security and choices as well as the opportunity to become wealthier still. This all matters in a society where too many are left behind.

And let me be clear: inequality can grow by itself. If a person has enough income that they can afford to save, that is turned into wealth. And that wealth can then generate more income through interest, profits, gains from shares and investments, and through rents, if they decide to become a landlord. Those returns can then be saved again if they have enough income to live upon, and that will create yet more wealth. And someone paying rent who does not have wealth is transferring part of their income to the person who does have wealth.

What this means is important. Over time, this wealth gap widens. Inequality grows as a result. Those who have wealth accumulate more. While those without it fall still further behind.

And having wealth is not just about comfort and security. It changes what you can do and how much influence you have. Wealthy people can take risks, weather crises, and survive bad times in ways that those without wealth cannot. They can afford better housing, education and connections that open doors for their children. Great wealth can also buy access and influence within business, politics and the media, and we've all seen that.

Extreme inequality does then shift power within society. And this is not just an issue about money; it is about access as well. And inequality in that case affects opportunity. Where you start in life can have a big influence on where you can go. A child from a wealthy family may get private tutoring, useful contacts and financial support while they find their feet as a young adult. A child growing up in poverty may have just as much talent and just as much ambition as the person from the wealthy family, but will face obstacles at every step in their progress towards getting on with life.

There are other issues which deny people opportunity as well. Gender, disability, ethnicity, sexual orientation, background, and where somebody lives can also shape the opportunities available to them. Inequality can pass down through generations, but it can also be created by current prejudice. All of this makes the idea that everyone has an equal chance in our society very hard to sustain.

And does this matter? I think it does. Inequality divides society between those who feel secure and those who may be one crisis away from serious difficulty. When people believe the system is unfair, trust in institutions and in each other breaks down, and we are seeing that at present. Trust in government is falling because inequality is so obviously rising.

Public services such as healthcare, education, childcare and more can reduce inequality because everyone can benefit from them. They do not have a direct cost. But cutting these services does create direct costs, which is why austerity is so unfair and does increase inequality because that means that the wealthy can still buy alternatives to the services that were previously provided by the state, but those who do not have wealth cannot.

And extreme inequality also damages the economy. Resources and opportunities are accumulated by a few and are not used to best effect. In particular, the abilities of many people are quite simply unused because they cannot access the resources they need to put them to use, and that imposes a massive cost on society.

Talent that goes to waste cannot be recreated. It is lost. This is the cost that inequality creates. We could all be richer if we had a fairer society because not only would those who have the least spend more, and therefore keep the economy going better, they would also deliver their best for the benefit of everyone, and that truly matters. And it is that more than almost anything else which worries me about inequality, because inequality is about lives that are blighted by the failure to provide people with the resources so they can truly be themselves.

And what I want to stress is that inequality is a choice. The gap between the rich and the poor is not a fact of nature. It is shaped by the rules that society creates. Rules on wages, ownership, inheritance, housing, and employment all influence inequality before taxes is even considered. Taxes, social security and public services can then reduce or increase those inequalities further, and that again is a choice. A choice made by government.

And I'm not saying that the government can make everyone identical . I started this video saying that is not the goal, but equality does require that we provide everyone with opportunity, and stopping inequality from becoming so extreme that wealth, opportunity and power become permanently concentrated is, in that case, a priority, in my opinion, for any government, because the alternative blights us all.

The real question is how much inequality are we willing to accept? Including whether we will tolerate poverty while others have more than they could ever need?

Inequality determines far more than who has the most money. It shapes who feels secure, who gets opportunities, who has access to services and who has power.

Extreme inequality reproduces itself from one generation to the next, and because inequality is shaped by the rules we create, we can choose to change those rules. That is what understanding economics is all about.

If you want to know more about this series, there is a playlist down below this video. You can look there at the previous videos in this series, and I would suggest you start at the beginning because, as somebody once said, that is a very good place to start. But the point is, we did create these videos in a precise order to help you understand the subject. And so there is a reason for following my advice. Have a look, enjoy, understand, and come back with questions. That’s what this series is all about.

Poll

[poll id="517"]