



Wealth Creation and Inequality

By

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Wealth creation

- Capital Accumulation (human and physical)
- Income generation
- Economic prosperity reflected an increase real GDP per capita
- Economic Development – increase in the Human Development Index (HDI)

Inequality

- Income – wages, interest, profit, rent
- Wealth - assets
- Consumption - expenditure

Measuring Income Inequality

- Within a country – the Size distribution is used.
- The population is divided into quintiles and find what portion of the country's total income is received by each group (quintile).
- **US. Bottom 20% = 3.4% of income and top 20% = 50% of income**
- Among Countries – Gini Coefficient is most commonly used
- This coefficient represents the income distribution of a nation's residents and ranks income distribution on a scale between 0 and 1. Zero indicates perfect equality (all recipients receive equal amounts of income), and 1.0 indicate perfect inequality (one recipient receives all the income).
- Real GDP per capita - reflects level of poverty, and standard of living, and economic growth/decline.

Countries with Percentages of Total Global Personal Wealth

Rank	Country	Percentages
1.	United States	41.6%
2.	China	10.5%
3.	Japan	8.9%
4.	U.K.	5.6%
5.	Germany	3.9%
6.	France	3.5%
7.	Canada	3.0%
8.	Italy	2.9%
9.	Australia	2.0%
10.	South Korea	1.6%

Source: Allianz report (Ken bone internet celebrity, 2016)

GDP per Capita of Selected Countries

Rank	Country	GDP - PER CAPITA (PPP)	Date of Information
1	<u>Qatar</u>	\$132,900	2015 est.
2	<u>Macau</u>	\$101,300	2015 est.
3	<u>Luxembourg</u>	\$99,500	2015 est.
4	<u>Liechtenstein</u>	\$89,400	2009 est.
5	<u>Bermuda</u>	\$85,700	2013 est.
6	<u>Singapore</u>	\$85,400	2015 est.
7	<u>Isle of Man</u>	\$83,100	2007 est.
8	<u>Brunei</u>	\$79,500	2015 est.
9	<u>Monaco</u>	\$78,700	2013 est.
10	<u>Kuwait</u>	\$70,500	2015 est.
205	<u>Zimbabwe</u>	\$2,000	2015 est.
221	<u>Guinea</u>	\$1,200	2015 est.
222	<u>Niger</u>	\$1,100	2015 est.
223	<u>Malawi</u>	\$1,100	2015 est.
224	<u>Tokelau</u>	\$1,000	1993 est.
225	<u>Liberia</u>	\$900	2015 est.
226	<u>Congo, Democratic Republic of the</u>	\$800	2015 est.
227	<u>Burundi</u>	\$800	2015 est.
228	<u>Central African Republic</u>	\$600	2015 est.
229	<u>Somalia</u>	\$400	2014 est.

Source: CIA (World Fact book, 2015)

History of Economic Prosperity

- In modern history, the world as a whole has experienced tremendous economic growth and prosperity.
- Significant poverty reduction.
- The proportion of the world population living in extreme poverty, as defined by the international poverty line of \$1.90 a day, declined from 44.3 percent in 1981 to 10.7 percent in 2013 (UN Report, 2017)

Capitalism Creates Wealth

- According to Jerry Muller (2013), over the last few centuries, the spread of capitalism, has generated a phenomenal leap in human progress, leading to both previously unimaginable increases in material living standards and the unprecedented cultivation of all kinds of human potential.
- **Despite the increase in inequality and the negative perceptions associated with inequality, the fact is, wealth and income inequality are an integral and complex part of the capitalist structure and is a necessary component of economic growth. A case of CHINA**

A Case of China

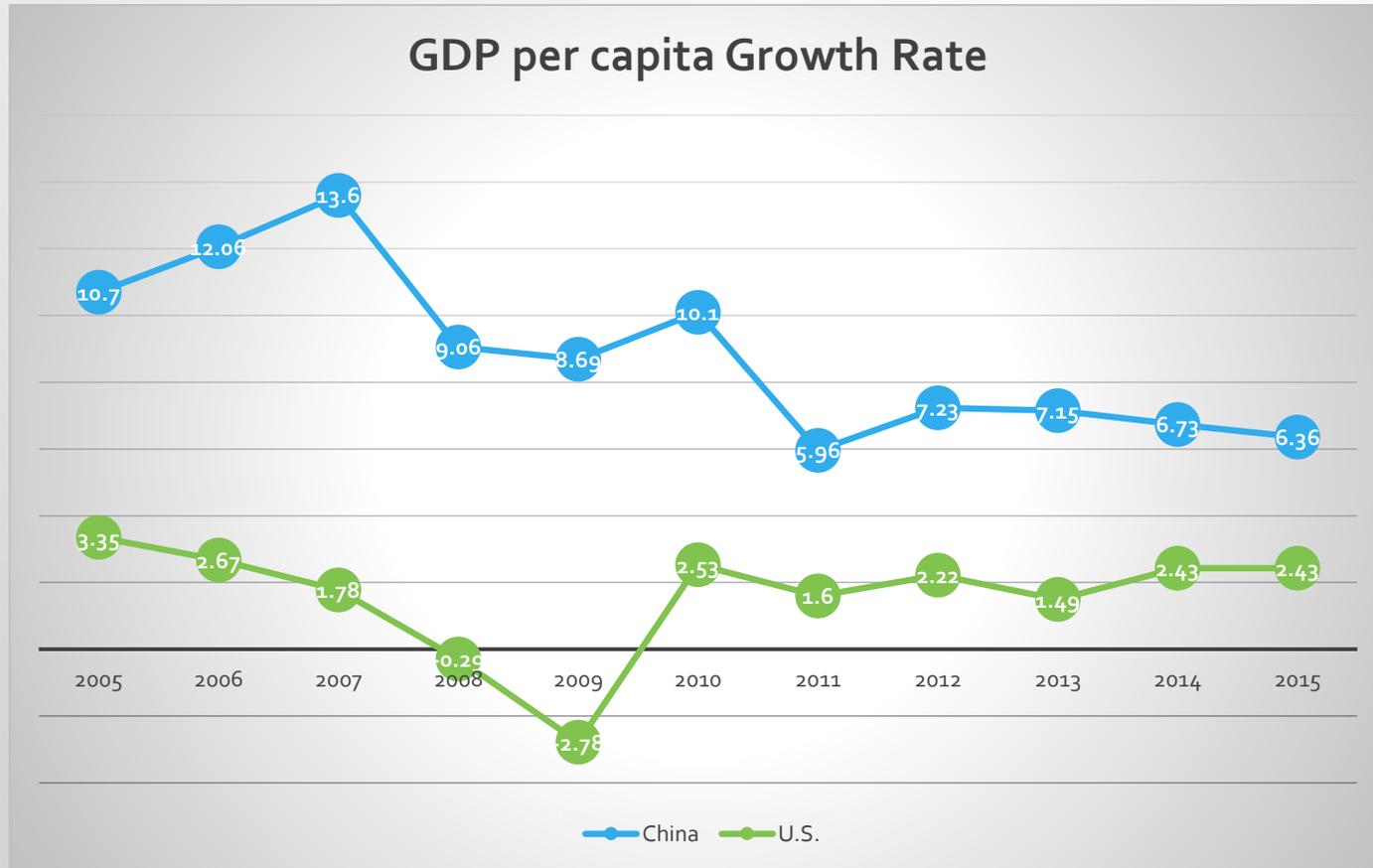


- Pre 1978 China was a centrally-controlled economy was poor and stagnant (Wayne M. Morrison 2015).
- State had full authority in controlling the allocation of resources.
- Since 1978 China began establishing its unique form of capitalism.
- Post- 1978 China has experienced economic growth that was faster and for a longer period than any country in history.
- Growth was as a result of the country's transition from a centrally planned economy to a more market oriented economy ([capitalism](#)).

China has emerged as a major global Economy

- China's GDP volume in real terms increased 22.5 times during the period, 1978–2012; its, real GDP per capita increased 15 times in the same period.
- In 2010, China surpassed Japan to become the world's second-largest economy.
- The country's export volume has also surpassed that of Germany's to become the largest in the world.
- the total GDP of China amounted to only 8.9% of that of the United States in 1980, with the ratio increasing to 75.3% in 2011; meanwhile, the ratio of China's per capita GDP to that of the US increased from 2.1% in 1980 to 17.5% in 2011. (**World Bank 2016**),

Figure 1

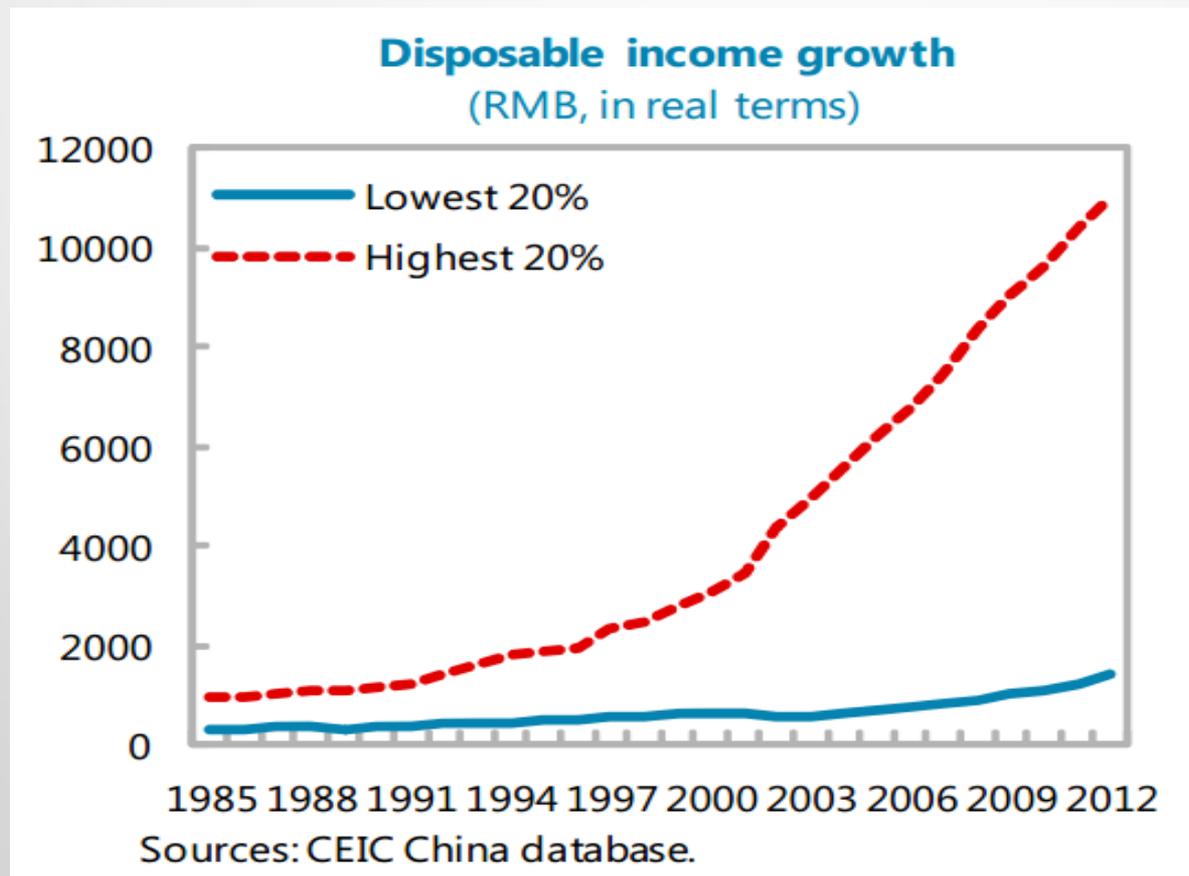


Source: World Development Indicators: World Bank National Accounts Data, 2015

Inequality accompanied prosperity

- The poorest 25 percent of households owning just 1 per cent of country's total wealth, while the richest one percent of households own about 33 percent.
- The income gap between the richest and poorest deciles widened from 19:1 to 25:1, and national inequality increased
- China now has the most millionaire households. According to the (**Wall Street Journal, June 10, 2014**), in 2013 China had 2,378,000 millionaire households, an increase of 82% from the previous year.
- China's Gini coefficient of 0.49 in 2012 is one of the world's highest levels of income inequality.

Figure 2



Increase Inequality with Increase Socioeconomic Performance

- The inequality did not reflect a deterioration of living standards for poorer groups.
- Both China's poorest and richest households experienced rapid growth in income and wealth.
- Growth of per capita household income of poorer deciles in the income distribution was substantial.
- China's poverty rate fell from 19 percent in 2002 to 8 percent in 2007.
- Since 1990 nearly 1.1 billion people have escaped extreme poverty. China, as a single country has lifted 730 million people out of extreme poverty.
- Chinese wages rose by 309 percent from 2005 to 2014, (IMF, 2007).

The Human Development Index (HDI)

- It takes into account life expectancy, education, and standard of living.
- Despite China's ever increasing widening inequality, according to a UNreport, China's HDI grew from 0.501 in 1990 to 0.727 in 2014.
- China also experienced a sharp increase in life expectancy, from 70 years to almost 76 years.

Table 3

Human Development Trends, 1990 -2014

Country	1990	2000	2010	2011	2012	2013	2014	% changed 1990-2014
China	0.501	0.588	0.699	0.707	0.718	0.723	0.727	45
India	0.428	0.496	0.586	0.597	0.600	0.604	0.609	29.7
Germany	0.801	0.855	0.906	0.911	0.915	0.915	0.916	14.3
United States	0.859	0.883	0.909	0.911	0.912	0.913	0.915	6.5

Source: UNDP Human Development Report 2015: UN Plaza New York NY. 2015

Other Social Benefits

- Wang, Pan and Luo (2014)
- Direct relationship between individual happiness and increases in inequality. Why?
- People's belief that "income inequality provides the opportunity for individuals to decrease poverty and that an individual can also achieve wealth growth through their own efforts, rather than relying on their social relationships, the background of their family, and other factors. With a certain degree of income inequality, people expect that their future opportunities will place them at a higher level of income distribution. So in this case, income inequality makes a positive impact to an individual's subjective happiness,"

Inequality is inherent in Capitalism

- “With China’s economic reform (**Capitalism**), the increase of productivity became a core objective and entailed a greater degree of inequality, which in turn, provided a stronger incentive structure for production and helped to lift millions of Chinese out of poverty.”Mao Zedong (2013)
- Capitalism creates income inequalities, but mainly through positive, wealth creating effects and not by absolutely impoverishing individual others.
- Even though capitalism would create inequality, “most of the growth of economic inequality is because of the increase in wealth and income of the better-off. .
- If capitalism simply raises some persons’ wealth or income, while not decreasing that of others, then that inequality is not in itself morally problematic.”

Inequality is not Poverty

- Both wealth and income are not necessarily rival.
- Increasing the wealth of some does not necessarily decrease the wealth of others.
- If everyone's income were to increase by 100% next year, a tremendous reduction in poverty will occur, but the gap between the rich and the poor will increase.
- when people become wealthy, it does not mean others will become poor.
- Therefore increasing the wealth of some does not necessarily decrease the wealth of others.
- In America, there was more wealth equality during the Great Depression (Gass, 2014) and during the Great recession (Pfeffer, 2013)
- Capitalism is necessary to eliminate poverty but capitalism causes inequality.

Freedom and equal opportunity provided by capitalism naturally lead to inequality.

- The socioeconomic mobility associated with capitalism incentivizes individuals to enhance their human capital.
- people have a strong desire to improve their well-being.
- People use huge amount of resources on education, acquiring marketable skills and knowledge.
- It should not be considered unfair for a surgeon, to receive greater income than one who has not received formal education beyond the primary level.
- It is an incentive to invest in human capital and if wage is based on the demand for skills and knowledge offered for sale, then those whose skills are in greater demand, will receive greater income.

Evolution of Capitalism

- Wealth creation was achieved mainly from the acquisition of land with added labor, mainly agricultural.
- Forced labor was common
- It was easier to see why wealth creators were considered extractors rather than contributors.
- We are rapidly moving away from wealth creation from the physical world to wealth gain from intangible knowledge-based assets.
- Brain power and innovation is playing a significant role in wealth creation.

Brain Power Generates Wealth.

- Economic prosperity and improved standard of living are facilitated by increase in productivity.
- To increase productivity, improvement in technology and innovation are needed.
- As a result of competition, to have an edge, innovation is promoted, which leads to increase overall wealth.
- Providers of the technology and innovators become billionaires, creating huge inequality.
- Bill Gates, Mark Zuckerberg.
- Not how much money you make, is what you done to facilitate economic prosperity.

Conclusion

- The success of capitalism should not be measured by the degree of inequality it creates. According to **(Cynthia Taft Morris 1995)** “The major criterion for judging capitalist transformations should be their success in raising the living standards of the overwhelming majority of the population.” P223. China is the perfect example of how capitalism, despite creating an ever increasing inequality, has raised the countries standard of living and has lift hundreds of millions out of poverty. Therefore, capitalism is the best means of addressing poverty reduction **(Ann E. Cudd 2015)**. Income and wealth inequality is an inherent component of capitalism.

Economic Explanation

- The path to economic success consists of investment which is guided by supportive government policies and institutions.
- Economic reasoning explains that a country can experience improvement in standard of living only if the economy grows, and growth comes with wealth creation.
- Investment requires enormous risks and sacrifice along with one's willingness to undertake such risky ventures.
- There must be an attractive incentive to cause individuals and companies to take the huge risks.
- **Profit** is the potential reward.

Economic systems to prove the case

- All centrally-planned economies have low standard of living (Pre 1978 China, North Korea and Laos).
- After the Second World War, the economies of North Korea and South Korea were similar in size.
- Today, South Korea's economy is now 13 times the size of North Korea.
- Pre 1978 China and the U.S.S.R had poor stagnant economies.
- U.S.S.R demonstrated economic failure due to wastage.

It is not a sin to maximize Profit

- Profitable companies can use their profits fuel the growth and prosperity (jobs creation, income generation – multiplier effect)
- Through taxes, business profits help fund government and the many services people rely on.
- It is socially irresponsible to run a business that does not consistently generate profits.

Internet has changed the Economic Geography.

- It eliminate the cost of moving and relocating transporting resources.
- Acquisition of information and knowledge about products,
- Easy access to internet, conducive to economic growth.
“In China, every 10% increase in broadband penetration is seen as contributing an additional 2.5% to GDP growth.”
Rita Yi and Man Li(201

Government Policies should facilitate growth by promoting investment

- Government policies aim at reducing income inequality by restraining the income earning capacity of individuals will be counterproductive.
- To create jobs, investment is needed.
- Investment needs finance and risks on the part of individuals.
- Profit is the incentive and to have an edge in the competitive economy, innovation and technology are advanced.
- If innovators and investors are prevented from increase wealth, as a means to promote Equity, there will be no productivity improvement and thus a worsening in standard of living.
- There must be those who are willing to raise large sums of money and taking huge risk in their investment.
- In the process, income is earned and wealth created.
- Bill Gates, S. Jobs. (what have you done, not how much money)