

Income inequality: causes, consequences... and politics (3/4)

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In this third part of the series dealing with income inequality, I focus on some of the political economy issues related to some political campaign promises (or lack thereof) made by presidential candidates in the U.S. and in France. Comments are welcome.

Key points:

- Among the *causes* of income inequality (no longer mentioned in non-specialized discussions) there is the strong fall in the inflation rate in Western countries since the early eighties, which may play a major role in explaining this phenomenon. (For the discussion see [here](#)).
- Major *consequences* of income inequality are the well-known detrimental effects on consumer demand and its strong potential to increase savings, which in turn exacerbate inequality. (Special attention is given to long term trends and inequalities among countries, see the discussion [here](#)).
- **The strong increase in income inequality has often been present in political campaigns. Surprisingly, however, recent U.S. and French elections focused very little attention to this issue.**
- A possible reason why this is so may be that reducing income inequality is at odds with globalization (as it is practiced today) and the Great Moderation.

Globalization, liberalization, mechanization, high unemployment and empty promises enhance income and wealth inequalities

The year 2016 and the first third of 2017 were marked, among other important historical events, by the elections in the United States and France. Just like an extremely popular TV show or a major sports event, elections now receive a lot of coverage and are filled with tons of information (both well- and ill-informed) in the home country and abroad.

These elections, together with Brexit, seem to have **opposed supporters and opponents of globalization** (winners and losers of this phenomenon), instead of the traditional left and right.

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Particularly unfortunate of these campaigns, however, is the fact that the arguments for and against globalization were brought down to terms non-economists (and even politicians!) could understand, which made the debate take a non-racist well-educated vs racist close-minded turn that blurred other issues at stake.

However, globalization is neither the sole source of some of the major economic problems of our day (for instance increased inequalities across and among countries) nor the only thing that opposed candidates in the U.S. and France. Other major economic topics that made candidates take sides in their proposals, and that contribute to the ongoing wave of enhancing global links and inequalities were public expenditure (size, composition and funding), the stand with respect to major trading partners (Europe for France, China for the U.S.), liberalization or protection of key industries in the economy, as well as other issues that were much more specific to the countries here analyzed.

Since the 1960s several changes have taken place in economic policy-making, but left-wing and right-wing political campaigns are almost intact when it comes to discourses dealing with economic policy proposals. For instance, in the U.S., Republicans run on platforms that aim at reducing the size of governments, cutting taxes, and often put more weight on their predecessors' policy mistakes (particularly if the latter are Democrats) than on realistic/feasible solutions. Democrats, on the other hand, have a tendency to propose reducing military spending (however unsuccessful they may be at that), pursuing fair (meaning progressive) tax systems, trying to ensure easy-going diplomatic relations with the rest of the world and counter income inequalities.

Let us take an example from Democrats. In [Kennedy's 1960 presidential campaign brochure](#) one could read that this candidate "was one of the earliest advocates of a plan to assure farmers of a fair share of national income". This sort of statements (paradoxically made at a time when farmers' share was much larger than today) resembled the aim of [Hilary Clinton's nomination speech](#) in which she pointed out that "[t]here's too much inequality, too little social mobility, too much paralysis in Washington, too many threats at home and abroad". Unfortunately, it also shows that the ideals of the 1960s have not been fulfilled. Let us also remember that her proposals to solve these inequalities were rather [incompatible with today's major economic interests](#) (those of rentiers mainly).

Her statement, however, does show that despite a candidate's will (be it sincere or otherwise) to push for policy in a noble direction is not shared by everybody. In the end, even if she had won the election, this would not have necessarily translated into less inequality in the medium to long term. Her support for TPP and her opposition to Trump's proposals to close the borders and raise tariffs stressed her pro-globalization stance. However, [globalization as it is practiced today](#), does perhaps more harm than good. If this is the case (and I believe it is at least in great part true), then her campaign promises relating to reduction of income and wealth inequalities were contradictory at best (by saying this I do not endorse Donald Trump... hey, I'm still waiting for the bill to pay for the wall).

By pursuing an agenda aimed at (further) liberalizing the French economy, while at the same time reassuring central European financial markets, Emmanuel Macron's extremely centrist (and incredibly ambiguous) political campaign achieved its desired effect of pleasing globalization supporters (relieved by not having an aggressive xenophobic individual as president),

European political leaders and stock markets, while at the same time making a commitment to adhere to European economic policy standards. One of the results of Macron being president is the current uncertainty and **wide variety of opinions concerning the size of the French budget deficit** (to name just an example), which are **incompatible with reducing existing inequalities generated by enhancing globalization**.

If globalization has a downside that has not been dealt with (the rise in unemployment and inequalities), why pursue it further on the same basis? Moreover, in the presence of growing replacement rates of workers losing their jobs to machines, why should authorities make it easier for firms to fire the former in times of distress (the so-called structural reforms)? Finally, why should governments reduce their spending (as Republicans and European authorities alike propose) when losers of globalization still lose from this game and grow in numbers?

The current U.S. president is trying desperately to show that he puts the interests of his country on top of those of his country's partners, but geopolitical risk has risen. The current French president is trying to show the opposite, reducing geopolitical risk but at the same time blurring the global direction of economic policy. Individuals need more than just political messages and empty campaign promises, they need a clear policy response that proposes credible and feasible responses to unemployment and inequality.