

# Inequality a pressing issue for all countries

In late September, I attended an annual international symposium in Switzerland. The symposium is designed to develop business leaders for the next generation by helping them broaden their horizons and obtain a better understanding of the various challenges facing the world. To that end, promising people with at least 10 years of experience



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working in companies and organizations are given an opportunity to have interdisciplinary and interactive dialogues in all fields with their peers and current-generation business leaders from around the world who provide intellectual input.

Every year, participants in this Swiss symposium are asked what issue they are most concerned about. Their answers tend to vary from year to year, reflecting the trends of each year. The majority answered "corporate governance" in 2014, "migration and refugees" in 2015 and "inequality" this year.

I also visited other parts of Europe that were particularly worried by Britain's decision to leave the European Union. I then flew to the United States and found that many Americans were increasingly disappointed with the presidential election campaign. On both sides of the Atlantic, many of my friends talked about inequality and acknowledged that inequality had increased in all three groups of economies — developed, emerging and developing — though in different ways.

In developed countries, which have achieved a certain level of growth that allows their people to enjoy relatively high standards of living, the issue of inequality is simmering, a reflection of the exasperation of many people who believe their "vested interests" are being infringed upon by immigrants, coupled with their dismay over the acceleration of income stratification. Many low-income people in developed countries engage in unskilled or menial labor and their jobs are prone to be taken by people migrating from low-income countries. As a result, there is an increasing belief that lax immigration control threatens their livelihoods.

In a number of Western European countries, right-wing populist parties have gained a strong electoral foothold by capitalizing on growing resentment toward immigrants from Eastern and Central Europe and refugees from Syria. At the same time, the rise of such parties is seen as a major cause of social instability in Europe. In Britain, the fears of unemployment by low-income people due to immigration and dissatisfaction with stagnant wage levels were also believed to have been behind the Brexit vote in June.

## Income stratification

While the issue of inequality continues to exist between countries, it also has surfaced as an internal phenomenon in emerging and developing countries. The traditional theory of development economics goes that when an economy is in a fledgling stage in terms of development and growth, the income share accruing to the rich is deemed to be permissible as a means of inducing a much-needed accumulation of capital to kick-start development. According to this theory, once a country is on a growth track, income imbalances are expected to be gradually adjusted to facilitate fairer income distribution and wealth redistribution.

But in reality, quite a few emerging and developing countries have amassed a considerable amount of capital needed for development and growth, but have either failed to rectify uneven income distribution or even exacerbated this situation.

The accumulation of capital in each emerging or developing economy has led to industrial development and simultaneously prompted the emergence of a "capitalist strata," resulting in social stratification and division. Moreover, the widespread presence in those countries of foreign companies in tandem with globalization has resulted in widening income inequality between the local employees of foreign firms receiving higher wages and the rest of the population. Therefore, inequality is now a conspicuous phenomenon in emerging and developing countries.

The reason why the issue of inequality is receiving particular attention is that many countries, including emerging and developing economies, have been experiencing economic slowdowns.

When those countries were on a high-growth path, the economic buoyancy more or less enhanced the well-being

of members of every stratum. However, now that they are caught in a low-growth trap — though posting growth rates slightly above zero — a large number of people in the lowest-income stratum, accounting for 20 percent to 25 percent of the population, have seen their net income shrink. Those people naturally feel disgruntled. In a socialist or communist country, such indignation could develop into a popular uprising against the regime and increasing doubt upon the legitimacy.

In parallel with inequality, the concept of inclusiveness also is drawing the attention of the public. It is aimed at fostering equally shared prosperity by ensuring that as many people as possible benefit from growth and development.

When we look at one region or another, we have a tendency to focus on one or two major emerging or developing countries, saying, for example, "This [or that] large economy is robustly growing" and paying little or no attention to medium-size and small economies. But even when looking at a major country that has shown marked growth, we actually tend to see only a limited part of the economy — the thriving side alone. We fail to consider the situation in which

a large number of impoverished people have no choice but to live with little hope of improving their lives even though their countries as a whole are enjoying high growth.

Consequently, inequality in emerging and developing countries tends to be here to stay from an early stage of development as the impoverished population is left out of the equation of shared prosperity.

## Wealth and the U.S. presidency

In developed countries, inequality is an arduous challenge that keeps vexing political leaders. Donald Trump's triumph in the U.S. presidential election on Nov. 8 is arguably evidence of this phenomenon. The policy agenda of his rival, Hillary Clinton, lacked both awareness of growing income inequality in the United States and specific proposals to combat it. In addition, her track record of accumulating wealth through her own foundation and other channels made a number of Democratic Party supporters disillusioned. Eventually, she had to continue to fight an uphill battle not only in the Democratic nomination contest but also in her clash with Trump down the stretch.

Compared with people in Europe, Japan and Southeast Asia, Americans used to be less sensitive to income in-

equality because they had an expectation — or an illusion — to "become a millionaire tomorrow even though I'm poverty-stricken today." But in reality, the prospect of moving from poverty to wealth is extremely slim, so poverty could be prolonged indefinitely. As a result, few people remain hopeful of lifting themselves to the top stratum of society. Recent U.S. presidential elections are symbolic of uneven wealth distribution as leading contenders mostly come from small numbers of wealthy families.

In any country, it is crucial to adequately deal with the issue of inequality to avert rising social instability in the wake of the recent economic stagnation and prevent popular discontent with politics and policy management from becoming explosive.

In the long run, many countries probably will usher in an era where they will attain their quantitative goal of raising living standards to a certain level, but then they will need to think about a series of new goals and challenges their nation-states and societies should pursue. When they are actually in such a position, they will have to set a lofty goal of making their societies as equal as possible.

However, setting constraints on income enhancement is not a solution. Individuals who are blessed with the talent for innovative thinking, developing ideas into practical goods and paving the way to success should receive compensation commensurate with their achievements. It is highly inadvisable to limit or curb such income.

But such income should be subject to an appropriate level of taxation, essential in realizing post-redistribution equality and helping to finance public expenditures. Countries will need a basic system for building a society where people can always feel a sense of stability, provided that it is formulated in a way to ensure it resonates with the population's candid and honest feelings.

On another occasion, I will touch on the need to ensure wealth redistribution via a combination of personal income tax, asset tax and consumption tax, the reasons for levying corporate income tax and the entire fiscal system's function in realizing wealth equality in various areas of our lives, including investment in education.

Special to The Yomiuri Shimbun

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