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COVID-19 further widens income gap

The issue of income inequality has been repeatedly and widely debated from a number of viewpoints.

The most well-known indicator of income inequality is the Gini coefficient. If a king monopolizes his land's wealth, leaving everyone else in the kingdom with no income at all, the coefficient stands at 1. On the other hand, if everyone earns an identical income, the coefficient is 0. This means that the closer the Gini ratio is to 1, the more unequal the distribution of income.

INSIGHTS into the WORLD

By Hiroshi Watanabe

In the past 20 years, the Gini coefficient has risen in almost all countries. The inequality index has slightly increased in Japan, but the same indicator has markedly climbed in the world's two largest economies: the United States and China.

At the beginning of the 21st century, while the Gini coefficient stood between 0.25 and 0.35 in Europe, Japan and Southeast Asia, it had already exceeded 0.4 in the United States and China.

It's surprising to learn that the United States and China — which were thought to be at far opposite ends of the spectrum of social systems — have had a similar tendency in terms of the widening of income inequality.

In China, income inequality has continued growing rapidly, to the extent that the current situation there is far removed from the income equality that can be associated with its national credo of communism. The Chinese government suspended the release of the country's Gini coefficient for several years in the early 21st century.

In 2012, Bo Xilai, who then was a member of the decision-making Politburo of the Chinese Communist Party, was suddenly dismissed from the party on bribery and embezzlement charges. One reason for his fall is said to have been his criticism of the Chinese leadership's slant toward a market economy, based on its "reform and opening up" policy. At the time, it also was said that Bo increasingly disapproved of China's excessive pursuit of a market economy because of the exacerbation of China's Gini coefficient. In the same year, a regional university near a key Chinese city that Bo administered released the findings of its research, showing that the Gini coefficient in China had exceeded 0.5.

In the United States, the fruits of success are sweet for people who dream the American dream, and there is a strong tendency to admire those who are richer. This attitude does not mean an acceptance of income inequality, but rather reflects the notion that being rich is a virtue.

However, in the United States, income inequality has widened strikingly, leading to greater social stratification. Now that the American dream has turned out to be a pipe dream, Americans supporting the Democratic Party, as well as other groups of people demanding more equal distribution of income, are gathering momentum. As a result, "social democracy" — which used to be a taboo term like "communism" in U.S. society — is now accepted there.

Likewise, developed countries that are increasingly maturing and emerging ones that have successfully completed economic "takeoffs" are both now experiencing a slowdown in economic growth, which is having a negative psychological impact on their populations.

In countries that enjoyed a high-growth era with their economies expanding at an annual rate of more than 10%, households in high-income brackets often saw their incomes skyrocket by double-digit percentages or even triple-digit percentages. In those days, there was also an increase of about several percent in the income of people in low-income brackets, which let them have a certain level of satisfaction with the fact that they too became richer, even though they were envious of the wealthy.

However, as countries then entered a medium-growth era with economic expansion limited to an annual rate of less than 10%, low-income earners' incomes actually posted year-on-year decreases. They were no longer satisfied with their income levels — instead their dissatisfaction with unequal income distribution increased.

The COVID-19 pandemic has aggravated some aspects of income inequality.

Now, people refrain from nonessential, nonurgent outings, and restaurants and other dining facilities shorten business hours to curb the spread of the coronavirus. Such restrictions on social activities are adversely affecting various sectors of each country's economy. To prevent infections, people need to avoid possible contact with others, causing serious damage to small and midsize services providers in particular.

In the services sector, many people are employed as irregular workers, mostly with low-paying jobs. The COVID-19 pandemic has forced more than a few people to live with almost no income.

Some experts say that research into COVID-19 mortality rates by income in the United States and other countries with many deaths from the coronavirus will show there have been more deaths and higher mortality rates among people in low-income brackets. Assuming this is the case, proving there is inequality in mortality rates, this is likely to have a stronger social impact on countries than a sense of monetary inequality.

Rich continue to get richer

Such a sense of inequality also affects environmental protection.

The international nongovernmental organization Oxfam released a report titled "Confronting Carbon Inequality" in September 2020, assessing the consumption emissions of different income groups between 1990 and 2015. It said, "The richest 1% of the world's population are responsible for more than twice as much carbon [dioxide] pollution as the 3.1 billion people who made up the poorest half of humanity during a critical 25-year period of unprecedented emissions growth."

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Although I am not qualified to verify whether this data is correct, I assume that such a disparity exists, even if the exact numbers may differ to some extent. When people become more conscious of unfairness and inequality in the field of environmental protection, there will be a change in discussions about human activities under the conditions of the Anthropocene. The Anthropocene is a hypothetical geological epoch in which humans affect the Earth's geology and ecosystems through deforestation and climate change, among other destructive impacts.

Many people may begin saying: "Only a small number of people — the wealthy — are responsible for the destruction of the Earth's environment. There is no reason for us, who live ordinary lives, to take the blame for it."

This means more people will be inclined to think that unfairness and inequality cause not only indirect, monetary damage to humans in the form of income and asset distribution distortion and bias, they also have a direct impact on human life and nature.

It is against just such a background that the fiscal and monetary measures adopted to deal with the COVID-19 pandemic seem to be amplifying this inequality. For example, special cash payments of ¥100,000 per person across the board, which the Japanese government made as an emergency measure, ended up increasing the spending power of people who were not in urgent need.

To prop up stalled economies and help businesses harmed by the pandemic, central banks in many countries are keeping interest rates low and making raising capital easy by sticking to ultra-easy monetary policies. However, those monetary steps seem to be exaggerating the sense of inequality. Even though there are ample supplies of funds, companies that find it difficult to immediately draw up long-term business development plans are opting to use such funds for short-term money management rather than long-term corporate investment. The stock markets in Japan and abroad continue to be flooded with short-term funds, with stock prices jumping to levels that hardly conform to the economic stagnation caused by the coronavirus.

The bubble-like stock market boom, while of course making investors cautious, is further widening the gap between the rich and the poor. This phenomenon is particularly conspicuous in the United States, where stock market participation by individual investors is traditionally high, meaning that many individuals enjoy the positive side of the so-called asset effect. The effect makes their wealth go up when the market value of their assets — stock holdings — rise.

Even in Japan, department store sales are showing a similar trend amid the COVID-19 pandemic. Although there has been a considerably steep decline in overall department store sales, the drop has been limited in sales of jewelry and precious metals mostly purchased by the rich. The same trend has been seen in sales of food products, which are steadily popular among people choosing to eat at home while doing more at-home activities — now known as "sugomori," or nesting — instead of traveling or dining at restaurants.

Unfairness and inequality are no longer limited to domestic issues. They are now evolving as cross-border issues, affecting relations with neighboring countries or causing imbalance within regions.

Measures to tackle the pandemic and related challenges require increased regional cooperation. But it is increasingly feared that imbalance and unfairness within a region may cause cooperation in the area to move backward, not forward.

Various problems resulting from income inequality should be analyzed from multiple perspectives and a vision for redressing them worked out. Some solutions, including a review of individual and corporate income taxation, can be viable. However, close coordination among countries is indispensable to adopt really effective solutions. When such a remedy is ready to be implemented, Japan needs to firmly play a role in keeping with its international status.

(Special to The Yomiuri Shimbun)

Watanabe is president of the Tokyo-based Institute for International Monetary Affairs, a post he has held since 2016. From 2013 to 2016, he was governor and chief executive officer of the Japan Bank for International Cooperation. He was also vice finance minister for international affairs from 2004 to 2007.

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