Long Reads

Viral Inequality

Mar 27, 2020 | IAN GOLDIN , ROBERT MUGGAH

LONDON – Not everyone experiences pandemics in the same way. A tiny sliver of the world's population has access to high-quality health care should they succumb to infection. Most of those performing low-paying shift work or agricultural jobs do not. People suffering from chronic disease such as obesity, diabetes, or cancer – including roughly 60% of American adults and a rising proportion of their African, Asian, and Latin American counterparts – are more at risk of dying than those who are younger and healthier.

The COVID-19 pandemic is serving as a stark reminder of the many inequalities that exist between and within countries. While virtually everyone will suffer from the disease – including wealthier people who picked up the coronavirus while travelling – the poor will be the most affected. Hundreds of millions of people are at risk of severe illness in low-income countries, most of which lack the economic resources and medical infrastructure to fight back against the virus. No part of the world will be more in need of support than Africa, South Asia, and Latin America.

Even before the coronavirus outbreak and its dramatic transformation of all our lives, inequality was already one of the most incendiary issues on the global economic agenda. In addition to being a core grievance of populists and street protesters just about everywhere, it has also been at the center of a flagship United Nations report, and has even become a leading concern of business leaders surveyed in the World Economic Forum's 2020 *Global Risk Report*.

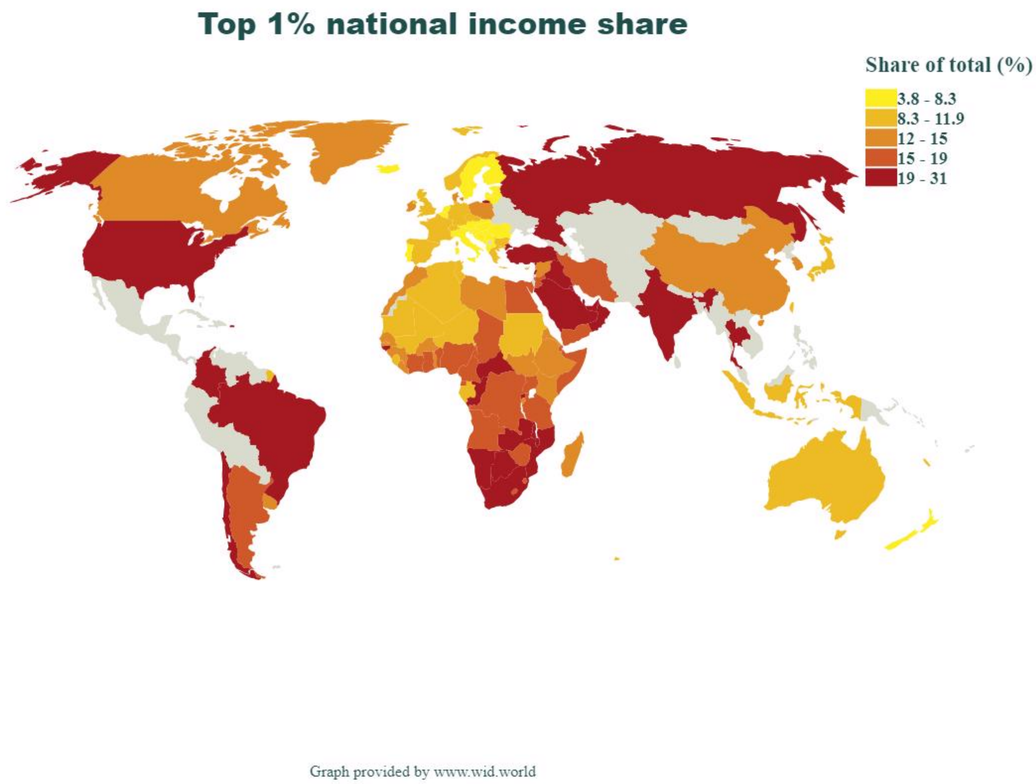
So, the scale of global concern with rising inequality is entirely justified. After all, inequality is a key contributor to the political gridlock, social anxiety, and rising tide of nationalism that has swept the world in recent years, and which is now complicating the response to the COVID-19 crisis. Inequalities in income and wealth, access to health and child care, and many other domains will now shape the trajectory of the pandemic over the coming months and years, especially when fatality rates begin soaring in communities suffering from acute deprivation and disadvantage. Social isolation simply is not an option for multiple family members crowded into a single-room home or for those who must commute to put food on the table.

Setting the Stage

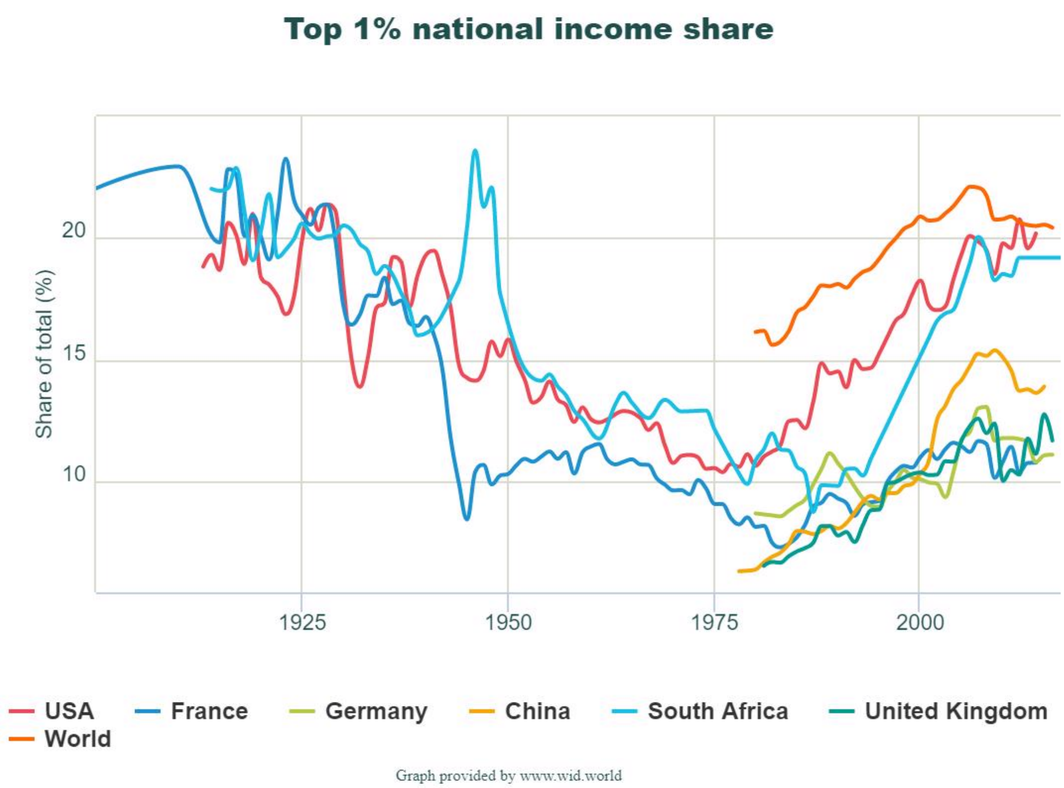
The story of international inequality in recent decades is not straightforward. Income and wealth gaps between countries have actually narrowed, a sign of progress in many lower- and middle-income settings. Yet levels of inequality within countries are steadily rising. A tiny elite – the so-called 1% – is pulling away from the rest pretty much everywhere, and not just in rich Western countries, but in poorer ones as well.

The fact that the super-rich emerged unscathed from the 2008 financial crisis has contributed to simmering resentments among a middle class that suffered deeply from that episode. When the rich flaunt their wealth – including fleeing to their bunkers and remote islands when faced with a crisis, jumping the queue to get tested for COVID-19, or disproportionately benefiting from treatment and care – public anger and discontent predictably will grow. When poorer people cannot afford to buy bread, much less a hospital bill, their anger turns to protest and radicalism. The situation has the makings of a political and social time bomb.

The first dimension of the inequality story – declining inequality between countries – is the natural result of developing countries growing much faster than richer countries. On average, incomes have long been converging globally. The other dimension – rising inequality within countries – has several causes. The main reason, however, is a matter of public policy: governments have cut taxes for the wealthy while slashing social and economic-redistribution policies that benefit those at the middle and bottom of the income distribution.



The regressive policies driving inequality within countries started during the era of US President Ronald Reagan and British Prime Minister Margaret Thatcher, and continued into the years of US President Bill Clinton and British Prime Minister Tony Blair. Elsewhere, in countries where virtually everyone was poor in the 1970s – Brazil, China, India, Russia, and South Africa – poverty reduction since the 1990s has been accompanied by soaring incomes among a thin wedge of elites.



Long before COVID-19 started spreading around the world, within-country inequality was growing at different speeds depending on where one looked. Since the 1980s, it increased most rapidly in China, India, Russia, and North America, and grew more moderately in western Europe.

Income inequality remained stubbornly high but stable in the Middle East, in large Latin American countries like Brazil, and in much of Sub-Saharan Africa. It shot up from already high levels in countries like South Africa, which is now ranked as the most unequal country on Earth. The different speeds at which inequality grew within countries reflects their unique economic circumstances and their particular blend of policies for managing trade, deregulation, taxation, public spending, and redistribution.

It's Complicated

Further complicating the global picture, a few very large countries are exerting an outsized effect on global inequality. Consider the cases of China, Brazil, India, and Indonesia. Collectively home to more than three billion people, these countries account for humanity's largest-ever reduction in extreme poverty over the past four decades.

In China alone, average incomes have doubled for each of the past four decades, pulling more than 800 million people out of deep poverty. In the 1980s, East Asia accounted for roughly half of all people living in extreme poverty (defined by the World Bank as an income below $1.90 per day), compared to just 9% today. Still, large pockets of deprivation remain. Roughly one-tenth of the world's population lives in extreme poverty, including over 420 million people in Africa.

Meanwhile, wealth has become increasingly concentrated at the very top globally. According to Oxfam, between 1980 and 2016, the world's richest 1% captured twice as much as the bottom 50%. During that time, the lower-middle class experienced improvements (especially in China), while the bottom 10% experienced little change.

But since the 2008 financial crisis, with some exceptions, job losses and stagnating wages have persisted, and yawning inequalities within countries have deepened, creating widening divides between the haves and have-nots. In the United States, for example, the incomes of the top 1% have risen seven times faster than those of the bottom 20%, and the top 0.1% now takes in 188 times more than the bottom 90%. Globally, the combined wealth of the richest 2,200 billionaires in 2019 exceeded $9 trillion, the equivalent of the total income of the poorest 160 countries combined.

Wealth is also concentrated geographically. One-quarter of the world's billionaires now live in the US, and Chinese billionaires will soon outnumber European ones. These trends represent a clear failure to prevent a small minority from capturing the value added of economic growth. Unfortunately, this story is not new. In the US, real (inflation-adjusted) wages have been more or less stagnant for almost half a century despite ongoing growth. While top earners have seen their incomes rise substantially, lower- and middle-class laborers have fallen further behind.

A Recipe for Disaster

The inability to translate economic growth into higher wages is dangerous. Like climate change and pandemics, inequality is a threat magnifier, and has already contributed to growing anger and instability around the world. Higher levels of economic inequality tend to erode support for democracy and democratic institutions across all social classes. It is little wonder that trust in government, political parties, and state services has plummeted – especially in liberal democracies – over the past decade.

Lost public trust sets the stage for deeper social and political unrest. Although frustrations will play out differently in each country, popular outrage tends to seize on issues of state corruption and excessive concentrations of power and privilege in the hands of a distant elite. Anger about inequalities in income, housing, schooling, and political power has been a common thread of mass demonstrations in Bogotá, Hong Kong, Johannesburg, Istanbul, Paris, and Santiago throughout 2019.

Inequality is also bad for the economy, because it creates a downward spiral of slower growth, political paralysis, and polarization. The greater the inequality, the more constraints there tend to be on talent, social mobility, and access to skills training and education. These limitations undermine productivity and ultimately stunt economic growth.

At the same time, the political volatility generated by inequality creates uncertainty, thereby undermining investment and business confidence. According to the International Monetary Fund, a one-percentage-point increase in inequality decreases long-run national GDP by 2.5-3%, on average, for middle-income countries.

It is not just economic inequalities, but also gender- and ethnic-based disparities that hamper growth. In most countries around the world, women earn about one-quarter less than men for performing the same job. Meanwhile, other inequalities remain hidden, including the daily constraints experienced by elderly and disabled people and the discrimination against sexual minorities and other groups on the basis of race, caste, and religion.

Unequal and Unsafe

There are spatial and temporal dimensions to the global inequality story as well. For example, if measured by Gini coefficients, despite improvements, Latin America is one of the world's most unequal regions. Moreover, beneath the surface, there are deep urban-rural divides around the world. Major cities are also major drivers of inequality. Vibrant cities such as São Paulo, Stockholm, and Sydney act as magnets, absorbing capital and talent from other cities and the hinterland.

But even within cities, where one is born and raised correlates strongly with one's income later in life. For example, the closely connected neighborhoods of Pinheiros and Parelherios in São Paulo individually register human-development scores similar to those of Switzerland and Iraq, respectively. Inequalities in income and access to high-quality education and health care also correlate with more unplanned teenage pregnancies and higher infant mortality rates.

The extent of inequality often makes the difference between life and death. In Brazil, a one point increase in the Gini coefficient translates into 32 more births per 10,000 girls between the ages of 15 and 19. And these newborns are at a higher risk of premature death: a 1% increase in the Gini coefficient is associated with a 3% higher infant-mortality rate.

Higher inequality also has disturbing side effects in the form of violent crime and armed conflict. According to a 2002 World Bank study, inequality predicts around half of the variance in murder rates around the world. This is painfully obvious in the Americas, where over 40% of all the world's homicidal violence occurs. In Mexico, a one-point increase in the Gini coefficient translates into a 36% increase in the homicide rate. In the US, multiple measures of inequality correlate strongly with higher firearm homicide rates across all ethnicities.

Around the world, economic, educational, ethnic, and gender inequalities between various groups increase the risk of armed conflicts breaking out. There is even evidence that the larger the gaps in income and other forms of inequality, the higher the rates of reported victimization. This may help to explain why South Africa and a number of countries and cities in countries such as Brazil, Colombia, and Mexico experience above-average levels of collective and interpersonal violence.

A Gallup poll asked almost 150,000 people in 142 countries about their perceptions of crime and safety across four measures: whether they had been assaulted in the previous year; whether they felt safe walking home at night; whether they have had property stolen; and whether they trust the local police. When these results were tested against each country's Gini coefficient, they revealed a strong and positive relationship. In Venezuela, over 80% of the population does not feel safe walking home, whereas 95% of Norwegians feel the opposite. Finally, inequality has been linked to a range of other externalities from increased obesity and anxiety to higher rates of mental illness and suicide.

No Silver Bullet, but Also No Secret

Given all of the evidence of the harms wrought by rising inequality, it is clear that closing the gaps between the haves and have-nots should be a top priority for policymakers. Besides, there are many ways to reduce inequality that also would generate significant positive economic effects, as well as health, education, and security benefits. But there is no silver bullet. As the 2019 UN *Human Development Report* shows, policies to boost income and improve redistribution are necessary but not sufficient. Each country also needs a wide array of measures to reduce disparities and improve opportunities, especially for the poorest and most vulnerable.

Specifically, governments, businesses, and civic organizations need to do much more to correct the imbalance in services that rich and poor neighborhoods receive. There also need to be stronger policies and more investments in employment and income opportunities for deprived communities, and in health, education, and social protections. These issues will not go away after the COVID-19 pandemic recedes.

We know that these kinds of inequality-reduction interventions work. In Latin America, improvements in educational coverage – especially in early childhood and secondary schooling – have helped to reduce the earnings gap between skilled and low-skilled workers. And similar other strategies have been used to transfer more income to the poor (though that progress tapered off after the commodity boom of the 2000s).

Fortunately, many of the measures needed to address inequality are already encapsulated in the 2030 Sustainable Development Goals and other initiatives like the Pathfinders for Peaceful, Just, and Inclusive Societies. Smart strategies span the gamut from increasing the minimum wage and expanding collective-bargaining power to ending discrimination against women and girls. Most of these interventions would rely on higher, more progressive income taxes, earned-income discounts at lower income levels, taxable child benefits, and universal minimum income policies.

Even when unlimited quantitative easing, job guarantees, and basic-income programs are launched to mitigate the economic fallout of COVID-19, improving tax collection will be crucial to ensure that governments have the funds needed to invest in health, education, and social wellbeing. In OECD countries, tax and spend policies like those listed above have historically helped to reduce inequality by over 25% and poverty by over 50%. This requires, among other measures, the closing of tax havens and loopholes.

Just as the world pivots to address the catastrophic effects of the global COVID-19 pandemic, inequality reduction demands a similar sense of urgency. The price of inaction compounds over time in the form of not just increased inequality but growing frustration and social unrest. Ensuring a more level playing field means overcoming both economic imbalances and entrenched political and power relations. The wealthy need to give up some of their power and privileges and accept that they should pay more in taxes.

While our short-term focus is on flattening the curve and discovering a vaccine, the COVID-19 crisis requires that we fundamentally rethink politics and economics at the global level. To limit the suffering – including when and where the next pandemic strikes – and ensure that people can achieve their full potential and flourish, we need a comprehensive plan to address entrenched inequalities in a post-COVID world.

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