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Income Inequality and Economic Disparity

BY WILLIAM A. DIMMA

In considering the closely-related contemporary issues of income inequality and economic disparity, I shall focus at the outset on the U.S. This is because the problem there is both advanced and well documented. Here in Canada, the problem is considerably milder, though growing in severity.

As an extreme example of Oscar Wilde's "Nothing succeeds like excess" in our southern neighbor, consider the startling fact that, in 2007, just before the initial onslaught of the Great Recession, seven members of Wall Street's private equity industry each earned or, more accurately, were each paid at least two billion dollars. This sort of thing helps to explain why the U.S. is home, at last count, to 424 of the world's billionaires. These are either individuals operating in the increasingly arcane world of high finance, or who founded highly successful enterprises.

Incidentally, a couple of generations ago, observers of the wealthy referred more to millionaires, defined as those with net assets of at least a million dollars, excluding a principal residence. Billionaires were almost non-existent. Is this explained by inflation? Only partly. Millionaires today are almost (not quite) a dime a dozen. There are approximately 5.1 million of them in the U.S. alone.

Not only are executive incomes on the rise, but the C-suite appears to be increasingly focussed on profit over other pillars of corporate responsibility. Allow me to quote a few more statistics that help to put the broader issue into focus. Consider a poll conducted in 2012 in 23 countries by an American firm, Edelman, and reported in that magisterial magazine, *The Economist*. In response to this statement: "The social responsibility of business is to increase its profits", 56% of respondents agreed. Canadian respondents averaged a somewhat lower 50%. Neither number is a ringing endorsement of corporate social responsibility (CSR).

Then there are these unsettling statistics about U.S. income distribution in 2007, the last year in which the economic bubble was largely intact:

- 50% of pre-tax income went to the richest 10% of households.
- 23% went to the richest 1%.
- And a minimum of \$2 million went to the richest .1%, with both average and maximum incomes soaring into the stratosphere.

Finally, consider the all-in compensation of a large-company U.S. CEO as a multiple of that earned by his or her lowest-paid full-time employee. That number rose from about 60 in the sixties and early seventies to as high as 450 in the years immediately prior to the current and still-lingering massive recession. Today that ratio hovers around 400.

In Japan, admittedly not the best economic model to emulate these days, the ratio averages a much more modest 40. But this same ratio also applied in Japan's glory days before government mismanagement, including too much Hayek, not enough Keynes or Krugman. That is, too much economic suppression trumped too little economic stimulus and pushed Japan into a long and sorry period of stagnation that, two decades later, persists.

Consider now the Occupy Wall Street movement that rather quickly expanded to Occupy Anywhere. But the movement stalled early in the game. Why? Because its spokespeople were largely unable to articulate a clear actionable message about its goals.

Sure, it was the 99% protesting against the 1%. In theory at least, that is a formidable ratio in a democratic society. But this overwhelming advantage was dissipated in vague generalities. As a consequence, even the broadly sympathetic media lost interest. A clear focus never really crystallized.

Furthermore, the movement was infiltrated over time by chronic malcontents and sh-t disturbers who revel in protest but come up short when it comes to reasonable and practical proposals for constructive change. And, at a much more pedestrian level, perhaps tents and winter aren't comfortable bedfellows.

It seems to me that what the 99% were really protesting about, even though they didn't articulate it well, was an implacable movement, especially in the U.S. over the past couple of generations, to plutocracy.

This is, of course, vehemently denied by those elites who insist that the word denotes class warfare and is despicable. It's captured in unattributed lines like, "It's unworthy of our fundamental American values. Our society is upwardly mobile, fair and equitable to all, especially to those with ambition, with gumption". Perhaps.

Others, however, view the rapidly widening gap between the 1% and the 99% as a form of reversion to the Gilded

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Age that characterized America in the years around the dawn of the twentieth century. They view it as government of, by, and for the 1%, in sharp contrast to Lincoln's Gettysburg Address and government of the people, by the people, and for the people.

The Obama presidency tried to slow the tide in his first term and will certainly try to do so in his second term. But the results to date have been largely ineffective, or marginal at best.

With the House of Representatives and the Supreme Court to the right of centre and with the Senate and the White House to the left of centre, the unsurprising result is a broken political system, stalemate, and angry frustration at how little is getting done.

And all the while, the footprint of plutocracy deepens. In a free-enterprise democracy, the "animal spirits" of John Maynard Keynes tend to overwhelm any tendency on the part of a liberal national administration, currently elected by only 52% of U.S. voters, to change the calculus, except marginally.

Despite the many powerful vested interests and obstacles to reducing the worst effects of a plutocracy, its downsides are many and serious. They can be characterized as economic, political, and moral. Here are a few thoughts on each of these three ways to describe the problem.

ECONOMIC

In America, it is conventional wisdom that the economic system works best when left alone and unfettered by government regulation, beyond some broadly-agreed minimum. However, despite serious ongoing efforts to persuade the non-plutocratic majority, the 99%, that, with hard work and diligence and the old-time American virtues, almost anyone can enter the Promised Land and join the chosen few, all is not well. The operative word is "few" and many skeptical Americans are convinced that the few will become fewer.

Today, those without the post-secondary education now seen as essential to individual economic success are starkly aware that upward mobility for them is declining sharply. It is closer to myth ("lies breathed through a silver trumpet") than reality, though a myth that serves plutocracy well.

Is there hard evidence that the all-in level of wealth and productivity is lower in plutocracies than in economies where wealth is somewhat more widely distributed?

I don't believe so, if only because it's a complicated multi-variable question. However, the record of many economies in South America and elsewhere suggests that too narrow wealth distribution leads to lower incentives and a lower work ethic for many members of the 99% majority in a 1% plutocracy.

POLITICAL

An established plutocracy has considerable staying power. The popular media convince all but the most skeptical and those sunk in cynicism that things could be a lot worse (as, of course, they could be) and that the status quo is preferable to any "hare-brained" alternatives (as, of course, it is).

As already noted, the 99%, as demonstrated so vividly over the past couple of years, are more likely to express grievances than to promote specific and practical remedies. There is more a "cri du coeur" than a learned economic prescription.

That many white males from the so-called working class voted in the U.S. on November 6th for traditional Republican values is cited by some observers as an example of voting against self-interest. Though well over a century old, perhaps the reassuring Horatio Alger stories in which virtue and hard work are always rewarded, regardless of status, continue to resonate.

However, over the past twenty or more years, many manual jobs have either been exported or replaced by modern technology. As a consequence, and to repeat, those lacking a decent post-secondary education are being left behind. And while income inequality results mostly from wild excess at the top, it is compounded by a diminishing supply of jobs well down the ladder.

Does the export of jobs help to explain why Obama defeated Romney on November 6th? Certainly it didn't help the challenger that, in a previous incarnation at Bain Capital, he supported the export of jobs overseas.

In his second term, will President Obama improve at least marginally the income inequality issue? Perhaps. But when politics and economic reality are at odds, it's safer to bet on reality.

MORAL

The majority of thoughtful observers agree that reasonable measures to reduce economic inequality are moral absolutes in a caring society. Such measures include progressive taxation, government-provided services like primary and secondary education, and government-subsidized services like health care and post-secondary education.

Reasonable people can debate the details, where the devil resides. But, in an enlightened democracy, some level of redistribution is acceptable to all but those sunk in the regressive ideology of the Tea Party variety.

One of the more appealing features of the Canadian polity is that, while left and right debate and disagree about specific measures to redress inequality and, more specifically, about their costs and about how they will be paid for and by whom, there is broad agreement – not universal, but widespread – with a principle. It is that the higher our income and net worth, the more we are expected to pay for the privilege of being Canadian. 🍁



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Mr. Dimma is a pioneer in the field of corporate governance, with over 40 years of experience having sat on 57 corporate and 40 not-for-profit boards. He has won numerous awards for corporate leadership, and has had several books published on corporate governance, including *Excellence in the Boardroom*, published in 2002, and *Tougher Boards for Tougher Times*, published in 2006. He is widely respected as a leading spokesman for continuing evolution in Canada towards more effective corporate governance. Among his honours are the Order of Canada and the Order of Ontario.

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