The evolution of inequality and economic growth in the International Community after the 2008 crisis

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Abstract
After the 2008 crisis, the international community saw a rise in inequalities, such as income and wealth among social subjects. The tendency mostly believed was that the main causes of the economic crisis are precisely the growing inequalities developed in this new century. Moreover, governments could be the political "reflection" of the richest 1% - as this class is the one most able to support electoral campaigns economically - thus determining a vicious circle in the dialectical inequality-democracy.

Keywords: *Inequality; economic growth; International Community; Europe; United States; lobby.*

1. Introduction

The period following the 2008 crisis was characterized by the re-emergence of inequalities in the distribution of income and wealth in the various countries; therefore, the debate has resumed in terms of inequality and economic growth.

In economic theory, the idea that "the distribution of incomes can no longer be considered only as the final result of the general equilibrium of an economy, but plays a central role in determining other aspects of the economic performance of a state, has made its way. From a macroeconomic point of view, the distribution of wealth influences the production and the level of investments both in the short and long term, and is therefore a fundamental aspect of the development of an economy" (Viesti and Luongo 2011: p. 3).

The inequality can "undermine economic recovery because it reduces the aggregate demand, leads to an excess of risk exposure in the financial markets, reinforces particular interests that delay political reforms and prevent the adoption and implementation of counter-cyclical measures and, ultimately, undermines the effectiveness of the institutions. On the contrary, a greater level of equality in the distribution of wealth favors the creation of strong institutions that create, regulate, stabilize and legitimize markets, thus favoring the recovery from economic shocks. Stronger institutions, then, can act as an effective constraint on the abuse of political and economic power, fostering relations between the state and the economy and thus supporting economic recovery" (Viesti and Luongo 2011: p. 5).

Social conflicts do not influence economic performance only by "increasing economic instability and, therefore, by reducing investment or by paralyzing the ability to respond to an external shock of a political system. They can also increase the opportunity cost caused by violence. In particular, if, as has been shown, the crime rate increases with

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increasing inequality (Bourguignon 2009: pp. 2-11), the economic and social burden imposed on society by an increase in violence also increases, both in terms of direct costs (linked to example higher medical costs) and in terms of cost-opportunity, as a certain amount of resources will be "shifted" from other activities to prevention and fight against crime” (Viesti and Luongo 2011: p. 4)..

The inequality undermines “the ability to recover from negative shocks caused by external events, both directly and indirectly. The indirect effect derives from the impact of inequality on the set of tools used by policy makers to achieve certain objectives (monetary, fiscal, commercial and social policies). A high level of inequality, in fact, reinforces particular interests, thus increasing the power of the different present lobbies”. (Viesti and Luongo 2011: p. 4).

In recent years, the tendency mostly believed was that the main causes of the economic crisis are precisely the growing inequalities developed in this new century (Grignoli and Șerban 2018: p. 10) and finds its major exponents in authors such as Giuseppe Stiglitz and Thomas Piketty.

2. The economical theories

This last author in particular has elaborated in his last book (Piketty 2014: pp. 14-28), an interesting theory about the factors determining the increase in inequality and highlighted the risks are inherent in this problem if you do not operate at the political level in a specific direction aimed at curbing amplification story.

The theory is based on a simple “inequality in the formula $r > g$, where r is the annual rate of return on capital, while g it is the annual rate of growth of production and wages; the author sees precisely in this expression the possibility of progress widening economic divergences among individuals. In fact, they occur better from the past, they are recapitalized more quickly than the analysis of the production process and of income; this happens because, even if you limit yourself to a reduced share of income of your capital, quota share will however grow faster than economic growth as a whole. This, therefore, is for the author the first and principal factor of divergence of economic conditions between individuals” (Piketty 2014: pp. 14-28).

From the enormous amount of data and graphs developed, Piketty points out that this phenomenon has characterized the main continental economies since the end of the nineteenth century, when the value of private assets was fixed on the sixth / seventh annuities of national income, up to the period between two world wars when the capital / income ratio fell to two / three years. The author explains this remarkable fall mainly with the destruction of the material capital (buildings, factories, infrastructures, etc.) caused by the war (the decline has affected in particular France and Germany and is attributable for the most part to the Second World War, because the destructive technology was more powerful); in addition, the decline in foreign portfolios and the very low savings accumulated during the two wars also contributed to this (Piketty 2014: pp. 14-28).

The trend then reversed, especially since the '70s, when there was a slowdown in growth and an increase in private savings (both for households, that is, the share of income not consumed in the immediate future, and the businesses, i.e. profits not distributed and reinvested), reporting the levels of the capital / income ratio very close to those of the pre-war period (among the European countries, the one with the lowest concentration of capital seems to be Sweden in the 80s) (Piketty 2014: pp. 34-38).

It should be noted, however, that although the levels of income / capital ratio are currently similar both in Europe and in the United States, “the two continents have departed from very different situations; in the early 1800s in the United States, in fact, this ratio is less than half of the European one; this is mainly due to the fact that in America there are many more hectares of land per capita and consequently their value is lower than in Europe (at that time the company was predominantly agricultural and therefore the weight of land capital was significant in the composition of the national capital); moreover, immigrants did not bring real estate capital or their machinery, so they needed time to recover the gap of the component that the author calls "other internal capital" (housing and equipment for economic activities). However, in the nineteenth century, as a result of the decline in agriculture in overall production the value of land also decreases in Europe, while real estate and industrial capital begins to take advantage of, which will allow the United States to realign the European capital values / income" (Piketty 2014: pp. 34-38).

The second divergence factor is then represented by the process of removing salaries higher than others; according to most economists, this process seems to be attributable to "mismatching between competence and technology (in a society where there is little offer of engineers but the technological level of the moment requires a high demand for engineers, it is inevitable that the law of market determines a very high salary for this category of workers and consequently an increase in the differences with the salary of those workers not technologically advanced)" (Piketty 2014: pp. 34-38).

With reference to the divergences related to the income component of work, Piketty adds however another element that contributed to the process in question and which affects the top hierarchy of wages: the extremely high salaries of the so-called "superdirigents" of large companies (the phenomenon concerns in particular the United States and the United Kingdom and a little less continental Europe). For the author, it is precisely this that creates the greatest problems, since while mismatching could be solved by disseminating knowledge and skills (i.e. adequate education and professional training policies), the salary of superdirigents would seem the result of an arbitrary choice of the manager himself (as it becomes extremely difficult to calculate the exact contribution of his work), and therefore totally free from the concept of marginal productivity developed by the neoclassical economy (according to which the salary is proportional to the individual contribution to the company's product) (Piketty 2014: pp. 34-38).

Higher levels of income that are extremely high must also make the average income unreliable, which will inevitably be turned upwards, but which in practice will be more in line with the income actually possessed by the majority of the members of the middle and poor classes (Piketty 2014: pp. 34-38).

Besides the dissemination of knowledge, a factor that could help to reduce the differences is then the introduction of the minimum wage (which however is closely linked to the strength of the union institutions of the various countries) (Piketty 2014: pp. 34-38).

In this way the author puts into question the theory that had prevailed in the twentieth century, that is, the idea of Kuznets (Kuznets 1955: pp. 1-28) that income inequalities would be destined, in the advanced stages of capitalist development, to decline spontaneously, regardless of the policies adopted and the characteristics of the country, to stabilize at an acceptable level (this is due to the fact that in the initial phase of industrialization only the rich minority has the capital necessary for the exploitation of innovations in the industrial sector and therefore it is only this social class to benefit from it, but subsequently, with the entry of the "ex-agricultural" labor force in the industrial sectors, the benefit will also extend to the poorer social classes, which is why the Kuznets curve has the characteristic U-shaped inverted shape) (Piketty 2014: pp. 34-38).

Not sharing the theory of Kuznets, Piketty analyzes a series of solutions to the problem of the continuous growth of capital, stating however that only one is able to prevent the infinite spiral of inequality, ie the annual progressive tax on capital (which however can be effective only if implemented at a supranational level, since as a result of globalization even capital obviously no longer has borders) (Piketty 2014: pp. 34-38).

An analysis mainly focused on the United States, was developed by Stiglitz (Stiglitz 2018: pp.44-56) and shares almost the same line of Piketty, which highlights the "trickle down" policy, which he considers to grant the resources to the rich as they would then be "filtered out". Automatically to the rest of the population), although it was effective in the immediately post-war period, it is no longer valid since the '70s, when the inequality has once again increased. According to the author this is due not so much to "natural" laws (market laws), as to specific political choices made by the administrations of the moment (Reagan first and Bush then decided to abandon the Keynesian policies of economic intervention, to give space less intrusive policies that included tax cuts, reduction of public investment and deregulation of financial markets). The situation has significantly widened in particular after the 2008 crisis, as 91% of income gains went to 1% of the population (demonstrating once again that the policy of trickle down - implemented this time to save the banks - it did not work).

The concentration of income and wealth in a few hands cuts down domestic demand, because the propensity to consume 1% richer is much lower "than that of the earners of the lowest incomes; and lower question means unemployment. In the United States, the problem of inequality has also assumed an ethnic connotation: in fact, even though the white middle class has suffered from this problem, the major groups affected were however the African American and the Hispanic. Since in this country the working opportunities of the children are closely linked to the income of the family, this deterioration inevitably also affects the successive generations (the inequalities of results ie self-perpetuating)" (Stiglitz 2018: pp.44-56).

Stiglitz also warns that, given the tendency of other countries to follow the American economic model, the problem will soon assume global connotations; in fact, the data seem to confirm all this both for the already developed economies and for those in transition to a market economy (eg China, which had a low income inequality, today it shows a Gini index similar to that of the United States) (Stiglitz 2018: pp.44-56).

Like Piketty, the American economist also identifies the same factors of divergence in the component of income from work: that is, the increase in executive salaries does not reflect productivity (as evidenced clearly by the lack of correlation between manager's compensation and performance of the company) (Jensen and Murphy 1990: pp. 225-264; Bebchuk and Fried 2006: pp. 12-18).

However, still in line with the French colleague, also for Stiglitz the question of inequality is more problematic if related to income from capital: very often the goods that generate this type of income are not productive: for example, if a large part of savings is intended for the purchase of real estate, this choice does not increase the productivity of the real economy (Stiglitz 2018: pp.44-56).

Stiglitz then stresses that companies with greater inequality are less inclined to make public investments in those areas that improve productivity (such as public transport, infrastructure, technology and education) (Nistor: 2017: pp.68-78), as the rich fear that a strong government will, able to increase the efficiency of the economy, could at the same time use its powers also to redistribute income and wealth (Stiglitz 2018: pp. 44-56).

Moreover, governments could be the political "reflection" of the richest 1% - as this class is the one most able to support electoral campaigns economically - thus determining a vicious circle in the dialectical inequality-democracy.

The solutions proposed by the Author to counter the increase in inequality mainly affect four aspects:

- Reduction of executive salaries;
- Implement policies capable of maintaining economic stability and full employment;
- Guarantee equal access to education (in this way the pay differentials will reflect the differences in the capacity of individuals);
- Fair and complete taxation of capital (for example, eliminating favorable taxation of capital gains and dividends, and fine-tuning inheritance taxes) (Stiglitz 2018: pp.44-56).

Martin Feldstein, who explicitly argues that "income inequality is not a problem that needs a remedy" (Feldstein 1998: pp. 44-62), is clearly contrary to these positions. In carrying out this thesis, Feldstein (and also the other economists belonging to this vein) generally refers primarily to the classics, according to which inequality, although it may seem at first sight unjust, is nevertheless efficient and indispensable for the functioning of capitalism; inequality would create the conditions for growth because it stimulates the desire to invest and innovate. Starting from the twentieth century, this orientation will also leverage the Kuznets curve, ie the alleged transience of inequalities and the natural self-leveling of the latter over time. Finally, a further contribution will also be made by marginalists, through the idea that the rich participate in the production process to a greater extent than the other social classes, thus generating greater benefits to the whole society (this theory is often used to justify a treatment preferential tax for the rich, taxing the rich would in fact reduce their contribution to the economic system, thereby damaging everyone) (Okun 1990: pp. 78-93).

Feldstein identifies as a major mistake in Piketty's analysis the fact that he did not take into account changes in US tax law; indeed, it was precisely the changes in the American tax law that began in 1980 that gave the illusion of increasing inequality. The decrease in some tax rates has in fact led to changes in the choices of taxpayers, changes that have therefore increased the amount of income included in the statements of individuals who receive high income. Moreover, national income excludes the value of public transfers, including social security, health services and vouchers for the less well-off, which constitute a large part of the personal income of low and middle-income households; including these values, there would be a smaller gap with the highest incomes (Wood and Hughes 2018: pp. 77-83).

Ultimately, according to Feldstein, the problem in the United States is not that of inequality, but that of the persistence of poverty; but to reduce this problem, the confiscatory taxes on income and wealth proposed by Piketty are not necessary, but rather a stronger economic growth and a different approach to education and training (Feldstein 1998: pp. 44-62).

In an intermediate position we find Angus Deaton, who admits the possibility that inequality can be at the same time the cause and consequence of economic progress. If inequality also allows those below to improve their position anyway, then it may be acceptable[1]; however, inequality must not derive neither from the choice of the rich to

[1] Generally, this opinion is based on the excellent idea of Pareto, according to which the situation of maximum efficiency would only occur when it is no longer possible to improve the situation of an individual without worsening that of another,

operate in sectors with high private but socially inefficient returns (as sometimes happens in the financial sector), nor from benefits from lobby or position income (Deaton 2015: pp. 145-151).

3. Conclusions

Although, inequalities were present since early times, after the 2008 crisis, thru big companies speculations the gap became more and more visible. The democratic governments tried to intervene in the process, but only the most powerful from the economic point of view succeeded to contain the damage. The other ones are still struggling to recover from the 2008 crisis. In some countries, the crisis was even more damaging being combined with some other factors such as adopting the Euro as national currency, emigration or enormous country deficit.

After 2014 some of the most powerful economies in the International Community started to develop a slightly growth but even so the inequalities continued to develop.

Finally, the peoples discontent regarding the increasing inequalities gave birth to another phenomena witch in years to follow might represent an even bigger fall of the western economies: the rise of the extremist parties and governments.

The annalists are predicting a new and bigger crisis to come in the near future. The question is: will the International Community be prepared to face this new challenge and overcome it showing that the lessons history taught it were well understood, or the extremists will seize the power and demonstrate that history is cyclical?

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and on the Principle of Pareto (or Principle 80-20), from the name of the Italian economist who empirically highlighted how in Italy 80% of the wealth (at the time constituted by land) was owned by 20% of the population.

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