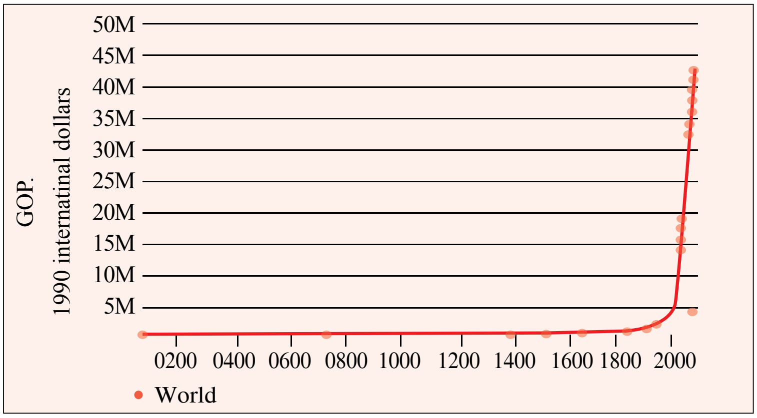
Contradiction or Paradox:

Poverty and Inequality and How to Tell

OWEN LIPPERT

Global poverty has lessened over the last fifty years. During the same period inequality some argue has risen sharply. Do those two trends pose a contradiction, or at least a paradox? That depends on which numbers you use and how you compute them. Small differences can lead to widely divergent conclusions, carrying opposing policy choices. Though this particular poverty and inequality debate largely involves economists, public opinion research professionals have something to contribute.

First up, comes the case for there being fewer poor people in the world today. The world has never witnessed an expansion of wealth as in the last 200 years. With it a dramatic increase in nutrition and health. Nathan Rothschild, the richest man in the 19th Century died in 1836 from a simple infection for which even a poor villager today could afford a curing antibiotic for pennies a dose. The results and charts here are courtesy the Cato Institute's latest Human Progress Index report. Cato, a veteran free market think tank, collaborated extensively with Canada's own Fraser Institute in the HPI design. Another excellent source is https://ourworldindata.org/extreme-poverty/

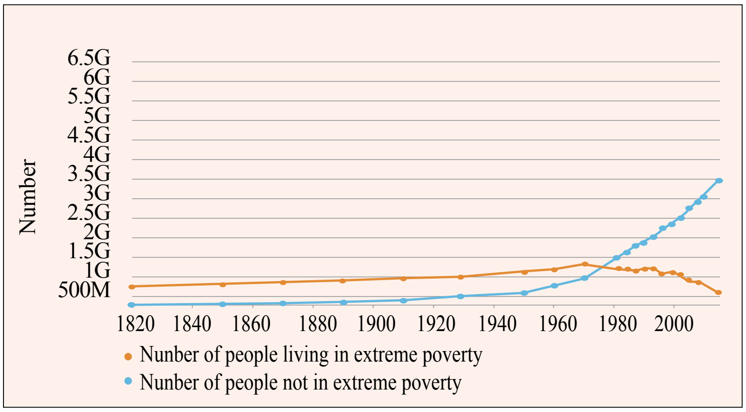


The starting point rests with Professor Angus Deaton, the 2015 winner of the Nobel-prize winning economist (who also sits on the advisory board of HumanProgress.org). Hehas argued that on the whole the world is getting better. The

HPI largely supports his conclusion. I have quoted the HPI report at length editing only for brevity in the interest of avoiding the inelegant variation of a paraphrase.

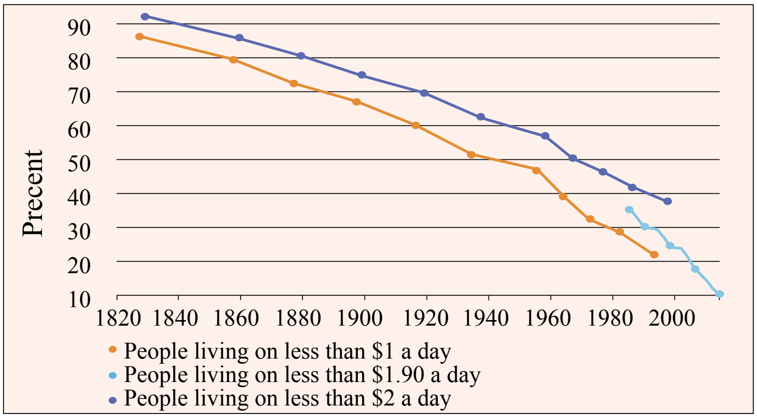
“Throughout most of human history, extreme poverty has been the norm. This famous hockey-stick chart, arguably the most important graph in the world, illustrates what happened when the Enlightenment and Industrial Revolution caused income to skyrocket–forever changing the way we live.”

“Humanity, as this chart shows, produced more economic output over the



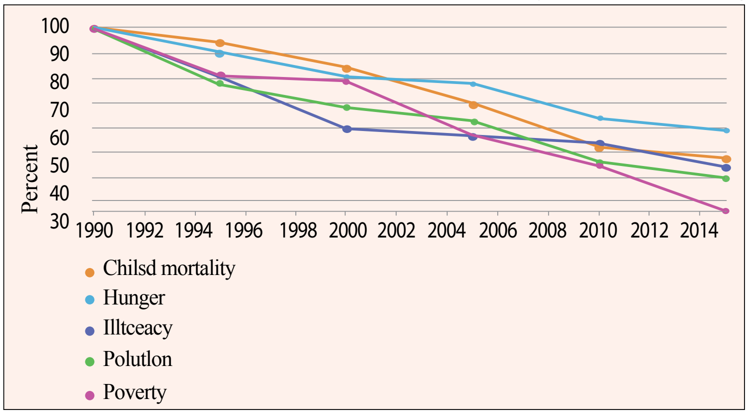
last two centuries than in all of the previous centuries combined. And this explosion of wealth-creation led to a massive decrease in the rate of poverty. In 1820, more than 90 percent of the world population lived on less than $2 a day and more than 80 percent lived on less than $1 a day (adjusted for inflation and differences in purchasing power). By 2015, less than 10 percent of people lived on less than $1.90 a day, the World Bank’s current official definition of extreme poverty.”

“Not only has the percentage of people living in poverty declined, but the number of people in poverty has fallen as well – despite massive population growth. There are also more people alive who are not in



penury than there have ever been. From 1820 to 2015, the number of people in extreme poverty fell from over a billion to 700 million, while the number of people better off than that rose from a mere 60 million to 6.6 billion. (Extreme poverty is again defined here as living on $1.90 a day, adjusted for inflation and differences in purchasing power.)”

“Globally, poverty is about a quarter of what it was in 1990. And the graph below from Johan Norberg’s excellent book, Progress: 10 Reasons to Look Forward to the Future, illustrates how the decline of extreme poverty has raised living



standards and brought about other tangible improvements. As poverty has lessened, so have child mortality, illiteracy, and even pollution in wealthy countries – all are now less than half of what they were in 1990. Hunger has also become much rarer."

"If progress continues on its current trajectory, the Brookings Institution estimated in 2013 that extreme poverty (this time defined as living on $1.25 a day, again adjusted for inflation and differences in purchasing power) will all but vanish by 2030, affecting only 5 percent of the global population. This is what they considered to be the "baseline" or most likely scenario."

The facts are unambiguous, extreme poverty has declined significantly."

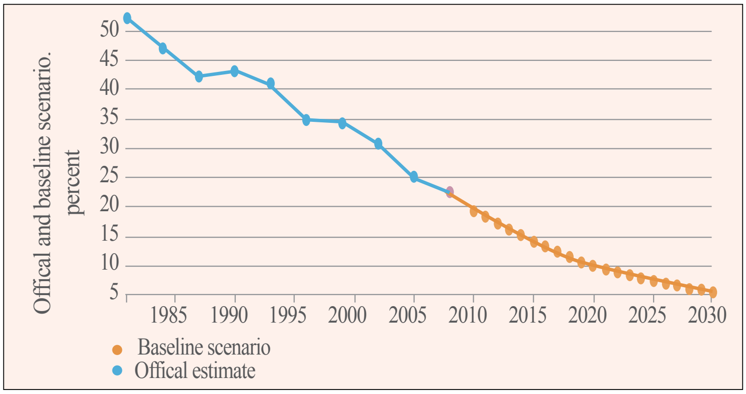
So why then the persistent belief in growing inequality both in wings of the economics profession and increasingly by the public? The topic had largely fallen out of academic fashion. Though many have a dim view of banks and Wall Street, a benign respect settled over the Silicon Valley-Seattle billionaires, who made vastly more money than the financiers and hedge fund types clinging to Atlantic shores. The recession and excesses moved attitudes, but so too did a French economist few had heard of, Thomas Piketty.

His book at 700 pages of dense prose translated from French, *Capital in the Twenty-First Century*, swept its way up the best seller lists. In the interest of honesty, I admit buying it, and could not ever finish. It is highly technical, powerfully argued, a magnum opus.

"Global poverty has lessened over the last fifty years. During the same period inequality some argue has risen sharply. Do those two trends pose a contradiction, or at least a paradox?

To understand the core of the argument, recall HPI's world's most important chart. It sets the stage.

"For the last 2000 years economic growth has been low and the times of 5% growth many of us have experienced are a historical anomaly. That growth combined with the shocks to the economy and taxation we got from the World Wars and the Great Depression gave rise to the propertied middle class which is also a historical anomaly. We are now re-entering a more typical period of low growth where the rate of return on investment is bigger than the rate overall economic growth. Thus wealth accumulates in the hands of investors, and the math and



data both say that will not only continue, it will accelerate. Sometime in the 21st century, barring major shocks, the wealthy will have it the best they ever have in the history of the world including the Roman Empire and the Gilded Age."

http://pikettyexplained.blogspot.ca/2014/11/summary-of-capital-in-twenty-first.html?m=1

Piketty's work unleashed a wave of popular concern over contemporary income inequality. On the moderate side Dr. Muhammad Yunus, Nobel Peace Prize winner, spoke of "wealth concentration" versus "wealth creation" though one cannot help but note Grameen Bank no less than a large commercial house such as Beximco rely on capital accumulation for their effectiveness. In other quarters, the technicalities went over the side. It was class warfare season. The rise of Donald Trump has likely unleashed the forward battalions.

> **"Not only has the percentage of people living in poverty declined, but the number of people in poverty has fallen as well – despite massive population growth.**

An example is the March 26, 2017 major opinion piece in The Guardian, "Populism is the Result of Global Economic Failure by '. It is worth citing a passage in order to return to the crux of the roots of the clash over comparable numbers.

"The answer seems pretty simple. Populism is the result of economic failure. The 10 years since the financial crisis have shown that the system of economic governance which has held sway for the past four decades is broken. Some call this approach neoliberalism. Perhaps a better description would be unpopulism."

"Unpopulism meant tilting the balance of power in the workplace in favour of management and treating people like wage slaves. Unpopulism was rigged to ensure that the fruits of growth went to the few not to the many. Unpopulism decreed that those responsible for the global financial crisis got away with it while those who were innocent bore the brunt of austerity."

"Anybody seeking to understand why Trump won the US presidential election should take a look at what has been happening to the division of the economic spoils. The share of national income that went to the bottom 90% of the population held steady at around 66% from 1950 to 1980. It then began a steep decline, falling to just over 50% when the financial crisis broke in 2007."

"Similarly, it is no longer the case that everybody benefits when the US economy is doing well. During the business cycle upswing between 1961 and 1969, the bottom 90% of Americans took 67% of the income gains. During the Reagan expansion two decades later they took 20%. During the Greenspan housing bubble of 2001 to 2007, they got just two cents in every extra dollar of national income generated while the richest 10% took the rest."

The critical observation lies in the measurement employed: Piketty and Elliot measure inequality as a percentage, the relative distribution of income and wealth along a distribution curve, regardless of the size of the cohorts. Deaton and the

HPI measure actual incomes adjusted for inflation and Purchasing Power Parity.

Piketty and Elliot view unequal distribution as a welfare loss to all but the top. The inequality itself is a cause of relative poverty, sufficient to justify radical redistribution measures, by the state. And they have a raft of them in mind.

Professor Deaton in a review in the New York Times {https://www.nytimes.com/2017/03/20/books/review/crisis-of-the-middle-class-constitution-ganesh-sitaraman-.html} presents a different perspective. The piece, entitled "It's Not Just Unfair: Inequality Is a Threat to Our Governance," examines a book by law professor, Ganesh Sitaraman, *The Crisis of the Middle Class Constitution: Why Economic Inequality Threatens Our Republic.*

"President Obama labelled income inequality "the defining challenge of our time." But why exactly? And why "our time" especially? In part because we now know just how much goes to the very top of the income distribution, and beyond that, we know that recent economic growth, which has been anemic in any case, has accrued mostly to those who were already well-heeled, leaving stagnation or worse for many Americans. But why is this a problem?"

"Why am I hurt if Mark Zuckerberg develops Facebook, and gets rich on the proceeds? Some care about the unfairness of income inequality itself, some care about the loss of upward mobility and declining opportunities for our kids and some care about how people get rich — hard work and innovation are O.K., but theft, legal or otherwise, is not."

In short, a pie maybe divided unevenly but as long as everyone is getting a bigger slice a degree of equity is preserved. The economic liberalism of the last fifty has worked, if never perfectly.

One is left with the question, what is the balance of different methodologies versus political, ideological, even moral choices in explaining different results, conclusions, and policy recommendations.

We come back to the question of whether dropping poverty and "rising" inequality is a contradiction or a paradox. I think the latter created by the massive increase in wealth in the last 200 years. It is not that the poor became poorer, indeed the opposite, but the wealthier became richer. One recognizes that for T.C. Mits (the celebrated man in the street) that is no particular reason to feel better about how the world is going, or worse.

The question remains, how does life get better still? That depends on for whom. Despite all the complaints about globalization and freer markets, they have raised nearly a billion Chinese from destitute poverty and started to do the same for South Asia as it sheds its colonial mercantilism. Africa may take longer but change is coming.

Emerging research (to be discussed in later issues) suggest inequality may owe a great deal to such conditions as the age distribution curve and even personal preferences. There is a need to better understand and explain how people think of, respond to, and plan accordingly to the broad sweep of economic change. For that the public opinion research profession must play a critical role. You are part of the process of modernization: there were no pollsters 150 years ago.▪

***Owen Lippert** Ph.D. is a public opinion poll analyst. Chief Executive Officer of ResInt Canada – a research based management think tank.*