Report shows rising social inequality in major capitalist countries

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The gap between rich and poor within the member countries of the Organisation for Economic Cooperation and Development (OECD) is much greater than it was thirty years ago.

Income inequality rose in almost every other OECD country, according to a working paper released on Tuesday. Thirty years ago, the richest tenth of the population earned seven times more than the poorest tenth. Today, the ratio is 9.5 to 1.

Inequality was measured in terms of income distribution by the so-called Gini coefficient. In 16 of the 21 countries where long-term data was available, this rate had increased. The sharpest increases were in Sweden, Finland, Israel, New Zealand, the United States and Germany. There are 34 member states in the OECD, mainly industrialised countries.

The growth of social inequality is particularly stark in Germany. While the richest 10 percent of the population earned five times more than the poorest 10 percent in the mid 1980s, today it is seven times as much.

Several studies and books have been published in recent months on the subject of the global growth of social inequality. The reasons are clear: declining wages, austerity programs in social spending, financial handouts to the banks, and the transfer of the tax burden from corporations onto workers. Especially in Germany and the US, a huge low-wage sector ensures that the income of the poorest is declining, while the income from share purchasing and company profits has exploded.

A study brought out last week by the German Institute for Economic Research (DIW) and Berlin Free University (FU Berlin) came to the conclusion that lifetime income in Germany, meaning the total earned during a working life from wages, had declined in real terms over recent decades in the lower earning brackets, while in the higher earning brackets it had risen.

As a whole the inequality in lifetime income between those born in 1935 and in 1972 roughly doubled. Approximately 40 percent of the rise in inequality is linked to higher unemployment among those in the lower portion of income earners, while the remainder is due to the growing differential in wages.

"For workers in the mid to low earning groups, it is increasingly difficult to increase their wealth," commented Holger Lüthen, one of the study authors, on the effect of growing inequality.

If declining pensions due to the latest pension reform are included, poverty among the elderly is inevitable. At the beginning of last month, the federal statistics agency announced that a growing number of pensioners are dependent on social welfare to secure their basic necessities. This support is equivalent to the rate of Hartz IV welfare, €391 per month plus rent and heating costs. At the end of 2013, over half a million people over the age of 65 were claiming this support, 7.4 percent more than the previous year. Old-age poverty is most prevalent in large cities such as Hamburg, Bremen and Berlin.

One group heavily impacted is women in western Germany. But in the future, men in the east and west will increasingly become pensioners living in poverty, due to longstanding and persistent unemployment, and declining wages.

While governments and businesses justify the redistribution of incomes by claiming that high social spending and wages restrict economic growth, the OECD authors come to the conclusion that rising social inequality is limiting economic growth. Adjusted for inflation, economic output in Germany between 1990

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and 2010 had risen 26 percent, but could have been 6 percent higher if inequality had not risen.

The effect in New Zealand and Mexico was even more striking. In both countries, rising inequality cost more than 10 percentage points in GDP growth. In Britain, Norway and Finland the increase cost 9 percentage points, and in the US, Italy and Sweden between 6 and 7 percentage points.

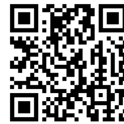
The economic impact was "above all due to the poorest 40 percent drifting apart from the better-off remainder of the population," the OECD authors concluded. This is because those in the poorer groups generally invest less in education, and this in turn influences social mobility and the training of new skills in each country.

Thus social inequality is restricting economic growth, in the opinion of the study's authors, above all because children from poorer families have fewer opportunities to access education. The OECD's reasoning seems to proceed as follows: the more the number of socially-disadvantaged families increase, the worse is their education, leading to fewer skilled personnel and more low-wage earners and less consumption, resulting in lower sales and economic growth.

As a result, the study does not appeal for income redistribution to the poorest of the poor, as the daily *Süddeutsche Zeitung* called for, for example. Instead it proposes that more money to be invested in social infrastructure. "Therefore it is not enough just to fund those sections of the population which are worst off," the authors write. "At least as important as monetary assistance is an improved access to quality, highly-valued education and further training, as well as healthcare services."

The study takes the view "that redistribution via taxes and government transfers is not inevitably damaging to growth, provided that the measures are targeted appropriately." Redistributive policies have to concentrate on families with children, as well as young people, "to improve their educational opportunities."

However, the study does not deal with the reasons why the exact opposite is happening today, why spending on education is being repeatedly cut, making study impossible for broad layers of the population. To do so they would have to call into question the existing social order, which is caught in the stranglehold of a tiny financial elite intent on ruthlessly plundering society's resources.



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