Empowerment through Capital: Tackling the Root of Economic Inequality

There should be no doubt that as of December 2020, the issue of economic inequality is an important socio-economic problem in today's developed world. Often the discussion focuses on lowering income inequality, e.g. via various income taxation reforms. However, some argue that the key to solving the problem is not through concentrating on incomes, but on wealth; as once said by the economic historian Gar Alperovitz, "political-economic systems are largely defined by the way property is owned and controlled" [1].

The reasoning behind tackling the problem of inequality "at the root" is that if we reduce the discrepancies in capital ownership, relative inequality would have a smaller tendency to rise since the "lower class" could rely more on regenerative returns from the capital, and not predominantly on labour income. As calculated by the French economist Thomas Piketty, in 2010, Europe was generally characterised by the "lower class" and the "middle class" having a 30% and 45% share of total labour income generated within the economy respectively [2].

Piketty goes on to identify a hypothetical "low" inequality scenario whereby the "lower class" (bottom 50%) have 25% of total capital and the "middle class" (the middle 40%) have 45%. Yet, in 2010, developed countries were predominantly characterised by the "lower class" and "middle class" having 5% and 25% respectively (case 1) or 5% and 35% respectively (case 2), which Piketty would define as either high (case 1) or medium wealth inequality (case 2) [3].

Therefore, a question arises: how should we allow the "middle class" and, perhaps more importantly the "lower class", to increase their share of total capital? One solution is the personal asset grant scheme.

The scheme could work based on unconditional payments sent to working individuals who are, loosely speaking, members of the "lower" and "middle" classes. For this purpose, accounts dedicated solely to the personal asset grants could be used – funds gathered in these accounts should not be spent at any given point in time, e.g. on spontaneous consumption, but would be used only for investment with a return. Preferably, this would be focused on investment in simple, low-risk financial instruments that could generate relatively stable returns. This would allow account holders to earn profit from the accumulated funds; this way, through re-investing the asset grant, they would be able to increase their wealth through a different channel to labour income.

However, we should look practically at the feasibility and implementation of this scheme. Firstly, it is essential to ask how people who currently generate about 70% of total labour income can be made to invest in the capital with returns, without withdrawing their gains? This would primarily require raising awareness on why long-term investment is important for increasing wealth amongst the "middle" and "lower" classes, alongside the persisting necessity to consume financial resources. Most likely, this would generate a need for promotion of the scheme itself as well as increasing access to financial services. In fact, according to World Bank data from 2017, among high-income countries, more than 6% of the population over the age of 15 did not have a bank account, with the world average standing at over 30% [4].
Lastly, where can the funds be obtained for the scheme? No complex calculations are needed to estimate that asset transfers to "lower" and "middle" classes would put considerable

pressure on developed states' budgets. Governments should consider additional sources of revenue, although this requires putting the scheme at the centre of the inequality debate. Only then it will be possible to transfer economic arguments into political debate and action.

It seems to be clear that there are many issues related to the personal asset grant schemes that need to be resolved before the policy is introduced, with some of them including consideration at a country-specific level. Yet, the message that the scheme conveys remains valid: focus on wealth and helping the "bottom" get closer to the "top" of the capital distribution, rather than solely concentrate on large-scaled transfers of funds from the "top" towards the "bottom" of the total income shares. While income is an important factor in reducing discrepancies between the rich and the poor, it will not solve the problem on its own. The essence of capitalism remains interrelated with the distribution of capital ownership.

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[1] K. Raworth, Doughnut Economics: seven ways to think like a 21st-century economist, Chelsea Green Publishing, 2017

[2] T. Piketty, Capital in the Twenty-First Century, translated by Arthur Goldhammer, Belknap Press of Harvard University Press, Cambridge, Massachusetts, 2014, p. 257

[3] T. Piketty, Capital in the Twenty-First Century, translated by Arthur Goldhammer, Belknap Press of Harvard University Press, Cambridge, Massachusetts, 2014, p. 259

[4] World Bank, Account Ownership at a Financial Institution or with a Mobile-Money Service Provider (% of Population Ages 15+) in Demirguc-Kunt et al., 2018, Global Financial Inclusion Database, accessed December 4, 2020, https://data.worldbank.org/indicator/FX.OWN.TOTL.ZS?name_desc=false