

Income inequality translates into an inequality of outcome, which has “a strong bearing on equality of opportunity” – a value on which political and economic liberalism normally fuse together.<sup>18</sup> Children brought up in deprivation face many more difficulties to get a decent start in life and find a job than the others. The net results go from unemployment to social exclusion and poverty. While many people in fast-growing “emerging” economies have been moving up the social ladder these last decades; the opposite trend is at work in developed countries. In the former case, more wealth is being created, at least in the short term, and is slowly trickling down from the rich to the poorer. In the latter, the supposed trickle-down effect, either as a natural consequence of increased wealth or through more artificial tax breaks (Reaganomics-style policies), is not working, or has reached its limits.<sup>19</sup> Raghuram

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15 Welch’s words on “*Hardball with Chris Matthews*” (transcript on [www.msnbc.msn.com](http://www.msnbc.msn.com) (July 13, 2006).

16 As Naomi Klein wrote in *The Guardian* (October 31, 2008).

17 Cited by Roger E. Backhouse and Bradley W. Bateman in “*Capitalist Revolutionary: John Maynard Keynes*” (Harvard University Press, 2011).

18 As Martin Wolf put it in “*Seven ways to fix the system’s flaws*” (*Financial Times*, January 23, 2012).

19 See e.g. J.K. Galbraith’s remarks in “*Recession Economics*” (*New York Review of Books*, 1982), or Robert Reich: “*Trickle-Up Economics*” (2004) on [www.robert-reich.org](http://www.robert-reich.org).

## THE SEVEN DEADLY SINS OF CAPITALISM

Rajan, a former IMF chief economist, has partly attributed the credit explosion in Anglo-Saxon economies to real wage stagnation, which encourages people to borrow. There can be surprising side effects. Robert Frank points for instance to some middle-class families' consumer behavior:

- With or without tax breaks, some people spend so much money on buying larger houses or a bigger cars (and other household assets) that it is to the detriment of education or other expenses.<sup>20</sup> A vicious circle is then triggered;
- Less income results in less purchasing and investing power (this is worsened by debt, too);
- This leads in even less resources for education (e.g. with children in lower-level schools);
- As a consequence, it diminishes job qualification and its improvement;
- This results in substitution of technology for labor force at a microeconomic level and deindustrialization at macroeconomic level;
- That generates more unemployment;
- It increases the income gap and inequalities.

That downward spiral is not only a trademark of Anglo-Saxon countries. It has spread to other places, not least emerging markets. And the losers are: the poor, the working class, as well as the increasingly impoverished middle class. Once epitomizing the success of capitalism, and not just on

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<sup>20</sup> Read, among others, "*Falling Behind: How Rising Inequality Harms the Middle Class*", by Cornell Professor Robert H. Frank (University of California Press, 2007) (you may also visit Economic Scene on [www.robert-h-frank.com](http://www.robert-h-frank.com)); or "*The Race between Education and Technology*", by Harvard Professors Claudia Goldin and Larry Katz, (Belknap Press, 2008).

TV, the middle class – or at least some of it – is now moving down the social ladder.<sup>21</sup>

When it comes to inequality, and contrary to what its exponents still state, globalization is not always a win-win game. Rising working and middle classes here are “paid” by dwindling ones there. Walking down the back alleys of, say, Bandung or Brazil’s favelas will show you the privations of old poverty. But driving down some streets of, say, Brussels or Madrid will make you see the hardships of new poverty.<sup>22</sup> Equality is definitely not capitalism’s business. As Robert Reich puts it: “*Capitalism’s role is to enlarge the economic pie. How the slices are divided... is up to the society to decide.*”<sup>23</sup>

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- 21 Read the above-mentioned “*Divided We Stand. Why Inequality Keeps Rising*” (OECD, Paris, December 2011). The impoverishment of the western middle classes is naturally explicable by the growing purchasing (and saving) power of the eastern-based ones (Southeast Asia, China, India, and, to a lesser extent, Eastern Europe). However, other causes may be found “inside” the system as well (see: greed, selfishness, buying and saving behavior, etc.)
- 22 To be fair, poverty in developed countries is not entirely capitalism’s fault. Poor urban planning, misused taxation policies, uncontrolled immigration flows, political errors are much (and sometimes much more) to blame.
- 23 Robert Reich, a former U.S. Secretary of Labor under Bill Clinton: “*Supercapitalism: The Transformation of Business, Democracy, and Everyday Life*” (Vintage, 2008).