

Davos and the Problem of Inequality

by Michael Curtis



We're in the money, we've got a lot of what it takes to get along. This could be the theme song of the small town of Davos in the Swiss Alps, a ski resort, which is the setting for annual meetings of politicians, business people, academics, and public personalities. The meetings are sponsored by the World Economic Forum, WEF, a not for profit organization founded in 1971 whose stated objective is to improve the state of the world. Its mission is to engage leading political, business, and other leaders of society throughout the world in shaping global, regional, and industry agendas.

WEF is independent, impartial, not tied to any special interests. It brings together many different kinds of

organizations, public, private, executives in global companies, high tech entrepreneurs, international organizations, and academic institutions. It is based on the "stakeholder theory," that an organization is accountable to all parts of society.

It is paradoxical that a world conference, intended originally to discuss problems or to stimulate thoughts about solutions should be held in a rather remote small Alpine town, and take place in mid-winter. Improbably, Davos became the place where the political and economically powerful in the world discuss and propose new ideas and programs. If the initial interest of participants was mainly in free trade, discussion in recent years is on broader issues, on social development, and the making of international deals, even if some of are attracted by the lavish parties offering *foiegras*, caviar, scotch whiskey, and Moet Champagne and the opportunities for economic and social climbing to meet prominent figures such as George Soros, Bill Gates, or David Rubenstein of the Carlyle Group.

The 2019 meeting had a more muted atmosphere than the previous year with its star power and performances by Donald Trump and Emmanuel Macron. Yet, with its theme of *Globalization 40*, it was attended by over 2,500 individuals, and prominent personalities such as Cate Blanchett and Elton John and Bono, as well as more serious persons.

A variety of issues occupied the panelists: artificial intelligence, robotics, technological change, automation, oil prices, trade wars, and Brexit in the 600 and more sessions. Difficult, complex problems were discussed. How to save the planet from the impact of climate change without killing economic growth ; What will be the impact of technology and artificial intelligence on work in future; Conflict of nationalism and the global system; Gender inequality, (about one fifth of attendees were women); How to get countries to collaborate in the context of globalization which is not only about physical trade but is also about knowledge, information,

technology.

British broadcaster and naturalist, Sir David Attenborough spoke on climate issues, British Prince William spoke on mental health, right wing populist Jair Bolsonaro, the new President of Brazil spoke of business and the need for balanced economic growth. Japanese prime minister, Shinzo Abe, promised action on global data.

George Soros called on the U.S. to “crack down,” on Chinese technological companies, Huawei, and Zte, makers of telecommunications equipment, and smart phones, and on the danger of artificial intelligence when controlled by authoritarian states. Christine Lagarde , head of the IMF, asserted that climate change was at “the heart of the debate.”

However, there were two surprises in 2019. One was the speech by a 16 year-old Swedish girl, Greta Thunberg, who spoke of global warning, and called for action by WEF people since the future of humanity rests in their hands. The other was a 30 year old Dutch historian, Rutger Bregman who spoke passionately, arguing that while people at Davos spoke of their participation, justice, and transparency in solving inequality, they should stop talking about philanthropy and start talking about taxes and consider the failure of rich people to pay their fair share of taxes. He alluded to the fact that people flew on 1,500 private jets to Davos, while David Attenborough spoke about people wrecking the planet.

The problems raised about the global economy are innumerable, and it is evident not only that not every problem has a solution, but also that action taken often gives rise to other problems, many of which affect those with limited access to educational or employment opportunities. What was missing in Davis was a comprehensive discussion of policies to deal with the issue raised in the World Inequality Report of 2018 that income inequality has increased in nearly all world regions in

recent decades, though at different speeds which shows that national policies and institutions play an important role in shaping inequality.

An important factor is that since 1980 there have been very large transfers of public to private wealth in nearly all countries; the result is that while national wealth has substantially increased, the growth in public wealth is negative or close to zero in rich countries and governments are not investing in public services. Questions are raised about the issue of taxation in a double sense: one is the argument that economies with high personal taxation cannot succeed; the other is the issue of whether rich people pay their fair share of taxes.

All participants at Davos were aware of the populist forces, the political unrest, the anti-establishment forces, the sense of cultural anxiety, the yearning for identity in European populations and elsewhere funneled by inequality which threatens the global order, and the need for people to be more skilled in order to get better jobs.

Recent reports and comments illustrate the issue in similar ways. Christine Lagarde comments that the wealth of the richest 26 billionaires in the world was equal to the wealth of half of the world's population, \$ 3.8 billion. The Oxfam Report 2019 is that the wealth of 2,200 billionaires had increased by \$900 billion in 2018, an 12% increase, but there was a decrease last year of 11% in the wealth of the poorest half of the world's population.

Other figures suggest that global wealth grew from \$3.4 trillion in 2009 to \$8.9 billion in 2017. The prominent French economist Thomas Piketty has called for a global wealth tax, saying that governments were not investing enough in public services and there was a need for high quality universal public services,

For 12 successive weeks events in France have illustrated the problem with demonstrations by the leaderless yellow vest movement (*gilets jaunes*) that has led to violence by the protestors and response by police and security organs using tear gas, rubber bullets, water cannons, stun grenades, resulting in 2,000 injuries. A protest that started in opposition to an increase in fuel tax became a rejection of governmental policy, even after President Emmanuel Macron retreated on the gas increase, and became a wider, virtually populist, protest against taxes in general. The movement cuts across age, job, region, with people from middle class and lower level. It is partly cultural as well as economic with the exclusion of those groups most of whom live in "peripheral France," outside the major cities, and feel neglected.

During the "Thirty Glorious Years." 1945-1980, in France there was increase in income share going to lower income groups, with a decline in the proportion going to the top 10%. But the annual rise in average national income then fell to about 1%, and began an increase in inequality around 1983. For the last thirty years, the average income of the richest 1% rose by 100% as compared with 25% for the rest of the population. That top 1% got 11% of total income.

The French top 10% took 33% of pretax income, while the lowest 50% got 23%. The top 1% got 11% of total income while about 14% of France's population live below the poverty line of 1,015 euros a month. The response of Macron is to make some concessions, and ban from street demonstrations "brute" troublemakers, those who are seen to be a serious threat to public order.

Davos in 2019 was disappointing. It is clear that bromide platitudes are not enough to deal with the increasing inequality and with the issue of automation and artificial intelligence that will be harmful for workers. One sobering prediction is that within 15 years artificial intelligence will eliminate 49% of existing jobs. The U.S. does not need a

Special Counsel to appreciate the significance of this. Congress should turn its attention to ensuring technology must be used in ways to diminish inequality and protect the interests of the working population.