

INEQUALITY AND ELITE CAPTURE:

Unavoidable Costs of Development

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A debate that has picked up fire in Pakistan's policy and intellectual circles recently is whether the country's nemesis lies in the excesses of its political and economic elite. While there are several reasons why this debate has gained traction, two seem to stand out far more grandly and conspicuously than others.

Firstly, there is a serious underlying economic problem that keeps surfacing. The economy has moved in cycles, especially since the 1970s and as this pattern continues, one can also observe that bust cycles are becoming longer and more pronounced with the recent one continuing in one form or shape since 2018. It has been exacerbated by the global commodity super cycle that saw many economies getting engulfed in a wave of hyper-inflation and foreign exchange crises. Pakistan has also been experiencing double-digit inflation since February of 2022 with recent year-on-year inflation topping 29%. Inflation has been accompanied by growth gradually slowing down, a phenomenon economists call 'stagflation'. Fiscal capacity of the government has been eroded which prevents it from socially protecting those most badly hit by inflation. Some segments of Pakistani society faced a double jeopardy in 2022: they were hit by inflation and job losses and then had to face the worst form of floods. IMF's belt tightening reforms that the government had to implement to solve its external account problems also fell adversely on the poor.

Secondly, there is a strong degree of the populism element involved in the mainstreaming of the term 'elite capture'. With the rise of right-wing populism globally, great emphasis was laid on the incidence of corruption and how it is a drag on the economy. Populists in many countries including Pakistan rode on the anti-corruption narrative while promising clean-up operations and wide-scale reform. The anti-corruption narrative, while largely irrelevant, as corruption has continued to exist and grow in many states that elected populist leaders in the past ten years and seems to have little effect in terms of forging a sustainable economic turnaround, has undoubtedly narrowed the focus of public policy on controlling the 'excesses' of the elite.

This has certainly come at a massive cost of diminished focus on other more important subjects of policy like utilising policy instruments to foster enhanced productivity which is known to improve standards of living at a wider level. Writing for the Express Tribune, Muneeb Salman suggests¹ that "the term elite capture was popularised during the PTI government when it was proclaimed to be the root of all socio-economic ills in Pakistan by former Prime Minister, Imran Khan." Former Finance Minister of the incumbent government, Miftah Ismail, also spoke at length about elite capture, with his November 2022 article 'The One Per Cent Republic' making headlines across the country. While the focus on elite capture is misplaced and induced not primarily by its transformative capabilities but economic and political circumstances that have somehow aligned public priorities with populist sloganeering around elite capture, there are some concerns surrounding elite capture and inequality that need to be laid out. One reason for concern is that people in the lower rungs of the economic ladder experience diminished economic opportunity and mobility in the face of rising inequality, a phenomenon referred to as the 'Great Gatsby Curve'. The other is that elite capture and inequality are multi-dimensional phenomena and must not be limited to the capture of economic resources by the elites but be seen holistically to underscore the asymmetric powers and authority they wield over other aspects of nation-building and governance like politics, media, etc. What must be understood is that the share in wealth is the cumulative outcome of the elite's control of the media, politics and society. If with all that control and entrenchment, elites in the developing countries like Pakistan manage a lower wealth share than their developed world counterparts, one will have to look elsewhere to find reasons of underdevelopment.

¹<https://tribune.com.pk/story/2407948/identifying-the-elite-in-elite-capture>

While equality in opportunity, as propounded even by the staunchest neoliberal theorists like Milton Friedman, and symmetry in income distribution, are desirable even if that may come at a cost of creating homogenous societies that lack balance and diversity, top 1% in developed countries own larger shares of wealth than poor countries that think elite cap is their nemesis. According to data, in the US, top 1% owns 32.3% and top 10% owns 72% of wealth. Richest 1% own more than the combined wealth of 70% in UK while top 1% of Australians hold 50 times more wealth than the lower 60% of the population.

The incidence of high inequalities in more developed nations is also captured by other studies. According to a study by the council on foreign relations², “in 2021, the top 10% of Americans held nearly 70% of U.S. wealth, up from about 61% at the end of 1989. The share held by the next 40% fell correspondingly over that period. The bottom 50% owned about 2.5% of wealth in 2021. Inequality in the United States outpaces that of other rich nations. This is captured by the steady rise in the U.S. Gini coefficient, a measure of a country’s economic inequality that ranges from zero (completely equal) to one hundred (completely unequal). The United States’ Gini coefficient was forty in 2019—the same as Bulgaria’s and Turkey’s, and significantly higher than that of Canada, France, and Germany—according to the Organisation for Economic Cooperation and Development (OECD)”.

Another argument is that household incomes have risen alongside sustained growth and development in the US. This has occurred in parallel with rising inequality and elite capture implying that even those considered to be victims of elite capture have experienced massive increases in incomes and standards of living. According to Pew Research³, “with periodic interruptions due to business cycle peaks and troughs, the incomes of American households overall have trended up since 1970. In 2018, the median income of U.S. households stood at \$74,600.5. This was 49% higher than its level in 1970, when the median income was \$50,200. Since 1980, incomes have increased faster for the most affluent families – those in the top 5% – than for families in the income strata below them. This disparity in outcomes is less pronounced in the wake of the Great Recession but shows no signs of reversing. From 1981 to 1990, the change in mean family income ranged from a loss of 0.1% annually for families in the lowest quintile (the bottom 20% of earners) to a gain of 2.1% annually for families in the highest quintile (the top 20%). The top 5% of families, who are part of the highest quintile, fared even better – their income increased at the rate of 3.2% annually from 1981 to 1990.”

In Pakistan’s case, as reported by UC Berkeley, income share of top 1% is 30.2% (wealth estimates are lesser known) but can be inferred from India which with more pervasive poverty has top 1% owning 40% of wealth. What therefore strikes out is factors that spark the debate on elite capture, poor standards of living, low income per capita, food insecurity, under representation

of marginalised groups, have a much higher incidence in countries that are more equal, i.e. where top 1% owns less. The states captured by elites have seemingly done much better on these counts.

There is also a strong economic history argument to the elite capture debate. Growth in human population and advancements in technology induced the need for structural transformations and economies around the world, some at a much faster pace compared with others, started to industrialise and produce more specialised and complex goods. Cities and trade routes developed that facilitated commerce and technical specialisation. Countries transitioned from subsistence-type economies and took-off in the Rostovian style to become the sophisticated economies that we are today. This advancement saw massive increases in median household income and economic development. What it also saw globally, and more so in the rapidly developing and industrialising nations was the rise in inequality which implies capture of the state’s economic resources by the top income quintiles. Economies have, in fact, tended to develop in the company of what is today called ‘elite capture’ which can, in some ways, be seen as a byproduct or a cost that societies have continued to pay to afford and sustain such level of development.

While one can see the merits in the Stiglitzian argument that concentrated income and wealth reduces the level of demand in the economy because rich households tend to spend less of their income than poorer ones and reduced opportunities for low-income households can also hurt the economy, Stiglitz believes that “When those at the bottom of the income distribution are at great risk of not living up to their potential, the economy pays a price not only with weaker demand today, but also with lower growth in the future.” However, evidence that has emerged on the subject has continued to defy Stiglitz’s claims.

The inclination to target the elites seems to suffer from expedience and a fashionable urge to shift the blame and provide a false sense of satisfaction to economists who have failed to identify, let alone address, antecedents of Pakistan’s underdevelopment. Like politicians have continued to invest in visible development to consolidate political capital, economists have tended to gain popularity in intellectual circles by indicting the elite because their excesses are known and visible and thus unpopular with less privileged groups.

Pakistan’s economic issues have more to do with the structure of the country’s production system. Structural reforms aimed at increasing productivity in several sectors of the economy would inevitably result in higher incomes for everyone, thereby lifting the overall standards of living in the economy. This, as we have seen in other developed nations that have industrialised will automatically produce more unequal income distribution outcomes but one can safely say that this is the cost that countries will have to bear to develop and must take as a given as they embark on this difficult journey.

The author is a public policy professional trained in Economics and International Development Studies with over 10 years’ experience in areas of public financial management reforms and macro-fiscal policies and regulations. He has also written quite extensively on the political economy of trade and institutions in South Asia. He can be found on Twitter as @asadajaz.

²<https://www.cfr.org/backgrounder/us-inequality-debate#:~:text=Income%20and%20wealth%20inequality%20is,slavery%20and%20racist%20economic%20policies>

³<https://www.pewresearch.org/social-trends/2020/01/09/trends-in-income-and-wealth-inequality/>