

INCLUSIVE GROWTH: THE IMPORTANCE OF EQUITABLE SHARING

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Kyunghyang Forum 2018

What I shall say

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- TWO QUESTIONS
 - ▣ Is inequality good or bad for economic growth?
 - ▣ Is growth good or bad for inequality?
- I argue these questions don't make sense
 - ▣ they are not helpful for thinking about inequality and growth
- Inequality is not bad in and of itself
- But it can be consequentially bad, which I shall show by example
- Much depends on **HOW** the rich get rich
- Two ways of getting rich: **making** v **taking**
 - ▣ One is good, one is bad
 - ▣ Stopping theft, or rent-seeking is good public policy
- I will return to the two questions at the end

Growth and inequality

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- Great episodes of human progress are what I have called the “Great Escape”
 - ▣ From destitution, ill-health, premature mortality
 - ▣ To long life and high material living standards
 - ▣ Less violence, more democracy, better lives
- Progress has often been interrupted, sometimes brutally, but has resumed
- Most of these episodes have allowed only *some* to escape
 - ▣ Leaving many others behind so progress has been an engine of inequality
 - ▣ And inequality is itself an incentive to escape
- In these cases, inequality comes with economic growth, and can help stimulate it

The Great Divergence

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- The most famous case of progress and inequality
 - ▣ Sustained economic growth, which began in Northwest Europe between 1750 and 1850: the Industrial Revolution
 - ▣ Sowed the seeds of the increases in material living standards and increases in life expectancies
 - ▣ Pulling these leading countries away from their neighbors, and the rest of the world
- Modern scholarship has undermined simple view of absolute poverty in all places and all previous times
- For the world as a whole, these gaps have changed but never closed
 - ▣ Country by country, gaps in material living standards are still not closing
 - ▣ Even if person by person, global income inequality is falling

Industrial revolution, welfare, and inequality

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- The IR was the beginning of prosperity in the modern world
- It created enormous global inequalities that still remain today
- Yet it seems almost wholly GOOD

- This is best case, but some suffered more than being left behind
- “‘Underdeveloped countries’ in the 20th century were made—not born. They were the products of 19th century globalization and the industrialization of the West.” Robert C. Allen
- India: “the bones of cotton weavers are bleaching the plains of India”
- Maybe: but also evils of colonization, not just globalization

Makers often turn into takers

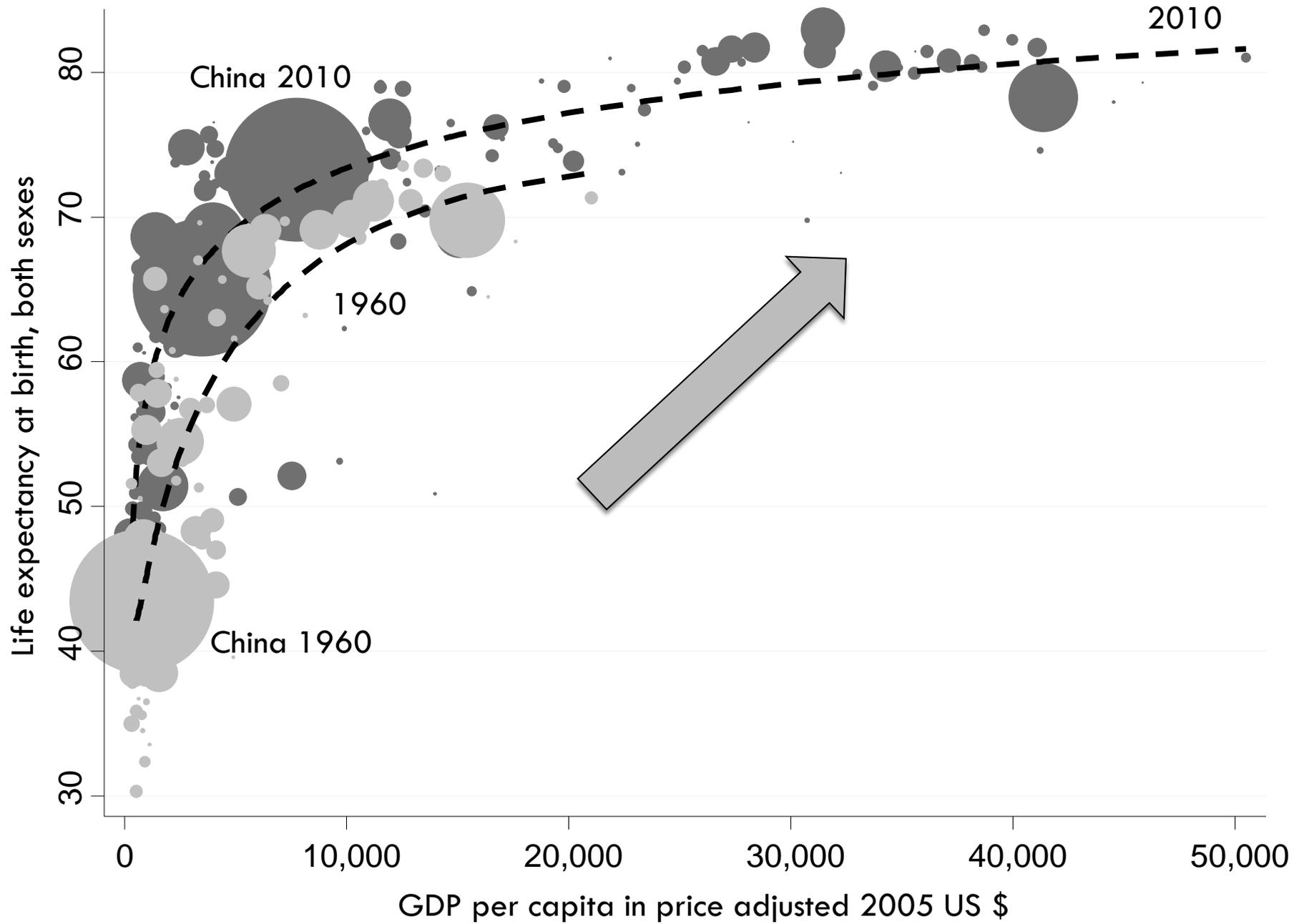
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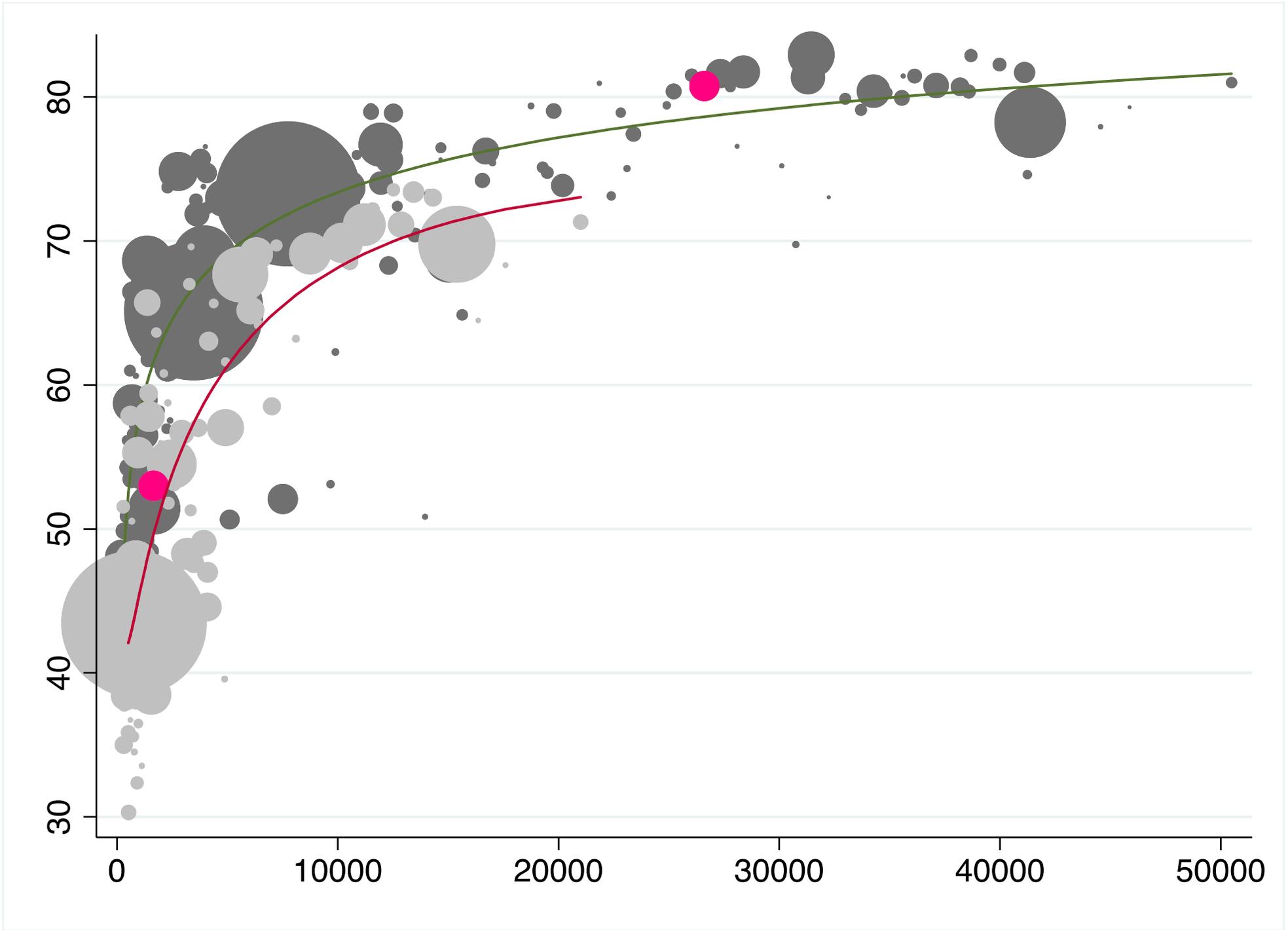
- Those who pioneer revolutions and get rich often try to block those who come after
- Often by force, or by lobbying, or enlisting government support
- Industrial revolution, Britain and India
- Or suppression of competition
 - ▣ e.g. excessively long patents, non-compete contracts, consolidation
- Requires vigilant regulation and constant enforcement
 - ▣ Benefiting society in round 1 does not entitle monopolistic exploitation in round 2
- Inventions can also spread, and benefit others

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The last fifty years in the world

Progress in health and wealth



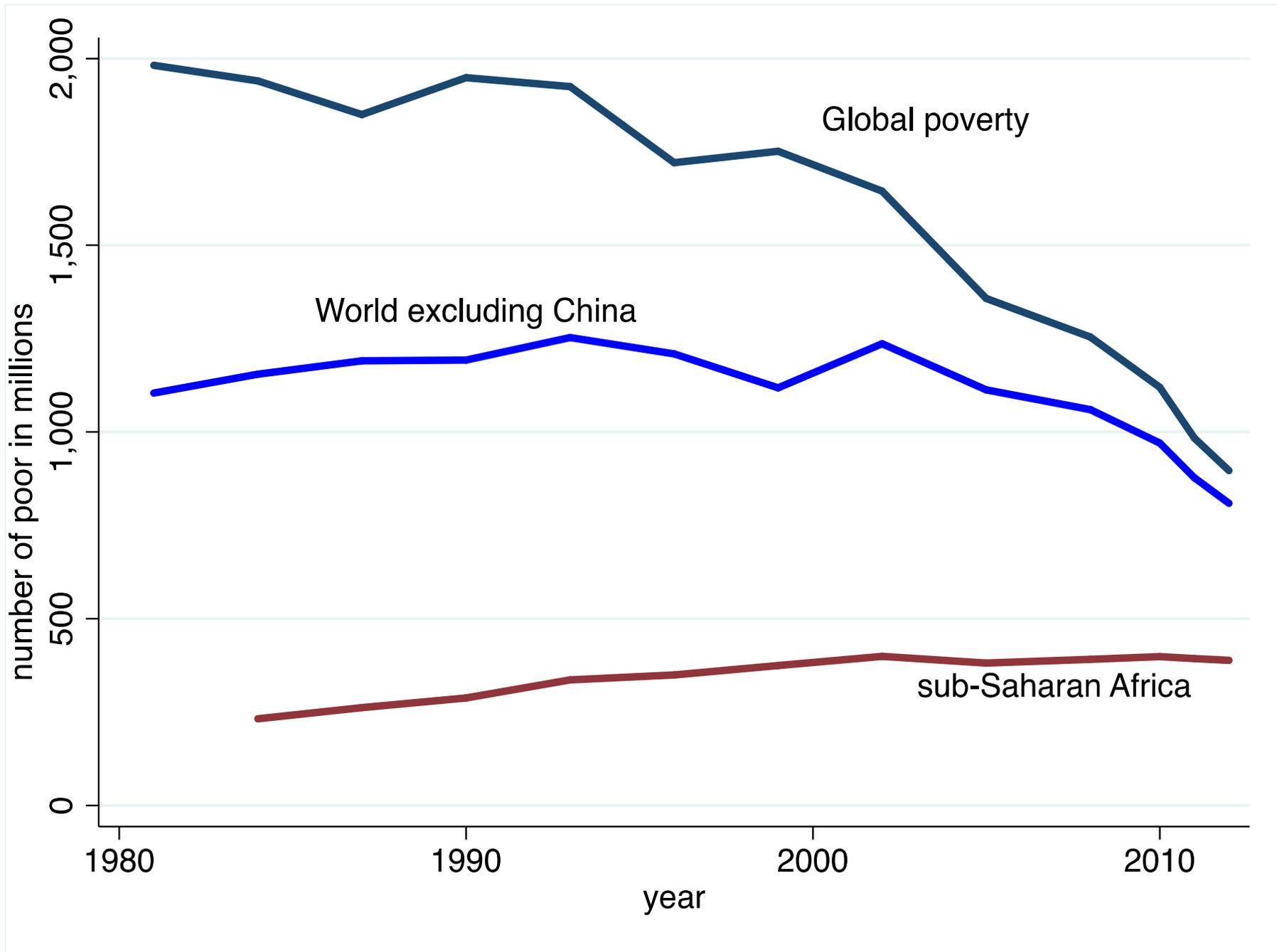


Positive spillovers from innovation

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- Catch up growth can be much faster than original growth
 - ▣ Positive feature of international inequality

- Same is true for human health
- The germ theory of disease
- Between 1896 and 1996 Korean women grew by 20.2 centimeters
 - ▣ From 142 to 162 cm.
 - ▣ The world record!



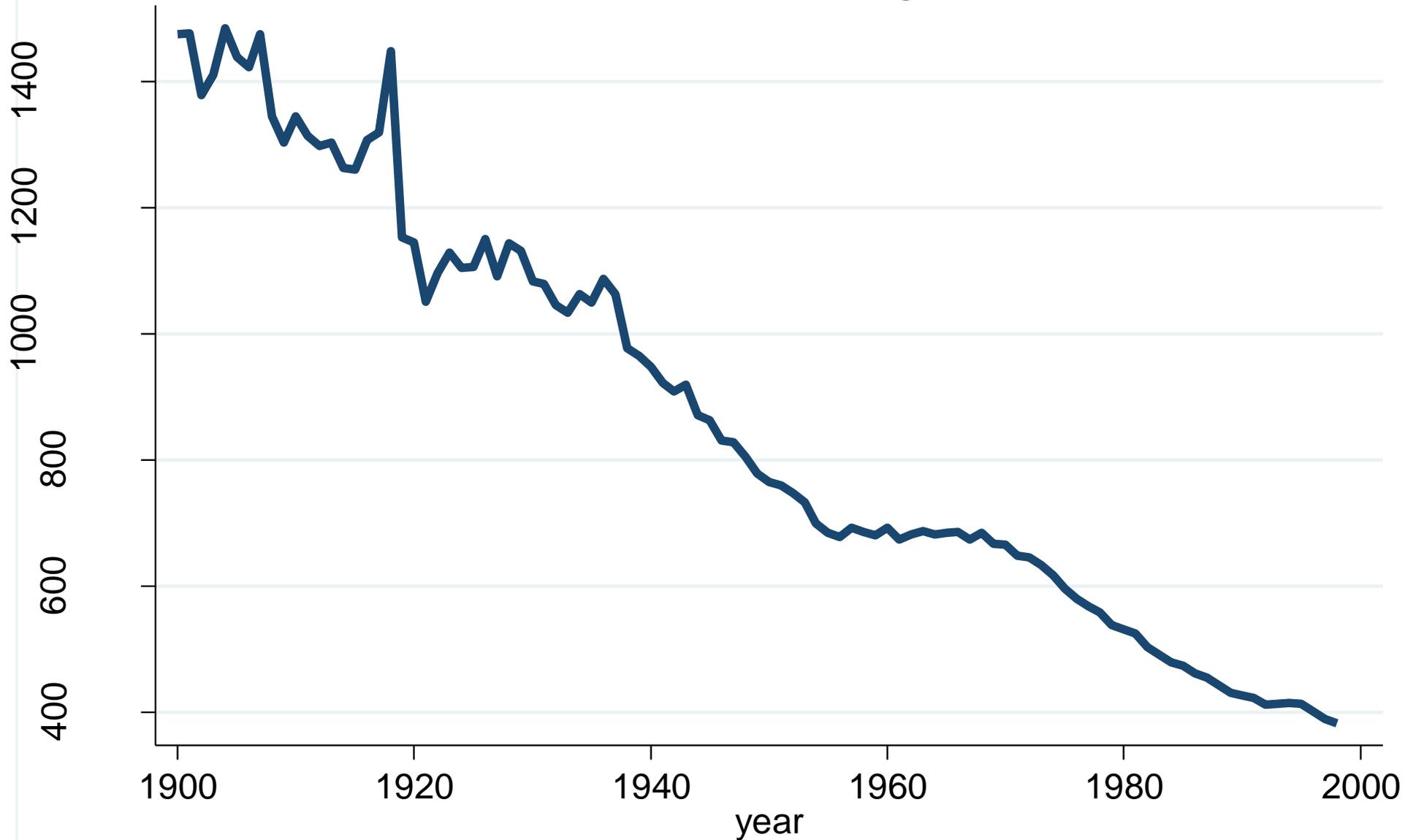
Health crisis among white Americans

Thanks to Anne Case, Princeton

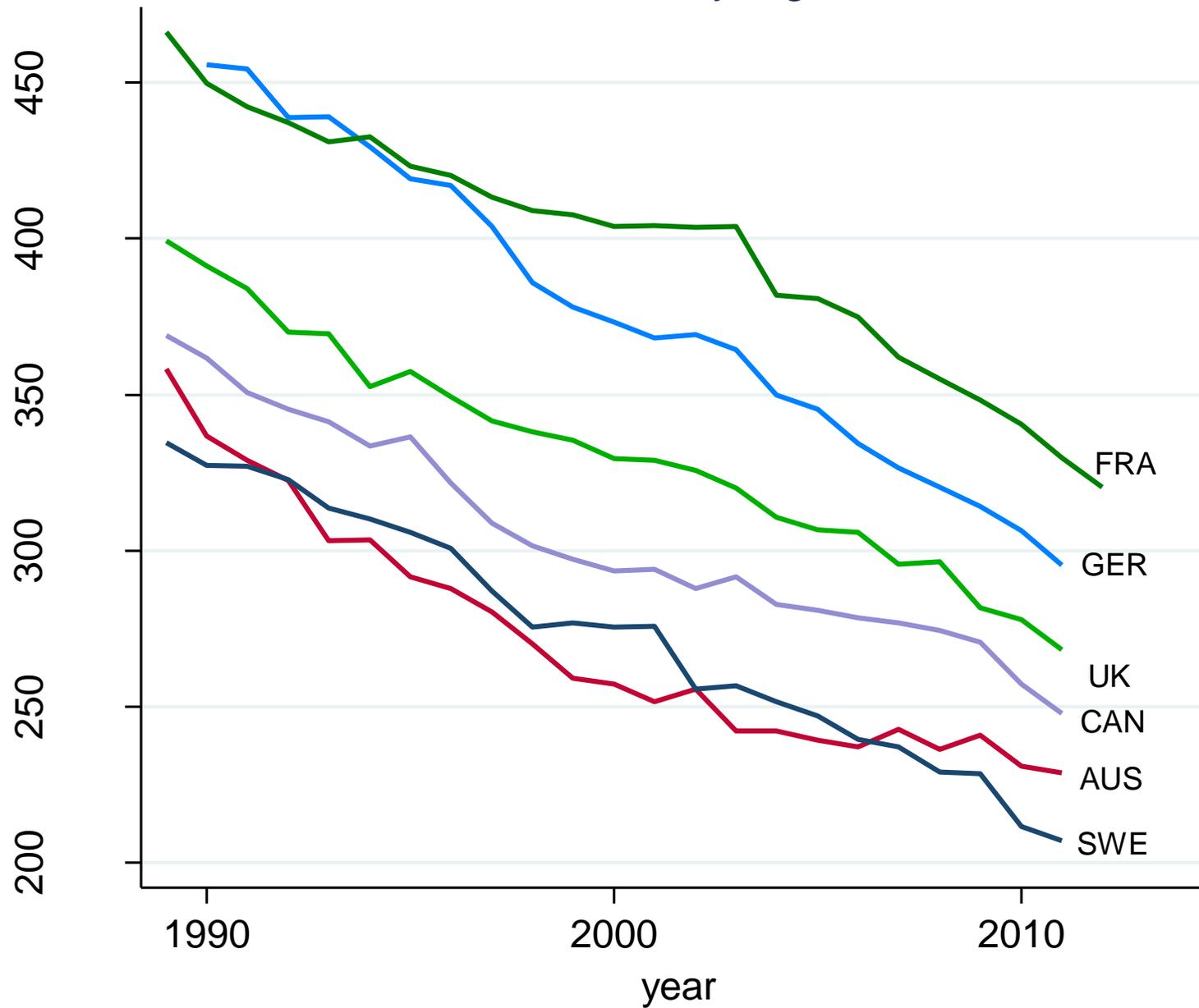
What happens when the “takers” are in control

Within country inequality, rather than global inequality

All-cause mortality
white men and women, ages 45-54



All cause mortality, ages 45-54



All cause mortality, ages 45-54

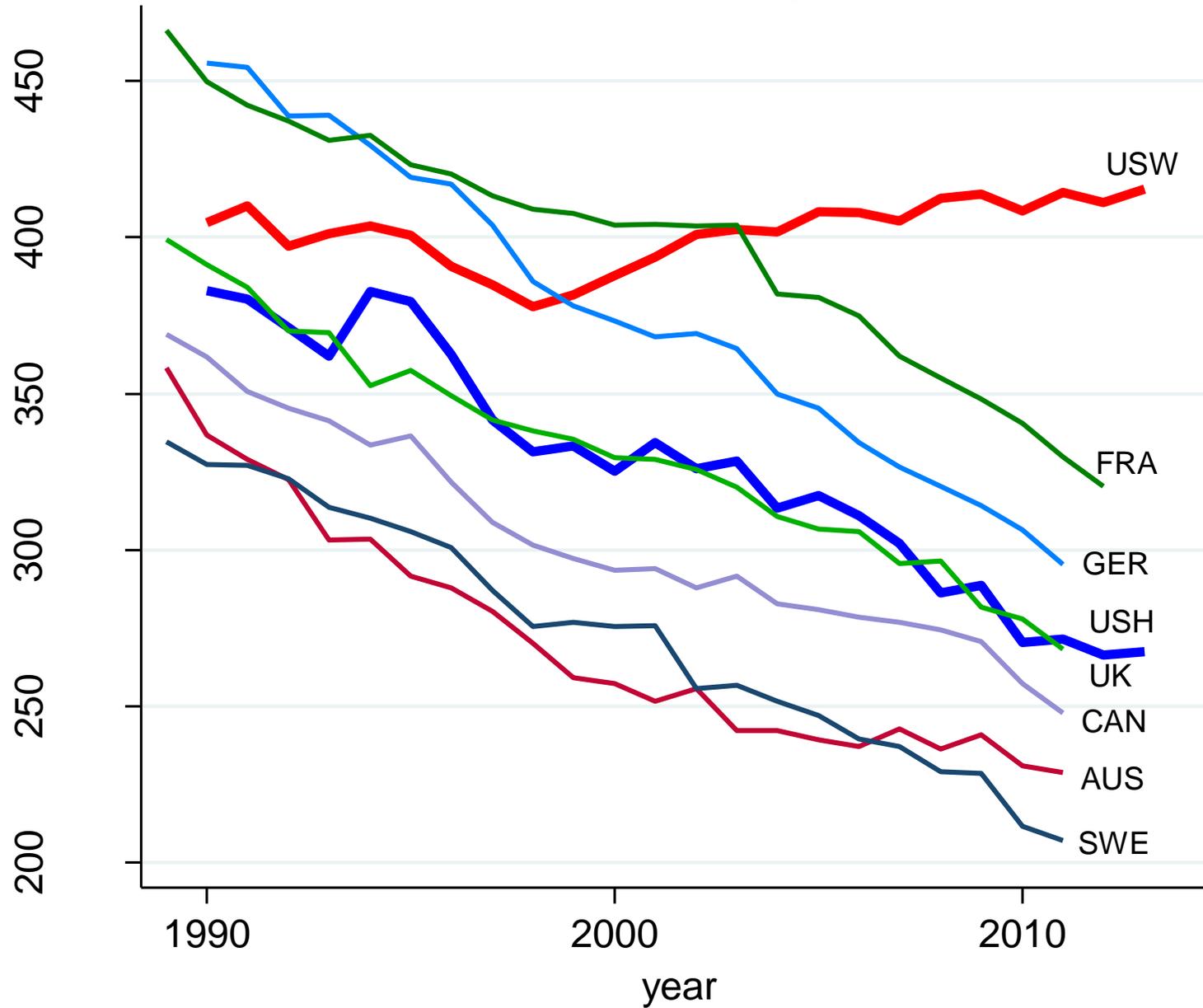
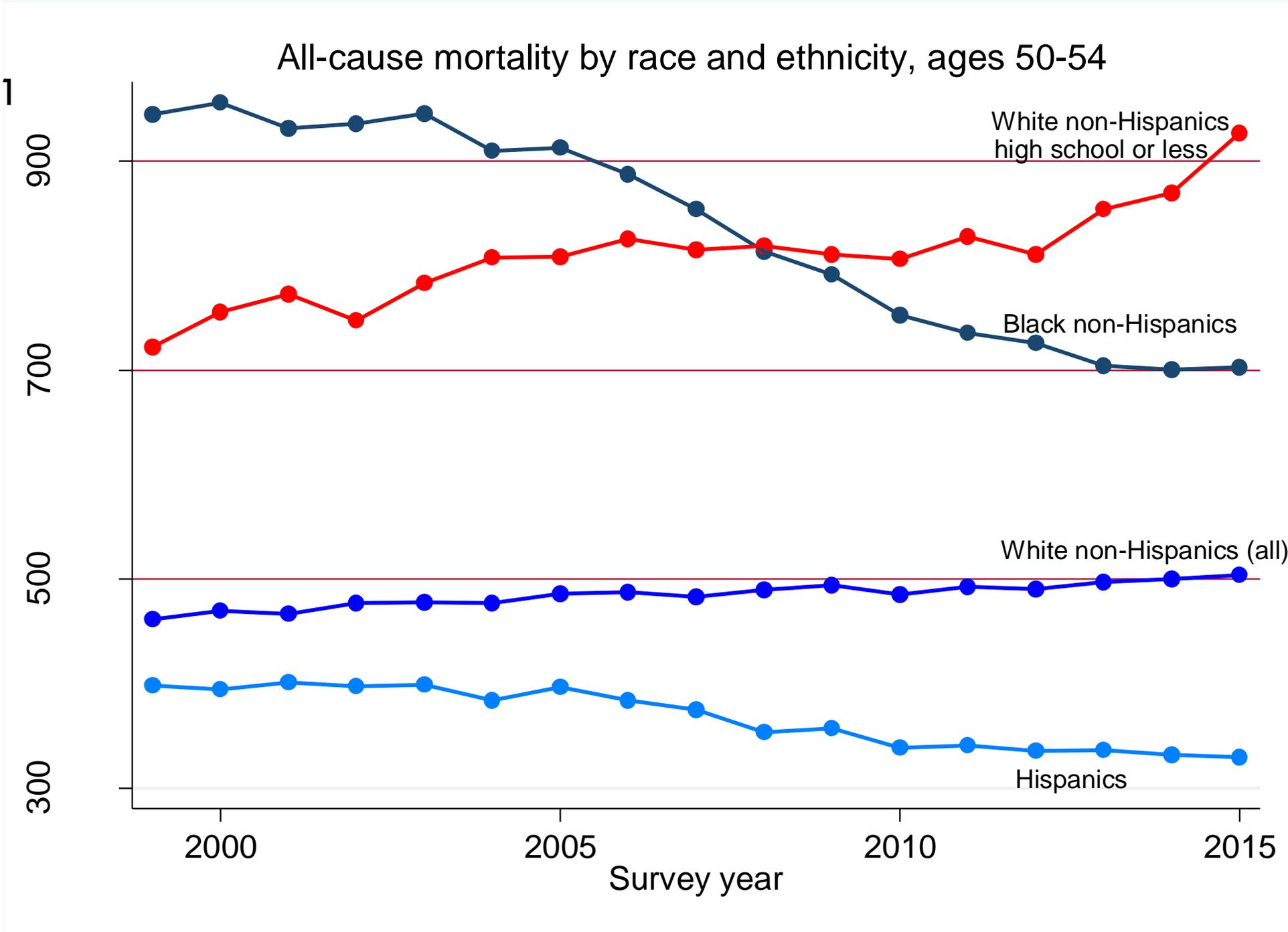


Figure 1.1



Deaths of despair

Suicide: in every US state, suicide rates rose for white non-Hispanic prime-aged adults (ages 25-64) from 1999-2015

Alcoholic liver disease: with the exception of MD (where death rates were flat), mortality rates rose for prime-aged WNH from 1999-2015

Accidental or intent undetermined drug poisoning: mortality rates increased in every state 1999-2015
– but classifying the underlying drugs is shooting at a moving target

Prescription opioids, heroin, fentanyl

In all three—drug overdoses, alcoholic liver disease, suicide—rates have been lower for blacks than for whites since the early 2000s

Term “deaths of despair” was chosen simply to group these three causes, not as a causal story

Accidental poisoning, suicide and alcohol-related liver mortality

White non-Hispanics

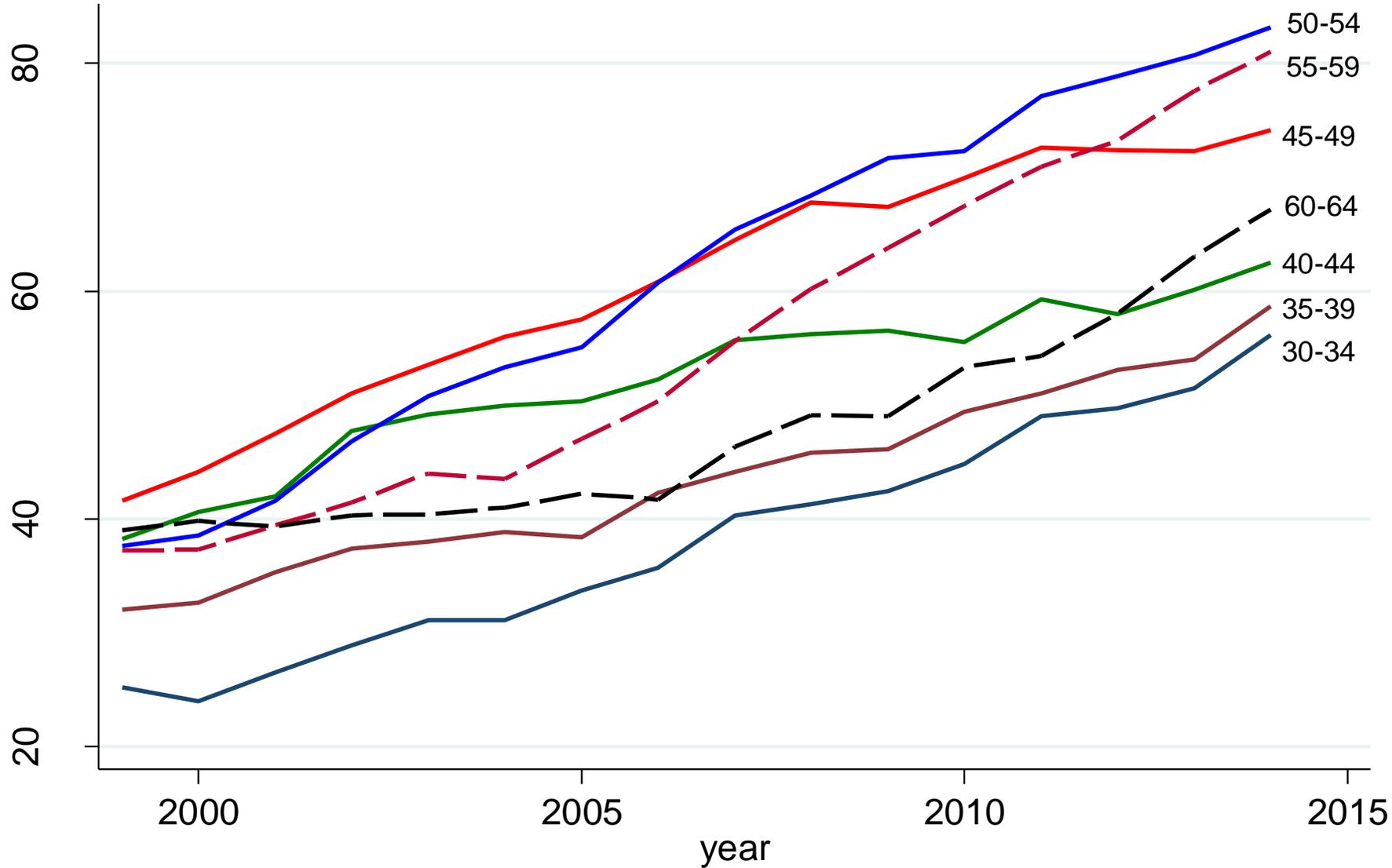
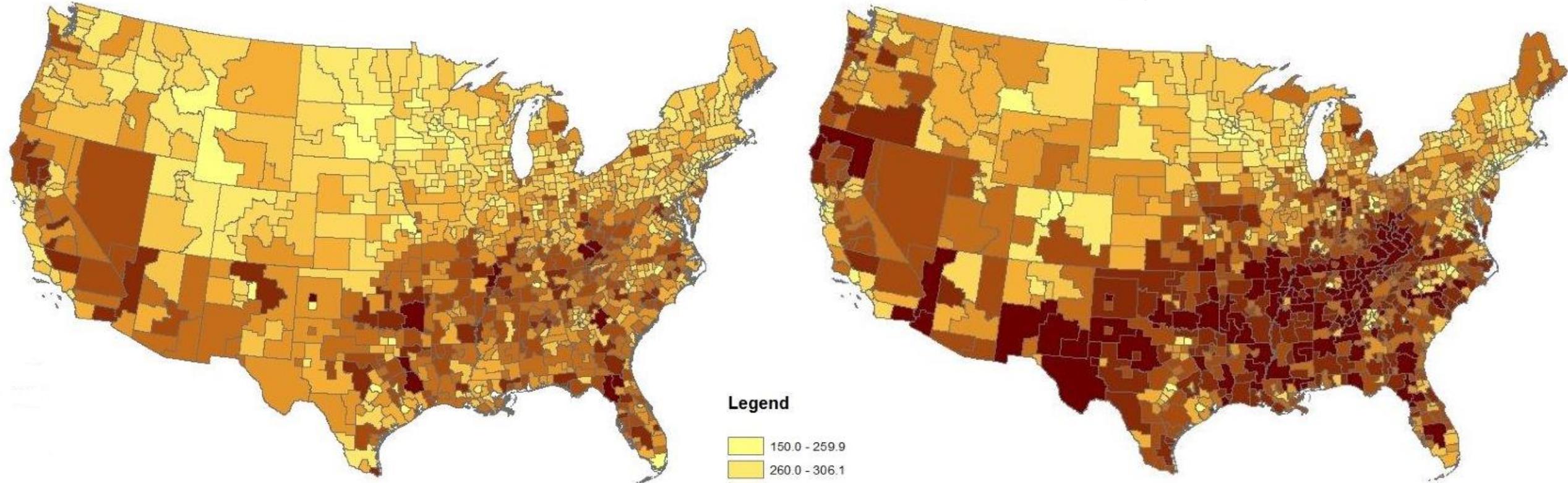


Figure 1.9 All-cause mortality, white non-Hispanics, ages 45-54

2000

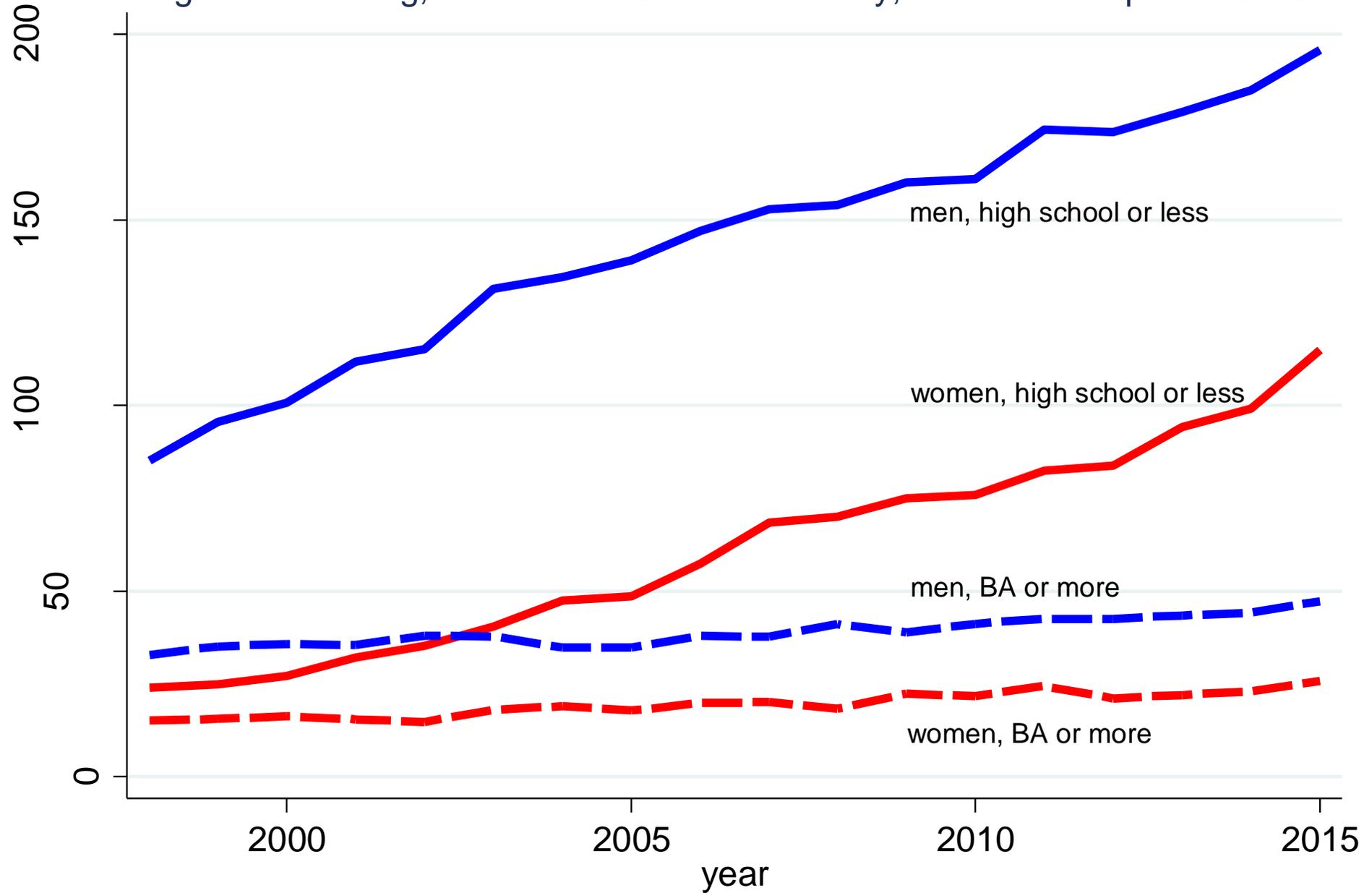
2014



Legend

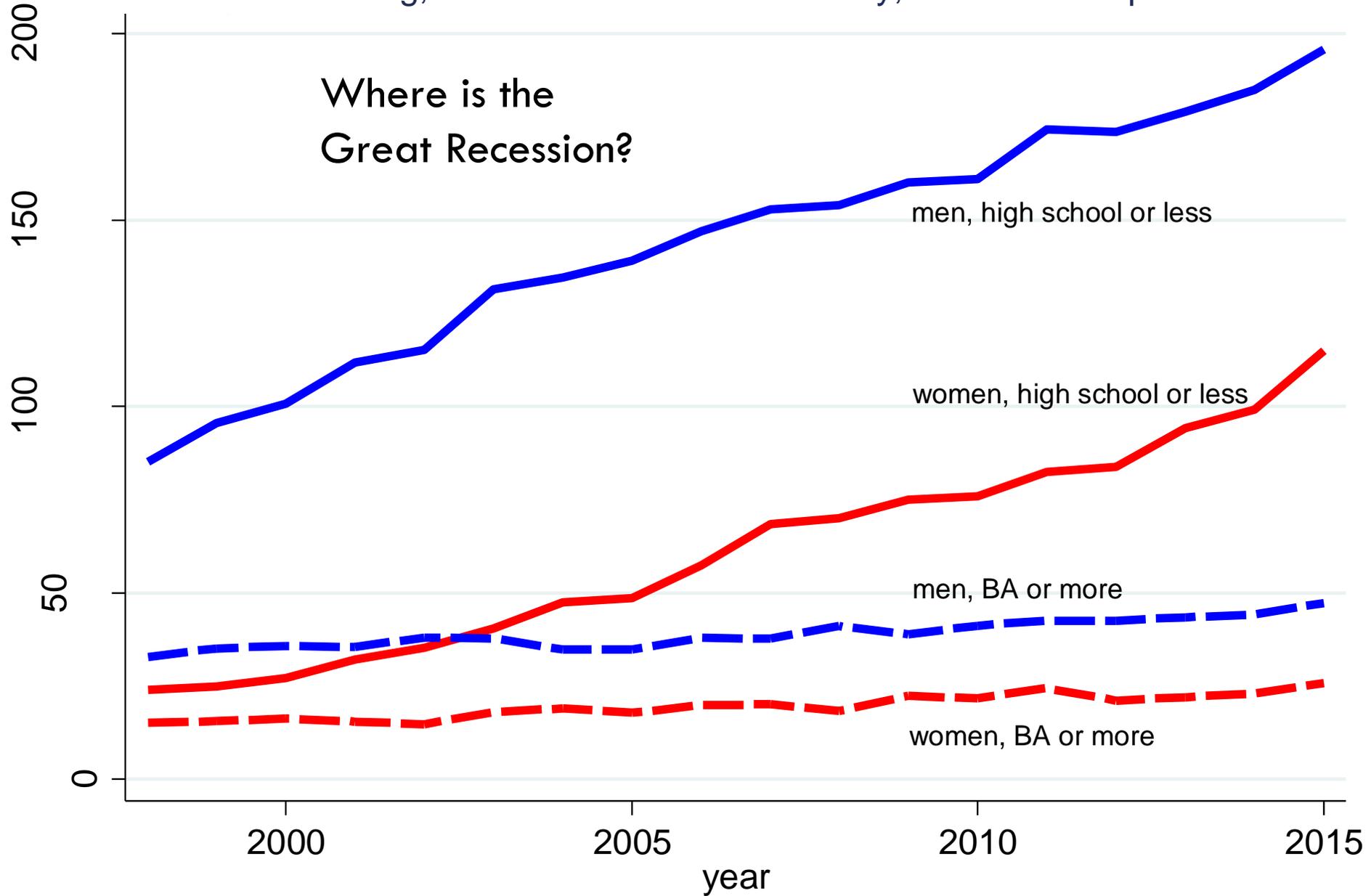
- 150.0 - 259.9
- 260.0 - 306.1
- 306.2 - 343.8
- 343.9 - 377.5
- 377.6 - 411.3
- 411.4 - 451.9
- 452.0 - 499.0
- 499.1 - 556.9
- 557.0 - 645.4
- 645.5 - 1106.3

Figure 1.11 Drug, Alcohol and Suicide Mortality, white non-Hispanics 50-54



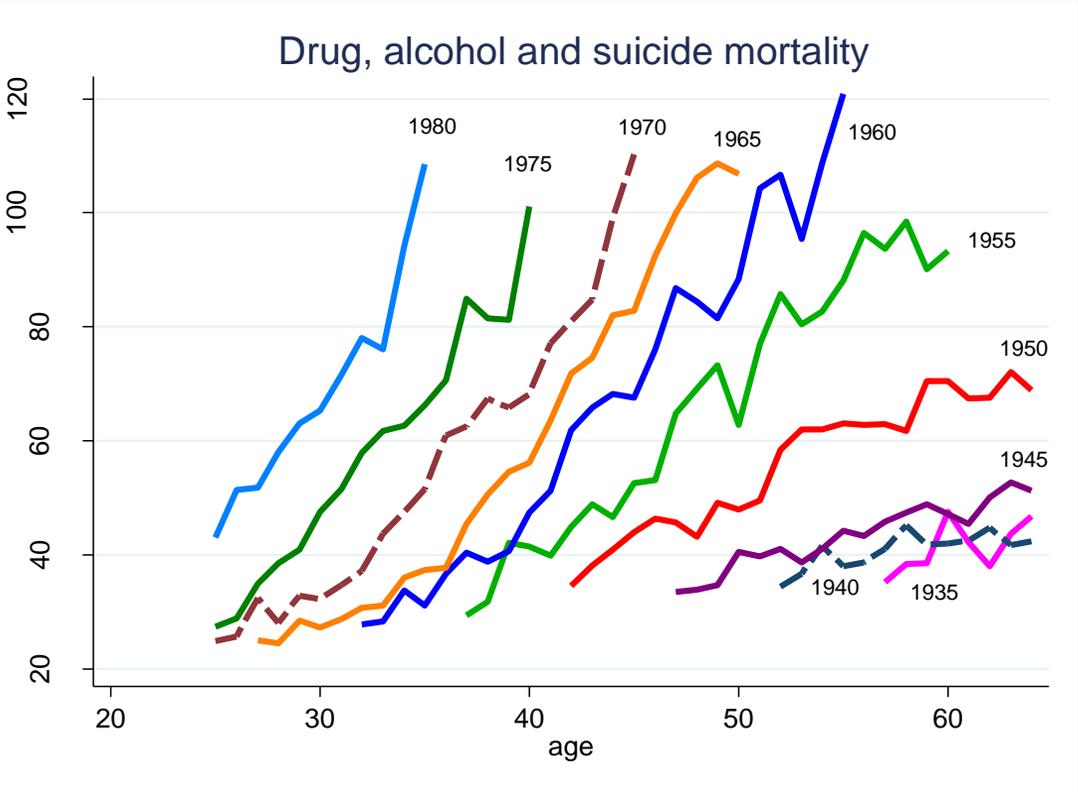
Drug, Alcohol and Suicide Mortality, white non-Hispanics 50-54

Where is the
Great Recession?

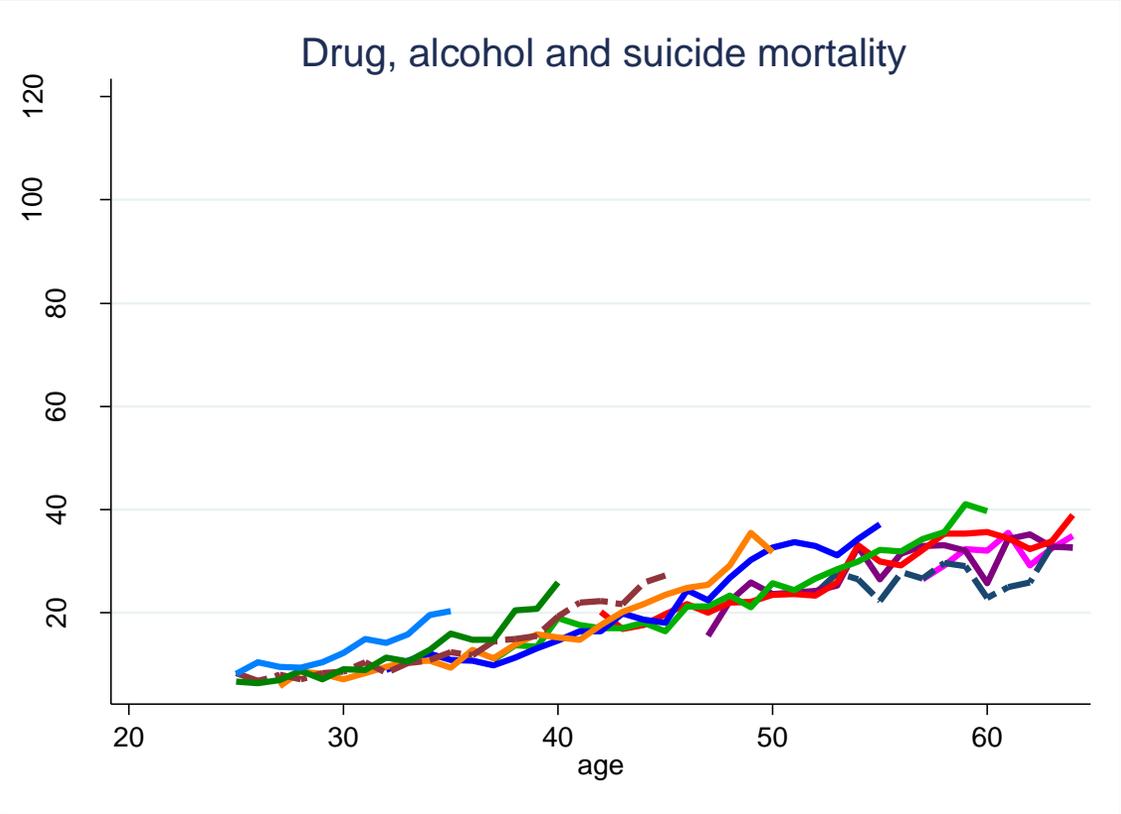


Drug, alcohol and suicide mortality, white non-Hispanics by birth cohort

Less than BA



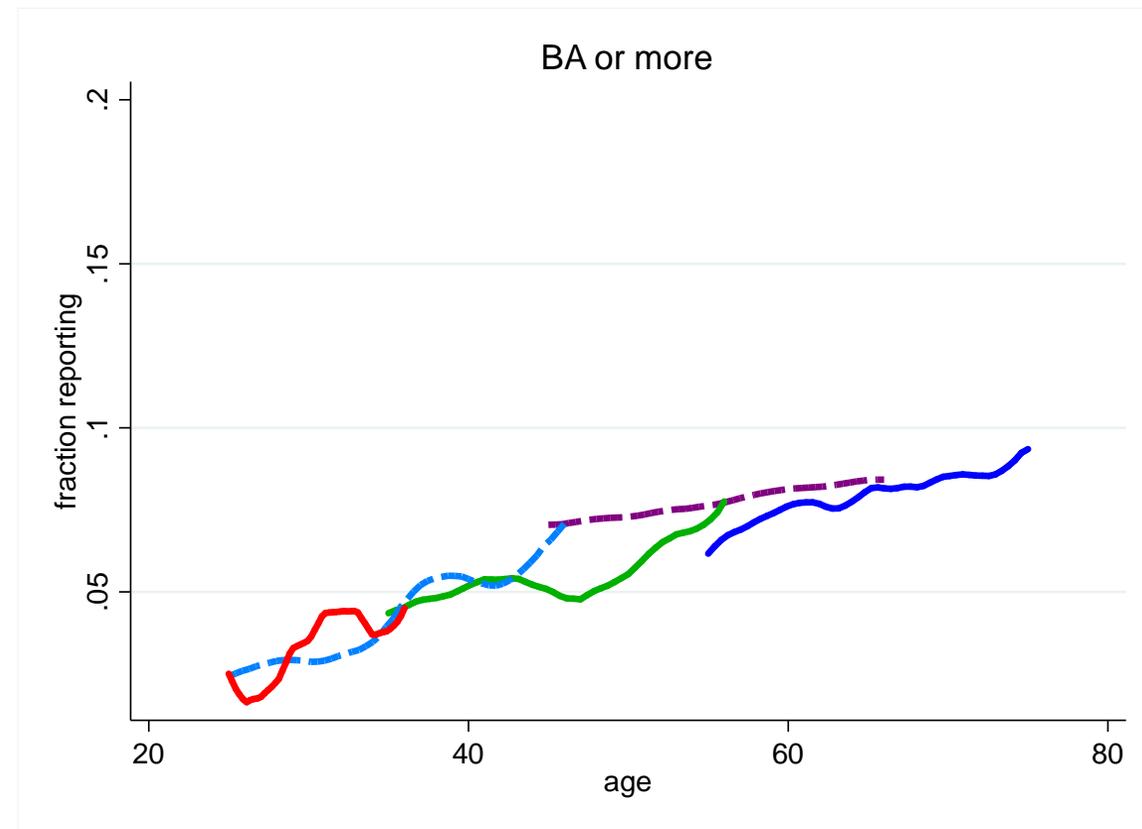
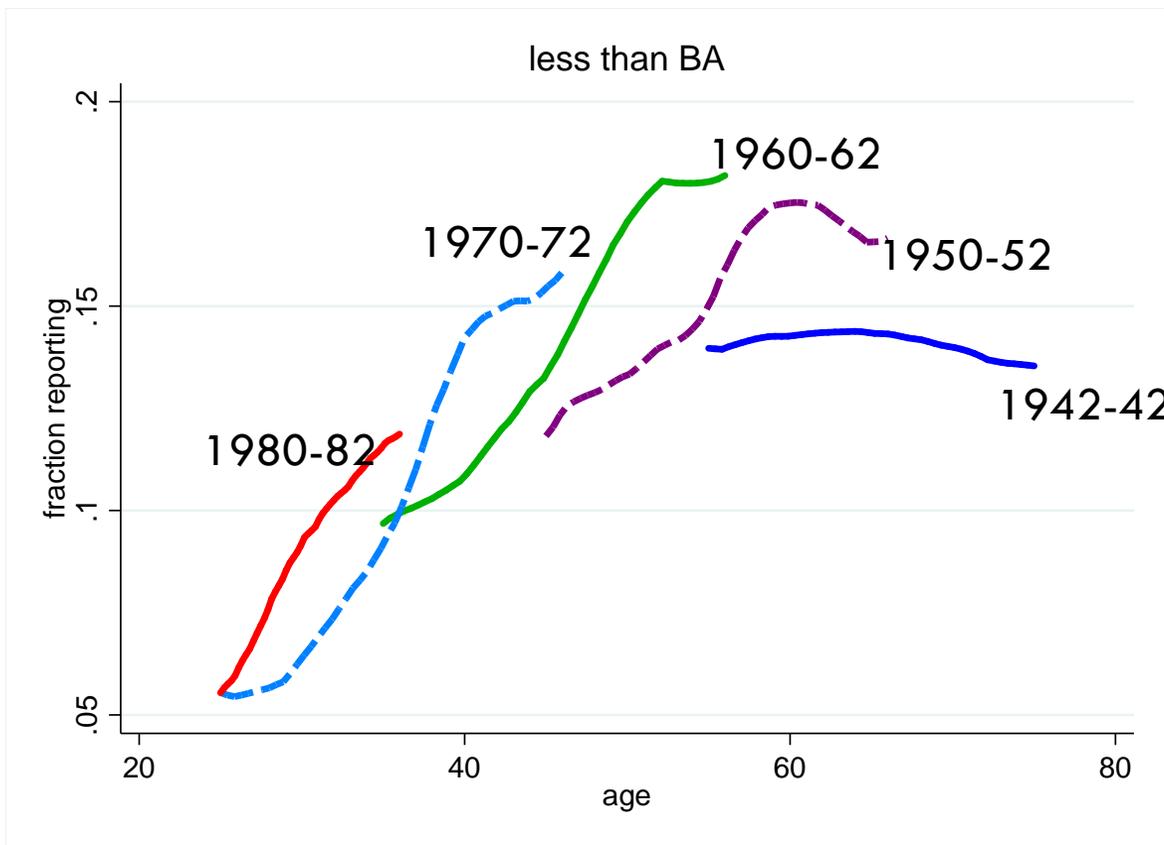
BA or more



TWO WHITE AMERICAS

With worse outcomes for younger birth cohorts

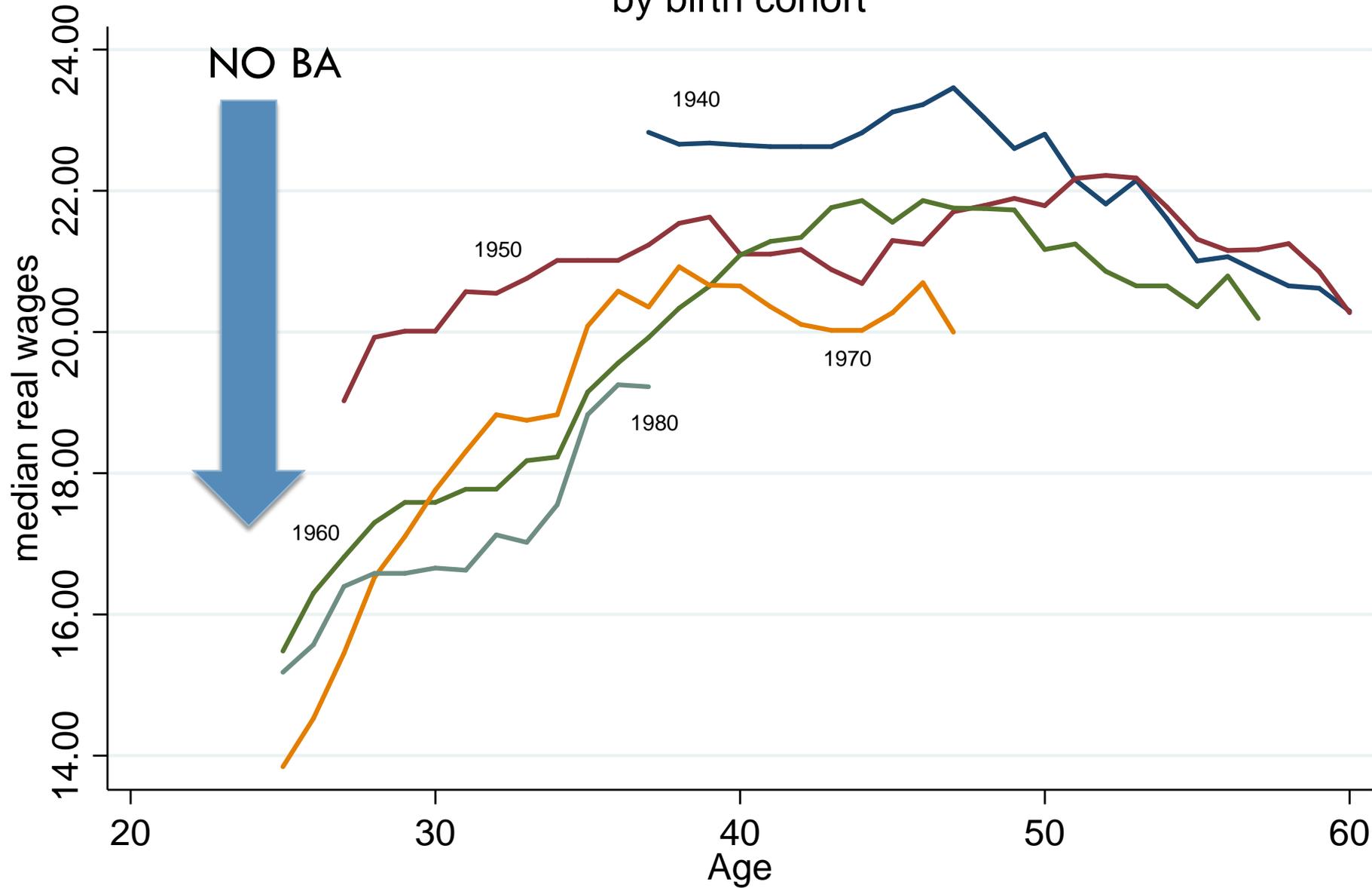
Fraction reporting sciatic pain, white non-Hispanics by birth year and education class



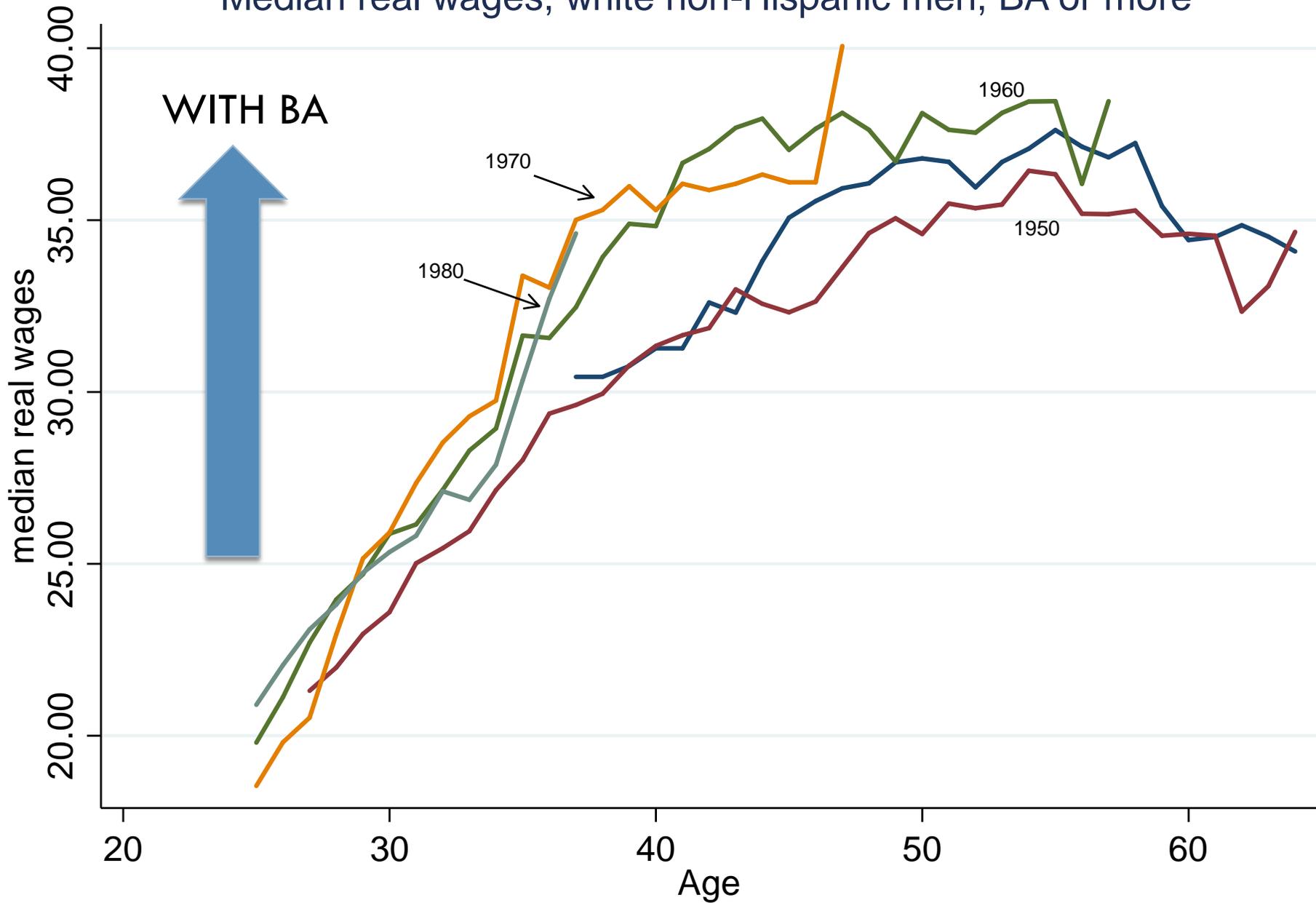
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What is happening?

Median real wages, white non-Hispanic men, less than BA by birth cohort



Median real wages, white non-Hispanic men, BA or more



Beyond wages

- Large group of people, white men and women without a university degree have been left behind
- Their opportunities in the labor market have not improved for 40 years
- Labor force participation has markedly declined
- Their marriage rates have declined sharply: cohabitation has risen
 - ▣ Increases in childbearing outside of marriage
- No similar mortality increases in Europe, but political effects are similar in Europe
- It is both wrong and dangerous to leave people behind when others are doing well!

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How to think about inequality

Inequality is implicated in today's problems

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- Inequality reflects productive incentives, as well as successful innovations
 - ▣ Getting rich in the national interest is no crime!
 - ▣ Innovating brings inequality
- Inequality from unproductive rent seeking, corruption, crony capitalism
 - ▣ Slows economic growth by blocking innovation
 - ▣ Directly unproductive activities do not generate income
 - ▣ Takes from others, especially those who are less educated

What is causing “deaths of despair”?

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- The low and falling wages of working people in America
 - ▣ Slowly, over more than 50 years, destroying the basis for their lives
- Why is that happening?
 - ▣ Not globalization nor technical change
 - ▣ Which other countries are dealing with
- Failure of American capitalism and democracy to provide for less-educated Americans
- Government and rent-seeking corporations are increasingly running the economy to redistribute income **upward**
 - ▣ It's not the inequality that is doing it, but low wages that are enriching the educated minority
 - ▣ Inequality is a consequence of this

Mechanisms of upward redistribution

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- Healthcare wastes a trillion US dollars a year
 - \$8,000 per family per year
 - This comes out of wages, profits, government expenditure
 - Goes to healthcare executives, pharma companies, device manufacturers
- Policy environment for labor has been hostile in the US
 - Almost elimination of private-sector unions, attacks on public sector unions
 - Unions and wages, local and national politics, and local social capital
 - Declining minimum wage
 - Decreasing political power of labor relative to corporations
 - Very limited safety net compared with Europe
 - Europe has a VAT, which supports an extensive safety net
 - Major source of distribution down, regressive collection, progressive spending

Trusts redux

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- Increasing consolidation, monopoly, monopsony, across many industries
 - ▣ Increasing markups: redistribute upwards
 - ▣ Hard to break in: quiet life, less innovation from startups, slow productivity growth
- Financial holding companies (Vanguard, Fidelity) may be acting like trusts
 - ▣ Supporting less competition
 - ▣ Monopoly profits for middle-class pension holders
- Number of jobs in startups in long term decline
- More than 2/3 of less educated people believe it is pointless to vote
 - ▣ Elections controlled by corporations and the rich
 - ▣ Empirical evidence suggests their suspicions are correct

Regulating inequality

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- Obvious solution is higher tax rates on the very rich, to redistribute
- Much evidence that this is not what most people want
- Historically, high marginal rates have been a response to people getting rich from special favors from the government
 - ▣ Even then, people prefer stopping the special favors, when possible
- Theft needs to be stopped, not taxed!
- Right now, people seem more upset about special favors than inequality
 - ▣ Whites about blacks, Hispanics, women, immigrants cutting in line
 - ▣ Left about rent-seeking and crony-capitalism in banking, healthcare, military
 - ▣ Key is to tackle rent seeking, crony-capitalism and corruption

Obvious policies

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- Serious antitrust revival
- Including FAANGS (GAFA)
- Including monopsony, which is illegal but rarely prosecuted
 - ▣ Note that raising minimum wages may have no effect on employment if monopsony is widespread
- Anti-competitive practices have redistributed income away from workers
 - ▣ Monopolistic pricing
 - ▣ Non compete clauses
 - ▣ Compulsory arbitration

Back to the questions

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- Is inequality good or bad for economic growth?
- Is growth good or bad for inequality?

- There is nothing wrong with being rich: may everyone be so
- The problem is when the rich get rich by plundering the poor
 - ▣ Generating vast inequalities and destroying lives
- Remedy is to stop the plunder
 - ▣ Menu of policy choices, some of which are supported by right and left

Monopoly, monopsony, rent-seeking, and death

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“But the cruelest of our revenue laws, I will venture to affirm, are mild and gentle, in comparison of some of those which the glamour of our merchants and manufacturers has extorted from the legislature, for the support of their own absurd and oppressive monopolies. Like the laws of Draco, these laws may be said to be all written in blood.”

Monopoly, rent-seeking, and death

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□ Adam Smith, *The Wealth of Nations*, Book IV

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Thank you