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Thinking about Inequality

ANGUS DEATON

In these gloomy and uncertain days, when long-held certitudes about government, politics, and international relations are all under challenge, it is tempting to think that everything is falling apart—or in one fine phrase, that the world is going to hell in a handbasket. Many people think of globalization as the villain of this piece. Others blame inequality—especially income inequality. And I want to talk about both of them.

Indeed, today's world presents much to be concerned about. But we should always remind ourselves of where we are and how we got here before we make dire predictions about the future. And the key fact is that the world is better now than it ever has been—which, of course, is entirely consistent with it being under serious threat.



ANGUS DEATON, the author of *The Great Escape: Health, Wealth, and the Origins of Inequality*, won the 2015 Nobel Prize in Economic Sciences. In March he spoke at Cato's Benefactor Summit in Naples, Florida.

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Today, globalization is often seen as a negative force, threatening jobs in rich countries and making people feel that they have lost control of their lives and their own and their children's destinies. Yet globalization is also responsible for the greatest reduction in poverty that the world has ever seen.

According to World Bank estimates, the number of people living on less than \$1.90 per day, adjusted for international price differences, fell from 1.9 billion in 1981 to .77 billion in 2013. Income inequality across all persons in the world has fallen, too, driven to a large extent by China, but also by India. The world distribution of income has narrowed as erstwhile very poor people have moved from the bottom to something like the middle. Life expectancy has risen almost everywhere over the last 250 years, and especially over the last 60 years. There is no country in the world today where infant mortality is higher than it was in 1950. *No* country—not one.

These improvements have taken a long time, to be sure. And there have been awful setbacks. But humanity has been through much worse than what we see today, and progress has always resumed. The deep causes of progress—the Enlightenment, the scientific revolution, and the desire to have a better life, cou-

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pled with the understanding that human reason can deliver that better life—are constant protectors of prosperity and are not readily destroyed. So I remain optimistic about the future, at least in the long run.

In particular, it is unimaginable, at least to me, that the poverty reductions in India, China, and elsewhere could have happened without globalization. Some argue that globalization is a neoliberal conspiracy designed to enrich a very few at the expense of the many. If so, that conspiracy was a disastrous failure—or at least, it helped more than a billion people as an unintended consequence. If only unintended consequences always worked so favorably.

I want to say something about the relationship between *The Great Escape* and inequality, because I think inequality is often badly misunderstood. The guiding metaphor in my book *The Great Escape* is the movie starring Steve McQueen, which is set in a German prisoner of war camp, where several hundred prisoners dig tunnels through which to escape. The book, like the movie, is about the indomitable urge for freedom and the impossible hurdles that it's capable of overcoming. But I ask you to think for a moment not only about those who escaped,

but those who, for whatever reason—fear, risk aversion, they were busy doing something else—decided to stay behind. The escape caused inequality between those who left and those who were left behind. That inequality is simply a consequence of the freedom attained by the escapees—it is not any sort of bad thing, it’s just a consequence of the fact that only some were freed. We should celebrate it, just as we should celebrate the escape itself.

And there’s more—after the escape is over and those who were left behind think about whether they, too, should try to escape, the inequality between them and the escapees provides a demonstration of what is possible, so that those who thought it couldn’t happen now realize that perhaps it can, even for them. This is how progress happens. A few individuals break the mold, and that helps others to follow. I think of innovation and invention today in the same

“Innovation and invention create inequality, but with entirely positive consequences.”

way—they create inequality, but with entirely positive consequences. To be against that sort of inequality is to be against progress itself.

So why are so many people upset about inequality today? Let me give you some of the numbers that people worry about. Although global income inequality is declining, which is the inequality between all of the people of the world, income inequality is rising within many, indeed probably most, countries. So *if* it is a problem—if—then it is a problem that’s getting worse. In the U.S., most famously, the top 1 percent of incomes accounted for 20 percent of pre-tax national income in 2014, as opposed to only 12 percent in 1980. Simultaneously—and to me this is something that we really do need to be very concerned about—the rate of economic growth has been falling for a long time—at least in rich countries. And if we have slow growth plus widening inequality, we get an increase in poverty—something that everybody agrees is a bad thing.

So I want to talk a little bit about poverty in America. The World Bank estimates that in 2013, three million Americans lived with an income of less than \$1.90 per person per day. Now, of course, if we’re going to look at poverty, you have to think about health as well as material well-being. Yet American health outcomes are poor compared to other rich countries. Life expectancy in much of Appalachia and the Mississippi Delta is lower today than life expectancy in Bangladesh or Nepal. This is in spite of the enormous amount of money that we spend on health care.

Among white non-Hispanics the decline in mortality in middle age stopped after 1998, and it is rising now among both men and women who have a high school

degree or less. Deaths from heart disease have flattened and stopped falling in some groups, but there's been a steady increase in mortality from suicides, alcoholic liver disease, and accidental poisonings, mostly from prescription drugs such as Oxy-Contin. None of this is happening for African Americans, or for Hispanics, and it is not happening in other rich countries, at least at anything like the same scale.

Now let me come back to inequality, and how we might *think* about inequality, and why people often get things wrong. Anne Case and I have been trying to link the mortality epidemic to underlying causes. The most popular story in the media is the “income inequality kills” story.

Of course, this presumes that if people at the top had made less, those at the bottom would have more, which I don't believe is true. Even then, the matching of mortality to income growth, as a story, turns out to be surprisingly difficult to tell. It works for some groups and not for others, it works in some periods and not in others. And there have been periods in the U.S., most notably in the



1970s, when economic growth slowed and income inequality rose very rapidly, but mortality declines accelerated. The mortality epidemic for the less-educated is an expanding inequality in health that many of us find seriously disturbing. But it's far from clear that it has anything to do at all with expanding income inequality.

Perhaps the classic idea about inequality is inequality of outcomes, which, other things being the same, is thought to be a bad thing. Like many philosophers, I think this idea is wrong. I don't believe that your getting more makes me any worse off, in and of itself. Of course, if you used your good fortune to hurt me, things are different. But if someone gets rich, good luck to them. Otherwise it is as if those left behind in the prisoner of war camp can legitimately complain that their lives are worse just because some people made a successful escape. Yet there are many, particularly on the left, who think that equality is a desirable goal in and of itself.

An alternative account, which is often embraced by both right and left, is equality of *opportunity*. They believe that, while it's OK to let people prosper by their own efforts, we should attempt to make sure that everyone starts out in childhood on a level playing field. This idea has enormous appeal. But the more you think about it, the more difficult and less appealing it becomes. Even if you're in favor of a heavy estate tax, which many who endorse equality of opportunity are not, surely few would support a prohibition on allowing parents to use their talents to favor their children. And even if we could manage to get an approximate equality of opportunity at the start of life, it would erode over time, as some people get lucky and

some do not. We might, indeed, want to allow people to be fully responsible for their actions, and to compensate them only for the things that happen to them that are out of their control. But that produces hard cases, too—if someone gets lung cancer but has no insurance, do we give them treatment only if they never smoked?

Procedural inequality is the third kind of inequality, and one that seems to me to be important and overly neglected. This is the idea that it matters *how* inequality comes about—that not all kinds of inequality are morally equivalent. If people get rich by inventing things, by innovations and by entrepreneurship, that is a good thing, like the progress in *The Great Escape*, and we should welcome the inequality that it creates. On the other hand, if people get rich by seeking favors from government, by legally or illegally bribing the state to make them rich at the expense of the rest of us, then the inequality that comes from *that* is a bad thing and we should work against it. Getting rich by *making* is fine; getting rich by *stealing* is not fine.

I'd like to go back to our health care system, and to opioids and the mortality crisis. Health care in the U.S. is provided by an internationally unique combina-

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tion of government and profit-seeking firms, and as a result, it is exquisitely engineered to produce opportunities for rent-seeking (that is, favors and privileges granted by government), but very poorly engineered to produce health. We spend almost twice as much per capita as any other country, yet have among the poorest health outcomes of any rich country, even before the recent mortality crisis.

What has happened with opioids is a perfect example. Sam Quinones, in his book *Dreamland*, noted that many opioid prescriptions are funded by Medicaid. Nicholas Eberstadt recently remarked that dependence on government has thus taken on a whole new meaning. Yet we should also follow the money—the costs may fall on the public through Medicaid, but the beneficiaries are not the hundreds of thousands who have died from overdoses, or who are addicted to the drugs, but the pharmaceutical companies that are relentlessly pushing them.

To the very considerable extent that rent-seeking is responsible for American inequality, we could sharply reduce inequality by reducing rent-seeking. The dominance of lobbying in Washington is a relatively recent phenomenon—it hasn't existed since the beginning of the country, and that suggests that it can be rolled back and changed. And changing it is surely our best hope, not only of reducing inequality, which should *not* be an objective, but of rooting out the *theft*-based inequality that hurts us all. ■



SCHOLAR PROFILE

Peter Van Doren

PETER VAN DOREN is editor of the quarterly journal *Regulation* and an expert on the regulation of housing, land, energy, the environment, transportation, and labor. He has taught at Princeton University, Yale University, and the University of North Carolina. From 1987 to 1988 he was the postdoctoral fellow in political economy at Carnegie Mellon University. He received his bachelor's degree from the Massachusetts Institute of Technology and his master's degree and doctorate from Yale University.

This year is the 40th anniversary of *Regulation*. What is the history and purpose of *Regulation* magazine?

The American Enterprise Institute published the first issue of *Regulation* in 1977. In 1990, it moved to the Cato Institute under the editorship of Bill Niskanen. I became editor in 1999. *Regulation* gives readers without advanced degrees in economics, such as newspaper columnists, a *Scientific American*-like summary of important articles in economics journals. Economists with advanced training, including staff economists for government agencies and Congress, also find *Regulation* useful for giving them accessible discussions of important economic issues for their noneconomic bosses to read. And finally, many college instructors use *Regulation* articles in their undergraduate classes.

How has regulation changed since the magazine first started?

When *Regulation* started, “regulation” meant price and/or entry restrictions on running a business. To fly an airline route, you needed permission from the Civil Aeronautics Board. To run a railroad, or to run a truck across state lines, you needed permission from the Interstate Commerce Commission. And much domestically produced oil could be sold only at prices dictated by the government.

The good news is that all those restrictions are gone, in part, because of the scholarship that has been in the pages of *Regulation*. And

even better news is that when strong political pressures have existed to reinstate traditional price and entry regulation, Congress has not. For example, neither the near tripling of natural gas prices after Hurricane Katrina nor oil prices of \$144 a barrel in 2008 led to reregulation. The legislature seems remarkably resistant to the traditional price and entry regulation that was so prominent when the magazine started.

The bad news is that the momentum for market liberalization reversed in the new century. No policy change in the last 16 years would seem to qualify as a major deregulation. And such initiatives as the 2002 Sarbanes-Oxley corporate governance act, the 2002 and subsequent farm bills, the 2005 Energy Policy Act, the 2010 Patient Protection and Affordable Care Act (ACA), the 2010 Dodd-Frank financial regulation act, and the 2015 Federal Communications Commission “net neutrality” regulations have expanded federal intervention in markets.

The best hope for deregulation rests with future generations of voters. Today's students are tomorrow's voters. Thus, the more that students are exposed to knowledge from *Regulation* about the benefits of markets and the costs of regulation, and the more they see these lessons play out in their daily lives (e.g., Uber, Airbnb, food trucks, microbrewing and microdistilling), the less likely they will be to vote for politicians who favor government intervention in markets. ■

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Throughout the Cato Institute's 40 years we have worked to move the public policy debate in a more libertarian direction.

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As Cato executive vice president David Boaz recently wrote, "At the Cato Institute, we stand firmly on the principles of the Declaration of Independence and the Constitution—on the bedrock American values of individual liberty, limited government, free markets, and peace."

The occasion of Cato's 40th anniversary in 2017 has encouraged reflection among our Sponsors and friends on the Institute's leadership in the history and future of liberty.

Cato is a great voice for liberty. It stands for free people and free speech—things we just must have for a strong democracy.

—**Rupert Murdoch, Chairman, News Corp; Executive Chairman, Fox News; former member, Cato Board of Directors**

Ultimately, the battle for American freedom must be based on political philosophy and intellectual principles, the way the American Revolution was. (Think of the Cato Institute as a philosophical Washington crossing an intellectual Delaware.) Major political parties tend to avoid philosophy and fundamental principles. Most advocacy and activist groups do too. Cato embraces them.

—**P. J. O'Rourke, America's leading political satirist**

For health care reform, a lot of the ideas that I sometimes articulate—in our company, to the team members of Whole Foods, if I'm talking to the media—if you were to scratch far enough you'd see Cato had some influence there.

—**John Mackey, Co-Founder & CEO, Whole Foods Market**

It would be nice if Cato had more resources—we do a lot of great work. It's hard to get the message out and I wish we could be more effective with impacting more people, and we just simply need more resources . . . to make that happen.

—**John A. Allison, Former President & CEO, Cato Institute; Retired Chairman & CEO, BB&T**

Cato's Board of Directors, staff, and Sponsors are committed to upholding Cato's future as a principled libertarian public policy organization that produces credible research of the highest quality. We invite those who share our values to explore opportunities to partner with us through a planned gift to ensure a bright future for Cato and, most importantly, for liberty. ■

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The first session—Cato University's College of Economics—is based on the conviction that economics is the necessary foundation for understanding government, business, and society. Discussions by Nobel Laureate Vernon Smith and top economics professors from Harvard University, Northwestern University, and the Cato Institute are designed to solidify your expertise on basic economic principles, and then help you apply those tools to today's most pressing issues.

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