Inequality, Prosperity, Growth, and Well-Being in America

J. Bradford DeLong
U.C. Berkeley, WCEG, and NBER

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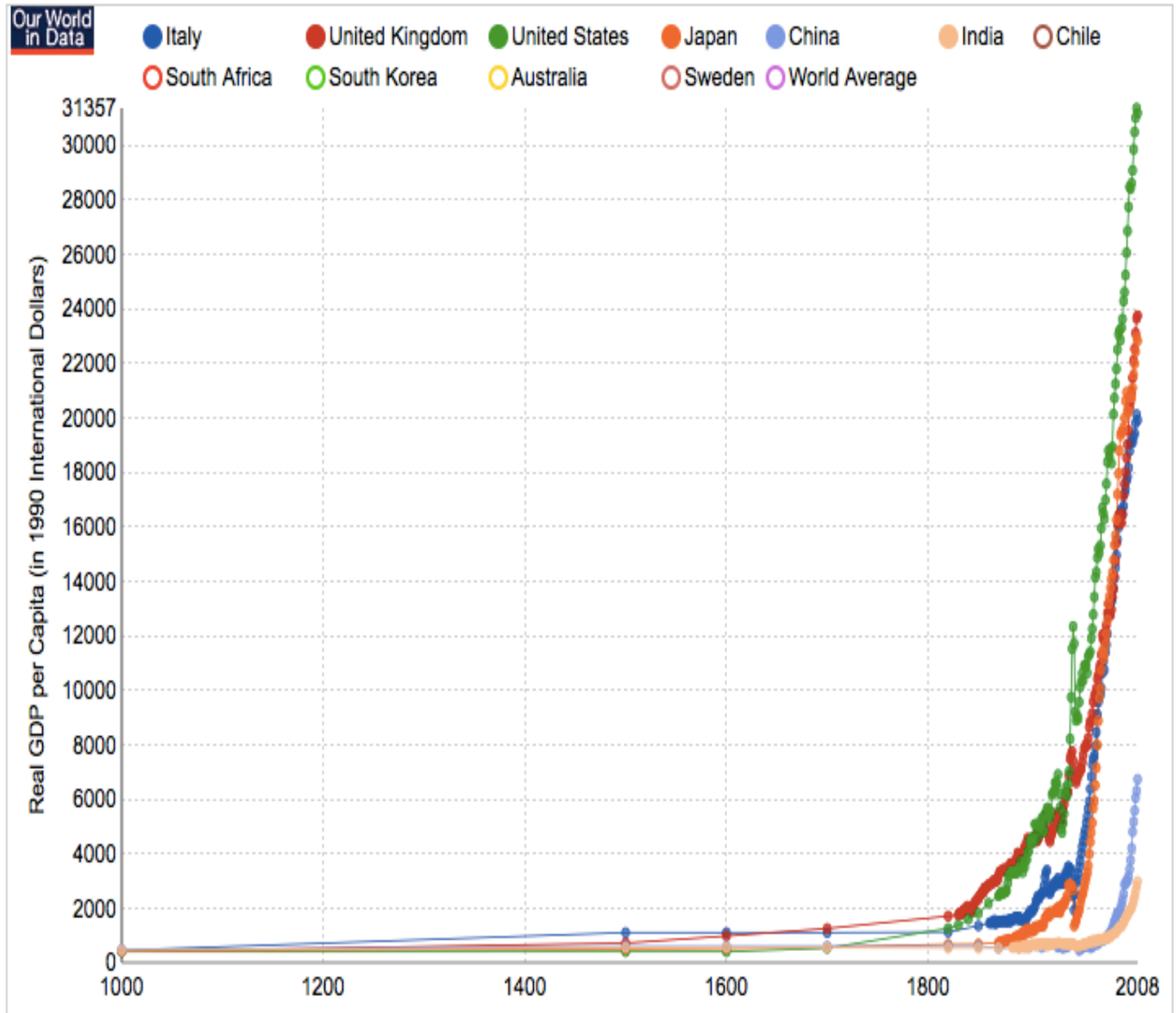
Economic Growth

Real GDP per capita around the world (PPP adjusted), since 1000 – Max Roser[3]



Max Roser (2015): http://ourworldindata.org/data/growth-and-distribution-of-prosperity/gdp-growth-over-the-last-centuries/

- 20-fold growth in *measured average* real GDP per capita from "subsistence" back in 1000 to today.
- Seven-fold in India
- Fifteen-fold in China
- Sixty-fold in the United States
- Given that our life expectancy here in the United States is up from 25 years to 80 years, and our infant mortality is tiny, and we are not desperately hungry, can inequality matter?

Standard Estimates Understate Growth: Nordhaus's Argument

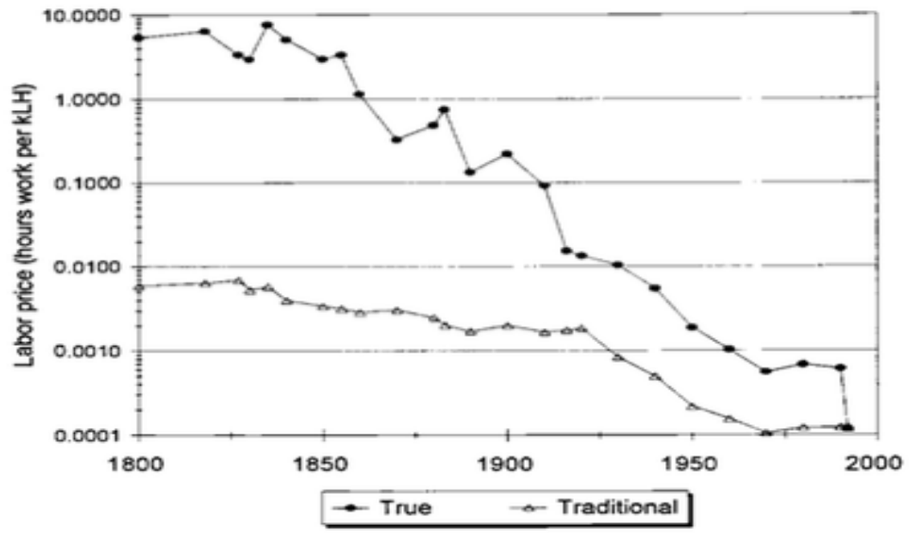


Fig. 1.5 Labor price of light: true and traditional

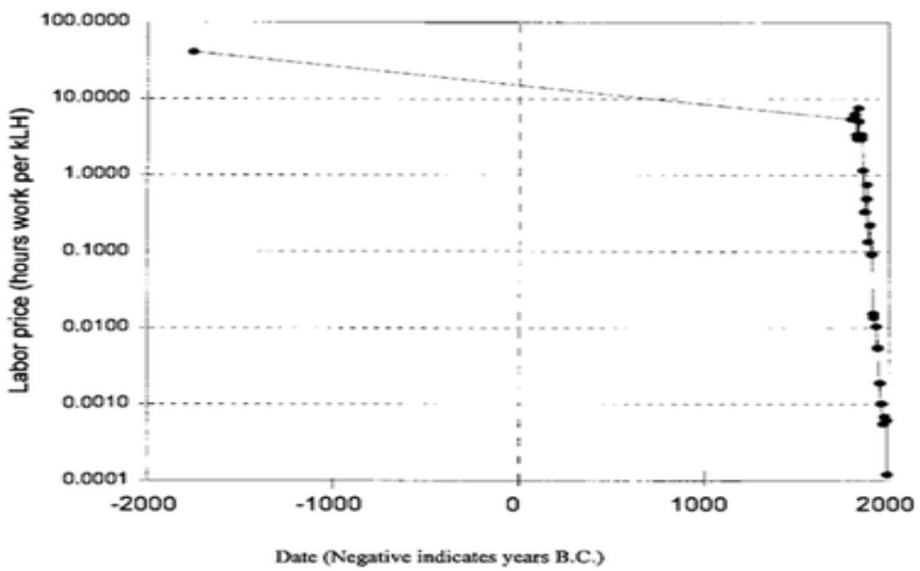


Fig. 1.6 Labor price of light: 1750 B.C. to present

William Nordhaus (1996): http://www.nber.org/chapters/c6064.pdf

Table 1.8 Consumption by Extent of Qualitative Changes, 1991 ($ billion)

Sector	Run-of-the-Mill Sectors	Seismically Active Sectors	Tectonically Shifting Sectors
Food			
Home consumption	419.2		
Purchased meals		198.5	
Tobacco		47.8	
Clothing			
Apparel	208.9		
Cleaning and services		21.1	
Watches and jewelry		30.6	
Personal care			
Toilet articles		38.2	
Services	24.0		
Housing			
Dwellings		574.0	
Housing operation			
Furniture and utensils	116.3		
Appliances			25.5
Cleaning and polishing		52.8	
Household utilities			143.2
Telephone and telegraph			54.3
Other	49.6		
Medical care			656.0
Personal business			
Legal and funeral	60.3		
Financial and other		257.5	
Transportation			438.2
Recreation			
Printed	42.9		
Toys		32.3	
Electronics and other goods			84.2
Other	51.7	51.2	27.4
Private education and research		92.8	
Religious and welfare	107.7		
Total	1,080.6	1,396.8	1,428.8
Percent of total	27.7	35.8	36.6

Source: Prepared by the author based on U.S. Department of Commerce (1986), with updates from BEA's *Survey of Current Business.*

Note: "Run-of-the-mill" sectors are ones in which the goods or services have changed relatively little or in which price indexes can measure quality change relatively easily. "Seismically active" sectors are ones in which the goods or services are recognizable from the early 19th century but for which there is likely to have been major changes in quality and great difficulty in measuring quality change accurately. Industries subject to "tectonic shifts" are ones in which the nature of the good or service has changed drastically (as in lighting) or for which the good or service did not exist at the beginning of the 19th century (as in antibiotics).

William Nordhaus (1996): http://www.nber.org/chapters/c6064.pdf

Not Sixty-Fold in the U.S., But How Much?

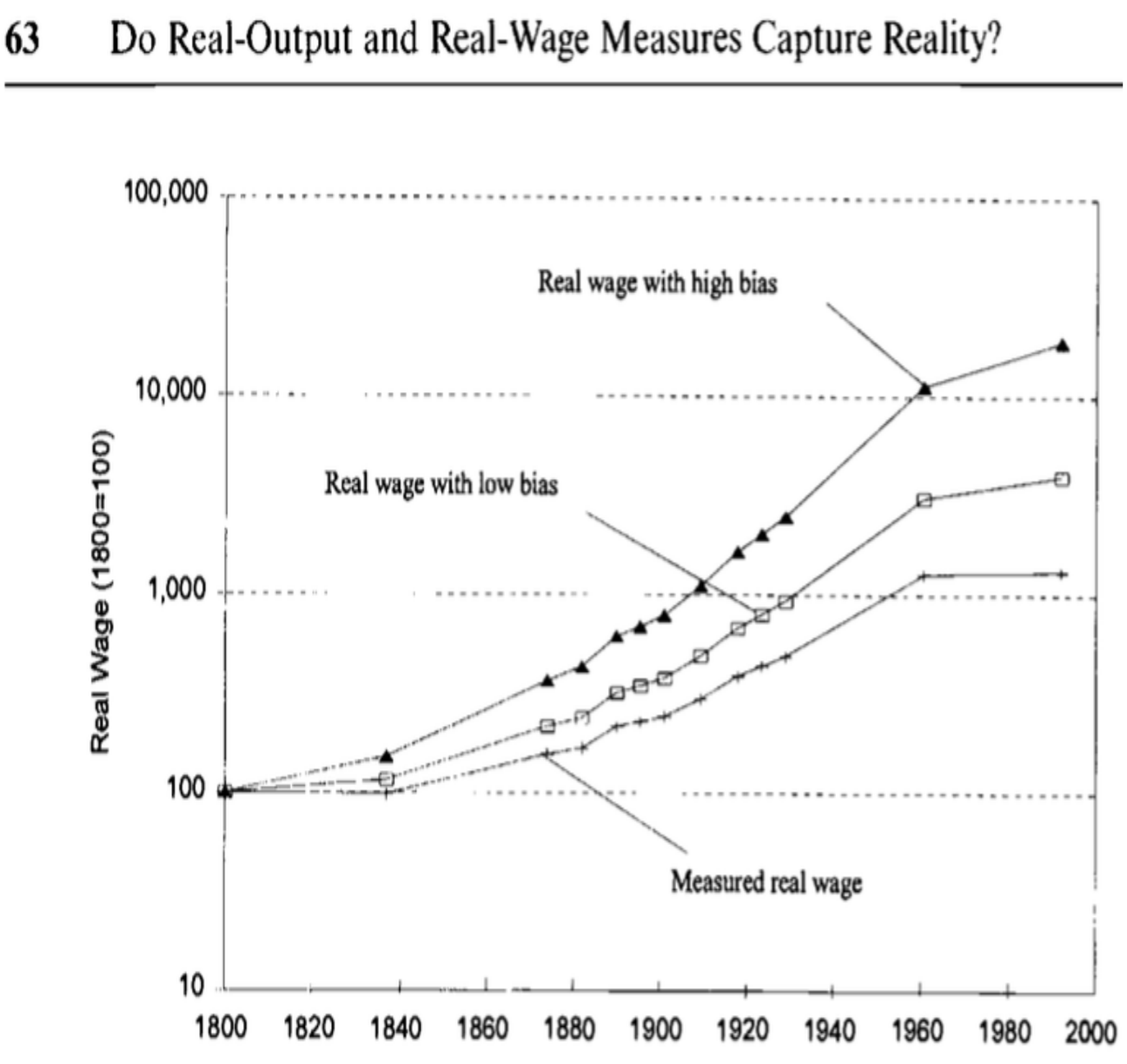
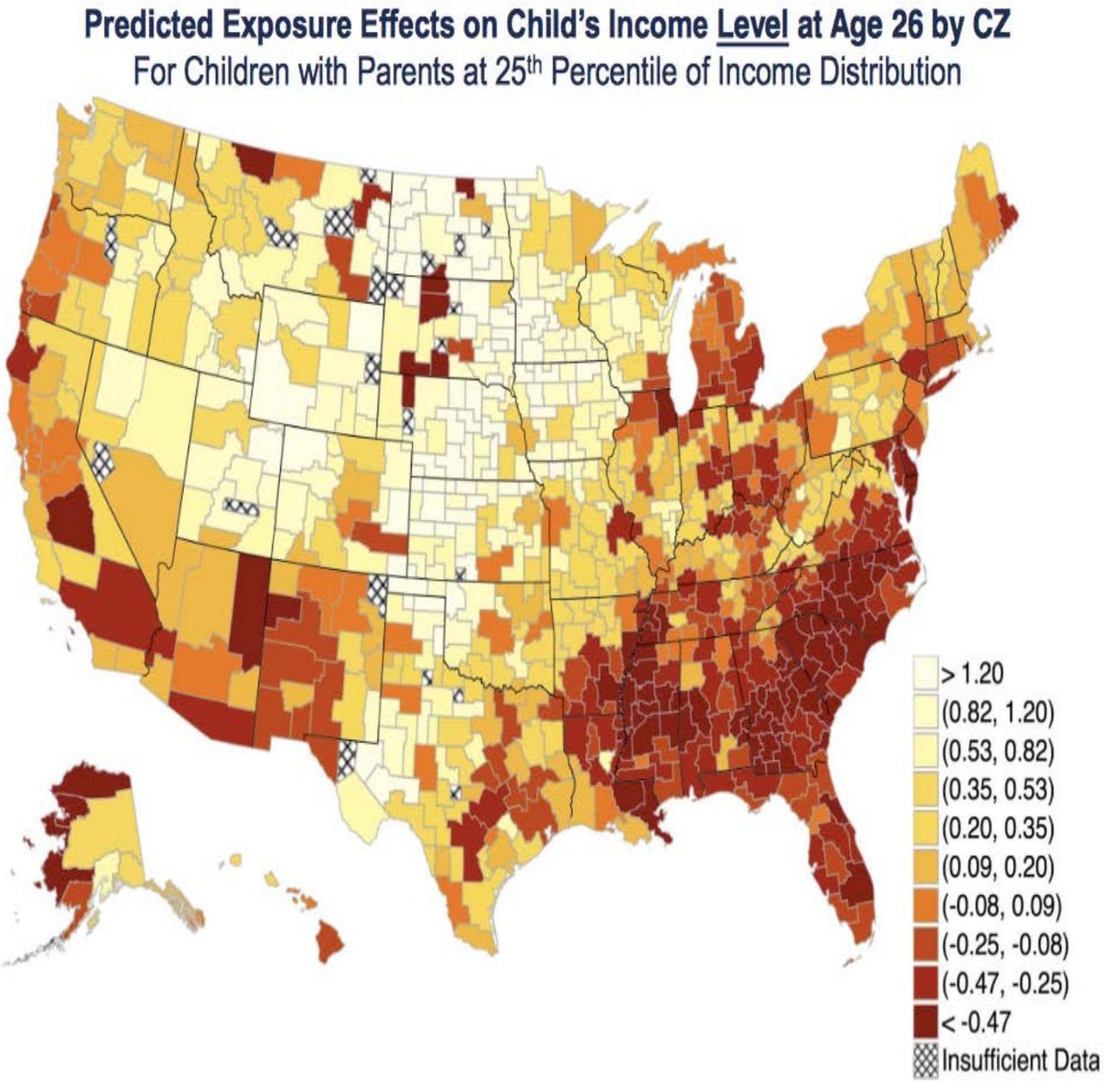


Fig. 1.8 Traditional and true real wages

William Nordhaus (1996): http://www.nber.org/chapters/c6064.pdf

- 60-fold growth in U.S. *measured average* real GDP per capita from "subsistence" back in 1000 to today.
- Nordhaus "low bias" estimate: 180-fold
- Nordhaus "high bias" estimate: 720-fold
- Basically, *we are at satiation for everthing that mattered in terms of goods and services in 1000.*
- At satiation—in fact, beyond satiation—in foodstuffs, etc….

Inequality of Opportunity



Note: Estimates represent % change in earnings from spending one more year of childhood in CZ

Raj Chetty et al. (2014): http://www.equality-of-opportunity.org/images/nbhds_slides.pdf

- Move a child whose parents are at the 25%-ile of income from St. Louis to Kansas City for one year, boost their age-26 income by +0.36%
- From Louisiana to Minneapolis for one year, +1.50%.
- Raj Chetty et al. are being as careful as they can possibly be…
- Enormous and causal county-level geographic inequalities of opportunity *conditional on income…*

Inequality of Result

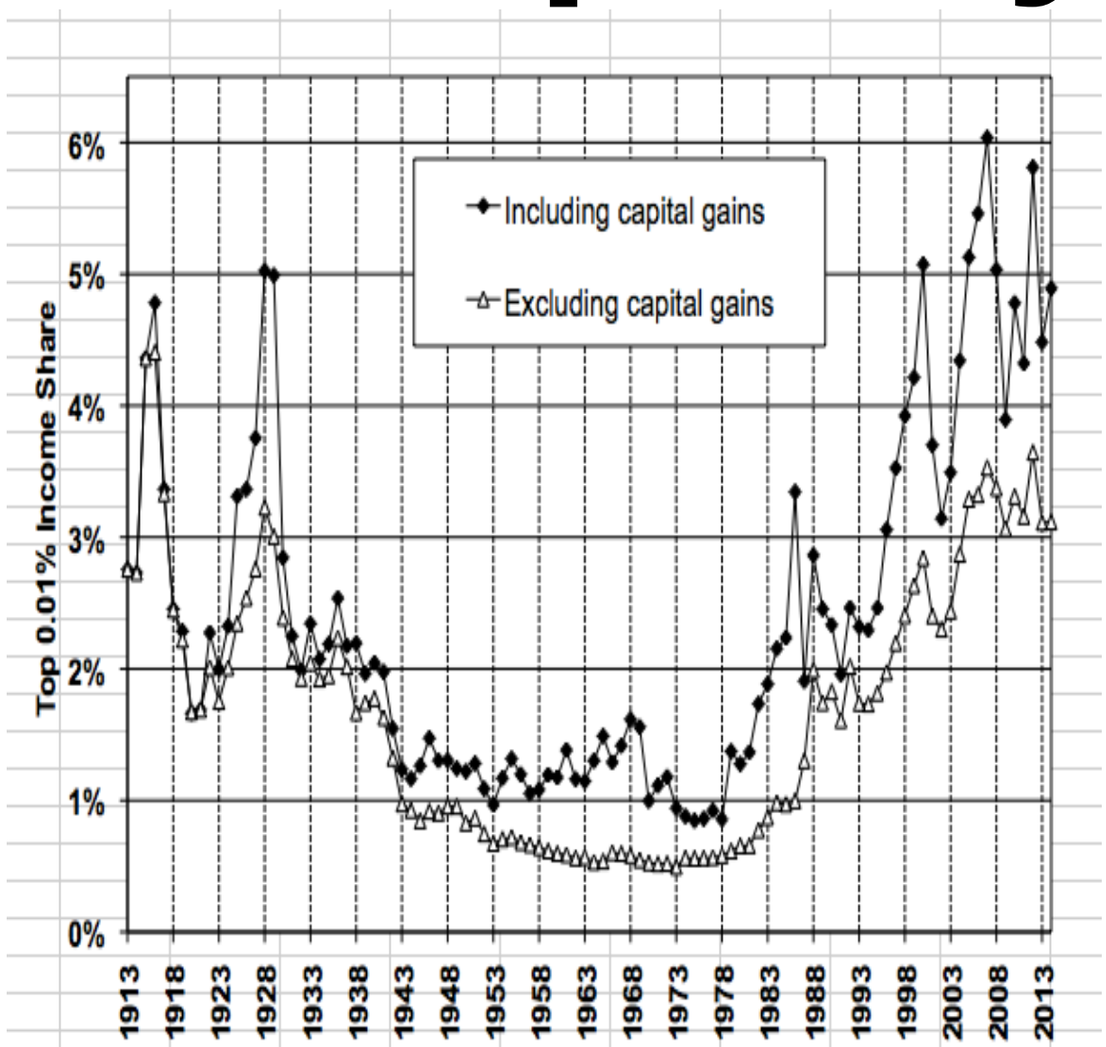


FIGURE 3
The Top 0.01% Income Share, 1913-2014

Piketty-Saez

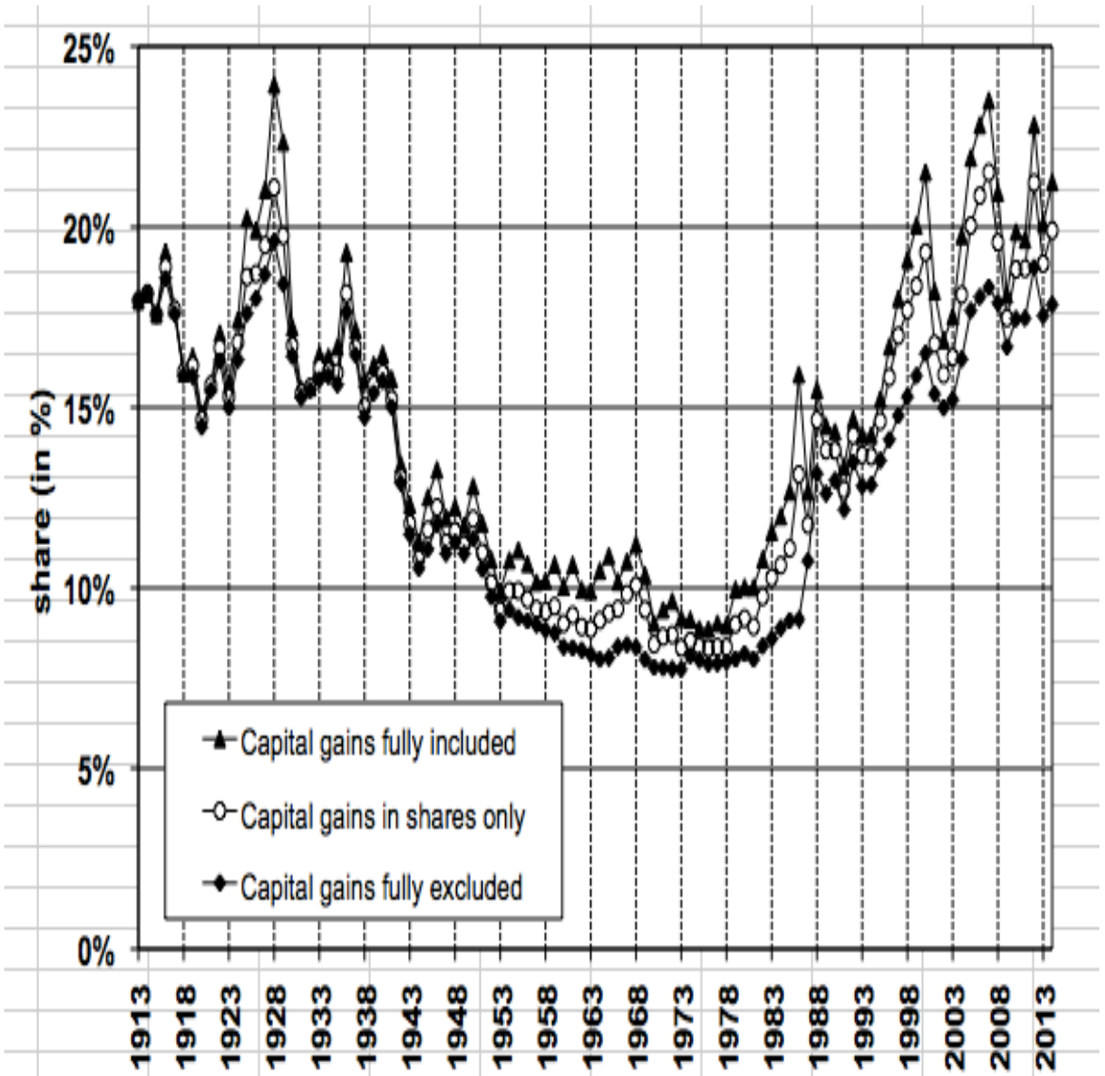


FIGURE A2
Top 1% Income Shares in the United States, the role of capital gains

Inequality of Result II

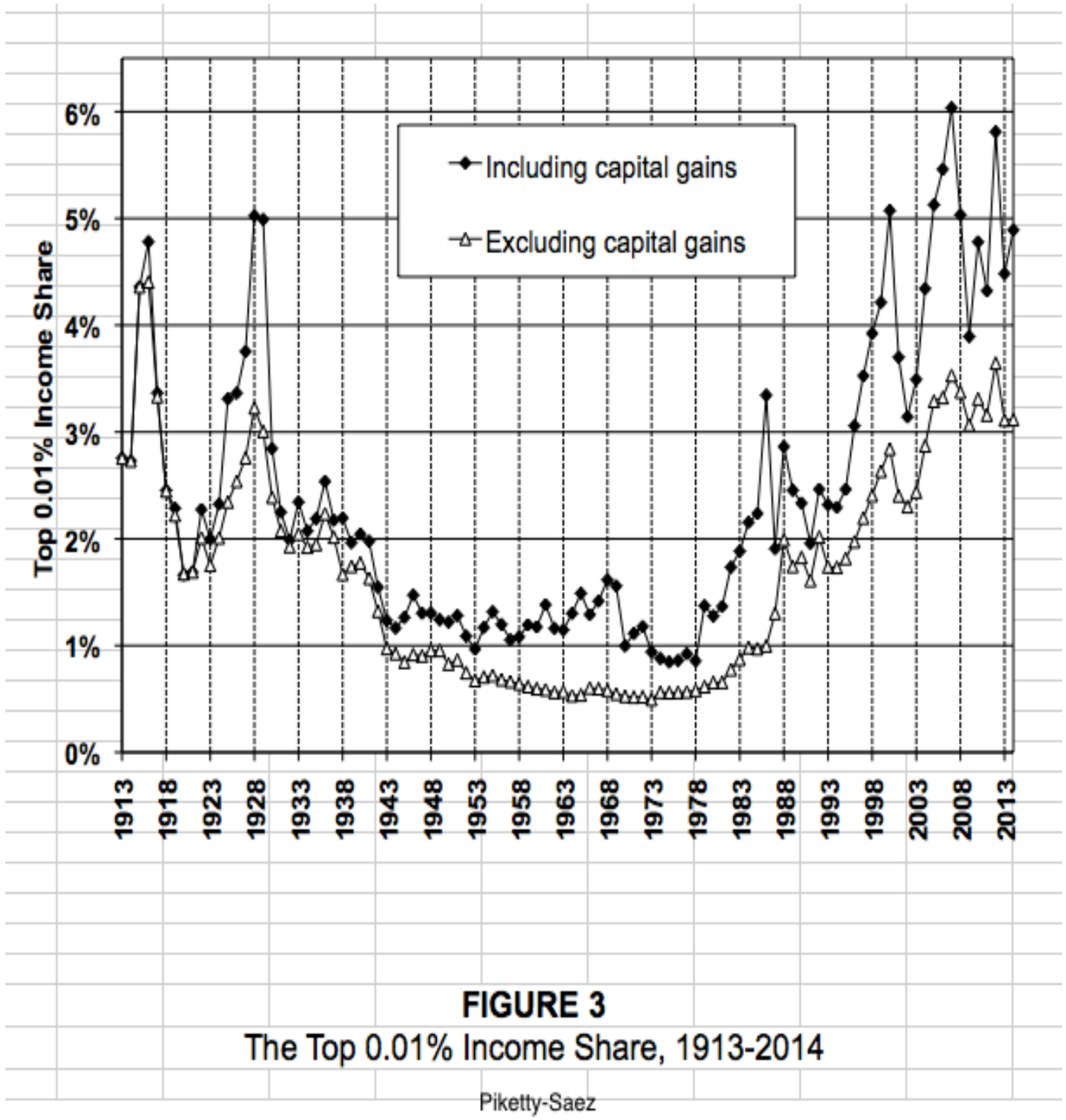
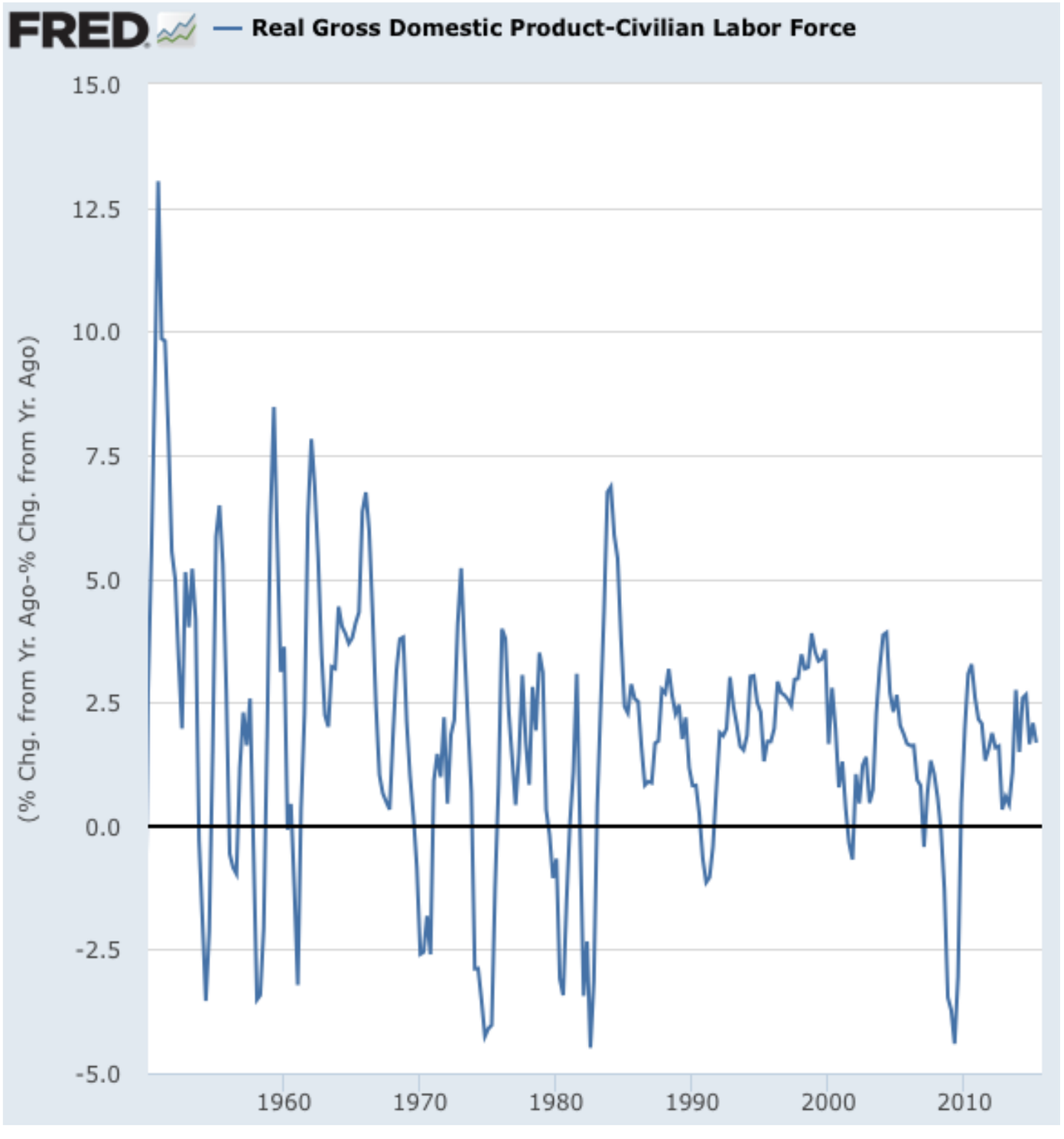


FIGURE 3
The Top 0.01% Income Share, 1913-2014

Piketty-Saez

- Save for those of the top 0.01% who are going to use their money for useful purposes (cf., Bill Gates on river blindness—gifts to Harvard don't count), the contribution they make to any reasonable utilitarian measure of societal welfare is zero.
- Therefore we care negatively because it's a subtraction from useful utilitarian spending
- We care because they use their wealth to disrupt opportunity
- Offsetting this, we care because we are paying them for providing services in spurring overall economic growth.

We Are Now Paying a Lot to the Overclass. What Are We Getting for It?



- We seem to be getting absolutely nothing in terms of faster overall economic growth from paying our overclass a *much* greater share of output than we paid them back in the 1950s and 1960s.
- This is a problem: we would have expected reduced tax avoidance and reduced soft-dollar compensation to have produced some positive effect
- It hasn't.

Back at the Start of the 1980s It Was Reasonable to Imagine that the Social Insurance State Was Tapped Out…

- The 1970s were a very bad decade for productivity growth—energy price five-fold real price increase, entry of inexperienced baby-boom generation into the labor force, inflation-generated relative-price uncertainty.
- But the 1980s saw not just not a return to the 1945-1970, but no catch-up.
- And while the 1990s were somewhat better
- The early 2000s were not
- And since 2007 has been a growth disaster
- Not reasonable to hold that we have gotten value for money from our inequality-promoting policy changes since 1980

A Life-Expectancy Canary in the Coal Mine?

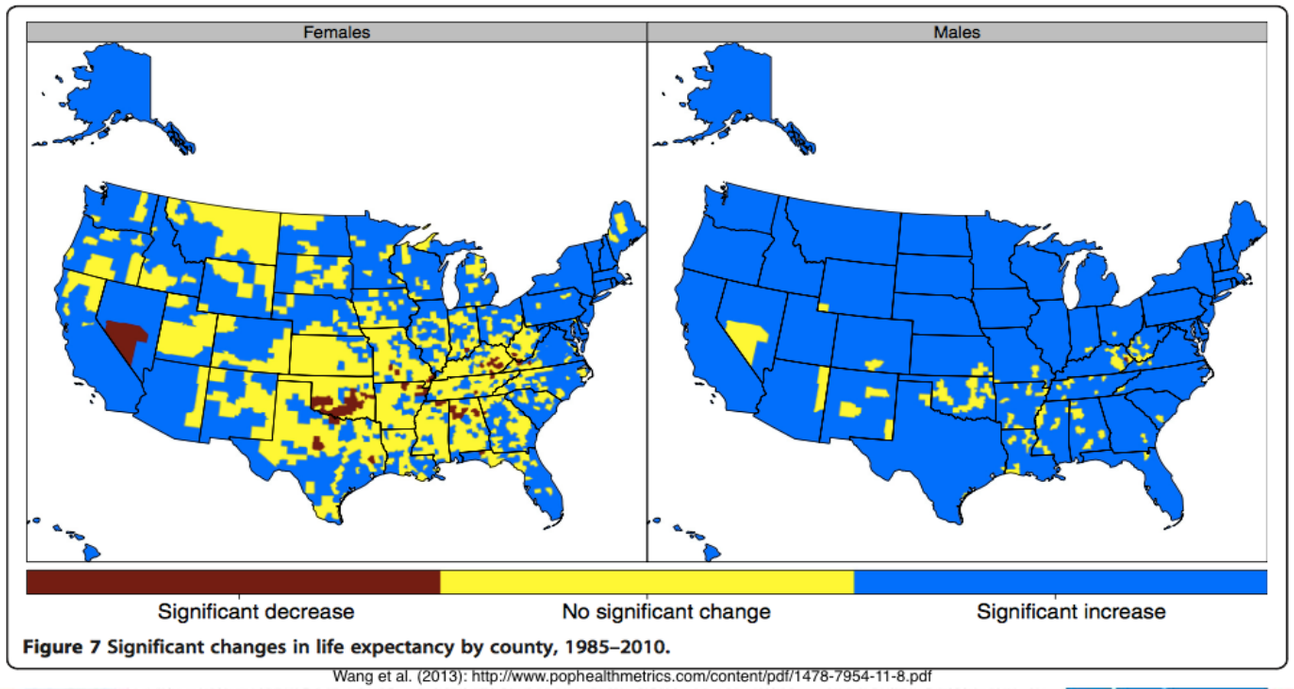
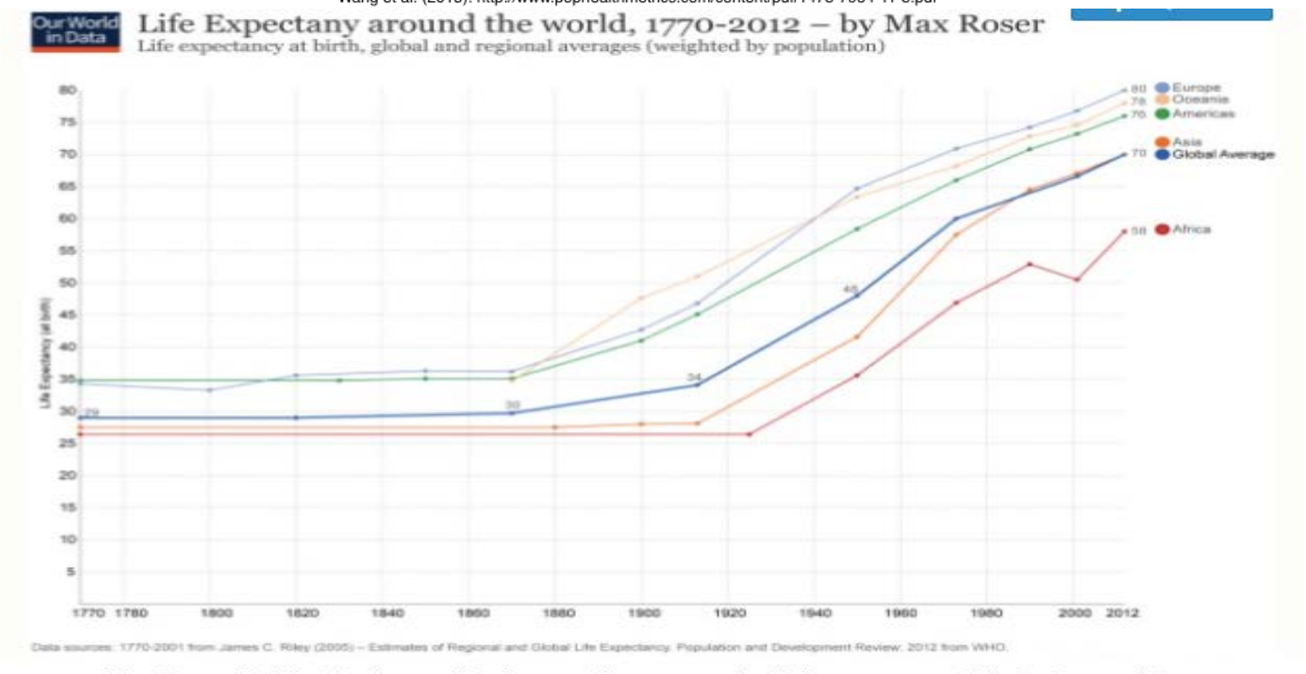


Figure 7 Significant changes in life expectancy by county, 1985–2010.

Wang et al. (2013): http://www.pophealthmetrics.com/content/pdf/1478-7954-11-8.pdf



Max Roser (2015): http://www.slideshare.net/Xammamax/spi-7th-may-our-world-in-data-complete

- If economic growth is being well-distributed, we would expect increases in real GDP per capita or per worker to be associated with substantial increases population-wide in pretty much all of our other measures in good things.

- Thus the post-1985 failure of female life expectancy to rise across an enormous proportion of the country is terrifying.

- Not as bad as it looks: badly-performing rural counties have low population density.

- Nevertheless: 25 counties where female life expectancy has fallen by more than 2 years since 1985