

Lecture 16:

4.5. Inequality and Plutocracy

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44 slides; 64 minutes of audio

Original course by Melissa Dell (Harvard Econ 1342), revised by Brad DeLong

<<https://github.com;braddelong/public-files/blob/master/econ-135-lecture-16.pptx>>

<<https://www.icloud.com/keynote/0ibXJp1yUuOQLzQyCIUBhteGw>>

Big Ideas: Lecture 15: Convergence and Its Absence

Takeaways from last lecture:

1. Give me five...

Discussion

Inequality and Plutocracy:

- What strikes you as important here?

Inequality Has Ruled since Shortly After the Invention of Agriculture

Farming changes the game:

- Once you have farms, you have large social groups
 - Bigger than, say, 100 at most
- And you can't run away...
- Thugs with spears—and thugs with time to train...
- Grifters with knowledge of the stars (which is, I must admit), useful...
- And we were off and running...



Inequality Has Ruled: Ideological Legitimation

Gilgamesh in his element:

- “Around the enclosed space that is Uruk he walks, mighty like the wild bull, head raised high. None with weapon might challenge him as rival. His men stand at attention, longing for his orders; but the old men of Uruk grouse that Gilgamesh has left no son to his father, for his arrogance has grown boundless...
 - William Muss-Arnolt, trans.: The Man Who Has Seen All Things <<http://www.jasoncolavito.com/epic-of-gilgamesh.html>>



Authoritarian and Sexual Tyrant

Gilgamesh, in his element, continued:

- “He has taken all their children, for is Gilgamesh not the shepherd of his people?
- “Gilgamesh does not leave a daughter to her mother, nor the maiden to the warrior, nor the wife to her husband.
- “Yet Gilgamesh is the magnificent and glorious shepherd of his people.
- “The gods heard the people’s cry, and the gods of heaven beseeched the Lord of Uruk, Anu the god...”



The First Male Bonding Buddy Story

The gods do respond:

- The cries of the people of Uruk lead the gods to do something...
- But the gods do not reform the institutions of the polity of Uruk...
- Instead, they create a buddy for Gilgamesh: Enkidu
 - Gilgamesh and Enkidu fight, and then they bond, and then they become best friends, and then they have adventures and go on quests
 - By the end of the story Enkidu has died, the serpent has taken something immensely valuable away from humanity, and Gilgamesh has experienced personal growth: he is a much wiser—and much better—king
- But he remains king: Uruk remains a polity of gross inequality



Gilgamesh and Enkidu slaying the Bull of Heaven

Neo-Assyrian, -800 ro -600

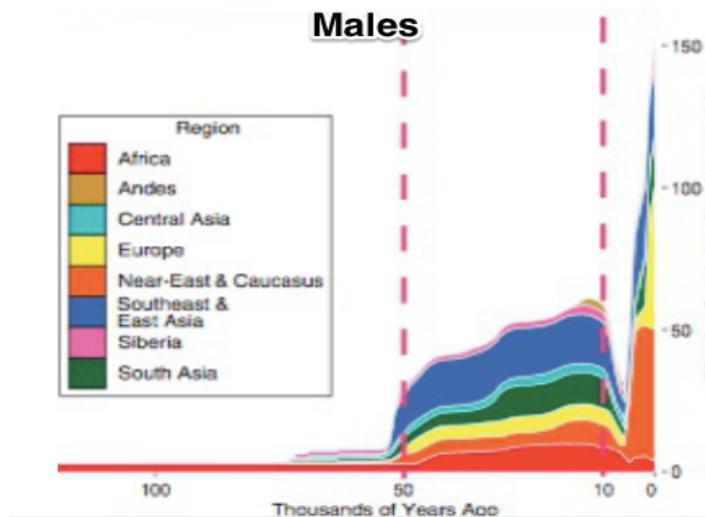
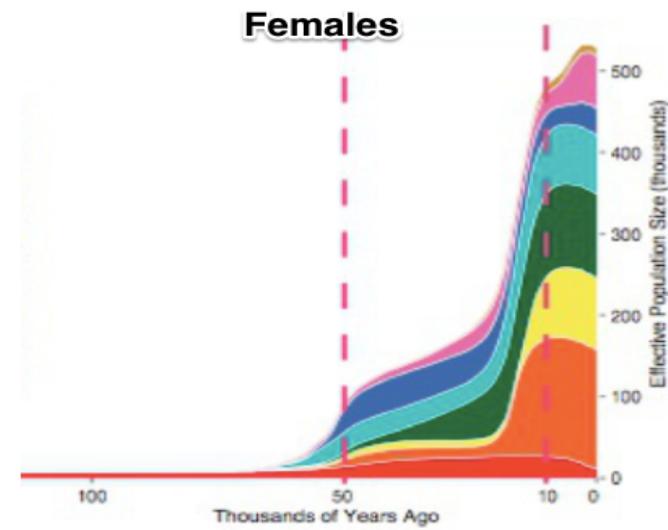
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Inequality and Patriarchy

Agrarian age inequality is inscribed in our genes:

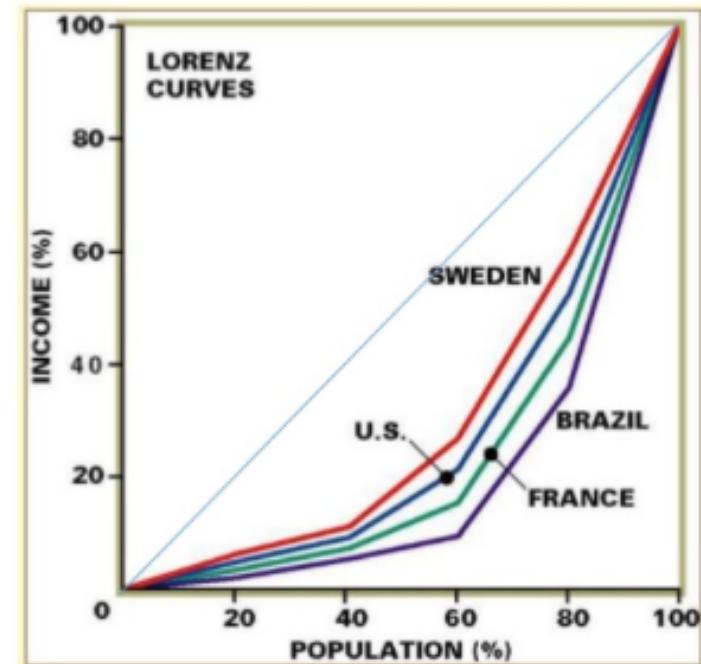
- Everyone inherits their mitochondria from their mothers
- Every male inherits his Y-chromosome from his father
- From -5000 to -2000, a huge chunk of Y-chromosome lineages are not propagating
- Polygyny for some—and non-matrimony for others
- Persistence of (male) descent groups
- What's life like for women as this goes on?
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What Is the Gini Coefficient?

A number describing inequality—that I at least find hard to understand what it means:

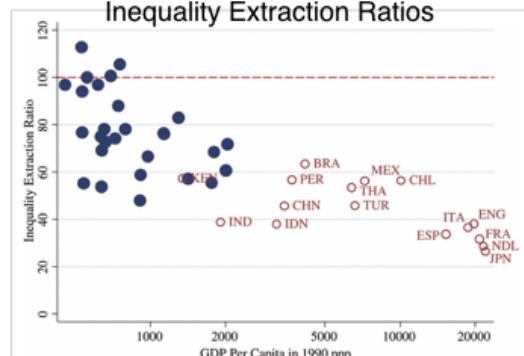
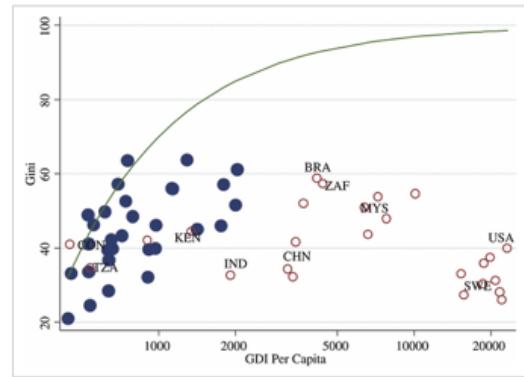
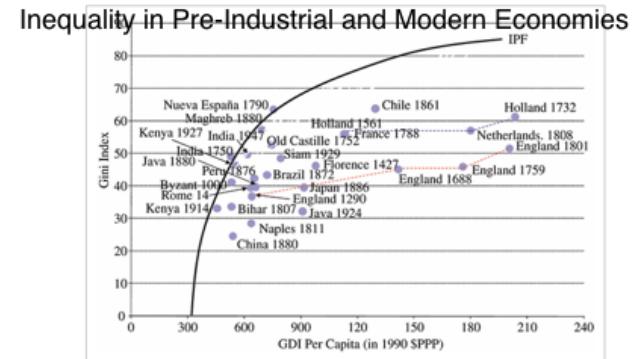
- Here are some facts to give you some intuition:
 - If the bottom 3/4 got 1/4 of the income and the top 1/4 the rest (evenly distributed), the Gini would be 0.5
 - If the bottom 2/3 got 1/3 of the income and the top 1/3 the rest (evenly distributed), the Gini would be 0.33
- The Gini is income: not status. The 4M slaves in the U.S. in 1860 would have objected most strongly to claim that U.S. then no more unequal than Britain
- If you were to think like a utilitarian—and assume that each doubling of income is equally valuable in a utilitarian sense—a move from a Gini of 0.5 to 0.33 would be like a 30% boost to everyone's income



Agrarian Age Economies Look to Have Been About 80% as Unequal as They Could Have Possibly Been

Inequality in poor agrarian age economies cannot have been too great:

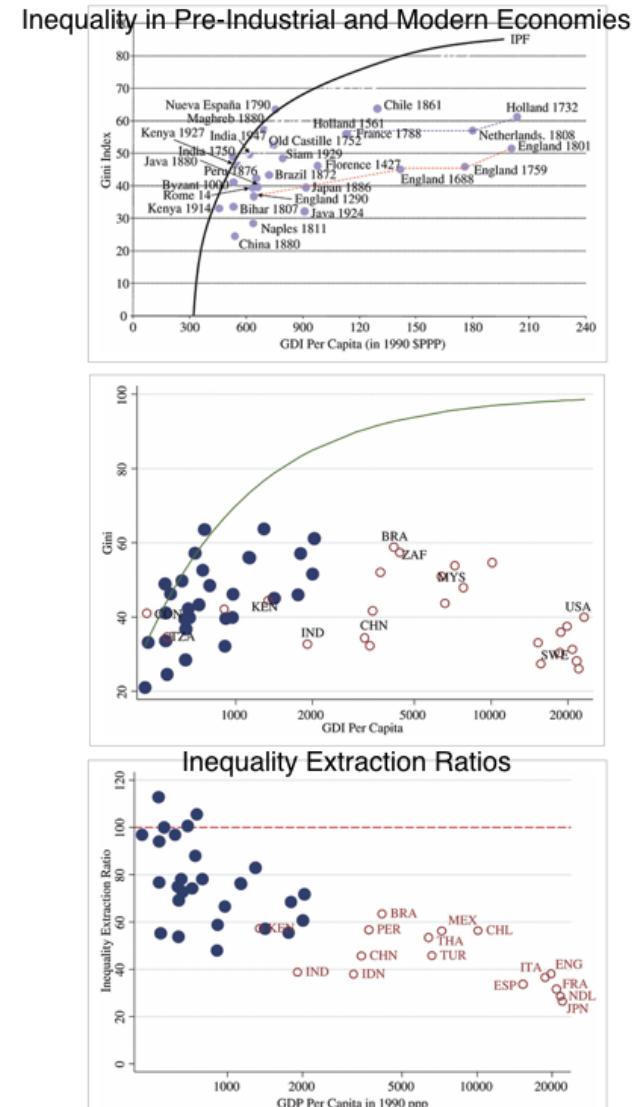
- They are very poor...
 - Hence if income inequality is too great, hen poor women are too skinny to ovulate and poor children so malnourished as to have compromised immune systems
 - In which case they die, and so “decrease the surplus population”
 - And the society dies out—or becomes less unequal



But Is That the Right Way to Look at It?

Poor people living at subsistence must be under a lot of societal pressure:

- To get people to give up enough of their crop that they know that they will be hungry all the time is difficult
- To get people to give up enough of their crop that they know their children will be malnourished and crying is difficult
- Counting value of goods when some of the people from whom surplus is being extracted are at the margin of subsistence may be the wrong thing to do
- Moreover, there is more than an economic dimension to inequality
- There is status group inequality
 - women
 - slaves
 - subordinate castes



Shifts in American Inequality since 1725

Settler America initially a *relatively not too unequal place*:

- As far as pre-industrial and early industrial economies are concerned
 - (For non-slaves) (and for non-women) (and for non-Indians)
- Top 1% 8-10 times average, rather than 15-30 times average
- Today in the U.S. top 1%—those households with incomes more than \$500K/year—make 20 times average
- First Gilded Age: rising inequality in the U.S., slightly falling in Europe
- Age of Social Democracy
- Second Gilded Age

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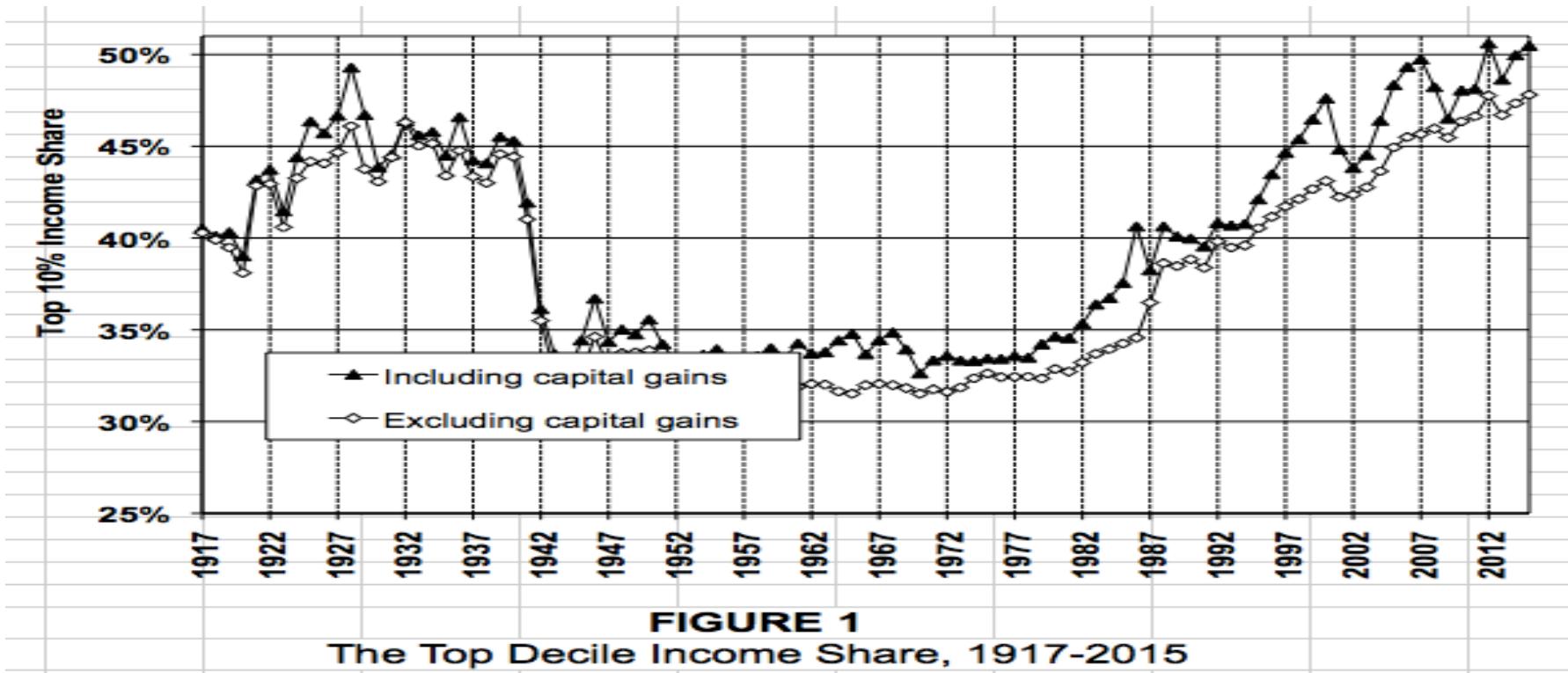
Figure 2 Income inequality in America, Britain, and the Netherlands, 1732-2010



Figure 3 Income share received by the top 1%, four countries over two centuries



The Top-Tenth



- The “tenth” are not a constant group: a quarter of people will spend at least two years in the top tenth...
- These are taxpaying household units, from Piketty and Saez

Dividing the Top-Tenth

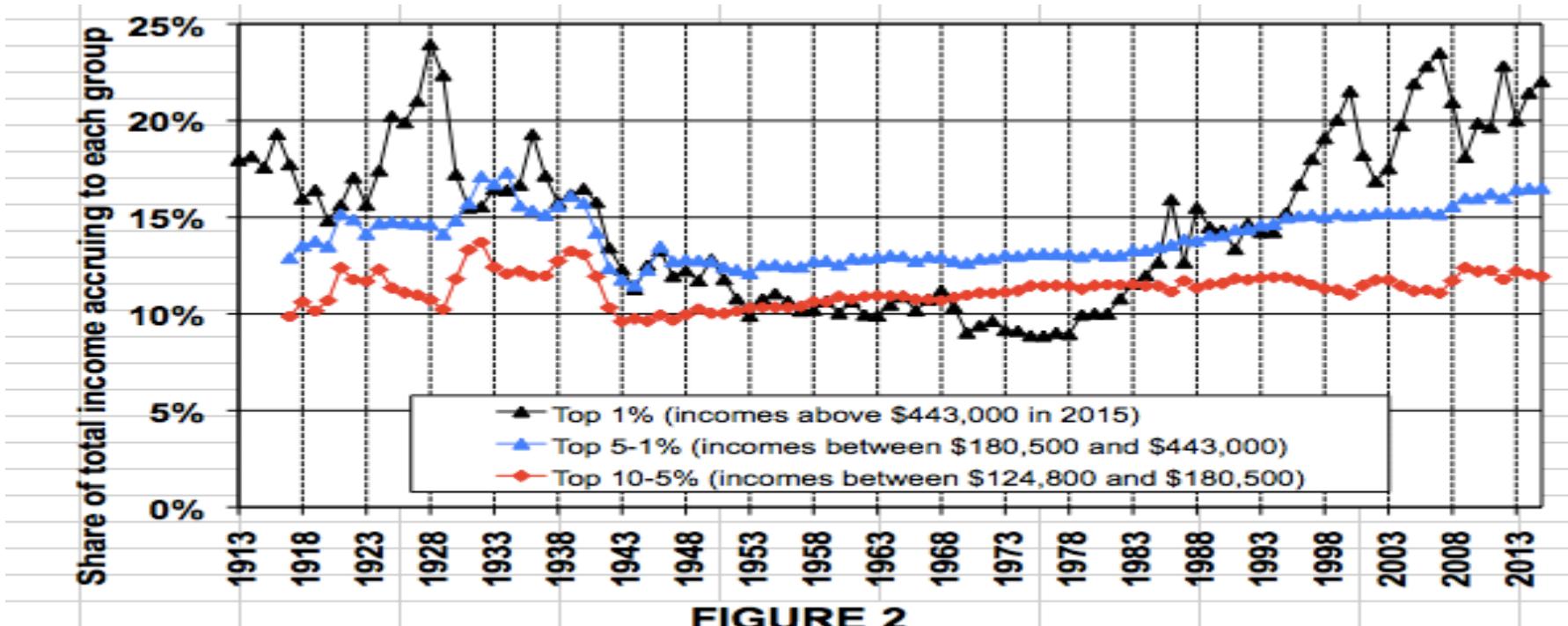
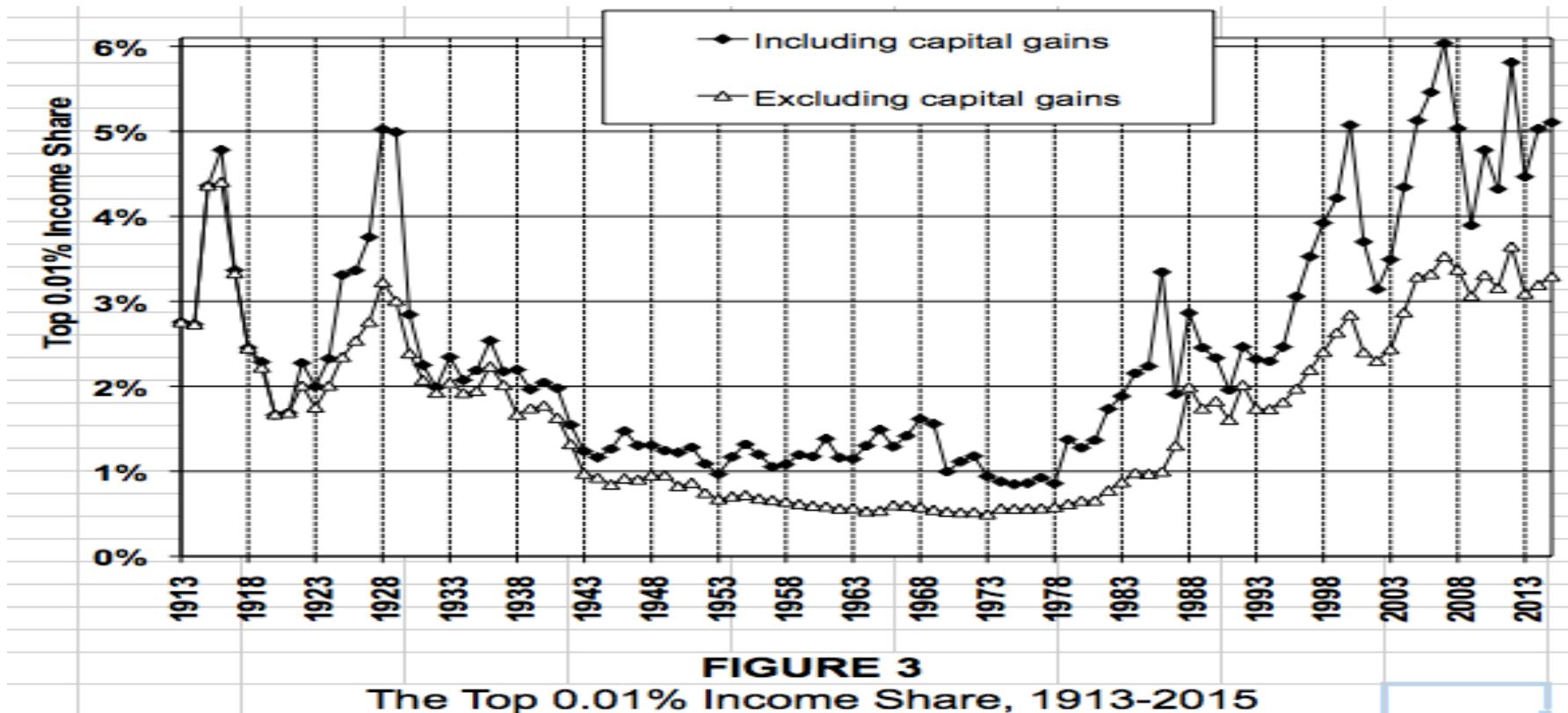


FIGURE 2

Decomposing the Top Decile US Income Share into 3 Groups, 1913-2015

- The action within the top 10% is almost all in the top 1%
- Think of it this way: the rest of us used to pay 10% of everything for the privilege of being bossed around by the top 1%
- Now we pay 20%. “Are we now getting our money’s worth?” is the natural question

The Overclass



- And the top 0.01%?
- We pay 5 times as great a share of income now as in the 1970s for whatever they do. 15,000 households. \$60 million year for each...

Six Sources of Rising Inequality—so Far

Six factors that matter:

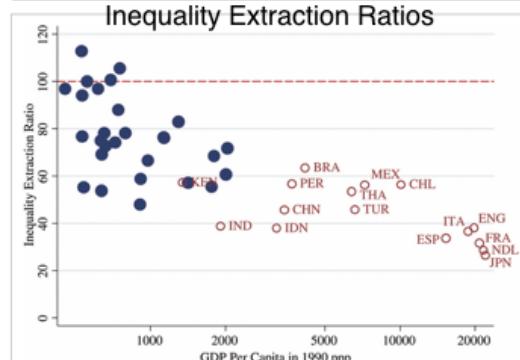
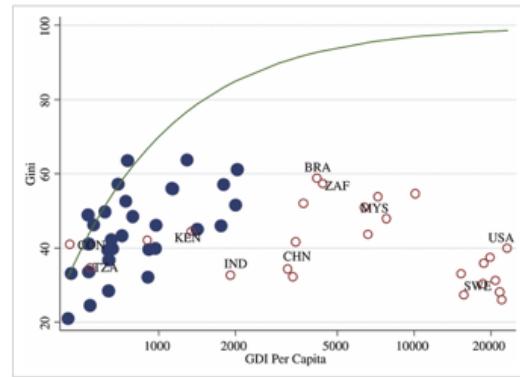
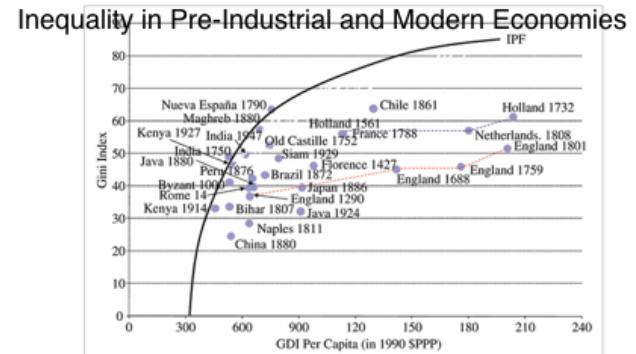
- The race between education and technology—upper middle class, the top 10% and above
- Dissipative sectors: finance—upper class & overclass, the top 1% & 0.1%
- Dissipative sectors: healthcare—upper class, top 1%
- Collapse of worker bargaining power—pushes down the bottom 60%
- Low-pressure economy—push down bottom 90%
- Winner take all—upper class, top 1%
- Three that do not:
 - “Bad trade deals”
 - Low-education immigration (save for its effects on earlier waves still not fully proficient in English)
 - Affirmative action (Arlie Hochschild)



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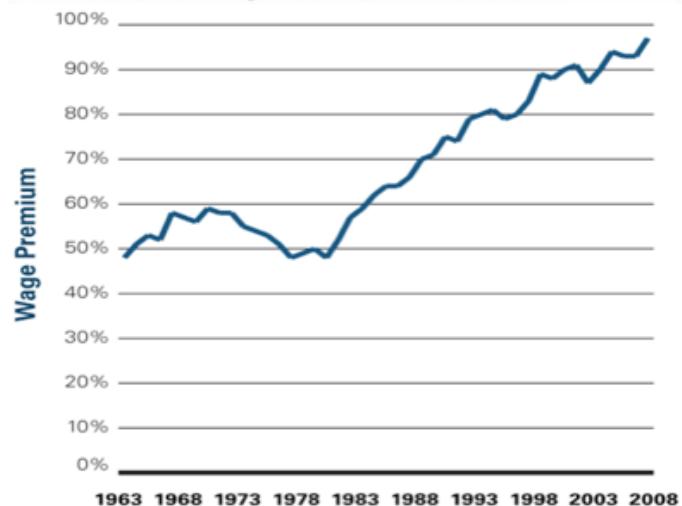
Sources of Rising Inequality I: The Race Between Education and Technology

America began charging for (public) colleges in the 1970s:

- Initially a good-government move—college graduates were going to be rich, and making them pay seemed a progressive reform that took pressure off of state budgets
- But as college became expensive, lots of people who ought to have gone to college didn't
- We lost the race between education and technology
- And thus income inequality in the form of the college-high school wage premium leaped upward
- This could be fixed—over generations



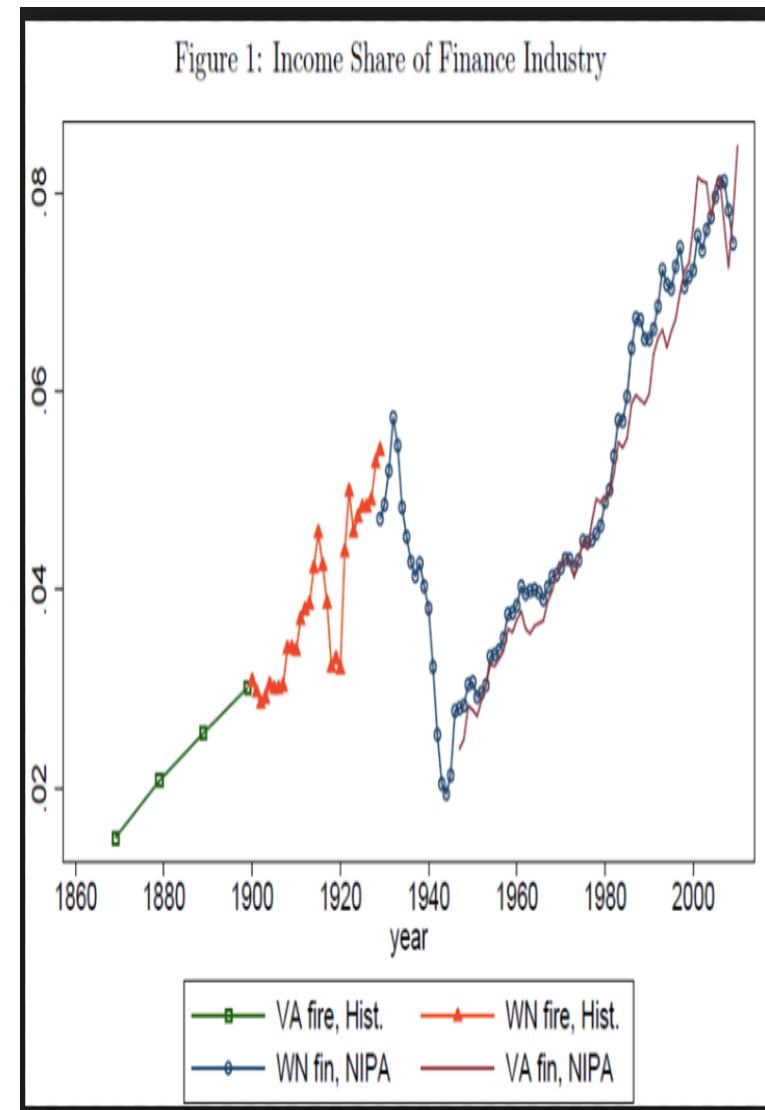
Figure 1.5. Years of Schooling by Birth Cohorts, U.S. Native-Born, by Sex: 1876 to 1975. This figure plots the mean years of completed schooling for U.S. native-born residents by birth cohort and sex, adjusted to age 35 using the approach described in the notes to Figure 1.4. Sources: 1940 to 2000 IPUMS.



Sources of Rising Inequality II: Finance as a Dissipative Sector

The rise of superincomes in finance:

- And in the related corporate over-structure paid as if they were financiers
- This is a great puzzle:
- People pay financiers voluntarily
- Finance is much more competitive than in the 1960s
- Finance much more steeply peaked than it was in the 1960s
- Yet finance absorbed 3% of national income in the 1960s, and absorbs 9% of national income today

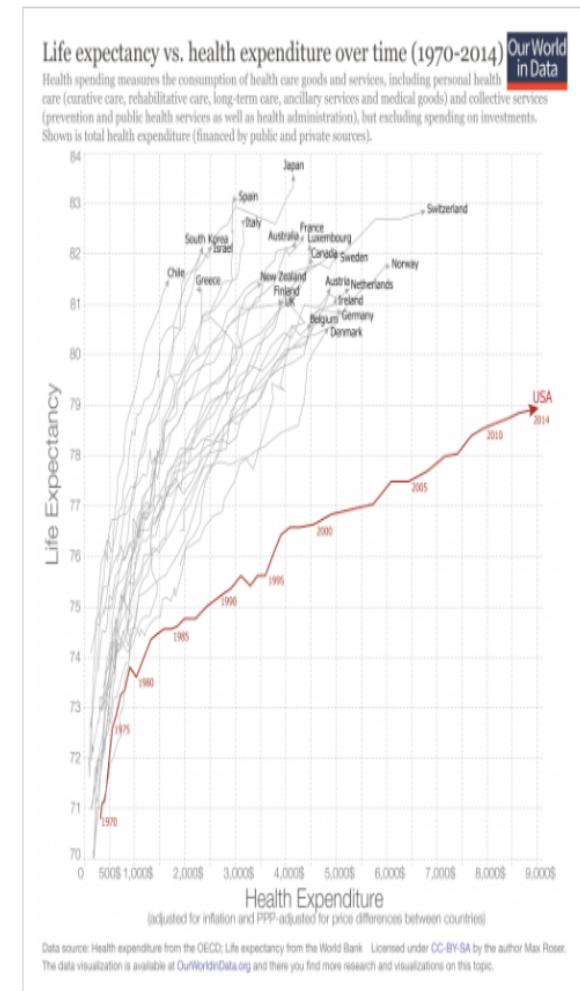


Sources of Rising Inequality III: Dissipative Sectors: Health Care

U.S. health care financing becomes dysfunctional starting with the Reagan administration:

- Attempts at reform:
 - Failed 1993 HilaryCare effort blocked by Republicans
 - ObamaCare kneecapped by Republicans—but bent the rising cost curve to a considerable degree
- Elsewhere in the world, doctors are well-paid—not superpaid, as are especially our specialists
- And our care is uniquely wasteful: huge expenditures on the rich, inadequate care for the poor sick
 - And employer-sponsored insurance guarantees that many of the sick will be poor
- Bottom line: WE SPEND THREE TIMES AS MUCH ON HEALTH CARE AS DO OUR PEER NATIONS, AND WE GET WORSE RESULTS
- And the distribution of income within the health care sector is also steeply peaked (although not as steeply peaked as in finance)

? Life expectancy vs. health expenditure over time, 1970-2014

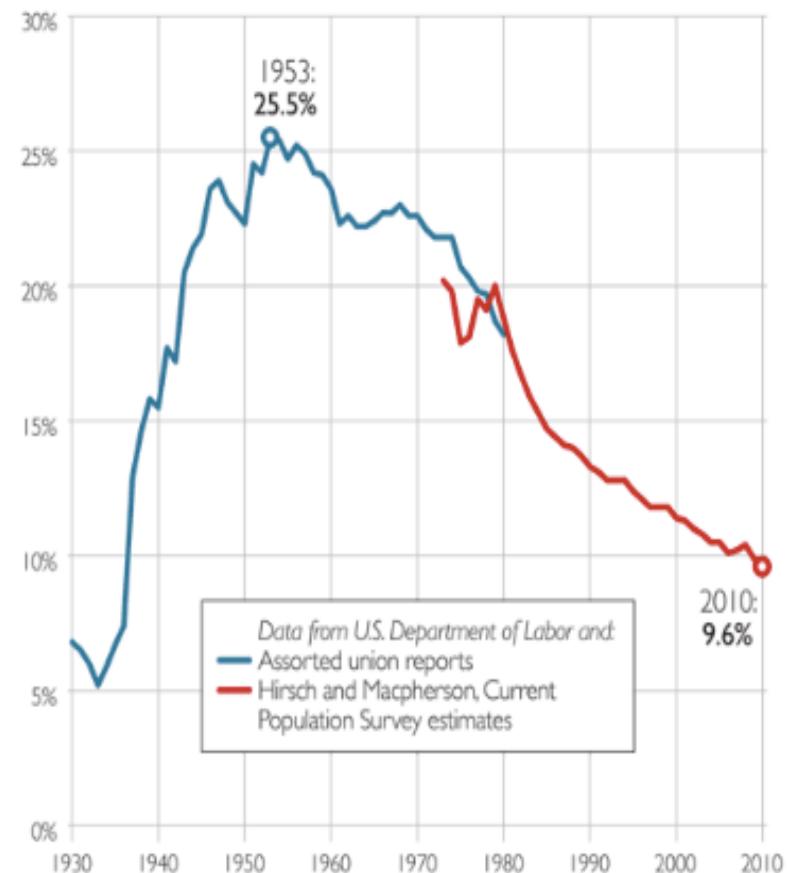


Sources of Rising Inequality IV: Collapse of Worker Bargaining Power

The war against the union movement:

- “Monopoly” and “voice” face of the union movement
- Strong monopsony employer element
- Deunionization a significant negative for productivity
- A transfer away from workers
- To what extent is the fall in unionization the cause, and to what extent is it the effect of other economic changes—globalization, value chains, &c.—that have weakened worker bargaining power since 1980?
 - My take: globalization and wages not a thing in the 1980s and 1990s
 - Globalization and wages a huge regional thing in the first half of the 2000s—globalization boosts blue-collar wages in expanding regions (construction, investment goods) and lowers them in contracting ones (consumer manufacturing)
 - Globalization and a low-pressure economy a thing from 2008 on
- But up until 2008, it is (a) regional, and (b) political and cultural
 - The majority of UAW members in Michigan voted for Ronald Reagan in 1980
 - They thought that they were anti-moocher first and pro-union second.

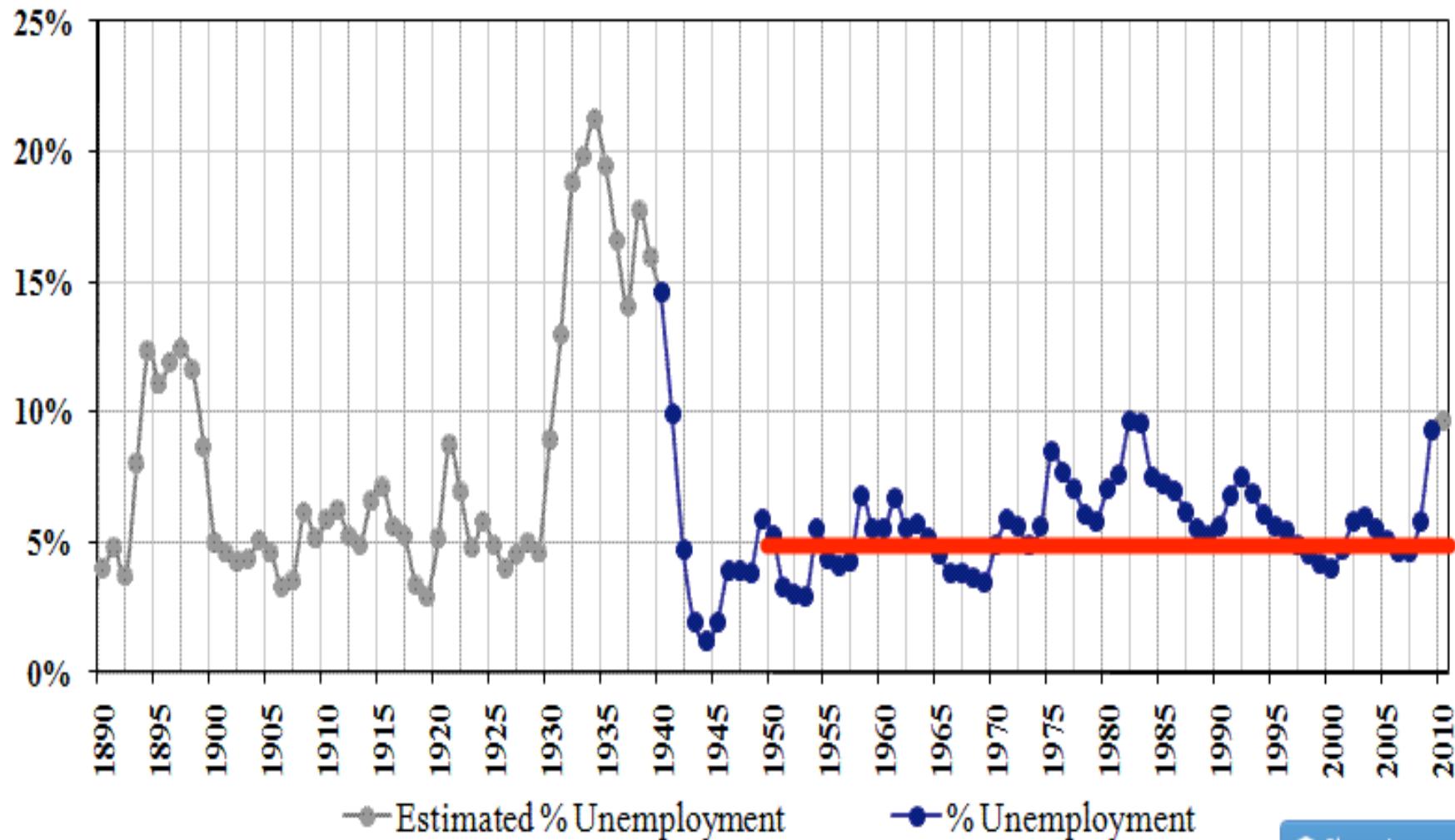
Union Membership as Percentage of Labor Force



Note: This chart shows union membership as a percentage of the labor force, which includes the employed and unemployed. These figures are somewhat smaller than the traditional union membership rate, which shows union membership as a percentage of all employed workers.

Sources of Rising Inequality V: Low-Pressure Economy

United States - Unemployment Rate (1890 - 2009)



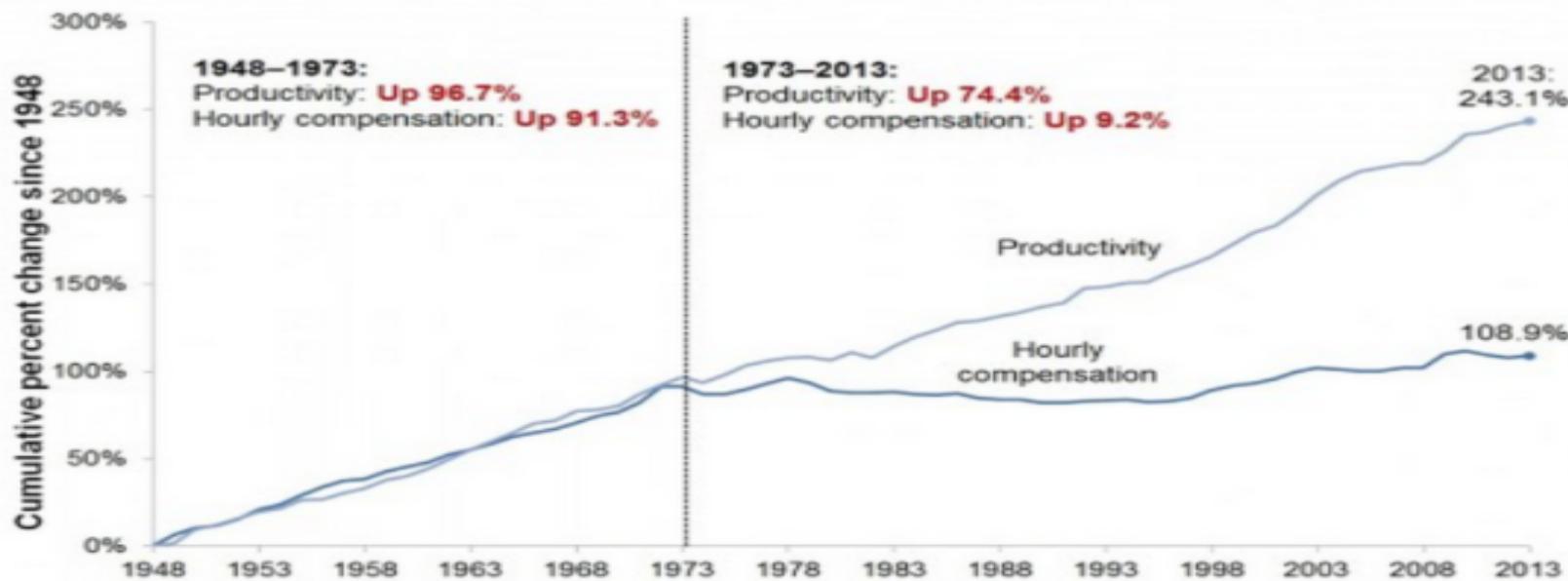
Sources of Rising Inequality VI: Winner Take All

Why do we now have more of a winner-take-all economy?:

- Kodak vs. Google
- Rochester vs. Mountain View
- Middle-class prosperity for a region fueled by a critical mass of well-paying engineering and technical jobs
- Winner-take-all billionaires and hundred millionaires...



How Much Difference Does It Make?



- The result of all six of these factors has been an enormous wedge between what has happened to average productivity in the American economy and what has happened to the incomes of hourly-wage workers
- Thus the wages of the typical working class and lower middle class worker has stagnated for the past half-century
 - Moreover, the real wages of native-born white male hourly workers have fallen as minorities and women's wages have grown because of reduced discrimination
- And they are pissed

What Happens Next?: Thomas Piketty's Argument

“Capital” keeps the real rate of return at 5%:

- In the Age of Social Democracy:
 - Population growth at 2%/year
 - Productivity growth at 2%/year
 - Conspicuous consumption/philanthropy/taxes at 3%/year
 - Means Old Capital gets eroded—the rich are entrepreneurs and enterprisers
- In a Gilded Age
 - Population growth at 0.5%/year
 - Productivity growth at 1%/year
 - CC/P/T at 2%/year
 - Means Old Capital becomes dominant—the rich are, eventually, heirs and heiresses, and are very rich indeed with very large voices in politics

Criticisms of Piketty's Argument

There are many criticisms of Piketty's argument:

- Can “capital” keep the real rate of return at 5%?
 - You would think that more capital would compete with itself for the services of workers to operate it, and so the rate of profit would fall...
 - What Keynes called “the euthanasia of the rentier”
- More a story about Europe than about America
 - Europe is the place with ZPG
 - Europe is the place with less dynamic growth and less creative destruction
- America’s rich are overwhelmingly entrepreneurs and superincome earners—not (or at least not yet) heirs and heiresses (but Waltons, Kochs, Trump)



Inequality and Growth: Big-Picture Evidence?

There is basically no pattern:

- No pattern—either in the United States or elsewhere
- Growth was fastest in the 1940s, 50s, and 60s in which income inequality was low
- Growth was lowest in the 1970s (low), 1980s (low but rising), and 2000s (high)
- Growth had a recovery in the 1990s (moderate but rising)
- Growth was fast in the 1920s (high)
- But the 1930s were a disaster...
- Think that redistributing income either way is going to unleash growth, and you are mistaken
- In which case why not do the utilitarian thing?

Except for the Experience of Really Existing Socialism...

Its form of economic “equality” was poisonous for growth and prosperity:

- High Stalinist central planning
- Marx’s suspicion of markets as surplus-extraction devices
- Hence, the communists said, we won’t have any
- We will reproduce the Rathenau-Ludendorff World War I Imperial German war economy
- Communes, economies of scale, GOSPLAN, etc.
- Effect: you throw away a five-fold amplification of productivity by eschewing the market



What Happens Next?

The “leaky bucket”:

- Which way does the bucket travel?
- Social democracy reduces the incentives of the rich and non-rich to work?
- Higher inequality gives the rich more power and more of a stake in rent-seeking?
- Who is creatively destroyed by creative destruction?
- How much does the bucket leak?

What Should We Aim For?

What does a good society do?:

1. Democratic politics decides on distribution, and then business of economists to maximize production—boost average incomes...
2. The utilitarian view: inequalities “justified” when they lead to a positive average percentage change in incomes...
3. Rawlsian: inequalities “justified” only when they lead to a better life for the worst off...
4. Inequalities justified when they reward the “worthy”...
5. Inequalities justified when they allow for philosophy...
6. Inequalities justified when they are the result of a fair system...

What Is This “Fair”?

The opening of Plato’s *Republic*:

- Sokrates: "Well said, Kephalos; but as concerning justice, what is it?"
- Kephalos: "To speak the truth and to pay your debts."
- The whole point of the opening of Plato’s Republic is that acting fairly—not cheating or stealing from people—does not by itself justice make.
- But it is an essential part: people need to believe that they are neither cheaters nor cheated...



Big Ideas: Lecture 16: Inequality and Plutocracy

Takeaways from this class:

Roadmap for the Next Two Weeks

16. Th Mar 19: 4.5. Inequality and Plutocracy

- **Slides:** <<https://github.com;braddelong/public-files/blob/master/econ-135-lecture-16.pptx>>
- **Finish:** Assignment 7 (6 pts): <<https://bcourses.berkeley.edu/courses/1487685/assignments/8082488>> Tell Us What Is Happening to You, and What You Wish For; due Mar 20
- **Start:** Assignment 8: character of modern economic growth paper; due Mar 25

17. Tu Mar 31: 4.6. The Development of Underdevelopment

- **Read After:** W. Arthur Lewis (1978): Evolution of the International Economic Order <<https://delong.typepad.com/sdj/2008/04/w-arthur-lewis.html>>
- **Slides:** <<https://github.com;braddelong/public-files/blob/master/econ-135-lecture-17.pptx>>
- **Finish:** Assignment 8: post-1500 growth accelerations paper; due Apr 1
- **Start:** Assignment 9: character of modern economic growth paper; due Apr 8

18. Th Apr 2: Touring the Continents: 5.1. Western Europe, North America, and South America

- **Read Before:** Joel Mokyr (1990): *Lever of Riches*, chapter 10 Britain and Europe <<https://delong.typepad.com/files/mokyr-lever-europe.pdf>>
- **Read Before:** John Coatsworth (2008).: Inequality, Institutions and Economic Growth in Latin America <<https://delong.typepad.com/files/coatsworth-institutions.pdf>>
- **Slides:** <<https://github.com;braddelong/public-files/blob/master/econ-135-lecture-18.pptx>>

19. Tu Apr 7: 5.2. Behind the Iron Curtain, and East Asian Miracles

- **Read Before:** Peter Evans (1995): Embedded Autonomy: States and Industrial Transformation, chapter 1 <<https://delong.typepad.com/files/evans-embedded-i.pdf>>
- **Read Before:** Yingyi Qian (2001): How Reform Worked in China <<https://delong.typepad.com/files/qian-reform.pdf>>
- **Read Before:** Richard Ericson (1991): The Classical Soviet-Type Economy: Nature of the System and Implications for Reform <<https://delong.typepad.com/files/ericson-soviet.pdf>>
- **Slides:** <<https://github.com;braddelong/public-files/blob/master/econ-135-lecture-19.pptx>>
- **Finish:** Assignment 9: character of modern economic growth paper; due Apr 8
- **Start:** Assignment 10 (3 pts.): growth models problem set; due Apr 15

Catch Our Breath...

- Ask a couple of questions?
- Make a couple of comments?
- Any more readings to recommend?



Notes, etc....



Coronavirus!

~~With 31 deaths in the U.S. as of March 11, a 1% death rate, and up to 4 weeks between infection and death, that means that as of Feb 12 there were 3100 coronavirus cases in the United States.~~

~~With 171 deaths in the U.S. as of Mar 18, a 1% death rate, and up to 4 weeks between infection and death, that means that as of Feb 19 there were 17100 coronavirus cases in the United States~~

If it is doubling every seven days, then now about 340,000 people have and in the next week about 340,000 more people in the U.S. will catch coronavirus—which means 1/1000, currently 7600 of the 7.6 million inhabitants of San Francisco Bay. Touch a hard surface that any of those 7600 has touched in the last 48 hours, and the virus has a chance to jump to you...

These numbers could be five times too big. These numbers are probably not five times too small unless the thing is a lot less deadly, and there are a lot of asymptomatic cases...

- **Question:** What is wrong with this analysis?

MOAR Coronavirus!

As of March 16: Things are not moving in the right direction:

- What is the R_0 ?
 - How can the R_0 be changed?
 - How will the R_0 change?
 - What is the asymptote share of the population?
 - What is the mortality rate?

| Country, Other | Total Cases | New Cases | Total Deaths | New Deaths | Total Recovered | Active Cases | Serious, Critical | Tot Cases/1M pop |
|-----------------------------|-------------|-----------|--------------|------------|-----------------|--------------|-------------------|------------------|
| China | 80,880 | +36 | 3,213 | +14 | 67,819 | 9,848 | 3,226 | 56.2 |
| Italy | 27,980 | +3,233 | 2,158 | +349 | 2,749 | 23,073 | 1,851 | 462.8 |
| Iran | 14,991 | +1,053 | 853 | +129 | 4,590 | 9,548 | | 178.5 |
| Spain | 9,428 | +1,440 | 335 | +41 | 530 | 8,563 | 272 | 201.6 |
| S. Korea | 8,236 | +74 | 75 | | 1,137 | 7,024 | 59 | 160.6 |
| Germany | 7,241 | +1,428 | 15 | +2 | 65 | 7,161 | 2 | 86.4 |
| France | 5,423 | | 127 | | 12 | 5,284 | 400 | 83.1 |
| USA | 4,186 | +506 | 73 | +5 | 73 | 4,040 | 12 | 12.6 |
| Switzerland | 2,353 | +136 | 19 | +5 | 4 | 2,330 | | 271.9 |
| UK | 1,543 | +152 | 55 | +20 | 52 | 1,436 | 20 | 22.7 |
| Netherlands | 1,413 | +278 | 24 | +4 | 2 | 1,387 | 45 | 82.5 |
| Norway | 1,323 | +67 | 3 | | 1 | 1,319 | 27 | 244.0 |

Coronavirus Cases:

179,836

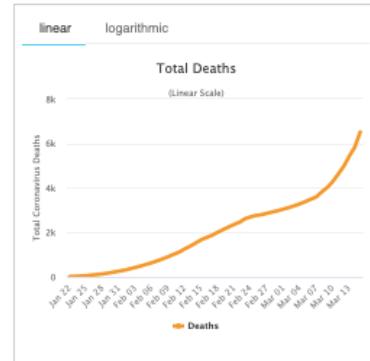
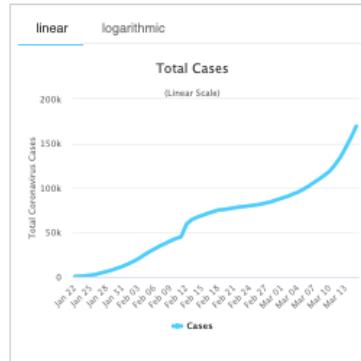
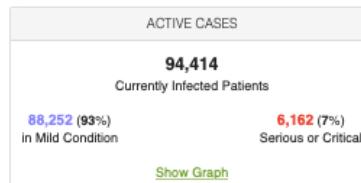
[view by country](#)

Deaths:

7,098

Recovered:

78,324



MOAR Coronavirus!

As of March 10: Things are not moving in the right direction:

- What is the R_0 ?
- How can the R_0 be changed?
- How will the R_0 change?
- What is the asymptote share of the population?
- What is the mortality rate?

Coronavirus Cases:

125,599

[view by country](#)

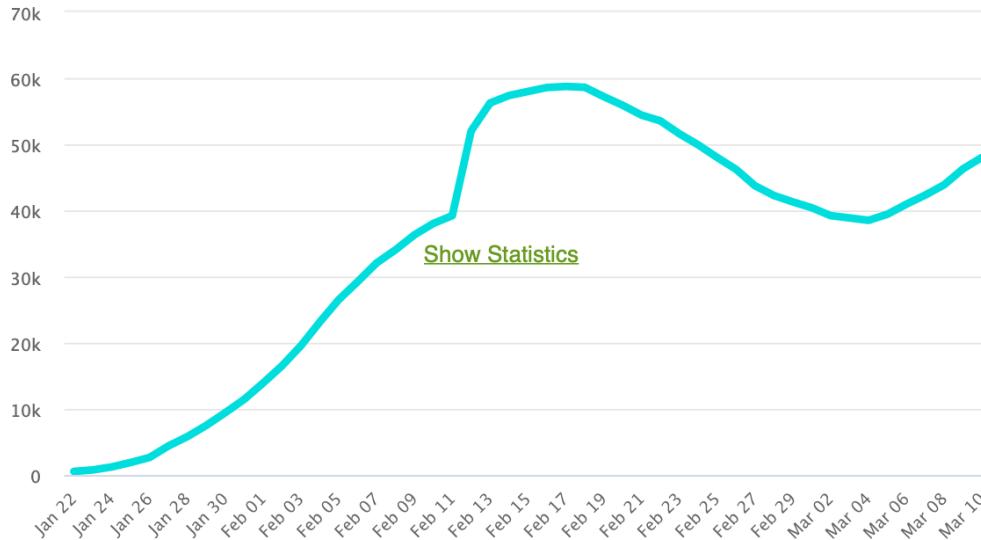
Deaths:

4,605

Recovered:

67,051

ACTIVE CASES



ACTIVE CASES

53,943

Currently Infected Patients

48,025

(89%)

in Mild Condition

5,918

(11%)

Serious or Critical

[Show Graph](#)

CLOSED CASES

71,656

Cases which had an outcome:

67,051

(94%)

Recovered / Discharged

4,605

(6%)

Deaths

[Show Graph](#)

linear logarithmic

Total Cases (Logarithmic Scale)

1M

100k

10k

1k

100

10

1

100

10k

100k

1M

1000

100

10

1

100

10k

1000

10000

100000

1000000

[Cases](#)

linear logarithmic

Total Deaths (Logarithmic Scale)

10k

1k

100

10

1

100

10k

1000

100

10

1

100

10k

1000

10000

100000

1000000

10000000

100000000

1000000000

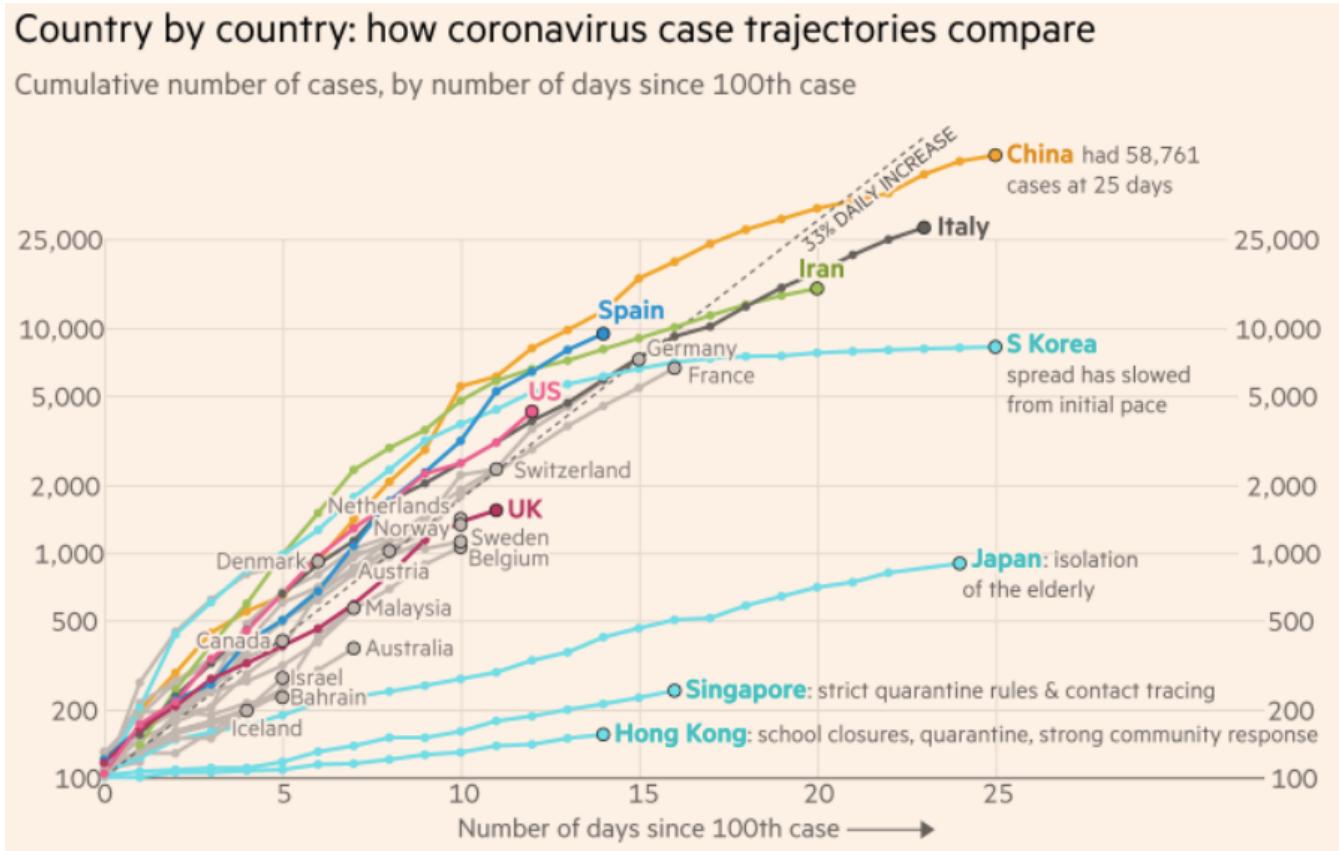
[Deaths](#)

MOAR Coronavirus!

What I am watching:

- **Max Roser & Hannah Ritchie:** *Coronavirus Disease (COVID-19)* <https://ourworldindata.org/coronavirus>...

- **Worldometer:** *Coronavirus Update (Live)* <https://www.worldometers.info/coronavirus/>: '125,599 Cases and 4,605 Deaths from COVID-19 Virus Outbreak...
- **FT Coronavirus Tracker** <https://www.ft.com/content/a26fbf7e-48f8-11ea-aeb3-955839e06441>
- <https://www.nytimes.com/interactive/2020/us/coronavirus-us-cases.html>

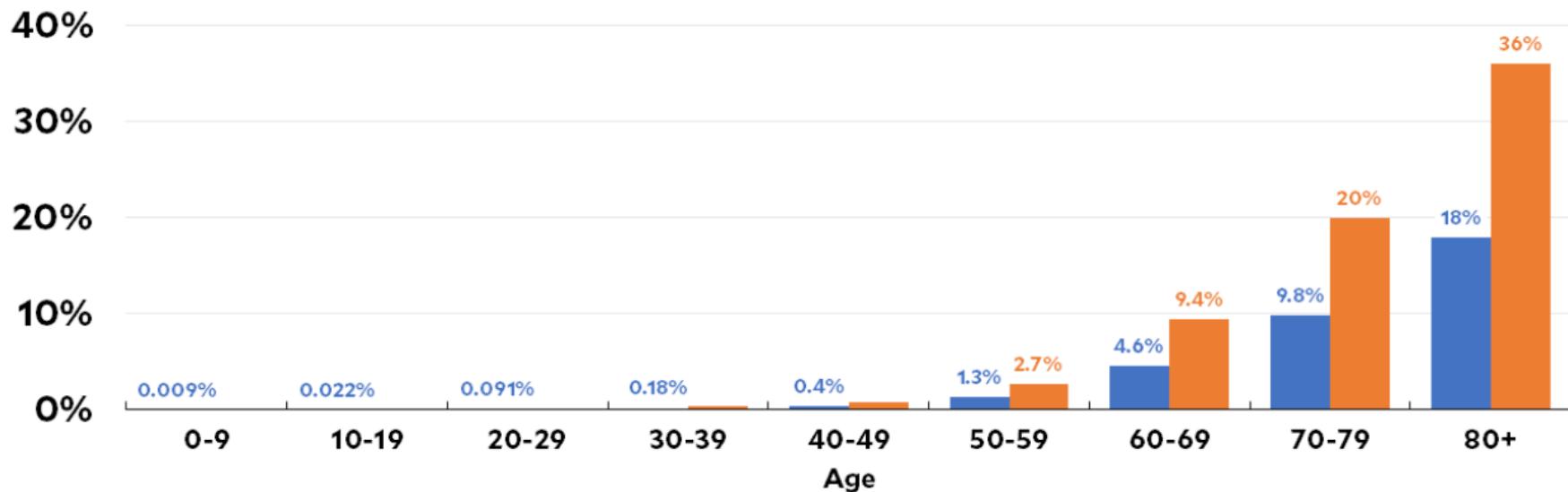


MOAR Coronavirus!

It's a Thing for Geezers!

- Mortality for the Youngs very low...
- It's the flu for them...

Death Rate From Coronavirus
■ = All Infections, ■ = Only Symptomatic Infections



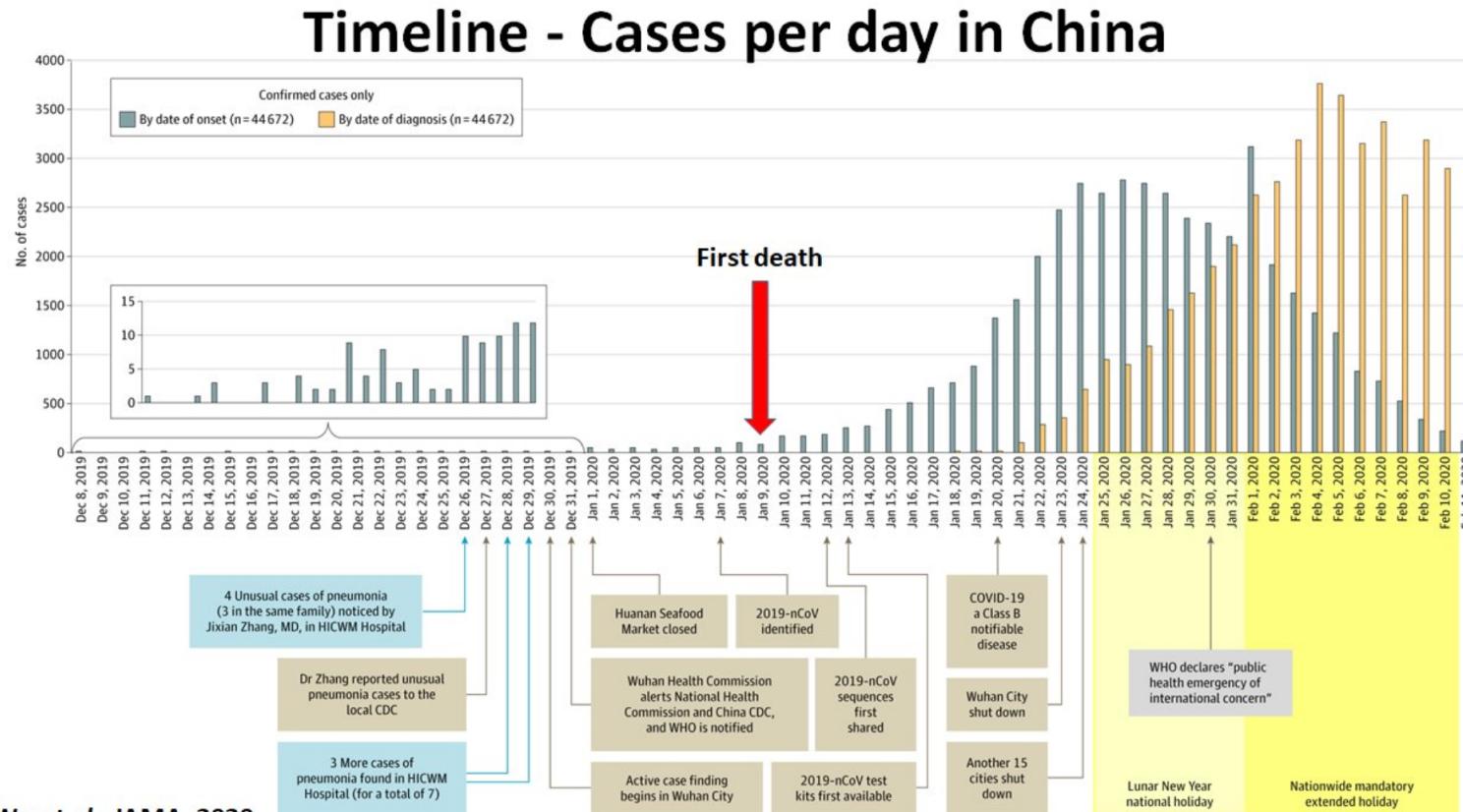
Source: Riou et al.

Mother Jones

MOAR Coronavirus! II

China Beat It!

- Shut down Wuhan when 200 cases per day
- That seems to have been a good decision



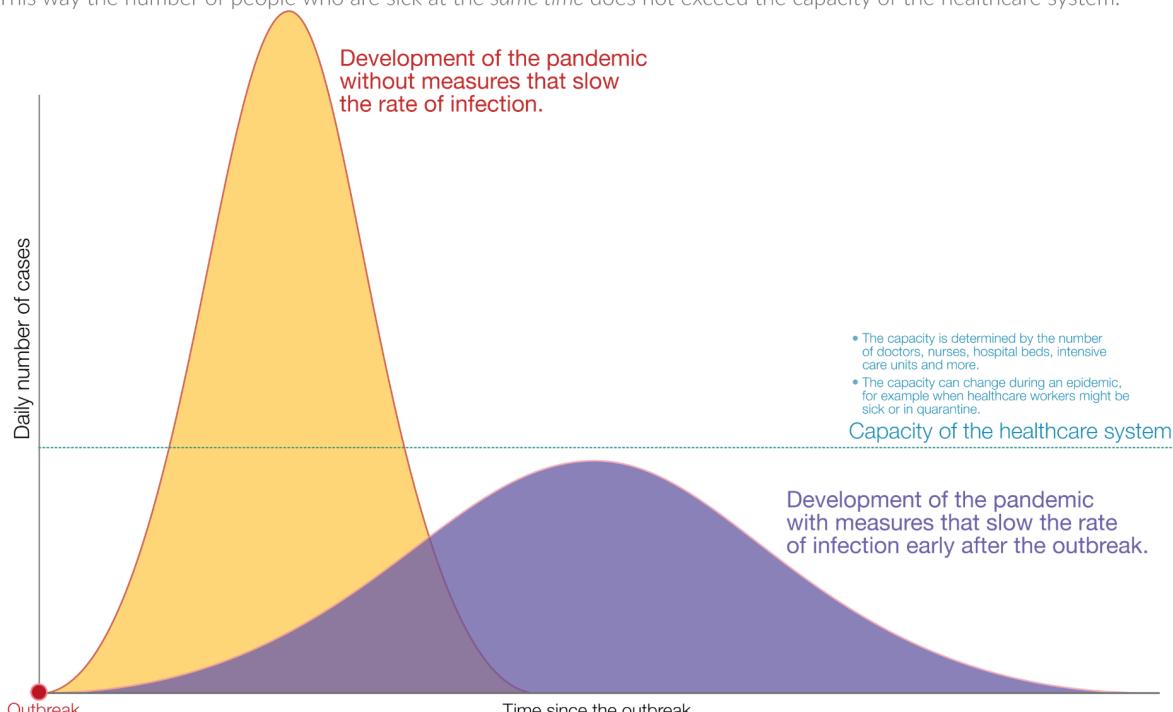
MOAR Coronavirus! III

When Is It Appropriate to Move on This?

- Immediate social distancing...
- Self-isolate if you have a cough and a fever...
- Hope that warmer temperatures will do to this what they did to SARS...
- Otherwise, when do you want to start spreading out transmission. It seems that early is as good as later...

In the outbreak of an epidemic *early* counter measures are important
Their intention is to 'flatten the curve': to lower the rate of infection to spread out the epidemic.
This way the number of people who are sick at the *same time* does not exceed the capacity of the healthcare system.

Our World
in Data



Coronavirus!

With 31 deaths in the U.S. as of March 11, a 1% death rate, and up to 4 weeks between infection and death, that means that as of Feb 12 there were 3100 coronavirus cases in the United States.

With 73 deaths in the U.S. as of Mar 16, a 1% death rate, and up to 4 weeks between infection and death, that means that as of Feb 17 there were 7300 coronavirus cases in the United States

If it is doubling every seven days, then now about 116,000 people have and in the next week about 116,000 more people in the U.S. will catch coronavirus—which means 1/2700, currently 3000 of the 7.6 million inhabitants of San Francisco Bay. Touch a hard surface that any of those 3000 has touched in the last 48 hours, and the virus has a chance to jump to you...

These numbers could be five times too big. These numbers are probably not five times too small unless the thing is a lot less deadly, and there are a lot of asymptomatic cases...

- What is wrong with this analysis?

Catch Our Breath...

- Ask a couple of questions?
- Make a couple of comments?
- Any more readings to recommend?



Notes

