Inevitable inequality?

The world is unequal in many dimensions; even life itself is unequally distributed. In the United States and other wealthy nations, only 2 to 6 children out of every 1000 die before age 1, yet there are 25 countries where more than 60 out of 1000 do so. There are 10 countries, all in Africa, where per-capita gross domestic product (GDP) is less than 10% of U.S. per-capita GDP. These gaps are a legacy of the Great Divergence that began 250 years ago, in which sustained progress in health and wealth in Europe spread gradually to the rest of the world. Will such gaps continue to be an inevitable consequence of progress?

Between countries, inequalities in per-capita income show little sign of diminishing (although the rapid growth of China and India has pulled more than 2 billion people from destitution to somewhere below the middle of the world income distribution). Life expectancy at birth is rising more rapidly in the least healthy countries, because mortality decline among children raises life expectancy more than does mortality decline among adults (which predominates in rich countries). Countries with the poorest health also tend to have the lowest standards of living, compounding their disadvantage.

Within most countries, income inequality is rising. In the United States, the dispersion of income relative to its mean changed little from the mid-1950s to the mid-1970s, but since then has increased, a trend that is being echoed elsewhere. A general widening of the distribution in the United States had long been noted, based on household survey data, but the subject was given new momentum by the investigative work of Thomas Piketty and Emmanuel Saez. They used tax records to document top incomes, which cannot be captured from sample surveys. Piketty and Saez showed that the share of national income accruing to the top percentiles of the distribution in the United States was U-shaped from 1913 to the present, from 18% in 1913, falling to 7.75% in 1973, then rising to 19% in 2012 (22% if capital gains are included). Some have argued for looking at consumption—what people get, not what people earn—but there are no data on consumption among the very rich. Others have argued that publicly provided goods [Medicare (the U.S. health care program for the elderly), for example] should be accounted for, although such benefits cannot be used for rent or food.

In the United States, the top incomes are mostly salaries, not interest, dividends, or capital gains, although that will change as sustained top incomes generate large fortunes. Top earners are mostly financiers or chief executive officers, with some doctors, lawyers, and sports and entertainment celebrities in the mix. Whether these salaries reflect the contribution that their earners make to society sharply divides economists. If so, inequality can be seen as a reflection of the benevolent incentives that lead people to do the best for themselves and for society. If not, as I believe to be the case, talented young people are diverted from more worthwhile pursuits, which undermines national prosperity. Extreme income inequalities may also be incompatible with a well-functioning democracy; the rich may write the rules in their favor, and they may work against the public provision of health care or education, for which they pay a large share but have little personal need.

The distribution of wealth is more unequal than the distribution of income, and very high incomes will eventually pupate into very large fortunes, ultimately leading to a hereditary dystopia of idle rich. Piketty calls this “patrimonial capitalism,” a state that is certain to occur if the rate of return to wealth remains higher than the rate of growth of the economy. This has been true for much of history and raises the question of whether extreme inequality is inevitable. It shouldn’t be.

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