

Inequality

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- The connections between economic growth, technical change and distribution are the most fundamental in all of economics.
- They are being highlighted, as we meet, by the simultaneous slowdown in growth, rapid technological progress (in some sectors) and rise in inequality (in some countries), whose coincidence poses challenges to analysts.
- But these issues are not new; indeed, the question of how technological progress and structural change interact to affect distribution is one of the classic questions in my own subdiscipline, economic history.

Specifically, the question arises in connection with the literature on the Industrial Revolution

- “Standard of living” debate.
- Focusing on the period 1770-1830 and on the phenomenon now known as “the Kuznets Curve.”
- Marx/Engels vs. Clapham/Ashton
- “Optimists” vs. “Pessimists” in the 1970s (Hartwell vs. Hobsbawm).
- Optimistic interpretation: inequality rises in the early stages of industrialization as workers leave the land and high-wage employment in industry (higher wage employment than in agriculture) becomes available. Standard of living rises.
- Pessimistic interpretation: inequality rises because surplus must be marshalled for industrial investment; this occurs by expropriating the open fields and destroying artisanal employment (causing incomes in agriculture to fall). Standard of living falls.

The Standard of Living

II. BY R. M. HARTWELL

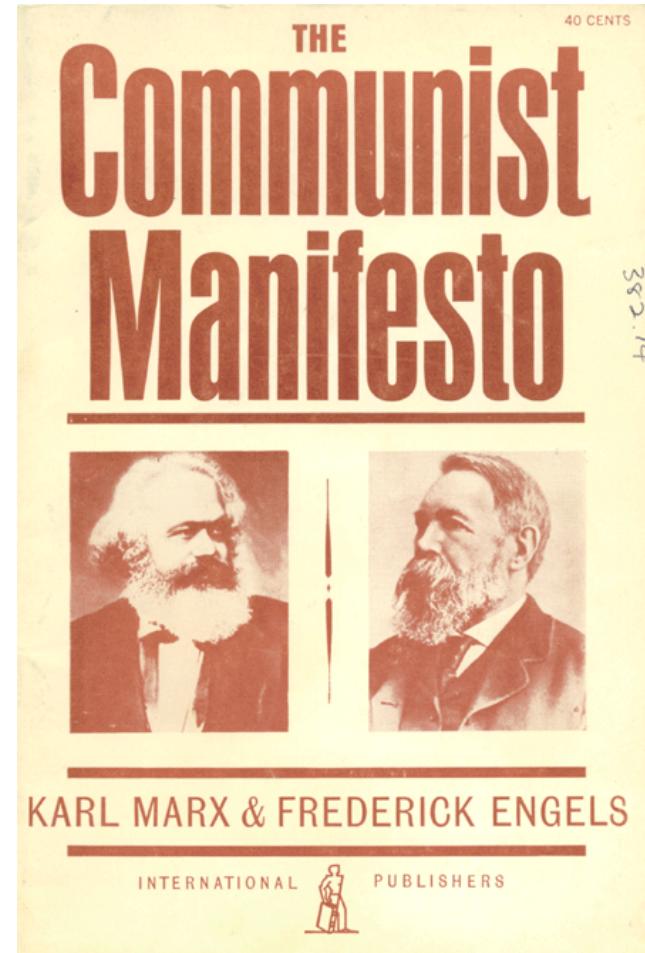
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In my two articles¹ on the standard of living during the Industrial Revolution, which Dr Hobsbawm now criticizes, I was concerned both with surveying the literature of the controversy, and also with analysing the available evidence to see if conclusions could be made. The conclusions I came to were, first, the controversy has been confused by arguments about values and by people talking about different things as though they were talking about the same thing, and second, that there had been ‘an upward trend in living standards during the Industrial Revolution’ and that ‘the standard of living of the mass of the people of England was improving ... slowly during the war, more quickly after 1815, and rapidly after 1840’. This conclusion I modified by stressing that the standard of living was *not* high and was not rising fast *before* the forties, and also that there was ‘dire poverty’ and ‘cyclical and technological unemployment of a most distressing character’. I emphasized also that increasing real income was no measure of ‘ultimate well-being’ and that the period of the Industrial Revolution was one of political discontent and social upheaval – but also that it was a period of increasing opportunity for working-class men and women. To this ‘extreme’ view I still hold, and it may be compared with the latest conclusions of Dr Hobsbawm, which seem mild enough – consumption figures ‘are compatible with a slight decrease, possibly with a slight increase’, the case for deterioration ‘while not implausible, cannot be proved’, ‘the view that there was substantial, or any, deterioration has not yet been firmly established’, ‘the argument that real incomes remained roughly stable will commend itself as the most acceptable formula’ – but which are established in such a fashion as to create an impression of pessimism, quite apart from the grand final conclusion that, whatever can be said about material standards, ‘the sociological argument for deterioration is far more powerful’. Indeed, Dr

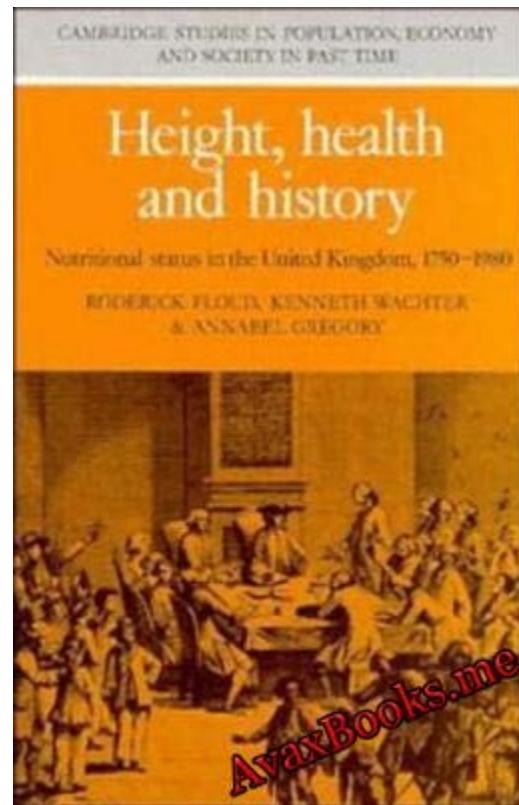
¹ ‘Interpretations of the Industrial Revolution in England: A Methodological Enquiry’, *Journal of Economic History*, 1959; ‘The Rising Standard of Living in England, 1800–1850’, *Economic History Review*, 1961. These articles were a slightly revised version of a paper presented in 1953 to the Canberra Meeting of the Australasian Association for the Advancement of Science. They were published long after they were written so that students could refer to two modern and different interpretations of the Industrial Revolution. When Dr Hobsbawm claims that the ‘optimistic’ view has recently been ‘sharply challenged’ I assume he refers to himself for I know of no other recent ‘pessimist’ contribution to English history. But perhaps he is referring to a very critical comment on my second article by the Russian historian N. A. Erofeev (*See Voprosy istorii*, 1961, no. 11, pp. 192–9), who sharply challenges the optimistic view with arguments and methods very similar to those of Dr Hobsbawm. Mr Erofev concludes: ‘It follows that the evidence put forward by the author [Hartwell] yet again bears witness to the futility of the attempts of reactionary bourgeois historiography to throw doubts on the long since decided question of the deterioration of the position of the English workers in the first half of the nineteenth century.’

A debate given salience by...

“Owing to the very more extended use of machinery and the division of labor, the work of these proletarians has completely lost its individual character and therefore forfeited all its charm for the workers. The worker has become a mere appendage to a machine...Wages decrease in proportion as the repulsiveness of the labor increases...Those who have hitherto belonged to the lower middle class – small manufacturers, small traders, minor recipients of unearned income, handicraftsmen and peasants – slip down, one and all, into the proletariat...Private property has been abolished for nine-tenths of the population: it exists only because these nine-tenths have none of it.”



- Now definitively resolved in favor of the pessimists.

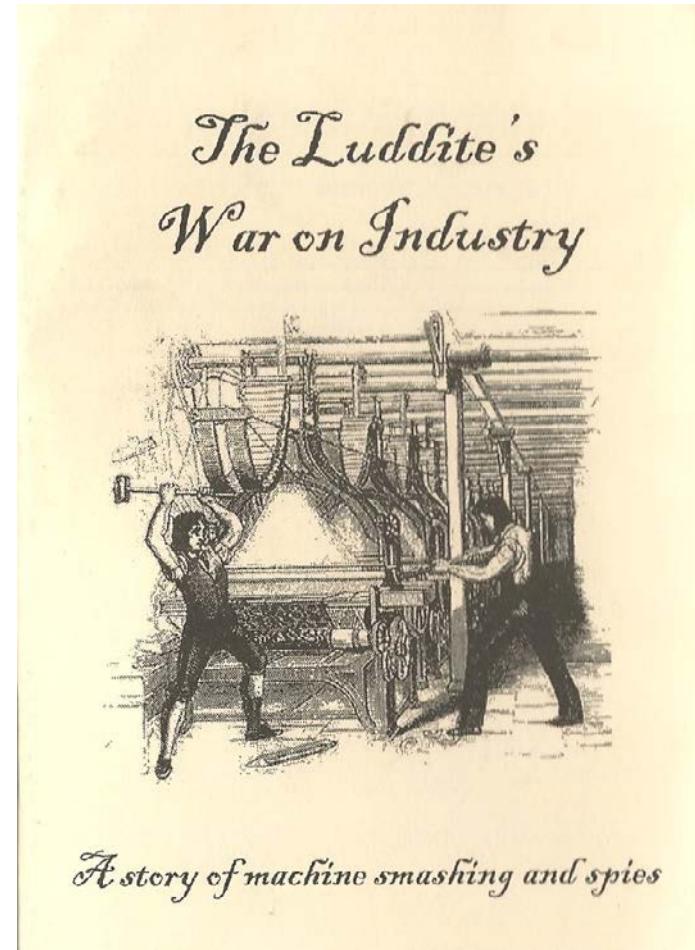


- Now definitively resolved in favor of the pessimists.
- Reminding us of two things:
 - How economics (and economic history) has become more of an empirical science.



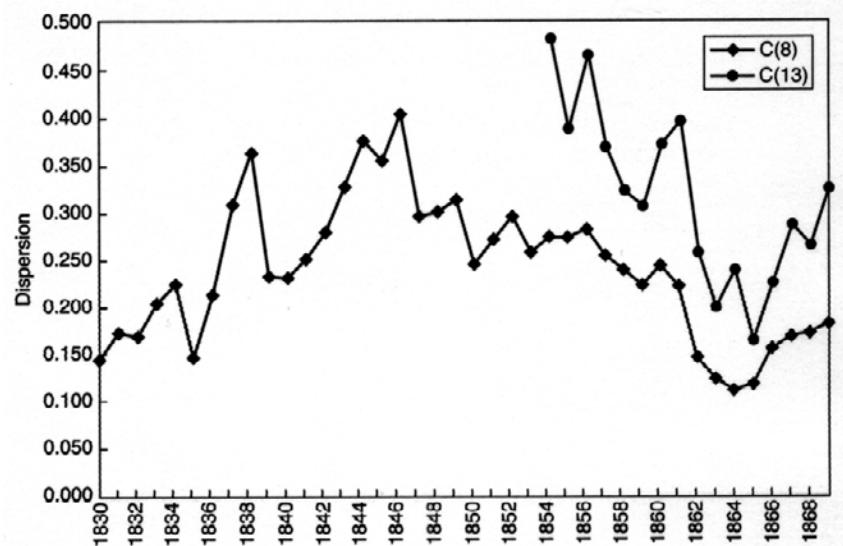
Specifically, the question arises in connection with the literature on the Industrial Revolution

- Now definitively resolved in favor of the pessimists.
- Reminding us of two things:
 - How those warning of undesirable social consequences and political backlash may not be exaggerating.



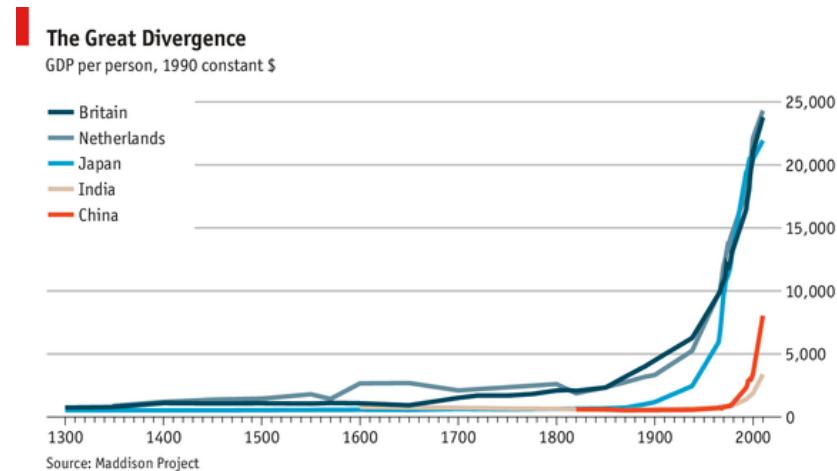
More generally, the 19th century illustrates the kaleidoscopic nature of inequality

- First, among the advanced countries, where there is convergence of average income levels.
- Driven by immigration.
- Shown here is the dispersion of real wages for 8 to 13 advanced economies.
 - Source: O'Rourke and Williamson, *Globalization and History* (1999).



Second, between the industrializing & developing world, there was at the same time growing inequality

- This being the “Great Divergence,” reflecting a combination of economics and politics.



Third, within the advanced countries there was growing inequality, with the US a case in point

- This was in contrast to the first half of the 19th century (recall how DeToqueville in 1841 had famously characterized the United States as “more equal...than...any other country of the world...in any age of which history has preserved remembrance.”)
- The latter part of the century was now marked by the emergence of the fortunes of the Robber Barons: concentrations of wealth and power associated with spread of new technologies, unrestrained by anti-trust law, progressive taxation etc. (Reminding us of the role of policy and the institutional/political framework – not unlike recently, I will argue).
- Not for nothing was this known as “the Gilded Age.”



Combining these 3 dimensions into a global estimate of inequality is not easy

- One heroic estimate is by Bourguignon & Morrison, who sought to summarize these 19th century global trends (AE, 2002).
- By their estimates, which take into account both within and across country distributions, world income inequality increased continuously between 1820 and 1910.
- World Gini rose from 0.50 to 0.61.

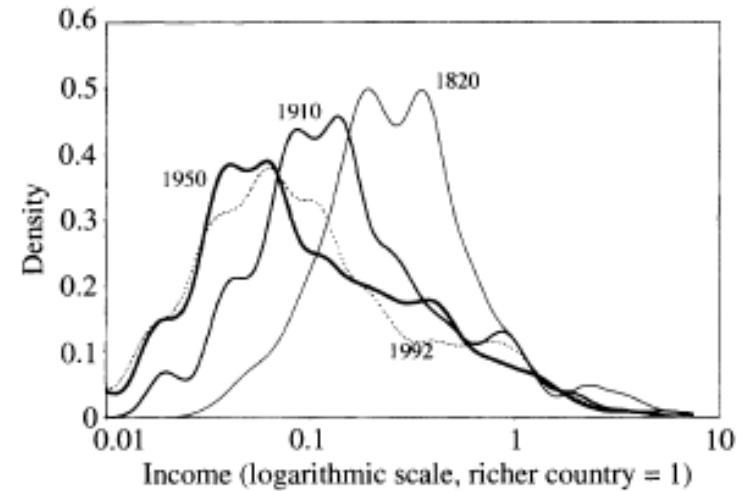
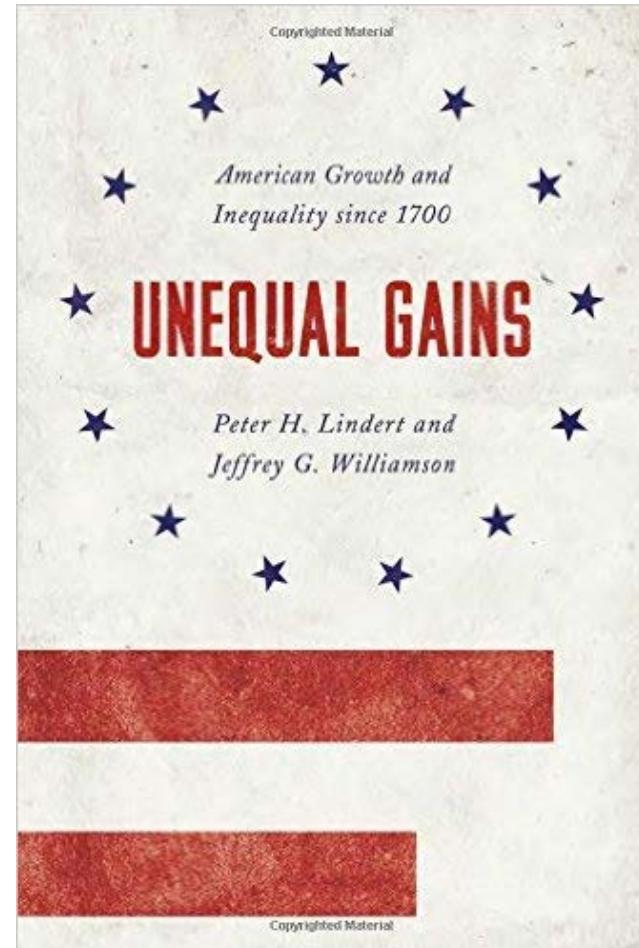
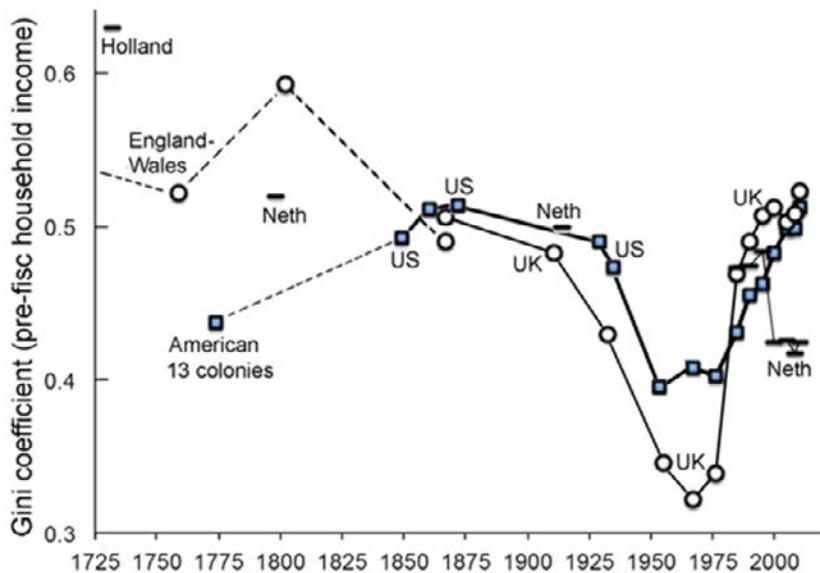


FIGURE 1. GAUSSIAN KERNEL ESTIMATE OF THE DENSITY OF THE WORLD INCOME DISTRIBUTION: 1820, 1910, 1950, AND 1992

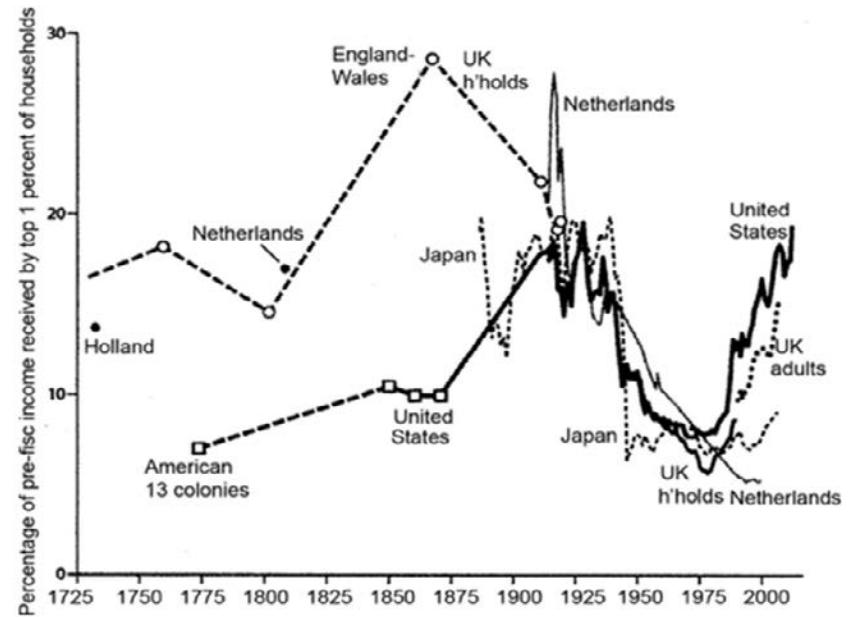
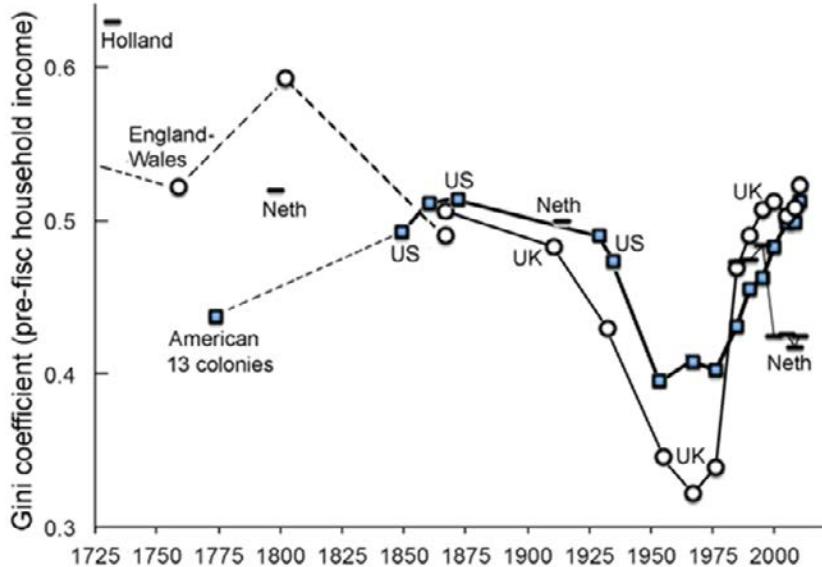
- Such estimates are necessarily heroic, since we have data on distribution within countries for only a limited number of economies.
- To do better, we need to rely on national cases where the evidentiary basis is more complete.
- Such as the United States, where the “statistical movement” was strong so that the evidentiary base is extensive.
- And for which we have some brand new work.



This shows rising inequality through 1875 or so, after which the Gini plateaus

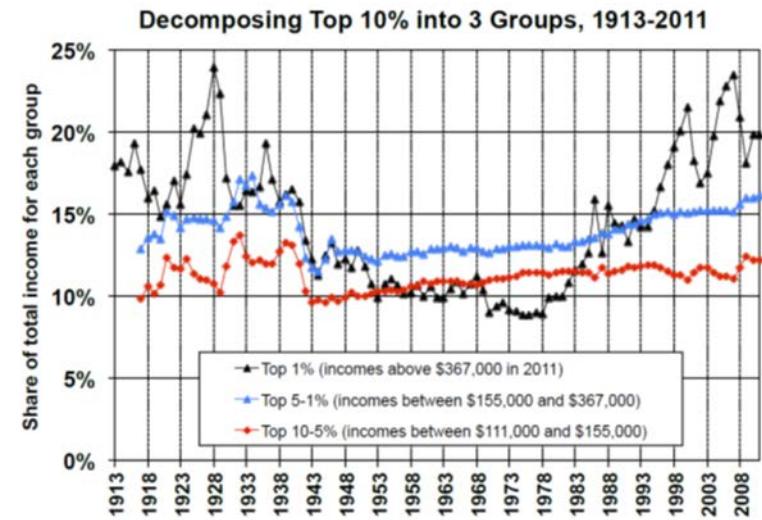


But there is also a continued rise in the share of the top 1% (the Robber Baron effect)



In the US, the Gini and top 1% share then both increased further in the 1920s

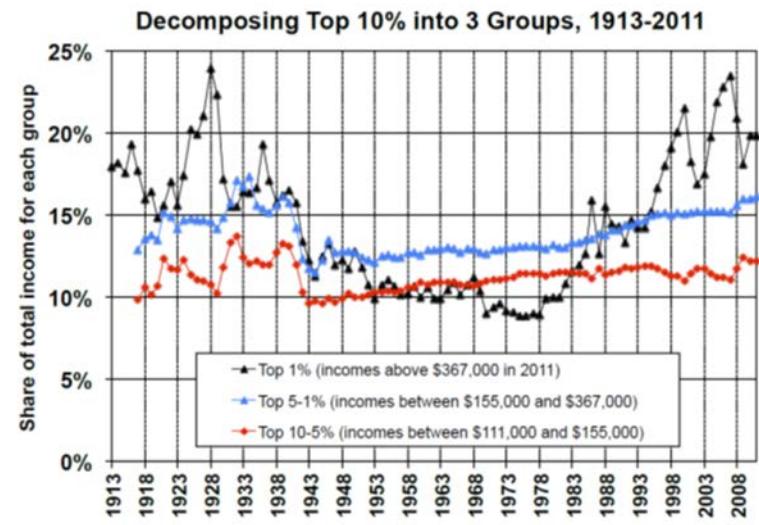
- We know the former from Kuznets (1953), who found that the Gini coefficient for the US increased further (from 0.22 to 0.39) between 1920 and 1929.
- We know the latter from the work of Saez and Piketty.
- This was associated with the imbalances of the 1920s that gave rise to the subsequent crash.
- A view of the Great Depression that has attracted increased attention following our own crisis (and the influential book of our chairman).



Source: Piketty and Saez, 2003 updated to 2011. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.

There is then a share fall in inequality (shown here for top 1% share but more general)

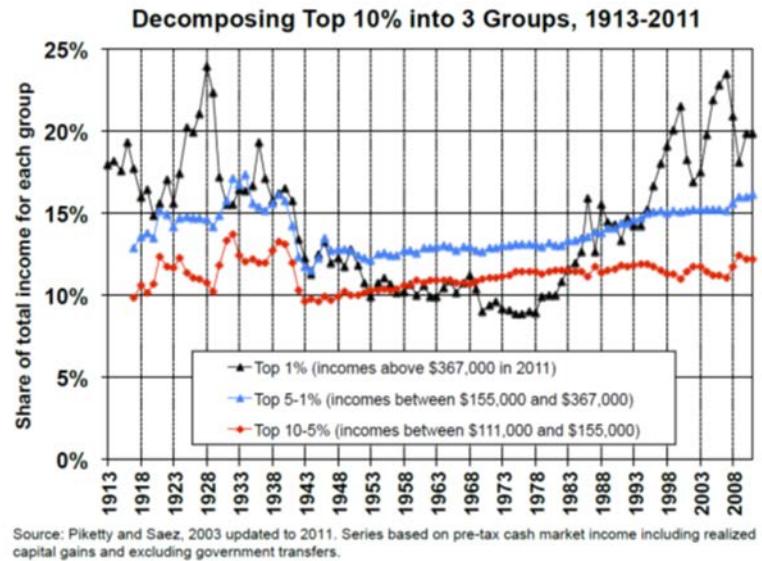
- Golden and Katz (1992) refer to this as “The Great Compression.”
- Plausibly no single cause.
 - That the black line is the one that falls most dramatically after 1928 suggests an important role for capital income after the 1929 crash.
 - Also a role for New Deal policies (new legal protections for trade unions, anti-trust policy).
 - Exceptional wartime demands for unskilled labor.
 - Increases in progressive income taxation during and after WWI.
 - And increases in educational attainment.
- A hint that the subsequent reversal also has no single cause.



Source: Piketty and Saez, 2003 updated to 2011. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.

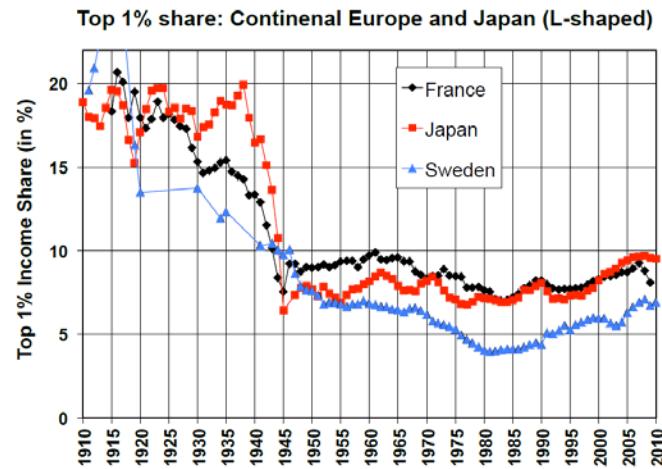
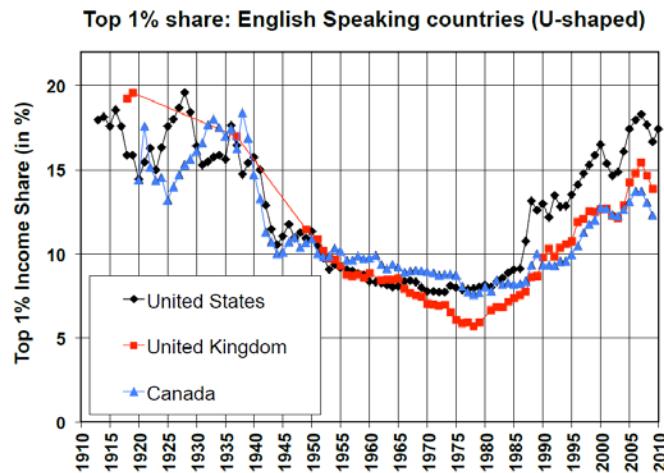
And here is that subsequent reversal

- An equally dramatic change (now an increase) in the 1970s in top income shares, but this time concentrated in the top 1%.
- For which skill-biased technological change (favoring the relatively well educated) and globalization (disfavoring the unskilled in the advanced countries) are the popular explanations.
- The problem of course being...

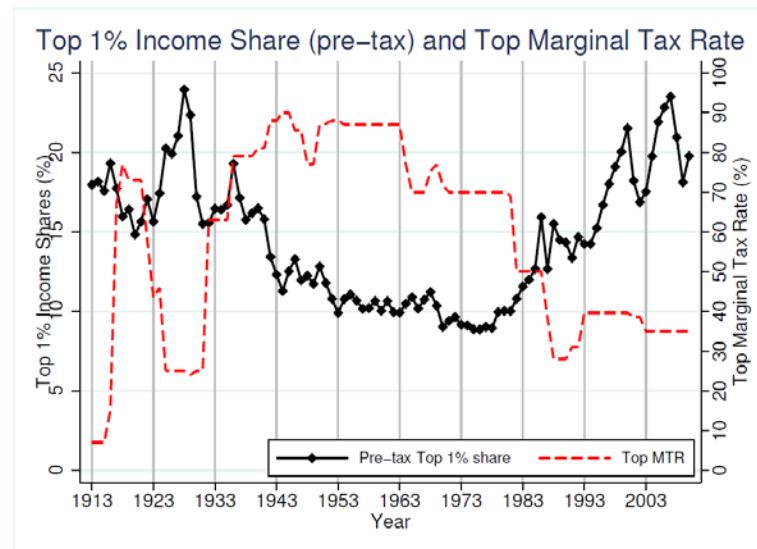


Differences across countries would seem to rule out both explanations

(technical change and Chinese competition affecting all of them)

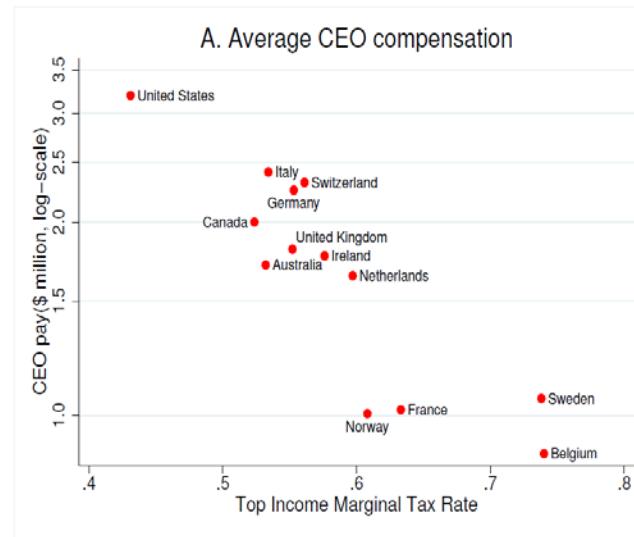
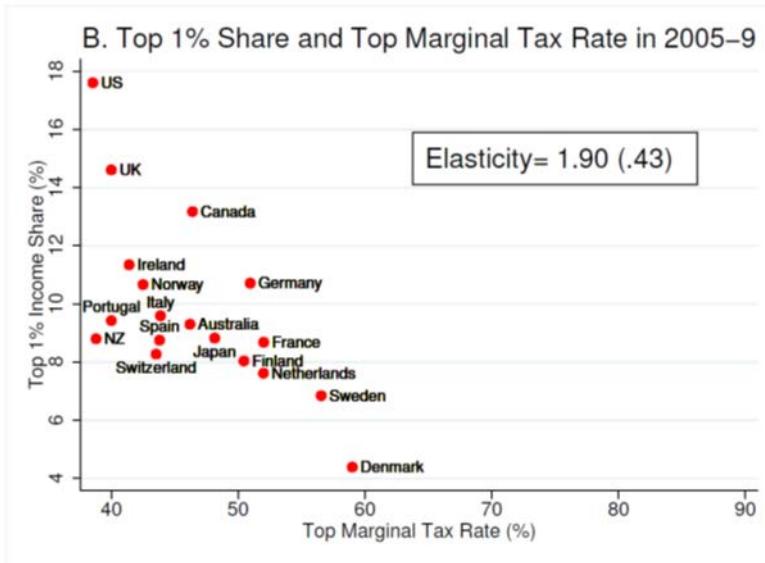


- More plausible is that tax and regulatory changes have been at least as important, since these have varied sharply across countries.
 - And these have varied specifically between English-speaking countries and others.



Cross country differences are consistent with this view emphasizing tax rates

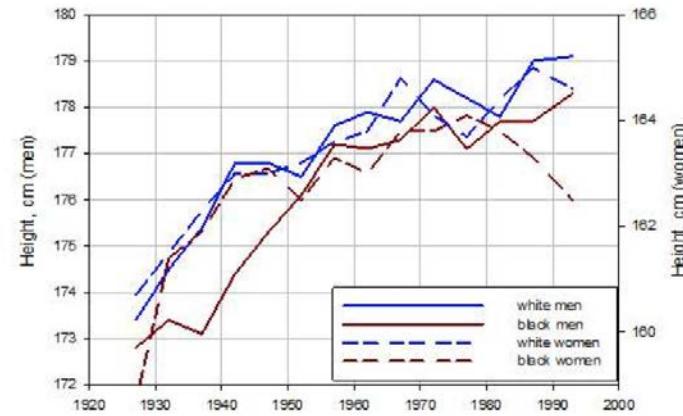
(This points to tax policy as a factor in inequality and to tax policy as a solution)



Link between top tax rate and CEO pay in 2006 across countries

And it is not surprising that inequality in inter alia the US is regarded as a social problem

- Here, again from Komlos (“The Recent Decline in the Height of Afro-American Women,” 2010), is evidence of declining stature for certain low-income groups in the United States.
- Arrayed by birth year plus ten.



Leaving us with the policy agenda suggested by this history

- Importance of tax policy for distributional outcomes.
- Role of competition policy, corporate governance, and labor relations (unions).
- Importance of investments in education and training in the long-term.
- And danger of a political backlash if the social consequences are not addressed.

- Thank you very much.