

# CHALLENGES TO THE ECONOMY AND SOCIETY

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# Opportunities and dangers

- Colombia is in a position of great opportunity, as well as great challenge
- Both economic and social questions
- Concerning both poverty and inequality
  - ▣ Real progress in poverty reduction, and in increase in health
  - ▣ Colombia remains one of the most unequal countries in the world
  - ▣ In terms of income inequality, but also geographical inequality and access to the modern economy
- Today I want to focus on inequality, and how to think about it
- Draw some parallels (and contrasts) with the rich world
  - ▣ Which is full of dangers, institutions challenged, many people left behind
  - ▣ Yet is as well off today, in terms of income and health, as it has ever been

# Opportunities and progress in the world

- Today the world looks like a difficult and uncertain place
  - ▣ Growth continues to falter, OECD and China
  - ▣ Slow recovery from Great Recession in US and much of Europe
  - ▣ Rapidly rising inequality in many countries (but not in Colombia)
  - ▣ Breakdown of familiar political arrangements
    - In Europe and the US, BREXIT, Trump, threats in Europe
- A good to start by thinking about today relative to what has happened in the past
  - ▣ Help us think about equality today relative to the past: about growth and inequality

# Great Escapes

- Great episodes of human progress are what I have called the “Great Escape”
  - ▣ From destitution, ill-health, premature mortality
  - ▣ To long life and high material living standards
  - ▣ Better governance: democracy is more widespread around the world
  - ▣ Large scale reductions in violence, huge increases in education, especially for girls
  - ▣ Increases in life evaluation/happiness: people know they have better lives
- Progress has often been interrupted, sometimes brutally, but has always resumed
- Many places have successfully made the transition that Colombia is making today

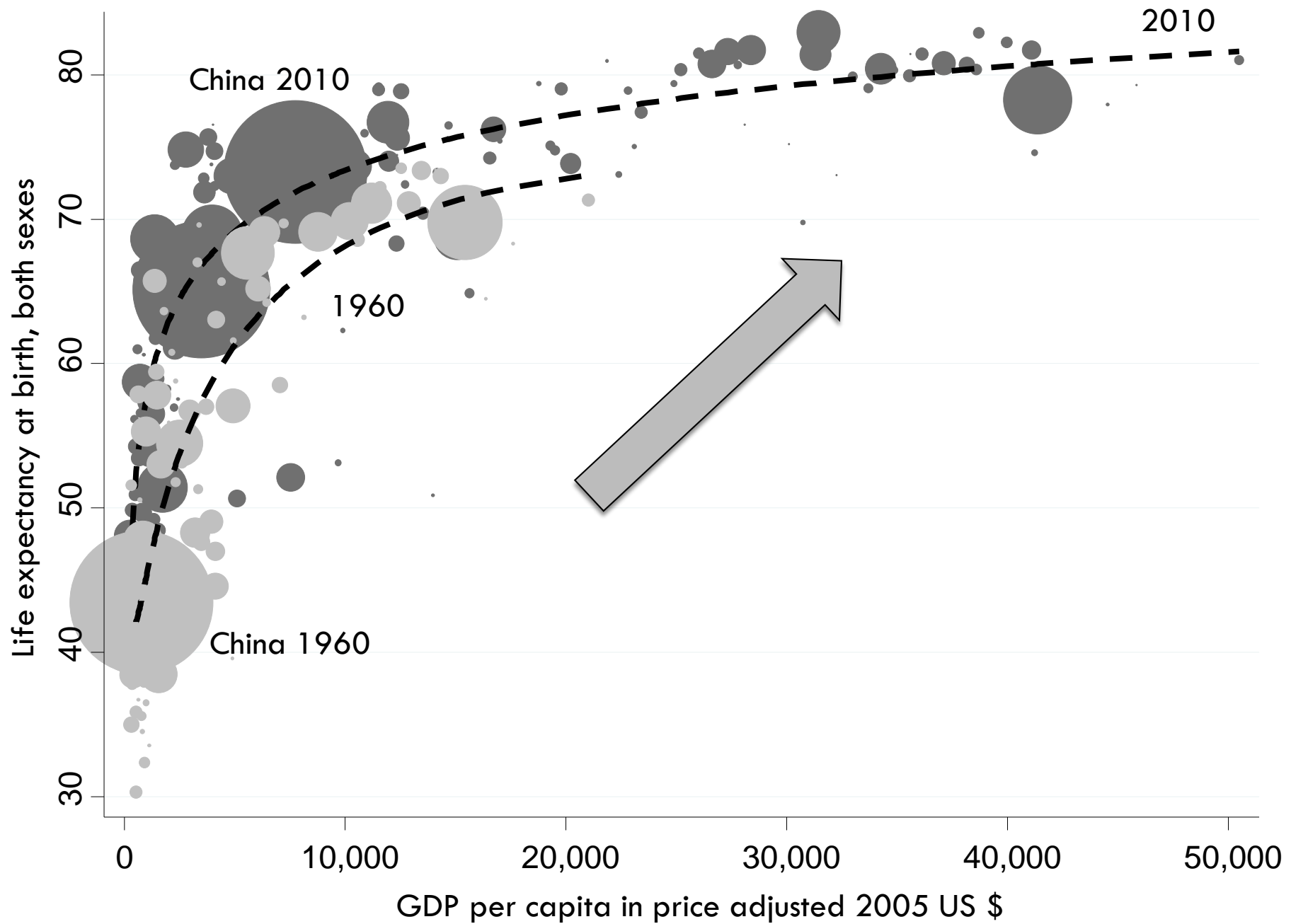
# Progress and inequality

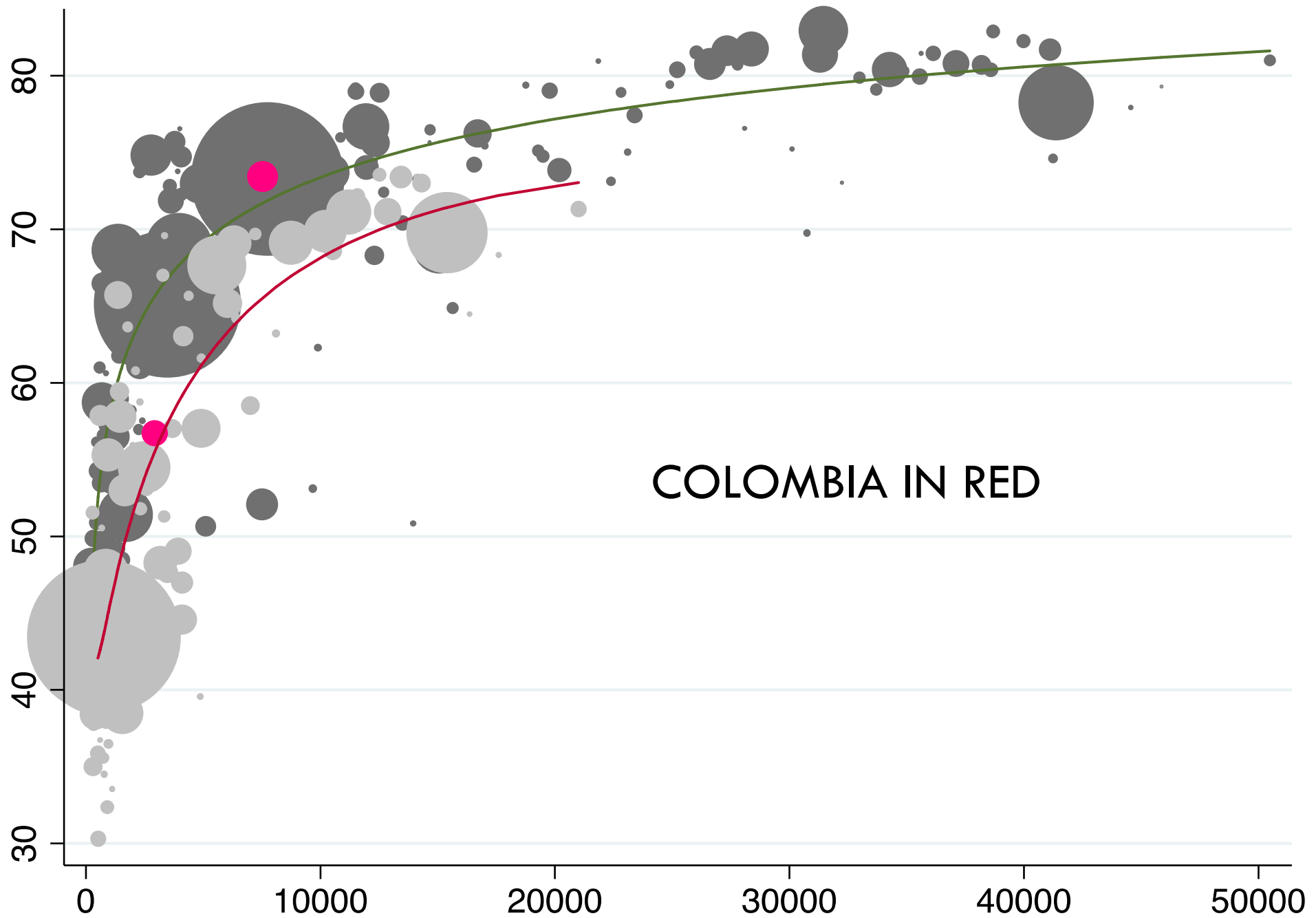
- Many of these episodes have allowed only *some* to escape
  - ▣ Leaving many others behind, so progress has been an engine of inequality
  - ▣ And inequality is itself an incentive to escape
- Key is to make sure that those left behind do indeed catch up
- Sometimes this can take a long time
- Sometimes just the right institutional conditions and it will happen automatically
  - ▣ Remove barriers to others escaping
  - ▣ Don't let those who have escaped block the others

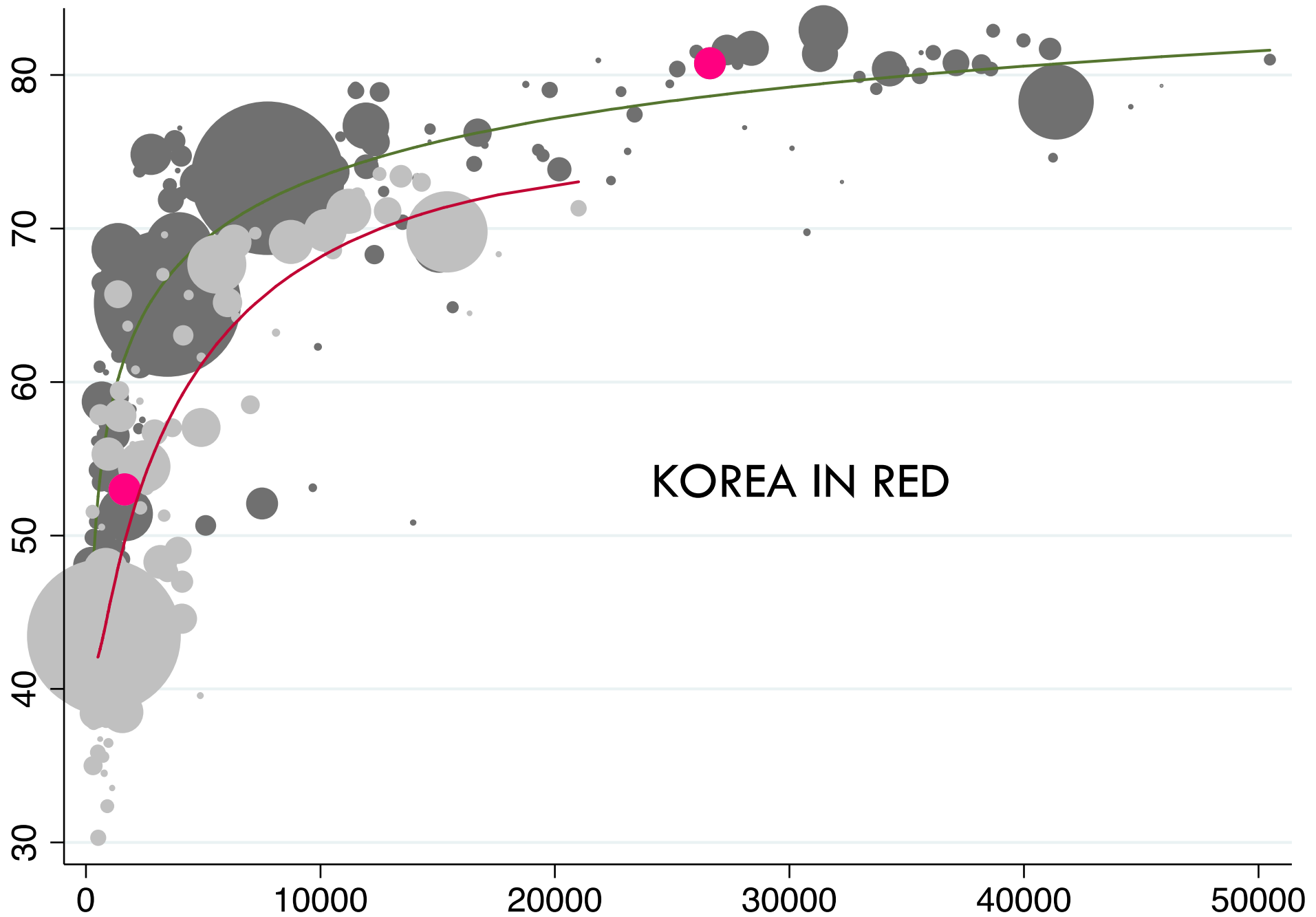


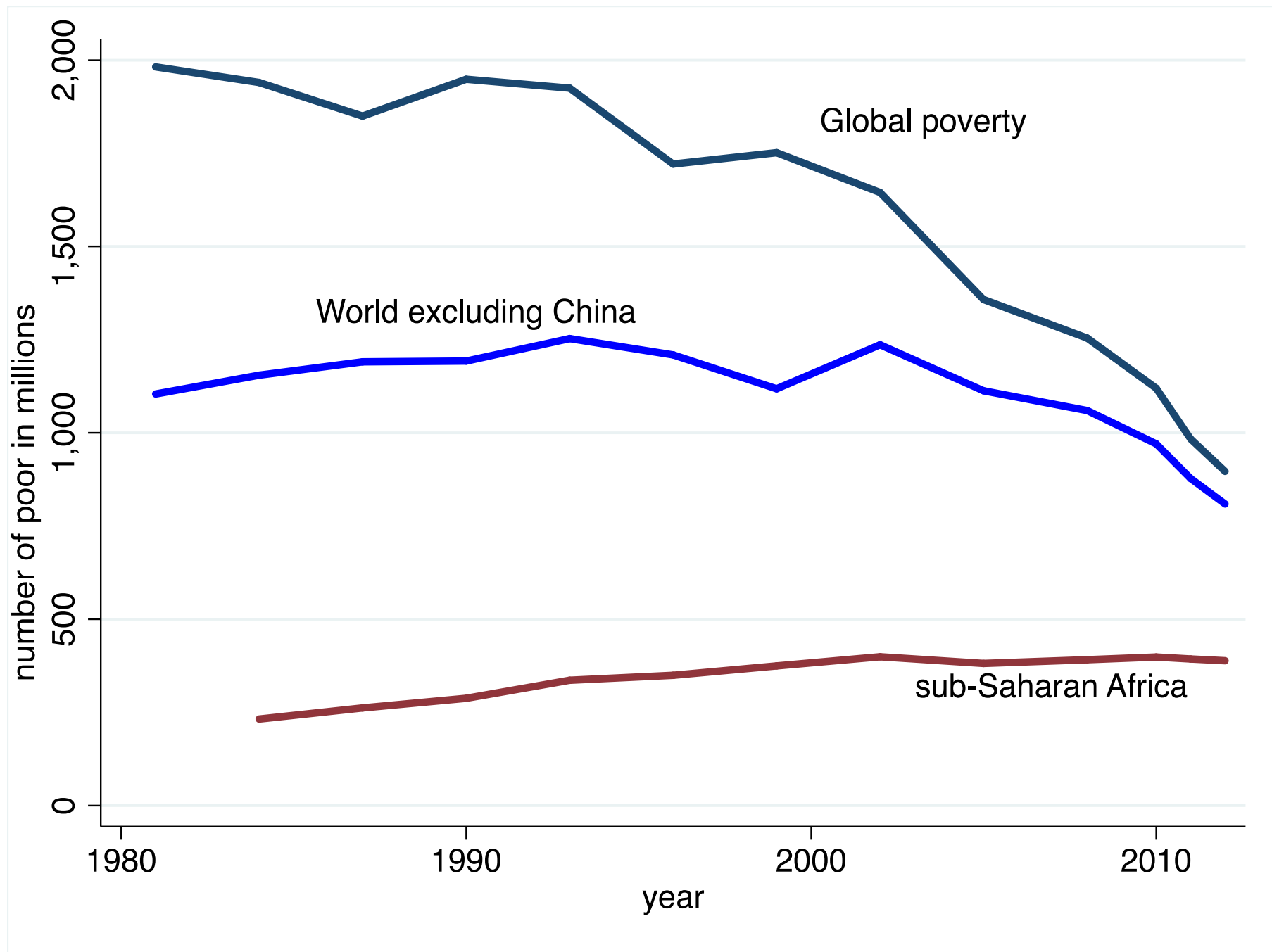
# In the last fifty years

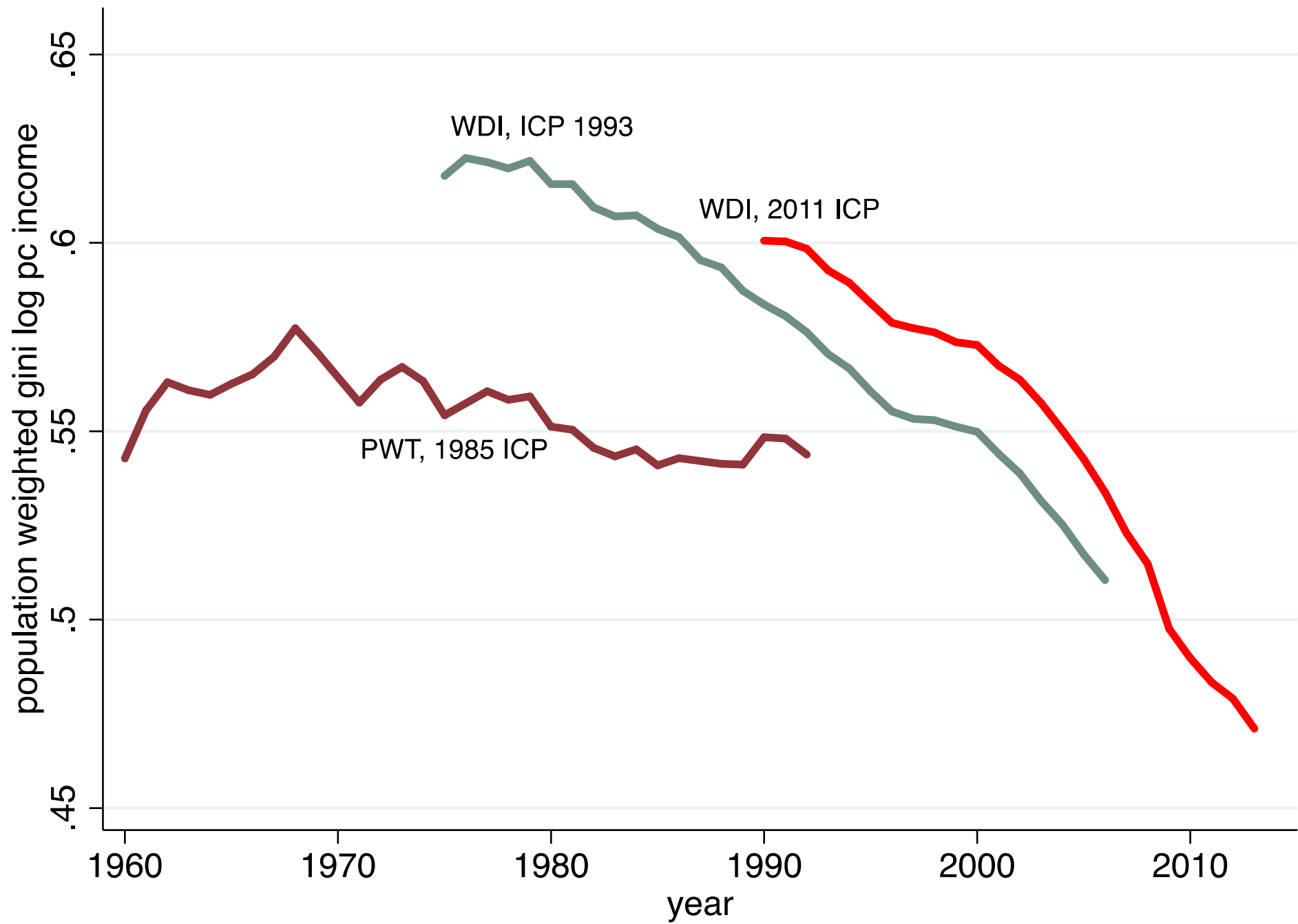
Health, wealth, and wellbeing around the world

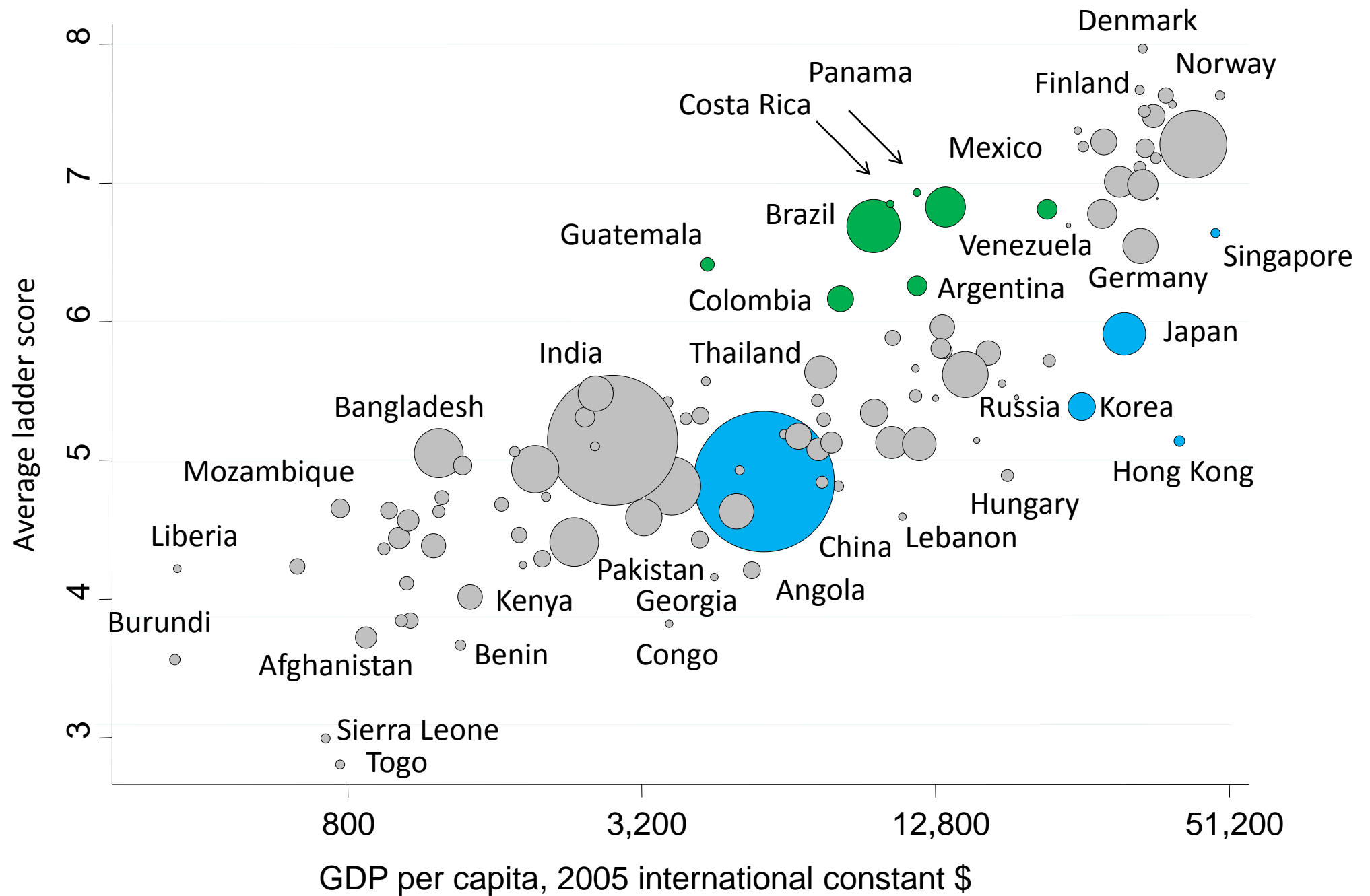














Thinking about inequality within countries

# Why should we worry about inequality?

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- Three distinct approaches
- Inequality of **outcomes** is bad, in and of itself
  - ▣ Sometimes called prioritarianism
  - ▣ Principle of transfers: world is better if we take from someone who has more and give it to someone with less (as long as positions are not reversed)
- Inequality of **opportunities** is bad
  - ▣ The idea of a level playing field
  - ▣ Everyone should have the same chance
    - Inequalities that you bring on yourself are OK
    - Not inequalities that you had nothing to do with
- **Procedural** inequalities are bad and unfair
  - ▣ More on this below

# Inequality of outcomes?

- Many people see large differences between people as inherently unfair
- No one should have too much when others have too little
- I would argue that this is wrong
  - ▣ There is no reason for me to complain if you get more
  - ▣ Provided I am not hurt
- Inequality is a result of progress, and helps progress happen
- Proviso about not being hurt is important
  - ▣ If the rich use their power to stop me getting a good education or good health care or participating in politics
  - ▣ The inequality is bad, not inherently, but instrumentally
  - ▣ Important and relevant in Colombia, and indeed in the US

# Inequality of opportunities?

- This is much more relevant, given the inequalities in Colombia
  - ▣ The large fraction of the country that has been excluded from society
- I think the concept is important but difficult to push too far
  - ▣ Hard to decide what is one's own responsibility
  - ▣ And it is unlikely to be enough
- BUT, extending greater opportunities in education and social inclusion to previous excluded Colombians is a central obligation today
  - ▣ Issue, of course, is paying for it
  - ▣ To which I will return

# Procedural inequality and unfairness

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- Square the circle by noting that inequality is or is not perceived as unfair depending on HOW it comes about
- OK for entrepreneurs and innovators to get rich
  - ▣ This is one of the stories in the Great Escape
- Not OK for rent-seekers to get rich
  - ▣ By lobbying or persuading governments to give them special favors
  - ▣ Bankers through the financial crisis in the US
  - ▣ Much of the healthcare industry today in the US
  - ▣ Suborning the government to their own purposes: excluding the suffering

# Rent seeking, or crony capitalism

- Such rent seeking generates no net product, and slows economic growth
  - ▣ Mancur Olson argued that this would ultimately undermine capitalism
- Essential for politicians to ensure that procedures are seen as FAIR
  - ▣ And that everyone is included in the political system, as designed in the peace agreement
  - ▣ Those who deserve it are punished

# Inequality and poverty

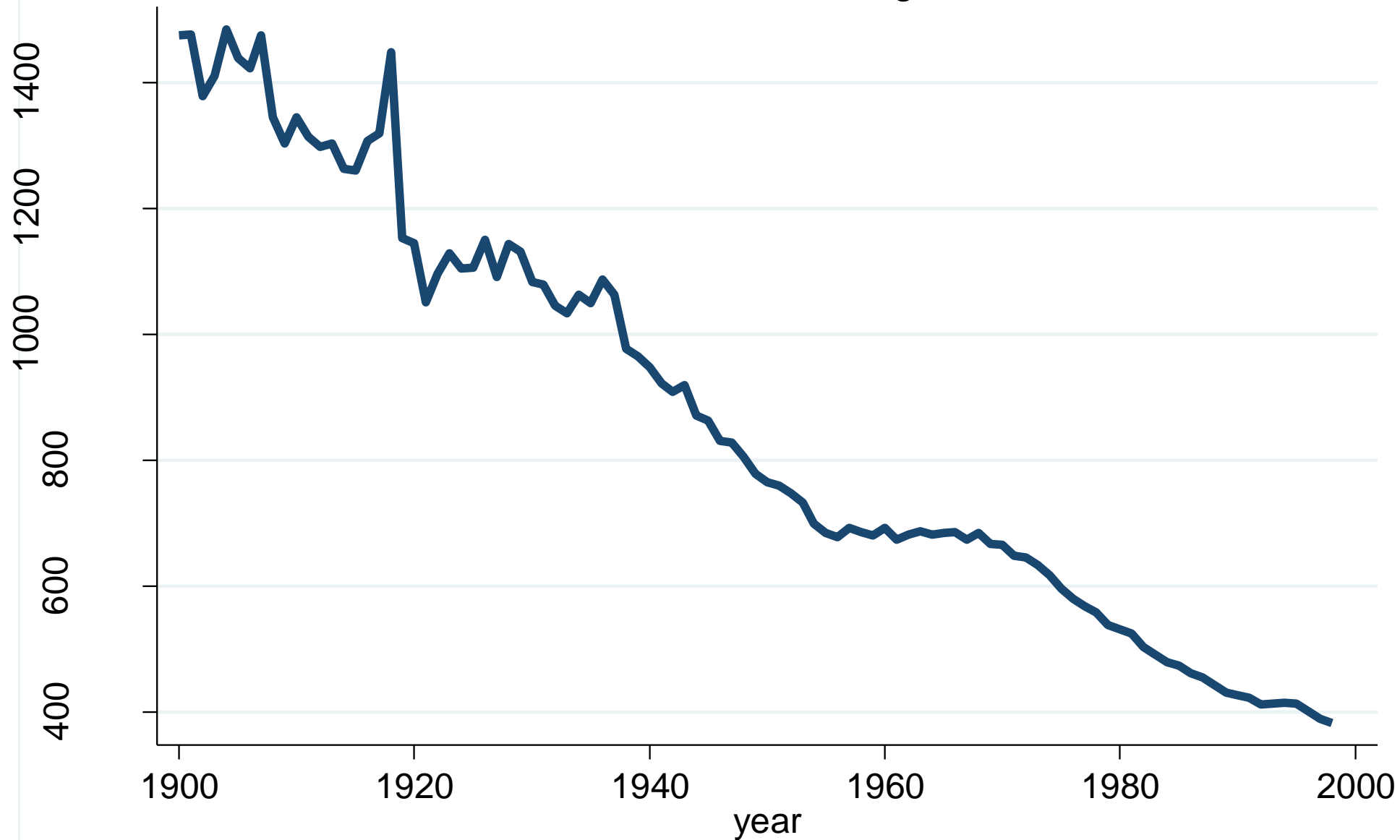
- We may think inequality is not inherently bad
- But absolute poverty IS inherently bad
- And there is an obligation to address it to the extent possible
  - ▣ The obligation is surely greater when some have so much



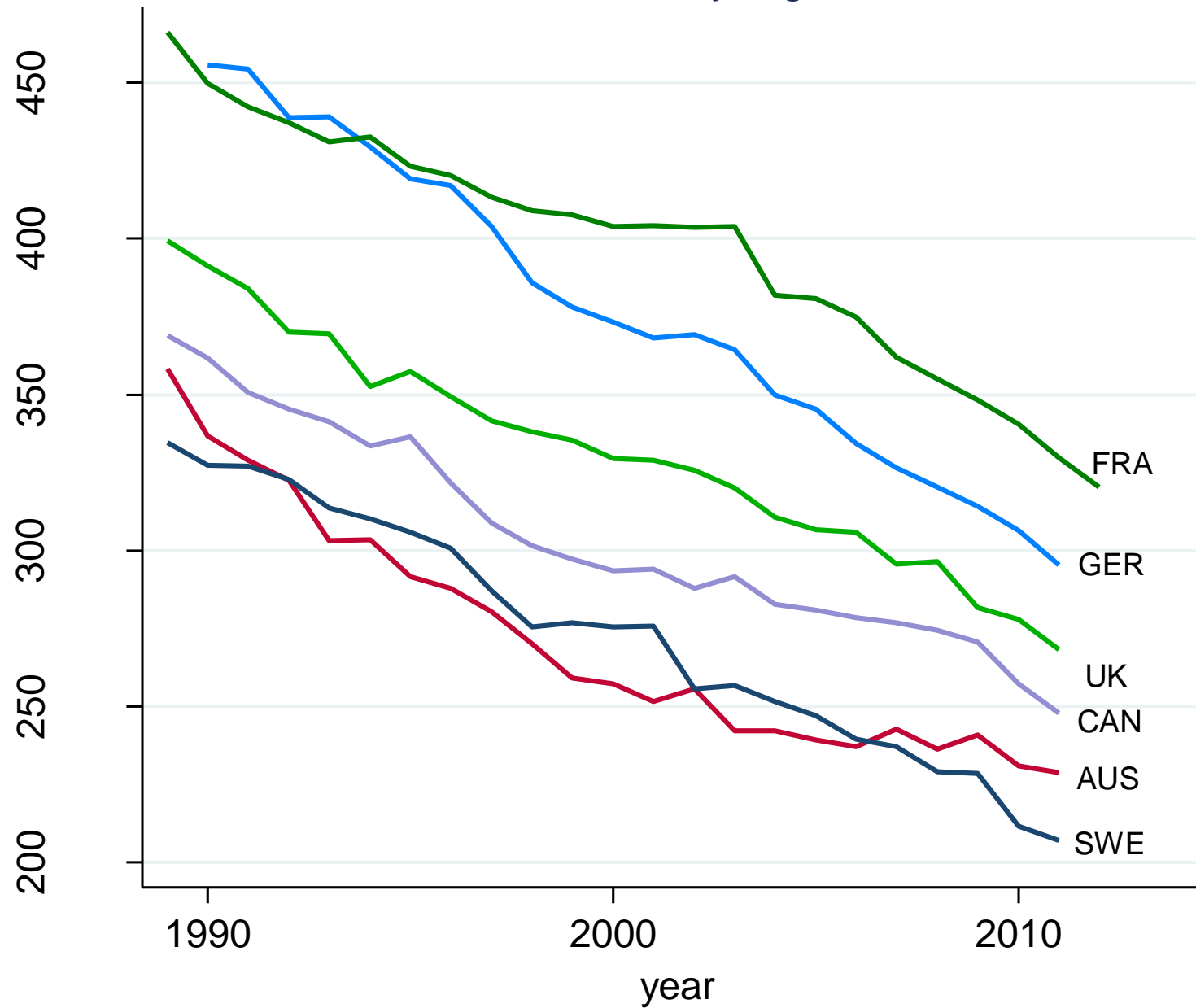
# Interlude: leaving people behind in the US

Distress among the white working class as their opportunities decline

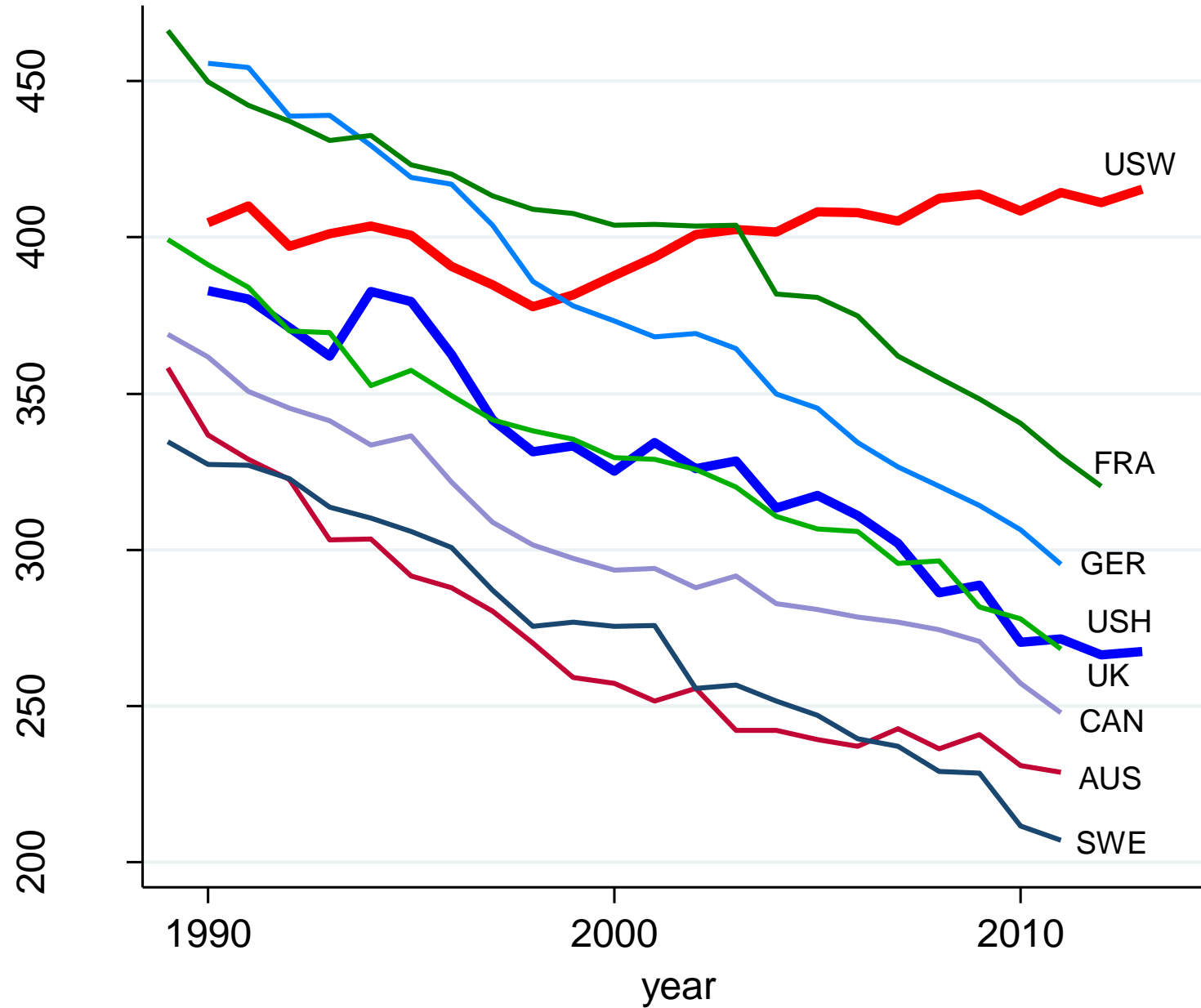
All-cause mortality  
white men and women, ages 45-54



All cause mortality, ages 45-54



# All cause mortality, ages 45-54



# Accidental poisoning, suicide and alcohol-related liver mortality

## White non-Hispanics

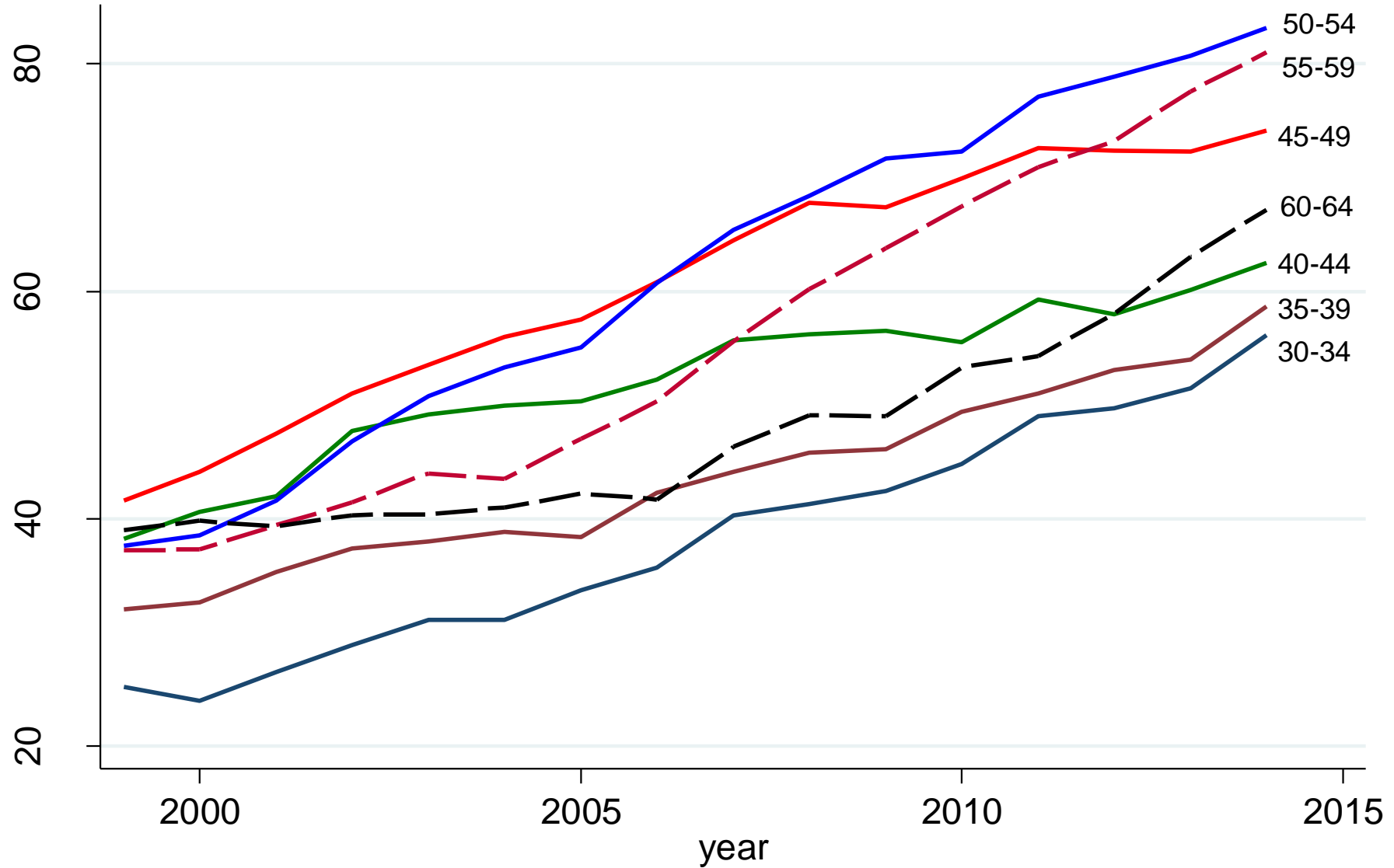


Figure 1.9 All-cause mortality, white non-Hispanics, ages 45-54

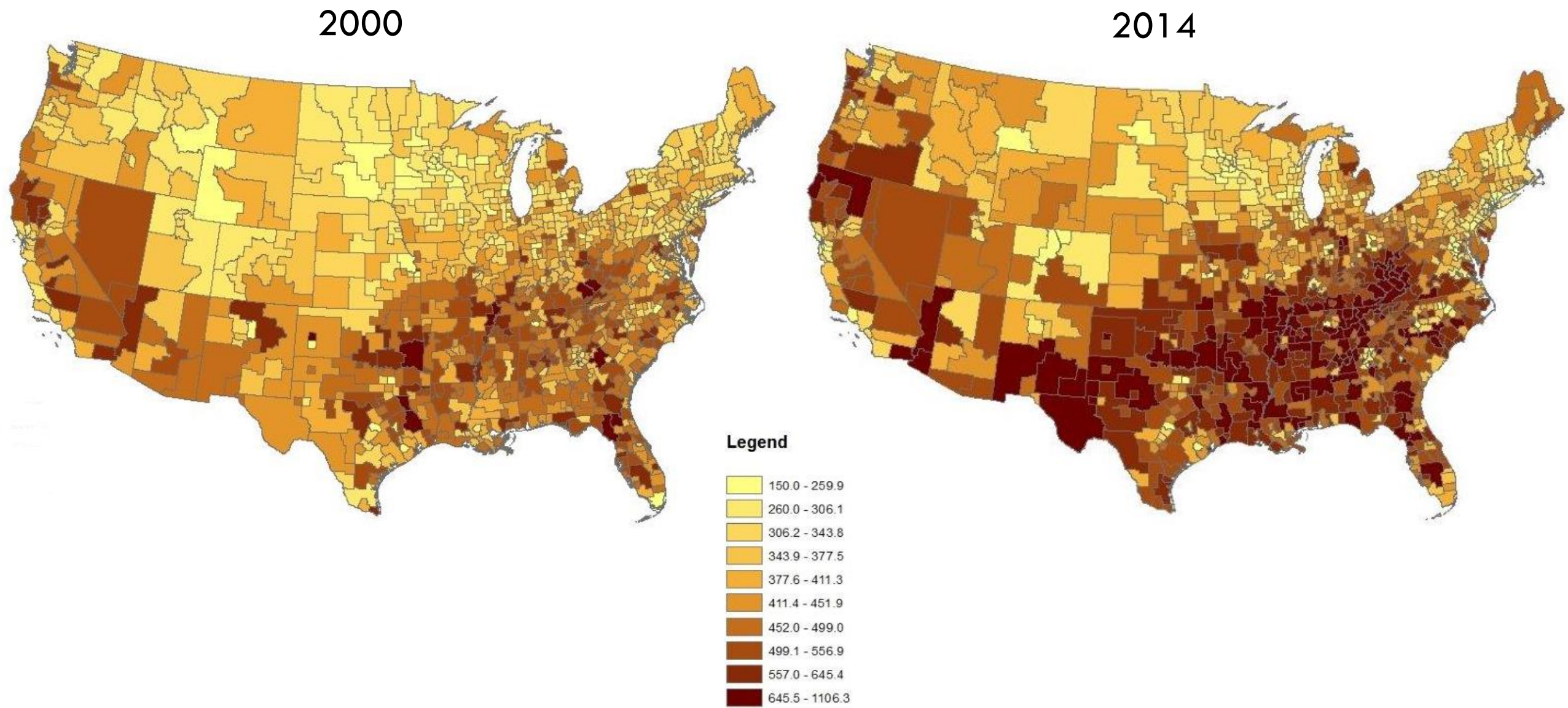


Figure 1.1

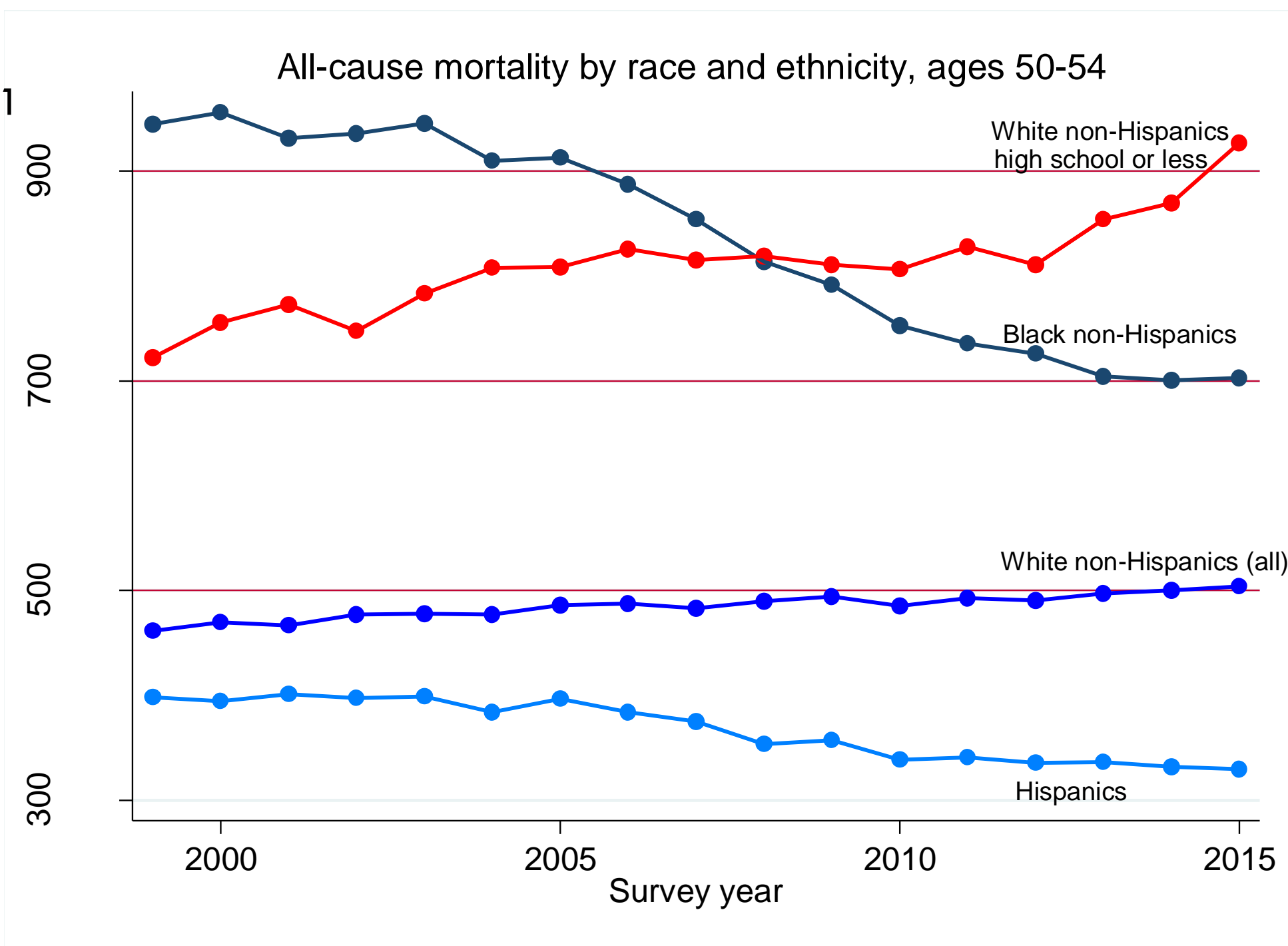
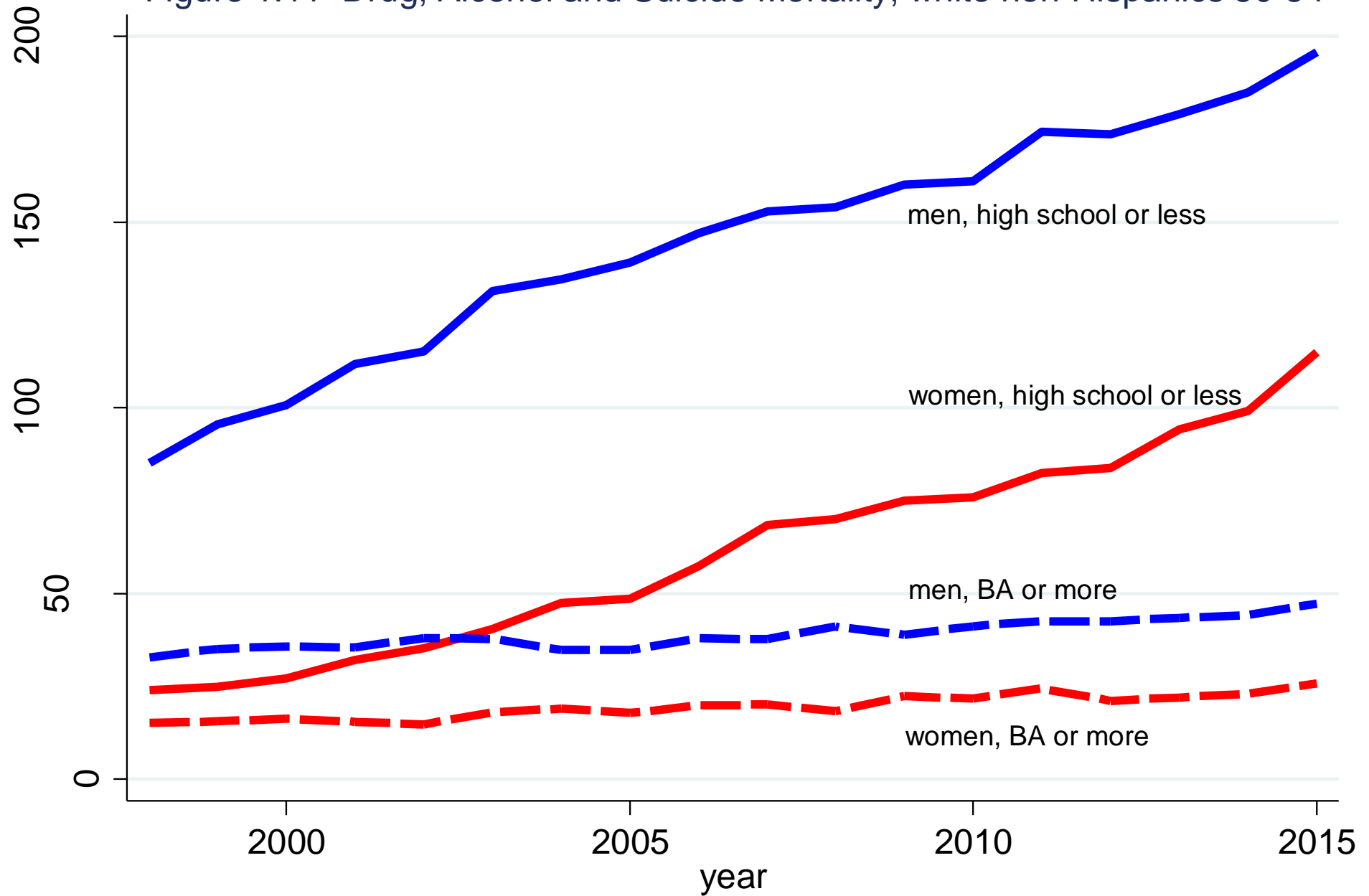


Figure 1.11 Drug, Alcohol and Suicide Mortality, white non-Hispanics 50-54



# What is happening?

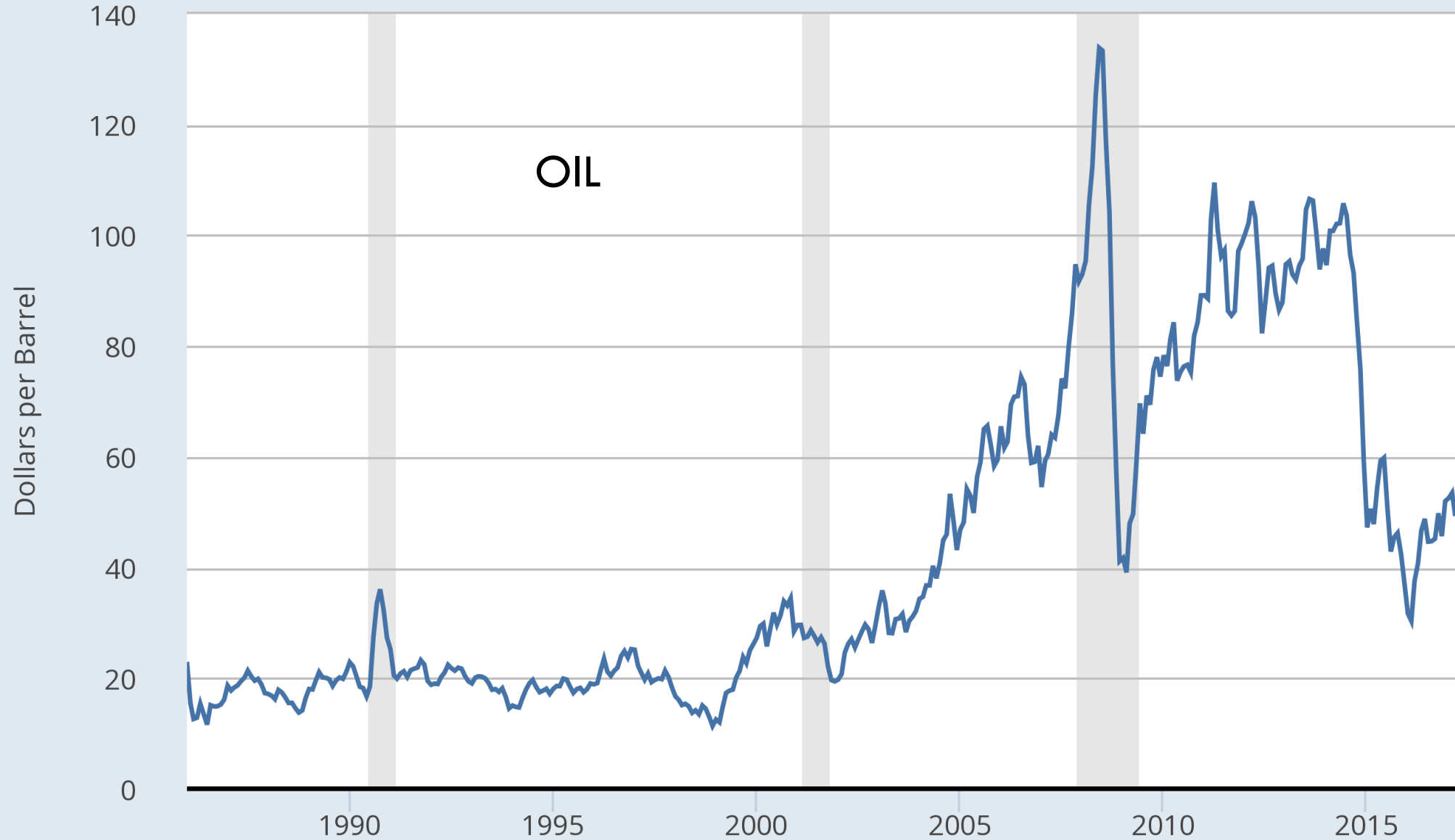
- Large group of people, white men and women without a university degree have been left behind
- Their opportunities in the labor market have not improved for 40 years
  - ▣ Jobs are of lower quality and pay less
  - ▣ Few are doing as well as their parents
- Their marriage rates have declined sharply: cohabitation has risen
  - ▣ Increases in childbearing outside of marriage
- Many voted for Donald Trump
- No similar mortality increases in Europe, but political effects are similar in Europe
- It is dangerous to leave people behind when others are doing well!

# A cautionary note on funding

Using commodity exports to fund much needed inclusion

Education, health, and infrastructure

Oil, coal, and coffee important exports

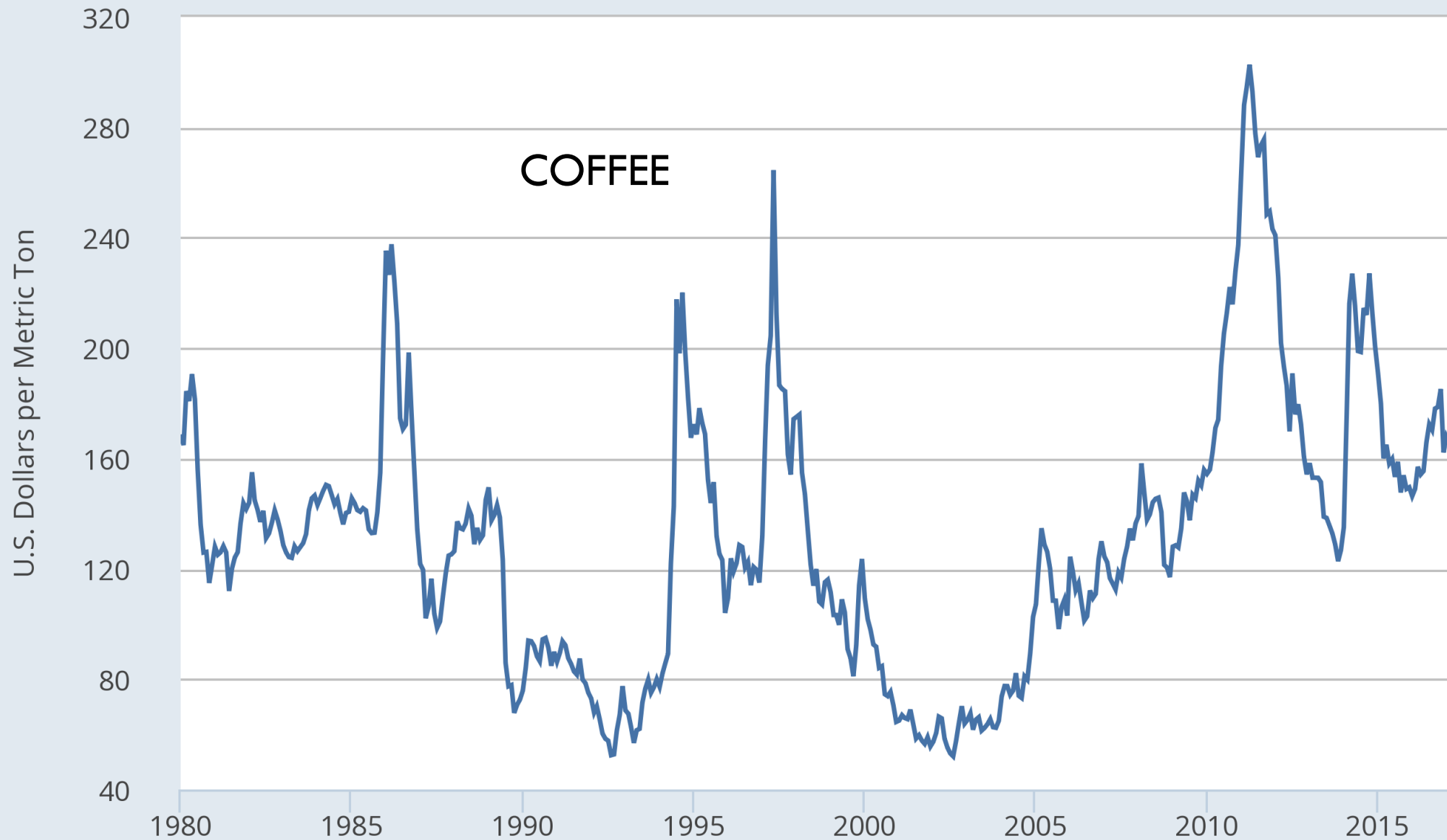




Source: International Monetary Fund

[fred.stlouisfed.org](https://fred.stlouisfed.org)

[myf.red/g/dO5v](https://myf.red/g/dO5v)



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[myf.red/g/dNHS](http://myf.red/g/dNHS)

# Managing fluctuations

- Fluctuations are very wide, quite unlike prices of exports of non-commodity exports
  - ▣ They are highly autocorrelated, more like the stock market than the weather
- Historically, countries have had great difficulty managing these fluctuations
  - ▣ To the extent of losing the country: Egypt and cotton in the 19<sup>th</sup> century
  - ▣ Making Egypt a dependency of Britain
- Frequent problem is starting **on-going** programs when prices are high
  - ▣ Strong political pressure to do so when government revenues are high
  - ▣ Colombia **needs** infrastructure and development funding

# Be cautious!

- There are mechanisms, selling forward, or building up funds
  - ▣ Economic diversification is better, but takes a long time, and not clear how to do it
- But all are difficult, because of the autocorrelation
  - ▣ So they do not come back, and you can go bankrupt waiting for it to happen
  - ▣ Forecasts are essentially worthless, as the World Bank discovered in Africa
- Do not make promises based on optimistic forecasts, however reasonable
- Countries (and economists) keep ignoring this



Thank you! Gracias!