

Book

What's wrong with inequality?

If a few people get very rich, do the rest of us have something to complain about? If the few had got rich by harming us, we would certainly have legitimate cause, but otherwise, what's the issue? Envy, perhaps, but that is hardly a compelling basis for public policy. Poverty should certainly concern us, but if the rich get richer, without harming anyone else, then good luck to them. This was long the view among mainstream economists. Those further to the left recognised the desirability of equality, but noted that there had to be a compromise between equality and the need to reward people for working. Besides, inequality didn't change much over time, so no one was much interested anyway.

This complacency has been shattered by events, by rapidly rising income inequality in many rich countries, and by data that show astonishing levels of income among the very rich. After decades of stagnation, the share of total income going to the top 1%—mostly bankers, hedge fund managers, CEOs, lawyers, celebrities, and a few doctors—has soared to levels not seen for 100 years. Worse still, this has happened at a time when most people in these countries have seen little or no gain in their living standards. Is there really nothing to complain about?

Joseph Stiglitz doesn't think so. The stagnation of the living standards of the majority is not at all unrelated to the success at the top; in effect, those at the very top are plundering the poor and the middle classes. In *The Price of Inequality*, Stiglitz argues that market democracy is incompatible with extreme inequality. He contends that the market is at risk because extreme differences of power make a mockery of the voluntary nature of market transactions. The political system is at risk because plutocracy gradually replaces democracy. Stiglitz focuses on what inequality does to the economy

and on the process of "rent-seeking". In a well-functioning market economy, people get rich by making things, innovating, and generally expanding what the system can offer. By and large, their personal incentives are aligned with what is good for society. Rent-seekers have another way of getting rich. They do not create, but try to redistribute in their own favour

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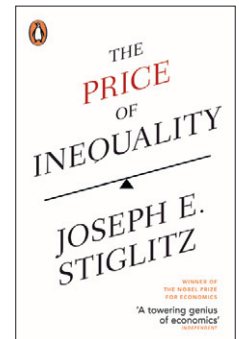
by lobbying, by rewriting the rules, or by rewarding and being rewarded by their cronies in business and in government. Bankers—who are Stiglitz's main target—successfully lobbied to change the laws of bankruptcy so that people who have been enticed into taking on inappropriate loans cannot use bankruptcy to escape from their liability. And when the whole edifice came crashing down, their bonuses and salaries were largely untouched while escape clauses for mortgage holders were successfully opposed by the bankers' lobby. Successful rent-seeking reinforces itself. The more successful the lobbyists, the richer their clients become, and the more money there is for lobbying. And as the rewards have soared, talent is sucked in and diverted from inventing new technologies, or discovering a cure for cancer.

Stiglitz tends to characterise the forces of evil as "the Right", who are in favour of unfettered capitalism, oppose regulation (except when it helps them), and work for smaller government. I think this is wrong: it is the money that is the primary problem, not partisan politics. Democrats may be mildly less enthusiastic curators of special interests than are Republicans, but it is a matter of degree. Big money is careful to hedge its bets, and makes sure that legislators

of all stripes are on board. It is this that makes many of us so pessimistic. If it were Right versus Left, there would be much more hope in electoral politics than there seems to be.

Banking is not, however, the only industry whose rent-seeking is hurting us. The US health-care industry—pharmaceutical companies, device manufacturers, insurance companies, physicians, and hospitals—accounts for 18% of US gross domestic product. Perhaps as much as a half of this spending does anything for population health. Yet there is overwhelmingly effective opposition to anything that would help bring costs under control. The industry vehemently opposes anything that looks like the UK's National Institute for Health and Clinical Excellence (NICE). US industry-funded researchers help write the national guidelines that set treatment thresholds, creating an epidemic of overtesting and overtreatment. Lobbyists agitate for Medicare payment schedules that provide rich paydays for manufacturers and that prevent Medicare seeking discounts for bulk purchase. In the meantime, the richest Americans live in a world in which public goods—including public health care—are irrelevant. Their wealth insulates them from any need for the collective action on which national health depends. Instead, an ineffective but grotesquely expensive health-care system is one more way in which they get rich at others' expense. In effect, when inequality becomes large enough, the very rich no longer live in the same society as everyone else. It is thus—not through some sort of pollution effect of income inequality within the general population—that the gap between the rich and the rest is such a threat to our health.

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The Price of Inequality
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