What's the matter with capitalism?

Angus Deaton

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INTRODUCTION

I am going to tell a story about contemporary capitalism. It is a story that is both unfamiliar and challenging, and some, like me, will find the argument uncomfortable. I will link together the best and worst of capitalism, its successes and its failures. I will tell a story that draws a line from today's greatest success, the enormous reduction in poverty and destitution around the world, to its greatest danger, the current threat to democracy.

PART ONE: CAPITALISM TODAY

The title of this lecture is a question. It has many possible answers each of which is held strongly by its advocates; people's political beliefs and values matter a lot in shaping their views about capitalism.

Here are five possible answers to "what's the matter with capitalism". They are not supposed to be consistent with one another.

1. There is *nothing* wrong with capitalism
2. Capitalism is the worst system, except for any of the alternatives
3. Capitalism is destroying the planet; finding an alternative is a matter of survival.
4. Capitalism generates inequalities between people and those inequalities get worse over time
5. Capitalism must be reformed to save democracy

Let me develop each of these briefly as an introduction to my main story. But first a few words about what I mean by "capitalism." This lecture is about the way modern economies are currently organized. A strict definition of capitalism refers to property—capital—that is owned by private actors—capitalists—who pursue profit, and markets in which prices are set by demand and supply. In today's world, governments support capitalism, own property, and interfere in markets to a lesser or greater extent. Much depends on whether government involvement is lesser or greater.

First is the argument that there is *nothing* wrong with capitalism. Advocates argue that capitalism is our guarantee of freedom, and that political liberty is impossible without markets. They argue that markets, both national and international, have brought previously unimaginable prosperity and good health to billions of people around the world. While there have been recent setbacks, they are minor when seen in a historical perspective. We are living in one of the best times in history.[2]

The system of classical liberalism, as in nineteenth century Britain, combines a liberal society, democracy, and capitalism. The last of these promises prosperity, as well as innovation and growth that improve the material living standards and wellbeing of the population. Classical liberalism is a permissive system that allows people to be what they want to be, to follow their own inclinations and to pursue happiness in their own way. It supports liberty.

Today's world has many countries with functioning markets but without complete political and religious freedom. Markets can and do exist without the other parts of classical liberalism.

Second, we have the argument that capitalism is the worst system, but like Churchill's democracy, is better than all the other systems that have so far been tried. Here is why:

Capitalism coordinates local and individual information to allow goods and services to be efficiently produced and allocated. This is the *efficiency* argument. Without it, we would be much poorer, and would be living in chaos with perpetual gluts and shortages. Material living standards would be low and stagnant. Efficiency is what we might call the "magic of markets." It is real and it is important. Friedrich Hayek was its great apostle and explicator: his was essentially a technical argument about what markets could do.[3] Without markets, as in the Soviet version of socialism, the economic system just didn't work. Government cannot solve the technical problems of production, consumption, and growth; it does not have, nor can it collect the information that would be required.

Classical liberalism also encourages the innovation that is the source of material improvement. People are free to experiment, no one says what they can and cannot do or try out, there is no official dogma that is enforced, and inventors are free to get rich by having new ideas and selling their inventions. Their doing so makes us all rich.[4]

The technical failing of socialism is not its only problem. When government tries to take on the role of markets, it delivers, not prosperity, but rent-seeking, cronyism, and tyranny. Some make this argument about milder forms of socialism, such as democratic socialism. Large government always risks tyranny, so the argument goes, so even democratic socialism is dangerous. This is not obviously true, and there are many advanced countries with large governments and a great deal of freedom. Beyond that, capitalism requires regulation, so governments and markets must work together.

Third, What about the planet?

Capitalism in the form of unfettered free markets, does *not* solve all the technical problems of allocating goods and services. It cannot deal with what economists call *externalities*.

When my actions affect others, and there is no mechanism that makes me take that into account, exercising my freedom brings harm to others. This flaw in markets has been known for a long time; the Cambridge economist Arthur Cecil Pigou wrote about it a century ago.[5] Climate change is the externality to end all externalities.

Markets by themselves cannot solve climate change: collective action is required. This does *not* imply that growth or innovation must stop. Some argue so, but I believe the opposite, that growth must be redirected, not stopped, and that we need (redirected) growth more than ever. Without it, there is no chance of halting climate change.

Fourth, What about inequality?

Capitalism serves capital, not people. It is inherently unequal. Markets are good for efficiency and good for growth, but they care not a bit about who gets what. I often like to compare capitalism to the roulette table at a casino; even if everyone starts out with the same number of chips, as the wheel spins, some stacks of chips grow and others diminish and, if the game goes on long enough, one person finishes up with everything. In fact, the roulette table is much fairer than capitalism; everyone has an equal chance, luck rules, and the growing and shrinking piles of chips are the result of the cumulation of unbiased luck. In market capitalism, the rich get better chances, and better rates of return, so it is harder for winners ever to lose, or for losers ever to win.

Equality is not the only thing that markets ignore. Social arrangements between people may not be compatible with completely free markets without government regulation. This is what Karl Polanyi argued in the 1940s about the effects of the Industrial Revolution on the labor market in Britain. Markets can make us rich, but they can destroy other things we care about, such as social arrangements and relationships.[6]

Fifth, on capitalism and democracy. Democracy is constructed on the idea of equality among persons. Widening gaps in wealth eventually undermine the right to equal political participation. In the long run, as gaps between people widen, capitalism and democracy will be incompatible. In the limit, we can have a functioning democracy, or unregulated capitalism, but not both. As an aside, it is worth noting that even in an authoritarian state, such as China today, fast-rising inequality is seen as a threat to political stability.

The hope is that we can fix the flaws because democracy and capitalism need each other if they are to support the kind of lives that people find worth living. Societies have fixed the flaws before, most notably by constructing welfare states that eliminated the worst inequalities and by outlawing some practices like child labor. Even so, we should not hope for too much. Values differ; some put great weight on liberty, some on equality, and some see climate change as the overriding challenge. No system will satisfy everyone. For those who retain their faith in democracy, the hope is that democratic politics can forge the appropriate compromises.

In the last paragraph, I used the word "we," as in "we can fix." Who, exactly, is this "we?" It is easy to get seduced by the idea of technological expertise, that "we", meaning elites, academics or government officials, can design solutions and hope to see them adopted in the public good. But change doesn't usually happen that way: someone with power must make it happen, for better or for worse. Beyond that, *equalizing* change usually comes from below. Power is important and is too often neglected in expert discussions. Experts and political and economic pundits tend to overstate the power of reason. Especially the power of their own reason.

Policy making by technocratic elites has a terrible record, which is one of the main arguments of this lecture. The "best and the brightest" may make good academics, good financiers, or good engineers and inventors, but they do not make good policymakers. Their world is too narrow and excludes too many perspectives, they are susceptible to groupthink and self-deception, and they have no legitimacy to make decisions for those outside their club. The term "best and brightest" is the title of David Halberstam's classic book about the failures of the Vietnam War.[7] By contrast, the construction of the modern welfare state in Britain after World War II could not have happened without the inclusion in government of people from the working classes who had previously not been well-represented.[8] More broadly still, there is the argument that government by experts can readily turn into tyranny.[9]

PART TWO: THE CASE FOR CAPITALISM

There is much to be said for capitalism. Here are some of its achievements.

One of the gifts of the Enlightenment was to free people from blind obedience to the church and state and allow them to use reason to discover "useful knowledge" that made their lives better. They could truck and barter freely to obtain goods and services that they would not otherwise have had, they could imagine new possibilities, and use new ideas to improve their own and others' lives, turning inventions into profit-making opportunities.

As many historians have documented, there followed an astonishing explosion of wellbeing. "Useful knowledge" in the form of discoveries in applied science, in engineering and in public health brought greater prosperity as well as more years of life in which to enjoy it. Improvements in sanitation reduced infant mortality and helped control infectious disease. The development of the germ theory of disease brought an understanding of the common causes of disease, an understanding that, over time, could be exported to the whole world. The industrial revolution spread from Britain and North-East Europe, bringing rising prosperity with it. Much, if not most, of this progress came by levelling up, by extending good things from the few to the many, in other words by reducing inequalities. Progress and inequality reduction had much in common.

Capitalism was not responsible for all of this, but by allowing people to benefit and get rich from new ways of doing things, it played an important part in encouraging it.

I could spend many pages documenting what happened, but the story is a familiar one, and I can summarize in just a few figures.

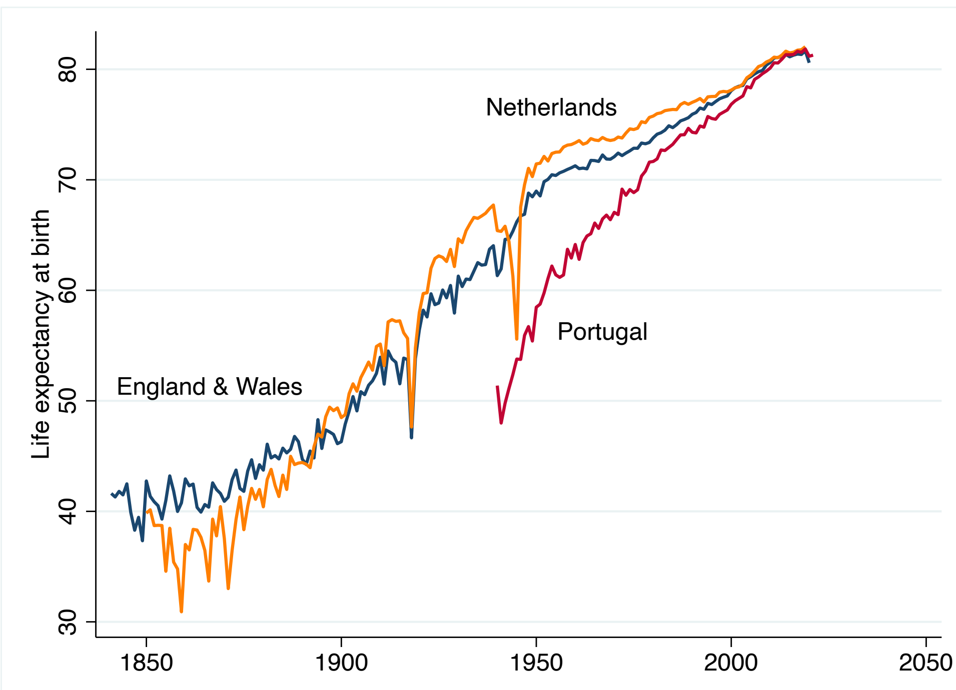

Figure 1: Life expectancy at birth, selected countries

Figure 1 shows life expectancy at birth in (the civilian population of) England and Wales from 1850 to the beginning of the current century. It rose from 40 in the middle of the 19th century to its current value of around 80. In the early days, when life expectancy was 40, few people actually died at age 40; people died as children or, if they escaped that fate, they had a good chance of surviving into old age.

The sharp downward spike of the influenza epidemic after the first World War is clearly visible. It is echoed a century later, though much less sharply, by the COVID-19 pandemic, which shows up on the top right of the graphs. I also show similar lines for the Netherlands and for Portugal. Portugal is an example of a late starter that caught up. The setbacks in the Netherlands during the influenza pandemic and during the "hunger winter" are starkly clear.

The lines are much smoother today than in the 19th and early 20th centuries. The ups and downs reflect epidemics that came and went, killing mostly children.

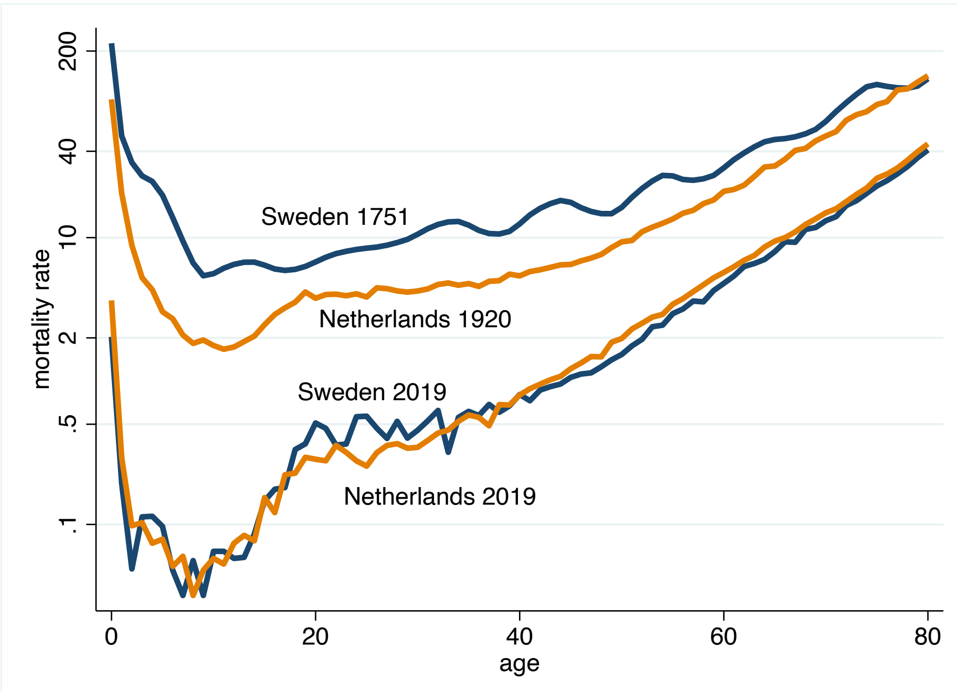

Figure 2: Mortality rates by age, selected years and countries

Figure 2 shows the fractions of people dying at each age in Sweden and in the Netherlands in 1751, 1920, and 2019. The horizontal axis shows age, and the vertical axis the number of deaths per thousand people at each age. The left-hand axis uses a proportional scale, which exaggerates changes at low mortality rates and flattens them out at high mortality rates.

The key point of this picture is the U-shape, and that the U has deepened over time. The danger points are at the beginning of life—for babies—and at the end of life—for the elderly. If you survive the first year of life, you don't have much chance of dying until middle-age or beyond. The curves have moved down over time, which means that the risks of death have diminished at all ages, and it is this that has driven the increase in life expectancy.

A final point on this graph. If you look on the left, around age 0, you can see the huge declines in mortality rates, in Sweden from 200 per 1,000 in 1751 to 2 per 1,000 in 2019, a hundred-fold reduction. There have been declines at old ages too, but proportionately less. Death has aged, moving from kids to the elderly, or as some have put it, from the bowels and chests of children to the arteries and brains of the elderly. Deaths of children, once commonplace, are now very rare. It is hard to think of any other single thing that has contributed as much to bettering the human lot.

After the second World War, improvements in health, first, and then later, in material prosperity, began to spread to the poorer parts of the world, in East and South Asia, in Africa, and in Latin America. The health innovations, based on the germ theory of disease, clean water and vaccinations, were figured out in the richer countries, and then passed on as gifts from the North to the South. They were not, at least at first, a consequence of the spread of freedom or free markets to the poorer regions. The gap in life expectancy between rich and poor countries, or between Northern Europe and sub-Saharan Africa, has closed rapidly in the last 50 years. International inequality in life expectancy has declined. Once again, the countries that had not experienced the health revolution caught up, even though the rich countries continued to see improvements in their own health.

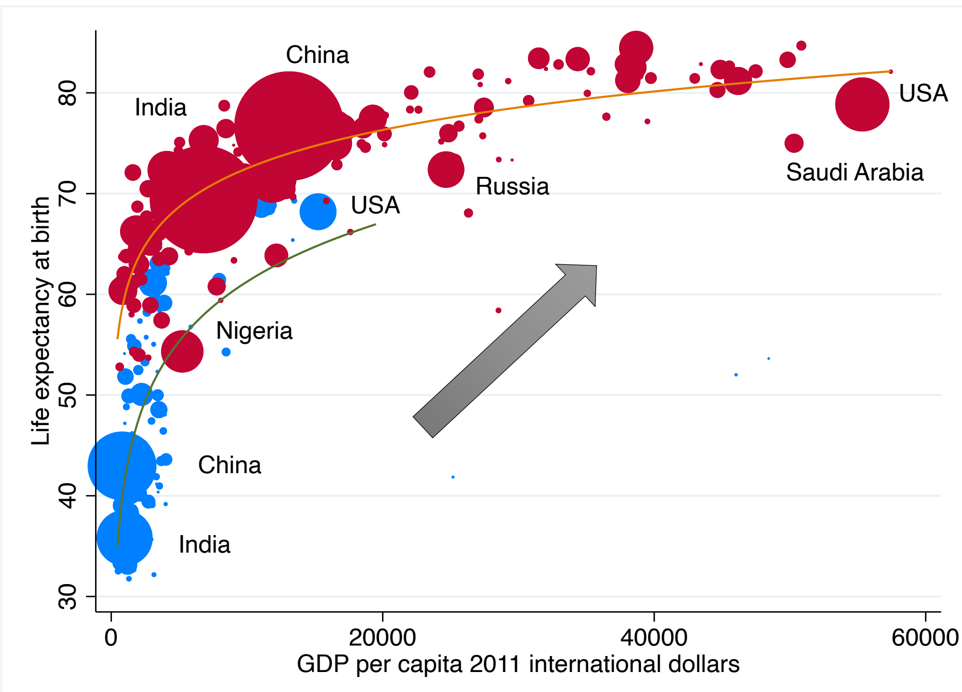

Figure 3: Life expectancy and GDP per capita, 1950 and 2018

Figure 3, which I refer to as the "Onward and Upward" graph, plots, on the vertical axis, life expectancy at birth, against, on the horizontal axis, gross domestic product per person adjusted for international price differences. Each circle is a country, one (blue) circle for 1950 and one (red) circle for 2018, and the area of each circle is proportional to the population of the country. The giant circles on the left are China (and India), and the (much wealthier) large circle on the right is the US. The countries of Europe are mostly scattered between.

The figure shows progress from 1950 to 2018, not only in health--movements up—but also in material prosperity—movements to the right. Better health comes with higher income—not a surprise—but there was also an increase in life expectancy that came even without increases in income; the curve moves up over time. In the last sixty-eight years, the world has become healthier *and* wealthier. Some countries did better than others, some by a large margin. And there were some cases of backsliding. Yet one favorite statistic of mine is that there is not a single country in the world whose infant or child mortality rate, the fraction of kids who don't make it to their first birthday or fifth birthday, was higher in 2010 than in 1950.[10]

Now we get to the central story about capitalism and the magic of markets.

Better health in poor countries happened mostly by copying lessons learnt from the North, particularly the applications of the germ theory of disease. That is why life expectancy could increase even in countries with little or no income growth. Yet it is inconceivable that the dramatic gains in income could have taken place without the help of markets, particularly global markets.

China is, of course, the poster child. Under Deng Xiaoping, internal agricultural markets were liberalized, and then the country opened more widely, ruthlessly copying technology from the West, leading to the highest sustained growth rates of income for any large country that the world has ever seen. If China was the most spectacular case, it was not the only one. India's growth was slower and statelier, but it maintained a real democracy and avoided state coercion, particularly over family size. Yet it too saw high economic growth after 1980. Smaller Asian countries had their own amazing successes. Free markets were often more successful than free politics, though many hoped, then if less so now, that the former would lead to the latter, that the elements of Classical Liberalism would come together in time.

Again, I do not want to overstate the case. While the importance of exports is clear in China, the relationship between globalization and growth in India is less obvious. Wide ranging domestic reforms were implemented in 1980 which had their own effect. India is an exporter of pharmaceuticals and of back-office services, and Indian migrants to the Gulf send substantial remittances home. Non-resident Indians are important inward investors. Even so, and compared with China, Indian export growth has almost certainly made a relatively small contribution to Indian growth.

Numbers on global poverty are shown in Figure 4 which is taken from Our World in Data. According to these estimates from the World Bank, the number of people in the world who lived on less than $2.15 per person per day fell from two *billion* in 1991 to 648 million in 2019. There are *many* problems with these numbers, but the direction and broad magnitudes are right. An important point is that the World Bank's line of $2.15 is a standard of serious destitution. The reduction in poverty, despite the growth of world population over the same period, is an almost incredible achievement, unlike anything else that has ever happened in human history. We are used to hearing about it, so perhaps you are not as amazed as you ought to be. Certainly, viewed from the 1970s, and the pessimism about expanding population and the poverty that it would "inevitably" bring with it, people would simply have refused to believe that it could happen. Yet it did.

The reduction in poverty seems less impressive if we use a higher poverty line, say $6 per person per day. With such a line, global poverty continued to rise into the 21st century, and declined only after 2000.[11] Yet I do not believe that this casts doubt on the achievement. As people exited extreme poverty, it is not surprising that the numbers between $2 and $6 increased, and that fact does nothing to gainsay the improvement. More than a quarter of a billion people fewer are now living on less than $2.15 per person per day.

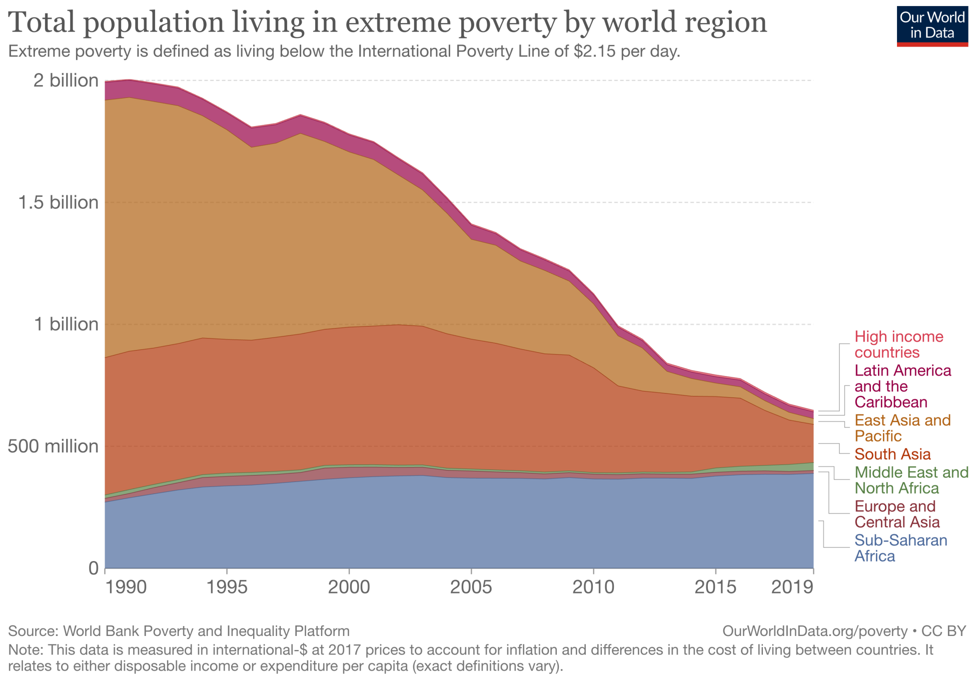

Figure 4: Numbers of people in poverty in the world

And I find it impossible to imagine these kinds of poverty reduction having happened without markets and globalization. When my libertarian friends want to sing the praises of Classical Liberalism, this, together with the improvements in health, are the numbers that they *rightly* trumpet. This is the case for global capitalism, and it is a strong one.

PART THREE: RESPONSE FROM THE NORTH—TAKE ONE

As the process of growth, globalization and poverty reduction rolled on, people in rich countries, or at least the educated elite in rich countries who knew about it, looked on with delight. In the educated elite, I include international organizations, such as the World Bank, and other development agencies and foundations, as well as readers of the mainstream press. And most governments of rich countries. And myself.

This new, healthier, and richer world was a better world. Central measures of wellbeing, such as life expectancy and per capita incomes, were rising very rapidly in many previously very poor countries, indeed rising more rapidly than in the rich countries. Life expectancy was converging across countries, and the global distribution of income across persons became more equal as billions in China and India moved from destitution to something approaching a global middle class. We in the North got the benefits first, and now we are passing them on to the rest of the world.

What was not to like?

Indeed, the cosmopolitans of the rich world could perhaps even take some credit. Aid agencies often painted a picture of disaster, of lack of progress, but also claimed success for progress. The World Bank, for example, was not shy of trumpeting its own estimates of poverty reduction. I don't believe that aid had much effect except perhaps in health, and I believe it sometimes did great harm.[12] But I don't think anyone now challenges the view that whatever the effect of aid, it was small relative to the effects of markets, globalization, and transmission of knowledge, including health knowledge.

Not everyone in the rich countries was so impressed. After 1970, growth in the rich countries slowed markedly. Many people struggled to be better off than their parents. For them, the expectation of progress, that each generation had been and would continue to be better off than the previous generation, was failing.[13] Some thought that globalization might have something to do with it.

There were three answers to this dissent, two economic, one ethical. The economists denied that workers in rich countries were being hurt while the ethicists claimed that, even if they were, there was no need to worry.

The first economic argument was about trade. Economists, particularly trade economists, are firm believers in the benefits of international trade and its ability to make *everyone* better off. Of course, that doesn't mean that everyone *actually* gets better off; some lose and some gain, but the gains are bigger than the losses. In a favorite rhetorical device, if gains are bigger than losses, then more trade is said to be in the *national interest*, so that those who opposed it were guilty of putting their own interests ahead of those of their fellow citizens. Economists argued that it was the job of politics to compensate the losers, not economics, and if politicians failed to do so, that was their fault. They liked to note that even those who lost their jobs could enjoy the cheap consumer goods from China in Walmart and Target, the high-quality cars from abroad, and even the higher quality domestic cars that were eventually built in response to better foreign cars.

The second economic argument was that innovation, automation, and robots were more important in displacing workers than trade. Manufacturing output in American was not falling, only the number of jobs. This meant that productivity was rising, that each worker was making more. Economists are even more attached to technical change than they are to trade. And indeed, who could be opposed to rising productivity and to the innovation that was responsible for it? Throughout history, innovation had been the force that was responsible for progress.

Innovation creates winners and losers, and at least one scholar argued that new inventions should be brought under social control so that new techniques that create great disruption for little benefit could be prevented.[14] But such voices are in a minority, and we might worry about how a national approval committee might work, and whether it can be trusted not to block innovations that hurt established interests. Even so, it is true that innovations affect the distribution of income, often in favor of the rich, with examples from the Industrial Revolution to Artificial Intelligence, so that, as with trade, we cannot simply dismiss the fact, assert the national interest, and label dissenters as Luddites or enemies of progress.[15]

The ethical defense of trade claims that, even if global poverty reduction did in fact hurt some poor or middle-income people in rich countries, that is, on balance, a good thing. The poor in India and China are much less well-off than the poor in the rich world, and so deserve priority in material wellbeing. This view, called "cosmopolitan prioritarianism", holds that the poorer someone is, irrespective of where they live in the world, the higher weight they get when we think about whether changes in global income distribution are good or bad. The "good thing" conclusion is also supported by cosmopolitan egalitarians, who, like prioritarians, simply want to see a more equal world.

Another way of coming to the same conclusion is to note that, on average, the world as a whole was better off. And while we know that we must look beyond averages and check who is getting what, in this case the global distribution of income has also improved. The average has increased, and inequality decreased. By all the usual criteria, the changes are good.

I doubt whether many of the American workers who lost their jobs endorsed the ethical arguments, but they are widely and strongly held in international organizations, such as the World Bank, who—at least in recent decades—have seen their main preoccupation as the reduction of global poverty. There is no subsidiary consideration that recognizes possible harms in rich countries.

The international development community, left-of-center governments, the anti-poverty foundations and their donors agree. A good example comes from Britain where deeply harmful austerity policies were enacted in 2010 in response to the financial crisis. But the government was careful to protect the share of GDP that was committed to foreign aid. Cutting health services to British citizens was better than harming recipients of the aid budget.[16]

As its name suggests, cosmopolitan prioritarianism comes from combining two ethical precepts, each of which can be held independently, "cosmopolitanism" that everyone in the world should be treated the same, irrespective of national boundaries, which are thought to be morally irrelevant, and "prioritarianism" that priority should go to those who are worse off. Each of these is a reasonable ethical position, though they certainly do not command universal assent.

National boundaries may be morally irrelevant, but they are far from politically irrelevant. The beneficiaries of cosmopolitan prioritarianism in China, India, Bangladesh or Vietnam do not have to serve in the armed forces of the rich countries, nor do they pay taxes, even when they get rich, and they do not get to vote in American or European elections. Politicians who redistribute to those countries from their own constituents are likely to face problems, at least when it becomes clear that they are doing so. Exceptions are countries where the population supports foreign aid, for example in Sweden, and in Britain (though with more dissent). Otherwise national political systems do not obviously support cosmopolitan prioritarianism.

I now want to turn to international migration, the movement of people from one country to another. It is not just money and goods that move; people move too.

Migration happens because of displacement, when war, famine or climate change forces people to flee from their homes, but also because people move to seek a better life for themselves or their children. The last thirty years have seen rapid increases in international migrants to all regions of the world. According to the UN's International Organization for Migration, more than forty percent of international migrants in 2020 came from Asia. India is the country that sends the most, followed by Mexico. The United States hosted 21 million migrants in 2020; the next largest host was Germany with 15.8 million.[17]

As we are often reminded, the United States is a nation of immigrants. I am one. I came to the United States with my family from Britain in 1983. I was not displaced. I moved because I thought that Princeton could offer me a better life.

My Princeton colleague Leah Boustan and Stanford economist Ran Abramitsky have studied immigration into the US back to 1850 in their recent book *Streets of Gold*.[18] In America today, a bit less than fifteen percent of the American population was born abroad, higher than at any time in the last century, and almost as high as was the case in 1850 and 1910 before Congress put the brakes on immigration in 1921. The restriction was prompted by the increasing numbers of immigrants from Southern and Eastern Europe, who were mainly Catholics and Jews, groups who were seen as undesirable relative to previously dominant exporting countries in Northern and Western Europe.

The Hart-Celler Act of 1965 stopped the long decline. It permitted more immigrants from different non-traditional countries, especially non-European countries. More immigrants came to America after Hart-Celler than in the previous history of the country. The earlier pattern of largely European migration changed to domination by immigrants from Latin America and Asia.

As in other rich countries, immigration to the US has been and remains politically contentious. What is not in doubt is the enormous benefits to the migrants themselves, many of whom can earn multiples of what they could earn in their country of birth, and many of whom have children who do even better. Talented and well-qualified immigrants often take menial jobs but send their kids to top schools and universities. Migrants also send remittances back to their countries of origin, improving wellbeing among those left at home. Indian migrants to the US are often credited with helping kick start Indian economic growth; throughout the world, most migrants send money back to their home countries. In this sense, immigration is like globalization, of immense benefit to those who started out in poor countries.

The case for immigration is parallel to the case for trade, that the world gets richer on average, and that the benefits flow primarily to the poor. Indeed, migration is much more effective at enriching the poor than is trade; the former is direct, the latter indirect. And if some in the receiving countries are hurt—which is challenged—they are better off than those who gain and thus deserve less priority.

As with globalization, there are domestic skeptics. As with globalization, the well-educated elite, and international organizations support immigration, as does business, and the proponents of immigration often argue that those who oppose it are xenophobic or worse. Economists have studied the effects of immigration on the wages of natives, and most studies have concluded that the effect, if it exists, is small and short-lived. In the longer run, the economy can expand to supply more jobs to match the available labor. Beyond that, immigrants add to public finances, not subtract from them, paying in more than the cost of the services they use. They also slow or postpone the aging of the resident population in rich countries, providing taxes to support retirees.[19] Not all these arguments, especially the one about wages, are accepted by resident workers themselves.

Immigration also has non-economic consequences. People may be unhappy with the way that their communities have changed as people with different cultures come to stay. Sometimes, they are more fearful in prospect than in retrospect; once you get to know them, it is harder to demonize your neighbors. Original residents may feel that their own "tribe" is being outnumbered in controlling local or national politics. They may feel that their values are being overridden.[20] People may feel they are strangers in the place in which they grew up; it is hard not to sympathize with a longtime resident who finds that no one in their local store speaks a language they understand.[21]

Nevertheless, one of my key arguments here is that globalization and immigration, although they brought much good, brought actual or perceived harm to many people, and that those people were dismissed or condescended to. They were certainly not consulted about the changes, nor did they consent to them.

PART FOUR: RESPONSE FROM THE NORTH—TAKE TWO

As time has passed, and the facts have piled up, there has been a change in thinking, even among some of the staunchest defenders of globalization. Even economists cannot resist facts indefinitely.

A key event was the financial crisis, which spread from the US through the world. The American bankers and financiers whose behavior had triggered the crisis went unpunished while others lost their jobs and their homes. Austerity policies were put in place around the world. For example, in Britain, health and social services were fiercely cut while in Spain, unemployment reached 24.4 percent.

The globalization of finance is the third leg of global markets. For much of the 20th century, it was understood that, in the absence of a global government, unrestricted global capital markets were dangerous, and could bring massive damage. Yet by the end of the 20th century, the market enthusiasts had won the battle for deregulation, persuading governments and international organizations that global capital movements would help countries grow and would promote prosperity.[22]

Beliefs about the benefits of trade were changing too. In the US, the North Atlantic Free Trade Association (NAFTA) and the accession of China to the World Trade Organization destroyed many American jobs. Those who had pushed for these agreements hoped and expected that the dislocation would be temporary and that people who lost their jobs would be able to move to better jobs, either in their home cities, or in more successful flourishing cities. This is what had happened in the past when jobs were lost to trade or to technical change, or at least that was the argument.

But mobility has fallen in the US. One reason is that low-skill jobs in flourishing cities have become less available than once was the case, and those cities have become more expensive.[23] There has been an increase in dual-earner households, which makes moving more difficult and more expensive. The jobs that are were lost were less-skilled jobs, but the better jobs that were available were high-skilled jobs. People without a four-year college degree, without a BA, were increasingly in trouble.

I will come to the many reasons for the increasing division between people with and without a BA, but I want first to discuss some evidence of just how badly hurt they have been. Capitalism in America today is not working for the two-thirds of adults who do not have a BA.

Here are few of the most important facts drawn from my work with Anne Case.[24] Participation in the labor force for those without a BA has fallen as have their real wages. Both participation and wages rise in good years and fall in bad years, but the rises have never take them back to the previous high. Even when working class wages were doing well in the months before the pandemic, they were below what they had been in any year in the 1980s. One argument is that these Americans have become lazier, and no longer want to work.[25] But if that were true, wages of low-skilled workers would be rising, not falling. It's the jobs that are vanishing, and with them the wages that allowed their parents to have a good middle-class life.

It is not just material wellbeing. Marriage rates have fallen dramatically, in part a response to poor job prospects, and non-marital childbearing has risen. Many children live apart from their fathers. Communities are failing too, with churchgoing declining, and millions of working-class men detached from any form of institutional support. Worst of all is what has happened to their health. More than 100,000 Americans are dying of drug overdoses each year. These are counted as accidental deaths, but the drugs they used did not get into them by accident, so there is always an element of self-harm. Suicides themselves have also been rising rapidly, as have deaths from alcohol abuse. These deaths are what Anne Case and I call "deaths of despair," and almost all the increase in deaths of despair since the late 1990s has been among people without a college degree.[26]

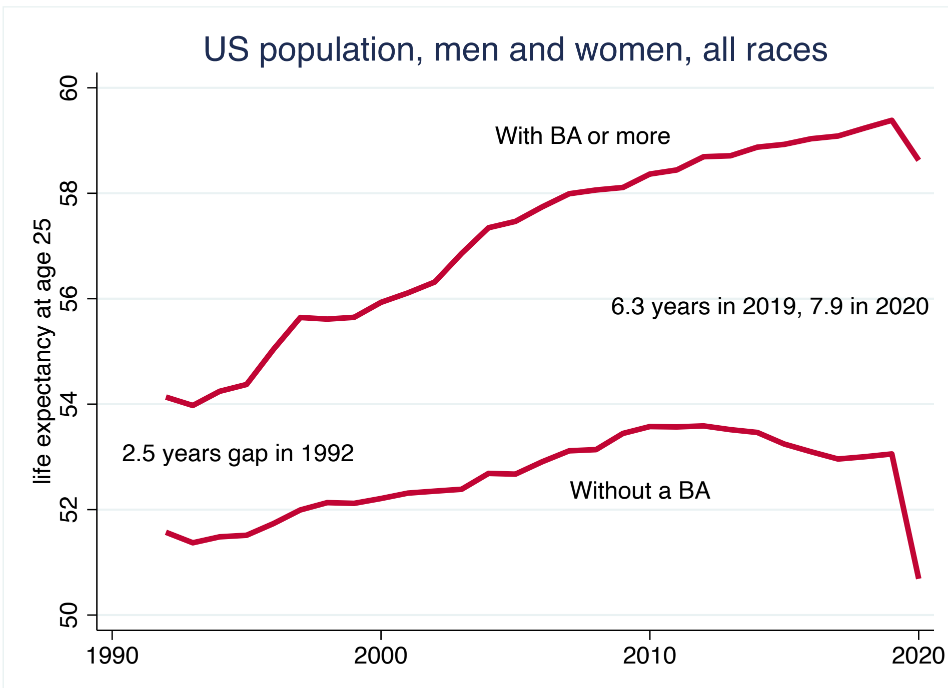

Figure 5: Adult life expectancy for those with and without a BA

Figure 5 shows some particularly dramatic evidence. It shows life expectancy at age 25 for Americans with and without a college degree. Life expectancy at 25 is the number of years after 25 that a 25-year-old can expect to live. The figure shows that, in 1992, on the left of the picture, 25-year-olds with a college degree could expect to 54 years, to age 79, while 25-year-olds without a college degree could expect to live 2 and a half years less. By 2019, the gap had grown to 6.3 years, and in 2020, in the first year of the pandemic, to 7.9 years.

That there should be a gap is not in itself surprising. The astonishing thing here is that, after about 2010, adult life expectancy was rising for those with a BA but *falling* for the less-educated group. Educational gaps in life expectancy are widening in several countries, but in nowhere else are they moving in opposite directions. The only documented episodes I know of were in the former satellites of the Soviet Union in the 1990s, a truly chilling comparison.[27]

What does capitalism have to do with this catastrophe? Or globalization? Not everything, but a good deal.

Globalization and technical change have redistributed national income from labor to capital, and as the capital share has increased, capitalists have become more powerful, and workers less powerful. The share of labor in GDP, which for many years was reliably constant at a little under two-thirds, has recently fallen to under sixty percent. Included in the numbers for labor income are also the huge salaries of top corporate executives that, arguably, should be counted as capital income. Similar declines in the labor share have been observed in several other rich countries, suggesting common causes.[28]

Why might globalization do this? Firms find it easier to resist wage demands of workers when they can replace what they produce with imports from abroad or can outsource their tasks to foreign workers.[29] The same is true when workers can be replaced by robots, and there is evidence that automation is often a response to foreign competition.[30]

Globalization weakens unions because their ability to raise wages is compromised; they have also suffered widespread legislative attacks backed by the increasing political power of business. Only six percent of private-sector workers are currently unionized in the US. Unions not only help keep up wages, but they monitor working conditions, such as safety, and they provide political representation for workers at both local and national levels.

The rising profitability of firms in the US has financed an explosion of corporate lobbying since 1970.[31] Given American financing of politics, it is difficult for people to stand for Congress without deep-pocketed backers, so that politicians of both stripes are increasingly supportive of business interests. Politicians are not pro-business because they have been *corrupted* by money, but because they have been *selected* by money; they were pro-business before standing for election.[32] More than two thirds of Americans believe that democracy is rigged, and that they have little or no say in governance compared with business and the wealthy.[33]

A good example is the decline in antitrust enforcement, which allows higher prices and lower wages than would result in competitive markets. Weaker antitrust is not something that people say they want, and politicians do not run on anti-antitrust platforms. Nor do the judges, officials and regulators who enforce the rules declare in their confirmation hearings that they wish to weaken the rules. But they are often selected because of their presumed favorable attitudes towards business, and they have then gone on to weaken the rules.[34] Democracy does not deliver the result that people want, and business pressure undermines the public will.

The dominance of business and the rich in politics has brought an orgy of rent-seeking, where firms and the rich get special protections that allow them to plunder the public. Doctors and car-dealers, protected from competition by local and federal law, are well-represented among the top one percent of incomes.[35] Pharma companies are allowed to addict patients for profit, while their representatives in Congress block investigations and change the law in their favor. One pharma company grew opium poppies in Tasmania to provide raw ingredients for the epidemic of drug overdoses.[36] Another engaged McKinsey to advise them on the loss of revenue from their “patients” dying, who suggested that the company pay pharmacies a bonus when people died from overdose. That scheme, at least, was not implemented.[37]

The American healthcare industry is a particularly egregious case. Hospitals have been allowed to merge and raise prices. Officially designated "non-profit" hospitals pay their chief executives huge sums, while keeping wages low, sometimes even conspiring with other hospitals to undercut pay. As non-profits, they avoid many taxes. Private equity has discovered that healthcare is a profitable business. Patients often have little choice and can be easily exploited; think of ambulance services and emergency rooms where customers are unable to make alternative arrangements.

Much of the exorbitant cost of healthcare is paid by employers, who cut wages and benefits or shed jobs in response. And because the charges are the same for high and low paid workers, firms are encouraged to shed less skilled jobs, leading to the loss of good jobs for less educated workers.[38]

Globalization also works against democracy because deep integration of trade requires the international harmonization of rules. This must be done by international, not national, organizations, so that the democratic accountability of the latter is lost. Globalization, especially the globalization of capital, has helped the rich avoid paying taxes. Money flows to international tax havens and international firms play off governments against one another to keep taxes low, converting countries into tax havens. With freely mobile international capital, countries lose control of their tax systems.

Firms and bankers, not voters, get to write the rules. Global finance has no interest in recognizing or supporting the system of reciprocal benefits and responsibilities that we owe each other as citizens of a nation state and without which nation states cannot exist.[39]

PART FIVE: ASSESSMENT

The world of 2010 may well have been better than the world of 1970. But that requires weighing gains against losses. Global inequality has fallen at the expense of widening national inequalities within countries. The latter have political consequences that need to be better recognized.

What went wrong? Economists, development agencies and educated elites mostly ignored the damages, denied that they existed, or dismissed them on ethical grounds. The fact that they themselves were doing well neither dissuaded nor restrained them. They did not acknowledge the corrosive effects of globalization on rights and obligations within the nation state; they, after all, were cosmopolitans. It is hard not to be reminded of Michael Young's label for the cosmopolitan meritocracy, the "hypocrisy," though, to be fair, many genuinely believed that things were going well. But they did not listen to the voices of their fellow citizens who were suffering.

We should not blame capitalism in and of itself because I can imagine a capitalism in which these things do not happen. The failure is more a failure of democracy than a failure of capitalism, though the loss of democracy owes much to the excesses of capitalism, especially but not exclusively in the United States. We need both capitalism and democracy, but in better balance.

Of course, there are forces other than globalization at work. Globalization accelerated technical change but is not its only cause. Cohort-related changes in values and social mores have brought a "cultural backlash" that has split people by age and has left many older people lost in a world that they neither like nor understand.[40] Unregulated markets, globalization and immigration were not the sole causes of that backlash. But they reinforced and amplified it. As Polanyi wrote a long time ago, unregulated markets can make us rich, but can destroy the social structures and relationships on which people depend. A Faustian bargain, indeed.

Meanwhile, the people that we did not listen to are angry and frustrated. I do not believe that they wish to dismantle capitalism, even though it is not treating them well. But they would surely prefer a democratic capitalism in which their views counted for something. They believe, possibly incorrectly, that they are being harmed by globalization-related job loss through by levels of legal and illegal immigration that are holding down their wages. My guess is that they are more correct than economists and policymakers have usually asserted and, even if they are wrong, it is not a requirement of democracy that voters' beliefs are "evidence based," to use a currently favorite term among the technocratic elite. Economists are doing democracy a disservice when they argue that more globalization and more trade deals are in the national interest. They should know that the compensation that would be needed to make it so will not be forthcoming, and they should know that the (imaginary) monetary compensation that they have in mind would not actually make people whole. One of the most robust findings of the happiness literature is that job loss hurts people by multiples of the earnings that they lose.

Many working-class people have lost trust, not only in us, but in science and in expertise. Pandemics become harder to control, as does climate change. Voters have turned to the populists who promise to do better, and who might well do so for them, though at a terrible cost, the undermining of democracy, and perhaps even the loss of the planet.

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