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Angus Deaton Discusses Income Inequality

The 2015 Nobel winner in economics says inequality is both terrific and terrifying

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ANGUS DEATON | 'Some of the enormous riches we're seeing at the top in the U.S. today are coming from activities whose social value is in doubt.'

One topic that has captivated economics, politics and business in recent years is income inequality. Some argue it's an incentive, others that, in the extreme, it's a danger to democracy. To get a handle on the topic, The Wall Street Journal's John Bussey spoke with Angus Deaton, winner of the 2015 economics Nobel Prize, who has spent his career on issues of measurement, poverty, welfare and income inequality. Here are edited excerpts of the discussion.

Defining inequality

MR. BUSSEY: Inequality is hard to measure, and to define. What exactly is it?

MR. DEATON: It means different things to different people. There's a much broader concept, which involves things like health inequality, inequalities in access, inequalities in all sorts of other things. I think today maybe we're talking more about income inequality, which is what I've looked at most. **The way I would technically think of it is there's a huge distribution of incomes throughout the society.**

MR. BUSSEY: It's not just rich and poor. It could be rich and not so rich.

MR. DEATON: Or it could be people at the bottom versus people in the middle. One of the things that has happened is that at the very bottom there may actually be some squeezing up of those gaps partly **because people in the middle may be being replaced by offshoring and so on.** Whereas people at the bottom who are mainly in service jobs really can't be, so they're doing relatively well.

On the other hand you've got people at the very top who are sort of sailing away, and that's got a huge amount of attention. But when you look at it there's different inequalities, and different parts of the distribution of income. I both love inequality and am terrified of it. Inequality is partly a marker of success, so that if someone thinks of something, some new innovation that benefits us all, and the market works properly, they get richly rewarded for that. And that's just terrific. And that creates inequality. **So some of the greatest inequalities in the world have come from the greatest successes.**

The terror part is—well, there are several different things. **One that I worry about is that some of the enormous riches we're seeing at the top in the United States today are coming from activities whose social value is in doubt. So some of the activities that are going on in Wall Street that are occupying some of the smartest of our young minds, it's not entirely clear that their society really wants them to be doing that as opposed to innovating in the private sector, or curing cancer.**

The other thing that I worry about is the political power that comes with extreme wealth. [Justice Louis] Brandeis said a long time ago that you can't have an extreme distribution of income and democracy at the same time.

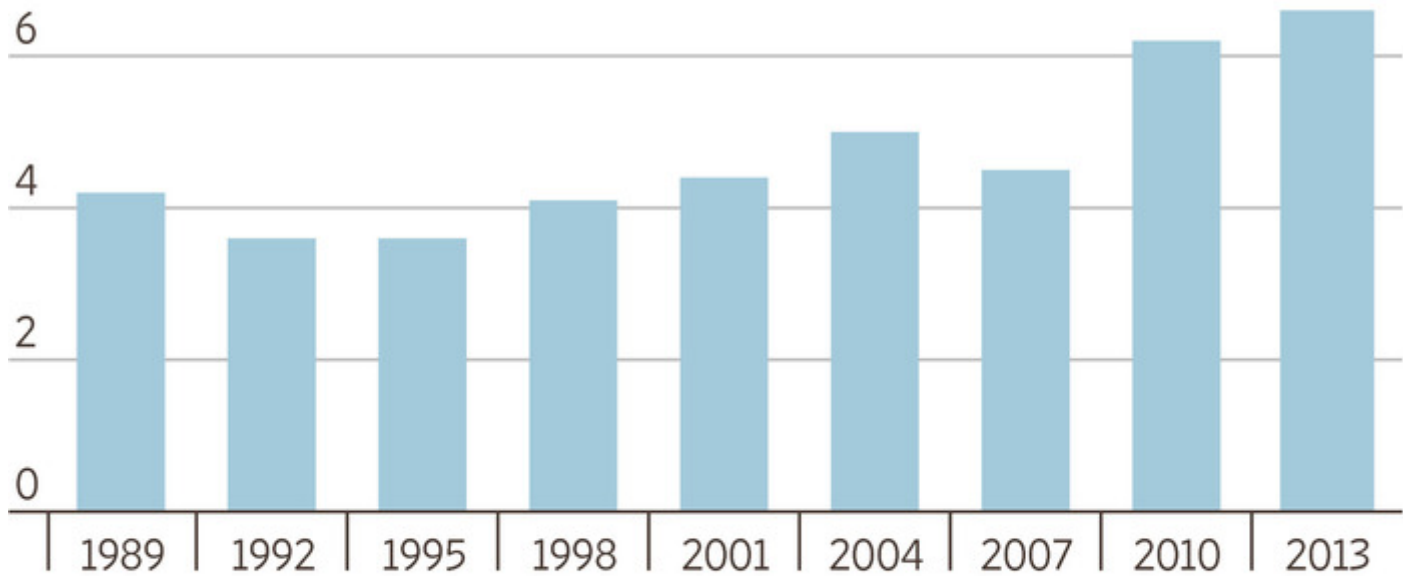
I don't think we've become a plutocracy. But I really worry about the enormous influence that money has in a democracy such as ours.

A Growing Gap

The wealth gap between upper-income and middle-income households in the U.S. has widened significantly since the last recession, according to a Pew Research Center analysis

How many times greater the median net worth of upper-income families is than that of middle-income families*

8 times greater



*Minimum 2013 household income to qualify as upper-income ranged from \$66,000 for a single person to \$147,600 for a family of five; for middle-income the range was \$22,000 to \$49,200

Source: Pew Research Center tabulations of the Federal Reserve's Survey of Consumer Finances public-use data

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MR. BUSSEY: One of the reasons that you won the Nobel was your work on measurement in economics. Tell us a little bit about that, and where that work was applied.

MR. DEATON: A lot of our sources for income-inequality measures come from household surveys in which people report how much they earned in the last year, how much income they have, and so on. Those are not as well funded as they should be. We need to have those numbers.

So I've done a lot of work on trying to improve surveys, to look at survey inconsistencies. We have separate systems of national accounts, which is where our GDP numbers come from.

Those are often inconsistent with what we see in our household surveys. And there's a large industry in trying to find out why

The Mortality Question

MR. BUSSEY: You just published a study with Anne Case, your wife, that gets at the income and equality question: Middle-class whites are experiencing a higher mortality rate from issues such as alcoholism, suicide and drug overdose. Can you tell us about the findings and why you think that this is happening?

MR. DEATON: I've written about **how mortality is a wonderful indicator of societal progress**. We've seen mortality rates falling for the best part of 100 years, maybe even longer. When we looked at the total mortality rates for this middle-aged group from 45 to 55 and we saw they were rising—I mean, this is something that's been falling forever.

And then about 1998 it just turns and starts going the other way. So, there's this increase in mortality. And it's almost entirely for white non-Hispanics. Black mortality rates are falling even faster than they'd ever been, Hispanic rates are falling on track.

The rates in middle age for all European countries are falling exactly as they have been, as they were in the U.S. up until 1998. But for this group, this middle-aged, white non-Hispanics, this mortality rate is going up. If you look at the causes of death that are most rapidly rising, its suicides, the biggest one is poisonings. When we first looked to poisonings we thought, "What could poisonings be? Are people mistaking Drano for milk or something?" And of course that's what they'd call accidental overdoses. A lot of it is from prescription painkillers and a lot of it is from illegal drugs, and then a lot of it's from alcohol.

If the mortality rates had gone on falling at the rate they did up until 1998 there'd be about half a million middle-aged people alive today who are dead because of it.

MR. BUSSEY: Is this a group of people who are confronted by expectations that have not been met?

MR. DEATON: This is much worse among those who have a high-school education or less. These are the people who just have not benefited from the positive changes that have happened in the economy as a whole. There used to be good jobs, there used to be factories. The factories are now in China. The factories are in Thailand. Those people are certainly being left behind.

That doesn't explain everything, because there are people being left behind in Europe, too. The two explanations that have been floated are that Europe has a more elaborate safety net than we have. **And most European countries do not allow over prescription of heavy-duty, dangerous painkillers the way we do here.**