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Nobel Thoughts

Deaton: Those Who Made Profits Need to Be Made to Pay

The economist, Nobel laureate in 2015, authored a book with his wife Anne Case in which he photographed the decline of low-educated white Americans, second-class citizens, increasingly deprived of union and political representation. They are also the ones who are paying the highest price of the pandemic. “There are still talks of austerity. It would be a disaster. As in war, now those who made new, large profits need to be made to pay, not those who already suffered the most during it.”

“Capitalist economy has been moving towards an increase in income inequality for decades, and the Covid-19 pandemic is worsening the situation,” says the Nobel Prize for Economics (2015) Angus Deaton in his public online keynote lecture organized in June by the ISEO Institute together with the University of Brescia, Department of Economics and Management. “When people talk about inequality, they often think about income or consumption inequality,” he opens. “All of these are important, but I want to start with a different sort of inequality, that’s perhaps less familiar to economists: the relational one. Where not everyone in society is treated as deserving equal consideration and respect, when some groups get assigned greater worth than others, or when some groups are not given full rights as participation in a democratic society, it means that there are first-class citizens and second-class citizens. We are all too familiar with racial and ethnic inequalities, but my main concern in this talk is with educational inequalities in the United States, with the increasingly different lives that are led by those who do and do not have a college degree.”

Today, says the Nobel Prize, a college-level education is “the passport not only to a good job, but also to good health, to a long life and to a flourishing social life. Without it, the rest are second-class citizens. The Harvard philosopher Michael Sandel in his recent book *The Tyranny of Merit: What’s Become of the Common Good* (Farrar, Straus and Giroux, 2020) has noted: “The idea that a college degree is a condition of dignified work and social esteem has a corrosive effect on democratic life; it devalues the contributions of those without a diploma, it fuels prejudice against less-educated members of society; effectively excludes most working people and promotes political backlash.”

In the book written lwith his wife, Anne Case, *Deaths of Despair and the Future of Capitalism* (Princeton University Press, 2020), Deaton tells the story of how “the lives of well-educated Americans have on average risen above those without a college degree. Most of the most prominent differences are seen in inequality in life expectancy. After a century of increasing life expectancy in the United States, from the 1930s up to the eve of the pandemic, life expectancy recently fell. That had never happened before, or at least the last time it happened was during the Influenza Pandemic of 1918-1919.

What has changed? Deaton and Case ask. According to the data, the United States have seen increases in accidental drug overdoses due to the opioid epidemic, suicides and from alcoholic liver disease: “Anne and I refer to these as ‘deaths of despair,’ a term that has now become something of a commonplace”.

Remarkably, this spike in deaths of despair has “almost entirely spared those with a college degree.” Even the most recent research data show that “life expectancy of people with a bachelor’s degree (BA) is steadily rising, whereas that of those without a BA has been falling since 2010.” In Italy there is not much talk about it, but in the United States those 100,000 silent deaths per year (and counting) make noise.

“As we show in our book – says Deaton –, death is the terminus of a long load of despair. The study points us a labor market that is increasingly failing those who do not have a degree. The fractions of non-elderly adults who are employed has been declining for less-educated men for half a century, and for less educated women since 2000. In boom times participation in work increases and fall back in recessions, but the rise in the next boom never takes you up to the previous peak. Therefore, we are facing a very long decline, and of course the decline is much more during the pandemic.”

The falling labor market then spills over into the rest of life: “In the private sector in America, unions are now almost non-existent. Marriage has also declined among the less educated. A middle-aged man, although often a father to several children, do not know their kids who are living with their mothers. The so-called fragile families are scarcely able to bring the support and contentment that can come from a lifelong family commitment.”

In an “apparent reverse of the law of nature, middle-aged Americans now report feeling more pain than do elderly Americans.” Once again, this is true only for those without a BA. Suicide rates in the United States rose to levels that used to characterize only societies such as the former Soviet Union and its satellites, or women in China. Even in those countries, as throughout the world, suicide rates have been falling. The United States, on the other hand, are a notable and disgraceful exception.”

Despair is made worse by the upward redistribution of profits, “what Anne and I – says the Nobel Prize – in our book call “Sheriff of Nottingham redistribution”: Robin Hood took from the rich to give to the poor, the Sheriff of Nottingham took from the poor to give to the rich, and that is what is happening in America today.”

What is beginning to be in crisis, says Deaton, is the nature and functioning of capitalism itself: “At the same time that unions are faded, firms are consolidated with more monopoly [a single seller on the market, ed.] and more monopsony [a single buyer, ed.]” The social balance is increasingly moved “from labor to capital, and this is supported by a steady drift of the legal systems to pro-capital. The wage share in national income has drifted down since 1970, and the profit share has drifted up. Productivity gains, that used to show up in wages growth, no longer do so. Corporate lobbying, which fifty years ago was quite rare in Washington, normally influences law makers. Adam Smith describes this already in *The Wealth of Nations*: “The clamor of our merchants and manufacturers has extorted from the legislature, for the support of their own absurd and oppressive monopolies. Like the laws of the ancient Athenian lawmaker Draco, these laws may be said to be all written in blood.”

This, says Deaton *apertis verbis*, “is not capitalism, a system in which competitor markets yield benefits for all; it’s more like a racket for redistributing upwards than an engine of general prosperity.”

American politics in the last half century “has also moved against the white working class”.

Here is how the ranks of Trumpism swell: "The Democratic Party was once home of working-class white Americans and their unions, but after 1970 it gradually transformed itself into an alliance of minorities and the well-educated, leaving less-educated whites to drift to the Republican Party. The Republican policies follow the interest of capital who found them, not that of labor, and the less-educated whites are therefore left without effective political voice."

The myth of the American system that produces progress and wealth for all falters: "The very rich people in America, such as Jeff Bezos, Bill Gates, Elon Musk, Warren Buffett, Larry Ellison, Mark Zuckerberg, Larry Page, Sergej Brin, Michael Bloomberg, were all men or women who started or developed companies that made new and useful things. Indeed, a growth is driven by innovation. Those fortunes were earned in the public interest, they contributed to the public good, an argument you hear a great deal," the private wealth of a few somehow supports the well-being of all. But this is no longer the case. "There is an increasing skepticism" about the social benefits of personal fortunes. There for all to see, they are the "destructive market parts" which undermine the unity of the community.

And Covid-19 has once again rewarded the rich and put even more pressure on the poor: "Many highly-educated people this year could continue to work online, and to continue to draw their salaries in some comfort, with little or no inconvenience or personal risk. Some of the less-educated, on the other hand, risk contracting the virus at work, while others in transportation, retail, entertainment had no work to go to. "Unemployment rose most rapidly for women, many of whom with childcare responsibilities that made it impossible for them to go to work." There is a growing "well-justified concern about children's education, especially for those without or ill-equipped internet access or those with low levels of parental support and supervision. These inequalities are particularly distressing, given the long-term effects of interruption to schooling."

Wealth inequalities exploded during and because of the pandemic: "In the US, billionaires are estimated to have added trillions of dollars to their net worth. It is obvious that the pandemic would have been worse without Amazon, so it is not as if Bezos did nothing to earn this extra hundred billion dollars. All the tech titans were helpful as well during the pandemic, and all have been hugely rewarded for doing so."

Add to this the latest decisions in matter of financial policy: "The low interest rate policies that monetary authorities have pursued have inflated the excess value everywhere. Given that wealth is so unequally distributed, low interest rates exacerbate wealth inequality, because they make wealth rise, price of excess goes up and those excess are far from equally held, and that is arguably a price that is worth paying to allow the economies to survive from the pandemic." But easy money, the rising fortunes of capitals "are putting the American stock market on steroids, in which are not only the tech parents but also the educated élite" who buy their shares on the stock exchange. Elderly American educated élites "see their portfolios increased enormously, while they are safely at home on Zoom and Webex. Meanwhile 600,000 Americans have died of COVID-19, and perhaps many more, if we correct these data for excess deaths" compared to previous years.

Often the pandemic has been compared to a war, Deaton concludes. "Even in the Second World War the ordinary working people went off to war and risked their lives, while the capitalists had to stay in business because they had to make the guns and the ammunitions and so on. For war they got fabulously rich and what you did was you taxed them with very high taxes temporarily, during or immediately after the war. While ordinary people paid in blood, the producers paid in treasure. And this is actually a very good case," Deaton says, "for thinking along those lines for funding the pandemic."

There are talks on how to write off the staggering state debts: “There are always those who would push for austerity as they successfully did in many countries after the financial crisis of 2007-2008. If that happens, which would be a disaster, the pandemic cast would be worn by those who already suffered the most during it.”

The International Monetary Fund has suggested asking for “Covid-19 recovery contributions” from those who made high profits during the pandemic, as the pharmaceutical and e-commerce giants. “All such proposals,” admits the Nobel Prize with realism, “will face what we call resistance through powerful players. But if you look at the fortunes that have been accumulated and the many deaths that have disproportionately worn by those who did not benefit financially, failure to do so would be a definitive sign that we are not indeed all in this together.”

Corporations need to be made to pay the taxes they owe, “and an international treaty needs to be forged to eliminate the widespread shifting of taxes” and the movement of companies from one country to another in search of more convenient taxation. “Profit needs to be redistributed back to labor, the long-term harassment for the unions needs to stop, and antitrust needs to be reinvigorated.”



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Sir Angus Deaton is a Senior Scholar and the Dwight D. Eisenhower Professor of Economics and International Affairs Emeritus at the Princeton School of Public and International Affairs and the Economics Department at Princeton University. In 2015 he received the Nobel Prize for Economics “for his analysis of consumption, poverty, and welfare”. He was member of the World Bank Chief Economist’s Advisory Council and served as president of the American Economic Association.