

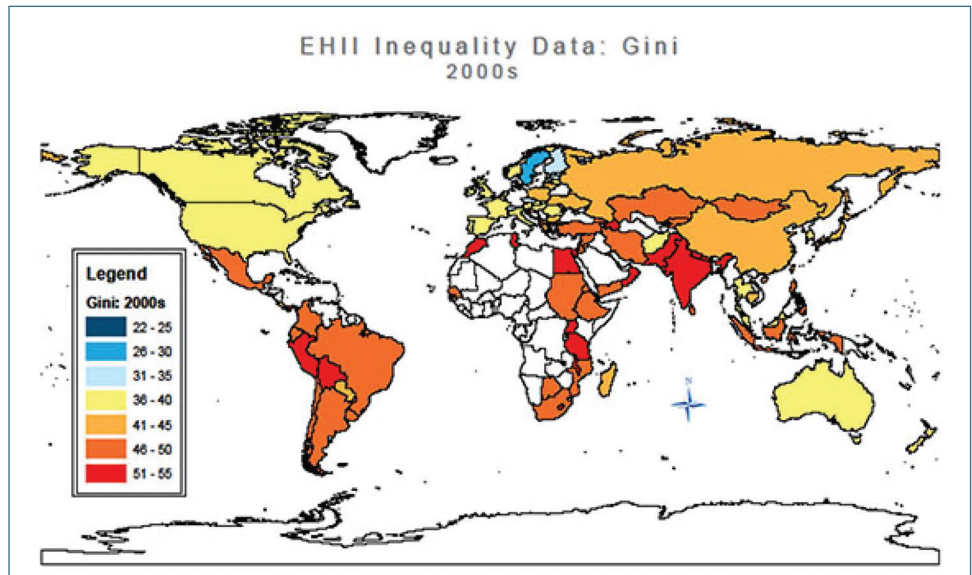
War and famine. Peace and milk. —Somali proverb

INTRODUCTION

James Galbraith:

“[W]e see trends evolving in different countries in different ways. Some countries are having an increase in inequality. Very similar countries are having a constant degree of inequality. Some are even having a decrease in inequality. The laws of economics are operating similarly in these countries with similar economic conditions. The marked differences in outcomes means that something else is going on; and I would argue it has to do with politics and policies.”

—Joseph Stiglitz, Page 9



I’m going to abuse slightly the privilege of the moderator to alert you to the existence of a newly updated data set that tracks the movement of estimated household income inequality around the world. This is called the Estimated Household Income Inequality Data Set, calculated by me and my collaborators at the University of Texas at Austin. It is now the largest such data set that is based on actual measurements without imputations and that presents a single, consistent estimate of the type of inequality under consideration.

Across the world, in the 1960s there was a clear difference in inequality between developed and developing countries. That difference evolved in the 1980s, and especially the 1990s with the end of the Soviet Empire. Finally, the rise of inequality in China led to the situation that we have today. There’s been a very dramatic change over a 50-year period in the levels of inequality around the world. I offer that to you as a starting point for the discussion this afternoon.

I also want to show you a second data set that is rooted in direct measures of

inequality of industrial pay drawn from an underlying industrial statistics data set of UNIDO. In these maps you can see that, in the 1960s, there were very substantial parts of the world that were experiencing declining inequality in their industrial pay, including the United States then at a point of full employment. During the oil shocks of the 70s there was declining inequality in the countries that were prospering from those shocks and rising inequality in some of the countries that were hit by them. These trends evolved into the debt crisis, with very sharply rising inequality in the developing world, especially in Latin America; and the transition from the collapse of the communist regimes in the East produced dramatically rising inequality, admittedly from very low levels in those countries. Although inequality starts the 2000s decade at very high levels, there are a substantial number of countries in which it declines, at least in industrial wage structures.

Both of those data sets and a lot of explanation of how they were arrived at are on the website of the University of Texas Inequality Project <http://utip.gov.utexas.edu/>.

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ABOUT THIS ISSUE

This issue is comprised of edited transcripts of a conference session held during the Allied Social Sciences Associations/American Economic Association meetings in Boston in January 2015. Please visit <http://epsusa.org/events/aea.htm> for complete transcripts of the event.

Presenters:

James K. Galbraith holds degrees from Harvard (BA magna cum laude, 1974) and Yale (PhD in economics, 1981). He teaches economics and a variety of other subjects at the LBJ School, where he directed the School's PhD Program in Public Policy from 1995 to 1997. He directs the University of Texas Inequality Project, an informal research group based at the LBJ School. Galbraith maintains several outside connections, including serving as a Senior Scholar of the Levy Economics Institute and as Chair of EPS.

Olivier Giovannoni is a macroeconomist specializing in economic growth and income distribution with a very strong interest for empirical and policy-relevant work. He is currently Assistant Professor at the Economics Department at Bard College and was previously at the University of Texas at Austin's Department of Economics and LBJ School of Public Affairs. He received his PhD at the University of Nice, France and is currently a member of the University of Texas Inequality Project (UTIP), and Research Scholar at the Levy Economics Institute.

Branko Milanovic is a Serbian-American economist. A development and inequality specialist, he is the visiting presidential professor at City University of New York Graduate Center, an affiliated senior scholar at the Luxembourg Income Study, and an external fellow in Center for Global Development in Washington. He was formerly lead economist in the World Bank's research department, visiting professor at University of Maryland and Johns Hopkins University. Between 2003 and 2005 he was senior associate at Carnegie Endowment for International Peace in Washington. Milanovic currently serves on the advisory board for Academics Stand Against Poverty (ASAP).

Stephen Rose is a nationally-recognized labor economist who has been doing innovative research and writing about social class in America. Rose has held senior positions at the Georgetown University Center on Education and the Workforce, Educational Testing Service, the US Department of Labor, Joint Economic Committee of Congress, the National Commission for Employment Policy, and the Washington State Senate. His commentaries have appeared in the New York Times, Washington Post, Wall Street Journal, and other print and broadcast media. He has a BA from Princeton University and an MA and PhD in economics from The City University of New York.

Joseph E. Stiglitz received his PhD from MIT in 1967, became a full professor at Yale in 1970, and in 1979 was awarded the John Bates Clark Award. He has taught at Princeton, Stanford, MIT and was the Drummond Professor and a fellow of All Souls College, Oxford. He is now University Professor at Columbia University in New York, where he is also the founder and Co-President of the university's Initiative for Policy Dialogue, and a member and former chair of its Committee on Global Thought. In 2001, he was awarded the Nobel Prize in economics for his analyses of markets with asymmetric information, and he was a lead author of the 1995 Report of the Intergovernmental Panel on Climate Change, which shared the 2007 Nobel Peace Prize. He is a President of the International Economic Association. Stiglitz was a member of the Council of Economic Advisers from 1993-95, and served as CEA chairman from 1995-97. He then became Chief Economist and Senior Vice-President of the World Bank from 1997-2000. He is the author of "The Three Trillion Dollar War" and a trustee of Economists for Peace and Security.

Olivier Giovannoni:



The aggregate labor share (the ratio of compensation of employees to GDP) has been relatively constant at about 80 percent of the net national product since the

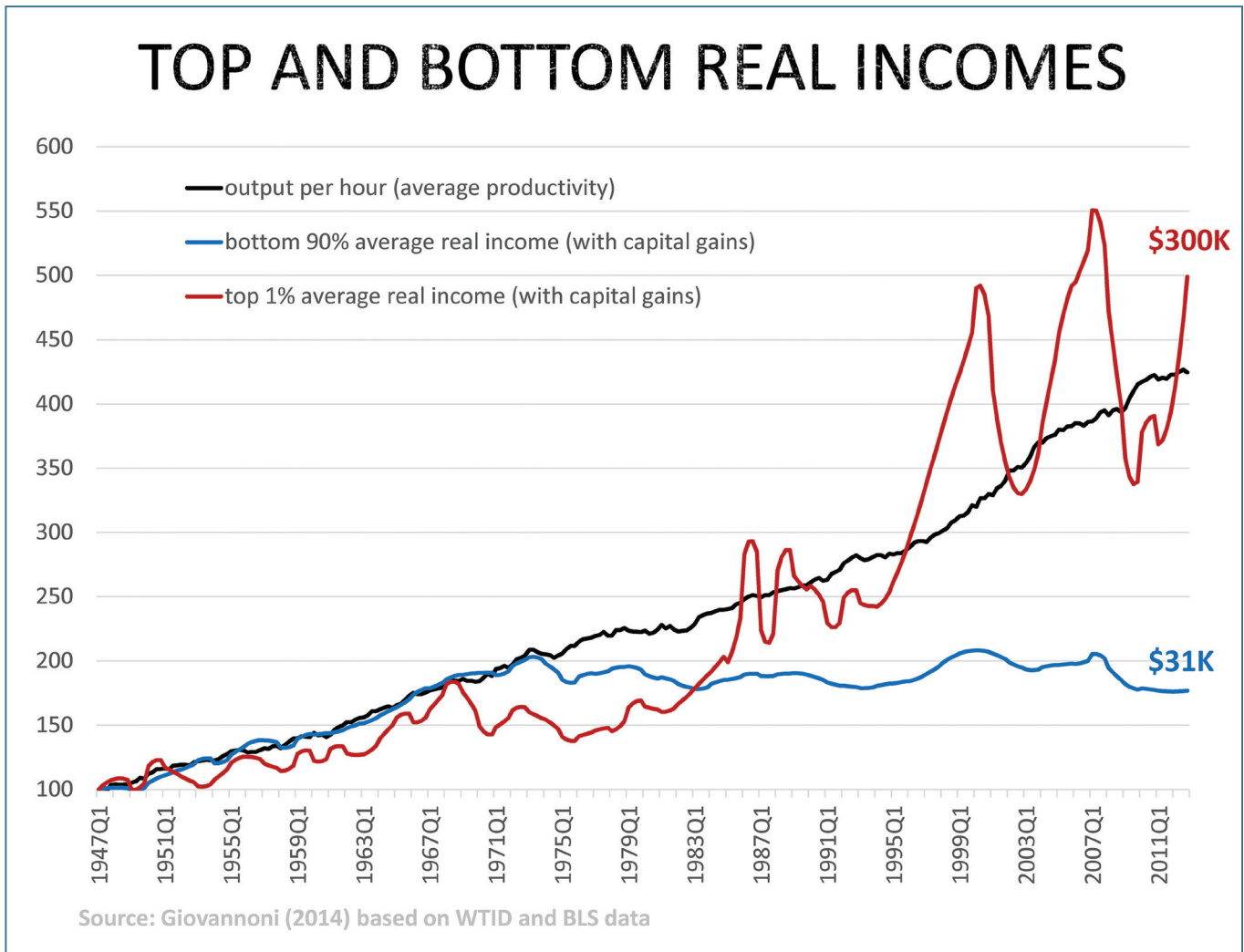
1920s. On the other hand, we know that there's a lot of labor income accumulating at the top. If we deduct the top one percent of compensation, the bottom 99 percent labor share has fallen 15 points since 1980. This amounts to a transfer of \$1.8 trillion from labor to capital in 2012 alone, and brings the US labor share to its 1920s level. And if you exclude labor compensation for the top 10 percent, labor share has dropped to around 40 percent, lower than its level in 1929.

These trends are worrisome enough, because labor is losing to either capital or property income; but the situation may be even worse, as a number of factors may be skewing the results: For instance, a lot of top incomes are under-reported, and up to 50 percent of profits are booked offshore.

From 1919 to 2012, inequality followed a U-shaped curve, an inverted Pareto-Lorenz coefficient charting high inequality, then a

large compression of income, and then a rise of inequality starting in the '70s and accelerating in the '80s and the '90s. If we superimpose the top tenth percentile average income divided by the average income of the bottom 90 percent, we see that there is a strong correlation. In other words, inequality is mostly a matter of the gap between the average income at the top, and the rest.

That prompted me to look deeper to see exactly what has happened to the incomes the top versus incomes of the bottom. I used average productivity of labor as a reference point. It's been more or less a straight line since 1947. The bottom incomes were indexed on productivity during the shared society and postwar periods all the way till the '70s and '80s. But then there's a crash, and a wedge starts to appear between the bottom 90 percent's real incomes and productivity.



If you look at top incomes, however, they continue to follow the trend of productivity. There isn't any surprise in here; this is normal, marginal productivity theory. The problem is not with top incomes. The problem is that the bottom incomes have not followed productivity since the '70s.

So, who gains during periods of expansion? Although there has been some fluctuation, between 1917 and 1980 more or less the bottom 90 percent of incomes generated about 50 percent of the growth in productivity. Recently, there's a dramatic shift: Bottom incomes make fewer and fewer economic gains during the expansions up to the point where, in the current expansion cycle, there are no wage gains for the bottom 90 percent, and almost all of the growth accumulates at the top of the income distribution.

If, instead of looking at market incomes, we look at real median incomes, there were broad gains from 1947 to '75. Since then there has been stagnation. We've seen stagnating incomes in the previously cited cases; . Even if you alter the definition of

income to include benefits, or if you use alternative measures of income, you still see this stagnation.

You can look also at the same type of evidence post-tax. In the current expansion there's been growth between 5 and 10 percent all through the income distribution *except* for the top incomes. Whereas everybody else has seen a gain in income of about 5 to 10 percent over the period of the last four years, the top incomes have gained 20, 30, or 40 percent.

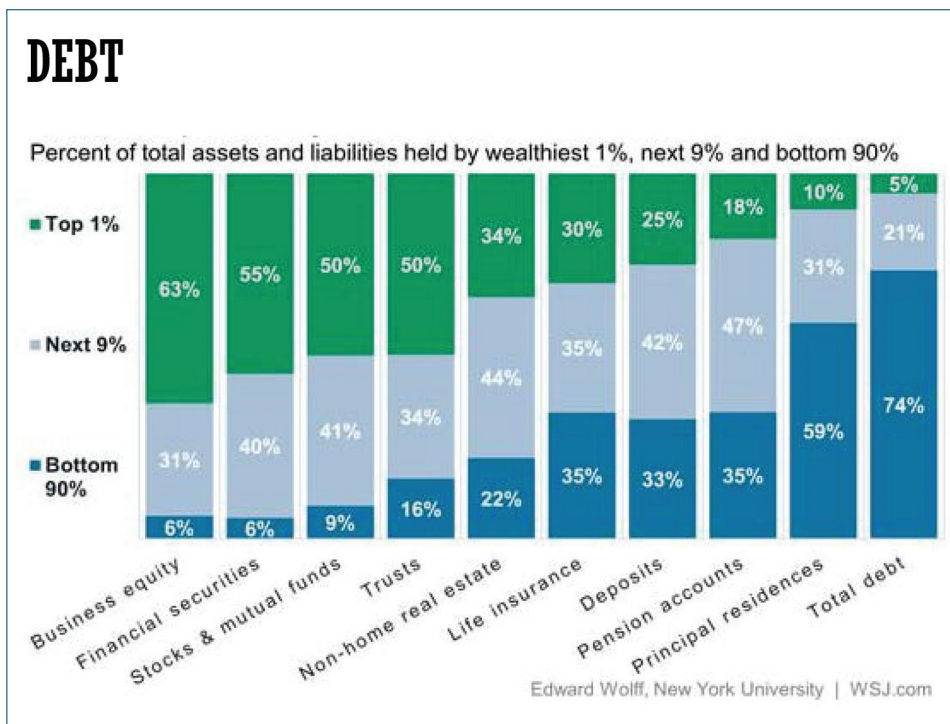
The pattern is the same for wealth and inequality. The top share of wealth follows the same pattern as the share of inequality, which shouldn't be surprising because inequality results in the accumulation of wealth. In 2012, the share of total wealth owned by the top 0.1 percent of families in the US is almost the same as it was in 1929. What is interesting, however, is that there is a fall in the wealth share of the bottom incomes--from a high of about 36 percent in the mid-80s to about 22 percent in 2012.

Why is that? Ed Wolfe at NYU asked the question, who owns the wealth and who

owns the debt? By and large, the people who have all the wealth are the rich, and the people who have all the debts are the poor. And so we have both rising income inequality and rising debt inequality.

Correlating the measure of inequality with the indebtedness ratio, you find an almost perfectly linear relationship; that is, as inequality has gone up, American households have accumulated more and more debt. On the liquid asset side, the falling savings rate also correlates very well with the rise of inequality. The middle class was being squeezed; there was no money to be saved, but there was a lot to borrow.

Finally, why do we care about inequality? The trends towards greater inequality are worrisome, and understanding their causes can help us to realize their full implications and implement better policies. The rise in inequality may lead to greater instability; while better education policies, higher minimum wages, and/or redistribution of taxes, etc., may counteract that trend.



Branko Milanovic:



Most people talk about inequality within individual countries; I will speak about inequality on a global level.

The curve that we are used to seeing [below] in the US and UK is an inverted U-shaped curve, with increasing inequality at the end of the 19th century, peaking in the early 20th century, and a decline all the way to the early 1980s. This is followed by a right-side-up U-shaped curve depicting decreasing inequality until the mid-20th century and then its increase up until now. Most developed, rich countries have followed a similar pattern.

Now, what did the rest of the world look like over that same period? At the time of the Industrial Revolution there were relatively small gaps in inequality from country to country; the largest gap was between individuals within each individual nation. The Gini coefficient was around 50. Since then we have had unambiguous evidence that global inequality is not rising, and is most likely going down.

I bring this up because we hear a lot about increasing inequality; but at the global level we do not find the increase that we find in individual countries. We have to adjust to living with these two developments in our minds at the same time: rising inequalities, particularly in rich countries, and, at the same time, the beginning of a decline in inequality at the global level. This is not so surprising, as over the last five to seven years there's been continued growth in poor and middle-income countries, and, really, stagnation in the rich world, which has led to the convergence in mean incomes.

Essentially, the differences in mean country incomes are explained by the growth of China and India. Even if national inequalities go up, they no longer compensate for the decline in inequality driven by

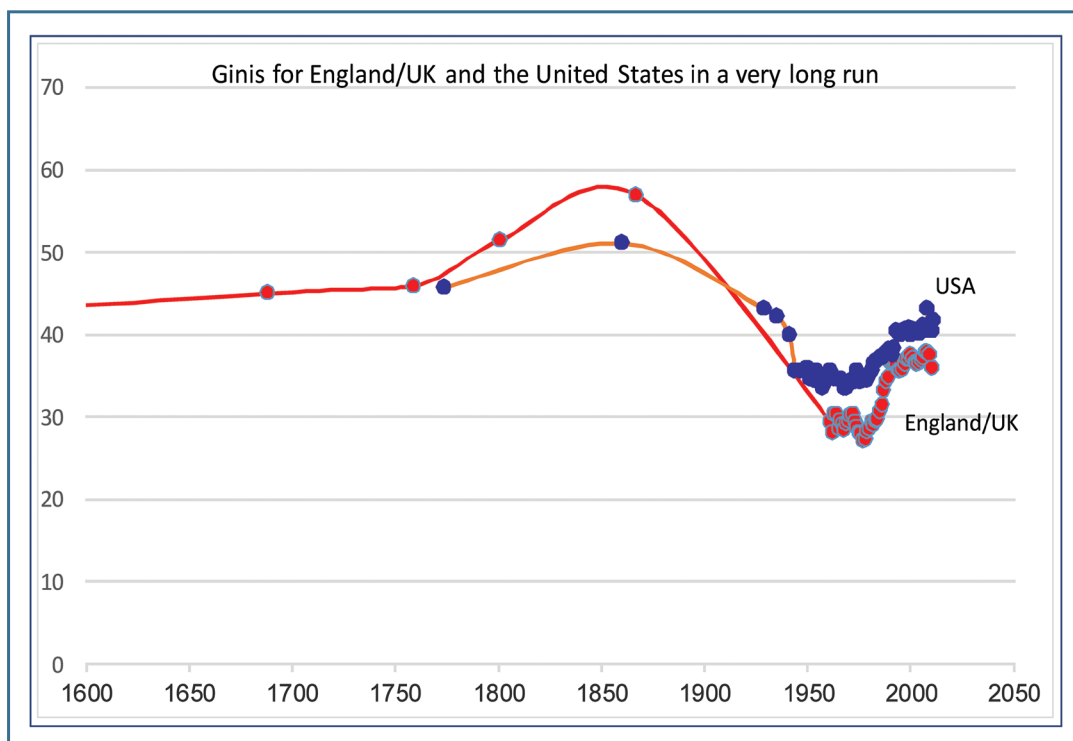
the convergence of China, India, and the rest of Asia with the rich world.

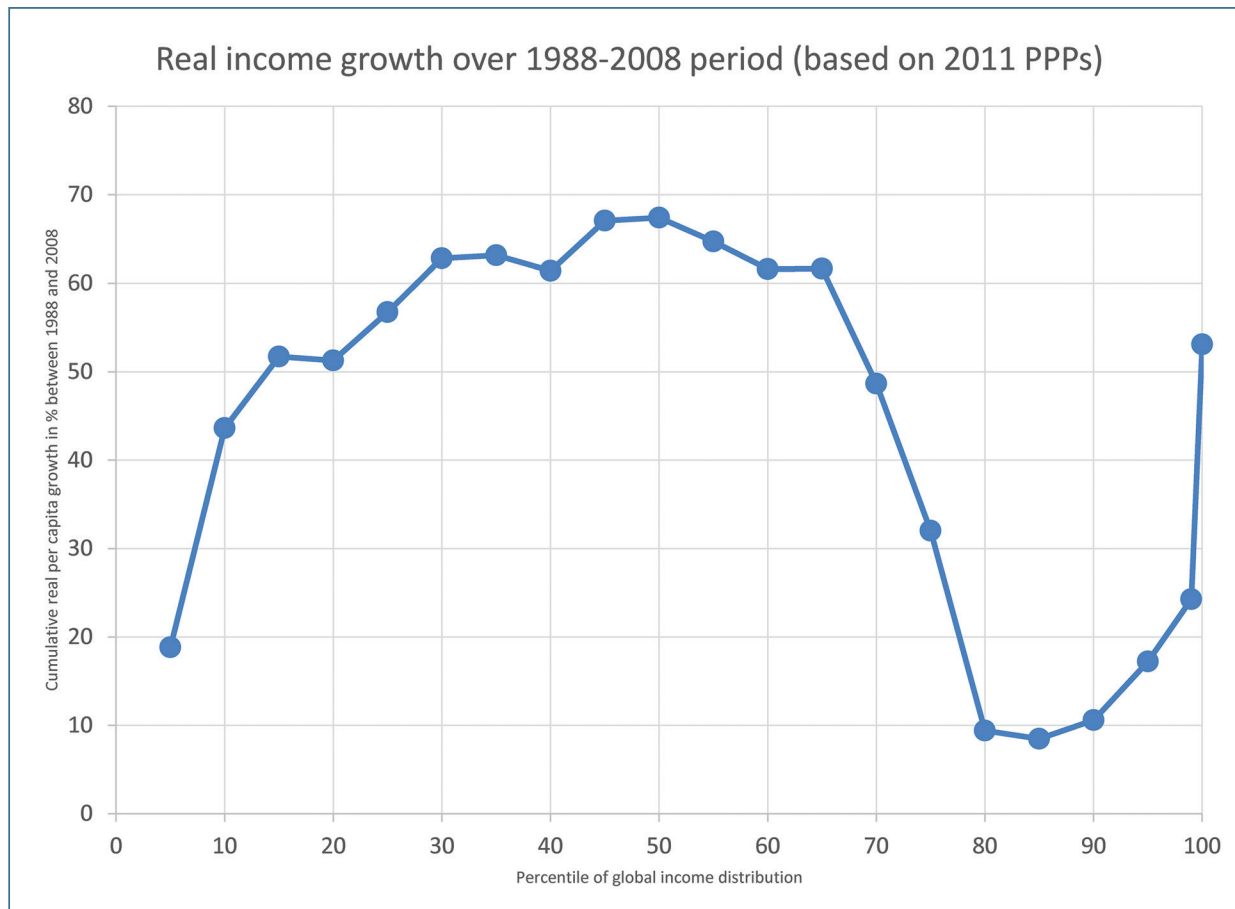
Ninety percent of the reduction in global poverty is driven by China. Since 2000, India and China have become the twin engines of reduced global inequality. Of course, household surveys miss the very rich people, so we do have an underestimate of the top one percent; but we are still talking about tectonic changes over the last quarter of a century, where more than two-and-a-half billion people's incomes have increased very significantly.

This graph [on page 6] shows on the horizontal axis a person's position in the global income distribution, from the poorest at number one, to the richest one percent, number 100; and on the vertical axis it shows you the real cumulative real gain in PPP (purchasing power parity) over the 20-year period from 1988 to 2008.

What is interesting here is that people around the median, in the 50 to 70th percentile, have had very significant increases, almost a doubling of real income, over these 20 years. The top one percent has also had a very significant increase in real income.

The world upper-middle class is essentially at the lower bottom of income





distributions in the rich countries. In other words, the lower bottom of the income distributions in the rich countries are, at the global level, relatively rich people at around the 80th to 85th percentile in the world. We see essentially zero growth there.

So this graph essentially gives you four key points to keep in mind when thinking about changes in global inequality during the 25 years of globalization:

- 1) Poor people are becoming better off;
- 2) There are very significant gains around the middle of the income distribution, that is, people between \$4 and \$13 per capita per day in PPP terms, people who are actually below the poverty line in the rich world. We're not talking about what in the West is understood as the middle class; but, given that the world is so poor at a global level, there is some kind of median middle class with large gains, and 90 percent of those people are from Asia.

3) And then you have absence of growth among poorer people in rich countries.

4) And finally you have the top one percent, which has done very well.

If we look at the same gains in absolute terms, the striking thing is that almost half of the gains went to the top 5 percent. And it's not surprising, because the gaps in incomes in the world are enormous. At the median you have people who have incomes of about \$5 per day, and at the top you have people at about \$200 per day. If somebody at \$200 has a very small increase in income, let's suppose of one percent, he or she would get \$2. Now for a person who gets \$5 per day, another \$2 represents a 40 percent increase in income. Because of such gaps, absolute gains are still very heavily concentrated at the top.

Finally, we do see the effects of the financial crisis on the rich world. One should not forget that the one top percent at the world level is about 60 or 70 million people, about equal to the entire population of Germany or France. In order to have a large increase in incomes of such a large group of people who are already very rich, you have to have very strong growth in rich countries. We are seeing that the growth between 2008 and 2011 (the last year for which we have full data) was very limited to the very top one-tenth or even one-one-hundredth of a percent in the rich countries. These numbers are so small that they don't affect the top one percent at the global level.

Stephen Rose:



I'm going to focus on one of the main contradiction that we face: why although we have a great deal of discussion of inequality that has not led to political revolution.

It's important to consider the difference between absolute and relative gains. You can have very unequal relative gains, but they will turn out to look very different from an absolute perspective.

Any way you approach it, inequality is up, by a lot. It's outrageous how the top one percent, or the top one-tenth of the top one percent, live. And as a result of the Great Recession this has only been magnified. It is to Piketty and Saez's credit to focus attention on inequality, and in particular, to provide data that we've really never had before on the top one percent.

What matters, though, is how we change this state of affairs, and that will depend on what we think is happening among the middle classes. There are really two different political policy agendas: Most plans to change inequality involve public action, increasing government revenues. As examples, here are two different political

policy agendas: Piketty and Saez's data really say, let's raise money from the top one percent and maybe the top 10 percent, but not the bottom 90 percent. I have proposed that income tax rates should increase for households with incomes of \$75,000 or more. Neither proposal is likely to pass, but these give us some ideas.

Most of us thought that inequality was too high in 1979. In fact, if we go back to the 1960s and monopoly capitalism, we thought that was a really bad system. What we called monopoly capitalism in the 1960s is called managed capitalism today; and it seems maybe we should go back to it because at least we had unionization.

“[T]he median household income for married [people ages 46–59] is \$90,000... What that means is that the majority of people, for many years of their lives, can afford the middle-class things.”

On the political front, inequality doesn't seem to have resonated with the majority of Americans. In the late 1970s, I produced a study on social stratification in the US, trying to show the differences between the poor, the middle class, the somewhat rich, and the very rich. The logic was that

if we made the data accessible, it would lead to political change. Yet, with only isolated exceptions, liberal policy proposals have resonated very little in the last 50 years. In December 2014, the party that stood against caring about inequality, that stood for lower taxes on the rich and fewer regulations across the board, seemed to support raising the minimum wage. Five Republican states had referenda on raising the minimum wage and they all passed substantially. On the other hand,, one-third of the people who thought that the condition of the poor was so bad that we had to raise the minimum wage voted for the Republican over the Democrat.

Faced with this political contradiction, one popular explanation from the left is that the people are just wrong. If they understood their true interests they would vote for Democrats who clearly have their true interests more in mind than Republicans.

So why don't they vote for Democrats? Many blame money in politics. Of course, previous studies on money in politics haven't shown it to have that strong an effect. And maybe it's changed recently with Citizens United; but in fact a lot of Democrats, even with more money to spend than Republicans, still lost.

Another explanation is that the middle class has not had such a bad deal. They don't have their fair share; but they've had a fairly good share. This has made them identify more with the economy as a whole.

It's an occupational hazard of people with big hearts to see problems, and they then discuss these problems with each other over and over. The media also has a role in this: Bad news is just more interesting than good news. One study showed that in bad economic times, the ratio of bad



Panel L to R: Stephen Rose, Branko Milanovic, Joseph Stiglitz, Olivier Giovannoni

economic news stories on the front page to good news stories was ten to one. In good economic times, the ratio of bad economic news stories to good was seven to one. Bad news is what gets reported.

Let me now talk about the data. I'm going to cite three data sources and three numbers from those different data sources: Piketty and Saez; the current population survey (CPS), which we use a lot; and data from the Congressional Budget Office (CBO). The data from these sources, it turns out, differs a lot.

The average income of the bottom 20 percent in Piketty and Saez is \$2,000; in CPS it's \$12,000; and in CBO it's \$24,000. The median income in Piketty and Saez it's \$30,000; in CPS it's \$53,000; in CBO it's \$77,000.

Why do Piketty and Saez cite only \$2,000 as the average income for the bottom 20%? They make two methodological choices that result in a lot of very low-income people: One is they use IRS records. There are 37 million more filers than there are households. These are mostly kids who are filing separately from their families; but Piketty and Saez count them as full households. Piketty and Saez also exclude transfer payments, which basically means that the elderly in the bottom 20 percent show either zero or much lower incomes than they actually have.

In terms of growth, from 1979 to 2007 Piketty and Saez show that 91 percent of income growth per household went to the top 10 percent, and nine percent went to the bottom 90 percent. That translated into about a 5 percent gain for the bottom 90 percent before the recession, and a negative 10 percent after the recession. In other words, the bottom 90 percent are 10 percent worse off in 2010 than they were in 1979.

CBO gives you something very different: Instead of nine percent going to the bottom 90 percent, it's 59 percent. And instead of 5 percent growth, it's 50 percent after-tax real growth. Five versus 50; 9 versus 59; the figures are dramatically different. The top 10 percent got 41 percent of the growth, so inequality is still there, but it's on a much different level. And if you want to think politically, what might be the different

ramifications for 5 percent growth peak to peak, versus 50 percent growth?

In 2012, Pew asked people, Compared to your parents at the same age, are you better or worse off? Sixty percent say better, 20 percent say the same, 20 percent say worse. They also asked, Do you think that American growth will persist despite recent bad times? Among young people, 63 percent say yes. On a different survey asking young people if they're going to live as well as or better than their parents, 80 percent say yes.

One indicator of economic well-being is the Starbucks Test. Starbucks has 12,000 stores, and people are spending \$3 to \$4 for a cup of coffee twice a day. It can't be said that these people have no discretionary income.

How people experience their lives changes over the life cycle. Their incomes start low and increase. By the time people reach ages 46 to 59, at the end of their careers, the median household income for the 74 percent of people who are married is \$90,000. The 25th percentile is \$55,000,

and the 75th percentile is \$140,000. What that means is that the majority of people, for many years of their lives, can afford the middle-class things.

In the end, despite the weak economy, neither the Piketty book nor the Occupy Movement had the political effects that many expected because inequality per se is a secondary or even tertiary issue to most Americans. On the basis of fairness Americans will vote for something like increasing the minimum wage. In principle they'll even say they're for health care for all. What they don't like is a government program. Furthermore, they say the rich should be taxed more; but when asked about the inheritance tax 67 percent say we should do away with it. But when asked if we should increase or decrease the corporate income tax, they're very much for increasing it.

So the bottom line is, inequality is up. Many of the people in this room want it to be not up. And whether it's up 5 percent or 50 percent, depending on what data set you are using, makes a big difference in our options.

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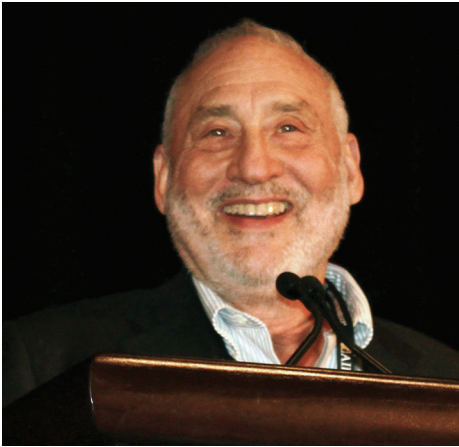
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Joseph Stiglitz:



I am going to begin with a premise for which there is overwhelming evidence: that there has been a significant increase in inequality. I want to talk about some of the implications, the consequences, and some policies.

Some 50, 60 years ago, when growth theory was just beginning to be explored, many of us studied Kaldor's "stylized facts." One of the stylized facts was that the income distribution didn't change. We worked very hard to develop models to explain why income distribution didn't change. It's been very disconcerting to find out that the stylized facts were only facts about a moment in time; because it's very clear that income distribution *has* changed.

Our challenge now is to develop theories explaining why income distribution is changing. Obviously the models that worked then have to be adapted to the current situation. The kinds of facts that, for instance, are put forward in Thomas Piketty's book can't be reconciled with any coherent neoclassical model, with just capital and labor; and that means either we have to change the neoclassical model or we have to find new facts.

The second observation I want to make is that Branko has brought the only bit of good news to this discussion, which is that from a global point of view inequality has been reduced. That means—and this is a really important point—that what is going on in the world is not just about economic laws; because we see trends evolving in different countries in different ways. Some

countries are having an increase in inequality. Very similar countries are having a constant degree of inequality. Some are even having a decrease in inequality. The laws of economics are operating similarly in these countries with similar economic conditions. The marked differences in outcomes means that something else is going on; and I would argue it has to do with politics and policies.

The issue isn't really about capitalism in the 21st century; it's about democracy and the interaction between economics and politics in the current environment.

There's a lot of discussion about inequality of income; but I think the data on inequality of wealth is even more disturbing. Wealth is really access to resources, so inequality of wealth leads in turn to inequalities of opportunities, which is also very disturbing. The United States has one of the highest levels of inequality of income. We also have one of the lowest levels of equality of opportunity of the advanced countries. This of course plays very much against our conception of ourselves and others' conception of us, and it has some very important and profound consequences for the performance of our economy.

What are the sources of this inequality? Inequality has been a concern for a very long time. There are basically two different strands of thought (this is an oversimplification): One strand of thought tries to justify inequality as some form of just deserts. This includes the margin of productivity theory and Nassau Senior's abstinence theory by which the rich are rewarded for abstaining from spending their accumulated capital.

Now actually, to look carefully at the data that's been accumulated on savings for the United States, you cannot account for the increase in the wealth-output ratio by savings. One of the old stylized facts was that the capital-output ratio is constant. The new stylized fact is that the wealth-output ratio is rising dramatically. In the United States, savings as represented by the NIPA accounts, comprises about half of the increase in the wealth-income ratio; something is missing.

The other theory is a theory of exploitation. Exploitation is a 19th-century term that

Marx used. Now we talk about rent-seeking, market distortions—a whole variety of discrepancies between productivities and output, productivities and compensation. In a way, the chart that we began the session with [see page 4], where you saw productivity going up but most workers not getting any increase in their incomes, is illustrative. Unless all the increases in productivity are occurring in that very top slice, and the rest of the numbers are not showing an increase in productivity, there is a gap that has opened up. And one has to explain that extraordinarily disturbing rising gap.

There are reasons to believe that the degree of exploitation, the degree of rent-seeking, has significantly increased. There are reasons for this having to do with the structure of the economy and the importance of network externalities.

One important factor is the financial sector. Jamie [Galbraith] has shown very clearly the close relationship between the financialization of an economy and its level of inequality. The financial sector is very good at creating inequality both at the top and the bottom. Predatory lending, discriminatory lending, abusive credit card practices, anti-competitive practices, market manipulation all move money from the bottom of the pyramid to the top and can't be associated with increases in productivity.

There is a lot of talk about innovation in the financial sector. I think Paul Volker said it best, when he said that he couldn't identify any innovation of the financial sector that had led to an increase in American productivity besides the ATM machine. And he was wrong, because the ATM was a British innovation, not an American one.

What they were successful at innovating was figuring out how to get a larger share of the American national income pie. That was a kind of innovation, but it was not an innovation that leads to productivity. So they went from 2 percent of GDP to something like 8 percent of GDP, and before the crisis they were getting close to 50 percent of all corporate profits. Very hard to reconcile that with any theory of margin of productivity or social contribution.

What has been going on provides a new lens for examining this issue that's been debated for 200 years about how

to interpret the sources of inequality. The dramatic changes of the last 35 years give a lot of weight to what I'll call very broadly the exploitation theories, as opposed to the margin of productivity theories.

Piketty's recent book talks very strongly about a source of wealth inequality related to the relationship between return on capital and rate of growth. There are several things wrong with that kind of formulation. The first is that the rate of interest and the rate of growth are both endogenous variables. In such a model, in equilibrium, the rate of interest will be equal to the rate of growth, so that inequality can't be preserved.

Additionally, if you look in more detail at a general equilibrium theory of wealth distribution, the fact is that the equilibrium of wealth distribution does not depend on interest minus growth; it depends on a whole host of other factors like the variance of the returns to capital, the rate of regression, the speed of regression of wages towards the mean—a whole set of other descriptions of the unpredictable stochastic processes describing the economy.

One more observation about the sources of inequality: One of the theories that has become very popular tries to relate it to skill buys, technical change, robotization—factors like that. Again, you can't relate rising wage inequality to these factors. There's been a considerable amount of research showing that the average wage ought to be going up, roughly tracking productivity—unless there's been a change in the degree of exploitation. We saw in the data presented earlier that this is not true of the average wage. So these theories do not provide an explanation for what is going on in terms of the share of labor at the bottom 90, 95 percent.

What is going on very much has to do with capital gains. Most of the capital gains have to do with land. In the neoclassical models that most of us studied, land was not very important because we have moved out of an agricultural economy. We live in an urban economy. Our GDP includes housing, transportation, and urban amenities, and the value of urban land is going up. We also live in a society with a high degree of inequality, with a value on positional goods like homes on the Riviera.

Now what's interesting about that is that the value of wealth can go up, the value of land on the Riviera can go up, but the capital stock of the country could go down. An aggregate of input could be going down even as an aggregate of wealth is going up. So, the paradoxes that are seemingly evident in the new stylized facts become less anomalous once we recognize that a lot of the increase in wealth is in the value of land.

“The United States has one of the highest levels of inequality of income. We also have one of the lowest levels of equality of opportunity of the advanced countries. This of course plays very much against our conception of ourselves and others’ conception of us...”

What is causing the expansion in the value of the land? Well, in a way, what is driving the increase in the value of the land is the expansion of credit, the banking system. But that is a consequence of public policies. When the Fed floods the market with liquidity, it doesn't say, “You have to spend this money on the accumulation of real capital goods. You have to invest in goods that will improve the productivity of our economy, that will create jobs.” When we in the United States and World Bank lend money to developing countries, we put conditions on the money that we give them; but when the Fed gives money out, it doesn't impose any conditions. Suddenly it believes in markets. At that point, money goes to create asset bubbles.

This leads to a point of some importance: One can't deny a huge inequality in wealth holdings. But equally important are inequalities in the composition of wealth, in the kinds of portfolios held by different people in different parts of the income distribution.

Why is that important? Well, if you lower the interest rate that allows firms to recapitalize. Lifetime savers who have been prudent and put their money in government bonds see their income flows go down because the interest rate has dropped close to zero. But the value of equity and fixed assets soar. The recent data with that soaring of the top one percent is a predictable consequence once you understand the sources of inequality in our society and the disparity in wealth ownership.

We used to tell our students that there was a tradeoff between economic performance, broadly measured, and equality, sometimes called the Big Tradeoff. When inequality is created through exploitation, rent-seeking, and lack of opportunity, then there's no longer a tradeoff. We *can* have more equality and better economic performance. This is an extraordinarily important reframing of the policy debate.

Every aspect of our policy sphere affects inequality—monetary policy, enforcement of anti-trust laws, corporate governance—every part of our institutional and legal framework plays a role in affecting inequality. There's no single policy remedy to reduce inequality. There's no single policy remedy to reduce inequality. Nobody's talking about getting rid of inequality, just reducing it. There's no single formula for significant reductions. But what worries me is that too much of the debate is framed around a minimalist agenda: Let's increase the minimum wage. It is a little bit of a crime that our minimum wage is half of that of Australia, that it's at the level basically that it was 40, 50 years ago, adjusted for inflation. That's hard to justify, particularly with the evidence that raising it a modest amount would not have any significant adverse effect on economic performance.. I also think education reform is important, including especially pre-K education programs that would lead to more equality of opportunity.

But certainly the analysis that I've offered, that the sources of our inequality are more profound than just the minimum wage or education, suggests that we ought to have a broader and deeper agenda for addressing inequalities in our society.

Economists Support the Iran Agreement

Economists for Peace and Security and the undersigned support the Iran Nuclear Agreement (JCPOA) mainly because it is the best way to prevent Iran from acquiring nuclear weapons and to avoid a war with that country. We should have learned by now that going to war should be the absolute last option, and that diplomacy can resolve disputes with other nations in a satisfactory and cost efficient way.

Why is this agreement the best chance to avoid war with Iran? Iran wants very badly to end the sanctions and to resume trade and other relations with the United States and Europe. Iran knows that the cost of being found to cheat will be very high; therefore it has a very strong reason to respect this agreement. For that reason, Iran is willing to accept intrusive inspections, which will, in turn, help assure the rest of the world that the agreement is respected.

Many of those who oppose the agreement with Iran supported or helped get us into the war with Iraq. That war has been disastrous for the US in terms of its economic costs and the consequences for national security. The war with Iraq has cost us 4500 American lives, upwards of \$2 trillion in direct costs, and over \$6 trillion by the time it will have been all paid for, a generation or more from now. And that is not to mention the damage done on the ground in Iraq, in human, material and security returns, or the ongoing challenges arising in that region as a result of the war.

We should learn from our mistake in Iraq, and we should give the possibility of peace with Iran a chance.

Kenneth Arrow*

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Linda Bilmes

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James Galbraith

Robert J. Gordon

Richard Kaufman

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EPS at the American Economics Association Meetings

The Crisis of Austerity

Sunday, Jan 3, 2016 10:15 am, Hilton Union Square,
Continental - Parlor 2

Panel Moderator: Marshall Auerback

Patrick Honohan—Central Bank of Ireland: AUSTERITY IN IRELAND
Jeffrey Sommers—University of Wisconsin, Milwaukee: AUSTERITY IN
THE BALTICS
Allen Sinai: DECISION ECONOMICS, AUSTERITY AND MONETARY POLICY
James K. Galbraith—EPS, University of Texas, Austin: AUSTERITY IN
GREECE

Balancing National Security and Transparency

Sunday, Jan 3, 2016 2:30 pm, Hilton Union Square,
Continental - Parlor 2

Panel Moderator: Richard Kaufman—Bethesda Research Institute
Yanis Varoufakis—Former Finance Minister, Hellenic Republic
Robert Skidelsky—Warwick University
Linda Bilmes—Harvard University
Daniel Ellsberg—Nuclear Age Peace Foundation

Dinner in honor of Daniel Ellsberg

Monday, January 4th, 2016
Hilton Union Square
6:30pm–10pm

Pre-registration is required. Please visit our website for more information or email Ellie Warren at elliewarren@epsusa.org

***Please note The Annual Meeting will be held on Sunday, Monday, Tuesday this year**



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