

Where in the world is the world heading?

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## **1. Introduction**

In these gloomy and uncertain days, when long held certitudes about government, politics, and international relations are all under challenge, it might be tempting to answer the question by saying that everything is falling apart and that the world is going “to hell in a handbasket.” There is much to be concerned about, indeed. But we should always remind ourselves of where we are, and how we got here, before we make dire predictions about the future.

## **2. The world is better now than ever**

Today, globalization is often seen as a negative force, threatening jobs in rich countries, and making people feel that they have lost control of their lives and their own and their children’s destinies. Yet globalization is also responsible for the greatest reduction in poverty that the world has ever seen: according to World Bank estimates, the number of people living on less than \$1.90 (adjusted for international price differences) fell from 1.895 billion in 1981 to 0.766 billion in 2013. These numbers are quite unreliable, but the trend is real enough. Global income inequality across persons has fallen too, driven to a large extent by China, but India has also been important too; this is a more recent phenomenon. People who used to live in destitution are now living something closer to middle class lives and the world distribution of income has narrowed as they have moved from the bottom to the middle.

Life expectancy has risen almost everywhere over the last 250 years and especially over the last 60 years. There is no country in the world where infant

mortality is higher than it was in 1950. Lives of women are better and are less dominated by reproduction and its risks. Forty years ago, total fertility rates were more than 6 in around 100 countries; at the beginning of this decade, there were only seven such countries. The decline in infant mortality has allowed families to have the same number of surviving children without repeatedly risking the life of the mother, and the freedom from constant reproduction has allowed women to fulfil their potential in other ways as never before. The increase in life expectancy, good in itself, has been a major contributor to the freeing of women's lives.

These improvements take a long time, to be sure, and there have been awful setbacks. But humanity has been through much worse than what we see today, and progress has always resumed. For which there are good reasons. The deep causes of progress—the Enlightenment, scientific progress, and the desire to have a better life together with the understanding that human reason can deliver it—are constant and not readily destroyed, I remain optimistic about the long run.

In particular, it is unimaginable, at least to me, that the poverty reductions, in India, China, and elsewhere, could have happened without globalization. Some argue that globalization is a neoliberal conspiracy designed to enrich a very few at the expense of the many. If so, it that conspiracy was a failure, or at least helped more than a billion people as an unintended consequence. If only unintended consequences always worked so favorably.

### 3. Poverty in the rich world

Yet there are indeed problems in rich countries, particularly in America and in Europe. I focus here on the US in particular, and on some of the things that I have learned in the last year or two that have surprised me.

The United Nations' Sustainable Development Goals, unlike the Millennium Development Goals that preceded them, apply to the whole world, not just to poor countries. The World Bank, following these new protocols, measures poverty in all the countries of the world, not just the borrowing countries. It is now possible to interrogate the [website](#) where the Bank presents its poverty estimates to obtain estimates of counts of people living on less than \$1.90 a day in the US, in the UK, and in other rich countries.

For the US, the Bank estimates that, in 2013, 3 million Americans lived on less than \$1.90 a day. They note that this count is based on income, not consumption, and they do not include the US or other rich countries in their global poverty count of 776 million people in 2013 arguing that it is self-evidently impossible for anyone in these countries to live on so little. Perhaps so, but it is far from obvious.

Kathy Edin and Luke Schaeffer have [documented](#) exactly this sort of poverty in the US. Again, they estimate that several million people live on \$2 or less, and they present rich ethnographies of some of their lives. They detail the daily existence of poor people living in the Mississippi delta, as well as urban people living in the hazardous and unstable bottom of the labor market. Jobs in Wal-Mart may not be the greatest jobs in America, though the people who are struggling to survive do

much better when they are at work in Wal-Mart than when they are at “home,” and trying to cope with finding shelter for their kids or getting a new job when they are out of work. Shelter is also the theme of Matthew Desmond’s ethnography [\*Evicted\*](#) about poor whites and blacks in Milwaukee. As the book’s website notes, “without a home, everything else falls apart.”

When the World Bank counts the poor in rural India or rural Africa, those living on \$1.90 a day or less, they effectively assume that housing is free. The household surveys that measure expenditures rarely have a category for rent, either actual or imputed, and shelter in tropical villages is not expensive, even for the poor. Neither is staying warm much of an issue. Rural people in poor countries spend little on transport, and they live with relatives and family members who provide childcare. Extended families care for the elderly, so there is little need to make provision for old age and, relatives can provide food and shelter when people are sick.

Perhaps indeed there are people living in the US and the UK who are worse off than people in Africa or Asia, not to mention in the UK. Certainly, it makes no sense to assume that *all* the people who live in countries that receive foreign aid are worse off than *any* of the people in the donor countries. So it makes no sense for Britain to commit a fixed share (0.7 percent) of GDP to aid, without checking on the needs of people at home, who have been suffering through a period of austerity, with particularly dire consequences for the national health service.

#### **4. Faltering health in the rich world**

Of course, I have said nothing about health, about the fact that poor Americans have access to Medicaid, and when all else fails, can go to emergency rooms. Everyone in Britain has access to the National Health Service, though there are variations in quality from facility to facility. People in rich countries enjoy good public health infrastructure, including safe water (unless you live in Flint, Michigan), sanitation, and freedom from disease-bearing pests. Yellow fever, malaria, and helminthic infections were once widespread in the US. It is not just our climate that protects us; the elimination of these scourges was an achievement of collective public health. Yet American health outcomes are very poor compared with other rich countries. American life expectancy is one of the lowest among rich countries, and life expectancy in much of Appalachia and the Mississippi delta is lower than in Bangladesh or Nepal. This in spite of the amount of the enormous amount of money that we spend on healthcare, more than 17 percent of GDP, compared with 10–12 percent of (their smaller) GDPs for comparable rich countries.

Among white non-Hispanic Americans, life expectancy at birth was lower in 2014 than in 2013, and life expectancy at birth was lower for the population as a whole in 2015 than in 2014. Among white non-Hispanics the decline in mortality in middle age stopped after 1998, and is rising among white non-Hispanics with a high school degree or less. (There are even more dramatic results for those without even a high school degree, but that group is becoming smaller and presumably more negatively selected over time, so that it is increasingly less healthy when it leaves school.) Deaths from heart disease have flattened and have stopped falling in some

groups, and there has been a steady increase in mortality from suicide, alcoholic liver disease, and accidental poisonings, mostly from prescription drugs, such as Oxycontin. The 15,000 people a year who are currently dying from overdoses from prescription opioids are victims of iatrogenic medicine. Drugs that make sense for acute pain, such as post-operative pain, or for end of life pain, should not be prescribed for chronic pain. That they are so prescribed reflects aggressive selling by pharmaceutical companies, some of whose owners have become enormously rich. President Trump's claim that the drug industry is "getting away with murder," may count with one of his more accurate statements. None of this is happening for African Americans, or for Hispanics, or at anything like the same scale in other rich countries.

In one startling reversal of fortune, among those aged 50–54, mortality rates of white non-Hispanics with no more than a high school degree, which were 30 percent lower than rates for blacks in 1999, were 30 percent *higher* in 2015. Similar crossovers are observed at all ages from 25–29 to 60–64. If we restrict comparison to those with no more than a high school degree, the mortality rates of blacks are now very similar to those of white non-Hispanics.

Rising deaths are accompanied by rising levels of self-reported pain, of disability, and declining self-reports of physical and mental health. In a few other rich countries, we also see increases in morbidity and in deaths from overdoses, alcoholism, and suicide, but the numbers are small compared with the US. The positive interpretation of this is that what we are seeing in the US is an idiosyncratic American pathology; the negative interpretation is that, as has so often been the

case in health in the past, the US is leading the world, and we can expect to see similar developments elsewhere. Indeed, the manufacturers of opioids are working hard to spread their use in other countries.

If we take health and income as our primary measures of poverty, the poorest people in the US may not, after all, be much better off than poor people in Africa or India. Yet this ranking is a key plank of foreign aid thinking, less in the US, where less aid is for poverty relief, than in Europe. If people at home are always much better off than the poorest in the world, and if our foreign aid can indeed help those in destitution in foreign countries, domestic distress is essentially irrelevant for the aid budget, at least according to the standard cosmopolitan approach to aid, within which domestic citizenship conveys no special consideration.

## **5. Thinking about inequality**

In our ongoing work, Anne Case and I have been trying to link these deaths to possible underlying causes. One popular story is the long-term stagnation of real wages, and in recent years, falling median household incomes for people in middle age. Given that GDP per capita has been rising, it is mechanically the case that, if we hold growth constant, stagnation at the bottom is a mechanical consequence of rising inequality, one version of the “income inequality kills” story. But the matching of mortality to income growth is a story turns out to be surprisingly difficult to tell; it works for some groups, but not for others, it works in some periods, but not in others. And there have been periods in the US, most notably after

1970s when economic growth slowed, but mortality declines accelerated. Income inequality also surged during this period of rapidly declining mortality.

None of which means that inequality is good. But it is not all bad either. Progress frequently brings inequality. Creative destruction and innovation often brings great wealth, often a mark of how many people have benefited. And there is good evidence linking innovation to income inequality at the top of the distribution. To be against this sort of inequality is to be against progress, to be against the Industrial Revolution, or the health revolution that came with it. Those who benefit first are those who make the initial innovation, or who get the new science or new innovation first. The key is to ensure that everyone else eventually catches up. Progress is rarely even, benefiting all; it is less of a forward glide, than one foot first followed by the other. The faster the progress, the further, on average, is the following foot from the leading foot. Of course, policy needs to make sure that the followers are not blocked from eventually receiving the benefits that come first to the leaders.

Unfortunately, a good deal of the inequality in the US is not like this. It comes from rent seeking, from firms and industries seeking special protection or special favors from the government. I have already noted the role of the pharmaceutical companies. More generally, we are running a healthcare system that is a mixed market and government system that excels in generating opportunities for pharmaceutical companies, insurers, device manufacturers, and hospitals to extract enormous sums from the public via the government. It is certainly very weak at delivering care. It is well-designed for rent-seeking, and very poorly designed to

promote health. Which is why we spend so much, and get so little in return, and why Americans are so dissatisfied with their healthcare system. Of course, the healthcare industry is not the only industry where rent seeking is prevalent.

To the very considerable extent that inequality is generated by rent seeking, we could sharply reduce inequality if rent-seeking were somehow reduced. The obvious alternative, to redistribute using higher top rates also targets the innovators, whom we want to leave alone, and I doubt that the tax system could be rewritten in a way that levied differential taxes on productive and unproductive income. Indeed, in their excellent new book, [Scheve and Stasavage](#) have used evidence from many countries over many years to show that high marginal rates at the top came about, not in response to rising inequality—as predicted by standard optimal tax theory—but in response to the undesirability of eliminating rents to wartime production in time of war. The working classes, subject to mass mobilization, make their contribution to the war by risking their lives. The capitalists make theirs by organizing the production of arms and materiel, an activity whose profits are seen as unjust and unnecessary in a time of national emergency.

My view is that we need to find ways of reducing rent-seeking directly, or at least of making it more costly. Libertarians see rent-seeking as an inevitable consequence of government that can only be reduced by making government as small and as impotent as possible. Yet there are governments, even very large governments, elsewhere in the world where rent seeking is less prevalent. Perhaps it is impossible to make the US more like Sweden. [Campaign finance reform](#) would

help if it reduces the number of representatives and senators who are beholden to those with deep pockets. Note that I am talking here, not about the Presidential Election—which is something of a safety valve—but the congress. It is hard to be elected or to stay elected without support from well-funded interests, as true in recent years for the Democrats as for the Republicans. If congressmen and congresswomen are the farm team for K-street, they are going to do little to promote the interests of their poor and middle-class constituents. Working people's interests are rarely heard, and rarely acted on. As Lawrence Lessig notes, it is not the people who are corrupt, but the institution. That the dominance of lobbying is relatively recent points to the ability to change it; it is not an inevitable characteristic of the American constitution. And changing it is surely our best hope, not only of reducing inequality, but of rooting out the theft-based inequality that hurts us all.