

## How inequality found a political voice

By Michael Spence

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It took a long time for widening inequality to have an impact on politics, as it suddenly has done in recent years. Now that it is a central issue, national economic priorities will need to shift substantially to create more equitable, inclusive economies and societies. If they do not, people could embrace explosive alternatives to their current governments, such as the populist movements now sweeping many countries.

Political leaders often speak of growth patterns that unfairly distribute the benefits of growth; but then they do relatively little about it when they are in power. When countries go down the path of non-inclusive growth patterns, it usually results in disrespect for expertise, disillusionment with the political system and shared cultural values, and even greater social fragmentation and polarization.

Acknowledging the importance of how economic benefits are distributed is of course not new. In developing countries, economic exclusion and extreme inequality have always been un conducive to long-term high-growth patterns. Under these conditions, pro-growth policies are politically unsustainable, and they are ultimately disrupted by political dislocations, social unrest, or even violence.

In the United States, rising inequality has been a fact of life at least since the 1970s, when the relatively equitable distribution of economic benefits from the early post-World War II era started to become skewed. In the late 1990s, when digital technologies began to automate and disintermediate more routine jobs, the shift toward higher wealth and income inequality became turbocharged.

Globalization played a role. In the 20 years before the 2008 financial crisis, manufacturing employment in the US rapidly declined in every

sector except pharmaceuticals, even as added value in manufacturing rose. Net jobs loss was kept roughly at zero only because employment in services increased.

In fact, much of the added value in manufacturing actually comes from services such as product design, research and development, and marketing. So, if we account for this value-chain composition, the decline in manufacturing – the production of tangible goods – is even more pronounced.

Economists have been tracking these trends for some time. Massachusetts Institute of Technology economist David Autor and his colleagues have carefully documented the impact of globalization and labor-saving digital technologies on routine jobs. More recently, French economist Thomas Piketty's international bestseller, *Capital in the Twenty-First Century*, dramatically widened our awareness of wealth inequality and described possible underlying forces driving it. The brilliant, award-winning young economists Raj Chetty and Emmanuel Saez have enriched the discussion with new research. And I have written about some of the structural economic shifts associated with these problems.

Eventually, journalists picked up on these trends, too, and it would now be hard to find anyone who has not heard of the "1%" – shorthand for those at the top of the global wealth and income scales. Many people now worry about a bifurcated society: a thriving global class of elites at the top and a stressed-out class comprising everyone else. Still, despite these long trends, the political and policy *status quo* remained largely unchallenged until 2008.

To understand why it took politics so long to catch up to economic realities, we should look

at incentives and ideology. With respect to incentives, politicians have not been given a good enough reason to address unequal distribution patterns. The US has relatively weak campaign-finance limits, so corporations and wealthy individuals – neither of which generally prioritizes income redistribution – have contributed a disproportionate share to politicians’ campaign war chests.

Ideologically, many people are simply suspicious of expansive government. They recognize inequality as a problem, and in principle they support government policies that provide high-quality education and health-care services, but they do not trust politicians or bureaucrats. In their eyes, governments are inefficient and self-interested at best, and dictatorial and oppressive at worst.

All of this began to change with the rise of digital technologies and the Internet, but especially with the advent of social media. As US President Barack Obama showed in the 2008 election cycle – followed by Bernie Sanders and Donald Trump in the current cycle – it is now possible to finance a very expensive campaign without “big money.”

As a result, there is a growing disconnect between big money and political incentives; and while money is still a part of the political process, influence itself no longer belongs exclusively to corporations and wealthy individuals. Social-media platforms now enable large groups of people to mobilize in ways reminiscent of mass political movements

in earlier eras. Such platforms may have reduced the cost of political organizing, and thus candidates’ overall dependence on money, while providing an efficient alternative fund-raising channel.

This new reality is here to stay, and, regardless of who wins the US election this year, anyone who is unhappy with high inequality will have a voice, the ability to finance it, and the power to affect policymaking. So, too, will other groups that focus on similar issues, such as environmental sustainability, which has not been a major focus in the current US presidential campaign (the three debates between the candidates included no discussion of climate change, for example), but surely will be in the future.

All told, digital technology is shuffling economic structures and rebalancing power relationships in the world’s democracies – even in institutions once thought to be dominated by money and wealth.

A large, newly influential constituency should be welcomed. But it cannot be a substitute for wise leadership, and its existence does not guarantee prudent policies. As political priorities continue to rebalance, we will need to devise creative solutions to solve our hardest problems, and to prevent populist misrule. One hopes that this is the course we are on now.

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