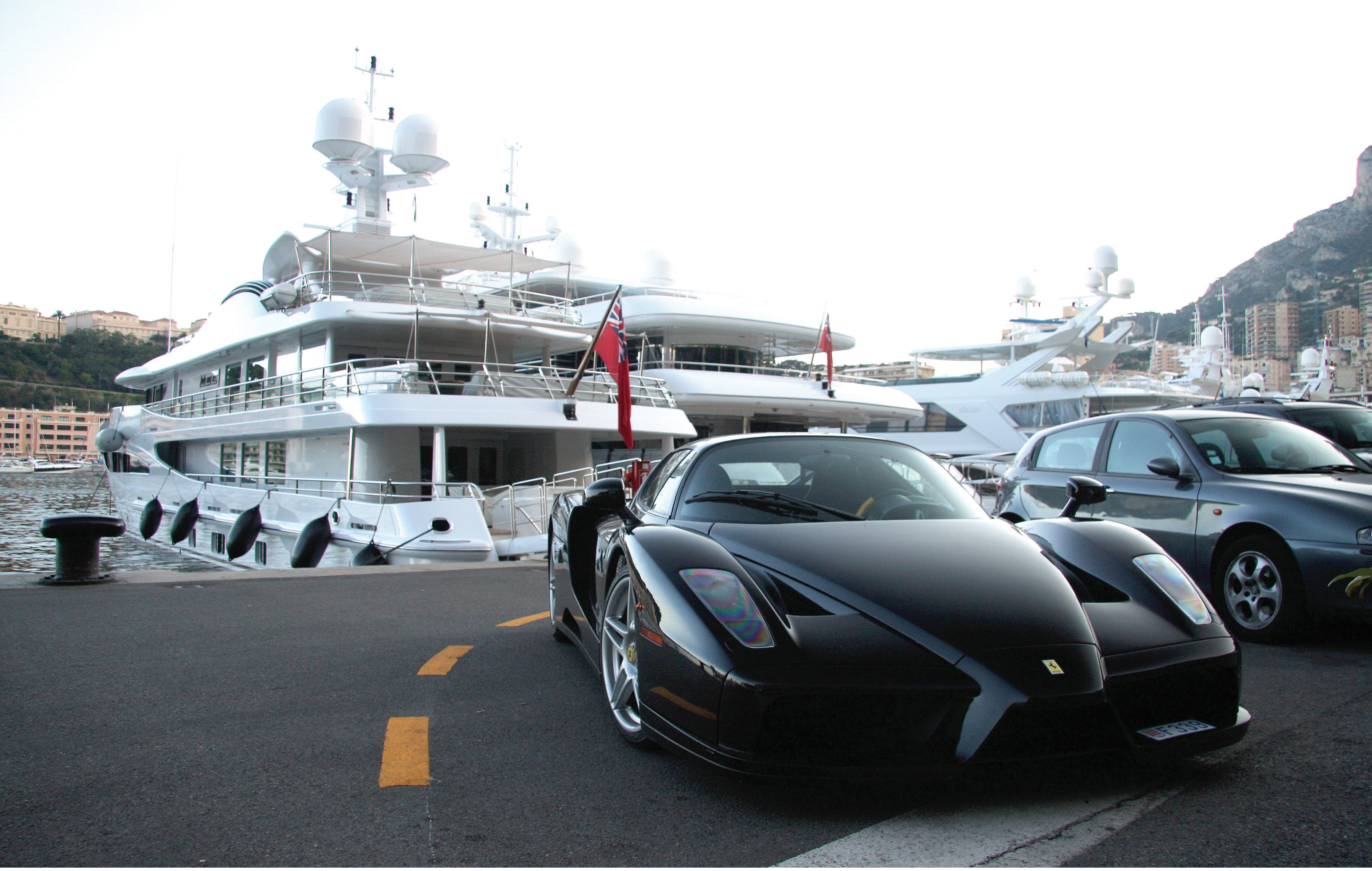

Lifestyles of the "transnational global plutocratic overclass," Monaco.
(Photo by Damian Morys Photography.)

INEQUALITY

The New Plutocrats

by James Gerardo Lamb

Although the United States and Chile are "two very different countries at two very different moments of development," their recent histories include some surprising similarities, argued Oscar Landerretche, director of the School of Economics and Business at the Universidad de Chile. In both countries, efforts to reduce substantial inequality have been limited by an ineffective relationship between public policy challenges and the political process.

This interaction between the politics and policy surrounding inequality was the subject of a dialogue between Bradford DeLong, professor of Economics at UC Berkeley, and Oscar Landerretche at the recent CLAS event "The Politics of Inequality." Each speaker analyzed the impact on inequality of various factors: history; globalization; technological change; government policy, especially in the area of education; and the economic structures and role in the world economy of each country. The speakers also noted that both countries are often cited for their high degree of social and economic inequality.

DeLong began by addressing three broad dimensions of inequality: trends in global inequality between nation-states; a political-economic history of inequality in the United States comparing the Gilded Age of the late 19th and early 20th century with recent history; and the shift of the bulk of inequality from between countries to within them, driving the creation of a more international economic elite, which he termed a "transnational global plutocratic overclass." Due to the uneven adoption of technological advancements originating in the Industrial Revolution, global inequality between nations expanded from roughly 1800 until about 1975. Since that time, this type of inequality has been decreasing significantly. However, this decline is almost entirely due to strong and sustained growth rates in only two nations, India and China.

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Within the United States, the most significant phenomenon in recent economic history is "the emergence of a Second Gilded Age." Historically, noted DeLong, the U.S. enjoyed relative equality among those who were recognized as full citizens, namely non-indentured white males. Beginning in the 1870s, this began to change as widening inequality led to the Gilded Age of mass poverty combined with enormous concentrations of wealth among plutocrats. This situation "called forth a political reaction" in the form of populist and progressive social movements in the United States, which demanded that "the government … put its thumbs on the scale heavily to create an equal income distribution and a middle-class society." Movements were able to gain power and influence policy, despite the enormous impact of wealth on politics. From 1925 until about 1980, policies inspired by these ideas led to steady declines in inequality in the United States as well as some incorporation of excluded groups such as women and African Americans.

Since 1980, there has been a major change as inequality has expanded greatly along two dimensions. First is the gap between the top 20 percent and the bottom 80 percent of the income distribution, which has grown rapidly along with the returns on a college education. The second is "an even larger explosion of inequality" between the top .01 percent (about 15,000 households) and the rest of the top 20 percent, "perhaps the most puzzling and remarkable feature of the past generation." This development "puts the American political system under substantial long-term threat," as the kind of concentrated political power associated with such imbalanced wealth endangers a "democratic commitment to equality of opportunity" for future generations.

DeLong also expressed concern at the generalization of this latter trend across nations, asking whether a "plutocratic overclass" is being generated, not just in the United States, but as a global phenomenon in many countries. This increasing concentration of wealth within nation-states allows an internationally oriented economic elite "to speak very loudly indeed" and may foreclose possibilities for the more robust reemergence of a pro-equality politics.

Landerretche began his presentation by noting that Chilean inequality exists in a context of global forces over which the country has very little control yet by which it is strongly affected. A small, open economy such as Chile's must adjust to global trends it cannot alter, a situation Landerretche calls the "unmoved mover" effect. Still, "a country is more than its trade and the relative prices it brings," so national factors matter.

Landerretche contextualized current trends in Chilean inequality as the product of five main variables in the domestic economy: the distribution of productivity and education; the distribution of bargaining power between employers and employees; the domestic economic structure of production; the tax structure; and the system of transfer and entitlement policies. As inequality has been growing in many countries in recent decades, the Chilean economy became increasingly open to transnational trade and investment flows.

In terms of these factors, Landerretche noted that there had been a huge increase in the coverage of education in Chile, especially post-secondary education, with the benefits attenuated by uneven quality. Little has changed in terms of bargaining power and the tax structure. Chile's economic structure continues to be strongly influenced by its heavy reliance on primary exports — especially copper, food, and agriculture. This dependence can raise relative prices for other sectors and so crowd them out of the economy, reinforcing dependence on the commodity export industry. This sitaution is what Landerretche terms the "Chilean flu" a milder version of the phenomenon known to economists as "Dutch disease," in which resource exports hurt competitiveness in other sectors.

The major changes of recent decades, particularly since 2000, have come in the area of transfer and entitlement policies, where "substantial expansions" have been "very important." As world income inequality has worsened, Chilean "total income inequality," which includes the effects of government transfers, has improved "a little bit." Considering that the tax structure is neutral in distributive terms and that "autonomous income inequality" without transfer policy effects has somewhat worsened in Chile, "you could argue that's a pretty good result," Landerretche observed.

However, the question is why "more aggressive" policies to counter inequality in one of the most unequal regions and countries in the world has not been possible. Landerretche noted that major policy reforms to significantly ameliorate inequality are very complex and difficult to promote politically, as vested interests are coordinated and motivated by the concreteness of their potential losses. The lack of a viable political strategy to sustain policy that would address inequality more thoroughly is a major obstacle in Chile. Landerretche closed by pointing out that in the United States, it has likewise been difficult for an administration that campaigned on reforming the country's economic extremes to coordinate a policy response broad enough to make a sizable impact while remaining politically feasible.

As part of the inter-continental dialogue, each professor posed a question to the other. The first, from DeLong to

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The New Global University

Professor DeLong on the Change Represented by the "Dialogue for the Americas" Series

Thank you very much for inviting me. I'm always happy to be here at the Center for Latin American Studies. I'm even happier to be part of a cross-continental dialogue, if only because the slow creation of — call it a global intellectual space — is what ought to be the 21st-century mission of universities like this. After all, a thousand years ago when the university started in the West — it had started earlier elsewhere — the basic problem was that you needed educated people. Emperors needed judges; popes needed theologians; theologians and judges needed to have and read books, but books were expensive. Come 1100 or so when the University of Bologna was founded, your average book required about six months of skilled monk labor to produce by the time you've prepared the parchment, prepared the ink, written out the book, illustrated the manuscript, and so forth. Much, much cheaper to get all the budding judges and theologians together in a room in Bologna or Naples or Paris or Oxford and have somebody read the single copy of the book that exists to them aloud while they take notes than to have people distributed all over Western Europe, each with their own copy of these hideously expensive books. Well, books are much cheaper now, but we still have universities because they are places where people can come together and easily talk to each other about important intellectual issues and principles. And we would have a better world if we could generalize this to the globe, so the entire globe becomes one university, rather than being small, individual hotspots all over the place, to which a relatively small portion of the world's population has access. That's the business we're in for the 21st century. That's the business that this particular technology experiment is in aid of.

– Bradford DeLong

The library of the University of Bologna.
(Photo by Anna Hesser.)

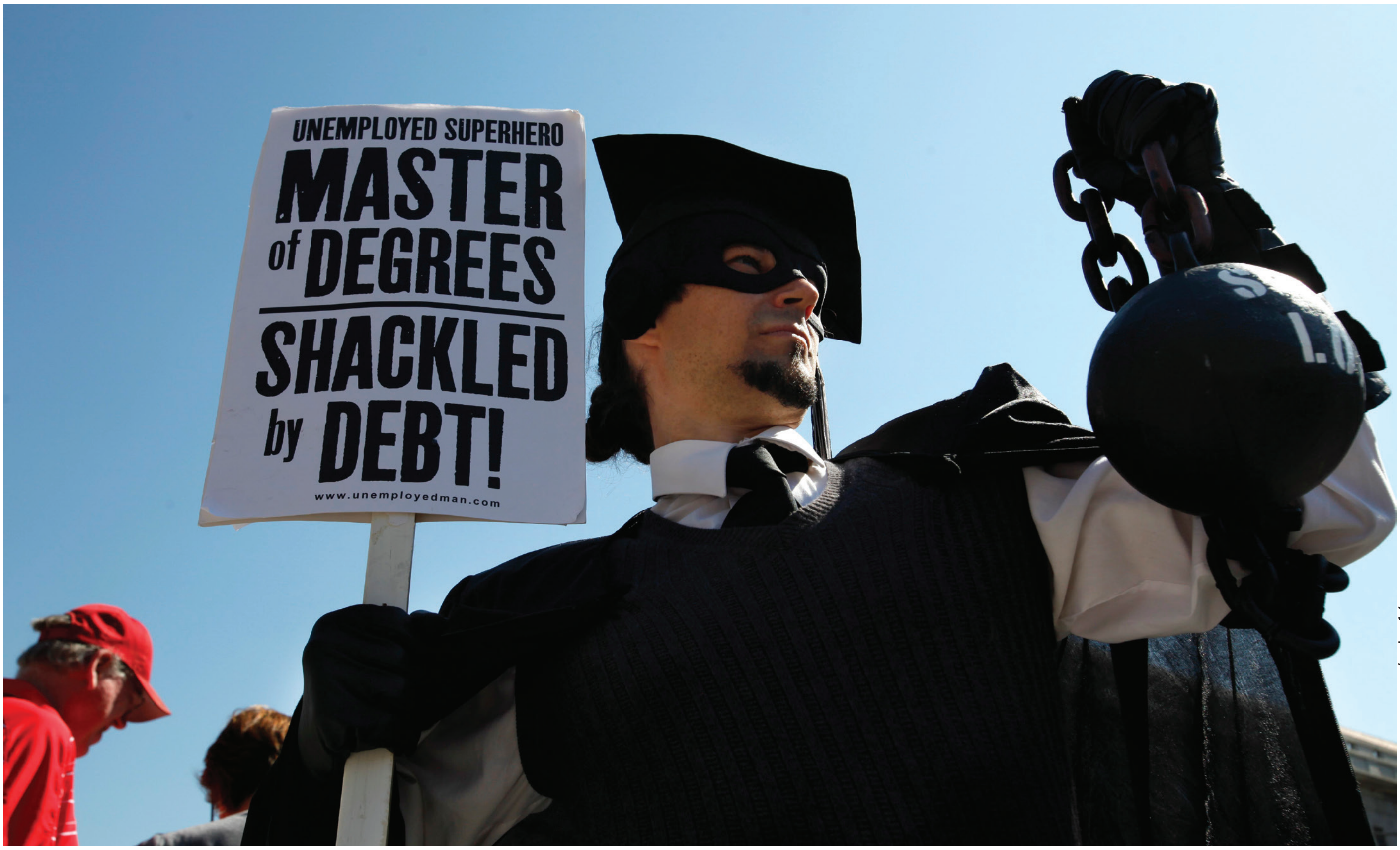

Photo by Jacquelyn Martin/Assocaiated Press.

A protestor in the United States holds a ball and chain symbolizing the burden of his educational debts.

Landerretche compared the role of the education system in combating inequality in the United States and Chile. DeLong explained that the "Clark Kerr" model of high government investment in higher education was "very effective at promoting equality between the 1920s and the 1970s." However, since about 1980, the withdrawal of government subsidies to this sector and a resulting explosion in the cost of higher education means that "this road [to greater equality] is closed to us." Might Chile mitigate inequality through the expansion of higher education?

Landerretche called Chile a "very dramatic experiment" in expanding access to higher education. The country financed an "aggressive" and "expensive" loan program that resulted in explosive growth in post-secondary education, from between 200,000 and 300,000 students a decade ago to 1.2 million today. However, due to the "employment structure," there are insufficient jobs appropriate for this number and mix of professionally trained workers. The danger of an educated but disappointed population leading to a "very angry politics" is thus a real concern. DeLong noted that this result would make Chile "the first country to over-invest in higher education." The possibility of such an outcome would largely owe to a copper price boom and the "Chilean flu." A "Norwegian model" of a large sovereign wealth fund invested abroad and set aside for long-term savings and investment might help mitigate this problem, suggested DeLong.

In querying DeLong, Landerretche wondered whether an analogous "flu" situation could be said to have affected the United States in recent decades. Has the "tremendous" expansion of the financial sector exerted extra pressure on other sectors of the U.S. economy such as manufacturing? DeLong argued that by "accidentally" shifting 7 percent of GDP "out of manufacturing and other sectors" with 3 percent going to healthcare administration and 4 percent to financial services, the United States had lost overall productivity while increasing risk and uncertainty. Landerretche suggested that the growth of the "angry" Tea Party movement could be one of the effects this shift has had on U.S. politics. DeLong emphasized that the politics of any major structural adjustment aimed at correcting this imbalance would be especially fraught, amidst an anemic recovery after a major recession.

A member of the audience asked Professor DeLong to parse the effect of "global forces" on U.S. inequality. The incorporation of 2 billion workers from India and China into the global labor market was indeed important, conceded DeLong. But it ranked fourth in significance, behind the decline of U.S. educational supremacy, a "less progressive" tax and transfer system, and a cultural and socio-political transformation that has rendered acceptable elite corporate practices that would have yielded a sharp response from organized labor and the wider society in earlier eras.

In answering what factors hinder progress on addressing Chilean inequality, Landerretche pointed to several dynamics that make the politics of enacting such a program daunting. In a "very small" country such as Chile, with very concentrated markets, the economy "is basically controlled by just a handful of very large family conglomerates, and they are going to lose." This context makes such "a political agenda very difficult to produce." He also reminded the audience that the context for Chile, unlike the United States, is a persistent history of stark inequalities.

DeLong picked up on this theme in response to a question about the limits of discussing economic reform without changing the political structures that clearly delimit such reform. He agreed that such change was probably necessary but that it must be approached with great caution. The history of the 20th century is replete with examples of the risks of political actors claiming greater legitimacy as representatives of "the people" than that of their elected officials.

Concluding remarks centered on the puzzle of why the explosion of inequality in the United States has not led to the level of "social outrage" and protest that might be expected. DeLong once again compared the current era to the Gilded Age, which did in fact lead to widespread protest. He offered that it was "a great mystery" why no such reaction has occurred over the last 30 years and highlighted it is as one area where the "Second Gilded Age" diverges radically from the first.

Speaking to the same contradiction, Landerretche ascribed the difference to the lack of political leadership that offers a coherent and compelling policy mix to robustly address the situation. In this vein, he cited Clement Attlee, the post-World War II British Prime Minister from the Labor Party whose policies are credited with building the foundation of the United Kingdom's modern welfare state. In comparison, contemporary protest movements such as the *indignados* (indignant ones) in Spain or the Occupy movement have lacked "political leadership that enables people to construct solutions." Until such leadership emerges, we may simply be "trapped waiting."

Bradford DeLong is a professor of Economics at UC Berkeley and the former Deputy Assistant Secretary of the Treasury for Economic Policy under President Bill Clinton. Oscar Landerretche is the director of the School of Economics and Business at the Universidad de Chile. They spoke for CLAS on October 15, 2012.

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VIDEO AVAILABLE AT CLAS.BERKELEY.EDU

Camila Vallejo and Giorgio Jackson, leaders of Chile's student protests, are pursuing their respective agendas by running for office in 2013.

Photo by Roberto Candia/Asscoaiated Press.