Reflections on slowing economic growth and rising inequality

by Peter Gottschalk

Peter Gottschalk is Professor of Economics, Boston College.

In the mid-1970s the game plan for the War on Poverty seemed to be working. Economic growth was accompanied by reductions in poverty among those expected to work. Increased expenditures for groups not expected to work, such as the elderly, reduced the poverty rates for those not expected to gain from growth.

The first hint I saw that all might not be well came from tabulations I made at HEW that showed that while poverty after transfers was declining, the proportion of families with earnings under the poverty line was increasing. This implied that it might not be growth that was driving poverty rates. Neither was it demographic change, since the proportion of male-headed households with earnings below the poverty line was also rising.

This was also the time of my first contact with IRP, where I learned that Robert Plotnick and Sheldon Danziger were finding similar patterns in poverty measured before transfers. We separately concluded that increased transfers and other sources of nonearned income were keeping the poverty rates from rising, but we did not know why market earnings were stagnating for those at the bottom of the distribution.

In the late 1970s I came to the Poverty Institute, where I got to know Robert Lampman. I still have the memo he wrote me, questioning what I meant by economic growth, especially in a period dominated by cyclical changes. How did we know that what we were observing was not just the effects of recessions?

Thinking about the effects of recessions ultimately led Sheldon Danziger and me to focus on changes in the variance as well as the mean of the income distribution when trying to understand changes in poverty. After all, recessions were marked by increases in the variance as well as declines in the mean, both of which caused poverty to rise. We started working on simple accounting models which led us to the conclusion that over the business cycle changes in the distribution were at least as important as changes in the mean and much more important than changes in demographics in accounting for changes in poverty. By comparing changes in poverty between cyclical peaks we also started to recognize that economic growth in the periods since the 1970s was accompanied by secular increases in inequality, which were nearly offsetting the effects of growth. This was reinforced by the fact that, counter to experiences during previous recoveries, inequality has increased in every year of the current recovery.

In retrospect it is not difficult to see why increases in inequality were not considered an important factor in designing policies during the early years of the War on Poverty. Inequality had changed very little during the postwar period. In fact, analysis of the recently available raw microdata from the Census files going back to 1949 shows that growth in the mean was the dominant factor reducing poverty through 1969. It is only in the recent period that inequality has changed sufficiently to warrant any attention in poverty research.

Having learned that rising inequality may be as important as economic growth in explaining changes in poverty only isolates a new problem. What we now need to know is why inequality in family income has grown. On this front we have a long way to go. On the theoretical side we have little guidance. While considerable attention has been given to the forces influencing economic growth, much less theoretical attention has been paid to structural links between growth and the personal distribution of income. In fact, there is nothing inherent in a market system which ensures that the distribution of income will meet social norms. All we can say is that changes in tastes or technologies, by changing factor prices, will change not only what is produced, but also who receives those goods. It is not changes in inequality but rather the postwar stability of the personal income distribution which should come as a surprise.

On the empirical front there has been more work but not much progress. Among the many candidates for the cause of the increase in inequality, none seems to do the job. Some explanations, like responses to increased transfers, can readily be dismissed—inequality grew as much among groups not well covered by transfers and grew fastest when the growth in transfers was declining. Other explanations, such as the baby boom, seemed promising but have not panned out. The fact that the supply of inexperienced workers increased during the 1970s probably did drive down the wages of those at the bottom of the distribution and, hence, increased inequality. However, even during the height of the baby boom only a small proportion of the increase in inequality could be attributed to declining work experience. Furthermore, inequality has continued to increase even as the baby boom has been followed by the baby bust. Shifts in industrial structure caused by international competition or increases in female labor force participation may be the explanation, but at this point they are only hypotheses that have not been adequately tested. We, in fact, don't even know whether the increased variance of earnings reflects increases in permanent or transitory income.

Which leaves this review in an awkward position. Isabel Sawhill has argued that it may not do us very much good to know that increases in inequality are as important as lowered economic growth in accounting for changes in poverty if we don't know why inequality is growing.[1] Another way of putting it is that we may know as little about why inequality has increased as we know about why growth has slowed. But just as the profession has devoted considerable resources to trying to account for the reduction in growth, I see the profession starting to pay attention to what I consider to be an equally important problem.

We are slowly making progress in a field whose intellectual roots and methodology can be traced back to a few influential people, among them Robert Lampman.■

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[1] "Poverty in the U.S.: Why Is It So Persistent?" *Journal of Economic Literature*, 26 (September 1988), 1073–1119. Also available as IRP Reprint No. 599.

Thoughts on access to health care

by Burton A. Weisbrod

Burton A. Weisbrod is Evjue-Bascom Professor of Economics and Director, Center for Health Economics and Law, University of Wisconsin–Madison.

Concern about normative, distributional aspects of antipoverty policy have occupied a central place in Robert Lampman's research career. The following remarks address some issues involving access by the poor to medical care and to compensation for accidental injury or death. My goal is to identify issues worthy of further thought and analysis. I will assert a number of propositions and then indicate briefly some analytic or policy issue involved with each.

> Proposition 1. From a normative, equity, perspective, health care services are "fundamentally" different from standard commodities such as a chocolate cookie; thus, it is widely held that access to health care should not be determined by ability to pay.

Some elements of an individual's health status, medical "need" for health care, and the effectiveness of health services received depend heavily on heredity and on environment before birth and during childhood. Even so, access to health care can have a major effect on health status. There appears to be widespread agreement that grossly unequal initial endowments of health status—especially at birth and during childhood—*should not* be permitted to determine lifetime opportunities. Such a view can be the result of an ethical judgment that access to health care, especially for pregnant women and for children, should be made as from behind a Rawlsian "veil of ignorance"—that is it should be determined as if by individuals who did not know whether their families could afford to purchase care.

An important question is how far such an ethical judgment does and should extend. Should it apply to adults? The older a person is, the weaker is the argument that health status is essentially exogenous. For an infant there is no doubt; for a 40-year-old it is less clear. Relatedly, to what extent should a social guarantee of access to health care be conditioned on