

A NEW LOOK AT INEQUALITY

Widening Inequality Combined with Modest Growth

Benjamin M. Friedman

The author argues that inequality, combined with only modest growth, can have grave moral consequences. History suggests that, in the past, a rising standard of living has promoted tolerance for others, commitment to economic opportunity, and democracy. But stagnating incomes due to inequality can lead to the opposite outcomes. The nation's response to immigration is a good example, says the author.

THE CRISIS TRIGGERED BY THE COLLAPSE OF SUBPRIME MORTGAGE LENDING in the United States has already resulted in the worst financial turmoil since the 1930s. The U.S. economy is now in recession, and the public is anxiously watching to see just how badly, and for how long, these events in the financial markets will depress non-

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financial economic activity. Business in most other industrialized countries is slipping as well. Most citizens, in most countries, fear that their incomes and perhaps their living standards will suffer.

What has received far less attention is that for many of those citizens, economic times have already been disappointing. In America the real incomes of the majority of families have only recently—and only barely—surpassed what they were earning at the beginning of this decade. As recently as 2006, the fifth year of the economic expansion following the 2001 recession, most American families had *lower* incomes, after allowing for rising prices, than they did in 2000. Only those in the top two-fifths of the income scale had seen any increase at all, on average, and only for those in the top one-fifth was the increase from 2000 as great as 1 percent (not per annum, but the total increase over the six years).¹

The problem in this regard was not that the U.S. economy failed to grow during these years. Even including the 2001 recession and the very beginning of the current one, total output increased on average by 2.3 percent per annum between 2000 and 2007—hardly a poor performance for a mature post-industrial economy. Instead, the problem is that the resulting gains have accrued to only a small slice of the population. In short, the economy was doing pretty well, but most of the people in it were not. The chief reason is widening inequality.

The specific concern motivating this paper is the way in which the interaction between economic growth and changing inequality governs the extent to which the majority of a country's citizens either enjoy rising living standards or do not. In earlier work I have argued that a rising standard of living for the broad bulk of a society's citizenry is a crucial condition that determines whether that society also makes progress in a variety of other dimensions that Western thinking has traditionally regarded as positive in explicitly moral terms: tolerance, openness of opportunity, generosity toward the disadvantaged, and commitment to democracy, among others.² When the majority of citizens see that they are getting ahead economically—and share a sense of optimism that they will continue to do so in the future, and even that their children will achieve yet further economic advance after them—their society typically

moves forward in these other, moral dimensions as well. But when people see their living standards stagnating or even in decline, in most cases the society makes no further progress on these moral fronts; instead the outcome is retrenchment and rigidification, often with disastrous consequences. Especially now that the onset of a new business recession will be depressing incomes more generally, the implications of further widening inequality among Americans are highly important.

Widening Inequality in America: The Situation in Brief

Although increased economic inequality in America has emerged only within recent years as a frontline issue in public debate, in fact the gaps separating those who have more from those who don't have been widening for several decades. The Gini coefficient for U.S. family incomes was .348 in 1968. By 1982 it exceeded .375. By 1989 it exceeded .400. In 2006 it reached .444. (In 2007 it declined, slightly, to .432.)

Different segments of the country's income distribution have likewise been systematically gaining or losing ground compared to one another, in directions that take them farther apart, for some decades. Families in the bottom fifth of the distribution, for example, had increased their share of all incomes earned from 4.5 percent in 1950 to 5.7 percent in 1974; by 1991 the bottom fifth were back to a 4.5 percent share, and as of 2007 they were down to just 4.1 percent. Families in both the next fifth and the middle fifth reached their peak share of the country's total income in 1957, at 12.7 percent and 18.1 percent, respectively; in 2007 these groups' shares of the total stood at only 9.7 percent and 15.6 percent. At the other end of the scale, families in the top fifth saw their share of national income rise from 40.5 percent in 1966 to 48.5 percent in 2006, before edging back to 47.3 percent in 2007 (presumably because of the troubled financial markets). Further, nearly all of this increase has accrued to what amounts to the top of the top. Families in the top one-twentieth of the distribution jumped from a 14.4 percent share of the total, as recently as 1981, to 21.5 percent in 2006 (and then back to 20.1 percent in 2007).

This phenomenon has confounded conventional expectations. Half a century ago Simon Kuznets hypothesized that inequality would widen in a country's initial stages of economic development, but that further economic advance beyond some point would lead to progressively more equal incomes.³ Kuznets not only offered cogent theoretical reasons that inequality within any given economy should trace out a widening and then narrowing trajectory over time but also showed that the historical experience of the United Kingdom, the United States, and other by then advanced industrial economies was consistent with this hypothesis. Subsequent research also found support for Kuznets's claim, especially the idea that after some point, inequality tends to narrow with further economic development.⁴ Hence the recent widening of inequality, not just in the United States but in most other high-income countries, too, has come as a surprise.

While income from asset ownership has always been distributed highly unequally, and may have become more so (from the existing data, it is difficult to tell), widening disparities in labor income—which represents some two-thirds of all incomes earned in the United States—have clearly driven the wider inequality in incomes as a whole. The most obvious force behind this worldwide process is technological change, more specifically the ongoing revolution in information processing and transmission, together with the failure of the U.S. education system to keep pace in training new entrants for the labor force. With new technologies replacing old ones, some skills and some forms of experience that people bring to the workplace take on increased value while others become less useful. If the supply of workers who have the newly valued skills fails to keep pace with the increasing demand for them—as almost inevitably happens at first when technological change is unexpected—then employers' efforts to compete for those scarce workers will result in a larger wage premium for whoever qualifies. Conversely, the wages of those who have few skills, or whose skills are no longer useful in the changing workplace, will fall behind.

Not just in the United States but elsewhere, too, wage differentials have been widening not just randomly but systematically, in line with any observable measure of either skill or experience. But in the race

between the technology-driven demand for more skilled workers and the education-driven supply, the American education system, in particular, has increasingly been falling behind.⁵

A further factor that has compounded the effect of changing technology and faltering education is the skill-biased pattern of immigration. Although the United States in recent years has instituted new categories of temporary visas for highly skilled workers, since the mid-1960s the criteria for permanent immigration have primarily emphasized family unification and other objectives not related to what immigrants bring to the workplace. As a result, even legal immigration tends to be skewed toward people with lower-than-average skills compared to the American workforce as a whole. Presumably the same is true (probably more so) among illegal immigrants. Hence immigration patterns have added to the imbalance between high- and low-skilled workers, disproportionately bringing lower-skilled people into the American labor force at the same time that patterns of technological change are requiring higher-skilled labor instead. The result has been to drive skill-based wage inequalities even wider.⁶

Other developments may have played some role as well. As is well known, the rewards paid out to top-level business executives have increased dramatically in recent years. Between the early 1990s and the early years of this decade, the compensation of the five highest-paid executives at U.S. public companies (which must be disclosed each year) doubled in relation to companies' earnings. Moreover, even the amounts paid to just these five individuals have become sufficiently large to represent a significant share of the typical firm's total compensation budget.⁷

At the other end of the scale, congressional inaction over the years has allowed the federally mandated minimum wage rate to fall well behind ongoing inflation. At midyear 2007, just before the most recent increase took place, the minimum wage (at \$5.15 per hour) had an inflation-adjusted value less than two-thirds what it had been in the late 1960s. Yet a further contributing factor, probably affecting many workers whose wages are well above the legal minimum, is the declin-

ing influence of labor unions; today barely 7 percent of all workers in American business belong to unions.

Finally, the increasing exposure of American jobs and businesses to foreign competition, as advancing technology makes it possible to produce an ever wider range of goods and services in one country for final sale in another, may have influenced American inequality as well. In this case, however, although the overall effect on U.S. wages is clearly downward, the implications for inequality are not obvious. Some high-wage jobs in America have proved especially vulnerable to shifting abroad—computer programming, routine legal work, and automobile assembly, for example—while many low-wage jobs (mowing lawns, collecting garbage, watching over parking lots) are, by the nature of the work, practically immune.⁸

The Importance of Rising Incomes and Improving Living Standards

Not surprisingly, widening inequality can—and, on the evidence, often does—have significant consequences. People’s sense of fairness plausibly refers not just to equality of opportunity but to equality of outcomes as well. (If it didn’t, those sufficiently poor would be left to starve and go without medical care even in emergencies.) But the two are not unrelated.

Because today’s earning power in part reflects skills garnered in the past, not to mention a vast complex of other acquired advantages as well, observed inequality of outcomes, particularly when it is systematic, is also suggestive of underlying inequality of opportunity.⁹ For just this reason, people’s attitudes toward inequality often differ, depending on whether they believe economic success depends more on individual luck or on societal forces.¹⁰ Similarly, attitudes to inequality often depend on perceptions of how easy economic mobility is. The long-standing view that the United States offers greater opportunity for mobility than exists in other countries—in *Democracy in America*, Tocqueville wrote, “To tell the truth, though there are rich men, the class of rich men does

not exist . . . the rich are constantly becoming poor”—has served this country well in this regard.¹¹ (Whether mobility here is actually greater than elsewhere, especially today, is another matter.)¹²

Widening inequality, in conjunction with a country's overall pace of economic growth, can also affect people's attitudes in another important way. The experience of many countries suggests that when a society experiences rising standards of living broadly distributed across the population at large, it is also likely to make progress along a variety of dimensions that Western thinking, at least since the Enlightenment of the eighteenth century, has held to be not merely positive but positive in explicitly moral terms:

- openness of opportunity for economic and social advancement;
- tolerance toward recognizably distinct racial or religious or ethnic groups within the society, including immigrants if the country regularly receives in-migration;
- a sense of fairness in the provision made for those in the society who, whether on account of limited opportunities or lesser human endowments or even just poor luck in the labor market, fall too far below the prevailing public standard of material well-being;
- a commitment to democracy, meaning not just open, contested elections determining who controls the levers of political power but also political rights and civil liberties more generally.

Conversely, experience also demonstrates that when a society is either stagnating economically or, worse yet, suffering a pervasive decline in living standards, it is not only likely to make little if any progress in any of these social, political, and (in the eighteenth-century sense) moral dimensions, but rather will undergo a period of rigidification and retrenchment. In some familiar cases, the consequences, both for those societies and for others that they affect, have been catastrophic.¹³

The reason so many societies behave in this way stems from the familiar fact that most people evaluate how well off they are by considering their incomes or living standards not in absolute terms but relative to some benchmark. More specifically, there is substantial

evidence for two separate benchmarks by which people judge such matters. Most people take satisfaction from living better than they, or their families, have lived in the past. And they take satisfaction from living better than their friends, neighbors, coworkers, and others with whom they compare themselves.

The pervasive tendency for people to evaluate their economic situation on these relative benchmarks, rather than absolutely, explains a variety of familiar features of economic and psychological behavior that otherwise would be puzzling—for example, the fact that within any one country, at any given time, people with higher incomes are systematically happier than those with lower incomes, but that there is no corresponding increase over time in how happy people are on average even when average incomes are steadily increasing.¹⁴ As Adam Smith observed long ago, “all men, sooner or later, accommodate themselves to whatever becomes their permanent situation,” so that “between one permanent situation and another there [is], with regard to real happiness, no essential difference.” Smith went on, “in every permanent situation, where there is no expectation of change, the mind of every man . . . returns to its natural state of tranquillity. In prosperity, after a certain time, it falls back to that state; in adversity, after a certain time, it rises up to it.”¹⁵

But this tendency toward a relative rather than an absolute perspective in such matters can also explain why market economies, as long as they deliver rising living standards to most of a society’s population, bear positive social, political, and moral consequences. If people derive satisfaction *both* from living better than they have lived in the past *and* from living better than people around them—and, importantly, if these two sources of satisfaction are at least partially substitutes for one another—then people who are in fact living better than they have lived in the past (and have confidence that their living standard will continue to improve in the future) will attach less urgency to their desire also to live better than others around them. Hence the economically self-protective instinct that underlies so much of what emerges as intolerant, antidemocratic, and ungenerous behavior—racial and religious discrimination, antipathy toward immigrants, lack of generosity

toward the poor—naturally takes a back seat to other priorities when the economy in which people live is delivering sustained economic growth with broadly distributed increases in living standards.

In the U.S. historical experience in particular, eras in which economic expansion has delivered ongoing material improvement to the majority of the country's population have mostly corresponded to eras when opportunities and freedoms have broadened, political institutions have become more democratic, and the treatment of society's unfortunates has become more generous. But when incomes have stagnated or declined, reaction and retreat have been the order of the day. (A major exception was the depression of the 1930s, which instead led to a significant opening of American society and strengthening of American democracy—perhaps because the economic distress was so severe and widespread that the sense of being all together in the same sinking ship overwhelmed the more competitive instincts that usually prevail when people realize they are not getting ahead.)

To take just one example, albeit one very much on the nation's political agenda today, attitudes toward immigrants are a useful case in point: The United States experienced a wave of anti-immigrant violence in the 1850s, but it largely disappeared during the robust industrial expansion that followed the Civil War. The long agricultural depression of the 1880s and 1890s saw a return, not of violence, but of extremely ugly anti-immigrant agitation and prejudice. That movement gave way, after the turn of the twentieth century when economic growth had returned, to a period in which the mood of the country was to welcome—in the language of the time, to “Americanize”—large numbers of immigrants.¹⁶ But the pair of economic downturns that followed World War I then led to the highly restrictive and openly discriminatory Emergency Quota Act of 1921 and National Origins Act of 1924. (The first half of the 1920s was also when the Ku Klux Klan achieved its greatest influence in American society and politics, and not just in the South or rural areas but also in states like Michigan and Pennsylvania and in cities like Chicago and Indianapolis.)

Wholesale immigration reform followed only in 1965, in the middle of what was then the longest sustained economic expansion in U.S. his-

tory. As incomes stagnated in the late 1980s and early 1990s, however, a backlash developed, including such manifestations as Proposition 187 in California and efforts in other high-immigration states like Florida and Texas to deny various public benefits even to legal immigrants. But with the strong economic expansion of the mid- and late 1990s, the issue disappeared to such an extent that the one candidate who chose to run for president in 2000 on an explicitly anti-immigrant platform (Patrick Buchanan) attracted so few votes, even in the Republican primaries, that he had to change parties. Today, following the return of mostly stagnating incomes since then, immigration is again a highly contentious issue.

It would be foolish to pretend that every episode in this century and a half of American attitudes and policies toward immigrants was narrowly or deterministically driven by the simple difference between improving and stagnating living standards. But it would be absolutely blind to pretend that the underlying ebb and flow of economic prosperity and stagnation had nothing to do with what happened. And on other issues as well—race relations, religious prejudice, generosity to the poor, even such basics as who gets to vote and under what circumstances—the historical record likewise makes clear that America has made progress mostly when living standards for the majority of the nation's citizens are advancing. Leaving aside the depression of the 1930s, the opposite has been true when incomes have stagnated or fallen.

Nor is America the only country where a connection between rising living standards and moral progress in this sense is evident. In Britain, the opening of the universities, the civil service, and other areas of society to non-Anglicans in the 1870s; the institution of many forms of basic economic protection in the 1940s, as recommended by the wartime Beveridge Report; and the reform of British race relations in the 1960s (at the same time that American blacks gained protection of their civil rights) all occurred during times of robust economic expansion and widely shared improvement in living standards. In France, the same was true for the broad reforms in civil liberties, in electoral institutions, and in education during the early years of the Third Republic, and for the parallel set of reforms introduced by de Gaulle after World War II. In Germany the legal and judicial reforms

that followed the unification of the German empire in 1871, the creation of the Federal Republic as a postwar democratic state, and Willy Brandt's dramatic challenge to "dare more democracy" likewise all occurred in the context of robust, sustained, widely shared increases in incomes and living standards.

Conversely, many of the horrifying antidemocratic phenomena that so marred Europe's twentieth-century history ensued in a setting of pervasive economic stagnation or decline. The most obvious example, Hitler's rise to power in the wake of economic and political chaos under the Weimar Republic, is a familiar story. But it is worth recalling that as late as 1928 the Nazi Party drew only 2.8 percent of the vote in German national elections. What made the difference, soon thereafter, was the onset of depression, which affected Germany more than any other European country. Similarly, France's Vichy regime, which willingly collaborated with the authorities in German-occupied areas of the country—further, France was one of only two European countries (along with Bulgaria) to turn over to the Nazis Jews from territory that the Germans did not occupy—emerged out of a protracted period of French economic stagnation.¹⁷

In short, the evidence is clear that improving living standards, broadly enjoyed throughout a country's citizenry, have powerful consequences that extend far beyond the realm of purely economic concerns. Unfortunately, those consequences are also at work, but in the opposite direction, when living standards stagnate or decline.

Consequences of Widening Inequality When Economic Growth Is Limited

The importance of widening inequality in this context springs from the basic principle that in a heterogeneous society, economic growth does not benefit everyone identically, and that when the fruits of growth accrue disproportionately to some people, growth in the aggregate is not always sufficient for others to get ahead as well. The point is especially apt in the United States today, where the labor force is highly heterogeneous (perhaps becoming more so as

a result of trends in education and immigration), the economy's large investments in information technology are leading to ever wider skill-based differentials in what workers are able to earn, and the economy's already advanced status means that its aggregate growth is likely to be modest even under the best of circumstances.

Income distributions, in all known economies, are positively skewed; in other words, there are more people with incomes far above average than far below average. As a result, the *median* income is below the population-wide average, or mean. In the United States, for example, the total income produced in 2007 (the gross domestic product) was \$13.8 trillion. For 302 million residents, the mean income was therefore \$45,900 per person. No one who lives in the United States would suppose that the typical income for a family of four, say, was four times \$45,900, or nearly \$184,000. In fact, the median income for an American family of four in 2007 was only \$75,700.

As an economy grows, not just in terms of population but also in production per person, per capita income increases; in commonplace usage, this is the definition of economic growth. If everyone in the economy shared in that growth in proportion to the incomes already being earned, then the median income would rise in step with the mean, and the respective percentages of the economy's total income earned by different groups within the population (the bottom fifth of the distribution, the top twentieth, and so on) would remain unchanged. But when most of the returns to incremental production accrue disproportionately to those at the top of the scale, so that the income distribution as a whole is becoming more unequal, growth of the median income will be less than growth of the simple per capita average. (Conversely, when the returns to growth accrue disproportionately to those in the middle or at the bottom, as they did in America in the first decades after World War II, incomes as a whole become more equal, and the median income rises faster than the mean.)

If the economy's aggregate growth is fast enough, the bulk of the population can enjoy rising incomes and living standards even if widening inequality means that the increase in their incomes is less than that of the economywide per capita average. For example, since the beginning

of the economic reforms instituted by Deng Xiaoping three decades ago, China has maintained the fastest advance in per capita income observed anywhere in the world: on average, roughly 7 percent a year in real terms. The benefits of these economic gains have accrued highly unevenly, however, especially between the country's urban/commercial minority and its rural/agricultural majority. As a result, income inequality in China has widened rapidly. Thirty years ago China's income distribution was far more equal than America's; today it is slightly more unequal. But it is clear that the great bulk of China's population has enjoyed a significant improvement in living standards over this period. With such a rapid rate of aggregate growth, there is room for widening income inequality to cause advances in the median income to fall well short of advances in the per capita mean, and yet for the median to rise solidly nonetheless.

The United States, like other countries where the economy is already highly developed, is unlikely to achieve an overall growth rate anything like China's. Living at the frontier of economic advance (the United States has by some distance the highest per capita income of any of the world's large economies) is different from playing catch-up. Growth in an already advanced economy requires creating and implementing new technologies, not just imitating what others have already done. Further, unlike in China and other developing economies, approximately five-sixths of Americans already graduate from high school, and two-thirds of those go on to receive some college education (although less than one-third graduate with a four-year degree). Hence the rapid gains in productivity of the labor force that follow from providing basic education to wider groups within the population are already in the past. Instead, over the last half-century America's growth of real per capita income has averaged only 2.1 percent a year.

Growth of only 2 percent a year in per capita mean income, in contrast to China's 7 percent, allows much less latitude for the fruits of that growth to accrue disproportionately to those at the top while still leaving enough to provide rising incomes to those in the middle of the scale or lower. Hence widening inequality is problematic for an advanced economy like America's in ways that it is not for a country like China (although, to be sure, it is a problem today for

China as well). Even with only modestly increasing inequality, growth in the range of 2 percent in the per capita mean can translate into no growth at all in the median income—and therefore in the incomes of the majority of the country's citizens.

Indeed, precisely this situation has prevailed in America in recent years. In 2007 the income of the median family was \$61,400. At the beginning of the decade, the median family earned \$61,100 in 2007 dollars—a gain of less than 1 percent over the entire seven-year span. The effect of widening inequality overwhelmed the gains in productivity and hence in output, preventing any significant increase at the median and therefore presumably for the majority of the nation's families. Now, with a business recession in progress (and the apparent likelihood that it will be a serious one), most families' incomes will probably decline for some period. As a result, the majority of American families could well end up going for a decade, or more, with no improvement in their incomes and living standards. If the recession is especially protracted, or if the pace of growth during the subsequent expansion is disappointing (many observers have expressed fears of a "lost decade" along the lines of what Japan suffered in the 1990s), the length of time over which the incomes of most families will have stagnated could easily run much longer than a decade.

The implications are sobering. If part of what matters for tolerance and fairness and opportunity, not to mention the strength of a society's democratic political institutions, is that the broad cross section of the population have a confident sense of getting ahead economically, then no society—no matter how rich it becomes or how well-formed its institutions may be—is immune from seeing its basic democratic values at risk whenever the majority of its citizens lose their sense of forward economic progress. This risk is not just a matter of the current business downturn. If the widening inequality of recent years continues, once (presumably modest) growth resumes, experience suggests that the social, political, and ultimately moral pathologies that have emerged in prior eras of stagnating incomes and living standards, not just in the United States but in other societies as well, are very likely to reappear. If they do, they will be not just pathologies but predictable

pathologies—predictable on the basis of the protracted stagnation of living standards for the bulk of America's citizenry.

Notes

1. Here and below, unless otherwise noted, data on family incomes are from the U.S. Census Bureau.

2. Benjamin M. Friedman, *The Moral Consequences of Economic Growth* (New York: Alfred A. Knopf, 2005).

3. Simon Kuznets, "Economic Growth and Income Inequality," *American Economic Review* 45 (March 1955): 1–28.

4. See, for example, Jeffrey G. Williamson, *Inequality, Poverty and History* (Cambridge: Basil Blackwell, 1991), and Peter H. Lindert, "Three Centuries of Inequality in Britain and America," in *Handbook of Income Distribution*, vol. 1, ed. A.B. Atkinson and F. Bourguignon (Amsterdam: Elsevier, 2000). The evidence was not unambiguous, however. For an opposing view, see Charles H. Feinstein, "Pessimism Perpetuated: Real Wages and the Standard of Living in Britain During and After the Industrial Revolution," *Journal of Economic History* 58 (September 1998): 625–58.

5. See the extensive treatment of this subject in Claudia Goldin and Lawrence F. Katz, *The Race Between Education and Technology* (Cambridge: Harvard University Press, 2008).

6. George Borjas has estimated that immigration has depressed the wages of lower-skilled workers in the United States by 7 to 9 percent. See, for example, George J. Borjas, Richard B. Freeman, and Lawrence F. Katz, "How Much Do Immigration and Trade Affect Labor Market Outcomes?" *Brookings Papers on Economic Activity* no. 1 (1997): 1–90.

7. See Lucien Bebchuk and Yaniv Greenstein, "The Growth of Executive Pay," *Oxford Review of Economic Policy* 21 (Summer 2005): 283–303.

8. For a discussion of the role of "offshoring" in this context, see Jagdish Bhagwati and Alan S. Blinder, *Offshoring of American Jobs: What Response from U.S. Economic Policy?* (Cambridge: MIT Press, forthcoming).

9. James Heckman's body of work strongly suggests the importance of both cognitive and noncognitive skills, as well as the relationship between them; see, most recently, James J. Heckman, "Schools, Skills, and Synapses," *Economic Inquiry* 46 (July 2008): 289–324.

10. See Alberto Alesina and Edward L. Glaeser, *Fighting Poverty in the US and Europe: A World of Difference* (Oxford: Oxford University Press, 2004).

11. Alexis de Tocqueville, *Democracy in America*, trans. Henry Reeve, vol. 2 (New York: Vintage, 1990), p. 160.

12. The question is an old one; see Seymour Martin Lipset and Reinhard Bendix, *Social Mobility in Industrial Society* (Berkeley: University of California Press, 1959). For more recent evidence, see, for example, Daniel Aaronson and Bhashkar Mazumdar, "Intergenerational Economic Mobility in the U.S., 1940 to 2000," Federal Reserve Bank of Chicago, working paper 2005-12.

13. This is the central argument in Friedman, *Moral Consequences of Economic Growth*.

14. See Richard A. Easterlin, "Does Economic Growth Improve the Human Lot? Some Empirical Evidence," in *Nations and Households in Economic Growth: Essays in Honor of Moses Abramowitz*, ed. P.A. David and Melvin W. Reder (New York: Academic Press, 1974). A large literature on this issue has followed in the wake of Easterlin's original observation.

15. Adam Smith, *The Theory of Moral Sentiments* (Oxford: Oxford University Press, 1976), p. 149.

16. As Goldin and Katz show in *The Race Between Education and Technology*, this was (not coincidentally, I would suggest) the period when the movement toward universal free high school education took hold in the United States.

17. In these other countries as well, one can easily point to significant historical events that contradict the tendency for social and political progress to follow economic progress (though probably none so obvious, or so important, as the 1930s in the United States). Bismarck's pioneering introduction of social insurance in Germany in the 1880s, the Asquith reforms in Britain before World War I, and the ambitious agenda of the Matignon accords in France in the 1930s are all noticeable counterexamples for this purpose. But the predominant tendency is clear nonetheless.

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