S05E02: What really drives inequality?

HOST

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GUEST SPEAKERS

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Richard

Hello and welcome to Crossing Channels, I'm Richard Westcott. What really drives inequality? That's the subject of the latest in our collaboration between the Bennett School of Public Policy at the University of Cambridge and the Institute for Advanced Study in Toulouse at the Toulouse School of Economics. As ever, we're going to draw on the interdisciplinary strengths of both institutions to explore a complex issue, how gaps in health and wealth continue to shape people's lives, why they persist across places, and social groups and what it might take to close them after decades of policy effort. To explore these issues today we have Jack Newman, an alumnus of the Bennet School and now at the University of Manchester. Jack, start us off, what does your research focus on?

Jack
Yeah, thanks for having me on the podcast, so my research focuses on how different tiers of government can work together and how if we move power downwards, how can that benefit the most disadvantaged places.

Richard
And joining us from IAST and TSE, have Angélique Acquatella. Angélique, remind us of your main research interests.

Angélique
Yeah, thank you for having me. I mainly study how health, income, and preferences interact in shaping the design and determining the welfare effects of social insurance programs.

Richard
And finally, we're delighted to welcome a special guest for this episode, Penny Koujianou Goldberg from Yale University. And Penny is joining us on this episode as she'll be visiting TSE to receive the Jean-Jacques Lafont Prize. And congratulations for that. So what does your research focus on?

Penny
So I'm a trade economist. These days I work mostly on how trade has affected development. But among other things, I have investigated how trade, how international trade may have affected inequality, both in rich and poor countries.

Richard
Inequality impacts every area of society and the gaps are often stubborn, even in developed economies. In England, for example, we're seeing some startling figures. The Office for National Statistics reports that people in the most deprived areas live nearly 19 fewer years in good health than those in the least deprived areas. The ONS data also shows that in 2020 to 2022, the wealthiest 10 % of households had at least £1.2 million in wealth while the least wealthy 10 % had 16 and a half thousand pounds or less, and strikingly the richest 1 % alone owned the same share of total wealth as the entire bottom half of households combined. So what does this mean for our everyday lives? Why is the wealth gap so stubborn and what policies might actually work to close that gap?

Jack, let's start with you. Can you give us an overview of how society has been, you know, in recent eras? So have we always been unequal? Is it getting better? Is it getting worse? Have we not really measured it in times gone by? What's the bigger picture?

Jack
Yeah, thanks. Well, let me start by going all the way back. I mean, in deep history, you had much smaller societies that were more equal. But for much of recorded history, you've tended to have a small elite and then a large majority. In the modern era, with the emergence of the middle classes, societies have become more stratified. And in the 20th century, and especially in the post-war era, with the advent of the welfare state and policies to tackle inequality, societies have started to become more equal. But then since the 1980s, globalisation, market liberalisation, we've seen that inequality start to rise again. Although at the same time you've had civil rights movements, feminism and other social movements that have tackled other forms of inequality. So it's very difficult to give a definitive answer really. There are lots of types of inequality, lots of ways of measuring it and lots of intersections between the different types. I'm specifically interested in spatial inequality. I mean I'm from Hull, a post-industrial place that saw a decline after the fishing industry so maybe that's one of the reasons that spatial inequality is something that I see as really important.

Richard
And when you talk about spatial inequality, to be clear, you mean geographical spaces?

Jack
Yeah, so spatial inequality is inequality between different places, usually referred to within a country, but we might think of it on a global scale as well. In my research I'm interested in productivity and public health inequalities. With productivity we've seen in the UK, London, the South East accelerate ahead and we've seen lots of other places fall behind especially smaller cities, towns, rural and coastal areas. On the public health front we can look at a metric like healthy life inequality and see that healthy life expectancy has stalled in the 2010s in the UK, but actually in about a third of local authorities, it's decreasing. And those areas that are furthest behind are falling further behind. So take Northeast Lincolnshire, Grimsby, Cleethorpes, just over the river from Hull, actually. during the 2010s, healthy life expectancy decreased by four and a half years for women and eight and a half years for men. So we're seeing big declines. I'll just make one final point, which I think is really important because I'm also interested in the spatial inequality of politics and governance. And it's these places that are furthest behind that are often those that vote for Brexit, that are voting for the populist right and Reform. And really we can see spatial inequality becoming a big political issue. And to use the words of Andreas Rodriguez Pose we can say that we're now seeing the revenge of the places that don't matter.

Richard
Angélique, some of your research looks at healthcare demand and how insurance designs affects behaviour, especially amongst low-income groups. So from that perspective, what does your work reveal about the roots of unequal access to care? Are there things that are very different, for example, when you have public and private healthcare systems?

Angélique
So what I look at is trying to understand how low income households differ in the way that they respond to subsidized prices. If we take a step back and think about the policy levers that a

government may have to reduce health inequality, it has to work through the healthcare access channel.

We'd like to focus on policies that get individuals, particularly with poor health, to use healthcare services that can then change and improve their health state. What I find is that while low income households tend to be the most responsive to prices in most markets, that doesn't seem to be the case in the market for healthcare services. Even when it's free, low income households do not use healthcare as much as they ought to. And part of the reason is that they're just resource constrained. It means that income is very, very valuable to them, especially when they're constrained. They have to pay rent, they have to pay for car repair expenses, and healthcare is relatively less valuable than using their employing their income for other basic needs. But that's not because healthcare is not valuable. It's just because their other needs are very, very valuable.

Richard
So do you mean then that, say in a country like the UK where healthcare is free, it's the expense of getting to hospital or getting to the doctor, is that what you mean? They don't have the money to do that effectively.

Angélique
Exactly. Well, it's just demand side incentives or demand side policies that reduce the nominal price of healthcare do not do as much for getting low income households to use healthcare as say compared to supply side policies. So opening a clinic in a low income neighborhood is much more effective in inducing utilization among low income households. And in fact, in the US, the rollout of community health centers did wonders for reducing the mortality gap between the rich and the poor. And Medicaid, so low-income health insurance, also saves lives, but at a greater cost. So here, the references that I have in my mind are Bailey Goodman Bacon from 2015. They find that a cost per life year using this kind of supply-side policy, the community health centers, is about $60,000 per life year, versus Medicaid expansions also save lives but at a cost of $180,000 per life year.

Richard
It's really interesting actually that those community efforts really work and that is a road that the NHS is trying to go down now actually, the health service of the UK. Penny, your research has shown how trade liberalisation and globalisation can produce uneven outcomes within countries. So looking back at the evidence we now have, what are the clearest lessons about how this openness of markets has contributed to inequality and who tends to be left behind?

Penny
Yes, so let me start by emphasizing that there are many different dimensions of inequality and some dimensions have increased over time. So you mentioned health and wealth, obviously, but there are other dimensions where we actually have had improvement. I would say in the United States, maybe gender or racial inequality. Arguably, these are cases where we've seen progress. Now, when it comes to trade in particular, in the 1980s and 1990s, the focus was on

wage inequality and in particular one particular aspect, namely the skill premium. So that's the difference between skilled workers and unskilled workers .

Simply put, the finding was, and that was robust, it was documented, people with good education, meaning high school and higher or college, were doing much better than people without education.

Many of us looked at that time, looked at the various mechanisms through which international trade would be contributing to this rise in the skill premium. And the short answer is we didn't find it. We didn't find any effect of trade. We were finding statistically significant effects, but not economically significant effects. Or to put it in a different way, all these effects were dwarfed by the role of technology. So technology, automation, skill bias, technological change had a much bigger impact than international trade.

So that was in 1980s and 1990s. And then in the 2000s, this consensus changed. And most trade economists and most economists started realizing that trade was contributing to a rise in inequality. Now, why did this happen? Some people would claim it happened because China entered the picture and China is large, it's a different order of magnitude.

My own view is somewhat different. I think the reason people find big effects now is because rather than comparing workers with education to workers without education, we started comparing communities that were exposed to international trade and in particular to international trade with low wage countries versus communities that were not exposed to international trade. So in many countries, overall, the economy was doing great. Take, for example, Brazil or India. There is no question these countries, in the aggregate, benefited greatly from trade liberalization. But then you look within locations, within the country, across locations, what happened.

And people consistently found that those locations where we're exposed more to trade were doing worse. Why? Because you can also think of imports as being a negative demand shock.

And it takes time to adjust. Now, as it turned out, what people found again and again, it takes an awfully long time to adjust. There is some work that has shown it can take 10 years or more, and this is a very long time. So this is where we stand right now. I think there is, by now people have realized that this spatial inequality matters. And again, it matters more than anything else because it matters politically. It has mattered greatly in the United States. It has mattered in Great Britain. I would argue that it also matters in many other European countries.

Richard
In terms of certain communities adapting to these shocks, does that have to come from government policy, do you think? Or is there anything that can happen more locally where communities can adjust if they see that they're falling behind with globalisation because of competition from abroad?

Penny
So, the bad news is we have not seen any government programs that have been successful in addressing these issues. this is a failure. I would argue that part of the failure is we didn't realize there was a problem in the first place for a very long time. However, there have been communities that have adjusted, not because of government support, but because they moved in the right direction. So there are examples of communities that got access to fast internet, broadband and completely restructure their economies away from manufacturing towards the service sector. And that made a big difference. But to my knowledge, this did not happen through government support, even though given the findings that we have now, there is a sensible argument in favor of place-based policies, which is again something economies completely dismissed in the past. But perhaps we need to rethink this.

Richard
Well, let's bring Jack in on this. So your paper, Tackling Health Inequalities, you argue ambitious health missions often fall short because the delivery mechanisms are weak or fragmented. So what explains the persistent gap between the ambition and the actual result, the delivery?

Jack
Yeah, I'll come back to this place-based policy question in a minute because I think it's crucial. But first, I think it's important to flag the prioritisation of politicians and increasingly governments see their overriding objective to be increase GDP in the short to medium term. And this has all sorts of consequences. It might mean championing the automotive sector, even when private car ownership has negative impacts on public health, especially in cities, and it might mean prioritising low taxation over investment in public services. And when public services are cut, it's often the preventative health agendas that are cut first, so longer term preventative agendas. So I think there's a prioritisation issue.

Also more fundamentally this is about how we structure and organize governance and this is where the place-based angle comes in. So the UK, highly centralized, you have a central government trying to micromanage lots of policy programs, and it just doesn't have the capacity to do this. Often it means it tries to put a price tag on everything and that really doesn't work when you're trying to improve people's health and well-being, it gets too complicated. So this is where we need the empowerment of local leaders and the join up of services, the join up of different policy sectors at the local level and focus on delivering services in a more place based way. Often there's challenges of fragmentation and just to take an example from my research we looked at policy geographies in the UK. So local government is organised around one geography, the health system is organised around another, education around another etc etc. None of them align and you end up with this fragmentation that makes it very difficult for local leaders to be able to join up these different issues and deliver more coherent policy agendas. So there's a role for central government, not in micromanaging, but in trying to set up the broader structures in society that enable local leaders to have the levers and the powers and the funds they need to deliver more place-based services and more place-based policies, which in the longer term can have big benefits for those places that have been most disadvantaged and left behind by those broader macro issues that Penny's been talking about.

Richard
Angélique, when it comes to designing the system like Jack's been talking about, from cost sharing rules to subsidies, which approaches look most promising for reducing inequality and what trade-offs do policymakers need to manage to keep them sustainable?

Angélique
Sure, so I want to touch on one of Penny's earlier points that inequality is not just health inequality, it's not just income inequality, but it also manifests in very different dimensions. And I think in the background of all of these policy designs and questions, there's sort of the latent question of, well, is reducing inequality the objective, the social objective, and along which dimensions? So to that end, I have a different project with Amitabh Chandra and Michael Ebert where we try to look at society's preferences for redistribution along multiple dimensions, just to try to understand what should be the objective function underlying the design of policies. Because inherently, current policies are trying to do something and the question is whether that's consistent with the social preferences of citizens in society. So for example, should we be thinking about reducing health or compensating transfers towards individuals with disabilities over funding, say, obesity drugs and trying to reduce health disparities and cardiovascular disease? These are sort of open underlying questions behind the policy strategy. And it's not always clear what's the policy objective, because reducing inequality is broadly defined. And inequality has many different manifestations. But suppose that we have an objective to reduce just income inequality, then the trade-offs that we typically think about to make those policies sustainable are those that we would think about in terms of marginal value of public funds. So we think about two things, the society value for redistribution of a particular policy. And then on the other hand, what are the fiscal externalities of that policy? Did that policy make workers more productive in the future? And can we tax those workers in the future? Or did that policy make people healthier and reduce healthcare costs? Or did that policy make people healthier and increase their labor market opportunities? And taking a look at these trade-offs, that is what policymakers use or should use to then decide which policies to expand or eliminate altogether.

Richard
Penny, if the goal is to preserve the efficiency gains from open trade whilst limiting the losses that fall on specific places and groups, what mix of instruments, things like adjustment assistance, place-based support, wage insurance or training, have the strongest evidence behind them today? And where do we still need evidence?

Penny
So first let me say that unfortunately open trade is a thing of the past. To come back to what Angélique said about the fact that we need to be clear what the objective is. Do we really want to reduce inequality or not?

This question is particularly salient in trade because we know that trade is going to increase some dimensions of inequality and very often this is considered desirable. So I completely agree that we need, as a society we need to agree what the objective is but in the last few years

it has become very clear that this increase in spatial inequality has political consequences that I think the majority of the population, the overwhelming majority would consider undesirable. So there is a very pragmatic concern. Beyond the philosophical concern, for it might be very hard to reach consensus, there is a very pragmatic concern to avoid inequalities becoming so large that the population revolts. Again, something that's considered desirable, more or less desirable status quo. Now when it comes to trade, in particular, policies, how could we get the best of two worlds or what we should have done differently? I think number one, economists should have an open mind to the possibility that trade may lead to very large increases in inequality. I remember colleagues of mine telling me, your job is not to make the case against trade. This is something the unions will do anyway. Your job is to explain to the public the benefits of trade because this is something they don't get. Another colleague of mine once said, you give them an inch, they will take a mile. So among trade economists, and this is so different from what people do in other fields of economics, in trade economics people always felt they are on a mission to make clear to the public that trade is good. while we're pursuing this mission, and I very strongly believe that trade has huge benefits to the world and especially for the poor. But when you pursue this mission without paying attention to counter arguments, you lose credibility. The number one issue on my agenda is just to open our minds. Second, we have plenty of evidence on things that have not worked including the obvious solutions of retraining, adjustment assistance. So in the United States there has always been trade adjustment assistance. The consensus is that this has been a failed program and some people would say it's failed precisely because it was too small. So it should be scaled up. On the other hand, it's hard to scale it up when we have no evidence that it works. So it's really a catch.

So with that in mind, I would make two suggestions. One is perhaps in some cases we need to think to take things more slowly. So for example, the new frontier in trade is trading services. So this is not happening yet, but one day countries may decide to liberalize trading services. The consequences for labor markets are going to be enormous. Imagine that now you can buy your legal services or medical services from other countries. There will be huge effects on domestic markets. And I think we need to take things slowly and figure out adjustment before we open up markets very fast. The second possibility is what we were talking about before that we need to consider and place-based policies. And just because we know that the effects tend to be concentrated geographically. And again, there are two views. One view is we should encourage mobility. We should encourage people to leave those locations that are adversely affected and move to those locations where things are still blossoming. And the other view is perhaps we should focus on those communities that are facing hard times right now. And you know this is a debate we are still having, but I think we need again to approach place-based policies with an open mind.

Richard
It's interesting you talk about open trade not existing anymore. As an overview, do we have any idea, for example, the impact that tariffs might have, or be having on inequalities around the world?. But it's been quite a shock to the world, hasn't it, seeing all of these tariffs appear and get reduced and increased and so on. Is there any sense of what impact that might have on inequality around the world?

Penny
I think one effect that seems very likely is that they will have adverse effects on low-income countries. From the point of view of a global humanist, I would like to emphasize that trade has done a lot for the globally poor. So, extreme poverty was eliminated, close to eliminated in East Asia, in big countries like China, Vietnam, Korea. International trade had a lot to do with this. And of course, you know you say that in the communities in the UK or in the United States or in Germany that have been left behind.

And they will say, who cares? We sacrificed our domestic workers to make Asians richer. So this is very much the attitude right now. But again, from the point of view of a global humanist, a life is a life. And the Chinese life matters as much as an American life. So we know for sure that these countries are going to. So these countries are no longer poor, but there are other countries in Africa, for example. And it's not clear what the development prospects for these countries are in the future.

Then there are many countries in Europe or middle income countries in the rest of the world. In my opinion, growth is going to be slower. Again, growth is not everything. They will have to focus more on domestic policies. So I think there will be many challenges, but I don't expect any dramatic effects in the richer parts of the world. In the poorer parts of the world, it's going to be a different story.

And finally, within the United States, in my opinion, what the United States is doing is close to suicidal. And the communities that are going to be affected the most by the current measures are precisely those communities that have suffered the most in the past.

The recent policies have been certainly regressive. Tariffs, higher tariffs, price increases are all policies that hurt the poor more than the rich. So I don't see any of these policies that have been recently adopted as contributing to addressing all these questions regarding inequality.

Jack
Just wanted to make a point that builds on what Angélique and Penny have been saying about the trade-offs and the fact that government need to be clear about whether they're trying to tackle spatial inequality or trying to achieve growth or whatever the policy objective may be. I think too often politicians have resorted to ambiguity over their objectives and they've promised both. So look at the levelling up agenda in the UK that promises to tackle spatial inequality and grow everywhere or look at Labour's approach to taking back control and also growing the economy. You have an ambiguity of what the objective is and there's no surprises when both objectives can't be achieved which leads to lower trust in politics. Over time people lose faith in mainstream politicians to be able to deliver on these priorities and people end up turning to simplistic and populist answers from the extremes of the political spectrum.

Penny

Well, when it comes to spatial inequality, these dilemmas are particularly solid. I think there is very little sympathy among many, and even among left-leaning economists for communities that are left behind.

So if someone tells you a certain community in England is left behind, the first reaction is, why don't the people there pack and move to London? It's pretty much the same in the United States. Why don't people move to the East Coast or to Silicon Valley?

And at some point I think one has to realize that humans are humans. People have, perhaps they have an emotional attachment to the place where they live. In addition, are big financial constraints that may prevent them from moving. One needs to respect human nature, I think.

Richard
Angélique, do you find that, do you think there's a lack of sympathy sometimes for some of those communities that aren't taking advantage of the systems or proactively doing something about it, some would say?

Angélique
I can't speak to the sympathy or lack of sympathy thereof, but I can certainly think about the spatial inequality in the US, especially with the work of the Dartmouth Atlas, and how it is true that certain communities just do not have access to care. They have to go farther away.

And it is a very robust empirical fact that even to get healthcare, people go usually to the nearest hospital. We also know that if that hospital doesn't perform say as many open heart surgeries the outcomes are much worse. So the response is often to say, well, people should travel further.

And there's other factors, I mean, people remain human. So maybe the focus should be in, instead of mobilizing people, just to try to expand community health centers in low-income neighborhoods and bring the services that may reduce those gaps in outcomes directly to the communities that could benefit from those the most.

Richard
Okay, we're always finished by looking ahead, gazing up into a crystal ball. So all of you, what do you see as the biggest unanswered question about inequality in your field? And what kind of evidence or research would make the greatest difference in tackling it in future? And why don't we start with you, Angélique?

Angélique
Maybe not the biggest, but the question that I'm certainly most interested in is to what extent do income-driven utilization disparities map into or are responsible for health disparities? Because there's one part of it which is just driven by health behaviors and different underlying things about an individual that cannot be changed by policy levers and therefore there's an aspect of inequality that we can really do nothing about. But there's another aspect of inequality that we

can do something about. And understanding what are the right policy levers to address those gaps is important. And I guess recent research concludes that the guaranteed income experiment finds that giving low income households large income transfers doesn't do much for their health care consumption. So just guaranteed basic income at least doesn't seem to be the most effective policy lever to close health disparities, maybe it's not just a story about income. It's really about those other community-based access factors that can target health inequalities.

Richard
Jack?

Jack
So I'm really interested in the capacity of local institutions. So capacity sounds like a bit of a dry word, but it's absolutely crucial that local governments, regional governments, local public services have the staff, the skills, the evidence, the resources to be able to deliver. I mean, in the UK, you look at the government trying to cut NHS managers, assuming that NHS managers are just a waste of money, whereas actually they're the people who keep the system in place and enable those on the front line to actually do their job and deliver.

Richard
Yes, in 30 years of being a journalist, I've seen local government lose a lot of resource and now we seem to be in a world where having a very strong Metro Mayor is very positive for your area and if you haven't got one of those then it's less positive and harder to make a noise as well. So it's interesting that it doesn't seem to be spread out evenly and there is an even ability across the country in terms of local councils, kind of in my experience.

Jack
Yeah, absolutely.

Richard
Penny, what about you?

Penny
I think the most important question in trade would be a policy design question, and we don't have an answer because there very few cases of success. Many people are looking into industrial policy. Right now, it's one form of providing relief. Again, the views there are very mixed. There are both social welfare problems. But the UK has been a welfare state and even the United States does provide social support and that has not helped much. So it's an open question and I think there are many sub-questions one could answer. And the second set of questions that would be of interest to me regard the sources of constrained mobility. So why is it the case that we see too little mobility within countries? it's not enough to equalize outcomes across geography. So what's the reason for that? Is it economic constraints? Is it behavioral constraints? I think that would also be very interesting.

Richard

Fantastic. Well, that's all we've got time for on this episode. Thanks so much to Jack Newman from the University of Manchester and Bennett School of Public Policy, Angélique Acquatella from the Toulouse School of Economics and Penny Koujianou Goldberg from Yale University for joining us. And thank you for listening to Crossing Channels. We'd love to hear what you think. Your reviews help us shape future episodes and make it easier for new listeners to find the show. If you enjoyed this one, why not explore some of our earlier episodes too?

Please join us next month when we'll be discussing intellectual capital and its role in shaping future prosperity.