Opinion

Columnist

Why economists took so long to focus on inequality

January 5, 2016 | 4:46 PM By Justin Fox

In the early 1980s, the share of earnings going to those at the very top of the income distribution in the US — the 1 per cent — began to rise a lot. For two decades, the economics profession barely noticed.

Then, in the early 2000s, Thomas Piketty of the Paris School of Economics and Emanuel Saez of the University of California-Berkeley began releasing evidence, gleaned from Internal Revenue Service data, that top earners' share had doubled since 1980, and was higher than at any time since the Great Depression. Their data showed even more dramatic gains higher up on the scale — the share of income going to those in the top 0.1 per cent had more than tripled in the 1980s and 1990s, while the share going to the top 0.01 per cent had almost quadrupled.

Since then, inequality has become a major focus of economic research. At the annual meetings of the American Economic Association and a host of affiliated organisations that I'm attending in San Francisco this week, I've counted at least 70 papers, speeches and panel discussions devoted to income and wealth inequality. The topic creeps into discussions of many other matters as well. Reports Nelson Schwartz in the *New York Times*:

"In the last few years, there's been a huge change in the mainstream of the profession," said Steven Fazzari, an economics professor at Washington University in St. Louis who first came to the conference as a job-hunting graduate student in 1982. "The issue of income inequality was a backwater in the economics field, and it was largely ignored."

Interestingly, this explosion in inequality research has occurred in a decade when the share of income going to the very top has actually declined slightly, according to the World Wealth and Income Database maintained by Piketty, Saez and several others. The top 1 per cent's share of pre-tax income peaked in 2007, at 22.8 per cent. In 2014 it was 21.2 per cent.

So economists largely ignored a major economic phenomenon as it was occurring, and now they're obsessing over it even though it may have peaked or at least paused. What's up with that?

The answer may lie in agnotology, the study of the cultural suppression of knowledge. That's what Dan Hirschman, a lecturer in economic sociology at the University of Michigan who will start work later this year as an assistant professor of sociology at Brown, proposes in a chapter, titled *Rediscovering the 1%: Economic Expertise and Inequality Knowledge*, of his brand spanking new Ph.D. dissertation. It makes for interesting reading.

The term "agnotology" was coined 20 years ago by Stanford University historian of science Robert N. Proctor. Epistemology is the study of what knowledge is and how it is acquired; Proctor proposed, half-jokingly it seems, that agnotology was the opposite.

Proctor was referring at the time to the tobacco industry's efforts to obscure the links between smoking and cancer. Hirschman's account of the economics profession's treatment of inequality relies on no such deliberate suppression of knowledge. It is about, in his words, "normative ignorance" instead of "strategic ignorance."

The National Bureau of Economic Research published the first detailed analyses of the US income distribution based on tax records in the early 1920s, with a heavy focus on those near the top because at that point they were the only Americans who paid income taxes. The Commerce Department's Bureau of Economic Analysis later took over the project and published detailed income-distribution data in the 1950s and early 1960s, and again briefly in the 1970s.

The BEA finally gave up not because of political pressure but because its resources were limited and economists just didn't seem interested in the numbers. Macroeconomists were satisfied with knowing the economy-wide income breakdown between labour and capital, while labour economists were more interested in survey data that allowed them to connect incomes to variables such as education, gender and race. The fact that those surveys had to be "top-coded" — results from those with the highest incomes were censored to protect people's privacy — didn't seem to be a major problem. In Hirschman's telling, the discipline had established two "regimes of perceptibility" that rendered what was going on at the top of the income distribution invisible.

When anecdotal evidence of rising incomes at the very top began to appear in the 1980s, economists mostly ignored it. Lester Thurow of the Massachusetts Institute of Technology was a significant exception, but by that point he was more a public intellectual than a research economist, and his arguments didn't get much traction within the discipline.

In the early 1990s, Hirschman recounts, two prominent MIT economists closer to the academic mainstream — James Poterba in an academic paper with Daniel Feenberg, and Paul Krugman in work aimed at a lay audience — noted what appeared to be a sharp rise in incomes among those at the very top. Income inequality was briefly a big political issue, with Bill Clinton citing Krugman's estimates on the campaign trail in 1992.

But then that was it. Clinton's political priorities soon shifted, as did Poterba's and Krugman's research interests. Writes Hirschman:

> Without a recognised place among academics, or even a tight connection to a particular statistical agency or dataset, it became just one more economic fact bandied about in a presidential election.

It was only when Piketty and Saez came along, and not only published data on changes in the income distribution since 1913 but updated it every year and made it available to all, that the explosion in top incomes became a major research focus. Hirschman again:

> [G]iven that policymakers and the public always have limited attention, and given that the economic world does not present itself unproblematically in some ordered and logical fashion, economic theories and data collection practices shape both which aspects of economic life we view as important, and the precise ways in which we can detect or fail to detect changes.

Now that they have the data readily available, economists — and by extension most of the rest of us — have come to view income inequality as important. They have also begun to entertain new theories for why top incomes have grown so much.

When income inequality was discussed in the 1990s the dominant explanation, based on decades of work by labor economists on the link between education and pay, was "skill-biased technological change." That is, technological progress was changing work in ways that favoured those who got high scores on their SATs. This made rising inequality seem both inevitable and to some extent desirable. In the past, technological progress brought higher living standards. We wouldn't want to stand in the way of that, would we?

Skyrocketing incomes among the top 0.01 per cent are harder to account for this way. Sociologists have looked to changing social norms as an explanation; political scientists to changing laws and political priorities. Now economists are starting to pay more attention to those possibilities. They are also proposing, as Piketty did in his bestseller *Capital in the 21st Century*, new economic explanations for rising inequality. They are far from coming to any sort of consensus on what exactly is going on and what if anything should be done about it. But they're definitely working on it. Finally.

My own sense is that the economics profession's performance on income inequality hasn't been terrible. Lots of things in this world operate with long and variable lags, and it shouldn't be all that surprising that it took a while for economists to focus on a new, unexpected and unmeasured change in the income distribution. Also, rising incomes across the board in the mid- to late 1990s made income inequality seem a less than pressing matter. In the stagnant post-2000 economy, economists understandably began looking for ways to explain what had gone wrong.

Still, as I wander from presentation to presentation at this week's economics meetings in San Francisco, I can't help but wonder what important knowledge the economists are inadvertently suppressing today. - Project Syndicate