

UNEQUAL but PROSPEROUS



... a better place for the poor to be

DEIRDRE MCCLOSKEY is one of the world's leading historians. Here she takes her place in the IEA interview chair and talks with **PHILIP BOOTH** about poverty, enrichment, inequality and Thomas Piketty

Capital in the Twenty-first Century by Thomas Piketty is the book on every progressive's coffee table at the moment. The book has been dissected by a large number of economists. Does Piketty's argument about the growth of inequality stand up to careful scrutiny?

Not really. Piketty is a serious economist. He's not a liar or a fool. But even serious economists can be wrong in their science: Piketty is.

For example, the only countries in which Piketty finds an actual rise of inequality are the UK, the USA and Canada.

The three cases can be

explained by government policies foolishly favouring the rich, such as making it crazily-difficult to build in London, which drives up the price of existing houses – generally owned by the rich. "Capitalism" didn't do it. A form of half-socialism did.

For the other countries, which did not experience a



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rise in inequality, Piketty is warning against the future. But, again, his argument isn't very good. He says that capitalism always causes the rich to get richer and the poor to fall behind. So why not everywhere, every time since 1800? It didn't happen.

One of your criticisms of Piketty's work is that he does not take account of the role that human capital now plays in the economy. How will this affect future trends in inequality?

Most income nowadays in a place like Britain comes not from the physical capital that Piketty measures, and the ownership of which he worries about. It comes instead from human capital – your skills and health and education.

Why and how? Because capitalism has made you the worker 20 to 100 times better off than your ancestors in 1800. You can stay in school much longer or can get highly-skilled training if you are 20 times richer than your great-great-great-great-grandmum, who went to work herding cows in the Nether Field at age eight.

In 1800 the average person got her bread from labouring with her hands and back. Now you will get it from your better-educated brain.

Once upon a time, the bosses had all the capital, which was mostly land and

factories and machines. Now most of the capital is human, owned by the worker – between your ears. (And the physical capital, by the way, is also owned by workers, often, in pension funds and in personal houses.)

Human capital has already made the workers vastly better off, and will do so more and more. Equality of real comfort will go on rising, as it has in the past two centuries – indoor plumbing, colour tellies, better education, overseas holidays, longer life expectancy.

You have made your name as an economic historian. If we look back over the last 200 years what has been more important for promoting increased living standards for the poor: redistribution or economic growth?

Economic growth by far, in what I call the Great Enrichment. How great? As measured recently in real terms per person since 1800 by economic historians, it has been an amazing 20 to 100 times.

In other words (doing the pre-GCSE maths) the Great Enrichment for the average person, including the very poor, was anything from a 1,900 to a 9,900 percent increase over the miserable base in 1800.

And can we quantify the benefits of economic growth compared with redistribution

on the living standards of the poor?

Yes, and the results are startling. Redistribution can only take one part of the pie and give it to another person.

Think of a pizza divided among Mr. Boss and 50 Workers. If Mr. Boss starts with, say, 50 per cent of the pizza, then taking it from him and giving all his share to the workers will increase their pizzas by 100 per cent from 1 per cent of the pizza to 2 per cent.

Good – though unfortunately one time only, since you can't expect Mr. Boss to show up for the making of the next pizza if he lost all his earnings from the first one. Still, 100 per cent might be a fine thing for the workers. Hurrah.

But compared with the 1,900 per cent improvement that came during the past two centuries from allowing market-tested improvement to flourish, you can see that the gain from even the most extreme redistribution is very, very small.

The real hurrah is the Great Enrichment. Piketty and others who share his anger at rich people do not acknowledge that capitalism has made everybody by historical standards extremely rich.

Piketty focuses on the often stupid consumption of yachts and diamonds by rich people, and neglects to observe that, compared with the world before capitalism, the standard of real comfort is much more equal than it once was.

Why, through most of human history, have most people been poor?

Mainly because market-tested betterment was slow, letting growth in population



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(“diminishing returns” as economists put it) overwhelm any betterment from, say, iron from China (10th century) or windmills from the Arab world (also 10th century). When the great English economist Malthus was first explaining, back in 1798, why population growth kept us poor, it was still keeping us poor.

By now, though, another person on the planet makes the rest of us better off, because he is supplied with human capital in his brain: he invents for us new devices and gives us opportunities to trade with him.

And what facilitated the improvement in living standards in the last 200 years?

The market-tested betterment, the Great Enrichment, was itself caused by another kind of equality: a new equality of legal rights and of social dignity that made every Tom, Dick, and Harriet into an innovator.

Certain strange accidents in European history during the earlier centuries, such as the Protestant Reformation or the English Civil War, had made people bold, and slowly made the crazy new idea that we all should be equal in law and in honour seem plausible.

The Leveller Richard Rumbold, facing his execution in 1685, declared, “I am sure there was no man born marked of God above

another; for none comes into the world with a saddle on his back, neither any booted and spurred to ride him.”

Few in the crowd gathered to mock him would have agreed; a century later, many would have done so; by now virtually everyone does.

Along with that came another Leveller idea (they were free traders): the “Bourgeois Deal”.

In the first act, let a bourgeois try out in the market place a supposed innovation. In the second act there will be competitors imitating her success, driving down prices of the innovations. By the time of the third act the deal is that all will be rich.

And all did become rich, by historical standards – by the 1,900 percent already mentioned when conventionally measured and by upwards of 9,900 percent if we also measure the much improving quality

of products over the last two centuries.

Can works such as those by Piketty seriously damage the position of the least-well-off by changing attitudes to make them more hostile to business, commerce and wealth creation?

Yes, which is why I write my own books!

The danger is that each new generation will not realise how great the Bourgeois Deal has been, and will forget how bad the earlier deals have been – the Bolshevik Deal, for example, in which the government takes over the railways and the electricity companies and the newsagents and the newspapers and your employment, and everything else; or the Bridle Deal, in which excessive regulation works against “unbridled” market-tested betterment.

I ask, when has it been a good idea to “bridle” a person, like a horse? Piketty’s idea is to bridle most people so that some people will not get rich.

This is a mistake. Allow market-tested betterment: that is the best way to help the poor, in Britain and India and Africa, to become prosperous. And it results in a meaningful form of equality.



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