

THE LAST WORD

HEALTHY INEQUALITY

Today's most discussed economic 'malady'
is actually a recurring benign phenomenon

BY GEORGE F. WILL

ECONOMISTS TODAY PERFORM THE STERN DUTY FORMERLY done by dour Calvinist divines, that of telling many complainers that nothing can be done about their complaints and, besides, the suffering is good for them. Now pastors Jeremy Greenwood and Mehmet Yorukoglu argue convincingly that something currently decried as a social dysfunction and injustice—the combination of slowing productivity growth and widening income inequality—is actually a recurring and benign phenomenon.

Greenwood and Yorukoglu, economists at the universities of Rochester and Chicago respectively, date the onset of current discontents about both productivity and inequality from 1974, when two lines on a graph began moving in ways which, taken together, looked peculiar. One line charted labor productivity. It had been ascending steeply since the mid-1950s. In 1974 the line began a modest decline. The other line charted investment in information technology. What had been an irregular and modest ascent since the mid-1950s began a dramatically steep ascent that continues to this day. It did so because of what a third graph line records—a steep decline in the price of information technology.

These three developments seemed counterintuitive. Should not rapid investment in new technology both explain, and be explained by, the increased productivity of labor equipped with the technology? Quite the contrary, say Greenwood and Yorukoglu. They say that often one consequence of new technology is an initial decline in productivity associated with the cost of learning to use the new machines. And the learning process puts a premium on quick learners, meaning skilled labor. This widens the gap between the incomes of the skilled and the unskilled.

So 1974 in America resembled 1770 in Britain, and 1840 in America. At those times, new technologies began appearing, machines that would eventually enhance the productivity of labor, but not before a period of costly learning. Information technologies are causing economic turbulence—discomforting but creative turbulence—much as steam and, later, electricity did.

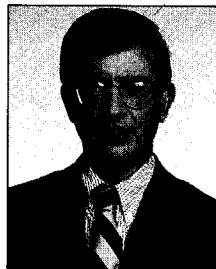
When around 1770 Watt's engine brought steam power to British manufacturing, the mechanization of manufacturing spread rapidly, as did complementary inventions, such as new machines for spinning cotton. And the price of spun cotton fell two thirds by 1841. New methods of producing wrought iron caused production to increase 500 percent between 1788 and 1815 and prices to fall 36 percent between 1801 and 1815, although the general price level rose 50 percent between 1770 and 1815.

Then industrialism came to America. Between 1774 and 1815 the per capita stock of equipment grew just 0.7 percent per year.

But between 1815 and 1860 annual growth quadrupled to 2.8 percent, and it soared to 4.5 percent between 1860 and 1900. In 1830 there were just 30 miles of railroad tracks. By 1840 there were 2,808. In 1860 there were 30,000. The aggregate capacity of steam engines quadrupled between 1840 and 1860. All of which put a premium on the skills of engineers, machinists, boilermakers, carpenters and joiners, whose wages grew relative to those of common laborers.

Was this inequality a bad thing? No, it was an incentive for people to invest in self-improvement. And it advanced the nation's economic sophistication. (The increased industrial sophistication was concentrated primarily in the North. Was that inequality a bad thing? Not after Fort Sumter.)

At the dawn of this century, industrial applications of electricity were slowed by the existence of large stocks of equipment and structures for water and steam power. So at first electricity was used primarily in rapidly expanding industries that were designing new plants adapted to electricity. So the rapid-growers grew still more rapidly. More inequalities. And more social benefits.



By one estimate, since the Second World War 60 percent of U.S. economic growth has derived from the introduction of increasingly efficient equipment, the most important of which have been information machines. Around 1950 computers entered the economy, essentially as calculating devices, and the cost of crunching numbers plummeted. Between 1950 and 1980 the cost of a MIP (million instructions per second) fell between 27 and 50 percent annually. In the 1960s computers became labor-saving devices for storing, sorting and retrieving data, the cost of which probably fell at an annual rate of 25 to 30 percent between 1960 and 1985. But the labor-saving applications were job-creating: by 1980 there were 1.13 times as many information workers as production workers, up from 0.22 in 1900.

Now computers have become communication devices, producing myriad streamlinings in business organizations, and other economic efficiencies. Information technologies also are producing additional inequality, as those people who are talented at using information technologies reap rewards that are, in turn, incentives for other people to invest time and money in increasing their inventories of talents. Thus does society progress to higher levels of sophistication. Such progress is, as usual, accompanied by a chorus from lamenters of sentimentalists who consider it a cosmic injustice that progress has a price. And the lamenters are loudest from those who make a fetish of equality.

Equality—other than equality before the law—is a problematic, and often pernicious, social value. The celebration of equality of condition often is merely envy tarted up in the clothing of compassion. Furthermore, when equality of outcomes, rather than equal opportunity, is regarded as a matter of moral urgency, this often disposes society to a surly resentment of virtues and talents that, for good reasons, receive high rewards.

A society that chafes against stratifications derived from disparities of talents will be a society that discourages individual excellence. Such a society also will resent the excellence it cannot discourage, and hence such a society will have a curdled spirit. As a character in Mary McCarthy's novel "Birds of America" says, "I've decided that may be why the Parisians are so sullen and why they drink. They thought of equality first."