

## Globalization and health in America

Angus Deaton

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I should like to start with something that Madame Lagarde said this morning when she opened this conference, which is that what we have seen over the last 70 years and especially over the last 40 years is something wonderful, something that has never before happened in human history, an extraordinary reduction in global poverty accompanied by an extraordinary increase in lifespans around the world. It is inconceivable that that we would have seen this unprecedented simultaneous improvement in living standards and the length of life without globalization in one of its forms.

One of my favorite statistics is that there is not a country in the world today whose infant mortality rate is higher than it was 50 years ago. Infant mortality in India today is lower than it was in Scotland when I was born there in 1945. This explosion in the very opportunity of having a life was brought about by taking ideas from one place to another, by bringing the germ theory and the techniques that go with it—antibiotics, vaccinations, clean water, pest control and sanitation—from the countries where the ideas and techniques were invented to the rest of the world. The reduction in poverty, in the Asian tigers, then in China and India, could not have happened without opening up trade. If we turn our back on globalization, which we are under threat of doing, we are risking catastrophe. And even if it were to benefit us—Americans or Europeans—which

it will not, we cannot turn away from those whose lives have been so greatly improved, and who are so still so much worse off than we are.

Let me focus on the United States, where globalization has taken some of the blame for bad things that are happening. Certainly, these bad things are very bad indeed. Median wages have been stagnant for almost 50 years; for those without a university degree, wages have done worse still. These findings can be challenged, for example by questioning the price indexes that are used to calculate real wages, and perhaps, after correction, there has been real progress. Yet, as my work with Anne Case has shown, one important indicator of progress—the rate of mortality—has stopped its century long decline and has begun to rise.

It is important to be precise about is and who is not affected. White non-Hispanics in middle-age have seen no mortality decline since the beginning of the 21<sup>st</sup> century, and among them, those without a bachelor's degree are seeing an *increase* in mortality. Hispanic mortality—already lower than white mortality—continues to decline at its long-established rate, which is similar to rates of decline in Europe. Mortality among black Americans has been declining even more rapidly, though blacks continue to have higher mortality rates than either whites or Hispanics. Mortality rates among elderly Americans continue to fall, at least for the time being. Those who are suffering are members of the white working class (or perhaps the middle class, for those who do not think there is a working class in America.) American Indians appear to do the worst of all groups, worse than white non-Hispanics, both in mortality levels and their rate of increase.

The opioid epidemic is a big part of the problem, but it is not all of it. Suicides are rising and so are deaths from cirrhosis and from alcohol related liver disease. Most

recently, the fall in mortality from heart disease, which has been the main driver of the increase in life expectancy in the United States over the last 40 years, has stalled and has begun to reverse. Heart disease is the leading cause of death in the US, so that changes in the mortality rate from heart disease can have large effects on overall mortality. Many commentators blame increasing obesity for the turnaround, though we do not yet have definitive evidence. If obesity is indeed the culprit, then, along with suicide, alcohol, and drugs, we have another self-destructive behavior to add to the list.

We tend to think of all of these deaths as suicides in some sense; all are self-inflicted, with the means sometimes operating slowly, sometimes quickly. That they are rising so rapidly suggests that something is very wrong in people's lives. Anne Case and I have used the label "deaths of despair," to suggest that they reflect a loss of meaning and of purpose in life, that people who kill themselves quickly or slowly are in despair about how their lives are going.

Despair runs deeper than unhappiness about earnings or job prospects, though we think that both are involved. Despair comes from failing marriages, failing relationships with children, failure of religion to support people, increasing social isolation, and for many people, persistent and intractable physical pain. Indeed, the story that we are suggesting involves the slow and cumulative erosion of the meaning and substance of working-class life in the United States. We think of this as having started in the late '60s and early '70s and worsened ever since. It is not so much the stagnation (and decline for those without a college degree) of median wages that has gone on for almost half a century, but more the other, more important deterioration in lives that accompanied it and that were in part caused by it. The China shock is part of the story, but only a part. While the educated elite have flourished, and while minorities

have made progress in social inclusion, if not so much in incomes, less-educated whites have been left behind, socially and physically as well as economically.

We see this in many measures, not only in stagnant or falling wages, but also in decreasing attachment to the labor force—there is a long-term decline in the fraction of men in the workforce, which has more recently spread to women—falling marriage rates and increasing births out of wedlock. A majority of less-educated white mothers in the United States have had at least one child out of wedlock. Cohabitation is becoming more common, and these non-marital relationships tend not to last, though they often result in children. As a result, there are many middle-aged fathers who do not live with, and perhaps do not even know, their children, who are living without them or with other men, and there are many middle-aged women who are living with a man who is not the father of at least one of her children.

The private sector unions that used to help raise wages of their members are largely gone. Unions also gave workers some measure of control over their working conditions, they represented their members in local and national politics, and they sometimes provided a route for talented workers to rise to national prominence. In many towns, social and associational activities were promoted by or centered on unions.

As earnings declined and good jobs were replaced by less good jobs, health began to deteriorate. Midlife people reported more physical pain, such as lower back pain, neck pain, and sciatica. At the same time, levels of self-reported pain were falling among the elderly, and among the well-educated. The same is true for self-reports of social isolation.

The divide between people with and without a BA is not just for those in middle-age, but is spreading down to younger people. For each later-born age cohort, a host of

indicators—marriage, divorce, pain, labor-force participation, wages, social isolation, and deaths of despair themselves—are worse at every age than for those in previous cohorts, and the rate at which each indicator worsens with age is faster the younger the cohort.

The question is whether this is the inevitable consequences of technical progress and of globalization. Is this the price Americans must pay so that hundreds of millions of people in China and in India can be better off? I think the answer is no. And it is immensely important to understand just why.

One reason we know that it not globalization and technical change is that both of them are, well, *global*. Britain, Germany, France, and Sweden live in the same world that we do, and face the same challenges. Yet there are no comparable deaths of despair in those countries, nor in other rich countries in the world. Something is happening in the US that is not happening elsewhere. Of course, globalization and technical change play a part, but the key difference is how those forces are handled in the US, how our policy environment somehow fails to prevent the suffering that is prevented elsewhere.

Globalization and technical progress are good things. They render the *possibility* that life could be better for everyone, including the people of the United States. That is what economists have known forever. So, if we don't manage to make it happen, it is not because it's the inevitable consequence of globalization, it's because we're handling it wrong. It is because policy is wrong.

This is a positive message compared with an “us” or “them” narrative. Either Chinese and Indians die or we die. Policies can be changed, and there are lots of policies that have helped undermine working class life in America, or that have made the consequences of globalization much worse than they might have been. There is no good

reason why Americans *and* Chinese cannot benefit together from globalization.

I do not have space here to work through all of the relevant policies, let alone to rank their importance, or which are most urgent to change; that work remains to be done. Yet I want to point at a few of the possibilities.

Healthcare is a great disaster for working-class people in the United States. Not only has it played a role in the iatrogenic medicine that helped ignite the opioid epidemic. At least as serious is its role in holding down wages. The US spends 18 percent of GDP on healthcare, compared with around 12 percent for our nearest competitors. Six percent of GDP is a trillion dollars a year. That trillion dollars a year is not improving our life expectancy, but helping to reduce it. What the healthcare system *is* effective at doing is transferring money upwards, from wages and taxes, to hospitals, physicians, device manufacturers, and pharmaceutical companies. The prices for the goods and services provided by each of these groups are much higher than in other countries, and it is prices, not quantities that account for higher spending in America.

I am no expert on the difficult process of how we get from where we are to some better place, but it is clear from looking at other rich countries, there are a range of alternative less costly financing schemes. If we could move from the most expensive to the second most expensive system, we could recoup \$8,000 per household per year, with no loss in health outcomes. A good deal of today's spending on healthcare comes out of wages, because so much of health insurance is provided by employers to their employees.

Another difference between Western Europe and the US is the extent of the social safety net. Income taxes rates differ by relatively little, but Europeans have a Value Added Tax that, because it is included in the price of goods, is relatively invisible

compared with income taxes, which likely makes it easier to collect. The American safety net is much less generous than European safety nets. It should perhaps be noted that the fraction of white non-Hispanics without a university degree who are below the US poverty line is smaller than the fraction of less-educated African Americans below the line. As a result, African Americans have more access to welfare programs than do whites, though it is hard to see why this would differentially protect them given that they have lower incomes in the first place. The literature does however suggest that this differential access is sometimes associated with resentment by whites against minorities by whites. I also note that welfare schemes that impose work requirements, such as the Earned Income Tax Credit (and perhaps Medicaid in the future) may do much good, but they also reduce wages below what they would have been without the work requirements.

American industries, including hospitals, are becoming more consolidated. The lack of competition has raised margins, and hurt workers, not only through higher prices, but also because monopolists produce less and so hire less labor, and because some employers have monopsony power over wages. It is *real* wages that we care about, so it is not just nominal wages that matter, but the prices of the goods and services that they buy. The benefits of globalization that show up in lower prices, for example of goods imported from China, are being undermined by the decreasing competitiveness of domestic firms. The share of labor in GDP is falling and the share of capital is rising, something that economists long thought would never happen.

There are other examples. The federal minimum wage has not been raised in nominal terms for a decade. Non-compete contracts which used to be designed for people who knew trade secrets, are now applied even to some fast food workers.

Consumers and employees are increasingly forced to settle disputes with firms through arbitration using arbitrators that nearly always decide in favor of the firms. Employees are being replaced by outside contractors, who are cheaper, but have fewer benefits, less security of tenure, and fewer possibilities for promotion; they also lose the sense and meaningfulness that comes from belonging to a common enterprise. The gig economy has provided employment to people who were previously unemployed, as well as finding a productive use for time and assets that were previously idle. But it has also undercut any remaining rents that were shared by workers in the service industries where they operate.

Let me say once again that all of the forces that are making these changes possible—the internet, cheap goods from abroad, information technology more generally—operate in Europe just as they do here. Yet their harshest effects have been avoided in Europe.

All of the mechanisms that I have listed are tipping the scales against workers and towards capital. They raise the share of income going to capital, and they redistribute income upwards. My guess is that it is these policies, in a time of globalization and technical change, that have slowly destroyed the way that working-class Americans used to live. Changing policies to be more favorable to labor will improve matters though, because the process has been going on so long, it is not easily or quickly reversible. But if we are to dig ourselves out, it is these policies that have to change. We need to construct an economy that is more favorable to labor, and less favorable to capital.

None of this gainsays the importance of tackling the opioid epidemic in the short run, even though that is itself no easy task. But even if opioid addiction were to be



eliminated, the underlying problems, and the other deaths, would still be there.

Returning to the main theme of this volume, I want to say again that globalization is certainly part of the story. But it is a mistake to think that you have to fix the consequences of trade through restricting trade, through protectionism, or through any trade-related policy. Nor is it a simple matter of redistributing so that the gainers from globalization and technical change are made to compensate the losers. I think that this is too narrow a view. The central point is that we need to create an economic environment in which the benefits to globalization and technical change are more widely shared, which means an environment in which real wages for less educated Americans can rise. That will require safety nets that are not only more extensive, but that do not put downward pressure on wages. We need to enforce antitrust law more rigorously, and we need to rethink antitrust policy for the tech titans. These measures give us a much broader palette to work with than just trade-related policies.

I also believe that general redistribution is not the answer, even if it were more politically feasible than it currently is. We need to tackle the root causes of rising pre-tax inequality, the rent seeking, the excessive patenting, the consolidation of industry and the disgrace that is our healthcare system. Stopping redistribution upwards would take us a long way towards a fairer and healthier America.