

World Knowledge Forum 2013

Debate on Economic Polarization: Mankiw vs. Cowen

On Wednesday morning, two prominent economists, Professor Tyler Cowen of George Mason University and Professor N. Gregory Mankiw of Harvard University, met to discuss the rise of inequality and the trend of economic polarization that has become such a controversial topic in recent economic conversation. Dr. Cowen spoke frankly on his view, saying, "My vision for our future is that we will end up living with, and will have to live with, much higher levels of income inequality."

Dr. Mankiw explained the rise of inequality as a natural product of improved technology and global connectivity, using the example of actor Robert Downey, Jr. and the international blockbuster *The Avengers*. About Downey, who made \$50 million for the film, Dr. Mankiw said, "He did it because of changes in technology and globalization, and he did it in a way that made himself fabulously rich, without making anybody else worse off."

Referring to work by his Harvard colleagues, Dr. Mankiw also described income inequality as the result of a race between education and technology. "Technology changes tend to increase the demand for skilled workers," he said, "and as a result the wages of skilled workers have tended to rise faster than the wages of unskilled workers." Thus, in order to address the causes of inequality, Dr. Mankiw believes we should "do something to help boost education to help it start winning, or at least stop losing the race."

Dr. Cowen predicts the development of new society he calls a "hyper meritocracy," where workers will be valued and rewarded for their individual productivity. Such a society will have both benefits and disadvantages, according to Dr. Cowen. He stated, "I think it will be a creative new world, with a lot of social tolerance, but it will also have a lot of financial hardships for a lot of people."

Both gentlemen agree that one of the advantages of the 'hyper meritocracy' is increased global equality. "At the world level, at the global level," Dr. Cowen said, "inequality is actually very much down." He continued, "But within every single nation, inequality is up. The question for political economy, then, is how this will prove workable within individual nations."

As a result of rising inequality, many nations are being forced to consider how to address social problems of the lower classes. Dr. Mankiw and Dr. Cowen jointly expressed the dangers of trying to simply solve the symptoms of inequality, rather than the causes. "The simplest solution," Dr. Mankiw said, "is to expand the generosity of the social safety net provided by the government."

If such a solution is employed, however, the effect may be to create even more problems. As Dr. Cowen explained, "Everyone knocks on the door of government with a small demand for money, and each demand is met in turn through democratic needs. But at the end of that process, perhaps we end up killing the goose that lays the proverbial golden egg."

With an allusion to the recent US government shutdown, Dr. Mankiw further explained, "With the problems that many countries are having with budget constraints, increasing budgets to expand the social safety net is difficult to imagine."

Another social issue mentioned in the discussion was the aging populations of many developed countries, as a byproduct of this aging may be to stabilize an unequal economy. This is because, Dr. Cowen explains, "Old people in general are conservative, they are not out on the streets throwing stones and leading riots or revolts. So I foresee that for the US, this strange highly unequal future will quite likely be very stable."

The discussion between the two men, though slated to be a debate, revealed more commonalities than differences in their economic projections. To conclude, the professors addressed some divergences they saw in each other's opinions.

Dr. Cowen expressed general agreement with Dr. Mankiw's views, but also some apprehension with regards to what he calls the "theory of just desserts," in which "people should be paid according to their marginal productivity." As Dr. Cowen put it, "I'm skeptical about moral intuition, judging between what people deserve and what they think they deserve... We're living in what I think is a very strange world, a world where a lot of earlier economic principles don't quite apply... we need a society that allows us to live with the contradictions."

In response, Dr. Mankiw echoed a general agreement, but took issue with Dr. Cowen's confidence about a long term trend toward greater inequality. "I'm more reluctant to forecast the future," he quipped, "because in our profession as economists the track record's not that good." He continued, "I'm not sure what the next 30 years are going to be like, but I'm skeptical of people who are."