



Middle-Class Wage Stagnation Is a First-World Problem – The World is Getting Richer

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by Laurence B. Siegel

A common lament during the presidential campaign was middle-class income stagnation and the wealth of the top 1%. But are most people getting poorer while the rich get richer? In a sparkling – and delightfully short – new contribution to the econo-optimist genre, Johan Norberg, author of *Progress: Ten Reasons to Look Forward to the Future*, emphatically answers “no.”

Consider the following:

- In 1981, “extreme” poverty – living on an income of \$1.90, or less, per person per day in today’s money – characterized 52% of the world’s population. Today, the comparable figure is 12% of a much larger population.
- Global life expectancy at birth has more than doubled since 1900. It is now 71 years, more than that of the United States in 1965.
- The environment is better adapted to human life. “In 1981,” writes Norberg, “half of the world’s population had access to safe water. Now, 91 per cent do. On average, that means that 285,000 more people have gained access to safe water every day for the past 25 years.”

This is not cherry picking. Practically every economic, social, and environmental indicator is in a long-term uptrend, if not an accelerating one. Norberg does not deny that bad things still happen – and I devote some attention to them toward the end of this article – but in his narrative they recede into near-insignificance when compared to both the long-term and the recent pace of improvement.

Political freedom, while losing a few battles, is gradually winning the war: in 1950, 31% of the world’s people lived in electoral democracies; today, 63% do. Violence is down, Norberg argues, and in many countries equality under the law has been extended to women, blacks, and gays.

Norberg’s book chronicles the advancements of the last few centuries, with emphasis on the last half-century when progress has become globalized and the developing world played a convincing game of catch-up with the developed. While his subtitle asks us to look toward the future, his book is about the recent past and its startling and unexpected gift of prosperity, safety and good health to a majority of the world’s people.

Econo-optimism versus techno-optimism

In *Progress*, Norberg, a Swedish economic historian and now a senior fellow at the Cato Institute and executive editor at Free to Choose Media, sets forth a vision of the future that I call “econo-optimism.” Norberg’s principal theme is that economic growth has, in the relatively recent past, brought comforts and conveniences once known only by the rich to an increasingly broad swath of humanity. He is confident that such progress will continue.

Econo-optimism differs from techno-optimism. While the two are related (economic progress depends on advances in technology), techno-optimism is, in my view, the mistaken belief that technologically-driven abundance will solve, or render irrelevant, the fundamental problem of economics – that of allocating scarce resources to unlimited wants. In the future world envisioned by techno-optimists, production will be sufficient to satisfy all basic needs, and likely much more. The chief challenge will be to distribute the fruits of production fairly.

Econo-optimists believe something almost as appealing but fundamentally different: the “real prices” of most of the world’s important goods and services, which have been falling rapidly, will continue to fall in the future, making it easier and easier to achieve a given standard of living. By the real price of a good or service, I mean the *amount and difficulty of labor* required to buy that good or service. It not only takes far fewer hours of labor to buy most necessities and luxuries than it once did; the work is much less backbreaking.

But econo-optimists do *not* believe that the “economic problem,” the question of how to best use limited resources, will ever be solved. It is enough, in their view, for markets to provide the possibility of at least a decent standard of living for everyone in the world. And, following Norberg’s argument, that lofty goal is within a few generations, perhaps less, of being achieved – for the first time in the history of humankind.

Julian Simon established the econo-optimist genre with his groundbreaking 1981 book, *The Ultimate Resource*. Simon argued that human capital is the most important natural resource. Matt Ridley, in *The Rational Optimist*, which I reviewed here, locates the source of these advances in the market economy and the freedom to cooperate and compete. In *The Skeptical Environmentalist*, Bjorn Lomborg applied similar thinking to environmental issues. Taking an academic perspective and enriching these arguments with detail, Deirdre McCloskey and Joel Mokyr have each strengthened the econo-optimists’ case tremendously.[1]

I recommend Norberg’s *Progress* as a worthy addition to this canon. Readers who want a brief introduction to economic futurism will find it sufficient; I hope that some will be tempted by it to begin a serious exploration of the topic.

Structure of the book

Norberg follows a formula that characterizes many popular science books: state the author’s pet theory, then show how it applies to each of the major spheres of human life (one per chapter) to which it could conceivably apply. The author thereby hopes to convince the reader that the pet theory is valid and universal.

Richard Dawkins is one of the most celebrated authors to use this structure, and he may have invented it. In *The Selfish Gene* (1976), he showed how his proposition – that genes (instead of individuals) seek to maximize their reproductive success – answers questions as varied as why life exists, why people exist, why parents are at odds with their children, why husbands and wives quarrel, why people cooperate and why they are altruistic. Each “why” is a chapter. An endless series of nonfiction titles followed this recipe.

Here’s Norberg’s pet theory, set forth in his first chapter, entitled “The Good Old Days Are Now”: the world is getting better in multiple dimensions, the benefits are widespread, the extent of the improvement is very large and the pace is accelerating. Of course, human life does not always get better and better; terrible things happen. But the general trend is sharply upward.

The 10 areas in which Norberg says massive progress has occurred are food, sanitation, life expectancy, poverty, violence, the environment, literacy, freedom, equality and the living conditions that the next generation can expect. These areas correspond to Norberg’s chapter titles, and it’s a pretty impressive list. If some major area of human life has gotten worse in the last half-century, he doesn’t seem interested in it. (But I’d be willing to bet on vehicular traffic and the quality of a U.S. high-school education.)

The causes of progress

The literature on long-term economic growth and its takeoff in northwestern Europe between about 1750 and 1820 offers a lot of explanations for progress: a growing population; laws that protected private property; the Republic of Letters; and the political fragmentation of Europe, allowing innovators to compete and find patronage.

In this literature, the more recent globalization and acceleration of progress have been attributed to factors as varied as cheap and fast communication, the spread of democracy, the widespread use of English and the acceptance of central banking. I am not sure any one explanation is fruitful. It will take a lot more effort to understand this long and exciting moment in history.

To his credit, Norberg does not hang either the Industrial Revolution or the recent wealth explosion on any of these nails, although he is a strong believer in free markets. But, in his final chapter, Norberg puts forth a tentative explanation: Progress depends on keeping new knowledge out of the hands of élites opposed to change. Think of the scholastics who couldn’t stomach Galileo’s discoveries: If one man with a telescope could overturn centuries of priestly thought, then the priests did not have a monopoly on all knowledge and had no natural right to rule.

This hypothesis is worth developing, and perhaps Norberg will do so in future work. Here, he does not put much energy into explanations, being more interested in documenting the amount of progress that has occurred and convincing us to be optimists about it continuing.

The accelerating rate of change

Acceleration in the trend toward improvement is one of Norberg’s most powerful points. It took from the

beginning of time until 1981 for half the world to escape extreme poverty; three-fourths of the other half escaped between 1981 and today. And, surprisingly, the most rapid progress against poverty has been in this young century. For many Americans the 21st century has been a disappointment; for much of the world's population it is the only decent break they've ever gotten.

We don't want that to stop.

The elements of progress

Food

Of all human needs, food is the most basic. When I was a child, "There are children starving in Africa" was a common parental response to complaints about the food at my dinner table. If I had an older brother, he would have heard that there were children starving in China or India, and my father probably heard that children were starving in Belgium.

There is still hunger in the world, but most of it is related to warfare and attempts by rulers to control their population. (What an execrable practice.) If all of the food produced in the world were distributed evenly, there would be more than enough for everybody. Even fairly recently, that was not the case. It is the result of the Green Revolution, largely the product of one man:

In one episode of the TV series *Bulls**t!* the magicians Penn and Teller play a game of "The Greatest Person in History," with all the pretenders, religious leaders, presidents, and revolutionary leaders in one deck. Like poker, each player places bets based on how good their cards are – but they might be bluffing. Penn draws one card and immediately goes all in, because he knows he is going to win... He drew Norman Borlaug.

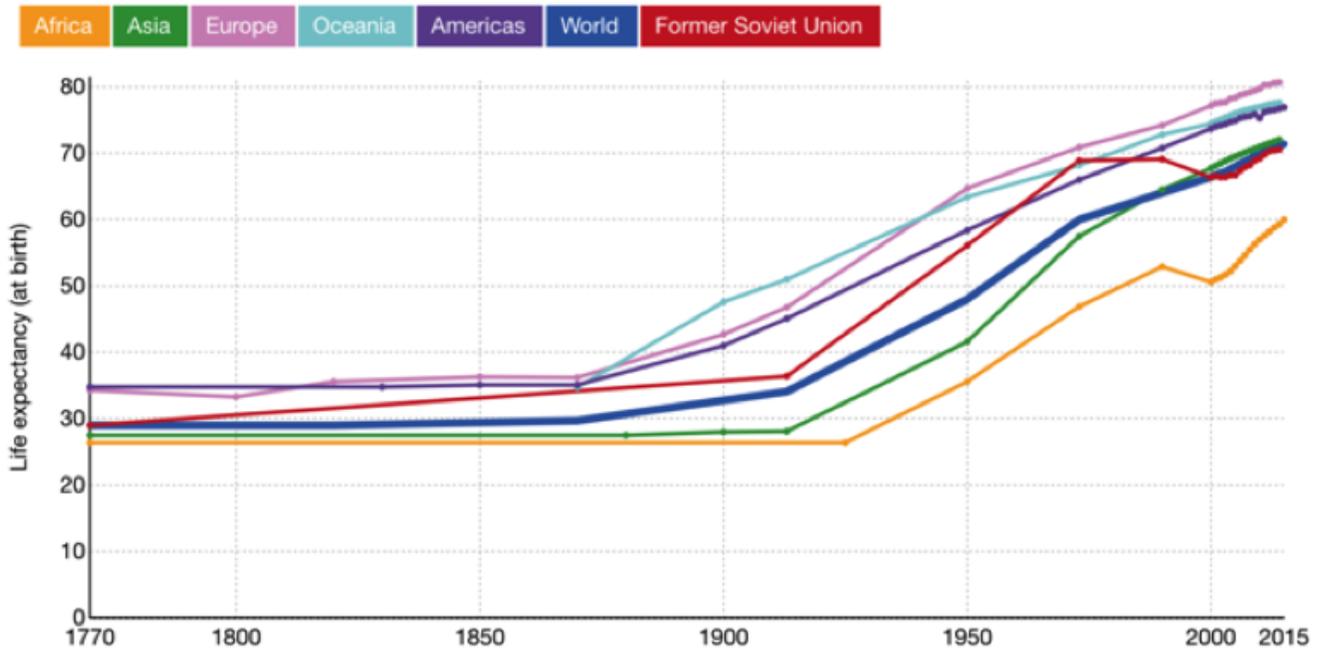
Clearly, Norberg is having fun. But a case can be made that the Iowa agronomist was the greatest person in history. Because of his invention of Green Revolution techniques and his work in bringing them to the world's poorest countries, we've gone in a little more than a generation from a condition where the Club of Rome, in 1972, could plausibly forecast worldwide famine by the end of that decade to one where it is unimaginable (obesity is a bigger problem). And all of that was accomplished while the world's population doubled!

Life expectancy

Along with food, the length of life is a basic measure of well-being. Exhibit 1, from *Our World in Data* (not cited by Norberg), shows life expectancy at birth from 1770 to 2015 for the world and by region.

Exhibit 1

Life expectancy globally and by world regions since 1770



Data source: Life expectancy – James Riley for data 1990 and earlier; WHO and World Bank for later data (by Max Roser)

OurWorldInData.org/life-expectancy/ • CC BY-SA

Note the slopes of the lines. Asia's advance from age 41 to 68 in a half-century (1950-2000) represents a life expectancy increase of 5.4 years per decade! (If the increase were 10 years per decade, we would never die.) Of course, not all of those years of life were tacked on at the end; decreases in child mortality were responsible for much of the improvement. But the whole world, including Africa, now enjoys a length of life that was unattained even in the most advanced countries in 1930.

Poverty

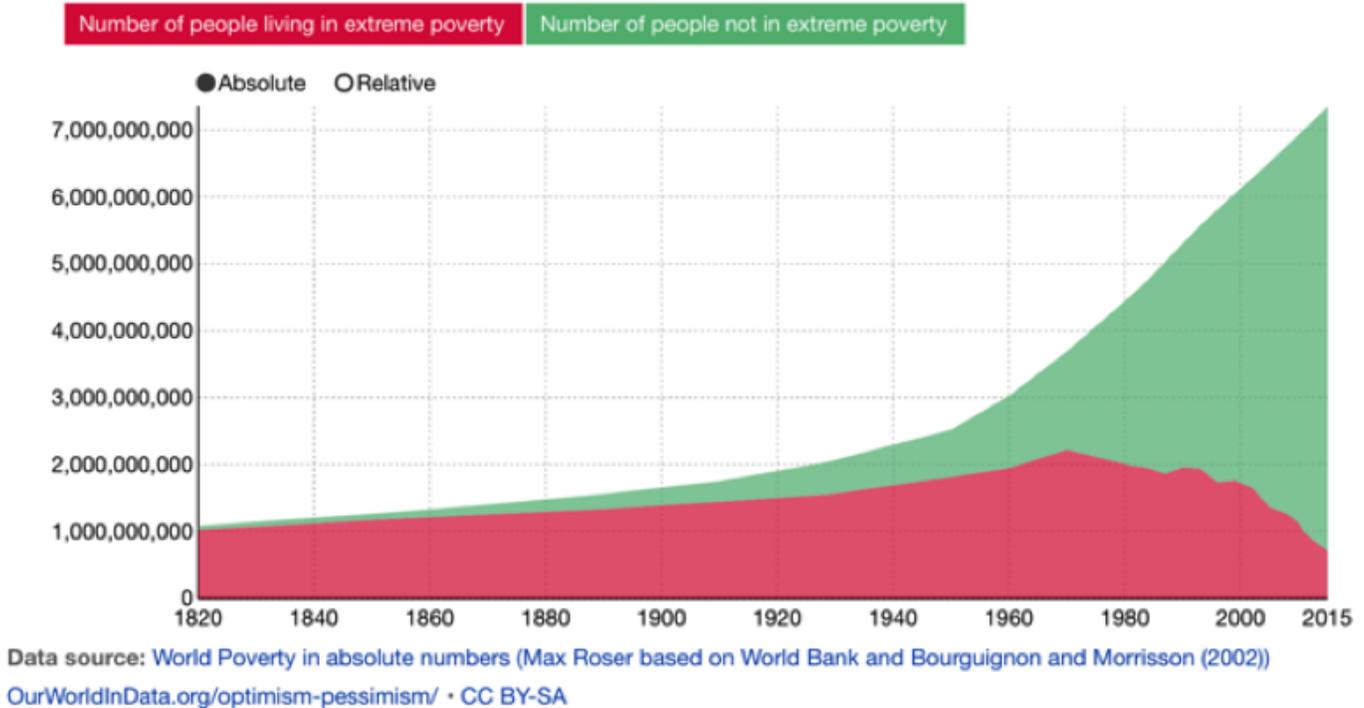
Exhibit 2, again from *Our World in Data*, illustrates the point I made in the introduction. While economic growth between 1820 and 1970 boosted more than a billion people into non-poverty, population growth caused the absolute number of people in extreme poverty to grow even more. By 1970, some two billion lived on less than \$1.90 a day in today's money.

Exhibit 2

World population living in extreme poverty, 1820-2015



Extreme poverty is defined as living at a consumption (or income) level below 1.90 "international \$" per day. International \$ are adjusted for price differences between countries and for price changes over time (inflation).



Then, starting around 1970, something changed. The absolute number of poor began to decline, at first slowly but, after the year 2000, so quickly that the United Nations seriously discusses ending extreme poverty completely by 2030.

What changed? Globalization, the opening of China, the reform of India and expansion of trade. (By “globalization,” I mean the integration of the whole world into one economy; whatever you produce in one place is for sale anywhere in the world you can find a buyer.) It’s not that complicated a formula, and the amount of misery that has been eliminated is immense.

The environment

But isn’t all this progress and prosperity achieved at the expense of nature?

No, argues Norberg. At earlier times in human history it might be, but at today’s level of affluence it is not.

Norberg relies heavily on the idea of the environmental Kuznets curve, a phenomenon in which environmental variables first decay as economies move from primitive to developing status, then improve as those economies transition from developing to developed. He writes, “Technology and affluence are not an obstacle to environmental sustainability, but its precondition.”

There are two reasons this is the case. The most important reason is that “preferences change...with better living conditions.” The further from bare survival your life is, the more resources you can devote to environmental protection, both personally and through the actions of government. The second reason is that technology provides the tools needed to achieve a clean environment and to bring about the substitution of abundant resources for scarce ones.

Norberg is not blind to the ongoing environmental harm done by certain human activity:

The number of people breathing unsafe air has risen by more than 600 million since 2000, to a total of almost 1.8 billion. Many cities in India, Pakistan, and Bangladesh suffer from pollution levels that are ten times higher than what is deemed safe.

Yet even this despoilment, caused by the transition from extreme poverty to what economists call lower-middle-income status (although Americans would still call it poverty), will be reversed when lower-middle-income countries become upper-middle-income or high-income. The Kuznets curve, Norberg argues, will rescue the global natural environment in the long run. And it will only happen if economic progress continues at a robust pace.

By touching on food, the length of life, poverty, and the environment I’ve given a sampling of the ways in which Norberg documents recent advancements. I discuss equality below. The others are beyond the scope of this essay, but if you read the book you’ll get the full picture.

The conundrum of moral progress

In addition to chronicling mankind’s material progress, Norberg invokes an old idea that is worth resurrecting: moral progress. How else can one describe a persistent decline in violence (carefully documented by Steven Pinker in *The Better Angels of Our Nature*), a rise in the number of democracies, and an increase in the status of women and minorities?

While many economists are reluctant to address moral issues in any way, the most astute of them remember that their field was once called “moral philosophy” and that its founder, Adam Smith, wrote *The Theory of Moral Sentiments* before he wrote *The Wealth of Nations*. Economics, intended to help us live better lives, should acknowledge all of the important aspects of it. Norberg is very much with this program.

Equality of outcomes or equality before the law?

Equality of economic outcomes is a recent passion, sparked by the work of Thomas Piketty in 2013 and bolstered by thousands of stories in the media. (To be fair, early economists such as Thorsten Veblen were also concerned with equality of economic outcomes; such concern faded as economic growth boosted formerly poor workers into the middle class.) I’ll return to equality of outcomes in a moment.

Norberg’s conception of equality is quite different: He is concerned with equality before the law. We are unequal in a very profound sense if women cannot vote, if blacks are denied admission to public

universities because of their skin color, if gays can be prosecuted and, like Alan Turing, hounded to the point of suicide.

In Western societies and many others, we've made huge strides in the pursuit of equality before the law. That progress has reduced the urgency of this issue because, in these societies, almost no one is on the other side. Again, such progress is astoundingly recent. The treatment of African Americans and of gays and lesbians that I just described occurred in my lifetime, the inability of women to vote in my parents' lifetimes.

Yet Norberg overlooks the most visible social issue of our time, that of radical inequality of outcomes in the largely affluent societies of the West. Why is it visible, and why doesn't Norberg think it is important?

The elephant graph: Income inequality in perspective

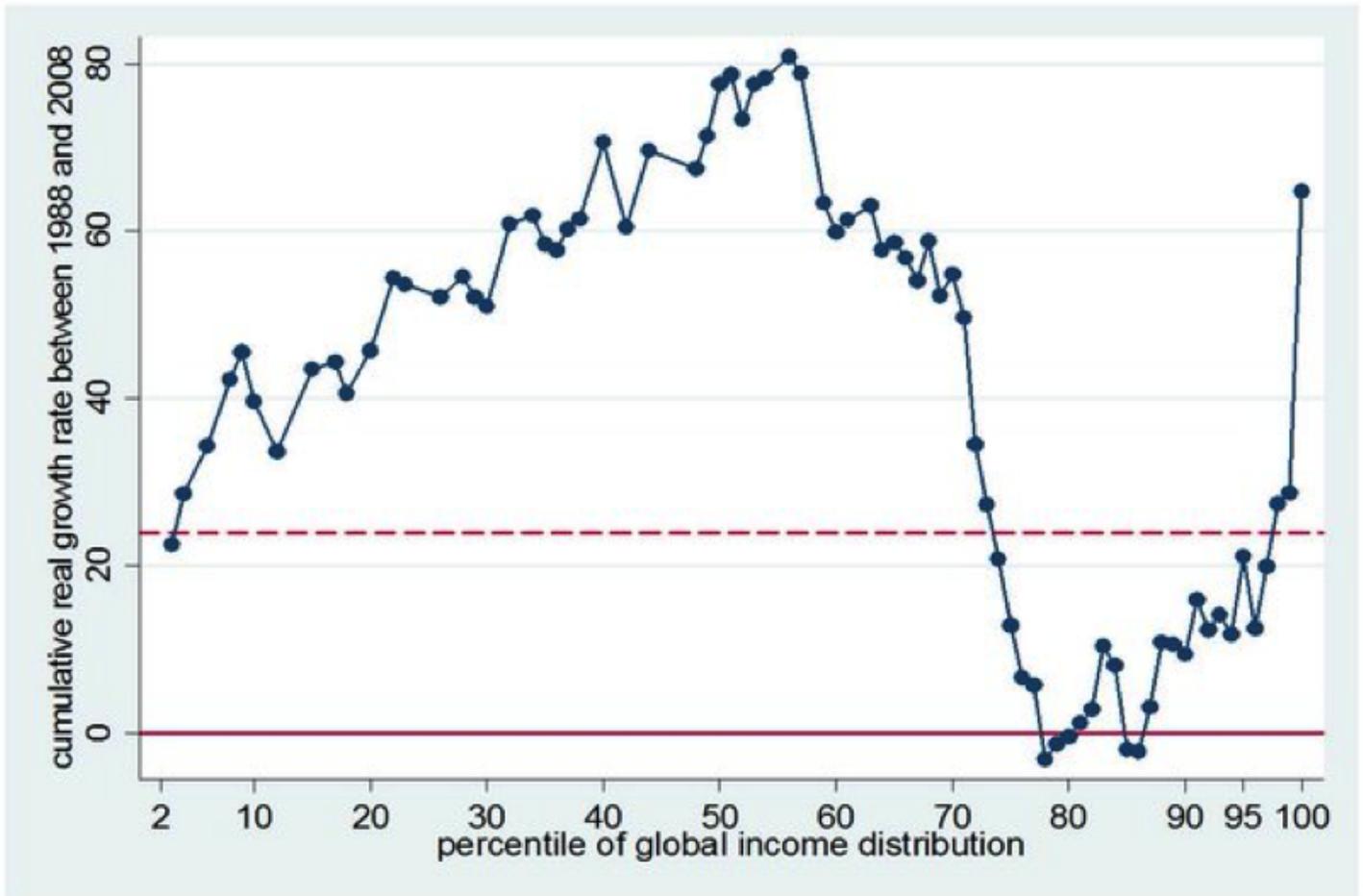
In the United States, Europe, and other developed parts of the world we hear a great deal about the "hollowing out" of the working or middle class. The factory system, which provided moderately well-paid employment to the unskilled, is almost dead in the First World; in its place, we are told, is an elite population of professional, managerial, and technical workers, comprising 15% or 20% of the population and lording it over the rest, a *lumpenproletariat* that earns survival wages or lives on government benefits. (The ratio is often described, very inaccurately, as the 1% versus the 99%.)

What is overlooked is that our *lumpenproletariat* is, by global standards, upper middle income, hovering around the 80th percentile (where 1 is bad and 99 is good) of worldwide incomes. Let's look at this situation a little more closely.

Exhibit 3 shows the growth over 1988-2008 in global incomes, sorted by percentile of income distribution. People at the 2nd percentile, who are among the world's very poorest, saw their incomes grow by about 22% in real terms. At the 50th percentile, or median, they saw their incomes grow by about 80%; these are typically industrial workers in rapidly developing countries such as China. As we all know, the top 1% did very well (although we must remember that there is a lot of rotation in the top 1%; they are not the same people every year).

Exhibit 3

Growth of real incomes over 1988-2008 by percentile of global income distribution



Source: Branko Milanovic

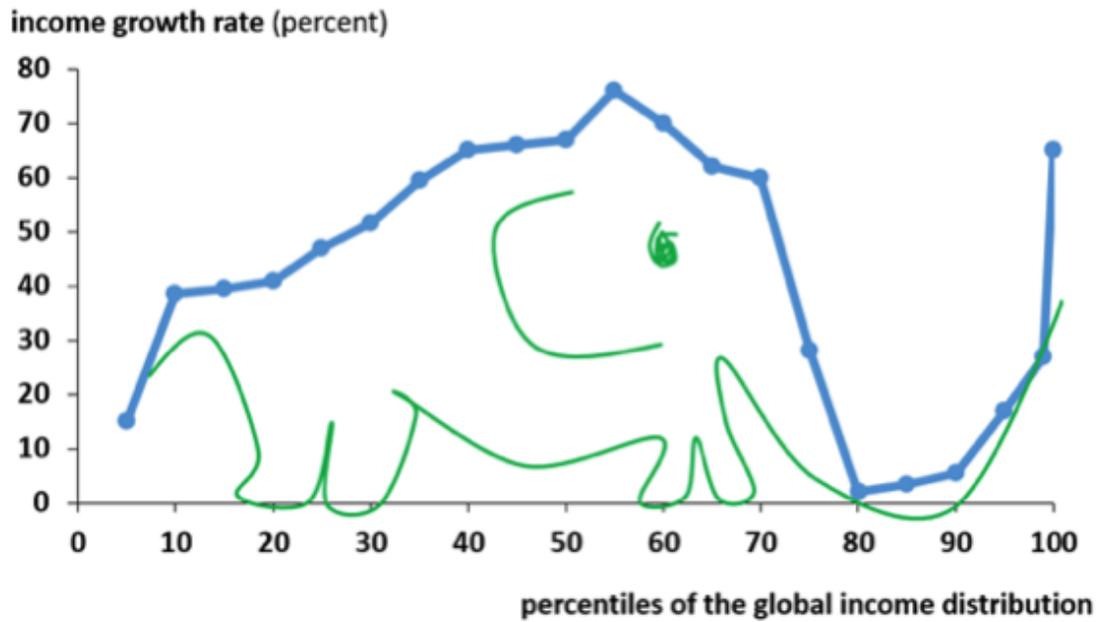
At the 80th percentile of global income distribution, however, there was no gain at all. The 90th percentile did not do much better. Who are these people? They are, by and large, the present or former industrial workers of the First World, our “losers.”[2]

This diagram, discussed widely in the popular media by its originator Branko Milanovic, the *New York Times* columnist Paul Krugman and others, is widely called the elephant graph. Since it’s a little hard to see why, I’ve drawn in the elephant in Exhibit 4.

Exhibit 4

Elephant graph showing the elephant

Global inequality has declined: Growth incidence curve, 1988-2008



Source

No wonder the rest of the world – including Norberg, who takes a global rather than a First World view – is a little puzzled when they hear American and European complaints about middle-class stagnation or decline! The developing world is doing fine relative to its own history and standards, but not as well as our “losers.” They would love to have our problems.[3]

But the fact that global growth and poverty reduction have been very rapid is little consolation to those at the low point, where wages have stagnated for at least 20 years and possibly for 40. Moreover, there is variation around this average wage growth rate of zero, so that any given working-class individual may have experienced an actual decline in well-being over multiple decades. These concerns, while receding into near-insignificance when measured on a global scale, are not to be taken lightly and are partly responsible for the resurgence of nationalism and populism in recent elections.

I am concerned that, organized politically in advanced countries where they may constitute a majority, these nationalist- and populist-oriented voters will redirect resources toward themselves and close the borders to trade and immigration, possibly alleviating their distress for a while but seriously damaging the engine of global growth that made the income-growth diagram elephantine in the first place, instead of flat lining around zero as had been the case for millennia before the Industrial Revolution.

Global economic growth relies on free markets, free trade and the relatively free movement of people. (Completely free movement of people cannot be achieved.) Should we worry? Yes, in the short run – and also in the longer run if the trends toward isolation and autocracy are simply allowed to run unchecked. But, as I’m about to demonstrate, they will not be.

The end of progress?

Some observers look at the negative side of today’s way of life and detect an end to the progress that Norberg has documented. In the First World, the work ethic, the love of learning and the desire to start enterprises all seem to be flagging. There is an apparent failure of nerve and ambition. History gives us reasons for concern. While progress got off to a good start in ancient Greece and Rome, medieval China, Renaissance Italy and at various other places and times in the past, it fizzled out and extreme poverty returned. Are we repeating the mistakes of those societies?

No. This time, progress is not going end. The thrust toward modernity is too broad and powerful – it is literally worldwide. If decline begins to take root somewhere, people will imitate their more successful neighbors or else move in with them. With cheap and instantaneous global communication, an African peasant, able to see on her village TV or her smartphone how life is lived in more prosperous lands, will not tolerate being condemned to a life of poverty. Using the same tools, an Indian villager can not only discern why it’s profitable to move to a city but can buy a bus ticket and go there. Even eastern Kentucky will cease to be overpopulated and impoverished.

Conclusion

Johan Norberg’s *Progress* is an outstanding introduction to the science of economic growth. It will not make anyone into an expert in the field, but it’s an eye-opener if you haven’t been exposed to the ideas Norberg is promoting. It can be read by a high school student, so it could be used as a supplemental school text.

If you have friends who think the world is coming to an end, buy some copies and give it to them.

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[1] See McCloskey’s *Bourgeois* trilogy (*Bourgeois Dignity*, *The Bourgeois Virtues*, and *Bourgeois Equality*) and Mokyr’s *A Culture of Growth*. All are heavy stuff, highly recommended but only accessible to readers with a generous time budget.

[2] As Adam Corlett of the Resolution Foundation points out, the low point on the elephant graph also includes a lot of people in the former Soviet Union, eastern Europe, and Japan, which had lagging economies over the period.

[3] I am being a little facetious. People perceive changes in their socioeconomic status much more keenly than levels, so the people in a poor country that is booming may be happier than the people in a stagnating rich country.

