23 Things We're Telling You About Capitalism X [1]

Written by **Tim Worstall** [2] | Monday 20 May 2013

The tenth thing we have to understand is that actually Americans aren't as rich as all that. This is very important because if that sort of free market capitalist society did lead to the richest society on Earth then of course all the other strictures about how awful free market capitalism is would be rather wasted. We'd start to believe our own lyin' eyes rather than the Reader in Economics at Camdridge and that would just never do.

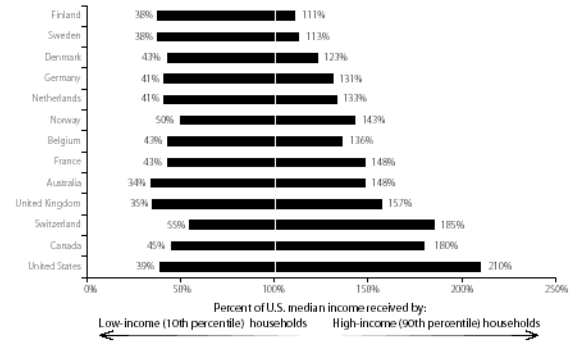
The rest of the chapter is just hemming and hawing about how we should change the figures to show that actually Americans are not the richest society on the planet. Well, OK, even I'm not going to claim that there aren't certain microstates that beat the US: Luxembourg for example. But comparing a few hundred thousand people to 300 million seems rather like cheating. It would be like comparing Manhattan to Texas for example, just not quite fair. Or, again about the same distortion of scale, comparing the residents of Eaton Square to the entirety of Luxembourg.

Chang has two basic methods in use here to show that the American Dream is just that, a wraith. After we go through all the various ways that we can measure income he agrees that Purchasing Power Parity is the right one. Which is good, for it is. We don't measure just incomes, but incomes as compared to prices in the places the people are living. This gives us a much better idea of living standards. And by PPP measurements, absent those microstates, the US is indeed the winner. To which Chang says but hang about a bit.

Firstly, we know that the US is a more unequal society than many others. Thus the average doesn't give us a true view of how people really live. In an unequal society there will be more people below that (mean) average and thus the real average (ie median) living standard is lower than in a more equal society. Which could even be true but it's not all that large an influence. After we account for all of the taxes and benefits then everyone from Sweden to the US is in a gini (the way we measure inequalty) range of 0.25 to 0.38 or so. And the scale does run from 0.01 to 1.00.

More importantly perhaps we do have some evidence of what actual living standards are at the bottom of the pile in a number of different societies. This chart:

FIGURE 8D Share of U.S. median income received by low- and high-income OECD households, 2000*



* These relative income measures compare the gap between the top 10% and the bottom 10% of household income in each country to the U.S. median income in purchasing-power-parity terms.

Source: Smeeding and Rainwater (2001) and Smeeding (2006).

These are the incomes at PPP (so adjusting for price differences) after taxes and benefits. And the comparison is to US median income: so, the bottom 10% in Sweden get 38% of US median income. The bottom 10% in Finland get 38% of US median income. And the bottom 10% in the US get 39% of median income.

Hmm, I think our contention that the US higher average income isn't really valid because the poor get less than the average....thus the greater inequality means that the lives of the poor in the US are worse off than the poor in other countries....doesn't really stand, does it?

The US is definitely a more unequal country. But the poor seem to be about as well (or badly) off as the poor elsewhere.

The other trump that Chang plays is to point out that Americans have longer working hours than people in most other countries. Given that slaving away over a hot desk isn't what life is all about then perhaps we shouldn't all attempt to emulate this US lifestyle then? And while it's true that money isn't everything and that very few of us go into that long dark night bemoaning the paucity of hours we spent working for The Man, Chang has committed a terrible error here. He has assumed that the only form of work we do is paid working hours.

The actual division made is between personal time (we cannot get someone else to sleep for us, take our shower for us), paid working time, household production time and the balance left over is leisure time. The important point to note here is that there is that unpaid working time: that time spent in household production. We might think of digging the allotment to feed the family, childcare time, cooking time, washing and cleaning, repairing the car. It is this time *plus* paid working time for The Man which produces total working time. And when we look at this *total* working hours it isn't obviously true that Americans do work more hours than, say, Europeans. It is also possible to substitute household production for paid working time and vice versa. Once can slave over the hot desk to buy a takeaway, or slave over a hot stove to make up for the lack of income from the time not spent at the desk.

In fact, when people actually study exaclty this question (ie, here [3]) they find that the opposite is true, Americans don't work longer hours. For example, the average German woman is working an hour and a half a week more than her US equivalent. And for the men the working hours are almost exactly the same. The German woman might be making sauerkraut at home (I know, terribly culturalist of me) while her American sister goes out to work, earns the money and they buys it: in the process the American sister gaining more leisure time than the German.

It is indeed true, as Chang states, that Americans do more paid working hours per year than Europeans. It is also true that the US is a more unequal society than most of Europe (Italy is actually more so than the US). However, the American poor have incomes around and about the same as the European poor. Americans work fewer unpaid, household production, hours leading to equal or greater leisure time. And as Chang has already admitted, the Americans do indeed, on average have both higher incomes and greater command over consumption opportunities as a result of those higher incomes.

The poor get about the same: the regular guy is both richer and has equal or greater leisure time? Perhaps there is something to say for this free market capitalism stuff they have in the US then?

Footnote. For those who think we shouldn't be talking about household production, please read the Stiglitz Report [4]. The entire issue is well explained there.

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