



Photo by Jim Block

## INEQUALITY

Emmanuel Saez lectures while Sergio Fajardo listens in from Colombia.

## Catching Up With Colombia

by Erica Hellerstein

In recent years, global discontent with the status quo, triggered by rising rates of economic inequality, has played a major role in framing the political discussion.

In May 2011, thousands of Spaniards, using the name *indignados*, took to the streets of Madrid in mass protest of the country's harsh austerity measures, high unemployment rate, and politicians' handling of the global economic crisis. Later that summer — and across the Atlantic — throngs of protesters aired similar grievances in Manhattan's Zuccotti Park. Their movement was dubbed Occupy Wall Street, and its blazing rhetoric of the global 99 percent spread like wildfire to cities worldwide. Meanwhile, in Chile the student protest movement commonly referred to as the “Chilean winter,” also commenced in May 2011. Its

message of “*la educación no se vende*” (education is not for sale) mobilized thousands of students to demand a new framework for education and an end to the country's largely privatized university system.

These issues of equity, brought to global prominence by protestors in New York, Chile, and Spain, are also of critical concern throughout the Americas. As part of the videoconferencing series “Inequality: A Dialogue for the Americas,” CLAS connected UC Berkeley Economics professor Emmanuel Saez to Sergio Fajardo, the governor of Antioquia, Colombia.

Fajardo, speaking from a small room in Colombia, and Saez, addressing a full audience at Berkeley, discussed the impact of inequality on economic growth and government policy.

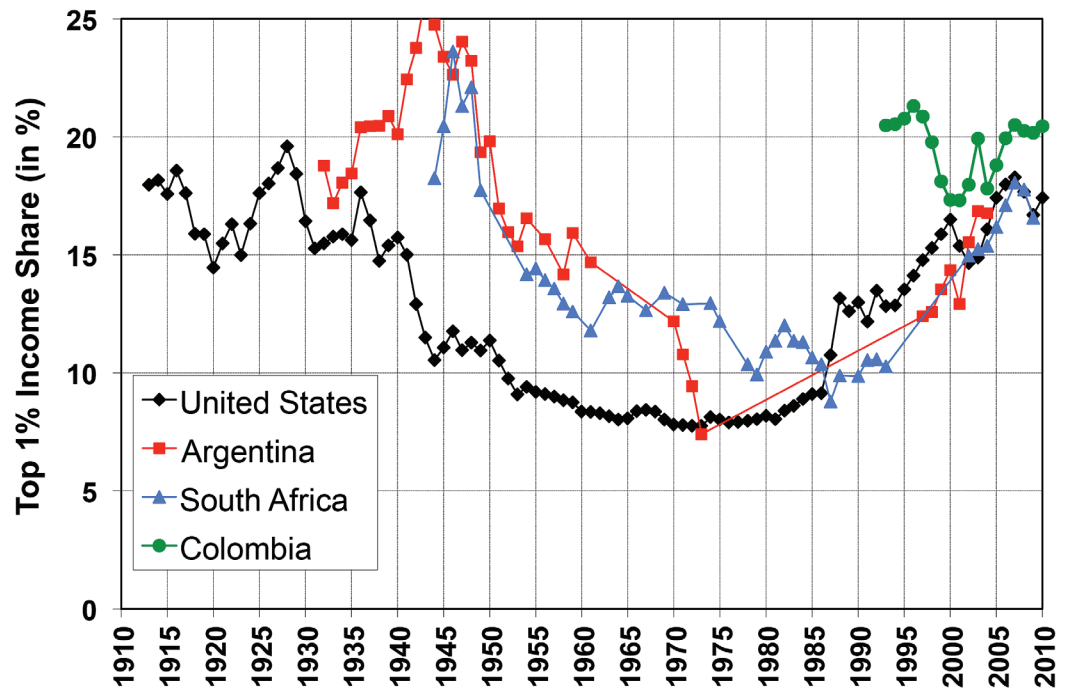
According to Saez, free market economies stimulate economic growth but also contribute to substantial inequality, which often leads to political instability. Moving forward, governments must learn how to measure and address inequality, if they seek to maximize growth without fracturing the economic livelihood of the middle and lower classes. Saez's research measures income concentration, or the share of total income that various groups at the top of the distribution receive. To begin with, he presented a chart that showed the top 10 percent of income share from 1917 to 2010 and the total income accrued to the top 10 percent of U.S. families since 1917.

During the above time period, Saez found that the United States had widely varying levels of income concentration. Prior to World War II, income was highly concentrated, with the top 10 percent of the population capturing almost half of total income. But following the war, the U.S. experienced a substantial drop in income inequality. In the past 30 years, however, income concentration has risen dramatically. In fact, Saez continued, the U.S. now has a level of pre-tax income concentration similar to that of the early 1900s. The largest increase has been at the top of the distribution, with the top 1 percent seeing the largest, and most striking, increase in income.

"The reason why those numbers matter is they actually challenge the view you might have about growth overall [and] the way you view the economic performance of the United States," he said, adding that the top 1 percent has captured close to half of U.S. economic growth in recent years.

Internationally, however, disparities in income concentration in other developed countries have trended differently. While English-speaking countries such as Canada and the United Kingdom have followed the same pattern as the United States, some non-English-speaking developed countries — including France, Sweden, and Japan — have experienced much smaller growth in income concentration, despite sharing similar

## Top 1% Share: U.S. and Developing Countries



(Source: The World Top Incomes Database.)

technological progress. So why do the English-speaking countries follow a different pattern than their non-English-speaking counterparts? Saez's conclusion is that a country's level of income concentration is determined both by technology and by government policy, specifically tax policy.

In the United States, the period following the Great Depression was characterized by high tax rates, which led to an increase in the incomes of the bottom 99 percent and a slowing down in the rise of the incomes of the top 1 percent. However, the past 30 years have been characterized by lower tax rates, which have propelled an alarmingly sharp increase in the income of the top 1 percent and a much slower growth in income for the bottom 99 percent.

"When the top 1 percent does well, the bottom 99 percent does poorly, and conversely, at least that's what the U.S. record suggests," said Saez.

As a result, there has been a close link between the amount by which a country cuts its tax rates and the gains of the top 1 percent. After the U.S. cut its tax rates, the wealthiest 10 percent of Americans saw an enormous increase in their income concentration relative to the remaining 90 percent. But the drastic increase in the incomes of the wealthy elite has not improved the growth of the economy, Saez concluded.

So what does this mean for the fractured economy?

Saez postulated: "It's not the case that the U.S. or the UK have grown faster than other countries in Europe that haven't changed their top tax-rate policies... It's hard to find

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Photo by Jim Block

Networking technology connects governor Sergio Fajardo of Antioquia to UC Berkeley.

evidence when you look systematically at the data that this has an impact on economic growth. That is, at this point of the research, top tax policy doesn't seem related to economic growth."

Following Saez's presentation, Sergio Fajardo Valderamma, the governor of Antioquia, Colombia, spoke about inequality through a gubernatorial, rather than an academic, lens.

Antioquia is located in northwest Colombia, at the tip of the hemisphere's intersection with Central America. According to Fajardo, it's the "most important state in Colombia," due in large part to its geography and economic importance.

With the exception of Haiti, Colombia is the most unequal country in Latin America, and

Antioquia is the most unequal region in Colombia. The state's economic inequality is compounded by two additional and endemic problems: a culture of violence and a culture of illegality and corruption associated with narco-trafficking and the longstanding guerilla conflict, Fajardo explained.

As a mechanism to tackle problems of equity, violence, and impunity, Fajardo's government authored the "*Antioquia la más educada*" (Antioquia the Most Educated) campaign, to make education, in Fajardo's words, "the engine of transformation" for Colombian society.

The project emphasizes education as the primary and most important step in transforming Antioquia into a more equitable society, with a less stratified distribution of wealth. For Fajardo, education in the 21<sup>st</sup> century — and the effort to improve and reform education — requires a combination of science, technology, innovation, entrepreneurship, and culture. Under this formula, it's not simply education that needs to be refined. Roads need to be restructured and rebuilt; schools need to be restructured and rebuilt; and the Internet, computers, and the digital world need to be brought to children, so that they can become competitors in the global economy.

"Education is crucial to the development of the country, but we have never bet on education as a key issue for our society," he said.

Fajardo also elaborated on the project's incentives to create a strong network of regional universities, similar to the UC system in California. Due to a lack of opportunity in poor and rural areas of Antioquia, high-school graduates commonly leave

to attend institutions of higher education in Medellín — and rarely return to their native cities and towns. Creating a strong regional network of universities in various cities throughout the state will allow students to attend local colleges and give back to their immediate communities.

“And what does this have to do with inequality?” Fajardo asked. “I have no amount of doubt that whichever path you take in order to work on inequality, at least in Colombia, it has to go through education.”

Additionally, the project is working to create work opportunities, technological and educational fellowships, and jobs for high-school graduates, offering an alternative to drug trafficking.

The development of women and women’s opportunities is a crucial part of the transformation into a more equitable society, Fajardo added. Emphasizing intelligence, creativity, and talent — rather than beauty — is another aim of the project, which has established a “Talented Women Contest” for women and girls.

These crucial elements of the “Antioquia la más educada” project will hopefully serve as a catalyst for turning the state into a more equitable society, Fajardo said. “All these things put together build hope,” he concluded.

Saez voiced a similar perspective in his final remarks: “As an economist, it’s great to see such entrepreneurship at the political level. Economists have made tremendous progress studying experiences from smart policymakers who implement new things all over the world. I hope down the road, [Fajardo’s] state will be the laboratory that economists come to see what has worked.”

Sergio Fajardo Valderrama is the governor of Antioquia, Colombia. Emmanuel Saez is the E. Morris Cox Professor of Economics and the director of the Center for Equitable Growth at UC Berkeley. They spoke for CLAS on November 19, 2012.

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VIDEO AVAILABLE AT [CLAS.BERKELEY.EDU](http://CLAS.BERKELEY.EDU)

Finalists in Antioquia’s “Talented Women Contest.”



Photo by Alejandro Moreno.