Consider these two numbers. Don’t worry, there won’t be a quiz.

The first number is 3,500.

The second is 32.

The first is how many jobs Santa Fe County lost in 2009, according to the New Mexico Department of Workforce Solutions.

The second number is how many jobs the state Economic Development Department claims to have created in Santa Fe last year.

It doesn’t take a genius to see that something is wrong with this equation.

But Samuel Bowles is a genius—or, at least, a certified smart person. Bowles heads the Behavioral Sciences Program at the Santa Fe Institute, which is home to dozens of big brains imported from all over the world. If he’s right, those troubling job numbers are only the start of New Mexico’s problems.
Indeed, if Bowles is right, the state needs to completely rethink the way it does economic development.

“Bowles is a very well-educated guy with a real interesting background. He’s not of the ilk of most economists up in Santa Fe,” Kim Posich, executive director of the New Mexico Center on Law and Poverty, says. “His ideas are not always run-of-the-mill.”

With have-nots becoming have-nots at an alarming rate, now is a terrible time for run-of-the-mill ideas.

Like most states, New Mexico’s economic policy is aimed at attracting corporations—and the bigger the better. In his Jan. 19 State of the State speech to the New Mexico state Legislature, Gov. Bill Richardson promised to “oppose any tax increase that hurts our efforts to keep the state economically competitive and create new jobs—such as increasing personal income taxes, rolling back our capital gains tax cuts or decreasing business tax incentives.”

He isn’t far out of step with President Barack Obama who, in his State of the Union speech nine days later, called for the elimination of “all capital gains taxes on small business investment” and a new “tax incentive for all businesses, large and small, to invest in new plants and equipment.”

There is brainpower behind both arguments.

“Most economists would support the argument the governor has made,” Tom Clifford, chief economist for the Legislative Finance Committee, tells SFR. “Sam Bowles would probably disagree.”

In so many words, yes. Bowles steers clear of politics, but his findings—gleaned from decades of poring over demographic surveys, other economists’ research and in-person visits to places like the slums of India—have obvious relevance to lawmakers’ debates within the Roundhouse.

Especially when it comes to how those thousands of out-of-work New Mexicans might regain respectable livelihoods.

As becomes evident within a few minutes in his company, Bowles is a man in demand—at least by his SFI comrades. Institute staff, students and fellow faculty stop him every few minutes to ask about this upcoming meeting or that piece of data.

In the kitchen, a colleague asks about buying a textbook: Should she get it from Amazon or download the Kindle version? Bowles quickly rules out the Kindle because it makes the text impossible to share. Reading between the lines, Bowles’ choice reveals the hidden symbolism of each medium: If the paperback is Karl Marx, the Kindle is Ayn Rand.

A lifelong academic, Bowles, 70, lacks the polish and quotability of today’s celebrity economists, such as Freakonomics author Steven Levitt, “creative class” prophet Richard Florida or New York Times columnist and Nobel Prize winner Paul Krugman. However, Bowles tackles bigger questions than the pop economists. “Its scope is cosmic,” he says of his work at SFI.

Bowles’ most recent paper, published in the October 2009 issue of Science, was a huge project with 25 collaborators. It examines how wealth is transferred from parents to children in hunter-gatherer societies versus agricultural societies.

That might seem distant from the busy unemployment offices on Guadalupe Street. But everyone can relate to his chosen subject: inequality. He studies the economic differences between people with the same discipline that Jane Goodall studies chimpanzees or Stephen Hawking studies the cosmos.
Bowles’ course was set in 1968, when he was an assistant professor at Harvard, and the Rev. Dr. Martin Luther King Jr. came to his department looking for advice on the next stage of his social justice campaign.

“We were just elated that we could use economics, which we had so painstakingly learned, to answer questions that Dr. King thought were important,” Bowles tells SFR. “We were also extremely angry that we were totally unable to answer the questions on the basis of having gotten a PhD at Harvard.”

King’s assassination that year cut short the equality movement.

It was also the year that Bowles’ intellectual nemesis, Milton Friedman, proposed the idea of a “natural” rate of unemployment, a concept still employed by federal bureaucrats. Friedman, who died in 2006, was the father of a free-market school of economics at the University of Chicago. Friedman popularized the notion that government intervention in the economy does more harm than good. When Richardson talks about keeping taxes low, he’s channeling the conventional economic wisdom that evolved after Friedman.

Most economists in 1968 thought of inequality as “somebody else’s problem,” Bowles tells SFR. “I actually was denied the right to teach a graduate course in inequality because it was said not to be economics.”

It wasn’t always thus.

“The founders of the discipline of economics, almost to a man—and they were only men—thought that the problem of distribution between classes—they used the word classes—was the key to understanding why nations grew or not,” Bowles says.

What Bowles sees as the essence of his profession—problems of wealth distribution—the Friedmanites see as the road to hell.

In the years of easy credit, Friedmanites had the advantage. The recession has shifted the debate in favor of thinkers like Bowles.

“In the wake of what happened in the last year, it’s much easier for an economist to describe himself as being liberal, maybe even Social Democratic,” Henry Farrell, a political science associate professor at George Washington University, tells SFR. “Sam Bowles is still unashamedly and unabashedly a radical—God bless him.”

However, Farrell says, Bowles’ radicalism kept him from finding a wider audience.

Now it’s the free marketeers who have a hard time being taken seriously. Last month, The New Yorker described defections and “turmoil” within the Chicago School. Even former Federal Reserve Chairman Alan Greenspan, a hero to free marketeers, admits that his way of understanding the world was wrong.

Bowles is keenly aware that this crisis presents an opportunity. “It’s not just that the Chicago School is on the ropes—it’s that people are much more sympathetic to people who have less income,” Bowles says. “That attitude—‘Hey, it could happen to me’—is something the Great Depression taught us.”

Sympathy was forgotten in the boom times. But thanks to the hardships of today, “it’s coming back with a vengeance,” Bowles says.

With it, the influence of what Farrell calls “the Santa Fe approach to
economics” may also be growing.

Last year, Indiana University professor Elinor Ostrom became the first woman to win a Nobel Prize in economics. “She’s not a radical by any stretch of the imagination but, in terms of the methods she uses and the questions she’s interested in, she’s closer to Bowles than anybody. She is probably the only Nobel Prize winner in the last 20 years to have cited Bowles extensively and to be genuinely influenced by him,” Farrell says.

Ostrom doesn’t distance herself from that assessment. “I have great respect for professor Samuel Bowles,” she writes in an email to SFR. “I have worked with several of his PhDs who do simply outstanding experimental research.”

If Bowles has a following among people who think for a living, the people who actually make decisions have some catching up to do.

And so here, in plain English, is the implication of Bowles’ basic ideas: The US and New Mexico will keep falling behind until they learn to share the wealth.

More numbers, for your consideration:

45.7

23

The first number is the “Gini coefficient” for New Mexico. The Gini is an expression economists use to measure equality or inequality in a society.

Zero describes the ultimate level playing field, a nonexistent land in which everyone has all the same stuff. A completely unequal society, in which one person has sole control of literally everything, would have a Gini of 100. New Mexico’s Gini score (45.7) reveals this state is more unequal than most. Utah is the most egalitarian state (with a 41.3 Gini), while the District of Columbia (53.7) is the most economically polarized, according to the most recent Census report, from 2006.

The second figure, 23, is the Gini for Sweden, the world’s most egalitarian country. Whereas most of Europe, Canada and Australia have Ginis in the low 30s, the US has over the past several decades developed inequalities usually found only in poor countries with autocratic governments.

So what? Isn’t inequality merely the price of America being No. 1?

“That’s almost certainly false,” Bowles tells SFR. “Prior to about 20 years ago, most economists thought that inequality just greased the wheels of progress. Overwhelmingly now, people who study it empirically think that it’s sand in the wheels.”

Bowles can take some credit for that shift, but he hasn’t won the battle. Many economists don’t study things empirically—that is, by looking at things in the real, physical world. Instead, they stay safely within the land of theory.

Theoryland may be the only place the “equality-efficiency trade-off” really works. Just to prove it wrong, Bowles charts the concept on a whiteboard at SFI.

The vertical axis is economic output. The horizontal axis is
equality. The curve shows the theoretical trade-off. “So we’re here”—point A, high on the curve—“and we want to go to point B because we’re egalitarian. And [the theory says] that’s kind of too bad because we’re going to suffer the loss of income,” he says.

Bowles draws another dot inside the curve—point C—symbolically destroying the clean, simple world represented by the model. “Basically, it assumes that the economy is already efficiently organized,” Bowles explains. “But most economies are at point C. They have both more inequality and less income than they could have because they’re inefficient.”

The fan club for Bowles’ reality-based approach to economics includes Ona Porter, executive director of Community Action New Mexico. She first encountered his work while reading the Stanford Social Innovation Review. “It’s really my job to be paying attention to what cutting-edge theory and practice is,” she says.

Among other projects, Community Action lobbies the New Mexico Public Regulation Commission on behalf of low-income residents, opposing rate increases by the Public Services Company of New Mexico. “Constantly,” Porter says, “it’s our voice against the suits.”

Her on-the-ground experience supports a message Bowles has pushed all these years in academia. “Inequality,” she says, “really holds us back.”

Bowles offers a key reason why this is so. “Inequality breeds conflict, and conflict breeds wasted resources,” he says.

In short, in a very unequal society, the people at the top have to spend a lot of time and energy keeping the lower classes obedient and productive.

Inequality leads to an excess of what Bowles calls “guard labor.” In a 2007 paper on the subject, he and co-author Arjun Jayadev, an assistant professor at the University of Massachusetts, make an astonishing claim: Roughly 1 in 4 Americans is employed to keep fellow citizens in line and protect private wealth from would-be Robin Hoods.

The job descriptions of guard labor range from “imposing work discipline”—think of the corporate IT spies who keep desk jockeys from slacking off online—to enforcing laws, like the officers in the Santa Fe Police Department paddy wagon parked outside of Walmart.

The greater the inequalities in a society, the more guard labor it requires, Bowles finds. This holds true among US states, with relatively unequal states like New Mexico employing a greater share of guard labor than relatively egalitarian states.
The problem, Bowles argues, is that too much guard labor sustains “illegitimate inequalities,” creating a drag on the economy. All of the people in guard labor jobs could be doing something more productive with their time—perhaps starting their own businesses or helping to reduce the US trade deficit with China.

Guard labor supports what one might call the beat-down economy. Community Action’s Porter sees it all the time.

“We have based almost everything we have done on the idea that we always need a part of our workforce that is marginalized—that we can call this group into action at any time, pay them nothing and they will do anything that needs to be done,” she says.

More discouraging, perhaps, is the statistical fact that a person born into this workforce has little chance of rising beyond it.

Again with the numbers:

30

32

The first number is the likelihood, expressed as a percentage, that a child born to parents whose incomes fall within the top 10 percent of Americans will grow up to be at least as wealthy.

The second is the percentage likelihood that a person born into the bottom 10 percent of society will stay at the bottom.

Just to drive the point home, here’s a third number: 1.3

That’s the percentage likelihood that a bottom 10 percenter will ever make it to the top 10 percent. For 99 out of 100 people, rags never lead to riches.

These estimates come from research by one of Bowles’ former students, American University economist Tom Hertz, published in Unequal Chances, a 2004 book co-edited by Bowles. To arrive at these figures, Hertz mined the Panel Study of Income Dynamics, a survey of 4,800 American families that’s been updated each year since it began in 1968, the year Martin Luther King inspired Bowles to study inequality.

It may not come as a shock that rich kids who grow up learning to sail eventually buy yachts, while the offspring of burger-flippers might hope to rise to be the night managers for whole crews of burger-flippers. What’s troubling about this research is that poverty tends to persist through generations, no matter how individuals try to improve their circumstances.

So, much of what Americans tell their children is wrong. It doesn’t really matter how long you go to school or even necessarily how hard you work. The single most important factor to success in America is “one’s choice of parents,” as a contributor to Unequal Chances wryly put it.

What about natural intelligence? “The problem with IQ is that it’s just not very important in determining who’s rich and who’s poor. And most people don’t believe that,” Bowles says.
What about education?

“Being willing to sit in a boring classroom for 12 years, and then sign up for four more years and then sign up for three or more years after that—well, that’s a pretty good measure of your willingness to essentially do what you’re told,” Bowles says.

This bodes ill for the American Dream of upward mobility. It also puts the lie to a can-do cliché underpinning much US economic policy: namely, that people in need should get a “hand up” rather than a “hand out.”

The economic rationale for putting a cap on unemployment benefits and severely restricting welfare, even for the poorest Americans, is that people won’t look for work if the government is too generous.

If Bowles is right, however, the answer is more handouts, not less.

More importantly: handouts for whom?

$21,200

$24,500

The first number is the annual unemployment benefit (before taxes) that can be claimed by an average New Mexico wage earner.

The second number is the minimum in state subsidies “green” manufacturing company C/D² Enterprises will receive for each employee it hires at its new plant in McKinley County. Most of the jobs will go to Navajo tribal members.

The first number represents a modest government grant to individuals on the condition that they keep looking for a wage-paying job.

The second represents a taxpayer-funded subsidy that virtually guarantees the owners of C/D² will make a profit.

Gov. Richardson and Economic Development Secretary Fred Mondragón announced the C/D² project on Jan. 21, at a press conference that did not lack for horn-tooting.

“My notes say your pro-business attitude makes my job a little easier,” Mondragón said to the governor. “It makes it a lot easier.”

Richardson drove the point home with a message to state lawmakers, who—budget deficit in the hundreds of millions of dollars—are weighing higher taxes against program cuts.

The message? Don’t cut spending on incentives that attract out-of-state corporations—“like the high-wage tax credit, like the job training tax incentives, like the capital gains [tax cut], like the personal income tax [cut],” Richardson said.

“These are working. They’re bringing jobs. Let’s not mess with these.”

Sure, Richardson’s policies have created some jobs. But the facts suggest a strategy focused on attracting businesses simply cannot cope with the recession.
In exchange for untold hundreds of thousands in tax incentives, C/D² hopes to hire 40 employees within three years. There are 2,300 unemployed people—at least—in McKinley County.

Their benefits will eventually run out. Then what? With credit still hard to come by, it’s unlikely they’ll start their own businesses. The frightening prospect of ever-deepening poverty means that unemployment is actually quite useful to corporations like C/D²: The fear creates what Bowles calls “labor discipline.”

The Economic Development Department’s annual report provides no clear accounting of how much the state spent to fulfill the department’s mission of job creation. It only provides a table of results. Even by its own yardstick, the department fell short with its key employment effort, the Job Training Incentive Program.

Last year, the EDD report says, that program “assisted” in the “creation” of 4,570 jobs statewide (though the definitions are fuzzy) [News, July 22, 2009: “Incentive Dis”]. That’s well short of the department’s 6,000-job goal.

Even if EDD had met its goal, its efforts would’ve paled next to the 25,900 existing jobs that disappeared last year across the state, according to the Department of Workforce Solutions.

“Most of the job growth in the state is unrelated to these economic development programs,” Legislative Finance Committee Chief Economist Tom Clifford says. “They say, ‘Well, these jobs with this company wouldn’t have come here without the incentive.’ That’s often overstated, in my view.”

To be fair, JTIP does succeed in one regard: It pads corporate balance sheets by an average of $10.5 million a year, by shifting the cost of workers’ wages from employers to taxpayers.

If Bowles has the history of wealth figured out all the way back to the Stone Age, shouldn’t he have some practical advice?

Indeed he does. Here, one number will suffice.

$250,000.

OK, that’s a figure Bowles picked out of the air. It’s how much each person might receive under a key economic reform he supports: universal welfare.

It could also be called direct government investment in everyone. After all, taxpayers already invest in strangers’ children through the public schools before turning them loose with nothing.

“Suppose instead what we did is this: We said, ‘Look, when somebody turns 18, he gets a quarter of a million dollars and, after that, you’re on your own,’” Bowles says. “Once you’ve got your quarter-million, you’ve got to make a decision: ‘Should I go to college or do I want to start a business?’—which you could do with a quarter of a million.”

This is a variant of an old idea, more recently popularized—at least in Europe—by the Belgian economist Philippe Van Parijs. Under his “basic income grant” proposal, the government would redistribute wealth so that everyone has enough to live.

“They just get a check. And they get it no matter what—Rockefeller, the poorest person in America,
everybody gets it,” Bowles says. “There’s nothing you can do to get more; there’s nothing you can do to get less.”

Such a system eliminates the disincentives to work in the current social safety net. “The problem with the welfare system is that as soon as you get a job, they start taking your money,” Bowles says. “This basically says, ‘You’ve got this nest egg and, if you go out and get a job, you keep the whole thing—except for whatever taxes you pay.’”

Can you hear the Friedmanites groaning? “It sounds very radical,” Bowles says, “but it’s very consistent with economic ideas.”

It makes as least as much sense as giving hundreds of billions of dollars to Wall Street’s largest banks—some of which helped cause the recession—so that the banks can lend it back to taxpayers at outrageous interest rates.

Bowles’ suggestions—radical yet oddly conservative—also mesh well with his general approach to economics. The SFI professor isn’t as easy to pigeonhole or dismiss as other lefties who believe the assumptions of mainstream economics—for instance, that people behave rationally—are bogus.

“Sam Bowles is somebody who straddles the boundary. He maintains the idea that there should be radical redistribution—that the current system is a terrible system in a variety of ways—but he’s also somebody who believes the methodological tools of economics have some real value,” GWU’s Farrell says. “I think what he’s doing is very smart. And it actually has some promise for a future, coherent research agenda.”

There’s also promise in some Bowlesian projects that are already underway.

For instance, in the past few years, Community Action New Mexico has helped approximately 800 New Mexicans set up “individual development accounts”—basically savings accounts on steroids. After completing a financial-ed class, IDA holders eventually have their savings matched 4-to-1, giving them a start toward buying a home, paying tuition or starting a business.

Community Action’s Porter calls it economic development “that works for the individual as well.” The IDAs, she says, have led to 93 new businesses and 67 home purchases, and have sent 110 people to college.

The state’s investment so far has totaled approximately $2,500 per IDA. If you divide New Mexico’s contribution by the number of jobs created by homegrown, IDA-supported businesses, Community Action’s approach is approximately $10,000 cheaper per job than the corporate subsidies Richardson supports.

The IDAs aren’t ideal. Not everyone qualifies. And what if somebody starts a business that fails, buys a home that falls in value or decides to study a vanishing trade (say, journalism)?

This is where Bowles has yet to be heard.

Liberals tend to think of inequality as a matter of class and race—and that’s true, he says. But individual success hinges on a big X factor: “There’s a lot of luck involved,” Bowles says.

No politician’s promise can remove that element of unpredictability. Which means the smart policy, in Bowles’ view, is for the government to care for people who suffer misfortune through no fault of their own. This is social security in the small “s” sense—an idea that was forgotten when the dominant Chicago School put thinkers like Bowles in exile.

“The whole idea of social security,” Bowles says, “is to insure the unlucky by having the lucky pay a
little extra.”

Three more numbers, none of them lucky:

42

38.8

46.4

The first is how many years have passed since Bowles was inspired by King to “put his heart and his head together” and study economic inequality.

The second is the Gini measure of inequality for the US back then, a level comparable to other wealthy nations like Japan or Israel today.

The third is the most recent US Gini, as calculated by the Census Bureau. It’s at a level comparable to the Philippines, a former colony of islands where every other person lives on less than $2 a day, or Rwanda, an even poorer country in Central Africa that was home to a genocide 16 years ago—a country whose name is often synonymous with hopelessness. SFR

WHAT WOULD YOU DO WITH $250,000?
MrWizard: You say "there is certainly a reason that ammunition is in short supply right now in the USA."

There is indeed a reason: Scaremongering by pro-gun groups before Obama's election, claiming that "He's going to take your guns away!" This started a run on ammunition that persisted thru most of 2009.

Moronically, the shortage -- caused by gun owners -- was then blamed conspiratorially on the government!

As a matter of fact, the shortage eased off several months ago, as this article from September attests:

http://www2.tbo.com/content/2009/sep/...

But I'm sure the NRA -- which seems to operate more for the benefit of gun manufacturers than anyone else -- is very satisfied with their contrived campaign of panic.

posted by Maximus on 2/07/10 @ 09:40 p.m.

Professor Bowles is indeed a very smart man, but I am surprised by how long it took him to come to those conclusions. All you need is some (not a lot) knowledge of history to know that the prime reason for the death of a country is based on the disparity of income -- rich getting richer and poor getting poorer. Perhaps the professor spent too long crunching numbers, as I have.

The posts are interesting, but ill advised. I don't think they address the bigger picture as the Professor does. At least he has a plan. Not a very good one, but a beginning, and an opening for intelligent discussion about the problem.

Historically, as the disparity in income diverges, haves and have nots become more aggressive towards one another, which always and eventually leads to a revolution, where many people die. I don't want that, promote it, or condone it, but there is certainly a reason that ammunition is in short supply right now in the USA.

On the other hand, since there is no limit to greed by the haves, and no limit to the number of people they can put into poverty, there may be no alternatives now. It may just have gone too far already and can't be fixed without a revolution.

I think that there are intelligent people, and reasonable people, but there are no civilized people. We have a long way to go as human beings.

In my opinion, disparity in income is absolutely the first thing that needs to be fixed before we can fix the next two big problems that can and will also lead to the end of America. I won't discuss them here, but those two fixes are also truly radical in nature given the current status quo, although not as large as this issue. But they are most definitely all inter-related.

I also think that if you focus on and fix the big issues, disregard the static, diversions, and outright lies, assuming that you can identify them, that the smaller problems will take care of themselves.

posted by MrWizard on 2/07/10 @ 07:01 p.m.
Giving everyone $250,000 when they turn 18 is "practical advice" ??

Like THAT is going to motivate students to work hard, study, be competitive, and take personal responsibility for their lives!

This guy is in La La Land.

posted by ZenCushion on 2/06/10 @ 11:18 a.m.

You state that the proposal would make Friedmanites groan. Perhaps as a lump-sum. But Milton Friedman himself proposed a "negative income tax" aka "guaranteed minimum income".

Also, does Bowles describe himself as having been "driven into exile"? I would actually be surprised by that. At the Santa Fe Institute's blog he actually defended the economics profession from Krugman's critique.

posted by TGGP on 2/06/10 @ 01:52 a.m.

Perhaps Samuel Bowles and Robert Kiyosaki, the inventor of the Cash flow Game, should get their heads and hearts together and put together an education plan for all those 18 year olds who would receive the $250,000 that Samuel proposes. Then It might really make a difference!

posted by pandelayates on 2/05/10 @ 09:16 p.m.

Fair point, David—but I think if any government wanted to implement such a policy it'd have a hard time leaving out everyone who'd already turned 18, don't you?

posted by CoreyPein on 2/03/10 @ 04:09 p.m.

On the video above, the answers to the question typically don't fit the question. The questioner asked, "What would do if someone gave you $250K when you were 18?" Most of the people, who are well over 18, answer what they would do with it now. That's irrelevant to Bowles's proposal.

posted by davidrhenderson on 2/03/10 @ 03:13 p.m.

Marie—Someone brought this up at Marginal Revolution, too.

http://www.marginalrevolution.com/mar...

I can't speak for Bowles, but I'd think that Lottery players make poor stand-ins for the wider population. They are, after all, a self-selected (and often innumerate, considering the odds against them) group.

Also, I'd add, well-educated people can be pretty good about blowing their money, too. Hence Madoff.

posted by CoreyPein on 2/03/10 @ 01:52 p.m.
Hey where it comes to low-wage earners and such folk on the economic margins IDAs (individual development accounts) is where it's at. The mariemorgan post speaks of low-wealth people blowing it (as can happen on any income/societal strata as Corey points out) but with IDAs you're lent the chance to build 'assets'. The founder of IDAs and the IDA movement - Professor Michael Sherridan of Washington University in St Louis - says this: income (i.e. a free check) may feed your stomach but 'assets' changes your head.

I've twice met professor Sherridan - the first time in Chicago at the First Annual IDA Conference in Chicago in '98 and again at the first state-wide Minnesota IDA Conference in St Paul at the College of Human Ecology. I was on that conference's 'organizing committee'.

So bringing welfare-level people into the financial mainstream and modernization by IDAs (by 'matching' their earned income / saving) is a hand-up, not a hand out. Smart, VERY smart!

posted by richarddean on 2/03/10 @ 12:49 p.m.

It's been shown repeatedly that people who win the lottery are back where they started within one year (e.g., still in a trailer with no job). It takes more than cash to change our habits and 'comfort' zone. Bowles' idea has merit, but some kind of education on how to leverage or truly invest one's nestegg would be in order.

posted by mariemorgan on 2/03/10 @ 12:47 p.m.

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