The Distributive Distraction

"Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution." That's probably the most famous sentence that Nobel laureate Robert Lucas ever said. He immediately added:

> *In this very minute, a child is being born to an American family and another child, equally valued by God, is being born to a family in India. The resources of all kinds that will be at the disposal of this new American will be on the order of 15 times the resources available to his Indian brother. This seems to us a terrible wrong, justifying direct corrective action, and perhaps some actions of this kind can and should be taken. But of the vast increase in the well-being of hundreds of millions of people that has occurred in the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor. The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production.*

What is Lucas really saying? Despite the "perhaps some actions of this kind can and should be taken" caveat, the standard interpretation is that:

(a) We face a pronounced equity-growth trade-off. Trying to make the economy "fairer" will harm the poor in the long-run by dulling individual incentives to increase total production.

and

(b) The wisest course is to forget equity and do whatever maximizes overall growth.

Though I've known about this Lucas quote for years, I recently had an epiphany: We can make virtually the same argument *even if dulling individual incentives has **no** effect on total production!*

To see why, imagine that a society faces a menu of possible reforms. The menu features fifty ways to increase equity, and fifty ways to increase growth. Each of these reforms will definitely work if tried, and none of the equity reforms impede growth in the slightest.

The catch: To actually *adopt* a reform requires a massive public debate, followed by a prolonged fight in the legislature. As a result, the society is only capable of implementing one reform per year.

In this world, what happens if the dominant party decides to loudly push an equity-based reform? Simple: Although the equity reform, if passed, will do *nothing* to slow growth, it still crowds out a growth reform. How? *By distracting the polity.* When we have a public debate and legislative fight about an equity reform, we're too busy to think about the growth reform. As a result, the growth reform stays on the menu, unordered.

Is this model realistic? Painfully realistic!

First, think about all of the public debates we're having right now. Both airtime and mental bandwidth are *very* scarce. If you want to put a new idea on the public agenda, good luck. The U.S. polity has the ability to adopt only one or two big policy reforms per year.

Second, ask yourself: What fraction of these public debates have *any* clear connection to economic growth? 5%? 10%? So even if we randomly selected reforms, the U.S. polity would, on average, only adopt one growth reform every five or ten years.

You could reply, "We don't select reforms randomly." Quite true, but that makes the problem worse. Why? Because equity reforms are vastly more thrilling to discuss! Growth is boring to psychologically normal humans, which is why economists spend so much energy trying to get non-economists to care about it. Equity, in contrast, tantalizes the popular imagination. Let's fight about who gets what! *Fiiiiight!*

If you're still doubtful, think about how many popular books, movies, and TV shows' central conflict is primarily about economic growth. Approximately zero, right? Now think about how many popular books, movies, and TV shows' central conflict is primarily about equity. Approximately all, right? Growth is critical for the well-being of society, but equity is what captures the individual imagination.

The upshot: Anyone who promotes equity reforms *automatically* impedes growth reforms.

A society can't think about everything. A society can't talk about everything. When our society thinks and talks about distribution, we are, by default, failing to think and talk about growth. If if we don't think and talk about growth, we can't implement policy reforms to promote it.

And so we don't.