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The Democratic Economist

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By George F. Will
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CHICAGO -- In his curriculum vitae, Austan Goolsbee lists as his "other interests" -- other than teaching at the [University of Chicago](#) -- two activities: triathlons and improv comedy. Evidently he is a masochist with a sense of humor, so he is suited to participate in presidential politics, which he is doing as an adviser to [Barack Obama](#).

Before they met in person, Obama, running for the Senate in 2004, asked Goolsbee a perplexing question. Obama's opponent, [Alan Keyes](#), an African American imported from Maryland by [Illinois'](#) shamolic Republican Party, had been asked whether he believed in reparations for slavery. Keyes said perhaps America could do what [Rome](#) did -- exempt descendants of slaves from taxes for two generations. Obama asked Goolsbee how much that might cost. Goolsbee's two answers were: Hard to say. And: trillions.

Goolsbee graduated from [Yale](#) and earned his doctorate from [MIT](#) before coming to the University of Chicago's business school, which gave to public life a giant of conservatism, George Shultz. The university's economics department has been adorned by the likes of [Milton Friedman](#), George Stigler and Gary Becker, each a Nobel laureate, each a conservative by virtue of his inclination to expect more utility from markets than from government interventions therein.

Is Goolsbee dismayed about widening income inequality? Yes, but with a nuanced understanding. The stagnation of middle- and working-class incomes, and the anxiety that has generated, is, he says, a most pressing problem, but policymakers must be mindful about trying to address its root cause, which Goolsbee says is "radically increased returns to skill."

In 1980, people with college degrees made on average 30 percent more than those with only high school diplomas. That disparity has widened to 70 percent. In the same year, the average earnings of people with advanced degrees were 50 percent more than those with only high school diplomas; today, it is more than 100 percent.

The market is shouting "Stay in school!" and Goolsbee's conservative colleagues at [Chicago](#) say a high tax rate on high earners is "a tax on going to college." Conservatives say: Don't tax something unless you are willing to have less of it. But Goolsbee says: Conservatives often exaggerate the behavioral response to increased tax rates. The solution is to invest more in education, which will raise wages, reduce inequality and move toward equilibrium. The GI Bill was, he says, so prolific in stimulating investment in "human capital" -- particularly, college education -- that for a while the return on it went down relative to high school.

"Globalization" means free trade and various deregulations that supposedly put downward pressure on American wages because of imports from low-wage countries. Goolsbee, however, says globalization is responsible for "a small fraction" of today's income disparities. He says that "60 to 70 percent of the economy faces virtually no international competition." America's 18.5 million government employees have little to fear from free trade; so do auto mechanics, dentists and many others.

Goolsbee's rough estimate is that technology -- meaning all that the phrase "information economy" denotes -- accounts for more than 80 percent of the increase in earnings disparities, whereas trade accounts for much less than 20 percent. This is something congressional Democrats need to hear from a Democratic economist as they resist trade agreements with [South Korea](#) and such minor economic powers as [Peru](#), [Panama](#) and [Colombia](#).

As regards [China](#), Goolsbee -- who favors a tougher approach, especially through the [World Trade Organization](#) -- notes that all imports are only 16.7 percent of the U.S. economy and imports from China are a small portion of all imports. Those from China amount to 2.2 percent of the U.S. gross domestic product. [Mexico](#), he says, is genuinely stressed by China, whose exported products "overlap" with nearly two-thirds of Mexico's. China's exports overlap with 5 to 10 percent of America's economy. Rising imports from China predominantly replace those from other lower-skilled countries. Were China to be pressured into revaluing its currency in isolation, Goolsbee says, America would not start making the kind of toys it has been importing from China -- America would import toys from [Vietnam](#).

Economics is the only academic discipline that in recent decades has moved in the direction that America and much of the world has moved, to the right. Goolsbee no doubt has lots of dubious ideas -- he is, after all, a Democrat -- about how government can creatively fiddle with the market's allocation of wealth and opportunity. But he seems to be the sort of person -- amiable, empirical and reasonable -- you would want at the elbow of a Democratic president, if such there must be.

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