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Wouter Koolmees is minister of Social Affairs and Employment in the Netherlands. He has a degree in Social and Institutional Economics from Utrecht University. From 1999 to 2003 he was a consultant/researcher specialising in the labour market and social policy at the Dutch Economic Institute (now Ecorys) in Rotterdam. Then he worked in various positions at the Ministry of Finance. In 2010 he became a member of Parliament, and in 2017 he was appointed minister of Social Affairs and Employment.

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Optimism is a moral duty

*A conversation between
Sir Angus Deaton and Wouter Koolmees
in memory of Jan Tinbergen*

It is in the spirit of Jan Tinbergen that Sir Angus Deaton and Wouter Koolmees inspire one another. When Wouter Koolmees says that “optimism is a moral duty,” Sir Angus Deaton takes out his note book to write it down: “I hope to use that quote. I love it.” Upon which Koolmees explains that he is quoting Immanuel Kant, so that it is full circle, from academia to policy making.

Optimism, however, seems in short supply with Professor Deaton – an empirical economist working on poverty, health and economic development – as he paints a grim picture of the situation in the United States in his book *Deaths of despair and the future of capitalism*, co-authored with Anne Case.

Deaton: “We discovered this thing about these people dying, that the mortality rate of the white working class was going up, and we traced it to what we now call *deaths of despair*, which are deaths from drug overdose, alcoholic liver disease and suicide.

People use opioids because their lives are so miserable that taking drugs seems like not such a bad idea. This is caused partly by the dysfunction in the labour market for less educated people. Many people have dropped out of the labour force and some of that is because the demand for unskilled labour has been falling for years.

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Also, there have been marriage failures of less-educated people. People cohabit, they have kids and they then re-partner. People used to have a picture of an unmarried mother with children and she would be black. Now the typical unmarried mother with children is white.

These people, forty per cent of the population, are increasingly detached from the labour market, increasingly detached from marriage, increasingly detached from church. There is a sense that a lot of less-educated people are adrift and that the whole norms of a working-class or of more middle-class life have come apart.”

The situation in the Netherlands is a lot better than this. Koolmees, an economist by training and the minister of Social Affairs and Employment in the Netherlands, states: “Here, the level of poverty is very low. Also, when we look at the last twenty years, income inequality and wealth inequality have remained very low. Which is a positive thing.”

Deaton agrees: “While deaths of despair are occurring in some European countries too, it is nowhere on the same scale as in the US. Partly because you have a very different health-care system, and you are not letting pharmaceutical companies sell opioids – which are essentially legalized heroin – to the masses like in America. This has cost tens of thousands of lives of people who would not have died if we had a system more similar to the European one.”

Koolmees: “The middle class is still hanging on in the Netherlands, and I think that is a good thing. Still, there is a segregation in the Netherlands between people who have fixed contracts and those with flexible contracts. The ones with fixed contracts more often tend to be well-educated, and they are safeguarded by the old labour laws: they have access to social security and pensions. Those with flexible contracts often go from one employer to the other, and they neither have this education nor this access to social security and pension schemes.

This segregation has consequences. People who are low-skilled tend to be on the lower end of the income and life-expectancy distribution. They no longer have the upward potential of the fifties, sixties and seventies. There is more division now in our society and that worries me. That worries me a lot.”

Deaton: “It worries me too, and I think it is worse in the United States. As a society, we have got to find some way to ensure that people who do not have a bachelor’s degree or are not really well-educated have something worthwhile to do. By that, I mean something that is seriously valorised, that people think is good and respectable and useful. Take the situation in the first twenty or thirty years after the Second World War, then we had a society in which also less-educated people were really valued. And if we do not see to that, it is going to form a real threat to capitalism and in the West to democracy as well.”

Sent: “Minister, is there any specific issue you would like to raise with Professor Deaton?”

Koolmees: “One particular issue in the Netherlands is the position of the self-employed. We have a lot of them, about 1.4 million. Some are able to take care of themselves. These are the entrepreneurs, the advisers, the IT-people with high hourly rates. However, many of the self-employed are struggling. They are at the lower end of the labour market, sometimes they have been forced into self-employment and often at low payments.

Now, my question for Professor Deaton is: how does one identify these different groups of self-employed? And how does one support those who are struggling? Do you happen to know examples of how other countries solve this issue?”

Deaton: “I do not know the answer to that. What you describe might be related to the tremendous amount of outsourcing that is going on. Not outsourcing abroad, but outsourcing by large corporations to labour-supplying corporations. So, for example in an Amazon *fulfilment centre* – that is what they call it, but it is in fact a warehouse – very few of the people working there actually work for Amazon. Most of them work for a company that supplies labour. Those contracts bring in huge amounts of turnover, yet these people often do not have any benefits like health insurance.

We do not know very much about this, for it is a relatively recent phenomenon. Yet we do know that one of the things that makes it so much worse in the United States is that we have this disastrous health-care system ...”

Koolmees: “Yeah.”

Deaton: “... which makes it incredibly expensive for firms to hire workers. There is an enormous temptation for firms to shed workers, so that they do not have to pay the unemployment benefits, pension benefits and health-care benefits. There can be quite a substantial difference between employing somebody directly or via an intermediary.

In a certain sense, it is the success of the unions and the success of labour over time which pressurizes employers to find ways to avoid paying for these benefits. They do so by shifting the less educated workers into these labour-supply companies.

Some of these occupations are very bad, and some of them are less so. A lot of the focus is on Uber drivers, but they at least have some autonomy. They can choose when to work for instance. But if you work in a call centre, in fast food or in the Amazon warehouse, it is like being on the assembly line in the old Ford plant. You have very little money and very little autonomy. Those can be very bad jobs.”

Koolmees: “I agree with your analysis. Some employers are constantly inventing new ways to get jobs as cheap as possible. There is payrolling, contracting, and there are the temporary work agencies, some of which exist to circumvent giving workers proper benefits. We see this as a problem and with legislation we try to prevent it.”

Sent: “Professor Deaton, you are conducting very meticulous empirical analyses with crucial policy implications. Jan Tinbergen felt it was important to establish a bridge between academic insights and policy proposals. Do you feel that you are able to influence policy?”

Deaton: “My standard answer to any question is: ‘it is complicated’ – which in this case is not a very good answer. But it actually is difficult, because policy making in America has always been less rational than in many of the European countries. I could never have the conversation I am having here with Mr. Koolmees with his counterpart in America.

It is not only Trump. If one can compare Washington, not to a swamp, but to a zoo, the animals in our zoo are much stranger and wilder than in many European capitals.

People listen to academics in America too, but they do so in a very indirect way. Now, academics are trying to write a book that will sell a great number of copies to intelligent laymen. If it does, it will be written about by the newspapers, it will be discussed and it will be talked about during elections. The term ‘deaths of despair’, for instance, has rather proliferated in the public vocabulary.

The days when Tinbergen wrote this wonderful stuff about optimizing policy were a time when the government listened to great academics in a far more direct way.”

Sent: “Would you agree, Minister?”

Koolmees: “I have always felt a link with academia. I am trained as an institutional economist, which is a combination of economics and sociology, and during the first years of my professional life I was a researcher at the Netherlands Economic Institute.

I find it very interesting to use academic insights for policy making. For instance, now in our ministry, we are working on an evidence-based policy as to the integration of immigrants within the labour markets. We do not know a lot about the effectiveness of this kind of policy, so we have started eight pilots, together with scientists, in which we monitor what works and what does not.

It is also important to get scientists into the ministry in order to help us find better policies. With this aim, we have a scientific coordinator in the ministry here, we have links with universities across the Netherlands, and once a year we invite PhD students to present their new findings to our policy makers.

Also, there are three independent scientific agencies who advise my cabinet on policy. To wit: CPB Netherlands Bureau for Economic Policy Analysis – which was founded by Jan Tinbergen – for the economic perspective, SCP Netherlands Institute for Social Research for the social and cultural dimension, and PBL Netherlands Environmental Assessment Agency for the environment. I am very happy with those.

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The coalition system in the Netherlands – as opposed to the *winner takes all*-system – is also relevant. It means that we have to compromise on things – and so evidence, figures and statistics are helping us to arrive at a compromise among the various parties.”

Deaton: “In the United States and to some extent in Britain, the role of experts has been falling into disrepute. You can have all these experts in the ministry, links with academia, and all the rest of it. But the danger is that experts think they know best for people and will aggravate people. So, I am wondering how you keep that under control, Mr. Koolmees.

Maybe having the coalition government helps, maybe not having *‘first past the post’* helps, but you have got to internalize those voices as well as the experts’ voices. Otherwise, you are going to lose legitimacy. What are your ideas as to this?”

Koolmees: “I am familiar with the issue. We now have thirteen parties in parliament, while we came from a situation in which we had just three big parties: Christian Democrats, Labour and Liberals. And among the thirteen now, there are also the new, up-and-coming populist parties.

But, on the other hand, the ‘Poldermodel’ is part of our culture, which comprises a social dialogue among employers’ organisations, unions and government. And since we have coalition governments, we also need some external referees. That is a role academia can play, and it is a role the CPB does play.

So, then we ask the CPB: ‘We want to achieve this or that goal – what is the most efficient way to do so?’ And this is what makes for a more rational debate.”

Sent: “Professor Deaton, in talking about the interaction between academia and policy, I do wonder about the role of economists themselves. President Truman is famous for having said ‘please, give me a one-handed economist, for all my economists say on the one hand, and then but on the other.’”

Deaton: “It is hard for me to dissociate this from what is actually going on right now. Because, clearly, we are in a situation where economists are not being listened to much. Instead of picking economists to tell one what the evidence says, they are picking the evidence they want to hear and then search

for the economist who will say just that. So, you get policy-based evidence, instead of evidence-based policy.

It used to be different. People like Larry Summers, who is a great economist, were advising the Obama administration. I hope it will come back, as at the moment the only home for technical policy advice within the government is the Federal Reserve System. Yet in the Reagan administration there was also very little in the way of economists helping the government.”

Sent: “When it comes to the role of economists, Mr. Koolmees, it is interesting that you were trained as an institutional economist. Does institutional economics play a role in policy matters?”

Koolmees: “As minister of Social Affairs, my institutional economics background is very useful in interacting with unions and employer organisations. Before I became a politician, I was employed at the Ministry of Finance, which has a neoclassical way of thinking. And this thinking also helps me in my policy proposals.

When you look at the economic debate in the Netherlands over the last twenty years, I see the rise of institutional economics. The purely rational homo economicus is not very relevant for today’s policy debate. This is obvious in how the labour markets function, and the housing market or the health-care system.”

Sent: “I wonder what the implication of this is for applying the Tinbergen rule to policy goals and instruments.”

Deaton: “Well, the rule is more or less a matter of logic. You are not going to do very well if you do not have enough levers to pull, but over the years the role of the rule in policy making and academia has changed.

When I first came into economics in the late sixties, early seventies, we all assumed that the central bank was responsible for inflation, and that the finance minister, perhaps Parliament, was responsible for unemployment. Those were the two objectives we were concerned with most. And when we considered whether it should perhaps be the other way around – the central bank managing unemployment and the treasury inflation – we organised dis-

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cussions about this with people in academia and in government, and we built large-scale models in the tradition of Tinbergen.

Now, however, this has been swept away to a large extent. Of course, you always need to keep in mind that you cannot reach two goals with one instrument, but it is a less technocratic world than when we used to have these discussions.”

Sent: “Minister, do you yourself experience a struggle in your own policy domain of not having sufficient instruments or having conflicting goals?”

Koolmees: “In general, our policy has become more complex. Though sometimes we try to reach multiple goals with one policy instrument, and then afterwards think ‘Tinbergen was probably right’.

We have a good social security system, for instance, but it has been made very complex. We have lots of different ‘toeslagen’ [income subsidies, eds.] which are very social and good for the people. But the way in which the system is organised sometimes gets people in debt. The problem is clearly that we want to achieve several goals with one instrument.”

Deaton: “In Tinbergen’s world you had a single policy maker, or perhaps several of them working together, and in that case you would focus on the number of instruments. But maybe it does not matter so much how many instruments you have, it is just who controls them.

In the US we have many, many policy objectives, yet fiscal policy is not going to solve them, especially given the polarization and paralysis in Congress. At least, that is not the way we think about it. In Europe, there are so many players – the Germans, the French, the British – and they have all got their fiscal stance. It is not so much the levers that have changed, but who controls them.”

Sent: “Would it be fair to say that we in the Netherlands are saving capitalism, whereas policy in the United States is killing capitalism? Is this the end of capitalism in the United States?”

Deaton: “I hope it is not the end.”

Sent: "Why?"

Deaton: "This is a very important point. You might imagine some crisis coming along, which then would mean the end of capitalism – and there are a lot of people thinking that way. They would like to see capitalism replaced by something else.

That is not my view though. We have to fix capitalism and make it work better for everybody. We should not attempt to do away with it and replace it by something like governments owning the means of production, which – as we know from a lot of experience – is not going to work."

Sent: "Do you see yourself as capitalism's saviour, Minister?"

Koolmees: "I agree with Professor Deaton's 'fixing capitalism' statement. We used to have a discussion as to the haves and the have nots, which is actually a discussion about the distribution of income or wealth. Now we more and more tend to have a debate about the cans and the cannots. That is a good discussion to have, because it is about education, about having opportunities.

And then you see that, in the Netherlands, people at the lower end of the labour market, who depend on flexible contracts, tend to be more negative about their situation, more insecure. Eighty percent of the people who are dependent on flexible contracts say they are not happy. From a societal point of view, that is a big issue.

We have to come up with a solution. The Dutch Poldermodel with its unions and employer organisations will have to set that right, because people want more social security and fixed contracts. That is why I proposed a law in order to decrease the differences between fixed and flexible contracts in the Netherlands.

And that is also why I am proposing a minimum tariff for the self-employed. On the lower end of the labour market, eight percent of the self-employed are living in poverty compared with two percent of the employees."

Sent: "We have touched upon a few themes in Tinbergen's work. We have touched upon the policy rule, policy norm to some extent – the inequality that

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he felt was acceptable – and we have touched upon his insights on poverty and inequality. There is one other thing finally that I would like to put forward, and that is that Tinbergen felt that there would be a convergence between East and West, between North and South.”

Koolmees: “Globally, there indeed has been a huge poverty reduction in the last thirty to forty years. And looking at Europe, you do see a convergence between East and West.”

Sent: “In this conversation, we have frequently stressed the differences. However, Tinbergen felt that convergence would occur. Do you see Europe becoming subject to deaths of despair as well, or do you see convergence in the sense that in the United States academic economists and the insights they have to offer will find a more sympathetic ear?”

Deaton: “Well, I am an optimist.”

Koolmees: “Haha – you are an optimist?”

Deaton: “Perhaps my optimism is momentarily suspended, but my last book was called *The great escape*. One of my favourite facts is that there is no country in the world in which infant mortality now is higher than it was fifty years ago. No country; none of the worst countries. And there are some pretty terrible places out there.

Scientific knowledge is on the move all the time, and that is what enables all of this progress. It may still threaten and harm workers now, but that is how we got rich in the past. I actually believe that the human spirit really desires progress. And that we will find a way towards progress. But no one said progress would be steady-going. Some of the most horrible things that have happened in human history happened in the twentieth century Like the tens of millions of people who died during the Great Leap Forward or the two World Wars. Nowadays of course it is far more interesting what is going to happen in the next ten or fifteen years. Is what is happening now a foreshadowing like in the 1930s, or will we somehow get back on track? I do not know the answer to that question. There are a lot of really worrying things. And I do think a lot of

things we put our trust in, like education or meritocracy, are not working as well as they once did.

I do not think that our current situation in the West is going to block poverty reduction in the world. I think that what India and China have done, can also be done elsewhere. Improvement in poor people's lives depends on the spread of knowledge and of technologies, and there are lots of ways to achieve that. There are obvious threats, like China. It has great potential, but will politics interfere? I do not know. I do know that there are lots of things to worry about."

Sent: "What is your role in bringing about this progress?"

Deaton: "I am a great believer in data, in simply providing information. One of the very positive things in economics over the last twenty or thirty years has been the amount of data having been made publicly available. As a result, we know a lot more than we used to about how our economies are working, especially as to social matters.

These days we have data that were not available when Tinbergen was constructing his model. At that time, he gathered twenty to thirty observations annually, and he was trying to see a pattern in these. Currently, a big dataset is in excess of ten million observations. And that has really made a big difference. We know a lot more now than we did then. It will help elucidate some of the views that Tinbergen had when he was working. So, I am optimistic but I am no fool."

Koolmees: "Optimism is a moral duty."

Deaton: "Should you ever need a new career, I would love you to come to America and be a politician here."