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# Swapping Lessons or Sharing the Pain

By Konstantin Sonin

There are some problems that large countries can only solve by working together: For example, we should work together to figure out how to stop small countries from fighting each other and, more important, from trading in arms. Then there are the problems that every country is forced to face on its own, like flooding in Bangladesh or hurricanes in the southern United States. For a large number of countries, this second group includes the specter of separatism or the lingering effects of a colonial, communist or simply difficult past.

And then there are the problems that seem to be the same for different countries but have to be solved individually. For example, it has long been clear that disparities in wealth are a major problem for Russia. Today it is also clear that this is increasingly becoming a problem for the United States. Similarly, there is no question that corruption is a major impediment to Russia's economic development. What is becoming more evident is that in the United States, after several years of one-party rule -- U.S. President George W. Bush is a Republican and the Republicans control both houses of Congress -- corruption is also coming to the fore.

By the standards of the developed world, the U.S. economy is experiencing strong growth. But recent data showing which groups are benefiting the most from this growth represent a real cause for concern among economists. For example, in 2004 -- the most recent year for which detailed qualitative data are available -- the U.S. economy grew by 4.2 percent, but the real median income among the population fell. Meanwhile, the income of the richest 1 percent of Americans grew by 12 percent. Are these numbers the result of the Republicans being in control of both the executive and legislative branches of government for the last five years? Without a doubt. An increase in inequality of this magnitude would have been impossible without significant reductions in the taxes paid by the rich.

Paul Krugman, a Princeton economist best known for his work in the fields of economic geography and international trade, has been paying serious attention to both problems -- increasing levels of inequality and increasingly visible evidence of corruption -- for a while now in the columns he writes for The New York Times. But he has been focusing his attention mainly on the one-way relationship between corruption, and at a deeper level the reduced political competition that seems to generate the corruption, and inequality. This is a relationship fully corroborated by the Russian experience. That experience, however, suggests that the relationship also works in the other direction; that inequality serves to foster corruption. The existence of a large impoverished segment in the population, for whom neither the reforms during the 1990s nor the high recent growth rates have generated significant material improvements, renders the decisions made by the political system too harsh in the business world. The redistribution of wealth, rather than the reduction of corruption, is the policy that generates the most support among voters. The principal victim of this policy is business. (As for the failure to address corruption and the problems it generates, both business and the general population end up suffering.)

Interestingly enough, the fact that the United States appears to be suffering increasingly from problems that are pretty much standard for Russia might have an upside. Russia will have a chance to watch what the United States does to tackle the problems. Will the electoral system there be flexible enough there to act to reduce corruption while preventing that war on corruption from turning into a war against business? If the answer is yes, there is a chance we could learn something. If the answer is no, we will at least have someone else with whom to share our depressing experiences.

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