Inequality

4 May 2018

Ethics of inequality

Obama on inequality

- "The defining challenge of our time"
- Evidence that inequality in the US and other countries has increased considerably over last several decades

Why care about inequality?

- Do we want to eliminate inequality?
- Does everyone agree that many situations where we should depart from complete equality?
  - Rawls's difference principle
  - Inequalities as incentives
- Is inequality a problem in itself or is the problem that too many people are poor?

Doctrine of sufficiency

- Is it important that everyone have the same?

- Or that everyone has enough?

- Pursuing equality may help instrumentally, but not a compelling end in itself

Problem of gluttony

- Is there something morally wrong with excessive consumption?

- Should we do something about it?

Equality as a distorting ideal?

- If I am concerned with equality, then I won't be guided by own personal interests and ambitions

  - I measure my satisfaction according to my position relative to others

- But amount of money available to others shouldn't affect what I need

- However comparisons sometimes helpful: what is typical, new ideas

Equality as a distorting ideal?

- Focus on equality diverts attention from what values and factors should be important
- Equality easy to measure
- Other values or even sufficiency harder

Case for equality

- Creates more fraternal society – more peaceful and harmonious?

- Economic inequality leads to other undesirable inequalities: social status or political influence

- Note that these are derivative: not a case for reducing economic inequality per se
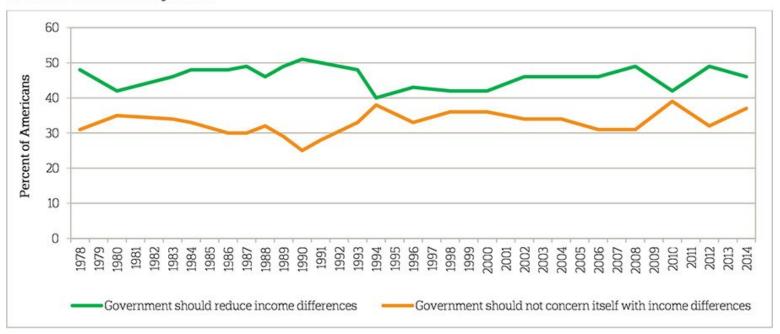
Diminishing marginal utility

- Each additional dollar brings you less pleasure than the previous one
- People's utility functions more or less the same in terms of utility
- Thus, to maximize utility of society, we should distribute money equally

Objections

- Is it true that marginal utility of money always decreasing?
  - Sometimes the more you do something, the more you enjoy it – warming up, acquiring a taste
- Do we all have same ability to use money effectively?

What do people think?

Percent of Americans who report that government ought to reduce income differences between rich and poor has remained relatively stable

Question: Some people think that the government in Washington ought to reduce the income differences between the rich and the poor, perhaps by raising the taxes of wealthy families or by giving income assistance to the poor. Others think that the government should not concern itself with reducing this income difference between the rich and the poor. Here is a card with a scale from 1 to 7. Think of a score of 1 as meaning that the government ought to reduce the income differences between rich and poor, and a score of 7 meaning that the government should not concern itself with reducing income differences. What score between 1 and 7 comes closest to the way you feel?

Bousset paradox

- People deplore in general what they consent to in particular
- Rejection of inequality but acceptance of mechanisms that generate inequality
  - Evaluation of global situation based on general facts & extreme differences
  - Evaluation of individual situation based on individual choices and behavior

What is debate about inequality about?

- Why focus on 1% and reducing the distance between them and merely rich or middle-class?

- How much of inequality debate is about the poor?

Giving people opportunity to live effectively

- Ensuring that people have enough for their daily needs

- Tolerate many inequalities provided there is protection on the downside and opportunities for economically ambitious

Other inequalities

- Happiness
- Health and life expectancy
- Social status
- Mobility
- How are these evolving?
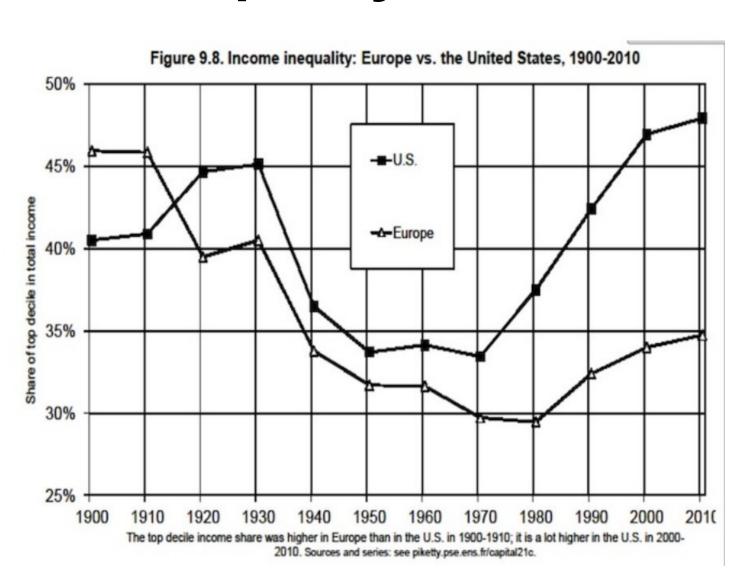
What types of inequality really bother people?

- Is it having too little money?
- Or is it a question of social status – being ignored, being irrelevant
- Today everyone is an individual and unique
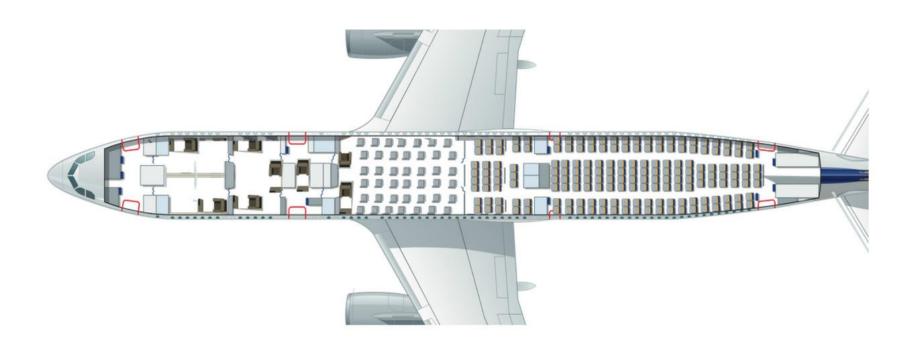
Facts and causes of inequality

U-shaped curve

- Piketty studies income distribution from 19th c. to present
  - Uses tax returns to identify the one-percent
- Inequality rises up until World War I
  - Return on capital > growth
- Falls from WWI to 1970s
  - Growth > return on capital
- Rising again since 1970s

Inequality trends

Figure 9.8. Income inequality: Europe vs. the United States, 1900-2010

The top decile income share was higher in Europe than in the U.S. in 1900-1910; it is a lot higher in the U.S. in 2000-2010. Sources and series: see piketty.pse.ens.fr/capital21c.
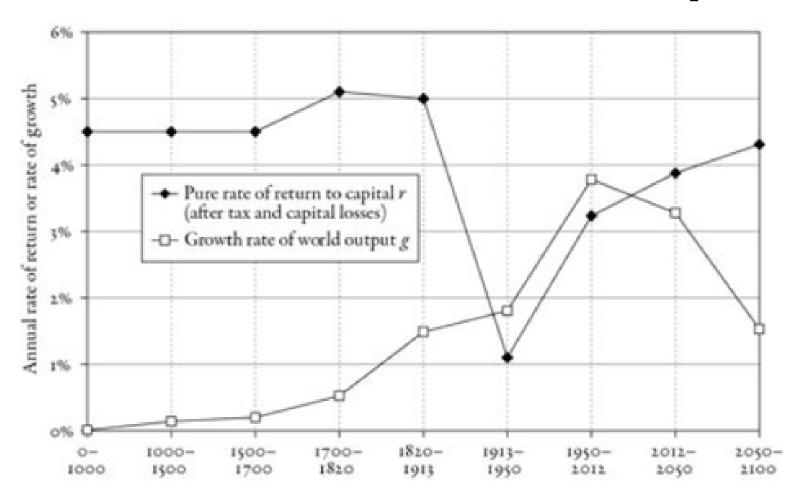
Air Gini

Air Gini

Traditional airliner

- 3.5% in First class get 11% of cabin

- 18.5% in Business class 31%

- 78% in economy get 58% of space

Air Gini

- 3.5% get 35% of cabin (8 richest passengers out of 227)

- 18% get 15%

- 78% get about 50% (those earning less than 97k/year)

Growth and return on capital

Rastignac dilemma

- Does it pay to work hard when one can inherit much more by marrying well?

- Do any characters in Jane Austen's novels think that education and hard work are the answer?

- Marrying well beats a brilliant career many times over

Why long period of equality

- Destruction of physical capital during two world wars
- Nationalizations of wealth and high tax rates
- Very high economic growth: 30 glorious years
- Strong labor unions

War and taxing the rich

- Democracies have no inherent tendency to "soak the rich."

- Instead, democracies adopt high, progressive taxation in the face of compelling "compensatory" arguments for redistribution.

- Only major wars of mass mobilization make compensatory arguments compelling.

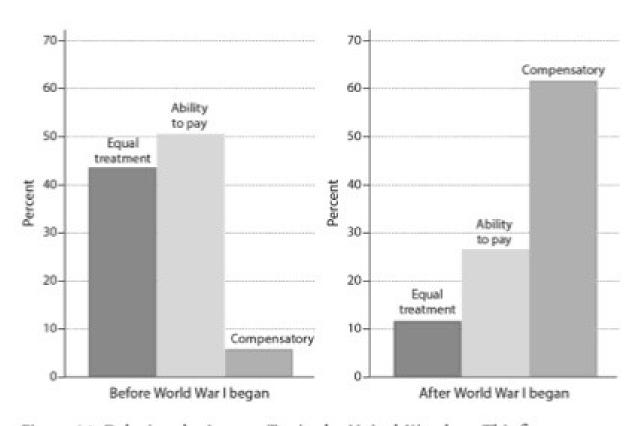- Do we expect more wars of mass mobilization?

Arguments for high taxes

Figure 6.1. Debating the Income Tax in the United Kingdom. This figure reports the distribution of types of arguments about the income tax in the UK Parliament before and during World War I. The years coded are 1909, 1914, 1915, 1916, 1917, and 1918, with July 28, 1914 indicating the beginning of World War I.

Rise of supersalaries

- Technology creates winner-take-all markets
- Erosion of norms of CEO compensation – they set their own salaries
  - Lower tax rates at top encourage higher salaries
  - When marginal taxes at 90% why flout these norms
- Financial deregulation

Race between technology and education

- Improvements in technology raise the gains for those with skills to handle complex jobs: education premium rising

- But higher education attainment is stagnating: fewer people completing college

- Employers bidding for stagnant pool of educated

- American lower education not preparing people for higher education

Patrimonial capitalism

- Inheritance-based capitalism
- Are we heading back to a period when family dynasties control great fortunes?
- Who are the super wealthy today?
  - Self-made people with high incomes: Gates
  - Inherited fortunes: Waltons
  - Financiers and bankers: Buffett

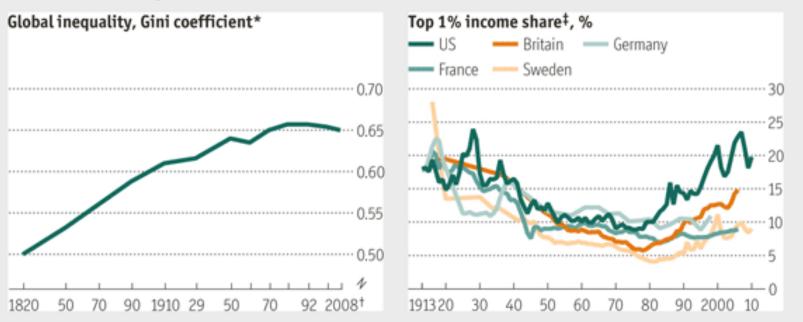| #	Name	Net worth (USD)	Sources of wealth
1—	Bill Gates	$76 billion ▼	Microsoft, Cascade Investments LLC
2—	Warren Buffett	$62 billion ▼	Berkshire Hathaway
3—	Larry Ellison	$47.5 billion ▼	Oracle Corporation
4▲	Jeff Bezos	$47 billion ▲	Amazon.com
5—	Charles Koch	$41 billion ▼	Koch Industries, inherited
6—	David H. Koch	$41 billion ▼	Koch Industries, inherited
7▲	Mark Zuckerberg	$40.3 billion ▲	Facebook
8—	Michael Bloomberg	$38.6 billion ▲	Bloomberg LP
9▼	Jim Walton	$33.7 billion ▼	Wal-Mart, inherited
10▲	Larry Page	$33.3 billion ▲	Alphabet
11▲	Sergey Brin	$32.6 billion ▲	Google
12▼	Alice Walton	$32 billion ▼	Wal-Mart, inherited
13▼	S. Robson Walton	$31.7 billion ▼	Wal-Mart, inherited
14▼	Christy Walton	$30.2 billion ▼	Wal-Mart, inherited
15▼	Sheldon Adelson	$26 billion ▼	Las Vegas Sands

Three eras of capitalism

- Classical belle epoque
  - High correlation between ownership of capital and high incomes

- Convergence capitalism
  - High growth, rising education, low return on capital

- Globalization capitalism
  - Like belle epoque but high labor incomes play larger role

National inequality versus global inequality

- Inequality rising within countries
- But falling across countries
  - Recall Great Divergence
  - Today: high growth in China, India and stagnation in many rich countries
- Which is more important?

It depends how you look at it

Global inequality, Gini coefficient*

Top 1% income share‡, %

- US
- Britain
- Germany
- France
- Sweden

*0=perfect equality, 1=perfect inequality
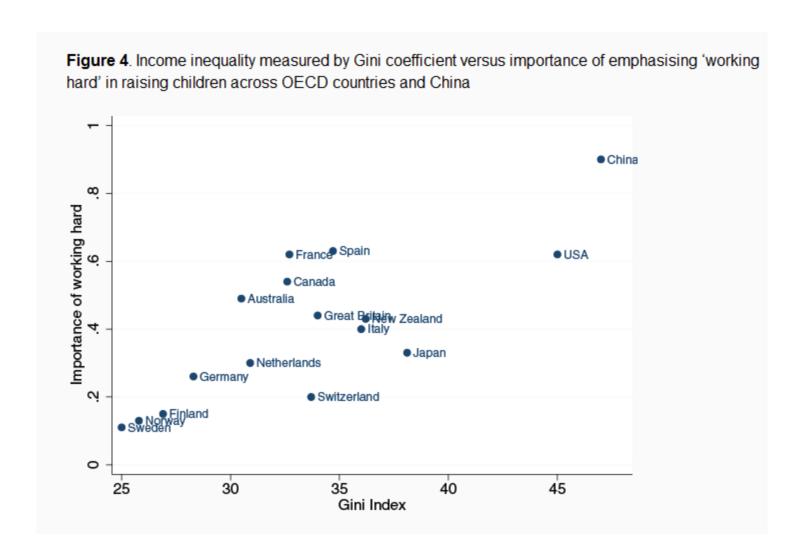†Estimate   ‡Includes capital gains, except Britain and France

A change in types of marriages

- In past, coupling driven by economic necessity
  - Need one member to take care of economics of household
  - Marry someone who complements your production skills: money earner & cook
- Today matches driven by shared interests
  - Marry someone who has some consumption interests as you

Assortive mating

- Is inequality being driven by changes in mating?
  - Creation of power couples
  - You choose mate with same education, earning potential as you
  - Genetics, child-rearing, inheritance
- GI bill lowers assortive mating – working class at college
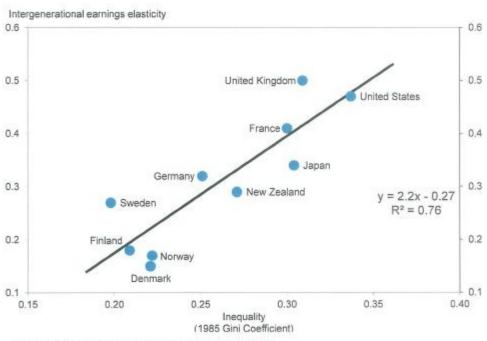- Later marriage ages increase: you don't marry HS sweetheart

How would you interpret this?

Figure 4. Income inequality measured by Gini coefficient versus importance of emphasising 'working hard' in raising children across OECD countries and China

Inequality and mobility

Figure 7: "The Great Gatsby Curve"
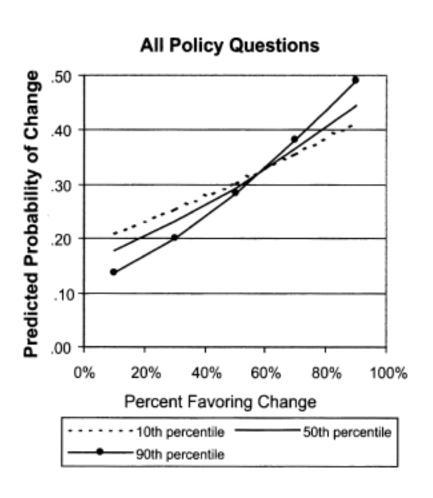Higher income inequality associated with lower intergenerational mobility

Source: Corak (2011), OECD, CEA estimates

Wealth and political influence

Affluence and influence

- Look at all policy preference questions from American surveys
  - For example, "Do you support or oppose an increase in the retirement age to 67?"
  - "Do you support or oppose legalizing gay marriage?"
- Disaggregate responses by income, education
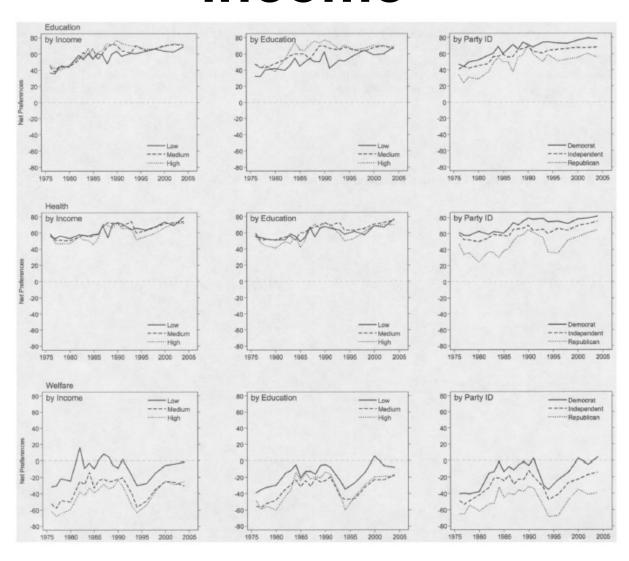- Was policy adopted within 4 years?

How much of a link?

All Policy Questions
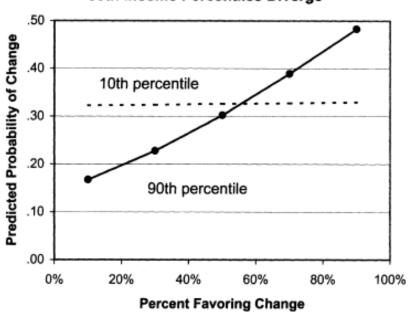
Why similarities?

- Appears that both rich and poor have reasonable influence. Why?

- Most of the time, rich and poor have similar preferences
  - 1/3 of questions, rich and poor differ by < 8%

- Note also that even very strong support among rich or poor only leads to 40-50% of adoption
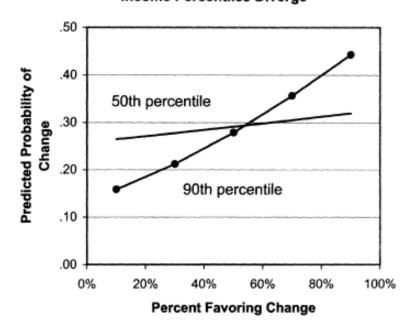 - Most changes don't get adopted

Spending preferences by income

What happens when preferences differ?

Cause and effect?

- Could there be endogeneity: does government affect preferences?
  - But opinion like a thermostat: left-wing policy => right-wing opinions
  - Few citizens have any information about what their representatives do
  - Correspondence greatest when president has average popularity, not when most popular
  - Government should have most effect on preferences of poor, most manipuable

Mechanisms of influence

- Money: rich more likely to contribute and contribute higher amounts

- Turnout: rich more likely to vote

- Coincidence: politicians mostly rich and share similar beliefs

Questions

- Distinguish between means and ends
  - If poor say: "I want tariffs" and "I want prosperity", is it bad if politicians deliver prosperity but not tariffs?
- Many people vote retrospectively over outcomes rather than inputs
- Maybe wealthier voters more informed about which policies will produce good outcomes
- Do we want governments to listen more to the poor and less-educated?

Beliefs of super-rich

- Survey of superrich in Chicagoland
  - Very interested and active in politics
  - Frequent contact with elected politicians and government officials – more than 50% have personal contact with senators
- Conservative economic beliefs
  - Worried about budget, more willing to cut social programs, maintain low taxes, reduce regulation
- But liberal social beliefs – gays, minorities

Webscraping on billionaires

- Public statements by billionaires in news
- Most are silent – only political activity is campaign contributions: stealth politics
  - Of 23 studied, only 3 take public positions on most issues (Gates, Buffett, Bloomberg)
  - Another five make vague statements (Koch, Adelson, Icahn, Soros)
- Most try to avoid offense to consumers
  - Those who speak the most don't depend on consumers