

Inequality & Business

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Final exam

- May 22 or 29 at 14:00 or by arrangement
- Multiple choice questions
- Short answers (3-4 sentences)
- Longer essay (3-4 paragraphs): Are democracy and capitalism compatible and how? How has their relationship evolved over the past century? What are the main threats to their coexistence in the future?

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Ethics of inequality

- Inequality provides some benefits
- Sufficientarianism – more important that everyone has enough vs. the same?
- Problem of gluttony – some have too much
- Diminishing marginal utility
- Equality a distorting ideal – focus on others
- Other inequalities: happiness, health, status

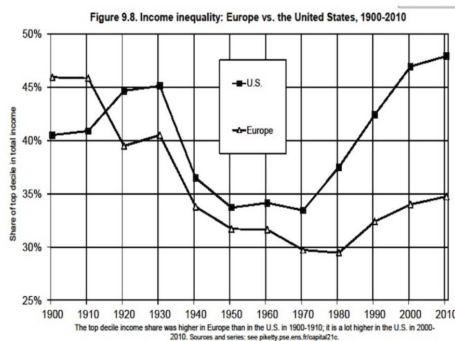
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Facts about inequality

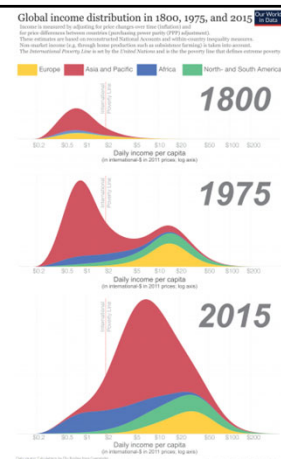
- U-shaped curve: Belle époque, age of convergence, age of globalization
- Kuznets curve: highest inequality at middle incomes
- Global versus national inequality
- Progressive's dilemma: immigration versus welfare state

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Inequality trends



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Causes of inequality

- Piketty: r (return on capital) versus g (growth)
- Patrimonial capitalism
 - Inherited property > skills
- Age of convergence
 - Destruction of capital by wars
 - High taxes & strong labor unions
 - Fast growth – 30 glorious years

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Causes of inequality

- Age of globalization
 - Technological changes & winner-take-all markets
 - Financial deregulation & changing norms
 - Assortative mating
 - Return of patrimonial capitalism?

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Case for and against business

- Distrust
- Corruption, but incentives to limit
- Overpaid CEOs, but difficult job & incentives
- Monopolies, but how many last
- BS jobs, but related to productivity
- Why unpopular?

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Influence of business on politics

- Privileged position – state depends on investment
- Lobbying as quid pro quo
- Lobbying as information
- Lobbying as legislative subsidy
- Contributions as consumption (like charity)

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Debate: Do rich control politics?

- Do the superrich control politics or do politicians listen to ordinary people?
- Also, is it a bad thing?

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Rich are more influential

- Participate more and more informed
- Contribute more money to politicians
- When preferences different from median/poor, theirs tend to be adopted
- More likely to form powerful interest groups

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Rich not more influential

- Often have similar preferences to others
- Hard to find evidence of quid pro quo
- Not so much money in politics
- Politicians need to win elections

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Discussion questions

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Ethics of equality

- Is economic inequality really such a big problem? Isn't the bigger problem that some people don't have enough (the question of sufficiency)? If we could eliminate poverty, would it then be okay to ignore inequality?

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Global inequality

- Isn't the big story about inequality in our world, the decline in inequality across countries? Isn't the catch-up of countries that had been left behind – eg, China, India – much more important than the rise in inequality in countries that are already rich?

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Reducing inequality

- What should we do about rising inequality in the developed world?
- Are any of the solutions that Piketty identifies during the middle of the 20th c. still available - very high taxes, unions, high growth?
- Is inequality reduction a viable political program or is it just a slogan? What would it look like?

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Assortative mating

- Should we worry about assortative mating? Isn't the pairing up of very smart, successful, and hard-working with others who are similar a contributor to rising inequality?
- Aren't these power couples going to raise children with even more advantages?
- Don't online dating apps make these matches even easier? Is there anything we can or should do about it?

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Business: good or bad?

- What are your views of big business? Do you tend to trust big business or not? Why? How does it compare to other institutions like the military, small business, police, church, medical system, public schools, media, unions, politics?
- What are your main worries about big business? Can you imagine a better replacement?

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Can politicians be bought?

- It is widely believed that legislators change their positions/votes in response to corporate donations? What is the best evidence for this proposition?
- Can you think of specific occasions when it has appeared that politicians were bought in this way?

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Why do people give money?

- Is it possible that political contributions are not mostly quid pro quos in exchange for benefits?
- Do most people contribute because they expect economic benefits from the election of that candidate/party?
- Or do they contribute as a form of consumption, something like charity?

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Do the rich control politics?

- Gilens and Page argue that the rich have more influence than the poor when their policy positions differ.
- In what policy areas do you think this influence is most prominent?
- What is the evidence in public policy that the rich are controlling our politics?

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Inequality & Business

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Today

- Ethics of inequality
- Facts of inequality
- Causes of inequality
- The case for and against business

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Ethics of inequality

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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

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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?

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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

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Problem of gluttony

- Is there something morally wrong with excessive consumption?
- Should we do something about it?
 - A consumption tax? Which items?

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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

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Case for equality

- Creates more fraternal society – more peaceful and harmonious?
 - Or more envy?
- Economic inequality leads to other undesirable inequalities: social status or political influence
 - Is this a case for reducing economic inequality or for reducing other inequalities?

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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 more equally

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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?

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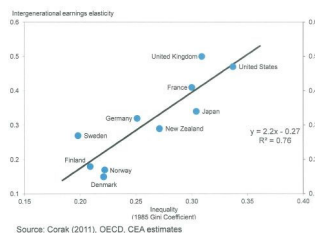
Giving people opportunity to live effectively

- Ensuring that people have enough for their daily needs
- Tolerate many inequalities provided there is protection on the downside and opportunities for economically ambitious

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Inequality and mobility

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



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Other inequalities

- Happiness
- Health and life expectancy
- Mobility
- Social status – being seen & respected
 - BLM
- How are these evolving?

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Inequality & Business

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Facts of inequality

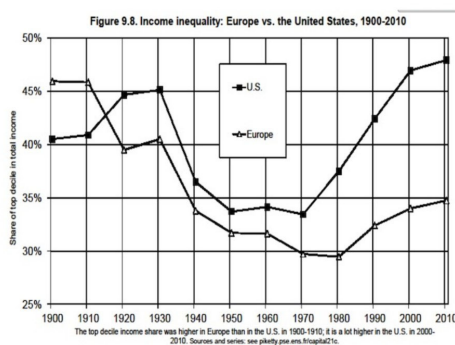
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Economics & inequality

- Traditionally economics focuses on production
 - how to maximize efficiency & growth
- Assumption that growth ultimately benefits everyone in the long-run
 - Recall great divergence
- But not necessarily in short-run
- New work focuses more on distribution

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Inequality trends

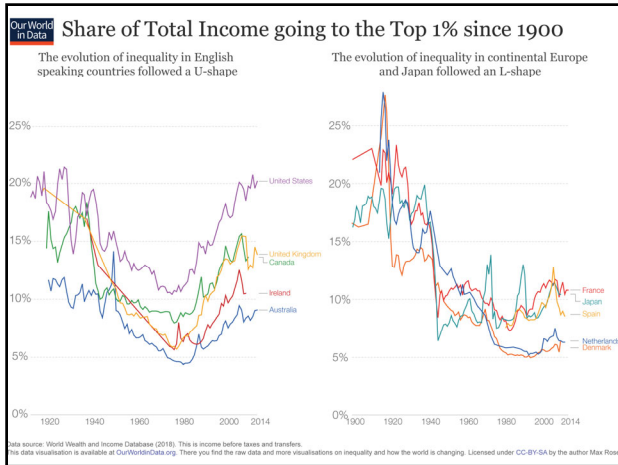


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U-shaped curve

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

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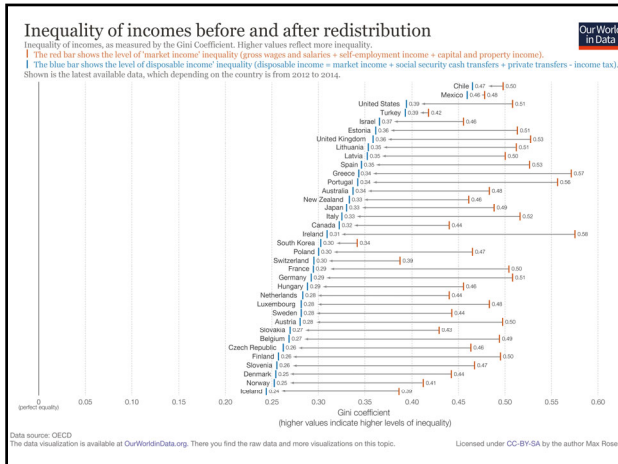


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Pre versus post tax & redistribution

- Many industrial countries produce high levels of inequality
- But most reduce through progressive taxes + social benefits
- US an outlier on posttax, not pretax

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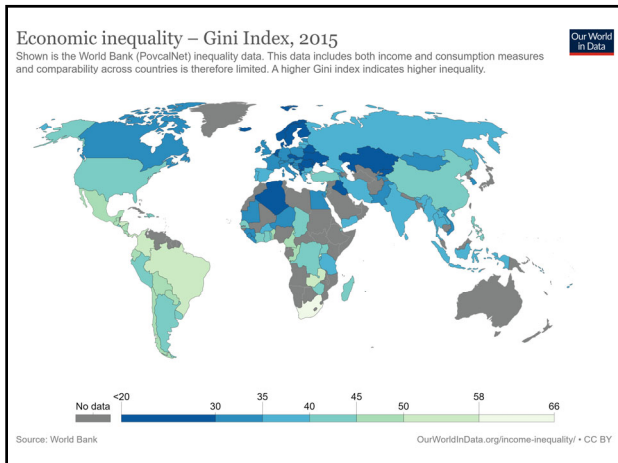


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Kuznets curve

- Highest levels of inequality in middle income countries: Latin America & Southern Africa
- Relatively low in Western Europe & rich countries (US excepted)

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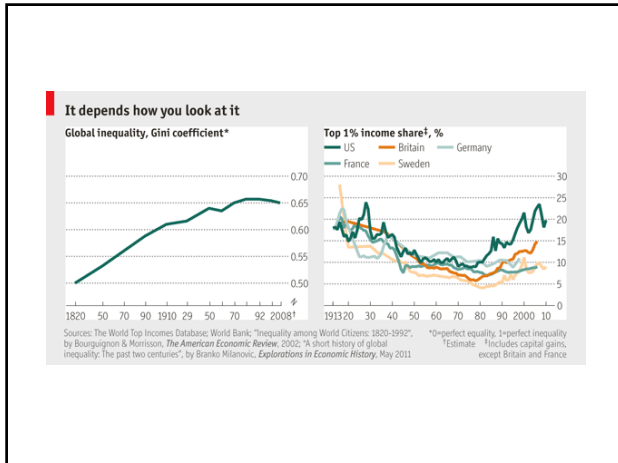


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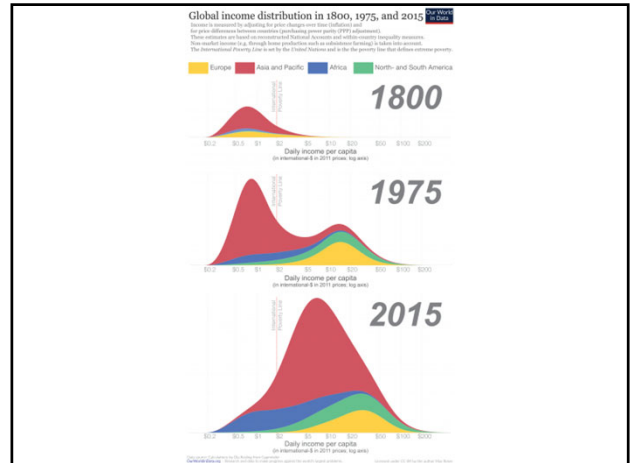
National inequality versus global inequality

- 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?

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Progressive's dilemma

- Migration from poor countries to rich countries may be best way to reduce global inequality
- But large-scale migration might undermine welfare state
 - Expense of supporting new migrants
 - Undermines public support for welfare state

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Causes of inequality

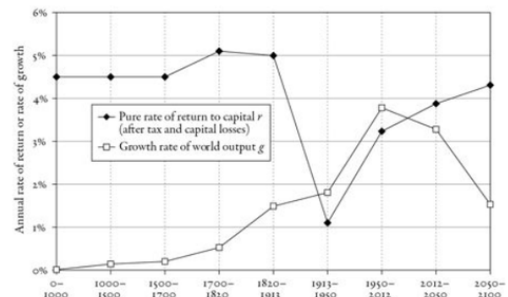
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Piketty's Capital in the 21st c.

- Inequality high/rising when rate of return on capital is greater than growth rate, $r > g$
 - Owners of capital (rentiers, aristocracy, landlords)
- Inequality low/falling when growth rate of economy greater than rate of return on capital

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Growth and return on capital



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Three eras of capitalism

- Belle époque
 - High correlation between ownership of capital and high incomes
- Convergence capitalism
 - High growth, rising education, low return on capital
- Globalization capitalism
 - Like belle époque but high labor incomes play larger role

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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

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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

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Race between technology and education

- Improvements in technology raise the gains for those with skills to handle complex jobs
- But higher education not producing enough qualified workers
- Employers bidding for stagnant pool of qualified

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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

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Rank	Name	Net worth (USD)	Age	Sources of wealth
1	Jeff Bezos	\$131.4 billion	54	Amazon.com
2	Bill Gates	\$96.4 billion	62	Microsoft, Cascade Investment
3	Warren Buffett	\$82.6 billion	88	Berkshire Hathaway
4	Larry Ellison	\$62.4 billion	74	Oracle
5	Mark Zuckerberg	\$62.1 billion	34	Facebook
6	Larry Page	\$60 billion	45	Google
7	Charles Koch	\$50.4 billion	74	Koch Industries
7	David Koch	\$50.4 billion	76	Koch Industries
9	Sergey Brin	\$49.9 billion	45	Alphabet
10	Michael Bloomberg	\$48.7 billion	76	Bloomberg LP
11	Jim Walton	\$44.6 billion	70	Walmart, inherited
12	S. Robson Walton	\$44.3 billion	74	Walmart, inherited
13	Alice Walton	\$44.4 billion	69	Walmart, inherited
14	Steve Ballmer	\$41.2 billion	62	Microsoft, LA Clippers
15	Sheldon Adelson	\$35.1 billion	85	Las Vegas Sands Corp.

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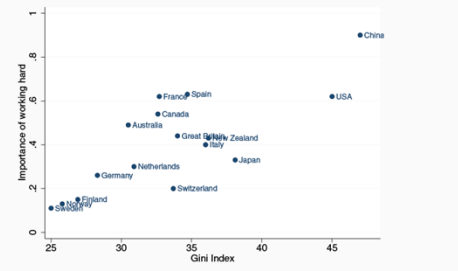
Rastignac dilemma

- 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

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“Importance of working hard” and income inequality

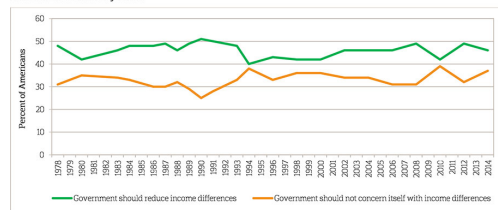
Figure 4. Income inequality measured by Gini coefficient versus importance of emphasising ‘working hard’ in raising children across OECD countries and China



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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?

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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
- Today matches driven by shared interests
 - Marry someone who has some consumption interests as you

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Assortive mating

- Is inequality being driven by changes in mating?
 - Creation of power couples
 - Choose mate with same education, income
 - Genetics, child-rearing, inheritance
- Increase in marriage ages: you don’t marry HS sweetheart
- Expansion of university education

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Inequality & Business

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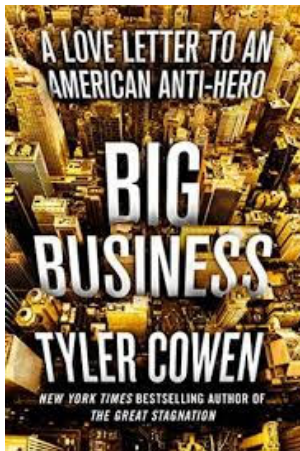
Today

- Ethics of inequality
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The case for & against business

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Distrust of business

Institution	Trust
Military	41%
Small business	30%
Police	25%
Church or religion	20%
Public Schools	14%
Big business	6%
Congress	0%

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Are businesses more corrupt?

- Major scandals, but is it more widespread than in society
- Business has incentives to limit
 - Reputation & social media
 - Monitoring by government
- Businesses successful when employees believe in mission
- Cases: Pharma industry, profits v. non-profits

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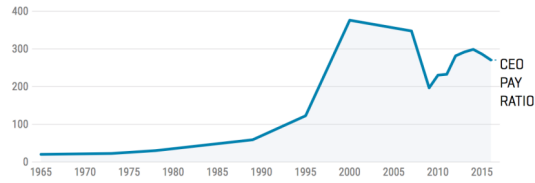
Are CEOs paid too much?

- Many talents necessary: finance, PR, politics, global, technology & enormous work load
- Technology increases returns to skills
- Equity stakes should incentivize; pay connected with stock market price
- But large decline in marginal tax rates
- Less shame about large salaries

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CEO-to-worker Compensation Ratio

While 2016 CEO pay is projected to fall slightly from 2015, the average CEO of a large U.S. company makes 271 times the wages of the average worker.



This uses the "options realized" compensation series which includes salary, bonus, restricted stock grants, options realized, and long-term incentive payouts for CEOs at the top 350 companies ranked by sales.

SOURCE: [Economic Policy Institute](#)

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Are businesses exploitive monopolies?

- How many monopolistic firms and how long do they last? Is everyone vulnerable?
 - Do they continue to innovate?
 - Do some give away free or cheap products?
- Many monopolies caused by regulations
 - Healthcare: does it work either way?
- NIMBYism creates monopolies
- What about higher education?

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Does business create BS jobs?

- Graeber: Flunkies, goons, duct tapers, box tickers, and taskmasters
- Why low wage growth – low productivity growth or power of employers?
- Harassment in workplace – is it worse in corporations or elsewhere
- Is work supposed to be fun? Is it sometimes a haven?

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THE 5 TYPES OF BULLSHIT JOBS



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Why is big business so unpopular?

- We judge them by same standards as people (and they encourage this)
 - Not our friends but serve purposes
- We ask them to pursue social goals
 - Health insurance, minimum wage, speech regulation
- Is business more polarized or more tolerant than government?

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Influence of business on politics

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Privileged position of business

- Public officials responsible for state of economy
- Business is main influence on economy
 - They decide on investment and production
- Politicians must listen to business in order to carry out their public functions
 - When government threatens business => recession or stagnation

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Why not workers?

- Economy depends on them too, no?
- But they don't have a choice about where and when and how much to work
- Business can choose not to produce

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Objections

- Does business really have so much choice?
- Can it withhold production and blackmail government?
 - What about my competitors if I withhold investment?
- Can business solve its collective action problem?

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Stylized facts about lobbying

- Many contributions from lobbies go to members who already support the industry
 - If you were a tobacco lobbyist, who would you give money to?
- How to understand access of think tanks without many resources?
- Why would lobbyists trust legislators to do their bidding?

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Explanations for lobbying/contributions

- Quid pro quo
- Information
- Legislative subsidy
- Consumption

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Lobbying as information

- Parties/MPs uncertain how policies will affect probability of reelection
- Lobbies provide private information about effect of policies
- But why should MPs believe them?

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Lobbying as legislative subsidy

- Time and resources of politicians are limited
- Contributions provide politicians with capacity to devote more attention to particular policy areas
- But they are policy areas which MPs already support
 - Very little lobbying of uncommitted or opposition

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Contributions as consumption?

- Contributions may be due to ideological motivations (ie, not quid pro quo)
- People who contribute to politics also participate in other ways (eg, attend meetings, write letters, etc.)
- Firms give more to charity than to politics

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