

INEQUALITY: WHY DO WE CARE? (AT LEAST) WHY DO I CARE?

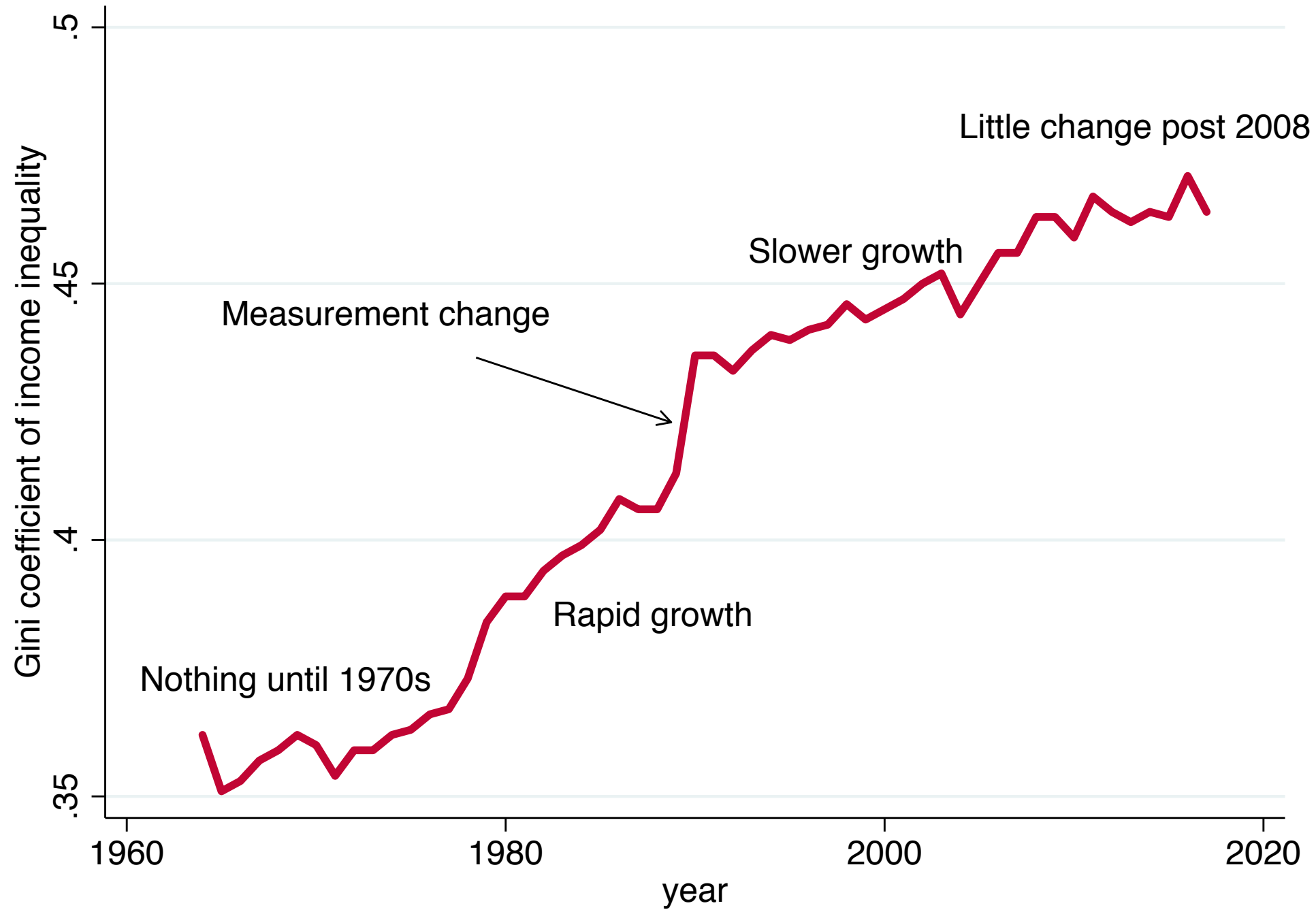
Angus Deaton, Princeton and USC

Discussion often goes like this?

- *Concerned friend*: I worry about inequality, that it is getting worse and worse, and that it is somehow tearing us apart. That society has become less fair. I hear that the very existence of billionaires is wrong. I've even heard that inequality is responsible for Brexit and for Donald Trump. Even that people are not living as long? Is that right?
- *Unconcerned Economist*: Don't worry so much. There is a lot of hysteria out there, much of it hyped up by the left. The way we measure inequality is using something called the Gini coefficient. While it is true that it rose quite quickly when Margaret Thatcher was Prime Minister, it has actually been flat or falling for the last 30 years. The US is a good deal more unequal than Britain, but even here the Gini has hardly moved since the financial crisis, and so can't have much to do with Mr. Trump. It is yesterday's problem.

Comment

- Statement is correct, but entirely unhelpful
- Does not address the serious content of the question
- The question is perfectly reasonable one
- Captures well the sort of concerns that people have about inequality
- The IFS review will try to do a better job of providing an answer



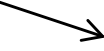
Nothing until 1970s

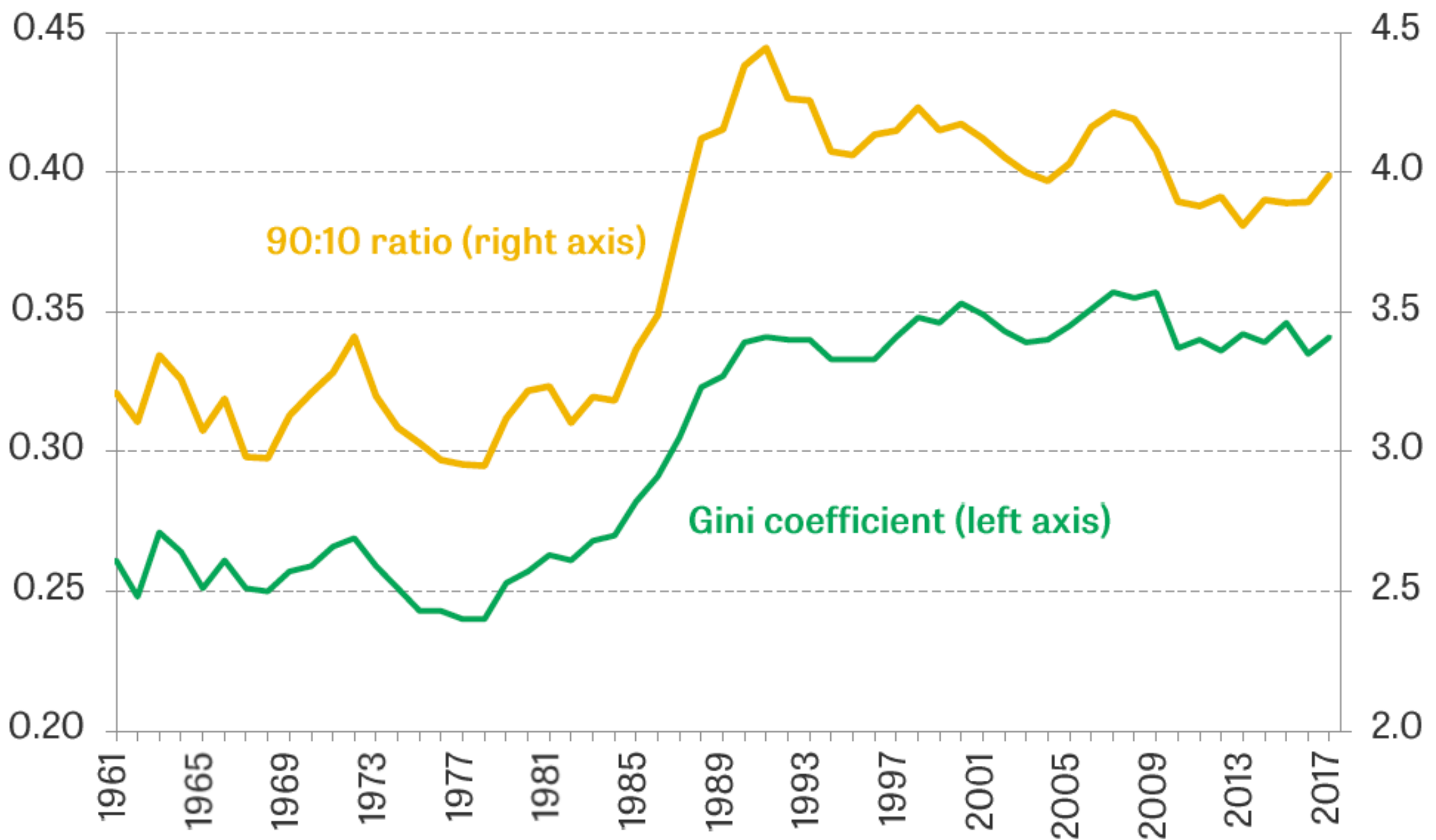
Rapid growth

Slower growth

Little change post 2008

Measurement change





Who/what is Gini, anyway?

- Corrado Gini was a sociologist, demographer, and statistician
- Book in Italian in 1912 with analysis of coefficient
 - ▣ We still use his ideas in PPPs today
- Comment on Dalton's famous 1920 paper ("principle of transfers") *Economic Journal*, 1921
- Dalton became Chancellor of the Exchequer in 1945, Attlee's Socialist government
- Gini was a eugenicist, racist, fascist, colonialist, head of ISTAT, regularly advised Mussolini
- After WW 2 he argued that America would take over other rich countries and establish a world government in Washington, DC. (Gini Plan v Marshall Plan)
- Modigliani's story

What do philosophers say?

- Concerned with deprivation, or poverty: duty to assist
- Much less with inequality, in and of itself
 - ▣ What legitimate concern do I have if you have more than I do?
- You might use your wealth to harm me in some way
 - ▣ But that is a possible, not inherent, problem of inequality
 - ▣ And society can perhaps take action to stop it
- Prioritarians see a virtue in equality in and of itself
 - ▣ Recognize that people will not work or invest or innovate if equality is guaranteed
 - ▣ So work out policy that balances the two
 - ▣ Many distinguished economists have worked on how to do it
- Some egalitarians argue against the Pareto principle
 - ▣ Saez/Zucman argue for **destroying** pre-tax income at the top to increase equality

Billionaires

- “Every billionaire is a policy failure”
- “Billionaires should not exist”
- Gini is not good at detecting them
 - ▣ If the richest person gets more, there is eventually no effect on the gini
- Should we care?
- Dalton’s principle suggests that they are suitable candidates for transfers to those who are poorer
 - ▣ Their welfare loss is much less than the welfare gains of those poorer than them
 - ▣ Lead to a wealth tax to fund redistribution or public goods
 - ▣ Even more concern by egalitarians

Wealth is much more unequal than income

- Because differences in income persist and accumulate over time
- Useful to think about the richest Americans
 - ▣ Bezos (114), Gates (106), Buffett (81), Zuckerberg (70), Ellison (65), Page (56), Brin (56), Bloomberg (53), Ballmer (52), Walton (52)
 - Then more Waltons, then Kochs, then MacKenzie Bezos, then Adelson not much further below
 - ▣ Britain is a bit different: NOT HMQ, though valuation problems!
 - Duke of Westminster is no 10. Creators, retail and chemicals, but wealth from breakup of Soviet Union, wars, inheritance (Heineken heiress)
- US are very much makers, people whose innovations have changed our lives, Google, Facebook, Microsoft, Amazon, Walmart, Cisco
 - ▣ Less so in Britain

My own starting thoughts

- If people get rich in the public interest, no problem at all. Nothing inherently bad about inequality
 - ▣ In history, progress often brought inequality: internet now
- Worry about what it enables rich people to do, via politics, or if they harm me somehow. Zuckerberg? Koch? Bezos? (But Microsoft not exempt from anti-trust)
- Schumpeterian creative destruction and disruption
 - ▣ Don't want to stop this. Europe v USA: Don't want to tax away control by successful entrepreneurs
 - ▣ Creators tend to want to pull up the ladders, turn from being benefactors to “malefactors of great wealth” (Teddy Roosevelt)
 - ▣ Google used to sneer at lobbying: we do no evil, we don't need it
 - Now the largest corporate lobbyist in DC, \$22m in 2018
 - ▣ Trick is to stop this, and allow next generation of disrupters to come
 - ▣ Many people think we need better anti-trust enforcement, as a century ago

Process inequality

- Or more simply “fairness”
- Private incentives matching social incentives
- If people get rich by inventing stuff: fair: by stealing stuff: unfair
- Major concern for me is spread of the latter
 - ▣ Not Amazon, though open case
 - ▣ But healthcare, which delivers the worst health outcomes in the rich world
 - ▣ Costs 18% of GDP, wasting a trillion dollars a year
 - ▣ Destroying jobs for unskilled workers
 - ▣ Cutting public education
 - ▣ And making providers extremely rich on the backs of the middle class and poor
- 16% of top one percent are doctors, 6% of top 0.1 percent (2005)
 - ▣ Rent seekers protected by the AMA and by Congress
 - ▣ Way fewer doctors per head than in other rich countries
- Realtors, bankers, auto-dealers, etc, all richly represented at the top and they are getting rich by legalized theft, protected by state and federal rules that hurt others

The inequality that hurts

- Rent-seeking at the top
- Distributes upward from poorer to richer
- Destroying the lives of working class, less-educated Americans
 - ▣ In order to enrich an elite of more educated Americans
- This has a lot to do with Donald Trump
- And BREXIT
- Inequality is a consequence of unfairness, this is bad inequality
 - ▣ Not all inequality needs to be like this
- Deaths of despair among workers are another consequence of unfairness

Back to the concerned friend

- She has much to concern her, even if Gini isn't showing it, and even if Gini wouldn't care (I suppose)
- The financial crisis plays a role here too
- My guess is that people accepted the success of the educated elite, the bankers, the pharma companies, the docs, the realtors
 - ▣ Because they bought the story that they were helping all of us
- The financial crisis, the lack of accountability, and the austerity (or very slow recovery) exposed the scam, so that people are **newly** angry about the **same** degree of inequality