The Mapmaker's Dilemma in Evaluating High-End Inequality

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Origins & context of this project

Paper is a meld between a forthcoming U Miami Law Review article & chapter 2 of a book on literature & distributional issues.

"Enviers, Rentiers, Arrivistes, and the Point-One Percent: What Literature Can Tell Us About High-End Inequality."

Chapters on, e.g., Austen's *Pride & Prejudice*, Dickens's *A Christmas Carol*, Fitzgerald's *The Great Gatsby*, & the Scorsese film *Wolf of Wall Street*.

Book is ≤ 40% complete, ETA 2018 at best.

Two main themes

Two central points of the article that are foundational for the book project:

1) High-end & low-end inequality (plutocracy & poverty) pose very different sorts of issues – can't be analyzed entirely symmetrically.

2) "Hard" social science, such as that used in public economics & the optimal income tax (OIT) literature, offers singularly incomplete tools for evaluating high-end inequality.

Different fiscal instruments

We already knew that addressing high-end & low-end inequality involves different fiscal instruments.

Low-end: (a) transfer system (TANF, Food Stamps, Medicaid, etc.), (b) public goods & other spending (transit, health, education, etc.)

"Tax" to a lesser degree – choice of tax base (including state & local), exemptions & zero-bracket amounts, EITC (as that particular transfer has been placed inside the income tax).

High-end: (a) economic structural issues (IP protection, corporate governance, financial sector, etc.),
(b) high-end tax rates, use of estate or inheritance tax, etc.

But also different normatively

Inequality debate often conflates them – why & how much does "it" matter, when might "it" be unjust, how should we respond, etc.

Standard aggregate measures, such as the Gini coefficient, purport to measure inequality in aggregate from top to bottom.

But underlying concern about inequality typically conflates 2 distinct things: (a) Why we might find poverty distressing, and (b) Why we might object to high-end wealth concentration.

Despite normative overlap re. our concerns, & a prospect of positive feedback between them empirically, in some ways they're distinct concerns, *not* symmetric or mirror-image.

Why be concerned about poverty?

Of course we should try to help people – it's simple beneficence.

Issues of how best done (e.g., fish vs. fishing rod), but not hard to motivate.

True, libertarians & liberal egalitarians argue that choice / responsibility can override beneficence even absent incentive issues.

But an uphill climb to reject beneficence without the cover that incentive issues may offer!

Should we be concerned about high-end income or wealth concentration?

"Comfort the afflicted" need not imply "afflict the comfortable."

Is making people at the top less well-off, for egalitarian reasons, a reasonable end in itself?

Clearly no if (like me) you adopt beneficence as your core principle...

...but that still leaves the issue of adverse effects on others.

Why be concerned?

In economics lingo, there may be negative externalities from high-end wealth / income concentration.

This reflects diverse modes of interaction between people
(a) some aspects of social interaction are positive-sum (e.g., gains from cooperation / trade),
(b) others are independent / unrelated (e.g., I succeed or fail at optimizing for myself), …

But (c) others are zero-sum. E.g., relative status or prestige or political power. Think of trees in the forest competing for sunlight. They can't all be taller than each other.

A laundry list of (some) possible concerns with significant high-end inequality

(1) Position-related utility, leading to "keeping up with the Joneses" (running in place after habituation), Veblen status competitions, top-down "expenditure cascades."

(2) Political science: plutocracy (Gilens/Bartels), post-2008 austerity.

(3) Macroeconomic stability & growth (Stiglitz, OECD).

(4) Claims of pervasive adverse health and wellbeing effects (Wilkinson & Pickett).

Whom are we talking about?

It's less the top 1% than the top 0.1% or 0.01% (fractal inequality).

E.g., the top 0.1% owned 7% of wealth in 1979, 22% in 2012.

$4M (top 1% of households in 2012) is pretty good – but these people aren't buying politicians, renting private jets, or giving their kids giant trust funds.

E.g., $4M might buy a 65-year old couple a joint & survivor life annuity (starting at age 70) of about $250K/year – comfortable, but not mega-wealth.

But now let's pivot to my 2nd takeaway (limited adequacy of "hard" social sciences for evaluating these issues).

The Mapmaker's Dilemma

Mein Herr in Carroll's *Sylvie & Bruno* on map scaling: 6 inches to the mile, then 6 yards. "And then came the grandest idea of all! We actually made a map of the country, on the scale of a mile to a mile!"

But the map "has never been spread out yet; the farmers objected."

The Dilemma: usability vs. loss of detail / distortion.

No uniform answer to what tradeoff is best – e.g., a model that's good for modeling equilibrium in commodity markets might not be so good for modeling welfare in different social settings.

The social sciences & high-end inequality

Case in point: "hard" social sciences, which emphasize "theory, mathematics, rigorous methods, falsifiability, and replicability."

Welfare economics/OIT: maximize social welfare function (positive function of utilities – e.g., utilitarianism is additive).

Utility derives solely from own consumption (non-satiation, declining marginal utility).

So, in a straight utilitarian model, the sole motivation for mitigating high-end *or* low-end inequality pertains to declining marginal utility.

The missing elements in OIT et al

It's as if each of us lived on a separate planet, & the social welfare evaluator was a do-gooder with a fast spaceship (good for transporting cargo but not passengers).

And it's as if we each had "utilometers" (full rational choice, full cardinality, no inputs other than own consumption/leisure).

Modern economics' reductionism has fueled great progress & many triumphs on a wide-ranging imperialistic binge.

But sometimes the omissions matter a lot, & evaluating high-end inequality is case in point.

“Assume a ~~can-opener~~ utilometer …”

Economists long tried (but failed) to banish utility & focus just on choice.

The need to look behind & beyond choice requires facing not just interpersonal utility problems, but also commensurability problems.

Can’t just use choice when we choose inconsistently, are best at making highly marginal choices, and when preferences may not be fixed.

Plus, without utility behind it, who cares?!?

Normative issues: should all "utility" count the same?

For high-end inequality, a big issue is other-regarding preferences.

E.g., suppose we wouldn't count enjoyment of torture or imposing racist subjection.

High-end inequality: object to power relationships of dominance & subordination?

Or instead, refuse to count "envy" of the more powerful & successful?

The Envy Debate

AEI's Arthur Brooks (explicating Mitt Romney 2012): don't count "envy," as it's (1) morally unworthy, (2) remediable, and (3) socially destructive.

"In the United States … you look at the guy that lives in the mansion on the hill, and you think … one day, if I work really hard, I could live in that mansion. In Ireland, people look up at the guy in the mansion on the hill and go, one day, I'm going to get that bastard." [BONO & his real-world neighbors.]

A strikingly one-sided analysis. What about the "guy in the mansion"?

Suppose status competition is (1) universal & reciprocal, (2) part of human nature, and (3) made worse by extreme inequality.

OIT's approach to high-end inequality

Non-economists often either don't realize, or else dislike, just how radical OIT is in concept.

No inherent value given to entitlement, property rights, horizontal equity, etc. If a 100% tax rate & complete material equality are otherwise indicated, only incentives can stand in the way.

Yet, for certain technical reasons, it was long thought to favor low-ish & flattish rates – along with a zero rate at the very top.

More recently, Diamond & Saez have argued for steep progressivity & revenue-maximizing rates at the top, perhaps as high as 70%.

Whether technically right or wrong (e.g., the rich just don't care??), it's simply too blinkered an analysis.

Why literature as an input?

Richness and texture in lieu of just abstractions (like visiting a house before you buy it).

Evidence, admittedly subjective and anecdotal, re. how inequality may feel in a society, & how we may feel about it as observers.

E.g., the effects of changing ideals & realities on class relationships.

A very preliminary thought: the journey may look something like this:

Mr. Darcy

→

Bertie Wooster

→

Jordan Belfort

… which is almost enough to make one nostalgic for the “old” inequality – obligation & deference (albeit tense & contested) in lieu of Ayn Rand.