

The Mapmaker's Dilemma in Evaluating High-End Inequality

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Origins & context of this project

Inspired (in part negatively) by Piketty (2014). What can you learn from literature, Balzac & rentiers, what about Wodehouse?

Book in progress: “Enviers, Rentiers, Arrivistes, and the Point-One Percent: What Literature Can Tell Us About High-End Inequality.”

Featured works will include Austen’s *Pride and Prejudice*, Stendhal’s *Rouge et Noir*, Balzac’s *Pere Goriot*, Fitzgerald’s *Great Gatsby*, something by Wodehouse, and Wolfe’s *Bonfire*.

Other possibilities: Dickens, Trollope, Dreiser, Horatio Alger, Edith Wharton, Saki, E.M. Forster, L.P. Hartley, Evelyn Waugh, Ayn Rand, and Scorsese’s *Wolf of Wall Street*. (Suggestions welcome!)

More background

Project looks at issues hard to evaluate via economics / social science.

Today's paper is adapted from ch 2. But, per ch 1: the issues raised by low-end and high-end inequality are fundamentally different.

Of course help the afflicted – but why afflict the comfortable?

For me, the strongest case rests on adverse effects on the 99.9%.

Optimal income taxation (OIT) & related literatures often assume: just “efficiency” in deriving utility from resources (given DMU).

They omit other-regarding preferences (such as status & positional concerns), macroeconomic & political economy effects, etc.

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).

Why is economic analysis so often done this way?

Because it's hard to do better, & because often this is good enough to permit substantial progress.

But closer to truly “good enough” for some types of questions than others.

The Mapmaker's Dilemma

Mein Herr in Carroll's *Sylvie & Bruno*: "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."

Borges' College of Cartographers: "not without irreverence," the full-scale map is "abandoned ... to the Rigours of sun and Rain."

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

No perfect answer – no uniform answer – screening things out for tractability vs. forgetting/denying them.

Responding to the Dilemma

Modern economics' approach to the dilemma is opposite to that of Mein Herr & the College of Cartographers.

And to great effect – fueling many triumphs on a wide-ranging imperialist binge.

What OIT teaches us about high-end inequality is useful & important – but not complete.

Need other social science inputs as well – along with non-social science inputs.

How does extreme high-end inequality affect people, other than via differing marginal utilities for own consumption - & how do we evaluate these effects?

“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?!?

Just to illustrate evaluative open-endedness in a world without utilometers, recall J.S. Mill on the pig vs. Socrates, and higher vs. lower pleasures. (If he was right, perhaps we should ramp up high-end inequality.)

While Mill offered perhaps the worst “proofs” ever, he *was* right to view the door as open for a range of descriptive & normative judgments.

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. (Vs. the utilitarian dodge, if such it is, of merely assuming that it's bound to be outweighed.)

Does this weigh against tolerating high-end inequality that might yield power relationships of dominance & subordination?

Does it instead weigh against allowing “envy” of the “more successful” to have any weight?

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."

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

Status conflicts are commonly 2-sided – as any thoughtful observer of the U.S. social & political scene can tell you. Cf. Tom Perkins, Stephen Schwarzman, Ken Langone, the "brittle grip."

This tends to rebut (1) & (2) re. envy from below, while reversing the normative payoff from (3).

Positional goods: envy, context, & status

“Positional goods” may yield negative externalities.

Linked with high-end inequality, not just work/consumption vs. leisure, if “expenditure cascades” emanate from the top.

While Robert Frank et al debate “envy” vs. “context,” Veblen long ago observed the link between conspicuous consumption & status wars.

Veblen remains apt today, except that his “leisure class” reflects a bygone era when “wealth acquired passively” was most “honorific.”

We live instead today in an era of putatively heroic “job creators” & self-styled superman CEOs.

Today, we see fake self-made “rentrepreneurs,” in lieu of new money pretending to be old money.

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 right or wrong within their framework, there is still something oddly blinkered about it.

OIT's continued narrow focus

Diamond & Saez treat MU from consumption as all that matters.

Their top rate reflects, inter alia, assuming that the social (but also private?) marginal utility of consumption at the top is effectively 0.

(Note also other technical issues: long-term labor supply elasticity, normal vs. Pareto distribution of earning ability.)

In effect, we can take from the super-rich because they don't really mind – & never mind that it appears they actually do mind!

On both sides of the debate, beliefs re. dimensions that are formally excluded from the analysis – but that ought to be included – may matter more than tends to be acknowledged.

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., one-sided “envy” vs. two-sided status wars, and the effects of changing ideals & realities on relationships between classes.

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



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