

Inequality
Plus a few other items
Course Evaluations

- <http://courseevaluations.yorku.ca/>
- Find your course – click on link.
- Fully confidential.

Info re: the Final Exam

- Be prepared to change plans about going to law school.
- Only legitimate (documented medical) excuses if you want make-up.
- **Date and Time:** Thu, April 12, 7 p.m.
- **Locations:**
SLH A: student surnames: “A-M”
SLH B: student surnames: “N-Z”

Format of Final Exam

Section I. (1/3 of exam mark) – 50 min.

- Three study questions, two on exam sheet, answer one.

Section II. (1/3 of exam mark) – 50 min.

- Three study questions, two on exam sheet, answer one.

Section III. (1/3 of exam mark) – 50 min.

- “Identify, define and explain the significance of four of the following terms or concepts:”
- Terms and concepts given on study sheet.

Inequality and Helping the Poor
Social justice movements

- capitalism, market economies create inequalities
- unions and welfare state – reduce inequalities
- Need for tax, transfer (redistributive) policies.
- Increase in inequality since 1970’s.

Share of the Pie - %
Change in share of economic pie from 1976 to 2004
Economists’ say:

- Don’t interfere with market
- Economic growth is best social program.
- Mass produced products
- Walmart : cheap products, mass consumption -> democratic
- Protectionism, fair or controlled price policies, etc.. → raise costs, reduce incentives

What is poverty?

- Relative vs. absolute
- Share of the pie vs. size of the pie
- Poverty statistics:
- Family vs. individual
- Life-stages (students, young child-raisers, etc)

Welfare and its critics

- Is welfare a trap (dependency problem)
- Why work if there is welfare?
- Better approaches
- Tapered benefits – no all or nothing welfare eligibility
 - But then poorly targeted (less needy receive).
 - Recent Conservative budget: working income tax benefit
- Active vs. passive assistance – (workfare?, training, etc..)

Rhoads' conclusion

- Market competition → creates rich winners → pool of savings (high propensity to save) → investment capital → more productive workers → higher wages.
- A rising tide lifts all boats.

Conventional view of trade-off between Inequality and Efficiency

- **Markets:** steer resources to their most highly valued social use. Create growth.
- **State:** Merely 'scoops' and re-distributes wealth created.
- We pay a price for "inefficient gov't" and redistribution:
- Welfare dependency. Moral Hazard
- Progressive income taxes: disincentive for most talented.

Some views on the causes of Inequality

- Radical:
 - Structure of capitalism
- Liberal-Reformist
 - imperfect markets
 - not enough competition
 - large enterprises
 - privileged professionals
 - Social change: knowledge economy, globalization, decline of unions

Frank's view

- competition fiercer than ever.
- Improved communication, mobility, vigilant markets (institutional investors, hostile takeovers).
- The problem: Winner take all markets:

Winner take all (WTA) markets

- Intense, open competition for talent. Performance pay.
- Small edge, big rewards. (e.g., law, finance)
- Draws 'too many' slightly less talented workers away from other markets.
- Too much investment in comparative "performance enhancement."
- Too little talent attracted to conventional-pay job areas (teaching, engineering, etc.).
- Price of talent exceeds its value.

Solution (acc. To Frank)

- Tax high income earners more.
- Tort reform.
- Subsidize education in 'conventional pay' occupations more than in 'WTA pay' occupations.
- Others?

Welfare State as efficient

- Not just a compromise between efficiency and equality.
- State provides (public) goods that couldn't be provided by market.
 - Hence: state *is* efficient (not only redistributive)
 - Examples: education, highways.
 - Rich pay more, all get equal access (sort of).

Heath on why more equality can be good for efficiency

- Inequality → concentrated rather than diffuse asset ownership.
- Collective action problem:
 - A. Private benefit from externalizing costs (higher for bigger polluters)
always exceeds:
 - B. Benefit from cleaner air
(same for everyone)

An example:

- Oil industry (concentrated).
 - High externalities – hence refuses regulation or tax = subsidy.
 - Result: inefficiency.

- Wind (diffuse). Low externalities.
 - Unsubsidized.
 - Result: inefficiency.
- Inequality means deficit of efficient regulation
 - Undoing Inequality? Some examples from Heath
- Equality vs. free exchange in markets.
 - Wilt Chamberlain example.
- Fairness vs. Inherited advantages.
- Unintended consequences of well-intentioned redistribution
 - Rent control and growth of large suburban homes.
 - Inheritance taxes and consumption/savings imbalance.

(Q):Do we want to prevent all inequality? (A): Be pragmatic.

- Some inequalities are worse than others.
- Good inequality?
 - Star athletes.
 - High salaries for doctors, etc.
- Bad inequality?
 - Poverty that leads to social conflict,
 - Low minimum wages → ‘race to the bottom’ → discourages new investments
 - Winner take all markets.

The debate over progressive income taxes:

- Discourages investment, hard work, is unfair, etc..
- Why this view is (largely) wrong:
 - Income tax allows \$ for public goods (efficient) and redistribution (equal) at same time.
 - Diminishing marginal utility of \$.
 - Substitution effect.
 - Salaried workers (not piecework).
 - High-paid work is enjoyable.