

# **The Janeiro Donelson Perez Lecture on Inequality**

John Stapleton

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Two Books

# **THIS TIME IT'S DIFFERENT**

# **THE RIGHTEOUS MIND**

# Two Books to read together: Rogoff and Haidt

- One is by Ken Rogoff and Carmen Reinhart called This Time is Different. Rogoff is famous for a particular type of analysis of inequality.  
<http://press.princeton.edu/titles/8973.html>
- Not about *this time being different*. It's about how each time we have crashes and bubbles that it's all the same as the times they occurred before.
- The second book is a book called The Righteous Mind: how good people are divided by politics and religion by Jonathon Haidt. He is a liberal social democrat .
- <http://www.amazon.ca/The-Righteous-Mind-Politics-Religion/dp/0307377903>

# Two Books to read together: Rogoff and Haidt

- *Is this time different?*
  - If you think of *game theory* and think about the *rounds* of a boxing match, people will talk about the *neo-liberal round*.
  - They'll talk about the *welfare state round* and why the neo-liberal round continues to win in terms of issues like inequality, bubbles, business cycles, and why elites prosper.
  - Rogoff shows inequality is highest when default disallowed..... to whom are the \$\$\$ owed?

# Two Books to read together: Rogoff and Haidt

- *Two Chapters of the Righteous Mind:*
- *The Conservative Advantage*
- *Beyond Weird Morality.*
- He's basically talking about how liberal social democrats and people who are generally progressive are very much, over the course of history, a minority in terms of how they think.

Three Leaders (and a Romney Bonus)

# REAGAN, BUSH, AND HARPER

## Playing Both Sides: Three Leaders on Taxes, deficits and the unequal world our children inherit

- *Campaign: “Are you better off?”*
- *“But great as our tax burden is, it has not kept pace with public spending. For decades we have piled deficit upon deficit, mortgaging our future and our children’s future for the temporary convenience of the present. To continue this long trend is to guarantee tremendous social, cultural, political and economic upheaval.”*  
– *Ronald Reagan Inaugural :1981*



# Three Leaders on Taxes, deficits and the unequal world our children inherit

- *“The debate in Congress over taxes ultimately comes down to this: who knows best how to use your money - the politicians in Washington or you? I believe the money we spend in Washington is your money.” So it’s not the government’s money, it’s your money. “Not the government’s money. I trust you to make the best decisions about what you do with your hard earned dollars because when you do, your family is better off, our economy grows, and prosperity and opportunity spread throughout our great land.”*

– *George W. Bush: 2006: radio address*

# Three Leaders on Taxes, deficits and the unequal world our children inherit

- *“You know, there are two schools in economics on this. One is that there are some good taxes – some good taxes – and the other is that no taxes are good taxes. I’m in the latter category. I don’t believe that any taxes are good taxes.”*

– Stephen Harper: 2009 (G8 speech)

# Mitt Romney

## GOP Acceptance Speech

<http://www.npr.org/2012/08/30/160357612/transcript-mitt-romneys-acceptance-speech>

- *His (Obama's) policies have not helped create jobs, they have depressed them. And this I can tell you about where President Obama would take America:*
  - *His plan to raise taxes on small business won't add jobs, it will eliminate them;*
  - *His assault on coal and gas and oil will send energy and manufacturing jobs to China;*
  - *His trillion dollar cuts to our military will eliminate hundreds of thousands of jobs, and also put our security at greater risk;*
  - *His \$716 billion cut to Medicare to finance Obamacare will both hurt today's seniors, and depress innovation – and jobs – in medicine.*
  - *And his trillion-dollar deficits will slow our economy, restrain employment, and cause wages to stall.*
- *To the majority of Americans who now believe that the future will not be better than the past, I can guarantee you this: if Barack Obama is re-elected, you will be right.*

Inequality

# A NEGATIVE ABSTRACTION

# Inequality: negative abstraction with no absolute solution

- From a public policy perspective, inequality is like homelessness. It's a negative that indicates an absence of something; in this case, equality.
- Inequality being a *negative* has the further problem of it being a *negative abstraction*.
- Inequality does not have an absolute solution.
  - It's a bit different because the answer is not 'to make everyone equal'.
  - The answer is to 'reduce inequality'.
  - The problem is that no one knows by how much inequality should be reduced.

The pay scale solution to inequality

**A TRAP?**

# The pay scale solution to inequality: A trap?

- **Mr. Peter Shurman:** Thank you, Mr. Sewell. I appreciate your presentation. I'm interested in getting a clearer definition of what "equality" means to you. In a perfect world, does everybody make the same amount of money?
- **Mr. John Sewell:** No, not at all. What I'm trying to do is reduce inequality.
- **Mr. Peter Shurman:** Please be more specific in your definition of what that means so I understand it better.
- **Mr. John Sewell:** Terrific. What I would suggest—really, really simple—is I think it would be good if MLAs didn't get paid any more than five times the average amount that people at the very bottom of the system get paid.....you must remember that when I grew up, when I went to school—university across the street there—the economic inequality in society was much, much less than it is now. In fact, if you took the top 20% of society and compared them with the bottom 20% of society, you'd find that their incomes, the top, were only four to five times higher than those at the bottom. Now, it's more like eight or nine times higher. We've got to reduce that. That's the only way we're going to get a better society.
- **Mr. Peter Shurman:** Interesting, because I think you and I grew up in the same times. I grew up in a relatively modest family; I could even say poor and not be stretching the point. At this point, I'm not a rich man but I'm not a poor one either. No risk, no reward. What do you think of that adage?
- **Mr. John Sewell:** I'm not quarrelling with that at all. (June 6, 2012 hearings on Ontario Bill 55)

# The pay scale solution to inequality: A trap?

- Mr. Sewell made an excellent case that has real resonance for many of us.
- We want to turn inequality from its origin as a negative abstraction into a positive concrete course of action.
- Any of us who wish to reduce inequality will have to tackle the policy dilemma of turning a negative abstraction into a positive and concrete course of action.
  - That is what policy-making is all about.



# The pay scale solution to inequality: A trap?

- Former Manitoba Premier and Governor General Ed Schreyer was the first public leader to invoke the pay scale solution to inequality.
- He famously said it in the 70s that a CEO shouldn't make 2.5 times than a worker.
- Mr. Sewell put the ratio at 5:1.

# The pay scale solution to inequality: A trap?

- But surface level public opinions concerning biography, effort, family, fame, study, risk, reward and personal choice all figure into the cacophony of scales we use and the way we judge their worth.
- Mr. Peter Shurman's responses to Mr. Sewell bring this out well.

# The pay scale solution to inequality: A trap?

- But while we engage in the pay scale debate, the CEOs are pulling away.
- They're making 10 times, 20 times, 30 times, 100 times, and 1000 times what wage-earners make.
- We now have Tim Cook as the CEO of Apple who makes \$378 million per year. That is about \$1.1 million a day.
- *He makes what 47,000 welfare recipients receive*

How civil society justifies inequality

# **PROPORTIONALITY BETWEEN PAY SCALES**

# How civil society justifies inequality: proportionality between pay scales

- What Haidt talks about in his book is that the conservative mindset sees equality solutions as an issue of proportionality between groups as opposed to equality overall.
  - We don't tend to compare ourselves to baseball pitchers and hockey players. They're off in some other land.
  - The proportionality debate always comes down to the people with whom you compare yourself.
- That is the basics of what Haidt sees as the conservative mindset.

# GDP is the happiest number: and it is agnostic to inequality

- We do as a society - by and large - accept one overall measure for growth: GDP or Gross Domestic Product.
- It's the only measure that's absolutely pervasive in almost everything we do.
- If I was able to stop the next 100 people on Yonge Street, and ask the question, 'what is GDP?' would people be able to define it correctly as
- *“the market value of all officially recognized final goods and services produced within a country in a given period”.*
- [http://en.wikipedia.org/wiki/Gross\\_domestic\\_product](http://en.wikipedia.org/wiki/Gross_domestic_product)

GDP is the happiest number

**AND IT IS AGNOSTIC TO  
INEQUALITY**

# GDP is the happiest number: and it is agnostic to inequality

- Would they also know what is not included in GDP? For example, one can volunteer at Woodgreen for 25 years and I don't contribute one cent to GDP.
- But if someone sells a volunteer a magazine through telemarketing, **that** contributes to GDP.
- In the lore of the right, private sector spending causes growth. The Government sector detracts from growth.



# GDP is the happiest number: and it is agnostic to inequality

- Yet isn't that what Mr. Harper and Mr. Reagan, Mr. Bush were saying?
- It's 'your money' and 'your money' grows. Private money *grows*.
- Government money *takes*. Yet GDP as a measure takes in all expenditures at all sources.
- Does this mean as a public, we don't understand what GDP is?

# GDP is the happiest number: and it is agnostic to inequality

- But the important part about GDP is that GDP is agnostic to inequality. GDP figures stay exactly the same whether inequality goes up or down.
- All other indices of well-being do not measure up. GDP always grows at a far higher rate than any index of well being.

# GDP is the happiest number: and it is agnostic to inequality

- Indices of well-being implicitly take equality into account.
  - Tim Cook makes \$378 million while it takes 47,000 social assistance recipients to receive the equivalent of his yearly salary.
  - But an index of well-being has to include all of those social assistance recipients, not just Tim Cook.
  - Tim Cook is firing on all cylinders when it comes to well-being; the 47,000 social assistance recipients are not.
  - In a well-being index, Tim Cook is one guy...
  - In the GDP measure, he is worth 47,000 poor people.

# GDP is the happiest number: and it is agnostic to inequality

- GDP per capita numbers in New York and Ohio are higher than Ontario's.
  - And yet we look at those pictures of the housing in Cleveland and say, “This is what we want to be like?”
  - But there are 10,000 to 20,000 people who are making so much money
- A good index of inequality could be a simple ratio of any indices of well-being - anything that includes all of us - to GDP

# GDP is the happiest number: and it is agnostic to inequality

- Recall Galbraith's dictum about the conventional wisdom. There are four rules:
  - it's simple, it's understandable, it's in a frame that you understand and *it gives you self esteem*.
- All indices of well-being are always going to be more dismal than GDP.
  - GDP is a happy number.
  - We like to be happy.
  - We like things that give us self esteem and therefore, GDP continues to reign as the conventional measure.

Inequality is a consequence of policy-making

**NO ONE SETS OUT TO CREATE  
INEQUALITY**

# Inequality is a consequence of policy-making: No one sets out to create inequality

- We do not have overt public policies designed to make people rich. Aside from lotteries,
  - we don't have people sitting around a cabinet table or a city council devising way to make just a few of us wealthy.
  - We don't have governments sitting with think tanks thinking about how we can make just a handful of us rich beyond our wildest dreams.
  - We don't have academics sitting around thinking up public policies to make a few people rich

*A new recipe for inequality*

**LOWER TAXES AND DON'T LET ANY  
GOVERNMENT DEFAULT ON ITS DEBT**



# Inequality is a consequence of policy-making: No one sets out to create inequality

- Whenever we talk about public policy to end inequality, it's more about bringing people up and bringing them down.
  - It's not about making the poor rich.
  - We have to look at policies designed to do other things that produce inequality as a consequence.
- This makes the abstraction more abstract and makes solutions harder to come by.


# A new recipe for inequality: Don't let any government default on its debt

- Rogoff and Reinhart talk about the fact that of the thousands and thousands of sovereign and non-sovereign defaults that have taken place over the centuries, there are only five countries that have never defaulted:
- Canada, US, UK, New Zealand, Switzerland
- All others have defaulted

# A new recipe for inequality: Don't let any government default on its debt

- Paul Krugman in his book End this Depression Now explains that many people believe that much of the money that comprises our debts and deficits is owed to China.
- Even though that is factually not the case, it is interesting that people would think that we owe to China
- We actually owe each other most. Those who have money are the counterparties to borrowers. Think of the debt clock.

<http://www.amazon.ca/End-This-Depression-Paul-Krugman/dp/0393088774>



# US Debt Clock.org

State Debt Clocks
World Debt Clocks

US PUBLIC DEBT SUBJECT TO LIMIT

Debt Clock Time Machine

**US NATIONAL DEBT**

**DEBT PER CITIZEN**

**DEBT PER TAXPAYER**

**US FEDERAL SPENDING**

**US FEDERAL BUDGET DEFICIT**

**US FEDERAL TAX REVENUE**

**INCOME TAX**

**PAYROLL TAX**

**CORPORATE TAX**

**STATE REVENUE**

**STATE DEBT**

**LOCAL REVENUE**

**LOCAL DEBT**

**Largest Budget Items**

**MEDICARE/MEDICAID**

**SOCIAL SECURITY**

**DEFENSE/WARS**

**INCOME SECURITY**

**NET INTEREST ON DEBT**

**FEDERAL PENSIONS**

**US GROSS DOMESTIC PRODUCT**

**TOTAL FEDERAL/STATE/LOCAL SPENDING**

**GROSS DEBT TO GDP RATIO**  
%

**REVENUE TO GDP RATIO**  
%

**SPENDING TO GDP RATIO**  
%

**US TOTAL INTEREST • 2012**

**INTEREST PER CITIZEN**

**US TOTAL DEBT**

**TOTAL DEBT PER CITIZEN**

**TOTAL DEBT PER FAMILY**

**SAVINGS PER FAMILY**

**TOTAL PERSONAL DEBT**

**MORTGAGE DEBT**

**STUDENT LOAN DEBT**

**CREDIT CARD DEBT**

**PERSONAL DEBT PER CIT.**

**Money Creation**

**FEDERAL RESERVE MONETARY BASE**

**M2 MONEY SUPPLY**

**TREASURY SECURITIES**

**CURRENCY AND CREDIT DERIVATIVES**

**Trade Numbers**

**US DEBT HELD BY FOREIGN COUNTRIES**

**US TRADE DEFICIT**

**US TRADE DEFICIT • CHINA**

**US IMPORTED OIL**

**IMPORTED OIL • OPEC**

**SMALL BUSINESS ASSETS**

**CORPORATION ASSETS**

**HOUSEHOLD ASSETS**

**TOTAL NATIONAL ASSETS**

**ASSETS PER CITIZEN**

**SOCIAL SECURITY LIABILITY**

**PRESCRIPTION DRUG LIABILITY**

**MEDICARE LIABILITY**

**US UNFUNDED LIABILITIES**

**LIABILITY PER TAXPAYER**

**US POPULATION**

**US INCOME TAXPAYERS**

**OFFICIAL UNEMPLOYED**

**ACTUAL UNEMPLOYED**

**STATE/LOCAL EMPLOYEES**

**FEDERAL EMPLOYEES**

**US WORK FORCE**

**US RETIREES & SSI**

**US FAMILIES**

**FOOD STAMP RECIPIENTS**

**BANKRUPTCIES**

**FORECLOSURES**

MORTGAGE/LOAN CALCULATOR

GOLD SUPPLY/DEMAND

SOURCES

AUTO SALES

ABOUT

ENERGY OUTPUT

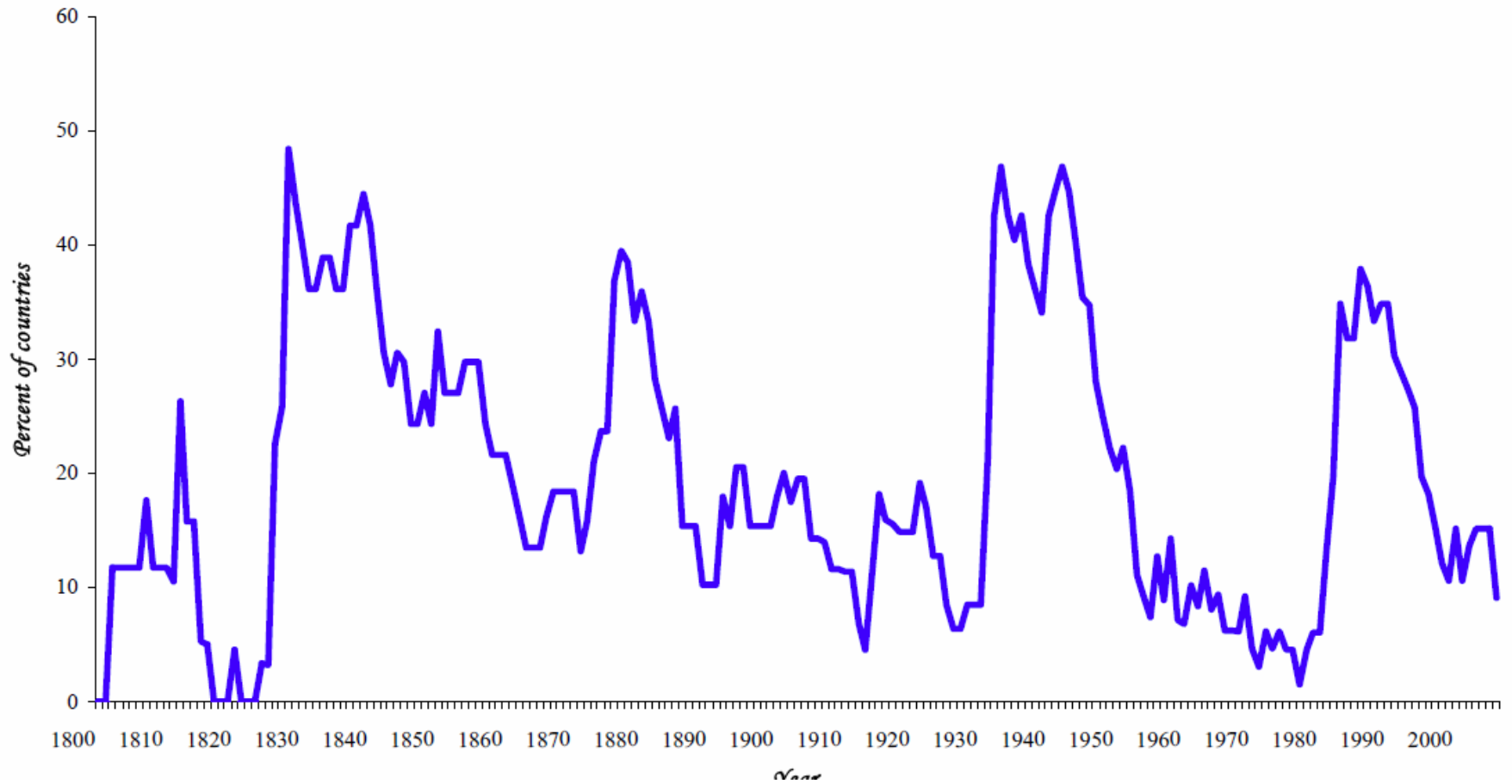
SHARE

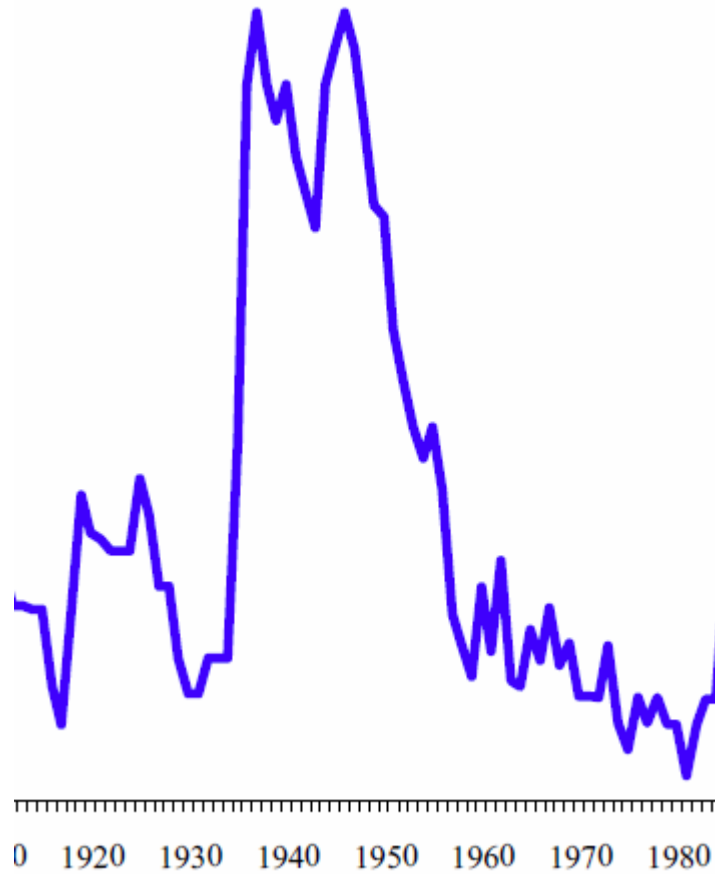
GOLD/PRECIOUS METALS

# A new recipe for inequality: Don't let any government default on its debt

- When default is permitted, greater equality starts to prevail.
- For example the chart in [This Time is different](#) that shows defaults over the decades is almost a mirror image of the charts that many economists show depicting the Gilded age before the 1920's and the new Gilded age that is emerging now.
- When defaults are low, the gilded age rides high. When defaults are high, the gilded age goes into retreat.

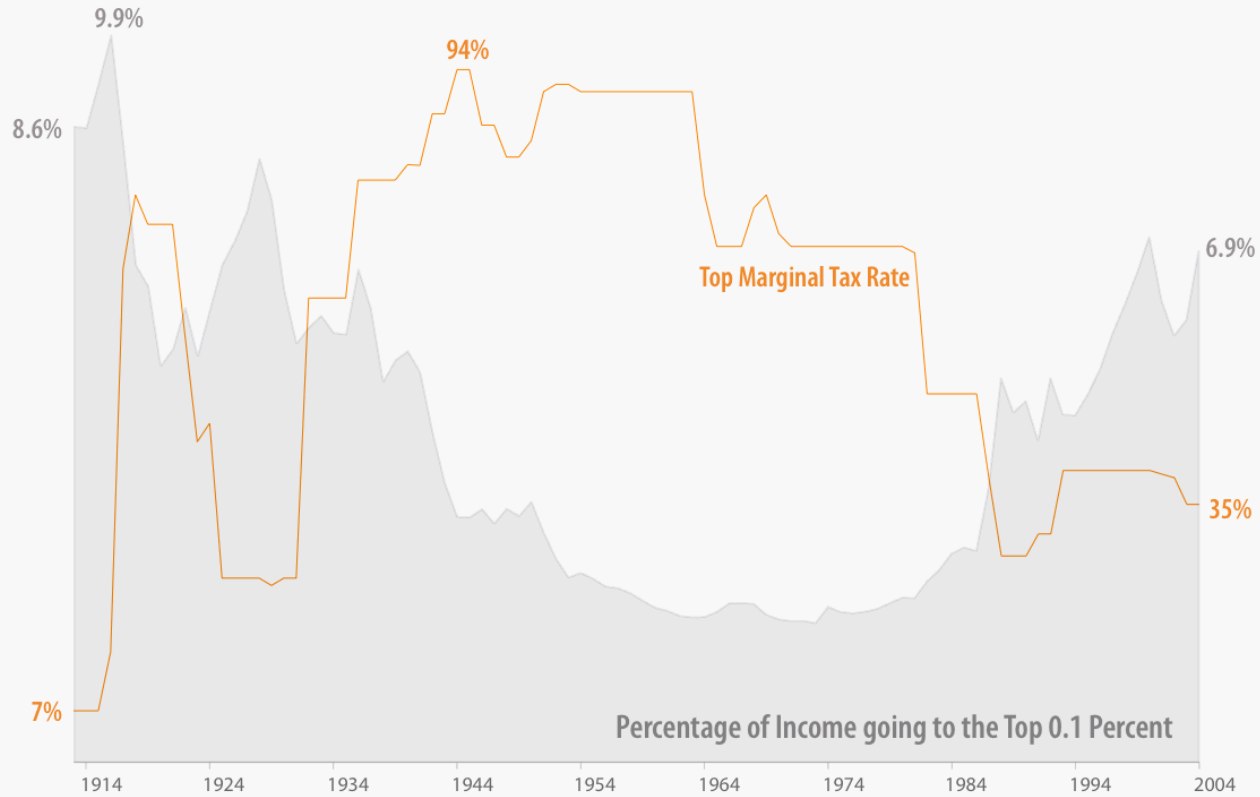
*Sovereign External Debt: 1800-2006*  
*Percent of Countries in Default or Restructuring*





1913-2004 United States

## Top 0.1 Percent compared to Top Marginal Tax Rate



The cut off for the Top 0.1 Percent in 2004:





# Why inequality continues: Jonathan Haidt's answer

- Haidt says that people who are liberal progressive social democrats have a moral palette comprised of two great concerns.
  - The first is care, care for others, and care for the fact that we think about the poor. We think about people who are less well off than us.
  - The other part of our moral palette is fairness

Why inequality continues

# **JONATHAN HAIDT'S ANSWER**

# Why inequality continues: Jonathan Haidt's answer

- What Haidt goes on to talk about is the moral palette of the conservative also has caring and fairness in it, but caring and fairness come at the bottom. But there are four other components for conservatives:
  - *Sanctity*
  - *Loyalty*
  - *Liberty*
  - *Authority*

# Why inequality continues: Jonathan Haidt's answer

## ***Sanctity***

- the state or quality of being holy, sacred, or saintly
- The ultimate importance and inviolability: *the sanctity of human life*

## ***Loyalty:***

- Steadfast in allegiance to one's homeland, government, or sovereign.
- Faithful to a person, ideal, custom, cause, or duty.

## ***Authority:***

- The power or right to give orders, make decisions, and enforce obedience: The right to act in a specified way, delegated from one person or organization to another.

## ***Liberty:***

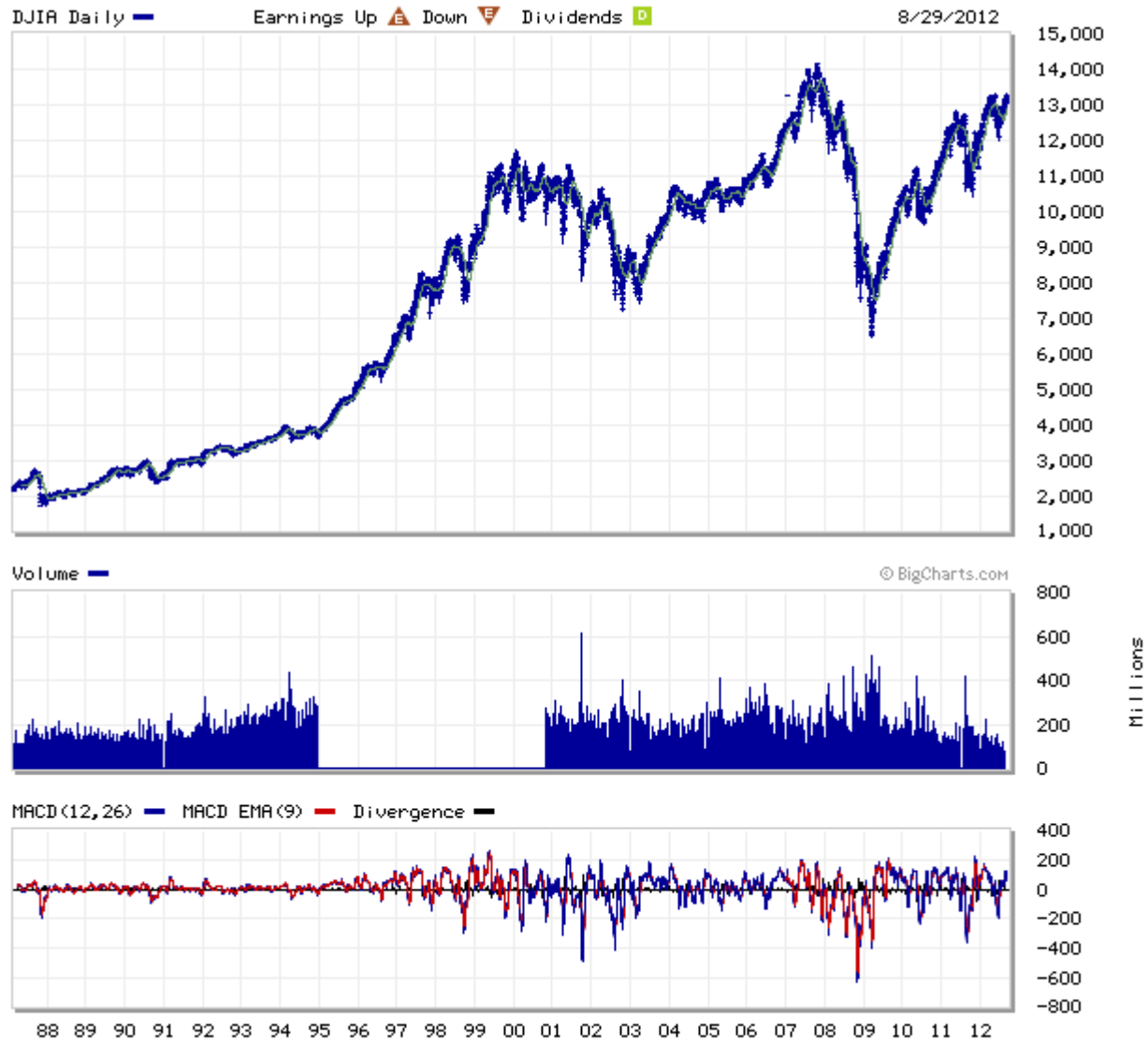
- The state of being free within society from oppressive restrictions imposed by authority on one's way of life.
- a right or privilege, esp. a statutory one.

The Lives of Today's Seniors

# **BETTER OR WORSE?**

# The Lives of Today's Seniors: Better or Worse?

- They lived through the best of times (chart next slide)
- They had some things tough and believe they lived in the toughest times
- True, but their prime saving years were the best of all years
- The big stall relates to the present generation:
  - Stagnant investments
  - Higher costs
  - Withering infrastructure and services



One Solution:

# **A NEW DIALOGUE WITH THE 'GERONTOCRACY'**



# One Solution: A new dialogue with the *'Gerontocracy'*

- To conclude, it will be very important to connect to the gerontocracy and find new ways for them to feel good about themselves through helping to reduce inequality.
- We have to respect and understand their views about sanctity, liberty, authority and loyalty.
- Yet if we continue to hector an unbelieving generation of seniors about fairness and caring, and especially if Haidt is right, then we will continue to talk to ourselves and those that vote for inequality will continue to feel justified.