

Interview

How do you know it's inequality when you see it?

There are always unequal outcomes in society, even in the rare cases where there are equal opportunities and equal capabilities. And there are many kinds of inequality. But in modern, monetized economies, income inequality is a good summary measure for all kinds of social inequalities. For good and for bad, money is how we value people and their contributions to society. All monetary economies are unequal, meaning that some people's contributions to society are valued more highly than other people's. They become even more unequal when people save (or to use a less positive word: "hoard") money to pass on to their children to give them an unearned head start in life.

Have levels of inequality gone too far?

For me, that's the relevant question. Inequality is ubiquitous and probably impossible to eradicate, but how much is too much? For example, was 1960s America too unequal, too equal, or "just right"? That's a value judgment that does not have a scientific answer, but as a social scientist I am pretty certain that 1960s America was not so equal that its equality stifled economic innovation (US growth rates were much higher than they are now) or unfairly penalized hard-working people of high levels of accomplishment (as perhaps professionals unduly suffered during Mao's Cultural Revolution).

If one does accept that levels of inequality in the US in the 1960s were more or less reasonable, then ipso facto levels of inequality in the US today are grossly unreasonable. The only way to avoid the conclusion that today's inequality is too high is to believe that yesterday's inequality was too low, and I just don't see any evidence of that. And this same argument applies to most European countries, just not in as extreme a form as it applies to the United States. If it weren't for the example of even higher inequality in

today's America, inequality in today's Europe would itself seem grossly high by Europe's own historical standards.

What types of policies should be directed at tackling inequality?

People are proposing many creative approaches to reducing inequality, but I don't see any reason to be creative when reliable, well-tested policies are available off the shelf. To reduce inequality, governments should collect taxes using strongly progressive income tax systems and governments should provide services universally on an equal basis to all citizens.

Unfortunately, fiscal trends are currently running in the opposite direction on both the revenue and the spending fronts. Governments increasingly rely on regressive revenue sources like sales taxes, value-added taxes, and user fees. They increasingly spend money in "targeted" ways that may appear to be more efficient but that erode public support for high-quality government services. Both progressive taxes and universal services have the double-impact that they reduce today's effective levels of inequality while at the same time reducing the intergenerational transmission of inequality: progressive taxes reduce the accumulation of savings that the rich are able to pass on to their children and universal services ensure that the children of the poor have similar opportunities to those of the rich.

More broadly, proactive labor market policies that promote full employment and empower labor to seek higher wages can reduce inequality at the source, but these policies are much more contentious and much more difficult to get right. I strongly support government policies that tilt the playing field toward labor and away from capital. But from a scientific standpoint we can argue over these policies, and reasonable experts offer conflicting advice. We can't really argue over progressive taxes and universal services, at least from a scientific perspective. These are politically contentious but empirically obvious solutions.

Where should pressure on policy-makers be coming from, in order to address inequality?

Well ... everywhere. But it won't come from everywhere. Pressure for good policy should come from experts — academics, but also unions, NGOs, and all the other people who are active in organized civil society. Few academics actively promote good public policy. I wish many more would.

In democratic societies, ordinary voters who are not experts need to have

the evidence placed before them. When academic experts don't do this, they cede the field to the paid mouthpieces of industry and the wealthy. I really wish that more academic experts would write for popular audiences. We often blame universities for discouraging academics from popular publishing, but that is a poor excuse.

In my experience, most academics — even most academics doing policy-relevant research — simply don't want to talk to the public. That's a sad reality, very sad. We academics hold a public trust, most of us supported at public expense. We have a responsibility to educate the public, even if that means a little extra work now and then. We have a responsibility to positively work to educate the public, not simply place our academic research in the public domain with an invitation for the public to “come and get it.”

Should there be a distinction between growth and development, in order to achieve sustainability?

No. Growth is absolutely fine, and should always be encouraged. The policy issue is: what kind of growth? Growth in the total value of goods and services produced by a society is a good thing, but government policy should strongly favor growth in value while discouraging growth in the use of material resources. Consider a commodity like coffee. When people transition from consuming instant coffee at home to consuming artisanal espresso drinks at a hip cafe, they consume the same amount of coffee — the same food miles, the same embedded water, the same amount of coffee waste generated, etc.

But the value of the consumption experience, measured in units of GDP generated, might be 10 times as great. Same stuff, 10 times the value. That's the kind of growth we need, and government policy should encourage that kind of growth. People should be “consuming” more music performances, more video games, more quality restaurant meals, more counseling services, more art classes, more tarot card readings. They should be buying their children one hand-crafted toy instead of a dozen plastic ones. Policy can and should promote that change, for example by taxing material inputs or subsidizing service provision.

Instead most governments do the opposite: they subsidize material inputs (especially water) while disadvantaging services. For example, a plastic toy

manufacturer can deduct the cost of material inputs but a wooden toy craftsperson can't deduct the cost of skills training. We need a different form of growth, but we don't need de-growth. Few people prefer to live at a lower standard of living ... I have yet to meet an intellectual who asks for a lower salary as a means of reducing GDP!

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