

INEQUALITY IN GOOD TIMES AND BAD

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PANELIST

ERIC SCHOENBERG is a former investment banker, a member of the Patriotic Millionaires, and has taught at Wharton, Columbia Business School, and NYU before taking his current position in Columbia's Psychology Department.

MODERATOR

PETER COY is the economics editor for Bloomberg Businessweek and covers a wide range of economic issues. He also holds the position of senior writer.

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Growth of Economic Inequality in America

ERIC SCHOENBERG discussed economic inequality in the United States in an interview moderated by Peter Coy.

CURRENT FEDERAL TAX CODE

- The current tax code increases inequality because taxes are much lower on income from investments than on income earned from work.
- A married couple earning \$150,000 from work alone pays about \$19,000 in federal taxes. A married couple making the same amount of money entirely from capital gains pays approximately \$7,000 in federal taxes. The couple with investments can accumulate more wealth faster than the couple that has to work for a living.
- The coronavirus crisis has shown that Congress extends this approach to economic relief. The three bills passed so far in Congress to deal with the COVID-19 pandemic give about six times as much support to businesses as to individuals, even though the richest ten percent of Americans own almost 90 percent of the stock market.
- Congress likes to help the rich because that is where the money is—in terms of both campaign finance and lucrative post-government careers.
- Inequality increases the political influence of billionaires, which leads to even greater inequality.

ECONOMIC THEORY

- Economic research is primarily supported by the right-wing. Economics is the one area of academia not dominated by liberals.
- Economists make the assumption that people are lazy and would rather sit around than make an effort. In standard economic theory, inequality is good. It is an incentive to work hard, save, and invest.
- Economists assume people must be incentivized to delay consumption through positive rates of interest because humans are impatient and want to consume today.

- Economists think that more capital is better for everyone. They suggest it is a particularly bad idea for the government to tax not only wealth itself, but also the interest and dividends on wealth because this simply reduces the total amount of capital.
- Economists see investment as good. Therefore, the rich are benefitting the poor by accumulating wealth. However, investment only exists to serve consumption. Too much of either can create a problem.

COMMENTS ON THE CHAMLEY-JUDD THEORY

- This well-known economic theory argues that the optimal tax rate on capital is zero.
- It is a mistake to think of positive interest rates as a law of nature—they are a social phenomenon. A rational person accepts negative interest rates as long as they prefer spending money tomorrow instead of spending it today.
- Today, negative long-term interest rates imply that the government should be incentivizing consumption over savings—not the other way around.
- If a higher tax is imposed on your income, will you work less? If you have gotten used to a certain lifestyle based on current income, chances are that you will work more to pay the extra tax without impacting your lifestyle. Thus, your goal is more important than the marginal cost.
- The assumptions that underly Chamley-Judd might be standard, and even flexible, but they are simply incorrect.

INEQUALITY IN THE UNITED STATES

- While some inequality is good, the United States has reached a point where it is very bad.

- Tentative evidence indicates that economic inequality is bad for economic growth. Inequality is bad even for a rich individual.
- There is evidence that humans do not like high levels of inequality. There is also evidence to suggest that unhappiness reduces levels of trust in societies and increases social conflict.
- Research suggests that about two-thirds of people treat their children equally in their wills. Other research shows that equality among family members can reduce conflict. Most estate lawyers warn that if you are not splitting assets evenly, you should assume there will be lawsuits.
- Does greater inequality make the “economic pie” larger or smaller? How does that pie get divided?
- Supporters of Chamley-Judd like to claim it is strictly economics, without making any moral arguments.

MORAL ARGUMENTS AS TO WHY INEQUALITY IS INHERENTLY UNFAIR

- The American ideal is that every citizen can improve their economic situation with hard work. Yet recent work by economists suggests that greater inequality leads to less social mobility.
- Sometimes people benefit from other people creating wealth for themselves. However, Bernie Madoff and the Sackler Family of Purdue Pharmaceuticals (the makers of Oxycontin) made plenty of money for themselves while hurting their own customers.
- Taking into consideration many elements of modern capitalism, how fair is a market economy?

OBSERVATIONS ABOUT THE CRISIS AT HAND

- Economically, the coronavirus crisis is hurting the poor more than the rich. This makes it even less likely that their children will ever get ahead. The richest rich are getting even richer with the booming stock market of the last two months, which has been heavily driven by the value of the five largest tech companies.

- Many Americans, particularly millennials, will become even more skeptical about the fairness of a system that values subsidies to private corporations over direct support to individuals, even in a crisis.
- We should not be surprised to see increasing social conflict and distrust going forward. If people feel they have nothing to lose, they have no reason to buy into the social contract on which our society so deeply depends.
- Americans will be better served in the future if government support focuses more on creating demand among the poor than on supporting the businesses of the rich.

IF SCHOENBERG WERE IN CHARGE

- The government should not make wealth inequality worse. Tax rates on investments and labor income should be equalized.
- Every time there is a new tax code, the rates on investment income are lowered. The logic behind this is faulty.
- We need to realize the big difference between millionaires and billionaires. Individuals with very high incomes should be in a higher tax bracket.
- America is the land of opportunity, not hereditary aristocracy. Strengthening the estate tax and eliminating stepped-up basis would go far towards achieving the key goals of a wealth tax.

Question and Answer Takeaways

ATTENDEES HAD THE OPPORTUNITY to ask Schoenberg questions following his presentation.

About Patriotic Millionaires

- Patriotic Millionaires is a fairly informal group as opposed to an organized lobbying group. It is not considered partisan, though the group has started endorsing candidates recently.
- The basic propositions include:
 - Economic inequality in America and the inequalities of power it has created are huge problems.
 - If you are a full-time worker in America, you should be able to support your family on what you earn.
 - Whatever it costs to fund the government, rich people need to pay their fair share. They have not been doing so.

Do you see a trend in Millennials consuming less?

- Millennials have had to deal with two economic crises in a short period of their young lives.
- There is a distinction between consumption and investment. Though, it is not as clear cut as many think it is. For example, is buying a house consumption or investment? It is both.
- A lot of investors in the market are worried that the COVID crisis will fundamentally restructure consumption patterns.

If you raise taxes on the rich, what would you do about flight of capital to other countries?

- There is a compelling argument to be made that this is a much bigger problem in Europe than in the United States.
- Schoenberg does not see this as a big problem. The idea that huge numbers of people would renounce U.S. citizenship and move overseas just to avoid U.S. taxes seems unrealistic.

We have been a capitalist society since our nation's founding. Is there a time period that represents the most equitable treatment by the government?

- Schoenberg quoted L. P. Hartley: "The past is a foreign country." Trump's "Make America Great Again" slogan—the idea that we need to go back to the 1950s—means something very different to racial minorities.
- Schoenberg was hesitant to make a general claim about a moment in history that worked for all U.S. citizens.
- We have returned to levels of inequality not seen since the 1920s. The late 1940s to 1950s was a time of unbelievable economic growth and opportunity, as well as high marginal tax rates.
- The United States should not go back to tax rates of 70–90 percent. But we have had tax rates that high and it was not too bad. Why not give it a try again?

Estate taxes and higher taxes for billionaires punish success. Plus, a great driver of inequality is the federal reserve's easy money policies. Why ignore this?

- A hallmark discussion on this issue is Andrew Carnegie's *The Gospel of Wealth*. As the richest, self-made man in America at the time, he was in favor of an estate tax. He believed it was a terrible idea to give large amounts of money to your children.
- Carnegie emphasized the importance of philanthropy. You do not pay an estate tax if you give all your money away.
- If interest rates are so low because of the Fed's easy money policies, why is this an international phenomenon? Interest rates are even more negative in Europe.

What business is it of the government to tell me how much I should have? The purpose of taxation is to raise revenue for government services, not engineer social outcomes.

- What is the difference between providing services and engineering a social outcome?
- It is your obligation because we all live in a society together. Schoenberg does not just want to pay higher taxes himself—he wants all rich people to pay higher taxes together.

How do your proposals about wealth distribution conform to those of Thomas Piketty?

- Wealth taxes are associated with Piketty and he is a proponent of them. Schoenberg is sympathetic to the idea, but is not a big fan.
- A wealth tax is a very complicated animal and would be more trouble than it is worth.

What about people who do not have choice about their spending? Some people have to spend what little they have to live.

- Economist Adam Smith discusses the idea of subsistence. You need to spend a certain amount of money just to survive.
- How do we make decisions about consumption versus saving? Economist James Duesenberry suggested that whatever individuals spend now is fixed and they will resist lowering that. The decision to spend more is due to social comparison.

Why should I work extra years doing socially useful things if the fruits of that labor are taken away by higher taxes?

- You do it because you like it. Money is highly overrated as an incentive for humans. A core problem of economics is assuming that money is the only incentive. It is not the sole incentive, nor is it the most important.

Isn't it just as important what we spend on rather than just how much we spend? Spending itself can destroy an economy if it is not sustainable.

- It is not always easy to distinguish between consumption and investment. It is a problem that the government tends to lean towards consumption.

- Schoenberg explained that he has not met a single economist or investor who has not agreed that America has a huge public infrastructure deficit. Airports, roads, and trains are all poor.
- The government is incredibly wasteful and inefficient, but so is private industry. The emphasis on using it effectively has caused us to lose sight of the fundamentals. We are all in this society together. We will be better off if we all pitch in.

What about the huge number of people that do not have a living wage? Consumption is not an issue for people who are just trying to make ends meet. What about a guaranteed universal income?

- Schoenberg is in favor of a universal income. Today's form of support to citizens, such as welfare, is problematic. It would be better to reestablish our social contract to say that we are all in this together. The COVID-19 crisis is the perfect opportunity to do just this.
- We are entering a new world where it will be hard for lots of people to put basic food on the table. The notion that we need to force people to go to work is also deeply problematic.
- A universal basic income would go to everybody—you get it just by being an American citizen.