

Aiming for Inclusive Societies and Economies

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Aristotle:

”Justice in this sense, then, is complete virtue; virtue, however, not unqualified but in relation to somebody else. Hence it is often regarded as the sovereign virtue, and ’neither evening nor morning star is such a wonder.”

Nicomachean Ethics

Adam Smith:

”If [justice] is removed, the great, the immense fabric of human society, that fabric which to raise and support seems in this world if I may say so has the peculiar and darling care of Nature, must in a moment crumble into atoms.”

The Theory of Moral Sentiments

John Rawls:

”Justice is the first virtue of social institutions, as truth is of systems of thought. A theory, however elegant and economical must be rejected or revised if it is untrue; likewise laws and institutions no matter how efficient and well-arranged must be reformed or abolished if they are unjust.”

A Theory of Justice

Defining the Goal

- In many theories of justice, respect - both social and self respect - occupies a central role
- Rawls includes in his list of primary social goods the social basis of self-respect: ‘those aspects of basic institutions that are normally essential if citizens are to have a lively sense of their own worth as moral persons and to be able to realize their highest order interests and advance their ends with self confidence.’
- Nussbaum lists as one of her ten core capabilities:
“having the social bases of self-respect and nonhumiliation; being able to be treated as a dignified being whose worth is equal to that of others’

The Nature of Human Nature

- "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it." (p.11)
- This opening line to the Theory of Moral Sentiments may seem a surprising way to start for Smith. Especially when we contrast it with his famous statement from the Wealth of Nations:
- "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our necessities but of their advantages."
The Wealth Of Nations, Book I, Chapter II

The Nature of Human Nature

- People are self-interested actors engaged in a social project. For Smith, one can build economic interactions and even societies on self-interest but we are endowed with sympathy that enables better societies based more on co-operation
- Behavioural economics games such as the trust game fit as well - people do not act simply selfishly but take actions reflecting reciprocity
- This comes together in our getting our rewards - status and respect - from our role in the productive process (the common social project). Hume: justice is in its nature, useful - it is the way we divide up the results from the common project in order to make it sustainable.

Technological Change

- How does technological change and growth fit with this?
- It ought to be something we welcome since by definition it brings greater resources per person. It also potentially frees us up to act more on our social nature.
- That point is made in various versions of Utopia. In Edward Bellamy's *Looking Backwards* the technological advance of the late 1800's could eventually lead to an egalitarian and more just society. In Marx, after technological change has delivered the revolution, people work at tasks as they see fit.

Technological Change

- But, of course, technological change destroys rents as well as creating them. In the short run, those who are negatively affected fear their loss of income and status.
- Autor et al - negative shocks to manufacturing jobs related to trade with China are associated with increased drug use, more lone parent households, etc.
- In the long run, the new rents have tended to be dissipated. Luddite is generally a term of mild derision.
- We face two questions at this point:
 - ① Is this time different?
 - ② To the extent that it is, what should we do differently in response to create a more just society in conjunction with the technological change?

Is This Time Different?

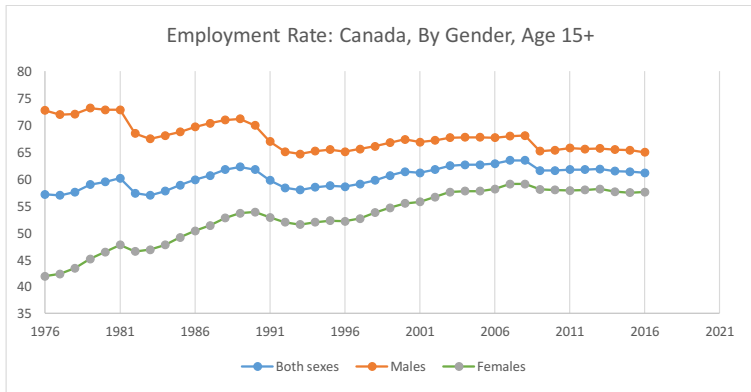
- The claim is that new technologies will mean the end of work.
- To the extent that we have tied our assignment of shares of the pie as well as respect to work, this would be a clear problem.
- Also, it is through the labour market that we have ultimately reassigned rents from past technological revolutions

Is This Time Different?

No

- The employment rate has not declined.

Employment Rate

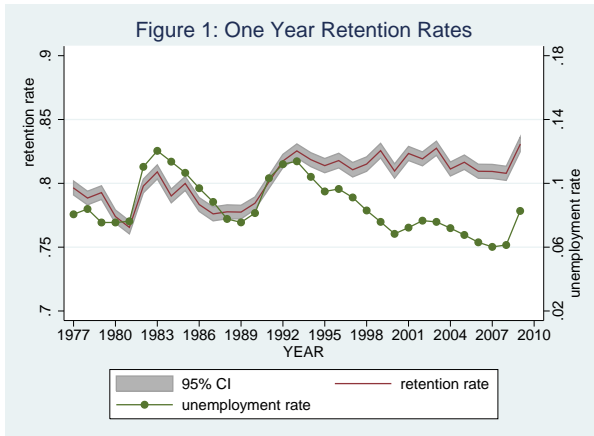


Is This Time Different?

No

- The employment rate has not declined.
- The death of job stability is greatly exaggerated

Job Continuation Rate



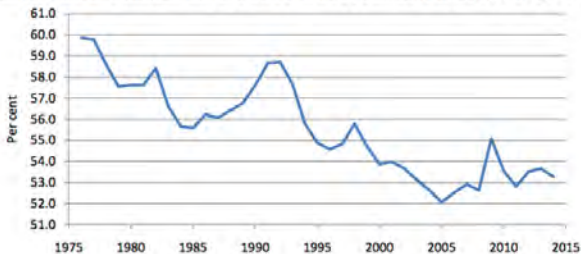
Is This Time Different?

Yes

- The labour share of income has declined

Canada: Labour Share

Chart 7: Labour Compensation as a Share of GDP, Canada, Per Cent, 1976-2014



Source: Appendix Table 1.

Is This Time Different?

Yes

- The labour share of income has declined
- The new technology fits with the economics of superstars

Canada: Labour Share



Is This Time Different?

Yes

- The labour share of income has declined
- The new technology fits with the economics of superstars
- In 1977, an elite chief executive working at one of Americas top 100 companies earned about 50 times the wage of its average worker. 2016: the best-paid C.E.O.s made about 1,100 times the pay of a worker on the production line.

Is This Time Different?

Yes

- The labour share of income has declined
- The new technology fits with the economics of superstars
- Inequality has increased sharply with the new technology - though not evenly across countries

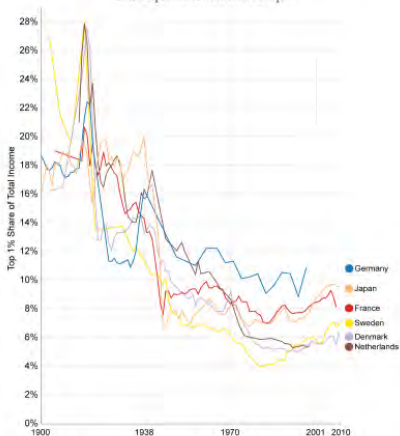
Our World
in Data

Share of Total Income going to the Top 1%, 1900-2010

The evolution of inequality in English speaking countries followed a U-shape



The evolution of inequality in continental Europe and Japan followed an L-shape

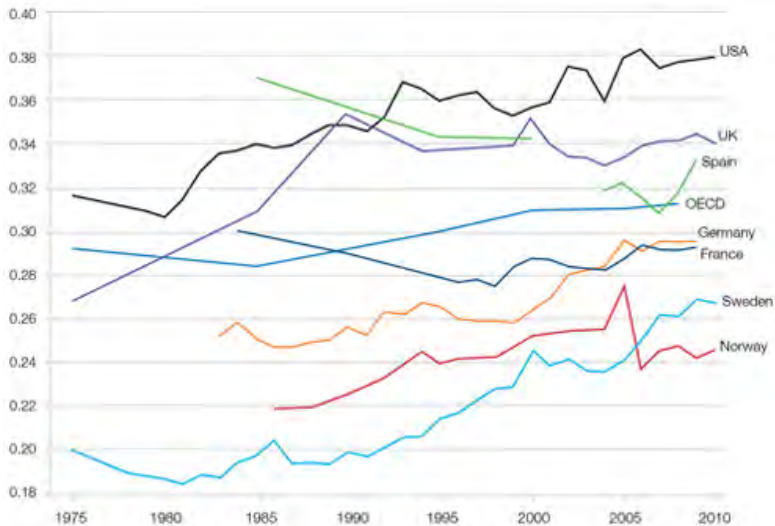


Data source: The World Top Incomes Database.

The interactive data visualisation is available at OurWorldinData.org. There you find the raw data and more visualisations on this topic.

Licensed under CC-BY-SA by the author Max Roser.

Gini Coefficients



Note: Break in series for Spain in 2000.
Source: OECD

Is This Time Different?

- The answer may be yes but that doesn't mean the end of work
- Some skills will be complementary with the new technologies and will pay well, though that set may be declining
- Machines can't substitute for human contact, implying that there will be an expansion of employment in service occupations as workers move out of occupations where machines are substituted in (Peri and Sparber(2010): low skilled immigrant and native born workers)
- The problem is one of distribution not work

- There is growing evidence of the important role of rent sharing even in regular wage setting. Green, Morissette and Sand(2017) show spillovers from oil boom to other jobs and other provinces, implying a 15% increase in the mean wage in Cape Breton.
- This fits with evidence on the importance of between-firm wage differences for explaining overall wage dispersion and growth in inequality (Card, Heining and Kline(2014), Song et al(2016))

Rent Sharing

- Even workers not in the firms where the initial rent gains from technological change are located can benefit through bargaining better wages using the threat of moving to the rent gain firms as an outside option
- This effect would be amplified to the extent that unions capture a larger share of rents
- But in a world where the vast majority of jobs have limited rents, this mechanism is not available. We would need to be more active in distributing the gains from technology.

Responses: Tax the Rents

- Nozick *Anarchy, State, and Utopia*: redistribution almost always has elements of theft and violation of liberty
- If a distribution was obtained through just transfers starting from just initial holdings then it is just
- Not a doctrine to use on its own (first nations issues with ‘just initial holdings’ (Varian(1974)); how are externalities viewed; basing justice on the luck of initial holdings;)
- But we should operate with the core point that we should pay attention to both sides of redistribution: that taxation may violate legitimate expectations of people who have ‘played by the rules’ and infringes on their liberty.
- Focusing on rents is not an answer for Nozick but may be a response for the rest of us

Responses: Tax the Rents

High end incomes

- In the economics of superstars, the high returns at the top are in excess of what is needed to bring the factor into production (i.e., rents).
- Small differences in ability translate into large differences in income so even if the top person chooses to withdraw, the impact would not be large
- There is a considerable literature on whether top end incomes are rents or reflect marginal product. These actors tend to provide high effort regardless.
- The main concern is mobility out of the country. Akcigit, Baslandze, and Stantcheva (AER, 2016): top 1% of patent holders are very responsive to top end tax rates in choice of country, though those just below them are not.
- Could have some special provisions for invention

Housing

- Since 1990, national house price indexes show a rough doubling in house prices. For Vancouver and Toronto the increase is much higher.
- Represents substantial within and cross-generational inequalities in wealth.
- Revamp tax system to tax this rent.

Resource Rents

- Resources could be part of Canada's solution but the associated rents have been squandered by provincial governments buying popularity
- Tax carbon

Responses: Tax the Rents

Labour

- Argued earlier that wages contain a significant element of rents distributed through bargaining
- Strengthening workers' hands at the bargaining table is effectively taxing and redistributing rents in one step.
- Has the advantage of government not having to try to figure out the size and location of rents
- Resource rents were redistributed to some extent through this route in the last boom (Green, Morissette and Sand(2017)). This helped Canada get through the troubles of other advanced economies in the 2000's and could be helpful in the future.
- Fits with arguments about delivering individuals both income and respect. Harder to take away than public transfer benefits.

Responses: Tax the Rents

Labour

- Strengthening unionization could help. But the result that much of the inequality is across firms becomes important. Centralized bargaining would be more useful and might help with adversarial bargaining.
- Such a switch may not be politically feasible. Government could strengthen labour regulation, delivering some of what unions bargain for and reducing competition across firms in these dimensions.
- This would shut down some firms, but they may be the less productive, worse workplace firms. (Brochu and Green(2014): when minimum wages increase, layoff rates decline)
- Labour based responses may not work in the long run in the extreme case where service jobs take over but could be useful in the short and medium term, partly as a way of establishing the notion of the right to share the surplus.

Responses (Expenditures): Universal Basic Income

- A simple response that gives income as a right of citizenship. Can have a low administrative cost.
- Downsides:
 - Potentially strong disincentive effects associated with tax-back rates or increased taxes higher up the distribution. (Clavet, Duclos and Lacroix(CPP, 2013) conclude these are severe. Kesselman(2017): tax avoidance behaviour may take time to develop. Recent suggestions to pay for UBI through removing non-refundable tax credits could generate particularly high effective tax rates.)
 - Affordability would likely require reducing or eliminating more targeted policies. This has the advantage of reduced paternalism and emphasis on freedom of choice (though what is the effect on effective liberty?)

Responses (Expenditures): Universal Basic Income

Downsides:

- Redistribution without paying attention to the fundamental issue of the desire for respect obtained through taking part in production. What matters is not just your share but how you acquired it.
- Long term inequality outcomes? Nozick and the Wilt Chamberlain example (back to the economics of superstars)

Responses (Expenditures): Social Wage

- Sen and Nussbaum: need to provide the bases of effective freedom through access to wide set of important functionings: health, security, feeling productive, self and social respect.
- Public provision of health and education and as an effective guarantor of basic resources and housing.
- Delivering these in kind reduces (though does not eliminate) the disincentive effects associated with income transfers.
- Be careful about assuming that delivering education can both provide this service and solve inequality.
- A focus on effective liberty and respect may imply specific attitudes toward provisions in this area, e.g., providing basic training at older ages is not economically efficient but may be just

Conclusion

- Define inclusive growth as giving primacy to moving toward a more just society
- Respect is a key element of justice and part taken in productive system is a key element of respect
- Technological change could be different this time, not in the end of work but in the size of the distribution problem and that work as currently organized may not serve to redistribute the rents
- We need a substantial overhaul of taxation and labour market policy focussing on taxing rents.

Conclusion

- Pre-distribution through labour market policy may not be the long term solution but could be useful in the short and middle term both directly and through establishing rights
- Canada's resource wealth, wisely used, could help us through the transition and after
- Social goods rather than UBI as a focus