

Should companies reduce income inequality?: Maybe

Amitava Krishna Dutt

Professor of Economics and Political Science, University of Notre Dame, USA
Distinguished Professor, FLACSO, Ecuador

QUASI Seminar Series, May 13, 2022

1. Introduction

- Income inequality needs to be reduced ?
– Yes
- Should income inequality be reduced within companies ? – Yes
- Should companies reduce it? - Maybe

2. Why does income inequality need to be reduced?

- Ethics, economics, politics, society, institutions; it is not at all clear what economic inequality and political inequality are, and also ethics and these other issues are not separable.
- Egalitarian perspectives
 - If income is an important indicator of resources, opportunities, status, esteem, income inequality needs to be reduced
 - Some misconceptions about sameness and diversity, or physical or other talents
- Consequentialist
 - Utilitarian, happiness
 - Social welfare based
 - Unemployment, growth, saving, investment, aggregate demand poverty (absolute and relative)
 - Supply and incentives – supply of what? Incentives for what? Demand versus supply; innovations
 - Physical and mental health
 - Society and trust, conflict between class, race, gender
 - Crime, violence, white collar crime,
 - Politics, money and corruption, and democracy - authoritarianism
 - Environment

2. Why does income inequality need to be reduced? Cont.

- Desert – relates also to the causes of inequality
 - Just deserts – contribution, reward, input, output
 - Motivations, ability – problematic, vague, depends on what?
 - Buchanan on effort, choice, luck and birth – also problematic
 - Effort on what? Choice of what? “Value” creation. Rent extraction. Laws versus ethics; unequal justice. Scratching each other’s back, “loyalty”, how is evaluation done within institutions?
 - Not independent – effort-success (genes)-more effort – birth, parental guidance, social relations, choices, effort, success
 - Cannot separate individuals from group contributions. Trying to claim own contribution – some are better at that
 - Uncertainty – problem with insurable risk about luck
 - Power, relation and systemic

2. Why does income inequality need to be reduced? Cont.

- Freedom and Rights
 - Free choice? Voluntary choice? Rights respected?
 - Positive and negative rights and freedoms? Example of property rights and food
 - Do market freedoms enhance freedom?
 - The state restricts freedom or enhances it?
 - Conflict between different rights and freedoms, between different people
- Effect on moral values of people (different from consequentialism in the usual sense)
 - Greed, avarice, selfishness, corruption of power, using others, loss of self-awareness or feelings of worthlessness, narcissism, self-delusion – what one is, versus what one has – money, power
 - Resentment, envy, exclusion, demeaning, blame, aspirations, loss of self respect, dignity
 - Warping of incentives and motives, judge everything with money, quantity, quality? Often doesn't work in its own terms, loss of self-reported happiness, even forgetting morals and ethics
 - Psychological distance and lack of compassion for others, for anything but oneself, no self at all but a hedonic self-centered automaton

3. Companies

- Inequality needs to be reduced within companies
 - CEOs and financiers are among the highly paid, that needs to be addressed
 - No evidence on contribution to society and pay – much contrary evidence
 - Pay each other, keep hierarchy running
 - Even if they hold more “responsible” positions, says nothing about how much should be reward to it
 - Confusions about marginal productivity theory
 - Confusions about competition and efficiency and survival and evolution, enough fancy economic theory and evolutionary games to show that - smart for one and dumb for all
 - For many people, spend lot of time working: improvement in life and companies, not just income, but also democracy, decision-making
 - Why are large companies needed? Scale economies? Power? Large companies have higher CEO pay. But why have large companies?
 - But between company inequality is not addressed, as well as other determinants But can't hurt.
- Should companies be tasked with reducing inequality? Maybe
 - Judging from two of the two participants of this discussion, not at all! The role of vested interests, implicit or explicit; knowledge power!
 - But Enderle and others like Amis, Bapuji, look at it differently; from a societal and ethical perspective. But I wonder if firms take what they say into account.
 - I don't study firms as organizations, and don't study business ethics, but urge others to do as a reasonably impartial observer, although bias is very hard to avoid.
 - Governments need to constrain them, but only if they can freed from their undue influence
 - But I know enough to know that it is not clear what maximizing value is even if that is the intended goal – rationality and uncertainty.