

Should Companies Focus on Income Inequality?

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Two reasons
why companies
should not
focus on
income
inequality *for
its own sake*

- It is inconsistent with fundamental principles of trade
 - Voluntary trade is based on win-win relationships
 - The size of the “win” is proportional to the size of the *value* one brings to the table
- It is inconsistent with fundamental principles of justice
 - Procedural and distributive justice requires a focus on *equity*, not equality
 - A focus on income inequality privileges negative emotions of “envy and jealousy”

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Human Dignity And The Principle Of Trade



Rajshree Agarwal Senior Contributor

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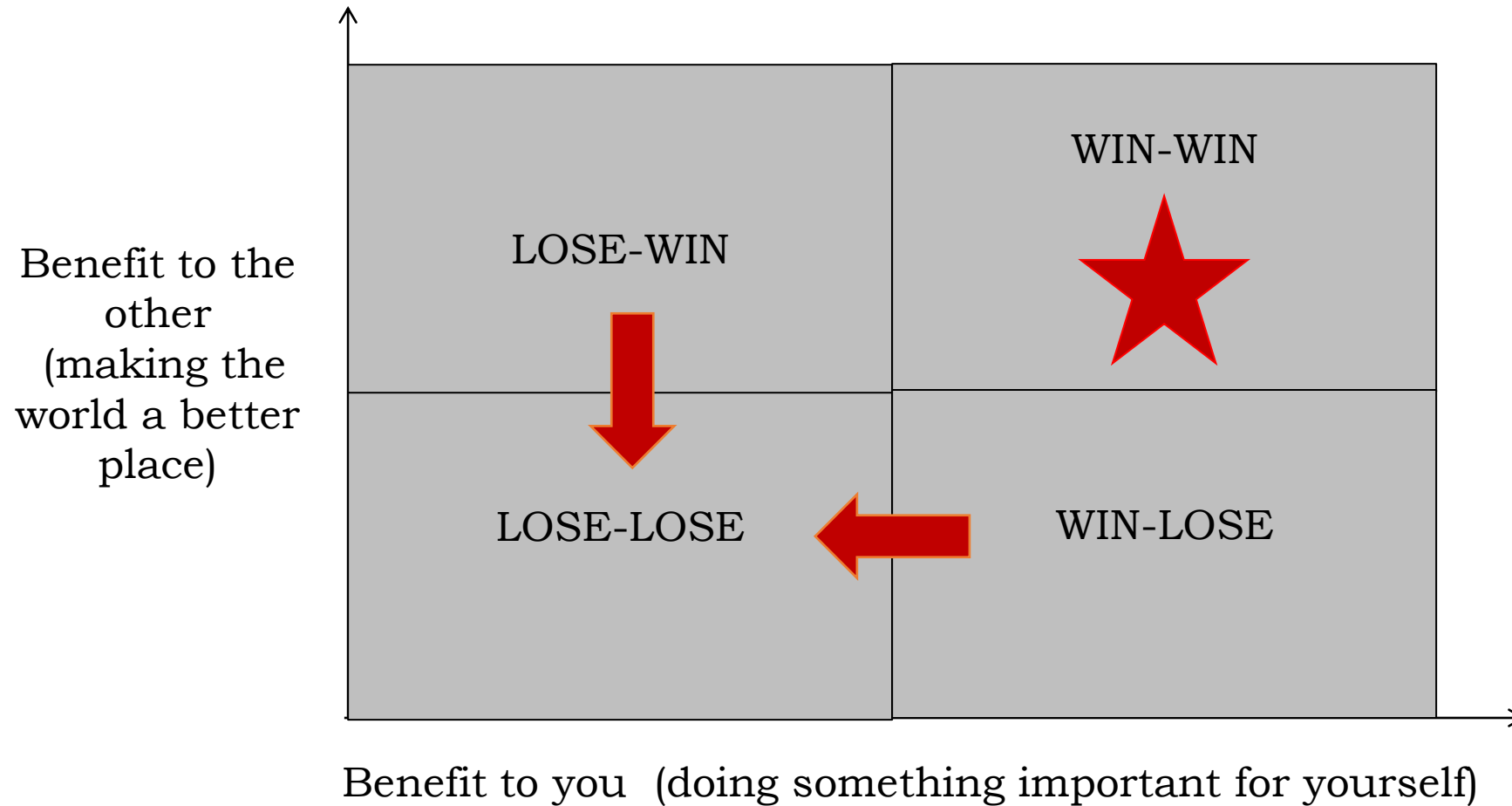


Symone holds a Hershey's Kiss to trade
on July ... [+] JUSTIN NAM

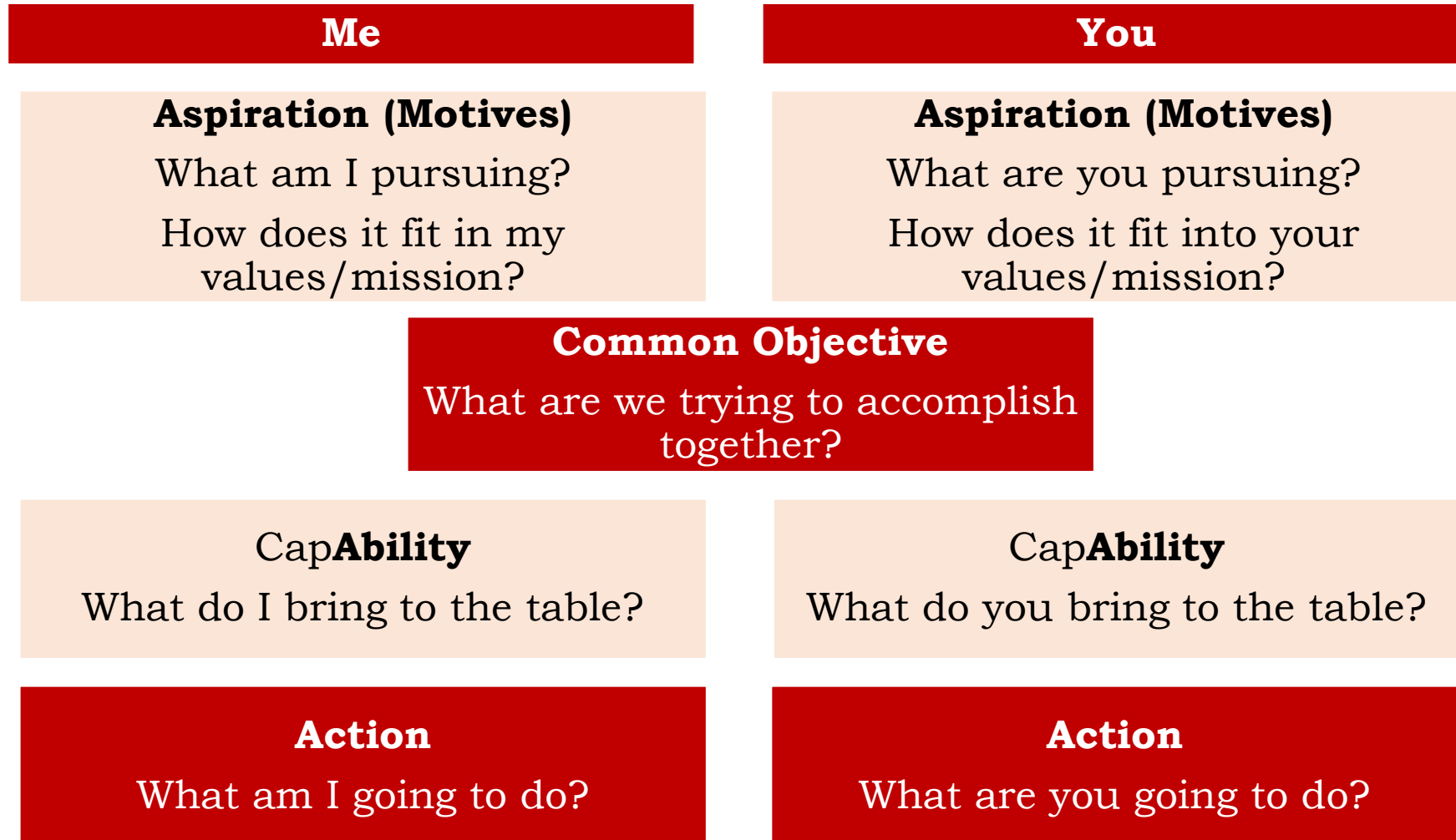
A trader...does not treat men as masters or slaves, but as independent equals. He deals with men by means of a free, voluntary, exchange—an exchange which benefits both parties by their own independent judgment.

Ayn Rand

Trade begins with individual purpose: Solving problems meaningful to you



Trader's Sudoku: Creating value through collaboration (within organizations or markets)



Adapted from Kendall Justiniano, STRIVE, 2015



Markets (and organizations) are first and foremost platforms for collaboration



Competition creates discipline and focus on “value-add”

Those that collaborate well create “winning” solutions and outcompete others

What does it mean to take “voluntary trade” seriously? **The role of firms in creating value**

- Firms consist of individuals who differ in many micro dimensions, and often represent a bundle of
 - Values
 - Goals
 - Motivations
 - Abilities
 - Activities
- Firms align individuals towards a shared purpose
 - through coordination, governance and incentive alignment
- Firms seek profit as the residual value
 - after ensuring win-win outcomes with critical stakeholders,
 - and by ensuring that these win-wins are better than their best alternative

What does it mean to take “voluntary trade” seriously?

The role of markets in value-focus



Product and services markets:

- Competition by other firms who are solving the same problems to offer value in terms of “faster, better, cheaper.”
- New ideas—implemented through innovation and enterprise—displace status-quo

“Labor” markets:

- Competition by other firms who also seek to recruit individuals towards their purpose
- “Labor” is *not* a homogenous good, as defined by hours of a day
- Superior value creation is fundamentally related to talent, innovation and enterprise

“Open-access”
institutions are
necessary for
enacting the
trader principle
for value
creation

- Most societies are based on political manipulation of the economy to create **limited access** privileged interests.
 - “Natural state”
- Some modern societies create **open access** to economic and political organizations, fostering political and economic competition
 - More fragile





Impersonality—equality in the eyes of the law—is a central feature of open-access societies.




Two fundamental differences...

Political vs. economic equality

- Political equality is government process to ensure equal treatment of individual
- Economic equality is equal outcomes in income, wealth and resources

Mobility is the key
consequence and
cause when these
differences are
respected!





(Upward) Mobility as a consequence and as a cause

- Mobility as a **consequence**
 - Outcome of open access institutions that enable trade and human agency
 - *Political equality (impersonality)* enables upward mobility in economic, psychological and intellectual realms
- Mobility as a **cause**
 - Option to choose the best among alternatives, and walk away from less desirable options
 - This is true across the income spectrum!
 - You don't always get what you want, but you get what you want, conditional on the value you offer in return



When talent is mobile, voluntary trade implies:

From each according to their ability to create value,
To each according to their ability to create value



But what about
justice?...

Justice, as a moral
concept, applies to
human *choices*,
not to human “nature”
nor “accidents of birth”



But what about
justice?...


...Based on what yardstick??

- Distributive justice
 - Equality vs. Equity
- Procedural justice



Equity- based
Distributive justice

Upholding income inequality reduction
is inconsistent with distributive justice
based on equity--*rewards*
commensurate to value creation



Procedural justice

Let's not confound today's cronyism and mixed economies by attributing their faults to markets

- We are living in *limited access societies* today!
- Lobbying and regulation are used to erect barriers against innovators, and to protect status-quo
 - This is rent-seeking and *subversion of market principles* through exercise of political power

When markets are at work, *economic power* stems from voluntary trade and ensures procedural justice

- Disciplines executives who engage in rent-seeking
 - Employees leave for better options that provide equity-based distributive justice and procedural fairness
 - Other stakeholders (shareholders, investors) monitor or withdraw due to resulting inefficiencies

A focus on income inequality can also legitimize envy and jealousy, leading to negative strategies of sabotage and barriers



Upward
Comparison

Downward
Comparison

Upward
Comparison

Downward
Comparison

Negative Effects

Envy & Dissatisfaction
Sabotage & Redistribution

Jealousy & Fear
Sabotage & Barriers

	Upward Comparison	Downward Comparison
Negative Effects	Envy & Dissatisfaction Sabotage & Redistribution	Jealousy & Fear Sabotage & Barriers

LOSE-LOSE; No Collaboration with a primacy on static rents
(consumption)

Rather than focusing on reducing income inequality, companies can leverage social comparisons more positively!



Upward
Comparison

Downward
Comparison

Positive Effects

Inspiration & Hope

Pride and Benevolence

Productive Effort to Attain

Productive Effort to Retain

Upward
Comparison

Downward
Comparison

WIN-WIN: Collaboration with a *primacy on dynamic production (value creation) before consumption (value capture)*

Positive Effects

Inspiration & Hope

Pride and Benevolence

Productive Effort to Attain

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