



BUSINESS DAY

A Top-Heavy Focus on Income Inequality

MARCH 8, 2014

Economic View

By SENDHIL MULLAINATHAN

I worry about growing income inequality. But I worry even more that the discussion is too narrowly focused. I worry that our outrage at the top 1 percent is distracting us from the problem that we should really care about: how to create opportunities and ensure a reasonable standard of living for the bottom 20 percent.

Our passion about the widening disparity in wealth and income is easy to understand. After all, studies often find that unequal incomes reduce happiness. Of course they do: Jealousy and envy are strong emotions. They are also very basic ones that develop as early as 4 months of age. There is even evidence that great apes are averse to inequality. And though there is debate about that point, at least it produces enjoyable videos. Our outrage at inequality is primal.

But primal emotions are not always noble ones. Of course, when I see a colleague receive some award, I covet it. But this is not me at my best, and these are not the feelings we would instill and promote in our children. So why would we want public policy to cater to such feelings?

Income inequality produces some major ills. Joseph E. Stiglitz, a Nobel laureate in economics, eloquently lays out many of the dangers in “The Price of Inequality,” his book from 2012. For example, when money

can buy political influence, concentrated wealth threatens the very fabric of democracy.

To consider another example, Robert H. Frank, the Cornell economist, has argued in *The New York Times* that certain goods — like admission to elite colleges — are based on one's current economic position, so more inequality makes it harder for others to get them.

These are real and important concerns, and we should address them. But we shouldn't let these arguments serve as handmaidens to our emotional outrage — or to a misguided belief that the economy is a zero-sum game and that reducing the position of the top 1 percent automatically improves everyone else's.

This focus on the wealthiest has a cost. When we talk about the top 1 percent, we aren't talking about the complexity of life for the bottom 20 percent. For example, hourly workers face an increasingly volatile working life. Imagine not knowing how many hours of work you will have, or when you will work them. How will you juggle your work and your family? What kind of parent will you be? How do you make a rent payment that doesn't adjust for the fact that you may be working fewer hours? And consider that all this volatility comes in what often feels like a dead-end job.

In focusing on the 1 percent, we aren't talking about our failure to create equal, or even reasonable, opportunities for all. The Crime Lab at the University of Chicago says, "A back-of-the-envelope calculation suggests that there are 15 ZIP codes where if you are born into one of them you have at least a one-in-two chance of ending up behind bars at some point; and 775 ZIP codes where birth ensures at least a one-in-three chance of incarceration." Or, if we focus on income, a recent detailed study found that a child born in the 1980s to a family in the bottom fifth for income has only an 8 percent chance of growing up to be an adult earning in the top fifth.

We should try to ensure that everyone has a fair opportunity to find a great life. It's a quest that will require political will and ingenious policies. President Obama's proposed expansion of the earned-income tax credit

goes in this direction, but we need more.

Doing more also requires money, which probably means taxing the rich. But this would be a tax on the rich as a means, not as an end in itself. Good policy-making differentiates between objectives and the means to achieve them. Objectives are the yardsticks by which we measure success, on which we base our identity. We sometimes make small compromises about these goals for pragmatic reasons, but we do so reluctantly. The means, however, are always being analyzed and revised.

Consider a city that is raising taxes on the very rich. Should we worry that this move might cause some of the wealthy to leave the city? When taxation of the rich is the end, raising these concerns seems petty and politically motivated. If anything, suggesting that the rich may behave this way only adds to the outrage toward them.

But if our goal is to fix the problems of the bottom 20 percent, we should weigh all these concerns. We should study the empirical evidence and coldheartedly understand which tax rates and policies will raise the most revenue. That's what will help achieve our goal. We must be passionate about our objectives, but dispassionate about the means. And taxing the rich is merely a means, not an objective.

Alan S. Blinder, the Princeton economist, argues in his book "Hard Heads, Soft Hearts" that great policy requires both of the elements in the book's title.

Our soft hearts tell us it's wrong to have people living under a bridge or sleeping in tents in the bitter cold. Our hearts are unconvinced by vague appeals to personal responsibility as an excuse to keep us from providing basic living conditions for all.

Our soft hearts are what tell us that, whatever the circumstances of birth, everyone must be given opportunities to do well. Our hearts are unconvinced by self-serving assertions that this is a land of opportunity, when facts suggest otherwise.

But it is our hard heads that must focus on fixing these problems. They will ensure that we are pragmatic in policy choices. I fear that the

focus on inequality has made us less pragmatic and more dogmatic.

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A version of this article appears in print on March 9, 2014, on page BU4 of the New York edition with the headline: A Top-Heavy Focus on Income Inequality.

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