Interview with Dr. Heather Boushey, President & CEO of the Washington Center for Equitable Growth

Institutionalized Income Inequality Hampers Social Mobility

By *Japan SPOTLIGHT*

If income inequality remains fixed due to established conventions such as inheritance or gender inequality, it would result in further diminishing equality of opportunity, such as access to good education or good health care. This would act to depress the economy structurally, as it would seriously hamper upward mobility in society. Income inequality is a hugely important issue, and economists are expected to find good methods of quantifying it.

Dr. Heather Boushey, the author of a new book, *Unbound: How Inequality Constricts Our Economy and What We Can Do About It* (Harvard University Press, 2019), president and CEO of the Washington Center for Equitable Growth, kindly responded to our questions in the following interview.

(Interviewed on Sept. 4, 2019)

Introduction

JS: Please could you start by telling us a little bit about your Center – its mission and its main activities?

Boushey: Thank you so much for reaching out to us and I am very glad to talk to you. The Washington Center for Equitable Growth was founded in November 2013, and I am one of the co-founders. It was founded to advance evidence-backed ideas and policies in pursuit of growth that is strong, stable and broadly shared. We have a unique institutional strategy: we work with academics in the United States with a large academic program that includes a call for proposals and an open and competitive grant program. We work with scholars to investigate whether and how inequality affects our economy and to explore all the different avenues. My team in Washington – which is about 40 people now – then takes that research and helps make sense of it so that it can be acceptable and useful to people who are in the policy-making community.

We have a blog, we use social media, and we do events with policy makers for them to understand what this research means for their work.

Dr. Heather Boushey

Income Inequality an Old Issue

JS: The issue of income inequality has drawn lots of attention since Thomas Piketty's book *Capital in the Twenty-First Century* was published in 2013. Yet I think economists have been working on this issue since economics was born. Why do you think economists have traditionally concentrated mainly on market functions rather than income distribution?

Boushey: I think that there are a number of reasons. First, what Piketty and Emmanuel Saez did in 2003 (in a *Quarterly Journal of Economics* paper) was to re-introduce to economists data that they had not used for many generations. That is the data from tax records. In the US and other countries, starting in the 1960s and 1970s, economists have been increasingly reliant on survey data. When you look at how they had been thinking about understanding the economy, it was models. Not empirical theoretical work, but theory. The extent to which it was empirical work was often using large national or sub-national surveys to get experiences. Starting in the 1990s, the profession started to undergo a significant shift where scholars began to gather their own data. They began to do natural or controlled experiments using new sources of data and information, and developing new methods that allowed them to show causality. When Piketty and Saez looked back at what Simon Kuznets had done in the mid-part of the 20th century using tax-return data, they found that inequality at the very top of the income ladder was growing much faster than that survey data had shown. That opened up expanded computing capacity and the ability to use new methods and computers to evaluate all this data. This ushered in a new way of thinking about the fact that economists can study inequality, and to see how important this economic trend is.

Income Inequality & Politics

JS: Talking about politics, we are witnessing a rise in populism all over the world. Would you concur with the idea that increasing income gaps could be driving this populism?

Boushey: I think that the answer is "yes and"… Part of the reason that people are frustrated with politicians is that the way that we have thought about the economy and the way that we have talked about how to measure economic success has obscured the reality of rising inequality. This new movement of Piketty scholars and scholars that we fund who understand this – this is on the cutting edge. What most people hear about when they look at policymakers or when they watch the news is data about the economy that doesn't reflect what is happening in their own lives. For example, on many news stations they talk about the changes in the stock market; that does not have anything to do with whether there are good jobs in your community. Or they will talk about indicators like changes in national economic growth or output, and indicators like GDP. Over the period of the 60s and 70s, GDP really was a great shorthand indicator for how the economy was growing that was reflected in people's lives. When GDP went up by 2%, most Americans were seeing their incomes rise by 2% because we had less inequality. Since the 1980s – and especially since the rise of these new populist movements – the macro-economic indicators like GDP don't mean anything for most of us. GDP rises by 2% but the vast majority of Americans do not see their economies rise that much. So when policy makers tout a new policy for growth or the economy, there isn't a connection between what they are measuring and what is happening in family lives. It is not just that inequality has risen; it is that the political classes have not honored or recognized this significant change.

JS: Would you agree with Piketty's analysis of economic inequality regarding the difference between interest rates and wage increases?

Boushey: I edited a book looking at his work, and certainly the data he has complied is amazing and I do think it is relevant and very

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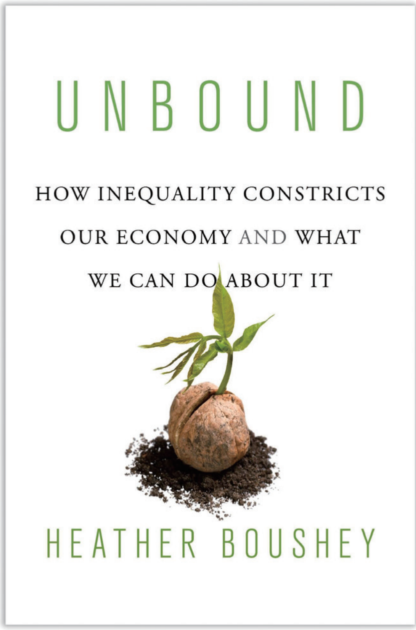

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important. His argument that so long as the rate of return on capital is higher than a sense of the rate of return on wages – even in an era of high income equality – you see the income gap between the wealthy and the poor is to be further expanded by a high wealth inequality. Once you have wealth inequality, that creates obstruction and distortions in our whole economy; that wealth means that there are people holding onto that wealth rather than a society where people can get access to capital and start their own businesses or where children who did not grow up rich can go to the best colleges. I do think that this is a deep and important insight that he has regarding economics, politics and social sciences more generally.

JS: In light of today's economic situation and rising populism, do you think that economists' main responsibility for achieving sustainable growth should be focused on mitigating income inequality? Higher income inequality would not only lead to resolving social issues but also re-stabilizing market

economies.

Boushey: I have a book coming out next month that argues that inequality constricts our economy. I argue that high income and wealth inequality creates obstruction for people who aren't already rich to engage in the economy and move up the ladder. It particularly creates obstruction in the areas of health and education. In the US we have just had a scandal whereby parents are buying their children's acceptance into elite colleges when these entrances are supposed to be based on merit and getting high scores on exams. These rich parents were basically buying seats for their children even though they didn't qualify, which means that the children who weren't wealthy and might have been highly skilled don't have the access to opportunity. That means that the economy does not benefit from their skills and talent, so that is the way that it obstructs growth. You also see evidence of inequality in market powers across firms, and in the way that wealth inequality and income inequality affect political influence.

Both of these are subversions of how the market is functioning. We are in an era of rising economic concentration and in a way that is not for the public good but which allows some firms at the top to obliterate their competitors because they have all the market power and are able to charge higher prices, pay lower wages, and don't have to worry about providing high-quality goods and services. That is a subversion of our market economy, and at the same time you see the role of money in politics where our politics in the US has been focused on tax benefits for the very wealthy, while starving the public services that would create widespread opportunity.

Finally, we see economic inequality distort investment and consumption. There are a lot of scholars who trace the financial crisis back to the growth of inequality through the mechanism of the rising supply of credit. You have so much wealth circling around the economy looking for something to do, and what it ended up doing was to transform into increased credit supplies and too many families had credit pushed on them, which did not end well. So I do think that there are these destructive aspects of inequality that are dragging our economy down generally, and this is the theme of the book that I have coming out next month.

Institutional Drivers of Inequality

JS: You mentioned in your paper included in the book *After Piketty, The Agenda for Economics and Inequality* published in May 2017 that equality of opportunity should be assured by institutions but is not. Inheritance could affect the wealth gap between the rich and the poor, and you argue that women in the US are institutionally disadvantaged in the inheritance of wealth. Could you elaborate on this please?

Boushey: One of the things we know is that what constrain economic inequality are institutions, like governments through progressive taxation and progressive spending. Or institutions like unions that provide some boundaries on economic inequality, or institutions like a legal infrastructure that focuses on anti-trust. Those institutions have become much weaker in the US or in fact non-existent. So as the inequality rises, one thing that we learn from Piketty is that if income inequality translates into wealth inequality, then the way that people will become wealthy in our society may not be through being smart and innovative or coming up with a great idea or doing a good job at work, but rather through inheriting their fortune. I argue in my chapter in *After Piketty* that we have to think about what this means for gender equity. At least in the US, traditionally, parents give more of their wealth to sons than daughters, and marriage among wealthy elites becomes much more important. The trend now for marriage among the elites is often between two individuals who are highly skilled and earn a lot in the labor market – two lawyers or two doctors, for example. But if you have a world where wealth is transferred through inheritance, it creates an incentive for families to focus on preserving and growing their wealth through marriage, which has traditionally not been something that has led to emancipation for women. In a world where value in the economy is based on what you contribute, that creates a lot of incentive to value women and men much more equally, but in a society where wealth is created by handing down money from generation to generation, that creates a lot less incentive for gender equity.

JS: How do you think we can mitigate income inequality effectively? You highlight some

institutional drivers of income inequality and also cultural issues. How can we correct these institutional issues or cultural issues in favor of income equality?

Boushey: This is a great question. First, I think that we need to give people access to the information to understand the problem. We want policymakers to show the public what economic growth looks like across the income distribution. The first is changing the conversation from the metric of success being just GDP to saying that we need to look across the income spectrum in order to understand economic success.

Then, I think we need to craft a policy agenda that addresses the concentration of resources and addresses creating more economic opportunity. To address the concentration, a wealth tax or other ways of taxing income at the top. Addressing market concentration and ensuring that we have more competitive markets are very important. Then we need to create a counter balance in giving workers the capacity to be a counterweight to businesses in a way that unions traditionally were. I don't think this involves just going back to what unions used to do, but rather finding ways for civil society to create those counterbalances through either unions or government or community groups. It is also important to invest in universal opportunity and childcare and early childhood education in the US, to ensure that inequality is not creating obstruction to upward mobility.

Better Indicator to Measure Income Equality

JS: Finally, you mentioned that GDP might not be a good indicator to show economic performance; perhaps the indicator for income equality could be diversified? The Gini coefficient is to my knowledge the only indicator to show income inequality.

Boushey: We have done work building on research by Piketty and Saez and Gabriel Zucman, and their World Income Database where they are creating what they call distributional national accounts. These take GDP and look at what it looks like across the income distribution. Instead of just having one single data point – i.e. "GDP was 3%" – you have how much income growth occurred across the income spectrum that aggregates up to that 3%.

What inequality means is that there is a difference in income across people; but that does not tell you whether or not all the income is with people in the top 1% or if there is a huge middle class and a significant chunk of poor people. Looking at the percentiles across the distribution, it is very important that you understand what form inequality is taking because that is important for policy and politics.

Mitigating Inequality

JS: Is a wealth tax a good idea for mitigating wealth inequality?

Boushey: In a world where the vast majority of wealth is owned by a small few and where income gains are transferring into wealth concentration, a wealth tax becomes much more important than a world where you have a large middle class with a few rich people but are not that rich, and a large number of poor people. In such a society, a wealth tax might not be so important, but in the kind of inequality that we are seeing today which is growing so fast in terms of wealth distribution, that makes the case for why a wealth tax is so important because you want to open up that economy. Otherwise, we will become an aristocracy again! If you have this concentration of wealth among a small group of people, you will be soon dominated by that small group, so wealth taxes open that up, and if you use those resources to increase opportunity then you are creating a more competitive economy overall, a much more vital economy.

JS: The causes of rising inequality seem to be quite diversified among nations and so it would seem important for each country to share information regarding income inequality and how to deal with it.

Boushey: There are a lot of scholars working on this idea. The world income database is tracking inequality across countries and many of those scholars are working on understanding the differences. I couldn't agree more that this is an important goal. JS

Written with the cooperation of Joel Challender, who is a translator, interpreter, researcher and writer specializing in Japanese disaster preparedness.