Fairness

• The California energy crisis shows that markets are efficient and hard to beat with regulations which seek more or some equality i.e. you can not mandate prices

• In today’s example I hope to use welfare and family policy to show that efficiency can generate equality problems that are hard to solve via markets alone

• In the final section today I will talk about the trade-offs between efficiency and equality in terms of the moral philosophers Rawls and Nozick
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• Over the last two decades the United States has suffered a dramatic increase in economic inequality
  – The incomes of the lowest 1/5 of families actually declined between 1979 – 1997
  – The middle fifths income rose slowly
  – The top of the income distribution rose very rapidly

• The ratio of income between the top 5% of Americans and the middle 20% (40 to 60 percentile) declined from 4.2 in 1947 to about 3.1 in mid 1970’s but since then it has risen to over 5.0

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Fairness

• The ratio of income between the middle 20% and the lowest fifth declined from 3.8 in the 50’s to 2.7 in the late 70’s and since then has risen to about 3.6

• This phenomenon has occurred across OECD countries
  – Bigger in the U.S.
  – Occurred on top of an initial starting point of greater inequality
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• Four Questions
  – Why care?
  – Why has inequality increased?
  – How has policy responded?
  – How can the trend be ameliorated?

• Why care
  – Public opinion in U.S. is less concerned with inequality
    • Individuals bear responsibility not governments
    • Hard work will get you ahead still ---
  – Could undermine stability
  – Seems unfair in a fundamental way
  – Public health consequences
  – Humanitarian concerns
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– One counter to these concerns is income inequalities send the right signal to the poor to work harder save more and get educated which are the signals you want sent

• Why has inequality increased?
  – Premiums awarded worker skills are greater
  – Percent of families with a single head have increased which
    • Increases the number of children at risk

– Mechanical explanations for inequality
  • Skill or problem solving abilities in new economy
  • Single head families on rise
    – Especially important is the percentage of spouses working in homes where without spousal income they are already in top group
  • Increases in male female differences in income
    – Since 1979 men’s real hourly income decreases women’s increases
- Source of change
  - Increased male in-ty
  - Increased female in-ty
  - Higher husband wife r
  - Single head families
  - Other

- Percent explained
  - 28
  - 05
  - 13
  - 21
  - 33
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• Underlying causes
  – Technological change
  – Shift in employers demand for labor linked to new production techniques
    • Personal computers
    • Software – oracle systems
    • Information driven economy
  – The income difference between males with and without a college degree is higher now than at anytime in history of measure which began in 1896
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– Globalization
  • New trade regime hurts low skilled workers by transferring such jobs off shore
    – Very little economic evidence for this view
  • Immigration
    – Large numbers have little education

– Neither of these actually explains much of difference which is explained by
  • Demographic trends
  • Work patterns in married-couple families
  • Inequality in distribution of income from non labor resources

– Result is that bottom and top of income distributions have been dramatically affected
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• Policy responses to the inequality
  – Earned Income Tax Credit
    • Up to 44 cents on a earned dollar
    • Boosts incentives to work
  – Children’s Health Insurance Programs
    • Working poor insurance is subsidized
  – General shift from concentration on non-working poor
to working poor – workfare not welfare
  – In U.S. this has
    • Spurred high employment—job creation-large low wage sector
  – Europe has better equality but
    • High unemployment and stagnating economy
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• Conclusions
  – Economic progress over two decades has been uneven
    • Top better—bottom worse
    • The top five percent now four times median
    • Top one percent now even greater
    • Those at the bottom have not shared in this prosperity
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- In this section we deal with families at risk
- Whatever one’s values the evidence is clear families are under stress and children are at risk of growing up in impoverished (economically or socially) conditions which leads to
  - Poor educational outcomes
  - High rates of crime
  - Poor life prospects
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<tbody>
<tr>
<td>Women working with kids under 18</td>
<td>18.4</td>
<td>30.4</td>
<td>52.9</td>
<td>56.6</td>
<td>66.7</td>
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<tr>
<td>Divorce rate</td>
<td>10.3</td>
<td>9.2</td>
<td>14.9</td>
<td>22.6</td>
<td>20.9</td>
<td>19.5</td>
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<tr>
<td>% births out of wedlock</td>
<td>4.0</td>
<td>5.3</td>
<td>10.7</td>
<td>18.4</td>
<td>28.0</td>
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<tr>
<td>Kids under 18 with single parent</td>
<td>n.a.</td>
<td>9.1</td>
<td>11.9</td>
<td>19.7</td>
<td>24.7</td>
<td>27.9</td>
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</tbody>
</table>
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- Women moving into work force work about 15 hours more a week than husbands
- Men average 5 to 10 more hours than they did previously
- The extra money generated by double earnings is paid for by stress etc. as attested to by numerous surveys
- Evidence suggests that changes in family structure result in bad results for children
  - Increased poverty abuse crime increased pregnancies and drug abuse
fear

• Factors affecting children adversely
  – Effect
  – Single parent
tougher divorce laws
  – Working mothers
old AFDC rules
  – Poor single parent
daycare healthcare etc.

• Public costs for programs has risen
  – Example – the cost of the increase in single
    parents over the 1970 to 1996 period on welfare
    and food stamps is 229 billion dollars
  – This is a shift from families to public budgets
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• What should be done
  – Cultural Conservatives say bring back old family structure
    • Welfare undermines families
  – Cultural Liberals say new family structures are fine and at any rate not likely to change
    • Problem is economic disadvantage not family structure
  – Most Americans do not endorse either of these positions fully

• What can be done
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– Encourage marriage
  • Eliminate marriage tax
  • Reform welfare
  • Discourage divorce
  • Provide child care
  • Encourage pre-school
  • Reduce teen pregnancy
  • Encourage parental responsibility
  • Enforce child support obligations
  • Change the culture
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• The trade off between efficiency and equality in public policies underlies the basic theories of distributive justice and it is to this we turn
  – Rawls on justice
  – Basic logic
    • Derive principles of justice from a fair starting point
      – original position, behind veil of ignorance
    • Three principles arranged hierarchically (1, 2b, 2a)
      – 1--maximum liberty for each consistent with equal liberty for all
      – 2--arrange inequalities so that
        – A) worst off is maximally benefited
        – B) there is fair equality for positions
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• Questions
  – How far should we go to ensure fair equality of opportunity
  – How risk averse would we be behind a veil of ignorance
  – Example: society has a businessperson, a laborer, and a teacher two outcomes
    – 1= business =50, labor=30, teacher=20
    – 2= business=30, labor=25, teacher=20

• Rawls would choose two because it minimizes difference but at cost of increased productivity
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• Nozick
  – At time 1 every one has 20,000 dollars but the 5 person society plus Michael Jordan loves bball
  – Michael won’t pay unless people either buy a season ticket at 2,000 dollars or a half season at 1,000.
  – The table which follows shows the distribution of income after a few seasons
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<thead>
<tr>
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<td>20,000</td>
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</tr>
</tbody>
</table>
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- Starting from a absolutely equal society you arrive very shortly at a inequality of about four to one and it looks like it will get worse
- Is the resulting inequality unfair
- Nozick says no
  - Procedural justice- fair/free exchange
  - If distribution is fair at t1 and exchange process is fair then distribution at t4 or t…n is fair
  - Concludes in free market societies attempts by government will never be able to bring about equality and will result in government constantly interfering with market transactions