

**INTEGRAL, Season Two, Episode One**  
**“Shared Values and Economic Justice”**

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THERESA LADRIGAN-WHELPLEY: Welcome to INTEGRAL, a podcast production out of the Ignatian Center for Jesuit Education at Santa Clara University; exploring the question is there a common good in our common home?

I'm Theresa Ladrigan-Whelpley, the director of the Bannan Institutes in the Ignatian Center and your host for this podcast. We're coming to you from Vari Hall on the campus of Santa Clara in the heart of Silicon Valley, California. This season of INTEGRAL, we're looking at the ways in which issues of economic justice intersect with the question of the common good. Today, we will look at the often competing values that underwrite current economic practice in the US and consider what economic principles might advance the common good. What is economic justice? How might economic justice be realized across the chasms that presently define the U.S. social order?

BILL SUNDSTROM: The share of national income going to the top 1% in the United States has roughly doubled over the past 4 decades from 10% to 20%. Meanwhile, the share of the bottom half fell by nearly the same amount. The gap between rich and poor in the United States has returned to a level not seen since the Great Depression of the 1930s.

RAJ CHETTY (audio clip): US social mobility is actually much lower both today and in the past than most other developed countries. So if you take a country like Denmark, for instance. or Canada, children from low income backgrounds have twice the chance of going from the bottom to the top in those countries as they do in the US.

THERESA LADRIGAN-WHELPLEY: To unpack these questions, we're joined today by Bill Sundstrom, professor in the economics department at Santa Clara University and Bannan Faculty Fellow in the Ignatian Center. Professor Sundstrom has taught a wide-range of courses in economics, most recently in the areas of data analysis and econometrics, environmental economics, and the economics of race, ethnicity, and gender. His present research looks at the causes and consequences of poverty and income inequality in the Silicon Valley region as well as relevant policy responses. Welcome Bill!

BILL SUNDSTROM: Thank you Theresa! Since the financial crisis of 2008, questions of economic justice have come to the forefront of American political discourse. But exactly what economic justice entails is highly contested. The divisions in popular conceptions of justice were nowhere more evident than in the 2016 presidential election, in which Donald Trump was able to rally— some would say exploit— voters with deep uncertainties and resentments about their economic status for a surprising populist electoral victory.

Of course, Trump's uneasy coalition tapped a variety of sources, including traditional, pro-business, and evangelical flavors of conservatism; anxieties about terrorism and national security; and currents of racism and xenophobia. But in the spirit of searching for the common good, in this podcast I want to take seriously the legitimate questions of economic justice that have animated voters and political activists across the political spectrum.

My starting point is a pluralistic conception of economic justice based on a set of motivating values or principles that are widely shared in U.S. society, but often contested, and sometimes in conflict with one another. What does a conception of justice based on these values look like? And can we operationalize these concerns in evaluating our economy's performance and economic policy?

There are many candidates for principles of economic justice, but for present purposes I will stick to three core values that I believe are particularly salient in recent public discourse: security, desert, and procedural fairness. In each case, I ask what those principles might imply about economic policy and performance, and how the actual performance of the U.S. economy stacks up.

I focus here on these three principles not because they are the only or even the most important principles that motivate economic justice concerns. A complete list, I would argue, ought to include such values as compassion, the avoidance of suffering, and communitarianism – the shared responsibility for the thriving of all members of the community. I downplay those concerns here not because they are unimportant, but rather because they point pretty directly toward the objective of greater egalitarianism - and by that standard, the United States has been doing rather poorly.

Instead, I examine the implications of principles that are widely held but often thought to be independent of, or even run counter to, egalitarian goals. A good example is the idea of basing economic rewards on desert or merit, rather than need or equal outcomes. I contend that a careful exploration of the notion of desert, coupled with what we know about how economic outcomes are determined, actually points toward ambitious policies to mitigate income inequality and poverty.

In sum, there are values widely shared across the American political spectrum that can provide common ground for policies to address economic inequality.

To contextualize the discussion, let me start with a quick review of recent trends in economic inequality in the United States.

Over the past decade or so, our understanding of the evolution of income and wealth inequality in the United States and other countries has advanced dramatically, thanks to the work of economists exploring massive amounts of data over many years. Recent research by Thomas

Piketty and others has shown that the share of national income going to the top 1% in the United States has roughly doubled over the past four decades, from 10% to 20%.

Meanwhile, the share of the bottom half fell by nearly the same amount, from 20% to under 13%. The gap between rich and poor in the United States has returned to a level not seen since the Great Depression of the 1930s.

The inequality of wealth holdings has followed a similar trajectory, but is even more concentrated at the very top. In fact, more than 20% of the nation's wealth is owned by the top one-one thousandth of families.

In some countries, rising inequality has been accompanied by robust economic growth, lifting almost everyone's standard of living— China is the most prominent recent example. While it is true that the U.S. economy has also experienced growth over recent decades, the pace of growth has been modest, and the lion's share of the increase in income has gone to the very top.

In terms of purchasing power, wages for the typical U.S. worker have been nearly stagnant since the 1980s.

The Silicon Valley region, paragon of high-tech economic growth, has not been immune to these trends. Here, earnings gains for the poor have been offset by the extraordinarily high cost of living, especially housing. When the cost of living is taken into account, Silicon Valley's poverty rate actually exceeds the national average, with one in six residents living below a very modest poverty threshold.

Inequality trends have evoked responses on the political left and across academia. Perspectives ranging from utilitarianism, to the social contract theory of John Rawls, to Catholic social teaching's preferential option for the poor, all provide powerful justifications for greater egalitarianism and radical redistribution of income. These views may be disparate in their underlying motivations, but by different routes they all reach the conclusion that in a just society, all its members— in particular those least well off— should have the resources they need to thrive.

But these arguments, and flurries of protest such as Occupy Wall Street notwithstanding, the masses have not risen up in opposition to the growing income gap, and in fact the "party of the rich" - the GOP - now controls the federal government and many states. What happened?

First, the unexpected success of the GOP partly reflects a perception that the establishment political opposition, namely the Democrats, has not offered a credible alternative. And indeed, the run-up of top income shares occurred under Clinton and Obama, as well as Reagan and the two Bushes.

Second, many Americans are tolerant— even admiring— of great fortunes, which are seen as the fruits of talent, drive, and a penchant for winning. Behind the fancy arguments for egalitarianism, critics often see the operation of envy and greed: taking from the deserving, and giving to the undeserving. Such views are not restricted to the monied classes. Third, the country's working and middle class is itself deeply divided along fracture lines of race and immigrant status.

Perhaps it is simply unrealistic to expect that Americans would be strongly motivated to organize politically against economic inequality per se, given our history and culture.

In my view, this conclusion is too pessimistic. The question is how to frame egalitarianism in terms of underlying shared values and principles, to which I now turn.

The first such principle is security. When Franklin Roosevelt signed the Social Security Act in 1935, his short signing speech laid out an argument for the law based not on redistribution from rich to poor, but on public provision of social insurance against insecurity.

FRANKLIN ROOSEVELT: The civilization of the past 100 years with its startling industrial changes has tended more and more to make life insecure. Young people have come to wonder, what'll be their lot when they came to old age. The man with a job has wondered how long the job would last. This social security measure gives at least some protection to 50 millions of our citizens who will reap direct benefits through unemployment compensation, through old age pensions, and to increase services for the protection of children and the prevention of ill health.

We can never ensure 100% of the population that gains 100% of the hazards and vicissitudes of life. But we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-stricken old age.

BILL SUNDSTROM: FDR emphasized the “hazards and vicissitudes of life” as sources of insecurity— adverse life events that economists would call negative shocks: Unemployment, injury, illness, family dissolution— to name a few. In 1935 it was natural that the country's attention was focused on hazards of this nature. But social insurance also insures against insecurities that arise from accidents of birth: being born poor, disabled, in a marginalized social group, or in a dysfunctional family or community.

Insurance companies make money because people are willing to pay to mitigate the impact of downside risks such as these. But some insurance policies cannot be bought at any price: one cannot buy insurance against accidents of one's birth, for example, because the purchase would have to occur before one was born! In this respect, the social safety net can be thought of as a collective insurance policy against uninsurable or underinsured risks.

FDR also emphasized that income is insecure in capitalist market economies because jobs are insecure. And jobs are insecure not only because of the risk of economic crises like the Great Depression, but, just as importantly today, because the fortunes of individual business firms are

in a constant state of flux. Companies expand and contract; new firms are born, and old ones fail. New technologies or globalization may spur demand for workers in some areas, and displace workers with machines in others.

An appreciation of the inevitability of uninsurable risks in the market economy argues for strengthening the social safety net rather than eliminating it in the name of so-called “entitlements.”

My second motivating principle is desert— as in: “People should get what they deserve.” That’s a simple but powerful claim, and one to which critics of unconditional redistributive policies often appeal. Hard work, skill, contribution— these are the actions and attributes that justify greater rewards for some than others— even vastly greater rewards.

The challenge of desert as a principle for meting out economic rewards is the tricky relationship between desert or merit on the one hand, and personal responsibility on the other. It’s difficult to argue that a person is deserving or undeserving when her prospects for success are largely determined by the circumstances of her birth, upbringing, and random chance that are beyond her control. To claim that rewards are aligned with desert or merit, then, comes with an implicit assumption of a level playing field, or equality of opportunity.

How would we know the extent to which opportunity actually is equal? As a necessary but not sufficient condition, in the presence of truly equal opportunity the life chances of a child would be independent of the circumstances of her birth.

The relationship between the economic status of a person’s childhood and adulthood is measured by intergenerational income mobility. The work of the Equality of Opportunity Project, headed by the economist Raj Chetty at Stanford University, has assembled mountains of data following the fortunes of generations of children, relative to the economic circumstances of their childhood. This work has provided the clearest picture yet of the extent of economic intergenerational mobility in the United States as a whole, and across its various communities.

**RAJ CHETTY:** Kids who are entering the labor market today have just about the same chances of moving up in the income distributions as kids who were born in the 1970s. So contrary to popular perception, at the national level, it looks like social mobility is quite stable.

Now the important thing to keep in mind when in interpreting this trend is that this is not necessarily good news because U.S. social mobility is actually much lower both today and in the past than most other developed countries. So if you take a country like Denmark, for instance. or Canada, children from low income backgrounds have twice the chance of going from the bottom to the top in those countries as they do in the US.

**BILL SUNDSTROM:** If by equality of opportunity we mean that one’s life chances are not dictated by the circumstances of one’s birth and childhood, then the United States fails to

provide it. In turn, we must conclude that economic rewards do not always flow from desert or merit.

Social scientists have learned much about the conditions associated with upward mobility and the escape from poverty. Chetty's work shows that mobility is much lower in areas with greater income inequality and segregation, poorer schools, violent crime, and low social capital.

Another important strand of research stresses the importance of education, and particularly early childhood development. Interventions to provide a consistent and rich learning environment for young children pay off in subsequent learning, and in long-run social and economic success. These programs are expensive, but more than pay for themselves.

Finally, there is also growing evidence that the income of the families and neighborhoods in which children grow up is itself a powerful predictor of future success. Poor children who grow up in families with access to more generous government safety net programs have better long-run life outcomes.

It's perhaps a truism that children do not deserve the parents they get. Their parents may or may not deserve their own lot in life. But because we cannot separate the opportunities of children from the families in which they grow up, creating equal opportunity for the young may actually require income support for parents that is not conditioned on their own desert or merit.

The last principle in my trio is procedural fairness. A working definition would be that an outcome is considered fair if the process by which it arose was fair. Another way to put it is that the outcome is fair if the rules of the game are fair, and people played by the rules.

A frequent feature of recent populism on both the right and the left is the claim that the game is "rigged." In the case of the Trump campaign, it was not merely the election system that was purportedly rigged, but the workings of the economy itself. Various "cheaters" and "takers" had gotten ahead of deserving working Americans by breaking the rules.

In this worldview, for example, undocumented immigrants, here illegally, are taking native-born Americans' jobs; China has used protectionism and currency manipulation to take unfair advantage of the United States in global trade; U.S. corporations are taking advantage of rigged tax incentives to offshore U.S. manufacturing jobs. In each case, American workers have been the losers.

The fact that these claims have been packaged in nationalistic, xenophobic rhetoric does not mean that they should be entirely dismissed. For example, there is strong research to back up the claim that Chinese import competition has had a detrimental effect on blue-collar employment and wages in the United States. At the same time, most economists believe that

the economic trends driving wage stagnation and income inequality have more to do with technological change than globalization.

Progressive populism, embodied in the Sanders campaign, has raised a different set of concerns about the rules of the capitalist game. Tax policy is an example. Piketty and others argue that changes in tax policy that have favored high incomes and wealth accumulation by the rich are prime drivers behind the rising share of the top 1%.

Powerful evidence for the importance of tax policy for income and wealth inequality trends is provided by international comparisons, as Piketty's collaborator Emmanuel Saez of UC-Berkeley explains:

EMMANUEL SAEZ (audio clip): This big increase in income concentration can not be driven suddenly by changes in technology or globalization that perhaps would have favored top talent and hence rewarded those at the top of the distribution and the reason for that is this increase has not taking place in all countries. And France, Japan, and other European countries have also gone through the same technological transformation as the US. The countries that have experienced large increase in income concentration such as the United States or the United Kingdom are precisely the countries that cut their top tax rate the most.

In contrast, countries such as France or Japan or Scandinavian countries which didn't cut nearly as much their top tax rates haven't seen that increase in income concentration.

BILL SUNDSTROM: In addition to securing cuts in top tax rates, wealthy Americans have successfully lobbied for laws and regulations that enhance their ability to extract monopoly profits from the economy, a process known as rent seeking. This dynamic threatens to become a vicious circle of increasingly concentrated political and economic power, creating, in a word, a plutocracy.

Reforming the rules of modern capitalism to reverse these trends presents opportunities for finding common ground across the spectrum of populist politics.

In this podcast, I have argued that a progressive, redistributive conception of economic justice finds support in several common-sense ethical principles: security, desert, and procedural fairness.

Insuring people against insecurity of life chances and the vicissitudes of the modern economy argues for a robust social safety net. Rewarding people according to their desert or merit is only defensible if the economic playing field is reasonably level, and a level playing field requires at a minimum providing each child with adequate economic and educational resources. Procedural fairness argues for ensuring that the legal and political systems do not stack the decks in favor of rents and rent seeking behavior.

As my Bannan project moves forward, I plan to help students assess the extent of economic injustice in the context of the Silicon Valley community, and to study policy responses at the local, state, and national levels that facilitate values and principles that further the common good.

THERESA LADRIGAN-WHELPLEY: Thanks for listening to INTEGRAL, a Bannan Institute podcast of the Ignatian Center for Jesuit Education at Santa Clara University. Special thanks to Professor Bill Sundstrom for his contribution to today's episode.

Coming up next week is Sreela Sarkar, assistant professor in the Communication department at Santa Clara, who will look up the question of the digital divide.

Technical direction for INTEGRAL was provided by Craig Gower and Fern Silva. Our production manager is Kaylie Erickson. Thanks to Mike Whalen for advisory and editorial support. You can find us on the web at [scu.edu/INTEGRAL](http://scu.edu/INTEGRAL) or subscribe via iTunes, Soundcloud, or PodBean.

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- Raj Chetty, "Current Trends in Social Mobility," available at: <https://www.youtube.com/watch?v=m05NeaG3d2A&list=PLZapTuSHtu-CeejcJGLVBLqNT-ipS0ldh&index=31>.
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