Maurizio Franzini · Elena Granaglia
Michele Raitano

Extreme Inequalities in Contemporary Capitalism

Should We Be Concerned About the Rich?

Extreme Inequalities in Contemporary Capitalism

Maurizio Franzini • Elena Granaglia •
Michele Raitano

Extreme Inequalities in Contemporary Capitalism

Should We Be Concerned About the Rich?

Springer

Maurizio Franzini
Department of Economics and Law
Sapienza University of Rome
Rome, Italy

Elena Granaglia
Department of Law
Roma Tre University
Rome, Italy

Michele Raitano
Department of Economics and Law
Sapienza University of Rome
Rome, Italy

Based on a translation from the Italian language edition: “Dobbiamo preoccuparci dei ricchi? - Le disuguaglianze estreme nel capitalismo contemporaneo” by Maurizio Franzini, Elena Granaglia, Michele Raitano, Copyright © Società editrice il Mulino 2014, All Rights Reserved

ISBN 978-3-319-28810-9 ISBN 978-3-319-28811-6 (eBook)
DOI 10.1007/978-3-319-28811-6

Library of Congress Control Number: 2016939489

© Springer International Publishing Switzerland 2016
This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.
The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.
The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made.

Printed on acid-free paper

This Springer imprint is published by Springer Nature
The registered company is Springer International Publishing AG Switzerland

Preface

> What thoughtful rich people call the problem of poverty, thoughtful poor people call with equal justice a problem of riches (Tawney 1913, p. 10)

This book asks the question whether one should worry about the rich. No one, or at least very few, would question the fact that we should worry about the poor (or, better, for the poor). Conversely, the mere suggestion one should worry about the rich could raise suspicious eyebrows, as it were an indication of some form of prejudice against them, a new manifestation of that most vile of sentiments, envy, which Hannah Arendt pointedly termed "the worst of humanity's vices".

Yet in this book that's the very question we ask and we feel our motivations have nothing to do with envy. Let's get this straight. Worries, according to the dictionary, are thoughts that occupy the mind, generating doubts, fears and anxiety. Asking ourselves whether we should worry about the rich is, fundamentally, asking if our mind should be occupied by the thought that, at least to some extent, richness may represent a problem, naturally not for the rich, but for society (there's the rub and the anxiety).

This preoccupation is largely independent from the fact both that the rich, in many countries, are on the increase and that their incomes can often reach outrageous levels. After all, as Milanovic (2011) reminds us, the rich have always existed. According to his calculations, actually rather bold, Marcus Licinius Crassus, the Roman general who defeated Spartacus and who was born in a rich and aristocratic family, could hold his own with the greatest billionaires of our time, even though some of them, like Carlos Slim (the Mexican considered, for years, the richest man in the world) and Bill Gates, could effectively claim to possess much greater richness.

Worrying about the rich for us is especially about finding out whether the mechanisms that enable the accumulation of richness are compatible with what is widely considered to be the proper operation of markets and other more encompassing institutions, and whether these mechanisms comply with a few well-established values of liberal justice. It also means exploring the consequences

that huge incomes, so far from those of the great majority of the population, might have on the rest of society and its evolution over time.

These questions—or, at least, some of them—are answered almost on a daily basis. Yet, if one looks closely, they are not real answers. They are, instead, almost always, statements lacking appropriate empirical proofs or solid and grounded theoretical arguments. Perhaps, speaking of prejudices this time is not an exaggeration.

One such prejudice, for example, is the thesis according to which, thanks to mechanisms that have yet to be thoroughly tested, the presence of the rich is beneficial to the rest of society, resulting in higher incomes for everyone. The same can be said of the assumption that has become almost axiomatic, whereby all incomes, provided they are earned in a market context—though exactly how this market is supposed to operate is unclear—are fully deserved, regardless of their extent. Indeed, exactly their extent would signal uncommon ability as well as boundless effort.

At the bottom of everything there is perhaps the apparently very sound idea that the rich never do any harm to anyone and therefore there doesn't seem to be any reason why they should represent a problem worthy of attention. The most forthright expression of this point of view was perhaps voiced by Tony Blair during his 2001 electoral campaign when he went as far as to state that: "Justice for me is concentrated on lifting the incomes of those that don't have a decent income. It's not my burning ambition to make sure that David Beckham earns less money." Getting Beckham to earn less or anyone else is certainly not an ambition one should cultivate *per se*. But taking a closer look at the mechanisms that enable Beckham and others to accumulate vast richness is perhaps advisable, besides being a useful way of fine-tuning one's concept of justice.

On the opposite front, we find those who, regularly and systematically, consider high incomes always an attack on justice as well as a threat for the economy, though they do sometimes appear to be moved by that very feeling of envy we have mentioned earlier.

Our analysis will try to shun from both these opposing prejudices and will start off, in the first chapter, by attempting to fill a gap: the lack of criteria for defining and measuring richness. Much debate has taken place on how the poverty threshold should be identified and a general consensus on the criteria used to define and measure poverty has now been reached. Nothing of the sort exists for the rich, perhaps as a result of the belief that they at least are a category we need not worry about. Moreover, we should distinguish between those who have vast assets and those who earn high incomes. In both instances, they are rich, but these are very different forms of richness. Our interest focuses primarily on those whose richness depends on their income, not their assets. Moreover, for reasons we will outline later, we will concentrate on those who are rich thanks to their jobs—which, of course, must have particular characteristics if they can warrant such high incomes[1].

---

[1] For a thorough analysis of the role of capital in determining income inequality, see Piketty (2013).

Also in Chap. 1, after describing our criterion for identifying the rich (which we will divide between those who are affluent and those who are super-rich), we will provide an estimate of the number of rich people in Italy and we will assess their prevailing economic activities and compare the Italian situation to that of other countries with mature economies.

The second chapter mainly deals with the question of how very high wages can be attained through one's work, so much so that some of those who attain them should be considered not just rich, but super-rich. In particular, we will ask whether these incomes, even when they are earned on the market, derive from a successful participation in a truly competitive contest or from other advantages that, in one way or another, relate to power. To come up with an answer, we will review the soundest theoretical explanations on how huge wages can be secured on the markets, specifying what we consider to be competitive markets and indicating a number of conditions that could make competitive markets compatible with super-incomes. The results we obtain will cast more than a shadow on the widespread belief that super-incomes, when earned on the market, derive from a competition, which, presumably, has even become increasingly tough.

In the third chapter, we discuss the compatibility between super-incomes, as they are earned in contemporary reality, and a few consolidated principles of liberal justice. In particular, after having specified what is meant by formal and by substantive meritocracy, we will ask whether super-earnings can be considered meritocratic and, if so, in what way. We will also point out a few problems that might arise if one uses meritocracy as the only evaluation criterion.

The fourth chapter is devoted to the analysis of the possible economic and social consequences of super-incomes and also discusses the main problems one might face attempting to introduce measures designed to reduce or prevent them. We will pay particular attention to the possibility that other segments of society might improve their income and their welfare thanks to the incomes of the super-rich (the reference is here to the supposed trickle-down effect), to the consequences on freedom of any measures aiming at curtailing higher incomes and to the effects that super-incomes (and their possible containment) may have on economic growth.

The last chapter sums up the main results and explains why it is worthwhile worrying (selectively, at least) about super-incomes, relinquishing the idea that incomes earned on the market, whatever their size, are always deserved and beneficial to the whole of society. To confront these worries calls for specific and innovative actions, devoid of any punitive intent. In this perspective, redistribution is certainly important, but is far from being the only desirable measure. The ultimate purpose should be to ensure that, unlike what happens today, super-incomes are, at least, based on processes that are respectful of a "proper" competition and of desert.

Rome, Italy

Maurizio Franzini
Elena Granaglia
Michele Raitano

Contents

1 The Planet of the Rich: An Exploration . . . 1
1 Introduction . . . 1
2 The Richest: Size, Tendency and Composition of Top Incomes . . . 3
3 How Does One Access the Club of the Rich in Italy? . . . 6
4 The Rich and the Top Incomes: An Imperfect Match . . . 8
5 Defining the Rich: Our Criterion . . . 9
6 The Rich and the Affluent: Our Estimates . . . 12
7 The Affluent and the Rich in Italy: A Closer Look . . . 16
8 The Working Rich . . . 19
9 The Relative Richness Trends in Italy . . . 25
10 Conclusions . . . 28
References . . . 30

2 The Super-Rich, Competition and Power . . . 33
1 Introduction . . . 33
2 Exceptionally High Earnings: A Few Considerations . . . 34
3 The Super-Rich and Competition: A Few Conceptual Provisos . . . 36
4 The Super-Rich and Competition: Building a Case for Their Compatibility . . . 38
5 Super Rich Without Scarcity? A Critical View of the Joint Consumption Hypothesis . . . 40
6 Real Competition and "Halved" Competition . . . 42
7 Alternative Explanations: The Role of Power . . . 44
8 Identifying the "Best": Rationality, Conformism and Much Besides . . . 46
9 "Best" Without Too Many Qualities: Power and Rating . . . 49
10 Conclusions . . . 51
References . . . 52

3 The Super-Rich: A Matter of Desert? 55
1 Introduction 55
2 Meritocracy and Markets: A Few Basic Considerations 56
3 The Ambiguity of the Notion of Meritocracy 59
4 Ambiguity in the Relationship Between Meritocracy and Market 61
5 The Super-Rich, Current Markets and Formal Meritocracy 64
6 The Super-Rich, Current Markets and Substantive Meritocracy . . . 69
7 The Market: A Biased Mechanism for Detecting Desert? 71
8 Are We All Meritocratic? A Brief Look at the Liberal Egalitarian Stance 74
9 Luck, Meritocracy and Liberal Egalitarianism 78
10 Conclusions 79
References 81

4 Extreme Inequality, Well-Being, Freedom 85
1 Introduction 85
2 Favouring the Rich and Everyone Benefits: The Trickle-Down Hypothesis 86
3 The Income of the Rich and Those of Everyone Else: Recent Trends 89
4 The Super-Rich and Income Redistribution 91
5 The Trickle-Down Effect Beyond Income 94
6 Reducing Inequality vs. Growth: The Weak Foundations of a Classic Trade-Off 97
7 What About Philanthropy? 102
8 Fighting Extreme Inequalities Is Tantamount to Curtailing Freedom? 105
9 Conclusions 108
References 109

5 Why Worry About the Super-Rich? The Reasons and Possible Remedies 113
1 Our Main Conclusions 113
2 The Remedies: The Possibility of Making Things Worse 115
3 Not Just Redistribution: The Conditions of Competition 116
4 …. and Those of Governance 117
5 The Advantages of Pre-distribution 118
6 Tax and Transfers: A Few Innovations 119
7 Nudging and Thereabouts 120
8 Salary Caps and Their Limitations 121
9 To Round Off 122
References 123

Index 125

Chapter 1
The Planet of the Rich: An Exploration

Abstract The economic literature has so far devoted a very limited attention to the rich, apart from the recent studies focusing on top income shares starting from the works of Piketty (J Polit Econ 111:1004–1042, 2003; J Eur Econ Assoc 3:382–392, 2005). Indeed, currently we have no way of defining the rich, how many there are, how much their labour earnings impact on their overall income and what share of national incomes is concentrated in their hands. We don't even know if the rich, in the various countries, have increased in numbers or have become richer in recent years. In this chapter, we intend to investigate "the planet of the rich", in an attempt to fill some of these gaps in the economic literature. More specifically, we will try to come up with a definition of the rich, suggesting a criterion by which they may be identified; so we can establish how many there are in Italy and in the main European countries, identify the origin of their income, particularly for the "working rich", and determine whether their number is increasing and they are becoming richer.

1 Introduction

In this book the rich and the super-rich are those who earn very high incomes, not those who own vast wealth.[1] Of course, vast wealth can generate considerable income and almost always those who are born to families that have great wealth tend to end up among the richest members of their generation, thanks not only to the direct yield of that wealth, but also to the advantages they have in accessing very high or exceptional earnings[2] (Franzini and Raitano 2009). On the other hand, very high earnings for the duration of the entire working life can lead to the

[1] It should be recalled that, unlike wealth, income is a flow concept and can be defined as an individual's (or a household's) monetary income over a specified period of time (usually 1 year).

[2] Even though we will not focus on assets and on their distribution, this does not mean undervaluing the importance of wealth for individual well-being (Wolff and Zacharias 2009; Davies 2010). Furthermore, it should be recalled that economic well-being can be represented through a number of alternative measurements that are not necessarily monetary or mono-dimensional: besides income, consumption, wealth, capabilities, happiness (Baldini and Toso 2009; Sen 1992; Van Praag and Ferrer-i-Carbonell 2009).

© Springer International Publishing Switzerland 2016

M. Franzini et al., *Extreme Inequalities in Contemporary Capitalism*,
DOI 10.1007/978-3-319-28811-6_1

accumulation of considerable assets which will in their turn generate considerable capital incomes (Van Arnum and Naples 2013). The subjects we are interested in, however, are those who are rich in terms of income and, among them, we particularly focus on those whose high incomes are earned through work.[3]

In actual fact, the planet of the rich is for the most part unknown. The economic literature has never set itself the task of exploring it; the lack of interest has been so pronounced that it might be more appropriate to say that, with very rare exceptions, no expedition to this planet has ever been organised. The poor, clearly for very good reasons, have been the focus of many analyses intended to define, measure and identify them.[4] Not so the rich. And the reason is not only, nor mainly, the lack of data, which, it has to be said, has only recently been circumvented. The basic reason is, almost certainly, that very high incomes have never been considered a problem. That's why the few and very recent studies of the rich constitute an exception.[5]

In any case, today we don't know (if not by extreme approximation) how to define the rich, how many there are, how much their labour earnings impact on their overall income, and what share of national incomes is concentrated in their hands. We don't even know if the rich, in the various countries, have increased or even have become richer in recent years.

These information gaps also cast shadows on our understanding of the more general phenomenon of inequality. Starting from the first contributions of Atkinson (1970, 1975), many studies have tried to assess the degree of economic inequality within a country, to identify the mechanisms that generate it and the effects on the overall socio-economic system besides suggesting the best policies to combat it.[6] But a phenomenon as complex as inequality cannot be thoroughly represented without reference to the various distribution segments, and especially the more extreme ones, and conversely, its measurement cannot be entrusted to a single index, because the latter can fail to provide important information, such as the number of people who live in conditions of extreme poverty or richness.[7]

Exploring the planet of the rich, therefore, seems important for a number of reasons. In this chapter, we intend to do so, attempting to fill some of the gaps we have pointed out so far; in particular, we will try to define the rich; to establish how many there are in Italy and in the main European countries; to identify the origin of their income and to determine whether their number is increasing and they are becoming richer. With this

[3] Unless otherwise specified, when we speak of the rich we then refer to income and not to wealth.

[4] Among the many relevant studies, the following are worth to be recalled: Townsend (1979), Sen (1976), Foster (1998), Foster et al. (1984).

[5] These studies are directed at measuring the income of the 1 % richest members of the population (or an even more limited percentage) and were started from the work of Piketty (2003, 2005). Other studies have suggested criteria for definition of the rich (Medeiros 2006).

[6] For a broad overview of the studies of economic inequality, see the volume edited by Salverda et al. (2009) and the recent book of Atkinson (2015).

[7] The inequality index most often used, the Gini coefficient, is, for example, much more sensitive to movements taking place in the centre, rather than at the extremities, of the distribution.

end in mind, we will examine the world of the rich in general and, more specifically, the weight of labour earnings in determining their incomes.

2 The Richest: Size, Tendency and Composition of Top Incomes

To start investigating the planet of the rich, a useful guide is provided by the studies on the so-called top incomes, normally identified as the richest 1 % of the population or even narrower percentages, such as the 0.1 % or the 0.01 %.

The studies on top incomes, unlike most studies of inequality, do not use survey data. They are based on the official statistics computed through the tax files, which generally include, for each income bracket, the number of tax payers, the average income and its source (labour earnings, business proceeds, rents, public transfers). By using tables reporting the number of taxpayers for each income bracket, one can estimate the share of income secured by the top x % of the population, the so-called top income shares (Leigh 2009).[8]

Top incomes can be calculated, from one year to the next, since the official statistics on tax returns have become available. This means, for many European countries, from the first years of the twentieth century.[9] The advantage over survey data is considerable, since no country began engaging in surveys before the 50's of last century and in many cases (including Italy) surveys have only been performed on a regular basis since the 70's and 80's.

Our analysis concerns the share of national income concentrated in the hands of the richest 1 % of the population in a few advanced countries since 1974, when Italy introduced the personal income tax and it has therefore become possible to calculate the share of income held by the rich (Alvaredo and Pisano 2010).[10]

Since the middle of the 70's, the share of gross personal income held by the top 1 % in the Anglo-Saxon countries has followed a very different trend from that experienced by the Continental ones (see Fig. 1.1, in which capital gains are not included). In the latter, the share has grown at most by 2 percentage points (p.p.), while in the Anglo-Saxon countries the growth has been considerably greater: 3.7 p.p. in Australia, but 7.4 p.p. in the United Kingdom and 8.6 p.p. in the

[8] Income distribution in the highest bracket is estimated using the Pareto interpolation method, which enables the estimation of the income shares held by increasingly small groups of individuals, such as 0.01 and 0.001 % (Atkinson 2007).

[9] More specifically, from 1900 in France, from 1908 in the United Kingdom and from 1913 in the United States.

[10] In countries where time series are available since the first half of the twentieth century, the top income shares recorded a constant reduction until the end of World War II, for the most part due to the heavy losses connected to the wars and the 1929 crisis. Successively, they remained constant, or experienced only a slight drop, until the early 70's, when they started rising again (Atkinson et al. 2011; Leigh 2009).

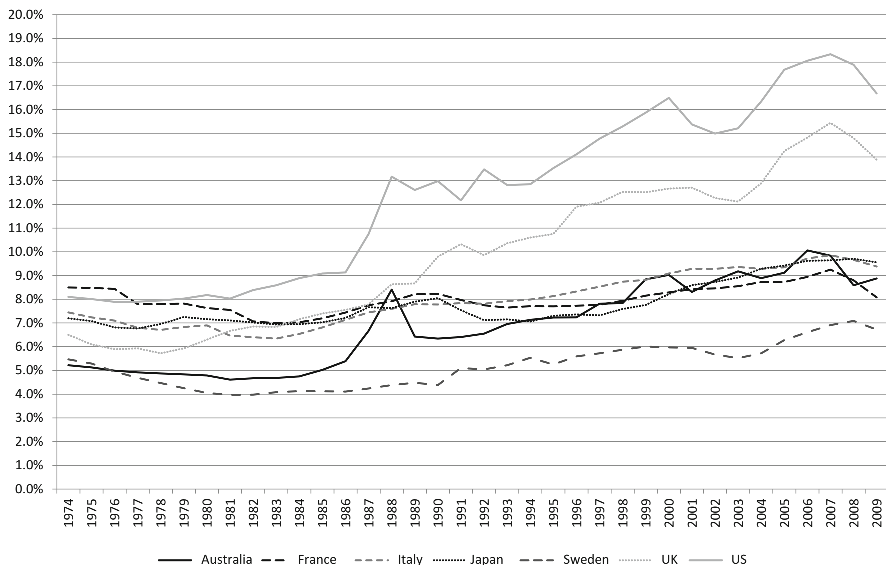

Fig. 1.1 Top 1 % income share in selected OECD countries; 1974–2009. *Source*: Elaborations on World Top Incomes Database

United States. The effect of this strong increase has been to bring the incomes of the top 1 % in these two countries back to the levels they achieved at the beginning of the twentieth century.

If, narrowing the analysis further down, we consider only the top 0.1 %, we discover that the share of income appropriated by this small segment of the population has grown outrageously; it has quadrupled over the period under consideration and currently stands at 6 % in the United Kingdom and 9 % in the United States (Alvaredo et al. 2013). This means that the richer 0.1 % has a share of the national income that is between 60 and 90 times larger than its weight within the population, i.e., what it would be expected to receive if the distribution was perfectly equal.

In Italy, over the period 1974–2009, the growth of the share owned by the top 1 or 0.1 % has been significant (1.9 and 0.9 p.p. respectively, starting from fairly low levels, 7.5 and 1.8 %), but, in any case, much less than that experienced in Anglo-Saxon countries (Alvaredo and Pisano 2010).

Considerable insights can be gained by examining the composition of top incomes. In the past, the incomes of the rich came mainly from capital and rents. However, in the last three decades, in the Anglo-Saxon countries there has been a considerable increase in the number of the working rich or super-rich accessing the top income bracket. These workers mainly include professional categories—business lawyers, investment bankers—and, most of all, top managers working for large

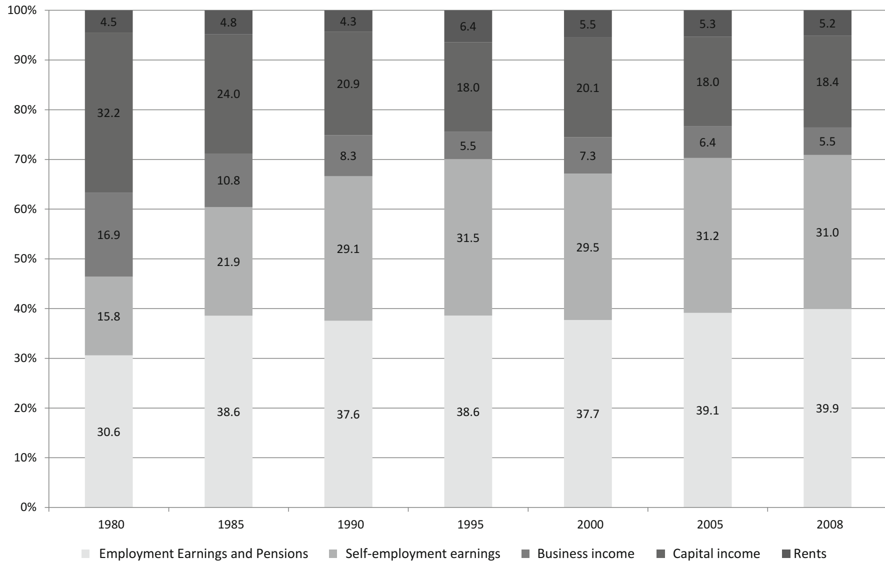

Fig. 1.2 Income source of the top 1 % in Italy (%). *Source*: Elaborations on World Top Incomes Database

corporations,[11] sports and show business superstars (Atkinson et al. 2011). For example, from the 70's to today, the share of incomes of the top 0.1 % that is produced by work in the United States has grown by 20 percentage points and currently stands at 45 % (Alvaredo et al. 2013).[12]

Even in Italy, from 1980 onwards, the composition of the top incomes has changed considerably: the weight of labour earnings[13] has greatly increased and, conversely, there has been a reduction of capital incomes and rents. More specifically, among the richest 1 % of the population, earnings stood at 46.4 % in 1980 and now account for 70.9 % of the total (Fig. 1.2), while in the 0.1 % richer segment the share of earnings has increased from 29.5 to 66.2 % (Fig. 1.3).

[11] Giertz and Mortensen (2013), however, point out that the wages of top executives in the United States, particularly those working in finance, can vary very considerably and are very volatile.

[12] The increase in the income share of the richest individuals is even higher if we include the stock options not yet exercised (those already exercised are usually included in earnings; Atkinson et al. 2011).

[13] Earnings include incomes produced by self-employment and employment. They also include pensions, these latter depending on previous work.

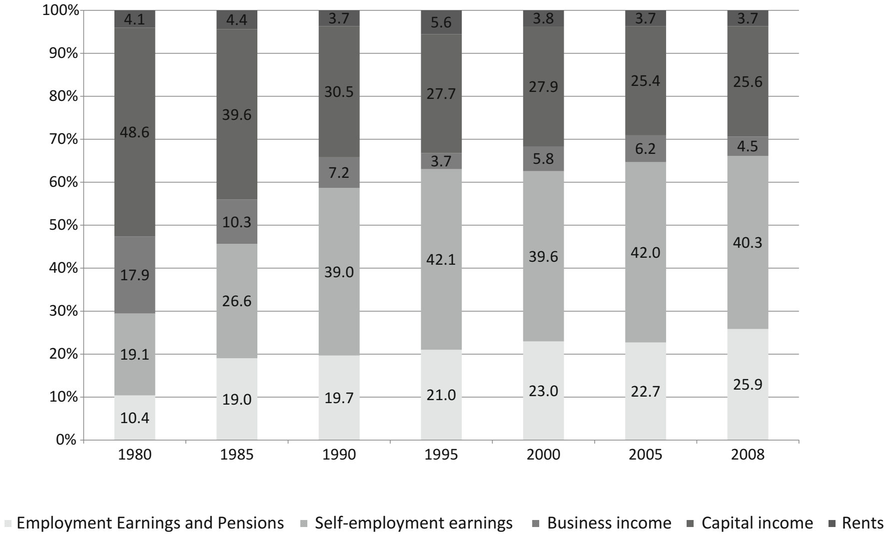

Fig. 1.3 Income source of the top 0.1 % in Italy (%). *Source*: Elaborations on World Top Incomes Database

3 How Does One Access the Club of the Rich in Italy?

The statistics on top incomes tell us clearly that in Italy one becomes rich mainly through self-employment or working as an employee. Any attempt to go beyond this very generic indication is not, however, that simple. As it turns out, the Revenue Agency only publishes the aggregate tax returns and does not provide the micro-data, not even in anonymous form.[14] A non-systematic empirical evaluation does, however, lead one to believe that in Italy the highest incomes are earned by business men, sports superstars, liberal professions and in no small measure by employees in the public and private sectors.

To imagine the characteristics of those belonging to the club of the rich in Italy, one must start out by recalling that, in 2009, based on tax returns, the richest 1 % was anyone who reported a gross annual income of at least 93,000 euros, while to be part of the top 0.1 and 0.01 % one had to earn annual gross incomes of more than 245,000 and 748,000 euros respectively (Alvaredo et al. 2013). The relatively low income levels required in Italy to become members of the top 1 % club leads us to wonder whether, over and above the impact of tax evasion and elusion, it makes sense to identify the rich by looking only at the percentile of the income distribution one belongs to. This aspect will be taken into consideration later in the chapter. For now, on the basis of the available data, we will only identify the groups of

[14] In 2008, the Finance Minister Vincenzo Visco published on line all personal income tax returns. But only a few hours later access to the site was blocked due to privacy reasons.

individuals having a greater chance of belonging to the upper tail of income distribution.

As recalled by Pisano (2012), in 2003 the Revenue Agency published the names of the 500 richest taxpayers, who represented little more than 0.001 % of all taxpayers.[15] Of the first 12, 11 were entrepreneurs, but among the top 500 there were 120 people whose income came mainly from employment, even though 2/3 of these were footballers or football managers. The presence of sports superstars among the very rich in Italy is also confirmed by more recent data on the contracts of Serie A footballers (source *Gazzetta dello Sport*): at least 126 of them have wages exceeding one million euros, net of taxes, bonuses and possible sponsorship deals.

Among top incomes, there's also a very high quota of people involved in the liberal professions: the category with the highest gross average income is, in fact, that of the public notaries (316,000 euros a year in 2011, a value therefore higher than the 0.1 % threshold; source *Il Sole 24 Ore*), followed by pharmacists (with an average income of 104,000 euros, above the top 1 % threshold). Among lawyers, in 2008, 14,407 (approximately 11 % of the members of the Pension Fund for Lawyers) reported incomes of over 100,000 euros and 390 exceeded the one million euros threshold (Raitano 2011).[16]

Many employees are also included in the group of the very rich. Simulations run on the administrative INPS (National Social Insurance Institute) database for private employees show that in Italy in 2003 approximately 90,000 private employees were being paid gross wages of more than 100,000 euros per year, while close to 6,000 had gross earnings exceeding 245,000 euros, and therefore qualified for the top 0.1 % (prices are adjusted to 2010 values).

In all probability, also many public managers earn wages at the top of the earnings distribution. Very interesting data emerge on this point from the OECD's *Government at a Glance Report* (OECD 2011).[17] According to this latter, net of social insurance contributions, the annual wage of general directors and second-tier managers is around $300,000 and 150,000 respectively, while the average OECD figure is $190,000 and 115,000 respectively (dollars are expressed at purchasing power parity, PPP). The average wage of graduate public officials in Italy is, instead, considerably lower than the OECD average (approximately

[15] The Forbes magazine publishes an annual list of the richest individuals and families in the world. The Forbes list, which details the individual incomes of CEOs, sport and show business superstars, is limited to the United States.

[16] The distribution of incomes among lawyers in Italy is particularly uneven: the richest 10 % earns 52 % of the overall income declared by those registered with the Pension Fund for Lawyers and the Gini coefficient amounts to around 0.65 (Raitano 2011).

[17] The OECD analysis is based on the wages of those employed in six ministries (Home Office, Economy, Justice, Education, Health and Environment). Therefore, the wages of those employed in local government, social security, public companies or private/public companies are not taken into consideration.

$57,000 compared to an average figure of $74,000). Italy, therefore, is marked by a strong element of wage inequality within public employment.[18]

4 The Rich and the Top Incomes: An Imperfect Match

The analysis of the top income shares helps us in our analysis of inequalities in at least two ways (Pisano 2012): in the first place, it enables us to reconstruct long-term time-series that can act as proxies for the inequality trend over the decades when no survey on incomes was conducted[19]; additionally, it enables us to observe the trends for the upper tail of the income distribution with much greater accuracy than it is possible with surveys. The latter, in fact, could not adequately report high individual incomes, both because of their limited sample size and because the rich could be less likely to answer interviews. Furthermore, measurement errors are possible and income underreporting in tax files are more frequent among high incomes, especially where capital incomes are concerned (Moore et al. 2000).

This, however, does not mean that we can successfully explore the planet of the rich by simply analysing top income shares. The first problem concerns the definition of income utilized in the computation of these shares. It is personal income gross of taxes, while, to obtain a more precise indicator of personal economic well-being, one usually considers the equivalised disposable income, that is the sum of all income received by the members of a household, net of taxes and gross of public monetary transfers, adjusted to take into account, through equivalence scales, family size (that's why we use the term "equivalised") (Canberra Expert Group 2001).

The second problem stems from the fact that several factors limit not just the reliability of the data, but also comparability over time and between countries; the reference is here to the influence of tax evasion and elusion and to the non-uniformity in the definition of taxable income (which, among other things, could or could not include capital gains) and of the fiscal unit (the individual or the couple)[20] (Leigh 2007).

[18] The increase in wage inequality in the public sector in Italy is a largely overlooked phenomenon, but very apparent in the few empirical analyses that have dealt with the issue (Naticchioni and Ricci 2012; Raitano 2012). In the public sector over the last 15 years, only the wages received by top public management have increased in real terms, while the median ones have remained more or less stable. The rise in the wages of first and second-tier management seems to have been accelerated by the loosening of the parameters on which public sector salaries were based, which took place after the reform of collective bargaining within the public sector in 1998 (which introduced the spoil system).

[19] Leigh (2007) supports to use top income shares to study inequality trends when survey data are unavailable, because he notes the strong correlation between these shares and the main inequality indices for the years in which both types of information are available.

[20] Only a few countries (and the United States is among them) include capital gains in individual tax return data. For the United States, the share held by the top 1 % increases by approximately 3 percentage points when capital gains are included (from 19 to 22 % in 2012).

Finally, the third and, for our purposes, the most relevant problem consists in the fact that the analysis of the top income shares focuses on those who are at the top of the distribution, without considering whether these individuals are truly rich. For example, in a hypothetically very uniform income distribution, those at the top would only be marginally better off than those at the bottom. Considering them rich would seem inappropriate. In any case, the average income of the richest 1 % in any given country, or at any given time, could be very different from the average income of the richest 1 % in a different country or at a different time. Moreover, the incomes required to be considered rich are very different, depending on the threshold chosen (e.g., top 1, 0.1 or 0.01 %).

As we've already said, in Italy, in 2009, the gross personal income reported by the 99th percentile (the threshold for entry into the top 1 %) amounted to 93,000 euros, while the thresholds that marked the top 0.1 and 0.01 % were 245,000 and 748,000 respectively. These thresholds were equal to 5.3, 14 and 42 times the average income of Italian taxpayers (Alvaredo et al. 2013). In the United States, an example of an even more unequal distribution at the top—and just to show how comparisons between countries (as well as in time) can be misleading when based exclusively on percentiles—, the three thresholds, in the same year, would have been 260,000, 960,000 and over 4.2 million euros (equal to 7, 25 and 112 times the average reported income).

In short, becoming a member of the club of the richest is not the same thing as being part of the club of the rich and the identification of the rich changes between countries as well as in time. Establishing how one becomes part of the club of the rich is not simple, but that's what we try to do in the next section.

5 Defining the Rich: Our Criterion

The exploration of the planet of the rich will not be entirely satisfactory if we fail to establish clearly, even if not with unimpeachable accuracy, how many are rich and how rich they are. The first step towards this goal involves coming up with a definition of the rich; the second consists in measuring the extent of richness.

We have already mentioned that, unlike what has happened with poverty, the task of defining the rich has warranted very little attention. Concerning poverty, the consensus is sufficiently broad over, at least, some of the criteria that can be utilized to identify the poor, be they in absolute or relative terms. Nothing similar has ever been produced with respect to the recipients of incomes located in the upper part of the distribution (Medeiros 2006).

Where the rich are concerned,[21] the few proposals so far advanced seem to be very much at odds with each other. We go from membership to given social or elite

[21] Also the definition of middle class has not been thoroughly investigated. On this issue, see Atkinson and Brandolini (2011).

clubs (Blitz and Siegfried 1992), to the consumption of goods and services that are considered superfluous (Drewnowski 1978), to the enjoyment of an income greater than a given absolute (for example, one million euros) or relative threshold (for example, equal to double or triple the median; Peichl et al. 2010; Brzezinski 2010), besides belonging to a given percentile in the income distribution, the top x % (Atkinson 2007).[22]

Other authors believe that richness cannot be measured without reference to poverty. This latter, thus, ends up as the only true term of reference, besides being the only problem. Along these lines, for example, Danziger et al. (1989) consider someone rich if her income is at least nine times the poverty threshold, while Medeiros (2006) defines the extent of richness on the basis of a merely redistributive criterion, such as the share of income that would be sufficient to eliminate poverty.

The choice of making the definition of richness dependent on poverty is not very convincing. It is, however, very complicated to introduce other criteria (for example, excessive consumption), while any choice of a specific percentile or of an absolute or a relative threshold, lacking a strong theoretical support, runs the risk of arbitrariness (Atkinson 2006).

The normative issues posed by the definition of suitable criteria for the definition of the rich are, thus, many and complex. Pragmatically, we propose to utilize a relative criterion, identifying the members of the club of the rich on the basis of the distance from the median income. Such a criterion enables fixing more or less restrictive thresholds, thus considering membership of the club of the rich as a fluid concept, linked to the point of observation that we choose to adopt, rather than a unique and incontrovertible state.

In line with this approach, from now on in this chapter, we suggest that anyone with an income three times higher than the median one is affluent and anyone with an income five times the median is rich (the rich, therefore, are a subset of those who are affluent). Those who have an income that is at least double compared to the rich cut off point, therefore 10 times the median income, could be considered super-rich.

These thresholds are not, of course, written in stone and a range of plausible values could replace specific point values. Our choice, however, allows us to start getting better acquainted with the planet of the rich, the borders of which may even be modified on the basis of more convincing arguments on the selection of the thresholds. What we hope to avoid is to transform the difficulty in finding an appropriate criterion into a (rather weak) reason for not taking a closer look at the phenomenon.

[22] Similarly, where asset wealth is concerned, Atkinson (2006) has inquired into the most effective threshold, identifying as rich anyone who owns assets worth at least 30 times the average country income (super-rich and mega-rich would be individuals whose assets were worth 30×30 and $30 \times 30 \times 30$ times the average income respectively).

In the continuation of this chapter, we will provide some useful data that can help to get a better idea of the planet of the affluent and of the rich in Italy and in other European countries. We won't, however, have much to say about the super-rich: the main reason lies in the fact that the survey data, at the basis of our analyses, are not reliable enough to identify these latter, as previously, argued.

With respect to the issue of how we should measure and possibly aggregate the incomes of the rich, the first and most simple indicator is incidence, meaning the share of people with incomes above the given threshold. This index is perfectly identical to the one used to measure poverty, but, as many have pointed out, is insufficient, on its own, to accurately represent the phenomenon (Sen 1976; Chakravarty 1983; Foster et al. 1984). Peichl et al. (2010) suggest that intensity should also be taken into account, that is to say, the gap between the incomes of the rich and the threshold value. Indices should, thus, be used that take into account both dimensions, while complying with a few minimal axioms.[23]

In our estimations, we will follow this suggestion. More precisely, on the one hand, adopting the same procedure used for the top income shares, we will estimate the share of overall income accrued by those we identify as affluent or rich. On the other hand, we will provide a synthetic measure that takes into account both the incidence and the intensity of the richness as well as the inequality of income among the rich. This richness index replicates, with the necessary adjustments, the index suggested by Sen for poverty (Sen 1976). It can be described as follows:

$$S_R = H_R * [I_R + (1 - I_R) * G_R]$$

where H_R is the incidence index (the share of rich within the population), I_R is the intensity index (given by the mean of the distances between the incomes of the rich and the threshold)[24] and G_R is the Gini inequality coefficient for the incomes of the rich. The index S_R therefore positively depends from each of these three aspects.

[23] The main axioms on which poverty indices are based (identification, monotonicity, symmetry, population independence, decomposition) can be easily extended to richness. From a normative point of view, the application of the transfer principle, which is crucial in measuring poverty intensity, is more problematic for richness. While one can undeniably state that poverty is reduced when someone poor transfers resources to someone even poorer, different opinions can emerge when a rich transfers resources to a super-rich. The question is therefore: if the transfer is equal, does richness inequality increase if a billionaire transfers income to a millionaire (in which case we say that the function that measures the intensity of wealth is concave) or if a millionaire transfers income to a billionaire (convex function)? In other words, is a society more acceptable with a few super-rich and other rich individuals not too far off the richness threshold, or is it preferable to have a society in which the rich are further from the threshold, but there are no super-rich?

[24] Being here more interested in higher incomes, the intensity index is calculated supposing a convex function. In any case, country ranking and trends for Italy do not change if the calculation is performed using a concave function.

6 The Rich and the Affluent: Our Estimates

In the absence of fiscal micro-data that would allow detailed analyses, we have to rely on surveys. As we have already mentioned, these latter suffer, however, from several shortcomings. The risk, for our study, is essentially underestimating the incidence and intensity of richness.[25]

The *European Union Statistics on Income and Living Conditions* (*EU-SILC*) managed by EUROSTAT will be used to compare the rich in seven European Union countries (Italy, Spain, France, Germany, Sweden, United Kingdom and Poland), while the micro-data provided by the Survey on Household Income and Wealth (SHIW), performed on a bi-annual basis by the Bank of Italy, will be used to integrate the information provided by EU-SILC.

The analysis of the characteristics of richness will be carried out, at first, by taking into consideration all individuals and then only the working population. In the first case, the unit of analysis will be the annual equivalised disposable income (in other words, the net total family income that is made equivalised by taking into account the size of the family),[26] which, as we have indicated, is considered the most appropriate indicator of the monetary well-being for individuals and families[27]; in the second case, the unit of analysis will be the net annual earnings (for the self-employed or the employees).[28]

The first step involves comparing the dimensions and characteristics of the relative richness in the seven countries, chosen not only because of their relevance,

[25] The sample surveys have been used to analyse the size of relative richness in Peichl et al. (2010) and Brzezinski (2010). To avoid the risk of under-representation of the richer individuals, the main sample survey performed in Germany (the *German Socioeconomic Panel*—GSOEP) has included, since 2002, an over-sampling of the more affluent segments of the population. In the wake of a decision by the German parliament, this survey, since 2000, is carried out on an annual basis also to establish the distribution and the characteristics of richness.

[26] Family incomes are made equivalised according to the modified OECD equivalence scale, which assigns a value of 1 to the first household member, of 0.5 to every other member over the age of 14 and of 0.3 to those under 14.

[27] In the definition of equivalised disposable income we do not include imputed rents (meaning the value of the rent enjoyed by living in an owned home).

[28] The only comparative study of relative richness for the European Union countries is the one performed by Peichl et al. (2010), who used the 2006 EU-SILC data and identified the rich as those individuals with an equivalised disposable income greater than double the median value.

but also because they represent different models both in terms of the level of current and intergenerational inequality[29] and of welfare state "regimes".[30]

By considering the equivalised incomes as indicated in the 2010 *EU-SILC* (whose income data refers to the previous year), in 2009 in Italy one would have been affluent, according to our definition, with a net equivalised annual income of at least 48,000 euros (amounting to 72,000 euros of total family income for a couple with no children) and rich (once again based on our definition) with a net income of least 80,000 (120,000 euros for a couple with no children). For better assessing these results, it should be considered that the value of the 95th percentile (meaning the threshold value for the 5 % richest) stood at 36,000 euros net equivalised income (48,000 euros for a couple with no children).[31] Bearing in mind the different measurement unit (individual income before tax, instead of equivalised disposable income), the threshold for the top 1 % based on tax returns (amounting as previously indicated to 93,000 euros in 2009) lies between the thresholds that identify the affluent and the rich.

Given the two thresholds used, in Italy 1.9 % of the population is affluent and 0.3 % is rich (Fig. 1.4). In France, Poland and the United Kingdom, the incidence of affluent and rich is higher. The lowest values are, instead, to be found in Sweden, in line with the limited overall inequality present in this country. Spain has more affluent people than Italy, while the quota of the rich is lower. Germany shows the opposite situation. The ranking of the countries doesn't change if instead of the incidence rate, we use the more complex Sen index, that takes into account also the intensity of relative richness and its distribution (Fig. 1.4).

We will now consider the national disposable income in the hands of the affluent and of the rich (Fig. 1.5). The United Kingdom, France and Italy have the greatest concentration of richness: the affluent account for shares of national income ranging between 9.4 and 12.3 %, while the shares of income in the hands of the

---

[29] According to the EU-SILC data concerning the Gini index of equivalised disposable incomes in 2010, these seven countries can be divided into a low inequality group, comprising Sweden (with a Gini index of around 0.24); an average inequality group (Germany and France, with values of around 0.29) and a high inequality group (Italy, Poland, Spain and the United Kingdom, with values of around 0.32). Similarly, the available studies on inter-generational inequality (measured by the inter-generational elasticity β of the income of father and sons) agree on the inclusion of Italy and the United Kingdom among the most immobile countries, followed by France and Germany and lastly by Sweden (Corak 2013).

[30] Although relying on different interpretations, the literature on welfare state "regimes" (Esping-Andersen 1990; Ferrera 1996; Arts and Gelissen 2002) differentiates between social-democratic (typical of Scandinavian countries), corporatist (Continental countries, France and Germany), Anglo-Saxon and Mediterranean models and tends to bunch the former socialist countries into a separate "regime"(Whelan and Maitre 2010).

[31] In EU-SILC 2010, a very limited share of the population (approximately 0.05 %) had an equivalised income of at least 10 times the median value (in Italy, the income threshold value that identifies the super-rich would amount to around 160,000 euro). As we have already mentioned, the extremely limited number of individuals in the sample who belong to this segment (never more than 30 in any one country) prevents thorough analyses of the super-rich.

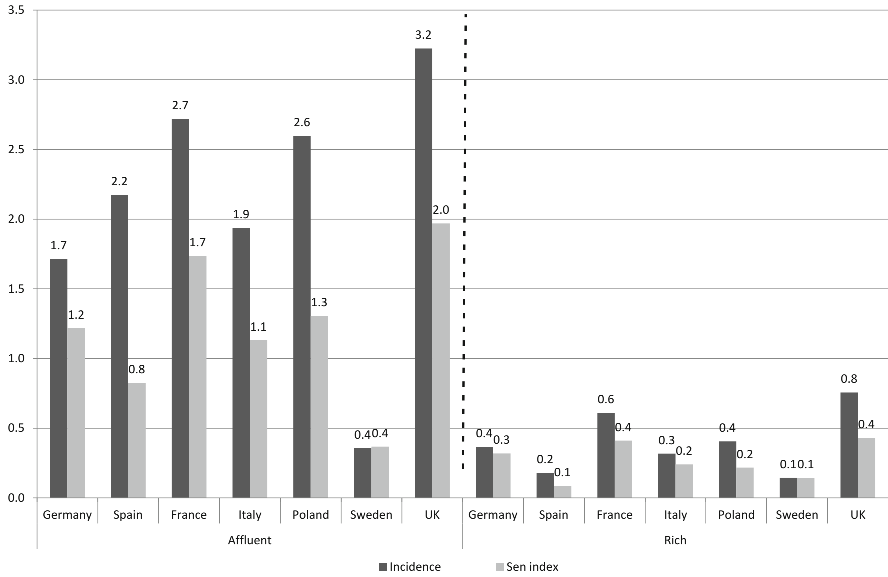

Fig. 1.4 Incidence and Sen index of relative richness in selected EU countries in 2009 (%). *Source*: Elaborations on EU-SILC 2010

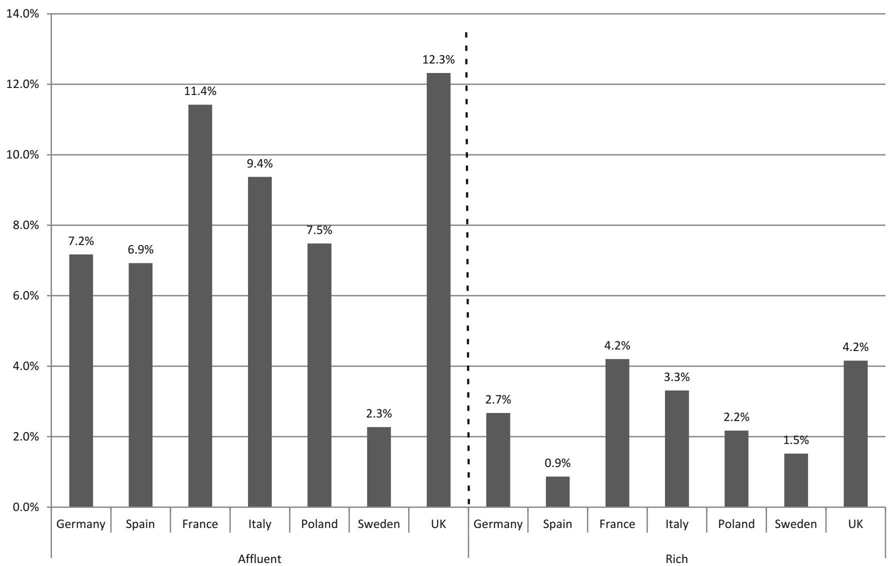

Fig. 1.5 Share of disposable income held by the richest in selected EU countries in 2009. *Source*: Elaborations on EU-SILC 2010

rich amount to 3.3 and 4.2 % of total incomes. The value posted by Sweden is particularly low for the affluent, while the differences are much less pronounced with respect to the rich, and this could depend on the presence of a few very rich households in the EU-SILC[32] sample. The concentration of income in the hands of the rich is particularly limited in Spain.

These results prove, fairly convincingly, how the study of inequality has much to gain by acquiring a more focused understanding of the distribution of income in the planet of the rich. For example, France stands as a country with average inequality levels, but with high relative richness. The need to complement the traditional distribution analyses with detailed studies of relative richness (with greater accuracy if possible for the super-rich segment) would, thus, seem to be confirmed by these simple observations.

Besides the quotas held by the rich and their relative weight, it is important to identify who are the rich in the major European countries. To this end, we have broken down the disposable income of those who cross the relative richness threshold into the various source of income: labour earnings (either as an employee or self-employed), capital gains and public monetary transfers.[33]

In all the countries, work, whether from employment or self-employment, is the main source of income for those who are affluent or rich (Table 1.1).[34] This result may have been influenced by the fact that in 2009 capital incomes have suffered from the crisis of the financial markets; however, the ease with which one can become rich through work seems to be ascertained without doubt. The lowest shares of earnings (within total income), in any case above 50 %, are in France and Sweden. The implication is that in both countries (and in Sweden, particularly) capital is a more important source of top incomes than elsewhere. In Italy, Poland and the United Kingdom earnings from employment or self-employment account for much higher percentages: with respect to the rich, they exceed 80 % of total income in all three countries.

This common situation does, however, hide a significant difference: in Italy, unlike the other two countries, self-employment has a much larger incidence. More in general, in Italy self-employment contributes to the creation of people who are affluent or rich to a much greater extent compared to all the other countries

[32] The measurement of top incomes could be more precise in Sweden compared to other countries, because in the EU-SILC in the Scandinavian countries incomes are recorded through the official administrative archives, while in the other countries they are derived by means of interviews (Wolff et al. 2010).

[33] In the EU-SILC survey, business income is included in the self-employed earnings, when it refers to the remuneration of someone working for a company, while it is considered capital income when it refers to profits accrued by someone who doesn't work in the company or to dividends. The distinction between sources of disposable income cannot be made for Germany, because EU-SILC does not show the after-tax values for the different family income components.

[34] It should be noted that the shares indicates the average quota of the income of the affluent and the rich based on wages and not the distribution of affluent and rich populations based on their prevailing income source (i.e., the share of affluent and rich for which work is the main source of income).

Table 1.1 Composition by source of disposable equivalised incomes in selected EU countries in 2009

	Labour earnings			Capital	Transfers
	Employee	*Self-employed*	Total		
Affluent					
Spain	*61.7 %*	*20.7 %*	82.4 %	8.5 %	9.1 %
France	*42.0 %*	*13.2 %*	55.2 %	24.6 %	20.1 %
Italy	*30.0 %*	*45.1 %*	75.1 %	4.7 %	20.2 %
Poland	*79.1 %*	*12.6 %*	91.7 %	2.4 %	5.9 %
Sweden	*45.1 %*	*9.4 %*	54.5 %	25.7 %	19.7 %
United Kingdom	*63.7 %*	*23.2 %*	86.9 %	4.9 %	8.2 %
Rich					
Spain	*49.6 %*	*19.3 %*	68.9 %	24.2 %	6.9 %
France	*37.7 %*	*16.1 %*	53.8 %	31.9 %	14.3 %
Italy	*17.0 %*	*66.5 %*	83.5 %	4.3 %	12.3 %
Poland	*71.0 %*	*16.9 %*	87.9 %	6.4 %	5.7 %
Sweden	*40.7 %*	*14.8 %*	55.5 %	42.3 %	2.1 %
United Kingdom	*56.3 %*	*33.0 %*	89.3 %	5.1 %	5.6 %
Total population					
Spain	*58.6 %*	*6.1 %*	64.7 %	4.7 %	30.6 %
France	*53.8 %*	*3.4 %*	57.2 %	6.2 %	36.6 %
Italy	*46.5 %*	*16.3 %*	62.8 %	4.6 %	32.6 %
Poland	*54.8 %*	*10.4 %*	65.2 %	3.0 %	31.8 %
Sweden	*60.9 %*	*2.9 %*	63.8 %	1.0 %	35.1 %
United Kingdom	*55.0 %*	*6.6 %*	61.6 %	1.8 %	36.7 %

Source: Elaborations on *EU-SILC 2010*

examined. Little weight, as it could be expected, is assigned to public cash transfers, even though in Sweden, Italy and France, where the public pension system is more developed, the share of incomes received through cash benefits enjoyed by the affluent is not insignificant.

7 The Affluent and the Rich in Italy: A Closer Look

The EU-SILC survey has the advantage of enabling comparisons between income distributions throughout European countries based on interviews performed according to the same standard method. However, seeing as these surveys have only existed since 2005, they do not permit a long-term description of the evolution of relative richness. Furthermore, some limitations in the procedures used to collect the data—for example, the failure to distinguish between business income and self-employment in the strict sense or between the incomes of public and private

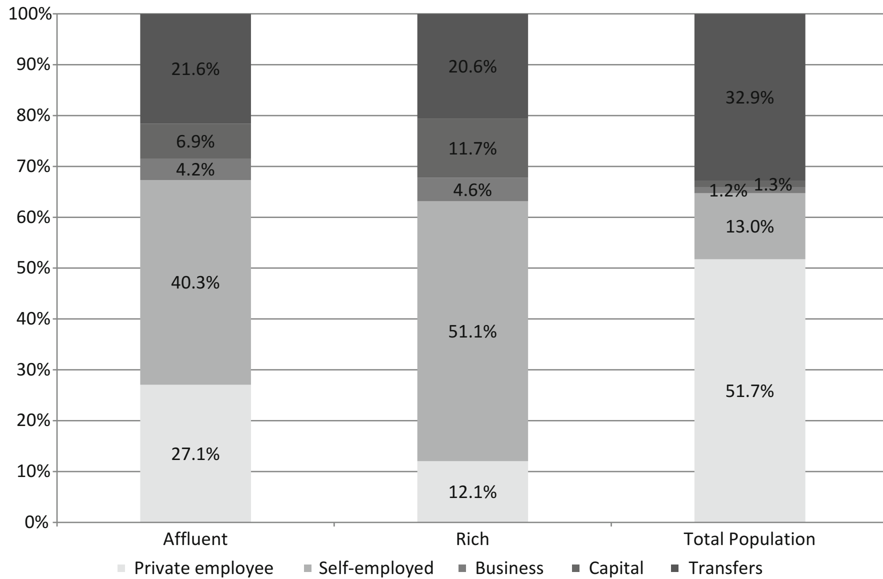

Fig. 1.6 Composition by source of top incomes in Italy in 2010. *Source*: Elaborations on SHIW data

employees—hinder a more accurate understanding of the characteristics that mark the affluent and the rich.

The Survey on Household Income and Wealth (SHIW) carried out every 2 years by the Bank of Italy allows us to fill these gaps and provides useful data to get a more in-depth appraisal of the evolution and characteristics of relative richness in Italy. Also in this case, we will refer to equivalised disposable income and consider affluent and rich those who earn at least three or five times more than the median value respectively for each year.

The data provided by the SHIW, as we have already seen, make a clear distinction between the different sources of income and, in particular, between business income and income from self-employment.[35] These figures, relative to 2010, confirm that the affluent and the rich get most of their income from work (67.4 and 63.3 % respectively), in particular, from self-employment: moreover, only 11.1 and 16.3 % of their net incomes, respectively, are produced by capital or business income (Fig. 1.6).

It's interesting to ask oneself if the characteristics of the affluent or the rich, in terms of age, educational attainments or residential area are different from those that, in the average, are prevalent in the entire population. Table 1.2—which, in italics, shows the differences, in percentage points, between the distribution of the

[35] Differently from what was established for EU-SILC, dividends and profits for individuals who are not employed in the companies are instead included as capital incomes.

Table 1.2 Distribution of the richest in Italy by residential area, education and age in 2010

	Affluent		Rich		Total population
	Distributed by characteristic	*Gap compared to population distribution (c)*	Distributed by characteristic	*Gap compared to population distribution (p.p)*	
Macro-area of residence					
North	64.8 %	*19.1*	73.4 %	*27.7*	45.7 %
Centre	27.4 %	*7.7*	16.7 %	*−3.0*	19.7 %
South	7.8 %	*−26.8*	9.8 %	*−24.8*	34.6 %
Educational attainment of the head of the family					
At most lower secondary	16.0 %	*−42.6*	14.5 %	*−44.1*	58.6 %
Upper secondary	26.7 %	*−1.9*	28.6 %	*0.0*	28.6 %
Tertiary	57.3 %	*44.4*	56.9 %	*44.0*	12.9 %
Age class of head of the family					
35	1.0 %	*−9.2*	0.0 %	*−10.2*	10.2 %
35–44	22.1 %	*−2.2*	6.0 %	*−18.3*	24.3 %
45–54	24.2 %	*−1.2*	19.3 %	*−6.1*	25.4 %
55–64	24.1 %	*6.7*	41.0 %	*23.6*	17.4 %
65–79	26.6 %	*9.9*	29.6 %	*12.9*	16.7 %
>80	2.1 %	*−3.9*	4.1 %	*−1.9*	6.0 %

Source: Elaborations on SHIW data

characteristics for the entire population, on the one hand, and that for the affluent and rich, on the other—offers some answers.

Southern Italy hosts 35 % of the population, but only 8 % of the affluent and 10 % of the rich, respectively. Of course, this means that the other two areas, and the North in particular, are over-represented in the planet of the rich. If we take educational attainments, the percentage of heads of households with a tertiary degree, as could be expected, is much higher among the rich and the affluent (57 %) than among the entire population (13 %). Furthermore, among those beyond the relative richness thresholds, we find a large prevalence of elderly heads of households: 50 % of the affluent and 70 % of the rich have are between 55 and 80 year old, while the overall percentage is 34 % of the population. These two figures seem consistent with the fact that the largest share of income of those who belong to the upper tail of the income distribution comes from work (and in many cases, as we shall see, from the liberal professions). Top wages tend, in fact, to be secured between the ages of 55 and 64 and a degree, on average, helps to earn high wages.

8 The Working Rich

The data on the planet of the rich so far considered highlight the one aspect that we are most interested in: the strong presence of workers among the affluent and the rich. In this section, we will try to learn more about the working rich, seeing as it is in some ways a new figure.

Based on 2009 data, the countries with the greatest percentage of workers with net wages three or five times higher than the median wage were the United Kingdom, Poland and France (with values that range between 3.8 and 5.3 %). Also according to the Sen index, these three countries are the ones where the phenomenon of the working rich stands out the most (Fig. 1.7).

In Italy, 2.6 % of the workforce earned over three times the median (meaning over 48,000 euros net per year) and 0.6 % over five times the median (81,200 euros).[36] The only country with a lower percentage than Italy, as far as the affluent are concerned, is Sweden. Spain, instead, has the lower percentage with respect to the rich.

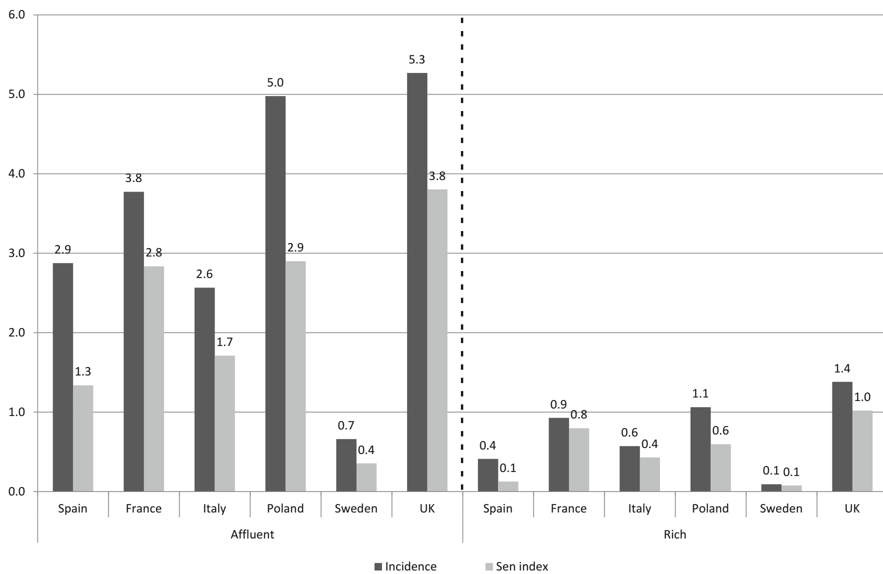

Fig. 1.7 Incidence of working rich and Sen index in selected EU countries in 2009 (%). *Source*: Elaborations on EU-SILC 2010

[36] Taking into account the tax burden, an individual income equal to five times the median is therefore greater than the value that identifies the top 1 % according to fiscal data, as is after all confirmed by the share of individuals that earns incomes that exceed the threshold (Fig. 1.7).

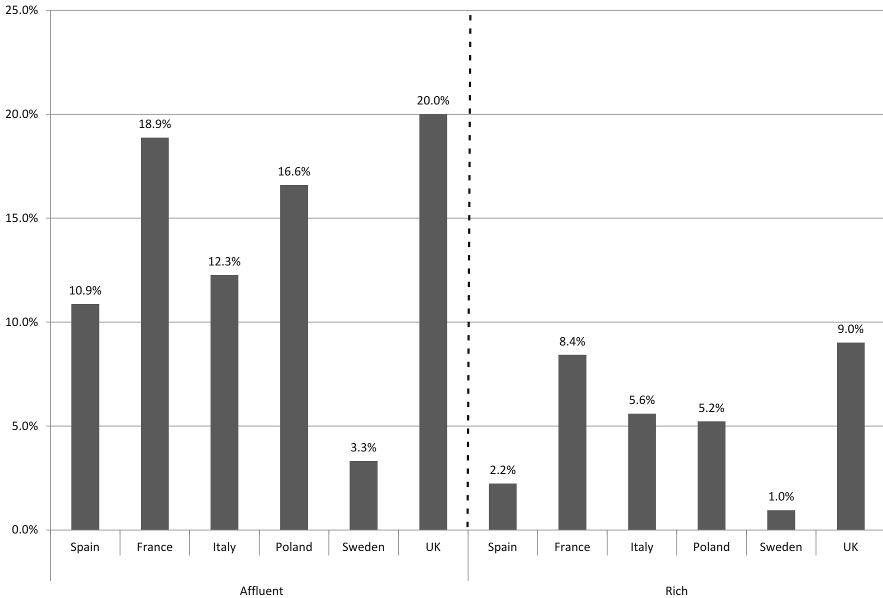

Fig. 1.8 Share of labour earnings held by the working rich in selected EU countries in 2009. *Source*: Elaborations on EU-SILC 2010

The analysis of the degree of concentration of income in the hands of the affluent and of the rich reveals that the three countries where the affluent seem to be on the whole better off are, once again, the United Kingdom, Poland and France (Fig. 1.8). If we look at the rich alone, Poland moves back a few places, particularly in comparison to Italy, which, instead, falls behind when considering the affluent segment.[37]

In Italy, the affluent workers, representing 2.6 % of the population, earn 12.3 % of the labour earnings, and the working rich, who are 0.6 % of the population, receive 5.6 % of the entire cake. In France and in the United Kingdom, the working affluent and the working rich earn approximately 20 and 9 % of earnings respec-

[37] The limited share of workers earning very high wages, as the EU-SILC data for Italy indicate, does not contradict the previously recalled evidence of a high share of labour earnings within rich households (Table 1.1). We are here referring to workers who have much higher incomes than those of other workers, while previously we were considering the share of overall family income of the rich and of the affluent that is work-related, regardless of the number of rich and affluent households. The shift from individual to family incomes is affected by a number of factors, primarily by the number of earnings recipients within the household (as well as the number of family members and the distribution of the other sources of income). Being a working rich does not imply, therefore, that one is necessarily rich also in terms of equivalised income terms, or vice versa.

Table 1.3 Composition by source of yearly net labour earnings in selected EU countries in 2009

	Affluent workers		Rich workers		Total workers	
	Employee	Self-employed	Employee	Self-employed	Employee	Self-employed
Spain	73.6 %	26.4 %	64.7 %	35.3 %	90.3 %	9.7 %
France	79.8 %	20.2 %	69.6 %	30.4 %	93.8 %	6.2 %
Italy	40.5 %	59.5 %	33.3 %	66.7 %	74.7 %	25.3 %
Poland	78.4 %	21.6 %	83.9 %	16.1 %	83.8 %	16.2 %
Sweden	94.9 %	5.1 %	82.6 %	17.4 %	92.7 %	7.3 %
United Kingdom	80.7 %	19.3 %	67.8 %	32.2 %	88.7 %	11.3 %

Source: Elaborations on *EU-SILC 2010*

tively, and this just goes to prove that the concentration of earnings is at its highest in these two countries.

The Italian anomaly, represented by the strong incidence of affluent or rich self-employed workers, is confirmed by these figures. As Table 1.3 shows, the income quota of the affluent produced by the self-employed amounts to 60 % and an even higher percentage is found among the rich. In the other countries, these percentages are clearly lower, with the obvious implication that there is a much larger share of affluent or rich employees. In Sweden, in particular, the incidence of self-employed among the working rich is very low.

The survey conducted by the Bank of Italy enables us to distinguish very clearly between public and private employees and therefore verify whether, and to what extent, the public managers fall into the working rich category. As one can surmise from Fig. 1.9 (which, among other things, confirms the supremacy of self-employed work), 20 % of the income of the affluent and 11.1 % of the rich is from employment in the public sector, while the quotas that originate from employment in the private sector stand at 14 and 9.3 % respectively. Figure 1.9 reminds us that the net earnings that are paid out by the public sector are decidedly less than that of the private sector: 26.2 % compared to 51.7 % of the total workforce.

Additional information on the working rich can be inferred from Table 1.4, which provides the percentages of affluent and rich workers on the basis of the different characteristics and compares them to the corresponding percentages calculated for the entire working population (the differences, in percentage points, are shown in the two columns in italics).

This comparison confirms that the Southern Italy is under-represented among the working rich (workers in Southern Italy account for 27 % of the total, but affluent workers in the South only amount to 13.1 % of the total of affluent workers, while the working rich are only 8.6 % of the overall working rich). Tertiary graduates, on

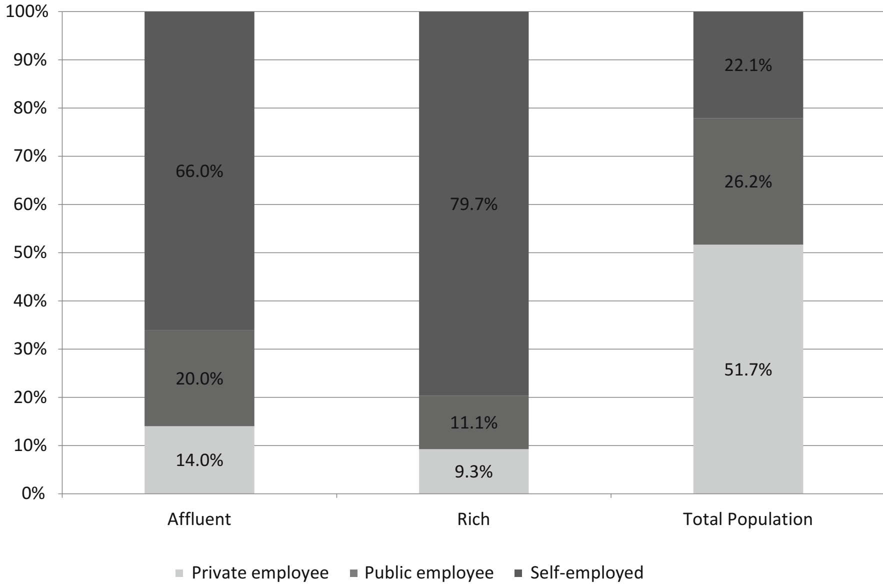

Fig. 1.9 Composition by source of labour earnings of the working rich in Italy in 2010. *Source*: Elaborations on SHIW data

the other hand, as the table shows, are clearly over-represented and the working rich age class is essentially that between 45 and 64.

As for type of work, the significant presence of employees among the rich and the affluent is confirmed. This presence, however, is lower than the percentage registered within the total workforce. The opposite, necessarily, is true for the self-employed and especially for those belonging to the liberal professions. The possibility offered by the Bank of Italy data to distinguish between these two categories enables us to establish that the Italian anomaly (meaning the heavy incidence of self-employment) is, for the most part, due to the over-representation, within the working rich, of the liberal professions. The over-representation amounts to 27.5 percentage points among the affluent and to 37.7 percentage points among the rich.

Finally, the productive sectors where there are more working rich are the ones providing services for businesses (which usually include the liberal professions): 23.4 % of the affluent and as many as 37.6 % of the rich work in this sector which only encompasses 5.8 % of the workforce. All the other sectors are under-represented, with very few exceptions, of which the most significant is trade.

Table 1.4 Composition of the working rich in Italy in 2010

	Affluent		Rich		Total population
	Distributed by characteristic	*Gap compared to population distribution (p.p)*	Distributed by characteristic	*Gap compared to population distribution (p.p)*	
Gender					
Male	75.6 %	*17.5*	74.2 %	*16.1*	58.1 %
Female	24.4 %	*−7.5*	25.8 %	*−6.1*	31.9 %
Macro-area of residence					
North	54.7 %	*3.2*	34.0 %	*−17.5*	51.5 %
Centre	32.2 %	*11.0*	57.3 %	*36.1*	21.2 %
South	13.1 %	*−14.2*	8.6 %	*−18.7*	27.3 %
Educational attainment					
At most lower secondary	16.6 %	*−28.5*	29.6 %	*−15.5*	45.1 %
Upper secondary	22.5 %	*−13.9*	15.9 %	*−20.5*	36.4 %
Tertiary	60.8 %	*42.3*	54.5 %	*36.0*	18.5 %
Age class					
<35	2.4 %	*−21.6*	0.0 %	*−24.0*	24.0 %
35–44	30.3 %	*−2.3*	20.2 %	*−12.4*	32.6 %
45–54	39.8 %	*10.0*	46.7 %	*16.9*	29.8 %
55–64	27.4 %	*13.8*	33.1 %	*19.5*	13.6 %
Occupation					
Employee	33.6 %	*−44.4*	19.2 %	*−58.8*	78.0 %
Liberal professions	32.9 %	*27.5*	37.7 %	*32.3*	5.4 %
Self-employed	33.4 %	*16.8*	43.1 %	*26.5*	16.6 %

(continued)

Table 1.4 (continued)

	Affluent		Rich		Total population
	Distributed by characteristic	*Gap compared to population distribution (p.p)*	Distributed by characteristic	*Gap compared to population distribution (p.p)*	
Sector					
Agriculture	3.2 %	*−1.1*	6.2 %	*1.9*	4.3 %
Industry and construction	16.6 %	*−9.2*	8.2 %	*−17.6*	25.8 %
Trade	12.6 %	*−5.5*	26.3 %	*8.2*	18.1 %
Transportation	2.0 %	*−2.4*	0.0 %	*−4.4*	4.4 %
Finance	4.2 %	*0.8*	3.3 %	*−0.1*	3.4 %
Services to business	23.4 %	*17.6*	37.6 %	*31.8*	5.8 %
P. A. and other services	37.9 %	*−0.3*	18.3 %	*−19.9*	38.2 %

Source: Elaborations on *SHIW data*

9 The Relative Richness Trends in Italy

The survey carried out by the Bank of Italy, covering a fairly extensive time-period, also allows us to analyse the changes that have taken place in the planet of the rich in Italy during the last 20 years. A particularly interesting aspect of this analysis is the possibility of comparing these changes to those in overall income inequality. It is well known that, in Italy, inequality in equivalised disposable incomes (inferred from this survey) grew suddenly in 1993; in that year, the Gini index increased from 0.29 to 0.34. This is a huge increase, given the way this index is calculated. In the following years and for the entire past decade, the index has, instead, remained essentially constant.

Also the share of individuals that we could define as affluent and rich (based on the equivalised disposable income) grew quite considerably between 1991 and 1993. Effectively, it doubled: those considered affluent moved from 1.5 to 3 % and the rich increased from 0.3 to 0.6 %. In the following years, the tendency has been a slight fluctuation around the 1993 levels, while since the beginning of the crisis in 2008 the trend has seen a slight drop (Fig. 1.10). Also the share of overall income held by the affluent and the rich suddenly doubled between 1991 and 1993, after which it continued to grow but in a more erratic fashion before peaking in 2004, with values around 12 and 5.5 % for the affluent and the rich respectively (Fig. 1.11). After 2006, the trend has been downward and the shares are now back to 1993 levels or slightly below for those who are affluent. If nothing else, these data

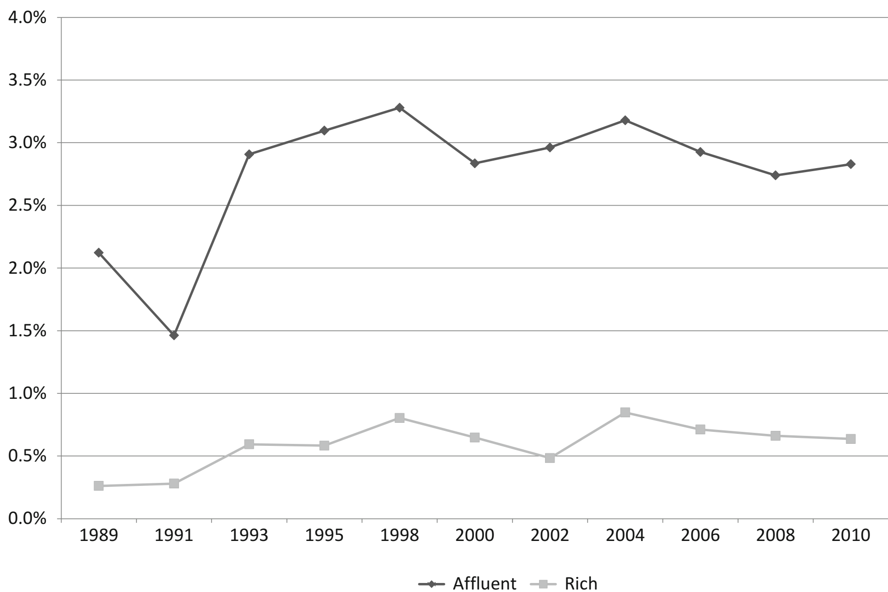

Fig. 1.10 Trend of relative richness incidence in Italy; 1989–2010. *Source*: Elaborations on SHIW data

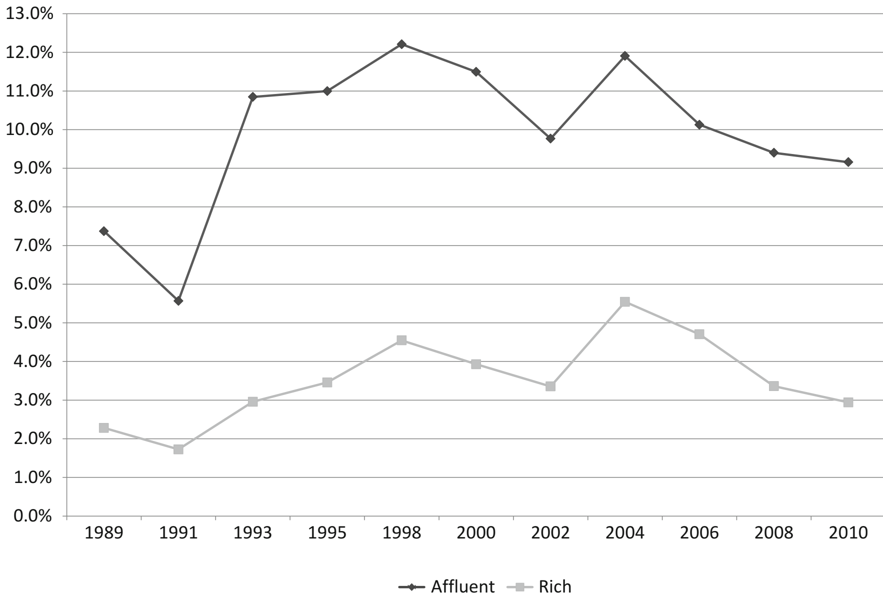

Fig. 1.11 Share of disposable income held by the richest in Italy; 1989–2010. *Source*: Elaborations on SHIW data

show that the planet of the rich could deploy a certain degree of movement, without particularly affecting overall inequality.

If we move away from equivalised incomes (that are based, as we have often underlined, on household income) and consider earnings, referred to employees or the self-employed (excluding business income), we note that the incidence of the working rich and the share of labour earnings they hold have followed very similar trends (Figs. 1.12 and 1.13). If we take both indicators into consideration, we have confirmation of the considerable growth of inequality between 1991 and 1993, but there also appears to have been significant growth until 2004. What's more, the share of income that has shifted towards the affluent and rich has grown constantly between 1991 and 2004, reaching peak values of around 12 and 7 % respectively (Fig. 1.13). The incidence and the income share of the working rich dropped off in later years of the period under observation, with the exception of 2010, when there was a new substantial increase that marks the increase of earnings inequality in the first years of the crisis.

This information, besides being useful *per se*, seems to confirm what we have already stated, namely that we cannot rely on a single index if we want to understand, also in its developments over time, a phenomenon as complex as inequality.

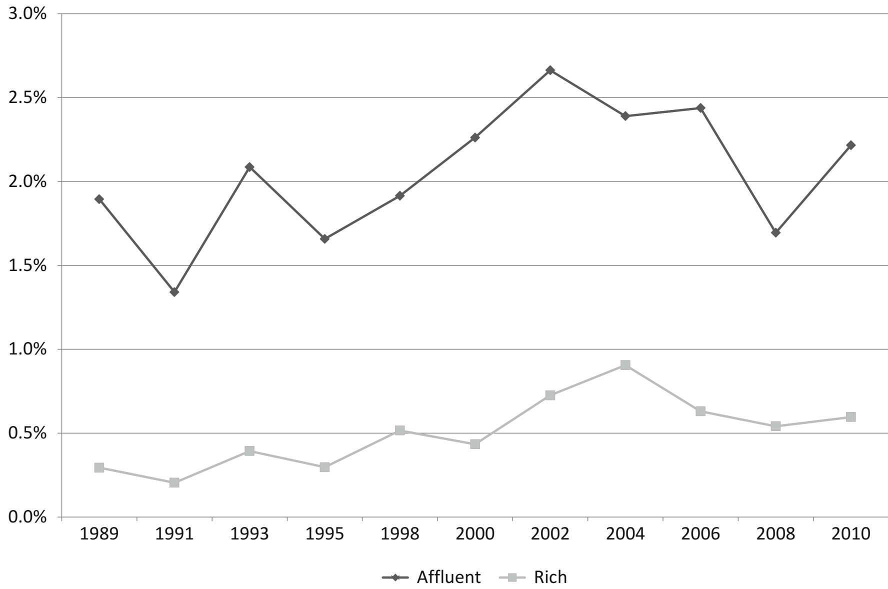

Fig. 1.12 Trend of the share of working rich in Italy; 1989–2010. *Source*: Elaborations on SHIW data

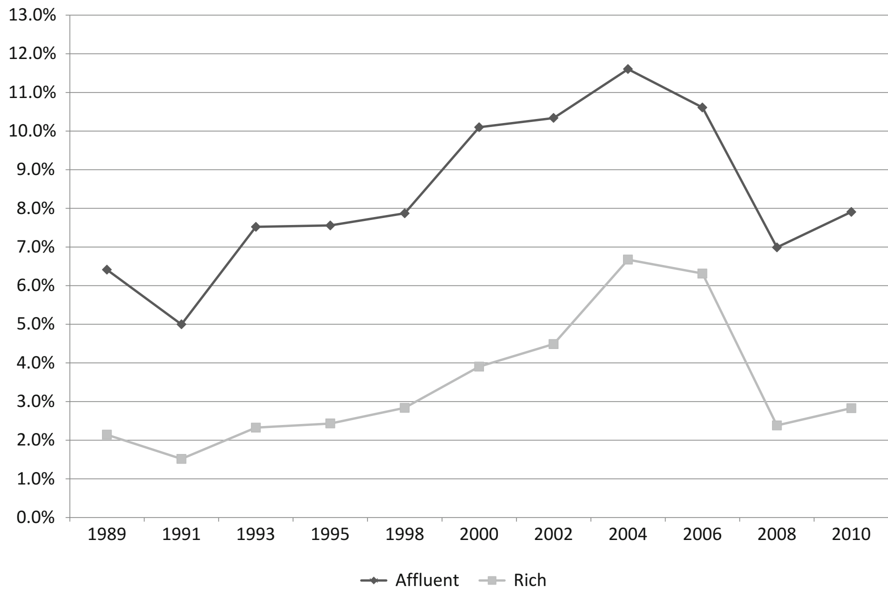

Fig. 1.13 Share of labour earnings held by the working rich in Italy; 1989–2010. *Source*: Elaborations on SHIW data

10 Conclusions

In the belief that it is important to explore the planet of the rich, in this first chapter, we have presented the main evidence available on the share of income detained by those who rank in the upper tail of the personal income distribution (the top incomes), underlining that in Italy, as in many Western countries, the share of labour earnings within the rich has increased over time. However, despite acknowledging the results of the literature on the top income shares, we believe that considering automatically rich those who are positioned in a given income distribution percentile (for example the top 1 %) is insufficient to answer the question "who is rich?" Simply establishing the share of income in the hands of those who are better off, whether they represent the 1 % or the 0.1 % of the population, without considering the income levels and, even more importantly, the extent to which the rich differ from the rest of the population does not get the job done. To get to know and improve our evaluation of that planet, we need a direct criterion for identifying the rich.

There being no universally approved criteria in the literature, we have come up with a definition that identifies the affluent as anyone who has an income that is at least three times more than the median income of the reference population, and the rich as those having an income that is at least five times as much (we have not dealt with the super-rich, who would ideally be those with an income equal to at least 10 times the median, seeing as the data in the sample surveys we have used for our empirical analyses are extremely inaccurate). This is clearly a questionable set of criteria, but we believe it doesn't lack justification.

On the basis of these thresholds, we have first identified the affluent and the rich within the overall population looking at the equivalised disposable income and, then, the affluent and the rich within the working population, looking at the labour earnings.

The main results we have obtained can be summed up as follows: the share of the affluent and of the rich is high in all the countries we have taken into consideration, and particularly in France, the United Kingdom and Poland. Italy does not have such a high incidence of affluent and rich people, but its position in the rankings increases if, instead of the relative number of the rich, we consider the share of overall income they enjoy.

As for the studies based on top income shares, for all countries, the incomes of those who exceed our thresholds are nowadays mainly produced by work. By taking a close look at this segment, which we could term that of the working rich, a few striking characteristics have come to light. The first, and perhaps most relevant one, concerns self-employment: the percentage of affluent or rich self-employed people in Italy is significantly higher than elsewhere. Furthermore, within this category, the liberal professions are those who most easily exceed the income thresholds that grant access to the club of the working rich. Of course, this does not mean that the presence of employees or other types of self-employed workers is irrelevant.

The second peculiarity of Italy concerns employees. The percentage of the working rich in the public sector is comparatively high and this is due to the generous wages earned by high-ranking public managers.

As we have already mentioned, Italy is not one of the countries where relative richness is higher. However, relative richness seems to have grown considerably in the last 20 years, often following dynamics that do not match those of overall inequality. The latter, in Italy, has recorded a sudden increase at the beginning of the 90's, but since then it has remained essentially stable. Relative richness also peaked around 1993, but has then followed a rather fluctuating trend that, at least for the working rich, has been accompanied by a slight growth. This leads us to worry that the crisis—for which an accurate assessment of the effects on income distribution is not yet possible—, worsening the economic conditions of workers and households with low and medium-low incomes, could lead in the widening of the gap between those who have higher earnings and the rest of the population.[38]

The divergence in the dynamics of inequality and of relative richness, however limited, reveals the importance of a very careful assessment of the higher segments of income distribution in order to reach a more in-depth understanding of the processes affecting inequality. It is therefore advisable that, as it has been the case in Germany for over a decade, also in Italy (and throughout the European Union) special enquiries be undertaken to improve the statistical information, and not just the anecdotes, on the characteristics of those occupying the higher percentiles of the income distribution.

In this chapter, we have also suggested that the super-rich can be defined as those whose income is 10 times greater than the median and therefore is twice that of those we have considered rich. On the basis of this definition, even though certainly questionable, approximately 0.5 % of the United States population can be considered super-rich and approximately 0.1 % of Italians. The possibility of getting a clear picture of the planet of the rich is, however, thwarted by the scant reliability of the survey samples at our disposal. The problem, as it has been pointed out, is caused by under-sampling, which may lead us to mistaken conclusions, almost certainly in the direction of an under-estimation of the phenomenon. We do, however, know that super-incomes exist, and that in some cases they exceed the median tens if not hundreds of times. We also know, though without sufficient accuracy, where they come from. In the next chapters, we will inquire into what makes them possible and whether they can be justified in any way.

[38] In this direction, see OECD (2013), which, on the basis of the first available data, shows that in Italy, unlike what has happened in other countries, the crisis, at least in the first few years, led to an increase in the gap between the top and the bottom 10 % of the population.

References

Alvaredo F, Pisano E (2010) Top incomes in Italy, 1974–2004. In: Atkinson AB, Piketty T (eds) Top incomes: a global perspective. Oxford University Press, Oxford

Alvaredo F, Atkinson AB, Piketty T, Saez E (2013) The top 1% in international and historical perspectives. J Econ Perspect 27(3):3–20

Arts W, Gelissen J (2002) Three worlds of welfare capitalism or more? A state of the art report. J Eur Soc Policy 12(2):137–158

Atkinson AB (1970) On the measurement of inequality. J Econ Theory 2:244–263

Atkinson AB (1975) The economics of inequality. Oxford University Press, Oxford

Atkinson AB (2006) Concentration among the rich. UNU-Wider research paper, 2006/151

Atkinson AB (2007) Measuring top incomes: methodological issues. In: Atkinson AB, Piketty T (eds) Top incomes over the twentieth century. Oxford University Press, Oxford

Atkinson AB, Brandolini A (2011) On the identification of the middle class. ECINEQ working paper 217

Atkinson AB, Piketty T, Saez E (2011) Top incomes in the long run of history. J Econ Lit 49 (1):3–71

Atkinsons AB (2015) Inequality. What can be done? Harvard University Press, Cambridge, MA

Baldini M, Toso S (2009) Disuguaglianza, povertà e politiche pubbliche. Il Mulino, Bologna

Blitz R, Siegfried J (1992) How did the wealthiest Americans get so rich? Q Rev Econ Finance 32 (1):5–26

Brzezinski M (2010) Income affluence in Poland. Soc Indic Res 99(2):285–299

Canberra Expert Group on Household Income Statistics (2001) Final report and recommendations, Ottawa

Chakravarty S (1983) A new index of poverty. Math Soc Sci 6(3):307–313

Corak M (2013) Income inequality, equality of opportunity, and intergenerational mobility. J Econ Perspect 27(3):79–102

Danziger S, Gottschalk P, Smolensky E (1989) How the rich have fared, 1973-87. Am Econ Rev Pap Proc 79(2):310–314

Davies J (ed) (2010) Personal wealth from a global perspective. Oxford University Press, Oxford

Drewnowski J (1978) The affluence line. Soc Indic Res 5(1–4):263–278

Esping-Andersen G (1990) The three worlds of welfare capitalism. Polity Press, Cambridge

Ferrera M (1996) The southern model of welfare in social Europe. J Eur Soc Policy 6(1):17–37

Foster J (1998) Absolute versus relative poverty. Am Econ Rev Pap Proc 88(2):335–341

Foster J, Greer J, Thorbecke E (1984) A class of decomposable poverty measures. Econometrica 52(3):761–766

Franzini M, Raitano M (2009) Persistence of inequality in Europe: the role of family economic conditions. Int Rev Appl Econ 23(3):345–366

Giertz S, Mortensen J (2013) Recent income trends for top executives: evidence from tax return data. Natl Tax J 66(4):913–938

Leigh A (2007) How closely do top income shares track other measures of inequality? Econ J 117 (524):619–633

Leigh A (2009) Top incomes. In: Salverda W, Nolan B, Smeeding T (eds) Handbook of economic inequality. Oxford University Press, Oxford, pp 150–176

Medeiros M (2006) The rich and the poor: the construction of an affluence line from the poverty line. Soc Indic Res 78(1):1–18

Moore J, Stinson L, Welniak E (2000) Income measurement error in surveys: a review. J Off Stat 16(4):331–362

Naticchioni P, Ricci A (2012) Public sector reforms and the evolution of wage inequality: evidence from Italy. Economia Politica 2:193–220

OECD (2011) Government at a glance. OECD Publishing, Paris

OECD (2013) Crisis squeezes income and puts pressure on inequality and poverty. OECD Publishing, Paris

Peichl A, Schaefer T, Scheicher C (2010) Measuring richness and poverty: a micro data application to Europe and Germany. Rev Income Wealth 56(3):597–619
Piketty T (2003) Income inequality in France, 1901–1998. J Polit Econ 111(5):1004–1042
Piketty T (2005) Top income shares in the long run: an overview. J Eur Econ Assoc 3 (2–3):382–392
Pisano E (2012) Dinamiche distributive di lungo periodo in Italia: il ruolo dei top incomes. In: Checchi D (ed) Disuguaglianze diverse. Il Mulino, Bologna
Raitano M (2011) L'indagine sulle condizioni socio-economiche degli avvocati. Relazione al Comitato dei Delegati di Cassa Forense, Roma, November 11
Raitano M (2012) La distribuzione delle retribuzioni da lavoro dipendente in Italia nel periodo 1996-2009: l'evidenza dal campione AD-SILC. Economia e Lavoro n.3/2012: 9–28
Salverda W, Nolan B, Smeeding T (eds) (2009) Handbook of economic inequality. Oxford University Press, Oxford
Sen A (1976) Poverty an ordinal approach to measurement. Econometrica 44(2):219–231
Sen A (1992) Inequality re-examined. Harvard University Press, Cambridge, MA
Townsend P (1979) Poverty in the United Kingdom. Penguin Books, London
Van Arnum BM, Naples MI (2013) Financialization and income inequality in the United States, 1967–2010. Am J Econ Sociol 72(5):1158–1182
Van Praag B, Ferrer-i-Carbonell A (2009) Inequality and happiness. In: Salverda W, Nolan B, Smeeding T (eds) Handbook of economic inequality. Oxford University Press, Oxford
Whelan C, Maitre B (2010) Comparing poverty indicators in an enlarged European Union. Eur Sociol Rev 26(6):713–730
Wolff E, Zacharias A (2009) Household wealth and the measurement of economic well-being in the United States. J Econ Inequal 7(2):83–115
Wolff P, Montaigne F, Rojas González G (2010) Investing in statistics: Eu-Silc. In: Atkinson AB, Marlier E (eds) Income and living conditions in Europe. EUROSTAT Statistical Books, Luxembourg

Chapter 2
The Super-Rich, Competition and Power

Abstract The processes by which some people become super-rich has been neglected by economists for a very long time. Only recently have a few explanations been put forward, based on sound economic models, that refer to the kind of super-rich we are interested in: those who obtain very high incomes from their jobs. According to these explanations the super-rich win out against extremely fierce competition and are therefore deemed the best suppliers of a specific good or service. Chapter 2 challenges this view both from a general theoretical standpoint and by reference to specific categories of super-rich such as top managers, famous professionals and sports or entertainment celebrities. In many cases the alleged competitive process is bypassed and super-incomes might be better viewed as rents granted by some form of power mongering or market access barriers of various kind that prevent competition from being effective, in so far as the "winners" are never challenged. Indeed, new types of barriers have developed in recent times and one that particularly stands out is notoriety. Moreover, in the case of top managers a shift in the balance of power within the corporations themselves is largely responsible for the huge rise in their remunerations in recent years while joint-consumption technologies along with a process of preference homogenization has paved the way for meteoric increases in earnings for sports and entertainment stars.

1 Introduction

In the previous chapter we mentioned that, beyond those termed well off or rich, there are the super-rich, who, as a rule of thumb, we have identified in those having 10 times the median income. In this chapter, we will deal with the super-rich and their super-incomes, even though, for the reasons previously outlined, the available data do not allow us to establish their exact number and our knowledge of the small planet of the super-rich will necessarily be incomplete. This lack of information does not, however, prevent us from seeking our main objective, which is to try to understand how some become super-rich.

If super-incomes could be exclusively pinned on asset ownership, they could be easily explained by the size of the assets owned. The latter could be of different

© Springer International Publishing Switzerland 2016

M. Franzini et al., *Extreme Inequalities in Contemporary Capitalism*,
DOI 10.1007/978-3-319-28811-6_2

origin: inheritance, a stroke of luck, or an accumulation of savings from one's previous business or working activities. In actual fact, they could have a fourth and more obscure provenance: they could be based on privilege, which, in the most extreme cases, borders on illegality.

The list of the world's super-rich seems to include many who have enjoyed such privileges: a prime example being the so-called Russian oligarchs who, thanks to their friends in high places, have become the owners of vast, formerly public, enterprises at very advantageous conditions. Advantageous acquisitions through privatizations are a relatively new, but clearly very effective way of accessing vast wealth.

Privileges of this nature also seem to play an important part in the fortunate rise of the man who, based on Forbes magazine rankings, has been, for some years, the richest man in the world: the Mexican Carlos Slim. Slim's fortune is currently valued at US$77 billion, 2 less than those Bill Gates can lay claim to. A fortune of this kind, even if it only yielded a very miserly 2 % interest a year, would still mean an income of $4 million a day.

The event that transformed a "simple" millionaire into a billionaire was the privatisation of Telmex, the Mexican telecommunications company, which Slim bought up in a very advantageous auction. According to some, his friendship with then Mexican president Carlos Salinas worked very much in his favour, in what was adjudged as a somewhat opaque auction procedure (Freeland 2012).

As we've stated earlier, however, the focus of our book are work-related earnings. It also appears that ownership of considerable assets, especially if inherited, is not an essential pre-requisite when it comes to securing a place among the super-rich category, a fact that can be partially confirmed by a quick review of the list of the 400 richest Americans published by Forbes magazine. Many of those included in the list, as Kaplan and Rauh (2013) claim, come from families that, even though not poor, were not particularly rich and did not have access to large estates.

Explaining the super-rich phenomenon is not easy, but this is the main purpose of the pages that follow. More specifically, we will try to understand if top incomes can be found in competitive markets, meaning that they are due to an (outrageous) success in a competitive context, or whether they are dependent on advantages ensured by the exercise of power in one of its many manifestations, including the more or less blatant compression of the competitive arena.

2 Exceptionally High Earnings: A Few Considerations

In trying to establish the reasons for exceptionally high earnings, we cannot refer to work in general. A few additional specifications are required if one is to avoid unsound and confusing results.

As we have already mentioned, one of the first places where high earnings can arise is within political circles. In some countries, and Italy is a case in point, this

phenomenon has very worrying characteristics and dimensions. It involves an extensive set of politicians and bureaucrats and, perhaps, most of all, a number of public managers and high-ranking state officials whose retributions are exceedingly high, even in comparison to other countries, as we have already observed in the previous chapter. These exceedingly high earnings are also mirrored in the pensions received following retirement. By way of example, it has recently been revealed that quite a few managers of publicly owned companies receive monthly (not yearly) pensions in excess of 50,000 euros with a maximum ceiling of over 90,000 euros.[1] In recent times, even the media have begun to shed light on these phenomena.

To explain how these outrageous incomes came about does not call for the investigation of complex mechanisms, as may be those of competition. In political circles, the decisive factor seems to be the "persuasiveness" of a number of categories or individuals who can sway the opinion of decision-makers or who, at times, are the ones who make the decisions.

Furthermore, top earners may have different profiles: they can be successful professionals, show business or sports stars, innovative entrepreneurs and, last but not least, CEOs and top managers. With respect to the latter, the sector in which they operate can also carry considerable weight. Many of the extra-rich CEOs belong to the world of finance. It is generally believed that the exceptional wages these people command go hand in hand with exceptional or very rare abilities. The businessmen in question are usually linked to the most earth-shattering innovations and personalities such as Bill Gates and Steve Jobs immediately come to mind.

Also chance and luck can play an important part, though it may not be decisive: this seems to be very much the case for many of the most successful businessmen. Gladwell (2008, p. 51), for example, claims that Bill Gates' meteoric rise was marked by "luck"—essentially linked to his family upbringing—, which meant he went to one of the few schools that at the time could boast a computer and spent all his time outside lessons, which he found very boring, in front of this tool. If this stroke of "luck" explains how Gates started out, how things later panned out, and all the billions of dollars he earned, resulted from many different factors: his own ability, but also the market clout Gates acquired which was not necessarily a consequence of his capacity for innovation (Stiglitz 2012).

Therefore, the universe of the working rich is very diverse and this makes it all the harder to explain the phenomenon. A number of questions need to be raised: if top incomes are based on previously accrued wealth, then the dimensions of this wealth can explain them, but if they are work-related, what variables take on the role played by wealth in the earlier case? What ability (or characteristic) can be distributed so unevenly that it gives rise to such vast differences in income? And

[1] The fact that pensions are based on the contributory method (in which case they are related to the contributions paid) or to the pay-as-you go method is, generally speaking, of great moment; but, for our purposes, it is less so, seeing as, even with the contributory method, only very high wages received during one's active working life could justify pensions of this entity.

particularly, what conditions must apply to make these huge incomes compatible with a competitive environment? These are the questions we will attempt to answer in the following sections.

3 The Super-Rich and Competition: A Few Conceptual Provisos

Let's consider the case of someone selling his/her products or services directly on the market. If all consumers are worried about its quality—and, of course, price—and if we suppose, for the sake of argument, that all products are of the same quality, then the price will be unique, unless some obstacle stands between the consumer and their chance to buy from the cheapest supplier. In a competitive context, however, this should not take place.

If the price is the same, income differences between the various manufacturers will depend on two factors alone: differences in work-time and in productivity levels. These two elements determine the quantity of goods produced and are both generally accepted as the cause of possible inequalities. In actual fact, market inequalities are usually justified with this kind of reasoning. The idea that it is fair to pay workers based on their marginal productivity had already been put forward in 1899 by J.B. Clark in his *Distribution of Wealth*. Since then, many have gone along with this concept, which still has many supporters.[2]

Inequalities due to differences in productivity or time worked can also be justified in terms of efficiency. If greater productivity carried no advantages one would not "invest" in those activities on which productivity depends. Similarly, if a greater amount of time worked did not lead to greater revenue it would be more convenient to work as little as possible.

If these conditions hold true, there should be a close correlation between differences in productivity (or production times), on the one hand, and wages, on the other: anyone whose productivity is double will earn twice the standard wage and anyone working twice as long, given equal productivity, will also have double earnings. Thus, if productivity doubles, so will the goods or services produced and sold, and, with them, gross revenues will also double (as will net revenues provided costs are linear). The same reasoning holds for work-time.

If these rules found general application in the real world, then, earning wages as much as one hundred times greater than those earned by others would require being one hundred times more productive or having a vastly superior working capacity. Since this is not the case, one is led to infer that the reasons for the extreme income differences encountered in the real world must have some other explanation.

[2] Notice should be taken of the efforts of the American economist Taussig (1912) who, at the beginning of the last century, broached the idea that markets produce a fair wage in so far as linked to marginal productivity. Chapter 3 looks further into these issues.

To this regard, a good, even though general, starting point could consist in the differences in the quality of the performance provided, which, as we shall see, can have different reasons and characteristics.

Generally speaking, we are willing to pay more for better services and this—if the costs of higher quality do not absorb the entire difference in price—represents a cause of income inequality, which can be added to the previous ones and can carry even more weight. Quality differences are obviously possible in a competitive context. The issue is how long they can be maintained. For us, in a truly competitive environment, the advantage should only be temporary. In fact, as we see it, markets are competitive if there is a chance of "copying" and challenging those who are successful. This is a fairly easy condition to meet—certainly much easier than the set of conditions economists feel that are necessary for perfect competition. Its main implication is that offering better services (in different contexts) does not guarantee permanent advantages, since others may acquire the ability to replicate these services, entering the market as competitors.

Let's suppose, instead, that the advantage of producing goods and services of better quality persists over time. There could be a number of reasons why this is the case. Firstly, there could be a lack of manufacturers who, also in the medium-term, are capable of matching the quality in question. This is a very powerful hypothesis and very different from the one often adopted by economists since they have started extolling the virtues of competition. In their view, competition presupposes the ability to "copy", to emulate, and therefore to whittle away the advantage of those who are already on the market.

Furthermore, there can be obstacles that make it difficult to meet consumer demand even for those in a position to replicate the better quality. These obstacles may consist in standard entry barriers, which may be deliberately put in place by those seeking to retain their advantage, but can also have other causes. We are here referring to the consumer's reluctance (or limited readiness) to purchase from a new manufacturer, even if the quality of the product is equivalent. One possible explanation of this inertial behaviour, which has serious implications on competition that are often overlooked, is the lack of information regarding the quality offered but also other explanations concerning the rationality of the agents are possible. The tendency of consumers to consider the services rendered as non-replaceable, beyond all "objective" specifications, can lead to serious inequalities, which we will discuss at a later stage.

The presence of one or of more of these obstacles limits the opportunities of "challenging" those who have proven successful on the market. Thus, the supply of the "best" service available may not expand sufficiently to bring price down. This latter, will then continue to exceed production costs, giving rise to rents that may persist over time.

To sum up, competitive markets should always foresee mechanisms that make the better-paid positions open to competition; if this were the case, inequalities in earnings would not be as marked and as persistent as they are. It would not be

possible because the differences both in work-time and in productivity would not warrant them and because the advantages acquired by providing the best quality services would soon be eroded (and therefore curtailed) by the power of imitation that competition would fuel.

Thus, there would seem to be a clear incompatibility between competition and exceedingly high earnings. This, however, is not the picture painted by a considerable and very established segment of economic literature that claims to be able to explain these super-incomes.

4 The Super-Rich and Competition: Building a Case for Their Compatibility

Rosen's superstar theory (1981) and the "winner-takes-all" theory put forward by Frank and Cook (2010) provide the most established explanations for very high incomes and the high inequalities they produce. They share many elements. For example, they both come to the conclusion that super-incomes are compatible with competition; in fact, they are the result of a very fierce competitive process.

The explanations these two theories offer, despite a few difference, are based essentially on two factors. The first is that consumers consider given performances as not interchangeable, despite the fact that the difference in quality is very slight, always tending to prefer what "appears" to be better.

Non-interchangeability has important implications that can be outlined with a simple example: the difference in ability between two singers can be very limited, but the singer who is considered better can secure a market share that is much greater than that of his/her rival. In other words, it's crucial to be at the top of the pile and the actual margin over the second performer is of little consequence.

The other ingredient is the possibility, afforded by technological developments, to service a very high number of clients simultaneously. More specifically, it is the possibility to sell the same good or service to a multitude of users: think, for example, of a sports or musical performance that can be viewed on television by a vast audience of fans who pay to access the program thanks to technologies that allow the exclusion of non-payers.[3] This technology benefits all those who derive their top incomes from the creation of large audiences: compensation paid to successful program hosts are usually (but not necessarily) linked to the advertising that his/her television program can sell, which, in turn, depends on the audience these programs attract.

[3] This last aspect is very important: if it weren't possible to exclude those who do not pay, revenues would be too low to allow very high incomes.

The technology-based hypothesis is known as joint consumption and depends on there being no rivalry between consumers: the fact that a consumer gains access to a given good or service does not limit the possibility that others partake of the same good. Consequently, sales can be multiplied without additional costs and revenues increase while costs stay the same. Generally speaking, the technological developments that have made it possible to multiply the supply of works in the same way. Think of the low-cost duplicability of books or DVD's and to the difference that this may produce in terms of prospective income for a singer (whose products can easily be duplicated) and a painter (whose works are unique).

If joint consumption is possible, it also becomes possible to satisfy all the demand of those—and they could be very numerous—who want the best services, because they consider them not inter-changeable and are not easily induced to change their mind even when a difference in price is involved. Therefore, technology allows all demand to be satisfied without running into scarcity problems.

This, then, would be the explanation for extreme inequalities: if the effects of non-interchangeability become more intense, those who benefit from them, thanks to the technology, can serve vast markets and earn extremely high incomes. Ultimately, they could serve the entire market; they would, in other words, be the only winners. The concentration of the demand due to non-interchangeability could lead to very high revenues anyway, but if there are a great number of buyers (who all want to buy the same thing), then revenues can easily skyrocket.

The two hypotheses of non-interchangeability and joint consumption can thus make vast inequalities possible even when the differences in ability are minimal. In Rosen's superstar theory (Rosen 1981, p. 864), the two hypotheses lead to a situation where, with the increase of what he refers to as talent, the incomes grow more than proportionally, in an increasingly exponential way: "everyone" wants the services of the best and, thanks to the technology, these overachievers are in a position to satisfy an increasingly large share of the market.[4]

Frank and Cook (2010), on their part, emphasize that a slight advantage gained by one party can lead to that party serving the entire market. For this reason, they speak of markets where the winner-takes-all (the concept is not very different from Rosen's superstar one).

An outcome of this type is similar to a contest or tournament: the winner-takes-all—or almost all—, even if the advantage over the others is minimal. The super-incomes would, therefore, be the result of a very fierce level of competition.

[4] For the sake of comparison, we could say that it would be as if, in the well-known instance of land of different fertility hypothesized by David Ricardo about two centuries ago to explain differential rents, the land with greater fertility were multiplied to a huge extent, thus, eliminating the demand for the lower "quality" land.

5 Super Rich Without Scarcity? A Critical View of the Joint Consumption Hypothesis

Our critical assessment of the relationship between competition and super-incomes is based on the assessment of the relevance of non-interchangeability and joint consumption when applied to the concrete instances of super-incomes we are discussing here. While the hypothesis of non-interchangeability of the demand appears sufficiently generalised, that of joint consumption does not seem to apply to that many cases and, often, does not even seem to be essential.

For example, in the case of a CEO or top manager, it is difficult to argue that technology enables them to manage more companies simultaneously. Of course, new technologies do make it possible to manage larger companies with branches in different places. But this advantage is not the result of true joint consumption. The same goes for professionals: a lawyer can't hope to sell the same service to a series of clients. Even in this case, the increase in revenue produced by the technology that allows joint consumption would seem to be largely absent and the non-replicability of the services could limit the possibility of multiplying revenue.

The situation differs for sports and show business personalities and to some extent for those involved in cultural undertakings and in the arts. Here, it is possible to reach a large number of users simultaneously and therefore, if costs stay the same, to multiply revenue. Technology, however, cannot completely guarantee against the risk that someone may access the service without paying the fee due. On this point, consider the possibility, offered by the web, of downloading a number of works of the intellect for free, which means that a significant exploitation of the service could not automatically result in a proportional increase in revenue. We are in this case faced with a winning form of opportunism, known as free-riding.

As Krueger (2005) points out, this is why the musical world has gone back to promoting live concerts where it is easier to exclude people, enabling superstars to achieve very high earnings. According to Forbes Magazine, Madonna earned $125 million in 2012 and Lady Gaga 80; a considerable share of these $205 million was concert revenue. Therefore, one can achieve vast incomes even without joint consumption—or, at least, by exploiting restricted forms of joint consumption like those taking place in stadiums capable of seating a few tens of thousands of people.

One has also to bear in mind that, especially for the stars in the world of sports and show business, very high revenues can be generated by providing services in activities in which one does not necessarily excel. The main reference here is to the well-known phenomenon of celebrity endorsement that guarantees very high advertising revenue, which often ends up representing the prevailing share of the sports or show business star's overall income.

In this case, the source of the high incomes is not the technical ability that enables one to excel nor the possibility of selling one's services to a very high number of customers. The size of the audience is, of course, important, but the

audience is not sold a technical exhibition, for which the star in question possesses particular abilities. What counts is, essentially, the persuasive effect that notoriety has on consumption, which is not strictly speaking a technical ability, as we will discuss at greater length later.

Therefore, joint consumption can benefit those that can exploit it and this can be an important factor in the development of inequalities.[5] It is not, however, a necessary requirement in order to earn top incomes: many super-rich achieve this status without selling their technical abilities to vast audiences.

An explanation of the super-incomes of CEO's based on competition that does not refer to joint consumption has been put forward by Gabaix and Landier (2008). Their model is based on two hypotheses: the first is the previously discussed issue of non-interchangeability (of the CEOs); the second is that the competition for the best CEOs is more intense the larger the companies. Therefore, the best CEOs are more in demand (and fewer compared to the demand) when there are larger companies and this can lead to an exponential growth in their wages.[6] That's why the differences in CEO wages can be very high even when their abilities or talents are very similar.

According to the estimates produced by Gabaix and Landier (2008), on the basis of a model in which the parameters are established through calibration techniques, if we classify managers on the basis of talent, by replacing the manager in 250th position with the one who is in 1st position, the value of the company would increase by very little, only by 0.016 %. Despite this fact, the No. 1 CEO would be paid approximately five times more than the No. 250 CEO.

Small differences in talent can, therefore, lead to vast wage differentials owing to the combined effect of non-interchangeability and company size. Huge rents would, then, occur that appear to be the consequence of free competition for rare talents.

These surprising results may cause one to question the rationality of the system that generates them, but this is not what we are dealing with here. Our main problem is to establish whether these extreme inequalities are compatible with competition, as these explanations would seem to assert.

---

[5] By way of example, we have already referred to the difference between a painter and a singer or even a writer. The latter, unlike the painter, can replicate and sell many more copies of the work produced. This is an advantage, although the first not necessarily will earn less than the second. The comparison would be between a product that is worthwhile because it is scarce and a product that produces revenue because it can be multiplied.

[6] The two authors claim that the data confirm their theory, but there's debate about its explicative value for the period after 2003. A critical opinion is expressed by Murphy (2012). Moreover, Fernandes et al. (2012) claim that the power of managers within companies was such that it alone justified the increase in incomes witnessed.

6 Real Competition and "Halved" Competition

The purpose of this paragraph is to show how super-incomes would hardly arise if competition matched the requirements we have already indicated, namely if it were possible to "challenge" the best, eroding their advantages.

To begin with the models we have just outlined, they only represent, in our view, a partial or "halved" form of competition. The superstars or the "winners-who-takes-all" achieve this position because they attract most of the demand, meaning they have bested the other potential providers in a competitive situation. But winning this competition does not guarantee the most important outcome that economists expect of competition, that prices fall in line with costs, rents are curtailed and benefits for consumers are maximized. In short, for an economic system to function properly, it is not enough that competition enables the identification of a winner as in a race. After all, we are probably more interested in how the winner behaves towards its clientele than towards its fellow competitors and, in these models, the winner tends to act like a monopolist, as Rosen's model clearly shows (1981, p. 853).

The situation is not very different from the one we encounter with television frequencies, for example, where competition is ruled out from the outset and a monopolist is chosen directly through an auction process. That the monopolist can be chosen by his or her own potential users, as happens with superstars, cannot hide the fact that it is a monopolist we are dealing with.

To make this point clearer, a simple mental experiment can come to our aid. Let's consider an institutional set up in which a number of intermediaries, competing with each other, must sell the superstar's performances on the market. The superstar's status has already been established through some kind of competitive process. The income of the intermediaries results from the difference between the price at which they sell the superstar's performances and the cost of these performances. If there is competition between the intermediaries and if the superstars cannot inflate their costs, the outcome should be the convergence to a price covering the costs of the performance and allowing an adequate return for the intermediary. If an intermediary tried to sell at a higher price, another one would undercut him/her. This would lead to a decrease in the revenue previously obtained by the superstar, the intermediary's share of the revenue would drop and the consumers, besides having access to the superstar's performances, would also benefit by paying a lower price.

Competition and super-incomes, therefore, appear to be irreconcilable. On a more general note one can say that there is no competition in the presence of scarcity.

Consider another example: one pitting workers with different abilities and skills. The idea that wage inequalities, though perhaps not the extreme ones, depend on different abilities is very widespread and has been revived recently, with great emphasis, in the United States (Lindsey 2013; Cowan 2013). The higher wages earned by those who have better skills can, however, be considered a consequence

of the scarcity of these skills. In a competitive context, as previously outlined, this scarcity should be absent, at least in the long run. The fact that scarcity persists can be considered a fault of the competitive mechanism. It therefore comes as a surprise that inequalities due to differences in skills are, instead, viewed as the result of a highly competitive process.

The factors hindering the acquisition of skills may be many and include institutional sets up that do not promote social mobility. Removing these obstacles is possible, improving the system's competitive edge as well as reducing inequalities that seem hard to accept. Increasing the number of workers with top-level skills would entail increasing competition for the best paid jobs, giving rise to a situation where competition would curtail the higher, instead than the lower, incomes. The lack of potential applicants matching a certain job description is, indeed, often the result of specific institutional frameworks rather than the consequence of unchangeable natural processes. In other words, competition requires appropriate institutions, not just an apparent free access to the markets. Not that this is anything new.

The non-interchangeability of demand, that we have previously mentioned, further restricts competition. In this case, it's the scarcity of "the best" that leads to super-incomes and the violation of competition will be all the more obvious when entry to the market is curtailed for manufacturers with identical abilities to those considered "the best" or when consumers are not able to assess those abilities.

Thus, the attempts to explain super-incomes as the outcome of a particularly fierce competition do not seem very convincing: each of these attempts essentially formulates a hypothesis that is incompatible with a fully functioning competitive environment. The main function of the latter is to make prices approximate costs, by compressing, almost to nothing, the distance between the former and the latter. Costs, clearly, must be appropriately established and, therefore, reflect the "opportunity" costs, meaning the return that the resources used in a given context could achieve in the best alternative usage. If competition performed this function, it would be very difficult to achieve the outrageous incomes that today are viewed as standard.

The idea that competition presupposes conditions capable of eroding the advantage that, in one way or another, can be secured on the market is perfectly explained in Schumpeter's famous conception of capitalism's development where the innovator is rewarded by the extra-profits—essentially rents—earned for a limited time: the time required for competition, viewed as the capacity to "replicate" successful strategies, to come into play. As Schumpeter sees it, innovators would be very few, but anyone—or almost anyone—could be a "copier". And that would suffice to ensure that the former could not get richer and richer. In any case, he did not fail to voice his own misgivings about the creation of a system, clearly not competitive, where this process was hindered by the rise of monopolies.

In Schumpeter's competitive environment, to be permanently super-rich involves a never-ending capacity for innovation. So, continuous innovation would be required to re-establish the competitive edge that competition, also in a continuous fashion, erodes. This would seem to be the best, and perhaps only, way to enable super-incomes and competition to coexist.

7 Alternative Explanations: The Role of Power

The difficulty in reconciling competition and top incomes would seem to support alternative approaches and specifically those based on the role of power. Indeed, one could say that the two main explanations of extreme inequalities in earnings are usually divided into two categories: those based on competition and those based on power.

Power, not unlike competition, can be viewed in many different ways. The one prevailing in the literature on super-incomes usually refers to the capacity to modify to one's own advantage, the distribution of revenue, using the position held within organisations and large companies, in particular. More precisely, super-incomes are, here, viewed as a consequence of the power attained by some subjects that allows them to corner increasing shares of revenue, at the expense of others. Power, however, can be of a different kind, have other interpretations and concern other aspects. As previously mentioned in the discussion about "halved" competition, power is exerted on the market through the capacity to impede entry to subjects that might weaken the position of the incumbents or even to obstruct the creation of institutions that might favour the process of replicating the best that is essential to competition. Plus, as we shall see, power can also be exercised by influencing the preferences and choices of consumers. Bearing in mind these different conceptions of power one can provide a more complete picture of the mechanisms that produce super-incomes.

Let's start out, though, by examining the main power-based explanation of super-incomes developed in the literature. This explanation, related to the CEOs of major public companies, was initially put forward by Bebchuck and Fried (2004) and subsequently developed by other authors, and in particular, more recently, by Bivens and Mishel (2013).

The basic idea, which applies mainly to the United States, is that the CEOs of public companies have the power to set their own wages, especially because of the limited control in the hands of the shareholders—which in turn is largely due to the well-known informational asymmetries—and the ease with which these same CEOs can steer the decisions of the board of directors, as well as influence the choice of the consultants in charge of the setting of their own wages (Murphy and Sandino 2010).

One of the elements lending support to this explanation is the weight assumed, at least in some periods, by those parts of the CEO's overall wage packet that are the hardest to verify and certify. And it's not just the result-linked bonuses that are often difficult to pin down, but also a rather conspicuous number of other gratifications and gratuities.

Furthermore, especially in finance companies, there is also the asymmetry of wages relative to the different cyclical phases: in many cases, wages are designed to grow very rapidly during positive cycles (when the company's market value is increasing) and drop by very little, or not at all, when the cycle is negative (Gregg et al. 2010). The CEOs, in other words, set their wages so they can be maximized

when the company's results are positive and drop by very little when the trend is negative. As it turns out, this can provide CEOs with a perverse incentive to embark on very risky investments and take on too many financial risks seeing as they benefit if the outcome of their decisions is positive, while they are not required to shoulder any costs if it is negative.

In brief, the correlation between CEO's wages and company performance appears fairly loose; certainly it is weaker than it should be if there was competition for the best CEOs, identified as those capable of guaranteeing the best return for the company. This absence of correlation is documented in many countries and seems to hold true for Italy as well (Carotenuto and Franzini 2013).

Acknowledging the role of power provides an important element to explain super-incomes, but it doesn't answer all the issues the phenomenon raises. A first difficulty arises when trying to explain the tendency of CEO's wages to increase starting in the 70's. In actual fact, the change that took place in those years regarding the procedures and size of retributions represents an enigma that still needs solving (Frydman and Jenter 2010).

Of course, one can surmise that the power in question has grown stronger over the course of the years. More specifically, it may be that economic developments have allowed the CEOs to shift the distribution of the value added generated by the company to their advantage, partly thanks to the greater amount of information they have access to, compared to the information available to the company's shareholders.

A specific role, according to Piketty et al. (2012)), could have been played by the reduction of marginal tax rates. The reduction, by effectively increasing the after-tax revenue available to the CEOs, might have made it more convenient, and therefore have spurred, the attempt to secure increasing shares of revenue at the expense of other company subjects and particularly company employees.

Furthermore, with the onset of a more tolerant overall climate towards inequalities, there could also have been a relaxing of the social pressure that imposed a form of self-discipline on CEOs when setting their own wages. On this point, Bebchuck and Fried (2004) speak of "outrage constraint". So policies, on the one hand, and institutions, on the other, are called into question. This is a very appropriate reminder, considering the importance of these variables and the tendency to overlook them, as Murphy (2012) claims.

However, even a broader interpretation of the factors that, over the course of time, may have changed the distributive power of CEOs, though useful in itself, is insufficient to provide a general explanation for super-incomes. The cases are not only many, but they are also different, so pinning super-incomes entirely on the CEO's greater power would seem a little far-fetched. On this issue, Kaplan and Rauh (2013) recall, for example, how in recent years, the greatest income increases have not been secured by CEOs, but by other "workers" (particularly, sports and show business superstars). It could be, as Bivens and Mishel (2013) claim, that the increase in CEO's wages opened the way to the exceptional incomes earned by subjects operating in other contexts. However, though acknowledging this possibility, the problem of identifying with greater accuracy the mechanisms that have

enabled these increases remains, especially in contexts where the power to distribute revenue to one's advantage, as in the case of the CEOs, does not seem to play a major part.

There is one aspect of these mechanisms that requires a closer examination and that is also decisive for the superstar theory: that is to say, the way in which we establish and identify "the best" and the effects this has on demand segmentation.

8 Identifying the "Best": Rationality, Conformism and Much Besides

The phenomenon of the concentration of demand on just a few of the providers is real and significant. It is important to try to understand in greater detail why this should be.

The idea stemming from the superstar and "winner-takes-all" theories, at first sight, seems convincing enough. Everyone wants to have access to the "best" and this propels the revenue of the latter sky-high even though the "best" are only marginally so. However, for the demand to be channelled *en masse* towards the "best" and the latter be preferred because they are actually "better" and not for other reasons, three conditions have to be met, all of which need to be tested: first, consumers must be in a position to identify the "best" among the providers available; second, the supposedly objective assessment of the latter must converge, so that the "best" are the same for all (or a large part of) consumers; and third, the "best" earn high incomes thanks to the strong demand for their technical services, meaning those that imply the use of skills that make them "the best" and not for other reasons that could, for example, be linked to their notoriety.

Let's have a brief look at each of these conditions with an eye to evaluating their degree of general application. When we speak of "the best", the first image that comes to mind could be that of the winner of a sports competition: the fastest athlete in an Olympic race or the best tennis player who wins Wimbledon. In our case, however, there aren't always competitions that make it so objectively easy to establish who is the best. How can one identify the "best" professional, the "best" singer or the "best" manager? Taking prior successes as a benchmark is clearly not enough if, as it is likely, success also depends on other variables that could end up being more important than the athlete or tennis player's ability in determining their successes.

The reality is that consumers don't have the necessary information to identify the truly "best" options; in the most favourable instances, they are aware of the performance or skills of some of the "competitors", but not of all of them. Therefore, choices are marred by a serious lack of information and this makes it hard to believe that those who are singled out are necessarily "the best". One way of bridging the information gap is to rely on one of the many ratings that a more or less qualified expert is sure to draw up. The rating industry is in full swing. Everything

gets ranked: from financial analysts to wines; from universities to celebrities, not to mention the activities of the much maligned financial rating agencies that, in actual fact, only have indirect effects on the formation of super-incomes.

These ratings, however, are decidedly less reliable that those produced by sports competitions. What’s more, they reflect the opinions of those drafting them and often don’t tell us much about the skills that are more important for consumers. One can, nevertheless, expect ratings to steer consumer choices and help the formation of shared choices. Consequently, it is doubtful that the second of the conditions listed above can be fulfilled; the one in which the consumers, independently and on the basis of objective evaluations, reach the same conclusions on who should be considered “the best”.

There are also other factors that pool demand towards a few providers—regardless of whether they are “the best” or not. For instance, there is the tendency towards conformist behaviour (Jones 1984) that can give rise to the so-called herd behaviour. This could be spurred by the general tendency to grant value *per se*, to what others do, at least in certain instances, regardless of the intrinsic quality of the service one receives. An oft-quoted experiment seems to confirm the relevance of this hypothesis. In this experiment, an intentionally false piece of information was provided on the popularity of some musical tracks one could download for free from the web. This clearly affected the decision, channelling the preference towards the song that had fictitiously been indicated as the most “downloaded” and, therefore, the most popular. The considerable if not prevalent influence of popularity in steering one’s appreciation of musical quality appears to be sufficiently proven (Krueger 2013).

Therefore, what others do matters. According to Adler (1985), the reason may lie in the fact that, at least in some cases, this behaviour helps to improve one’s social relations; and a case in point could be a discussion with others over the book that everyone’s reading, the film everyone’s seen or the concert everyone’s attended.

The problem is, of course, much more complex and providing a complete and consistent explanation of how individuals form their own preferences and why they tend to select one over all others is not simple. However, it seems clear that, in many cases, the selection process of the “best” veers significantly away from what seems to be implied by the superstar competition theory: consumers are not in a position to identify the “best” and the concentration of demand is not the result of aware and informed consumers converging towards the same object.

Further complications arise if we consider the third question posed at the beginning of this paragraph, that is to say, whether there are other factors besides technical abilities that contribute to the concentration of demand. We are essentially talking about notoriety. The latter may, as we have already mentioned, make up for a lack of information though it may also support conformist tendencies. In general, it leads consumers to concentrate on a restricted set of potential providers, among which the famous tend to stand out as “the best”, even when they are not. In any case, even when due to proven success in the past, notoriety can fail to provide information on current capacity, which can fade even faster than fame.

In spite of the difficulty in establishing exactly what notoriety is or explaining how it is created, we may say that it often appears as the result of specifically coordinated activities that are designed to secure it, at least in some contexts. This is the case of film, music and television celebrities, as Piazza (2011) has demonstrated. A positive rating by a skilful evaluator can certainly have an impact.

Notoriety can easily become an additional source of income; in fact, the exploitation of notoriety is a distinctive trait of contemporary society that, as Inglis (2010) points out, differentiates between today's celebrities and those of the past centuries. The main way of exploiting notoriety is undoubtedly advertising. When a celebrity extols the virtues of a product, he/she is certainly not exploiting a specific technical ability. In the best of circumstances, it's the fame that those technical abilities have earned him/her that is being exploited; in the worst case, the celebrity is reaping the benefits granted by the fame industry without there being any particular ability involved.[7] For most stars, especially in the world of sports, advertising revenue (not to mention revenue connected to merchandising or business activities in the world of fashion or cosmetics) often represent a prevailing share of their overall income.

Also proving that competition can be distorted by reputation and by the accumulation of experience in a specific sector is not simple, as it is not always possible to demonstrate that the best are not the winners. One significant reason is that the lack of a truly competitive environment discourages many who have the skill to succeed to "approach" the market in the first place. The model developed by Jeon and Lovo (2012) for the financial rating agency market, provides some interesting insight. In this market, new entries are very rare. This was the case in the United States even before the Securities and Exchange Commission (SEC), during the 70's, introduced a sort of artificial barrier to entry, represented by the need to be acknowledged as a "Nationally Recognized Statistical Ratings Organization" (NRSRO), a privilege granted to very few firms. The lack of entries, according to Jeon and Lovo (ibidem), is the result of natural barriers, that often cannot even be identified, but that enable those who are on the market to secure high returns, regardless of whether they are the best at what they do. This situation can help explain why many rating agencies were unable to provide appropriate evaluations during the recent financial crisis.

The main reason is that the companies already on the market have had the chance to prove their worth, while those who haven't had access haven't. Market presence can also offer advantages of other kinds, and certainly helps where building a reputation is concerned. Once again it should be noted that building up a reputation does not necessarily mean being the best, while it can certainly thwart others, with the required skills, from being able to challenge the often huge advantages enjoyed by those already on the market.

[7] This form of advertising is based on the possibility of influencing other people's preferences, since it would be quite strange to spend millions to simply provide information—as it is sometimes claimed advertising does—, when this could be done at a much lower cost. The possibility of exerting influence can, thus, be considered a form of power and, therefore, the power to influence consumers could explain a considerable share of the income achieved by the super-rich.

Reasoning of this kind was used in one of the rare tangible applications of the principle according to which reputation, experience and notoriety can be barriers to market entrance and therefore factors that can affect the correct implementation of competition, and, we would like to add, guarantee very high incomes. The application we are here referring to is the one involving the British Competition Commission that in 2011 carried out a survey of the (compulsory) audit sector for listed companies, and more specifically for the 350 companies included in the FTSE.

This very palatable market is entirely in the hands of four major consultancy firms, the so-called Big Four, and this was the starting point of the enquiry. In a nutshell, the British Commission maintains that companies requiring auditing services turn to the Big Four for reasons that have little do to with merit; in other words, there's no certainty that they are any better than other companies, and especially those included in the so called Mid-Tier.

The Commission reached this conclusion after interviewing those who, in the various companies, are responsible for deciding on the matter. These interviews showed that decisions were mainly based on the firm's reputation (without, it has to be said, being able to pin this concept down precisely), experience and the presence of staff that, in its turn, enjoyed a good reputation. The Commission also noted that very often the company administrators who chose one or the other of the Big Four companies had previously had professional relations with the latter and it was under the impression that personal relations carried weight in this matter. What did not take place, and it's hard to imagine how it might, was any attempt to assess the actual skills of Mid-Tier companies and compare them to any of the Big Four.

In their replies to the Commission, the Big Four attempted to pick apart the many critical indications made by the Commission by claiming that some of the statements that carried the most serious implications were not sufficiently proven. Even if this were true, the same can be said about the opposite argument. Briefly, the defendant's main argument was that those who took the decisions had sufficient information to do so, but in all honesty it is difficult to see how this can be claimed. Even without suggesting connivance, the decision makers simply cannot know the ability of the various consultancy companies and seem to continue down the same path out of inertia. All this has very little to do with a fully competitive environment (which, it should be recalled, requires purchasers to be well informed) or with desert. What it does show is how difficult it is to implement the conditions that can ensure unbiased competition.

9 "Best" Without Too Many Qualities: Power and Rating

As we have seen, the process that is supposed to reward the "best"—and often does so to the outrageous extent we have already witnessed—may be flawed in various ways. That's why, at best, it can be considered a rather imperfect competition mechanism.

This imperfection appears to be even more worrying if we consider that power, which should have no sway over a truly competitive process, is often heavily involved in the distortion of market performance. Among the various types of power we have previously discussed, we are here referring to the possibility of influencing consumer preferences and choices, thus orienting them towards identifying a particular "best". Information deficits, conformism and fame complicate this process and enable certain players to reach the top of the rankings that many end up relying on, despite the fact they don't have the best qualifications.

Let's consider a few examples and how they are linked to power issues. It would seem to be ascertained that McKinsey, the well-established consultancy firm, has repeatedly got its evaluations wrong (McDonald 2013). Yet, not only does McKinsey continue to reap huge profits; most of its consultants at some point become highly paid top-managers for major companies. All this could be due to advantages that are not specifically "technical", but that make it advisable to continue hiring McKinsey consultants.

The first advantage could be the attempt to acquire or to improve one's own status by being connected to others with the appropriate status. Various examples of this can be found in a number of different contexts. We often hear on the news how a few super-rich have paid out millions of euro to celebrities in the musical world to be given the chance to appear in their videos or to hire them as guests for private parties. A case in point is Lady Gaga who received $1 million from a Russian businessman who goes by the name of Arkady, who wished to appear for a few seconds (and dressed in SS uniform) in her "Alejandro" music video (Freeland 2012). Apparently Lady Gaga also received a request from Russian billionaire Roman Abramovich to make a guest appearance at one of his private parties for the modest sum of $2 million. This was supposedly Abramovich's present to his new partner, but perhaps he also couldn't resist the temptation of enhancing his own reputation by exploiting the singer's reputation as well.

By the same token, a company could achieve a similar goal by using McKinsey services, given the notoriety and reputation of the consultancy firm. But that's not the whole story. Very often McKinsey consultants end up being hired as top managers for companies for which they have previously provided consultancy services. Using McKinsey services could then be motivated by the attempt to attract McKinsey staff as managers in order to exploit the network of relations they bring with them from their consultancy experience. In actual fact, and speaking more generally, "the best" could be chosen as a result of the advantages they provide in terms of social relations, which in a world where power did not play a part, would have no bearing on their reputation.

Another mistaken value judgement concerns top management. The examples in this case are plentiful. We will only mention one here, being particularly appropriate when assessing the risks faced by the alleged competition for the best managers. As Groysberg (2010) recalls, in the United States, there is a number of magazines ranking the performance of financial analysts. Groysberg claims that these ratings have had a considerable influence on competition for the best analysts and the competition for the services of these "talents" has helped boost their earnings. To

some extent they have helped fuel a frenzied market for these managers and have encouraged their transfer from one company to another.

The important point that Groysberg makes is that the performance of these analysts systematically drops off after their transfer. The reason offered is that their previous performances were dependant, to a considerable extent, on the specific conditions under which their companies operated, including the competence and commitment of other subjects with which the managers interacted. Since the contextual conditions are not transferred along with the manager, the outcome is a worsening of the manager's performance. The mistake lies in having believed that all the credit for good performances belonged with the manager, while performance is often the result of collective efforts.[8]

It may certainly just be a mistake, but this doesn't rule out that those who draft rankings wield serious power and have considerable influence on the size of the bonuses and on the identity of the lucky winners.

10 Conclusions

A considerable and highly influential segment of the economic literature believes super-earnings to be born out of a very intensely competitive environment that grants outrageous advantages to those who prove to be the "best". In this chapter, we have, however, demonstrated that these super-incomes are rarely formed in highly competitive markets. If this were the case, the market itself would ensure that the winners be "challenged" and their advantage eroded. In the "superstar" and "winner-takes-all" model, one, instead, comes across hypotheses that essentially rule out this possibility; in particular, the superstars tend to act as monopolists and the fact that a large share of the demand, without being forced to, tends to concentrate on these individuals does not contradict this statement. Choosing whom we wish to be "serviced" by is entirely different from allowing the selected party to act as a monopolist and exploit the advantages of having been chosen.

On a more general level, a fully competitive environment is not possible in the presence of any of the many forms of entry barrier, some of which, like notoriety, are often underestimated. Competition is also thwarted when the prevailing institutional arrangements limit the opportunity to develop the specific skills appreciated by the markets or when consumers' choices are only weakly rational owing to a lack of information or a tendency towards conformism.

Choices made under these conditions—that often concentrate demand on subjects that are not always technically speaking the best and thus favour the creation

[8] Overlooking these aspects is equivalent to presuming that the manager can achieve the same results in any situation and must therefore be treated as a free agent. A similar approach could be applied to many sportsmen who practice team sports. And, as it turns out, a few new regulations introduced in recent times concerning the circulation of footballers seems to be inspired by this kind of assumption.

of super-incomes—can be influenced and manipulated, and this represents a specific form of power mongering.

But super-incomes may also be the product of other forms of power: whereby income distribution can be shifted to one's advantage or barriers of various kinds can hinder competitors from entering the markets. Perhaps, the increasing number of super-rich has little to do with competition, having more to do with power, in one way or another, as it has often been the case in recent years. In any case, where the growth of super-incomes has been more marked and intense, different forms of power may have been simultaneously at work. In particular, this could have been the case in the world of finance where market dominance, the insidious power of ratings, asymmetrical access to information and the power exerted by managers within an organisation can each reinforce the other, giving rise to very favourable conditions for the enjoyment of super-incomes.

All these processes are, however, obscured by the emphasis placed on the supposed intensification of competitive processes. Competition does not simply mean opening doors when they are shut. Nor is it supposed to simply allow everyone to choose where to address his/her demand. Competition, if it is to perform its supposed role of narrowing the difference between prices and costs, which is also the best way of protecting consumers, must comply with a whole range of conditions in order to function. More than anything else, it must make it possible for challengers to emulate and at some point replace the winners. If this last condition is met, it will be much harder to maintain high incomes for a long time. The exception could be a "serial" Schumpeterian innovator, capable of introducing one innovation after the other, thus continuing to earn deserved rents for the time it takes the competition to eat away his/her advantage; only this innovator, though super-rich, would be acting in a way that is fully compatible with a competitive environment.

References

Adler M (1985) Stardom and talent. Am Econ Rev 75(1):208–212

Bebchuck LA, Fried JM (2004) Pay without performance: the unfulfilled promise of executive compensation. Harvard University Press, Cambridge, MA

Bivens J, Mishel L (2013) The pay of corporate executives and financial professionals as evidence of rents in top 1 percent. J Econ Perspect 27(3):57–78

Carotenuto S, Franzini M (2013) La retribuzione dei manager: incentivo a valorizzare le imprese o espressione di potere? http://www.nelmerito.com

Cowan T (2013) Average is over. Powering America beyond the age of the great stagnation. Dutton, New York, NY

Fernandes N, Ferreira M, Matos P, Murphy K (2012) Are US CEOs paid more? New international evidence available at SSRN http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2159119

Frank RH, Cook PJ (2010) The winner-take-all society. Virgin Books, London (Free Press, New York, first edition, 1996)

Freeland C (2012) Plutocrats. Penguin Press, London

Frydman C, Jenter D (2010) CEO compensation. CESIFO working paper 3277, Munich

Gabaix X, Landier A (2008) Why has CEO pay increased so much? Q J Econ 123(1):49–100
Gladwell M (2008) Outliers. Little, Brown, and Company, Boston, MA
Gregg P, Jewell S, Tonks I (2010) Executive pay and performance in the UK. Axa working paper Series n. 5
Groysberg B (2010) Chasing stars. The myth of talent and the portability of performance. Princeton University Press, Princeton, NJ
Inglis F (2010) A short history of celebrity. Princeton University Press, Princeton, NJ
Jeon D-S, Lovo S (2012) Reputation as an entry barrier in the credit rating industry. http://ideas.repec.org/p/ide/wpaper/24498.html
Jones SRG (1984) The economics of conformism. Basil Blackwell, Oxford
Kaplan S, Rauh J (2013) It's the market: the broad-based rise in the return to top talent. J Econ Perspect 27(3):35–56
Krueger AB (2005) The economics of real superstars: the market for rock concerts in the material world. J Labor Econ 23(1):1–30
Krueger AB (2013) Land of hope and dreams: rock and roll, economics and rebuilding the middle class, speech held in Cleveland (Ohaio), on June 12, 2013
Lindsey B (2013) Human capitalism. How economic growth has made us smarter—and more unequal. Princeton University Press, Princeton, NJ
McDonald D (2013) The firm. The story of McKinsey and its secret influence on American business. Simone & Schuster, New York, NY
Murphy KJ (2012) Executive compensation: where we are, and how we got there. In: Constantinides G, Harris M, Stulz R (eds) Handbook of the economics of finance, vol 2. Elsevier, Amsterdam
Murphy KJ, Sandino T (2010) Executive pay and "independent" compensation consultants. J Account Econ 49(3):247–262
Piazza J (2011) Celebrity, Inc. How famous people make money. Open Road Integrated Media, New York, NY
Piketty T, Saez E, Stantcheva S (2012) Optimal taxation of top labor incomes: a tale of three elasticities. NBER working paper 17616
Rosen S (1981) The economics of superstars. Am Econ Rev 71(5):845–858
Stiglitz J (2012) The price of inequality. Norton, New York, NY
Taussig F (1912) Principles of economics. MacMillan, New York, NY

Chapter 3
The Super-Rich: A Matter of Desert?

Abstract Can we justify top incomes earned on the market as the reward for desert and, thus, fully acceptable from a meritocratic standpoint? This is the main question addressed in the chapter. To this end, we first suggest a definition of meritocracy (both in its formal and substantive dimensions) and many of the term's often underrated ambiguities are highlighted. Secondly, two meritocratic justifications of market distribution are sketched out, based on the so-called contributory perspective and the sporting context metaphor respectively. Thirdly, current top-earnings are assessed on the basis of these justifications. While acknowledging heterogeneity, the main conclusion is that today's top incomes include an array of rents which appear wholly undeserved. Finally, certain limitations of the meritocratic justification of market distributions and of meritocracy itself are pointed out. In short, even if top incomes are found to be deserved, not only do markets promote a partial version of desert, with prices as benchmarks, but meritocracy represents a theory of justice that is insensitive both to consequences, *in primis*, distributive consequences, and the impacts of luck, in its many manifestations.

1 Introduction

In the public debate, the idea has taken root that markets guarantee a meritocratic distribution of income and that this distribution is desirable. In this perspective, the wages earned by the super-rich, if obtained on the marketplace, are perfectly legitimate.

Of course, even the supporters of this idea acknowledge exceptions. A case in point is provided by the bonuses paid out to managers despite the negative economic results posted by the companies they manage. These, however, are considered exceptions, which do not rule out the possibility of justifying today's earnings inequalities.

By the same token, the super-rich (and the privileged, in general) could justifiably be called on to redistribute some of their wealth. Once again, this would not necessarily call into question the meritocratic justification of market remunerations. On the one hand, meritocracy, in the so-called substantive version, could itself call

© Springer International Publishing Switzerland 2016

M. Franzini et al., *Extreme Inequalities in Contemporary Capitalism*,
DOI 10.1007/978-3-319-28811-6_3

for some form of redistribution in order to ensure that minors from disadvantaged families have the same opportunity to develop the skills available to those born in privileged families. On the other, in an ethically pluralistic context, defending the right to appropriate remuneration for the deserving does not necessarily rule out the right to assistance for those who lose out in the market process.

The purpose of this chapter is to assess the meritocratic justifications provided for the current concentration of incomes. The central issues are the following: can we consider the earnings commanded by the super-rich as duly deserved? And, if this is the case, is the meritocratic justification so solid as its supporters maintain or, despite having embraceable aspects, are there any critical elements that should be taken into account?

As in the previous chapters, the focus is on income earned on the market, even though a few of our arguments can be applied to the income of civil servants and primarily those based on bargaining power.

Clearly, the arguments for and against the meritocratic justification of market inequalities apply not only to the super-rich, but to the entire population of wage earners. The emphasis on the top wage earners is entirely dependent on the fact that they are the focus of this book.

2 Meritocracy and Markets: A Few Basic Considerations

The main precept, at the heart of meritocracy, is that access to advantageous positions must be open to all and based on a competition where the only criterion, for victory or defeat, is individual desert, regardless of race, nationality, gender and family background. The consequence is the discrediting of inequalities based on factors other than desert and the legitimisation of inequalities that hinge on desert.

If, as Mason claims (2001), the essence of equal opportunity lies in the distinction between a "before" (the so-called playing field) that should be levelled, and an "after", populated by inequalities that have to be accepted, meritocracy represents a specific definition of equal opportunity, where the "before" comprises the conditions of access to positions of advantage, while the "after" depends on the results of the competition. More precisely, the meritocratic version of equal opportunity entails an *ex ante* understanding whereby individuals must have the same opportunity for success regardless of the (casual) circumstances in which they find themselves.[1]

As competitors behind the starting line in a sporting event are all in the same position, by the same token, we should all have equal access to the market regardless of the influence of the many variables that do not depend on desert. A competition allowing someone to start closer to the finish line, because he/she was

[1] On the conception of *ex ante* as juxtaposed to *ex post* equality of opportunity, see Fleurbaey and Peragine (2013).

born in the "right" family or was favoured by the social lottery, would not be justifiable. Ascriptive inequalities, nepotism and influence peddling are, therefore, banned. Once the starting gate opens, inequalities become, instead, perfectly acceptable.

With this as our starting point, we can conceive two versions of meritocracy, based on different ways of neutralising the influence of the family. The formal version simply forbids the family from exerting any form of influence, so their children's desert is what stands out. If Luciano, the son of poor immigrants, is just as deserving as Marisa, the daughter of rich intellectuals, Luciano must not be discriminated against based on his social extraction. In the substantive version, everyone, irrespective of the social lottery, must be given the same opportunity to develop his/her abilities. It's not sufficient for Luciano not to be discriminated against, if he equally deserves. He must have the same opportunities as anyone born in a privileged context, to develop his abilities.

In other words, if the main tenet of meritocracy is "equal reward for equal desert" and "different reward for different desert", the formal version only considers current desert, while the substantive one requires that the possibility of developing one's capacities to achieve desert must be equal, thus neutralising the influence of the social lottery. Clearly, there can be no substantive meritocracy without formal meritocracy, while the opposite can take place.

For Young (1958) who coined the term meritocracy, desert is a function of ability and effort, A + E, and meritocracy, besides the standard context of education, should also concern the exercise of political power. Meritocracy means power (*cratos*) to those who deserve it. Young also viewed abilities exclusively in terms of IQ as measured by psycho-metric tests and introduced the requirement, even from a very early age, of continuous selection and segmentation of the educational process. Actually, for Young, meritocracy was highly deplorable: his book ends with scenes of incensed masses attacking a presumptuous, self-celebrating elite, disdainful of a population they consider second rate.

Meritocracy, in its modern meaning, which is also the one we use in this book, continues to conceive desert as a function of A + E[2] and is applied to education, but not to the political sphere, where the central value is democracy. It does, however, extend its area of pertinence to the market. This change is of no little moment: the reward for the deserving ceases to be the exercise of power and becomes the acquisition of income. As we shall see later on, meritocratic markets tend to be

[2] This does not ignore extensions of the concept that also take into account motivations. For Hayek (1976), for example, a subject performing a deserving action is undeserving if the motivation is undeserving. Kagan (2012) upholds the same position. Also in the light of the difficulty/impossibility of observing motivations, we do, however, limit ourselves to the definition in terms of ability and effort. In this perspective, one can be moved by the best of motives, but if this doesn't translate into appropriate performances, there are no grounds for a meritocratic reward (Miller 1999).

markets in which power is absent.[3] What's more, the dominant notion today is not based on a definition of ability that is restricted to IQ and does not envisage the need for selection/segmentation at an early age. Abilities are usually cultivated starting from a common level of competence. Finally, meritocracy today represents a widely appreciated ideal. Even, the slogan "same pay for same work" upheld by the trade unions, is an assertion of a meritocracy.[4] The dominant meaning today, therefore, is in many ways different from the original one suggested by Young (1958).

Markets are central to meritocracy, because it is thought they can allocate jobs and assign remunerations on the basis of the ultimate meritocratic mechanism, competition. Markets are also supposed to provide a particularly laudable assessment of desert. "Winners" in the market are those who most contribute to social welfare as defined by the multi-faceted preferences of the individuals participating in the market.

The capacity of markets to guarantee an assessment of desert in line with individual preferences is also appreciated by Social Democratic thinkers. Miller (1996), for example, recalls the position of Offe (1976, pp. 41–42)[5] who, in questioning the assessments of desert performed by large organisations enjoying a dominant position on the market, points out how "the first liberal forms of capitalism guaranteed a direct and continuous assessment of the work produced by the individuals by referring to market prices".

The only constraint, if contributing to social welfare is the ground for desert, is that preferences are not based on discrimination, which would clearly violate desert. This means that demands such as those not to be served by someone with a specific skin colour or sexual orientation should be banned. By the same token, externalities must be absent, as they would once again lead to differences between retribution and social contribution. Consider the classic case of a negative externality, such as the emission of polluting agents into the environment. If the emission were ignored, the contribution to social welfare would be overestimated.

Finally, markets are compatible with a range of different status quo. Therefore, besides being a tool of formal meritocracy, markets are also compatible with the substantive version of meritocracy. Of course, the implementation of the latter could generate interferences with the market itself.[6] You only need consider the possible inefficiency caused by the taxation required to fund redistribution to the deserving coming from disadvantaged backgrounds. The inefficiency could,

[3] For this reason, Zamagni (2012) suggests that meritocracy be limited to its original formulation, defining as meritorious, rather than meritocratic, market distributions where the more deserving get more. We have preferred to extend the term meritocracy, in compliance with what we feel is the prevalent use in the public debate.

[4] On the diffusion of meritocratic positions see, for example, Lanning and Lawton (2011). Marx too, before moving to communism, recommended that each receive according to the contribution provided.

[5] Every time the quotations are taken from books in foreign languages, the translation is ours.

[6] On this issue, see among others, Bénabou (1996).

however, be compensated by the benefits produced by the promotion of the human capital among those more at a disadvantage. In any case, compromises between the two versions are available.[7]

Although the point is largely overlooked in the public debate, where desert and markets are often brought into play with excessive superficiality, these indications do pose a few important questions. As Sen (1999, p. 5) states, "the idea of meritocracy may have many virtues, but clarity is not one of them". And, if the yardstick is not specific enough, any assessment can only be approximate.

3 The Ambiguity of the Notion of Meritocracy

As we have just seen, desert is about ability and effort. But what do we mean by them? Even if we do not embrace a restrictive notion, such as the intelligence quotient, should abilities be limited to cognitive abilities or should they include other abilities, such as technical/physical skills or the abilities that are more influenced by the social context, such as emotional/relational abilities, the so-called soft skills? Does effort only concern the effort we make to exploit our abilities to the full or can it stretch to include the readiness to accept the more demanding jobs?

Furthermore, is it essential that both ability and effort be brought into play or is one of the two elements sufficient? Regarding effort, the answer would seem obvious: rewarding effort alone could mean having to overlook quality and this does not seem consistent with the meritocratic ideal. Therefore, from a meritocratic point of view, effort can only be rewarded if it is associated with appreciable performance.[8] Regarding ability, however, the answers are not so clear-cut. A staunch supporter of meritocracy like Miller (1996, 1999) defines meritocracy as the context in which both ability and effort are rewarded. Rewarding ability alone would mean assigning prizes and punishments on the basis of variables that have little to do with the contribution of the individual. The basic idea here is that, to be deserving, there must be some form of intent, some discretional contribution by the individual. Meritocracy, in other words, is a matter of desert rather than merely of merit. The sporting competition rather than the beauty contest is the quintessentially meritocratic metaphor. For others, however, even the beauty contest, and thus merit alone, could be related to meritocracy (Lucas 1995).

An additional ambiguity, in the notion of meritocracy, concerns substantive meritocracy. Neutralising the effects of social extraction requires public

[7] On the relationship with efficiency, see Chap. 4.

[8] For a different perspective, see Roemer (1998), according to whom the individuals who engage in the same relative effort (regardless of ability and other luck factors) should achieve the same results. This means adopting the *ex post* version of equal opportunity that is alternative to the *ex ante* one characterizing meritocracy. For it to be introduced would, among other things, require a constant review of market distributions in order to compensate for differences in ability.

interventions of different kinds (from alleviating the poverty of the parents, to issuing educational services/educational support throughout the entire life cycle and from a very early age). These interventions may include providing information on the various opportunities available on the job market or extend to the creation of public spaces where people of different extraction may interact.[9] However, these measures could end up clashing with other values that are also considered desirable and we are then faced with the dilemma of which compromises should be accepted.

On the one side, we previously acknowledged, substantive meritocracy could clash with formal meritocracy. In order to promote equal opportunities in the development of one's ability one has to tax the richest. But what if the rich being taxed has achieved his/her lot by legitimately winning the meritocratic competition? To what extent equal opportunities are guaranteed will, then, depend on how one solves the tension between the two interpretations of meritocracy. Some might content themselves with ensuring equal access to the better schools; others may call for some form of equality in educational results[10]; others, still, may want to neutralise any disadvantage stemming from the social context, which, at a later stage, might influence access to the job market. One could even demand a universal capital fund, to be disbursed at the start of adult life and financed by inheritance taxation.[11]

On the other, the clash could be between the overall notion of meritocracy and values external to it, such as family values. For example, it would seem fairly problematic to expect a very rich family to refrain from investing in their children's education by suggesting that this provides their children with an unfair advantage. Furthermore, leaving aside social inequality, families have different cultural attitudes and life styles. Some parents read fairy stories to their children every night, thus helping them to develop their cognitive and non-cognitive abilities[12]; others sit down in front of the television and don't say a word. Here, again, it would hardly seem acceptable that in the name of equal opportunity one could ban fairy tale reading, which, incidentally, would be an instance of levelling down (Swift 2003). Similarly, although it may be true that homogamic marriages increase the inequality between families, regulating matrimonial choices is decidedly undesirable.

Still, if resources are limited, which abilities should substantive meritocracy promote?[13] What quality levels should be guaranteed for everyone?[14]

[9] On the plurality of possible obstacles to substantive meritocracy, see Franzini (2013).

[10] Against simplistic juxtapositions between equal results and equal opportunities, the latter could, thus, require the achievement of results.

[11] Once again, there could be different positions regarding the level of inheritance taxation compatible with meritocracy. If one could, indeed, argue that inheritance grants an undeserved advantage to the person receiving it, one could equally oppose full taxation, on the grounds that it would impinge on the desert of those who have accumulated the most.

[12] For details on the different amount of hours spent on one's progeny, see Gracia (2013).

[13] As argued by Satz (2007), the more one sets/defines possible priorities, the more the development of abilities becomes endogenous with respect of the priorities themselves, automatically rewarding the development of some skills over others.

[14] On the more general difficulties encountered when attempting to specify a substantive meritocracy policy for education, besides Satz (2007), see Anderson (2007).

These difficulties clearly make it very hard to establish exactly the desirable degree of substantive meritocracy. It would seem impossible to do so by establishing a specific value for any indicator we believe can measure the intergenerational inequality of opportunity, for example, the coefficient of intergenerational transmission of income inequality.[15]

Regarding the definition of ability and effort, all the options listed above appear to us consistent with meritocracy. Thus, in assessing today's inequalities, we will be adopting a broad conception of ability and effort despite being aware that in the public discourse the declination in terms of human capital is dominant. Of course, taking into account also non-cognitive abilities makes it even harder to achieve substantive meritocracy. This is not, however, a good enough reason to rule them out. If anything, it's an added reason for reinforcing actions that might counter the influence of social extraction.

Furthermore, we will consider abilities both separately and in conjunction with effort. The only constraint is that, if considered separately, they are linked to the quality of the performance provided. For example, beauty cannot be considered a merit when accessing medical training, while it could be so for a given role in a film. At the same time, we think that it is also perfectly compatible with meritocracy that $A \times E$ (rather than $A + E$) be rewarded.

The existence of mere ability (without effort) does, however, appear somewhat unlikely. Federer may have a great arm, but if he didn't train, he would have a hard time being the champion he is.[16] This means that, after all, we will be dealing mainly with desert and, thus, the fundamental metaphor for meritocracy is the sporting competition.

Finally, with respect to substantive meritocracy, the only way forward, however imperfect, would seem to be to distinguish between more or less restrictive formulations.

4 Ambiguity in the Relationship Between Meritocracy and Market

The ambiguities one faces when attempting to pin down the notion of meritocracy are compounded by the complications introduced by the relationship between meritocracy and markets. We have seen that competition is at the heart of meritocracy. So markets should be competitive. But in what sense? Referring back to the

[15] This coefficient only identifies the extent of income inequality among the fathers that is transferred to the offspring. It, thus, doesn't allow to distinguish the causes of inequalities considered acceptable from those that are not. On this issue, see Franzini (2013). A possible remedy, as detailed by Jencks and Tach (2005), is to search for additional information on equality opportunity policies that have actually been implemented (although even in this case, considerable problems can arise in terms of data availability and comparisons between different situations).

[16] Beauty too can be the result of effort (diet, daily workouts, etc...).

reasoning outlined in Chap. 2, can we restrict ourselves to competition on the demand side? Or, does competition mean that prices have to converge towards minimum costs?

In the first case, anyone winning the competitive race could take all he/she can manage to secure. The best wins out, but the proportional relationship between reward and desert would be weak. The winner could receive much more than what is required to compensate A and E and the loser would be remunerated less than can be justified by his/her difference in desert compared to the winner. In the second case, stricter proportionality would occur between remuneration and desert. The remunerations would reflect the price required to solicit an offer that matches both ability and effort.

To us, both options seem acceptable. The parallel between competition on the demand side and the metaphor of the sporting competition at the core of meritocracy seems obvious. The only constraint to ensure that competition on the demand side is meritocratic is that there are no barriers to entry and no manipulation of the game by the participants themselves. In other words, winning is not sufficient to be deemed deserving. One has to win in a context where desert can be appropriately established.

At the same time, however, meritocracy is often associated to the so-called contributory view, or, in line with Mankiw (2010), to the Just Desert Theory (meaning the normative variant of the marginal productivity perspective, recalled in Chap. 2).[17] The basic idea is that if the markets remunerate marginal productivity, then, they also reward desert, because marginal productivity depends solely on A and E, namely, the two constituent elements of desert.

In Chap. 2, we have defined rents as the difference between price and cost. So, if desert is related to ability and effort, rents can also be viewed as an excess remuneration compared to what should be paid to reward desert. For the contributory view, then, no rent can be obtained if markets are meritocratic.

Ultimately, the difference between the two perspectives is based on the different evaluation of a sub-group of rents: those that depend on having a scarce ability, where scarcity has to do with absolute scarcity (rarity), be it because of natural causes or because of consumers' perception, as occurs in the instances of segmentation/non-replaceability of demand discussed in Chap. 2.

Think of a sportsman endowed with a rare ability that others can't lay claim to. There being no one with the same ability, he/she will enjoy a rent that no one, on the market, can touch; but this rent inevitably implies an excess compared to desert. If the ability were more widespread, other players could strive to enter the market and erode these rents. An interesting consequence is that, at market equilibrium, only effort is remunerated. Which doesn't mean that ability doesn't matter. Good players are always well remunerated. Thanks to freedom of entry, however, they receive only what is necessary to promote the ability, without any rent being produced.

[17] Mankiw (2013) seems to defend also the connection between meritocracy and competition on the demand side.

The contributory view does not allow for any rent, including those deriving from scarce abilities. The only justification of rents, in the contributory view, could concern the infra-marginal rents due to increasing costs and/or the rents due to heterogeneity of abilities, provided there is free entry, and consequently, a single price.[18] For the perspective based on the metaphor of the sporting competition, instead, rents due to rare abilities are perfectly meritocratic.

In short, for the contributory view, freedom of entry, rather than being limited to the natural external resources, has to be extended to individual abilities. Having Callas' voice or Tomba's legs is equivalent to owning a diamond mine, meaning a natural resource representing an entry barrier that leads to rents that are incompatible with desert. In the context of a sports event, instead, freedom of entry is limited to the external resources and scarcity of ability doesn't necessarily compromise the meritocratic competition.

Finally, a *caveat* and a general observation. The *caveat* concerns what seems to us a difficulty in applying the sporting competition metaphor to the assessment of today's market inequalities. This metaphor was developed in the nineteenth century, when races were watched exclusively by the audience at the location where the competition took place and the participants were for the most part amateurs. The prize for the winner did not strictly reflect desert, but the winnings were limited. Today, as we have seen in Chap. 2, the superstars have access to potentially global audiences, with the consequence that the winner-takes-all. This new situation, to our mind, calls for a reassessment of the connection between reward and desert, or, in other words, the *quantum* of inequality that is compatible with the race metaphor. We'll come back to this point later.

The general observation concerns the nature of the meritocratic justification of market inequalities, which remains exacting, irrespective of the perspective adopted. To be acceptable, inequalities must involve $A + E$ (or $A \times E$). What is crucial for meritocracy is providing performances that are desirable for consumers, not just what it takes to win, which may also include the manipulation of the chances of victory to one's own advantage.

According to the same reasoning, one should not automatically accept the statements we often hear expressed in the public debate, whereby inequalities associated to greater human capital would be an unquestionable indication of meritocracy. Leaving aside the problem posed by the lack of substantive meritocracy, if bargaining power existed, remunerations would also include a rent that has

[18] On the relationship between single price and freedom of entry, see Chap. 2. More specifically, rents due to increasing costs would depend on the fact that the reward claimed increases with the increase of effort, while the rent due to heterogeneous abilities depends on the fact that the more skilful require less effort compared to the less skilful. In both cases, however, the price is unique (given freedom of entry). This means that it remunerates in the same way the first unit of effort produced as well as the last (most costly one). The same applies to individuals with different skills. For an alternative position that doesn't justify as meritocratic even infra-marginal rents, see Dekker (2010), according to whom meritocracy should entail retributions based on average (rather than marginal) benefits.

nothing to do with the remuneration of abilities and effort. The meritocratic justification of market distributions requires that human capital be rewarded, but that's just the point, the human capital alone. This will or will not happen depending on the structure of the market.

Even in the formal version, meritocracy, therefore, contemplates a vision of inequality of opportunity that is far more demanding than what is often acknowledged both by its defendants as well as its opposers. Rather than being limited to personal endowments, it also calls into question market design and the market's actual capacity to reward desert.

5 The Super-Rich, Current Markets and Formal Meritocracy

While acknowledging the variety of cases, in Chap. 2, we argued that the competition we see at the origin of high earnings is often only a "halved" competition. If this were the case, the assessment of market inequalities would be fairly simple. Meritocracy requires competition. If competition is lacking, then, the concentration of earnings is not justifiable in meritocratic terms. As super-earnings are incompatible with competition, by the same token, they are incompatible with meritocracy. This, too, is a point worth bearing in mind.

Nevertheless, it would seem useful, even at risk of some repetitions, to test the meritocratic acceptability of the various ways that super-earnings are currently created. Furthermore, we have seen that the meritocratic justification is compatible with two different visions of competition, and we also have to bear this in mind when assessing the various cases.

In this paragraph, we will deal with formal meritocracy, while in the next one, we will consider whether the rich additionally benefit from the lack of substantive meritocracy. Therefore, the only point we will discuss here is whether the remuneration of the super-rich can be considered an appropriate reward for their greater (current) abilities and effort.

We will start with the superstars who achieve this status thanks to their ability in exploiting the technology of joint consumption. If a product can be jointly consumed, the marginal cost is zero; for example, if the audience watching a sport match on the Internet increases by one unit, there is no increase in cost. Therefore, the marginal spectator/consumer should not be charged, and, if the single price rule holds true, the price should be the same for all consumers. In other words, if the marginal cost is zero, the same should be true of the price. The superstars, however, secure all the benefits of joint consumption.

Now, it is certainly true that the version based on the metaphor of the sporting competition allows for rents based on ability, but, as we have mentioned earlier, it has developed in a completely different context to todays. If revenues can be multiplied without any change in the actions performed thanks to the exponential

multiplication of consumers, should we not address the issue of the *quantum* of acceptable inequality? If we set no limitations to the connection between reward and desert, doesn't this undermine the notion of meritocracy itself?

Going back to the Wimbledon tournament, the first prize, in 2013, amounted to 1.6 million pounds, with an increase of 40 % compared to the previous year. The crucial element here is the role played by commercial partners (exploiting the advertising advantages) and by television contracts (the 2013 increase was primarily the result of a contract with a Chinese television station with a vast audience). Although the sporting competition perspective does not require proportionality, it is difficult to connect the difference in prizes to the desert of Murray who won in 2013 and of Federer who won in 2012.

A useful example could be the one suggested by Alm (2010) involving a group of students who, at the end of the year, decide to buy a present for their professor. How much the students are prepared to pay clearly depends on the benefit they believe they have received from the course. However, it would seem unrealistic to presume that the value of the present should increase in a linear progression with the increase of the number of students. Even if a high number of students, with limited individual payments, could collect enough money to buy a car, the students might consider this present to be more than the professor deserves. In more general terms, what is being questioned here is the absence of proportionality between the prize and the contribution to the common welfare.[19] The absence of proportionality is exactly what distinguishes markets dominated by joint consumption technologies.

To this regard, one has to underline that modern network infrastructures have made demand potentially global, giving rise to winner-takes-all-markets. If, as we claimed in Chap. 2, my on-demand network allows me to watch any opera live, why should I make do with listening to the tenor in my own country, however good he might be, when I can listen to Placido Domingo? Why watch a golf match when the best player is not Tiger Woods?

Similar considerations (besides the many other problems associated with the financial economy that we will consider later) can be extended to the broker who, by pressing one single button, can set in motion a chain of sales and purchases that will make him vastly rich. Even a supporter of market meritocracy like Mankiw (2013) agrees that, in this case, desert cannot be invoked.[20]

[19] We have avoided here the more complicated cases involving inventions, even though even on this front, there are doubts regarding the justifiability of a linear relationship between the increase in the subjects benefitting from them and the increase in retribution. We will come back to this point in the last part of this chapter and in the discussion of the relationship between inequality and growth in the next chapter.

[20] On the rents and the frauds perpetrated by casino capitalism, see Stranger (1997).

With respect to the superstars operating in the absence of joint consumption, the critical elements become even clearer. Consider, for example, the rents that CEOs may achieve through the bargaining power exercised in the presence of asymmetrical information and weak governance structures. These rents would be unacceptable from any meritocratic point of view, as they are based on a bargaining power that implies the possibility of manipulating the competitive race. On this point, can we honestly believe that a situation involving a standard CEO for US fast food companies, who in one day earns almost twice the annual income of the company's restaurant workers, actually reflects desert or is it more a question of governance structures that have heavily undermined the role of trade unions?

Paradoxically, even incentive remunerations, instead of rewarding desert, could increase the opportunity to extract rents, as they offer managers the chance to draft contracts that are biased in their favour (thus, influencing the incentive structure to their advantage). One only needs consider the cases of managers appointing the consultants who are supposed to identify the benchmarks for additional remunerations or special bonuses for the managers themselves.[21] Even the widely used stock option incentive has many limitations: its value, on the one hand, can be manipulated by managers and, on the other, can depend on factors that are entirely unconnected with the company's performance, such as overall stock market performance. With respect to manipulation, it would seem worthwhile recalling that, over the last decade, the 500 largest companies classified by Standard and Poor's (representing 75 % of Wall Street capitalisation) have invested 3 billion dollars in repurchasing operations designed to increase stock value (Mazzucato 2013a). The fact that managers responsible for negative performances are still part of the most sought after group of managers would seem to point towards the possible existence, and persistence, of restricted power groups.

In any case, incentive remunerations, even when designed to counter asymmetrical information, intrinsically incorporate a rent that goes against meritocracy. The remuneration is greater than what would be required to reward effort.[22]

Similar considerations hold true for the income component pocketed by important professional figures engaged in the service economy (with financial consultants in the front line). The latter may exploit informational asymmetries, in this case, thanks to the elements of experience or even credence goods of the services provided.[23] To this regard, one can certainly claim that their incomes are ultimately based on the choices made by customers (even though inertial).[24] Therefore, once

[21] We should also recall the practice of using as a benchmark the companies' total rather than relative returns, which could mean that the performance rewarded could be inferior to that of other companies.

[22] There's clearly a difference with respect to incentive payments aiming at rewarding marginal effort.

[23] As it is well known, for experience goods the quality cannot be ascertained by the purchaser before the purchase, while for credence goods quality remains uncertain even after consumption.

[24] Even if other professionals entered the market, the consumers would not trust them and, therefore, entrance would not help to reduce the effective or perceived scarcity of competent professionals.

again, it would be a case of the demand being funnelled towards those that are perceived as being the best, which would signal a lack of desert that would be relevant only for the contributory view. A problem would, however, arise also for the version based on the sporting race metaphor if producers craftily exploit the asymmetries to obtain more than is justified by their (actual or perceived) worth.

In Chap. 2, we have dwelled on a more hidden power, designed to steer consumer preferences by promoting notoriety. The development of the ranking industry is emblematic. When this power influences the choice of the best, we are faced with manipulations of the competitive game that are incompatible with meritocracy.[25]

Incomes deriving from entry barriers would seem equally incompatible with meritocracy. This challenges the many claims, made by businessmen, especially in the advanced technology sectors, that their incomes are "self-made" and dependent exclusively on their own efforts. A paradigmatic example is provided by Microsoft's opportunity of offering its Internet Explorer browser free of charge, while anyone wishing to use Netscape had to purchase a different computer. Patents can be another form of barriers, seeing as they can guarantee advantages that go well beyond what would be necessary to stimulate innovation.[26]

The presence of high profits, also enhanced by the option enjoyed by multinationals to elude taxes in the countries where tax levies are greatest, has further reinforced the bargaining power of managers. This latter is also spurred by regimes of personal taxation that are particularly favourable to high-incomes.[27]

Similar observations apply to other categories of workers. Consider, for example, television superstars in Italy. The size of the incomes they can command is directly dependent on the presence of a television duopoly, thus, on an entry barrier.

The advantageous situations we have just discussed, rather than being the natural outcome of market processes, are for a large part the result of another form of power-wielding: political rent-seeking and, along with it, the expansion of what has been termed crony capitalism. These activities include the request for positive actions: just think of the lobbying pressure brought to bear on the political sphere to soften competition legislation and to curb taxation on high incomes. They also include requests for so-called policy drift actions, meaning the exclusion from the political agenda of actions that could turn out to be damaging for high-incomes. A case in point are the attempts to avoid the introduction of regulations aiming at reducing short-term speculation in the world of finance (increased capital gains taxation on short-terms investments, introduction of stricter controls over

---

[25] As indicated in Chap. 2, these phenomena mainly concern the superstars who don't have to confirm continuously their ability as sports champions.

[26] On both issues, see Stiglitz (2012).

[27] The taxation issue is addressed in so far as the reduction of progressivity for top incomes may have favoured the manager's bargaining power and, as a result, higher remunerations. Alvaredo et al. (2013) provide support for this argument.

acquisitions and so on) and/or forms of corporate social responsibility.[28] Also all these activities have nothing to do with meritocratic markets.

To complete this analysis, we would like to underline three final points. First, high incomes don't always bear the brunt of the negative externalities associated with them, and this broadens the gap between desert and the contribution to social welfare even further. Financial capitalism offers plenty of examples to this regard. Suffice it to think to the social costs associated with the maximization of short-term shareholder value and, with it, with the transferring of sub-optimal doses of risks both on employees and customers and overall society.[29] In addition, striving for and achieving higher retributions in the context of finance, has also influenced claims for higher wages in other fields, thus influencing even our notion of appropriate remuneration.[30]

Secondly, among the 500 most highly paid CEOs in the United States over the course of the 20-year period between 1993 and 2012, there have only been five women (Anderson et al. 2013).

Thirdly, if there are a number of reasons leading one to doubt the meritocratic nature of many of the remunerations obtained by the super-rich and if the super-rich purchase, as would seem plausible, services supplied by other super-rich (think, for example, of the services provided by superstar professionals), then, today's inequalities also favour the enhancement over time of non-meritocratic inequalities. In short, today's inequalities risk feeding an escalation of undeserved inequalities.

To sum up: what would a meritocratic justification of market remunerations call for? As we have said, it would require that the remunerations depend on $A + E$ (or $A \times E$). To this end, markets should be competitive and prices should tend towards matching the costs required to provide A and E. In other words, there should be no rent. The only waiver to this condition would concern rents due to a lack of ability and apply exclusively to the version based on the sporting event metaphor.[31]

---

[28] For a detailed reconstruction of many of these actions, in particular in the United States, see, among others, Bartels (2008), Bonica et al. (2013) and Hacker (2011). On the impact of the top income's capacity to "identify the best way of exploiting market powers and other market failures—and, in many cases find the best way of ensuring that politics works for them rather than for society as a whole", see Stiglitz (2012, p. 41). On crony capitalism, see also Zingales (2012).

[29] On the relationship between the financialization of the economy and the growth of inequalities, see, for example, Duenhaupt (2012) and van Arnum and Naples (2013).

[30] As noted by Reich (2008), in the two/three decades after World War II, American CEOs have, instead, tended to "imitate" the compressed retribution structure of the Public Administration, under the understanding that they were serving America, exactly like the major bureaucrats.

[31] If abilities are scarce owing to a lack of institutional conditions for their reproduction, the assessment could be different. On this issue, see, below, the considerations on substantive meritocracy.

Is this what happens in the real world? While not underestimating the variety of cases, rents seem to be pervasive owing to a number of factors: entry barriers, both traditional and connected to the segmentation of demand, which may be further amplified by joint consumption technologies and by the exercise of bargaining power at both the company and/or the political level. All these rents have nothing to do with desert, representing an excess remuneration over what is required to remunerate ability and effort. Furthermore, the negative externalities that could be connected to the services provided by the super-rich should not be underestimated.

Finally, it is interesting to juxtapose today's world to that in which the meritocratic vision was first developed, the American frontier where the meritocratic heroes were the characters created by Horatio Alger, individuals whose economic conditions were a long way from displaying extreme inequalities. By paraphrasing Krugman, today's society would, instead, appear much closer to that of the gold rush where the prize for good luck was immense or, in accordance with Ruffolo (2001), to a world where the remunerations are a "princely apanage, a feudal benefit, a Mandarin revenue, the context is still referred to as 'the market', but is much more similar to a lottery".

6 The Super-Rich, Current Markets and Substantive Meritocracy

An additional baffling element, when assessing today's super-riches, is provided by the available evidence regarding the extent of inter-generational inequalities. Briefly, the positions occupied by the rich are often largely inaccessible to those born in disadvantaged contexts.

Of course, there are exceptions. In Chap. 2, we recalled the paradigmatic case of the Russian oligarchs as well as the fact that some data, also in the United States, would seem to indicate that inheritance or being born in a rich family has less of an impact on future success. For example, many more of the 400 richest Americans in the Forbes rankings today come from lower income bracket families than was the case in the past (Kaplan and Rauh 2013). Nevertheless, Kaplan and Rauh also point out how the vast majority of the super-rich still comes from the upper-middle class.

On the one hand, inequalities in access to education persist. Franzini and Raitano (2013), for example, show how, in the European Union, the level of education attained by children is strongly influenced by the social and economic conditions of the family of origin. In southern European countries, this is even more the case. In Italy, the son of a manager is twice as likely to graduate than the son of a factory worker.

On the other, though often underestimated by the very defenders of substantive meritocracy, social inequalities tend to persist even for the same level of educational qualifications. The latter are of course a very imperfect measure of a person's

cognitive abilities, which, in turn, only represent one aspect of desert. Nevertheless, in today's information economy, human capital carries a great weight and educational qualifications, in today's literature, are often used as proxy. Using such a yardstick, the existing inequalities between people with the same educational qualifications would seem to strain the meritocratic justification whereby equal desert should be matched by equal remuneration.[32] In other words, how is it justifiable that given equal desert, some make it big and others do not?

Inequalities in the presence of the same educational qualifications often call into question social relations. As Franzini (2013) reasons, social relations constitute a complex variable that also has to do with market conditions: there would seem to be little point in calling a market meritocratic when what matters is exactly what meritocracy is supposed to avoid; when affiliations supersede desert. Social relations also concern substantive meritocracy, in the sense that being social, relations can't help but be dependent on the social position occupied. Relations held by the more advantaged sections of society are, thus, also the most fruitful.

The extreme importance of social relations in favouring the transmission of economic status within the richer deciles is exactly what we observe in reality. In the United States, for example, over a third of the new CEOs finds work in companies with which their family of origin has already had some form of relation (Corak 2013a). Bingley et al. (2011) document the same phenomenon even in countries with a high degree of overall inter-generational mobility. In Denmark, over half of the children born from fathers belonging to the richest 1 % works for an employer for whom the father had previously worked. In Canada, the ratio climbs to 7 out of 10.

Another possible cause of inequalities in the presence of the same educational qualifications has to do with transitions in the labour market. When accessing the labour market is difficult, finding a job offer that is coherent with one's own qualifications may require time. If one comes from a wealthy family, the wait can be economically bearable. Individuals from families with lesser means may, instead, have to accept the first job available.

Moreover, the family influences the development of non-cognitive abilities. According to Bowles et al. (2001), for example, in the United States between 2/3 and 4/5 of the variance of the natural log of hourly remuneration is not explained by education, age or seniority. As they see it, the main reason lies in the different distribution of non-cognitive abilities.

As we have acknowledged in discussing the ambiguities of substantive meritocracy, the elasticity of the inter-generational transmission of incomes is a rather weak indicator of substantive meritocracy. Nevertheless, values of 0.9 % (therefore close to the total transmission of inequality), such as those that seem to hold true for

[32] On the overall heterogeneity of retributions given equal academic qualifications, see Franzini and Raitano (2011). In short, in almost all European countries over 80 % of the inequalities among workers has nothing to do with the skill premium.

the 0.1 % of the richest in a country with an egalitarian reputation such as Sweden, can't avoid triggering some kind of alarm bell (Björklund et al. 2012).

Finally, the role played by caring responsibilities should not be forgotten, however much it is overlooked by many theories of justice. If caring is not shared at the family level and is not supported at the collective one, poorer women unavoidably risk discrimination also in accessing the more remunerative occupations.

As has been previously acknowledged, there is no single formulation of substantive meritocracy. The extent of violation that we register today, however, should be worrisome even for the least restrictive of these definitions.

7 The Market: A Biased Mechanism for Detecting Desert?

One of the great qualities attributed to the market, as we have previously indicated, is that it allows an assessment of desert in line with individual preferences. In reality, this doesn't necessarily occur. We are not referring here so much to the possible presence of externalities or to the lack of information. Nor are we referring to the shortcomings of possible antidotes to the lack of information, such as notoriety nor to the presence of power. These cases fall under the heading of market failures and, if failures exist, it's clear that markets can't be expected to operate as expected. Nor are we here referring to the other obvious fact that the possibility of satisfying preferences depends on economic means. In this case, we would be facing a distribution problem.

We are, instead, referring to the fact that markets may not be capable of "listening" to all the preferences, thus, favouring some preferences and, consequently, some deserts over others. The market, in other words, may not be a neutral indicator of desert.

There are undoubtedly non-profit organisations and even for profit organisations operating on the market that are not devoid of ethical purpose, as recorded by the development of the Fair Trade Economy and corporate social responsibility.[33] The market, in any case, is not only about money, but also about status (Besley and Ghatak 2008). On a more general note, markets are human artefacts, subject to regulation by society, not natural entities.[34] Moreover, non-market values, such as trust, foster market performance.

This being said, we would like to point out three possible ways in which markets are biased where the ascertainment of desert is concerned. A first instance is the risk

[33] On the presence of ethical preferences within the market, see among others Becchetti et al. (2011). On the impact of philanthropy, see also Chap. 4.

[34] For an incisive description of the regulated nature of markets, see Harcourt (2011). On the many limitations that may affect the assessment of the relationship between values and market, see the discussion by Besley (2013) of Sandel (2013).

of marginalisation of some values.[35] In the market, so-called first-order preferences, such as tastes, are dominant over second-order ones, meaning preferences of preferences (meta-preferences). In the market, one generally purchases what one likes, regardless of additional assessments on the desirability of the choice, and what is most appreciated tends to be that which maximizes the difference between monetary benefits and costs.[36] Values, such as fairness, could thus be undermined. Consider the choice, given an equal level of quality, between two items sold at different prices. Searching for the maximum benefit at the least cost means favouring the one sold at a lower price, without asking the question whether for example, the lower price is due to a violation of worker rights. The same can be said for effort, a central element from a meritocratic perspective. On the market, returns depend also on ability: the greater the ability the greater the return. A road sweeper who (responsibly) does his job to the best of his ability will earn a much lower wage compared to someone who is capable of exerting himself/herself to the same degree in the solution of a mathematical problem. Thus, the effort has a different impact depending on the ability to which it is applied.

Contrary to what Robertson (1956) claimed, the disregard for justice could also extend beyond the market and, primarily, to public life. According to Robertson (1956), one of the great merits of the market is, indeed, that it saves on the use of justice and this saving would allow justice to be more vigorously pursued in other fields. But couldn't the opposite be true, meaning that savings favour atrophy and lack of vitality? In the vivid terms used by Sandel (2013), saying that it is desirable to economize in pursuing virtue in order to preserve its value is equivalent to suggesting to two lovers they should not love each other, or do so with moderation, for fear that in the future they will have no more love to go round.

What's more, use values tend to be marginalised on the market. According to J. S. Mill (1848, p. 66), individuals who are not "attracted to the life ideal backed by those who think that the normal state of affairs is for human beings to fight to advance, stamping over everyone else, jostling and stamping on each other's feet" but wish to have the chance to "stop" and "enjoy" what they do, could have a hard time satisfying their preferences.

An interesting example on this point is provided by Arnsperger and De Villé (2004), relative to a context where competition seems to work very well: a race where all runners are endowed with the same abilities and have had the same opportunity to develop them. The question the authors ask themselves is whether, in cases such as this, there would still be fairness issues. It would seem not, but that's not the case. The spectator's eagerness to watch faster and faster races drives the organisers to urge the athletes to run ever faster. In the end, there is no other choice than being prepared to train more and more obsessively. The overall effect, therefore, is a restriction of the possibility of juggling one's free time and one's

[35] Unlike what takes place with market failures, externalities would here concern the structure of the market itself rather than the single act of production or consumption.

[36] On this issue, see also Skidelski and Skidelski (2012), Tsakalotos (2007) and Hausman (1989).

running freely and, with it, a "form of alienation" that according to the two authors "should not be overlooked in the debate on the equity of competition" (Arnsperger and De Villé 2004, p. 17).

Furthermore, markets can only value what can be priced. Public goods or "citizenship goods" would, thus, appear valueless in so far as they cannot be priced on the market. The same is true for private goods against uncertainty (uncertainty, unlike risk, is not associated to a probability and, without a definition of the probabilities, no price can be calculated and, thus, no private insurance can develop). Furthermore, the market does not allow one to choose the context where one makes one's choice.

On this last point, in line with Anand and Gray (2009), let's imagine that we live in a world where, on every corner, there are food-dispensing machines. This would make access to food very simple. The consumers, knowing they'd feel better if they eat less, would prefer to limit the locations where food is sold, but this choice would not be possible. Consequently, they will continue to access food more than they'd wish to, pray to the "tyranny of small choices".[37] Leaving the world of food, we can return to our example about the choice between two goods of equal quality offered at different prices based on the different treatment of the workforce. Individuals who don't wish to contribute to what they consider an injustice would certainly be entitled do so. They would not, however, be in a position to satisfy their preference in favour of an overall system that protects worker's rights. Take the world of finance, for example. A choice context that favours both indebtedness and easy gains will favour speculative "choices" even though those making these choices might prefer a less favourable context.

One could surmise that undesirable choice contexts, rather than being blamed on the market, should be charged to collective choices. This is true. Those seeing the markets as natural institutions do, however, largely ignore the point. Plus, the point appears marginal in relation to our intent of assessing the desert of market outcomes. If the market rests on defective regulations, then also the desert registered by the market is affected.

Lastly, there are human activities that are appreciated, even highly appreciated, such as caring for others and the environment, which one might wish to exercise outside the market even if the market can come up with a price for them. In fact, the very act of pricing them could negatively affect their value.[38] An interesting example is provided by the readiness to accept toxic waste by some Swiss cantons (Frey 1997).[39] The readiness turned out to be decidedly higher when the reason for

---

[37] The phrase "tyranny of the small choices" is Kahn's (1966). More specifically, it refers to a situation where a series of small individual choices takes place in a choice context that is considered sub-optimal. On this theme, with implications also for the environment, see also Seldon (2001).

[38] The phrase "corruption of values" is in Sandel (2013).

[39] See also Anderson (1990).

doing so was based on civic duty. The introduction of a price, instead, led to reimbursement requests that were so high the whole operation was jeopardized.

Recognising potential market biases in the ascertainment of desert adds doubts regarding the meritocratic justifications of today's market inequalities. Not only some people could be receiving much more than is required to remunerate A and E. The evaluation of A and E itself could suffer the biases that markets display in the specification of desert.

8 Are We All Meritocratic? A Brief Look at the Liberal Egalitarian Stance

Although well rooted in public opinion, the meritocratic justification of market inequalities has few supporters within contemporary liberal-democratic philosophy, where a central role is played by so-called liberal egalitarianism, an approach that is quite critical of meritocracy. By liberal egalitarianism we mean essentially an ethical perspective based on the central tenet of moral equality: all individuals share this common equality and, thus, are all equally worthy of respect and concern. This conception of equality also reflects the value of freedom: how can we respect others if we don't acknowledge their freedom to plan their own existences and to share with us the choice of collective rules, without impositions from others?[40]

This approach raises two main bodies of objections against meritocracy. First, it objects to the underlying process-oriented conception of justice. In Phillips' terms (2006), irrespective of the reference to desert, meritocracy is an equaliser of initial starting points in a race where the majority is bound to lose. As soon as the "starting gate" is opened, inequality of rewards immediately starts to be produced and has to be accepted. The notion of equal opportunity is, therefore, exclusively "competitive": what matters is that competitive processes are at work that remunerate desert. Those who win will gain, those who lose could be deprived of the resources need to survive.

Other consequences that are also ignored are the extra-distributive consequences, brought to light by Young (1958), of considering oneself grade B citizen. As Corak admits (2013b),

> The belief that talent is bred in the bone, and that opportunities are open to anyone with ambition and energy, also has a dangerous corollary. When the lens of public policy is focused on the plight of the poor, this belief can help revive the laissez-faire conception of the poor as "undeserving," the authors of their own predicament.

Now, it is certainly true that in meritocratic markets, freedom of entry and the absence of bargaining power would avoid such extreme inequalities as those

---

[40] Another sceptical position regarding meritocracy is the libertarian one. We will refer to it in the next chapter seeing as it opposes any actions aimed at reducing inequalities and not just meritocracy.

witnessed today. The markets could also be regulated on the basis of pluralistic conceptions of desert. As recalled in the Introduction to this chapter, compromises between desert (however defined) and other fundamental values can also be found.

Even limited inequalities, however, can exist alongside remunerations that are insufficient to satisfy fundamental needs. Furthermore, the criteria by which one can introduce coherent market regulations, or compromises between different values, must be established outside meritocracy. In any case, the meritocratic principle risks undermining the propensity to redistribute by reinforcing the belief that those who have made it deserve it and those who haven't don't.[41] One thing, then, is an ethically pluralistic approach (or in Rawls' terms, 1971, intuitionism), which requires a compromise between values that are considered equally fundamental and another is a pluralistic approach based on priorities, in which the satisfaction of some values (in a lexicographic order) comes before that of others.[42] Meritocracy is compatible with ethical pluralism, but not with pluralism based on priorities. In recognising a shared moral equality in terms of consideration and respect, liberal egalitarianism could, instead, require that everyone be guaranteed the possibility of accessing a set of fundamental resources/goods.[43]

The second body of objections focuses on the underestimation of luck, meaning by luck all those factors that are independent of individual action, even if they can be modified, at least in part, by public action. For all aspects that are dependent on luck, desert would be underserved.

Luck, too, has a variety of dimensions. It concerns the socio-economic context in which the individuals provide their services. To this regard, on the one hand, the value of the performance/of the marginal product depends on others: an individual may be extremely skilled in a given job, but if he doesn't find anyone prepared to appreciate it he will have no desert. Desert, in other words, inevitably has an institutional aspect, which the individual has no control over. As Warren Buffet admits, "his great wealth derives to a great extent from having the brute good luck to live in a country at a time when his particular talents for allocating capital are valued—talents that in other contexts could be worthless".[44] At the same time, the greater the size of the market, the greater the demand that can be met and, therefore, the higher the returns. Contrary to what is implied in the theses of Gabaix and Landier (2008) examined in Chap. 2, this has nothing to do with individual desert.

On the other hand, performance itself (the marginal product, regardless of value) depends on luck. It depends, for example, on the pervasiveness of team production, meaning the presence of super-additive production functions that make it possible

[41] In favour of this conclusion, see the large amount of evidence produced by experimental economics, according to which individuals tend to claim the entire amount of any reward achieved from the market, while they are more likely to accept redistribution of inheritances and gifts.

[42] On the conflicts between different types of pluralism, see also Granaglia (2012).

[43] This does not mean that liberal egalitarianism must take into account the consequences. Simply put, it may take them into account, as it is the case in most of the proposals put forward based on this perspective.

[44] Quote from the Hutton Review of Fair Pay (2010).

for a team product to be greater than the sum of what the individuals could produce separately. It depends on the organisation of labour and on capital availability; on the size of the company and the existing tangible and intangible infrastructure; on technological progress, on the overall system of social regulations (that may or may not reward the work ethos) and on the quality of the public institutions, both at local and a broader level.

As Hobhouse stated, at the beginning of last century,

> The organizer of industry who thinks that he has "made" himself and his business has found a whole social system ready to his hand in skilled workers, machinery, a market, peace and order a vast apparatus and a pervasive atmosphere, the joint creation of millions of men and scores of generations. Take away the whole social factor and we have not Robinson Crusoe, with his salvage from the wreck and his acquired knowledge, but the naked savage living on roots, berries and vermin.[45]

In short, the meritocratic justification of market inequalities does not distinguish between the overall value of the marginal product assignable to work (as a production factor) and the value that can be assigned to the individual worker. We can, of course, say that if we increase the amount of work by a given amount we also increase the value of the product. The increase, however, cannot be entirely ascribed to the person producing it, as it is influenced by the number and the activities of other providers as well as by the contingencies surrounding demand, all factors over which the individual has no control. As van Parijs (1995) puts it, a part of what we receive from the market is a "gift", for which we are in no way deserving. According to Hausman (1989), it is this very surplus produced by the social interdependence that is made possible by the market that makes the latter superior to autarky. If this is the case, market distribution is inevitably arbitrary seeing as it gives to the individual also that which, belonging to all, should be shared among all.[46]

If all the factors due to pure luck were distributed in an equal fashion, desert viewed as $A + E$ (or $A \times E$) would be safe. But that's not the case. For example, a large part of the desert assigned to Silicon Valley businessmen is in actual fact the result of research that is dependent on the financial risks taken on by public budgets (Mazzucato 2013b).[47]

Luck also plays a role in the distribution of abilities. Is it not just luck that determines whether we are born with a high or low IQ? If we can delegitimize the social lottery in so far as having to do with luck, why shouldn't we do the same for the natural lottery? As Rawls (1971) sees it, natural distribution is neither fair nor

[45] The quote is by Hobhouse (1922, pp. 162–163) taken from Samuelson (1997, p. 484).

[46] On this issue, once more see Hobhouse (1922).

[47] As argued by Lazonick and Mazzucato (2012), the highest remunerations rather than the innovators, have rewarded the subjects at the last stages of production who have exploited the relationship with finance, once the innovation had been realized (and, therefore, the risk was already curtailed).

unfair: it is simply natural. In addition, abilities influence efforts themselves: don't we find it easier to make an effort in doing what we are good at (as implied in A x E)?

We do not intend to overstretch the role of abilities. The data, in the dispute between the role of nature and that of nurture, are quite robust in indicating that the latter prevails where the development of abilities is concerned.[48] But even if we side with Jefferson, who claimed that meritocracy would eradicate "the artificial aristocracy founded on wealth and birth", in favour of a new "natural [aristocracy] based on merit and genius to be found within every social stratum", or with Rousseau, who upheld the importance of "feeding" abilities, the role played by the natural lottery cannot be ignored. If this is the case, why should those who claim to be morally equal (regardless of possible natural inequalities) be prepared to see abilities rewarded as meritocracy requires?

Finally, elements of idiosyncratic and residual luck could be at work. For example, someone could chance on a very precious piece of information that might pave the way to an excellent job and a booming career, with effects resembling those described by St. Matthew, [49] that are cumulative over time. This, too, seems to us unjustifiable in terms of desert. On a more general level, van Parijs (2009, p. 14)[50] points out that,

> in life, the opportunities we enjoy are fashioned in complex, largely unpredictable ways by the interaction of our genetic features with countless circumstances, from the smiles of our parents to the presence of older siblings, from our happening to have a congenial primary school teacher or imaginative business partner to our happening to have learned the right language or our getting a tip for the right job at the right time.

And according to Knight (1923, p. 609),

> The luck element moreover is so large—far larger than fairly successful participants in the game will ever admit—that capacity and effort may count for nothing. And this luck element works cumulatively, as in gambling games generally. The effects of luck in the first hand or round, instead of tending to be evened up in accord with the law of large numbers in the further progress of the game, confer on the player who makes an initial success a differential advantage in succeeding hands or rounds, and so on indefinitely. Any particular individual may be eliminated by the results of his first venture, or placed in a position where it is extraordinarily difficult to get back into the game.

Moreover, competitions also allow joint prizes, while the markets could even assume a take-it-all configuration.[51]

[48] See Nisbet et al. (2012). On the weight of nurture, see also the "old" British Social Democrats, according to whom "some" equality in socio-economic conditions would make meritocracy acceptable, by considerably restricting differences in desert.

[49] On the St. Matthew effect, see Rigney (2010) and his overview of Merton. On the role of luck in the creation of the superstars, see Adler (1985).

[50] The reference is to the version that can be found at www.uclouvain.be/cps/ucl/doc/etes/documents/2009.Steiner.pdf.

[51] If this is the case, it seems fairly inconsistent to deal with equal opportunities only up until the starting gate and not during the course of life as well.

Acknowledging that we could be favoured or penalised on the basis of pure luck clearly enhances the reasons to contrast the negative consequences of the market in terms of the satisfaction of needs. But, of course, we also should worry about the consequences, even if they were the result of autonomous choices (Fleurbaey 2005).

9 Luck, Meritocracy and Liberal Egalitarianism

The supporters of meritocracy do not ignore luck. Miller (1999), for example, provides the example of the baker who, when deciding whether to increase the amount of bread he produces, takes into account the price, which partly depends on a number of random factors that influence demand and supply. On a more general level, luck can also influence any sporting event, as the chance of victory depends, among other things, on the number and skill of the contenders, which are random variables with respect to the individual competitors.

This being said, those favouring meritocracy believe that taking into account luck beyond the borders of the social lottery entails the risk of violating one's sense of self. Miller writes (1999, p. 149),

> If we try to eliminate contingency of every kind we find that our judgments are directed at a radically thinned-down idea of human agent. Instead of assessing the deserts of flesh-and-blood actors who make a visible impact on the world, we find ourselves at best judging the qualities of Kantian noumenal wills"

But is this really so? As far as we know, none of the positions found in the liberal egalitarian literature deny the role of desert in accessing the various social positions. What is being questioned is simply the role played by desert in legitimizing market remunerations. Liberal egalitarians do not claim that in deciding which doctor to hire the hospital shouldn't choose the one who is considered the best in a meritocratic competition. It challenges whether being considered the best can also be a good reason for securing all the possible remuneration available on the market. If this is the case, the accusation of a violation of the sense of self loses a great deal of significance.[52]

But that's not all. Even where wage distribution is concerned, liberal egalitarianism does not propose perfect equality. The issue cannot be gone into in any great depth in this context. But it is worth recalling how Rawls (1971) soon watered down his initial insistence on perfect equality, acknowledging the full legitimacy of inequalities due to effort (Rawls 1993, 2001). Moreover, even his initial stance is open to a number of different interpretations, including those envisaging a relatively weaker interpretation of the (second) principle in favour of equality of resources (van Parijs 2003). At the same time, another egalitarian liberal like Ronald Dworkin stands up for market inequalities on the basis of responsibility

[52] Along the same lines, see Scheffler (2000), according to whom contemporary liberalism has gone too far in its attempts to compensate for bad luck.

as well as freedom. The same goes for Sen, according to whom equality should concern the guarantee, for all (rather than just for the deserving), to have access to a set of fundamental capacities.[53]

In short, even liberal egalitarianism, like meritocracy, incorporates a notion of equal opportunity. The difference concerns where to put the boundaries between the "initial" conditions (the actions undertaken to level the playing field) and what comes "after", when individuals can be considered the makers of their own destiny.[54] For liberal egalitarianism, the "before" is not only a matter of neutralizing the influence of social lottery, as it is for substantive meritocracy. It also includes contrasting the general effects of luck, which may also give rise to a cumulative accentuation of inequalities over time.

What is nevertheless striking is the twofold register adopted by many, whereby personal desert is called upon to ratify winners, while external factors, such as impersonal market forces come into play for the losers. The crisis started in 2008 provides plenty of examples of this kind of behaviour.

10 Conclusions

The arguments developed in this chapter can be summed up as follows. The meritocratic justification of market remunerations represents a much more demanding ideal that is normally acknowledged in the public debate. Meritocracy is demanding, as it calls for the banishing of the influence of private affiliations in the access to the labour market and, in the substantive version, also expects everyone to be provided with equal opportunities to develop their own abilities. To guarantee equal access to the labour market, meritocracy should not just take into consideration education, which of course is very important, but also a plurality of factors which, even given the same level of education, can influence access to and success on the labour market. These factors include financial backing, social relations and caring.

Unlike what a superficial reading of the sporting competition metaphor might lead one to think, even the meritocratic justification of market inequalities is equally demanding. To be justifiable according to meritocratic principles, these inequalities must reflect $A + E$ (or $A \times E$). For this to happen, there must be no barrier to entry and no bargaining power. Rents obtained by violating these conditions have nothing to do with desert.

---

[53] This argument has some affinity with what was said in Chap. 2 regarding the distinction between the mechanism of identification of the superstars by consumers and the determination of their remunerations, which should not take place according to monopolistic criteria.

[54] On the distinction between "before" and "after", see the observations made at the beginning of this chapter.

The controversial issue concerns scarce abilities. According to the contributory view, even this scarcity represents a barrier to entry, so that the rents that scarce abilities might provide cannot be justified. For the sporting competition metaphor, the barriers stop, instead, on the threshold of the scarce abilities and the resulting rents are legitimate. In any case, even for the view based on the sports competition one has to ask oneself the question of the *quantum* of inequality that may be acceptable.

While acknowledging the variety of cases, the arguments put forward pose more than one doubt on the possibility of a meritocratic justification of the super-incomes that we see on the market today. Barriers to entry and bargaining power confer rents that are incompatible even with formal meritocracy. At the same time, the positions held by the richer would seem to be largely inaccessible to the born in disadvantaged environments and, the weaker the substantive meritocracy the greater the rent that is determined by the restriction in the number of the "deserving" in the market competition.

In brief, if is unlikely that competition and super-incomes can be compatible, it is even more unlikely that meritocracy and super-incomes can be compatible. In the more radical and direct terms used by Lanning and Lawton (2011, p. 6), even allowing for the heterogeneity among super-rich, "the excessive remunerations at the top of the scale represent one of the most damaging examples of the separation between remunerations and merit".

In addition, the markets themselves risk providing nothing more than a partial assessment of desert. Given this state of affairs, it is surprising that the social sciences, which have often highlighted the issue of the undeserving poor, have proven so insensitive to that of the undeserving rich.

The meritocratic ideal has no doubt played an important role in supporting the case for equality, sponsoring the fight against aristocratic privileges and, still today, as we have had occasion to see, can spur powerful criticism of the inequalities enjoyed by the super-rich, bringing to light the many elements of rent that the remunerations of the super-rich can encompass as well as the many violations of equal opportunities in the development of abilities.

Nevertheless, it should also be recalled that meritocracy (in whatever form) is insensitive to distributive consequences and to the elements of luck that are present in market remunerations, even in the face of competition. What we manage to offer on the market and how what we offer is valued inevitably depends on others. The influence of the context, regardless of the individual, cannot set a rightful remuneration for desert. In other words, meritocracy makes the mistake of supposing that, in the presence of competition, what we receive from the market is entirely ascribable to the individual, undervaluing the many guises of luck.

A more attractive proposition, from this point of view, would seem to come from one of the most important perspectives of social justice developed during the last century, liberal egalitarianism. This latter, besides taking into account the role played by the consequences, also questions the entitlement to all that one can receive even in competitive markets, reaching the conclusion that, market remunerations, inevitably, incorporate elements of rent.

References

Adler M (1985) Stardom and talent. Am Econ Rev 75(1):208–212
Alm D (2010) Desert and aggregation. J Polit Philos 18(2):156–177
Alvaredo F, Atkinson AB, Piketty T, Saez E (2013) The World top incomes database. http://topincomes.g-mond.parisschoolofeconomics.eu/
Anand P, Gray A (2009) Obesity as a market failure: could a "deliberative economy" overcome the problems of paternalism? Kyklos 62(2):182–190
Anderson E (1990) The ethical limitations of the market. Econ Philos 6(2):179–205
Anderson E (2007) Fair opportunity in education: a democratic equality perspective. Ethics 117(4):595–622
Anderson S, Kinger S, Pizzigati S (2013) Executive excess. Bailed out boosted busted. IPS, Washington, DC
Arnsperger C, De Villé P (2004) Can competition ever be fair? Challenging the standard prejudice. Ethical Theory Moral Pract 7(4):433–451
Bartels L (2008) Unequal democracy: the political economy of the new gilded age. Princeton University Press, Princeton, NJ
Becchetti L, Bruni L, Zamagni S (2011) Microeconomia. Scelte relazioni economia civile. Il Mulino, Bologna
Bénabou R (1996) Meritocracy, redistribution and the size of the pie. V. Starr Center for Applied Economics 96/43, New York, NY
Besley T (2013) What's the good of the market? An essay on Michael Sandel's what money can't buy. J Econ Lit 51(2):478–495
Besley T, Ghatak M (2008) Status incentive. Am Econ Rev Pap Proc 98(2):1–5
Bingley P, Corak M, Westergård-Nielse N (2011) The intergenerational transmission of employers in Canada and Denmark. IZA working paper, 5593, Bonn
Björklund A, Jesper R, Waldenström D (2012) Intergenerational top income mobility in Sweden: capitalistic dynasties in the land of equal opportunity? J Public Econ 96(5–6):474–484
Bonica A, McCarty N, Poole K, Rosenthal H (2013) Why hasn't democracy slowed rising inequality. J Econ Perspect 27(3):103–124
Bowles S, Gintis H, Osborne M (2001) The determinants of earnings: a behavioral approach. J Econ Lit 39(4):1137–1176
Corak M (2013a) Income inequality, equality of opportunity, and intergenerational mobility. J Econ Perspect 27(3):79–102
Corak M (2013b) Who's your daddy? Job opportunities for the children of the top 1 percent. New York Times, July 21
Dekker T (2010) Desert, democracy, and consumer surplus. Polit Philos Econ 9(3):315–338
Duenhaupt P (2012) Financialization and the rentier income share—evidence from the USA and Germany. Int Rev Appl Econ 26(4):465–487
Fleurbaey M (2005) Freedom with forgiveness. Polit Philos Econ 4(1):29–67
Fleurbaey M, Peragine V (2013) Ex ante versus ex post equality of opportunity. Economica 80(317):118–130
Franzini M (2013) Disuguaglianze inaccettabili. Laterza, Roma-Bari
Franzini M, Raitano M (2011) Non solo capitale umano: la disuguaglianza salariale e il funzionamento del mercato del lavoro. Meridiana 71–72:45–74
Franzini M, Raitano M (2013) Economic inequality and its impact on intergenerational mobility. Intereconomics 6:328–335
Frey B (1997) Not just for money. Edgar Elgar, Cheltenham
Gabaix X, Landier A (2008) Why has CEO pay increased so much? Q J Econ 123(1):49–100
Gracia P (2013) Educational inequalities in parents' time with children. http://inequalitiesblog.wordpress.com/2013/07/05/educational-inequalities-in-parents-time-with-children/
Granaglia E (2012) Trade off. In: Besussi A (ed) A companion to political philosophy. Methods, tools, topics. Ashgate, Fordham, pp 123–134

Hacker J (2011) The institutional foundation of middle-class democracy. Policy Network, London
Harcourt B (2011) The illusion of free markets. Harvard University Press, Cambridge, MA
Hausman M (1989) Are markets morally free zones? Philos Public Aff 18(4):317–333
Hobhouse L (1922) The elements of social justice. Holt and Company, New York, NY
Hutton Review of Fair Pay (2010) Interim report, London, Crowne Copyright
Jencks C, Tach L (2005) Would equal opportunity mean more mobility? Faculty Research Working Papers Series, RWP05-037. Kennedy School of Government, Cambridge, MA
Kagan S (2012) The geometry of desert. Oxford University Press, Oxford
Kahn A (1966) The tyranny of small decisions: market failures, imperfections, and the limits of economics. Kyklos 19(1):23–47
Kaplan S, Rauh J (2013) It's the market: the broad-based rise in the return to top talent. J Econ Perspect 27(3):35–56
Knight F (1923) The ethics of competition. Q J Econ 37(4):579–624
Lanning T, Lawton K (2011) Getting what we deserve. IPPR, London
Lazonick W, Mazzucato M (2012) The risk-reward Nexus. Policy Network Paper, London
Lucas J (1995) Responsibility. Clarendon Press, Oxford
Mankiw G (2010) Spreading the wealth around: reflections inspired by Joe the plumber. East Econ J 36(3):285–298
Mankiw G (2013) Defending the top 1%. J Econ Perspect 27(3):21–34
Mason A (2001) Equality of opportunity, old and new. Ethics 111(4):760–781
Mazzucato M (2013a) The entrepreneurial state. Anthem Press, London
Mazzucato M (2013a) Towards a fairer capitalism: let's burst the 1% bubble. The Guardian, January 15
Mill JS (1848) Principles of Political Economy. Book 4. Chapter 6, disponibile in rete a http://www.econlib.org/library/Mill/mlP61.html
Miller D (1996) Two cheers for meritocracy. J Polit Philos 4(4):277–301
Miller D (1999) Principles of social justice. Harvard University Press, Cambridge
Nisbet R, Aronson J, Blair C, Dickens W, Halpern DF, Turkheimer E (2012) Intelligence. New findings. Am Psychol 67(2):130–159
Offe K (1976) Industry and inequality. Edward Arnold, London
Phillips A (2006) "Really" equal: opportunities and autonomy. J Polit Philos 14(1):18–32
Rawls J (1971) A theory of justice. Harvard University Press, Cambridge, MA
Rawls J (1993) Political liberalism. Columbia University Press, New York, NY
Rawls J (2001) Justice as fairness. A restatement. Belknap Press of Harvard University Press, Cambridge, MA
Reich R (2008) Supercapitalism. Vintage, New York, NY
Rigney D (2010) The Matthew effect. How advantage begets further advantage. Columbia University Press, New York, NY
Robertson DH (1956) What does the economist economize? In: Robertson D (ed) Economic commentaries. Staples Press, London, pp 147–154
Roemer J (1998) Equality of opportunity. Harvard University Press, Cambridge, MA
Ruffolo G (2001) I paradossi della crescita nell'era del turbocapitalismo. Lettera Internazionale n. 67
Samuelson P (1997) Economics. McGraw-Hill, New York, NY
Sandel M (2013) What money can't buy: The moral limits of markets. Farrar, Straus and Giroux, New York, NY
Satz D (2007) Equality, adequacy and education for citizenship. Ethics 117(4):623–648
Scheffler S (2000) Justice and Desert in Liberal Theory. Calif Law Rev 88(3):965–990
Seldon D (2001) Pollution preferences, how markets create the desires we dislike. University of Michigan Press, Ann Arbor, MI
Sen A (1999) Merit and justice. In: Arrow K, Bowles S, Durlauf S (eds) Meritocracy and economic inequality. Princeton University Press, Princeton, NJ, pp 5–16
Skidelski R, Skidelski E (2012) How much is enough? Allen and Unwin, London

Stiglitz J (2012) The price of inequality. Norton, New York, NY
Stranger S (1997) Casino capitalism. Manchester University Press, Manchester
Swift A (2003) How not to be an hypocrite. School choice for the morally perplexed parent. Routledge, London
Tsakalotos E (2007) Competitive equilibrium and the social ethos: understanding the inegalitarian dynamics of liberal market economies. Polit Soc 35(3):427–446
Van Arnum BM, Naples MI (2013) Financialization and income inequality in the United States, 1967–2010. Am J Econ Sociol 72(5):1158–1182
Van Parijs P (1995) Real freedom for all. Oxford University Press, Oxford
Van Parijs P (2003) Difference principles. In: Freeman S (ed) The Cambridge companion to rawls. Cambridge University Press, Cambridge
Van Parijs P (2009) Egalitarian justice, left libertarianism and the market. In: Carter I, de Wijze S, Kramer M (eds) The anatomy of justice. Themes from the political philosophy of Hillel Steiner. Routledge, London, pp 145–162
von Hayek F (1976) Law, legislation and liberty. Routledge and Kegan, London
Young M (1958) The rise of M. 1870-2033. Thames and Hudson, London
Zamagni S (2012) Meritocrazia. In Dizionario di Economia e Finanza, Roma, Treccani
Zingales L (2012) A Capitalism for the people: recapturing the lost genius of American prosperity. Basic Books, New York, NY

Chapter 4
Extreme Inequality, Well-Being, Freedom

Abstract Even if grounded on desert or other forms of entitlement, top incomes could still concern us due to the consequences they produce. For Frankfurt (Ethics 98:21–43, 1987), for example, consequences represent the crucial (and only) evaluation criterion. The chapter begins by considering two positions that uphold the positive consequences of inequality, namely the trickle down perspective and the perspective based on the role of philanthropy. For the former, inequality, even if extreme, could benefit the poor thanks to the incentive effects on the size of the GDP (and eventually, of the pie available for redistribution) while, for the latter, the richer one becomes the more he/she is willing to give back some of the fortunes acquired to those worse off. The chapter shows how both perspectives are not only lacking from a theoretical/normative perspective, but also do not seem to be supported by the empirical data when extreme inequality is at work. At the same time, contrary to the supposed inevitability of the trade-off between efficiency and equality, reducing top incomes could even foster growth or, at least, not hamper it provided the rent component of these incomes is what is targeted. As we will discuss in Chap. 5, policy design becomes crucial. Similar considerations apply to another alleged trade-off, the one between equality and liberty.

1 Introduction

Up to now we have assessed super-incomes on the basis of the processes that produce them, in the belief that a pondered evaluation of their acceptability must take into account how they are created, in addition to their extent. But this is not enough: even the impact these super-incomes have on the economy and society should be taken into consideration.[1] For some, like the philosopher Frankfurt (1987), consequences are all that matter and, therefore, only the negative effects of market inequalities could justify

[1] In dealing with market processes, we have already mentioned a few consequences. For example, we have referred to the possible non-internalisation of social costs. We have also mentioned the consequences of formal meritocracy on substantive meritocracy and have criticized meritocracy for not taking into account the consequences. So far, the focus on the consequences has, however, remained marginal.

© Springer International Publishing Switzerland 2016

M. Franzini et al., *Extreme Inequalities in Contemporary Capitalism*,
DOI 10.1007/978-3-319-28811-6_4

corrective measures. We don't embrace this position. The consequences are not decisive. They are, however, important, and important enough to warrant a chapter in this book.

The issues we will focus on are essentially four. The first, and perhaps most important one, concerns the effects that the enrichment of those who are already rich can have on the incomes and, more in general, on the welfare of the other members of society. The second looks at the negative repercussions that any attempt at constraining super-incomes might bring about, especially to economic growth. The third concerns the philanthropy of the super-rich. The fourth verifies whether attempts at containing the concentration of incomes may restrict freedom.[2]

A complete assessment of the effects of extreme inequalities would have to take into account other phenomena and particularly the one highlighted by Aristotle in the third book of his *Politics*, meaning the possibility that the presence of the super-rich may transform democracy—which in order to function requires an extensive middle class—into an oligarchy. However, any discussion of the impact of extreme inequalities on democracy and more in general on political processes will be perforce limited in this book. This is not because we underestimate the phenomenon. We have simply decided to concentrate on the economic aspects of the issue because that's where our expertise lies.[3]

2 Favouring the Rich and Everyone Benefits: The Trickle-Down Hypothesis

The idea that the advantages of the rich can produce advantages for (almost) everyone has been around some time and is widely upheld not just within the field of economics, but also in the political arena, and not necessarily just within the conservative wing either. For example, John F. Kennedy is supposed to have said (though doubts still persist) that "No American is ever made better off by pulling a fellow American down, and every American is made better off whenever any one of us is made better off. A rising tide lifts all boats". For his part, Blair, during his 2001 electoral campaign stated: "If you end up going after those people who are the most wealthy in society, what you actually end up doing is in fact not even helping those at the bottom end".[4]

[2] The empirical evidence we will use mainly refers to the United States, because this is the country one mainly refers to in the literature, when discussing the consequences of super-incomes.

[3] On the relationship between inequality and democracy, see Urbinati (2013). See also Atkinson (2007) according to whom we should worry about the characteristics and spread of richness given the broad power that the super-rich exercise over resources, individuals and the political system, even on a global level. A few considerations on this issue can also be found in Franzini (2013).

[4] It seems that the first time the term trickle-down was used was by comedian Will Rogers. In fact, during the depression of the Thirties he wrote: "The money was all appropriated for the top in the hopes that it would trickle down to the needy" (Morison 1965, p. 945). On the uncertainty of whether Kennedy made the statement, see Waldenström (2009), while Blair's quote is taken from the BBC 2 interview of 4 June 2001, available at the address blog.independent.co.uk/2012/02/08/tony-blair-on-bonuses.

These statements clearly stem from the belief that the advantage of the rich is not in conflict with that of the rest of society and in fact it may spread to the rest of society, including the poor. The wave of richness is supposed to lift, one after the other, all the other waves, that of affluence, of economic hardship and of poverty. In short, all (or almost all) will be better off and, therefore, no one will be worse off. The English term used to describe this effect is 'trickle-down'. In principle, it refers to an overall improvement of welfare—and not just income—of those who are not rich, but in the literature it only refers to the increased income that everyone enjoys when the rich get richer.

Tracing the theoretical grounds on which the trickle-down effect is based is not easy, to the extent that there are those who say they don't exist (Sowell 2006). Besides all other considerations, the main problem is due to the fact that the economic mechanisms triggered by income concentration are many and often contradictory, so it's difficult to establish whether those favouring the trickle-down effect will prevail. This being said, the weight assigned to the various mechanisms also depends on the theories one endorses, none of which, however, is capable of handling all of them jointly. Furthermore, how the initial enrichment is achieved (either as a result of a market event or a change in public policies) can be relevant. Despite bearing in mind all these difficulties, relying on Voitchovsky (2009), we can safely say that the defenders of the trickle-down effect usually invoke two mechanisms: the first acts on market incomes, the second on redistribution via the welfare system.

The first mechanism concerns the incentives and the propensity to save. Increasing the income prospects of those who already earn more, by increasing the level of inequality at the top, would be equivalent to providing more powerful incentives to individual effort. Similarly, increasing the rate of savings can—according to some theories—increase productive investments and, through these and their relationship with innovation, favour growth, leading to advantages for all. The second mechanism refers to the fact that if incomes increase so does the tax base and, if tax rates remain the same, this will lead to an increase in tax returns that can be redistributed to the poorer sections of society.[5]

If improvements for the richest benefit those who are less rich, a criterion would be satisfied, which many believe is writ in stone, to recommend that improvement. We're referring to the Pareto efficiency criterion, widely used by economists to choose between alternative social situations, and that here would be adopted in its more demanding version (the "weak" one). According to this version, a change is recommended if everyone gains from it, and trickle down implies exactly that, improvement for all (or, at least, almost all).

The less demanding version of the criterion (the "strong" one) only requires that no one loses out, meaning that when someone gains an advantage the others remain at least in the same condition. Thus, the increased income of some would in this

[5] The empirical literature, even where highlighting the positive relationship, is generally silent regarding transmission mechanisms. See, for example, Voitchovsky (2005) and Andrews et al. (2011).

case be acceptable even if it had no effect, either positive or negative, on anyone else. This perspective is the one embraced by Feldstein (1999), according to whom an increase in income for the rich is no different from a lottery jackpot: those who get richer are better off while for the others (especially if they haven't bought the lottery ticket, one would need to add) nothing changes.[6]

Before examining how the facts match up with the expectations of the trickle-down effect, it's worthwhile considering the solidity of this effect (and that of the accompanying Pareto criterion) as a yardstick to evaluate the consequences of the rich getting richer. Actually, it's apparent irrefutability is threatened by a few weaknesses that question the possibility of always considering an improvement even a change where all benefit.

One first weakness stands out if we consider that welfare, rather than depending solely on income levels, is influenced by the gap that separates one's own income from that of other subjects taken as reference. It has at this point been ascertained—mainly thanks to the studies on happiness—that the satisfaction of the individual does not increase systematically with income and, according to reliable reconstructions, the reason lies in the very fact that, besides the extent of one's disposable income, what counts is the relationship between this income and that of others (Clark et al. 2013). Therefore, if the income differential between the richer and the less rich increases, the welfare of the latter may be reduced even if their income increases.

A second weakness arises from the fact that welfare (even if we limit ourselves to the distributive dimension) does not only depend on income, but on other factors as well, firstly, the goods that one may access. As it turns out, the enrichment of the rich could influence the prices or quality of the products purchased by the less rich, even if the incomes of the latter increase. Moreover: the enrichment of the rich could lead to a social segmentation that worsens the quality of the public services and goods used by the less well off.

Further weaknesses concern the Pareto criterion on which the trickle-down effect is based. On the one side, approving the further enrichment of the rich provided it leads to an increase in (almost) everyone's income could mean having to approve a situation in which all gain, but some gain disproportionately more than others, thus leading to an increase in inequality This assessment, however, is inevitably controversial, regardless of the previously mentioned effects on welfare. One could perhaps reformulate the trickle-down effect and postulate that the further enrichment of the rich is desirable only if the increase in income does not increase inequality. This trickle-down effect, which we might term "relative", would seem to have a few additional social bonuses compared to the "absolute" version (and be little less indulgent towards the super-rich).

On the other hand, if the objective is to ensure that everyone's income increases without increasing inequality, it would seem advisable to compare the effects produced by the initial enrichment of the rich with those that would have been produced if the initial improvement befell those who are not rich. For example, a generalised increase

[6] We thank Giovanni D'Alessio for having brought to our attention the statement by Feldstein and its relationship to the Pareto criterion.

in income might be achieved also if the poorer were the ones to benefit first; if this were the case, we would have a trickle-up effect that would also satisfy the Pareto criterion compared to the status quo. The problem, by no means prosaic, would become that of comparing it with the trickle-down effect. The Pareto criterion would be helpless since in the passage from one situation to the other some would benefit, while others would lose. To sidestep the stalemate one might have to take into account the different consequences on inequality (rather than on absolute income). Thus, things start getting tricky if, unlike what the trickle-down effect would seem to imply, it's not just by giving to the rich that one can produce a generalised increase in incomes.

Finally, a last element of weakness is the scant attention paid to any delayed effect of the change. It may after all be that the immediate gains are followed, at some later stage, by losses, at least for some.

To sum up, there are many reasons why the trickle-down effect could not suffice to make it advisable for the rich to get richer, even if the effect was empirically proven. With all these caveats, in the next two paragraphs we will examine the empirical evidence for the two central mechanisms that apply to the trickle-down effect.

Of course, these two mechanisms can be applied also to changes in other parts of the income distribution: tax returns could increase and the effects connected to the propensity for savings could still occur if the increase concerned the lower income brackets. Therefore, these mechanisms do not apply only to higher incomes, but we are interested in verifying their relevance when the concentration of top incomes increases.

3 The Income of the Rich and Those of Everyone Else: Recent Trends

Inequality in market incomes has increased in many countries over the course of the last few decades. This means either that the incomes of the rest have increased, but proportionally less, or that the incomes of the rest (or at least some of them) have dropped. Establishing which of the two situations has taken place is essential for our purposes, seeing as the trickle-down effect is only compatible with the first situation.

Let us take a look at a few figures relative to the United States. Between 1976 and 2007, the average family market income (that is to say, income gross of taxes and net of transfers) grew by 1.2 % a year in real terms. However, if we remove the top 1 %, the annual growth is drastically reduced and doesn't exceed 0.6 %. Therefore, 60 % of the overall increase has all been funnelled towards the top 1 %, and this has increased to 18.3 % the share of income concentrated in the hands of such a small and fortunate fraction of the population (Atkinson et al. 2011; Alvaredo et al. 2013).

As Krueger (2012) points out, over the 1979–2007 period, every year 1000 billion dollars moved towards the richest 1 %. In that same period, the annual real market variation for the poorest 20 % of the population (the first quintile) was negative (−0.4 %). The two quintiles immediately above obtained slight increases, of 0.1 % and 0.3 % respectively. In evaluating these data one should bear in mind

that the income of the non-rich has often been supported by the intensification of female employment. This means that there have been some non-gratuitous trickle-downs and this too should be taken into account.[7]

Besides the top 1 %, the groups that seem to have most benefited are those located right below the rich. As Bivens and Mishel (2013) noted, their increased income could have depended on the need to preserve the quality of the work-force in the professions adjacent to those of the super-rich or by mere spill-over effects; in particular, it is likely that those occupying similar or adjoining positions to those of the super-rich might have been induced to ask for a raise. This could have been the case for top managers in public administration, whose high wages (see Chap. 1, for Italy) can also have been caused by the fear (who knows how grounded) that they might be lured away by the extremely high wages paid in the private sector.

By analysing the various categories of super-rich separately one comes up with truly sensational data. One of these concerns CEOs. Between 1978 and 2012, their pay—if we focus on the larger corporations—increased by 876 %, at a rate more than twice that of the stock market.[8] Over the same period, the hourly wage of the median worker increased by 5 %. In 1965, the ratio between the two remunerations was close to 20, while in 2010 it was much higher, 273, and had in fact dropped off from the peak of 370 it had reached at the beginning of this century. If we, then, move away from the averages to the individual cases, one is struck, for example, by the situation of the CEO of McDonald's whose hourly wage, in 2012, was 1000 times more than an average worker in the fast food sector: 10,500 versus 9 dollars an hour (Pizzigati 2013).

Going back to the data on the growth of the average incomes for the various quintiles, the deterioration of the poorest quintile appears sufficient in and of itself, at least with reference to this historical period, to dispel the effectiveness of the trickle-down mechanism that is supposed to operate on market wages. Moreover, if instead of losing ground, the last quintile had achieved increases of the same order of magnitude as the two quintiles immediately above it, the difference compared to the super-incomes would still have been vast. What we are clearly facing here is the problem introduced in the previous paragraph on the acceptability of "absolute" trickle-down as a criterion for social approval of the further enrichment of the rich.

The figures examined so far, though useful, do not allow us to establish precisely whether increases in top incomes can truly be considered responsible for what has taken place in the lower sections of the income distribution. Sophisticated econometric analyses are needed. Those carried out by Andrews et al. (2011) are particularly revealing.

[7] In the United States, the share of national income of the richest 1 % dropped by little less than 18 % in 2009, only to climb back to 22.5 % in 2012 (Alvaredo et al. 2013). In this period, top incomes, thus, enjoyed almost 90 % of the gains of growth (Saez 2013). Considering the period from 1993 to 2012, the top 1 % has commandeered 2/3 of the growth.

[8] See Bivens and Mishel (2013). The data on the gap are heavily dependent on the sample of CEOs considered. Nevertheless, the increase in the size of the gap proves to be undeniable whatever sample is taken into consideration.

Basing their assessment on the tax returns for 12 advanced countries over an extremely long period, from 1905 to 2000, Andrews et al. (2011) claim that up until 1960 there was no significant relationship between the share of income detained by the rich and the growth rate of GDP (on which all incomes depend). After this date, it would appear that a growth of 1 % in the share detained by the richest 10 %, if persistent over time, led to an increase of 0.12 % of GDP, with a year's delay (but it's not clear from the analysis whether this increase is equally distributed over the entire population or only benefits a few groups).

This is a fairly limited effect and this implication proves it: to recover 1 % of the share of income lost in favour of the richest 10 %, the remaining 90 % of the population would have to work 13 years. Moreover, it would take 40 years for the income of the 90 % less rich to grow by 5 %. With these figures, as Jencks, one of the authors of the report, stated in an interview, it's hard to view as major progress having to ask a 20-year old to accept that the rich get richer with the promise that by the time he is 60 his income will have grown by 5 %.[9]

The conclusion, in any case, is the following: the trickle-down is a rather "obliging" evaluation criterion of the consequences of income growth for the rich and super-rich and, in any case, market income trends do not seem to provide much solid evidence of its success.

4 The Super-Rich and Income Redistribution

Seeing as the arguments we've just presented refer to market incomes, the defenders of the trickle-down effect could still rely on the second mechanism for the propagation of the benefits, the redistribution made possible by the increased tax returns caused by the growth of super-incomes. This mechanism is referred to fairly often; in Italy, for example, it was called into play by a number of analysts at the time of the publication of the incomes of the Monti government ministers, in 2012, some of which were particularly high. However, also in this regard, the theoretical arguments and the empirical evidence need testing.

The first consideration is that the availability of additional resources may be considered a necessary condition, but it's not sufficient to ensure that the transfers to the less rich increase. The additional resources could, indeed, head in different directions, for example, towards other public expenditure. Then, one also has to consider the presence (and clout) of the super-rich and how they could lobby for the introduction of policies that are less, rather than more, distributive by influencing not just the destination, but also the entity of the tax revenue.

[9] It should also be recalled that Thompson and Leight (2012), considering the different States in the US, find that growing shares of income of the top 1 % are associated with lower growth rates for the incomes of families in the middle of the distribution.

As Tocqueville noted, the "public spirit" feeds on equality of conditions. The more equal we are, the more we share the same interests and propensities, the more we feel we are in the same boat and are interested in mutually supporting each other and ensuring that everyone enjoys a few essential conditions for a dignified existence. If the distances increase, so does the likelihood that those occupying more prestigious positions fence themselves off into forms of enclosures, reducing interaction with the rest of society even to the point of removing themselves entirely from it. It's not surprising that the most important developments of the Welfare State have taken place in the presence of cohesive communities facing similar risks and markets capable of containing inequalities.[10]

The high concentration of incomes therefore risks promoting the indifference of the rich towards those who are worse off, weakening the propensity to share mutually supporting policies. It could even fuel an individualistic self-congratulatory stance in those who consider themselves the winners and after all the very same representations of success flaunted by the rich, in time, could contribute to the weakening of the egalitarian *ethos*.[11]

This weakening could also extend to those who find themselves one rung below the richest as well as to the middle classes, penalised by the loss of purchasing power. Corak (2013b), for example, writes:

> This group has both the resources and incentives to turn more intensely to promoting the capacities of their children. With effort and a bit of luck, it is not unreasonable for them to believe they may yet cross the threshold into the top 1 percent, . . . and as a result they are likely not predisposed, . . . to support the recasting of American public policy to meet its most pressing need, the upward mobility of those at the bottom.

It is also possible that the size of the super-incomes helps to spread a tolerant attitude with regard to inequalities, fuelling the hope of being among the few who will take advantage of them (Franzini 2010). The tunnel-effect, introduced by Hirschman and Rotschild (1973), illustrates this possibility: when a few improve their position, the others could react by experiencing the same relief we feel when, in a tunnel, the cars backed up in one of the lanes start to move off again. Those who are still stuck start to hope that soon their situation will improve, clearly on the assumption that the obstacle responsible for the tail back was the same for everyone. And this can generate an attitude of positive trust—which could be just temporary—when faced with an increased disparity between situations.

We can now ask ourselves whether these effects have truly taken place or the forces in favour of an intensification of the redistribution operated by the Welfare State have won out. A detailed analysis of this issue is beyond the scope of this work. We will limit ourselves to a few remarks. Referring once again to the United States, in conjunction with the growing concentration of top incomes, the most relevant increase in social spending has concerned Medicare—the health insurance

[10] Among the many works on the subject, see Baldwin (1990) and Barth and Moene (2009).

[11] See, for example, Barry (2002).

program for American citizens (and legal residents) over the age of 65—and wage integrations (earned income tax credits) for the working poor. To assess the redistributive effects of this expenditure one has to take into account that Medicare also benefits private producers (seeing as most health services in the United States are provided by private companies), while the wage integrations for the working poor also help the employers, seeing as they translate into a form of wage subsidy. Moreover, the beneficiaries in both cases are not the poorest. Medicare is directed to all who are over the age of 65, while the tax credits are granted to the working poor, a sub-set of the poor who, obviously enough, are less underprivileged than the unemployed poor.

A further aspect concerns taxes. Up until the 1980s, in the United States, the marginal income tax rate for the higher incomes was consistently above 60 % (in the 1950s it was around 90 %). In 1980, it dropped to 30 % and only recently has it climbed back up to just under 40 % (Alvaredo et al. 2013). At the same time, the tax rate on dividends and capital gains has dropped from 35 % to 15 % (very recently it has gone back up to 20 %), while the taxes levied on inheritance and donations has been suspended for a decade. This latter tax was reintroduced in 2011, but the exemption threshold and the possibility of elusion are very high: it turns out that only 1 % of wealth transfers are taxed and in 2012 the yield was just 14 billion dollars. The average tax rates for the top 1 % are currently among the lowest they've ever been. Taking into account the impact of taxation, in the United States, between 1979 and 2007, the top 1 % enjoyed an increase in real disposable income of 278 %, while the increase for the first quintile (the poorest 20 %) was of 18 %, and just 35 % for the central quintile (Krueger 2012).

Overall, the data would, thus, seem to indicate the absence of a significant redistribution, and the American budget is considered to be among the least progressive among all OECD area countries; its capacity to counter market inequalities only tops that of Chile, South Korea and Switzerland (OECD 2011).

As we have pointed out earlier, our work is focused on the economic consequences of the concentration of incomes, irrespective of the effects on the operation of democracy and political processes. Nevertheless, it would seem plausible to surmise, in opposition to what the trickle-down effect would seem to suggest, that the super-rich have had a great deal to do with the outcomes we have just seen, by undertaking direct lobbying to reduce tax pressure on high incomes and funding an imposing cultural campaign designed to undermine the redistributive function of public spending.[12]

[12] On this point, see the bibliographical references in Chap. 3.

5 The Trickle-Down Effect Beyond Income

The analysis of the consequences that the rich getting richer has on the welfare of those who are less well off should not be limited to the realm of incomes. It has already been recalled that welfare is also influenced by the gap between the incomes of the various subjects. Therefore, it might well happen that the welfare of those who lose out could worsen even if their income increases. This implies a trickle-down effect with respect to incomes, but not with respect to welfare.

Furthermore, income concentration could lead to changes in the prices and quality of goods bought by the less well off and, if these changes are negative, any increase in (monetary) income could be neutralised by the loss in purchasing power. This would be a (negative) demonstration of the more general phenomenon of pecuniary externalities, which could also include (as a positive example) the increase in remunerations in "neighbouring" occupations and professions to those of the super-rich we have mentioned in the previous chapters.

A further negative effect for those who have less concerns the attempt to match the consumption of the rich that, usually, means an increase in expenditure.[13] It is doubtful, however, that in this last case there would be an actual drop in welfare,[14] seeing as the increase in expenditure could depend on the passage to goods of a superior quality or an increase in the amounts consumed.

It would, instead, be unquestionable that the less rich would suffer if faced by a price increase that made it more expensive to maintain the same level of consumption. Here's an example. The cost of a first-tier degree in the United States has increased by 60 % in the public sector and by 43 % in the private sector, while the increase in family income, according to some estimates, has only been around 20 % for a family with two children. To this one should add that the attempts made to avoid one's children's chances of accessing college being curtailed might have meant greater expenditure on primary and secondary education. It is, for example, likely that the territorial segmentation of the rich also leads to the segmentation of the schools. As a consequence, to ensure that one's children get a good education (which also depends on the quality of the "peers" with whom one interacts), the families may be forced to move into more expensive districts or areas. Plus, in order not to lose ground in the competitive arena, they may have to intensify access to extra-curricular activities.

A more precise and complete analysis would have to compare the price dynamics of the various goods and services. In the United States, for example, during the course of the last two decades, the prices of a few essential goods, such as clothing and communication, have dropped quite considerably. The opposite, however, has happened for other equally or perhaps even more fundamental goods and services,

[13] See Frank (2007) and his *expenditure cascade* concept.

[14] Incidentally, the processes leading to the diffusion of the consumption models of the very rich could be the same that enable the super-stars to get rich by exploiting the celebrity endorsement mechanism described in Chap. 2.

such as the previously mentioned education, housing, health and cultural services, the prices of which have gone up more than salaries. This negative effect would therefore seem much greater than the positive one produced by the drop in prices of the other aforementioned goods.

For the middle classes this essentially means a loss of purchasing power. For the poorer people, the risk is a drop in the quality of social services (schools, health…) and of the public and common goods. Things could also get worse if "the rich getting ever richer" decide to "opt out" from (i.e. no longer use) the public services they had previously enjoyed with the rest of the population. This exit, according to the mechanism identified by Hirschman (1970) many years ago, could stifle the 'voice', meaning the capacity to make protests by the users of the services, against the drop in quality, as presumably the rich are the ones with the loudest voice.

Furthermore, if the territorial segmentation forces the less rich to travel to access better quality services or even to go to work or to the shopping centres with the cheapest prices, the free time at their disposal will suffer. And the number of examples could go on.[15]

Of course, these are probable, rather than unavoidable, consequences,[16] but failing to consider them, when assessing the consequences of top income concentration is a serious fault. If the trickle-down effect is only referred to incomes, these aspects remain undervalued and this is a major limitation.

If we expand the temporal horizon we could identify many other negative effects caused by the growth of top incomes, especially likely when the growth goes hand in hand with a widening of inequality. The reference is here to the inter-generational transmission of inequalities. As the so-called great Gatsby curve highlights, in the past we have witnessed a strong correlation between inequality of current incomes and inter-generational inequality (Corak 2013a). This means that the most unequal societies are also the ones with less social mobility.

Notwithstanding the claim of being the land of opportunity, for many decades now the United States has shown an unexpectedly low social mobility, not far from that of Italy and Great Britain (Corak 2013a). The value of inter-generational income elasticity (that measures the correlation between the income of parents and that of their children) in the United States was already around 0.47 in the mid-eighties—compared to the lower values of 0.20 in Northern European countries. A few recent estimates have pointed to an increase of up to 0.56, which means that these years of great inequality have made it even harder to latch on to the social escalator for those on the lower rungs and easier not to take the one going down for those higher up (Krueger 2012). Other works question these latter estimates (Chetty

[15] One may add the risks of psycho-physical illness, connected to the difficulty in chasing after those who are better off, and of feeling side-lined and isolated, as a result of the loss of one's sense of belonging to a community. On the pecuniary effects and the overall effects on "well-being", see Stiglitz (2012) and http.inequality.org.

[16] For example, for an interesting discussion of the difficulties of carrying out empirical verifications of the effects of inequality on cultural changes and, with them, on the propensity to redistribute, see van de Werfhorst et al. (2012).

et al. 2014). In any case, the correlation between the inequality of current incomes and inter-generational inequality is not questioned and the reasons for it can be many, even though they carry different weight in the different countries (Franzini 2013; Franzini and Raitano 2013). The previously recalled mechanisms leading to social segmentation are headed in this direction.

Also some choices that are engrained in personal freedom can hamper inter-generational mobility in the presence of strong inequalities. If the choice of one's partner cannot be restricted and, as we have argued in Chap. 3, parents cannot be denied the right to invest in their children, then the effect of marriages between the rich could result in a strong investment in their children's education and thus heighten the advantages of the children of super-rich couples. For the others, the question is how to recover the lost ground.

On this point, it is interesting to examine the so-called enrichment expenditures, that is to say, the expenses that parents are willing to pay privately to improve their children's prospects. Of course, these expenses depend on the quantity of services purchased (from summer camps to music lessons) as well as on their unit price. At the beginning of the 1970s, the richest 20 % of the population spent 3500 dollars for each child compared to around 800 dollars spent by the poorest 20 %. In 2006, the values had moved up to 8872 and 1315 dollars respectively (Duncan and Murnane 2011), with a widening of the gap between the two. If the comparison were applied to more restricted groups (rather than to the quintiles that we have considered above), the gap would be even larger.

Intergenerational mobility can also be hindered by the effect that the concentration of income has on the concentration of wealth. Obviously enough, the higher the income, the easier it is to accumulate wealth: plus, the higher the interest rates, the faster the multiplication of wealth.[17] For this reason, Piketty et al. (2011) think it probable that the twenty-first century could witness a return to a nineteenth century rentier society. Of course, if wealth were very concentrated, the transmission of advantages would be even easier, unless measures to contrast it are introduced that are currently absent.[18]

The list of reasons why strong inequality could slow inter-generational mobility ultimately also includes the capacity to exert political influence that is associated with super-incomes, especially when super-incomes coexist with considerably lower incomes and therefore extreme inequality. This capacity could easily be exploited to create more favourable conditions for allowing the sons of the wealthy to benefit from the advantages accumulated by their parents. This too could be a political consequence of economic inequality.

[17] On this point, it's worth recalling that the 400 richest Americans now hold a share of wealth greater than that of the 180 million poorer people. Also Italy seems to follow a similar trend (D'Alessio 2012). If so, the importance of earnings within super-incomes, which we have discussed in Chap. 1, could, in the future, be overturned.

[18] On the issue, see also Piketty (2013).

Our analysis leads us to the following conclusions. The trickle-down effects on incomes are at best very weak and since one cannot presume that individual welfare improves every time incomes increase, growing inequalities can hamstring even any positive effects that greater incomes may have on the welfare of the less rich. This could lead one to develop a critical view of the rich getting richer even if it doesn't automatically mean that it has a negative effect on other people's incomes. And this could be true also according to the Pareto criterion: one would only have to apply it to welfare rather than the more restrictive dimension of income.

For all these reasons, relying on the positive repercussions of the trickle-down effect would seem to be unwise, but one can also go further by saying that the conceptual framework that has elected the trickle-down effect on incomes as the main criterion for assessing the consequences of extreme enrichment leaves itself open to many criticisms. With Thurow (1971), we could also state that income distribution is a public asset, because it generates social effects from which no one is excluded. In more direct terms, what the rich have has a bearing on what the poor and the less rich can lay claim to.

As indicated at the beginning of this chapter, our interest is on the socio-economic consequences of income concentration. Nevertheless, it would seem useful to round off the considerations we have made so far by recalling a recent episode that has led to a great deal of debate in the United States (Gaggi 2014). A young minor, the descendant of a rich American family, in a town in Texas, after having stolen a crate of beer and getting drunk, lost control of the pick-up he was driving and killed four people, injuring another nine. The public prosecutor asked for him to be sentenced to 20 years in prison, but the judge went along with the argument of the defence, which was based on the idea that the rich can be subject to a special pathology, called "affluenza", that results in a lack of inhibitions and as a result lowers individual responsibility. The existence of affluenza has been known for some time. What is relatively new is that it is considered a pathology that can be acknowledged as a mitigating circumstance for crimes committed by the rich.

6 Reducing Inequality vs. Growth: The Weak Foundations of a Classic Trade-Off

The lack of evidence on the positive consequences of super-incomes is not a sufficient argument to recommend public intervention. The main reason is that also such an intervention could produce negative effects. Many consider the latter inevitable, because, in their mind, reducing inequality is equivalent to reducing economic growth. We are, therefore, faced with the most classic, and perhaps controversial, of the trade-offs over which economists have been debating for decades: the one between the reduction of inequalities and growth.

The basic idea is that to reduce inequality one needs to tax the rich and redistribute to the worse off and that both taxation and redistributive public

spending constitute disincentives to work and saving with inevitable costs in terms of income levels and their growth.[19]

This same outcome would, of course, be produced every time an action is taken to reduce inequalities even if not designed to target exclusively the rich. However, in this instance too, we will concentrate on the higher part of the distribution and, in particular, on the possible consequences of taxing higher incomes. This choice does not depend on the belief that taxation is the only way to counter extreme inequalities; in fact, in the following chapter we will outline other measures that can hope to achieve the same end. However, the consequences of taxing the super-rich are worthy of special attention.

The effect that is most often mentioned, when defending an increase in the taxation of super-incomes, is that of "flight". The argument is based on the assumption that the rich are also the most mobile and feeds off a very persuasive series of anecdotes which include the rather recent one involving French actor Gerard Depardieu who left France to avoid the 75 % hike in tax rates on incomes above 1 million euro, announced by President Hollande, which as it happened was never introduced. Negative effects could also take place without the rich having to move out: they only need to move their savings towards other shores where the tax pressure is lower.

These effects are probably unavoidable so long as tax policies are not coordinated internationally. Their extent, however, is uncertain and, more importantly, they are insufficient to infer that there has to be a trade-off between growth and the reduction of inequalities. The latter may, after all, produce other consequences, of a positive nature, on growth; some of these will be examined shortly. It is this very plurality of effects that can explain the variety of results that are produced by empirical studies on the relationship between growth and inequality, which makes it hard to view the trade-off thesis as truly grounded (Franzini 2010).

The doubtful correlation between inequality and growth may have many different explanations. One has to do with the role played by rents in causing inequalities in the first place, which we have already discussed in Chap. 2. Generally speaking, rents do not foster growth and, therefore, if by reducing inequality one also reduced rents, the interference with growth would be minimal, if not completely absent.

Piketty et al. (2012), for example, warn against viewing the correlation that has been noted in the United States between the reduction of taxation on higher incomes and growth as an indication of the impact of distortions caused by taxation. On the one hand, a number of countries has experienced the same growth rate as the United States, without cutting taxes on higher incomes. On the other, the tax reductions introduced in the United States have been associated with a lower growth rate for the incomes of 90 % of the population. As recalled in Chap. 3, this could be due to a system of pay-setting that is based on bargaining power: that is to say, spurred by the possibility of higher net incomes, CEOs and employees at the top of the

[19] In this debate, one often confuses the consequences on income levels with those on the rate of growth. So as not to weigh too heavily on the text, we will speak generally of growth even when, in actual fact, the effect considered is limited to income levels.

company hierarchy have managed to secure wages that are equivalent to rents, to the detriment of others.[20] If the super-incomes are due to bargaining power, this scuttles the hypothesis, crucial for the trade-off thesis, that taxation discourages the supply of production factors by lowering the remunerations below what would be necessary to repay the cost of the factor itself. According to Piketty et al. (2012), rents are so high that the maximum tax rate that could be imposed, without any negative consequences, would be the startling one of 83 %.

Actually, contrasting the rents could even help growth. One way to achieve this is to reduce the incentives to take on "excessive" risk that played such an important part in the recent crisis. On this point, we would like to refer to the letter that the Governor of the Bank of Italy, Ignazio Visco, sent to bankers on 3 March 2013 in which he recommended, among other things, that "the remuneration and incentive systems (be) consistent with the long-term company objectives" and that "the need to boost company capital should engender a renegotiation of bonuses (paid to the top managers)". Otherwise, the huge bonuses awarded to top managers would weaken the banks' financial situation and this, in turn, would have repercussions on the solidity of the financial system, on access to credit and the performance of the economy.

Remarks of this kind can apply to managing directors. Contrasting rents could reduce the attractiveness of remunerations linked to the short-term performance. These remunerations, certainly, promote a minimisation of short-term risks (for example, those associated with a reduction of profit margins), but can also lead to a reduction in investments. Therefore, in the medium term, they could undermine the company's vitality (Smithers 2013). Contrasting rents could also reduce the advantages that may be gained by influencing politics in order to promote measures in favour of the rents themselves while obstructing those that curtail them: one only needs consider the conducts recalled in Chap. 3, primarily those in favour of the introduction of obstacles to competition that also constitute a barrier to growth.

The reduction of the incomes received by the super-rich, and the consequent reduction of inequality, could, then, raise the productivity of the other employees, reinforcing their work ethic. Already in the 1920s (at the peak of another historic period of great income concentration in the United States), for example, the banker John Pierpoint Morgan had established that top managements salaries could not exceed those of junior clerks by more than 20 times, based on the belief that if that limit was exceeded productivity would suffer. Incidentally, similar indications are still followed today by a few (very few, in actual fact) companies in the United States: at the Ben and Jerry's ice cream company the ratio is 7 to 1 and at Costco the CEO limited his salary to $350,000, because in his mind a greater divide would damage productivity.[21] According to Drucker, the management consultant guru, the ratio should still not go beyond 20 to 1. Anyhow, there are plenty who see an

[20] Cf. Alvaredo et al. (2013). As Pisano shows (2012), the link between the drop of marginal taxation on higher incomes and the increase in inequalities is also found in Italy.

[21] See Hutton Review of Fair Pay (2010) and recent results of experimental economics: for example, Cohn et al. (2013).

excessive gap in salaries as a problem for efficiency and are concerned about the threshold beyond which productivity could be endangered.

A reduction of inequalities could also favour growth thanks to the increase in aggregate demand. Although it is never easy to predict the effects of a change of income distribution on the aggregate demand, Krueger (2012), for example, invites us to consider the kind of stimulus that the transfer to the middle classes and the less well off of that 1000 billion dollars more that the richest 1 % of the country enjoyed every year over the 1979–2007 period would have had on demand and on the stability of the US economy. Along the same lines, Rajan (2010) underlines the role played by debt among the poorer families on the instability leading to the economic crisis. Furthermore, better living conditions for the less well off favour the accumulation of human capital and possibly social cohesion, both of which help growth. On the contrary, rent-seeking and lobbying by the elites could undermine institutional efficiency, thus further reducing the potential for economic growth (Voitchovsky 2009).[22]

Finally, those who believe in the trade-off tend to overestimate the distorsions produced by taxation. As we have said, these effects could be absent if the taxation were levied on rents. In Chap. 2, for example, we compared the super-rich who owe their position to market power and/or bargaining power to the Schumpeter businessman receiving a higher income as remuneration for his inventiveness and effort. Taxing the first would not interfere with growth, while taxing the second may have repercussions.

It is of course difficult to accurately separate rents from the income that remunerates effort and skill. The problem is one of entanglement, meaning the presence of a web/knot among the various causes of enrichment, which we will get back to in the last chapter. The main point, however, is that the space for actions that do not compromise growth—and in fact could favour it—could be very extensive: what matters is that taxation doesn't whittle away all rents, merely aiming at closing in on the margin separating the latter from incomes that provide an incentive. The risks that this might take place for super-incomes are very limited.

One forgotten statistician of the University of Wisconsin, almost a century ago said: “It is easy to find a man in almost any line of employment who is twice as efficient as another employee, but it is very rare to find one who is ten times as efficient”.[23] One might consider this assessment as being too harsh, but still be convinced that those who receive incomes 700 or 800 times greater than those of others, rather than to a differential in terms of productivity, owe it to their different capacity to secure rents.

Still, on the matter of incentives, one should not forget the plurality of human motivations. Rogers, one of the greatest architects in the world, has set the ratio

---

[22] We do not refer here to the studies demonstrating a positive correlation between equality and growth that are based on the distortive effects of redistribution, such as those of Persson and Tabellini (1994) and Perotti (1996). These studies, as it turns out, far from justifying the gains in terms of growth induced by egalitarian policies, support “some” equality in order only to avoid having to introduce redistributive policies, which they believe are inefficient.

[23] The quote is in Noah (2010).

between the top-paid individual in his studio (himself) and the least paid at 8 to 1. As Stiglitz (2012, p. 41) reminds us, Turing discovered the necessary mathematics to develop computers, Townes played a decisive role in the invention of the laser, Watson and Crick revealed to the world the mysteries of DNA and Berners-Lee chose to publish his discoveries that have been decisive in the development of Internet, yet none of them (and other names could be added to the list) belong to the super-rich category, despite having contributed in a very profound way to our well-being. Their motivations were of course of a different nature. Moreover, even if one were completely self-interested, that doesn't mean that interests have to be limited to the economic sphere: social status and the type of occupation could be motivating factors.

The analysis would not be complete if we forgot to underline that the effects on growth depend, and to a very great extent, on the design of the tax and transfer system. The relevant aspects range from the level of tax incidence to the structure of the tax system and the procedures by which the tax revenues are used. With respect to all these variables, the composition effects are very important. In fact, the positive effects on expenditure made possible by taxes could balance the possible disincentives induced by taxation.[24] For example, investments in material infrastructure, in Research and Development and in human capital have been crucial for the development of Silicon Valley, as indicated in Chap. 3. The productivity of public spending tends, instead, to be ignored by the supporters of the trade-off. The point is well taken in this virtual exchange between Roemer and Mankiw (Roemer 2011, p. 21). Roemer claims that, according to Mankiw,

> High-paid actors might make fewer films if they were more highly taxed, and economists like him might give fewer public lectures for which they are paid high fees. Thus, there would be a social loss resulting from higher taxation on high fliers. Not once in the article did Mankiw mention that, with those taxes, we could build more bridges and perhaps even high-speed rail. That's because, in the conservative American view today, government productivity is zero.

Finally, three last remarks. First, the economic expansion that took place in the United States during Clinton's presidency is associated with an increase in taxation. Second, there are many cases of high remunerations in the presence of negative performance. Anderson et al. (2013), for example, have followed the careers of 20 CEOs in the United States, showing how 40 % of the sample is comprised of subjects who have brought their company to bankruptcy or led to a public buyout. Third, as we have already acknowledged, taxation is only one way of contrasting inequalities. If rents are unjustified, from the point of view both of the fairness of market processes and of their consequences, then another way of taking action involves *ex ante* prevention through an appropriate market design.

[24] On the importance of the structure of the tax and transfer system, see Lindert (2004) and Ostry et al. (2014).

We will look into these issues at greater length in the next chapter. For the time being, it seems to us that we have built up sufficient grounds to encourage research into improving policies that contrast extreme income concentrations. These policies have nothing to do with producing a senselessly perfect equality of results or taking out any kind of revenge against the super-rich.

7 What About Philanthropy?

We still have to look into another consequence of income concentration, namely philanthropy. It is usually not mentioned among trickle-down mechanisms, but it could be part of them. The assumption is that the propensity towards philanthropy is supported by the altruism and generosity that are particularly likely to be shown by those who end up in much better conditions than the ones they started from (Friedman 2006). In other words, the richer you get, the more altruistic you become. Philanthropy, by the same token, is meant to improve the conditions of those who are worse off. For example, according to a recent interpretation (Acs 2013), philanthropy plays a major part in renewing the capacity of American capitalism to offer everyone opportunities for success in the social and economic arena. The reason given is that the rich philanthropists contribute to improving the educational institutions and their degree of openness towards those who come from disadvantaged backgrounds, almost as if they were repaying their debt to society. The rich, in other words, enable the reproduction of the same conditions that allowed them to be successful.

The resources mobilised by philanthropy in the United States are effectively huge. In 2012, donations amounted to 316 billion dollars and the non-profit sector employed almost 9.5 million people. Faced with these figures, the “miserable” amount of 14 billion dollars collected, also in 2012, from taxes levied on inheritances and donations pales into insignificance.

The question is whether these resources actually go to those who are worse off and whether the beneficial effects of philanthropy would necessary fall away if super-incomes were reduced.

Beginning with the redistributive impact, the risk is that a considerable share of the philanthropic transfers goes to support the arts and advanced training programs that do not necessarily help the poorer sections of society. A few recent data on the main destinations of donations made by the 50 most munificent philanthropists in the United States shed new light on the issue. This small sample we find particularly revealing because it refers to those who can be termed super-rich. Based on the data published by the *Chronicle of Philanthropy* (2013) relative to 2012,[25] the destinations are very diverse and numerous, ranging from support to museums and libraries to medical research, to grants to foundations performing a whole variety of activities, to sports

[25] These figures can be consulted at http://philanthropy.com/article/The-2013-Philanthropy-50/137153/).

activities, hospitals, universities and colleges. This kind of allocation seems to have continued in 2013; quoting information provided by the association that collects data on philanthropy (Giving USA), the *Financial Times* reports, in fact, that 12 of the 15 highest donations went to Universities (Kuchler 2014). It's worth noting that these are almost always top universities. This certainly does not contribute to reducing the "two speed" character of the United States' university system, which, for many, represents an important obstacle to social mobility and contributes to the perpetuation of the advantages enjoyed by the rich (Brezis and Hellier 2013).

Redistribution through philanthropy is also exposed to a number of risks. To start off with, there are the risks connected to a lack of coordination. Imagine, for example, a rich philanthropist who has a slight preference for helping children in their first year of life compared to those in primary school. Given this preference, if he/she were informed that others are looking after the former, the philanthropist could redirect his/her resources towards older children. If this information is unavailable, an excessive amount of funds risks, instead, being directed towards the younger children.

Other risks can ensue if philanthropy ends up replacing, rather than supplementing, public intervention directed at guaranteeing a floor of basic rights. In the first instance, the basic rights would depend on contingent and discretional actions of generosity on behalf of the more affluent. In the second, the access to a set of goods/resources/capabilities that are considered fundamental for all would, instead, be universally guaranteed on a non-discretionary basis and philanthropy could usefully supplement activities that individuals believe are insufficiently funded.

Moreover, being done by the rich, redistribution could be performed according to organisational procedures based on questionable criteria as to how to identify and treat the most needy situations. On this point Peter Buffet (2013), son of billionaire Warren Buffet, writes:

> And with more business-minded folks getting into the act, business principles are trumpeted as an important element to add to the philanthropic sector. I now hear people ask, "what's the R.O.I.?" when it comes to alleviating human suffering, as if return on investment were the only measure of success.

In short, philanthropy risks being based on the same managerial practices governing the businesses of the rich and its redistributive effectiveness could flag even further. On this point, it is worth recalling the increased weight of the foundations that some of the richest of the rich philanthropists, in recent years, are naming after themselves or their wives. For example, on the data that he could source and that is published by Giving USA, Laskowski (2011/12) shows that, for close to 50 years, the donations represented an essentially constant share of the American GDP, in the neighbourhood of 2 %. Since the end of the 1970s, the donations flowing into foundations have, however, gradually increased, from 4 % in 1978 to 11 % in 2010, progressively going to these philanthropy brokers, rather than to charities and other subjects directly involved in the non-profit sector. Laskowski (2011/12) views these changes as the equivalent, in the philanthropic sphere, of the financialisation of the economy. If nothing else, they imply a greater influence, on

the destination of resources, of donor preferences at the expense of the social needs in the various areas, or at least, of how these social needs could be otherwise perceived by the various social actors.

Moreover, these data help provide an answer to a question that many wholehearted supporters of philanthropy ask themselves, that is why, despite all the growing resources that are pouring into these channels, inequality, including inter-generational inequality, is still on the rise in the United States.

Moving on to the supposed propensity towards philanthropy shown by the super-rich, the propensity, to a large extent, could be motivated by advantages of a fiscal nature rather than by a social sensibility shaped by success. The very limited revenues obtained from taxing inheritances and donations, mentioned above, would seem to bear witness to the high degree of fiscal indulgence shown towards these legacies, which could help explain their entity.

A further question, then, concerns what would happen if the incomes of the super-rich contracted, due to more severe taxation. As we have seen, the share of philanthropic transfers in favour of the poor is limited; nevertheless, the risk that it be reduced even further needs to be taken into consideration:

On this point it's worthwhile once again considering what Peter Buffet (2013) writes:

> Inside any important philanthropy meeting, you witness heads of state meeting with investment managers and corporate leaders. All are searching for answers with their right hand to problems that others in the room have created with their left.

If, therefore, part of the problems created with the left hand are also those that lead to the super-incomes, and consist in depriving others, curbing these super-incomes would also imply that the right hand would have to spend less time looking for solutions. In other words, the reduction of super-incomes could coincide with the removal of some of the problems that philanthropy is supposed to solve.

Finally, the reduction of the super-incomes—both in their size and number—would not necessarily entail a reduction of philanthropic activity. In a more egalitarian society, more subjects could be willing to donate, thus balancing out the drop in the size of the donations. Donations by many, in turn, would avoid the problems that can stem from philanthropy only by the rich. An interesting subject that should be examined further is whether a greater equality in the distribution of resources could lead to changing priorities also with respect to philanthropy.[26]

Ultimately, even the philanthropic argument doesn't seem to provide decisive support for the idea that the concentration of super-incomes systematically produces positive effects on the rest of society that otherwise would not take place. The relationship between philanthropy and inequality is, instead, very complex and one cannot simply presume that the availability of additional resources inevitably fuels a reduction of inequalities.

[26] We are grateful to Gia Caglioti for having brought this point to our attention.

By the way, the observations presented raise more than one question even about the desirability of tax rebates for philanthropy, or, at least, as to how these rebates are structured. A few years ago Reich (2006, p. 28) wrote: " . . . philanthropy causes or worsens inequality. . .when philanthropic activity actually worsens inequality, any justification for the state's provision of special tax treatment to philanthropic organizations is considerably weakened, and perhaps entirely eroded.".

8 Fighting Extreme Inequalities Is Tantamount to Curtailing Freedom?

In this chapter and in the previous one we have highlighted the many reasons why it might be advisable to restrain extreme inequalities: because they don't remunerate desert or, at least, imply remunerations over and above what desert would warrant; because they incorporate the overall rents due to luck, that should be shared among everyone, and because they often generate consequences that are undesirable for the worse off.

Now the time has come to confront the last objection: that voiced by those who stand for the acceptability of market inequalities, regardless of how extreme they are, whatever the repercussions they engender and even if they violate meritocracy, for the simple reason that they are an extension of our liberties. The underlying assumption, in this claim, is that what we obtain on the market is the direct consequence of self-ownership. Any action leading to a reduction of market incomes would therefore restrict our liberty, depriving us of what is naturally ours, being the proceeds of our self.

Again, this position too can have different stances. For the libertarians,[27] the violation of liberties is always unacceptable. Nozick's (1974) position is the paradigmatic one: according to him, market outcomes (and any connected inequalities) have always to be accepted, the only request being compliance with the (side) constraints provided by the rights over private property. The constraints concern the original acquisition of the natural resources: those damaged (the excluded from the possibility of acquiring the property) cannot be worse off than they would have been in a natural state without property rights. They also concern the voluntary nature of exchanges of resources and goods and the need for rectifications in the event of violations. Once these constraints are satisfied, the individuals have every right to everything they can acquire.

Public intervention, on the other hand, would always be predatory: taxation, in this context, is equated to slavery and not even actions designed to regulate markets

[27] The reference is to the "right wing" libertarians, as the "left wing" libertarians defend the individual right to the fruits of common resources. On the opposition between the two libertarian perspectives, see Fried (1998).

are justified, in that they would inevitably interfere with processes based on freedom.

Justice would, therefore, consist in a mere procedural principle. The outcomes are of no consequence. Only processes count. Which means, among other things, that two identical distributions could be differently assessed if produced by different processes.[28]

The main reason resides in a very permissive interpretation of Locke's concept of freedom, viewed as the natural right to own the product of one's labour. More precisely, Locke, in his so-called Lockean proviso, requires that the acquisition, by anyone, of the natural resources shared by humanity must not prejudice the conditions of others. Now, it is obvious that, depending on how one defines prejudice, extremely different degrees of inequality will be legitimated. Nozick's choice effectively implies a fairly accentuated readiness to accept inequalities.[29]

Locke also underlines the importance of work. Nozick, instead, defends the right to take everything one receives on the market, including rents of whatever size or nature. As individuals are (should be) free to receive gifts from private donors, so they should be free to receive gifts from market activities. Moreover: market freedom should be extended to the freedom to hire whoever we want, regardless of desert.

In a less extreme interpretation, such as the one expressed by ethical pluralism,[30] the violation of freedom brought about by taxation could, instead, be considered the price to pay to acquire the equally desirable value of "some equality".[31] In other words, taxing the richest would still be a violation of freedom, but it would not necessarily be on a par with slavery. We could, quite freely, give up a little freedom to promote another desirable value.

The theme requires much more in depth evaluation than is possible in these pages. Be that as it may, the objections raised, however, do not seem to cut much ice. As far as the libertarian perspective is concerned, it simply seems impossible to go so far back in the history of each individual to be able to verify if the constraints regarding the original acquisition have been complied with. What's more, the knowledge we do have indicates that the violations have been repeated and pervasive: colonialism is there to prove it.

More generally, all one can say is that there is no natural, unique and undifferentiated liberty. Liberties, including the ownership of resources, are inevitably conflictual: the liberty of one subject to own a resource implies the restriction

[28] As pointed out in Chap. 3, also meritocracy represents a procedural conception of justice. Meritocracy, however, requires an assessment of the processes based on a standard, namely desert. For the libertarian perspective, instead, the processes must only comply with the side-constraints represented by the rights of non-interference.

[29] A more thorough interpretation (used, among other things, to support the concept of citizen income) would require leaving the same amount/quality of natural resources to others.

[30] On ethical pluralism, see Chap. 3.

[31] See, for example, the recent contributions of Turner (2012) and Tomasi (2012).

of the liberty of another subject to own that same resource. As Lincoln reminds us, the shepherd who protects the sheep from the wolf's fangs unavoidably restricts the wolf's freedom (to eat the sheep). In this sense, market freedoms also embody powers: the breadth of the freedom of action that we each have depends on the corresponding extent of the freedom of others.[32]

The intrinsically conflictual character of freedom also highlights the opposition between the market, as the realm of natural liberties, and government, as the realm of coercion. In Chap. 3, we have already argued in favour of a non-naturalistic idea of markets as human artefacts. At this point, that argument becomes even clearer. If liberties are conflictual, then individuals must (constructively) define them.

Moreover, if markets freedoms entail power, the liberal-democratic position in favour of "some degree" of equality in the distribution of resources becomes even stronger, to avoid the risk that private despotism holds sway. A "degree" of distributive equality, therefore, becomes the other side of liberty, seeing as an unequal distribution, or at least a heavily unequal distribution, runs the risk of transforming apparently free exchanges into an exercise of coercion.[33]

It should be noted that none of these observations questions the assumption of self-ownership, which is pivotal to the libertarian perspective. This is a possibility, but not a necessity.[34] What is being questioned is simply the automatic link between self-ownership and what one can obtain with one's own productive capabilities. We could maintain the very powerful idea that we own ourselves, while denying that everything we happen to obtain with our person is inevitably ours (and this would refute the libertarian's conclusion that taxation is always a theft). On the contrary, the liberties of the individuals must be defined/regulated to take into account the liberties of others.

Of course, even those who share this critical approach could disagree over the liberties to be considered desirable. As for the relationship between growth and (distributive) equality, the same goes for the relationship between desirable liberties and (distributive) equality, namely, some trade-offs could occur at the margin. Nevertheless, one point seems uncontroversial. The liberties that need protection do no include commandeering the rents abounding in the incomes of the super-rich.[35]

---

[32] The reference to Lincoln's speech at the *Sanitary Fair in Baltimore, on 18 April 1864,* is available at http://teachingamericanhistory.org/library/index.asp?document=1067). On the element of power to be found in market freedom, see Ferrajoli (2012).

[33] For a recent and powerful defence of this position, see Dworkin (2011). On the same topic, see also Peter (2004).

[34] Cohen (1995) suggests that we abandon the proprietary conception of the self (self-ownership), conceiving individuals as mere renters of the self. Kolm (2005) offers a similar approach.

[35] Leaving out the complex issue of comparing different sets of liberties, the underlying assumption is that limiting the liberties of the super-rich does not necessarily violate freedom, seeing as it leads to an increase in freedom for other groups of subjects, which could be desirable for a number of reasons.

9 Conclusions

The arguments presented to justify extreme inequalities, due to their supposed positive consequences, like those aiming at discouraging attempts to correct them, in this case due to their supposed negative effects, seem fairly weak and hardly can be said to apply in a general fashion. This is the main conclusion we have reached after the analysis performed over the course of this chapter.

The idea that the further enrichment of the richest will provide advantages for all, even the poorest, on which the very popular trickle-down principle is based, is not convincingly proven by the data. But these are not the only reasons for its weakness. The trickle-down principle does not take into account the possibility that even a higher income for the worse off—if it ever were to be the case—could result in less welfare, due to other consequences of the enrichment of the rich. For example, the prices of goods purchased by the less well off could rise, the quality of the services they make use of could worsen, other costs could materialise as a result of the social and territorial segmentation that often accompanies the formation of a class of super-rich. Furthermore, the welfare of the individual depends not only on his/her income, but also on the relative position one occupies and on the distance from the more fortunate. Still, the under-privileged could suffer more long-term damage as a result of the reduced opportunities for upward mobility.

Nor can it be surmised that measures introduced to contrast super-incomes need necessarily have the negative effect often assigned to them and, in particular, that they must slower growth. The reasons leading to this conclusion are quite a few, but the most important one concerns the considerable quota of super-incomes that is made up of rents, which could be eliminated without affecting the incentive to apply oneself and accumulate human capital, on which growth, along with other factors, depends.

Even the philanthropic argument is too weak to justify the super-incomes. Once again, there are many reasons for this, but there are three main ones. Many of the transfers induced by philanthropy, instead of benefitting the underprivileged, run the risk of benefitting the very same super-rich. Plus, curtailing the opportunities for super-incomes is tantamount to preventing many of the problems for which philanthropy acquires its social merit. Finally, there are not enough reasons to believe that philanthropy would be reduced by a less unfair distribution of income: the propensity towards altruism of the less rich could be greater than that of the super-rich, so that by transferring income from the latter to the former the mass of available resources for philanthropy could even increase.

The last point concerns the conflict between the reduction of market inequalities and the protection of liberties, which many consider inevitable. This conflict, however, certainly exists in one specific case, that is to say when the liberties we are protecting are only those of the super-rich.

Thus, there seem to be sufficient reasons to start to address, with the necessary awareness and caution, the issue of "what is to be done?" about super-incomes, to try and achieve an income distribution that is at least more respectful of desert and produces fewer negative consequences.

References

Acs Z (2013) Why Philantrophy matters: how the wealthy give and what it means for our economic well-being. Princeton University Press, Princeton

Alvaredo F, Atkinson AB, Piketty T, Saez E (2013) The World top incomes database. http://topincomes.g-mond.parisschoolofeconomics.eu/

Anderson S, Kinger S, Pizzigati S (2013) Executive excess. Bailed out boosted busted. IPS, Washington, DC

Andrews D, Jencks C, Leigh A (2011) Do rising top incomes lift all boats? BE J Econ Anal Policy 11(1):1–45

Atkinson AB (2007) Measuring top incomes: methodological issues. In: Atkinson AB, Piketty T (eds) Top incomes over the twentieth century. Oxford University Press, Oxford

Atkinson AB, Piketty T, Saez E (2011) Top incomes in the long run of history. J Econ Lit 49 (1):3–71

Baldwin P (1990) The politics of social solidarity. Cambridge University Press, Cambridge

Barry B (2002) Social exclusion, social isolation and the distribution of income. In: Hills J, Grand J, Piachaud D (eds) Understanding social exclusion. Oxford University Press, Oxford

Barth E, Moene O (2009) The equality multiplier. NBER working paper 15076, Washington, DC

Bivens J, Mishel L (2013) The pay of corporate executives and financial professionals as evidence of rents in top 1 percent. J Econ Perspect 27(3):57–78

Brezis E, Hellier J (2013) Social mobility at the top: why are elites self-reproducing. ECINEQ working paper 312

Buffet P (2013) The charitable-industrial complex. New York Times, opinion page, July 26

Chetty R, Hendren N, Kline P, Saez E, Turner N (2014) Is the United States still a land of opportunity? Recent trends in the intergenerational mobility. NBER working paper 19844

Chronicle of Philanthropy (2013) http://philanthropy.com/article/The-2013-Philanthropy-50/137153/

Clark A, Frijters P, Shields M (2013) Relative income, happiness, and utility: an explanation for the Easterlin paradox and other puzzles. J Econ Lit 46(1):95–144

Cohen G (1995) Self-ownership, equality, freedom. Cambridge University Press, Cambridge

Cohn A, Fehr E, Goette L (2013) Fair wages and effort provision: combining evidence from the lab and the field experiment. University of Zurich, Department of Economics, WP, p 107

Corak M (2013a) Income inequality, equality of opportunity, and intergenerational mobility. J Econ Perspect 27(3):79–102

Corak M (2013b) Who's your daddy? Job opportunities for the children of the top 1 percent. New York Times, July 21

D'Alessio G (2012) Ricchezza e Disuguaglianza in Italia, Questioni di Economia e Finanza, n. 115. Banca d'Italia, Roma

Duncan G, Murnane R (eds) (2011) Whither opportunity? Rising inequality, schools, and children's life chances. Russel Sage Foundation, New York, NY

Dworkin R (2011) Justice for hedgehogs. Belknap Press of Harvard University Press, Cambridge, MA

Feldstein M (1999) Reducing poverty, not inequality. Public Interest 137:33–41

Ferrajoli L (2012) Principia Juris. Laterza, Bari

Frank R (2007) Falling behind: how rising inequality hurts the middle classes. University of California Press, Berkeley, CA
Frankfurt H (1987) Equality as a moral ideal. Ethics 98(1):21–43
Franzini M (2010) Ricchi e Poveri. L'Italia e le disuguaglianze (in)accettabili. Università Bocconi, Milano
Franzini M (2013) Disuguaglianze inaccettabili. Laterza, Roma-Bari
Franzini M, Raitano M (2013) Economic inequality and its impact on intergenerational mobility. Intereconomics 6:328–335
Fried B (1998) The progressive assault on Laissez Faire: Robert Hale and the first law and economics movement. Harvard University Press, Cambridge, MA
Friedman B (2006) The moral consequences of economic growth. Vintage, New York, NY
Gaggi M (2014) I giovani ricchi americani malati di affluenza. Il Corriere della Sera- La Lettura, January 19
Hirschman AO (1970) Exit, voice and loyalty. Harvard University Press, Cambridge
Hirschman AO, Rotschild M (1973) The changing tolerance for income inequality in the course of economic development. Q J Econ 87(4):544–566
Hutton Review of Fair Pay (2010) Interim report, London, Crowne Copyright
Kolm S (2005) Macrojustice. The political economy of fairness. Cambridge University Press, Cambridge
Krueger AB (2012) The rise and consequences of inequality in the United States. www.whitehouse.gov
Kuchler H (2014) Zuckerberg tops list of big givers in US. Financial Times, January 2
Laskowski K (2011/12) Philanthropy and inequality: what's the relationship. Responsive Philanthr Winter: 6–9
Lindert P (2004) Growing public: social spending and economic growth since the eighteenth century. Cambridge University Press, Cambridge
Morison S (1965) The Oxford history of the American people. Oxford University Press, New York
Noah T (2010) The United States of inequality. Why we can't ignore growing income inequality. http://www.slate.com/articles/news_and_politics/the_great_divergence/features/2010/the_united_states_of_inequality/introducing_the_great_divergence.html
Nozick R (1974) Anarchy, state and Utopia. Basic Books, New York, NY
OECD (2011) Divided we stand: why inequality keeps rising. OECD Publishing, Paris
Ostry J, Berg A, Tsangarides C (2014) Redistribution, inequality and growth. IMF Discussion Note 14/02
Perotti R (1996) Growth, income distribution and democracy. J Econ Growth 1(2):149–187
Persson T, Tabellini G (1994) Is inequality harmful for growth. Am Econ Rev 84(3):600–621
Peter F (2004) Choice, consent, and the legitimacy of market transactions. Econ Philos 20(1):1–18
Piketty T (2013) Le capital au 21e siècle. Paris, Seuil. English edition: Capital in the twenty-first century. Harvard University Press, Cambridge, MA, 2014
Piketty T, Postel-Vinay G, Rosenthal JL (2011) Inherited vs. self-made wealth: theory & evidence from a Rentier Society (Paris 1872-1937). CEPR discussion papers 8411
Piketty T, Saez E, Stantcheva S (2012) Optimal taxation of top labor incomes: a tale of three elasticities. NBER working paper 17616
Pisano E (2012) Dinamiche distributive di lungo periodo in Italia: il ruolo dei top incomes. In: Checchi D (ed) Disuguaglianze diverse. Il Mulino, Bologna
Pizzigati S (2013) America's top 10 greediest people of 2012. The Huffington Post Business, October 29
Rajan R (2010) Fault lines. Princeton University Press, Princeton, NJ
Reich R (2006) Philanthropy and its uneasy relation to equality. In: Damon W, Verducci S (eds) Taking philanthropy seriously: beyond noble intentions to responsible giving. Indiana University Press, Indianapolis, IN
Roemer J (2011) The ideological and political roots of American inequality. Gini discussion paper 8. www.gini-research.org/articles/papers

Saez E (2013) Striking it Richer: the evolution of top incomes in the United States. www.elsa.berkeley.edu/~saez/

Smithers A (2013) The road to recovery. Wiley, Hoboken, NJ

Sowell T (2006) The trickle-down left: preserving a vision in "Capitalism Magazine". Available at www.capitalismmagazine.com/2006

Stiglitz J (2012) The price of inequality. Norton, New York, NY

Thompson J, Leight E (2012) Do rising income shares affect the income or earning of low to middle-incomes families? BE J Econ Anal Policy 12(1):1–38

Thurow L (1971) The income distribution as a pure public goods. Q J Econ 85(2):327–336

Tomasi J (2012) Free market fairness. Princeton University Press, Princeton, NJ

Turner A (2012) Economics after the crisis. MIT Press, Boston, MA

Urbinati N (2013) La mutazione anti-ugualitaria. Laterza, Roma-Bari

van de Werfhorst H, Tóth IG, Horn D, Medgyesi M, Notten N, Haas C, Burg B (2012) Political and cultural impacts of growing inequalities. Intermediate work package 5 report. www.gini-research.org/articles/papers

Voitchovsky S (2005) Does the profile of income inequality matter for growth? Distinguishing between the effects of inequality in different parts of the distribution. J Econ Growth 10 (3):273–296

Voitchovsky S (2009) Inequality and economic growth. In: Salverda W, Nolan B, Smeeding T (eds) Handbook of economic inequality. Oxford University Press, Oxford, pp 549–574

Waldenström D (2009) Lifting all boats? The evolution of income and wealth inequality over the path of development. Lund Studies in Economic History 51, Lund

Chapter 5
Why Worry About the Super-Rich? The Reasons and Possible Remedies

Abstract This chapter starts out by summarizing why and in what sense we should worry about super-incomes. The main reason is that societies would greatly benefit in terms of equity and efficiency by banning mechanisms that allow the formation of super-incomes and are not compatible with competition and a fair assessment of desert. Then the chapter analyzes various types of policies that can achieve this result, distinguishing between redistributive and pre-distributive policies, though a combination of the two is probably what is required. Redistributive policies, traditionally viewed as the only effective policies against inequality, act upon market incomes and try to improve their distribution. Specific types of such policies capable of curtailing super-incomes are suggested. Pre-distributive policies, on the other hand, perform the extremely important role of preventing super-income from being created on the market. They encompass a vast array of measures from those promoting competition for the best jobs, thereby undermining rents, to those that affect corporate governance, thereby limiting the power of supermanagers, to other interventions that aim to restrain the various types of power wielding from which undeserved super-incomes stem. The chapter also addresses the issue of possible negative side-effects of these policies and shows how even these do not provide sufficient justification for not adopting them.

1 Our Main Conclusions

The main question raised by this book is in its title: why should we worry about the rich? Now has come the time for an answer which, boiled down, sounds pretty much like this: the reasons for spending time on the rich and particularly those who have been the main subjects of this book, the working rich, are many and seem fairly well-grounded.

The analysis developed in Chap. 1 has enabled us to get to know, with a certain amount of detail, the planet of the rich and, in its most essential aspects, the satellite of the super-rich, which so far have been largely unexplored in statistical and economic enquiries. In particular, it has brought to light the growing percentage of super-incomes that derive from work and are formed on the market. Many

© Springer International Publishing Switzerland 2016

M. Franzini et al., *Extreme Inequalities in Contemporary Capitalism*,
DOI 10.1007/978-3-319-28811-6_5

believe that the fact that super-incomes are acquired on the market is a reason in itself for their being acceptable. Chapters 2 and 3 provide explanations as to why this position cannot be accepted without reservations: in particular, we have established that if markets complied with minimal levels of competitiveness—if they were conceived in such a way that anyone enjoying an advantage could be "challenged" by others—then, super-incomes would be unlikely and, more importantly, those receiving them would have a hard time maintain their high levels over time. This would only be possible for what we have termed the Schumpeterian serial innovator who is constantly producing innovations leading to rents which are also constantly being eroded by the imitations devised by his or her competitors.

The absence of competition also plays a central role when questioning the meritocratic justification of super-incomes, seeing as the competitive race, designed to remunerate skills and effort, is central to any form of meritocracy. This is true even if the definition of meritocracy is a merely formal one, that does not take into account—unlike the more exacting substantive one—the non-meritocratic advantages that can be enjoyed in the acquisition of the skills the market rewards. As it turns out, and as we have pointed out in Chap. 3, the evidence for violations of substantive meritocracy today is also very extensive.

What's more, the supposed positive consequences that societies enjoy as a result of the presence of the super-rich (trickle-down effect, growth, philanthropy) seem in many cases to be doubtful (when not negative), while in other cases it has been found that those same consequences could also be achieved in societies with a lower concentration of incomes. These consequences, in actual fact, depend on many factors that can work for or against each other: among them, with a very prominent role, there's the rent content of super-incomes. If this content is high, any attempt to contain the super-incomes could have little negative impact on growth, considering that rents, representing a surplus, normally do not provide incentives for growth.

Furthermore, as we have argued in Chap. 4, limiting super-incomes does not necessarily mean that society will lose the (real) advantages that the philanthropy of the super-rich can entail, nor will liberties be restricted, unless by liberties we only refer to the liberties enjoyed by the super-rich.

These considerations, and certainly no feeling of envy towards the rich or any ill-feeling towards them, lead us to conclude that there are plenty of reasons why we should worry about super-incomes. It is our belief that a society would have much to gain in terms of efficiency and equity if, besides devising reasonable forms of redistribution, it introduced policies directed not so much at contrasting super-incomes as such, but, more importantly, at fighting those mechanisms that allow the formation of super-incomes and do not (at the very least) fulfill the conditions essential for competition and an unbiased assessment of desert.

One last point. We have decided to focus our attention on two of the most common justifications of market inequalities, meritocracy and the trickle down effect. If we adopted more demanding justice criteria, the critique of inequality would gain even greater weight.

2 The Remedies: The Possibility of Making Things Worse

First of all, as we have seen, the variety of cases is very broad and this is because there are many mechanisms responsible for the production of super-incomes. In addition, and it's by no means a minor problem, for the very reason that we don't mean to take indiscriminate action against the super-rich, one has to distinguish the instances we intend to "target" from those that should be safeguarded. In particular, a clear distinction must be made between rents as opposed to reward for effort.

The problem, as mentioned in Chap. 4, is caused by the entanglement between the two elements which can lead to two kinds of complications: penalising effort along with rents or rewarding rents along with effort. As has already been mentioned and will be discussed at greater length later, the problem can be mitigated. However, it does exist and it would be too much to ask to be able to distinguish exactly between what can be ascribed to an individual and what can't, as the so-called "luck egalitarians" demand. To distinguish precisely between responsibility and luck, as the "luck egalitarians" would require, is, to our way of thinking, impossible and one has to resign oneself to this state of affairs.

Requiring that policies be infallible, however, is on a par with considering it preferable to have no policies at all. In our case, this would mean that no super-income could ever be curbed. Such a strict criterion, in its turn, seems unjustified. After all, in the market we witness mistakes that lead to the inefficient allocations of resources and other damaging incidents. But this certainly does not mean that we'd be better off without a market.

A reasonable strategy put forward by Anderson (2007) consists in refraining from "fine grained distinctions", being satisfied with identifying "acceptable range of variations", and ultimately, doing away with the most blatantly unacceptable inequalities. Sen's (2009) suggestion that one should try to solve the most obvious injustices, without attempting to achieve ultimate justice at all costs, would seem to be working along the same lines.

An approach of this type can reduce the risk of targetting someone who is rich because he/she deserves it, but this may entail tolerating a few rich that don't deserve to be. Overall, however, some progress compared to the status quo would be guaranteed.

So, as sometimes happens, one shouldn't mistake what are errors in the implementation of given actions with the undesirability of the action itself. This kind of confusion can discourage the quest for new and possibly innovative forms of intervention. A contribution to this quest is what we hope to provide in the last pages of this essay.

3 Not Just Redistribution: The Conditions of Competition

The idea that inequalities, even the most extreme ones, can only be contrasted through redistribution is widespread, but this doesn't mean it is right. Our analysis also calls into question how markets are regulated. If, as we have shown, a crucial factor on which income concentration depends is "halved" competition, then, a new pro-competition market regulation would seem in order. But one has to be very careful. Promoting competition for the better paid positions does not coincide with a *laissez faire* approach. In fact, the goal would be to make the better paid positions "challengeable". In other words, competition would have to be introduced in the upper end of the distribution without damaging those at the lower end. This can be achieved, on the one hand, by introducing minimum income floors and, on the other, by reducing the various forms of scarcity that are transformed into rents and end up fuelling the super-incomes.

This latter task means removing entry barriers, multiplying efforts to promote the most remunerative skills and not allowing the choice of the "best" (real or supposed) to become an opportunity for excessively high rents, as it happens if one is allowed to operate as a de facto monopolist. As we have seen in Chap. 2, where superstars are concerned, it is also advisable to distinguish between competition to secure the best services and competition to secure power. To this regard, we also sketched out possible forms of competition designed to "sell" the superstars (which is different from competing to become a superstar) that can be conceived and introduced with the aim of limiting the super-incomes resulting from a monopoly.

One context where the need for regulation is particularly necessary is finance, where, hardly surprisingly, a large share of super-incomes is produced. In opposition to the deregulation that has taken place in the recent past, with negative repercussions even on competition, many are now calling for new regulations and a few steps have been taken in this direction, for example, with the introduction of the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States in July 2010. Much more remains to be done, especially where implementation is concerned, and the separation between commercial and investment banks must be among the top priorities. These regulatory measures are primarily being called for to guarantee the stability of the financial system. Many of them, however, could be recommended (along with others) also for their positive repercussions on extreme inequalities.

Another context has to do with intellectual property rights. As Boldrin and Levine (2010, p. 190) point out "once the industry matures and intellectual property rights are obtained, monopolies tend to become very long lasting. When was the last time that someone overtook the Hollywood studios or the Big Five in the movie and music industry?" However, this kind of intellectual monopoly is not essential for a healthy rate of innovation. Believing this to be the case is another example of the fallacy behind the belief that to enable an economic system to progress one has to create advantages, which we might as well call privileges.

If one is worried about the risk of getting caught up in a vicious circle of lack of competition and inequality, a worthwhile example that can help mitigate this fear can be found in the world of sport. The reference is to the salary cap rule introduced by the National Basketball Association in the United States. This rule consists in setting a limit to the overall amount each team can spend to pay its players. The idea is to ensure that success, which usually leads to increased revenues, is not allowed to fuel further success and therefore make the competition less attractive.

The salary cap rule, in a form very similar to the one in force in the NBA, has also been proposed by FIA, the World Automobile Federation that is mainly involved in the Formula 1 championship. This rule, after having been heavily opposed, particularly by Ferrari, in the belief that it would be easy to circumvent (an observation that has some merit), now seems to be welcomed after the decisions reached in a recent meeting in Paris. This would seem to support the previously outlined thesis that anyone who has something to gain out of competition (and this someone in this case is the NBA or the FIA) has every interest in curtailing inequalities, so that competition remains intense. If consumers had the same power in the hands of sports owners, they too would do their best to ensure that no producer could acquire an excessive advantage over the others, because this would impair skill development, ultimately resulting in some form of market power. The regulator to whom our recommendations might be addressed should act along the lines indicated by the NBA (or FIA, if the proposal stands), in the sense that he/she should be constantly concerned about safeguarding competition by implementing the most appropriate measures. The latter, as we explain below, are not restricted to the imposition of salary caps. Other roads, perhaps even more advisable, could be explored. The aim, in any case, remains the one achieved with the salary cap, namely avoiding that success—even when it's deserved—can develop into a monopoly and thus generate permanent rents.

Regulation would then allow competition and desert to win out and the consequence would be that super-incomes would also be less likely.

4 . . .. and Those of Governance

Besides to further competition, one can also work to change corporate governance, with the aim of containing the earnings of CEOs and top managers, whose growth, as we have seen, is largely due to the greater bargaining power these posts have secured over the course of last two or three decades prior to the 2008 crisis.

To curtail this power, one could follow the example of the United States where in recent times the presence of shareholder representatives at Board of Director's meetings has been enhanced, and to whom top managers must now justify their remunerations. The first results seem encouraging. This kind of approach seems to be catching on and to make it even more effective one could have workers take part in board of director's meetings and extend overall corporate social responsibility.

These changes in corporate governance could facilitate the adoption of manager remuneration schemes more compatible with social welfare, *in primis*, by internalizing what in Chap. 3 we have identified as one of the most worrying externalities: the dumping on the social body of "excessive" levels of risk. One way forward, on this point, could be to link the variable part of a manager's remunerations to indicators of the company's financial soundness, for example, to the value of the credit default swap (Mehran et al. 2012) or that of the company debt (Bebchuck and Spamann 2010; Edmans and Liu 2011).

Another possibility concerns stock options and has been suggested by Edmans and Gabaix (2013). It calls for the setting up of Incentive Accounts, comprised partly of stock options and partly of cash, according to percentages that are fixed over time. If, for example, the value of the shares drops, part of the cash will have to be invested to leave the capital value unchanged. Plus, the possibility of cashing in the deposit is time-linked. Owners of the account who leave the company will not be entitled to sell off their entire deposit immediately, but will have to wait a few years. This would provide an incentive to promote the enterprise's medium term profitability.

These changes, besides limiting the incentives to take on excessive risk by unaccountable managers, would also help to reduce the average amount of their pay, and this will be even more the case if the markets in which they operate are also regulated on the basis of the pro-competitve indications above suggested.

5 The Advantages of Pre-distribution

Enhancing competition for the best paid positions and introducing forms of governance that reduce the power of managers within companies are two possible measures that can lead to more democratic forms of capitalism. They are also two important examples of an action strategy that has been termed pre-distribution (Hacker 2011).

Pre-distribution stems from the belief that inequalities, and particularly the extreme ones, cannot be exclusively contrasted through taxation. The responsibility of governments towards inequality, in its various forms, also depends on many other policy choices that have or have not been made and especially on how these choices/non-choices structure markets, or, one might argue, capitalism (Biasco 2013).

For our purposes, it's important to underline another great advantage of pre-distribution over redistribution in order to reduce extreme inequalities. Chap. 4 has pointed to the risks of a trade-off between taxation and growth and to the problem of entanglement and, with it, to the difficulties of taxation in the attempts not to curb the incentive role played by inequalities born out of effort. With pre-distribution, one would simply avoid the creation of a large part of rents. And there's more: by preventing the creation of rents one also limits the concentration of power, which may represent a serious obstacle to combatting the

inequalities in the first place. For these reasons, exploiting to the full the potential of policies that work to prevent the development of extreme inequalities would seem highly preferable to the alternative that consists in trying to remedy the situation once it's developed.

6 Tax and Transfers: A Few Innovations

Even adopting the pre-distribution strategy, it's, however, very unlikely that *ex-post* redistribution can become superfluous and the reason is that, if nothing else, rents will remain that are caused by pure luck (for the individuals), due to the natural and the social lottery, social interaction and idiosyncratic factors.

Taxation should, then, aim, on the one side, target residual rents and, on the other, to curtail the negative effects that top-incomes may have. To this end, one can also conceive innovative ways of intervention.

With respect to the super-rich, it's not just the standard justification related to vertical fairness that could be used to promote the need for greater taxation. There are also issues of horizontal fairness, hinging on the qualitative discrimination of income depending on its source. In the past, this discrimination mainly concerned the distinction between earnings and capital revenues. The demand was to tax more latter (as they are less arduous to obtain); according to J.S. Mills, for example, capital gains should be taxed 100 %, seeing as they can be acquired without any effort, even while sleeping. Today, since rents are a component of top-earnings, one could also invoke qualitative discrimination to support higher progressivity in the taxation of these incomes.

A further ground for the increased taxation of super-incomes has to do with internalizing the social costs of inequality. The main area where taxation is used to internalize social costs is the environmental one and the taxes that are usually called for are so-called Pigovian taxes, that is to say, taxes levied on each unit produced. Gallo (2012) presents an interesting extension of this line of reasoning, justifying income taxation as a way of internalizing the social costs of inequality as well. The proposal involves the implementation of the ability to pay principle in such a way as to ensure a fair and reasonable distribution of the damages caused to others.[1] As one can see, these are just suggestions, but suggestions that raise crucial issues if we are to reconsider the role of taxation and, for this reason, they deserve to be discussed and developed further.

At the same time, two sets of transfers appear particularly commendable. The first one should aim at fighting inter-generational inequality. Even though the skill premium doesn't adequately explain extreme inequalities, guaranteeing everyone the same opportunity of promoting their skills and competing on equal terms on the

[1] On this issue, see also Frank (2003).

job market,[2] regardless of one's family background, is important both in itself and as a way of promoting competition for the better paid jobs.

The second transfer should aim at redistributing the rents produced by social interaction among all associates. In the literature, this redistribution typically takes the form of a social dividend /citizenship income, but nothing prevents a mixed configuration of cash and service transfers. This transfer could then play a useful role in backing up the pro-competition policies, helping to raise the opportunity-cost of work as a way of preventing that competition penalizes the lower part of the distribution.

7 Nudging and Thereabouts

Individual preferences are inevitably afflicted by cognitive limitations and are often influenced by the context in which they are expressed. This means that changes in the context in which choices are made, whether they concern the offer of information, the introduction of incentives or the power relations, modify not only the cost/benefit balance between different courses of action, but also the preferences. Awareness of this fact led to the idea of nudging, the "gentle push", a core concept in the libertarian paternalism perspective put forward by Thaler and Sustein (2008). The main idea is that if some objectives are desirable, then, the individuals must be "pushed" towards them by consistently modifying the way in which choices/problems are presented. In short, in designing intervention, one has to bear in mind the effects of the choice context on preferences.

Consider, for example, Coase's well-known recommendation concerning the irrelevance, in the presence of externalities, of the subject to whom the ownership right is assigned, under the assumption that, if there are no transaction costs, the outcome in terms of efficiency will be the same. Well, according to the nudging perspective, the allocation of property rights on the subject who is penalised by the externality, for example pollution, thanks to the influence on cognitive mechanisms, will generate less pollution than would take place if the right was assigned to the polluter.

Getting back to our field of enquiry, forms of nudging could be achieved if, as was actually foreseen by the previously mentioned Dodd Frank Act, the ratio between the earnings of the CEOs and the median employee were made public.[3] Other policies could concern public contracts. An option, here, could be that of assigning contracts only to companies where the remuneration gap does not exceed

[2] As indicated in Chap. 3, even with equal academic qualifications, the sons of under-privileged families are often still at a disadvantage in accessing the job market.

[3] On the importance, among other things, of transparency, see High Pay Commission (2012).

a certain threshold. Similarly, one could request that companies benefitting from public bail outs curtail the wages paid to their top managers.[4] This would be in any case justified considering that if the managers have not been capable of preventing the company's tribulations then they can't expect to command very high salaries.

There again, one could follow a suggestion currently being discussed in the United States, of setting a limit, within business taxation, to the deductibility of managing directors' salaries. In actual fact, in the United States, a limit was set at one million dollars already in 1993. This ceiling, however, does not include incentive pay and the more complex bonus payments including stock options, instruments that not surprisingly have increased considerably since 1993. Now would be the time to abolish these loopholes.[5]

Finally, the call for greater transparency in salaries and that for justifying the managers' earnings to third parties could also apply to top managers in public administration.

8 Salary Caps and Their Limitations

Another measure that many are calling for is the imposition of salary caps to the higher wages. We have already recalled that in many cases this choice is the outcome of autonomous decisions based on the assessments of the negative externalities of excessive inequality on productivity and competition (as in the cases of the NBA and FIA). The imposition of a cap by law, however, is of an entirely different nature and does raise some doubts. A cap (even if it is set as a percentage of average or median wages) that is of the same value for everyone risks being inefficient, because it could reward some people too much and others not enough, thus giving rise to inefficiency in the allocation of resources.

Even though the effects are less certain, a more attractive solution could consist in bolstering the shareholders' and the workers' power of supervision, as we have already touched on before. The same goes for the "gentle nudges" mentioned in the previous paragraph. Unlike what would happen with a rigid system involving caps or proportionate remunerations,[6] the companies would be free to set the salaries they want, but the tax payer would not be called on to participate in the funding of remunerations that many feel are unwarranted.

---

[4] Today, in the US, the limit is a little over 750,000 dollars. The information is in Anderson et al. (2013).

[5] See the *Stop Subsidizing Multimillion Dollar Corporate Bonuses Act* of the US Senate and the *Income Equity Act* of the House of Representatives.

[6] On the limitations of these systems, see Hutton Review of Fair Pay (2010).

In Switzerland, a recent referendum rejected a proposal that intended to set a salary cap at 12 times the income, not of the median worker, but of the least paid one. Although corporate lobbying undoubtedly played an important part in this decision, the outcome was probably due not only to the strictness of the chosen cap (especially, given the initial conditions), but also to the diffidence that many express towards command-and-control measures. By implementing the various other measures outlined above with due care and in a coordinated fashion, one can do away with the manager's salary cap without spreading too many tears.

9 To Round Off

Identifying the reasons why one should worry about the super-rich also leads to the vital, yet by no means simple, challenge of identifying new policy approaches not just within the realm of redistribution, but especially and primarily in market regulation and corporate governance, to ensure that both markets and firms better perform the role on which their legitimisation depends: that of contributing not only to efficiency, but also to social justice.[7]

The need for this kind of action is hard to deny. The phenomenon of the super-rich risks getting worse, with all its load of negative consequences. Deluding ourselves that everything can be solved by renewed growth and that growth alone may alleviate the burden of extreme inequalities is wrong for the many reasons we have outlined in these pages. We would like to add one further motivation, a small calculation that can help justify our preoccupation even further.

Today, in Italy the richest 1 % of the population accounts for 10 % of all income, while the remaining 99 % has 90 % of the income. Let's suppose, as has happened in the United States where the super-rich phenomenon is well established, that 2/3 of all future growth goes to the richest 1 %. Let's also suppose, with a little optimism, that the economic system starts growing once more at a constant rate of 2 %. Given this scenario, it would take 18 years for 99 % of Italian incomes to increase by 15 % and 23 years for them to increase by 20 %. This means that even if Italy's GDP grew much faster than today, for many, the improvement would consist in increases of between 150 and 200 euro a month (given the initial conditions). While the majority of the population strives to achieve this "amazing" result the share of national income concentrated in the hands of the richest 1 % would rise from 10 % to 30 %. Faced with this prospect, the hope is that 99 % of Italians are soon given the option of a more comforting future than one that promises growth without redistribution and, especially, without pre-distribution.

[7] On the importance of both pre-distribution and re-distribution, see also Atkinsons (2015). Since Atkinson's comprehensive proposal addresses overall inequality (rather than being focused on top-incomes), fruitful integrations are possible between his and our suggestions.

References

Anderson E (2007) How should egalitarians cope with market risks? Theor Inq Law 9(1):61–92
Anderson S, Kinger S, Pizzigati S (2013) Executive excess. Bailed out boosted busted. IPS, Washington, DC
Atkinsons AB (2015) Inequality. What can be done? Harvard University Press, Cambridge, MA
Bebchuck LA, Spamann H (2010) Regulating bankers pay. Georgetown Law J 98(2):247–287
Biasco S (2013) Ripensando il capitalismo. Luiss, Roma
Boldrin M, Levine DK (2010) Against intellectual monopoly. Cambridge University Press, Cambridge, MA
Edmans A, Gabaix X (2013) What's right, What's wrong and what's fixable: a dispassionate look at executive compensations. Pathways, pp. 13–16. http://www.inequality.org
Edmans A, Liu Q (2011) Inside debt. Rev Finance 15(1):75–102
Frank R (2003) What price the moral high ground? How to succeed without selling your soul. Princeton University Press, Princeton, NJ
Gallo F (2012) L'Uguaglianza Tributaria. Edizioni Scientifiche Italiane, Napoli
Hacker J (2011) The institutional foundation of middle-class democracy. Policy Network, London
High Pay Commission (2012) Cheques with balances: why tackling high pay is in the national interest. www.highpaycommision.co.uk
Hutton Review of Fair Pay (2010) Interim report, London, Crowne Copyright
Mehran A, Morrison A, Shapiro J (2012) Corporate governance and banks: what have we learned from the financial crisis? In: Dewatripont M, Freixas X (eds) The crisis aftermath: the new regulatory paradigms. Center for Economic Policy Research, London, pp 11–44
Sen A (2009) The idea of justice. Allen Lane, London
Thaler R, Sustein C (2008) Nudge: improving decisions about health, wealth and happiness. Yale University Press, New Haven, CT

Index

A
Abramovich, R., 50
Acs, Z.J., 102
Adler, M., 47, 77
Alger, H. Jr., 69
Alm, D., 65
Alvaredo, F., 3–6, 67, 89, 90, 93, 99
Anand, P., 73
Anderson, E., 60, 68, 73, 101, 115, 121
Andrews, D., 87, 90
Arendt, H., v
Aristotle, 86
Arnsperger, C., 72, 73
Arts, W., 13
Atkinson, A.B., 2, 3, 5, 9, 10, 86, 89, 122

B
Baldini, M., 1
Baldwin, P., 92
Barry, B., 92
Bartels, L., 68
Barth, E., 92
Bebchuck, L.A., 44, 45, 118
Becchetti, L., 71
Beckham, D., vi
Bènabou, R., 58
Berners-Lee, T., 101
Besley, T., 71
Biasco, S., 118
Bingley, P., 70
Bivens, P., 44, 45, 90
Bjorklund, A., 71
Blair, T., 86
Blitz, R., 9
Boldrin, M., 116
Bonica, A., 68
Bowles, S., 70
Brandolini, A., 9
Brezis, E., 103
Bruni, L., 71
Brzezinsky, M., 10, 12
Buffet, P., 103, 104
Buffet, W.E., 75, 103

C
Caglioti, G., 104
Carotenuto, S., 45
Chakravarty, S., 11
Chetty, R., 96
Clark, A., 88
Clark, J.B., 36
Clinton, B., 101
Coase, R., 120
Cohen, G., 107
Cohn, A., 99
Cook, P.J., 38, 39
Corak, M., 13, 70, 74, 92, 95
Cowan, T., 42
Crasso, M.L., v
Crick, F., 101

D
D'Alessio, G., 88, 96
Danziger, S., 10
Davies, J., 1
de Tocqueville, A., 92
De Villè, P., 72, 73

© Springer International Publishing Switzerland 2016

M. Franzini et al., *Extreme Inequalities in Contemporary Capitalism*,
DOI 10.1007/978-3-319-28811-6

Dekker, T., 63
Depardieu, G., 98
Drewnowski, J., 10
Drucker, P.F., 99
Duenhaupt, P., 68
Duncan, G., 96
Dworkin, R., 78, 107

E
Edmans, A., 118
Esping-Andersen, G., 13

F
Federer, R., 61, 65
Fehr, E., 99
Feldstein, M., 88
Fernandes, N., 41
Ferrajoli, L., 107
Ferrera, M., 13
Ferrer-i-Carbonell, A., 1
Fleurbaey, M., 56, 78
Foster, J., 2, 11
Frank, R.H., 38, 39, 94, 119
Frankfurt, H., 85
Franzini, M., 1, 45, 60, 61, 69, 70, 86, 92, 96, 98
Freeland, C., 34, 50
Frey, B., 73
Fried, B., 44, 45, 105
Friedman, B., 102
Frijters, P., 88
Frydman, C., 45

G
Gabaix, X., 41, 75, 118
Gaggi, M., 97
Gallo, F., 119
Gates, B., 34, 35
Gelissen, J., 13
Ghatak, M., 71
Giertz, S., 5
Gintis, H., 70
Gladwell, M., 35
Goette, L., 99
Gottschalk, P., 10
Gracia, P., 60
Granaglia, E., 75
Gray, A., 73
Greer, J., 2, 11
Gregg, P., 44
Groysberg, B., 50, 51

H
Hacker, J., 68, 118
Harcourt, B., 71
Hausman, M., 72, 76
Hellier, J., 103
Hirschman, A.O., 92, 95
Hobhouse, L., 76
Hollande, F., 98

I
Inglis, F., 48

J
Jefferson, T., 77
Jencks, C., 61, 91
Jenter, D., 45
Jeon, D.S., 48
Jesper, R., 71
Jewell, S., 44
Jobs, S., 35
Jones, S.R.G., 47

K
Kagan, S., 57
Kahn, A., 73
Kaplan, S., 34, 45, 69
Kennedy, J.F., 86
King, W.I., 100
Kinger, S., 68, 101
Knight, F., 77
Kolm, S., 107
Krueger, A.B., 40, 47, 93, 95, 100
Krugman, P., 69
Kuchler, H., 103

L
Lady Gaga (S.J.A. Germanotta), 40, 50
Landier, A., 41, 75
Lanning, T., 58, 80
Laskowski, K., 103
Lawton, K., 58, 80
Lazonick, W., 76
Leigh, A., 3, 8
Leigh, E., 91
Levine, D.K., 116
Lincoln, A., 107
Lindert, P., 101
Lindsey, B., 42
Liu, Q., 118
Lovo, S., 48
Lucas, J., 59

M
Madonna (M.L. Cicone), 40
Maitre, B., 13
Mankiw, G., 62, 65, 101
Marx, K., 58
Mason, A., 56
Mazzucato, M., 66, 76
McDonald, D., 50, 90
Medeiros, M., 2, 9
Mehran, A., 118
Merton, R.C., 77
Milan Vic, B., v
Miller, D., 57–59, 78
Mills, J.S., 119
Mishel, L., 44, 45, 90
Moene, O., 92
Montaigne, F., 15
Monti, M., 91
Moore, J., 8
Morgan, J.P., 99
Morison, S.E., 86
Mortensen, J., 5
Murnane, R., 96
Murphy, K.J., 41, 44, 45
Murray, A.B. (Andy), 65

N
Naples, M., 2, 68
Naticchioni, P., 8
Nisbet, R., 77
Noah, T., 100
Nolan, B., 2
Nozick, R., 105, 106

O
Offe, K., 58
Osborne, M., 70
Ostry, J., 101

P
Peichl, A., 10–12
Peragine, V., 56
Perotti, R., 100
Persson, T., 100
Peter, F., 107
Phillips, A., 74
Piazza, J., 48
Pierson, P., 68
Piketty, T., 2, 45, 96, 98, 99
Pisano, E., 3, 4, 7, 8, 99
Pizzigati, S., 90
Postel-Vinay, G., 96

R
Raitano, M., 1, 7, 8, 69, 70, 96
Rajan, R., 100
Rauh, J., 34, 45, 69
Rawls, J., 75, 76, 78
Reich, R., 68, 105
Ricardo, D., 39
Ricci, A., 8
Rigney, D., 77
Robertson, D.H., 72
Roemer, J., 59, 101
Rogers, R.G., 101
Rogers, W., 86
Rojas González, G., 15
Rosen, S., 39
Rosenthal, J.L., 96
Rotschild, M., 92
Rousseau, J.-J., 77
Ruffolo, G., 69

S
Saez, E., 90
Salinas de Gortari, C., 34
Salverda, W., 2
Sandel, M., 71–73
Sandino, T., 44
Satz, D., 60
Schaefer, T., 10–12
Scheffler, S., 78
Scheicher, C., 10–12
Schumpeter, J.A., 43, 52, 100
Seldon, D., 73
Sen, A., 1, 2, 11, 59
Shields, M.A., 88
Siegfried, J., 9
Skidelski, E., 72
Skidelski, R., 72
Slim, C., 34
Smeeding, T., 2
Smithers, A., 99
Smolensky, E., 10
Sowell, T., 87
Spamann, H., 118
Stantcheva, S., 45, 98, 99
Stiglitz, J., 35, 67, 68, 95, 101
Stinson, L., 8
Sunstein, C., 120
Swift, A., 60

T
Tabellini, G., 100
Tach, L., 61
Taussig, F., 36
Tawney, R., v
Thaler, R., 120
Thompson, J., 91
Thorbecke, E., 2, 11
Thurow, L., 97
Tomasi, J., 106
Tonks, I., 44
Toso, S., 1
Townes, C.H., 101
Townsend, P., 2
Tsakalotos, E., 72
Turing, A., 101
Turner, A., 106

U
Urbinati, N., 86

V
van Arnum, B., 2, 68
van de Werfhorst, H., 95
van Parijs, P., 76–78
van Praag, B., 1
Visco, I., 99
Visco, V., 6
Voitchovsky, S., 87, 100
von Hayek, F., 57

W
Waldenström, D., 86
Watson, J., 101
Welniak, E., 8
Westergård-Nielse, N., 70
Whelan, C., 13
Wolff, E., 1
Wolff, P., 15

Y
Young, M., 57, 58, 74

Z
Zacharias, A., 1
Zamagni, S., 58, 71
Zingales, L., 68