Should Companies Focus on Income Inequality?

Rajshree Agarwal
Rudolph Lamone Chair of Strategy and Entrepreneurship
Director, Ed Snider Center for Enterprise and Markets
University of Maryland
Two reasons why companies should not focus on income inequality for its own sake

• It is inconsistent with fundamental principles of trade
  • Voluntary trade is based on win-win relationships
  • The size of the “win” is proportional to the size of the value one brings to the table

• It is inconsistent with fundamental principles of justice
  • Procedural and distributive justice requires a focus on equity, not equality
  • A focus on income inequality privileges negative emotions of “envy and jealousy”
A trader...does not treat men as masters or slaves, but as independent equals. He deals with men by means of a free, voluntary, exchange—an exchange which benefits both parties by their own independent judgment.

Ayn Rand
Trade begins with individual purpose: Solving problems meaningful to you

Benefit to the other (making the world a better place)

Benefit to you (doing something important for yourself)
Trader’s Sudoku: Creating value through collaboration (within organizations or markets)

<table>
<thead>
<tr>
<th>Me</th>
<th>You</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aspiration (Motives)</strong></td>
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<tr>
<td>What am I pursuing?</td>
<td>What are you pursuing?</td>
</tr>
<tr>
<td>How does it fit in my values/mission?</td>
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**Common Objective**
What are we trying to accomplish together?

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<td>What do I bring to the table?</td>
<td>What do you bring to the table?</td>
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**Action**
What am I going to do?

What are you going to do?

*Adapted from Kendall Justiniano, STRIVE, 2015*
Markets (and organizations) are first and foremost platforms for collaboration.

Competition creates discipline and focus on “value-add.”

Those that collaborate well create “winning” solutions and outcompete others.
What does it mean to take “voluntary trade” seriously? The role of firms in creating value

• Firms consist of individuals who differ in many micro dimensions, and often represent a bundle of
  • Values
  • Goals
  • Motivations
  • Abilities
  • Activities

• Firms align individuals towards a shared purpose
  • through coordination, governance and incentive alignment

• Firms seek profit as the residual value
  • after ensuring win-win outcomes with critical stakeholders,
  • and by ensuring that these win-wins are better than their best alternative
What does it mean to take “voluntary trade” seriously?
The role of markets in value-focus

Product and services markets:
• Competition by other firms who are solving the same problems to offer value in terms of “faster, better, cheaper.”
• New ideas—implemented through innovation and enterprise—displace status-quo

“Labor” markets:
• Competition by other firms who also seek to recruit individuals towards their purpose
• “Labor” is not a homogenous good, as defined by hours of a day
• Superior value creation is fundamentally related to talent, innovation and enterprise
“Open-access” institutions are necessary for enacting the trader principle for value creation.

• Most societies are based on political manipulation of the economy to create *limited access* privileged interests.
  • “Natural state”

• Some modern societies create *open access* to economic and political organizations, fostering political and economic competition.
  • More fragile
Impersonality—equality in the eyes of the law—is a central feature of open-access societies.
Two fundamental differences...

Political vs. economic equality

- Political equality is government process to ensure equal treatment of individual
- Economic equality is equal outcomes in income, wealth and resources
Mobility is the key consequence and cause when these differences are respected!
(Upward) Mobility as a consequence and as a cause

- Mobility as a **consequence**
  - Outcome of open access institutions that enable trade and human agency
  - *Political equality (impersonality)* enables upward mobility in economic, psychological and intellectual realms

- Mobility as a **cause**
  - Option to choose the best among alternatives, and walk away from less desirable options
    - This is true across the income spectrum!
  - You don’t always get what you want, but you get what you want, conditional on the value you offer in return
When talent is mobile, voluntary trade implies:

*From* each according to their ability to create value,
*To* each according to their ability to create value
But what about justice?...

Justice, as a moral concept, applies to human *choices*, not to human “nature” nor “accidents of birth”
But what about justice?...

...Based on what yardstick??

• Distributive justice
  • Equality vs. Equity
• Procedural justice
Upholding income inequality reduction is inconsistent with distributive justice based on equity—*rewards commensurate to value creation*. 
Procedural justice

Let’s not confound today’s cronyism and mixed economies by attributing their faults to markets

- We are living in *limited access societies* today!
- Lobbying and regulation are used to erect barriers against innovators, and to protect status-quo
- This is rent-seeking and *subversion of market principles* through exercise of political power

When markets are at work, *economic power* stems from voluntary trade and ensures procedural justice

- Disciplines executives who engage in rent-seeking
- Employees leave for better options that provide equity-based distributive justice and procedural fairness
- Other stakeholders (shareholders, investors) monitor or withdraw due to resulting inefficiencies
A focus on income inequality can also legitimize envy and jealousy, leading to negative strategies of sabotage and barriers.
Upward Comparison

Downward Comparison

Negative Effects
- Envy & Dissatisfaction
- Sabotage & Redistribution
- Jealousy & Fear
- Sabotage & Barriers

Positive Effects
- Inspiration & Hope
- Productive Effort to Attain
- Pride and Benevolence
- Productive Effort to Retain
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LOSE-LOSE; No Collaboration with a primacy on static rents (consumption)
Rather than focusing on reducing income inequality, companies can leverage social comparisons more positively!
Upward Comparison

Downward Comparison

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Positive Effects
- Inspiration & Hope
  - Productive Effort to Attain
- Pride and Benevolence
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WIN-WIN: Collaboration with a *primacy on dynamic production (value creation) before consumption (value capture)*

- **Upward Comparison**
- **Downward Comparison**

**Positive Effects**
- Inspiration & Hope: Productive Effort to Attain
- Pride and Benevolence: Productive Effort to Retain
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