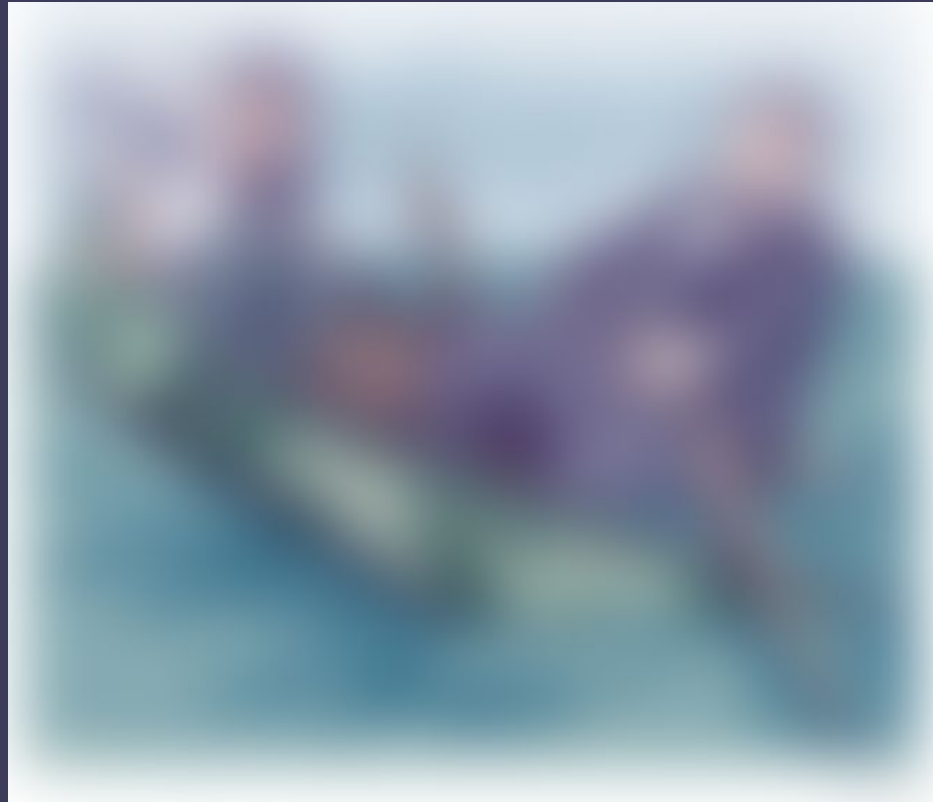


# Why Inequality Is Inefficient



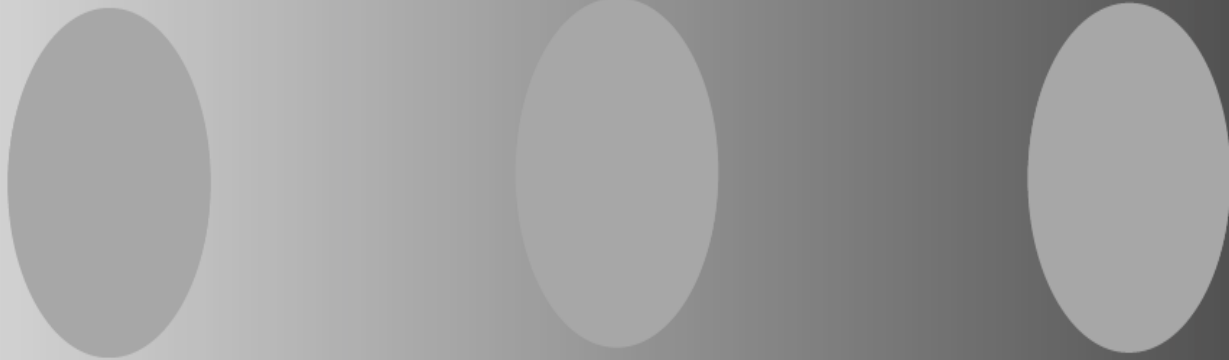
Robert H. Frank

Forum for Macroeconomics and Macroeconomic Policies

Berlin, Germany

26 October, 2024

Which oval is darkest?

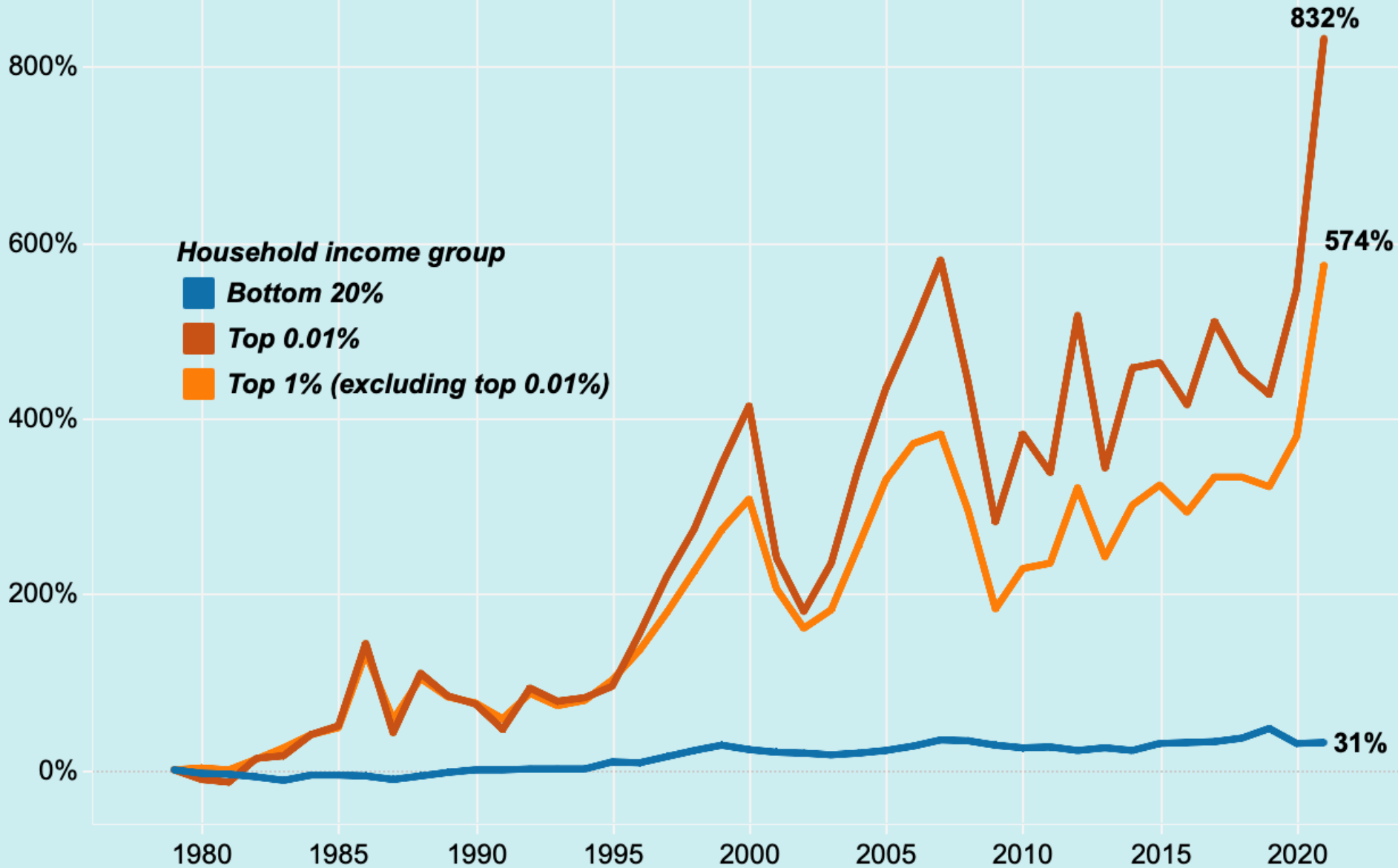


Is my house OK?



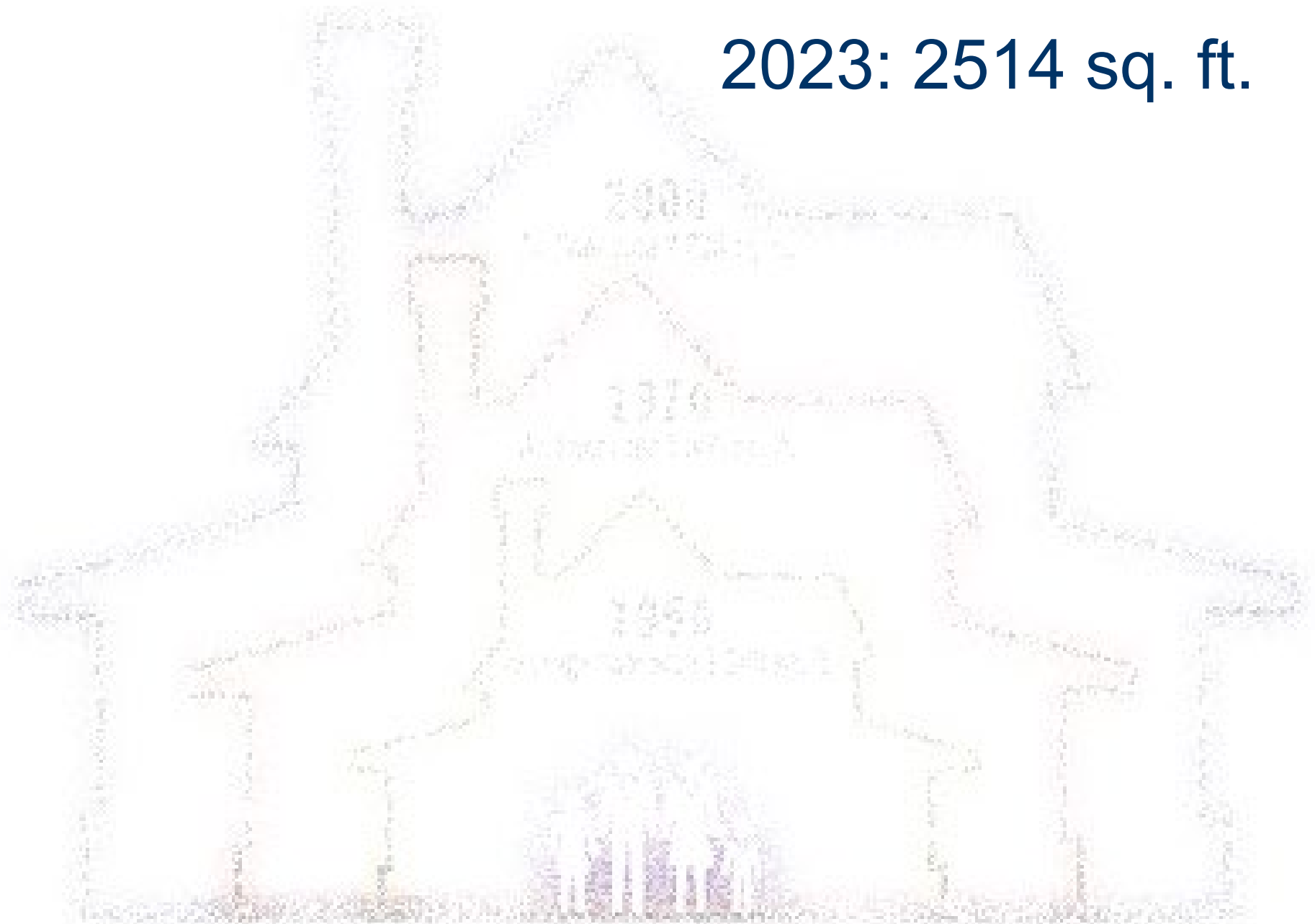


# The context has been shifting.



# Expenditure Cascades

2023: 2514 sq. ft.



# Average American Wedding Expense (in 2018 dollars)

1980: \$12,000

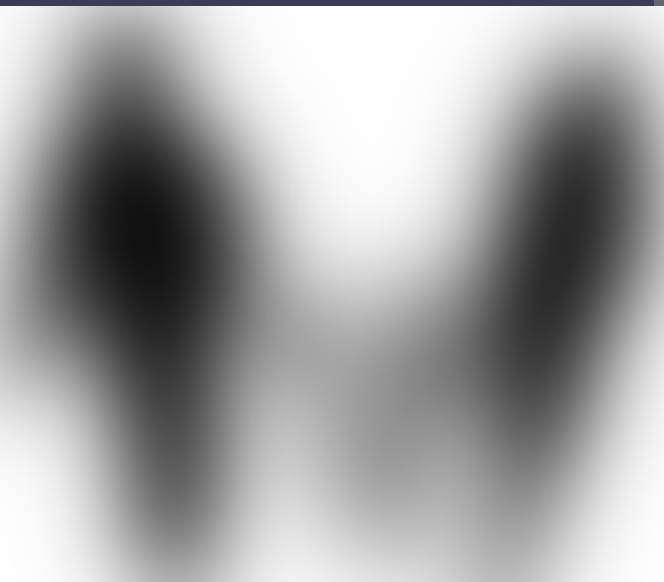
2020: \$36,000



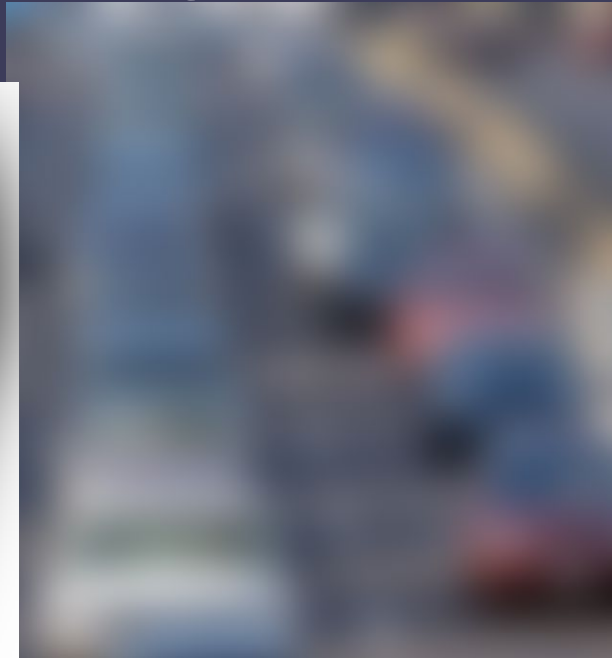


100 largest US counties in which income inequality grew most rapidly also saw the largest increases in

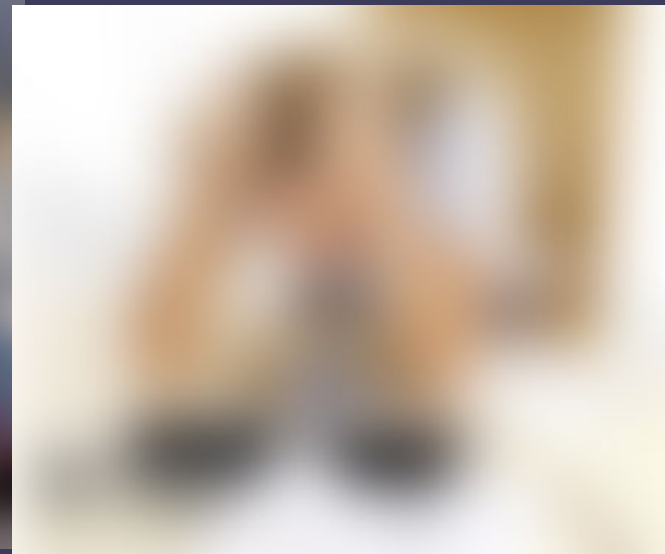
Divorce Rates



Long Commutes



Bankruptcies



# The World Happiness Report

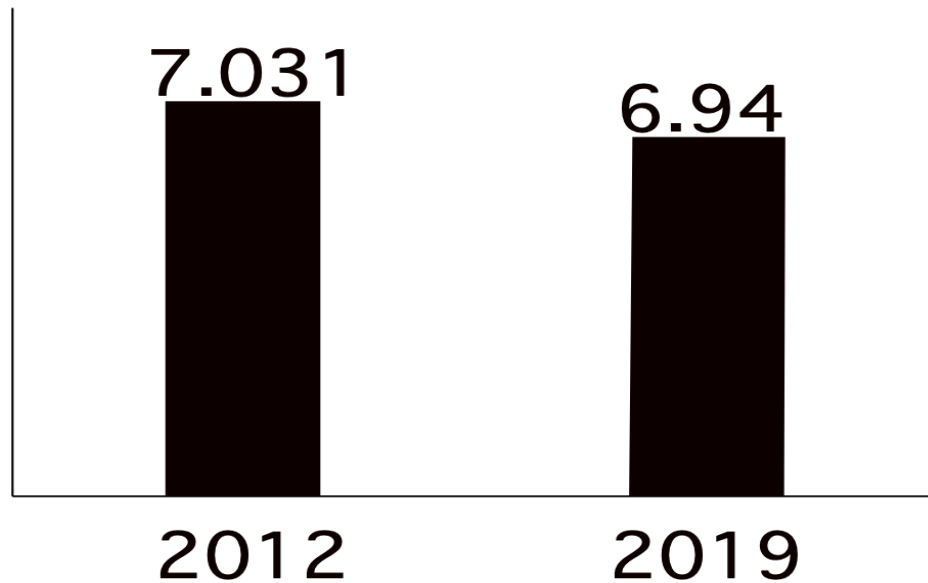
On a ten-point scale, how satisfied are you with your life as a whole these days (where zero means “not at all satisfied” and 10 means “completely satisfied”)?

Higher satisfaction levels are observed in countries with greater social support, longer healthy life expectancy, greater freedom, higher levels of generosity, and lower levels of corruption.

2012  
US GDP: \$16.4T

2019  
\$21.9T

Average  
Life  
Satisfaction  
in US



# Positional Arms Control Agreements

## (Regulations as Data)

# Mandatory Kindergarten Start Dates



# Limits on Engine Displacement and Tire Expenditure



Why do hockey players vote in secret ballots for helmet rules, even though they choose not to wear helmets when there is no rule?

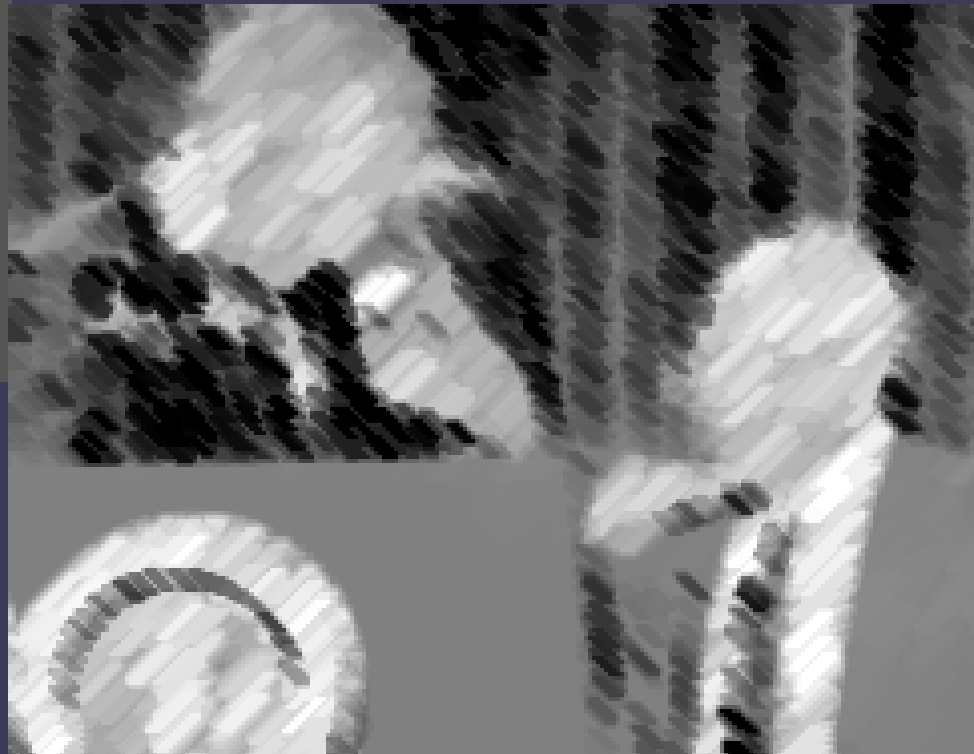


# Workplace Safety Standards





# Should Government Force People to Save for Retirement?



# The Progressive Consumption Tax (a.k.a., the Unlimited Savings Allowance Tax)

Consumption + Savings = Income

Consumption = Income – Savings

Taxable consumption = Income – Savings  
– standard deduction

Current World: Wealthy  
drive Ferrari F12  
Berlinetta,  
333,000 Euros



World with a  
progressive  
consumption tax:  
Wealthy drive Porsche  
911 Turbo,  
150,000 Euros




Who is happier?

Someone who drives a 300,000 Euro Ferrari  
in a society with poorly maintained roads...




...or someone who drives a 150,000 Euro Porsche  
in a society with well-maintained roads?





Higher taxes on  
the rich  
don't hurt the rich  
at all!



# Politically Feasible?

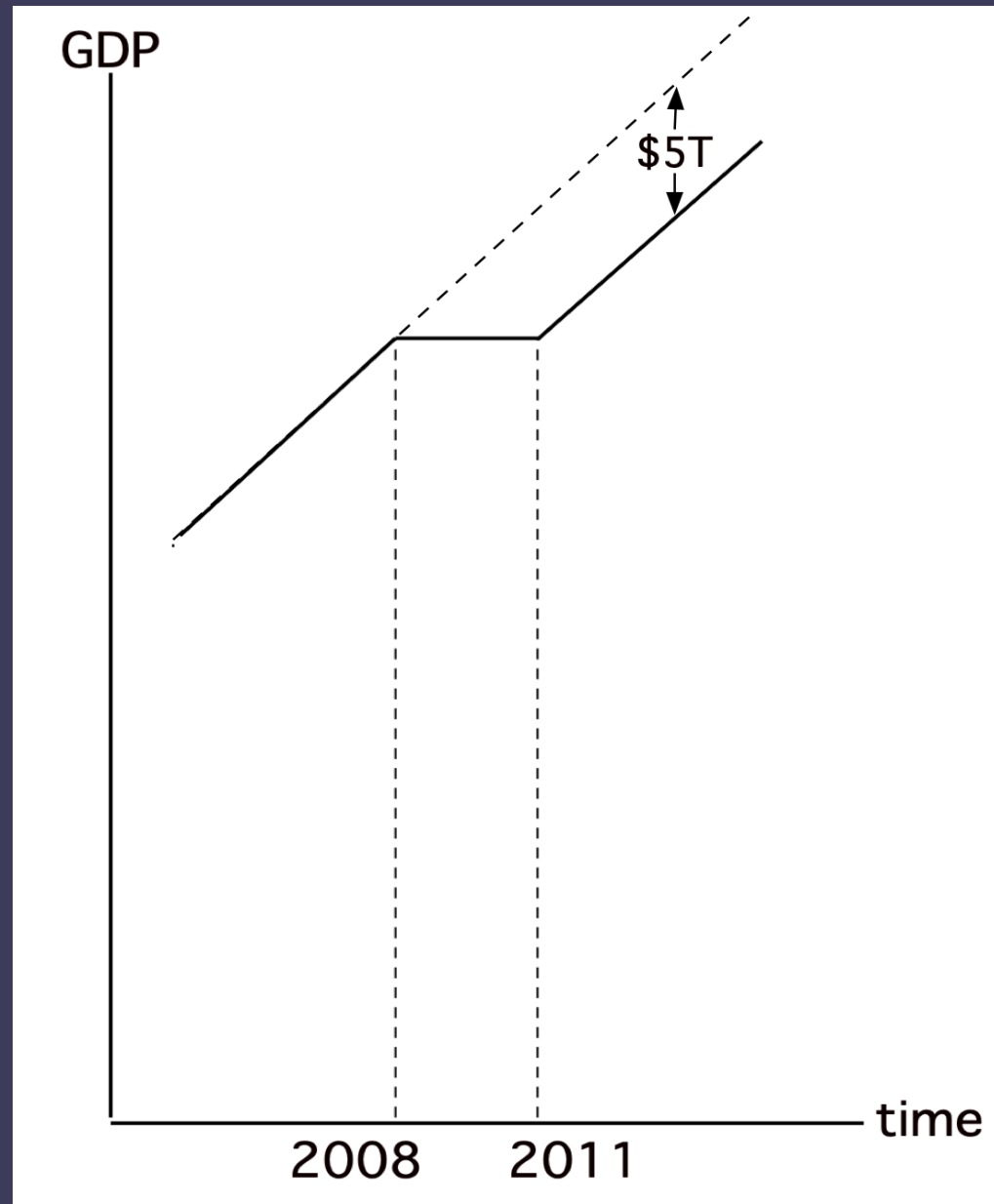


Milton Friedman,  
“The Spendings Tax  
as a Wartime Fiscal  
Measure,” *American  
Economic Review*,  
33, No. 1, Part 1  
(Mar., 1943): 50–62.

Achieving climate stability could cost some \$5 trillion annually.

That's less than 5 percent of world GDP.

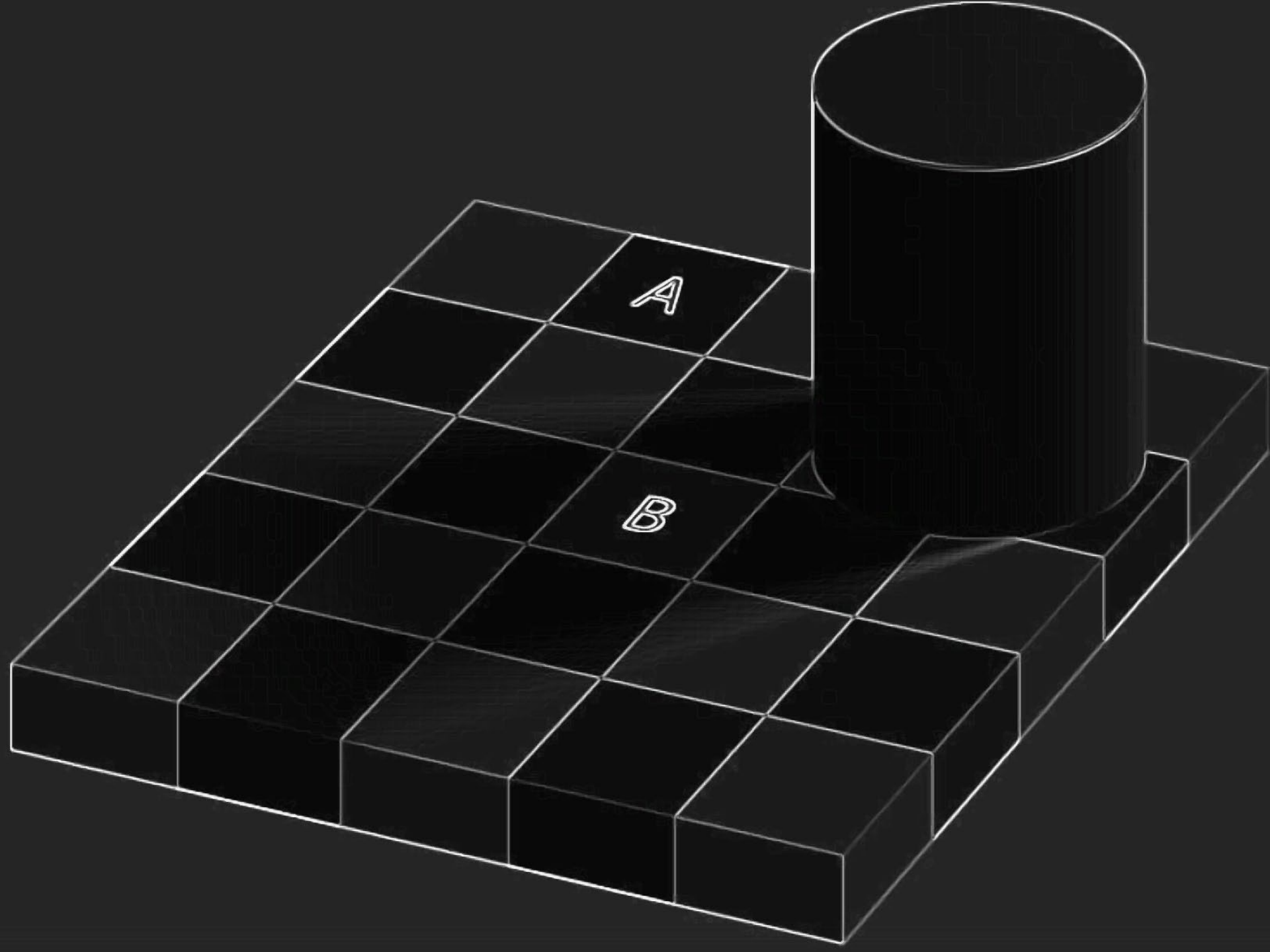
In US, it's roughly like missing out on 3 years of GDP growth.

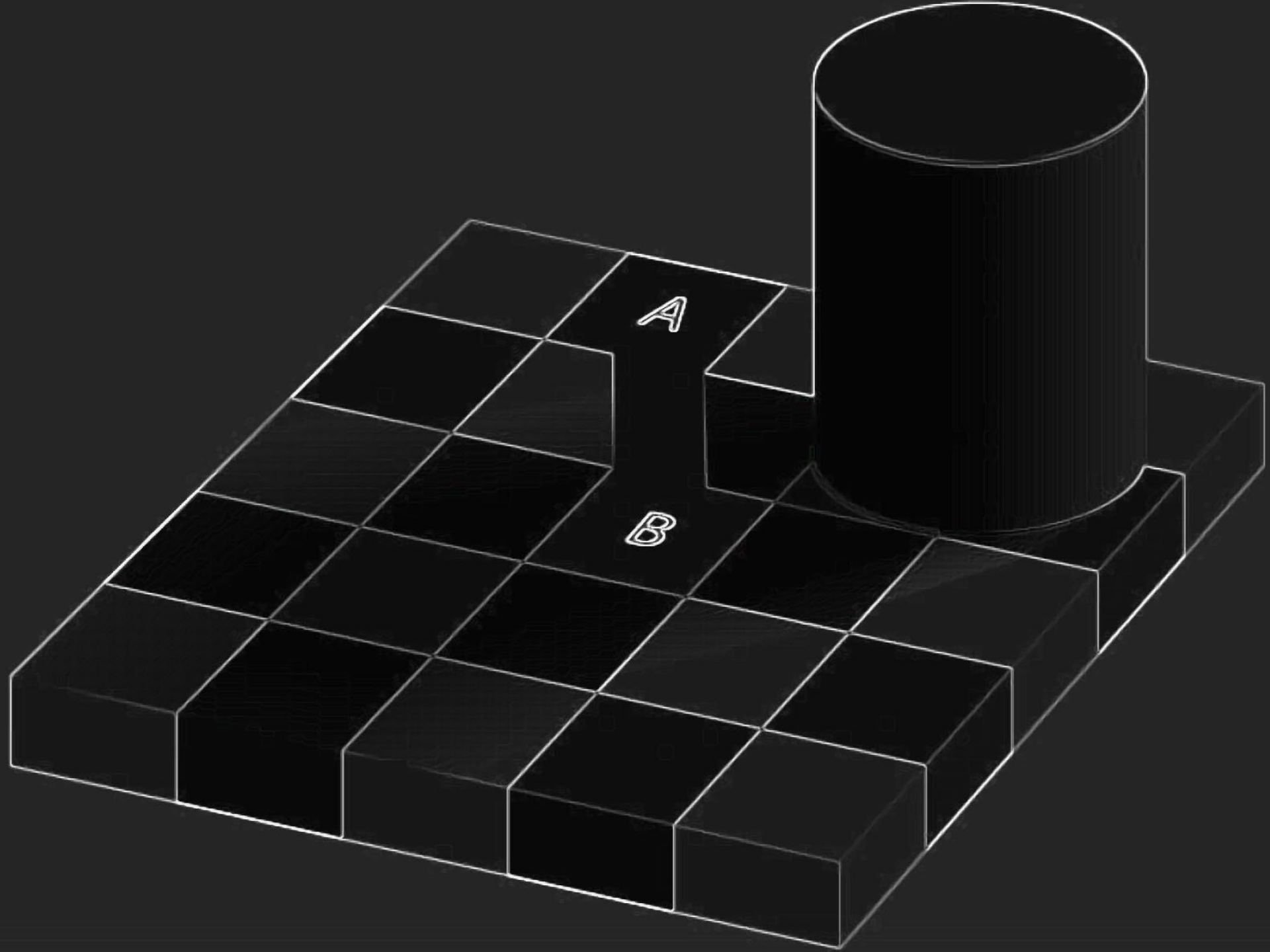




Q. If higher taxes would pay for public investment whose value to the wealthy would exceed their loss from the corresponding decline in private consumption, why don't they vote accordingly?

A. Because they suffer from The Mother of All Cognitive Illusions





# How will higher taxes affect me?

Cognitive  
strategies:

Plan A: How  
did I feel the  
last time my  
taxes went up?

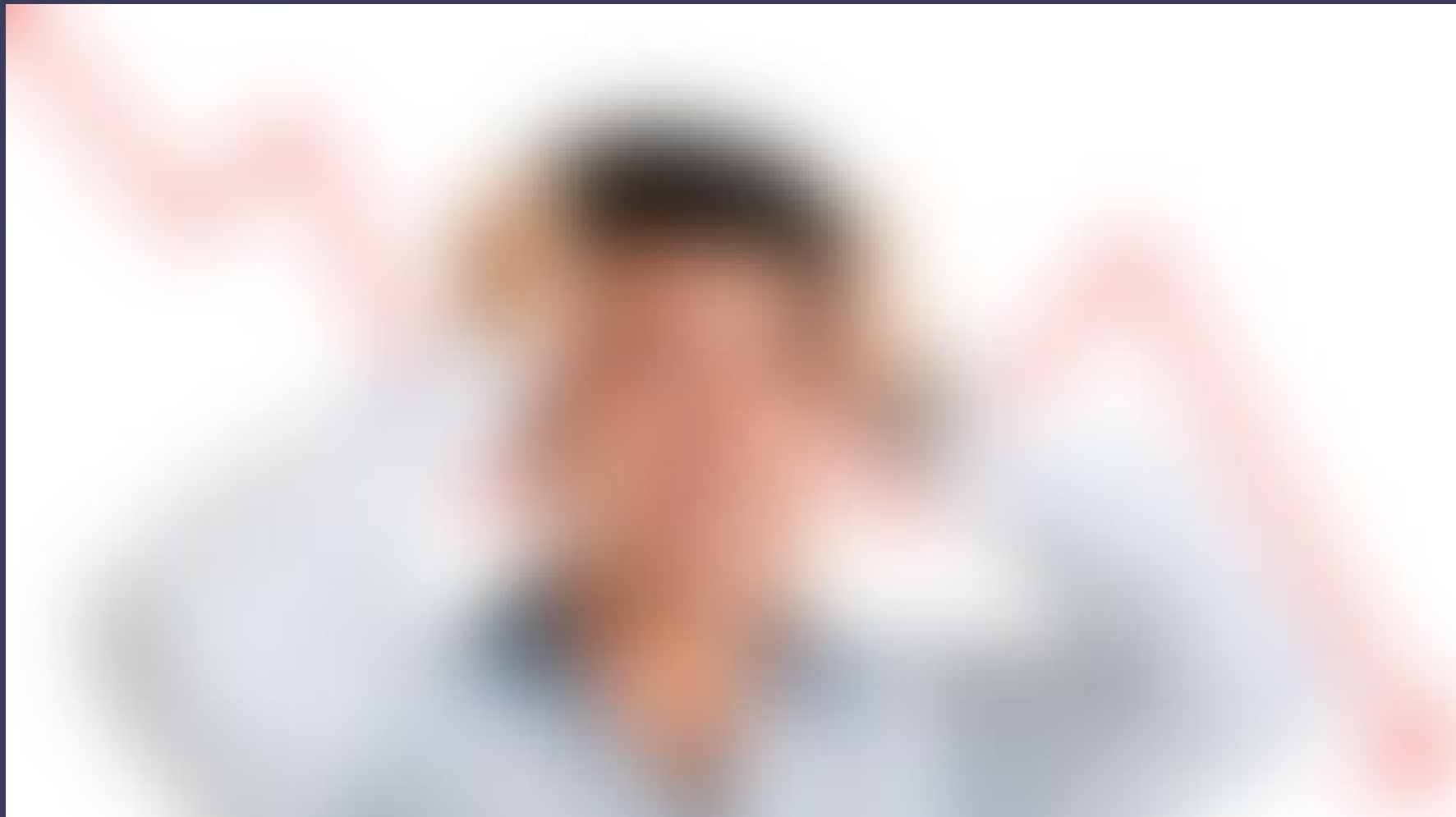
# Maximum Marginal Tax Rates on Individual Income in the United States

Year	Top Tax Rate
1966	70%
1982	50%
1987	38%
1995	39.6%
2018	37%

Higher taxes means having less money to spend.

Plan B. How did I  
feel the last times  
I had less money  
to spend?

Bad business year



# Divorce

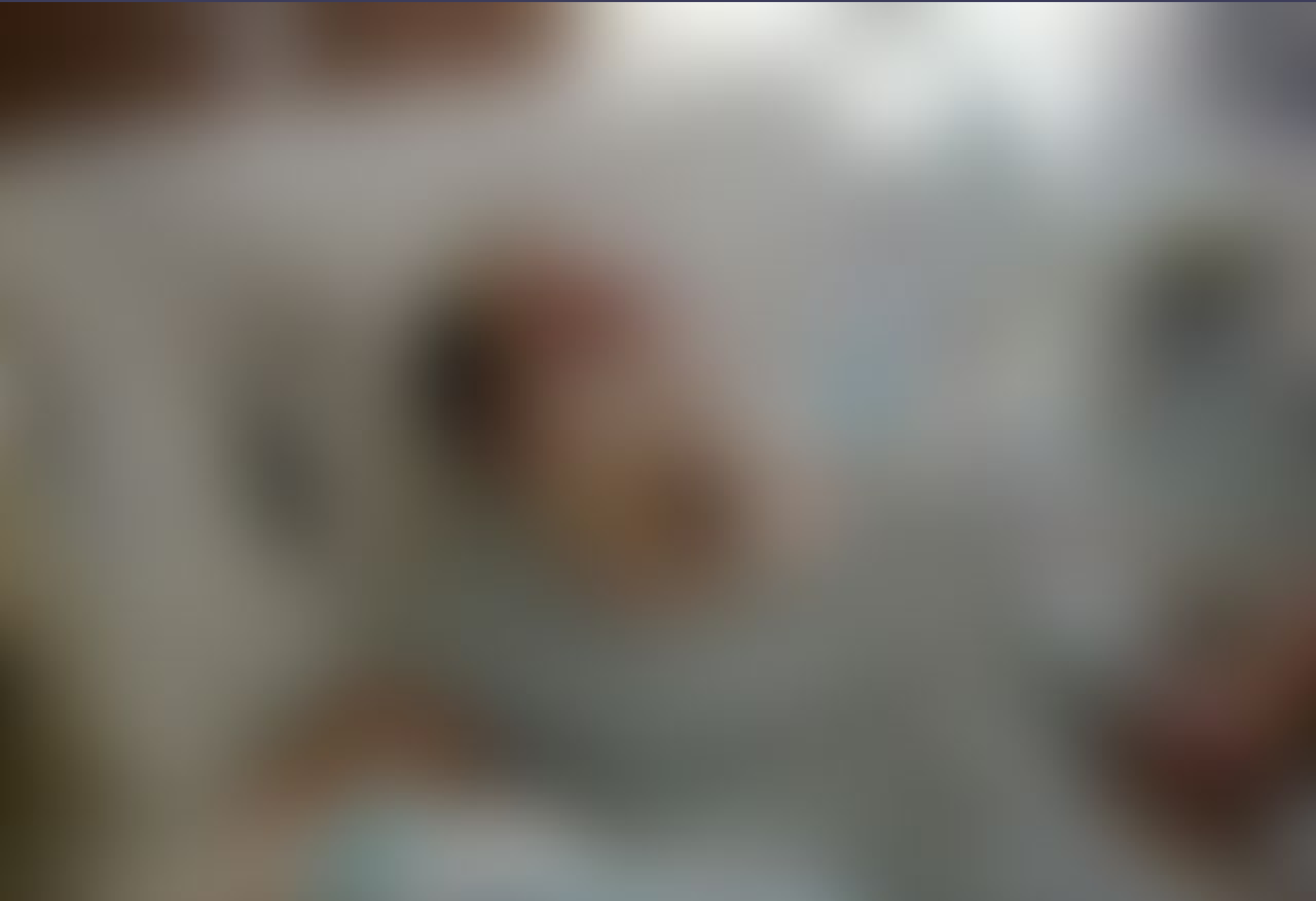




# House fire



# Health crisis



The ability to bid successfully for desirable things that are in short supply depends on relative income, which is completely unaffected by higher taxes.