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Good Riddance to (Old) Rubbish: A Study of Institutions, Society and the Way Forward

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Of the numerous issues of consequence that affect us at a collective level, the most significant and difficult-to-resolve tend to be the ones wherein a seemingly persuasive case could be made from either side of the aisle. Climate change, for instance, or issues of redistribution—is it better to impose austerity today for a better tomorrow or let the market work itself out with minimum interference? When it comes to society-level interventions on such issues, things get even more complex as any state- or international-level policy response is necessarily based on a common perception of the challenge being confronted—which, in turn, is a product of the institutional setting in which it is situated. And what can be a more significant determinant of policy than the social consensus over what problems to address and why.

In this essay, I look at the societal understanding that appears to have emerged of late over soci0-economic inequality, and argue that the worst legacy that we have inherited from the previous generations is the inclination to fetishize a 'hands-off' approach to the administration of markets and policy which has, over the years, resulted in a radical transformation in the way human beings treat each other. The first step toward treating inequality should be instituting a program that counteracts this fundamental corruption.

Why Inequality

As per the estimates available on the World Inequality Database website, the top 1% richest individuals in the world today own 40% of all wealth (and 20% of all income)—which is more than 8 times (and twice) the respective share(s) owned

by the bottom 50%, a bracket with 50 times the population of the former. Why is this the case at a time when the state has at its disposal extremely sophisticated tools to locate, tax and redistribute? Indeed, how did we get here from when (back in 1970s and early 80s) the ownership figures for these groups were at historically-low levels (around 25% for wealth, and 10% for income) (Piketty, 2020)?

In recent decades, the socio-political consensus everywhere around the world appears to have shifted from taxing more to taxing less, evidenced by cuts in the corporate tax rates by Trump in the U.S. in 2017 and Modi in India in 2019. Clearly, the world has come some distance, from a near-universal consensus over the need to engage in social redistribution in the period after WW2—a time when the U.K. set up a robust welfare state and every U.S. President, conservative or otherwise, agreed on the need to uplift the most disadvantaged sections of the society even though they might have disagreed on the most appropriate fiscal policy to achieve that—to one of heightened 'fiscal competition' and 'dumping' (Piketty, 2020) that has led to reduced taxes and lower overall role of the 'welfare state'. Even though it might be tempting to view this evolution as one where social need feeds into the appropriate policyform, a holistic evaluation demands that we also consider how a political consensus over inequality and redistribution moulds public opinion. Perception is shaped by institutions and discourse, and what we do and see has a bi-causal relationship with political outcomes.

Inequality Today

Since the 1980s, the economic system of the world has undergone radical changes. The Reagan-Thatcher era saw the dismantling of the social state—an institutionalization of 'free market' economics to fuel growth. Even though that 'era' has ended, the forces set in motion by this tectonic shift in policy-level thinking are yet to be brought to a stop. On the contrary, today, unquestioned neoliberalism, based on a perception of letting the market work to achieve the best outcome for individuals, is packaged and peddled as 'common sense'—disregarding the multitude of conditions that actually need to be fulfilled for this to be the ideal solution (Basu, 2010).

Everything from the way we perceive poverty to the kind of investment we make into health and education is informed by this perception and strengthened by the leftover institutions from that era (such as a low—or barely progressive—tax rate or legal bars on unions in many labor markets). A survey conducted by the American Institute/L.A. Times in 2016, for instance, showed that over half of all Americans believe that providing welfare to the poor encourages them to 'stay poor' (Times, 2016). In India, opposition to the pro-poor initiatives of the mid-day meal scheme in government schools and the government-run employment guarantee program (MGNREGA)—both of which went on to have a transformative impact on the Indian economy by supporting incomes and strengthening rural cohesion (Dreze & Sen, 2013)—initially employed arguments such as that they were too 'costly' (Dreze, 2017) and being enacted only 'because of pressure from the Left' (Bhalla, 2004). In Europe, populist politicians on the Right have made major gains by banking on promises to 'take back control' and slash taxes.

Wanting to let the market be is only a symptom of a more deep-seated transformation in our understanding of

where each of us stands in the world. Indeed, in nearly every case, it is engendered by a proclivity to locate the origin of differences in the socio-economic status of different groups of people in their inherent capabilities and hence a willingness to rationalize inequality. Today, as a result of this relentless rationalizing, there is minimal outrage over how CEOs earn many multiples (over 350 times, in some cases (Benmelech, 2019)) of the average employee pay—in spite of evidence that it has nothing to do with their contribution (Bertrand & Mullainathan, 2001)—even while growth in real wages for the average worker has sharply fallen off the growth in their productivity in recent decades. Even the parties on the Left—traditional bastions of support for the poor/marginalized—find themselves shunned by the socio-economically disadvantaged (Gethin, Piketty, & Toledano, 2022) due in no small part to the elitist bias in their policymaking (Piketty, 2020).

Clearly, today, we struggle with finding a way of confronting the multiple challenges we face. Solutions proposed so far have tended to treat the symptoms: the proposed increase in progressive taxes or formation of a global body to track down and tax capital gains (Piketty, 2020) do nothing to address the fact that over the decades we have internalized the most damaging tenets of an all-consuming neoliberalism. We will not make much progress unless we are able to break the vicious cycle of inequality-induced misperception and make sure we view and treat each other without prejudice—as upright, enterprising citizens of the state. Only then will we have commenced breaking down an unequal society from the inside out. Therefore, the solution I propose is centered on this much-needed behavioral transformation.

Living Together

There is much evidence to suggest that one of the most salient ways of reducing inter-group conflict is by enhancing contact between them (Dovodio & Love, 2017). Similarly, there is much research that suggests living in a 'good' community can have multiple intergenerational benefits for individuals (Chetty & Henderen, 2017). In our case, the issue to address is not so much conflict as misperception. In the absence of sufficient inter-group contact, the damaging beliefs of the upper classes about the poor not being enterprising enough, for instance, or too lazy to work, are only strengthened by a tendency to ghettoize in cities and within a larger ecosystem where inequality of wealth is seen to be justified, taxes viewed as a distortion and any welfare program met with skepticism if not hostility. Given the benefits to—and challenges faced by—mixed-housing programs in the past, I propose that the government institutionalize it through a formal credit-based program (for residential/public schooling initiatives) that formalizes the responsibility for communities to invest in them.

A 'mixed-income' housing refers to an apartment or residential building where strict quotas apply to the fraction of total units that can be taken up by members of a specific income bracket. Following the use and success of the emissions trading system in Europe and elsewhere, I propose to treat 'socio-economically homogeneous' neighborhoods as the externality-causing commodity. At the federal level, the State—with access to extensive population and demographic data—will be able to estimate an

approximate number of neighborhoods/communities in each state, and hence allocate transferable credits/permits among them who must then decentralize it further—taking the system down to the district/county level. In the usual way, a district with, say, 5 permits but 6 neighborhoods with no mixed housing/public school will be forced to either pay for a new permit or invest in creating these assets. A strict threshold (for the fraction of the population using these arrangements) must be met for a neighborhood or community to be rid of the 'homogeneous' label.

The tax code, too, can be used innovatively to encourage the uptake of all such housing/schooling units. High-income households may be considered for a tax break if they purchase housing in a mixed-income apartment/neighborhood or send their kids to a public school in a mixed-income community. Following in the spirit of inclusive localism (Rajan, 2019), this system ensures that the arrangement is sufficiently responsive to the needs of specific counties or districts that might be more constrained when it comes to investing in mixedincome housing/schooling units while also tackling head-on the issue at hand.

Tackling the Criticism

In a democratic set-up, any new policy proposal must be weighed for its costs and benefits before being implemented. In this section, I consider three potential objections that can be made to this proposal and respond to them.

(a) *Lack of evidence on benefits.* Possibly the most likely criticism would be that mixed-income housing has been shown to provide no real 'benefits' for communities and so such a proposal is meaningless. However, in reality, in terms of direct socio-economic outcomes such as employment or schooling benefits, the results are mixed at best— some, for instance those cited in Cheshire (2009), tend to report no net positive benefits, while others (Levy, McDade, & Dumlao, 2010) cite extensive studies that have recorded positive spillovers for the residents. Indeed, as Read & Sanderford (2017) show, most of the negative effects can be managed through effective governance, enforcement of common community standards and improving public access to quality common-use infrastructure.

It is worth emphasizing, however, that the principal objective for this proposal is to address the problem of widespread inter-group misperception about each other—and we have promising studies (Joseph & Chaskin, 2010, for instance) that have found signficiant improvements in indices of self-reported understanding between diverse groups housed in mixed communities.

(b) *Absence of financial resources for the states/counties/districts.* Investing in making communities more vibrant and livable forms a crucial part of the role that the state must play—and ultimately, it is a matter of priorities. In fact, putting in place a research-backed self-regulating system such as this—possibly subsuming

many other housing programs presently run by the government such as the Low-Income Housing Tax Credit (LIHTC) in the U.S. that is estimated to cost the exchequer around $10 billion each year (Center, 2020)—could end up costing the government less, not more.

(c) *Attack on individual freedoms*. Many are likely to see this program as an attack on the personal freedom of individuals to pick a community or residence of their liking, but it is important to bear in mind both how strong neighborhood effects are, as well as how widespread ghettoization is in modern-day cities (as a direct consequence of housing prices fully incorporating the value of 'good' neighborhoods, making them unaffordable for most). In any case, the program proposed above does not involve coercion of any kind—it is a gentle (if pecuniary) nudge, focused on our collective responsibility to ensure we associate with each other without the baggage of prejudice or misperception as a first step to breaking down the forces of inequality that hold us back.

In a lecture delivered some years back (1997), Prof. Amartya Sen articulated the difference between economic and income inequality, emphasizing the need to incorporate the former (a more expansive aggregate of an individual's well-being) into policy calculations. Going forward, therefore, it might be useful to consider expanding the definition of 'mixed housing' to address other related problems—such as racial tensions, caste-based inequalities in India, or even gender/sexuality-based prejudices. At this point, however, I believe we must focus on income since data on this variable is most readily available with the government.

We must find it in ourselves to do all we can to leave the world a better place than we found it. The time to act is now.

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