

# Inequality and Public Policy

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# Conventional wisdom

- Money=power
- Increased financial inequality=wealthy interests have more power and distort policy to a greater degree
- Simple relationships
  - ...in fact, too simple



## Why too simple?

- Requires a particular conception of what the “best” policy is
- Fails to account for the informational benefits and positive externalities associated with lobbying
- Ignores several facts about American politics



# What is the “best” policy?

- Policy is dependent on procedure.
  - Change rules, change outcomes
  - Notions of “best” public policy must be based on some external standard.
- Take inequality out of politics and you may get different policies.
- Will these policies be “better”? Unclear.



# Lobbying

- Information transmission more than influence peddling
- Positive: provides legislators and regulators with relevant information
- Important: “Returns” on lobbying accrue to wider society
- Negative: pork, client politics



# A claim and some facts

## Claim

The wealthy dominate American politics.

## Facts

- Entitlements are leading us toward a fiscal crisis.
- President Obama was reelected.
- NY, the home of Wall Street, remains perhaps the worst state in the country to do business.



# Concluding conjectures

- Increasing financial inequality may work against the wealthy on some policy issues.
- Declining marginal benefits of lobbying and campaign spending counteract increasing financial inequality.
- Attempts to deal with perceived inequality problems by restricting participation in the political process will backfire.

