

UBS Center Forum | Research slam

(In-)Equality and prosperity

**Silja Häusermann, Florian Scheuer,
Ernst Fehr, Elisa Macchi, David Hémous,
Ulf Zölitz, Nir Jaimovich**

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Inequality, labor market opportunities and electoral preferences

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Inequality, labor market opportunities and electoral preferences

Question: Does inequality fuel the rise of radical parties?



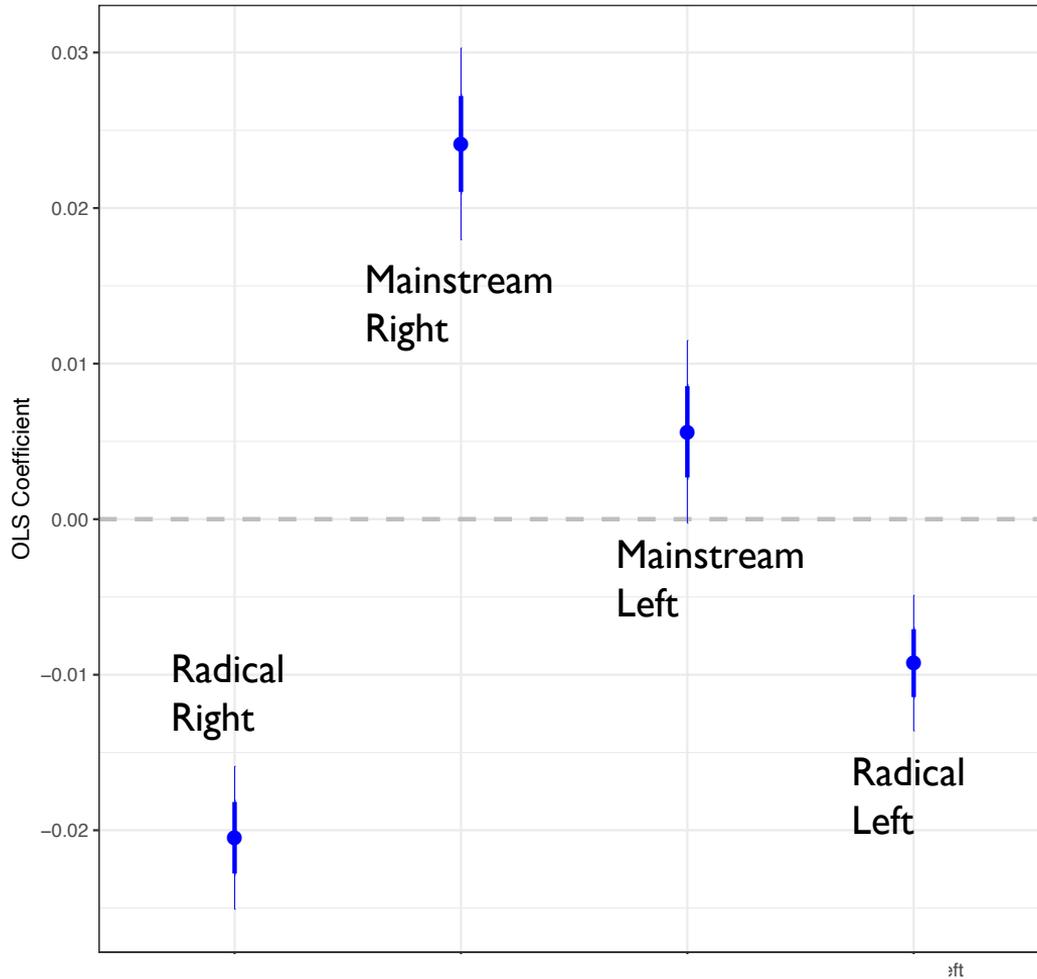


Perception of own
situation in a context
of growing inequality



Political claims and
electoral behavior

Social Opportunity Respondent





High income,
positive
35.5%

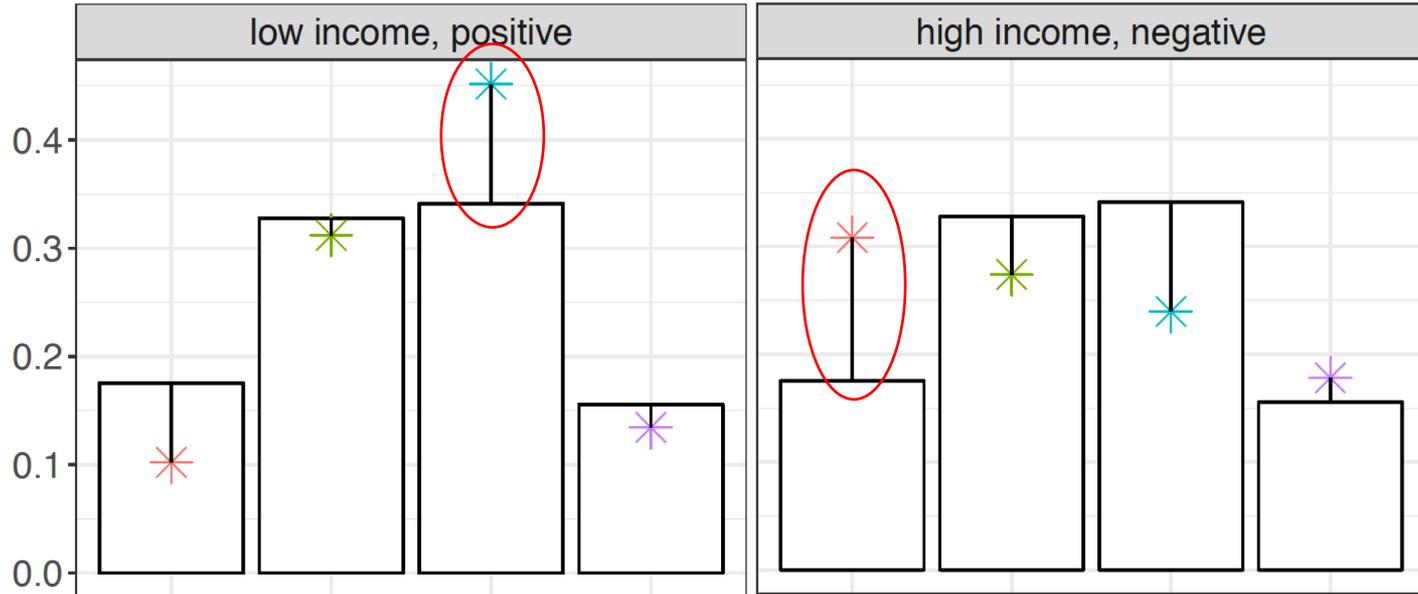
Low income,
positive
22.6%

Low income,
negative
27.2%

High income,
negative
14.7%

“Aspirational voters”

“Apprehensive voters”



* Rad Right * Main Right * Main Left * Rad Left

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Inequality and wealth taxation

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Inequality and Wealth Taxation

Florian Scheuer

University of Zurich
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October 21, 2020

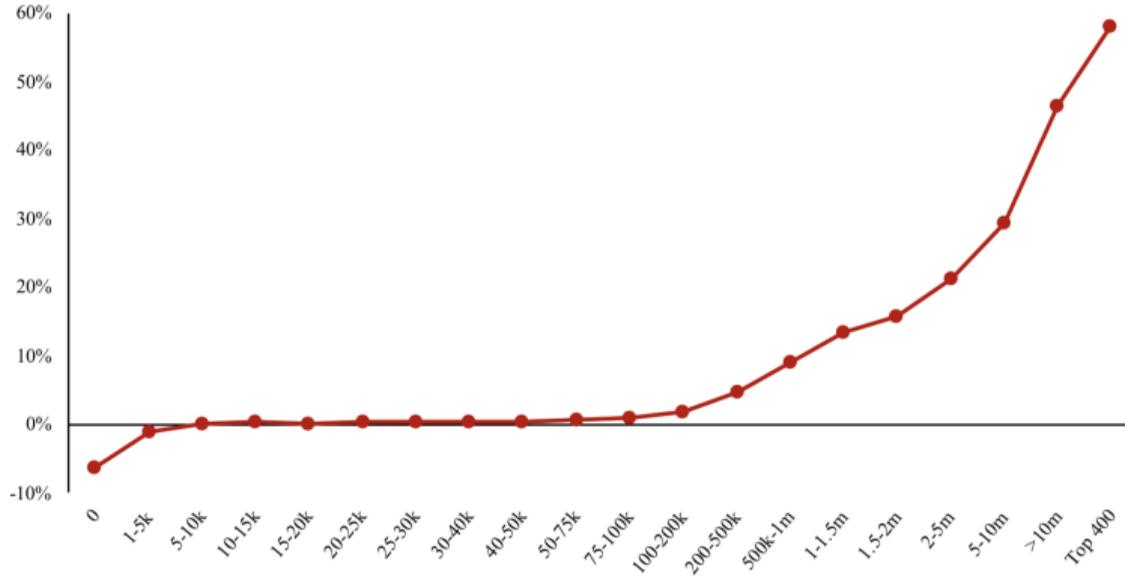
Resurging concerns about tax justice

- US Representative Alexandria Ocasio-Cortez
70% income tax on income $>$ \$10 million
- US Senator Elizabeth Warren
2% wealth tax on wealth $>$ \$50 million, 6% on $>$ \$1 billion
- US Senator Bernie Sanders
up to 8% wealth tax on wealth $>$ \$10 billion



The role of capital gains for the superrich

Net capital gains (% of total income) in the US in 2016



Source: Scheuer and Slemrod (2020)

Taxing Wealth?

- Wealth tax \leftrightarrow capital gains tax

$$2\% \text{ wealth tax} = \begin{cases} 50\% \text{ capital gains tax if } r = 4\% \\ 100\% \text{ capital gains tax if } r = 2\% \end{cases}$$

→ Wealth tax favors productive wealth holders!

- Capital gains \sim compensation for labor

→ Wealth tax targets only normal return, not excess returns

- Fix capital gains taxation to restore progressivity!

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Patience, parental wealth & wealth inequality

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Patience, Parental Wealth & Wealth Inequality

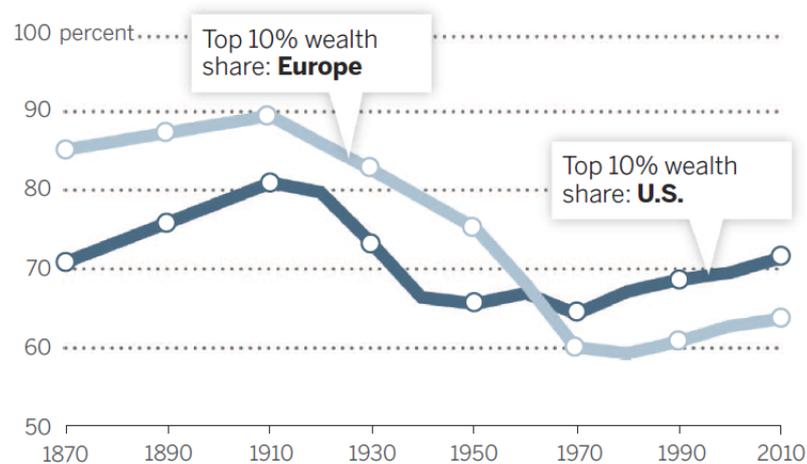
Thomas Epper, **Ernst Fehr**, Helga Fehr-Duda, Claus Thustrup Kreiner,
David Dreyer Lassen, Søren Leth-Petersen, Gregers Nytoft Rasmussen



Wealth is **very** unevenly distributed?

Wealth inequality in Europe and the United States, 1870–2010

Share of top wealth decile in total net wealth





Questions

- How is wealth distributed in the remaining population?
- Why is this important to know?
- How important is patience, education, parental wealth for an individuals' position in the wealth distribution?

Our study based on Danish Data

Precise wealth data/measure of patience

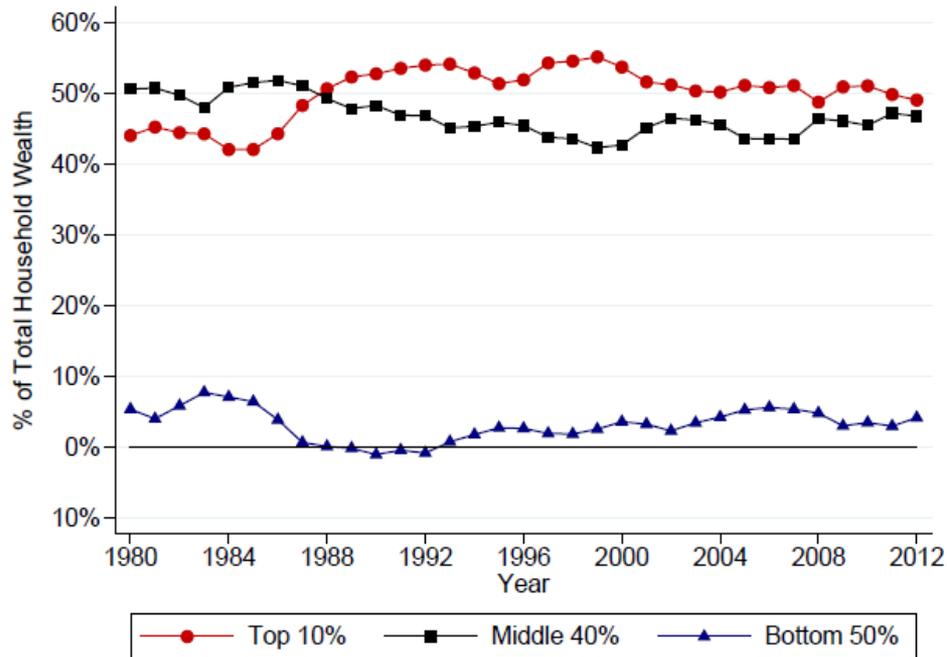


Why is wealth distribution among the less rich important?

- If wealth were evenly distributed **economic recessions would be much less harmful** because
 1. People could avoid reductions in consumption by reducing their savings
 2. Recessions would be much less self-reinforcing because consumption would decline less
 - Wealth inequality helps explain strong collapse of aggregate consumption in the Great Recession



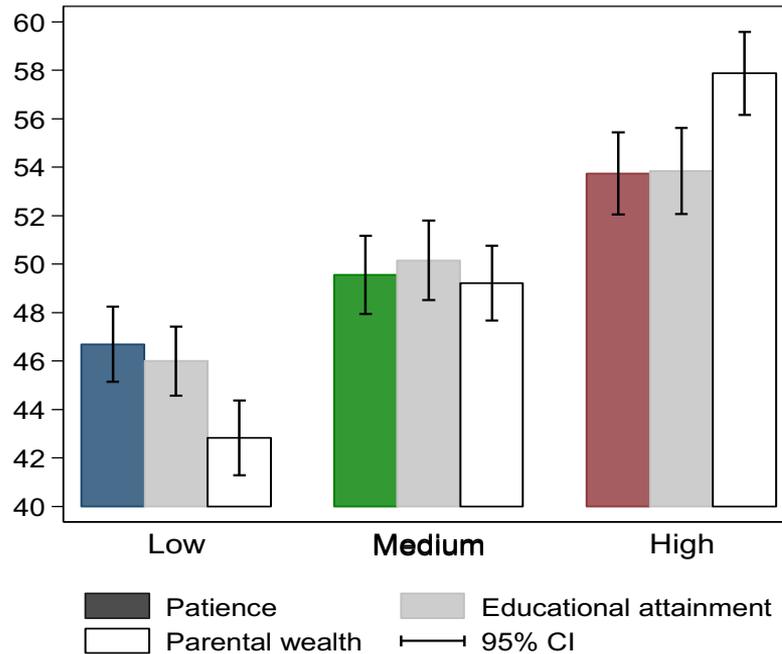
The share of wealth of the bottom 50%



(from Jacobsen, Jacobsen,
Kleven, Zucman QJE 2020)



How important is patience, education, and parental wealth



(from Epper et al. AER 2020)

Association is quantitatively important



Summary

- Wealth is very unequally distributed in society – most of the wealth is owned by the top 10% of wealth owners
- But wealth distribution among the remaining population has important macroeconomic consequences
 - Wealth inequality aggravates the harmful effects of recessions
- The bottom 50% own relatively little wealth – limited opportunities to compensate income losses during recessions
- Individual differences in patience and education are roughly equally important for wealth inequality
- Parental wealth is twice as important

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Worth your weight: On the benefits of obesity in low-income countries

Elisa Macchi

Graduate Student in Economics
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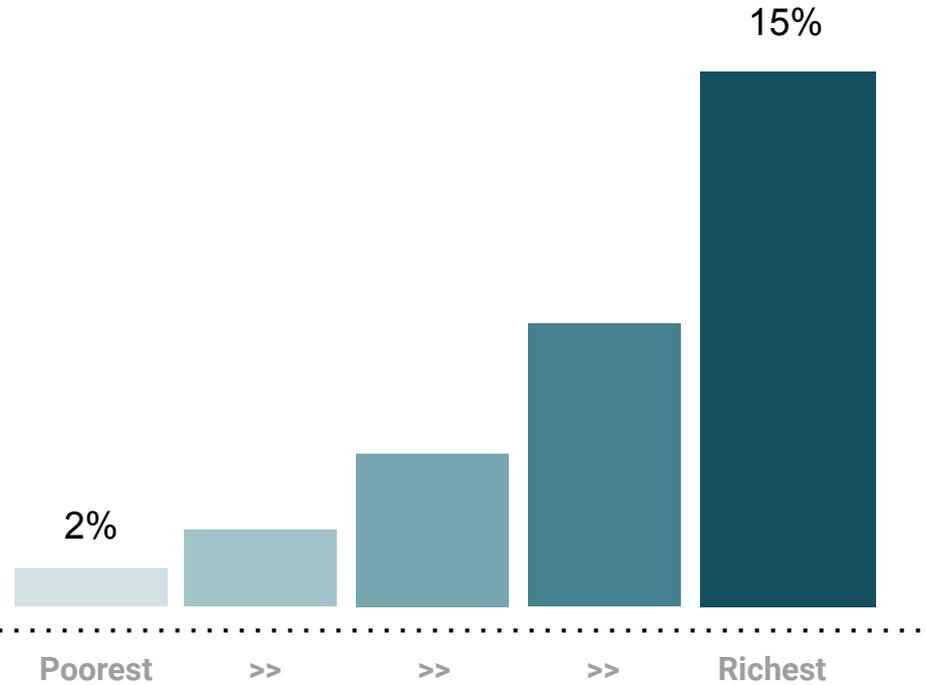
Worth your weight: economic benefits of obesity in low-income countries

Elisa Macchi (UZH)

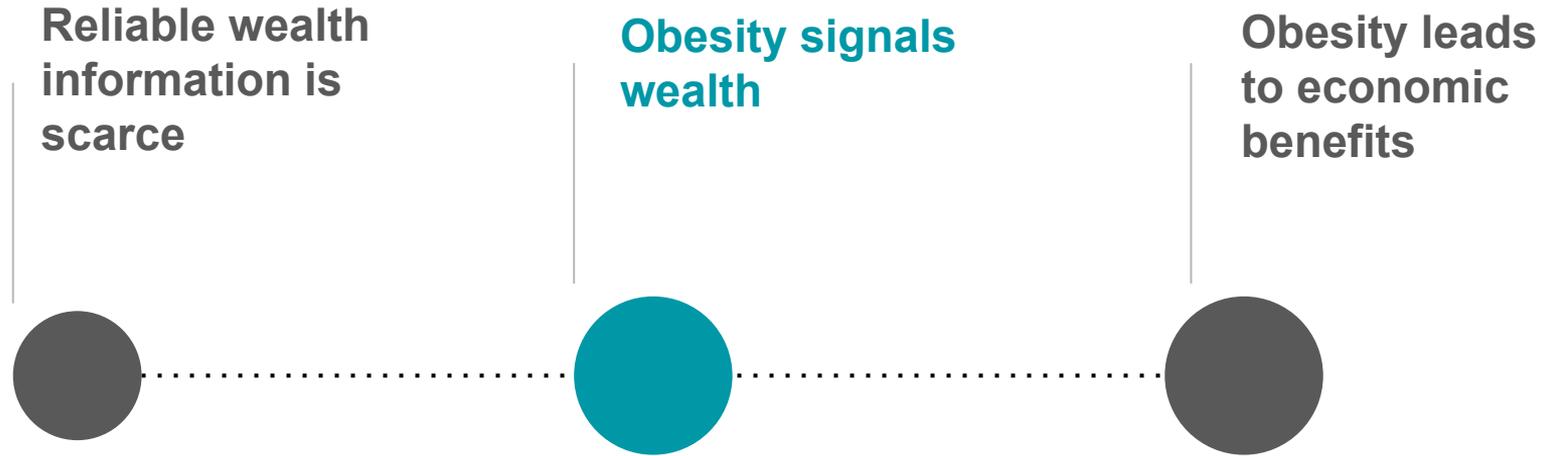
Research slam - “(In-)Equality and prosperity”

In most **developing countries**, **obesity** is more widespread among the **wealthy**.

Obesity by income quintile in low-income countries

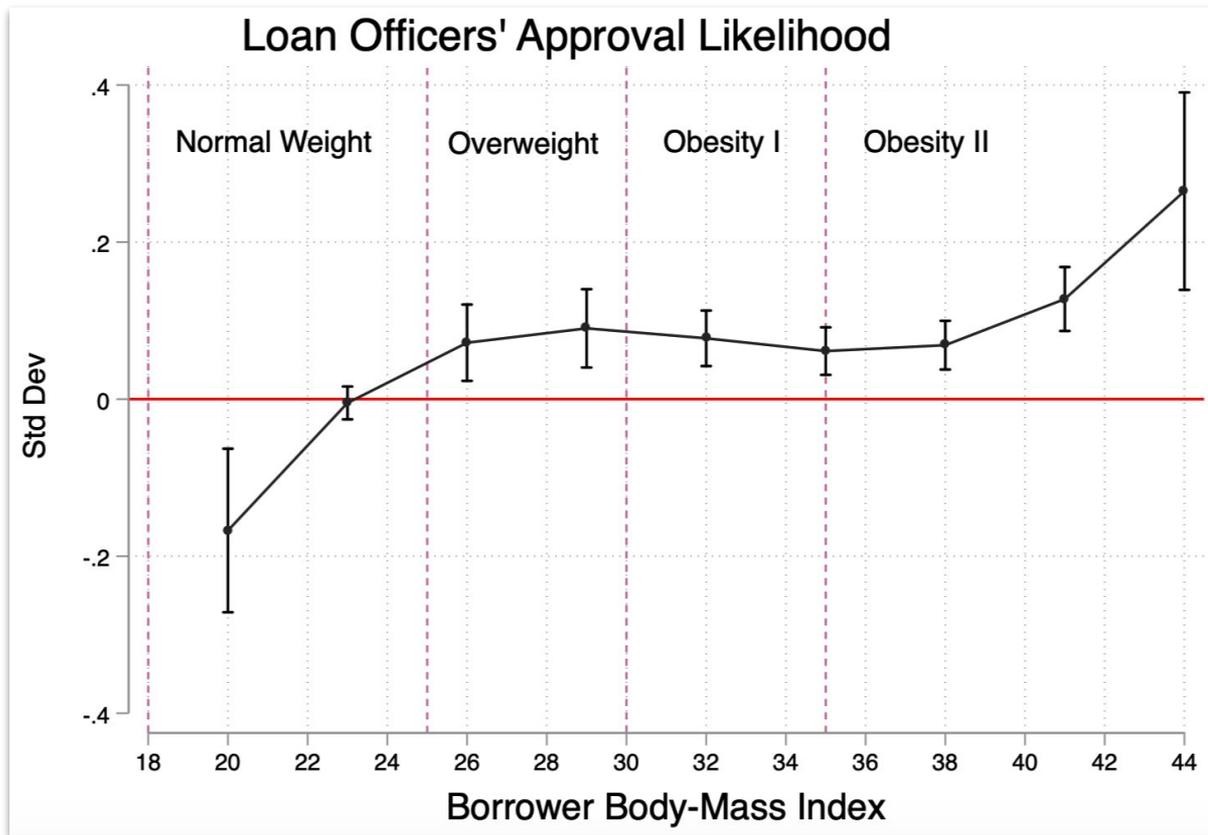


How does it work?



Causal effect of obesity





Obese borrowers
have **easier**
access to credit.

Thank you!

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Automation and wages: A two-way street

David Hémous

UBS Foundation Associate Professor of Economics of
Innovation and Entrepreneurship

University of Zurich



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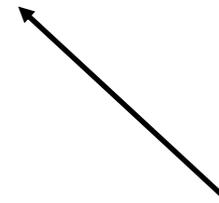


Automation and wages: a 2 way-street

Automation



Wages



❖ 1st challenge: measuring innovation in automation technologies.

- We develop a classification of patents in machinery as automation / non-automation using text data.
- Routine tasks decline in sectors with higher automation intensity (share of automation patents in machinery).

❖ 2nd challenge: addressing reverse causality.

- Cross-country regressions are not informative!

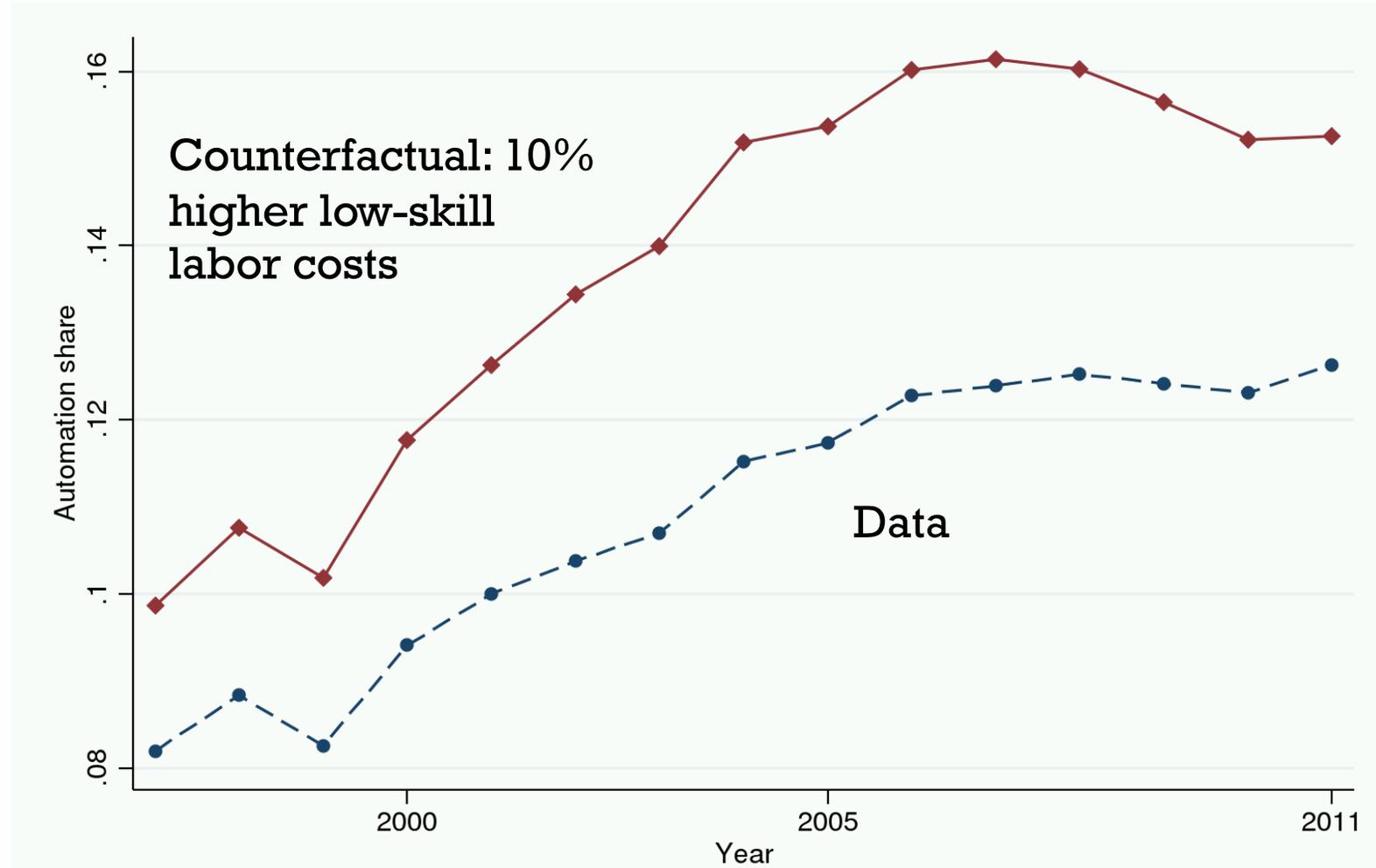


❖ Use firm-level patent data and labor costs data from 41 countries between 1995 and 2009.

❖ Measure whether firms (equipment producers) more exposed to rising low-skill labor costs also experience more automation innovations.

- If Siemens sells more to Japan than Robert Bosch and Japanese low-skill wage rise, how many extra patents will Siemens have in automation technology compared to Robert Bosch?

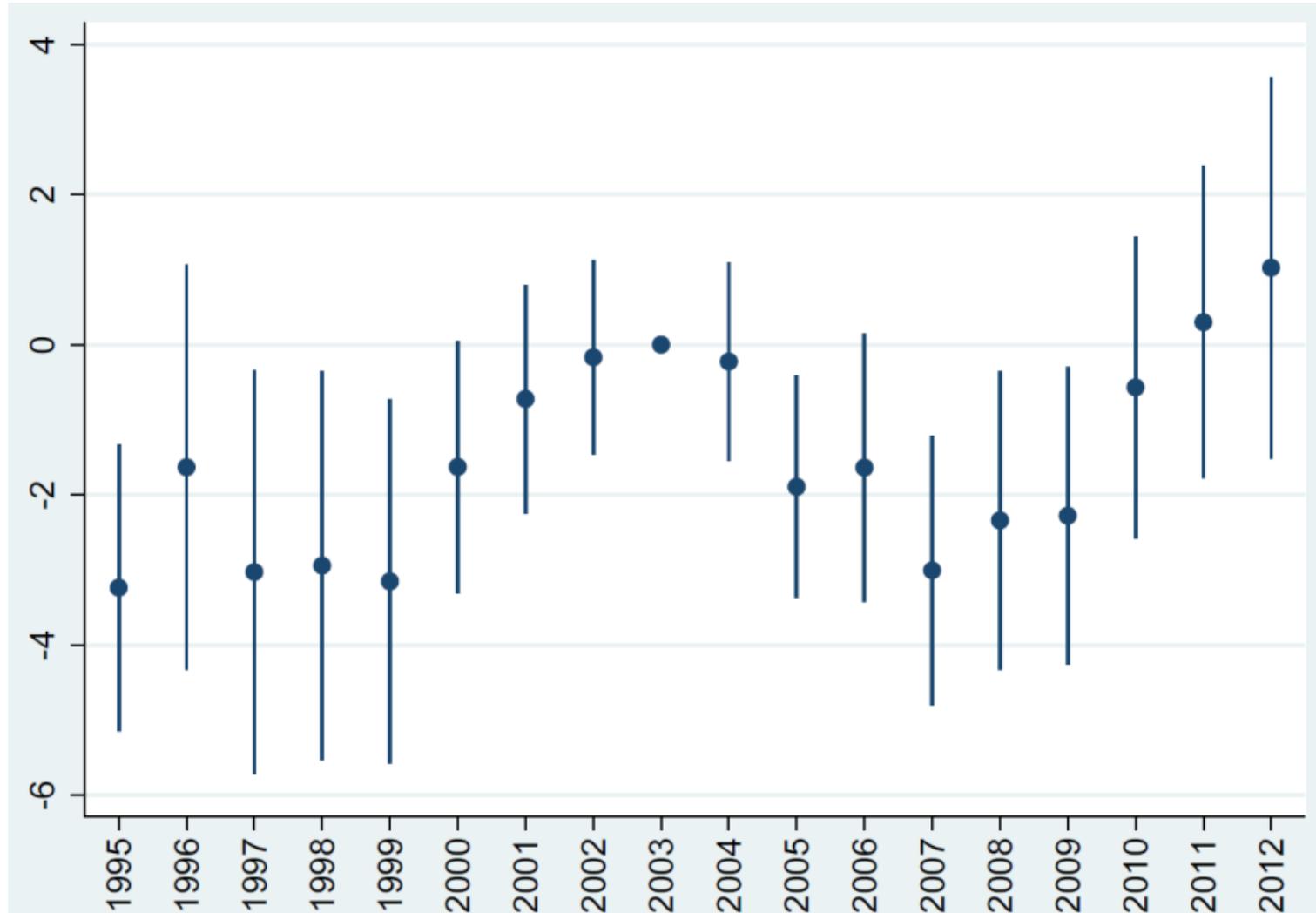
❖ A 10% increase in low-skill wages associated with around 20% more automation patents.





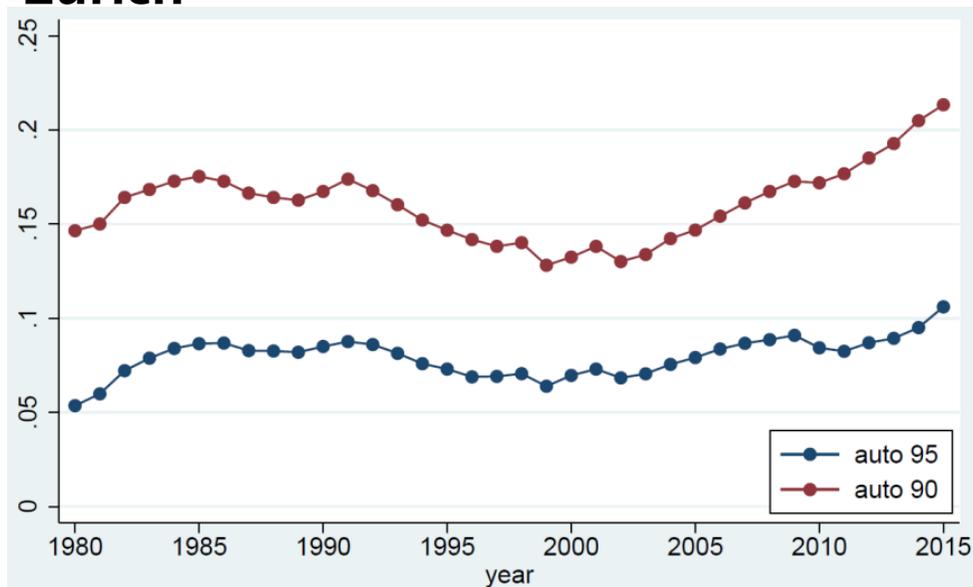
- ❖ Similarly measure the effect of the Hartz reform on (non-German) equipment producers according to their exposure to the German market.
- ❖ A firm with 10% exposure to Germany reduces its automation innovation relative to non-automation innovations by 20% in 2007 relative to 2005 compared to a firm with no German exposure.

Effect on automation innovation relative to other machinery innovation from German exposure with a 2 year lag.

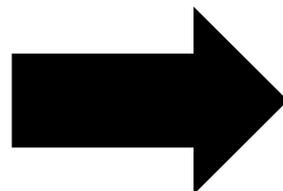




Consequences

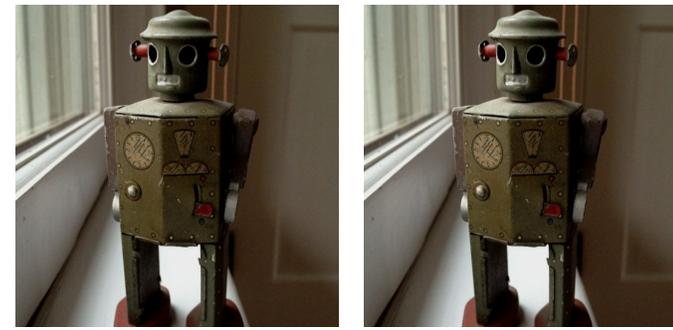
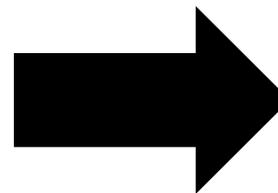
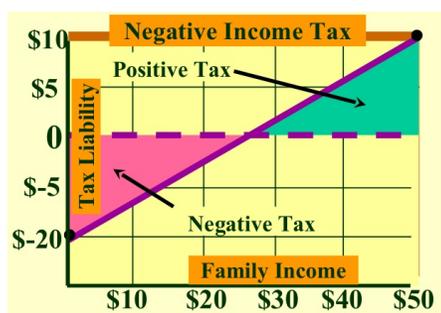
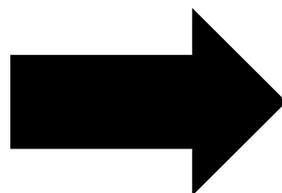


1. Automation should rise over time.



- Decline in the labor share.
- Rise in skill wage premium

2. Redistributive policies have different dynamic effects depending on their effect on labor costs.



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Increasing educational opportunity in primary school

Ulf Zölitz

Assistant Professor of Economics of Child and Youth Development
endowed by the Jacobs Center for Productive Youth Development
University of Zurich



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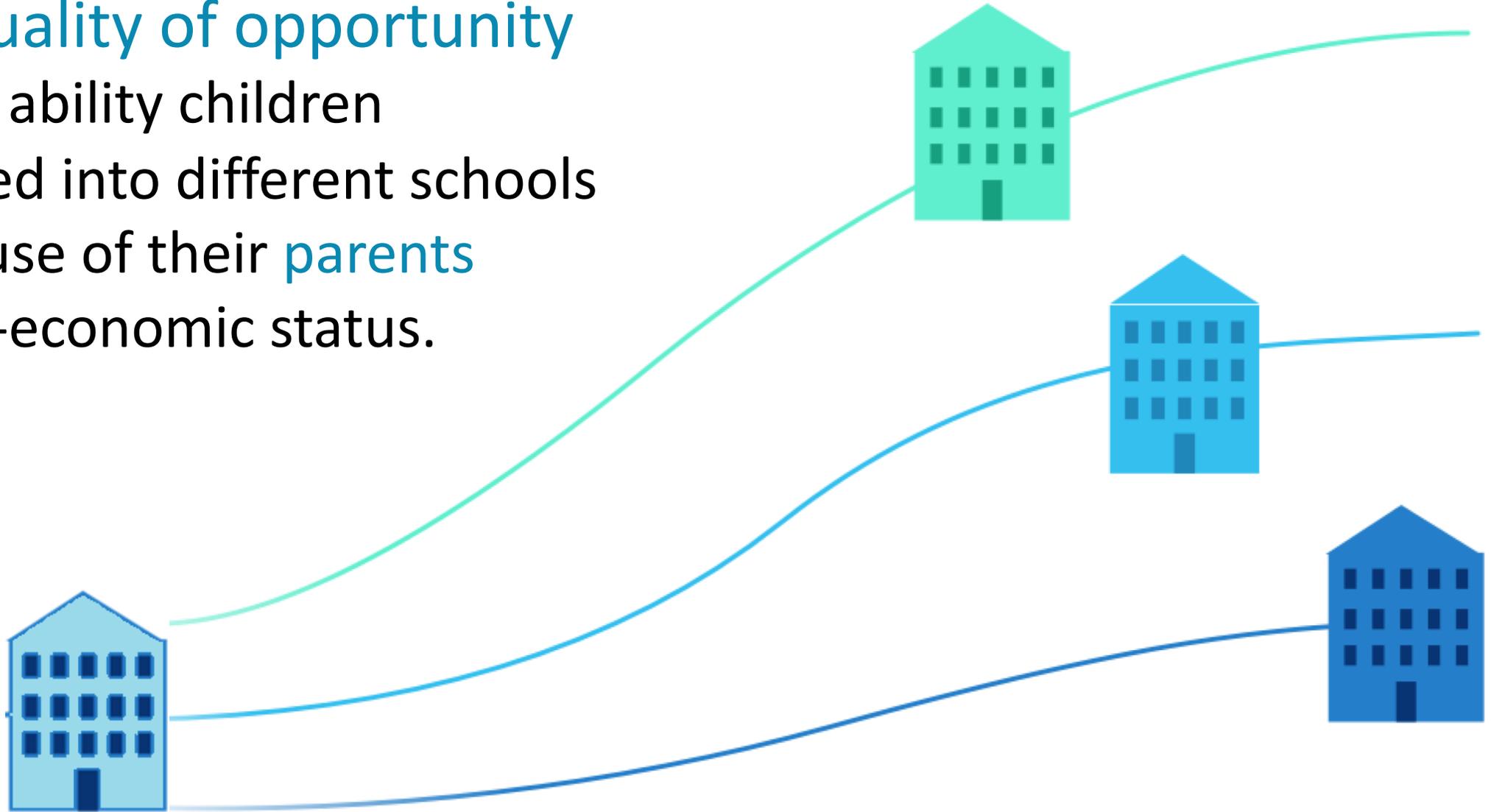
Increasing
Educational
Opportunity
in Primary School



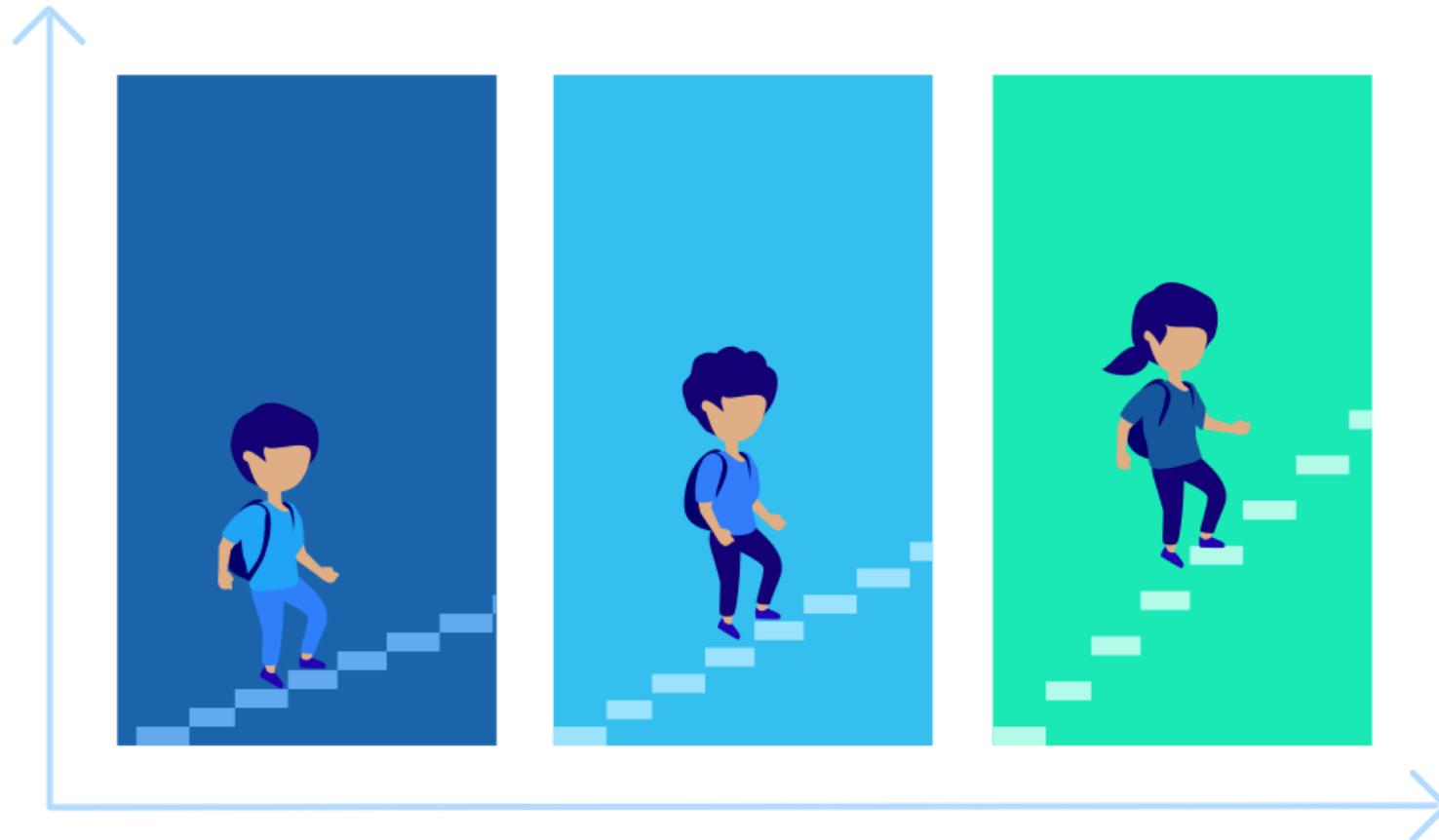
Ulf Zölitz

(University of Zurich)

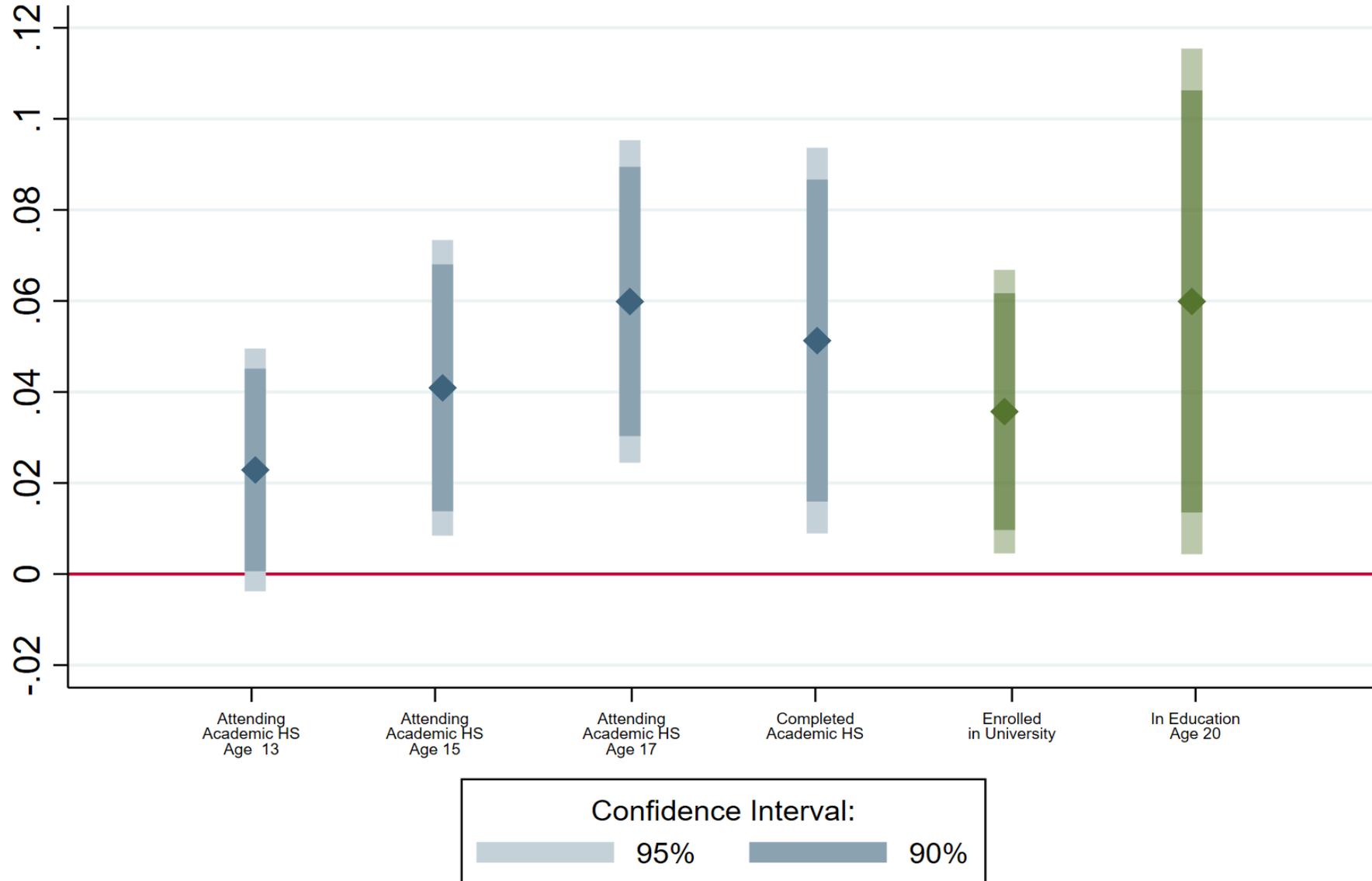
Inequality of opportunity
same ability children
tracked into different schools
because of their parents
socio-economic status.



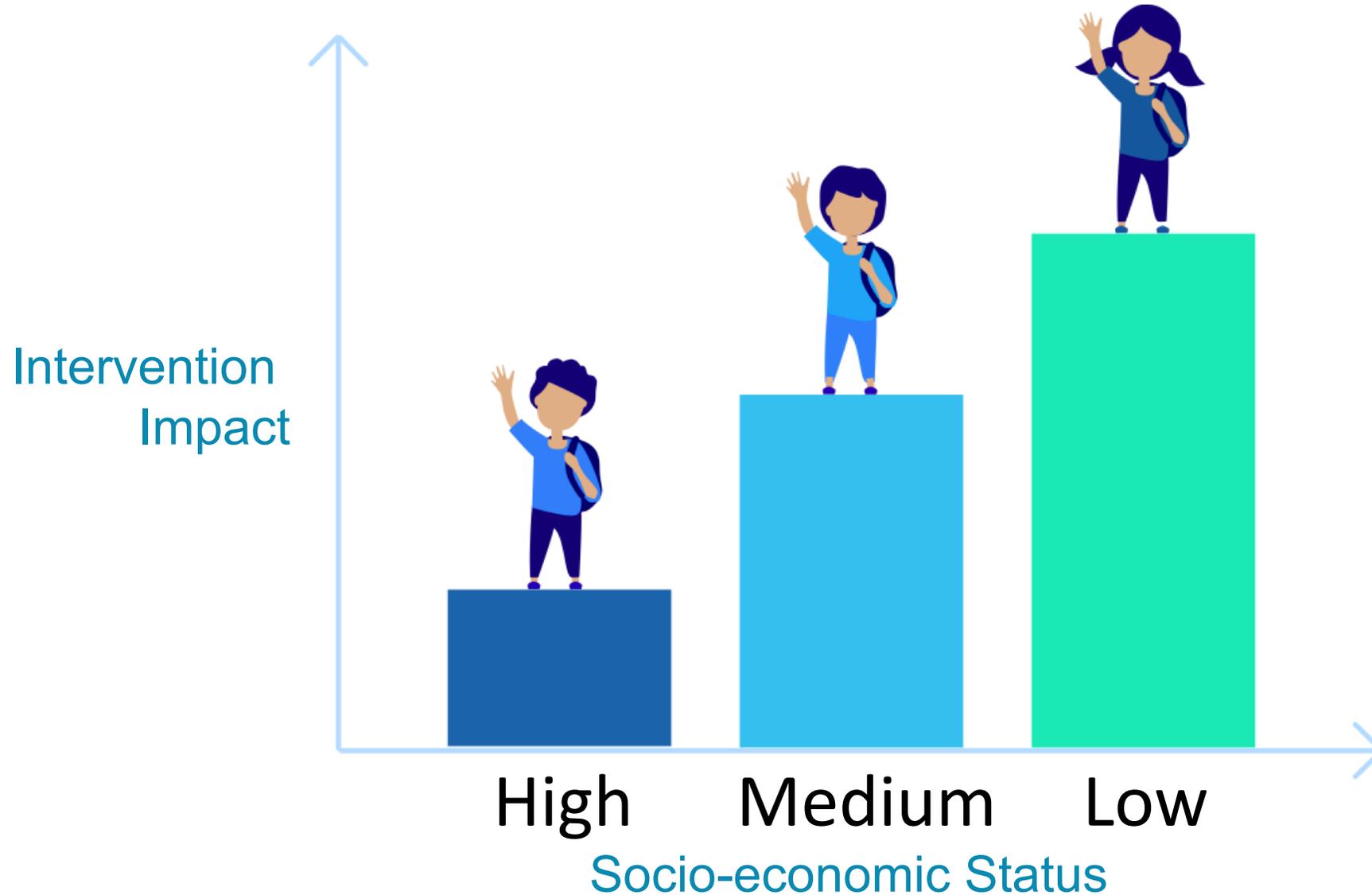
Can an Early Intervention Increase Educational Opportunity?



Children Receiving the Intervention are more Likely to Attend Gymnasium



The Intervention Increases Educational Opportunity





The Causal Impact of Socio-Emotional Skills Training on Educational Success

University of Zurich Working Paper No. 343

Giuseppe Sorrenti

University of Amsterdam

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To UBI or not to UBI: That is the question

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To UBI or not UBI: That is the Question

Nir Jaimovich

University of Zurich, CEPR

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Tel Aviv University

Itay Saporta-Eksten

Tel Aviv University, CEPR, IZA

Yaniv Yedid-Levi

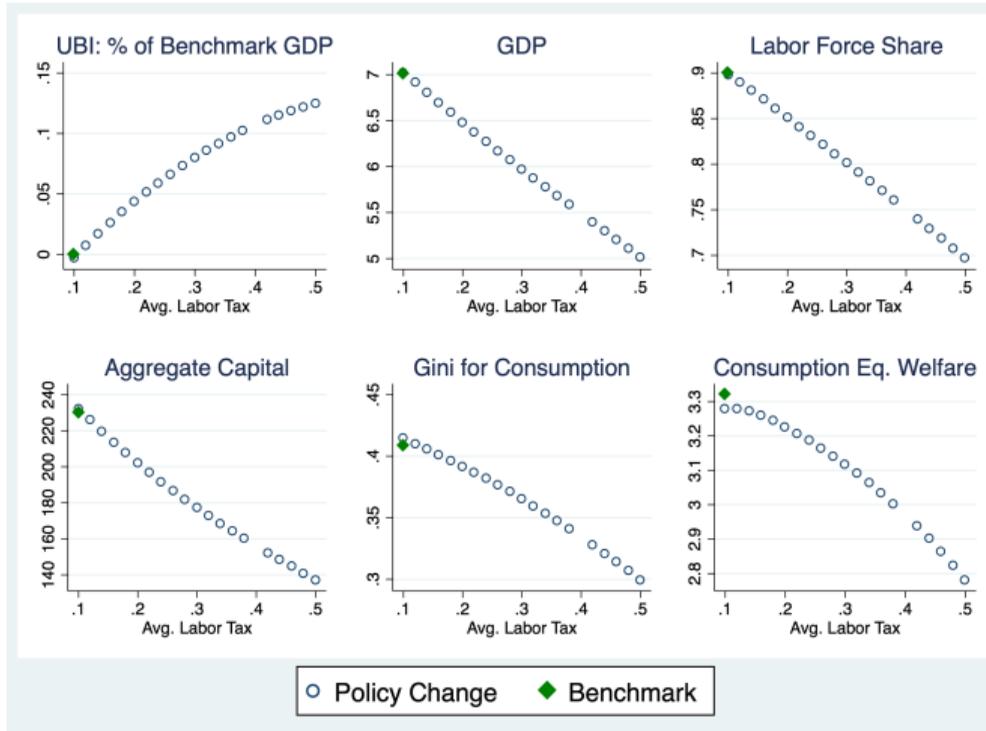
Interdisciplinary Center, Herzliya

October 2020

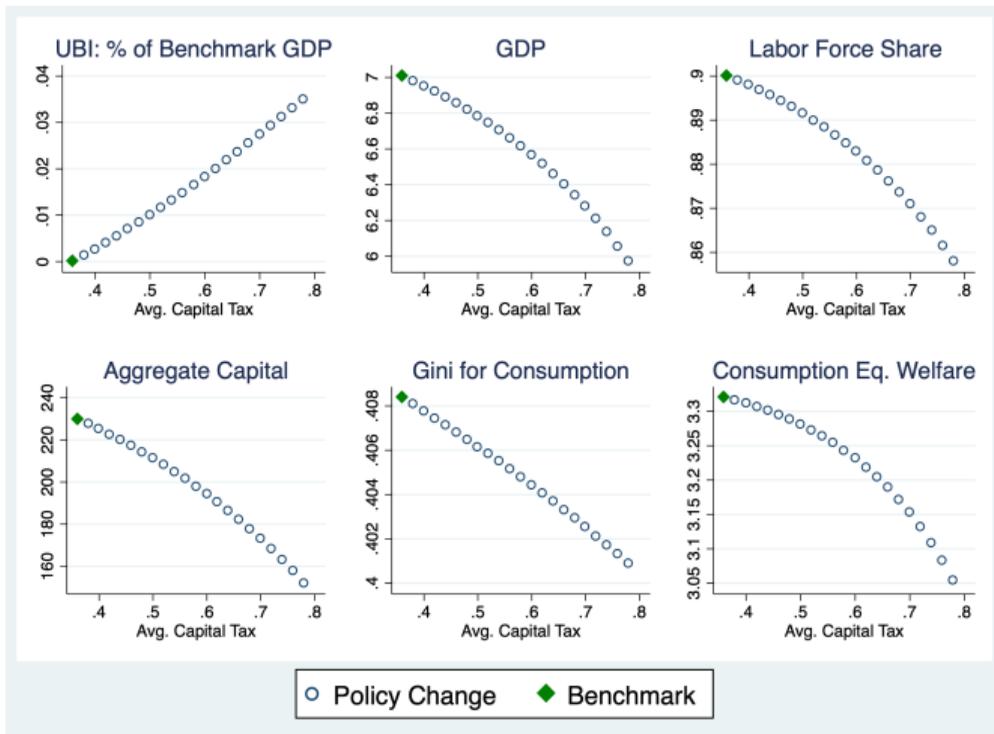
Motivation: why are we here?

- ▶ Discussions surrounding universal basic income (UBI) have become prevalent in recent years within policy circles and across various popular media outlets.
- ▶ The interest in this policy stems from structural changes in the labor market, where specific types of workers seem to have permanently lost their employment opportunities in the face of advances in automation and globalization.
- ▶ Despite the recent emergence of the UBI as a possible policy tool, there is an alarming gap in formal quantitative evaluation of the effects its introduction will have on the economy.
- ▶ Using state-of-the-art macroeconomic-model: quantify the impact that UBI programs, all of which *must be funded with distortionary taxation*, will have on the macroeconomy, as well as their distributional consequences.

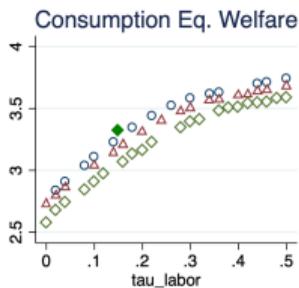
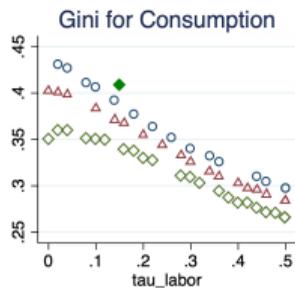
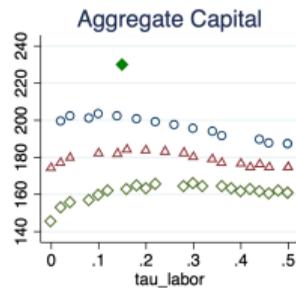
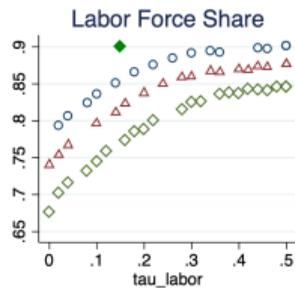
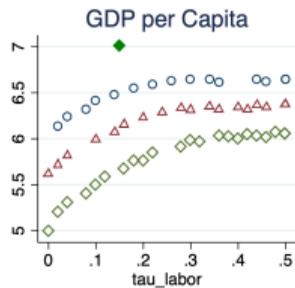
UBI: Taxed with Labor



UBI: Taxed with Capital



UBI: Progressive Labor Taxation



Is There a Better Way to Redistribute?

- ▶ UBI experiments suggest there are big incentives to redistribute.
- ▶ But, they induce major losses in employment, output, etc.
- ▶ Results point to the importance of searching for more efficient ways to achieve similar redistribution.