

Inequality and Injustice. Bad Moon Rising

Inequality has decreased globally, yet this aggregate phenomenon hides a more disturbing picture. As countries have become less unequal, the distribution of wealth and income within countries has become more unequal. If the material and commercial motivation for conflict between nations has receded between nations, it has certainly risen within each country.

A disinterested flavor of capitalism both requires and promotes inequality. Absent some form of social safety net, the juggernaut of capitalism crushes the weak and exalts the strong. Diversity feeds the system, and natural selection drives aggregate efficiency and productivity.

There are two reasons why social safety nets have been enacted in many developed capitalist countries. One is human charity and an innate sense that all life is precious and the neglect of the weak is too cynical a position. The other is that a sustainable system, however capitalist, requires a sustainable underclass. A parallel argument supports the saving of the environment as well as the diversity of animal and plant species. You never know when you might need them. The need for an underclass is clear and present.

To take the less cynical view, progress requires that effort and results are rewarded and sloth and failure are not rewarded. A certain level of inequality encourages effort. It is hoped that such effort promotes the common good as the profits of the successful are spent and reinvested leading to the distribution of wealth. This distribution is not always equal. It tends to concentrate business and industry rather than diversify. And marginal propensities to consume fall with higher income and wealth resulting in a wealth trap. It is possible that overly unequal economies over save. One could envisage such a definition of over saving. Another measure of over saving is to define the optimal level of savings as that amount that will allow a person to smooth their consumption over their life, with allowances for uncertainty, to a target terminal wealth of zero. Inheritance becomes topical. Is it fair to target zero inheritance? Would acutely high inheritance taxes be useful or practical?

The accumulation of wealth for wealth's sake is an important motivation that should not be totally discouraged. Thus, a target terminal wealth of zero may be undesirable. However, inheritance taxes can still transfer some wealth without impairing ambition too much. Practicality is another matter as high inheritance taxes only encourage tax avoidance strategies such as pre mortem transfers.

It seems that while a certain level of inequality encourages progress, inequality is neither an unmitigated good nor an irredeemable bad. As long as inequality is not synonymous with unfairness, then it is a good thing. Fairness would require that each new entrant into the economy does so on equal terms. But what does equal terms mean and how far does it go? Does it require equal initial endowments of wealth and capital? Is equal access to education sufficient? Is the limiting or prohibition of extra curricular education too far to go?

The cynical view would maintain and encourage inequality subject to the constraint that such inequality does not threaten the status quo. A minimal level of social security and welfare would be provided to appease the middle to lower classes to prevent a revolt. In the meantime policy would focus on maintaining the wealth accumulation of the influential and wealthy. Bailouts of asset markets, ostensibly to avoid damage to Main Street at cost to employment and household income and consumption, support the cynical view. The increased inequality post crisis is further evidence.

Unconstrained free market capitalism tends towards extreme inequality of wealth. The accumulation of physical and intellectual capital makes wealthier households more productive than others in a perpetual cycle. Eventually inequality becomes acute and needs to be addressed. Current solutions are overly complex and politicized and treated as a necessary evil. They only slow the rising inequality without establishing basic principles and facing the primary issues. Is inequality to be embraced or tolerated? Is inequality a bad to be actively reversed? On what basis is inequality measured and what are the metrics? What are the side effects of whatever route and policy is chosen and what is acceptable?