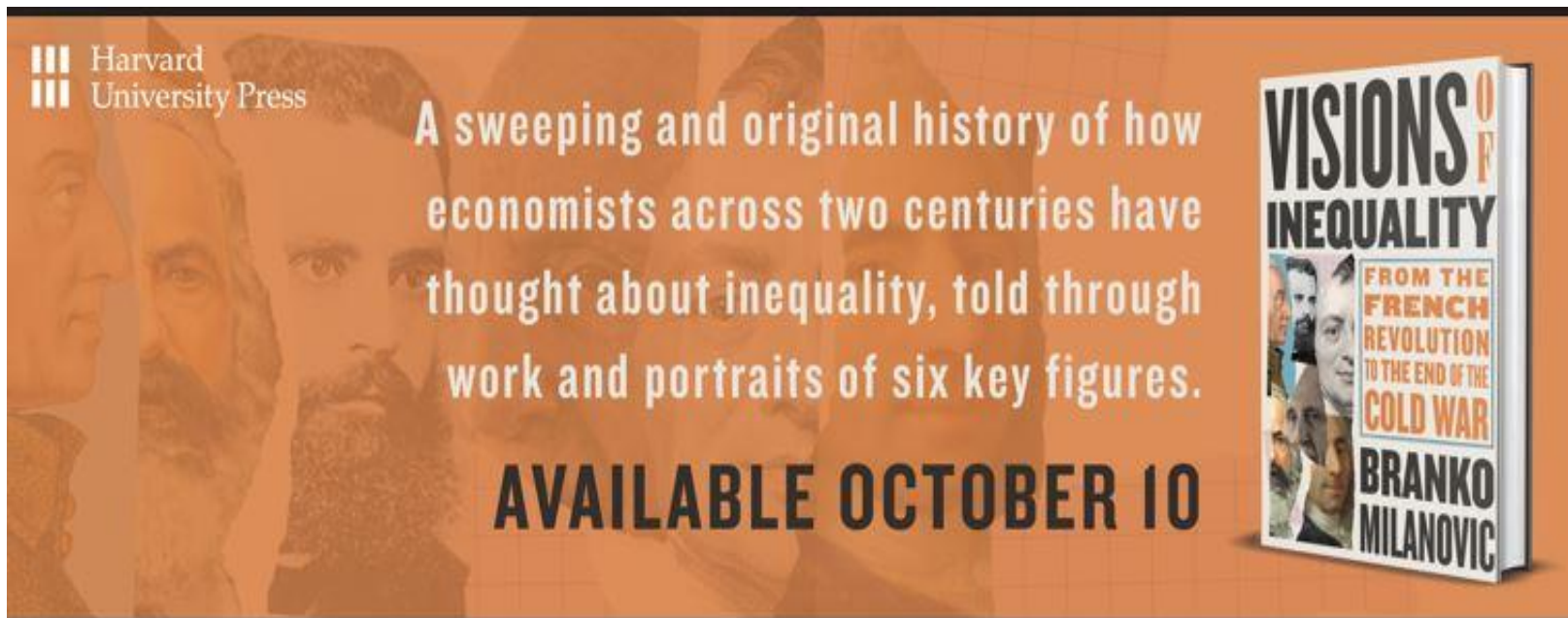
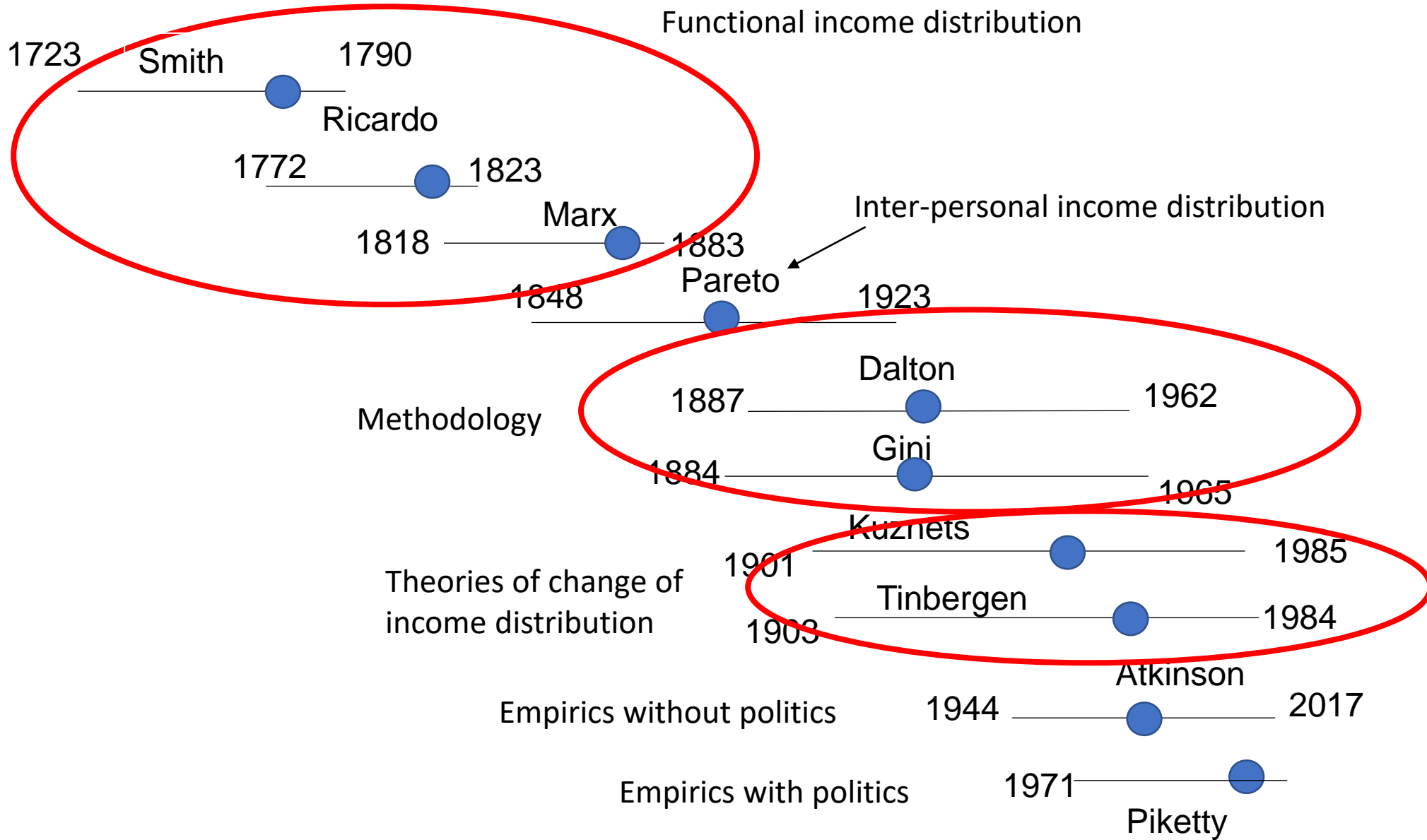


Visions of inequality: From the French Revolution to the End of the Cold War





The objective

- Chart the evolution of thinking on income distribution during the past two centuries
- Discuss why inequality studies went into the eclipse after ~1960s and
- Argue for/define the “integrative” studies of income distribution that we should, hopefully, have in the future.
- Integrative means: (i) having a narrative, (ii) a theory, and (iii) empirical verification
- Explicitly, it is **not** a book about normative views of inequality nor about economic policy; neither is discussed
- Show that inequality is differently perceived (even when it is not the explicit object of study) by different authors in function of their time and place.

Key points re. the classics

- Smith: the contrast between *TMS* and *WoN* where *WoN* is much more “leftist” in the sense that it scrutinizes the origins of wealth, and is very critical about the way the rich acquire and augment their wealth; it is thus the very opposite of the way the rich are treated in the *TMS*.
- Smith: w/ development real wages and real rent are likely to increase, while profits will be reduced. Consequently, he sees interests of landlords and workers to coincide w/ the public interest, and interests of “masters” to be opposed to it. For that reason capitalists should never be allowed to dictate economic policy.
- Ricardo: distribution determines growth, and the distribution that increases the rate of growth is more equal than the “existing” distribution. Thus, a windfall: lower inequality and higher growth. No equality/growth trade-off.
- Ricardo’s objective was always maximization of growth. The “right” pro-capitalist distribution was just a means to it.
- Wages seen not differently from K depreciation. The objective of economic activity is generation of the surplus (profits).

Difference between TMS (1759) and WoN (1776)

- TMS is about our relations with those who are close to us (family, friends, peers). Moralistic and religious tenor.
- Smith as a moral philosopher.
- TMS is often thought “softer” than the WoN (especially because of Amartya Sen’s reading of it).
- But in matters of distribution TMS is much **harsher**.
- Emphasis on the acceptance of an immutable class structure. The famous paragraph where the Invisible Hand is mentioned first is an argument for quasi religious acceptance of hierarchy of wealth.
- “They [the big proprietors] are led by an invisible hand [through their spending] to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species. When Providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have been left out in partition.” (TMS, part IV.I.10).

- The rich are derided for their behavior (“fatuity of wealth accumulation”) and spending patterns but their status or wealth are not questioned. Similar to Veblen in “The Theory of the Leisure Class” (1899).
- Clear theistic elements incl. rejection of Mandeville (“pernicious system”)
- TMS often makes Smith look not only conservative, but outright reactionary, akin to some most reactionary Calvinist theologians (Smith was technically Anglican).
- The poor should accept their position because it is a divine will and that’s how societies are structured. But the rich are not necessarily virtuous.

Stern realism and self-interest of the WoN

- WoN is about ***economic*** interactions which are by definition relations with strangers. (Like the difference between organic and mechanical communities.)
- “WoN was built on the granite of self-interest” (George Stigler), not on altruism and empathy
- Indeed, for the WoN to stand firm and tall, self-interest is enough. Smith displayed a praiseworthy economy of assumptions.
- It is more realistic, even cynical. It has a different view of human nature.
- “The laws concerning corn may everywhere be compared to the laws concerning religion. The people feel themselves so much interested in what relates either of their subsistence in this life, or to their happiness in a life to come, that government must yield to their prejudices, and, in order to preserve the public tranquility, establish that system which they approve of. It is upon this account, perhaps, that we so seldom find a reasonable system established with regard to either of those two capital objects”. (Book IV, Ch 5; p. 682-3)

Use of irony

- “I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it”. (Book III, Ch. 2).
- “The late resolution of the Quakers in Pennsylvania to set at liberty all their negro slaves, may satisfy us that their number cannot be very great.” (Book III, Ch 2).

WoN much more “leftist” on inequality than TMS

- But regarding inequality:
- It is much more “leftist”. Does not accept the ethical validity of the natural hierarchy. Social classes are in conflict over the distribution of net product.
- Incomes of the rich are often unjust.
- TMS ridicules spending patterns of the rich, but does not question their right to high incomes; WoN does.

- Income of the rich (i.e., capitalists) is often the product of monopoly, price fixing, plunder.
- People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary. (WoN, Book I, Chapter 10).
- Merchant companies (East India and VOC) and merchant republics come for a particular critique.
- “The government of an exclusive company of merchants is, perhaps, the worst of all governments for any country whatever”. (Book IV, Ch. 7, p. 722).
- “The crusaders were “the most destructive frenzy that ever befell the European nations” and they were spurred on by the merchant republics of Venice, Genoa and Pisa for whom the crusade “was a source of opulence”. (Book III, Ch. 3, p. 513).

The rich must not be allowed to rule the state

- “The difference between the genius of the British constitution which protects and governs North America, and that of the mercantile company which oppresses and domineers in the East India, cannot be perhaps better illustrated than by the different state of those economies.” (Book I, Chapter 7, p. 176).

The bottom line: the rule by the rich is not in the social interest.

- “But the mean rapacity, the monopolizing spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected may very easily be prevented from disturbing the tranquility of anybody but themselves.” (Book IV, Ch 3; p. 621)
- They [the capitalists] are "an order of men, whose interest is never exactly the same with that of the publick, who have generally an interest to deceive and even to oppress the publick, and who accordingly have, upon many occasions, both deceived and oppressed it" (Book I, Ch. 11).

“God” in TMS and WoN

	God, divine, providence, Great Maker	Total number of words	God mentioned every___words
Theory of Moral Sentiments	48+29+9+63= 149	~143,000	~960
The Wealth of Nations	2+4=6	~380,000	~55,000

Marx on income distribution

- Marx: no deterministic view of income distribution in advanced capitalism. The most common interpretation (immiseration of labor and greater concentration of capital) is just one of four possibilities. And not the most likely, based on his writings.
- The easiest way to reject is to show that Marx did not believe in the “iron law of wages” nor in subsistence-level minimum wage.
- Both go against his crucial contention that all economic categories are historical and that needs themselves vary in time (and increase with development; in poor societies **needs** are limited) and place.

Marx on wages

- Wages differ between workers (complex and simple labor) and with the level of development.
- Both needs and wages are historical categories.
- Real wage thus likely to increase with development.
- There are two checks on the real wage increase: the reserve army of labor and deskilling which, according to Marx, accompanies greater organic composition of capital.
- Deskilling implies greater demand for low-skill workers.
- Thus the average observed wage may increase less because the composition of labor force would change unfavorably over time.
- But rising real wage is likely to be accompanied by decreasing relative wage (i.e. labor share).

Capital and the rate of profit

- The return to capital (profit rate) is a function of the organic composition of capital. More K-intensive sectors, or over time, more K-intensive countries, will have lower rate of profit because the relative importance of labor which produces the surplus value (profit) diminishes.

$$\pi = \frac{s}{c+v} = \frac{s/v}{\frac{c}{v}+1} = \frac{\textit{rate of surplus value}}{\textit{organic composition}+1}$$

- We know that c/v increases: the denominator must go up.
- The only way that π cannot decrease is if s/v (the rate of surplus value) offsets the rise in c/v
- How can this happen?

The Law and income distribution

- The Law (normally) implies lower income of capitalists,
- Combined with the previous point re. the increase in real wage, it implies that income distribution will become less unequal.
- => Higher real wage, lower rate of profit, lower labor share, and higher organic composition of capital
- But, there are countervailing forces:
- **First**, forces that offset the Law (six factors listed by Marx)
- **Second**, increasing concentration of capital incomes
- **Third**, the role of the “reserve army of labor”

Inequality-reducing and inequality-augmenting factors

	Inequality-reducing	Inequality-increasing
Capital	Tendency of the profit rate to fall	Crises (creative destruction) Expansion to new areas of production Concentration of capital
Labor	Increase in real wage	Pressure of the reserve army De-skilling of labor

Optimistic scenario:

Secular increase in real wage
Secular decline in the rate of profit
(Modern equivalent: Post-War
Western Europe)

Breakdown scenario:

“Immiseration of labor”
Ever greater concentration of
capital (in fewer hands)
(Modern equivalent: South Africa)

Polarized society:

Secular increase in wage
Concentration of capital (rising
share of top 1%)
(even if Gini might go down)
(Modern equivalent: Today’s US)

Regressive society

“Immiseration of labor”
Secular decline in profits

The trajectory of income distribution studies

- We move from the concept of legally-defined classes (as in Quesnay; that's why the inclusion of Quesnay is of first-rate importance), to the class as an economic category as the main determinant of inequality (the classics) to inequality between the elite and the rest (Pareto), to the elimination of all previous markers and introduction of urban vs. rural dwellers (Kuznets).
- Kuznets is thus the antechamber of the eclipse where neither class nor elite any longer matter. Individuals are all the "same" optimizing agents; it is just the type and quantity of assets they have that differentiates them. And even that was most of the time ignored or only paid lip-service.
- The prevalence of either mere empirics or (largely fanciful) theoretical studies

The eclipse & the future

- The eclipse of inequality studies in socialist and capitalist societies was due to the politically-motivated need to minimize the importance of economic class; to claim “classlessness”; also to other factors (political dictatorship on the East; theoretic turn in neoclassic economics, funding of research by the rich in the West).
- The epilogue and the future: (1) **return** of capital, and **return** of the elite (in the form of the top 1 percent); (2) **return** of social classes through social tables and historical research; (3) global inequality: expanding the field of interest to an entirely new area, need for broader coverage by household surveys.
- Inequality studies must include difference in power (at the workplace) and difference in power politically which is associated with difference in economic power.