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Economics: the architecture of inequality

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The architecture of inequality

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Abstract:
Review of 5 books on inequality:

1. Toxic Inequality: How America's Wealth Gap Destroys Mobility, Deepens the Racial Divide, and Threatens Our Future by Thomas M. Shapiro
2. The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century by Walter Scheidel
3. Basic Income: A Radical Proposal for a Free Society and a Sane Economy by Phillipe Van Parijs and Yannick Vanderborght
4. The Broken Ladder: How Inequality Affects the Way We Think, Live, and Die by Keith Payne
5. After Piketty: The Agenda for Economics and Inequality edited by Heather Boushey, J. Bradford DeLong and Marshall Steinbaum

Both Donald Trump's election to the US presidency and Brexit — Britain's impending divorce from the European Union — have been read as populist rejections of today's rising inequality, driven by economic and political elites. But democracies do not necessarily reduce inequality. Nor is it clear that UK Prime Minister Theresa May or Trump (or indeed French presidential hopeful Marine Le Pen) will disentangle elites, state power and money. Indeed, a number of Trump's Cabinet appointments — such as Wilbur Ross, commerce secretary and billionaire businessman — merely replaced Washington insiders with corporate insiders whose vested interests have been vigorously questioned. These decisions, among others, lay bare the overlapping worlds of economic and political elites.

However much in the news, income inequality is an ancient and intractable social, economic and political condition. Now, five books examine its inevitability, both in terms of political economy and consequences. They take the baton from social scientists Thomas Piketty, Tony Atkinson, Richard Wilkinson and Kate Pickett, whose recent books have reignited this global debate. Piketty's Capital in the Twenty-First Century (Belknap Press, 2014) tries to hold economics and politics together. He argues that inequality is a product of fundamental laws of capitalism, and is also amenable to change through a global tax on financial transactions. Atkinson's Inequality (Harvard University Press, 2015), with Wilkinson and Pickett's The Spirit Level (Allen Lane, 2009), argue that inequality can be curtailed through greater government intervention in technological development and labour markets. What do the five new studies add?

After Piketty, edited by Heather Boushey, J. Bradford Delong and Marshall Steinbaum, is a response to what the editors describe as a less-than-healthy reaction from academic economists to Piketty's tome. This volume asks an interdisciplinary crowd of social scientists to tug at the various threads of Piketty's argument to see whether it unravels. It also includes a fascinating essay from an emboldened Piketty making somewhat stronger claims regarding the potential to minimise the inequality-generating mechanisms of capitalism through, to take one example, collective bargaining. The book serves as a fantastic introduction to Piketty's main argument and some of the key criticisms, including whether the return on capital will be higher than economic growth in the long run. It also contains thoughtful interventions in debates about the political economy of inequality. Economist Branko Milanovic, for instance, documents how sharing capital more equally across the population may weaken the impact of a rising capital share (when those who own capital gain more of an economy's income) on inequality. Stemming the tide of rising inequality in a period of slow growth may require redistribution of capital, not just income.

This idea also lies at the heart of sociologist Thomas Shapiro's Toxic Inequality. In it Shapiro, an expert on public policy, explores the fault-lines of race within the landscape of inequality. Drawing on two sets of interviews with 137 American families of different ethnicities and levels of income over a decade, he argues that class must not eclipse race as an explanation of wealth inequality. The gap in median new wealth between White and African American households trebled between 1984 and 2013. Piketty's famous equation $r > g$ (showing that returns on capital grow faster than the economy) is not race neutral. And indeed, navigating upheavals such as sickness or job loss was much harder for the African American families studied: many of their parents had been locked out of opportunities for wealth accumulation, such as home ownership. Shapiro argues that personal virtues alone, such as thrift or dedication, are not enough to overcome these disadvantages — especially when policy (that is, healthcare coverage and housing regulations) makes it harder to build wealth. Yet, whether reforming private pension policy, for example, would overcome decades of accumulated advantage is not fully explored in Shapiro's book.

One policy solution to the problems of wealth inequality not considered by Shapiro is basic income, under which all citizens of a country are regularly issued an unconditional cash payment. This is not, as social ethicist Phillipe Van Parijs and political scientist Yannick Vanderborght demonstrate in Basic Income, a new idea, but it is recently much discussed and social experiments pop up with some regularity. In Finland, for example, the unemployed are paid 560 euros (US$590) per month even if they find work. The book is likely to become the primer on the core debates, such as the scheme's overall feasibility; but its most striking aspect is how the authors make their argument. A basic income is justifiable not as a tool to address inequality, but rather as an 'instrument of freedom'. Theirs is not an economic argument, although they explain the disincentives lucidly. Nor is it a social justice argument, although a basic income would reduce almost all measures of inequality if set (as they suggest) at 25% of gross domestic product per capita (US$1,163 per month in the United States). It is a philosophical argument driven by concerns regarding liberty, and cutting across the political spectrum.

A basic income, however, would not necessarily solve the problems Keith Payne documents in The Broken Ladder. Drawing on experimental psychology, Payne argues that the amount of money you have is not the main determinant of well-being; what matters is how you feel about it. The problem of inequality is relational, not economic. Poverty unquestionably harms health, encourages bad decisions and creates instability. But the key message of Payne's book is that who are not deprived may act as if they are — because they feel relatively poor. Compressing the bottom of the income distribution through, for example, a basic income is not enough; you need to compress the top as well. When it comes to how this should be done, however, the implications of Payne's experiments are far less clear. They hint at why inequality harms people, but they do not demonstrate that merely 'shortening the ladder' (that is, reducing inequality) will improve well-being. Consider a society that lowers inequality by taxing their rich and simply throwing their money into the sea. Will this society be better off, healthier and happier? If not, then how societies reduce inequality matters.

For historian Walter Scheidel this is precisely the problem. In his magisterial socio-political history The Great Leveller, inequality is shown as preferable to the alternative: society 'levelled' by vast upheavals, such as revolution, state collapse and disease. As Scheidel shows in a narrative spanning recent prehistory to the twenty-first century, the rich were only dispossessed by wars, plagues or cataclysms like the French Revolution. And other levelling programmes, such as welfare states and the deepening of democracy, are the product of conflict. It was the Second World War that spawned the British National Health Service. Scheidel concludes that ridding ourselves of inequality inevitably involves great suffering.

Scheidel also shows that the pressures driving inequality predate not only capitalism, but the state itself. They began with the shift towards agriculture that ignited the 'Great Disequalization' of the Holocene, manifest in the elaborate burials of the few. Later, inequality actually contributed to the development of the state, allowing elites to create collectivized mechanisms of extraction and accumulation, such as through slavery. Scheidel's political economy of inequality is remarkably consistent across eras despite dramatic shifts in configuration; the polity stabilises hierarchies of power and resources, allowing a privileged few to acquire even more wealth. Political and economic elites have always had close ties and – for Scheidel – the difference between Trump's Cabinet and the senate of ancient Rome is only a 'matter of degree'.

Fear of communism following the world wars motivated elites in the West to create social security and, in some cases, universal health care, resulting in sustained levelling. Certainly, inequality is on the political agenda, but now motivations are different — today, economic elites fear slow growth and the retrenchment of free trade. These are real threats to generating shared prosperity and reducing poverty. But they are unlikely to be sufficient to prompt substantial restructuring of the distribution of income and wealth within countries. What's clear from these five very different takes is that, notwithstanding the rise of populism and resentment among the so-called 'left behind', inequality is not going away.