



ILLUSTRATION BY BINAY SINHA

Inequality and envy

No free society can eliminate inequality

In September, my wife and I toured Indo-China. After seeing the glories of the partially restored Hindu temples of Angkor Wat, we cruised down past the lush fields of the reversed Mekong River from Siem Reap to Saigon, making various stops – including at Phnom Penh – on the way. There was one striking feature of the Cambodians we met who could speak English: they were about the same age as my daughter, born in 1980. I had seen a similar phenomenon when I first visited China in 1985 as a guest of the Chinese Academy of Social Sciences: the age distribution of the Chinese academics was bipolar. They were either very young (just out of graduate school) or else the very old, and had returned from the pig farms they had been sent to during the Cultural Revolution, when the intermediate generation had all become uneducated Red Guards.

On our stops we visited the chilling museums of the Golgotha of skulls left by the Khmer Rouge and the notorious secret prison and extermination centre at the Tuol Sleng Museum of Genocide, where the archives of the torture and murder of about 14,000 educated Cambodians are graphically presented. Ben Kiernan (in *The Pol Pot Regime*) details how Pol Pot’s regime emptied the cities, abolished money, put everyone to work in the fields, separated families, fed the workers gruel in communal halls to meet unrealistic targets of exporting rice, smashed the skulls of educated professionals and intellectuals (to equalise human capital or “status inequalities” – see below), and forced mass marriages with the disabled and “ugly” (a la Amartya Sen’s “capabilities approach” to equality). This was the ultimate socialist Utopia: an indentured agrarian state where all inequalities, including those inherited, had been abolished. The regime could rightly claim in a secret document in 1975 that “compared with the revolutions in China, Korea and Vietnam, we are 30 years ahead of them”.

Whilst drifting down the Mekong and visiting the remains of this socialist nightmare, I was also slowly ploughing through the latest *livre du jour*, Thomas Piketty’s neo-Marxist tome *Capital in the 21st Century*, with a tremendous sense of *déjà vu*. For in the mid- and late 1970s, when there had been a

great surge of interest in questions of income and wealth distribution, I wrote two review articles: “Distribution and Development” (World Development 4(9) 1976) surveying a plethora of books concerning developing and developed countries, including the World Bank volume *Redistribution with Growth* co-authored by Hollis Chenery and others, including Montek Singh Ahluwalia; and a review of John Roemer’s *A General Theory of Exploitation and Class* (in the *Journal of Economic Behavior and Organization*, 1986).

In the first, I had argued that this new interest in distributional questions was the result of the mid-1960s to early 1970s crisis of American politics and economics. Since the rise of the Soviet Union, Western liberal democracies have been haunted by the possible irreconcilability of the two Enlightenment ideals of liberty and equality. In the post-Second World War boom, it seemed America had established the Good Society, where residual problems of class and group conflict could be easily resolved. But with the failure of traditional attempts to solve the problems of poverty and race, the questioning of whether equal access to education could reduce inequalities of opportunity, and the sharpening of domestic conflicts during the Vietnam war, the views of the previous decade about the end of ideology and conflict in America began to seem complacent. Dealing with the problems of equity seemed urgent.

This was reinforced by the inflationary pressures in most OECD (Organisation for Economic Co-operation and Development) countries being seen as a result of a “constant war of all against all” for a larger share of the national income. But with the resurgence of monetarism, Thatcher’s and Reagan’s partial adoption of classical liberal economic policies, and the dissolution of the countries of “really existing socialism”, the Goldilocks decades that followed were seen as “the end of history”.

But history has a way of biting back. The Great Crash of 2008 – and the obscene incomes derived from rent-seeking by bankers it exposed, and which were not punished – brought questions of equity again to the fore. In earlier columns (“The case for

‘trickle-down’”, April 2013, and “Changing class in America”, May 2013), I have dealt with the claims that increased inequality of incomes and hardening class distinctions threaten the American Dream. These refute some of the claims made by Professor Piketty and his associates about the path of future income differentials in developed countries.

In my second review article, I had delineated Professor Roemer’s distinction between feudal, capitalist and socialist exploitation. The former ceases once rural producers are paid their marginal product. Capitalist exploitation ceases once “there are no differential endowments of produced goods”. But there would still be socialist exploitation because of “producers’ different endowments of inalienable assets” like skills. He argued that even with the ending of feudalism and capitalism, “if skills and needs are truly inalienable, then those forms of property cannot be socialised or eliminated”. The Pol Pot regime belied this by chillingly showing how the ultimate socialist Utopia could be reached, with all human beings turned into institutional inmates – with an albeit benevolent guardian dictating who does what and gets what.

Professor Piketty does not advocate such a radical transformation of capitalism. But it is the emphasis on inequalities of wealth, and their likely perpetuation, that is the new wrinkle added in Professor Piketty’s book. He is particularly against inherited wealth, which he argues is unmerited, and argues for a confiscatory global wealth tax, on the grounds that this is needed to provide equality of opportunity.

Here, Friedrich von Hayek’s discussion of “Equality, Value and Merit” in the sixth chapter of his *The Constitution of Liberty* is pertinent. As he shows, the essential equality needed for a free society is equality before the law. This recognises that individuals are very different, but “the demand for equality before the law means that people should be treated alike in spite of the fact that they are different”. It rules out any end-patterned distribution of income or wealth enforced by the State. On inheritance, Hayek argues that there is no “greater injustice involved in some people being born to wealthy parents than there is in others being born to kind or intelligent parents. The fact is that it is no less of an advantage to the community if at least some children can start with the advantages which at any given time only wealthy homes can offer than if some children inherit great intelligence or are taught better morals at home”.

Even the chairperson of the United States Federal Reserve, Janet Yellen, who is also concerned with rising inequalities of wealth (and incomes) in that country, has noted that based on the Fed’s Survey of Consumer Finances “inheritances are also common among households below the top of the wealth distribution and sizeable enough that they may well play a role in helping these families economically ... I think the effects of inheritances for the sizeable minority below the top that receive one are likely a significant source of economic opportunity”.

Professor Piketty’s tract is ultimately based on envy. However, as Hayek noted, this human failing is not one a free society can eliminate, but “it is probably one of the essential conditions for the preservation of such a society that we do not countenance envy, not sanction its demands by camouflaging it as social justice, but treat it, in the words of John Stuart Mill, as ‘the most anti-social and evil of all passions’”.



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