A Short Note about Inequality

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Robert Frank—a man of high intelligence and great ingenuity—tells us in his essay "The Complex Ethical Consequences of 'Simple' Theoretical Choices" that "[t]here is no persuasive evidence that rising inequality bolsters economic growth or enhances anyone's well-being" (2016, 224).

Hmm. *Anyone's?* Really? Suppose that Smith gets very rich by developing a sizable business. That business employs many people; there's no way you can get *very* rich in *business* without doing that. All those employees voluntarily moved from their previous jobs to Smith's, presumably for the usual reasons: their incomes are higher, the work is more interesting, and so on. Surely *those* people's well-being has been enhanced? At least, *they* presumably think so, or they would not have moved.

And then there are all the customers who bought Smith's products, thus improving their own situations in some or other respects. Is Frank overlooking this? Or doesn't he care about customers? Or does he think they know nothing about their own interests?

Finally, what interests me most immediately here are Smith's new consumption patterns. Frank notes that the rich can now "buy bigger mansions and host more expensive parties" and that "the average American wedding now costs more than $30,000." And yet, he says, such things "have made no one any happier" (2016, 224). How does he know that? Has he asked the wives or husbands in question? I live in a quite big house, though hardly lavish. Suppose that I could afford, without financial stress, to enhance it in various ways. (I have had occasional ideas over the years. I can't

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afford to realize them, and I rarely think about that. But would I be "happier" if I could have? Would it have enhanced my welfare? Well—probably yes. Just not enough to make it worth my while to make the changes that would have been necessary in order to earn the extra money needed for those enhancements.)

But let's also consider all the workers (and their employers) who make those nice big houses. I should think it would be a pleasure to work on the building of a lovely big house—more so than to make ordinary houses, even though that, too, could give satisfaction to those who make them. And because very wealthy people are probably very particular about workmanship and will pay to get really good workmanship, we can expect that the incomes of those who work on such houses are probably higher.

Or suppose our man Smith has a passion for fine cars—not unheard of among the very wealthy. He can now afford a Ferrari or two. I have not had an actual *new* car for many years. I always buy old ones, inexpensively. They help keep my admirable and ingenious mechanic alive and well, and they get me around. But would I think myself *better off* if I had (because I could afford) a nice new one, especially the ones with all those interesting features I can see the point of? Yup, for sure! And now consider the people who make Ferraris in the beautiful and ultraclean assembly facility in Modena, Italy. I bet they love their jobs and are the cream of factory workers. No doubt they enjoy prestige as well as high incomes. All of that is made possible by the presence of lots of Smiths. I read of a new supercar whose manufacturer is going to build only five hundred copies. Before the manufacturer has even started to build them, the first two hundred have been sold at price tags well north of a million dollars each (McNaughton 2017). There have to be many very rich people to make such things possible—and there are. That is greatly to the benefit of all those assemblers and designers and so on. So: *no one,* Professor Frank? Come on, now!

It seems (Frank says) that the rich have their marital problems, even more than the rest. And middle-income people move to areas that are farther away from where they work but where they can afford to live in nicer houses, thus requiring a longer commute (in those nice cars they can now afford, no doubt). Of course, many of them are now moving back into the central city to live in attractive and expensive high-rise apartments, from which they can walk to work or to the opera or . . . . Frank evidently thinks that inequality is "harming" these people even though they very deliberately do these things. Life is rife with pitfalls, to be sure. But where's the *harm?* One hazard of extreme wealth is that potential marital partners may be after these wealthy people's money. That's a problem we more ordinary people don't have (as much of, anyway), but, as I'm sure Frank is aware, we have plenty of other problems—many of which could be more easily dealt with if we had much more money. Do roads crumble without adequate maintenance even in rich neighborhoods? Perhaps—though I would note that in my admittedly very limited experience, this isn't true. The few very wealthy neighborhoods I have ever seen enjoy excellent, well-maintained roads, too. But, of course, once you get to the rest of the city streets, things often deteriorate. And rich neighborhoods are also (in)famous for having better public schools.

One of Frank's illustrations is from Ronald Coase: Tom wants to practice his trumpet late at night, to the annoyance of his neighbor Sam, who wants silence. How to settle this? The Coasian solution tells us that whoever will pay more to the other to maintain his right to his preferred situation will do so. Provided transaction costs are very low, a solution to conflicts about environmental matters is always in principle reachable by bargaining between parties with property rights, leaving both better off. But, says Frank, "willingness to pay also depends heavily on income. . . . The upshot is that Coase's approach . . . will tend to tilt heavily in favor of the solutions preferred by those who have the most money" (2016, 226). Frank evidently thinks there's something wrong with that. Why? What? Suppose that Sam is the one who can pay more. Whom does he pay, then? Surely Tom. And with his extra income from Sam, Tom can now, for example, soundproof the wall between them, enabling him to practice after all *and* Sam to sleep soundly. Better for both, then, no? Perhaps Frank or even Coase supposes that the payment will go not to poor Tom but to the town council to spend on those roads (or, more likely, to spend on increased incomes for bureaucrats who expertly dodge the issue of roads and so much else). But we wouldn't truly have a Coasian solution in that case. On the obvious, natural, and plausible way of understanding the system, though, *both* parties benefit. What complaint is there about that? (The very rich buy abodes with no noise problems whatsoever. They can afford to do so. And everyone in their buildings or their neighborhoods benefits from the absence of noise. High incomes have a way of solving such problems.)

Frank goes so far as to say that "even if we set fairness concerns to one side, plausible estimates suggest that rising inequality has created large costs and no significant benefits" (2016, 228). Perhaps Frank has a rarified sense of what constitutes a cost and a benefit. If he doesn't, though, I think we are compelled to conclude that these findings are extremely questionable.

Frank's essay starts out with a familiar observation and complaint about people's responses to the prisoner's dilemma. Students in economics classes tend to defect more; among more ordinary people, many more cooperate than game theoreticians perhaps expect. Shouldn't we be encouraging cooperation? Of course. The habit of defection is, as I have argued elsewhere (Narveson 2010, esp. 508, on the prisoner's dilemma), something near to irrational, though understandable. But what does all that have to do with immoderate wealth? People do not normally—in modern democracies—make their money by bribery, corruption, or theft. And when they make it in the market, properly so called, then they do it by means of agreements that are honored by both parties and are to both parties' benefit. When people emerge from economics classes into the real world, they tend to find that out. Defection in apparent prisoner's dilemmas is not going on much out there in the real world. Cooperation is.

So: rising inequality—which is to say, everyone getting wealthier but the very rich getting more so—*doesn't benefit anyone?* Really?

References

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