We'll Never Be Royals, but That Doesn't Matter

ART CARDEN, SARAH ESTELLE, AND ANNE BRADLEY

The poor we have always had with us. We worry about the fact that some people are *poor* in an absolute sense—lacking access to food, clothing, and shelter—far more than we worry that some people simply have *less* than others. Pick any point in history, and you will find unequal material standards of living. Pick a time in the past two or three centuries, though, and you will notice an important difference: where most inequality was before that point between people in the same society, an enormous gulf thereafter opened between members of different societies (Deaton 2013, 168). The gap between the rich and the poor in Europe and its overseas extensions narrowed as more and more people were able to enjoy what to their ancestors had been luxuries. The process was already evident when Adam Smith was writing of "the industrious and frugal peasant" in 1776: "Compared, indeed, with the more extravagant luxury of the great, his accommodation must no doubt appear extremely simple and easy; and yet it may be true, perhaps, that the accommodation of an European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African king, the absolute master of the lives and liberties of ten thousand naked savages" ([1776] 1981, 23–24). We would obviously use different language today, but Smith points to a stubborn and persistent fact. Even the "poor" in wealthy countries are fantastically wealthy by global standards.

Art Carden is an associate professor of economics at Samford University and a research fellow with the Independent Institute. **Sarah Estelle** is associate professor of economics and Ruch Faculty Fellow at Hope College. **Anne Bradley** is vice president for economic initiatives at the Institute for Faith, Work, and Economics.

The Independent Review, v. 22, n. 1, Summer 2017, ISSN 1086-1653, Copyright © 2017, pp. 83–92.

The differences in "accommodation" between rich-by-Western-standards and poor-by-Western-standards westerners does not concern us nearly as much as the differences between rich-by-global-standards westerners and their poor-by-any-standard brothers and sisters in different countries. Instead of asking, for example, "Why are some Americans richer than other Americans?" the question is "Why are Europeans and Americans so much richer than almost everyone else?" The Great Fact discussed by Deirdre McCloskey (2006, 2010, 2016) is the enrichment of ordinary people in European societies and their overseas offshoots, with prosperity spreading, as evident in rising per capita income around the globe and the development of a global middle class. The global middle class is growing; poverty in Africa is falling (Pinkovskiy and Sala-i-Martin 2009). The Enrichment, emerging from the unevenly and imperfectly realized conviction that people are equal morally or politically, made us more equal materially.

The gap between very rich Americans and Americans who are poor relative to their own society's "haves" (but spectacularly wealthy relative to both the vast majority of those who came before them and most of the world's population today) is not, we think, as important as the gap between the average member of a wealthy society and the average member of a poor society. Given the choice between eliminating absolute poverty (holding inequality constant) and eliminating inequality (holding poverty constant), we would end poverty. If poverty, not inequality, is what stands between some people and the opportunity to flourish, the concern over income inequality per se is misplaced. If alleviating absolute poverty is our objective, the moral and legal equality that made the Enrichment possible should be our priority, not equalizing material standards of living.

Industrialization, Not Redistribution, Created First-World Problems

> We are converging on an enrichment of the poor.
>
> —Deirdre McCloskey, *Bourgeois Equality*

There is no entry for *equality* in the *Syntopicon* of the Britannica series Great Books of the Western World, though it is said general editor Mortimer Adler later regretted it. This isn't to say the ancients weren't seriously concerned with equality. Plato understood that the distribution of material well-being is important to social stability, even going so far as to say in *The Laws* that funeral expenditures for the richest must be no more than five times what is spent on the poorest (book XII). Aristotle took more of a justice approach and said that imposing equality upon that which is naturally unequal is unjust. However, a closer look at the *Politics* (VII:3) reveals that he also was concerned by the granting of unequal treatment to those that are equal. That is, Aristotle was not an inequality sceptic. Although modern scholars have traditionally exercised

great care in distinguishing between equality of opportunity, equality of consumption, and equality of outcome, most colloquial uses of the term *inequality* refer to unequal statistical distributions of income and wealth.

Inequality has always been an important topic in economics, and new data and methods are helping us fill in historical gaps in our understanding of it. Esteban Nicolini and Fernando Ramos Palencia (2016), for example, assemble mid-eighteenth-century census data to estimate inequality for Spain; where previous approaches had used proxies, they are able to provide estimates using income data. Metin Cosgel and Bogac Ergene (2012) construct estimates for the eighteenth-century Ottoman Empire using probate inventories. There was rising inequality in Kastamonu, where they get their data, just as there was rising inequality in Europe. Relative decline in wages combined with capital concentration meant rising inequality in the Southern Low Countries in the lead-up to industrialization (Ryckbosch 2016, 17). Religion and estate division practices influenced economic inequality in Canada at the beginning of the twentieth century (Di Matteo 2016). These are just a few examples of how we are coming to better understand the causes and consequences of historical inequality.

Joseph Molitoris and Martin Dribe document persistent inequality in mortality outcomes in Stockholm in the late nineteenth and early twentieth centuries; however, they caution readers not to lose sight of the fact that there were still large absolute gains in absolute standards of living, such as child mortality, even though gaps persisted: "The working classes saw more of their children surviving beyond the first years of life, a three-fold increase in individual purchasing power and greater access to hygienic living conditions. Although they may have remained worse off than the upper classes in these regards, they certainly reaped the gains of Stockholm's industrialization" (2016, 193). These gains are especially illuminating when we consider this passage on inequality from Adam Smith: "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged" ([1776] 1981, 96). That a gap remained between rich and poor in industrializing Stockholm should not bother us that much. What is important is not a stubbornly persistent gap between the rich and the poor but the fact that the poor were enjoying higher incomes and burying fewer children.

Those children and their descendants have grown rich by making the rest of us richer, as anyone who has ever been in an IKEA store can readily see—or taste and smell in the case of IKEA's restaurant patrons. Now the first world suffers from having *too much* to eat. Cluttered closets and cluttered calendars are first-world problems, too. Cluttered closets are a product of material superabundance, and cluttered calendars are products of social superabundance. For many—the readers of *The Independent Review* and the students we teach—the time-use problem is not that we have too few opportunities to engage with great ideas and great people but that we have trouble saying "no" to an overabundance of social, intellectual, and professional opportunities.

In a well-known summary of what creative destruction has wrought, Joseph Schumpeter describes what he calls "the capitalist achievement":

> There are no doubt some things available to the modern workman that Louis XIV himself would have been delighted to have yet was unable to have—modern dentistry for instance. On the whole, however, a budget on that level had little that really mattered to gain from capitalist achievement. Even speed of traveling may be assumed to have been a minor consideration for so very dignified a gentleman. Electric lighting is no great boon to anyone who has money enough to buy a sufficient number of candles and to pay servants to attend to them. It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars, and so on that are the typical achievements of capitalist production, and not as a rule improvements that would mean much to the rich man. Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort. ([1942] 2003, 67)

Modern economic growth did not benefit kings and queens nearly as much as it benefited the rest of us. Henry VIII and his courtiers ate some forty-five hundred to five thousand calories per day, and the king eventually grew so fat that he could not move without help (Deaton 2013, 83). The beneficiaries of capitalist growth were not corpulent Henry and his courtiers. The beneficiaries have ultimately been the commoners and their descendants, who can today for the price of half an hour or so of labor at average American wages eat forty-five hundred to five thousand calories on *one* visit to a buffet restaurant or college dining hall—hence, new college campus arrivals' struggle to avoid putting on the "freshman fifteen."

The problem facing the world's poor is not that there are people who have more than they do. The problem is that they are absolutely poor in a meaningful sense, lacking the access to the food, clothing, and shelter that people in wealthy countries take for granted. McCloskey (2006, 2010, 2016) suggests that when we are assessing the well-being of our fellow human beings (not country versus country Gini scores), we are interested in real income levels, not in rankings. Ranking matters in sports, but the income distribution is not a soccer game or a boxing match. What matters ultimately is what one's income will buy, not how that income compares to the income earned by the Joneses down the street. Jones eats and drinks better if he has a higher income, and perhaps he is able to take his family on a vacation to see *Starry Night* at the Museum of Modern Art. If those at the bottom of the income distribution can experience what are by historical and geographic standards extraordinary levels of well-being—levels that extend beyond food, shelter, medical care, and education to the leisure that allows us to read, knit, hike, or just watch TV—then in a meaningful sense they are able to exercise great autonomy over all their choices. This autonomy enables but does not guarantee

flourishing. Wealthy Mr. Jones might buy $1,000 bottles of whiskey and smash them on the sidewalk just to show people how rich he is, or wealthy Mr. Burns might pay Homer to eat a copy of *Spider-Man* number 1 page by page just to be mean to the Comic Book Guy. Mr. Smith might spend his more modest (or meager) income in dissipation and drunkenness. Nevertheless, in the most practical terms we might choose to ignore the complexities of these conceptual differences between inequality and poverty, except for one significant rub: so many strategies proposed for ameliorating inequality have in practice detrimental consequences for equality of opportunity, absolute poverty, and the prospects of human flourishing.

Financial and Political Access to Positional Goods and High Status

What about positional goods and competition over status? Some inequality is positional and irreducible. There are only so many Picassos or originals of Van Gogh's *Starry Night* (one), and it has been reported that there were only twenty-four bottles of Springbank 1919 50 Year Old scotch ever produced, available for $78,000 each at the Whiskey Exchange. But this price seems a bargain compared to that of the Macallan M bottle, sold in a Hong Kong auction for $628,205 in 2014. The Macallan M is a work of art: *MoneyNation* reports that "17 craftsmen worked for 50 hours each just to make the whiskey's bottle. . . . The glass is hand blown, and 40 of the bottles were destroyed because of imperfections before perfection was attained," and "[t]he seven barrels that make up this whiskey were chosen from the master blender out of 200,000 barrels" (Gerencer 2016).

You might feel much poorer than Bill Gates, who can have the best and rarest whiskey on command, but this comparison misses the larger point about advances in wealth that spread across the entire income distribution. It is the case that Bill Gates can have better whiskey than we, but it is not the case that the rest of us have no access to whiskey at all. In fact, the massive wealth generation of the past three centuries has given ordinary folks access to things unthinkable to kings and queens of the past. This is true because wealth is created in society when suppliers figure out, through the prudent application of their entrepreneurial energy, how to solve the problems that we all face—such as access to whiskey or stockings.

Fine art and elite whiskies are positional goods, with the most ambitious and most able effectively taxing themselves in order to be able to afford them (Nye 2002a, 2002b). Just as works by Picasso and Van Gogh helped redefine art, the most expensive whiskies in the world are the ultimate exemplars of the whiskey-making craft. The high prices call forth the kind of expertise that allows a master blender to select the best combination out of 200,000 casks of twenty-five- to seventy-five-year-old whiskey. The additional effort required to get to the top and therefore to have access to the *best* in a commercial society spills over into benefits for others who enjoy the new products or lower prices or greater output or better scholarship that people produce in order to get

this kind of access. Should we be upset that wealthy connoisseurs can buy bottles of whiskey costing tens of thousands of dollars while the hoi polloi make do with Johnnie Walker Red Label or whiskey from the bottom shelf? Would we really prefer that access to these goods be distributed politically rather than financially?

It is true that the dollar votes of the rich "matter" more than the dollar votes of the poor in that the rich have more of them, but elite contempt for Walmart and McDonald's suggests a conviction that *the poor's* money speaks too loudly for some tastes. Furthermore, why shouldn't the rich be allowed to vote with their money for ultraelite education, ultraelite whiskey, and so on? People do not go into academia or the arts for the money, nor do we suspect that vintners and brewers and whiskey blenders get into their crafts for the money alone. By telling the rich, "You cannot buy a $600,000 bottle of whiskey," we are limiting the Macallan blenders' ability to excel at their crafts.

Moreover, taxing high-end consumption doesn't make us more equal. In fact, it puts out of business this niche-whiskey maker and his entrepreneurial efforts and thus by definition reduces his or her flourishing and the flourishing of those who would have purchased the designer whiskey. The undeniable truths of humanity are that each of us has unique and subjective preferences. What markets do best is cater to the hundreds of thousands of preferences around whiskey from the glass-blown bottle to the plastic jug. In this task, the market provides powerful incentives for suppliers not just to cater to the tastes of the rich (royals) but to cater to everyone, including ordinary people like you and me. The market does not exist to cater to the rich, quite the opposite. We all are richer because we have increasing access to whiskey, heart medication, cell phones, enormous televisions, great literature, and stockings for steadily decreasing amounts of effort. The nature of markets and the lure of potential profit ensure that status is not what drives innovation but rather the search to fulfill the demands of everyone—rich and poor alike.

Let's suppose for a moment that we can equalize material income and wealth. For better or for worse, status motivates people. If we equalize income and wealth, we can expect people to move toward other, perhaps more pernicious kinds of status competition, if not by money income. People can obtain status not by production, but by domination, earning income not by providing people with products they want at attractive prices but by gouging it out of the politically powerless. This brings us back to Henry VIII and his court or George Orwell's Napoleon and his coterie of animals who are "more equal than others." David Henderson, Robert McNab, and Tamas Rozsas (2005) discuss the privileges available to the political elites in socialist countries that might not show up in official statistics. In aristocracies of pull, the politically connected enjoy privileged access to food, health care, and other goods and services that are unavailable to the masses. Meaningful inequality in socialist countries, they argue, is understated by official income measures.

In a world in which people value status heavily—as they presumably do in ours—working to eliminate status seeking on one margin will shift status seeking onto

other margins. F. A. Hayek argued that money inheritances are, socially speaking, the least expensive way for people to provision their descendants because restricting inheritance given these preferences shifts the search for status and provision onto nonfinancial margins:

> It seems certain that among the many ways in which those who have gained power and influence might provide for their children, the bequest of a fortune is socially by far the cheapest. Without this outlet, these men would look for other ways of providing for their children, such as placing them in positions which might bring them the income and the prestige that a fortune would have done; and this would cause a waste of resources and an injustice much greater than is caused by the inheritance of property. Such is the case with all societies in which inheritance of property does not exist, including the Communist. Those who dislike the inequalities caused by inheritance should, therefore, recognize that men being what they are, it is the least of evils, even from their point of view. (1960, 91)

High status correlated with great wealth and great money income is likely the cheapest way (from society's perspective) for people to indulge their elite pretensions. By restricting inheritances or status competition, we provide people with incentives to move these pursuits into other sectors. Instead of accumulating wealth, the status-hungry might accumulate power. Instead of passing along a great fortune, someone might spend a great deal of time and energy working to get his or her children into positions of power and advantage. These rational responses are not costless. The displacement itself is costly, as revealed by the fact that rational agents facing a broader set of options would have chosen otherwise. Still more, spillovers arise due to the politicization of everything, as zero-sum political games become relatively more attractive than positive-sum, or value-creating, commercial games.

Legal and Moral Equality

We think legal and moral equality are crucial. Consider this passage from the Italian Constitution of 1948: "All the citizens have equal social dignity and are equal before the law, without distinctions of sex, of race, of language, of religion, of political opinion, of personal and social position."[1] It recognizes an inherent dignity of each and every person that is obvious to us today but that wasn't obvious—and was explicitly and vigorously resisted—for the better part of history.

Equality before the law harnesses individual motives and knowledge to provide maximal relevant social knowledge to bear on individual choices and therefore on collective outcomes. Hayek, like Smith before him, made a persuasive case for classical

1. Quoted and discussed in McCloskey 2016, 401.

liberal institutions as those that best make use of social knowledge. Voluntary interaction generally and market exchange specifically make it possible for people to use knowledge that only others have for purposes only they know. Attempting to engineer equal outcomes is fraught with problems for the very reasons that diverse tastes and talents make equality before the law a compelling institutional goal.

To rectify material inequality requires creating political inequality, a type of inequality that might in fact be more objectionable and that, as moral notions and ideas about justice evolve, might require future recompense. As Harry Frankfurt points out, the lines between desirable types of equality are not particularly clear (2000, 100–103), and to the extent that we are concerned with the moral quality of egalitarian endeavors, the precautionary principle suggests we should tread lightly with respect to egalitarian interventions lest these interventions result in other blameworthy types of inequality. Consider Frankfurt's explanation: "The disorientation and the anguish of a person who is treated arbitrarily, without the elemental respect that consists in recognizing him as what he actually is, has [*sic*] nothing much to do with comparing his own circumstances with the circumstances of others. Rather, it is [*sic*] rooted in a morally foundational need to affirm and to be confirmed in his own reality. This is profoundly different from the essentially comparative focus of egalitarian concerns" (103). Inequality on some margins can be compensated for by inequality on others; moreover, intervening in order to fix inequality attempts to remedy an evil that is not a harm or injustice by introducing an evil that is both. Attempting to counteract, for example, income inequality harms the one who is taxed arbitrarily. If he is punished, in effect, not for a crime or an injustice but for an occasion of wise stewardship of uneven blessings, this inequality of treatment might be considered an injustice. Furthermore, it is by no means clear that replacing what *might be* an evil with what *is* a harm makes for a better society. This is doubly true when societies deviate from principle—the protection of private-property rights and enforcement of impersonal laws—to indulge what is politically expedient at a particular point in time because doing so weakens the rule of law and (almost certainly unintentionally) encourages people to seek to improve their lots via redistribution. In practical terms, punishing otherwise desirable behavior such as stewardship has disincentive effects with wide-ranging ramifications. Moreover, even if we decide we want to do this, we face knowledge constraints that make us unable to understand how to do it in a way that would not set in motion a tide of unintended consequences.

Conclusion

Societies should concern themselves with legal and moral equality of liberty and dignity rather than with superficial income and wealth equality at a specific point in time. The most effective way to ensure the equal dignity of each person is to ensure property rights enforced by the rule of law. Secure property rights, the rule of law, and a social conversation that tolerates and dignifies innovation and entrepreneurship encourage people to make the most of their talents in ways consistent with what people want and

for which they are willing to pay. We are interdependent creatures who are able to thrive only because of the efforts of countless people we will never know, who, guided by their own goals, are working to help us achieve our own.

This is true of both the richest person and the poorest person. What bridges the wealth, income, and consumption gap is that market-based societies bring us together because of our differences through trade. Markets equalize in ways that no other mechanism can. Profits give us the best hope, which human history verifies, that on net people will use their talents to serve all of us rather than to plunder. This is the way that we all have become extraordinarily richer.

Poverty is a far bigger and far more important problem than inequality. A society in which people are equally poor has far less scope for flourishing than a society in which people are unequally rich. With enough force, we can equalize incomes and wealth, but we cannot get around the fact that many people are still motivated by the pursuit of status. Taxing income-generating production and utility-generating consumption will induce people to shift away from production and consumption and toward other ways of satisfying their wants. This shift might include even more status seeking. For a given set of preferences for status, closing off financial means to status will lead people to do their status seeking on other margins—margins that are not necessarily benign.

In fact, we might ask whether these attempts to equalize outcomes through creating political inequality are equivalent, in effect, to cutting off one's nose to spite one's face. We now are watching the largest migration of human beings out of absolute poverty in the history of the species. This has happened not because of redistribution from rich to poor but because of increased economic growth brought about by improved institutions and a new social esteem for innovation. On one hand, societies have loosened the shackles on the invisible hand. On the other, they have come to better tolerate and appreciate the "mere" merchant buying low and selling high.[2] The payoffs in the form of lower poverty and less worldwide inequality have been substantial.

References

Cosgel, Metin M., and Bogac A. Ergene. 2012. Inequality of Wealth in the Ottoman Empire: War, Weather, and Long-Term Trends in Eighteenth-Century Kastamonu. *Journal of Economic History* 72, no. 2: 308–31.

Deaton, Angus. 2013. *The Great Escape: Health, Wealth, and the Origins of Inequality*. Princeton, N.J.: Princeton University Press.

Di Matteo, Livio. 2016. All Equal in the Sight of God: Economic Inequality and Religion in the Early Twentieth Century. *European Review of Economic History* 20, no. 1: 23–45.

Frankfurt, Harry. 2000. The Moral Irrelevance of Equality. *Public Affairs Quarterly* 14, no. 2: 87–103.

2. See McCloskey 2016 for an exhaustive discussion.

Gerencer, Tom. 2016. 10 Most Expensive Whiskies in the World. *MoneyNation*, March 16. At http://moneynation.com/most-expensive-whiskey/.

Hayek, F. A. 1960. *The Constitution of Liberty*. Chicago: University of Chicago Press.

Henderson, David R., Robert M. McNab, and Tamas Rozsas. 2005. The Hidden Inequality in Socialism. *The Independent Review* 9, no. 3 (Winter): 389–412.

McCloskey, Deirdre N. 2006. *The Bourgeois Virtues: Ethics for an Age of Commerce*. Chicago: University of Chicago Press.

———. 2010. *Bourgeois Dignity: Why Economics Can't Explain the Modern World*. Chicago: University of Chicago Press.

———. 2016. *Bourgeois Equality: How Ideas, Not Capital or Institutions, Changed the World*. Chicago: University of Chicago Press.

Molitoris, Joseph, and Martin Dribe. 2016. Industrialization and Inequality Revisited: Mortality Differentials and Vulnerability to Economic Stress in Stockholm, 1878–1926. *European Review of Economic History* 20, no. 2: 176–97.

Nicolini, Esteban A., and Fernando Ramos Palencia. 2016. Decomposing Income Inequality in a Backward Pre-industrial Economy: Old Castile (Spain) in the Middle of the Eighteenth Century. *Economic History Review* 69, no. 3: 747–72.

Nye, John V. C. 2002a. Economic Growth. Part I. Economic Growth and True Inequality. Library of Economics and Liberty, January 28. At http://www.econlib.org/library/Columns/Nyegrowth.html.

———. 2002b. Economic Growth. Part II. Irreducible Inequality. Library of Economics and Liberty, April 1. At http://www.econlib.org/library/Columns/Nyepositional.html.

Pinkovskiy, Maxim, and Xavier Sala-i-Martin. 2009. *Parametric Estimations of the World Distribution of Income*. National Bureau of Economic Research (NBER) Working Paper no. 15433. Cambridge, Mass.: NBER.

Ryckbosch, Wouter. 2016. Economic Inequality and Growth before the Industrial Revolution: The Case of the Low Countries (Fourteenth to Nineteenth Centuries). *European Review of Economic History* 20, no. 1: 1–22.

Schumpeter, Joseph. [1942] 2003. *Capitalism, Socialism, and Democracy*. Milton Park, U.K.: Taylor and Francis.

Smith, Adam. [1776] 1981. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Indianapolis, Ind.: Liberty Fund.

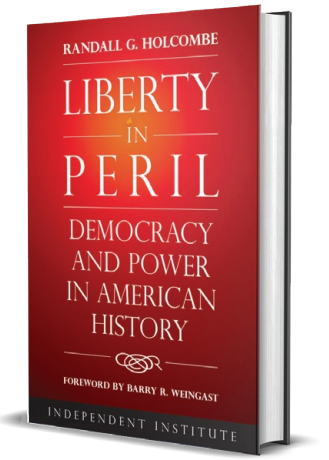
SUBSCRIBE NOW AND RECEIVE A FREE BOOK!



"***The Independent Review*** does not accept pronouncements of government officials nor the conventional wisdom at face value."
—**JOHN R. MACARTHUR**, Publisher, *Harper's*

"***The Independent Review*** is excellent."
—**GARY BECKER**, Nobel Laureate in Economic Sciences

Subscribe to ***The Independent Review*** and receive a free book of your choice such as ***Liberty in Peril: Democracy and Power in American History***, by Randall G. Holcombe.



Thought-provoking and educational, ***The Independent Review*** is blazing the way toward informed debate. This quarterly journal offers leading-edge insights on today's most critical issues in economics, healthcare, education, the environment, energy, defense, law, history, political science, philosophy, and sociology.

Student? Educator? Journalist? Business or civic leader? Engaged citizen? This journal is for YOU!

Order today for more *FREE* book options

SUBSCRIBE

The Independent Review is now available digitally on mobile devices and tablets via the Apple/Android App Stores and Magzter. Subscriptions and single issues start at $2.99. **Learn More.**



Download on the App Store | GET IT ON Google Play | Available on MAGZTER

INDEPENDENT INSTITUTE, 100 SWAN WAY, OAKLAND, CA 94621 • 1 (800) 927-8733 • ORDERS@INDEPENDENT.ORG