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Against Equality*

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ABSTRACT: In December 1999 two papers were published on the theme of inequality in journals of the American Economic Association. The first article (Welch, *American Economic Review*) celebrates inequality's recent advances in conventional neoliberal fashion, as an essentially progressive force that spawns innovation and stimulates growth. The second article (Aghion *et al.*, *Journal of Economic Literature*) presents contrary evidence that inequality has retarded growth and impeded socioeconomic progress. This paper argues that Welch's defense of the status quo might be of greater value to those who object to it than Aghion *et al.*'s well-intentioned article.

1. *Inequality's Comeback*

INEQUALITY HAD BEEN ON THE REBOUND long before the 20th century recoiled agonizingly into history. In resolute alliance with tuberculosis and world hunger, it has now recovered fully from a series of postwar setbacks. Daily we stumble upon new evidence that never before have so few had so much while the many had to survive on so little.[1] The well-to-do usually deal with these facts either

* Shaun Hargreaves-Heap, George Krimpas, and David Laibman contributed many poignant comments, while an anonymous referee rightly disparaged an earlier version. Of course they are blameless for all that follows.

1 Stock exchanges the world over have been booming for the longest period on record (at least until recently) during a period of unprecedented profit-making and wealth accumulation; at this very historical juncture, poverty and social exclusion are being whipped up at an even faster pace. For tangible evidence see various reports by UNICEF indicating that the richest 225 individuals earn as much as the poorest 1 billion, or the latest data from the British Institute for Public Policy Research according to which one third of British children live in households afflicted with incomes well below the official poverty line (and three million of these children live in households where both parents are unemployed). See also Meeropol, 1998, for a vivid account of the march of inequality in the USA.

by disputing them or by shedding crocodile tears. Finis Welch is made of sterner stuff. He spends his time penning articles with titles like "In Defense of Inequality." Should we pay attention? The editors of the *American Economic Review* have removed any choice we might have had on the matter by placing Welch's piece in their most prominent shop window (the first page of the AER's *Papers and Proceedings*, December 1999 issue).

Admittedly, my original intention was to contrive a scathing review. To my surprise, however, a curious sense of sympathy toward Professor Welch crept up on me as I began to work. By the time I started writing I had already absolved Professor Welch of the many intellectual (and statistical) sins underpinning his "Defense." Instead, I found myself directing slings and arrows against the kind-hearted champions of equality who, unwittingly, enable misanthropic treatises, like Welch's, to masquerade as paradigms of open-mindedness. For if the good professor can be propelled into the limelight by as flimsy an article as the one under review, he owes this largely to his well-intentioned, liberal opponents.

An affection for greater equality and commitment to human dignity has always been a fine sentiment. Never did it, however, amount to much of a humanist campaign. Undoubtedly, the repulsion felt by many on the center–left at the monstrous scale of inequality surrounding us is an honorable emotional response to an appalling reality. However, *by itself*, this worthy instinct may well lead those who follow it headlong toward intellectual (and political) ruin. Unintentionally, the good people who attack inequality from the perspective of *distributive justice* are firing blanks and in so doing allow inequality to escape unscathed from the battlefield of political debate. Indeed they offer the "enemy" ample opportunity to bathe inequality in a light of moral rectitude.

Which brings me back to Professor Welch, whose article offers a splendid example of how the mistakes of the proponents of equality and fraternity can be used by the usurpers of liberty and efficiency in a bid to exonerate inequality. The question is: Should we blame *him* for seizing an excellent opportunity to ingratiate himself in the eyes of the powers that be? Or should we, instead, censure those who have made his task so simple, contrary to their intentions? With a heavy heart, I choose the latter.

Veterans of the left-versus-right tussles on the causes, function and merits of inequality may think that they need read no further than Welch's title; that they have seen it all before. I suggest they reconsider for two reasons: First, the arguments on how inequality provides the motive power for innovation and progress have been sharpened. Second, because *if we are serious about our commitment to egalitarianism,* the time has come to *abandon* an emotional attachment to static notions of equality and justice.

In the section below, I review Welch's paper. Later I return to the provocative suggestion of the last sentence; namely, that equality is the wrong ideal to go to war for.

2. *Professor Welch's* "*In Defense of Inequality*"

If all participants in the Olympic 100m race were to win gold, none would have cause to sweat in training. The kernel of the right's defense of inequality is, therefore, the idea that effort results from inequality in outcomes and, to the extent that effort is the stuff of which prosperity is made, those committed to the General Good should be concerned if there is too much politically engineered equality. Professor Welch has, quite naturally, given this thought another airing. Good intentions continue, he laments, to litter the road to social squalor: "During this period of increasing wage inequality we have implemented a web of subsidy and assistance programs designed to buffer poverty that appear to have drawn many into simply not working . . ." (1999, 16). He might as well have invoked Adam Smith's more elegant formulation (*circa* 1776): "I have never known much good done by those who affected to trade for the public good."

Nothing innovative so far. The new elements comprise a set of rhetorical tricks and, more importantly, some engaging statistics. An example of the former is Welch's point that perfect equality would drive us insane with boredom; additionally, horror of horrors, it would excise all incentives for trade. Surely he is being facetious. Even a professor of economics must understand that the removal of *inequality* need not destroy *difference.* After all difference and not inequality provides the salt of the earth and the stimulus for trade. Alas, such is the leeway that new-right authors are being given these days by editors of journals famed for their otherwise unfailing stringency.

Apart from such creative carelessness with words, what is *really* new in Welch's "Defense"? Whereas in years past wage inequality was defended *a priori* by libertarian intellectuals, Welch introduces an important caveat: There are two kinds of inequality, he grants his liberal reader, good and bad. Bad inequality is that which is "destructive whenever the low-wage citizenry views society as unfair, when it views effort as not worthwhile, when upward mobility is viewed as impossible or as so unlikely that its pursuit is not worthwhile" (2). Giving voice to the fearful bourgeoisie which builds tall fences and hires security firms to patrol them, Welch also labels bad the type of inequality that promotes "illegal attempts to redistribute."

Extending a friendly hand to former U. S. radicals, Welch offers as an example of bad inequality the distribution of income between blacks and whites in the 1960s. "I am convinced," he concedes, "that the wage differentials [between blacks and whites during the first two decades after World War II] cannot be construed as reflecting the long-run equilibrium differences in labor productivity. I therefore assume that the convergence that we have seen is a reflection of a more open and thus more fundamentally equal society/economy"[2] (7). What convergence is he referring to?

Hurst, Luoh and Stafford (1998) report that during 1994 30% of African–American households had zero or negative net worth. The equivalent figure for white households was a low 8%. More generally, the median African–American wealth was $10,329 whereas for whites the same median reached $76,519. Though Professor Welch does not discuss the "surviving" degree of inequality between U. S. blacks and whites (a strategic oversight perhaps?), he would remain unperturbed upon presentation of such data. For his empirical claim is that, although inequality between blacks and whites is still high, and even though inequality *in general* has been growing massively in the USA since the mid-1970s, *white/black* (*and male/female*) *income differentials have been declining*. At the same time, income differentials *within* the black community (and *among* women) have been growing strongly. In other words, "good" inequality (*i.e.*, that based on personal effort and application) is increasing while "bad" inequality (that which is based on unchosen features such as race or gender) is vanishing.

Is it true that the wage differentials between U. S. blacks and whites are shrinking? Welch presents the following evidence in sup-

2 Underlying this "observation" is Gary Becker's (1957) prediction that market forces will undermine, eventually, the economic impact of the racist employers' "irrational taste" for discrimination.

port of this claim: "It remains true that . . . black men, black women and white women continue to earn lower wages than white men. However during the 1967–1997 period, the representation of black men increased by 70% in the upper quarter of the wage distribution; it increased fivefold for white women and tenfold for black women" (7).

Notice that Welch is being economical with his data. The fact that the representation of black men in the upper quarter of the wage distribution has increased does not mean, as he implies, that the distance has narrowed between average white and average black earnings, employment prospects, etc. Has it narrowed? Quite the opposite is true; the distance has increased according to every economic indicator. The socioeconomic position of African–Americans has, in aggregate, worsened considerably relatively to that of the white population. According to the recent *Panel Study of Income Dynamics 1994–1999* (U. S. Bureau of Labor Statistics, March 2000), the incidence of unemployment among blacks during those five years rose by 17% while among the general population it fell by 9%. Meanwhile, the aggregate average earnings differential between blacks and whites has also risen.

Thus, by Professor Welch's own definition, "bad" inequality (that is, inequality *between* blacks and whites) has increased along with its "good" variant (that is, the inequality *within* the different communities). Whatever joy there is to be had comes from the dubious observation that there are now more black faces within the ranks of the very rich than there were 30 years ago. However, when one discovers what happened to the rest of the black community, all cause for rejoicing vanishes. Once his claims concerning greater racial equality have been found out, is there anything left to support Professor Welch's optimism? His last stand turns on the effects of education on personal prosperity.

"The college wage premium," he reports, "essentially doubled during the period [1967–1997], while the dropout penalty almost doubled" (7). By this he means that a college degree boosts earning capacity (relatively to non-graduates) more than it used to in the 1960s. More significantly, he writes, "while the employment share of the most educationally intensive industries grew by 75%, shares of the least educationally intensive industries fell by 25%" (10). In simpler words, going to college increases the likelihood that one will be employed in one of the industries where employment prospects are better.

These two statistics (on the effect of higher education on earnings and on employment prospects) constitute Professor Welch's only indication that "bad" inequality is falling. For if individual investments in human capital are a matter of will and can determine future individual well-being, then whatever the degree of observed inequality, individuals will have largely *chosen* their position on the unequal distribution. Put simply, the lazy choose greater leisure and more consumption while young, and pay the price by enjoying lower earnings in the future. By contrast, the studious prefer to place themselves on a higher point of the future income distribution by foregoing income and leisure presently. To the extent that chosen inequality is synonymous with investment in human capital, it is good inequality. The fact that we observe more of it, as college graduates scale the heights of an increasingly unequal income distribution, is reason to celebrate. At least this is what Professor Welch wants us to believe.

At first, it seems like a common-sense argument. It resonates nicely with both the new right's commitment to the market process *and* the currently dominant center–left view that equal access to education, rather than income redistribution, ought to be the state's primary responsibility. Almost the whole of the economics profession stands behind Professor Welch's view on this matter. Economists think that it obtains straightforwardly from the "economic" approach to human behavior or "rational choice theory."[3] He does credit to this school of economic thought by skillfully accepting as self-evident, without ever making this assumption explicit, a joint hypothesis consistent with that school. The hypothesis consists of four components:

a) Young people are eager to go to college because they judge that this is the best way of maximizing their future income stream;
b) At college they increase their stock of human capital;
c) One's earnings are strongly correlated with one's human capital;
d) Technological change increases the demand for human capital per unit of labor and thus the labor demand for college graduates increases while that for unskilled workers drops.

Each of these four statements is assumed, credibly, to be true. Indeed, who would contest any of them? Nonetheless the cunning of Welch's argument lies in a crucial, albeit silent, assumption: He

3 Opponents (see Sen, 1970; Hollis, 1987; Hargreaves-Heap, 1989; Varoufakis, 1998) point out that the rationality involved is of a very limited nature; that the economists' "rational" agents are rational to the extent that they like what they get and get what they like; a definition that applies to idiots more often than it does to geniuses.

assumes, not only that (a), (b), (c) and (d) hold, but also that there exists a causal chain taking us from (a) to (b) to (c) and finally to (d). Once he has slipped this axiom into the argument (something he accomplishes by neglecting to *argue* the case in favor of such causality), his work is done. He can then claim that greater inequality is the result of rational agents doing their best in an environment of galloping technologies. Critics of inequality are put in their place: "What do you want to trade," he might have asked, "in order to have less inequality? Do you wish to see lower investment in human capital and less innovation? A more lethargic growth in productive opportunities? Do you want to deny rationality in action?" Check mate!

It is an artful dodge. For at its heart, if we look closely, we shall discern a serious violation of logic: It is one thing to claim that his "economic approach" simply models rational youngsters in action. It is another to claim that when we observe rational youngsters increasingly trying to elbow their way into college what we are seeing is simply his "economic approach" in action. The two sound similar but they are as different as they can get. The fact that statements (a), (b), (c) and (d) are all true does not mean for a moment that (a) has caused (b), which in turn caused (c), with (d) the final outcome of this chain reaction. To make that inference is akin to attributing the fact that most people do not kill their mothers to the efficacy of the law against matricide.

How could (a), (b), (c) and (d) all be true (that is, their incidence be correlated) without being causally linked? Easily, is the answer. There might, quite simply, be other forces at work, of which (a), (b), (c) and (d) are all mere by-products. In fact, one does not need to turn to radical economics for an explanation. In his famous mainstream book, Spence (1974) has shown that personnel managers may favor college graduates independently of any increase in their human capital while at college; that is, even if they think that what the students learned at college is perfectly useless. Spence's argument goes something like this:[4] Suppose that firms cannot easily tell the difference between good and bad workers before employing them. Suppose further that students attending college learn nothing of any significance; that no human capital is bestowed upon them.

4 For an abbreviated version of a Spence-like signaling game see Hargreaves-Heap and Varoufakis (1995, 190–2).

Moreover this educational failure is common knowledge (that is, it is understood by employers, parents, students, etc.). Nevertheless if there is *some* correlation between the future "productivity" of a prospective worker and her/his prior willingness to pay large fees and suffer countless hours of useless courses, then employers will prefer graduates and pay them a higher wage.

Of course no one is arguing that students learn nothing of significance in college. What the above analysis *does* is to break Professor Welch's causal link between education, human capital, productivity and earning power. It achieves this by showing that employers *may be* willing to select graduates and pay them more, even if it is common knowledge that college students carry no additional human capital. Moreover the best empirical evidence available seems to confirm this account. For instance, it shows that, in the USA, human capital differences explain much less than one-half of the black–white gap in earnings or occupational prestige disparity (see Darity and Mason, 1998). For my part, personal experience is a more persuasive guide.

For a number of years I have been observing business students leaving college with impressive-sounding qualifications and next to no genuine education. And yet eager employers would snap them up on graduation. Were the employers so easily fooled by the flowery course labels appearing on the graduates' transcripts? I do not think so. In the parlance of signaling theory these transcripts are known as *screening devices*. One personnel manager (of a financial services company) explained this to me candidly: "I have no doubt that economics courses, MBAs, etc. teach nothing I need my employees to know. If anything I need to reprogram them on the job. The courses they have taken encourage bad thinking." "But then," I asked, "why do you prefer to hire college graduates?" "Because," he answered matter of factly, "if these kids were willing (and able) to pay large sums of money in fees; if they submitted boring assignment after boring assignment without fail, and did not complain vigorously in the process; then there is a good chance that they are the kind of people who will appeal to my customers and do as they are told."

Thus there is a credible alternative to Professor Welch's thesis: Rather than an income distribution reflecting the human capital distribution, which in turn reflects the distribution of educational effort, we have the opposite chain of causality. The greatest predictor of a youngster's educational achievement is the socioeconomic status (that is, social class) of her or his parents. Thus if a college degree is correlated strongly with earning power, this link reflects the greater relative capacity of the well-to-do families to purchase, on behalf of their children, a passport that will see them through the better employers' screening device. Whereas in decades past bourgeois offspring would inherit the family shares, business or place in government without necessarily an MBA or some other degree, nowadays the same result is achieved through an increasingly expensive educational system.

Of course Professor Welch can always point to many real examples of individuals who managed to pull themselves up by their bootstraps, work nights delivering pizzas, get a degree in computer science, set up their own dot.com outfit, float it on the stock market and thereafter scale the higher echelons of the income distribution. Indeed the emergence of the "New Economy," riding on the coattails of the IT revolution, lends credence to that hypothesis. Whether this heroic example represents some rule or an exception to the rule is an empirical matter. What I am arguing here is that Professor Welch has presented no empirical evidence to support his implied, and never explicit, causality.[5] Before we make our minds up we need evidence on whether the clear correlation between educational status and earnings is explained better by Welch's human capital story or by the alternative explanation presented here, according to which college degrees are screening devices that merely translate parental socioeconomic success into higher average incomes for their children.

In summary, "In Defense of Inequality" comprises a subtly misleading defense of the status quo. Its author blends selectively incomplete data with hidden assumptions and trivially true hypotheses in order to tell a simple, unsubstantiated tale: Bad inequality is falling

5 If anything, the odds are stacked against him. For there is clear evidence that the positive link between earnings and educational status seems to be, according to his own evidence, ever present even in traditional sectors untouched by IT and the emerging new technologies. As for the latter, the increasing returns to scale that have characterized the megacorporations of the 20th century are also a characteristic of the New Economy. Thus the vast majority of, say, smart computer programmers are, today, as much at the mercy of monopoly capital as were the industrial workers at the dawn of the 20th century. They may enjoy swish cars and nice apartments but they work 12-hour shifts, appropriate only a tiny proportion of the "value" they produce, are as alienated from their products as coal miners used to be, and face crushing uncertainty in a volatile sector that offers them a serious prospect of being "burned out" by their 40th birthday (with next to no social security).

through the providential operation of market forces, good inequality is rising as investments in human capital result in increasing returns, and any attempts to curb inequality through the operations of the state are bound to throw a spanner in the works of this miraculous process.

On the last point, Welch laments the fact that "work is not essential for many to receive income. The non-earned sources of income, more available now than before, become increasingly attractive as the pay-off to working declines" (12). In true Ricardian style Welch is concerned that unearned income, a form of economic rent, throws sand in the wheels of progress. That would have been a reasonable worry had it not been so strikingly selective. For Professor Welch raises the alarm only with regard to a small portion of unearned income: the social security payments of the wretchedly poor. By contrast, the unearned income of the idle rich does not concern him, even if it constitutes the bulk of economic rent. Quite clearly he thinks that unearned income is fine unless you need it in order to survive.

3. *The AEA's Concession to Egalitarianism*

Simultaneously with Welch's vindication of inequality, the American Economic Association hedged its bets by publishing another article with the opposite take on the subject. In its *Journal of Economic Literature* (the AEA's lesser, though still well-respected, organ) the Association gave a platform to Philippe Aghion, Eve Caroli and Cecilia Garcia-Peñalosa, whose main argument is that inequality retards growth, curbs prosperity and enhances inefficiency.

Their largely neo-Keynesian case stems from what is known in the trade as New Growth Theory: excessive inequality reduces investment opportunities, worsens borrowers' incentives and generates macroeconomic instability. Why? To give a flavor of their reasons, consider a person who has next to nothing. First, in the real world (of imperfect capital markets), she stands no chance of borrowing in order to pursue some (small) business opportunity, regardless of how well motivated she is. Second, if she has so little to her name she has nothing left to lose. Thus she has far less incentive to work hard compared to one who is worried that, unless she tries harder, she will lose what she has. For both these reasons, inequality may lead to lower productive effort.

Their argument that inequality leads to macroeconomic instability goes something like this: Those who save are not the same people as those who invest. During a boom, investors accumulate debt and the demand for investment funds rises. But during this period the scramble for good investment opportunities intensifies and access to high yield technology declines. Meanwhile, due to increasing interest rates, saving rises. It is at that stage that saving overtakes investment and, when the gap between the two reaches a certain level, a slump occurs, pushing interest rates down and leading to an investment drought. The end results are unexploited production possibilities, investment volatility and lower growth. Where does inequality come in? The more unequal a society the sharper the distinction between those who save and those who invest. The sharper that contrast, the greater the resulting volatility and the lower the average rate of economic growth.

Once they reach their conclusion about the negative impact of excessive inequality on economic performance, they issue a clarion call for greater redistributive effort by the state. Who would oppose redistribution (other than the rich of course) if its effect would be to enhance, simultaneously, social justice *and* economic efficiency?

The dispassionate reader is left with little doubt that, whether right or wrong, Aghion *et al.* offer a more sophisticated analysis than Welch. They make good use of international data (not confining themselves to the United States), approach causality with great respect,[6] and ground their argumentation on a sophisticated view of capitalism as a capricious system prone to recession. This might not go as far as some of us would have liked in laying bare the dynamics of late capitalism that have generated the observed inequality; it still, however, manages to cover important ground. Nonetheless, if I were asked to express a view on who ought to be awarded the first Prize for Conspicuous Insights into Justice and Equality, my vote would go to Professor Welch!

4. *Professor Welch's Great Little Insight*

If my review thus far has been fair, the Welch article is rhetorically mischievous, statistically misleading and logically flawed. By contrast the Aghion *et al.* effort is sensible, sophisticated and respect-

6 For example they acknowledge that there is no simple causal linkage between equality (or inequality) and economic success (or growth) but, rather, that there are strong feedback effects between the two.

ful of the issue's complexity. So, why does my vote go to the former? It all hinges on Professor Welch's small, yet deeply insightful, point regarding the distinction between "good" and "bad" inequality; namely, that inequality comes not only in different magnitudes *but also in different forms*, some of which are inoffensive while others are objectionable. By contrast, Aghion *et al.* write as though inequality is like electricity or heat; namely, uniform in quality and variable only in quantity.

Before we appreciate this distinction, it is useful to note the intellectual heritages of the two articles. Aghion *et al.*'s can be traced to the modern founder of the distributive justice tradition: John Rawls (1971). Welch's neoliberal perspective is consistent with Robert Nozick's (1974) ingenious critique of Rawls. Of course it is unlikely that any of these economists are aware that they are revisiting this particular 1970s battlefield; after all, few economists read books these days.[7] Unfortunately for Aghion *et al.*, ignorance of past battles penalizes disproportionately those who try to re-run a debate on the losing side.

Rawls (1971) had directed immense intellectual energy and creativity at the problem of unearthing the uniquely rational, and thus just, distribution of outcomes (or end-states). To see that Aghion *et al.* fall, perhaps unwittingly, under Rawls' tutelage, recall *the* central tenet of their paper: that the current distribution of income and wealth retards growth and impedes economic efficiency. The implication is that there exists an *alternative* level of inequality (to the one observed) which strikes the "right" balance between equity and efficiency. In other words, there exists some socially "optimal" degree of inequality (not dissimilar to the optimum operating temperature for an internal combustion engine). And if inequality varies only in magnitude, the task ahead is to discover, and achieve through redistribution, this *optimal degree of inequality* (ODI henceforth).

Rawls (1971) is, of course, the original source of the ODI notion, complete with a mental experiment that could guide a well-meaning liberal to work out for herself how much inequality our society, if rational, should tolerate.[8] Despite the experiment's splendid logic,

7 Welch does not quote Nozick (1974); nor do Aghion *et al.* quote Rawls (1971). We should not be surprised though. A recent survey has revealed that, among all disciplines, academic economists read the fewest books per head.

8 Rawls' (1971) experiment involves a hypothetical scenario according to which individuals select, from a menu of alternative income distributions (and, generally, of social arrangements), the one under which they would want to live, *without* knowing their income (position) in their chosen income distribution (or social arrangement).

it featured a well-exposed Achilles' heel: Shakespeare had to go to the trouble of telling us precisely *how* Macbeth got his spoils before we, the audience, could surmise that he did not deserve them. Nozick's related point was that we cannot judge the "rightness" of a person's wealth or indeed a society's wealth distribution unless we know *how it came about*. In this sense, end-states are incommensurable and thus there can be no morally, socially or economically optimal end-state. At a normative level, all that matters is the fairness of processes.

By adopting a Rawlsian position, Aghion *et al.* only tied a ball-and-chain to their ankles. They weighed themselves down and became vulnerable to the Nozickian criticism that their (covenant-liberal) case for less inequality (and against free-market liberalism) is predicated on the incoherent notion of ODI. Nozick's two closely related arguments had invalidated their thesis even before it was scripted: a) end-states cannot be compared on the grounds of justice without information on the process that engendered them, but also b) one person's interests (or utility) are incomparable with those of another and, therefore, Cressida's welfare cannot be compared meaningfully with that of Troilus. Only the respect of the other's right to non-interference can be judged from a normative perspective; not what they own or how they feel.

Welch, by contrast, is unencumbered by a weakness as obvious as that afflicting Aghion *et al.*'s reliance on ODI. Of course he can be accused of inconsistency too, but such charges can be blunted without too much drama. For instance, like most free-market liberals of his ilk, he often slides towards end-state justifications of inequality and the free market; *e.g.*, inequality is defended because of its importance in fueling growth, and competition is glorified because of its desirable results. However, if pressed, Welch has a fallback position that Aghion *et al.* lack: He is free to apologize for his sloppiness and drop all end-state arguments in favor of the inequality generated by competitive markets. He may then re-phrase his defense of the latter by focusing exclusively on the liberty it affords consenting adults to do as they please. Subsequently, with a distinct grin on his face, he might add: "And if good outcomes ooze out of unadulterated competition, these are welcome by-products which we might *also* be interested in."[9]

9 This is, in fact, not dissimilar to Kantians gloating that good things come out of being good, even though this is not the reason why we ought to be good; *i.e.*, being genuinely good is to be good for nothing.

Despite their technical expertise, Aghion *et al.* fail to overcome the fundamental weakness inherent in Rawls and his followers (*e.g.*, van Parijs, 1995). Welch, on the other hand, not only inherited a less inconsistent tradition; he also honed it significantly. How? With his idea regarding "good" and "bad" inequality! To see this, recall that Nozick had questioned the justice of redistributing $1 from Achilles to Agamemnon without knowing where that $1 had come from. Then he set out clear conditions that fair-minded people would endorse as conditions for just ownership. One of those was labeled "justice in transfers" and boils down to consensual exchanges. Nozick, therefore, proceeded directly from the uncontroversial point that process matters to the partisan conclusion that, as long as the contracts and transactions underlying the wealth of the rich were voluntary, the rich are entitled to their wealth and anyone who contemplates forcefully redistributing it is profoundly unjust.

The political consequence of Nozick's "justice in transfers" condition is that it exonerates property owners and challenges any notion of forceful state-mediated redistribution. With Nozick at the philosophical helm, free-marketeers ask: If the rich have done nothing wrong while acquiring wealth, would redistribution not amount to theft? The only answer in anger that stands a chance here is this: Your rich, Mr. Nozick, are doing *plenty* wrong in the *process* of enriching themselves. Alas, covenant liberals, such as Rawls and Aghion *et al.*, have no stomach for such bravado, paralyzed as they are by the possibility of being labeled, God forbid, "radicals." Twenty-seven years after Nozick's steamroller passed over them, they are still consumed by an ill-fated search for ODI. They remain oblivious to the fact that, unless they can point to a fault in the capitalist *process*, casting scholarly arguments in favor of greater equality hands victory to Nozick, Welch and their merry new-right warriors on a silver platter.

Thankfully, the right's comprehensive intellectual triumph has caused them to be careless and boastful. Not content to rub our face in glorified inequality, Welch wants to pose as a New-Age guy, sensitive to the sins of the past and to the "bad" inequality of yesteryear. Though he indulges his rude vitality in pursuit of a hideous cause, we ought to be grateful to him. For instead of wearing down all opposition to the idea of inequality as a public good, Welch has, unwittingly, handed us a priceless opening. His acknowledgment that black–white wage differentials in the 1960s were of the "bad" type is like a dynamite keg in Nozick's philosophical foundations. For this inadvertent contribution, he wins my vote. To capitalize on Welch's gift, however, we need to abandon ODI and all theoretical notions of equality in end-states; instead the fight must be taken to Nozick's and Welch's own terrain and the debate on what constitutes *free* and *efficient* processes of wealth production must be re-opened.

5. *Freedom, not Equality*

The French revolutionaries' triptych lost its dynamism long ago. Liberty has triumphed over equality, while fraternity no longer rates a mention. Once egalitarianism shed its early radicalism and its bond with fraternity, the freedom to improve one's condition was always going to triumph in the war of narratives over the limp notion of some "optimal," terribly static, *egalité*. To escape from this *cul de sac* the left must acknowledge the futility of its blind devotion to end-state equality and seek to ground its egalitarianism on the still-vibrant idea of liberty. To his dismay, no doubt, Professor Welch's idea is helpful in this regard.

Inequality is OK, Welch implies strongly, as long as it does not rest on unreasonable restriction of anyone's freedom to enjoy self-ownership and to put one's talents and energies to creative and productive use. On the other hand inequality is "bad" when founded on factors over which individuals have no control.[10] In this vein, we may define an income distribution as badly unequal if the riches of the well-off flow from the violation of others' *inalienable rights*. And what right is, or ought to be, more *inalienable* than freedom? To give a pointed example, a republic of slave-owners is unacceptable not because of the prevailing degree of income inequality but, rather, because of the inequality's source; namely, the procedural violation of the slaves' freedom. Moreover, no redistribution of income from masters to slaves, however generous, will rectify the situation as long as the slaves remain slaves.

If we embrace this position, we shall become, like Nozick and Welch, uncompromising in our attitude to inequality. Any inequity

10 Paradoxically, Welch is verging on ultra-leftism. For he calls inequality "destructive whenever the low-wage citizenry views society as unfair . . ." He seems to forget that the less well off, through a selective assessment of their situation, will often feel they deserve more, even when they do not. Thus Welch runs the risk of dismissing, unreasonably, all observed inequality as bad.

will be placed either in the "justified" basket, and left alone, or in the "unacceptable" basket whose contents must be eradicated in their entirety. The price of coherence is that observed asymmetries in income and social status are either to be condoned fully or condemned utterly. Compared to the social-democratic, center–left, covenant-liberal project (which treats inequality as homogenous and seeks to calibrate it at some optimal level), this is a truly radical position.

The question then becomes: What are the inalienable rights according to which the various socioeconomic processes shaping the income distribution will be endorsed or denounced? Having retreated from their past sins (*e.g.*, their opposition to the anti-slavery movement in the 19th century, their support of Apartheid in South Africa, their allergic reaction to the women's movement, etc.), free-marketeers insist that there is only one such inalienable right: *freedom*. Welch goes a little further: *freedom to succeed unencumbered by factors beyond the person's control*. What are these factors? He refers to two: skin color and gender. Is membership in a subservient social class not such a factor? Or is it that people choose which class they shall belong to? Welch does not say. He maintains the right's strict boycott on class by omission.

In the past the left has countered the right's hypocritical dedication to freedom by invoking the French triptych and arguing that freedom with drastic inequality will not do. This strategy backfired politically and failed philosophically. It must be abandoned. Instead, Welch's litmus test for the Good Society is the only one that allows for a coherent critique of the status quo and of the hideous levels of observed inequality. To steal the right's thunder, the left must find creative ways of recasting its critique of globalized capitalism on the basis of the latter's *illiberty*. This is, of course, just what Marx used to do.

6. *Inequality as Illiberty*

Free-market liberals insist on a procedural definition of freedom. In other words, one's freedom has nothing to do with outcomes and everything to do with the process that brought them about. Such a strict embargo on the outcomes of human relations enables the right to champion private property as the sacred core of a good society. However, a procedural definition of freedom cannot, by itself, render private property sacrosanct. Free-market liberals need two additional assumptions: a) that private property accumulates *via* a process of voluntary transactions, and b) that "voluntary" and "free" are interchangeable terms.

Of course, neither of these assumptions survives serious scrutiny. The right celebrates private property as an achievement of individual effort and entrepreneurship which ought to be cooperatively protected. History, however, exposes this view as an elaborate fabrication. Private property, from capitalism's inception onward, was always an entirely collective achievement privately appropriated through the active support and complicity of, and direct coercion exercised by, the state. Private property would neither have arisen nor propagated to the four corners of the planet without states able and willing to enforce violently a set of laws that restrict access and impose exclusion. The notion that the state is the natural enemy of those whose income derives from private property is fanciful. So is the second assumption, namely that consent equals freedom. Is there a viler slavery than that to which the slaves consent?

So, procedural freedom cannot perform the task assigned to it by its rightist usurpers, unless it is supplemented with these two assumptions. Therefore procedural freedom is, in itself, politically untainted and fits as naturally into the left's project as it does in the right's. Instead of recoiling in fear when procedural freedom is in the air, the left ought to embrace it enthusiastically and recognize what it once knew well: that the problem with capitalism is the cultivation of wholesale unfreedom, the alienation of winners and losers alike, and the downright irrationality of a society consumed by class struggle. Why allow the right to claim as its own one of the juiciest ideas Karl Marx bequeathed us? Of course, the question remains: How can procedural freedom be put to work for purposes diametrically opposite to those of Nozick and Welch? Welch's notion of "bad" inequality offers a small but important hint.

To make sense of "bad" inequality from a procedural perspective, we need to examine which attribute of the socioeconomic process is responsible for it. As we have seen, it cannot be some interference with formal rights and freedoms; *i.e.*, some violation of Nozick's "justice in transfers." Welch's example of U. S. black–white wage differentials in the 1960s, as an instance of "bad" inequality, could not be due to *forced* transactions. Slavery had been well and truly abolished by then. So, what was it? Of course Welch does not tell us. On the other side of the debating fence Rawls and his neo-Kantian followers have no answer either, since they first define formal freedoms as inalienable primary goods and then immerse themselves in the quest for an ODI among secondary, material, goods. The only answer available comes from C. B. Macpherson (1973) and Amartya Sen (1999), who promise to strike some balance between the liberal credentials of a) the process that determines the wealth distribution, and b) the wealth distribution itself.

Their simple idea is that freedom of choice is only meaningful in relation to the breadth of the feasible set. The freedom to turn offers down is what makes a transaction free and its outcome just, Macpherson tells us. Sen adds a semiotic insight by pointing out that fasting only makes sense if the person has the option of eating (as opposed to a starving peasant in the middle of a famine). In short, the freedom and nature of a transaction (and thus the justice in the end-state that this transaction occasions) relies on two conditions. First, it must be voluntary. Second, both transacting agents must have a "sufficiently" wide range of options to choose from prior to agreeing to transact with one another. It is this second condition that the right has traditionally ignored, strategically no doubt. Welch's "bad" inequality breaks ranks with his neoliberal comrades by acknowledging the ways in which an outcome can flow from voluntary exchanges and *still* be "badly" unequal. Indeed the only coherent explanation for Welch's "bad" inequality is that it is due to transactions which, though voluntary, are illiberal as a result of the systematic imbalance in options of the two sides (*e.g.*, the circumscribed choice set of the black community in the 1960s).

To make this point more precisely, consider the following abstract situation: Some "proposer" P suggests a binding, mutually advantageous contract to a "responder" R and R consents (*e.g.*, an exchange of goods, a job offer, an arrangement between a bourgeois couple and a surrogate mother). A free and fair exchange? According to Nozick, yes. According to Macpherson and Sen, however, the fact that R voluntarily accepted P's offer does not guarantee that she was not *forced* into it; that she did not accept, grudgingly, a loathsome deal due to lack of alternatives. If so, we shall never know whether her decision was free or coerced unless we know her *ex ante* relative "outside options." Suppose that, were she to turn P down, her well-being would fall below some minimum level, say ρ (*e.g.*, declining P's offer leaves her on the verge of starvation). Suppose further that R was unfree in this sense while, simultaneously, P was guaranteed a minimum level of "sustainable" well-being, say π, *irrespective* of whether R turns his proposal down or accepts it. Such asymmetries in the contracting parties' "outside options" can be given the following twofold interpretation: a) P had the capacity to make R an offer that she would be unfree to refuse (*i.e.*, the price of rejecting it would be an unsustainably low level of well-being, *e.g.* malnutrition); and b) R's acceptance of P's proposal would, potentially, lead to a "badly unequal" outcome (*viz.* the distribution of well-being).[11]

The above illustrates how Macpherson's and Sen's focus on the choice set constitutes a direct assault on Nozick's (and, indeed, Rawls') assumption that freedom is a purely procedural matter.[12] For if their effective liberty to "say no" to each other's proposals depends on ρ and π, in addition to the formal right to refuse to cooperate, then their freedom ceases to be a matter of process alone and varies with the *ex ante* distribution of endowments (*i.e.*, of prior states or outcomes). However, this twist seems to be taking us in the "wrong" direction. Not only does it fail to foster a procedural account of justice, but it drags liberty into the domain of outcome-based concepts as well. Undoubtedly, Macpherson's and Sen's emphasis on the importance of the choice set constitutes a significant conceptual shift, but does this shift make it possible to escape end-state accounts of freedom and justice and replace them with procedural ones? Does a concern for substantive freedom map directly onto the procedural theories which, as claimed earlier, the left must turn to if it is to take the ideological fight into a terrain so far monopolized by the right?

Not automatically. For as long as π and ρ are treated as exogenous prior states, they will remain fixed data points incapable of transcending static assessments of given social arrangements. Nevertheless, although bringing into focus the agents' choice sets does not, in it-

11 For consistency, we must accept that P is unfree not to make an offer to R if failure to do so would lead him to a level of well-being below π. And if R's well-being is higher than ρ regardless, then an agreement resulting from P's offer to R would be such that P would be the victim of "bad" inequality.

12 Both Nozick and Rawls identify freedom with the formal right to consent or not. Their difference is that, while Nozick reduces justice to freedom and identifies the latter with formal rights (but no particular level of well-being), Rawls assesses the justice of the actual agreement or trade on the basis of P's and R's well-being *ex post* (that is, after the agreement has been signed and sealed). By contrast, Macpherson and Sen agree with Nozick that freedom and justice go hand-in-hand but insist that, *ex ante* (*i.e.*, before they enter into any agreement), contracting parties must have guaranteed minimum levels of well-being above π and ρ, respectively.

self, catapult us from an outcomes-based to a procedural criterion for justice and liberty, it brings us tantalizingly close: indeed, a fully procedural approach emerges as soon as we acknowledge the endogeneity and historical contingency of π and ρ. To see how, let us consider an *evolving* process in which countless people interact, transact, produce and divide the resulting goods. Some propose deals and attempt to enforce them (the Ps), others respond to them (the Rs). With communal (or evenly distributed) property rights over resources, the distribution of P and R roles is largely irrelevant.[13] Otherwise, this distribution is crucial in that it identifies the stratum of residual claimants; that is, those who keep the surplus resulting from any exchange (*e.g.*, profit from a productive relation, the unforeseen feelings of destitution in the case of commercial surrogacy). And to the extent that the generation and distribution of residuals is the motive power of all major societal forms (*e.g.*, patriarchal, feudal, capitalist), history appears as an endless feedback between the skewed accumulation of residuals, the unequal distribution of social roles and, importantly, the perceptions of its members regarding the liberty and justice of their circumstances.

In brief, a process of asymmetrical residual accumulation (reflecting prior asymmetry in resources) feeds into discriminatory future assignments of the P and R roles and, subsequently, of their skewed (relative) outside options. Specific patterns of discrimination thus rise and unseat previous ones. Some are based and sustained on mere convention (*e.g.*, the dynamics of sexism and racism) while others become enshrined in law (*e.g.*, property rights, family law) and are enforced by the instruments of the state. One of the by-products of this *process* is the changing perceptions regarding the π and ρ values and, thus, a distribution of views on who is genuinely free and who the victim of (distributive) injustice. Thus our capacities and capabilities, our substantive right to "say no" to pressing offers, as well as our normative beliefs about what our society is or ought to be like, all evolve as part of the same all-encompassing process of material and ideological reproduction. End-state inequality is but a snapshot of this process in the domain of outcomes, an instantaneous realiza-

13 Paul Samuelson, the Nobel winning economist, once commented that it does not matter whether capital employs labor or labor employs capital. Of course this would have been true only if labor could be disembodied from workers and be put to work in their absence, just as capital can be physically separated from capitalists!

tion of it. For that snapshot to seem "bad" to (some of) those living within it, the evolution of normative beliefs must have reached a critical stage at which π and ρ perceptions have been generated, imparting a feeling (within segments of society) that freedom and justice are in short supply.

At times the victims of "bad inequality" resist their fate collectively. In exceptional circumstances their coalition attracts some of the privileged who are lured by the warm spirit of solidarity. However, more often than not "bad" inequality's victims deal with its daily impact through a suitable, subconscious re-orientation of their attention; often altering their perception of the ρs and the πs in order to lessen the psychological distress. In the worst cases of illiberty, they begin to believe that they get what they deserve.[14] Meanwhile, parallel processes evolve in the minds of the arbitrarily privileged, reinforcing the evolved asymmetries. As these ideological "repercussions" of the main process of residual accumulation influence actions, they feed back into the main process and, in a never-ending circle, affect its evolution. Through this lens, neither liberty nor justice make much sense in an abstract, static framework. Once the πs and the ρs have been endogenized, we are, at long last, well and truly in the realm of procedural accounts regarding the freedom to disagree as well as the justice of agreements.

Suddenly egalitarianism gets a chance to soar again, to be rescued from dead-end notions of equality and recast in terms of equal access to *freedom from the systematic extractive power of others.*[15] For this chance to be seized, there is but one prerequisite: A commitment to examining the overarching social process that simultaneously generates the material outcomes and our subjective beliefs regarding our rights and freedoms. The question is: How far down this enlightening corridor will we travel? However inviting it might be, taking it requires a certain recklessness of mind, since it will not be long before someone notices that such intellectual endeavors used to be known as exercises in "historical materialism." Sen (1999) took a peek inside that corridor but hesitated. Was it a reluctance to offend po-

14 What Marx used to call "alienation" and psychologists nowadays refer to as "the removal of cognitive dissonance."

15 "Extractive power" is Macpherson's (1973) expression. In terms of our symbolic account above, Macpherson would call R genuinely free if she were truly immune to P's designs on her (*i.e.*, to his "extractive power") courtesy of having access to a decent fallback position (of at least ρ welfare value) if she feels like refusing his offers.

lite society (with a return to his Marxist roots) that deterred him from investigating how capitalism reproduces and accentuates the systematic imbalances in people's choice sets? I cannot say. But, whatever the reason, Sen's decision not to "historicize" these choice sets explicitly prevented him from a) reclaiming procedural freedom from his neoliberal critics, and b) scrutinizing properly the ways in which the likelihood of widespread freedom and justice is diminished by *specifically* capitalist social relations.

By contrast, Macpherson's explicitly Marxist agenda paves the ground to endogenous outside options reflecting the ongoing capitalist relations of production. His analysis "dynamizes" unfreedom by defining it, first, as the historically determined exercise of systematic extractive power and, second, as lack of opportunities to develop one's capacities. By linking each of these unfreedoms to the evolution of the parallel logics of capital accumulation and possessive individualism, he hints at ways in which we may transcend the dilemma between a purely outcome-based (Rawls) and a purely process-based (Nozick) definition of liberal justice. Indeed, a Macpherson-inspired dialectical narrative on liberty and justice makes the Rawls–Nozick outcome-versus-process debate seem awfully unsophisticated. Process is everything, Macpherson would concede to Nozick, but only if it focuses on the overarching social process with its perpetual *feedback* mechanism between outcomes and normative perceptions (including those regarding freedoms, justice and rights). In this explicitly *dialectical* context, freedom and justice are the joint products of continual oppositions in the domain of *both* actions, *and* outcomes.

So, it turns out that the left does not have to fall behind one of the two camps in the Rawls–Nozick, Welch–Aghion quarrel. Granted the intellectual superiority of procedural theories, the time has perhaps come for us to recall that the grandest of procedural theories is part of our heritage and, also, analytically richer than anything Nozick and Welch have on offer. There are two snags, however. First, there is the small matter of the image problem afflicting its name: at the very sound of "historical materialism" many well-meaning, progressive intellectuals run for cover. We only have ourselves to blame for this and should consider calling it something else. More worrying, there is the second snag: the danger that, as in the past, those who start with the best dialectical intentions end up either staunch determinists or irritating relativists.

With regard to the last point, critics of the call for a return to historical materialism will point out that, if we are serious about a dialectical analysis of the symbiotic and constantly evolving relation between freedom and fairness, we must acknowledge the indeterminacy of this process. They will ask us: since the criteria for freedom and justice (*e.g.*, our πs and ρs) evolve indeterminately through history, are you not forced to accept the relativist position that rational criticism of current levels of freedom and justice is impossible? This need not be so. One example of how we can combine rationalism with an acknowledgement of the indeterminacy of history, and hence with the historical contingency of liberty and justice, is to reinvoke Rawls' veil of ignorance, albeit in a manner that keeps the door firmly shut on Nozick. In Rawls' schema, those who care about distributive justice work out the ODI by imagining that they are choosing among different social outcomes. What if we were to imagine that, behind the veil, we are choosing not among different social outcomes but among different social *processes*?

For instance, consider a rational person who, without fear or prejudice, attempts logically to assess the justice of contemporary capitalism; its evident successes, inequities and the extent to which people living under it are substantively free. She could go about her arduous task by imagining that she has to select the type of social relations of production she would like to live under *as if* behind a veil of ignorance (*e.g.*, in ignorance of which class, gender, race or social stratum she would belong to in her process of choice). Would any genuinely rational person ever choose the processes of contemporary capitalism? Of patriarchy? Of racism? Would she choose a society whose daily reproduction is founded on a ruthless segregation between those who earn an unsafe living from their alienated, undervalued and periodically unemployed labor, and those whose own alienation results from a frenzied struggle to maintain their extractive power over the former, while all along inventing moral reasons for the inevitable end-state inequality? Or would she opt for an alternative?

Of course, the answer depends on whether she can imagine at least one alternative social process more attractive than the one currently generating inequalities of spiraling scope and scale. Radical egalitarianism will regain its impetus only if it helps her do this. To this end, vulgar economics and bourgeois political philosophy are more of a hindrance than a help. What we need is an exhaustive materialist study of the present with a view to discovering possible trajectories to a decent future. Only this time, we had better leave plenty of room in it for the subtle dialectical approach to freedom of a Macpherson, the lyrical dedication to human values of a Sen, the concern for just outcomes of a Rawls, the intransigent defense of formal liberty of a Nozick. Would it not be deliciously ironical if Professor Welch's indiscretion put us on the right track?

Summary

Inequality is on the rampage and is breaching all the defenses that postwar institutions had erected to curb it. At the ideological level, the search for the optimal tradeoff between freedom and justice has proven a costly distraction and a burden on egalitarianism. A comparison of the two studies that gave the impetus to this paper confirms this: Welch's crude celebration of the status quo packs more insights on how egalitarianism ought to bounce back than the well-meaning, and more sophisticated, paper by Aghion *et al.* One simple lesson emerges: The left must respond creatively by adopting a dedication to freedom as uncompromising as that of the intransigent right. Only then can the spotlight fall on the numerous ways in which the monopoly of productive resources by one social class makes freedom impossible for the many and, as a direct *by-product*, concentrates wealth in the hands of the increasingly few. The pressing question, at this early stage, is: Is today's left so keen to disassociate itself from its Marxist heritage that it is happy to lose every narrative struggle against the fastidious right? Or are egalitarians ready to cease being guided by an incoherent notion of suburban equality? Until they are, unsophisticated thinkers like Finis Welch will remain the only plausible, respectable and, above all, radical commentators on inequality.

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