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INTRODUCTION

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CONTENTS

INTRODUCTION

Cotton M. Lindsay

Two separate communities evidence great interest in the distribution and possible redistribution of income. One consists of social scientists who have devoted generous resources to the study of these topics over the past century. Another community, inhabited by political rhetoricians, is perhaps larger and surely more vocal, yet manages to remain isolated from the results of scientific analysis.

Two questions are of concern to both communities: (1) Why does the government engage in income redistribution? (2) What are the effects of such government policies? These questions are made the more interesting by their paradoxical scientific answers.

An innocent commentator would probably reply to the first question that the government seeks to make the distribution of income "fairer." This objective certainly is dear to the hearts of those in the province of rhetoric. And yet, detailed analysis of redistributional results of many government actions indicates that the direction of this income transfer is the reverse of what most people are alleged to regard as "fair." From the Social Security system and minimum wage legislation to government support of agricultural prices and higher education, one sees an array of programs which generally end up serving individuals in the middle and upper-middle classes as primary beneficiaries. Taxes fall on both the rich and the poor, but the poor are disproportionately underserved by these programs.

Irving Kristol and Peter T. Bauer speak from the scientific community, and their comments should prove illuminating to those interested in analysis of income distribution and its social implications. Kristol points out the foolishness of debating the "morality" of a market-determined distribution of income compared to some nonmarket alternative. The mechanism and process by which individual incomes are determined is itself a reflection of the prevailing values in a society, and these orientations and perspectives are as unlikely to be influenced by social scientists as they are by politicians.

Some of the fallacious statements made in this nether world of political slogan and shibboleth are taken to task by Bauer. One is that the processes of income *generation* (production) are independent of, and may be functionally separated from, income *distribution*. But redistributional activities by governments do affect the level of aggregate income. This has been repeatedly confirmed, not only by virtue of their effects on individuals' incentives to work, save, invest, develop, and bear risk, but through perverse modifications of the incentives faced by business organizations. Threats of punitive action against firms which earn "excessive" profits have been shown to lead directly to reductions in efficiency, as well as to such socially undesirable consequences as sex- and race-based discrimination in hiring, and the sort of expense-account extravagance decried in the recent Presidential election. Potential profits are simply consumed in these and other undesirable and less efficient ways.

Another fantasy attacked by Bauer is the claim that the incomes of the rich are the result of expropriation and exploitation, while those of the poor are legitimately obtained. Facts gleaned from a Brookings Institution study of the affluent may shed light on this allegation.[1] Although it is true that most of the earnings of the rich represent "property" income, the wealthy typically do not idle about clipping coupons. The study indicates that three of four persons with incomes over $300,000 per year manage their own portfolios. Few take advantage of special tax provisions or "loopholes," with the exception of the capital gains provision, and most work diligently. The average high-income person surveyed works forty-eight hours per week and takes only two weeks' vacation per year. Among those with incomes over $200,000, more than one in three works more than sixty hours per week. In contrast, roughly forty percent of the real incomes of the poorest twenty percent of United States families are government-provided benefits in-kinds, not requiring productive effort on the part of the recipients.

Some imaginative distortion attaches to the reported extent of income diversity in market-organized economies. From one-third to one-half of the diversity appearing in the

[1] Robin Barlow, Harvey E. Brazer, and James N. Morgan, *Economic Behavior of the Affluent* (Washington, D.C.: Brookings Institution, 1966).

most popular measure of income inequality (*i.e.*, the Gini coefficient) results from such factors as the size of family and the pattern of individual income over the life cycle. A large part of the remainder is attributable to unequal education, which even some market detractors would not regard as an illegitimate source of disparity. Also biasing this measure of disparity upward is the failure to include transfers in-kind, such as public housing, food stamps, and Medicaid, as income to those receiving them. The inclusion of such in-kind transfers has recently been estimated to increase the relative share of income going to the lowest quintile in America by eighty percent. Nor is it clear that income disparities in market economies are greater, however measured, than the apparent inequalities which exist in "egalitarian" regimes such as those behind the Iron Curtain. Such statistics are hardly advertised by those governments.

It may be that each of the groups mentioned in the introductory paragraph — the analytical and the rhetorical — is speaking principally to itself in excessive preoccupation with the extent of income disparity and how income "ought" to be distributed. The rhetoricians have nothing to talk about other than "social justice." The analysts can go far to explain how income *is* distributed — but they have floundered and distracted in normative attempts to conclude how income *should* be distributed. Society at large apparently accepts a modest, pragmatic concept of just distribution, *viz.*, income received in whatever amount (above some small minimum) is to be "earned." Behind the camouflage of the labor theory of proper distribution, the marginal product valuation approach, and, most recently, the social welfare function, probably lies a sensible, if intuitive, notion of "deservingness" which is agreeable to the public. Economists may find it advisable to bow to this community intuitive judgment and fret less over the "justice" of income differentials.

WHAT IS "SOCIAL JUSTICE"?

Irving Kristol

I recently received a letter from a magazine which is preparing a special issue on the distribution of income in the United States. The letter asked for my thoughts on such questions as: "How should a society determine wages and salaries? Does our society do a fair job of distributing income?" And so on.

The issue to which these questions are addressed is certainly a crucial one. It is nothing less than the issue of "social justice" — or what used to be known, among political philosophers, as "distributive justice." The change in terminology, as it happens, has its own signficance; in politics, the language we use to ask questions is always more important than any particular answer. "Distributive justice" is a neutral phrase — it points to a problem without suggesting any particular solution. "Social justice," however, is a loaded phrase: It blithely suggests that "society" ought to determine the distribution of income. This assumption is now so common that few people realize how controversial its implications are.

The social order we call "capitalism," constructed on the basis of a market economy and private rights to uses of property, does *not* believe that "society" ought to prescribe a "fair" distribution of income. "Society," in this context, means government — "society" is voiceless until the political authorities speak. And the kind of liberal society historically associated with capitalism was, from its very beginnings, hostile to any political or "social" definition of distributive justice.

It is the basic premise of a liberal-capitalist society that a "fair" distribution of income is determined by the productive input — "productive" as determined by the market — of individuals into the economy. Such productivity is determined by specific talents, general traits of character, and just plain luck (being at the right place at the right time). This market-based distribution of income will create economic incentives and thereby encourage economic growth. As a result

NOTE: This essay was originally published, in slightly different form, in *The Wall Street Journal*, August 12, 1976. It is reprinted with permission of *The Wall Street Journal* of such economic growth, everyone will be better off (though not necessarily equally better off). The economic growth that ensues may itself shape society in ways not everyone might like. But a liberal-capitalist order does not — except in extraordinary circumstances — concede to any authority the right to overrule the aggregate of individual preferences on this matter.

In contrast, non-capitalist societies — whether pre-capitalist or post-capitalist — have a very different conception of "fairness," based on one's contribution *to the society*, not merely to the economy. In such non-capitalist societies, economic rewards are "socially" justified, as distinct from being economically justified. Thus, in the Middle Ages it was thought to be fair to compel ordinary people to support the church and the clergy, whose activities were deemed to be of major social significance and social value. Similarly, in the Soviet Union today the Communist Party does not have to defend its budget on any economic grounds — the value of its contribution to the polity as a whole is put beyond question. Such societies, of course, place no high valuation on individual liberty.

Obviously, there is no such pure type as "a capitalist society" or "a non-capitalist society." All non-capitalist societies recognize, to one degree or another, the importance of market activity and material welfare. They therefore will allow differential rewards — again, to one degree or another — based on one's productivity in such activity.

Similarly, all capitalist societies recognize, to one degree or another, that there is more to life than economic growth or material welfare, and they therefore make some provision for differential rewards based on one's effectiveness at literary criticism, music, and philosophy. Indeed, it can be cogently argued that the "openness" of a capitalistic society is maximally conducive to most sorts of individual development.

Still, though "pure" types may not exist, the types themselves do, in however impure a form. And there are three important points to be made about these different conceptions of a good society and the principles of "fairness" in income distribution by which they operate.

(1) There is no rational method which permits us to determine, *in the abstract,* which principle of distribution is superior. It is absurd to claim that capitalism, anywhere, at any time, is superior to non-capitalism — or vice versa. Any such judgment is bound to be contingent — *i.e.*, based on the particular society's history and traditions, on the attitudes and social habits of its citizenry, and the like. There is no point in arguing that a particular society "ought" to be capitalist or socialist if the overwhelming majority of the people are not of a mind to be bound by the different kinds of self-discipline and imposed constraints that these different political philosophies require, if they are to work. And this, of course, holds true for all large political ideals. Which is why Jefferson, living in Paris before the French Revolution, could write — in all good republican conscience — that the French people were not "ready" for republican self-government, and that it would be a mistake for them to try to establish it immediately.

(2) A distribution of income according to one's contribution to the society — to the "common good" — requires that this society have a powerful consensus as to what the "common good" is, and that it also have institutions with the authority to give specific meaning and application to this consensus on all occasions. Now, when you have such a consensus, and such authoritative institutions, you do not have — cannot have — a liberal society as we understand it. It can certainly be a good society (if the values behind the consensus are good); but it will not be a liberal society. The authorities which represent the "common good," and which distribute income in accordance with their conception of the common good, will — with a clear conscience — surely discriminate against those who are subversive of this "common good." They may, if they are broadminded, tolerate dissidents; but they will never concede to them equal rights — even if equality is a prime social value. The dissidents, after all, may be those who believe in inequality.

(3) A liberal society is one that is based on a *weak* consensus. There is nothing like near-unanimity on what the "common good" is, who contributes to it, or how. There is not utter disagreement, of course; a liberal society is not — no society can be — in a condition of perpetual moral and political

chaos. But the liberty of a liberal society derives from a prevalent skepticism as to anyone's ability to know the "common good" with certainty, and from the conviction that the authorities should not try to define this "common good" in any but a minimal way. That minimal definition, in a liberal society, will naturally tend to emphasize the improvement of the material conditions of life — something that very few people are actually against. A liberal society, therefore, will be very tolerant of capitalist transactions between consenting adults (to use Robert Nozick's marvelous phrase), because such transactions are for mutual advantage, and the sum of such transactions is to everyone's material advantage. And, consequently, a liberal society will think it reasonable and "fair" that income should, on the whole, be distributed according to one's productive input into the economy, as this is measured by the marketplace and the transactions which occur there.

In sum and in short: the distribution of income under liberal capitalism is "fair" if — and only if — you think that liberty is, or ought to be, the most important political value. If not, then not. This distribution of income under capitalism is an expression of the general belief that it is better for society to be shaped by the interplay of people's freely formulated and expressed opinions and preferences than by the enforcement of any one set of values by government.

But there are many people in this world — there have always been many people in this world — who do not believe that liberty is the most important political value. These people include sincere dogmatists. They believe they know *the* truth about a good society — they believe they possess *the* true definition of distributive justice — and they inevitably wish to see society shaped in the image of these true beliefs. Sometimes they have prized religious truth more than liberty; sometimes they have prized philosophic truth more than liberty (*e.g.*, the Marxist philosophy); and sometimes they have prized equality more than liberty. It is this last point of view that is especially popular in some circles — mainly academic circles — in the United States today.

Thus Professor Ronald Dworkin — one of our most distinguished liberal legal philosophers — has recently written that "*a more equal society is a better society even if its citizens prefer* *inequality*." From which it follows that "social justice" may require a people, whose preferences are corrupt (in that they prefer liberty to equality), to be coerced into equality. It is precisely because they define "social justice" and "fairness" in terms of equality that so many liberal thinkers find it so difficult genuinely to detest left-wing (*i.e.*, egalitarian) authoritarian or totalitarian regimes. And, similarly, it is precisely because they are true believers in justice-as-equality that they dislike a free society, with all its inevitable inequalities.

As one who does like a free society, I have to concede to these people the right to hold and freely express such opinions. But I do find it ironical that their conception of "social justice" should be generally designated as the "liberal" one. Whatever its other merits, an authentic attachment to liberty is not one of them.

EGALITARIANISM: ART OF THE IMPOSSIBLE

Peter T. Bauer

I

The wide economic differences between people in an open and free society result from differences in aptitudes, motivations, and circumstances. State action to remove these economic differences entails such extensive coercion that the society ceases to be open and free. Here lies the central dilemma for egalitarians. The implications of the dilemma and of the persistent, widespread failure to recognize them form the central argument of this essay.

II

A discrepancy between an assumed norm or expectation and social reality is commonly described as a "social problem." Inasmuch as social scientists are largely preoccupied with discerning, announcing, and emphasizing discrepancies between norms or expectations and reality, they tend to generate social problems rather than solve them. An example is the extensive concern with economic differences. Indeed, in recent years there has been an upsurge of interest in this subject, on the international level as well as the domestic.

The appeal of egalitarianism is likely to persist. In recent decades incomes have risen greatly in the West, and income differences have narrowed. But as de Tocqueville observed, when social differences have narrowed, those which remain appear especially irksome and objectionable; and, as he also pointed out, material advance is apt to engender discontent over failure to have achieved more or to have achieved some other objective.

The contemporary predilection for numbers and quantification, together with the emphasis on material conditions, have helped further to focus attention on economic differences. Even when reliable and free from conceptual problems, which is unusual, statistics of income, income differences, and changes in such data tell us little or nothing

NOTE: An earlier version of this paper was published in *The Times Literary Supplement* (London), July 23, 1976; it is reprinted here with permission of the *Supplement*.

about the background of the situation, including the process by which the condition has emerged. Yet, how a social situation has arisen is usually basic for worthwhile assessment. Incomes can become more equal as a result of such radically different changes as a relative decline in the birth rate of the poor, or relative increase in their mortality, or expropriation of the rich, or an increase in capital relative to unskilled labor, or technical change, or still other reasons. Conventional statistics by themselves tell us nothing about these radical differences and their causes.

III

Once the moral and political case for egalitarian policies is taken for granted, the movement for more and more egalitarianism perpetuates itself. If the results of egalitarian policies are deemed satisfactory, it is often presumed that still more can be achieved by more extensive efforts; if, on the other hand, the policies are deemed to have failed, it is generally concluded that they were not drastic enough. Such reactions are predictable when the economic positions of different individuals and groups are thought to depend largely on public policy — as, indeed, they often are when economic life is heavily politicized (partly the result of egalitarianism itself).

Exercise of state authority implies inequality of power between ruler and subjects. Political power implies the ability of rulers forcibly to restrict the choices open to those they rule. Enforced reduction or removal of economic differences emerging from voluntary arrangements extends and intensifies the inequality of coercive power. The wider the differences in the circumstances and in the aptitudes and ambitions of those whose economic well-being is to be (at least partially) equalized, the greater the intensity, extent, and duration of the coercion required for the purpose — and thus the more pronounced becomes the inequality of power.

Possession of wealth and the presence of economic differences do not imply ability of the wealthy to restrict the choices open to others and thus to coerce them. In a modern open society, the accumulation of wealth, especially great wealth, normally results from activities which extend the choices of others — as illustrated by the fortunes acquired in mass retailing or in development of the automobile. The absence of coercive power in most forms of successful economic activity is recognized in Dr. Johnson's familiar observation that "there are few ways in which a man can be more innocently employed than in getting money."

Differences in readiness to utilize economic opportunities — willingness to innovate, to assume risk, to organize — are highly significant in explaining economic differences in open societies. This is evident. The opportunities seized by a few were available to many. This has always been the case throughout the West — and, indeed, elsewhere, as shown by the many Chinese *nouveaux riches* in the East. Income differences resulting from readiness to benefit from economic opportunities will be especially wide when there is rapid social, economic, and technical change, including the development of new products and the opening of new markets.

Purported belief in the basic equality of people's economic faculties and ambitions has enabled egalitarians to ignore the main dilemma of egalitarian ideology. It has also colored terminology. If people are assumed to be equally endowed and motivated and yet there are wide economic differences, it would seem that some undefined but malevolent force has perverted the course of events. This discrepancy between assumption and reality may account for the habitual references to economic "inequality" rather than to economic "differences." (The latter term is more appropriate, not implicitly prejudging the issue.)

The same discrepancy between implication and actuality may explain also the familiar but anomalous interpretation of social justice as meaning substantially equal incomes. This interpretation is anomalous because it is not obviously just to penalize those who have contributed more to the social product for the benefit of others who have contributed less — unless it is assumed that incomes are not earned but extracted.

It is widely believed, or at least often asserted, that relatively high incomes are somehow extracted rather than earned, that is, produced. Incomes of certain groups are indeed sometimes increased by monopoly power or, more commonly, by state action. But the idea is misconceived that incomes of the relatively prosperous are secured generally at the expense of the rest of the community.

This misconception has often had lamentable consequences. It has encouraged the maltreatment and even destruction of economically productive groups, including ethnic and religious minorities. (The fate of such prosperous groups at the hands of political masters illustrates the inadequacy of wealth by itself to confer power or even ensure survival. Indeed, the possession of wealth often results in political vulnerability.) The same misconception colors familiar references to "shares," usually unequal shares, of different groups in the national product and lies behind assertions that certain groups have not shared adequately in national or world prosperity — assertions which ignore the question of how little these groups may have contributed to the prosperity.

The unfortunate terminology of egalitarian discourse and, to some extent, of the economic theory of distribution may have contributed to the misconception. As already noted, inequality is an infélicitous term. The same is true of the expression, "distribution of income," which suggests that there is a pre-existing income which somehow gets divided. But incomes normally are earned, produced by their recipients, not "distributed" to them.

"Redistribution" also is misleading, because it is not a pre-existing income which is being reallocated. Rather, parts of resources are taken from those who produced them and handed to others, whose incomes are thereby augmented beyond what they have produced.

IV

It is often assumed that income differences will be readily accepted when they plainly reflect achievement. The contrary is just as likely. Lack of economic success is apt to be keenly felt and resented when economic achievement is emphasized and when failure is imputed to inadequacy. When faced with economic success in an open society, many deny that the success reflects even a contribution to society, much less merit.

Equality of opportunity was until recently the principal thrust of egalitarian ideology. For example, many Fabians, notably R. H. Tawney, thought that equality of opportunity would result in substantial equality of incomes; any remaining income differences would reflect merit and would, therefore, be widely respected and readily accepted. Such ideas bypass the intractable problems behind the central dilemma of egalitarianism: granted that equals should be treated equally, how shall we treat those who are unequally endowed, motivated, or situated?

"Equality of opportunity" is elusive and imprecise. Certain cultures emphasize education and economic productivity and, predictably, confer material advantages on their members — advantages which do not always conduce happiness, dignity, or sensitivity. Some people are advantaged by loving parents or a cultivated background. Good looks and attractive personality result in unequal opportunities. Attempts to offset such advantages, say by taxation, conflict with other criteria of equality — including the principle that equal incomes should bear equal taxes.

An open society, *i.e.*, one with *la carrière ouverte aux talents*, is the most familiar interpretation of the ambiguous concept of equality of opportunity. But the open society is obviously incompatible with substantial equality of income and wealth, because of the wide personal and group differences in economic aptitudes and motivations. These differences are evident in the rise from poverty to prosperity of countless individuals and groups the world over; in the wide differences in prosperity between religious and ethnic groups in different areas and societies for centuries; and in the material success of certain communities in the face of adverse official discrimination, *e.g.*, nonconformists, Huguenots, and Jews in the West and the Chinese communities in Southeast Asia.

It is only the naive belief that everyone's aptitudes and motivations are the same — a belief sinister in its consequences — which supports the notion that an open society is practically synonymous with economic equality or virtually ensures it. It is extraordinary that this should have been believed for so long when the evidence to the contrary is both overwhelming and obvious.