Are inequalities in income and wealth inevitable?

"The only living societies are those which are animated by inequality and injustice" (Claudel, 1984, p.22). The concept of inequality is very broad inasmuch as, in essence, it refers to what is not equal. The two main inequalities we can witness are, on one hand of biological nature (e.g. health or physical features) which determine our capacities to a certain extent and on the other those that are acquired by inheritance or through life (e.g. culture, believes or wealth). A substantial proportion of humanity suffers from inequalities which prevent it from accessing necessary resources for its well-being. Equality among people seems to be closely related to the concept of justice, which is generally accepted as being one of the corner stones of every society. According to their history and values, societies tend to have different understandings of the concept of equality and choose to target the elements that they consider as being the main obstacles towards justice. In this essay, we are going to focus on inequalities in income and wealth and ask ourselves whether those are inevitable or not. First we will investigate what can cause their appearance. Then, we will explore their effect on our society and try to assess the extent of their acceptability. Finally, in light of the first two parts, we are going to explore what could be done to strive towards more justice.

In order to find what can be the cause of the appearance of inequalities of wealth in societies, it might be enlightening to ask ourselves if primitive and ancient societies experienced inequalities in wealth too. Several studies have been made on this subject and have led to conclusions. Borgerhoff Mulder et al. (2009) studied intergenerational transmission of wealth and wealth inequalities in 21 historical and contemporary small-scale societies. They came to the following conclusion that these are much higher in pastoral and small-scale agricultural societies (some are even more unequal than current industrial economies) than in horticultural and foraging ones (which inequality level is comparable to the most egalitarian current societies) (p.682). According to them, these types of disparities are a consequence of a bigger quantity of material wealth (land, goods etc.) in pastoral and agricultural societies than of embodied (biological features like strength or reproductive success) and relational (social ties, food sharing networks etc.) wealth. Material wealth is also much more inheritable than other forms of wealth (p.685, 687). We can therefore argue that there is a causal relationship between the organisation of a society's economic system and its inequality level in material wealth.

Partly because it is linked to the development of technology. Indeed, pastoral and agricultural societies necessitate a more advanced technology than horticultural and foraging ones.
Another study took interest in south American Pre-Hispanic era and confirmed that agricultural societies tend to lead to more inequalities in wealth (Smith et al., 2014, p.321). However, it also showed that it was not the case in every one of them. Indeed, the city of Teotihuacan apparently had a Gini coefficient (used to indicate the level of inequality in wealth and income, from 0 to 1, 0 corresponding to a situation where everybody would be completely equal and 1 where one individual would concentrate all the resources) of 0.11. By comparison, the most egalitarian current countries such as Denmark and Sweden have a Gini coefficient of 0.24. The reason of such a low level of inequality in Teotihuacan seems to be their political regime (Cowgill, 1997). As a matter of fact, this ancient city was apparently relatively close to an oligarchic republic (p.152-153), meaning that power was exercised by a minority elite which acted in the best interest of the common good. Indeed, the author interprets the gradual development of buildings (emphasis made on building apartment compounds rather than new pyramids) as being a "conscious shift to greater concern for general well-being than for individual glory" (p.155).
Therefore, according to these studies, we can state that inequalities in wealth were already present in small-scale and ancient societies and were both influenced by the economic system and the political regime in practice. Nevertheless, it is important to emphasise the fact that, following the example of Teotihuacan, the political organisation of a society may act in favour of equality among people.

Many modern and contemporary thinkers described the aspects of inequalities in income and wealth by setting the intellectual framework of the economic system of our age, which takes roots during the Age of Enlightenment. Adam Smith is generally considered as one of the founding fathers of economic liberalism (Schriever, 2014). This school of thought essentially consists in the economic implementation of liberal values which promote freedom (e.g. free-trade, freedom of consumption, of entrepreneurship etc.). According to him, primacy should be granted to the market and to competition. In the first chapter of his book *The Wealth of Nations* (2002), he demonstrates that the division of labour in society (i.e. the separation of productive tasks to enable specialisation) leads to a significant increase in productivity, and therefore in growth (p.16-21). In chapter ten, he states that inequalities in income result firstly from the nature of employments. Indeed, he explains that jobs are paid according to factors such as the level of difficulty of the job or the likelihood to succeed at it. Thus, a doctor will be paid more than a labourer because his skills and knowledge are more difficult to acquire (p.87-100).

Consequently, supply is smaller than demand on the doctors' labour market and is therefore paid more. In the second section, he argues that the state can also worsen inequalities by preventing people from entering a market, by increasing the number of competitors and therefore destabilising it, and by disturbing the free circulation of factors of production (p.101-118). Moreover, Smith thinks that inequalities in talents mostly come from education and difference in occupation rather than from nature (p.24). Hence, this implies that inequalities related to knowledge or social matters can also be inherited. Besides, Smith emphasises that it is actually this diversity of talents and therefore inequalities lato sensu that enables the competitive market to prosper. Thus, it can be argued that inequalities are both the result and the necessary condition for the system to thrive. The Heckscher-Ohlin-Samuelson model (Appleyard, 2018) also emphasises this aspect by explaining that countries should specialise their economy according to their factor endowment. Because these are fundamentally unequal (e.g. China is abundant in labour force and land whereas Switzerland is abundant in capital), countries should take advantage of this in order to increase growth. Menger (2004) explains that the essence of the Marxian communism is related to the Aristotelian ideal, meaning that Marx considered work as "a means of fulfilling oneself in the plenitude of its individual essence" (p.228). For this to be achieved, it is necessary to prevent people from comparing themselves, be envious or admire their peers, in order to prevent differences to surface, and thus to stop any comparative advantage to have an effect on people's actions (i.e. a process of specialization in the economy based on comparative advantages which are, to put in a nutshell, the productivity advantage a unit of production has compared to other units, or 'competitors'). In the fifth book of the *Wealth of Nations*, Adam Smith (2002) apprises the reader that the division of labour, although necessary for growth and the development of society, ineluctably leads to the stupefying of workers. Indeed, he explains that the fact of being limited to do a small quantity of simple operations does not enable him to develop his intelligence and his imagination. Therefore, we can claim that the individual who is subjected to the division of labour progressively loses his humanity, as he cannot develop what differentiate him from animals. Marx also emphasises the effect of the division of labour on people with the concept of alienation (Marx, 1985). According to him, the employee's wage is not equal to the value of his production and is therefore dominated by the owner of capital and alienated from the product of his work. His wage only enables him to maintain his labour force and to make his working class posterity prosper. With Smith and Marx's remarks in mind, we can argue that this situation tends to increase inequality in wealth and income because of the "labour prison" in which workers are.

In this second paragraph, we shall assess the consequences of inequalities in wealth and income in our society. To begin with, we are going to focus on the negative side of their consequences. First, we can argue that they are negative for growth. Dabla-Norris et al. (2015) emphasise that an increase in income of the bottom 20 percent had a beneficial impact on growth (p.4). This is because lower income households have a higher marginal propensity to consume, meaning that they will tend to spend a higher proportion of their income increase than wealthier households. In *Capital of the Twenty-First Century* (2014), T. Piketty explains his famous equation r>g, where 'r' refers to the rate of return on capital and 'g' to growth of the gross domestic product (GDP). The logic of this equation leads to a concentration of wealth, and therefore to an increase in inequality of wealth. According to him, r>g "has been true throughout most of human history" (p.358). However, he also admits that its truth depends on public policies and institutions which goal is to regulate the relationship between capital and labour. He states that "r>g is a contingent historical proposition, which is true in some periods and political contexts and not in others" (p.358). But in a period of high inequalities, these tend to increase and as Dabla-Norris et al. pointed out, disparities have a negative impact on growth. As a matter of fact, they prevent lower-income household to accumulate physical and human (education, knowledge) capital, which proves to be a brake to innovation and to the production of higher added-value products. Important inequalities also increase the risk of financial crisis and global imbalances such as external deficits (p.6-7-9).

Income and wealth disparities also have a negative impact on social harmony. In *La Reproduction* (2011), Bourdieu conducts a study and proves that social and geographic origin has a crucial impact on selection and results of children at school (p.90-99). Also, he points out that wealthier families tend to direct their children towards studies that "guarantee the best academic profitability of their human capital" (p.105). In other words, school seems to be an institution of inequality reproduction because children from lower-income households are even more dependent than their wealthier peers on their results at school to be able to accumulate any kind of capital. Yet, school is supposed to be an institution of equality where differences between people are made according to their merit. Therefore, if the academic system tends to be increasingly unequal, people become likely to lose faith in institutions and this would erode social cohesion. Bardhan (2005) states that "initial inequality may result in the persistence of dysfunctional institutions" (p.527). Thus, it seems like even inequalities of opportunity can grow wider through the educational system, and can cause social issues.

Nonetheless, inequalities in income and wealth do not only have downsides. Indeed, as Dabla-Norris et al. point out, inequality can be an incentive for innovation and entrepreneurship. If the legal framework of a country allows it, inequalities can motivate citizens to reach their desires. In fact, education is decentralising itself with the rise of new technologies. It is now easier than before to acquire skills and knowledge, and therefore creates a fertile ground for people to innovate (Dabla-Norris et al., 2015, p.6)

Thus, it seems to be possible to reduce them.

In the first two parts we saw that disparities in income and wealth were linked to the economic and political organisation of societies. For instance, the current competitive market economy we live in is based on inequalities and also promotes them to do well. Then, we pointed out their negative effects namely that they tended to increase through time. Thus, an appropriate answer would be to find solutions in order to reduce the reproduction of inequalities. As we explained in the first part, inequalities can be fair according to A. Smith if they are caused by free choices made by individuals (p.87). For instance, someone who decides to invest his time in the learning of a highly skilled profession must be rewarded consequently by the market. A. Sen in *Inequality Reexamined* (2009) proposes a new concept of equality called capability. Indeed, he explains that poverty is not only a lack of economic resources but can be defined as the inability to convert resources into valuable functionings (i.e. "states of 'being and doing' such as having a shelter, being healthy etc. (Wells, 2018)). Indeed, a pregnant woman may not be equal to a man even if they are paid the same, because she would need to spend more to take care of her child. According to Sen, to define inequality only based on economic resources is wrong. On the other hand, he suggests to focus more on people well-being by increasing their capabilities, meaning their capacity to fulfil what they wish to accomplish in their lives. Therefore, if people's capabilities are increased, the existence of inequalities in income and wealth becomes far less important. Rawls's theory, in *The Theory of Justice* (2009), is that a society should be just before being egalitarian. He proposes a thought experiment called the 'veil of ignorance', which consists in putting people in a situation where they must choose the principles of justice they will have to accept, without knowing their future position in the society. Considering that people act rationally, two principles surface from this experiment. First, the liberty and equality principle consists in attributing to every people the same rights, which have to be compatible with everyone's liberty. The second one is the difference principle, which consists in accepting inequalities only as long as they work to the advantage of the worst-off. He also stresses the importance of a fair equality of opportunity, which is established when individuals' "prospects for success in the pursuit of social positions are a function of her level of native talent and willingness to use them, and are not a function of her social class or background" (Edeq.stanford.edu, 2018). For Rawls, these conditions are necessary to compensate naturally occurring inequalities in a society. In order to head towards a fairer society, governments should therefore try to increase the equality of opportunity among citizens, such as through the educational system. Borgerhoff Mulder et al. (2009) make the following hypothesis in the conclusion of their study. They consider that since the current trend is toward a knowledge-based economy, which is less reliant on material wealth than on embodied and relational wealth, there could possibly be a reduction in intergenerational wealth transmission (p.687). Knowing that this phenomenon is source of what could be considered as 'unfair inequalities' as it is mainly what deepens disparities, it can be argued that, if the right political measures are established by institutions to increase equal opportunities and if the economic system actually proves to be more and more knowledge-based, inequalities in income and wealth can reduce and people might see their capabilities increasing.

To conclude, we can declare that the existence of inequalities in wealth is ancient and seems to be influenced by the level of development of the economy, and by the political context of societies. Also, we understood that a competitive market economy throve on disparities between people, and tended to exacerbate them too through work. In the second part, we argued that inequalities in income and wealth tended to increase and perpetuate through time. They can have a substantial negative impact both on growth and social balance, but are contingent according to the economic and political context. In the current situation, already high disparities in the world make us predict a worsening in the future. Finally, we have explored various thoughts made by recent authors in order to add the notion of justice in our thinking. Indeed, inequalities seem to be inevitable in any society and therefore societies should strive to establish more justice (referring here to the concepts of equality in opportunity and capability) in an economic system which thrives on inequalities between people.

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