The Affluent Society

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Inequality

FEW THINGS have been more productive of controversy over the ages than the suggestion that the rich should, by one device or another, share their wealth with those who are not. With comparatively rare and usually eccentric exceptions, the rich have been opposed. The grounds have been many and varied and have been principally noted for the rigorous exclusion of the most important reason, which is simply the unwillingness to give up the enjoyment of what they have. The poor have generally been in favor of greater equality. In the United States this support has been tempered by the tendency of some of the poor to react sympathetically to the cries of pain of the rich over their taxes and of others to the hope that one day soon they might be rich themselves.

As the last chapters have shown, the economic and social preoccupation with inequality is deeply grounded. In the competitive society — the society of the central tradition of economics in descent from Ricardo — there was presumed to be a premium on efficiency. The competent entrepreneur and worker were automatically rewarded. The rest, as automatically, were punished for their incompetence or sloth. If labor and capital and land were employed with high efficiency then, *pro tanto,* nothing more, or not much more, could be obtained from the economy in the short run by way of product. And longer-run progress did not necessarily benefit the average man; in the original doctrine, its fruits accrued to others.

So if people were poor, as in fact they were, their only hope lay in a redistribution of income, and especially that which was the product of accumulated wealth. Much though Ricardo and his followers might dissent, there were always some — and the number steadily

grew — who believed that redistribution might be possible. (Ricardo and those who followed him in the central tradition were never immune from the suspicion that they were pleading a special interest.) All Marxists took the need for a drastic redistribution for granted. Consequently, throughout the nineteenth century, the social radical had no choice but to advocate the redistribution of wealth and income by one device or another. If he wanted to change things, this was his only course. To avoid this issue was to avoid all issues.

The conservative defense of inequality has varied. There has always been the underlying contention that, as a matter of natural law and equity, what a man has received save by proven larceny is rightfully his. For Ricardo and his immediate followers, the luxurious income of landlords and of capitalists was the inevitable arrangement of things. One could tamper with it but only at the eventual price of disrupting the system and making the lot of everyone (including the poor) much worse.

This was essentially the passive defense. With time (and agitation), the case for inequality became a good deal more functional. The undisturbed enjoyment of income was held to be essential as an incentive. The resulting effort and ingenuity would bring greater production and greater resulting rewards for all. In recent times a limit on taxes on earned income has been all but canonized.

Inequality has also come to be regarded as almost equally important for capital formation. Were income widely distributed, it would be spent. But if it flowed in a concentrated stream to the rich, a part would certainly be saved and invested.

There are other arguments. Excessive equality makes for cultural uniformity and monotony. Rich men are essential if there is to be an adequate subsidy to education and the arts. Equality smacks of communism and hence of atheism and therefore is spiritually suspect.

The cultural misfortunes from excessive equality cannot be pressed too far. As Tawney observed: "Those who dread a dead-level of income or wealth . . . do not dread, it seems, a dead-level of law and order, and of security of life and property. They do not complain that persons endowed by nature with unusual qualities of strength, audacity, or cunning are prevented from reaping the full fruits of these powers."[1] And in fact, in the conventional wisdom, the defense of inequality does rest primarily on its functional role as an incentive and as a source of capital.

Thus the limited egalitarianism of the present federal income-tax structure has long been held to be seriously dampening to individual effort, initiative and inspiration or in danger of becoming so. It "destroys ambition, penalizes success, discourages investment to create new jobs, and may well turn a nation of risk-taking entrepreneurs into a nation of softies . . ."[2] "It destroys the incentive of people to work . . . It makes it increasingly difficult, if not impossible, for people to save . . . It has a deadening effect on the spirit of enterprise . . . which has made America."[3]

However, this case is not impeccably consistent. Not many businessmen wish to concede that they are putting forth less than their best efforts because of insufficient pecuniary incentive. The typical business executive makes his way to the top by promotion over the heads of his fellows. He would surely endanger his chance for advancement if he were suspected of goldbricking because of his resentment over the inadequacy of his after-tax income. He is expected to give his best to his corporation, and usually he does.

To give individuals large incomes to encourage savings also has elements of illogic. The rich man saves because he is able to satisfy all his wants and then have something over. Such saving, in other words, is the residual after luxurious consumption. This obviously is not an especially efficient way to promote capital formation. Moreover, the empirical evidence on the effect of egalitarianism on capital formation is uncertain. England is often cited as an unfortunate example. But Norway, an even more egalitarian country, had, following World War II, one of the highest rates of capital formation and of economic growth of any country in the non-Communist

[1] R. H. Tawney, *Equality*, 4th ed., rev. (London: Allen & Unwin, 1952), p. 85.
[2] "Taxes and America's Future." Address by Fred Maytag II, before the National Association of Manufacturers, December 1, 1954.
[3] "The Relation of Taxes to Economic Growth." Address by Ernest L. Swigert, before the National Association of Manufacturers, December 6, 1956.

world.[4] Latin American republics with a highly unequal income distribution have no remarkable record for capital formation.

The *formal* liberal attitude toward inequality has changed little over the years. The liberal has partly accepted the view of the well-to-do that it is a trifle uncouth to urge a policy of soaking the rich. Yet, on the whole, the rich man remains the natural antagonist of the poor. Economic legislation, above all tax policy, continues to be a contest, however unequal, between the interests of the two. No other question in economic policy is ever so important as the effect of a measure on the distribution of income. The test of the good liberal is still that he is never fooled, that he never yields on issues favoring the wealthy. Other questions occupy his active attention, but this is the constant. Behind him, always challenging him, is the cynical Marxian whisper hinting that whatever he does may not be enough. Despite his efforts, the wealthy become wealthier and more powerful. They lose battles but win wars.

II

However, few things are more evident in modern social history than the decline of interest in inequality as an economic issue. This has been particularly true in the United States. And it would appear, among western countries, to be the least true of the United Kingdom. While it continues to have a large ritualistic role in the conventional wisdom of conservatives and liberals, inequality has ceased to preoccupy men's minds. And even the conventional wisdom has made some concessions to this new state of affairs.

On the fact itself — that inequality is of declining concern — it is only necessary to observe that for many years no serious effort has been made to alter the present distribution of income.[5] Although in the semantics of American liberalism there is often a tactful silence

[4] Alice Bourneuf, *Norway: The Planned Revival* (Cambridge, Mass.: Harvard University Press, 1958).
[5] The so-called war on poverty of the Johnson administration was instructive: income redistribution was to be limited to the very poor. The more important improvement in the incomes of the poor was to come from the increased productiv-

on the point, since nothing so stirs conservative wrath, the principal public device for redistributing income is the progressive income tax. But the income tax in the years since World War II has greatly regressed as an instrument for income redistribution.

The decline in concern for inequality cannot be explained by the triumph of equality. Although this is regularly suggested in the conventional wisdom of conservatives, and could readily be inferred from the complaints of businessmen, inequality is great and getting greater. In 1970, the one-tenth of families and unattached individuals with the lowest incomes received before taxes about 2 percent of the total money income of the country; the tenth with the highest incomes received 27 percent of the total, which is to say their incomes averaged 14 times as much as the lowest tenth. The half of the households with the lowest incomes received, before taxes, only 23 percent of all money income. The half with the highest incomes received 77 percent. In 1972, only about 7 percent of all family units had incomes before taxes of more than $25,000. They received, nonetheless, 21 percent of total income. At the other extreme, 17 percent had before-tax incomes of less than $5,000 and received only 4 percent of the income.[6] In the years since, the share going to the very rich has much increased. Present laws are notably favorable to the person who has wealth as opposed to the individual who is only earning it. With a little ingenuity, the man who is already rich can ordinarily take his income in the form of capital gains and limit somewhat his tax liability. In addition, unlike the man who must earn, he is under no compulsion to acquire a capital stake, either for old age, family, or the mere satisfaction it brings, since he already has one. Accordingly, he need not save. Yet none of these matters nor the numerous more egregious loopholes in the federal income tax arouse the kind of concern which leads on from rhetoric to action.

ity of that group. The ability of all shades of political opinion to endorse aspects of this program suggests the mildness of the effort.

[6] U.S. Department of Commerce, *Statistical Abstract of the United States*. The 1970 figures are from p. 324 of the 1972 edition; the 1972 figures from p. 382 of the 1974 edition.

III

The first reason inequality has faded as an issue is, without much question, that while it has continued and increased, it has not been showing the expected tendency to promote violent reaction. And thus the Marxian prediction, which earlier in this century seemed so amply confirmed by observation, no longer inspires the same depth of fear. In the absence of alarm, inequality is more easily accepted than social reformers in the past have supposed. Emulation or, when this is frustrated, envy has long played a large role in the common view of human motivation.[7] So long as one individual had more than another, the second was presumed to be dissatisfied with his lot. He strove to come abreast of his more favored contemporary; he was deeply discontented if he failed. However, these disenchanting traits are less cosmic than has commonly been supposed. Envy almost certainly operates efficiently only as regards near neighbors. It is not directed toward the distant rich. If the individual's own real income is rising, the fact that unknown New Yorkers, Texans or West Coast computer entrepreneurs are exceedingly wealthy is not, probably, a matter of prime urgency. It becomes easy, or at least convenient, to accept the case of the conventional wisdom, which is that the rich in America are both functional and also much persecuted members of the society. And, as noted, to comment on the wealth of the wealthy, and certainly to propose that it be reduced, has come to be considered bad taste. The individual whose own income is going up has no real reason to incur the opprobrium of this discussion. Why should he identify himself, even remotely, with soapbox orators, malcontents, agitators and other undesirables?

IV

Another reason for the decline in interest in inequality, almost certainly, is the drastically altered political and social position of the

[7] See Chapter 11.

rich in recent times. Broadly speaking, there are three basic benefits from wealth. First is the satisfaction in the power with which it endows the individual. Second is that in the physical possession of the things which money can buy. Third is the distinction or esteem that accrues to the rich man as the result of his wealth. All of these returns to wealth have been greatly circumscribed in the last seventy-five years and in a manner which also vastly reduces the envy or resentment of the well-to-do or even the knowledge of their existence.

As recently as the nineteen-twenties, the power of the great business firm was paramount in the United States and the firm, in turn, was the personification of the individual who headed it. Men like Morgan, the Rockefeller executives, Hill, Harriman and Hearst had great power in the meaningful sense of the term, which is to say that they were able to direct the actions and command the obedience of countless other individuals.

In the last seventy-five years, the power and prestige of the United States government have increased. If only by the process of division, this diminished the prestige of the power accruing to private wealth. But, in addition, it also meant some surrender of authority to Washington. Furthermore, trade unions invaded the power of the entrepreneur from another quarter. But most important, the professional manager or executive took away from the man of wealth the power that is implicit in running a business. Seventy-five years ago Morgan, Rockefeller, Hill, Harriman and the others were the undisputed masters of the business concerns they owned, or it was indisputably in their power to become so. Their sons and grandsons still have the wealth, but with rare exceptions the power implicit in the running of the firm has passed to professionals.[8]

When the rich were not only rich but had the power that went with active direction of corporate enterprise, it is obvious that

[8] More precisely, to the aggregation of technical and planning talent which I have elsewhere called the technostructure. Cf. *The New Industrial State*, 2nd ed., rev. (Boston: Houghton Mifflin, 1971), Chs. VI, VII and *Economics and the Public Purpose* (Boston: Houghton Mifflin, 1973).

wealth had more perquisites than now. For the same reasons, it stirred more antagonism. J. P. Morgan answered not only for his personal wealth but also for the behavior of the United States Steel Corporation which he had put together and which ultimately he controlled. As a man of corporate power, he was also exceedingly visible. Today no sins of similar corporations are visited on their owners, for the latter do not manage the company and almost no one knows who they are. When the power that went with active business direction was lost, so was the hostility.

The power that was once joined with wealth has been impaired in a more intimate way. In 1194, the crusading knight Henry of Champagne paid a visit to the headquarters of the Assassins at the castle at al-Kahf on a rugged peak in the Nosairi Mountains. The Assassins, though a fanatical Moslem sect, had, in general, been on good terms with the Christians, to whom they often rendered, by arrangement, the useful service of resolving disputes by eliminating one of the disputants. Henry was sumptuously received. In one of the more impressive entertainments, a succession of the loyal members of the cult, at a word from the Sheik, expertly immolated themselves. Before, and ever since, the willing obedience of a household coterie has been a source of similar satisfaction to those able to command it. Wealth has been the most prominent device by which it has been obtained. As may indeed have been the case at al-Kahf, it has not always endeared the master to the men who rendered it.

In any case, such service requires a reservoir of adequately obedient or servile individuals. The drying up of this reservoir, no less than the loss of wealth itself, can rob wealth of its prerogatives. The increase in the security and incomes of Americans at the lower income levels has effectively reduced — indeed, for many purposes, eliminated — the servile class. And again the reciprocal is that those who no longer work for the rich (or who have done so or who fear that they might be forced to do so) no longer feel the resentment which such dependence has induced.

V

The enjoyment of physical possession of things would seem to be one of the prerogatives of wealth which has been little impaired. Presumably nothing has happened to keep the man who can afford them from enjoying his Rembrandts and his home-grown orchids. But enjoyment of things has always been intimately associated with the third prerogative of wealth, which is the distinction that it confers. In a world where nearly everyone was poor, this distinction was very great. It was the natural consequence of rarity. In England, it is widely agreed, the ducal families are not uniformly superior. There is a roughly normal incidence of intelligence and stupidity, good taste and bad, and morality, immorality, homosexuality, and incest. But very few people are dukes or even duchesses, although the latter have become rather more frequent with the modern easing of the divorce laws. As a result, even though they may be intrinsically unexceptional, they are regarded with some residual awe. So it has long been with the rich. Were dukes numerous, their position would deteriorate irretrievably. As the rich have become more numerous, they have inevitably become a debased currency.

Moreover, wealth has never been a sufficient source of honor in itself. It must be advertised, and the normal medium is obtrusively expensive goods. In the latter part of the last century in the United States, this advertisement was conducted with virtuosity. Housing, equipage, female adornment and recreation were all brought to its service. Expensiveness was keenly emphasized. "We are told now that Mr. Gould's '$500,000 yacht' has entered a certain harbor, or that Mr. Morgan has set off on a journey in his '$100,000 palace car,' or that Mr. Vanderbilt's '$2,000,000 home' is nearing completion, with its '$50,000 paintings' and its '$20,000 bronze doors.'"[9] The great houses, the great yachts, the great balls, the stables, and the

[9] Matthew Josephson, *The Robber Barons* (New York: Harcourt, Brace, 1934), p. 330. Josephson is paraphrasing W. A. Croffut, Commodore Vanderbilt's biographer, writing in 1885.

expansive jewel-encrusted bosoms were all used to identify the individual as having a claim to the honors of wealth.

Such display is now passé. There was an adventitious contributing cause. The American well-to-do have long been curiously sensitive to fear of expropriation — a fear which may be related to the tendency for even the mildest reformist measures to be viewed, in the conservative conventional wisdom, as the portents of revolution. The depression and especially the New Deal gave the American rich a serious fright. One consequence was to usher in a period of marked discretion in personal expenditure. Purely ostentatious outlays, especially on dwellings, yachts and associated females, were believed likely to incite the masses to violence. They were rebuked as unwise and improper by the more discreet. It was much wiser to take on the protective coloration of the useful citizen, the industrial statesman or even the average guy.[10]

However, deeper causes were at work. Increasingly, in the last quarter century, the display of expensive goods, as a device for suggesting wealth, has been condemned as vulgar. The term is precise. Vulgar means: "Of or pertaining to the common people, or to the common herd or crowd." And this explains what happened. Lush expenditure could be afforded by so many that it ceased to be useful as a mark of distinction. An elongated, richly upholstered and extremely high-powered automobile conveys no impression of wealth in a day when such automobiles are mass-produced by the thousands. A house in Palm Beach is not a source of distinction when the rates for a thousand hotel rooms in Miami Beach rival its daily upkeep. Once a sufficiently impressive display of diamonds could create attention even for the most obese and repellent body, for they signified membership in a highly privileged caste. Now the same diamonds are afforded by a television star or a talented harlot.

[10] Cf. C. Wright Mills, *The Power Elite* (New York: Oxford University Press, 1956), p. 117. Mr. Mills suggests that in the depression years this effort to provide protective coloration led to the recruiting of technicians and corporate managers as front men behind whom the well-to-do could survive in peace. Not uncharacteristically, I think, Mr. Mills read too much contrivance into such change.

Modern mass communications, especially the movies and television, ensure that the populace at large will see the most lavish caparisoning on the bodies not only of the daughters of the rich but also on the daughters of coal miners and commercial travelers who have struck it rich by their own talents or some facsimile thereof. In South America, in the Middle East, to a degree in India, and by travelers therefrom in Nice, Cannes and Deauville, ostentatious display by those of wealth is still practiced. This accords with expectations. In these countries, most people are still, in the main, poor and unable to afford the goods which advertise wealth. Therefore, ostentation continues to have a purpose. In not being accessible to too many people, it has not yet become vulgar.

The American of wealth is not wholly without advantages in his search for distinction. Wealth still brings attention if devoted to cultural and technical pursuits or to hobbies with a utilitarian aspect. A well-to-do American may gain in esteem from an admirably run farm, although never from an admirably manicured estate. Although wealth aids a public career, those who too patently rely on it are regarded as slightly inferior public citizens. A Rockefeller or a Kennedy who is elected to public office enjoys a prestige far in excess of an Aldrich or an Annenberg whose appointment to an ambassadorial position, however justified on merit, might have been less certain in the absence of sizable campaign contributions. In sum, although ostentatious and elaborate expenditure, in conjunction with the wealth that sustained it, was once an assured source of distinction, it is so no longer. The effect on attitudes toward inequality will be evident. Ostentatious expenditure focused the attention of the poor on the wealth of the wealthy, for this of course was its purpose. With the decline of ostentation, or its vulgarization, wealth and hence inequality were no longer flagrantly advertised. Being less advertised, they were less noticed and less resented. The rich had helped to make inequality an issue. Now they were no longer impelled to do so.

There were similar consequences from the fact that the rich man now had to compete for esteem. Once the intellectual, politician or man of general ambition saw the rich man achieve distinction without effort and in contrast with his own struggle. He reacted by helping to focus the resentment of the community as a whole. Now he saw the man of wealth forced to compete for his honors. In this competition, the rich man retained undoubted advantages, but he did not automatically excel. Nothing could operate more effectively to dry up the supply of individuals who otherwise would make an attack on inequality a career. By graduating into the ranks of the professional managers, and after making his way up through the hierarchy of the modern corporation, the ambitious man could expect to compete on tolerably equal terms with the grandson of the founder.

It would be idle to suggest that the man of wealth has no special advantages in our society. Such propositions are the one-day wonders of the conventional wisdom, and those who offer them have a brief but breathtaking reputation as social prophets. This itself suggests that such findings assuage some sense of guilt. But it does seem clear that prestige and power are now far more intimately identified with those who, regardless of personal wealth, administer productive activity. The high corporate official is inevitably a man of consequence. The rich man can be quite inconsequential and often is. His need to achieve success in the nominally popular profession of government is instructive.

VI

In the Ricardian world, as noted, progress required profits, and its fruits accrued to the landlords. Economic advance — expanding output — did not ordinarily help the common man. His only hope lay in reforms that Ricardo and his followers would have considered highly destructive or, alternatively, in a drastic overthrow of the system. Economic advance still holds little promise of betterment for the average man in many countries. On Andean haciendas, it matters little to the man who tills the land whether the product increases. His own share is minute; an increase in product is not important if all but a minute fraction goes to someone else. And matters may be worse: any surplus over the barest need may be absorbed, as the result of an *ad hoc* revision of the rules, by the landlord, merchant or moneylender. This is still the Ricardian world, and in it the obvious hope for improvement lies in a different distribution of income based on a different social structure. For the same reason, until the share of the ordinary man in the product is increased, his incentive to increase production — to adopt better methods of cultivation, for example — is slight or nil. The people of numerous of the poor countries have frequently heard from their presumptively more advanced mentors in the economically more advanced lands that they should be patient about social reform, with all its disturbing and even revolutionary implications, and concentrate on increasing production. It can be remarkably inappropriate advice. Reform is not something that can be made to wait on productive advance. It may be a prerequisite to such advance.

In the advanced country, in contrast, increased production is an alternative to redistribution. And, as indicated, it has been the great solvent of the tensions associated with inequality. Even though the latter persists, the awkward conflict which its correction implies can be avoided. How much better to concentrate on increasing output, a program on which both rich and poor can agree, since it benefits both.

That among those who might be subject to redistribution this doctrine has something approaching the standing of divine revelation is perhaps not entirely surprising. For many years, the relationship of businessmen to economists in the United States was characterized by a degree of waspishness. The economist had shown a predisposition to favor low tariffs, the income tax, the antitrust laws and, quite frequently, trade unions. This made him, at a minimum, an inconvenient friend. But increased output as a substitute for greater equality was the basis for a notable rapprochement. "From a dollars-and-cents point of view it is quite obvious that over a period of years, even those who find themselves at the short end of inequality have more to gain from faster growth than from any conceivable income redistribution."[11]

These statements still arouse some suspicion. Over the centuries, those who have been blessed with wealth have developed many ingenious and persuasive justifications of their good fortune. The instinct of the liberal is to look at these explanations with a rather unyielding eye. Yet, in this case, in the advanced countries, the facts are inescapable. It is the increase in output in recent decades, not the redistribution of income, which has brought the great material increase in the well-being of the average person. And, however suspiciously, the liberal has come to accept the fact. As a result, the goal of an expanding economy has also become deeply embedded in the conventional wisdom of the American left. The beneficent effects of such an economy, moreover, are held to be comprehensive. Not only will there be material improvement for the average man, but an end to poverty and privation for all. This latter is untrue. Increasing aggregate output leaves a self-perpetuating margin of poverty at the very base of the income pyramid. This goes largely unnoticed, because it is the fate of a voiceless minority.[12] And liberals have long been accustomed to expect the poor to speak in the resounding tones of a vast majority. To these matters, it will be necessary to return.

For the moment, we need only notice that, as an economic and social concern, inequality has been declining in urgency, and this has had its reflection in the conventional wisdom. The decline has been for a variety of reasons, but, in one way or another, these are all

11 "Learning to Multiply and to Divide." Address by Roger M. Blough, Chairman of the Board of the United States Steel Corporation, quoting Professor Henry C. Wallich of Yale University, latterly of the Board of Governors of the Federal Reserve System, January 15, 1957.

12 Although to the extent that it is associated with race, a more militant minority than here suggested. It seems fair to attribute to the discussion following the first publication of this volume and the later work of Michael Harrington, Robert Lampman, Charles C. Killingsworth and those associated with the Office of Economic Opportunity some influence in making this poverty less anonymous than it was in 1958. However, the evident decline of poverty as a source of concern is not very encouraging.

related to the fact of increasing production. Production has eliminated the more acute tensions associated with inequality. And it has become evident to conservatives and liberals alike that increasing aggregate output is an alternative to redistribution or even to the reduction of inequality. The oldest and most agitated of social issues, if not resolved, is at least largely in abeyance, and the disputants have concentrated their attention, instead, on the goal of increased productivity. This is a change of far-reaching importance. Our increased concern for production in modern times would be remarkable in itself. But it has also pre-empted the field once occupied by those who disputed over who should have less and who should have more.

8

Economic Security

FEW MATTERS having to do with economic life have been so much misunderstood as the problem of economic security. And, in remarkable degree, the misunderstanding persists.

In the model of the competitive society, such insecurity was inherent. The individual producer or worker might, at any time, suffer a sudden decline in his fortunes. This could be the result of laziness or incompetence which would lose him his customers or his job. But the best of men might suffer from a sudden change in consumer tastes or as the result not of their own inadequacy but of that of their employer. These unpredictable changes in fortune were both inevitable and useful. They were inevitable, for they were part of the capacity of the system to accommodate itself to change. As requirements and wishes changed, men were employed in new places and disemployed in the old. Capital was sought in the new industries and written off as a loss in the old. The insecurity was useful because it drove men — businessmen, workers, the self-employed — to render their best and most efficient service, since severe punishment was visited impersonally on those who did not.

However, this insecurity, valuable though it seemed in principle, was cherished almost exclusively either in the second person or in the abstract. Its need was thought urgent for inspiring the efforts of other persons or people in general. It seldom seemed vital for the individual himself. Restraints on competition and the free movement of prices, the greatest source of uncertainty to business firms, have been principally deplored by university professors on lifetime appointments. Their security of tenure is deemed essential for fruit-