The instrumental harms of inequality

If there are intrinsic moral reasons to be concerned about inequality, there are also instrumental reasons for such concern. Inequality is reprehensible not only because it is inherently unfair and unjust, but because it can cause harm in a number of domains of everyday living. Here is a small sample of some of these instrumental ills of inequality.

First, inequality can be harmful for the prospects of an increase in national income. Because the poor spend the bulk of their income on necessities, the marginal propensity to consume out of income is higher for the poor than it is for the rich. A reduction in the concentration of wealth and income might be expected to increase the share of income going to the poor, which in turn should promote higher levels of consumption and, through this route, greater effective demand, and markets that achieve deeper penetration—with a concomitant positive impact on income and investment. Increasing inequality inhibits these healthy tendencies in the economy.

Second, the concentration of wealth and income in the hands of a few is conducive to a market structure that is monopolistic or oligopolistic. Monopolistic pricing, as is well known, is associated with deadweight losses in welfare.

Third, there are other, direct ways in which inequality can interfere with the efficiency of an economy. It is interesting to note that economists like Hugh Dalton, Tony Atkinson, Serge-Christophe Kolm and Amartya Sen have associated a measure of inequality with the efficiency, or welfare, loss occasioned by inequality. Specifically, if the marginal social value of income is seen to decline as income increases, then it is easy to see that progressive redistributions of income should increase aggregate welfare, and that an equal distribution should maximize it. Equivalently, for any given level of average income for a fixed population, in which income is unequally divided, one can always think of a lower level of income such that, if every person in society were to receive this income, the level of aggregate welfare for the equalized distribution would be the same as it was for the earlier unequal distribution.

This level of income is what Atkinson called the “equally distributed equivalent” (EDE) income. The proportionate shortfall of EDE income from the actual average income is then a plausible measure of the welfare loss, assessed in equivalent income terms, occasioned by the presence of inequality. This sort of reasoning is what led the Oxford philosopher-economist John Broome to write an essay titled *What’s The Good Of Equality?* Broome was stressing the instrumental, rather than intrinsic, virtue of equality; otherwise, he should have written an essay titled *What’s Right With Equality?* The instrumentally positive impact of equality on efficiency is also highlighted by a measure of “effective literacy” advanced by the economists Kaushik Basu and James Foster. They postulate that literacy is something like a public good, such that a literate person confers external literacy benefits on other members of her household. In line with such a view, a more equal inter-household distribution of literacy should be accompanied by a rise in overall “effective literacy”.

Fourth, inequality is often both the source and the consequence of economic domination by one group of people over another. The theme of inequality and conflict has been well addressed in the works of economists such as Debraj Ray, Joan-Maria Esteban and Anirban Mitra, when they speak of polarization, and of strife organized around religious divisions. The ghettoization of the Muslim community in Gujarat after the events of 2002, and the attempt at nullification of the community’s economic status, is a case in point. Also of relevance is the role played by economic disparities in the control of natural resources. The Yale moral philosopher Thomas Pogge has repeatedly highlighted the part played in a country’s impoverishment by domestic despots who control ownership of its natural resources.

Fifth, inequalities of income and wealth have a way of spilling over into other domains, such as health. Economic inequalities are known to have stress and demoralization effects on workers. Inequality can thus dampen productivity, and so earning potential, and so productivity again in a vicious cycle. Besides, elites in a highly unequal society would have a large say in the budgetary provisions made by a state for social sector spending and its financing through taxation. Public health and public education might be expected to be among the casualties of a system of self-centred vested interests wrought by large concentrations of economic resources and political power in the hands of a few. On the subject of health and inequality, a great deal of useful work has been done by Michael Marmot in Britain, and by the Harvard academics Ichiro Kawachi and S.V. Subramanian.

That was only a sampler, and the links and examples can be vastly multiplied. The world, however, is not wanting in “Darwinian” champions of the alleged virtues of inequality in securing the preservation and propagation of the fittest. Such tendencies are particularly well marked in fascist plutocracies—and if tendencies are what we speak of, then there is reason for us to fear on India’s behalf. However unseasonal the sentiment, there is much to be said for setting one’s face against unharnessed inequality. There is nothing either right or good about it.

S. Subramanian is an economist and a former Indian Council of Social Science Research national fellow.

This is the second in a two-part series.

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