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Income Equalization Does Not Confer Net Social Benefits

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Abstract

Income Equalization Does Not Confer Social Benefits

In the modern era, there is much wailing and gnashing of teeth about income and wealth disparities. The premise upon which these complaints are based is that egalitarianism is an unambiguous good, and that any and all steps would be taken to reduce gaps between the wealthy and the poor. The present paper is an attempt to right this imbalance; it makes the case that income and wealth differences should be neutral with regard to public policy: they should not be artificially increased or reduced. This view is defended on both economic and ethical grounds. On the economic side, the impossibility of interpersonal utility comparisons, the existence of loss aversion, questions about productivity responses to redistribution, and the undeniable reality of bureaucratic costs all call into question the wisdom of income redistribution. On the ethical side, a rights-based approach calls into question the egalitarian basis for income redistribution policies. In the end, income equality (or inequality) falls outside the realm of valid policy concerns.

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I. Introduction

Egalitarian policies ostensibly aim at improving the lot of the poor (Sanders 2013), particularly for those members of society who do not seem to benefit as much as others in a system of free market capitalism. In so doing, such policies follow in the tradition of distributive justice favored by John Rawls (1971). Unfortunately, these programs result in decreased levels of production and are rights' violations (Rothbard 1998). Policies designed to redistribute income are, by logical necessity, not effective at achieving their stated goals, even when these achievements are viewed from the standpoint of the persons whom the policies purportedly aim to benefit, where the beneficiaries are viewed as those with relatively high marginal utilities of money.

In a free market economy individuals do not live at the expense of others. In fact, the opposite is true. People can only acquire those things they want through voluntary interactions — primarily exchange. Those who earn high incomes in a market economy are the ones who have best served the wishes, needs and wants of consumers. It is for this reason that high earners are a boon, not a burden, to society. The present essay is in some ways a synthesis work, containing a fairly straight forward Rothbardian (1998; 2000; 2004)/Austrian-infused liberal critique of redistributionism. We attempt to provide an interesting insight in using the subjective valuation of wealth itself to explain a natural emergence of inequality.

In section II we offer an economic analysis suggesting that income redistribution, particularly in the form of progressive taxation, is a particularly bad method of increasing aggregate utility. Section III offers an ethical analysis undermining this redistributionist philosophy. The conclusions are presented in Section IV.

II. Economic analysis

The expected consequence of egalitarian policies is a decrease in production below what would be achieved without such policies. In a free market economy those individuals who wisely anticipate consumer demand increase their income to the greatest extent by satisfying consumer wants and needs. Their ability to accurately determine those goods and services, the factor prices of which are currently underbid, is the explanation for the increase in their wealth. Those who fail in this endeavor see their income diminish. The businessmen who manage resources successfully are the ones who most benefit consumers, yet it is precisely this type of behavior that is targeted by interventionists who introduce progressive in-

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come taxation. By forcefully taking away the property of successful entrepreneurs and giving to those whom the consumers decided were inferior at satisfying their needs and wants, production inevitably drops.

Production drops under such a system because interventionist policies remove incentives to produce for others, and they subsidize the behaviors of those who produce less, or not at all. One such example is the French progressive tax rate, which beyond a certain point becomes 75% of a man's income (Fogal 2006; Worstall 2013). This means that if a man continues to increase his income, that is to say produce and meet consumer needs and wants, thereby benefitting others, he will realize decreasing returns in net income. This reality has led French actor Gerard Depardieu, and several others from that country have left for greener (lower taxed) pastures, and/or are seriously thinking of doing so. They have been called "economic traitors" by the interventionists (Miller 2013; Matlack 2012; Trotter 2013).

On the other side of the coin are welfare policies. In a free market economy an individual's wage will closely reflect his level of productivity. The market does not adjust perfectly, but if a man is habitually overpaid, his employer will lose money, and if he is habitually underpaid then another employer will be incentivized to offer him a higher wage. The fact that a man may be incapable of producing much or anything that others find satisfying may be sad; this inability may be owing to no fault of his own; yet the fact also remains that to give resources forcibly taken from others to him is to lower total output, which is the direct result of this misallocation of otherwise productive resources.

It is economic law that when an intervening authority subsidizes a given behavior it gets more of it. Consider the behavior of a worker whose wage is barely above the level of welfare payments (or perhaps even below). The man no longer faces the choice between work and starvation. He is no longer working for the full wage. He is only laboring for the difference between the wage and the welfare payment. This is far from stating that welfare recipients live luxuriously, but it remains ineluctably true that every step in this direction constitutes an incentive for him to stop producing for others because he expects that others will produce for him.

In addition to distorting the choices between work and leisure, welfare payments require an administrative bureaucracy to manage them. Acknowledging that the administrative costs are typically a fraction of the monetary costs of a welfare program, any economist knows that the true cost is not monetary — it is the opportunity cost. For example, the Social Security Administration's costs are about 0.7% of the benefits granted by Old Age, Survivors, and Disability Insurance (Social Security Administration 2015). Most people would consider this a fairly small percentage, as, in effect 99.3 % of each dollar spent by Social Security is going to the intended beneficiaries of those programs.

When considering the opportunity costs of administering, the more relevant question is what would have been done with the resources that the Social Security

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Administration (and other redistributive programs) use in administering their systems. The Social Security Administration has approximately 65,000 employees — many of whom are highly trained. By comparison, Cisco Systems — the leader in Internet networking, with about 85% of Internet traffic traveling across Cisco's systems — has about 70,000 employees. While we obviously cannot say precisely what the Social Security Administration's employees could accomplish if they were tasked with production rather than redistribution, it is clear that production could possibly increase in remarkable ways if these bureaucracy's resources were turned in a different direction.

The most sophisticated advocates of income equalization grant that their policies may lead to fewer total goods being produced. However, production for production's sake is not the goal of economic activity. Man does not work for the sake of creating something, but to increase his own utility by satisfying the needs and wants of consumers. Advocates of egalitarian policies state that the aim of such policies is to increase utility and that it is in this sense that they benefit society as a whole. After all, they say, a given sum of money must have more significance for a poorer person than for a wealthier person.

One such scheme is considered. States Moomaw (2006: 112):

> Isn't there a way to determine how far to go in reducing allocative inefficiency… The solution is to assign weights to the individuals who will benefit from and pay for the changes that will be made… Suppose that some evidence convinces us that a dollar to a poor person has twice the value of a dollar to a rich person. We could assign any weights to the two groups as long as the value for the poor person was twice as large as the value for the rich person… These weights could then be applied to changes in the tax burden experienced by the two individuals. The difficulty, of course, lies in discovering the appropriate weights.

The fallacy of this theory is founded upon a deep misunderstanding of the theory of marginal utility. This theory states that the value to an individual of an additional unit of a good is less than the value of a previous unit of the good. When applied to money, this means that an additional unit of money will be less valuable than the previous unit.

It is very easy to start from the marginal utility theory and to jump to the conclusion that its teachings apply interpersonally. Shouldn't an additional unit of money have more value to a poorer person than to a richer person? The problems with this thinking are threefold.

Value cannot be measured absolutely, only comparatively (Rothbard 2004). Despite the efforts of many economists to the contrary there is no such unit as a "util" (Robbins 1938). Value preferences are ordinal, not cardinal (Barnett 2003; Wutscher and Block, forthcoming). An individual may prefer A to B, but he cannot prefer A to B in terms of numbers of utils. Since value cannot be measured, therefore, it cannot be compared between persons. Because no unit of value exists, one cannot compare the value that one economic actor affixes to a unit of a good, as against the value that another does.

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Choosing is a better indicator of desires than mere talk. One may claim to prefer A to B, but if in reality he chooses B over A, we know his true preference. One might speculate that an additional sum of money might be insignificant to a wealthy entrepreneur, yet if he studies the market assiduously, works extra hours, refuses to rest on his laurels, anticipates consumer demand, undertakes projects, and assumes the risk of his capital, then this indicates the very opposite.

Conversely, one might speculate that even a smaller sum of money might be very significant to a poor person, yet if he consumes his capital, rather than investing or accumulating it, if he refuses to work extra hours, or train himself so as to improve his chances for a promotion or higher-paying job, then this undermines that contention. As counterintuitive as it might be, someone who has much — if he continues to strive for even more — has a clearly demonstrated preference for additional income. If he has little — but chooses to complacently remain where he is — this demonstrates a low preference for additional income.

One way to test the intuition that marginal utility of income is lower for high earners is to look at hours worked. If the marginal utility of money falls rapidly for high earners, this suggests that they would work relatively fewer hours. If there is some set level of income at which marginal utility of income naturally levels off, then earning a higher wage would mean that laborers simply achieve this level in fewer hours. Thus, one test of demonstrated preferences is the worker's response in labor hours as a function of hourly earnings. Data suggest (Kuhn and Lozano 2008) that the percentage of men working long hours increases with hourly earnings. This cuts against the implications that one would expect to find if marginal utility of one hours' wage were lower for high earners than low earners.

Another attempt to measure the responsiveness of high earners to marginal tax rates is given by Piketty, Saez, and Stancheva (2013). They find that the overall elasticity of top incomes in response to tax rates is given by labor supply, tax avoidance, and compensation bargaining. Their contribution is to demonstrate that the presence of bargaining effects lowers the elasticity of labor supply, because the overall elasticity is now decomposed into multiple channels. One implication of the model is to push up optimal tax rates.

Yet another implication of this finding is that marginal utility of income for high earners is higher than commonly assumed. The fact that labor supply is less responsive than previously thought suggests that high earners gain more utility from a marginal hour's wage. In fact, even the increased willingness to bargain reveals the preference of high income workers. Intuition suggests that a low income worker would bargain vigorously (if the utility of a marginal bargaining dollar is high to him) while a high income worker would not similarly spend his time in this manner. Yet the data reveal that it is the high income workers who successfully expend resources in bargaining. This suggests that the utility of the marginal bargaining dollar is higher than originally thought; it must be high enough to overcome the disutility of further bargaining. Piketty *et al.* find an effect that margin-

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ally weakens concerns about the effects of progressive taxation on production, but they would shift the marginal wages away from those who have a low elasticity for them (and who strongly value them) and marginal bargaining dollars away from those who demonstrate a high willingness to realize them.

The standard dirigisme approach to income redistribution is progressive taxation. In contrast, the approach suggested by the above findings is to alter the original scheme. If the goal is to increase aggregate utility, then the methodological principle of demonstrated preferences implies that this would be better accomplished by redistributing income not from high earners to low earners, but from high hour workers to low hour workers. Given the correlation between high hourly earnings and long work hours, this would result in income redistribution in the opposite direction that was originally proposed. Of course, the present authors do not actually advocate such a policy. This is mentioned because it highlights the fact that the implications of utility maximization may result in policy recommendations which few find acceptable.

Even if we set aside some of these concerns (in particular, the problem of interpersonal comparison of utility and the decrease in production of goods and services), work in behavioral economics suggests that we should be cautious before redistributing. Kahneman and Tversky (1992) document the existence of "loss aversion", that is, that people have a stronger preference for avoiding losses than for achieving gains relative to their current position. Psychologically, the impact of losses is approximately twice as large as for similar-sized gains. This suggests that redistribution between "near-equals" is likely utility-destroying rather than utility-improving, as a naïve application of diminishing marginal utility would seem to suggest. (Including habit-formation in preferences as in Fuhrer (2000) would further strengthen this effect.) In a simple case where marginal utility can be approximated as 1/x for gains and -2/x for losses where "x" is the level of wealth or income, then redistribution is only utility-improving if those that are being taxed are at least twice as wealthy as those who are receiving the benefits. While this argument, by itself, does not suggest that no redistribution should take place, it does suggest a great deal of caution is appropriate before undertaking to redistribute. When combined with the arguments above about demonstrated preference and the likely differences in preferences for material wealth between income levels, the odds that any redistribution is likely to be utility-destroying are increased all the more. Adding to loss aversion the overall loss of production that results from redistributive policies also strengthens the argument against introducing income redistribution schemes.

Thus our argument does not ultimately depend on the decreased production associated with divorcing a worker's discounting marginal revenue production form his actually take-home pay. Even if there were no disincentive effect on production, and even if transfers from high to low earners were costless, there is still the issue of high earners revealing their higher marginal utility of one hour's

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wage, as measured by their relatively greater willingness to work long hours combined with their greater willingness to expend resources in the bargaining process. While intuition might suggest that the next dollar is worth relatively less to a high earner, experience actually reveals the exact opposite. Thus income redistribution schemes — particularly progressive taxation — are not only wealth-diminishing (via disincentive effects) but also utility-reducing (via transfers from high marginal utility of wage to low marginal utility of wage workers).

This analysis also applies to the issuance of tax-funded unemployment benefits. Just as forced transfers of wealth diminish production, unemployment benefits, by paying people to be unemployed, increase unemployment. Unemployment benefits create additional unemployment by reducing the capital available with which to hire workers. Furthermore, they sustain unemployment by minimizing incentives to work. The higher these payments are relative to wages, the less incentive an individual has to work, because he is no longer working for the full wage. He is engaging in this disutility only for the difference between the wage and the unemployment benefit.

It is problematic to support tax-funded unemployment benefits on the basis that the purported increase in social utility is enough to offset the drop in production. If an individual finds himself in a position of voluntary unemployment, his demonstrated preference for a given sum of money is low. To forcibly seize money from those who work for it, and to give it to those who do not, is to take from those with a higher demonstrated preference, and to give it to those with a lower demonstrated preference. It is not possible to compare utility interpersonally, but as counterintuitive as it is, those who wished to do so would be more logically consistent by perhaps reversing direction and instead advocating for a widening of economic inequality.

An additional consequence of interventionist schemes such as progressive taxation that aim to decrease the gap between the rich and the poor is the forgone benefits of such inequality. Hayek (2011: 98) makes a striking case for the material benefits of inequality, even from the standpoint of the poor. He offers the following insight:

> If today in the United States or western Europe the relatively poor can have a car or a refrigerator, an airplane trip or a radio, at the cost of a reasonable part of their income, this was made possible because in the past others with larger incomes were able to spend on what was then a luxury. The path of advance is greatly eased by the fact that it has been trodden before. It is because scouts have found the goal that the road can be built for the less lucky or less energetic. What today may seem extravagance or even waste, because it is enjoyed by the few and even undreamed of by the masses, is payment for the experimentation with a style of living that will eventually be available to many.

Hayek (2011) explains that without some group in a position of material prosperity, there would be no market for goods that are in an experimental stage. The production costs of these early goods are so high that they are only avail-

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able to some, but as entrepreneurs improve their processes, they require fewer resources to produce the same good. Decreased production costs coupled with increased knowledge of and demand for the product from consumers mean that these benefits diffuse throughout society much sooner than would be the case if incomes were kept artificially equal by interventionist policies. Thus, we see, that the public policy proposals of the egalitarians militate against the very goals they are so vociferous in espousing: helping the poor.

Perhaps the strongest argument that interventionist transfers of wealth from the rich to the poor does not help but rather hurts the latter has been furnished by Murray (1984). One would think, give money to the poor, no brainer, and they are richer than they otherwise would have been, period. But, no, this author demonstrates. For one can only transfer funds to the deserving poor. If the money is given out willy-nilly there will be reverberations, which will place the entire program in danger. If there is an able-bodied adult male in the home, the occupants are clearly not deserving. Let him go out and get a job. In any case, welfare, after 1965 when President Johnson's "Great Society" kicked into gear, made a young pregnant woman a better fiduciary offer than the father of her child was likely able to provide for her, in terms of not only money but also health, food and housing subsidies. As a result, the family that might otherwise likely have formed does not do so. And what is wrong with that? Simply this: there is a strong causally underpinned correlation between intact families and lack of poverty. In not only breaking up the family, but seeing to it that the family does not form in the first place, paradoxically, welfare hurts the poor by exacerbating their plight.

Scholars residing on the left branch of the political spectrum have long been concerned about the unduly high in their opinion inequality in income. More recently, this apprehension has if anything increased, with more and more econometric studies being produced devoted to studying this phenomenon. (See for example Boserup, Kopczuk and Kreiner 2014; Kopczuk 2015; Kopczuk and Saez 2004; Wolff 1989, 1994, 1996; Wolff and Marley 1989.) As far as we, the present authors, are concerned, this is all — in the words of Shakespeare — "sound and fury indicating nothing". Why? For several reasons. First, what matters is not whether there is a bimodal distribution of the very rich and the very poor, with the middle class all but wiped out, but *why* this occurs. If it takes place as a result of the workings of the fully free enterprise system, then all is well. Here, the rich get richer only by elevating the well-being of all income classes. On the other hand, if it is the result of crony capitalism, in which the wealthy gain their riches by impoverishing the poor, this is highly problematic, not so much because of this end state, but rather by the *process* (Nozick 1974) through which it takes place. Such a bimodal distribution *could* have been the result of the interplay of market forces; therefore, it is not *per se* problematic. But the process of crony capitalism, rent-seeking, fraud, outright thuggish theft, etc., is impossible to reconcile with the system of laissez-faire capitalism.

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Second, suppose this bimodal distribution occurred in any other field; would any great concern be thereby generated? Not at all. Posit, then, that this occurred in chess. There would be a not so small number of really excellent grandmasters, and a gigantic number of "patzers", players with a rating of 1200–1700, and an almost disappearance of the "middle class" those rated between, say, 1701 and 1900. Would anyone care? Well, yes, if the middle class ranked players were murdered, or, for some reason not allowed to play this game. But if it was the result of the natural interplay of talents, no one, that is, *no one*, would be at all put out. And the identically same situation would prevail with any other calling; that is, *any other*. For example if the self-same bimodal distribution took place in times in the 100 meter dash, or in swimming times, of ability in golf, or painting, or sculpture, or music, or cooking, or baking, or shining shoes, it would be entirely ignored; well, at least for the most part, provided, of course, that the *process* that brought about this result were not untoward. Why should the situation with income distribution be any different?

III. Ethical analysis

Having refuted the claim that egalitarian policies promote material prosperity at least for the poor, and that they may even transfer income from those who demonstrate a higher preference for it to those who demonstrate a lower preference for it, we now turn to a moral analysis of them. One moral argument in favor of egalitarianism is the equality of man. "Modern liberalism is grounded in two affirmations. On the one hand, it affirms equality by insisting that each citizen has a fundamental right to a fair share of resources as he sets out in life" (Ackerman *et al.* 2006: 43). They suggest a policy that would give each person a lump-sum, one-time payment of $80,000 when he reaches the age of maturity.

Why this insistence on a right to resources? An answer comes from Ackerman *et al.* (2006: 43): "It follows that a grant of private property should be recognized as the birthright of every liberal citizen — not a scarce commodity to be doled out by the community as a reward for proper behavior".

Ackerman *et al.* fail to see that the very reason private property exists is because it *is* a scarce commodity! When something is abundant it is not an economic good at all; no reason exists for rationing it (Hoppe 2006). They also fail to realize that if one's property can be taken at the whim of a government bureaucrat, or on the occasion that a stranger turns 18, then this is not a society system of based on private property rights. It is one a system where some are allowed to take from others. A legal institution system of private property is the only one devoid of coercion.

One must distinguish between positive rights and negative rights. A negative right does not require a non-right holder to do anything other than to respect the right of the holder. A positive right, on the other hand, requires others to act on

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behalf of the one claiming the right. A (negative) right to free speech does not require any specific behavior on the part of anyone else. All it implies is that no one else interferes with this right. A (so-called positive) right to a free education, however, obligates others to produce this good for the one who would exercise it. Thus, a positive "right" merely masks a demand on the part of some to steal the property of others.

Is there any room in the libertarian tradition for the victory of positive rights of welfare? This is the question that Lomasky and Swan (2009) try to answer. These authors find that even Adam Smith (1776: 503) supported the right of needy individuals to the surplus of others' goods. Does this mean that the present authors are out of touch with the free market tradition? Indeed, no. Lomasky and Swan note the stringency of the eligibility of welfare rights, particularly that legitimate recipients must be (1) in extreme want, (2) and must have fairly well exhausted one's own attempt to provide. Judging by the standards of the 18th century of Smith's day very few Americans would be eligible for welfare.

Tomasi (2001) attempts to reconcile the libertarian emphasis on private property rights and economic freedom with the Rawlsian (1971) difference principle which in the words of Tomasi's critic Mack (2012):

> … requires that the institutions that affect the distribution of income in society be so structured that the income that accrues to the least well-off 'representative man' be as high as possible. The social minimum must be maximized. Between any two possible distributions of income in a society, justice demands the distribution with the higher pay-off for the worst off no matter how much less income other representative men have under that distribution (as long as those others don't become the new worst off). If we keep in mind how demanding the difference principle really is, we will keep in mind how unlikely it is that the spontaneous processes of a private property free market economy will satisfy this demand and, therefore, how unlikely it is that Tomasi will achieve the synthesis which is his intellectual ambition.

A minor criticism of this is that if applied to the entire world, not just to a relatively wealthy country like the U.S., this policy would make Americans very poor indeed. Many advocates of Rawls-type social justice would not carry the principle that far, but it is difficult to see why ever not. This hypocritical flaw also applies to those such as Tomasi who enjoy upper middle class standards of living while being free to apply their own greatly impoverishing principles to themselves, but neglect to do so. A more serious flaw — reflected in Nozick (1974) — is that there is simply no way, it would constitute a veritable logical contradiction, to reconcile the non-aggression principle (NAP) of libertarianism with any and all compulsory redistributionist schemes, up to and including the Rawlsian one favored by Tomasi.

Elizabeth Anderson sees inequality of wealth as a violation of freedom. She (1999: 315) writes: "[e]galitarians thus differ from libertarians in advocating a more expansive understanding of the social conditions of freedom. Importantly, they view private relations of domination, even those entered into by consent or contract, as violations of individual freedom".

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Anderson fails to see the distinction between power or wealth (positive rights) and freedom (negative rights). Rothbard (1998: 42) explains the difference:

> This truth will be obscured if we persist in confusing "freedom" or "liberty" with *power*… For if we define freedom, again, as the *absence of invasion* by another man of any man's person or property, the fatal confusion of freedom and power is at last laid to rest… Each man's power, then, is always necessarily limited by the facts of the human condition, by the nature of man and his world; but it is one of the glories of man's condition that each person *can* be absolutely free, even in a world of complex interaction and exchange.

There is a second problem with Anderson's objection to consensual relations colored by some form of power asymmetry. If it is taken to its logical conclusion, it would require perfect equality. It would not be enough to remove inequality of wealth; justice would require all forms of inequality to be eradicated. In the words of Rothbard (2000: 6):

> equality of *all* men — the egalitarian ideal — can only be achieved if all men are precisely uniform, precisely identical with respect to all of their attributes. The egalitarian world would necessarily be a world of horror fiction — a world of faceless and identical creatures, devoid of all individuality, variety, or special creativity.

Rothbard cites examples that use extreme concepts of egalitarianism. For example, he posits a world in which the State makes everyone equal in every way, even on the basis of looks and intelligence. He argues that the reason why we are repulsed is that we recognize the inherent differences in each person. It is precisely in our individuality that our humanity resides. The egalitarian ethic, if followed through completely, would attack human diversity and would require us to act against our nature. It is for these reasons that Rothbard concludes that the egalitarian ethic is evil, and that the same may be said about any steps taken in its direction.

Arguments that criticize wealth inequality as a source of injustice must be able to show that the wealth disparity is created by unjust means. In order to evaluate this claim we must examine how one acquires property in a libertarian society. In the free society man operates according to the principle of voluntary exchange. In order to increase his wealth an individual must produce goods and services of which the consumers demand and approve. Those who acquire wealth in this sense do so by benefitting others, and no injustice occurs.

> Even if man A is more productive in all areas than is man B, it is still in A's best interest to specialize, and to exchange with B. This insight into the advantages of exchange, discovered by David Ricardo in his Law of Comparative Advantage, means that, in the free market of voluntary exchanges, the "strong" do not devour or crush the "weak", contrary to common assumptions about the nature of the free-market economy. On the contrary, it is precisely on the free market where the "weak" reap the advantages of productivity because it benefits the "strong" to exchange with them (Rothbard 1998: 36).

Egalitarian policies that involve the forced transfer of wealth from one person or group to another fail to meet this mutually beneficial standard. They are what Franz Oppenheimer (1908: 12) calls "the political means".

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> There are two fundamentally opposed means whereby man, requiring sustenance, is impelled to obtain the necessary means for satisfying his desires. These are work and robbery, one's own labor and the forcible appropriation of the labor of others. Robbery! Forcible appropriation! These words convey to us ideas of crime and the penitentiary, since we are the contemporaries of a developed civilization, specifically based on the inviolability of property.

One way to achieve legitimate property is to discover some previously unowned good and to homestead, or mix one's labor with it. One who discovers the good benefits from this process, and no one is directly harmed. A second way to acquire property in a free market economy is through receiving a gift. The third and final way of acquiring property in a free market economy is through exchange. All parties to the exchange expect to benefit from the transaction otherwise they would not make it. They each necessarily benefit in the *ex ante* sense. Typically, they both improve their economic situations in the *ex post* sense too.

These three methods are the only ways to acquire property that are consistent with a free market. Any other method implies the use of force or fraud. While it is appropriate to invoke justice to combat (unlawful) force or fraud, it is not appropriate to use force to prevent voluntary transactions, or to punish those who engage in them. Those who acquire property in a market society do not violate the tenets of justice, and those policies which seek to achieve "social justice" have no wrong which they could right.

When comparing our own society to this free market standard it is clear that some forms of wealth accumulation do violate these legitimate means. Forms of rent-seeking are one such example. Thus, our comments about the beneficial effects apply to forms of wealth —particularly income — in which the activity benefits all parties to the exchange. For example, while a worker's income approximately reflects his (discounted) marginal revenue product, it is by no means clear that a politician's salary reflects the voluntary contributions of anyone at all. In this case his salary is often financed through the involuntary contributions (taxes) of those who did not vote for him, and even those who voted against him. Thus, instances of forced transfers do not fall under the umbrella of protection afforded in this essay.

Those who argue for egalitarian policies wish to subsume their efforts under the name of justice. They do so in grave error. While they rightly point out that all are not equal, they fail to see that all are equal *before the law*. All are certainly not equal in terms of intelligence, innate ability, ambition, temperament, perseverance, or skill, all of which contribute to one's ability to produce wealth.

Of these inequalities of abilities Hayek (1978: 87) writes,

> From the fact that people are very different it follows that, if we treat them equally, the result must be inequality in their actual position, and that the only way to place them in an equal position would be to treat them differently. Equality before the law and material equality are therefore not only different but are in conflict with each other; and we can achieve either one or the other, but not both at the same time.

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We cannot leave this section without reflecting on the contribution to this matter of Nozick (1974). This eminent philosopher offers the case of Wilt Chamberlain, former basketball champion. Assume any income distribution you wish, down to, and including, absolute equality. Then, posit, that our man Wilt puts on a basketball exhibition. He charges everyone $20 to witness this magnificent display. People line up in droves to attend. At the end of the day, everyone is $20 poorer, but richer on a net basis in terms of the enjoyment they had from watching this spectacle, and Mr. Chamberlain is several thousands of dollars richer in terms of money, and also the psychic benefit he derived from the show he put on. But, note, says Nozick, after this exchange takes place, we have departed from absolute wealth equality we had preciously achieved, oh, woe is us. What is to be done for the egalitarian fanatic? Why, he must force Wilt to give back all the money he had honestly earned. But, if the basketball champion knew this would take place, he never would have agreed to put on his show in the first place. The point Nozick forces us to recognize is that any fixed wealth or income distribution such as an egalitarian one is simply incompatible with economic liberty. If we strictly adhere to equal wealth, we shall not be free to pay the Wilts of the world to exhibit their special talents.

No, instead, libertarian Nozick suggests, we should favor a just *process*, namely, the free enterprise system where the only way to get rich is to enrich your customers, employees, suppliers, etc. Capitalism will not achieve exact equality, but it does better on this score than violent institutions. For a while Bill Gates, or Wilt Chamberlain, increases the economic well-being of those with whom he deals, the exact opposite occurs with dictators, whether democratically elected or not. For, they enrich themselves *at the expense* of the long-suffering taxpayer, the exact opposite of what occurs in a regime of economic freedom.

IV. Conclusion

It is not the duty of the economist to make value judgments, but to examine the effectiveness of given means in accomplishing a given end. Egalitarian policies designed at equalizing income are not effective at achieving the stated goals of their advocates. This holds true even if these achievements are viewed from the standpoint of the persons whom the policies presumably aim to benefit. Such policies ignore the reality of differences in each individual. They confuse equality before the law with equality of income.

Egalitarian policies ostensibly aim to increase social utility. It is not possible to absolutely measure individual utility, let alone social utility. It is therefore impossible to empirically state whether these policies have succeeded. Yet the demonstrated preferences of high earners, particularly their increased willingness to work long hours and to expend resources on bargaining, suggest that high earners derive greater utility from a marginal hour's wage. And this is independent of the conse-

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quence of diminished production. Even if one wished to engineer social benefits on a wide scale, measures to equalize income would be contrary to purpose.

Given that one objective of public policy is to make all members of society more equal (equality is an end in itself, not merely a means to other values), then one venerable and obvious criticism is that this approach is self-defeating because somebody (or some institution or organization) must be in charge of the policy, and thus this enforcer would be above the rest of mankind (in Orwell's *Animal Farm*, some pigs are more equal than others). Thus, egalitarian policies are self-defeating not only in terms of improving matters for the general public, but, also, as a matter of pure logic.

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