THE BEST SOCIETY: EFFICIENCY AND EQUALITY

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In hundreds of years of argument for and against socialism the two most heatedly argued claims have been that a socialist economic system would be superior to a capitalist or a mixed economy in (1) *productive efficiency* and (2) *distributive justice.*

The first claim is very clearly put in the formulation proposed in Professor Bergson's paper: that the working arrangements of a socialist system are instrumental in achieving greater productive efficiency, reflecting a better utilization of the potential productivity of labor and capital. Bergson has tested this proposition and finds that empirical evidence shows precisely the opposite. The second claim identifies distributive justice with equality of income. This is the theme of Professor Tinbergen's paper.

Bergson's paper presents a comparison of productive efficiency in Soviet Russia with that in four Western countries. Tinbergen's paper contains no comparison of the degree of inequality of personal incomes or consumption in Soviet Russia and in our mixed economies. Instead, it offers arguments in favor of institutions designed to equalize personal incomes anywhere, in socialist, capitalist, and mixed economies, indeed in the whole world.

I conceive my task to be chiefly that of a critical commentator. Since I have little time but much criticism of Tinbergen's paper, I shall indulge unashamedly in a grossly unequal distribution of my time and give almost all that I have left to Tinbergen.

Tinbergen complains about the common practice of "welfare economists to keep the ethical contribution out as long as possible and only have it brought in after the economic analysis had been finished." He recommends that the required "ethical choice be made at the beginning." Ethical choices can be made only on the basis of postulates, and postulates cannot be judged to be true or false. At best, they can only be judged as commanding or not commanding common assent. In support of a postulate one may offer a persuasive "prod to acceptance" but never a "proof." This has been said by many writers, but I chose to quote it from a very fine article by the

economist Robert Strotz. The title of that article was "How Income Ought To Be Distributed," and the subtitle was "A Paradox in Distributive Ethics." [1] A critical reply carried the subtitle "Paradox Lost," [2] and the subtitle of Strotz's rejoinder was "Paradox Regained." [3] This afternoon we are again playing with the Perplexing Paradox of Paradise Presumed.

Tinbergen holds that "our attitude toward others [our fellow men] should be governed slightly only by envy. In other words: that solidarity feelings about cancel feelings of envy." I wonder whether the second sentence is supposed to be a normative statement, a prod, or a factual judgment about people's actual attitudes or preferences. I shall argue presently that it is false if it is meant to be a statement of fact, and pietistic if it is to be a moral precept. I recall the dictum of Oliver Wendell Holmes, Justice on the Supreme Court: "I have no respect for the passion for equality, which seems to me merely idealizing envy." [4] Well, I do have respect for idealists, but I agree that sheer envy and sympathetic envy (or second-order envy) are at the core of the ideal of income equality. John Stuart Mill called envy "the most anti-social and evil of all passions," [5] and Friedrich Hayek warned against sanctioning the demands of envy "by camouflaging it as social justice." [6]

I do not believe that all or most proponents

of equality of income or consumption are motivated by self-interested envy. Instead, it is vicarious or reflected envy, one of the several forms of sympathy, that moves some men of affluence to reject their actually or potentially high standard of living and propose equal sharing with their fellow men. Tinbergen is an idealist in two respects: not only does he champion the ideal of equality of income distribution, but he also believes that the ideal of equal sharing is actually a top-priority objective of our society. He is not averse to letting governments impose certain rules and institutions on an unwilling people "if the population is shortsighted." In general, however, he wants to rely on public actions that maximize social welfare as indicated by "the social welfare function." From among several alternatives, he chooses "to take the sum of individual welfare values, without weights attached," as the valid social welfare function.

In this choice Tinbergen is not very far apart from several other writers on welfare economics. Kenneth Arrow, for example, speaks of the "aggregation of the multiplicity of individual preference scales." [7] But Tinbergen differs from most other writers in that he believes that the "welfare feelings" of individuals can be measured, compared, and aggregated (not only conceptually but actually) and in that he draws political conclusions from his (thus far only hypothetical) calcu-

lations. I admit, of course, that most people with less than average income probably favor equality of income, chiefly because they stand to gain by a redistribution at the expense of those better off. The beneficiaries of such a redistribution—though they would probably benefit only in the short run —would undoubtedly be in the majority.

Tinbergen offers five subtle distinctions in the "approaches" to the optimization of the social welfare function, depending on different assumptions about the integrability of individual welfare functions, about weights attached to them, and about the basic equality of people with regard to "sensitivity to the values" (to feelings) of pleasure and pain) and with regard to their capabilities and their needs (as to working conditions as well as consumption). One set of assumptions "would require equal incomes for everybody"; another, which Tinbergen regards as "more realistic," would require "that incomes should be equal after correction for differences in needs, both professional [like a personal library and study for Tinbergen or for me] and purely human needs."

Tinbergen is consistent in proposing redistribution from the rich to the poor not only "within each nation" but also "between nations," or "even more so, since primary (or productive) income inequality is much larger between than within nations." We might try to find out how our fel-

low citizens feel about sharing their wealth and income with the people living in the rest of the world. We could easily ask them, perhaps through survey research or in a referendum. A first, more general question, like "Are you in favor of greater equality of income among all the people of the world?" might get majority support. A more specific question, I am afraid, would be voted down overwhelmingly. It might be worded like this: "Would you favor a worldwide redistribution of income, with the result that the average income per person in the United States would be reduced from the present 4000 dollars (or so) to the world average of less than 400 dollars per person?" As a matter of fact, we may take the voting record of the U. S. Congress as an indication of the majority opinion of our citizens. Despite some urging by the President, Congress could not be persuaded to appropriate as much as one half of one percent of our national income for aid to poor countries. For the kind of sharing that would be needed to approach international equalization of income per head, the appropriation of the United States would have to be in the neighborhood of 90 percent of our national income.

I realize, of course, that for the description of a "world community welfare function" we must aggregate the individual welfare functions of all

the people of the world, and not confine ourselves to the welfare functions of the American people. In a worldwide referendum I would expect a majority to vote for radical redistribution, so that the poor can share the wealth with the rich —with the result that all would be equally poor. The idea is that the welfare loss of the 200 million Americans, whose incomes are to be cut down by 90 percent on the average, would be smaller than the welfare gain accruing to the billions of people whose incomes would double or quadruple from 100 or 200 to 400 dollars a year, and that thereby world community welfare would be raised and perhaps maximized.

An argument like this presupposes the possibility of interpersonal comparisons and measurement of utility or welfare. It presupposes that robbing Peter to pay Paul would reduce Peter's measurable happiness by x units and increase Paul's $x + y$ units, with a combined net gain of y units of happiness. Tinbergen, in his own words, has the "tremendous optimism" necessary to make the assumption that we shall be able to measure, add, and subtract the "welfare feelings" of different people; that we shall have a good "welfare thermometer" [or, as I would call it, a *hedometer*]. But even if I shared this optimism, which I do not, I would not be willing to conclude that the expectation of an increase in their combined

happiness implies a moral justification, let alone an ethical mandate, that we actually rob Peter to pay Paul.

Tinbergen no doubt realizes that the confiscation of excess incomes (the portion above the average) would affect people's efforts and exertions and that national and world incomes would fall as a result. This is why he wants to replace taxes on actual incomes by taxes on potential incomes. If people with greater capabilities were taxed on the incomes they *could* earn by working hard, they would have to work even harder if they wanted to keep an extra buck for themselves. Their earnings potentials would be assessed by comprehensive examinations—and Tinbergen thinks we will soon perfect our testing techniques to measure capabilities. He does not tell us about the simultaneous perfection of the cheating techniques of those examined. Surely, if we were taxed on high test scores, we should try hard to get low scores; we could then earn a little more than our tax assessment if we later performed beyond our tested and taxed capabilities. Alas, Tinbergen wants to have us retested every five or ten years and it might be a bit embarrassing to make a poor showing at the reexamination if we had by hard work outperformed our previous, poor test scores.

The test-and-tax game would, I suppose, work like this. If Tinbergen can solve ten dif-

ferential equations in the time I need to solve one, he would have to pay a high tax to equalize our earning capacities, provided we live on this kind of work. If we live on our earnings from writing books and I can write two while he writes one, I would have to pay the higher taxes. It is not clear to me how testable capabilities to perform particular intellectual and manual tasks can be translated into earning capacities if earnings depend on the market prices of things produced, and prices, in turn, depend on demand. The earnings capacity of an opera singer does not depend merely on the number of high C's he can produce per week but also on the demand for opera performances. And how can one test the earnings capacities of managerial personnel, say, in banking, in industry, in commerce, in opera houses, and in universities? I wonder whether Tinbergen has given serious thought to his optimum tax scheme or whether he has offered it only as an interesting conversation piece.

The probable effects of income equalization upon workers' efforts and performance have been a major concern of the party chiefs in socialist countries. Let me quote from an early pronouncement of Joseph Stalin: "In order to insure our enterprises the necessary manpower, it is essential to attract the workers to the enterprises, so as to turn them into a more or less constant force. . . . Fluctuation of labor power has become a scourge

to production. . . . It is due to incorrect organization of the system of wages, to an incorrect wage scale, to a leftist leveling of wages. . . . Leveling results in that the unskilled worker has no interest to become skilled. . . . Marx and Lenin say that the difference between skilled and unskilled labor will exist even under socialism, even after the abolition of classes, that only under communism will this difference disappear, because even under socialism 'wages' would be paid according to work done and not according to one's needs." [8]

This is only one example of the official party line. The leaders of the Communist parties in the socialist countries recognize that the incentive effects of differences in incomes are indispensable for productive efficiency in the socialist economy. With this reference to productive efficiency I have come back full circle to Bergson. I should have liked to give him at least a few morsels of criticism. I might at least have referred to him as the author of several classical studies on welfare economics and on the ideal of an optimization of the social welfare function.[9] Alas, the justice of giving equal time to the critique of two eminent scholars had to be sacrificed to the greater efficiency of distributing scarce time according to the marginal productivity of its competing uses.

Notes

1. Robert H. Strotz, "How Income Ought To Be Distributed: A Paradox in Distributive Ethics," *Journal of Political Economy,* Vol. LXVI (June 1958).

2. Franklin M. Fisher and Jerome Rothenberg, "How Income Ought To Be Distributed: Paradox Lost," *Journal of Political Economy,* Vol. LXIX (April 1961).

3. Robert H. Strotz, "How Income Ought To Be Distributed: Paradox Regained," *Journal of Political Economy,* Vol. LXIX (June 1961).

4. *The Holmes-Laski Letters: The Correspondence of Mr. Justice Holmes and Harold J. Laski, 1916-1935* (Cambridge: Harvard University Press, 1953), Vol. II, p. 942.

5. John Stuart Mill, *On Liberty* (first ed. 1859; Oxford: Oxford University Press, 1946), p. 70.

6. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 93.

7. Kenneth J. Arrow, "Public and Private Values," in Sidney Hook, ed., *Human Values and Economic Policy* (New York: New York University Press, 1967), p. 13.

8. Joseph V. Stalin, *The New Russian Policy* (New York: John Day Company, 1931), pp. 6-8.

9. Abram Bergson, "A Reformulation of Certain Aspects of Welfare Economics, *Quarterly Journal of Economics,* Vol. LII (1938), pp. 310-334; "On the Concept of Social Welfare," *Quarterly Journal of Economics,* Vol. LXIII (1954), pp. 233-252.