

# CITY A.M.

## Consider this thought experiment.

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You have been transported back to 1912 and have the power to change the course of history. You foresee a century ravaged by the effects of two catastrophic World Wars, with a resulting 100m casualties. You also know the effects of violent communist revolution and rule, with a death toll almost matching the global conflicts.

But you have the power to prevent all this, on one condition: in your new history, each major country sustained higher levels of recorded economic inequality. Growth through the century would ensure average living standards rose, but the larger economic pie would be distributed more unequally than today.

Would you change history? Most rational people would surely opt to prevent bloody suffering. I suspect even Jeremyn Corbyn would. That the most ardent egalitarians would do so shows us that sometimes an aim (in this case “a more equal society”) comes at too high a cost.

This is important. For a new comprehensive and compelling account of the history of inequality by Walter Scheidel suggests that the only means of substantially levelling economic outcomes have been mass mobilisation war, violent revolution, pandemics (think bubonic plagues) and state failure.

The Black Death in Europe wiped out a quarter of the population, for example, leading to a shortage of labour relative to land – increasing the returns to the former and reducing the value of the latter. The World Wars, through the state takeover of assets, loss of capital to destruction, expropriation, inflation, high taxes and economic regulation afterwards tended to equalise outcomes in all countries that meaningfully participated. In Japan, for example, the top 1 per cent income share fell from 9.2 per cent to 1.9 per cent between 1938 and 1945. The wealth of the largest 1 per cent of estates fell by 90 per cent over a similar period.

The Soviet Union, meanwhile, after its nationalisation of banks, forcible redistribution of land, the gulags et al, had a Gini coefficient (a measure of inequality between 0 and 1 – the lower, the more equal) of just 0.26 by the 1980s. According to those who suggest inequality breeds bad social outcomes and slow growth, Soviet Russia should have represented the pinnacle of ambition.

Of course, few of those who worry about inequality would desire any of the above. But if we accept the historical facts that in times of peace inequality tends to be high, then maybe equality

as a central ambition is misguided. Maybe we can all accept that our liberties and real living standards are more important than the gap between rich and poor.

I thought of this last week when the Resolution Foundation warned of rising inequality through this Parliament. Groups such as the Institute for Fiscal Studies have forecast this since 2010, yet inequality in Britain is now at its lowest level for three decades.

Even so, let's suppose they are right: why exactly is rising inequality a central concern? The Chinese Gini coefficient has risen from 0.16 in 1980 to 0.55 in 2014 – but this has gone hand in hand with huge poverty reduction. South African inequality increased after the collapse of the apartheid regime. Indeed, some trends such as globalisation and technological advancement can widen the distribution of gains while making everyone better off. Inequality fell in the UK after the financial crisis – a hardly welcome occurrence.

Even so, many on the political left take reducing the income gap as the main goal of policy. They push for much higher minimum wages, for unionisation, wealth taxes and punitive income tax rates to compress the income and wealth distributions. Schiedel's work suggests this has minor or fleeting effects on the income distribution, all the while coming with significant economic costs. Redistributionist policies have not altered much the fact that, absent violence, higher levels of inequality tend to result. There is little evidence to support the contention that economic inequality in itself leads to war or revolution either.

When economic growth was non-existent and the world was largely zero-sum, the insulation of elites was deeply troubling. But over the past two centuries, a rising tide has been able to lift all boats. Our modern, dynamic world presents us with opportunities to continue to alleviate poverty. To the extent that inequality concerns us, it should be in instances where the state artificially insulates the elite from competition or enables crony capitalism.

But the value judgement held by many that more equality generally is necessarily better should surely be put to bed by the long sweep of history. As Schiedel himself signs off his book, "all of us who prize greater economic equality would do well to remember that with the rarest of exceptions, it was only ever brought forth in sorrow. Be careful what you wish for."

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