

Inequality and an American Principle of Fairness

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Economic inequality in America has been growing by a variety of measures ([see, for instance, data of University of California, Berkeley economist Emmanuel Saez](#))—and has become a central issue in contemporary political dialogue. Relatedly, a majority of American believe that our economic system is “rigged” for the wealthy (71%, [according to CNN](#)). It is possible that people will remain substantially passive, and that this moment will blow over. Nevertheless, the Occupy Wall Street and Tea Party movements, and the presidential candidacy of Bernie Sanders suggest that there are a large number of disenfranchised—and possibly angry—citizens that are engaged and may be expected to remain active. Black Lives Matter might also be included here—while ostensibly about unequal treatment by the police, differential police aggression towards African-Americans is arguably based in socioeconomic problems which stem from economic inequalities.

Economic inequality is partly due to inter-generational wealth transfer. It is possible for the wealthy not only to provide for their children but even to provide for their heirs far down the road. Many might see this as “unfair”: it introduces an inequality in expectation of outcome. Reducing or eliminating inter-generational wealth transfer might significantly reduce, at least, the *perception* of inequality. This might be enough to reduce pressures that could lead to far more extreme, less successful, and perhaps even violent outcomes. Inter-generational wealth transfer is arguably unfair (in a precise sense of this word), and contrary to our Revolutionary era anti-aristocratic heritage. This suggests a *principle* that can be appealed to in a wide variety of policy-making contexts.

Inequality—even extreme inequality—may be acceptable for many Americans so long as they can believe that they or their children could one day be wealthy too. The American Dream is that a person can, with hard work alone, can be more successful than her parents and that, with some luck, she can achieve limitless success. But the American Dream is dying: a majority of Americans now believe that their children

will be worse off financially than their parents (61%, [according to a Pew Research Center study](#)). Surprisingly, social mobility—the ability to move up in class—is now greater in the “socialist” European countries than here in America ([according to the Economic Policy Institute](#)).

Americans believe themselves to live in a “free” country and to be “equal”. We have unmatched freedoms of speech and association, and we are equal before the law: our laws are applicable to all, rich or poor, and there is little perception that prosecutors or judges are influenced by, much less controlled by, the rich. It is true that the rich have better access to lawyers but, of course, the poor *could* theoretically get the same lawyers. A system may be free and equal without being fair. We will fix a notion of fairness that captures at least part of our intuition of what fairness entails.

We will say that a country is “fair” if any two children have the same *expectation* of success with regard to the material conditions they are born into: that is, knowing nothing about their genetic endowments, if we could expect them to both attain average income and average wealth. We don’t preclude the possibility that some children will end up doing better or worse than average—just that we don’t *expect* them to, that we have no *reason* to expect them to, due to the financial success of their parents. Of course, some kids have the genes of world-class athletes, musicians, and scientists. We won’t call their natural endowments fair or unfair. They will simply be different. (And various talents will be valued differently in different places and different eras.)

Americans have typically promoted the idea that we are a *land of opportunity*. The foundation of our opportunity is our freedom and equality. While the social democracies of Europe in effect guarantee *outcomes*, at least minimum outcomes—due to their substantial safety nets, Americans have been more loathe to guarantee outcomes: why should indolent citizens be guaranteed the same outcome as hard-working citizens? All Americans have the same *opportunity*: rich or poor, black or white, work hard and, with ingenuity and luck, you can go as far as you want. Rather than *equality of outcomes* we believe ourselves to have *equality of opportunity*.

In fact, there isn’t really equality of opportunity when some citizens, in virtue of their parents’ wealth, are guaranteed success (that is, some comfortable minimum standard, never a paycheck away from disaster). It might be said that the children of the poor still have the *opportunity* to succeed, or even an equal opportunity to succeed. This is wrong in an important sense. Then you can’t have equality of opportunity without fairness. If a child has a trust that will pay her a tidy income throughout her lifetime, her expected income is greater than a child without these initial resources. Fairness requires that children have the same start in life, that

their initial material conditions are the same. We expect that children will have different outcomes. What we want is that there to be no material reason to *expect* any particular baby will be more successful than any other baby. We do have an instinct to provide for our families and sympathy for the “freedom” to pass our resources on to our children. So there is a tension between our idea of fairness and other common instincts that must be addressed.

An oversimplified example can help focus and clarify thought. It is too easy to mix up a large number of related issues, and miss the big picture. Consider a country, *Freeland*, with a representative democracy and the freedoms we share including freedoms of speech and association, and equality before the law. The people here all believe that, with hard work and luck, they can achieve limitless success. Freeland has one very successful and wealthy businessman, Aristo, and 99 other, much less wealthy, citizens. Aristo has a large estate and a large amount of cash and other assets—so much in fact that the generated interest every year is larger than the average annual income of the other citizens.

Aristo’s wealth is in a trust, which is passed on to the oldest child of each succeeding generation (the trust may be added to, and provisions may be made for some lesser payouts to other children). Now the wealth of Aristo’s heirs can only grow, the heirs can continue to expect to have annual incomes larger than the average of the other citizens—but they will never have to work for this income, never have to struggle to succeed, or ever have to worry about job insecurity, or paying their bills.

Pez is one of the other 99 citizens, a “commoner”. Aristo and Pez both have children, the eldest of which are Aristo Jr and Pez Jr. The expectations of success for these children are necessarily different: Aristo Jr is *guaranteed* to have a greater income than an average citizen—even if he is indolent and uninspired. Pez Jr can be expected to have the outcome of any other commoner. While Pez Jr could, in theory, be more successful than Aristo Jr, nevertheless Pez Jr cannot be *expected* to even have equal success. This society is not fair.

The United States is really like Freeland. There are certainly gradations of wealth and other differences, there are plenty of people at the top that can put their money in trusts and guarantee incomes for their heirs in perpetuity. Not all of the wealthy may in fact do this—but that is irrelevant to the comparison. Some do in fact do this—but the Freeland example is relevantly similar exactly because they *can*. The fact is that 40% of Americans have *no wealth at all* ([according to New York University economist Edward Wolff](#)).

An aristocracy is a class of people with wealth, power or hereditary privileges. At the time of the Revolution, the English peers were an aristocracy: they had titles, the opportunity to decide legislation in the House of Lords, and often had

considerable inherited wealth. We don't have peers; nevertheless, we do have citizens with hereditary privilege. These are the citizens like Aristo Jr, or any children of the rich, regardless of whether trusts have actually been set up on their behalf; their place is the same. Aristo's family is *in effect* a hereditary aristocracy. It does not matter that there is no king which has granted Aristo's heirs privileges. His wealth grants them privileges. While we don't have Dukes of Windsor or Cornwall, we do have Dukes of Gates and Jobs: the children and heirs of Bill Gates and Steve Jobs will have above average incomes whether or not they ever work. They will never have to live paycheck to paycheck. And, if properly managed, their heirs can be *expected* to succeed in perpetuity.

Some of the American Founders were democrats and enemies not only of the idea of monarchy but also of the idea of hereditary aristocracy. Thomas Paine, in *Common Sense*, the best-selling book of its day and an important influence on public opinion in the months leading up to the signing of the Declaration of Independence, argued that one reason for the colonies to separate from England was that the English system that ruled us was significantly flawed:

To the evil of monarchy we have added that of hereditary succession; and as the first is a degradation and lessening of ourselves, so the second, claimed as a matter of right, is an insult and imposition on posterity. For all men being originally equals, no one by birth could have a right to set up his own family in perpetual preference to all others for ever, and tho' himself might deserve some decent degree of honors of his contemporaries, yet his descendants might be far too unworthy to inherit them.

Wealth allows Aristo and similarly wealthy individuals “to set up his family in perpetual preference to all others for ever”; inter-generational wealth transfer can function in exactly the same way as hereditary title transfer. This traditional antipathy to hereditary privilege is embedded in our Constitution (Article I, Section 9, Clause 8): “No Title of Nobility shall be granted by the United States: And no Person holding any Office of Profit or Trust under them, shall, without the Consent of the Congress, accept of any present, Emolument, Office, or Title, of any kind whatever, from any King, Prince, or foreign State”.

We Americans can—and should—appeal to our antipathy to hereditary privilege to eliminate the possibility of a Duke of Gates or a Duke of Jobs. It is not fair that Bill Gates II, Bill Gates III, etc, should be guaranteed success while the majority of Americans should struggle. This is not equality of opportunity. We should break up the Gates Trust and the Jobs Trust. A society without inherited wealth would be more fair than our current society, would likely be more equal in fact and certainly

in perception. Obvious tools for structuring a more fair society include inheritance, estate and gift taxes—which seem to have been eliminated from contemporary policy discussion. “Death taxes” in particular have been framed as beyond-the-pale. The policy details don’t need to be decided here. Initial attempts at effective policy may fail; experimentation may be necessary—this is standard procedure in the sciences—and social policy often has unanticipated consequences. What is essential is the *principle*: inter-generational wealth transfer is unfair, hereditary aristocracy is un-American. If the principle is accepted the details can be resolved.

There will be resistance, of course, from the wealthy themselves. They will attempt to influence public sentiment on their behalf, and against the interests of the majority. The wealthy have influence that comes directly from their wealth. In our simplified example, Aristo will have a substantial influence on the people he employs, he can contribute to churches and politicians, and create think-tanks. He will have access to the media, and may even own and directly or indirectly control what is published and broadcast. It is natural and expected that he will attempt to change the terms of the debate about hereditary aristocracy and to promote the continuation of the current system. He may argue generically against taxes. He may argue that these taxes will be bad for the economy. He may appeal to our own interests in providing for our children. He may attempt to convince Freelanders that there really is equality of opportunity. He may attempt to explain inequality as the result of the poor “character” of the less successful citizens. And so on.

Typical arguments against taxes and tax rates do not, in general, apply to taxes of the accumulated wealth of the dead, including estate and inheritance taxes. It has been argued, for instance, that raising capital gains taxes directly reduces investment. Raising estate taxes, for instance, cannot directly reduce investment: there is no choice between the tax and an alternate use: it is merely about the control of the assets of a now dead citizen. Taxes applied to an estate taxes notably have *no effect* on the earner of the wealth. Aristo won’t be sad about them, complain to his family, or rail against the government. He is *dead*.

It is reasonable to expect that substantial inheritance and estate taxes will affect the behavior of the exceptionally successful. Maybe they will end up working less hard, being less productive, providing fewer jobs and otherwise contributing as much as they could to our economy. And maybe they will save less. This is possible. But a theory. Again, experimentation is necessary. There are always pros as well as cons. It is reasonable and probably good to allow the wealthy to establish trusts for their favorite charities and causes—and these same exceptional people might, instead of hoarding money for their heirs, maximize their industry to hoard money for these causes. They may direct their natural benevolence more widely than to their heirs

alone. And they might still save.

It is certainly the case—and understandable—that people want to provide for their families; the death of a productive person should not result in ones loved ones begging in the streets. In eliminating hereditary privilege we might consider allowing some advantages for the children of the wealthy. We understand this inclination. It might be a reasonable compromise to allow the wealthy give every educational advantage to their children: rather than heirs to financial capital they will be heirs to educational capital—as well as the need to *create* and *produce*. If the heirs use their educational capital to become as productive as their parents, this would be a happy consequence. As since they can't be indolent, there is a greater chance that this might happen. As we Americans typically do, we will need to find a balance between competing values. What is important though is not to forget the *principle*: inter-generational wealth transfer is unfair, hereditary aristocracy is un-American.

It is in the interests of the hereditary aristocrats to have the commoners believe that there really is equality of opportunity: that Pez Jr might be just as successful as as Aristo Jr. Our country is free. Everyone is equal before the law. All Pez Jr has to do is work hard. Success will come. And some citizens will succeed in this system. Nevertheless, they can't be expected to have the same success as Aristo Jr—or Bill Gates XXIII. This is *unfair*.

The wealthy and powerful may try to confuse the issues; they may try to explain the relative lack of success of the poor as due to their indolence and poor characters. It might be claimed that these people can be as successful as Aristo—if they had worked as hard. It is true that some people are lazy. But this is a red herring. The point is that, at birth, the now lazy adult citizen could not be expected to have the same success as baby Aristo Jr. This is *unfair*. In our current system, with inter-generational wealth transfer and hereditary aristocracy, the heirs of slaves (a central and important example) could not possibly be expected to succeed as well as their fellow citizens. They had no wealth to transfer, no material advantages to provide their heirs. Some of these people, as some of *any other* group of people, will be indolent and uninspired. But this is again a red herring. They could be expected to fail even before their talents and ambitions were known: the deck was stacked against them in favor of others. This is *unfair*. The heirs of slaves will *never* have equality of opportunity until we eliminate inter-generational wealth transfer and hereditary aristocracy.

In resisting reform—resisting policies that are in the interests of the majority of the people—the wealthy will attempt to subvert democracy. While we envision ourselves as a democracy there has, in fact, been an anti-democratic strain that dates back to its foundation. Most states had property requirements for voting—thereby

eliminating democratic participation of non-property owners, a significant percentage of the population. John Adams, the future second president, criticized Paine's call for universal (male) suffrage, without any property-ownership qualification, as too "democratical". James Madison, the future fourth president, also argued against the democratic participation of non-property owners; at the Constitutional Convention he argued that the vote should be restricted in order to "protect the minority of the opulent against the majority". And John Jay, the first Chief Justice of the Supreme Court, claimed that "the people who own the country ought to govern it".

If the wealthy are successful in subverting democracy and suppressing legislation, protest movements like Occupy Wall Street, the Tea Party, and Bernie Sanders supporters may multiply and reach critical mass. The French Revolution is a telling example of the frustrated masses revolting against the monarchy and the aristocrats. At some point, democratic instincts will prevail. A frustrated public may attempt democratic change through non-legislative and violent means—as happened during the French Revolution. If the public feels more and more helpless, and if they feel that the unfairness of our system will never be addressed by their representatives, they could revolt—and then the hereditary aristocrats might not only lose their hereditary privileges, they might even lose their heads.

It is then in the interest of all Americans, rich and poor, to remember the *principle*: inter-generational wealth transfer is unfair, hereditary aristocracy is un-American. Eliminating inter-generational wealth transfer should go some way at least to eliminating the perception of inequality, and restoring our belief in the American Dream. And it may lead to less inequality, less societal strife—and the nurturing and flowering of more of our creative and productive capacities.