

## **Why Does Inequality Matter?**

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### **Chapter 8: Unequal Outcomes**

It is well known that there has been an enormous increase in inequality in the United States and other developed economies in recent decades. Here again are some facts I mentioned in Chapter 1. The average compensation of executives in the 350 largest firms in the U.S. in 1965 was twenty times the average compensation of workers in those firms. This ratio “peaked at 376 to 1 in 2000.” In 2014 it was 303 to 1, “higher than it had been at any time during the 1960s, 1970s, 1980s or 1990s.”<sup>1</sup> Also, “From 1978 to 2014, inflation adjusted compensation increased 997 percent, a rise almost double stock market growth and substantially greater than the painfully slow 10.5 percent growth in a typical worker’s annual compensation over the same period.”<sup>2</sup>

This degree of inequality seems clearly objectionable. I want now to consider how points made in previous chapters help to explain why it is objectionable, and to consider what more may be needed to explain this.

It is true that the super rich live very differently from the rest of us. But, as I observed in Chapter 3, the way they live does not set a standard relative to which we have reason to feel that our own lives are deficient. So the objection to this kind of inequality is not that it creates objectionable differences in status. Nor do these differences, like the inequality between the very poor and the reasonably well off, arise from violations of equal concern in the provision of education and other public services.

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<sup>1</sup> Lawrence Mishel and Alyssa Davis, “Top CEOs Make 300 Times More Than Typical Workers,” p. 2.

<sup>2</sup> Mishel and Davis, pp. 1-2.

One possible objection is that this level of inequality undermines equality of opportunity of the kind that I mainly discussed in Chapter 4, namely access to positions of advantage for which individuals are selected on the basis of their qualifications, and to the kind of education needed to acquire these qualifications. This was already a problem given the level of inequality that existed in 1970. As I argued in Chapter 4, what is required to respond to it is to provide good conditions for early childhood development and high quality public education for all children, and to ensure that the selection of individuals for higher education and for positions of advantage more generally is procedurally fair. These things are difficult to achieve, and increased inequality may, through its effects on the political system (which I will turn to next) make it even less likely that they will be achieved. It may, for example, make it less likely that public schools will be properly funded. But if these things were achieved it is not clear that the increase in inequality brought about by the recent increase in incomes of those at the very top of the income distribution would threaten equality of opportunity. As I argued in Chapter 4, there is a limit to the amount of spending on education that could give children of the rich a significant advantage in an otherwise fair system.

This increased inequality may, however, threaten equality of opportunity in the broader sense that is concerned with opportunity to compete in the market by starting businesses, since it creates a class of extremely wealthy families with much more access to capital than others.

Another objection to increased inequality, which I have discussed in Chapter 5, is that it undermines the fairness of the political system. It seems very likely that the recent increase in incomes of those at the very top of the income distribution is due in part to

political decisions, including laws and policies weakening the power of labor unions, decreased regulation of the financial industry, and changes in tax laws decreasing the marginal tax rate on very high incomes and decreasing the inheritance tax. These changes, beginning in the 1980's, already reflected disproportionate influence of the rich on politics. If this is so, then the recent rise in inequality is largely due to the effects of *preexisting* inequality on political outcomes.

But this increase may also make the situation worse. The increasing difference between what the rich can spend and what others can spend to influence political outcomes increases the likelihood that the outlooks of elected officials will reflect the interests of the rich, either because they are rich themselves or because they are selected for support by rich contributors because they favor these interests. This is objectionable in itself, as a form of political unfairness, and also because it makes it less likely that political outcomes will fulfill requirements of justice, such as equal concern and substantive opportunity. This seems to me to be the strongest of the objections to rising inequality that I have discussed so far.

All of these objections to inequality are based on its effects. They thus fail to account for the common feeling that the increased inequality that I have described, and especially the increased ratio between the incomes of CEOs and that of workers, are objectionable in themselves, apart from their effects. So we need to consider why this might be so.

On the approach I am defending, objections to inequality that are not based on its effects arise not from the bare fact of inequality itself but from the ways in which it is produced and the relations between those who have more and those who have less. In the

present case, the relation in question is the relation between fellow members of a legal and economic institutions, who are required to obey its laws and must participate in it in order to again the means of living and advancing their aims. Institutions of this kind, which specify and enforce rules about how holdings can be rightfully gained, need to be justified to those against whom these rules are enforced, in ways that they have reasons to accept.

An institution of this kind, specifying how valid holdings can be acquired by engaging in certain kinds of transactions against a given set of background conditions, is what I called in Chapter 6 a system of *predistribution*. As I said there, taxation is one aspect of predistribution. Among the things that such institutions specify is how much individuals are entitled to keep of what they acquire through certain forms of transaction. Taking the justification of predistribution to be primary thus leaves no room for the objection that taxation interferes with liberty by forcing individuals to give up money that is legitimately theirs, since a predistribution determines what they are entitled to keep. But taking the question of predistribution to be primary leaves room for the same objection to be raised in a different form, as an objection to a system of predistribution involving certain taxes, on the ground that individuals have good reason to want to keep a larger portion of what they receive through such transactions. These reasons are to be taken into account, along with other reasons, in determining whether a system is justified.

Although the term, 'predistribution,' is apt for stating this point, it can be misleading in two related ways, and to avoid these I will henceforth use instead Rawls' term, 'basic structure.' The first problem is that 'predistribution' suggests a concern simply with the assignment of shares of certain benefits, such as income. But a system of

rights and powers of the kind I have in mind—what Rawls calls the basic structure of a society—does not only assign such benefits. It also creates important opportunities and specifies forms of control. The justification for these institutions must therefore take account of considerations of liberty, both in the form of the reasons individuals have for wanting a wider range of options to be available to them, and in the form of reasons to object to being under the control of others. What must be taken into account, however, are the reasons of this kind that all of those who are subject to these institutions have, including those whose liberty in both these senses would be decreased by the enforcement of a given set of property rights as well as those whose liberty would be enhanced by the enforcement of these rights.

As I pointed out in Chapter 6, in discussing Nozick's Wilt Chamberlain example, there are cases in which considerations of liberty provide strong, I would say conclusive, reasons for allowing transactions that generate significant inequality in pre-tax incomes. As I also argued there, however, these considerations do not rule out taxing away part of the gains from these transactions, but this needs to be justified in some way. It can be justified as a fair way of providing benefits, such as education and conditions of substantive opportunity, that are required in order for the economic and political system as a whole to be justifiable, and perhaps also as a way of curbing external effects of inequality of the kinds I have discussed.

A second difficulty with the term '*predistribution*' is that it may seem to suggest that what is at stake is the allocation of some independently existing set of benefits.<sup>3</sup> But a basic structure—a system of economic rights and powers—also a system for producing

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<sup>3</sup> A charge made by Nozick, thinking of it, incorrectly, as a criticism of Rawls. See *Anarchy, State, and Utopia*, pp. 149-150.

benefits, in two ways. As just mentioned, it creates powers and opportunities that are valuable in themselves, and it also makes possible and encourages forms of interaction through which material benefits are produced. These two sides of a basic structure—the benefits it provides for individuals, including independently valuable rights and powers as well as income, and the productive activity that it facilitates and encourages—are interdependent.<sup>4</sup> Both must be taken into account in the process of justification.

A justification for a basic structure provides the first level of the three level justification for inequality that I discussed in Chapter 4—what I called there an “institutional justification” for a system that includes positions to which unequal benefits are attached. In the discussion that followed, I assumed that this justification was based on the benefits that such a system provides to those who participate in it. But I allowed at the outset “for purposes of completeness” that such a justification might be based instead on a conception of property rights, independent of institutions, or on an idea of desert.

My arguments in subsequent chapters have ruled out these alternatives. I argued in Chapter 7 that there is no notion of desert that can play this justificatory role, and I argued in Chapter 6, that there are no pre-institutional property rights that can serve as the basis for justifying or criticizing economic institutions. What are relevant to these tasks, however, are the individual interests that give rise to the idea that there are such rights, such as reasons individuals have for wanting to be assured of stability in their various personal possessions.

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<sup>4</sup> A point made both by Marx, when he writes (in *Critique of the Gotha Program*, p. 531) that “Any distribution whatever of the means of consumption is only a consequence of the distribution of the conditions of production themselves,” and by Rawls, when he emphasizes that what he is proposing is not a standard of “allocative justice.” See *A Theory of Justice*, pp. 56 and 77, and *Justice as Fairness: A Restatement*, pp. 50-52.

As I have said, one thing that can count in favor of an assignment of rights is that it would allow for and encourage economic interaction that is productive in beneficial ways. But it matters who enjoys these benefits. The fact that a system of rights would promote economic development, such as increased GDP, does not count in favor of that system of rights *regardless of how that increased benefit would be distributed*. The fact that a certain system of productive rights would promote development would not count in its favor, for example, if all of these benefits would be enjoyed by the President.

Putting these observations together, we have the following. A basic structure needs to be justified to all those who are asked to accept it. This justification cannot be based on independent notions of rights or desert, but must appeal to the way that these institutions affect the lives of individuals: their abilities to acquire resources, the options available to them, and the degree of control that they have over their lives.

What follows from this about inequality, in particular about the recent rise in inequality that I have described? Objections to this inequality must, have said, be objections to the institutional factors that generate it. The factors leading to this recent rise in inequality include laws weakening the power of labor unions, changes in tax law reducing the marginal rates for the highest tax brackets, which give executives greater incentives to seek higher pay and bonuses, and forms of corporate governance that allow them to do this.

None of these satisfies the test of justification that I have described. Weakening the power of unions decreases the control that workers have over the terms and conditions of their employment. It also, as I observed in Chapter 5, reduces their ability to organize effectively to assert their interests in the political process. It might be argued, in

response, that greater power for unions interferes with the efficiency of the economy by, for example, enabling workers to block changes that improve the efficiency of production. This is a factor to be taken into account in the process of justification that I have described. But it must be borne in mind that increased output is not a good in itself, independent of the way its benefits are distributed. The facts listed at the beginning of this section indicate that workers have benefited hardly at all from the increased productivity of the economy in recent decades. The declining power of unions seems partly responsible for this fact, both by decreasing the bargaining power of workers, and by decreasing their access to means of political, influence, thereby making possible the passage of laws that have led to this rise in inequality.<sup>5</sup> Why should workers accept, as a justification for a system of rights, the fact that it makes possible gains in productivity while also ensuring that they in will not share in these gains?

A defensible basic structure needs to be organized in a way that is responsive to this objection. This will presumably require, on the one hand, a role for workers in decisions about production and compensation and, on the other, the provision of benefits independent of employment that shield workers from bearing all of the costs of the flexibility in production that is required by economic efficiency. These might be unemployment benefits, guaranteed income, retraining programs or other measures. I do not have a specific proposal about how this should be done, but only observe that it should be possible (and certainly possible to improve greatly in this regard on what we currently have.)<sup>6</sup>

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<sup>5</sup> Effects of both of these kinds are discussed by Atkinson, in *Inequality: What Can Be Done?*, pp. 128-132.

<sup>6</sup> For some proposals, see Atkinson, *Inequality*, pp. 132 and 237-239.



Turning now to the level of compensation of those with highest incomes, the relevance of the comparison between the current levels of compensation and the levels that obtained in 1979 does not depend on the assumption that those earlier levels were justified and current levels of compensation are a departure from this just condition. There is no assumption that those levels of compensation were justified. One reason that the comparison is relevant, however, is that management in the 1970s was reasonably efficient, and it is not clear that great increases in compensation for CEOs have been needed to improve on that, or that they have led to such improvement.

There have been great changes in the economy since that time. The size of major corporations has increased greatly, due in part to changes in technology and the growth of global markets. It might be claimed that this increase in size has brought an increase in the marginal productivity of executives running these firms, and that this justifies the increase in their compensation. But this is not a valid justification. The increased size of firms may well have increased the marginal productivity of the executives running them in the purely subjunctive sense that I discussed in Chapter 7. That is to say, it may have increased the difference that it makes whether their jobs are done well or badly. But as I argued there, marginal productivity in this subjunctive sense does not in itself justify greater reward.

Even so, it might be argued that these greater rewards are justified because they are needed as incentives to attract talented individuals to take these positions and perform well in them. As Bivens and Mishel point out, however, the evidence is that talented

individuals would be attracted to these positions at much lower levels of compensation.<sup>7</sup> In addition, as they also point out, what the rise and fall of compensation for CEOs in a major corporation tracks is the stock prices of firms in the general sector in which that firm operates, not the relative success of that particular firm within that sector. So what is being rewarded is not the quality of management decisions but the luck of being in a sector of the economy in which firms in general are doing well. This is not surprising, given the way in which compensation is determined, by committees who consider the compensation of executives in “comparable” firms.<sup>8</sup>

The change in relative levels of compensation of workers and managers between 1979 and the present is relevant here in a further way, because of what it indicates about the way in which these levels are determined. The changes over this period indicate that workers have been (increasingly) unable to demand a share of the increased productivity of the economy, while top managers have been able to do so as soon as they decided that it was to their benefit and “socially appropriate.” This combination of mechanisms for determining shares of the economic product seems clearly unsupportable.

To put this in general terms: it is objectionable if the rights and powers of the basic structure enable one group in the society to direct all or almost all of increased social product in their direction, with little or nothing going to others. This is particularly objectionable if the group that is able to do this are, as in the present case, already much better off. But having such a power seems objectionable even starting from a position of equality.

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<sup>7</sup> Bivens and Mishel, “The Pay of Corporate Executives and Financial Professionals as Evidence of Rents in Top 1 Percent Incomes,” p. 63.

<sup>8</sup> As I discussed in Chapter 3. See Bivens and Mishel, *op. cit.* p. 64.

This objection assumes that there is unless there is no justification for this power, based, say, on rights or on an idea of desert, according to which this group is entitled to this surplus. But it does not seem to depend on any particular assumption about what the proper distribution should be, such as Rawls' Difference Principle. It is, as I have said, to having pre-tax incomes determined in a certain way. It would not apply to all mechanisms that generate significant inequalities in pretax income. This fits with the fact that many find the fact I have described about the incomes of CEOs more objectionable than the large incomes of sports figures or entertainers, which are determined in quite a different way.

It is a further question how these high incomes should be taxed. There are, as I have said in Chapter 6, limits on the degree to which incomes can be taxed. Taxation within these limits can be justified, indeed required, for a number of different reasons. A primary justification for higher taxes on high incomes is that this is part of a fair way to provide benefits that are required to make the overall system just, by fulfilling requirements such as equal concern and substantive opportunity. The reduction in the marginal tax rates for the highest earners since the 1970s was part of a more general reduction in taxes. It does not appear that this tax reduction has contributed to a rise in overall GDP. But whether it has or not, the figures I have cited indicate that they have not brought benefits to individuals lower down in the income distribution. What these reductions have done is to make the government less able to provide the benefits needed to fulfill these requirements. Higher taxes on those in the top income brackets alone would not be enough to provide these benefits, but they would be part of any fair way of doing so.

Further reason for increasing taxes on the highest incomes is that this is necessary to curb inequality to curb negative “external” effects of the kinds I discussed above, such as effects on the political system. Yet a further kind of reason would be that this is necessary in order to make the basic structure as a whole satisfy a norm of distributive justice, such as Rawls’ Difference Principle. I have argued above that we do not need to appeal to such a norm, or to what I called in Chapter 1 and idea of equal claim to resources, in order to explain why the facts I have listed about increasing inequality in incomes are morally objectionable. This explains the fact that many people regard this degree of inequality as objectionable without endorsing anything as far reaching as this principle.

There is, however, a connection between these two ideas. The objection I have formulated to these unequal outcomes depends on a certain framework of justification: that basic structures need to be justified to all who are asked to accept them; and that this justification cannot be based on independent ideas of rights or desert; that it must therefore appeal to the benefits these structures provide for these individuals, where these benefits include opportunities and powers to shape their lives as well as specific resources. Once this framework is accepted, it seems that a basic structure that generates unequal outcomes will not be justifiable unless these inequalities could not be avoided without either violating important individual liberties or interfering with the productive process in a way that would make those who have less even worse off. That is to say, there is a strong tendency toward something like Rawls’ Difference Principle, at least as

an ideal.<sup>9</sup> But one need not go all the way to accepting this principle in order to see why particular inequality-generating mechanisms are unacceptable.

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<sup>9</sup> “Something like” in part because I have allowed considerations of liberty in general (in the two forms I have identified) to count among the reasons for and against features of a basic structure, whereas the primary social goods in terms of which Rawls’ Difference Principle is applied include only what he calls certain basic liberties. But this difference is narrowed by the fact that these include important personal liberties such as the right to hold personal property. See Freeman, “Capitalism in the Classical and High Liberal Traditions,” p. 31, and footnote 27, and Rawls, *A Theory of Justice*, pp. 53, 54.

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### **Chapter 9: Conclusions**

The view of equality set forth in this book has been relational and pluralistic. I have maintained that there are many different reasons for objecting to inequality, and that these depend on the way that an inequality affects or arises from the relations between individuals. In previous chapters I have investigated some of these objections to inequality in detail: objections to violations of equal concern (Chapter 2), objections to inequalities in status (Chapter 3), objections to interference with the fairness of economic and political institutions (Chapters 4 and 5), and objections to economic institutions that generate large differences in outcome (Chapter 8.) In this concluding chapter I will revisit some general conclusions from these analyses.

#### *1. The Plurality of Forms of Inequality*

One strength of the pluralistic view of equality that I am offering is that it recognizes the differences between different forms of inequality. In addition to the inequality between the very rich and the rest of us, there is the inequality between the comfortably well off and the very poor, racial inequality, and the various forms of inequality between men and women. These are all troubling, but they are objectionable for different reasons, not simply because they are all violations of a single requirement that the prospects of individuals should be equal (in the absence of some special justification.)

Racial inequality involves objectionable inequality in status, lack of economic opportunity, unequal provision of education and other important public services, and

unequal treatment by the legal system. It also involves a denial of access to effective means of political influence, including in many cases denial of the right to vote. Similarly, gender inequality also involves objectionable inequality in status, and lack of equal economic opportunity, because of discrimination in hiring and in access to education. It also involves, and has been perpetuated by, discrimination that has prevented women from attaining positions of political influence.

Inequality between the very poor and those who are better off involves the lack of economic opportunity, due to lack of access to education, and inadequate provision of other important public services, such as health care. The poor also suffer from a lack of control over important parts of their lives. They are subject to control by others in their working lives, have little choice of occupation, and suffer from what Jiwei Ci calls agency poverty as well as status poverty. Their interests are also inadequately represented in the political system.

## *2. Egalitarian Priority for the Worst Off*

The cumulative force of these reasons makes racial inequality and, more generally, inequality between the very poor and the rest of society, the most urgent problems facing us from an egalitarian perspective—more urgent than the inequality between the rest of us and the very rich insofar as reducing the latter inequality is not required in order to alleviate the former kinds. The implication of my view for social policy is thus a form of priority for the worst off. But that does make what I have offered a prioritarian *as opposed to egalitarian* view. This is because most of the reasons supporting this priority, including in particular objections to unequal status, to violations of equal concern, and to lack of fairness in political and economic institutions, are

themselves egalitarian in character. They are egalitarian in at least the wider sense of being objections to the difference between some and others, and in the case of the reasons just mentioned, such as unequal status and violations of equal concern, egalitarian in the narrower sense of being based in the value of particular forms of equality.

This is not to say that the great inequality in income and wealth between the very rich and the rest of society is not objectionable in itself, considered apart from the effects it may have on the other problems I have been discussing, but only that, considered apart from these effects, it is objectionable for different reasons.

### *3. Giving Equality of Opportunity its Proper Place*

It is important not to exaggerate the degree to which equality of opportunity has been achieved. Our economic institutions, including our educational system continue to embody not only forms of discrimination on racial and other lines but also other forms of procedural unfairness. In addition, substantive opportunity for all is far from being fulfilled. It is also important to recognize that equality of opportunity, even if fully realized, would not render the resulting inequalities just. Equality of opportunity presupposes some other justification for unequal positions. It could not provide such a justification.

At the same time, however, we should not lose sight of the fact that the ideals underlying equality of opportunity—procedural fairness and substantive opportunity—are important values, which are very much worth pursuing even if they cannot be fully realized. It is therefore important to understand these values properly, and in particular to understand the ideas of ability, merit, effort, and choice in terms of which they are often stated.



#### *4. Avoiding Moralism and Mistaken Ideas of Desert*

A proper understanding of the moral significance of ability, effort and choice enables us to avoid moralism and mistaken ideas of desert. I have tried to provide such an understanding in Chapter 4 and Chapter 7. The notion of ability relevant to questions of justice is forward-looking, and depends on the structure of institutional roles and the available developmental conditions. The relevance of choice and effort to the justification of inequalities lies in the fact that individuals' objections to not having certain advantages can be undermined by the fact that they could have had those advantages if they had chosen to make the required effort. But choices have this legitimating effect only if they are made under sufficiently good conditions.

#### *5. Equality and Value*

Another theme that emerged in preceding chapters is the way in which desirable forms of equality, and objectionable forms of inequality, depend on prevailing ideas of value. This came up in several ways in the discussion of status in Chapter 3. Discrimination in many forms involves basic evaluative errors about the importance of certain characteristics of individuals. Whether being poor involves a lack of status depends on the evaluative attitudes prevalent in one's society. And the idea that a perfect meritocracy would be a form of objectionable hierarchy depends on the (plausible) assumption that members of such a society would overvalue the kinds of accomplishment that this system rewarded. This presents a dilemma that is relevant for equality of opportunity. Substantive opportunity requires that individuals grow up in conditions that allow them to see the value of the abilities that would qualify them for positions of

advantage. But a society is open to objection if it encourages individuals to overvalue these particular forms of accomplishment and success.

#### *6. Economic inequality and the basic structure*

Inequalities in income and wealth are justified if the basic structure that produces them is justified, and are objectionable if that structure is unjustifiable. A basic structure is a set of institutions that defines property rights, forms of economic organization such as corporations, and various kinds of economic transactions. A basic structure also defines a broader legal framework and political institutions through which its provisions are changed and maintained. The justification of institutions of this kind is an extremely complex matter, depending on empirical facts about the consequences of various economic and political arrangements in a given setting. The task of a work like this is to try to identify the relevant normative elements in such a justification. My claims on this have been both negative and positive. The negative claim (in Chapters 6 and 7) is that economic institutions cannot be justified by appeal to independent notions of property rights or desert. The positive claim is that justification must therefore appeal to the reasons individuals have for accepting such institutions based on how their lives would be affected.

#### *7. Giving liberty (for all) its place*

Among the reasons that individuals have for accepting or objecting to particular institutions are their interests in liberty, broadly understood. These include reasons for wanting opportunities to be available, reasons for wanting to be placed in good conditions for choosing among these options, and reasons for objecting to being under the control of

others. Justifications for institutions need to take into account such reasons of all, including those against whom rights are enforced as well as holders of those rights.

*8. The tendency toward a principle of economic equality*

As I argued in Chapter 8, the need for a justification of a basic structure (point 6), and the negative and positive claims about the normative basis of such a justification (point 7) provide the basis for concluding that recent increases in income inequality, both because of its effects and because the institutional features that produce it are themselves unjustifiable. This conclusion is relatively uncontroversial. But the line of argument leading to it points toward a more radical conclusion, close to Rawls' Difference Principle: A basic structure that generates unequal outcomes will not be justifiable unless these inequalities could not be avoided without either violating important individual liberties or interfering with the productive process in a way that would make those who have less even worse off. To arrive at the more limited conclusion about the unjustifiability of current inequalities of income one need not accept this more general conclusion and apply it to that case. But the reasoning leading to the more general conclusion seems implicit in what seems to me the most plausible explanation of what is objectionable about our current situation.

*9. Why does inequality matter?*

The answer is that it matters for many different reasons. Individuals have many different reasons for objecting to forms of inequality, reasons based on its effects, on the relations with others that it involves, and on the institutions that generate it. These reasons are diverse, and do not all derive from a single egalitarian distributive principle. What unifies them is their shared roles within the process through which social

institutions must be justifiable to those who are asked to accept them. This view is thus egalitarian at two levels. It is egalitarian at the most abstract level in holding that institutions must be justified to those who are asked to accept them in a way that takes all of their interests seriously and gives them equal weight. It is egalitarian at a more specific level in recognizing the interests that individuals have in being treated as equals in various specific ways—that is to say, the reasons they have to object to being treated unequally in these ways. These are the reasons why inequality matters.