Elster, Bowels, Gintis, and Foley Reaction[[1]](#footnote-1)

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Today’s reading about inequality match well with this week’s Economist magazine which has a special cover story on inequality. Marx and Bowels & Gintis both propose solutions to deal with inequality. But as Elster points out, Marx’s ideas for dealing with inequalities had many intellectual holes in it. For example, the Labor Theory of Value does not take into account the differences between workers, the amount of labor put into producing the raw materials, or even the costs of the raw materials. Plus it assumes the price of the good to be equal to its cost, which as any good businessman would tell you is a fast way to bankruptcy; instead one charges what the market will bear.

Do people choose to be in the situation they are in? I think liberals and conservatives would answer this question differently. Marx had the view that people were born into the proletariat. Friedman would take a much more individual motivation role. Certainly this is the view that I think most MIT students take – certainly more than at other top schools. MIT students have worked hard to get to where they are and expect others to do the same. As such, they don’t support “handouts” to people who work in menial jobs – in the form of advocating for a “living wage” over the prevailing market wage. The feeling is that the workers should have worked harder in school.

Can people get out of the role they are in? Marx had a very clear distinction between the proletariat and the bourgeoisie. Bowels and Gintis talked about closing the income gap, not really through social mobility of the poor to become party of the wealthy, but for the wealthy to spread more of their money with the middle class. One reading spoke about how Europeans speak of income equality, but Americans about equality in opportunity.

The recent issue of The Economist speaks about inequality in income, but attributes much of the gap to the growing gap in America to the qualities of schools. It also attributes a lot of the gap to give aways to the wealthy in the form of tax exemptions for things like mortgages. Even the spending on social programs is tilted towards the elderly, not necessarily the poor.

The Foley article attempts to refute the question Adam Smith’s statement that everyone looking out for their own interests (locally optimal) is good for society (globally optimal in computer science speak). I think this is an interesting question. However, despite it being the title of the book, the selection we read from the book did not seem to attempt to answer the question, and instead discussed other issues, sometimes wrongly. For example, the book says that capitalism by itself won’t lead to a decrease in inequality. I was not aware that capitalism made any promises about equality.

In fact this issue of the Economist makes a number of suggestions of ways to increase equality without hurting efficiency. These methods include cracking down on cronyism and corruption, removing subsidies and tax advantages for certain types of behaviors and better targeting of subsidies. They also include investing in education and reforming taxes to make them consistent.

1. Double length since last class was canceled [↑](#footnote-ref-1)