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Inequality:
Reflections on aSilent Pandemic

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Inequality: Reflections on a Silent Pandemic

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ENTRÉE: THE HEIGHT OF INEQUALITY

In lieu of the usual sorry stream of statistics, take an easier lateral view of inequality - an instant snapshot with a towering uplifting vista. Be cautioned, though, that reality really can be stranger than fiction, and that the literal often more resembles a fable than does the allegorical.

Explaining inequality to the readership of the first edition of his classic textbook, Paul Samuelson (1948) put it this way: "If we made an income pyramid out of a child's blocks, with each layer portraying $1,000 of income, the peak would be far higher than the Eiffel Tower, but almost all of us would be within a yard of the ground". But not today Mr Ambani, the Indian super tycoon, in his heavenly abode.

Were an Indian manned space mission to be eventually launched, it might become possible to deliver the *mumbaikar* Mukesh Ambani's tiffin box to him just as the craft attains a height of 122 kilometres - what NASA uses as their re-entry altitude and the boundary between Earth's atmosphere and space. For that is where Mukesh Ambani would be perched on an income pyramid reckoned in terms of Samuelson's formula, assuming that the child's block is 2″ square.

But games with a child's building blocks aside, consider the concrete realities.

Which vertical glass palace has a height, at 170 metres, of more than one-and-a-half times the length of a football field; a height of 60 storeys but with only 27 floors, of which 6 are dedicated to exclusive parking for 170 cars, with one floor naturally for car maintenance, including vigorous polishing one assumes; one floor for an entertainment centre comprising a 50-seater mini-theatre; three floors of terrace and hanging gardens; another three for a health facility, gym

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and swimming pool; two floors of glass-fronted apartments for guests; nine elevators; and a floor for air space control for helicopters landing on the three helipads above? The family or five should not be cramped for space, with a total of 37,000 sq metres - larger than the Palace of Versailles[1] - or 7,400 sq metres, or the area of one and a half soccer fields, per family member; and privacy should not be a problem - at that sort of distance only NASA could say what or who was engaged in with what or who. And, I nearly forgot, a serving staff contingent of 600[2] - or, one liveried menial for every 12 sq metres, or a parade of 120 per family member; one can imagine an inspectorate to verify daily baths and polished shoes.

Welcome to *Antilla* - except that there is nothing mythical about this one - the new home of Mukesh and Nita Ambani. They were probably cramped in their previous 14-storey building, and what with three children, really needed the additional space. Construction is on in full swing so that the ballroom could at least be completed in time for Nita's birthday bash. A pity that guests could not be flown in and land on the roof in the jumbo aircraft reportedly given by Mukesh to Nita as a birthday present - to run around for her shopping and to drop in on friends, you see. Well, the plane was a pittance at only a few hundred crores. The home is to cost a little more, anywhere up to two billion dollars; but that's ok, it isn't really an indulgence - after all he would only be spending just 7 per cent of his wealth, he would still have $27,000,000,000 in his piggy bank to satisfy the other basic needs of the family; a far cry from that irresponsible poor sod who gets into eternal debt for the luxury of a one or two room shelter.

Allow me to place this in some perspective. While that edifice was becoming reality, so was another monumental Indian phenomenon of rather different political lineage - the National Rural Employment Guarantee Act under which any rural household could demand employment as a right for up to 100 days per year for any of its members over 18 years old. During the year, NREGA generated employment to the tune of over I billion person-days for about 25 million rural households. The total expenditure on the programme for 2006-07 was Rs 88.23 billion. Mr Ambani's home could cost that entire amount, and one imagines, by the time you include cost escalation, interior appointment and art works befitting this *garibkhana*, almost definitely very much more.

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1 Roberts 2010.

2 Surojit Chatterjee 2007. "Reaching for the Sky: Mukesh Ambani's $1 billion Home to Tower over 500 ft", *International Business Times*, posted 4 June 2007.

But surely Malthus would have pointed out the socially progressive function of such demand-generating private consumption expenditure especially when there are dangers of recession lurking around every corner. The outlay on the house, not to mention those on the housewarmings, would set up massive multiplier effects, and serve as a partial substitute for an employment creation programme? After all, there is no urban equivalent of NREGA, and *Antilla* could light the way to the new age.

Indeed, a leading architect highlights the pioneering paradigm-transforming social function that his skyscraper is said to be performing by shifting the focus from horizontal to vertical expansion. He confirms that "this is the right way to build a private house in a congested city ... he wants to go high up and enjoy the view; the whole city becomes his open space" - just as the world is his oyster. "Ambani's choice will make high rises more acceptable".

Already there are plans for the near-million dwellers of Dharavi, Mumbai's world ranking slum of *Slum Dog Millionaire* fame: their dwellings are to be rearranged going upwards: they are to become stakeholders in new high rise buildings – though with a small proviso in the fine print: for every one square metre of accommodation for the slum dwellers, 1.3 square metres is to be given to developers for commercial use for malls, middle-class apartments and business parks. Clearly there is money to be made at the bottom of the pyramid, or skyscraper. Already there are schemes, scams, and scum scurrying to get in at the ground floor of what promises to be quite a bonanza for the realty developers. And, there might be a bonus for the residents and their guests at *Antilla*: their "open space" and the vista of the blue of the Arabian Sea will not be smudged by the endless grey of Dharavi's dilapidated rooftops.

There are reports that the flamboyant Vijay Mallya who, as czar of the United Breweries liquor empire, keeps many an Indian in high spirits, is already following the lead, though it is not known if his new skyscraper in Bangalore will have 16, 30 or 37 floors.[3] He has not been sitting idle: his properties include Force India, the Formula One car racing team that flies the Indian colours; the Royal Challengers Bangalore IPL cricket team named after one of his leading whisky brands, and where he can hire and fire greats of the stature of Rahul Dravid; soccer clubs and castles; an airline named, this time, after his leading brand of beer; the super yacht *Indian Princess* now overtaken by the giga yacht *Indian Empress*; and naturally, to park the yachts and get some rippling quiet, an island in the Lakshadweep, another off the Maldives, and

3 "Vijay Mallya Planning Ambani-type Highrise", indiaserver.com, 11 July 2008.

recently one by Monte Carlo; just a few of his favourite things. Of late, his attention has turned to buying heritage – claiming history back for the country, of course – including famously the sword of the legendary Tipu Sultan, wielding which the new owner was photographed proudly sporting a traditional turban. More recently he is said to have acquired the iconic spectacles of Mahatma Gandhi, though no photographs are available of Mallya trying out Gandhi's spectacles; perhaps the old wiry frame had subliminal memories of its long lost companion, the ascetic Mahatma, and objected conscientiously to seeking gravity on the nose of a booze baron.

Such are the fables and foibles of the new nabobs of Indian neo-liberalism whose exploits, blasted on to the 24-hour channels and print glossies in every vernacular, have had the Indian Prime Minister - the decreasingly venerated and increasingly silent Dr Man Mohan Singh - who heads a government waging an internal war with oppressed and displaced poor tribal communities – gently vexed over inducing angst and anger from the *aam aadmi*, the ordinary citizen, of the other India that the Planning Commission has just pronounced should be able to satisfy all basic needs on $0.64 per person per day. He wished the wealthy would exercise due moderation in their displays of wealth. But then what would be the point of having it if you couldn't flaunt it, the nabobs, taking no notice of such feeble and pointless pleas, might ask; and wouldn't that be an incentive dampener for creating new wealth for the country? Perhaps the honourable prime minister had not taken adequate heed of the changes in cultural mores that his own policies have been instrumental in reviving in Indian society. The boot actually is now on the other foot: it is politicians and bureaucrats, not to mention (far too many) members of those watchdogs of society, the judiciary, media and the police, that take their cues, and collect their dues, from the new nabobs, and not the other way round as was the wont.

REFLECTIONS: THE OBFUSCATION OF INEQUALITY

Inequalities reflect hierarchies of power, and both tend to protect and reproduce their privileged positions regardless of the force of intellectual and ethical arguments against their unacceptable manifestations. Part of the reason lies in the difficulties of data and method, but they also arise from the theoretical frameworks used to evaluate the instrumental implications of alternative states of inequality. But even when some consensus can be achieved, it tends to break down at the final hurdle of disagreements at the ethical level on the intrinsic aspects of equality and inequality. Not surprisingly then, effective struggles against inequality are waged more in fields and on streets than in academic journals.

As the evidence mounts of exceedingly high, and generally increasing, levels of inequality, so too do intellectual interventions that deny or dissemble, deflect or defend the inequality on both instrumental and intrinsic grounds. The power of these interventions lies usually less in their ability to illuminate than in their capacity to obfuscate; the effect in all cases, is to provide intellectual and moral legitimacy to prevalent inequalities. As exercises in persuasion, they are addressed to the opposition, viz., the silent majority, if not the vast masses, who, not by choice but rather by descent, find themselves at the wrong end of these inequalities, and to those who challenge the economic and social justification or desirability, especially of extreme, as well as the wrong kinds of, inequality. But simultaneously, as exercises of affirmation, the apologist argumentation speaks soothingly to those at the nirvana end of the spectrum, and attempts to create a climate of self-assurance, social esteem and moral legitimacy for the super rich, and to assuage and dispel any gnawing twitches of guilt that, heaven forbid, might have crept unnoticed into their minds through an unguarded route.

Tawney's wry words, directed at an earlier era, unfortunately still seem to hold: "the rulers of mankind maintain side by side two standards of social ethics, without the risk of their colliding. Keeping one set of values for use, and another for display, they combine, without conscious insincerity, the moral satisfaction of idealistic principles with the material advantages of realistic practice".[4]

Some deny the evidence of high, and often rising, inequality with convoluted and controversial empirics; others question the intrinsic salience of equality; yet others defend inequality as a regrettable necessity of vital instrumental powers; another strand justifies it as proof of a free society; and some again develop a fundamentalist case arguing, *a la* Ayn Rand, in favour of extreme inequality. The litanies are various: "actually, things are getting more equal"; when this sounds incredible, that: "inequality, really, is not too high"; or, that: "it has not increased"; and: "even if it has, it is good for the poor" (also perhaps for the rich, we might safely presume); and: "even if it isn't provably good for the poor, it is not bad for them"; and: "in any case", and here comes the bottom scriptural line from the texts, "it is intrinsically, morally justified". Across the full span, the arguments usually ignore distinctions between kinds, sources, or degrees of inequality.

The trouble in the current neo-liberal era, though, is that even the most ingenious or disingenuous dissembling cannot manage to keep Tawney's two

4 Tawney (1931) quoted by Cohen (1991:263) in his Tanner Lectures.

standards - the professed and the real - from colliding. Defence and apologia for inequality, including its extreme forms, become increasingly strident, with all beneficiaries - be they politicians, policy makers, plutocrats or professionals - putting in a good word for it, rather like the claims for Mrs Beecham's powders of yore. An inordinate amount of energy seems to have gone into masking grotesque truths behind camouflaging cosmetics. But lately there are signs in the statosphere of a rising political anxiety as the message comes home that despite the litanies of hype and spin, you cannot fool even yourself - let alone the excluded masses - all the time. The demands of the realpolitik oblige the captains of capitalism to nod visibly, if nominally, in deference to the ideals of equity and inclusiveness, while rejecting it as far as politically possible in practice. Alongside, however, their academic ideologues have of late adopted an aggressive stance that defends even high and rising inequality as both instrumentally justifiable and intrinsically just. What follows engages with selected strands of such intellectual apologia.

Libertarian Fundamentalism: Inequality is Good, Period.

The core position that inequality is natural, good and justified, and needs no interventions, is perhaps patented by Friedrich Hayek and Milton Friedman, the gurus of contemporary neo-liberalism. For one, their fundamental concern was with "negative liberty" where individuals were deemed to be free of control by the state, which was viewed as the oppressor; they were not seriously bothered by notions of "positive liberty" which endowed individuals and citizens with the capacities to participate as equal citizens and to achieve higher levels of individual and group development and fulfilment. Whatever emerged as the eventual outcome from establishing negative liberty was deemed optimal. And if inequality was an outcome of such liberty, so ought and must it be. "Liberty ... is even bound to produce inequality in many respects. This is the necessary result and part of the justification of individual liberty; if the result of individual liberty did not demonstrate that some manners of living are more successful than others, much of the case for it would vanish." Further: "we must face the fact that the preservation of individual freedom is incompatible with a full satisfaction of our views of distributive justice."(Hayek 1960). Chile, under the democratically elected Allende, violated the Hayek-Friedman conditions of liberty; but was deemed an outstanding success worthy of Friedman's congratulations to the dictator Pinochet.

"To a hard-core libertarian, there is nothing problematic about income distribution in a market economy. The market's distribution of income is what it is, and that is all there is to it. Whether such a distribution is equal or unequal is neither here not there. Friedman liked to pose as hard-core libertarian, and yet he was also quite willing to allow for government intervention to reduce poverty. This creates some tension in his writings on the subject of economic inequality, where the liberal while "he will regard private charity directed at helping the less fortunate as an example of the proper use of freedom", he may also "approve state action toward ameliorating poverty as a more effective way"; "he will do so with regret, however, at having to substitute compulsory for voluntary action" (Friedman 1962; quoted in Cole 2008:249). On grounds of this exception, his sympathetic interpreter prefers to call him "a compassionate liberal" rather than a non-liberal.[5]

But Friedman does reveal the early limits of this compassion: in an interrogation over poverty and its measurement, he prefers to set the bar for the poor at 10% of the population; if charity doesn't work enough, state action directed at these 10% could be "regretfully" contemplated; the other 90% had to take their chances and outcomes in the open market, and whatever emerged would be right.

Hayek and Friedman sing from the same hymn sheet;[6] no basis for any universal right other than to liberty; no need for interventions in educational disparities through public provision or in wealth inequalities through interfering with the free flow of private inheritance, and, of course, hostility to all forms of state intervention - with the exception of Friedman's qualified support for programmes of poverty reduction. The socialist system predictably comes under frothy, if ill informed, attack.

These extreme positions cannot be attributed to neoclassicism the core concern of which is to allow the market to do its work efficiently without interventions that distort. This still leaves the possibility of interventions in the pre-, or post-, market domains, which change initial conditions, such as the distribution of assets, or specific outcomes, such as poverty, through non-distortionary means; it remains possible to retain social radicalism in the pre-market, or post-market, both, or neither domains. James Meade, the egalitarian free-trader, was simultaneously a radical neoclassical and a neoclassical radical. He had a privileged public school education, was secretary and treasurer of the Eugenics Society over 40 years, held neo-malthusian positions as argued through his

5 This basic income floor for all citizens could be achieved through the Negative Income Tax measure that Friedman espoused.

6 In Hayek's wisdom: "There is, of course, neither greater merit nor any greater injustice involved in some people being born to wealthy parents than there is in others being born to kind or intelligent parents" (Hayek 1960: chapter 6); in Friedman's words: "Is there any greater ethical justification for the high returns to the individual who inherits from his parents a peculiar voice for which there is a great demand than for the high returns to the individual who inherits property?" (Friedman 1962: 161-162, quoted in Cole (2008: 241).

work on Madagascar, was a dyed in the wool free trade theorist who wrote the GATT formative framework. "Meade of course was a free trader", but he was also "an egalitarian, both in his ideas and in his life. He felt that economics should concern itself not only with the size of the cake but with how unequally the cake was distributed" (Layard 1995). Like Hayek and Friedman, and reflecting his involvement with eugenics, "Meade was very conscious of the wide differences between people, both in their genetic make-up and in the opportunities life offered them. He was worried that technical change would reduce the less able members of society to penury. The only solution was an effective system to redistribute income" (Layard 1995). He was increasingly willing to sacrifice efficiency for the second-best, to qualify notions of liberty with the need for social equity, and was increasingly attracted to the idea of some version of basic citizen's income. His classic intervention (Meade 1964) makes a powerful case for inheritance duties and for a universal framework for education in order to break the vicious cycle that reproduced the cumulative advantages of birth and wealth. But then, even as a neo-classical, he had a different social imagination from the fundamentalist philosophical positions of Hayek and Friedman, the libertarians.

Set a neoclassical to swat a neoconservative: "Libertarians are not just bad emotional cripples. They are also bad advice givers. I refer of course to the views of both Milton Friedman and Friedrich Hayek. The "serfdom" they warn against is not that of Genghis Khan or Lenin-Stalin-Mao or Hitler-Mussolini. Rather, they warn against the centrist states of the modern world. Think only of Switzerland, Britain, the US, the Scandinavian countries, and the Pacific Rim. Why do citizenries there report high indexes of "happiness" and enjoy broad freedoms of speech and belief?" So said Samuelson (2008), politically a self-avowed believer in the "dynamic moving centre."

"Inequality is Good, It Induces Charity!"

We owe this new one to the eminent Professor Jagdish Bhagwati who, whether right or wrong, is never less than entertaining.

"If a thousand people become millionaires, the inequality is less than if Bill Gates gets to make a billion all by himself. But the thousand millionaires, with one million each, will likely buy expensive vacations, BMWs, houses in the Hamptons, and toys at FAO Schwarz. In contrast, Gates will not be able to spend his billion even if he were to buy a European castle a day, and the unconscionable wealth would likely propel him, as in fact it has, to spend the bulk of the money on social good." (Bhagwati, 2004:66-67; quoted in Panagariya 2008:160.)

Following in his mentor's slipstream[7], Panagariya contends, even in the Indian context widely acknowledged to be characterized by high and rising inequalities, that inequality is "a lesser problem", and that "from the policy perspective, preoccupation with inequality is largely a diversion" (Panagariya 2004: 157). This position represents a somewhat more fundamentalist defense of inequality.

This new and valiant defence of top-end inequality is based implicitly on an assumption that the marginal propensity to donate rises with income. This empirical assumption would appear to be uncontroversial if not incontrovertible - but wait a minute, is it valid? "The bottom line about the relationship between philanthropy and income is that it's surprisingly counterintuitive"; surveys in the US showed that households with incomes below $20,000 gave 4.6 per cent of their incomes to charity, compared to 2.5 per cent for those between $50,000 and $100,000; and 3.1 per cent for households earning over $100,000 (Brooks 2008).[8] This general pattern and especially the contrast between rich and poor is apparent in other surveys too.[9] And amongst the poor, working poor households showed rates of donations over three times those for non-working poor households. So if the idea is to induce charity, Professor Bhagwati might do better perhaps by reversing the tax cuts for the rich; making them pay their taxes; and increasing wages.

There is other implicit and unwanted baggage that is smuggled in by way of premises. Bill Gates might wish to spend his wealth on social good, but an Aaronovitch might prefer to spend it on his Chelsea football club, Mallya on his IPL cricket and F1 motor racing teams; and Ambani on his humble new abode of $2 billion; others, on buying the customised services of politicians and bureaucrats, judges and journalists, the police and whoever and whatever else necessary, to propel their fortunes further up the wealth ladder; yet others, of the Gordon "greed-is-good" Gekko variety, might set this unused money to seek out yet more money through "innovative" financial schemes and instruments, conveniently side-stepping, or subverting, inconvenient regulatory mechanisms through the use of their wealth-derived power. There is much accumulated evidence countering Keynes' pithy remark that "it is better that a man should tyrannise over his bank balance than over his fellow citizens" (Keynes 1936:374); it should be possible to enjoy the wit without ingesting it

7 Panagariya holds the Jagdish Bhagwati Chair on Indian Political Economy at Columbia University, where Bhagwati himself is a professor.

8 The figures cited are from the Social Capital Community Benchmark Survey 2000 in the US.

9 A non-profit organisation specialised on charities, estimated for 2001, that households earning less that $25,000 annually donated 4.2% of their incomes while those with earnings over $75,000 gave away 2.7% (Warner 2010).

as wisdom, since it is obsession over the former that usually leads to the oppression of the latter.

Utopia, the 15-deck, 971-foot, most-luxurious-in-the-world cruise ship, with 200 private residences, described as a "platform for learning, cultural exchange and philanthropy", will travel on a perpetual tour - oh, how exhausting, my dear - of cultural centres and sporting events - from the Cannes Film Festival and Monte Carlo Grand Prix to the Olympics, the Brazilian Carnival and Hong Kong's Dragon Boat Festival. The boat's big sales pitch, however, is philanthropy. The ship's Philanthropy Office will keep a database of the philanthropic interests of all the residents in order to connect them with other donors and to organize events around the world tied to their favourite causes. It also will create philanthropic programs for the children of the owners and host charity balls and events on board. The ship will have a "Wall of Fame" honouring the charitable achievements of its owners. "This project is not just about people spending on themselves and living a luxurious lifestyle on the ship," Mr. Robb said. "It's also about travelling with purpose and meaning." (Frank 2009).

But what to do once you've scaled the Antillan heights and gone and done your globe cruising bash? Are there new worlds even beyond the dream decks of *Utopia*?

The answer comes from the recently elevated Baron Stanley Fink, ex-CEO of Citibank, co-treasurer of the Conservative Party, described as the godfather of the British hedge fund industry. Toynbee and Walker (2008) report from their observations at a breakfast event for High Net Worth Individuals organised by the Charities Aid Foundation, where the host was Boris Johnson, and the main speaker fittingly was Stanley Fink.

"What do you do now you've got all the toys? You've already got all the houses, yachts, cars and jets and you can use, so what comes next is charity" (Toynbee and Walker 2008). "I get invited to places I'd never have seen otherwise" said Fink, "listing eye-popping names and places his philanthropy had taken him, from No 10 upwards"; a day at the set of the latest Bond movie, dinner with Mikhail Gorbachev, being crooned by Elton John, or entertained by Prince ... The vocal and unequivocal message, according to the observers was: "charity is the passport to the in-crowd; give and ye shall meet celebs; giving was the ultimate door-opening lifestyle accessory."

This was the acknowledged "Godfather" of hedge funds transferring his cumulative wisdom to the awestruck flock of the children of new inequality. He was speaking from solid, personal, life experience of course: after years at the helm of the 225-year old Man Group with assets under management of

$75 billion, he left in 2008 to devote his energies to his philanthropic and related passions; he donated a million pounds to the Conservative Party, soon became its co-Treasurer; bankrolled Boris Johnson's successful Mayoral election against Ken Livingstone in London; led a working group on environmental markets for the then shadow chancellor George Osborne (Clark 2008); raised GBP 80 million for the Conservatives to overturn Labour at the general elections; and was titled by the Tories as Baron Fink in 2011. He has since returned to the world of fast finance, this time in partnership with Lord Levy, made (in)famous by the (very) British titles-for-cash scandal for which he was thrice questioned, arrested and eventually predictably released. The pairing seemed superficially odd, since Lord Levy, known widely as Lord Cashpoint, was the tory Godfather's opposite number in the Labour Party, having been *their* prime hunter and gatherer of donations. What perhaps overrode their ostensible political divide was their deep loyalty to the Jewish community; both were stalwarts and held extensive positions within Jewish civil society; while there had been concerns over Lord Cashpoint's intimate links to Israeli politics, the Godfather had a son working as part of the Israeli political establishment, and he had explicitly cited his distaste for Ken Livingstone not just due to his politics, but more on grounds of what he perceived to be his unfriendly stance towards British Jewry; religion makes for strange bedfellows, and clearly runs thicker than politics.

"I believe that the purest philanthropy is totally altruistic, ideally with anonymity between donor and recipient. However, for philanthropists to change the world, they need to be evangelistic to encourage other rich businessmen to multiply the effects. In this regard, if people promote it and build businesses around it - so much the better - provided that it leads to more philanthropy" (Fink, n.d.); which, in turn leads to further evangelism, promotion and business building.

Bhagwati (2010) questions the merit of corporate social responsibility; instead, he is an advocate of private social responsibility - much in line again with the Friedmanite position. But beyond this, there are various other fundamental issues that the Bhagwati proposition glosses over. A libertarian might well prefer this model of charity-driven "social good" to state policies of social development financed through taxing the wealthy. But, warts and all, a government's actions are framed by constitutional limits, and remain accountable to an electorate; no such safeguards apply to donors going good as they deem to see it. NGOs and similar organisations, including those widely admired, usually function outside such constraints, and have therefore been rightly subjected to a similar criticism of being above formal democratic accountability.

The dangers are far greater when it is an individual plutocrat one is dealing with rather than a social movement or NGO. And yet further, such powerful donor entities usually have the mission, and the capacity, to subvert, amend or re-write the agendas of cash-strapped governments of poor countries, and similarly impecunious international development agencies that can provide the "partnership" guaranteeing access, legitimacy and influence. Surely, at this moment, the Gates money pulls far more weight in global agenda setting in the health sector than the WHO. But, as Toynbee and Walker ask: "they control the business sector, so why not social policy as well?" Apart from the obvious questions of ability, expertise, experience and orientation, there are important issues of democratic accountability and constitutionality at stake.

A minimal reflection is also called for on motivations driving charity. It is too easily assumed that this reduces purely to the altruistic and solidaristic motive of helping fellow human beings. In the middle ages, paupers knew they could extract some metal from the wealthy seeking redemption or an easier squeeze through the eye of the needle by giving alms to the poor. In Jean Paul Sartre's satirical deconstruction: "the reason why the poor exist is to provide the rich with an opportunity to display their generosity". But there could be other intangibles you might wish to buy with charity - things you might never have bought with churning out yet another version of windows: it buys you fame of a different kind, it buys your saintliness, acceptance as a giver, a sacrificer, a healer. And you have a life with much more meaning than would be possible perpetually fighting off the competition and anti-monopoly law suits. You buy something Microsoft, or a hedge fund cannot buy: "public goodness", a halo. Windows and hedge funds are on the income side of the line; charity is on the expenditure side. Money might not buy vou love, but charity is the commoditisation of virtue.

Naturally, the less taxes the rich are made to pay, the more the state will be cut down to size, and the more the rich will retain to exercise their generosity. This part of the Friedman-Bhagwati vision seems to be on track, as is indicated by the tax cuts for the rich, the slicing of governmental social service budgets; on the eve of the 2007 crisis, tax consultants estimated that of the UK's 54 billionaires, at least 32 paid no taxes at all; and, the top decile of income earners paid a small percentage of their total income in tax than those in the bottom decile (Toynbee and Walker 2008). For the US, the super rich were not all super donors: of the top 50 most-generous donors on the ranking generated for 2010 by *The Chronicle of Philanthropy*, only 17 appeared in Forbes list of the 400 wealthiest Americans (msnbc.com 2011). However, "the problem is that the exceptional philanthropy of the super wealthy few doesn't apply to the many more people defined as rich in the current debate over the Bush tax cuts – individuals earning over $200,000 and couples with revenues over $250,000. For decades, surveys have shown that upper-income Americans ... are particularly undistinguished as givers when compared with the poor, who are strikingly generous" (Warner 2010). In the UK, the Charities Aid Foundation pointed out "that the same few names get recycled in the media, giving an erroneous impression that philanthropy is on the rise"; in reality, for 2007, a bonanza year for bonuses, there was a fall in high-level donors (Toynbee and Walker 2008).

And it seems that charity is a fair-weather friend that tends to shirk and shrink when times are bad. In UK, according to the Charities Aid Foundation, the last recession saw a fall in giving by 64 per cent, while demand rose by 90 per cent (Toynbee, 2009); "what a disaster if the welfare state were seriously dependent on haphazard generosity" (Toynbee 2009). Of course, the flip side of someone's disaster is another's bonanza.

US families donate more than twice as much per capita than those in the most generous European countries (Brooks 2008); on the other side, US social security systems are highly porous in comparison with the relative strength of the European social policy framework, and this even after a couple of decades of erosion under the neo-liberal onslaught there. Perhaps the Europeans convert their socially charitable instincts into an egalitarian and universalistic framework of basic entitlements, while the American poor provide the opportunity to the rich to simultaneously show off their wealth and idiosyncratic charity in the organised glare of media coverage.

"A Regrettable Necessity!" said the Fat Cat

And several have argued an instrumental defense of inequality on the grounds that it leavens the wheels of commerce and creates the wealth that then might trickle down to the poor. This has been read as *carte blanche*, almost literally, on how far inequality should or could be allowed to go and be accepted. Last year, the annual bonus of one young manager of a top hedge fund was more than the total national income of a list of poor countries. The rulebook of the neo-liberal game tells us that controlling inequality would preempt growth; slay the goose called inequality, and there will be no more proverbial golden eggs.

"We have to tolerate inequality as a way to achieve greater prosperity and opportunity for all," Brian Griffiths, an adviser to Goldman Sachs International who once served as a special adviser to Margaret Thatcher, was reported as regurgitating at a panel discussion on the place of morality in the marketplace

(Griffiths 2009). But a more grammared version of this position could seek qualified philosophical support in the Rawlsian "difference principle" which would condone inequalities if these made the worst off better off.[10] Cohen, citing John Stuart Mill in support, rejects this: "Rawls's lax application of his difference principle means "giving to those who have." He presents the incentive policy as a feature of the just society, whereas it is in fact, and as Mill says, just "highly expedient" in society as we know it, a sober "compromise with the selfish type of character" formed by capitalism. Philosophers in search of justice should not be content with an expedient compromise" (Cohen 1991: 67-68).

However, to begin with, and to take a step further, any philosophical, or sophist, defense of inequalities on the basis of the difference principle would require that there be a prior demonstration that they deliver the promised goods, i.e., that, in Cohen's terminology, they are a damage limitation device in the field of justice. But what if this cannot be convincingly established? What if there are cogent grounds to argue that prevalent incentive structures rewarding the super rice actually function as a mechanism of damage causation? The empirical premise on which the difference principle could become a justification of inequalities needs first to be confirmed; what really is the pathology linking such incentives and the observed outcomes?

The incentives-for-the-rich-are-actually-good-for-the-poor homily is anodyne till you fill in the blanks: inequality favouring whom, why, how much, with what effect? If an intrinsically valuable attribute has to be sacrificed for the instrumental, it might be wise to do the sums to see if you are getting value for money. The answers to be had in the real marketplace to these principled questions make sorry, and often sordid, reading.

On the substantive issue of the dysfunctionality of inequality as an incentive to industrial and managerial innovation, the views of the Paul Samuelson (2008) might be apposite.

"Using markets is not the same thing as unregulated capitalism so beloved by libertarians. Such systems cannot regulate themselves, either micro-economically

10 Cohen (1991:66), in his *Tanner Lectures*, critiques the use of the Rawlsian position when used to legitimise inequalities as being "just": "the policy of paying productive people plenty to get them to produce so that badly off people will be better off is rational when productive people are resolved to serve only if they are richly rewarded. But their stance is then unjust by the very standard which the difference principle itself sets. Accordingly, on a strict view of Rawlsian justice, the difference principle in its lax interpretation, which does mandate the incentives policy, is not a basic principle of justice but a principle for handling people's injustice. It is not a basic principle of justice, since it confers benefit on market maximizers who offend against justice. We might call it a principle of damage limitation in the field of justice".

or macro-economically. Wherever tried they systematically breed intolerable inequalities. And instead of such inequality being the necessary price to encourage dynamic progress via technological and managerial innovations, it instead breeds dysfunctional shortfalls in what economists call "total factor productivity. Convincing proof of these points can be found in the deterioration in the US from 2001 to 2008. As CEO pay rose respective to median employee pay - from a more normal 40 to 1 ratio up to and beyond 400 to 1 - industrial progress deteriorated rather than accelerated."

The position is considerably worse when it comes to the banking and financial sector. Except from the bankers themselves, and their lobbied political backers, the overwhelming stance of the economics profession has been to ridicule the defence that the extreme reward and bonus systems were justified in terms of necessary incentives.

Testifying before Congress, Stiglitz (2010:2) argued "it is hard to find evidence of any réal growth associated with the so-called innovations of our financial system, though it is easy to see the link between those innovations and the disaster that confronted our economy". His testimony repudiates any notion of a rational link between performance and pay in the sector; the incentive structures were "flawed", "poorly designed", and perverse leading to "short-sighted behaviour and excessive risk taking"(ibid.:4); "the discussion on incentive pay was simply a charade: pay was high when performance was good, but pay was also high when performance was poor"; "only the name changed, e.g. from "incentive" bonus to "retention" bonus" (ibid.:5);"bankers were more innovative in figuring out ways of exploiting American consumers and extracting fees than they were at designing products that would help consumers manage the risks they face" (ibid.:6). "management was rewarded for higher returns, whether those returns were produced by merely increasing risk or by truly outperforming the market. Anyone can do the former; the latter is almost impossible. Again, no wonder that all the financial wizards took the easier route - and it was this excessive risk that helped bring capitalism to the brink" (4). In the meantime, before, during and after the crisis, top hedge fund managers regularly took home over a billion dollars a year in bonuses, with the top "earning" operator making over $4 billion in 2009, while there were between 2.5 and 3.5 million home foreclosures in 2010, remaining on a rising trend from the point of the crisis.

Another kind of misallocation of scarce resources is poignantly referred to by Stiglitz in closing his testimony: "In this modern era of a finance-dominated economy, unfortunately, a disproportionate share of our most talented youth went into finance, lured by the outsized compensation.[11] The costs to our society of this misallocation are incalculable." (Stiglitz 2010:8).

"The result of flawed incentives, perhaps even worse in the aftermath of the crisis, can be called ersatz capitalism, with losses socialized and profits privatized; it is an economic system that is neither fair nor efficient" (Stiglitz 2010:7). The only issue one can raise with Stiglitz's damning testimony is whether these properties can be ascribed to the ersatz, or to the inherent, nature of capitalism.

The extreme inequalities causing and accentuated by the incentive structure might were obviously regrettable, but they were far from being a necessity. Keynes, as so often, said it rather well: "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation." (Keynes 1936:159)

"Its Absolute Poverty, Not Inequality, Stupid!" - Or Is It?

In the context of the Millennium Development Goals, Jeffrey Sachs, the centre-forward of the UN MDG team, has publicly asserted - though the basis of this proclamation remains impossible to verify - that the leaders of the developing world effectively withdrew from earlier radical stances on inequality of incomes and wealth, and simply sought the support of the west to the more specific agenda of the reduction of forms of absolute poverty.[12]

One Dutch minister for development cooperation declared that the poor woman in the Jakarta slum should not be concerned about overnight millionaires generated by the stock exchange, so long as she had the money to send her child to school.

"It's about poverty, not inequality", she announced. "We must focus on absolute, not relative, income levels; ... to a poor widow living in the slums of Jakarta, it does not matter that some Indonesian millionaires become billionaires overnight on the stock exchange; what matters to her is whether she can find a job to feed her children and send them to school."[13]

The speech can be admired for its breathtaking simplicity; it must be assumed that the Dutch minister can read the mind of the Indonesian widow. We are also invited to take temporary leave of our faculties and accept the assumption

11 "Many hedge funds are run by teams of pointy-headed rocket scientists, but Renaissance Technologies Corp. might be able to run its own space program. The 68-year-old Simons, who has a PhD in mathematics from UCB and has taught at MIT and Harvard University, has packed his enterprise with math and computer whizzes. These quantitative specialists use arcane programs to trade the globe's most liquid securities rapidly and frequently, using lots of leverage." (Finfacts Team 2006:3).

12 Televised lecture delivered at the SID Conference in Amsterdam, October 2005.

13 (Agnes van Ardenne van der Hoeven 2005).

that the lives and actions of these billionaires have no interface with those of slum dogs and widows.

It must be assumed that the Dutch minister could read the minds of Indonesian widows; and also that there is no deeper causal connection between the sudden billionaire and the impoverished slum-dweller. But what if the excluded do wish to have a more just society with more efficient and equitable generators and distributors of wealth than the overnight stock exchange? And what if the undeserved good fortune of the speculator is an outcome of the same neoliberal policy paradigm that accounts for the equally undeserved exclusion of the poor widow from a job, and her children from school? (Saith 2006:1185, n19.)

Not surprisingly, another broadside against any preoccupation with inequality comes from Anne Krueger, when a deputy managing director of the IMF.

"Some anti-globalizers allege that the gains of globalization are not universally shared. Inequality of outcomes is said to be the Achilles Heel of globalization. This characterization is misleading in several respects. At the very outset, one has to wonder about the preoccupation with inequality. As Chinese Premier Deng Tsiao Ping famously remarked: "I have a choice. I can distribute wealth or I can distribute poverty." Poor people are desperate to improve their material conditions in absolute terms rather than to march up the income distribution. Hence it seems far better to focus on impoverishment than on inequality. And there is no doubt that growth reduces the incidence of impoverishment. Empirical studies show clearly that the incomes of those at the bottom of the income distribution rise one-for-one with growth" (Krueger 2002).

Kreuger presumably bases herself on the findings of Dollar and Kray's (2001a, 2001b) propagandistic intervention that makes this claim. She also seems to be on the wrong side of data with regard to the increase in inequality under globalization; more worryingly she seems to suggest that raw economic growth is distributionally neutral, with the poor sharing proportionately in the increments. She betrays no recognition of the array of terminal critiques and counter-arguments that challenge and reject these conclusions on grounds of doubtful data, questionable method, and untenable policy interpretations: Easterly (2002) argues inequality does cause underdevelopment; Ravallion (2005) finds that "inequality *is* bad for the poor"; Rodriguez and Rodrik (2000) challenge the use of cross-national method and evidence; Foster and Szekely (2001), and Ravallion (2001) provide pertinent critiques of the use of general means to track low incomes; Gundlach, de Pablo and Weisert (2001) reject the policy deductions with respect to the claimed relative unimportance of education for the poor; Nye, Reddy and Watkins (2002) develop a comprehensive critique, as do Lubker, Malte and Weeks (2002), with the latter concluding that Dollar and Kray's "empirical work is based on theoretically unsound equations; the data are seriously flawed; and the policy variables are not defined appropriately, nor are they tested in a consistent manner", thus rendering the conclusions "unsafe"; others go further (Douthwaite 2000); the bottom line, as an acid commentary puts it, is that "misleading studies are bad for the poor".[14]

Instead, she seems to suggest that the rest of the world should take its cue on irrelevance of inequality from the case of China and its premier, without confirming that the Chinese growth experience is part of the package deal on offer for followers of her, and his, advice. Like Ardenne and Sachs, Krueger displays a gratuitously patronizing stance towards "the poor" who, she double-guesses, are not really interested in the justness of the society of which they are members, only in their daily bread. Such rush to rashness calls for repentance, especially in the face of the cumulative evidence of the last two decades.

A variation on this theme was offered by (the late) Arjun Sengupta, a senior Indian economist and protagonist of a rights-driven approach to development, when he argued recently[15] that it would be fine to leave the top 20 percent undisturbed to enjoy their wealth, and for government policy to focus separately on the bottom 80 percent. This position conveys an impression that the two sub-economies and populations, the rich and the poor, occupy independent, unconnected countries, if not worlds. But do they?

"Spiteful Egalitarians" – Anti-Pareto Party Poopers!

Consider Martin Feldstein's use of the Pareto Principle in defence of inequality. We should take note, since he was the CEO and President of the National Bureau of Economic Research (NBER) for three decades, and also served as the chairman of the Council of Economic Advisers to President Reagan at a historic point of inflexion in policy regimes.

"Some see inequality as so intolerable that they regard increasing the income of the wealthy as a "bad thing", even if that increased income does not come at anyone else's expense. Such an individual, whom I would describe as a "spiteful egalitarian", might try to reconcile this with the Pareto principle by saying, "It makes me worse off to see the rich getting richer. I don't have fewer material goods, but I have the extra pain of living in a more unequal world." I reject such arguments and stick to the basic interpretation of the Pareto principle ... I am interested only in evaluating changes that increase the

14 http://www.brettonwoodsproject.org/art-15464

15 Comments made at International Seminar on the Defining Poverty in India, Patna, July 2007.

incomes of high-income individuals without decreasing the incomes of others. Such a change clearly satisfies the common-sense Pareto principle: it is good because it makes some people better off without making anyone else worse off. I think such a change should be regarded as good even though it increases inequality" (Feldstein 1999:1).[16]

Leaving not much to doubt, he asks his readers to "imagine the following: Later today, a small magic bird appears and gives each *Public Interest* subscriber $1000. We would all think that this is a good thing. And yet, since *Public Interest* subscribers undoubtedly have above average incomes, that would also increase inequality in the nation. I think it would be wrong to consider those $1000 windfalls morally suspect" (Feldstein 1999:1).

One imagines that Feldstein would be equally happy if that small magic bird made a mistake and delivered $1000 windfalls to every *non-subscriber* of *Public Interest*. This would make all the *poorer* people better off without making the rich worse off. One must also assume that his position would be the same if the bird was larger in size and able to drop $1 million windfalls on every manager of an equity fund or every mortgage sub-prime banker. Essentially, Feldstein finds nothing wrong with increased top end inequality per se; he does not wish to make his answer contingent on the rationale for the receipt - just a windfall from a small magic bird! Is he in cloud cuckoo land?

Like others, Feldstein relies on the overworked ghost of Pareto, attempt to ethically legitimise extreme inequality in the current growth process so long as the poor do not lose out in absolute terms; anyone rejecting this position he then pejoratively, almost biblically, labels a 'spiteful egalitarian'. But if Pareto's ghost could borrow a voice, it might point out that Pareto might be equally contented with the diametrically opposite scenario, where all the benefits of new growth went entirely to the poor, so long as the rich did not suffer a drop in incomes!

In reality, it is notoriously difficult to specify a position where the pure Paretian principle really applies, since any significant intervention, within a static framework, in one part of the economy or society has consequences and ripple effects elsewhere that reconfigure distributional outcomes. Within a growing economy, there are many outcomes possible, all of which could meet the basic Paretian criterion, and hence the actual choice is made by other means and

16 There are many dedicated evangelists of such positions; see, for instance, Bhalla (2004): "My own take on discussions on inequality is that it is equivalent to the "economics of envy"; what should really concern us is the growth in incomes of the poor." See also, for instance, Sabharwal 2010.

processes, usually through the exercise of power by those that have enough of it.

There are good reasons for agreeing with Waldman (2007) when he says, "there is no such thing as Pareto optimality; the availability of public goods for which superior private substitutes can be purchased is nearly always diminished with increasing inequality".

Two effects operate. First, as the rich exercise a Hirschmanian prerogative to exit from the consumption of specific public goods in favour of superior private substitutes, effective loyalty support for that public good atrophies, and this leads to an erosion of the supply of "inferior" public goods consumed by the poor, indeed ensuring that the public goods do indeed become even more inferior in quality in absolute terms. This would apply to education, to health, to infrastructure, to law and order, to public utilities such as electricity, water, and transport. In turn, this restructuring in favour of the rich creates a dynamic force that further exacerbates the initial inequalities. Second, as the overall composition of demand is reoriented by increased inequality, the demand for some goods and services decline, and this leads to a loss of economies of scale, leading either to a reduction of provision, or of increased prices, as for instance when richer people take to cars, and privatized rail companies cut out routes now rendered non-viable; or as an area of a metropolis is gentrified, the erstwhile poorer residents can no longer afford to continue to live there with rising tax rates and prices of utilities; or cereals becoming more expensive for the poor as land shifts to the cultivation of more profitable uses catering disproportionately to the demands of the rich, such as livestock or bio fuels.

There is yet another serious reason for rejecting the Paretian justification of inequality arising from the operation of political power. Power in society takes inherently relational and hierarchical forms, as one class acquires power in relation to others. A significant increase in inequality also the political power in the hands of the richer groups then becomes the basis for the exclusion of others. Since power is fungible, this effect extends across a wide range of social, economic and political phenomenon. With the increase in inequality, the rich get incremental motivation as well as capacity to protect its privileges. Very early, Oskar Morgenstern (1964) "pointed to this situation as one limitation to the doctrine of Pareto optimality.[17] [18]

17 See his "Pareto Optimum and Economic Organization", cited in Hirschman 1981:55.

18 For seminal critiques of an axiomatic nature, see Sen (1970a, 1970b).

"Lie Back and Think of Kuznets!"

"Do nothing, just hold your breath, and wait for the Kuznetsian U-curve process to take hold; inequality will self correct." A touch of historical determinism is used as reassurance in favour of retaining a status quo marked by high and rising inequalities, and to caution against interventions even as the share of the poorer sections slides down the slippery downside slope of the U curve.

This attractively lazy option, it turns out, is indeed too good to be true. The downhill slide is well documented, but the climbing out of the trough has to be taken somewhat more on faith; on the rare occasions where countries have clawed their way up the slope, there has been hard work to do, aided by various circumstantial factors. There is also a misreading of the hidden role of the social agency and politics embedded in the Kuznetsian process, which is too well nuanced, historically and process rooted, to be reduced to a mechanical, auto-piloted ride. These issues are well discussed by Palma (2011).

The issues to explore in developing economies are how the wide range of structural, economic, cultural, technological and political factors - which, in particular combinations, delivered the U-curve over a century in a group of European countries - are configured and interact at present. What forms do the various drivers of the original U curve take? And do they have the pulling power to drag the income shares of the poorer sections up the steep side of the curve? How is the process playing out in contemporary South Asia, for instance?

An adapted Kuznetsian analytical frame helps elicit some pertinent structural contrasts. The classical cases of European industrialization involved a successful Lewisian process of structural change in the composition of both the GDP as well as the workforce, accompanied by a mature process of urbanization. A rural residual workforce and population, of different dimensions, remained but in most cases, this was a small minority. This facilitated the provision of public goods, especially infrastructure, public health and education, information to most of the population, with significant externalities for the poor even when many of these interventions might have been driven by the motivations of benefiting the elites. The early start also implied that this structural change fed into tightening labour markets which, in turn, induced labour mobilization and organization, with trades unions emerging as effective enhancers of the bargaining capacity of the working classes. The combined effect registered gains in the rewards of labour. This steady industrial transformation also shored up the fiscal reach and capacity of the state for financing social and infrastructural interventions on a substantial scale. This expanded state capacity was converted into varying degrees of state willingness to undertake the task of social provisioning by a combination of motivations and pressures. An argument can be made that the new material prosperity of the elite induced a secular change in social norms that became more accommodative of working class needs and demands, a process that was no doubt assisted by effective labour struggles. Alongside this was the new pressure for such change inherent in nascent democratization, which brought the previously excluded working classes into the political game as potentially effective players. Special factors and crises strengthened and accelerated these tendencies: the Great Depression, the war, and the processes of post-war societal and economic reconstruction within states that had learned some crucial Keynesian lessons. The welfare states thus had deep roots even though their fulfillment was manifested only in the post-war era, with a period of maturity and prosperity in the 1960s and 1970s, the decades collectively labeled as the 'golden age of capitalism'. Thus, the universalization of socio-economic security, within the limits of capitalist society and economy, was successfully negotiated, constructed, defended and sustained in varied forms of a new social contract or social corporatism. It is also worth noting that these welfare regimes tended to follow models of social provisioning that were not just virtually universal in reach, but also relatively uniform in their design, though obviously there were notable variations in the specific templates followed by different countries.

A comparison of contemporary South Asian structural features with those highlighted earlier in terms of their being pivotal in the rise of the modern welfare states in the northwest, is sobering. While savings and investment rates have risen across the board, overall growth rates have not responded systematically; the labour force growth rate is a multiple of what it was in the other group; the share of the modern manufacturing sector is miniscule in most LDCs and remains stalled, while informality is the norm in the economy. The urban share of the population has boomed, but perhaps prematurely, reflecting more the unattractiveness of the usually atrophying rural sector than the dynamic pull of a flourishing job market and service provision in the cities. There is no tightness in labour markets, the mobilization and organization of labour remain weak, and many advances of the early decades have been beaten down by in the neo-liberal era. Trade unions do not constitute a credible countervailing power almost anywhere, and social movements are too diffuse, diverse and disparate to coalesce into a coherent social transformative force that can occupy the vacuum left by the collapse of the power of the working classes. Inequalities are all too often applauded and legitimized rather than decried, so that little reliance can be placed on emerging egalitarian social norms as drivers of transformative change. The new rules of the game do not allow the state to act as a prime mover itself, or to be overactive in the matter of fiscal mobilization to underwrite any serious expansion of the welfare regime. And the provision of public goods has been privatized to such an extent that the elite protect themselves in walled and wired colonies that form special habitation zones for the rich wherein the quality of water, air, climate, sanitation, electricity, connectivity, security, are all assured internally. Public health and education facilities, originally catering to the 'community'—a short-lived construct in the early optimistic days of post-colonial independence—have been thoroughly commoditized. Indeed, the welfare regime in this group of countries has been reduced to a tawdry exercise in the narrowly targeted reduction of extreme absolute poverty.

As far as contemporary late starters are concerned, the Kuznets U-curve has mutated more into an L curve.[19]

"But Inequality Gives the Poor Hope and Incentives!"

In the context of his pioneering analysis of democracy American society, Alexis de Tocqueville argued that inequality provided the incentive for the poor to become rich. More recently and systematically, Hirschman developed the notion of the tunnel effect which would make the poor tolerate and acquiesce to rising inequality if they could imagine upward mobility for themselves. While it lasts, the tunnel effect involves "patterns of deferred social mobility, even though somewhat mythical, are nonetheless effective."[20]

Hirschman's "basic idea [is] that changes in the income of B lead to changes in A's welfare not only because A's relative position in the income scale has changed, but because changes in B's fortunes will affect A's prediction of his own future income. The principal case that has been considered so far is the tunnel effect: B advances, and this leads A to predict an improvement in his own position as well." (Hirschman 1981:55)

Developing this hypothetical situation, Hirschman argues "as long as the tunnel effect lasts, everybody feels better off, both those who have become richer and those who have not. It is therefore conceivable that some uneven distribution of the new incomes generated by growth will be preferred to an egalitarian distribution by all members of the society. In this eventuality the increase in income inequality would not only be politically tolerable; it would also be outright desirable from the point of view of social welfare." (1981:43)

19 For an early assessment making this argument, see Saith (1983); for a comprehensive empirical treatment, see Palma (2011).

20 [Fernando Henrique Cardoso and Jorge Luis Reyna, writing in 1968, cited in Hirischman 1981; p.45.]

There are strong operational policy implications, identifying which was perhaps the prime motivation underlying Hirschman's thesis. If the tunnel effect is strong, the distributional inequalities emerging a process of growth can be tackled sequentially post facto; on the other hand, if there is no tunnel effect, growth and distribution have to be tackled simultaneously through appropriate policy.

Recently, a selectively excised positive interpretation of the Hirschman hypothesis has been used, along with other justifications, by a prominent Indian neoliberal reformer to argue that rising inequalities in the process of rapid Indian economic growth are not iniquitous. Suresh Tendulkar's defence of inequality, written in congratulatory mode as part of a *festschrift* for Montek Singh Ahluwalia - whose first significant piece of research, ironically, was to argue the case for redistribution through growth - is significant for its timing: it appears at a time when rising inequalities, inflation, corruption, and insurgencies, have monopolised the front pages for an extended period (Tendulkar 2010). He chides Indian intellectuals of leftist persuasion quoting Hirschman who mentions that the tunnel effect "was often stumbled upon by researchers who were looking for the opposite phenomenon, such as seething discontent and revolutionary fervour among the urban poor, and were surprised and sometimes not a little disappointed at what they actually found" (Tendulkar 2010:43).

There are several problems with Tendulkar's interpretation of Hirschman; further issues about its empirical applicability in the Indian scenario; and yet further difficulties inherent to Hirschman's approach itself, insightful as it might be.

Tendulkar's take on the tunnel effect seems to suffer from severe tunnel vision. Casually noting some of Hirschman's own qualifications on the existence of the effect, he ignores several others, cherry picks the evidence, and arrives at what looks like a predetermined optimistic conclusion about the existence of the tunnel effect.

First, Hirschman is careful to warn that "it may be impossible to tell in advance whether a given country is or is not adequately supplied with the tunnel effect: it is conceivable that only development itself will tell" (Hirschman 1981:57-8). Ride the tiger, and find out, if you survive to tell the tale.

Second, Hirschman repeatedly emphasises that the tunnel effect is ephemeral and of indeterminate duration: "this tolerance is a loan which eventually expires. It is granted in the expectation that, with time, the disparities will grow smaller. But if this does not happen there will undoubtedly be problems and maybe even disaster" (Hirschman and Rothschild 1973); "development disaster occurs in countries ... ruling groups and policymakers fail to realize that the safety valve, which the effect implies, will cease to operate after some time; this situation has been increasingly typical of a number of Latin American countries", and Hirschman (1981:57-58) singles out Brazil and Mexico as significant examples. These are the examples that Tendulkar uses, conveniently glossing over the fact that Hirschman goes on later to cite these very cases as examples where the tunnel effect ran out and inequalities and exclusionary growth induced harsh authoritarian military rule.

Third, Hirschman himself notes the possibility of a reverse tunnel effect, where the improvement in the situation of A is likely to affect B's welfare negatively. Hirschman says "this sort of prediction is not too far-fetched: it is likely to be made in a society whose members are convinced that they are involved in a zero-sum game because resources are available in strictly limited amounts" (p.55). This could be a product of perceptions that follow George Foster's (1965) notion of the Image of the Limited Good, deemed to apply to "traditional" peasant societies. However, ultra modern industrial societies could also labour under this burden given the neo-conservative economic requirement of running a balanced budget which clearly gives the fiscal game a similar perceived quality, as is manifest in the bickering and struggles over government expenditures and taxes, especially around election time. In addition, basing himself on Oskar Morgenstern's critique of Pareto optimality[21], Hirschman argues that "one reason for this prediction could be that A's feeling that B, as a result of his increased wealth, will also acquire more power, a good that is generally acquired at the expense of others, and that this redistribution of power, besides being in itself objectionable to A, will have in time an adverse effect on his economic position. Such a feeling is likely to arise particularly if B comes to be *substantially* better off than A." (*emphasis in original*). Hirschman regards this as likely in a variety of realistic situations.

One imagines that the conflictual outcome of the reverse tunnel effect would be similar to the negative social and political consequences induced by the premature petering out of a tunnel effect midstream in a disequalising process of economic growth. Perceptively, Hirschman notes: "As long as the effect is strong, the developing country will be relatively easy to govern. It may even exhibit a surprising aptitude for democratic forms, which, alas, is likely to ephemeral; for, after a while the tunnel effect will decay and social injustice will no longer to unperceived and unresisted. As a first reaction, the coercive powers of the state will then be used to restrict participation and to quell

21 See p. 13,14, and fn. 15; this paper.

protest and subversion. More constructive programs of responding to crisis are easy to conceive, but seem to be extraordinarily difficult to bring in to the world" (1981:57-58).

Fourth, Hirschman rightly asks: "In what kind of societies does the tunnel effect arise and gather strength? What are the conditions under which it will last for a substantial time period, or, on the contrary, decay rapidly and turn into the opposite, namely disappointment, alienation, and outrage at social injustice? Answering this question is crucial for bringing our hypothesis down to earth and for ascertaining its empirical and heuristic usefulness" (1981:49).

He proceeds carefully to provide a lengthy carefully considered list of pre-conditions under which the tunnel effect might work for a while; there are many more situations where it was unlikely to work, and only a few where it might. Is Tendulkar's invocation of the tunnel effect justified for Indian realities? Given Tendulkar's tendentious treatment of it, it is necessary to revisit Hirschman's perceptive essay.

Hirschman initial reluctance to attach much significance to social stratification as a negative factor is overtaken by a stronger emphasis on the need for empathy across groups and classes. "The tunnel effect will always come into being as, within each social class, those who are not advancing empathize initially with those who are"; but then: "for the tunnel effect to be strong (or even to exist), the group that does not advance must be able to empathize, at least for a while, with the group that does. In other words, the two groups must not be divided by barriers that are, or are felt as, impassable. Thus, the fluidity or rigidity of class lines will have an obvious bearing on the intensity of the tunnel effect" (1981:49).

More relevant for him is "the contrast between fairly unitary and highly segmented societies: "If, in segmented societies, economic advance becomes identified with one particular ethnic or language group or with the members of one particular religion or region, then those who are left out and behind are unlikely to experience the tunnel effect: they will be convinced almost from the start of the process that the advancing group is achieving an unfair exploitative advantage over them. The non-mobile group may thus make the prediction opposite to that implied in the tunnel effect: As a result of another group's advance, it will expect to be *worse* off. ... In any event, it appears that highly segmented societies will or should eschew strategies of development that are politically feasible elsewhere because of the availability of the tunnel effect." (p.49; emphasis in the original). Further, he warns that "the capitalist road to development appears to be particularly ill-suited for highly segmented societies; if it is followed there, it will require a far greater degree of coercion than it did in the fairly unitary countries in which capitalist development scored it historic successes" (ibid.:50). But there seems to be no better alternative for him since he posits that socialist systems would not work in segmented societies either.

"The more or less unitary character of a country is probably the most important single criterion for appraising the likely strength and duration of the tunnel effect" The degree of national homogeneity is strengthened, or substituted for a while, by "an intensive historical experience that has been shared by all members of a group. Wars and revolutions typically can be such experiences, and the tunnel effect is therefore frequently at its most potent in post-war and post-revolutionary societies." But he warns: "the result can be an irony-laden historical cycle: revolutions are often made to eradicate a certain kind of inequality, but after such a revolution and because of it, society will have acquired a specially high tolerance for new inequalities if and when they arise". Hirschman includes here the anti-colonial experience of the United States: "the egalitarian or, rather, "born equal" heritage of the United States ... may have set the stage for the prolonged acceptance by American society of huge economic disparities." 51. Post reform China provides another strong example, where an exceptionally high degree of national homogeneity, cemented further by the collective experience of the Revolution, creates the extended tunnel effect that allows the system to accommodate dramatically wide and rapidly widening inequalities. Clearly, the sustained and rapid growth of the economy has made the tunnel effect more credible and extended its life further. Nevertheless, China clearly rides a tiger into dangerous territory: his caution, that "the more homogenous the country, the more prone will it be to violent social conflict in the course of development unless its leadership is uncommonly perceptive and able", seems to be relevant to China today with its rising tide of protests and dissension arising from the exclusionary tendencies of its rapid economic growth.

The case of transition economies is perhaps encapsulated in the findings of a recent survey on the attitudes to inequality in Russia. Ravallion and Lokshin (1999), using a 1996 survey of 7000 adults surveyed in the setting of Russia in the 1990s, found that 72 per cent favor government action to reduce incomes of the rich. The remaining 28% were either the well off who expected to do even better, with the greatest opposition to redistribution coming from those on "a rising consumption path who expect it to continue"; this last category could be roughly taken to correspond to the constituency defined by the tunnel effect, say, about one in 5 or 6 of the population. The 3 in 4 of the population that favoured redistribution included more women, more communists, and the vulnerable: "the old, poorly educated adults, people who live in rural areas, people who expect to lose their jobs, and people who do not think the government cares about them". The sturdy conclusion is that the tunnel effect seems to apply to a small minority, whereas the vast majority is immune to its lure. The evidence rejects any notion then that inequalities and vulnerabilities emerging from the transition process became acceptable to the people through the soma of some Russian version of the American dream. This situation could well stand as a proxy for a large group of transition economies.

The tunnel effect works best, perhaps, within traditional non-segmented societies that share a common heritage and defining collective episodes, where family and social networks are active and strong. But even here, society does come out of the tunnel at some point, and all depends on what it then discovers on the other side.

Hirschman refers to the knife-edge between "the expectation of advance and anticipation of decline" which explains "why the forecasting of social conflict is such a hazardous business"(1981:56). The blaze of upheavals in the Middle East and North Africa provide a pertinent pointer. Indeed, a strict application of the Hirschmanian checklist of criteria could well generate a null set - virtually no developing or transition country inspires confidence, *ex ante*, about the existence of any significant tunnel effect.

Overall, Tendulkar's selectivity distorts the rich analysis of Hirschman which, far from providing any endorsement or justification for rising inequalities, repeatedly sounds nuanced warnings of its limited applicability, frequent unsustainability and implicitly, its potential incompatibility with democratic political processes. A careful reading of Hirschman's classic contribution would set off alarm bells for contemporary India (and China), not any ringing endorsement.

And none of the key systemic features that hypothetically predispose a country towards the expedient benefits of the tunnel effect could safely be held to characterise Indian realities. India is far from constituting a unitary society; it is sharply polarised in terms of class and social groups; there is an overwhelming lack of empathy across these class or group lines; there is a high visibility to the widening gaps; there is a massive perception of unfair play on the part of the elite in pulling ahead through corrupt practices; there is a rising tide of new vulnerabilities unleashed by globalisation; there is widely held perception of India being not one country but two; and there is much evidence of outright conflict, in various forms both non-violent and violent, between the two. For many Indians, their American dream takes the form of a "green card", or a successful trip as a migrant worker to the human-rights deserts of the Middle East. Possibly, the would-be proto-elites that form a layer aspiring to promotion might form a, and probably the only, Hirschmanian constituency. But for the rest, their equivalent of the American dream translates more into an Indian fantasy, quite likely to mutate for most into a nightmare. When considered against India today, Tendulkar's analysis does seem to suggest a tunnel vision - not of the Hirschmanian type, but of the genre of the proverbial ostrich ensconced in a comfort zone of denial. One way of "tolerating" inequality is an obstinate refusal to see it.

Additionally, we can raise two fundamental, perhaps terminal, problems inherent to Hirschman's own analysis which undermine the heuristic and practical value that he was seeking. First, it has a somewhat tautological flavour: how does one verify the acceptance or toleration of inequality? How much protest is protest? What is acceptance? Perhaps there is seething resentment, but it diffuses and dissipates and is suppressed or rendered invisible by a variety of means. There can be a great deal of turmoil under a surface that appears to be placid. Perhaps there is continued protest with media and elite fatigue - the coexistence of protest and coercive suppression become a part of daily realities. The inability of protest to permeate and aggregate across society cannot be equated with toleration.

And second, toleration of inequality, even if this could be meaningfully validated, cannot substitute for its justification. Having to tolerate a bad odour does not convert it into a fragrance. The fact that wide and widening inequalities might be tolerated in certain social and time frames does not legitimise them, even less make them intrinsically desirable.

Did Anyone Complain or Protest? It Ain't Broke, Don't Fix It!

A common implicit premise underlying various strains of the apologist discourse on inequality seems to be the notion that people at the wrong end of it willingly acquiesce to it, do not regard it as an issue, as confirmed by the alleged absence of any challenge. "If inequality was so wide, widespread, and widening, why does it not induce political reaction, protests, and thereby induce corrective interventions?" The deduction elicited from this interpretation is that if the poorer sections of society do not regard it as a problem, nor should anyone else, and hence no policy or political action is indicated. However, this self-serving interpretation developed by protagonists of the status quo, is generally spurious.

There can be two categories of responses to the paradox of the missing protest.

First, there is overwhelming credible evidence that effectively undermines the empirical of such claims, from the rash of protests in China, to the yellow shirts in Thailand, to the Maoists in Nepal and India, to the Middle east and large parts of Latin America. There is widespread opposition, though often is fragmented an unable to effectively coalesce into mass protest, sometimes due to weaknesses in mobilisation and organisation, and at other times on account of coercion and suppression of struggles by trade unions, and social or political movements.

Second, it is incorrect to interpret silence, in the face of inequality, as assent on the part of those that carry its burden. An absence of overt opposition could also arise from the Bourdieu *doxa-habitus* syndrome of disempowerment and the evanescing of the exercise of imagination or agency in favour of an alternative way of being - where the existence of inequality is both individually and socially so subjectivised and behaviourally ingrained that it becomes as "natural" as the air you breathe, breeding a passive, unthinking acceptance. Oppressive practices against women and socially excluded communities have persisted relatively unchanged and unchallenged for centuries through such stabilising effects. Such unreflective silence and passivity cannot be read as agreement or support for the status quo of inequality, even less for a further intensification of it.

Third, people can be ignorant or misinformed, and kept that way with a little help for the elite. Take the case of exploding inequalities in the USA. Why don't the bottom 120 million, constituting the poorer 40 per cent of US society, react or object or protest?

Consider the findings of a recent survey conducted by behavioural psychologists in the US. The returns from 5522 respondents revealed that Americans had no clue about the extent of wealth inequality in their country; and also that their preferred "ideal" distributions were far more equal, resembling Sweden's, than the extreme American reality around them that they knew little about (Norton and Ariely 2010). For the top quintile, its ideal share was pegged by them at 30-40%, a long distance from the actual share of 85% of the wealth the riches quintile actually owned. For the bottom 40%, the respondents wished them to own 25-30% of the wealth, in comparison with 8-10% that the respondents felt this group owned, and dramatically distant from the 0.3% of the wealth that the bottom 40% possessed in reality. Clearly, the respondents thought the wealth distribution was far better than it actually was and, further, they wished it to be even more egalitarian than what they had optimistically felt it to be. Their ideal distribution was far more egalitarian than their guesstimate of reality, which in turn was still far more equal than the actual distribution. "That means Americans think ideally the poorest 120 million Americans should own somewhere between every fourth and fifth dollar of net worth, when in fact they own every 333rd dollar" (Johnston 2010:252).

In fact, Saez's estimate throws up far worse distributional outcomes for the bottom 99 per cent: the top 1 per cent took 50 per cent of all incremental real income in the 1993-2007 period, and as much as 65 per cent for 2002-2007, the period of the Bush Expansion (Saez 2009 Table 1).

Ignorance if further compounded and confounded by being misled and manipulated politically. Witness the widespread support, with only limited islands of opposition, for tax breaks in the US, cutting across all social class and economic strata including blue and while collar workers all the way to business tycoons. "Americans have this general belief now that government is bad, taxes are bad". "These ideas are easier to market than dandruff shampoo. Taxes, bad. Government, bad. Tax cuts, good. Less government, better" (Johnston, 2010:254). Yet, the workers and poorer sections had little idea of how these regressive fiscal transfers had actual effects opposite to what they might have fervently believed. The agents, consultants and lobbyists of the political elite are "superbly talented at exploiting this politically toxic amalgam of helplessness and lack of knowledge about taxes" (Johnston 2010:253).

Such lack of knowledge and cynical political manipulation by the elite are clearly powerful reasons, but so is what psychologists call "learned helplessness". "When you cannot make a connection between cause and effect, you become depressed and just take it," argues Ariely. More generally, they have little idea of the reality and even less knowledge of the real reasons behind economic outcomes; they are easily swayed by a mass media which is itself manipulated. They become discouraged citizens, sullen, inert, easily mistaken for stoic - the outcome is "a state of collective learned helplessness" (Ariely, n.d.).

"The people I live with and work with and talk to work at McDonald's or as security guards or on a road crew – they are high school graduates thinking only about paying their bills and have no idea about politics in this country," Eric[22] told Donald. "If you try to engage these people about the state of the economy, just in passing, they have no idea, and they don't care," Eric wrote. "They know bad things have happened to them, they know they can barely pay their bills. They are scared, but they don't know why things have

22 "Eric" is Donald Cay Johnston's unemployed brother in rural Oregon. (Johnston 2010: 253).

gotten so bad, and they don't know how to find out anything. That's what scares me — they don't want to find out, because they say knowing won't change anything. They say what they know doesn't matter because they can't do anything about it."

Eric detects a seething anger beneath the surface that the right charismatic figure could ignite. Silence is then far from tolerance; possibly more akin to the tinder-dry fields where a prairie fire might well be about to happen. Tolerance and acceptance? famous last words, more likely. Ask Hosni Mubarak.

SPRINGS OF HOPE, WINTERS OF DISCONTENT

Official statistics have a powerful potential to misinform, obfuscate and subvert citizens' struggles. Acknowledging Disraeli's aphorism - "lies, damn lies, and statistics" - perhaps the most pertinent and prescient observation comes from the astute social imagination of H.G. Wells. Writing over a century ago, he anticipated that "the time may not be very remote when it will be understood that for complete initiation as an efficient citizen of one of the new great complex worldwide States that are now developing, it is as necessary to be able to compute, to think in averages and maxima and minima, as it now to be able to read and write." Elsewhere, he observes: "Facts and figures illustrating progress fly across frontiers like guided missiles directed at people's minds. And, of course, those who lag behind in such progress are the most exposed to this propaganda" (Wells 1903).

Indeed, the mountain of still mounting evidence of rising inequalities in modern times is virtually incontrovertible - despite the empirics being systematically muddied and muddled by tendentious and diversionary interventions purporting to convey a more ambiguous bottom line, through the selective (ab)use of data sets and methods.

Yet, most citizens neither follow nor comprehend these convoluted debates, and have widely inaccurate perceptions of the relevant numerics of inequality. They derive their perceptions from their personal analysis of immediate experience, where this understanding is mediated through social interactions and public debate, especially involving the media, where again they become vulnerable to the capacity of the ruling classes to dissemble, divert and deny the realities of systemic inequalities. Potentially, official and dominant discourses become a powerfully biased and disempowering filter. Academic debate has increasingly become an active and influential agent in this public space, the gate keeping of which is itself controlled by the holders of power. And where this capacity to preempt and diffuse opposition loses its potency - if only because, as the adage goes, not all the people can be fooled all the time - other more direct and coercive means of control tend to be resorted to, giving increased meaning to the exhortation of a despairing Maurice Dobb (1960:327), "when interest obstructs reason, to preach reason is vain, unless it be to dethrone interest". The cycle of seasons repeats itself, from hope to disenchantment to sullenness to violence - from the Arab Spring to the winter of discontent.

Perhaps Eric has found voice and is camping on Wall Street, just as his counterparts in the Arab Spring maintain a vigil, if not a siege, on Tahrir Square; just as the Occupy Movement expresses its collective anger, even if symbolically, in waves across countries in every continent against the lurid excesses of plutocratic capitalism; just as the global economy teeters yet again on the brink of another predictable collapse.

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