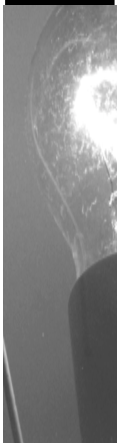

Inequality of Wealth and Incomes

Ludwig von Mises

The mantra that the rich are getting richer, and the poor are getting poorer misses the point—inequality of wealth and incomes is an essential feature of the market economy.

The market economy—capitalism—is based on private ownership of the material means of production and private entrepreneurship. The consumers, by their buying or abstention from buying, ultimately determine what should be produced and in what quantity and quality. They render profitable the affairs of those businessmen who best comply with their wishes and unprofitable the affairs of those who do not produce what they are asking for most urgently.

Profits convey control of the factors of production into the hands of those who are employing them for the best possible satisfaction of the most urgent needs of the consumers, and losses withdraw them from the control of the inefficient businessmen. In a market economy not sabotaged by the government, the owners of property are mandataries of the consumers as it were. On the market a daily repeated plebiscite determines who should own what and how much. It is the consumers who make some people rich and other people penniless.

Inequality of wealth and incomes is an essential feature of the market economy. It is the implement that makes the consumers supreme in giving them the power to force all those engaged in production to comply with their orders. It forces all those engaged in production to the utmost exertion in the service of the consumers. It makes competition work. He who best serves the consumers profits most and accumulates riches.

In a society of the type that Adam Ferguson, Saint-Simon, and Herbert Spencer called militaristic and [we today] call feudal, private property of land was the fruit of violent usurpation or of donations on the part of the conquering warlord. Some people owned more, some less, and some nothing because the chieftain had determined it that way. In such a society it was correct to assert that the abundance of the great landowners was the corollary of the indigence of the landless.

But it is different in a market economy. Bigness in business does not impair, but improves the conditions of the rest of the people. The millionaires are acquiring their fortunes in supplying the many with articles that were previously beyond their reach. If laws had prevented them from getting rich, the average . . . household would have to forgo many of the gadgets and facilities that are today its normal equipment. [Countries like the United States] enjoy the highest standard of living ever known in history because for several generations no attempts were made toward 'equalisation' and 'redistribution'. Inequality of wealth and incomes is the cause of the masses' well-being, not the cause of anybody's distress.

Demand for 'distribution'

In the opinion of the demagogues inequality in what they call the 'distribution' of wealth and incomes is in itself the worst of all evils. Justice would require an equal distribution. It is therefore both fair and expedient to confiscate the surplus of the rich or at least a considerable part of it and to give it to those who own less.

This philosophy tacitly presupposes that such a policy will not impair the total quantity produced. But even if this were true, the amount added to the average man's buying power would be much smaller than extravagant popular illusions assume. In fact the luxury of the rich

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absorbs only a slight fraction of the nation's total consumption. The much greater part of the rich men's incomes is not spent for consumption, but saved and invested. It is precisely this that accounts for the accumulation of their great fortunes. If the funds which the successful businessmen would have ploughed back into productive employments are used by the state for current expenditure or given to people who consume them, the further accumulation of capital is slowed down or entirely stopped. Then there is no longer any question of economic improvement, technological progress, and a trend toward higher average standards of living.

When Marx and Engels in the *Communist Manifesto* recommended 'a heavy progressive or graduated income tax' and 'abolition of all right of inheritance' as measures 'to wrest, by degrees, all capital from the bourgeoisie', they were consistent from the point of view of the ultimate end they were aiming at, viz., the substitution of socialism for the market economy. They were fully aware of the inevitable consequences of these policies. They openly declared that these measures are 'economically untenable' and that they advocated them only because 'they necessitate further inroads' upon the capitalist social order and are 'unavoidable as a means of entirely revolutionizing the mode of production', i.e., as a means of bringing about socialism.

But it is quite a different thing when these measures which Marx and Engels characterised as 'economically untenable' are recommended by people who pretend that they want to preserve the market economy and economic freedom. These self-styled middle-of-the-road politicians are either hypocrites who want to bring about socialism by deceiving the people about their real intentions, or they are ignoramuses who do not know what they are talking about. For progressive taxes upon incomes and upon estates are incompatible with the preservation of the market economy.

The middle-of-the-road man argues this way: 'There is no reason why a businessman should slacken in the best conduct of his affairs only because he knows that his profits will not enrich him but will benefit all people. Even if he is not an altruist who does not care for lucre and who unselfishly toils for the common weal, he will have no motive to prefer a less efficient performance of his activities to a more efficient. It is not true that the only incentive that impels the great captains of industry is acquisitiveness. They are no less driven by the ambition to bring their products to perfection'.

Supremacy of the consumers

This argumentation entirely misses the point. What matters is not the behaviour of the entrepreneurs but the supremacy of the consumers. We may take it for granted that the businessmen will be eager to serve the consumers to the best of their abilities even if they themselves do not derive any advantage from their zeal and application. They will accomplish what according to their opinion best serves the consumers. But then it will no longer be the consumers that determine what they get. They will have to take what the businessmen believe is best for them. The entrepreneurs, not the consumers, will then be supreme. The consumers will no longer have the power to entrust control of production to those businessmen whose products they like most and to relegate those whose products they appreciate less to a more modest position in the system.

Who should determine what is to be produced and consumed, the people or the State, the consumers themselves or a paternal government?

Profit and loss tell the entrepreneur what the consumers are asking for most urgently. And only the profits the entrepreneur pockets enable him to adjust his activities to the demand of the consumers. If the profits are expropriated, he is prevented from complying with the directives given by the consumers. Then the market economy is deprived of its steering wheel. It becomes a senseless jumble.

People can consume only what has been produced. The great problem of our age is precisely this: Who should determine what is to be produced and consumed, the people or the State, the consumers themselves or a paternal government? If one decides in favour of the consumers, one chooses the market economy. If one decides in favour of the government, one chooses socialism. There is no third solution. The determination of the purpose for which each unit of the various factors of production is to be employed cannot be divided.

Demand for equalisation

The supremacy of the consumers consists in their power to hand over control of the material factors of production and thereby the conduct of production activities to those who serve them in the most efficient way. This implies inequality of wealth and incomes. If one wants to do away with inequality of wealth and incomes, one must abandon capitalism and adopt socialism. (The question whether any socialist system would really give income equality must be left to an analysis of socialism.)

But, say the middle-of-the-road enthusiasts, we do not want to abolish inequality altogether. We want merely to substitute a lower degree of inequality for a higher degree.

These people look upon inequality as upon an evil. They do not assert that a definite degree of inequality which can be exactly determined by a judgment free of any arbitrariness and personal evaluation is good and has to be preserved unconditionally. They, on the contrary, declare inequality in itself as bad and merely contend that a lower degree of it is a lesser evil than a higher degree in the same sense in which a smaller quantity of poison in a man's body is a lesser evil than a larger dose. But if this is so, then there is logically in their doctrine no point at which the endeavours toward equalisation would have to stop.

Whether one has already reached a degree of inequality which is to be considered low enough and beyond which it is not necessary to embark upon further measures toward equalisation is just a matter of personal judgments of value, quite arbitrary, different with different people and changing in the passing of time. As these champions of equalisation appraise confiscation and 'redistribution' as a policy harming only a minority, viz., those whom they consider to be 'too' rich, and benefiting the rest—the majority—of the people, they cannot oppose any tenable argument to those who are asking for more of this allegedly beneficial policy. As long as any degree of inequality is left, there will always be people whom envy impels to press for a continuation of the equalisation policy. Nothing can be advanced against their inference: If inequality of wealth and incomes is an evil, there is no reason to acquiesce in any degree of it, however low; equalisation must not stop before it has completely levelled all individuals' wealth and incomes.

The history of the taxation of profits, incomes, and estates in all countries clearly shows that once the principle of equalisation is adopted, there is no point at which the further progress of the policy of equalisation can be checked. For, under the sway of the doctrines taught by contemporary pseudo-economists, all but a few reasonable men believe that they are injured by the mere fact that their own income is smaller than that of other people and that it is not a bad policy to confiscate this difference.

This trend can be reversed only by the cognition of the role that profit and loss and the resulting inequality of wealth and incomes play in the operation of the market economy. People must learn that the accumulation of wealth by the successful conduct of business is the corollary of the improvement of their own standard of living and vice versa. They must realise that bigness in business is not an evil.