

'The inequality that exists today derives less from the unequal availability of opportunity than it does from the unequal ability to exploit opportunity'

Inequality is increasing almost everywhere in the post-industrial capitalist world. This is not the result of politics, nor is politics likely to reverse it, for the problem is more deeply rooted and intractable than generally recognised. Inequality is an inevitable product of capitalist activity, and expanding equality of opportunity only increases it - because some individuals and communities are simply better able than others to exploit the opportunities for development and advancement that capitalism affords. This edited essay examines the issue.

By JERRY Z. MULLER

IF CAPITALISM has opened up ever more opportunities for the development of human potential, not everyone has been able to take full advantage of those opportunities or progress far once they have done so. Formal or informal barriers to equality of opportunity, for example, have historically blocked various sectors of the population - such as women, minorities, and the poor - from benefiting fully from all capitalism offers. But over time, in the advanced capitalist world, those barriers have gradually been lowered or removed, so that now opportunity is more equally available than ever before.

The inequality that exists today, therefore, derives less from the unequal availability of opportunity than it does from the unequal ability to exploit opportunity. And that unequal ability, in turn, stems from differences in the inherent human potential that individuals begin with and in the ways that families and communities enable and encourage that human potential to flourish.

The role of the family in shaping individuals' ability and inclination to make use of the means of cultivation that capitalism offers is hard to overstate. The household is not only a site of consumption and of biological reproduction. It is also the main setting in which children are socialised, civilised, and educated, in which habits are developed that influence their subsequent fates as people and as market actors. To use the language of contemporary economics, the family is a workshop in which human capital is produced. Over time, the family has shaped capitalism by creating new demands for new commodities. It has also been repeatedly reshaped by capitalism because new commodities and new means of production have led family members to spend their time in new ways.

Dynamism and insecurity

FOR most of history, the prime source of human insecurity was nature. In such societies, as Marx noted, the economic system was oriented towards stability - and stagnancy. Capitalist societies, by contrast, have been oriented towards innovation and dynamism, to the creation of new knowledge, new products, and new modes of production and distribution. All of this has shifted the locus of insecurity from nature to the economy.

Hegel observed in the 1820s that for men in a commercial society based on the breadwinner-homemaker model, one's sense of self-worth and recognition by others was tied to having a job. This posed a problem, because in a dynamic capitalist market, unemployment was a distinct possibility. The division of labour created by the market meant that many workers had skills that were highly specialised and suited for only a narrow range of jobs. The market created shifting wants, and increased demand for new products meant decreased demand for older ones.

Men whose lives had been devoted to their role in the production of the old products were left without a job and without the training that would allow them to find new work. And the mechanisation of production also led

to a loss of jobs. From its very beginnings, in other words, the creativity and innovation of industrial capitalism were shadowed by insecurity for members of the workforce.

Marx and Engels sketched out capitalism's dynamism, insecurity, refinement of needs, and expansion of cultural possibilities in *The Communist Manifesto*. In the 20th century, economist Joseph Schumpeter would expand on their points with his notion that capitalism was characterised by "creative destruction", in which new products and forms of distribution and organisation displaced older forms. Unlike Marx, however, who saw the source of this dynamism in the disembodied quest of "capital" to increase (at the expense, he thought, of the working class), Schumpeter focused on the role of the entrepreneur, an innovator who introduced new commodities and discovered new markets and methods.

Post-industrial economy

FOR humanity in general, the late 20th and early 21st centuries have been a period of remarkable progress, due in no small part to the spread of capitalism around the globe. Economic liberalisation in China, India, Brazil, Indonesia and other countries in the developing world has allowed hundreds of millions of people to escape grinding poverty and move into the middle class. Consumers in more advanced capitalist countries, such as the United States, meanwhile, have experienced a radical reduction in the price of many commodities, from clothes to TV sets, and the availability of a river of new goods that have transformed their lives.

Most remarkable, perhaps, have been changes to the means of self-cultivation. As economist Tyler Cowen notes, much of the fruit of recent developments "is in our minds and in our laptops and not so much in the revenue-generating sector of the economy".

As a result, "much of the value of the Internet is experienced at the personal level and so will never show up in the productivity numbers".

One crucial impact of the rise of the post-industrial economy has been on the status and roles of men and women. Men's relative advantage in the pre-industrial and industrial economies rested in large part on their greater physical strength - something now ever less in demand.

Women, in contrast, whether by biological disposition or socialisation, have had a relative advantage in human skills and emotional intelligence, which have become increasingly more important in an economy more oriented to human services than to the production of material objects. The portion of the economy in which women could participate has expanded, and their labour has become more valuable - meaning that time spent at home now comes at the expense of more lucrative possibilities in the paid workforce.

This has led to the growing replacement of male breadwinner-female homemaker households by dual-income households.

The trend for women to receive more education and greater professional attainments has been accompanied by changing social norms in the choice of marriage partners. In the age of the breadwinner-homemaker marriage, women tended to place a premium on earning capacity in their choice of partners.

Men, in turn, valued the homemaking capacities of potential spouses more than their vocational attainments. It was not unusual for men and women to marry partners of roughly the same intelligence, but women tended to marry men of higher levels of education and economic achievement.

As the economy has passed from an industrial economy to a post-industrial service-and-information economy, women have joined men in attaining recognition through paid work, and the industrious couple today is more likely to be made of peers, with more equal levels of education and more comparable levels of economic achievement - a process termed "assortative mating".

Inequality on the rise

THESE post-industrial social trends have had a significant impact on inequality. If family income doubles at each step of the economic ladder, then the total incomes of those families higher up the ladder are bound to increase faster than the total incomes of those further down.

But for a substantial portion of households at the lower end of the ladder, there has been no doubling at all - for as the relative pay of women has grown and the relative pay of less-educated, working-class men has declined, the latter have been viewed as less and less marriageable.

Often, the limitations of human capital that make such men less employable also make them less desirable

as companions, and the character traits of men who are chronically unemployed sometimes deteriorate as well. With less to bring to the table, such men are regarded as less necessary - in part because women can now count on provisions from the welfare state as an additional independent source of income, however meagre.

In the US, among the most striking developments of recent decades has been the stratification of marriage patterns among the various classes and ethnic groups of society.

When divorce laws were loosened in the 1960s, there was a rise in divorce rates among all classes. But by the 1980s, a new pattern had emerged: divorce declined among the more educated portions of the populace, while rates among the less-educated portions continued to rise. In addition, the more educated and more well-to-do were more likely to wed, while the less educated were less likely to do so.

Given the family's role as an incubator of human capital, such trends have had important spillover effects on inequality. Abundant research shows that children raised by two parents in an ongoing union are more likely to develop the self-discipline and self-confidence that make for success in life, whereas children - and particularly boys - reared in single-parent households (or, worse, households with a mother who has a series of temporary relationships) have a greater risk of adverse outcomes.

All of this has been taking place during a period of growing equality of access to education and increasing stratification of marketplace rewards, both of which have increased the importance of human capital.

One element of human capital is cognitive ability: quickness of mind, the ability to infer and apply patterns drawn from experience, and the ability to deal with mental complexity. Another is character and social skills: self-discipline, persistence, responsibility. And a third is actual knowledge. All of these are becoming increasingly crucial for success in the post-industrial marketplace.

Globalisation has not caused this pattern of increasingly unequal returns to human capital but reinforced it. Economist Michael Spence has distinguished between "tradable" goods and services, which can be easily imported and exported, and "untradable" ones, which cannot. Increasingly, tradable goods and services are imported to advanced capitalist societies from less advanced capitalist societies, where labour costs are lower.

As manufactured goods and routine services are outsourced, the wages of the relatively unskilled and uneducated in advanced capitalist societies decline further, unless these people are somehow able to find remunerative employment in the untradable sector.

Family and human capital

IN TODAY'S globalised, financialised, post-industrial environment, human capital is more important than ever in determining life chances. This makes families more important, too, because as each generation of social science researchers discovers anew (and much to their chagrin), the resources transmitted by the family tend to be highly determinative of success in school and in the workplace. As economist Friedrich Hayek pointed out half a century ago in *The Constitution Of Liberty*, the main impediment to true equality of opportunity is that there is no substitute for intelligent parents or for an emotionally and culturally nurturing family.

In the words of a recent study by economists Pedro Carneiro and James Heckman, "differences in levels of cognitive and noncognitive skills by family income and family background emerge early and persist. If anything, schooling widens these early differences".

Hereditary endowments come in a variety of forms: genetics, prenatal and postnatal nurture, and the cultural orientations conveyed within the family. Money matters, too, of course, but is often less significant than these largely non-monetary factors. Over time, to the extent that societies are organised along meritocratic lines, family endowments and market rewards will tend to converge.

Educated parents tend to invest more time and energy in childcare, even when both parents are engaged in the workforce. And families strong in human capital are more likely to make fruitful use of the improved means of cultivation that contemporary capitalism offers (such as the potential for online enrichment) while resisting their potential snares (such as unrestricted viewing of television and playing of computer games).

This affects the ability of children to make use of formal education, which is increasingly, at least potentially, available to all regardless of economic or ethnic status.

The Economist recently repeated a shibboleth: "In a society with broad equality of opportunity, the parents'

position on the income ladder should have little impact on that of their children."

The fact is, however, that the greater equality of institutional opportunity there is, the more families' human capital endowments matter. As political scientist Edward Banfield noted a generation ago in *The Unheavenly City Revisited*, "all education favours the middle- and upper-class child, because to be middle- or upper-class is to have qualities that make one particularly educable".

Improvements in the quality of schools may improve overall educational outcomes, but they tend to increase, rather than diminish, the gap in achievement between children from families with different levels of human capital.

Education not a panacea

A GROWING recognition of the increasing economic inequality and social stratification in post-industrial societies has naturally led to discussions of what can be done about it and, in the American context, the answer from almost all quarters is simple: education.

One strand of this logic focuses on college. There is a growing gap in life chances between those who complete college and those who don't, the argument runs, and so as many people as possible should go to college.

Unfortunately, even though a higher percentage of Americans are attending college, they are not necessarily learning more. An increasing number are unqualified for college-level work, many leave without completing their degrees, and others receive degrees reflecting standards much lower than what a college degree has usually been understood to mean.

The most significant divergence in educational achievement occurs before the level of college, meanwhile, in rates of completion of high school, and major differences in performance (by class and ethnicity) appear still earlier, in elementary school.

So a second strand of the education argument focuses on primary and secondary schooling. The remedies suggested here include providing schools with more money, offering parents more choice, testing students more often, and improving teacher performance.

Even if some or all of these measures might be desirable for other reasons, none has been shown to significantly diminish the gaps between students and between social groups - because formal schooling itself plays a relatively minor role in creating or perpetuating achievement gaps.

The gaps turn out to have their origins in the different levels of human capital children possess when they enter school - which has led to a third strand of the education argument, focusing on earlier and more intensive childhood intervention.

Suggestions here often amount to taking children out of their family environments and putting them into institutional settings for as much time as possible (head start, early head start) or even trying to resocialise whole neighbourhoods (as in the Harlem Children's Zone project).

There are examples of isolated successes with such programmes, but it is far from clear that these are reproducible on a larger scale. Many programmes show short-term gains in cognitive ability, but most of these gains tend to fade out over time, and those that remain tend to be marginal.

It is more plausible that such programmes improve the noncognitive skills and character traits conducive to economic success - but at a significant cost and investment, employing resources extracted from the more successful parts of the population (thus lowering the resources available to them) or diverted from other potential uses.

For all these reasons, inequality in advanced capitalist societies seems to be both growing and ineluctable, at least for the time being. Indeed, one of the most robust findings of contemporary social scientific inquiry is that as the gap between high-income and low-income families has increased, the educational and employment achievement gaps between the children of these families have increased even more.

What is to be done?

CAPITALISM today continues to produce remarkable benefits and continually greater opportunities for self-cultivation and personal development. Now as ever, however, those upsides are coming with downsides, particularly increasing inequality and insecurity. As Marx and Engels accurately noted, what distinguishes

capitalism from other social and economic systems is its "constant revolutionising of production, uninterrupted disturbance of all social conditions, (and) everlasting uncertainty and agitation".

The question at hand is just how to maintain the temporal blessings of capitalism while devising preventives and correctives for the evils that are their eternal concomitant.

One potential cure for the problems of rising inequality and insecurity is simply to redistribute income from the top of the economy to the bottom. This has two drawbacks, however.

The first is that over time, the very forces that lead to greater inequality reassert themselves, requiring still more, or more aggressive, redistribution. The second is that at some point, redistribution produces substantial resentment and impedes the drivers of economic growth.

Some degree of post-market redistribution through taxation is both possible and necessary, but just how much is ideal will inevitably be contested, and however much it is, it will never solve the underlying problems. A second cure, using government policy to close the gaps between individuals and groups by offering preferential treatment to underperformers, may be worse than the disease. Whatever their purported benefits, mandated rewards to certain categories of citizens inevitably create a sense of injustice among the rest of the population.

More grave is their cost in terms of economic efficiency, since by definition, they promote less-qualified individuals to positions they would not attain on the basis of merit alone. Similarly, policies banning the use of meritocratic criteria in education, hiring, and credit simply because they have a "differential impact" on the fortunes of various communal groups or because they contribute to unequal social outcomes will inevitably impede the quality of the educational system, the workforce and the economy.

A third possible cure, encouraging continued economic innovation that will benefit everybody, is more promising. The combination of the Internet and computational revolutions may prove comparable to the coming of electricity, which facilitated an almost unimaginable range of other activities that transformed society at large in unpredictable ways.

Among other gains, the Internet has radically increased the velocity of knowledge, a key factor in capitalist economic growth since at least the 18th century. Add to that the prospects of other fields still in their infancy, such as biotechnology, bioinformatics and nanotechnology, and the prospects for future economic growth and the ongoing improvement of human life look reasonably bright.

Nevertheless, even continued innovation and revived economic growth will not eliminate or even significantly reduce socioeconomic inequality and insecurity, because individual, family and group differences will still affect the development of human capital and professional accomplishment.

For capitalism to continue to be made legitimate and palatable to populations at large, therefore - including those on the lower and middle rungs of the socioeconomic ladder, as well as those near the top, losers as well as winners - government safety nets that help diminish insecurity, alleviate the sting of failure in the marketplace, and help maintain equality of opportunity will have to be maintained and revitalised.

Such programmes already exist in most of the advanced capitalist world, including the United States, and the right needs to accept that they serve an indispensable purpose and must be preserved rather than gutted - that major government social welfare spending is a proper response to some inherently problematic features of capitalism, not a "beast" that should be "starved".

The left, in turn, needs to come to grips with the fact that aggressive attempts to eliminate inequality may be both too expensive and futile. The very success of past attempts to increase equality of opportunity - such as by expanding access to education and outlawing various forms of discrimination - means that in advanced capitalist societies today, large, discrete pools of untapped human potential are increasingly rare. Additional measures to promote equality are therefore likely to produce fewer gains than their predecessors, at greater cost.

And insofar as such measures involve diverting resources from those with more human capital to those with less, or bypassing criteria of achievement and merit, they may impede the economic dynamism and growth on which the existing welfare state depends.

The challenge for government policy in the advanced capitalist world is thus how to maintain a rate of economic dynamism that will provide increasing benefits for all while still managing to pay for the social

welfare programmes required to make citizens' lives bearable under conditions of increasing inequality and insecurity.

Different countries will approach this challenge in different ways, since their priorities, traditions, size, and demographic and economic characteristics vary. But a useful starting point might be the rejection of both the politics of privilege and the politics of resentment and the adoption of a clear-eyed view of what capitalism actually involves, as opposed to the idealisation of its worshippers and the demonisation of its critics.

FOREIGN AFFAIRS

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