

Why is the Income Gap a Problem?

By Inoki Takenori

THERE has been much talk in recent years about the widening income gap in Japan. "A widening income gap" poses a tremendous impact on society, because it projects the dubious association of ideas that society is becoming "unequal" both in "opportunity" and "result," thereby threatening to add to people's dissatisfaction with society. Therefore, it is necessary to consider not only whether the income gap has actually widened, but also why the pros and cons of a widening income gap have become a problem, why it is a key issue for contemporary industrial society and how the seriousness of the gap can be measured.

If a widening income gap will change society for the worse, then why will this happen? Is a narrowing of the gap always desirable from the viewpoint of realizing "equality"? Could a widening or narrowing of the income gap in monetary terms directly serve as a yardstick for the degree of people's dissatisfaction or satisfaction? If it is not a reliable yardstick, is there any other means of directly measuring the degree of each person's dissatisfaction or satisfaction? It will be meaningful to confront such questions.

How is people's perception of the income gap linked to social stability? The most important concepts in this regard may be jealousy and resentment. Jealousy and resentment are harmful to society because they amount to "Pareto deterioration" in the welfare economic sense. If an individual wishes to emulate another who has better economic standing, strives to become as such and his wish is actually granted, then "Pareto improvement" has been achieved. Such an attitude represents yearning or envy and scarcely poses any harm to society. But jealousy and resentment represent a person's wish to relegate other people's better economic conditions to the level where he is currently placed. This apparently amounts to "Pareto deterior-

ation."

It is a well-known fact that Fukuzawa Yukichi, a noted educator of the Meiji Era (1868-1912), said in his famous book *Gakumon no Susume* (An Encouragement of Learning) that resentment is harmful for humans and urged people to abandon it and have the courage to compete with rivals. As an example of resentment posing harm to society, Fukuzawa cited the world of maids-in-waiting in the shogun's palace in feudal Japan. In the palace, where illiterate women lived gregariously, the ignorant and immoral lord decided everything. But the absence of principle was the root of vices. In such a world, no one was praised even if they were studious and no one was punished even if they were lazy. Sometimes a maid was scolded after she admonished the lord for his misconduct, but on another occasion she was scolded by the lord because she didn't do so. Everything was decided on the lord's whim. In Fukuzawa's words, "the only thing that mattered was whether they had the good luck to be in the lord's favor and affection by adapting themselves to the changing circumstances which each new day brought." Such an atmosphere is reminiscent of a nation under socialist dictatorial rule. It was just like shooting an arrow into the sky where there was no target, Fukuzawa noted. People would only get envious if a colleague happened to be promoted and there was no means of learning how to succeed. There is no doubt that such a feeling of envy would be easily transformed into jealousy.

It thus becomes necessary for people to freely compete with each other to attain good results. Competition is an important social instrument, but it could cause injustice and distortion, if the difference in compensation paid for the results of competition is excessive. The economic competition system could turn its merit into a fatal drawback, depending on how it is managed.

As is well known, the gap in prize money between the winner and the runner-up in professional sports, such as golf and tennis, is very great. The compensation system in professional sports is structured so that the winner receives much more prize money than the runner-up, in order to create an environment of intense competition between the players.

In professional sports, the greater the gap in the prize money, the more intense the competition becomes. In economic society, however, a widening of the income gap does not necessarily summon greater motivations from workers. There is a limit to designing a competition stimulation system by a simple theory that a widening of the compensation gap will suffice. A mere widening of the gap increases the likelihood of violations of the rules in an implicit way. In the case of players who are almost equal in ability, cheating could occur: they may conspire to fix their match and equally divide the prize money. In fact, there have been cases of doping in the Olympic Games in the past and several years ago, soccer matches in France were fixed.

There is evidently a limit to the pursuit of a monistic system of stimulating the human competitive instinct by merely dangling the carrot. Humans do not have such a simple spiritual structure. On the contrary, they have enough wisdom to outwit a system. This is why they act to get around norms or rules and practically break them. Unless a compensation system is designed in such a way as to adequately reward results, competition could produce injustice.

Though competition is important to human society, it is pregnant with several dangerous elements. From a historical viewpoint, the socialist planned economy, which suppressed economic competition, was an exercise in absolute folly. Similarly, it is foolish to praise

competition merely from the viewpoint of efficiency. Restrictions absurd enough to suppress effective competition must be removed if they turn out to be harmful. Yet, even if there is an economic theoretical basis for asserting that all restrictions are unnecessary, society is not so simply structured as to allow for the adoption of economic theories as policies as they are. Theories and policies are not directly related to each other to such an extent that economists can assert that policies should directly follow theories. The removal of absurd restrictions may weaken the power of administrators who have exercised discretion in a gray zone of restrictions. As a result, scandals over licensing rights would be less likely to occur. But this is only one facet of the truth, because other forces could work after the restrictions are removed. Once the restrictions are removed, the economy will become more competitive, and efficiency would be achieved to a certain extent. But if competition is stimulated excessively, injustice or absurdity could occur more frequently.

Oddly, excessive emphasis on equality and excessive praise of competition are close to each other. The socialist system required strong political power, strong administration and a strong judiciary. Similarly, a highly competitive system requires a strong arbiter who would act on injustice or conflicts that could occur. For example, if a big bang in the financial markets intensifies international competition, a strong judiciary would be inevitably required to expose and punish the unlawful financial dealings that would occur in the process. There is also a problem of cooling the jealousy or resentment that would be produced in an environment of excessive competition. This problem is very similar to the problems that occurred in the socialist societies that removed competition and aimed at control and equal distribution. Jealousy and resentment, arising from

the process of intense political struggles aimed at containing economic competition, were indeed what made injustice, crimes and liquidations inevitable under communism. Neither the planned economic system that denied economic competition nor the opposing monistic competition system would bring order and peace to human society for themselves. This is an important lesson that a great number of people in the 20th century learned at a great cost.

Given such a background, it is necessary to reconsider the arguments conducted solely from the viewpoint of whether equality of distribution or competition through equal opportunity is better. We need objective data on the income gap, but such data are not enough in themselves to allow us to fully grasp the social implications of "inequality." Income, consumption patterns and other directly observable "objective" data alone are not enough. The degree of satisfaction, which is a "subjective" datum, should be made an issue as well. But it is becoming increasingly clear that this subjective degree of satisfaction has a considerably complicated structure relative to the income gap. It is not true that the greater the gap, the higher the degree of dissatisfaction. The 18th century economist and philosopher Adam Smith made an interesting argument in his *The Theory of Moral Sentiments* as to how people perceive such gaps.

I will review below three points raised by Smith.

1) *Speed of Changes in the Environment*

As the inequality of wealth and income widens, jealousy and resentment

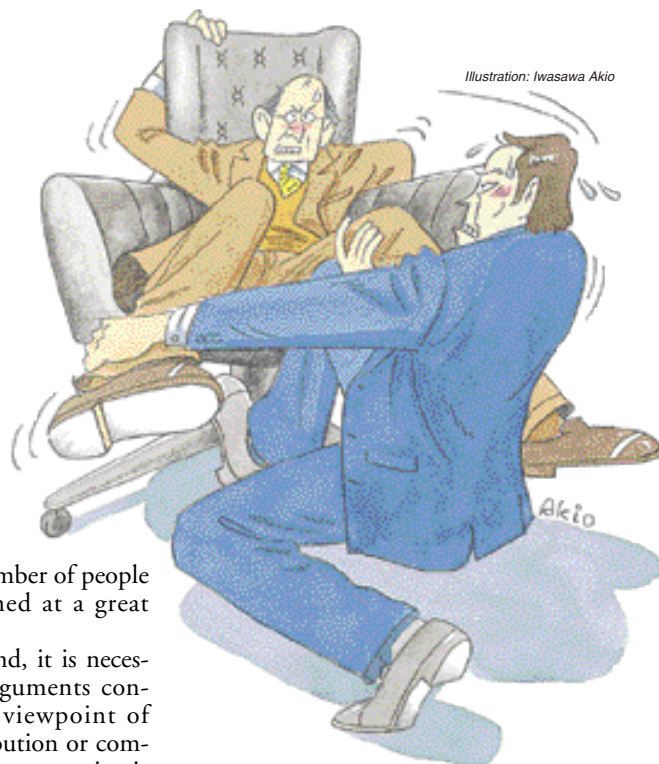


Illustration: Iwasawa Akio

are pent up in society if the inequality results not from "personal achievement" but from political power or good luck as seen in the palaces of feudal Japan or in a socialist society.

According to Adam Smith, human passions are divided into two types: one is social passions (humanity, kindness, compassion, mutual friendship and esteem) and unsocial passions (hatred and resentment). Adam Smith noted that besides those two opposite sets of passions, there is another private set of passions which holds a sort of middle place between them. Grief and joy, when conceived upon account of our own private good or bad fortune, constitute this third set of selfish passions.

I have said that jealousy and resentment are pent up in society when a gap or inequality results from luck. As an example, Smith cited the following case in Part I, Section 2, Chapter 5 of *The Theory of Moral Sentiments*.

"The man who, by some sudden revolution of fortune, is lifted up all at once

Photo: REUTERS • SUN



Bill Gates has accumulated enormous wealth

into a condition of life greatly above what he had formerly lived in, may be assured that the congratulations of his best friends are not all of them perfectly sincere. An upstart, though of the greatest merit, is generally disagreeable, and a sentiment of envy commonly prevents us from heartily sympathizing with his joy. If he has any judgment, he is sensible of this, and instead of appearing to be elated with his good fortune, he endeavors, as much as he can, to smother his joy, and keep down that elevation of mind with which his new circumstances naturally inspire him." People left behind "may be provoked by the sullen and suspicious pride of the one, and by the saucy contempt of the other, to treat the first with neglect and the second with petulance." A sudden change in a man's fortune will therefore not be helpful for his own happiness.

On the other hand, if a man slowly advances toward greatness, then things will be substantially different. It is apparent that if he slowly climbs the ladder of promotion and his promotion is

government offices let those groomed for promotion do managerial work when managers take time off, let them receive special training or let them take promotional examinations.

2) Social Order and Classes

I have already stated that it is not necessarily true that the greater the inequality of income, the higher the level of dissatisfaction is. People's feelings toward Bill Gates, who has accumulated wealth with the development of computer software, is a good example. When we look back on history, we can see that people in many historical periods praised wealth and power. Regardless of the times, people aspired for the "stars," and Smith thought that such aspirations functioned, to a certain extent, as a factor in stabilizing the social order.

Generally speaking, jealousy between people who are placed in similar conditions is intense. This is particularly true of jealousy held toward the success won as a result of intense competition. In a

anticipated long before he reaches the top, he will neither feel a specially great pleasure nor will those around him feel jealous of him. Such a consideration is paid by private companies and government offices in modern industrialized society. They have adopted a promotional system which gradually lets their employees know in advance who is earmarked for promotion, so that promotions will be carried out with the consent of the entire staff. As specific measures, companies and gov-

society where people see others in a similar condition economically succeed under the equality of opportunities, jealousy becomes stronger, even more than in a society where the social standing system is fixed and gaps among people of different standing are greater.

Examples cited by David Hume, the 18th century Scottish historian, philosopher and politician, are easy to understand. "A common soldier bears no such envy to his general as to his sergeant or corporal; nor does an eminent writer meet with so great jealousy in common hackney scriblers, as in authors, that more nearly approach him." (*A Treatise of Human Nature*, Chap. 56) This is because great disequilibriums or gaps break the relations between both sides, making comparison difficult, or lessen the effect of comparison. But, if the rewards which successful persons receive are much greater than those which unsuccessful persons receive despite the fact that both were granted equal opportunities and there were little differences in quality between them, the level of dissatisfaction or jealousy will inevitably become great. Bill Gates is a general and no longer becomes the target of jealousy from sergeants or corporals of the industry. But, competition and jealousy among sergeants and corporals are intense.

In Part 1, Section 3, Chapter 2 of *The Theory of Moral Sentiments*, Smith discussed the origin of ambition and the distinction of ranks, and concluded that ambition, which is a competitive spirit that can be seen in all levels of human society, does not come from the spirit of seeking ease or pleasure but from "vanity." He thought that "upon this disposition of mankind to go along with all the passions of the rich and the powerful, is founded the distinction of ranks and the order of society." He added, "Our obsequiousness to our superiors more frequently arises from our admiration for the advantages of their situation, than from any private expectations of benefit from their good-will. ... we desire to serve them for their own sake, without any other recompence but the

vanity or the honour of obliging them.” Smith saw that we are enjoying obedience for obedience’s sake and that social order is supported most strongly by such a human disposition.

According to Smith, humans are motivated by ambition and by the spirit of emulation to do what deserves human respect and praise as well as to obtain and enjoy them.

Smith said, “To deserve, to acquire, and to enjoy, the respect and admiration of mankind, are the great objects of ambition and emulation. Two different roads are presented to us, equally leading to the attainment of this so much desired object; the one, by the study of wisdom and the practice of virtue; the other, by the acquisition of wealth and greatness. Two different characters are presented to our emulation; ... a small party, who are the real and steady admirers of wisdom and virtue. The great mob of mankind are the admirers and worshippers, and, what may seem more extraordinary, most frequently the disinterested admirers and worshippers, of wealth and greatness.” As such, a majority of people are satisfied with worshipping and praising wealth and power, although they would not obtain any particular benefit by doing so. In social ranks, there is a kind of “structure” which is made up of these differentials of humanities, as Smith pointed out.

3) Excessive Evaluation of Differences

In *The Theory of Moral Sentiments*, Smith also referred to an episode of a French peer detained at the Bastille prison during the Revolution.

“In the confinement and solitude of the Bastille, after a certain time, the fashionable and frivolous Count de Lauzun recovered tranquillity enough to be capable of amusing himself with feeding a spider. A mind better furnished would, perhaps, have both sooner recovered its tranquillity, and sooner found, in its own thoughts, a much better amusement.”

Smith surmised that “the great source



Illustration: Iwasawa Akio

of both the misery and disorders of human life seems to arise from overrating the difference between one permanent situation and another.” Avarice overrates the difference between rich and poor, and vainglory overrates that between private life and social status.

Smith’s observation contains two important points in considering income gaps. One is how to grasp “accommodation” relative to the subjective degree of satisfaction, while the other is how to consider “comparison.” Though “accommodation” tends to gradually minimize the degree of dissatisfaction, the fact remains that the degree of self-reported happiness is generally very low in the least-developed countries. In other words, people in some developing countries may find themselves unhappy even though they have become moderately affluent and are satisfied with their lives, when they are shown ostensibly gorgeous products made with developed countries’ advanced technologies. People in economically affluent countries must seriously reflect on their thought and behavior regarding what happiness is.

At any rate, equality of opportunities tends to bring about an inequality of results and causes intense jealousy. Thus, social measures for cooling jealousy resulting from inequality, such as an adequate redistribution policy, must function well. The relative inequality of results could also trigger unsocial feelings. Such feelings are not peculiar to people living in contemporary industrial society. Aristotle stated in his *Politics* (Vol. 2, Chap. 6) that “poverty is the parent of revolution and crime.” Under certain economic conditions, people will be encouraged to behave rightly or effect positive change. But under different economic conditions, people will be encouraged to commit crimes or other social disturbances. **JS**

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