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The Challenge of Equality:
The essence of Kornai's criticism
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Thomas Piketty's *Capital in the Twenty-First Century* describes a trend of the widening income gap in capitalism. Among the flood of commentaries and reviews, Professor János Kornai's criticism is the gravest and most trenchant. It does not target specific contents or details (what Piketty states or does not state), but rather the methodology. Professor Kornai's criticism in essence is that while equality is a complex concept, Piketty's discussion of the issue is oversimplified, and the simplification of this complex issue is incorrect and misleading.

This review first looks at Professor Kornai's opinion of the necessarily present points in Piketty's analysis, as well as its major methodological deficiencies. It is followed by a comparison of Piketty's, Kornai's and the Marxist methodology, as both Piketty's and Kornai's views have a strong connection to Marx. In addition, some of my personal views are presented at the end.

1. The dimensions of equality

Piketty's work focuses on the existing problems of the distribution of income and wealth in capitalist societies. Other issues related to equality are also mentioned, but without a thorough dissection. According to Kornai, income and wealth distribution is only a single dimension of the rich, multidimensional concept of inequality; namely, it is the dimension that is quantifiable and can be monetized. In addition to the distribution of income and wealth, the following six other important aspects are also worth careful examination: individual freedom and self-determination, access to goods and services, employment possibility and equal pay for equal work, gender and ethnic equality, the right to social welfare services, and access to knowledge and education.

Kornai conducted in-depth research and has personal experiences in these six areas. In the economies of the former Soviet Union and Eastern Europe examined closely by Kornai, there was a severe shortage of basic goods, which were not available to the general public if they had the money to purchase them. However, the privileged class obtained them easily in special stores at low prices. In such a society, the same amount of money in different people's hands amounted to very different degrees of purchasing power. Other issues mentioned by Kornai such as discrimination of race and gender, the right to education etc., are also common and chronic illnesses of many societies. Kornai raises the question: how can we ignore these when discussing the issue of social equality?

We can see that Piketty and Marx agree on this point. *Capital's* discussion on justice is also one-dimensional, focusing on income equality issues, primarily how the value produced by labor is distributed between labor and capital.

2. Equality and productivity

According to Kornai, the issue of distribution should be discussed together with productivity improvement, often deemed as development. Scientific and technological progress as well as improvement in productivity impact everyone, including the poor, thereby enabling more affluent and healthier lives. Technological advances have brought a lot of new equal opportunities to people's consumption. For example, as a consequence of the modern technology, almost everyone in the world can enjoy equally the World Cup's live broadcast in front of the television or the computer screen, which used to be the privilege of the wealthy minority in the past. Another example: shopping in air-

conditioned malls in summer was hardly available even to the rich in the past, but now it has become an ordinary consumer experience in places where productivity is highly developed. Of course, new technologies can also create new inequalities. For example, the access of students to the Internet most probably exceeds that of their well-educated grandfathers. But both positive and negative examples illustrate that the discussion of issues related to equality cannot be separated from the development of productivity. *Capital in the Twenty-First Century* should not have ignored the impact of the development of productivity on social equality.

On this issue, Kornai's and Marx's analysis show more similarities. Although the problem of distribution is discussed, the core issue of *Capital* is not distribution, but rather how production relations in capitalism will constrain the development of productivity. Marx's major conclusion is the inevitable demise of capitalism, not primarily because of the injustice of the capitalist society, but the irreconcilable and inherent contradictions of capitalism's productivity and production relations: production relations based on private ownership greatly limit the development of socialized productivity, causing capitalism to become a stagnant system which cannot last.

What is the reality of the development of productivity in capitalism? The famous *Communist Manifesto* gives a full description and affirmation of the significant improvement of productivity in early-stage capitalism. Kornai, on the other hand, lists 111 major inventions between 1917 and 2010 to substantiate capitalism's ability to maintain the vitality of innovation. These 111 inventions with significant impacts on human lives include antibiotics, electronics, atomic energy, the Internet, DVD, supermarkets, etc. Out of the 111 major innovations and inventions, only one was produced in the former Soviet Union, all the others in capitalist market economies.

3. Equality and incentives

Why does capitalism have a better record of innovation and productivity than any other economic system? According to Kornai, under capitalism, individuals and businesses have better access to resources, while under the Soviet system, from the topics of research and development to the necessary resources, everything was determined by central planning. Secondly, the correlation between innovation and high income provides personal and individual incentives needed for innovation. In a capitalist free-market economy, in the pursuit of wealth, more and more people choose the path of innovation and entrepreneurship. It is a difficult path, survival is not easy: facing fierce competition, many enterprises cannot stay afloat or make good financial returns without innovation. It is precisely that effort which enables technological progress.

The impact of the income gap on people's motivation, competition and innovativeness is another explanation for innovations, as well as for the forecast why capitalism is not going to perish because of lack of productivity as Marx predicted.

4. Sources of income and social ethics

Kornai criticizes Piketty for not having an analysis of the income sources of the rich. If we do not wish to simply think that making money equals being immoral, rich equals evil, it is necessary to discuss the source of income in order to explore the issue from the point of view of morality.

Kornai lists some high-income groups to illustrate eight main ways to obtain high income:

- making revolutionary innovations;
- becoming outstanding top managers of giant corporations;
- being good at investments and finance;
- being a star, including sports or entertainment celebrities, or a business star, e.g. a star lawyer;

- making gray or black revenue through tax evasion;
- being involved in political-economic collusion, corruption;
- committing fraud, such as a Ponzi scheme, although this type of money comes and goes fast;
- receiving high income generated by gangs and mafia.

From this list, we can see that the income gap is not necessarily unfair, and the source of high income might not simply come from good profit returns. In the case of many individuals, knowledge, skills and creative work are likely to have more direct and important impact on generating high income.

Kornai also makes his own personal moral judgment about high income. The order of the above mentioned eight sources of income generally reflects his own views on different revenue sources: it is, naturally, more ethical to obtain high income through innovation than tax evasion or black revenue, nevertheless, the latter two have higher moral stance than corruption, fraud and gang/mafia.

5. The use of wealth

It is not only the way of obtaining wealth that matters in the case of equality and ethics: so does the use of wealth. Again, Piketty does not address this important issue, which Kornai thinks is mistaken. Using the words of Bill Gates, Kornai reminds Piketty of the three ways to use personal wealth: donations to social welfare undertakings, re-investment into production, and personal consumption; and calls his special attention to the societal significance of these different uses of the wealth.

Echoing Marx's focus, Piketty's discussion of the use of wealth centers around investment and return. In the analytical framework of *Capital*, wealth is to be reinvested: capitalists' only source of happiness is to make money. We cannot say that Marx did not see the other uses of wealth, but he focused on the reinvestment of wealth because the purpose of his book is to reveal the laws of production of the capitalist system, and the inevitable trend of capitalist system.

6. Mathematical models and statistical methods

Both Piketty and Marx used mathematical reasoning to prove their hypotheses. In *Capital in the Twenty-First Century*, a simple and straightforward inequality, $r > g$ is used to illustrate the inevitable trend that the wealth will flow to propertied class (r representing the rate of return on capital, g the growth rate of GDP).

Although Marx's *Capital* is substantial and rich in content, it adheres to a unified mathematical model and the way labor generates value, as well as how value is divided into cost and surplus value, and its impact on production. Marx's mathematical models are much more complex than those of Piketty's, and his conclusions are not simply intuitive but reach through relatively complex reasoning. Interestingly, although Piketty's work has been deemed as the twenty-first century's *Capital*, Marx's conclusions of the declining rate of profit is quite the opposite of Piketty's views.

Kornai does not express explicit criticism towards Piketty's mathematical reasoning, but he apparently believes that equality is a complex, multi-dimensional concept, therefore it is difficult to summarize and make assertions using a unified mathematical model. He does not make an attempt to create a mathematical model to express his views.

After a simple reasoning, Piketty used extensive statistical data to support his claims by demonstrating the long-term trend of increasing income gap in capitalism. Kornai, however, argues that a more comprehensive understanding of the concept of inequality requires the use of data to be reconsidered under theoretical guidance, and new data to be obtained. For example, people can become members of

the high-income groups in different ways, but in a particular system, what is the number of people with high-income, and in what ways do they achieve that? When discussing equality, the analysis and cross-comparison of such data over time or across countries and political systems is essential and indispensable.

Kornai's suggestion of collecting new data and using data under theoretical guidance is difficult and challenging, nevertheless feasible. In contrast, Marx's theoretical conclusions of the organic composition of capital and the long-term decline of average profit are almost impossible to validate with statistical methods. Or at least no one has attempted it yet.

7. Comparing different systems and political beliefs

According to Kornai, Piketty's another serious mistake is the lack of comparative analysis of the different systems when discussing equality, as well as the insufficient attention paid to the experiences of the realizations of these social systems. He is immersed solely in the criticism of the existing capitalist system without using the academic world's comparative analytic lenses to examine real-life systems.

Naturally, the criticism of capitalism began a long time ago: Marx already saw the problems, and introduced a systematic analysis. So capitalism is full contradictions, the problem is serious, but is there a better system that can replace it? In Marx's era, there were no socialist countries in the world. For this historical reason, Marx's critique of the capitalist reality can only use the ideal socialist system as a reference for comparison: the capitalist system should be replaced by the ideal socialist system.

Having witnessed the collapse of the Soviet system, Piketty does not advocate the overthrow of capitalism to establish socialism. His *Capital in the Twenty-First Century* is limited to the criticism of capitalist income distribution's reality, and proposes state intervention to adjust income distribution for a more desirable system of capitalism to be established.

Marx used ideal socialism as a mirror to criticize real-life capitalism; Piketty used ideal capitalism as a mirror to criticize real-life capitalism; Kornai uses real-life socialist societies that have existed in the past as a mirror to look at capitalism. His conclusion is that capitalism is indeed not ideal and is full of contradictions, and he himself too has been beset by its numerous contradictions and problems; however, real-life socialism did not only fail to solve these problems, but in fact exacerbated the situation. In comparison with other economic systems, capitalism is good at promoting social development and achieving a multi-dimensional equality of rights. In the case of any real-life system, it is difficult to achieve full equality. Facing this fact, Kornai feels the same degree of satisfaction and pain in connection with the capitalist system.

8. Knowledge, sentiments and redistribution policy

Kornai criticizes Piketty's misleading simplification of the issue of equality, and emphasizes the need to recognize the complexity of the issue as well as the difficulty of establishing an equitable society. Discussion based merely on objective, quantifiable indicators is not enough. Moreover, even besides the complex system of objective indicators proposed by Kornai, new subjective indicators pertaining to people's knowledge and feelings towards equality should be included. After all, equality is also connected to value judgment and personal feelings. For example, a Buddhist or Hindu who believes in reincarnation and karma, and an individual who is convinced of class exploitation and class struggle, will have completely different perceptions and feelings towards their own poverty, as well as completely different political ideas about redistribution.

The complexity of the problem and the difficulty to establish an equitable society grow exponentially with the addition of the subjective indicators. Alongside the above mentioned different perceptions and feelings towards equality, it is also possible that even the knowledge and experience of the very same individual may vary (possibly causing inconsistency).

For example, A and B are two teenagers with very similar backgrounds and circumstances, but A chooses to study more in order to lay the foundation for future success, while B chooses to have fun and enjoy the moment. As adults, A has a better job and higher income. What does B think? If B's interpretation of the issue of equality is coherent and consistent, s/he should be aware that their current salaries are the result of previous choices: the one who had enjoyed more relaxed years earlier should accept the current income gap. However, B may not necessarily think so. Instead, s/he may be looking for a variety of reasons to justify the income gap believing that it would be fair if A handed over a part of the income.

The situation might not be serious if B is alone with this opinion; and it is just an idea of a single individual. But if there are many people in society who share this view, the problem will be severe. A crowd equals power, and A's income can be confiscated and redistributed. Any discussion of the issue of equality is separated from reality if it does not consider the political implications of redistribution.

Another example: C has 10 oranges, D has 10 apples, they trade volitionally, C ends up with 7 oranges and 3 apples, D with 7 apples and 3 oranges. Because it is out of their free will, C and D feel both the process and the result are fair. But there is still a possibility that, over a period of time, C and D both feel that they have suffered a disadvantage. They did not gain enough, too much was given to the other person. C and D might have new sentiments without any particular reason, simply due to the human instinct of greed.

This might only stay at the level of feelings, and C and D will not turn this new feeling into an action to achieve redistribution. But it is not impossible that they might take action. If C has the popular support or other reasons to feel strong enough to force D to another outcome, the possibility of this person turning feelings into action will increase greatly.

Obviously, the debate on equality will persist. It can be expected that the debate over content and methodology will continue whether it pertains to Piketty's and Marx's income equality, or Kornai's social justice, or the aforementioned subjective feelings and political perspectives. This in itself indicates the extreme complexity of the issue.

Translated by Shenshen Hu