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The art of balance: the search for equaliberty and solidarity

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The challenge of contemporary inequality is not just to the cohesion of modern society it is also a challenge to economics, because it is economics and its values that sit squarely within the social framework that has allowed inequality to become so pervasive and debilitating. We have built a society resting on only one view of liberty and equality, that of the economic sphere, rather than on a more holistic view that allows the inclusion of other spheres. We persist in believing ourselves as free, but it is a harsh and hollow freedom built upon individuality and isolated action, rather than on solidarity and communal action.

There are economists of a certain type who question whether there is any distortion produced by inequality. They often repeat the claim that inequality is a benign consequence, a side effect of little interest, to the march of economic progress and the accumulation of modern prosperity. It is a profound error to think this. Then again these same people are often oblivious to the existence and importance of society, so they regard themselves as bereft of such an error.

This is a denial of the history of the very ideas that they have used as the foundation of their perspective. Economics did not begin so willful in its exclusivity, but as it became more and more inwardly focused, formal, and narrow it was forced to shed any of its origins that foreclosed on the avenue it chose to follow.

So, to understand the role of economics in fostering our current inequality we need to understand the history of the idea of inequality, and how it became belittled beside the stature of other parts of the project economics has become. This history, of course, began back in the moments when the revolt against centuries of aristocratic, monarchic, and religious oppression were being thrown off. In that early part of our modern world equality was a multifaceted concept. It was relational. Rosanvallon expresses it this way:

> “This relational idea of equality was articulated in connection with three other notions: similarity, independence, and citizenship. Similarity comes under the head of *equality as equivalence*: to be ‘alike’ is to have the same essential properties, such that remaining differences do not affect the character of the relationship. Independence is *equality of autonomy*; it is defined negatively as the absence of subordination and positively as equilibrium in exchange. Citizenship involves *equality as participation*, which is constituted by community membership and civic activity… Economic inequalities were seen as acceptable in this framework only if they did not threaten the other modes of relational equality that defined the society of equals” (emphasis in original).

This was a web of interlocking and mutually dependent relationships. It was not simply the equality of equivalence only. Economics appears to have forgotten this. How? Why?

One weapon in the political battles to break free of ancient tyrannies was the notion that there was an alternative arena to the central power base of those forces. There were relationships in society beyond those imposed by the rights and privileges of timeless rank and tradition. Of most interest to the emerging commercial class was the relationship described as the decentralized workings of ordinary people trading between themselves. The strength of this idea was that if those trades were unfettered, if they were allowed to go their own way, and if the benefits of the trading accrued to the people rather than simply to the central authority, then everyone would be better off. It was by making this argument that the newly rising commercial class wanted to create a broader political space for itself. Markets, in other words, were conceived of politically. Equality in one implied equality in the other, and commerce was an alternative domain through which a different kind of power distributed income and wealth. It was a compelling idea. It attracted the best minds of that era. It captivated them. They began the project known as economics in order to reinforce and justify it. That project continues today.

To accomplish their goal, however, early advocates of the market-as-politics had to break asunder the relationship between "liberty" and "equality". They had to narrow and limit liberty to a very specific form. They had to create their own version of liberty so that it appeared benignly apolitical and thus avoid the inevitable push back by the central authority. After all, the elite of the day could hardly be expected to surrender their privileges and power without the expectation of a greater reward. Incentives were needed. There had to be a profit in the accommodation of this alternative power base.

So, through time, economics carefully reduced itself to discovering and promoting the benefits of the relationship encompassed within impersonal markets, cleansed of any explicit notion of power. The journey to a power-free concept of a market took a long time. Its original intent was to create political space for the commercial class, but later on it became necessary to inoculate it against the political claims of the industrial working class. So it was doubly necessary for economics and its primary focus, the marketplace, to appear apolitical. Arguably it was not until after Robbins had delivered the iconic definition of economics as being 'the science which studies human behavior as a relationship between ends and scarce means which have alternative uses' that this cleansing was finally accomplished. Eventually, economists were busy telling everyone that markets were based on liberty, and that there were "scientific laws" which, if free people allowed to play out, would enrich everyone. The key to getting all this greater wealth was to separate economic liberty from social or political liberty, which were still highly contentious and dangerously democratic, and to institutionalize it safely ensconced in what we now call the economy, which became a world unto itself. A world, that in theory, was even abstracted from itself to remove the clutter of reality, and a world where the power struggles inherent in politics were sanitized away by a powerful veneer of science. It was a very modern idea.

This separation in the concept of liberty in order to create a domain for the economy has had profound social consequences. It has been systematized and made more concrete over the decades. Problems as they emerged were ignored if they threatened the autonomy of the market. This was especially true of the breaking apart of the relationships that formed the common culture underlying modern society. Economics needed to isolate itself from society in order to provide a detailed framework for commercial activity and trading, but in order to do so it had to push power relationships outside itself. Power and its distributive consequences remain, perhaps, the primary force gluing society together, but it distorts the magic of the marketplace and thus disrupts the supposedly apolitical and scientific model economics was trying to present, so it had to be re-located away from economic relationships. Since real world economies are riddled through with power relationships, most obviously expressed in the ancient struggle between those who own property and those who provide labor, this left the social elite with a problem: how do they support both the scientific illusion of the market, and yet still exploit it more fully. The solution was to co-opt institutions outside the economy. Which meant that economic liberty had to become pre-eminent and economic relations were forced to become the only ones that mattered. Ultimately this led us to where we are today, where the definition of liberty is the calculus of trading, where only economic liberty truly matters, and the apparatus of the state is deployed to protect it. The result is a level of inequality tolerated and abetted by the elite because the freedoms we enjoy are most enjoyed by them.

Wolfgang Streeck gives us his own image of this separation, which has become significantly hardened in the years since World War II:

> "Two competing principles of distribution were institutionalized in the political economy of postwar democratic capitalism: what I shall call *market justice* on the one hand and *social justice* on the other. By *market justice*, I mean distribution of the output of production according to the market evaluation of individual performance, expressed in relative prices; the yardstick for remuneration according to market justice is marginal productivity, the market value of the last unit of output under competitive conditions. *Social justice*, on the other hand, is determined by cultural norms and is based on status rather than contract. It follows collective ideas of fairness, correctness and reciprocity, concedes demands for minimum livelihood irrespective of economic performance or productivity, and recognizes civil and human rights to such things as health, social security, participation in the life of the community, employment protection and trade union organization" (emphasis in the original).

The problem, as our current level of inequality suggests, is that economic justice or liberty can become a license for the elite to capture more than a fair share. The elimination of power from the machinery of economics is not a reflection of reality but of need – the need to appear scientific. In contrast, a real unfettered marketplace, with its liberty to trade, is simply another arena in which power can be accumulated, expressed, and exploited. Unlike that pesky social justice arena where efforts have been made to even out power by giving people equal votes, at least in principle, a market is a place where voting rights can be highly asymmetrical. There are all sorts of ways to cheat. Elites are typically good at cheating.

That this is true is surely commonplace knowledge. History, as both Thomas Piketty and Walter Scheidel have taught us recently in their separate ways, is replete with evidence that elites have a knack for ensuring their economic advantage. The hope that the definition and introduction of new ideas of economic liberty would somehow expunge this trend from history was, it turns out, both naïve and foolish. What was missing in economic analysis of was to make room for the exercise of power within the system and not to shunt it off to one side as a subject to be discussed outside of the main debate. Every time progress was made in bringing power and social relations into economics – the many heresies of economics all appear to display this feature, there was a strong and successful counter movement to purify it again. Inequality today reflects the victory of the last such counter movement. The grand idea of economic liberty is nowadays simply a defense of the aggrandizement of the elite.

It is trite to say that ideas matter, I am going to say it anyway: they matter more than anything else. I believe the evolution of a number of ideas beginning sometime in the 17th century that produced the surge towards our current prosperity. We can all quibble over the starting date, but it is only a quibble that ought not distract us. Ultimately these ideas reproduced, morphed, and propagated into the intellectual fabric of modern society. Our circumstances, the great cause for concern for many of us, is that in the mid-twentieth century one set of ideas prevailed. Economic justice became to stand for all justice and to maximize that well of justice we were told to pursue efficiency at all costs. Amongst the ideas giving impetus to this pursuit was that inequality as it deepens, is a minor or inconsequential issue. Efficiency trumps equality. Indeed, the acceptance of an imbalance between efficiency and equality is core to the ideas proselytized by the followers of Hayek. Justice becomes a quantity in their hands. More justice is produced by more efficiency because it is produced by economic processes built upon scientific discovery. The only liberty to be tolerated is that of "free" production and consumption. All else is the road to serfdom.

That this is an error dependent upon a twisted definition of "liberty" ought to be manifest. Freedom, in the hands of Hayek and his followers, became a contorted and diminished shell of its former self. It was reduced to support a redefined individual determined to resist the predations of the state, and along the way all pretense or hope of communal action was deliberately expunged. Now, of course, this reduction of liberty into a fragment of freedom had begun almost as soon as our modern conceptions of freedom were launched, but it was in the context of the social pressures of the Great Depression, and the perceived challenge to the West represented by the Soviet Union, that Hayek and those like him re-introduced the slimmed down notion of liberty with a born-again fervor. Such was the terror with which the advocates of this new definition viewed the community, that even a scintilla of co-operation was regarded as a first step on a slippery slope into a socialist hell. These were the years of the Cold war, and Hayek's message was carefully crafted to take advantage of that climate, especially in the United States. He succeeded, and this chopped down liberty garnered enormous visceral appeal, which explains its popularity even today. It became known as economic liberty or economic liberalism and was converted energetically into a complex and elegant logic, a system so wondrous that it wormed its way into economics, politics, and law and ended up, termite-like, in destroying the social fabric and cohesion necessary for us to deal with inequality.

The key to it all was the absence of government, or at least the absence of centralized control. This gave it an ethical appeal to those caught up in the suspicion of socialism and its emphasis on the community. Its elegance rests on its abstraction, and on the anonymity of the market mechanism central to its operation. Not only was this highly limited notion of liberty key to market transacting, but it made the marketplace a politically potent entity as well. Milton Friedman, one of its main proponents, expressed it as follows:

> "Adam Smith's flash of genius was that prices that emerged from voluntary transactions between buyers and sellers – for short a free market – could coordinate the activity of millions of people, each seeking his own interest, in such a way as to make everyone better off… The price system is the mechanism that fulfills this task without central direction, *without requiring people to speak to one another*… Economic order can emerge as the *unintended* consequence of the actions of many people seeking his own interest. The price system works so well, so efficiently, that we are *not aware of it* most of the time" (emphasis in the original).

Notice the emphasis. Notice what mattered to Friedman. Anonymity. Lack of awareness. Lack of intention. Efficiency. Oh yes, and it is voluntary. That's the liberty bit. Stuff just happens, and it's all good. How can we complain if a little inequality slips in? It's voluntary. And, more to the point, this laudatory system is so good for us all that it obviates the need for political interference in whatever the price system produces. After all, don't consumers "vote" when they go to buy? Why would they want another vote, outside of the market, to intercede in the results of all this anonymity and efficiency?

Economics had worked so diligently to eliminate politics to fend off the unwanted predation of the old landed and the modern working classes, and yet was being highly political in juxtaposition with the central planning of Eastern Europe.

It is hard to say whether the believers of these ideas actually wanted to destroy society. They would probably deny such an intent. Society had little meaning to them. It was, Hayek said, "not a person. It is the organized structure of activities that arises when its members observe certain abstract rules". Which sounds like a market too. Yet it is equally hard to deny the ultimate result of the avid and earnest application of those ideas. The world is rife with unrest, unhappiness, insecurity, and ill-will. If the goal of the scrunched down vision of the liberated individual was to set us all free to pursue our own course to happiness, then it must be marked as a spectacular failure. This set of ideas, centered on the atomistic individual, and which I nowadays loosely call libertarianism, like all utopias is falling under the weight of its own contradictions. And the measure of that failure is the level of inequality that bedevils most modern societies, but which is most prominent in the United States where the ideas have most deeply rooted themselves. The defense of economic liberty was transformed into a defense of *all* liberty. Economics thus became a theory of everything. As long as everything excludes the social.

My rather simple attempts at explaining the problem to my more skeptical friends start with an analogy: temperature is not a quality of an individual atom it is a property of a system of atoms. Likewise, inequality is not a quality that an individual person experiences, they experience issues that stem from the systemic existence of inequality, but it is the system itself that expresses inequality. For those of us concerned with the effects of inequality, therefore, the extent of inequality is a measure of the extent of the imbalances that have accumulated in the system. We have become very good at taking the temperature of our social systems, but because, we are told, the sources of imbalance are the result of perfectly natural forces we are much less well able to confront and diminish inequality. Besides, since it is a property of society, and since society is of little interest, why would we care about inequality?

In its very original state, the idea that if free people are left to their own devices to trade, good things then happen is, indeed, powerful as long as it is regarded as only one of many freedoms. Problems start to arise when the idea is pressed into service too far – when it is fused with political freedom to protect the individual from the state, and when it is used as the font of the efficiency responsible for our modern cornucopia. Succinctly, a paradox creeps in. The power to truck and barter sets us free, which is an inversion of the original argument that we needed to be set free to truck and barter, gets tangled up with why we need to be set free in the first place: to become more prosperous, or to pursue efficiency.

Nowhere is this paradox more evident than in the effort to explain the rise in prosperity unleashed by modernity, or the Great Enrichment as Diedre McCloskey calls it. The fusion of politics back into economics on the one hand, and the need to keep economics steadfastly apolitical on the other leads to contradictions and doubles down on the need to preserve atomistic individuals. This means, inevitably, that democracy, being a social phenomenon, is a problem for economics.

It is easy to see why. So petrified were the originators of this kind of economic thought of the predations, or even the presence of the state, that they were totally incapable of distinguishing between different forms of state. They carried forward into their analysis only one notion of "state": the pre-democratic aristocratic, monarchic, and religious one that economics had been invented to help undermine. The subsequent evolution of democracy was ignored.

In this form the objective of the study of the Great Enrichment became to prove beyond any doubt that our contemporary prosperity was caused by the operations of the free market. Nothing else. Particularly not politics

But underneath all this effort lurked the ongoing oddity that the individual and her liberty was a very perverse being. Increasingly so as the discipline applied itself to explaining the surge in prosperity. It must be, became the centerpiece of thinking, that markets were *necessarily* efficient. And if let alone by the evil state, they would always be efficient. Suddenly as mentioned earlier, efficiency was the goal. The entirety of the project shifted to understanding efficiency. That there might be side-effects of efficiency was irrelevant. The metrics of success were the metrics of efficiency. The distribution of the results of ever greater efficiency was not an issue. The objective was to acquire more efficiency because efficiency was the route to prosperity. Those who criticized the apparent single-mindedness of this thought process were dismissed as confused. Or soft headed. Or misguided souls who did not understand the tough or rigorous nature of what needed to be done.

Advocates of efficiency and the ideas that undergird its expression as economic technology in our markets took on the mantle of being the sensible hard-headed ones. They derided, as they had to in order defend their anti-social stance, anyone interested in outcomes that appeared socially unpleasant. The confrontation between liberty in the marketplace and liberty elsewhere was expunged from discussion. The only liberty that mattered was that identified as driving efficiency.

That, as the Great Enrichment gathered momentum, all sorts of social upheaval took place was dismissed as a side matter. That lives were turned upside down was considered inconsequential. Disruption and "creative destruction" were elevated as scientific causes of enrichment. That the entire history of the Great Enrichment is littered with contest often rising to the level of war is left out of the narrative. Efficiency is what counts.

If, sometimes, efficiency creates huge inequality, so be it. Only the muddle headed would consider that a problem. Besides anyone who dared think about notions of society or non-economic forms of distribution of prosperity were to be seen as potentially subversive opponents of liberty.

Sometimes this dismissal of the uncomfortable side effects of the rush to efficiency can sound weirdly paternalistic. For instance, the philosopher Harry Frankfurt suggested that calculating inequality was relatively easy compared to what really mattered which was calculating what a person "needs" in order to have enough. Presumably it was only because it was easy to calculate that the muddle-headed worried about inequality. What they should have been vexed over is wondering what a person needs in order to function. The paternalism inherent in that suggestion is off-putting, but Frankfurt is not done. He goes on to argue that "economic equality is not, as such, of particular moral importance". Not at all. The true moral urgency is to preserve economic liberty. Economic *equality* can take a back seat.

It is easy to get the feeling that society outside of the market, that scary dark place so distant from the purity of economics, causes nightmares in the minds of efficiency-first advocates. They can only rest by conflating things like dignity with liberty, but not democracy.

It is, in their telling, liberty that bestows "dignity", not citizenship or sharing in self-governance on an equal footing with all our fellow citizens. Our goal has become to create this dignity by bestowing upon our poor a lifestyle so full of bounty that even our most privileged ancestors would have been jealous of their lifestyle. Our goal, in other words, is to have lots of stuff. It is not to concern ourselves with how much stuff anyone else has. Such a concern is called envy. Greed is good. Envy is not.

This single-minded pursuit of the individual as liberated actor in the marketplace is the primary difficulty we face in getting inequality resolved. Thinkers in this tradition often avoid engaging with democracy in the manner Frankfurt did. Elevating the poor into participation in democratic society was, for example, the very last thing on Hayek's mind. Hayek had, he said, "no intention … of making a fetish out of democracy". He goes on:

> "It may well be that our generation talks and thinks too much of democracy and too little of the values which it serves … Democracy is essentially a means, a utilitarian device for safeguarding internal peace and individual freedom. As such it is by no means infallible or certain."

There you have it.

Democracy is a device to safeguard individual freedom, by which we mean economic freedom. It can be tolerated as long as it serves the market. But, it is a fallible device. In the wrong hands it might intrude onto the territory Hayek reserves jealously for his precious liberty to be free from state intrusion or interference in the marketplace.

And here we arrive on the battlefield: we have the inversion of economics serving politics. Now it is the other way around. Democratic capitalism, as it became known in the post-war years, serves two masters not one. The phrase is a contradiction. It poses two forces and two concepts of liberty against each other. It is constantly tugged back and forth between them. Hence the lack of resolution to the problem of inequality. Hence the need to double down and push back against those who simply deny the existence of the problem. Or, worse, those who see inequality as something virtuous and in no need of fixing at all.

By becoming the study of efficiency in a world of scarcity, economics has played its part in developing the intellectual defense of inequality. Especially by stressing its virtues, and even more especially by embracing a perverse and idiosyncratic definition of liberty. It is no accident that Margaret Thatcher could channel her hero, Hayek, and dismiss the notion of society with such ease. Hayek himself referred to society as being a slippery concept of vague definition. Apparently, such vagueness, which was a primary cause for criticism by Hayek of anything social, was not an issue in the definition of a market. That both markets and society are comprised of the same people and overlap so much that we argue over the extent to which one is embedded in the other, is a fact allowed to slide from view by the defenders of Hayek's version of liberty. It is our job to pull that fact back into view and to go further: we have to dispute the notion of liberty that economists have deployed as they constructed their elegant theories of economics.

As we attempt to re-engineer the concept of liberty and tame it such that it doesn't do the damage it has in the hands of Hayek and his ilk, we need to go back to the beginning. There was a time, as Etienne Balibar reminds us that the concept that became the liberty that subsequently produced the idea of marketplaces in our modern sense, was conflated with a notion of equality. The literature and correspondence of the early history of the United States is littered with references to both liberty and equality. At times the two ideas can be interchanged as if they are aspects of the same concept. Balibar gives this conflated concept a name: "equaliberty" which would, in his words,

> "be essentially constructed as a double unity of opposites: a unity … of *man* and *citizen*, which from then on would appear as correlative despite all the practical restrictions on the distribution of rights and powers; and a unity … of the concepts of *freedom* and *equality*, perceived as two faces of a single 'constituent power' despite the constant tendency of bourgeois political ideologies (what we could generically call 'liberalism') to give the former an epistemological and even ontological priority by making it a "natural right" par excellence…" (emphasis in the original).

This fusion of two conflicting aspects of liberty, one expressed through economic freedom and the other expressed through political action, is essential to our modern world. By splitting them apart and giving priority to the first our opponents have played a trick on us. They have co-opted the word liberty and given it such emphasis that our ability to muster the second as a balancing idea to mitigate the potential excesses of the first has been severely limited. Indeed, in the hands of economic purists the second is denigrated as misguided or fanciful. We are told that there is only one liberty: that of agents in the marketplace. Although, perhaps, not in the marketplace of ideas where the second lingers on as an antidote to its twin.

Once this perverse and singular definition of individual liberty was let loose it was a short step to a similar attempt to separate the domain of economics from society itself. We suddenly began to talk of the market as if it was suspended in its own neutral substrate in a scientific laboratory. It was cleansed of social or political pollution. It was purified and lifted onto a pedestal. It became regarded as the causal power of our modern prosperity. It was given magical properties.

Later thinkers who extolled the virtues of this singular liberty, in their zeal to make it impregnable to attack, doubled down on this extraction of the market from society. They took Adam Smith's nuanced expression of wonder that private greed, or perhaps we should say self-interest, could accumulate magically into social benefit, and they hammered it into an ever more constrained straitjacket. They began to twist his observation that some semblance of social order appeared to emerge from the various individual uncoordinated acts, and eventually enshrined it in a definition so tight that it was no longer a reflection of the real world. It was isolated from interaction. This became more necessary as the project morphed from description of the world as it is, to theorizing about the world as it *ought* to be. Or as it might be if only those who carried a preference for equality would stop interfering.

Balibar is right to note the tendency of those who prioritize economic liberty over any other form of freedom to root it in nature. This makes them indifferent to criticism that they harbor ideological intent. Perhaps, in our context, nowhere is this more apparent than in the technology they devised to explain the "natural" distribution of our prosperity. The arrival of marginal analysis on the scene marked a pivotal moment in the steady adoption of this natural stance. Here is John Bates Clark making the case:

> "It is the purpose of this work to show that the distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates."

How can we, who want to combat inequality, dare intrude on nature? Clark swats us away. Worse still is the unstated, but clear message that mucking about with nature will upend the wondrous machinery of the economy.

It is important for those who wish to defend this natural law position, which some call market justice, to ensure that the economy is fenced off from society in general. On the other side of that fence are all sorts of subversive thoughts that must not be allowed to infect the purity of the market. Streeck makes us aware of this danger: "from the point of view of market justice there is a constant danger that ideas of social justice will usurp the public power through a democratic majority and then regularly distort the operation of the market". Persisting in this cramped definition of market justice requires the adoption of an ethical stance that justifies whatever outcome pops out of the market machine. The result is ethical because it is natural. Any amount of inequality is justified because it is natural.

Within the walls of the hermetically sealed off market unequal outputs are to be explained by unequal inputs. It is all wonderfully self-supporting and elegantly described. Marginal productivity, as this neat trick is called, is not empirically based but sure looks scientific. Goodness knows how busy the Queen of England must be. Her productivity is monstrous compared with the maid who cleans her floors. Clark says so. And, as well, do far too many economists. Just look at the relative earnings. The Queen's income must represent astonishing productivity. It's natural.

I wonder what Balibar would say.

I know what Thompson would say. He said it. "The market cannot be isolated and abstracted from the network of political, social, and legal relations in which it is situate". But if you are going to persist in theorizing about the market in terms of natural laws it cannot be embedded in something as human as all that. It must sit outside. Especially if you want, as Hayek wants, to maintain a healthy distance from democracy.

This leads to contradictions and oddities that are worth pondering. Those economists who pursued the logic of their theories into the very farthest of dead ends described their liberty laden agents as supremely rational. That this robbed them of true agency, because they were reduced to automatons slavishly obeying the diktats of economic laws, was an irony unnoticed by the more zealous. Nonetheless these rational agents behaved dutifully like mice on a treadmill to keep the operation of the models running smoothly. Presumably it was rational to accept any amount of rising inequality as they did so. Not that they would notice, only a representative sample were ever allowed in to perform their duties. Now comes the oddity. When those agents stepped outside of the model market, they suddenly displayed all sorts of irrational behavior. They started, amongst other things, voting in support of redistributive policies. How could this be? Were they schizophrenic? Or were they upset at the allotment of prosperity determined by Clark's nature?

Could it be that our agents, when released from the strictures of the economist's rational straight jacket, realized that there is a second, and equally legitimate, arena for the distribution of prosperity? Could it be that they discovered democracy? Could they, in other words, be reclaiming a second form of liberty, one that asserts equality as an ethical component? Could it be that they see, as Polanyi asserted, that "to allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount of purchasing power, would result in the demolition of society"?

And here, I think, is the fertile territory on which we carry the fight forward. We simply deny that liberty is a single thing. We assert that it is multi-faceted, and that the pursuit of efficiency must bow, periodically, to correction if we can show that it produces a reduction in liberty more broadly defined. In this stance we echo Arthur Okun who wrote:

> "If both equality and efficiency are valued, and neither takes absolute priority over the other, then, in places where they conflict, compromises ought to be struck … In particular, social decisions that permit economic inequality must be justified as promoting economic efficiency. That proposition is not original, but it is important and apparently remains controversial."

It is shocking to recall that when Okun was writing this about the tradeoff between equality and efficiency, inequality was benign by our current standards. It was also almost the same time that the Hayek and Freidman inspired distortion was about to get underway. Okun, in other words was warning us about something about to explode onto the scene.

By refusing to accept the perversity of the asymmetrical tilt towards efficiency at the expense of equality we assert that there has to be a balance. And the art of balance must, necessarily, open up the discussion of the generation of prosperity to issues and ideas long removed from the limited version of economics derived from the Hayekian tradition. This produces an economics of a different kind and recognizes and embraces the variety of thought that the expanded definition of liberty requires.

One of the fatal flaws of the restricted economics promulgated by the heirs to Freidman is that it is built upon a seriously deficient vision of what actually goes on in the marketplace. This is odd because much of its heritage flows from the Smithian observation of the division of labor at work. It is a contradiction to restrict liberty to the economic actions of an atomistic individual in an arms-length marketplace and also to ignore the consequences of the division of labor. As economic activity was ever further sliced into smaller and more specialized slices market participants became more dependent upon one another. They had to move from either producing or consuming as single individuals to becoming part of an increasingly complex production, distribution, and consumption process. The vaunted coordination of all this amassing complexity is, to listen to Freidman and his heirs, the price mechanism.

Perhaps, but it is the price mechanism with an enormous assist from something we have difficulty finding in their literature: the modern corporation. Indeed, the entire history of the Great Enrichment could as easily be told as a triumph of the development of the corporation, as of the freedom to trade. This is hardly a novel observation. Shonfield said that a private firm "sees itself as a permanent institution, entrusted with functions that transcend the search for maximum profits and are at times compatible with it" with a structure and intent "more and more reminiscent of certain public institutions". Along the same lines Kenneth Galbraith wrote:

> "The modern industrial system is no longer essentially a market system. It is planned by large firms and in part by the modern state. It must be planned, because modern technology and organization can flourish only in a stable environment, a condition that the market cannot satisfy."

We are a long way from the Friedman world at this point. The key being that the rise of an economy dependent upon increasing division of labor introduces issues only solvable by taking swathes of it out of the market and into the firm. This is not at all what Friedman envisages. It is an inversion of his thoughts quoted earlier, what goes on inside a corporation is all about intention, familiarity, and awareness. The modern business firm is the living denial of free market thinking. It is centralized and heavily managed. The organization is not an unintended consequence of people going about their singular ways, it is the result of the careful coordination of a series of roles and routines that accumulate into single whole. The difference could not be more stark. Not just this, but the role of the individual inside this aggregation of roles and routines is hardly one of economic liberty. It is one of relentless oversight.

Some economists are all too well aware of this contradiction. The existence of the business firm as a coordinator of activity beyond the boundaries of the marketplace is a paradox first articulated by Ronald Coase as long ago as 1937. Coase asked a rather important question:

> "In view of the fact that, while economists treat the price mechanism as a coordinating instrument, they also admit the coordinating function of the 'entrepreneur'. It is surely important to enquire why coordination is the work of the price mechanism in one case and of the entrepreneur in another."

I would answer the increasingly complex content of products requires administration rather than simple coordination. The price mechanism is not up to the job. But Coase looked elsewhere.

A whole sub-literature called transaction cost economics has been developed to try to tame the firm and steer it back into conformity with free market orthodoxy. Unsuccessfully. The paradox is beyond resolution. The reality is that the corporation is the dominant mediator of economic activity in modern societies precisely because the division of labor demands complex coordination. It demands cooperation. No one individual can claim to play an indivisible role. Marginal productivity disappears under a cloud in a such an interconnected world: how can any task be truly separated? Not only this but any ethics built upon atomistic individuals also disappears. A new ethics built upon *cooperation* is required. And if this is true, how can economic inequality based upon Clark's natural law be tolerable? It cannot. Okun's request that we demand a justification for economic equality from those who pursue economic efficiency takes on a new light, because efficiency is derived not from economic liberty, but from economic solidarity.

Elizabeth Anderson suggests we need a new definition of this solidarity. She calls it "democratic equality". It is the beginning of our discovery of a new balance and a way to highlight the inequity of using an antiquated definition of liberty simply in order to defend the marketplace from a criticism of its poor distribution of our jointly produced prosperity. Anderson discusses "equality of fortune" in contrast with her democratic equality, with the former being more what many of us have in mind when we restrict ourselves to talking about inequality in purely economic terms. In her words:

> "democratic equality is what I shall call a relational theory of equality: it views equality as a social relationship. Equality of fortune is a distributive theory of equality: it conceives of equality as a pattern of distribution. Thus, equality of fortune regards two people as equal so long as they enjoy equal amounts of some distributable good – income, resources, opportunities for welfare and so forth. Social relations are seen largely as instrumental to generating such patterns of distribution. By contrast, democratic equality regards two people as equals when each accepts the obligation to justify their actions by principles acceptable to the other, and in which they take mutual consultation, reciprocation, and recognition for granted."

There are hints of equaliberty in this expression of equality. The error of the extreme individualists can be overcome by the adoption of a conception of this sort.

We are not yet done with the corporation. It is important to note the date of the Shonfield and Galbraith comments, they came just as Hayek's victory became absolute. It is no accident that our current egregious levels of inequality followed upon that victory. The misconception of liberty and its separation from its democratic counterpart was about to do its worst.

Despite the corporation's contradiction of Friedman's core ideas, he felt free to opine on its purpose. More exactly, he felt free to opine on the objective of the management of a corporation. This objective was to maximize shareholder value. There are two contestable components that comprise this thought. The first is expressed in this statement by Friedman:

> "In a **free-enterprise**, **private-property** system, a **corporate executive** is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires...the key point is that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation...and his primary responsibility is to them."

The second, from the same source is this: "There is one and only one social responsibility of business – to use it resources and engage in activities designed to increase its profits."

These two concepts: the ownership of the corporation by shareholders, and the need for management to work exclusively for them, set in motion a great suppression of wages and the privilege of profit that lie at the root of inequality. At least at the root of the inequality of fortune, to channel Anderson. The mismanagement of the modern corporation that came subsequent to Freidman's call to arms, is one of the great consequences of the perversion of the notion of liberty embedded in his thought. It is also an object lesson in how ideas matter in very material ways.

It was not long after Friedman launched the profit-maximizing ship that theories of shareholder value and the role of management with respect to profit became the feature of the business school curriculum. Generations of managers have been brought up to believe in the essential truth that they operate purely to maximize shareholder wealth. That this is a complete reversal of the way in which firms were managed a decade or so earlier is lost in time. What is not lost is that the ever more pressing need to squeeze returns to shareholders devastated the lives of workers, who became a cost rather than an asset.

This is also a salutary lesson for economists who sometimes still deny culpability for their discipline's impact on their fellow citizens. Ideas matter. You had better stress test them before allowing them to filter into related fields, and if you still believe in them, then take responsibility for the results. Hayek led to Freidman, which led to shareholder value, which led to wage stagnation. Period. Put that in the textbooks and explain.

The entire modern corpus of management theory stands on the perverse definition of economic liberty imported from economics. The notion of agency is fundamental to it. Because there are no social relations everything is conceived of in the context of a contract. Agency theory is a simple extension and explication of the relationship between managers and shareholders. In it, managers are seen as nothing but agents of shareholders, and since the latter are deemed owners of the property known as the corporation, it is only right that managers act in the shareholder's interests. Or that's the story. There are no agents working on behalf of anyone else, particularly workers, who, don't forget, are conceived of in libertarian literature as liberated agents in their own right. They need no agents. How odd, then, that shareholders do. Perhaps they don't have the mental fortitude that workers do. Or is it because they are thought of as property owners and there is a subsequent need to explain what happens when they allow someone else to dictate what happens to that property. Workers don't have property in this world. They are a cost of production. The hyper-simplicity of this relationship is a strong echo of the world conceived by Freidman. There are no complex cooperative interdependencies. Just, in the words of one theory of the firm, a nexus of contracts with the shareholder holding all the ultimate rights. This is a libertarian dream. It is also far distant from reality.

For one thing we might reasonably ask whether shareholders do, in fact, own a corporation. There are some who would dispute this notion. They make sense. A corporation is a ward of the state. It is established under law as an entity prior to receiving any funding. The sequence of steps in creating a firm assume a corporation exists in order to receive funds. In return for receiving those funds it creates for itself an obligation to the funders. It does not sell itself into bondage to them. Shareholders own certain financial rights. They do not own the actual corporation which continues to persist without them. Indeed, this concept of a corporation being an individual-in-law is exactly the source of a great deal of legal history in the United States beginning as far back as the early 1800s and culminating in the infamous Citizen's United decision in which the Supreme Court undermined democracy by entitling corporations to pour cash into elections and buy subsequent legislation. The Court was being particularly narrow in the Citizen's decision, but it was firmly within precedent. In law, corporations are individuals. They cannot be owned, and they have rights. Here we have in one compact example the extent of the infestation of our values by the oddball concept of liberty undergirding free market economics. It gets everywhere. Like a pandemic. Our institutions are turned inside out in order to preserve the error and contradictions that a return to equaliberty would resolve.

The plague unleashed by shareholder value inevitably resulted in most of the great harms done by modern corporations. Managers administering the complex organization of economic activity continuously replicated the error by making decisions based on shareholder whims. What became known as core competencies were the source of outsourcing activities. The desire for higher returns on equity drove the turn away from domestic to foreign production. Globalization grew in response to the same impulse. Worker retirement and health benefits, things that ought never have been within the purview of private management, were re-cast as a cost to be cut. The work relationship itself was redefined wherever possible to get rid of pension and other benefit obligations. The worker-as-cost philosophy inherent in our modern economy has reduced millions to a precarious lifestyle. All as a result of the Freidman injunction being taken seriously and worked up into elaborate sub-theories.

Yes, ideas matter. And it is little wonder that millions of our fellow citizens might look a little skeptically at the so-called benefits of the Great Enrichment. It is one thing to have a super television set with capabilities unheard of 20 years ago, it is another not to be able to pay the rent. There is no greatness in the Great Enrichment if it ends in an ethical desert.

So dominant did the singularity of economic liberty became and so in conflict with the reality that it created that it became necessary for the democratic domain to be subordinated to the economic. How else was it going to be possible to maintain the illusion that economic liberty was in the interests of everyone? Growing inequality suggested otherwise. The contradictions within helter-skelter potpourri of ideas collected under the heading of economic liberty or just plain "liberalism" and their increasingly anti-social consequences needed shoring up. The problem is, as Rosanvallon points out, that as it spread it tentacles into fields further away from its Hayekian origin liberalism lost its coherence. It morphed into a culture. Rosanvallon put it this way:

> "The proliferation and occasionally contradictory character of this literature, all called 'liberal' is an irritant only if one begins by thinking that it is a matter of understanding liberalism as a *doctrine*, that is a coherent if differentiated body of judgements and analyses. For it is clear that there is no doctrinal unity to liberalism. But if it is not a doctrine, *liberalism is a culture*."

And cultures are difficult to root out. Not only this, but, they infest our institutions. They co-opt institutions to do their bidding.

Once inequality is culturally acceptable it is possible to ignore it as a benign fact of life. It can be dismissed as inconsequential. An irritant nothing more. Our elite can barrel along acquiring an ever-larger share of the pie of fortune because their flanks is protected by a wall of ideas built on the economic conception of liberty. If the hollowing out of the middle class is called for in order to press along with the liberal project, then so be it. If people object, then the state itself must be subordinated to the project. The justification for the very existence of the state becomes shoring up the market to protect economic liberty.

Wendy Brown is concise in her articulation of the result of this capture of our culture:

> "The market is the organizing and regulative principle of the state and society, along three different lines: (a) The state openly responds to needs of the market, whether through monetary and fiscal policy, immigration policy, the treatment of criminals, or the structure of public education. … (b) The state

> itself is enfolded and animated by market rationality: that is, not simply profitability but a generalized calculation of cost and benefit becomes the measure of all state practices. … (c) Putting (a) and (b) together, the health and growth of the economy is *the* basis of state legitimacy" (emphasis in the original).

With a culture so enraptured by market reasoning and with economic liberty, it has been a simple task to ensure the majority of the fruits of the Great Enrichment flow to a small self-regarding and self-promoting elite. Our society has been thrown out of balance. It was once, possibly, a defensible argument to suggest that the elite may capture a disproportionate piece of the pie of fortune, because the constituents of the elite are constantly changing. There is always opportunity for newcomers to barge in and the incompetent to fall out. In other words, the constant churn within the elite prevents inequality from creating a permanent ruling class. Inequality is simply a recognition of the marginal productivity of those at the top, it is not the product of exclusion. In the light of recent research this is no longer a tenable position. The elite are rapidly occluding opportunity. The stairway up is more than offset by many more trapdoors down. The economy is more exclusive than inclusive. To the greater benefit of the elite, which is settling into permanency.

Okun was being generous in his arguments. He compared the one-person-one vote of politics to the one-person-many-votes of the marketplace. He saw benefits in both sides. He did not anticipate the total dominance of our culture by a conception of economic liberty that has its roots in a political argument to set the bourgeois free. He did not anticipate our capitulation to the economic machinery of the corporation misconceived as an agent of shareholders. He did not foresee the great tilt towards inequality that would follow, necessarily, from the breaking apart of equaliberty and the ideological pursuit of economic liberty as our sole form of freedom. Because in an arena where some people have many more votes they inevitably win.

It is, ultimately, the successful conquering of our culture that has allowed inequality to arise unchecked. All our best efforts, and all the good intentions of the current wave of thinkers pushing back against inequality, have to overcome the inertia of that deeply imbedded culture. A culture that bends our institutions to do the bidding of those with many votes. It is not enough, then, to change economics. Although that is a start. Piketty was nowhere near the first to sound the alarm, but his call to arms resonated well because of the context within which it was sounded. Economic inequality is rampant, and the elite has, as Scheidel would surely have warned us, turned economic inequality into social and political inequality too. It is not enough for Philippon to suggest, as he does at the very start of his recent book, that the two big questions in economics are growth and inequality. By making this argument he is trying to wrest the discipline away from the likes of Lucas, a disciple of Hayek and who famously scoffed at the value of investigating inequality. Yes, Solow, the father of modern growth theory applauds Piketty, but the heirs of Hayek still protect their heritage ferociously. They, to this day, pretend that the Great Enrichment was the product of the isolation of economic liberty from its equaliberty forbearer. They still dominate our culture and our values.

To overcome that culture, we need more than well designed programs to redistribute prosperity. They are easy to design, and we are getting well-armed with them. We need to recognize that inequality, because of the severance of market justice from social justice, or rather, the displacement of the latter by the former, extends now into the political realm as much as into the economic realm. We must fuse the two together. We must deny that economic liberty exists by itself. We must recognize that modern economies, being built on the foundation of the division of labor, are the constructs of economic solidarity. Cooperation is a more powerful force in such economies than competition. Call it the art of balance, call it equaliberty, or call it democratic equality, whatever we call it, we must reject the notion of economic liberty as a stand-alone and dominant idea. It has done enough damage. It has produced our current inequality. It has to go.

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