Forward

Derek Bok

This volume is the latest in a series devoted to widening the lense of neoclassical economics to encompass a variety of other factors – social, institutional, cultural, political – that often bear importantly on the behavior of the economy. It would be hard to imagine a better subject for such analysis than inequality, for efforts to explain unequal earnings and wealth in economics term alone are almost certain to be inadequate.

In his fascinating study of inequality in Sweden, Japan, and the United States, Sidney Verba shows how differently the leaders of these three countries look at how much inequality ought to exist in their society. [1] In the early 1908s, when Verba conducted his study, Swedish business leaders believed that CEOs should receive approximately 4 times the earnings of the average worker, while their American counterparts felt that executive salaries of 27 times the average worker's pay would be appropriate. It would be difficult to argue that these contrasting attitudes – repeated in equally large differences of view for other leadership groups in the two societies – did not have a substantial effect on the actual distribution of earnings. At the time Verba wrote, Swedish CEOs received less than 3 times the earnings of the average worker, while the comparable ratio in the United Sates was more than 10 times greater. (The U.S. ratio would rise much higher still after the explosion of top corporate salaries in the past 15 years.)

It is equally hard to explain in economic terms alone why the pay of Japanese executives was drawing closer to that of their workers during the 1970s and 1980s, while in America, corporate CEOs saw their pay skyrocket even as the wages of their workers stagnated. These trends are scarcely a reflection of supply and demand, since the salaries of lesser executives in the Unites States were not rising nearly so rapidly as those of CEOs. Nor can comparative economic performance account for the results. After all, these were the years in which Japanese corporations seemed to be outperforming their American counterparts in a whole host of industries.

Such puzzling developments are not confined to big business. How does one account for the fact that in 1990 American physicians earned on average more than 3 times as much as their counterparts in Britain, France, Sweden, or Japan? This is hardly a difference explainable in traditional economic terms. Neither the supply of nor the demand for doctors' services is determined solely by market forces alone.

It is equally interesting to observe what happened to the earnings in the legal profession in the 1970s and 1980s. Having experienced a long period of moderate growth during the economic boom following World War II, the compensation of partners and associates in large corporate law firms began to rise dramatically after 1975. It would be difficult to explain this sudden growth by economic factors alone; after all, the economy was growing far less rapidly than it did in preceding decades and the supply of new lawyers had risen sharply as a result of influx of women and baby boomers into the profession. In addition to economic forces, I suspect that one must look carefully at such matters as changes in the organization of large firms and in the motivations of their partners as well as at the ways corporations choose their outside counsel if one is to comprehend fully what happened to their levels of compensation.

Whatever the cause of inequality may be, it is welcome news to see attention being focused on a broader range of factors to illuminate the study of important economic issues. Such an effort is a necessary antidote to the constant pressure to narrow the framework of analysis not only in economics but in most of the social sciences. Two tendencies, in particular, push young social scientists in this direction. The first is the familiar desire to achieve greater rigor with the aid of sharper analytical tools by introducing simplifying assumptions that brush aside the messier, less manipulable influences of culture, politics, and human psychology. Such simplification often leads to important insights and intellectual advances that would not be possible by trying to grapple with all the complexities of human behavior and institutions. Nevertheless, if we are to achieve a more complete understanding of human affairs, it is important to balance these technical efforts with attempts to incorporate more of the complexity of life into the analysis.

The other tendency that works to narrow social science is the sheer volume of relevant material that fledgling scholars need to study. When I was much younger and had a chance to talk with an earlier generation of economists - Gunnar Myrdal, Jacob Viner, Wassily Leontieff, and others - I was always struck by their mastery of all the great texts of social science - not only Adam Smith, Alfred Marshall and Karl Marx, but Locke, Mill, Bentham, Weber, Manniheim, and many others. Their understanding of the great intellectual tradition of social science gave these economists a broad perspective even when they wrote about technical subjects. Today, even the introductory course in this history of economic thought is no longer a requirement in most Ph.D. programs. Few doctoral students can afford to linger over the great traditional texts of economics, let alone of social science and political philosophy, in their hectic attempts to gain a reasonable grasp of the mountain of technical literature that has appeared in the last 50 years.

Because there is something so attractive about the power of highly quantitative analysis and simplified models, it is well to be reminded of how easy it is for these techniques to give a distorted and incomplete picture of the world it purports to describe. Thus, it is salutary to have economists such as those summarized in this volume remind us of just how much is lost by disregarding all the other less tangible, less predictable aspects of human, social, and institutional behavior. What Gunnar Myrdal pointed out in 1971 remains equally true today:

> "What all social sciences are dealing with is, in the last instance, human behavior. And human behavior is not constant like the movement of celestial bodies or molecules. It is dependent upon, and determined by, the complex of living conditions, the institution in which people exist, and by their attitudes as those who have been molded by, at the same time as they are reacting against, those living conditions....The isolation of one part of social reality by demarcating it as 'economic' is logically not feasible. In reality, there are no 'economic,' 'sociological,' or 'psychological,' problems, but just problems and they are all complex."[2]

As this volume attests, that is certainly true of the problem of inequality.

Notes

1. Sidney Verba, Elites and the Idea of Equality: A Comparison of Japan, Sweden, and the United States (1987).
2. Against the Stream: Critical Essays on Economics (1972), 139, 142.