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The Costs and Benefits of Equality, Part One

In their 2009 book *The Spirit Level*, Richard Wilkinson and Katie Pickett present an extended, data-rich argument for why economic inequality is bad for society. Analyzing a sample of 23 wealthy countries and the 50 US states, they suggest that inequality is positively correlated with a diverse range of negative social outcomes, from obesity to illiteracy to homicide. The book has been referenced in speeches by David Cameron and Ed Miliband, and has had a significant influence on policy discussions in the UK. Not surprisingly, while the book has been popular on the political left, it has provoked strong criticisms from the right, so much so that the new edition, published in late 2010, contains a postscript responding to critics.

The debate over the benefits of equality is likely to remain heated for a long while, and my goal here is not to argue in favor of one side or the other. I do want to point out, however, why this debate is so relevant to banks, and also to explain why, from an evolutionary perspective, increased equality should reduce some kinds of social problems while at the same time exacerbating others.

The equality debate is relevant to banks for two main reasons. First and most obviously, investment bankers are notoriously well-compensated compared to average people, so many see banker salaries as emblematic of how extreme inequality has become. Second, there may be an association between inequality and financial crises. Before considering why this association may exist, let’s first look at what evolutionary theory predicts about the social effects of inequality.

Natural selection favors individuals who successfully compete for reproduction-enabling resources. Across species, the more unequal access individuals in a population have to resources, the more incentive they have to compete aggressively against one another. When inequality is higher, the stakes of resource competition become higher too: winning becomes more advantageous, and losing more disadvantageous. Further, these stakes increase more for males than for females, because males—unlimited by the burdens of gestation and lactation—can “win bigger” (that is, have more offspring over their lifetime) than females. Thus, in a vast variety of species, inequality associates positively with male adaptations for aggressive and risky status competition, such as large body size, natural weaponry, and bellicosity. A good example is the southern elephant seal, in which reproductive inequality among males, and the body size difference between males and females, are both staggeringly high. A single bull controls a harem of several dozen females, and uses his massive body (males weigh seven times as much as females) to defend his harem in bloody confrontations with mateless rivals.

Inequality probably intensifies risky status competition among humans as well. The evolutionary psychologists Martin Daly and Margo Wilson have shown, for example, that murder rates among men rise with economic inequality, and that these murders usually result from conflicts about status and perceived disrespect. Economists such as Robert Frank and Matteo Iaciviello argue that economic risk-taking, in the form of indebtedness, also increases with inequality: in more unequal environments, as people must struggle more to maintain their standard of living relative to others, they become increasingly likely to incur debt and file for bankruptcy. Inequality-fueled status competition thus may increase one’s willingness to accept a risky mortgage, for example. Inequality may also increase competitive risk-taking among bankers: the larger the relative rewards for those who gamble and win on risky financial products, the more attractive such gambles become.

If inequality increases competitive risk-taking among both borrowers and bankers, then it might help cause a financial crisis. The new postscript in the *Spirit Level* presents data that support this perspective, by suggesting that in the USA, the market crashes of 1929 and 2008 both occurred exactly when inequality was peaking. However, economists like Anthony Atkinson and Salvatore Morelli dispute this perspective for various reasons (they note, for example, a lack of relationship between inequality and financial crises in other nations).

Regardless of the extent to which inequality does cause financial crises, there are compelling evolutionary reasons to expect that inequality should increase risk-taking in status competition, particularly among men. There are also good reasons to believe that some outcomes of this intensified competition—for example, an increased homicide rate—will be socially dysfunctional. However, before we conclude that inequality is the root of all evil, we should consider some evolutionary arguments for why equality may actually also cause some social problems, and for why inequality can itself be socially beneficial. I’ll explore these arguments in my next column.