

## **The marvelous gift of Inequality**

*Why differences are good and we can be glad when others exceed us.*

Colleges and universities are becoming dangerous places for freedom. Berkeley is on a run of cancelling speakers because of intolerant students and sympathetic faculty. Social justice warriors have ironically turned a cold angry shoulder to society and justice. Many of them seem consumed with victimhood, labeling, shame casting, and casting people down to bring people up. Thankfully people across the spectrum (the latest being Bernie Sanders!) are rightly reacting against this and speaking out to reject the philosophies of fear, scarcity, thought control, revenge, hatred, speech suppression, intolerance, and prosperity killing coercive equality.

Human flourishing is very much the exact opposite: hope, opportunity, creativity, diversity, good will, tolerance, prosperity enhancing freedom, human rights, and expanded human collaboration and exchange. In fact, when freedom, peace, and differing gifts, resources, and exchange are present in human society increasing flourishing takes place. When we turn from aggression, we become prolific at taking knowledge and the resources of this vast world and rearranging them to improve both human lives and human life. Indeed, the productive creativity of individuals and collaboration produce expanded wealth of every kind (products, knowledge, culture, and innovation). These benefits not only come to the individuals who are directly getting paid for creation, but to everyone within the radius of freedom, communication, and exchange. Within a truly free society [see definition below] everyone begins to improve their lot. Instead of pairing up winners and losers we see prosperity and flourishing overflow in all directions. To change up Hemingway: “who does the dinner bell ring for – it rings for you!” This cascade of benefit flows in the here and now, but also in legacy: prosperity extending forward through time like ripples on a pond. This is not unbridled optimism or utopianism; this is what happens when imperfect and selfish people remain peaceful, free, and interacting.

My purpose is to proclaim and prove that in a free society:

- We can actually be glad when others have more than we do, whether it be more material goods, skills, knowledge, or opportunity.
- More for others creates opportunities for more for us, not less for us.
- Inequality is actually a major source of good. Inequality is only bad when it is the result of aggression.
- It can be virtuous for one human being to be richer than another. Rising tides lift all the boats.
- We should usually give thanks for the rich – they are our benefactors, not our enemies. Thank you Bill Gates!
- We should celebrate the increasing wealth and prosperity of society.

- Much of our wealth and prosperity today is the overflow of our predecessors around the world.

\* A truly free society is one in which aggression is absent. Aggression includes restriction of peaceful human action, theft, and bodily harm. When aggression is present in a society the above statements may not be true. For example, when wealth is increased by aggression (e.g. theft), it is not an occasion of gladness for others. Removing aggression is fundamental to prosperity.

### **Three requirements for prosperity**

**Economic Prosperity:** having an abundance of valuable possessions or money (goods). Having wealth.

Prosperity is realized through the ability to obtain and then utilize (retain and deploy) the possessions that we value. When the ability of a person to both acquire and retain wealth is increased – their prosperity can increase.

**Generally, aside from receiving wealth by gift or theft, the key requirements for individual prosperity are individual productivity, individual property rights, and participation of the individual in markets of exchange.**

**(1) Individual Productivity – ability to create and add value**

**(2) Individual Property Rights – control over one’s self and possessions**

**(3) Participation in Exchange – trading goods, services, and ideas**

Without productivity (an infant for example) goods cannot be created and wealth generation is not possible. Without property rights (slavery for example), the goods we create are collected by others. Without participation in exchange we are limited to our own self-sufficiency and personal production.

### **Exchange creates explosive prosperity**

The world has seen an explosion of prosperity in recent centuries and recent times. The most dramatic improvement has been among the most poor. The first real explosion came about 100,000 years ago.

Economists and anthropologists point to the exchange of goods as both a principal source of prosperity in the world and a unique and defining characteristic of modern humans. Neanderthal (pre modern human) technology was limited and static for about a million years. The same basic tools, such as spearheads, remained basically the same over this enormous period of time. There is little evidence of exchange of goods among Neanderthals and consequently we find very limited development of a division of labor and the increase of efficiency and prosperity that accompanies it. But

this all started changing within the last 100,000 years or so. Humanity began to exchange goods with one another. With exchange came division of labor, productivity, specialization, innovation, and increasing prosperity. This first happened within the family, then outside the tribe, and then increasingly beyond the tribe or even nation. Accordingly, we have (although with times of regression due to war or disaster) become less self sufficient, more cooperative, more specialized in production, and more diversified and prosperous in consumption than before.

The most dramatic improvements in human prosperity have occurred in the last 200 years. Technologies of communication and travel combined with periods of peace have served to expand the magnitude and scope of human collaboration and exchange. The result has been a dramatic increase in the standard of living of almost all people groups. Indeed, for the most part the lower income levels of today enjoy a standard of living far beyond that of the upper class in the 1700s.

Part of the magical productive power of exchange is that we each truly benefit when we exchange with others. Surprisingly (and we will explore this in more detail), mutual benefit can occur no matter what level of productivity our trading partner has. What is more, the benefits increase with increasing the productivity of any of the exchange participants. Accordingly, we want all producers to produce more, have more stored resources, enjoy greater wealth, become smarter or more skilled, or increase their access to resources. Exchange also facilitates innovation, specialization, and the division of labor. Exchange frees us from the relative poverty of self-sufficiency.

**And what powers the exchange that brings prosperity?**

**Surprise! It is inequality. Mind blowing, but true, as I will show.**

### **The power of exchange illustrated**

I know these are ideas that will seem counter intuitive and even counter cultural to many people. Sadly, we currently have many politicians who proclaim the opposite of what I am asserting and are embroiled in fear mongering, class warfare, protectionism, and win-lose economic proposals.

It turns out that simple economic scenarios are very compelling in teaching economic truths. For one excellent example of teaching human economic truths with simple to understand illustrations, please see *Economics in One Lesson* by Harry Hazlitt. Another is *How an Economy Grows and Why It Crashes* by Peter Schiff. These are easier to grasp and more intuitive than more abstract economic texts. To dig deeper I would recommend *Basic Economics* by Thomas Sowell.

So rather than making conceptual, abstract, and logical arguments to convince you, I will instead illustrate the power of free exchange using the example of a most simple

economy: A single person that is a hunter-gatherer that produces only two economic goods. It is amazing how many insights and economic truths can be illustrated and understood using basic common sense knowledge of human action in simple economic situations.

Let's begin. I want you to meet two hunter-gatherers who are going to experience the surprising but profound mutual blessing of exchange.

### **Meet Adam**

Adam has a simple life. He lives in a clement tropical environment where shelter and water are easily obtained. He lives alone and does not interact with other people at this time. Adam's idyllic circumstances only require him to produce the food he needs to remain healthy. His diet is most basic and consists of fish and coconuts. He requires 5 fish and 5 coconuts per day. This provides Adam with enough nutrition to remain healthy and self-sufficient. Adam shimmies up a coconut palm to retrieve coconuts and this takes him about 2 hours each day to find and retrieve them for his diet. Adam bashes them on rocks to open them for eating. Fishing is more challenging: using a simple sharpened stick it takes Adam 4 hours per day to catch his 5 fish and prepare them for eating.

So Adams day looks like this: Sleep: 9 hours; Coconut production: 2 hours; Fishing: 4 hours per day; Free time: 9 hours. With his free time, Adam enjoys bird watching, body surfing, and thinking about how to create useful items from plant fibers and how he might get more free time by improving his food collection skills. He has little desire or motivation to spend additional time acquiring food once he reaches his need of 5 coconuts and 5 fish. He would rather have more free time than more food, but he would certainly spend the additional time if needed to acquire his required five coconuts and five fish.

Adam has very simple finances – he spends time to get food. In summary:

- A coconut costs  $2/5$  of an hour (because it takes 2 hours to gather 5 coconuts)
- A fish costs  $4/5$  of an hour (because it takes 4 hours to secure 5 fish)
- Accordingly, Adam values fish more than coconuts because they are harder to obtain. In fact, they are twice as costly, when measured in the time it costs to get them. And time is valuable to Adam – he likes his hobbies, and food production, although necessary, is less valuable than time once he gets his MDA (minimum daily allowance) of food. So Adam values one fish as equal to two coconuts.

### **Meet Oz**

Oz has a life pretty much the same as Adam. In fact he lives only a quarter mile away from Adam.. Like Adam, Oz lives alone and does not interact with other people at this

time. His diet likewise consists of fish and coconuts. He is a smaller guy and only requires 4 fish and 4 coconuts per day. Oz does not like the heights associated with climbing palm trees, so he is a lot slower in retrieving coconuts. It takes Oz about 6 hours each day to find and retrieve the 4 coconuts for his diet. Oz is also a less efficient fisherman than Adam as he is less accurate with his sharpened stick fishing. It takes Adam 4 hours per day to catch his 4 fish and prepare them for eating.

So Oz's day looks like this: Sleep: 8 hours (he requires less sleep than Adam); Coconut production: 6 hours; Fishing: 4 hours per day; Free time: 6 hours. Oz loves to walk up into the hills and go swimming in his free time and also to think about better ways to get coconuts that don't require climbing. Similar to Adam, Oz has little desire or motivation to spend additional time acquiring food once he reaches his need of 4 coconuts and 4 fish. He would rather have more free time than more food, but he would certainly spend the additional time if needed to acquire his required four coconuts and four fish.

Like Adam, Oz has very simple finances – he spends time to get food. In summary:

- A coconut costs 1.5 hours (because it takes 6 hours to gather 4 coconuts)
- A fish costs 1 hour (because it takes 4 hours to secure 4 fish)
- Accordingly, Oz values coconuts more than fish because they are harder for Oz to obtain. In fact, they are 50% more costly (1.5 hour versus 1 hour), when measured in the time it costs to get them. And time is also valuable to Oz – he likes his hobbies, and food production, although necessary, is less valuable than time once he gets his MDA (minimum daily allowance) of food. So Oz values one coconut as equal to 1.5 fish.

### **Comparing Adam and Oz**

What do Adam and Oz have in in common?

First, they both eat coconuts and fish and are willing to spend their time to acquire them. They also acquire them in the same ways (shimmy up a palm tree for coconuts and find and spear fish in the shallow surf).

Second, both Adam and Oz would not spend time acquiring food beyond their daily requirement. The value of the sixth fish or coconut for Adam drops to zero – he would not spend additional time to get it. The same is true of Oz when it comes to the fifth coconut or fish. This is an example of what economists call the law of Diminishing Marginal Utility. Diminishing marginal utility is the human fact that we value an additional item of the same type at or less than the previous one we acquired. For example - The first burger is more valuable than the second one at a meal. You would not pay more to get a second burger for your lunch than you paid for the first one. You would probably want it for less as it would be less valuable to you. In the case of Adam – a fish is worth the 4/5ths of an hour it takes to get it for

the first five fish. The 6<sup>th</sup> fish drops to a value of zero. You may ask – why is this the case for Adam (and similarly for Oz)? Well... the food does not keep well in their warm climate without refrigeration – so fresh food is at a premium and this drops the utility (value) of spending time for additional food beyond their physical need for the day.

Third, Adam and Oz also like their free time. It is valuable to them to spend as much time as they can in pursuits other than obtaining food. So they would be very open to ways that would allow them to get their food with less investment of time. They would also, by the way, be open to learning of food preservation approaches such as refrigeration that would allow them to save today's food for a later time. This could help reduce the average time spent in food production and result in more free time.

How are Adam and Oz different?

First, they have different needs / preference levels for food. Adam is larger and hungrier and accordingly requires one more coconut and fish per day than Oz.

Second, they produce food with different efficiencies. Adam is more efficient (takes less time) in acquiring both coconuts and fish than Oz. So even though Adam needs more food, he takes less time to get it and has more resulting and valuable free time than Oz.

Third – they value fish and coconuts differently. Adam values fish more than coconuts. In fact, Adam values one fish as equal to two coconuts. Oz values coconuts over fish. Oz values one coconut as equal to 1.5 fish.

Fourth - They have different sleep desires. 9 hours per night for Adam and 8 for Oz.

*The lives of Adam and Oz – living separately*

	Coconuts Diet per Day	Fish Diet per Day	Hrs / Coconut Labor	Hrs/ Fish Labor	Time to Get Coconuts	Time to Get Fish	Sleep Time (hours)	Free Time per day (hours)
Adam	5	5	2/5	4/5	2	4	9	9
Oz	4	4	1.5	1	6	4	8	6

Question: Who has the better life based upon all of this? It is pretty clear that Adam has the better life in that he has more of what he values than does Oz. Adam gets the food he wants with 9 hours of free time per day. Oz gets the food he wants, but with 6 hour of free time per day.

## Thinking ahead

Adam and Oz are going to meet each other for the first time. What do you think might occur? Are they better off in contact with one another than alone? Given that Oz is less productive than Adam, do you think he has anything to offer Adam? What does Adam have to offer Oz? Assume that both are honorable men and refuse to steal or coerce the other. What do you think will happen when they meet?

## Adam meets Oz – Complimentary Preference

Adam and Oz met today for the first time. They only lived 5 minutes apart, so it was strange they had not met before. But it was a great time getting to know one another and comparing notes on their lives. It didn't take long for them both to get an inkling that they could benefit one another. When they both realized that Adam valued fish more than coconuts and that Oz valued coconuts more than fish – a light came on! Both Adam and Oz recognize what economists call the comparative advantage of making a trade. Here is what each proposes:

Adam says that he would trade a coconut for a fish and would trade up to 5 coconuts per day. Note: each trade saves Adam  $\frac{2}{5}$  of an hour of time!

Oz says that he would trade a fish for a coconut and would trade up to 4 fish per day. Note: each trade saves Oz  $\frac{1}{2}$  of an hour of time!

The deal is obvious. They agree to exchange 4 fish (from Oz) for 4 coconuts (from Adam) at mid afternoon each day at the big rock by the stream.

**Reader:** Please take time to think through this trade from the perspectives of both Adam and Oz. Do you see why they proposed what they did and not something else?

Please note that the trade Adam proposed required absolutely no knowledge of Oz's situation or what his costs were to procure food. It is entirely irrelevant to what Adam proposes. The same is true of Oz with respect to Adam's situation. Their meeting and discussion did facilitate their offers to one another as they saw an exchange would be a win-win. Yet the offers could have been proposed without pre-discussion and the offers each made would not have changed in the absence of knowledge about the other person. The trade proposal of each was based on their knowledge of their own values and did not require knowing the values of the other. In fact, the proposals could equally have been made as the first sentences out of their mouths upon meeting one another. It illustrates that exchanges are about increasing value for each person in their own eyes. Agreed to exchanges are always beneficial to both parties. They are always win-win. Both parties in a free exchange improve their own situation. Freely made voluntary exchanges are always win-win. This is profound and worth thinking about.

What is the result of this exchange agreement? What does Adam now need to produce each day? He needs to collect 9 coconuts and 1 fish per day. After exchanging 4 coconuts with Oz for 4 fish Adam will have the 5 coconuts and 5 fish that meet his daily requirement. Similarly, Oz now needs to produce 8 fish per day. After exchanging 4 fish with Adam for 4 coconuts Oz will have the 4 coconuts and 4 fish that he requires.

Lets now look at how each benefits from the trade.

*The lives of Adam and Oz – better together*

	Coconuts collected per day	Fish collected per day	Hrs / Coconut Labor	Hrs/ Fish Labor	Time to Get Coconuts	Time to Get Fish	Sleep Time (hours)	Free Time per day (hours)
Adam	9 to get 5	1 to get 5	2/5	4/5	18/5	4/5	9	10.6
Oz	0 to get 4	8 to get 4	1.5	1	0	8	8	8

Both have improved their life through the exchange agreement. Both have increased their free time. Adam has reduced his food product time from 6 hours per day to 4.4 hours per day (18/5+4/5 hours) as a result of trade with Oz. This has added 1.6 hours of free time to Adam’s day. Oz has reduced his food production time from 10 hours per day to 8 hours per day as a result of trade with Adam. This has added 3 hours of free time to Adam’s day.

Are you surprised? Through exchange both parties benefited significantly even though Oz was less productive in both coconut and fish production than Adam. This points out that we can easily ask the wrong questions about exchange and reach the wrong conclusions. For example:

Adam: “Oz – I can get a fish in 4/5 of an hour and a coconut in 2/5 of an hour. What can you do?”  
 Oz: “It takes me 1 hour to catch a fish and 1.5 hours to get a coconut”  
 Adam: “You are less productive than me in getting both coconuts and fish. I guess there is nothing you can do for me”  
 Oz: “Yah – you are right. Too bad.”

It was a great thing that Adam and Oz did not have this conversation. If they did, the trade would not have happened and their lives would not have been improved. Instead the discussion should have gone like this:

Adam: “Oz – I value fish more than coconuts, how about you?”  
 Oz: “Adam – I value coconuts more than fish”  
 Adam: “Awesome. We can sure help each other. Lets work a deal”  
 Oz: “Fantastic. Let’s go”



The exchange allows Adam to help Oz do more of what he is better at and Oz can help Adam do more of what he is better at. That is the magic! Notice that Adam and Oz do not have to talk prices (in hours or dollars) to understand that they can benefit one another. In fact if they talk in prices the wrong way (as we saw above) it can lead to the exactly wrong conclusion. Think comparative advantage for yourself (what you are better at) and explore comparative advantage for the other person (what they are better at). This is a golden insight.

What might Adam and Oz do with their newly found free time? They might start to investigate more efficient ways of gathering coconuts (ways to gather more at one time for example while up in a tree) or the invention of a fish net for catching fish more efficiently. What results? For one - the production of capital goods, which are goods such as fishnets that aid in the production of consumer goods such as fish. Getting more people involved in trade with Adam and Oz will probably mean new goods introduced into exchange. Someone will probably be better at making fish nets than catching fish or making other food. This could lead to part or full time fish makers. Can you see the upward spiral of comparative advantage, exchange, free time, invention, capital goods, efficiency, more exchange, etc.? Can you see that the more trading partners there are the better this becomes? Reflect on how much of what you use is made around the world. Think how impoverished you would be if the only things you could use were only produced in your town, your state, or your country. All this can become so much clearer by considering this trivial little economy of Adam and Oz and what we learn about comparative advantage.

**Conclusion: Comparative Advantage turns Inequality into Blessing!**

Not understanding comparative advantage and free exchange leads to many fallacious and very harmful conclusions: “we need to be better at everything than our competition”, “we need to protect jobs”, “tariffs are good for our nation”, “we shouldn’t be glad when our competitors improve”, “inequality is bad”, etc. Are you starting to get it?

**Revisiting my previous assertions in light of Adam and Oz**

Assertion	As Illustrated by Adam and Oz
<p>“We can actually be glad when others have more than we do, whether it be more material goods, skills, knowledge, or opportunity.”</p>	<p>Even though Oz was less skilled than Adam in both types of food acquisition, Oz had a different comparative advantage on his own than Adam had on his own, which made exchange between them beneficial. Adam and Oz could be glad they were different!</p>
<p>“More for others creates opportunities for more for us, not less for us.”</p>	<p>Adam and Oz can use the free time and production focus gained from their exchange in further creation and further mutually beneficial exchange .</p>
<p>“Inequality is actually a major source</p>	<p>It was so good that Adam and Oz were</p>

of good. Inequality is only bad when it is the result of aggression.”	differently skilled. It led to exchange and benefit!
“It really can be virtuous for one human being to be richer than another. Rising tides lift all the boats.”	Oz is glad Adam has more free time than does so that Adam can create more products and improved methods.
“We should usually give thanks for the rich – they are our benefactors, not our enemies. Thank you Bill Gates!”	Adam uses his free time to invent the fish net. This helps Oz and many others have more wealth. They are glad Adam owns a big fish net business.
“We should celebrate the increasing wealth and prosperity of society.”	Every growth in wealth (such as free time for Adam and Oz or increased food production) benefits everyone involved in free exchange.
“Much of our wealth and prosperity today is the overflow of our predecessors around the world.”	Ten years later. The fruits of this initial exchange have impacted over 100 people in the region.

### What if Adam and Oz had both valued coconuts over fish?

What if Oz had not been afraid of heights and had been much more skilled at gathering coconuts? Suppose that instead of it taking 6 hours to collect 4 coconuts, it had taken Oz only 3 hours. In that case Oz would have valued fish more than coconuts and would have had the same comparative advantage as Adam. Would this be the end of the trade opportunity between the two? It might seem so, but actually not.

#### *The lives of Adam and Oz – living separately – take 2*

	Coconuts Diet per Day	Fish Diet per Day	Hrs / Coconut Labor	Hrs/ Fish Labor	Time to Get Coconuts	Time to Get Fish	Sleep Time (hours)	Free Time per day (hours)
Adam	5	5	2/5	4/5	2	4	9	9
Oz	4	4	0.75	1	3	4	8	9

Even though the two now have the same food value preference, there is still inequality that can be leveraged into mutual benefit through exchange. Adam is more skilled than Oz in both types of food procurement. This opens several possible types of exchange:

- Adam might offer to train Oz in food skills in exchange for food. This could be a win-win in that it offers both the path to more overall long term free time,
- The difference in food efficiency might lead Adam to consider trading some food for some service that Oz might provide. “Hey Oz – How about I gather 9

coconuts a day for both of us, and you spend 2 hours per day working on my camp” Under this arrangement both would benefit. Adam gains 2 hours in services at the cost of 1.6 hours of lost time in coconut collection (4 extra coconuts collected at  $2/5$  of an hour per coconut). Oz save 3 hours in collecting coconuts (it took him  $4/3$  of an hour per coconut) and gives 2 of those hours to Adam.

- Etc... there are no doubt many more possibilities

Here is the key insight. The only situation in which exchange is completely and logically ruled out is when Adam and Oz are completely identical in skill, resources, and preferences. In the case of total equality there is nothing to exchange because everything is equal; Oz and Adam together are not better than Oz and Adam apart. Of course, you can see that never is the case. So comparative advantage always exists. In the case we focused on, Adam and Oz had complimentary (opposite) food values based upon different internal comparative advantages. If there are any differences between Adam and Oz there is a basis for beneficial exchange. All it takes is peaceful (non-aggressive or coercive) interaction of people pursuing their own happiness to create prosperity for all.

Till next time - Will

This blog can be found on [whfrye.com](http://whfrye.com)