Steven: Hello and welcome to the Inequality Podcast. I'm your host, Steven Durlauf, the Director of the Stone Center for Research on Wealth Inequality and Mobility. Thanks for joining us. Welcome everyone to the second Inequality Podcast, and this is a continuation of our conversation with Sam Bowles. If you haven't heard the first podcast, I urge you to do so, because it covers important dimensions of Sam's intellectual development as well as his essential contributions to the study of inequality. In this episode, we move towards Sam's more contemporary work as well as his reflections on the history of the ideas that he's grappled with throughout his career. This podcast is going to be a bit different than a conventional one in the sense that Sam is going to give very long answers to the questions that I pose him, so it's going to have a more didactic and pedagogical dimension than you might be used to. Sam took the role of a teacher and gives very detailed and insightful explanations of both the evolution of his thinking as well as his contemporary work, in particular on the ancient origins and ancient nature of inequality. In addition to that, Sam talks about his efforts to improve the economics curriculum, to create a much closer relationship between what is taught in introductory courses and the state of economics as a social science, as well as the basic facts of the world, in particular, as they relate to inequality. Sam, might we talk a bit about your thinking with respect to Marxian ideas? And again, this is a place where your ideas evolved, and so I think it would be valuable to say something about which ideas have persisted in your mind over time and which ones you've rejected.

Sam: Let me go back to when I was a student. I had learned the Russian language, and I was a performer of Russian vocal music along with a group of others, and we toured the Soviet Union twice, in 1958 and 1959. That interaction, of course, gave me a front-seat view of what communism in practice was about. And I don't think I really needed a lot of immunization against that. It didn't sound very attractive to me to start with. But when I became a young man and a politically active person, communism and that form of social organization was of no interest to me at all. But interestingly, and unrelated to that, at the same time, I was curious about the problem of economic development. I had lived in Africa for three years right after I left college, and it was there that I began to think that maybe there is something to what Marx was saying. Because what Marx had in mind was somehow that economics was important. I had thought I might be a lawyer and was going to go to law school, and living in a remote part of Africa, I came to the conclusion that legal devices and national boundaries and these legal things didn't really matter very much; what really mattered is how people made their living. So my interest in Marx really stemmed from that, basically looking at Marx's historical materialism as a way of studying how societies move and develop. And on that, I think Marx had a very good idea, and I still think it's a good idea: if you look historically, it's very often the case that technologies are very dynamic and institutions are static. And there's a reason for that. If you come up with a better mousetrap, go ahead and use it. You can do it by yourself; you don't need everybody else to go along with you. So a technology can be adopted by an individual who can benefit from it. If you come up with a new institution, well, that's a different story. Suppose everyone is driving on the right and you think, oh no, it's much better if we all drove on the left. That's a hard one to sell: you have to sell it to everybody. So Marx's basic idea: technologies are dynamic, institutions are static. Institutions hang around for a long time after they're no longer doing a very good job, given the new technologies. Eventually, technology develops in such a way that institutions have to change to accommodate the new technologies. Well, that's a heroic view of world history, and I love its ambition; it says something real, it's a hypothesis about how things change. I think it's sometimes right, and given how cosmic it is, bound to be wrong much of the time. Anyway, that's something I really value.

I learned two other things from Marx. The second one is: institutions shape who you are. We learn our preferences, our beliefs; what we believe in and the kinds of things that we desire and value are to some extent shaped by the institutions that govern our lives. In part, this is because in order to be a success under a certain set of institutions, you have to be a certain kind of person. To be a good hunter-gatherer, for example, you have to be very creative about the way you use knowledge, you have to be a very knowledgeable person about animals, and you have to be able to cooperate maybe with a couple of people, but not with a very large number. To be a success in an American firm, unless you're very lucky to be in management, you have to learn something very different: you have to learn to take orders, to basically do something boring all day at someone else's direction. So essentially, the idea is that institutions are going to shape who we are. The third thing that I picked up from Marx is that market relationships: buying and selling stuff, is a political relationship. And this is most obvious when it's buying and selling your time. If I rent myself to an employer, what I've done essentially is I've given my employer jurisdiction over what I do; I've essentially said you can tell me what to do over this period of time in the day. That's essentially a political relationship. And by the way, that aspect of Marxism is no different from Ronald Coase's theory of the firm. It's exactly the same idea. So here you have an interesting convergence between Marxian ideas about employment as a political relationship and the University of Chicago. So: historical materialism as a way of understanding the broad sweep of history; institutions shape preferences and who we are; and employment is political: those things I think are really valuable.

What is of less value is Marx's labor theory of value. Marx attempted a general equilibrium theory of prices, taking the whole economy and all of its interactions. It's not generally known, but his ideas here were based on David Ricardo, the classical economist; it was kind of state of the art at the time. It didn't work very well. I was going to say it's been superseded by modern economics, but that would suggest we really have a good general equilibrium theory of prices, which we don't yet. But I don't think that Karl Marx's labor theory of value is much of a contender. We're still trying to develop a theory of how the parts of a whole economy fit together in a way that allows us to say something dynamic about how prices are formed and how prices change. What we have so far is pretty shockingly primitive. We teach students to say: well, consider a competitive firm; a competitive firm takes prices as given. A consumer in a competitive market takes prices as given. And then we go to the next chapter and we have a supply and demand graph, and we say: well, if supply doesn't equal demand, then prices change. And students will ask: oh, how do prices change? I thought you said prices are taken as given. And of course, there isn't a good answer to that. Kenneth Arrow a long time ago wrote a nice little paper saying, well, when supply doesn't equal demand, somebody in the market realizes that they can actually make more money by not acting as a price taker but as a price maker. But it turned out to be extraordinarily difficult to work that into a formal mathematical model. The closest we have to that is actually a bunch of models based on Hayek, in which we see people engaging in price-making, essentially bargaining. And when all the bargains that could be mutually beneficial to the parties have been consummated, there's no more bargaining to do. And that's a Hayekian equilibrium. And that seems to me to be the way we should be going in general equilibrium theory, formalizing that inside.

Steven: I wanted to ask you to talk a bit about the CORE Curriculum. Part of what you've expressed great optimism about is the ways in which economics has expanded its domains of explanation and inquiry, with particular focus on inequality. But it's not just a passive matter: it's an active matter for you because of the work you've done in trying to create a modern curriculum. Can you tell the audience about CORE?

Sam: Yeah, my concern with economics education, of course, goes back to my own experience in education and the fact that I didn't learn what I think an economist ought to know. If you ask students around the world, suppose you did this the first day of class before anybody's heard anything about economics: ask them, what do you think economics ought to be dealing with? Just write down a word or two. Then you collect them, and you make a word cloud. The word cloud has inequality in giant fonts. Climate change will be there too. Poverty and so on. Now the traditional topics of economics, they'll be in the word cloud: prices, employment, and so on, but really pretty small. What people want to know about, what students want to know about, is the planet, the future of the planet, and economic injustice. Now I don't think we're serving them. The discrepancy between what we teach our grad students, which is actually in many fields pretty good, and what we teach undergraduates is striking. A lot of our graduate training has turned into training in applied math and isn't really about society at all. There's a lot wrong with what we do in grad schools, but a lot of what we teach our graduate students is modern economics, which I think has, for the most part, made great strides in recent decades. The tragedy is that undergraduates don't get any of that. What undergraduates get in the first year course, and very often in the second year intermediate micro and macro, is basically some combination of Marshall and Keynes, and that's it. Now I'm a great admirer of Marshall and Keynes, but a great deal has happened since them. Interestingly, they don't get Hayek. They don't get the problem of information. They don't even get the idea of, for example, principal-agent models and the problems of employers and bankers not knowing whether the person is going to repay, the nature of the project, and so on. All the things that grad students are getting really good at doing are not there for undergraduates.

What that means is that undergraduates are getting a very out-of-date view of economics. We still teach undergraduates that it's a good assumption to say that people are selfish, entirely selfish, amoral. Students find that odd; they don't think that's true. Or we have models in which markets clear in equilibrium, and students must wonder about that, but they notice that they have a hard time getting a job: that means that supply doesn't equal demand in the labor market. Or perhaps their parents are having a hard time getting a loan: that means that the credit market isn't clearing. So students are not getting something which would help them understand the world.

So what we decided to do is something which people told us wouldn't work. Let's start with a textbook that says it's going to be about stuff we care about. We started with: well, let's understand why some countries in the world are rich, and some are not. The question I asked my mom. Let's ask about planetary boundaries and so on, and then say: what would you have to understand, what analytical tools would you need, in order to answer these questions? So instead of using toy examples like shopping and so on to illustrate our models, we start out with really big societal problems and then build up models to figure out what we can say about that. For example, when we talk about how did Europe get rich, we study technical change. We introduce Schumpeter. And the very first model our students get is a firm choosing a technology to minimize cost: what happens when factor prices change? That's the first model they get, and why did they get it? Because they can see: oh, if we understand that, then we may understand how Europe got rich. Now, there are many other things we've done in this textbook. I think students will say two things about our textbook. The first is: it's not a book. It's online, it's on your phone, it's free: the price is right. Everybody gets more than what they paid for because the price is zero. And the second thing is, because we were digital first, we have the opportunity for doing a lot of very exciting pedagogical things, like interactive features that you can't do in a textbook. So our teaching is much more student centered. And it's popular with students because it addresses real problems, does so in a student-centered way, and has the price right.

Steven: Sam, might you discuss your recent, and also longer-going, research on the ancient origins of inequality?

Sam: Let me start there, Steven, because it is my passion. You may ask: why should we be interested in inequality 10,000 years ago or 5,000 years ago? I think the answer is pretty simple. We have wonderful studies of inequality over the last 200 years, 100 years. Most of our studies of inequality are based on tax data. And taxes, which extended to most of the population, simply didn't exist in most places until 100 years ago or a few hundred years ago. What this means is that the empirical basis for our understanding of inequality is restricted to societies very similar to each other and very similar to today. My interest in ancient inequality is primarily because I want to have subject matter in which we have really major institutional differences and technological differences.

Now, how do you study inequality 5,000 years ago or 10,000 years ago? Well, the archaeological data is based primarily on the typical archaeological remains such as houses and palaces and storerooms and graves. That's about it. What we do is we look at the size of houses, the distribution of different house sizes. Sometimes we have enough data on storage areas so we can see this particular place had a lot of stores and this place didn't. And in many societies where people are buried with their goods with their dead, we can look at inequality in the amount and richness of grave goods. We can also get some inferences about what the past was probably like by studying societies today that are probably similar to the economies that existed 5,000 or 10,000 years ago: hunter-gatherers living in remote areas not under state rule. There are very few of them left, but they've been studied since the 1930s and 1940s. We have some evidence from there. Or small-scale farmers operating with hand tools, without plows or without steel or iron.

I've done both kinds of research with a big team of anthropologists and economists. We collect data from recent hunter-gatherer populations and small-scale farmers. We measure just about everything. We measure how strong their arms were. Among the hunters, we measured how many calories of food that they catch, or that women dig up. In the farming groups, we measured their crop yields. And so we were able to get quite detailed measures of the extent to which these things are held unequally. And then the critical thing is we're able to study the relationship between the father's or mother's wealth and their offspring's wealth, their daughters and sons: that's a key link looking at the intergenerational transmission of wealth, which is key to sustaining wealth inequality.

Now, what have we found out? Well, first thing to know is that our distant ancestors, hunter-gatherers, were not uniformly egalitarian. There are some hunter-gatherers who are strikingly egalitarian, as we know from modern data and also looking at the past. On the whole, I think they were quite egalitarian on material things. But we also have hunter-gatherer societies which had slaves. There's even a hunter-gatherer society that had a standing army. So the idea that hunter-gatherers represent a natural state of equality in the distant past doesn't seem to be the case; there are cases of highly unequal hunter-gatherer societies. But the striking thing about the data is how rare the evidence is. You find some burials 25,000 years ago with jewelry among mammoth hunters, and you think: oh, that's an intergenerational effect; even the sons or daughters of the rich person are there, also decorated in the grave. And you think: well, that's evidence that they had a lot of inequality. But then the first question you ask is: what about the next generation? Why are we not seeing more of these? Was there just one generation that got away with it for a while and then got wiped out? We don't know why. But the big news to me is that prior to 5,000 years ago, inequality was extraordinarily fragile. There are some examples of high levels of inequality, but very few examples of it lasting more than a couple of generations.

Farming began about 11,000 years ago. We don't have high levels of inequality in wealth by our measures until maybe 5,000 years ago. What does that mean? It means that for 6,000 years, we had farming societies which were fairly egalitarian. That's news, because people thought that inequality came with farming. It didn't. Something else happened. Something changed.

Now, if you think about how they sustained their egalitarian societies: people think, well, they hadn't invented inequality yet. No, that's not it. Of course, there are always people who are aggrandizers who are trying to get advantages over other people. I think that's always likely to happen, and occasionally they get away with it, and we have an unequal society. But what explains this long run of fairly equal farming societies is what I would call aggressive egalitarianism: that is, people fought to maintain equality in their society. You don't have to make this up; you can see in some places where the wealth of the wealthy in an early farming society was simply destroyed: houses burned down, things used for grinding grain willfully destroyed. It does look like people were aggressively egalitarian.

A couple of puzzles that I think are really important: with this aggressive egalitarianism, how did it finally happen that inequality came about? Well, we don't know for most parts of the world, but in the Middle East we have pretty good evidence that it was not an institutional change initially that introduced high levels of inequality: it was a change in technology. The shift to growing crops using ox-drawn plows. Up until that point, among the hunter-gatherers and among the farmers, the scarce resource in a society was labor, your own labor. As long as you're in a society based primarily on labor, it's going to be hard to generate a lot of inequality unless some of those laborers become slaves. But setting aside slavery: if it's a labor-based society, inequality seems to be pretty easy to defeat. The ox-drawn plow in the Middle East changed that. If you want to think about it: the ox-drawn plow, that's the robot of the Neolithic: it's eliminating the demand for labor.

I think the answer to the story is basically this: when inequalities became really significant, for example, Gini coefficients rising from around 0.25–0.35 up to 0.55–0.65, getting to modern levels of inequality, a lot of those societies didn't survive. Inequality began to survive when we began to see the creation of things like states: a concentration of political power. And fairly shortly after that, labor itself became a commodity through slavery. So I think the take-home is that wealth inequality is a political phenomenon. Its origins in the Bronze Age had to do with the scarcity and abundance of labor and land. And I still think that's an important part of the story. But in order to sustain the high levels of inequality which we saw beginning in the Bronze Age and the Iron Age and the Roman Empire and so on, up to today: that's a political challenge, and it's sustained politically.

Steven: I did have one final thing I wanted to ask you to talk about, which is your book The Moral Economy. A theme that I perceive throughout your writings has always been the emphasis on the idea that we're not just homo Homo economicus, we're homo ethicus. In other words, our behaviors reflect ethical commitments. And to my eyes, that's an area where economics is still pretty much in its infancy in terms of modeling and thinking about the empirical implications. Could you say a bit about the book and your thinking there?

Sam: Yes. Let me see how to start. When my kids were teenagers, they helped out a lot. I was a single dad, and they helped out a lot around the house. And when they got to be adolescents and wanted more money for buying clothes and so on, I had this ingenious idea. Being an economist, I said: OK, look, I'm going to make a price list for all the stuff that you guys are doing, and that way you can make money, you can buy the clothes you want, and we won't have to argue about the clothes.

Steven: Sounds like the labor theory of value but go ahead.

Sam: Well, my kids thought it was a pretty good idea, and we agreed about the price list. Because they were great, so helpful around the house. And after the price list got posted on the fridge, they stopped doing anything. They had been perfectly willing to help out their poor dad doing housework. But once it had a price on it, they said, forget it. Now, of course, probably the prices were too low or something. But thinking back on that, I think economists often make the same mistake.

It's said to be a prudent way to design public policy to assume that everybody's selfish, and therefore design policies that will appeal to a selfish person to do the right thing. That's the idea. Now, that's not prudent for two reasons.

One is that the incentives and constraints that you can define as a mechanism designer or institution designer are never going to be good enough to solve the problems that we face today. We're never going to have a bunch of incentives and constraints that could allow us to fully address the problem of, say, climate change, or economic justice, or, for that matter, personal security or living in a decent society. The things we care about, we cannot sufficiently incentivize them to make them happen. And by the way, none of the classical economists ever thought, not Adam Smith and none of the others, that you could organize society based on incentives and constraints alone. Economists have taken that over as a view of public policy, and it's mistaken. But the second reason why it's mistaken is not only that the approach will be insufficient: it's that it sometimes backfires. Putting a price on something, as I did with my kids, sometimes actually means the job doesn't get done at all.

Now, when I think about the world and what it takes to make a modern economy work well: it means, for example, the person who is waiting on tables in a restaurant has to somehow want to do a good job. The person doing medical research has to somehow be committed intrinsically to that work. The person providing private security to a building: none of these jobs can be adequately monitored so that you can actually pay people purely based on observable output. Probably 100 years ago, the economy was made up much more of producing things: wheat and steel and things you could measure. But as we move into what is sometimes called the weightless economy, an economy in which so much of what we depend on cannot be measured, what it means is we depend more and more on intrinsic motivation: some kind of positive value, either because we're committed to doing this because we promised somebody, or because we reciprocate a favor our employer has done us, or some other reason rooted in others' interests. So I see it as something we have to take on more of: the fact that people's other-regarding preferences, their regard for other people, and their ethical reasoning and ethical preferences, are an important part of how a modern economy works.

Now, remember: if you go back to, say, the 16th century, avarice was one of the deadly sins. It was called avarice. Fast forward two or three generations, it becomes called self-interest, domesticated, a good idea. How did that happen? Well, it wasn't the idea of the invisible hand that made self-interest acceptable. It was the fear that religious intolerance, zealotry, and so on were tearing society apart. The most lethal century in Europe for warfare was not the 20th century with the two world wars: it was the 17th century, when people died in warfare at astonishing rates as a fraction of the population.

And that was the century in which we began to see people saying: actually, trying to succeed economically is kind of benign compared to the other ways in which people try to get ahead and advance their cause. Now, this is not a reason for going back to self-interest as the motive on which we will try to base our economy. It's impossible. But what it means is that if you take on board the idea that society is based on people's ethical and other-regarding preferences, you also take on board the fact that among those things, the caring about other people and so on, are repugnant values such as racism, homophobia, hatred of others. That's part and parcel of taking account of what we think about other people. So I think economics has developed a pretty good understanding of how a society based on self-interest might work. But what we have not yet done is figure out how a society would work based on people's ethical reasoning and other-regarding preferences, once we include the fact that not all of those are things which we find acceptable.

Steven: The Inequality Podcast is a production of the Stone Center for Research on Wealth Inequality and Mobility at the University of Chicago. It is hosted by Steven Durlauf, along with Damon Jones, Geoff Wodtke, and Ariel Kalil. This episode was recorded, sound engineered, and produced by Eric Geber with support from Gerardo Espinal Franco. Thanks as well to the Center's Executive Director Grace Kolavo for all her support. Please consider liking, subscribing, and sharing this podcast among your friends, and send any questions or feedback to UCStoneCenter@gmail.com. That's all for now. Thanks for joining us.

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