Contra Tanner on Wall Street, Financiers, Inheritance and Egalitarianism

Professor Walter E. Block
Harold E. Wirth Eminent Scholar Endowed Chair and Professor of Economics
Loyola University New Orleans

ABSTRACT:

According to Tanner (2016), financial, stock exchange and other Wall Street services are highly problematic in the free society, and egalitarianism is a desiderata. The present paper takes the opposite point of view, and maintains that inequality, and financial and Wall Street services are perfectly compatible with the free enterprise philosophy.

I. INTRODUCTION:

Tanner (2016) opposes what he considers the financial and stock exchange chicaneries that occur on Wall Street and favors a more egalitarian economy. The present paper diverges from this author on both counts. In section II, we consider his views on Wall Street and finance. Section III is devoted to offering a different perspective than his on inheritance and income and wealth inequality. We conclude in section IV.
II. WALL STREET AND FINANCE

According to Tanner (2016) the following is the case: “… relatively few rich people work on Wall Street or in finance. Most rich people got that way by providing us with goods and services that improve our lives.”

The clear implication here is that unlike those who “provid(e) … us with goods and services that improve our lives” those who “work on Wall Street or in finance” do not “provid(e) … us with goods and services that improve our lives.” Now this is more than passing curious, stemming from the word processor of an analyst from the Cato Institute, which “is a public policy research organization — a think tank — dedicated to the principles of individual liberty, limited government, free markets…”¹

Presumably this organization is also dedicated to sound economics. But, according to the statement mentioned above, those who “work on Wall Street or in finance” are doing something other than “providing us with goods and services that improve our lives.” What then, are they doing? What is the alternative to “providing us with goods and services that improve our lives?” What else could this be other than exploiting the rest of us. These people are paid handsomely. And, yet, instead of providing the remainder of the population with something of value, in return, they are failing to do so. What else can this mean other than they are, somehow, cheating us.

¹ https://www.cato.org/about
Although this is a false contention, it comes with a certain historical pedigree. The physiocrats maintained that only farmers “provid(e) … us with goods and services that improve our lives.” All others, presumably, exploited us. But then a greater appreciation of economics took hold, and manufactured goods, too, were counted as beneficial. Hooray, now, for both farmers and manufacturers. However, services still had a bandit-like existence at this point in the development of the dismal science. It was not until much more recently that the providers of services were added to the mix, and then we could count on all three to contribute to economic wealth: farms, factories, and those who delivered services to us. But not all services are included. At least according to Tanner, those services emanating from “Wall Street or in finance” still do not fit this bill.

Well, it is time, it is past time, that they were included too. We live in an age of inclusiveness, do we not? We would not want to discriminate, horrors!, against such people. But, before we add them to this list of virtues, let us ask what is it, exactly, that they do add to our economic welfare?

It is simple: they facilitate trade. Commercial interaction, too, makes a valuable contribution to our economy. If oranges are selling for $1 in Florida, and $10 in Montana, then an intermediary, a middleman, a huckster, an entrepreneur, will see to it that they are transferred from the former, where they are in relative abundance, to the latter, where they are in short supply. They will of course profit, but in so doing will increase the value of these items, without growing them, without watering them, without cleaning them, without initially planting the trees that bear this fruit. But the same exact analysis applies to stocks. Wall Street, too, enhances the values of stocks, by facilitating their transfer from

---

2 “From the standpoint of economic theory, the famous physiocratic tenet that only land is productive must be considered bizarre and absurd.” Rothbard (2011)
those who value them less (bears) to those who value them more (bulls). Nor must we ignore “finance.” People in this industry, too, operate in a similar manner, only instead of increasing the value of oranges, or stocks in corporations, they do so for savers and investors. The former have more money than they know what to do with at present, and the latter are in dire need of same. Switching from one to the other increases the value of both, even though there are the same number of dollars before and after the transaction. Tanner does not mention real estate brokers, but the same analysis applies to them: they facilitate interaction between buyers and sellers of houses to the benefit of both.

But perhaps I am being unfair to this author. The material from him quoted above appeared, only, in the “executive summary” of his essay. What are we to say about the following, then, which appeared in the main body of this publication (Tanner, 2016, p. 8):

…the public increasingly believes that financial traders are up to no good. After all, how many people really understand what derivative trading and other financial activities are and how they benefit the overall economy? Movies such as The Big Short regularly portray Wall Street operators as shady. And there certainly has been more than a little outright criminal activity in the finance industry. Recall Bernie Madoff. But do the stereotypes hold? Are the wealthy really either trust fund babies who inherited their money or shady Wall Street traders?

This author then goes on to “defend” those “shady” people from these charges. But, he does so on the ground that they and their activities are exceedingly difficult to follow. In the event, he seems unconcerned to explain the benefits of “derivative trading and other financial activities” and instead changes the subject to inheritance and egalitarianism which

3 With “friends” like Tanner, one may be forgiven for wondering if they really need enemies.
is not exactly responsive. Later on (p. 8) Tanner returns to his “defense” of them, stating “Nor are the rich primarily involved in stock trading or other financial services.” But the clear implication here is that if the wealthy were so involved, then they would be “shady.” In contradistinction to such underhanded ways of earning an income, “The ultra-wealthy are somewhat more likely to be involved in finance, but not much more. Roughly 22 percent of those earning more than $30 million are involved in “finance, banking, and investments. Overall, the rich get rich because they work for it. And they work hard.” Yes, most of the uber-rich “work hard,” are productive salt of the earth people. But this would not seem to apply to that (happily) small percentage of them who, ugh, are “involved in finance.” Again, this is not a defense of them. This is not even damning them with faint praise. This is an out and out condemnation of them. This is a support of the malign contention that “that financial traders are up to no good,” which is precisely the view of “the public increasingly believes,” thanks precisely to authors of this sort.\footnote{As a counter-weight to these unjustified smears, see Fabozzi and Kothari, 2007; Howden, 2016; Leathers and Raines, 2008; MacKenzie, 2016; Murphy, 2009; Stringham, 2014, 2015; Van den Hauwe, 2008.}

\footnote{According to Rothbard (1995A, p. 426): “Even in the days before perestroika, socialism was never a monolith. Within the Communist countries, the spectrum of socialism ranged from the quasi-market, quasi-syndicalist system of Yugoslavia to the centralized totalitarianism of neighboring Albania. One time I asked Professor von Mises, the great expert on the economics of socialism, at what point on this spectrum of statism would he designate a country as ‘socialist’ or not. At that time, I wasn’t sure that any definite criterion existed to make that sort of clear-cut judgment. And so I was pleasantly surprised at the clarity and decisiveness of Mises's answer. ‘A stock market,’ he answered promptly. ‘A stock market is crucial to the existence of capitalism and private property. For it means that there is a functioning market in the exchange of private titles to the means of production. There can be no genuine private ownership of capital without a stock market: there can be no true socialism if such a market is allowed to exist.’” This is such an important point, and so counter to Tanner’s rejection of the stock market on Wall Street, that I risk a bit of repetitiveness (if Rothbard could quote this two different times in his writings, so can I): "One time, during Mises's seminar at New York University, I asked him whether, considering the broad spectrum of economies from a purely free market economy to pure totalitarianism, he could single out one criterion according to which he could say that an economy was essentially “socialist” or whether it was market economy. Somewhat to my surprise he replied readily: ‘Yes, the key is whether the economy has a full scale stock market.’ That is, if the economy has a full scale in titles to land and capital goods. In short: is the allocation of capital basically determined by government or by private owners?” Rothbard (1991)}
III. INHERITANCE AND EQUALITY

Tanner cites Sussman et al (2014) to the effect that there is “relative disdain’ for those who inherit their wealth…” Tanner continues: "Inherited wealth, after all, is pretty much the quintessential definition of ‘unearned’ reward. The parents may have earned their estates through hard work, but the heirs did nothing beyond an accident of birth—pure, random luck—to earn an inheritance.”

Does Tanner defend the institution of inheritance, part and parcel of the free enterprise system? Not a bit of it. Instead, he is intent on demonstrating, in similar manner to the above, that “the evidence suggests that inheritance plays a very small role in how people become wealthy. Surveys vary, but it can be said with a fair degree of accuracy that the overwhelming majority of the rich did not inherit their wealth. For example, a study of billionaires around the world finds that fewer than 3 in 10 American billionaires got to that position by inheriting their wealth (emphasis added by present author).”

But this will not do. It constitutes a retreat from defense of our free institutions to merely claim that inheritance plays so small a role in our economy. It concedes to the critic of the market that there is something inherently wrong with this practice; that its only saving grace is that it comprises so insignificant a percentage of total wealth.

So, let us rehearse the reasons for robustly supporting the institution of inheritance. It is not so much the right of the recipient to attain this largesse. There is something to be said,

---

6 For other critics of inheritance, see Batchelder, 2009-2010; Buchanan, 1983; Matthews, 2014; Prabhakar,
after all, for the claim that such a person is undeserving. What did he do to merit the money he receives, many people might ask.\textsuperscript{7}

No, the more powerful case in favor of inheritance, and thus against taxing it, is from the perspective of donor, not the recipient. The former has worked all his days to make the lives of the latter a richer, more wealthy one. To not allow him to do so, or to attenuate his efforts in this regard, is to attack \textit{him}; to undermine \textit{his} rights to make a present to his heirs of his own hard-earned wealth. It is in effect to take it away from him; to prevent him from spending it as he wishes.

Then, too, there is the pragmatic consideration. To the extent estates are taxed, their value will be reduced, and people will take wasteful\textsuperscript{8} steps to preserve them from the avariciousness of the tax authorities. How will they do so? By making greater gifts during their lives, for example, bigger birthday presents for their children, than would otherwise have taken place. If the taxman attempts to close this “loophole” further misallocations of resources will occur. In the extreme, the government will have to address the fact that many gifts are non-pecuniary, such as reading stories to children, or giving them music lessons. Will the IRS then poke its ugly nose into such goings on? It will have to do so, if the “logic” of the case against inheritance is to be upheld.

\textsuperscript{7} The answer might well be that he deserves it because the gift he receives is made on a voluntary basis. Did he “deserve” the beauty or talent or intelligence he also inherited from his parents? The question makes little sense. All we can see from the libertarian point of view is that if anyone tries to take any of these things away from him by force, any of them, they would be engaged in a rights violation.

\textsuperscript{8} Wasteful only from the perspective of the free enterprise system. From the point of view of a tax regime in which estates are taxed, attempts to avoid them are hardly wasteful.
And what, pray tell, are this author’s views on egalitarianism? Not too savory. He starts out, however, on the right foot, with a critique of Piketty (2014), the poster boy for the case that inequality has gotten out of hand. But, as per usual, Tanner does not maintain that even if equality has been reduced of late, it makes no never mind to the free society. Instead, he is intent on demonstrating the inequality has not recently surged. Henry Poor was once asked to prognosticate the future course of stock prices. Came the very proper answer: “They will fluctuate.” A similar situation applies here. In future, the level of inequality of wealth or income will also “fluctuate.” Sometimes the Gini coefficient will rise, and at other times it will fall. Surely, a more radical response to this attack on the market is that the level of equality matters not one whit, provided, of course, it emanates from the free operation of laissez-faire capitalism, not the crony variety thereof.

Tanner, however, is not having any of this. Instead, he states: “If one takes into account taxes and social welfare programs, the gap between rich and poor shrinks significantly. Inequality does not disappear after making these adjustments, but it may not be as big a problem or be growing as rapidly as is sometimes portrayed.”

But this will not do. It constitutes mere apologetics for the present mixed economy redistributivist system. Inequality is not a “problem” at all, big or small. The very unwelcome implication here is that if social welfare programs and taxes on the rich were increased, this “problem” would be decreased.¹⁰

---

The usual neo-classical justification for taking money from rich Peter and giving it to poor Paul is the diminishing marginal utility of wealth. The first several thousand dollars is the difference between life and death; the second, between comfort and penury. But, after a while, when income rises to a great enough extent, the opulent light their cigars with $100 dollar bills. To put this in other terms, if we take $100 from a Bill Gates and give it to a poor man, the latter will place far more value, or utility, on it than will the former. Thus, total utility between the two of them will rise from this forced transfer. There are problems here, albeit not in the philosophy of Tanner and other advocates of egalitarianism. First of all, who says the two are on the same downwardly sloping utility curve of money? If the rich man is on a sufficiently higher one, total utility of the two of them can actually decrease. Second, merely drawing up such a function implies invalid cardinal utility, replete with utils and all of that. No, the only valid concept of utility is ordinal, preferring this and setting that aside. But such a system cannot generate any such curves or functions. Third, these exercises in futility involve interpersonal comparisons of utility, surely a problem even for neoclassical economists, let alone Austrians. Fourth, perhaps the rich man will resent the fact that his hard earned money is being taken from him at the point of a gun.

IV. CONCLUSION

Tanner works for the Cato Institute. This is supposed to be a free market or libertarian think tank. It is the very publisher of Tanner (2016). In the event, supporters of capitalism and free enterprise cannot be too satisfied with this publication, at least not if it is interpreted as a support for our free institutions. Attacks on the stock market, on finance, on inheritance, on inequality, are not part and parcel of the defense of the market order.
REFERENCES:


Murphy, David. 2009. Unraveling the Credit Crunch, CRC Press.


(2019) J. JURIS. 37

