



Income Inequality Isn't the Issue

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Liberal criticism of the Republican tax plan abounds, but much of it focuses on income inequality. Income equality, according to those on the left, is a simple matter of justice, and the Republicans do the country a great disservice by widening the divide between the rich and the poor.

It's a misplaced concern. Rather than worrying about how wealthy the wealthy are, and if they will get a bigger tax break than the middle class, true advocates of justice should focus on how poor the poor are. Ninety years ago the noted Austrian economist Ludwig von Mises demonstrated why market capitalism is the only economic system that can create wealth for the masses in his book "Liberalism in the Classical Tradition."

"The fact that product today is as great as it is, is not a natural or technological phenomenon independent of all social conditions, but entirely the result of our social institutions," he wrote. "Only because inequality of wealth is possible in our social order, only because it stimulates everyone to produce as much as he can and at the lowest cost, does mankind today have at its disposal the total annual wealth now available for consumption. Were this incentive to be destroyed, productivity would be so greatly reduced that the portion that an equal distribution would allot to each individual would be far less than what even the poorest receives today."

Let's think about how one gets rich in a market economy. Since market capitalism is a system of voluntary exchange, the only way to get someone to buy your service or product is to make them better off. If you hire a plumber for \$125 to fix your sink, then you must have felt you were better off with a functioning sink than the \$125.

Neither individuals nor corporations can force you to buy something. Henry Ford wanted people to buy a car named after his son, Edsel. People did not want to pay enough to cover the cost of production and so despite Mr. Ford's hopes, the car was an economic failure.

Income inequality is a key to a market system because it is the reward for pleasing others. Those who produce something of great value to others will be rewarded and those that are not capable of producing things of value will have less. This creates an incentive for people to take on the risk of innovation, and it is innovation that creates wealth for all of us.

Worrying about how much wealth the richest one percent have is what Mises called the politics of envy. We should be concerned about how wealthy are the poor, and we know that the poor are wealthiest in a market capitalist system, and that system requires rewarding those who are successful in providing what the rest of us need and desire.

The data clearly demonstrate that market capitalism produces the most wealth for the poor. The Cato Institute and Fraser Institute co-publish an annual Economic Freedom of the World Index. They find that the poorest 10 percent in countries that are in the top 25 percent of their economic freedom index, a measure of how closely the economy conforms to free market capitalism, are 10 times wealthier than the poor in countries in the bottom 25 percent.

We don't really need such data, however. Just ask yourself, in which country would you rather be the poorest person. You wouldn't pick North Korea, Cuba or Venezuela. You'd pick Canada, the U.S. or Ireland. Or think about whether you would rather be King of England in 1263 or yourself.

While income data may measure large differentials in income, this grossly overstate inequality. Bill Gates has net worth of \$90 billion, probably 90,000 times greater than yours. But really look at the differences between your lifestyle and that of Bill Gates. You can probably fly to California and so can Bill Gates. You may sit in the middle seat and he may have his own jet, but the differential is small. You have a house or apartment and he has a larger one. You have a car and he has a nicer one. But realistically your life is much closer to his than it is to someone living in Somalia.

The only way the majority of us can be so wealthy in today's capitalist system is because we have income inequality. We should really be concerned about how to make the poor wealthy, and that is by making them more productive through education and training rather than impeding innovation and reducing incentives to be productive by assaulting those with greater incomes than ourselves.