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## Diminishing Returns

July 30, 2009, 4:11 pm

Posted by [Matthew Boudway](#)

In [his TRB column](#) in the *New Republic*, Jonathan Chait discusses Will Wilkinson's [Cato Institute paper](#) on income inequality. Wilkinson thinks it shouldn't bother us so much. Chait disagrees.

Wilkinson's most interesting argument holds that material inequality between the rich and the non-rich lags behind the wealth and income gaps. For one thing, he argues that the luxury goods rich people own offer only marginal improvement over the cheap stuff that poor people own. For instance, he compares the luxurious Sub-Zero PRO 48 refrigerator to a standard IKEA fridge. Despite the vast difference in cost (\$11,000 vs. \$350), he writes, "The lived difference ... is rather smaller than that between having fresh meat and milk and having none." He also notes that

rich people have used some of their increased income merely bidding up the price of positional goods, like fancy real estate or elite college tuition, forcing them to buy the same stuff at higher prices. Wilkinson thinks this goes to show that there's "an often narrowing range of experience" between being rich and being poor, so inequality isn't that big a deal.

In fact, Wilkinson is inadvertently bolstering the strongest liberal argument *against* inequality: it's inefficient. In case you're unfamiliar with this argument—as Wilkinson seems to be; he doesn't rebut or even mention it anywhere in his paper—it runs like this: Taking money from the rich and giving it to the poor helps the latter more than it hurts the former (at least until you create serious work-incentive effects, a point which most liberals think we're not close to). Wilkinson is saying the rich are getting little (in the case of luxury goods like refrigerators) or zero (in the case of real estate and higher tuition) actual benefit from their rising incomes. So why not take some of that income away and use it to buy extremely useful but currently unaffordable things for the non-rich, like, oh, basic medical care?

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## Comments

1. Posted by [unagidon](#)  
on July 30th, 2009 at 4:34 pm

Karl Marx distinguished between "use value" and "exchange value" in commodities. But what I don't remember talking about is that sometimes, at the level of consumption, most of the use value IS the exchange value.

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