

How does inequality matter?

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FREE EXCHANGE alumnus Will Wilkinson has a new Cato [Policy Analysis](#) on the subject of economic inequality, and what it does and does not represent. The piece is largely targeted at those who target inequality as bad by its very nature and without understand the underlying mechanisms. Here's a bit of the executive summary:

There is little evidence that high levels of income inequality lead down a slippery slope to the destruction of democracy and rule by the rich. The unequal political voice of the poor can be addressed only through policies that actually work to fight poverty and improve education. Income inequality is a dangerous distraction from the real problems: poverty, lack of economic opportunity, and systemic injustice.

Mr Wilkinson makes some good points. He's right, for instance, in noting that inequality of human welfare in America is not at all like it was decades ago; for all their additional wealth, the rich live much the same existence as the poor—replete with refrigerated food, moving picture entertainment, and mobile phone communications. He's correct that excessive concern with inequality-as-measured-by-national statistics leads to poor judgments on matters like immigration, which is one of the great mechanisms for reducing inequality available.

But there are shortcomings in the piece. A number of the measures Mr Wilkinson uses to show that recent growth in inequality has not been particularly bad reveal less than that. He cites statistics on equality of happiness from Betsey Stevenson and Justin Wolfers and acknowledges that happiness inequality has grown since the 1990s but doesn't seem to reflect on whether that might be a looming issue. He cites recent work from Christian Broda and John Romalis on diverging inflation rates across income levels, which suggests that recent Chinese economic growth, which resulted in heavy imports of cheap goods, was very good for low-income consumers. But as I [argued](#) last spring, China's role in the economy is likely shifting from deflationary to inflationary, which may begin to undo these gains; rising prices for energy and food, among other things, will disproportionately affect lower income households.

Mr Wilkinson seems to too easily brush off concerns about economic immobility, which is increasing in America. A recent Pew [study](#) on the issue revealed, for instance, that a child from the lowest income quintile who gets a college degree is less likely to wind up in the highest income quintile than a child from the highest income quintile who does *not* get a degree. Sometimes differences in income are everything.

I'm also not satisfied by Mr Wilkinson's treatment of the political value of wealth, which he deals with in a section called "The Inequality Road to Serfdom". He cites the significant Democratic electoral victory of 2008 as a strong point against the idea that money can protect itself through political power. This seems rather glib. Democrats benefitted mightily from the collapse of the economy, which was itself fueled by the excesses of the housing bubble and structured finance boom, enabled by legislators—of both parties—bought and paid for by Wall Street interests. Mr Wilkinson insists that redistributive policies in America fail because they are not popular, but he ignores the legislative bottleneck of the Senate, where members representing barely a third of the population can effectively block legislation.

Inequality, in and of itself, is no bad thing, and inequality in America has co-existed right alongside significant improvements in welfare across the income spectrum—and contributed directly to them, in many cases. Redistribution for its own sake is bad policy, and as Mr Wilkinson notes, it's often bad policy pursued to cover up for still more bad policy elsewhere. But America's society is a very unequal one, by developed nation standards, and it's not always clear that that inequality is justified or advantageous. And any good student of human behaviour can tell you that wealth will seek to protect wealth, and will often succeed.