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Thinking clearly about inequality

July 27th, 2009 by Daniel Waxman

Conventional wisdom has it that inequality between the rich and the poor has grown substantially in recent years, and that this is a trend which should concern all right-thinking people. A timely new report by Will Wilkinson of the Cato Institute, aptly called [Thinking Clearly About Economic Inequality](#), questions both of these assumptions.

Although incomes appear to have become more unequal in the past decades, this is not what should matter - what does matter is inequality in consumption. If we are interested in someone's overall well-being, we should be concerned more with the quantity and quality of the bundle of goods and services that they are able to consume rather than their bare income.

Wilkinson cites much recent literature on the topic showing that once consumption is taken into account the purported rise in inequality disappears, or is even reversed altogether. Ironically, it seems as though the forces which are often blamed for the rise in inequality - the globalisation and "Walmartisation" of the economy - actually play a crucial role in ameliorating it, for the simple reason that they serve to disproportionately lower the prices of goods like food and clothing which make up a larger proportion of the budgets of the poor compared with other income groups.

Why should we care about inequality at all? Wilkinson firmly rejects the point of view that "inequality" is a synonym for "injustice", on broadly Hayekian grounds; the "distribution of income" is not really a distribution in the sense of something which is centrally distributed, but is instead the result of the voluntary choices of individuals taking place within the context of a vast network of exchange. He points out, quite rightly, that it is simply not enough to show that inequality is rising and conclude from it that some social problem exists - "an additional argument is required to show that there is some kind of wrongdoing or injustice involved."

Perhaps most interesting is the section rebutting what Wilkinson calls the "Inequality Road to Serfdom" argument. The contours of the argument, so named because it is the contemporary leftist's version of [The Road to Serfdom](#), are familiar: economic inequalities, if allowed to run rampant, will inevitably lead to political inequalities, the death of democracy, and the entrenched tyranny of the rich; or so the argument goes, at any rate. But does it stand up? Beside the fact that this seems to be a better argument for limiting the scope of political power than for reducing economic inequality, Wilkinson points out that it doesn't even hold up empirically - as the popularity of Obama among high income Americans, despite his promises to "spread the wealth", shows.

The report lives up to its name, and is highly recommended for anyone who wants to think clearly about economic inequality.

Tags: [Cato Institute](#), [Daniel Waxman](#), [inequality](#), [relative poverty](#)

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2 Responses to “Thinking clearly about inequality”

1. [Richard Wellings](#) Says:
[July 27th, 2009 at 11:47 am](#)

There are some excellent articles on the issue of economic inequality in the September 2007 edition of *Economic Affairs*:

<http://www.iea.org.uk/record.jsp?type=economicAffairs&ID=333>

2. [Kris](#) Says:
[July 27th, 2009 at 4:24 pm](#)

A similar picture is obtained for the UK. Over the 1980s, incomes (after housing costs) of the lowest income decile fell. However, at the same time, household spending in this decile rose. Annual income might have been an acceptable measure of living standards in former decades, when employment histories were relatively stable. In a modern economy, they are an increasingly poor measure.

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