The myth of inequality myths

By Nick Galasso

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A waiter clears a table at Lafayette Coney Island restaurant in Detroit, Michigan, February 24, 2013. Photo: J.D. Pooley / Getty Images

Serious critics of inequality are not using the arguments that "The Right" would have you think.

Apparently those warning that inequality is both out of control and corrosive to our society have been championing erroneous notions. Michael Tanner of the Cato Institute points out these *myths* in a blog he wrote last week entitled, "Inequality Myths."

As I read it, I kept thinking, "*Who's promoting these so-called myths*?" The arguments he debunks are not apart of any conversations I've heard among scholars or serious critics of inequality, (which should, by the way, be distinguished from "The Left" as Tanner uses the term).

Below, I point out the misleading arguments within three of Tanner's purported inequality myths:

Who's painting that picture? For instance, in her book on the world's uber-rich, Chrystia Freeland describes today's *Plutocrats* as the "working rich," most of whom made their fortunes instead of inheriting them. Thomas Piketty, the left's new darling, and his frequent collaborator Emmanuel Saez, go to pains to show that the wealth of America's 1 percent comes significantly from earned income, compared to the 1 percent of the Gilded Age.

Critics of extreme inequality are not saying the US looks like a Dickens novel. Rather, people are worried that such a bleak future *could* emerge if we don't take action now. Countries with high inequality suffer from low intergenerational mobility. If poor kids have little chances to escape poverty, while rich kids replace their parents' positions, then those social inequities may become entrenched.

I'm not aware of any serious critic of inequality that claims this. As Tanner says, history is rife with examples of gross inequalities in many social dimensions. But it's an irrelevant claim. The debate isn't about whether inequality is higher than any other time in US history. Rather, it's about whether people want an inclusive economy that grows the middle-class, or an unbalanced one that works for the few.

Tanner says the argument for rising inequality is misleading because the data only considers market income (incomes before taxes and redistribution). If, on the other hand, taxes and transfers are included, he says inequality actually decreased between 2000 and 2010.

This may be true, but not for the reasons we'd hope. The richest Americans, whose fortunes are more closely tied to investments and financial markets, took a whooping from the 2008 crisis. Further, the incomes of those at the bottom rose because of focused government assistance. (Note: their incomes rose from government transfers, *not* because of higher wages).

Tanner also leaves out two other important pieces to this story.

First, nearly *all* the recovery gains since 2010 went to the richest Americans (the same who took a whooping after the 2008 crash). David Cay Johnston even argues that since the recovery began, the bottom 90 percent of Americans are actually *poorer*. So, if inequality came down during the 2000s (because the rich took a beating in the market, while government's social protection function actually worked for the poor), it's certainly become worse in the 2010s.

Second, Tanner fails to acknowledge the bigger picture: No matter how you measure it, economic inequality has grown significantly worse over the past thirty years. The changes in the distribution, largely attributed to the financial crisis, are an aberration of a long-standing trend toward growing economic inequality.

It's an elegant mantra, but certainly not one made by any serious inequality critic. For sure, the rich don't set out to make poor people poorer. But, to say there's no relationship between poverty and inequality flies in the face of decades worth of evidence to the contrary.

Development economists have long demonstrated the interconnectedness of inequality, poverty reduction, and economic growth. The long of the short of it, the same amount of growth in two different countries will reduce poverty at different rates *depending on the level of inequality*. Countries that can curb inequality along with growth will reduce poverty magnitudes faster than those permitting inequality to remain high.

There's a good debate to have about inequality – and I certainly would welcome an advocate FOR inequality. But why is Tanner debating with straw men when there are real people to engage?