Marotta on Money

Wealth inequality in America, Part 2

By: David John Marotta - October 24, 2013

In Part 1, we discussed the shortcomings of Michael Norton and Dan Ariely's study, featured in the popular video "Wealth Inequality in America." The filmmakers try to shock you with the distribution of wealth in America and then slyly suggest that most people would favor redistribution.

But redistribution on the scale Norton and Ariely suggest primarily curtails economic growth rather than elevating the impoverished.

The survey is about wealth income statistics and preferences for random wealth assignment. But people are not statistics, and wealth is not a game of random assignment.

Let's apply their socialist ideas to a sample of two real people.

The richest American is Bill Gates with a net worth of $72 billion. We don't know the name of the poorest person, but we can safely assume that individual has a net worth of zero. According to the 2000 census, 15 percent of U.S. households, or about 46 million people, have a net worth of zero.

In this sample of two, there is a total net worth of $72 billion, and 50 percent of the population has 100 percent of the wealth. Even taking 30 percent of the whole U.S. population, the richest 15 percent and the poorest 15 percent, or about 93 million people, 100 percent of the wealth is still owned by 50 percent of the population.

Redistribution across these simplified populations would mean seizing half of the wealth of the richest and giving it to the poorest. But is it fair to take $36 billion, half of Gates' net worth, and give it to the poorest person? Or even just $25.5 billion (35.5 percent), as the so-called ideal distribution from Norton and Ariely's study would suggest?

Once the top 1 percent has a name and a value, the chilling nature of forced redistribution makes the idea seem less good-natured. Our greed may say, "What's $1 billion from such a wealthy man?" But by redistributing some of Gates' money to those with less, you may be asking him to sell his house or even ownership in the company he founded.

And though Gates may be an easy target, think about yourself. If you have any wealth to your name, your net worth is greater than the total net worth held by 15 percent of the population. Even your children's pocket change is more than their net worth.

It is charitable when you donate money freely and willingly to the less fortunate. But there is nothing commendable in forced redistribution. If someone seized half of your net worth for redistribution to the

15 percent, you wouldn't find the thievery kind or altruistic. There is nothing admirable in being charitable with someone else's resources.

There will always be people with a net worth of zero. As we've often heard it said, "Poor people are poor because they are poor." The penniless may have a wide variety of problems contributing to their poverty, but a lack of capital is surely at the root. The poor don't have savings. If they did, they wouldn't be poor.

Monetary habits, resources and mindset determine net worth. Unequal outcomes just lead to a new set of unequal opportunities. Asset inequality will always exist. An equal distribution of assets can only be maintained with constant forced redistribution. Blaming the 85 percent with 100 percent of the wealth for the poverty of the remaining 15 percent is unreasonable. The two are unrelated.

There will always be people who spend every dime they control. Forced redistribution will only maintain wealth equality until the spenders spend and the savers save. Money redistributed through welfare or held in Social Security is overlooked when estimating the distribution of wealth in Norton and Ariely's figures. No amount of redistribution using methods like these can ever improve the statistics.

Poverty is calculated on income and household size. Most welfare benefits are calculated on even more factors - total assets, number and type of dependents, criminal records, gender - which muddies the issue of who exactly are "those in need" or "the poor."

No measurement of poverty reveals the same group of people. In 2000, 25.2 percent of those who filed a tax return owed no tax liability, 11.3 percent of Americans were at or below the poverty line, 15 percent had a net worth of zero, 14 percent were using the food stamp program and 4 percent were unemployed.

As these examples show, neither net worth nor income measurements can guarantee that someone will need monetary assistance.

In fact, there is something much more nebulous that makes some people savers and other people seemingly incapable of saving.

Michael D. Tanner and Charles Hugh of the Cato Institute recently released a study on the trade-off between work and welfare. They said, "The current welfare system provides such a high level of benefits that it acts as a disincentive for work. Welfare currently pays more than a minimum-wage job in 35 states, even after accounting for the Earned Income Tax Credit, and in 13 states it pays more than $15 per hour."

Tanner and Hugh report that the average annual welfare benefits in Virginia are $30,547 per year tax free. With the poor receiving more in welfare benefits than the salary of most people's first full-time jobs, it may be difficult to understand why they can't pull themselves out of poverty.

Part 3 of this series will examine what holds the poor back and how we could help. Although "Wealth Inequality in America" hides this human part of the picture from you, aiding the poor to build real

wealth can be accomplished without capping the wealth creation of society as a whole through forced redistribution.