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Obama's Misguided Inequality Message

He'll probably spend his State of the Union talking inequality — a bad idea, and he'll get it wrong.

In a little less than two weeks, President Obama will deliver his fifth State of the Union address, and early reports suggest it will focus on income inequality.

It is always possible that the president will have something interesting to say on the issue — especially since inequality has increased substantially during his presidency. In fact, according to a study by Emmanuel Saez of UC Berkeley and Thomas Piketty of the Paris School of Economics, the top 1 percent of earners have captured more of the income gains under President Obama than they did under President Bush, meaning income inequality has grown faster under Obama.

But, seriously, one has to ask, why, aside from envy, is income inequality an issue at all?

Some might suggest that inequality has something to do with poverty. Certainly, too many Americans still live in poverty (despite nearly \$1 trillion per year in government spending on anti-poverty programs). But there is no evidence that anyone is poor simply because someone else is rich.

In fact, if we were to double everyone's income tomorrow, millions of Americans would be lifted out of poverty. Yet inequality would actually increase. Would this be a bad thing? The flip side of the equation is equally true: During the nadir of the recession, declining stock-market returns resulted in a 39 percent *decline* in the number of American millionaires. But it's hard to find anyone who would suggest that somehow this made the poor better off.

Nor will the president's likely solutions address either inequality or poverty. For example, he will reportedly push for an increase in the minimum wage. But research by Joseph Sabia of San Diego State University and Richard Burkhauser of Columbia found that if the federal minimum wage were increased to \$9.50 per hour, only 11.3 percent of workers who will gain live in poor households. At the same time, such an increase would eliminate many entry-level jobs that might start many other poor Americans on the road out of poverty.

Similarly, Obama's expected call for extending unemployment benefits would serve chiefly to slow workers' reentry into jobs, modestly increasing unemployment. Whatever the merits of such a proposal, it's hardly a solution to inequality.

Some might also argue that inequality is bad if it has resulted from some fundamental economic unfairness. But most wealthy Americans earned their wealth through talent and hard work. Roughly 80 percent of millionaires in America are the first generation of their family to be worth

that much — they didn't inherit their money. And few fit the stereotype of high-flying Wall Street financiers: Of the top 1 percent of American earners, the largest single category, roughly a third, consists of entrepreneurs or managers of non-financial businesses. The second-largest group, 16 percent, are doctors or other medical professionals. Just under 7 percent are scientists and engineers. These are people who earned their money by providing the rest of us with goods and services that we desire. In effect, their desire to rise above the rest — to contribute to inequality, that is — has helped make our lives better.

Some Americans do indeed use their connections to extract benefits for themselves at the expense of others. But the Obama administration seems curiously indifferent to this activity, a form of “rent seeking.” Indeed, the administration is now preparing a massive bailout of the insurance industry as part of Obamacare. The Affordable Care Act contains a \$25 billion reinsurance fund designed to protect insurers from losses due to adverse selection: Everyone who holds an insurance policy will help pick up the tab for 78 percent of claim costs from \$45,000 to \$250,000 per insured individual. It was already well known that over the next ten years Obamacare would direct more than \$1 trillion of taxpayer funds to insurance companies through subsidies for their products, but the bailout is further proof that Obamacare is one of history's great examples of crony capitalism. (For even more evidence of how the federal government enables rent-seeking inequality, consider that five of the ten wealthiest counties in this country are in suburban Washington, D.C.)

The fact that some of the rich and powerful use government to enhance their wealth and power is, of course, an argument for less government, not more.

The American people seem to understand this. Polls do show that Americans are concerned about the gap between rich and poor but also that efforts to bring about more equality are toward the bottom of issues that are important to them. For example, according to a May 2013 Pew poll, just 17 percent of U.S. voters thought that addressing inequality should be the government's top priority, far fewer than those who thought it should be job creation (41 percent) or dealing with the national debt (28 percent). Interestingly, while just under half of voters said that inequality is a “very big problem,” that's a lower level of concern than exists in other major developed countries, such as the U.K. (50 percent), Germany (51 percent), France (65 percent), and Spain (75 percent).

The president's focus on inequality, then, could serve to rev up the Democratic base but may not be a successful political strategy overall.

Ultimately, Americans should seek not a more equal society but a more prosperous one. Entrepreneurial capitalism has lifted more people out of poverty, and improved the lives of more people, than any other force in history. Unfortunately, we're not likely to hear that from President Obama a week from Tuesday.

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