

NATIONAL REVIEW

The Dangers of America's Obsession with Inequality

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If in our rush to level the playing field we limit economic freedom, we could end up with a society that is more equal but less prosperous. Yippee! Last week's sell off on Wall Street wiped out more than \$3 trillion in wealth. Overnight, economic equality increased. True, you and I aren't any better off — in fact, some of those losses came out of our 401(k)s and pension plans — but the important thing is that the biggest losers were evil rich people. Warren Buffet lost more than \$5 billion, Jeff Bezos more than \$3 billion. All together, the world's 500 wealthiest people lost more than \$180 billion. Aren't you happy?

Of course not. But doesn't the mindset increasingly heard on the progressive left and the populist right dictate that you should be? We have become obsessed with economic equality at the expense of economic growth. Inequality is said to be the transcendent issue of our time. Yet a society that is rich and unequal still beats one that is poor and equal any day of the week.

It is inarguably true that modern free-market capitalism leads to inequality. It is equally true that it makes all of us richer. By most measures, most Americans were poor at the start of the last century. Indeed, if we use a definition corresponding to today's poverty measures, 60–80 percent of the U.S. population was poor in 1900. Today just 23 percent of Americans are poor, and even they enjoy a standard of living that would be envied by the rich of a century ago.

Crucially, much of the economic progress responsible for that happy state of affairs came long before the Great Society and the advent of the mammoth welfare state we have today. “As a matter of empirical fact,” George Mason economist Tyler Cowen notes, “it is economic growth that lifts most people out of poverty, not transfer payments.” Above and beyond its ability to alleviate poverty, economic growth also brings with it all sorts of side benefits, including longer life expectancies, a better-educated citizenry, and expanded civil and political rights.

Someone else's success does me no harm. Nor am I worse off because someone else receives a bigger tax cut than I do. Such a viewpoint stems from the misguided notion that the economy is a pie of fixed size. In reality, the size of the pie is infinite, and when it grows we are all better off, even if some people get bigger slices than others.

To make it grow, we need ambitious, skilled risk-takers. We need people to be always striving for more. But they will only do so if they can anticipate rewards commensurate with the risks they take. Incentives matter. As Nobel Prize-winning economist Gary Becker once pointed out, “It would be hard to motivate most people if everyone had the same earnings, status, prestige, and other rewards.”

None of this means that there are not some people who take advantage of the system. Crony capitalism — the reliance on government favors, subsidies, and protection from competition — is a curse. Nor does it mean that some people are not left behind. The creative destruction that fuels a dynamic economy guarantees that there will always be shocks and temporary dislocations. Racism, sexism, and xenophobia lock too many people outside the system. We should be doing everything we can to ensure that everyone has the necessities of life, and that they can be full participants in a growing economy. Those are all legitimate concerns that need to be addressed.

But the answer lies with more economic freedom, not less. If, in our obsession with equality, we kill the golden goose, we may quickly find out that the society we thought we wanted isn't all it's cracked up to be.

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