THE WALL STREET JOURNAL.
WSJ.com

JULY 15, 2009, 8:49 AM ET

Secondary Sources: Inequality, Climate Change, Fed Independence

A roundup of economic news from around the Web.

Inequality: Writing for the Cato Institute, Wil Wilkinson takes a critical look at conventional wisdom about income inequality. "Income statistics paint a misleading picture of real standards of living and real economic inequality. Several strands of evidence about real standards of living suggest a very different picture of the trends in economic inequality. In any case, the dispersion of incomes at any given time has, at best, a tenuous connection to human welfare or social justice. The pattern of incomes is affected by both morally desirable and undesirable mechanisms. When injustice or wrongdoing increases income inequality, the problem is the original malign cause, not the resulting inequality. Many thinkers mistake national populations for "society" and thereby obscure the real story about the effects of trade and immigration on welfare, equality, and justice. There is little evidence that high levels of income inequality lead down a slippery slope to the destruction of democracy and rule by the rich. The unequal political voice of the poor can be addressed only through policies that actually work to fight poverty and improve education. Income inequality is a dangerous distraction from the real problems: poverty, lack of economic opportunity, and systemic injustice." The Economist's Free Exchange blog responds.

Schelling Interview: Conor Clarke of the Atlantic interviews Nobel laureate Thomas Schelling about climate change. Schelling says: "I don't worry much about enforcement. I think that if the major countries reach an agreement they'll do their best to do what they said they would do. But if you say what you're going to do is get emissions down by 15% in 20 years, none of them knows what that means. That's not a commitment to something they're going to do; that's a commitment to some vague aspirational goal or something. My comparison is to NATO. The NATO treaty was only two pages long. There was never any enforcement mechanism to make the French or the Italians or the Dutch or the British or the Americans do what they said they would do. But for the most part, they did it. Because when responsible governments make serious commitments, they stick to them, especially when they see other governments sticking to them. But their commitments were not, "How much will we reduce the likelihood of a Soviet attack?" or, "How much will we slow down a soviet attack?" The commitments were about how many young men they would draft into their armed forces. About how much they would spend on guns and ammunition and vehicles. How much real estate they would provide for military housing and pipelines and military maneuvers. They were all commitments to things they could do. So you could look and see that the French were doing what they said they would do. And the French themselves would know if they were dong what they said they would do. And so I think what is needed — if we had a good bill, and I don' think the Waxman-Markey bill is anything to be proud of — is to take a good bill and display it to other large countries, and say, "This is what we plan to do. What do you plan to do?" And then hash it out over the next year."

Fed Independence: Jim Hamilton of Econbrowser posts his thoughts on the Fed independence based on the central bank's balance sheet. "The decision of where public funds are best allocated is inherently political. Any risks on the Fed's new balance sheet are ultimately borne by the taxpayers. The U.S. Constitution specifies that decisions of how public funds get spent shall be up to Congress, and with good reason. Citizens have a right to vote on which risks they choose to absorb. And of course there are powerful established interests with views on which sectors should receive an infusion of public capital. The Fed is simply being naive if it thinks it can become involved in those decisions on a weekly basis and yet still retain its independence from Congress and the President."

Compiled by Phil Izzo