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What the Inequality Warriors Really Want

Confiscating wealth is ultimately about political power. Koch brothers, no. Public-employee unions, yes.

By John H. Cochrane
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Progressives decry inequality as the world's most pressing economic problem. In its name, they urge much greater income and wealth taxation, especially of the reviled top 1% of earners, along with more government spending and controls—higher minimum wages, “living” wages, comparable worth directives, CEO pay caps, etc.

Inequality may be a symptom of economic problems. But why is inequality itself an economic problem? If some get rich and others get richer, who cares? If we all become poor equally, is that not a problem? Why not fix policies and problems that make it harder to earn more?

Yes, the reported taxable income and wealth earned by the top 1% may have grown faster than for the rest. This could be good inequality—entrepreneurs start companies, develop new products and services, and get rich from a tiny fraction of the social benefit. Or it could be bad inequality—crony capitalists who get rich by exploiting favors from government. Most U.S. billionaires are entrepreneurs from modest backgrounds, operating in competitive new industries, suggesting the former.

But there are many other kinds and sources of inequality. The returns to skill have increased. People who can use or program computers, do math or run organizations have enjoyed relative wage increases. But why don't others observe these returns, get skills and compete away the skill premium? A big reason: awful public schools dominated by teachers unions, which leave kids unprepared even to enter college. Limits on high-skill immigration also raise the skill premium.

Americans stuck in a cycle of terrible early-child experiences, substance abuse, broken families, unemployment and criminality represent a different source of inequality. Their problems have proven immune to floods of government money. And government programs and drug laws are arguably part of the problem.

These problems, and many like them, have nothing to do with a rise in top 1% incomes and wealth.

Recognizing, I think, this logic, inequality warriors go on to argue that inequality is a problem because it causes other social or economic ills. A recent Standard & Poor's report sums up some of these assertions: "As income inequality increased before the [2008 financial] crisis, less affluent households took on more and more debt to keep up—or, in this case, catch up—with the Joneses." In a 2011 Vanity Fair article, Columbia University economist Joe Stiglitz wrote that inequality causes a "lifestyle effect . . . people outside the top 1 percent increasingly live beyond their means." He called it "trickle-down behaviorism."

I see. A fry cook in Fresno hears that more hedge-fund managers are flying in private jets. So he buys a pickup he can't afford. They are saying that we must tax away wealth to encourage thrift in the lower classes.

Here's another claim: Inequality is a problem because rich people save too much. So, by transferring money from rich to poor, we can increase overall consumption and escape "secular stagnation."

I see. Now we need to forcibly transfer wealth to solve our deep problem of national thriftiness.

You can see in these examples that the arguments are made up to justify a pre-existing answer. If these were really the problems to be solved, each has much more natural solutions.

Is eliminating the rich, to eliminate envy of their lifestyle, really the best way to stimulate savings? Might not, say, fixing the large taxation of savings in means-tested social programs make some sense? If lifestyle envy really is the mechanism, would it not be more effective to ban "Keeping Up With the Kardashians"?

If we redistribute because lack of Keynesian "spending" causes "secular stagnation"—a big if—then we should transfer money from all the thrifty, even poor, to all the big spenders, especially the McMansion owners with new Teslas and maxed-out credit cards. Is that an offensive policy? Yes. Well, maybe this wasn't about "spending" after all.

There is a lot of fashionable talk about "redistribution" that's not really the agenda. Even sky-high income and wealth taxes would not raise much revenue for very long, and any revenue is likely to fund government programs, not checks to the needy. Most inequality warriors, including President Obama, forthrightly advocate taxation to level incomes in the name of "fairness," even if those taxes raise little or no revenue.

When you get past this kind of balderdash, most inequality warriors get down to the real problem they see: money and politics. They think money is corrupting politics, and they want to take away the money to purify the politics. As Berkeley economist Emmanuel Saez wrote for his 2013 Arrow lecture at Stanford University: "top income shares matter" because the "surge in top incomes gives top earners more ability to influence [the] political process."

A critique of rent-seeking and political cronyism is well taken, and echoes from the left to libertarians. But if abuse of government power is the problem, increasing government power is a most unlikely solution.

If we increase the top federal income-tax rate to 90%, will that not just dramatically increase the demand for lawyers, lobbyists, loopholes, connections, favors and special deals? Inequality warriors think not. Mr. Stiglitz, for example, writes that “wealth is a main determinant of power.” If the state grabs the wealth, even if fairly earned, then the state can benevolently exercise its power on behalf of the common person.

No. Cronyism results when power determines wealth. Government power inevitably invites the trade of regulatory favors for political support. We limit rent-seeking by limiting the government’s ability to hand out goodies.

So when all is said and done, the inequality warriors want the government to confiscate wealth and control incomes so that wealthy individuals cannot influence politics in directions they don’t like. Koch brothers, no. Public-employee unions, yes. This goal, at least, makes perfect logical sense. And it is truly scary.

Prosperity should be our goal. And the secrets of prosperity are simple and old-fashioned: property rights, rule of law, economic and political freedom. A limited government providing competent institutions. Confiscatory taxation and extensive government control of incomes are not on the list.

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