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Why You Shouldn't Care (Much) About Income or Wealth Inequality

By James Hohman

Summary

Despite popular misconceptions that our country's income inequality is unethical, this view ignores the principles of individual value and income mobility, disregards the ability to overcome discrimination offered through a system of voluntary exchange, and underrates the amount of philanthropy offered in the United States on an unprecedented scale.

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(Editor's Note: This op-ed was originally posted March 21, 2013 on MichiganCapitolConfidential.com's blog.)

A video asserting that the United States' economic inequality is stark has gone viral, popping up in newsfeeds young and old. But its main point is incomplete and misleading.

While wealth and income inequality do exist in our country, the real ethical concern ought to be poverty reduction. With that goal in mind, there is a lot to be done.

It's not shocking that both wealth and incomes for people in the United States differ depending on the individual in question. As Mackinac Center President Emeritus Lawrence W. Reed put it, free people are not equal and equal people are not free. In fact, it's our differences that make us valuable to each other.

The value that we create for other people depends on more than just raw talent and effort. To use a common example, Bill Gates may not have been the best software creator or manager in the late 1980s, but he was the person to get us an acceptable and commonly used computer operating system. It's not enough to be able to contribute to the world; you have to actually do it to succeed.

A video titled "Wealth Inequality in America" has garnered over five million views on YouTube. The Mackinac Center believes the video's premise is misleading and disregards several factors.

What we do with our income determines the wealth that we accumulate. People with higher incomes tend to use their income to make investments and build their wealth. People without lucrative employment do not have that luxury and tend to consume most of their income. (New wealth is gross assets minus liabilities — things without a market value such as a college degree aren't included as an asset.) This consumerism magnifies the "net wealth inequality" measures that the video most likely used.

Not everyone follows this pattern of high-income high-savings or low-income low-savings. A person can go bankrupt at any income level as celebrities like MC Hammer and Willie Nelson have shown. Conversely, there are plenty of people who show how they and their families live a good life on less than $15,000 a year. We're free to be as profligate or as thrifty as we want.

Nor is America a caste system: A typical person will likely move between income or wealth classes or quintiles several times in their lifetime.

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Sometimes things in life are unfair — nepotism, favoritism, discrimination and simple inefficiency exist and mean that the right people aren't always rewarded. But the general workings of the marketplace are the best means for ensuring that people who contribute to society are rewarded, and that people are incentivized to contribute. Voluntary exchange means both the consumer and producer benefit.

Because the market system organically rewards win-win situations, the difference between rich and poor shouldn't be an ethical concern, but rather how people respond to poverty.

The video claims that there is an ideal pattern of either wealth or income inequality, which of course does not exist. Just asking people about what they think should be the proper assortment of wealth is nonsensical — people also think that they should get what they earn, and this would be contrary to their thoughts on wealth distribution.

That one person is able to amass a fortune does not infringe upon others making a living. The important factor is opportunity, and America still remains the best bastion for opportunity in the world. It doesn't always act like it, but America remains the prime location for entrepreneurs, innovation and for rewarding hard work.

And the world is increasing in wealth, even for the poorest — the world passed the Millennium Development Goal of reducing extreme poverty faster than expected; improved access to clean water and other public health and poverty goals are also being accomplished.

One of the reasons for these worldwide gains is philanthropy. America is the home of philanthropy, operating as the wealthy benefactors of the world for years. There are billions of dollars under management at community foundations, churches and other civic groups. And over 100 billionaire households have signed up with the Giving Pledge to give the majority of their wealth to charity. People are voluntarily addressing poverty through what is commonly called "civil society."

We should be focused on reducing poverty, which means increasing economic opportunity and improving economic growth.

Michigan policymakers can help by eliminating artificial barriers to finding a working-class job, like the many occupational licenses it requires. It can also improve the state's underperforming and expensive public education system. These are far more effective at reducing poverty than wealth and income redistribution, which seeks only to address the difference between rich and poor regardless of whether it improves everybody's situation.

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