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Thinking Clearly about Economic Inequality

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Executive Summary

Recent discussions of economic inequality, marked by a lack of clarity and care, have confused the public about the meaning and moral significance of rising 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.

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Is American income inequality really an existential threat to the democratic values at the heart of our political culture?

Introduction

"We are now living in a new Gilded Age, as extravagant as the original," says the Nobel Prize–winning Princeton economist and *New York Times* columnist Paul Krugman.[1] In the days of Krugman's youth, "the economic disparities you were conscious of were quite muted." But that America is "another country," Krugman says. Once, the AFL-CIO was a fixture of nature, even Ike liked the New Deal, and lawyers and longshoremen felt themselves to be peers—as men, and as Americans. Today, the income gap is as wide as it was when the robber barons built lavish mansions and kept senators as pets. And today's gap is just as malign.

"The United States doesn't have Third World levels of economic inequality—yet," Krugman warns. "But it is not hard to foresee, in the current state of our political and economic scene, the outline of a transformation into a permanently unequal society—one that locks in and perpetuates the drastic economic polarization that is already dangerously far advanced."[2] That we have so far failed to grasp the dangers attests to "the growing influence of our emerging plutocracy," which has busied itself denying and obscuring the reality of the new era of inequality.[3]

What is to be done? Economists Thomas Piketty and Emmanuel Saez, experts on the measurement of income inequality, have found that "the top 1 percent income share has increased dramatically in recent decades." They conclude that "it is obvious that the progressive income tax should be the central element of the debate when thinking about what to do about the increase in inequality."[4] For Krugman, a corresponding bump in the openhandedness of the welfare state is also recommended, as is the resuscitation of the moribund labor movement—not to mention a campaign of disapproval aimed at the baleful changes in culture (precipitated by the propaganda campaigns of so-called "movement conservatives") that have permitted executive salaries to soar with neither resentment nor shame.[5] Krugman surely speaks for many when he argues that democracy is itself at stake:

> Even if the forms of democracy remain, they may become meaningless. It's all too easy to see how we may become a country in which the big rewards are reserved for people with the right connections; in which ordinary people see little hope of advancement; in which political involvement seems pointless, because in the end the interests of the elite always get served.[6]

This is a dark portrait—a nightmare for liberals of any stripe—and its realization is to be passionately resisted. It is in fact realized in much of the world, and it is a time-tested recipe for misery and strife. But is this really where we're headed if the income gap does not contract?

For many citizens, politicians, and celebrated scholars (such as Krugman), high and rising levels of income inequality are just wrong; they obviously pose a danger to the ideal of an open-textured liberal society where disadvantages need not be permanent, where advantages of birth and good fortune do not create a self-sustaining structure of supremacy and humiliating subordination, and where all citizens enjoy the respect due to free persons who are equal under the law.

But should this seem so obvious? Are the millions who nod along with Krugman correct? Is American income inequality really an existential threat to the democratic values at the heart of our political culture? Does it threaten imminently to transform the United States into an irreversibly stratified illiberal regime, dominated generation after generation by the rich and well-connected?

Well, no. It should not seem obvious that American income inequality imperils justice or threatens to gut our democracy, because it isn't true. You don't have to be duped by the plutocracy to find Krugman's line of thinking, so representative of the views of left-leaning Americans, badly misguided. Paul Krugman is

without question a brilliant economist, and he is perhaps the most talented communicator of economic ideas of our era. He's the most rigorous and forceful public intellectual of today's American left. But in this paper I'll argue that Krugman-like conceptions of the reality and immorality of economic inequality in America reflect a tangle of conceptual errors and a mix of questionable moral assumptions.

The public discussion of inequality in the United States, and no doubt elsewhere, is marked by a lack of clarity and care. Public deliberation and debate about it are therefore confusing, and a lot of people are confused. Few commentators—even among those who are professional economists—speak clearly about what the various measures of economic inequality do and do not tell us. And it is rarely made clear how these measures relate to what is valuable about equality as a political ideal. What is it that is supposed to make economic inequality in general—or income inequality in particular—so deeply worrying? Much like conservatives who warn firmly that legalizing gay marriage will destroy the American family, many liberals warn firmly of the disasters that unchecked income inequality will bring—without pausing to explain how the cause will create the evil effect. We can do better, and the aim of this paper is to show how.

In what follows, I'll seek to clarify the main ideas involved in thinking about the reality and morality of economic inequality. The point of this is to help us to

- get the descriptive story straight about inequality in America;
- evaluate inequality according to reasonable, broadly liberal standards that are accepted by most Americans; and
- clarify the relationship between economic inequality and the freedom and well-being of the least advantaged.

There are limits to what I can do in a single paper. For instance, I can't offer a full account of the value of equality, the harm of inequality, or the relevance of economic inequality to social justice. Even if I could, moral and political concepts may be "essentially contestable," which is to say that we're going to fight about them forever. One reason the fight never ends is that free societies inevitably produce wild diversity in thinking about morality and politics. If a slightly new way of filling in the meaning of "liberty," "equality," or "justice" becomes popular, it will tend to change our politics, and hundreds of millions of lives, in a way that some will celebrate and others will resent. As a free society, we keep fighting because it matters to us.

This paper is meant as a small sally in that perpetual contest. Although I can't hope to settle the big questions, I will offer a number of arguments meant to support one way of thinking about equality and political morality and to call into question another, more widespread way of thinking about them. My goal is to illustrate as forcefully as I can that there is a morally deep and analytically rigorous alternative to the conventional way of thinking about these questions. At the very least, I call into question the cogency of some remarkably common assumptions about equality and political morality that appear again and again in textbooks, media reports, and public discussions.

Right now, we are in the depths of a recession, and our attention is riveted to the question of reviving economic growth, so the issue of how the fruits of growth are distributed has receded in salience. But it remains of fundamental importance, as attitudes about rising inequality during the "Long Boom" will have a huge impact on the way in which the restructuring of economic policymaking now under way proceeds.

One last thing: Paul Krugman's recent best-seller, *The Conscience of a Liberal*, contains an account of the rise of what he calls movement conservatism. In effect, Krugman's story poisons the well from which this paper is drawn, so it seems necessary to say something about it. "Movement conservatism," Krugman maintains, "is financed by a handful of extremely wealthy individuals and a number of major corporations, all of whom stand to gain from increased inequality. . . . Turning back the clock

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on economic policies that limit inequality is, at its core, what movement conservatism is all about."[7] Krugman goes on to mention the Cato Institute as part of the malign infrastructure of movement conservatism.

Setting aside the many other shortcomings of Krugman's historical narrative, his account of the rise of institutions like mine seems to leave no room for authentic moral motivation or a sincere interest in the truth. It is disappointing to see Krugman take this route, to call into doubt the possibility of honest disagreement. Still, he says nothing to imply that those with malicious hearts cannot speak truly. It is probably best to let our lives prove our hearts, and so let me simply insist that an argument is good or it isn't. And here come some arguments.

The Trend of Economic Inequality

Just about every newspaper article, editorial, and blog post about inequality you have ever read discusses inequality in annual incomes. And it's true that a variety of measures show a sizable increase in income inequality since the 1970s. What exactly does that mean? If you take each individual's wages and salaries in a given year, or each household's total annual income, and plot a curve that shows how many individuals or households earned a given income, the curves from recent years will look stretched out compared to the curves from a generation ago. The right tail of the curve will extend further out to the right than it once did (i.e., there are more people with extremely high incomes than in the recent past). Also, the overall shape of the curve will look flatter (i.e., a smaller portion of the population is bunched at the middle of the curve than in the recent past).

As a result, the income of the top X percent of earners (take your pick: the top 10 percent, 5 percent, 1 percent, 0.1 percent, or even 0.01 percent) accounts for a higher percentage of total national income than in the past. The rich are getting richer. And if the poor aren't getting poorer, they're at least falling farther and farther behind the country's income leaders.

But looking at the dispersion of annual incomes isn't the only way to measure trends in economic inequality. In fact, if we're interested in trends in overall material well-being, income statistics can provide a surprisingly distorted picture.

Suppose you made a million dollars last year and put all but $50,000 of it in a shoebox. Now imagine you lose the box. What good did that $950,000 do you? Maybe it purchased some temporary peace of mind. It's certainly reassuring to know that you have resources at your disposal. But it likely did rather less for your well-being than did the $50,000 you spent on housing, food, entertainment, health care, transportation, gadgets, toys, and so on.

Why do we want income at all? So that we can acquire things we value. The good of income is almost entirely in the good of consumption. We eat bread, not paychecks. Now, consumption tends to be measured in terms of the amount of money individuals or households spend over some period of time. This is nominal consumption. It is very important to grasp that nominal consumption does not necessarily track the value of the consumption to a consumer. We may discover that someone has spent a dollar, but that does not tell us how much satisfaction, security, health, or happiness was gained.

If we're interested in the overall material well-being of a life, what we really want to know is the quantity of goods and services a person has consumed over the course of his lifetime, and the value to that person of all those goods and services. It turns out that snapshots of annual income just aren't very reliable proxies for lifetime consumption or overall well-being. That's because a person's income varies a great deal over his life (low at the beginning of a career, typically rising over time, then falling off in retirement). And it is quite common for incomes to fluctuate a good deal from year to year—because of bonuses, temporary joblessness, a spouse entering or exiting the workforce, or the receipt of an inheritance.

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By contrast, our consumption fluctuates considerably less. Because we can save, draw down savings, or run up debt, we are able to engage in what economists call "consumption smoothing." As a result, consumption in a given year tends to track, not our income in that particular year, but our expectations regarding our long-term future earning prospects—our "permanent income," as economists call it. Accordingly, annual consumption figures have the potential to give us a more representative picture of overall economic inequality than do annual income figures.[8]

The conceptual argument for favoring consumption over income as a measure of economic well-being is decisive. The practical argument is a bit less so. Consumption data are more difficult to collect than income data, and the available data sets are less comprehensive. Together with the fact that estimates of poverty and inequality tend to be significantly lower according to most studies that rely on consumption figures, this has made the interpretation of consumption data a sometimes heated subject.[9] With that caveat, the weight of the evidence shows that the run-up in consumption inequality has been considerably less dramatic than the rise in income inequality.

"Has U.S. current income inequality increased over the period 1989–2003?" ask Dirk Krueger of the University of Pennsylvania and Fabrizio Perri of the University of Minnesota and the Federal Reserve Bank of Minneapolis in a summary of their recent research. "Looking at [the Consumer Expenditure Survey] data suggests that yes, it did." However, they continue, "The consumption data suggest . . . that the consequences of this increase have not caused an increase in the dispersion of the distribution of lifetime resources; if it did it would have showed an increased consumption inequality. Consumption inequality, however, has remained substantially stable."[10]

In an influential book, University of Texas economist Daniel T. Slesnick finds that during the 1990s consumption inequality didn't rise at all:

> The widely reported U-turn in inequality in the United States is an artifact of inappropriate use of family income as a measure of welfare. When well-being is defined to be a function of per equivalent consumption, inequality either decreased over the sample period or remained unchanged.[11]

How can income and consumption inequality diverge? A good portion of the dispersion of annual incomes reflects temporary fluctuations in income; in other words, lifetime or permanent income inequality should be significantly lower than annual income inequality. Accordingly, if incomes from year to year are growing more volatile (and there is some evidence that this is the case) but the ability to engage in consumption smoothing is keeping up (for example, through improved access to credit), or if the ability to smooth consumption races ahead of changes in income volatility, then consumption inequality will grow more slowly than income inequality.[12]

Nominal consumption numbers may offer a less distorted picture than do income statistics, but they may conceal as much as they illuminate. Records of nominal consumption can track only the dollars spent, but not the value—the pleasure or health or well-being—gained through the spending.[13] A stable, or even rising, trend in nominal consumption inequality can mask a narrowing of real consumption inequality—the inequality in the utility gained from consumption. That is to say, real material standards of living may become more equal even if consumption inequality stays stable and income inequality rises.

The difficulties involved in using either income or nominal consumption as a reliable proxy for real economic well-being are profound and have motivated a large number of economists to attempt to measure welfare more directly through surveys and other self-reporting techniques. Recent work in "happiness research" shows that inequality in self-reported happiness, or "life satisfaction," has been shrinking over the past several decades in wealthy market democracies—the United States included.[14] In a fascinating recent study, University of Pennsylvania economists Betsey

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Stevenson and Justin Wolfers find that "inequality in happiness has fallen substantially since the 1970s" in the United States, cutting across the trend in income inequality.[15] They note that the trend toward greater equality in happiness stalled and began to reverse course in the 1990s, due in part to widening inequalities in happiness (and wages) between individuals of unequal levels of education.

The truly striking fact is that for decades the level of happiness inequality in the United States fell simultaneously with rising levels of income inequality, and it remains significantly lower today than it was 30 years ago during the low point of American income inequality. Stevenson and Wolfers plausibly attribute much of the narrowing in the happiness gap to the rapid gains in social and economic status enjoyed by women and African Americans since the early 1970s, highlighting that the sociopolitical settlement underpinning the much-lauded, mid-century "Great Compression" achieved significant equality mainly among white men. Self-reported life satisfaction is plausibly a more direct and accurate indicator of psychological welfare than either income or spending, and these findings show that, on the whole, the quality of lives across the income scale have become more alike—not less—since the unraveling of the Great Compression.[16] We would expect to see the opposite were real standards of living drifting oceans apart.

That real inequality might remain stable, or even decline, while the income gap explodes is certainly counterintuitive, but it's consonant with both theory and fact.[17] I've already discussed how incomes and nominal consumption can diverge, but there are other factors at play as well. First, if inexpensive goods improve in quality more rapidly than expensive goods, the typical bundle of goods and services consumed by poor families will come to more closely resemble the bundle typically consumed by rich families. To put if more breezily, if cheap stuff gets better faster than expensive stuff, the gap between cheap and expensive stuff narrows, which in turn narrows the gap in the quality of life between rich and poor. Second, if the goods and services typically consumed by poor families rise in price more slowly than those typically consumed by rich families—if the rich face a higher effective rate of inflation—gaps in incomes will not reflect equivalent gaps in real consumption.[18]

You can see leveling in quality across the price scale in almost every kind of consumer good.[19] At the turn of the 20th century, only the mega-rich had refrigerators or cars. But refrigerators are now all but universal in the United States, even while refrigerator inequality continues to grow. The Sub-Zero PRO 48, which the manufacturer calls "a monument to food preservation," costs about $11,000, compared with a paltry $350 for the IKEA Energisk B18 W. The lived difference, however, is rather smaller than that between having fresh meat and milk and having none. The IKEA model will keep your beer just as cold as the Sub-Zero model. Similarly, more than 70 percent of Americans under the official poverty line own at least one car. Despite a vast difference in price, the difference between driving a used Hyundai Elantra and a new Jaguar XJ is practically undetectable compared with the difference between motoring and hoofing it.[20] A similar compression has occurred for food, clothing, and shelter. John Nye makes the general point powerfully:

> Just as spices like vanilla and pepper are now so trivially cheap that we forget that fortunes were once made importing such treasures to the West, we come to denigrate if not simply ignore the vast number of things that ordinary people can afford because they have become so cheap. In some sense, fixating on monetary income will always overstate these differences.
>
> Thus, whatever the measured gap between the rich and the poor in today's world—the real (utility-adjusted) gap in incomes and wealth is liable to be substantially smaller than that of a century or so earlier, even when monetary measures tell us otherwise.[21]

The vast spread of prices, and the widening

range of incomes, can distract us from an often narrowing range of experience. The point is not that in America the relatively poor suffer no painful indignities, which would be insulting and absurd. The point is that, over time, the everyday experience of consumption among the less fortunate has become in many ways more like that of their wealthier compatriots. This is a huge egalitarian triumph. A widescreen plasma television is a delight, but a cheap 19-inch TV is enough to allow a viewer to laugh at *Shrek*.

Unfortunately, changes in the quality of consumer goods are difficult to measure with great precision. Some economists are trying hard to do this by employing sophisticated new statistical methods. Mark Bils of the University of Rochester finds that conventional measurement techniques have underestimated the quality growth of many mundane consumer durables, such as cars, televisions, furniture, home appliances, and more.[22] Bils says nothing about variations in quality, or rates of increase in quality at different price levels. But we do know that ordinary folks spend a higher percentage of their budget on these kinds of things than do the super-wealthy, who spend more on travel, luxury goods, and personal services. These quality changes are therefore likely to mean relatively more to lower- and middle-class consumers, and constitute a compression in the range of material experience.

On the other side of the equation, in her book *Deluxe: How Luxury Lost Its Luster*, journalist Dana Thomas complains that luxury goods, once made by old-world artisans according to the highest standards of craftsmanship, have become shoddy, mass-market commodities with a huge price tag.[23] They just don't make Hermes like they used to.

This compression is a predictable consequence of innovations in production and distribution that have improved the quality of many goods at the lower range of prices faster than at the top. New technologies and knockoff fashions now spread down the price scale too fast to distinguish the rich from the aspiring for long. Indeed, increasingly speedy downward diffusion of once-dear consumer goods interferes with the ability of the wealthy to set themselves apart through "conspicuous consumption." The general effect of the democratization of luxury is to increase demand among the wealthy for nonmanufacturable, inherently scarce "positional goods" whose signal of relative socioeconomic status will not be so swiftly diluted by broad mass-market diffusion. Think of real estate with ocean views, or Ivy League diplomas, or goods like yachts (which are so large and complex that they cannot be made broadly affordable). Such goods, of course, are insanely expensive. Economists such as Robert H. Frank tend to decry the futile inefficiency of efforts spent in zero-sum competition over positional goods.[24] But John Nye argues compellingly that positional competition can amount to

> a positive force for the democratization of the benefits of economic growth. Thus the spending by the wealthy on many positional goods acts as a curious sort of natural taxation. The richest (or most ambitious) must work harder and pay more for virtually the same goods as yesteryear while their productive investments (necessary to stay on top of the income distribution) benefit the entire economy.[25]

Holding the quality of goods fixed, real consumption inequality can decline simply as a consequence of the changing prices of things the rich and poor tend to buy. To take one recent example, Jerry Hausman of the Massachusetts Institute of Technology and Ephraim Leibtag of the United States Department of Agriculture show that Wal-Mart's move into the grocery business has driven down food prices.[26] Lower prices are found not only at Wal-Mart stores, but practically everywhere, as competition from the retail giant forced the traditional grocery chains to increase efficiency and sacrifice profit margins. And this hasn't come at the price of lower quality. On the contrary, many stores attempted to compete against Wal-Mart by offering higher-quality

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fare, only to see the Bentonville behemoth match up with goods of comparable quality, but cheaper.

Because the poor spend a larger portion of their budget on food than any other income group, lower prices have benefited them the most. As a rule, when the prices of food, clothing, and basic modern conveniences drop relative to the price of labor-intensive services and luxury goods, real consumption inequality drops, too. That's why developments that heighten demand for (and therefore raise the price of) status goods coveted by wealthier consumers can counterintuitively act as an equalizing force on real standards of living.

Hausman and Leibtag's findings suggest that poorer consumers have recently faced a lower rate of inflation than have the rich, moderating the divergence of real incomes. This possibility has received further support from new work by University of Chicago economists Christian Broda and John Romalis.[27] It is difficult to summarize their findings more pithily than did their University of Chicago colleague Steven Levitt, of *Freakonomics* fame:

> How rich you are depends on two things: how much money you have, and how much the stuff you want to buy costs. If your income doubles, but the prices of the things you consume also double, then you are no better off.
>
> When people talk about inequality, they tend to focus exclusively on the income part of the equation. According to all our measures, the gap in income between the rich and the poor has been growing. What Broda and Romalis quite convincingly demonstrate, however, is that the prices of goods that poor people tend to consume have fallen sharply relative to the prices of goods that rich people consume. Consequently, when you measure the true buying power of the rich and the poor, inequality grew only one-third as fast as economists previously thought it did—or maybe didn't grow at all.[28]

In particular, Broda and Romalis credit trade with China, which has massively increased its exports to the United States by supplying wares to huge discount outlets like Wal-Mart and Target. "We are underestimating the gains from trade," Broda said in a recent interview, emphasizing the profound importance of what might seem like esoteric questions of economic methodology:

> The current statistical interpretation ignores the fact that a poor household today can access goods that, in the 1960s, they could not—microwaves, DVDs—and, more importantly, that the prices of the staples that lower-income households consume have also gone down dramatically.
>
> . . . The bottom line with our study is that we may have won the war against poverty without even noticing it.[29]

Wealthier Americans, Broda and Romalis observe, spend a much smaller portion of their budgets on the things for sale at Wal-Mart and a much larger portion on services provided by local labor such as home cleaning, lawn care, psychotherapy, and yoga classes. Because the prices of such services are relatively unaffected by the rise of competitive global markets or advances in manufacturing and distribution technology, these landmark developments in recent economic history have done less to improve the bang of a wealthy person's buck.

To compound matters, economist Enrico Morreti at the University of California–Berkeley has found that college graduates, who tend to be wealthier than nongraduates, prefer to live in relatively expensive cities, which further reduces the real purchasing power of their incomes. According to Morreti, this pattern implies that "college graduates are increasingly exposed to a high cost of living and that the relative increase in their real wage may be smaller than the relative increase in their nominal wage." Morreti finds that half the increase in the college wage premium disappears when the housing costs borne by college grads are taken into account, and suggests that "the increase in well-being

inequality between 1980 and 2000 is smaller than the increase in nominal wage inequality" on the basis of this fact alone.[30]

Fresh findings like those of Broda, Romalis, and Moretti constitute compelling evidence that inflation-adjusted consumption inequality has risen very little, if at all. Moreover, there are good technical, historical, and experiential reasons to suspect that quality improvements within many of the kinds of goods that loom large in the budgets of poorer consumers remain underestimated by the prevailing quantitative methods. That inequalities in real material conditions may be trending downward over time is suggested not only by recent evidence from happiness research, but also by the dramatic long-term narrowing of other, more easily observable inequalities between rich and poor, such as the inequalities in height, life expectancy, and leisure. Robert William Fogel, a Nobel prize–winning economic historian, has argued that nominal measures of economic well-being have often glossed over enormous changes in the conditions of life. "In every measure that we have bearing on the standard of living . . . the gains of the lower classes have been far greater than those experienced by the population as a whole," Fogel observes.[31]

Taken together, the preceding considerations show, at least, that real economic inequality has grown far less than the income figures suggest. At most, they show that we have become in many ways a *more* economically egalitarian society, even as the range of incomes has widened. It should now be clear that income statistics can be a source of profound distortion and unnecessary confusion. Once we adopt the habit of surveying the economic landscape through the lens of real consumption and real standards of living, moral outrage over income inequality and the related push for a renewed regime of corrective redistribution simply look like mistakes.

None of this is meant to suggest that America is all roses and rainbows. Some worrying inequalities—for example, inequalities in access to a good education or to quality health care—may indeed be widening, arresting economic mobility and denying decent opportunity to the least fortunate. But Paul Krugman can spare himself the night sweats, because today's new-style Gilded Age income gaps simply do not imply old-style Gilded Age lifestyle gaps.

Many enterprising Americans have indeed accumulated vast fortunes turning out ever higher-quality goods at ever lower prices. And they have widened the income gap by doing it. But in the process they have also minimized some of the material inequalities that matter most. If we are worried about inequalities in education and health care, as we should be, we might stop to consider that these are precisely the areas we have chosen to shield most jealously from entrepreneurship and market competition. Allowing profit-seeking innovators to compete on price and quality, and thereby to put better and more affordable vital services within reach of the poor, might make some people really, disgustingly rich. And it might also make a healthier, better-educated, more egalitarian America. If we care, we should consider it.

Mechanisms of Inequality

Let's pause a moment to review. If we're concerned about economic inequality, income inequality isn't the only way, or even the best way to measure it. The most credible definition of economic inequality refers to the gap in overall material well-being. By that definition, it is clear that we are far from a new era of dangerous invidious inequalities. With all due attention to the Lamborghinis, NetJets, and cavernous mansions flaunted by today's superwealthy, the real, lived difference between today's rich and poor does not approach the shocking contrast of garish opulence and barefoot misery that marked the real Gilded Age.

Still, something is going on. As well as we can measure, differences in people's earning power—in the market value of their labor—have gone up considerably over the past generation. Which brings us to the question about income inequality: So what? Why is this a problem that we should care about?

If we are worried about inequalities in education and health care, we might consider that these are the areas we have chosen to shield most jealously from entrepreneurship and market competition.

Paul Krugman has stated that "the United States doesn't have Third World levels of economic inequality—yet." It turns out that, by his own lights at least, he isn't being pessimistic enough! Income inequality in the United States is higher than in any other wealthy nation and just slightly higher than in countries such as Russia and Burkina Faso. As measured by the standard metric, the Gini coefficient, U.S. income inequality is about the same as in Ghana.[32] If you believe that income inequality is a rough measure of the justice of a nation's social and economic institutions, then it would appear that the United States and Ghana are roughly on par.

Yet the UN Human Development Index—a relatively comprehensive measure of average well-being—ranks Ghana 136th out of 177 nations, while the United States is ranked 12th.[33] This yawning gulf in well-being between the average American and the average Ghanaian is the product of starkly contrasting systems of social, economic, and political institutions. Because the United States and Ghana have the same level of measured income inequality, we can be certain that starkly contrasting systems of institutions, which produce dramatic differences in wealth, health, education, and longevity, can also produce the same mathematical ratio of incomes between the rich and the poor.

This suggests that a nation's level of income inequality, in isolation, tells us very little. It would be analytically convenient if all possible causes of income inequality were morally undesirable, and equally so. But it turns out that the world isn't like that. Some causes of inequality are less bad than others, and some are good. Indeed, because income inequality can be the effect of so many different causes, noting that a country's level of income inequality is high or low logically implies nothing at all.

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What we presumably want to know is whether people are doing as well as they could be doing, whether people are being treated fairly, or whether people are given what they have coming to them as human beings—and inequality measures alone simply don't tell us that. Other measures of welfare or well-being are more likely to be informative for the purposes of moral evaluation and deliberation over policy. Harvard economist Louis Kaplow observes:

> A country with low inequality may have implemented effective policies aimed at the poor or may have destroyed the incentives and wealth of the upper classes, to the detriment of the poor. If one reported social welfare measures instead, one would know more. Focusing on inequality rather than welfare obscures the situation.[34]

It's important to emphasize the point that the level of income inequality within a country may or may not be a byproduct of wrongdoing or injustice, depending on the mechanisms that have produced it. Consider countries like Ghana. According to Branko Milanovic, chief economist at the World Bank, high levels of income inequality in many African nations are the result of a traditionally hierarchical social structure, which was reinforced by colonialism. This structure has persisted through independence, despite the egalitarian rhetoric of many socialist African leaders in the 1960s, such as Ghana's Kwame Nkrumah. Milanovic argues "that the historically hierarchical structure of these societies has reasserted itself, and that the new leaders—even those who use a 'progressive' rhetoric—have simply reverted to the old-fashioned patrimonial state where concentrated political power is used to acquire economic gains."[35]

Now consider the United States. It is not like that. No one thinks that the level of American income inequality was caused by systematic political predation enabled by traditional patrimonial social norms. Though the level of income inequality in the United States is the same as Ghana's, it is generated by entirely different, and less evidently exploitative, institutional mechanisms.

The low informational content of measurements like the Gini coefficient is powerfully illustrated by a path-breaking new study by Branko Milanovic, Peter H. Lindert, and

Jeffrey G. Williamson.[36] The authors note that the higher a population's mean income, the higher the possible income inequality. The idea, in a nutshell, is that a generally wealthy population is a sweeter target for plunder by the ruling political class—the people with access to the coercive instruments of government—than is a generally poor population. If the ruling class were able to strip a formerly rich population of all but the means for bare subsistence, the increase in inequality would be stupendous. But if the general population was already at or near subsistence, maximum predation would yield relatively little increase in inequality. The authors call this upper limit of potential inequality the "inequality possibility frontier." Their second key idea, the "extraction ratio," is the distance between the maximum possible level of inequality and the actual measured level. Because potential and actual inequality can be separated, the actual level of inequality as measured by traditional methods tell us rather less than we have become trained to think, especially if we intend to use these numbers as a basis for the moral evaluation of a country's institutions. Milanovic, Lindert, and Williamson write:

> This new measure of inequality may capture our notions of inequality more accurately than any actual measure. For example, Tanzania . . . with a relatively low Gini of 35 may be less egalitarian than it appears since it has a high extraction ratio. On the other hand, Malaysia . . . may have a much higher Gini (almost 48), but its elite have extracted only about one-half of maximum feasible inequality.
>
> Another implication of this approach is that it considers jointly inequality and development. As a country becomes richer, its feasible inequality expands. Consequently, if recorded inequality is stable, the inequality extraction ratio must fall; and even if recorded inequality goes up, the ratio may not. *Thus, the social consequences of increasing inequality under conditions of economic growth may not entail as much relative impoverishment or perceived injustice as the recorded Gini might suggest* [emphasis added].[37]

This speaks eloquently to the importance of the mechanisms that produce inequality. If income inequality in the United States is symptomatic of injustice, the problem is unlikely to be the level of inequality as such, but the institutional mechanisms or social norms—such as predation by political elites or the systematic exclusion of ethnic minorities from economic opportunities—that tend to generate income inequality. If you believe that American income inequality does reflect injustice in the structure of its institutions, then it is important to identify precisely where and how the system is unjust instead of simply fixating on the fact that there is inequality. If the level of inequality is a knock-on effect of a more fundamental injustice, then we should focus our attention on the original site of wrongdoing. The fire is the problem, not the alarm.

To make the point clearer, let's look at an example of a possible mechanism of rising inequality. A number of theorists, such as Paul Krugman and MIT's Frank Levy and Peter Temin, point to changes in laws that have made the organization of labor unions progressively more difficult and argue that such changes explain part of the rising trend in income inequality.[38] Suppose for the sake of argument that they are correct about the facts. In that case, they have successfully identified a set of institutional mechanisms that explain some part of the increase in income inequality. Have they also identified a mechanism of injustice? Maybe, and maybe not.

Whether you think they have depends on what you think about the moral case for labor unions. If a certain level of state-backed bargaining power on the behalf of their members is something that unions ought to have—something that unions and their members are morally due—then demonstrating erosion in the laws that shore up union bargaining power will indeed amount to demonstrating a failure to give certain people and their associations what they have coming to them.

If the level of inequality is a knock-on effect, then we should focus our attention on the original site of wrongdoing.

However, it is far from obvious that this is so. Indeed, a powerful argument from justice can be mounted against the laws that enhance labor bargaining power.[39] If this argument is correct, then the decline of union power may be a sign of a gain in justice.

The point is not to rehearse or resolve this debate, but simply to illustrate that it's not enough to identify a mechanism of rising inequality. An additional argument is required to show that there is some kind of injustice or wrongdoing involved. In this case, and in many others, there is heated, longstanding disagreement among well-meaning, intelligent people on the substantive moral question.[40]

It's not enough to identify a mechanism of rising inequality. An additional argument is required to show that there is some kind of injustice or wrongdoing involved.

It is important to recognize that, in many cases, the fact of ongoing disagreement helps explain the persistence of the mechanism that accounts for some bit of inequality. A fuller consensus that the erosion of union power is unjust (to stick with that example) would likely be reflected in public opinion and public policy. If a mechanism of inequality persists, despite well-known and well-advertised arguments that it is unjust, it may well be because many or most people remain unmoved by the arguments to that effect. This suggests that it would be more fruitful for economic egalitarians to redouble their efforts at persuasion at the level of the alleged injustice rather than continuing to point out that income inequality is high and rising, as if that fact speaks for itself.

Here is the point at which some are tempted to argue that interested parties have been successful in manipulating public opinion to stand on the side of injustice. For example, the attempt to depict movement conservatism and its influence as the creation and instrument of scheming wealthy elites is an exercise in rhetorical needle-threading. It is an attempt to condemn public opinion while exonerating the democratic public. This kind of "false consciousness" argument tends either toward a general indictment of democracy as an enabling condition for injustice (i.e., voters can't be trusted to do the right thing) or toward the unverifiable claim that people's true democratic preferences would emerge were many of the author's other controversial policy preferences widely adopted. For example, some have argued that voters would democratically support greater redistribution if only the precedent of greater redistribution could be established through some other, perhaps nondemocratic, means—and that democratic support, unlike status quo public opinion, would reflect the voters' authentic preferences.[41] Of course, anyone of any ideological persuasion can make a similar argument when frustrated to find that his convictions are in the minority. The "liberal media" often plays this role for the right, and that is why such arguments are generally a waste of everyone's time.[42] It is both more honest and more charitable to suppose that the policy you prefer lacks sufficient support because most people have yet to be convinced by the arguments for it. Even a bare majority of support is a significant achievement. There is a great variety of moral convictions in a free, diverse society such as ours. Even a broadly appealing argument must rely on an implicit ordering of values with which a sizable number of people will reasonably disagree.

The general lesson, then, is that the level of economic inequality is a reliable indicator of neither individual well-being nor social justice. A society's least-privileged class can fare very well in a highly unequal society (such as in the United States) and fare dismally in a highly equal society (such as Ethiopia). Either a high or low level of economic inequality may be consistent with justice—with people getting what they are due as free and morally equal members of society—or it may be a side effect of injustice. In the case of injustice, the important thing is not the side effect—some level of inequality—but its primary causes: the injustices where they have occurred.

Take a moment to imagine a society where even the poor do very well and there is no evidence of systematic injustice in its basic institutions. People are free and equal under the law, and treated with respect simply by virtue of being people. The rules of the game are not rigged against any one group of people and everyone has access to educational, social, and economic opportunities sufficient to take an

active part in public life and enact a dignified and meaningful life. Sounds pretty good, doesn't it?

Now, suppose we discover later that this society also contains a number of immensely wealthy people who have a great deal more money than the average person. Have we suddenly discovered injustice?

Is the United States an example of this kind of society—a model of perfection with a fat dollop of inequality? Sadly, no. There is overwhelming reason to believe that in the United States the deck really is stacked against some people. As a consequence, many millions of people are doing much less well than they might be. Legions of inner-city kids consigned to abysmal public schools are systematically denied a fair chance to develop the capacities need to participate fully in our institutions, or to enjoy their potentially ample rewards. The United States imprisons a larger share of its citizens than any country on Earth, literally disenfranchising hundreds of thousands of men and women (though they are mostly men) and leaving hundreds of thousands more dispirited and damaged. Undocumented immigrant workers increasingly constitute a permanent economic underclass explicitly denied many of the basic legal protections of citizens, which invites both government and private abuse. And at the level of culture, patterns of private discrimination continue to constitute for millions a web of real, seemingly inescapable barriers to opportunity and achievement and help to generate self-reproducing patterns of diminished expectations and wasted potential. We should focus all our attention and energy on the task of rectifying these vicious injustices. Maybe fixing all this would decrease the variance in national incomes. But the idea that fixing all this somehow requires "fixing" the pattern of incomes is an excellent way to avoid the real problem and fix nothing.

Economic Patterns and Distributive Justice

Too often those who write about income inequality assume that it is unfair or unjust simply because it is inequality. If it's bad intrinsically, the evaluation of the mechanisms that have brought it may seem beside the point. One common source of this confusion about the moral status of the income distribution is the ambiguity of the word "distribution."

Talk of the "income distribution" mixed with talk of "redistribution" encourages the thought that there is someone or something (perhaps the government or a cabal of international bankers) who decide what teachers, plumbers, computer programmers, and basketball players will be paid each year. This silly, but sadly widespread, misimpression is compounded by talk of the median worker's dwindling "share" of the "national income," as if the United States of America was a super-sized firm with profits to be bargained over and divvied up or "distributed" among the interested parties—this much to labor, this much to management, this much to capital improvements, etc. It is simply impossible to conduct a meaningful public discussion about inequality without an upgrade in conceptual and linguistic clarity.

The income distribution is nothing more or less than an ordered list of numbers, where each number represents the money value of an individual's or household's annual earnings. For a list of 100 numbers, we find the top decile by counting down to the tenth number from the top and drawing a line under it. If our list has 300 million numbers on it, we count down to the 30 millionth number from the top, and so on.

You can have a distribution of anything you can put a number on. Take height. Andre is 68 inches tall, Beatrice is 70 inches, and Carlos is 80. Let's say they are members of a club. If we list their heights from tallest to shortest, then we have the height distribution of the club. Notice that no one distributed their heights to them. The distribution is simply the pattern of heights in the population. This pattern might have any number of interesting properties. If we like, we can add together their heights (it is 218 inches) and see who has what percentage of total club height. It turns out that Carlos,

There is overwhelming reason to believe that in the United States the deck really is stacked against some people.

The pattern of incomes emerges from billions upon billions of individual choices and transactions.

who is only one-third of the club, has a full 37 percent of the total height. (Is that unfair?) Imagine they add a member, Daria, who is a mere 50 inches tall. The average height of the club has just dropped significantly. Also, club height inequality has notably increased. But no one has become a whit shorter.

The income distribution is like that. It is a pattern. Income inequality is a property of the pattern of incomes. Every time a penniless immigrant walks across the border, he changes the pattern. Income inequality may have marginally increased thereby, but no one became poorer for it.

The pattern of incomes emerges from billions upon billions of individual choices and transactions. Every time you buy a candy bar, a pair of shoes, or a ticket to a concert, you have made a tiny change in the pattern of incomes. Nicole Kidman is fabulously wealthy because millions of individuals have chosen to see a movie with Nicole Kidman in it instead of a non-Kidman movie, or instead of going bowling. Of course, these myriad choices take place within a framework of political, legal, economic, and social institutions—including cultural conventions and norms—all of which affect the eventual pattern of incomes. The Constitution of the United States, workplace safety regulations, contract law, family conventions, and tipping norms are all part of the basic framework of institutions and all shape the choices that determine the pattern of incomes.

The exception to the idea that the pattern of incomes is not "distributed" by anyone, but emerges from countless individual choices within the basic framework of institutions, is government redistribution. It would be a mistake to think of redistribution as a redo of a prior round of active distribution, which left something to be desired. That would make sense only if there was a prior round to do over. But there are no rounds; the music never stops. The pattern shifts continuously, unceasingly, as a byproduct of normal human social life. Instead of thinking of redistribution as a redo, think of it as an active intervention into and rearrangement of the dynamically emerging pattern of incomes. Think of a gardener pruning branches and grafting them elsewhere on a tree. Redistributed income and benefits are distributed. They are distributed by the government, which came to have those resources by taking them away from someone.

The confusion over what an income distribution is goes beyond the common assumption that the pattern reflects some kind of intentional top-down division of incomes, and beyond the hasty inference that a rise in income inequality reflects injustice when it may simply reflect benign or beneficial patterns of voluntary transfer. Even worse, there is endemic confusion over the appropriate scope of the distribution, which tempts us to see injustice where there is none while blinding us to injustice under our nose.

Consider immigration. Looking at that issue through the prism of conventional economic analysis or liberal egalitarian political thought tends to simply take for granted what might be called "analytical nationalism." After all, income statistics are kept by governments on a national level. Of course, the mere fact that most useful economic data are collected by nation-states about individuals and families within their physical jurisdictions is irrelevant to the task of determining the morally relevant pattern of incomes. If you focus only on the shifting pattern of incomes among legal residents within the statistics-keeping jurisdiction (the United States), you can easily lose track of the real story of human welfare and social justice.

Consider a discussion of the effects of immigration on income inequality from three eminent political scientists: Nolan McCarty, Keith T. Poole, and Howard Rosenthal, in their recent book *Polarized America: The Dance of Ideology and Unequal Riches*:

> The new immigrants are predominantly unskilled. They have contributed greatly to the economy by providing low-wage labor, especially in jobs that American citizens no longer find desirable. They also provide the domestic services that facilitate labor market partici-

pation by highly skilled people. On the other hand, *immigrants have also increased inequality both directly, by occupying the lowest rungs of the economic ladder, and indirectly, though competition with citizens for low-wage jobs. Yet as noncitizens they lack the civic opportunities to secure the protections of the welfare state. Because these poor people cannot vote, there is less political support for policies that would lower inequality by redistribution* [emphasis added].

This is a sadly typical example of the distortions of analytical nationalism. If we were to assume a natural and mundane moral perspective, from which all people involved are taken into account and assumed to have equal worth—that is, if we assume the perspective of moral egalitarianism—what we would see is a profound reduction in both poverty and economic inequality. If the question is "What happened to the people in this scenario?" then the answer is "The poorest people became considerably wealthier, narrowing the economic gap between them and the rest." But what actually happened seems either invisible or irrelevant to the authors, which certainly suggests that their analytical framework leaves something to be desired. Here's how the passage I highlighted might be more accurately stated:

> Immigration decreased inequality both directly, by sharply increasing the wages of low-skilled, foreign-born workers, and indirectly, through remittance payments to low-income relatives at the immigrants' places of origin. Due to the widespread opposition of American voters to liberalizing immigration, very large additional reductions in poverty and inequality have been forgone.

Reading allegedly social-scientific accounts of inequality by most celebrated economists and political scientists, one would simply not know that nation-states are not giant firms with profits ("national income") to be parceled out to various constituencies, or that political boundaries defined by histories of colonial aggression, war, and dumb luck do not define the natural and inevitable domain of moral evaluation. These are not trivial conceptual gaffes. Once committed, they distort almost every judgment about political morality and social justice. Society is not a set of people sharing a legal status set by local law, or a set of people inside the borders of a political jurisdiction, but the international system of cooperation we act within every day. Global air traffic patterns or shipping lanes limn the shape of society better than a civics class map of the 50 states. When you buy socks made by strangers in a faraway factory, you have entered into society with them. You made a tiny ripple in the distribution, in the pattern, of national and international income and well-being. You can choose to ignore the ripple once it crosses the border, but that doesn't mean that questions of social and distributive justice stop at the border, too.

Analytical nationalism has serious real-world consequences. It leads well-meaning people to countenance, or even support, acts of injustice against fellow members of our transnational society—restrictions on the free movement of persons across political boundaries—in the name of combating the illusory injustice of an uptick in the national Gini coefficient. These gaffes lead Paul Krugman, for example, to tie his conscience in a liberal knot. "I'm instinctively, emotionally pro-immigration," Krugman confesses.[43] But he is also instinctively, emotionally committed to the moral relevance of nation-level income inequality statistics. Thus does a modest rule that tells the Census Bureau where to stop counting come to tell Krugman whose welfare really counts. "We'll need to reduce the inflow of low-skill immigrants. Mainly that means better controls on illegal immigration," Krugman concludes. After all, "the net benefits to the U.S. economy from immigration, *aside from the large gains to the immigrants themselves* [emphasis added], are small."

Of course, national jurisdictions matter. Borders define the physical scope of legal and economic institutions. Differences in the quality of institutions explain, among other things, the large degree of economic inequality be-

Political boundaries defined by histories of colonial aggression, war, and dumb luck do not define the natural and inevitable domain of moral evaluation.

tween, say, Americans and Mexicans. (It also explains why Mexicans don't worry about mass American immigration.) Mexican immigration narrows the income gap between Mexicans and Americans. Trade with China narrows the income gap between the people of Guangdong and the people of Tulsa. Both slightly widen the gap between some Americans and others. Why should that gap matter more? Of course, citizenship matters. Americans stand in a special relationship with other Americans by virtue of sharing and sustaining their common institutions. If governments are going to offer public protections and benefits, then it is necessary to define the relevant public. And there are profound moral questions about what citizens owe to one another as citizens. But the correct answers to those questions cannot imply that the welfare of those with whom we are in society, but whose passports were issued by a different political authority, matters less than our own.

The Inequality Road to Serfdom

In 1944, Friedrich Hayek's *The Road to Serfdom* hit the shelves in England and America. The following year, *Reader's Digest* published an abridged version that brought Hayek's cautionary tale to an enormous audience, forever changing the shape of the American debate over economic policy. *The Road to Serfdom* is an egalitarian work penned by a liberal about the grave danger of political inequality, among other things. Rational economic planning by centralized government authorities was much in vogue among "respectable" intellectuals in the 1940s. Hayek pointed out that this kind of planning necessarily requires power to be vested in a small elite. Excellent results could perhaps justify this concentration of power. But, Hayek argued, no matter how comprehensive their data gathering or rigorous their models of the economy, the planners would never have adequate information to pinpoint the most efficient allocation of resources. Conflicts among the planners would surely break out over which plan to impose, implementation would be inconsistent, and since no plan could possibly be adequate to the task, all would fail. The public would attribute compounding failure to a lack of a unitary authority with the power to settle on a single course of action and just get it done. Popular demand for a "strongman" would lead to totalitarian dictatorship—the limiting case of inequality under the law and, therefore, the utter death of liberal rights. The argument may seem melodramatic today, but in the era of Hitler, Stalin, and Mussolini, it seemed a lot like life.

Why bring this up? Because Hayek's slippery-slope logic thrives in the thought of contemporary egalitarian liberals—from the pages of academic journals to the editorials in local newspapers. There is more than one road to serfdom and, according to egalitarian liberals, an excess of income inequality sets us on one of them. Supreme Court Justice Louis Brandeis sums up the core what I will call the "Inequality Road to Serfdom" argument when he said, "We can have a democratic society or we can have great concentrated wealth in the hands of a few. We cannot have both."

The late John Rawls, the dominant liberal political philosopher of the last half of the 20th century, emphasized that unchecked economic inequalities will lead to political inequalities and status inequalities. This can, Rawls argued, threaten the liberties of the least well-off both directly and indirectly: directly, by denying them the conditions for equal democratic representation; indirectly, via the demoralizing effect of a low relative social position, which may lead to a sense of resignation and political disengagement.[44] The entry on "distributive justice" in the *Stanford Encyclopedia of Philosophy* nicely captures both Rawls' influence and the currently dominant view in academic liberal political thought:

> Very large wealth differentials may make it practically impossible for poor people to be elected to political office or to have their political views represented. These inequalities of wealth, even if they

Hayek's slippery-slope logic thrives in the thought of contemporary egalitarian liberals.

> increase the material position of the least advantaged group, may need to be reduced in order [to secure "the fair value of the political liberties"].[45]

The same basic point is stated more urgently and concretely in Krugman's claims about the threat posed to democracy by "the emerging plutocracy."[46] "Either democracy must be renewed, with politics brought back to life," writes the journalist Kevin Phillips in his book *Wealth and Democracy*, "or wealth is likely to cement a new and less democratic regime—plutocracy by some other name."[47] This narrative—from income inequality, to the evisceration of true democracy, to the tyranny of the rich—is the contemporary liberal's version of *The Road to Serfdom*. "Plutocracy" or a "banana republic with nukes" may not be as harrowing as totalitarian dictatorship, but it's still a liberal nightmare.[48]

It's important to see that the Inequality Road to Serfdom argument is not merely conceptual or philosophical, but in fact makes a number of falsifiable empirical claims. It makes predictions. The chief prediction is that, past a certain threshold level of economic inequality, the democratic process will tend to lock-in and even exacerbate trends in inequality by successfully resisting redistributive policy. The way this is supposed to work, in the American context, is that the success of the party most strongly supported by the poor, and which favors greater redistribution—the Democratic Party—will be systematically undermined as inequality gets out of control.

The advocates of the Inequality Road to Serfdom argument therefore need to account for the success of the Democratic Party in the 2006 congressional elections and Barack Obama and his party in the 2008 election. What's the story here? One possibility is that America luckily averted the Gini coefficient tipping point that would send it sliding toward oligarchy. The likelier possibility is that key assumptions of the Inequality Road to Serfdom argument are false.

Perhaps the main implicit assumption is that wealthy Americans will throw their heft behind politicians and policies that will oppose progressive redistribution. The election of Barack Obama makes it increasingly clear that this assumption is false, especially when we recall Obama's admirable clarity in his intention to raise both income and payroll taxes for the wealthiest Americans, and the intensity of the McCain campaign's tireless advertisement of Obama's desire to "spread the wealth" and attempt to brand him as a "socialist." Nevertheless, according to exit polls, 52 percent of Americans with incomes of $200,000 or higher voted for Obama. In 2004, by contrast, only 35 percent of high-income voters supported John Kerry.[49] And what about campaign contributions? The story here is a similar one. Traditionally Republican candidates have enjoyed a fundraising advantage over their Democratic rivals. Yet in the recent presidential contest, Barack Obama raised an eye-popping $660 million while John McCain managed only $375 million.[50]

The trend is evidently moving in the wrong direction for the Inequality Road to Serfdom argument. The evidence that the rich, as a class, are about to gang up and rig the political system in their favor is thin. In particular, the fact that the wealthy as a class should be drifting steadily toward the more progressively redistributive party as income inequality hits historical peaks should be almost enough to lay the Inequality Road to Serfdom argument to rest.[51]

What's the mechanism—the chain of cause and effect—that is supposed to take us down the Inequality Road to Serfdom? The way rising income inequality is supposed to endanger democracy is through the conversion of unequal economic resources into unequal political resources—the means to affect the outcome of the democratic process. Yale political theorist Robert Dahl lays it out as clearly as anyone:

> Because market capitalism inevitably creates inequalities, it limits the democratic potential of [the best kind of liberal] democracy by generating inequalities in the distribution of political

The evidence that the rich, as a class, are about to gang up and rig the political system in their favor is thin.

> resources. Because of inequalities in political resources, some citizens gain significantly more influence than others over the government's policies, decisions, and actions.[52]

Yet, according to Dahl, political resources are a varied lot that include status, honor, respect, affection, charisma, prestige, information, knowledge, education, communication skills, access to the media, organization, legal standing, persuasive influence over doctrine or belief, votes, and more. When we focus on the complex and varied nature of political resources, it becomes easier to see how the Inequality Road to Serfdom argument founders.

It is not very easy to convert economic resources into political resources.

First, it becomes evident that it is not very easy to convert economic resources into political resources. Many items on Dahl's list cannot be purchased, as the relative electoral achievements of Steve Forbes, a "connected" heir, and Barack Obama, the son of a school teacher and an African immigrant, amply illustrate. Second, if we think carefully for a moment about the actual distribution of political resources, it becomes immediately clear that the distribution is tightly correlated with economic resources up to a certain level of income. But it is very difficult to see how income in excess of the threshold necessary to receive a high-quality education adds much to most people's pool of political resources. Given this, rising income inequality should have very little effect on the ability of the wealthy to influence the outcome of the democratic process, beyond financing others' attempts at political persuasion.

Indeed, financing the operations of political action committees, campaigns, think tanks, advocacy organizations, and money-losing ideological publications is likely the best that most wealthy Americans can hope to do in converting their money into political influence. And beyond relatively small-scale giving to campaigns and causes, most wealthy people do not spend their money this way. Even when they do, ideologically motivated wealthy Americans are limited by the menu of preexisting organizations, prevailing ideas, and the supply of ideologically congenial labor. No amount of money can buy you a think tank with your politics if there is no one with your politics to work in it.

When Paul Krugman or *Wall Street Journal* columnist Thomas Frank emphasizes the role of free-market research and advocacy organizations in their attempts to explain the democratic failure of their favored policies, they unwittingly undermine the assumptions of the Inequality Road to Serfdom argument even as they attempt to make it. By emphasizing the importance of the climate of opinion on policy, and the role of writers, commentators, and policy analysts in affecting the climate of opinion, they make it clear that the political resources they think matter the most are communicative and persuasive resources. These resources are held by the researchers, writers, and media personalities themselves. In the best case, an infusion of money can expand the supply of persuasive talent over time by supporting the market for it. In most cases, it amplifies preexisting voices, few of whom are especially rich.

Now, if it were possible to plot the distribution of persuasive and communicative resources on the model of the distribution of income, we would not find that they are heavily concentrated in the hands (or brains) of people with anti-distributive politics. The mechanism that is supposed to lead us down the Inequality Road to Serfdom does not appear to be especially effective.

Left-leaning commentators on inequality have made a great deal of the influence of a few free-market think tanks and advocacy organizations, and point to this as evidence of the way money can buy persuasion. But there is almost no evidence that right-leaning policy and advocacy groups are better-funded overall than left-leaning groups. It's no secret, after all, that the great philanthropic foundations such as Ford and Pew have for decades channeled enormous resources into left-leaning institutions. But the big story about big money and political activism in recent years is a story of the left. For example, a large, somewhat secretive group of extremely

rich liberals, calling themselves The Democracy Alliance, has come together with the specific goal of limiting, and even overtaking, the influence of right-leaning think tanks and advocacy organizations by creating an enormous pool of funds to be strategically disbursed to similar left-leaning groups.[53] The point here isn't to argue over whether the "right" or "left" enjoys more billionaire largesse, but just to observe that at the high-water mark of the trend in rising inequality—the trend which Krugman and so many others fear will spell the demise of genuine democracy—the rich have not come together to consolidate the influence of the right-leaning institutions allegedly designed to guard their increasingly vast riches against the hoi polloi. On the contrary, a league of liberal billionaires and an extremely well-financed "movement progressivism" have emerged to check and even overwhelm the "movement conservatism" that allegedly set us on the Inequality Road to Serfdom.[54]

In any case, gifts from the wealthy are more likely to be directed toward universities and colleges than to think tanks. And policy ideas are disproportionately drawn from the work of academics supported by those institutions, who also often serve directly as advisers to politicians and policymakers. Academics as a class command enormous influence over which policies are put on the table for broad public consideration. Consider the roles that academics like University of Chicago economist Austan Goolsbee and Harvard political scientist Samantha Power played in Barack Obama's successful campaign. Academic economists such as Robert Reich, Larry Summers, and Ben Bernanke are routinely appointed to high positions in government with enormous direct influence over economic policy. The work of legal academics routinely affects the courts' interpretation of the laws, and they are routinely recruited into services as judges on state and federal courts. Many of these scholars wield an influence over policy, both directly and indirectly, through their influence on public deliberation, that few billionaires could ever hope to match. Of course, academics overwhelmingly favor the Democratic Party and a more progressive redistributive policy. A recent study by Daniel Klein and Charlotta Stern found that Democrats outnumbered Republicans among political and legal philosophers by a ratio of nine-to-one; among political scientists by a ratio of over five-to-one; and among economists by a ratio of about three-to-one. Eighty percent of academic Democrats favored more highly redistributive policies.[55]

The mass media has an enormous influence on how the public perceives political candidates and public policies, and the question of "media bias" is a perennial source of controversy. What is beyond dispute is that, according to data from Gallup, "journalists are still more than twice as likely to lean leftward than the population overall."[56] Sure, Rush Limbaugh and Bill O'Reilly have a lot of influence, as does Rupert Murdoch. But then, so do National Public Radio, Keith Olbermann, and the Ochs-Sulzberger family. A cursory survey of the facts on the ground just makes it exceedingly hard to credit the idea that those with the greatest capacity to affect public opinion and public policy are disproportionately arrayed against a more redistributive, social-democratic United States, or that rising inequality has created the conditions for its own consolidation.

Paul Krugman, both an academic and a media superstar, is himself an outstanding example of intensely concentrated political resources. (As a matter of fact, he is a rich man, but that's more an effect than a cause of his persuasive power.) He has been a staff member of the White House Council of Economic Advisers, in addition to being an enormously influential trade economist, bestselling author, and columnist for one the world's most influential and prestigious newspapers. The low approval ratings of the Bush administration and the surging popularity of progressive politics are a testament to the powerful influence of liberal thinkers like Krugman and a stinging rebuke to the fantastic economic determinism of the Inequality Road to Serfdom argument.

Of course, even if powerful opinion leaders and policymakers do favor more redistributive politics, the poor themselves may still be sorely lacking in political resources.

A cursory survey of the facts makes it exceedingly hard to credit the idea that rising inequality has created the conditions for its own consolidation.

If we care about the welfare of the least privileged members of our society, a focus on equality of "voice" may actually be counterproductive.

But in light of the significant political resources arrayed in favor of redistribution, we cannot just assume that the interests of the poor are endangered by inequalities in "voice." In his book *Unequal Democracy: The Political Economy of the New Gilded Age*, Princeton University political scientist Larry Bartels shows that congressmen are relatively unresponsive to their lower-income constituents.[57] This may lead us to worry that the interests of the least well-off will go unprotected by the democratic process, that the "cash value" of their formally equal political rights will be too little, leaving them especially vulnerable to abuse and neglect by the democratic process. But, as Bartels points out, his own analysis points to "bright spots in an otherwise gloomy picture":

> First, the correlation between class positions and political views is not so substantial that support for egalitarian policies is limited to "those mired in poverty." Just as many poor people espouse antipathy to redistribution and the welfare state, many affluent people support egalitarian policies that seem inconsistent with their own narrow material interests. Insofar as the political activism of affluent egalitarians "does perform as advertised," policymakers may be much more generous than the political clout of the poor would seem to warrant.[58]

Indeed, if we care about the welfare of the least privileged members of our society, a focus on equality of "voice" may actually be counterproductive. The issue is improving the welfare and opportunity of the poor. That is, the issue is whether policy intended to do this "performs as advertised." It is not surprising that the poorest Americans are generally the least well-educated and have the least access to information about politics and policy. But it would be surprising if those citizens who are least likely to know the names of candidates, least likely to know the policies that candidates support, and least likely to have the kind of education that would allow them to evaluate the effectiveness of alternative policy proposals would be able to use democratic participation effectively to advance their interests and promote their values. Everyone should have the means to make informed and effective democratic decisions. It would be ideal were each and every citizen to have the income and education typical of well-informed, motivated voters. To get closer, we need policies that will actually work to promote broader prosperity and a fuller realization of basic human capacities. We may want to equalize "voice," but then we need to know what would make that happen, and the democratic public has to vote for it.

In this regard, the danger of "capture" in democratic politics is not primarily a matter of systemic conflicts of economic interest between those occupying different strata of the income distribution. Rather, the problem is that political power in democracies flows to those able to put together winning electoral coalitions, and this ability necessarily involves maintaining the loyalties of special interests whose demands may not be in the public interest.

Suppose, for the sake of argument, that the most effective solution to self-reproducing poverty is radical structural reform in our system of primary and secondary education. In that case, a party that depends on interest groups that are violently opposed to anything more than marginal reform in this area may find itself unable to maintain a cohesive coalition, and may also fail to enact the kinds of policies that would actually best ensure that everyone has the educational and economic means to full and effective democratic participation. In such circumstances, we might expect that party to minimize the importance of this kind of reform and instead emphasize policies, such as progressive redistribution, that may be much less effective in the long run, but are also much less threatening to the integrity of its electoral coalition. Likewise, peace may be strongly in the public interest, but a party coalition that includes powerful special interests that stand to benefit from war

is likely to overestimate both external threats to national security and the benefits of military intervention. The logic of the American system of democracy all but guarantees that the government will not be able to reliably produce ideal public policies.

Nevertheless, it is possible to do better. But we're unlikely to make real progress in improving the quality of public policy if otherwise sophisticated minds continue to be surprised by the fact that the party promising security may leave us less secure, or that the party promising to lift up the poor may leave them stranded. Strong partisan identification is dangerous because it can pressure even the best and brightest into accepting that the policies best for the electoral success of their favorite party—a fragile and contingent consortium of often conflicting interests—will somehow turn out best for the country.

As we've seen, the Inequality Road to Serfdom barely takes one step before stumbling. We are not easing on down that road. Our democracy has not been captured by the rich and turned to the consolidation of their advantages. But that by no means guarantees that our democracy is well-suited to acting in the interests of our society's least privileged and least powerful members. It is not enough for the privileged and the powerful to wish with their whole hearts to make ours a society in which all people have a real chance to make the most of their liberties and lives. Our democracy has to deliver the policies that can actually make this happen. But just as special interests can capture democratic coalitions, our coalitional minds can be captured by democratic politics. What the poor need is not party faith, but good faith in the effort to find policies that really deliver.

Equality, Opportunity, and Liberation from Poverty

Let's take stock. Income statistics do not provide a reliable measure of material well-being. Nominal consumption numbers are a bit better, and the weight of evidence favors the idea that nominal consumption inequality has risen much less over the past several decades than has income inequality. But nominal consumption numbers can be misleading, too. What we're after is real consumption—real standards of living. The weight of evidence supports the idea that there has been no increase in real consumption inequality. Further, the possibility that standards of living have actually become more equal is supported by several strands of evidence, including the decline of inequality in life satisfaction since the 1970s. Fixating on income inequality may have caused us to miss one of the biggest stories of modern times: America may have become materially more equal. And no one noticed.

Income inequality is an abstract mathematical property of a distribution of incomes, and measures of income inequality, such as the Gini coefficient, convey exceedingly little information relevant to the moral evaluation of social and political institutions. The same level of inequality can be the consequence of either just or unjust or moral or immoral influences on a pattern of incomes. If there is injustice or immorality in our social, political, or economic system, we should root it out—independent of its effects on the dispersion of incomes. However, there is little agreement over the injustices in the American system, which helps explain why some allegedly inequality-causing mechanisms or trends have not been "corrected" by democratically determined policy. Moreover, the fact that income statistics are collected by government bureaus does not mean than national-level patterns of income are especially relevant to the moral evaluation of our policies and institutions. Society is an international network of cooperation and reciprocity, not a nation-state or an exclusive citizenship club. A nation-state isn't a giant firm. "National income" is an accounting fiction, and not something to be divided, either fairly or unfairly, among stakeholders, like corporate profits. "Analytical nationalism" can blind us to the impact of our policies and institutions on noncitizens, warp our sense of social justice, and lead us to prefer policies that benefit more advantaged people over less advantaged people.

What the poor need is not party faith, but good faith in the effort to find policies that really deliver.

Emphasis on abstractions like national-level income inequality can distract us from identifying and combating injustice and wrongdoing within our institutions and can also contribute to further injustice.

High levels of income inequality do not threaten to gut the protections of democratic government and send us down the Inequality Road to Serfdom. Economic resources are not easily converted into political resources. When the wealthy attempt to do so, there is little serious evidence that they are attempting to benefit themselves at the expense of the poor and middle classes. The ability to affect public opinion and policy is heavily concentrated in academia and the media, groups that skew decidedly left. The dizzying levels of economic inequality recently achieved have coincided with a movement of the wealthiest Americans toward the party explicitly in favor of higher taxes and a more progressive redistribution policy. But assuring the value of political rights by equalizing democratic "voice" requires policies that actually work to improve the education and economic prospects of poorer Americans. Our worry should not be that the wealthy and well-educated will twist democracy to their narrow advantage, but that the incentives of electoral coalition building will twist the wealthy and well-educated—who do disproportionately affect the workings of our democratic institutions—into supporting policies that do not really help the people who really need it.

In their book *Why Welfare States Persist*, political scientists Jeff Manza and Clem Brooks find, not so shockingly, that welfare states are larger in countries in which they are more popular.[59] Americans just don't want Western or Northern European levels of redistribution, which is a constant source of frustration to those who would like the United States to look more like Western or Northern Europe. As I've noted, it's tempting to look for signs of conspiracy or false consciousness, but it's easier simply to acknowledge that American moral and political culture reflects our peculiar political institutions and history. As Harvard economists Edward Glaeser and Alberto Alesina conclude in their comparative study of American and European strategies for fighting poverty:

> Ultimately, we believe the welfare state in the United States did not develop as much as in Europe because of American political institutions, such as majoritarianism (as opposed to proportional representation), federalism, and checks and balances, American ethnic heterogeneity, and different beliefs about the causes of poverty in the United States.[60]

As income inequality has climbed in the United States since the 1970s, the popular demand for increased redistribution has barely budged. This may reflect, in part, a realistic view of the trends in inequalities in real standards of living. But, in the face of constant media reports about inequality, it more likely reflects a distinctively American emphasis on poverty and opportunity, as opposed to inequality.

It is, of course, a commonplace idea that Americans endorse "equality of opportunity" but not "equality of outcome." But this idea seems to rest on the notion that equality of opportunity and equality of outcome can be easily separated. This is a mistake for reasons Paul Krugman ably identifies:

> What it all comes down to is that although the principle of "equality of opportunity, not equality of results" sounds fine, it's a largely fictitious distinction. A society with highly unequal results is, more or less inevitably, a society with highly unequal opportunity, too. If you truly believe that all Americans are entitled to an equal chance at the starting line, that's an argument for doing something to reduce inequality.[61]

There is indeed an internal relationship between opportunity and results. Wealth is just distilled opportunity, and a child's opportunities are partly a result of the parent's level of economic achievement, that is, of their results. However, this suggests that those who

Americans just don't want Western or Northern European levels of redistribution.

reject equality of results as an ideal have a similar reason to find equality of opportunity undesirable. If opportunity is so closely tied to results, then equalizing opportunity will also require constant coercive "corrections" of the emergent pattern of holdings. And that's the main objection to trying to maintain equality of results, or any particular pattern of goods, for that matter.

Literal equality of opportunity is so undesirable that no successful society attempts it. Of course, when most Americans endorse "equality of opportunity," they don't really want the massive intervention that would be literally necessary to equalize opportunity. Combing through public opinion data, sociologists Leslie McCall and Lane Kenworthy find that "Americans do object to inequality and do believe government should act to redress it, but not necessarily via traditional redistributive programs."[62] According to McCall and Kenworthy, as public worries over income inequality have heightened, more Americans have come to support increased spending on education. This suggests a widely-shared sense that many children are not provided a sufficient opportunity to develop the capacities that would serve them well in the present economy. The idea that each person should have access to a baseline level of opportunity is a sensible interpretation of the ideal of equality of opportunity—one that does not imply radical leveling.

Krugman reaches for a familiar metaphor when he talks about "an equal chance at the starting line," but it's a turn of phrase that really confuses people about the positive-sum nature of liberal market societies. There is no "starting line" for Americans because life in civil society is not a race. It is, insofar as a society is decent, an exercise in cooperation. David Schmidtz lucidly explains that a good footing, not an equal footing, is what people need, because what people need is to do well in life, not to keep up or to "win":

> In a race, equal opportunity matters. In a race, people need to start on an equal footing. Why? Because a race's purpose is to measure relative performance. Measuring relative performance, though, is not a society's purpose. We form societies with the Joneses so that we may do well, period, not so that we may do well relative to the Joneses. To do well, period, people need a good footing, not an equal footing. No one needs to win, so no one needs a fair chance to win. No one needs to keep up with the Joneses, so no one needs a fair chance to keep up with the Joneses. No one needs to put the Joneses in their place or to stop them from pulling ahead. The Joneses are neighbors, not competitors.[63]

If what we're really concerned about is sufficient opportunity, then the link between opportunity and income inequality comes undone. Our goal is to make sure that people have meaningful opportunities to make the most of their lives. In a positive-sum society, the fact that some people have fantastic opportunities doesn't make our goal harder to achieve. How are a poor, inner-city kid's life chances affected by the fact that some Web entrepreneur makes billions of dollars as opposed to just millions? If we're interested in improving opportunity, we need to focus on things like intergenerational poverty and failing schools—in other words, things that actually have something to do with the level of opportunity for people who are struggling. At best, income inequality is a distraction.

Conclusion

Income inequality can indeed be reduced in a stroke by taxing the wealthy more heavily. It was, very likely, reduced in a stroke by the recent financial collapse. But just as there is no point in wanting a lower Gini coefficient just for its own sake, there's no point in cheering when the income gap narrows, since the income gap was never the problem. The problem is that too many people in our society do not have reason to be glad that they live under these institutions rather than others. Too many Americans struggle to find

Our goal is to make sure that people have meaningful opportunities to make the most of their lives. At best, income inequality is a distraction.

It is not okay for intellectuals and policymakers to waste time and energy worrying that some people have done too well. It doesn't help.

decent work, and struggle to raise their families without a toxic sense of physical and economic insecurity. Too many Americans are held captive by the state for acts that should not be crimes. Too many migrant workers are abused because our laws leave them vulnerable to abuse. Too many live in fear of losing what they have achieved by courageously venturing far from home to find opportunity. Too many children are denied the opportunity to develop the intellectual skills and habits of mind necessary to take advantage of the stupendous variety of opportunities that would otherwise be available to them. This is not okay. And it is not okay for intellectuals and policymakers to waste time and energy worrying that some people, who have had the opportunity to make the most of our institutions, have done too well. It doesn't help. Nor does it help to encourage people to concentrate on differences in income, or to resent them. Demoralization and resentment are not what people need. As the philosopher Harry Frankfurt put it in his profound essay, "Equality as a Moral Ideal":

> To the extent that people are preoccupied with equality for its own sake, their readiness to be satisfied with any particular level of income or wealth is guided not by their own interests and needs but just by the magnitude of the economic benefits at the disposal of others. In this way egalitarianism distracts people from measuring the requirements to which their individual natures and their personal circumstances give rise. It encourages them instead to insist upon a level of economic support that is determined by a calculation in which the particular features of their own lives are irrelevant. How sizable the economic assets of others are has nothing much to do, after all, with what kind of person someone is. A concern for economic equality, construed as desirable in itself, tends to divert a person's attention away from endeavoring to discover—within his experience of himself and his life—what he himself really cares about and what will actually satisfy him, although this is the most basic and the most decisive task upon which an intelligent selection of economic goals depends. Exaggerating the moral importance of economic equality is harmful, in other words, because it is alienating.[64]

This exaggeration threatens not only to alienate us from ourselves, but to further alienate us from the institutions that have so dramatically increased prosperity and opportunity. Until we are better able to grasp how it is possible for well-functioning market institutions to narrow gaps in health, longevity, happiness, and real standards of living by unleashing the entrepreneurial energy and competitive spirit that can also lead to unfathomable fortunes, our democracy will continue to fail to deliver the conditions most likely to provide each person sufficient opportunity, a fair chance, to thrive.

Notes

1. Paul Krugman, "For Richer," *New York Times Magazine*, October 20, 2002, http://query.nytimes.com/gst/fullpage.html?res=9505EFD9113AF933A15753C1A9649C8B63.

2. Paul Krugman, "The Great Wealth Transfer," *Rolling Stone*, November 2006, http://www.rollingstone.com/politics/story/12699486/paul_krugman_on_the_great_wealth_transfer.

3. Krugman, "For Richer."

4. Thomas Piketty and Emmanuel Saez, "Response by Thomas Piketty and Emmanuel Saez to: 'The Top 1% . . . of What?' by Alan Reynolds," http://elsa.berkeley.edu/~saez/answer-WSJreynolds.pdf. This is a reply to Reynolds's article that appeared in the *Wall Street Journal*, December 17, 2006, http://www.opinionjournal.com/extra/?id=110009398.

5. Paul Krugman, *The Conscience of a Liberal* (New York: W. W. Norton, 2007).

6. Krugman, "For Richer."

7. Krugman, *The Conscience of a Liberal*, p. 10.

8. See Daniel Slesnick, *Consumption and Social*

Welfare: Living Standards in the United States and Their Distribution (New York: Cambridge University Press, 2001).

9. Bruce D. Meyer and James X. Sullivan, "Further Results on Measuring the Well-Being of the Poor Using Income and Consumption," University of Chicago, Harris School Working Paper Series 07.19, August 2007. They conclude that on balance the consumption data are more reliable, and point out that the problems with the income data are very serious when used to evaluate poverty and inequality. "The bottom deciles of consumption exceed those for income, suggesting underreporting of income. There is a high and rising underreporting rate for government transfers, a source of income that is particularly important at the bottom."

10. Dirk Krueger and Fabrizio Perri, "Inequality in What?" *Cato Unbound*, February 16, 2007, http://www.cato-unbound.org/2007/02/16/dirk-krueger-fabrizio-perri/inequality-in-what/. They are reporting findings from Krueger and Perri, "Does Income Inequality Lead to Consumption Inequality?" *Review of Economic Studies*, March 2006.

11. Slesnick, *Consumption and Social Welfare*, p. 154. However, Orazio Attanasio, Erich Battistin, and Hidehiko Ichimura, who use a different method to tackle consumer expenditure survey data, find an increase in consumption inequality similar to the increase in income inequality. See "What Really Happened to Consumption Inequality in the U.S.?" in E. Berndt and C. Hulten, eds., *Measurement Issues in Economics—The Paths Ahead: Essays in Honor of Zvi Griliches* (Chicago: University of Chicago Press, 2005).

12. It is possible that, to some extent at least, what appeared at the time to be consumption smoothing was actually excessive and unsustainable borrowing. We have to await further data to see if consumption inequality trends change in the wake of the current recession and tighter credit standards.

13. To see the difference between nominal and real consumption, imagine twin sisters who purchase an identical bundle of goods and services over the course of a year. One lives at the bottom of a mountain and the other lives at the top. Because it costs a bit more to transport goods to the top of the mountain, everything's a bit more expensive there. At the end of the year, the sister at the top will have a spent a good deal more than the sister at the bottom. So she will be listed as having consumed more *as measured by dollars spent*. But, by hypothesis, they have consumed an identical bundle of goods and services.

14. Jan Ott, "Level and Inequality of Happiness in Nations: Does Greater Happiness of a Greater Number Imply Greater Inequality in Happiness?" *Journal of Happiness Studies* 6 (2005): 397–420.

15. Betsey Stevenson and Justin Wolfers, "Happiness Inequality in the United States," IZA Discussion Paper no. 3624, July 2008, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1198694.

16. Some might be tempted to argue here that happiness inequality has not risen with income inequality simply because, after a certain threshold has been met, income has a weak effect on life satisfaction. That may or may not be true. But consider the tension in insisting that money has little to do with happiness and inequalities in money are of paramount importance.

17. Anna Yurko at the University of Texas has set out a model in which higher income inequality leads firms to compete on quality and price in a way that reduces variation in product quality over time (i.e., makes what the richest and poorest buy more alike in quality), and leaves the lowest-quality goods at both a lower price point and a higher level of quality than would be the case in a system with a lower level of income inequality. "Thus," she argues, "aggregate consumer welfare is higher in less egalitarian economies." Like all economic models, Yurko's contains a number of simplifying assumptions. The important thing to note is that fairly straightforward economic theory shows that increasing income inequality is not only consistent with stable levels of real inequality, but can even enable reductions in real inequality. See "How Does Income Inequality Affect Market Outcomes in Vertically Differentiated Markets?" Working Paper, University of Texas Department of Economics, April 2008, http://www.eco.utexas.edu/~yurko/yurko_vertical_april08.pdf.

18. Strictly speaking, these two mechanisms are probably equivalent. The single issue is trends in rates of inflation—trends in the real marginal utility of a dollar, given an income level. But as long as methods for determining precisely the effect of quality change on price change remain underdeveloped and unsatisfactory, it will remain useful to separate thornier claims about quality change from more easily measurable changes in the prices of the things the rich and poor tend to buy.

19. This section borrows heavily from "The New (Improved) Gilded Age," *The Economist*, December 19, 2007, of which I am the unattributed author.

20. I borrow this point from John V. C. Nye, "Economic Growth and True Inequality," Library of Economics and Liberty, January 28, 2002, http://www.econlib.org/library/Columns/Nyegrowth.html.

21. Ibid.

22. Mark Bils, "Measuring Growth from Better and Better Goods," NBER Working Paper no. 10606, July 2004. "Average quality for durables has likely

been understated by about 2.5 to 3 percent per year during the past 15 years. This is two to three times the magnitude argued for durables in the Boskin commission report." Among other things, Bils's findings imply that the oft-repeated factoid that median real wages have not increased over the past several decades is a mistake based on inadequate measurement techniques.

23. Dana Thomas, *Deluxe: How Luxury Lost Its Luster* (New York: Penguin, 2007).

24. Robert H. Frank, *Luxury Fever: Money and Happiness in an Age of Excess* (Princeton, NJ: Princeton University Press, 2001).

25. John V. C. Nye, "Irreducible Inequality," Library of Economics and Liberty, April 1, 2002, http://www.econlib.org/library/Columns/Nyepositional.html. For another critique of arguments about positional competition by Frank and others, see Will Wilkinson, "Out of Position: Against the Politics of Relative Standing," *Policy*, Spring 2006.

26. Jerry Hausman and Ephraim Leibtag, "CPI Bias from Supercenters: Does the BLS Know That Wal-Mart Exists?" National Bureau of Economic Research Working Paper no. 10712, August 2004.

27. John Broda and Christian Romalis, "Inequality and Prices: Does China Benefit the Poor in America?" Working Paper, University of Chicago Graduate School of Business, March 2008.

28. Steven Levitt, "Shattering the Conventional Wisdom on Growing Inequality," *New York Times*, May 19, 2008, http://freakonom ics.blogs.nytimes.com/2008/05/19/shattering-the-conventional-wisdom-on-growing-inequality/.

29. Heather Wilhelm, "How China Helps America's Poor," *The American*, September 2008, http://www.american.com/archive/2008/september-october-magazine/how-china-helps-america2019s-poor.

30. Enrico Morreti, "Real Wage Inequality," NBER Working Paper no. 14370, September 2008.

31. Robert William Fogel, *The Escape from Hunger and Premature Death, 1700–2100* (New York: Cambridge University Press, 2004), p. 29.

32. United Nations Development Programme, *Human Development Report 2006* (New York: Palgrave Macmillan, 2006), p. 335.

33. Ibid., p. 283.

34. Louis Kaplow, "Why Measure Inequality?" *The Journal of Economic Inequality* 3 (2005): 65–79.

35. Branko Milanovic, "Is African Inequality Really Different?" World Bank Policy Research Working Paper no. WPS3169, 2003.

36. Branko Milanovic, Peter H. Lindert, and Jeffrey G. Williamson, "Measuring Ancient Inequality," World Bank Policy Research Paper 4412, November 2007.

37. Branko Milanovic, Peter H. Lindert, and Jeffrey G. Williamson, "Measuring Ancient Inequality," *Vox*, December 7, 2007, http://www.voxeu.org/index.php?q=node/772.

38. Krugman, *Conscience of a Liberal*, pp. 149–52; Frank Levy and Peter Temin, "Inequality and Institutions in 20th Century America," MIT Department of Economics Working Paper no. 07-17, June 2007, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=984330.

39. Richard A. Epstein, "In Defense of Contract at Will," *The University of Chicago Law Review* 51, no. 4 (Autumn, 1984): 947–82. Also see Richard A. Epstein, *Free Markets Under Siege: Cartels, Politics and Social Welfare* (Stanford, CA: Hoover Institution, 2005).

40. The debate over the role of CEO pay in rising income inequality has a similar status. The evidence that CEO pay explains some portion of rising inequality is compelling. But the case that it reflects a moral failure is contested and equivocal. Gesturing toward a shift toward a competitive superstar market and away from egalitarian compensation norms merely invites a debate about what, if anything, is wrong with that. I am personally inclined to accept that there is something deeply wrong in the structure of corporate governance and that, to some extent, CEO pay is a function of mediated self-dealing via a web of tightly networked executives. If that is correct, though, what matters is the injustice—and its deleterious effects on shareholders and corporate behavior—not the incidental impact on inequality statistics.

41. For an especially stark example of this line of thinking, see Cornel West, *Democracy Matters: Winning the Fight Against Imperialism* (New York: Penguin, 2004). The trouble with this view is that if the policies that would release the people's "true" or "authentic" preferences are impossible in the actually existing democratic order, then they must be implemented nondemocratically, or not at all. This suggests that one must either accept the democracy of actual voters or accept an elitist, paternalist alternative. The idea that a brief period of benevolently authoritarian rehabilitation of "true" preferences may precede the reinstatement of an improved democracy now able to reflect the "authentic" general will is utopian, illiberal, and ridiculous.

42. False consciousness arguments are not neces-

sarily bad. It is, again, a matter of identifying the mechanism behind it. If a society has only state-controlled media, which is able to control the information citizens receive, false consciousness may be quite likely.

43. Paul Krugman, "North of the Border," *New York Times*, March 27, 2006.

44. For the clearest statement of Rawls' views on the various harms of inequality, see *Justice as Fairness: A Restatement* (Cambridge, MA: Harvard University Press, 2001), pp. 131–32.

45. Julian Lamont and Christie Favor, "Distributive Justice," *The Stanford Encyclopedia of Philosophy*, http://plato.stanford.edu/entries/justice-distribu tive/.

46. Krugman, "For Richer."

47. Kevin Phillips, *Wealth and Democracy: A Political History of the American Rich* (New York: Broadway, 2003), p. 422.

48. Krugman attributes the "banana republic with nukes" crack to "a friend" in his blog post "Demolition Accomplished," *New York Times*, http://krugman.blogs.nytimes.com/2008/09/26/demolition-accomplished/.

49. Pew Center for People and the Press, "Inside Obama's Sweeping Victory," http://pewresearch.org/pubs/1023/exit-poll-analysis-2008.

50. Campaign total receipts were obtained from www.fec.gov.

51. Krugman notes a general trend toward pro-redistributive public opinion. He explains this by appealing to the ill-confirmed idea, nevertheless popular among economists and political scientists, that self-interested lower- and middle-class voters will demand greater redistribution as the percentage of "national income" held by the rich increases. This sits very uneasily with the idea that increasing inequality is self-reinforcing. Krugman takes the fact that Republicans have won elections despite the trend of rising inequality as evidence of conspiracy. But the trend appears to have been a portent of massive Republican defeat. See *Conscience of a Liberal*, pp. 174–76.

52. Robert Dahl, *On Democracy* (New Haven: Yale University Press, 2000), p. 167.

53. On the Democracy Alliance, see Jim VandeHei and Chris Cillizza, "A New Alliance of Democrats Spreads Funding," *Washington Post*, July 17, 2006, http://www.washingtonpost.com/wp-dyn/content/article/2006/07/16/AR2006071600882.html.

54. As I was writing this, John Podesta, the president of the Center for American Progress, a five-year-old progressive think tank that has received large sums from the Democracy Alliance, was heading Barack Obama's presidential transition team. That's influence!

55. Daniel B. Klein and Charlotta Stern, "Professors and their Politics: The Policy Views of Social Scientists," *Critical Review* 17 no. 3–4 (2005).

56. Pew Center for Excellence in Journalism, "The American Journalist: Politics and Party Affiliation," October 6, 2006, http://journalism.org/node/2304.

57. Larry Bartels, *Unequal Democracy: The Political Economy of the New Gilded Age* (Princeton, NJ: Princeton University Press, 2008), Chapter 9.

58. Ibid., p. 289.

59. Jeff Manza and Clem Brooks, *Why Welfare States Persist* (Chicago: University of Chicago Press, 2007).

60. Alberto Alesina and Edward Glaeser, *Fighting Poverty in the U.S. and Europe: A World of Difference* (New York: Oxford University Press, 2004), p. 217.

61. Krugman, *The Conscience of a Liberal*, p. 249.

62. Leslie McCall and Lane Kenworthy, "Americans' Social Policy Preferences in the Era of Rising Inequality," http://www.u.arizona.edu/~lkenwor/americanssocialpolicypreferences.pdf.

63. David Schmidtz, "When Inequality Matters," *Cato Unbound*, May 6, 2006, http://www.cato-unbound.org/2006/03/06/david-schmidtz/when-equality-matters/.

64. Harry Frankfurt, "Equality as a Moral Ideal," *Ethics*, October 1987.

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