Is panic over wealth inequality missing the mark?

Some Measures Are More Equal Than Others

Is wealth inequality the crisis that some people believe? It's hard to avoid the issue in modern politics, with many complaining about a shift of wealth to the top at everyone else's expense. But is that really happening?

Those are the questions Chris Edwards, director of tax policy studies, and Ryan Bourne, R. Evan Scharf chair for the public understanding of economics, set out to answer in "Exploring Wealth Inequality," Cato Institute Policy Analysis no. 881. Edwards and Bourne examine six aspects of the wealth inequality debate and review the evidence.

First, they find that while wealth inequality has risen somewhat, the scale of the increase is often vastly overstated. In fact, wealth inequality has changed surprisingly little even as large economic changes have reshaped the world in recent decades. They also note that most estimates overstate wealth inequality because they do not account for the transfer effects of social programs.

Second, wealth inequality measures do not necessarily tell us anything about levels of poverty or prosperity. This makes them a poor guide for policymaking. Simply put, the mere fact that some are getting richer does not mean they are making others poorer in the process. Reducing inequality is a dubious goal when compared with actually alleviating poverty and increasing prosperity.

Third, what about destructive cronyism? For libertarians and advocates of free markets, this is a serious concern. A wealthy class that enriches itself off rent-seeking and destructive government policies is a serious problem. But luckily, this is mostly not the case today. In their paper, Edwards and Bourne show how most of today's wealthy are businesspeople who built their fortunes by contributing to economic growth, not through government. In addition, the share of the wealthy who inherited their fortunes has sharply declined in recent decades, contrary to the usual narrative about a permanently entrenched class of heirs.

Scott Winship, executive director of the Joint Economic Committee, comments at a Capitol Hill briefing in November on "Exploring Wealth Inequality," with study author **Chris Edwards** (left) and Cato's director of government and external affairs **Jeff Vanderslice** (center).

Fourth, Edwards and Bourne conclude that it's not to say that cronyism isn't a problem. They find that although not representing the majority of the ultrawealthy, cronyism has likely increased over time as government has grown. With more of the economy's wealth being funneled through government, opportunities for mischief increase accordingly.

Fifth, this analysis looks to the effects of the welfare state. Many see this as the solution to wealth inequality, but the actual results are counterintuitive. In addition to the substantial share of these programs that go to middle- and upper-income households, government programs for retirement, health care, and other benefits have reduced savings and thus wealth accumulation among the nonwealthy. Social Security in particular is notorious for its catastrophic effect on intergenerational wealth accumulation.

Finally, what about democracy? Don't the rich buy control of the government and tilt public policy in their favor? Sometimes this happens, but the overall effect is again overstated. The reality is that political views among the wealthy are not homogenous, so the net effect of their influence is marginal. In fact, there is no strong evidence that the wealthy have an outsized ability to get their goals enacted in Washington. ■

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