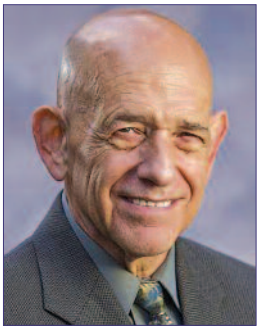

BY ROBERT A. LEVY

Chairman's Message

Reflections on Inequality

> "The top 1 percent of income earners—persons earning more than $343,000 in 2009—paid 38 percent of income taxes. By contrast, more than half of American households paid zero income taxes."

Israeli president Shimon Peres reminds us: "By and large, those in the world who placed freedom above equality have done better by equality than those who placed equality above freedom have done by freedom." That observation, apparently lost on the Occupy Wall Street crowd, has a moral component as well: It is more just to reward effort, even if it cannot be proven to benefit the least affluent, than it is to reward the least affluent, even if they exert little effort to improve their status. Moral superiority does not entail punishing the industrious wealthy to sustain the indolent poor.

Yet some people are economically deprived due to circumstances beyond their control. Even Ayn Rand, a radical laissez-faire capitalist, condones "helping other people, if and when they are worthy of the help and you can afford to help them." But Rand would certainly not interpose the state to coerce more equal distributions of wealth. It may be morally right to help the poor; but in a completely free society we would have a political right not to do so—even if sometimes, the exercise of that right might be considered heartless. Put differently, a theory of justice is not always congruent with a theory of politics. One can condemn ignoble conduct—lying, infidelity, and so on—without empowering government to take remedial action. "Governments are instituted among men," wrote Jefferson in the Declaration, to secure "certain unalienable Rights" including "the Pursuit of Happiness." Notably, it is the right to pursue, not necessarily attain, happiness that the social contract secures.

Advocates for greater income equality cite statistics purporting to show growing disparities. Disingenuously, the data end in 2007, although 2009 information is available. Internal Revenue reports that total income of individuals in the top 1 percent fell more than 30 percent from 2007 to 2009. During that same period, income of the bottom 90 percent fell less than 3 percent. Here's the paradox: Equality improves during recessions because the wealthy, who take more risks and rely heavily on investments, lose the most. Understandably, no one promotes economic decline to redress inequality. Earnings gaps will tend to grow as the economy grows. Moreover, the Organization for Economic Cooperation and Development reports that inequality has grown faster over the past 30 years in Sweden, Germany, Israel, Finland, and New Zealand than here, despite their liberal welfare systems. Besides, wealth in the United States is relatively mobile. A November 2011 Federal Reserve study found that one-third of the richest 1 percent in 2007 were no longer in the richest 1 percent in 2009.

Further, the top 1 percent of income earners—persons earning more than $343,000 in 2009—paid 38 percent of income taxes. And that doesn't reflect the nondeductibility of capital losses, the tax on illusory gains due to inflation, and the double tax paid indirectly by shareholders on corporate profits before they're distributed or impounded in stock prices. By contrast, according to the Committee on Joint Taxation, more than half of American households paid zero income taxes. Those numbers are astonishing. Even persons who embrace progressive taxation are hard-pressed to argue that the tax code is insufficiently discriminatory. How far must progressivity extend to satisfy the left's notion of fairness?

Yes, payroll taxes are regressive; although Social Security, in theory, was supposed to dispense benefits in rough relationship to contributions. That hasn't happened—mostly because poor and minority workers have shorter life expectancies. Ironically, resistance from the left has foreclosed inheritable private accounts, which would have neutralized the life expectancy problem.

Perhaps most important, fans of Occupy Wall Street fail to distinguish between two strikingly different groups of upper-income individuals: first, persons producing wealth by supplying goods and services that satisfy market needs; second, crony capitalists seeking bounty from D.C. bureaucrats, who bestow their largesse on the politically influential.

Finally, not all inequalities are reflected in monetary outcomes. Some rich people are sickly, short, fat, and stupid. Some poor people are athletic, glamorous, and intelligent. Yet Occupy Wall Street's proposals for distributive justice are based solely on income or wealth. Paraphrasing Bill Niskanen, Cato's former chairman: One young man is healthy and handsome, spends his days on the beach, and chooses to earn minimum wage by busing tables at night. Another young man is confined to a wheelchair. Distracted by few of life's other pleasures, he makes $500,000 a year in various entrepreneurial activities. Who should redistribute what to whom? Indeed, which of the two men is creating jobs for an unemployed nation? And which of the two is being greedy—in the worst sense of that tainted word—by demanding something to which he has no moral or legal claim?

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