An Idiot’s Guide to Inequality

JULY 23, 2014 • NICHOLAS KRISTOF • THE NEW YORK TIMES

We may now have a new “most unread best seller of all time.”

Data from Amazon Kindles suggests that that honor may go to Thomas Piketty’s “Capital in the Twenty-First Century,” which reached No. 1 on the best-seller list this year. Jordan Ellenberg, a professor of mathematics at the University of Wisconsin, Madison, wrote in The Wall Street Journal that Piketty’s book seems to eclipse its rivals in losing readers: All five of the passages that readers on Kindle have highlighted most are in the first 26 pages of a tome that runs 685 pages.

The rush to purchase Piketty’s book suggested that Americans must have wanted to understand inequality. The apparent rush to put it down suggests that, well, we’re human.

So let me satisfy this demand with my own “Idiot’s Guide to Inequality.” Here are five points:

First, economic inequality has worsened significantly in the United States and some other countries. The richest 1 percent in the United States now own more wealth than the bottom 90 percent. Oxfam estimates that the richest 85 people in the world own half of all wealth.

The situation might be tolerable if a rising tide were lifting all boats. But it’s lifting mostly the yachts. In 2010, 93 percent of the additional income created in America went to the top 1 percent.

Second, inequality in America is destabilizing. Some inequality is essential to create incentives, but we seem to have reached the point where inequality actually becomes an impediment to economic growth.

Certainly, the nation grew more quickly in periods when we were more equal, including in the golden decades after World War II when growth was strong and inequality actually diminished. Likewise, a major research paper from the International Monetary Fund in April found that more equitable societies tend to enjoy more rapid economic growth.

Indeed, even Lloyd Blankfein, the chief executive of Goldman Sachs, warns that “too much ... has gone to too few” and that inequality in America is now “very destabilizing.”

Inequality causes problems by creating fissures in societies, leaving those at the bottom feeling marginalized or disenfranchised. That has been a classic problem in “banana republic” countries in Latin America, and the United States now has a Gini coefficient (a standard measure of inequality) approaching some traditionally poor and dysfunctional Latin countries.

Third, disparities reflect not just the invisible hand of the market but also manipulation of markets. Joseph Stiglitz, the Nobel Prize-winning economist, wrote a terrific book two years ago, “The Price of Inequality,” which is a shorter and easier read than Piketty’s book. In it, he notes: “Much of America’s inequality is the result of market distortions, with incentives directed not at creating new wealth but at taking it from others.”

For example, financiers are wealthy partly because they’re highly educated and hardworking — and also because they’ve successfully lobbied for the carried interest tax loophole that lets their pay be taxed at much lower rates than other people’s.

Likewise, if you’re a pharmaceutical executive, one way to create profits is to generate new products. Another is to lobby Congress to bar the government’s Medicare program from bargaining for drug prices. That amounts to a $50 billion annual gift to pharmaceutical companies.

Fourth, inequality doesn’t necessarily even benefit the rich as much as we think. At some point, extra incomes don’t go to sate desires but to attempt to buy status through “positional goods”– like the hottest car on the block.

The problem is that there can only be one hottest car on the block. So the lawyer who buys a Porsche is foiled by the C.E.O. who buys a Ferrari, who in turn is foiled by the hedge fund manager who buys a Lamborghini. This arms race leaves these desires unsated; there’s still only one at the top of the heap.

Fifth, progressives probably talk too much about “inequality” and not enough about “opportunity.” Some voters are turned off by tirades about inequality because they say it connotes envy of the rich; there is more consensus on bringing everyone to the same starting line.

Unfortunately, equal opportunity is now a mirage. Indeed, researchers find that there is less economic mobility in America than in class-conscious Europe.

We know some of the tools, including job incentives and better schools, that can reduce this opportunity gap. But the United States is one of the few advanced countries that spends less educating the average poor child than the average rich one. As an escalator of mobility, the American education system is broken.

There’s still a great deal we don’t understand about inequality. But whether or not you read Piketty, there’s one overwhelming lesson you should be aware of: Inequality and lack of opportunity today constitute a national infirmity and vulnerability — and there are policy tools that can make a difference.