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Who Cares about the Income Gap?

by Sheldon Richman

I didn't wake up this morning wondering whether I had shrunk the income gap between me and Bill Gates or Warren Buffett. I have never wondered about that. But that's me. If I am to believe the *New York Times* and other major newspapers, lots of people are obsessed with the difference between their incomes and the incomes of richer people. Then again, maybe most people are more like me and don't give a darn. So why are those newspaper editors and reporters preoccupied with the matter?

I suspect it's because fundamentally they dislike liberal market society. Of course, they wouldn't put it that way. They would say simply that the phenomenon known as the "growing income gap" is newsworthy. And why is it newsworthy? Because it "says something" about our society. And what might that be? Most likely that "untrammelled capitalism" results in social injustice, which is why government can't stand on the sidelines but rather must engage in income redistribution. (As though we have anything resembling "untrammelled capitalism." Would that it were so.)

Now this is all nonsense.

It is nonsense at many levels. As Alan Reynolds of the Cato Institute has indefatigably shown, newspapers routinely torture income statistics from the IRS and Census Bureau to get preconceived results. For example, Reynolds explained recently that using income-tax information to measure income makes the rich look comparatively richer than they are because the bulk of the middle class's capital gains are in tax-deferred IRAs and 401(k)s — they don't show up on tax returns. He's also shown that the charge that the middle class is shrinking is true, but not in the way the newspapers (and the socialist think tanks) would have us believe. In fact, more people are rising out of the middle class than are falling out of it. The lower class is shrinking too. But those truths rarely get mentioned.

If you were to take these reports seriously, you'd think everyone in this society, with the exception of the few at the top, has been stagnating or getting poorer for decades. We are told this repeatedly, even as we watch multitudes of people, young and old, low-income and high-

walking down the street with ever-more-feature-rich cell phones and MP3 players. Something doesn't add up.

In fact, we live in an increasingly wealthy society, which would be far wealthier were the government not taxing people so much and consuming so many resources. As Dallas Fed economist W. Michael Cox and reporter Richard Alm document (in *Myths of Rich and Poor*), virtually everything has been getting cheaper for years. They measure living standards by how many hours the average nonsupervisory manufacturing employee must work to buy various things and comparing this to the past. Today it costs us minutes and hours of work to afford what once took months and years. This is consistent with our everyday experience.

It is true that our society has a wide range of incomes, although even "poor" people (a relative term) have cable color television, microwaves, washers and dryers, and cars. I don't know whether the "income gap" is growing, but why should anyone care? It is perfectly consistent for the gap to grow even as the lowest-income people get richer. Don't confuse comparative with absolute position. I could be richer this year than last and still have lost ground to Bill Gates. Only someone consumed with envy would worry.

In a free society, there will be and *should be* differences in income. That's because some people are better at serving consumers than others — more innovative, more ambitious, more energetic, more intelligent. Why should they be denied their just rewards for making our lives better? And whom would we hurt most if we deny them? Mainly ourselves.

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