SHOULD CONSERVATIVES CARE ABOUT INEQUALITY?

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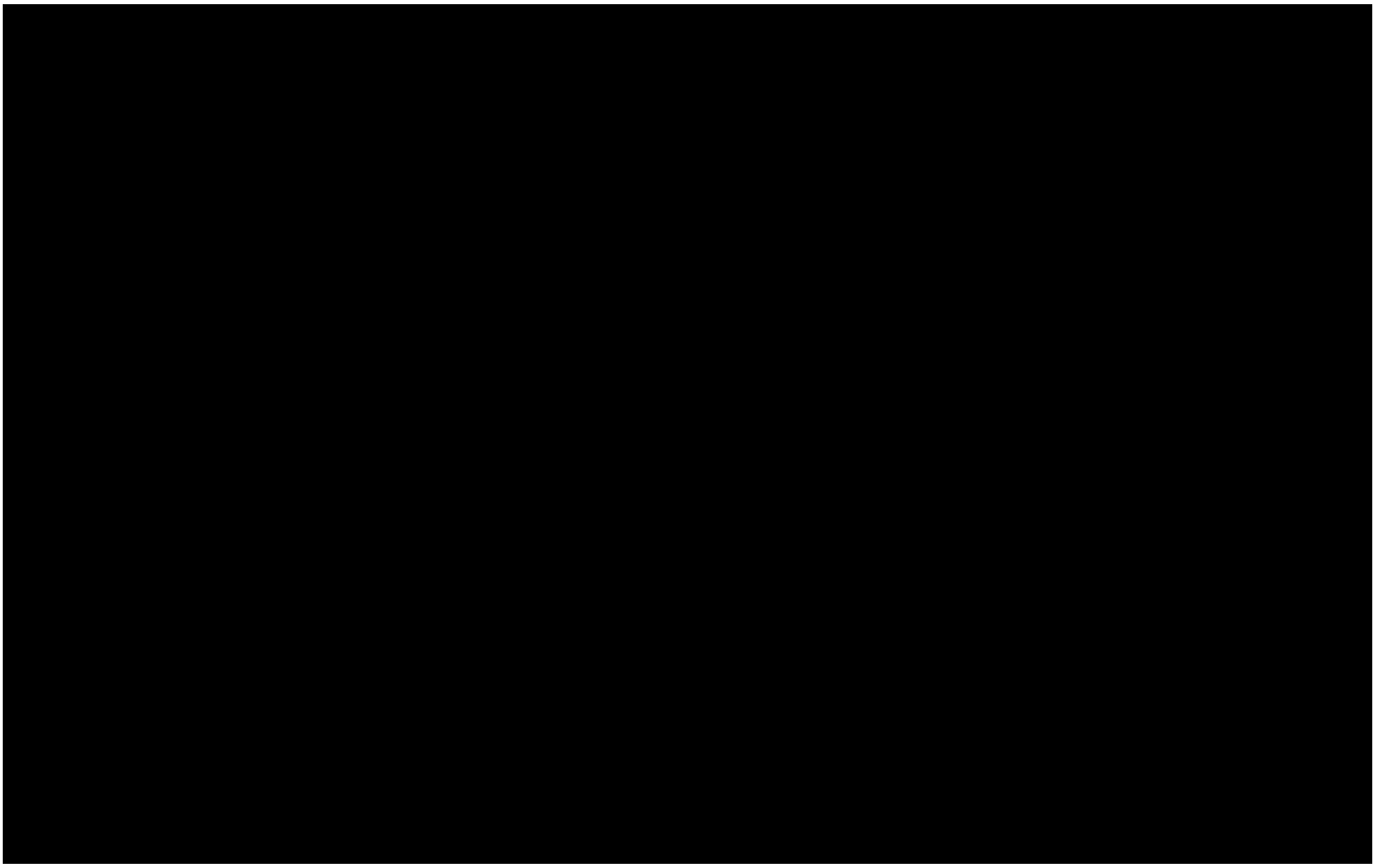

What should concern us, is the fact that government is trying to artificially reduce income differences, and in

doing so is artificially expanding differences in wealth.

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In a recent social-media debate with a socialist, I was asked why I did not care about reducing economic inequality. I replied by asking: "Where would you rather be poor, in North Korea or South Korea?"

The conversation ended there, probably for a simple reason: the socialist realized that there was no way he could honestly choose North Korea. Living as a poor person in a free-market capitalist economy is leaps and bounds better than living in a communist country, where by definition the opportunities of a free society do not exist.

With that in mind, we conservatives should not dismiss entirely the question of economic inequality. We are not libertarians, whose lost-cause ideology often motivates them to completely dismiss the question of economic inequality. They do so on the grounds that government has no moral reason whatsoever to intervene in the free-market economy. Therefore, government is absolutely banned from altering the distribution of income, consumption, and wealth in a capitalist society.

To the libertarian, the differences in standard of living can be infinite without meriting any reaction from government. The poor can be living under absolutely abhorrent conditions, while the affluent enjoy unimaginable riches in their daily lives; to the pure-minded libertarian, there are no circumstances under which such economic differences can motivate government action.

For the sake of clarity, libertarians who are true to their ideological foundation are just as indifferent to enormous wealth concentration as they are to a perfectly even distribution of economic resources. The only prerequisite is that everybody earns his or her money on the terms of voluntary exchange and in absence of coercion of any kind.

This approach to economic differences may seem alluring as a theory, but in practice, it can lead to a society that is openly oppressive toward the poor, the destitute, and even those who enjoy a moderately good standard of living. Doctrinaire libertarians fail to see this, as exemplified by the book *Equal Is Unfair* (St. Martin's, 2016) by Don Watkins and Yaron Brook with the Ayn Rand Institute.

After spending several chapters arguing against the concept of economic equality, i.e., the policy goal of those who want less inequality, Watkins and Brook offer one paragraph's worth of solutions. On pp. 224-5 they propose the abolition of the welfare state, but the only proposal for policy reform is a reference to another book by Watkins about how to abolish Social Security.

This hard-line libertarian argument is based on the premise that a society based on free-market capitalism can never fail morally. It can: it is built by humans, who are imperfect by design. Therefore, free-market capitalism, as much as we appreciate it, is also imperfect.

Recognizing this is one step in the direction of accepting that conservatives should not let economic inequality reach absurd proportions.

To be fair, some libertarians agree. One of them is Michael D. Tanner, senior fellow with the Cato Institute. In chapter 4 of his book *The Inclusive Economy* (Cato Institute, 2018), Tanner examines the role of government in altering the distribution of income and wealth in a free-market economy. He concludes that government programs aimed at doing that are dysfunctional and actually do not deliver as intended.

At the same time, Tanner does not exclude government entirely from having some role in the distribution of economic resources. At the end of chapter 4 he provides a list of five different policy reforms that would help reduce poverty. Interestingly, none of the reforms are aimed at reducing income inequality per se, but at opening opportunities for the poor. In other words, Tanner's two-fold idea is that it is better to give the poor a chance to improve their own lives than to try to impose a welfare-state template on them. It is better that the poor are not helped by policies that reduce the affluence at the top of the income ladder.

While he does not say so explicitly, the undercurrent of his analysis implies that policies aimed at taxing 'the rich' (which is always a loosely defined demographic) harm economic growth. As a consequence, those policies actually restrict opportunities for the poor to work their way to prosperity.

As a representative of a more pragmatic brand of libertarianism, Tanner does not exclude the employment of state powers in changing the distribution of income. He does, however, restrict the use of those powers to the elevation of the poor. This means that income differences per se can still reach whatever levels the free market generates; what matters is that those who have the desire and the drive to leave poverty can make use of opportunities available to them.

Two Conservative Approaches

The span between doctrinaire and pragmatic libertarianism has its equivalent in conservatism. Here, though, the span runs from those who do not care about the issue of inequality, to those who explicitly want to reduce it. The former category is well represented by Bruce Bartlett, a conservative columnist for the *New York Times*, former senior policy analyst for President Reagan, and an economic policy expert with the United States Treasury. In his book *The Benefit and the Burden* (Simon and Schuster, 2012) about the need for tax reform in America, Bartlett completely avoids the issue of economic inequality. His entire focus is on stimulating economic growth for the purpose of increasing government revenue.

This is a classic Reaganomics approach to government. A bit unfairly, one could characterize it as a blank check to government to spend money on whatever politicians prioritize; all that the disciples of Reaganomics—or supply-side economics—ask in return, is that taxes be cut regularly to stimulate economic growth.

Steve Bannon is the conservative polar opposite of the Reaganomists. The former political strategist for President Trump gave a speech at CPAC in 2018, where he explained:

> *Zero point five percent of the citizens in this country own more assets than the bottom ninety percent. That's all happened over the last ten years*

Bannon tied this point to the Federal Reserve, which he effectively blamed for wealth inequality.

At first glance, his mention of inequality sounds like a socialist talking point. Does this disqualify Bannon as a conservative?

No, it does not. On the contrary, Bannon's comment pinpoints a problem with economic inequality that conservatives need to take seriously. The reason is found in the economics that underpins his argument.

To get there, we first need a quick reminder of how the Left reasons regarding economic inequality. Their fundamental premises run all the way back to Marxist economic theory, which blames economic inequality on the distribution of ownership of the means of production: Capitalists become rich by exploiting the workers they hire. Based on a bizarre version of the labor theory of value, Marx deems economic inequality immoral. The solution is to transfer ownership of the means of production into the hands of the workers.

Some socialists have taken a more pragmatic approach. One of the more prominent thinkers in this field is James K Galbraith, an economist with the University of Texas, Austin, who in his book *Inequality: What Everyone Needs To Know* (Oxford, 2016), points to three explanations of why economic inequality exists in the first place.

Citing Adam Smith, Galbraith explains that societies produce economic inequality "by creating legal and social privileges: essentially protections, subsidies, and monopoly power." With reference to Marx, Galbraith pays passing attention to the extraction of "surplus value from the working masses." Last but not least, he recognizes Austrian economist Joseph Schumpeter, who pointed to technological evolution and how it offers "large prizes to those who manage to make fundamental transformations in the way we live our lives."

In short, there are many reasons why economic differences exist. If we disregard Galbraith's reference to Marx, we are left with a good framework for understanding how that generative process works. We also come closer to the reason why conservatives should pay attention to economic inequality.

When Government Picks Winners

In his inequality comment, Steve Bannon refers to policies by the Federal Reserve as the cause of wealth inequality. The very low interest rates that the central bank maintained in the 2010s brought the return on debt instruments, primarily government securities, down to practically zero. At the same time, banks could earn very little on regular lending, especially since the slow-growing economy held back growth in the market for installment loans (car loans and mortgages).

In an economic environment like this, there are essentially only two markets where investors can make good money: the stock market and commercial real estate. As values go up, especially in the former, affluent individuals experience a rapid surge in both wealth and income. The rise in the former is self-evident; the rise in the latter is a derivative of the former. According to data from the Internal Revenue Service, the U.S. government's tax agency, taxpayers who make approximately $1.5 million and more per year earn at least half of their income from assets, not from work. When the stock market booms, their earnings from stock dividends and capital gains boom as well.

This is the causal chain behind Steve Bannon's connection between the Federal Reserve and wealth inequality. But why is this link from monetary policy to wealth inequality a matter for conservatives?

Here is why: With its expansionist monetary policy, the Federal Reserve artificially lowered the price of money—the interest rate—which in turn led to intertemporal misallocations of economic resources. In plain English, when cheap credit became abundantly available, people invested more money in equity than what that equity was worth, given the performance of the markets where it was used.

Investment turned into speculation based solely on the Federal Reserve's policy-driven suppression of interest rates. Speculation severed the ties between productive economic activity, where work-based incomes are determined, and equity values. Whoever was wealthy enough to participate in speculation, was also able to reap the harvests of that speculation.

This economic background to Steve Bannon's argument is in itself a good reason for conservatives to be worried about the vast wealth gap that it generates. No government agency should be in the business of favoring one group of citizens over another. However, there is also another reason, which has to do with the motive behind the Federal Reserve's irresponsibly loose monetary policy.

About 15 years ago, the Federal Reserve instituted a new policy method called 'quantitative easing.' The central bank used recurring episodes of it for two purposes:

- To avoid liquidity stress in the banking system, and

- To buy large quantities of Treasury securities.

The bank-related purpose was motivated by banks engaging in highly speculative mortgage lending. Government policies favored such behavior, in part through the artificial depression of interest rates—or, bluntly, the flooding of the economy with extra-cheap credit.

The Treasury-related purpose has to do with the big welfare state that the U.S. government has had problems paying for since the 1970s. This welfare state is designed to further socialist ideological goals, ultimately in the image of the Marxist argument against income inequality. By printing money at a rapid pace, the Federal Reserve sponsors the policies of this welfare state, yet (in an ironic twist) its efforts to do so actually expand income inequality.

It is not for conservatives to sort out the lack of logic behind government policies favoring the welfare state. What should concern us, though, is the fact that government is trying to artificially reduce income differences, and in doing so is artificially expanding differences in wealth.

With all this in mind, it is easy to see why Steve Bannon's criticism of the vast wealth gap in America makes good conservative sense. It becomes even clearer if we recognize that those who have built wealth based on illegitimate government policies use their money to influence politics—and secure even more government-supported wealth for themselves.