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**The Upshot**

ECONOMICS Q. AND A.

# Tyler Cowen on Inequality and What Really Ails America

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Is it misguided to focus so much attention on the vast income chasm opening between the very rich and the rest? Tyler Cowen, a professor of economics at George Mason University, evidently thinks so.

Earlier this year, Mr. Cowen published a pointed critique of the French economist Thomas Piketty's tome on inequality, "Capital in the Twenty-First Century." He declared himself unconvinced with Mr. Piketty's interpretation of economic history and dismissed the "far-fetched plan" to impose a global tax on wealth to radically redistribute capitalism's fruits.

Mr. Cowen has written a couple of columns on the topic for The Upshot, arguing that income inequality on a global scale is falling, not rising, and noting that the French seem less enamored of Mr. Piketty's book than Americans.

My Economic Scene column this week addresses the proposition, held

mostly on the right of the political spectrum, that inequality isn't the villain. Following is an email interview I had with Mr. Cowen last week, lightly edited for length and clarity, in which he makes this case.

**Inequality is running amok. The richest one percent of Americans pull more than a fifth of the nation's income. The top 10 percent take half, more than during the Roaring Twenties. President Obama seems to believe this is "the defining issue of our time." Is it?**

"Income inequality" consists of at least three separate issues: 1) the top one percent is earning more; 2) the relative return to education is rising; and 3) economic growth is slow, and thus many lower- and middle-income groups are not seeing their incomes rise very much over time. The third of these is arguably the defining issue of our time. Grouping these issues all together under the broad heading of "income inequality" I view as a big intellectual mistake.

**So should we worry at all about the chasm opening up between the income of the rich and the rest?**

I worry about stagnation in the middle and towards the bottom, not the income gap per se. A lot of the income growth at the top has come from globalization; for instance, Apple now sells a lot of iPhones to China. That's not something we should be worried about. Rather, we should celebrate it.

**But aren't soaring incomes at the top and stagnant wages in the middle connected, driven by the same forces?**

Those two problems are not always the same. If today we had a rate of technological innovation comparable to say 1890-1930, the middle class and the poor would benefit tremendously from those new goods and services. Income inequality might go up or down but we could stop worrying so much about it.

That earlier period brought such innovations as electricity, the automobile, radio, the airplane, basic advances in public health, and much better fertilizers, among many others. In more recent times we've had a lot of innovations in the manipulation and storage of information, but this just hasn't benefited ordinary lives as much.

**What about other consequences of inequality? There is evidence that it hurts mobility, sapping young men's incentives to succeed. Some have suggested it corrupts our political system and could fuel social unrest.**

We know very little about what income inequality tends to cause in politics. We do see that income inequality is up considerably and crime is down considerably. We do know that older societies, as we are becoming, tend to be more peaceful and stable. We also see that a rising middle class often leads to political instability, such as in Thailand or Turkey or Brazil or for that matter the United States in the 1960s. Many young American men may be experiencing a crisis of confidence these days, but the problem lies in the absolute quality of their opportunities, not the gap between them and Bill Gates.

**What, in your view, is driving inequality? Is it executive pay run amok? Is it globalization, or technology, or the growing footprint of finance? Or is it, as Thomas Piketty proposes, that the rate of return to capital is higher than economic growth — multiplying the income from wealth faster than income from work can grow?**

Globalization has increased returns at the top and led to increasing competitive pressures for middle class labor in the wealthy countries. The growth of information technology has destroyed many jobs and created others, but over all the new jobs require higher levels of skill than the old manufacturing jobs.

Social changes have meant that many families have fallen apart. We

measure the value of workers more precisely than in times past, which helps the most talented but also leads to more firings. Those are some of the main forces.

Political privilege for those at the top is indeed one force, but usually its importance is overrated, as most of the very rich in America have been wealth creators. As for Piketty, measured risk-free rates of return on capital have been falling for more than 30 years. I'd love to meet his stockbroker and get some tips.

**Is there anything that we can do to slow or reverse these forces?**

There is a lot we could do to help people at the bottom, most of all by increasing the quality and affordability of housing, health care and education. We should indeed do those things, but we are fooling ourselves to think this will lower measured income inequality by a game-changing amount. In fact, it might boost measured inequality by creating additional well-heeled customers for the top innovators.

**You and other thinkers on the right have proposed that cultural factors play a large role in the widening income gap. What are you suggesting?**

Note that the observed stagnation in earnings has plagued male earners, not women. Women continue to do better in the work force and also in education, or if they choose not to advance this is often a voluntary decision, linked to childbearing.

Men are perhaps better suited for old-style manufacturing jobs, and women are often better suited for service sector jobs. A lot of men seem to have problems with discipline and conscientiousness.

If we are looking for a remedy, a greater interest in strict religions would help many of the poor a lot — how about Mormonism for a start? Just look at

the data. Many other religions prohibit or severely limit alcohol, drugs and gambling. That said, this has to happen privately rather than as a matter of state policy.

**So, your conclusion is we should obsess less about rising inequality in America.**

We should focus policy on increasing the quality and affordability of housing, health care and education, and on raising the rate of technological advancement. If we did that, we wouldn't have to worry about this red herring of "inequality" writ large any more.

By the way, the biggest inequalities are those *across borders*. So if we are talking policy, how about a more liberal immigration policy for the United States? That should be the No. 1 priority for anyone concerned about income inequality.

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