



## Income Inequality

Democrats plan to demagogue income inequality and the wealth gap for political gain in this year's elections. Most of what's said about income inequality is stupid or, at best, ill-informed. Much to their disgrace, economists focusing on measures of income inequality bring little light to the issue. Let's look at it.

Income is a result of something. As such, results alone cannot establish whether there is fairness or justice. Take a simple example to make the point. Suppose Tom, Dick and Harry play a weekly game of poker. The result is: Tom wins 75 percent of the time. Dick and Harry, respectively, win 15 percent and 10 percent of the time. Knowing only the game's result permits us to say absolutely nothing as to whether there has been poker fairness or justice. Tom's disproportionate winnings are consistent with his being either an astute player or a clever cheater.



To determine whether there has been poker justice, the game's process must be examined. Process questions we might ask are: Were Hoyle's rules obeyed; were the cards unmarked; were the cards dealt from the top of the deck; and did the players play voluntarily? If these questions yield affirmative answers, there was poker fairness and justice, regardless of the game's result, even with Tom's winning 75 percent of the time.

Similarly, income is a result of something. In a free society, for the most part, income is a result of one's capacity to serve his fellow man and the value his fellow man places on that service. Say I mow your lawn and you pay me \$50. That \$50 might be seen as a certificate of performance. Why? It serves as evidence that I served my fellow man and enables me to make a claim on what he produces when I visit the grocer. Google founders Sergey Brin and Larry Page are multibillionaires. Just as in the case of my serving my fellow man by mowing his lawn, they served their fellow man. The difference is they served many more of their fellow men and did so far more effectively than I and hence have received many more "certificates of performance," which enables them to make greater claims on what their fellow man produces, such as big houses, cars and jets.

Brin and Page and people like them created wealth by producing services that improve the lives of millions upon millions of people all around the globe. Should people who have improved our lives be held up to ridicule and scorn because they have higher income than most of us? Should Congress confiscate part of their wealth in the name of fairness and income redistribution?

Except in many instances when government rigs the game with crony capitalism, income is mostly a



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result of one's productivity and the value that people place on that productivity. Far more important than income inequality is productivity inequality. That suggests that if there's anything to be done about income inequality, we should focus on how to give people greater capacity to serve their fellow man, namely raise their productivity.

To accomplish that goal, let's look at a few things that we shouldn't do. Becoming a taxicab owner-operator lies within the grasp of many, but in New York City, one must be able to get a license (medallion), which costs \$700,000. There are hundreds of examples of government restrictions that reduce opportunity. What about the grossly fraudulent education received by so many minority youngsters? And then we handicap them further with laws that mandate that businesses pay them wages that exceed their productivity, which denies them on-the-job training.

Think back to my poker example. If one is concerned about the game's result, which is more just, taking some of Tom's winnings and redistributing them to Dick and Harry or teaching Dick and Harry how to play better? If left to politicians, they'd prefer redistribution. That way, they could get their hands on some of Tom's winnings. That's far more rewarding to them than raising Dick's and Harry's productivity.

*Walter E. Williams is a professor of economics at George Mason University. To find out more about Walter E. Williams and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate Web page at [www.creators.com](http://www.creators.com).*

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