What CEOs Should Be Saying About Inequality

Forbes, Opinion, by Fred Smith, Contributor, May 27, 2016
I work to reduce regulation and expose its enormous costs.

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Despite living at a time of unprecedented decreases in poverty around the world, we're witnessing a seemingly unprecedented increase in worry about income inequality in wealthy countries like the United States. And, not surprisingly, capitalism and its practitioners are often said to be to blame. When the news media and the general public look to the nation's business leaders for an explanation, however, the response is rarely inspiring.

Whether it's Fortune profiling "7 Billionaires Worried about Income Inequality" or Chief Executive listening while "8 CEOs Weigh in on Income Inequality," we hear a lot of platitudes about how income inequality is a divisive social problem that "has to be dealt with," followed quickly by a mumbled caveat about how this vitally important challenge, of course, does not require drastic measures like capping CEO pay or anything that would impact the competitiveness of one's own firm.

On the other hand, we do hear a few high-profile CEOs advising political leaders to deal with inequality concerns by doubling-down on existing anti-poverty programs. Morgan Stanley CEO James Gorman is pushing an increase in the minimum wage and Berkshire Hathaway's Warren Buffett is recommending an expansion of the Earned Income Tax Credit (EITC). Unfortunately the fact that higher minimum wages actually result in fewer low-wage jobs gets only slightly more acknowledgement than the fact that the EITC fraud rate is one of the worst of any government program. More of that? No, thank you.

So what should the titans of Wall Street be saying about this terrible scourge of some Americans being richer than most other Americans? Let's start with the basics:

First, inequality per se in a game of envy and class warfare. Any objective measure of poverty or deprivation deserves its own assessment and debate and, if appropriate, its own public policy response. No one ever went without food, shelter, clothing, education, or healthcare just because the Gini coefficient was higher than 0.57. As my colleagues Iain Murray and Ryan Young discuss in a new study "People, Not Ratios," statistical measurements of inequality are no substitute for focusing on the quality of life of real people. Ryan Bourne and Christopher Snowdon of the UK's Institute for Economic Affairs come to the same conclusion in their own study, also released this week.

Second, it's better to lift the floor than lower the ceiling (and again, that's doesn't mean raising the minimum wage). The best way to help people earn a better living – let's consider a revolutionary idea – is to get rid of the obstacles that block people from earning a better living. This means, among other things, repealing an array of labor rules and licensing restrictions, both at the federal and state level. And, as Bloomberg View's Megan McArdle reminds us, we can't fall into the trap of thinking "entrepreneurs" have to be unicorn-founding tech gurus. Anyone who finds a new way to make money (or an old way to make more money) can be an entrepreneur, even if they never give a TED talk or buy a mega-yacht.

Third, economic inequality, the measurement of which is itself the subject of contentious debate, rises and falls for a variety of reasons. Jim Pethokoukis of the American Enterprise Institute points out that the 1990s economic expansion, the years before the Great Recession and dotcom bust that we're all supposed to be pining for, also saw a significant increase of inequality, while the mortgage meltdown gave us a decrease. Inequality rose and fell long before Thomas Piketty's Capital in the Twenty-First Century made headlines for becoming the most unread book of 2014, and the self-righteousness pandering about it that followed hasn't improved anyone's quality of life (unless, of course, you're an Ivy League graduate student looking for a research grant).

Fourth, prosperity is not automatic. For thousands of years, most of the human race was dirt poor, and then, a couple of hundred years ago, living standards began shooting up. First in Europe and the U.S., but then dramatically all over the world. We have a good idea why this amazing thing happened, and the economist Deirdre McCloskey gives the best explanation of it: liberty. A political and social system that allows everyone to seek their chosen goals according to their own merits with as few restrictions as possible has moved the world from perpetual poverty to widespread prosperity. Hard work, commerce, and thrift – what Deirdre calls the "bourgeois virtues" – will get you a happier, healthier, and more peaceful society every time. Whatever brilliant new plans for reordering the economy that the inequality activists come up with, we ignore this lesson as our peril.

So there you have it, my CEO friends. If your critics come at you with questions about what you or your company are doing about inequality, tell them you're selling goods and services to willing customers. You're not cheating or defrauding anyone. You follow the rules and pay your taxes – even when they finance less-than-effective government programs. To the extent that inequality is a problem, it is because people are kept from working, saving, and investing in ways that make the most sense for them by bad government policies. We have real problems and challenges in this country – inequality, on its own, is not one of them.