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In This Issue

Edward Peter Stringham, President

Sometimes issues in economics become clearer when looking at small cases rather than big ones. Let us consider the topic of equality, the theme of this issue of the *Harwood Economic Review*.

Let's say you and your neighbor have the same net worth and you both start a business. Yours succeeds and so does hers. But then you hit a struggle to grow to the next stop. Her business goes viral and expands beyond all expectations. You are both better off but now you have unequal income.

Are you happy? Or are you resentful? Perhaps her success inspires you to do better. This seems like an issue of spiritual maturity. In my opinion, a person of goodwill should be happy for her. If instead you feel a sense of anger and even wish for her to fail, that is something of a personal failing. These are matters we deal with as a matter of personal struggle.

I would not say that this newly emerging inequality is a matter for public policy. There is nothing that government can do in this case that would make the two of us better off. It would simply be unjust to confiscate her earnings and give them to me. That would not improve anything. It would actually increase bitterness.

The issue of inequality is like this: a persistent feature of the world—whether the economy is free or not—that should have no bearing on what the government should do. And yet over the decades, some people have wanted to warn that growing inequality cries out to government for a fix. I don't believe this.

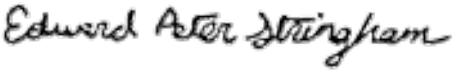
To be sure, sometimes people use the term inequality simply to mean poverty. In that case, let's choose the right term to describe unfortunate material circumstances, not a word drawn from mathematics. The right goal should be to lift up as many people as possible, indeed to seek universal prosperity for everyone. Seeking equality across the border is not only a bad goal; the attempt to achieve it will actually interfere with the real goal.

This topic and this line of thinking is pursued in great depth in this issue, along with other considerations such as: how does equality apply to political systems, what exactly are we counting when we measure equality, and how does the egalitarian agenda impact on our life aspirations?

As always, I would like to request that you share this issue with your friends. If you need more, please let me know. AIER is in a huge building phase right now. We are increasing our reach and influence. Much of this depends on our core friends and supporters. That's you!

The voice of AIER is needed now more than ever.

Edward Peter Stringham



Economics Has Neglected Inequality? Absurdly Untrue

Phillip W. Magness and Vincent Geloso

Is the economics profession guilty of ignoring inequality? This charge of scholarly negligence is at the center of a growing literature of academic arguments from other disciplines, usually associated with self-described studies of *neoliberalism* and the increasingly popular *New History of Capitalism* genre of historical writing.

As the basic story goes, distributional questions such as inequality dominated economics throughout the classical period of the 19th century and into the Progressive Era works of figures such as Richard T. Ely and John R. Commons. Around the mid-20th century, however, the emergence of an empirically minded neoclassical school of economics gradually abandoned scholarly interest in questions of equity and fairness to focus instead on growth—even if that growth only benefited the few at the expense of the many.

Only in the past decade, according to this thesis, have economists redirected their attention to the problem of inequality, most notably as a result of Thomas Piketty's 2014 book *Capital in the 21st Century*. The history of economics from the mid-20th century to 2000 (or 2014 in some versions, where it is more closely associated with Piketty), then, is accordingly one of a *neoliberal* takeover of the profession that distorted and diverted its attention away from ever-pressing questions of equity and fairness.

Despite its growing popularity, the core argument of this inequality-rediscovery thesis appears to be built upon a mistaken premise and an ensuing misreading of the literature. Economists never abandoned the study of inequality—on the contrary, it remained a persistent theme in both top economic journals and classroom textbooks throughout the alleged period of neoclassical or *neoliberal* dominance in the profession. The emergent body of works on this subject have simply failed to do an adequate literature review, and therefore misattribute the recent surge of interest in inequality studies to the comparatively politicized and, at times, empirically suspect contributions of Piketty and associated scholars.

Versions of the inequality-rediscovery thesis may be found in several recent works. The more nuanced takes appear in a working paper by sociologist Daniel Hirschman on the alleged *rediscovery of the 1%*, and in a newly published essay by historian Eli Cook on *historicizing Piketty*.

Both scholars allege that inequality research effectively dropped off of economists' radar after roughly 1954, when Simon Kuznets laid out a version of the famous Kuznets curve on the relationship between inequality and growth during his presidential address to the American Economics Association. Kuznets himself pioneered the long-term measurement of top income distributions in the United States in the first half of the century—a subject that was revitalized by the work of Piketty and his frequent collaborator Emmanuel Saez in an updated time series in 2003. In Hirschman's telling, the Piketty-Saez empirical updates *surprised* the economics discipline, essentially catching it off guard after purportedly ignoring decades of mounting evidence of a surge in inequality through neglect of the subject. Cook goes even further, contending that the entire study of inequality was *marginalized* by economists *for much of the second half of the twentieth century, only to return with a vengeance in the twenty-first.*

A non-scholarly version of the same argument may be found in a 2017 *Boston Review* article by Marshall Steinbaum, which alleges somewhat incredibly that economists *are giving Piketty the cold shoulder* in retaliation for reportedly showing that *the workings of the capitalist economy are malfunctioning*. Steinbaum's version also takes the inequality-rediscovery argument deep into conspiracy-theory territory, implying a plot to deny Piketty's thesis a full hearing before the economics profession.

Although he provides no proof for these exclusionary designs, Steinbaum's argument also chafes against clear signs of Piketty's reach and warm reception by other economists. Piketty's work has been featured multiple times in the *Quarterly Journal of Economics*—a top journal of the discipline—and his 2003 article with Saez has garnered over 3,000 citations, making it one of the most influential economics papers of the last 20 years.

These and other signs suggest right away that something is amiss with the inequality-rediscovery thesis. The contention that inequality was neglected and shunted to the margins of the profession, only to be revived by Piketty, however, remains popular and appears to be growing—especially among non-economists who study the history of the discipline from the outside.

So how does the inequality-rediscovery thesis compare against the evidence from published scholarship in economics between 1950 and 2000 (or 2014)? As we show in the subsequent section, not very well. Not only was inequality a consistent and sustained research agenda within economics throughout this period, but it regularly attracted the attention of top scholars, including Nobel laureates, and generated a large published literature in the discipline's most exclusive journals.

Far from proving their case that inequality disappeared in the neoclassical or *neoliberal* era, only to be rediscovered in modern times, the main variants of this thesis share a common neglect of that same published body of scholarly works. In short, they failed to do an adequate literature review before reaching their conclusions.

Measuring Inequality Research From 1950 to 2000

One simple test of the inequality-rediscovery thesis is to take the words *inequality* and *distribution* together and see how frequently they appeared in top economics journals during the second half of the 20th century. We pair the two terms in order to avoid accidental inflation of the numbers. For example, the word *inequality* could apply to the topic of optimal control theory, which is unrelated to the study of the income distribution. Taking only the instances where inequality is mentioned in the context of distribution therefore restricts our measurement to articles that overlap with the research questions of both Kuznets, in the preceding decades, and Piketty and Saez in the present day.

In the *American Economic Review*—the flagship journal of the American Economic Association—the two terms appeared together in 497 articles between 1950 and 2000. This accounts for roughly 5 percent of the articles published by the journal during the period. To provide contrast, the term *monetary policy*—a consistently prominent topic among economists—appeared in 637 articles (7 percent of all articles). When taken separately, the terms *monetary* and *policy* yielded 1,200 articles (13 percent of all articles). Given the central importance that monetary economics occupied in the discipline, particularly between 1960 and 1990, the topic of inequality was pulling its weight quite well.

To be sure, the level of attention to inequality since 2000 has increased markedly. The increase may simply be due to the lowering of computing costs, which makes it easier to generate information and test hypotheses about inequality. That more information now exists and is being produced does not mean that top economists were not developing high-level contributions on the topic.

Summary statistics run directly counter to the inequality-rediscovery thesis by showing the topic's recurring prominence. They do not tell us as much about the influence or nature of the work that scholars were doing between Kuznets and Piketty-Saez. For a better indicator we may look at the major contributors to the literature during this period.

John R Commons 1862–1945

Simon Kuznets 1901–1985

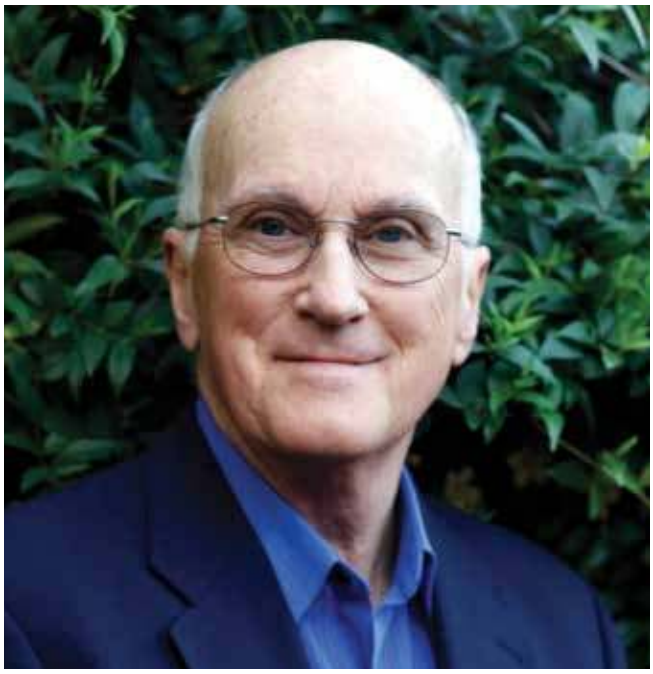
Consider the cases of Jeffrey Williamson, Peter Lindert, and Robert Fogel. Fogel, who earned his fame through his work on the economics of slavery, had, by the late 1970s, moved on to new grounds regarding health economics. More precisely, he began to invest time and effort into anthropometric measurements of living standards (heights, nutrition, death rates). The primary focus of this new research agenda was to consider the role of health inequalities.

For example, one of his main findings was that the distribution of calories consumed in many pre-industrial countries during the 18th and 19th centuries suggested that the poorest were so poorly fed that they could hardly provide more than a few hours of work per day. In fact, this evidence is a large part of what became his Nobel lecture in 1993. Fogel argued that this offered a link between economic growth and health inequality—something that textbooks like Greg Mankiw's *Principles of Macroeconomics* do discuss (even if briefly and tangentially).

Jeffrey Williamson and Peter Lindert are also good examples of the sustained research interest in inequality measurement across the period of its alleged neglect. Between 1960 and 1990 (and even since then), these two economists have been leading scholars of the economic history of inequality. They have consistently deployed efforts to measure income and wealth inequality in countries like Britain and the United States before, during, and after the Industrial Revolution. Their main interest was to extend the work of Simon Kuznets from its mid-century mark. Kuznets had proposed in 1955 that inequality rises with the beginning of urbanization (the process that accompanies the Industrial Revolution) but then begins to falls when urbanization rates have reached a certain threshold. Lindert and Williamson developed empirical evidence over the very long run to test this idea. They showed that income inequality rose in the 19th century before beginning a long fall to the mid-1970s (following the pattern proposed by Kuznets). However, after the 1970s, it began to rise again.

When one concentrates his gaze only on the 20th century, their work also pre-empted the big finding of Thomas Piketty and Emmanuel Saez. With their big breakthrough article in 2003, Piketty and Saez popularized the idea of a U-curve of inequality whereby inequality fell between 1913 and the mid-1960s only to rise thereafter. However, Lindert and Williamson had been discussing this 20th-century empirical pattern throughout the period from 1960 to 1990. They did not stop at income inequality only. They also extended their work to the measurement of inequality in the cost of living, adjustments for regional differences, and the effect of immigration on inequality.

Lindert and Williamson published a multitude of books and articles on the topic. These include works in top venues such as the *American Economic Review* and the *Review of Economics and Statistics*, not to mention their recurrent appearances in top field journals such as the *Journal of Economic History*, *Explorations in Economic History*, *Economic History Review*, and *Economic Development and Cultural Change*. Their 1980 classic book, *American Inequality: A Macroeconomic History*,



Peter Lindert

Robert Fogel 1926–2013

Thomas Piketty

Samuel Bowles

was heavily cited despite being a somewhat technical work, and remains the standard text on the subject to appear between Kuznets and Piketty-Saez.

Lindert and Williamson's work also served to motivate the next wave of inequality research that began in the 1990s, starting with the research of Robert Margo and Claudia Goldin on the *Great Compression* (the reduction in wage inequality below the 90th percentile during the 1940s), which was published in the *Quarterly Journal of Economics* (one of the top journals of the profession). More important to investigating the inequality-rediscovery thesis, we should note how the economics profession treated these scholars. Both were hired at top universities—Harvard University for Williamson and UC-Davis for Lindert. Among the next generation, Margo currently teaches at Boston University and Goldin teaches at Harvard. Such rewards—just like Fogel's Nobel Prize—would not have been bestowed had their primary topic of interest been deemed *marginal*.

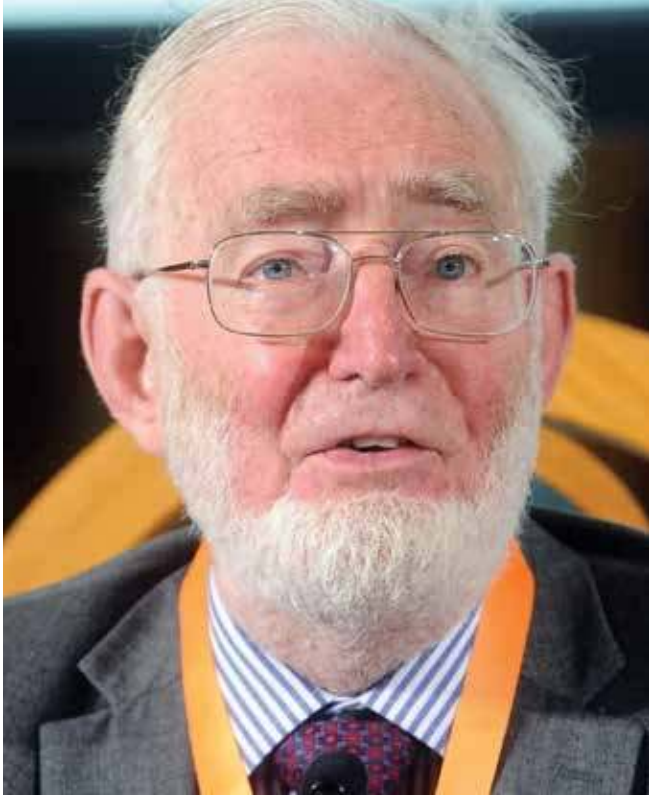
These examples of scholars who worked on inequality during the second half of the 20th century are not exhaustive. Other pioneers include top scholars such as Morton Paglin, Peter Gottschalk, Barry Chiswick, Samuel Bowles, and even Albert Hirschman.

In fact, and quite tellingly, the interest cut across the different schools of economic thought. For example, during the 1980s and early 1990s, Gerald Scully published works that brought public choice insights to the topic of inequality in journals like the *Southern Economic Journal*, the *Journal of Econometrics*, and *Public Choice*. By the early 2000s, before the publication of the breakthrough article of Piketty and Saez, Scully had published additional (and now well-cited) works on the topic of trade-offs between growth and inequality.

Significant contributions on the empirical measurement of top income shares also traverse the era in which inequality was allegedly marginalized. In the 1960s, the NBER commissioned a now well-cited book from Robert Lampman estimating wealth inequality in the United States between 1922 and 1956. That work served to motivate Francis Pryor to do his own work on the topic, which ended up being published in the *American Economic Review*. *The Review of Income and Wealth* also devoted considerable attention during those decades to the topic.

Historical measurements were also enriched in the early 1970s when Lee Soltow extended distributional measurements back to the American Revolution in a pair of papers for the *Journal of Economic History*, while also publishing an influential book on top wealth accumulation in the 19th century. Since 1989, a team of Federal Reserve statisticians and economists led by Arthur Kennickell have administered the periodic Survey of Consumer Finances—a highly regarded survey instrument that measures top wealth concentrations by sampling the ultra-wealthy.

Inequality measurement also regularly appeared in top journals and scholarly presses throughout this period.



Anthony Atkinson 1944–2017

Anthony Atkinson's book *Wealth, Income, and Inequality* went through several editions in the 1970s and 1980s, and included pioneering work on the measurement of top wealth shares in the United Kingdom that he continued to extend until his death in 2017.

Although often portrayed as a *lone voice* in a negligent discipline by modern historians, Atkinson held an academic post at the University of Oxford, developed an inequality-measurement index that bears his name, and received a knighthood for his scholarly contributions.

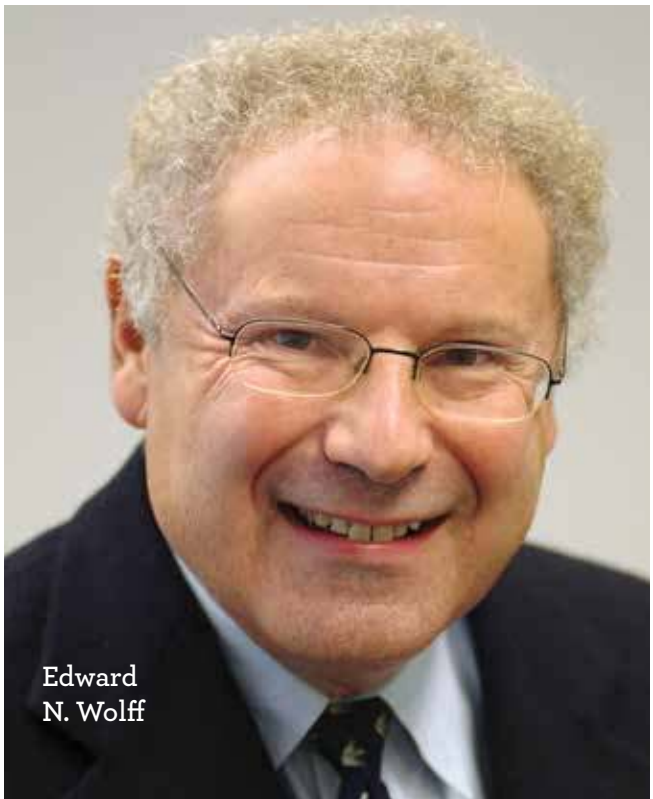
Edward N. Wolff, who is often associated with heterodox approaches that are more politically inclined to do inequality research, published widely cited estimates of wealth concentration in the *American Economic Review,* using survey data between the mid-century and the late 1980s. The 1990s saw a similar continuation of empirical work on estimating top incomes by Daniel Feenberg and James Poterba, as well as continued revisions to historical income distributions from the early 20th century by Gene Smiley. Tax economist Joel Slemrod edited an entire volume of papers on the relationship between income inequality and tax progressivity in 1996, and Slemrod's student Wojciech Kopczuk has been publishing empirical work on inequality measurement since the late 1990s.

Several recipients of the Nobel Prize for economics also maintained an interest in inequality throughout this period.

In addition to Fogel, Angus Deaton received the 2015 award for his work on inequality and poverty—a sizable share of which was conducted during the time of its erroneously alleged marginalization and was published in top field journals or top general-interest journals such as the *Journal of Political Economy*. And while they received the award primarily for other contributions, both Joseph Stiglitz and Paul Krugman have published on inequality in top venues. To this list, one can also add the important works of Amartya Sen on distributive justice and hunger, which required complex connections between economic theory and philosophical concepts about redistribution.

Turning to classroom instruction, we also find that inequality has remained a constant theme in economics-textbook instruction throughout the period of its alleged neglect. Paul Samuelson's *Economics* became the most widely used textbook of this period. Chapter 4 of the first edition from 1948 covered the *Distribution of Income in the United States* including *The Inequality of Income*. The section was retained and expanded over the next half-century. The 1970 edition, for example, has a section on *How to Measure Inequality Among Income Classes* and an accompanying discussion of anti-poverty policy.

The more recent standard textbook, by Harvard's N. Gregory Mankiw, was published in 1998 and is often maligned by ideologically minded academics as the public face of *neo-liberalism* in economics. Yet it too contains an entire chapter on *The Distribution of Income*. The chapter surveyed data on the gap between the richest and poorest fifths of the U.S. income distribution and tied the discussion directly with a survey of poverty-alleviation policies.



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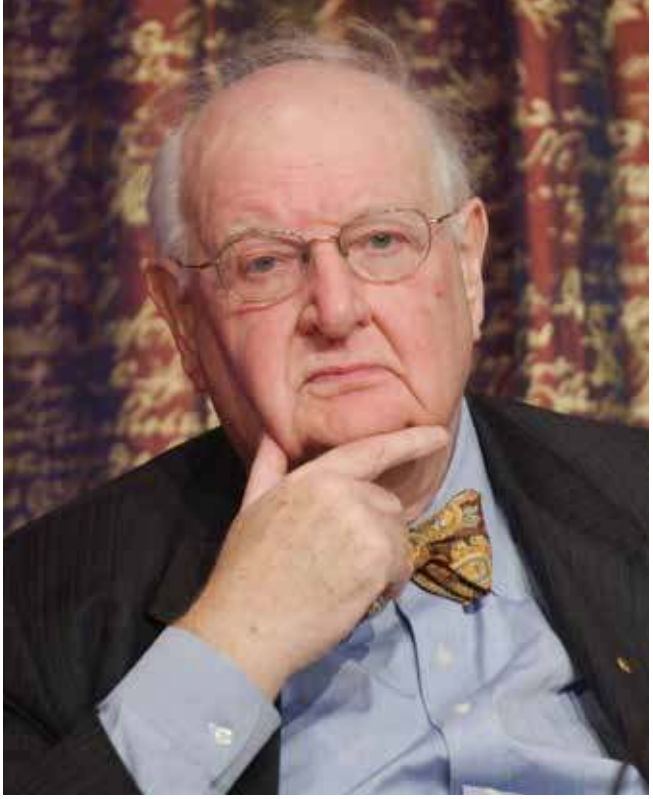


Angus Stewart Deaton 1944–2017

The plain reality of Samuelson's and Mankiw's textbooks stands in sharp contrast with the inequality-rediscovery thesis, and similarly belies a common complaint about economics instruction from persons who work outside of the discipline. One of the major talking points used to promote the recently published CORE Open Source economics textbook is its self-depiction as a corrective to a deficit of classroom instruction about inequality by including a chapter devoted to the subject.

Most introductory courses in economics do not equip students with the tools they need to explore complex issues such as . . . growing inequality, reads a promotional website for the project. And yet as we can plainly see, entire chapter-length discussions of inequality are nothing new to principles textbooks. They've been a mainstay of the discipline since at least 1948.

As can be plainly ascertained from the foregoing evidence, the study of inequality was alive and thriving throughout the period of its alleged 50-year neglect by the economics discipline. It consistently attracted the attention of top scholars, including future Nobel laureates. It consistently appeared in published research in top-tier journals such as the *American Economic Review* as well as in multiple top field journals and books at top university presses. The topic also received prominent and consistent treatment in two of the main classroom textbooks in use throughout this period.

All of the aforementioned work preceded Piketty's *Capital and the 21st Century* by over a decade, as well as Piketty and Saez's 2003 article—the two events that allegedly reversed the discipline's attention according to the inequality-rediscovery thesis. To their credit, Piketty and Saez also cited and acknowledged that they were building on this half-century of work. We may ask ourselves then how the more recent commentators got the story so wrong. The answer may be found in their misidentification of the Piketty-Saez contribution.

How Piketty and Saez Advanced the Inequality Literature

When Piketty and Saez published their new time series on top U.S. income distributions in 2003, they built upon an existing literature that traced back to Kuznets a half-century earlier. The most important original contribution of the piece was not its alleged *rediscovery* of a neglected and marginalized topic—indeed their literature review cited several of the very same authors and contributions we note above, including Feenberg and Poterba, Lindert and Williamson, Goldin and Margo, Atkinson, and Slemrod, among others. Rather, Piketty and Saez's novelty arose from their attempt to construct a single century-long measure of top income shares from a continuous data source.

Prior works since the time of Kuznets had in fact measured income distributions over the intervening half-century. Feenberg and Poterba, for example, used a different methodology to estimate the top 0.5 percent income share, and other authors had pieced together a long-term series from other sources such as surveys or closely related metrics from wages. Piketty and Saez, however, adapted a single common source—the IRS's annual *Statistics of Income*

Amartya Sen

report—to derive a contiguous series covering the entire period between the first income tax in 1913 to the present. The result gave a complete century-long depiction of top income distributions taken from the same data source.

Having a common series is advantageous as it avoids the challenges posed by piecemeal assembly from disparate sources and different levels of comprehensiveness. In that sense, Piketty and Saez contributed a new and standardized approach to the inequality-measurement problem that has since been adapted to dozens of other countries, where tax data permit.

The new approach had a clear effect upon the inequality literature, as proponents of the inequality-rediscovery thesis appear to recognize. Those proponents however misidentify the empirical contribution of a single-source series, and interpret it instead through its uses as a political advocacy tool for progressive taxation. This leads them to overlook the earlier literature, which generally avoided taking strong political advocacy stances.

Indeed, Piketty and Saez's own interpretations of their work have moved in a much more overtly political direction since it first appeared. Piketty's 2014 book, for example, asserts strong causality between high taxation and lessened inequality. He makes an overt political argument for global wealth taxation as a prescriptive correction. Saez currently advises Elizabeth Warren's presidential campaign, and designed the main tenets of her proposal to enact the same in the United States.

Compare that to the much more circumspect interpretation of their results offered in the 2003 paper: *We have tentatively suggested that steep progressive taxation, by reducing the rate of wealth accumulation, has yet prevented the large fortunes to recover fully from these [leveling] shocks,* of the Great Depression and World War II.

Interestingly, subsequent developments within the economic literature on the Piketty-Saez series have retained their long-term outlook and methodology but also directed attention to several areas of weakness that arise from the approach. IRS statistics, though they have the advantage of dating back a century, have highly inconsistent levels of economic quality due to changes in the way taxes were collected and enforced, and due to selectivity issues in the way that the rich structure their tax reporting.

Indeed, even before Piketty and Saez's work, Slemrod along with Roger H. Gordon drew attention to the distortive effects of income shifting in response to tax-rate changes. After all, taxpayers engage in legal tax planning to insulate their income from a heavy statutory tax burden but may relax such practices under lower rates, or shift income streams to different reporting structures to take advantage of rate differentials.

For the Piketty-Saez series, this means almost every major tax-code overhaul in the past century has the potential to affect the economic quality of IRS data and alter the amount of money that gets reported as taxable personal income. Several recent works have called attention to these problems and attempted to correct for them in the Piketty-Saez series since the mid-century mark. Our own work, which revises the entire Piketty-Saez series between 1917 and 1962, addresses similar issues in the first half of the century, when IRS data problems were more severe. The thrust of this newer literature indicates that the empirical approach by Piketty and Saez remains a live issue of inquiry, with most of the subsequent revisions pointing in a downward direction.

But that's a very different story than the one that the scholars invested in the inequality-rediscovery thesis wish to tell. It also reveals that the measurement of inequality is not some neglected and then recovered subject of investigation, but rather a continuously evolving line of research with a vibrant and uninterrupted genealogy going all the way back to Kuznets (and earlier, as Kuznets admitted).

The trajectory of that research is a process of constantly revising and strengthening our measurements, with an eye toward improving the accuracy of the results. Unfortunately, that story of scholarly research evolution is much less exciting than a fairytale of neglect and rediscovery in which several of its proponents also evince explicit interests in politically justifying an upward revision to U.S. tax rates.

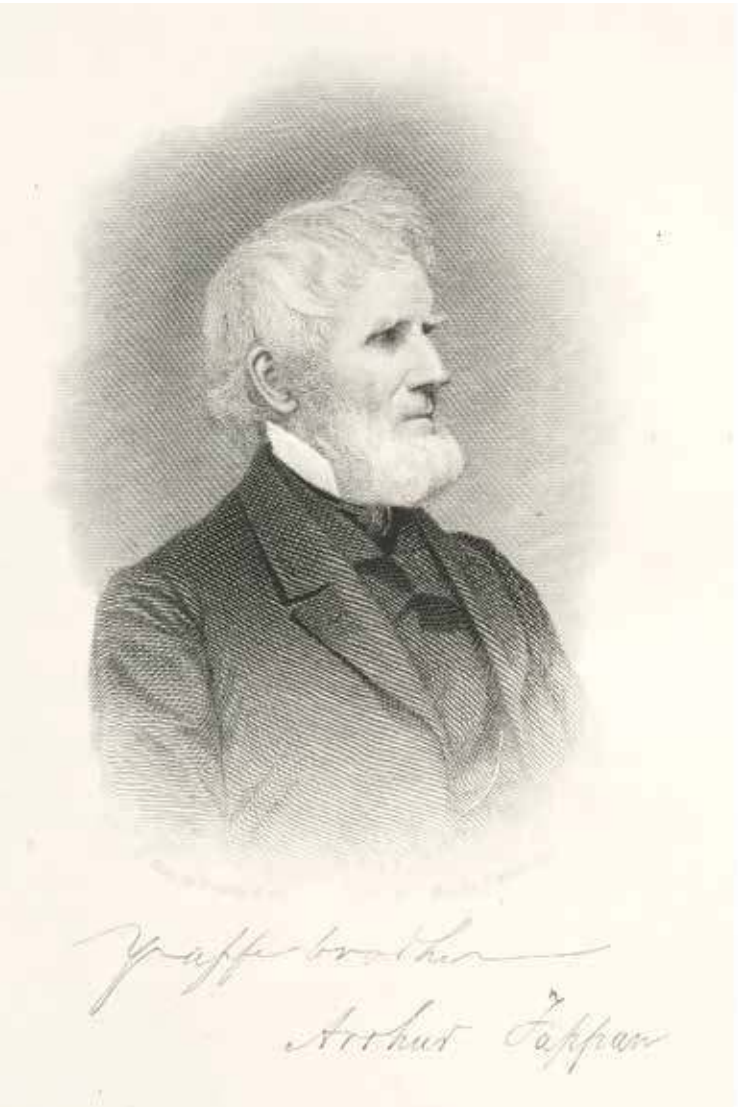
Trying to force the history of economic thought to fit a particular narrative out of the need for ideological congeniality is the greatest disservice that the inequality-rediscovery thesis does to the topic of inequality.

How Capitalist-Abolitionists Fought Slavery

Phillip W. Magness

Running afoul of slave-owning political interests almost destroyed brothers Lewis and Arthur Tappan, the wealthy owners of a prominent New York mercantile import business. On July 9, 1834, a pro-slavery mob gathered at New York City's Chatham Street Chapel with the intention of breaking up an abolitionist sermon.

Among their many grievances, the protesters were incensed at an incident some weeks earlier in which Arthur invited Rev. Samuel Cornish, an African American abolitionist and cofounder of the American Anti-Slavery Society, into his family pew for Sunday service. The gesture served as a powerful symbolic call for the racial integration of religious worship at the chapel. It also made the Tappan brothers—already well known as a philanthropic force behind the abolitionist movement—the target of sensationalist conspiracy theorizing that spread to newspapers across the country and accused the devoutly Christian and pacifist brothers of fomenting a slave revolt.



Congregants caught wind of threats to forcibly disrupt their gathering and fled for their own safety. Still seeking a fight, the mob descended upon Lewis Tappan's nearby home, tossing its furniture into a fire on the street and successfully driving away an attempt by the New York police to quell the riot. For the next two days, breakaway mobs searched the city for the Tappan brothers, ransacking the homes both of white abolitionists and leaders of New York's free black community in the process. The same mobs attacked African-Americans on the streets at random and held crude racist political demonstrations in front of churches and businesses they deemed friendly to the abolitionist cause.

The Tappan brothers managed to escape relatively unscathed as the mayor stationed an armed militia to guard their storefront and drive away rioters. National news of the Chatham Incident, or *Tappan Riots* as they came to be called, carried other repercussions. It made the firm of Arthur Tappan & Co. into the target of a slave owner–instigated boycott that preyed upon public racism to drive away its customer base.

The mob targeting of the Tappans proved to be a watershed moment in the crusade to end slavery. William Lloyd Garrison's coverage of the riots demonstrated that slavery's defenders were willing to incite political violence in order to silence their critics. The episode also converted New York journalist William Leggett to the cause of abolition, which he then explicitly linked to a philosophy of laissez-faire capitalism and free trade.

It also took a heavy toll on the Tappans' company. If the proslavery mob could not physically drive them from their New York business, it would destroy them nationally through a vilification campaign and economic targeting. Newspapers across the South demonized the brothers as the face of not only abolitionism but racial intermarriage, black political rights, and violent slave revolts. Groups of slave owners in New Orleans and Charleston even pledged a bounty on Arthur Tappan's head. A poster advertising a *$20,000 Reward for Tappan*, for example, appears prominently in an 1835 depiction of slave owners ransacking a post office to intercept copies of William Lloyd Garrison's *The Liberator*.

By 1837, the combined loss of business from the boycott and the descent of the American economy into a deep financial depression left the brothers owing more than $1 million to creditors. The decline represented a nearly complete reversal in fortunes for a firm previously known for its conservative bookkeeping and heavy reliance on cash transactions to limit its liabilities from customers who reneged on their payment obligations. Arthur Tappan & Co. finally closed shop.

Lewis Tappan, who often spoke of his business as a moral charge and who directed its proceeds in healthier times to a variety of abolitionist newspapers, was not yet ready to concede the fight to an orchestrated campaign of financial ruination. At his darkest moment, he came up with a brilliant plan that not only reversed his fortunes but also revolutionized the American financial industry.

Drawing on the experience of the boycott, Lewis recognized a systemic fault in the existing practices for business transactions carried out on credit. To fight back against a slave owner–incited boycott that undermined their cash purchases, the Tappans would reconstitute their business model around their existing network of connections in the abolitionist movement by offering credit transactions to trusted friends and associates. Establishing that trust, however, remained an obstacle, particularly if they ever hoped to expand this service beyond their own personal associations.

The complexities of the global import market and a growing customer base, spread across the nation's rapidly expanding geography, made the issuance of credit into an economic challenge. What was once a simple relationship between a shopkeeper and customers who were known to Lewis and who usually resided in his neighborhood now became a persistent information problem. With expanded markets, businesses could no longer afford to rely upon personal knowledge and reputation when vetting potential customers. A firm had to either insist upon payment up front or assume the risk that a customer would abscond with goods purchased on credit. The only available solutions were to either pay for individual background checks on potential clients before extending them credit—an expensive and unwieldy undertaking for all but the largest of firms—or absorb the loss if a customer reneged on repayment.

Lewis Tappan devised an innovative solution to this problem by creating a service to independently track and validate the creditworthiness of potential clients. In 1841 he founded the New York Mercantile Agency, the first modern credit-reporting firm in the United States. The new company offered a subscription-based service that collected and maintained a list of the creditworthiness ratings of private businesses across New York City and, eventually, the country.

Reaching into his network of abolitionist connections and known clients from his old firm, Tappan was then able to assemble a network of credit investigators and attorneys who used local knowledge to assemble reports about outstanding debts, repayment rates, and defaults among the businesses in their cities and towns. A rating could then be provided to subscribers of the service, allowing them to reliably evaluate the risk of doing business with firms located thousands of miles away. The information problem at

Bird's-eye view of New York 1873

the root of previous complex credit arrangements could be mitigated through a market service that independently verified business reputations and conveyed their creditworthiness over long distances through simple consultation of a low-cost subscription paper.

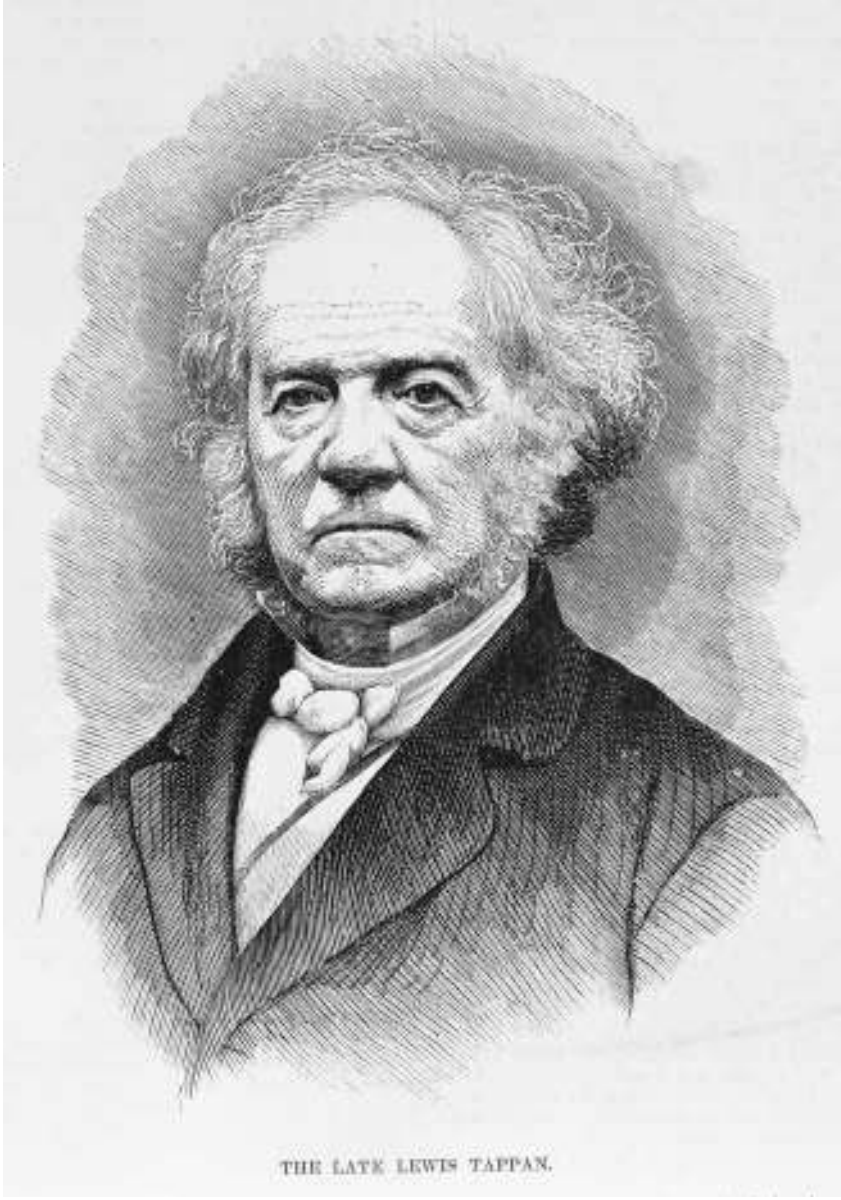
Lewis Tappan's innovation revolutionized the American finance industry. The direct successor to his Mercantile Agency still exists today as Dun & Bradstreet, and his idea of an independent credit-reporting entity became the standard verification instrument of modern business lending and investment practices. The information it provided as an external and accessible measure of reputation, in turn, allowed for reliable and regular transactions to occur over long distances, thereby helping to ignite an unprecedented expansion of access to markets and goods across the nation.

The origins of Tappan's innovation remain a neglected feature in the history of American capitalism. A succinct account of the Mercantile Agency's history may be found in an article by historians Brian Grinder and Dan Cooper for the Museum of American Finance. For a longer discussion, I recommend Roy A. Foulke's 1941 text *The Sinews of American Capitalism*, which details its abolitionist origins (Foulke, a vice president of Dun & Bradstreet, was also an early benefactor of AIER and friend of E.C. Harwood).

Their fortunes renewed, the Tappan brothers remained devoted benefactors of the abolitionist cause. After the Fugitive Slave Act of 1850 strengthened federal government efforts to recapture African-Americans in the north and return them to slavery, the brothers set up a network of lawyers to mount legal challenges to the renditions and, where possible, funneled money to support the Underground Railroad. Lewis also subsidized Lysander Spooner's book *The Unconstitutionality of Slavery* and financed the printing of his abolitionist pamphlets.

Interest in the history of American capitalism is on the rise, although curiously this line of study is being advanced for anticapitalistic ideological reasons as may be found in the *New York Times*' new 1619 Project, on American slavery. Much of the associated academic literature, including sources used by the *Times*, relies on empirically shoddy and politicized lines of research that several leading economic historians have conclusively refuted.

In eschewing factual analysis for political narratives, these scholars and the journalists who promote them appear to be far more interested in weaponizing the history of slavery with biased and even fabricated claims for the purpose of discrediting capitalism and free markets in the present day. They neglect the historical antagonism that existed between slave owners and free market capitalism, including a leading slavery defender who declared that capitalism was *at war with all kinds of slavery*.



THE LATE LEWIS TAPPAN.

It is therefore no small irony that one of the most important innovations in American financial history—the development of a reliable and replicable credit-reporting mechanism—owes its existence to a leading capitalist benefactor of the American antislavery movement. That innovation emerged as a tool for abolitionist business owners to escape violent harassment by racist mobs and coordinated economic targeting by plantation owners who sought to destroy the viability of their businesses. Lewis Tappan illustrated through his personal struggle and his economic entrepreneurship that American capitalism was, indeed, at war with slavery.

New Evidence that Soaring Inequality is a Myth

Phillip W. Magness

According to a dominant political narrative of the past several years, inequality in the United States is spiraling out of control. A few lonely voices, me included, have questioned the statistical foundations of this narrative, but most commentary on the subject invokes a 2016 paper by economists Emmanuel Saez and Gabriel Zucman that attempts to measure wealth concentration at the very top of the distribution.

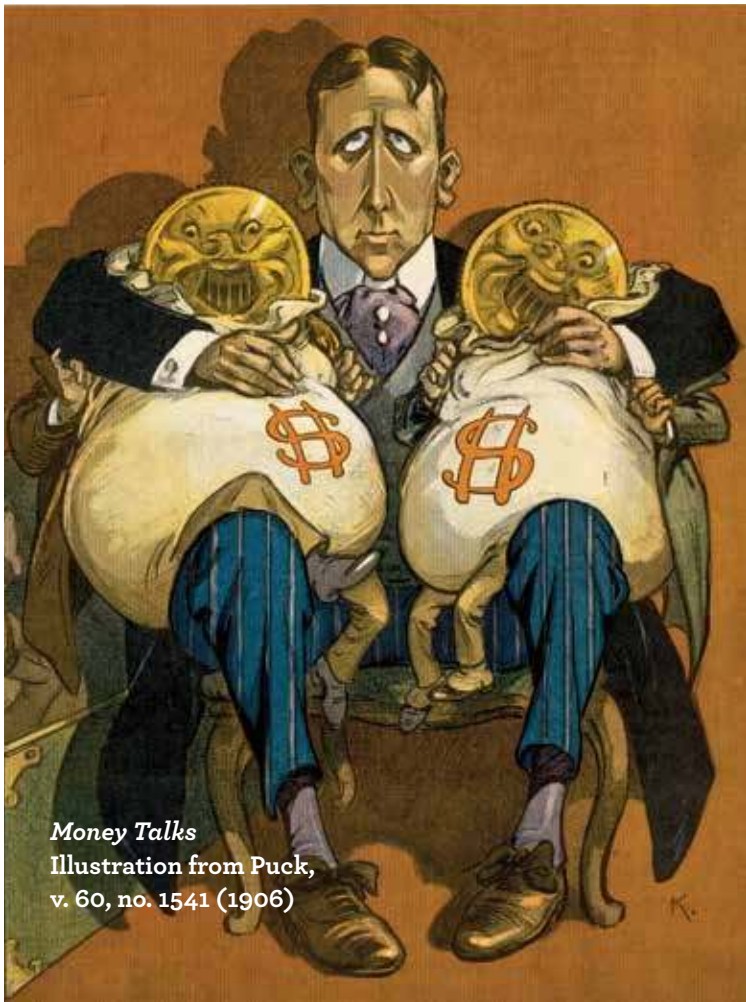
Saez and Zucman's study points to an extreme and rapid inequality spike. They claim that the wealth share of the top 1 percent skyrocketed from 24 percent of the total share in 1980 to 42 percent today—almost doubling in a little over three decades. A new statistical measure prepared by the Federal Reserve appears to tell a very different story. It shows that wealth inequality is increasing in recent decades, but at a much more modest pace that's less than half of the Saez-Zucman spike.

Earlier this spring, the Fed released its Distributional Financial Accounts (DFA) series of quarterly data on household wealth concentration from 1989 to the present. The series can be downloaded from their website, which also features a useful interactive tool to visualize wealth shares by percentiles. The new DFA series merges the Fed's Survey of Consumer Finances (SCF) with the Financial Accounts of the U.S. This allows them to obtain a more fine-grained estimate than the triennial SCF previously permitted.

The more subdued rise in inequality from the DFA series occurs in fluctuations, as opposed to the sharp upward march depicted in Saez-Zucman. It shows that the top 1 percent's wealth share increased from about 23 percent to 29 percent between 1989 and 2012 for a total rise of just 6 percentage points. By contrast, Saez-Zucman claimed a 14 percentage-point spike over the same period. While 2012 is the last available date for comparison in the Saez-Zucman series, the DFA only shows about a percentage-point increase between then and the end of 2018.

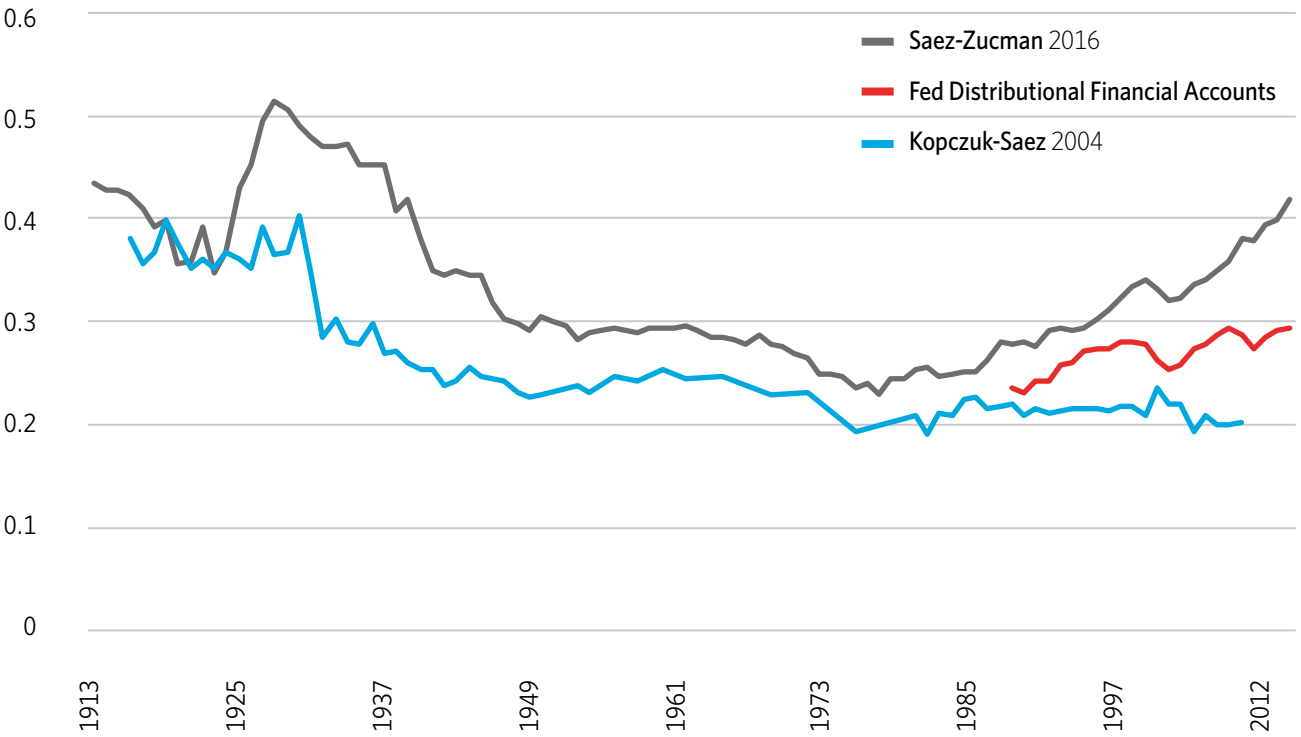
The substantial gap between the two measures also reveals two very different historical narratives. Saez and Zucman's inequality spiral suggested that the top 1 percent's wealth concentration has already reached a level unseen since the Great Depression, and even sits above the norm for the late Gilded Age of the 1910s and 20s. The Fed's new DFA measure shows a recent rise in wealth concentration from a trough in the 1980s. But that rise only brings the 1 percent to parity with what Saez and Zucman's own series depicts for the 1950s — an era that political commentators often champion as a "golden age" of greater equality in the United States.

There are a few conceptual differences between the two measures. As with earlier SCF estimates, the DFA series retains the convention of measuring wealth by households. Saez-Zucman uses tax units from its IRS-derived sources.



Money Talks
Illustration from Puck, v. 60, no. 1541 (1906)

Comparison of Estimates Wealth Inequality in the US, top 1%



A side by side comparison of the DFA and Saez-Zucman nevertheless reveals the differences in their depicted trends in stark terms. The chart below depicts the DFA (red), Saez-Zucman (grey), and the older series of Kopczuk and Saez (blue), which measures individual net worth based on estate-tax records.

As can be clearly seen, only the Saez-Zucman series depicts the inequality spiral that has taken hold of the modern political conversation. The other two measures are either flat (in the case of estate taxes) or modestly rising (as in the new DFA series). While some commentators have already begun spinning the DFA as new evidence of a pressing inequality problem in the United States, the deeper story is how it actually tempers the inequality alarmism of the past several years by showing a much more subdued pattern.

The much-touted Saez-Zucman series, it would seem, is an outlier among existing measures of income and wealth concentrations at the top. The rush to embrace its depicted inequality spiral over alternative measures showing a more nuanced and tempered pattern—indeed one with less than half of the alleged rise—is indicative of how a political push to justify increased taxation has afflicted the entire inequality debate.

Wealth Has Never Been More Equal

Jeffrey A. Tucker

We're bombarded by endless kvetching about rising inequality, plus demands for draconian taxation to fix the problem. The complaint has been raging for years, despite highly suspect data claims and fuzzy measurement techniques.

I've always had doubts that rising inequality, even if true, would even be a problem, simply because in a market-driven economic environment, it takes nothing away from me that the guy across the bar is a billionaire and I'm not. Chances are that he is providing jobs, donating to charities, and boosting investment in the capital structure that actually benefits all of us.

A society of equality in deep poverty is easy to achieve with enough force.

But let's examine this claim at a different level. What exactly are we measuring here? The Gini coefficient measures income across population groups, which is very different from measuring consumption. Already here we have a major problem in a growing economy in which the same amount of income buys ever more goods and services.

As a practical matter now, the poor today live better than kings of old. If the goal is to better the lot of everyone, measures of material equality actually distract from the main goal of universalization of dignified lives.

Material vs. Knowledge

Let's take a deeper look at the core assumption that material wealth is what should be the measure of equality. Another form of wealth concerns the information to which we have access. In some ways, information—the opportunity to access it and the capacity to contribute to humanity's stock of it—is far more important to our lives than material wealth.

Information is the building block of culture. It provides a roadmap to success. It helps us live better lives.

Where do we stand with information sharing, the distribution of the most valuable commodity? There has never been more access. Access to what? To what the whole of humanity has learned and knows. (I owe this insight to a passing remark made to me by Lotta Moberg at the Philadelphia Society.)

I'm sitting here at an airport where people are waiting for planes. Every single person is using a tool that is a portal to all the world's information, and many of them are likely adding to that information pool right now. This is happening despite income disparities, accidents of birth, or even income. The points of access and the price of that access—free for the most part—has dropped in price to the point that no person is excluded.

It's true on the streets, at the mall, at restaurants, everywhere you look. Ninety percent of Americans have internet access, and three-quarters have a smartphone. This is a record, and a trend driven by deregulation and market forces. It's a beautiful thing to see.

It's also brought more equality to society.

Consider the contrast with 30 years ago. What we knew was controlled only by those who had privileged access. They were writers of books, the journalists published in magazines, and the people on the few television networks, and their communication with us was one-way. We could not talk back to this elite. They talked and we listened. Our capacity to contribute was limited to sharing with people only around us, unless we wrote letters delivered after a long wait via a government employee.

This reality is within the living memory of most people alive today.

Isidore of Seville in the 6th century set out to assemble all the world's knowledge in a single book. The result was the Etymologiae. It was the project of a lifetime. It became the essential book of learning during the whole of the Middle Ages. Only the privileged few could have access. Mass ownership of books wasn't really possible until the 19th century.

The Age of Knowing

Now we are all carrying countless expanded versions of the Etymologiae in our pockets. That same tool offers the power of television, not just as consumers but as broadcasters, to everyone. We can access every course at MIT. The portals of information are overwhelming to us. We can play games and communicate peer-to-peer with anyone who has Internet access. Even turning on our television gives us instant access to many hundreds of stations. The information explosion in our lives is so vast it is impossible to describe.

Crucially, it is not just for the elite; it is for everyone, and this is because it was made possible by a market ever in search of the next customer base.

In terms of information access and the opportunity to learn and share knowledge, we've never been more rich and equal. We share what we know, learn from others, and experience a never-ending rush of data crucial to living a good life. We are drinking constantly from what F.A. Hayek called the *fund of experience*—an analogy to capital theory in the physical world. It is the means by which the whole world and the whole of history can benefit from the success of one single firm or one innovator, provided the means are there to share that knowledge.

The free gift of the knowledge, he wrote in 1966, *that has cost those in the lead much to achieve enables those who follow to reach the same level at a much smaller cost.*

Hayek offers this extremely insightful observation on the value of information:

The growth of knowledge is of such special importance because, while the material resources will always remain scarce and will have to be reserved for limited purposes, the uses of new knowledge (where we do not make them artificially scarce by patents of monopoly) are unrestricted. Knowledge, once achieved, becomes gratuitously available for the benefit of all. It is through this free gift of the knowledge acquired by the experiments of some members of society that general progress is made possible, that the achievements of those who have gone before facilitate the advance of those who follow.

Do we see the champions of equality celebrating this remarkable achievement? I've not seen it at all. Instead, the terms of debate seem to have shifted entirely to an exclusive and maniacal focus on material income as the sole source of wealth.

It's even worse than that. We've never had more access to other ways of thinking and living, new cultures, languages, and human experiences. The opportunity for discovering and adopting has never been more voluminous. And in the midst of this extraordinary flood of information outside of our narrow experience, we are being told that it is wrong and even deeply immoral to *appropriate* other people's experiences and learn from them in a way that is operational in our lives. To do this is considered *cultural appropriation*, as if it is a form of theft.

It's a remarkable claim, and a deeply anti-intellectual one. You cannot steal a culture. Culture is not a scarce good. It

Detail of a scene in the bowl of the letter *P* with a woman with a set-square and dividers; using a compass to measure distances on a diagram. In her left hand she holds a square, an implement for testing or drawing right angles. She is watched by a group of students. She is most likely the personification of Geometry, based on Martianus Capella's famous book De Nuptiis Philologiae et Mercurii, [5th c.]. Illustration at the beginning of Euclid's Elementa, in the translation attributed to Adelard of Bath.

is available to everyone to *appropriate*. To attack our freedom to learn and be influenced, to call it unethical to discover and live in a different way, is to cut off chances of progress. It's a fundamental attack on the biggest source of wealth we now enjoy in society.

So you can see here that in the way the Left has rigged this game, there is no way that freedom can win the debate over equality. You point out that information is the most valuable good and that there's never been more of it, and they say this doesn't matter. You point out that culture has never been more accessible, and they say it is wrong to consume it and be influenced by it because that would be theft.

The critics of the market economy who invoke equality as an ideal cannot and will not be satisfied until they crush every last opportunity for everyone to live a good life.

Here we are living in an age of unprecedented abundance of the most valuable goods, available to everyone regardless of life station, and instead of celebration and appreciation, we see the opposite: endless kvetching about narrow materialistic concerns of only fleeting relevance to the quality of life everyone hopes to experience.

When *Democracy* Becomes a Threat to Liberty

Richard M. Ebeling

For most of the last three centuries, the ideas of liberty and democracy have been intertwined in the minds of both friends and foes of a free society.

The substitution of absolute monarchies with governments representative of the voting choices of a nation's population has been considered part and parcel with the advancement of freedom of speech and the press, the right of voluntary and peaceful association for political and numerous social, economic, and cultural reasons, and the guarding of the individual from arbitrary and unrestrained power.

But what happens when an appeal to democracy becomes a smokescreen for majoritarian tyranny and coalition politicking by special interest groups pursuing privilege and plunder?

Friends of freedom, including many of those who strongly believed in and fought for representative and democratically elected government in the 18th and 19th centuries, often expressed fearful concerns that *democracy* could, itself, become a threat to the liberty of many of the very people that democratic government was supposed to protect from political abuse.

The Tyrannies of Minorities and Majorities

In his famous essay *On Liberty,* (1859), the British social philosopher and political economist John Stuart Mill warned that there were three forms tyranny could take on: the tyranny of the minority, the tyranny of the majority, and the tyranny of custom and tradition. The tyranny of the minority was represented by absolute monarchy (a tyranny of the one) or an oligarchy (a tyranny of the few). The tyranny of custom and tradition could take the form of social and psychological pressures on individuals or small groups of individuals to conform to wider communities' prejudices and narrow-mindedness, which intimidate and stifle individual thought, creativity, or (peaceful) behavioral eccentricity.

Mill also was insistent that while democracy historically was part of the great movement for human liberty, majorities potentially could be as dictatorial and dangerous as the most ruthless and oppressive kings and princes of the past. At moments of great collective passions and prejudices, individual freedoms of speech, the press, religion, association, and private property could be voted away, reducing the isolated person to the coerced pawn and prisoner of the political system because of sheer numbers in an electoral process. (See my articles *John Stuart Mill and the Three Dangers to Liberty* and *John Stuart Mill and the Dangers of Unrestrained Government*.)

For this reason, many of the great social philosophers and reformers of the 1700s and 1800s were often strongly insistent that, because of democracy's two-edged sword of liberty or tyranny, it was necessary to restrain the powers and reach of governments through written and unwritten constitutions that limited what even majorities could directly or indirectly do through their elected representatives. Hence, the role and importance, in the American case, of the Bill of Rights, the first 10 amendments to the United States Constitution.

The First Amendment states clearly and categorically, *Congress shall make no law* that might abridge some of an

The Triumph of Peace and Liberty Over Tyranny
Sir James Thornhill 1714

individual's freedoms, including freedom of speech, the press, religion, and peaceful assembly, and freedom to submit grievances against the actions of government. Indeed, every one of those first 10 amendments was designed to place some restriction on the use of political power to infringe upon or deny different aspects of an individual's rights to his life, liberty, and honestly acquired property.

Ambiguities of language, nuances of interpretation, and changing attitudes have often resulted in disagreements as to what and how such personal freedoms were to be understood and secured. But the underlying meaning and message should be considered beyond any doubt: there are aspects to the life and rights of the individual human being that government, even majoritarian government, should not and cannot abridge, violate, or deny.

Both monarchs of the past and dictators more recently have always denied such limits on their power to command and coerce those under their control, including prohibiting words and deeds by those over whom they have asserted their rule. They have rationalized their claim to unrestrained authority by appeal to a *divine right of kings* or a higher meaning of freedom that expresses the *will of the people* as a whole through the tyrant's supreme power.

Negative Freedom = Liberty, _Positive_ Freedom = Coercion

One of the great linguistic tricks of the communists and many of the socialists of the 20th century was to try to distinguish between false, or *bourgeois*, freedoms and real, or *social*, freedoms. The former were those individual freedoms expressed in the Bill of Rights, which were labeled *negative* freedoms in that they *merely* protected a person against the aggression and coercion of others.

Positive, or *social*, freedoms required government planning, regulation, and redistributive control to ensure that need rather than profit guided production and that the shares of income and wealth among members of society were more equalized according to a prior notion of distributive justice.

Individual freedom only requires that each person respect the life, liberty, and honestly acquired property of others, and that he follow the rule of peaceful and voluntary association in all human interactions. Beyond this *negative* restraint on each of us, we are all at liberty to live our individual lives as we choose, guided by our own personal conceptions of value, meaning, and purpose in ordering and following our private affairs and dealings with others.

The notion of positive or social freedom requires the active and constant intervention of the political authority into the individual and voluntary interpersonal affairs of a country's citizens precisely to command or prohibit how, when,

John Stuart Mill 1873

where, and for what people may act and interact with others, so to direct and dictate certain results that those in government consider good, just, and fair. Individuals and their actions are made subservient to and confined within the collective or community or national interests of the society as a whole as defined and enforced by the government.

A little reflection should make it clear that whether these positive or social regulations and redistributive goals and ends are imposed by a one or a few (a tyranny of a minority) or are done so by a *democratic* government claiming to speak for the many or all (the tyranny of the majority), the individual who otherwise might be peaceful and non-infringing on the private actions and interactions of others is made the slave of some who say what he must do and what outcomes in life will be allowed or given to him.

Joseph Stiglitz's Charge That _Democracy_ Is Under Attack

In our day and age, one of the political tricks played by the *social-justice warriors* and the redistributive advocates is to insist that what they call for and demand in terms of government economic and social policy is really the *democratic* will of the majority, and any opposition or resistance to it is a demonstration of that person being an opponent of democracy and therefore an enemy of freedom and the free society.

King James I of England
The theory of divine right was developed by James VI of Scotland (1567–1625), and came to the fore in England under his reign as James I of England (1603–1625).

An example of this is a recent article *American Democracy on the Brink* by the noted economist and Nobel Prize winner Joseph E. Stiglitz, a professor of economics at Columbia University in New York. According to Stiglitz, a series of recent Supreme Court decisions demonstrate that democracy is in peril in America.

He repeats the now thread-worn charge that we do not live in a democracy today because the current occupant of the White House won 3 million less of the popular vote than his opponent in the 2016 president election. That Donald Trump won the election according to the presidential electoral rules specified in the U.S. Constitution in terms of winning an Electoral College majority is shoved aside and made into an implicit accusation that the Constitution itself is a rigged, anti-democratic institution.

One wonders, however, whether Joseph Stiglitz would be wearing sackcloth and ashes with his head bowed low if the 2016 outcome had put Hillary Clinton in the White House with an Electoral College majority, but with Trump having won a majority of the popular vote. Somehow I doubt it.

American Express and Market Competition
Stiglitz's first charge against *undemocratic* capitalism is the recent Supreme Court decision in favor of American Express concerning the company's requirement that retail and other stores at which customers purchase goods with the use of credit cards not offer special discounts to buyers to use cards with lower transaction fees than their own. Stiglitz sees this court decision as corporate anti-competitiveness at the expense of the retailer and the consumer—the few exploiting the many.

But as the high court reasoned, not all credit cards are equal, and, therefore, it is not implied or required for all companies issuing credit cards to charge the same transaction fees to stores. The bulk of American Express's business involves *non-revolving* credit—that is, the large majority of American Express cardholders pay the full balance owed each month. Thus, American Express does not earn extended interest income from most of its customers through installment payments.

American Express customers who hold different types of the company's cards, with differing levels of services, perks, and discounts, tend to be, on average, in higher income brackets and spend more on various goods and services on, say, an annual basis. Thus, those shoppers paying with their American Express cards are likely to buy more, and on more expensive goods, thus more than making up the higher transaction fees American Express charges retailers. Furthermore, the attractiveness of many of American Express's cardholder perks has competitively worked to prod other credit card companies to introduce their own versions of points for dollars spent, cash-back incentives, and various other consumer services.

Implicitly, Stiglitz seems to have in the back of his mind the artificial economics-textbook notion of perfect competition, one of the unrealistic and arbitrary assumptions of which is that each seller in a market sells a product exactly

alike his rivals' products in that market. The notion also holds that to differentiate your product from those of your competitors is, somehow, to act anti-competitively. Yet the very notion of competition understood as a rivalrous process is to constantly attempt to improve and distinguish your product from others'. This includes offering what consumers may consider a better product that might sell for more than your competitors' precisely because it's not viewed the same as theirs. (See my article *Capitalism and the Misunderstanding of Monopoly*.)

Finally, no retailer is compelled to accept the American Express card as a form of payment in their place of business. Indeed, some stores only take Visa or MasterCard precisely to avoid the higher transaction fees from American Express. They choose to forgo some consumer business that otherwise could have been theirs by deciding that the cost of lost business is less than the higher transaction fees to be paid to American Express. This reflects the diversity of choice and business decision-making in the competitive marketplace; it is not an instance of corporate anti-competitiveness.

What Stiglitz wants, instead, is to impose his notion of competitive *fairness* on others in the marketplace by compelling American Express to interact with retailers the way he thinks they should, and potentially undermine the profitability of American Express to continue to offer some of the features, services, and perks that make it attractive to those who voluntarily pay the annual dues for their cards. At the same time, while claiming to speak for the unsung majority of the consuming public supposedly taken advantage of by American Express, his policy prescription would serve the anti-competitive interests of American Express's credit card competitors, who would not have to work as hard to keep their customers away from one of their rivals.

Diogenes of Sinope by Jean-Léon Gérôme 1860
The Greek philosopher Diogenes (404-323 BC) is seated in his abode, the earthenware tub, in the Metroon, Athens, lighting the lamp in daylight with which he was to search for an honest man. His companions were dogs that also served as emblems of his *Cynic* (Greek: *kynikos*, dog-like) philosophy, which emphasized an austere existence.

The Undemocratic Nature of Compulsory Unions

Stiglitz's second criticism also falls upon another recent Supreme Court decision: that state and municipal employees will no longer be compelled to pay mandatory dues to public-employee and teachers' unions when they might not want union representation or might oppose the political uses to which those funds are applied for political lobbying and campaigning. He raises a number of criticisms against the court's decision, including that selfish workers will choose to not pay dues and be free riders on the efforts of employee unions that improve the pay and work conditions of all in government jobs. He charges that to deny unions that *right* to demand dues payments, whether individual public employees want union representation and political activism or not, is supposedly undemocratic.

In the tradition of George Orwell's newspeak in his famous novel 1984, Stiglitz twists the meaning of words to assert that union compulsion is freedom and that individual freedom of choice is employer exploitation. For a good part of the last 100 years, labor unions, especially beginning in the 1930s, were given a relatively free hand to force workers into union membership to have access to certain types of employment, and to restrict the number of people who could look for and find gainful employment in various sectors of the economy.

In their heyday in the middle decades of the 20th century, labor unions could shut down entire industries through strikes, could threaten or use violence to prevent non-union workers from taking jobs their members had walked away from during a strike, and could use their financial clout to influence labor and other legislation in their desired directions.

Compulsory unionism has been a tyranny of a minority of workers manipulating wages and work accessibility at the expense of the majority of the labor force as a whole. Changing market dynamics have reduced union membership in the private sector from over 20 percent of the labor force in 1983 to less than 7 percent as of 2017. On the other hand, today union membership in the government sector is over 35 percent. Unions' political and financial power is heavily dependent on their ability to compel mandatory dues from public employees, many of whom are denied the freedom to express whether they, in fact, want to pay these dues and to have union representation.

What is more democratic than to allow individual workers to vote with the choice to freely belong to a union or not, and to pay dues or not? The free-rider problem is a bugaboo that some economists and public policy advocates have long used to justify various forms of compulsory payment of fees and dues. People in many corners of life donate money, and contribute their time and energy, for the furtherance of causes and activities that benefit many more than themselves since they consider them sufficiently important and worthwhile, even when others may choose not to participate while enjoying some of the gains from those voluntary interpersonal activities.

Betty Friedan 1921–2006

There is also nothing preventing unions, including in the government sector, from excluding free riders by negotiating wage and benefits that apply only to their members and not to others who have chosen to opt out of that union. Indeed, by following this type of path, it would soon be seen whether non-union workers decide that the benefits from joining such unions are worth the financial expense of the dues to be paid out of their salaries, and worth putting up with political use of some of their dues that they might disagree with.

Instead, Stiglitz, looking down on the labor affairs of ordinary workers from the Olympian perch of his academic heights, knows the *real* democratic choice that serves the true interests of workers better and more clearly than those public employees themselves. He may refer to a supposed imbalance between employers and individual workers that unions are to set right, but rather than allowing those individuals to decide, themselves, whether they think they need and are willing to pay for union representation against *the bosses*, he wants to force it down their throats. Yet he claims to be a voice for democratic choice! (See my article *The Economic Case for Right-to-Work*.)

Free Versus Compulsory Speech

Concerning one other legal case, Stiglitz rails against a court decision that decided in favor of licensed reproductive-health centers not being forced to supply patients with information about abortion options from which they might choose. He is shocked and indignant that the court did not impose compulsory speech on people—that is, that individuals and the organizations for which they work should not be forced to articulate ideas and present alternatives with which they may strongly disagree.

The abortion issue has been and remains one of the most emotional and deeply contentious hot buttons in the public arena. Do you believe in *a woman's right to choose* or do you believe in the *right to life*? It touches religious faith, the meaning of personhood and ownership of one's own body, and the definition of the beginning of human life. Any wide social agreement about abortion lies far ahead on the horizon, if ever, given the scientific, faith-based, and personal divisions of opinion and beliefs.

To force anyone to express and explain the *other side* of this debate in terms of what a woman might or should do can only be considered a major infringement on the freedom of conscience of the individual. Would Stiglitz also demand—in the spirit of *democracy*—that clinics that offer abortion services be compelled to provide literature and lecturing to their patients on how abortion is *murder* and is a mortal sin that will send that woman to hell and into the arms of the devil for eternity? And to do it with serious conviction, so as not to unfairly bias a woman's decision? I doubt Stiglitz considers applying the logic of his argument in such a symmetrical fashion.

This issue, like the others, has little or nothing to do with *democratic freedom* as conveyed by Stiglitz in his article. Indeed, the emotional appeal to the *democratic* idea and sentiment is all a linguistic sleight-of-hand to direct attention away from the real issue: shall the individual have his or her freedom of choice undermined or denied in the marketplace of goods or the mind by the assertion of the *majority will*?

Whether this *majority* of the members of a society is real or merely the smokescreen for a minority to use the democratic appeal to impose their demands on many others, it stands as a denial and a threat to the peaceful choices and interactions of free individuals in society. It is a use of *democracy* as the latest weapon against human liberty.

Monetary Institutions and the Rule of Law

Alexander W. Salter

A great inheritance of the Enlightenment political tradition is the rule of law. If a polity is governed by the rule of law rather than the whims of those with power, the rules individuals must follow are general, predictable, and non-discriminatory. General rules apply to broad cases, giving individual actors a means to anchor their expectations and coordinate their actions. Predictable rules can be known in advance with a high degree of probability, which enables individuals to plan for the future. Nondiscriminatory rules do not benefit one class of the population at the expense of others, institutionalizing a basic degree of legal equality.

Modern political institutions are almost always judged, in part, according to whether they are compatible with the rule of law. Strangely, monetary institutions have rarely been held to this standard. The dominant monetary institution in existence is discretionary central banking. In this system, monetary-policy decision-makers are given wide scope for action to conduct monetary policy, according to their beliefs about the suitability of that policy to achieve macroeconomic goals. This results de facto in a whims-of-men system, not a rule-of-law system.

Admittedly, discretionary central banking might be acceptable on consequentialist grounds. Perhaps having a monetary system that adheres to the rule of law would result in great macroeconomic turbulence. Perhaps the least-bad system requires monetary-policy experts to have significant discretion to engineer desirable outcomes.

But no such beneficial consequences exist. Discretionary central banking cannot deliver better macroeconomic outcomes than a rule-of-law system. Central bankers have strong incentives to make policy too loose in ordinary times and to be overly generous with emergency lending during turbulent times. And they do not operate within institutions that generate feedback to tell them whether their monetary policies are the correct ones.

There is no reason why monetary policy should not adhere to the rule of law. Rule-of-law monetary systems are more ethically justifiable. They also work better. Whether the preferred alternative is a gold standard, an unbreakable and automatic rule for the money supply, or even a system based on Bitcoin, contemporary monetary institutions must be changed such that they meet the requirements of the rule of law. Post-Enlightenment jurisprudence has informed virtually all modern governance systems. Monetary systems should be informed by it as well.

Have Two-Income Households Made Us Poorer?

Donald J. Boudreaux

Two weeks ago I argued that assertions of American middle-class economic stagnation are deeply mistaken. In reality, America's middle-class is thriving and growing more prosperous.

Alas, across the political spectrum optimistic assessments of the condition of America's middle class are unpopular. Many people simply do not want to believe that ordinary Americans today are, on the whole, immensely more prosperous than were ordinary Americans when LBJ or Gerald Ford worked in the Oval Office.

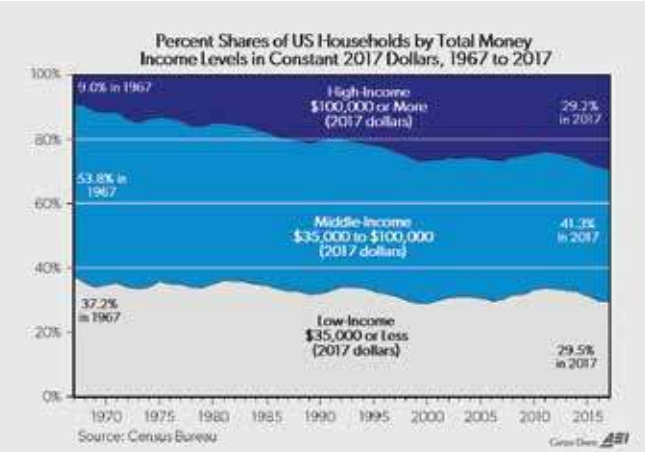
Why this passion for pessimism continues to burn so hotly is something of a mystery, perhaps one worth exploring in a future column. In this column, though, I offer yet further reasons to celebrate the economic fate of America's middle class.

America's Middle Class Is Indeed Shrinking

The complaint is encountered constantly that America's middle class is shrinking. And it's true; America's middle class is indeed shrinking. But it's shrinking not because middle-class Americans are becoming poor; it's shrinking because middle-class Americans are becoming rich. No one has been as resolute in documenting this fact as has American Enterprise Institute economist Mark Perry (who, full disclosure, was in the late 1980s one of my research assistants at George Mason University).

Take a look at this graph that Mark included in this recent post at his superb blog, *Carpe Diem*. It shows that the percentage of middle-income American households fell from 53.8 in 1967 to 51.2 in 1977 and then to 41.3 in 2017. (Middle-income households are defined as those whose annual incomes are between $35,000 and $100,000 when measured in constant 2017 dollars.)

This fact, taken alone, seems ominous. But it's not ominous at all. Over the course of these same 51 years the percentage of high-income American households—those earning annual incomes of more than $100,000 (again, measured in constant 2017 dollars)—more than tripled. It went from 9.0 percent in 1967 to 13.9 percent in 1977 and then, by 2017, to 29.2 percent.



The percentage of poor American households over the past half-century fell from 37.2 to 29.5.

That's Because More Women are Working!

A common response to these happy data is this: *Of course household income is higher. Because there are more women working today than in past decades, household incomes are bound to be higher.*

But there are three reasons—two minor, one major—why this response does not discredit the argument that ordinary Americans are becoming more prosperous.

First a minor reason. It's true that a much larger percentage of working-age women are in today's American workforce than was the case for most of the past. But women's participation in the labor force peaked about 20 years ago. Today it's about where it was in 1995. And yet the percentage of high-income households is today higher—and the percentage of low-income households lower—than in 1995. So higher household earnings are not the result exclusively of more women working.

A second, (relatively) minor reason is that the number of people in the typical American household is today lower than in the past. With any given amount of household income now being shared by a smaller number of people than in the past, each person's share of income today is higher.

Here's the third and major reason. More women today are able to work in the market than in the 1960s, '70s, and '80s because of this market-driven reality: many goods and services that were once most efficiently produced in-house by stay-at-home wives—goods and services such as meals, clothes laundering and ironing, and housecleaning—are today produced more efficiently either outside of the household (such as tasty and nutritious prepared meals of the sort that in the past were much less available to ordinary Americans than they are today) or within households in ways that today consume far less time and effort than was needed in the past (such as washing and ironing clothes, and cleaning cookware and dinner dishes).

There have been many big improvements, such as increased availability of automatic dishwashers, frost-free freezers, microwave ovens, and robotic vacuum cleaners. And there have been even more small improvements, such as coffeemakers that can be set to turn on and off automatically, plastic sandwich and freezer bags with built-in easy-seal tops, wrinkle-free and stain-resistant fabrics, and falling clothing prices which reduce the need for mom to mend the likes of torn and worn shirts, pants, and coats. Oh, and let's not overlook this time-saver: greater reliability of appliances, which means less need for someone to wait at home for repairmen.

In short, households today still get the valuable goods and services once produced by non-income-earning stay-at-home wives, but households now get, in addition, whatever other goods and services are purchased with the incomes earned by women who work outside of the home.

Combine the above facts with one more: expenditures on food as a share of family disposable income in the United States have fallen significantly. In mid-1960s America, the percent of family disposable income spent on food was about 15. In the mid-1970s it was about 13. Today, American families spend on food less than ten percent of their disposable incomes, despite the fact that Americans now eat a much higher percentage of their meals at restaurants.

Ordinary Americans are indeed today much richer than they were during any imagined past golden age.

Yes, yes, I know: what about the costs of education, housing, and health care? Haven't these risen? Yes they have. But for reasons that I'll explain in a follow-up column, these cost increases should cause us to want to rely more, not less, on free markets.

NASA astronaut Karen Nyberg, Expedition 37 flight engineer, works with a plant experiment in the Destiny laboratory of the International Space Station.

Listen to AIER Every Day

Jeffrey A. Tucker

For a couple of years now, I've woken up to my home assistant (I used Google, but there are now many) reading me the news. It can be infuriating at times, of course, but then you land on something wonderful from Wired magazine or the Wall Street Journal or BBC. It makes it worth it.

Earlier this year, some of us wondered how we could make the voice of the American Institute for Economic Research become part of people's lives in their homes as well. I'm thrilled to announce that this is a reality right now! You can get the instruction at AIER.org/Listen.

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Why You Should Include Charity In Your Will

Andrew Palmer

There is a common misconception that only the rich need to make a will. That is not true. A will eases the pain of your passing on those you leave behind, and without a will, regardless of your personal wishes, state laws will determine the transfer of your estate.

There is an even bigger misconception that only the super-rich leave money to charity when they die. That's also not true. The fact is that most gifts by will, (bequests), are made by everyday people who want to have a lasting, positive impact on their community.

Without this type of generosity, many charitable institutions couldn't continue their missions into the future. Non-profits need our support to do their good work.

Here are four reasons why you should include a charity in your will:

A Gift By Will Is Easy To Make
A bequest is one of the easiest charitable gifts to make. It is simple to implement, and easy to change should you ever need to. You can give specific property or designate a dollar amount or a percentage of your estate. You can also designate a non-profit as a beneficiary of your retirement plan or life insurance policy.

A Gift By Will Does Not Alter Your Current Lifestyle
Making a bequest is a way of demonstrating your commitment to the future of the institution you love that doesn't affect your current asset balance or cash flow. There are no substantial costs, and the gift can easily be modified to address your changing needs.

A Gift By Will Can Change Lives
Non-profits improve our lives every day through their dedicated work, community, and stability. A bequest can help your best-loved charity further its mission and values. It can continue making a difference for generations to come.

A Gift By Will Creates A Lasting Legacy
Including a non-profit in your will is a great way to bring dignity, meaning, and purpose to a life well-lived. You can demonstrate your commitment to the future of the institution you love, and better yet, a bequest can allow you to give to an institution that you may have always wanted to support, but were unable to during your lifetime. Creating a legacy with your gift ensures that you, and your values, will live on.

You don't have to be wealthy to make a difference. Whoever you are, whatever your situation, you can help make a better world by including a charity in your will.

AIER events

***Economic Freedom: The Wealth and Health of Nations* with Dr. Robert Lawson**

November 5
Indianapolis, IN

Join AIER's Bastiat Society program in Indianapolis for a talk with Professor Lawson at Southern Methodist University. He will explain economic freedom and the consequences for social and economic well-being in countries with greater economic freedom compared to those with less.

***Creative Destruction, Entrepreneurship, & Discovery* with Dr. Russell Sobel**

November 7
Columbia, SC

What is the process of creative destruction and why is it important? How can economies best cope with it? Join AIER's Bastiat Society program in Columbia for a talk with Dr. Russell Sobel, Professor of Economics & Entrepreneurship at the Citadel.

***What Would a Well-functioning Central Bank Look Like?* with Will Luther**

November 14
Washington, DC

Join Will Luther, Director of AIER's Sound Money Project and Assistant Professor of Economics at Florida Atlantic University, for a talk at Cato Institute's Annual Monetary Conference in Washington, DC. Luther will speak about what a well-functioning central bank would look like.

***Economic Freedom: What It Is & Why It Matters* with Dean Stansel**

December 12
Dallas, TX

Economic policies vary widely across countries, states, and localities. AIER's Bastiat Society program in Dallas is hosting Dean Stansel of Southern Methodist University to discuss how these policies are measured using economic freedom indexes and the economic outcomes that are produced by higher levels of freedom.

***Inequality in America* with Phil Magness**

January 16
Tucson, AZ

AIER's own Phil Magness, Author and Research Fellow, will speak at the University of Arizona Freedom Center. Magness will discuss the myths of inequality in the United States and more.

For information about these events and more, visit **AIER.org/Events**.

Participants at AIER's fifth Harwood Graduate Colloquium

Discover the Benefits of Planned Giving

Many of AIER's supporters have discovered how giving to AIER through our planned giving programs supports AIER's mission and provides numerous benefits for them and their loved ones.

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I followed Colonel Harwood for many years and one thing that came through in all of his writing was that he was a great patriot and a strong believer in an honest currency. Having been in the investment business for 48 years, I think Colonel Harwood's teaching is needed even more now than it has ever been. He had a great impact on my thinking.

—**Arnold Van Den Berg**, Longtime AIER Member

AIER members understand the importance of AIER's mission and want others to understand too.

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