

Venerable *Economist* sounds alarm over growing inequality

By Carol Goar

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After defending capitalism stoutly for 169 years, the British weekly, *The Economist*, made a reluctant admission this week. “Inequality has reached a stage where it can be inefficient and bad for growth.”

To support this departure from its traditional stance, the magazine presented a thoroughly researched 19-page report examining the widening gap between rich and poor in North America, Europe, China, Russia and India. The reasons differed — top-heavy state enterprises, corruption, regressive taxation, monopolistic corporations — but the net effect was a trajectory heading in a harmful direction, the *Economist* stated.

Others reached this conclusion long ago. But they were dismissed as bleeding hearts with no understanding of global forces, left-wingers with no concern about fiscal responsibility, cranks, renegades and malcontents. Even when the International Monetary Fund and the Organization for Economic Co-operation and Development joined the chorus, the debate went nowhere.

British author Richard Wilkinson, whose 2009 book, *The Spirit Level: Why Equality is Better for Everyone*, focused attention on the issue, still believes the tide will turn. “The world is full of closet egalitarians,” he said on a recent visit to Toronto, “I’m just opening the door of the closet.”

No politicians, bankers or business magnates have tumbled out yet. Government leaders continue to turn a blind eye to disparities among their people and a deaf ear to voices warning that a hyper-wealthy minority is taking too much of the nation’s income. Corporate executives continue to argue that any measure impeding their ability to produce

wealth would do profound harm to the economy.

The *Economist*’s thoughtful analysis won’t change their minds. But it will get their attention. It is one of the few publications that leaders around the globe read.

It will also prevent decision-makers from labelling those who sound the alarm as the usual left-wing fringe. No one would describe the market-friendly *Economist* — long regarded as a bastion of reasoned conservatism — that way.

The great equalizers of the past, the magazine points out, have come from all political camps. Trust-busting U.S. president Theodore Roosevelt, for example, who took on the “robber barons” of the late 19th century, was a tough-minded Republican. British prime minister David Lloyd George was a reform-minded Liberal.

But history doesn’t provide the answer to today’s disparities, it says. Governments can no longer afford massive economic intervention and breaking up globe-straddling monopolies is a far greater challenge than dismantling the industrial empires of the Gilded Era.

The magazine’s primary focus is the U.S., which has bifurcated into two nations: the rich and the rest. Neither presidential candidate is offering a workable solution. Republican Mitt Romney promises tax cuts at the top of the economic pyramid, spending cuts to social security and education and smaller government. Democrat Barack Obama, who calls inequality “the defining issue of our time,” can’t persuade Congress to make America’s tax system more progressive.

“Roosevelt would have been appalled at the timidity,” the *Economist* contends. “A subject

of such importance requires something bolder.”

Unfortunately, the magazine’s own solution — “true progressivism” — falls far short of that standard. It is grab bag of top-down and populist measures; fine-tuning and structural change; sensible and politically unpalatable correctives. Its editorialists deserve credit for putting forward a formula to make societies fairer without stifling economic growth. But their prescription lacks the coherence to convert skeptics into reformers.

Here is what the Economist recommends:

- A Roosevelt-style attack on Wall Street’s too-big-to-fail banks.
- Increase school choice to loosen the grip of teachers unions.
- Raise the retirement age sharply and require means testing.
- Get rid of costly fuel subsidies.

- Target government spending at the young and poor.
- Provide more retraining for the jobless.
- Eliminate tax deductions that benefit the wealthy.
- Narrow the gap between the taxes charged on earnings and capital gains.

There are certainly some good ideas on the list. But they don’t amount to a bold new strategy and they don’t address the underlying political issue: Wealth redistribution is anathema to most governments.

What is needed is a rational debate. The Economist provides a credible framework. It lifts the issue out of the left-wing ghetto. It exposes the plutocrats who claim to be wealth creators.

Best of all, it’s a voice world leaders can’t ridicule or disregard.