

## **U.S. Income Inequality: Cronyism vs. Free Trade**

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*Introduction:* Income inequality exists in the world as a necessary characteristic of money and economics itself. If money is a measurement of the value one brings to the market, naturally there will be differences in income. If that money was inherited or gifted, it still shows a measure of someone's value preceding the new owner. As a matter of trade, some businesses or individuals will benefit greater than others based on many varying factors and combinations of these factors such as, but not limited to, location, production costs, selling prices, customer service, convenience, and so forth. Sometimes one's success can equally be based on luck or happenstance in relation to others competing for the same business. No matter the case, markets are naturally unequal, and that is ok.

In a state of nature, resources and abilities are also unequal. Some people live in areas of plenty of clean water, have the right access to metals, good climates for year round agriculture, etc.; some people are also stronger, more attractive, smarter, work harder, etc. These are all dependent on either decisions of choice or genetics that play a crucial role giving luck or disadvantage to individuals' varying situations. How one deals with that given hand is what makes the biggest difference to their success and producing more bringing greater value to them as an individual. So, whether it is in the state of nature producing inequality from one's genetics and location, or their success and hard work within a marketplace, inequalities will naturally and necessarily exist as a fact of the

world and human nature.

In fact, mankind's nature is that of being poor and destitute. We are not born with strength to survive on our own, we are not born with fur to protect us from the weather, and we are not born with the immediate cognitive ability to take care of ourselves in a world full of danger. We are born into whatever life our parents had prepared before us and are humbly submitted to their care and direction, or to that of whom takes care of us. Humans were not born with a world of comfort, we had to make it, and we continue to work towards making it more comfortable for ourselves individually. Some people are able to do more than others at progressing out of their given situations. Just because one person does better does not mean someone else is doing worse because of that success, it simply means the one doing better is doing better in comparison to the other. In an economy, this is reflecting the concept that the marketplace and economy, as a whole, is 'dynamic' and not 'static.'

Many of the advocates of combating the so-called "immorality" of income inequality do so based on the model of a 'static' economy. This is likened to a pie, where there is only a limited amount of financial resources, and when one person is getting a large slice of the pie that leaves others with less. Proponents of this view will use phrases like, "Fair share," "Fighting against income inequality," or, "The rich are getting richer, and the poor are getting poorer." In short, the people in support of a 'static' economy model believe there is a limited amount of capital, labor, and resources.

There is, indeed, a natural limitation of resources such as land, materials, food, etc. Capital and labor, on the other hand, are both nearly innumerable in the right hands,

especially when it comes to human capital- that is the human skillset and knowledge one has and is able to teach to others. It is for human capital that most people go to school, to learn, to make more of their reason, and better their capacity to make do with the world around them. It is because of this ability to learn, retain and spread knowledge, and to do more with what is around, i.e. human capital, that further suggests that the economy is not 'static,' but rather 'dynamic.' Economies are constantly changing through human capital and trade, never 'static.' It is better to see the economy as a constantly growing and shrinking, pulsating, pie where human capital and trade are adding and removing the slices while filling in the empty spaces. The economy expands and contracts, there are booms and busts, fat years and skinny years, all with "winners" and "losers" in trade.

When in competition with one another, there is growth in the marketplace, providing more for people to benefit from and consume. What individuals gain from competition in the marketplace is their 'fair share' if it was acquired without coercion. This is the essential part of human flourishing, i.e. capitalism. 'Capitalism,' better yet 'free trade' or more specifically 'laissez faire capitalism,' is the free and voluntary exchange of goods and services. Capitalism, or whatever is nearing capitalism, has done more for the betterment of humanity than any other system; it is mankind's greatest creation and strength. Not only does it provide the necessary goods and services most lacking or most desired, but it also enables the exchange of ideas through a 'marketplace of ideas.' This means good products, bad products, good ideas, and bad ideas, all competing against one another, so to speak.

Wherever there is competition, the differences in wins and losses are easily

recognizable, and this is the actuality of ‘income inequality,’ as it pertains to economics. There are those that consume, those that produce, and those that act in a mix of the two. If one is unsuccessfully producing, producing very little, or producing nothing at all, for purchase in the marketplace, their financial prosperity will tend to dwindle. Yet, when someone does well, it does not necessarily mean someone else will not also do well in the same marketplace or area. Nevertheless, this ‘competition’ is not for a limited amount of potential capital, or money, it is the competition for what is already there and what can be potentially made. If the market is filled with too much excess of currency, the currency is inflated and worth much less. Money must be earned and exchanged to produce wealth and enrich the marketplace; investments also count as earning income.

Generally speaking, to be financially successful, requires a few key principles commonly understood in the business world. This includes capital, taking risks, investing, hard work, patience, diligence, and good business sense. Opportunities arise from ability and effort, along with economic freedom (Don Watkins, Yaron Brook, *Equal is Unfair*, New York, 2016, 114). In fact, to maintain wealth is rather difficult for individuals and generations of families. Unlike what capitalism naysayers might believe, the wealthy tend to not stay wealthy, and their accumulated wealth does not stay within families very long. According to Spanish economist and professor of economics, Dr. Juan Ramon Rallo, “three decades are sufficient to lose almost everything,” and the world’s wealthiest people in the 1980s are no longer on the Forbes list, nor is anyone from their family (Juan Ramon Rallo, *Anti-Piketty*, 2017, 31-35). So, Rallo points out that the wealthy are not getting wealthier.

No matter the case of idealistic capitalism bringing wealth into fruition in the marketplace, some people do in fact establish and gain wealth through other means. The most significant and obtrusive way some are gaming the system of economics is through the coercive powers of government, e.g. cronyism, rent-seeking, labor unions, coercive monopolies, etc. As the work of James M. Buchanan and his contribution to *political choice theory* demonstrates, the vast majority of individuals, in the worlds of public and private sectors, do what benefits themselves the most. This is to say that politicians in the public sector do what will enrich themselves just as much as those in the private sector. Simply taking someone from the business world and putting them into the political world does not remove their horns to produce hallows, nor vice versa. The biggest difference with the political and private sectors is that in the private sector losses are easily felt and remedied; whereas in the political sphere, everyone pays the cost of bad politicians and it usually goes unpunished and without remedy for a very long time.

The marketplace is still providing more for individuals and fighting abject poverty throughout the world by allocating the costs of labor to lower socioeconomic regions of the world. Lower costs for labor help to create the same goods with lower sells prices, while simultaneously helping to relieve the problems associated with extreme poverty. According to research by Dr. Mark J. Perry at The American Enterprise Institute, a study of home appliances from 1981 to 2013 shows that appliances are “cheaper, better, and more energy efficient” at an increasing rate (Mark J. Perry, AEI, 2015). As for fighting against abject poverty, in 1990 nearly “47% of the world population lived on less than a dollar a day,” and by 2012 only 22% of the world population survived off less than \$1.25

per day, which was equivalent to \$1 per day in 1990. That is nearly 700 million people pulled out of abject poverty and into better living conditions (Jean-Philippe Delsol, *Anti-Piketty*, 2017, 8). This is not to say that people are not still struggling, or that these same people in their given situations can afford the home appliances, but it is a drastic and positive improvement in the quality of life that comes with having an increase in income through nearing free trade market practices.

With marketplace solutions through free trade, more people can be lifted out of poverty, and more people can be helped as has been historically and empirically demonstrated time and time again. Nevertheless, there are still some that are gaining a significant amount through immoral and coercive means with government assistance. It is this, specifically, that I am most concerned with. I am not concerned with vast amounts of wealth being accumulated through peaceful and voluntary means of exchange between consenting people. I am, however, concerned with utilizing governments, specifically within the United States, for coercion over the market, disabling true competition and free trade.

*Cause and Consequence:* It has been pointed out that the world consists of income inequality, and some nations have even greater disparity between the rich and the poor than others. In the United States, it is suggested that the wealthy have a far more significant amount of money and capital than that of the lower socioeconomic classes to an extreme amount of hundreds of times greater. For some, this is a moral issue, for others it is a legalistic issue that deserves to be addressed. I find it to be neither of these, if the contracts between the working classes and those of the wealthy were voluntary and

free.

On the other hand, there should be major moral and legal concern when this wealth difference is acquired through unjust cronyism conducted between governments and businesses or individuals, as a way to redistribute wealth from one class to give to another through coercive means. For instances where we are well aware of cronyism taking place, such as governments privileging particular companies preventing competition or creating strong barriers to enter the market place, as a coercive monopoly can only legally be produced with government backing threats, these companies should be stripped of their privileges; these restrictive governmental barriers for others to enter the market should be erased. Cronyism and other barriers restrict a market from flourishing to its fullest potential, and the outcome is greater disparity between the poor and the rich.

Thusly, it is the act of using the strong arm of government to force and restrict the market to the will of a few that is causing unjust income inequality, as opposed to being strictly the marketplace that is needing restrictions and more regulations. As stated previously, the market, and capitalism in general, has done more to save people from poverty than any king, army, or government could possibly dream of.

*Responsibility:* When governments utilize acts of cronyism, rent-seeking, labor unions, coercive monopolies, etc. in order to create favoritism and special privileges in the market, not only are the businesspeople guilty of immoral behavior, but also the politicians themselves. This is an act of ‘theft and threat’ by creating wealth solely for a particular group while threatening punishment to those that dare challenge such restrictions. Additionally, it subsidizes these groups through coercive taxation on the

public. An optimally flourishing market consists more of unrestricted, legally speaking, free trade as in laissez faire capitalism.

The difficulty in approaching this issue of cronyism and addressing it in the US relies on the people of the sociosphere and political persons in Congress to act in unison to correct the relation with government and the market. For the same reasons Church and State are separate, so too should Market and State; as they corrupt one another absolutely. Without a cultural change, any violent measure to force governments and businesses to cease acting in cronyism would jeopardize the newly established government to subjective force by others later. A democratic republic requires peaceful engagement in civil acts within society to establish Justice and equality under the law, which also ensures a large degree of freedom exists. A government, in order to maintain Justice, not only needs clear and objective laws for protecting Life, Liberty, and Property, but it also needs to be able to correct and prevent overreach, such as cronyism.

This leaves only perspective shifts within government as a reflection of the people's motivation through a new Enlightenment to actively make positive change towards ending cronyism. The power lies in the people's hands to change those in power, or become those in power, and the initial resources will be up to the market to decide. If it is possible to convince Congress to abide by the Constitution, then there would not be cronyism, so this could potentially be changed immediately by Congress but it is highly unlikely they will act since many of them currently benefit from the corruption of the system.

*Policies:* The first policy to propose is maintaining a unilateral form of Justice and



equality under the law within the US. It is an ongoing issue seen in the news and online that certain people and businesses are pardoned or exonerated of their crimes against others because of their status in society or state. The pro of this policy is that it would create more confidence in the US market, and nation as a whole, for investors and entrepreneurs around the world. When policies threaten the incentive of success, i.e. unjust high taxes for the wealthy over a certain income or even high taxes for everyone, it forces production to go to places that will benefit them the most.

The second policy to propose is to end all forms of favoritism and cronyism in the US. This would require a system overhaul of eliminating privileges, subsidies, class related protections, many business regulations and license requirements, etc. This often scares people into thinking chaos would emerge, but it can be demonstrated through the market that the market would begin to regulate itself as varying organizations and businesses that keep a watchful eye on the market will naturally sprout. As Dr. Steve Horwitz points out, since Adam Smith and forward, “We do not need ‘regulation’ in the sense of State intervention for markets to generate socially beneficial outcomes. And when we do attempt to ‘regulate’ them through the State, the result is a variety of undesirable unintended consequences,” (Horwitz, 2011). The pro of such a policy is that it creates an equal platform for everyone to compete in and benefit from a free market. The con of such a policy is that some major companies will leave or fail because they will no longer be granted favoritism or cronyism. This could have a negative impact on the economy upon the immediacy of such an act, therefore it would require a strictly scheduled progression. Without a transitional period, many people in protected industries

would lose jobs and money until they find work elsewhere. Due to the precarious nature of such a drastic and positive turn towards equality under the law and preventing favoritism, and for the mistakes made by those of the past, people will understandably need a transition into a freer market.

*Conclusion:* The rich are not getting richer, the poor are not getting poorer. Capitalism has helped not only those at the top, but it has surely helped most people escape abject poverty. Those that say otherwise and complain how capitalism has made the rich wealthier, should now consider how ending the greatest human social mechanism, i.e. capitalism, will help the poor. If the wealthy have benefited drastically better than the poor, then it would behoove everyone to be a part of such a system. Viz., ending cronyism, rent-seeking, political power and regulations of labor unions, coercive monopolies, and various other regulations and license requirements in the market, etc. would benefit everyone in the long run, as tendencies towards free trade has already proven. This would also alleviate any of the governmental coercive means of income inequality, allowing for people to live and trade more freely. This is not faith in a system, per se. Rather, this is allowing people to live and trade as they see fit, with a government that will protect those that are infringed upon, instead of favoring and benefiting a few.

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