IDEAS ON LIBERTY
October 2002

America Is Headed Toward Plutocracy?

It Just Ain't So!

In a *New York Times* op-ed (June 14, 2002), columnist Paul Krugman lamented the increasing inequality between rich and poor, and expressed concern that this will lead to an erosion of democracy. He needn't worry himself (more important, he needn't worry his readers), since his argument depends on misleading arguments about wealth disparities and philosophical confusion about American democracy.

The very title of his column, "Plutocracy and Politics," is misleading. Plutocracy means government by the wealthy. Even if we grant the assumption that income inequalities are increasing, that wouldn't make our society a plutocracy. If it wasn't a plutocracy during the hated (by Progressives) Gilded Age, it isn't now. Even if it were true that income inequalities are more pronounced now than in John D. Rockefeller's day, there is simply no evidence that we are governed by a cabal of the wealthiest few. For one thing, many of our richest citizens are left-leaning. More to the point, politicians are still democratically elected, and fears about campaign finance notwithstanding, it remains the case that a rich person has as many votes as a poor person. Even if we wanted to reduce the citizenry to convenient, polarized categories like "rich" and "poor," the politicians would be a distinct third class. They work to get re-elected. Sometimes that means catering to what they see as the interests of the rich. Other times it means catering to what they see as the interests of the poor.

But politicians are notorious for attaining results contrary to their stated goals. For example, it might seem to be "catering to the interests of the working class" to enact import quotas on foreign goods, because they protect the jobs of those who produce the corresponding domestic goods. But it is not, since it is predominantly the working class that will bear the burden of paying the higher prices for those goods. What is in everyone's real interests, of course, is to have the maximal amount of liberty that is consistent with everyone else having equal liberty. But there's scant evidence that any politicians consistently work toward that end.

There's a deeper point about income inequality, which can be summarized as "so what?" Since when is disparity between incomes the only gauge of how good a state of affairs is? If all philosophy professors could double their incomes, but only as part of some scheme whereby history professors would triple theirs, is it not in my interest to agree to this? There's a sense in which this may be "unfair," but preferring the status quo is clearly detrimental, to me as well as to everyone else. If all the historians start driving Jaguars, I have still doubled my income. It's more a matter of attitude whether I am filled with joy at the increase in my wealth or resentful that the historians have even more. I prefer the former. The latter is psychologically, as well as socially, destructive. If one approach to political economy makes both Smith and Jones richer, but to different degrees, that is preferable to one in which both are equally impoverished. So to lament inequality without taking into consideration real gains by all is morally obtuse at best. At worst, it's deceitful.

Part of Krugman's complaint is that the pay for top CEOs has skyrocketed (4,300 percent!) even in cases where one has had a disastrous tenure at the company. This is largely a non sequitur. It may be true that some CEOs are overpaid. The free market respects people's freedom to make decisions, but it doesn't guarantee that all decisions are wise. Do some corporate boards pay their CEOs too much? Sure. And the company suffers when they do.

But excessive salaries for ineffective CEOs aren't directly charged to my account (unlike, say, tax increases). One suspects that Krugman has invoked the overpaid but inefficient CEO as a rhetorical device to foment indignation about income disparities. Another example might be a professional athlete who signs a multimillion-dollar contract and then has a terrible year, or a big-budget action picture that flops. These examples make people more acutely aware of income disparities because they seem to be examples of someone making lots of money for doing nothing. But the appeal is largely rhetorical, operating in defiance of economic logic. People make mistakes. This is neither here nor there with respect to Krugman's larger argument that we are heading toward "government of the rich." And contrary to what he thinks, these examples do not refute the idea that riches generally are a reward for achievement.

Cause for Concern?

Even if it's true that America isn't heading toward plutocracy, some might argue, should we not be concerned about the erosion of democratic sentiment that wealth inequality engenders? No, for two reasons. First, there's ample evidence that these disparities are not increasing the way Krugman implies. According to economist Steven Horwitz, the real cost of living has dropped significantly and consistently over the course of the last hundred years, and the last few decades, for the poor as well as the rich. Between 1975 and 1991, the average income of those in the bottom fifth rose, in real terms, at a greater rate than the average income of the top fifth. So the slogan "the rich get richer while the poor get poorer" turns out not to be the case. While examples of ostentatious consumption of luxury goods may make it seem that disparities are growing, the statistics belie this. And of course the trend toward ostentatious consumption is as common to lower-income and middle-income families as it is among the rich.

Second, democracy, in the sense of popular voting for congressional representatives, is not threatened by some people making more money than others. Other senses of democracy, for example, that all wealth belongs to the state and hence inequalities must be "arranged" in order to achieve certain outcomes, are not consistent with liberty and are not part of our political heritage.

It's a shame that the most prominent economics columnist, in the country's most prestigious newspaper, relies on misleading statistics and appeals to resentment and envy to make an alarming point when he could be passing along some good news: that everyone is better off now than 100 years ago, and government manipulation of wages and prices isn't why.

—AEON J. SKOBLE
(askoble@bridgew.edu)
Department of Philosophy
Bridgewater State College

IDEAS
ON LIBERTY
OCTOBER 2002

The Peril to Our Privacy

by Sue A. Blevins

If the Bush administration has its way, beginning in April 2003 individuals' personal health information—including genetic information—will be shared with data-processing companies, insurance companies, doctors, hospitals, researchers, and others *without* their consent. This is a major shift from today's standard whereby patients give their consent before their medical records are shared with third parties. The administration proposes to eliminate the current standard in order to make processing medical claims more efficient. If the changes are adopted, every American will have effectively lost any ability to maintain a confidential doctor-patient relationship.

How did the federal medical privacy rule come about? Who was behind it? What can Americans do to protect their medical privacy?

Until now, health privacy was considered a matter regulated by the states. Every state has a law to protect citizens' medical records. However, abiding by 50 different state privacy laws has proved difficult for the industries that want to create a national health-information system. National leaders of the medical, hospital, health-insurance, and other industries have been working for over a decade to nationalize standards for electronic claims processing. In 1991 the Workgroup for Electronic Data Interchange (WEDI) was established to lobby Congress for legislation to enable electronic medical records and payment systems.

WEDI was instrumental in getting many of its goals incorporated into the infamous Clinton health-care plan. President Clinton's 1993 Health Security Plan included a provision titled "Administrative Simplification." It called for establishing a national health-information infrastructure, requiring unique identifiers to be assigned to four groups for processing medical claims electronically: every (1) health-care provider, (2) health plan, (3) employer, and (4) individual. The Administrative Simplification plan also called for creating uniform national codes for medical claims and for establishing federal medical privacy rules. The bottom line is that you can't create a national health-care system without standardized information.

Congress and the American people vehemently rejected the Clinton plan to nationalize health care. However, the Administrative Simplification provision was tucked away in the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which was signed into law on August 21, 1996 (Public Law 104–191). Many remember HIPAA as the legislation that was supposed to make health insurance portable and affordable. (It never met those purported goals.) Under HIPAA, the same four groups mentioned above would be required to have unique identifiers for processing claims elec-

Sue Blevins (sblevins@ForHealthFreedom.org) is president of the Institute for Health Freedom in Washington, D.C. (www.ForHealthFreedom.org).