The Upside of Inequality: How Good Intentions Undermine the Middle Class.

Edward Conrad. 2016. New York: Portfolio / Penguin. ISBN 978–1–59523–123–9, $29.00

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The Upside of Inequality: How Good Intentions Undermine the Middle Class by Edward Conrad is a zealous defense of income and wealth inequality in the United States. (Throughout this review, "inequality" will be used to refer to income and wealth inequality.) In defending inequality, Conrad puts himself at odds with many prominent economists. Nobel Laureates such as Paul Krugman and Joseph Stiglitz, as well as Thomas Piketty, author of the bestselling *Capital in the Twenty-First Century*, advocate taking steps to mitigate inequality. This is not to say there is a consensus within the discipline regarding inequality. The divergence of economists' opinions on inequality is likely a function of the issue's complexity. Inequality is a particularly challenging phenomenon to analyze, because it is caused by a plethora of market and non-market forces. Additionally, social priorities and personal convictions may color one's interpretation of objective data. In *The Upside of Inequality,* Conrad effectively presents the forces driving inequality and how inequality ought to be interpreted through both notions of fairness and social priorities.

Conrad believes that the current level of inequality in the United States is largely the product of economically beneficial phenomena and thus should not be mitigated. Conrad makes his case by masterfully analyzing data, applying theory, and navigating the contemporary literature on inequality; each tactic being a strength of *The Upside of Inequality*. Early on Conrad introduces the reader to one of the fundamental challenges with considering inequality, that of measurement. Because there is not a standard data set that measures inequality, as is the case with more common variables such as inflation or unemployment, it is vital that the reader understand how inequality is measured. As Conrad accurately points out, measurement and methodological issues are not typically discussed in the popular press; many people are not interested in them. But in order to understand the potential impacts of any social response to inequality one ought to first have an accurate understanding of it. Conrad uses household income data rather than tax return data to measure inequality. In outlining his decision process, the reader walks away with a deeper understanding of inequality than if Conrad had simply glossed the decision. This transparency is adhered to for other important data in the book, such as investment as a percentage of GDP, corporate profits relative to GDP, and the value of education to marginal students.

Conrad's effective use of theory is the work's second strength worth highlighting. Most of the analysis is done via the basic supply and demand framework instead of more obscure theoretical models. As a result, most of Conrad's claims are logically consistent and quite intuitive; he does not rely on intellectual sleight-of-hand to make his arguments. This does not mean that all of Conrad's claims are without weaknesses. While supply and demand is a useful framework, there are aspects of inequality, such as CEO compensation, that may be better analyzed with another framework.

Conrad's use of academic studies is laudable. With the exception of authors citing their own work, it is rare to find a popular work that so effectively navigates current economic research. Conrad uses academic studies to support his claims and to take aim at those that oppose his view. In regard to the latter, he does not shy away from engaging the most prominent voices supporting curbing inequality. Paul Krugman, Robert Frank, Emmanuel Saez, Thomas Piketty, Joseph Stiglitz, and Lawrence Summers are all critiqued at one point or another. Conrad's critiques strengthen the work by highlighting the limitations, or uncertainty, of using many well-known studies to directly inform policy. Quite often there is a significant leap from an academic study to policy implementation. As Conrad highlights, academic journal articles rarely consider these complexities but policy makers should.

The *Upside of Inequality* is comprised of three parts: "Part I The World as We Find It," "Part II Debunking Myths: Why Mitigating Inequality is Not The Solution," and "Part III The Way Forward." "Part I" focuses on the factors contributing to rising incomes at the top of the income distribution and those dragging wage growth for those in the middle or bottom of the distribution. In this discussion, special attention is paid to the role of globalization, informational technology, international trade, and the transition to a service-based economy. A secondary theme in "Part I" is comparing the United States' economic growth and labor market outcomes to those of other advanced economies. One of Conrad's overarching arguments in "Part I" is that the United States has outperformed other high-income nations because of inequality, not in spite of it.

In “Part II Debunking Myths,” Conrad takes aim at what he believes are the five most prominent arguments supporting mitigating inequality: that income tax policy does not influence the labor effort of the rich, success is largely unearned, there is a lack of investment opportunities, progress hollows out the middle class, and that economic mobility has declined. Much of “Part II” is spent justifying referring to these arguments as “myths”; Conrad does not believe that these claims are accurate. Conrad needs to address these claims, because as he accurately points out, if these arguments are true, curbing inequality will not harm the economy. (It is worth noting that macroeconomic growth is Conrad’s most cited metric for the health of an economy.) For example, if the rich do not respond to changes in the marginal income tax rate, then raising the marginal income tax rate will not lead to declines in hours worked (or some other measure of labor market activity). Higher tax revenues could be used for government investment or to expand the social safety net, with the end result of stimulating growth. Conrad argues that whatever the rationale, mitigating inequality will put a drag on the economy’s growth rate.

“Part II” is the most contentious portion of the book. It probably does not need to be said, but many economists would label the claims Conrad makes in this section as “myths.” Many of the issues addressed in “Part II” are open lines of inquiry and the subject of active debate. As such, they represent very interesting and important unanswered questions.

In “Part III The Way Forward,” Conrad offers solutions to inequality. It is worth reminding the reader that Conrad does not believe inequality needs to be altered. Rather, Conrad’s “solutions” are ways to raise economic growth or lift the wages of workers outside the top of the income distribution. The solutions offered are increasing high-skill immigration to the United States, lowering the marginal corporate tax rate, demanding balanced trade, and radically altering federal income taxes for the “middle and working classes.” For a number of reasons, this is the weakest section of the book. A significant portion of Conrad’s arguments throughout the book emphasize supply-side considerations. As such, the first two solutions offered in “Part III” flow naturally out of the preceding chapters. For example, Conrad believes there is a skill gap in the United States that the educational system, as it is currently constructed, is incapable of resolving. Therefore, the quickest way to increase the supply of high talent individuals in the economy is through immigration. In the same way, lowering the corporate tax rate to incentivize investment in the United States fits into his view that private investment is an important driver of macroeconomic growth.

The last two solutions presented in "Part III," balanced trade and modifying federal income taxes, are not given sufficient treatment for the reader to appraise their merits. Throughout the book, Conrad highlights the impact that savings from current account surplus nations, such as China and Germany, have had on the United States' financial markets. He also devotes a significant amount of time to outlining the ways in which unbalanced trade can harm middle-income workers. Even with the reader aware of these issues, the leap to "demanding balanced trade" is too drastic. Balanced trade could not happen without major changes to the global economic system. Unfortunately, Conrad does not devote sufficient attention to these changes for the reader to understand how balanced trade might be achieved. It is interesting that Conrad does not cite Keynes in this matter. Keynes was quite worried about trade imbalances in the post-World War II period, but his policy prescriptions do not find their way into the book.

Conrad's income tax proposal is to "set the tax rate for the middle and working class at zero or less. And then charge them the true cost of the government services" (p. 264). As with balanced trade, not much time is spent on the details of this proposal. The impact on the reader is the same as with "demanding balanced trade"; it is impossible to evaluate the proposal because it is only given a surface-level treatment.

Christian economists will be interested in *The Upside of Inequality* for several reasons. First, it forces one to think deeply about the objective of the economy. For those who live in a market-based economy, the labor market is the primary mechanism by which God provides for their material needs. Given the fundamental role of labor markets in our lives, it is worth considering how they ought to be evaluated. Should unemployment be minimized or income maximized? Once the goal is articulated, one can better understand the trade-offs with pursuing it as a social objective. Beyond labor markets, what ought to be the goal of the broader economy? Is it to raise material well-being? If so, whose? Should growth be prioritized over distribution concerns? Answering these questions, and the many others *The Upside of Inequality* elicits, from a Christian perspective is a worthy endeavor.

The second area in which faith-motivated concerns intersect directly with *The Upside of Income Inequality* is in regard to moral obligation. As mentioned earlier, Conrad effectively argues that low-skilled immigration to the United States has played a significant role in the existing state of inequality. Immigration provides a compelling issue to consider moral obligation. Articulating a biblically-based conception of moral obligation to economic opportunity in the form of immigration is not trivial. Should opportunity be extended to all, perhaps in the form of open borders, or is one obligated to consider the economic conditions of one's fellow citizens before those of other nations? Moral obligation also engages with income inequality, the overarching topic of the book. Is there an obligation for the benefits of economic growth to be widely distributed?

Because inequality is one of the more contentious economic issues of our time, *The Upside of Inequality* merits attention and consideration. Those who agree with Conrad will gain a better foundation for their stance after considering his insights. Those who disagree will be challenged to refine their thinking as they consider his arguments. *The Upside of Inequality* makes a valuable contribution to the marketplace of ideas. ■