

The rich have advantages that money cannot buy

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By Lawrence Summers

The differences between the rich and everyone else are about health and opportunity

With the popularity of [Thomas Piketty's](#) book, *Capital in the 21st Century*, inequality has become central to the public debate over economic policy. Piketty, and much of this discussion, focuses on the sharp increases in the share of income and wealth going to the top 1 per cent, 0.1 per cent and 0.01 per cent of the population.

This is indeed a critical issue. Whatever the resolution of arguments over particular numbers, it is almost certain that the share of personal income going to the top 1 per cent of the population has risen by 10 percentage points over the past generation, and that the share of the bottom 90 per cent has fallen by a comparable amount.

The only groups that have seen faster income growth than the top 1 per cent are the top 0.1 per cent and top 0.01 per cent.

This discussion helps push policy in constructive directions. There is every reason to believe that [taxes can be reformed](#) to eliminate loopholes for the wealthy and become more progressive, while also promoting a more efficient allocation of investment. In areas ranging from local zoning laws to intellectual property protection, from financial regulation to energy subsidies, public policy now bestows great fortunes on those whose primary skill is working the political system rather than producing great products and services. There is a compelling case for policy measures to reduce profits from such rent-seeking activities as a number of economists, notably Dean Baker and the late Mancur Olson, have emphasised.

At the same time, unless one regards envy as a virtue, the primary reason for concern about inequality is that lower- and middle-income workers have too little – not that the rich have too much.

So in judging policies relating to inequality, the criterion should be what their impact will be on the middle class and the poor.

On any reasonable reading of the evidence starting where the US is today, more could be done to increase tax progressivity without doing any noticeable damage to the prospects for economic growth.

It is vital to remember, however, that important aspects of inequality are unlikely to be transformed just by limited income redistribution. Consider two fundamental components of life – health and the ability to provide opportunity for children.

Barry Bosworth and his colleagues at the Brookings Institution have examined changes in life expectancy starting at age 55 for the cohort of people born in 1920 and the cohort born in 1940. They found that the richest men gained roughly six years in life expectancy, middle-income earners gained roughly four years, and those in the lowest part of the distribution gained two years. To put this in perspective, the elimination or doubling of cancer mortality would mean less than a four-year change in life expectancy.

Why these differences? They more likely have to do with lifestyle and variations in diet and stress than the ability to afford medical care – especially since the figures refer to relatively aged people, all of whom, once they reach 65, fall under Medicare.

Over the past two generations, the gap in educational achievement between the children of the rich and the children of the poor has doubled. While the college enrolment rate for children from the lowest quarter of the income distribution has increased from 6 per cent to 8 per cent, the rate for children from the highest quarter has risen from 40 per cent to 73 per cent.

What has driven these trends? No doubt there are many factors. But a crucial one has to be that the average affluent child now receives [6,000 hours of extracurricular education](#), in the form of being read to, taken to a museum, coached in a sport, or any other kind of stimulus provided by an adult, more than the average poor child – and this gap has greatly increased since the 1970s.

A famous literary spat between 1920s novelists F Scott Fitzgerald and Ernest Hemingway has been boiled down over time to a succinct, if apocryphal, exchange. Fitzgerald: “The rich are different from you and me.” Hemingway’s retort: “Yes, they have more money.”

These observations on health and the ability to provide opportunity for children suggest that the differences between the rich and everyone else are not only about money but about things that are even more fundamental: health and opportunity.

If society is to become more just and inclusive it will be necessary to craft policies that address the rapidly increasing share of income going to the rich. But it is crucial to recognise that measures to support the rest of the population are at least equally important.

It would be a tragedy if this new focus on inequality and on great fortunes diverted attention from the most fundamental tasks of any democratic society – supporting the health and education of all its citizens.

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