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The new (improved) Gilded Age

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Illustration by Jac

The very rich are not that different from you and me; or less different, perhaps, than they used to be

IN 1904 Willie Vanderbilt hit a thrilling 92.3 mph (147.7 kph) in his new German motorcar, smashing the land-speed record. His older brother's sprawling North Carolina manse, Biltmore, could accommodate up to 500 pounds of meat in its electrical refrigerators. In miserable contrast, the below-average Gilded Age American had to make do with a pair of shoes and a melting block of ice. If he could somehow save enough for an icebox, a day's wage would not have bought a pound of meat to put in it. Paul Krugman, of Princeton University, has recently argued* that contemporary America's widening income gap is ushering in a new age of invidious inequalities. But a peek at the numbers behind the numbers suggests that Mr Krugman has been misled: far from a new Gilded Age, America is experiencing a period of unprecedented material equality.

This is not to deny that income inequality is rising: it is. But measures of income inequality are misleading because an individual's income is, at best, a rough proxy for his or her real economic wellbeing. Because we can save, draw down savings, or run up debt, our income may tell us little about how we're faring. Consumption surveys, which track what people actually spend, sketch a more lifelike portrait of the material quality of life. According to one 2006 study**, by Dirk Krueger of the University of Pennsylvania and Fabrizio Perri of New York University, consumption inequality has barely budged for several decades, despite a sharp upswing in income inequality.

But consumption numbers, too, conceal as much as they illuminate. They can record only that we have spent, but not the value—the pleasure or health—gained in the spending. A stable trend in nominal consumption inequality can mask a narrowing of real or "utility-adjusted" consumption inequality. Indeed, according to happiness researchers, inequality in self-reported "life satisfaction" has been shrinking in wealthy market democracies, America included, suggesting that the quality of lives across the income scale are becoming more similar, not less.

You can see this levelling at work in markets for transport and appliances. You no longer need be a Vanderbilt to own a refrigerator or a car. Refrigerators are now all but universal in America, even though refrigerator inequality continues to grow. The Sub-Zero PRO 48, which the manufacturer calls "a monument to food preservation", costs about $11,000, compared with a paltry $350 for the IKEA Energisk B18 W. The lived difference, however, is rather smaller than that between having fresh meat and milk and having none. Similarly, more than 70% of Americans under the official poverty line own at least one car. And the distance between driving a used Hyundai Elantra and a new Jaguar XJ is well nigh undetectable compared with the difference between motoring and hiking through the muck. The vast spread of prices often distracts from a narrowing range of experience.

Save money. Live better

This compression is not a thing of the past. To take one recent example, Jerry Hausman of the Massachusetts Institute of Technology and Ephraim Leibtag of the United States Department of Agriculture, show† that Wal-Mart's move into the grocery business has lowered food prices. Because the poorest spend the largest part of their budget on food, lower prices have benefited them most. The official statistics do not capture these gains.

As a rule, when the prices of food, clothing and basic modern conveniences drop relative to the price of luxury goods, real consumption inequality drops. But the point is not that in America the relatively poor suffer no painful indignities, which would be absurd. It is that, over time, the everyday experience of consumption among the less fortunate has become in many ways more similar to that of their wealthier compatriots. A widescreen plasma television is lovely, but you do not need one to laugh at “Shrek”.

This compression is the predictable consequence of innovations in production and distribution that have improved the quality of goods at the lower range of prices faster than at the top. New technologies and knock-off fashions now spread down the price scale too fast to distinguish the rich from the aspiring for long.

This increasing equality in real consumption mirrors a dramatic narrowing of other inequalities between rich and poor, such as the inequalities in height, life expectancy and leisure. William Robert Fogel, a Nobel prize-winning economic historian, argues†† that nominal measures of economic well-being often miss such huge changes in the conditions of life. “In every measure that we have bearing on the standard of living...the gains of the lower classes have been far greater than those experienced by the population as a whole,” Mr Fogel observes.

Some worrying inequalities, such as the access to a good education, may indeed be widening, arresting economic mobility for the least fortunate and exacerbating income-inequality trends. Yet even if you care about those aspects of income inequality, the idea can send misleading signals about the underlying trends in real consumption and the real quality of life. Contrary to Mr Krugman's implications, today's Gilded Age income gaps do not imply Gilded Age lifestyle gaps. On the contrary, those intrepid souls who make vast fortunes turning out ever higher-quality goods at ever lower prices widen the income gap while reducing the differences that matter most.

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*“The Conscience of a Liberal” by Paul Krugman. W.W. Norton, 2007.

**“Does Income Inequality Lead to Consumption Inequality? Evidence and Theory” by Dirk Krueger and Fabrizio Perri. *Review of Economic Studies*, 2006.

†“Consumer Benefits from Increased Competition in Shopping Outlets: Measuring the Effect of Wal-Mart” by Jerry Hausman and Ephraim Leibtag. *Journal of Applied Econometrics*, forthcoming.

††“The Escape from Hunger and Premature Death, 1700-2100” by Robert William Fogel. Cambridge University Press, 2004.