



NEWS RELEASE

When measuring inequality, it's crucial to understand how income and wealth are earned

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VANCOUVER—Taking into consideration the dramatically different ways individuals earn income and accumulate wealth is essential in understanding the nature of income and wealth inequality—and the potential problems it may pose, finds a new essay released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“When measuring inequality, you can’t simply compare countries such as Canada, where typically businesses and entrepreneurs only prosper by benefiting society to countries where cronyism and government-granted privileges are widespread and rig the system for elites,” said Jason Clemens, Fraser Institute executive vice-president and co-author of *How Income and Wealth are “Earned” Matters in Understanding Inequality*.

The essay spotlights several countries and the different ways people earn income and accumulate wealth. One way is to provide goods or services at prices consumers will pay, which benefits the entrepreneur and—more importantly—society at large. In other words, entrepreneurs are successful in these countries by satisfying demand in the population.

Contrast that situation, which is often the case in Canada, with other countries where people can amass great wealth while producing *negative* consequences for society.

For example, in Mexico, “cronyism” and special privileges granted by government to individuals and businesses reduce competition and create monopolies. Consequently, some Mexican companies are able to charge higher prices for goods and services (telecommunications, for example) than consumers would see in a competitive market.

Or consider Indonesia’s Suharto family, which reigned for decades, embezzling up to US\$35 billion through corruption and outright theft while Indonesia remained a relatively poor country.

“In Canada, unlike some countries, inequality arises largely from entrepreneurship, innovation and hard work. This merit-based inequality serves not only the people behind the wealth but also people who buy and use the goods and services,” said Taylor Jackson, a senior policy analyst at the Fraser Institute.

“When deciding how much any society should worry about inequality, citizens should first understand the way income and wealth are earned,” Clemens said.

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