



## **Inequality**

Inequality is certainly a subject that has been the focus of much discussion over the last decade. It is a topic in many political and economic discussions. What should we do about it? Can it be reduced, why does it always seem to be increasing? What level of inequality is tolerable, and how do we get there? Any of us that have raised children through their pre-teens has heard the cry, “It’s not fair!” To which the standard parental response is “It may not be equal, but it’s fair.”

Inequality may very well be a natural phenomenon. It is found in almost all aspects of life. One of the difficult goals of modern societies is reducing oppression and unfairness while still maintaining incentives for people to strive to improve their lot in life. In this country we have incentives to own homes and advance our education. We have concluded that encouraging these things both improves individuals and improves society. People generally will support broad efforts that they believe will improve society as a whole.

Marxism, socialism, and communism all claim to deliver a more prosperous and a more equal society, but almost always fail to deliver. Their economic policies stifle creativity and incentives, and typically result in suboptimal growth and innovation over time, so those societies become less wealthy and less efficient over time, and have an overall lower standard of living. They also fail to alleviate inequality, and actually tend to expand the gap between rich and poor. In most repressive societies, the leaders appropriate huge riches. After his death, it was discovered that Fidel Castro maintained a luxurious private island off the coast of Cuba. Vladimir Putin is believed to be one of the richest persons in the world.

Karl Marx talked about units of capital and units of labor. Units of capital are equal. A dollar is a dollar. Marx failed to see that units of labor are not equal, and vary widely in value. Those individuals with extremely specialized skills that are highly valued by the market and others are paid very well. Even among small groups of individuals with rare skillsets there is great inequality. Giannis Antetokounmpo, the highest paid player on the Milwaukee Bucks, makes almost twenty times more than Sterling Brown, the thirteenth highest paid player on the team.

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In our economic world, specialization has become a key characteristic of societies that are able to grow cumulative wealth. Specialization, which naturally goes hand in hand with inequality, has helped individuals, companies, and societies grow cumulative wealth in a more complex world. At Dana, a firm with 44 people, virtually all of us have specialized skills that do not overlap directly with the skills of others at the firm. This level of specialization greatly expands our cumulative depth of knowledge as a firm. We are different, we are diverse, and ideally this diversity increases over time as we all strive for excellence in our own area of expertise.

Certainly not all companies are equal, and like individuals, each is striving to gain a competitive advantage. We do depend on rules and laws to keep the playing field level, but we should always try to avoid regulation that limits innovation. The core goal of investment management is identifying companies that can successfully expand and grow, or become 'less equal.' If you look at a distribution curve for the market based on company market values, it would be skewed to some very large companies at the top, just like a distribution curve of individual wealth in the U.S. Programs that allow an individual to become more valuable, and increase the value of their labor through education or training, almost always are good investments. In order to reduce inequality, maybe our goal as a country should be to enhance the specialized skill set of each individual, and make each person more special rather than more equal.

**Random Thought for May 2019:** “Everyone is free to write and say whatever he likes, without any restrictions... [but the party] would inevitably break up, first ideologically and then physically, if it did not cleanse itself of people advocating anti-party views.” -Vladimir Lenin

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