The United States of Inequality

The Great Divergence:
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Why We Can't Ignore Growing Income Inequality

By Timothy Noah
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Previously, Timothy Noah looked at whether race, gender, or the breakdown of the nuclear family affected income inequality, and then he examined immigration, the technology boom, federal government policy, the decline of labor unions, international trade, whether the ultra wealthy are to blame, and what role the decline of K-12 education has played. In conclusion, Noah explains why we can't ignore income inequality. Want to print this? The series is also available as a PDF.

Clarence the Angel: *We don't use money in heaven.*
George Bailey: *Comes in pretty handy down here, bub.*

—Frank Capra's It's A Wonderful Life (1946)

It's a Wonderful Life, 1946The Declaration of Independence says that all men are created equal, but we know that isn't true. George Clooney was created better-looking than me. Stephen Hawking was born smarter, Evander Holyfield stronger, Jon Stewart funnier, and Warren Buffett better able to understand financial markets. All these people have parlayed their exceptional gifts into very high incomes—much higher than mine. Is that so odd? Odder would be if Buffett or Clooney were forced to live on my income, adequate though it might be to a *petit-bourgeois* journalist. Lest you conclude my equanimity is in any way unique (we ***Slate*** writers are known for our contrarianism), Barbara Ehrenreich, in her 2001 book *Nickel and Dimed*, quotes a woman named Colleen, a single mother of two, saying much the same thing about the wealthy families whose floors she scrubs on hands and knees. "I don't mind, really," she says, "because I guess I'm a simple person, and I don't want what they have. I mean, it's nothing to me."

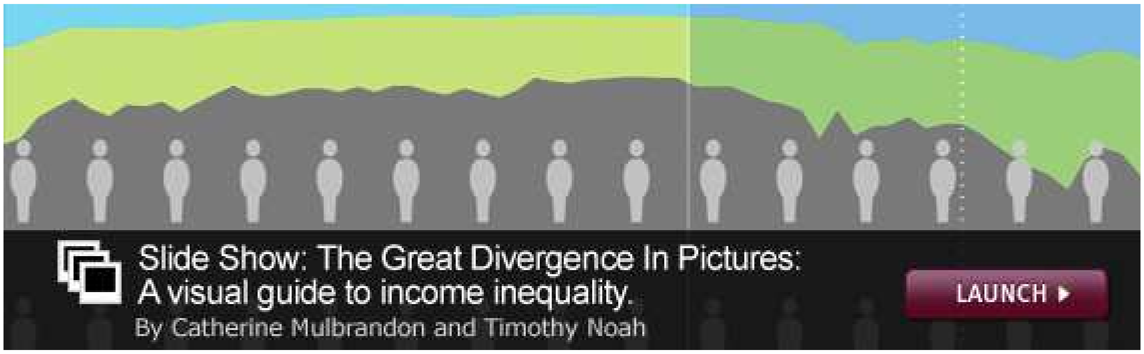
It is easy to make too much of this, and a few conservatives have done so in seeking to dismiss the importance (or even existence) of the Great Divergence. Let's look at their arguments.

Inequality is good. Every year the American Economic Association invites a distinguished economist to deliver at its annual conference the Richard T. Ely Lecture. Ely, a founder of the AEA and a leader in the Progressive movement, would have been horrified by the 1999 lecture that Finis Welch, a professor of economics (now emeritus) at Texas A&M, delivered in his name. Its title was "In Defense of Inequality."

Welch began by stating that "all of economics results from inequality. Without inequality of priorities and capabilities, there would be no trade, no specialization, and no surpluses produced by cooperation." He invited his audience to consider a world in which skill, effort, and sheer chance played no role whatsoever in what you got paid. The only decision that would affect your wage level would be when to leave school. "After that, the clock ticks, and wages follow the experience path. Nothing else matters. Can you imagine a more horrible, a more deadening existence?"

But something close to the dystopia Welch envisioned already exists for those toiling in the economy's lower tiers. Welch should have a chat with his office receptionist. Or he could read *Nickel and Dimed*, or the 2010 book *Catching Out* by Dick J. Reavis, a contributing editor at *Texas Monthly* who went undercover as a day laborer. Waitresses, construction workers, dental assistants, call-center operators—people in these jobs are essentially replaceable, and usually have bosses who don't distinguish between individual initiative and insubordination. Even experience is of limited value, because it's often accompanied by diminishing physical vigor.

Welch said that he believed inequality was destructive only when "the low-wage citizenry views society as unfair, when it views effort as not worthwhile, when upward mobility is impossible or so unlikely that its pursuit is not worthwhile." Colleen's comment would appear to suggest that the first of these conditions has not been met. But that's only because I omitted what she went on to say: "But what I would like is to be able to take a day off now and then … if I had to … and still be able to buy groceries the next day." Colleen may not begrudge the rich the material goods they've acquired through skill, effort, and sheer chance, but that doesn't mean she thinks her own labors secure her an adequate level of economic security. Clearly, they don't.



Welch judged the growing financial rewards accruing to those with higher levels of education a good thing insofar as they provided an incentive to go to college or graduate school. But for most of the 20th century, smaller financial incentives attracted enough workers to meet the economy's growing demand for higher-skilled labor. That demand isn't being met today, as Harvard economists Claudia Goldin and Lawrence Katz have shown. Welch also said that both women and blacks made income gains during the Great Divergence (duly noted in our installment on race and gender, though the gains by blacks were so tiny that it's more accurate to say blacks didn't lose ground). But that's hardly evidence that growing income inequality unrelated to gender or race doesn't matter. Finally, Welch argued that the welfare state has made it too easy not to work at all. But the Great Divergence had a more significant impact on the working middle class than on the destitute.

Income doesn't matter. In most contexts, libertarians can fairly be said to place income in very high regard. Tax it to even the slightest degree and they cry foul. If government assistance must be extended, they prefer a cash transaction to the provision of government services. The market is king, and what is the market if not a mighty river of money?

Bring up the topic of growing income inequality, though, and you're likely to hear a different tune. Case in point: "Thinking Clearly About Economic Inequality," a 2009 Cato Institute paper by Will Wilkinson. Income isn't what matters, Wilkinson argues; consumption is, and "the weight of the evidence shows that the run-up in consumption inequality has been considerably less dramatic than the rise in income inequality." Wilkinson concedes that the available data on consumption are shakier than the available data on income; he might also have mentioned that consumption in excess of income usually means debt—as in, say, subprime mortgages. The thought that the have-nots are compensating for their lower incomes by putting themselves (and the country) in economically ruinous hock is not reassuring.

Wilkinson further argues that consumption isn't what matters; what matters is utility gained from consumption. Joe and Sam both own refrigerators. Joe's is a $350 model from Ikea. Sam's is an $11,000 state-of-the-art Sub-Zero. Sam gets to consume a lot more than Joe, but whatever added utility he achieves is marginal; Joe's Ikea fridge "will keep your beer just as cold." But if getting rich is only a matter of spending more money on the same stuff you'd buy if you were poor, why bother to climb the greasy pole at all?

Next Wilkinson decides that utility isn't what matters; what matters is buying power. Food is cheaper than ever before. Since lower-income people spend their money disproportionately on food, declining food prices, Wilkinson argues, constitute a sort of raise. Never mind that Ehrenreich routinely found, in her travels among the lower middle class, workers who routinely skipped lunch to save money or brought an individual-size pack of junk food and called that lunch. Reavis reports that a day laborer's typical lunch budget is $3. That won't buy much. The problem isn't the cost of food per se but the cost of shelter, which has shot up so high that low-income families don't have much left over to spend on other essentials.

Declining food prices constitute a sort of raise for higher-income people too. But Wilkinson writes that the affluent spend a smaller share of their budget on food and a much larger share on psychotherapy and yoga and cleaning services. And since services like these are unaffected by foreign competition or new efficiencies in manufacturing, Wilkinson argues, providers can charge whatever they like.

Tell it to Colleen! I recently worked out with my new cleaning lady what I would pay her. Here's how the negotiation went. I told her what I would pay her. She said, "OK." According to the Bureau of Labor Statistics, the median income for a housekeeper is $19,250, which is $2,800 below the poverty line for a family of four.

Where do I stand?

Enter your zip code and income to find out where you fall on the curve.

Zipcode: Income:

How you compare:
Average income in zipcode:

Median income in state:
Median income in country: $52,059
Percentile in country:

Sources: American Community Survey (State and National Data), IncomeTaxList (Zip code data).
NOTE: All information you enter is private and will not be recorded or stored in any way.

A more thoughtful version of the income-doesn't-matter argument surfaces in my former ***Slate*** colleague Mickey Kaus' 1992 book *The End of Equality*. Kaus chided "Money Liberals" for trying to redistribute income when instead they might be working to diminish social inequality by creating or shoring up spheres in which rich and poor are treated the same. Everybody can picnic in the park. Everybody should be able to receive decent health care. Under a compulsory national service program, everybody would be required to perform some civilian or military duty.

As a theoretical proposition, Kaus' vision is appealing. Bill Gates will always have lots more money than me, no matter how progressive the tax system becomes. But if he gets called to jury duty he has to show up, just like me. When his driver's license expires, he'll be just as likely to have to take a driving test. Why not expand this egalitarian zone to, say, education, by making public schools so good that Gates' grandchildren will be as likely to attend them as mine or yours?

But at a practical level, Kaus' exclusive reliance on social equality is simply inadequate. For one thing, the existing zones of social equality are pretty circumscribed. Neither Gates nor I spend a lot of time hanging around the Department of Motor Vehicles. Rebuilding or creating the more meaningful spheres—say, public education or a truly national health care system—won't occur overnight. Nurturing the social-equality sphere isn't likely to pay off for a very long time.

Kaus would like to separate social equality from income equality, but the two go hand in hand. In theory they don't have to, but in practice they just do. Among industrialized nations, those that have achieved the greatest social equality are the same ones that have achieved the greatest income equality. France, for example, has a level of income inequality much lower than that of most other countries in the Organization for Economic Cooperation and Development. It's one of the very few places where income inequality has been going down. (Most everywhere else it's gone up, though nowhere to the degree it has in the United States.) France also enjoys what the World Health Organization calls the world's finest health care system (by which the WHO means, in large part, the most egalitarian one; this is the famous survey from 2000 in which the U.S. ranked 37th).

Do France's high marks on both social equality and income equality really strike you as a coincidence? As incomes become more unequal, a likelier impulse among the rich isn't to urge or even allow the government to create or expand public institutions where they can mix it up with the proles. It's to create or expand private institutions that will help them maintain separation from the proles, with whom they have less and less in common. According to Jonathan Rowe, who has written extensively about social equality, that's exactly what's happening in the United States. In an essay titled "The Vanishing Commons" that appeared in *Inequality Matters*, a 2005 anthology, Rowe notes that

Congress has been busy extending copyright terms and patent monopolies and turning over public lands to mining and timber companies for below-market fees." In an 'ownership' society especially," Rowe writes, "we should think about what we own in common, not just what we keep apart."

Inequality doesn't create unhappiness. Arthur C. Brooks, president of the American Enterprise Institute, argued this point in *National Review* online in June. What drives entrepreneurs, he wrote, is not the desire for money but the desire for earned success. When people feel they deserve their success, they are happy; when they do not, they aren't. "The money is just the metric of the value that the person is creating."

Brooks marshaled very little evidence to support his argument, and what evidence he did muster was less impressive than he thought. He made much of a 1996 survey that asked people how successful they felt, and how happy. Among the 45 percent who counted themselves "completely successful" or "very successful," 39 percent said they were very happy. Among the 55 percent who counted themselves at most "somewhat successful," only 20 percent said they were happy. Brooks claimed victory with the finding that successful people were more likely to be happy (or at least to say they were), by 19 percentage points, than less-successful people. More striking, though, was that 61 percent of the successful people—a significant majority—did not say they were "very happy." Nowhere in the survey were the successful people asked whether they deserved their happiness.

Let's grant Brooks his generalization that people who believe they deserve their success are likelier to be happy than people who believe they don't. It makes intuitive sense. But Brooks' claim that money is only a "metric" does not. Looking at the same survey data, Berkeley sociologist Michael Hout found that from 1973 to 2000 the difference between the affluent and the poor who counted themselves either "very happy" or "not too happy" ranged from 19 percentage points to 27. Among the poor, the percentage who felt "very happy" fell by nearly one-third from 1973 to 1994, then crept up a couple of points during the tight labor market of the late 1990s. Hout also observed that overall happiness dropped a modest 5 percent from 1973 to 2000.

Quality of life is improving. This argument has been made by too many conservatives to count. Yes, it's true that an unemployed steelworker living in the 21st century is in many important ways better off than the royals and aristocrats of yesteryear. Living conditions improve over time. But people do not experience life as an interesting moment in the evolution of human societies. They experience it in the present and weigh their own experience against that of the living. Brooks cites (even though it contradicts his argument) a famous 1998 study by economists Sara Solnick (then at the University of Miami, now at the University of Vermont) and David Hemenway of the Harvard School of Public Health. Subjects were asked which they'd prefer: to earn $50,000 while knowing everyone else earned $25,000, or to earn $100,000 while knowing everyone else earned $200,000. Objectively speaking, $100,000 is twice as much as $50,000. Even so, 56 percent chose $50,000 if it meant that would put them on top rather than at the bottom. We are social creatures and establish our expectations relative to others.

Inequality isn't increasing. This is the boldest line of conservative attack, challenging a consensus about income trends in the United States that most conservatives accept. (Brooks: "It is factually incorrect to argue that income inequality has not risen in America—it has.") Alan Reynolds, a senior fellow at Cato, made the case in a January 2007 paper. It was a technical argument hinging largely on a critique of the tax data used by Emmanuel Saez and Thomas Piketty in the groundbreaking paper we looked at in our installment about the superrich. But as Gary Burtless of Brookings noted in a January 2007 reply, Social Security records "tell a simple and similar story." A Congressional Budget Office analysis, Burtless wrote, addressed "almost all" of Reynolds' objections to Saez and Piketty's findings, and confirmed "a sizable rise in both pre-tax and after-tax inequality." Reynolds' paper didn't deny notable increases in top incomes, but he argued that these were because of technical changes in tax law and/or to isolated and unusual financial events. That, Burtless answered, was akin to arguing that, "adjusting for the weather and the season, no homeowner in New Orleans ended up with a wet basement" after Hurricane Katrina.

That income inequality very much matters is the thesis of the 2009 book *The Spirit Level*, by Richard Wilkinson and Kate Pickett, two medical researchers based in Yorkshire. The book has been criticized for overreaching. Wilkinson and Pickett relate income inequality trends not only to mental and physical health, violence, and teenage pregnancy, but also to global warming. But their larger point—that income inequality is bad not only for people on the losing end but also for society at large—seems hard to dispute. "Modern societies," they write,

will depend increasingly on being creative, adaptable, inventive, well-informed and flexible communities, able to respond generously to each other and to needs wherever they arise. These are characteristics not of societies in hock to the rich, in which people are driven by status insecurities, but of populations used to working together and respecting each other as equals.

The United States' economy is currently struggling to emerge from a severe recession brought on by the financial crisis of 2008. Was that crisis brought about by income inequality? Some economists are starting to think it may have been. David Moss of Harvard Business School has produced an intriguing chart that shows bank failures tend to coincide with periods of growing income inequality. "I could hardly believe how tight the fit was," he told the New York Times. Princeton's Paul Krugman has similarly been considering whether the Great Divergence helped cause the recession by pushing middle-income Americans into debt. The growth of household debt has followed a pattern strikingly similar to the growth in income inequality (see the final graph). Raghuram G. Rajan, a business school professor at the University of Chicago, recently argued on the *New Republic*'s Web site that "let them eat credit" was "the mantra of the political establishment in the go-go years before the crisis." Christopher Brown, an economist at Arkansas State University, wrote a paper in 2004 affirming that "inequality can exert a significant drag on effective demand." Reducing inequality, he argued, would also reduce consumer debt. Today, Brown's paper looks prescient.

Heightened partisanship in Washington and declining trust in government have many causes (and the latter slide predates the Great Divergence). But surely the growing income chasm between the poor and middle class and the rich, between the Sort of Rich and the Rich, and even between the Rich and the Stinking Rich, make it especially difficult to reestablish any spirit of *e pluribus unum*. Republicans and Democrats compete to show which party more fervently opposes the elite, with each side battling to define what "elite" means. In a more equal society, the elite would still be resented. But I doubt that opposing it would be an organizing principle of politics to the same extent that it is today.

I find myself returning to the gut-level feeling expressed at the start of this series: I do not wish to live in a banana republic. There is a reason why, in years past, Americans scorned societies starkly divided into the privileged and the destitute. They were repellent. Is it my imagination, or do we hear less criticism of such societies today in the United States? Might it be harder for Americans to sustain in such discussions the necessary sense of moral superiority?

What is the ideal distribution of income in society? I couldn't tell you, and historically much mischief has been accomplished by addressing this question too precisely. But I can tell you this: We've been headed in the wrong direction for far too long.

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