INCOME INEQUALITY IN THE UNITED STATES:
A CALL TO ACTION

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Sean M. Gallagher, B.A.

Georgetown University
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Sean M. Gallagher, B.A.

MALS Mentor: Kazuko Uchimura, Ph.D.

ABSTRACT

This thesis is a comprehensive analysis on income inequality in the United States. It is broken into five chapters. Chapter I begins with an introduction on why I chose to address income inequality, its importance in our society, and why its consequences merit action. In Chapter II, I define the parameters of income inequality and place our current income levels in a historical context. I provide empirical data and analysis of income starting from the revolutionary war through the civil war, and dedicate the bulk of my analysis to income inequality at the end of the 20th century and beginning of the 21st century. Chapter III outlines some of the causes of the inequality and how each has affected the income divide. Further examination in Chapter IV compares the level of income inequality in the United States to other developed nations to uncover whether the phenomenon is uniquely American, or the result of a global trend. Chapter V focuses on the consequences of income inequality in the US and demonstrates its effects on health care, education, and the rule of law. Last, Chapter VI concludes the analysis of income inequality in the United States with a call to action and lists solutions others have offered that include measures to either restore balance to the growing inequality, or ameliorate its effects.
Ultimately, I determine that income inequality in the United States is indeed a problem that is growing out of proportion. Though levels of income inequality have varied throughout America’s history, current levels are not an inevitable consequence of a free market system. Rather, they are the direct result of unchecked policies and trends that threaten the very social fabric upon which this nation was founded. Data clearly demonstrates we have reached a tipping point and without action the country will continue to become further entrenched in a less mobile, more polarized society. To restore balance we must act, and act now.
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CHAPTER I
INTRODUCTION

The value of hard work has always been a central tenet of the American psyche. Images of farmers tilling the land, construction workers lunching on a crossbeam, or scientists peering through a microscope are depicted as part of the American tradition. It is a tradition that is advertised both at home and abroad as what has made, and continues to make, America successful. It harks back to a philosophy idealized by the Founding Fathers. Thomas Jefferson once described farmers, who he thought were the hardest of workers, as “the most vigorous, the most independent, the most virtuous and tied to their country and wedded to its liberty and interests by the most lasting bands.” In his famed Poor Richard’s Almanac, Benjamin Franklin lauded the idea of hard work and chastised anyone who sought a comfortable life of ease or rest. “Be always ashamed to catch thyself idle,” he stated, “all things are easy to industry, all things difficult to sloth.” The pursuit of happiness for the Founders, it would seem, was tied to the notion of hard work.

The result of this philosophy wove the ethic of hard work into our social fabric, calcifying what many label the ‘bootstraps’ mentality. Attaining the American dream was a result of one’s effort: anyone who worked hard enough could pull themselves up by their bootstraps and achieve success. Frequent examples used to illustrate this point fill our history books and permeate popular culture. Andrew Carnegie, whose name adorns a multitude of high profile buildings and institutions, started out as a factory worker to become one of the wealthiest men on the planet. Apple, recently named America’s largest
company, began with just a few friends working in a garage. Even our President, Barack Obama, was born into a modest family only to assume the highest office in the country.

For much of American history this cherished belief – that success is the result of hard work – rang true. Economic opportunity and the prospect of upward mobility, particularly after the Second World War, allowed one generation to attain a higher standard of living than those that came before them. It has drawn millions of immigrants to the shores of the United States hoping they can provide a better life for their families. And it is not just immigrants who believe in the American success story. In a survey conducted by the Brookings Institution, 69 percent of Americans have more faith than do people in other countries that they will receive economic rewards for individual effort, intelligence, and skills.¹

But what happens if this ideal is starting to unravel? What happens if the American dream has grown into more of a façade than reality? Recently, scholars and economists have depicted a worrying trend indicating that income has become detached from productivity. Social mobility, meaning the ability for a person to move up and down the economic ladder, has slowed.² In other words, hard work – the very foundation of the American dream – has become detached from its reward. One very glaring example


illustrating this fact is the income gap between the upper class and the middle and lower classes. Steadily increasing from 1970 onward, income inequality ballooned after the 2007-2008 financial crises and ensuing recession. The US is reaching levels in economic inequality not seen since the period before the Great Depression – with the top 1 percent controlling two thirds of America’s net worth.\(^3\) In terms of working wages, in 2010 the top 0.1 percent - meaning the very tippy top of the 1 percent - earned in a day what the bottom 90 percent earned in an entire year.\(^4\)

But what exactly do these statistics mean? Do they call into questions the fundamental tenets of the American dream or are they just part of a temporary economic trend? Certainly income inequality in American isn’t something new. As a capitalist country that praises the free market system, there have always been winners and losers. For every “Occupy Wall Street” movement chastising the greed of the wealthy there has been a Tea Party counterweight that emphasizes free market principles and calls for less government intervention. And while the recent presidential election highlighted income inequality in some instances, the country remained relatively split on whether or not it is a problem in need of serious action. Receiving 47 percent of the vote, Governor Romney touted less government intervention, a stricter reliance on free market principals and a reduction in taxes. In addition, the country voted back into power a Republican controlled


House of Representatives who unarguably hold a more laissez faire view than the one espoused by Governor Romney. On the other hand President Obama, while not necessarily advocating for bigger government, won 51 percent of the vote by stating the government had a clear role in establishing an economic balance including government regulation and higher tax rates on the wealthiest citizens. In the same vein, the US Senate maintained its Democratic majority that reinforce the views of the President.

These divergent philosophies have saturated public discourse in the United States, making it difficult to decipher whether a problem really does exist. Yet, given the grave and significant impact growing income inequality will have on our society, a critical look is needed to uncover the truth. Are we still the land of opportunity that our founders envisioned where hard work is the key to success? Or, is there something fundamentally different about our current levels of income inequality? If so, what do these troubling statistics mean for our future, and can we do anything about it?

These questions are the focus of this thesis. While limitations will not permit an extensive analysis of income inequality in the US (such as exploring every one of its causes), I will investigate what I feel are the key components of income inequality. In Chapter II I will first define the parameters of income inequality and place our current levels in a historical context. Chapter III investigates the alleged causes of income inequality, exploring societal and economic changes influencing the income divide. Chapter III then compares the level of inequality in the United States to the world, exploring whether or not the trend is unique to the US or part of a global phenomenon.
Chapter IV will focus on the consequences of income inequality in the US by demonstrating its effects through the lens of health care, education, and the rule of law. Last, Chapter V will conclude the analysis of income inequality in the United States with a call to action and list solutions others have offered that include measures that either restore balance to the growing inequality, or ameliorate its effects.

Ultimately, I determine that income inequality is indeed a problem that is growing out of proportion. Though levels of income inequality have varied throughout America’s history, current levels are not an inevitable consequence of a free market system. Rather, they are the direct result of unchecked policies and trends that threaten the very social fabric upon which this nation was founded. Data clearly demonstrates we have reached a tipping point and without action the country will continue to become further entrenched in a less mobile, more polarized society. To restore balance we must act, and act now.
CHAPTER II
THE SCOPE

Income inequality is a relatively straightforward concept. If you divide income equally across households, each section of society would receive their appropriate share. For example, if you divide the population into four segments, each quarter should represent 25 percent of the income. Thus, any group making up 25 percent of the workforce would collectively take in 25 percent of the income.\(^1\) Plotted on a graph like the one in Figure 2.1 below, complete income equality in a society creates a 45 degree angle. This of course is improbable as it means that everyone earns the same amount regardless of the kind of work they do. Inequality on this graph then is demonstrated by a curve called the Lorenz curve, named after American Economist Max Lorenz. How big the curve is depends on the amount of inequality there is among households. If income inequality is high, the curve is further away from the 45 degree angle, and is less the more equally income is among households. The measurement of the space between the curve and line of equality is called the Gini Coefficient, which is the most common yardstick used by economists to measure income inequality.

\(^1\) Stiglitz, *The Price of Inequality*, 23.
In the United States, the current Gini Coefficient is .47. To give a quick global perspective, economist Joseph Stiglitz contends that more equal societies have Gini Coefficients of approximately .3 or below, which include Nordic countries like Sweden and Norway and Central European countries like Germany. The more unequal societies in the world, like those in South Africa and Latin America who have strong histories of racial discrimination and class stratification, have Gini Coefficients of .5 or more.²

² Stiglitz, The Price of Inequality, 23.
According to data put forth by the United Nations, The US is “slightly more unequal than Iran and Turkey, and much less equal than any country in the European Union.”

Yet before diving into the historical context the Gini Coefficient has in our society, another measurement of income distribution worth mentioning is Gross Domestic Product (GDP) per capita. GDP is “the value of a country's overall output of goods and services (typically during one fiscal year) at market prices, excluding net income from abroad.” Described another way, GDP is a measurement of a country’s worth in terms of what they make and what they provide in services. It is a key tool of measurement to gauge the economic activity in a country, but is not the best measurement for income equality. This is because GDP per capita measures the total of a country’s output and divides it equally among the population. What is doesn’t measure, or fails to reflect, is the disparity among households that reap high earnings and the other households who do not do as well. So, “if Bill Gates and Warren Buffet’s incomes go up, the average income for America goes up.” However, as aforementioned, the recent trend in the United States is that income is disproportionately going towards the top and failing to reach those in the middle and the bottom. As a result, I will be referencing the Gini Coefficient and not GDP per capita as a measurement for income inequality.

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Furthermore, it is important to also note the Gini Coefficient is solely a measure of income and does not include other aspects related to income like health benefits, vacation time or educational subsidies. The Gini Coefficient is one of the main tools used to measure inequality because income is fairly straightforward. Peripheral benefits that accompany income, while important, are not as easily measured and take a degree of interpretation. Income among the population, on the other hand, can be measured with a high degree of accuracy. In other words, a dollar is a dollar whether it is earned in times of excess or scarcity.

So what does the current .47 Gini Coefficient mean both historically and in the context of the present day? Historically, before the 19th century there is a scarcity of data making it quite difficult to measure income. In addition, the income that is measureable doesn’t necessarily equate to our present day understanding or expectations of income given the drastic societal differences in employment. Is it fair, or even worthwhile, to compare the agrarian society of the Founders or the pre industrial economy of the late 1800’s to the type of economy we live in today? Perhaps not, but that didn’t stop professors Peter Lindert of the University of California Davis and Jeffrey Williamson of Harvard from undertaking the task. Compiling data from various historical resources, the pair investigated measurements of early American income to paint a picture of how the income distribution would have looked like on the eve of the Revolutionary War. Their

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6 Ibid., 23.
conclusions were telling: “wealth was distributed more evenly across the 13 colonies than anywhere else in the world that we have record of.”

However, as Jordan Weissman of *The Atlantic* states, these findings should be viewed with a bit of caution. Reaching back as far as the 1770’s is never an entirely accurate process. Lindert and Williamson’s findings portray more of a messy collage of disparate pieces of information rather than an accurate snapshot of what life was like in the colonies.

Their study approximated what people earned by utilizing “occupational directories, tax lists, post-revolutionary census documents, and earlier scholarship, among other resources.” Inherently, as Weissmann points out, such a process involves quite a bit of conjecture.

Nevertheless, with the available data they were able to analyze, Williamson and Lindert contend that the colonies were “an exceedingly egalitarian place, financially, if not politically.” As the Figure 2.2 below taken from their investigation illustrates, income was not only more equally divided in the colonies, but Americans across the economic spectrum tended to fare better than their European counterparts. “Every kind of person by occupation was better off than their counterpart by occupation. The carpenters,

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8 Ibid.

9 Ibid.

10 Ibid.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{income_distribution.png}
\caption{Income Distribution: Colonial America Versus the World}
\end{figure}

This data even includes slaves, who were sometimes paid a tiny sum for their forced labor in addition to shelter and food. Granted, from a humanitarian perspective slaves were of course denied fundamental rights that limited the benefit of receiving any type of income. Slavery was a horrific, brutal practice that overshadows any time of recompense offered under its yolk. Yet, as Lindert and Williamson note, strictly on a
measurement of income they technically earned more than the poorest Europeans.\textsuperscript{12} “Slavery is America’s original sin and was the great global injustice of that age. But on a purely economic basis, even when slaves are included in the calculation of inequality, America comes out as the most egalitarian.”\textsuperscript{13}

Comparing their data on income equality to the present day, Lindert and Williamson state “the colonies also compare extremely well to the latter-day United States.”\textsuperscript{14} Utilizing figures from economists Thomas Piketty and Emmanuel Saez (which will be referenced throughout this thesis), modern day inequality depicts a drastic change from that of the colonial period. Even by the dawn of the Civil War in 1861, the top 1 percent of American households earned 10 percent of the nation's income, versus about 7 percent during the founders' era. As Figure 2.3 below compiled by Weissmann illustrates, today the 1 percent account for double that of their counterparts during the Civil War.

\textsuperscript{12} Ibid.

\textsuperscript{13} Freeland, “America, Land of Equals.”

\textsuperscript{14} Weismann, “U.S. Income Inequality.”
Again, it is worth mentioning the drastic differences in the socioeconomic environment that exists between the era of the Founding Fathers or Civil War from that of today. We are no longer a heavily agrarian country where the main forms of employment consist of farmers, merchants and tradesman. The industrial and technological revolutions have given rise to a altogether different society that certainly allows one to counter that comparing these time periods is irrelevant or even misleading.

Yet, despite these differences, we still can glean a very important lesson about the historical context of income equality and what the Founders would have thought about it. Everyone in 1771 may have been relatively poor compared to us, but they were poor together. As Chrystia Freeland of the New York Times notes, “the Founding Fathers

\[\text{Ibid.}\]
evidently formed their ideas about democracy in a social context very different than our
own, when distinctions of wealth simply weren't as sharp.”\textsuperscript{16} The extreme rich existed,
but they were located in Europe. Even the richest of those in American couldn’t compare
those of the European Aristocracy. “Indeed, England’s 1 percent were so rich that the
country’s average national income was nearly as high as that of the colonies, despite the
markedly greater prosperity of what today we might call the American middle class.”\textsuperscript{17}

It may seem surprising to think that the Founders regarded themselves as
egalitarian given modern day perceptions of the revolutionary period being as one of the
land owning aristocracy versus everyone else. However, Thomas Jefferson expressed
such a viewpoint on American egalitarian society in a letter he wrote to a contemporary
from Monticello in 1814. “We have no paupers,” he wrote to his friend. “The great mass
of our population is of laborers; our rich, who can live without labor, either manual or
professional, being few, and of moderate wealth. Most of the laboring class possess
property, cultivate their own lands, have families, and from the demand for their labor are
enabled to exact from the rich and the competent such prices as enable them to be fed
abundantly, clothed above mere decency, to labor moderately and raise their families.”\textsuperscript{18}

Clearly, it was a matter of praise for Jefferson that American society was more
economically equal than the Old World. He even devised a calculation to show that

\textsuperscript{16} Ibid.

\textsuperscript{17} Freeland, “America, Land of Equals.”

\textsuperscript{18} Ibid.
happiness in America was far higher as a result of their equality than those in England “from whom happiness is the lot of the aristocracy only.”\textsuperscript{19} While our societies may be different, what shouldn’t be is the divide between rich and the poor. “Equality, not just of opportunity but also of outcome, turns out to be one of the features that really did make the United States exceptional in the age when the country was born.”\textsuperscript{20} As we explore the more modern statistics of income inequality in the US, regardless of the changing times, we should keep this historical precept in mind.

So what does the state of income inequality in the US mean in a more modern sense? According to labor economist Linda Levine of the Congressional Research Service, “The historical trend in the United States is one of almost steadily increasing income inequality, from 0.386 (GC) in 1968 to 0.477 in 2011.”\textsuperscript{21} Yet, this wasn’t always the case. From 1947 to 1973 labor productivity and median family income each roughly doubled. Median compensation of full-time workers and labor productivity grew at the same rate from 1950 to the late 1970s. Simultaneously, equality in income increased as very high incomes grew more slowly than labor productivity.\textsuperscript{22} It was a period of robust growth, one that economists labeled the ‘Great Compression’ to denote the shared

\textsuperscript{19} Ibid.

\textsuperscript{20} Ibid.


prosperity of the era.\textsuperscript{23} As Timothy Noah of Slate Magazine writes, “The deep nostalgia for that period felt by the World War II generation—the era of Life magazine and the bowling league—reflects something more than mere sentimentality.”\textsuperscript{24} It perpetuated the American belief that there was a clear connection between work and compensation.

During the 1970’s, however, something changed. While real median family income continued to rise, productivity gains did not significantly raise incomes for most American workers. According to Emmanuel Saez, one of the leading experts on long-term trends in inequality, between 1980 and 2005 business sector productivity increased by 71 percent. Yet, over the same quarter century, median weekly earnings of full-time workers went up only 14 percent. In addition, median weekly compensation - earnings plus estimated fringe benefits that were mentioned before, increased only 19 percent. The only group to experience a rise in compensation that grew in line with labor productivity


was college educated women. This was due in large part to women breaking traditional molds and entering the workforce in large numbers. ²⁵

Yet, since productivity growth almost always increases total income, slow income growth for the average worker implies faster income growth elsewhere. In other words, if productivity is up and producing more profits, but wages aren’t rising, where is the money going? Simply put: a very select few. As the Brookings Institution notes, “From 1989 through 2004, the growth of wealth in the United States was strong but unevenly distributed. Data shows that total wealth doubled over this period, growing from $25.9 trillion to $50.2 trillion. However, there were large differences between families in wealth accumulation.”²⁶ Although overall income had grown by 27 percent since 1979, by 2008 33 percent of the gains went to the top 1 percent. Most amazing of all, the top 0.1 percent -- again the one-tenth of one percent -- had more combined pre-tax income than the poorest 120 million people, as Figures 2.4 and 2.5 illustrate.


²⁶ Haskings, Isaacs, and Sawhill, *Getting Ahead or Losing Ground*. 
Furthermore, according to William Domhoff, a professor of sociology at University of California Santa Cruz, the current state of inequality is so vast that it rivals that of the Great Depression – one of the most impoverished periods in our nation’s history. Using data from Emmanuel Saez and John Wollf of the Levy Economics Institute, Domhoff acknowledges that wealth distribution has always been concentrated at the top, with the highest 1 percent owning 40 to 50 percent of the wealth. This trend remained stable over the course of the 20th century, although as described above, there were small declines in the aftermath of the New Deal and World II where wages rose with productivity. Yet, by the late 1980s, Domhoff points out that the wealth distribution was almost as concentrated as it had been in 1929, when the top 1 percent possessed 44.2 percent of all wealth. It continued to edge up, with a slight decline from 1998 to 2001, before the economic recession started in 2006. However, as Domhoff states “of all the
new financial wealth created by the American economy from 1983 and 2004, fully 42 percent of it went to the top 1 percent. A whopping 94 percent went to the top 20 percent which of course means that the bottom 80 percent received only 6 percent of all the new financial wealth generated in the United States during the '80s, '90s, and early 2000s.”

As Figure 2.5 taken from Emmanuel Saez’s 2008 data illustrates, income has become extremely concentrated in the top 0.1 percent.

To get a grasp on the types of figures that illustrate this disparity in today’s dollar amount, in 2010 the top 1 percent had a mean household income of $1,318,200 compared to the bottom 40 percent’s $17,300. That means the top 1 percent earned over 76 times

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more money for the work performed across professions than the bottom 40 percent. What is more striking is the disparity in net worth. By 2010 the top 1 percent had a mean household net worth of $16,439,400, while the bottom 40 percent actually had a *negative* net worth of $10,600 due to their incurred debt.\(^{28}\) Surely the American tradition doesn’t include 1 percent of the population reaping unarguably high profits while the huge swaths of citizens go into debt to maintain their lifestyle. With numbers as far apart as this, we are edging ever close to a winner take all society.

The question that follows then, is who are these individuals in the top 1 percent, and how have they amassed such wealth? According to Peter Whoriskey of the Washington Post, a trio of economists recently completed a comprehensive analysis of income tax returns – the first of its kind – to uncover the type of occupation of the top 0.1 percent reaping the profits. The researched showed that after lawyers, financial professionals and managers, the top earners were executives. In total, executives comprised 41 percent of the top .1 percent of earners. As Whoriskey states, “the evolution of executive grandeur – from very comfortable to jet-setting – reflects one of the primary reasons that the gap between those with the highest incomes and everyone else is widening.”\(^{29}\) Whoriskey goes on to stipulate that, on the whole, the social norms that once kept executive pay in check have disappeared. The idea that a CEO at the top of

\(^{28}\) Domhoff, “Who Rules America.”

a company should cap his or her salary at some point is no longer practiced. As a result, “executive compensation at the nation’s largest firms has roughly quadrupled in real terms since the 1970’s, even as pay for 90 percent of America has stalled.” The contention is that unequal distribution of wealth has loaded top executives of companies with most of the profits, while shortchanging those that work beneath them.

Ultimately, it is clear that the growing disconnect between productivity and wages started a rapidly escalating economic strangulation of millions of middle-class Americans. According to an analysis by the Internal Revenue Service, the bottom 60 percent of Americans, on average, made less than 95 cents in 2004 for each dollar they reported in 1979. The next best-off group, the fifth of Americans on the 60th to 80th rungs of the income ladder, averaged 2 cents more income in 2004 for each dollar they earned in 1979. Combined, this means that the annual incomes of the bottom 80 per cent of US families have been essentially flat since 1973 – having risen by only 10 percent in real terms over the past 37 years.

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30 Ibid.

CHAPTER III
THE CAUSES

From the point of view of many economists, however, the story about falling wages is not entirely due to changes in pay structure at the executive level. While there are dozens of alleged factors, a select few merit attention. First, a frequently cited example of placing downward pressure on wages is trade and globalization. The argument stipulates that the rise of countries like China, India, and Brazil have undercut wages and put American blue collar, and even white collar, workers out of jobs.¹ As Linda Levine of CRS states, “the shift overseas in production of goods and services that predominantly use less-skilled workers has reduced demand in the United States for these workers, thereby putting downward pressure on their wages and further widening the existing wage gap between lower and higher skilled U.S. workers.”²

Globalization cut the need of low skilled manufacturing jobs, and thus the income provided to those manufacturing workers. According to the Department of Labor, “Though still the largest employer among goods-producing industries, manufacturing now accounts for only half the share of total nonfarm employment it did in 1970.”³ To see an example, a cursory glance at product labels in most American stores will reveal

¹ Noah, "The United States of Inequality."
² Levine, The U.S. Income Distribution and Mobility, 7.
that an overwhelming majority are manufactured abroad. Foreign countries, especially China, now export a great deal of products that Americans buy, most of which used to be manufactured locally.⁴

Another commonly cited reason for generating income inequality is technology. Beginning in the 80’s and exploding in the 90’s, technology has enabled the most routine and easily automated jobs to be replaced by computers. And what is unique about computer technology is that it didn’t follow the old adage which claimed technological advancements operated in a zero sum environment; meaning that if a machine replaced someone, than someone else still had to be hired to fix the machine. As economists Frank Levy of MIT and Richard J. Murnane of Harvard have noted, “computers represented an entirely different sort of new machine, one that possesses a productive capacity which requires progressively less human labor.”⁵ Think of the office schedulers and assistants, who once organized meetings, received messages, and brewed the coffee. They have now been replaced by smart phones and software systems and a quick trip to the local coffee shop.

Linda Levine of CRS echoes this philosophy and states “the kinds of technological advances that have occurred since the late 1970s have been biased in favor

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⁴ Noah, "The United States of Inequality."

⁵ Levy and Murnane, *The New Division of Labor.*
of those jobs that require higher levels of education and training.”

She believes the advancement of technology affected the labor market in two significant ways: as a substitute for low skilled workers, and as a compliment to high skilled workers. In other words, technology increased employer demand “for those high-skilled workers who perform non-routine cognitive tasks (e.g., engineers and lawyers)…while decreasing demand for the many medium-skilled workers who perform routine tasks (e.g., administrative support and factory workers).”

President Bill Clinton encapsulated this new paradigm in the workforce in an often-repeated quote: “What you earn is a function of what you can learn.” It was an acknowledgement that the advancement of technology had changed the landscape for much of the American workforce. “A manufacturing-based economy was giving way to a knowledge-based economy that had an upper class and a lower class but not much of a middle class.”

Furthermore, there are those who cite the decline of organized labor as a factor in lower wages. Since 1983, the percentage of those who belong to a union has fallen 20 percent. Excluding public sector employees, union membership has dropped to a mere 7.5 percent of the private-sector workforce. MIT economists Frank Levvy and Peter

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7 Ibid.

8 Noah, "The United States of Inequality."

9 Ibid.

10 Ibid.
Temin indicate there is a direct correlation between income inequality and the decline of labor as unions are major factors influencing a more equitable distribution of wealth. They contend the “Great Compression” growth periods after the Second World War “were dominated by unions, a negotiating framework set in the Treaty of Detroit, progressive taxes, and a high minimum wage -- all parts of a general government effort to broadly distribute the gains from growth.”\textsuperscript{11} However, in the later years when wages began to fall, Levy and Temin stipulate this is due to institutional reversals of these trends at the federal level that weakened the forces that fought for fairer wages.\textsuperscript{12}

Paul Krugman, a New York Times columnist and Nobel Prize winning economist, also attributes the decline of labor unions to policies enacted by government officials. Krugman particularly focuses on the conservative policies of the Reagan Administration, which he felt sped up the decline of unions. In 1981 President Reagan threatened to fire nearly 13,000 air traffic controllers unless they called off an illegal strike, and did fire those who refused to heed his warning. This effectively broke their union, and Krugman contends the repercussions were a signal for a “broad assault on unions throughout the economy.”\textsuperscript{13} Krugman asserts that unions not only brought high wages to their members, but encouraged non-union companies to offer good wages and benefits because non-


\textsuperscript{12} Ibid.

union companies had to compete for the high caliber unionized workers. With the decline of unions, Krugman believes middle-class wages began to stagnate as a direct result.  

Perhaps the most comprehensive and broad analysis put forth to explain the increase in income inequality comes from economists like Nobel Prize winner Joseph Stiglitz. Stiglitz contends income inequality is primarily the results of governmental policies, specifically through a concept he calls ‘rent seeking’. He agrees that trade, the decline of labor, and higher CEO pay have all added to the increase of income inequality, but are merely factors in a much larger phenomenon where governmental policies have been skewed to allow the top earners to retain their wealth by ‘rent seeking’ from those at the bottom. His belief is that income inequality is as much a result of political forces as economic ones. ""Even though market forces help shape the degree of inequality, government policies shape those market forces.""  

For Stiglitz, the main factors that affects the rise or fall of income inequality is how the rules of the economic playing field are set up. “In a modern economy government sets and enforces the rules of the game – what is fair competition, and what actions are deemed anticompetitive and illegal, who gets what in the event of bankruptcy, and when a debtor can pay all that he owes, what are fraudulent practices and forbidden.”


15 Stiglitz, The Price of Inequality, 30.

16 Ibid., 28.
He believes competitive forces naturally limit skewed profits, but if left unchecked, markets become uncompetitive and monopolies arise. In the case of the American market, Stiglitz contends the rich have set up a monopoly whereby they increase the inequality of outcomes and reduce equality of opportunity.  

It is important to note, however, that Stiglitz’s theory of rent seeking does not mean that the rich have figured out a way to generate more money than the rest of society. The key factor is that rent seeking is rigging the political system to take a larger slice of the profits that everyone is generating. “The fight to acquire rents is at best a zero-sum activity. Rent seeking makes nothing grow. Efforts are directed toward getting a larger share of the pie rather than increasing the size of the pie.” Stiglitz believes that when government does its job well, the pay received by a worker more adequately reflects the actions he or she contributed to earn that pay. He admits that the government never corrects market failures perfectly, but there is an enormous role that the government plays in ensuring a more equitable playing field. In today’s economy, Stiglitz believes the government’s role has and is continuing to wane, exacerbating the income divide between the rich and the rest of society.

17 Ibid., 31.  


19 Stiglitz, The Price of Inequality, 34.
Examples of rent seeking that Stiglitz highlights reach across all facets of the government. They include subsidies to corporations like food giant Archers Daniels Midland (ADM) for corn-ethanol. Stiglitz believes the persistence of such subsides, which have not produced the results that were promised yet continue to thrive, stem directly from politics. “Like so many other executives, those at ADM seemed to be better at managing politics than innovation.”

Instead of producing an alternative energy that was cleaner and cheaper than regular gasoline, ADM instead continues to milk the government of tax dollars that could be spent on issues that he feels merit greater attention like education.

Stiglitz’s most ardent culprit of rent seeking is the financial industry. “The financial industry, which now largely functions as a market in speculation rather than a tool for promoting true economic productivity, is the rent-seeking sector par excellence.” He believes they have influenced and conjured the government into creating laws that make the marketplace less transparent. The government has turned its eye away from financial products like derivatives and mortgages, or tax policies that reduced rate of taxation on capital gains and carried interest. As a result, the financial sector collects rent by dominating the means of payment in society. These include credit

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20 Ibid., 51.

21 Stiglitz, "The 1 Percent’s Problem."
and debit card fees, including the less well known fees charged to merchants which eventually get passed on to the consumer.\textsuperscript{22}

Perhaps the most glaring form of rent seeking from the financial sector was the predatory lending practices that precipitated the 2007-2008 recession. According to Stiglitz, the financial sector influenced Congress to pass dangerous creditor-friendly bankruptcy laws and eliminate safeguards that protected consumers from toxic mortgages. Some states like Georgia tried to fight abusive practices that left consumers vulnerable to products they couldn’t afford or didn’t understand. However, the financial industry fought such policies furiously and ensured none ever came to fruition. For Stiglitz, “it became clear that the banks were engaged not only in reckless lending – so reckless that it would endanger the entire economic system – but also in predatory lending, taking advantage of the least educated and financially unsophisticated in our society by selling them costly mortgages and hiding details of the fees and fine print incomprehensible to most people.” \textsuperscript{23}

In Stiglitz’s view predatory lending is the epitome of rent seeking, but just the tip of the iceberg for how the financial sector is siphoning money from poor and middle class Americans through deceptive practices that the government is influenced to ignore.\textsuperscript{24} “In a broad sense,” Stiglitz says, “rent seeking defines many of the ways by

\begin{itemize}
\item\textsuperscript{22} Ibid.
\item\textsuperscript{23} Stiglitz, \textit{The Price of Inequality}, 191.
\end{itemize}
which our current political process helps the rich at the expense of everyone else, including transfers and subsidies from the government, laws that make the marketplace less competitive, laws that allow C.E.O.’s to take a disproportionate share of corporate revenue and laws that permit corporations to make profits as they degrade the environment." As a direct result, he believes income inequality is increasing because government policies have wed themselves to corporate interests who seek rent from employees by squeezing wages, lessening taxes, eroding safeguards and thus exacerbating the income divide. To reverse this trend, Stiglitz believes we have to reengage the role of government through laws that encourage or at the last safeguard unions, institute corporate governance, and foster competition that will limit the extent of monopolies.

However, though each of these theories has its fair share of supporters, there is not a consensus among scholars and economists about which is the main culprit of income inequality, or if all of them combined are responsible. Regarding the rise in executive pay, defenders say that CEO’s are being paid more today because their salaries are tied to stocks and options, which means they rise and fall with the success or failure of a company. If their pay is skyrocketing, it is supposedly due to the simultaneously

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24 Stiglitz, "The 1 Percent’s Problem."

25 Stiglitz, _The Price of Inequality_, 191.

26 Ibid., 57.
skyrocketing success of a company. Simply put, executive pay is on the rise due to a change in pay structure and not because they are withholding funds from workers.

Addressing the rise in technology, critics of the idea that the technology revolution eliminated jobs profess the exact opposite happened. While workers were replaced by the operations of a computer, they retort that the computer and technology industry has blossomed over the past two decades creating millions of jobs. Aside for the dot-com bubble in the late 90’s, the technology industry in the United States has experienced rapid growth, completely transforming areas like Silicon Valley in northern California. In addition, income inequality was already growing well before the tech boom of the 1990’s. While it may have influenced the income divide, the technology revolution dawned too late to be attributed as its cause.

Trade, however, might be the most complex issue surrounding income inequality. There are many scholars and economists on both sides of the argument of whether or not trade creates or eliminates jobs, and even some who have changed their minds. Paul Krugman, typically a very one-sided economist, is one who has switched views on the subject. Originally, Krugman believed that “Although the effect of foreign competition is measurable it can by no means account for the stagnation of U.S. earnings.” However, later on Krugman began to write that while he is not a protectionist, “trade between

\[27\text{ Whoriskey, "With Executive Pay, Rich Pull Away from Rest of America."}\]

\[28\text{ Noah, "The United States of Inequality."}\]

\[29\text{ Ibid.}\]
countries at very different levels of economic development can create large classes of losers and only few winners.”

He went on to say that “In fact, it’s hard to avoid the conclusion that growing U.S. trade with third world countries reduces the real wages of many and perhaps most workers in this country.” Though still seemingly torn on the subject, Krugman contends that those who are worried about trade have a point, and deserve some respect.

British economist Adrian Wood is also one who has conceded to both ends of the arguments on trade affecting wages. In 1995 he wrote that there was a clear inverse relationship with developed countries that imported products from developing countries. “Trade with low-wage countries lowered wages for unskilled workers in developed countries.” He too believed countries with larger increases in imports experienced larger falls in manufacturing employment. Yet, after analyzing the data he admitted it may not have been as significant as he thought. In their totality, importation of manufactured goods from low-wage countries only accounted for less than 3 percent of GDP. “By itself,” Wood ceded, “that wasn’t enough to displace many workers.” He would still theorize that imports from developing countries required more labor than


31 Ibid.

32 Krugman, "Whining Over Discontent."

33 Noah, "The United States of Inequality."

34 Ibid.
other goods, thus displacing more U.S. workers than imports from high-wage countries. However, this meant the effects of trade were much more indirect and subtle than previously thought.\textsuperscript{35}

As a result, trade appears to have influenced income inequality but can’t bear the blame as its cause or its persistent increase. Timothy Noah of Slate magazine summarizes it well in stating that we don’t yet have the data to pinpoint trade’s true effects. While it doesn’t appear to have contributed to the income divide in the mid 1990s, trade may have had a more significant impact since then. “With trade more than with most topics, the economics profession is struggling to interpret a reality that may not fit the familiar models.”\textsuperscript{36}

As to the role of government causing income inequality purported by economists like Krugman and Stiglitz, similar debate take places on how much of an impact governmental policies can have. Some economists have stated that the growing income divide is the result of larger external forces rather than political ones. The theory is that because government spending has only hovered around 20 percent of GDP for the past four decades, most of which is entitlement spending like Medicare and Social Security that remains relatively consistent, it is not enough to affect the kinds of changes in income taking place since the 1970’s. In other words, as Berkley economist Brad DeLong

\textsuperscript{35} Ibid.

\textsuperscript{36} Ibid.
states, “The shifts in income inequality seem...to be too big to be associated with anything the government does or did.”

In addition, there are those like author Mickey Kaus who state that increasing income inequality is just a natural result of capitalism. Over time, Kaus contends, income inequality increases due to the fact that markets become more and more efficient. Any attempts by the government to alter or halt this trend will either fail, or alter capitalism altogether. “You cannot decide to keep all the nice parts of capitalism," he wrote, "and get rid of all the nasty ones." Kaus believes increasing inequality is a grave problem with serious consequences, but in a capitalistic market you must not try and change the system, but compensate with government programs that ameliorate its effects. Kaus urged that in order to combat social inequality the government should nurture “more egalitarian civic institutions (parks, schools, libraries, museums) and by creating some new ones (national health care, national service, a revived Works Progrss Adminstration) that remove many of life's most important activities from the "money sphere" altogether.”

Ultimately, whatever the cause -- whether it is executive pay, the decline in unions, technology, trade, governmental policies or all of them combined -- it is clear the American worker is in an entirely different circumstance in the short span of three

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37 Ibid.
38 Ibid.
39 Ibid.
decades. In the early 1960s President John. F. Kenney often repeated the phrase that ‘a rising tide lifts all boats,’ denoting that if one sector of society gained success, so too did the rest of society. However, that aphorism has since lost its relevance as the data above clearly illustrates increases in overall growth do not correlate to shared prosperity. The gap between the rich and the rest of society is increasing to epic proportions. As International Monetary Fund economists Andrew Berg and Jonathan Ostry describe, if you take that rising tide analogy and literally transform US households into boats, with boat size proportional to income, in 1970 “the average boat was a 12 foot canoe and the biggest yacht was 250 feet long.” A mere 30 years later the average boat grew slightly to 15 feet, while the biggest yacht reached Titanic proportions of over 1100 feet. As they conclude, “When a handful of yachts become ocean liners while the rest remain lowly canoes, something is seriously amiss.”

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41 Ibid.
CHAPTER IV
COMPARATIVE INDICATORS

The above statistics clearly demonstrate that even in a society that has traditionally embraced a market system that rewards efficiency, the current scenario reflects a drastic break from the past. But how is the United States faring comparatively? Is this trend of increasing income disparity unique to our current economy, or are we falling prey to a global phenomenon affecting other first world nations? Cross-country comparisons of income distributions will provide another important perspective on the extent of inequality in the United States.

Not surprisingly, however, measures of income differ from one country to the next. For this reason, according to Linda Levine of CRS, “researchers typically use data made more comparable by the Luxembourg Income Study (LIS) project or by the Organisation for Economic Cooperation and Development (OECD).”¹ The Gini Coefficient will still be utilized and referenced, but the LIS and OECD use a more unique measure of income that is particularly useful in international comparisons. They use disposable household income as their common yardstick. Disposable household income begins with the income from employment, and then includes a variety of other earned income from property, pensions, disability or even child support. Once these are added up, income tax and a workers’ social security contributions are subtracted from the total

¹ Levine, The U.S. Income Distribution and Mobility, 9.
figure. This amount is subsequently adjusted for household size, and the final figure is considered disposable cash income. ²

Analyzing LIS and OECD data from the mid 1970s to 2000, researchers found that the United States consistently had a high level of income inequality. Levine says rather starkly, “the United States was among those countries that experienced the largest increases in inequality over the 25-year period.”³ Among the countries that had the most stable income equality over that period were Scandinavian, Central and Southern European countries. Those that saw the highest increase in inequality were English speaking countries and Italy. “Between the mid-1970s and 2000, Sweden, Finland, and Norway appear to have experienced the smallest increases in inequality, whereas the United States, the United Kingdom, and Italy seemingly experienced the largest increases.”⁴

Furthermore, the United States also was estimated to have had the most persistent increase in inequality from the mid-1970s to 2000. The difference for other countries was that while inequality may have increased, it generally slowed in the later years of that period. In the US income inequality displayed a consistent upward incline, maintaining this trend into the late 2000s. “With virtually no change between the mid and late 2000s in the ranking of countries by extent of inequality in disposable household income, the

² Ibid.
³ Ibid.
⁴ Ibid.
United States was again among the nations with the most unequal distributions. U.S. income inequality in the late 2000s surpassed the average for the 20 founding member countries of the OECD.5 Figure 4.1 below taken from Linda Levine’s analysis of the LIS and OECD illustrates how unique the United State is among the OECD 20.

### Summary Measure of Disposable Household Income Distributions for Selected Countries in the Late 2000s and Change from Mid-1980s to Late 2000s

<table>
<thead>
<tr>
<th>Country</th>
<th>2008 Gini Coefficient</th>
<th>Mid-1980s to Mid-1990s</th>
<th>Mid-1990s to Late 2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td>0.236</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.248</td>
<td>-0.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Norway</td>
<td>0.25</td>
<td>2.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Finland</td>
<td>0.259</td>
<td>2.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.259</td>
<td>1.4</td>
<td>4.8</td>
</tr>
<tr>
<td>Austria</td>
<td>0.261</td>
<td>n.a.</td>
<td>2.7</td>
</tr>
<tr>
<td>France</td>
<td>0.293</td>
<td>-2.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.294</td>
<td>2.5</td>
<td>-0.3</td>
</tr>
<tr>
<td>Germany</td>
<td>0.295</td>
<td>1.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Poland</td>
<td>0.305</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Greece</td>
<td>0.307</td>
<td>0.0</td>
<td>-2.8</td>
</tr>
<tr>
<td>Canada</td>
<td>0.324</td>
<td>-0.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Australia</td>
<td>0.336</td>
<td>n.a.</td>
<td>2.7</td>
</tr>
<tr>
<td>Italy</td>
<td>0.337</td>
<td>3.9</td>
<td>-1.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.345</td>
<td>2.7</td>
<td>0.9</td>
</tr>
<tr>
<td>United States</td>
<td>0.378</td>
<td>2.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.476</td>
<td>6.6</td>
<td>-4.3</td>
</tr>
<tr>
<td>Chile</td>
<td>0.494</td>
<td>n.a.</td>
<td>-3.3</td>
</tr>
<tr>
<td>OECD20b</td>
<td>0.316</td>
<td>2.1</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Figure 4.1: Summary Measure of Disposable Household Income Distributions

5 Levine, The U.S. Income Distribution and Mobility, 10.
Again, as you can see in the above table, disposable household income inequality in the developed countries of the OECD has gradually increased since the mid-1980s. While inequality in the United States increased by slightly more than the OECD average during the mid-1980s to mid-1990s period, the increase in U.S. inequality was considerably greater relative to the OECD average from the mid-1990s to late 2000s. This shows that while other developed countries may have experienced upticks in income inequality that parallel that of the United States, none could match the extent to which US inequality has grown.\(^6\)

Levine stipulates that there are three main explanations for the United States being so unique in its levels of income inequality versus its peers. First, many other countries devote a much larger share of their national output (GDP) to income transfers, like welfare programs. These programs have an equalizing effect on the distribution of income. Yet, because the United States rates far behind other countries in transfer programs, the US ranks higher on the income inequality scale.\(^7\)

Levine utilizes data from Professor Timothy Smeeding who is the Director of the Institute for Research on Poverty at the University of Wisconsin-Madison. From a very comprehensive report from a cross-national perspective on American income inequality, Smeeding contends there is a strong correlation between the share of income for those at the bottom of the income distribution to the share of GDP accounted for by transfer programs.\(^6\)\(^7\)

\(^6\) Ibid.

\(^7\) Ibid.
payments. “His analysis suggests that given the amount of money transferred to households in the United States and the United Kingdom, those at the low end of their respective income distributions do not benefit as much from transfers as low-income households in other countries.” His conclusion was that transfer payments are much more ineffective at reaching low-income households in the United States compared to many other nations. This adds to the burgeoning gap in income inequality in the US versus other developed nations.

The second explanation why the US ranks so high in income inequality versus other developed nations is that taxes in these countries vary with respect to progressivity, and thus have different effects on the distribution of after-tax income. It is no surprise the United States has one of the least progressive tax systems in the world, again increasing its rank on the inequality of income. As Figure 4.2 below demonstrates, the US ranks towards the bottom of the ladder in taxes as a percent of GDP, 25 percent below the average.

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8 Ibid., 12.

The effects of the United States’ low rates of taxation are actually compounded in the US versus other countries because the US provides comparatively little assistance in the aforementioned transfer programs. The OECD estimated that public cash transfers “substantially reduce inequality between market income and disposable income.”¹⁰ Even if income inequality is higher than average, most OECD countries implement transfer programs to ameliorate the effects. Levine goes on to state the OECD estimated that these

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governmental transfer programs were found to have reduced income inequality by one-fourth on average in the mid-2000s.\textsuperscript{11} Because the US does not provide the same amount of transfer program assistance as its OECD peers, the influence of the US tax system is much greater than it is abroad. This makes the fact that the US level of taxation is lower than all other OECD countries even more significant, placing the US in the company of only four other countries where taxes influence equality more than governmental transfer programs.\textsuperscript{12}

The third factor that Levine describes as placing the US in such an unequal position globally in terms of incomes is the level of variability from one country to another in the distribution of earnings. In other words, the US is far more unequal than other countries not only because it has fewer social programs and lower taxes, but also because the US has a bigger divide in the earnings between the top and the bottom. Regardless of social programs, wages make up the bulk of household income, which again is the main factor used in comparing one country to another. As the data listed in Chapter II demonstrates, the income gap in United States has been growing at an increasing rate, reaching historically high levels. It should be no surprise then the US income divide is comparatively larger than other countries as Figure 4.3 below illustrates. This adds to the reason the US ranks much higher on the scale of inequality indicators than other OECD countries. “The gap between rich and poor in the U.S. rivals that of developing nations, ranking America as a whole toward the bottom of the income
inequality barrel. Among developed nations, only Chile, Mexico, and Turkey have higher income inequality than the U.S. “13

Furthermore, the data becomes even more striking when you break down the comparisons to a city level. GlobalPost, an international news organization, conducted a special report with contributions by more than 20 reporters, photographers and videographers from every corner of the world. The purpose was to “match and compare

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American metropolitan areas with foreign countries that have similar levels of income inequality.\textsuperscript{14} The findings were sobering. Washington, D.C.'s Gini Coefficient (0.435) is slightly higher than Moscow's (0.420), while Los Angeles (0.485) compares to Beijing (0.480).\textsuperscript{15} When the cities' average incomes are taken into account “Bridgeport, Conn. -- home to the wealthiest county in the U.S. -- ranks alongside Bangkok on the Gini index, despite the fact that Bridgeport's average income per capita is $48,922, as compared to Bangkok's average income per capita of $9,400.”\textsuperscript{16} In both of these places, 60 percent of the income is earned and controlled by just 5 percent of the population. That translates, in Bridgeport’s case, “to a median income for that top 5 percent of over $685,000 a year, while the bottom 20 percent, clustered primarily in dismal slums like Bridgeport’s East End, take home about $15,000, US Census bureau figures show.”\textsuperscript{17}

Thus, as we compare ourselves to the world, the United States not only has the highest level of inequality among advanced industrial countries, but its level of inequality continues to grow. Since the 1980s, the US has outpaced its peers on the equality divide and despite its growing GDP, inequality lingers. While cities in the US may boast more total wealth when stacked against other countries' urban areas, the distribution of those


\textsuperscript{15} Davidson, "Global Income Inequality.”

\textsuperscript{16} Ibid.

\textsuperscript{17} Moran, “Income Inequality in the U.S. Rivals that of Developing Nations.”
riches is highly skewed toward the top. The trifecta of few income transfers (social programs), lower taxes, and high disparity of earnings has caused the US to grow dangerously far apart. As Joseph Stiglitz ominously points out, “We are now approaching the level of inequality that marks dysfunctional societies – it is a club that we would distinctly not want to join, including Iran, Jamaica, Uganda and the Philippines.”

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18 Stiglitz, *The Price of Inequality*, 34.
CHAPTER V
THE CONSEQUENCES

So far we have seen data that illustrates the American dream – a creed that hard work pays off – has begun to fade. We have seen that income inequality has grown, and is continuing to grow, to dangerously high levels. We have delved into some of the root causes: technology, globalization, trade, and governmental policy. We have compared the United States to those on the outside and discovered its trends are not global; that it is unique in this phenomenon. But we have not yet explored the most fundamental question surrounding the issue – why it matters.

There are repercussions to every phenomenon in society, and this one is no different. As we explored in Chapters I and II, the work-reward system is part of the foundation on which this country was built. The Founders were heavily influenced by it, incorporated it into our governing documents, and espoused it in their oratory and correspondence. There are consequences to such seismic shifts, and we must delve into what they are.

Intuitively, most Americans know that unequal societies do not function properly. When one group holds too much sway and influence over another, monopolies are born and laws become tilted in favor of a select few over the many. After all, the story of the American Revolution was of an oppressed class rising up against a tyrant. Yet, the confusing aspect about income inequality, as was alluded to in the Introduction, is that Americans are not sure a problem exists. Polls show that “many Americans are not
Concerned about the historically high degree of economic inequality that exists in the United States today because they believe that big gaps between the rich and the poor and, increasingly, between the rich and the middle class, are offset by a high degree of economic mobility.¹ They figure as long as they have a shot at moving up in society, the system is working.

However, contrary to popular belief, data shows the American economy has not been delivering for most citizens and this cherished belief in mobility is fraying. This chapter will show how this dream is coming apart in three very distinct ways. First I will relay how income inequality is affecting the attainment of education. Second, I will illustrate how income inequality is placing health care further out of reach of many Americans. Third, I will demonstrate how income inequality is eroding the rule of law.

Education

In 1848, Horace Mann, a pioneering American educator and the first Massachusetts Secretary of Education, declared, “Education, beyond all other devices of human origin, is a great equalizer of the conditions of men -- the balance wheel of the social machinery.”² Over 160 years later, President Obama’s Secretary of Education Arnie Duncan repeated that phrase stating, “In America, education is still the great

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¹ Hastings, Isaacs, and Sawhill, Getting Ahead or Losing Ground.

equalizer." Indeed, a core American value is that birth shouldn’t dictate your destiny and that each individual should have the opportunity to realize his or her potential. Yet, as we will discover, the rise in income inequality has had drastic effects on education. Long heralded as the traditional pathway to opportunity and upward mobility, educational attainment is closing for a growing number of Americans in low and middle-income families. The consequences are harmful not only for the sections of society but for the nation as a whole.  

According to Laura D’Andrea Tyson, a professor at the University of California, Berkeley and former Chairwoman of the Council of Economic Advisers under President Clinton, educational attainment rose steadily throughout much of the 20th century. Between the period of 1915 to 1975, the college completion rate quadrupled. Yet, parallel to the trajectory of income, it has been largely stagnant since. Tyson states the slowdown in college attainment levels has been most pronounced for individuals from low-income families. This is due in large part to the fact that these low-income families simply cannot afford a college education. According to Hal Weitzman of the Financial Times, “The cost of higher education in the US has soared in recent decades while median incomes have

3 Ibid.


5 Ibid.
stagnated, pushing college increasingly further from the grasp of many Americans and limiting social mobility.”

In just this past decade, tuition rates at public universities have risen 5.6 percent a year above inflation, while fees at private college have increased by 3 per cent a year. Combine that with the growing stagnation of wages and it is not hard to draw a direct correlation between income inequality and the decline of college education. Responding to a survey by the Pew Research Center, three-quarters of US respondents said college was now too expensive for most Americans.

Nevertheless, for those that do decide to attend college, they must incur large amounts of debt to compensate for not having the money to pay for tuition. According to another Pew Research Center poll, a record one in five households owes student loan debt. “About one out of five (19 percent) of the nation’s households owed student debt in 2010, more than double the share two decades earlier and a significant rise from the 15 percent that owed such debt in 2007, just prior to the onset of the Great Recession.” Moreover, this affects the lowest rungs of society the most. “Whether computed as a

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7 Ibid.

share of household income or assets, the relative burden of student loan debt is greatest for households in the bottom fifth of the income spectrum, even though members of such households are less likely than those in other groups to attend college in the first place.”

The effects of stagnating wages and increasing college tuition are compounded by the fact that a higher education is needed now more than ever to be successful. Due to the many societal changes listed in Chapter III like globalization and technology, the need for higher education is an imperative to attain a well paying job. According to a recent Georgetown University study, “The good jobs that do exist increasingly require higher education: Since the recession started in the U.S. in 2007, the number of jobs needing a college degree has risen by 2.2 million. The number of jobs for mere high-school graduates fell by 5.8 million.”

Indeed, the level of one’s education is strongly correlated to the level of income. According to Tyson, “in 1979, the average college graduate made 38 percent more than the average high school graduate. The comparable figure today is more than 75 percent.” And it is not just income that is affected, but social mobility as well. The Brookings Institute conducted a comprehensive report on US mobility and found that, “Besides affecting whether adult children earn more than their parents, educational

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9 Ibid.

10 Cooke, Ojha and Rhode, “The Unequal State of America.”

11 Tyson, "Income Inequality and Educational Opportunity."
attainment affects how adult children move up or down the income distribution relative to their peers.”

Without a college degree, 45 percent of children hailing from the bottom rungs of the economic ladder are destined to stay there. That is nearly one out of every two individuals who are statistically guaranteed not to move up in life unless they attain a college education. If you are in the top part of the economic ladder however, life is much cushier. Forty seven percent of those who come from families in the top income bracket remain there even if they don’t receive a college degree. For those individuals in the top bracket who do, they are 75 percent more likely to maintain their socioeconomic status with a college degree. As Figure 5.1 below illustrates, a college education is directly related to the chance at financial success and social mobility for low and middle class families.

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12 Hastings, Isaacs, and Sawhill. "Getting Ahead or Losing Ground."

13 Ibid.
The inability to afford college is of course only one of the end results of income inequality. The mal-effects of income inequality in education start very early on. According to Tyson, “during the last three decades the gap between the educational attainments of children raised in rich and poor families has widened dramatically, and it reveals itself remarkably early in children’s lives.” Utilizing data from recent census reports, Tyson states that about one-quarter of children under the age of 6 live in poverty, which research has shown to have negative effects on brain development. “At the age of 3, children in poverty have smaller vocabularies than their peers and a harder time sorting and organizing information and planning ahead.”

The cycle then continues to spiral downward as children in poor families are also less likely to have access to early-childhood education programs. As Tyson states, “Such programs have a proven record of raising future educational attainment levels, especially

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14 Tyson, "Income Inequality and Educational Opportunity."
for poor children.”\textsuperscript{15} Yet, due to reduced funding stemming from the recession, many states are cutting these programs even though they yield high rates of return. The disparities in educational achievement among children from different low-income groups then continue to grow with age. Tysons contends “Such gaps are larger in fifth grade than they are in kindergarten, and they continue to grow as children move through primary and secondary school.”

Income inequality thus affects educational attainment in a myriad of ways that compound and feed off of each other. It begins with early development then moves to early childhood education. Subsequently the effects of residential segregation set in as children from low-income families tend to live together and send their kids to the same schools. These schools become filled with classmates who have lower achievement levels and behavioral problems than children from affluent families. The problem is compounded by the fact that poor children are also disproportionately situated in schools that often find it difficult to attract and retain skilled teachers. So the downward path continues, placing those in the middle and bottom of the income bracket at a distinct disadvantage of attaining a good education.

All of these factors combine to widen the achievement gap and perpetuate the divide between rich and poor. The results are clearly seen in test results. In Massachusetts, despite a concerted effort to improve education with increased funding for public schools, the SAT gap between rich and poor persists. Children from lower income

\textsuperscript{15} Ibid.
families have improved their scores on tests over the past twenty years, but their results still lag far behind their peers who have upper income parents. “In the state's five wealthiest school districts, students had average scores ranging from 594 to 621 on the 800-point college-admissions test in 2009-2010. In the five poorest districts for which data are available, the SAT scores averaged from 403 to 469.”\textsuperscript{16}

Tragically, as was mentioned at the beginning of this chapter, the negative consequences of income inequality come full circle even if a child from a lower income family breaks the mold and does well in school. It will still incredibly tough for them to afford a college education. Reuters illustrated this fact well in a series focused on income inequality in Massachusetts, where income inequality is soaring in a state that boasts the best schools in the country. Reuters highlights two high school students who live just an hour apart. Tanner Skenderian grew up in the wealthy suburb of Weston just outside Boston while Curtis Dorval was raised in Gardner, a more working class town located an hour west of the city. Tanner and Curtis both did well in high school and were admitted into Harvard and Northeastern respectively. However, while Tanner was able to attend Harvard, Curtis knew Northeastern was too expensive and opted for the state-run University of Massachusetts Amherst. And yet, even with the help of a scholarship for graduating in the top quarter of his class, Curtis couldn’t sustain the tuition and dropped out to join the Air Force in hopes of utilizing the GI Bill to finish college.\textsuperscript{17}

\textsuperscript{16} Cooke, Ojha and Rhode, “The Unequal State of America.”
\textsuperscript{17} Ibid.
The consequences of income inequality are entrapping low and middle income Americans in a near unbreakable cycle. Income inequality and educational inequality feed off each other, destroying the one aspect of society that was seen as a sure fire ticket to social mobility. Tyson summarizes it well in stating “The United States is caught in a vicious cycle largely of its own making. Rising income inequality is breeding more inequality in educational opportunity, which results in greater inequality in educational attainment. That, in turn, undermines the intergenerational mobility upon which Americans have always prided themselves and perpetuates income inequality from generation to generation.”

Health Care

In a speech delivered in 1966 to the Medical Committee for Human Rights, Dr. Martin Luther King, Jr. said "Of all the forms of inequality, injustice in health care is the most shocking and inhumane." Nearly 50 years later, Dr. King would be aghast at the levels of inequality in health care, particularly as it relates to income. As I will display, poverty affects a person’s health and well-being in ways that go beyond just health care coverage. Research now links income disparity to stress and shows a correlation between neighborhood characteristics and health outcomes. Other studies have uncovered the connection between poor health and financial security. Clearly, income inequality is taking a massive toll on the health of many low and middle come Americans.

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To begin with, perhaps the most startling statistic is that for the first time in our history, children born in certain parts of the United States can expect to live shorter lives than their parents.\(^\text{19}\) While a variety of factors may contribute to this statistic, a study conducted by the US Senate Committee on Health, Education, Labor and Pensions states that “a growing body of recent data now show that poverty is the single biggest factor contributing to poor health outcomes, and as poverty becomes more severe, health outcomes become worse.”\(^\text{20}\) Due to the widening gap in income and the effects of the recession, 6 million more people live in poverty today than in 2004. The total is now 46.2 million Americans who live below the poverty level, with nearly a quarter of that figure being comprised of children under the age of 18.\(^\text{21}\) That means millions of children are at a higher risk of leading less healthy and productive lives because they are poor.

The ability to afford health care has immediate and long-term consequences on health. A study in the American Journal of Public Health determined that in the year 2000, 133,000 Americans died due to causes directly related to poverty. This figure is


\(^{20}\) Ibid., 5.

\(^{21}\) Ibid., 4.
comparable to numbers associated with some leading causes of death, including lung cancer, and the trend is only continuing to grow. 22

One of the clearest and most concise reports on the effects of income inequality on health was conducted by the National Center for Children in Poverty (NCCP). The NCCP is a public policy center dedicated to promoting the economic security and health of America’s low-income families and children. NCCP authors David Seith and Dr. Elizabeth Isakson investigated why poverty has such negative consequences for child health and broke down the causes into five different categories. According to Seith and Isakson “research suggests that poor health in childhood not only impedes early child development, but can also have lasting consequences on children’s future health and wellbeing.” 23 They assert that health disparities between poor and nonpoor children manifest within five identifiable domains of environmental health, health insurance coverage, access to healthcare services, behavior, and health outcomes.

Environmental health is particularly important because children are especially vulnerable to environmental toxins. During pregnancy, one of the most prevalent risks to neonatal health is smoking. Smoking during pregnancy increases the risks of low birth weight, preterm birth, and infant death. Seith and Isakson state, “poor mothers of children

22 Ibid., 5.

from birth to 15 years-old today were much more likely to smoke when pregnant than nonpoor mothers (24 vs. 15 percent).”\textsuperscript{24} This trend continues in lower income families once the child is born, continuing to expose children to second hand smoke. As Figure 5.2 below illustrates, “poor children are more than twice as likely as nonpoor children to live in a household with someone who smokes in the home (32 percent vs. 12 percent).”\textsuperscript{25}

Another environmental health hazard that disproportionately affects the health of poor children is lead. Children, as anyone who has interacted with a child will attest, frequently place objects form their surrounding in their mouth. As a result, infants and toddlers can ingest harmful substances like lead-based paint chips and lead infused dust. According to Seith and Isakson, “Despite significant reductions in lead poisoning throughout the 1970s, lead remains one of the most prevalent environmental toxins affecting children.”\textsuperscript{26} As the poor tend to live in older homes that have lead-based paint, dust and pipes, they become twice as likely as non poor kids to have lead in their blood.\textsuperscript{27}

\textsuperscript{24} Ibid., 4.

\textsuperscript{25} Ibid.

\textsuperscript{26} Ibid.

\textsuperscript{27} Ibid., 5.
Moreover, while tobacco smoke and lead are among the most common environmental health hazards, Seith and Isakson state poorer children are also at a high risk of exposure to a host of other substances. These include air pollutants from diesel fuel exhaust and incinerators, pesticides, and toxic compounds found in many plastic consumer products.\textsuperscript{28} The results of the exposure to these substances have direct effects on children in lower income families. “In addition to asthma and behavioral and cognitive functioning, exposure to environmental toxins has also been associated with higher incidences of obesity, and metabolic disorders such as diabetes, and cancer.”\textsuperscript{29}

\textsuperscript{28} Ibid., 5.
\textsuperscript{29} Ibid.
The second and third domain that disproportionately affects children from low-income families is health insurance coverage and access to health care services. Health insurance coverage is the primary means of accessing health care. Thus, a lack of insurance poses the greatest barrier to receiving necessary medical care. Sixteen percent of children from low-income families have no health insurance coverage, which is more than twice the rate of those from all other income brackets.\textsuperscript{30} According the Seith and Isakson, “Uninsured children are three times more likely to have an unmet health need than privately insured children.”\textsuperscript{31}

What is worse is that even with continuous insurance coverage, problems accessing the right kind of care persist among poor children. A 2011 study in New England Journal of Medicine cited that disparities exist in access to specialty care between children with private health insurance and children enrolled in Medicaid programs. Of poor children with health insurance coverage, more than three-quarters (77 percent) are covered by public plans and only nine percent are covered by private insurance.\textsuperscript{32} This equates to millions of low income children who lack access to specific types of care provided by specialists.

\textsuperscript{30} Ibid.

\textsuperscript{31} Ibid.

\textsuperscript{32} Ibid., 5.
Moreover, it not just specialists that the poor lack access to. Lower income children also do not have regular access to primary care physicians. Seith and Isakson argue that access to a family doctor and yearly check ups are key indicators that demonstrate a continuum of care and increase health outcomes. For low-income families, however, they are at a distinct disadvantage. “Poor children are less likely to have a place to go when sick and to have had a check-up in the previous year.”33 Primary care physicians grant children the benefit of preventive health care services like inoculations, which have proven tremendously effective in improving health outcomes. They prevent disease and illnesses such as “diphtheria, tetanus, pertussis, poliovirus, measles, haemophilus influenzae type b (Hib), and hepatitis b, and chicken pox (varicella).”34 Yet, as Figure 5.4 below illustrates, low-income families do not experience the kind of coverage and access to health care as nonpoor families.

33 Ibid., 6.

34 Ibid.
Figure 5.4: Physician care among poor and nonpoor children, 2009.


According to Seith and Isakson, behavior is the fourth domain that demonstrates the gap in care between rich and poor. “Epidemiologists estimate that behavior contributes to up to half of overall population differences in one of the clearest indicators of a healthy life – mortality.”[^35] For Seith and Isakson, behavior includes aspects of a child’s environment that influence things like regular exercise, a healthy diet, and the avoidance of harmful substances. “Behavior is viewed within an ecological framework as action influenced by individual, interpersonal, community, and social relationships, and not simply the result of individual choice.”[^36]

Nutrition is probably one of the most glaring examples of how behavior effects low-income families. There is a well-documented correlation between poverty and

[^35]: Ibid., 7.

[^36]: Ibid.
malnutrition, with the poorest areas in the countries containing the highest levels of obesity and diabetes.\(^{37}\) According to former US Assistant Surgeon General, Dr. Susan Blumenthal, this is because of “barriers faced by people living in poverty in accessing healthy foods, a lack of nutrition education, a dearth of safe environments for physical activity and recreation, and food marketing targeted to this population.”\(^{38}\) Dr. Blumenthal goes on to state there is population level data that clearly demonstrates quality of diet follows a socioeconomic gradient. People with higher socioeconomic status are more likely to eat healthier foods like “whole grains, lean meats, fish, low-fat dairy products, and fresh vegetables and fruit.”\(^{39}\) In contrast, families and individuals on the lower end of the income scaled consume more refined grains and added fats.

The correlation between income and obesity is fairly straightforward. Families with limited economic resources turn to food with poor nutritional quality because it is cheaper and more accessible. Access to fresh and nutritious food is limited or non-existent in low-income communities. “Instead of a supermarket,” Dr. Blumenthal States, “these neighborhoods may have an abundance of fast-food retailers and corner stores that


\(^{39}\) Ibid.
are stocked with products high in fat and low in nutrients.”

Additionally, Dr. Blumenthal points out that low-income families are often targeted by food marketers with advertisements encouraging the consumption of nutrient-poor foods. “In this environment, children in low-income families are especially hard hit, as evidence demonstrates that consistent exposure to such advertising increases the likelihood of adopting unhealthy dietary practices.”

Moreover, the negative effects of malnutrition are compounded by the fact physical activity is not performed as much in low-income communities. This is the result of exercise habits not being encouraged as much in poor families, particularly at a young age. Also, some low-income families live in neighborhoods where it is dangerous to play outside. As Heis and Isakson report, poor adolescents between the ages of 12 and 17 are much less likely than nonpoor adolescents to exercise at least three times a week for 20 minutes. As a result, lack of physical activity only fuels the obesity epidemic and other illnesses among the poor in America.

The last and probably most startling domain that Heis and Isakson contend illustrate health disparities between poor and nonpoor children is in health outcomes. While the previous four domains of environmental health, insurance coverage, access to

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40 Ibid.

41 Ibid.

42 Seith and Isakson, Who Are America’s Poor Children?, 7.

43 Blumenthal, “Poverty And Obesity.”
healthcare services, and behavior describe aspects that influence a child’s health, this domain is a straight measurement on health outcomes of the poor. In a sense it can be interpreted as the summation of the effects of all the other domains, including “parents’ overall assessment of their children’s health and health limitations, neonatal and infant health, asthma, emotional and behavioral problems that interfere with learning, and indicators of unhealthy body weight.”

Starting with a parent’s overall assessment of their kid’s health, parents of low income are much less likely to say the health of their kid is very good or excellent. Heis and Isakson state “research shows that self-rated health on a five-point scale from “poor” to “excellent,” is a reliable predictor of later survival, morbidity, and health care need.” Thus, these less than stellar ratings by parents of their kids is actually an accurate predictor they are not in good health.

Additional statistics that show health outcomes disproportionately affect low-income families include chronic conditions, which limit a child’s ability to take part in activities that comprise a healthy lifestyle like walking, playing, or sports. Heis and Isakson report that poor children are almost twice as likely to have a serious health limitation, which include “problems with vision, hearing, or speech; birth defects; injuries; developmental delays, including mental retardation; epilepsy; or asthma.”

44 Seith and Isakson, Who Are America’s Poor Children?, 8.
45 Ibid.
46 Ibid., 9.
Asthma stands out among these as it is the most common condition affecting children and the leading cause of hospitalizations. As Heis and Isakson state, the data consistently shows children in low-income families are more likely to have been diagnosed with asthma.\(^{47}\)

What is tragic about the fact that health outcomes are statistically worse in poor children is that health doesn’t exist in a vacuum. It has repercussions on the ability of such children to learn and get ahead in life. “When poor child health interferes with learning it detracts from children’s ability to achieve their fullest potential.”\(^{48}\) Learning disabilities like Attention Deficit and Hyperactivity Disorder (ADHD), which are reported at much higher rates among poor families, become significant obstacles to children’s academic and career achievements. This initiates a downward cycle, causing many children in low-income families to have poor self esteem, skip class, and lessen their ability to move up in life.\(^{49}\)

While I have focused above on the impacts of income inequality on child health, they are felt across every age group. Poor adults are twice as likely as affluent adults to have diabetes. Lower-income Americans between the ages of 18 to 64, regardless of whether they’re on public or private insurance, are also more than twice as likely to forgo

\(^{47}\) Ibid.

\(^{48}\) Ibid.

\(^{49}\) Ibid., 10.
needed health care, particularly preventive health services.\textsuperscript{50} Jim Mangia, President & CEO St. John’s Well Child & Family Centers in Los Angeles, sees the consequences of these facts every day. “We see thousands of cases where people develop debilitating and devastating conditions as a result of having no access to preventive care. We have seen many diabetic patients who lose limbs for lack of access to preventive foot exams and patient who lose their sight because they did not have access to preventive eye exams. Patients with cancer at its earliest stages often wait until they can access care in an emergency room to receive treatment, when the cancer has already advanced beyond the scope of treatment.”\textsuperscript{51}

What’s worse is that because lower income Americans lack access to health care and only receive treatment in the emergency room, they are subsequently saddled with massive amounts of medical debt they simply cannot afford. According to researchers at Harvard Law School, Harvard Medical School and Ohio University, the leading cause of bankruptcy in the nation is from medical debt. More than half of household bankruptcies in the US are caused by a serious illness or accident. The study cites that nearly two out of three bankruptcies stem from medical bills, and even people with health insurance face financial disaster if they experience a serious illness. As the authors state, “Middle-class

\textsuperscript{50} Sanders, \textit{Is Poverty a Death Sentence?} 3.

\textsuperscript{51} Ibid.
families frequently collapse under the strain of a health care system that treats physical wounds, but often inflicts fiscal ones.”

Ultimately, it is clear that income inequality has drastic negative effects on the health of Americans. The statistics are irrefutable. As Heis and Isakson state “the relationship between socioeconomic status and health is one of the most robust and well documented findings in social science.” And as we have seen above, the toll is particularly tough on children. By the time children in low-income families makes it through infancy, “childhood poverty has already inflicted a permanent toll on their health.” Among low-income children, rates of poor or fair health are seven times higher in poor families than upper income families, and their poor health conditions persist into adulthood. Even Americans who are considered to be “middle-class” are less healthy than Americans with the highest incomes.

This disparity runs against the foundation of fairness that Americans expect from our society. Health shouldn’t be dictated by socioeconomic status, but because of the growing divide in income, it is. People born in in the highest income bracket can expect to live, on average, at least 6.5 years longer than those at the bottom of the ladder. And

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53 Seith and Isakson, *Who Are America’s Poor Children?*, 3.

54 Sanders, *Is Poverty a Death Sentence?*, 2.

55 Ibid.,1.
similar to the pattern show above with education, the poor have little escape from this reality. Poverty detracts from resources used to maintain health, while poor health detracts from the educational and employment paths to income mobility. There is something seriously amiss with this picture, and unless action is taken, middle and low-income Americans will continue to be entrapped in this cycle of poor health.

The Rule Of Law

The last subject I want to examine to demonstrate why income inequality matters is the rule of law. This is going to be the more subjective of the three examples, meaning there is not as much statistical analysis and quantitative data. Yet, it bears exploration because like education and health, it touches upon the essential American values of fairness and opportunity. In addition, this has a more personal relevance as I worked on Capitol Hill for five years. As a staff member and policy advisory to four different congressmen spanning the country, I witnessed first hand how the wealthy and well connected seemed to have a distinct advantage in promoting their interests over those with lesser means. As the divide between the rich and the rest of society continued to grow, so did this advantage. While our Declaration of Independence may proclaim that all men are created equal, the income divide has begun to chip away at this cherished belief and skew government policies towards the wealthy.

To clarify, the title ‘rule of law’ could be interchanged with ‘politics,’ as this examination focuses more on the effects of policy makers who write the law as opposed to lawyers and judges who adjudicate it. While income inequality certainly may be
measurably affected by the legal system, I will instead address the aspects behind the purpose of our laws how they govern our society.

The rule of law is cornerstone of any democracy. Without it, order is lost and no one is held accountable for his or her actions. Yet, for the past three decades corporations at the top of the economic spectrum have been skewing laws in their favor at the expense of everyone else. While there are numerous examples to illustrate this fact, a recent incident that was well publicized was the British Petroleum Deepwater Horizon oil spill in April of 2010. Due to a brazen lack of safety standards, the BP Deepwater Horizon oilrig located in the Gulf of Mexico erupted and began spewing millions of barrels of oil into the ocean. Investigations into the spill were lengthy and the majority concluded that there was no ‘gross negligence.’ Yet, it was abundantly clear that the oil industry had lobbied the government to reduce regulatory measures and inspections that allowed the industry to save money, placing at risk every individual and business that would be affected by a spill.

As Joseph Stiglitz states, the purpose of the rule of law is to provide incentives for “each of us to avoid injuries to others – to their property, their health, and the public goods (such as nature) that they enjoy.” However, when those who cause harm to others don’t have to take responsibility for their actions, “they will have inadequate incentives not to injure them, and to take precautions to avoid risks of injury.” This is precisely

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56 Stiglitz, The Price of Inequality, 188.
57 Ibid.
what happened with the BP oil spill. Not a single action BP and its affiliates took was ever deemed illegal. Soon after the spill, President Obama appointed a commission of independent experts with the task of figuring out just what went wrong. The commission found that almost every one of the decisions made by BP and its affiliate was to save time and money, and that the entire incident was avoidable. “Notwithstanding [the risks of drilling], the accident of April 20 was avoidable. It resulted from clear mistakes made in the first instance by BP, Halliburton, and Transocean, and by government officials who, relying too much on industry’s assertions of the safety of their operations, failed to create and apply a program of regulatory oversight that would have properly minimized the risks of deepwater drilling. It is now clear that both industry and government need to reassess and change business practices to minimize the risks of such drilling.”

Granted, BP had to pay hefty fines and large settlements to the families and business of the Gulf Community who were affected by the spill. However, money doesn’t make up for what the affected individuals lost, and the fact still remains that BP was permitted to gamble the safety of individuals to increase their profit margin. As Stiglitz points out, “The success corporations often have had in avoiding the full consequences of their actions is an example of how they shape the rules of the economic game in their

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favor. As a result of laws that limit the extent of their liabilities, nuclear power plants and offshore oil rigs are shielded from bearing the full costs should they explode.”

The rule of law is also bent in other aspects of society like the mortgage industry. As was covered to in Chapter II, the concept of predatory lending and rent seeking are ways that the banking sector has skewed policy in their favor, placing at risk middle and low income Americans. In spite of a record of bad lending and poor credit practices before the recession, the US banking sector resisted suggestions of consumer protection laws. Then, when attempts to stop predatory lending were reaching federal and state legislatures, “banks used all their political muscle to stop states from enacting laws aimed at curtailing predatory lending.” The consequences are now well known and still wreaking havoc on our economy.

But how exactly does this relate to income inequality? Shouldn’t voting, particularly in a representative democracy like ours, balance the influence of the rich and corporate America with everyone else? Not necessarily. During the same time period that wages began to stagnate and the income divide between the rich and everyone else began to grow, so did the presence of corporate and business lobbyists. According to a study by a group of political scientists published by Reuters, “The number of organizations with a political presence in Washington - that maintain an office or are represented by lobbyists

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60 Ibid.
or lawyers - more than doubled between 1981 and 2006 to nearly 14,000.”61 These lobbyists work overwhelmingly for groups representing the top of society. “The study found that a great majority of those groups were devoted to furthering the interests of businesses.”62 Coming in far second were professionals who lobby for state and local governments, hovering at 12 percent. The rest of the organizations were a mix of other divergent interests, never comprising more than a few percentage points of the total presence in Washington. The most notable of these groups were those that advocated for the poor. At .9 percent, these groups came in second to last, just above groups lobbying for unions.

Reuters illustrated this fact well in telling the story of Sister Richelle Friedman, a 66 year old Catholic nun, who struggles to sway senators and congressman on the needs of the poor amidst all the power and influence of business groups. She runs the policy shop for the Coalition for Human Needs, a nonprofit that represents about 100 organizations dedicated to addressing the needs of low-income and other vulnerable populations. Sister Friedman contends that “the affluent have an inherent advantage on Capitol Hill.”63 They bend the ears of policy makers calcifying their interests into

61 Nelson and Ojha, "The Unequal State of America."

62 Ibid.

63 Ibid.
legislation while she has to “make the rounds every year at budget time to argue why things such as housing vouchers for low-income families should not be cut.”

Tax policy in the United States is a clear example of how those at the top of the income bracket influence the levers of government in their favor. According to a study by the New York Times, taxes have declined over the past 30 years across the economic spectrum. In other words, most Americans today pay less in taxes than they would have in 1980. However, while that might sound pleasant, these tax cuts have unarguably benefitted the rich at the expense of the poor. “There is no serious disagreement that the rich saved far more on taxes than any other group relative to their incomes.”

The New York Times study reports that households earning over $200,000 benefited the most for tax reductions as a share of income. Middle-income households benefited as well, with more than 85 percent of households with earnings above $25,000 paying less in total taxes than comparable households in 1980. “Low-income households, however, saved little or nothing.” Even though most low-income families pay little or no federal taxes, they are still subject to payroll and other taxes like sales and property

64 Ibid.


66 Nelson, and Ojha, "The Unequal State of America."

67 Applebaum, and Gebeloff, "Most Americans Face Lower Tax Burden Than in the 80s."
taxes. As a result, only half of households earning $25,000 benefitted from a reduction in taxes, and if they did the amount was negligible.\textsuperscript{68}

The Tax Policy Center, a Washington, DC based think-tank staffed by a mix of economists from both political parties, corroborated these findings. They stated that congress has cut taxes every year since 2001, and the benefits have unquestionably benefitted the rich. Two thirds of savings from the reduction in taxes benefitted those at the top of the income bracket, while the bottom bracket only received one percent of the savings. “In dollar savings, that's $371,000 for the top 0.1 percent of households in 2012, $958 for the middle and $66 for the poor.”\textsuperscript{69}

Again, tax policy is a clear example of how those at the top of the income ladder influence government leaders and bend the rule of law in their favor. Their influence is so heavy that taxes are seen as a sacred cow to legislators, further entrenching the divide between rich and poor by virtually outlawing one of the most direct ways to redistribute resources to the poor. In 2011, two well-respected and nonpartisan government bodies, the Congressional Budget Office and the Congressional Research Service, undertook studies of income inequality that lawmakers themselves requested. Both concluded that “a major driver in the years leading up to the recession was the growth in capital gains among top earners - but that tax cuts also reduced the equalizing influence of the income-

\textsuperscript{68} Ibid.

\textsuperscript{69} Nelson and Ojha, "The Unequal State of America."
The findings were so blatant that Republican lawmakers requested CRS retract the report because it interfered with their platform that lowering taxes increased overall prosperity. They also objected to another report by two other CRS economists that reached similar conclusions about the impact of tax cuts on the economy. The Republican leaders retorted these analyses overlooked evidence that ran contrary to these findings and were too partisan. However, after the addition of some of these contrary viewpoints, CRS reissued the report with the same findings that illustrated the direct connection between taxes and inequality.  

Yet, even with reports that demonstrate tax policy has overwhelmingly favored the rich, because of their influence the policies are likely to remain the same or change very little. This is especially true in light of the 2010 Supreme Court Decision in *Citizens United v Federal Election Commission*. This case amended laws governing campaign spending to allow corporations and unions to essentially pour as much money as they want into political campaigns. Since corporations have resources that vastly outnumber that of individual Americans or even organizations that espouse views contrary to

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70 Ibid.

corporate interests, “the decision has the potential to create a class of super-wealthy political campaigners with a one-dimensional political interest: enhancing profits.”  

Ultimately, these examples demonstrate that the rule of law is directly affected by growing income inequality. The top echelons of society influence our government leaders who write and implement our laws and regulations to favor their interests over people in the middle and at the bottom. They risk our safety, mobility, and general well being to generate profit. Growing inequality is beginning to warp our democracy and tilt the scales of justice. “Some may call it the “rule of law,” but in today’s America the proud claim of “justice for all” is being replaced by the more modest claim of “justice for those who can afford it. And the number of people who can afford it is rapidly diminishing.”

72 Stiglitz, The Price of Inequality, 132.

73 Ibid., 206.
CHAPTER VI
A CALL TO ACTION

I began this thesis reciting a belief that is embedded in the hearts and minds of every American. If you work hard, you will get ahead. Yet, as I examined this belief within the context of our society and the growing income divide between the rich and everybody else, the conclusion was inescapable. We are not the land of opportunity that we once were where hard work guarantees success. America is growing into a country where success in life is increasingly determined the status of one’s birth.

I illustrated this fact through data and analysis that showed current levels of income inequality rival the period before the Great Depression, and are actually getting worse. I investigated the main culprits and found there were many sources that shared the blame. Technology, globalization, decline of unions, trade, rent seeking – they all play a part. Yet, whatever the causes the story is clear: the rich are getting richer, the poor are getting poorer, and the middle class is being hollowed out.1 The disparity in income continues to spiral upward, reaching epic proportions. Over the last three decades the bottom 90 percent of workers have seen a growth in wages of only 15 percent, while the top 1 and .1 percent have seen respective increases of 150 and 300 percent.2

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1 Stiglitz, The Price of Inequality, 7.

2 Ibid.
shatter the American perceptions of equality and fairness. In 2009, just 400 families were worth more than half of all American households – over 100 million of them.³

I then demonstrated that the US is unique in this phenomenon. While other developed nations have seen increases in inequality, none match the persistent pace of the US. The US has the highest rate of income inequality among advanced industrial countries, and its levels are increasing in absolute relative terms.⁴ Today, almost a quarter of all US children live in poverty, likening us with countries far out of the realm of what most Americans would see as comparable, including Spain, Mexico and Korea.⁵

Most importantly, I highlighted the consequences of growing income inequality through the three facets of education, health care, and the rule of law. I demonstrated that a good education, from preschool to college, is no longer as attainable for many middle and low income Americans. They lack the access, which compounds throughout their schooling, dooming their chances of going to college. For those who break the mold, college is becoming increasingly out of reach and unaffordable in a time when it is vital


⁴ Stiglitz, The Price of Inequality, 21.

⁵ Ibid., 16.
for success. And even if they graduate, children in low-income families still fare worse than low achieving children of the rich.\(^6\)

I then depicted how income inequality affects health, statistically guaranteeing that low-income families will lead less healthy lives. Their environments, behavior, lack of access and affordability expose many middle and low-income families to hazards and prevent them from receiving the services they need. The outcomes of the poor are unequivocally worse than for those at the top of the income scale. America’s poor have a life expectancy that is nearly 10 percent lower than the rich.\(^7\)

In addition, I demonstrated how income inequality’s effects on education and health care are cyclical, inhibiting mobility for middle and low-income Americans. By making education and health care increasingly unattainable, income inequality denies the middle and lower classes the ability to lift themselves up. In other words, increasing income inequality lessens mobility, which increases inequality, which in turn lessens mobility. This dynamic all but guarantees a permanent underclass, trapping many Americans in their socioeconomic status. This also is true comparatively, as statistics show an American child’s future income is already more dependent on his or her parents’ income than a child born in most other developed countries.\(^8\)

\(^6\) Ibid., 19.

\(^7\) Ibid., 14.

\(^8\) Tyson, "Income Inequality and Educational Opportunity."
Lastly, I showed how the income divide is jading our democracy and tipping the scales of influence into the hands of a very select few that are rich. Those with means shape the rules of the game in their favor to maintain their means at the expense of everyone else. This is particularly damning as the effects of income inequality on education and health care illustrate, changes in federal policy are desperately needed. The voices of the middle and lower classes need to be heard, and the rule of law is supposed to give equal weight to their concerns.

However, this is not an inescapable or unsolvable problem. Income inequality has not grown to such proportions that there is no going back. It is just that the United States has reached a tipping point, and without decisive action it will do permanent damage. The solutions to growing income inequality are as complex and controversial as their causes. But the risks of doing nothing far outweigh any difficulty in addressing the crisis. While this thesis is not a prescription on how to reverse the trends of inequality, I believe it provides a great place to start.

First, is admitting there is a problem. Americans must acknowledge that equality and opportunity are in decline, however inconvenient that may be. This sounds simple but it isn’t – Americans have a general perception that their country is exceptional and cannot possibly be falling behind in the world. While justified by a historical resiliency that has guided the country through extraordinarily difficult times, the perception certainly does not mean the US invincible. Ignoring the problem of income inequality and pretending the crisis will fix itself will only allow the United States to continue spiraling
downward, lessening standards of living and further polarizing the divide between the rich and everybody else.

Second, is to take action. Again, this thesis is not a prescription on the exact methods to reverse income inequality. Discussions of such policies could serve as individual theses themselves. But the examples listed above of how income inequality affects education, health care, and the rule of law provide glimpses into the types of actions needed to ameliorate these negative effects. They include a more equitable tax system, increases in the minimum wage, campaign finance reform, comprehensive education reform, college tuition assistance, improvements in corporate governance, health care reform, employment training, job creation and a general increase in social assistance programs.

A mere mention of these policies will ignite debate and controversy among many Americans and especially our political leaders. But this thesis is not an attack on the capitalism, the rich, or a mouthpiece for a certain political party. Success should be praised and there is nothing wrong with doing well. My focus was instead on showing that the chances of attaining success are dwindling for many Americans, and income inequality plays a massive role. This thesis was to demonstrate that income inequality is fraying the social fabric that our Founders instituted and that Americans continue to praise; that if you work hard you should get ahead – no matter where you come from.

Surely the decline of this American dream is cause enough to take action, even action that is difficult, inconvenient, or uncomfortable. As President Obama said in his
2012 State of the Union, “We can either settle for a country where a shrinking number of people do really well while a growing number of Americans barely get by, or we can restore an economy where everyone gets a fair shot, and everyone does their fair share, and everyone plays by the same set of rules. What’s at stake aren’t Democratic values or Republican values, but American values. And we have to reclaim them.”
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