Don't Blame the Billionaires

Who cares about the excesses of the rich? It's the fate of the poor that matters.

DALTON CONLEY | *December 15, 2009*

When I was growing up, my mother used to sing me the old adage, "The rich get richer and the poor get poorer," before hastening to add, "And it's all Ronald Reagan's fault." Because I had campaigned for Jimmy Carter as a wide-eyed 11-year-old, this was one of the few maternal claims that I did not dispute in my adolescence.

In decrying the rising inequality of the 1980s, my mother was speaking from a long tradition, extending back at least a century, of progressives shaking their fists at economic disparities. During the 1970s, just as the midcentury compression of economic difference was ending, philosophers and social scientists were becoming concerned with the issue. In 1971, philosopher John Rawls penned *A Theory of Justice*, his magnum opus arguing that social policy should be based on the imperative to narrow the difference between the welfare of the most and the least well-off in society. The following year, sociologist Christopher Jencks and his colleagues authored a book titled *Inequality*, in which they argued that attempting to promote the American dream of economic mobility was futile and that if we were truly concerned with equal opportunity, the only real solution was to lessen inequality.

Maybe it was rapidly rising living standards that stimulated such interest in the issue of inequality back then. Like environmentalism, worries about inequality are a luxury that folks seem to indulge in when they are flush. When times are hard -- like now -- families are too worried about their own finances to be concerned about how the Joneses are doing. One study shows that while for Europeans, inequality truly makes them less happy, in the United States only the moods of rich leftists are adversely affected.

My mother was, in fact, only half correct when she quoted the old saying about income polarization. In the United States, the family that is richer than 90 percent of Americans reaps incomes that are between five and six times larger than the family that is better off than only the bottom 10 percent. (In Sweden the rich are about 2.5 times wealthier than the poor; in the Netherlands they are about three times wealthier; and in Great Britain they are approximately 4.5 times wealthier.) If we stop here, we might conclude that my mother was right about the rich getting richer and the poor getting poorer.

But the truth is that the rich have gotten richer, full stop. If we break down this 90-to-10 ratio into two parts -- how the top is doing relative to the middle and how the middle is doing relative to the poor -- we find that the growth in inequality has been almost all concentrated in how much better the top percentiles are doing than the middle. The poor have for the most part kept pace with the middle class (whose incomes have been fairly stagnant), but both those groups have watched their proportional share of national wealth dwindle as the upper end has broken records for income growth. However, the rising share of national wealth held by the richest 10 percent of Americans has recently hit a wall and declined from the 2007 peak (which matched the 1929 peak). But should my mother cheer this news? Are we better off? It's the fate of the middle and lower classes that should concern progressives, not how many private jets the super rich can afford.

As for blaming Reagan? As much as liberals would like to think so, rising inequality is not his fault. It's not even George W. Bush's fault. Nor is it his father's fault. The sharpest rise, in fact, occurred on Carter's watch. Much more important are factors well beyond the control of politicians: globalization, immigration, demographic shifts, and changeover to a knowledge economy.

Inequality -- and its consequences -- is the wrong target. It's time for progressives to spend less time trying to prove the effects of inequality on health, growth, and politics and instead start focusing on opportunity for those shut out entirely.

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For liberals, it is self-evident that inequality has bad consequences for society as a whole, from health to the economy. Meanwhile, since the Scottish Enlightenment conservatives have argued that inequality is the engine of progress: Differential rewards lead to ingenuity, industriousness, and innovation. But social scientists have long struggled to determine the effects of inequality because it is impossible to study in any systematic way. We can't do experiments to assign some communities to enjoy (or endure) greater equality than others. In lieu of some grand economic experiment, many scholars have focused on comparisons over time and across places.

A few years ago, there seemed to have emerged a cottage industry on the deleterious effects of economic inequality on health. While it has long been established that there is a class gradient in health -- poorer folks are typically less healthy than the well-to-do -- it has been much more difficult to resolve why this is so and whether the degree of societal inequality itself has an effect on health. The "weak" case is that it's worse for your health and longevity to be poor in a society where the rich are really rich; the "strong" case is that even if you are rich, equality is better for your health.

Early research found that folks in more equal Sweden and the Netherlands were healthier than we here in the United States and our Anglo brethren in the United Kingdom and Australia where inequality is higher. However, the easy rejoinder is that whatever it is that produces that equality -- racial homogeneity, culture, powerful trade unions -- is also causing health. To get around this, researchers have used comparisons over time within countries, but it's not like inequality is driven up and down randomly like the weather. So whatever is affecting the level of economic differentiation could also be affecting health, whether that's government policy, immigration, or fertility.

Other studies have shown that U.S. states with more inequality are less likely to be healthy. But what really makes the difference between states are policy differences -- like minimum wages, welfare rules, ease of divorce, and speed limits -- which suggests that, like countries, whatever states do to produce equality also produces population health; equality itself does not produce better health. To tackle this possibility, other researchers have delved into ever more local levels -- metropolitan areas, counties, even Census tracts. But there is always an alternative explanation. Even unequal neighborhoods tend to differ from more equal communities in terms of their real-estate trajectories, school taxes, and so on.

The cottage industry of inequality-health studies was stopped in its tracks (or should have been) in 2002, when a couple of economists, Jennifer Mellor and Jeffrey Milyo, showed that inequality is not causally related to the health of a population, although individual incomes are related to individual health. Being poor is bad for your health for a whole host of reasons ranging from lack of adequate preventative and curative care to stress to bad behavioral choices, but being unhealthy has nothing to do with other people's incomes.

That diagnosis calls for a different policy prescription than the inequality-health link does: increasing economic growth and opportunity at the bottom.

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This brings us back to where we started. Is there a trade-off between equity and growth as most traditional economic models suggest? Or are they complements, as economist Paul Krugman argues when he links the Great Compression (the post?World War II dip in inequality) to the robust middle-class growth of the period?

Conservatives have taken it as an article of faith that high capital-gains tax rates and a progressive income-tax erode the incentive for the rich to do good with their money (start businesses, invest, or donate), while shoring up the bottom end of the income distribution softens the need to work. What's more, taxes, even redistributive ones, cause a deadweight loss for the economy as a whole. In other words, government policies that reduce inequality slow the growth of productivity.

It is indeed feasible to claim that a generous dole blunts the need or desire to drag oneself out of bed to clock in at a low-wage job. However, the claim that higher marginal tax rates or corporate levies slow growth through decreasing incentives to innovate and invest is quite controversial, to say the least. The rich can only consume so much. They could invest elsewhere if marginal tax rates were lower, but offshore tax havens aside, ultimately they have to pay Uncle Sam. Besides, most of the developed world is less pro-business than we are. And the developing world already has enough to offer with its supply of cheap labor.

The debate about the economic incentives of progressive taxation and direct effects of inequality on growth is really beside the point, anyway. How we spend revenue is much more important than how we raise it. Investments in research and development, infrastructure, and other public goods with high returns are likely to lead to increased economic development. It's also probably fair to say that taxation that leads to consumption or waste is a huge drag.

What's up for debate is the vast middle ground: Do investments in health care or education also generate economic growth? Certainly progressives have a strong case when arguing that a healthy, well-educated population pays for itself in the long run. But that calls for an opportunity agenda -- -preventative health care, oral health, clean air, education from early childhood on through post-secondary schooling -- not a focus on ending inequality. These are just a few of the investments we can make whose efficacy and value are backed by good social-science evidence.

Even given the recent economic slump, America is quite a wealthy nation. Back in the 1930s, inequality was still just beginning to decline from its 1929 peak, but Hoovervilles were erected because people needed to eat. Today -- barring a recurrence of the Dust Bowl thanks to global climate change -- most of us will not suffer from material hardship in the way that our grandparents may have. There is enough shelter in America. Almost everyone has access to clean drinking water and electricity. There is enough (or even too much) food.

In other words, today's crisis is not a productivity problem. All the same, the demands upon the social contract in an affluent, unequal society are all the more impossible to satisfy. That's because with our basic needs satisfied, our aspirations turn to relative desires -- which by their definition cannot come true for all. The major sources of economic anxiety today relate to goods and services that often convey status distinctions. There's the $5,000 gas grill, which is an example often used by economist Robert Frank (who addressed this issue in the *Prospect*'s April 2009 cover story, "Post-Consumer Prosperity"). More consequentially, there's housing and college tuition.

So if we are not willing or able as a society to rein in economic inequality, then one alternative model aims to make socioeconomic disparities less important by ensuring that a basic, high-quality floor of opportunity is available in areas such as housing and education.

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We could choose to do nothing about inequality. After all, the yawning gap between rich and poor has not led to protest marches. It doesn't appear to be causing bread shortages. And it's highly debatable whether it has any effect on our physical or mental well-being. But economic inequality does not exist in isolation: The elite also wield disproportionate influence on the political process. Where money intersects politics, inequality perverts democracy -- and by extension, the public interest.

The lion's share of attention about the corrupting effects of inequality on politics has been focused on issues like campaign donations that grant plutocrats access to politicians. But big money tends to find another way to keep flowing once we put the public thumb over a given spigot, whether through campaign-finance reform or lobbying bans for ex-government workers. Sometimes combating the negative effects of inequality requires thinking politics rather than economics. One way to fix a political system that kowtows to rich donors at the expense of the public good is to amplify the power of small donors who came out in record numbers during the last election. Many localities, such as New York City, already do this through very generous matches on the order of 6-to-1.

Or we could bring back old-fashioned shoe-leather politics by making districts much more local. Today, the average congressperson speaks for about 700,000 Americans. Back in 1790, the ratio was a mere 60,000-to-1. In 1913, it was roughly 200,000-to-1. If we were to restore that proportionality of representation, campaigns would be cheaper, the political value of donations would greatly decrease, and the salience of grass-roots campaigning would rise dramatically. In proposing such a reform, political scientist Jacqueline Stevens points out that nothing in the Constitution stops us from increasing the ranks of Congress as long as each member speaks for at least 30,000 people.

Nowhere is the linkage between inequality and political power starker than in the realm of finance -- now one-fifth of the nation's gross domestic product. The so-called regulators have been totally captured by the regulated, and the notion of the free market has become risible in the very geographic center of global capitalism. Hence the unusual alliance between the far left and the far right in opposing last year's bank bailout. Even if very few voters actually comprehend the messy details of the greatest political swindle in history, at least the public smells something fishy on Wall Street.

The answer, then, is to not decry inequality in and of itself. That's a losing proposition in the United States. Anyway, it distracts from the real issue: opportunity. Whether that's the inadequate health care that the poor disproportionately receive, the dearth of human capital investment at the bottom, or the lack of political voice that most of us have, the game itself is hardly fair in America. Overhauling this rigged system -- not decrying its winners -- is a much more effective (and politically wise) strategy to ensure a prosperous and just society for all.

In essence, I am arguing for exactly the opposite of what Christopher Jencks advocated in *Inequality* 37 years ago. Whereas he and his co-authors ultimately resigned themselves to unequal pathways and thus focused on relative shares of the pie, instead, I maintain that inequality is epiphenomenal as long as we focus on maximizing opportunity for all. Let's worry about making sure the circuitry of the American dream isn't shorted, rather than whether some folks draw more current from the grid.

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