

Inequality offensive

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David Autor, professor of economics and associate head of MIT's Department of Economics, left, with Institute Professor Peter Diamond at Tuesday's forum.
Photo: Peter Dizikes

Economists have measured America's growing wealth gap in great detail: by income, educational attainment, and in terms of the country's declining social mobility, among other metrics. At an MIT forum on Tuesday night, however, economists suggested the issue matters for an overarching reason that's slightly harder to quantify: Inequality, they said, constitutes a threat to America's values and political system.

"If there's any national religion that we have, it's the religion of meritocracy, the belief that people get where they end up in life because of hard work and playing by the rules," said moderator David Autor, professor of economics and associate head of MIT's Department of Economics. "That's a very powerful belief system to have ... it makes people say, fundamentally, 'I can accept the outcome I get, because it's

not arbitrary, it reflects some kind of justice.”

By contrast, Autor noted, a decline in opportunities for advancement threatens to undermine that confidence. “If rising [inequality](#) makes our society more dynastic, less determined by what you do and more determined by choosing the right parents, that’s harmful ... the system is not rewarding [those] values and virtues.”

Inequality can also distort the ways political decisions are made, noted Peter Diamond, Institute Professor and professor emeritus of economics at MIT.

“Given the way we organize Congress and the presidency, [corporations and individuals] with a lot of money ... have a lot more of an impact on policies,” Diamond said at the event, “Minding the Gap: A Conversation about Economic Inequality,” hosted by MIT’s Technology and Culture Forum. In this sense, he added, inequality is not just a symptom of larger economic or social problems, but a problem in itself.

College as a dividing line

To be sure, the basic numbers on economic inequality in the United States are striking, as detailed at the event. In 1980, the top 1 percent of U.S. households earned about 10 percent of the nation’s income; today that top percentile receives about 25 percent of income. The top 10 percent of households accounted for a bit more than 30 percent of income from World War II until about 1980, but now receives 50 percent of all income.

And among the top 1 percent of households, 70 percent of income stems from returns on capital — the assets they already own — whereas for all households, only 20 percent of income comes from capital, noted Arjun Jayadev, an economist at the University of Massachusetts at Boston.

This income inequality often manifests itself in educational inequality, which in turn helps perpetuate the divisions in society; 82 percent of children in the wealthiest quartile of households obtain a college degree, compared to just 8 percent of children in the bottom quarter.

“College really begins to be a dividing line in terms of things like family formation,” said Frank Levy, the Daniel Rose Professor of Urban Economics in MIT’s Department of Urban Studies and Planning, noting that wealthier people are more likely to marry and have children.

With this in mind, Levy added, Republican presidential candidate Rick Santorum’s recent remarks on the subject — he called President Barack Obama a “snob” for promoting the idea that all Americans should attend college — “speak to a real and deep resentment.”

Mixture of solutions

To be sure, identifying the inequality problem is easier than resolving it. But the panelists all suggested that certain policy initiatives, if implemented, would help address the issue.

Diamond’s own policy wish list features items designed to help an economy that, in his view, remains in an “incredibly awful” position. He called for more infrastructure investment — which he noted would be a relative bargain at the moment, given the country’s very low borrowing rates — and further investment in education.

The latter, Diamond emphasized, does not require a search for elusive “shovel-ready” spending projects, but could be accomplished by the federal government providing aid to school districts so they could re-employ some of the thousands of teachers laid off during the recent downturn.

“While we also know that merely throwing money at the [education] problem won’t solve it, taking money away from the problem is unlikely to solve it, yet that is exactly what has been happening in state after state as they deal with the fallout from the financial crisis,” Diamond said. “We need the federal government to pump more money through the states and local governments into education.”

Diamond also pointed to some of his own recent research, with economist Emmanuel Saez of the University of California at Berkeley, which found that the optimal marginal income tax rate on the highest earners — those making \$400,000 or more per year — is well above the current 36 percent, or even the 39 percent level that existed during the 1990s.

“The Washington debate right now is between the Bush and Clinton tax rates on the top,” Diamond said. But his work with Saez shows that a more efficient rate for raising revenue — without significantly deterring the wealthy from trying to earn more — is “somewhere between the tax rate at the top in Reagan’s first administration, which was 50 percent, and the tax rate at the top from the Johnson years up to the Reagan change, which was 70 percent.”

A few of the panelists also emphasized the need for improved education at the community college level, and for providing job-training opportunities for high school graduates affected by the movement of manufacturing and technical jobs overseas. All of them emphasized educational improvements, at every level of school, as a way of helping to restore a society with a reasonable equality of opportunity, though not necessarily of outcomes.

“The playing field is tilted right from the beginning, and it’s very hard to avoid that,” Levy said. “That’s not going to stop.” Through education, he added, “You have to do things to try to even up [opportunities] for kids

who don't have access to as much.”

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