Income Inequality and its Repercussions for Us

By: Rochie Saks

Income inequality as an economic concept is central to the distribution of our nation's wealth and to the personal wealth and poverty levels of all individuals. But does it affect us in a real way in our day-to-day lives? What is the difference between income inequality and an absolute state of poverty? Is the income level at which we live, in our control, or a product of our surroundings? Have these factors affected us in positive ways, i.e. are we richer now than our ancestors of 100 years ago?

The controversy of income inequality in modern-day America is a great one. There are convincing arguments for both ends of the spectrum: Some say that income inequality is the main cause of our nation's problems, while others believe that it is largely insignificant. Harvard and Berkeley Universities conducted a study to investigate this issue. They wanted to discover if social issues like crime, welfare, and poor education as well as the phenomenon of higher death rates are connected to income inequality or if they are associated with a lower standard of living. The universities learned that income inequality is directly correlated, and not the lower living standard.

It is well known, especially among health professionals, that the poor have higher death rates and more health problems than the rich. In a 1986 study, researchers found that poor white men had 6.7 times the death rate of rich white men and poor black men had 5.4 times the death rate of rich black men. With results such as these typifying all studies done on the subject, the question must be asked. Why, in a society where science, technology, safety, public education, and prosperity are all growing, are poorer people still living in such a lower state of health and mortality?

The most obvious answer is that the poorer sections of society cannot afford the health care richer people can. Especially preventative health care, as this naturally takes a lower place on the list of financial priorities for a poor person. There are, however, a myriad of additional causes of the health problems of the poor. Their residences and places of employment are in more toxic environments and they eat lesser quality foods. They are exposed to greater dangers and risks and cannot afford the comforts and safety features that make safer living easier. They have stronger forms of stress involved in their basic survival; and are less educated about the things that would help them live longer and healthier.

The above view is that which is taken by the mainstream members of society; however, there are those who interpret the situation differently. Conservatives point out that correlation is not causation, and say that it is possible that the people who suffer from these health and social problems will by nature earn lower incomes. Poverty does not cause poor health, poor health causes poverty. This means that people who have poor health are less productive as workers and are therefore paid less. Another possibility is that external factors may cause both the poor health and the poverty. For example, the same lack of education that keeps the poor uninformed in health matters also prevents theirs chances to obtain the best paying jobs. Laziness, substance abuse, and other moral shortcomings could also have a depressing effect on both incomes and health.

When trying to determine which opinion is the correct one, it is important to remember that the second two views attribute the cause to the individual, and not to the general social economic situation. Consider the enormous jump made in life expectancies and living standards over the past two hundred years. It would be highly bizarre to a credit this to a sudden change in individual human morals, habits and work ethics. This upward trend demands a social explanation; it is not the result of isolated individual behavior. Human nature has not changed, society has. Societies as a whole, as well as its institutions, ranging from scientific to economic to political systems, have been affected by the progresses made in the past two centuries. It is far more reasonable to state that these changes took place as a result of advances in social causes and social programs, and not due to individual personality alterations.

If poverty is indeed essentially a murderer, then the issue of income inequality needs to be looked upon differently. A society that allows high levels of inequality is in essence killing its own citizens. Conservatives defend their position by saying that the living standards of the poor have continually risen, so if the rich are growing richer by comparison it should be insignificant. They base their claim on the idea that we do not live in a zero-sum economy, and that a poor person with a smaller portion will benefit if proportionally everything grows. Two important issues are necessary to examine relative to this concept: that of relative poverty and absolute poverty.

Relative poverty introduces the idea that a person is poor relative to others, i.e. how large is his slice of the economic pie. Absolute poverty measures the actual size of the slice itself, not compared to anything else. Income inequality refers to the relative difference between the growth of the income levels of rich and poor people. To better determine where the real cause lies, it is necessary to take a closer look at how income inequality is linked to health and other social problems.

In 1996, Harvard and Berkeley conducted independent studies that examined income inequality in all 50 states. Both studies found that states with higher income inequality share the following social problems: Higher death rates for all age groups, higher rates of homicide, higher rates of violent crime, higher costs per person for police protection, higher rates of incarceration, higher rates of unemployment, a higher percentage of people receiving governmental income assistance, a higher percentage of high school dropouts, less state funding spent per person on education, resulting in poorer educational performance, higher infant mortality rates, higher rate of heart disease, higher cancer rates, a greater percentage of people without medical insurance, babies born with low birth weight, the population unable to work because of disabilities. A higher proportion of the population using tobacco, a higher proportion of the population being sedentary, higher costs per person for medical care. The correlation between income inequality and mortality rates was significant as well.

In both studies, the researches also looked to see if the average or median income of each state was a tool in predicting its mortality rate, however, they were not. Income inequality in each state proved to be meaningful though, even after accounting for such factors as smoking and drinking rates, household size, and household income. The latter factors are especially important, as they show a connection with relative poverty in addition to absolute poverty. Dr. George Kaplan, the lead researcher of the Berkeley study, says: “People might assume that states with higher income inequality have more poor people, and we know that poor people have higher death rates. [But] the evidence in these two studies suggests that the increased death rates in those states are not due simply to their having more poor people. Income inequality seems to be increasing mortality rates among non-poor people as well, and we are investigating that possibility.” Kaplan went on to say that “this effect on health wasn’t just happening to poor people; middle class people were affected too. When we accounted for income differences, there was still a strong relationship between income inequality and mortality rates.”

A practical example of the above would be the following scenario. Picture a perfect society where everyone makes $50,000 a year and is guaranteed a life expectancy of 75 years. Now add income inequality to this equal society, so that it proportionally grows and shrinks. Whereas beforehand 100% of the population earned $50,000 a year each, now one third make $35,000, one third make $50,000 and one third make $65,000 yearly. One would imagine that the mortality rate should remain 75 years, as the lower poorer rate would be balanced by the new, higher richer rate. However, that is not the case. The poor do lose years off of their expected life span, but so do the middle class. The new life expectancy will be around 72 years of age. These figures are supported by both the Harvard and Berkeley studies and European nations. The European countries proved that with higher taxes and better-funded social programs to help alleviate poverty, the income inequality gap lessened and the mortality rate was more equal.

The question must be asked, however: Why do the above numbers work as they do? What causes the income inequality gap to have the devastating effects it does? According to the liberal point of view, in an interdependent society, the weakening of one section weakens the whole society. This would explain why states with greater inequality have greater health and social problems among both the poor and middle classes. Dr. Kaplan suggests, “Income inequality affects all segments of the population because it affects rates of violence and disability, as well as public spending on police protection, education, welfare and health care.” It is also probable that the average statistic in states with greater inequality drops because losses among the poor are not fully compensated with gains among the rich. For example, there comes a point at which acquiring more money will not affect one's health. If an affluent individual already has a top-quality health care plan, he will not benefit health wise from his salary increase. However the poor person who lost the money will likely have to cut his level of health care, or may have to stop his health care plan altogether, which will negatively affect his mortality. It is interesting to note that the fact that higher death rates affect the middle classes is proof that the social and health problems are not the cause of the lower income, as some conservatives say. In fact, the lower income is the cause of the health problems.

In addition, historical data does not evidence the idea that low incomes are the result of people suffering from health problems or personalities that are criminal, addictive, lazy, or hostile to education. Proof of this claim is that the changes in income inequality are too rapid, too drastic and too localized to be attributed to character changes and social habits in people, especially when they are the same people.

For example, between 1980 and 1990 the index of income inequality showed a major increase. Can one really say that the personalities and morals of the poor considerably worsened in one decade? To believe such a thing would be absurd. It is therefore necessary to attribute the incredible economic changes to the rapidly changing economic policy of that time.

During the 1980's President Reagan greatly reduced the top tax rate for personal income from 70 to 28 percent, allowing income to remain among the wealthy. In 1983, payroll taxes were raised on the working poor. And even more, between 1980 and 1993, family welfare payments were reduced from $350 to $261 per month, which resulted in a 25% decrease. These are obvious reasons as to the growing income inequality during the 1980s.

It is now obvious that income inequality is detrimental to society, and that poverty has far-reaching effects that extend beyond the individual who is experiencing it. But how can this be changed? What can be done about poverty in America, a civilized country? There are those who believe that economic growth can reduce poverty. Michael

Roemer and Mary Kay Gugerty conducted extensive research for the Harvard Institute for International Development to examine this idea and to answer these age-old questions.

In their study, Roemer and Gugerty analyzed the relationship between economic growth and poverty alleviation. They were successful in proving that "economic growth is positively associated with reductions in poverty, and that openness and sound macroeconomic management are associated with higher growth and therefore with reductions in poverty." The effective strategies for reducing poverty are outlined in their research, with the main emphasis being on strong economic growth. It is highly difficult for growth to occur without a reduction in poverty, as the two go hand in hand. But what is poverty? How is it defined and measured?

The common welfare approach toward the measurement of poverty as used by economists, assumes both that individuals know what is best for them and that monetary measures of consumption or income can serve as an indicator of well-being. Using this approach, the analyst defines a poverty line as a level of income, and all those under that line are considered poor. Under an alternative non-welfarist approach, standards of nutritional or other basic human needs are defined by the observer, who then estimates the income level needed to satisfy those needs. That required level of income becomes the poverty line. In either case, poverty means living below the level of a preset standard.

An interesting idea to examine is that of what it means to be poor relative to the times in which one lives. It is said that the twentieth century has been, above all, the century of increasing material wealth. The growth in the wealth of the industrial economies over the twentieth century has been unprecedented compared with all other economies and all previous eras. America's population today have standards of material comfort that greatly exceed what the richest of previous centuries could only dream about. This intense rise of standards is, according to J. Bradford DeLong, "the most important characteristic of twentieth century economic history…is also surprisingly difficult to grasp."

The comforts that have become so basic to us and to the way we live did not even exist a century ago. Computers, cars, telephones, wireless technology, VCRs, DVDs, washing machines, dishwashers, vacuum cleaners, and countless additional technologies give the regular American citizen a degree of material wealth. The advent of mass production makes such products truly accessible. The chasm between our standard now and that of 100 years ago is so great that it is hard to just imagine what it really means.

DeLong illustrates the difference between the costs of products in 1895 and 1997, relative to hours needed to work to earn the commodity. For example, a bicycle in 1895 cost $65 if ordered from the Montgomery Ward catalog. The actual dollar price of the bike has only doubled in the past 100 years, however if one measures the real price, i.e. the labor needed to produce the item, it is easy to see how the price has dropped.

In 1895, it took around 260 hours of the average American worker's labor to amass enough money to buy a one-speed bicycle. Today the average American can buy a one-speed bike for less than the value of one day's work. In terms of labor power, bicycles have become 36 times cheaper over the century. On the bicycle standard – measuring wealth by counting up how many bicycles it can buy – Americans today are 36 times richer than they were in 1895. Other commodities would paint a different picture. An office chair with cushions is only 12 ½ times cheaper, while a Steinway piano or accordion is only twice as cheap.

In answer to the question of how much wealthier are we today than our counterparts of a century ago, it depends on which set of commodities we view as central and important. If one values personal services, such as having a butler to answer your door and polish your silver, then you would find very little difference between now and then. An hour of a butler's time cost the same as the average worker in 1895; the same is true in 2001. So regarding personal services, Americans are no richer now than we were 100 years ago.

However, regarding the ability to buy mass-produced goods, such as bicycles, we are far better off than you would have been a century ago. Were one to average out all the commodities produced in 1895 as opposed to those made now, one would find that the average productivity multiplication is about eightfold: an average worker today could buy with one hour's work the average bundle of things that and average worker of a century took eight hours to earn.

From these results, one could think that the answer is that we are eight times richer today than our ancestors were 100 years ago. But it is not that simple. The calculations done above are intrinsically flawed. This is due to the fact that two identical items are not being compared. Commodities produced now were not even invented yet in 1895. So essentially apples are being compared to oranges.

Think about the automobile. In our times, cars are the primary mode of transportation. It replaced the horse and buggy and traction-driven cable car, and it greatly expanded the area that is local and accessible. With a horse, a shopping trip to a store six miles away would become an all-day affair. With a car you can be done in 45 minutes.

The automobile therefore makes a local area denser – one can live in a certain area and have a much wider selection of available services and goods. One can live in the suburbs and work in the city, while both areas are local to him. For example, 100 years ago only 100,000 people lived within ½ hour of downtown Boston. The car has made it possible for 3 million people to live within ½ of downtown Boston. Automobiles have therefore made living in Boston an option for thirty times as many people.

The Atlantic Monthly of 1901 contains a short and anonymous article by a college professor complaining about his low salary – which was about five times the productivity of the average worker in 1901, and gave him the same place in the relative income distribution as a salary of $330,000 a year would today. He could not afford an appropriate house within walking distance of campus. He did not have the spare income to keep a horse. So he rode a bicycle – an uncomfortable alternative in New England winters falls and springs. He spent as large a share of his income on bicycles for his family as someone would on a standard economy sized car today.

The jump in our quality of living because we now know how to make cars is omitted entirely in the simple calculation above that suggested an eightfold multiplication of material wealth.

Another example of why this calculation is flawed is the following. In Looking Backward, Edward Bellamy's turn of the last century utopian novel, the narrator – thrown forward in time from 1895 to 2000 hears the question "Would you like to hear some music?" He expects his host to play the piano, which was a social accomplishment of upper class women around 1900.

To listen to music on demand at that time, you had to have an instrument and someone who was trained to play. The average worker would have spent some 2400 hours working to support such an extravagance. This multiplies out to over a year's work to listen to music at one's whim. In contrast, today all one needs is a CD player or radio and he can listen to whatever his heart desires. The actual cost of a Steinway piano has fallen in price form 2400 average worker hours a century ago to 1100 worker hours today. But if what you value is the ability to hear music in your home at your leisure, then the price dropped from 2400 hours to about 5.

So when we calculate the increase of wealth over the past century, do we count the drop in real time production and acquiring hours or do we count the increase in capability? To figure this, we must analyze what is gained by the increase in capability and try to measure its worth. When one makes the common calculation to see how much they would earn 100 years prior if they were at the same income level as they are now, it is tempting to say that inflation has gone sky high and we have much less purchasing power relative to our income level than did our counterparts of 100 years ago.

However, the crucial aspect that most people forget is that the people who lived 100 years ago were limited to what the technology of their time could offer them. They didn't have the option of purchasing a washing machine, for such machinery simply did not yet exist. Vaccines and medicines that are taken for granted now were not in existence then. Neither was a simple, every day part of life like the telephone available. When these factors are taken into consideration, it almost seems preposterous to try to measure wealth. For no matter how many dollars our ancestors had, they simply did not have access to the items that any middle class American can take for granted today.

Due to our fantastic economic and technological growth, the quality of living is better than it has ever been, for all people at all income levels. In truth, Americans care less about the gap between the rich and the poor, and more about getting ahead. Every person wants to be successful, and his own wealth relative to Bill Gates' wealth is not even a determining factor. America is by-and-large a middle class nation, and most Americans want it to stay that way. No one wants a society that is completely split into haves and have-nots. This is the flaw with an emphasis on inequality, that it somehow allows the poor to feel that the rich are responsible for their plight. It is mostly a moral self-indulgence. Reducing inequality only matters if we reduce poverty.

In conclusion, income inequality is definitely a problem in America today, causing much of the social breakdown. However, the standard of living is higher and therefore, the population as a whole is better off. If people concentrate on growing economically and striving higher, they can succeed in our society.

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