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Let's Keep Income Inequality from Destroying Us

Income inequality in America is at levels even higher than those in ancient Rome, according to a recent study by two historians. Walter Schiedel and Steven Friesen found that the top 1% of earners in Ancient Rome controlled 16% of that society's wealth. By comparison, the top 1% of Americans control 40% of our country's wealth, according to a *Vanity Fair* article by Joseph Stiglitz, Nobel Laureate in Economics. A United Nations Research Institute study shows that rising inequality was not only the key cause of the fall of the Roman Empire, but also of various other empires. Why? Inequality generally leads to social disorganization, and thus to societal demise.

Chuck Collins, co-founder of United for Fair Economy and author of *Economic Apartheid in America,* calls this phenomenon the "Wheel of Misfortune." As inequality rises, power concentrates in the hands of a few wealthy people and big corporations. The wealthy and corporations begin to influence policies in their own favor, resulting in voter disengagement, divided communities, and economic misfortune for the entire nation.

Income inequality limits social and economic mobility: One might think that there is nothing wrong with inequality in a free market economy. Some may even argue that income inequality provides incentive to work hard and get rich. But, when income inequality rises, it limits opportunities to advance no matter how hard people work. Alan Krueger, Chairman of the National Council of Economic Advisors, emphasizes that rising income inequality undermines social and economic mobility. Similarly, Joseph Stiglitz says that "growing inequality is the flipside of something else: diminishing opportunity." As explained by Richard Wilkinson and Kate Pickett, authors of *The Spirit Level: Why Greater Equality Makes Societies Stronger*, "bigger income differences seem to solidify the social structure and decrease the chances of upward mobility. Where there are greater inequalities of outcome, equal opportunity is a significantly more distant prospect."

Income inequality drags the entire economy down: MIT economist Daron Acemoglu argues that, when a very narrow group controls political power for its own economic ends, economic growth suffers. Similarly, a recent International Monetary Fund study found that greater income equality positively correlates with stronger economic growth. The study concluded that a 10% decrease in inequality increased the expected duration of economic growth by 50%. How does income inequality slow the economy down? The economy mainly grows through consumption. Top income earners usually save more than 50% of their money. They don't spend it on everyday items that cause positive economic growth in local communities. Similarly, concentration of wealth and income in the hands of a few doesn't allow markets to function properly. It encourages the people who control money and political power to suppress many forms of innovation and economic change because they fear it might be a threat to their position.

What else is bad about income inequality? Apart from the negative economic consequences and limited opportunities to succeed, there are several other negative consequences of rising inequality:

- Children in more unequal societies do worse in school. Of 34 OECD countries, we're 14th in reading skills, 17th in science, and 25th in math.
- More children die in infancy in unequal societies. We're number 176 of all 222 countries.
- More people are imprisoned in an unequal society. We have the highest incarceration rates in the world as well as the most people in prisons.
- People in more unequal societies are more likely to experience mental illness. In 2003, 17-29% of Americans suffered with mental illness.
- Inequality means shorter life spans. We are 50th out of 222 for life expectancy.

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What causes income inequality? There are various causes of growing income inequality, but three stand out:

- Decline of investment in education and skills – after the Second World War, the U.S. made massive investment in the education and skills of its workforce. Now, we invest a smaller percentage of our economy in education than we did prior to 1980. The effects of this lack of investment in education are exacerbated by globalization of the economy and unprecedented technological change.
- Decline of unions – prior to the 1980s, when union membership was high, *everyone* benefitted from economic growth. With the assault on worker rights and union membership down dramatically, only the top income group benefits from economic growth, thus widening the gap and shrinking the middle class. Who is watching out for the interests of working families and the middle class?
- Unfair tax policies – unfair tax policies have exacerbated income inequality by reducing the responsibility for paying taxes among top income earners. For example, before President Reagan took office in 1980, the top income tax rate was 70%. Now it is less than half. For the super rich, like Warren Buffett, Bill Gates, Mitt Romney, and hedge fund managers, the top income tax rate is only about 15%.

What can we do? Income inequality mainly results from the policy choices we make. Therefore, we should blame the policy choices, not the rich and corporations. Apart from restoring worker rights, there are two very simple solutions for reducing income inequality.

First, we must *invest in public education*. In the new global economy, the only way to compete globally is through investment in people. We can't compete globally on the basis of cost, as someone somewhere will always find a way to make something cheaper. But we have two things that can't be found anywhere else: the ingenuity of the American people and a system of public education that is the envy of the world. We need to leverage those advantages.

And, above all, America's system of public education is the surest route out of poverty for many.

Second, *close tax loopholes* and reform the tax system so everyone pays their fair share. Go back to the income tax brackets that made the U.S. economy second to none and created broad-based economic prosperity. Going back to the tax system under which millionaires paid higher rates than they pay now will generate the additional revenues for investing in people, especially in public education and in the infrastructure that connects us.

If past is prologue, doing nothing about the problem of rising inequality means we are likely to meet the same fate as those civilizations that came before us.

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