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Income Inequality in America: Why the American Government Should Respond

Income inequality in America is at its highest level since 1928. That simple fact, reported by the Pew Research Center in 2013, has become, over the last three years, the lynchpin of one of the most divisive debates in modern American politics. Presidential candidate Bernie Sanders has made the issue of rising income inequality the cornerstone of his surprisingly strong campaign, promising to raise taxes on the richest Americans and fund free public universities for all Americans. Leading Republican candidates have scoffed at his proposed policies, arguing that taxes should be cut, not raised. As political polarization in America continues to increase, a compromise between Republicans and Democrats on the issue seems unlikely. So, as income inequality in America reaches levels not seen since before the great depression, the question remains unanswered: What, if anything, should the American government be doing about income inequality?

Two respected economists who have attempted to tackle the issue of rising inequality in America are Gary S. Becker and Kevin M. Murphy. Gary Becker is deceased, but in life was a professor of economics and sociology at the University of Chicago’s Booth School of Business. He was also a Nobel laureate for his work in the field of economics. Kevin M. Murphy works as a professor of Economics at the University of Chicago Booth School of Business and as a Senior Fellow at the Hoover Institution. In contrast to the majority of left-leaning academics in their field (who, by and large, support government intervention to combat inequality), Becker and Murphy are opposed to government action on the issue of income inequality. They argue in their co-authored essay, “The Upside of Income Inequality”, that rising levels of income inequality in America are driven by an increased valuation of education and skill development. Therefore, they write, new policies aimed at reducing inequality would discourage young Americans from pursing an education. That should be avoided, they claim, because, “The potential generated by higher returns to education extends from individuals to the economy as a whole,” and because, “Higher returns to education will accelerate growth in living standards as existing investments have a higher return, and additional investments in education will be made in response to higher returns” (585-586). However, in his essay “Confronting Inequality”, Paul Krugman makes a more compelling case for caring about income inequality in modern America, and lays out a plan for addressing it. Krugman is a professor of economics and international affairs at Princeton University, a Centenary Professor at the London School of Economics, and writes as an op-ed columnist for The New York Times. He also won a Nobel Memorial Prize in Economic Sciences in 2008 for his work on international trade patterns. Responding to a perceived positive feedback loop of income inequality and political shifts to the right in American politics over the past half-century, Krugman argues in “Confronting Inequality,” that, “vast income inequality inevitably brings vast social inequality in its train. And this social inequality... has real, negative consequences for the way people live in this country” (563). Thus, he asserts, the American government should step in and reduce income inequality by increasing taxes, raising the minimum wage, and empowering unions.

The foundation of Krugman's argument is that income inequality is destroying the American middle-class. Specifically, he argues that, “High inequality, which has turned us into a nation with a much-weakened middle class, has a corrosive effect on social relations and politics, one that has become ever more apparent as America has moved deeper into a new Gilded Age” (Krugman 562). He elaborates on the process by which inequality takes a toll on the middle class, writing that, “It matters a great deal that millions of middle-class families buy houses they can't really afford, taking on more mortgage debt than they can safely handle, because they're desperate to send their children to a good school—and intensifying inequality means that the desirable districts are growing fewer in number, and more expensive to live in” (564). All this matters, he writes, because economic mobility in America is lower than Americans believe, and that, “Mobility is highest in the Scandinavian countries, and most results suggest that mobility is lower in the United States than it is in France, Canada, and maybe even Britain” (567). Thus, as income inequality increasingly impedes middle- and lower-class Americans’ ability to get a quality education, they become handicapped for life.

In contrast to Krugman, Becker and Murphy believe that income inequality in America doesn't need to be addressed because it's driven by an increased valuation of education. They argue that, “Higher returns to education will accelerate growth in living standards as existing investments have a higher return, and additional investments in education will be made in response to higher returns” (586). Therefore, they write, “the forces raising earnings inequality in the United States are beneficial to the extent that they reflect higher returns to investments in education and other human capital” (586). Although I agree with Becker and Murphy that an increased valuation of education in America is positive, I disagree with their conclusion that income inequality is desirable as long as it encourages the pursuit of an education. Specifically, I disagree with their assertion that income inequality is a net positive because it doesn't take into account the fact that, as Krugman describes, income inequality reduces middle-class Americans' ability to pursue an education.

Left untouched by Becker and Murphy, and even by Krugman, is the issue of voter turnout in America and its connection to rising inequality. In America, [barriers to voting, such as voter ID laws and felon disenfranchisement, disproportionately affect low-income individuals](http://ndsmcobserver.com/2016/02/why-income-inequality-matters/) (O’Connor). Thus, as income inequality increases, Americans who fall out of the middle class have an increasingly difficult time making their voices heard through the voting system. The result is that the preferences of high-income Americans (who, more than others, favor policies that contribute to income inequality) increasingly have a disproportionate level of influence of American politics. So, as income inequality increases, it creates a positive feedback loop of further growing inequality and skewed voter turnout as the issues that reduce voting among lower-income voters affect more and more Americans. This feedback loop demonstrates how income inequality threatens not only middle-class Americans' quality of life, but also the health of American democracy.

So, as inequality threatens to spiral out of control, America finds itself at a crossroads. If the government fails to quickly intervene, inequality will continue to increase, pushing more and more Americans out of the middle class. Disproportionately affected by barriers to voting, those Americans will become disenfranchised, unable to improve their station either by voting or by gaining an education. And so, power will continue to coalesce among the wealthiest Americans, whose voices will increasingly drown out all others. That’s why, for the health of the American middle class, and for the health of American democracy, America’s government should step in and institute new policies to counter income inequality.

Works Cited

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