

Name Removed

Critical Reasoning

3/29/15

Prompt 2: The 1%

A. Main messages from Mankiw

1. Economist Gregory Mankiw speaks about the rising income inequality in the United States in his paper “Defending the One Percent”. One of the main messages he is trying to convey is that in order to really touch on the topic of inequality, one must look at the matter through a political philosophical perspective to answer the question what is the root cause of the rising inequality and what can we do about it? Mankiw gives his opinion that he is not convinced that rent-seeking is not the main cause of the vast boom in gap between the 1% and middle class but instead agrees with Claudia Golden and Lawrence Katz with the idea that the discrepancy between classes is happening due to the demand for skilled labor thus leading inequality to be driven by society’s need for supply and demand. (pg. 23) The latter demand of skilled labor correlates with Mankiw’s idea that although it would lead to a gap in classes having the correct amount of talent will lead to efficiency. Another message Mankiw writes about is that inequality of opportunity and inefficiency are not the leading blame for income inequality. (pg. 26) He goes on to convey a message about the Left side of the political spectrum, which is in favor of greater income distribution, and their three classes of arguments. (pg. 29) His last message goes back to the initial idea that political philosophy invites economical questions that are important for determining optimal policy. (pg. 33)

b. Three Left arguments

1. The first argument claims that the tax system we have now is regressive. During a fundraiser for Hilary Clinton, Warren Buffet states that the rich were not taxed enough and goes on to give an example of the differences in rate he and his receptionist were taxed for the previous year; Warren being taxed 17.7% while his receptionist was taxed 30%. Mankiw responds with skepticism to Buffet’s claim and explains that Warren Buffet ignored the fact that the capital income was already taxed at the corporate level. The only way to have a complete accounting is include all taxes on labor income but adding in all the capital taxes as well. (pg. 30)

2. The second argument states the income of the rich does not reflect their contribution to society. Mankiw responds by stating the key issue: high productivity should be reflected from high incomes rather than other market imperfection and “how the argument fails to explain the

behavior of closely-held corporations.” His example is when public companies go private CEO’s tend to get paid more in both base salary and bonuses rather than receive less. (pg. 31)

3. The third argument is that the rich benefit from the physical, legal, and social infrastructure that government provides and therefore should contribute in supporting it. After bringing up an example using President Obama’s public finance language which he does not agree with, Mankiw resolves that argument raises an empirical question of how large the benefit of government infrastructure is. He also states that over time there has been an increase for transfer payments rather than for the purchase of goods and services. (pg. 31)

c. Krugman’s criticism of Mankiw’s paper:

1. Paul Krugman criticizes Mankiw’s paper with three major points. The first criticism mentions that policy choices dictate what is given at the top of the economic scale. We live in a society where owning intellectual property entitles those owners to higher, glamorous rewards by setting low tax rates. The second point Krugman makes is that Mankiw easily dismisses inequality of opportunity and Krugman continued to criticize Mankiw briefly by saying there is a lot more determination other than genes that allow wealthy top privileged kids to stay in that bracket. Lastly, the third point is the absurdity for Mankiw to use Rawlsian logic; he explains that “Rawlsian ideas are always a matter of equalization under constraints, where these constraints involve notions of fundamental rights.” I agree with Paul because his points, especially the first, bring to attention facts that Mankiw failed to acknowledge. Krugman’s first point brings out the irony in our society, that irony being that those who are privileged pay less for everything.

d. Consider Pollack’s criticism of Mankiw’s paper:

1. Pollack respects Gregory Mankiw’s works but opposes his ideas in Mankiw’s writing in “Defending the One Percent”. Pollack is surprised that someone of Mankiw’s caliber wouldn’t find it obvious that a privileged child is more likely to attend a high class school and remain in a higher socioeconomic percentile than those who are not as privileged. He criticizes Mankiw’s statement of their income is a reflection of their product contributions saying why market wages should not determine what people deserve in life. Pollack also defends the President’s speech in which he feels Mankiw diverged from the real meaning about giving back to each other in our society. I agree with Pollack because his arguments contained references that relate back to personal experiences with people who are not as well off and deserve just as much as wealthy people do, stating their product contributions shouldn’t be the only factor to help let people live well off. I also agree with his defense of President Obama’s speech seeking out the real message of what the president was trying to convey. We are all individuals and create our own progressive

circumstances but we would not be where we are without the help of others one way or another so the only way to return that help is to also give back.

e. WSJ article on income inequality.

1. One of the main arguments in the Wall Street Journal article on income inequality is the public school system and its incompetence to prepare children on a level that would leave them ready to enter college in a society that is now marketing on skills. Another argument makes “inequality warriors” look foolish by giving examples of claims that inequality is caused by social or economic ills that revolve around people wanting a higher lifestyle than they can afford. As well as sarcastically saying that rich forcibly giving to poor will solve our deep problem of national thriftiness. The article also defends inequalities by stating that inequality warriors want the government to have more control over the regulatory of money which is a plausible idea but is one that is scary. I would respond to all the arguments by simply replying with “WE ALL WANT”. The latter is what it really comes down too, everybody just wants, wants, wants but no one ever wants to give. We live in a very selfish society and it only gets worse as the consumerism grows especially in this artificial country of the U.S. We do not need more government control and regulations; what we need is for everyone to want to share with one another. Similar to what was said in Obama’s speech we should be helping each other out. It is not something that should be forced but should be acted up just out of human nature. If we all paid it forward we would live in a much better and closer to “equal” society.