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#### Assignment 4 — Critical reasoning — Spring 2015

A. If I were to summarize Mankiw's paper i would say he attempted to argue that the reasons for income inequality revolve largely around individual motivation, natural predispositions and plain old fashion fairness. He begins his argument saying that inequality is an issue of skill attainment, claiming a correlation between charts describing income shares for the top 1% and the earning differential among skilled and unskilled workers. In essence he argues that supply and demand for skilled labor causes fluctuations in the income gap. During periods of high investment in education, such as during the 1950's and 60's income inequality diminishes and during periods of lower investment it increases. Furthermore, highly educated individuals would logically gravitate towards the highest paid positions, which would generally be within financial institutions. He follows this argument with a case for genetic and environmental determinism, claiming that children born to parents with low IQ's would in turn have a low IQ, and that parents who failed to properly raise their child were to blame for their children's low chances of high wages. Although he attempts to soften this argument by saying that "This is not to say that we live in a world of genetic determinism, for surely we do not." he doesn't actually succeed in convincing the reader he doesn't firmly believe poor individuals are simply born inferior in some way, or somehow naturally deserving of their fate. His next argument is that of the "leaky bucket" in which he claims that since it is a known fact that money only moves in a leaky bucket, no system of taxation can efficiently or totally deal with the issues of inequality. In this argument he introduces the factors C W and L, in which consumption equals work times labor. consumption is defined as utility of goods or services, work is defined as actual impact on the economic system and labor is defined as being the sheer number of hours spent performing productive activity. It is his argument that individuals with high values for C, who would be taxed at higher rates, will be disincentivized from continuing to work and those with low values for C, who stand the most to gain from high taxes on the rich, will be less incentivized. After all, many of those with lower values for C have in fact made conscious decisions to earn less, as they are able to take more free time or they have a wider range of "intellectual freedom" (perhaps he means menial jobs?). In this he seems to solely be arguing that the poor, along with being genetically and environmentally predisposed to being poor, are also quite lazy and happy being poor. And the rich are genetically superior and more ambitious.

B. These arguments are followed by a small collection of attacks on arguments from the left which are meant to demonstrate the inherent fairness of income inequality. One argument from the left is that the rich pay extremely low tax rates, much lower than those paid by middle class income earners. He counters that according to the CBO the top 5th of income earners pay the highest rate of income taxes. While "some" of the top earners may be gaming the system, the highest tax burden remains, on average, in the top 5th of earners. Which, while technically true, ignores the reality that income from investments is not taxed the same way as federal income taxes. He also argues against the belief on the left that CEOs and other highly paid individuals are unfairly compensated. In this he essentially argues that private firms often pay more than publicly traded ones, indicating that private investors believe the money is well spent, and that good management is highly valued. As such the end result of income inequality is simply unavoidable as these positions will always be highly paid. The third argument from the left he discusses is that the rich got rich by utilizing infrastructure, of one form or another, and as such they have a responsibility to fund its existence. His counter to this is that the rich already pay about a third of their income in taxes, which should more than be adequate for the cost of that infrastructure. Furthermore, the increase in taxes would not generate "more and better roads" or

"more and better educational systems" and therefore an increased tax burden couldn't be predicated on the need to fund infrastructure maintenance.

C. The first problem Krugman found with Mankiw's argument is that, whether the "prizes" for top earners are fairly won or not, they are based on policy decisions. Specifically our society places high values on intellectual property and taxes the wealthy at extremely low rates. These among many other factors influence the type of game being played, whether the player play fairly or not. Secondly, Krugman points out that Mankiw's excuse for heredity of success, namely good genetic fortune, is poor at explaining the percentage of children born to the upper class that remain in it throughout their lives. Thirdly, the absurdity of declaring organ donation equivalent to taxation is mentioned in which Krugman quotes the economist as saying we do not consider vandalism against property and assault against people equivalent, and therefore one cannot fairly commoditize human flesh or organs. Krugman only briefly touches on these fallacies choosing instead to utilize the rest of the article to challenge the notion presented by Mankiw that his own children do not have any greater access to opportunity than he did, having grown up poorer than they did. Krugman argues that in point of fact, the equality of opportunity among income brackets dramatically shifted following Mankiw's generations graduation from college. The disparity of opportunity then has little bearing on the disparity of opportunity today. I agree entirely with Krugman's critique mainly because he is correct on all of his points, however I think the initial arguments could've been stronger, in which I think he would have benefited from more concretely debunking Mankiw's arguments rather than glossing over them as simply being inherently wrong.

D. Pollack's argument against Mankiw begins with a discussion of Mankiw's premise of having roughly equal opportunity as a child to his own children today. Pollack illustrates the fallacy of this thought with a chart showing that children born in the upper brackets showed a predisposition to remain in those brackets. According to Pollack a child born in the upper brackets had a 55% chance of remaining on top and faced only an 11% chance of falling to the bottom 40%, where as a child born in the middle brackets faced 31% chances of falling into the bottom 40% and only a 13% chance of moving to the top 20%. As his critique continues he mentions that among ivy league schools such as Harvard less than 20% of students come from the bottom 60% of income brackets, indicating legacy admissions were an undeniable trend among richer families. To further illustrate his point he points out that learning disabilities substance abuse and mental health issues etc, also play factors in college admissions and academic performance and that more affluent families are more likely to be able to afford tutors and high quality healthcare. Many high income bracket families enroll their children in schools with tuitions rivaling the median income for most Americans starkly drawing a contrast from one groups opportunity and another's. As the article continues Pollack discusses Mankiw's argument regarding "just deserts" in which Mankiw essentially argues that ones income level should be contingent on ones overall value to the economy or ones level of work, however as Pollack points out, often those who work the hardest, or those with the most critical positions, often receive the lowest income. Finally, Pollack levies an attack on Mankiw's premise that the rich already pay disproportionate amounts towards infrastructure and shouldn't pay more. To this, Pollack points out that while yes, the rich do already pay more, the issue is really why individuals owe other individuals in an interconnected society. If this is to be considered, "just deserts" is an unconvincing argument in his mind. I agree with Pollack for many of the same reasons I agree with Krugman, namely, he is correct. I also find he makes a more compelling case as he uses more facts and figures to support his argument along with being generally longer and more in depth in his reasoning.

E. The Wallstreet Journal article begins by arguing points not addressed by Mankiw, beginning with rhetorical questions regarding wealth redistribution. Firstly they propose that the American system favors entrepreneurs and innovation, pointing to the number of billionaires in brand new industries from modest backgrounds. They claim that in fact poor education systems, dominated by unions, stymie intellectual development and prevent economic growth and rises in wages. After claiming (inspire of data regarding the initial decade of the war on poverty) that no amount of money can slow or end poverty among families with drug and violence problems or issues regarding unemployment and crime, the article claims that those on the left argue for redistribution of wealth based on a desire to end peoples need to "keep up with the joneses," where in taxing the wealthy leads to fewer people perceiving the rich to be the standard, and therefore trying to live beyond their means, an argument I have not seen any legitimate politician make. This is then followed by a rhetorical claim that another reason is that by taxing the wealth we can move money AWAY from those who are good at saving, as those on the left argue that wealth being saved by the rich is unavailable to the economy as a whole. This claim has been made however it is not as argued in the article, where all those who save must have their wealth taxed. Instead this argument tends to be made regarding large corporations who stockpile trillions in wealth rather than spending it on labor or investments in production. Following this the article claims another argument is that by taxing the wealth corruption might be removed from the system, as fewer rich people would be able to manipulate the system. They argue however that this simply monopolizes power and wealth in the government, shifting, not ending government corruption. The conclusion of the article is essentially that unfettered capitalism is the answer to our problems of inequality and that unions and government prevent this equality of opportunity, exacerbating inequality of income. I mostly disagree with this article because the initial arguments are straw man arguments that are not actually relevant to the discussion. The questions raised in the second half of the article are valid questions, dealing with the extent to which power and wealth should be monopolized by government and unions, however I find it intellectually dishonest to frame the discussion this way as the nature of large corporations and the effects of monopolizing wealth and power in them, is not discussed.