INEQUALITY IN THE 21ST CENTURY

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A READER

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To a more perfect union, justice, domestic tranquility,
and the general welfare

1. Poverty and Inequality in the 21st Century

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It was not so long ago that many social scientists subscribed to a version of "modernization theory" in which racial inequalities, gender inequalities, and class-based discrimination were seen as premodern residues that were destined to wither away. Although there were always prominent dissenters, this benign understanding of history was the driving force behind much of the research on inequality until the late 1970s.

But that was then. Over the last twenty years, this benign understanding has been largely discredited, and a wide variety of alternative accounts are now contending to become the new lens through which we understand the forces making for change in inequality.

How did such a dramatic reversal in our understanding of the logic of history come about? It will be useful to organize our introduction to current research on inequality around a description of these forces that led to an unravelling of modernization theory and the rise of new worries about extreme income inequality, growing joblessness, persistent racism, and the stalling-out of historic declines in gender inequality.

The Modernization Narrative

It should not be too surprising that the modernization narrative of the 1950s, 1960s, and 1970s was a largely optimistic narrative about the inevitability of progress. The narrative of the day was likely to be benign, after all, because many of the key trends in inequality were in fact quite reassuring. This is especially so for trends in income inequality up to the mid-1970s. As is well known, there was a precipitous decline in income inequality in the 1930s, and thereafter the United States experienced approximately thirty years of stability in income inequality (Saez, Ch. 6; Piketty, Ch. 7).

As important as this decline in income inequality was, the modernization narrative was more concerned with trends in inequalities of *opportunity*. In the United States and other liberal welfare regimes, even extreme inequalities in income were seen as quite palatable insofar as the opportunities for getting ahead were widely available to children from all families, even relatively poor ones. The "race to get ahead" was the commonly used metaphor of this time: If that race was fairly run, then the resulting inequalities in outcomes were viewed as altogether legitimate.

The featured claim of the modernization narrative was precisely that this race was becoming ever fairer. This decline in "inequalities of opportunity" was partly attributed to the expansion of secondary and post-secondary schooling and the associated diffusion of loan and aid programs, such as the G.I. Bill, that reduced financial constraints on access to schooling. Although some scholars indeed emphasized this pathway, others showed that college was a "great equalizer" in the sense that *all* college graduates, those from rich and poor families alike, did equally well in the labor market (see Torche, Ch. 34). When a child from a poor family goes to college, the resulting degree becomes a "shield" of sorts, in effect protecting that child from class-based discrimination.

The more general point is that competitive market economies should work to reduce all forms of discrimination based on gender, race, or social class. In his "taste for discrimination" model, Gary Becker (1957) argued that such discrimination will gradually disappear because it entails paying a premium to the preferred class of labor, a premium that non-discriminating employers do not have to bear (thus giving them a competitive advantage). The latter economic account works in tandem with a sociological one that emphasizes the diffusion of modern personnel practices in the form of universalistic hiring practices (e.g., open hiring, credentialism) and bureaucratized pay scales and promotion procedures. The essence of such bureaucratic personnel practices is a formal commitment to universalism (i.e., treating all workers equally) and to meritocratic hiring and promotion (i.e., hiring and promoting on the basis of credentials).

The final component of the modernization narrative has one's social class becoming a less important and encompassing identity. The "working class" within the early-industrial economy was an especially prominent identity because political parties and unions carried out the ideological work needed to convert the working class into a culturally coherent community. The key claim, however, is that this identity became less central as (a) political parties abandoned class-specific platforms in favor of "issue politics," and (b) unions became narrowly instrumental by focusing on tangible benefits rather than some transformative and politicized class narrative. In the absence of organizations that explicitly trained members into a class-based worldview, social classes increasingly become purely statistical categories deployed by social scientists, not the deeply institutionalized communities of the past (see Weeden and Grusky 2005).

New Narratives

We have laid out the modernization narrative in some detail because it still plays the important role of a discredited approach lurking in the background. It also remains prominent partly because an alternative with all the reach of the old narrative has not yet emerged. In this sense, the contemporary literature remains unsettled and inchoate, with many accounts vying for the role of successor to modernization theory. We review some of these competing accounts below.

Rent and Income Inequality

The most prominent alternative to modernization theory, an account featuring "rent" and other forms of competition-restricting regulation, has as its backdrop the spectacular takeoff in income inequality in the United States. As Saez (Ch. 6) discusses, income inequality increased dramatically in the US in the late 1970s, with it now reaching levels as high as those prevailing in the 1920s.

There are, of course, many prominent accounts that understand this development as simply the expected playing-out of competitive market forces when confronted with the "exogenous shock" of computers and other technological innovations that raised the demand for skilled labor (see Goldin and Katz, Ch. 8). The theory of skill-biased technical change, for example, implies that the demand for skilled workers is rapidly increasing because of these innovations, that the existing supply of skilled workers cannot meet this rising demand, and that the resulting disequilibrium bids up the price for skilled labor and leads to an increase in inequality. Although the higher productivity of skilled workers will lock in some of this inequality, we should eventually see a reversal or slowdown in the trend because the high wages going to skilled workers should induce more workers to invest in skill (by going to college), which in turn increases the competition for skilled jobs and ultimately drives down the pay going to those jobs. The competitive market should, by this logic, correct some of the problem.

The "rent narrative" instead rests on the view that extreme inequality should be partly attributed to the many opportunities to collect rent. We adopt here the usual definition of rent as returns on an asset (e.g., labor) in excess of what is necessary to keep that asset in production in a fully competitive market. By this definition, rents exist (a) when demand for an asset exceeds supply, *and* (b) when the supply of that asset is fixed through "natural" means (e.g., a shortage of talent) or through social or political barriers that artificially restrict supply. The first condition implies that those holding some "asset," like being tall and agile enough to be a center for a professional basketball team, are in short supply and that employers are therefore in pitched competition to secure that asset. The second condition, the "fixed supply" stricture, implies that labor cannot readily respond to the price increases that arise when demand exceeds supply. It is difficult, for example, for workers to respond to the high salaries paid to professional basketball centers by willing themselves to grow seven feet tall (and to become extraordinarily agile). We, of course, care more about rent that is generated by changing social institutional constraints than rent that is generated by largely constant and enduring genetic constraints. In contemporary labor markets, the former type of rent takes on many forms, including the wage premiums associated with the minimum wage, the wage premiums associated with the union wage, and the capacity of chief executive officers (CEOs) to extract better remuneration packages (see Red Bird and Grusky 2015; Piketty, Ch. 7; Hacker and Pierson, Ch. 10).

How does a rent-based account explain the takeoff? The story is a twofold one focusing on (a) a declining capacity to extract rent at the bottom of the income distribution, and (b) a growing capacity to extract rent at the top of the income distribution. At the bottom of the distribution, the weakening of labor unions and the decline in the real value of the minimum wage means that workers are less likely to benefit from rent, thus lowering their wages and increasing inequality (see Western and Rosenfeld, Ch. 11). The growing capacity to extract rent at the top arises because of the spread of competition-restricting norms and regulations. The returns to education are increasing, for example, because those with college degrees are increasingly protected from the competition that would occur under a system in which everyone, no matter how poor they were, had full and complete access to higher education. The highly educated are further advantaged insofar as they are in occupations that have increasingly erected barriers to entry (e.g., licensure, certification) that then protect them from competition. Finally, CEO pay takes off because board members are sitting on the board at the behest of the CEO, a setup that lends itself to board members favoring ample compensation packages (see Bebchuk and Fried, Ch. 73).

It follows that rent-destruction and rent-creation are asymmetric forces. That is, just as rent is gradually being destroyed for workers at the bottom of the income distribution, it is also gradually being created at the top of the distribution. By this logic, rent is a driving force behind the rise of inequality and an intrinsic part of modern economies, certainly not the simple vestige that modernization theorists typically assume.

The Perverse Effects of Slow Growth

The rent account thus locates the contemporary dilemma as proceeding from our relentless commitment to destroying rent at the bottom of the income distribution while at the same time supporting, at least implicitly, its equally relentless expansion at the top. The second main narrative on offer, one that instead focuses on the dynamics of wealth, plays out without making any assumptions about possible changes in market competitiveness. The dynamic on which it rests could in fact unfold in the context of perfectly competitive markets.

The starting point for this account (see Piketty, Ch. 7) is the recent increase in the amount of private wealth relative to total national income. In the middle of the 20th century, private wealth in Britain and France equaled about two or three years of national income, a relatively low share. This share then rose sharply to about five or six years of national income by 2010. The main reason for this change is declining growth rates: In slowly growing economies, past wealth becomes ever more important, as even a small flow of new savings among the already-wealthy will increase their wealth substantially. This means that inherited wealth will come to dominate the wealth that workers can amass from a lifetime of labor. It is here, then, that we see a very explicit return to Marx's (Ch. 2) very famous worries about the growing concentration of wealth.

Why is this result so troubling? It is not that Piketty, like Marx, is pushing some iron law of accumulation that then culminates in an apocalyptic vision. Instead, Piketty is worried about the implications of this development for the legitimacy of capitalism, a legitimacy that rests in part on the premise that the race to get ahead should be a fair and open one. What Piketty (Ch. 7) shows is that this commitment can be undermined by relatively slow rates of economic growth. This is not, then, some conventional indictment of the unfair and "rigged" institutions (e.g., CEO pay institutions) by which labor is compensated. Although Piketty is also very troubled by such practices, his is instead an expose of the unanticipated consequences of slow economic growth.

It might be imagined that Piketty would therefore push for a pro-growth solution. The main problem with this solution, as Piketty stresses, is that there are real limits on the capacity of advanced economies to restore the high growth rates of the past. As a result, Piketty's fallback solution is a progressive annual tax on capital, a tax that will then allow for new instances of "primitive accumulation" among those who are not born into wealth.

The Perverse Effects of Rising Income Inequality

The foregoing narrative thus lays out the perverse and underappreciated effects of slow economic growth. As a natural complement, we might next consider a narrative that again calls into question the capacity of contemporary economies to deliver on their commitment to openness and equal opportunity, although in this case it is rising inequality rather than slowing growth that is potentially undermining that commitment.

The main worry here is that, by virtue of the rise in income inequality, there is an unprecedented infusion of additional resources among the higher reaches of the class structure, an infusion that will work to increase the amount of reproduction. By this logic, inequality of condition and of opportunity are now understood as varying together, even though scholars have typically been at pains to stress that they are analytically distinct.

How might parents in privileged classes use their newfound income? The available evidence (e.g., Putnam 2015) suggests that they will increase the human, cultural, and social capital of their children via high-quality childcare and preschool, educational toys and books, after-school training and test preparation, science-related summer camps, elite preparatory schools, prestigious college degrees, a "finishing-school" vacation in Europe, and stipends or allowances that free them from the need to work during high school and college. As the takeoff plays out, privileged parents can also more readily afford privileged residential neighborhoods, with accordingly improved access to high-quality public schools, neighborhood amenities that assist in human-capital formation (e.g., libraries), and peers that can provide all manner of career advantages (see Mitnik, Cumberworth, and Grusky 2015).

The implication of this "infusion at the top" is that it undermines the capacity of liberal welfare regimes to deliver on their commitment to equal opportunity. The standard liberal mantra, as has been so frequently rehearsed, is that extreme inequality is quite unproblematic as long as it is the result of a fair and open race. The central dilemma of our time: How can a fair and open race be delivered when high incomes afford parents so many opportunities to assist their children? The readings in this book provide a range of approaches to resolving this defining conundrum of the 21st century.

Commodification

The "commodification narrative," to which we next turn, again takes rising income inequality as its starting point (see Grusky and MacLean 2015). It emphasizes that extreme inequality not only makes it difficult for the poor to buy opportunity but also disadvantages them in a growing range of markets for goods and services. The key problem here is that access to all manner of goods and services increasingly depends on the simple capacity to pay for them. It follows that those at the bottom of the income distribution are now doubly disadvantaged: It is not just that they have less money (relative to others), but it is also that access to goods, services, and opportunities increasingly requires precisely the money that they do not have. It may be said, then, that relentless commodification is what gives rising inequality its teeth.

This process is playing out very broadly. The market is gradually replacing the nuclear family, extended family, and neighborhood as the go-to source for delivering childcare, domestic services, after-school education, financial services, old-age care, health care, and much more. The resulting commodification is closely related to the relentless differentiation and specialization of the sort that modernization theorists, such as Talcott Parsons (1994), so frequently stressed. The marketization narrative emphasizes, however, the very special *way* in which such functions are differentiating: Namely, they are differentiating out of the family and into the *market*, thus making the capacity to pay for these functions all important.

It follows that rising inequality is especially consequential because those at the bottom of the distribution are disadvantaged in the competition for ever more services. If early childhood education has differentiated out of the family and is now mainly delivered on the market, how will poor families be able to pay for it? If access to high-quality primary and secondary schooling, although nominally "free," is in principle only available within rich neighborhoods with a high entry price, how will poor families be able to access them? If access to marriage (and the supplementary economic resources it provides) is increasingly a "luxury good" only available to the well-off, how will poor men and women gain access to those supplementary resources and the economies of scale that marriage affords? These are all simple – but consequential – examples of the growing neoliberal commitment to price goods and services at their market value rather than "give them away."

There are two solutions to this fundamental dilemma. The first entails capitulation to commodification: We can acquiesce to the process but insist that, insofar as the poor increasingly need money to buy goods and services, we must then commit to an aggressively redistributive tax system. We can make commodification work, in other words, only if there is enough money at the bottom of the distribution to enable the poor to purchase the goods and services that are increasingly only available on the market. The second solution entails reversing commodification rather than acquiescing to it. This approach proceeds by reinstalling various types of public goods, including free college education, free high-quality childcare, and integrated neighborhoods (which amounts to "giving away" neighborhood amenities rather than selling them). If this approach were taken, a relatively high level of income inequality becomes more palatable, as so-called "basic needs" are now met through direct delivery rather than market mechanisms.

Automation

The next narrative that we review, again one that is increasingly popular, starts with the very troubling decline in prime-age employment. Because many people who would like to work will stop looking for work during economic downturns (and thus no longer register as unemployed), the economy's capacity to provide jobs is best measured with the prime-age employment ratio, defined as the ratio of employed 25–54 year-olds to the population of that same age. For more than sixty years, the share of 25–54 year-old men in the labor force has been declining, with the current level (as of May 2016) down a full 10 percentage points from the peak of 98 percent in 1954 (see Council of Economic Advisors 2016). This "jobs problem," which is especially prominent among low-skilled men, has led to a sharp rise in the number of poor households without any working adults, a trend that reverses the earlier declines in nonworking poverty under welfare reform.

The looming question of our time is whether technology and automation may push this rate yet lower. The pessimists understand the technologies of the future as mainly job-destroying with "robots in the operating room, self-driving cars snaking through the streets, and Amazon drones dotting the sky" (Thompson 2015, p. 3; Karabarbounis & Neiman 2014). These new technologies, so it is argued, will replace drivers, clerks, and untold other occupations and accordingly drive down prime-age employment far lower than it is today. Even now, the leading firms (e.g., Apple) are formed around the control of intellectual property rights, such as patents, copyrights, and trademarks, and any tasks unrelated to the production of such rights are subcontracted and performed overseas. We can continue to have record-high profits and declining employment insofar as (a) the main comparative advantage of the US is ferreting out and exploiting these rent-generating opportunities, and (b) the resulting employment effects are mainly felt overseas.

What can be done? The rise of nonworking poverty and the decline in the prime-age employment ratio have led to (a) renewed calls to provide public-sector jobs of last resort, (b) new efforts to ensure that anti-poverty programs successfully promote labor force attachment, and (c) new experiments with unconditional cash transfers to those in poverty. These and other potential reforms will be discussed in several of the readings that follow.

Camouflaging Ideologies

We have focused to this point on narratives pertaining to inequalities in economic outcomes and opportunities. It is useful to conclude our review with a discussion of narratives that are instead focused on understanding the contemporary dynamics of racial, ethnic, and gender inequalities. These new narratives may be understood as efforts to come to terms with (a) the extreme forms of inequality that continue to flourish under late industrialism (e.g., extreme racial disparities in criminal justice), and (b) recent slowdowns in the pace of change in many key forms of gender and racial inequality (e.g., slowing declines in the gender pay gap). The latter developments are difficult to reconcile with the long-standing view that competitive market economies and bureaucratic forms of organization should work to reduce inequalities based on gender, race, or ethnicity. The simple question here: If bureaucracy and competition indeed have such equalizing effects, why is it taking so long for those effects to be fully expressed?

We cannot possibly review within this short essay the wide range of contemporary answers to that question. Although there are a host of relevant economic and institutional narratives that have recently emerged (and that will be discussed throughout this book), we focus here on some of the key cultural forces in play, if only because we have not made much of them to this point. We are referring in particular to the important role of "camouflaging ideologies" in legitimating inequality as a just and fair outcome. In the US, the main camouflaging ideology is the widespread view that we remain a land of opportunity in which talent, merit, and effort are decisive in determining who wins the competition to get ahead. Because the labor market is viewed by much of the public as winnowing out talent in this fair and impersonal way, those who tend to do relatively well in this competition, such as white males, are then seen as competent, meritorious, and hence deserving of their fate. This process leads us to have certain expectations or "priors" about the relative competence of different groups (see Ridgeway, Ch. 64). Put differently, we tend not only to treat the individual winners of the race as especially competent, but we also go on to assume that the groups of which they are members are intrinsically more competent and meritorious.

This dynamic, which has the effect of slowing the rate of equalizing change, plays out across various types of racial, gender, and ethnic inequalities. How, for example, does this camouflaging ideology make sense of the disproportionate number of male CEOs? It implies that men are simply more likely to be "CEO material" and that the labor market is fairly recognizing this gender difference in intrinsic capacities to make good decisions, exert authority, or otherwise be a successful CEO. It is in this sense that equal-opportunity ideologies not only legitimate individual inequality but also propagate beliefs about intrinsic *group differences* in competence. These beliefs in turn lend legitimacy to existing inequalities and make them less vulnerable to critique.

It is useful in this context to distinguish between (a) the modernization narrative as a story about how inequality is generated, and (b) the modernization narrative as an adequate characterization of the way in which inequality is truly generated. This narrative has arguably proven to be a better story than factual account: That is, its great success is its widespread diffusion as a popular *story* about inequality, while its great failure is that the story is very incomplete and does not provide an adequate characterization of the actual processes in play. It is especially pernicious when a meritocratic story about the genesis of inequality is adopted without that story having adequate foundation in fact. This combination is pernicious because that story then serves to "lock in" illicit inequalities as if they were licit.

Conclusions

The foregoing narratives thus constitute a sea change relative to the sensibilities that prevailed after World War II and even into the 1960s and 1970s. To be sure, the standard-issue sociologist of the past also embraced the view that poverty and inequality were important social problems, but overlaid on that sensibility was an appreciation of various "logics of history" that operated in the main to reduce them, if only gradually and fitfully. The problem of inequality was understood, then, as a tractable moral problem, an unfortunate side effect of capitalism that would become yet more manageable with the transition into the increasingly affluent forms of advanced industrialism.

We have sought to show that the benign narrative of the past, which now mainly seems naive and quaint, has been supplanted by a host of new narratives that give far greater weight to the forces making for inequality of outcome and opportunity. As the above review reveals, there are a host of overlapping narratives in play, and it is unclear which of these, if any, will become an overarching narrative with all the force and sway of the earlier modernization narrative.

We cannot pretend to have exhausted all the pessimistic narratives under discussion (see Red Bird and Grusky 2016 for a wider discussion). We have focused on those pertaining to income, wealth, and opportunity only because they have proven to be especially prominent. The same pessimistic sensibility is, however, quite widely in play: We are referring, for example, to (a) narratives of "globalization" that describe how the liberalization of financial and capital markets has harmed poor countries (Cohen and Sabel, Ch. 71); (b) narratives of "deindustrialization" that describe the loss of inner-city jobs and the associated rise of an urban underclass (Wilson, Ch. 50); (c) narratives of "segmented assimilation" that describe the relatively bleak prospects for at least some new immigrant groups (Portes and Zhou, Ch. 45); (d) narratives of "opting out" that have highly trained women eschewing stressful careers in favor of recommitting to their children, spouses, and domestic responsibilities (see Percheski, Ch. 57); and (e) narratives of "essentialist segregation" that describe how sex-typed occupational ghettos continue to be built around presumed differences in male and female aptitudes (Levanon and Grusky, Ch. 58).

Although counternarratives of the more optimistic sort are also being developed, these seem not to be as frequently generated or as readily embraced; and the proponents of such narratives find themselves beleaguered, outnumbered, and on the defensive. Has the pendulum swung too far? It is child's play to posit any number of nonempirical sources of our fascination, some might say obsession, with the pessimistic narrative. It is surely plausible, for example, that our exaggerated taste for pessimism might lead us to downplay the good news, ferret out the bad, and only rarely consider the silver lining. As important as these biases may be, it is undeniable that there are many big inequality transformations underway, at least some of which are troubling regardless of one's normative priors.

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