Chapter 12
Persistent Poverty and Rising Inequality

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People are generally interested in economic inequality for two somewhat independent reasons: First, income inequality is deeply connected to poverty, and poverty is of moral concern because of the deprivations and suffering associated with it. Second, inequality is also associated with concentrations of income and wealth among elites, and this also seems to many people to be undesirable, both because of the unfair advantages this often represents and because of the power such concentrations of wealth confer on the rich.

In this chapter we will look at both aspects of inequality, although we will give more attention to poverty. We will begin with a broad empirical sketch of patterns of poverty, wealth and inequality in the United States. This will be followed in section two with a discussion of alternative explanations of persistent poverty in contemporary America, which we will refer to as the "blame the victim" and "blame society" approaches. Section three will then discuss the principle social structural processes which contribute to rising inequality, persistent poverty, and high concentrations of wealth and income at the top in the United States today.

I. Facts about Poverty and inequality in America

This section will present a broad portrait of poverty and inequality in America and comparisons with other countries. It will include:

- child poverty over time in the US & comparatively
- overall US poverty rates over time, comparisons with other countries.
- I think it would also be good to get poverty rates for different regions
- Income inequality measures over time. I think 90:10 ratios might be the best rather than Gini coefficients. I would also be interested in 90:50 and 50:10 ratios as a way of tracking the inequality at the top vs at the bottom, since I make a point about this. Again: for the US and other countries. I would like to show the "Great U-turn" picture if we can do this: the decline of inequality from the 20s to the 60s and the increase since the 70s.
- Wealth inequality measures over time, perhaps also showing the extreme skewing at the top. You can get a fair amount of this from the Stephen Rose book, http://www.thenewpress.com/index.php?option=com_title&task=view_title&metaproductid=1540.
- health outcomes for different income groups would be nice also – maybe infant mortality as the simplest measure, as a way of showing that it matters how rich and poor you are for things other than income itself. If it were possible to get infant mortality rates for different quintiles or deciles (really bottom, middle and top would be enough) for a few countries that would be striking: it would be nice to show that health dispartieis across income stata are greater in the US than say Sweden or France.

II. Explanations of persistent poverty: *Blame the Victim* and *Blame Society*

In both the scholarly literature and popular discussions about poverty it is possible to distinguish two broad ways of explaining why some people are poor in the United States. The first of these is sometimes referred to as "Blame the victim."[1] The idea here is pretty simple and intuitive: You look around and see that some people are poor and others are not. Indeed, it is easy enough to find examples of adult siblings from the same family, one of whom is poor and the other has a steady well-paying job. So, if two people come from the same origins and face more or less the same opportunities and only one is poor, then surely there must be some difference between them that explains their different fates. The explanation for why people are poor, the reasoning goes, must lie in some flaw within poor people, not in the social system in which they live, and the solution to poverty, therefore, must be to somehow change the person, not the society.

Once you decide that the central explanation for poverty lies in the qualities of poor people, there are many different specific causal processes that could be at work. For example, one theory of poverty which once was quite popular, but now is generally not given much credibility among social scientists, is that poor people are generally genetically inferior to the non-poor. The most common version of this view identifies intelligence as the key issue: the poor have deficits in the genes that affect IQ. Such views were once particularly strong in discussions of poverty that linked poverty to race, but occasionally still resurface. As recently as the 1990s in their notorious book *The Bell Curve*, Richard Hernstein and Charles Murray argue that genetic deficits in intelligence are a central explanation for the high poverty rates among black people in America.[2]

There is one version of the blame the victim theory of poverty that remains quite influential. In this version, the deficit within poor people is identified as psychological dispositions closely connected to "culture". As a result, this explanation for poverty is sometimes referred to as the "cultural of poverty" thesis. The key idea here is that poor people have a distinctive pattern of cultural values which creates difficulty in delaying gratification and planning for the future. They don't save. They have difficulty controlling their impulses – for sex, for immediate pleasure, for anger, for obeying the law. The anthropologist Edward Banfield popularized this perspective in his study of poverty in Puerto Rico in the 1950s. He wrote that poverty is explained by "the existence of an outlook and style of life which is radically present-oriented and which therefore attaches no value to work, sacrifice, self-improvement, or service to family, friends or community." **[get specific reference]** These attributes may come from adaptations to past discrimination of a community, or they may come from other sources; but once they are inculcated inside of the person, they are hard to change. They become internalized psychological dispositions which get transmitted inter-generationally in an endless cycle of persistent poverty.

Blaming the poor for their poverty remains a popular way of understanding poverty in part because this provides explanations which do not threaten those with privilege. Poverty in the midst of plenty is a deeply disturbing fact of contemporary American society, and people with stable jobs and good incomes feel a need to justify their advantages. The most painless way to do this is to believe, if only vaguely, that the poor are somehow unworthy. While this is never fully

[1] The term was coined by Ryan, William in his book *Blaming the Victim* (New York: Vintage, 1976)

[2] Richard Hernstein and Charles Murray, *The Bell Curve* (New York: The Free Press, 1994). This book has been thoroughly attacked by social scientists for serious methodological flaws. See, for example, Claude S. Fischer, et. al. *Inequality by Design: cracking the bell curve myth* (Princeton: Princeton University Press, 1996).

convincing, especially because of the problem of children who cannot be seen as deserving to be poor, nevertheless it reduces the moral pressure on the middle class and the wealthy to take seriously the problem of changing institutions to eliminate poverty.

The alternative general approach to explaining poverty can be referred to as "blame society." While of course there may be some specific individuals who are poor and remain poor because of their personal attributes, mostly the poor are not very different from others in motivations, preferences, hopes, and aspirations. Indeed, many poor people work incredibly hard, patching together a number of badly paying jobs in order to barely meet basic needs. The most important causes of poverty, the argument goes, lie in the rules of the game and power relations of society, not the internalized cultural characteristics of poor people.

Consider the core psychological issue raised in the culture of poverty thesis: the problem of delayed gratification and impulse control. Is it really true that in general poor people suffer from an inability to delay gratification whereas middle class and rich people do not? Credit card consumerism in the middle class is profoundly present-oriented. Many middle class people, as we saw in the chapter on consumerism, accumulate large credit card debts paying exorbitant interest rates because they want things now and are unwilling to save. Research on windfalls received by people of different economic standings indicate that poor people are more likely than middle class people to save a significant part of any windfall they receive. **[get source for this finding]** Or think about another issue that is often seen as characteristic of the culture and dispositions of the poor: an amoral attitude towards social norms and crime. Do the poor really differ from the middle class or the rich all that much on these dimensions? A significant proportion of "respectable" wealthy people cheat on their taxes. There are frequent scandals of a rich person being nominated for a high political appointment whose appointment falls apart when it is revealed that they "failed" to pay all of their taxes. Why do sophisticated wealthy people who can easily afford to pay their taxes still cheat on their tax payments? They do so because they think that they can get away with it. The resulting theft comes to orders of magnitude more than property theft by the poor. **[Get some estimate of total loss from tax evasion vs property theft].** It is hardly surprising, of course, that an executive in a large corporation or a prominent politician who steals from the public by cheating on taxes would never consider robbing a convenience store, but this is really much more a function of the opportunities they face rather than of their character or moral values.

This, then, is the central thesis of the social explanations of poverty: *Circumstances of people across classes vary more than values and personalities.* The most important difference between the poor and the rest of the society is the character of opportunities and circumstances they encounter, not their inherent attributes, personalities, or values.

There are some explanations for poverty that blur the distinction between blame the victim and blame society. For example, probably the most popular explanation for poverty in the United States among scholars centers on deficits in education among the poor. This explanation clearly identifies a social cause of poverty: the American school system fails to provide decent education for poor people. The "No Child Left Behind" legislation in 2001 saw as one of its goals remedying this deficit by holding schools accountable, closing bad schools, and in other ways reducing the educational achievement gap between children of middle class families and poor families. The educational deficit explanation, therefore, definitely identifies failed institutions as a central problem. Nevertheless, this explanation for poverty also embodies some of the aspects of the blame the victim approach to poverty, for the reason the failed educational system is seen as generating poverty is still because of the way this shapes a particular attribute of poor people – in this case their "human capital" or skills.

While the claim that poor people lack marketable skills may be completely accurate, this is not an adequate or complete explanation for the fact that they are poor. Having little education only explains poverty given the social environment in which the person lives, and this must also be part of the explanation for poverty. Or, to make the point in a slightly different way: explaining why particular people are poor is not the same as explaining the level poverty itself. This idea can be clarified by thinking of an entirely different kind of example: the way grades in a class are distributed to students.[3] Suppose a really nasty professor has a terrible grading curve where in a class of 20 students only one A and two B's are given, and everyone else gets a C or less. At the end of the semester Mary gets the A, and John and Melissa get the two B's, and George, among others, get a C. Now, if you ask the question, "why did Mary get an A?" it may well be the case that she was smarter, worked harder, studied more than anyone else in the course and had more knowledge of the material. And why did George get a C? He didn't have good study habits and didn't know as much. But surely this seems to miss the real process at work here: the real explanation lies in the social process through which the "rules of the game" were created and the power structure – the all-powerful mean-spirited professor – created those rules. If the power structure was different and students could vote on the grading curve, then there would be less "grade poverty" in the class. Explaining why a particular person gets a poor grade, in short, is not the same as explaining why there are so many poor grades in the class.

In the case of economic poverty, of course, the process by which the rules of the game are created and maintained are much more complicated than in the grading curve example. Nevertheless, it remains the case that the fact that low skills and limited education result in poverty depends upon the rules of the game through which jobs are created and income is distributed. In the United States there are many important needs that are not adequately met through the market economy and for which good education is not needed and the required skills could be fairly easily acquired: public infrastructure is crumbling, bridges need to be repaired, homecare services for the elderly need to be provided, buildings need to be retrofitted for energy conservation, afterschool program in central cities need to be expanded, and so on. The fact that there are not many above-poverty level jobs for people with relatively low education is as much the result of public policies around creating such jobs as it is a result of the low skills themselves. And furthermore, even apart from the problem of the weak public commitment to creating adequately paying jobs for everyone, public policies could do a great deal to alleviate poverty through more generous programs of publicly subsidized housing, income support, and other forms of income redistribution. None of this implies, of course, that lousy education for poor children is not a serious problem and a form of injustice. "Equal opportunity" is a fundamental value and an essential aspect of fairness. Nevertheless, poverty in a rich society does not simply reflect a failure of equal opportunity; it reflects a social failure in the creation of sufficient jobs to provide an adequate standard of living for all people regardless of their education or levels of skills.

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[3] This example comes from Alan Garfinkle, *Forms of Explanation*. (New Haven: Yale University Press, 1981).

III. SOCIAL STRUCTURAL CAUSES OF INEQUALITY AND POVERTY IN AMERICA

Saying that inequality and poverty are to be explained mainly by social processes is only the first step in an analysis. What remains to be elaborated are the specific social causes operating to generate specific patterns of inequality.

We will approach this problem by discussing three kinds of inequalities generated within a capitalist market economy:

1) Inequalities generated through *exclusion from labor markets*: i.e. between the stably employed labor force and marginalized categories of people.
2) Inequalities generated *within labor markets*: i.e. between well paid workers and badly paid workers.
3) Inequalities generated through non-labor market income: i.e. between wealthy and nonwealthy individuals.

If we want to sort out the causes of overall economic inequality within the United States, we need to look at the social processes that determine each of these.

1. Marginalization: the problem of acute poverty

"Marginalization" refers to a situation in which a person is, through one mechanism or another, unable to get access to the necessary means to acquire a basic livelihood. In developing countries this is an acute problem: landless peasants leave rural areas for the city and are unable to find stable paid work. They live in shanty towns and eek out a marginal existence in various ways: as scavengers in refuse dumps, as street venders, as informal day laborers, and so on.

In the United States marginalization occurs because of the mismatch between the distribution of skills in the population and the distribution of jobs in the economy. This mismatch in recent decades has intensified because of the decline of manufacturing. Heavy industry, relying largely on manual labor, used to be a good source of employment for people with limited education. Much of the work was unskilled or semiskilled, and in any case many of the skills needed in the more skilled jobs were learned on the job rather than in school. The rapid deindustrialization of America beginning in the 1970s destroyed those kinds of jobs.

Marginalization in the contemporary American economy is generated by the lack of good employment for people with low or outmoded skills and low education. This is not, as we have already stressed, just a problem of inadequate skill formation: *it is equally a problem of inadequate job creation*. Some people argue that the problem of acute poverty could be solved by a dramatic improvement in education for the poor, giving everyone the knowledge and skills needed to compete effectively in the high tech, information economy. Improving education, of course, would be a very good thing, but it would not completely solve the problem of marginalization. Regardless of the effectiveness of the system of education, not everyone will acquire the knowledge and skills needed for stable jobs in the high tech sectors of the market economy. And even if it were the case that everyone could acquire such skills, there is no guarantee whatsoever that increasing the supply of people with these skills would generate the necessary number of jobs requiring those skills.

2. Inequalities *within* labor markets: the working poor and large wage inequalities at the top of the earnings distribution.

The second source of economic inequality occurs among people with stable employment. Two issues are particularly important here: First, large numbers of jobs in the American economy only pay poverty-level wages. This is referred to as the problem of the "working poor". Second, increasingly since the late 1970s there has been a dramatic increase in inequality at the top of the pay scale, especially among managers in corporations and professionals. Taken together, this generates very high levels of overall earnings inequality generated within American labor markets.

The two most common explanations for why earnings inequality within the paid labor force has increased since the 1970s center on technological change and globalization. The argument goes like this: Because of the rapidity of technological change in the last quarter of the 20th century, particularly in information technologies, high education and technical skills have become much more valuable to employers and as a result the inequality between skilled and unskilled and between the highly educated and less educated has increased. This occurred precisely in the period where international competition also increased. As a result American firms were increasingly involved in competition with low wage foreign producers, and this put downward pressure on less skilled jobs. The combination of the effects of globalization on the wages of low skilled workers and technological change on the wages of highly educated workers generated the dramatic increase in overall earnings inequality.

Technological change and globalization certainly contributed to rising inequality, but they do not provide an adequate explanation of the magnitude of either the level of inequality in earnings in the United States or the degree to which it has increased. Empirical research on this issue indicates that at best the effects of these two processes on increasing inequality are modest.[4] Rapid technological change and increasing global competition since the 1970s characterize all developed capitalist economies from Sweden to France to Japan to the United States. Yet, in some of these countries earnings inequality has changed hardly at all over this period, and in none of them is the level of poverty and inequality as high as in the United States.

We want to emphasis two other, interconnected processes that have played a particularly important role in the United States: the decrease in government regulation of labor markets, and the increase in competition within labor markets.

In all labor markets in capitalist societies, people with high levels of education, skills and talents will generally be paid more than people with low skills and education, but the degree of inequality associated with this universal association depends on other institutional features of the labor market. Specifically, we need to understand the institutional processes through which wages are connected to jobs and jobs are filled by people. Imagine two kinds of systems through which wages are linked to jobs and people:

1. *Intense individualized competition.* In this system, people in the labor market are constantly bidding against everyone else for jobs and earnings. There is constant jockeying around, with employers lowering and raising wages as they compete for employees, and employees constantly looking for new jobs which offer high wages. There are no effective minimum wage rules, so employers pretty much pay what market forces allow. Employers

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[4] A good overview of this research can be found in Lane Kenworthy, *reference*

can hire and fire, promote and demote employees without significant restrictions imposed by government or by organized labor. Employees are continually evaluated according to their "merit" relative to other employees, and their pay adjusted accordingly. Individuals make individual employment bargains with their employers; labor unions play no role in the process.

2. *A labor market governed by rules which dampen competition.* Employees are governed by employment contracts which make it difficult for employers to fire workers or lower wages. Wages are partially based on seniority rather than intense individual competition and continual performance evaluation. Workers have high job security and thus employers have to seek ways of forging stable cooperation and productivity improvements among the existing workforce, rather than continually looking for "better" workers. Unions support wage rules which reduce wage spread and the government imposes significant constraints on employers pay policies, especially through a high minimum wage. Collective bargains dominate the employment relation rather than individual deals.

The first of these systems generates much greater wage inequality than does the second, both because of the ways in which in pulls down wages at the bottom of the labor market and because of the way it pulls up the earnings of people at the top of the labor market. While no actual society can be considered a pure example of one or the other of these, the United States is the closest to the first type of labor market of any of the developed capitalist countries, and if anything since the 1970s has moved closer to the competitive labor market model.

There are a number of reasons why the deregulation of labor markets and the intensification of competitiveness within labor markets will tend to escalate inequality in earnings:

First, the constant adjusting of pay upwards and downwards as people compete for jobs leads to a greater spread of earnings over time. Success in intense competition tends to generate cumulative gains over time because early success acts as a signal to other employers about the desirability of a particular employee. In a complementary manner, "failure" in a labor market – for example, losing one's job – acts as a negative signal even if the failure was not under the person's control. There are always winners and losers in market competition, but in weakly regulated markets with high stakes competition, the consequences of winning and losing tend to cumulatively intensify overall inequality.

Second, in certain labor markets competition takes of what Robert Frank has called "winner-take-all" competitions.[5] A winner-take-all market is one in which very small differences in performance generate big differences in pay. This is like in the Olympics in which the gold medal winner of a race receives all of the fame and fortune, even though the difference between first and second place may be only hundredth of a second. While true winner-take-all markets in which there is a single winner are rare, many labor markets for high paying jobs have some of the features of such markets: corporations are prepared to pay enormous salaries for people they consider to be the "stars" in particular fields. This tends to ratchet up the salaries at the top of the

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[5] Robert H. Frank and Philip J. Cook, *The Winner-Take-All Society: Why the Few at the Top Get So Much More Than the Rest of Us* (Penguin, 1996)

payscale, particularly when the competitive arena expands from local to regional to national and even international scales. To the extent that labor markets become more like winner-take-all competitions, over all earnings inequality within those markets will increase.

Third, one of ways that competition can be muted is through social norms which define what kinds of behavior in the market are acceptable. Is it acceptable for an upper manager in a firm to be constantly on the lookout for higher pay in another firm, or is it expected that managers display real loyalty to the corporation for which they work? Does jumping from firm to firm to increase one's pay indicate healthy ambitiousness or a lack of commitment to the future of the firm in which one is working? In the decades around the middle of the 20th century there were fairly strong norms – informal rules and expectations – within corporations that held managerial salaries in check. Writing in 1967 the economist John Kenneth Galbraith wrote that "Management does not go out to ruthlessly reward itself – a sound management is expected to exercise restraint…There are few corporations in which it would be suggested that executive salaries are at a maximum."[6] Managers and executives were expected not to constantly try to maximize their personal gain, but to act on behalf of the interests of the corporation for which they worked "in accordance with accepted cannons of behavior".[7] Managers and executives in corporations were still well paid, but the norms and expectations of the era kept their salaries somewhat in check. Beginning in the 1970s and accelerating in the 1980s those norms disintegrated, particularly for the top leadership of large corporations. The dramatic rise in the salaries at the very top, in turn, tended to pull up salaries of managers in tiers below the top. In many corporate settings by the end of the century, not moving from job to job was seen as an indicator either that there must be something unsatisfactory with the quality of one's work or that one lacked competitive drive.

These changes in norms around behavior and earnings have also occurred within the professions, not just in corporate hierarchies. Pay for professors in American Universities has traditionally been governed by a combination of seniority rules, academic rank, and merit pay. Professors who publish a lot and have strong academic reputations receive merit pay increases, but equally professorial rank and seniority were important in determining salaries. Since the 1970s "playing the market" has become an additional powerful force in determining faculty pay. In some universities Deans explicitly tell faculty members that if they want a pay increase they need to get an outside offer from another university, which then generates a "retention offer". The result is that it now happens not infrequently that high profile professors, with no serious intention of leaving their university, seek outside offers simply to trigger a bidding war between universities. This can sometimes lead to fantastic pay increases of 100% or more. In the past such behavior would have been viewed as quite disreputable. The social norms which dampen market competition in academic labor markets have clearly weakened.

Increased competitiveness, tendencies towards winner-take-all markets, and weakening social norms that dampen income maximizing strategies have all had particularly important effects on increasing inequality at the top of the earnings distribution. The decline of government regulation of low wage labor markets and the virtual collapse of the union movement has contributed to increasing inequality by lowering the bottom. The most obvious form of this deregulation is the destruction of an effective minimum wage as described earlier in chapter 9.

[6] John Kenneth Galbraith, *The New Industrial State* (Princeton: Princeton University Press, 2007, originally published 1967) p.146.
[7] John Kenneth Galbraith, *The New Industrial State,* p. 151

This directly has allowed the wages in low-wage jobs gradually decline, not just for minimum wage jobs themselves but for jobs paid just above the minimum wage whose pay scales are pegged to the minimum wage. Economists have estimated that wages in roughly the bottom 15% of jobs are directly affected by the level of the minimum. **[check this estimate]** Other forms of government effective deregulation of low wage labor markets include lax enforcement of workplace regulations, which have allowed a growth of sweatshops in some cities; the increasing employment of illegal immigrants often paid below the minimum wage; extremely hostile stance by the government towards labor unions. All of these have the effect of lowering wages at the bottom of the labor market and thus increasing the distance between the bottom and the top in the distribution of earnings.

3. Wealth Inequality

Economic inequality is not simply the result of earnings inequalities generated through paid employment; it is also generated by inequalities in wealth. To an even greater extent than is the case for earnings, wealth inequality has increased since the 1970s. Three critical processes have driven this trajectory.

First, inequality in labor market earnings itself contributes to inequality in wealth since people with high labor market earnings are in a much better position to use some of their earnings for investments in wealth-generating assets than are people with more modest earnings. The relative stagnation of median household earnings since the 1970s has meant that most households do not have much discretionary income – income left over after on-going household expenses have been paid – to allocate to wealth-creating investments. For most people, in fact, the only important source of wealth is home-ownership. The fantastic rise in employment earnings at the high end of the labor market, on the other hand, has allowed well paid professionals and corporate managers to turn surplus earnings into investments of various sorts. The result has been increasing concentrations of ownership of stocks, bonds and other forms of capitalist wealth (see Figure 12.x).

Second, since the 1970s there has been a dramatic change in the character of the American economy that some analysts have called "the financialization of the American economy." This is a very complex process, but basically it means that beginning in the late 1970s until the financial crisis of 2008, the American economy shifted from an economy within which profits were mainly being generated in production and trade to an economy in which most profits were being generated within the financial sector through the buying and selling of assets of various sorts rather than directly through the production of goods and services. **Figure 12.X shows this trend. In 1980 X% of all profits in the economy came from the financial sector. With some ups and downs, this had risen to around X% in the early 200s. data from Greta Kripner.**

This financialization of the economy reflects, among a variety of other factors, the decisive deregulation of the financial sector that occurred in the 1980s and 1990s and the increasingly speculative character of investments within that sector. Speculation refers to a strategy of investment in which a particular asset is purchased not mainly because of the flow of income that will be generated by that asset – for example, dividends from buying a stock in a company or rent from buying an apartment building – but rather from the expectation that the value of the asset itself will increase over time. When speculation becomes particularly intense, the result is often what is called a "speculative bubble". This is a situation in which the price people are prepared to pay for a particular asset gets increasingly out of line with what might thought of as its “real” economic value, and the price keeps getting bid up by the expectation that the price in the future will continue to rise. When, eventually, people begin to realize that the price in the future is likely to decline they abandon the assets and the bubble bursts. What deregulation of the financial sector did was open up a wide range of new strategies for this kind of financial speculation without any meaningful supervision. The result eventually, as we found out in 2008, was a financial crisis. But until that happened, enormous amounts of money were made in the financial sector.

The third development, as we saw in Figure 9.X in chapter 9, concerns the change in the relationship between productivity growth and wage growth since the 1970s. Prior to the 1980s there was a rough correspondence between the growth of labor productivity – how much value people produced per hour of labor – and the growth of hourly wages. Since around 1980, this correspondence has largely disappeared: there has been considerable growth in labor productivity in the economy while hourly earnings remained quite stagnant. What this means is that an increasing portion of the economic value created by the increased productivity was going to owners of assets rather than to the producers themselves.

There have thus been three significant economic shifts in this period all of which contribute to increasing inequality of wealth: earnings inequality has increased dramatically creating much more discretionary income in the upper tiers of the earnings distribution which can be invested in wealth; income has shifted from the people doing the work in the economy to those owning assets; and profits have shifted from sectors which actually produce goods and service, to the financial sector.

The financial crisis that began in 2008 has destroyed trillions of dollars in financial assets, and while real human suffering from the crisis has been felt largely by people who have lost their jobs and houses as a result of the crisis, the decline in the stock market and the collapse of a number of powerful financial institutions has heavily hit the wealth of people at the top. In the short run, at least, this will result in a reduction of wealth inequality.