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The United States' Income Gap

The Income Gap between the wealthy and impoverished has always existed. But today it's become a widespread issue defined as unfair, ill-advised, class warfare, etc. What is the income gap and how does it pertain to modern society? Is it necessary for the success of a Capitalist nation, or should the gap be closed for the good of the country? To further understand our current situation in regards to today's unbalanced system, past trends and figures must be considered. Also necessary is a concise definition of Capitalism and proper knowledge of its ideal conditions. If that understanding can be reached, then the next step is to determine possible changes or fortifications in order to adapt to modern society with a new system or the old, respectively.

The Income Gap, or income inequality as it's commonly termed, is the middle ground between the severely rich and the devastatingly poor citizens of the United States. It's been argued that it's a necessary and crucial element of Capitalism and must be maintained in order for it to thrive. But in recent years, many have become disenchanted with the concept. This may be due to many factors, but the most pertinent one is that it seems to be growing. Basically, the income gap could be made up of middle class citizenry. If the poverty line is where it starts, where does it stop? In part, that's the issue at hand. Some say that the poor are getting poorer, while others say that the rich are just getting richer. In terms of statistics, it seems to be both. In fact, since the 1970s, the gap has been widening substantially. Prior to that time period, the nation experienced a somewhat less substantial gap between the wealthy and skint.

The US Department of Commerce found that the top 1% of earners had their percentages of the total national income nearly triple between the years 1979 and 2011, topping off at 275% extra. This kind of increase is quite desirable across the board, but the numbers tapered down significantly from there. The next highest income bracket grew by 65%, then 40% for the second lowest realm, and finally 18% for the low-income earners. Basically, between this time period, if one's annual income was \$100,000, that amount would increase by 275%, making that person's income \$375,000, whereas a person with an annual income of \$10,000 in 1979 would have an income of \$11,800 in 2011. Hardly worth working over thirty years for that. But maybe it's okay to remain with virtually the same income over the course of your career. If you've never known anything better, then what's the harm? Well, in 2011, the country was in the middle of a massive recession. Survival is next to impossible for that very reason. And if one has never known anything more than their meager earnings somewhere in the vicinity of \$10,000 annually, then what happens when that literally isn't enough to survive? That person struggled before, but now it's completely impossible.

As an aside, terms like "1%" and "99%" have become somewhat stigmatic these days., but in this setting, they are only used as actual statistical figures. The aim here is not to point

fingers at a single group of “1%” people, but instead to determine cause and solution to this current predicament. But is it necessary for many to suffer while others build fortresses out of cash and very little skilled labor? For a few to be so wealthy, do many others need to suffer? It's a very common argument from that top 1%, indeed. It's been evidenced by many other nations around the world that, in fact, it's not necessary at all, as shown by the Gini coefficient. The Gini coefficient is a rating factor used by the UN, The World Factbook, and the OECD. (Warburton) It runs on a scale of 0 to 1, where 1 is complete inequality (balanced on one end and the other with nothing in between), and 0 is perfect equality (balanced in the middle). Obviously, 0 and 1 are extremes with nobody utilizing a system with the utopia-like 0 coefficient, but many are close to the 1. It's those that do their best to reach that perfect “0” that put the United States to shame. In 2007, Denmark received a coefficient rating of .247 which isn't even a fourth of the way to an imperfect system. That same year, the US read as a .40 or nearly twice as far in the wrong direction. Between 1994 and 2009, Sweden's average Gini rating was a .23, whereas the United States was at .45. Essentially, America's Capitalism has gone awry somewhere. Now, Sweden and Denmark hold more Socialist systems in place, but that's not to say that Capitalism can't still survive. Socialism (which has also become a national stigma without reason) seems to work for smaller nations in Northern Europe, but it might not necessarily be the solution for such a large country as this one. In 2012, Germany (free market and trade) announced that their citizens would get a tax cut worth over 5 billion USD. (The Guardian UK) How is that even possible? Well, they realized that they had collected more than 14 billion USD extra in taxes. In other words, Germany is one of the very few western nations that is not in debt. But although they practice free market and trade in a similar fashion to the way the United States does, Germany is still a much smaller country and therefore cannot possibly have as large a top percentage of income earners as there are in the United States. Conjecture could be put forth that the more people with large incomes there are in a country, the more likely they are to have an unfair system, but there is not enough evidence for that to provide even a correlation, and following that, there is no causation. It might be appealing, but it cannot be proved. All that is illustrated by Germany's fiscal success is that they have utilized Capitalism more effectively than we have.

At this point, it seems necessary to try and find a thorough definition for Capitalism. In searching for this, though, one will find only vague analysis of past cultures and extremely loose definitions for Capitalism as practiced today. In terms of etymology, a person who owned capital became known as a “capitalist”. “Capital” comes from Latin words for head (in reference to amounts, not body parts.) If one owned a sheep, this could be called “one head” and hundreds of years later, they could be back-titled as a “capitalist” in a more post-feudalism sense. This then shifted over the years and turned into less tangible assets, i.e. stocks, loans paid out, credit, etc. Today, it seems to have taken on a particular belief structure. If a person says “I am a Capitalist,” then it could be inferred that they have a strong belief in the financial systems used in modern western culture. Not only that, but they most likely know how to manipulate that market to their advantage. Since the majority of people own *something*, many people can hold a claim to the title of “Capitalist” in a more purist sense. So that might explain the need for “Capitalism” to take on a stronger meaning than merely owning something. However it evolved, the term can be derived from the quality of ownership.

Following the title, the actual practice has also evolved into several different forms over time. There is much disagreement as to the actual system and the way it is put into practice, though. Names are much simpler than fiscal systems that run all of sophisticated society. It's best to derive important elements from all over the realm than pick one. Each has strengths and weaknesses. Most experts agree that Capitalism is an "...economic system that includes private ownership of the means of production, creation of goods or services for profit or income, the accumulation of capital, competitive markets, voluntary exchange, and wage labor." (Heilbroner, Robert L. *Capitalism*. New Palgrave Dictionary of Economics, Second Edition (2008)) So while the finer elements are left up to the individual state or country, this seems to cover the broad spectrum that is modern Capitalism.

Is this the Capitalism in practice today? It can be argued both ways. In a political vacuum, capitalism could be running just this way. But nothing can be said to be devoid of politics. Whether or not Capitalism is running just as it is defined is irrelevant. The politics at play are the true deciding factor in determining the outcome of each fiscal year, and as such, the deciding factor in determining the growth or shrinkage of the United States' income gap. When put in a very minute way, Capitalism could be defined as "Some have, others need." Some have a field for producing crops, others need those crops. To be more complex, a middle man could step in and buy in order to resell, but he could be simplified to the one that "has" the time, money, transportation, etc. to purchase those crops and then sell them to those that need them. It's when it gets to the point that having is no longer good enough and the ones that "have" *also* "want". To a point, this is fine as well. The crop grower could want another field because so many people in his general region need those crops. It's even fine if he wants somebody else to do the work for him. In fact, that helps the somebody else get a financial foot hold somewhere in life. But it's when he exceeds his growing needs and desires everything else in his grasp that he starts to unbalance the system. In other words, nobody *needs* a vault full of money, but so many at the top probably do have them because of their strong desire to simply have one. Conjecture? Maybe, but not unprecedented. As long as a person has enough money coming in to be able to afford a reasonably priced lifestyle and put away for the future, they don't need more than that.

So, why then do so many people still struggle each and every day? People vary greatly from individual to individual. It can't simply be trusted that if a person has enough money coming in that they'll just stick with what they get and leave it at that. Their prices go up. They have no "need" to supply people with reasonably priced goods. They make enough money off of it that they can afford to turn away a few who aren't wealthy enough to purchase one of their units. With many other factors at play (popularity, trends, quality, brand name, etc.), they can make even more money off of their stock if it's priced high without the cost of production rising. Apple is a very good example of this concept. Through strategic pricing, Apple can set a new iPad at \$800.00 here in America, but it can also cost the equivalent of \$100.00 in Thailand. It's not as if Apple just "needs" to supply less fortunate peoples with iPads and so their willing to eat that giant difference. Instead, it's that the cost of producing the iPad is nowhere near what it costs to purchase one in the United States. At the very least, given the benefit of the doubt, it might cost a tad more to produce the product than it does to sell it in the lower-priced markets and they're just counting on their higher-priced markets to make up the difference. That might not

even be the case, though. Whatever it ends up being, Apple is a great example of what is called “prestige pricing”. Their name, their sleek look, their word-of-mouth, their extremely devoted fanbase, et al are reasons why they can get away with such expensive products in a free market. “Prestige pricing” is only one element of an entire field with subfields devoted to this type of economics, though. So Capitalism really does not have a chance at maintaining its purity with so many other factors at play.

Now that the grunt work is out of the way, a return to the income gap is essential. It's pretty easy to relate all of the above information to the growth of the income gap. The wealthy sell products to the poor, but the wealthy want more now and so the prices go up. Disregarding iPads and Apple, these are products the public *needs*. Luxury items can be in the realm of Capitalism, no matter how impure the system is now, but things that are necessary to one's survival should belong to a more Socialist arena. Perhaps it's not such a great idea for the government to hold its peoples' essential items as we saw at the end of the Cold War with the USSR. But when a very few hold power, money, and access to everything we need, what's the difference between our 1% and Soviet Russia? In returning to the crop grower, he raises his prices, the public's savings must go down. They *need* these crops. Then it multiplies when the crop grower's pesticide, soil, and seed providers raise their prices for the same reasons. The public is now paying a large multiple of the price they were originally paying. Then the crop grower makes enough money to purchase his providers and form a conglomerate. He now has the power and freedom to hire an entire staff to do the job. The crop prices rise again due to that payroll. Now he promotes a manager so that he doesn't even have to come to work anymore. That's another hike. This trend continues until it gets to the point that the customers can't even afford to purchase the things they need, but the head of the company can't afford to lower his prices to the price the public *can* afford – at least, not until he lays off half of his employees. It's basically a microcosm of the housing bubble. It grew and it was great to be a part of it at the time, but then it burst and left everyone in dire straits. This leads nicely in to how this particular brand of “capitalism” affects the entire nation, but it's first necessary to return to the idea that politics play such a massively important role in the way capitalism has strayed so far from its roots.

The world of politics has a vastly expensive tradition. And as such, the majority of funds – especially today – come from large donations made by corporations with their own interests at heart. In return, they can hope for that politician to make great strides on their behalf. It's not guaranteed, as people tend to vary so widely and the things a company might want aren't necessarily in the public interest. But to put it simply, this is just another financial endeavor for those with all they need to gain more. It's kind of like playing the stock market, where the politician is your stock and you are then allowed to make lots of money later. That's one factor of politics and capitalism, but it's a biggie. There's also a pretty nice correlation between who raises the most money and who wins the elections. This is the politician's incentive to look for donations to his/her campaign. So why should we expect our elected officials to work for *us* when we aren't the people that their income is truly based on. No, they can't accept donations outside of a campaign fund, so their salaries still come from taxpayer money. But that's set in stone. Taxpayers pay for their elected officials. That's most likely not going to change. What

makes the difference in how they perform is based on the fact that their election and re-election hinges on these large-scale donors. It has almost nothing to do with voters. So who cares what they think? “Widen the gap between the rich and the poor if you must. I'll be well on my way to high society with a couple of years as a senator.”

Now comes the time to discuss the real dangers of this set-up. Apart from the failure of much of the western world, the income gap could destroy many lives – and already has. For one, as discussed above, once a bubble bursts, the only real options are to lay off workers or lower prices to dangerous levels ...while still most likely laying off your staff. It's not feasible to hold on to all of the personnel hired during your business boom during a recession. Currently, our income gap is comparable to that of 1928 but our recession is much, much worse. The most similar part is the fact that the portion of national income attributed to the top percentage of earners is at the same level as it was just before one of the most famous stock market crashes. One could infer that we might be on the brink of another crisis that will send us into a deeper hole, but more evidence is needed. That similarity, though. It's not a good thing. If we were to experience another crisis, many people would not survive it.

Another reason this issue brings about a lot of danger is the significance of money and the large sums that are played with every day by those who “have”. Two million dollars a day might be a pittance to someone with ten times that amount, but it translates to \$200,000 if divided amongst ten people. For a hundred people, that's \$20,000. That amount could be an entire year's salary and then some to those hundred people, especially if the percentage of earners below the poverty line is so great. Increasing the pool of low-income earners just puts more people at risk when so much money is lost. That's evidenced in the recent banking crisis and subsequent bailout. Capitalism plays heavily on the concept that money can't be created but is a valuable resource (lots of emphasis on “value”). So as if this is a large tug-of-war match with 99% of the country on one side and 1% on the other side, but that 1% has so much money that the majority of the 99% actually work for them and are going to throw the match, that side will end up in the mud pit.

All Americans need to come up with new, ingenious ways in which they can avert the disastrous economic situation they've been placed in during recent years. If they cannot do so, this country will fall even harder than it already has and it will be much more difficult to build it back up in the future. At the political level, changes need to occur. If Capitalism must stay, then it needs to be adapted in order to fit the needs of the nation in which it is in practice. It also needs to be able to correspond with the rest of the world in a much more effective manner. But if all of the items contained herein come together to illustrate one single point, it's that the whole Capitalist system is the inception point, as well as the supplier of the income gap in America, and might very well be the downfall of the nation as a whole. This is an issue to be thought about and actively debated if the United States of America is to have any chance of taking part in the global situation even fifty years from now. An income gap is not “necessary” in other national practices. In fact, it's highly ill-advised in the majority. For a final simplification: if your customers are too poor to buy your goods tomorrow, you should stop wrenching money from their hands today.

It's time the United States made changes in its system. Capitalism is outdated and detrimental to the nation's growth. It's played out its usefulness but – like the so-called “housing bubble” – there comes a time when new choices must be made in order to maintain the massive growth a country has experienced while also maintaining – and even increasing – its fortitude. The US needs to look at countries like Denmark, Sweden, and Germany and determine the ways in which it can emulate them on the federal level in order to rebuild its tattered market and close the large income gap. The nation will prosper as a whole (quite possibly in faster, stronger ways than it has previously experienced), and American citizens will be eminently grateful.

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