

# ISSUES IN PERSPECTIVE

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## *The Debate over Income Inequality*

In President Obama's State of the Union address it was one of the primary themes. It is the centerpiece of almost everything MSNBC features in its cable news coverage. The Democratic Party is banking on this as the cornerstone of its 2014 campaign to retain control of the Senate. Income inequality is once again a "hot issue" in American politics. Talk of increasing the minimum wage, taxing the wealthy to fund additional programs for the poor, and extending unemployment insurance are all examples of federal programs being discussed. More specifically, significant tax-the-rich proposals are being suggested to fund pre-Kindergarten educational programs (e.g., Mayor William de Blasio of New York City). That there is income inequality is a given in America; in many ways it has always been so. There is a growing gap between the very wealthy and the very poor. Poverty is an important social issue, one to which God has spoken in His Word (e.g., Amos). But how do we approach such a complicated and controversial issue? The more one investigates the issue, the more complex it becomes. One thing is certain: There is no simple answer; no single solution that will solve poverty or income disparity.

Perhaps most importantly, it is vital how one frames the question. Income inequality often exclusively focuses on the top 5% of workers who are wealthy and whose wealth is growing. But at the other end of the spectrum is a growing class of people who are stuck in poverty and they are the 2<sup>nd</sup> or 3<sup>rd</sup> generation in their family to be considered poor. For those individuals, high school dropout rates, the disappearance in America of low-skill jobs and the very important breakdown of the family are contributing factors that explain their poverty. As columnist David Brooks has shown, "There is a very strong correlation between single motherhood and low social mobility. There is a very strong correlation between high school dropout rates and low mobility. There is a strong correlation between the fraying social fabric and low economic mobility. There is a strong correlation between de-industrialization and low social mobility. It is also true that many men, especially young men, are engaging in behaviors that damage their long-term earning prospects; much more than comparable women." Most decisively, being unmarried is one of the highest risk factors for poverty. As columnist Kathleen Parker observes, "Marriage creates a tiny economy fueled by a magical concoction of love, selflessness and permanent commitment that holds spirits aloft during tough times." As a corollary, single parents (usually mothers) face all the challenges of life alone—including all the financial burdens. The result is therefore often increased poverty. What exacerbates this horrific situation is that our culture devalues and mocks marriage—"reducing the institution to a [mere] buffet item." As a common sense observation, rebuilding a culture of marriage must be a part of the solution in dealing with poverty.

Is increasing the minimum wage an effective way to deal with poverty? Or is it just a popular symbol that is relatively easy to do politically but actually does nothing to really help people in

poverty? Joseph J. Sabia of San Diego State University and Richard V. Burkhauser of Cornell looked at the effects of increases in the minimum wage between 2003 and 2007. Consistent with other studies, their study demonstrated that such raises have no effect on poverty rates. Why? As Brooks indicates, “only 11% of the workers affected by such an increase come from poor households. Nearly two-thirds of such workers are the second and third earners living in the households at twice the poverty line or above. The primary problem for the poor is not that they are getting paid too little for the hours they work. It is that they are not working full time at all. Raising the minimum wage is popular politics; it is not effective policy.” Furthermore, as columnist George Will argues, since only 3% of the workforce earns the minimum wage, increasing that hourly wage rate will have virtually no effect on the unemployment rate. Also, since approximately 24% of minimum wage workers are teenagers, increasing that cost for business will, if the past is any measure of what will occur, cause them to find ways to reduce teenage employees; the unemployment rate will thereby increase. Will makes this acute observation about the minimum wage: “Most minimum-wage workers are not heads of households. More than half are students or other young people, usually part-time workers in families, whose income is \$53,000 a year, which is \$2,000 more than the average household income.” In addition, nearly two-thirds of minimum wage workers get a raise in their first year—not an insignificant fact in this debate. Any focus on increasing the minimum wage as one of the key solutions to the poverty and income inequality challenges is naïve at best, political manipulation at the worst.

If the United States is going to seriously address the income inequality issue, public policy should not be focused on the minimum wage rate, which as the above has shown will have virtually no effect on the problem. Rather, intelligent public policy must give focus to bad schools, dysfunctional families, the absence of jobs for young men and the deteriorating institutions in society that bring stability and order to life. As Brooks concludes, “Some on the left have always tried to introduce a more class-conscious style of politics. These efforts never pan out. America has always done better, liberals have always done better, when we are all focused on opportunity and mobility, not inequality, on individual and family aspirations, not class consciousness.”

The role of the federal government as the *primary* driver in focusing on opportunity and mobility must be approached with some skepticism. This skepticism is fed by the unraveling of Obamacare, which is, as columnist Michael Gerson argues, “also an unfolding crisis of liberalism.” The Affordable Care Act (ACA) was intended to provide nearly 40 million people, who do not have health insurance, with affordable health insurance. But it has not done that. Gerson shows that the ACA is fundamentally a health insurance replacement system rather than an expansion. And this “replacement” system is often less generous, more expensive and more restricted in options than Obama promised. In addition, as Megan McArdle of the *Wall Street Journal* has demonstrated, the worst is yet to come: small business policy cancellations, expensive government subsidies to insurance companies for excess losses, higher premiums in the exchanges, the IRS collection of individual mandate penalties, cuts in Medicare Advantage, the ‘Cadillac tax’ on expensive policies, [and] the possibility that some insurers will exit the public market entirely.” The end result of all this is diminished trust in government to solve social problems through radical public policy decisions. However America deals with the cluster of issues surrounding poverty and its deep-seated causes, one thing seems quite clear: Do not

buy the lie that the minimum wage increase will solve the problem. It may be an important and worthy social policy goal, but it will have virtually no impact on poverty or unemployment issues in our economy. Further, radical federal social policy initiatives that are promoted as a part of a class-conscious ideology are doomed to fail. At the least, the emphasis of America should be twofold: Restore a culture of marriage, and build a culture that sees opportunity and mobility as far more important than a class-conscious ideology.

See Michael Gerson in [www.washingtonpost.com](http://www.washingtonpost.com) (28 January 2014); David Brooks in the *New York Times* (16 January 2014); George Will in [www.washingtonpost.com](http://www.washingtonpost.com) (16 January 2014); and Kathleen Parker in [www.washingtonpost.com](http://www.washingtonpost.com) (15 January 2014).