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POLS 1500

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## **Persuasive Essay: The Great Divergence**

### **The Reality of Economic Inequality, Why It Is Getting Worse and What We Can Do About It**

#### **Introduction**

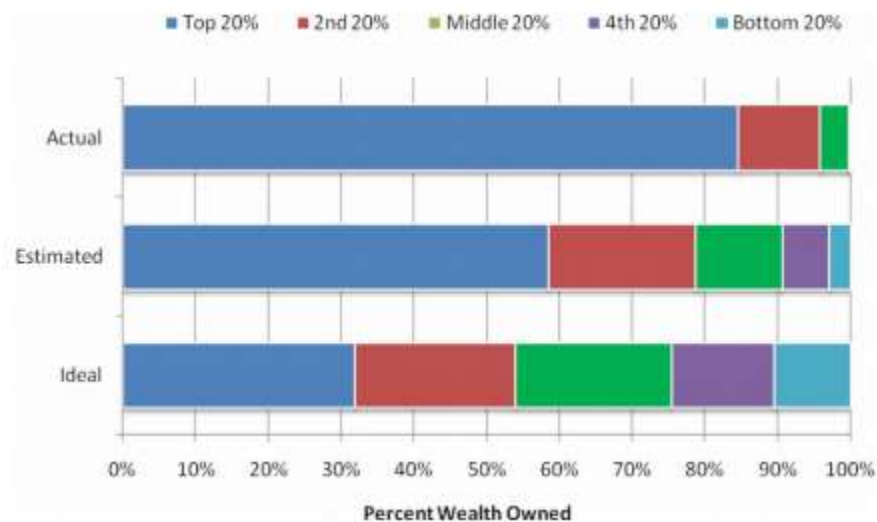
In 1979 the trend of democratization of income, which Americans had taken for granted for decades, began to reverse. The difference between the “haves” and the “have-nots” began to grow, and over the next 34 years the growth of the wealth of the richest Americans (the 1%) escalated dramatically, while the growth of the middle and working class slowed at an equally impressive rate. Nobel Prize winning economist, Paul Krugman coined the term “The Great Divergence” in 2007 in reference to this era of increasing economic divide. (*Noah, 2012, p. 4*)

In 2010, Timothy Noah wrote a series of articles for Slate.com which described this divergence in detail. Noah’s works helped inspire Kallie Lasn of *Adbuster’s* to come up with the idea for the Occupy Wall Street movement in 2011; the entire founding premise of Occupy was based on the slogan, “We are the 99%”, and Timothy Noah was the one responsible for the public understanding of that statistical divide. Occupy Wall Street brought the entire world’s attention to income inequality, and inspired a movement of formerly uninvolved young people to act. At its peak, the Occupy movement spanned over 100 cities in the United States and actions in over 1,500 cities around the world. (*Street, 2013*) Noah’s book provides a dizzying array of statistics supporting the well-known claims of Occupy Wall Street, as well as theories as to the causes of The Great Divergence, and proposed solutions to help stop the growth of economic inequality.

#### **Income Inequality Is Real**

Part of the reason the Occupy movement took off, is that it was the first time many Americans realized exactly *how* unequal things really were. There is an illusion in our culture of a vast and sweeping middle-class, a small group of “elites”, and a small population in poverty. When the curtain is pulled back and Americans learn the reality it can be quite shocking. Americans, more than any other population, see themselves overwhelmingly as middle class, regardless of their actual income. When surveyed, people from \$400,000 to \$14,000 a year all listed themselves as middle class. US citizens do not like to think of

themselves as outside of the “norm”. Those in the upper income levels tend to take the “we’re just like you!” attitude. While those who are actually far below middle-class lines are also in denial; who wants to admit they are actually living in poverty? Because of this illusion, the fact that only 1% of people hold 40% of the nation’s wealth is absolutely mind-boggling. There is now a viral video circulating which is shocking and outraging Americans. The video is based on a study called: “Building a Better America— One Wealth Quintile at a Time” by Michael I. Norton and Dan Ariely from Harvard and Duke University’s, respectively. The video takes the academic paper and puts it into plain language and impactful graphics. Norton and Ariely surveyed people and asked what their ideal wealth distribution would be, and what they thought the reality is. This chart shows the results of that study, as well as the *actual* economic reality in the United States. (Ariely, 2011)



This screen-shot from the video shows it even better:



That huge column of green on the right side, the one that reaches so high it is cut-off? That is the share of wealth for just the top 1%. The graph is so miniscule for the bottom 40% of people that you can barely even see it, and in these visual terms the stark contrast becomes very clear. The statistics bear repeating: 1% of people in the United States hold 40% of the wealth and earn 24% of the income, and 80% of the people hold only a 7% share. (Noah, 2012, pp. 75-78) (Ariely, 2011)

This video and the Occupy movements garner so much public attention because they provide a stark contrast against everything that Americans are taught, against everything that Americans believe. US children grow up learning about the American Dream, about exceptionalism, and about individualism. Parents, teachers, and politicians, tell stories of immigrants and slaves, factory workers and farmers, who “rise up” and break the chains of poverty. Everyone can tell a story of the “self-made man”, or the woman who broke the glass ceiling. Yet, when one examines the reality, they will see that these stories are the exception, not the norm.

Conservative politicians have a variety of responses to the issue of economic inequality. Ranging from “inequality is good, because it motivates people”, to “Income really doesn’t matter”, to “wealthy people just work harder!” The first two statements require a position of extreme privilege. It takes an enormous amount of naiveté to believe that hunger and poverty and lack of healthcare is a positive thing for the US. If someone believes that income doesn’t matter, then they have never experienced a health crisis while poor and uninsured. They have never been told that they could be very ill, but since they can’t pay there is nothing that can be done. They have never faced disability and death because of a price-tag on their health which they couldn’t pay. In order to believe such a thing one must be genuinely naïve, or willfully ignorant.

There is a logical reply to the productivity argument. CEO’s earn 380x the pay of their average employee. Not the lowest paid, janitorial, employee- a mid-level salary, *average* employee. There may be justification for paying a CEO three times that of his workers, or even ten times. But are these business leaders really working almost *four hundred times* harder? (Liberto, 2012)

Until Americans (particularly, conservatives) admit to the reality of economic inequality, and the *harm* resulting from economic equality, there will never be a resolution. The problem must be addressed before it can be solved.

### **Diversity Considerations**

Timothy Noah briefly addressed racial and gender divides in economic inequality, yet dismissed them as real factors in The Great Divergence. As he pointed out, these divides are very real (white women earn

76 cents for every white man's dollar, while women of color earn even less- as low as 50 cents. Men of color face similar discrepancies) but these divides have not increased since 1979, but have instead maintained or even improved. A similar case can be made for the inequality between people with disabilities and able-bodied workers; there is a definite imbalance in wealth and income, but it has actually improved in recent years, while economic inequality in general has gotten much worse. For that reason, diversity factors were not among the considerations for the cause of the great divergence. (*Dedrick Muhammad, 2012*) Immigration factors were similarly negligible. There was some parallel curve in the trends between increased immigration rates and The Great Divergence, but the connection has been greatly exaggerated in the media and by politicians, especially conservatives.

The following section outlines the factors which Mr. Noah attributed some responsibility for the current economic situation in the United States.

### **Causes of The Great Divergence**

- **The College Premium**

The United States has demonstrated some interesting trends in education in the last 30 years. All around the world there has been an increase in technological advances, and a global elimination of task-specific, moderate-wage jobs. The jobs that technology is stealing are being replaced with low-wage customer service jobs. A lot of the blame for America's shrinking middle class has been placed on this technology takeover; however, as Noah pointed out, the same trend has happened around the world but only the US has seen the Great Divergence. (*Noah, 2012, pp. 67,74*) The trend that has happened in the states, and nowhere else, is a slowdown in educational attainment. High School graduation rates are down, and while college attendance rates are up, graduation rates are on a steady decline. This trend has increased the average wage for advanced degree holders, but widened the gap for everyone else.

- **Mixing Business with Politics**

In the last thirty to forty years, there have been drastic changes in the basic financial structure of our government and the way it is funded and influenced. The tax code is complicated and impossible for most people to understand, but one thing is certain- that the trend has been dramatically shifting in favor of the wealthiest citizens in the country. Between changes to the top income-tax brackets and increasing corporate loopholes, to a drop in estate and gift taxes, the biggest benefits fall on the richest Americans. (*Noah, 2012, pp. 150-163*)

Around the same time as changing tax rules, was a trend of increasing involvement of the corporate lobby in government. In the early 1970's, business began blaming politics for their troubles, and quickly became organized and effective at pushing their agendas. This ramping-up of corporate interest has only gotten stronger, with an annual three *billion* dollars being spent on lobbying efforts- more than twice what the number from a decade ago. Citizens United (the Supreme Court Decision to allow unlimited, anonymous, corporate donations to election campaigns) is only going to lead to a continued climb in these numbers. (*United States, 2009*)

It is no coincidence that the mixing of business with politics coincides with The Great Divergence. Corporations do not want income inequality. There are far more profits to be made by exploiting people with low wages, minimal benefits, and no way out. A level playing field works against every major business interest, and the result is billions of dollars in donations and lobbying efforts to pass unjust, unequal, legislation enslaving the poorest Americans.

- **The Rise of the 1%**

It is also no coincidence that during the same time that tax-rates have evolved in favor of the very rich, and corporate interests have invaded politics, that there has been a dramatic and steady increase in the wealth of the top-tier elites in the United States. Noah divides the top 10% of earners into a few subdivisions, from “sort of rich” (\$109,000-\$153,000 per year) to “stinking rich” (anything over \$9.1 million per year.) He explains how we have such an extreme divide of wealth now that these upper distinctions are necessary. He then breaks down the increase in annual income (according to the IRS) since the beginning of The Great Divergence in the late 1970's, and the results are as follows:

- The “Sort Of Rich” saw an increase of their share of the wealth from 34%-48%.
- The “Basically Rich” saw an increase from 23% to 37%.
- The “Undeniably Rich” (the top 1%) saw an increase of more than *double*.
- The “Really Rich” (the top 0.1%) saw their share more than triple.
- And finally, the “Stinking Rich” (the top 0.01%) saw their share more than *quadruple*, so that now just 8,400 people hold a 5% share of the nation's total income.

These numbers are worth outlining in list form, because there is a definite trend worth noticing—the richer you are, the faster you expand your slice of the national income. (*Noah, 2012, p. 147*)

Around the world, there has been a similar trend of increasing incomes, but not anywhere *near* as extreme or as rapid as in the United States.

## Proposed Solutions

- **Education Reform**

Noah suggests expanded early-childhood education, with universalized preschool. He also suggests reform to America's college education system, including much-needed reform of pricing structures. University costs now equal 10-35% of the average family's income, annually. For an increasing number of young adults, this price can no longer be paid. Therefore the US is losing speed in the supply of educated and skilled employees, which contribute to national economic inequality.

This is a somewhat liberal solution. Student loan reform and Pell Grant programs do have some bipartisan support, but it is limited. Support of early childhood education seems to depend on who is in office... Conservatives supported reform when George W. Bush was in office, but are vehemently opposed now. (*On The Issues- GWB and Education, 2010*) I agree that it is a positive step, especially considering the supporting evidence and coinciding trends that are uniquely American. It seems an obvious and somewhat manageable area to address. Reforming early and higher education would take far less change, and is far more negotiable on a bi-partisan level, than many of the other solutions Noah suggested. Therefore it would have a higher chance of success.

- **Tax Reform**

In a now-famous New York Times op-ed, Warren Buffett noted that he paid a lower tax rate than any of the employees in his office, and suggested adjustments to the top-tiers of the income tax. He supported an increased rate on those making more than \$250,000 per year, but then went above and beyond that existing idea, to suggest an additional tier for those making more than \$1 million and another for those making more than \$10 million. (*Buffett, 2011*) Noah also suggests a third additional tier for those making more than \$20 million. This invalidates the argument of conservatives who say "\$250,000 isn't *that* rich", and allows for increased taxes on the undeniably wealthy without squeezing those at the lower end of the top bracket, and is therefore a solution which would (in an ideal world) garner support from all sides. (*Noah, 2012, pp. 180-181*)

Noah also points out that we should be taxing things we want less of, not more of. So rather than focusing on income tax, he suggests more consideration of things like taxes on pollution, carbon emissions, oil, and other forms of excessive consumption.

These are very liberal suggestions, which have already been viciously opposed by market conservatives. However, it is one area which would solve many of the existing problems in our government, from inadequate funding for social programs, to the over-taxation of the middle and lower brackets.

- **Corporate/Wall Street Reform**

The 2008 financial crisis revealed part of the reason why bankers and brokers were getting so rich: in one word, corruption. These institutions had become “too big to fail” because of decades of Wall Street consolidation and unregulated, unmitigated, growth. Al Greenspan famously said, “If they are too big to fail, then they are too big”, and more and more people (and politicians) agree. (*Noah, 2012, p. 188*) Right now, Senator Elizabeth Warren of Massachusetts has earned the nickname “the bulldog of Wall Street” in just the few months since she was elected, because she started interrogating big names in congressional hearings, in an attempt to regain some control over the runaway financial industries. (*Alden, 2012*)

Noah does not spend much time on corporate lobby reform, but it is certainly just as important as Wall Street reform. Unregulated business and unregulated finance are similarly dangerous, and the Citizens United case only turns up the heat on these issues. The equating of corporations and people is absurd and threatens the fabric of our nation with the potential to eradicate the middle class and only impoverish more and more citizens. (*United States, 2009*)

These reforms are becoming increasingly bipartisan, with the most resistance (as expected) from the market conservatives. There is the potential for a compromise, and as long as voices like Elizabeth Warren’s keep calling for accountability, it may just be possible.

### **Additional Considerations: Working Together instead of Against One Another**

Timothy Noah’s suggestions to reduce the Great Divergence are mostly ideas which are already present in today’s Democratic Party, and strongly opposed by today’s GOP. In order to finally break through institutional barriers and implement real change liberals must reach conservatives and communicate their message articulately. Advocates of economic change must give conservatives a reason to *JOIN*, rather than always finding ways to work against them to defeat them. There are compromises which could involve members of both parties. Whether or not they want to believe it, every single citizen, rich or poor, has a stake in the economic well-being of the nation. When people are dying from preventable and curable diseases, when children are going to bed hungry, when the mentally ill are sleeping in the street, it affects *everyone*.

The key is finding the *similarities* among different ideologies and creating policy which incorporates those shared beliefs. Republican senator, Tom Coburn, wrote an article about income inequality, and in it he shared many ideas which his conservative colleagues could possibly support. (*Thrush, 2011*) This is just an example of the untapped potential for bipartisan discussion and solutions. The important thing for the dominating liberal voices in these discussions is to remember to find ways to *include* conservatives, rather than alienate them.

### **Conclusion**

Mr. Noah is a liberal who offers liberal solutions—right down to the suggestion to “elect more democratic presidents”. My personal views are also quite liberal, yet I’ve attempted to think outside the box in my “additional considerations” section. The most crucial way the Great Divergence can be addressed is through real, sincere, bipartisan discussion. There must be a mutual understanding of the problem, and a subsequent discussion on innovative, moderate, compromising, solutions. The number one hindrance in congress today is the partisan head-butting and stubborn refusal to budge positions. Bipartisan compromise could produce real results—if only politicians would pause for a moment to work together for the good of all people, not just the wealthy.

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