How Can We Solve the Problem of Increasing Inequality?

One of the biggest social problems that we are having in the United States, as well as around the world, is the problem of growing inequality. In this chapter, I define inequality, point out statistics on it and how it is growing, note some of the key causes and consequences of it, and suggest what we can do about it. Do we want to continue to increase inequality? Do we want to maintain the current amount of inequality? Do we want to decrease inequality in the United States and in the world? As you read this chapter, keep these three questions in mind and see what you believe we should do.

Definition and Statistics

Inequality in a society occurs when people have differing amounts of money (yearly income and/or wealth), power, and/or prestige. I need to define some of these terms so that we all will be thinking the same things as the terms are used throughout this book. The kind of money that we call income is money that we get from the job we have. Wealth, the other kind of money, represents what we own. For example, if you own a home and stock, you have some wealth. Some people have a lot of wealth because they own a number of homes and have millions of dollars worth of stock, whereas other people do not own a home and have no stock. As you know, the variation in income
and wealth is huge. I define the term *power* by using the definition of the great German sociologist of the early 20th century, Max Weber: “We understand by ‘power’ the chance of a man or a number of men to realize their own will in a social action even against the resistance of others who are participating in the action” (Weber, 1968, p. 926). Simply put, power is the ability to make people do things even against their will. If someone is holding a gun on you, he or she can take your money. If someone has the legal ability to make people do things against their will, I define this as *authority*.

For example, a police officer has the authority to give you or me a speeding ticket even though we do not want such a ticket. By *prestige*, which is sometimes referred to as *status*, I again use Weber’s (1968) definition: “We wish to designate as status situation every typical component of the life of men that is determined by a specific, positive or negative, social estimation of honor” (p. 932). In other words, when we give people high honor or high respect, we give them prestige. For example, we tend to give higher prestige to medical doctors and U.S. Supreme Court justices and to give lower prestige to garbage collectors and custodians.

In sociology, we call each of these a *dimension of inequality* and gather data on how much money (yearly income and/or wealth that people own), power, and prestige people have. For example, with regard to money inequality, some people in our country make incomes at the minimum wage level and earn only $5.15 per hour or $206 per week and $10,712 per year. Other people, such as teachers, carpenters, and plumbers, make yearly incomes in the range of $30,000 to $60,000. Medical doctors, dentists, lawyers, and some businesspersons tend to make from $200,000 up into the millions of dollars per year. Some people in our country make billions of dollars per year.

Not only is there substantial inequality in our country, but statistics suggest that it is growing. Let us look at money inequality—both income and wealth—and see how it has been on the rise. With regard to wealth inequality (again, with wealth being what people own in the form of homes, stocks, bonds, land, and buildings), 1% of the richest Americans owned more of the country’s wealth (38.5%) in 1995 than in any year since 1922 when data were first gathered (Kerbo, 2003, p. 35). If we look at stock ownership, we find that 1% of Americans owned 46.7% of all stock in the United States in 1989 but owned 51.4% of the stock by 1995 (p. 34). Moreover, 10% of Americans owned 83.8% of the stock in 1989 but owned 88.4% of the stock by 1995 (p. 34). So, these statistics suggest that there has been growing wealth inequality in our country.

As for income inequality, the richest 20% of people made 43.3% of all the income in our country in 1970. By 1999, they made 49.4% of all the
income (Eitzen & Zinn, 2003, p. 36). At the same time, the poorest 20% of people earned 4.1% of all the income in 1970 but earned only 3.6% by 1999 (p. 36). In a study of rising income from 1972 to 2000, while the income of Americans in the 90th percentile of income rose 34%, the income of Americans in the 99.99th percentile of income rose 497%—nearly 15 times faster (Krugman, 2006b, p. A7). Economist Paul Krugman reported that data for 2004 show that “a small fraction of the population got much, much richer” (Krugman, 2006a, p. A9). The recent Bush tax cuts mean that middle-income people will receive a 2.3% increase in their incomes after taxes, whereas rich people (those earning more than $1 million per year) will receive a 7.3% increase in their incomes after taxes, thereby creating more income inequality. So, these statistics suggest that there is also growing income inequality in our country.

As money inequality grows, this usually means that those with more money will have more power because they can use their money in many ways to get what they want and carry out their own vested interests, sometimes at the expense of other social classes (e.g., run for political office, give large contributions to people who believe as they do, threaten to give or not give to charities and various organizations unless these charities and organizations conform to their beliefs). Consequently, those who have more money and power will have disproportionate influences in a society. They will decide whether factories in communities move or do not move, and they will have great influence in deciding the economies of communities (e.g., unemployment rate, poverty rate, homelessness rate, crime rate, rate of spending for public schools). They will have more influence in proposing bills in a state legislature or in Congress and will have more money and influential networks to lobby for the bills they want passed for their vested interests and possibly against the vested interests of other social classes. So, having more money (income and wealth) not only means that they have a higher standard of living for their families such as bigger houses, newer cars, and more expensive vacations, but it also means that they can have more political influence.

Causes of Growing Inequality

Most people in our country earn income from their jobs, and that is their only way of gaining money. Some people, on the other hand, not only make money from their jobs but also make money from the wealth they own. What seems to be one cause of growing inequality in our country is that people with higher incomes tend to get bigger raises than do people with
lower incomes and that people who own stock, buildings, and land can get
money from these investments (e.g., dividends, rent), whereas most other
people in our country gain income solely from their jobs. Moreover, millions
of people who gain income solely from their jobs have minimum wage jobs
and do not receive raises each year even though inflation is going up each
year, eating away what little money they do receive (the minimum wage is
substantially below the poverty line for a family of four). The reason for this
situation is that Congress decides when to increase the minimum wage. As a
result of all these factors, there is growing inequality between people who
have high incomes and much wealth and people who have moderate to low
incomes and no wealth.

As people with high incomes and wealth accumulate more money each
year compared with people who have low to moderate incomes and no
wealth, those with higher incomes and wealth are also able to increase their
power. For example, when someone has a lot of money, he or she can give
more contributions to elected officials in the hope of receiving favorable
legislation in return. People with more money can afford to run for politi-
cal office and spend more money than other candidates to win the office.
People with higher incomes and wealth will also have jobs that allow them
to interact with other people who have high incomes and wealth and also
much power. For example, a person who is a president or vice president
of one large corporation, say one of the 100 largest corporations in our
country (e.g., Wal-Mart, Exxon, General Electric, IBM, AT&T), many
times not only will know people in the top positions in the other large
corporations but also will serve on the boards of these corporations.
Assuming that 35 people are on a corporate board, there are $35 \times 100$ of
the largest corporations or 3,500 people who control 75% of all the indus-
trial assets in the United States (Kerbo, 2003, p. 189). Moreover, because a
number of these 3,500 people are on one, two, or three other boards, there
could be as few as 2,000 people who are the “movers and shakers” of much
of our economy. In other words, as these largest 100 corporations become
ever larger, they will also wield more power in our society as well as in
other countries where they have corporate investments and therefore vested
interests.

When these powerful corporate leaders speak, the rest of us listen and
are influenced by what they decide to do. For example, if the board
members of one of these corporations decide to cut thousands of jobs and
close a number of plants, not only will workers in those plants lose their
jobs but also the communities in which those plants are located will be hurt.
Stores in those communities may close or suffer great financial losses;
schools might not have enough money for teacher salaries, up-to-date
equipment, and/or new buildings; and city governments may lose tax revenue that would have gone to pay the salaries of the police and fire department members and workers who maintain the streets and sewage and water systems. So, a decision made by board members at corporate headquarters in a distant city can devastate workers and their communities (Mills, 1959b).

As you know, in the United States, we have a capitalistic economy. This means that some people are able to own factories and businesses where they can make a lot of money compared with people who are employees. It is in the nature of capitalism that employees will get wages (paid by the hour) or salaries (paid weekly, biweekly, or monthly), whereas owners get profits.

Also, the ideology in a capitalistic culture typically asserts that everyone is responsible for himself or herself and that there is much emphasis on the individual, with the individual getting ahead and surviving in a “dog-eat-dog” world. This ideology tends to justify or legitimize the idea of some people making more money than others and therefore justifies inequality and increasing amounts of it. This ideology is socialized into many people in our country from the time they are born, so that it seems like human nature to them to be individualistic and look out for themselves. As a result, the ideology we are socialized to believe in promotes the acceptance and legitimacy of a lot of inequality.

Another important cause of growing inequality in a capitalistic society is the belief that the influence of government should be kept to a minimum. If the government is kept to a minimum (e.g., providing only for the national defense), there does not need to be as much tax that people need to pay. With less tax to pay, wealthy people can keep more of their wealth, thereby increasing inequality. Also, with less tax revenue going to the government, the government has no choice but to provide fewer services, such as health care (see Chapter 10) and subsidized child care (see Chapter 4), thereby increasing inequality. So, the ideology of limited government tends to translate into more inequality in our country; the wealthy keep more of their money, whereas people with low to moderate incomes receive fewer services such as food stamps, medical care, and student loans.

Another cause of increasing inequality is the degree to which wealthier people can influence the government to decrease the progressive income tax. A progressive income tax is where people with higher incomes pay a higher proportion of their incomes in taxes than do people with lower incomes. If the tax system becomes less progressive, wealthier people pay less in tax, allowing them to keep more of their money and thereby increasing inequality. Because wealthier people typically have more money and connections with which to influence public officials than do people who are
not wealthy, wealthier people can have more influence with respect to how people are taxed. They do not have total influence, but they will have more influence than the average citizen in our country. Hence, it is in the vested interests of wealthier people to have less government that provides fewer services so that fewer taxes will be needed, thereby allowing for and justifying a lower progressive income tax. The bottom line is that with a lower progressive income tax, wealthier people keep more of their money, and this causes more inequality.

Other kinds of taxes can also increase inequality in a society. For example, because there is less tax on people who inherit wealth, the people who inherit wealth will be able to keep more of it, resulting in greater inequality. President George W. Bush has sought to abolish the inheritance tax, and doing so would work to the vested interests of wealthier people and result in increasing inequality.

The same idea can be applied to the sales tax. A sales tax is a regressive tax, meaning that lower income people pay a higher percentage of their incomes in taxes than do higher income people. For example, a higher sales tax on products that everyone needs (e.g., soap, shampoo, shaving cream, cars) will mean that people with low to moderate incomes will pay a larger percentage of their incomes in sales tax for these products than will people with higher incomes. Hence, as the sales tax goes up, inequality will also go up.

Another cause of growing inequality is the degree to which people of low to moderate incomes working for industries and businesses cannot organize into unions to protect their financial interests. The less these people are able to join unions to seek higher pay, the more likely it is that those at the top of these organizations will be able to keep a larger proportion of the profits for themselves. For example, German workers are the highest paid among the seven most highly industrialized nations, whereas American workers are the second to lowest paid (Kerbo, 2003, p. 28). A key factor in the difference of pay is the strength of unions in each country. Labor unions are strong in Germany, whereas they are relatively weak in the United States. In fact, in Germany, it is legally mandated that employees make up one half of the board of directors in a company (p. 510). This one difference alone gives German workers much more power compared with American workers.

A problem for workers in the United States that has hurt the amount of unionization and power of unions is the process of corporations moving their plants outside of the United States (known as deindustrialization) to other countries that allow for lower labor costs in the form of lower wages,
no retirement benefits, and no health care benefits. Paying lower wages, providing no retirement benefits, and giving no health benefits together save a great deal of money for these corporations. They are able to make more profits, give higher salaries to their top officers, and give larger dividends to their shareholders. At the same time, the American workers who work at these plants can lose their jobs, health coverage, and retirement benefits, thereby resulting in more inequality.

For much of our country’s history, prejudice and discrimination of different kinds, such as racial/ethnic, gender, sexual orientation, religious, age, and handicapped, have hurt people. They were hurt because when they were discriminated against, they were not given the same opportunities as were others. As a consequence, they typically needed to settle for lower income jobs with less power and prestige. This has been a major cause of inequality throughout the history of our country.

We have been reducing these kinds of prejudice and discrimination. So, over time, this cause of growing inequality should recede as we, as a country and as individuals, work to eliminate the remaining elements of prejudice and discrimination in our country and in ourselves. The current situation is not perfect, but we are headed in the direction of declining prejudice and discrimination. As this process continues, we should find that this factor will be one cause of growing inequality that will become less and less influential.

Consequences of Growing Inequality

One consequence of growing inequality is that people in the higher social classes will be more socially and physically distant from people in the lower social classes. That is, those in the higher social classes will be more likely to live in different neighborhoods, go to different public schools or attend private schools, attend different places of worship, and so on. With rising inequality, the higher social classes, by being more socially and geographically distant, will probably be less understanding of the members of the lower social classes. This situation increases the possibility that certain ideologies, such as “the reason why the poor are poor is because they are lazy,” will continue and will be used to legitimate existing inequality.

Another consequence of growing inequality is that there will be a growing number of opportunities for the higher social classes compared with those for the lower social classes. For example, for the higher social classes, there will be more chances for travel throughout the world, for more
education and higher quality education, for more consumer goods, for more and better health care, and for better retirement lifestyles. Unless some outside source such as the government intervenes by providing lower classes with a number of opportunities that the society, in its normal functioning within a capitalistic system, does not provide, the gap will continue to widen between the higher and lower social classes.

This process of a widening number of opportunities can lead to what sociologists call feelings of relative deprivation, where people in the lower classes will compare their situations with those of the people in the higher classes and feel deprived as well as resentful. This situation is especially likely to occur if the society socializes people that there should be equal opportunity in life but in reality there is not (refer to our theory of conflict and social change causal model in Chapter 1). If people feel relatively deprived and resentful, they may begin to question the legitimacy of the existing social conditions. This can lead to riots and various outbursts of frustration from the lower classes, and these in turn can lead to less stability in society.

Options We Have With Inequality

In a society, we can increase inequality, keep the existing inequality, or decrease inequality. Let us discuss each of these and consider its implications. As we discuss these three options, think about what you believe we should do in society.

Increase Inequality

The first option is to increase our inequality even more. If we wish to increase inequality, we can do this by taxing the poor, working, and middle classes more and taxing the rich less. For example, we can increase the federal income tax on the poor, working, and middle classes and decrease the federal income tax on the rich. We can also increase the sales tax given that this will hurt people in the poor, working, and middle classes more than it will rich people because everyone needs to buy similar amounts of certain products such as soap, toothpaste, toothbrushes, toilet paper, shaving cream, razors, and shampoo. Poor people pay the same prices for these products and pay the same sales tax as do rich people. Consequently, when we raise the sales tax in a state or city, poor people will be poorer relative to rich people, thereby creating greater inequality.
Another way we can increase inequality in our country is to abolish the inheritance tax given that this will allow rich people to keep more of their inheritances, thereby creating more inequality. Currently, when people inherit the wealth from their parents when their last parent dies, the first $1 million is not taxed. However, any wealth above this amount is taxed at a graduated rate from 18% to 49%. Because people in the poor, working, and middle classes do not inherit very much money (if any), most Americans do not pay any inheritance taxes. Only people who receive very large inheritances will pay taxes on the amount above $1 million (personal communication from C. Campbell, tax accountant, March 3, 2004). If this tax were abolished, the people receiving these inheritances would keep more of their wealth, thereby creating more inequality in our country.

Another way to increase inequality is to decrease or abolish taxes on dividends from stocks and to decrease or abolish the capital gains tax on stocks, thereby allowing those who own stock and are making money from stock to keep more of their money. Given that 10% of Americans owned 88.4% of all the stock in the country in 1995, people in this group will be able to keep more of their wealth, with the result that inequality will increase in our country.

In addition to changing taxes that create more inequality, we can create more inequality by decreasing or abolishing social services that intend to help the poor, working, and middle classes survive or live better lifestyles. For example, if state legislators, governors, members of Congress, and the president decrease social services such as social security, decrease child care subsidies for mothers who are getting off welfare to work, decrease college loans and grants, decrease money for public schools, decrease Section 8 subsidized housing, decrease money for Head Start and/or Upward Bound programs, decrease money for unemployment compensation, decrease money for health care, and so on, the poor, working, and middle classes will be poorer, with the result that inequality will increase in our society.

So, increasing taxes on the poor, working, and middle classes, decreasing taxes on the rich, and decreasing social services are three ways we can increase inequality in our society. Many people would find these actions to be extremely distasteful given that the poor and working classes will have a harder time getting by each day.

When I have given an anonymous survey in my social problems class and asked my students whether they think we should increase inequality, keep it the way it is now, or decrease inequality, no one has ever voted to increase inequality. This does not mean that there are not Americans who
do not want more inequality, but it does suggest that when students discuss the consequences of increasing inequality, some students opt for keeping it the same while most students vote to decrease it.8

Maintain the Current Amount of Inequality

The second option is to maintain the current inequality in our country with a certain combination of taxes and social services. Some of my students have voted for this option. Probably a number of people in our country, without any discussion over this issue, would vote for maintaining the current amount of inequality. However, given what I have observed in my social problems classes, if Americans discuss this issue and realize the negative consequences of rising inequality or maintaining the current amount of inequality in our country, I predict that the majority of Americans would, like the majority of my students, vote to decrease the amount of inequality in our country.

Decrease Inequality

The third option is to decrease inequality in our society. If we, as a society, choose to decrease inequality, we can do a number of things. We can decrease various kinds of taxes on the poor, working, and middle classes and, at the same time, increase taxes on rich people. For example, we can make the federal income tax more progressive, where the poor, working, and middle classes pay a lower percentage of tax and the rich pay a higher percentage of tax. Besides taxing income, we could tax the wealth of the rich, and this would also decrease inequality.

Another kind of tax we could change is the social security tax. Right now, only the first $94,200 that Americans earn each year is taxed at 6.2%. People no longer pay social security taxes on income they make above $94,200. So, a poor person making a minimum wage of $5.15 per hour, or $10,712 per year, will pay 6.2% in social security tax. At the same time, someone who earns $200,000 per year will pay only 2.9% of his or her income in social security tax ($6.2\% \times 94,200 = 5,840.40 / 200,000 = 2.9\%$). A rich businessperson, pro athlete, rock star, or movie star making $10 million per year will also pay $5,840.40 divided by $10,000,000 = .0006\%$ of his or her income in social security tax; in other words, a lot less than 1\% of rich people’s incomes will go to social
security tax, whereas poor people will pay 6.2% of their incomes in social security tax. It is hard to believe that rich people pay less than 1% of their incomes in social security tax while people in the poor, working, and middle classes pay 6.2% of their incomes in social security tax, but that is the way it is. Hence, if we want to decrease inequality, we can have rich people pay more in social security tax by not having a limit on how much social security tax they pay while having people in the poor, working, and middle classes pay a lower rate. By the way, having the rich pay more in social security tax would also help to provide enough social security income for our elderly in the future, thereby going a long way toward solving our social security problem. Consequently, by increasing the social security tax on the rich, we could work to solve two problems: (a) decreasing our inequality and (b) making the social security system more solvent for our future elderly.

We can decrease the sales tax, making it not so hard on the poor to buy everyday products to survive day-to-day, and at the same time depend more on progressive taxes of various kinds such as federal and state income taxes and federal social security taxes. That way, more of our taxes would be structured so that the ability to pay taxes is tied to one’s income and wealth—the more income and wealth, the more taxes people pay; the less income and wealth, the less taxes people pay.

Another way we can decrease inequality is to increase social services such as the following: increase food stamps for poor people; raise the minimum wage; increase social security for people in the poor, working, and middle classes; increase unemployment compensation; create more college grants and loans for people in the poor, working, and middle classes; create more child care subsidies for lower income single parents who are working at (near) minimum wage jobs so that they can work and survive at these kinds of jobs; create more housing subsidies for poor and lower income families; expand Head Start and Upward Bound programs for poorer and lower income people; and increase funding for public schools located in poor and lower income neighborhoods so that children from these neighborhoods get the same quality public education as do children in middle-class and upper middle-class neighborhoods.

In other words, taxing the poor less, taxing the rich more, and providing more social services for the poor, working, and middle social classes are three ways to decrease the inequality we have in our country. Diagrammatically, here are the three ways we could decrease inequality:
What Should We Do?

What should we do? This is a question that neither sociology nor any other social science (e.g., economics, political science, history, social psychology, anthropology, communications) can answer because science cannot tell us what we should do. Science, whether natural or social, can tell us many things. For example, it can give us the statistics on the unemployment rate, poverty rate, and homelessness rate. It can tell us what causes something to happen such as what causes unemployment, poverty, and homelessness. It can tell us consequences such as that more unemployment can lead to more poverty, homelessness, family stress, and crime and less tax revenues to pay for more police, courts, and prisons. It can also predict what may happen in

1. Increase taxes on the rich:

   More Inequality  Less Inequality

2. Decrease taxes on the poor, working, and middle classes and increase social services to them:

   More Inequality  Less Inequality

3. Combine Points 1 and 2—Increase taxes on the rich; decrease taxes on the poor, working, and middle classes; and increase social services for the poor, working, and middle classes:

   More Inequality  Less Inequality

How Can We Solve Our Social Problems?

1. Increase taxes on the rich:

   More Inequality  Less Inequality

2. Decrease taxes on the poor, working, and middle classes and increase social services to them:

   More Inequality  Less Inequality

3. Combine Points 1 and 2—Increase taxes on the rich; decrease taxes on the poor, working, and middle classes; and increase social services for the poor, working, and middle classes:

   More Inequality  Less Inequality
the future. For example, given the racial prejudice and discrimination of the past 300 years in the United States, we can predict that African Americans will earn less income and have less wealth than will white Americans.

What science cannot do is tell us what we should do. The closest that science can come to answering a “should” question is to make “if, then” statements (Berger & Kellner, 1981). That is, if the society wants something to happen, such as a decrease in inequality, then sociology, along with other social sciences, can say what things can be done to achieve that goal.

In other words, sociology cannot tell us what we should do with regard to rising inequality. However, if the society wants to move in a certain direction, such as to decrease inequality, then sociology can help us to understand how we can do this and what the consequences might be.

What do you think? Should we increase inequality? Should we keep it where it is now? Should we decrease inequality? We have created the inequality that we currently have. Because we, as humans, socially construct the kind and amount of inequality that we have, we can change both the kind and amount of inequality that we have if we want to do so. We do not need to accept the inequality we currently have. It is up to us to decide how much inequality we want.

Questions for Discussion

1. Should we try to decrease inequality, or should we let it grow as it is currently doing?
2. Should we increase taxes on the wealthy as a way to decrease inequality?
3. Should we decrease taxes on the poor, working, and middle classes as a way to decrease inequality?
4. Should we provide more social services for the poor, working, and middle classes as a way to decrease inequality?
5. Where do you think inequality will go during the next 10 years—higher, lower, or stay where it is now? Why?
6. What are other ways we could decrease inequality?
7. How does having a capitalistic economy affect inequality?
8. Should the government be more involved in decreasing inequality?
9. How does the amount of inequality we have affect the social problems we have?
10. What do most Americans think about inequality? Why?