The Unproblematic Type of Economic Inequality

Inequality can exist in many parts of human society and the means of classifying a circumstance or a state of the system as “unequal” depends on the perspective. That is, inequality can and cannot be in place at the same time. It is stringent upon the point of view of the observer and therefore it is the observer’s responsibility to have a clear metric for measuring the variables of the system and determining whether or not the system is unequal in these specific regards. The economic (the type of-) inequality in the United States (the system) can be measured by looking at the percentages of the total wealth (in the form of valuable assets) and total income that subsets of the population hold. Additionally, we can choose to compare the median household income, the “amount of money earned by the household at the midpoint of an income distribution” (1, Casselman). In the context of the median household incomes, we can choose to compare along racial, ethnic and other social lines. And while there are flaws with these representations in terms of what they can effectively express and what they exclude, the trends of economic inequality exist and are often along socio-economic lines. Therefore, the question becomes less of, “Is there inequality?” and more of, “Is this inequality fair?” or, “Should there be inequality?” The answers to such questions revolve around the idea of whether it is, in the first place, even a problem to have economic inequality because “in any capitalist society, most people are bound to be part of the working and middle class” (3, Surowiecki). Thus, the underlying problem is not one of inequality being in place but of inequality being rampant along non-purely-economic / non-entrepreneurial lines and of making inequality more linear and constantly corrected to an unproblematic level.

This idea of unproblematic inequality stems from establishing an economy, with inherent inequality based on wealth and income gaps, where “the broad middle class has enough buying power to rejuvenate the economy over the long term” (19, Reich). This stems from the importance of government public policy to constantly reorganize the economic playing-field through consistent “redistribution of income towards spenders” (2, Wolf). This would allow for the actual accrued income to go back directly into the economy rather than being stored up in assets, as is the case of income earned by people with wealth. This type of economic inequality is the unproblematic type of inequality since it would be representative of a linear and non-exponential distribution of wealth (a Lorenz Curve that is closer to the 45 degree ‘Line of Equality’). This type of a governmental policy model corresponds to what John Maynard Keynes visualized as the corrections to the faults that were inherent in capitalism. The flaws in capitalism, of not being able to attain full employment and the inevitable inequitable distribution of wealth, could be corrected for by governmental “measures [that] redistribute incomes in a way likely to raise the propensity to consume” (29-30, Reich). Therefore, to establish a truly functioning capitalistic economy, the underlying inequality must not be allowed to extend into the problematic realm by the government constantly stepping in. This ensures that
the economy is not subject to the vulnerabilities of periodic booms and collapses because these fluctuations are a result of delayed reorganization and the false belief that markets can be self-correcting.

Secondly, the unproblematic sort of inequality must exist without the propagation of this inequality into domains of life other than strictly economic. The existence of inequality in the socio-economic domain is well characterized by the evident gap in the recovery made by different social groups. The Great Recession of the early 21st century should have served as a normalizer (or an equalizer) for the system and by looking at the relative increase in gains made by different ethnic/racial groups, it is evident that there is systemic inequality that has prevented all groups to benefit equally from the recovery process. As Rajesh Kochhar and Richard Frey note, “Even as the economic recovery has begun to mend asset prices, not all households have benefitted alike. [...] Wealth inequality has widened along racial and ethnic lines” (1, Kocchar et al). For the decrease in asset ownership to be proportionally greater among minority households, the difference in the modes in which income is stored needs to be considered. This problematic type of inequality results in decreasing mobility between the economic classes. When certain individuals in society are not made capable of rising economically, the entire system is brought to its knees. But every time the system does collapse, the people in the bottom get affected the most (the rich only lose wealth in forms of assets where the poor lose propensity to spend income). This is a sort of downwards spiral that underpins the need for market regulation by the government in addition to social welfare.

Therefore, for the critics to simply state that “If we’re going to mobilize a policy revolution, we should focus on the real concrete issues” (3, Brooks) and hope for this social inequality to be eradicated by public welfare and not lay importance on policy to distribute the economic gains equally would lead to these ethnic groups not moving far ahead economically. This is underpinned by the fact that being born in an economic class is what ends up dictating “what one does all day long throughout one’s life” (21-22, Reich). From a policy point of view, the need to allocate the shares equally benefits the integrity of the economy, “in both [the Great Depression] and the [Great Recession], had the share going to the middle class not fallen, middle class consumers would not have needed to go as deeply into debt in order to sustain their middle class lifestyle” (25, Reich). Thus, there is this need for the government to facilitate full employment of its human resources, working age individuals in all ethnic backgrounds, (through correcting for widening inequality along ethnic lines) and for the government to prevent the richest Americans getting access to credit based speculation in a market of assets that is not worth much initially, in order for the economy to move towards the ideal type of economic inequality: one that is more linear and redistributes income more equally.
References

Ben Casselman, “The American Middle Class hasn’t Gotten a Raise in 15 Years,” FiveThirtyEightEconomics, September 22, 2014


Reich, Aftershock, chapters 2 and 3 (2010).

