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# Inequality by Design

Why do some Americans have a lot more than others? Perhaps, inequality follows inevitably from human nature. Some people are born with more talent than others; the first succeed while the others fail in life's competition. Many people accept this explanation, but it will not suffice. Inequality is not fated by nature, nor even by the "invisible hand" of the market; it is a social construction, a result of our historical acts. *Americans have created the extent and type of inequality we have, and Americans maintain it.*

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To answer the question of what explains inequality in America, we must divide it in two. First, who gets ahead and who falls behind in the competition for success? Second, what determines how much people get for being ahead or behind? To see more clearly that the two questions are different, think of a ladder that represents the ranking of affluence in a society. Question one asks why this person rather than that person ended up on a higher or lower rung. Question two asks why some societies have tall and narrowing ladders—ladders that have huge distances between top and bottom rungs and that taper off at the top so that there is room for only a few people—while other societies have short and broad ladders—ladders with little distance between top and bottom and with lots of room for many people all the way to the top.

The answer to the question of who ends up where is that people's social environments largely influence what rung of the ladder they end up on.[1] The advantages and disadvantages that people inherit from their parents, the resources that their friends can share with them, the quantity and quality of their schooling, and even the historical era into which they are born boost some up and hold others down. The children of professors, our own children, have substantial head starts over children of, say, factory workers. Young men who graduated from high school in the booming 1950s had greater opportunities than the ones who graduated during the Depression. Context matters tremendously.

The answer to the question of why societies vary in their structure of rewards is more political. In significant measure, societies choose the height and breadth of their "ladders." By loosening markets or regulating them, by providing services to all citizens or rationing them according to income, by subsidizing some groups more than others, societies, through their politics, build their ladders. To be sure, historical and external constraints deny full freedom of action, but a substantial freedom of action remains. In a democracy, this means that the inequality Americans have is, in significant measure, the historical result of policy choices Americans—or, at least, Americans' representatives—have made. In the United States, the result is a society that is distinctively *un*equal. Our ladder is, by the standards of affluent democracies and even by the standards of recent American history, unusually extended and narrow—and becoming more so.

To see how policies shape the structure of rewards (i.e., the equality of outcomes), consider these examples: Laws provide the ground rules for the marketplace—rules covering incorporation, patents, wages, working conditions, unionization, security transactions, taxes, and so on. Some laws widen differences in income and earnings among people in the market; others narrow differences. Also, many government programs affect inequality more directly through, for example, tax deductions, food stamps, social security, Medicare, and corporate subsidies.

To see how policies also affect which particular individuals get to the top and which fall to the bottom of our ladder (i.e., the equality of opportunity), consider these examples: The amount of schooling young Americans receive heavily determines the jobs they get and the income they make. In turn, educational policies—what sorts of schools are provided, the way school resources are distributed (usually according to the community in which children live), teaching methods such as tracking, and so on—strongly affect how much schooling children receive. Similarly, local employment opportunities constrain how well people can do economically. Whether and where governments promote jobs or fail to do so will, in turn, influence who is poised for well-paid employment and who is not.

Claiming that intentional policies have significantly constructed the inequalities we have and that other policies could change those inequalities may seem a novel idea in

the current ideological climate. So many voices tell us that inequality is the result of individuals' "natural" talents in a "natural" market. Nature defeats any sentimental efforts by society to reduce inequality, they say; such efforts should therefore be dropped as futile and wasteful. Appeals to nature are common and comforting. As Kenneth Bock wrote in his study of social philosophy, "We have been quick to seek explanations of our problems and failures in what we *are* instead of what we *do*. We seem wedded to the belief that our situation is a consequence of our nature rather than of our historical acts."[2] In this case, appeals to nature are shortsighted.

Arguments from nature are useless for answering the question of what determines the structure of rewards because that question concerns differences in equality *among societies*. Theories of natural inequality cannot tell us why countries with such similar genetic stocks (and economic markets) as the United States, Canada, England, and Sweden can vary so much in the degree of economic inequality their citizens experience. The answer lies in deliberate policies.

Appeals to nature also cannot satisfactorily answer even the first question: Why do some *individuals* get ahead and some fall behind? Certainly, genetic endowment helps. Being tall, slender, good-looking, healthy, male, and white helps in the race for success, and these traits are totally or partly determined genetically. But these traits matter to the degree that society makes them matter—determining how much, for example, good looks or white skin are rewarded. More important yet than these traits are the social milieux in which people grow up and live.

Realizing that intentional policies account for much of our expanding inequality is not only more accurate than theories of natural inequality; it is also more optimistic. We are today more unequal than we have been in seventy years. We are more unequal than any other affluent Western nation. Intentional policies could change those conditions, could reduce and reverse our rush to a polarized society, could bring us closer to the average inequality in the West, could expand both equality of opportunity and equality of result.

Still, the "natural inequality" viewpoint is a popular one. Unequal outcomes, the best-selling *Bell Curve* argues, are the returns from a fair process that sorts people out according to how intelligent they are.[3] But *The Bell Curve*'s explanation of inequality is inadequate. The authors err in assuming that human talents can be reduced to a single, fixed, and essentially innate skill they label intelligence. They err in asserting that this trait largely determines how people end up in life. And they err in imagining that individual competition explains the structure of inequality in society. . . .

Disparities in income and wealth, [other] analysts argue, encourage hard work and saving. The rich, in particular, can invest their capital in production and thus create jobs for all.[4] This was the argument of "supply-side" economics in the 1980s, that rewarding the wealthy—for example, by reducing income taxes on returns from their investments—would stimulate growth to the benefit of all. The 1980s did not work out that way, but the theory is still influential. We *could* force more equal outcomes, these analysts say, but doing so would reduce living standards for all Americans.

Must we have so much inequality for overall growth? The latest economic research concludes *not;* it even suggests that inequality may *retard* economic growth. In a detailed statistical analysis, economists Torsten Persson and Guido Tabellini reported finding that, historically, societies that had more inequality of earnings tended to have lower, not higher, subsequent economic growth. Replications by other scholars substantiated the finding: More unequal nations grew less quickly than did more equal societies.[5]. . .

This recent research has not demonstrated precisely how greater equality helps economic growth,[6] but we can consider a few possibilities. Increasing resources for those of lower

income might, by raising health, educational attainment, and hope, increase people's abilities to be productive and entrepreneurial. Reducing the income of those at the top might reduce unproductive and speculative spending. Take, as a concrete example, the way American corporations are run compared with German and Japanese ones. The American companies are run by largely autonomous managers whose main responsibility is to return short-term profits and high stock prices to shareholders and—because they are often paid in stock options—to themselves as well. Japanese and German managers are more like top employees whose goals largely focus on keeping the company a thriving enterprise. The latter is more conducive to reinvesting profits and thus to long-term growth.[7] Whatever the mechanisms may be, inequality appears to undermine growth. Americans certainly need not feel that they must accept the high levels of inequality we currently endure in order to have a robust economy.

A related concern for Americans is whether "leveling" stifles the drive to get ahead. Americans prefer to encourage Horatio Alger striving and to provide opportunities for everyone. Lincoln once said "that some would be rich shows that others may become rich."[8] Many, if not most, Americans believe that inequality is needed to encourage people to work hard.[9] But, if so, *how much* inequality is needed?

For decades, sociologists have been comparing the patterns of social mobility across societies, asking: In which countries are people most likely to overcome the disadvantages of birth and move up the ladder? In particular, does more or less equality encourage such an "open" society? The answer is that Western societies vary little in the degree to which children's economic successes are constrained by their parents' class positions. America, the most unequal Western society, has somewhat more fluid intergenerational mobility than do other nations, but so does Sweden, the most equal Western society.[10] There is no case for encouraging inequality in this evidence, either.

In sum, the assumption that considerable inequality is needed for, or even encourages, economic growth appears to be false. We do not need to make a morally wrenching choice between more affluence and more equality; we can have both. But even if such a choice were necessary, both sides of the debate, the "altruists" who favor intervention for equalizing and the supposed "realists" who resist it, agree that inequality can be shaped by policy decisions: Wittingly or unwittingly, we choose our level of inequality.

## NOTES

1. We know that in statistical models of individual status attainment much, if not most, of the variance is unaccounted for. Of the explained variance, however, the bulk is due to social environment broadly construed. Also, we believe that much of the residual, unexplained variance is attributable to unmeasured social rather than personal factors.

2. Kenneth Bock, *Human Nature Mythology* (Urbana 1994), p. 9.

3. Richard J. Herrnstein and Charles Murray, *The Bell Curve: Intelligence and Class Structure in American Life* (New York 1994).

4. See, for example, Rich Thomas, "Rising Tide Lifts the Yachts: The Gap Between Rich and Poor Has Widened, but There Are Some Comforting Twists," *Newsweek*, May 1, 1995. See also George Will, "What's Behind Income Disparity," *San Francisco Chronicle*, April 24, 1995.

5. Torsten Persson and Guido Tabellini, "Is Inequality Harmful for Growth?," *American Economic Review* 84, 1994; Roberto Chang, "Income Inequality and Economic Growth: Evidence and Recent Theories," *Economic Review* 79, 1994; George R. G. Clarke, "More Evidence on Income Distribution and Growth," *Journal of Development Economics* 47, 1995. See also Peter H. Lindert, "The Rise of Social Spending," *Explorations in Economic History* 31, 1994.

6. Persson and Tabellini's explanation ("Is Inequality Harmful?") for their results is that in societies with greater earnings inequality, there is less political pressure for government redistribution; such redistribution impairs growth. However, their evidence for the explanation is thin, and Clarke's results ("More Evidence") are inconsistent with that argument. Chang ("Income Inequality") suggests that with more equality, lower-income families could make longer-term investment decisions. In any

event, the statistical results suggest that government intervention on behalf of equality in the market, rather than after the market, would be beneficial.

7. See, for example, Michael Porter, *Capital Choices: Changing the Way America Invests in Industry* (Washington 1992).

8. Quoted by Alan Trachtenberg, *The Incorporation of America: Culture and Society in the Gilded Age* (New York 1982), p. 75.

9. See, for example, Lee Rainwater, *What Money Buys: Inequality and the Social Meanings of Income* (New York 1974); James R. Kluegel and E. R. Smith, "Beliefs About Stratification," *Annual Review of Sociology* 7, 1981.

10. Harry B. G. Ganzeboom, Donald J. Treiman, and Wout C. Ultee, "Comparative Intergenerational Stratification Research," *Annual Review of Sociology* 17, 1991.