

INEQUALITY

it matters

An Interview with Janet Gornick



PHOTO: RICHARD ALLCORN

Throughout the nation, there is growing awareness of inequality. At the Graduate Center, the issue heads the agenda of our Advanced Research Collaborative (ARC) and was the subject of last spring's commencement address by Janet Gornick (Prof., Political Science, Sociology). Prof. Gornick is director of LIS (formerly known as the Luxembourg Income Study), an international data archive and research center located in Luxembourg, with a satellite office—the LIS Center—at the Graduate Center. LIS acquires and processes data from nearly fifty of the world's high- and middle-income countries, creating comparable datasets for cross-national comparisons of income, employment, and wealth. Thousands of researchers and policymakers around the world use the LIS data to assess income inequality, poverty, and other socioeconomic outcomes, across countries and over time. Here, she responds to questions from Folio on the nature and impact of income inequality.

In your commencement address you credit the Occupy Wall Street movement with “casting a bright and angry light on income inequality” as though inequality were an issue Americans somehow tend to overlook.

Yes, I think that’s true. In recent decades, income inequality has, for the most part, been off the American radar screen, especially in the world of national politics.

Equality of opportunity is, of course, an iconic American value, but equality of outcome—especially with regard to income—hasn’t been a central concern, the way that it is in many countries in Europe.

While Europeans have talked for decades about reducing inequality, Americans have focused more on combating poverty, that is, on putting a floor under the poorest Americans. The U.S. enacted antipoverty programs in the 1930s, following the Depression, and again in the 1960s, with the launching of the War on Poverty. It’s interesting that the ambitious antipoverty policies of the 1960s weren’t sparked by economic downturn; they were launched in an era of prosperity. It was the growing awareness of abject poverty—especially in the rural south and among African Americans—that sparked the War on Poverty. That heightened awareness came about thanks to vivid accounts of American poverty that appeared in articles, photographs, and, of course, books—none more influential than Michael Harrington’s *The Other America*, which was published in 1962.

That was just fifty years ago, and you had some trenchant things to say about today’s “Other America” at the anniversary celebration for Harrington’s book at the Graduate Center this fall.

Indeed, the face of American poverty has changed since 1962. One of the most dramatic changes relates to age. When *The Other America* was written, the elderly were much more likely to be poor than were Americans as a whole, and children much less so. Today, that pattern has been reversed. In 2011, 15 percent of Americans were poor, but only 9 percent of the elderly—thanks to expansions in Social Security—compared with a stunning 22 percent of children.

That change goes hand in hand with the feminization of poverty, especially among parents raising children without partners. In 1960, less than one-third of poor families were headed by a single parent; today more than two-thirds are—and, in four out of five of those families, that single parent is a woman. In addition, the face of poverty has become more urban, and less rural; the percentage of people living in extremely poor rural pockets has declined dramatically.

After a precipitous decline in U.S. poverty rates throughout the 1960s—due to the War on Poverty—poverty reduction stalled in the middle 1970s. Since then we’ve made virtually no long-term progress. On the eve of the current recession, the U.S. poverty rate was exactly what it was in the middle 1970s. Now it’s higher than it was at the end of the 1960s.

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Meanwhile, over the last three decades, while poverty rates have stagnated, income inequality in the U.S. has grown steadily. That is partly because the poor have gotten poorer and partly because of marked income growth at the top—especially at the very top.

Does income inequality affect society differently from poverty and deprivation?

We’re still learning what the implications of inequality are, as distinct from the implications of deprivation. Poverty and inequality are related, but they’re different—especially in the U.S. context.

You can see the distinctive way in which Americans think about inequality when you consider the way that we measure poverty. All countries set a poverty line and consider households with income under that line to be poor. What’s interesting is that, in the U.S., we draw an “absolute” poverty line; that tells us how many households face economic deprivation, meaning that their incomes leave them unable to meet their basic needs. Specifically, in fact, we tie that poverty line to the cost of food. When we consider whether a given household is poor by this standard, the economic well-being of other American households isn’t relevant.

There’s another way to measure poverty, one that’s more common in Europe. That approach also sets a poverty line, and considers households with incomes below that line to be poor. But, instead of setting an “absolute” line, they set a “relative” line, meaning one that’s related to the median income in the country. Most often, if your household’s income is less than 50 percent of your country’s median income, then you’re said to be poor. That type of poverty—“relative poverty”—is, of course, a form of inequality. It defines poverty with respect to the standard of living in each country. In short, households are poor if their resources place them far below the middle.

We know what harm deprivation can do to society, that’s pretty clear, but what about what you call “relative poverty”—what about inequality itself—how does that hurt us?

One of the great debates in social science today—one that has intensified in the U.S. since the Occupy demonstrations last year—concerns the effects of income inequality. The debate addresses the question: Is income inequality harmful to a society, and, if so, how?

Generally speaking, there are two schools of thought about this.

Some focus on what we might call “instrumental” grounds, arguing that inequality is bad because it worsens a range of *other* outcomes. This argument has been popularized by Richard Wilkinson and Kate Pickett in their book *The Spirit Level*. Wilkinson and Pickett conclude that large income disparities—within countries—worsen a multitude of outcomes, including physical and mental health, infant mortality and life expectancy, crime and incarceration, and educational performance. Today, many scholars are tackling this

question, but, so far, I'd say that there's little consensus about the existence or strength of these effects, or about any underlying causal mechanisms. Still, these claims are so worrisome that many of us concerned with inequality take them seriously, as we wait for future research to clarify the linkages.

Others take a different approach, focusing on what we might call "normative" grounds. They argue that extreme income disparities are incompatible with a fair and inclusive society. In other words, high levels of inequality—especially at U.S. levels—are, simply put, unacceptable. There's something wrong with a country in which the "haves" have so much more than the "have-nots." From this vantage point, determining the problematic nature of an unequal income distribution is not an empirical question; it's a moral question. I find myself sympathetic to this view.

Isn't the national economy harmed by inequality? Doesn't it, as Joseph Stiglitz argues, "destroy growth"?

Yes, Stiglitz makes a crucial argument, one that falls into the "instrumental" camp—that is, that income inequality is harmful to economic growth. In his recent book, *The Price of Inequality*, he argues that our high levels of inequality are hurting the U.S. economy—in the form of lower productivity, lower efficiency, more instability, and, yes, lower growth. One of his key points is that the concentration of income at the top has depressed aggregate consumer demand and that, in turn, has constrained economic growth. He also argues that this sets off a vicious cycle; the weakening economy then increases the inequality, further weakening the economy, causing more inequality—and so on.

While some economists have made this argument for years, it hasn't been widely accepted among mainstream economists or in the political sphere. But new studies from the International Monetary Fund and from the Organization for Economic Cooperation and Development point in this direction. And when the IMF and the OECD speak, conventional economists and politicians listen!

What about the political implications of income disparity this great?

What I think is not contested is that high levels of income inequality have a damaging effect on the functioning of a democracy, especially on people's faith in government and on their attitude toward their own citizenship. Clearly, inequality leads whole swaths of the population to feel excluded—and to be excluded. In his book *Unequal Democracy*, the political scientist Larry Bartels demonstrates that elected officials in the U.S. respond to the views of affluent constituents much more than to those of poor people. Rich constituents—people and corporations—exercise their economic power in many ways, and none of these is more influential than their ca-

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capacity to give money to support their favored candidates and causes.

I think that the extreme income inequality that we now see in the U.S. is unacceptable, in no small part because of its corrosive effects on our political system. And, in fact, to come full circle, Stiglitz sees the negative effect of inequality on the macroeconomy, and the harm done to the functioning of

our political system, to be inseparable processes.

In your commencement address you make a strong case that American inequality is largely homegrown. We can't blame it on globalization, free trade, or other outside influences.

Well, these factors contribute, of course, but they don't explain why the U.S. has levels of poverty and income inequality that are rarely seen in the world's affluent countries. I recently carried out a study of poverty and income inequality in twenty-five of the world's richest countries—all of which face pressures from capitalism, globalization, and neoliberal reforms. The most recent data available indicate that the U.S. has the highest level of both relative poverty and income inequality.

At the end of the day, income inequality is driven by two factors. One is the degree of inequality based on our market income—what we earn and what our money earns. The other is the extent to which the government adjusts the results of the market through taxes and transfers, that is, how much the government gives us and takes away from us.

Now, inequality in the U.S. is higher than elsewhere—simply put—for two reasons. The first is that the distribution of market income is highly unequal; we have a lot of very low earners and a lot of very high earners. But the main story is about the taxes and transfers. In the U.S., we redistribute much less, through taxes and transfers, than do other rich countries. The low level of redistribution is really what makes us exceptional.

What your data and everyone else's show is a dramatic increase in inequality over the past thirty years. It's now as bad as it was in 1929, just before the Great Depression. How did this come about?

The rise in inequality has multiple causes. Among the most consequential are the cuts in social assistance and the tax reforms that we associate with the Reagan Revolution and the conservative realignment that's unfolded over the last three decades.

It's also the case that, in recent decades, wage inequality has increased. Economists are debating the roots of that increase and there's surprisingly little consensus. What *is* totally clear is that, today, we have a remarkably large low-wage labor market. If we apply the internationally accepted metric that defines "low pay" as less than two-thirds of median earnings, recent data indicate that fully 24 percent

of Americans hold low-paying jobs. That means that 30 million workers earn less than about eleven dollars an hour—or \$22,000 a year if they work full time all year. This would fall well short of the poverty level for a family of four and barely reach the threshold for smaller families. By the same measure, low-wage earners in Germany make up 18 percent of the workforce. That’s 16 percent in Japan, and between 7 and 8 percent in most of Northern Europe.

And we have this comparatively large low-wage labor market for a few reasons. One is that we have one of the lowest minimum wages in the Western world. A second is that our workers have comparatively little bargaining power. That bargaining power is low due to the low unionization rates—only 7 or 8 percent of the private-sector workforce is now unionized—as well as the meager unemployment insurance and the public assistance rules that force people into low-wage work. And, third, we make negligible investments in what are known as “active labor market policies”—the training, reskilling, and other employment services that help workers move out of the low-wage sector.

Look, other rich countries also have lower-skilled jobs. I mean, somebody’s picking up the garbage and emptying the bed pans. But, because of their institutions—higher minimum wages, stronger unions, more generous and less coercive income supports, and more extensive active labor market policies—fewer workers earn low wages, and those who do are more likely to move on to higher-paying jobs than are our workers.

You’ve said that what makes us distinct among the world’s affluent nations is not the prevalence of low-wage jobs so much as our income tax and transfer structure. Is this something that we know because of the surveys that LIS gathers from so many countries?

Yes, it is. All affluent countries administer household income surveys, which include large representative samples of households. These surveys allow us to know, for each household in each country’s sample, a lot about their income in the prior year. Although they vary somewhat across countries, in general, these surveys ask households to report, in great detail, their market income from all sources—mainly from wages and salaries, from self-employment, from returns on capital, from property owned, and from market-based pensions. And then they ask “What else did you get?” So we also have data on what each household received from various government programs, such as retirement, survivor, and disability pensions, unemployment compensation, veterans and military benefits, family allowances, public assistance, and so on. Finally, the surveys record direct taxes paid by each household, especially payroll taxes and income taxes.

What we do in our institute—LIS—is add up all those sources of income and take account of taxes paid. That allows us to look

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at poverty and income inequality “twice”—once based on market income only, and again based on household income after accounting for the government taxes and transfers.

The two income definitions produce very different stories. What we see when we look at the whole income package is that many other countries are doing far more to reduce the poverty and inequality

generated by the market than we are.

Does this mean that most other rich countries have a better safety net than we do?

Well, yes, it does mean that.

But I’d qualify that to stress that it’s not just the size of the social policy system that matters; the way that it’s structured also matters.

In the U.S., we tend to rely heavily on programs targeted on the poor, such as TANF, SSI, Food Stamps, and Medicaid. We even means-test most types of government-supported child care.

In many European countries, social policy provisions have a more universal structure. So the rich, the middle class, and the poor are in the same programs. Rich and poor are enrolled in the same health insurance systems, they send their children to the same public preschools, they receive the same family allowances—and so on. That’s crucial for building political support for these programs, and that widespread support makes them more stable.

Americans, even progressives, often fail to appreciate the importance of universal programs. When people talk about removing the very rich from Social Security—as we hear often in the U.S.—I want to scream. We definitely don’t want to do that, because that would break the universality, and that’s politically risky. I mean, I don’t think that Bill Gates needs a Social Security check, but we need him to be a Social Security recipient.

You go well beyond taxes and transfers when you list all the benefits, mandates, and entitlements that most other rich countries provide and we do not.

Indeed. It’s crucial to point out that there’s a third layer of social protection that has a huge impact on the lives of workers and their families. And, yes, that’s right—most other rich countries provide rights and benefits that we don’t have in the U.S., or at least that we don’t have at the national level. I’m referring to all those programs, like paid maternity and parental leave, that make it much easier to manage daily life, especially for workers who have children.

Isn’t maternity leave a right we have here by law?

The situation with paid maternity leave in the U.S. verges on laughable. When it comes to maternity leave law, most Europeans think

we're nuts! In fact, the U.S. is one of only four countries in the world that has no national law requiring paid maternity leave: the others are Lesotho, Swaziland, and Papua New Guinea.

We do have a law, the Family and Medical Leave Act, which provides unpaid leave after birth or adoption, but its coverage is limited to large businesses and it requires a work history; about half of

American working women aren't eligible. Five states provide some disability pay linked to pregnancy but those benefits are meager—and, of course, fathers are not eligible. Two states provide some parental leave, but, all in all, most Americans with young children are left out in the cold.

Our workers have less protection and fewer rights and benefits than just about any in the industrialized world. My recent study of twenty-five of the richest countries in the world revealed that the U.S. is the only one that doesn't provide universal health insurance, guarantee a minimum number of annual leave days, or have a national program granting employees the right to paid days when they are sick or when their children are sick. Among these twenty-five rich countries, we also invest the least in early childhood education and care, and our university students pay the highest tuition.

It's true that many high-earning workers in the U.S. are voluntarily granted some of these rights and benefits by their employers, but low-wage workers typically receive none of them. That, sadly, adds a further layer of *inequality* on top of the already high levels of wage and income inequality.

Clearly, you believe we need to take lessons from abroad, particularly from Europe, at a time when conservative politicians in this country believe what they call the "socialist policies" of European countries are to blame for the sorry economic condition of the European Union.

I feel strongly about the value of looking abroad for policy inspiration. Although there are useful lessons to be learned from countries in many parts of the world, I have spent several years looking to Europe for social policy examples and lessons. I have been around long enough to know that that can be a perilous political path in the U.S., and now more than ever, given the economic crises unfolding in some European countries. Although we don't know where these crises will lead, what we do know—thanks to a large body of scholarship—is that the kinds of social policies that I have pointed to as models are not the cause.

More to the point, the countries in Europe—mostly in Western and Northern Europe—that have most successfully prevented low wages, high poverty, and high inequality are, overall, all macroeconomically healthy—at least as healthy as economies can be in the middle of a global recession. Many of these countries have lower unemployment rates and lower debt-to-GDP ratios than does the U.S.

Our workers have fewer rights and benefits than any in the industrialized world. Among 25 of the richest countries, we alone provide no universal health insurance and guarantee no annual leave or paid sick days.

Doesn't asking American politicians to adopt the same policies that limit inequality in Europe, no matter how well they work there, fly in the face of a broad perception of American exceptionalism, one that sees us as an idealized capitalist nation, a land of limitless opportunity, where free market principles prevail and both business

and government favor efficiency over equality?

First of all, I must say, I'm always amused—and sort of confused—when I hear the term “American exceptionalism” used to mean American superiority. We heard that language throughout this fall's campaign season, especially from conservatives. The reason that I'm bewildered is that in my world—the world of comparative social policy scholarship—the term “American exceptionalism” is widely used to refer to the starkly limited nature of U.S. social protections relative to other similar countries. Scholars have pondered, for decades, why the U.S. has enacted so little social policy, especially in the face of such pressing need.

All that said, we should stop to consider that the extreme stinginess of contemporary American social policy is actually somewhat recent. Although earlier generations laid the groundwork, it's in the last thirty years that U.S. policymakers have failed to enact the social protections that our international counterparts have added and extended in recent decades. In the last thirty years, the U.S. safety net has been ravaged, jeopardizing the economic security of millions of American families. These policy changes have resulted from the sharp political turn to the right that we've seen in the U.S. since 1980.

In my view, we should—and we can—resist this turn of events, as well as the misguided notion that today's American social policy is what it is because of historical precedents engraved in stone centuries ago. That's simply not good history. We've seen progressive social policy reforms in the past—during the Progressive Era, the New Deal, and the Great Society. Sadly, many of the social protections from these earlier times have been eroded, or even eliminated, in recent years. Still, looking forward, we ought to be able to bring about social policy reforms again—reforms that would reduce poverty and inequality, and ease hardship for so many U.S. workers and their families.

And how do we do that?

By and large, we know which social policies would sharply reduce poverty and income inequality, and make life easier for so many Americans. We have the intellectual technology, and, as we've learned from some of our neighbors across the Atlantic, it's not rocket science.

We can bring about the necessary reforms in the U.S. What it will take, as Michael Harrington told us so poignantly in *The Other America*, is political will—and a measure of collective anger and shame.

—ISM