

WIDENING INEQUALITY: IMPLICATIONS FOR AMERICANS' ATTITUDES AND AMERICAN SOCIETY

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Summary

The experience of many countries suggests that when a society experiences rising standards of living, broadly distributed across the population, it is also likely to make progress along other dimensions that Western thinking takes to be morally positive: tolerance, openness of opportunity, generosity toward the disadvantaged, and a commitment to democracy. By contrast, when the majority of citizens see their living standards stagnant, or even in decline, in most cases the society makes little progress on these moral fronts, and the outcome is instead retrenchment and rigidification, often with disastrous consequences.

If the fruits of an economy's increased production accrue to only a small group who are already at or near the top of the income distribution, most people's gains in living standards will increase more slowly than the economy's per capita mean. If aggregate growth is only modest – as is sure to be the case in an economy like that of the United States that is already highly advanced – widening inequality can then translate into no increase at all, or even a decline, for the majority of citizens.

This is precisely the situation prevailing in America today. The majority of American families have lower incomes now, after allowing for inflation, than they did at the beginning of this decade. In 2006 the median family income was \$59,400. In 2000 the median income was \$58,400 in 2006 dollars. The American economy has been doing reasonably well, but most Americans haven't.

The implications are sobering. No society, no matter how rich it is or how well formed its institutions may be, is immune from seeing its basic democratic value at risk whenever the majority of its citizens lose their sense of forward economic progress. Experience suggests that if the current mix of modest growth and widening inequality persists, many of the familiar social and political pathologies that have emerged in the past, both in America and elsewhere, will reappear.

Public policy should address this worrisome prospect by taking steps both to enhance the economy's aggregate growth pace (here the choices are familiar) and by focusing on the chief factor at work in creating widening inequality in the first place: the increasing imbalance between the skills needed in today's workplace and the skill mix of American workers. Other policies, in areas like immigration and corporate governance, may have a useful role to play as well.