

SNG-Income inequality-9-1-14

What to do about income inequality?

By Jim Nowlan

I consider this column exploratory. I am not an economist, and I have much more to learn about income inequality. Indeed, I welcome your comments, which I will use as a basis for a subsequent column (jnowlan3@gmail.com).

But I know something is going on. I need only look at my hometown of Toulon in central-western Illinois.

When I was a boy in the 1950s, older boys would graduate from high school and take jobs “on the line” at Caterpillar in Peoria and Deere in Moline, and earn more than their college-educated school teacher sisters.

Most families felt they were of the middle class.

Today, those good-paying, unskilled jobs are a distant memory. At the local school, half the students are eligible for free and reduced-price meals. Statewide, half of all births are paid for by Medicaid, the health care program for low-income families.

Two-earner families in \$10-an-hour jobs are part of the vast near-poor sector. One-earner families in such jobs are simply poor.

Like kinds marry, so at the other end of the spectrum, two-earner professional and technologically skilled families are often each making six figures, which to my mind puts their combined incomes in the upper-middle class.

The center is pulling apart.

My anecdotal information is confirmed by reams of data. According to the Economic Policy Institute, between 1979 and 2007, the top 1 percent took home well over half (53.9 percent) of the total increase in U.S. income. Those in the middle saw their income grow very slowly and people in the bottom quintile saw little or no growth.

And Illinois is among the top ten states with the most inequality, with incomes of the top 1 percent 24.5 times higher than that of the average income for the other 99 percent, again according to the Economic Policy Institute.

The wealth gap is also damaging to the U.S. economy, says a study by Standard & Poor's, the bond rating agency.

S&P cut its 10-year U.S. growth forecast for the nation from 2.8 percent five years ago to 2.5 percent recently. "The current levels of income inequality in the U.S. is dampening GDP growth," reports S&P, "at a time when the world's biggest economy is struggling to recover from the Great Recession and the government is in need of funds to support an aging population."

I assume that one of the impediments to growth is weak demand for products and services from the large swath of the society that is struggling to make ends meet.

Based on what I observe in my home town, I also think that families that are struggling financially may exhibit more social dysfunction through higher rates of divorce, lack of support for children in school, and turmoil in the home, though I cannot prove this.

But what to do?

If anything significant is to be done, it will probably require a redistribution of income, which raises the hackles of many people.

But that is what government does. It takes money in and then redistributes it, generally from the better off to the less well off.

In my reading, I have noted the following suggestions to reduce income inequality, which at this point I am not recommending, only listing:

- Increase the minimum wage, but run the risk of eliminating some jobs;
- Expand the earned income tax credit, a federal supplement to low-income workers, which can amount to several thousand dollars a year;
- Enlarge the child tax credit to help families with youngsters;
- Provide a wage subsidy, which would be a federal supplement to the wages of low-earning individuals. This is touted by some conservatives as better than an increase in the minimum wage, as it wouldn't cause job loss;
- Enhance the ability of service worker unions to organize;
- Make community college free. Tennessee is planning to offer this as a way of increasing the numbers of low income persons who learn employable skills.

Some of these options may be unattractive to many readers. But if we have a problem, which among these suggestions as well as other ideas out there do we adopt to address the problem?

As I say, I have just begun my thinking about this topic. What are your thoughts?