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Poverty and Policy: Addressing the Problem of Economic Inequality in the U.S.

The poverty problem in the United States has long demanded attention. In 2007, 37.3 million people were in poverty, up from 36.5 million in 2006 and 31.1 million in 2000 (US Census Bureau, Dalaker 1). Forty years after the US Government declared its War on Poverty, the official poverty rating has dropped less than two percent, from 14.2 percent to 12.3 percent (Lambert 1). New policies are desperately needed to curb the growth of citizens living under the poverty line. However, policies that increase the stratification of our economic classes cannot be considered feasible. No matter how tempting they might seem, the long-term consequences of economic inequality, including increased economic insecurity and decreased social capital, overwhelm the short-term benefits. In addition, policies that give more money to the rich would not actually increase their happiness, nor guarantee that the money would be reinvested in the economy. Although saving the bottom line should be encouraged, policies that reduce poverty should not be supported if they widen the gap between the rich and poor.

This essay attempts to analyze the consequences of economic inequality for citizens of all economic classes. I start by discussing the problems that arise as the space between the rungs of the economic ladder increase, including income insecurity and decreased social capital. I then analyze the minimal effect that increased wealth has on already wealthy citizens and explain the fallacy of the trickle-down effect. I present three arguments that counter my thesis, the first being that the bottom line needs help now, the second being that inequality generates incentives to work harder and be more creative, and the third being that the rich stimulate the economy through investments. I conclude with the argument that while such concerns are valid, the long-

term negative effect that economic inequality has on the country outweighs the possible benefits.

The first problem that stems from the economic inequality is economic insecurity. While increased inequality is described as the growing space between the rungs of the economic ladder, economic insecurity can be defined as “the growing risk of slipping from the economic ladder itself” (Hacker 12). For example, the number of houses filing for bankruptcy rose from fewer than 290,000 in 1980 to more than two million in 2005 (Hacker 13). In addition, the privatization of risk has left more individuals dealing with health care and retirement savings on their own. This progression is extremely dangerous because as more people lose company coverage, more patients are refused treatment, and for those who are treated, U.S. taxpayers foot their un-payable hospital bills.

People are also experiencing an increased fluctuation in their wages. “Over ten years… an average Betty who had $60,000 in her best year would have les than $15,000 in her worst” (Hacker 23). This gap puts intense amounts of psychological stress on individuals and families because makes it impossible for them to plan long-term. Instead, they must do what they can: cut expenses by buying cheap goods. The forced shortsightedness of the American employee only perpetuates the feedback loop of low prices through low costs, leaving everyone struggling to keep their heads above water. Policies that increase economic inequality therefore only encourage a system of cutthroat competition that in the long-term would leave those in need behind.

Economic inequality would also have a serious detrimental effect on social capital. As a measurement of “how cohesive a society is, how much people trust each other and are involved in community life,” social capital ends up making a “very substantial contribution to the quality of life” (Wilkinson 35). One aspect of social capital is trust. According to a study done by Ichiro

Kawachi and Bruce Kennedy, people felt more likely to be taken advantage of in areas of large income disparity (Wilkinson 40). Increased homicide rates are also tied to increased economic inequality, along with racism, hostility, lack of participation in the voting process, and decreased community involvement. A policy that aids the poor but increases the monetary gap between classes would directly contribute to a less safe and hospitable social environment.

Increased economic inequality would also cause a degradation of general health, undermining social capital as a whole. First, “the people near the bottom of the social hierarchy have consistently worse health than those nearer the top” (Wilkinson 69). Being lower class carries significant psychological weight that directly translates to faster development of arteriosclerosis, central obesity and diabetes (Wilkinson 73). Social integration also has a significant effect on death rate. In a study of 1500 Australians, initially aged over 70, “those who at the start reported regular close personal or phone contact with five or more friends were 22% less likely to die in the next decade than those who had reported fewer, more-distant friends” (Young 1). Finally, early development is a strong factor in the future health of children. “People’s health is related to their parent’s social class independently of the social class they achieved during their adult life” (Wilkinson 85). When related to the increased privatization of health care that leaves taxpayers paying the bills, the long-term effects of income inequality on health are costly enough by themselves.

Finally, policies that give money to the rich do not significantly increase their happiness, nor guarantee stimulation of the economy through trickle-down economics. According to Robert Frank (2007a), “once happiness reaches a given threshold, measured happiness changes little… [however] significant increases in relative income give rise to significant increases in subjective well-being. And since middle-class families have fallen behind sharply in relative terms, this

finding implies a corresponding reduction in well-being." In other words, it's not the amount money that makes people happy, but the fact that they have more than others. Therefore, policies that give more money to the rich don't increase their happiness because it doesn't change the relative social classes.

In addition, the money that would be given to the upper class in the hopes of stimulating the economy through trickle-down investments does not actually follow such a path. As proved by the recent economic crisis, trickle-down economic policies only consolidate money at the very top, preventing further reinvestment in the general market and social welfare. "Chief executives of large American companies, for example, earn more than 10 times what they did in 1980. In short, top earners are where the money is. Universal health coverage cannot happen unless they pay higher taxes" (Frank 2007b).

The first counter argument to be considered is that the bottom line needs help now. There is no doubt that the truly destitute seriously need any additional resources that could help them survive from day to day. However, policies that provide short-term aid but increase economic inequality only provide false hope to the future of the lower class. By contributing to increased economic insecurity and decreased social capital, these policies discourage upward mobility and undermine the overall quality of life for all members of society.

The second counter argument reasons that economic inequality generates incentives to work harder and be more creative, and that sustained productivity and ingenuity will steadily lead to a higher quality of life. However, with the rising difficulty of moving up the economic ladder, working hard or being creative doesn't guarantee a rags-to-riches story. Instead, arbitrary factors like parents' social status more often decide the future of American citizens. In addition, policies that increase economic inequality do not generate enthusiasm to succeed, but cause

discord, stress, and physical health defects as a result of relative poverty and the knowledge of being lower than other human beings.

Finally the theory of trickle-down economics holds that policies that give more money to the rich will allow them to create jobs and stimulate the economy through new investments and business ventures. In addition, “because higher taxes on top earners reduce the reward for effort, it seems reasonable that they would induce people to work less,” as evidenced by the flaws of communism and the collapse of the Soviet Union (Frank 2007b). Therefore, we should implement policies that give money to the rich so that they continue to work hard and reinvest in the economy. However, as proven by our current economic crisis, trickle-down economics only traps resources at the top, creating a disconnect between production and consumption that upsets the entire system. Therefore, policies should be implemented that stimulate the economy from the ground up, redistributing the static wealth at the top to people in lower and middle classes who will reinvest it in our economy.

In conclusion policies that provide the poor with immediate aid but increase income inequality should not be supported. Although the need of the destitute is current and important, such policies would set the U.S. on a track of increased economic insecurity and decreased social capital. In addition, the money given to the upper class would not increase their happiness or stimulate the economy through trickle-down economics. Despite the pressing nature of the current poverty situation, the short-term benefits of such a policy are severely outweighed by the long-term consequences. Giving in to the temptation would simply discourage upward mobility and confine the poor to a life void of the American Dream.

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