General Commentary

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I would like to divide my comments into two parts. First, I will offer a few general reactions to the conference papers. I will then discuss the policy implications suggested by the papers and my summary.

Reaction to the Papers

First, I am left with the strong impression that there was no disagreement with the fact that economic inequality has increased in the United States over the past twenty years. In fact, income, earnings, total compensation, and wealth inequality have all risen significantly over this period. According to the latest U.S. Census Bureau figures, income inequality has continued to increase at least through 1997, while poverty rates (properly measured using income concepts that include tax-related benefits and near-cash benefits) have finally begun to decrease. In combination, these figures suggest that a moderation and even a decline in poverty rates must be tempered by the fact that the incomes of the well-to-do have increased more than those of the rest of the population, including the poor. Moreover, recent studies and surveys, such as the one by Gottschalk (1997), indicate that income mobility has not increased enough to compensate for increased inequality, and in fact it might have decreased through 1995. If so, then much of the recent run-up in inequality is permanent, not transitory. Policy should address these permanent differences if they produce poor social outcomes.

This brings us to the first question posed by the conference papers, What problem are we concerned with—poverty alone, or inequality more generally? Many researchers see poverty as the only issue to be addressed by policy (for example, see Feldstein [1998]), while others even go so far as to defend the strong positive effects of inequality (Welch 1999). But the papers at this conference tend to indicate the opposite—that is, that inequality itself produces bad outcomes for society. The papers suggest the following relationships:

1. Increased levels of crime, poor health, mortality, poor schools, and poor housing are associated with higher levels of inequality across cities, states, and nations. Poor urban areas tend to have larger levels of negative outcomes than do rural areas, thus indicating some independent negative agglomeration effect of concentrations of poverty in central cities.
2. Social cohesion, trust, and civic engagement all vary negatively with inequality across these same geographic dimensions. These results may also reflect themselves more in central-city areas, where

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crime is relatively higher, access to justice is lower, and there is less upward mobility than there is in better-off neighborhoods.

3. Local and national provision of public goods such as health care and schooling vary negatively with respect to economic inequality. This result suggests that in areas with greater levels of inequality, the median voter is less likely to support social expenditures on goods such as health care and schools.

Given these associations, my final observation from this collection of papers is that we are lacking a clear theory of how increased inequality is linked to poor outcomes. For all of the correlation shown in these papers—and in other related papers in epidemiology, sociology, political science, and economics—there is precious little in the way of modeling the mechanisms by which higher levels of inequality produce the poor social outcomes about which we care. The median voter hypothesis may be one such mechanism, but there may also be others.

Policy Implications

The call for researchers and modelers to isolate the linkages between economic inequality and poor social outcomes should proceed, but policy does not have to wait for such research to move forward. We know that recent economic developments have produced a clear set of economic winners and losers. The papers at this conference suggest that we know who these winners and losers are. Economic theory would count rising real incomes and rising real inequality as a net social and economic gain, if the winners could compensate the losers. Then, the next step would be to move from theory to practice, and to the winners actually compensating the losers.

Our record-setting economic expansion has produced good job opportunities for almost everyone, while at the same time resulting in budgetary surpluses at the federal, state, and local levels of government. As a result, the timing could not be better for policies designed to reduce economic inequality by increasing economic opportunity for the upwardly mobile and rewarding the social behaviors that we approve of as a society.

But leadership, particularly at the federal level, is required to take advantage of opportunities to make permanent many of the cyclical gains that low-income groups are just beginning to enjoy. If we succeed in helping the disadvantaged to help themselves, there will be less dependence on government assistance in the future and greater levels of self-insurance among lower income groups. However, this success depends upon human infrastructure investments and upon rewarding those who engage in socially approved behavior.

Policies that seem to fit this rubric and flow from these papers fall into three groups:

1. *Policies that improve economic mobility through the investment in public goods (education and health care) to enhance human capital.*

   Clearly, policies that provide a more equal opportunity for educational attainment are within our grasp. A "leveling up" of educational opportunity is called for in our lowest income school districts. Federal help in the form of support for universal preschools and better child care for low-income mothers would also help. Also, the health problems that pervade among the poor in general—and those in central cities in particular—call for greater provision of and access to good curative and preventive health care. Some of these actions are already under way but need reinforcement at all levels of government—particularly in older central cities and older suburbs.

2. *Policies that reward socially acceptable actions and provide economic mobility by increasing incomes and assets.*

   The Earned Income Tax Credit (EITC) rewards those who work and have children. It provides the means to make discrete jumps in well-being because of its one-time nature and generosity (Smeeding et al. 1999). Twelve states already have their own EITCs, which further increase the generous EITC offered by the federal government to families with two or more children. The federal EITC should be integrated with refundable child tax credits, which in turn should be expanded to low-income earners. Such an expansion will reduce work-related penalties for married couples and further strengthen upward mobility. Personal saving is another virtuous activity that the

American public is willing to subsidize. Asset-based policies such as universal savings accounts and individual development accounts can be recommended as policies that reward those who set aside money for socially useful purposes, such as first homes, education expenses, and business start-up costs. Easing asset tests in means-tested programs such as Food Stamps and Temporary Assistance to Needy Families is another way to encourage saving by low-income families. However, policies that encourage home ownership should not be tied to specific neighborhoods or city areas. Rather, those who earn and save should be able to decide how to allocate resources within the ground rules of asset-building policies.

These policies can be initiated, expanded, and improved upon within the current economic and social climate and should be vigorously pursued.

3. *Policies that aid the immobile and the truly disadvantaged.*

Although few of the conference papers spoke of those left behind (Wolfe and Geronimus being the most prominent exceptions), it is clear that the worst-off of the poor are increasingly made up of persons with diminished health status, physical disabilities, and shortcomings in mental acuity. These persons are increasingly living in older central-city areas—where the large national decline in welfare caseloads has been occurring least rapidly. Here, we must reinvent ways to support the least fortunate members of society who are not able to take advantage of the opportunities and policies for promoting upward mobility that are suggested above. Such support would include continued medical and social service assistance for the mentally ill and substance abusers, and better opportunities to blend work and income transfer for the disabled and for low-skilled single parents. These are attributes that a rich society can afford, without having to go down the slippery slope of increased welfare dependence that we have just begun to escape.

References

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