

# Book Reviews

## **Attitudes Toward Economic Inequality**

Everett Carl Ladd and Karyn H. Bowman  
Washington, D.C.: AEI Press, 1998, 129pp.

It is now an accepted fact that we experience inequality in various facets of our economic well-being. For example, the inequality could consist of wage differentials between younger and older workers, more and less educated workers, white and nonwhite workers, native and immigrant workers, male and female workers, union and nonunion workers, and so on. As a society we may examine disparities in other broader measures of economic well-being such as wealth accumulation or poverty rates. Some of these inequalities could also be analyzed in an international context (Blau and Kahn, 1996; Blackburn, 1997). The lessons we learn from critically examining, understanding, and debating trends in these inequalities will potentially benefit society by designing appropriate mechanisms to curb the evils of economic inequality.

To assist in this critical mission, the American Enterprise Institute's monograph series on understanding economic inequality was launched, under the editorship of Marvin H. Kosters. It has been customary for the American Enterprise Institute to present and discuss drafts of its monograph series in a seminar format prior to publication. This latest monograph by Ladd and Bowman is based on historical and recent public-opinion-poll data and is divided into six chapters, including over fifty tables for the U.S., plus an extensive tabulated appendix consisting of cross-country comparisons on some of the key economic questions. The poll data used by the authors are from highly respected sources, covering the years 1939 through 1997.

At the outset, Ladd and Bowman explore and synthesize the attitude of the general public regarding inequalities in possession of wealth, earning power, and money in our society in great detail. They also investigate thoroughly what we as a society want government to do about these perceived inequalities.

The central message of this monograph is that we are a nation of great tolerance and contented individuals with a strong preference for the existing free-enterprise system and its supporting institutions. This observation seems to be amazingly consistent over time. However, such a strong belief in the power of markets can crumble if the majority of us feel that the rules of the game are unfair or favor only certain groups. In other words, citizens feel not only that the opportunities are available to most of us, but also that it is up to each of us to reap the benefits by rising to the occasion. Accordingly, most of us, though compassionate, rule out any major role for government in our economic lives. This behavior is very unique to America, compared to other industrialized democracies such as the UK, Germany, Sweden, and Australia.

The book's introduction is brief but very crisp. The authors in my judgment provide a nice rationale for and scope of their monograph by drawing inferences from the popular press and citing appropriate quotes by highly visible contemporary politicians on economic inequality. Phrases such as "Corporate Killers," "corporate butchers," and "anxious class" catch the attention of even a casual reader.

Chapter 2, "Opinions about Wealth," in my view is a masterpiece. The authors very skillfully analyze the term "wealth" from numerous angles. The spectrum ranges from a simple case

of the income needed to support a comfortable living to the role of Wall Street in creating wealth and prosperity in our economy. Even though most of us are aware of the contributions made by our wealthy citizens to propelling our economy, there is considerable apprehension about their enormous political power and influence. When it comes to social responsibility, paying their fair share of taxes, and contributing to charitable causes, our wealthy citizens receive somewhat low marks. The exorbitant compensation packages of the presidents/CEOs of major corporations seem to strike a raw nerve with most of us. At the same time, the majority of business executives at larger firms feel that the compensation of their CEOs is just about right. Professional athletes, entertainers, TV news anchors, lawyers, senators and congressmen, investment bankers, and senior level managers in government are also identified as some of the groups routinely overpaid. The use of personal wealth (self-made or inherited) by politicians to run their own political campaigns seems to be a preferred alternative to PAC money by the majority of voters. Hence it is not at all surprising that millionaires Ross Perot and Steve Forbes made some measurable impact on our presidential campaigns. Though we are in a very materialistic world, given our ambivalence about wealth, we hardly see any political discontent about the perceived disparities in wealth. In essence, we are a tolerant and contented society with a heavy reliance on a free-enterprise system and its outcomes.

Chapter 3, "How Money Matters," clearly identifies our nation as predominantly a middle-class society. This chapter draws its inferences from a total of 28 tables (which range from classification of social classes to achieving the American dream). The organization of this chapter is a bit cumbersome. I'd have preferred a separate chapter on the American dream. At the outset, we see a sharp contrast between a traditional hierarchical society with strong class divisions such as Britain and us (i.e., America) regarding class division into haves and have-nots. Since we believe ourselves to be a nation of well-contented, middle-class people, we feel that our society cannot be really characterized as haves and have-nots. So it is not at all surprising that given our middle-class mentality, we are at least somewhat hostile towards our wealthy citizens. As far as living standards and material possessions are concerned, overwhelmingly we feel that each new generation is faring better than earlier generations.

Being wealthy seems to be only marginally important to us relative to other aspirations in our lives. However, a primary reason to be wealthy seems to be to provide security (i.e., to meet unexpected emergencies) rather than any materialistic reasons. Providing for their children's education and contributing to charitable causes are some of the other reasons cited by our citizens for being wealthy. About two thirds of the individuals surveyed indicate that personal drive, willingness to take risks, and inherited wealth are crucial factors in becoming rich. On the other hand, lack of effort by the poor themselves seems to be a crucial determinant of being poor. Both rich and poor believe that we are indeed a society of equal opportunity rather than equal outcomes, and it is the hard work and individual effort that matters the most for being a success in America. This is a very sharp contrast compared to other industrialized countries. Given our strong belief in equality of opportunity and not in equality of outcomes, maybe we could speculate why the concept of comparable worth is not a real hit in our society. The American dream is an ever-evolving concept and cannot be contained in scope; it means different things to different groups. As a common denominator, most of the recent surveys disclose that the American dream can be achieved by all Americans willing to work for it. So could we say that we are a society of hardworking optimists who play by the rules to achieve the American dream?

Chapter 4, "Is the Ground Shifting," is also a well-written and provocative chapter which lays a good foundation for the argument that playing by the rules may not be sufficient to achieve the desired economic fairness due to a number of built-in imperfections in our system. We find

a clear disjunction between the responses of individuals about themselves and their responses about average Americans. On the surface the majority of us seem to be financially secure and contented with our jobs. However, with news coverage about frequent employer downsizing, corporate restructuring, permanent plant closings, or jobs moving overseas dominating the media, the majority of workers feel somewhat insecure about their jobs. The widespread belief that we need at least two paychecks to maintain our current standard of living also is adding to our worries and anxiety. Some of the factors which may be leading the working class to perceive that the rules of the game are not fair are the ever-increasing size of CEOs' compensation packages, even when downsizing or layoffs are taking place, and a belief that rich people pay less than their fair share of taxes due to tax loopholes. With a widening income gap between rich and poor, an undue tax burden on the middle class, and corporations and big businesses shirking their responsibility to their workers by cutting down on fringe benefits, it is very logical to assume that an average American would turn to our government for relief. However, we are skeptical about the effectiveness and size of our government — the majority of our citizens feel that big government today, and particularly the federal government, is a greater villain than corporations and big businesses. Given such an aversion, are we willing to soften our critical thinking about the role of government? What are the pros and cons of government taking an active role in alleviating economic inequality?

Chapter 5, "What Do We Want Government to Do about Inequality," is very succinct. Given our preference for a free-enterprise system, most of us want government to play a limited role in our lives. We feel that there should not be any upper limit on our income or wealth, but at the same time we are in favor of a wage floor (i.e., minimum wage) to help our poor citizens. Even some of our poor citizens support only a marginal redistribution of wealth and income from the better off to the less well off, which is quite a contrast compared to class-conscious Britain. What we want most from our government is the opportunity for all of us to succeed, but not play a major role in redistributing wealth and income.

Chapter 6, "Concluding Observations," reiterates key observations of this study. The punch line is that we are predominantly a middle-class society, a people who believe that the economic inequalities we experience cannot be solved solely by the government.

The authors have done an excellent job in synthesizing a voluminous amount of poll data to draw their inferences about economic inequality. Their analysis is very objective. However, one main weakness of this monograph is the omission of polls based on racial or ethnic minorities. Even though I am aware of data constraints, at least the authors should acknowledge this critical flaw formally rather than sweeping it under the rug. Also, the sample size is reported only for a few tables. This monograph should give us a good measuring stick to separate facts from fiction, at least in the area of economic inequality.

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