

*An Essay on Inequality Revisited*¹

By Frank W. Elwell

In the 1960s, Gerhard Lenski found that inequality was lessening in the developed world. Much has happened in the years since Lenski tested his inequality hypothesis, particularly in regard to intra-societal inequality. Table 4.2 displays the growing income disparity between each fifth of the American population between 1977 and 1999. As can be seen the share of all income for the bottom four fifths has declined over these years, the bottom three fifths actually experiencing a decline in absolute terms as measured in constant dollars of after-tax income.

Table 4.2: Growing Income Disparity

Household Groups	Share of All Income		Average After-tax Income Estimated		Change
	1977	1999	1977	1999	
One-fifth with lowest income	5.7%	5.2%	\$10,000.00	\$8,800.00	-12.0%
Next lowest one-fifth	11.5%	9.7%	\$22,100.00	\$20,000.00	-9.5%
Middle one-fifth	16.4%	14.7%	\$32,400.00	\$31,400.00	-3.1%
Next highest one-fifth	22.8%	21.3%	\$42,600.00	\$45,100.00	5.9%
One-fifth with highest income	44.2%	50.4%	\$74,000.00	\$102,300.00	38.3%
<i>1 Percent with highest income</i>	7.3%	12.9%	\$234,700.00	\$515,600.00	119.7%

Figures do not add to 100 due to rounding.

Source: *Congressional Budget Office Data Analyzed by Center and Policy Priorities*. Reprinted in the New York Times, September 5, 1999 appearing in Kevin Phillips, *Wealth and Democracy*, 2002, p. 129.

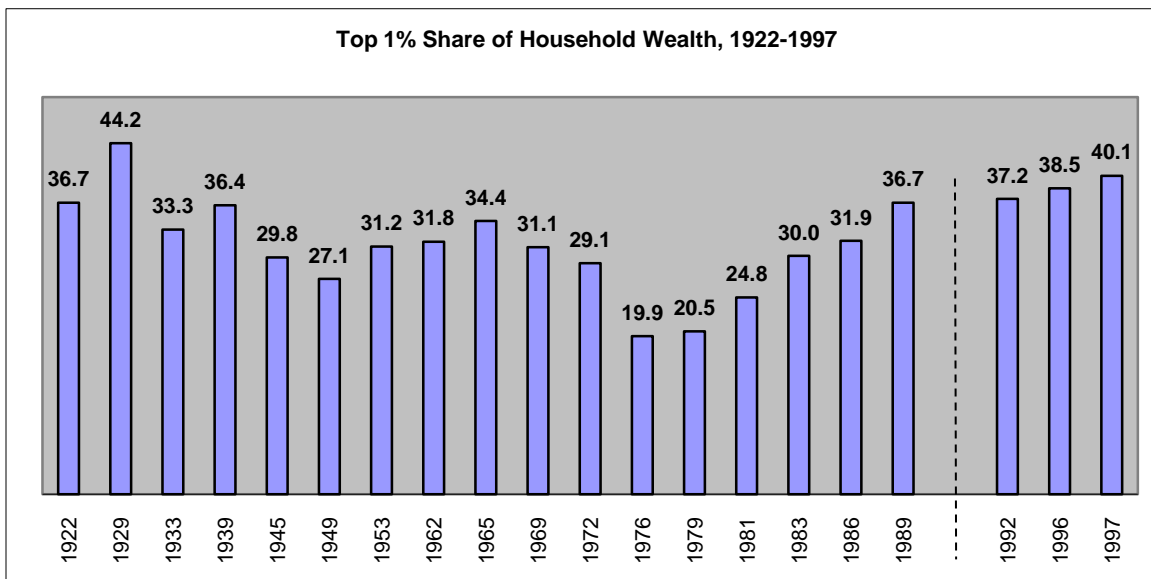
¹ An excerpt from *Macrosociology: Four Modern Theorists*. Paradigm Publishers, Colorado, pp. 127-130.

At the same time, the top one-fifth with the highest income had their percentage going from 44.2 percent of all wages to 50.4 percent. The highest 1 percent had their income share go from 7.3 percent to 12.9 percent, more than doubling their after tax income.

So unequal has it become that The New York Times began the 1999 article on the growing gulf by drawing a contrast that could well be from the Gilded Age itself. “The gap between rich and poor has grown into an economic chasm so wide that this year the richest 2.7 million Americans, the top 1 percent, will have as many after-tax dollars to spend as the bottom 100 million” (quoted in Phillips, 2002, p. 103).

Wealth, of course, has always been more unevenly distributed, and again the concentration of wealth has been growing since Lenski originally tested his technology-surplus-inequality hypothesis. Table 4.3 displays the Top 1 Percent’s Share of Household Wealth from 1922 to 1997.

Table 4.3



Source: Edward Wolff, *Top Heavy*, 1996, New Series Household data, pp. 78-79 (for years 1922-89 and “Recent Trends in Wealth Ownership,” 1998 (for years 1992-97) appearing in Kevin Phillips, *Wealth and Democracy*, 2002, p. 123.

As can be seen, after a sharp drop after 1929, when their share of the wealth plummeted from 44.3 percent to 33.3 percent, there has been a rapid increase since 1981 climbing from 24.8 percent of all household wealth to 40.1 percent.

In reviewing the concentration of wealth in American society from its (western) beginnings to 2002, Kevin Phillips (no wild-eyed radical but a staid Nixon Republican) agrees with Lenski that the American zenith in inequality was in the Gilded Age of early capitalism. However, since the 1970s he notes that American inequality—now higher than any industrial nation in the world on several measures (p. 111)—has been growing rapidly, and will soon be approaching the levels of the late Gilded Age (Phillips, 2002, p. 122). He remarks (unconsciously echoing Lenski's hypothesis): "Over two centuries, the greater the complexity attained by the U.S. economy—in size, technology, and financial sophistication—the loftier the distance between its uppermost and bottom layers" (p. 110).

It would seem that Lenski's technology-surplus-inequality hypothesis is still very viable. At the very least, higher technology leading to a greater surplus is an enabling factor behind growing inequality. It is interesting to note that the top 20 percent in hyperindustrial societies are now collecting national income in the proportions that were previously attained by the elite of agrarian societies, though agrarian elites were only 1 to 2 percent of the population.¹

Several of Lenski's mitigating factors to greater inequality are of direct relevance to this top 20 percent attaining a greater share of the national income. These factors would include (a) the need for administrative and technical specialists to run a complex society; (b) the division of labor in which at least some with special skills and education can bargain for more of a share; and (c) the investment by the elite of part of their relative share in order to increase their absolute share of the surplus. These factors alone would be enough to explain the increase in the number

of well off in the *top* tier. However, Lenski's other mitigating factors, those that he posited would lead to increases in the amount and relative share of surplus distributed to those at the *bottom* of the income pyramid, may well have been of a short-term historical nature.

While Gross Domestic Product has been growing significantly since the late 1970s, general social health as measured by such factors as education, infant mortality, and child poverty has actually declined (Phillips, 2002, p. 167). This is because all of the factors that Lenski cited in 1966 that led to a significant amount of the surplus being redistributed to the bottom of the income pyramid have been annulled. As Harris stated (and Malthus anticipated), industrialization initially produced a de-coupling of population and production, that is many in the lower and middle classes found it in their interest to limit their fertility with their increased wages. This demographic transition may have produced some temporary gain in income for the lower classes by lessening competition for jobs. However, this temporary gain was quickly wiped out with increased rates of immigration, factory and office automation, and now both the outsourcing of many American jobs as well as the increased competition from developing nations. For a time the increasing division of labor did lead to greater bargaining power on the part of the working classes, however the increasing detailed division of labor has led to a de-skilling and a decline in their bargaining position. At the same time low level (and low pay) service jobs are on the rise, and union membership and power have undergone a sharp decline. Finally, while Lenski points to the increasing role of government in addressing inequality, since his writing there has been a spread of ideologies that seek to limit government action on behalf of those at the bottom of the wealth pyramid.ⁱⁱ Since the mid-sixties inequality has grown in the United States as progressive income tax rates have been gutted, corporate and capital gains taxes have been slashed, and corporate profits, capital gains, and executive salaries have soared.ⁱⁱⁱ

U.S. Corporate profits have, of course, risen dramatically in the last 20 years. The wealthiest 10 percent of the population own 91 percent of all corporate and business assets in 1992 (Phillips, 2002, p. 150). In 1950 corporate taxes accounted for 26.5 percent of total federal receipts. By 2000 they accounted for only 10.2 percent. In that same time period, payroll taxes climbed from 6.9 percent of total receipts to 31.1 percent (Phillips, 2002, p. 149). Capital gains income climbed dramatically in the same time period, rising in constant dollars from \$74.6 billion in 1980 to \$507 billion in 1999 (Phillips, 2002, p. 130). The wealthy receive the vast majority of capital gains, and they are, of course, taxed at a much lower rate than income from working (Phillips, 2002, p. 150). The effective federal tax rate for a median family rose from 5.30 percent in 1948 to 24.63 percent in 1990. The top 1 percent of families effective tax rate declined from 76.9 percent in 1948 to 26.7 percent in 1989 (Phillips, 2002, p. 96).

As in agrarian societies, wealth and income are very much concentrated at the top in hyperindustrial society. While there has been a significant redistribution of wealth among the top 20 percent or so, very little of the surplus appears to be distributed to those at the bottom. The fact that that top has broadened to 10 or 20 percent of the population rather than the 1 or 2 percent in agrarian societies gives the retainer class (those professionals and administrators who are mid-level within the bureaucratic hierarchy) an economic stake and thus loyalty to the system. However the existence of this retainer class cannot be a cause of great celebration among the vast majority.

ⁱ Lenski found that Agrarian elites were collecting up to 50 percent of all income (1966, p. 309).

ⁱⁱ Ideology that seeks to limit welfare to the needy does not seem to apply to wealthfare for our more prominent citizens. As countless observers have pointed out, the amount of money and government services that go to our wealthiest citizens, both direct and indirect (in the form of tax breaks), dwarfs the amount that is spent on welfare for the poor.

ⁱⁱⁱ The average CEO made 42 times the average hourly worker's pay in 1980. In 1990 they made 85 times more, in 2000 531 times more. Due to the recession of 2001, however, their pay was only 411 times as much. In 2003 the average CEO of a major company made 9.2 million in total compensation. The pay of CEOs in most other nations are well below these levels. Source: AFL-CIO Web site on Executive Pay Watch

<http://www.aflcio.org/corporateamerica/paywatch/>