Income Inequality in America: A Proposal for Policy Reform in Minimum Wage, Taxation, and Education

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One of the World's most urgent economic challenges is centered around the notion of income equality. Much of the government's resources and policy have gone towards shrinking the income inequality gap in America. The desire for universal income equality raises the question: What policy or policies would diminish income inequality in the U.S.? Stakeholders including politicians, activists and scholars have encouraged a range of policies including redistribution, educational and social methods in an attempt to curb the growing inequality in America. Since the market crash in 2008, the subject of inequality has been a central debate, however little has been accomplished. With the welfare state unable to keep citizens above the poverty line, inflation and the decreasing credibility of the minimum wage, and with education unable to provide a hopeful future for the poor, the outlook appears bleak when searching for a way to close the gap between the poor and the rich.

In response, economists and scholars have molded arguments centered around more progressive taxation of the wealthy claiming that tax loopholes for corporations and the wealthiest individuals have dismantled the U.S. progressive tax system (Piketty, 2014). Raising workers’ pay has been supported as a solution by raising the minimum wage to pull millions of Americans out of extreme poverty and provide a boost for the economy (Jennings, 2014). Beyond these progressive methods that aim to close the gap of inequality in the U.S., there is strong support in the literature for funding education in order to raise human capital among individuals throughout their lifetime (Autor, 2008; Forster, 2014; Giddens, 1998). Research by economists and political scientists heavily focuses on these three aspects for closing the gap between the extremely rich and extremely poor.

Many studies have examined specific progressive policies addressing income inequality in the U.S. What remains to be explored is a comparison of the most prominent policies in today’s politics. Scholarly work and literature in the field either focuses on the causes of inequality, or emphasizes a few policies that can be used to lessen inequality and their success. Rarely has scholarly worked aimed at actively comparing the three policies through policy analysis and examining the data to determine the best set of policies, if any, are effective in battling inequality. This study wants to compare the prominent policy practices against each other to find out which one is best for creating change.

In an election rich year with issues surrounding inequality growing, there has been much debate around income inequality and how to solve it. Bernie Sanders is one of the most prominent, progressive advocates for policy change around inequality today, and he has gathered massive amounts of public and professional support around his central theme to take down Wall Street. Although the Sanders campaign takes on many more ideals, income inequality is its core element, and that is why our aim is to give politicians the best policy possible to begin advocating for policy change when raising questions on income inequality around the U.S. It will likely be the case that there is no one policy that will foster prominent change in income inequality, but that a mix is necessary. If this is the case, we will advocate for the best mix of policies for politicians to campaign with and to take to office.

The purpose of this study is to discover the best policy or combination of policies in temporary politics for lessening inequality in the U.S. At this stage in the research, policies that promote greater equality will be generally defined as the progressive movements toward creating equality and providing aid for low income citizens. Through analysis of current policies, we start to explore what policies currently exist in aiding the poor. These include government raising pay, taxation methods and education. From there we employ a qualitative simulated exercise aimed at identifying what factors play into developing progressive policy reform that promotes equality. We will use various qualitative techniques to assess the factors that lead to the passing of policy proposals through achieving a better understanding of the current political system. This information will be used to help politicians that are attempting to pass progressive policy.

**Literature Review: Minimum Wage, Tax, and Education**

Previous studies of income inequality in the U.S entertain three main policy proposals as remedies for the increasing gap between the rich and the poor. The first policy proposal to be discussed is raising the minimum wage. Raising the minimum wage has become a popular movement in Bernie Sanders’s campaign, and has increasingly gained support in literature as well. Next, I turn to the literature on progressive taxation. Progressive taxation often entails tax proposals focused on increasing taxes on the rich to redistribute wealth to the poor. Lastly, I review arguments that education is an effective long term remedy for inequality in the U.S. All three policies are imperative to creating equality, however, for the short term I prefer progressive taxation and minimum wage increases to vastly reduce inequality. After the gap between the wealthy and poor is decreased, education reform can be implemented to create long term change.

**Raising Minimum Wage**

The literature on raising the minimum wage is split between opponents and proponents of a wage increase. Scholars opposed to minimum wage increases date back to the studies of Carl and Krueger (1995) who found significant increases in unemployment when the minimum wage was raised. Burkhauser and Sabia (2007) extended the work of Card and Krueger finding that 87% of people affected by the minimum wage increase were non-poor individuals. Neumark (2016) belongs to this group as well, suggesting a correlation between unemployment and a raised minimum wage finding that unemployment increased 85% of the time when the minimum wage was increased.

In response to these findings Dube, Lester, and Reich (2010) explain how Carl and Krueger (1995, 2000) failed to look at the effects of a raise in pay at the national level. Dube et al. (2010) explain the divide in the literature as a result of the different approaches to studying minimum wage effects. Research has shown increased unemployment with a raise in minimum wage. However, the results are insignificant (Dube, 2013b; Schmitt, 2013). What is more, for every one person hurt, 49 see a wage boost, meaning the benefits outweigh the costs when it comes to raising the minimum wage (CBO, 2014). Raising the minimum wage to $10.10 would lift 2.3 million people out of poverty by sending 5.5 billion dollars to people beneath the poverty threshold, decreasing the amount of nonelderly poor by 5.5% (CBO, 2014; Dube, 2013a, 2013b). Even more encouraging is that a $10.10 minimum wage would give 27.8 million workers a raise, and 16.7 million of those workers (the poor) would be directly affected (Cooper, 2013). In other words, low paid service workers would benefit the most if the minimum wage were raised to $10.10 an hour (Cooper).

Although the debate continues in literature around raising the minimum wage, an uncontested argument for reducing income inequality is the Earned Income Tax Credit (Bernstein & Parrott, 2014; Dube et al. 2013; Gramlich & Long, 1996). Burkhauser and Sabia (2007) use the EITC as a supplement for raising the minimum wage, while Bernstein and Parrott (2014) see the EITC as an important policy that should be implemented alongside minimum wage reform. It is clear that literature is undecided as to whether minimum wage reform works. The EITC, a tax policy, looks to be an important reform that both increases the purchasing power of workers while maintaining employment (Baker, 2015). With more studies praising the minimum wage as a tool to close the gap between the rich and the poor, and positive outcomes San Francisco and Los Angeles have experienced since raising minimum wage to $12.25 and $9, raising pay for low income individuals will be important moving forward for the fight against income inequality.

**Taxing the Wealthy/ Transfer Policies**

Fiscal policy, focusing on taxation and transfer payments, is a common remedy for inequality in the literature. The Organization of Economic Co-operation and Development (OECD) (2014) describes taxing as the most direct and instrumental way to raise incomes in the United States (U.S.) through distribution. The OECD as well as Denk, Hagemann, Lenain, and Somma (2013) focus on the traditional tax and transfer systems with an emphasis on gathering income from the wealthy and redistributing it among the poor to promote inclusive growth. These efforts include the Denk et al. and the OECD's proposal to lower tax expenditures that benefit the wealthy as well as equalizing taxing efforts on housing assets. Additionally, OECD and Ales, Kurnaz, and Sleet (2015) argue that lowering the marginal income taxes on low and middle incomes is important for battling income inequality. Ales et al. (2015) take this further by saying it would be ideal to also raise marginal income taxes on high incomes.

Atkinson, Piketty, and Saez (2011) use historical research to correlate the progressivity of a government’s tax program and its success in surviving economic crises. They found that countries with more progressive tax systems were able to maintain higher levels of equality. Congruent with these findings, Frank (2010) and the OECD (2014) also make cases for an increase in progressivity of taxation. The OECD found that the U.S not only had one of the largest gaps between the rich and poor for OECD countries, but that the OECD countries like Germany with more progressive tax and redistributive methods handled economic crises better.

In terms of a more progressive tax system, Frank (2010) encourages the replacement of the federal income tax with a more progressive consumption tax. It is believed that if you tax consumption rather than income, people will be encouraged to invest and save money rather than spend all of their earnings, thus fostering economic stability (Frank, 2010). Bastagli, Coady, and Gupta (2012) argue for progressive approaches to taxation. Bastagli et al. and Cubero and Hollar (2010) assert indirect taxes and in-kind benefits as variations to the current tax system. Indirect taxes are a form of consumption taxes while in-kind benefits are government policies that help improve the standard of living for unprivileged citizens by directly giving them cash (Bastagli et al., 2012). I believe progressive consumption taxes would be a great way to reduce income inequality if it incorporated certain exemptions. People who live pay check to pay check cannot afford to pay taxes on what they spend, thus defeating the purpose of investment for lower income families. Overall, a consumption tax with exemptions for those in poverty or for basic needs such as food and insurance would be extremely beneficial to lessening income inequality.

**Education Reform**

Giddens (1998) established a political philosophy called the third way that incorporates contemporary neoliberal and classic social democratic thought, while also focusing on investment in human resources to expand entrepreneurship. Giddens’s neoliberal interpretation became a prominent scholarly work at the time, setting the stage for early neoliberal arguments for fighting inequality. Among Giddens’s solutions to inequality is the accumulation of human capital through education. Giddens (1998) argues that human and social capital become important for economic success, and that education increases people’s levels of human capital. The idea is that lifelong education will give individuals the skills to keep up with the growing technology in today's society (Giddens, 1998, p.125).

Autor, Katz, and Kearney (2008); Gramlich and Long (1996); Reardon (2013), understand the importance of educational success for economic success in closing the income inequality gap as well. Reardon, Dobbie and Fryer (2011), and Farbman (2012) provide evidence supporting more time in school as a remedy for closing the achievement gap among young students. This includes access to, and promotion of summer programs as well as after school programs (Reardon, 2013). Reardon and Bischoff (2011) explain the increased racial segregation among neighborhoods within the U.S as a leading cause for the increased segregation in schools. Moreover, increased segregation in schools leads to greater achievement gaps among children (Reardon). In order to lessen the achievement gap, Reardon and Bischoff (2011) argue that all schools must have access to high-quality teachers as well as curriculum and resources. Efforts made on these fronts will help lower-income individuals raise their quality of life and close the achievement gap, which will close the inequality between the wealthy and poor.

There are three main policies that could be implemented to decrease inequality. After reviewing the literature on income inequality, it is evident that scholars have found raising pay, taxing the wealthy, and education as primary cures for the inequality dilemma. In order to immediately lessen income inequality within the U.S, minimum wage raises as well as progressive taxation should be employed, while educational reform should be used as a long term remedy that will be fulfilled after we have increased taxation on the wealthy and increased the minimum wage in the United States.

The literature has shown us that progressive policies such as taxing, raising low income pay, and improving education greatly increases equality in the U.S. What the literature has not shown is how politicians should get these policies passed. This study will undertake the task of giving politicians insight as to how to get these progressive policies passed. We believe that in order to pass progressive policy you must first understand the function of the political system and how the elite and the poor function in this political system. Through qualitative analysis of a simulated game, we can achieve a better understanding of how to pass progressive policy based on observing how it is done in this simulated setting.

**Methods: Simulated Policy Proposals**

This study will utilize a qualitative case study approach to assess how effective policy proposals are at generating change in a simulated, controlled setting. Qualitative case studies are beneficial in establishing a “holistic approach” through reporting the participants’ meanings, adding reflexivity and including inductive as well as deductive analysis (Creswell, 2014). Through a simulated exercise, this study will use qualitative case study methodologies to identify answers regarding what societal factors are preventing policy change towards achieving equality in the U.S. The methodological framework in this study includes observational analysis, interviews of participants, and audiovisual material to investigate and explain the replicated political and economic relations in today’s society. Participants for this study will be selected from Drexel University though random convenient sampling. Students will be identified by advertising the study using email to gather the needed sample size and providing a small stipend to encourage participation in an innovative research project about income inequality. Ideally we would like a representative sample of the U.S. population which would resemble all genders, races, ethnicities and socioeconomic backgrounds.

In qualitative research the role and bias of the researcher is often questioned because of the nature of qualitative studies to interpret data collection. Being a political science major and coming from a liberal background I will have certain biases, but every effort will be made to refrain from these biases, ensuring objectivity. To combat these biases, three observers will be used to create triangulation of observation. Triangulation allows for observations to be compared against each other to reduce individual bias. I offer this simulated exercise with the perspective that locally and nationally we face pressing issues of income inequality, and this study will offer insight towards that solution through relations between the public and policy proposals.

This study will be conducted in the city of Philadelphia at the campus of Drexel University. Drexel’s campus is situated in between the wealthy center city and comparatively poor western Philadelphia, offering interesting context for the study. The student body is made up of 12,000 undergraduates, offering a rich sample selection to randomly choose from. Of the many students, only 15 participants will be selected. Once the students have been identified for the study, preliminary interviews can begin.

A simple entry survey questionnaire will be used to gather background information like age, ethnicity, socioeconomic status on each participant. After the entry questionnaire, the study will be done. Following game theory, the participants will be actively involved in a controlled, simulated game that represents today's gap in income inequality. The game is won through a collaborative effort of all the citizens in keeping everyone above the poverty threshold. At random, participants (players) will be given their bios, explaining their race, ethnicity, educational background, current job, living situation/livelihood, annual income, and most importantly what interests they are personally driven to meet. This is aimed to meet the collective aspect of a society while creating personal agendas that make it difficult for people to want the same thing. Participants will then proceed to their ‘neighborhood’. Inherent in this model is that it replicates the current economic and socioeconomic statuses of individuals not only in Philadelphia but the U.S as well, with one person being a billionaire, four coming from the middle class, and ten being in the lower class. Before the game begins, participants understand the rules:

* The goal is to keep everyone at or above the poverty threshold set at level 9
* There will be two economic crises at random that will hurt the economy. Participants are expected to plan for these economic crises accordingly to win the game
* There will be three policy proposals targeted at reducing income inequality
* The first policy proposal will be decided by a vote, the second a discussion, and the third by the 1%
* The policies are scaled 0-5 in severity

• Taxes: 0= equal taxes on all, 5= taxing the wealthy very progressively with lower income individuals given tax benefits or even exemptions

• Minimum Wage: 0= $7.25 per hour, 5= $15 per hour

• Education: 0= minimum federal aid to public schools, 5= equal funding, teachers, curriculum, programs for public and private

* Understood in each policy change is the effects it would have on each individual’s wage, taxes, education for children, living circumstances in short term as well as long term (5 years, 10 years etc.)
* One referee will be used for participants to asks questions, and to facilitate the game through the various stages

The simulated exercise offers several platforms for analysis. From a broader perspective the simulation allows us to assess the behaviors, interactions, and agendas between the different classes in society. Furthermore, the structure of the game allows us to see the most effective method for passing more progressive policies to decrease inequality. Voting represents what one person one vote would produce. A discussion allows everyone to voice what they want and why, allowing an attempt to convince those in opposition to their policy stance to change their opinions. The final policy proposal will be completely decided by the individual acting as the 1% in society to convey how many policy changes are decided by the elite in an electoral college system. Another takeaway form the study lies within the progressivity of each policy. By the end of the simulation, if the group wins, then there will be a combination of policies ranging from 0 to 5 that are either equal to or greater than 9. This allows flexibility in terms of the degree to which a policy is progressive or not. For example, if the taxing proposal is decided by the 1% and the outcome is a regressive alternative, receiving a score of 1, then the minimum wage and education policies must be quite progressive policies in order to achieve the poverty threshold of 9 to win the game (keep in mind that this is a risky strategy because it does not account for the possible economic crises that could occur leading to a recession and dropping the overall score).

The simulation lasts one hour. The study will be videotaped for audiovisual data, and active documentation of the participants’ actions, discussions, votes and agendas will be noted. Directly after the simulation, an open discussion interview will be done to gather the participant’s views, opinions and general observations regarding the simulation and their thoughts on the policy. Within three days, in person private interviews will be issued to five of the most informed and interactive participants to reveal their understanding of what happened. Due to the nature of qualitative studies, semi-structured open ended and emerging questions will be employed to allow participatory answers that evolve over time. In the beginning of this process, the questions I will ask are: “What is your understanding of income inequality and is it a pressing issue for you?” “How do you think the dilemma of income inequality should be solved?” “Who should solve the gap between the incredibly wealthy and those in extreme poverty?”

Data collection procedures will be observational note taking, audiovisual expression, and emerging interviews in a simulated setting probe for relations between personal agendas within a public settings and the result it has on government policy. In this study, observations will be concealed keeping participants from feeling anxious, nervous or having other experiences that may impact or exaggerate the research finding and affect validity of the research. The use of audiovisual materials incorporates unobtrusive, visually stimulating data, while the presence of observers in the setting may change the behaviors of individuals. Lastly, in-person interviews and focus groups are beneficial because the researcher can have control over the questioning, but provides indirect information that comes from an unnatural setting. Finally, all identities of participants will be protected.

Triangulation, test runs, and member checking will be used to validate this study. Triangulating observations adds to the validity of the study by offering observation analysis from three points of view, so no bias is incorporated in the study. Next, the actual simulation and tools are validated through test runs before the reported study is done. Final validation of the simulation is achieved by the follow-up interviews where we will confirm the accuracy of semi-finished product through a system called member checking. This study lacks validity in its convenience sampling and sample size, as well as is its qualitative generalizability to a city or state when the participants are taken from Drexel University. This gap in validity is due to the natural tendencies of qualitative studies. Qualitative studies tend to provide a rich, thick, more complex understanding of why and how people think and do the things they do versus quantitative research. As a final point, exact construction of the simulation as well as all observations, audiovisual production, and interviews will be saved for replication in the future.

This study proposes an examination that goes beyond descriptive relational analysis. This qualitative case study will indicate what policies can produce change beyond the limits of the theoretical number crunching framework found in quantitative analysis. This study will assess collected data using game theory models to propose how to improve our understanding of minimum wage issues, education, and raising taxes, which will help incorporate and effect better policy to improve inequality. This allows us to give politicians the best plan of action for attacking income inequality city-wide or nation-wide.

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