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# The Wealth Divide Between Rich and Poor Harms the US Economy

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*There is an emerging economic view among progressives that inequality has reached damaging levels, which is contrary to the dominant mainstream economic view of the last few decades that inequality is economically neutral. New evidence, however, supports the view that extreme inequality is damaging to the economy because it suppresses growth and creates a risky credit bubble. As a result, the era of dismissing the issue of inequality is coming to an end.*

At a salon dinner in Washington recently, the subject was inequality. An economist took the floor. Economic inequality, he said, is not a problem. Poverty is a problem, certainly. Unemployment, yes. Slow growth, yes. But he had never yet seen a good reason to believe that inequality, as such—the widening gap between top and bottom, as distinct from poverty or stagnation—is harmful to the economy.

Perhaps he spoke too soon.

## The Emerging Criticism of Inequality

Once in a while, a new economic narrative gives renewed strength to an old political ideology. Two generations ago, supply-side economics transformed conservatism's case against big government from a merely ideological claim to an economic one. After decades in which Keynesians had dismissed conservatism as an economic dead end ("Hooverism"), supply-siders turned the tables. The Right could argue that reducing spending and (especially) tax rates was a matter not merely of political preference but of economic urgency.

Something potentially analogous is stirring among the Left. An emerging view holds that inequality has reached levels that are damaging not only to liberals' sense of justice but to the economy's stability and growth. If this narrative catches on, it could give the egalitarian Left new purchase in the national economic debate.

"Widely unequal societies do not function efficiently, and their economies are neither stable nor sustainable in the long term," Joseph E. Stiglitz, a Nobel Prize-winning economist, writes in his new book, *The Price of Inequality*. "Taken to its extreme—and this is where we are now—this trend distorts a country and its economy as much as the quick and easy revenues of the extractive industry distort oil- or mineral-rich countries."

*For years, the idea that inequality, per se, is economically neutral has been the mainstream view not just among conservatives but among most Americans.*

Stiglitz's formulation is a good two-sentence summary of the emerging macroeconomic indictment of inequality, and the two key words in his second sentence, "extreme" and "distort," make good handles for grasping the arguments. Let's consider them in turn.

## The Promise of Inequality

*Equality and Efficiency: The Big Trade-off* was a 1975 book written by the late Arthur Okun, a Harvard Unversity economist and pillar of the economic establishment. Okun's title