
The Culture Gap

by Brink Lindsey



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Cut through all the statistical squid ink surrounding the issue of economic inequality, and you'll find a phenomenon that genuinely deserves public concern.

Over the past quarter-century or so, the return on human capital has risen significantly. Or to put it another way, the opportunity cost of failing to develop human capital is now much higher than it used to be. The wage premium associated with a college degree has jumped to around 70% in recent years from around 30% in 1980; the graduate degree premium has soared to over 100% from 50%. Meanwhile, dropping out of high school now all but guarantees socioeconomic failure.

In part this development is cause for celebration. Rising demand for analytical and interpersonal skills has been driving the change, and surely it is good news that economic signals now so strongly encourage the development of human talent. Yet -- and here is the cause for concern -- the supply of skilled people is responding sluggishly to the increased demand.

Despite the strong incentives, the percentage of people with college degrees has been growing only modestly. Between 1995 and 2005, the share of men with college degrees inched up to 29% from 26%. And the number of high school dropouts remains stubbornly high: The ratio of diplomas awarded to 17-year-olds has been stuck around 70% for three decades.

Something is plainly hindering the effectiveness of the market's carrots and sticks. And that something is culture.

Before explaining what I mean, let me go back to the squid ink and clarify what's not worrisome about the inequality statistics. For those who grind their ideological axes on these numbers, the increase in measured inequality since the 1970s is proof that the new, more competitive, more entrepreneurial economy of recent decades (which also happens to be less taxed and less unionized) has somehow failed to provide widespread prosperity. According to left-wing doom-and-gloomers, only an "oligarchy" at the very top is benefiting from the current system.

Hogwash. This argument can be disposed of with a simple thought experiment. First, picture the material standard of living you could have afforded back in 1979 with the median household income then of \$16,461. Now picture the mix of goods and services you could buy in 2004 with the median income of \$44,389. Which is the better deal? Only the most blinkered ideologue could fail to see the dramatic expansion of comforts, conveniences and opportunities that the contemporary family enjoys.

Much of the increase in measured inequality has nothing to do with the economic system at all. Rather, it is a product of demographic changes. Rising numbers of both single-parent households and affluent dual-earner couples have stretched the income distribution; so, too, has the big influx of low-skilled Hispanic

immigrants. Meanwhile, in a 2006 paper published in the *American Economic Review*, economist Thomas Lemieux calculated that roughly three-quarters of the rise in wage inequality among workers with similar skills is due simply to the fact that the population is both older and better educated today than it was in the 1970s.

It is true that superstars in sports, entertainment and business now earn stratospheric incomes. But what is that to you and me? If the egalitarian left has been reduced to complaining that people in the 99th income percentile in a given year (and they're not the same people from year to year) are leaving behind those in the 90th percentile, it has truly arrived at the most farcical of intellectual dead ends.

Which brings us back to the real issue: the human capital gap, and the culture gap that impedes its closure. The most obvious and heartrending cultural deficits are those that produce and perpetuate the inner-city underclass. Consider this arresting fact: While the poverty rate nationwide is 13%, only 3% of adults with full-time, year-round jobs fall below the poverty line. Poverty in America today is thus largely about failing to get and hold a job, any job.

The problem is not lack of opportunity. If it were, the country wouldn't be a magnet for illegal immigrants. The problem is a lack of elementary self-discipline: failing to stay in school, failing to live within the law, failing to get and stay married to the mother or father of your children. The prevalence of all these pathologies reflects a dysfunctional culture that fails to invest in human capital.

Other, less acute deficits distinguish working-class culture from that of the middle and upper classes. According to sociologist Annette Lareau, working-class parents continue to follow the traditional, *laissez-faire* child-rearing philosophy that she calls "the accomplishment of natural growth." But at the upper end of the socioeconomic scale, parents now engage in what she refers to as "concerted cultivation" -- intensively overseeing kids' schoolwork and stuffing their after-school hours and weekends with organized enrichment activities.

This new kind of family life is often hectic and stressful, but it inculcates in children the intellectual, organizational and networking skills needed to thrive in today's knowledge-based economy. In other words, it makes unprecedented, heavy investments in developing children's human capital.

Consider these data from the National Education Longitudinal Study, an in-depth survey of educational achievement. Among students who received high scores in eighth grade mathematics (and thus showed academic promise), 74% of kids from the highest quartile of socioeconomic status (measured as a composite of parental education, occupations and family income) eventually earned a college degree. By contrast, the college graduation rate fell to 47% for kids from the middle two quartiles, and 29% for those in the bottom quartile. Perhaps more generous financial aid might affect those numbers at the margins, but at the core of these big differentials are differences in the values, skills and habits taught in the home.

Contrary to the warnings of the alarmist left, the increase in economic inequality does not mean the economic system isn't working properly. On the contrary, the system is delivering *more* opportunities for comfortable, challenging lives than our culture enables us to take advantage of. Far from underperforming, our productive capacity has now outstripped our cultural capacity.

Alas, there is no silver bullet for closing the culture gap. But the public institutions most directly responsible for human capital formation are the nation's schools, and it seems beyond serious dispute that in many cases they are failing to discharge their responsibilities adequately. Those interested in reducing meaningful

economic inequality would thus be well advised to focus on education reform. And forget about adding new layers of bureaucracy and top-down controls. Real improvements will come from challenging the moribund state-school monopoly with greater competition.