

America's Inequality and What To Do About It

The Poor Will Always Be with Us. Will the Middle Class?

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Key Issues

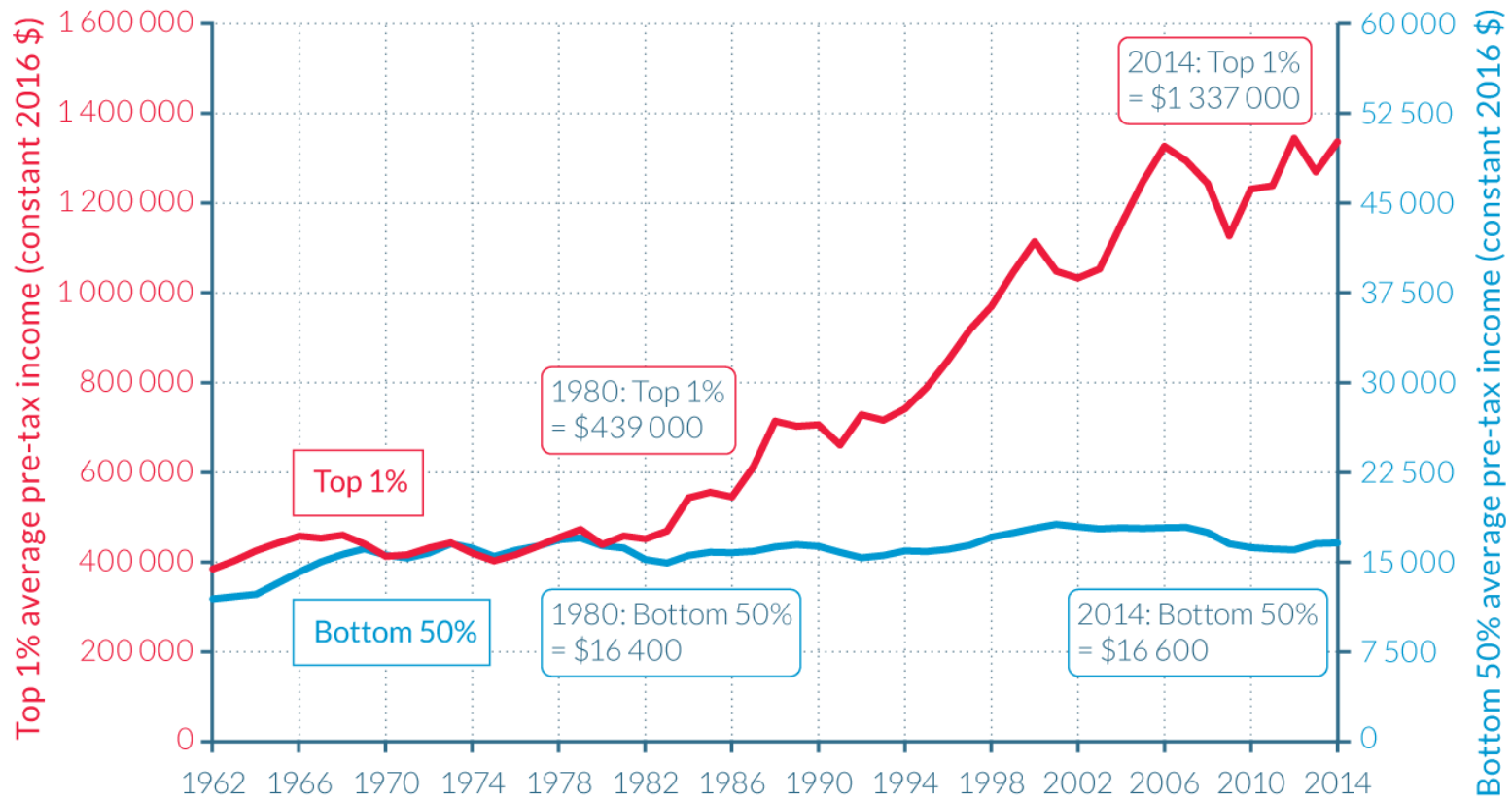
- Capitalist economic systems are good at creating wealth – but not always good at meeting human needs.
- Free markets and competition naturally lead to inequality.
- Healthy and stable societies require cooperation and sharing of resources.
- How do we balance the human drive to compete with the need to collaborate? ... The need for individual opportunity with social inclusion?

U.S. income inequality

- **U.S. income inequality among the highest of all advanced countries.**
 - The share of national income earned by the top 1% of adults in 2014 (20.2%) is much larger than the share earned by the bottom 50% of the adult population (12.5%).
- **Average pre-tax real national income per adult has increased 60% since 1980, but it has stagnated for the bottom 50% at around \$16,500.**
 - While post-tax cash incomes of the bottom 50% have also stagnated, a large part of the modest post-tax income growth of this group has been eaten up by increased health spending.
- **Income has boomed at the top.**
 - While the upsurge of top incomes was first a labor-income phenomenon in 1980s and 1990s, it has mostly been a capital-income phenomenon since 2000.

Source: “Distributional National Accounts: Methods and Estimates for the United States,” by Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, forthcoming in the Quarterly Journal of Economics (2018).

Pre-tax incomes of the Top 1% and Bottom 50% in the US, 1962–2014



Source: Piketty, Saez and Zucman (2018). See wir2018.wid.world/methodology.html for data series and notes.

In 2014, the average pre-tax income of the Top 1% was \$ 1 337 000. Pre-tax national income is measured after the operation of pension and unemployment insurance systems (which cover the majority of cash transfers), but before direct income and wealth taxes.

Rate of return on capital grows faster than overall economy

More commonly known as: “The rich get richer, while the poor get poorer.”

Thomas Piketty’s “Capital in the 21st Century” (2014):

Central proposition: If, $r > g$, where:

r = growth rate of capital (historically c. 4-5%/year)

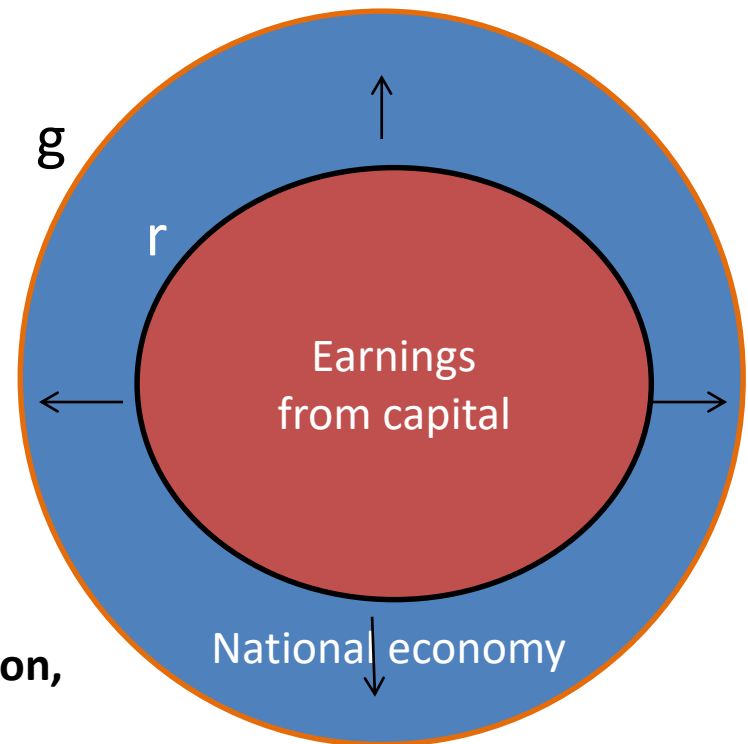
and

g = growth rate of economy (CBO projects 2-3% annually in U.S. over next 10 years),

then, yields from capital increase as a % of national wealth.

No natural equilibrium, no “invisible hand” stops capital concentration – political power at the top magnifies it. Wealth distribution result of policy choices, external “shocks” (e.g., war, recession, inflation).

Note: In virtually all countries, the least wealthy half owns almost no net capital (< 5% of total wealth), other than imputed value of social insurance programs.



Federal income tax is progressive – Government subsidies not so much, But they help the poorest a lot

Average Household Income, Transfers, and Taxes, by Before-Tax Income Group, 2013

Dollars

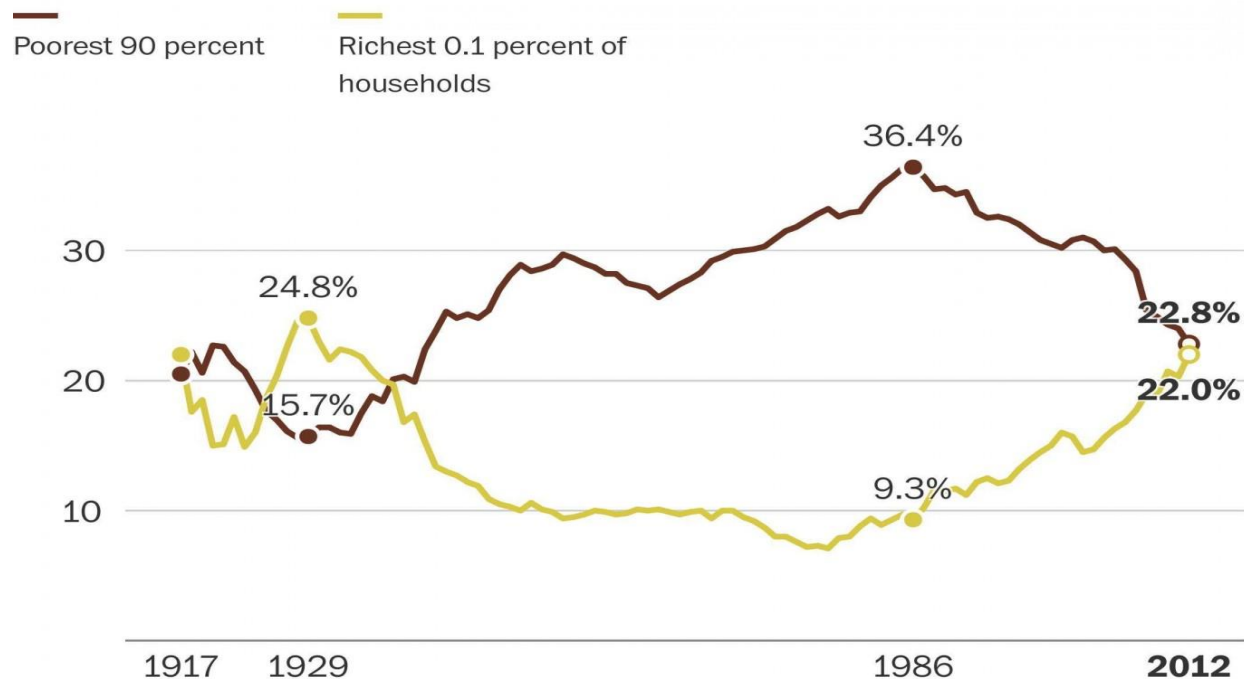
	Lowest Quintile	Second Quintile	Middle Quintile	Fourth Quintile	Highest Quintile	All Households
Market Income	15,800	31,300	53,000	88,700	253,000	86,400
Government Transfers	9,600	16,200	16,700	15,000	12,000	13,900
Before-Tax Income	25,400	47,400	69,700	103,700	265,000	100,200
Federal Taxes	800	4,000	8,900	17,600	69,700	20,100
After-Tax Income	24,500	43,400	60,800	86,100	195,300	80,100

Transfers (subsidies) include: Medicaid, food stamps, tax breaks on health coverage, mortgage interest, retirement savings

U.S. wealth concentration

The rich are getting richer

After decades in which the middle class claimed an expanding share of the nation's wealth, a small group of rich families now owns nearly as much as 90 percent of the country combined.



Share of total U.S. household wealth

Source: Emmanuel Saez and Gabriel Zucman

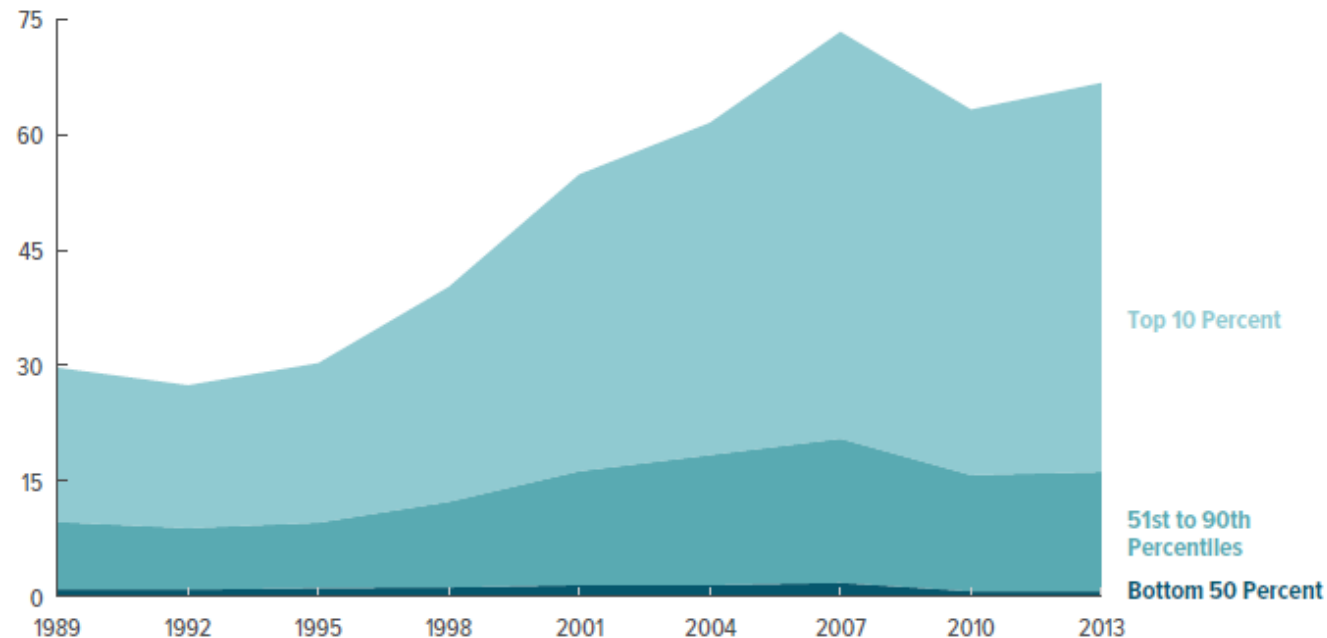
THE WASHINGTON POST

Growth in U.S. wealth inequality

Exhibit 1.

Holdings of Family Wealth, by Wealth Group

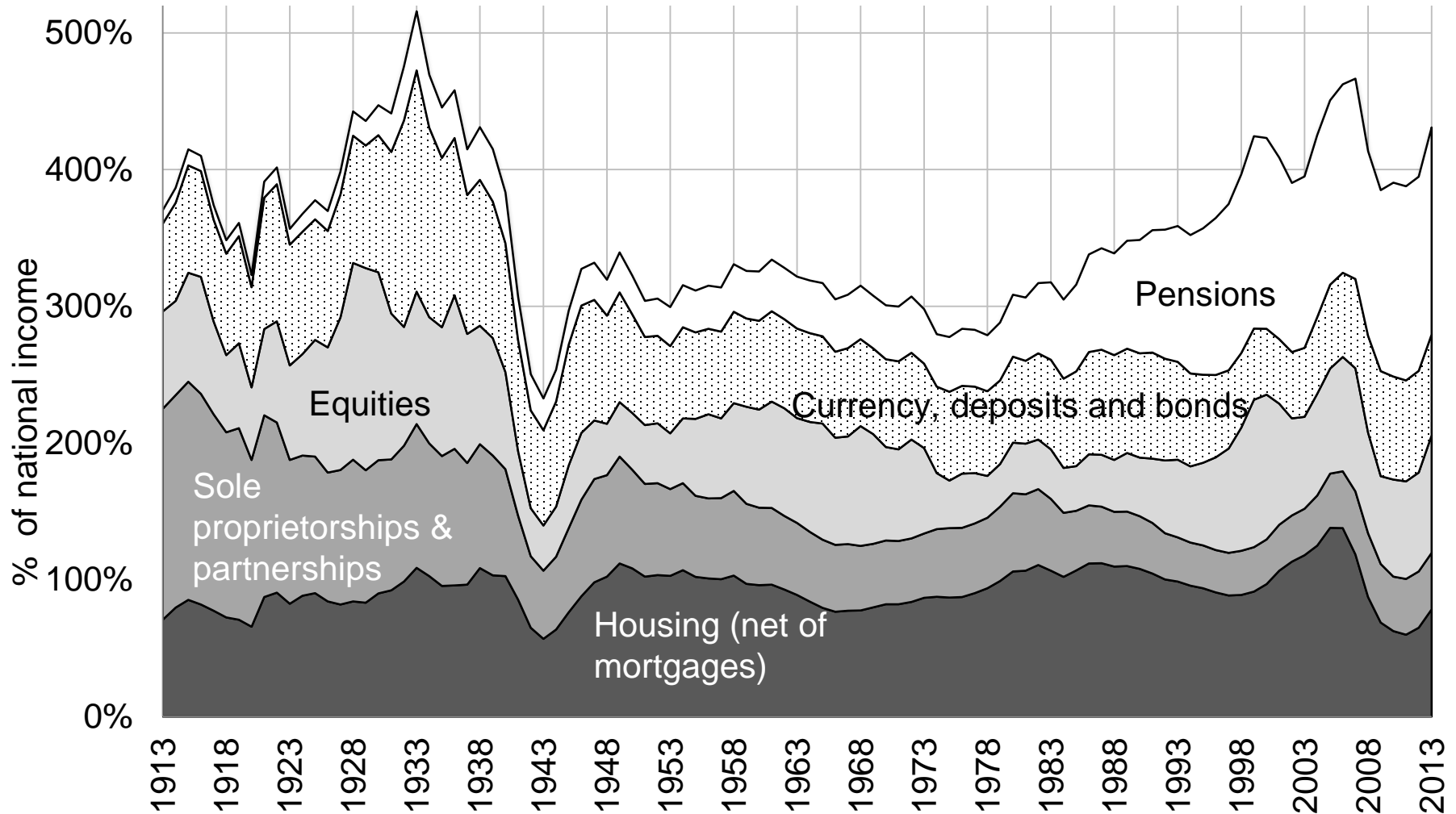
Trillions of 2013 Dollars



Source: Congressional Budget Office, using data from the Survey of Consumer Finances, supplemented with data from *Forbes* magazine's list of the nation's 400 wealthiest people.

The Survey of Consumer Finances is conducted every three years.

The composition of household wealth in the U.S., 1913-2013



This figure depicts the evolution of the ratio of total household wealth to national income. This ratio has followed a U-shaped evolution and the composition of wealth has changed markedly since 1913. Source: Appendix Table A1.

Source: Emmanuel Saez and Gabriel Zuchman, "Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data," National Bureau of Economic Research, October 2014.

<http://eml.berkeley.edu/~saez/saez-zucmanNBER14wealth.pdf>

Wealth: bottom quarter in the red

Exhibit 7.

Average Wealth for Families in the Bottom 25 Percent of the Wealth Distribution

Thousands of 2013 Dollars



Source: Congressional Budget Office, using data from the Survey of Consumer Finances.

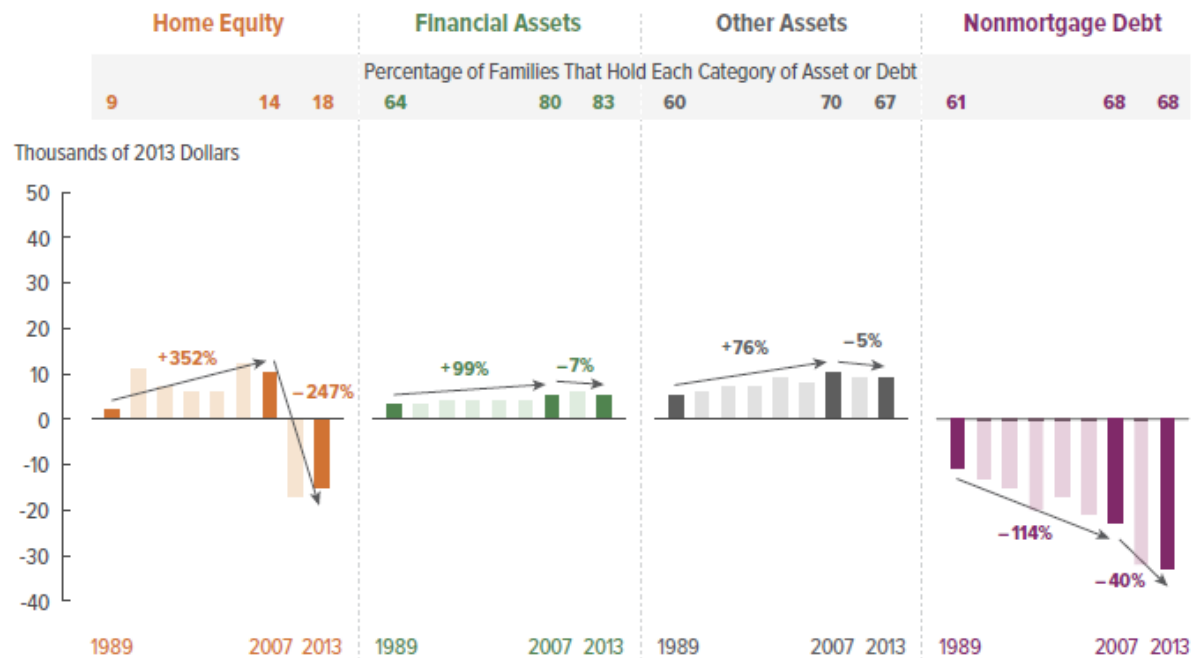
The Survey of Consumer Finances is conducted every three years.

One Study Found 47 Percent Of Americans Cannot Easily Come Up With \$400 To Cover An Emergency Room Visit

Bottom quarter's loss of assets

Exhibit 8.

Changes in the Assets and Debt of Families in the Bottom 25 Percent of the Wealth Distribution



Source: Congressional Budget Office, using data from the Survey of Consumer Finances.

The Survey of Consumer Finances is conducted every three years.

Positive percentages indicate an increase in assets or a decrease in debt; negative percentages indicate a decrease in assets or an increase in debt. Dollar amounts are average values for families that hold each category of asset or debt.

U.S. middle class shrinking, as wealth, income gains flow upward

3 studies using different definitions of middle class:

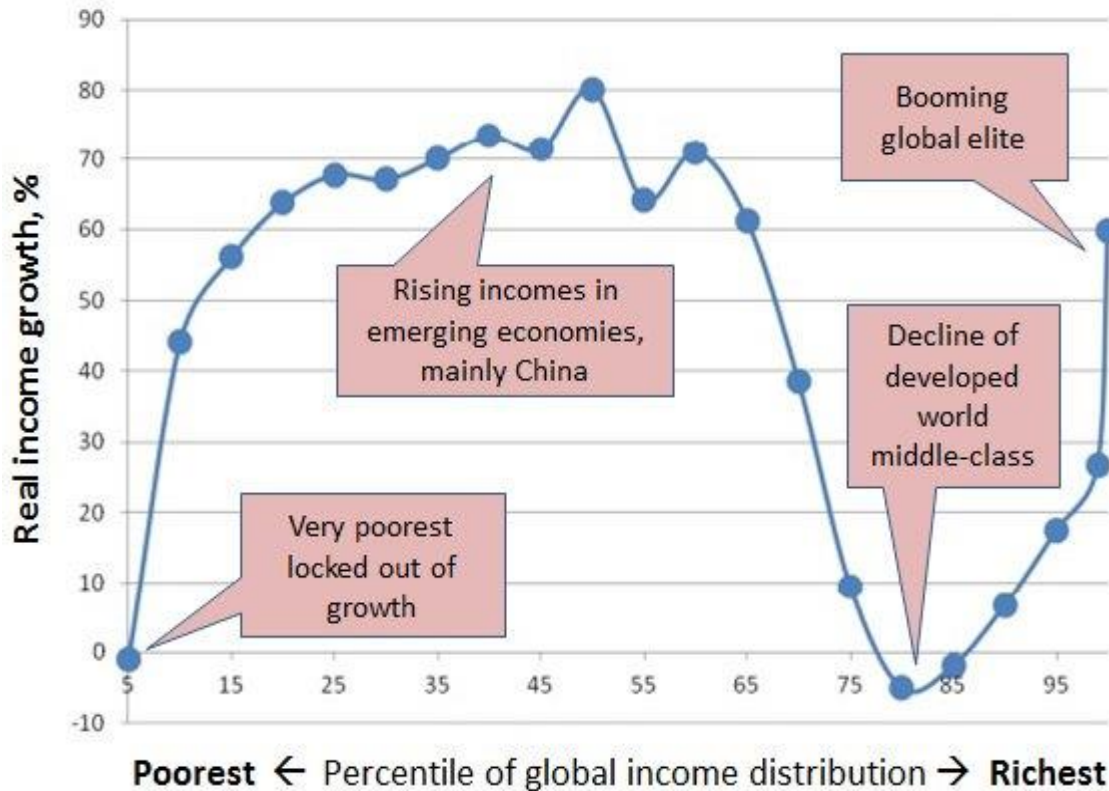
- Pew [report](#): “the nation’s aggregate household income has substantially shifted from middle-income to upper-income households, driven by the growing size of the upper-income tier and more rapid gains in income at the top.”
 - [“Fully 49 percent of U.S. aggregate income went to upper-income households in 2014, up from 29 percent in 1970.](#) The share accruing to middle-income households was 43 percent in 2014, down substantially from 6212 percent in 1970.”

Smaller U.S. middle class (2)

- [Urban Institute report](#): The percentage of wealthy and upper-middle-class Americans grew dramatically since 1979, while middle- and lower-middle income tiers have become smaller.
 - In 1979, the bottom three (of five) income groups controlled 70 percent of all incomes, and the upper middle class and rich controlled 30 percent. By 2014, this distribution shifted to 37 percent for the bottom three groups and 63 percent for the upper middle class and rich groups.
 - The middle class alone saw its share of income decline from 46 percent in 1979 to 26 percent in 2014.
- An [analysis](#) by an International Monetary Fund economist also found increased income polarization in the U.S.
 - middle-income households dropped from 58 percent of total in 1970 to 47 percent in 2014.

Global Inequality – a Mixed Picture

Global income growth from 1988 to 2008



Branko Milanovic's "Elephant Curve":

Integration of world's economy has:

- 1) lifted billions out of poverty,
- 2) benefited the middle class in developing countries,
- 3) hurt the developed world's middle class, and
- 4) enriched the global elite.

[Source: "Global Inequality: A New Approach for the Age of Globalization"](#)

The bottom 50% have gotten none of U.S. pre-tax income growth since the Vietnam war era – faring worse than the same segment in France and a lot worse than in China.

Table 3: Income growth and inequality 1978-2015: China vs. rich countries

Income group (distribution of per adult pre-tax national income)	China		USA		France	
	Average annual growth rate 1978-2015	Total cumulated growth 1978-2015	Average annual growth rate 1978-2015	Total cumulated growth 1978-2015	Average annual growth rate 1978-2015	Total cumulated growth 1978-2015
Full Population	6.2%	811%	1.3%	59%	0.9%	39%
Bottom 50%	4.5%	401%	0.0%	-1%	0.9%	39%
Middle 40%	6.0%	768%	0.9%	42%	0.8%	35%
Top 10%	7.4%	1289%	2.1%	115%	1.0%	44%
<i>incl. Top 1%</i>	8.4%	1897%	3.0%	198%	1.4%	67%
<i>incl. Top 0.1%</i>	9.1%	2405%	4.0%	321%	1.7%	84%
<i>incl. Top 0.01%</i>	9.8%	3113%	4.7%	453%	1.8%	93%
<i>incl. Top 0.001%</i>	10.4%	3817%	5.7%	685%	2.6%	158%

Sources: China: this paper. USA: Piketty-Saez-Zucman (2016). France: Garbinti-Goupille-Lebret-Piketty (2017). Distribution of pre-tax national income among equal-split adults. The unit is the adult individual (20-year-old and over; income of married couples is splitted into two). Fractiles are defined relative to the total number of adult individuals in the population. Corrected estimates (combining survey, fiscal, wealth and national accounts data).

Drivers of U.S. Inequality

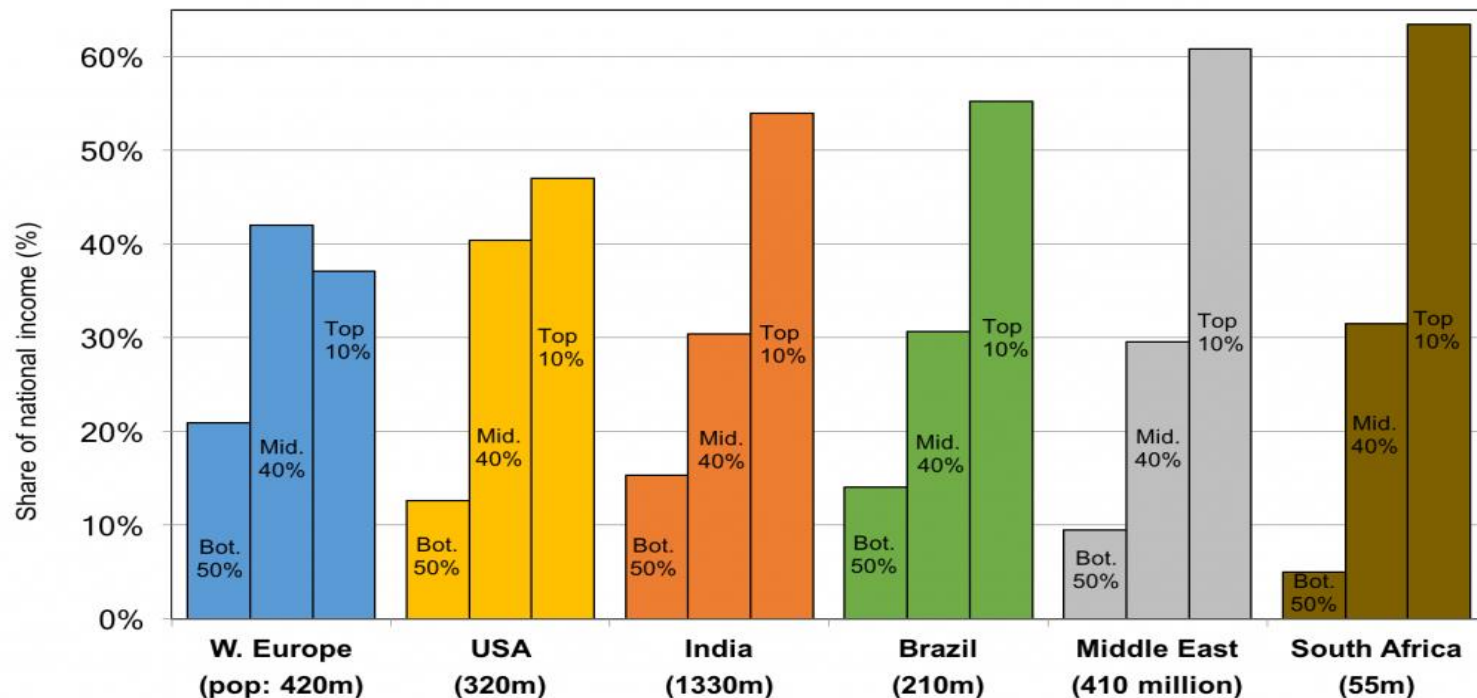
In [“Global Inequality: A New Approach for the Age of Globalization,”](#) [Branko Milanovic](#) identifies five forces pushing up inequality in the United States:

- The increasing share of national income that accrues to owners of capital.
- Very high and rising concentration of incomes from capital.
- People holding high-paying jobs also often have high capital income.
- The tendency of high-income individuals to marry each other.
- The rising political power of the rich.

Income Inequality across World Regions

[New paper](#) on **extreme income inequality** finds that in Brazil, India, the Middle-East and South Africa, top 10% earners receive more than 50% of national income. These societies have a dual social structure, with an extremely rich group at the top with income broadly comparable to their counterparts in high-income countries, and a much poorer mass below.

Is the U.S. headed toward extreme income inequality?

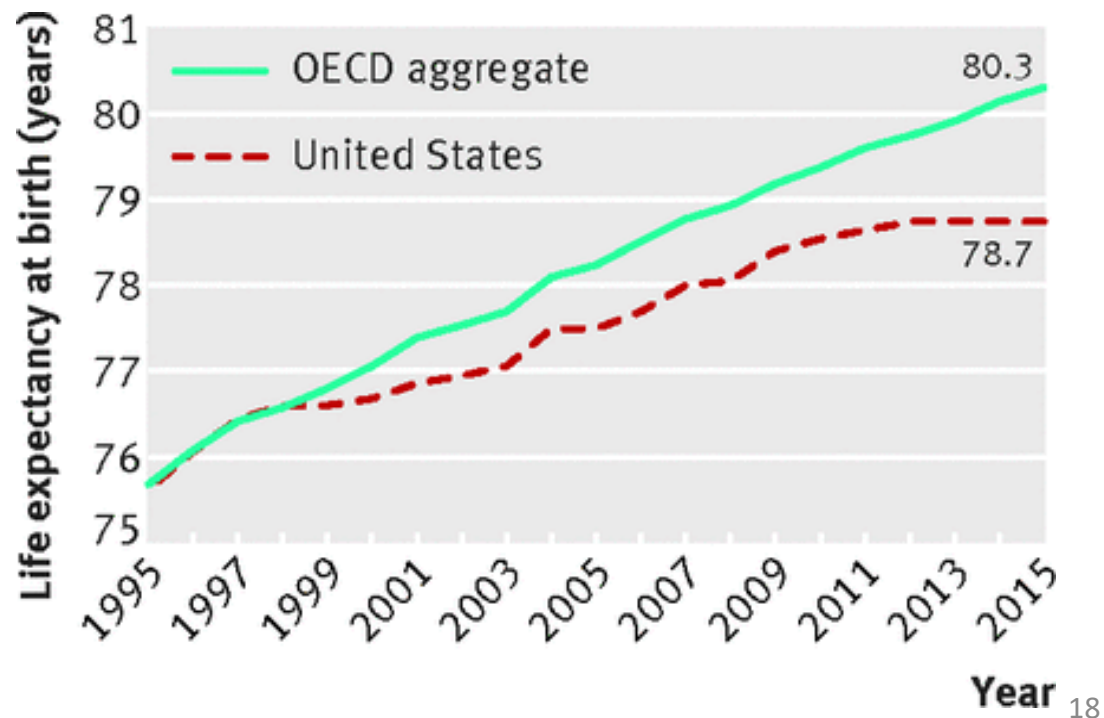


U.S. Life Expectancy Down Two Years in a Row – Despite Stronger Economy

- This is alarming because life expectancy has risen for much of the past century in developed countries, including the US.

“Failing health of the United States”

BMJ 2018

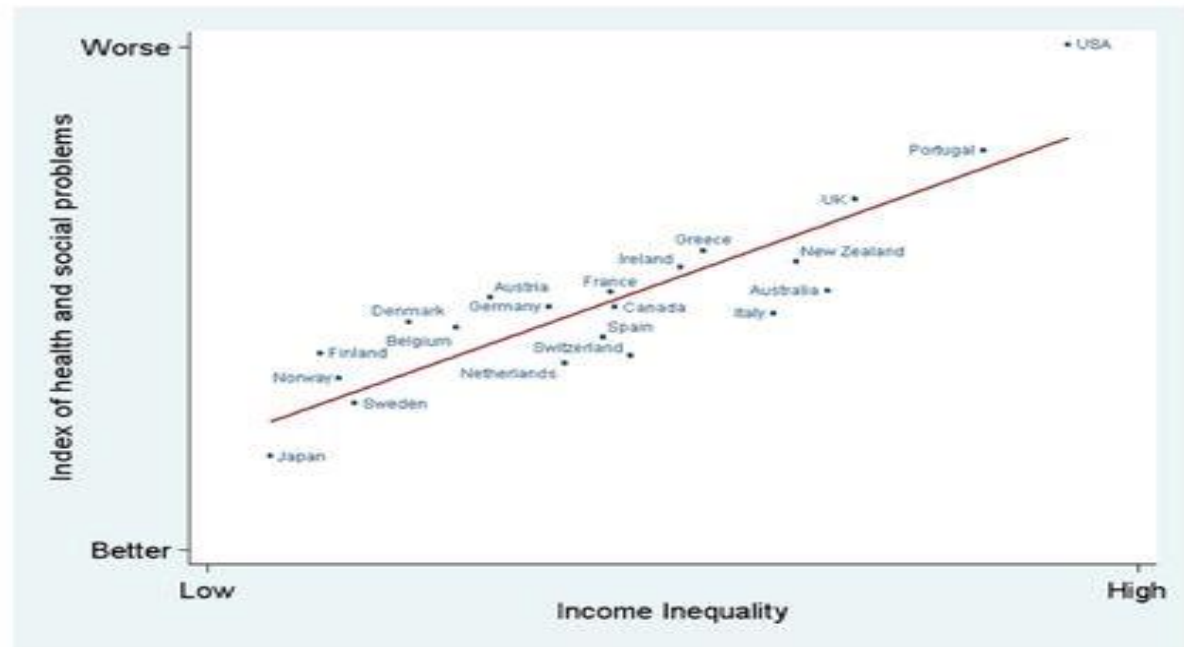


Chicken or Egg?

Health and Social Problems are Worse in More Unequal Countries

Index of:

- Life expectancy
- Math & Literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Trust
- Obesity
- Mental illness – incl. drug & alcohol addiction
- Social mobility



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

www.equalitytrust.org.uk

Equality Trust

Countries with greater income inequality also have higher rates of homicide, imprisonment, teen pregnancy, infant mortality, physical and mental illness, social distrust, obesity, and substance abuse: epidemiologists Richard Wilkinson and Kate Pickett.

More Deaths of Despair – the U.S. Underclass Now Has Many Colors

Case and Deaton: While midlife mortality rates continue to fall among all education classes in most of the rich world, middle-aged non-Hispanic whites in the U.S. with a high school diploma or less have experienced increasing midlife mortality since the late 1990s. This is due to both rises in the number of “deaths of despair”—death by drugs, alcohol and suicide—and to a slowdown in progress against mortality from heart disease and cancer, the two largest killers in middle age.

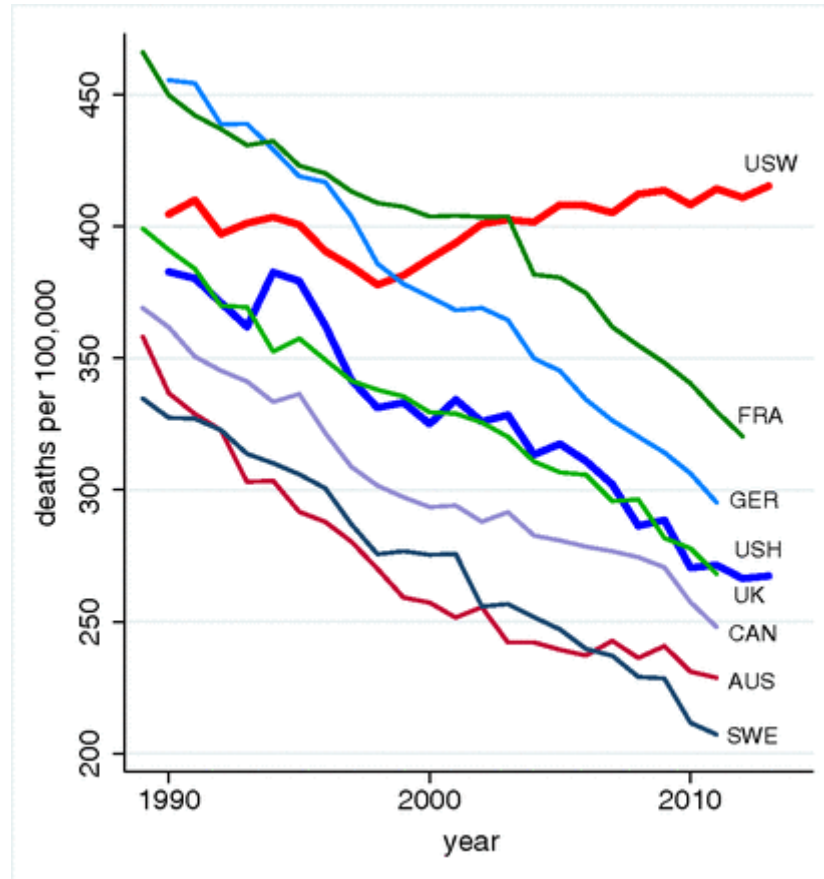
- The combined effect means that mortality rates of whites with no more than a high school degree, which were around 30 percent lower than mortality rates of blacks in 1999, grew to be 30 percent higher than blacks by 2015.

Decreased life span accompanies economic and social deterioration

- Case and Deaton find that deaths of despair are rising in parallel for both men and women without a high school degree, and these deaths of despair have increased in all parts of the country and at every level of urbanization.
- The states with the highest mortality rates from drugs, alcohol and suicide, among white non-Hispanics aged 45-54, are geographically scattered. In 2000, the epidemic was centered in the southwest. By the mid-2000s it had spread to Appalachia, Florida, and the west coast. Today, it's country-wide.

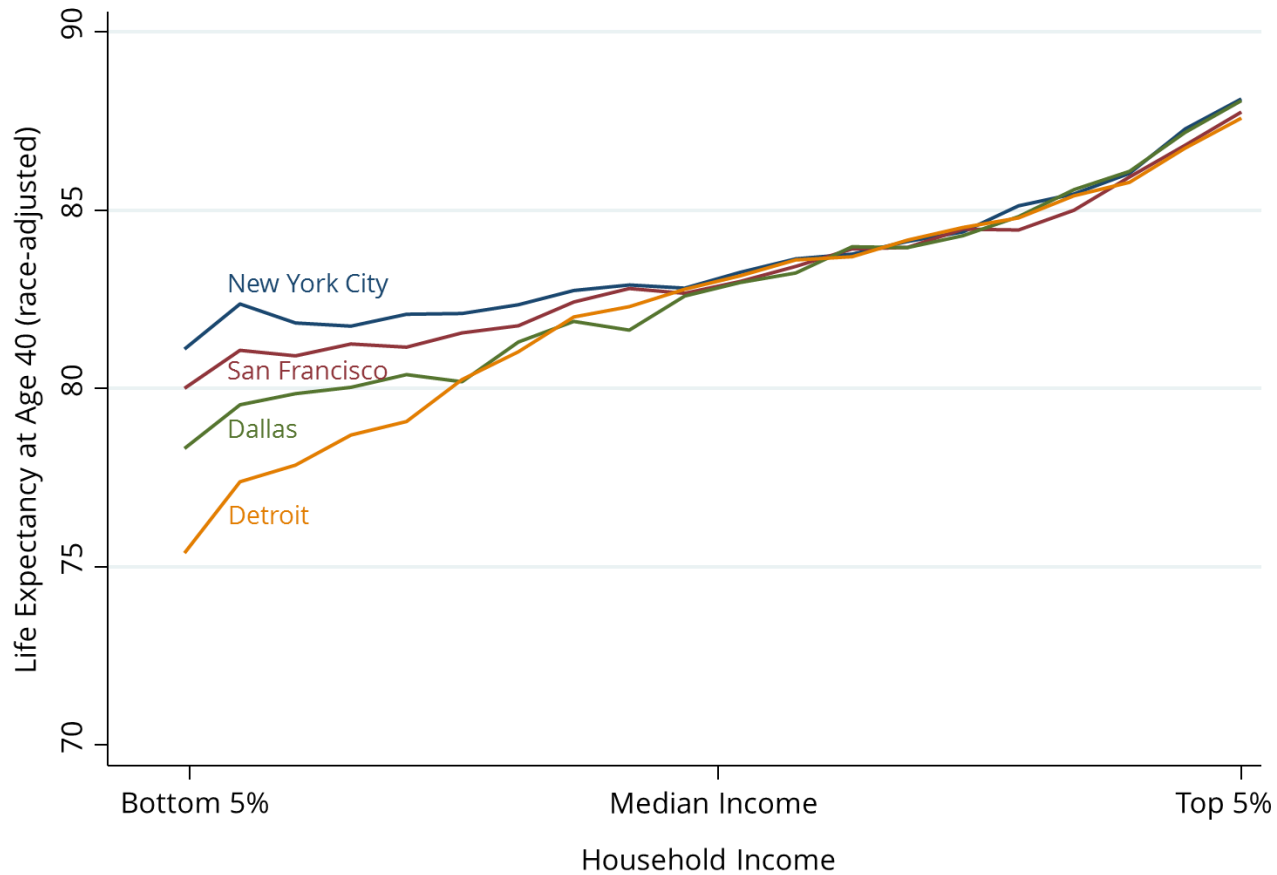
The authors suggest that the increases in deaths of despair are accompanied by a measurable deterioration in economic and social wellbeing, which has become more pronounced for each successive birth cohort. Marriage rates and labor force participation rates fall between successive birth cohorts, while reports of physical pain, and poor health and mental health rise.

Reversal of the decline in midlife mortality for US white non-Hispanics after 1998



Case and Deaton

U.S. Life Expectancy at age 40 by Income



Health Inequality Project
– Raj Chetty et al

Portraits of a Forgotten America

[Growing up in forgotten America: Chris Arnade's photographs and the stories behind them](#)

- Photojournalist Chris Arnade spent six years documenting the stories of people in “forgotten” towns across America.
- He provides a granular and poignant picture of how kids who grew up in the “front row” — those who are mobile, are well-educated, and have large social networks via colleges and careers — have experienced a vastly different America than kids from the “back row” — those who stay in the town where they are born, usually lack any education beyond high school, and generally view their lives as worse off than their parents’.
- After spending time in churches, Walmarts, and McDonald’s restaurants across the country, he believes that breaking out of our social bubbles and listening to one another is an important first step to restoring the culture and community in these towns.

Arnade, others argue the greatest divide is education.



Related resources:

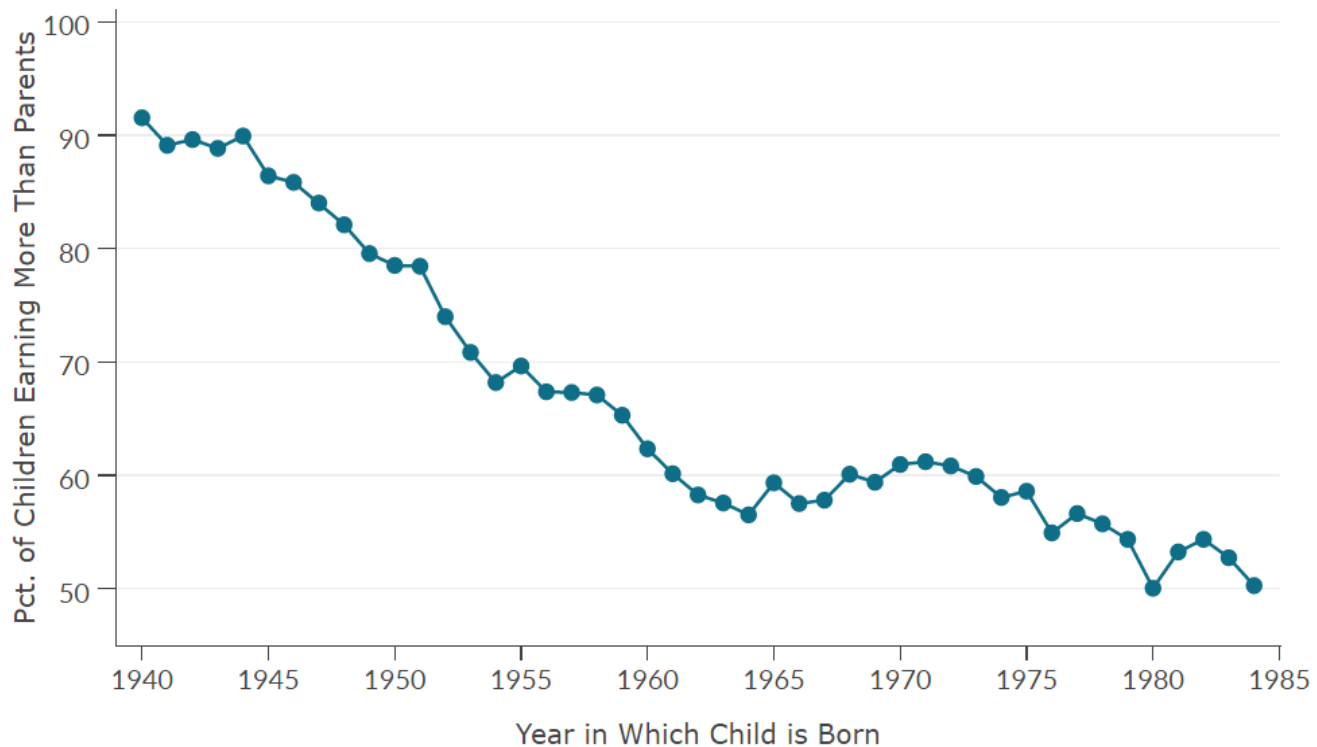
[“The Dream Hoarders: How America's Top 20 Percent Perpetuates Inequality,” Richard Reeves](#)

[“Hillbilly Elegy: A Memoir of a Family and Culture in Crisis,” J.D. Vance.](#)

Children's prospects of earning more than their parents dropped from 90% to 50% over the past half century

The Fading American Dream

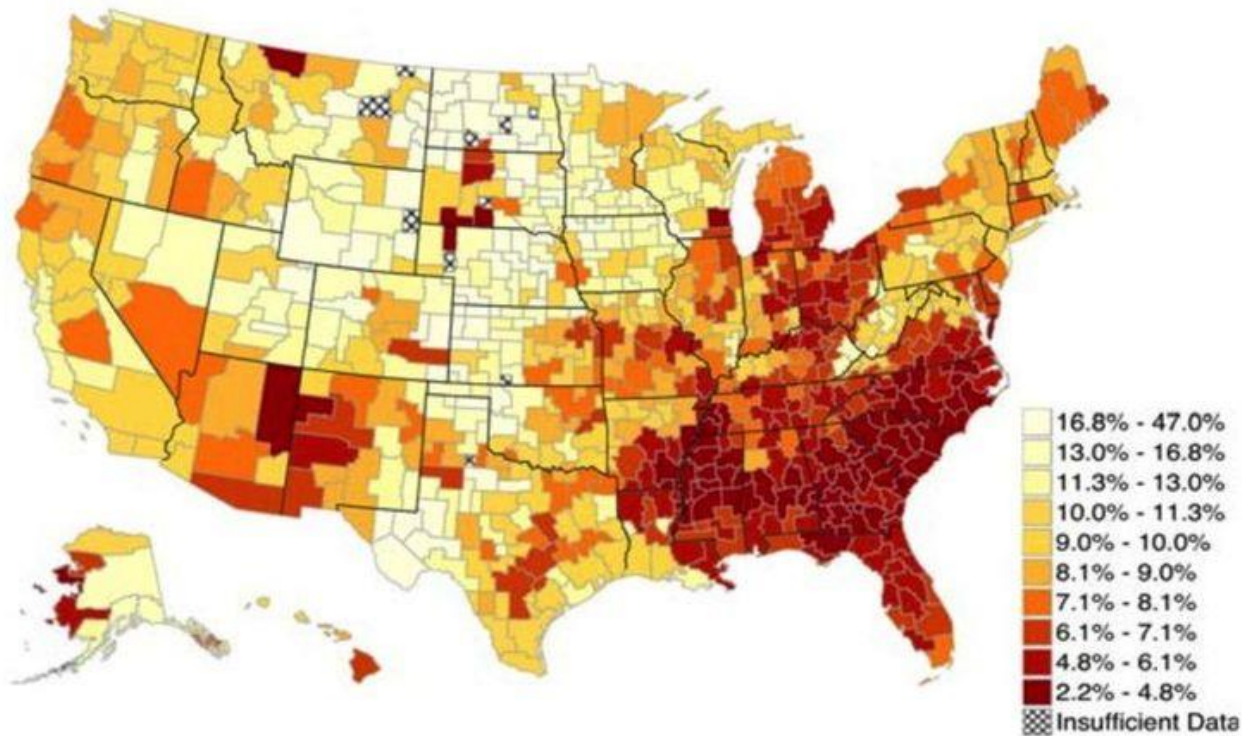
Percent of Children Earning More than their Parents, by Year of Birth



Equality of Opportunity
Project – Raj Chetty et al

Where You Live Makes Big Difference in Ability To Climb Economic Ladder

Probability of Reaching Top Quintile from Bottom Quintile



Corr. with baseline $\bar{r}_{25} = 0.91$ (unweighted), 0.92 (pop-weighted)

Equality of Opportunity
Project – Raj Chetty et al

Tax Plan Likely To Worsen Inequality

Nobel Prize winning economist Joseph Stiglitz joins Democracy Now! to critique the Republican tax plan.

Interview:

https://www.realclearpolitics.com/video/2017/11/30/joseph_stiglitz_trump_tax_plan_will_worsen_inequality_expand_loopholes.html#

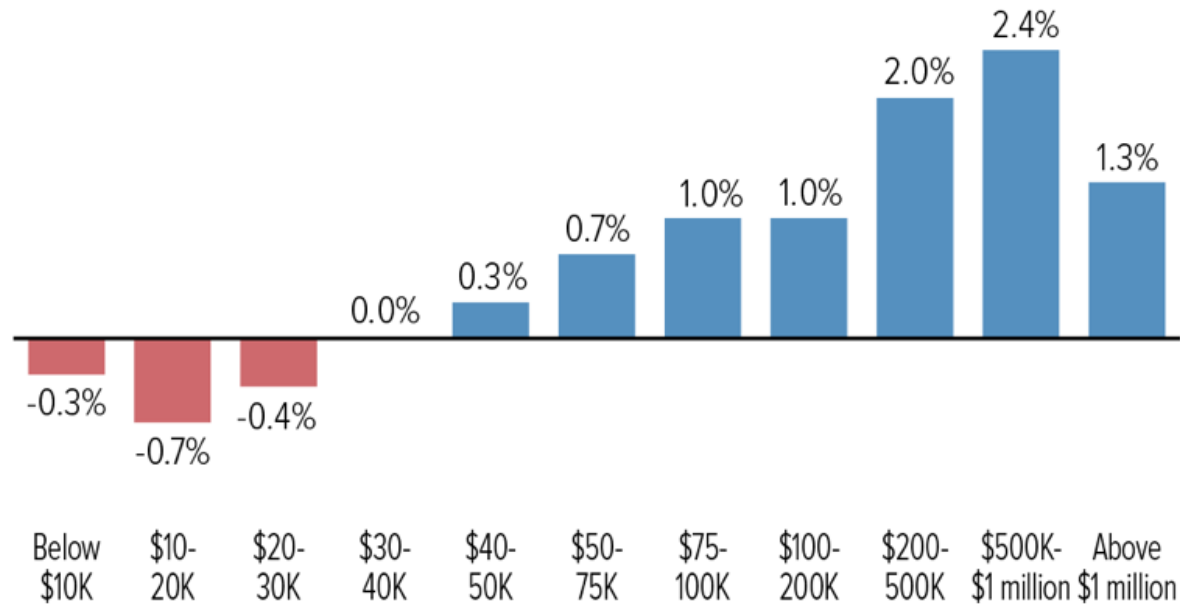


“The sweeping legislation would overhaul the tax code in order to shower billions of dollars in tax cuts upon the richest Americans, including President Trump’s own family, and repeal the Affordable Care Act’s individual.”

GOP Tax Bill = More Inequality

Final GOP Tax Bill Highly Skewed to the Top

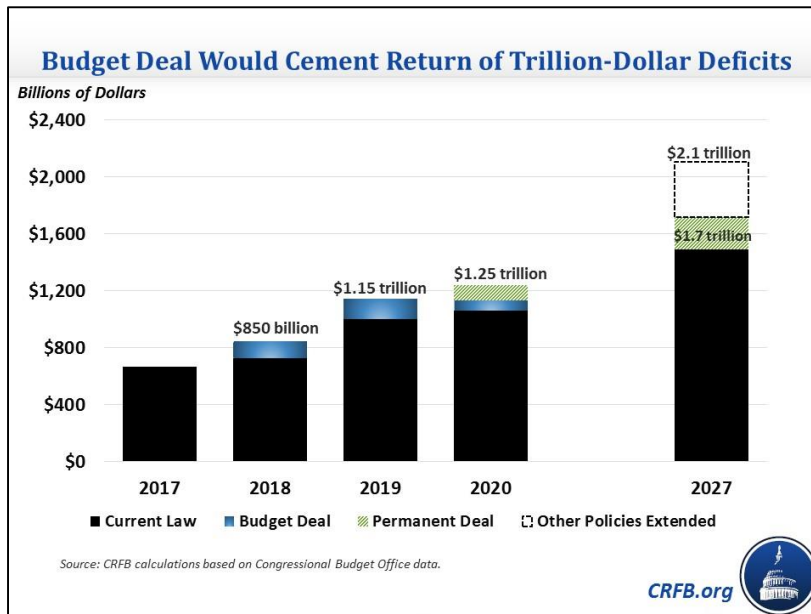
Average percentage change in after-tax income, 2025, including estate tax cuts



Source: Percentage changes in after-tax income for bill including estate tax cuts calculated from JCT table JCX-68-17, and adjusted to incorporate the impact of estate tax repeal with CBPP calculations based on Tax Policy Center table T17-0061.

The GOP Gamble

The claim: The wealthy and upper-middle class will invest proceeds from tax cuts, spurring economic growth, shared gains for people in the middle and bottom of economic spectrum.

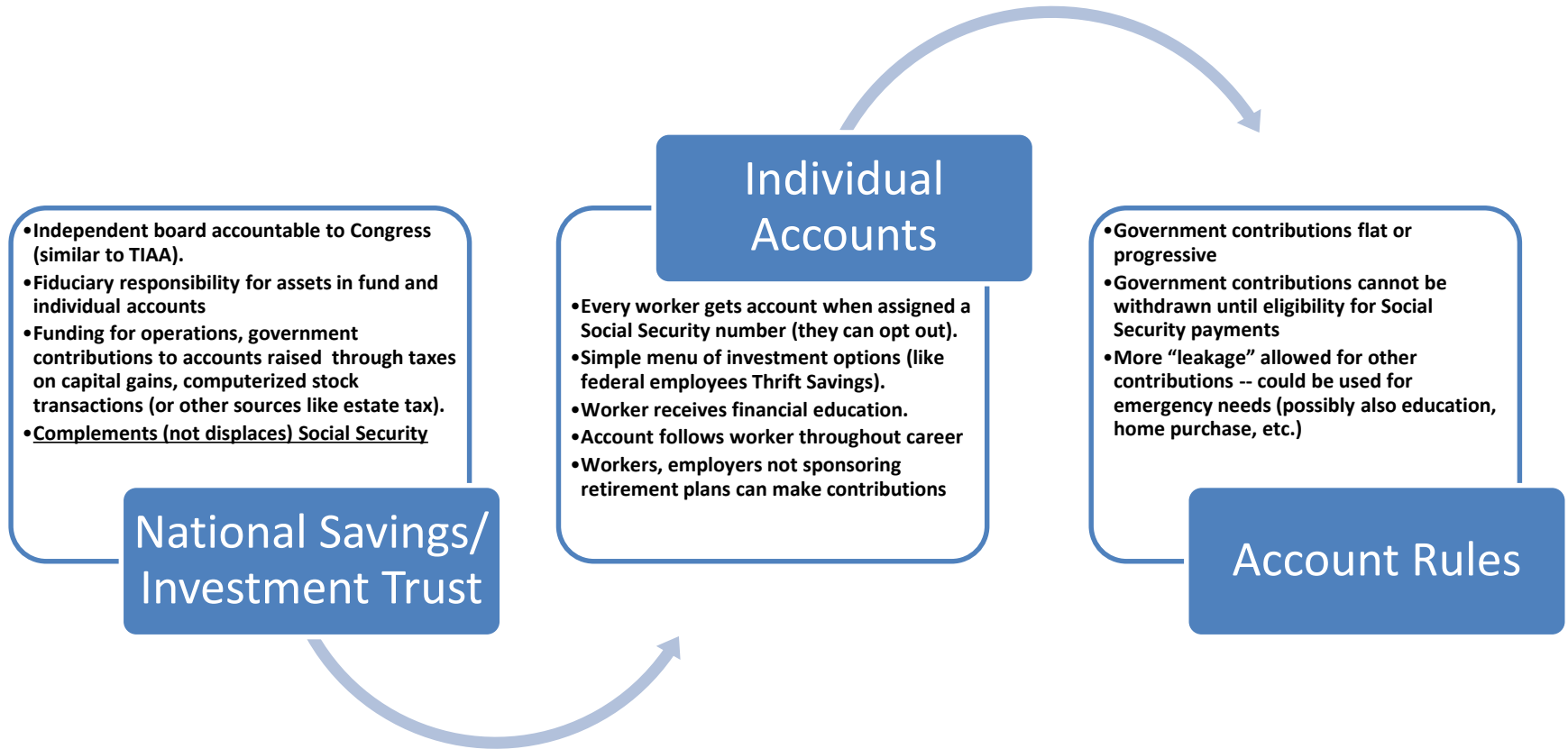


Risks: Debt-financed tax cuts will lead to pressure to reduce spending on Medicare, Social Security, Medicaid, food assistance. (WSJ already calling for entitlement cuts: [“The Deficit Problem in a Chart.”](#)) Growth will disappoint. Higher inflation.

Policies Fostering Inclusion, Moderating Inequality

- **Protecting the safety net for the poor.** Federal programs such as food assistance, Medicaid, and the earned income tax credit need to be maintained and expanded in accordance with the people's needs;
- **Ensuring fair wages and working conditions.** The minimum wage should be increased to a level that allows people to cover the cost of living – and, most important, it should be indexed to inflation. All workers should have basic protections such as a minimum amount of sick leave;
- **Protecting and bolstering social insurance programs.** Social Security and Medicare, the most prominent and popular forms of social insurance in the U.S., should be protected, and benefits should be adjusted to meet the needs of the lower- and middle-income people;
- **Fostering economic opportunity and inclusion.** Creating and funding institutions, such as a universal retirement savings system, that include all citizens in the capitalist system is one of the most effective ways to moderate economic inequality. Helping young people finance their education also is one of the most important ways to create greater opportunity and economic inclusion. People need jobs and housing.

Universal Retirement Saving System



Now, almost half of Americans have zero savings for retirement. A modest investment of public \$\$ could improve the financial security of half our population and the lives of older people. This system would make every worker an owner of working capital.

Make Every Day Count!



In the long run, we are all dead – John Maynard Keynes

$$\frac{\text{Total national capital}}{\text{National income}} \approx \frac{\text{Savings rate}}{\text{Economic growth rate}} \text{ – Thomas Piketty}$$