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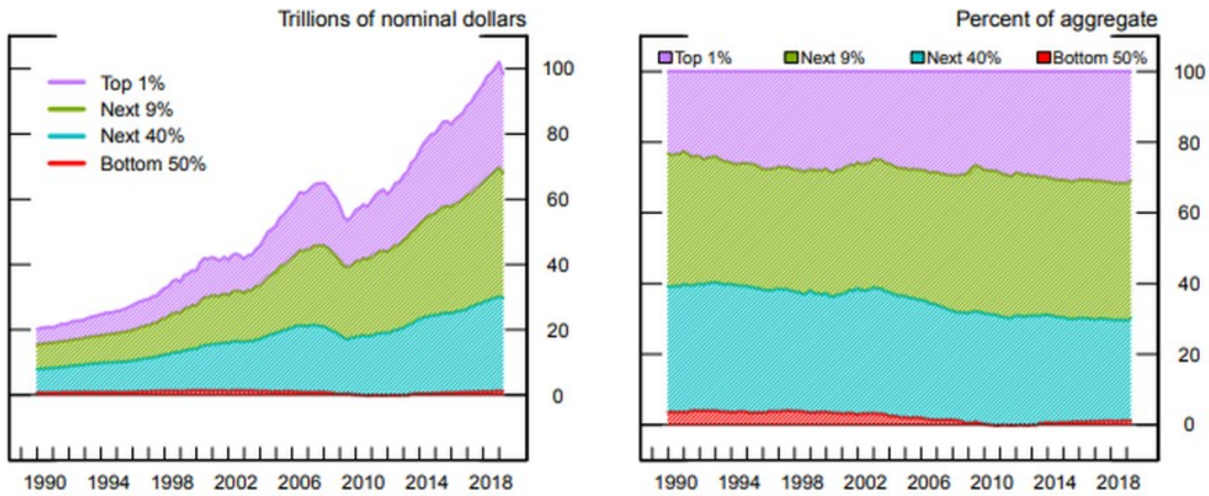
Wealth Inequality in America

Wealth inequality in America has grown massively over the last 50 years to have the widest wealth disparity between rich and poor of any developed nation. The growing wealth disparity between the rich and poor in America is having profound effects on our economy and society. As the lower half of society has lost wealth over the last 50 years, the standard of living for these Americans has gone down. As, a result resentment of the rich has grown to record levels over the last 50 years, with many workers complaining about stagnating wages, and poor treatment at work. As a result of the economic pressures that Americans are feeling now today as a result of the growing share of wealth at the top, many are starting to move farther left, with growing support for social economic policies. Policies advocated by politicians like Bernie Sanders, and Elizabeth Warren that include Medicare for All, Progressive Wealth Taxes, Universal Basic Incomes, and the strengthening of the American Union.

By looking at American wealth distribution over the last 50 years, a clear pattern has emerged. America's economy has increasingly consolidated wealth in the hands of the top tiers of society, with the top 5% having over 66.7% of the wealth of America. (In) In contrast the bottom 90% of Americans share of the wealth has gone down, with many households having 0 or negative wealth. (In) This trend shows no signs of slowing down either, with many economists predicting this trend to continue unless public policy changes to stop it. The source of wealth is also disparate among groups with rich people acquiring their money differently than the bottom 90% of the population. As Inequality.org states, “The rich don’t just have more wealth than everyone else. The bulk of their wealth comes from different — and more lucrative — asset sources. America’s top 1 percent, for instance, holds more than half the national wealth invested in stocks and mutual funds. Most of the wealth of Americans in the bottom 90 percent comes from their principal residences, the asset category that took the biggest hit during the Great Recession. These Americans also hold almost three-quarters of America’s debt.” These problems go hand in hand, as stagnating wages and lower wealth levels of the bottom 90% keep people from investing in the stock market like the rich do.

Wages in America have stagnated with the average American having the same purchasing power that they did 40 years ago (Desilver). In contrast the richest American’s wages have risen over 16% since 2000 (Desilver). These stagnating wages have led Americans to miss out on a great source of financial wealth that the rich use more often, the stock market. As disposable income has gone down over the last 40 years, many Americans have not been able to invest in the stock market since they can no longer afford to save money. According to the Pew research center, “ Sluggish and uneven wage growth has been cited as a key factor behind widening income inequality in the United States. A recent Pew Research Center report, based on an analysis of household income data from the Census Bureau, found that in 2016 Americans in the top tenth of the income distribution earned 8.7 times as much as Americans in the bottom tenth ($109,578 versus $12,523). In 1970, when the analysis period began, the top tenth earned 6.9 times as much as the bottom tenth ($63,512 versus $9,212).” (Pew) While wage stagnation is a prominent source of wealth inequality, there are many more factors to consider when searching for a solution to the problem.



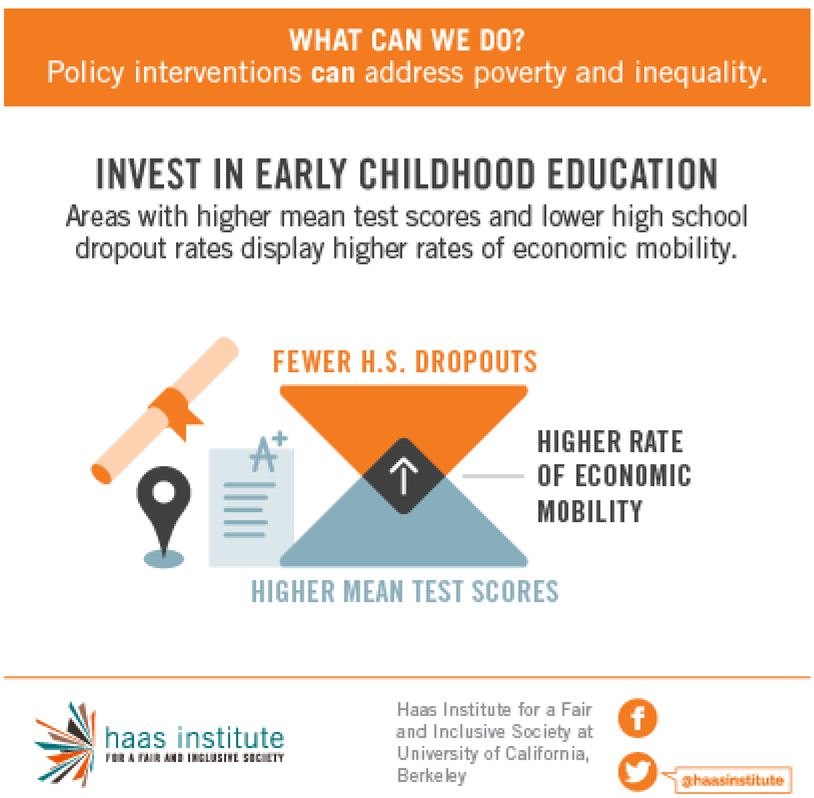
(a) Level **(b)** Share

Figure 2: Net Worth by Wealth Percentile Group

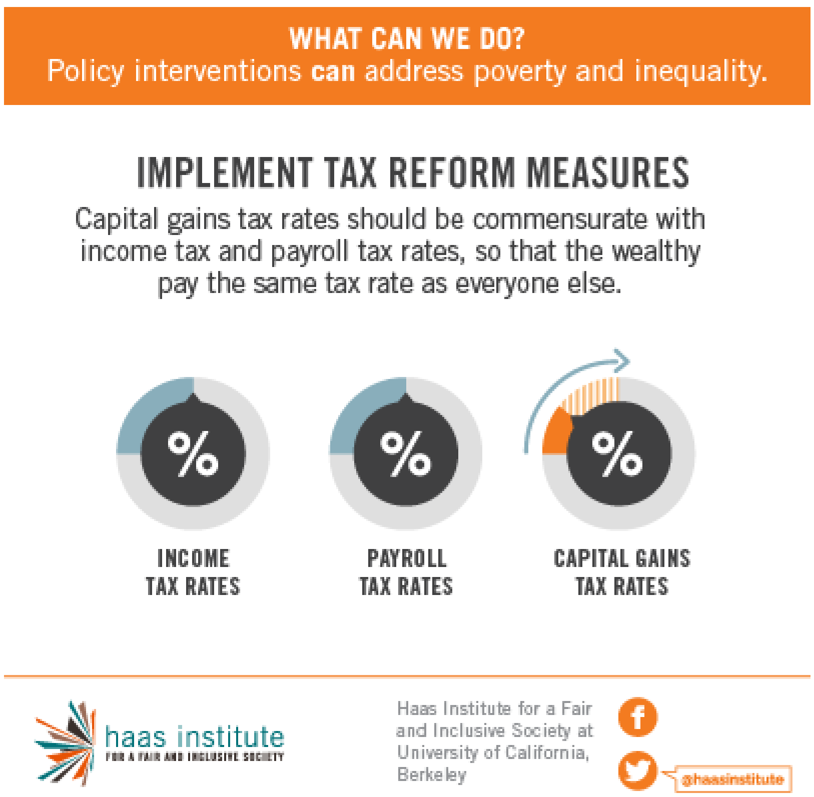
The sources of wealth inequality are myriad and complicated, with many potential sources. Some blame the outsourcing of manufacturing and labor jobs to China, while some blame social factors, like the decline of union membership over the last several decades. Most people look towards public policy solutions to the wealth inequality crisis. Many solutions have been proposed from increasing the minimum wage, to removing tax loopholes used by the super rich, and investment in education.

Many have proposed that increasing the minimum wage would help lower wealth inequality and improve the average American's standard of living. According to Kimberly Amadeo, "One-quarter of American workers make less than $10 per hour. That creates an income below the federal poverty level." (Amadeo) This creates lower standards of living for people at the bottom of the economy, unfavorable situations for people born into the lower class which results in a feedback loop of poverty. John A. Powell puts it well in his article from Berkely, "Research shows that higher wages for the lowest-paid workers has the potential to help nearly 4.6 million people out of poverty and add approximately $2 billion to the nation's overall real income. Additionally, increasing the minimum wage does not hurt employment nor does it retard economic growth." By increasing the share of wealth of the people at the bottom of the economy, we can raise standards of living and give people the tools to lift themselves out of poverty.

One aspect that is often overlooked are the children raised up in poverty. Children raised up in poverty have been shown to perform less well academically, and to have issues with employment later in life. (The Children's Society) These effects can be remedied by increasing a child's financial security. By doing this, education, and subsidized college have the capacity to increase a child's future earning potential, allowing people to pull themselves out of poverty. Education has been shown time and time again to increase productivity, economic growth, and decreasing inequality.



One other major proposal for decreasing wealth inequality lies in changing the tax code. Tax policy is incredibly complex, with many different avenues for decreasing wealth inequality. Some policies include increasing tax credits for those at the bottom of the social pyramid, enacting progressive income tax policies, and closing tax loopholes. One of the most interesting proposals is the progressive wealth tax, if enacted correctly it shows great potential to lower the wealth gap. According to Dioikitopoulos, Evangelos V., et al, “whereas the conomy where status is less responsive to a rize in wealth, inequality declines in response to the same tax shock” (Dioikitopoulos, Evangelos V., et al). Many democrats currently running for president favor this approach combined with a progressive wealth tax. These tax plans advocate for taxing the richest Americans with a yearly wealth tax. With this type of tax, rich Americans still have the capacity to make a lot of money off an idea, but decreases the amount of time wealth can stay in the hands of a few people, since the tax is designed to erode the wealth of billionaires.



Many conservatives disagree with the idea of a progressive wealth tax, and other social programs, by regarding them as socialist plans that would destroy the American economy. These claims have no merit however, with the effects of these social policies well documented by most countries who have implemented these policies over the last century with positive benefits to their economies. In fact many economists have shown that increased wealth inequality actually harms the economy. In a paper written by James Yunker, he states that, “Numerical results forthcoming from this model suggest that very high level of capital-wealth inequality does indeed impose significant economic penalties on the economy-not merely in terms of ‘equity’ bu in terms of ‘efficiency’ as well” (Yunker) In contrast increases in the wealth of the lower classes has been shown to have the capacity increase economic growth and GDP.

Wealth inequality is a growing problem in America with the people at the top owning a growing share of the wealth. Many problems have stemmed from this, from a lowering standard of living to stagnating wages. Many solutions exist for this problem ranging from progressive wealth taxes to the creation/expansion of social programs. These policies have the capacity to increase the strength of the American economy and to create jobs. By enacting these policies, we can raise people out of poverty and improve everyone’s standards of living.

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