To: Senator Chris Van Hollen
From: Analyst, Claire Liu
Topic: Increases in Inequality
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Problem

The distribution of income is growing disproportionately, and problematically concentrating in the top quintile of Americans. Wealth and income feed into each other—wealth creates capital gains & other forms of income, and those with higher incomes have access to have higher savings rates to then generate more wealth. In 2012, the top 0.1 percent, which equates to 160,000 households, held 22% of US wealth, compared to 10% in 1963 (Saez & Zucman). Even though the US is overall more prosperous and wealthier, and the total wealth is increasing, the relative shares and distribution are becoming more and more disparate. Since the late 1970s, the gap has only become wider, and increasing one's wealth is almost impossible. Starting from the middle of the US wealth distribution, one would need to multiply their wealth six times just to get into the bottom of the top 9.9 percent, in 1963 (Stewart). Now, people in the middle need to increase their wealth 12 times over to reach the same point. Wealth is so heavily concentrated in the top 20% because those with wealth become increasingly wealthier. Such high concentrations in wealth reduce economic mobility within the US (Essrow & Cooper). Income is growing more for those at the top and regressing for those at the bottom (Krueger). The increase in inequality, which is when people aren't presented with the same opportunities, can be attributed to the disproportional CEO pay and deregulation of different industrial markets.

Beginning in the 1970s, productivity (average income/hour in US) has gone up at a faster rate than average wages. Slow wage growth exacerbates class inequality, and some people are getting paid much more for the work they contribute. Rising inequality causes income from households at the lower end of the distribution to travel to the high-income households (Bivens). Increase in CEO pay allows the disproportional income at the top, at the expense of those at the bottom. The boards of corporations determine CEO pay, and other top executives get paid to be on those boards. Since they want to keep their high-paying board positions, they generously pay the respective CEOs of that corporation (Baker, Bivens, & Schieder). Additionally, the notion of a market for "star" CEOs that must be paid immense amounts in order to be hired to lead companies, contributes to the disproportional rise and increase in CEO pay. The high pay for CEOs influences the pay structure across corporations, giving top executives compensation that is not proportional to the work they do, and pushing the tail ends of the income distribution even farther apart (Baker, Bivens, Schieder). This contributes to the fact that wages are not rising in accordance with productivity. Another inequality driver is the deregulation of policies that promoted small businesses and local control, which led to income and wealth disparity across different states in America. Policies such as the Sherman and Clayton Antitrust Acts, were movements to limit regional inequalities and keep monopolies in check. Antitrust enforcement continued to grow in the 1960s, and other industries such as finance, power, and transportation were also price regulated by the government (Longham). However, in the 1970s, fear of inflation prompted policy changes such as the Airline Deregulation Act, favoring certain cities and creating variance in price across regions. Railroads began to merge, Congress pulled back anti-chain policies, and granted more power to patent holders. Most of the nation's wealth and technology became concentrated in coastal cities, such as San Francisco, New York, and Boston, and it's these cities that have experienced the most rapid increase in salaries, especially since the 1970s (Longman). Smaller towns have become emptier, and there is increasingly less opportunity as industries evolve, offshore, and move to different places (Porter). College graduates tend to concentrate in the coastal cities, bringing more educated, affluent, and innovative people to the same places. Innovators attract more innovators, and these cities are able to advance rapidly, creating more jobs and opportunities while other areas in the US are lagging behind (Longham). As some areas speed forward while others lose people and opportunity, the income gap between regions becomes increasingly wider. As residents of poor areas become entrenched in a poverty trap where cumulative factors hinder them from raising their standard of living, the inequality between the top 0.1% and the rest of the US continues to grow.

Analysis

When wealth feeds into itself and certain cities experience higher concentration of good jobs, inequality will only continue to grow. These drivers have already dug a wide gap between wealth and poverty, and we can see the effects on those who are impoverished today. Where people grow up, how much their parents earn, and how educated their household is, are some of the main indicators for someone's success in the future. Take Bridgeport, CT: 70% of people who grew up there are living in poverty today. Their children continue to live in poverty, lack access to good healthcare, nutrition, and education. Opportunities for people in these neighborhoods are not increasing, and they are trapped there because affordable housing is not made available in areas with more resources. Inequality will keep persisting because it's gotten to a point where people who are at the bottom cannot move up the ladder anymore. The "Great Gatsby Curve" highlights that more concentrated wealth is correlated with less intergenerational economic mobility. When people can't escape poverty or find opportunity, they will remain in the same situation that they were born into, then their children are born into that situation as well.

Income is concentrated at the top, and the bottom 90% of Americans are impacted by the slowdown in wage growth (Bivens 2). Income inequality in the US stagnates demand growth because the upward redistribution of income to wealthy households allows more money to be saved while consumption spending decreases (Bivens 2). Unless something changes, the transferring of income from low- and middle-class Americans to higher income and savings rates households will slow demand growth by 2-4% GDP every year (Bivens 2). Even if income and wealth inequality does not affect demand or economic growth, working towards bridging the gap is still worthwhile because the vast majority of America, over 90%, will be better off and contribute more towards the economy (Mishel).

One could argue that inequality in itself is not negative, and that to some degree it is inevitable, and just the way it is. Some people believe hard work, innovation, and the pursuit of something greater can give someone the higher wealth and income they deserve. Take startups: a group of young entrepreneurs try to create new technology and products to help people. Some, like Facebook and Google, have scaled into massive corporations and connected the world with their software. Within the distribution of income, people create wealth in addition to taking it from others—just because the top 0.1 percent's slice of the pie is growing, doesn't necessarily mean it's growing at the expense of the bottom 99.9 percent (Graham). Creating wealth in the form of startups does not directly contribute to inequality, but what ends up happening is either the startup fails, or because of lack of government regulation, it gets bought out buy a larger tech giant, merges, or scales into a corporation that contributes to the unproportionally distributed productivity and wages. Those executives *are* taking high pay at the expense of the rest of their workers, because if more money were saved rather than paid to executives, some of that money could be passed along to workers in higher wages (Baker, Bivens, & Schider). Inequality is not inherently negative, but it has taken away equality of opportunity—Americans cannot count on hard work to move up financially (West).

Recommendation

Inequality is a deepening problem that will only continue to persist into future generations and impact a greater population of people. It exists across the United States in education, environment, healthcare, housing, nutrition, and more. As these factors continue to stack up with each other, it will become harder and harder to break intergenerational cycles of poverty, so the time to act and care is now.

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