View from the Beltway

America’s Inequality Time Bomb

By Owen Ullmann

Time to restore the vision of a society of equal opportunity for all.

Even before the Covid-19 pandemic struck, economic inequality in the United States was growing at an alarming rate. According to a November report by the Peterson Institute for International Economics, “How to Fix Economic Inequality,” the United States has the greatest income and wealth inequality among the twenty-seven advanced nations that belong to the Organization for Economic Cooperation and Development.

Particularly worrisome, the report noted, is the contraction of the middle class, the backbone of the American experiment based on the concept of equal opportunity for all. It has dropped from 61 percent of the population in 1971 to 51 percent in 2019.

That trend is echoed in an October report by the nonpartisan Congressional Budget Office. It found that the inflation-adjusted average household income of the top 1 percent, after taxes and government benefits, rose 226 percent from 1979 to 2016. Income for the remainder of the top quintile rose 79 percent, and that of the bottom 20 percent rose 85 percent, aided by government safety net programs. And the majority of the U.S. population classified as middle- and lower-middle class? Their income rose a mere 47 percent over the same period, according to the CBO.

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As bad as those numbers are, the inequality gap is accelerating faster in the United States than in any other OECD member as a consequence of the pandemic. That’s because unemployment has been greatest among lower-wage workers in severely hobbled service industries, while high-skilled employees have been barely nicked. In addition, upper-income families have profited from huge gains in the stock market in 2020 after a brief collapse at the start of the pandemic last winter. Lower-income groups have scant or no investments in the stock market, and housing

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prices—the greatest asset for many is their homes—are still recovering from the housing collapse during the Great Recession of 2007–2009.

The dual growth of income and wealth inequality not only makes a mockery of the promise of the American Dream—that hard work and determination will lead to economic success—but it has given rise to the bitter political polarization and distrust of American government that we are experiencing. Who wouldn't have contempt for a political establishment filled with privileged elites who grow richer while so many Americans are falling further behind?

There is no lack of proposals for stemming and even reversing this trend, which, if left unchecked, threatens to lead to even greater social upheaval. The problem is that our politicians in Washington have proven unwilling to make commonsense compromises that would start closing the inequality gap.

Here, dear lawmakers, are some of the policy prescriptions that would help:

ADDRESSING INCOME INEQUALITY

There are numerous proposals recommended by a variety of experts that are no-brainers if only Congress could recognize the danger of allowing gross inequality to fester.

A common suggestion is to make the tax code more progressive. It currently is among the least progressive for an advanced economy, the result

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of the lowering of the top personal and corporate income tax rates, along with a myriad of loopholes benefiting the wealthy and businesses.

Making the tax code even slightly more progressive would provide funds to help lower-income groups in the form of tax credits or new spending programs. For example, the earned income tax credit, a transfer payment to the poorest families, could be increased. The added tax revenue from a reformed tax code also could help reduce the crushing cost of college and pay for better job training programs.

Making the most fortunate in society pay a little more also would help finance universal health care, one of the biggest costs to the middle class, and childcare, which would allow more young parents to work full time. The need is urgent when you consider that the United States again comes in last among OECD nations in money spent for childcare and the percentage of the population who have health care coverage.

Heather Boushey, who was named by President-elect Joe

Making Everyone a Capitalist By Democratizing the Financial Benefits Enjoyed By the Elite

Senator Cory Booker (D-NJ), *has proposed setting up each child with an American Opportunity Account that starts out with a $1,000 grant at birth. The government would contribute up to $2,000 a year after that.*

Darrick Hamilton, *professor of economics and urban policy at the New School, would provide every child a trust account that would average $20,000, with the poor getting the most generous grants.*

David Smick, *the founder and publisher of* TIE, *has proposed a federal program that gives every child a $5,000 stake.*

Biden to serve on his White House Council of Economic Advisers, has proposed a higher capital gains tax so that the added revenue could finance universal child care and early education. Boushey, previously executive director and chief economist at the Washington Center for Equitable Growth, noted that the U.S. labor

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force participation rate for women used to be among the highest in the developed world but is no more, due to a lack of investment in child care, which denies millions of lower-income young mothers the opportunity to work.

A proposal that long has been advocated as a powerful tool to reduce inequality is raising the federal minimum wage, which has been stuck at $7.25 an hour since 2009. Adjusted for inflation, that outrageously low figure has less buying power than in 1950.

States aren't waiting for Congress to act. More than half of them, through legislation or voter initiatives, have raised their own minimum wage in the last six years, including such red states as Arkansas and Missouri. Florida is the latest, voting in November by a sizable majority to increase it from a current $8.56 to $15 by 2026.

The familiar argument against a higher minimum wage is that many small businesses will be forced to lay off employees. Indeed, a July 2019 report by the Congressional Budget Office estimated that a $15 federal minimum wage would result in the loss of 1.3 million jobs. But it also said 27 million workers would get a raise and 1.3 million people would be lifted out of poverty. That seems like a fair trade-off.

Moreover, the oft-made argument about higher pay costing jobs may no longer hold in the current environment. Two years ago, online behemoth Amazon raised its minimum wage to $15 an hour and also provided health care coverage and educational assistance (although it eliminated employee stock grants). It continues to be enormously profitable and Amazon is currently on a record hiring binge, adding more than 400,000 workers since the pandemic struck.

Another set of ideas calls for an industrial policy that harnesses the power of technology to create good-paying jobs. Michael Mandel, chief economic strategist for the left-leaning Progressive Policy Institute, published a paper in November detailing "six ideas for creating jobs with a future":

- Accelerate the creation of 300,000 5G-related jobs annually for both high-skill and mid-skill workers.
- Rebuild the "production economy" by focusing on policies that support adoption of digital technologies by small- and medium-sized manufacturers to make them more competitive.
- Build e-commerce and manufacturing hubs to help Americans who lose jobs in the brick-and-mortar retail industry find better-paying work in e-commerce.
- Improve conditions for independent workers by changing tax rules and using improved technology to get gig workers better access to portable benefits.
- Extend and augment the Work Opportunity Tax Credit, which was created to help those with significant barriers to employment, with a focus on hiring workers who lost jobs as a result of the pandemic.
- Build career ladders for low-income workers through new federal apprenticeship and training programs.

ADDRESSING WEALTH INEQUALITY

The key to narrowing the wealth gap is to help create savings and investment instruments for people who now live from paycheck to paycheck without any extra money to put in the stock market, purchase a home, or even set up a simple savings account. According to an April 2020 Gallup poll, 45 percent of Americans do not own any stock, down from a high of 67 percent in 2002. And a Federal Reserve survey of household savings in 2018, a time of healthy economic growth and low unemployment, found that nearly 40 percent of households would have trouble paying for an unexpected $400 expense.

Ernie Tedeschi, a Treasury Department economist during the Obama administration, noting that the

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bottom quarter of families hold only 0.4 percent of the country's financial assets, proposes that everyone have access to the benefits of a 401(k) by opening the federal government's version of a 401(k), the Thrift Savings Plan, to all Americans, regardless of employer.

The TSP provides a contribution equal to 1 percent of an employee's pay regardless of whether the employee contributes anything. On top of that, the government matches an employee contribution up to 5 percent. If a TSP

THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
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were available to everyone, an employee could take the account to a new job.

Tedeschi said the cost of a universal TSP could be financed by curtailing the mortgage interest deduction, which now heavily favors the wealthy. "Tackling wealth inequality will mean democratizing many of the financial benefits currently enjoyed by people at the top," he told the *Washington Post.*

Several proposals offer a twist on such an approach by making everyone a capitalist at birth through a "baby bond" investment. While the details vary, the goal is the same: provide the roughly four million children born in the United States each year a nest egg that will grow over time.

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Senator Cory Booker (D-NJ), has proposed setting up each child with an American Opportunity Account that starts out with a $1,000 grant at birth. The government would contribute up to $2,000 a year after that, with smaller amounts for those with higher family incomes. He estimates that the poorest children would amass nearly $50,000 by age eighteen. Booker would pay for the program's $60 billion annual cost by raising the estate tax on the wealthy and closing a tax break for inherited capital gains.

Darrick Hamilton, professor of economics and urban policy at the New School, would provide every child a trust account that would average $20,000, with the poor getting the most generous grants. He envisions a trust of up to $60,000 for the poorest, while the offspring of the super-rich would get $500. The result would be what he labels a true "stakeholder society."

Since a home is often the largest asset many less-affluent families possess, Signe-Mary McKernan, co-director of the Opportunity and Ownership initiative at the Urban Institute, wants to make it easier to own a home and thus pave the way to acquiring wealth.

McKernan estimates the federal government spends $400 billion every year on mortgage interest deductions and tax-deferred retirement savings, subsidies that mainly benefit high-income families. She estimates that two-thirds of the benefits go to the top 20 percent of taxpayers, while the bottom 20 percent receive less than 1 percent.

To make the subsidy fairer, she would replace the mortgage interest tax deduction with a refundable first-time homebuyer's tax credit of up to $12,000 for a single taxpayer and $18,000 for a couple.

Dane Stangler, director of policy innovation at the Progressive Policy Institute, would help lower-income workers accumulate wealth by expanding employee stock ownership plans to offset the declining share of national income that goes to labor. He argues that more workers would benefit from economic growth if they owned a piece of their companies.

Stangler wants Congress to expand ESOP tax incentives so more companies will let workers own their stock.

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Currently there are about 6,600 ESOP plans in the United States with fourteen million participating employees, the National Center for Employee Ownership estimates. Those employees control nearly $1.5 trillion in corporate equity, or 8 percent of total equity, according to the center.

Lower-income groups have scant or no investments in the stock market.

Stangler says companies that offer ESOPs enjoy higher productivity growth and greater resiliency during downturns and generate higher levels of retirement savings for workers. However, despite the advantages for companies, the number of ESOPs has shown virtually no growth since 2014, with less than 10 percent of the workforce participating, according to NCEO figures.

This list of ideas to reduce income and wealth inequality are hardly examples of wild-eyed socialism, and most have been floated for many years. So why do they remain just proposals instead of enacted programs?

Blame the power of the entrenched interests who benefit from the *status quo.* They fan the flames of partisan polarization and demonize any move to chip away at their economic advantages.

Yet we also know from history that societies of gross inequality are unstable and threaten to tear down democratic institutions. The United States is the world's oldest democracy, but its founding vision of a society of equal opportunity for all is fast fading. Unless our political leaders find the wisdom and courage to commit to restoring the American Dream, our beacon of light for the rest of the world will grow ever dimmer. ◆