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BEFORE THE
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Low-Wage Work on the Federal Dime: How Our Tax Dollars Drive Inequality

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Thank you for inviting me to testify today on the dimensions on income inequality. I have three essential points to convey:

1.) Inequality is disturbingly high accelerated by a sharp shift in the distribution of national income in the post War period;
2.) Policy decisions are the primary reasons for this shift and identifying them becomes essential to reverse these trends, and
3.) Reversing high and rising inequality is an imperative not just for issues of equity, but for the future vibrancy and competiveness of America.

Inequality is high and rising

The “Occupy” movement, begun in the fall of 2011, shone a 21st century spotlight on what has been a defining, albeit perverse, feature of our economy for the last three plus decades—overwhelmingly disproportionate shares of our nation’s income growth accruing to the top 1% of the income distribution.

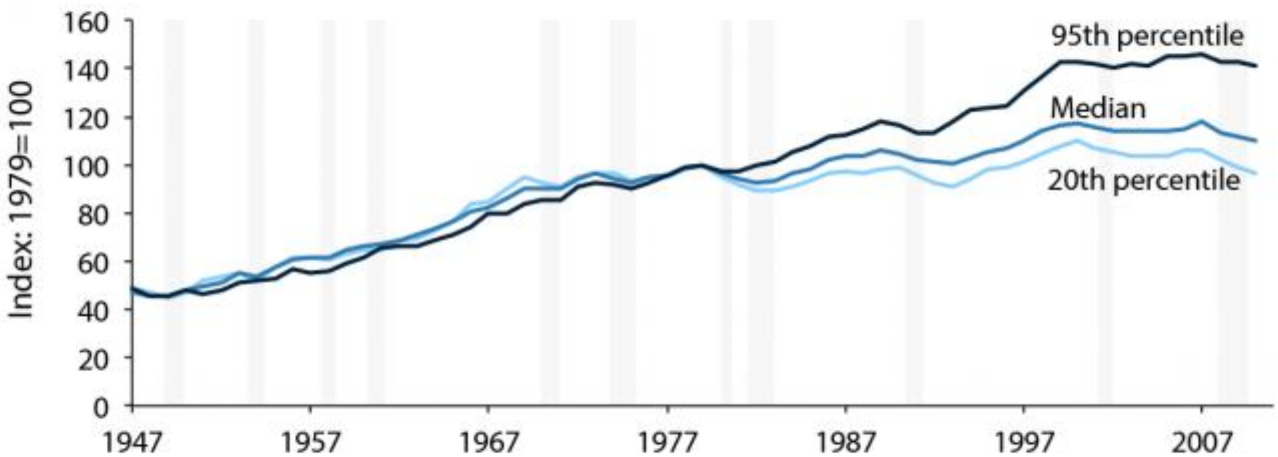
The conclusion that inequality is high and rising is evident in nearly every conceivable data measure and is not disputed by reputable researchers. What remains open to disagreement is whether high and rising inequality is an undesirable feature of today’s economy, or whether policy consistent with American values and traditions can reverse what has been a decades long pulling apart of those at the very top of the income, wage and wealth distributions from the vast majority of everyone else.

When we examine the private economy, or “market-based incomes,” which exclude the effects of taxes and transfers (benefits from programs like Social Security) and in-kind benefits like employer sponsored health insurance, we find that from 1979-2007, the top 1% of tax units claimed 59.8% of the nation’s total income growth, more than six times that of the bottom 90%. During this period, there has been a seismic shift in the composition of income towards capital income, which has historically largely been concentrated among the top 1% and that concentration has increased. Yet that does not tell the whole story. Even labor income, or wages, reveals ever-worsening inequality. From 1979-2007, wages for the top 1% grew 156% compared to less than 17% for the bottom 90%.

The consequences of such rising inequality are that those at the middle and lower end of the income distribution are finding housing increasingly unaffordable, are more food insecure, and are unable to save adequately for retirement. To an alarming degree, these groups are maintaining living standards and investing in their education and training by accumulating debt, and are very vulnerable to economic slowdowns and displacement.

What makes America’s increasing inequality perverse is that over the last thirty-plus years, there has been enough growth in national income, which if distributed more equitably, would have produced increased living standards for all income groups. For example, if middle class incomes had risen at the overall average rate from 1979-2007, America’s middle-income families would be earning around $19,000 more per year.

Income growth for families at the 20th, 50th, and 95th percentiles, 1947–2010



Note: Data are for money income. Shaded areas denote recessions.

It has not always been this way

That income growth could be evenly distributed across income groups is not an abstract progressive ideal. Before the great divergence beginning 1979, the previous thirty year period saw exactly that--equitable income growth. From 1947 until the end of the 1970's, incomes across the income distribution rose together, in concert with the increasing productivity in the economy.

From 1979-2011, however, productivity has increased ten times faster than wages. With wages being the primary component of income for groups at the middle and lower end of the income distributions, this divergence is primary evidence why inequality is not a fait accompli and leads us to explore what forces have shaped this unnatural phenomenon.

It is my conclusion that policy has driven the growth in inequality. Since the late 1970's, our nation's economic policy has served the interests of those who accrue the most income and hold the most wealth, because it is those who are able to exert the most political power.

There have been affirmative choices and failures to act that have contributed to this policy malpractice. I offer a non-comprehensive, but illustrative list in no particular order of significance:

> Policy makers have allowed inflation to erode the value of the **minimum wage**—whereby low-wage workers can work full time and still earn deep poverty wages. Even the most expansive of the minimum wage increases proposed in the 113th Congress will still leave the minimum wage below what it was in 1968.
>
> Policy makers have accelerated the **integration of the US into the global economy** without adequately ensuring that US workers can compete on a level playing field with cheaper foreign labor, while at the same time crafting tax policy that provides incentives for US multi nationals

to off-shore jobs and resources—further harming US workers and putting domestic corporations at a competitive disadvantage.

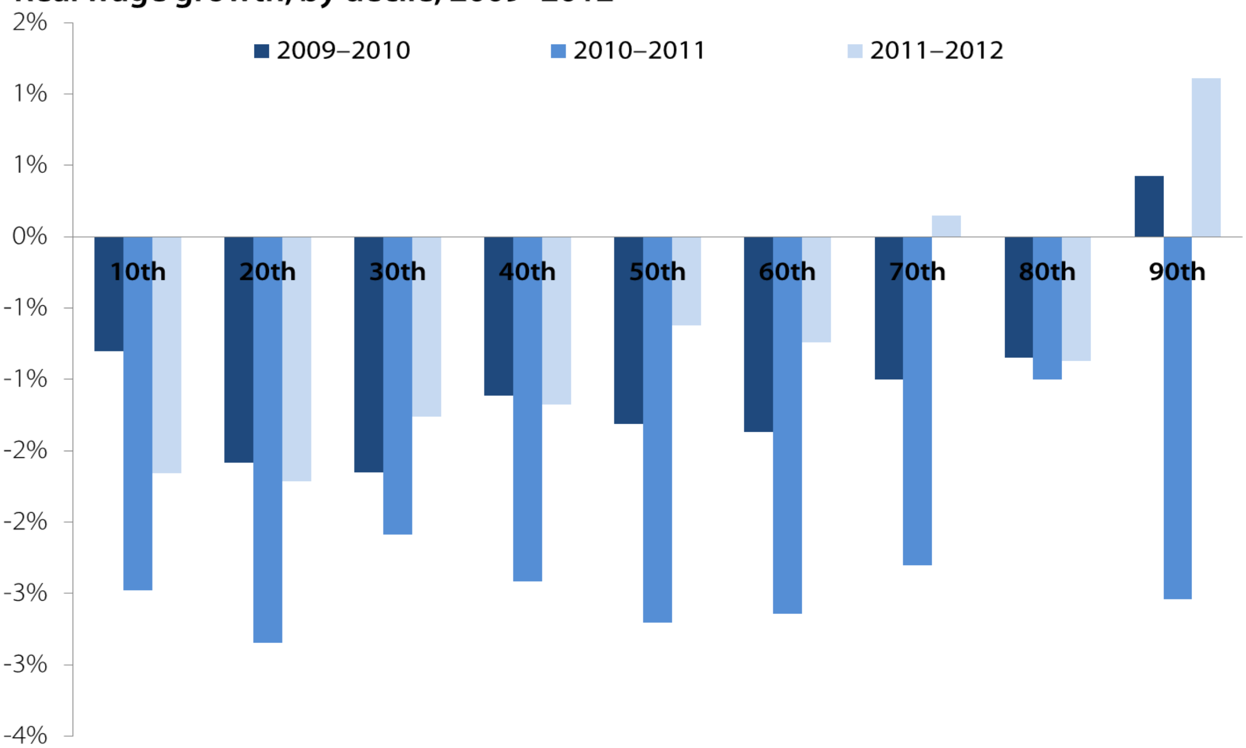
Policy makers have systematically **deregulated industries and sectors** putting downward pressure on wages, creating price vulnerability for consumers, and in the case of the financial sector, encouraging excessive risk as deregulation accompanied maintaining explicit and implicit guarantees of a government backstop

Policy makers have assembled a **tax code** that fails to raise adequate revenue to support needed investments and exacerbates inequality by reducing tax rates regressively and maintaining upside-down subsidies that provide more support for the mortgage interest payments, retirement savings and charitable contributions of those higher up the income ladder.

Policy makers have aided and ignored the **erosion of bargaining power** for US workers leading to rampant increases in executive pay disparity and a decrease in the share of jobs that pay living wages and provide benefits.

There are more ways policy makers have been complicit in driving our rising inequality, but the above describes a reasonable agenda from which to begin reversing these trends. Reversing them is required, not only to fulfill the terms of the implicit social contract, but to ensure that America is adequately able to meet its future fiscal challenges and compete in a global economy where other nations are investing more in their human capital.

Real wage growth, by decile, 2009–2012



Source: Authors' analysis of Current Population Survey Outgoing Rotation Group microdata

As we have seen in the recovery from the Great Recession, a larger share of jobs being created are low wage with meager benefits and America's GDP growth is inadequate to meet long-term fiscal challenges. A demand-led growth strategy will, however, increase living standards, reduce inequality, and position America to meet future challenges and opportunities from a position of strength. There is a body of research from the epidemiology community that examines the impact of inequality on nation's overall health and finds, quite logically, that nations that are both rich and have high inequality have poorer physical and mental health, more crime, greater achievement gaps in education and more distrustful and unengaged communities. I imagine few want America to be defined in these ways, yet those are the societal costs of our inequality.

If I have sounded any alarms, then I have succeeded. Inequality should be viewed for what it is—an existential threat to the very idea of America and the American dream—where a representative democracy functionally becomes an oligarchy and where the masses, the engine of our nation's output and productive capacity, perform far below potential despite desperately wanting to achieve and contribute to the highest degree.

References

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