Growing Economic Inequality Matters!

Why People of Faith Should Be Concerned

By Fred Kammer, S.J.

ECONOMIC INEQUALITY IS REAL AND WORSENING.

Having monitored economic inequality for 30-plus years, the current "news" about growing inequality seems almost to be too late and too little. Accusations of "class warfare" against those who question our current economic realities in the United States ignore the "stealth class warfare" of four decades that has brought us to this yawning gap between rich and poor in both income and wealth.

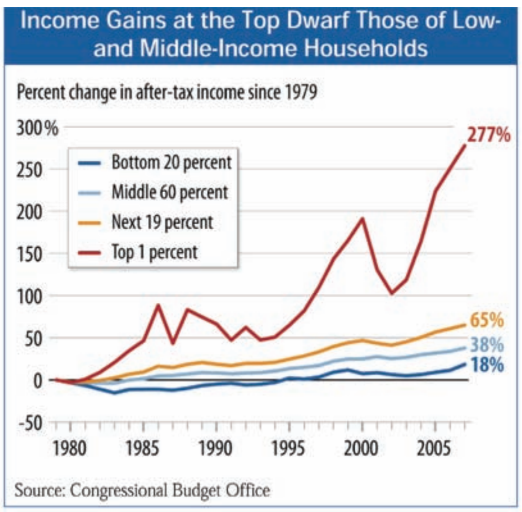


Chart 1

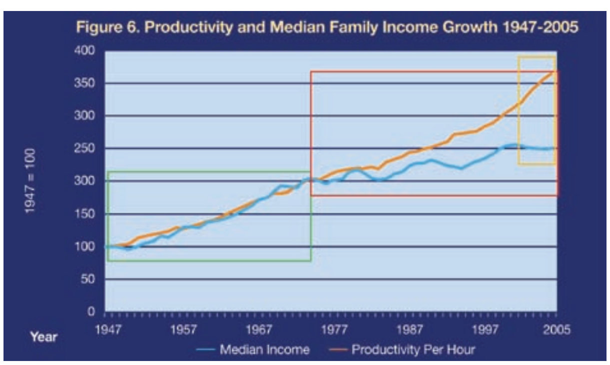


Chart 2

From roughly the end of World War II until the early 1970s, we saw substantial economic growth in this country and, with it, a "broadly shared prosperity" across income groups. This is what is called *absolute mobility* ("a rising tide lifts all boats") or, simply, the percentage change in income over time (adjusted for inflation). All income groups saw their incomes grow rapidly and at roughly the same rate, basically "doubling in inflation-adjusted terms between the late 1940s and early 1970s."[1] (The Census and others analyze population "quintiles," which divide individuals or households into five equal size groups based on level of income.)

Then, beginning in the 1970s, economic growth slowed, household income growth in the middle income and lower ranges slowed sharply, while those at the top saw their incomes grow strongly, even skyrocket. Chart 1 shows the income gains of four groups of households in terms of percentage gains in after-tax income from 1979 to 2007, as measured by the Congressional Budget Office.[3]

A second way of looking at 60 years of the economy is to compare U.S. productivity with real median income over time. As you can see from chart 2[4], for nearly 30 years after World War II median household income and productivity rose in tandem. Then, beginning in the 1970s, the two began to part ways and, since 2000, they have grown even farther apart. Essentially, in the past 30 years, workers' incomes have not kept pace with the nation's productivity, as they had in the previous 30 years. In contrast, between 1978 and 2005, the pay of corporate CEOs increased from 35 times the average worker's pay to nearly 262 times that average.[5]

As Alan B. Krueger, chairman of the Council of Economic Advisers, noted in January, "A consequence of the momentous shifts in the income distribution that I have just documented is that the middle class has shrunk … We have gone from having just over 50 percent of households within 50 percent of the median in 1970, to 44 percent in 2000, and 42.2 percent last year."[6]

A third way of looking at this reality is to focus on what is called *absolute mobility* across generations. This is the inter-generational upward mobility that is due to overall economic growth, meaning that each generation, on average, has a higher standard of living than the preceding one. As the Pew Economic Mobility Project[7] reports, however, "Men in their 30s today earn less than men in their fathers' generation…" The project compared the income of men aged 30 – 39 in 2004 with their father's generation—in their 30s in 1974—and found that median income, adjusted for inflation, showed a decline in median income from about $40,000 to $35,000 per year. As the project observed, **"Indeed, there has been no progress at all for the youngest generation. As a group, they have on average 12 percent less income than their fathers' generation at the same age."**[8] This decline applies to both white and black men in their 30s, but the decline was greater for black men.[9] Income in a person's 30s is important because, research suggests, it is a good indicator of lifetime earnings for workers.

Does this mean that average family income declined overall across past decades? Not generally. There have been overall income gains. The main reason, however, is that more and more women have gone to work, thereby increasing family income. Those annual increases for families with two earners, however, also have slowed for the most recent generation of families with men in their 30s.[10] Indeed, the project reported that, in exit polls after the 2006 election, "less than one-third of the voters said that they thought life would be better for the next generation,"[11] reflecting an unsettling of the "American Dream" of upward mobility.

The raw data of *income inequality* is reflected in the first pie chart,[12] reflecting the fact that in 2007 the top one percent of households in the United States received 21 percent of all income, the top 10 percent received 47 percent of income, and all the remaining 90 percent of U.S. households shared 53 percent. (The poorest quintile—20 percent—of households took home only 5 percent of all after-tax and after-transfer income.)

The accumulated result of years of inequality in income, estate transfers, tax policy, investments, etc., has resulted in even greater inequality of wealth—that is, the value of a household's

Chart 3

Distribution of before-tax income, 2007

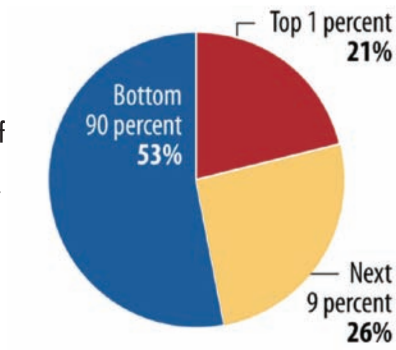
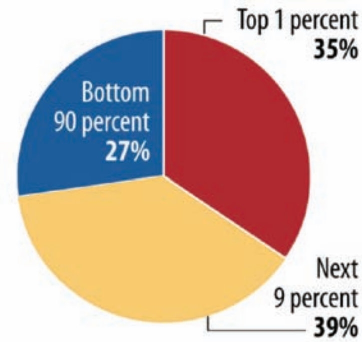


Chart 4



Distribution of wealth, 2007

property of all kinds and financial assets, less the value of its indebtedness of all kinds. That inequality is reflected in the second pie chart[13] above, with the provocative revelation that the top 10 percent of U.S. households hold 74 percent of all wealth in this country, while the other 90 percent hold only 27 percent of accumulated wealth.

INEQUALITY HAS MULTIPLE CAUSES

Researchers disagree about the causes of the dispersion in wage rates, which is key to understanding the rise in inequality. But, notes Krueger, the economics literature has coalesced around some key hypotheses: skill-based technical change that we associate with automation and computer technology; the proliferation of high salaries earned in the financial sector (the proportion of people in the top one percent of income who were from the finance and real estate industries nearly doubled from 1979 to 2005); increased globalization so that U.S. workers are competing worldwide now, especially with China; the decline in union membership and, with it, in the wage structure; the decline in the real value of the minimum wage; and changes in tax policy favoring the wealthy and very wealthy without spurring income growth, business formation, or job growth.[14]

ECONOMIC INEQUALITY MATTERS:

Forty years ago, in 1972, the United Negro College Fund launched its famous campaign slogan, "A mind is a terrible thing to waste." The economic, social, and political costs of children raised in families mired in poverty have been well documented. As Chairman Krueger put it, "There is a cost to the economy and to society if children from low-income families do not have anything close to the opportunities to develop and use their talents as the more fortunate kin from better off families who can attend better schools, receive college prep tutoring, and draw on a network of family connections in the job market."[15] Children of poor parents simply have a much harder time climbing the ladder of economic success.

While many applaud the increasing workplace opportunities for women, many women are working simply to help their families make ends meet, knowing that two parents working means a loss of important attention to children. Reduced income for those in the middle and below also means less consumption with the consequent drag on the nation's economy, as well as increased borrowing by many families to maintain their standard of living. A strong middle class has been critical to our economic growth and helped to build stronger communities.[16]

A more subtle consequence of rising inequality is its corrupting impact upon the American Dream of economic opportunity for all, which has been "a unifying tie for an increasingly diverse populace."[17] A December 2011 Pew Research Center survey disclosed that a 46-percent plurality believes that most rich people "are wealthy mainly because they know the right people or were born into wealthy families," while 43 percent say wealthy people became rich "mainly because of their own hard work, ambition or education…"[18]

Finally, in the context of faith, rising inequality raises serious concerns about the common good and justice in U.S. society. *The Catechism of the Catholic Church* puts it this way:

> *There exist also **sinful inequalities** that affect millions of men and women. These are in open contradiction of the Gospel:*
>
> > *Their equal dignity as persons demands that we strive for fairer and more humane conditions. Excessive economic and social disparity between individuals and peoples of the one human race is a source of scandal and militates against social justice, equity, human dignity, as well as social and international peace.*[19]

Excessive economic inequality is immoral because it violates the basic principle of distributive justice. (See *CST and Distributive Justice* in this issue.) The U.S. Catholic bishops discussed this inequality in the U.S. context:

> *Catholic social teaching does not require absolute equality in the distribution of income and wealth. Some degree of inequality is not only acceptable, but may be considered desirable for economic and social reasons…However, unequal distribution should be evaluated in terms of several moral principles we have enunciated: the priority of meeting the basic needs of the poor and the importance of increasing the level of participation by all members of society in the economic life of the nation. These norms establish a strong presumption against extreme inequality of income and wealth as long as there are poor, hungry, and homeless people in our midst. They also suggest that extreme inequalities are detrimental to the development of social solidarity and community. **In view of these norms we find the disparities of income and wealth in the United States to be unacceptable.** Justice requires that all members of our society work for economic, political, and social reforms that will decrease these inequities.*[20]

When the bishops wrote this in 1986, inequality in income and wealth was rising in this country, but hardly to its dramatic present levels.

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Does "relative income mobility" cure inequality? In other words, does the fact that some people do move between income levels mean that inequality does not matter? See our next issue of *JustSouth Quarterly*.

—Continued on back cover

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ENDNOTES

1 Chad Stone, *Exploring Income Inequality, Part 1: Overview, Off the Charts* blog, Center for Budget and Policy Priorities, November 28, 2011 at http://www.offthechartsblog.org/exploring-income-inequality-part-1-overview/ (accessed January 30, 2012).

2 Chad Stone, Hannah Shaw, Dnilo Trisi, and Arloc Sherman, *A Guide to Statistics on Historical Trends in Income Inequality,* Center for Budget and Policy Priorities, November 28, 2011, p. 8, at http://www.cbpp.org/cms/index.cfm?fa=view&id=3629 (accessed January 30, 2012).

3 The Congressional Budget Office calculations for after-tax income uses a broad measure of income defined by CBO as follows:

> Comprehensive household income equals pretax cash income plus income from other sources. Pretax cash income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, cash transfer payments, and retirement benefits plus taxes paid by businesses (corporate income taxes and the employer's share of Social Security, Medicare, and federal unemployment insurance payroll taxes) and employee contributions to 401(k) retirement plans. Other sources of income include all in-kind benefits (Medicare, Medicaid, employer-paid health insurance premiums, food stamps, school lunches and breakfasts, housing assistance, and energy assistance).

4 Isabel V. Sawhill and John E. Morton, *Economic Mobility: Is the American Dream Alive and Well?,* Economic Mobility Project, Pew Charitable Trusts, May 29, 2007, p. 12, at http://www.brookings.edu/~/media/Files/rc/papers/2007/05useconomics_morton/05useconomics_morton.pdf (accessed January 30, 2012).

5 Ibid., p. 6.

6 Alan B. Krueger, *The Rise and Consequences of Inequality in the United States,* address to the Center for American Progress, January 12, 2012, p. 2.

7 The Economic Mobility Project of the Pew Charitable Trusts is an important resource because it brings together experts from four often adversarial think-tanks in identifying agreed-upon facts, figures, and trends related to mobility: The American Enterprise Institute, The Brookings Institution, The Heritage Foundation, and The Urban Institute.

8 Sawhill and Morton, op. cit., p. 11 (emphasis in original).

9 Julia B. Isaacs, *Economic Mobility of Black and White Families,* Economic Mobility Project, 2010, Executive Summary, p. 1, at http://www.economicmobility.org/assets/pdfs/EMP_ES_Black_White_Families.pdf (accessed February 1, 2012).

10 Ibid.

11 Ibid., p. 7.

12 Hannah Shaw, *Exploring Income Inequality: Part 5: The Concentration of Income and Wealth, Off the Charts* blog, Center for Budget and Policy Priorities, December 2, 2011, at http://www.offthechartsblog.org/exploring-income-inequality-part-5-the-concentration-of-income-and-wealth/ (accessed January 31, 2012).

13 Ibid.

14 Krueger, op. cit., pp. 5-6.

15 Ibid., p. 6.

16 Ibid., p. 8.

17 Sawhill and Morton, op. cit., p. 13.

18 Richard Morin, *Rising Share of Americans See Conflict Between Rich and Poor,* Pew Research Center, January 11, 2012, p. 3, at http://www.pewsocialtrends.org/2012/01/11/rising-share-of-americans-see-conflict-between-rich-and-poor/ (accessed February 2, 2012).

19 *Catechism of the Catholic Church,* no. 1938, quoting the Second Vatican Council, *Gaudium et Spes,* no. 29.

20 National Conference of Catholic Bishops, *Economic Justice for All,* 1986, no. 185 (emphasis supplied).