Economic Inequality And the 2020 Campaign

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With the 2020 presidential campaign well underway, economic inequality continues to gain strength as one of the top issues in the election. Six in 10 U.S. adults believe the level of inequality is too high, according to the Pew Research Center.[1] Of those, most say the solution requires a wholesale change to the economic system.

One year from now, the occupant of the White House will potentially shape our economic evolution for the next generation, so perhaps now we should ask: How did we get here? And what solutions to the problem of economic inequality do the 2020 presidential candidates offer?

THE PATH TO ECONOMIC INEQUALITY

For nearly 40 years after World War II, America existed as a social democracy. High wealth taxes and other government interventions imposed for the post-war recovery bolstered the social justice framework, spurred a post-war economic boom and laid the foundation for the largest group of middle-class Americans in the nation's history. The turnaround began in earnest in 1981 when free-market advocate Ronald Reagan entered the White House, insisting the rich had paid too much for too long.[2] Despite persistent evidence that free markets do not distribute wealth evenly, Reagan's strategy has dominated domestic policymaking ever since.

Today, America has two sides to its economy. One appears to indicate we are on an unrelenting trajectory upward. Job creation entered its 110th month in January 2020 — a record in the post-World War II era — and unemployment hovers around 3.7%, a level unmatched in 50 years. Gains in employment raised median household income (income allows a family to get by, while wealth enables a family to get ahead) to $74,600 at current levels, or 49% higher than 1970.[3]

The numbers are starker on the other side. Fewer people constitute the workforce since the Great Recession of 2007-2009. Part-time job growth outpaces full-time job growth. Household incomes on average grew at an annual average rate of only 1.2% in 2000-2018 against an inflation rate that moved between 3.4% and 2.5% during the same period.[4]

Analysts point to several reasons why the gap between the two sides keeps growing wider:

- Middle-income Americans in 2007 were still recovering from the March-November 2001 dot-com recession when the Great Recession struck. Together, those downturns slowed household income growth to an annual average rate of only 0.3%. Without the downturns, income gains sustained since 1970 would have continued, making the current median income $87,000.[5] By contrast, top corporate executives across the board have seen their salaries grow by more than 1,000% over the past 40 years, nearly 100 times the rate of average workers.[6]
- Besides dragging down income growth, the Great Recession dragged down home values. Home ownership, then as now, represents the single biggest investment by typical families. When home values plummeted between 2007-2009, the median net worth of families fell 40% to $87,800 by 2013 from a peak of $146,600 in 2007. By 2016, the last year for which current data is available, the typical American family's net worth had climbed to $101,800, still well below where

they were in 2007. The wealthiest families are the only ones who experienced gains in wealth during the Great Recession. From 2007 to 2016, the median net worth of the richest 20% of Americans increased 13%, to $1.2 million.[7]

■ The digital revolution, in place since 2001, has reduced demand for what economists consider to be high-income "middle-skill" jobs and replaced those with lower-paying automated responsibilities managed by computer software and industrial machines. Today, the job force cherishes workers with abstract problem solving, interpersonal and organizational skills and devalues cognitively repetitious tasks in offices and on production lines, thus putting more pressure on low- and middle-income laborers to acquire more skills.[8]

■ When manufacturing labor declined, so did the number and influence of labor unions. Their disappearance — compounded by the easy, efficient movement of ideas, products and people around the planet, or globalization — shrinks the power workers have to bargain for higher wages and benefits. Currently, only 10% of workers have labor representation. Four decades ago, that percentage was 50% . The resulting decline in representation means reduced buying power for workers. Because the national $7.25 per hour minimum wage has not risen to keep pace with inflation, the value of America's minimum wage has fallen 16% in the past half-century.[9]

■ As globalization grows, American workers compete for fewer jobs against workers in other nations. Leading among them is China, the biggest economic story of the past 50 years. In the period that America saw employment and economic declines, China enjoyed a reversal from an impoverished backwater with persistent political turmoil to a frontier manufacturing economy that has produced skilled, well-educated laborers using modern technology. This reversal resulted from internal allowances for free mobility of labor and the practical application of science to commerce and industry. China began making gains in the 1990s, but the floodgates truly opened in 2001, when it entered the World Trade Organization. Suddenly, the United States found itself competing for jobs once solely held by Americans.[10]

■ Giant breakthrough companies such as Amazon and Apple attract revenues from around the world at a rate unmatched by other enterprises. Their dynamism enables executives to reap immense salaries while paying workers relatively little. These companies set up in metropolises instead of rural areas, further widening the gap between cities and less-populous towns.[11]

■ With great wealth comes great power. Economic winners and private institutions tend to reward themselves further through the government policies they advance. The 2017 Republican tax cut, for example, produces disproportionate benefits to the affluent at the expense of low- and middle-income families.[12]

THE SEARCH FOR A CONSENSUS

Finding a consensus solution to the problem of economic inequality is tricky. The Pew Research Center recently surveyed U.S. adults on what measures contribute to economic inequality in this country, and those surveyed believe no single measure is responsible.[13] Pew's findings cited roughly equal shares among a series of structural issues, including the outsourcing of jobs to other countries (45%), the tax system (45%) and problems with education (44%). About 4 in 10 cited factors such as different life choices (42%) and more opportunities at birth than others (40%).

Six in 10 Republicans believe economic inequality lies in the choices people make, while only 27% of Democrats hold that view. Republicans also tend to think that some people work harder than others (48%) as opposed to Democrats (22%). Their Democratic counterparts believe discrimination against racial and ethnic minorities contributes a great deal to inequality, a view held by only 11 % of Republicans.

Within the party coalitions, some divisions crop up. While 60% of Republicans overall say that people's different choices in life significantly impact economic inequality, lower-income Republicans (46%) are less likely than Republicans with middle (63%) or higher (74%) incomes to say this. Lower-income Republicans also point to structural concerns. About half of lower-income Republicans (52%) say problems with the educational system significantly affect inequality, compared with 38% of upper-income Republicans and 33% of middle-income Republicans.

Overall, there is less division among Democrats; however, upper-income Democrats are less likely than those with middle and lower incomes to say discrimination against racial and ethnic minorities, automation and outsourcing are contributors to economic inequality.[14]

Another recent Pew survey on Americans' values finds that a majority (60%) say most people who want to get ahead can make it if they work hard.[15] About 39% say hard work and determina-

tion are no guarantee of success for most people. Among Republicans, 78% say you can get ahead on hard work alone, while 22% dispute that. A slim majority of Democrats (54%) dismiss hard work as a guarantee of success.

Americans also are divided over whether poor people have it easy or hard these days. Half of Americans say poor people have hard lives because government benefits fall short of helping them live decently. A similar share (47%) say poor people today have it easy because they can get government benefits without doing anything in return. Democrats and Republicans hold diametrically opposing opinions on this issue.[16]

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THE PRESIDENTAL CANDIDATES

Each of the frontrunning 2020 presidential candidates at press time has promised to pursue a different course if elected. Here are summaries of their approaches: [17,18]

Donald Trump — President Trump has said his tariffs on goods produced in Europe and China and the reductions to welfare programs have pared down trade debt and restored manufacturing and middle-income stability. President Trump continues to believe, as he did in 2016, that a regime of tax cuts, regulatory rollbacks and protectionist trade policies will minimize economic inequality.

Bernie Sanders — Among the Vermont senator's plans are an 8% annual wealth tax on fortunes exceeding $10 billion. Major corporations would have to transfer at least 2% of company stock to their workers annually until employees owned at least 20% of the corporate operation. Also, in 2010 the Dodd-Frank Act made publicly traded corporations disclose their annual ratio of CEO to median pay. Sanders would place consequences on these disclosures, insisting that corporations with CEOs making more than 50 times the typical worker's pay would face higher corporate income tax rates. The broader their corporate pay gap, the steeper the tax. Sanders introduced legislation for this pay-ratio tax plan in November of 2019, with Elizabeth Warren as a co-sponsor.

Elizabeth Warren — The Massachusetts senator has said the nation needs to make the investments that give every child in America a chance to succeed. The wealthy need to "pitch in" to help make that opportunity possible. Her wealth tax proposal — originally a 2% annual levy on household assets over $50 million, with a 3% rate over $1 billion — certainly would help restructure America's wealth. Warren upped the tax in November 2019, to 6% as part of her plan to fund Medicare for All. To finance expanded affordable housing programs, she proposes lowering the threshold that triggers the federal estate tax from $22.8 million to $7 million and raising the estate tax to as much as 75% on bequest values over $1 billion. (Bequest values are the premiums that people place on their satisfaction from preserving natural or historic environments, in other words natural heritage or cultural heritage for future generations. It is often used when estimating the value of an environmental service or good.)

Joe Biden — Wall Street bankers, CEOs and hedge fund managers consider Biden's tax plan "far less extreme" than those of his two chief rivals, Elizabeth Warren and Bernie Sanders.[19] The former U.S. vice president has not proposed a wealth tax or a marked increase in the highest income tax rate, but he does support undoing the 2017 Trump tax plan, which gives preferential treatment to the rich. And unlike the other top Democratic contenders, he has not yet given support to a financial transaction tax that targets the Wall Street elite.

Pete Buttigieg — In a *New York Times* interview, the South Bend, Indiana, mayor declared support for a wealth tax and welcomed the idea of raising the top income tax rate from its current 37% to 49.99% (under Obama, the top tax rate was 39.6%). Otherwise, his campaign website chiefly highlights standard Democratic anti-poverty prescriptions, from a $15 minimum hourly wage to increased federal funding for "schools with the highest economic and racial inequity." The website's section describing an inclusive economy highlights limited goals for knocking down "unfair barriers to entrepreneurship."

Amy Klobuchar — The Minnesota senator said that in her first 100 days as president she would move to equalize tax rates for capital gains and ordinary income, ensure that incomes over $1 million are subject to a minimum 30% tax and close the carried interest loophole that lets fund managers sidestep billions of dollars in taxes. Other priorities include expanding Medicare and Medicaid, improving the Patient Protection and Affordable Care Act (ACA) and creating a public option.

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NOTES

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