Social Equity & its Effect on US Economic & Political Dialogue

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In the United States, the issue of social equity typically is discussed from the perspective of income equality (or, more specifically, income inequality). In summary, US income inequality has been increasing over the last four decades, with both income and income growth increasingly concentrated in upper-income households. For example, an October 2011 Congressional Budget Office (CBO) analysis ("Trends in the Distribution of Household Income Between 1979 and 2007") found that between 1979 and 2007 after-tax income grew a stunning 275% for the top 1% of US households and 65% for the next 19%. However, it grew just under 40% for the next 60% of households, and only 18% for the bottom 20%. As a result, the share of income going to higher-income households rose, while the share going to lower-income households fell. The top fifth of the population saw a 10-point increase in their share of after-tax income. In contrast, other groups saw their share decline by two to three percentage points.

Recent data indicate that income inequality was further exacerbated during the "Great Recession" (2007-2009) as lower-income households suffered lost wages and decreased home values, while higher income earners were relatively less affected. According to a September 2012 Census Bureau report ("2011 American Community Survey Estimates"), the number of people in the US between 2010 and 2011 with income below the poverty level increased by 2.2 million, while the poverty rate increased by 0.6 percentage points.

Such trends have impacted US public perceptions of the economy as well as political discourse about the causes of income inequality and the appropriate role of the government in addressing this issue.

One notable social trend is increasing public discussion regarding the increasing wealth of the top 1% of the US population (i.e. the "super wealthy" – increasingly referred to as the "One Percent"). This trend has been the basis for US socio-economic movements – such as the "99 Percent" – which (at their most basic level) represent expressions of frustration with growing income inequality.

Another impact has been growing discussion about the future of a vibrant US middle class. This has been a key aspect of political debate in the campaign for the 2012 US elections and will be a key point of reference for economic, fiscal and tax policy debate in the coming years.

Both major US political parties claim the mantle of "champion of the middle class" but offer different perspectives on the reasons for growing income inequality and the appropriate role of the government in addressing this trend. For example, in his 2012 State of the Union address, President Barack Obama specifically referenced rising inequality. He called it "the defining issue of our time" and argued for an important government role in ensuring "fairness" in the US economy. He stated that Americans could "either settle for a country where a shrinking number of people do really well while a growing number of Americans barely get by, or we can restore an economy where everyone gets a fair shot, and everyone does their fair share, and everyone plays by the same set of rules."

In contrast, the Republican Party argues that economic prosperity for all Americans is best served by limiting the economic role of government. The 2012 Republican Party Platform states "Our nation faces unprecedented uncertainty with great fiscal and economic challenges" and recommends that the US "return government to its proper role, making it smaller and smarter...restructure government's most important domestic programs to avoid their fiscal collapse...and keep taxation, litigation, and regulation to a minimum."

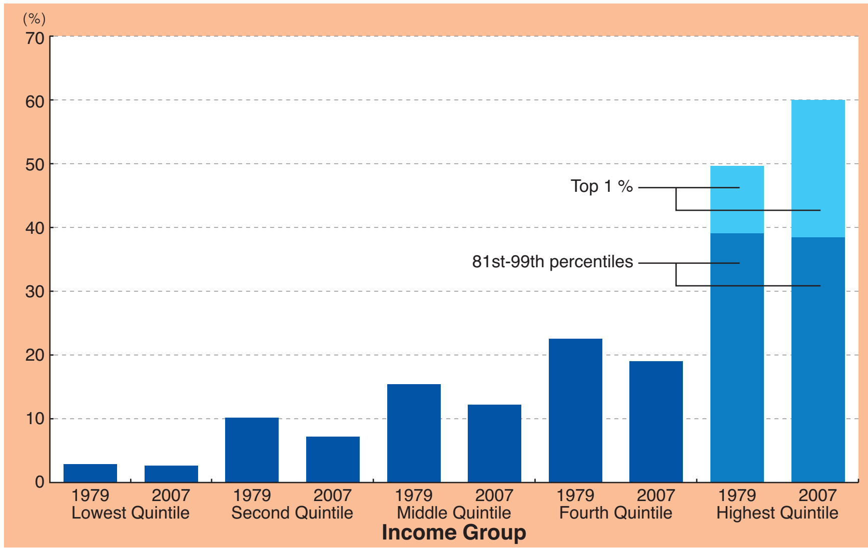
Historical Trends of Income Inequality in the US

In their paper "Income Inequality and Income Segregation" (Stanford University, January 2010), Sean F. Reardon and Kendra Bischoff cited that US income inequality in the 20th century was characterized by a "U-shaped" trend. They made the following points:

1. Income inequality was relatively high in the first half of the century, reaching a peak in the late 1920s: the top 10% of earners received 46% of all income, and the top 1% of earners received nearly 20% of all income.
2. In general, the Great Depression and World War II substantially reduced income inequality in the country. This situation remained stable throughout the 1950s and 1960s. By 1970, the top 1% earned below 8%, a 60% decline from its high in 1928.
3. However, income inequality began to rise again in the 1970s. By 2006, the share of income held by the top 10% was 45%, with the top 1% of earners at 18% – levels similar to the pre-World War II highs.

CHART

Shares of market income, 1979 & 2007



Source: Congressional Budget Office

According to the CBO, the Gini index for US household market income – which includes income before taxes and transfers, labor, business and capital income, capital gains, and income from other sources such as pensions – rose from 0.479 in 1979 to 0.590 by 2007, an increase of 23%. The CBO has highlighted that while income inequality between the top 20% of households and the rest of the US has indeed increased, the astoundingly high growth in the average market income of the "One Percent" greatly exacerbates these statistics. It found that:

1. Average real household market income for the "One Percent" nearly tripled, whereas income increased by about 19% for a household at the midpoint of US income distribution. As a result of this uneven income growth, the share of income received by the "One Percent" more than doubled between 1979 and 2007, from about 10% to more than 20%.
2. Between 1979 and 2007, the highest quintile's share of market income increased from 50% to 60%, while the share of market income for every other quintile declined.
3. If average wages had kept pace with the economy since the 1970s, the average US salary would be around $92,000 annually. In contrast, the US Census Bureau cites that US median household income ranged from $70,004 in Maryland to $36,919 in Mississippi in 2011 *(Chart)*.

Causes of Recent Trends in Income Inequality

Studies cite multiple causes for increasing income inequality in the US. Two key issues of analysis have been 1) the reasons for higher growth in upper-income wage levels compared to low- and middle-income wage levels, and 2) trends in US tax policy.

In their study "Income Inequality in the United States, 1913-1998" (*Quarterly Journal of Economics,* Vol. CXVIII, February 2003, Issue 1), Thomas Piketty and Emmanuel Saez argue that the notoriously sharp increase in US executive-level wages evident in recent decades is indicative of a general shift to an elite "working rich" class, contributing to the rise in US income inequality. Speaking in January 2012, the chairman of Obama's Council of Economic Advisers, Alan Krueger, noted that "much of the rise in household income variability in the US can be traced to a rise in the variability in hourly earnings...understanding why the dispersion in wage rates has changed is key to understanding the rise in inequality in America."

Kruger noted several reasons for these changes. One was that changes in technology over the last three decades have created a knowledge-based economy that favors those with advanced skills-based and/or higher education, leading to higher wage growth for those with a college education or higher. Another reason was that, with globalization, US workers are competing against an increasing number of workers worldwide. In general, higher-income US labor can compete better in a global knowledge-based economy than lower-income US labor can compete with lower-income labor forces of developing and emerging nations.

In summary, technology and globalization have served to increase competition for lower-skilled, lower-income workers while, in general, providing well-educated, higher-skilled, higher-income US workers with increased opportunity.

In addition to dynamics in market income shifts, trends in US government tax policy also have contributed to the increase in after-tax income inequality. In general, government transfers and taxes reduce income inequality. According to the CBO, the dispersion of after-tax income in 2007 was about four-fifths as large as the dispersion of market income. A September 2011 analysis by the Tax Policy Center ("Baseline Tables: Effective Tax Rates by Filing Status, Demographics and Cash Income Percentile; Baseline: Current Law, 2012") concluded that each quartile of US households pays a successively higher rate.

However, at the same time, the redistributive effect of US government transfers and taxes has been decreasing. According to the CBO, in 1979 transfers and federal taxes reduced the US Gini index from 0.479 to 0.367, a decrease of 11 percentage points (or 23%). In 2007, transfers and federal taxes reduced the Gini index from 0.590 to 0.489, a decline of 10 percentage points (or 17%).

In general, the US has reduced income tax rates over the past half century. Tax rates on investment income in the form of capital gains taxes and dividends also have declined. The Council of Foreign Relations stated in a September 2012 article entitled "The Income Inequality Debate" that "When John F. Kennedy entered the White House in 1961, the top ordinary income tax bracket-applied to wages and savings interest was more than 90 percent. Ronald Reagan slashed the top rate from 70 percent in 1981 to 28 percent after 1986. Tax increases under the first President Bush and President Clinton brought the top rate to 39.6 percent, but tax cuts signed by President George W. Bush and reauthorized by President Obama set it to 35 percent."

Public Perceptions & Income Inequality in the US

As the US economy has continued to lag behind its pre-Recession levels with unemployment above 8% for most of the post-2008 period, economic policy has pushed to the forefront of US political dialogue. One aspect of this trend has been an increasing consciousness of "class politics" in this discourse.

A 2012 survey by the Pew Research Center ("Rising Share of Americans See Conflict Between Rich and Poor") found that about two-thirds of the US public believe there are "very strong" or "strong" conflicts between the rich and the poor, an increase of 19 percentage points since 2009. That number represents the largest share expressing this opinion since the question was first asked in 1987, and the perception of the intensity of this issue has also grown, with three in 10 Americans calling these tensions "very strong".

Furthermore, these statistics place public evaluations of tension between "rich and poor" as stronger than divisions between "immigrants and native born" or "blacks and whites" or "young and old". The survey found that this perception is generally stronger among younger adults, women, Democrats and African Americans than among older people, men, Republicans, and whites or Hispanics.

Perceptions of income inequality have contributed to and impacted diverse social and political phenomena within the US, including the Occupy Movement and the Tea Party Movement.

The Occupy Movement: In September 2011, the Occupy Wall Street protests began in New York. In general, the Occupy Movement stands in protest at social and economic inequality. The movement is extremely diverse and decentralized. While local groups have different foci, a general claim of the movement is that large corporations and the global financial system control the world in a way that disproportionately benefits a wealthy minority and undermines democracy. Members of the Occupy Movement advocate government or other action to move wealth and/or power away from the "super wealthy".

The Tea Party Movement: While the Occupy Movement is generally affiliated with the left-wing of the US political spectrum, the US also has experienced in recent years a significant right-wing movement known as the Tea Party, which supports a limited role for government based on strict adherence to the US Constitution and a reduction in both US government spending and taxes. In contrast to the Occupy Movement, the Tea Party is generally considered to be "conservative" or "libertarian". However, similar to the Occupy Movement, Tea Party activities also have a populist leaning. Yet, while the Occupy Movement generally appeals for an active role for government in addressing income inequality, the Tea Party advocates an extremely limited role for government in the economy, arguing that "government" has been one of the problems suppressing economic prosperity for all Americans.

Considerably more attention could be given to assessing the causes and implications of both these movements in the US. However, these two disparate movements highlight the range of socio-political reaction to greater income inequality (as well as other issues) in the US that Americans have exhibited in recent years, based on fundamental differences in their perceived causes of economic difficulties and the role of the government. The Occupy Movement faults "big business" and the "global economy" for further enriching the wealthy at the expense of lower income people, and characterizes the government as a "hostage" to corporate interests. In contrast, the Tea Party faults government interference in the economy for stifling growth and limiting prosperity for all.

US Political Parties & Income Inequality

Increasing economic inequalities within the US and resulting socio-political movements (such as the Occupy and Tea Party movements) have greatly affected the landscape of US politics. The two major political parties, Republican and Democrat, both have centered their 2012 campaigns largely on the economy, albeit with divergent perspectives and prescriptions.

Democrats Stress "Economic Fairness"

As Obama accepted the Democratic nomination for president on Sept. 6, 2012, he noted, "Over the next few years, big decisions will be made in Washington, on jobs, the economy, taxes and deficits...decisions that will have a huge impact on our lives and our children's lives for decades to come." Obama reiterated the 2012 Democratic Party Platform, saying the decision before Americans is not "between two candidates or two parties," but rather is "a choice between two different paths for America..."

The Democratic Platform specifically distinguishes the beliefs of Democrats from those of Republicans, saying "the Republican Party believes we should go back to the top-down economic policies of the last decade. They think that if we simply eliminate protections for families and consumers, let Wall Street write its own rules again, and cut taxes for the wealthiest, the market will solve all our problems on its own."

Instead, the Democratic Platform argues, "We see an America with greater economic security and opportunity, driven by education, energy, innovation and infrastructure, and a tax code that helps to create American jobs and bring down the debt in a balanced way. We believe in deficit reduction not by placing the burden on the middle class and the poor, but by cutting out programs we can't afford and asking the wealthiest to again contribute their fair share."

In summary, the Democratic Party is clearly critical of the increasingly diminished redistributive effect of US tax policy over the past several decades, arguing that government has a clear and positive role to play in promoting income equality and economic "fairness" through government action and policy.

Republicans Stress "Economic Opportunity"

Likewise, Republicans also clearly acknowledge that the US faces economic challenges. However, the Republican Party focuses on the need for government to promote economic prosperity for all Americans, pursuing "economic freedom" and "economic opportunity" for all.

The 2012 Republican Party Platform declares "The American Dream is a dream of equal opportunity for all. And the Republican Party is the party of opportunity." It proclaims that "Our middle class has felt that burden most acutely. Meanwhile, the federal government has expanded its size and scope, its borrowing and spending, its debt and deficit. Federalism is threatened and liberty retreats."

As a solution, the party argues, "Excessive taxation and regulation impede economic development. Lowering taxes promotes substantial economic growth and reducing regulation encourages business formation and job creation."

It also notes that "Republicans will pursue free market policies that are the surest way to boost employment and create job growth and economic prosperity for all" and that "The tax system must be simplified. Government spending and regulation must be reined in."

Finally, the doctrine says, "We are the party of maximum economic freedom and the prosperity freedom makes possible. Prosperity is the product of self-discipline, work, savings, and investment by individual Americans, but it is not an end in itself. Prosperity provides the means by which individuals and families can maintain their independence from government..."

Mitt Romney summarized the Republican Party mantra in his acceptance speech for the 2012 Republican nomination, saying he envisions "a system that is dedicated to creating tomorrow's prosperity rather than trying to redistribute today's."

Conclusions: Economic Issues at the Forefront of US Political Discourse

Economic issues now are at the forefront of political discourse in the US. Loosely defined, "the US economy" has almost completely overshadowed issues that were of pivotal importance in the 2008 presidential election in which Barack Obama defeated John McCain, such as US military involvement in the Middle East and the US healthcare debate. A persistently high US employment rate has made job growth and job creation the seminal issues for the US public and the political parties in 2012.

The candidates in the 2012 presidential election largely are competing along economic policy lines. While the economy is indeed always a central issue in US politics, the role of economic policy in the 2012 election is more pronounced than it has been in recent history. Each candidate has cited job creation and "repairing" the economy as the two most important issues facing the US. Each has noted their differences on tax policy and their approaches towards businesses as examples of how they plan to "resolve" the ongoing problems within the economy.

In closing, we would note that US political debate over economic policy is increasingly presented to the US public in the language of ideology, not economic analysis. As noted, Democrats often cite "fairness" as a basis for US economic policy, while Republicans cite pursuit of "economic opportunity" and "freedom" as goals for government economic policy. This division of ideologies has intensified in recent years – driven, in part, by the growth of income inequality in the US.

However, at the same time, it is important to note that income inequality is not the only factor currently impacting US political trends. In recent years, the US has experienced a financial crisis, a housing crisis, a severe recession with high unemployment, a major stimulus package associated with an increase in federal debt, and a divisive healthcare debate spurring debate about the role of government, as well as other complex issues. All of these issues, along with public concerns about income inequality, are playing a role in the current increase in ideological debate within US political discourse. From one perspective, economic downturns inevitably (or perhaps "naturally") result in more pronounced social tensions and divisive political discourse. A key unanswered question for the future is whether economic improvements will serve to moderate these social and political trends. JS

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