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The Dangerous Consequences of Growing Inequality

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PRESSURES FACING OUR HOUSEHOLDS

Let's start by looking at the impact of the changing economy close to home. There are new pressures and some alarming trends facing a growing number of households in this country. . . .

The decline of leisure time and the breakdown of civil society. One powerful consequence of growing inequality is an erosion in the amount of free time that families have. As individuals and families struggle to stay afloat and remain secure in the changing economy, they are spending more hours at work.

Falling wages in the 1970s and early 1980s were masked by the entry of a second wage earner in many households—usually a woman—into the workforce. Families now have to work longer hours to make up for falling wages. At the same time, temporary and part-time workers generally do not have paid vacations, and their numbers in the workforce are growing. The number of overall hours worked, per household, has increased since 1972. The number of hours worked per person each year has increased 4 percent, from 1,905 in 1980 to 1,966 in 2001. . . .

Technological advances in the workplace, instead of increasing the amount of free time, are having the opposite effect. Productivity has been steadily increasing, but these gains have not translated into higher wages or increased free time. Blue-collar and service workers have experienced a veritable "speed-up" in the workplace as employers squeeze productivity gains into increased profits. Not only are people working longer hours, but in many cases the tempo and scope of their jobs have become more harried and stressful.

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This loss of leisure time has a direct impact on the quality of people's lives. As people have less free time, they have less time available to care for children and elders, less time to be involved in schools and education, and less time to volunteer to help others. This dramatically increases stress, particularly on women, whose unpaid labor is largely performed in this non-monetary "caring economy." Stress leads to increased illness and the unraveling of communities, the breakdown in voluntary mutual-aid systems, and the fragmentation and isolation of people. It leads to "latchkey" children and a lack of support for the next generation, with serious consequences. . . .

Fewer households with health insurance. . . . Between 2000 and 2004, the cost of health care coverage grew by 35.9 percent, while average earnings only grew 12.4 percent. Over the same period, the number of households paying more than one-quarter of their earnings on health care rose by 23 percent, from 11.6 million to 14.3 million. Over 45 million

people in the nation lack health insurance, up from 31 million a decade ago. This makes the United States the only industrialized nation that views health care as a privilege, not a basic human right.

Having a job does not guarantee health insurance. The percentage of Americans under the age of 65 covered through employer-sponsored health insurance declined from 70.4 percent in 1999 to 63 percent in 2003. Among low-income Americans, the share of those with employer-sponsored health insurance fell from 40.3 in 1999 to 35.0 percent in 2002. Twenty-four million of those without insurance are employed, 17 percent of whom are in the temporary or contingent workforce. In 2003, 83 percent of part-time employees had no access to health care benefits through their employers.

. . . Thirty-four percent of the nation's 37.4 million Hispanic people have no health insurance, compared to 22 percent of blacks and 12 percent of non-Hispanic whites.

Rising personal debt. Another way families continue to make up for falling wages in order to maintain (or in some cases attain) a certain standard of living is by going deeper into debt. Approximately 60 percent of all American households carry credit card balances, unable to pay their full month bill. In 2004, the credit card industry claimed that the average household consumer debt was approximately $9,000. Yet, when the roughly 40 percent of households that pay their balances each month were taken out of the equation, average household consumer debt was closer to $13,000 and late payments are at a five-year high. Total credit card debt increased from $243 billion in 1990 to $735 billion in 2004. Some of this is rooted in consumerism, but a central reason for growing debt lies in declining or stagnant wages. People are now using credit cards for things like food and medicine—items previously paid for with cash. One downside of growing personal indebtedness is the increasing number of personal bankruptcies, which are now at an all-time high. In 2003, 1.6 million individuals filed for personal bankruptcy, up from 1.4 million in 2002 and almost triple the 661,000 who filed in 1990.

Declining personal savings. The flip side of greater debt is less savings. The savings rate is the percentage of annual income that is actually saved each year. Since 1980, the savings rate has generally fallen. The United States has the lowest savings rate of any industrialized country. In 2003, the U.S. savings rate was 1.4 percent, down from 4.5 percent in 1997 and 10.8 percent in 1984. In contrast, the savings rate in 2003 in Japan was 7 percent and in Germany it was 10.8 percent.

. . . [T]he main reason for the lower savings rate is linked to the rising cost of health care and the increase in other involuntary costs such as day care and bank-service fees.

Diminishing retirement security. Those employees lucky enough to have pensions have ones that are less secure. The percentage of workers in the private labor force in monthly pension plans (where companies bear the risk of falling markets) has declined from 38 percent in 1980 to 25 percent in 1998. These are called "defined-benefit plans," which are better for workers because they are federally insured and provide a guaranteed monthly pension amount. More workers now have "defined-contribution plans," like 401(k) plans, in which the benefit amount depends on how well the underlying investments perform. This growth in private 401(k) pension plans has failed to broaden overall pension coverage. In fact, there is more inequality in 401(k) plans than in defined-benefit plans, as they tend to be held by higher-income workers. The decline in both savings and guaranteed pensions are two concrete indicators of growing insecurity.

Retirement planners suggest that Social Security should be only one leg of the three-legged stool of retirement security. Personal savings and an employer-funded pension fund are the other two legs. But as personal savings plummet and fewer and fewer workers have pension funds, the prospects for a large percentage of people retiring into poverty grows. Worse yet, people will never be able to stop working, even as they go into their seventies.

Growing number of temporary jobs. The greatest percentage of new jobs in the workforce are filled by temporary and part-time workers. Currently about 30 percent of the

workforce is what is called "contingent," including temporary, part-time, contract, and day laborers. Some of these workers are voluntarily part-time. But a growing number are involuntarily part-time, often holding two to three jobs to pay their bills. According to the Bureau of Labor Statistics, two-thirds of contingent workers would like traditional permanent jobs. . . . The "temping of America" is part of a larger economic restructuring that is changing the nature of work and contributing to economic inequality.

The growing number of temporary and part-time jobs is a depressing trend for many younger people entering the workforce after high school or college. Only 11 percent of female and 15 percent of male full-time temporary workers have health insurance provided through their employer. In fact, fewer than 30 percent of all contingent workers have health insurance, and only 11 percent have pensions.

Higher education, higher reach. The cost of going to college has risen, while government support to ensure access to higher education has failed to keep pace. Going to college is more of a privilege than it was twenty years ago. Federal college loans have now replaced college grants, rising from 41.4 percent of student financing in 1982 to 58.9 percent in 2001. Student debt between 1991 and 1997 totaled $140 billion—more than the total combined student borrowing for the 1960s, 1970s, and 1980s. Student debt has dramatically increased from an average of $8,200 per student in 1991 to $18,900 in 2003. Many students will still be paying off college loans in their mid-thirties.

The rising cost of college affects who gets to go to college. The country's poorest families are increasingly underrepresented in higher education, particularly at four-year schools. Only 20 percent of all community college students nationally come from families with annual income under $25,000, only 11 percent at public four-year colleges, and just 8 percent at private four-year colleges. In 1995, 83.4 percent of high school students in the top fifth of income-earning households went to college, compared to 56.1 percent of students in the middle three quintiles and 41.3 percent in the bottom quintile. As of 2001, 29 percent of whites had completed four years of college compared to 17 percent of blacks and 11 percent of Hispanics. Higher education is becoming much more class-segregated than it was a decade ago.

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WHAT IS WEALTH AND WHY IS IT IMPORTANT

Income and wages are one index of how prosperity is distributed; the ownership of wealth is another. If income is the stream of money that comes into our lives each year, wealth is our reservoir. From our income stream, we take our bucket and pull out our housing costs, food expenses, and health care costs. At the end of the year, any left over goes into our reservoir, becoming accumulated wealth.

Wealth comprises assets (all the stuff you own) minus liabilities (what you owe). This remainder is called "net worth." If you own a car worth $4,000, but you owe $5,000 in car loans, you are in the red. . . .

Wealth for working-class people is usually in the form of savings, consumer goods like cars, and, if they are fortunate, equity in a home. As people move up the economic ladder, wealth takes the form of greater savings and home value—but also includes second homes, recreational equipment (like boats), shares in corporations (called securities or stocks), bonds, and commercial real estate. It may also include luxury items like high-priced artwork, racehorses, jewelry, and antiques.

Wealth is important because it is what people have to fall back on and pass on to their children. Yet today, about one out of six households in the United States has zero or negative wealth. This means they literally have no financial reserves to fall back on in times

of trouble, or, in fact, they owe more than they own. The percentage of households with zero or negative net worth has increased in the last thirty years, from 15.5 percent in 1983 to 17.6 percent in 2001. When factoring in race, the figures increase significantly. The percentage of African American households with zero or negative net worth is disturbingly high, at 30.9 percent or roughly one in three black households.

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It is in the area of wealth and asset accumulation that the legacy of racial discrimination has left its most profound mark. While black and Latino *incomes* have begun to catch up to white earnings, black and Latino *wealth* continues to lag dramatically behind that of white households. Since wealth accumulates over generations, discrimination has taken its toll on wealth accumulation for people of color. Blacks were prohibited from building wealth by slavery and prohibitions against owning property after the Civil War. Bank lending practices have also discriminated against black and Latino households and kept them from home ownership, business development, and other asset-building measures.

In 2001, the median black household had a net worth of just $19,000 (including home equity), compared with $121,000 for whites. Blacks had 16 percent of the median wealth of whites, up from 5 percent in 1989. At this rate, it will take until 2099 to reach parity in median wealth. Blacks were 13 percent of the U.S. population in 2001 but owned 3 percent of the assets. There is obviously a high correlation between income and wealth. Most assetless households are in the bottom fifth of the income ladder. There are people deep in debt all up and down the income spectrum, but in most cases, we can assume that assetlessness correlates with lower income.

THE CONCENTRATION OF WEALTH

In the last twenty years, the overall wealth pie has grown, but virtually all the new growth in wealth has gone to the richest 1 percent of the population.

In 1976, the wealthiest 1 percent of the population owned 20 percent of all the private wealth. The top 10 percent of the population owned about 50 percent of all private wealth. By 2001, the richest 1 percent's share had increased to over 33 percent of all household financial wealth, increasing the top 20 percent's share to 84.4 percent. The top 1 percent of households now has more wealth than the entire bottom 95 percent. As of 2001, to join the top 1 percent club you need at least $5.8 million in net worth.

Financial wealth (net worth minus net equity in owner-occupied housing) is even more concentrated. The top 1 percent of households has nearly half of all stock (44.9 percent) and 39.7 percent of all financial wealth. This is compared to the bottom 90 percent of households, which owns 20.2 percent of all financial wealth.

Between 1962 and 2001, the relative share of wealth owned by the bottom 90 percent of the population declined from 33.1 percent to 28.5 percent. What does this loss of wealth actually mean? It means less savings, growing personal debt, less retirement security, and fewer households having access to home ownership. It means fewer financial reserves to fall back on in the event of a setback or job loss.

THE WEALTH-HOLDERS

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There are three ways in which the very wealthy accumulate money: through slow accumulation over their lifetimes by starting a business and saving; through cornering a critical element of the market and controlling it; or through inheritance.

TEN MUSICAL CHAIRS

U.S. Private Wealth in Perspective

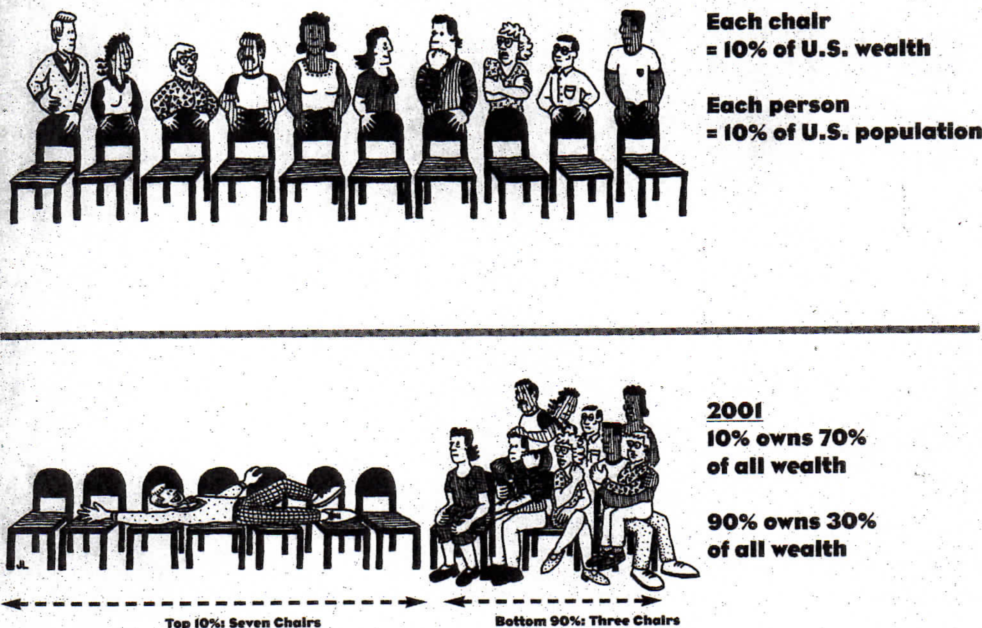


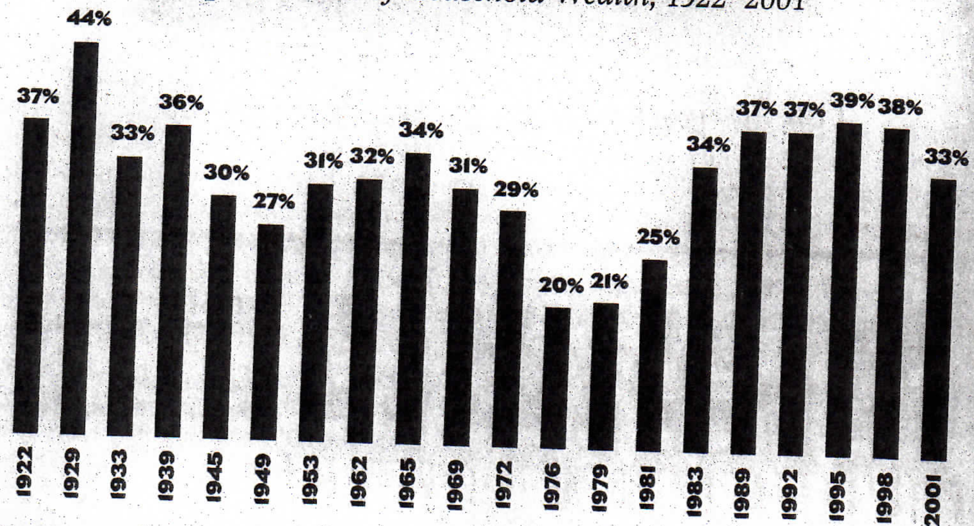
Figure 26.1 Ten Musical Chairs. Source: Arthur B. Kennickel, "A Rolling Tide: Changes in the Distribution of Wealth in the U.S. 1989–2001," Jerome Levy Economics Institute, November 2003.

Most press coverage goes to describing the self-made millionaires, the Horatio Algers of the modern day. In Thomas Stanley and William Danko's best-selling book, *The Millionaire Next Door*, the profile of America's 3.5 million millionaires is not the stereotype of the high-roller with five fancy sports cars and several mansions in desirable zip codes. According to Stanley and Danko, the typical millionaire is white, over fifty-five years old, has a net worth of between $1 and 10 million, and lives in the same house he bought thirty years ago. The most common sources of wealth: small-business ownership and steadily rising home value. . . .

CONTEXT

WEALTH CONCENTRATION: BACK TO THE FUTURE?

Top 1% Share of Household Wealth, 1922–2001



Sources: 1922–81: Edward N. Wolff, *Top Heavy* (The New Press: 1996). 1983–2001: Edward N. Wolff, "Changes in Household Wealth in the 1980s and 1990s in the U.S.," Jerome Levy Economics Institute, May 2004.

What if workers had been paid for productivity gains?

Between 1973 and 1998, productivity increased 33 percent. What if hourly wages grew at the same rate? What if workers shared in the 1990s productivity gains they helped to create? The average hourly wage in 1998 would have been $18.10, rather than $12.77.[29] That's the difference of $5.33 an hour—more than $11,000 for a full-time, year-round worker. The 30 cents workers gained in their hourly wages between 1997 and 1998 pales by comparison. The cumulative wages lost since 1973 will never be recovered—much less their lost investment potential. This is money working families could have saved, invested, or spent on consumer items rather than going into debt. This is money that could have stimulated markets in low- and moderate-income communities rather than benefiting absentee shareholders who take their investments anywhere on the planet in search of the highest return.

Figure 26.2 Wealth Concentration: Back to the Future?

But there are many other factors, including timing, luck, and white privilege that are less acknowledged in America's mythology of success. Starting a business in the rapidly expanding economy of the 1950s and 1960s was a very different story than starting a business in today's more competitive global economy. Prior to the 1970s, many domestic small

CONTEXT

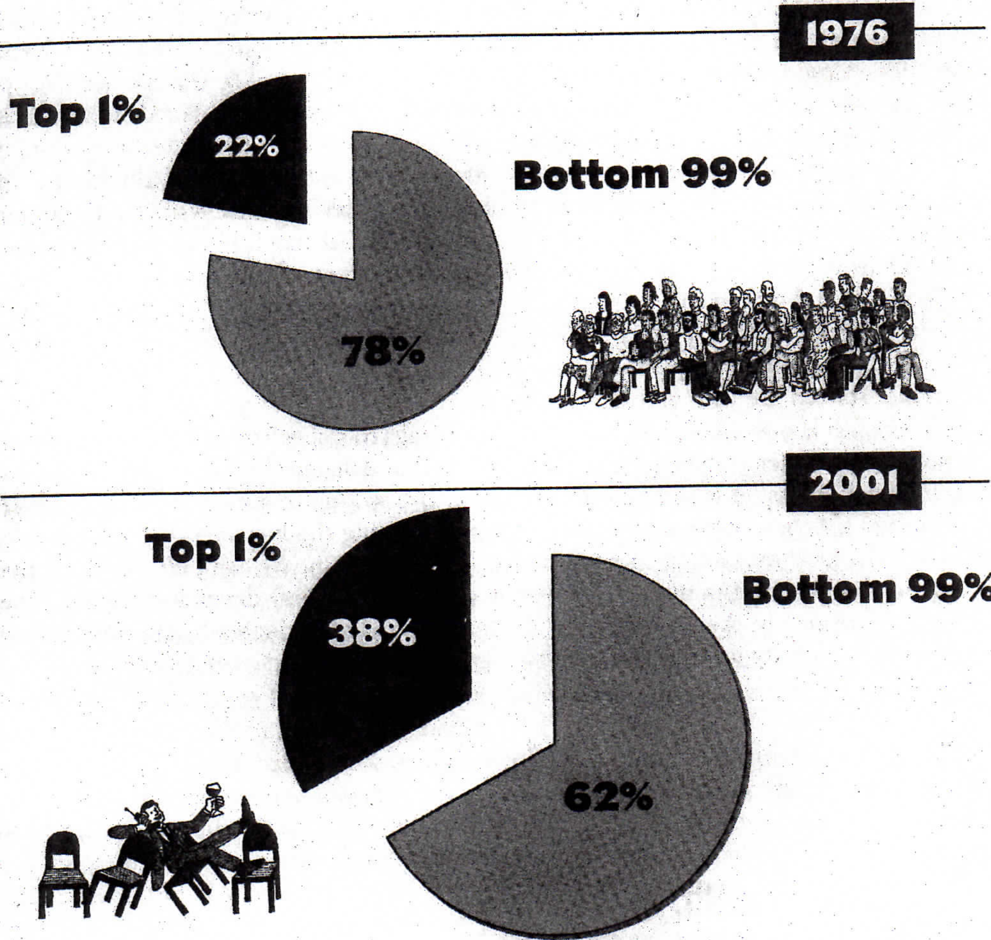


Figure 26.3 Ownership of Household Wealth in the United States. Sources: For 1976: Edward N. Wolff, unpublished data. For 2001: Arthur B. Kennickel, "A Rolling Tide: Changes in the Distribution of Wealth in the U.S. 1989–2001," Jerome Levy Economics Institute, November 2003.

businesses were protected from the full brunt of competition from international producers and national conglomerates. Imagine trying to start a locally owned hardware store or pharmacy today in the same marketplace with Home Depot, Costco, and CVS. Access to credit for the purchase of assets, whether a home in an appreciating neighborhood or a start-up small business, remains a function of education, skill, personal connections, and—despite government antidiscrimination policies—race.

Many of the largest fortunes—those in excess of $10 million—are tied to cornering a part of the market that everyone needs. Indeed, many of the great robber barons of the late 1800s (the Rockefellers, the Carnegies, etc.) dominated some market (usually in natural resources like timber, oil, coal, and steel), or developed a monopoly on a much-needed public service like railroads.

Today, fortunes are made in information-age technology. Bill Gates and Paul Allen, the founders of Microsoft, are good examples. A growing number of the new fortunes on the Forbes 400 annual listing of the richest Americans are built on computers and information technology. Like the railroad barons of the late 1800s, Gates and Allen developed advances in products—computer operating systems and software—that have become central to our lives. Between 1996 and 1999, Bill Gates's personal wealth went from $18 billion to over $85 billion dollars. Thanks to changes in the market and his aggressive charitable giving ($28 billion donated to the Gates Foundation and other charities), Gates's net worth in 2004 was $48 billion, but his personal wealth still exceeds the combined wealth of the bottom 45 percent of the U.S. population.

In spite of the success stories of small entrepreneurs and "dot-com millionaires," the most sure-fire way to get rich remains to be born into a wealthy family. A substantial amount of wealth is passed on from one generation to the next through inheritance. Economist Lester Thurow estimates that between 50 and 70 percent of all wealth is inherited. A 1997 study found that of the 400 individuals and families on the 1997 Forbes 400 list, 42 percent inherited their way onto the list, another 6 percent inherited wealth in excess of $50 million, and another 7 percent started life with at least $1 million. Overall, more than 50 percent started life with at least $1 million. . . .

While it still is possible for a few to make the "rags to riches" transition, it is important to question the underlying belief and value system that dangles this fantasy before our eyes. This national obsession is so compelling that we are willing to accept large-scale poverty in exchange for the prospect of a few lucky folks hitting the big time. We can't possibly *all* invent the next mousetrap or computer operating system. We can't *all* win the lottery. A few folks cornering the market (or hitting the daily number) depends on many others failing. Unfortunately, the classist belief systems we are indoctrinated by are powerful. We are trained to identify up the class spectrum and fantasize about getting there.

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Race, Wealth, and Equality

Melvin L. Oliver and Thomas M. Shapiro

Over a hundred years after the end of slavery, more than thirty years after the passage of major civil rights legislation, and following a concerted but prematurely curtailed War on Poverty, we harvest today a mixed legacy of racial progress. We celebrate the advancement of many blacks to middle-class status. . . . An official end to "de jure" housing segregation has even opened the door to neighborhoods and suburban residences previously off-limits to black residents. Nonetheless, many blacks have fallen by the wayside in their march toward economic equality. A growing number have not been able to take advantage of the