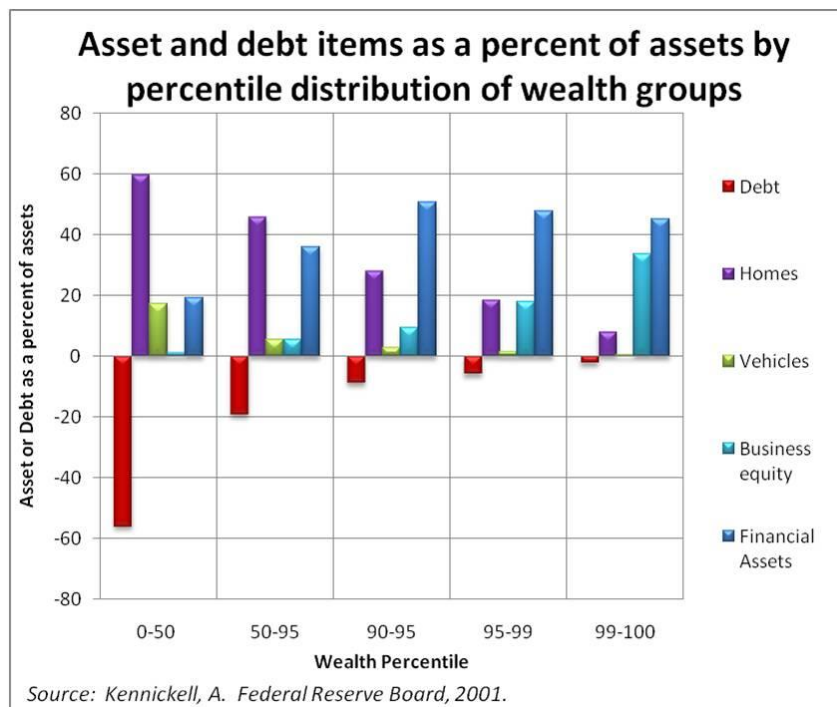


THE WORRYING RETURN OF INEQUALITY

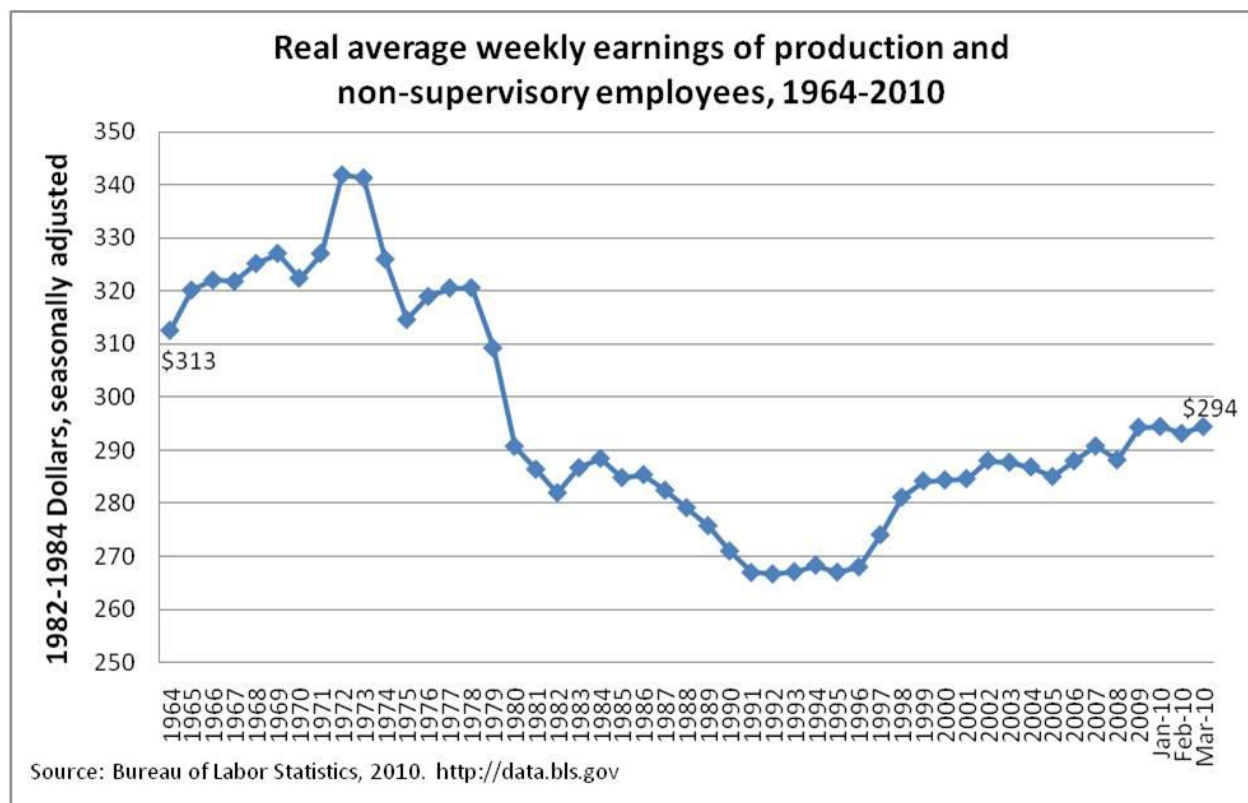
By Lauren Damme and Sherle Schwenninger

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Over the past three decades, inequality in the United States increased dramatically, reaching Robber Baron-era proportions in 2007 at the height of the housing and credit bubble. Paradoxically, the bursting of the bubble brought the rise of inequality to a temporary halt as the asset values of the wealthiest fell with the decline in the equity market. But as the economic recovery takes hold, the trends that drove inequality before the Great Recession have begun to reassert themselves, ominously suggesting that inequality may again be on the rise.

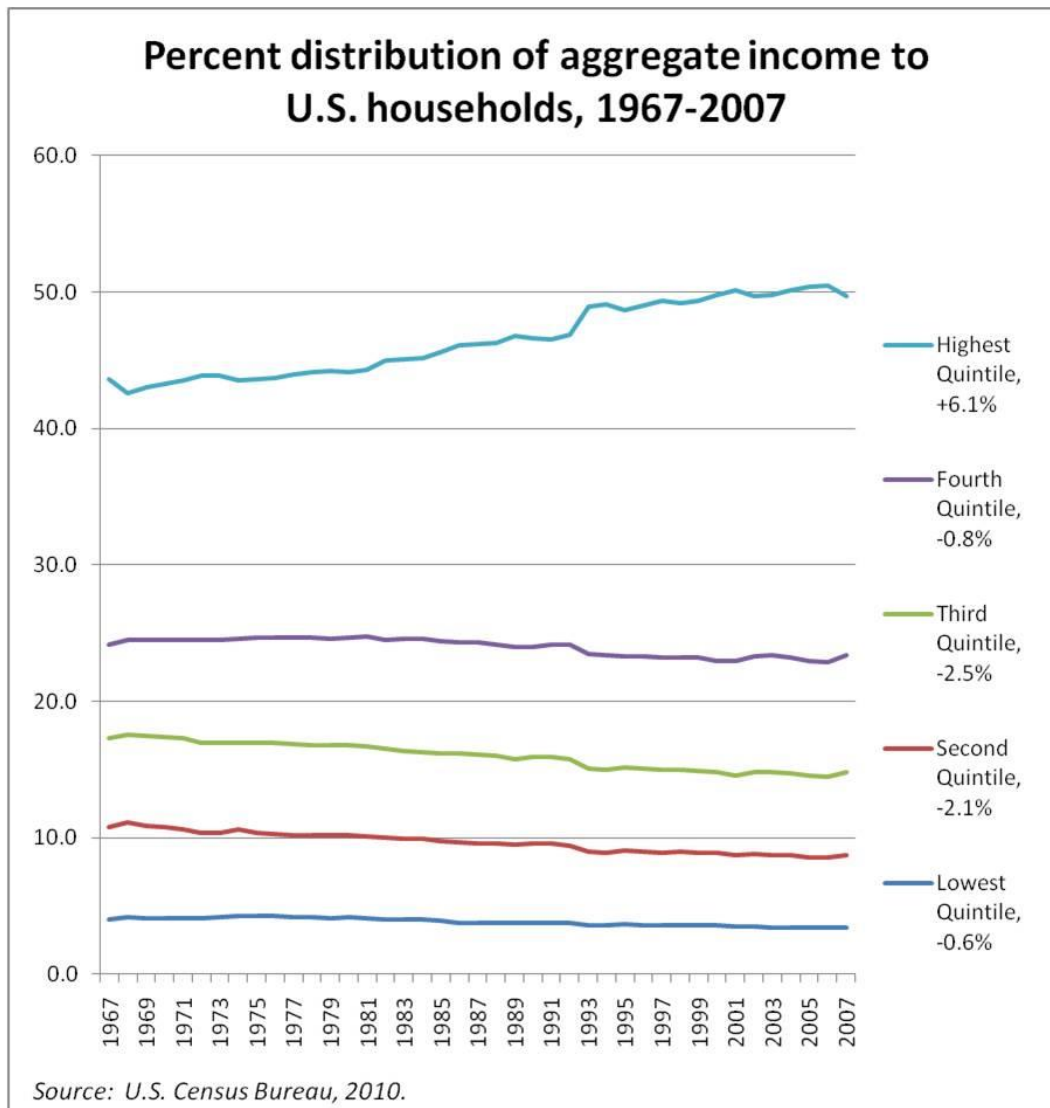


The trends are threefold. First, monetary reflation has led to a big rebound in financial assets. The S&P is up close to 50 percent from a year ago, and 75 percent from its November 2008 lows. By some measures, the bond market has done even better. Just as the stock market collapse in 2008 hurt the wealthiest the most, the recovery has most benefited the same group, which has the majority of its assets in financial instruments and business equity, as shown below. In 2007, the richest five percent of Americans owned about 60 percent of all financial assets while those in the bottom 50 percentile owned only 2.7 percent.¹



Meanwhile, the crash of the over-inflated housing market has disproportionately affected middle-income homeowners, who have much of their wealth invested in non-financial assets, such as homes and vehicles. But unlike the stock market, home values have not rebounded: as of the end of January 2010, the S&P Case-Shiller home price index was still down 0.7 percent from January 2009, leaving the lower and middle classes mired in debt and underwater mortgages.² Worse, there seems to be little relief on the horizon for homeowners, as the number of foreclosures and the shadow inventory of unsold homes continues to rise.

Second, thanks to cost-cutting measures and rising productivity, corporate profits are on the rise while wages continue to stagnate or even fall in real terms. Total U.S. corporate profits rose 30.6 percent year on year in the fourth quarter. By contrast, average hourly earnings declined 0.1 percent month on month in March, and for the year are up only 2.1 percent, running behind inflation. Wage stagnation has long undermined the financial wellbeing of the American middle class, but workers are now facing an even more brutal job market with one out of six Americans unemployed or underemployed and with little prospect of strong job creation on the horizon. (America's jobs deficit and the problems associated with today's jobless recovery are explored in more detail in this Economic Growth presentation.³)



Third, energy costs are again on the rise, with oil well above \$80 a barrel and gasoline topping \$3 per gallon. Rising energy prices disproportionately affect the standard of living of low- and moderate-income families. Lower income families devote from 9 to 14 percent of their income just to gasoline, considerably more than the four percent the average family spends. At best, high energy prices are a huge regressive tax on low- and moderate-income Americans, who are dependent upon (often less efficient) vehicles to get to and from work. At worst, they constitute a major transfer of wealth from these low and moderate income Americans to oil and gas producers both at home and from foreign petro-dollar states.

The fact that the trends underlying inequality are again on the rise suggests the magnitude of the policy challenge ahead. It will not be enough merely to fiddle with tax rates and to provide tax relief for working families. If they are serious about stemming rising inequality, the administration and Congress will need to do more than they have to date to create jobs, expand public investment, and promote new energy development.

¹ Federal Reserve Board. Arthur B. Kennickell. "Ponds and Streams: Wealth and Income in the U.S., 1989 to 2007." Finance and Economics Discussion Series. Divisions of Research & Statistics and Monetary Affairs. Washington, D.C., 2009. Available at:
<http://www.federalreserve.gov/pubs/feds/2009/200913/200913pap.pdf>

² <http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us----#>

³ "The Jobs Deficit: The Challenge of Putting America Back to Work." Schwenninger, S.; Kolansky, B. & S. Sherraden. New America Foundation Economic Growth Program. Available at: <https://www.newamerica.org/economic-growth/the-jobs-deficit/>