The Many Dimensions of Wealth Inequality

Wealth and income are two of the primary ways of assessing a person's access to economic advantages. Income refers to the sum of earnings that a person, family, or group can accrue through employment, interest, and investments, or other sources of revenue—such as social security payments, etc. Wealth, also called "net worth," is a measure of the value of a person's assets. Both wealth and income inequality are part of "economic inequality," which looks at fairness and equity across the economic spectrum.

To measure equality at the income level, researchers look at the distribution of income across a population and look at the factors influencing income rates for different categories of people. Wealth inequality is measured by estimating the net worth of individuals, which means an individual's assets minus their current level of debt, and then comparing this spectrum of wealth to other social or societal factors. Studies of the American economy indicate that both income and wealth inequality have increased over time and are still increasing in the United States. While income rates fluctuate depending on complex market factors, the distribution of wealth changes far less from generation to generation because of inherited wealth. A person or family's level of wealth then makes the individual or family more resilient to economic turmoil and is self-perpetuating, with those who have wealth finding it far easier to increase wealth even as others struggle to advance economically. Studies have shown, for instance, that the wealthiest 20 percent of Americans are the only ones that have increased wealth since the 2008-2009 Great Recession.[1]

A person's net worth isn't simply a measure of the person's assets, but must also account for a person's debt. A person's assets might include savings, investments, property and other valuables, while a person's outstanding debt might include a mortgage, student loans, credit card bills, or other sources of debt. Debt can also be accumulated over the course of a person's lifetime, or it can be the result of a single, economically damaging situation or event, like a divorce or a serious illness, which can then play a dramatic role in a person's economic prosperity moving forward from that event.

Wealth Inequality over Time

There have always been a population of wealthy Americans because some of the first colonists to arrive in the United States brought inherited wealth with them from England and elsewhere in Europe. These individuals then became leaders in industries that increased their wealth. Inherited wealth thus played a major role in determining who, among the early arrivals to the United States, would reap

their fortunes in the New World. The independence movement separated the United States from the British aristocracy and so eliminated some of the advantages that came with birth status or connections to the crown and the English oligarchy, but by the time this happened, America already had its own oligarchy. Most of the famed "Founding Fathers" who led the American Revolution were not working-class laborers, they tended to be upper-class, educated elites who enjoyed advantages impossible for most American workers to achieve at the time. While it is true that some of the Founding Fathers were born into modest families, by the time of the Revolution they were all social and economic leaders in their respective areas.[2] Many were slave owners and this is important to understanding the distribution of wealth in America. George Washington, for instance, struggled to make a profit in his plantation business, but he still owned a vast tract of farmable, very valuable land, and he and his wife collectively owned more than 200 slaves. While slave owners needed to provide for their slaves—meaning providing food, lodging, and in some cases medical care—owning slaves meant that one did not have to pay laborers. When Washington decided to leave his plantation to lead the revolutionary armies, therefore, his plantation continued operating. Historians have sometimes described Washington as having come from modest means because his plantation business struggled, but this ignores the fact that the plantation income was essentially passive, as Washington himself did not need to work the fields, nor did he pay workers to do so. This is how Washington, at one point, became the wealthiest American politician, because of the advantages he gained by being a white, male slave owner in a society that exploited women and people of color for profit.[3]

Early patterns of inequity in the distribution of wealth and income continued to play a determinative role in how wealth was distributed as the nation's economic leaders, like the Founding Fathers, shaped the laws and policies of America to their own advantage. Wealthy men fought to limit taxation on wealth and penalties on inherited assets and revenues. They established laws and policies to prevent women from controlling wealth and to deny economic advantages to people of color, in order to maintain the economic advantages of white, male status. This is a pattern that continues into the twenty-first century, with the conservative movement essentially providing the political power to the wealthy elite class to maintain their advantages.

In his 2002 book *Wealth and Democracy*, economic researcher Kevin Phillips found that wealth inequality in America deepened substantially in the 1800s, increasing by more than 100 times between the 1800s to the 1920s. There were many factors at play in this deepening inequality, including a nearly completely unregulated economy in which industry leaders increased their personal wealth by purposefully exploiting the working class, keeping wages low enough that workers were unable to accrue savings or advance, and thus were essentially slaves to those fortunate enough to have the resources to provide work, many of whom inherited their economic power from their parents or families. During the Industrial Revolution, a small number of wealthy white men commanded the fact

industries of the revolution, which included the railroad industry, steel, mining, and manufacturing concerns. Some of these men became extremely wealthy, earning many hundreds of times what the average worker earned per year, and this was the beginning of America's ultrarich class, a group represented in the twenty-first century by wealthy men like Elon Musk, who like many of his ilk, was born into wealth.

From the 1920s to the 1980s, however, things changed. According to Phillips, the effort to regulate businesses, the women's rights movement, and other factors collectively limited the growth in wealth among the elite class during this period, with the amount of wealth controlled by this class falling to levels closer to the mid-1800s, before the boom of the Industrial Revolution created the nation's first super-elite wealthy families. One of the key factors shaping the economy during this time was the Great Depression, a period of intense economic chaos that greatly increased unemployment and poverty rates and was severe enough that even the economic elite, who are often able to weather economic fluctuations, were affected. In the wake of this, the United States adopted a number of new policies, like Medicare and Medicaid, Social Security, and a social welfare system designed to keep Americans from falling into economic turmoil during periods of economic perturbation. These policies and the underlying philosophy, was closer to what is today called "Democratic Socialism," which is based on the idea that wealth is collectively owned and should be collectively distributed according to democratic principles.

This period of comparative wealth egalitarianism ended in the 1970s and was replaced by a new wave of conservatism aimed at promoting the needs of the wealthy elite class by reducing regulations on businesses and collective spending on public welfare issues like education, agriculture, health care, etc. This surge in conservative ideals dominated from the 1980s throughout the 2000s, with wealth increasingly concentrated among the elite class, and wealth inequality surpassing previous eras.[4]

On the most basic economic level, it is clear that the modern era has been marked by the suppression and depression of wages for unskilled workers and laborers, but why has this been the case? Economist Peter Turchin argues that the international fortunes of communism played a role in shaping American attitudes in ways that fostered wealth inequality. From the 1800s through the 1990s, leftist economic ideologies like socialism, communism, and anarchism were the ideological threat that most frightened American elites, because each of these philosophies embraces the idea that all wealth is collectively earned and so should be collectively shared. The primary argument behind socialist philosophies is that all members of a society deserve to share in the collective fruits of labor. If a society is productive and profitable, there is no reason that any member of that society should be lacking in resources. In the capitalist system, the philosophy is that each member of the economy is a selfish actor who should maximize their own benefit whenever possible.

Competition between selfish actors is supposed to make the economy stronger through what is essentially "economic selection." The basic idea is that the scramble for personal gain and wealth will promote and create innovation as providers compete for customers. Ostensibly, this system is supposed to be better for consumers too, because companies need to compete to attract consumers, which leads to better products. In some situations, this is exactly what happens, with companies and manufacturers essentially needing to improve their products to match what other providers are providing, but the system doesn't always mean improved products or services. The owner of a company, behaving as a selfish economic actor, not only accrues the vast majority of the benefits from the operation of their business, but uses their power and influence to limit the advancement of others, because doing so limits competition for high-level resources and keeps the working-class dependent on the wealthy class to provide jobs. Further, larger companies or job providers do not simply beat each other by offering better services, they beat each other by monopolizing resources, land, and political power, driving other competitors out of business. Wealthy elites use their elite status to limit competition, which also means that the few companies left within an industry do not have to offer better services, but can offer the lowest quality services acceptable on the market, because consumers have no other options.

Capitalism not only drives innovation; therefore, it creates self-sustaining wealth classes in which wealthy individuals behave in ways that limit the distribution of resources further down the economic spectrum. Socialism, by contrast, places limits on personal and corporate wealth and mandates the distribution of wealth by requiring companies to distribute profits to workers, rather than selectively to investors and management. The philosophies of socialism and communism were very alluring to the social reformers of the 1800s and 1900s, but the advance of these philosophies was stifled in the United States as wealthy elites and allied politicians portrayed these philosophies as anti-American and encouraged Americans to believe that the adoption of socialist reforms would lead to poverty and would unfairly deprive Americans of the wealth that they worked to achieve. The collapse of international communism, symbolized by the fall of the Berlin Wall in 1989, was interpreted in the United States as the vindication of capitalism and a final sign that the philosophies of socialism were merely an egalitarian illusion that might sound good on paper, but didn't work in practice. The lesson of Russia's collapse, however, wasn't an indication of communism's failings, but was, more realistically, the result of the fact that Russia was never a legitimate communist society, but was a despotic, authoritarian oligarchy in which a wealthy "party-affiliated" elite controlled almost all the resources. Russia's effort to maintain political isolation and power limited foreign investment and opportunities, weakening their economy. The collapse of communism was therefore a failure in oligarchic dictatorship, not the failure of a legitimately communist society.

Nevertheless, the generalized hostility towards communism and belief that Russia's brief economic collapse was proof of capitalism's superiority motivated a

fear of socialist-style legislation and policy at the public level, and thus the New Deal ideology has faded in popularity, while a new version of capitalistic individualism has risen to take its place.[5]

The State of Wealth Inequality

The Great Recession of 2008-2009 was a major drain on middle-class wealth and financial stability, but the economy recovered quickly and job market growth increased steadily between 2008 and 2016. From 2016 to 2020 job growth continued, but at a slower pace. As a result, by 2020 the US unemployment rate of 3.5 percent was the lowest since the 1960s. However, researchers have also noted a widening gap between the haves and the have-nots in America. In 1983, the median wealth of an American family as $82,900. By 2007, the median wealth had grown to $146,600, but the recession eliminated these gains, such that the median wealth in 2013 was $87,800. While job gains have been significant, and wages have increased in the years since, by 2016 median household wealth sat at $101,800, still far lower than would be expected without the interruption of the recession. Research has also shown that the recovery has not been equally felt among Americans.[6]

In 1983, the wealthiest Americans controlled roughly 60 percent of all wealth, but by 2016 their share of the wealth had increased to more than 79 percent. Meanwhile, lower-income families and workers controlled 7 percent of the nation's wealth in 1983 and their share of wealth fell to 4 percent by 2016. Middle-income families experienced the sharpest decline, from controlling 32 percent of the nation's wealth in 1983 to only 17 percent of wealth in 2016. One of the most important reasons for these demographic changes is that middle-income earners are more dependent on home value and equity than high-income earners, who can afford more diverse assets. Further, middle earners tend to be less resilient to fluctuations because they are operating closer to their financial limits when it comes to managing debt.[7]

One of the most significant current issues in the realm of wealth inequality is the COVID-19 pandemic, which caused major economic difficulties for many Americans, but was especially hard on those already struggling to maintain assets. Studies show that the pandemic increased all measures of economic inequality, and deepened existing divides, such as the racial and gender wealth gap, not just in the United States, but around the world. Globally, just 2 percent of wealth is controlled by the lowest 50 percent of workers, while 22 percent is controlled by the 40 percent of workers in the middle-income range, and a whopping 76 percent is controlled by the top 10 percent of earners. According to the World Economic Forum, the world's 10 richest men have more than doubled their wealth since the pandemic began, while 99 percent of people lost wealth.[8]

As a result of these various factors, the United States, and the world, have entered a period of wealth concentration more extreme than at any time since the Imperialist Era of the late 1800s and early twentieth century. Many economists, economic activists, and social welfare advocates believe that this system is unsus-

tainable. Research indicates that higher levels of wealth inequality are correlated with social unrest and increase the potential for violence and warfare both within and between countries. Further, economic activists argue that the current American economic system rewards selfishness and the willingness to disadvantage workers, which actually discourages innovation by making the economic environment less diverse.

There are some, however, who argue that wealth inequality is not a problem in the United States or elsewhere. Some have argued that allowing individuals to attain extreme wealth is valuable because it is aspirational, providing an example to others developing their own economic goals. Some argue that it is precisely the "winner-take-all" nature of American economics that draws innovators to the United States, and so that any effort to normalize income and wealth would detract from the nation's status as a place where those seeking extreme wealth might gravitate and that this would deprive all Americans of the innovations that innovators create while pursuing wealth. Whether or not any of these arguments are persuasive depends largely on one's philosophy and to what degree a person feels that they are being treated fairly in comparison to their contributions to America's productivity.

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Notes

1. Horowitz, Igielnik, and Kochhar, "Trends in Income and Wealth Inequality."
2. Kertscher, "Were the Founding Fathers Ordinary People?"