WHAT THE RICH WON OVER THE PAST 35 YEARS
AND WHAT EVERYONE ELSE LOST

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Abstract: The explosion in inequality since 1980 has quashed hopes that mature economic
development would generate more equitable economic and social conditions. Although
inequality is receiving increasing attention from academics and politicians, the focus has been
mostly on income and wealth. This article provides a broader analysis by expanding the focus to
what this dramatically greater inequality has meant in terms of peoples’ lives; their relative
status, their health and longevity, their opportunities and mobility, the quality of public goods,
and the distribution of political power. It presents metrics and qualitative analysis of what, when
seen more fully, the rich have gained and the non-rich have lost. To better grasp the amount of
wealth captured by a small elite, the article ends with a depiction of what the $29 trillion in
wealth gains by the top 10 percent could purchase in terms of public goods such as
infrastructure, social security, health care, education, and budget deficits.

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Kuznets’ conjecture that while inequality increases in the early stages of economic development,
at some more advanced level, it begins decreasing was widely celebrated by those who believed
in the superiority of a more egalitarian society. However, as is now widely known, exploding
inequality since 1980 has revealed his conjecture to be what he feared might be “wishful
thinking” (Kuznets 1995, 26).

This unexpected result has not been due to a lack of economic dynamism. In terms of
total household real net worth, the U.S. economy was 81 percent richer in 2007 than it was in
1983 (Wolff 2010). That’s nearly twice as much, an extraordinary increase in wealth over three
decades.

So why are Americans not reveling in all the good things that such greater wealth
affords? Why has the quality of life for most Americans declined? Why do their children no
longer receive the quality schooling that adequately prepares them for the job market and that
permits upward mobility? Why are the roads, bridges, and public parks in such disrepair? Why
are governments at all levels starved for revenues and cutting payrolls and services? Why have

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2 His conjecture so impressed scholars that it came to be seen as “conventional wisdom”(Lantican, Gladwin, and
Seale 1996, 243), “some sort of ’iron law’ of development”(Srinivasan 1977, 15), “one of the most enduring and
remarkable arguments in the history of the social sciences…” (Moran 2005, 209, 218). It is ironic that Kuznets’
conjecture supported a passive attitude toward inequality. It suggested that rising inequality in developing countries
need not be of much concern since it is merely part of the story of successful economic development. And because
inequality was destined to decline in the now rich countries, vigorous redistribution measures might be viewed as
less urgent.

3 These data come from Wolff ‘s (2010, 46) analysis of the Survey of Consumer Finances. The data represent
household wealth and do not include non-profits and public wealth. The 1983-2007 sample provides an approximate
business-cycle-peak-to-business-cycle-peak estimate of changes in wealth.
households reduced saving, became far more indebted, and worked longer hours? Why do parents fear that the lives of their children will be poorer than theirs? Why, when we are so much richer, has the level of insecurity and stress increased?

The reason is that a small elite has managed to run off with almost all of the fruits of this economic growth. Very little, if any, of the impressive increase in wealth has been captured by the bottom 90 percent of households. The bottom 60 percent of households saw their net worth fall by a total of $9.57 trillion. The next wealthiest quintile saw gains of $3.69 trillion, while the next wealthiest 10 percent saw gains of $4.24 trillion. This leads to a total loss of wealth for the bottom 90 percent of households of $1.64 trillion.

Political changes in the U.S. over the past 35 years have moved the U.S., in the direction of what Acemoglu and Robinson call extractive political and economic institutions. This became evident in the explosion of the financial sector—an instrument for rent extraction. And predictably, as this occurs, public services decline. The extreme political discord that the U.S. is currently suffering is also a predictable outcome (2012, 376).

This explosion in inequality is receiving increasing attention from both the public and academics (Piketty 2014; Alvaredo et al. 2013; Atkinson, Piketty, and Saez 2009; Stiglitz 2012). However, there are consequences of this soaring inequality that are not adequately captured by the statistics on income and wealth distribution. This article explores the extensive social and political consequences that have received less attention. The first section examines what the rich have gained since 1980. The second section, examines what everyone else lost. The third section provides greater clarity as to the extraordinary magnitude of the rich’s rip off by revealing just what this wealth could have purchased for the welfare of all.

**What the Rich Gained**

Beginning around 1980, a small wealthy elite began to gain significantly greater shares of incomes, wealth, privilege, and political power. Each of these assets reinforces the others. Greater income enables greater wealth accumulation which leads to greater income. Both provide for greater privilege which facilitates gaining more wealth and income. And greater income, wealth and privilege purchase greater political influence and power enabling the rules of the game to be changed such that yet more income, wealth and privilege flow to this small elite. These dynamics have created a virtuous cycle for them and a vicious one for everyone else.

**Income**

Between 1980 and 2012, the most recent year for which data are available, the real value (in 2012 dollars) of total taxable income, excluding capital gains, grew by $4.2 trillion, a 96 percent increase. Of this increase, 31 percent was captured by the richest one percent of the population. The richest 10 percent captured 64 percent, almost twice the 36 percent collected by the 90 percent below (Authors’ calculations from Saez 2013).

What is most striking in these statistics is the dramatically larger share of income accruing to the ultra-wealthy, the top 0.01 percent of the income distribution, shown in Figure 1.

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4 Robert Wade, 2008 winner of the Leontief Price in Economics, observes that “Mainstream politicians and mainstream economists in Anglophone countries have been very relaxed about people becoming ‘filthy rich,’ as though a structure of income distribution with high concentration at the top has no society-wide costs” (2013, 5). An article recently written by Gregory Mankiw defending the one percent is a striking example (2013). Although Wilkinson and Pickett have extensively addressed the social consequences of inequality, they have not significantly focused on trends over time (2011).

5 Total real taxable income including capital gains increased $4.5 trillion, a 100 percent increase.
Their income share soared 631 percent, from 0.65 percent in 1980 to 4.1 percent in 2012, the highest amount since 1916. Equally astonishing, the 10 year expansion of the Clinton years provided the top one percent with 45 percent of total growth in pretax income, the Bush expansion with about 75 percent, and the first term of Obama (2009-12) with 95 percent (Wade 2013, 18).

Wealth

If what happened to the income distribution appears extreme, what happened to the nation’s gains in wealth was even more so. Between 1983 and 2007, total household real net worth increased by $26.9 trillion. If divided equally, every man woman and child would be almost $90,000 richer, every household of four, $360,000 richer. But of course it was not divided equally. Almost half of the $26.9 trillion (49 percent) accrued to the richest 1 percent of households, or about three million Americans. Thus, on average, the wealth of each of these super rich increased by about $4.4 million. Households in the top 10 percent saw their wealth rise by $945,000 on average. What of households in the bottom 90 percent? As noted earlier, the bottom 60 percent of households saw absolute decreases in their wealth, which outweighed the wealth gains for the next wealthiest 30 percent. Thus, on average, the bottom 90 percent of households suffered an average decline in wealth of $6,000 per person. Because their creditors were those at the top of the wealth distribution, the wealthiest 10 percent gained more wealth than was actually produced: 106.1 percent (Authors’ calculations from Wolff 2010, 46).

Figure 1. Share of Total Income Excluding Capital Gains Accruing to the Top 0.01% of Income Earners, 1913-2012. Source: (Saez 2013).

6 2007 is chosen as the end date of household wealth because the most recent estimates of wealth end in 2009, which coincides with the trough of the Great Recession, which would severely bias the wealth estimates downward, thus providing an approximate business-cycle-peak-to-business-cycle-peak estimate of changes in wealth.

An additional way to grasp the degree of wealth inequality is to look at non-home wealth, since housing tends to be a large source of wealth for those at the bottom of the distribution. Wolff points out, “Of the total growth in non-home wealth between 1983 and 2007, 43 percent accrued to the top 1 percent and 94 percent to the top quintile, while the bottom 80 percent collectively accounted for only 6 percent” (2010, 14).
Widening wealth inequality between 1983 and 2007 is also revealed by the fact that mean wealth grew about twice as fast as the median (Wolff 2010, 9), due in part to the wealthy investing in assets backed by loans to the middle class and poor. Whereas the Gini coefficient for household money income in 2005 was 0.47 (DeNavas-Walt, Proctor, and Lee 2006, 7), the Gini coefficient for household net worth was 0.81 (Kennickell 2006, 10).

Increased Privilege: Mobility and Opportunity

Writing in the 19th century, Alexis de Tocqueville and Karl Marx both noted an exceptionally high degree of vertical mobility in the U.S. and termed it “American exceptionalism.” De Tocqueville wrote, “To tell the truth, though there are rich men, the class of rich men does not exist...the rich are constantly becoming poor” (1899, 160). Whatever might have been the truth of this in nineteenth century America, today such exceptionalism no longer seems valid.

A study by Jäntti, et. al. (2006) of vertical mobility in six wealthy countries (Denmark, Finland, Norway, Sweden, the United Kingdom, and the United States) has found that the U.S. has less mobility than the other five. This choice of countries is noteworthy in that it compares mobility in two of the most laissez-faire economies with that in four of the most social-welfare-oriented. The authors conclude that “The only crystal-clear result is that there is less intergenerational mobility in the U.S. than in the other countries” (2006, 17).

Middle-class mobility appears to be somewhat similar across all these countries, but there is higher probability in the U.S. that children of the fathers in the poorest quintile will remain in that quintile. Also, children of fathers in the highest quintile are more likely to remain there in the U.S. than in the other five countries. The findings of Jäntti, et. al. are supported by an OECD study (d’ Addio 2007) that finds upward mobility between generations to be lower in the U.S. than in Canada, Sweden, Germany, Spain, Denmark, Austria, Norway, Finland, and France.

A Pew Research Center report (2012) finds that for the United States 43 percent of individuals born into the bottom quintile of the income distribution remain there as adults, and 70 percent remain below the middle quintile. African Americans, in particular, are less likely to surpass their parent’s income. This reduced mobility results from a lack of access to and lack of funding for the educational, economic, social, and cultural resources needed for upward mobility. Many other studies lend further support to the claim that the U.S. is no longer the exceptional land of great equality of opportunity (see Hertz 2007; Mishel, Bernstein, and Allegretto 2007; Mazumder 2005; Bowles and Gintis 2002; Solon 1992). Nevertheless, the general view in the U.S. continues to be that it is the exceptional land of opportunity.

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8 Median wealth in the U.S. is lower than in 26 other countries (Digby 2013).

9 Thus Gary Becker’s view that “low earnings as well as high earnings are not strongly transmitted from fathers to sons” appears contradicted (1988, 10). Other recent studies also challenge Becker’s view. See Bowles, Gintis, and Groves (2009).

10 This view has deep roots in the socio-cultural values of America’s founding and subsequent history. Such deep-rooted socio-cultural values are resistant to change and may endure over very long periods of time (Dolfsma 2002; Campbell 1989), even when the conditions on which they were founded no longer exist. Jäntti et. al. speculate that “One reason that may account for the widespread belief is that it is the middle classes who primarily hold this belief” and their data suggest that “the U.S. middle classes are quite as likely to be mobile as those in the U.K. or the Nordic countries” and “Because this substantial fraction of the U.S. population includes the median voter, such attitudes might help explain why there is not more political pressure for mobility-promoting policies in the country” (2006, 28).
Of all variables that influence mobility, none appears as powerful as education. But, as will be explored below, the greater political power of the elite has meant that students must pay far more for the privilege of attending public universities, and those who do so are generally saddled with debt. Not surprisingly, nearly 80% of children in the top income quintile enroll in college and 53% eventually graduate. In contrast, 34% of children in lowest quintile enroll and only 11% graduate (Haskins 2012).

As Ron Haskins (2012) puts it, “If education is one of the routes out of poverty, the American educational system seems to be perpetuating poverty and income distinctions as much as it facilitates movement up the income scale.” Wealthy families provide their children with the economic, social, and cultural capital necessary to succeed in higher education. By sixth grade, the average middle- and upper-income child “now receives 6,000 hours of extracurricular education, in the form of being read to, taken to a museum, coached in a sport, or any other kind of stimulus provided by an adult, more than the average poor child—and this gap has greatly increased since the 1970s,” precisely the point in time at which inequality began to sharply increase (Summers 2014).

The Economist (The Economist 2014) finds that the 30-year returns to a bachelor’s degree from an elite college—MIT, Harvard, Princeton, etc.—can be up to $2 million, but returns to lower-ranked, lower cost institutions—those that attract students from the bottom of the income distribution—are substantially lower and might “actually [diminish] earnings.” This can be attributed to, among other reasons, the fact that lower-income students usually borrow heavily to afford a college education and might not find adequate-paying jobs within their field. Student debt is the second source of household debt after mortgages (Moyers 2014). The average indebted graduate has an average of $29,400 in student loans (Project on Student Debt 2013).

Privatized public goods
With their far greater shares of income and wealth, the wealthy have been able to transform portions of what have been democratic (equally shared) public goods into special privatized privileges for themselves. Beyond elite private education, country clubs, and gated communities, increasingly there are private guards, toll lanes on crowded highways, increasing luxury space on airplanes (Meyerson 2013, A19), fast lanes through airport security, skyboxes at stadiums, and waterfront access. As the wealthy have purchased these special privileges, the quality of what is left for everyone else has deteriorated. Because of their disproportionate political power, the wealthy elite can achieve their preference for tax cuts for themselves as opposed to spending for public goods they themselves no longer use.

Retirement benefits have also become more privatized. Instead of providing more generous funding for Social Security, tax changes in the 1980s have enabled an explosion in tax-deferred retirement accounts such as 401(k)s plans that principally benefit the well-to-do. The top 20 percent of income earners receive 70 percent of these tax subsidies for 401(k) plans, whereas 50 percent goes to the wealthiest 10 percent (Ghilarducci 2007, 5). Almost half of U.S. households have no retirement accounts other than Social Security.

Political power
U.S. corporations—now armed with most of the rights of citizens—are overwhelmingly owned by the very rich. In 2007, the wealthiest one percent of Americans owned 49.3 percent of stocks and mutual funds, the richest 10 percent, 89.4 percent, leaving the bottom 90 percent with only 10.6 percent (Wolff 2010): Table 9: 52). Of financial securities, 60.6 percent is owned by the

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11 Only two percent of the Chesapeake Bay has public access, making it “the world’s greatest gated community” (Fears 2013).
richest one percent, 98.5 percent by the top 10 percent, leaving only 1.5 percent for the bottom 90 percent (Koechlin 2013, 13). Most CEOs can count themselves among the very wealthy, and have become far more so over the past several decades. Whereas in 1980, CEOs heading the corporations in the Standard and Poor 500 earned 42 times more than the average worker, by 20008, it had risen to 344 times more (AFL-CIO 2009). The upshot is that the interests of the very wealthy and corporate America are typically the same, such that the unparalleled expansion of corporate lobbyists in Washington and corporate campaign contributions are merely extensions of the rich’s political power. And, as Al Gore notes, “The United States Congress, the avatar of the democratically elected national legislatures in the modern world, is now incapable of passing laws without permission from the corporate lobbies and other special interests that control their campaign finances” (cited in Freeland 2013, B1).

Whereas only 175 U.S. corporations had registered lobbyists in Washington in 1971, there were almost 2,500 by 1982 (Hacker and Pierson 2010). Between 1974 and 2009, the total number of corporate political action committees (PACs) exploded from 89 to 1,598, an increase of 1,696 percent, while the growth in all PACs increased 658 percent (Federal Election Commission 2009). Spending by PACs has increased, in constant dollars, by 273 percent since 1978 (Federal Election Commission 1997; 2010). The top-spending lobbying client has been the Chamber of Commerce, whose lobbying expenditures are 300 percent greater than the next highest-spending organization—the American Medical Association. Many of the large firms represented by the Chamber of Commerce, such as General Electric, Exxon, and Mobil, also lobby independently (Center for Responsive Politics 2014).

As the rich took every larger shares, a self-reinforcing dynamic came into play: more income, wealth, and privilege permitted greater political control which in turn led to policies that channeled larger shares of income and wealth to the rich. Due to their greater political power, the government that they disproportionately control deregulated financial markets, enabling wild speculation, and passively let the bubble grow until it burst. That same government, at taxpayers’ expense, then bailed out the rich’s financial institutions. Who got really hurt? All other Americans, but especially the least privileged, those who, through no fault of their own, lost their jobs and homes.

Not only did the taxpayers bail out the rich’s financial firms, but the stock market and corporate profits now exceed their pre-recession highs. Further, the richest one percent have received 93 percent of all income gains since the recession ended (Saez 2013). In contrast, the bottom 93 percent of the income distribution have seen their wealth fall by 4 percent (Pew Research Center 2013). The least privileged continue to lose their homes and most of those who lost their jobs remain unemployed, condemned not only to suffer financially, but socially and psychologically as well.

What Everyone Else Lost
As the rich took ever larger shares of income, wealth, privilege, and political power, the rest of the population took relatively smaller shares. Many lost in absolute terms. As the wealthy captured more of everything, they gained greater control over society’s ideology and politics, and thus the power to further change the rules of the game in their favor.

Less relative income
In 1980, labor’s share comprised 58.9 percent of national income while capital received 24.9 percent. By 2013, labor’s share had fallen to 54.2 percent while capital’s share rose to 27.9

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12 Whereas in the 1950s corporate taxes provided 30 percent of total federal revenues, today they provide less than nine percent (Stiglitz 2012, 73).
percent (Authors’ calculations using Bureau of Economic Analysis data). This can also be seen in the diverging growth paths of wages and productivity shown in Figure 2. From 1980 until 2011, labor productivity rose 93.4 percent—an average annual growth rate of 2.7 percent—while real wage compensation rose only by 37.7 percent—an average annual growth rate of 1.1 percent. Moreover, the gap between productivity and compensation continues to grow, providing a large and rising windfall to the owners of capital, according with what Long had pointed out long ago: “So large is labor’s share of national income that any substantial disparity between productivity and real wages would exert great impact on the other shares—either largely expropriating them or presenting them with huge windfalls” (1975, 112).

![Figure 2. Output per Hour and Real Compensation Index (1980=100). Source: Authors' calculations from Bureau of Labor Statistics data.](image)

Most strikingly, the share of total income claimed by the bottom 90 percent of the income distribution is the lowest it has been in recorded U.S. history, as can be seen in Figure 3. While their absolute income has risen, their share of total income has fallen from 67.1 percent in 1980 to 51.9 percent in 2012, a decline of 22.8 percent. Since these data are in shares, the bottom 90 percent’s loss has been the top 10 percent’s gain. And for those workers at the very bottom, the purchasing power of the U.S. minimum wage in 2007 was 45 percent below its 1968 level, a mere 31 percent of the median wage.

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13 These figures are computed using Bureau of Economic Analysis data for “wage and salary accruals” for the labor share and the sum of “proprietors’ income”, “rental income of persons”, “corporate profits” and “net interest and miscellaneous payments,” with inventory valuation adjustment and capital consumption adjustment where appropriate.
Stagnating wealth
On average, the bottom 90 percent saw decreases in their wealth. However, as noted above, when broken down, it was the bottom 60 percent who became more indebted and thus suffered a decline in ownership of absolute wealth between 1983-2007. The next wealthiest 30 percent saw only modest gains in their wealth (Wolff 2010, 46). The reasons for this increased indebtedness will be explored in the next section.

Decline in relative social status
Rising inequality and relatively stagnant wages created consumption externalities that required that household increase spending in an attempt to protect the welfare of their families and to maintain their relative social status. The approach followed in this section views preference functions as at least partially endogenous, and, to some extent, socially created. It is aligned with James Duesenberry’s view that a “real understanding of the problem of consumer behavior must begin with a full recognition of the social character of consumption patterns” (1949, 119).

Frank has addressed the manner in which consumption externalities often required households to increase spending for the basic welfare of their families that became so visible in housing:

“Increased spending at the top of the income distribution has not only imposed psychological costs on families in the middle, it has also raised the cost of achieving many basic goals. Few middle-income parents, for example, would be comfortable knowing that their children were attending below-average schools. Yet the amount that any given family must spend to avoid that outcome depends strongly on the amounts that others spend…. [Moreover], people cannot send their children to a public school of even average quality if they buy a home in a school district in which house prices are well
This dynamic had also been noted by Lasch (1996). As economic elites took an ever-greater share of income and wealth, they tended to isolate themselves in social enclaves such as gated communities, exclusive clubs, and private schools. They tended to work in jobs, live in neighborhoods, and move in circles where they literally did not see those struggling to stay on their feet. Fewer poor households live near the wealthy and thus much of the cultural sophistication of the latter is less likely to rub off on the former (Reardon and Bischoff 2011). Because of elites’ disproportionate political power, this withdrawal from the wider society and from direct contact with the concerns of less-well-off citizens eroded support for public services on which those further down the economic ladder depended—services such as schools, parks, transportation, even public safety. As Reich has put it, the elites “see no reason why they should pay to support families outside the gates when members are getting everything they need inside...” (2001, 199). The decay of public services encouraged those beneath the elites to do what was necessary—reduce saving, become more indebted, or increase work hours—to enable them to send their children to decent schools or to safe recreational facilities. And, of course, as those who could afford to consume the private provision of these services opted out of consuming the public ones, political support for, and the quality of, the latter continued to deteriorate. A vicious cycle was set in motion promising increasingly inferior public goods and ever-greater pressure to increase consumption of private substitutes.

A second manner in which, due to consumption externalities, wage stagnation and rising inequality prompted households to struggle to consume more is well captured by Veblen’s theory of consumer behavior. As rising inequality permitted the wealthy to consume much more, lower income bracket households had to struggle harder to also increase their consumption levels so as to maintain their relative social status and hence their self-respect.

Feeling compelled to consume more could be expected to prompt households to respond in one or more of three ways: People might consume more of their incomes, forcing them to save less; they might become more indebted to enable greater consumption; and they might increase the hours they work to enable them to increase their income and hence consumption levels. As the evidence presented below demonstrates, as a whole U.S. households did all three.

It is worth noting that while income inequality alone makes it more difficult for households to maintain their relative status, this struggle would have been less difficult had the potential for vertical mobility increased over this period. However, as noted earlier, recent

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14 Jargowsky provides further evidence supporting Lasch’s thesis that Americans are becoming increasingly segregated by income and privilege and that this segregation is working against racial and ethnic harmony (1997). Another significant consequence of this greater class segregation is that the less privileged are less likely to absorb through contact some of the cultural sophistication of the elite.

15 An aspect of trickle-up economics is the effect of increased inequality on neighborhood sorting and therefore on competition for high quality schools and neighborhoods. A smaller percentage of neighborhoods were the traditionally “middle income” because the middle class was shrinking relative to other groups. Both the top 10% and bottom 10% of families (although the effect was greater at the top) became increasingly isolated (the top by choice, the bottom by a sort of social coercion) in the 1980s and again in the first decade of the 21st century (Reardon and Bischoff 2011; Massey and Fischer 2003). Whereas the rising tide of the post-WWII period led to more equal access to local public goods, increased sorting by income into different neighborhoods has meant a greater range of quality. Not only should you “dress for the job you want,” you should “buy the home for the life you want” for yourself and your family.
research suggests that the potential for upward mobility actually decreased, thereby compounding the difficulty that most Americans faced in maintaining or improving their status.

Where there is a strong belief that vertical mobility is possible, growing inequality puts additional pressure on households to struggle ever harder to maintain their relative status or demonstrate higher status through consumption. Increasing inequality means the status standard is ever higher. And the very rich, as noted earlier, had the means with which to raise the bar dramatically.

The struggle to keep up was especially intense in housing. In 1980, the median size of a single-family home was 1,595 square feet; by 2007 it had risen to 2,277 (U.S. Census Bureau 2014), an increase of 42.8 percent, whereas in real household income increased by 37.7 percent. As those at the pinnacle of wealth and income competed among themselves for status, they initiated what Wade has termed a “consumption arms race among elites” (2009, 20). Most notably, they bought and had constructed ever-larger mansions, thereby degrading the status quality of homes owned or occupied by everyone beneath them. Houses and cars are principal symbols of status, not least because “research confirms that the tendency to look for goods which confer status and prestige is indeed stronger for things which are more visible to others” (Wilkinson and Pickett 2011, 225). Accordingly, as inequality rose in the last decades leading up to the crisis there was an explosion in the consumption of so-called McMansions and extremely expensive and larger cars such as luxury SUVs as the very rich competed among themselves for highly visible signals of their status. Not surprisingly, given the intensified challenge among the rich themselves of keeping up, a February 2008 Pew survey found that “the proportion of wealthy Americans who say they are very satisfied with their housing and cars, in particular, has declined considerably since 2001” (Pew Research Center 2008). As the wealthiest Americans received ever-larger income shares and increased their consumption more or less proportionately, they reduced the subjective value of consumption levels below them, fitting Veblen’s claim that:

“…in any community in which class distinctions are somewhat vague, all canons of reputability and decency, and all standards of consumption, are traced back by insensible gradations to the usages and habits of thoughts of the highest social and pecuniary class—the wealthy leisure class” (1934, 104).

As inequality increased over the three decades preceding the crisis, the struggle by households to maintain their relative status resulted in reduced saving, greater indebtedness, and longer work weeks. As shown in Figure 4, the personal saving rate fell from 10.6 percent in 1980 to 7.8 percent in 1990 to 4.0 percent in 2000, hitting a trough of 2.6 percent in 2005. It should be noted that this decline occurred even as there was increased doubt about the viability of Social Security and a precipitous decline in defined-benefit retirement plans that offer more security than the defined-contribution plans that have been replacing them. With defined-contribution plans, the employees bear a much greater share of the risk. Monique Morrissey’s research at the Economic Policy Institute finds that “Starting with the younger baby boomers, each successive

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16 In 2007, the wealthiest 10 percent held 45.9 percent of total home equity and 25.5 percent of the value of vehicles (Gilbert 2011, 91).

17 For an extended discussion of Veblen’s theory of consumer behavior applied to U.S. saving behavior, see Brown (2008) and Wisman (2010).
generation is now doing worse than previous generations in terms of their ability to retire without seeing a drop in living standards” (cited in Bruder 2014, 29).

As the savings rate fell, wages stagnated, and inequality increased, households also took on more debt, especially during the housing bubble, from 1996-2007. This can be seen in Figure 5. Total household liabilities as a percentage of disposable personal income increased from about 69 percent in 1980 to about 100 percent in 2001 to 134 percent in late 2007. Wolff notes of this explosion in debt that “nothing comparable has happened since the second world war, if ever. Indeed, on average households have run small financial surpluses over the past six decades” (2010, 13).

Figure 4. Personal Savings Rate. Source: Bureau of Economic Analysis.

Figure 5. Household Liabilities to Disposable Personal Income Ratio. Source: Bureau of Economic Analysis and Federal Reserve.
It is not surprising that there was a surge in household indebtedness during the 2000s since the 2002-2007 expansion was the first on record in which median family incomes ended lower than they had been at the close of the last expansion (Hacker 2011). Over this period, homeowners on average extracted 25 percent of their increases in home equity, which was not used to purchase new homes or investment properties or to pay down high interest credit card balances (Mian and Sufi 2010). Increased indebtedness held for households in all income quintiles, due not only directly to stagnating wages and rising inequality, but also indirectly to the easier access to credit cards and more aggressive mortgage lenders who served as intermediaries for the recycling of a portion of the higher incomes of the rich into loans to the less well off. Stagnant wages in an economy experiencing rising costs for many critical goods such as education and housing may account for a portion of this rising indebtedness (Weller 2007).

If, as a consequence of rising inequality, individuals had to consume ever more to maintain the well-being of their households and protect their social status, then it might also be expected that they would have increased their work hours to be better able to do so. Indeed, as inequality rose dramatically between 1970 and 2002, work hours per capita in the U.S. rose about 20 percent. By contrast, in the European Union where, excepting Great Britain, income inequality rose relatively little, work hours fell 12 percent (OECD 2004, Chapter 1). Inequality also appears to influence whether women married to working men take jobs themselves. Park finds that they are more likely to do so where there is greater inequality in men’s incomes. In the mid-2000s, women worked about 200 hours more per year, versus about 100 more for men (2004).

Loss of political power
Underlying the losses in income, wealth, opportunity, and privilege outlined above and key to these losses has been a dramatic decline in the political power and participation of the non-rich. Because of the wealthy’s increased command over society’s dominant ideology, the losers—the overwhelming majority of Americans—did not use the political process to stop the extraordinary reallocation of income, wealth, and privilege toward the very rich. Through the democratic process, they could have forced the creation of compensatory measures to relieve workers harmed by technological change or international trade. Taxes could have been restructured in their favor, and public services that benefit them such as job training, day care, better schools, health care and public recreational facilities could have been vastly expanded and improved.

However, the wealthy’s increased control over ideology resulted in a majority of citizens buying into the rich’s ideology that such measures would not be either to their own or the country’s benefit. As Robert Reich, Secretary of Labor during the Clinton administration put it: “As inequality has widened, the means America once used to temper it—progressive income taxes, good public schools, trade unions that bargain for higher wages—have eroded” (2008, 4). And, “as money has risen to the top, so has political power. Politicians are more dependent than ever on big money for their campaigns” (Reich 2010). Thus, Kevin Phillips concluded that

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18 This increase in work hours is driven by two forces: a direct increase in individual hours worked and the rise of dual-earner households, which increases aggregate household work hours.

19 This relationship is supported by a transnational study that found “increased inequality induces people to work longer hours [and] …the underlying cause is the Veblen effect of the consumption of the rich on the behaviour of those less well off” (Bowles and Park 2005, F410).
American “politics is increasingly dominated by people in the upper-income brackets” (2008, 15). For political scientist Robert Hunter Wade, this domination is by extremely few Americans: “The people who make the economic and political decisions that matter are concentrated in the top 1 percent of the U.S. household income distribution” (2004, 71). As Stiglitz puts it, “the political system is more akin to ‘one dollar one vote’ than to ‘one person one vote’” (Stiglitz 2012, xix). Changes in campaign finance legislation, such as *Citizens United v. Federal Election Commission* (2010) and *McCutcheon v. Federal Election Commission* (2014) increased the ability of the wealthy to increase their political power through larger campaign contributions. However, the rise in campaign contributions “does not seem to be primarily driven by legal factors governing donations: broadly speaking, the legal framework for wealthy individuals to donate unlimited amounts was set in place decades earlier by *Buckley v. Valeo* (424 US 1 [1976]). Rather, it reflects the rising wealth of the superrich and an increased willingness to spend large sums on elections” (Bonica et al. 2013, 11-12).

Until the 1970s, labor unions provided the backbone of political opposition to the attempts of elites to take ever greater shares. But organized labor has declined from 34.7 percent of the total workforce in 1954 to 11.3 percent in 2013, and only 6.7 percent of private employment. In 1974, one out of every three political action committees (PACs) represented the interests of labor. By 2009, this had fallen to one out of every 17. The mirror image of this decline is the rise of corporate PACs, whose share of all PACs rose from one in seven to one in three over the same period (Federal Election Commission 2009). As the American Political Science Association puts it, “Citizens with lower or moderate incomes speak with a whisper that is lost on the ears of inattentive governmental officials, while the advantaged roar with a clarity and consistency that policy-makers readily hear and routinely follow” (2004, 1). Moreover, about half of the members of the richest one percent contacted a member of Congress within the previous year, and a quarter of these did so multiple times (Noah 2012). And this is in addition to the lobbying their corporations carry out.

**Decline in opportunity**

The chance to get ahead has greatly depended upon the availability of a quality education. A recent OECD report “firmly identifies upskilling of the workforce as one of the most powerful instruments at the disposal of governments to counter rising inequality. *Upskilling* is singled out as the only force which succeeds in not only reducing wage dispersion but also in increasing employment rates” (2011, 19, emphasis in original). From 1830 until the mid-1970s, the U.S. possessed the world’s best system of education, providing its young with the world’s highest quality education. But this advantage has withered away over the past decades. Whereas U.S. high school graduation rates used to rank at the very top of OECD nations, they are now among the very lowest (Gross-Loh 2014). The high school graduation rate in the U.S. in 2008 was 76 percent versus 85 percent in the European Union (Stiglitz 2012, 55).

Across the OECD, but especially in the United States, educational support has not been winning the race against forces generating greater inequality. While per-pupil public spending on primary and secondary education in the United States has continued to increase, support for

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20 In New York state, over a quarter of all workers belong to unions and the average worker wage for all New York state workers is 26 percent higher than the U.S. average (Wilson 2014, B2).

21 More than $3.2 billion was spent on lobbying in 2011 (Stiglitz 2012, 95). Corporations, overwhelmingly owned by a small elite, have spent more on advertising in the U.S. than is spent on all formal education (Goldstene 1997).
education as a percentage of GDP has been relatively stagnant over the past 40 years, thus not keeping up with skill needs of an ever more technologically dynamic economy. Whereas between 1960 and 1980, the percent of those graduating from college increased by an annual average rate of four percent, between 1981 and 2006, that rate fell to 2.25 percent (Stiglitz 2012, 55).

The ideal behind public education was that it would provide an equal opportunity to all young people. Although wealthier neighborhoods with their superior schools have always compromised this ideal, rising inequality has all but destroyed it. Compounding this quality spread is the fact that wealthy school districts are permitting private money to add further advantages to their wealthier students bodies (Bui 2013, A1; A5). According to a 2013 OECD study, educational achievement is more strongly correlated with parental background in the U.S. than in 29 other countries in the study (Koechlin 2013, 16). Already at three years of age, children from professional families have more than twice the vocabulary of those whose families live on welfare (Velasquez-Manoff 2013).

This erosion of education as a means for upward mobility also afflicts higher education. Among 25-to-34-year olds with university degrees, the US had sunk to 12th place in 2010. The World Economic Forum ranked the U.S. 52nd among 139 nations in the quality of its university math and science instruction in 2010. Almost half of all science graduates in the U.S. are foreign born.

State support for public universities has drastically declined. For instance, over the past 20 years, state support for the University of Virginia has declined from 26 percent to 7 percent of the operating budget; at the University of Michigan, from 48 to 17 percent; at Berkeley, from 47 to 11 percent (De Vise 2011, A1). The real cost (in constant 1982-84 dollars) of attending a public college or university has more than doubled since the early 1980s, from an average cost of $6,440 per year in 1982 to $12,861 in 2009 (OECD 2011). Over these same two decades, states have spent six times more on prisons than on higher education (Gopnik 2012, 73).

The democratization of education was the consequence of rising worker political power. As Easterlin put it, “To judge from the historical experience of the world’s twenty-five largest nations, the establishment and experience of formal schooling has depended in large part on political conditions and ideological influences…. A major commitment to mass education is frequently symptomatic of a major shift in political power and associated ideology in a direction conducive to greater upward mobility for a wider segment of the population” (1981, 1; 14). As might be expected, a decline in worker political influence has the opposite effect.

Starting a new business has always presented a potential means of improving economic status. However, a Brookings Institution study (Hathaway and Litan 2014) found that entrepreneurship as represented in new business creation declined by about half from 1978 to 2011. Not only are fewer new firms created, but the failure rate of new firms has significantly increased.

The rising gap between an elite and the rest of the population has reduced the potential for the non-rich to fully participate in and thus gain from community life. Inequality, Irvin reports, reduces social capital: “Where there is more income inequality, poorer people are more likely to feel out of place participating in community groups, more likely to feel ill at ease and to think that they will make fools of themselves and be looked down upon” (2007, 15).22 Building

22 “…there is a clear link between growing inequality and the rise of fundamentalist religious communities, which provide a replacement for traditional support networks” (Irvin 2007, 15).
on concepts of self-identity, Kearney and Levine find that children, especially males, from low-income areas are more likely to drop out of high school than their middle- and high-income counterparts. This behavior is attributable to “perceptions of identity…relative societal position…and one’s chance at economic success,” so that “greater levels of income inequality and lower rates of social mobility are perpetuating, in so far as they lead low-income youth to engage in more drop-out behavior” (2014, 4).

Bankruptcy had always given indebted families the opportunity to start anew. But, the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 has greatly restricted this recourse. For instance, by outlawing defaults on student loans through bankruptcy proceedings, it effectively created a form of indentured servitude. It also created moral hazard for lenders who no longer had to be as careful of the creditworthiness of student borrowers. The full bankruptcy privileges given to corporations are denied citizens.

Finally, more and more households cannot afford drivers licenses for their children. Whereas 79% of teens were licensed by age 18 in households with incomes over $100,000, only 25% were in households with less than $20,000 in income (AAA 2013).

**Health and Well-Being**

Not unexpectedly, health and longevity are positively correlated with income and wealth. Higher status means better nutrition, better health care and less stress (Bosworth and Burke 2014). Soaring inequality has brought increased economic and employment insecurity to workers. It is understandable that income would correlate with greater life expectancy, but this effect has exploded as inequality has increased. Whereas in 1972 those in the top half of the income distribution had life expectancy two year greater than those in the bottom half (79.6 years versus 77.7 years), by 2001 this difference had increased to more than six years (85.5 to 78.9) (Koechlin 2013, 13). More striking, by 2008 white American females without high school diplomas experienced a decline of five years of life expectancy since 1990; for white American males without high school diplomas, it was three years. Sullivan and Von Wachter find evidence of higher mortality rates for workers who experience job loss, and estimate that for workers displaced at age 40, life expectancy falls by 1-1.5 years (2009). Job loss also results in poorer health outcomes, especially those related to elevated stress and anxiety such as heart attacks and strokes (Brand and Burgard 2007); higher divorce rates (Charles and Stevens 2001); loss of social standing, self-esteem, and contact with friends and family (Morin and Kochhar 2010); and lower levels of emotional well-being, such as worry, sadness, and stress (Marlar 2010; Kruger and Mueller 2011). Between 1999 and 2010, suicide rates in the U.S. increased by almost 30 percent (Parker-pope 2013).

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23 Then-Chair of the Federal Reserve, Alan Greenspan characterized the dramatic rise in worker insecurity as follows: “As recently as 1981, in the depths of a recession, International Survey Research found twelve percent of workers fearful of losing their jobs. In today’s tightest labor market in two generations, the same organization has recently found thirty seven percent concerned about job loss” (1999).

24 The longest life expectancy is found in those countries such as Japan, Sweden, and Canada that have the least inequality. When examined across nations, the longevity gap tends to decrease during periods of social equalization and increase during periods of polarization. Of the 20 most developed countries, the U.S. is last in life expectancy, and by far the highest in infant mortality. All of this is in spite of the fact that the U.S. outspends all other countries on medical care. (Marmot 2004).
Finally, less equal societies experience higher incidence of violent crime, percent in prisons, infant mortality, obesity, diabetes, heart disease, mental illness, and alcoholism (Wilkinson and Pickett 2011). And those who suffer most are those who survive at the bottom.

**Grasping the Magnitude of the Rich’s Take**

The approximately $29 trillion of wealth that the richest 10 percent of the population has taken since the early 1980s is a huge figure, so huge in fact that it is difficult to imagine what it means. A way to better grasp its magnitude and meaning is to imagine what it could purchase, how it might have been spent to improve the well-being of all Americans. It is difficult to claim that they needed this additional wealth, or that they deserved it. So what would it have bought if it had remained the property of society as a whole?

The U.S. could have collectively met 97 percent of its public goods needs for the next 10 years and beyond. The American Society of Civil Engineers estimates that the United States needs to invest $3.6 trillion by 2020 to meet its infrastructure needs (American Society of Civil Engineers 2014). To do the same for Medicare for the next 75 years would cost a total of $4.1 trillion (Social Security Administration 2013a; Social Security Administration 2013b). The estimated 10-year health coverage expenditures for Medicaid and the Affordable Care Act are $4.3 trillion and $1.1 trillion, respectively, for a total of $5.4 trillion (Department of Health and Human Services 2012, 9; Congressional Budget Office 2012, 1). To close all projected budget deficits until 2024, which is to say providing funding for all anticipated necessary government programs, would cost $7.1 trillion (Congressional Budget Office 2014, 9).

All of these social needs could be met for the above time horizons for a total of $29.8 trillion, or 97 percent of the total wealth gains since 1980, shown in Figure 6. Alternatively, the cost for all of these programs for a common time horizon of 10 years is $20.3 trillion, leaving $9.5 trillion remaining to meet other needs.

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25 This figure represents 106.1 percent of the $26.9 trillion total increase in wealth which is what the top 10 percent claimed between 1983 and 2007. Refer to the section “Increase in Wealth” under “What the Rich Gained” for more details.

26 A substantial body of work in psychology, especially in what has come to be called “happiness research,” finds that above a fairly low threshold, subjective well-being does not correlate with higher incomes and thus higher levels of consumption (Diener and Seligman 2004; Veenhoven 1993; Easterlin 2010).

27 Whereas in 2002, the U.S. ranked fifth in having the best transportation infrastructure in the world, it now ranks 24th (Bilmes and Chodos 2012, B3).
Final Reflections

By crafting their self-interested ideology to be ever more convincing to the larger population, elites have managed to appropriate ever larger shares of national income, wealth, privilege and political power since 1980. Are there any grounds for hope that rising inequality might be reversed? Might the worsening relative, if not absolute, conditions for everyone else eventually enable them to free themselves from this ideology? Might hope be found in the popularization of the results of studies that reveal that inequality is harmful to society? Might the elite come to recognize that greater inequality is not in fact in their long run best interest?

A number of studies challenge the claim of a positive relationship between inequality and economic dynamism, finding instead that greater income inequality causes economies to grow more slowly (Alesina and Rodrik 1994; (Bernstein 2013; Easterly 2002; Persson and Tabellini 1994). Even the deputy director of the IMF’s highly reputable research department, Jonathan Ostry, claims that “On average, redistribution seems to have helped support faster and more durable growth”(cited in (Talley 2014)). Wilkinson and Pickett (2011) have found that more unequal societies score lower on practically every measure of quality of life. Even within the United States, states with higher levels of inequality typically have more severe social problems. There is even evidence that a high level of inequality may threaten the very future of humanity by impeding adequate responses to environmental devastation (Diamond 2011; (Wisman 2011).

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28 For instance, the study by Alesina and Rodrik found that growth rates in 65 countries were negatively correlated to the share of income going to the top five percent and top 20 percent of all income earners. By contrast, larger income shares going to low and middle-income earners correlated with higher rates of growth.

29 Excessive inequality harms growth, Ostry finds, by reducing access to health and education and by increasing political instability.
However, optimism is hard to muster. Evidence appears overwhelming that an elite in the U.S. has acquired such command of society’s ideology that it can effectively continue to amass ever more relative income, wealth, and privilege. Their ideology exaggerates the degree of vertical mobility and minimizes the extent of inequality (Politzane 2012; Norton and Ariely 2011). Their command over ideology and thus politics blocks the sort of political action necessary to redress inequality. Proposals such as a wealth tax (Piketty 2014), or more progressive income tax rates (Diamond and Saez 2011), appear to have little chance. The force of their inequality-legitimating doctrines appears sufficient to persuade the remainder of society that all is for the best, even as they are condemned to sink ever relatively, and sometimes absolutely lower. Should this be true, the freedom and democracy we celebrate would be nothing more than an ideological front for plutocracy—rule by the rich elite.

Jared Diamond provides further grounds for pessimism. He reminds us that in past civilizations elites pursued their own immediate self-interest even when they had before them the evidence of severe environmental decline, their civilization’s decline, and thus the long-run ruin of the foundations upon which their own privileges and livelihoods depended (2011).

References

30 According to Paul Krugman, economic science is complicit: “What the top 1 percent wants becomes what economic science says we must do” (2013, 27–28).

31 Diamond and Saez (2011, 171) argue that the optimal top marginal income tax rate could be raised to 73 percent, without adversely affecting labor supply while raising tax revenue and improving social welfare, a finding echoed by Huang (2012).

32 Stein Ringen points out that “In Athens, democracy disintegrated when the rich grew super-rich, refused to play by the rules and undermined the established system of government. That is the point that the United States and Britain have reached” (2014, A15). Stiglitz notes that “Without an estate tax, we create a new plutocracy, marked by dynasties that are self-perpetuating” (2012, 166)


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