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Wealthy, but Unequal: The Anomaly of Inequality in the United States

Joseph Puleo

One of the growing problems facing the United States today is its increasing inequality. Not only does inequality in the United States seem to be growing in a historical sense, but it is also relatively high compared to other developed democracies. First, one must examine the causes of growing inequality in the United States in order to put forward its solutions. If the American people find these policies suitable, then Congress should move forward in order to reduce inequality in the United States.

While income inequality can be measured in several ways, the most widely accepted way to do so is by utilizing the Gini index, a calculation that determines the relationship between shares of income and shares of the population. Gini values range from 0, indicating perfect equality, to 1, indicating complete inequality. Therefore, the greater the Gini coefficient is, the more concentrated a nation's wealth is within fewer hands (Dadush 2012, 6). When examining Gini coefficients from 31 countries with available data in 2012 from the Organization for Economic Co-operation and Development (OECD), the United States ranks 27th, with a coefficient of 0.456, listing countries from most equality to least equality before taxes and transfers. Even more troubling is that after taxes and transfers, the United States falls to 30th, with a coefficient of 0.369, remaining only behind Chile. These coefficients can be compared to the OECD average, which sits at 0.403 before taxes and transfers, and 0.300 after taxes and transfers (OECD 2012a). What is most notable is how little of an effect taxes and transfers have on inequality in the United States compared to all other countries. While the average OECD country included in this study found taxes and transfers to have a distributional effect of 25.5%, the United States only experienced a 19% change. It is this difference in change after taxes and transfers which results in a higher rate of inequality in the United States.

Why Inequality Matters

While it is apparent that the United States has more inequality than most developed countries, it is crucial to understand why this matters and why this problem should be fixed. One noticeable reason for a necessity to minimize inequality is the relationship between social mobility and inequality. A majority of Americans (63%) when asked, do not believe that hard work offers little guarantee of success (Pew 2012). Essentially, Americans are overall quite optimistic in believing that hard work will allow for social mobility. Despite Americans' optimism that hard

work will pay off, it is shown that countries with higher inequality tend to have less social mobility. One way to measure social mobility is to compare how well children do in relation with their parents, usually measured by the earnings elasticity between fathers and sons (OECD 2014). An OECD study found that a correlation exists between higher inequality and lower social mobility. Societies with a higher Gini index such as Finland, Denmark and Norway have greater earnings mobility, whereas countries with higher inequality, like the United States, have less intergenerational mobility (OECD 2014). A similar study used earnings mobility as a percentage to examine intergenerational mobility, with 100% indicating no relationship between father and son earnings, and 0% signifying fathers and sons earning the exact same amount. This study found that the United States was at 50%, on the low end of the scale compared to other European countries like Denmark, which was rated as high as 85% (Dadush 2012, 23).

Another concern with countries maintaining a high level of inequality is the relationship between inequality and education. This trend is worrisome, because it crosses the boundary from inequality having an effect only on economic issues to having an effect on social issues. One study, which looks at a country's Gini coefficients and its average performance on the test administered by the Program for International Student Assessment, discovers a negative correlation between inequality and education outcomes (Dadush 2012, 24). Another study shows that the gap in test scores between rich and poor children is 30-40% wider than it was 25 years ago. The author argues that "given that the distribution of innate intelligence is unlikely to have shifted so much in a generation, that suggests that rich youngsters are benefiting more than ever from their economic and social advantages" (Economist 2013a).

One final reason to deter the growth of inequality is that countries with a higher level of inequality also often have a higher level of poverty. One OECD study found that poverty and inequality have a tendency to move in unison and found that there is a statistically significant relationship between changes in Gini coefficients and in the corresponding poverty rate for OECD countries since 1995 (Dadush 2012, 29). It is no coincidence that the United States has the highest poverty rate among developed countries selected by the OECD, standing at 17.3%. Despite the United States having a relatively high median and mean income comparatively, its high levels of inequality result in a much higher percentages of poverty (Hacker et al. 2005, 7). This rate equates to about 1.8 times the average OECD country, which stands at 9.6% and is nearly three times higher than that of the lowest national poverty level, held by Denmark at 6.1% (Gould and Wething

2012). Even more startling may be the child poverty rate, which in the United States stands at 23.1%, which again is higher than any other country and only compares to the next highest rate held by Spain with a 17.1% child poverty rate (Gould and Wething 2012).

With America having such high levels of inequality and poverty compared to other countries, the troubling facts continue to mount. In the World Values survey, a disturbing 21.6% of Americans responded that they either often or sometimes have gone without cash income in the past 12 months. This can be compared with Germany at 3.8%, The Netherlands at 3.5%, and Sweden at 7.5% (World Values Survey 2010-2014). As a result, 11.3% of Americans responded that they often or sometimes have gone without enough food to eat in the past 12 months. When looking at the same countries, Germany had a rate of 3.2%, The Netherlands with 2.6% and Sweden with 2.5% (World Values Survey 2010-2014). It should be noted that these three countries have Gini coefficients/ poverty rates of 0.288/ 8.9%, 0.286/ 7.2%, and 0.253/ 8.4% respectively, compared to 0.369/ 17.3% in the United States (OECD 2012; Gould and Wething 2012). These statistics show the effect that higher inequality -and subsequently higher poverty- can have on the people of a country.

Along with the growing inequality in the United States follows Americans' growing dissatisfaction over their financial situation. As previously described, the Gini index has been on the rise in the United States in the past few decades. Correlating with that is the growing dissatisfaction of Americans at lower income levels. A Pew research poll shows that fewer than ever low-income Americans - those making less than \$20,000 per year- are satisfied with their financial situation (only 30%), since the poll was first taken in 1987. The same pattern can be seen with those at the income-level just above the lowest (\$20,000-\$40,000), where only 41% are satisfied with their financial situation, which is also the lowest since 1987 (Pew 2012). Overall, it appears that inequality is continuing to have a greater effect on Americans, in which larger number of lower-income individuals are exhibiting less financial satisfaction.

The Growing Gap

With inequality in the United States over the past decade being the highest since the early 1940s, there must have been one or more factors to trigger this huge change over time (Kuhlman 2014). Not only is there actual growth in the level of inequality, but Americans are also increasingly perceiving this trend. In 2012, 76% of Americans agreed with the statement "It's really true that the rich get richer while the poor get poorer", which is at an all-time high since

1987 and has grown approximately 6% over the past decade (Pew 2012). Similarly, in the same year, 65% of Americans said that they believe the gap between the rich and poor has gotten larger in the past 10 years, with only 7% believing it has gotten smaller. Moreover, of the 65% of people who believe the gap has grown, 57% believe that it is a bad thing for society (Drake 2013). Not only are Americans seeing a growth in the income collected by different socioeconomic groups, but there is also a growing perception that living standards are changing as well. In 2012, 61% of Americans perceived a larger gap in living standards over the past 10 years between the poor and the middle class. This can be compared to 1986, when Americans were asked the same question, only 40% perceived a larger gap in living standards. Today, even more Americans (76%) believe that the gap in living standards has grown over the past 10 years between the middle-class and the rich (Pew 2012). This poll shows that it is not only the income gap that is perceived to be growing, but there is also a perceived effect on the social living aspect of life.

The United States does not just face a high Gini index compared to other countries, but also in a historical context, the United States is seeing a rise overall in inequality. This time using data from the Congressional Budget Office (CBO), it is determined that the United States has seen a rise in its Gini index from 0.37 in 1979 to 0.49 in 2007. Not only was there an overall rise in the level of inequality, but the effect of redistribution of wealth also experienced a decrease between the same years from a 23% difference before and after taxes and transfers, to 17% (Dadush 2012, 7). Another way of looking at income inequality is to compare the mean income of a country with its median income. The mean does not properly represent a typical household income because there are far more people who earn lower incomes than people who earn higher incomes. Furthermore, those with exceptionally high incomes tend to skew the mean to be higher than the median (Dadush 2012, 8). Looking again at data between 1979 and 2007, the mean income between these years rose by 62%, whereas the median income only rose by 35% (Dadush 2012, 8). This growing gap between the mean and median incomes indicates a pattern in which those of higher incomes experience income growth more significantly than those at lower income levels. This demonstrates that overall in the past 30 years the gap between the rich and the poor has been growing.

The simple explanation for why inequality is increasing over time is the quicker growth of the top income earners compared to a much slower growth for the bottom income earners of the country. It is clear that over time, the wages of the top earners are continuing to increase, while

the bottom face a general stagnation. While overall incomes tended to rise between 1979 and 2007, there was an unbelievably disproportionate increase experienced by higher income earners. The CBO found that the only quintile between 1979 and 2007 to grow their share of the nation's income was the top quintile, which grew by about 10%. All of the bottom four quintiles of Americans found that their share of the nation's wealth over the 28-year period had declined. By 2007, the top quintile had grown so much that it acquired more of the nation's wealth (53%) than the bottom 80% (CBO 2011). In 2013 there seemed to be a reason for optimism, as for the first time in the previous five years, the median Americans' income had stopped falling (Economist 2013a). As previously mentioned, the median household income is much more revealing of a typical Americans' earning, which would seem to imply that in between 2008 and 2013, income groups other than the top 1 percent were seeing more growth. However, this notion was incorrect, as 95% of the gains from the recovery had gone to the richest 1 percent of people (Economist 2013a). Even despite the perception of growth by the bottom 80 percent of Americans with the rise in median household incomes in 2013, the top 1 percent still seemed to be able to capture a significant amount of the wealth from the recovery.

While it is clear that the top quintile of income earners in America have been improving significantly, it is actually the richest Americans at the top 1% and beyond which are experiencing the most growth. The CBO report shows that there was a 275% increase in income for the top 1 percent of households; 65% for the next 19 percent; just under 40% for the next 60 percent, and 18% for the bottom 20 percent (CBO 2011). The top 1 percent grew its total share of income received from about 8 percent in 1979 to over 17 percent in 2007 (CBO 2011). Even beyond the top 1 percent, there have been significant gains by the top 0.1 percent and even the top 0.01 percent. In the same period between 1979 and 2007, the top 0.1 percent saw an increase in its share of the wealth from 3.44% to 12.28%, with the top 0.01 percent increasing from 1.37% to 6.04% (The World's Top Income Database 2012).

The share of income received by other households in the highest quintile did not see the same gains, only increasing from 35 percent to 36 percent. In contrast, the share of after-tax income received by the 60 percent of the population in the three middle-income quintiles fell by 7% between 1979 and 2007, and the share of after-tax income earned by the lowest-income quintile decreased from 7 percent to 5 percent (CBO 2011). With a disproportionate amount of wealth finding its way to the top 1 percent of income earners, the CBO found that without calculating in

the top 1 percent, inequality would not have seen the same gains between 1979 and 2007. The report noted that if the top 1 percent had been excluded from the calculation of the Gini coefficient, inequality would have only seen a 13.8% increase in the Gini index, as opposed to the actual increase of 23.2% (Dadush 2012).

Why Inequality Has Grown- Public Policy Decisions

This exceptional movement of wealth in the United States to the top 1 percent, in part, can be explained by some public policy choices that have worked to disproportionately favor the wealthiest Americans and to an extent, disenfranchise those earning the least. It must be noted that public policy in the United States has a significant effect on inequality. However, there are other forces widely recognized by authors that account for the rise in inequality in the United States and throughout the rest of the world. The influence of globalization and emerging technologies are two reasons commonly referenced for overall trends in the increase of inequality (OECD 2012b, 187). While inequality has been on the rise throughout most of world, the United States has faced a larger increase in inequality since 1980, with a 15% increase, whereas the OECD average is around a 9% increase. Not only has there been more of an increase since 1980, but the United States also started with more inequality than the average OECD country, so this increase since 1980 has resulted in a large distinction in inequality between the United States and other countries (OECD 2014, 3). Because the United States faced a larger increase in inequality over this time, certain public policies in the United States can be pointed to for this result.

One policy that has hurt Americans at the lowest end of the income spectrum is the lack of a minimum wage pegged to inflation. Because the United States lacks a minimum wage that keeps up with inflation over time and Congress often fails to adjust it manually, there are years that go by where those earning the minimum wage are making less than they were several years prior. While policies that overwhelmingly help the rich in the past were a result of certain actions taken by Congress and the president, low minimum wage is actually a result of inaction by Congress either to raise the rate themselves, or to allow it to adjust with inflation. Every year that the minimum wage stays the same, its purchasing power decreases a little bit due to cost-of-living increases (Vinik 2008). Because Congress fails to tie the minimum wage to inflation, those earning the minimum wage often see a decline in the value of their pay. After adjusting for inflation, the real minimum wage saw an all-time low in 2006, when it reached a value of \$5.97 (Vinik 2008). A cross state analysis showed that the decline of the real federal minimum wage over time may

have had a substantial impact on the rise in income inequality by keeping down income at the bottom end of the distribution (Dadush 2012, 66).

Because the minimum wage is the lowest amount of money that someone is able to earn (excluding employees working for tips), its decrease in value will have a disproportionately high effect on those earning the least amount of income. Thus, part of the reason why the poor continue to get poorer in the United States is because of the decline of the value of their wages. Today, the minimum wage has not been raised since 2009, meaning that there has been a 5.8% decrease in its purchasing power over the last five years (Economist 2013b). This only continues to hurt the lowest income earners and widen the gap between the rich and the poor. Many Americans are forced to work in jobs that barely keep them afloat. About one-fourth of workers in 2010 earned poverty-level wages, which means they earned less than a full-time, full-year worker would need to earn to reach the poverty threshold for family of four, which was \$22,314 in 2010 (Lawrence 2012, 419). Seeing as the current federal minimum wage of \$7.25 an hour would earn a full time worker working 40 hours a week for all 52 weeks a year only \$15,080, it is no wonder that such a high percentage of Americans are working in poverty.

Not only has public policy resulted in the poor getting poorer, but it has also allowed the rich to get richer. When examining the top marginal tax rate in the United States over time, there has been an enormous drop over time, especially since the 1950s. Because of some very specific public policy initiatives regarding income tax policy, the wealthy have been able to continue to grow. During World War II, in order to raise revenue, the top marginal tax rate was raised to an all-time high of 94%. For the most part, this rate did not waver until the early 1960's after the passage of the Tax Reduction Act, which lowered the top rate to about 65% (Thorndike 2011). Since then, the rate paid by the highest tax bracket has significantly declined, today levelling out at 39.6%. As a result, the wealthy are enabled to continue to grow their wealth because they are paying so much less in taxes.

The United States saw its lowest levels of inequality from the 1950s to the 1970s (Kuhlman 2014). It is no coincidence that during this time, the top marginal tax rate ranged from 70% to 93% (Thorndike 2011). The election of President Reagan in 1980 would change this era of equality and help turn the United States into the highly unequal country that it is today. Regan's new ideology would lead to significantly lower tax rates and an overall skyrocketing of inequality in the United States. The first issuance of policy that would affect the top marginal tax rate came

with the passage of the Economic Recovery Tax Act of 1981. This resulted in the top marginal tax bracket being reduced from 70% to 50% (Fisher 2009, 62). These tax-cuts overall were the largest in history up until that point and accounted for just more than 2% of the nation's GDP (Fisher 2009, 63). This reduction in the top marginal tax rate would allow the highest income earners keep a larger share of their income, post-tax. Between 1980 and 1985, the effective tax rate (the percentage actually paid) for the top 1 percent saw a 13% decline (Logan 2011). These cuts ultimately allowed the top 1 percent to grow their share of the nation's wealth by 11%, from 8.18% in 1980 to 9.09% in 1985, without accounting for capital gains (The World Top Incomes Database 2012). This same five-year period also happened to see a 10.7% increase in inequality based on the Gini coefficient (OECD Database 2012). This clear rise in the share of the top 1 percent's wealth as well as the rise in inequality display the effect that these large tax cuts for the wealthy had on inequality over a short period of time.

The next policy to affect the overall inequality in the United States was Reagan's second sweep of tax cuts known as the Tax Reform Act of 1986. The main motivation behind this bill was that tax exemptions and deductions had gotten out of control and the aim was to simplify the tax code, while broadening the tax base and eliminating many tax shelters (Fisher 2009, 64). This policy went even further in growing inequality, as for the first time in the history of the United States, the top marginal tax rate was reduced, while simultaneously the lowest rate rose. Reagan cut the top marginal tax rate from 50% to 28%, and raised the lowest tax rate from 11% to 15% (Fisher 2009, 65). These slashes in the top marginal tax rate then resulted in huge differences, equating to a 26% reduction, in the effective tax rate, over the next five years (Logan 2011). In these same five years alone, the top 1 percent saw a 33% increase in their share of the nation's wealth, moving from 9.13% in 1986 to 12.17% in 1991 (The World Top Incomes Database 2012). Surprisingly, in this same five year period, inequality only rose by 2%, but if the timeline is extended to 1993, an 8% increase in the Gini coefficient is observed (OECD Database 2012). While inequality in the five years after the Tax Reform Act of 1986 did not increase significantly, there was clear evidence to show that during this period, the wealthy made out with more money than in the years prior.

There was one final tax cut, enacted by George W Bush, known as the Economic Growth and Tax Relief Reconciliation Act of 2001, which again disproportionately helped the wealthy. After Bill Clinton had raised taxes in the early 1990s, which resulted in a budget surplus, the debate

began on whether to cut taxes or increase spending with the surplus money. With Bush's victory over Gore in the contentious 2000 presidential election, it was clear that the goal would be to cut taxes; and that is exactly what he did. Bush managed to push this bill through Congress, which ultimately lowered taxes for all income groups, but the wealthiest Americans felt the impact much more significantly. In the end, the top marginal tax rate was only cut from 39.6% to 35% (Fisher 2009, 69). Even though Bush enacted across the board tax cuts, by 2006, the cuts were equivalent to 0.3% of after tax income for the bottom quintile, 2.5% for the middle quintile, and 4.1% for the top quintile. Moreover, it was found that for the wealthiest 1 percent, the Bush tax cuts resulted in a 12% cut in overall taxes, whereas the bottom quintile only saw a 3% reduction in overall taxes (Fisher 2009, 70, 74). Examining the five years after the Bush tax cuts, the wealthiest 1 percent saw a decrease of 17% of their effective tax rate (Logan 2011). This resulted in the 17.5% increase in their share of the wealth over the same period of time, and a more than 6% increase in the Gini coefficient in the United States (The World Top Incomes Database 2012; OECD Database 2012). After the income tax cuts implemented by both Reagan and Bush, it is clear that the wealthy, especially the top 1 percent, were the ones who experienced the greatest victories. Of the 400 wealthiest households in 1955, their effective tax rate came in at 51.2% of their income. In 2007, the 400 wealthiest households paid a mere 16.6% of their income (Bartlett 2012, 129). This huge reduction in the effective tax rate paid by the wealthiest Americans can be credited to the income tax cuts implemented by Ronald Reagan and George W Bush.

One final policy that has a negative effect on inequality is the lowering of capital gains taxes. A lower rate of taxation on capital gains is ultimately regressive, because it overwhelmingly targets those at the highest income levels. Overall, the share of capital income is extremely concentrated with the top income earners. In 2007, the bottom 90 percent of earners made less than 10% of the nation's share of capital gains (CBO 2011, 11). Because there is such a concentration of capital gains earned by the top income earners in the United States, lowering the capital gains tax would mainly only affect the top earners. Those at the bottom would feel little difference in overall earnings and as a result, the top income earners would end up with more money in their pockets, and ultimately lead to higher inequality.

As part of the Economic Recovery Tax Act of 1981 the capital gains taxes were reduced from 28% to 20% (Tax Policy Center 2009). As a result of this, the top 1 percent increased its share of the nation's wealth by over 26% including capital gains (The World Top Incomes

Database 2012). In 2003, with the passage of The Jobs and Growth Tax Relief Reconciliation Act of 2003, George Bush again managed to aid the wealthy by cutting the top capital gains tax rate from 20% to 15% (Fisher 2009, 76). As a result of these cuts, those with adjusted gross incomes greater than \$10 million saw an average savings of 95% from 2001 to 2003. On the contrary, the 71% of Americans making less than \$50,000 saved an average of just 2% (Fisher 2009, 76). In the four years following Bush's tax cuts on capital gains, the top 1 percent saw a 34% increase in their share of the nation's wealth when including capital gains earnings (The World Top Incomes Database 2012). It is clear that capital gains are widely held by the top earners in the United States and as a result, the lowering of taxes on capital gains means the expansion of the wealthiest class in America.

As a result of these public policies which favored the wealthiest Americans and did not help those at the bottom, the United States saw an increase in its overall level of inequality throughout these years. In 1980, when Reagan entered office, the top 1 percent of Americans held 10.02% of the nation's wealth, including capital gains. When George W Bush left office in 2008, the top 1 percent controlled 20.95% of the nation's wealth, a 109% increase in their share (The World Top Incomes Database 2012). In 1980, the United States had a Gini coefficient of 0.307 after taxes and transfers. Twenty eight years later, after Reagan and Bush managed to introduce policies which disproportionately helped the wealthy, the United States had a Gini coefficient of 0.379, which is more than a 23% increase (OECD Database 2012). After years of policies that favored the wealthy and drove up inequality in the United States, it is no wonder that 60% of Americans believe that the economic system unfairly favors the wealthy (Pew 2014).

How to Reduce Inequality with Public Policy Solutions

In order to solve the high inequality present in the United States, a look to both history and abroad to countries with lower levels of inequality is necessary. History has already shown what policies have had a negative effect on inequality in the United States, but it can also show which policies can limit inequality. Similarly, policies and data from other countries can help to show what is being done properly today to reduce inequality. In the end, it will be discovered if the United States can act on some of these policies and if the American people would favor them.

In President Obama's 2014 State of the Union address, he called on Congress to raise the minimum wage from \$7.25 to \$10.10. It then did not take him long to issue an executive order to raise the minimum wage of federally contracted employers to this desired rate (Perez 2014). The

president strongly believes that no person should have to work a full time job and still raise a family in poverty because the minimum wage does not allow them to make enough (Perez 2014). It seems that Americans tend to agree that there is a problem when it comes to poor Americans' inability to earn enough money. In a 2012 Pew poll, 65% of Americans said that most poor people work, but cannot earn enough money. This opinion has risen over the past two decades since 1994, when only 49% of people agreed with this statement (Pew 2012). This policy initiative, if enacted, would work to raise millions of Americans out of poverty and in the end, possibly reduce inequality in the United States.

A study conducted by the OECD revealed that a rise in the minimum wage as a share of the median wage would result in a significant rise in earnings equality (OECD 2012b). Essentially, this showed that an increase in the minimum wage would create more equality among those who currently earn an income. Aside from an increase in equality, there at least seems to be agreement that a raise in the minimum wage would at least reduce the level of poverty. As stated previously, poverty and inequality have a correlation, which could indicate that the reduction in poverty could then result in a reduction of inequality. It is shown that raising the minimum wage by just 10%, or from about \$7.25 to \$8 per hour would reduce the number of people living in poverty by 2.4% (Konczal 2014). Following the same model, raising the minimum wage to \$10.10 an hour, would reduce the number of people living in poverty by 4.6 million (Konczal 2014). It is clear that increasing the minimum wage is an overwhelmingly progressive policy, with nearly half of the benefits of an increase to \$10.10 going to households making under \$35,000 (Furman and Stevenson 2014). Furthermore, a family of four with one person working a full time job at the current minimum wage leaves the entire family in poverty. With an increase to \$10.10 an hour, this same family of four would now be lifted above the poverty line (Furman and Stevenson 2014).

While the average American is far richer than most- for every 100 Dollars the average OECD citizen makes, an American makes 123 Dollars- the poorest 10 percent of Americans make only 73 cents for every Dollar of the other OECD countries. Even though the US ranks third on average OECD incomes, behind only Luxembourg and Norway, it ranks 18th for those in the bottom 10 percent (OECD 2014). In another disturbing trend, between 1985 and 2005, the average household income in the United States grew by 25%, but the poorest 10 percent only saw a 3% increase in income (OECD 2014). A partial explanation for this could be the failure of the real minimum wage to adjust for inflation. When consulting with the real minimum wage over time

adjusted for inflation in 2013 dollars, there is a decrease from 1985, with the real minimum wage standing at around \$7.50, to 2005 where the real minimum wage was about \$6.00 per hour (Vinik 2013).

Minimum wage is difficult to examine and analyze and a comparative level because many countries do not have any minimum wage laws in place, or if they do, they are at a state or local level. However, those developed countries with a minimum wage in place are often higher than the United States in both US dollars as well as a percentage of the median wage. For example, the countries of Luxembourg, Australia, France, Britain and Canada all have a higher minimum wage in US dollars but also make up a higher percentage of the median wage (Economist 2013b). The higher the minimum wage is as a percentage of the median wage, the closer the bottom earners are to the middle income earners. As a result, a country would not only be left with a better off lower class, but also with less inequality. All five of the previously mentioned countries, aside from Britain, have a lower Gini coefficient before taxes and transfers (OECD 2012a). As higher minimum wage is said to reduce poverty, it is then worth noting that all five countries with a higher minimum wage as a percentage of their median income have a lower poverty rate than the United States. The closest rate can be found in Australia, which has a poverty rate 2.7% lower than that of the United States (Gould and Wething 2012). While it is difficult to determine the real effect of the minimum wage on inequality, it is clear that those countries with higher minimum wages than the United States tend to face lower inequality and have lower poverty rates.

Over the years, there have been numerous polls conducted on the popularity of raising the minimum wage, and since President Obama's announcement of his intention to raise the minimum wage to \$10.10, even more polling has been done to gauge Americans' approval. The simple fact is that raising the minimum wage is almost always favored by a majority. Looking back at several polls conducted by Gallup reveals an overwhelming favorability for raising the minimum wage. In five polls conducted between 1995 and 2005, the lowest rate of support within this 10 year period was 77% in 1995. Favorability for raising the minimum wage peaked in both 1996 and 2005 at 83% (Saad 2013). When looking to see the effect of a candidate's stance on increasing the minimum wage to \$10.10 in the 2014-midterm elections, a poll found that 50% of Americans would be more likely to vote for a candidate if they supported the increase. This compares with only 19% of people who said they would be less likely to vote for a candidate who supports the increase in the minimum wage (Drake 2014). Finally, looking at President Obama's policy soon

after the State of the Union, it had a 73% overall favorability against only 25% who opposed. While both Democrats and Republicans favored this policy with a majority, there is a notable partisan gap in the responses, with 90% of Democrats supporting it and 53% of Republicans (Pew 2014).

Despite overwhelming approval of the policy, Congress has still yet to pass any legislation in 2014 to raise the minimum wage. In fact, the bill introduced to the senate sponsored by Senator Tom Harkin, which represents President Obama's policy, was filibustered and failed to get the 60 votes required to pass the cloture. In the end, the bill received 54 votes in favor of moving on, with 53 of those votes coming from Democratic Senators and just one coming from a Republican (Lowery). Despite Congress failing to make progress on the passage of a higher minimum wage, four states passed referendums in order to increase the minimum wage. All four of these states, Alaska, Arkansas, Nebraska and South Dakota passed these initiatives with overwhelming support, with South Dakota representing the closest vote at a 10% point passage (CNN 2014). Interestingly, these four states are known for being historically Republican and voted against Obama in the 2008 and 2012 presidential elections. Not only have the polls shown significant American favorability consistently over time, but the passage of initiatives in four historically Republican states to raise the minimum wage display that these measures are extremely popular, even across party lines.

In January of 2013 Congress passed, with the approval of the president, the American Taxpayer Relief Act of 2012. One of the aims of this bill was to ensure that 98% of Americans did not see an increase in taxes and that the wealthiest Americans would be taxed slightly higher. With the passage of this bill, the top marginal tax rate increased from 35%, which was reduced under Bush, back to 39.6% (Compton 2013). If it was not clear already that President Obama is looking to help the average American and as a result, reduce inequality, he proposed his budget for the 2015 fiscal year in March. It appears that he is seeking to increase tax rate progressiveness by suggesting that high-income taxpayers have limited itemized deductions. The "Buffet Rule" is a 30% minimum tax on high-income earners, which would also force higher income earners to pay more of what would be considered their fair share of taxes and increase progressivity (Lundeen and Pomerleau 2014).

Raising taxes on the wealthy is actually a common suggestion by many authors when putting forth ideas on how to fix a country struggling with high inequality. An OECD article examining inequality in the United and around the world suggests that improving the tax code to have higher taxes on the wealthy is the most direct and powerful instrument to redistribute income.

As top earners now have a greater capacity to pay taxes than before, governments may want to re-examine their tax systems to ensure that wealthier individuals contribute their fair share of the tax burden. This goal can be achieved in several different ways- not simply by only raising marginal tax rates on the rich, but also improving tax-compliance and eliminating or reining in tax deductions that tend to benefit high earners disproportionately (OECD 2014). In another study that sought to find ways to limit inequality while growing the economy, similar results were found, which suggest limiting tax expenditures that often favor high-income individuals as well as raising the top marginal tax rate. It is posited that limiting tax expenditures is both progressive in nature and good for the economy. However, raising top marginal tax rates was disputed in whether it would or would not increase overall GDP, so it was seen as revenue neutral (OECD 2012b). Finally, an empirical study was conducted in order to determine whether or not there is a relationship between tax progressivity and income inequality. Their tests found that there is a negative correlation between personal income tax progressivity and observed income inequality. They also discovered evidence that changing progressivity at the top of the tax schedule is more effective in reducing inequality than changes made to those at the lower end of the income spectrum (Duncan and Peter 2012).

Thus far, history has been a good guide on policies that have had a negative effect on income inequality and also resulted in growing the highest income earners more than those at the bottom. History can also prove that certain policies can have a positive effect on inequality. Take for example, the Omnibus Budget Reconciliation Act of 1993, which was passed under President Bill Clinton and raised the highest marginal tax rate on the wealthiest Americans from 31% to 39.6% (Tax Policy Center 2009). As a result, the wealthiest 1 percent actually saw a 10% increase in their effective tax rate over the next five years (Logan 2011). In a similar relationship, the Gini coefficient in the United States decreased by more than 3% over the same five year period (OECD Database 2012). Clinton's policy of raising the top marginal tax rate actually managed to raise the effective tax rate for the top 1 percent and lower the level of inequality in the United States. This policy provides actual solution to the problem of growing inequality, as it is one of the few times that inequality shrunk between 1980 and 2007.

There are also several examples on an international level, which can show that countries with higher top marginal tax rates have lower levels of inequality. Simply looking at an overall picture of inequality comparatively displays the general negative correlation between higher

marginal tax rates and lower levels of inequality measured by the Gini coefficient. The authors of a recent study found a correlation between the change in top marginal tax rates over a period of time and the increasing share of wealth held by the top 1 percent in that country. With an elasticity of 0.47, it is apparent that the change in top 1 percent income share generally moved in the same direction as the change in top marginal tax rates (Gongloff 2012).

To have a more in-depth comparison, examining just a few countries with lower Gini indexes and higher top marginal tax rates compared to the United States may show a more detailed result. Because the Scandinavian countries are known for the generally high tax rates, it may be useful to use them for this comparison. Taking a look at Denmark, Sweden and Norway, their top marginal tax rates are 62.28%, 56.74%, and 40% respectively, compared to the rate of 39.6% in the United States (Nationmaster.com 2009). When looking at the share of wealth that the top 1 percent has in these countries, there is a very distinct difference. In the United States, excluding capital gains, the top 1 percent held 19.43% of the nation's wealth. That can be compared with the rates in the respective countries of 6.41%, 7.80% and 7.13% (The World Top Incomes Database 2012). Looking into the effect of taxes and transfer on inequality comparing these countries will also paint a clear picture. The United States' taxes and transfers system results in a 19% reduction in inequality, but this is very small compared to the respective countries, which find an effect of 37.8%, 35%, and 38% (OECD 2012a). It is apparent, after looking at these three countries with the United States, that their higher marginal tax rate, with additional aid from a generous transfers system, is helpful in reducing the wealth shared by the top 1 percent, which subsequently helps to reduce inequality.

Obviously, the United States does not have a top marginal tax rate that would compare to some other OECD countries, but do the American people even want something like that? The short answer is yes. When asked in 2012 if they believe that upper-income people pay their fair share in federal taxes, only 25% said that they are, with 62% claiming that upper income people do not pay enough (Saad 2012). This is not a new trend either. As many as 77% in 1992 said that they believed upper-income people are paying too little in federal taxes. Since 1992, no less than 55% of people agreed with this statement. In 2012, 64% of Americans were in favor of raising taxes on people who make over \$1 million per year. This poll yielded a partisan gap of 83% in favor for Democrats and 40% of Republicans in favor (Dutton 2012). In January of 2014, 54% of Americans agreed that the government should raise taxes on the wealthy in order to expand programs for the poor.

Again, there is a wide partisan gap, with 75% of Democrats favoring it and 29% of Republicans favoring it (Pew 2014).

At the end of the calendar year, Congress passed the American Taxpayer Relief Act of 2012. As a result of policy initiatives by President Obama, this bill raised the capital gains tax from 15%, which was set by George W Bush, back up to 20% (Compton 2013). While the president is not currently seeking to increase the capital gains tax any further, it may be useful for him to consider this if reducing inequality in the United States is a goal he wishes to accomplish.

The main contention with raising capital gains taxes seems to be the concern over whether an increase in capital gains tax will decrease motivation to invest. However, there is rather widespread agreement that the capital gains tax would disproportionately affect the top income earners and that it would ultimately work to reduce inequality. In summarizing policies that would help to minimize inequality, one OECD report suggests raising the capital gains tax in order to minimize inequality. Because it disproportionately affects those at the top income level, an increase would cause a reduction in the post-tax income for the wealthiest Americans and have little to no effect on the rest of Americans (OECD 2014). Another OECD report explains that “Tax relief – such as reduced taxation for capital gains from the sale of a principal or secondary residence – often distorts resource allocation without boosting aggregate savings and growth, and benefits mainly high-income groups. Specific tax relief may also provide tax avoidance instruments for top-income earners. In particular, there is little justification for tax breaks for stock options and carried interest” (OECD 2012b). This report echoes that of the earlier one in explaining that the wealthiest Americans would be the ones to benefit from a cut in capital gains taxes and thus would increase inequality.

The bottom 90% of Americans only claim an 8% share of the nation’s capital gains (CBO 2011). Because of this, the 2003 Bush tax cuts, which ended up lowering the capital gains tax from 20% to 15% resulted in an enormous gain for the wealthiest, with very minimal gains for the rest of the country. As a result, those who made over \$10 million a year saw an average increase of 95%, whereas the 71% at the bottom only saw a 2% increase (Fisher 2009, 76). Policies like this are the cause of increased inequality. This policy only managed to increase the wealth held by the top income earners in the United States. On a comparative note, excluding those countries with 0% taxation on capital gains, the United States finds itself having one of the lowest capital gains tax rates in the world. After being increased by the Obama administration, the capital gains tax in

the United States is 20% on long term investments over one year. When examining the same countries of Denmark, Sweden and Norway, their rates end up at 42%, 32% and 28% (Tax Foundation 2011). Because the impact of taxes and transfers, such as the capital gains tax from these countries, as mentioned earlier, these countries enjoy much lower inequality than the United States.

Because capital gains taxes are not quite as hotly contested amongst the American public as the previous policies, there is much less data on public opinions. These opinions may not also be as accurate as some of the others because capital gains tax is a much more complex issue, of which some Americans are not aware. However, when asked in 2012, Americans responded with 52% in favor of taxing capital gains at the same rate as income earned from work and only 36% saying it should remain the same. Taxing it at the same rate would result in an increase in the rate for those earning the most. On this issue as well as the others, there is a partisan gap, with 66% of Democrats in favor of the raise and only 33% of Republicans in favor of it (Kopicki 2012).

Conclusions and Predictions

In both a historical perspective and a comparative perspective, the United States finds itself with a high level of inequality. There are some clear policies enacted by Republican presidents, which resulted in an increase in the share of the wealth held by the top 1 percent and a subsequent rise in the level of inequality as measured by the Gini index. These policies that allow for the rich to benefit more than the poor or middle class ultimately have left the United States in a position where inequality is at the same level as it was in the 1940s and this level is higher than any other developed democracy. In comparing the United States both throughout its history and with other developed democracies, some policies have been targeted for reconsideration by Congress that would ultimately limit inequality. The real concern should be in the repercussions that a high level of inequality brings with it. Factors such as inferior education, higher levels of poverty, and poor Americans overall being in a worse position financially than those in other countries should be cause for concern.

In analyzing the popularity of the recommended public policy changes, all had a majority of favorability amongst the American public. It is strange that none of these issues are taken up by Congress, especially with such high opinions of these measures. I will offer two possible reasons, which are in some ways related, for this oddity. The first is the extreme increase in polarization in the United States public as well as in Congress. A recent data analysis shows the correlation

between partisanship in the House of Representatives and the increase of the Gini coefficient over time. There is a significance of 0.93, which means there is a high correlation between the two factors (Kuhlman 2014). Setting aside the Gini index, the study also makes it clear that there has been a significant increase in polarization in the House since 1944. Polarization is not just seen in Congress, but also in American political behavior, as displayed in the large partisan gaps apparent on all of the policy issues. The second factor is the nature of the American Constitutional system. Because the system of government is designed for compromise due to these excessive checks and balances, not often present in other governments, the presence of extreme partisanship forces everything to come to a halt. If Congress cannot get anything accomplished, then there is at least hope that the American people may surpass Congress and look increasingly to referendums. Because of the immense gridlock that is present today, the American people will see an increase in referendums during elections in the future, just as they did during the 2014-midterm elections. If Congress cannot come together to compromise, maybe the American people will simply learn to surpass this system.

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