S. HRG. 117–33

THE INCOME AND WEALTH INEQUALITY CRISIS IN AMERICA

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

March 17, 2021

Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PUBLISHING OFFICE
45–040 WASHINGTON : 2021

COMMITTEE ON THE BUDGET

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WEDNESDAY, MARCH 17, 2021

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U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to notice, at 11:00 a.m., via Webex and in Room SH–216, Hart Senate Office Building, Honorable Bernard Sanders, Chairman of the Committee, presiding.

Present: Senators Sanders, Whitehouse, Kaine, Van Hollen, Luján, Graham, Grassley, Crapo, Toomey, Johnson, Braun, and Scott.

Staff Present: Warren Gunnels, Majority Staff Director; and Nick Myers, Republican Staff Director.

OPENING STATEMENT OF CHAIRMAN BERNARD SANDERS

Chairman SANDERS. Okay. Let us get to work.

Let me begin by thanking Ranking Member Graham and the other members of this Committee for being with us this morning. Some will be here, some will be virtual. And I also want to thank the many witnesses who will be with us today remotely because of the pandemic.

Today we are going to be discussing an issue that, in my view, is of enormous consequence, both morally and economically. But it is an issue that gets far too little discussion, and that is, the crisis of income and wealth inequality in our country.

The simple truth is that today in America the very, very rich are getting much richer, while tens of millions of working-class Americans are struggling to put food on the table and take care of their basic needs.

This morning we are going to learn why it is that the middle class in our country, once the envy of the world—the whole world looked to the United States and saw a growing and strong middle class—but why it is that that great middle class has been in decline for decade after decade after decade while at the same time there has been a massive transfer of wealth from working families to the top 1 percent, an issue that needs to be discussed.

We are going to be talking about why it is that during this horrific pandemic 63 percent of our workers have been living paycheck to paycheck, worried that if somebody in the family gets sick or the car breaks down, they will be thrown into financial desperation because they do not have the money to pay those bills.

Meanwhile, same exact time, 660 billionaires, the richest people in America, have become $1.3 trillion richer. So during the pandemic, millions of people are struggling to put food on the table. A handful of billionaires are becoming much richer.

We are going to talk about the obscenity of the 50 wealthiest Americans now owning more wealth than the bottom half of our society—50 people, half of our people, 160 million people—while at the same time over 90 million Americans are uninsured, have no health insurance, or are underinsured, cannot afford to go to a doctor when they get sick. Is that the America that we want? I do not think so.

We will be asking about how it happens that the top one-tenth of 1 percent now owns more wealth than the bottom 90 percent—one-tenth of 1 percent more wealth than the bottom 90 percent—and two individuals, Bezos and Musk, now own more wealth than the bottom 40 percent. And, meanwhile, we are looking at more hunger in America than at any time in decades.

Incredibly, if income inequality had remained the same as it was in 1975, the average worker in America would be making $42,000 more today than he or she is earning. Instead, as the number of billionaires explodes, the average worker in America is now making $32 a week less than he or she made 48 years ago after adjusting for inflation. So you have got a huge explosion in technology, worker productivity, average worker today making less in real dollars than they did 48 years ago.

Today we are going to be talking about what it means morally and economically when one person in this country, the wealthiest person in the world, Jeff Bezos, has become $77 billion richer during this horrific pandemic, while denying hundreds of thousands of workers who work at Amazon paid sick leave and hazard pay.

As you may know, I asked Mr. Bezos to testify at this hearing. He declined my invitation, and that is too bad, because if he was with us this morning, I would ask him the following question, and that is: Mr. Bezos, you are worth $182 billion—that is a "B"—$182 billion; you are the wealthiest person in the world. Why are you doing everything in your power to stop your workers in Bessemer, Alabama, from joining a union so that they can negotiate for better wages, better benefits, and better working conditions?

While Mr. Bezos would not be with us today to answer those questions, we are going to hear from Jennifer Bates, an Amazon worker in Bessemer, Alabama, who will tell us what it is like to work for one of the most profitable corporations in America and why she and her co-workers are trying to form a union there.

But let us be clear. Amazon and Jeff Bezos are not alone. The American people are increasingly disgusted with the corporate greed they are experiencing every single day. They are sick and tired of corporate Chief Executive Officers (CEO) who now make 320 times more than their average employees, while at the same time give themselves big bonuses, all kinds of golden parachutes, and yet they cut back on the health care that their workers have. They want corporations to invest in workers, in decent wages, benefits, and working conditions, not just higher dividends, stock buybacks, and outrageous compensation packages for their executives.

And that is why I am introducing legislation today to impose an income inequality tax on corporations that pay their CEO over 50 times more than their average workers. It has always been true, of course, that CEOs make more than their employees. But what has been going on in recent years is totally absurd.

In 1965, CEOs of large corporations made just 20 times as much as their average workers. Today those CEOs now make over 300 times and in some cases over 1,000 times more than their average workers. That is absurd, that is wrong, and that has got to change.

Now, when we talk about the need to protect the working class in this country and to address the crisis of income and wealth inequality, there is an enormous amount of work that Congress has got to undertake. We need to raise that minimum wage to a living wage. Nobody who works 40 hours a week should live in poverty, and that living wage should be at least 15 bucks an hour.

We need to make it easier for workers to join unions, not harder. The massive increase in wealth and income inequality today can be directly linked to the decline in union membership in America. We need to create millions of good-paying jobs, rebuilding our crumbling infrastructure, our roads, bridges, wastewater plants, sewers, culverts, building the affordable housing that our people need.

We need to transform our energy system away from fossil fuel, and when we fight to protect our kids and this planet from climate change, we also create millions of good-paying jobs.

We need to guarantee and do what every other major country on Earth does, and that is to guarantee health care to all people as a human right. Health care is a human right, not a privilege. We need to make sure that all of our young people in this country have the right to get a higher education, regardless of their income, and, yes, we need to make sure that the wealthiest people and large corporations start paying their fair share of taxes.

Now, I know that my Republican colleagues have a different view. I suspect that Senator Graham will disagree with one or two things that I have said. I may be wrong about that. But at a time of massive income and wealth inequality, I do not believe that we should be giving more tax breaks to the rich. In fact, amazingly enough—and maybe we can discuss this—several of my Republican colleagues in the Senate, including Minority Leader McConnell, introduced a bill to repeal the estate tax, legislation that would provide $1.7 trillion in tax breaks to the billionaire class while doing nothing to help working families or family farms.

Let us be clear. Repealing the estate tax would only benefit the top one-tenth of 1 percent who inherit over $11.7 million; 99.9 percent of the American people would not receive a penny if this legislation became law.

So the bottom line is today we are discussing a huge issue that has broad implications for every person in this country, and I look forward to our panelists' presentation and to the discussion.

Senator Graham.

OPENING STATEMENT OF SENATOR LINDSEY GRAHAM

Senator GRAHAM. Thank you, Mr. Chairman. One thing we will agree on is that you believe this. You have been the most consistent voice I think in the country over a long period of time on issues like this. We do have disagreement, but I like working with people who believe what they believe.

Now, here is some common ground, I think. Most of us do not want the consolidation of wealth and power to lie in the hands of the few through ill-gotten gain, through monopolies, through unfair trade practices, through criminal enterprise, market manipulation. But if you can make your money legally and fairly, good for you.

And that brings us to the question of Big Tech. I do not know what we do about this, Mr. Chairman, but the question for me is: Have we let too much power consolidate in the hands of Big Tech? Is it a virtual monopoly in terms of flow of information? And have we allowed these new technologies to become the modern version of robber barons of the last century? And I would like to talk more about that. I do not know if you need to break these companies up or not, but Section 230 and other things we need to revisit.

But, generally speaking, this has been a capitalist Nation, and I hope it remains so, with regulation to prevent environmental abuse and make sure people play by the rules. To me, the Government plays a role in keeping the water in the banks. When people start creating monopolies, that is unfair to other competitors. When people cheat and scheme and get rich off bad business practices, that is something we all should be concerned about.

But the Gallup poll company has been asking Americans what they think is the most important problem facing the country every month for a long time. In the latest survey, 26 percent said it was the coronavirus; just 1 percent said it was the gap between rich and poor.

Now, how can that be? I actually believe that. I believe that most Americans do not spend their time wondering about how to take from somebody else. They are wondering about how do I get ahead, and they are looking for opportunity, and they should be demanding that opportunity.

One thing that I think we can start focusing on is how do you lift people up who have been in poverty, how do you present better opportunity. There is the way described by the Chairman, and I think the other way that I like is Senator Scott, who is focused on enterprise opportunity zones in blighted neighborhoods, making sure that there are tax advantages for businesses like Amazon and others to go into these neighborhoods and increase wages by having better business opportunity.

But all of us have one thing in common here on this Committee. We had good educations. And if you want to level the playing field for America, make sure that every kid, regardless of Zip code, has an adequate opportunity to be well educated, and I believe in public school systems. I am a product of it. But the question becomes: What happens when a public school fails time and time again? What are the things that we can do to level that playing field?

So here is what the Census Bureau said: that the poverty rate hit an all-time low in 2019, and that between 2017 and 2019 income inequality actually declined; that before the pandemic, the unemployment rate was at a 50-year low; the rates for African American, Hispanic, and people with disabilities hit their lowest unemployment levels on record; wages were rising at the fastest pace in years; and they were rising fastest for blue-collar workers.

So there are two different models being suggested here, and I think the model that we are suggesting is that accumulation of wealth through monopolies and other unfair trade practices or manipulation of markets or criminal enterprises. We should all be against that. But like Bill Gates, you invented something a lot of people want. Amazon, they found a way to get you products that you want. The problem, Mr. Chairman, is online shopping may put brick-and- mortar businesses out.

So one of the things that I have been focused on is making sure that sales taxes are collected from online vendors like a brick-and-mortar business, like my family had, because that would create a tax advantage for online businesses.

So I want a level playing field in terms of regulation and taxes and educational opportunity, and I think that is the role of the Government, not picking who gets this and who gets that and what is too much money. I think that if the Government gets in that business, it will do more harm than good. But I am looking forward to working with you on this and many other issues, and, quite frankly, I am enjoying this Committee because we are talking about things that matter.

So thank you.

Chairman SANDERS. Senator Graham, thanks very much.

Now we are going to go to our witnesses, and we have some great witnesses this morning, and I thank all of them for their willingness to be with us.

First, we have Robert Reich. Many of you will remember that Bob Reich is the former Labor Secretary, Secretary of Labor under President Clinton, and in my view, one of the great Secretaries of Labor this country has ever had. Professor Reich is the author of numerous books, including "The System: Who Rigged It, How We Fix It," and is currently a professor of public policy at the University of California, Berkeley.

Professor Reich, thank you so much for being with us this morning.

STATEMENT OF THE HONORABLE ROBERT B. REICH, CHANCELLOR'S PROFESSOR OF PUBLIC POLICY, UNIVERSITY OF CALIFORNIA, BERKELEY, FORMER U.S. SECRETARY OF LABOR

Mr. REICH. Well, thank you very much, Mr. Chairman and members of the Committee. With your permission, I will simply provide my testimony and submit it to the Committee, also several charts that I think the Committee might find very useful.

Let me just say—and I am going to summarize very quickly—even before the pandemic, America had the widest inequalities of income and wealth we have had in a century, and wider than any other developed nation. The median wage in the United States has barely budged for 40 years when you adjust for inflation, even though the economy of the United States is almost three times larger. And more than half Americans earn so little that they have to live paycheck to paycheck. And this is something new in the history of at least post-World War II America. We have never seen the degree of inequality we are now experiencing.

Increasingly, the economy's gains have gone to the top. The richest one-tenth of 1 percent, Mr. Chairman, as you said—I want to just underscore this. The richest one-tenth of 1 percent has almost as much wealth as the bottom 90 percent put together. And, again, the compensation packages of the top executives of big companies, CEOs, have soared from an average of 20 times that of the typical worker 40 years ago, or 60 times when I was Labor Secretary, to 320 times today. And, you know, the pandemic has just made all of this much more stark. America's 660 billionaires have together become $1.3 trillion richer.

This would be enough, by the way, this $1.3 trillion that they have gained during the past year would be enough for them to give every American a $3,900 check and still be as rich as they were before the pandemic.

The American Rescue Plan, just enacted, is helpful in this regard, but I think it is very important for this Committee to look at the underlying structure of power. "Power" is a word that we do not use very often when we talk about the economy. But there has been a huge shift in power over the last 40 years, a shift toward very large corporations. And Senator Graham is absolutely right. There has got to be much more emphasis on fighting monopolies, and it is monopolies both in terms of big high-tech companies, also monopolies in terms of high finance, big pharma. I mean, you go around this country today, and you see more concentration, more economic concentration, than we have seen at any time in the last 60 years, and also that economic concentration translates into political power. We have got a severely imbalanced political economy. Fewer than 7 percent of our workers are in unions today. Fifty years ago, over a third of workers in the private sector were unionized. Fifty years ago, giant corporations did not have the power to suppress prevailing wages. They did not have platoons of Washington lobbyists which they have today.

Another very important indication of what is happening and what has happened is that before the 1980s, the main driver of profits and the stock market was economic growth. But research has shown—and I include some of that research in my testimony—that since the late 1980s, the major means by which corporations have increased profits and stock prices has been by keeping payroll down. And that has hurt the working class.

The working class in this country has taken it on the chin. The working class needs to understand that this is about—you know, there is not a market someplace in the atmosphere, in nature. I mean, the market is a human creation, and what has happened, as power has shifted dramatically toward big corporations and against workers and against workers because they do not have unions to represent them, you have a change in the structure of the market, a dramatic change. To rebalance the economy it is necessary to provide more vigorous use of antitrust; substantially higher taxes on growing accumulations of income and wealth at the top; stronger labor protections to enable workers to join together to gain higher wages benefits; and also greater restrictions on the use of private and corporate wealth to influence political decisions.

I have much more to say, but I just want to—and I eagerly await your questions, Mr. Chairman and members of the Committee.

[The prepared statement of Mr. Reich appears on page 31]

Chairman SANDERS. Mr. Secretary, thank you very much.

Our second witness is Sarah Anderson, director of Global Economy Project at the Institute for Policy Studies. Ms. Anderson has studied income and wealth inequality for years and is a well-known expert on executive compensation.

Ms. Anderson, thanks so much for being with us.

STATEMENT OF SARAH ANDERSON, PROGRAM DIRECTOR, GLOBAL ECONOMY, INSTITUTE FOR POLICY STUDIES

Ms. ANDERSON. Thank you. Thank you very much for this opportunity. I am Sarah Anderson with the Institute for Policy Studies, and I have been researching inequality for more than 25 years, concentrating on what might be the single most dramatic driver of that inequality: the growing gap between CEO and worker pay.

This is a systemic problem in corporate America. In 1980, the average gap between big company CEOs and typical worker pay was 42:1. Over the past 20 years, that gap has averaged about 350:1.

This growing pay divide is also a driver of gender and racial disparities. Nearly 90 percent of Fortune 500 CEOs are White men, while women and people of color are disproportionately a large share of low-wage workers.

But we all pay a price for this executive excess. Back in 2008, executives chasing huge bonuses crashed our economy, leaving millions homeless and without jobs. In the wake of that disaster, Senator John McCain and many other lawmakers called for a $400,000 cap on pay at all companies receiving taxpayer assistance. But corporations and Wall Street banks not only blocked that proposal, they designed compensation packages to help executives rebound more quickly than ordinary Americans.

Today we are living through a period of even greater national suffering and a period when front-line workers have proved how essential they are to our economy and our health, and yet once again many corporate leaders are focused on bending the rules to protect massive CEO paychecks. Let me give you a few examples.

At Coca-Cola, none of the top executives met their bonus targets last year, but the board gave them all bonuses anyway. The CEO wound up with $18 million in total compensation, over 1,600 times as much as the company's typical worker pay.

Or look at Carnival. Remember how they stranded their employees on their cruise ships for months without pay? Meanwhile, the board gave the CEO a special retention and incentive award that lifted his overall pay to more than $13 million, a 22-percent increase over 2019.

At Tyson Foods, 12,000 front-line workers contracted COVID last year, but that did not stop the board from giving executives stock grants to make up for the fact that they had not met their bonus targets. One of these executives was company Chair John Tyson, who was hardly in dire need. He has seen his personal wealth increase 62 percent during the pandemic to $2.4 billion.

Research by my Institute for Policy Studies colleagues and Americans for Tax Fairness shows that the combined wealth of all 660 U.S. billionaires has soared by $1.3 trillion during the pandemic. Many of them, of course, owe their fortunes to their years as CEOs.

Now, corporate executives did not cause the pandemic in the direct way that executives' reckless behavior led to the 2008 crash.

But many CEOs did make working families much more vulnerable to the current crisis by outsourcing jobs and turning millions of the jobs that remained into low-wage, part-time work without benefits.

We can and must do better as a Nation than to accept a business model that creates prosperity for the few and precarity for the many. This is not just bad for workers. It is also bad for business. Research shows that having these extreme gaps undermines morale, which lowers productivity.

In this time of crisis, we also must seek common ground, and we have common ground when it comes to CEO pay. In fact, a Stanford survey found that 52 percent of Republican voters actually want to cap CEO pay relative to worker pay.

I will end with a few policy solutions that are far more moderate than what a majority of Republicans support.

First, the Tax Excessive CEO Pay Act. This would increase taxes on corporations with huge gaps between CEO and worker pay, and this would create an incentive to both rein in pay at the top and lift up worker wages, all while generating an estimated $150 billion in revenue over 10 years. Companies that have small gaps, less than 50:1, they would not owe one more dime under this proposal.

Another way to generate revenue while curbing executive excess would be through a financial transaction tax. This would curb the short-term speculation that has inflated Wall Street executive bonuses while doing nothing for Main Street. We could also leverage the power of the public purse by giving corporations with narrow gaps a leg up in Government contracting. Corporate boards have shown us, after the financial crash and during the pandemic, that we cannot rely on them to do the right thing when it comes to CEO pay. This is a problem that affects all of us, and we need responsible policy solutions.

Thank you very much. I look forward to your questions.

[The prepared statement of Ms. Anderson appears on page 53]

Chairman SANDERS. Ms. Anderson, thank you very much.

Our next panelist is Jennifer Bates. Ms. Bates is an Amazon worker at the Bessemer, Alabama, Fulfillment Center. She and her co-workers are trying to form a union at Amazon with the Retail, Wholesale, and Department Store Union. I invited both Ms. Bates and Amazon founder and executive chairman Jeff Bezos. I am very happy Ms. Bates agreed to testify, unlike Mr. Bezos.

Ms. Bates, thank you very much for being with us.

STATEMENT OF JENNIFER BATES, AMAZON WORKER, BESSEMER, ALABAMA, FULFILLMENT CENTER

Ms. BATES. Thank you, Chairman Sanders, Ranking Member Graham, and members of the Committee. Thank you for the opportunity to testify today.

Amazon brags it pays workers above the minimum wage. What they do not tell you is what those jobs are really like. And they certainly do not tell you that they can afford to do much better for the workers.

Working at an Amazon warehouse is no easy thing. The shifts are long. The pace is super-fast. You are constantly being watched and monitored. They seem to think you are another machine.

I started working at Amazon in May of 2020 not too long after they opened. By my third day, I was hurting. I looked around and saw it was not just me. I mentioned it to my sister, who also worked there at the time, and she just told me it only gets worse.

At Amazon, you are on your feet walking all the time and climbing stairs to get to your station and move products. We have only two 30-minute breaks during a 10-hour shift which is not long enough to give you time to rest. The place is huge—the size of 16 football fields. Just walking the long way to the bathroom and back eats up precious break time.

My co-workers and I—older, younger, middle-aged people—limp from climbing up and down the stairs in the four-floor building. When I first came to Amazon to work, I noticed there was one elevator for human use. When I tried to use it, a co-worker stopped me and told me that we were not allowed to use it. Then I noticed that around the facility there were plenty of elevators, but the signs say, "Material only, no riders." I could not believe that they built a facility with so many elevators for materials and make the employees take the stairs on a huge four-flight facility.

The work itself is also grueling. We have to keep up with the pace. My workday feels like a 9-hour intense workout every day. And they track our every move. If your computer is not scanning, you get charged with being time-off-task. From the onset, I learned that if I worked too slow or had too much time off task, I could be disciplined or even fired. Like a lot of workers, it was too much for my sister, and she ended up quitting.

I thought there should be another way. I mean, why can't a large and wealthy company do better for their workers? Amazon has made tons of money during the pandemic. Jeff Bezos is the richest man in the world. And now he is even richer thanks to us workers.

Yet they expect us not to expect anything we did not already have before we started working there, like we do not deserve better. Amazon goes into poor communities claiming that they want to help with economic growth. That should mean paying its employees a living wage and benefits that truly match the cost of living and ensure workers work in safe and healthy conditions, because we are not robots designed to only live to work. We work to live. We deserve to live, laugh, and love and have full self-fulfilling lives.

We the workers deserve to be treated with dignity and respect and deserve to be given the same commitment that we give to the job every day we go in. We give 100 percent at work, but it feels like we are being given back only 30 percent. We are committed to making sure the customers get a nice package, the whole product in a couple of days. But who is looking out for us?

We, the workers, made the billions for Amazon. I often say we are the billionaires; we just do not get to spend any of it.

We first started to talk about unionizing one day during a break. One guy said, "They would not be doing these things to us if we had a union." People were upset about the breaks being too short and not having enough time to rest, about being humiliated by having to go through random security checks going into our breaks to make sure we are not stealing merchandise and then not even being given the time back for our breaks.

Others did not like that they never actually spoke to a manager. They just got messages on the app or by text. It is all so impersonal and at times just plain weird. And then there is the issue of job security. People are concerned about people getting fired for no real reason and not being given the opportunity to speak to anybody at Amazon about it.

They deny us good working conditions and claim we should be happy with what we have and then go around spending millions to tell us we do not need a union.

As soon as Amazon found out about the union, they started going hard trying to stop the union drive. We were forced into what they called "union education" meetings. We had no choice but to attend them, not given an opportunity to decline. They would last for as much as an hour, and we would have to go sometimes several times a week. The company would just hammer on different reasons why the union was bad for us, and we had to listen. If someone spoke up and disagreed with what the company was saying, they would shut the meeting down and told people to go back to work, then follow up with us in one-on-one meetings on the floor.

A lot of what was said in those meetings was untrue, like telling people they would lose their benefits if they joined the union. It was upsetting to see some of the younger people who were really on board with the union get confused by what was being said in the meetings.

All around the plant, Amazon had put up anti-union signs and messages. They sent messages to workers' phones. They even had signs posted in the bathroom stalls. No place was off limits. No place seemed safe.

Despite all that, or maybe because of it, we continue to organize and build support for the union. We do it because we hope that with a union we will finally have a level playing field. We hope we will be able to talk to someone at Human Resources (HR) without being dismissed. We hope that we will be able to rest more, that there will be changes in the facility to take some of the stress off our bodies. We are hoping we get a living wage—not just Amazon's minimum wage—and be able to provide better for our families. We hope that they will start to hear us and see us and treat us like human beings.

It is frustrating that all we want is to make Amazon a better place to work. Yet Amazon is acting like they are under attack. Maybe if they spent less time—and money—trying to stop the union, they would hear what we are saying. And maybe they would create a company that is as good for workers and our community as it is for the shareholders and executives.

Thank you for giving me the time to share my story.

[The prepared statement of Ms. Bates appears on page 62]

Chairman SANDERS. Ms. Bates, thank you very much.

Our next witness is John Lettieri, who is president and CEO of Economic Innovation Group. Prior to his work at the Economic Innovation Group, Mr. Lettieri was the vice president of public policy and government affairs for a leading business association, the Organization for International Investment.

Mr. Lettieri, thank you very much for being with us.

STATEMENT OF JOHN W. LETTIERI, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ECONOMIC INNOVATION GROUP

Mr. LETTIERI. Thank you, Chairman Sanders, Ranking Member Graham, and members of the Committee. I appreciate the privilege of testifying today on the challenge of inequality in the United States.

I believe there are many ways for Congress to work on a bipartisan basis to tackle economic inequality and support the needs of low-income and disadvantaged people. I discuss several such areas in my written testimony, including promoting economic dynamism and worker mobility, by banning the use of noncompete agreements, pursuing an aggressive policy of full employment to boast wages and labor force participation for workers at the bottom, and enacting a bold place-based policy agenda to support struggling regions and distressed communities.

But in the interest of time, I want to focus my opening comments this morning on a fourth issue: helping low- and moderate-income Americans build wealth through long-term retirement savings.

The U.S. economy is the world's most powerful engine of wealth creation and prosperity, but in spite of this, the lack of wealth at the bottom remains a troubling and persistent fact of life. The numbers are startling. The median net worth for the bottom 25 percent of American families is a mere $310. The bottom 50 percent of families own less than 2 percent of total U.S. wealth.

One of the central reasons for the persistent lack of wealth at the bottom is the lack of adequate retirement savings among low-income families. The median retirement savings balance for the bottom 50 percent of American families is $0. For comparison, the median for families in the top 10 percent is $610,000.

Now, the problem here is not that affluent Americans are doing well at saving but, rather, that current policy is so poorly designed to support those most in need of building wealth. And the reason here is simple. Retirement savings policy mostly relies upon deductions from taxable income that are of little use to Americans in the bottom 50 percent of the income distribution, most of whom pay little to no Federal income tax to begin with. So as a result, a person making $20,000 a year and contributing the maximum gets nothing from Federal and State tax incentives, while a person earning $200,000 gets over $7,000 in Federal and State aid. In other words, those who need help building wealth are the ones most excluded by current policy.

Deeply uneven participation in retirement savings also perpetuates the racial wealth gap. Only 35 percent of Hispanic families and only 41 percent of Black families hold any retirement account savings, compared to 68 percent of White families. Among those that do have at least some retirement savings, the median White family holds more than double that of the median Hispanic family and the median Black family.

So what can be done? A number of noteworthy proposals, including from members of this Committee, have been put forward in recent years to address the dearth of retirement savings among low-income workers. But there is one option that is both elegant in its simplicity and transformative in its potential benefits, and it will be familiar to every member of Congress, and that is, to make all low- and moderate-income workers eligible for a program modeled after the Federal Thrift Savings Plan (TSP), complete with a match on contributions up to a certain percentage of income.

The TSP is a defined contribution savings program now available only to Federal employees and members of the military. In a paper soon to be published by my organization, co-authors Dr. Teresa Ghilarducci of the New School and Dr. Kevin Hassett, former Chair of the White House Council of Economic Advisers, make the case for expanding access to the TSP to tens of millions of Americans who currently do not enjoy participation in an employer-sponsored plan. They argue that the design of the TSP makes it an ideal model for helping low- and moderate-income workers build wealth, ensure a comfortable retirement, and grow a nest egg that can be passed on to future generations.

The TSP is an incredibly well-designed program. Participants enjoy automatic enrollment, a simple menu of options for investment, an easy user interface, very low expense ratios, and matching contributions of up to 5 percent of income, along with a number of other features that, when combined, have proven to generate remarkably strong participation among eligible workers.

The beauty of the TSP is that it is a proven and carefully studied model that performs exceedingly well for the very traditionally marginalized workers that have largely been neglected by U.S. retirement policy. Participation rates, for example, among those with a high school degree or less and workers in the bottom one-third of earnings have reached as high as 95 percent. And such workers on average contributed a significant share of their earnings to their TSP accounts.

In other words, the TSP already provides compelling evidence that low-income, limited-education workers will avidly participate in a well-designed savings scheme if it is made available to them.

Creating such a pathway for working Americans to build wealth through a widely available and portable program modeled on the TSP would be a transformative step towards ensuring everyone in this country has a meaningful stake in national economic growth and prosperity. Such a program would be in addition to, not in place of, Social Security, filling the gap in current policy to support of tens of millions of workers, including part-time and gig workers, who are most in need of additional support. And early estimates suggest that the enormous social and economic benefits generated by this policy could be achieved at relatively little cost, as the forthcoming paper and subsequent analyses will demonstrate.

Boosting incomes, wealth, and well-being for those at the bottom is a worthy policy goal that should be tackled from a number of complementary directions, and I believe this is one of the most important.

Thank you, and I look forward to taking your questions.

[The prepared statement of Mr. Lettieri appears on page 65]

Chairman SANDERS. Mr. Lettieri, thank you very much for your presentation.

Our last witness is Scott Winship, director of poverty studies at the American Enterprise Institute (AEI). Before joining AEI, Dr.

Winship served as the Executive Director of the Joint Economic Committee.

Mr. Winship, thank you very much for being with us.

STATEMENT OF SCOTT WINSHIP, PH.D., RESIDENT SCHOLAR AND DIRECTOR OF POVERTY STUDIES, AMERICAN ENTERPRISE INSTITUTE

Mr. WINSHIP. Thank you, Mr. Chairman. Chairman Sanders, Ranking Member Graham, and members of the Committee, thank you for inviting me to appear today to discuss inequality in the United States.

Policymakers confront difficult decisions prioritizing different challenges facing the nation. Obviously, to the extent that some issue merits being designated a crisis, it should command the highest levels of attention. But income and wealth inequality do not constitute a crisis. The conventional wisdom that inequality has risen dramatically is wrong based on influential research that turns out to have suffered from mismeasurement problems.

Even if inequality had risen by as much as is often claimed, over the same period middle-class incomes have risen significantly and are at all-time highs. Poverty has fallen sharply and is at an all-time low. Other sets of problems deserve more of our attention.

Twenty years ago this September, Thomas Piketty and Emmanuel Saez published their first estimates of income concentration in the United States. As I discuss in my written testimony, these estimates turned out to have important flaws, since acknowledged by Piketty and Saez. These figures indicate that the share of income received by the top 1 percent rose 14 percentage points between 1979 and 2019. However, improved estimates from Gerald Auten and David Splinter put the likely increase at just 4 points. These figures do not take into account taxes, nor most Government transfers. In other words, they ignore most of the ways that Federal policy already reduces inequality. After taxes and transfers, Auten and Splinter find that the top 1 percent's share rose from 7.2 percent in 1979 to 8.7 percent in 2017. As income measurement has improved, it seems ever likelier that the perception of a crisis in income inequality stems from statistics that turned out not to reflect reality.

The wealth concentration estimates of Saez and Gabriel Zucman have also been influential, leading to calls for wealth taxation. However, their research has been challenged by Matthew Smith, Owen Zidar, and Eric Zwick. They report an 8-point rise in the top 1 percent's share from 1979 to 2016 compared with the 13-point rise Saez and Zucman report over the same years.

Measuring wealth, however, is subject to complicated challenges which I discuss in my written testimony. Here I will only point out that most Americans would save more for retirement absent the strong likelihood that they will be able to count on receiving senior entitlements from the Federal Government. If they saved more, that would show up in the data as higher wealth. Yet we do not count these Government promises in wealth.

Smith, Zidar, and Zwick find that the share of wealth owned by the top 0.1 percent rose from around 9.5 percent in 1989 to 14 percent in 2016. But after adding the value of Social Security, the increase was only from 8 percent to 10 percent.

Even if income or wealth concentration had risen more sharply, it would matter whether increasing inequality had come at the expense of people and families below the top 1 percent. The fact of the matter is that incomes below the top have risen significantly. The Congressional Budget Office finds that median pre-tax household income rose between 32 and 41 percent from 1979 to 2017, and the increase was 54 to 61 percent after taxes and transfers. That amounts to $30,000 in additional inflation-adjusted income.

According to the official measure, the poverty rate in 2019 was lower than ever before among all Americans, all American families, families headed by a single woman, non-Hispanic Whites, Blacks, Hispanics, and Asians. As I discuss in my written testimony, official statistics are biased in a variety of ways that dramatically understate the progress we have made reducing poverty. Poverty among the children of single mothers, for instance, fell from 49 percent in 1982 to 18 percent in 2014 and is lower today.

Before closing, I want to redirect your attention to two sets of issues that I would characterize as "crises of opportunity."

First is the problem of limited upward mobility out of poverty. Even as we have driven child poverty rates down, that has not resulted in a greater chance that children raised in low-income families will make it to the middle class. The lack of progress boosting upward mobility is even more worrisome because it prevents us from narrowing vast disparities in mobility between Black and White children.

A second crisis of opportunity involves the deterioration of our associational life. Relative to 40 or 50 years ago, Americans marry less often, live further from family members in adulthood, do fewer things together with their neighbors, attend religious services less often, join fewer groups, and spend less time with co-workers outside the workplace. Economic residential segregation has worsened; trust in institutions has diminished. Single parenthood has increased, along with nonmarital birth rates and divorce.

Since these problems predate the increase in inequality and have occurred as poverty rates have fallen, addressing them is likely to require different kinds of policies than would be considered if the goal were to reduce inequality or poverty. Indeed, many policies that would reduce inequality or short-term poverty might be counterproductive in terms of increasing upward mobility or reversing declines in associational life.

Policymakers should take care in labeling some economic or social challenge a "crisis." People, of course, will differ in their assessment of how serious an issue is. But a crisis that is declared on the basis of questionable data and questionable claims about why that data is important runs the risk of crowding out more pressing national problems. It is difficult enough identifying solutions to our problems; we cannot let ourselves be led astray in prioritizing them.

Thank you very much.

[The prepared statement of Mr. Winship appears on page 75]

Chairman SANDERS. Mr. Winship, thank you very much for your testimony.

Now we are going to begin the questions. Let me begin my questioning with former Secretary of Labor Bob Reich. Mr. Secretary, according to your testimony, 50 years ago General Motors was the largest employer in America where the typical worker belonged to a union and made $35 an hour after adjusting for inflation. Today America's largest employer is Walmart, where over half their workforce makes less than $15 an hour, and none of their workers belong to a union.

How has the decline in union membership contributed to the increase in income inequality?

Mr. REICH. Mr. Chairman, one of the most dramatic changes in the United States over the past 60 years has been the decline in the percentage of private sector workers who are unionized. Sixty years ago, even, in fact, 50 years ago, one-third of all private sector workers belonged to a union. That gave them bargaining power at the firm level. It gave them a voice at the firm level. It also gave them political power because when you consider a third of all workers unionized, the unionized segment of the workforce actually had a political voice.

Now, today, by contrast to 50 years ago, only 6.4 percent of private sector workers are unionized, which means that at the level of the firm, there is almost no union presence in most firms. At the level of national politics, the union voice is far less; the working-class voice is far less. And so in both respects and at both levels, you get this severe imbalance.

In the 1950s, we talked about the countervailing power represented by American labor unions, countervailing to the great power of American corporations. Countervailing power is now gone. There is almost no countervailing power left. And so it is not that the GM worker was that much more brilliant or productive or the GM worker was so much better prepared than the Walmart worker. No. The difference really was that the GM worker had a union behind him or her, and the Walmart worker does not.

Chairman SANDERS. All right. With that, I am going to have to interrupt you, and I apologize, but I want to ask some of the other panelists a question.

Let me go to Jennifer Bates. Ms. Bates, let me ask you a very simple question. Why do you believe it is so important for you and your co-workers to have a union at the Amazon facility in Bessemer, Alabama? Why is that so important?

Ms. BATES. It is important because we need an equal playing field. For so long, people have been walking away from jobs because of the disrespect in equality, and nobody has actually stood up to say, "You know what? It is time for someone to be held accountable for what they are doing."

Amazon has a sign that sits outside that says, "If you see something, say something." So we decided to stand up and say something. We need better work conditions. We need a better wage for living. We need job security. So it is important for us that the union come in so that Amazon will have the opportunity then to sit down and talk to us and with us to get these issues resolved.

Chairman SANDERS. Okay. Thank you very, very much.

Let me ask Ms. Anderson a question. Ms. Anderson, according to your testimony, in 1980 CEOs of large corporations made about 42 times more than their average worker. Today CEOs now make over 300 times more than their average worker. Very briefly, how did that happen?

Ms. ANDERSON. Well, it did not happen because CEOs just got a whole lot smarter during that time period. On the worker end, it has happened because wages have stagnated as unions have declined, as we have already discussed. On the CEO pay end, it has happened because stock-based pay has come to dominate CEO pay packages. And the argument there was that shifting to stock-based pay would ensure pay for performance, and that has really turned into a joke. Study after study shows there is no connection between CEO pay levels and their performance.

One of the most obvious examples was after the 2008 financial crash when companies gave boatloads of new stock options to their executives when the market was at bottom, and very quickly those stock options ballooned in value as a result of a taxpayer-fueled recovery, not because of any brilliant executive performance.

Chairman SANDERS. Okay. Well, thank you very much, and my time has expired. Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

Let us start with Secretary Reich. Yes, can you hear me? Hello?

Mr. REICH. I can hear you perfectly fine, Senator.

Senator GRAHAM. Okay. Thank you, Mr. Secretary. What should the top individual tax rate be, in your view?

Mr. REICH. Well, under President Eisenhower, Dwight Eisenhower, you may recall, the top rate——

Senator GRAHAM. A little before my time, but I have heard of him. Go ahead.

Mr. REICH. The top marginal rate was 91 percent. The top effective rate was about 43 percent. I do not think we need to go back to the Eisenhower years. He was a great President in many respects. But I think that we do need to substantially increase the top marginal rate from what it is today. And it is not just——

Senator GRAHAM. Just generally speaking, what would that look like? You do not have to give me an exact number.

Mr. REICH. Well, I would say probably in the range of 40 to 50 percent.

Senator GRAHAM. Okay. What should the corporate tax rate be?

Mr. REICH. Are you asking me again, Senator?

Senator GRAHAM. Yes, sir.

Mr. REICH. I would say that the corporate rate probably ought to be—and, again, we are talking about income taxes, corporate income taxes. I think that the top corporate income tax rate ought to be around 30 percent, maybe 35 percent of where it was before, but the question with corporate taxes is always interesting because the real underlying questions is: Who ultimately pays? I am one of the people who thinks that maybe we ought to reduce the corporate income tax and increase capital gains taxes, because it really is shareholders who bear or should bear most of the burden of the corporate income tax.

Senator GRAHAM. What should the capital gains rate be?

Mr. REICH. I think the capital gains rate should be probably around 25 or 28 percent. That would be my best guess. Warren Buffett obviously thinks that there ought to be a minimum 30 percent income tax; that would be including capital gains. I think he may be—he may be right.

Senator GRAHAM. Okay. Do you support school choice for neighborhoods who have poor-performing public schools?

Mr. REICH. Again, if you are asking me, Senator, I support school choice in the sense that I think that poor-performing schools do need to be held accountable. The real question is what the choice is. I think that any organization, whether it is a charter school or a public school, ought to be in the position of offering a good education, and I have offered a proposal years ago—nobody supported it except Jeb Bush. Governor Jeb Bush liked this idea, which was a voucher that would be inversely related to family income.

Senator GRAHAM. That is very helpful. Thank you.

Mr. Lettieri, are you there?

Mr. LETTIERI. I am.

Senator GRAHAM. Okay. Do you support school choice for poor-performing schools for parents to have a choice?

Mr. LETTIERI. Senator Graham, it is an important question, but it falls outside of the scope of my organization's work. So I am happy to offer you my personal opinion, but I just want to make it clear it is not an issue that we have studied at EIG.

Senator GRAHAM. Well, that is okay. About the tax rates that I just talked about, what is your view on tax rates?

Mr. LETTIERI. I think the question about where tax rates should be set is a complicated one because it depends on what other aspects of the Code are a factor.

Senator GRAHAM. Deductions and exemptions, right?

Mr. LETTIERI. Exactly. So I think what we know about the corporate tax rate, for example, is that the U.S.——

Senator GRAHAM. Would you support a flat tax?

Mr. LETTIERI. No.

Senator GRAHAM. Okay. Do you support tax reform to eliminate some deductions and exemptions?

Mr. LETTIERI. Yes.

Senator GRAHAM. Okay.

Mr. LETTIERI. As a general matter, I think some of our Tax Code is good. A progressive Tax Code is good, and so I think if that is what you mean by tax reform, then the answer is yes.

Senator GRAHAM. So my point here is you wanted to improve the life of the average American worker, at what point does regulation and taxation on business trickle down to the inability to get good-paying jobs and a growing economy? How much does tax and regulation impact the American economy and the ability of people to participate in it at a higher level?

Mr. LETTIERI. Well, I think one of the things that is often misunderstood is that complexity is a subsidy to larger incumbent stakeholders. So the more complex an economy is, the more complex the regulatory system or the Tax Code is, the more likely it is to be gamed by those at the top, and the more likely it is to disadvantage those at the bottom.

So as policymakers think about these questions, which are important, I think the implicit barrier to entry that is created by complexity is something that you should keep in mind, because it is something that certainly plays into the theme of robust competition and holding larger stakeholders to account for competition.

Senator GRAHAM. Yes, thank you. One last question. Do you worry that if our tax rates are out of line on the corporate side with the rest of the world, that we will incentivize American companies maybe to leave?

Mr. LETTIERI. I think certainly the tax rates can be a disincentive. It is not the only factor that companies consider when they are looking at locational decisions. Trade policy, for example, plays a large role. But certainly if the U.S. were to get way out of whack with the Organisation for Economic Co-operation and Development (OECD) average, I think that would be a problem.

Chairman SANDERS. Senator Graham, thank you.

Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman.

My questions are for Mr. Reich. First of all, thank you for your testimony and your graphs. You document unprecedented income inequality in this country basically since the Gilded Age, which, on its own, is a problem. But the question I want to raise with you is: What do the New Age robber barons do with that money, the 1 percent billionaires? We know that some of them start big, famous foundations, and they do charitable work, and good for them. But some of them set up faux foundations and fund fake think tanks and go to work in politics from hiding. Many of them are billionaires who made their billions in the fossil fuel industry. And the operation that they run with their billions can actually best be compared, in my view, to hostile covert operations like intelligence services run.

And so the question is: What happens when income inequality at virtually unprecedented levels spawns political inequality? What happens when you have a quietly ruling political class that is hiding behind dark money outlets to control political parties, to control public debate, to control elections through sponsored think tanks, through captive, paid-for media outlets, and through dark money-funded super Political Action Committees (PAC) and independent expenditure political operations? Could you comment on—there is that old line in TV advertising, “But wait, there is more.” Can you comment on the “But wait, there is more” of the political inequality that the political hidden use of all this massive fortune that they have aggregated is brought to bear?

Mr. REICH. Yes, Senator, and this is really one of the most important negative consequences of wide inequality and the degree of inequality we have in the United States today; that is, people at the top who are sitting on top of huge amounts of assets can and do use a lot of that money to influence political decisions, not only at the Federal level but also at the State and local levels, that in turn increases their wealth. It is a vicious cycle.

We see, for example, Amazon in Seattle has spent a great deal of money on city council elections. Amazon around the country is large enough that it can actually have an auction in which it extorts money from States and cities around the country for where its second headquarters is going to be.

Dark money is proliferating around the country, as is our corporate public relations efforts to change public attitudes in a direction that a corporation may want.

The whole role of money in our system and the overwhelming dominance of money from big corporations as well as from very wealthy individuals polluting American politics is one of the worst aspects of inequality. As the great Louis Brandeis, the Justice, once said, "We have a choice in this country. We can either have a great deal of money in the hands of a few people, or we can have a democracy. But we cannot have both."

Senator WHITEHOUSE. So what happens to citizenship and to the citizenry when a citizen cannot tell who the actor is on the political stage, when the ad does not say, "Hi, I am Exxon and I approved this message," "I am Koch Industries or Charles Koch and I approved this message"? Instead it says behind some phony front group, "Americans for Peace and Puppies and Prosperity approved this message," and you go and look up Americans for Peace and Puppies and Prosperity, and it is a mail drop. What is the citizen left with?

Mr. REICH. The citizen is left with no ability to sift through the messages that that citizen receives as to their veracity and reliability.

Senator WHITEHOUSE. Motive sometimes matters, doesn't it? And if you hide the identity, you also hide the motive, and you hide the ability of the citizen to evaluate the motive and, therefore, the veracity.

Mr. REICH. Indeed, and the Supreme Court has repeatedly said as recently as in Citizens United, Senator, as you know, that transparency will cure all of the negative aspects of great wealth, corporate wealth in our political system. Well, that has not happened. We do not have the transparency. Congress has not demanded it, and a lot of dark money and dark money groups and 401(c)(4), 501(c)(4) groups make it impossible for the citizens to know who is actually providing what message.

Senator WHITEHOUSE. And I will conclude by pointing out that a great number of them are in the Supreme Court right trying to undo that transparency part of the Supreme Court's Citizens United holding. Thank you, Secretary Reich.

Thank you, Chairman.

Chairman SANDERS. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. And thanks for holding this hearing, the title of which is "The Income and Wealth Inequality Crisis in America." And I think we ought to start with asking ourselves: Is this really a crisis? Is that the way we should think about especially the most recent trends in income and wealth inequality?

I want to start with a chart that Mr. Reich has provided us. He refers to it as the "Wage and salary income has dropped as a percent of Gross Domestic Product (GDP)," and this is the chart he provides in his testimony. And, you know, if you look at it, it does look like, you know, that is a declining trend, right? It was kind of pronounced since 2000. You could argue it goes back further, but, yeah, that sure looks like it is declining.

But what is really interesting is that Mr. Reich chose not to provide all the data that is available. He cuts off the data in 2018. The data for 2019 and 2020 are available. And so let us take a look at what the picture looks like if you include all the available data.

If you include all the available data, what you notice is it is the same graph except we have got this very significant uptick. In fact, it is an upward trend from 2011. Clearly an upward trend.

In fact, in 2018 and 2019, the upward trend—now, mind you, what we are talking about here is wages and salaries as a percentage of our total economy. The upward trend that has been underway for 10 years now was accelerating in 2018, 2019, further in 2020. So should we consider that we are in a crisis of income inequality when the situation has been trending better for 10 years and most recently at an accelerating pace?

Take a look. We have recaptured back where we were in 2003. I think when you have got more data available, you really ought to use it.

Let us take a look at another chart that we have here. This is from the Atlanta Fed, and it compares wage growth for the lowest 25 percent of wage earners to the wage growth of the highest 25 percent of earners. Now, the lowest 25 percent of earners is in blue, and the highest 25 percent of earners is in this gold color.

Now, what does this chart show? It shows clearly that sometime around about 2014, wages started growing more rapidly for low-income works than wages have been growing for high-income workers. And what does that mean? That means the income gap is getting narrower, right? If higher-income people's raises are occurring at a lower pace than low-income raises, then the income differential is narrowing. And that is exactly what is happening, and once again not only is that happening, but it is happening at an accelerating pace, because you see the gap by which low-income earners are outperforming high-income earners in terms of their wage growth. That gap has widened.

So, again, does an acceleration in the rate at which lower-income earners are gaining ground relative to high-income workers, when that is happening and accelerating, should we think of that as a crisis? Really?

And the reason I am concerned—well, let us go to one more chart here. We have got another one that is provided by the St. Louis Fed, and the data itself comes from the U.S. Bureau of Labor Statistics, and this is a depiction of average hourly earnings of production and nonsupervisory employees. So these are not managers. They are not executives. And what is happening is wages have been rising—and, you know, prior to 2015, not at a very spectacular pace, that is for sure. But it has certainly been accelerating to the point where in recent years these wage gains have been well above the rate of inflation.

So my point is this is very good news. I know some would like to suggest that we have a crisis so as to justify various socialistic policies and even more redistribution of wealth. But the fact is the income gap has been narrowing, and it has been narrowing at an accelerating pace.

A quick word about the wealth gap. You know, one of the ironies of this is a big source of the increase in the wealth gap has been the inflated value of financial assets. And why have financial assets gone up so much in value? Well, a big part of it, I think, is ultra-easy money by the Federal Reserve. Our Democratic colleagues have long been huge advocates of ultra-easy money by the Federal Reserve. Well, you should be careful what you wish for, because this is one of the consequences.

But even here, there is good news, and the good news is that while investing in financial assets used to be the domain of just the wealthy, that is increasingly becoming an activity of middle-income and even people of modest means. In 1989, fewer than one-third of American households owned stocks. In 2019, a majority, almost 53 percent, of American households owned stocks. This is going to help narrow the wealth gap.

And I see I have consumed my time. Thank you for indulging me, Mr. Chairman.

Chairman SANDERS. Thank you, Senator.

Senator Van Hollen should be with us on video.

Senator VAN HOLLEN. Thank you, Mr. Chairman, Mr. Ranking Member, and all out witnesses for your testimony.

We have seen another explosion in terms of the gaps between CEO compensation and the compensation that they provide to their workers. And that is why I join Senator Sanders in introducing the bill we did today.

But I would like to talk and start with you, Dr. Reich, with the danger of using sort of economic average measures to measure how the overall economy is performing for working people. So, for example, if Jeff Bezos had moved to Baltimore City last year, you would have seen a tripling of the per capita income in Baltimore City. The current per capita income in Baltimore City is roughly $53,000. If Jeff Bezos moved there last year, it would have more than tripled that to roughly $175,000 per person. And, of course, the situation of any individual in Baltimore City would not have changed at all. And so looking from the outside of those averages, you would say, “Wow, what is going on in Baltimore City? A huge increase in economic activity.”

Can you talk about why we really need to be drilling down on different economic measures in order to gauge the success of our policies for most Americans?

Mr. REICH. Aggregate measures that simply look at the average—and the average, as you get more and more unequal in terms of income and wealth, the average tells you less and less about how most people are living. Even the median, which is half above, half below, gives you more information but still does not tell you what you need to know about what is happening to the bottom half.

The biggest story of America over the last 50 years has been really the fact that the bottom half, what we used to call the “middle class” and the “working class” and the “poor,” their situations have become so similar and their insecurities and the degree to which they are living paycheck to paycheck have really become very central to our political economy. I think one reason that we find so many people who are poor and working class are so angry—

it is justifiable. Their anger is justifiable. They have worked harder and harder, and they are getting less and less.

Mobility, economic mobility, the ability to move upward is becoming harder and harder for the bottom half. Logically, because as the ladder becomes longer and longer, even if you are moving up the ladder at the same rate you used to move up the ladder, you get fewer and fewer rungs up that ladder. So you are absolutely 100 percent correct. We need to look at median and below, not at average, to get a real insight into what is happening to the American workforce.

Senator VAN HOLLEN. Well, I appreciate that, and I hope we will do that because we tend to throw around numbers about aggregate GDP growth and those really disguise what is happening to so many working Americans. And, of course, this is all—we have seen the drop in real wages since the late 1970s coincide with many factors, including globalization, but certainly a big one is the drop in union membership and activity, and that is what the PRO Act is designed to address.

If I could just ask Jennifer Bates to let us know, first, thank you for what you and your fellow workers are doing to try to organize and empower workers. Can you tell us what difference you think a union would make to you and your colleagues at Amazon?

Ms. BATES. What difference a union will make, it will allow us to feel more comfortable with coming to work. We are already coming there with commitment, but we will come to work understanding that things are being fair with us. We are able to sit down and negotiate better working conditions to get some of the issues resolved and to facilitate; that it will allow us to come to work and not have to worry about just getting fired for something that you have no idea that you had done. It helps us to be put in a position where we are able to negotiate a living wage and not just the minimum wage. Just only yesterday, one of my co-workers tried to apply for an apartment, and they told her she did not make enough. And if we would do the study, we understand that you have to make at least $39,000 average to afford an apartment.

So it would open the eyes not just in Bessemer, Alabama, but all over, that the corporations that soon pay attention to the working-class people, that we are living paycheck to paycheck trying to get to not just pay the rent or pay mortgage, but we also have to live, put food on the table. So I think the union coming to Bessemer, Alabama, to Amazon will really open the door to a lot of things.

Senator VAN HOLLEN. Thank you all.

Senator WHITEHOUSE. [Presiding.] Thank you, Ms. Bates. We turn now to Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman. I wish Chairman Sanders were here because I wanted to second, first of all, what Lindsey was talking about, how I think these hearings are very interesting. I think they are also very important. And I would just talk to my Democrat colleagues. I think there is an awful lot of areas of potential agreement here on this particular issue.

I am not so sure that it is the accumulation of wealth that is the main problem here. I think it is the accumulation of power. I think Lindsey was kind of referring to that, monopolistic power. I went to Eastern Europe, and I know, Senator Whitehouse, you have been to the Munich Conference. When you go to Eastern Europe, they always talk about the corruption of the media oligarchs. Well, we have something similar here as well.

So you can measure the income disparity; you can measure asset disparity. I do not have the big charts like Senator Toomey, but here is one way to look at income disparity, and I will do it for the cameras. This is just simply the five quintiles, you know, income earners broken up into 20 percent increments, and you can see when you are just looking at income, it is a 26 times difference between the lowest quintile and the upper quintile. But it completely changes when you take away taxes from the upper quintile and you add benefits to the lower quintile, and then it is only a 3 times differential.

So we can all talk about statistics. We can all use them to, I guess, support our arguments. But what I would argue or what I would like to say is let us kind of get together on this. I think we do recognize that there is a problem, and we have to diagnose what caused it.

I see Senator Kaine is back. I have been talking to him a little bit about in the past, even with the Republican tax plan—I was not a big fan of it, quite honestly. I voted for it because I think we did need to make our tax system more competitive. But at the time I was promoting something that I thought would be a better approach, which is tax simplification and tax rationalization. To me, income is income. The fact that we have so many different types of income that we just arbitrarily assign different tax rates distorts economic activity.

I think one of the reasons you see this asset bubble is we have created so many incentives for C corporations to retain earnings, so they do not flow out to their shareholders. They are not efficiently reallocated in through our economy.

So one of the things I was proposing is what I would call the "true Warren Buffett tax." Ninety-five percent of American businesses are pass-through entities. The income is taxed at the individual level at individual rates. So why not do it to 100 percent of corporations? Tax all corporate income at the individual level at individual rates. Income is income.

We have worked out all the complications. It is actually quite easy to do. I know it is a departure, but I would love to work with my colleagues across the aisle and my Republican colleagues as well to rationalize and simplify our tax system.

Capital gains. You know, the reason we have lower capital gains rates makes some sense because you do not want to tax mere inflationary gains. But from my standpoint, the better way of doing it is to call income income, tax it at the same rate, but remove the inflationary gain by indexing the asset. Again, simplify, rationalize the tax system. I do not like social or economic engineering to the Tax Code. We need to simplify it. We need to rationalize it.

And I guess I just want to ask Mr. Winship, first of all—no, let me go to Professor Reich first. Do you disagree with this chart where I am showing, you know, income without taking account of income taxes and benefits, 26-time differential, but when you add in income taxes—or deduct income taxes and add benefits, which, by the way, according to Phil Gramm, $45,000 average benefits from different welfare programs, tax credits to the lowest 20 percent in 2020 alone. Real disposable income went up 5.5 percent, total savings up $1.6 trillion. Our economy is going to take off with all the pent-up demand. But do you dispute this, Professor Reich?

Mr. REICH. Senator, no, I think that undoubtedly, when you add in taxes and transfers, inequality of income becomes far less dramatic, and that is an argument, I assume, for more taxes and more transfers. But also let me just stress that wealth inequality is not really touched by that. And one of the biggest problems we have in this country in terms of everything from political influence to the distortions that occur when great wealth is transferred from family to family, from generation to generation, has to do with wealth inequality and not only income inequality.

Senator WHITEHOUSE. Thank you, Secretary Reich.

It is Senator Kaine's time now.

Senator KAINE. Thank you, Chair and fellow colleagues. And, Senator Johnson, "income is income" is something I really believe in, too, so there may be some profitable discussions there.

I have a chart with me that I hope might be visible behind me, depending upon the camera angle. It is not right now. I wonder—thank you for that. This chart is an interesting chart because I think it shows the different values of the two parties right now, but it also shows potentially a different economic philosophy that we can operate a real-time experiment on.

So this takes a look at how the benefits in the Trump 2017 Tax Cut and Jobs Act were allocated among the five economic quintiles of the American public. And then it also shows how the benefits of the American Rescue Plan passed in February by Democrats were allocated among the American public. And if you look at the chart, what you see is a couple of things. The quintile of the American public that was most benefitted by the Trump tax cut was the top quintile. The quintile benefitted by the Democratic American Rescue Plan was the lowest quintile. Sixty-five percent of the benefit in the Trump tax cut went to the top quintile; whereas, more than 65 percent of the benefit in the American Rescue Plan went to the bottom three quintiles.

The Democratic recovery plan was relatively even in distribution of benefits across the first four quintiles of American income; whereas, you see a dramatic un-weighting and lack of evenness in the Republican Tax Cut and Jobs Act.

Given that the Republican tax plan was passed with unanimous Republican support and no Democratic support and the American Rescue Plan was passed with unanimous Democratic support and no Republican support, I think these two plans are a really interesting window into the values of the two parties. And the price tags of both plans are essentially the same. The tax cut plan was about $1.9 trillion; the American Rescue Plan was about $1.75 or $1.8 trillion.

So I think this is a great chart, and the coincidence of which bars are blue and which bars are red is not a coincidence. But I think it is a great chart to show the different philosophies in the two parties as to how you want to allocate benefits if the Government does something like this that is supposed to be a stimulus in nature. The Democratic proposal is to spread it more evenly with a little bit more focus on the lowest-earning Americans; the Republican philosophy is to concentrate benefits at the top.

But what I am interested in—and this is the question I would like to pose to the panelists—is in addition to expressing the values of the parties, I also think we are now going to set up a really interesting 2-year study of what the effect of these proposals—what the effect of this legislation is on the American economy.

So the Republican tax cut was done in December of 2017, and you could run a 2-year experiment, December 2017 to December 2019. You would not want to get too much into 2020 because COVID is what economists would say is an "exogenous shock," so you run a 2-year study. And then you run a 2-year study on the American Rescue Plan from February of 2021 until February of 2023. And what you do—and I would encourage maybe some of my academic friends on this to do this—is look at every economic data point you think is significant: family income, employment, poverty rates among adults and children, stock market, business startup activity, GDP, wealth inequality, deficit. You pick the economic measure, and for the Tax Cut and Jobs Act, you start in December 2017, and you look at how it affected the economy for 2 years. And for the American Rescue Plan, you start in February of 2021, and you look how it affected the economy in the next 2 years. And I think you will see not only what the values of the parties are, but I think you will also see which economic philosophy actually produces more good for American society.

So that is a working hypothesis that I would put on the table to our experts, and I would love anyone who is on the panel to address whether my hypothesis might be worthy of study.

Ms. ANDERSON. Well, perhaps I could jump in. This is Sarah Anderson from the Institute for Policy Studies, and I really appreciate your call for more analysis of the impacts of these policies on inequality and the whole range of income levels.

I would perhaps suggest an additional indicator for you to look at. No one today has yet mentioned the Federal Reserve figure from 2019 that found that 40 percent of Americans could not afford a $400 emergency, meaning they were just one medical problem or car breakdown away from financial ruin. And I think that is one of the most powerful indicators that really gets at how it is not just about wages, it is about the cost of living. And for so many Americans, the cost of housing and health care just skyrocketed, and it is a very concrete way of looking at how that affects people's level of economic security at a time when we have a growing number of billionaires at the top. So thank you.

Senator KAINE. I am over my time, but I might love to hear answers from some of the other witnesses for the record.

Senator WHITEHOUSE. We are waiting for Senator Braun who is on his way here. So in the spirit of equivalence, why don't we have Senator Johnson ask a question, have Senator Kaine ask a question, and then—oh, here is Senator Braun saving the day, coming in just in the nick of time for his time. So I will recognize Senator Braun. If you want to take a moment to get yourself squared away, we can——

Senator BRAUN. It will not take me long.

Senator WHITEHOUSE. Okay. Very good. And Chairman Sanders is back from the vote, so he can resume the gavel.

Chairman SANDERS. [Presiding.] Senator Braun.

Senator BRAUN. Thank you, Mr. Chair.

So listening to the opening remarks, I have got this to say when it comes to what happens with minimum wage, what happens with income inequality. I think both are valid issues. When it comes to how you tackle it, the difference between Main Street USA, small businesses, family-owned, even mid-sized businesses, it is a lot different than, in my opinion, public corporations where you have got a different dynamic at play.

When you look at income inequality, you have got to be careful because the opposite of that ends up where you get a central Government too overbearing. That has not worked anywhere where it has occurred. And when you look at how did we get into the pickle that we have gotten into currently, I think a lot has to do with many of the major sectors of our economy, and I would cite health care, for instance. You are dominated by a system that has no transparency, has no competition, has barriers to entry, and does not have an engaged consumer—the hallmark of what makes markets work.

So I think when you hear discussions of, well, Amazon is paying 15 bucks an hour, to me for a huge corporation that has got the wherewithal, it probably should be more than that. When you look at wages across the country, I think that something needs to be done with the minimum wage. But then you need to look at it from a regional point of view. You do not want to disrupt places like Indiana where it is working because you have got a great business climate. You have also got a low cost of living, so if you do anything with minimum wage, it ought to be done to where you regionalize it. Places like New York City, San Francisco, Seattle probably should be over 20 bucks an hour because their cost of living is so high.

But when you go to the extreme of what has been talked about here, I think you end up maybe hurting in the long run if you try to bring the Federal Government in as someone that tries to moderate the situation other than maybe making sure that markets are free and unfettered and that they are competitive. And, sadly, when you look at many of the places where public companies and corporations rule, you do not have that.

So the other thing is when you look at the structural deficits that we run in this country of close to $1 trillion a year, my first question, if he is still on, would be for Mr. Reich. How do you, without upsetting an economy that I think was working fairly decently—you were raising wages the old-fashioned way, pre-COVID. How do you bridge a structural deficit when it is mostly associated with programs like Social Security, Medicare, and Medicaid that we need but that are not self-sustaining? And I would love your explanation. Can you raise revenues in any way that is not going to upset the economy that to me there is a sweet spot, and corporate rates, when they were moved from 35 to 21, effective corporate tax rates were 18 percent, largely due to all the exceptions in the Code. Main Street employers actually got a tax break that I think was driving the economy when you took the qualified income deduction and took that rate from 39.6 to 29.6.

I would love to hear your comments on what your idea is on revenue without upsetting the economy.

Mr. REICH. Well, Senator, we have learned that the deficit and the overall Federal debt is less of a threat than we thought it was as recently as even 20 years ago in terms of inflation and inflationary expectations. But at some point we do need to raise revenue, and the question, obviously, becomes: Where and how and who is going to pay?

The subject of these hearings is widening inequality of income and wealth, and it would seem to me that if we are looking for places to raise revenue, assuming that we come to the point where we say, well, given the needs of this country, we do have to raise revenue, that the place to look is certainly at the top. And I think that the proposals for a wealth tax merit a great deal of attention. Other countries have a wealth tax. We have property taxes at the local level, a form of wealth tax. It seems to me that, given the extraordinary wealth in the hands of certain people in this country, a wealth tax is appropriate.

We also need to get rid of the loopholes, loopholes that we have been talking about for years, like the carried interest loophole. There is no reason for it, and there are many other loopholes as well that have been put into the Tax Code because there are companies and industries that are hiring lobbyists that have really spent all their time looking for ways of creating methods to reduce tax liability. Let us get rid of those loopholes and let us make sure the base is as wide as possible.

Senator BRAUN. Thank you. Do I have time for one quick follow-up?

Chairman SANDERS. Well, you are over time, but I will give you—if it's brief, very brief.

Senator BRAUN. So a quick follow-up question. Where does spending fit into the formula when we have had record revenues of recent years? And how much of a deficit are you willing to tolerate under the maybe new modern monetary theory?

Mr. REICH. Well, Senator, we do not know all that much, quite frankly, as to modern monetary theory. It is a fairly new idea. The mainstream notion—and I think that we do not want to take too many risks. I think that at some point the deficit and deficit financing and the total Federal debt could ignite inflationary expectations. And that is why we do have to get serious about raising revenue.

The easiest place to raise revenue, as I just said, is from people who are very wealthy. It has the least dampening effect on the economy. Right now, however, when there is so much underutilized capacity in terms of 9.5 million Americans who have lost their jobs, 4 million Americans who have dropped out of the wage labor force altogether, something in the order of 15 million Americans who are working part-time when they would rather be working full-time, given all of this underutilized capacity, right now we do need to spend in order to stimulate the economy. I do not think there is any question about that, and there is a great deal of consensus about that with regard to the mainstream.

Senator BRAUN. Thank you.

Chairman SANDERS. Okay. Thank you very much.

I believe our last questioner is Senator Luján. Senator?

Senator LUJÁN. Chair Sanders, thank you so very much, and thanks to you and to Ranking Member Graham for today's hearing. And I look forward to having a conversation about the importance of unions to our democracy, our republic, and to working Americans.

Mr. Chair, my family raised me to understand that our communities are stronger when workers are protected and empowered. My grandfather was a union carpenter. My dad was a union ironworker in Local 495. My mom worked for the local public school district. My brother is International Brotherhood of Electrical Workers (IBEW), and my nephew just was accepted into an apprenticeship program with IBEW.

I believe that everybody in America should have the same opportunity that my grandfather, father, siblings, and nephew have had to work hard, to build real economic security, and to pass something better onto your children and grandchildren. Those are the values I grew up learning, and those are the values that I continue to fight for today.

The testimony we heard today from our witnesses includes a number of striking statistics, and that is where my questions will begin.

Mr. Lettieri, how much wealth does the bottom 50 percent of families own?

Mr. LETTIERI. Senator, that would be 2 percent.

Senator LUJÁN. And, Ms. Anderson, what is the current pay gap between corporate CEOs and the average workers?

Ms. ANDERSON. Over 300:1.

Senator LUJÁN. And, Mr. Reich, how much of its value has the minimum wage lost to inflation since it was last raised in 2009?

Mr. REICH. Just about 10 percent.

Senator LUJÁN. Mr. Reich, how much has union membership fallen over the past half-century?

Mr. REICH. From 32 percent of private sector workers down to 6.4 percent of private sector workers today.

Senator LUJÁN. So down about 33 percent since 1950.

Mr. REICH. Right.

Senator LUJÁN. Mr. Reich, yes or no, would you agree that the statistics and increased inequality are correlated with the decline in union membership?

Mr. REICH. I think they are directly correlated. In fact, if you look at the rise of unions in terms of the percentage of Americans in the private sector who are unionized and then the decline of unions, you see that the peak years of unionization were from 1940 to 1978, and those were exactly the years when we had the greatest degree of equality in this country in terms of income and wealth spread much more equitably than today.

Senator LUJÁN. And, Ms. Bates, I very much appreciate having you here today, and I want to make sure that I give you some time to answer this question, and it is similar to a question that you were asked earlier. So my question, Ms. Bates, is: What would having the opportunity to join a union mean to you and to your coworkers?

Ms. BATES. What having a union will mean to me and my coworkers is that our voices are being amplified. That would give us an even playing field. We would be able to negotiate better pay wages, which means that it is a living wage and not just the minimum wage that Amazon voices.

What it would mean is that we would have job security, that people will not get fired for mundane things or be afraid that they are going to get fired for doing something that they had no idea of doing.

It would bring us respect. It would bring us a sense of empowerment that, when we stand, we continue to believe that we are valued, bring the value and commitment that we bring into the jobs, that we receive the same thing. So having a union to amplify what we are saying, it would bring us a sense of security and not just at the Amazon in Bessemer but all over the country.

Senator LUJÁN. Ms. Bates, all I have to say to that is, "Amen." I want to thank you for being here today. While I appreciate the expertise of the panelists and the witnesses, especially the expertise that I have benefitted from the work that he has done as the Secretary of Labor, but all of his advocacy, Secretary Reich, your testimony today has been very compelling, and I just want to say thank you so much for coming today.

And, again, to the Chair and to the Ranking Member, thank you for bringing us together. And with that, Chair Sanders, I yield back.

Chairman SANDERS. Well, thank you very much, Senator.

I am not sure if we are going to have another Senator or not join us, but let me wrap up this hearing by thanking all of the panelists and all of the Senators who participated.

The issue that we are dealing with today, income and wealth inequality, is an issue that has to be addressed and is an issue that will determine what kind of Nation we wish to become. We are the wealthiest Nation in the history of the world, but the truth is that half of our people are living paycheck to paycheck. Many millions of people are working for starvation wages. And as a result of the pandemic, people are wondering how they are going to feed their kids, how they are going to avoid eviction, how they are going to go to the doctor when they or another family member gets sick.

Clearly, I think our goal is to create a Nation where the economy works for all people and not just the very few. But that is, in fact, where we are right now, and as I think some of the discussion this morning has been about, it is that it is not only the absurdity of two people in America owning more wealth than the bottom half of the country; it is the kind of power that the people on top have to hire lobbyists here in Washington, to influence legislative decisions, to own media, to make campaign contributions.

There is a reason why the rich get richer and so many other people are becoming poorer, and that is not just economic decisions but those are political decisions as well, and too often those decisions are influenced by the people who have the money.

So this is an issue. I think this was an excellent hearing, and I thank all of our panelists for participating, and we look forward to pursuing this issue in the months to come.

Thank you all very much, and this hearing is ended.

[Whereupon, at 12:42 p.m., the Committee was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF MR. ROBERT B. REICH

United States Senate

Budget Committee

Hearings on Widening Inequality of Income and Wealth in America

March 17, 2021

Testimony of Robert B. Reich
Chancellor's Professor of Public Policy,
University of California, Berkeley
Former U.S. Secretary of Labor

Mr. Chairman and members of the Committee,

Thank you for giving me the honor and opportunity of testifying before you this morning on one of the central challenges this nation faces beyond the pandemic – widening inequality of income and wealth.

Even before the pandemic, America had the widest inequalities of income and wealth in a century, wider than any other developed nation. The median wage has barely budged for 40 years, adjusted for inflation, even though the economy was almost three times larger. The richest one-tenth of one percent has almost as much wealth as the bottom 90 percent put together. And more than half of Americans are earning so little they have no choice but to live paycheck to paycheck.

The pandemic itself has revealed the starkness of American inequality. Over the past year, while the working class and poor have taken it on the chin, America's 660 billionaires – major beneficiaries of the December 2017 tax cut – have together become $1.3 trillion richer. This would be enough for them to give every American a $3,900 check and still be as rich as they were before the pandemic.

The American Rescue Plan just enacted is an important step in the right direction. It provides a vital boost not just to the poor but also to much of the working middle class – increasing the incomes of Americans in the lowest quintile by 20 percent; those in the second-lowest, 9 percent; those in the middle, 6 percent.

Yet it seems doubtful that continued redistributions on this scale can themselves reverse America's growing inequalities of income and wealth or intensifying insecurities faced by most workers. Redistributing economic gains to the bottom 60 percent in the hope of balancing the economy is like trying to bail out a giant sinking ship in which the majority now finds itself, even as yachts become stupendously larger and fancier. It is important to keep bailing, but we must also repair the ship and restructure the waterway.

To understand what must be done, it's important to understand what has happened.

Why the Standard Explanation for Widening Inequality is Inadequate

For the past thirty years, I have offered in articles, books, and lectures an explanation for why average working people in advanced nations like the United States have failed to gain ground and are under increasing economic stress.[1] Put simply, globalization and technological change have made most of us less competitive. The tasks we used to do can now be done more cheaply by lower-paid workers abroad or by computer-driven

[1] See Reich, *The Work of Nations*, Knopf (1991).

machines. This has exerted downward pressure on the wages of the working class and the poor, disproportionately Black and Latinx workers who are also burdened by systemic racism.

My solution -- and I'm hardly alone in suggesting this -- has been an activist government that raises taxes on the wealthy, invests the proceeds in excellent schools and other means people need to become more productive, redistributes to the needy, and fights employment discrimination. The recommendations have been vigorously opposed by those who believe the economy will function better for everyone if government is smaller and if taxes and redistributions are curtailed.

While the explanation I offered three decades ago for what has happened is still relevant – and indeed has become a standard explanation[2] -- I've come to believe it overlooks a critically important phenomenon: *the increasing concentration of political power in a corporate and financial elite that has been able to influence the rules by which the economy runs, and the steady weakening of the countervailing power of average workers.*

The initiatives I recommended thirty years ago, while still useful, are in some ways beside the point because they take insufficient account of the government's more basic role in setting the rules of the economic game.

Worse yet, the ensuing debate over the merits of the "free market" versus an activist government has diverted attention from how the market has come to be organized *differently* from the way it was a half-century ago, and why its current organization is failing to deliver the widely shared prosperity it delivered then.

The standard explanation has allowed America to cling to the meritocratic tautology that individuals are paid what they're "worth" in the market, without examining the legal and political institutions that define the market. As such, it has lured many into believing nothing can or should be done to alter what people are paid because the "market" has decreed it – that working-class and poor people must either settle for lower wages and less security or get more education and better skills.

Yet this cannot be the whole story because it fails to account for much of what we have experienced. For one thing, it doesn't clarify *why the transformation occurred so suddenly*. From the end of World War II until the late 1970s, the median wage in America rose in tandem with productivity gains. In fact, those in the bottom quintiles gained greater ground, on average, than those in the top.

But then gains in the median wage and productivity began to diverge: Starting in the late 1970s, the median wage stagnated, when adjusted for inflation, while productivity gains continued to grow. And most of the gains from growth began going to the top. Yet

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[2] See, for example, Gouldin and Katz, *The Race Between Education and Technology*, Harvard University Press (2008)

globalization and technological change did not suddenly arrive at America's doorstep in the late 1970s and early 1980s. What else began happening then?

Nor can the standard explanation account for *why other advanced economies facing similar forces of globalization and technological change did not succumb to them as readily as the United States.*

In 1980, the top 1 percent's share of total income was about 10 percent in both Western Europe and the United States. But since then, the two have sharply diverged. By 2016, the top 1 percent in Western Europe had about a 12-percent share of income, compared to 20 percent in the United States. And in the U.S., the bottom 50 percent's income share fell from more than 20 percent in 1980 to 13 percent in 2016.[3]

Why have globalization and technological change widened inequality in the United States to a much greater degree than in Europe?

Nor can the standard explanation account for *why the compensation packages of the top executives of big companies has soared from an average of 20 times that of the typical worker 40 years ago to 320 times today.*[4] Or why the denizens of Wall Street, who in the 1950s and 1960s earned comparatively modest sums, are now paid tens or hundreds of millions annually. Are they really "worth" that much more now than they were worth then?

The Increase in Corporate Power

A deeper understanding of what has happened to American incomes over the last 30 years requires an examination of changes in the organization of the market. These changes stem from a *dramatic increase in the political power of large corporations and Wall Street to change the rules of the market to enhance their share of economic gains, and a simultaneous decline in the countervailing power of the working middle class to maintain their share.*

This transformation has amounted to a distribution upward, but not as "distribution" is normally defined. The government did not tax the working middle class and poor and then transfer the proceeds to the rich. The upward distribution happened indirectly – *inside* the market -- as the laws and rules organizing the market began to change. The result has been what might be called a *pre-distribution* upward. Some examples:

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[3] *World Inequality Report*, United Nations Department of Economic and Social Affairs (2018). https://wir2018.wid.world/files/download/wir2018-summary-english.pdf

[4] *"CEO Compensation Surged in 2019 to $21.3 million,"* Economic Policy Institute, 2020. https://www.epi.org/publication/ceo-compensation-surged-14-in-2019-to-21-3-million-ceos-now-earn-320-times-as-much-as-a-typical-worker/

Antitrust laws have been relaxed. This has meant large profits for a handful of companies have gained significant market power -- over network portals and platforms (Amazon, Facebook, and Google); over the nation's seed corn and fertilizer (Monsanto, DuPont-Dow); over America's air transit (American, United, Delta, Southwest); broadband (Comcast, AT&T, Verizon); pharmaceuticals (Johnson & Johnson, Pfizer, Merck); aerospace (Lockheed Martin, Boeing, General Dynamics, Raytheon); health insurance (UnitedHealth, Anthem, Aetna, and Humana); and finance (JPMorgan, Goldman Sachs, Bank of America, Morgan Stanley, Citigroup).

This market power has meant either higher prices or reduced services for consumers, or lower pay for suppliers, contractors, and workers. It has also meant more political power for these giant firms over the rules of the game, as I shall explain.

Intellectual property rights have been enlarged. This has created windfalls for pharmaceuticals, high tech, biotechnology, and many entertainment companies, which now preserve their monopolies longer than ever. The consequence, here again, has been higher prices (Americans pay more for the pharmaceuticals than do the citizens of any other developed nation), and lower pay for suppliers, contractors, and workers.

Financial laws and regulations have been eroded. Restrictions imposed in the 1930s on interstate banking, the intermingling of investment and commercial banking, and on banks becoming publicly held corporations, were jettisoned in the 1980s and 1990s -- spawning junk-bond financing, unfriendly takeovers and the notion that corporations exist solely to maximize shareholder value, and, eventually, a wave of financial gambling that ended with the financial crisis of 2008. The Dodd-Frank Act, enacted in its wake, has also been eroded. The Trump administration instituted major rollbacks of key rules and regulations to protect consumers and prevent many of the abuses that were at the heart of the financial crisis.[5]

Bankruptcy laws have been loosened for large corporations but tightened for homeowners and college graduates laden with student debt. Airlines and major manufacturers have used bankruptcy or the threat of bankruptcy to abrogate labor contracts and demand wage concessions -- too often leaving workers and communities stranded. Troubled banks and financial institutions have been bailed out. But bankruptcy protection has been withdrawn from homeowners saddled with mortgage debt and from graduates laden with student debt. The result has been to shift the risks of economic failure onto the backs of taxpayers and of average working people.

Tax laws have created ever-larger loopholes for the partners of hedge funds and private-equity funds, special favors for the oil and gas industry, lower marginal income-tax rates on the highest incomes, and reduced estate taxes on great wealth.

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[5] *"No, Dodd-Frank Was Neither Repealed Nor Gutted. Here's What Really Happened,"* Brookings, May 25, 2018. https://www.brookings.edu/research/no-dodd-frank-was-neither-repealed-nor-gutted-heres-what-really-happened/

Securities laws have been relaxed to allow more trading of confidential information, as well as buybacks of corporate shares. CEOs have used such buybacks to boost share prices when they cash in their own stock options.

Corporate subsidies have increased for oil and gas companies, as well as for Wall Street banks.

Contract laws have been altered to require mandatory arbitration before private judges selected by big corporations.

The minimum wage has lost about 10 percent of its value to inflation since it was last raised in 2009.

All these changes in the rules of the game have resulted in upward *pre-distributions* inside the market toward big corporations and financial firms and to their executives and shareholders, and away from average working people.

The Decline of Worker Countervailing Power

Meanwhile, corporate and Wall Street executives have used their increasing power to prevent the wages of most workers from rising in tandem with productivity gains, in order that more of the gains go into corporate profits. Higher corporate profits have meant higher returns for shareholders and, directly and indirectly, higher pay for the executives themselves.

Workers worried about keeping their jobs have been compelled to accept this transformation without fully understanding its roots. There are several reasons for the declining bargaining power of American workers:

Trade agreements have encouraged American companies to outsource jobs abroad. "Free trade" agreements over the last several decades have increased protections for American intellectual property and American financial assets, at the insistence of big U.S. corporations and Wall Street. But they have accorded American workers less protection, often undermining their jobs and wages.

Relatively high levels of unemployment have made workers less secure, reducing their bargaining power. The Great Recession, whose proximate causes were the bursting of housing and debt bubbles brought on by the deregulation of Wall Street, hurled millions of Americans out of work. Between 2010 and 2020, fiscal policy was less stimulative than it would be had Congress been more interested in moving toward full employment than in reducing budget deficits. The pandemic of 2020 initially threw some 20 million Americans into joblessness; today the economy has 9.5 million fewer jobs than it did before the start of the pandemic, and an additional 4 million people are estimated to have left the labor force altogether.

Shredded safety nets and disappearing labor protections have also reduced workers' security, undermining their bargaining power. The public policies that emerged during the New Deal and World War II had placed most economic risks squarely on large corporations through strong employment contracts, along with Social Security, workers' compensation, 40-hour workweeks with time-and-a-half for overtime, unemployment insurance, and employer-provided health benefits (wartime price controls encouraged such tax-free benefits as substitutes for wage increases). Added to these were Medicare and Medicaid, in 1965.

But over the last four decades, many of these safety nets have frayed. Unemployment insurance, for example, is now typically available to fewer than a third of workers who lose their jobs. Corporations have cut their payrolls by outsourcing abroad, utilizing part-time workers, and shifting to contract workers – all of which further shredded safety nets and undermined workers' bargaining power. Full-time workers who had put in decades with a company could find themselves without a job overnight -- with no severance pay, no help finding another job, and no health insurance. Even before the crash of 2008, the Panel Study of Income Dynamics at the University of Michigan found that over any given two-year stretch in the two preceding decades, about half of all families experienced some decline in income.

The growing tendency of corporations to misclassify workers as "independent contractors" – even when workers' jobs and earnings are effectively controlled by the corporation -- has stripped workers of more protections. Uber and Lyft spent some $200 million on California Proposition 22 in order to change state law to allow them to classify their workers as contractors – another example of how corporate wealth translates into political influence to alter the rules of the game. The move has saved these and similar corporations many additional millions of dollars because they are no longer required to pay Social Security, workers compensation, overtime, unemployment insurance, or a minimum wage. These costs have been transferred onto their workers, instead.

Not the least, the declining bargaining power of workers is a consequence of the demise of labor unions. Fifty years ago, when General Motors was the largest employer in America, the typical GM worker earned $35 an hour in today's dollars. Today, America's largest employer is Walmart, and the typical entry-level Walmart worker earns less than $15 an hour.

This does not mean the typical GM employee a half-century ago was "worth" more than twice what the typical Walmart employee today is worth. The GM worker was not better educated or motivated than the Walmart worker. The real difference was that GM workers a half-century ago had a strong union behind them that summoned the collective bargaining power of all autoworkers to receive a fair share of company revenues for its members. Because *more than a third of workers across America's private sector belonged to a labor union,* the bargains those unions struck with employers raised the wages and benefits of non-unionized workers as well. Non-union firms knew they would be unionized if they did not come close to matching the union contracts.

Today's Walmart workers do not have a union to negotiate a better deal. They are on their own. And because *only 6.4 percent of today's private-sector workers are unionized,* most employers across America do not have an incentive to match union contracts. This can put unionized firms at a competitive disadvantage.

Public policies have enabled and encouraged this fundamental change. Currently, 28 states have adopted "right-to-work" laws, which hobble labor unions. The National Labor Relations Board, for many years understaffed and overburdened, has barely enforced collective bargaining. Corporations facing union organization drives have used a variety of tactics to harass and intimidate workers, most of them illegal under the National Labor Relations Act of 1935, but the Board has few resources or tools to enforce the law. At most, workers who are illegally fired for their union activities get back pay -- a mere slap on the wrist of corporations that have violated the law. The result has been a race to the bottom.

The Consequence of the Increasing Imbalance of Power

Given the increasing power of large corporations and the decreasing power of workers it is not surprising that corporate profits have increased as a portion of the total economy while wages have declined.

Those whose income derives directly or indirectly from profits -- corporate executives, Wall Street traders, and shareholders -- have done exceedingly well. The Walmart heirs alone have more wealth than the bottom 42 percent of Americans combined. Those whose income depends primarily on wages, have not.

Before the 1980s, the main driver of profits and the stock market was economic growth. It was a virtuous cycle: Demand for goods and services generated more jobs and higher wages, which in turn stoked demand for more goods and services.

But since the late 1980s, the major means by which corporations have increased profits and stock prices has been by keeping payrolls down. Studies show that *prior to 1989, economic growth accounted for most of the stock market's gains. Since then, most of the gains have come from money that would otherwise have gone into the pockets of workers.*[6]

All this has made the rich even richer. *The richest 1 percent of American households now own 50 percent of the value of stocks held by American households. The richest 10 percent own 92 percent.*[7] But it has had the opposite effect for everyone else. More and

[6] Greenwald, Lettau, Ludvigson, "How the Wealth Was Won: Factors Shares as Market Fundamentals," NBER Working Paper, April 22, 2019

[7] Federal Reserve Board, Goldman Sachs Global Investment Research, 2019.

more of the total economy is going into profits and high stock prices benefiting those at the top, while less and less is going into worker wages and salaries.

It has become a vicious cycle: As more of the nation's income flows to large corporations and Wall Street and to those whose earnings and wealth derive from them, their influence over the rules of the market has grown -- which in turn enlarges their share of total income and wealth. As less of the nation's income flows to average workers because of the weakening of labor unions and other sources of countervailing power, their influence over the rules of the market declines -- which causes the playing field to tilt even further against them.

What Must Be Done

The underlying problem, then, is not that most Americans are "worth" less in the market than they had been, or that they have been living beyond their means. Nor is it that they lack enough education to be sufficiently productive.

The more basic problem is that *the market itself has become tilted ever more toward moneyed interests that have exerted disproportionate influence over it, while average workers have lost bargaining power to receive as large a portion of the economy's gains as they commanded in the first three decades after World War II.*

As a result, the compensation of most American workers has not kept up with what the economy could otherwise provide. To attribute this to the impersonal workings of the "free market" is to disregard the growing power of large corporations and the financial sector over the organization of the market, and the declining *countervailing* power of American workers.

Under these circumstances, education and retraining are no panacea. Nor can we hope to reverse the scourge of widening inequality through mere redistributions. Reducing inequality requires reversing the upward distributions *within* the rules of the market. It necessitates confronting the increasingly imbalanced *pre-distribution* of income and wealth.

To do this requires that economic and political power be rebalanced – that the power of average workers be increased relative to the power of large corporations and very wealthy individuals. While the economy is not a zero-sum game in which gains to the working middle class and poor can only come at the expense of economic elites, power *is* a zero-sum game. It is impossible for the working class and poor to gain more power without economic elites losing it. And the working middle class and poor will not enjoy substantial economic gains unless and until they gain more power.

Rebalancing power over the rules of the economy requires, among other things, (1) more vigorous use of antitrust to mitigate the growing

concentrations of corporate economic and political power; (2) substantially higher taxes on growing accumulations of income and wealth at the top; (3) stronger labor protections to enable workers to join together in order to gain higher wages, benefits, and more job security; and (4) greater restrictions on the use of private and corporate wealth to influence political decisions.

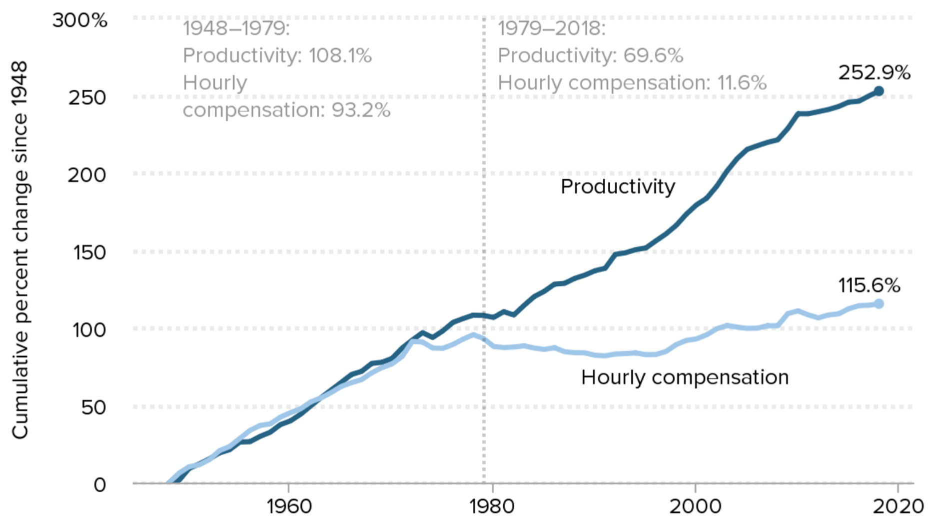
How to begin? It's a classic "chicken-and-egg" dilemma: such rebalancing is possible only if power begins to be rebalanced. Ultimately, the trend toward widening inequality in America will be reversed only when the vast majority, whose incomes have stagnated and whose wealth has failed to increase, join together to demand fundamental changes in the rules.

This rebalancing may be starting to occur right now. I believe we are at a point in history similar to where we were some hundred twenty years ago, when the ravages and excesses of the Gilded Age spawned what became known as the Progressive Era – when reformers in and outside government took the lead in saving American capitalism from its own excesses. The most important political competition over the next decades will not be between the right and left, or between Republicans and Democrats. It will be between a majority of Americans who have been losing ground, and an economic elite that has failed to recognize or respond to the growing distress.

What Happened (in 10 slides)

Robert Reich

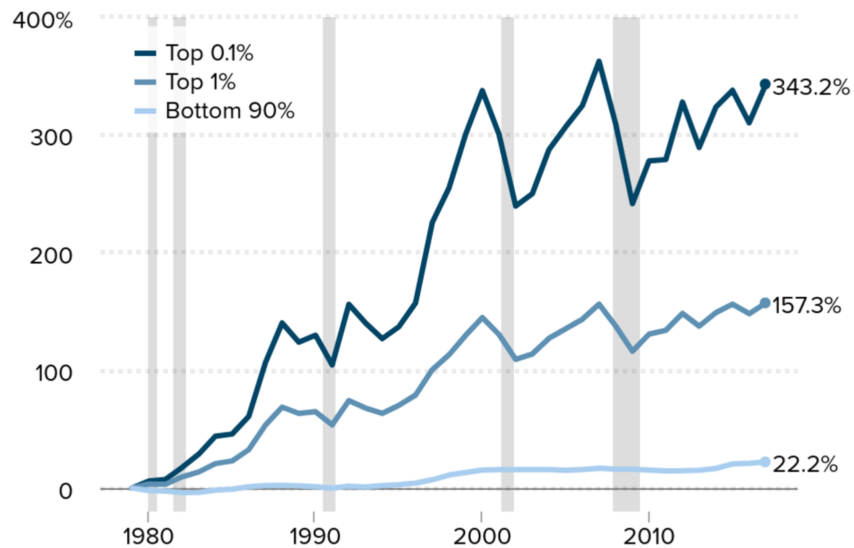
Hourly wage gains (bottom two-thirds) stopped matching productivity gains



Economic Policy Institute. Data from the Bureau of Labor

Increasingly, economic gains have gone to the top

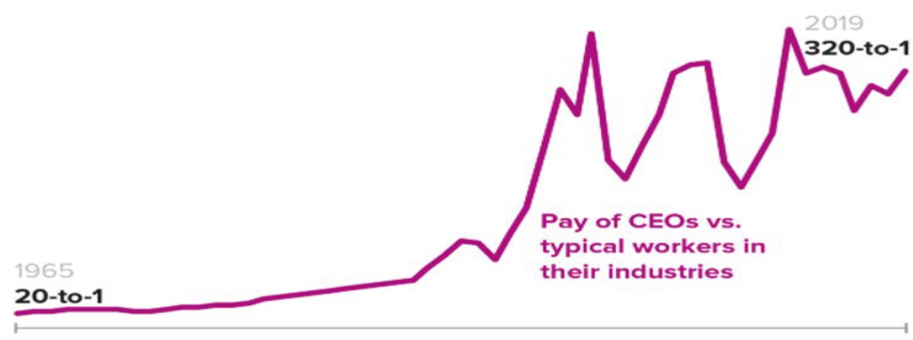
Cumulative percent change in real earnings by earnings group, 1979-2017



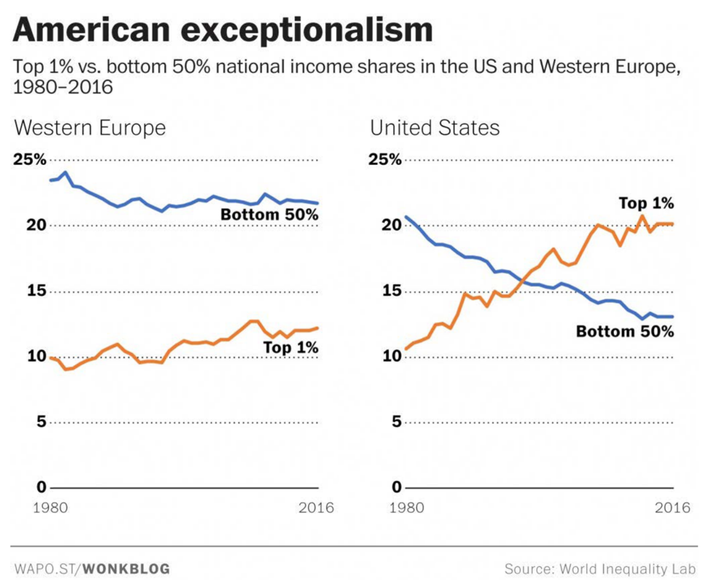
Source: Economic Policy Institute

CEO Pay

The CEO-to-worker compensation ratio has skyrocketed since 1965.

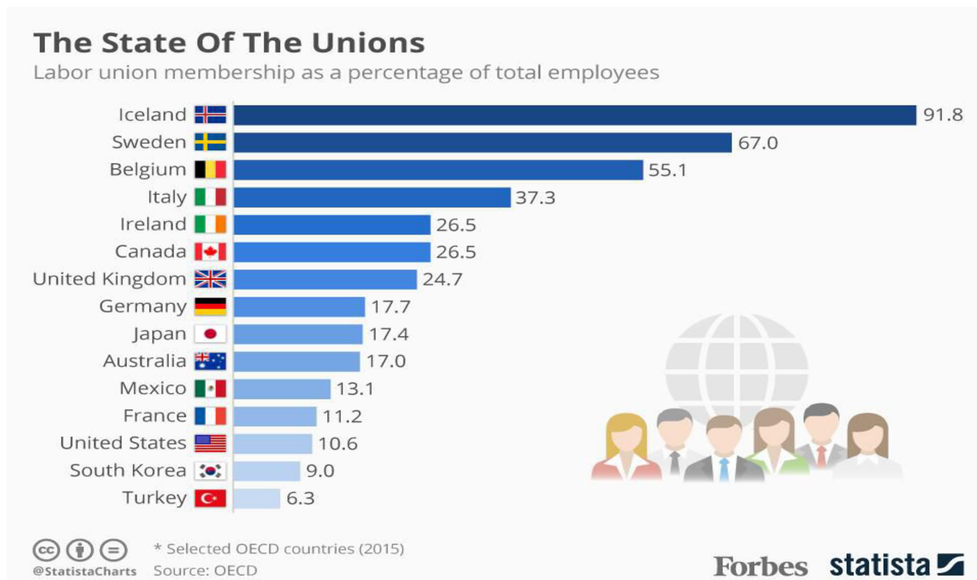


This didn't happen in other developed nations. Why not?



5

Labor union membership in U.S. versus other developed nations

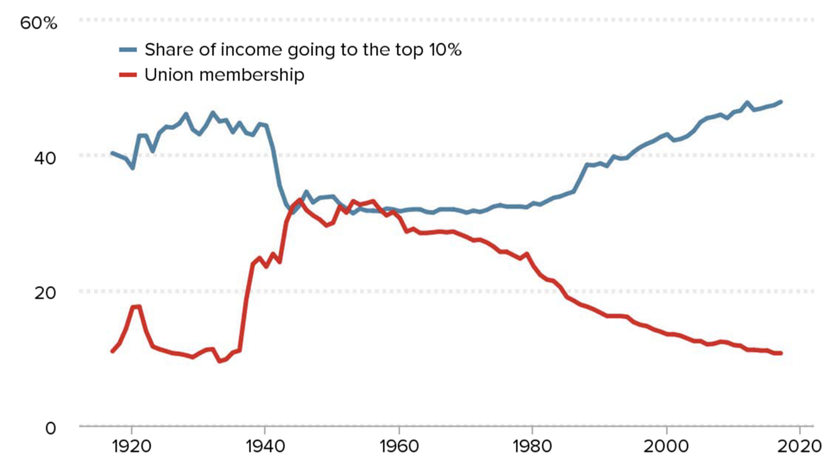


6

Union membership in U.S. and share of total income going to top 10 percent

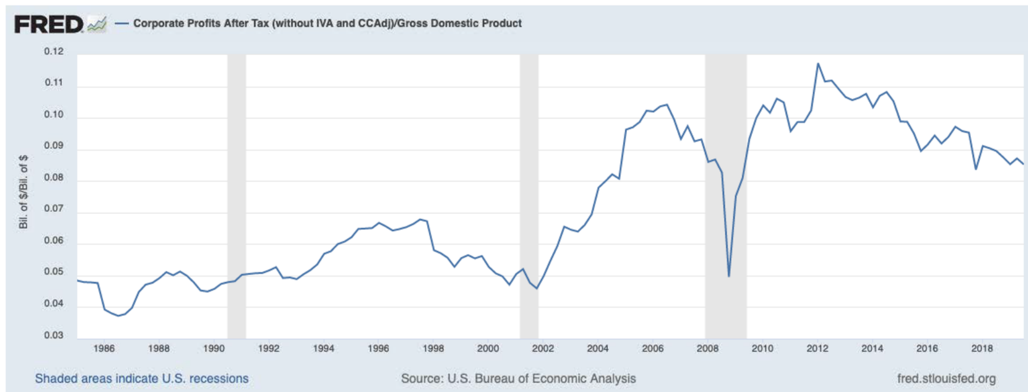
As union membership declines, income inequality rises

Union membership and share of income going to the top 10%, 1917–2017

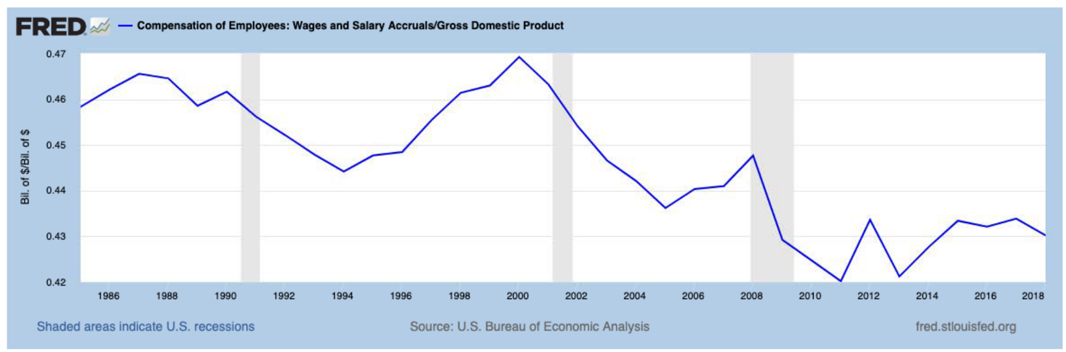


Source: Economic Policy Institute, 2019

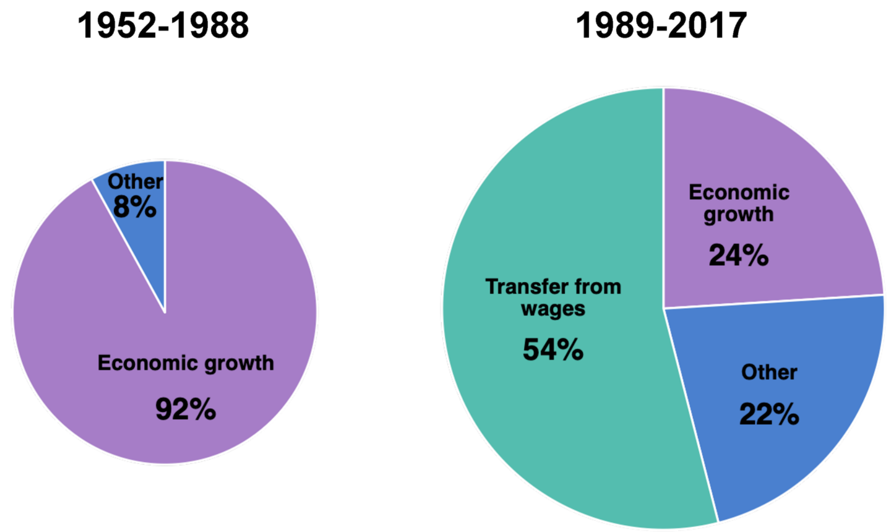
Corporate profits have risen as a percent of GDP



Wage and salary income has dropped as a percent of GDP

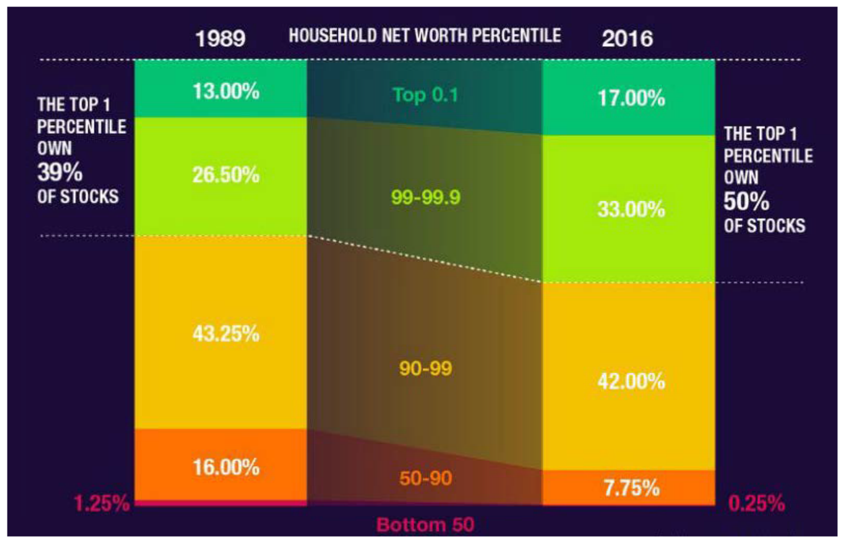


Increasing portion of shareholder wealth now comes from what used to go to wages



Source: Greenwald, Lettau, Ludvigson, "How the Wealth Was Won: Factors Shares as Market Fundamentals," NBER Working Paper, April 22, 2019

Richest 1% own half of the U.S. stock market, richest 10% own over 90 percent.



Source: Federal Reserve Board, Goldman Sachs Global Investment Research

PREPARED STATEMENT OF MS. SARAH ANDERSON

Institute for Policy Studies

March 17, 2021

Testimony of Sarah Anderson
Global Economy Project Director
Institute for Policy Studies

Before the United States Senate
Committee on the Budget

"The Income and Wealth Inequality Crisis in America"

Thank you, Chairman Sanders, Ranking Member Graham, and members of the committee, for the invitation to participate in this important hearing. I am Sarah Anderson, Global Economy Director at the Institute for Policy Studies, an independent center for research and action founded in 1963. I also co-edit the Institute's Inequality.org web site. For more than 25 years, I have been researching inequality, concentrating on what may be the single most dramatic driver of our country's economic divide, the growing gap between CEO and worker pay.

This gap has become a systemic problem in corporate America. In 1980, big company CEOs averaged 42 times more compensation than their typical workers. These gaps rapidly expanded in the 1990s, as wages stagnated for most workers and stock-based executive pay exploded. During the 21st century, the annual gap between CEO pay and typical worker pay has averaged about 350 to 1.[1]

This growing pay divide has been a significant driver of gender and racial disparities. Women and people of color make up a disproportionately large share of today's low-wage workers and a distressingly tiny share of corporate leaders. Only 1 percent of CEOs at our country's 500 largest corporations are Black, 2.4 percent are Asian, 3.4 percent are Latino, and 6 percent are women.[2]

For decades now, study after study has shown that skyrocketing CEO pay levels have nothing to do with improved managerial performance. Instead these massive paychecks reflect a rigged system that channels corporate resources to the top of the corporate ladder while those on the lower rungs face the greatest risks. Sadly, these obscene disparities are continuing during the pandemic. As I detail in a table below, many corporate boards are actually bending the rules to protect CEOs while average workers are suffering.

A pay system that encourages CEO short-termism and recklessness puts us all at risk

During the 2008-09 "Great Recession," I had high hopes that policymakers would finally take action on runaway executive pay. Executives chasing huge bonuses had just crashed our economy, leaving millions of Americans homeless and jobless. In the three years leading up to the meltdown, the top five executives at the 20 biggest bailed out banks had averaged $32 million each in personal compensation.[3]

The financial crisis still stands as a dramatic example of how corporate pay practices that incentivize reckless behavior put us all at risk. But we have many other examples of this same behavior. At the Institute for Policy Studies we have been documenting for decades how reckless practices have perversely rewarded CEOs for slashing jobs, cooking the books, accelerating climate change, and dodging taxes.[4]

After the 2008 crash, I thought we could finally put to rest the discredited notion that corporate pay practices only really matter to shareholders and have no impact on our broader society. Indeed, the Capitol Hill debate left me even more encouraged, as lawmakers from both parties railed against CEO greed. In September 2008, Senator (and presidential candidate) John McCain called for a straight cap on compensation for employees of all bailed-out firms at no more than $400,000, the salary of the president.[5] The Senate approved a cap at that level in 2009 as an amendment to the American Recovery and Reinvestment Act. Then came the pushback.

Policymakers backed off tough executive pay reforms after the 2008 crash

As working families sank into the Great Recession, major corporations and big Wall Street banks argued that without the ability to offer mega-million-dollar pay packages, they couldn't possibly retain and attract "top talent." The conference committee scrapped the $400,000 pay cap. The only bailed-out banks and corporations that faced any meaningful pay limits were the seven failed firms that received "exceptional assistance," and even these limits only applied to cash compensation, not stock-based pay.[6]

Having avoided compensation caps, corporate boards turned to crafting pay schemes to help their executives rebound faster from the crash than ordinary Americans. A Harvard study documented how publicly held corporations, especially the largest ones, doled out massive executive stock grants when the market was at bottom. These awards quickly ballooned in value as the taxpayer-fueled recovery began to take effect, driving up executive compensation at Russell 3000 firms by 37 percent on average between 2008 and 2010.[7]

In today's crisis, boards are again focused on protecting massive CEO paychecks

We are now going through a period of even greater national crisis than we faced in 2008-09. Today's top corporate executives didn't *cause* the pandemic in the direct way that executives' reckless behavior caused the financial crash. But CEOs at many large U.S. corporations *did* make working families much more vulnerable to the current economic crisis.

Top corporate executives created this vulnerability by outsourcing jobs and turning millions of the jobs that remained into low-wage, part-time work without benefits. These corporate moves left the majority of American families just a month or two of lost paychecks away from financial ruin.[8] When the pandemic hit, we saw quickly just how dangerous this precarity could be. Even with Covid relief assistance, more than 18 percent of U.S. adult renters soon fell behind on their rent and faced the risk of homelessness within nine months.[9]

We also quickly saw — more clearly than perhaps ever before — just how essential our country's frontline workers have become to the functioning of our economy, our public health, and our democracy.

And yet, once again, just as in the aftermath of the 2008 crash, corporate boards are fixating on protecting the paychecks of those executives who sit at the corporate summit. We're just starting to receive the annual executive pay reports that publicly held corporations have to file with the SEC. But we already have enough reports in hand to see the basic pattern that's emerging: Over the past year, a year of almost unimaginable suffering for the American people, many corporate boards have wasted their brainpower on bending the rules to safeguard their CEOs' gargantuan paychecks.

How Corporate Boards Bent the Rules in 2020 to Protect Paychecks at the Top

Select examples from annual corporate proxy statements and 10-k reports filed with the SEC.

Company	CEO	CEO total compensation	Median worker pay	CEO-worker pay ratio	% change in employees, 2019-2020	How the board protected the CEO's paycheck in 2020
COCA-COLA	James Quincey	$18,383,474	$11,342	1,621:1	-6.8	Gave "special one-time incentive payments" to compensate top executives for not meeting annual bonus targets. The CEO's cash bonus amounted to nearly $1 million.
CARNIVAL	Arnold Donald	$13,306,097	$27,151	490:1	-34.0	Created a "special retention and incentive program" that awarded stock grants to the CEO, delivering a nearly 20 percent raise in total pay over 2019.
TYSON FOODS	Noel White	$10,993,649	$37,444	294:1	-1.4	Awarded special stock grants to compensate top executives for not meeting their bonus targets. At current share values, the grants for the CEO and Chair John Tyson are each worth more than $1.3 million.
LEVI STRAUSS	Charles (Chip) Bergh	$10,641,110	$16,088	661:1	-6.3	"Adjusted" performance metrics for outstanding executive stock grants to make them easier for executives to attain.
MCCORMICK & CO	Lawrence Kurzius	$19,546,334	$33,387	585:1	n/a*	"Adjusted" performance metrics so the CEO could receive a $6 million cash bonus.
UNISYS	Peter Altabef	$7,234,193	$23,091	313:1	-18.1	Trimmed CEO base salary by 20% for 8 months but more than made up for it by "adjusting" performance metrics so the CEO could receive a $2 million cash bonus.

* reports only full-time employee data.

Coca-Cola: None of the soft drink maker's top executives met their bonus targets last year, but the board gave them all bonuses anyway. The reason? The board wanted to reward Coke's top executives for their "resilience" in the face of the pandemic. CEO James Quincey wound up with a total compensation package worth more than $18 million, over *1,600 times* as much as the company's typical worker pay.

Carnival: The pandemic has been devastating for the cruise industry. At Carnival, CEO Arnold Donald not surprisingly failed to meet his pre-Covid bonus targets. He also accepted a cut in his base salary from $1.5 million in 2019 to $857,413 in 2020. But thanks to a special "retention and incentive" award, Donald's total 2020 compensation grew to $13.3 million — nearly $2.2 million more than in 2019. He received the bulk of his special stock awards on August 28, 2020. Between that grant date and March 12, 2021, the company's share price rose 65 percent, buoyed by the vaccine rollout and the anticipated restart of their ships.[10]

Carnival's employees fared decidedly less well last year. After the industry shut down in mid-March amid Covid-19 outbreaks on several ships, Carnival and other cruise lines focused on getting paying customers home while leaving employees stranded on board for months without pay. The company reportedly even charged the abandoned workers for basic necessities like soap.[11] The company was still working on repatriating crew members in August, the month that CEO Donald received his special bonus award.[12]

Tyson Foods: The meat processing company's top executives didn't meet their cash bonus targets either. So what did the board do? The Tyson directors gave them stock awards to make up the difference. Frontline employees, meanwhile, were facing high risks on the job. More than 12,000 of the company's workers have contracted Covid-19, and at least 38 have lost their lives to the virus — more than at any other meatpacking company.[13]

Billionaire wealth growth during the pandemic

One of the executives who benefited from the Tyson board's special Covid stock awards is company chair John Tyson, who was hardly in dire need of support. The heir and grandson of the company founder, Tyson has watched his personal wealth increase 62 percent during the pandemic — to $2.4 billion. According to research by my Institute for Policy Studies colleagues and Americans for Tax Fairness, the nation's 657 billionaires have enjoyed a stock-fueled boost in their net wealth of 44 percent since the rough start of the pandemic crisis. As of March 10, 2021, their combined fortunes stood at $4.2 trillion — up $1.3 trillion since March 18, 2020.[14] Many of these billionaires owe their fortunes to their years as CEOs.

The empty gesture of CEO salary cuts

More than 500 publicly held U.S. companies announced cuts to their CEO's base salary in 2020. These moves garnered considerable positive press coverage, but they had a negligible impact on pay levels since straight salary makes up on average only 10 percent of executive compensation packages.[15] Some of the early proxy filings make this clear. A.O. Smith CEO Kevin J. Wheeler, for example, took a 25 percent salary cut while enjoying a 36 percent increase in his overall compensation. At Whirlpool, CEO Mark Bitzer accepted a 25 percent trim on his base salary during April and May 2020 while his total compensation for the year rose 22 percent to more than $17 million.

Narrower pay gaps would increase enterprise effectiveness

Extensive research has shown that excessive CEO pay correlates negatively to firm performance. A 2018 Harvard Business School study of S&P 1500 firms looked not just at CEO pay levels but also at the pay gaps within firms over a multi-year period. The findings indicate that large disparities harm the bottom line, particularly when a gap reflects an "overpaid" CEO and "underpaid" employees — in other words, when pay levels don't reflect objective economic factors. Companies with these overpaid CEOs and underpaid workers saw significantly higher levels of employee dissatisfaction and turnover, as well as lower sales.[16]

This Harvard study and other research on the negative impact of large pay gaps on company performance reinforce a theory developed by current Treasury Secretary Janet Yellen in 1990. The "Fair Wage-Effort Theory" posits that pay disparity causes resentment among lower-level employees, leading them to take actions, such as shirking or quitting, that undermine enterprise effectiveness.

"The theory conforms to common sense, and to sociological and psychological theory and observation," Yellen and her co-author observed.[17]

U.S. CEO pay levels have gone off the charts compared to the pay experience we see in all other nations, including those that are home to large, globally competitive corporations. A 2017 Bloomberg survey found that U.S. CEOs were making more than twice as much, on average, as German CEOs, more than six times as much as Japanese CEOs, and nearly eight times as much as their Chinese counterparts.[18]

Public outrage over outrageous CEO pay cuts across the political spectrum

This period of crisis can and should be a time for Americans to come together and find a more equitable common ground. Polls suggest that we already have common ground on CEO pay. Some 78 percent of U.S. workers see CEOs as overpaid compared to their employees, one 2019 poll found.[19] A Harvard Business School study found that Americans think the right CEO-worker pay ratio runs no higher than 7 to 1.[20] A report I co-authored for the Institute for Policy Studies found that 80 percent of S&P 500 firms paid their CEO over 100 times more than their median worker in 2018. In 50 cases, this gap stretched more than 1,000 times.[21]

In 2016, a Stanford survey found that 52 percent of Republicans actually want to cap CEO pay relative to worker pay.[22] I will end with some key policy solutions that rate as far more moderate than an outright cap on executive compensation.

Key policy solutions for excessive executive compensation

1. **Tax Excessive CEO Pay Act**: This legislation would apply graduated tax rate increases on large corporations, based on the size of the pay gap between their CEO and median

worker. Companies with pay ratios of 50 to 1 or lower would not owe the IRS an extra dime under this bill. The bill also excludes companies that have average annual gross receipts for the three preceding years of less than $100 million.

Corporations that pay their top executives between 50 and 100 times more than their typical workers would face a 0.5 percentage point increase in their federal tax rate. The highest penalty would apply to companies that pay top executives over 500 times worker pay. They would be subject to a 5 percentage point increase in their tax rate. This proposal would create an incentive to both rein in executive pay and lift up worker wages — all while generating an estimated $150 billion in revenue over 10 years.[23]

2. **Financial transaction tax:** Another way to generate much-needed revenue while curbing executive excess would be through a financial transaction tax on Wall Street trades. Various legislative proposals in the Senate and the House along this line would curb the lucrative short-term speculation that has inflated Wall Street bonuses while adding no significant value to the real economy.

3. **CEO pay ratio incentives in federal procurement:** We could leverage the power of the public purse against outrageous CEO compensation by giving corporations with narrow pay ratios preferential treatment in government contracting. This incentive could be combined with additional federal contract conditions to advance economic security and worker power, race and gender equality, and environmental sustainability.

4. **Close the "carried interest" loophole:** Wealthy managers of private equity, real estate, and hedge funds pay the discounted capital-gains tax rate on so-called "carried interest" (earnings tied to a percentage of the fund's profits). This income actually amounts to compensation for managing other people's investments and should be taxed as ordinary income. The 2017 tax legislation merely lengthened the holding period for investments that qualify for this tax break from one to three years.

5. **Fully close a loophole that allows unlimited tax deductibility of excessive pay:** In 1993, Congress amended the tax code to prevent corporations from deducting off their taxable income the amounts they pay top executives in excess of $1 million per executive — unless the compensation came as stock options and other forms of "performance" pay. This huge loophole encouraged corporate boards to hand out massive bonuses that dramatically widened pay gaps between corporate executives and rank-and-file workers.

   The 2017 Republican tax law closed this "performance" pay loophole, but only for compensation going to a corporation's CEO, CFO, and three other highest-paid employees. As part of the American Rescue and Recovery Act, Congress took another step forward by closing the loophole for compensation going to an additional five executives (10 in total).[24] Pay above $1 million going to other highly paid employees — such as traders at large Wall Street firms — remains fully deductible.

6. **Restrict stock buybacks:** Since 1982, SEC Rule 10b-18 has allowed corporations to repurchase their shares on the open market, with certain limitations. As William Lazonick and other analysts have pointed out, stock buybacks artificially inflate executive pay and drain capital that could be put to productive purpose.[25] In the first year after the 2017 Republican tax cuts, U.S. corporations announced a record-setting $1 trillion of stock buybacks.[26] Repurchases have dropped off during the pandemic, but some analysts note that corporations have accumulated large cash reserves and predict a resurgence. Policy solutions introduced in Congress include banning open market buybacks, banning buybacks for companies with large CEO-worker pay ratios, and requiring companies to issue a worker dividend equal to $1 for every $1 million spent on stock buybacks.[27]

7. **Require top financial executives to contribute compensation into a fund to pay for penalties:** Following the 2008 financial crash, senior banking executives did not face personal responsibility for fraudulent activity, leaving shareholders to shoulder the financial penalties. One legislative proposal would require senior executives of large banks to place a substantial share of their pay each year into a "deferment fund" for 10 years. The amount to be deferred would be at least 50 percent of all executive compensation that exceeds 10 times median employee pay. If the bank faces civil or criminal fines, these penalties would be paid out of this fund.[28] The bill draws on a New York Federal Reserve proposal, based on the argument that deferring pay would help change the reckless Wall Street culture and motivate managers to police one another.[29]

8. **Finalize and rigorously enforce remaining Dodd-Frank executive compensation reforms:** The 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act included several executive compensation reforms that have still not been implemented. One of these pertains to pay restrictions on executives of large financial institutions, Section 956 of the 2010 Dodd-Frank financial reform law prohibits large financial institutions from granting incentive-based compensation that "encourages inappropriate risks." Regulators last addressed this provision in 2016 by issuing a revised proposal.[30] As the Institute for Policy Studies explained in comments to the SEC, the proposed rule includes overly lenient bonus deferral periods, inadequately restricts stock-based pay, and allows management too much discretion over enforcement.[31]

A broader agenda to reverse extreme inequality

Excessive CEO pay has not, of course, been the only driver of our country's rapidly concentrating wealth and income. Reversing this dangerous trend will require many additional policy tools. For the past year, I have co-led an economic justice working group of the Progressive Governance Project, which brought together 70 organizations to develop recommendations for Congress and the Biden administration.[32] Our extensive recommendations for addressing economic and racial inequality include:

- Making it easier to **organize and form unions** and extend labor protections to excluded workers.

- Taxing the **accumulated wealth of the ultra-rich**, restoring a strong estate tax or shifting to an inheritance tax, and requiring taxes to be paid on capital gains accumulated during a lifetime when passed to heirs or given as gifts.
- Taxing **individual income** from investments at the same higher rate as income earned from work and raising income tax rates on high earners.
- Significantly raising **corporate income tax** rates, raising tax rates on offshore profits to equal domestic rates, and closing tax loopholes benefiting real estate and other industries.
- Shutting down mechanisms that enable the wealthy to **hide money and avoid taxes**, including outlawing tax avoidance trusts and offshore tax havens.
- Broadly canceling **federal student debt**.
- Establishing a "**baby bonds" program** to help narrow the racial wealth divide.

Conclusion

We can and must do better, as a nation, than accept a corporate business model that creates prosperity for the few and precarity for the many. And we can't afford to wait for corporations and their shareholders to solve this problem. Corporate boards have shown us — over a decade ago in the financial crash and over the last year with the pandemic — that we cannot rely on them to do the right thing when it comes to CEO pay.

Excessive CEO pay is a problem that affects all of us. We need responsible policy solutions.

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[1] Income inequality facts section of Inequality.org, a web site of the Institute for Policy Studies.
[2] David Cooper, Zane Mokhiber, and Ben Zipperer, "Raising the federal minimum wage to $15 by 2025 would lift the pay of 32 million workers," Economic Policy Institute, March 9, 2021. Catalyst, Women CEOs of the S&P 500, March 15, 2021. Richie Zweigenhaft, Fortune 500 CEOs, 2000-2020: Still Male, Still White, The Society Pages, October 28, 2020.
[3] Sarah Anderson, John Cavanagh, Chuck Collins, and Sam Pizzigati, "Executive Excess 2009: America's Bailout Barons," Institute for Policy Studies, September 2, 2009.
[4] See Institute for Policy Studies annual "Executive Excess" reports.
[5] Mike Allen, "McCain wants to limit execs to $400,000," *Politico*, September 21, 2008. Shortly after the presidential election, on November 19, 2008, Senator Bernie Sanders (I-VT) introduced the first legislation to limit executive compensation at TARP recipients to $400,000, the Stop the Greed on Wall Street Act (S.3693). On February 5, 2009, the Senate approved by voice vote an amendment to the American Recovery and Reinvestment Act to implement that $400,000 cap. A conference committee later cut the provision.
[6] On February 4, 2009, the White House announced a $500,000 cap on cash compensation for the five top executives at firms getting "exceptional assistance." These firms included: Bank of America, Citigroup, American International Group, General Motors, Chrysler, and the two automakers' financing units. The rules allowed additional stock incentives, requiring only that they not be cashed in until bailout aid was repaid. The rules did not apply to firms that had already received TARP funding, and firms that got aid but not exceptional assistance could waive the $500,000 pay cap if they agreed to submit executive pay plans to a nonbinding shareholder vote. On June 10, 2009, new Treasury Department rules replaced the $500,000 cap with a "special master" pay czar, Kenneth Feinberg, responsible for reviewing compensation plans at firms receiving "exceptional assistance." A 2012 government audit criticized Feinberg for having approved pay packages worth $5 million or more from 2009 to 2011 for 49 top earners at the companies with the largest taxpayer bailouts.
[7] Carol Bowie, "Post-Crisis Trends in U.S. Executive Pay," Harvard Law School Forum on Corporate Governance, February 27, 2012.

[8] Diana Farrell, Fiona Greig, and Chenxi Yu, "Weathering Volatility 2.0," JPMorgan Chase & Co. Institute, October 2019.
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[29] Bartlett Naylor, "Decimate Wall Street," Huffington Post, December 22, 2014.
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PREPARED STATEMENT OF MS. JENNIFER BATES

U.S. Senate Budget Committee Hearing on the Income Inequality Crisis in America
March 17, 2021 at 11 AM

Testimony by Jennifer Bates, Learning Ambassador at Amazon BHM1, Bessemer Alabama

Good morning Chairman Sanders, Ranking member Graham and members of the committee.

Thank you for the opportunity to testify today.

My name is Jennifer Bates and I work in Bessemer, Alabama where my coworkers and I are trying to form a union at Amazon with the Retail, Wholesale and Department Store Union.

Amazon brags it pays workers above the minimum wage. What they don't tell you is what those jobs are really like. And they certainly don't tell you that they can afford to do much better for their workers.

Working at an Amazon warehouse is no easy thing. The shifts are long. The pace is super-fast. You are constantly being watched and monitored. They seem to think you are just another machine.

I started working at Amazon in May of 2020 not too long after they opened. By my third day, I was hurting. I looked around and saw it wasn't just me. I mentioned it to my sister who also worked there at the time, and she just told me it only gets worse.

At Amazon, you are on your feet walking all the time and climbing stairs to get to your station and move products. We have two 30-minute breaks during a 10-hour shift which is not long enough to give you time to rest. The place is huge – the size of sixteen football fields. Just walking the long way to the bathroom and back eats up precious break time.

My co-workers and I—older, younger, middle-aged people— limp from climbing up and down the stairs in the four-floor building. When I first came in to work, I noticed there was one elevator for human use. When I tried to use it, a co-worker stopped me, and told me were weren't allowed to use it. Then I noticed that around the facility there were plenty of elevators, but the signs say, "material only, no riders." I couldn't believe that they built a facility with so many elevators for materials and make the employees take the stairs on a huge four-flight facility.

The work itself is also grueling. We have to keep up with the pace. My workday feels like a 9-hour intense workout every day. And they track our every move – if your computer isn't scanning, you get charged with being time-off-task. From the onset, I learned that if I worked too slow or had too much time off task I could be disciplined or even fired. Like a lot of workers, it was too much for my sister and she ended up quitting.

I thought there should be another way. I mean why can't such a large and wealthy company do better for their workers? Amazon even took away our essential worker pay in the middle of the pandemic. Meanwhile, Amazon has made tons of money during this crisis. Jeff Bezos is the richest man in the world. And now he's even richer thanks to us workers.

They expect us not to expect anything we didn't already have. Like we do not deserve better. Amazon goes into poor communities claiming that they want to help with economic growth. That should mean paying its employees a living wage and benefits that truly match the cost of living, and ensure workers work in safe and healthy conditions. Because we are not robots designed to only live to work. We work to live. We deserve to live, laugh and love and have full self-fulfilling lives.

We the workers deserve to be treated with dignity and respect and deserve to be given the same commitment that we give to the job every day we go in. We give 100% at work, but if feels like we're being given back 30%. We're committed to make sure the customers get a nice package, the whole product in a couple of days. But who is looking out for us?

We, the workers, made the billions for Amazon -- I often say, we are the billionaires -- we just don't get to spend it.

We first started to talk about unionizing one day during a break. One guy said, "they wouldn't be doing this to us if we had a union." People were upset about the breaks being too short and not having enough time to rest. About being humiliated by having to go through random security checks going into our breaks to make sure we're not stealing merchandise and then not even being given that time back from our break time. Others didn't like that they never actually spoke to a manager -- they just got messages on the app or by text. It's all so impersonal and at times just plain weird. And then there's the issue of job security – people are concerned about people getting fired for no real reason and not being given the opportunity to speak to anybody at Amazon about it.

They deny us good working conditions and claim we should be happy with what we have, and then go around spending millions to tell us we don't need a union.

As soon as Amazon found out about us working with RWDSU, they started going hard trying to stop the union drive. We were forced into what they called "union education" meetings. We had no choice but to attend them. They would last for as much as an hour and we'd have to go sometimes several times a week. The company would just hammer on different reasons why the union was bad. And we had to listen. If someone spoke up and disagreed with what the company was saying they would shut the meeting down and told people to go back to work. Then follow up with one-on-one meetings on the floor.

A lot of what was said in those meetings was untrue, like telling people they'd lose their benefits if they joined the union. It was upsetting to see some of the younger people who were really on board with the union get confused by what was being said in the meetings.

All around the plant, Amazon had put up anti-union signs and messages. They sent messages to workers' phones. They even had signs posted in the bathroom stall. No place was off limits. No place seemed safe.

Despite all that, or maybe because of it, we continue to organize and build support for the union. We do it because we hope that with a union we will finally have a level playing field. We hope we will be able to talk to someone at HR without being dismissed. We hope that we will be able to rest more, that there will be changes in the facility to take some of the stress off our bodies. We're hoping we get a living wage—not just [Amazon's] minimum wage, and be able to provide better for our families. We hope that they will start to hear us and see us and treat us like human beings.

It's frustrating that all we want is to make Amazon a better place to work. Yet Amazon is acting like they are under attack. Maybe if they spent less time - and money - trying to stop the union they would hear what we are saying. And maybe they would create a company that's as good for workers and our community as it is for shareholders and executives.

Thank you for giving me this time to share my story.

PREPARED STATEMENT OF MR. JOHN W. LETTIERI

"The Income and Wealth Inequality Crisis in America"

Testimony before

The United States Senate Committee on the Budget

March 17, 2021

John W. Lettieri
President & Chief Executive Officer
Economic Innovation Group[1]

Chairman Sanders, Ranking Member Graham, and members of the committee: Thank you for the privilege of testifying today on the challenge of inequality in the United States.

My testimony is organized around four distinct aspects of tackling economic inequality and building an economy that supports the needs of all Americans, especially low-income and disadvantaged people. While much of the debate over inequality remains contentious, I believe these four areas provide an opportunity for Congress to work on a broad, bipartisan basis.

- One of the primary ways Americans build wealth is through tax-advantaged retirement savings accounts. Federal policy has failed to support the needs of low- and moderate-income Americans who would benefit the most from opportunities to build wealth. To correct this, Congress should dramatically expand access to proven wealth-building vehicles like the federal Thrift Savings Plan.

- A dynamic economy—one in which entrepreneurialism is encouraged, worker mobility is unrestricted, and technological innovation is embraced—is good for American workers. Restoring the lagging dynamism of the U.S. economy should be a chief priority, starting with restricting the use of noncompete agreements that dampen wage growth and undermine worker well-being.

- The best foundation on which to build policy interventions for low-income and disadvantaged workers is an economy experiencing prolonged and robust economic growth and a tight labor market. As we emerge from the pandemic crisis, it is crucial that we avoid repeating the slow and uneven growth that followed the Great Recession, which had devastating consequences for millions of American workers and families.

- Finally, place matters. Millions of Americans are trapped in persistently high-poverty neighborhoods that exert enormous negative effects on their residents. The number of high-poverty neighborhoods has grown significantly over the past 40 years, and poverty itself has increasingly become spatially concentrated. The United States needs a robust place-based policy agenda to support residents of struggling communities and regions.

[1] Special thanks to my EIG colleagues August Benzow, Kenan Fikri, Catherine Lyons, and Jimmy O'Donnell for their assistance as I prepared this testimony.

The need to help low-income Americans build wealth through long-term savings and investment

The U.S. economy is the world's most powerful engine of wealth creation and prosperity. In spite of this, the lack of wealth at the bottom remains a troubling and persistent fact of life in this country—one that undermines faith in the basic fairness of our economic system and inhibits the kind of widespread human flourishing to which we aspire as a country.

The numbers are startling: The median net worth for the bottom 25 percent of American families is a mere $310.[2] The bottom 50 percent of families own less than 2 percent of total U.S. wealth.[3] These statistics are, in part, a reflection of the lack of policies designed to help low-income people build long-term savings and investments.

One of the central reasons for the persistent lack of wealth at the bottom is the lack of adequate retirement savings among low-income families. The median retirement savings balance for the bottom 50 percent of American families is $0. For comparison, the median for families in the top 10 percent is $610,000.[4] The glaring failure here is not that affluent Americans are doing well, but rather that current policy is so poorly designed to support those most in need of building wealth.

According to the Bureau of Labor Statistics,[5] access to some form of employer-sponsored retirement plan skews heavily towards higher-income, full-time workers at large firms. Workers in the top quartile of wages are more than twice as likely to have access to such a plan as low-income workers in the bottom 25 percent.

Not only are more affluent workers more likely to have access to a workplace retirement account, but federal tax policy is almost exclusively designed to reward their savings. The reason is simple: tax policy pertaining to retirement savings mostly relies upon deductions from taxable income that are of little use to Americans in the bottom 50 percent of the income distribution, most of whom pay little to no federal income tax to begin with. A person making $20,000 a year and contributing the maximum gets nothing from federal and state tax incentives; a person earning $200,000 gets over $7,000 in federal and state aid. Those needing help creating wealth are implicitly excluded by current incentives.

While 67 percent of all private industry workers have access to an employer-provided retirement savings plan, surveys show that only about half of the private sector workforce actually participates in such a plan, down from an estimated 62 percent in 1980.[6] These numbers vary dramatically by industry. For instance, in the most pandemic-exposed leisure and hospitality sector, merely one-third of all private sector workers have access to a plan, and only a paltry 16 percent of workers participate in one.[7]

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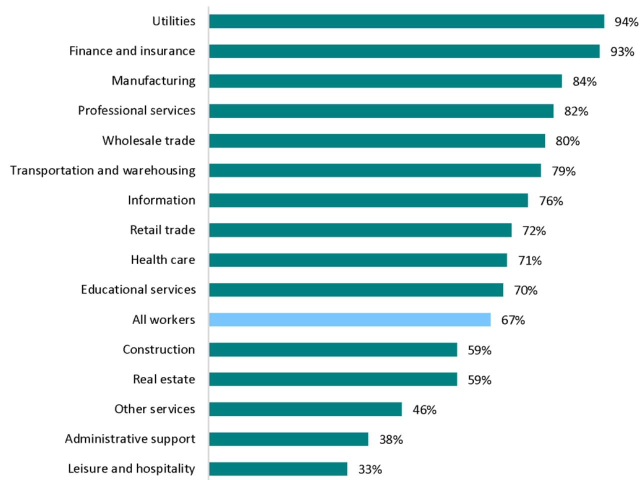
[2] Federal Reserve. 2019 Survey of Consumer Finances.
[3] World Inequality Database. Wealth inequality, USA, 1962-2019.
[4] Federal Reserve. 2019 Survey of Consumer Finances.
[5] Bureau of Labor Statistics. National Compensation Survey — Benefits 2020.
[6] Teresa Ghilarducci and Tony James, *Rescuing Retirement*, 2018.
[7] Bureau of Labor Statistics. National Compensation Survey — Benefits 2020.

Share of workers with access to retirement savings by industry, 2020



Source: Bureau of Labor Statistics, Employee Benefits Survey

Tackling the deeply uneven participation in retirement savings is also key to addressing the racial wealth gap. According to a study of 2016 data, only 35 percent of Hispanic families and 41 percent of Black families held any retirement account savings, compared to 68 percent of white families.[8] Among families that do have at least some retirement savings, the median Hispanic family holds $30,400 and the median Black family holds $35,000, compared to roughly $80,000 for the median white family.[9]

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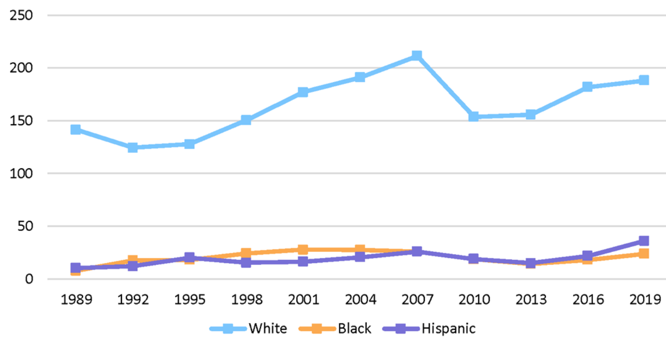
[8] Monique Morrissey, Economic Policy Institute. The State of American Retirement Savings, 2019.

[9] Federal Reserve. 2019 Survey of Consumer Finances.

Median family net worth by race and ethnicity, 1989-2019, thousands, 2019 dollars



Source: Survey of Consumer Finances, 2019

What can be done? A number of noteworthy proposals, including from members of this committee, have been put forward in recent years to address the dearth of retirement savings among large shares of the population. But there is one option that is both elegant in its simplicity and transformative in its potential benefits—and it will be familiar to every member of Congress: make all low- and moderate-income workers eligible for a program modeled after the federal Thrift Savings Plan (TSP), complete with a government match on contributions up to a certain percentage of income.

The TSP is a defined contribution savings program now available only to federal employees and members of the military. In a paper soon to be published by the Economic Innovation Group (EIG)[10], coauthors Dr. Teresa Ghilarducci, a labor economist at the New School and one of the leading experts on retirement security, and Dr. Kevin Hassett, a distinguished visiting fellow at the Hoover Institution and the former chair of the White House Council of Economic Advisors, make the case for expanding access to the TSP to tens of millions of Americans who currently do not enjoy participation in an employer-sponsored plan. They argue that the design of the TSP makes it an ideal model for helping low- and moderate-income workers build wealth, ensure a comfortable retirement, and grow a nest egg that can be passed on to future generations.

The TSP was first established in 1987 and has evolved over time to incorporate a number of best-practice features that are rooted in the behavioral science on savings. Participants in the TSP—including most members of Congress and congressional staff—enjoy automatic enrollment, a simple menu of investment options, an easy user interface, very low expense ratios, matching contributions by the government of up to 5 percent of income, and a number of other features that, when combined, have proven effective at encouraging remarkably strong participation among eligible workers.

[10] The authors' forthcoming work is discussed here with their permission.

The beauty of the TSP is that it is a proven and carefully studied model that performs exceedingly well for the kinds of traditionally marginalized workers that have largely been neglected by U.S. retirement policy. For example, after the adoption of automatic enrollment, participation among those with a high school degree or less rose to a staggering 95 percent. Likewise, workers in the bottom one-third of earnings also saw their participation rates rise to 95 percent.[11] Research also finds that workers with low educational attainment and low wages on average contribute a significant share of their earnings to their TSP accounts.[12] In other words, TSP already provides compelling evidence that low-income, limited-education workers will avidly participate in well-designed savings schemes made available to them.

Creating a new pathway for working Americans to build wealth through a widely-available and portable program modeled on the TSP would be a transformative step towards ensuring everyone has a meaningful stake in national economic growth and prosperity. Such a program would be in addition to—not in place of—Social Security, filling the gap in current policy to support of tens of millions of workers, including part-time and gig workers, who currently lack access to an employer sponsored plan and for whom current incentives to save do not apply. Early estimates suggest that the enormous social and economic benefits generated by this policy could be achieved at relatively little cost, as the forthcoming paper and subsequent analyses will demonstrate.

I want to close this section with a brief thought on the cost of such a program. Would expanding access to a TSP-style program be prohibitively expensive? The short answer is no. As noted earlier, most of its potential beneficiaries pay little or no federal income tax currently, so the foregone revenue in that respect would be negligible. Most of the cost would come from matching contributions by the government. But it's important to note that, while such a program would increase spending in a narrow sense, the return on investments in a worker's retirement accounts are almost certain to exceed the government's borrowing cost, which, as Ghilarducci and Hassett argue, should improve the long-run fiscal balance as that money is eventually taxed upon withdrawal. Furthermore, boosting wealth through retirement savings means that a worker will be less dependent on public assistance in retirement and more likely to spend money, both of which have positive budgetary implications. All of this is, of course, in addition to the substantial benefits of improving the basic fairness and inclusivity of our economy, which wide access to a TSP-style program would no doubt do.

The benefits of a dynamic economy for worker well-being

Savings and retirement policies are important planks of an agenda to forge a more equitable distribution of wealth and opportunity in the United States, but a challenge of this scale requires much work besides. Another notable area in which Congressional action could yield immediate dividends for American workers is restoring the dynamism of the American economy.

The term "economic dynamism" refers to the rate and direction of change in an economy, or the process by which an economy reallocates its resources to new and productive uses. It

[11] Justin Falk and Nadia Karamcheva, Congressional Budget Office. The Effect of the Employer Match and Defaults on Federal Workers' Savings Behavior in the Thrift Savings Plan, 2019.
[12] Ibid.

traditionally encompasses activities like the rate of new business formation, the frequency of labor market turnover, and the geographic mobility of the workforce. For much of its history, the United States enjoyed the benefits of a young and fast-growing population, high rates of geographic mobility among workers, a fluid labor market, and high rates of business formation. Troublingly, across all of these measures, the United States is a significantly less dynamic economy than it was prior to the turn of the 21st century. This is bad news for American workers.

Workers benefit from an economy in which new firms are generating demand and competition for labor, and workers are moving fluidly in and out of jobs in pursuit of better and better opportunities. A dynamic economy works as a sort of combined safety net and circulatory system, catching displaced workers and pumping them into new attachments in a constant process of allocation and reallocation. This process is especially important in opening up opportunities for those who have the fewest advantages in the form of wealth, social connections, or educational attainment.[13] A fluid labor market also supports the crucial spread of know-how and expertise throughout the economy, which contributes to innovation and productivity gains that benefit everyone. And workers who switch jobs frequently—especially early in their careers—tend to experience the strongest wage gains over time.

While there are many factors at work in the decline of American dynamism, I would like to focus on one of the more obvious and pernicious: the proliferation of noncompete agreements. A noncompete agreement generally prohibits an employee from starting or working for a business that competes with his or her employer. One recent study estimated that somewhere between 36 million and 60 million private sector workers are subject to noncompete agreements.[14] These agreements are not simply reserved for top executives or workers with highly-specialized expertise. In fact, millions of workers earning under $40,000 are bound by a noncompete.[15] What is worse, noncompetes are often enforced even in cases when a worker has been laid off through no fault of their own.

The widespread use of noncompetes harms worker well-being and reduces the dynamism of the broader economy. Strict enforcement of noncompetes is associated with reduced job-to-job mobility, lower wages, and weaker rates of firm formation.[16] Research suggests that noncompetes exacerbate racial and gender wage gaps by exerting much larger wage effects on female and Black employees than on white men.[17] Furthermore, the harmful effects of noncompetes extend far beyond the individual workers bound by them, exerting a chilling effect on the entire labor market.[18] Simply put: noncompetes undermine the goal of fostering an equitable and opportunity-rich job market for all Americans.

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[13] Steven J. Davis & John Haltiwanger. "Labor Market Fluidity and Economic Performance," 2014.
[14] Alexander J.S. Colvin and Heidi Shierholz, Economic Policy Institute. "Noncompete Agreements," 2015.
[15] Evan Starr, Economic Innovation Group. "The Use, Abuse, and Enforceability of Non-Compete and No-Poach Agreements," 2019.
[16] Ibid.
[17] Matthew S. Johnson, Kurt Lavetti, and Michael Lipsitz. "The Labor Market Effects of Legal Restrictions on Worker Mobility," 2019.
[18] Evan Starr, J.J. Prescott, and Norman Bishara, "Noncompete Agreements in the U.S. Labor Force," 2020; Evan Starr, Justin Frake, and Rajshree Agarwal, "Mobility Constraint Externalities," 2019.

There is growing momentum behind noncompete reform. Recently, a bipartisan group of lawmakers in the House and Senate introduced the *Workforce Mobility Act*, which would prohibit the use of noncompetes except in cases involving the sale of a business or dissolution of a partnership. As we search immediate ways to advance the well-being of American workers, freeing them to benefit from robust and fair competition for their own labor seems a natural place to start. I strongly urge members of this committee to support this legislation, which would help boost wages, strengthen market competition, increase entrepreneurship, and foster a more innovative economy.

The importance of a tight labor market for low-income workers

One of the most important lessons of the past decade is the importance of a tight labor market for low-wage workers. From February 2019 to February 2020, the United States experienced an unbroken stretch during which the unemployment rate remained at or below 3.8 percent, reaching 3.5 percent in November 2019—the lowest level on record since 1969.[19] There is growing evidence that tight labor markets deliver disproportionate benefits to workers at the bottom by boosting wages and drawing workers back into the labor market. Sure enough, by the end of the 2010s, prime-age labor force participation was spiking and wages were rising fastest for lower-wage workers.[20] In some places, these gains were boosted further by increases in the state and local minimum wage.[21]

Two things are worth noting. First, many experts believed that such a healthy labor market was out of the country's reach. For much of the weak and uneven recovery that followed the Great Recession, the idea of a 3.5 percent unemployment rate—without a corresponding spike in inflation—was generally not treated as a serious or achievable policy goal. Theories proliferated to explain why workforce participation remained so low and why meaningful wage growth failed to materialize, including advances in the quality of video games and the idea of a so-called "skills gap." Only a handful of economists correctly gauged the simple answer to the supposed puzzle of missing wage growth: too much slack.[22] By the end of the expansion, demand from a tight labor market was powerful enough to boost wages and pull large numbers of marginally attached workers, video games and all, off of the sidelines.

Second, it was likely to get even better. For all the progress that was made prior to the pandemic, the economy had not yet reached full employment. Absent the crisis, there is reason to believe American workers—including and especially low-wage workers—would have seen a continued period of strong wage growth and widespread economic opportunity. Furthermore, these gains were occurring without major advances in productivity; a tight labor market combined with strong productivity gains would have likely delivered even stronger benefits to workers at the bottom.

[19] Federal Reserve Bank of St. Louis. Unemployment Rate, 1948-2021.
[20] St. Louis Federal Reserve Bank of St. Louis. "Prime-age Employment-Population Ratio, 1949-2021."; Jay Shambaugh and Michael Strain, Brookings Institution and American Enterprise Institute. "The Recovery From The Great Recession: A Long, Evolving Expansion," 2021.
[21] Jay Shambaugh and Ryan Nunn, Brookings Institution. "Whose wages are rising and why?" 2020.
[22] Ozimek, Adam. "Explaining the Wage Growth Mystery." 2017.

The lesson in all of this is that getting to full employment quickly and staying there as long as possible should be a central goal for policymakers as the country exits the current crisis. While redistributive policy interventions can no doubt help address the challenge of inequality, we need to ensure markets themselves are doing "pre-distributive" heavy lifting to support a rising floor of well-being for those at the bottom.[23] Tight labor markets are essential for reducing inequality and bolstering workers' confidence in the broader economy, which is exactly what was occurring prior to the pandemic. By early 2020, Americans were reporting levels of optimism that were at or near the highest ever recorded on a range of questions, including personal financial security, overall confidence in the economy, and the availability of quality employment opportunities.[24]

The slow-and-steady recovery that followed the Great Recession was in many ways the result of a tepid policy response—one that had devastating consequences for millions of workers, especially the most disadvantaged. We must not repeat that mistake. Congress should be applauded for its willingness to act boldly thus far in response to the economic fallout from the pandemic, and I urge members of this committee to continue doing everything possible to foster a strong, sustained, and widely-felt recovery in the year ahead.

Addressing the challenge of spatial inequality

The final issue I want to address is the role of "place" in the broader landscape of economic inequality.

Spatial inequality, or geographic unevenness in economic well-being, has become an increasingly relevant aspect of the broader debate over inequality in the United States.[25] This is because the divergence between thriving and struggling places has grown more pronounced in recent decades, with profound implications for low-income and disadvantaged Americans. As a recent EIG report noted, minorities are especially disadvantaged by deep spatial inequities, and the pandemic has served as a painful reminder that economic, racial, and health inequalities are often spatially concentrated. In the Midwest, for example, fully half of the Black population lives in an economically distressed zip code. In many of these neighborhoods, long and troubled histories of segregation have become entangled with the challenges of post-industrial decline to demonstrate why a place-based policy agenda to restore opportunity must complement efforts aimed at individuals and families, as well.

The spatial concentration of economic distress has a devastating effect on the lives on local residents, especially children. Research finds moving from high-poverty neighborhoods to lower-poverty ones as a child leads to higher average earnings later in life and increases the likelihood

[23] It is worth noting that, while a tight labor market produces generally positive outcomes across the labor market, the national unemployment rate can mask significant differences among geographic areas and racial groups that call for more targeted policy interventions.
[24] McCarthy, Justin. "U.S. Economic Confidence at Highest Point Since 2000." January 23, 2020; Reinhart, R.J. "Record-High Optimism on Personal Finances in U.S." February 5, 2020.
[25] The following section draws heavily from a recent EIG report, "Uplifting America's Left Behind Places: A Roadmap for a More Equitable Economy," by Kenan Fikri, Daniel Newman, and Kennedy O'Dell.

of going to college.[26] But in general, Americans are moving less and poverty is becoming more spatially concentrated, trapping millions of Americans in environments that make it difficult to achieve the American Dream.

Indeed, like retirement savings, home equity is one of the fundamental ways that people build wealth in this country. Undervalued housing markets and disinvested neighborhoods therefore prevent millions of Americans from building wealth. And since distressed neighborhoods are disproportionately home to minority groups, this lack of housing wealth helps perpetuate the racial wealth gap across generations.

I want to underscore that a growing national economy and rising aggregate prosperity alone are not enough to tackle these deep-seated problems. EIG's research demonstrates that prosperous areas have captured the lion's share of new jobs, new businesses, and population growth over the course of the 21st century. Meanwhile, following the devastation of the Great Recession, distressed zip codes—home to over 50 million Americans—continued to see jobs and businesses disappear long after the national economy had turned the corner. Indeed, EIG's work demonstrates economic distress is "sticky;" it is relatively uncommon for a high-poverty neighborhood to turn around. For example, 64 percent of neighborhoods that were high poverty in 1980 remained high poverty nearly four decades later, while only a small share experienced dramatic improvement. Meanwhile, nearly 4,300 neighborhoods crossed over the high-poverty threshold during that period. By 2018, the United States was home to nearly double the number of high poverty neighborhoods as there were in 1980. [27]

The persistence and proliferation of crippling community-level economic distress is shameful and exacerbates the already difficult experience of poor and disadvantaged people in this country. While some gaps in well-being between places are natural and benign, we should not be content with an economy in which a large share of communities, home to tens of millions of Americans, experience active decline while the national economy grows larger and more prosperous. This is not inevitable.

EIG recently published a policy roadmap for addressing spatial inequality, covering everything from how to reorganize the federal agencies to support struggling regions, to enacting an ambitious place-based policy agenda that would boost investment in needy places and support the build the local capacities needed to attract and retain the workforce needed for a thriving economy. I will not repeat that full slate of recommendations here, but simply note that there are a number of actionable steps Congress and the Biden Administration could take today that would, if done in tandem, represent a major advance in how we address the needs of Americans who live in struggling areas of the country. Such place-centric efforts to revive local and regional economies would complement people-centric policies, like a child allowance, that directly address the material needs of poor and low-income households.

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[26] Raj Chetty, Nathaniel Hendren, Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment." 2016.

[27] August Benzow and Kenan Fikri, "The Expanding Geography of Neighborhood Poverty." Economic Innovation Group, 2020.

One relatively new policy, Opportunity Zones, holds enormous promise and is already being put to work in communities nationwide to support of a wide-range of needs, including affordable housing, revitalizing blighted business districts, expanding local businesses, and helping formerly incarcerated individuals find high-quality employment. But more should be done to strengthen the policy and ensure it achieves its potential and purpose. For example, Congress should pass the bipartisan *IMPACT Act*, which would establish thorough reporting and transparency requirements and ensure the policy can be evaluated over time. Congress should also strengthen the incentive itself and make it more useful to a "build back better" agenda in the country's neediest communities in the wake of the current crisis.

Conclusion

Boosting incomes, wealth, and well-being for those at the bottom is a worthy policy goal that should be tackled from a number of complementary directions.

The challenges I have outlined above are urgent and affect tens of millions of Americans, many of whom have had their lives deeply disrupted by the pandemic and economic crisis. Fortunately, each of these areas is ripe for bipartisan policymaking.

Thank you, and I look forward to taking your questions.

PREPARED STATEMENT OF MR. SCOTT WINSHIP

AMERICAN ENTERPRISE INSTITUTE

Statement before the Senate Committee on the Budget
On The Income and Wealth Inequality Crisis in America

Is There an Inequality Crisis?

Scott Winship
Resident Scholar and Director of Poverty Studies

March 17, 2021

Chairman Sanders, Ranking Member Graham, and Members of the Committee, thank you for inviting me to appear today to discuss inequality in the United States. Policymakers confront difficult decisions prioritizing different challenges facing the nation. Obviously, to the extent that some issue merits being designated a crisis, it should command the highest levels of attention. But income and wealth inequality do not constitute a crisis. That so many people believe otherwise is, in no small part, a result of mismeasurement on the part of a team of influential economists. As a result of this mismeasurement, a conventional wisdom has developed—which is likely to be wrong—that inequality has risen dramatically since the early 1980s.

Even if inequality had risen by as much as is often claimed, over the same period middle-class incomes have risen significantly and are at all-time highs. Poverty has fallen sharply and is at all-time lows. Not only does rising inequality tend to coincide with rising incomes among Americans lower down the ladder, but countries with greater inequality have middle-class and lower-income populations that are at least as well off as their counterparts in lower-inequality countries. The evidence purporting to link income and wealth inequality to a range of harms is weak and inconsistent, taken as a whole, which is unsurprising given that we have had such a difficult time measuring inequality to begin with.

Rather than focusing on income or wealth concentration, policymakers would do better to address two sets of problems that are more deserving of being labeled crises. I would call these problems crises of opportunity. The first is stagnant upward mobility out of poverty in the context of large black-white mobility gaps. The second is a multidimensional deterioration in our associational life. Policies designed to reduce inequality—or even to reduce poverty—are unlikely to be the most effective at expanding opportunity, and they may even be counterproductive.

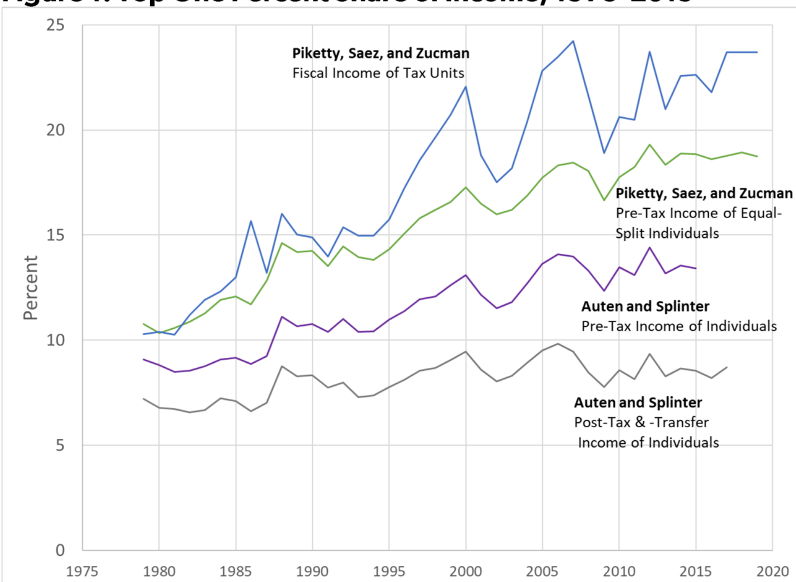
Income Inequality Has Not Risen Much

Twenty years ago this September, Thomas Piketty and Emmanuel Saez published their first estimates of income concentration in the United States.[1] Using tax data and making a variety of assumptions to fill in gaps, they produced inequality trends going back to the early 20th century. Most importantly, these trends were the best estimates then available of the income going to the richest Americans.

Piketty and Saez have continued to extend these estimates over the years, and the latest iteration shows the top one percent of "tax units"—essentially tax filers plus a small number of non-filers—received 10 percent of "tax return gross income" in both 1969 and 1979 but 24 percent in both 2007 and 2019.[2] These estimates were an inspiration for the Occupy Wall Street movement in the wake of the financial crisis and featured heavily among several Democratic presidential aspirants in the 2016 and 2020 campaigns.

[1] Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," NBER Working Paper No. 8467 (Cambridge, MA: National Bureau of Economic Research, 2001), https://www.nber.org/system/files/working_papers/w8467/w8467.pdf.
[2] See Tab TD10 at http://gabriel-zucman.eu/files/PSZ2020AppendixTablesII(Distrib).xlsx, on Gabriel Zucman's website. This series includes realized capital gains as income. The unit of observation is the tax unit, and the income concept is "fiscal income."

Figure 1. Top One Percent Share of Income, 1979-2019



However, critics noted a number of shortcomings with their figures.[3] To their credit, Piketty and Saez, with their colleague Gabriel Zucman, revised their numbers, and their latest results indicate that the top one percent's share of national income (before taxes, but after Social Security and unemployment benefits are taken into account) rose from 11 percent in 1979 to 19 percent in 2019—an eight-point rise rather than the 14-point increase touted by inequality alarmists during the Great Recession.[4]

But even the latest Piketty-Saez-Zucman estimates are likely to overstate the increase in income concentration. For one, researchers have continued to identify problems with their methods. In recent years, Gerald Auten and David Splinter have developed their own estimates of income concentration, using the same data as Piketty, Saez, and Zucman, but using better assumptions to fill in in data gaps.[5]

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[3] For a review, see Office of Chairman Mike S. Lee, Joint Economic Committee, "Measuring Income Concentration—A Guide for the Confused," October 2019, https://www.jec.senate.gov/public/index.cfm/republicans/2019/10/measuring-income-concentration-a-guide-for-the-confused.

[4] See Tab TB10 at http://gabriel-zucman.eu/files/PSZ2020AppendixTablesII(Distrib).xlsx, on Gabriel Zucman's website. These are the "equal-split individual" estimates.

[5] Gerald Auten and David Splinter, "Income Inequality in the United States: Using Tax Data to Measure Long-Term Trends," December 20, 2019, http://davidsplinter.com/AutenSplinter-Tax_Data_and_Inequality.pdf. The Piketty, Saez, and Zucman and Auten-Splinter teams have responded to each others' criticisms, but Piketty, Saez, and Zucman often have responded in ways that do not adequately address Auten and Splinter's choices while ignoring

Auten and Splinter report the top one percent's share of pre-tax national income as rising from 9 percent in 1979 to just 13 percent in 2015.[6] Given that their trends in recent years track those of Piketty, Saez, and Zucman fairly well, it is likely that updating the Auten-Splinter series would show no change since 2015. Critics from Occupy Wall Street protestors to Nobel laureate Joseph Stiglitz claimed, citing Piketty and Saez, that the top one percent share was 14 points higher in 2007 than in 1979, but the Auten-Splinter data put the rise at just five points.

These estimates do not take taxes into account, nor most government transfers. In other words, they ignore most of the ways that federal policy already reduces inequality. After taxes and transfers, Auten and Splinter find the top one percent's share rose from 7.2 percent in 1979 to 8.5 percent in 2015 and 8.7 percent in 2017. Today's share is probably no higher.[7] This compares to an average of 8.2 percent during the 1960s.[8] As income measurement has improved, it seems ever likelier that the perception of a crisis in inequality simply stemmed from statistics that turned out not to reflect reality.

Wealth Inequality Has Risen Modestly

Saez and Zucman's estimates on wealth concentration have also been influential, leading to calls for wealth taxation.[9] Their latest series indicates that the top one percent's share of wealth rose from 23 percent in 1979 to 35 percent in 2019.[10] However, the Saez-Zucman research has been challenged by a

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some of their criticisms. For a discussion, see Office of Chairman Mike S. Lee, Joint Economic Committee, "Measuring Income Concentration—A Guide for the Confused," October 2019, https://www.jec.senate.gov/public/index.cfm/republicans/2019/10/measuring-income-concentration-a-guide-for-the-confused. For the most recent back and forth, see Emmanuel Saez and Gabriel Zucman, "Trends in US Income and Wealth Inequality: Revising after the Revisionists," NBER Working Paper No. 27921 (Cambridge, MA: National Bureau of Economic Research, 2020), http://gabriel-zucman.eu/files/SaezZucman2020NBER.pdf and David Splinter, "Reply: Trends in US Income and Wealth Inequality: Revising after the Revisionists," November 17, 2020, http://www.davidsplinter.com/Splinter2020-SaezZucmanReply.pdf.

[6] See Tab C2-Shares, Series Bd2 at http://davidsplinter.com/AutenSplinter-IncomeIneq.xlsx. These estimates are for individuals and include Social Security and unemployment benefits for consistency with the Piketty, Saez, and Zucman numbers.

[7] See Tab C2-Shares, Series NAT2 at http://davidsplinter.com/AutenSplinter-IncomeIneq.xlsx. The figure for 2017 is from Table 6 in Dennis Fixler, Marina Gindelsky, and David Johnson, "Measuring Inequality in the National Accounts," BEA Working Paper WP2020-3, Bureau of Economic Analysis, https://www.bea.gov/system/files/papers/measuring-inequality-in-the-national-accounts_0.pdf. Even these estimates likely overstate the increase. The top one percent's share rises by 1.7 points just between 1987 and 1988, in the wake of the Tax Reform Act of 1986, which upended tax policy in ways that likely create an exaggerated increase in inequality in the data.

[8] The Auten-Splinter and Piketty-Saez-Zucman estimates do not account for capital gains that are solely due to increases in asset prices, which do not enter into national income. The best estimates that account for these gains, from Larrimore et al., indicate significant volatility, but both the troughs and peaks suggest an increase of about two points between 1990 and 2013. See Jeff Larrimore, Richard V. Burkhauser, Gerald Auten, and Philip Armour, "Recent Trends in U.S. Top Income Shares in Tax Record Data Using More Comprehensive Measures of Income Including Accrued Capital Gains," working paper (draft of August 2018). Estimates shared with me by Jeff Larrimore.

[9] Emmanuel Saez and Gabriel Zucman, "Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data," *Quarterly Journal of Economics* 131(2), 2016, pp. 519-578; Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (New York: W.W. Norton, 2019).

[10] See Tab TE1 at http://gabriel-zucman.eu/files/PSZ2020AppendixTablesII(Distrib).xlsx, on Gabriel Zucman's website. These are the "equal-split individuals" series.

Matthew Smith, Owen Zidar, and Eric Zwick.[11] They report an increase from 22 percent to 30 percent between 1979 and 2016.[12] That is an eight-point rise, compared with the 13-point rise Saez and Zucman report over the same years.

Measuring wealth, however, is subject to complicated conceptual challenges. Wealth depends on the resources available to people, which make saving easier and debt less necessary. But wealth levels also reflect preferences for deferring consumption versus consuming more goods and services today. Changes in wealth concentration are presumably driven primarily by changes in the distribution of resources, but they may also reflect a declining propensity to save among those who are not in the top one percent. Arguably, we should be less worried about the latter, but we don't know how important a factor it is.

To cite another example, these studies include student loans as debt in assessing individual wealth levels, but they do not value the human capital that this debt finances. It would be strange if students were incurring debt without any expectation that it would pay off by increasing their skill levels or simply providing a credential that employers will reward. Just as people take out a mortgage to buy a house—an asset that generates a flow of returns in the form of shelter and, often, capital gains—we take out student loans to "buy" skills and credentials—assets that generate a flow of returns in the form of higher lifetime pay. But while we count both mortgage debt and the value of a home in computing net worth, we only count student loan debt without estimating the enhanced human capital that was the entire point of incurring the debt. Human capital wealth is larger relative to other assets for the bottom 99 percent than for the top one percent, so excluding it while including student loan debt tends to increase measured wealth concentration.

Similarly, the Saez and Zucman and Smith, Zidar and Zwick studies count as negative wealth the debt used to purchase consumer durables, such as cars, furniture, and home electronics, but the durable goods themselves are not counted as positive wealth. These assets, too, generate a flow of benefits and are less concentrated among the wealthy than other assets.

Americans with less wealth also rely more on Social Security, Medicare, and Medicaid to subsidize their retirement. Another way of putting this is that most Americans would save more for retirement absent the strong likelihood that they will be able to count on receiving these benefits. If they saved more, that would show up in the data as higher wealth. Yet we do not count these government promises in wealth.

What is more, these benefits have grown more generous over time. While it is unclear that valuing human capital or consumer durables would affect the trend in wealth concentration, Smith, Zidar, and Zwick show that valuing Social Security benefits alone has a dramatic effect on the trend. Their own estimates indicate that the share of wealth owned by the top 0.1 percent rose from around 9.5 percent in 1989 to 14 percent in 2016. But after adding the value of Social Security, the trend is from 8 percent

[11] Matthew Smith, Owen Zidar, and Eric Zwick, "Top Wealth in America: New Estimates and Implications for Taxing the Rich," Working Paper, April 24, 2020, Figure 10, http://www.ericzwick.com/wealth/wealth.pdf. For the back-and-forth between the research teams, see Emmanuel Saez and Gabriel Zucman, "Comments on Smith, Zidar, and Zwick (2019)," http://gabriel-zucman.eu/files/SZ2020CommentsOnSZZ2.pdf; Matt Smith, Owen Zidar, and Eric Zwick, "Response to 'Comments on Smith, Zidar, and Zwick (2019)'," https://scholar.princeton.edu/sites/default/files/zidar/files/sz_response_szz.pdf; Smith, Zidar, and Zwick (2020) and Saez and Zucman (2020).

[12] Smith, Zidar, and Zwick (2020), Figure 10.

to 10 percent.[13] Presumably, counting the value of future Medicare benefits (and Medicaid benefits for nursing home care) would flatten the increase even further.

Middle-Class Incomes Have Risen Significantly

Even if income or wealth concentration had risen more sharply, it would matter whether increasing inequality had come at the expense of people and families below the top one percent. Too often, it is assumed that the economy is a pie, and that for some to have bigger pieces, others' slices must become smaller. But obviously the size of the pie may be affected by inequality. Leveling incomes, so that no one has any incentive to work or take risks, would shrink the economic pie. Inequality of the sort associated with third-world dictatorships would shrink the economic pie too, and it is certainly possible that income or wealth could become so concentrated for other reasons that economic growth suffers. However, it is also possible that by rewarding hard work and risk, rising inequality can incentivize economic growth, expanding the economic pie and leaving everyone better off.

While we cannot know what might have happened if, for instance, inequality had fallen these past decades, the fact of the matter is that incomes below the top have risen significantly. The Piketty, Saez, and Zucman data have confused policymakers here too. According to the original Piketty-Saez approach to income measurement, the entire bottom 90 percent was supposedly poorer in 2018 than in 1979.[14]

This result, to be clear, does not reflect accurately the real change in living standards Americans have experienced, for a variety of reasons. One important issue is the aging of the population, which distorts the picture because Social Security benefits are not included in this income measure. When people retire, their "tax return gross income" falls sharply because many Americans rely heavily on Social Security. This drop-off problem increases over time as the population ages. The latest estimates from Piketty, Saez, and Zucman, using pre-tax national income (including Social Security and unemployment benefits), show that the bottom 90 percent of Americans was better off by 38 to 41 percent in 2019 compared with 1979.[15]

Their figures for the bottom half only show growth of 10 to 32 percent.[16] But these newer estimates are still on the low side relative to other estimates. Auten and Splinter find that the bottom half's income rose by 31 percent from 1979 to 2015 before taking account of taxes or transfers (or even Social Security benefits) and by 64 percent after accounting for them.[17] The Congressional Budget Office finds that median pre-tax household income (including social insurance benefits) rose between 32 and 41 percent from 1979 to 2017 and the increase was 54 to 61 percent after taxes and transfers.[18] That amounts to almost $30,000 in additional inflation-adjusted income.

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[13] Smith, Zidar, and Zwick (2020), Figure A.14.
[14] See Tab TD3 at http://gabriel-zucman.eu/files/PSZ2020AppendixTablesII(Distrib).xlsx, on Gabriel Zucman's website. These are fiscal income estimates for tax units.
[15] See Tab TB6 at http://gabriel-zucman.eu/files/PSZ2020AppendixTablesII(Distrib).xlsx, on Gabriel Zucman's website. The estimates cited are for "equal-split individuals" and "individuals".
[16] See Tab TB7 at http://gabriel-zucman.eu/files/PSZ2020AppendixTablesII(Distrib).xlsx, on Gabriel Zucman's website. The estimates cited are for "equal-split individuals" and "individuals".
[17] See Tab F-B5 at http://davidsplinter.com/AutenSplinter-IncomeIneq.xlsx.
[18] See the Table Builder spreadsheet (https://www.cbo.gov/publication/56575#data) associated with Congressional Budget Office, "The Distribution of Household Income, 2017," October 2020, https://www.cbo.gov/system/files/2020-10/56575-Household-Income.pdf.

Poverty Has Fallen Sharply

Over this same period, poverty has declined to an all-time low. According to the official poverty measure, the poverty rate in 2019 was lower than ever before among all Americans, all American families, families headed by single woman, non-Hispanic whites, blacks, Hispanics, Asians, and children in all four of those ethnoracial groups.[19]

But official statistics are biased in a variety of ways that understate the progress we have made reducing poverty.[20] The official measure ignores income from noncash government benefits and employer-provided health insurance, does not account for falling taxes and the increasing generosity of refundable tax credits, fails to count couples as pooling their income if they are not married, and overstates the increase in the cost of living each year. Addressing these shortcomings reveals that child poverty was at an all-time low by 2014. Poverty among the children of single mothers fell from 49 percent in 1982 to 18 percent in 2014.[21]

Research Does Not Support the Contention that Rising Inequality Has Had Large Negative Consequences

Given that we have had such a difficult time measuring inequality, and given the difficulties of establishing causal relationships in social science, it is unsurprising that the evidence purporting to link income and wealth inequality to a range of harms is weak and inconsistent. As the review of trends above suggests, rising inequality has been accompanied by rising middle-class incomes and falling poverty. In fact, as a look back to Figure 1 confirms, increases in inequality tend to occur during economic expansions, which are the periods when middle-class incomes rise the most and poverty falls the most.

Moreover, countries with greater inequality have middle-class and lower-income populations that are at least as well off as their counterparts in lower-inequality countries.[22] It is true that we can't know the counterfactual—perhaps if inequality had risen by less (or fallen) poor and middle-class Americans would have done better. However, given the absence of correlations across time and space, the burden of proof is on those who think that the modest increase in inequality we have experienced is likely to have hurt others.

Critics often claim that inequality has reduced intergenerational mobility, stalled economic growth, caused financial crises, inspired over-spending, and warped our politics. But the research on these topics consistently fails to support these hypotheses, finds only small effects, or comes to mixed conclusions.[23] Assessing the research looking at the link between inequality and economic growth, Paul Krugman concluded, "There just isn't a striking, simple relationship between inequality and growth; all the results depend on doing fairly elaborate data massaging, which might be right but might also be teasing out a

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[19] US Bureau of the Census, Historical Poverty Tables, https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html. Tables 2 and 3.
[20] Scott Winship, "Poverty after Welfare Reform," Manhattan Institute, 2016, https://media4.manhattan-institute.org/sites/default/files/R-SW-0816.pdf.
[21] Ibid., Figures 2 and 3.
[22] Scott Winship, "Inequality Does Not Reduce Prosperity: A Compilation of the Evidence across Countries," Manhattan Institute, October 2014, https://media4.manhattan-institute.org/pdf/e21_01.pdf.
[23] Scott Winship, "Overstating the Costs of Inequality," *National Affairs* 15, Spring 2013, https://www.brookings.edu/wp-content/uploads/2016/06/overstating-inequality-costs-winship.pdf.

relationship that isn't really there."[24]

Prioritizing Crises of Opportunity

Rising income and wealth inequality does not constitute a crisis, and there is little reason to think that a focus on reducing either would meaningfully remedy other economic and social challenges. And we do face other important challenges. In fact, if we want to identify crises, there are two sets of issues that make compelling candidates. Call them, "crises of opportunity."

First is the problem of limited upward mobility out of poverty. Even as we have driven child poverty rates down over the past forty years, that has not resulted in a greater chance that children raised in low-income families will make it to the middle class.[25] This stagnation is unlikely to reflect rising income or wealth inequality across parents, since upward mobility has been similar for children raised in the 1950s, 1960s, and 1970s—before the increase in income and wealth concentration—as for children raised in the 1980s and early 1990s. And there is little relationship across American communities or across countries between income concentration and intergenerational mobility.[26]

The lack of progress boosting upward mobility is even more worrisome because it prevents us from narrowing vast disparities in mobility between black and white children. Among today's white adults raised in the bottom fifth of family income, only 28 percent of men and 33 percent of women remain in the bottom fifth themselves.[27] The figures for black adults are 50 percent and 62 percent. Not only do African Americans have a harder time making it out of the bottom fifth, they are far more likely to have started there—42 percent of black men and 45 percent of black women, versus 12 percent of white men and 14 percent of white women. In forthcoming research with Richard Reeves and others at the Brookings Institution, we look at the likelihood of having experienced three or more generations of relative poverty. The black-white disparities on this metric dwarf these two-generation mobility gaps.

A second crisis of opportunity involves the multidimensional deterioration of our associational life—the sum total of what we do together as members of families, neighborhoods, voluntary associations, congregations, and workplaces. As documented by the Social Capital Project, an on-going research project created by Senator Mike Lee within the Joint Economic Committee (which I led for several years), over the past fifty years, a broad range of indicators of social capital have worsened.[28] Americans

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[24] Paul Krugman, "Musings on Inequality and Growth," NewYorkTimes.com, The Conscience of a Liberal blog, June 8, 2015, https://krugman.blogs.nytimes.com/2015/06/08/musings-on-inequality-and-growth/.

[25] Scott Winship, "The Great Gatsby Curve: All Heat, No Light," Brookings Institution, May 2015, https://www.brookings.edu/blog/social-mobility-memos/2015/05/20/the-great-gatsby-curve-all-heat-no-light/. Scott Winship, "Has Rising Income Inequality Worsened Inequality of Opportunity in the United States?" *Social Philosophy and Policy* 31(2): 28-47, 2015, https://www.cambridge.org/core/journals/social-philosophy-and-policy/article/abs/has-rising-income-inequality-worsened-inequality-of-opportunity-in-the-united-states/43A9659A3959C2423A66EC908E643684.

[26] Scott Winship, "The Great Gatsby Curve: All Heat, No Light"; Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez, "Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States," *Quarterly Journal of Economics* 129(4): 1553-1623, 2014, https://opportunityinsights.org/paper/land-of-opportunity/.

[27] Scott Winship, Richard V. Reeves, and Katherine Guyot, "The Inheritance of Black Poverty: It's All about the Men," Brookings Institution, March 2018, https://www.brookings.edu/research/the-inheritance-of-black-poverty-its-all-about-the-men/.

[28] Social Capital Project, "What We Do Together: The State of Associational Life in America," U.S. Congress Joint

marry less often and later in life, live further from family members in adulthood, do fewer things together with their neighbors, attend religious services less often, join fewer groups, and spend less time with co-workers outside the workplace. Economic residential segregation has worsened and trust in institutions has diminished. Single parenthood has increased, along with nonmarital birth rates and divorce.

These declines have affected Americans of all stripes, but they have been especially sharp among less-educated and poorer Americans.[29] There are also large regional disparities in the health of associational life.[30]

Since these problems predate the increase in inequality and have occurred as poverty rates have fallen, addressing them is likely to require different kinds of policies than would be considered if the goal were to reduce inequality or poverty. Indeed some policies that would reduce inequality or poverty might be counterproductive in terms of increasing upward mobility or reversing declines in associational life.

Consider the case of child allowances. The first-order effect of an unconditional cash transfer to families with children will clearly be to reduce child poverty. For example, the recent expansion of the Child Tax Credit in the American Rescue Plan Act is projected to reduce child poverty by 35 percent.[31] But by making it easier not to work and to raise a child without a partner, child allowances could increase the number of children raised by single parents and the number raised by single parents with little attachment to work.[32]

In that case, not only would upward mobility likely suffer, not only would the social poverty associated with a weakened associational life worsen, but the long-run goal of poverty reduction could even be thwarted. In analyses using the Bureau of Labor Statistics Current Population Survey, I have looked at income trends for different types of households. I found that from 1969 to 2016, median post-tax and -transfer household income rose by 37 percent. However, the increase for households headed by a married couple was 91 percent. The increase for households headed by a single mother was 61 percent. Other household types saw comparably large gains.

How can it be that both married-couple and single-parent households saw much larger income gains than the median household? This is an example of Simpson's Paradox. What happened was that more and more households came to be headed by single mothers. Single-mother households have lower income than married-couple households, so even though both kinds of household were getting richer over time, overall growth in middle-class incomes was dampened. Put another way, if not for the shift from married-couple households to single-mother households, median household income growth would

Economic Committee, Office of Vice Chair Mike S. Lee, May 2017, https://www.lee.senate.gov/public/_cache/files/b5f224ce-98f7-40f6-a814-8602696714d8/what-we-do-together.pdf.

[29] Charles Murray, *Coming Apart: The State of White America, 1960-2010* (New York: Crown Forum, 2012).

[30] Social Capital Project, "The Geography of Social Capital in America," U.S. Congress Joint Economic Committee, Office of Vice Chairman Mike S. Lee, April 2018, https://www.jec.senate.gov/public/index.cfm/republicans/2018/4/the-geography-of-social-capital-in-america.

[31] Alex Brill, Kyle Pomerleau, and Grant M. Seiter, "The Tax Benefits of Parenthood: A History and Analysis of Current Proposals," American Enterprise Institute, February 2021, Table 9, https://www.aei.org/wp-content/uploads/2021/02/The-Tax-Benefits-ofParenthood.pdf.

[32] Scott Winship, "The Conservative Case against Child Allowances," American Enterprise Institute, March 2021, https://www.aei.org/wp-content/uploads/2021/03/The-conservative-case-against-child-allowances.pdf?x91208.

have been over 61 percent rather than 37 percent, and poverty would have declined even more than it did. It is possible to win a battle in the war on poverty but make the ultimate victory more difficult. Even worse, the wars on immobility and a deteriorating associational life may also suffer.

Conclusion

Policymakers should take care in labeling some economic or social challenge a crisis. People, of course, will differ in their assessment of how serious an issue is. But a crisis that is declared on the basis of questionable data and questionable claims about why that data is important runs the risk of crowding out more pressing national problems. It is difficult enough identifying solutions to our problems; we cannot let ourselves be led astray in prioritizing them.

Responses To Written Questions of Senator Whitehouse From Robert B. Reich

Question 1: Many of the same large companies that pay low wages, forcing workers to rely on federal benefits, also pay low taxes to support those benefits. The Trump tax law slashed the corporate tax rate by 40 percent and created a slew of new tax breaks that push their effective rate even lower. One study found corporations spent 154 times as much of their windfall on stock buybacks, rewarding wealthy shareholders, as they spent on wage hikes.

a. Does cutting corporate taxes do anything to increase employee wages?

Answer: The evidence suggests that cutting corporate taxes does not increase employee wages. Despite promises of a $4,000 wage increase per capita, for example, the TCJA does not seem to have increased wages.

b. Do you agree that large profitable corporations that have continued to do so well during the pandemic can afford to contribute to economic relief and recovery, both by paying a living wage and their fair share of taxes?

Answer: Yes. In fact, the fight against the pandemic is analogous to a major war, and the United States has invoked an "excess profits tax" during wartime.

Question 2: The Bureau of Labor Statistics estimates that only 55% of workers participate in employer sponsored retirement plans. All workers deserve the opportunity to have a dignified retirement and helping workers save would also help close the wealth gap. My Automatic IRA Act would require employers not currently providing qualified retirement plans to automatically enroll their workers in an IRA plan unless the employee opts out.

a. How would boosting retirement savings help address wealth inequality?

Answer: Wealth tends to grow over time as the income it generates is reinvested; hence, "opt-out" IRA plans are likely to generate more wealth among working people, thereby reducing or at least moderating wealth inequality.

b. **What steps can Congress take to encourage saving for retirement while also addressing wealth inequality?**

Answer: Your plan is an important step. Tax-deferred savings vehicles are also important. Reducing taxes on corporations that provide hourly employees with IRA plans might be helpful as well.

Question 3: **We are living through a new Gilded Age. The inequality that was so real before the pandemic has only been magnified by it. Our tax code has long been an engine of inequality and the Trump tax law put it into overdrive. My Paying a Fair Share Act, known as the Buffett Rule, would ensure that multi-million dollar earners pay at least a 30 percent effective federal tax rate, so that Warren Buffett no longer pays a lower rate than his secretary. As if all the special breaks for the very wealthy were not enough, a new study from the Treasury Inspector General for Tax Administration found that those with over $1.5 million in annual income paid just 39% of the taxes they owed. These millionaire tax cheats, who owe $2.4 billion in delinquent taxes are asking hardworking teachers and nurses to pick up the slack.**

a. **How has the tax code perpetuated the inequality we see today?**

Answer: The tax code perpetuates inequality in several ways: (1) It contains many loopholes utilized by the rich (such as the "carried interest" loophole); (2) it continues to allow the rich to shelter substantial amounts of their income; (3) lack of enforcement of the tax code against the wealthy for illegally avoiding taxes; (4) providing tax deductions for upper-income people (such as the mortgage interest deduction) and yet no deduction for lower-income people engaged in similar activities (such as the lack of a home-renter's deduction); (5) employer-provided tax favored or tax subsidized benefits for high-level salaried employees while none are provided for lower-level hourly employees; and (6) the "stepped-up basis at death" rule which allows heirs to escape all capital gains.

Responses To Written Questions of Senator Kaine From Robert B. Reich

Question: I posed a hypothesis at the hearing: that the Tax Cuts and Jobs Act (TCJA) of 2017 and the American Rescue Plan (ARP) of 2021 present an opportunity for Americans to see how two different economic visions work in practice and how they impact lives at different points of the income spectrum. For any witness who wishes to answer - understanding that the bills were enacted in different macroeconomic environments, what will we be able to glean from the two parties' different approaches to economic policy by comparing economic outcomes following the 2017 TCJA to those following the 2021 ARP? What measures will you be looking at over the coming years to evaluate the impacts of the American Rescue Plan?

Answer: There's a fundamental difference is economic philosophy between the two parties, judging from the TCJA and the ARP. Apparently the Republican Party continues to believe in what has been termed "supply-side" or "trickle-down" economics, by which tax cuts going primarily to large corporations and wealthy individuals are thought to induce investments by those large corporations and wealthy individuals, which in turn are presumed to generate enough economic growth to pay for the tax cuts and also generate additional jobs and higher wages.

The Democratic Party, as exemplified by the ARP, believes that direct assistance to the working middle class and poor will cause them to spend more, and that spending will have a multiplier effect in the economy – generating more jobs and higher wages. In short, "bottom-up" rather than "trickle-down."

While it's too early to assess the consequences of the ARP, there's reason to believe it will succeed, because the marginal propensity to consume is far higher for lower-income people than for wealthy individuals and large corporations, who will invest any extra cash all over the world wherever they can get the highest return or buy back shares of stock in their own companies.

There is evidence that this happened with the TCJA – which did not in and of itself generate substantial growth, jobs, or wage increases. Instead, the recovery that began in 2009 merely continued in 2018 and 2019, at a somewhat slower rate.

Responses To Written Questions of Senator Kaine From Sarah Anderson

Question: I posed a hypothesis at the hearing: that the Tax Cuts and Jobs Act (TCJA) of 2017 and the American Rescue Plan (ARP) of 2021 present an opportunity for Americans to see how two different economic visions work in practice and how they impact lives at different points of the income spectrum. For any witness who wishes to answer - understanding that the bills were enacted in different macroeconomic environments, what will we be able to glean from the two parties' different approaches to economic policy by comparing economic outcomes following the 2017 TCJA to those following the 2021 ARP? What measures will you be looking at over the coming years to evaluate the impacts of the American Rescue Plan?

Answer: Thank you for your question to me and other witnesses who testified before the Senate Budget Committee on March 17, 2021. At the Institute for Policy Studies, we will be analyzing the impact of the TCJA and the American Recovery Act on inequality and poverty in partnership with the Poor People's Campaign. IPS functions as the research arm of this campaign.

We'd very much like to be in touch with your staff on this. And, by the way, we'd love to have a copy of your chart comparing the expected benefits of both laws by income quintile. That was a very effective visual.

You asked the witnesses: what will we be able to glean from the two parties' different approaches to economic policy by comparing economic outcomes following the 2017 TCJA to those following the 2021 ARP? What measures will you be looking at over the coming years to evaluate the impacts of the American Rescue Plan?

We believe economists, social scientists, and researchers should be able to glean an understanding of what we expect will be very different impacts of the two different approaches.The TCJA was aimed at helping the wealthiest Americans and we already have seen the effect of worsening income inequality, since its enactment. By contrast, the ARP was aimed solely at helping those living in deep poverty, at or just above the poverty line, low-income, and middle-class earners. The ARP is targeted to help those who need it the most and doesn't further enrich top income-earners, indeed it contains some progressive tax measures that tax the wealthy.

Because these two packages are directly contrasted in approach and have roughly the same price tag, the comparisons will be informative for their effects on reducing income inequality, racial and gender disparity as well as improving many other indicators critical to economic well-being.

We will follow several indicators over the next two years including: changes to deep poverty rates and those living below or about the Federal Poverty Line, how many Americans and mixed-status families rise above the poverty line, and how many graduate from low-income (roughly 2 times the official poverty rate) into middle-income brackets.

We will be able to see if income is stabilized as a result and if these changes become less volatile, with fewer people cycling back into poverty. We will see how much the expanded CTC and EITC are able to raise and keep children out of poverty. We can also monitor the Federal Reserve reports on how many people can afford a sudden $400 emergency without borrowing.

We will be able to see and compare how much housing and food insecurity improves and stabilizes. We can monitor the increases in educational progress and outcomes among low-income, Black, brown, and native populations. We can measure how many more children are able to access early childhood education such as Head Start as well as the availability of quality affordable child care.

We will be able to identify how many people are more consistently covered by health insurance if the maternal or infant mortality rates improve and if indicators like childhood obesity and preventable disease decrease. We can compare health outcomes in at-risk populations including improvements to care for people with disabilities. We can monitor the expansion of Medicaid and health outcomes that result from that expansion.

We can track the decrease in unemployment and the resulting decrease in gender and racial disparities. We can also compare the health of small businesses, minority- and female-owned small businesses under the ARP provision versus those under the TJCA. We can look at the state of some pension systems and how these affect worker incomes and the ability to retire. These are some, though not a comprehensive list, of the critical indicators we can monitor and compare with the first two years of the TCJA. The passage of the Infrastructure and Care Economy packages will give us more indicators to follow as well.

Please feel free to have your staff contact me to discuss how we might continue to be in touchon these important issues.

Responses To Written Questions of Senator Kaine From John Lettieri

Question: I posed a hypothesis at the hearing: that the Tax Cuts and Jobs Act (TCJA) of 2017 and the American Rescue Plan (ARP) of 2021 present an opportunity for Americans to see how two different economic visions work in practice and how they impact lives at different points of the income spectrum. For any witness who wishes to answer - understanding that the bills were enacted in different macroeconomic environments, what will we be able to glean from the two parties' different approaches to economic policy by comparing economic outcomes following the 2017 TCJA to those following the 2021 ARP? What measures will you be looking at over the coming years to evaluate the impacts of the American Rescue Plan?

Answer: I would caution against making an apples-to-apples comparison of these two pieces of legislation. The Tax Cuts and Jobs Act (TCJA) was enacted in 2017 during what would become the longest period of sustained national economic growth in U.S history with the purpose of restructuring the U.S. tax code for the first time in a generation. The American Rescue Plan (ARP), on the other hand, was signed into law after a year of pandemic-induced economic disruption. While both laws were passed on a partisan basis through reconciliation, that is where their similarities end. A more comparable legislative effort to ARP would be the CARES Act, a similarly sized relief package that passed under a Republican-controlled Senate and White House early in the pandemic. Both CARES and ARP provide generous relief to American workers, families, and businesses to help them weather the ongoing public health and economic crises.

Indeed, while there have been noteworthy differences in how Republicans and Democrats have preferred to approach specific aspects of the ongoing relief effort, the country has greatly benefitted from the fact that both parties have been willing to support multiple rounds of large-scale, far-reaching relief and fiscal stimulus. While not perfect, these efforts have been instrumental in blunting the immediate and long-term damage to the economy and preventing what would have been much more severe hardship for vulnerable individuals and families throughout the country.

As I noted in my written testimony, the central task before Congress is to ensure that the economy recovers as quickly and equitably—for individuals and communities—as possible. In particular, it is crucial that Congress and the Biden administration pursue a goal of strong and sustained economic growth and full employment so that American workers, especially lower-wage and marginalized workers, experience the benefits of a tight labor market in the form of growing wages and ample employment opportunities. I believe the ongoing relief effort should inlarge part be judged against how quickly the country achieves this goal.

Chuck Grassley

Statement for the Record
Senator Chuck Grassley
The Income and Wealth Inequality Crisis in America
3/17/2021
Senate Budget Committee

Mr. Chairman, thank you for holding this hearing on income inequality. I appreciate that this is an issue you care deeply about. We can all agree that far too many Americans struggle to make ends meet.

What we disagree on is the best way to increase the well-being of low-income Americans. In my view, a laser like focus on income inequality is misplaced. Inequality tells us nothing about the overall well-being of those at the lower end of the distribution, only the size of the gap between the rich and the poor.

It's a common economic fallacy that if the rich are getting richer, the poor must be getting poorer. Wealth creation isn't a zero sum game. One person's success doesn't come at the expense of anyone else.

In a sense, what those who are preoccupied with income inequality, even when all levels of income are better off, are saying – to quote Margaret Thatcher - is they "would rather that the poor were poorer, provided that the rich were less rich."

If our objective is to increase the well-being of low-income Americans, increasing opportunity should be our focus. Under this approach, there is no reason to pit American against American based on their socioeconomic status.

By making increased opportunity our focus, no one is required to be made worse off to benefit someone else. In fact, by tearing down barriers standing in the way of hard working Americans, all Americans benefit from higher productivity, higher wages, and higher economic growth.

This is exactly what we saw as a result of pro-growth economic policies under the previous Administration. Prior to the beginning of the pandemic, the United States experienced robust job and wage growth and low unemployment thanks to low taxes, less regulation, and overall policies that encouraged entrepreneurship and business activity.

Unemployment reached 50 year lows and was at or below 4 percent for quite some time. On top of that, family incomes and workers' wages experienced robust gains. Median household income around the nation reached an all-time high in 2019. In fact, wage growth was stronger for low-wage workers than for high-wage workers.

As a result, according to the Federal Reserve's Survey of Consumer Finances, income inequality declined between 2016 and 2019. As the Fed states in its summary, the survey "reveals improvements in economic well-being among large parts of the income and wealth distributions…and many groups with historically lower income and wealth saw relatively large gains." The end result of which is a "slight narrowing of the income distribution over this period."

Lower income Americans also saw similar gains in wealth as they did in income. According to the survey, families near the bottom of the wealth distribution saw "substantial gains" in net worth, while families at the top actually saw very little.

Moreover, black and Hispanic families experienced some of the largest wealth gains. Median net worth rose 33% for Black families and 65% for Hispanic families, compared with a 3% gain for white families.

If our goal is to increase opportunity and the overall well-being of lower-income Americans, we should continue expanding pro-growth policies. Such policies are designed to lift Americans out of poverty, rather than pull down those at the top. This is the best approach for all Americans.

Testimony of Star Parker
President
Center for Urban Renewal and Education
before
United States Senate Committee on the Budget
on
"The Income and Wealth Inequality Crisis in America"
March 17, 2021

Chairman Sanders, Ranking Member Graham and Members of the Committee, thank you for the opportunity to share my perspective on the topic of income and wealth inequality in America.

First of all, the Civil Rights Act and the Fair Housing Act have been critical in greatly reducing racial discrimination in America and providing more opportunities for blacks and other minority populations. However, the trillions of dollars in "Great Society" and other government spending and social policies since the 1960s have produced much more questionable outcomes.

The Census Bureau's annual report, "Income and Poverty in the United States: 2019" had some encouraging news. According to the report, real median black household income in 2019 was up 7.9% — the largest annual increase in median black household income in history. This put the increase in black household income in 2019 1.1 points higher than the 6.8% increase for the nation overall.

Further, for the first time ever, the percentage of high-income black households exceeded the percentage of low-income black households.

In 2019, 29.4% of black households had income of $75,000 or more, compared with 28.7% of black households that had income of $25,000 or less.

In 1967, per the Census Bureau, 9.1% of black households had income of $75,000 or more, and 44.5% of black households had income of $25,000 or less.

One area of enormous improvement is in education achievement, which no doubt is a major factor in the improvement in income of black households.

According to the Census Bureau, in 2019, the black high school completion rate was 98% of the national average. Back in 1980, it was about 75%.

In 2019, 29.6% of blacks ages 25 and above completed four years of college. In 1980, this stood at 11.6%.

The Council of Economic Advisers published a report in early 2020 that highlighted substantial economic achievements among lower-income families before COVID-19 hit America. Per the data reported, "Nearly 2.5 million people were lifted out of poverty in 2017 and 2018, and the poverty rates for African Americans and Hispanics both fell in 2018, reaching new historic lows."

We saw historic increases in net worth among the bottom 50% of households. Employment surged and unemployment reached all-time lows.

In other words, we've got real evidence that the path to opportunity and achievement for low-income Americans is the same for everyone else: more individual freedom.

The *Wall Street Journal* recently reported on the increasing number of startups founded by young black entrepreneurs, who are turning to venture capitalists for funding. It quotes black entrepreneur Joseph Heller, founder of a startup that connects custom-merchandise businesses with manufacturers.

"I think access to capital and entrepreneurship is the next civil-rights movement," says Heller.

According to the ProjectDiane survey, reports the *Journal*, as of this year, "female Black and Latina founders … have raised a cumulative $3.1 billion — more than triple the $1 billion they had raised as of 2018."

It's what economist Dr. Walter E. Williams called the "morality of the marketplace" — the allocation of resources driven by freedom, merit, creativity and excellence — that is freeing black Americans, body and soul.

Despite these encouraging developments, there are still substantial educational achievement gaps that contribute to employment and income gaps. I am concerned that these gaps have been exacerbated by school closures during the coronavirus pandemic.

Some parents have understandably responded to these school closures by sending their children to private or charter schools, and by forming educational pods within their communities. This is much harder to do for low-income families, especially those headed by a single parent.

When government denies educational choices to low-income families, their children inevitably fall further behind. We need to ensure that the interests of children are given higher priority than the interests of teachers' unions.

While racial income gaps have narrowed, it is clear that wealth disparities remain significant. According to the Federal Reserve's most recent Survey of Consumer Finances, the median wealth of white families is $188,200, compared with $24,100 for black families.

To the extent that change in government policy can lift the median wealth of black families, I am for it. The good news is there is such an opportunity. We should give some working Americans the option to use the taxes they are paying into Social Security to invest in their own personally owned retirement account.

We'll achieve more racial equity by allowing low-income Americans the opportunity to have more equity in — ownership of — America.

A big reason for the huge wealth gap between white and black families is the huge gap in ownership of equities — stock — between white and black families.

According to the Pew Research Center, 61% of white families have either direct or indirect ownership in stocks. Only 31% of black families do.

Per the Federal Reserve, among white Americans ages 35 to 54, 65% have at least one retirement account. Among blacks in this age range, only 44% do.

The Committee to Unleash Prosperity, working with the nonpartisan Tax Foundation, recently calculated what working families at different income levels would have earned at retirement if they could have invested their payroll tax rather than paying into Social Security.

For instance, a low-income couple who started working in 1971 and retired in 2015, where one earner earned 45% of the national median income and the other 25%, would have gotten an annual Social Security benefit of $21,035. If that same couple could have invested 10% of their paychecks in a stock fund over the same period, using actual historic data for this 45-year period, they would have had $738,360 at retirement that could produce $40,610 annual income for them — almost double what they would get from Social Security.

They would also have the benefits of ownership. They could bequeath what remains to their heirs.

Per the Federal Reserve, 29.9% of white Americans say they have benefited from inheritance or some other family gift. Only 10.1% of black Americans say they have received an inheritance or family gift.

If black Americans do not feel part of and invested in the nation, as they should, one reason is that they are disenfranchised by the same government that claims it wants to help.

Ownership, rather than more government, is the answer.

I believe that what drives human achievement is the same for everyone. It comes from lofty goals and a sense by each individual that it is up to them, their character and hard work to achieve those goals.

Teaching black children that they are living in a racist country and that they have no chance without government intervention, without diversity politics, without receiving special treatment because of their race destroys that child's sense of humanity, personal uniqueness and personal responsibility.

If we want to build a more perfect union, believe that every person is unique and that what people look like tells you nothing about who they are.

Don't want to be poor or go to prison in America? Get educated, get a job, get married before you get pregnant, have children after you are married, save and invest some of your money, and give some time or treasure to a local charity.

Thank you for the opportunity to share some perspectives about this important topic. I look forward to ongoing and bipartisan dialogue with members of the Committee.

I'm the Amazon Worker the Media Doesn't Want You to Meet | Opinion

KEVIN MIMS , ***AMAZON EMPLOYEE***

ON 2/24/21 AT 1:50 PM EST

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OPINION AMAZON MINIMUM WAGE

I appear to be that rarest of working-class Americans: a gruntled Amazon employee.

Judging from what you read in the press or see on TV news, Amazon has mostly disgruntled employees working in its warehouses, staffing its fulfillment centers, and driving its delivery vans. In a new book on Amazon, *Fulfillment: Winning and Losing in One-Click America*, we meet people like Hector Torrez (a pseudonym), an Amazon warehouse worker who was exposed to the coronavirus at his workplace, forced to live in his own basement so as to avoid infecting the rest of his family; he learned from his coworkers about the outbreak, not from Amazon, he says. We also meet Bill Boldani, Jr., another warehouse employee who is occasionally forced to pee in a quiet corner of the warehouse because Amazon doesn't give him breaks long enough for him to make it to the bathroom and back.

Maybe I got lucky and found myself working in the only Amazon warehouse where employees are treated decently, but the experiences of Hector Torrez and Bill Boldani, Jr., are nothing like my own experiences at Amazon.

Far from getting no communication from Amazon about the coronavirus, I've gotten hundreds of communications about it. Every time someone in my warehouse tests positive for COVID-19, I get a text and an email from Amazon informing me of the fact, though the worker's name is never divulged. Amazon also sends me communications about the steps they are taking to make their workplaces safer during the pandemic.

Amazon set up a COVID-19 testing station in my warehouse back in September, and my co-workers and I are encouraged (though never forced) to get tested at least once a week. We can do this on company time and get paid for it. I've been tested roughly twenty times since last fall, always with a negative result.

Not everyone tests negative, though. Dozens of workers at my facility have tested positive for COVID-19. But all the workers I know of who have tested positive were experiencing no symptoms. Had they not been tested, they might have gone about their daily lives in normal fashion, infecting everyone they came in contact with. And after testing positive, they were paid by Amazon to stay home and selfquarantine for 14 days. No wonder when COVID-19 caused massive layoffs in early 2020, my warehouse took on dozens of new employees.

Again, maybe I just got lucky enough to work at the only decent Amazon warehouse. But my experience just does not line up with what I read about in the news, which consistently paints Amazon as a horrible place to work. Recently, the *New York Times* published an op-ed by a member of its editorial board, Greg Bensinger, who wrote that the Amazon workers he's interviewed have consistently painted "a grim picture." "The job typically includes miles of walking each day, heavy lifting, and mindless and repetitive sorting tasks, all under the watchful eye of corporate efficiency sticklers, who convey the impression that dignities like sufficient bathroom and meal breaks are anathema to their daily quotas," writes Bensinger.

The author, Kevin Mims, at his job at Amazon

I'm not sure when walking became a grim task. And the work is hardly mindless. I work at a smaller warehouse facility called a sortation center. As the name indicates, we do a lot of sorting there, which is anything but a mindless task. Some of the sorters in my warehouse have to make dozens of sorting decisions every minute. The diverter, for example, stands beside a conveyor belt in the unloading dock and as envelopes and packages speed by, she has to quickly look for the yellow label that tells her which of the three off-ramps each package needs to be diverted towards.

It's not a job you can do with your eyes closed or with your mind disengaged. It is a repetitive task, and it can also be a tedious one, but it isn't mindless. On the plus side, it isn't very strenuous either, at least not for a reasonably fit worker. Compared to picking cotton or mining coal or catching Alaskan King Crab, a shift at my warehouse is a walk in the park. And I generally enjoy it.

Before taking a job at Amazon, I was working part time at a Sacramento bookstore for $11 dollars an hour. Elite leftwing pundits pooh-pooh Amazon's $15 an hour minimum wage as barely an improvement on the various state minimums. But California has one of the highest minimum wages in the country, and Amazon's wage still represented a 36 percent increase in my hourly pay. Is there any working-class individual in America who would sneer at a 36 percent raise in pay?

When I first got hired at Amazon, I was eager to mention it to people. After all, Amazon is one of the iconic brands of the 21st Century. Working for Amazon in 2019 struck me as being analogous to working for Chevrolet in the 1950s or IBM in the 1960s. But I learned quickly that a lot of Americans have been conditioned by the media to believe that all Amazon employees are pathetic wage slaves, forced to work in sauna-like warehouses and required to beg their overseers for the right to pee.

Even some of my closest friends didn't believe me when I told them that I liked my job. They seemed to think I was putting a brave face on an embarrassing situation. This is because elite national reporters at the *Atlantic* and the *New York Times* have very little actual experience among working-class people and don't know how to report on labor issues except as a battle between villains (the capitalist ownership class) and victims (me and my ilk). It's insulting. And it's inaccurate.
I work a four-and-half-hour shift every Friday, Saturday, Sunday, and Monday. Essentially, my job is to help load local delivery vans by filling up metal carts with packages and then dragging them outside to the "staging area," a parking lot where the drivers can easily access them.

To avoid getting sacked, workers on my shift are required to "pick" no fewer than six routes per day. This is a ridiculously easy bar to clear. I'm 62 and don't have any difficulty picking at least ten routes a day. I've done as many as 15.

For months, Amazon has been encouraging part-time workers like me to convert to a full-time shift (40 hours per week) or at least a reduced-time shift (more than 30 but less than 40 hours per week). I've seen a lot of young people take a job at the warehouse merely as a stopgap while they look for something better. Many of them found they liked the work, racked up huge production numbers, and soon were promoted up and out of my sortation center. It's a fairly common occurrence, though I have a hard time convincing people that it's true.

An employee places packed goods tons container at the distribution center of US online retail giant Amazon.
INA FASSBENDER/AFP VIA GETTY IMAGES

Alas, the mainstream media in America don't want to hear from an Amazonian unless he's unhappy. You can write positively about your Amazon experience only if you first establish that you don't really need the job, like Austin Murphy did in a December 2018 article for the *Atlantic* about his job as an Amazon delivery driver. He was a longtime Sports Illustrated writer and editor. He took a job as an Amazon driver after getting laid off from S.I. It turned out that he kind of enjoyed the job. The gatekeepers of contemporary journalism allowed him to write positively about his Amazon job only because he assured his readers that he didn't need the money. He is now a successful freelance writer, his wife is a successful attorney, and he took the job mainly because they were trying to refinance their house and thought it would look better on a loan application if they both had regular, salaried employment.

I, on the other hand, am not a successful freelance writer. My wife is not an attorney. And I do need the money from my Amazon job. I don't sneer at the $16 an hour I get paid.

The media stereotype of an Amazon worker is someone who is forced to work long hours at a fulfillment center where she is run ragged by an uncaring boss and isn't even allowed to go to the bathroom when she needs to.

It's possible that this description fits some Amazon workers. But there are others, like me, who are perfectly gruntled with their Amazon job. Amazon pays plenty of attention to us. But the media? Not so much.

Kevin Mims works at a an Amazon warehouse. He was not paid by Amazon to write this OpEd.
The views expressed in this article are the writer's own.

4 Amazon workers speak out against union in company media event

Updated Mar 03, 2021; Posted Mar 03, 2021

Dawn Hoag, 43, of Lake View, began working at Amazon's Bessemer fulfillment center last April.

By William Thornton | wthornton@al.com

J.C. Thompson started at Amazon's Bessemer fulfillment center back in early April of last year, and is blunt when asked if he plans on voting to join a union.

"What are we going to gain from the union vote that we don't already have?" Thompson said. "I have 401k, I have PTO, I have UPT (unpaid time off), the benefits are second to none. If I could talk to the president, if I could talk to Congressmen, if I could talk to legislators, I would ask, is this really about the employees, or is this about big money?"

Thompson was one of four Amazon employees the company made available in a virtual media press call Wednesday. The four were loud and proudly anti-union during the hourlong event, saying, like Thompson, that they see little benefit in joining a union and will be glad when the focus of the nation shifts away from their workplace.

"The job I have would not be possible with a union coming in," Dawn Hoag, another employee, said. "I love what I do."

Votes are due to be counted March 30 in a mail-in vote among more than 5,000 employees at Amazon's Bessemer fulfillment center, BHM1.

Workers are being asked to vote on whether they want representation by the Retail, Wholesale & Department Store Union. (RWDSU). The union vote drew the attention of President Joe Biden this week, with the vote also garnering support from professional athletes, entertainers and politicians who see it as an opportunity to open organizing into the burgeoning world of e-commerce.

But the four workers who took part said they feel their workplace is being unfairly portrayed in media reports, and that they are skeptical a union can do anything to improve the workplace. An Amazon spokeswoman said the four employees requested to speak to the media, and that no pro-union employees had asked to take part.

Here is full coverage of the Alabama Amazon unionization effort

Three of the four said they had previously been union members. Hoag and Thompson said, if the center goes for the union, they want to transfer out. All said their experience at the center, which opened last March during the COVID-19 pandemic lockdown, has been largely positive. And all are clear - work in Bessemer is demanding and can be challenging. But they say the rewards are also real.

"In less than five minutes, I can train anybody off the street to do any job in this building," Thompson said. "That alone tells you how proactive Amazon is and how they try to train their employees in the workplace."

Carla Johnson started in May 2020. After working at the center for two months, Johnson said she had a seizure on the job and was diagnosed with a brain tumor. What followed was surgery, chemotherapy and radiation treatments, which led to a three-month leave. Now in the tail end of treatment, Johnson said her manager knows when its "chemo week." She doesn't feel like she's been treated like a robot, and says that management has been "willing to make any accommodations to my health and I'm still able to do my job."

"Concern about my health and how I'm feeling has been, I feel like, a top priority for my managers and the people in the area I work with," Johnson said. "And being here has actually helped me in more ways than a paycheck. I work with people who sincerely care about my health and wellbeing, and that has helped me a lot in dealing with what has been the hardest thing I've ever dealt with in my life."

Hoag, who previously spoke to AL.com last month, said she has contact with many employees daily, and the workplace is friendly and warm.
"The people I interact with want to know my name, they're asking how I'm doing, they ask about my kids. I imagine working around robots would be cold. We're so far away from that," she said.

Ora McClendon, who was previously a senior shop steward at another workplace, said many employees who talk about joining a union do not realize how basic interaction with management would change.

"If the union came in, we would have to go through the union, and they would decide what got brought to the table," she said. "Now we're getting raises on a regular basis. If we went with a union, we would have to go to the collective bargaining board."

Thompson, who said he worked a unionized job with UPS for 10 years as part of the Teamsters, said he feels employees who support the union just want a raise and have unrealistic expectations about how much money they could be making.

"I don't want to have to go through a union steward or look at a bid list or for things to go by seniority," he said. "I'm here for the benefits. I was paying an astronomical amount - $800 a month - for family coverage. This has been a blessing to my family. I don't want my voice taken away. I don't want a middle man. I can go to anybody and talk to them about anything. That's my experience."

Union organizers have accused Amazon of recalibrating traffic lights to prevent them from approaching workers leaving the center, and of compulsory training sessions where employees receive anti-union messages, as well as text messages throughout the day. The workers who spoke today say they've had their own uncomfortable experiences with organizers.

Johnson said she noticed a "Vote Yes" sign in her neighborhood, though no one on her street works at Amazon. She said a union representative hung up on her during a phone call when she said she was voting no based on her previous union experience. Hoag said a union organizer leaned into her car at the traffic light to press information on her.

Thompson said Biden's address also illustrates the importance of the Amazon vote. Unions see it as an entryway into Alabama, he said, with auto plants being the next battleground.

"It's amazing how all eyes on are BHM1," he said. "It's like, if we can get Amazon, we can get everybody else."

Johnson said younger employees, who don't have experience working with unions, have high expectations.

"I don't need somebody to come in from outside, I feel like it's more about the potential money they can collect for dues, more so than what they can actually do for us," she said.

Still, Thompson said morale at the center is good and the attention brought by the vote has been overwhelming but refreshing. The four said they don't doubt there are disgruntled employees who think a union will improve their workplace.

"Where can you work in a warehouse job and work four days and be off three, or work three days and be off four?" Thompson said. "If somebody told them they're going to get more money, who wouldn't sign a card?"