HOUSE COMMITTEE ON THE BUDGET
Chairman John Yarmuth

October 8, 2019

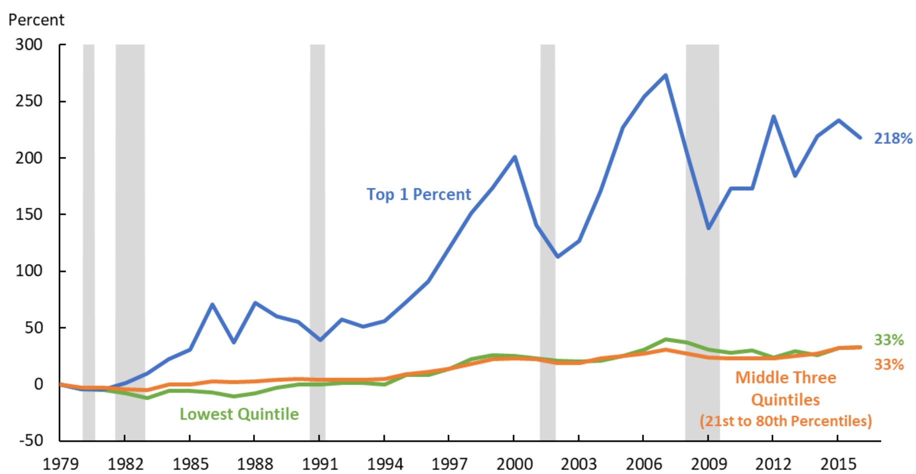
Congress Must Act to Reduce Inequality for Working Families

Over the past 30 years, the richest 1 percent of Americans saw their wealth grow by nearly 300 percent. At the same time, the poorest 50 percent saw no growth. Stagnant wages have put pressure on working families as the cost of housing, education, health care, and child care increases and a rapidly changing economy threatens to leave them behind. In a hearing on September 19th, "Solutions to Rising Economic Inequality," the House Budget Committee heard from witnesses how economic inequality hinders working families' economic mobility, slows economic growth, and undermines our nation's fiscal outlook. The Committee discussed policy solutions that aim to strengthen the economy and ensure our working families share in the nation's economic gains.

Sharing Economic Gains Broadly Brings Families Closer to the American Dream

From the end of World War II to the early 1970s, Americans across the economic ladder all saw their incomes increase. But since then, there has been a divergence between those at the very top and everyone else. Average before-tax income for the top 1 percent of households has more than tripled since 1979, according to Congressional Budget Office data. For the middle 60 percent and the bottom 20 percent of households, incomes have risen by only a third. On September 26th, just a few days after the hearing, the Census Bureau reported that the Gini index – a measure of income inequality – in 2018 reached its highest level ever recorded in this country. When working families are no longer rewarded for their productivity and are unable to share in the success of the economy, our economy is no longer working.

Cumulative Growth in Real Average Income Before Transfers and Taxes, 1979-2016



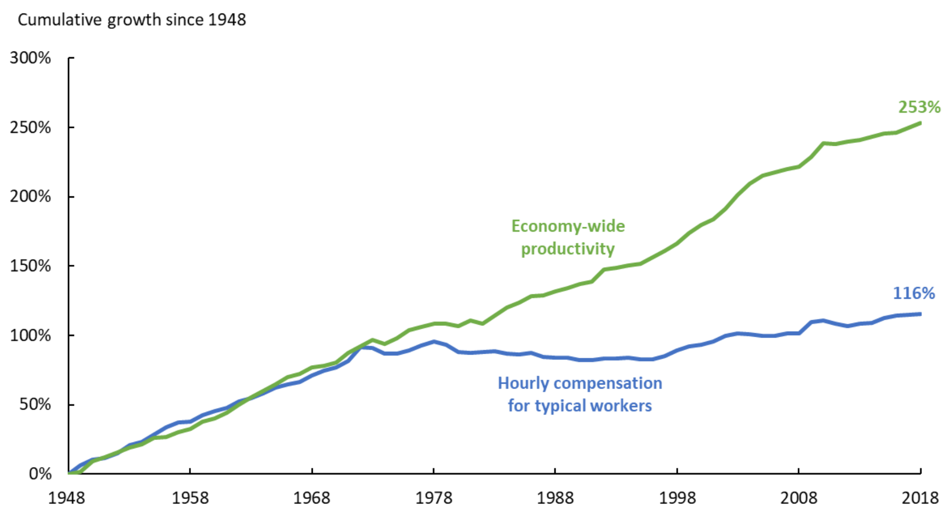
Source: Congressional Budget Office

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

“Moving up the economic ladder and earning more than the previous generation is at the heart of ‘the American Dream,’ still an ideal that many Americans cherish” — Dr. Heather Boushey, President and CEO of the Washington Center for Equitable Growth, emphasized in her testimony that inequality is a drag on upward mobility. For example, Dr. Boushey noted that 92 percent of workers born in 1940 grew up to earn incomes higher than their parents. But for workers born in 1980, only 50 percent exceeded their parents’ income in their 30s. The generational study found the rise in inequality explained 70 percent of the decline in mobility.

“[Y]ou would like to see that wages are growing in line with productivity because that would mean that the benefits of what workers are contributing, and most of us are workers in the economy, is being connected to what people are taking home” — Dr. Boushey described the shift away from workers sharing in the productivity gains that have fueled economic growth. Technology has made the typical worker increasingly productive, allowing workers to produce more goods and services per hour, but that increase in productivity does not always translate to an increase in workers’ wages. Prior to 1980, workers shared in the economic gains facilitated by advanced manufacturing techniques and other technologies. But as Dr. Boushey argued, “now those gains go almost exclusively to people at the top.”

Worker Pay Has Lagged Behind Productivity Growth Since the 1970s



Source: EPI analysis of data from Bureau of Labor Statistics and Bureau of Economic Analysis.
Note: Productivity data reflects growth of total output of goods and services (less depreciation) per hours worked. Hourly compensation data refers to wages and benefits of private-sector production and nonsupervisory workers.

“We un-invented a middle class nation” — Dr. William E. Spriggs, Chief Economist at AFL-CIO and Professor of Economics at Howard University, discussed the causes of the productivity-to-earnings divide and the onset of the rising inequality trend. “[T]he divide in 1980 is because we changed policies. Because we redistributed income from workers to those at the top.” He specifically called out anti-labor policies that denied workers the ability to negotiate a “decent minimum wage.”

“[T]here is an inequality tax that low income people pay because they don’t provide enough of the market to drive where prices go” — Dr. Spriggs explained that rising income inequality has increased the cost of housing, education, and childcare for low-income families because the market for those goods and services has tracked with the income increases for those at the top. “The price of childcare goes up as inequality goes up because that is where the market is.”

“Whether in my field or another type of service worker, the stories of how the economy has grown doesn’t match reality on the ground” — Ms. Kismet Evans, a home health care worker from Las Vegas, Nevada, emphasized that working Americans – particularly those at the heart of our service economy – deserve to see their efforts benefit their own families. “Every American deserves to be able to have security, safety, pay their bills on time, know what life is going to bring to them instead of seeing nothing but darkness, no hope or anything.”

Reducing Economic Inequality Strengthens the Economy

Chairman Yarmuth’s opening remarks noted that economic inequality is suppressing growth and eroding our tax base. The Organisation for Economic Co-operation and Development (OECD) found that inequality cost the United States up to nine percentage points in cumulative growth over the past two decades.

As wages stagnate and inequality rises, working families are unable to fully participate in our economy so there is less income turning into spending. Firms funnel corporate profits into executive compensation and payouts to shareholders instead of reinvesting those corporate earnings into workers. CEO compensation has grown nearly 1,000 percent since 1978. Whereas CEOs made about 32 times more than typical workers in 1978, executives now make 278 times more. In 2018, corporations rewarded shareholders with record stock buybacks.

Further, those shareholders and other upper-income earners will save more of their earnings than they spend. As the Economic Policy Institute concludes, “inequality distorts and reduces total consumption while at the same time increasing the stock of savings. The combination of lots of savings but too few attractive opportunities for profitable investments creates a long-term trajectory of slow growth.”

“People’s spending drives business investment as consumers account for nearly 70 cents of every dollar spent in the United States” — In her testimony, Dr. Boushey described the connection between the meager income gains for families outside of the top 10 percent and underwhelming business investment. As Dr. Boushey argued, this should not be surprising. Businesses, recognizing that income growth for the vast majority of families has been weak or nonexistent, have chosen to sit on their profits rather than invest in expanding operations or producing new goods and services for consumers that have little money to spend. “Growing economic inequality thus destabilizes spending because everyday consumers either don’t have enough money to spend or are borrowing beyond their means to buy what they need.”

Dr. Boushey's testimony is a reminder of the expansion of household debt that was an early signal of the financial crisis leading to the Great Recession.

"When income rises uniformly, you create many more potential new customers" — Dr. Spriggs argued that the policies of the last few decades of tax cuts and deregulation are not what businesses need. "They want you to give them customers." He explained further that traditional investments in the economy – including residential investment – will fall behind because of the shift from a market dominated by the middle class to a market that is focused on the top of the income distribution.

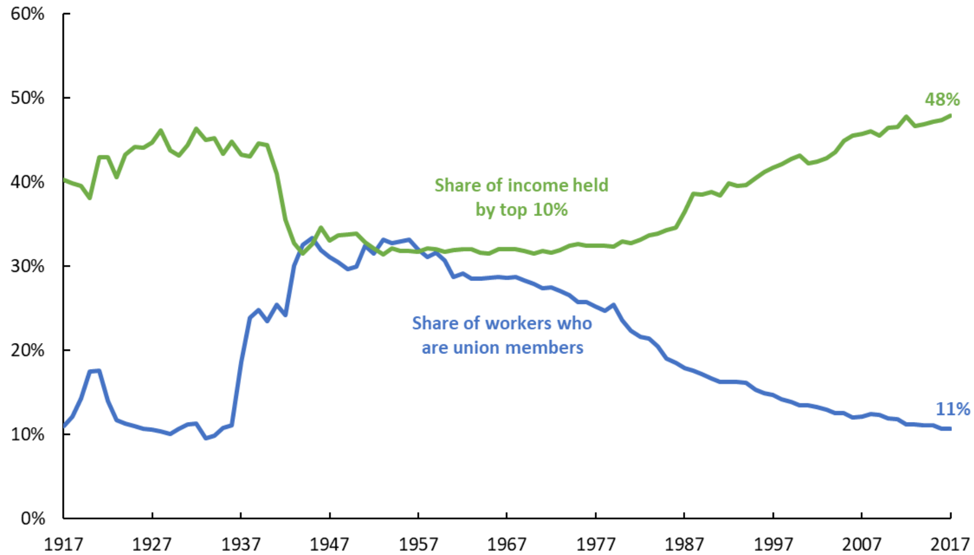
Policy Decisions Should Protect Families and Prepare Workers for the Future

Recent economic policies should have aimed to reduce economic inequality rather than exacerbate it. "Instead, we just blew $1.9 trillion on the Republican tax law that overwhelmingly benefitted the wealthy and did little to improve our nation's economy or prepare us for the future," Chairman Yarmuth emphasized. He outlined trickle-down economics, financial industry deregulation, and attacks on organized labor as policy decisions that failed to protect working families' stake in the country's economic growth. This Congress, House Democrats are advancing policies that ensure economic growth is shared broadly and are protecting vital economic security programs that help keep families out of poverty.

"We have to protect the bottom, and raising the minimum wage is crucial to that effort" — Dr. Spriggs noted the important role of the minimum wage in reducing wage and income disparities. House Democrats passed the Raise the Wage Act of 2019 to increase the federal minimum wage for the first time in a decade – the longest period without an increase in U.S. history – and passed the Paycheck Fairness Act to end the gender pay gap. While states and cities have responded with their own wage increases to help working families in the interim, Dr. Spriggs warned against a system of regional wages because of the "huge racial disparate impact." In fact, the federal minimum wage increases during the Civil Rights era are credited with reducing the black-white earnings gap. Dr. Spriggs advised the Committee to not be blind to how the accumulation of policies affect black and Latino workers, particularly women of color.

"America became more equal as workers had the ability to collectively bargain with their boss" — Dr. Spriggs pointed to data that shows high union density correlates with lower levels of inequality. Organized labor increases wages, expands benefits, and advocates for more equity in the workplace between workers and management. Because unions historically have represented lower- and middle-class workers, their ability to raise wages at the bottom of the wage distribution has played a critical role in mitigating pay gaps for union and non-union members alike. An inverse relationship has been observed between unionization rates and income inequality; according to one study, declining unionization accounts for up to one third of the rise in wage inequality between 1973 and 2007.

Decline in Union Membership Coincided with the Rise in Income Inequality



Source: EPI analysis of data from Census Bureau and Piketty and Saez (2003), updated in March 2019 from Top Incomes Database.

"Social Security benefits kept more than 27 million people out of poverty last year. SNAP benefits kept an estimated 3 million people from becoming poor" — Representative Horsford (NV-04) pointed to the Trump Administration's proposed rule that would limit eligibility for nutrition assistance, "negatively impacting about 46,000 SNAP recipients in my State." Representative Horsford contrasted the Administration's policies to increase work requirements, add additional paperwork requirements, and drive down the poverty level threshold to the "gift of $1.9 trillion dollars in tax cuts to benefit the top one percent."

"[N]ot only is the budget a statement of our values, but our tax policy is a statement of our values, as well" — Representative Kildee (MI-05) reminded the Committee that the Republican tax law overwhelmingly benefits corporations and the wealthy. "The Republican tax bill gave even more advantage to the wealthiest Americans and to the largest corporations in the United States and overlooked the needs of working families as we continually see greater income inequality."

"[T]hey used it as a boondoggle for those at the top of the income ladder. So that is exacerbating inequality, not just today, but for decades to come" — Dr. Boushey recalled the investment boom promised by proponents of the 2017 Republican tax law, but provided evidence of slowing business investment and stagnant wage growth for all but high earners. While families are not seeing the advertised boost in household income, corporations *did* pay less in taxes with corporate tax revenue falling by more than 40 percent since the tax law was adopted.

Rising Inequality Creates Fiscal Challenges that Congress Must Address

In looking at the House Budget Committee's oversight role of the federal budget and economic policy, Dr. Spriggs warned that future funding and revenue are limited by inequality and that recent policy decisions have increased the income, wealth, and opportunity gaps. At the same time, policymakers must prioritize making key investments that will help our workforce succeed in a rapidly changing world. "We must make a national commitment to early childhood education and work to make college more affordable. Raise the minimum wage, expand job-training opportunities, and invest in the programs that help struggling families get ahead," noted Chairman Yarmuth in his remarks.