The Distribution of Wealth and Income in the United States

SOCIAL SOLIDARITY IN THE STATES

INTERNATIONAL MANAGEMENT
WITH
PROFESSOR DALDRUP

BY
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Introduction

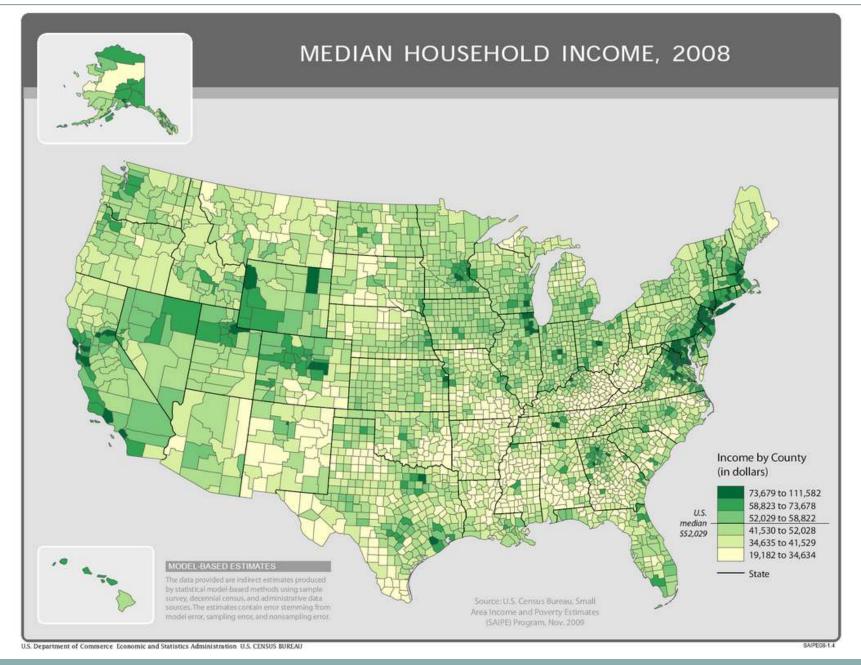
- This presentation will first examine the wealth and income distribution in the United States, drawing the important distinctions between the two
- In doing so, it will attempt to show the extraordinary inequality of the wealth distribution
- Next, the focus will be drawn to the welfare system and what programs are in place to achieve any form of social solidarity
- Then, the presentation will inspect the manner in which these programs are proving insufficient due to lack of funding
- Subsequently, we will turn to a brief overview of the tax system and how it is manipulated to make the rich richer and the poor poorer.
- We conclude then, with a brief overview of the subjects touched and the question of how this deteriorating, inhumane system is expected to continue

Wealth, Net Worth, Financial Wealth, Income

- **Wealth** is the value of everything a person or family owns, minus any debts. However, for purposes of studying the wealth distribution, economists define wealth in terms of *marketable assets*, such as real estate, stocks, and bonds, leaving aside consumer durables like cars and household items because they are not as readily converted into cash.
- Once the value of all marketable assets is determined, then all debts, such as home mortgages and credit card debts, are subtracted, which yields a person's *net worth*.
- *Financial wealth* is defined as net worth minus net equity in owner-occupied housing. As Wolff (2004, p. 5) explains, "Financial wealth is a more 'liquid' concept than marketable wealth, since one's home is difficult to convert into cash in the short term. It thus reflects the resources that may be immediately available for consumption or various forms of investments."
- *Income* is what people earn from work, but also from dividends, interest, and any rents or royalties that are paid to them on properties they own.

Income

- If one were to inspect the distribution of income, it may appear to be relatively fair, or at least not as bad as one would imagine
 - The national median of household income is \$44,389, that's not so bad, it puts the US on place two at the list behind Switzerland
 - 26.65% of Americans have an income between \$25,000 and \$50,000, that seems ok too
 - o 28.22% have an income between \$0 and \$25,000, well that may seems like a little much
 - The graph below indicates a very precise distribution of income in the US



Financial Wealth

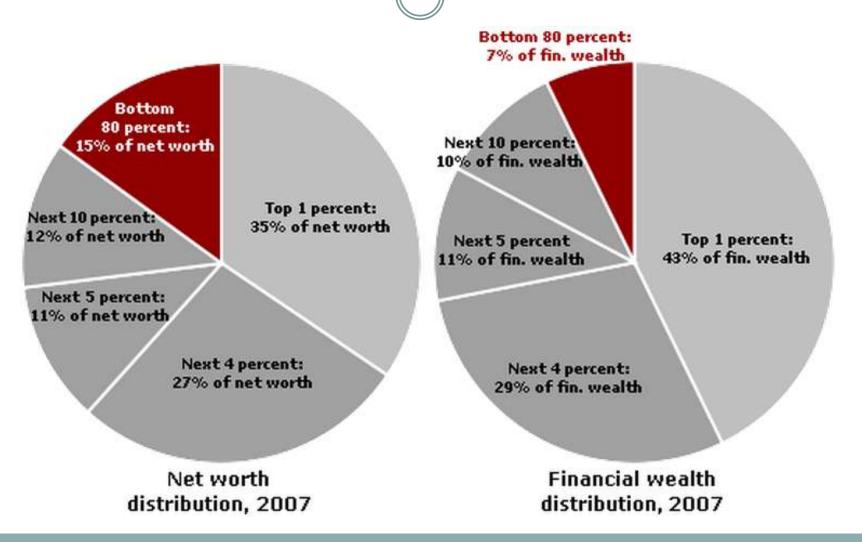
- The numbers looks much different from the perspective of financial wealth
- Here we see that the top 20% or wealthy people own 93% of the entire financial wealth
- The top one percent owns 42.7%
- When split up into different forms of assets, as shown on slides eight and nine, the inequality becomes even more clear
 - The bottom 90% own 2% and 7% of all financial securities and business equity respectfully, whereas the top one percent owns 61% and 62%
 - For stocks and mutual funds, the bottom 90% own 19%
 - The bottom 90% also have 73% of the enitre debt

Distribution of Net Worth and Financial Wealth in the US 1983-2007

	Total Net Worth			
	Top 1 percent	Next 19 percent	Bottom 80 percent	
1983	33.8%	47.5%	18.7%	
1989	37.4%	46.2%	16.5%	
1992	37.2%	46.6%	16.2%	
1995	38.5%	45.4%	16.1%	
1998	38.1%	45.3%	16.6%	
2001	33.4%	51.0%	15.6%	
2004	34.3%	50.3%	15.3%	
2007	34.6%	50.5%	15.0%	
	Financial Wealth			
	Top 1 percent	Next 19 percent	Bottom 80 percent	
1983	42.9%	48.4%	8.7%	
1989	46.9%	46.5%	6.6%	
1992	45.6%	46.7%	7.7%	
1995	47 20/	45.00/	7.0%	
	47.2%	45.9%	7.0%	
1998	47.2%	43.6%	9.1%	
1998	47.3%	43.6%	9.1%	

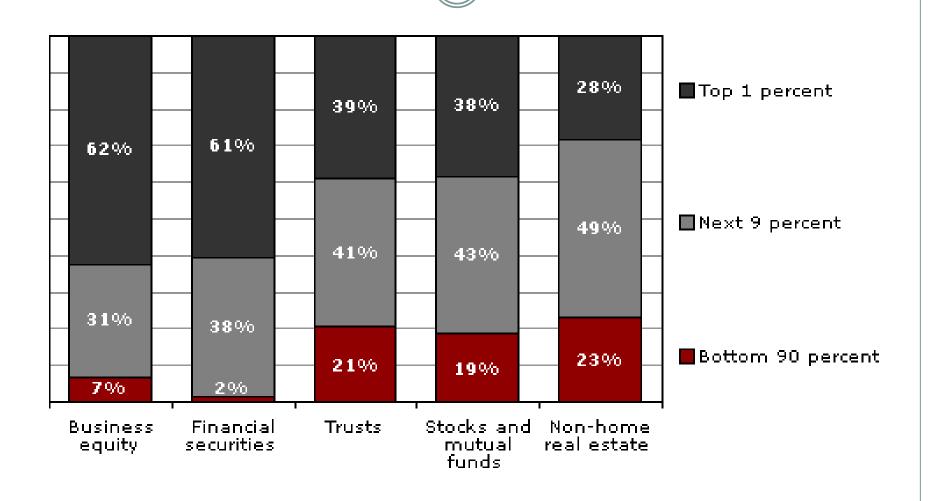
Source: http://sociology.ucsc.edu/whorulesamerica/power/wealth.html

Net Worth and Financial Wealth Distribution in the U.S. in 2007

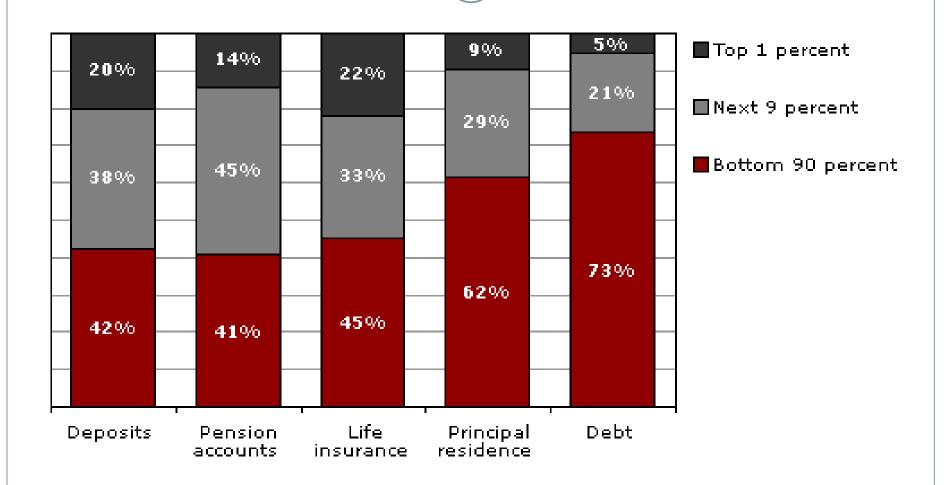


Source: http://sociology.ucsc.edu/whorulesamerica/power/wealth.html

Wealth Distribution by Type of Asset, 2007: Investment Assets



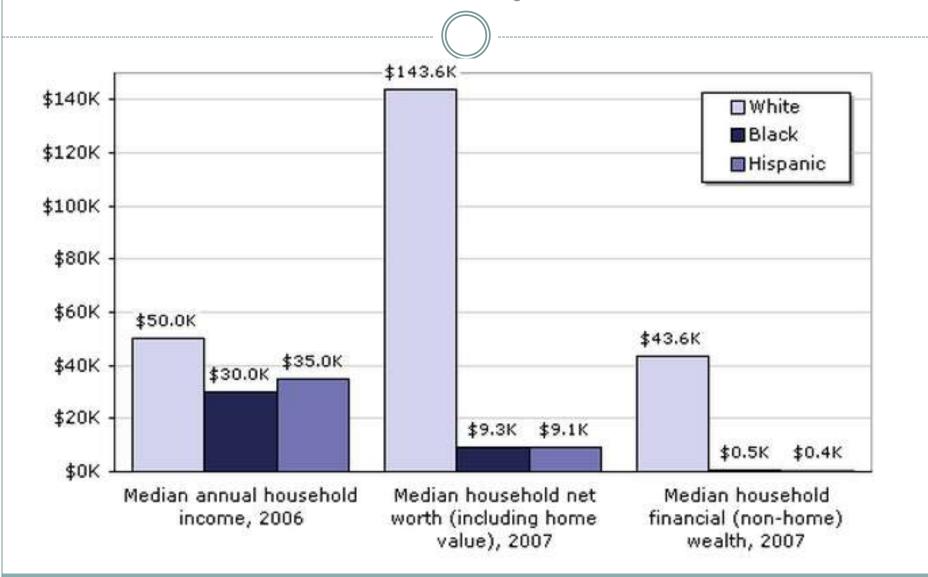
Wealth Distribution by Type of Asset, 2007: Other Assets



The Role of Race

- Race plays quite a significant role in the distribution of wealth in the United States, as depicted in the graph below
- Again, the graph shows the major difference between looking at income versus net worth or financial wealth
- The median household income seems to be relatively balanced as shown, or perhaps as one might suspect
- Whereas the net worth of the two, who are decidedly worse off, is almost negligable

Income and Wealth by Race in the U.S.



US Welfare System

THE "INFRASTRUCTURE" FOR SOCIAL SOLIDARITY IS CERTAINLY IN PLACE

A Brief History of the Welfare System

- Federally funded and governed US welfare began in the 1930's during the Great Depression.
- The US government responded to the overwhelming number of families and individuals in need of aid by creating a welfare program that would give assistance to those who had little or no income.
- The US welfare system stayed in the hands of the federal government for the next sixty-one years.
- Many Americans were unhappy with the welfare system, claiming that individuals were abusing the welfare program by not applying for jobs, having more children just to get more aid, and staying unmarried so as to qualify for greater benefits.
- Welfare system reform became a hot topic in the 1990's.
- Bill Clinton was elected as President with the intention of reforming the federally run US Welfare program.
- In 1996 the Republican Congress passed a reform law signed by President Clinton that gave the control of the welfare system back to the states.

Eligibility Requirements for Welfare Programs

- A basic lack of gainful employment opportunity through either lack of places of employment or lack of job skill.
- A commitment to self-sufficiency is necessary before any potential recipient can begin to receive benefits. Heads of household must enter into an agreement they will become self-sufficient within a certain timeframe.
- A commitment to cooperation must be signed by the heads of household that they will comply with and continue all regulations and requirements while receiving aid.
- Dependant children must be living in the household. There are some very few exceptions, but generally all dependants must be within the home.
- All minors must be attending school during school days.
- All minors and dependants must be fully and appropriately immunized.
- The recipient must be 18 years of age.
- You must be a legal and permanent resident of the state to which you are applying.
- You must be a citizen of the United States or a qualified non-citizen legal resident, (restrictions apply).
- A commitment to complete accuracy and honesty during the program.
- All monetary resources must be divulged. This includes cash within the home, in checking or savings accounts and items of value in possession such as jewelry or electronics.
- A household financial budget must be created and adhered to.

The United States Department of Health and Human Services



- Many of the most important welfare benefit programs are designed and funded by United States Department of Health and Human Services
- Below is a list of their main operation divisions
 - Administration for Children and Families (ACF)
 - Administration on Aging (AoA)
 - Agency for Healthcare Research and Quality (AHRQ)
 - Agency for Toxic Substances and Disease Registry (ATSDR)
 - o Centers for Disease Control and Prevention (CDC)
 - Centers for Medicare and Medicaid Services (CMS)
 - Food and Drug Administration (FDA)
 - Health Resources and Services Administration (HRSA)
 - o Indian Health Service (IHS)
 - National Institutes of Health (NIH)
 - Substance Abuse and Mental Health Services Administration (SAMHSA)
- Under these divisions we find programs such as:
 - o cash assistance (TANF)
 - o the child support program
 - o child care
 - energy or utility assistance,
 - food assistance
 - medical assistance
 - o and vocational rehabilitation services
- A brief list of some of the larger and more important welfare agencies and programs is provided below

TANF

Temporary
Assistance for
Needy
Families

- TANF was created by the Personal Responsibility and Work Opportunity Act instituted under President Bill Clinton in 1996.
- The Act provides temporary financial assistance while aiming to get people off of that assistance, primarily through employment.
- On their website, TANF explains their goals in the following manner:
 - States receive a block grant to design and operate their programs to accomplish the purposes of TANF.
 - o These are:
 - o assisting needy families so that children can be cared for in their own homes
 - o reducing the dependency of needy parents by promoting job preparation, work and marriage
 - preventing out-of-wedlock pregnancies
 - encouraging the formation and maintenance of two-parent families.





- Medicare is a health insurance program for:
 - o people age 65 or older,
 - people under age 65 with certain disabilities, and
 - people of all ages with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a kidney transplant).
- Medicaid is a health insurance program for:
 - Low income individuals and families

Historically known as the Food Stamps Program, SNAP is a program administred by the US Department of Agriculture, to help needy families pay for their groceries. The idea was first developed in the spring of 1943, when people realized that there was a tremendous farm surplus on the one hand and mal-nurished individuals in cities.



Supplemental Nutrition Assistance Program

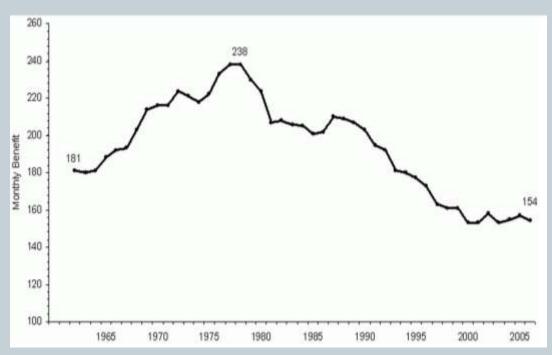
US Social Security Administration



- President Roosevelt signed the Social Security Act on August 14, 1935
- The Act provided benefits to retirees and the unemployed, and a lumpsum benefit at death
- Current benefits include, retirement benefits, disability benefits, medicare and financial aid in the case where your spouse dies
- These benefits are funded by a payroll tax, half of which is paid by employer the other half by employee

Decline in Welfare

Overall Decline in Welfare Monthly Benefits (in 2006 dollars)



Federal Budget Impact on Child Welfare in Washington

	1 Year	5 Years
Relative Foster Care Assistance	\$ (.5 to 11.8)	\$ (2.5 to 48.6)
Case Management	(1.0)	(5.0)
Targeted Case Management	(10 to 12)	(50 to 60)
New Funds	n/a	1.3
Net Loss	\$ (11.5 to 24.8)	\$ (56.2 to 112.3)

In 2006

These Programs are Losing Funding

- As we see in the graph above, the welfare benefits have been continuously dropping.
- This is due to the fact that these programs and agencies are losing federal funding
- The current fiscal policy of the US is to reduce spending, especially in the areas of health and human services, and to cut taxes across the board
- Obama fought to let the Bush tax cuts on the wealthiest Americans, expire as it was scheduled to, but it would appear that he lost this battle as we will see below

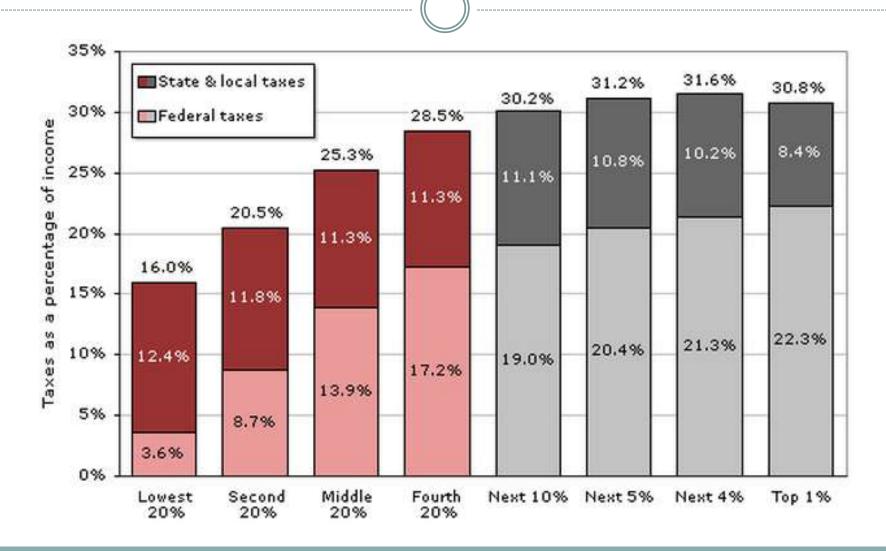
Taxes



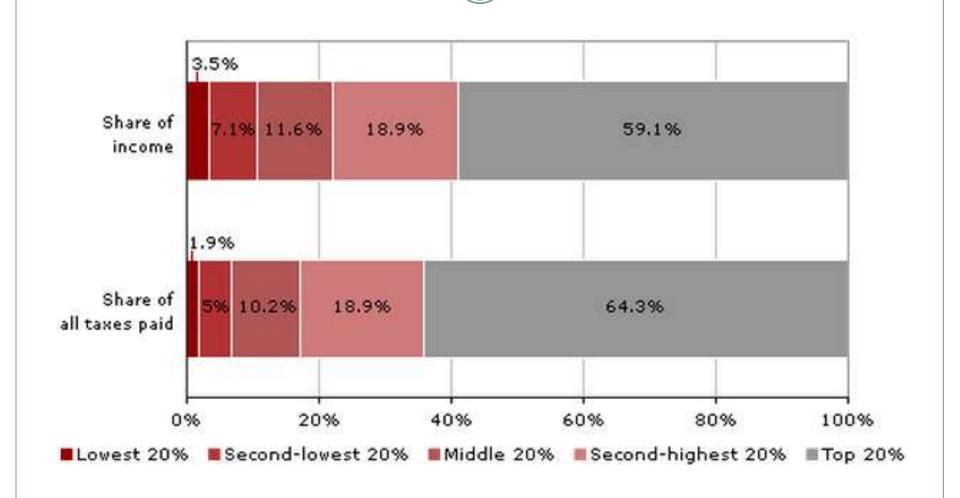
Progressive Tax Rate?

- A progressive tax rate is one that taxes those who earn more a larger percentage of their income than those who earn less
- The tax system in America claims to be progressive, but is this actually the case?
- As shown in the figure below;
 - The lowest 20% earners pay 16% of their income to taxes
 - o The next 20% pay 20.5%
 - o The following 20% pay 25.3% and the next 28.5%
- Up until this point the tax system appears to be rather progressive, but when breaking down the top 20% of earners, the progressivity slows down
 - The next ten percent pay 30.2% of their income to taxes
 - The following five percent 31.2% and the next four percent 31.6%
 - The top one percent, those who earn on average \$1.3 million a year, pay 30.8% of their income to taxes, less than the nine percent below!

Share of Income Paid as Tax Including Local and State Tax



Another Way of Inspecting this Data is by the Share of All Income Earned and All Taxes Paid



Source: Citizens for Tax Justice (2010a)

Pay Roll Tax

- Another important subject to consider when inspecting taxes in America is the pay roll tax
- This tax is split evenly between employer and employee and is used to fund the welfare programs of social security, medicare and unemployment
- This tax is paid primarily by those with annual incomes less than \$100,000

The Bush Tax Cuts of 2001 and 2003

- The two laws to lower taxes, passed by the Bush administration in 2001 and 2003 are referred to as the Bush tax cuts.
- The names and major effects of these two are as follows:
 - o Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)
 - * a new 10% bracket was created for single filers with taxable income up to \$6,000, joint filers up to \$12,000, and heads of households up to \$10,000.
 - * the 15% bracket's lower threshold was indexed to the new 10% bracket
 - * the 28% bracket would be lowered to 25% by 2006.
 - * the 31% bracket would be lowered to 28% by 2006
 - * the 36% bracket would be lowered to 33% by 2006
 - * the 39.6% bracket would be lowered to 35% by 2006
 - Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA)
 - This act increased tax reductions on investment income from dividends and capital gains
- These two acts had a "sunset clause" in them, meaning that they were set to expire by the end of 2010
- Obama extended these acts by two years and there has been a lot of debate about what will happen next
- The following two tables, show the manner in which Obama was forced to bend to pressure from the GOP and extend tax cuts for the wealthiest

"Compromise" Tax Cut Plan

Average Tax Cuts in 2011

Shares of the Total Tax Cuts in 2011

Income group	Original Obama plan	GOP proposals	Compro- mise plan
Lowest 20%	\$ -507	\$ -241	\$ -396
Second 20%	-993	-851	-992
Middle 20%	-1,348	-1,443	-1,521
Fourth 20%	-2,074	-2,517	-2,544
Next 15%	-3,996	-5,059	-5,065
Next 4%	-7,151	-9,878	-9,878
Top 1%	-28,728	-76,949	-76,949
Addendum: 2011 cost (\$-billion)	\$ -301	\$ - 413	\$ -424

Income group	Or <mark>iginal</mark> Obama plan	GOP proposals	Compro- mise plan
Lowest 20%	4.7%	1.6%	2.6%
Second 20%	9.2%	5.8%	6.6%
Middle 20%	12.5%	9.9%	10.1%
Fourth 20%	19.3%	17.2%	16.9%
Next 15%	27.7%	25.9%	25.2%
Next 4%	13.2%	13.4%	13.1%
Top 1%	13.3%	26.1%	25.4%
	100.0%	100.0%	100.0%

Source: http://www.ctj.org/pdf/taxcompromise2010.pdf

Rising Unemployment



Conclusion

- The trend continues that the rich and super rich become more wealthy and the poor and middle class are falling deeper into poverty.
- There are many adequate systems in place to support these individuals, thus achieving greater social solidarity in the US.
- Unfortunately, these programs and agencies are receiving less and less funding.
- To make matters worse, the unemployment rate has shown a steep increase in the last two years, indicating that more and more Americans will be forced to rely on a welfare system that may no longer have the means to support them.
- If nothing is done to account for this very extreme discrepancy of wealth distribution, it might very well be possible, given the current course, that America faces another depression.

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