

## **U.S. Income Inequality: Something Has To Be Done About It**

In Couleecap's October 2014 community concerns paper, "U.S. Income Inequality: Higher Than It Has Ever Been", we took a look at the history of income inequality in America and why it is increasing. This paper will continue to focus on this issue and take a look at the impacts this is having on Americans and what some steps are that we can take, at the national level, to fix this growing concern in our country.

### **How does income inequality impact Americans?**

We live in the richest nation on earth, and yet millions of Americans make wages so low that they have to choose between food or heat, health care or child care. Who are these Americans? They are health care aides who can't afford health insurance. They work in the food industry, but depend on food pantries to help feed their children. They are child daycare teachers who don't make enough to save for their own children's education. They care for the elderly, but they have no pensions.

Our society expects individuals to work – if you do work, you shouldn't be in poverty. Today's minimum wage and other public policies are not working for many working Americans. They struggle to survive on stagnant wages. They lack access to educational opportunities, better paying jobs, adequate nutrition, proper healthcare, and better housing. All of this creates higher levels of stress and exhaustion, and feelings of being defeated and lowered self-confidence. Growing levels of income inequality are associated with increases in crime, lower savings rates, poorer health outcomes, and diminished levels of trust – all forces that have the potential to drag down economic growth for all.

In recent years, in spite of record-low interest rates helping to spur the housing market to make homes more affordable, the average American still doesn't have enough income to buy a home. This is especially true for younger people who typically form new households. Without good paying jobs, they're stuck living at home or with roommates. Student loan debt is also a big factor in these individuals/couples not buying homes. Most low-wage workers don't receive health insurance, sick days or pension plans from their employers, which means they can't get sick and have little hope of building a solid economic base for retiring.<sup>2</sup> Many low-wage workers are struggling to pay their bills today, with no ability to plan for future growth or retirement. Today, one in five people who are near retirement age have zero money saved.<sup>13</sup> A large percentage of these people earn low wages and simply have few or no financial resources available for retirement. One of their biggest obstacles is access to a steady retirement savings plan.

### **How can we fix this and stop income inequality from increasing even more?**

With the current U.S. poverty rate at an unacceptable 14.5% and economic inequality stuck at historically high levels, one might assume that chronic economic insecurity and an unbalanced economy are "normal" and that nothing can be done to fix it.<sup>4</sup> But there is nothing normal about more than 45 million Americans living in poverty. It is the direct result of policy choices. Here are some steps our country can take, at the national level, to cut poverty, boost economic security, and expand the middle class:

#### **➤ Raise the Capital Gains Tax Rate**

Federal personal income tax currently taxes the income of people who live off their wealth at lower rates than the income of people who work. This is particularly problematic because of the signal it sends that we value wealth more than hard work. When President George W. Bush took office, the top tax rate on long-term capital gains was 20%, and the tax changes he signed into law in 2003 reduced that top rate to 15%. At the start of 2013, Congress extended most of the Bush-era tax cuts, but allowed the top 20% tax rate for capital gains to come back into effect for the richest Americans.<sup>5</sup>

But Congress should go much further and repeal the capital gains break that still exists. Under this proposal, capital gains would simply be taxed at ordinary income tax rates. The current maximum personal income tax rate is 39.6%.<sup>1</sup> This would raise at least \$613 billion over a decade. The richest 1% of taxpayers would pay 72% of the tax increase resulting from eliminating the capital gains preference in 2015, and the richest 5% of taxpayers would pay 86% of the tax increase.<sup>5</sup>

### ➤ **Create Jobs and Build Workforce Skills**

The best pathway out of poverty is a job that pays a living wage. A living wage is a wage that affords the earner and his or her family enough income to cover the most basic costs of living without need for government support or poverty programs. With a living wage an individual can take pride in his/her work and enjoy the decency of a life beyond poverty, beyond an endless cycle of excessive work hours, beyond the ditch of poverty wages.<sup>11</sup>

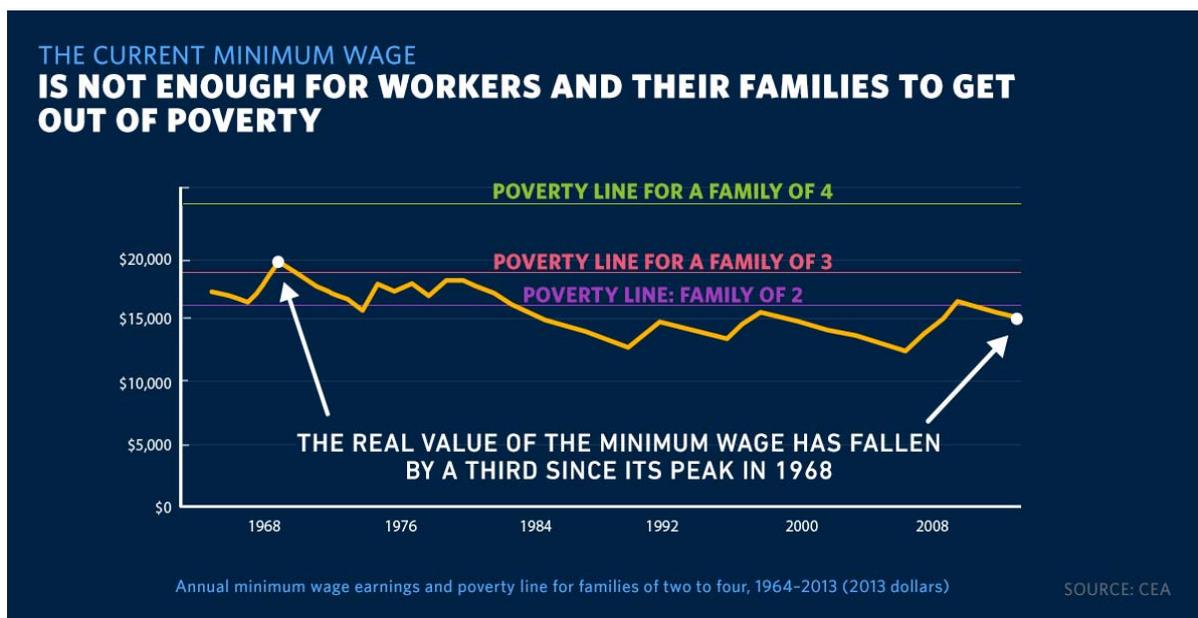
A living wage provides for a complete consideration of the cost of living. Wages vary according to location, as costs of living vary. A living wage in Couleecap's four-county area ranges from \$18.79-\$19.15 an hour for one adult with a child.<sup>12</sup> A living wage - as opposed to the federal poverty line - takes into account the many necessary factors in calculating the actual costs in a specific geographic area.

More jobs are needed in America that pay a living wage. To kick-start job growth now, the federal government should invest in our infrastructure by rebuilding our bridges, railways, roads, schools, libraries, neighborhood parks, and abandoned housing; expanding broadband; developing renewable energy sources; and making other investments that create jobs and boost our national economy. We should continue federal unemployment insurance, and also build on proven models of subsidized employment to help long-term unemployed people and other disadvantaged workers re-enter the labor force.<sup>4</sup>

To build workforce skills, the federal government needs to invest in training and re-training programs at technical colleges, universities, and other accredited institutions. Our federal government, states, colleges, and universities all have a role to play in making higher education more affordable, by reining in college costs and preparing students to succeed by providing a solid education.

### ➤ **Raise the Minimum Wage**

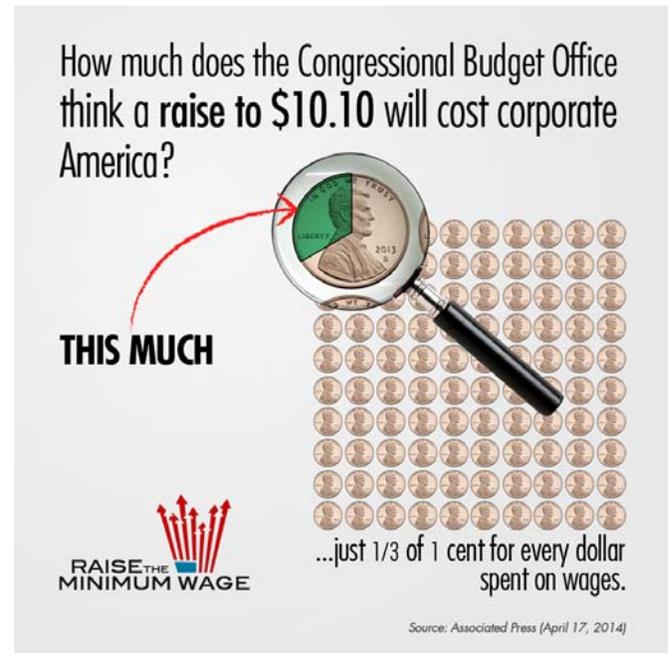
Today, the real value of the minimum wage has fallen by nearly one-third since its peak in 1968. Right now, a person working 40 hours/week, earning the federal minimum wage of \$7.25/hour, makes \$15,080 a year, which leaves too many families struggling to make ends meet.



Who are minimum-wage workers? Contrary to conventional wisdom, the average age of a minimum-wage worker in the U.S. is 35, and 88% are at least 20 years old. More than half work full-time (at least 35 hours per week) and another 32% work between 20-34 hours per week. More than half of minimum wage workers are women. Most are white, but minorities are overrepresented. Three-fourths have finished high school, one-third have had some college, and 10% have graduated from college. One-fourth have children (compared with 34% of all workers). In all, 19% of children in the U.S. have a parent who would benefit from increasing the minimum wage.<sup>3</sup>

In his 2014 State of the Union address, President Obama called on Congress to raise the federal minimum wage to \$10.10 an hour, and soon after signed an Executive Order to raise the minimum wage to \$10.10 for individuals working on new federal service contracts.<sup>15</sup>

Raising the minimum wage nationwide to \$10.10 an hour would raise wages for 28 million workers, lifting nearly 6 million people out of poverty. This increase would generate \$4.6 billion in annual savings in Supplemental Food Assistance Program or SNAP (formerly food stamps) benefits and increase GDP (gross domestic product) by roughly \$32.6 billion. All this while costing corporate America only one-third of one percent.<sup>8</sup> Following the President's lead, a number of state legislatures and governors, mayors and city councils, and business owners have raised wages for their residents and employees.



On November 4, 2014, La Crosse County voters approved an advisory referendum to raise the minimum wage in Wisconsin to \$10.10/hour, indexed to inflation.<sup>14</sup> Wisconsin's current minimum wage is \$7.25/hour. 595,700 workers in the state would benefit by raising the wage to \$10.10. How could raising the minimum wage to \$10.10/hour help workers make ends meet? A \$10.10 wage could, over the course of a year, help a full-time, full-year minimum-wage worker in Wisconsin afford either seven months of rent, 36 weeks of groceries, 98 tanks of gas, or the equivalent of 58 months of electricity.<sup>15</sup>

#### ➤ **Increase the EITC for Childless Workers**

The Earned Income Tax Credit (EITC) lifted more than 6.5 million Americans, including 3.3 million children, above the poverty line in 2012. Children who live in households receiving the EITC are more likely to graduate from high school and have higher earnings in adulthood. Yet childless workers largely miss out on the benefit – their maximum credit is less than one-tenth the amount awarded to a worker with two children. Policymakers across the political spectrum have called for boosting the EITC.<sup>4</sup>

#### ➤ **Support Pay Equity**

With female full-time workers earning just 78 cents for every dollar earned by men in the U.S., we must take action to ensure equal pay for equal work. Closing the gender pay gap would cut poverty in half for working women and their families and add nearly half a trillion dollars to the nation's gross domestic product.<sup>4</sup> Passing the Paycheck Fairness Act (S.84) to hold employers accountable for discriminatory salary practices would be a key first step.<sup>4</sup>

➤ **Provide Paid Leave and Paid Sick Days**

The U.S. is the only developed country without paid family leave and paid sick days, making it exceedingly difficult for millions of American workers to care for their families without having to sacrifice needed income. Paid leave is an important antipoverty policy – nearly 4 in 10 private sector workers, and 7 in 10 low-wage workers, do not have access to a single paid sick day, forcing them to forgo needed income in order to care for a sick child or loved one. The Family and Medical Insurance Leave Act (H.R. 3712) would provide paid leave protection to workers who need to take time off due to their own illness or that of a family member, or after the birth of a child. The Healthy Families Act (H.R. 1286) would enable workers to earn up to seven job-protected sick days a year.<sup>4</sup>

➤ **Maintain Social Safety Net for Our Most Vulnerable Citizens**

According to a recent poll conducted by the Children’s Leadership Council, 79% of Americans – including a majority of Democrats, Independents, and Republicans – favor increasing federal funding for programs that address children’s needs in areas like early childhood education, healthcare, nutrition, and well-being.<sup>6</sup> When children get help through programs, like Medicaid, SNAP (formerly food stamps), and affordable housing programs, they are healthier in childhood and as adults, do better in school, and have better employment and earnings records. Children also benefit when their parents get help. For example, when parents have health insurance, they and their children go to the doctor more.<sup>7</sup> Without these programs, communities across America would see more of their neighbors and relatives lining up at food banks, failing to make rent or mortgage payments, and running out of options.<sup>10</sup>

**Now is the time to do something about income inequality in America**

In an October 2014 speech given by Janet Yellen, Federal Reserve Chair, she stated, “It is no secret that the past few decades of widening inequality can be summed up as significant income and wealth gains for those at the very top and stagnant living standards for the majority. I think it is appropriate we ask whether this trend is compatible with values rooted in our nation’s history, among them the high value Americans have traditionally placed on equality of opportunity.”<sup>8</sup>

We want to believe that all Americans can pursue the dream of prosperity, growth, and equality. But the belief that hard work will lead to success and prosperity has been eroded in a society that has let income inequality increase to a rate higher than it has ever been.<sup>9</sup> Now, more than ever, we need economic justice in America for all people.

Presented by Grace Jones, Executive Director and Shelly Teadt, Director of Planning, Couleecap, Inc. Westby WI 54667

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<sup>15</sup> The White House; Raise the Wage, 2014; [www.whitehouse.gov](http://www.whitehouse.gov)

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