Reports highlight inequality and insecurity in America

Patrick Martin
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Two recent and little-noted reports on economic polarization paint a picture of American society at odds with the conventional portrayal of a broad middle class enjoying affluent, or at least comfortable, conditions of life.

The Pew Research Center for the People & the Press issued a report June 21 entitled "Economic Inequality Seen as Rising, Boom Bypasses Poor." The report summarized the results of an opinion survey focusing on what Americans think about the state of the economy and their personal experiences with economic deprivation.

While many socioeconomic studies have documented the growth of economic inequality and the persistence of deep and pervasive poverty for the bottom 20 percent of the American population, the Pew study is one of a handful that has examined the consciousness of inequality and insecurity on the part of working people.

It found that nearly half of all Americans believe that the country is divided into "haves" and "have-nots." Some 44 percent agreed with this characterization, up sharply from the 26 percent who held this view in 1988, before the long-running financial boom of the past decade.

When asked to name the biggest problem facing themselves and their families, 62 percent identified an economic issue, including not being able to make ends meet (26 percent), the high cost of housing (10 percent), and gas and fuel prices (9 percent). One fourth of all those surveyed said they did not have money to pay some health expenses last year, while 21 percent could not pay for clothing and 16 percent said they sometimes lacked money to buy food.

The median annual income for American families stands at $40,816. But even families significantly above that line experienced considerable economic stress. Of those with family incomes as high as $50,000, one third reported occasions when they could not pay their utility bills and an equal number said they had more credit card and installment loan debt than they could afford. For all families, 28 percent said they owe more on credit cards than they can afford, up from 21 percent in 1992.

The experience with credit-card debt varies sharply with income, a result at variance with the situation in 1992 when roughly equal proportions of low-income, middle-income and upper-middle-income families said they were too deeply indebted. In 1992, 23 percent of upper-middle-income families said they had too much credit card debt; this figure was 25 percent in 2000. For middle-income families, 21 percent reported too much debt in 1992, but 31 percent did so in 2000. For low-income families, 24 percent reported too much credit card debt in 1992; by 2000 this figure had soared to 38 percent.

Emphasizing the growing awareness of economic hardship, the Pew report noted, "Aside from their income, there is one characteristic which unifies these financially strapped Americans, and that is their recognition of the precariousness of their position. When asked which label best describes their household, 15 percent of the public think of themselves as not of the professional, business or working class, but as 'struggling families'." That figure rises to 27 percent for minority families.

The report continues: "Nearly two-thirds of self-described struggling families report being unable to afford necessary health care or medical costs, and roughly as many have not been able to pay for gasoline, utilities, and clothing. More than half say they have faced times within the last year when they have not been able to pay for food or rent." More than four out of five, 82 percent, of "struggling" families have faced at least two of these economic crises.

The grim reality behind these figures is that, under conditions of a record financial boom and falling unemployment rates, tens of millions of working people have been able to provide their families with basic necessities only by going further and further into debt. The turn by the US economy to recession and rising unemployment will plunge many into destitution.

The second report comes from two staff economists for the Federal Reserve Board, and examines the seemingly dry subject of the relationship between personal savings and household income levels. The two economists, Dean M. Maki and Michael G. Palumbo, were seeking to determine whether the rise and fall in the value of the stock market had a significant and direct bearing on consumer spending—what economists call the "wealth effect."

They studied the economic behavior of the top 20 percent of the American population. This layer accounts for 44 percent of total income, and owns 63 percent of total wealth and 96 percent of all common stock.

Maki and Palumbo had access to Federal Reserve statistics that track the change in the value of assets, such as homes and stock portfolios, as well as wage and salary income. The results were startling. The Fed economists found that the top 20 percent accounted for 46 percent of all US consumption last year, and greatly increased their spending on consumption over the past 10 years.

It has been widely reported that over the past decade, the overall savings rate in the United States has fallen from around 9 percent of disposable income to below zero—meaning that US consumption as a whole is financed by an inflow of foreign capital. Maki and Palumbo found that this overall decline in savings was entirely attributable to the behavior of the top 20 percent, who own the bulk of the wealth.

The poorest 40 percent of the population actually doubled their savings rate during the 1990s, to over 7 percent of income, as unemployment declined significantly and the lowest-paid and most vulnerable sections of the working class marginally improved their financial position. The savings rate for the middle 40 percent of the population remained roughly the same, at about 3 percent. But the savings rate for the top 20 percent collapsed, from 8.5 percent of income in 1992 to a negative 2.1 percent in 2000.

"What is novel about our study is that it reveals, essentially for the first time, that ... households whose portfolios surged in value decreased their savings rates sharply over this period," the authors of the study wrote. They continued: "...the well-documented decline in the economy-wide rate of personal saving over the 1990s can be attributed almost entirely to a sharp reduction in the saving rate of the quintile of families who experienced the largest capital gains."

In other words, the wealthiest 20 percent of the population saw their wealth and income soar during the 1990s, but increased their spending by even more. Since the top 20 percent control such a disproportionate share of the national income, their spending spree outweighed the increased savings by the bottom 80 percent of the population, creating the net savings deficit for the whole country.

Defenders of the profit system like to pretend that capital accumulation is the result of saving and sacrifice, for which the wealthy should be rewarded, while the poor are poor because they spend foolishly and refuse to put anything aside for the future. Such arguments have never been anything more than apologetics for the inequality and class privilege inherent under capitalism.

But the statistics published by the Federal Reserve—an institution that can hardly be accused of anti-capitalist bias—demonstrate that it is the upper class that has been squandering the resources of the country. These figures should be recalled whenever a big business politician demands further tax cuts for the rich, or declares that "there is no money" to meet urgent social needs like health care, education or retirement security.