Why wealth gap has grown despite record-long economic growth

By CHRISTOPHER RUGABER July 1, 2019

WASHINGTON (AP) — As it enters its 11th year, America's economic expansion is now the longest on record — a streak that has shrunk unemployment, swelled household wealth, revived the housing market and helped fuel an explosive rise in the stock market.

Yet even after a full decade of uninterrupted economic growth, the richest Americans now hold a greater share of the nation's wealth than they did before the Great Recession began in 2007. And income growth has been sluggish by historical standards, leaving many Americans feeling stuck in place.

Those trends help explain something unique about this expansion: It's easily the least-celebrated economic recovery in decades.

As public discontent has grown, the issue has become one for political candidates to harness — beginning with Donald Trump in 2016. Now, some of the Democrats running to challenge Trump for the presidency have built their campaigns around proposals to tax wealth, raise minimum wages or ease the financial strain of medical care and higher education.

America's financial disparities have widened in large part because the means by which people build wealth have become more exclusive since the Great Recession.

Fewer middle-class Americans own homes. Fewer are invested in the stock market. And home prices have risen far more in wealthier metro areas on the coasts than in more modestly priced cities and rural areas. The result is that affluent homeowners now sit on vast sums of home equity and capital gains, while tens of millions of ordinary households have been left mainly on the sidelines.

"The recovery has been very disappointing from the standpoint of inequality," said Gabriel Zucman, an economist at the University of California, Berkeley, and a leading expert on income and wealth distribution.

Household wealth — the value of homes, stock portfolios and bank accounts, minus mortgage and credit card debt and other loans — jumped 80% in the past decade. More than one-third of that gain — $16.2 trillion in riches— went to the wealthiest 1%, figures from the Federal Reserve show. Just 25% of it went to middle-to-upper-middle class households. The bottom half of the population gained less than 2%.

Nearly 8 million Americans lost homes in the recession and its aftermath, and the sharp price gains since then have put ownership out of reach for many would-be buyers. For America's middle class, the homeownership rate fell to about 60% in 2016 from roughly 70% in 2004, before the housing bubble, according to separate Fed data.

And the sharpest increases occurred in richer cities, like San Francisco, where prices have more than doubled in the past decade, or Phoenix, where they've surged 80%. By contrast, in lower-cost Charlotte, home prices have risen by only about a third. In Cleveland, by less than one-fifth.

Overall, in fact, middle-income households on average now have less home equity than they did before the recession, Fed data show .

The other major engine of household wealth — the stock market — hasn't much benefited most people, either. The longest bull market in U.S. history, which surpassed its own 10-year mark in March, has shot equity prices up more than four-fold. Yet the proportion of middle-income households that own shares has actually declined.

The Fed calculates that about half of middle-income Americans owned shares in 2016, the most recent year for which data is available, down from 56% in 2007. That includes people who hold stocks in retirement accounts.

The decline in stock market participation occurred mainly because more middle-income workers took contract work or other jobs that offered no retirement savings plans, the Fed concluded. In other cases, people who face major expenses for, say, health care or who have heavy student loan debt find it hard to save and invest much even if they do have access to retirement accounts.

"Many households find it challenging to make key middle-class investments because incomes at the middle are not keeping up with the rising costs of education and homeownership, and it is difficult to save enough," Lael Brainard, a member of the Federal Reserve's Board of Governors, said in a speech in May.

Hannah Moore, now 37, has struggled to save since graduating from college in December 2007, the same month the Great Recession officially began. She has worked nearly continuously since then despite a couple of layoffs.

Moore, who studied interior design in Chicago at a for-profit college, began job hunting just as many architecture and design firms were downsizing. For several years, she did freelance design projects and worked in retail jobs, sometimes working 30 days without a day off. None provided health insurance or a retirement savings plan.

"I had many jobs, all at the same time," she said. "It's just not been the easiest of decades if you're trying to jump-start a career."

Her situation stabilized when she found full-time work in 2013. Three years later, she moved to Los Angeles, where she works for a design firm that contracts with luxury apartment developers that build rental housing marketed to high-tech employees. She loves the work. But she struggles with Los Angeles' high costs.

Moore says she could afford a monthly mortgage payment. But she lacks the savings for a down payment. About half her income, she calculates, is eaten up by rent, health insurance and student loan payments of $850 a month.

As financial inequalities have widened over the past decade, racial disparities in wealth have worsened, too. The typical wealth for a white household is $171,000 — nearly 10 times that for African-Americans. That's up from seven times before the housing bubble, and it primarily reflects sharp losses in housing wealth for blacks. The African-American homeownership rate fell to a record low in the first three months of this year.

If wealth inequality has worsened because fewer Americans own homes and stocks, should the government try to reverse that trend? President George W. Bush spoke optimistically in the 2000s about an "Ownership Society." The idea was that a larger proportion of Americans would achieve prosperity by buying homes and investing in the stock market through retirement savings plans.

Such discussion has faded since the housing bust. Many economists argue that what's needed is simply higher incomes so more Americans can save and build wealth.

Zucman favors a higher minimum wage, cheaper access to college education and more family-friendly policies to enable more parents to work. He and his colleague Emmanuel Saez, also an economist at the University of California, Berkeley, helped formulate Sen. Elizabeth Warren's proposed wealth tax on fortunes above $50 million to help pay for those proposals.

As the wealth gap has widened, income gains have remained anemic for Americans at all levels for the past decade. That is particularly true relative to the sizable pay gains that flowed to households during the robust expansions of the 1980s and 1990s.

"If you compare the economy now to where it was before the recession, the most important fact has been its relatively slow growth," said Jason Furman, an economist at Harvard University and a former top adviser to President Barack Obama.

Data compiled by Zucman, Saez and Thomas Piketty show that incomes grew much faster for the top 1% in the 1980s and the 1990s than over the past decade. Yet inequality has captured much more attention now than it did then.

In part, that may be because middle-class and poorer Americans haven't enjoyed the fruits of this expansion compared with other recoveries. Incomes for middle class Americans grew nearly twice as fast in the 1980s expansion and about 1.5 times faster in the 1990s than in the current recovery. For many people, inequality carries less sting when their own fortunes improve.

"The more people are struggling to make ends meet themselves, the more they may notice inequality," said Elise Gould, an economist at the liberal Economic Policy Institute.

Income growth has lagged partly because for most of the expansion, employers have had a surfeit of workers to choose among when filling jobs, leaving them little pressure to raise pay.

Not until 2016 did the unemployment rate fall below 5%. Average hourly pay finally began to pick up, with the lowest-income workers receiving the fastest average gains. Though this trend has helped narrow income inequality, vast disparities remain.

“Overall, there’s growing inequality,” Gould said, “with signs of hope at the bottom. It’s just taken a very long time.”