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978-1-108-48614-9 — The Psychology of Poverty, Wealth, and Economic Inequality
Deborah Belle , Heather E. Bullock
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Part I

Introduction

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1 Contemporary Economic Inequalities

Taking Necessities from the Many

Figure 1.1 Dr. Martin Luther King, Jr.
Dr. Martin Luther King, Jr. (second from right) with prominent psychologists on the day he addressed the annual convention of the American Psychological Association in Washington, DC, September 1, 1967.
Source: Society for the Psychological Study of Social Issues (SPSSI) *Newsletter* (1967).

On September 1, 1967, Rev. Martin Luther King, Jr. addressed the annual convention of the American Psychological Association (APA) for the first and only time. Before his talk could be published a few months later, King was assassinated in Memphis, Tennessee, where he had gone to support striking sanitation workers. King began his APA address by noting how rewarding it was for him to take a break from the daily demands of the struggle in which he was engaged, and to speak about that struggle with "concerned friends of good will" (King, 1968: 1). He noted, however, how rarely psychologists and other behavioral scientists had used their knowledge and position to illuminate the terrible realities of the segregated South or to study issues of pressing concern to the civil rights movement. He urged us to "tell it like it is" (King, 1968: 2) and to seek answers to these urgent questions.

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King pointed out that the field of psychology had given us an important word, the word "maladjusted." King saw this as a useful word in its implications that destructive maladjustment should be avoided in favor of a well-adjusted life. But on the other hand, he argued:

> I am sure that we will recognize that there are some things in our society, some things in our world, to which we should never be adjusted. . . . We must never adjust ourselves to racial discrimination and racial segregation. We must never adjust ourselves to religious bigotry. We must never adjust ourselves to economic conditions that take necessities from the many to give luxuries to the few. (King, 1968:10–11)

King was ahead of most of the psychological researchers of his time in posing this last problem as one, not merely of poverty, but of systemic economic *inequality*. It has taken us a while, but our discipline is now paying greater attention to the concentration of wealth in the hands of the few as well as to the dire needs of those experiencing poverty. We are grappling with the implications of economic inequality for human dignity and well-being. In the years since King's death, psychologists and other social scientists have amassed overwhelming evidence that demonstrates just how ruinous economic inequality is to virtually every facet of life, as well as to life itself.

1.1 Introduction

This chapter describes the economic inequality in our wealthy nation and the gender and racial dimensions of this inequality. We examine characteristics of our current economy that make life difficult for most Americans while increasing the wealth and power of the richest few. We look to our nation's history to understand some of the sources of our current inequalities, as well as to learn from efforts that succeeded in reducing economic and racial inequalities, at least for a time.

1.2 An Unequal Nation

Even before the COVID-19 pandemic struck, more than half a million Americans lacked housing on any given night (National Alliance to End Homelessness, 2020). More than half of all Americans (59 percent) lived paycheck to paycheck (Charles Schwab, 2019), and more than one in ten were not sure they would be able to afford enough food for their families, which is referred to as **food insecurity** (Fisher, 2020). Single Latinx women owned just one cent for every dollar of wealth owned by White women (United for a Fair Economy, UFE, 2019), and 2.2 million Americans lived without such basic amenities as sinks, toilets, or running water (Ross, 2020).

On the other end of the economic spectrum, **chief executive officers** (CEOs) of America's largest corporations were paid 320 times as much as a typical worker at their corporations

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(Mishel & Kandra, 2020). Three U.S. billionaires: Jeff Bezos, Bill Gates, and Warren Buffett, owned as much wealth as the bottom half of all U.S. households combined (Collins et al., 2020). With such immense disparities, the United States today far surpasses in economic inequality all the other major wealthy nations of the world.

1.2.1 Income Inequality

Income is defined as money received, including wages, interest from bank accounts, investment profits, and rental payments from property ownership. According to economists Saez and Zucman (2019: 5), in 2019 the top 1 percent, the richest 2.4 million adult Americans, had average incomes of $1.5 million a year. The next 9 percent, the 22 million adults sometimes considered the upper middle class, had incomes averaging $220,000. Incomes of the next 40 percent of the U.S. population, the middle class, averaged $75,000. The bottom half of the U.S. income distribution, 122 million adults, had average incomes of only $18,500 (Saez & Zucman, 2019: 4).

The immense difference between the small incomes of half the U.S. population and the huge incomes of those at the top represents a historic reversal, as shown in Figure 1.2. In 1978, the bottom half of the population collectively brought in almost twice as much income as the wealthiest 1 percent. Today the situation is reversed, with the richest 1 percent taking in twice as much income as the entire bottom half of the U.S. population. How do you think life differs today from what it was in 1978, in terms of this shift in the income distribution alone?

1.2.2 Wealth Inequality

Wealth is different from income and refers to the total economic value of everything a person owns, minus any debts such as student loans, credit card debt, medical debt, or mortgages.

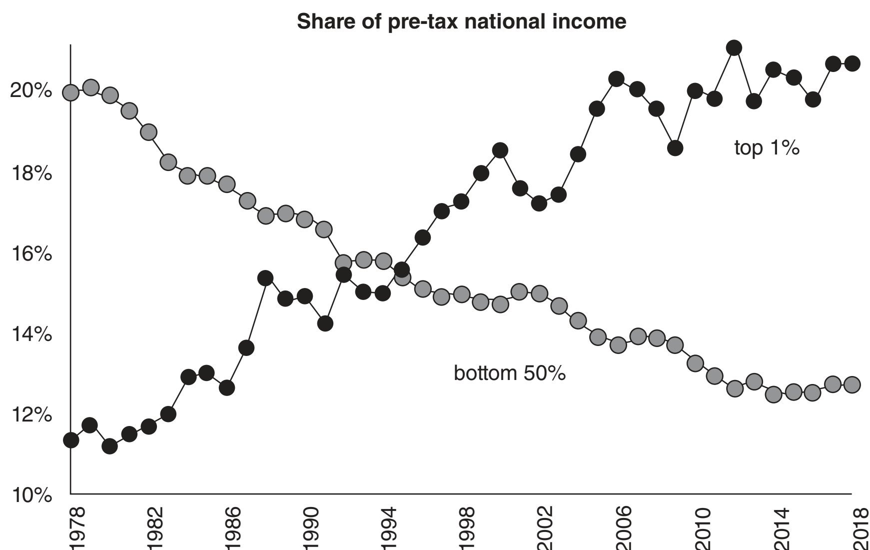

Figure 1.2 The share of pre-tax national income going to the top 1% and the bottom 50% in the United States from 1978 to 2018
Source: Saez & Zucman, 2019.

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For many of us, wealth includes our personal possessions, such as clothing, mobile phones, computers, and books, and perhaps a small checking or savings account. Many of us have **negative wealth** since our debts outweigh the value of our possessions. U.S. student debt tripled between 2005 and 2013 and now surpasses a trillion dollars (Zhang & Kim, 2019). For others, wealth includes multiple bank accounts, multiple homes, cars, stocks, bonds, and valuable artworks. Globally, 80 percent of the world's people have only 4.5 percent of the world's wealth, while the richest one percent of the world's population control more than half the wealth of the planet (W. I. Robinson, 2020).

As Collins and colleagues (2020) argue, wealth enables a family to survive unexpected financial challenges and provides the security to take risks, acquire additional wealth, and transfer wealth to children, allowing them to achieve financial stability in the next generation. The burden of debt, on the other hand, leaves people less inclined to take risks, such as starting new businesses, and graduates with student loan debt tend to choose jobs with higher pay over those that reflect their personal passions (Singer & Sussman, 2020). Young people with student loan debt are less likely to buy homes or cars and may delay marriage (Singer & Sussman, 2020). Not surprisingly, student debt is a source of psychological distress (Zhang & Kim, 2019).

Before the COVID-19 pandemic, the **median** U.S. family, with more wealth than half the families in the country, but less wealth than families in the other half, had just over $80,000 in household wealth. At the same time, the richest person in the United States (and the world), Jeff Bezos, had a fortune nearly two million times as large (Collins & Hoxie, 2018). For help in visualizing the immensity of this difference, see Korostoff, 2021.

Inequality in wealth, along with inequality in income, has risen rapidly in recent decades. Between 1990 and 2020, a period when median U.S. wealth increased 5.37 percent, the wealth of U.S. billionaires increased 1,130 percent, growing 210 faster than median wealth (Collins et al., 2020). Three families of great inherited wealth, the Walton, Koch, and Mars families, have seen their wealth increase nearly 6,000 percent since 1982 (Collins & Hoxie, 2018). During the COVID-19 pandemic, while almost 89 million Americans lost their jobs and over 724,000 Americans died of the virus, America's billionaires gained more than $2 trillion in wealth, from just under $3 trillion in March 2020, to over $5 trillion in October 2021 (Collins, 2021a).

Simply relying on their investments, wealthy families can continue to amass greater and greater wealth, while those who rely on employment income cannot hope to catch up (Piketty, 2014). At the recently increased wage of $15 an hour, an Amazon employee would need to work 2.5 million years to amass the $160 billion fortune Amazon owner Jeff Bezos had before the pandemic inflated his wealth still further (Collins & Hoxie, 2018). Between January 1, 2020, and April 15, 2020, the Bezos fortune increased by an additional $25 billion (Collins et al., 2020). Piketty's (2014) historical analysis indicates that without significant governmental action to change our current trajectory or an economic catastrophe that destroys the wealth of those at the top, those who are wealthy now will only increase their economic advantage over those who are not. Wealth disparities will become unshakeable and even greater than they are today. To learn more about the worldwide history of

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economic inequality and what we might anticipate about economic inequality in the future, watch the film *Capital in the Twenty-First Century* (Pemberton, 2019) which had Thomas Piketty's participation.

1.2.3 Gender and Racial Disparities

Within these striking economic inequalities are large gender and racial inequalities. Among full-time workers in 2021, White women earned just 79.6 percent, Black women just 63.1 percent, and Hispanic women just 58.4 percent of White men's median annual earnings, and women of all major racial and ethnic groups earned less than men of the same racial/ethnic group (Institute for Women's Policy Research, 2022). Gay men report higher salaries than lesbian women, but both report lower incomes than their non-LGBTQ colleagues, and LGBTQ adults are overrepresented among people who earn less than $36,000 a year (National LGBTQ Workers Center, 2018).

The wealth of a typical White family is nearly ten times greater than that of a Black family, and the ratio of White family wealth to Black family wealth is higher today than at the start of the century (McIntosh et al., 2020). More than 32 percent of Latinx families and 37 percent of Black families have zero or negative wealth, compared to 15.5 percent of White families (Collins et al., 2020). Median Asian wealth is higher than the wealth of Blacks and Latinx, but lower than the median wealth of White Americans (Asante-Muhammad & Sim, 2020).

Many people in communities of color face economic threats without the security of owning a home. In the lead-up to the housing crash of 2008, African American and Latinx communities were targeted by banks with **predatory subprime mortgage lending**, banking practices that offer mortgages that begin with low interest rates but then quickly move to extraordinarily high, unpayable interest rates (Bajaj & Fessenden, 2007). As the housing market crashed, foreclosures and evictions were concentrated in communities of color, which were particularly vulnerable to predatory subprime mortgage lending because banks had generally failed to offer standard mortgages in these communities. This failure, in turn, is part of a longstanding practice known as **redlining**, in which banks refuse to invest in communities of color, with consequences still felt generations later for the economic security and well-being of those living in these communities (Nardone et al., 2020).

1.2.4 Age Disparities

Economic inequality also has an age dimension. Thompson (2020) argues that baby boomers today are "the most financially secure generation in history," noting that, "the federal government already guarantees single-payer health care to Americans over 65 through Medicare. Senior citizens already receive a certain kind of universal basic income; it's called Social Security" (para 5). Meanwhile, many younger people struggle in a challenging economic climate, with few supportive government programs.

Over the last fifty years the average cost of a college education at a public university has increased 3,009 percent (Singer & Sussman, 2020). Nearly half of Americans aged 25 to 34

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have student loan debt, compared with just 16 percent of baby boomers at the same age (Thompson, 2020). Wages have not grown, and the costs of medical care, childcare, and other necessities have increased. Young Americans today are less likely to own a home than their parents were at the same age. For the first time since the Great Depression, most young adults in the U.S. live with their parents (Fry et al., 2020). Among young Black Americans, fewer than 30 percent are homeowners, the lowest rate in 60 years (Thompson, 2020). For the bottom half of the U.S. population, houses account for almost all family wealth. Without a house of their own, young Americans are cut off from this most important source of wealth building over time (Thompson, 2020).

1.3 A Difficult Economy for the Many

Navigating today's economy is difficult for most Americans. Jobs with adequate salaries, predictable hours, and decent benefits are increasingly rare. The government provides little help to struggling families or simply to those who would like to take a vacation from work, stay home with a new baby, pay for college, or survive after losing a job. Powerful monopolies destroy many small businesses and make life difficult for consumers. Even the tax system favors the wealthy.

1.3.1 Declining Minimum Wage

The U.S. **minimum wage**, the lowest wage U.S. employers are permitted to pay workers, was established in the depths of the Great Depression by the 1938 Fair Labor Standards Act to ensure "maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers" (Ruckelshaus, 2018). The Act did not mandate that the minimum wage be adjusted automatically for inflation and new legislation is required to raise it. Without adjustments for inflation the minimum wage loses purchasing power over time. The national minimum wage reached its highest inflation-adjusted value more than fifty years ago, in 1968, and was last increased, to $7.25 an hour, in 2009 (Cooper, 2019).

If worker pay had kept pace with productivity gains in the economy since 1968, today's minimum wage would be $24 an hour, a full-time minimum wage worker would earn $48,000 a year, and a household with two minimum wage workers $96,000 annually (Baker, 2020). Instead, most of the economic value of that productivity gain has gone to employers and corporations, increasing the immense wealth of the richest Americans.

If the U.S. minimum wage merely had kept pace with inflation, in 2020 it would have been close to $12 an hour (Baker, 2020). Decline in the actual value of the minimum wage disproportionately affects women and people of color, who are over-represented among minimum wage earners (Cooper, 2019). Although the federal minimum wage is still stalled at $7.25 an hour, the Fight for $15 movement has succeeded in regaining some lost ground at the local level. During 2020, minimum wages increased in twenty-four U.S. states and in

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forty-eight cities around the country (Lathrop, 2019), and the fight continues for further increases at the local, state, and national level.

1.3.2 Precarity and the Gig Economy

Even before the pandemic, employment was far more precarious for most U.S. workers than it had been a generation ago (Epstein, 2020). Labor unions have been decimated, trade deals such as NAFTA have put U.S. workers in direct competition with foreign workers who earn only a fraction of U.S. wages, and many U.S. corporations have shipped jobs overseas. In 1979 there were close to twenty million decently paid manufacturing jobs in the United States, compared to about twelve million today, when our population is almost half again as large (Epstein, 2020). Whole areas of the United States have been hollowed out, and the nation now relies on other countries to make products that were once domestically produced, including the ventilators and personal protective equipment that saved lives during the COVID-19 pandemic.

Health insurance in the United States now accounts for 60 percent of the cost of hiring a low-wage worker (Epstein, 2020), and many employers have chosen instead to employ **contract workers** whom they can hire without paying any benefits, or undocumented immigrants who have no rights at all (Epstein, 2020). We have witnessed the rise of a **gig economy** of temporary, contingent, casual, and intermittent work, in which employees have virtually no rights and employers have virtually no responsibilities. Wages before the pandemic struck were so low that about half of those who used food banks lived in households with a full-time worker, and about a quarter of adults in homeless shelters had jobs (Epstein, 2020).

1.3.3 Little Help from Government

In addition to having the highest level of economic inequality among the major wealthy nations, the United States is also the wealthy nation that provides the lowest level of public services and governmental assistance to individuals and families, while requiring corporations and employers to do the least for their workers.

Unlike every other wealthy nation, the United States does not guarantee health care to its citizens (Interlandi, 2019). Nor does it mandate even a single day of paid sick leave for workers (Miller, 2020). For most Americans, health insurance is tied to employment. These facts have had particularly tragic consequences during the COVID-19 pandemic. Yet even before the coronavirus struck, the absence of universal health care and sick leave meant that many Americans could not access medical care or survive economically when they had to leave work because of illness. Most other wealthy nations also provide far more generous unemployment benefits (OECD, 2020b) and support to families and children (OECD, 2020a) than does the United States.

The United States is the only rich nation not to guarantee workers by law a single day of paid vacation or holiday time (Maye, 2019). European workers have at least twenty paid

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vacation days each year, with some countries mandating more (Maye, 2019). Compared to the other wealthy nations, the United States does very little to help Americans afford childcare (Whitehurst, 2017) or university education (Akhtar, 2019). Of all the wealthy nations that are members of the **Organization for Economic Cooperation and Development (OECD)**, seven of which provide university education that is entirely free, the United States charges students the most to attend public colleges (Akhtar, 2019). Inevitably, many Americans are bankrupted by medical bills (Himmelstein et al., 2019) or impoverished by student debt (Hoffower & Akhtar, 2019).

As is shown in Figure 1.3, the United States is the only country among the forty-one OECD nations that does not mandate *any* paid leave for new parents (Livingston & Thomas, 2019). Note that governmental failure to support families in such ways often increases corporate profits, which is why their owners work politically to oppose such policies. These policies not only make life more difficult for the poor and middle classes, but also enrich corporation owners.

1.3.4 Destruction of the Social Safety Net

The passage of the **Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA)** during the Clinton administration in 1996 ended the federal guarantee of income assistance to poor families. The **Aid to Families with Dependent Children (AFDC) program** was replaced with **Temporary Assistance to Needy Families (TANF)**, a program that provided U.S. states funding to assist poor parents and children, along with the ability to structure their support to families in different ways (Soss et al., 2001). All state programs were required to have a time limit for benefits, but states could choose a shorter or longer maximum period of up to five years during which families could receive benefits.

States could condition the receipt of support in different ways, terminating support, for instance, if a child in the household played truant from school or lacked one or more inoculations. Some states offered more generous benefits than others, and some states instituted more draconian restrictions on benefits than others (Soss et al., 2001). States with larger Black and Latinx populations adopted the least generous and the most punitive TANF regulations, exacerbating racial disparities in poverty (Muennig et al., 2015; Soss et al., 2001).

After the transition from AFDC to TANF the number of families receiving income assistance from the government dropped precipitously (Muennig et al., 2015). TANF was instituted at the height of a booming economy. Later, however, the economy crashed, making it much more difficult for poor parents to obtain decent jobs. Studies examining the impact of TANF on parents and children have shown that many participants, especially those with young children at home, a large family, or disabilities, were unable to get jobs (Muennig et al., 2015). Parents who needed assistance after their state's time limit had no options other than the market economy or the assistance of family and friends, who were likely also to be impoverished. The incomes of the poorest U.S. families plummeted (Muennig et al., 2015).

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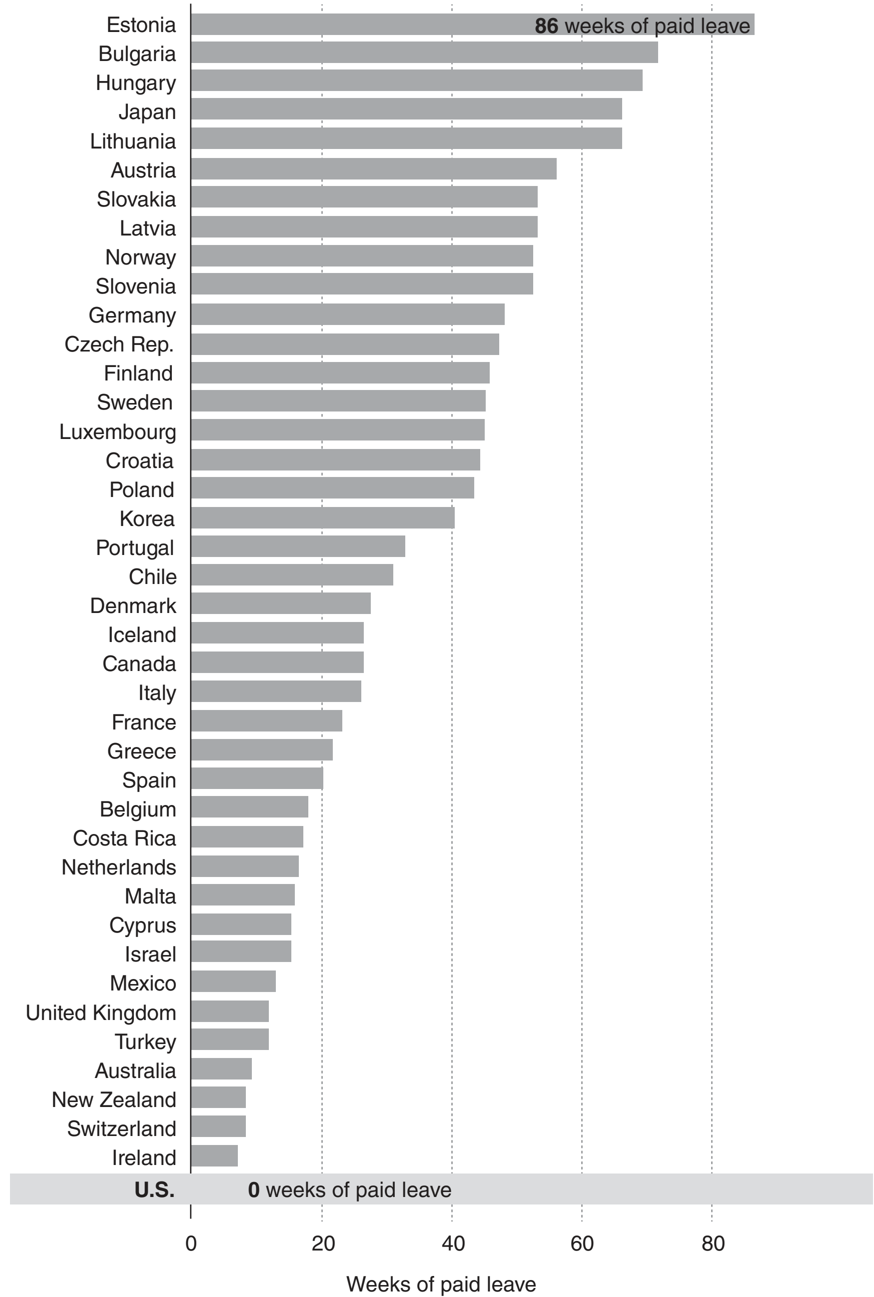

Figure 1.3 Total weeks of paid leave mandated by national government for new parents, including maternity leave, paternity leave, and parental leave entitlements in place as of April, 2018.
Source: Pew Research Center, from OECD Family Database.

1.4 Wealth and Power for the Few

1.4.1 Tax Injustice

Although individuals and families in the United States receive few benefits from the government for their tax dollars, the U.S. tax burden in recent years has been shifted from

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