

Al-Jazeera: Cross-Cultural Understanding

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US Recession Widens Income Gap Among Americans

Why recession could widen U.S. income gap

By Matthew Rusling

WASHINGTON, Sept. 21, 2010 (Xinhua) --

That an income gap between rich and poor exists in the United States is nothing new, as the space between the "haves" and the "have-nots" has grown over the last three decades.

But with unemployment still hovering near the double digits and showing no sign of falling, that disparity could widen even further, as a growing number of households could drop into the ranks of the poor, according to some experts.

Indeed, recently released U.S. census data showed a jump in the number of households living in poverty - defined as a family of four earning less than 22,000 U.S. dollars a year - to 14.3 percent in 2009, up from 13.2 percent the previous year. And those numbers could rise further if the economy does not turn around soon, some experts said.

At the same time, the number of millionaires grew this year. According to the Phoenix Affluent Marketing Service, the number of households with liquid assets of 1 million U.S. dollars or more grew 8 percent in the 12 months preceding June, although the figure stands at less than 2007 levels of millionaires.

"Unemployment doesn't hit everyone equally," said Isabel V. Sawhill, senior fellow at the Brookings Institution. "It hits people with the least amount of skills

and education and experience much harder than it does the reverse. So you'd expect a recession to lead to greater inequality in income, bigger gaps, for sure."

While high earners are not immune to the sting of recession, the impact on them is less severe, she said.

Tess Stovall, senior policy advisor at Third Way, said that unless the economy makes a significant turnaround over the next year, lower-middle class families could slip out of the middle class and into the working poor. But even solidly middle-class families will 'feel' poor even if they are not technically in poverty because of the massive amount of personal wealth lost during the recession, she said. Americans lost nearly 26 percent of their net worth during the recession, and even though the economy has picked up in the last year, Americans' net worth is still down nearly 19 percent from pre-recession levels, she said.

If the current economic climate persists, middle-class families will continue to struggle to get ahead and to afford traditional middle-class aspirations such as quality child care, college for their children, or a comfortable retirement, she said.

Meanwhile, people with highly marketable skills in this information economy tend not only to be wealthier and less prone to layoffs, but many have increased their wealth throughout the recession, according to some analysts.

IS BUSH OR OBAMA TO BLAME?

But has the government contributed to growing income disparities?

Stovall said former U.S. President George W. Bush's economic policies were largely aimed at providing tax cuts to millionaires while shortchanging programs for the poor. U.S. President Barack Obama's policies, in contrast, have prevented the poverty rate from increasing even higher by providing additional funding to programs targeted at those at or near the poverty line, she said.

Daniel J. Mitchell, senior fellow at the Cato Institute, noted that Bush increased the size of government, which makes it harder for the economy to prosper, but

noted that Obama is doing the same.

"Obama' s policies will make things worse because they are basically the same as Bush' s policies. The only difference is Bush had a few tax cuts. But otherwise he was more spending, more regulation, more regulation," he said.

Obama' s big spending will also do little to help the economy, he said.

"I think Bush hurt the economy overall, which of course is bad for all income groups, and Obama is just doing the same thing."

Mitchell said he is not so sure the income gap is growing. Incomes rise and fall together, he said, adding that if the bottom 20 percent is faring poorly, the top 20 percent is becoming worse off as well.

And those at the bottom and top are not the same people over time, as there is a considerable mobility among income groups, he said.

Other factors have contributed to the wealth gap over time, but the recession may have exacerbated them, some analysts said.

One is education, as different levels of schooling have contributed to increasing income disparity over the last several decades.

"Now you need an undergraduate degree to stay in the middle class - if you' re lucky - and you need a graduate degree to even hope to move up in income strata," said Diane Swonk, chief economist at Mesirow Financial.

SINGLE INCOME IN A DOUBLE INCOME ECONOMY

The surge in single parents has also widened the income gap in the long run, Sawhill said, and the recession likely put even more economic strain on single-earner households.

With one earner instead of two, such families tend to be headed by women, who on average earn less than men, she said.

"So you put all those factors together and their incomes are a fourth or a fifth as high as two parent families," she said. "So as you get more of them you get more income inequality."

Editor: Fang Yang

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