

Research on the Causes and Optimization Strategies of the Wealth Divide in the United States

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Abstract: The gap between the rich and the poor refers to the difference in the distribution of wealth between individuals and families. Wealth inequality is a serious problem in the United States, as the billionaires in the US have become even richer, while the lower earners are experiencing fewer economic opportunities and mobility. The factors that raise the wealth gap include billionaires and corporate power are intensifying inequality; slavery, immigration problems, and Japanese internment camps are increasing the wealth gap, and slavery plays a vital role. Furthermore, the richest people have the power to cut their tax rates to an extremely low level, and their children are accumulating more and more wealth. To solve the wealth inequality, there are several possible methods. Firstly, the taxes should be increased permanently for the richest 1 percent and the biggest corporations. Secondly, the governments require both a progressive taxation scheme and a revolutionary national investment in African American families and communities on the richest people in the US. Lastly, it can also be beneficial to raise the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) to narrow the wealth gap caused by taxation inequality.

Keywords: Wealth Gap, Inequality, Economic Growth.

1. Introduction

1.1. Research Background

It is well acknowledged that the United States has a serious problem of wealth inequality. Over the last few decades, there has been a significant increase in the difference in income between the rich and the poor. The wealthiest 10% of Americans now account for over 50% of all household income in the country. In addition, with a cumulative wealth of more than \$600 billion, millionaires in the US have grown considerably wealthier, resulting from the COVID-19 pandemic. At the same time, job losses totaled incalculable numbers of Americans. Economic inequality always matters. According to the studies, a growing wealth gap between the rich and the poor will lead to higher poverty rates, political polarization, more household debt, and a greater risk of financial crises. Some people think that because of the increasing wealth inequality, people who are at the inferior level of the monetary structure will probably face decreasing financial chance and flexibility. Furthermore, there is a political influence on the disadvantaged both in terms of the separation of regions based on earnings and in terms of financial expansion itself. In such a case, the importance of investigating why the huge wealth gap exists and finding ways to narrow the gap cannot be ignored.

1.2. Literature Review

Amladi proposed that billionaires and corporate power are intensifying global inequality. She pointed out 6 ways that corporate power causes income inequality to become worse. When businesses use their power to resist labor laws and programs that will help workers, for instance, they are contributing to income disparity. The number of workers who are unable to keep up with inflation has reached 800 million worldwide, while earnings for corporations are increasing simultaneously. A \$1.5 trillion loss emerges for the workers in this instance.

According to Johnston, there is a correlation between increased rates of stress, mental illness, and criminality with wealth inequality. Furthermore, the historical social evils, including immigration issues and slavery, all contribute to the widening gap between the rich and the poor. The poor economic situation which resulted from World War II led to new policies that benefited the rich. Furthermore, the new income tax actually had little influence on narrowing the disparity in wealth between the wealthy and the impoverished, notwithstanding a \$3,000 personal exemption, which was included in the passed income tax bill, aiming to ensure that only the richest people would be taxed.

During the pandemic's first 19 months, the American millionaire's wealth increased by \$2.1 trillion, and the number even continues to increase and increase. In addition, wealthy people possess the political clout to reduce their own taxation to almost nothing. For instance, the world's richest man, who is Jeff Bezos, did not pay any income taxes in 2007 or 2011. Also, by years later, the 400 richest people in the United States had paid a total tax rate that was indeed lower than that of almost everyone else.

Most of the articles mainly researched the historical factors that led to the widening gap between the rich and the poor. In contrast, only a few articles focus on the possible factors that have arisen in recent years.

1.3. Research Framework

First of all, explain what the wealth gap is, explain the definition of the wealth gap in detail, and explain its background. Then, this paper will talk about the current state of the wealth disparity in the United States and the gravity of the crisis. Next, inquire as to why such a huge disparity exists between the wealthy and the underprivileged in the US. Why is there a greater disparity between the rich and the poor in the US than in other nations? Then, list all the factors that might contribute to the wealth gap in the United States. Finally, this paper comes up with the question of how to solve the problem of the gap between the rich and the poor. List several of the most effective ways to reduce the wealth gap in the United States and explain their feasibility.

2. Case Description

The gap between the rich and the poor in the United States is a growing problem. It refers to the difference in the distribution of wealth between individuals and families. According to the Census Bureau, after adjusting for inflation, the typical family in the United States had an earnings grow from \$58,000 in 1989 to \$69,000 in 2019. Households in the 80% percentile faced an earning growth nearly twice as swiftly, from \$107,000 to \$143,000. The "Gini coefficient," a gauge of income disparity, is also computed by the Census Bureau. It discovers that it has been progressively increasing in the US for a number of periods. According to the OECD, which announces that the US Gini coefficient is the highest among all of the developed countries, based on the data they get from collecting the Gini coefficients for all of its members. In addition, the highest one-fifth of households have seen an increase in liquid net worth of about \$500,000 during the last 30 years. But at the same time, households in the middle quintile had a debt increase, which was faster than their financial assets.

There are a lot of factors that led to the increase in the wealth gap. To begin with, income inequality caused the wealth gap. People who have higher incomes or significant investments can benefit from increasing wealth accumulation. Secondly, education also played an important role in accelerating the wealth gap. This is because if people receive higher education and professional skills, they will be able to have a higher paying job, and thus, the wealth gap will become larger and larger. Moreover, inheritance and inter-generational wealth gain contribute to the widening wealth gap. Families that have accumulated wealth will probably pass it on to the next generation, which will cause the wealth gap to continue to widen. Furthermore, the market returns should also be taken into consideration, as people who invest a lot will benefit more from stock market returns and other financial returns.

3. Analysis on the Problem

3.1. Reasons for Analysis of the Problem

3.1.1. Billionaires and Corporate Power Aggravating Inequality

The gap between the rich and poor in the United States is getting worse these days. To begin with, the billionaires and corporate power are intensifying global inequality. Amladi found that corporations and billionaires are increasing their wealth at shocking rates, but at the same time, the rest of the people in the United States are suffering the consequences of their greed [1]. There are 6 ways that the corporate power is making wealth inequality worse. First of all, by using their power to fight labor laws and programs that will benefit workers, the firms are contributing to income inequality. A mere 0.4% of the biggest companies globally have made an accessible declaration to provide their employees with a livable salary and to ensure that adequate salaries are maintained throughout their supply chains [2]. Globally, there are about 800 million workers who are unable to keep up with the rate of inflation, while earnings for corporations are increasing. The workers in this scenario lose out on \$1.5 trillion.

3.1.2. US Social Ills Like Slavery Can Widen the Wealth Gap

Secondly, Johnston found that the US has a lot of social ills, such as slavery, immigration problems, and Japanese internment camps, and all of these correlate with high levels of income inequality [3]. In fact, the historical enslavement of Americans and the current income inequality are clearly related. A tight intersectant correlation exists between the 2000 Gini coefficient of income disparity and the 1860 one of land imbalance. This correlation between the two Gini coefficients is extremely stable, and it lays the foundation for the influence of historical slavery upon contemporary wealth disparity. In addition, Johnston also found that the new income tax actually had only little influence on narrowing the wealth gap between the rich and the poor, even though there is a \$3,000 personal exemption, which was included in the passed taxation, intending to guarantee that the wealthiest individuals would be subject to taxes [4]. Given the minimal maximum marginal rate of taxation, which is 7% upon earning beyond \$500,000—roughly \$14.7 million in 2023 inflation-adjusted dollars—the new income tax clearly had very little impact on capping incomes. In addition, income disparity increased until 1916. Following that, the top rate was modified in later years, rising to a peak of 77% on incomes over \$1,000,000.

3.1.3. Taxation Inequality: Richer People Paying Less Taxes

First off, in the first 19 months of the pandemic, in the United States, the billionaires' wealth increased by \$2.1 trillion, and this number even continues to increase and increase. In addition, the rich people have enough political power to cut their own taxes to approximately zero. For instance, the world's

richest man, who is Jeff Bezos, paid zero income tax in both 2007 and 2011. Also, by 2018, the 400 richest people in the United States had paid a total tax rate that was indeed lower than that of almost everyone else. Furthermore, the increasing wealth of the wealthy permitted them to pass on an increasing amount of riches to their offspring. The Waltons, for example, are the family who founded the Walmart business. Indeed, seven of its heirs are listed as billionaires on Forbes. In such a scenario, the wealth of the country will be further concentrated by the offspring of these individuals and other wealthy millennials. The greatest wealth transfer between generations is about to occur in US history. Between \$30 and \$70 trillion will pass to the children of the wealthy baby boomers over the next few decades.

3.2. Negative Influences Caused by the Wealth Gap

3.2.1. Damaged Economic Growth and Political Dysfunction

The difference in wealth between the wealthy and the impoverished in America does have several negative influences that American people should be aware of. First of all, Siripurapu found that wealth disparity will drive political turmoil and hinder economic progress [5]. Due to the fact that affluent households often utilize a greater percentage of their income than do the less fortunate ones, consolidated riches, and earnings can lead to a decline in the amount of demand in the economy. In addition, the reduced opportunities for households with low incomes can also hurt the US economy. Siripurapu also found that the US economy will suffer if individuals at the lowest level of the income distribution are more likely to fall short of their potential. This will not only result in less demand in the now but also in slower growth in the future [6]. The rich in the US are able to invest a lot of money in political activities so that they can have a larger influence on the government. Under this circumstance, the wealthy will further augment their power, which is already enormous.

3.2.2. Racial Gap Has a Negative Impact on Education

Secondly, Mineo found that one of the factors that lead to income inequality in the United States can be race, and this income inequality between black and white people in the US has been persistent [7-9]. The racial wealth gap can result in disparities in income, health, education, and opportunity that continue to harm the economy. Mineo further found that speaking of education, the racial wealth gap has a huge negative impact on education, as it diminishes opportunities for families who earn comparatively low income and for children of color [10-12]. The increasing serious economic inequality caused residential and academic segregation based on earning, as well as widening disparities in academic assets and prospects between high- and low-income households. In such a case, the inequality will create hazards to the US public education's promises that they initially planned to offer equal chances for children to have a higher quality of life compared with their guardians. Moreover, many political experts agree with the statement, saying children who grow up in poverty, put forth a lot of effort at work, and seize opportunities would be able to earn more and have much higher living standards compared with their parents. Nevertheless, this statement is becoming less reliable nowadays. Furthermore, absolute mobility, which refers to the fraction of children who earn more than their parents, has decreased dramatically in the US over the past half-century, mainly resulting from the growth in the wealth gap.

4. Suggestions

Firstly, the number of billionaires and big corporations is increasing by around \$2.7 billion a day. At the same time, at least 1.7 billion workers are now living in countries where inflation is outracing wages. In addition, a tax of up to 5 percent on the multimillionaires and billionaires in the world is

able to increase \$1.7 trillion a year, enough to lift 2 billion people out of poverty. In this case, to narrow the wealth gap caused by the billionaires and corporate power, the United States government has the permission to impose permanent tax increases on the wealthiest 1 percent of people as well as the largest corporations. The governments may, for example, adopt a policy placing higher tax rates on multimillionaires and billionaires, requiring them to pay 60% or more of their wealth from capital and labor. Due to their lower tax rates than other types of income, capital gains should be subject to an unusually high tax rate from the US government. To redistribute the limited resources, the US government has the authority to apply additional taxes at amounts sufficient to completely erase wealth, as well as numbers among the wealthiest 1 percent, followed by the largest corporations. Governments can use a number of ways, such as by enacting taxes on inheritance, land and property, and net wealth.

Secondly, aiming at eliminating the racial wealth gap, the governments not only require groundbreaking support for Black families and communities, but we also require a progressive taxing scheme, which will be imposed on the wealthiest people in the United States. A comprehensive agenda to avoid the racial wealth gap will include reforms to income and estate taxation, as well as new taxes on wealth and inheritance, which all depend on a substantial investment in order to enforce. The progressive taxation of wealth will be an effective strategy for racial equality because it can directly decrease the portion of the racial wealth gap that exists at the top of the economic ladder. Moreover, public sector jobs are an infrequent source of possibilities and security for black individuals and their families. Job opportunities in the public sector can provide black workers with far greater financial stability than they can obtain from work in the private sector. Stable employment, predictable pay, a reliable workplace, as well as additional safeguards for public sector employees will become the black laborers' primary main supplier of security. Under this circumstance, indicating a disproportionate decline in job possibilities for Black workers is the slowing rise in occupation in the government, particularly during the aftermath of the Great Recession.

Last but not least, tax policies play an important role in narrowing the wealth gap caused by taxation inequality. Increasing the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) is one of them. Parents who qualify for the kid Tax Credit can receive a \$2,000 credit for each kid. However, it excludes the poorest compensated from being given the entire honor. Moreover, this refund is not available to parents who do not have taxable wealth. Refunding the CTC will enable parents without income to get the entire amount, so serving as a child grant for parents whose income falls below a specific threshold. This will benefit the lowest-earning families the most. Governments are, therefore, able to successfully lower child poverty. In addition, work status and the number of children are used in the Earned Income Tax Credit calculation. Since it was founded in 1975, it has been successful in lowering poverty. In addition to improving divorced parents' employment, the project's increased spending has also benefited the education and well-being of the kids.

5. Conclusion

5.1. Key Findings

To sum up, several factors can increase the gap between the poor and the rich in the US. Firstly, the billionaires and corporate power are intensifying inequality, and by using their influence to fight labor laws and measures that will help workers, the firms are generating income disparity. Moreover, slavery, immigration problems, and Japanese internment camps can increase the wealth gap, and slavery has an especially strong relationship with the wealth gap. Lastly, the richest people have the power to cut their tax rates to an extremely low level, and their children are becoming richer and richer. Correspondingly, there are possible solutions. One of them is to raise taxes on the wealthiest 1% of taxpayers and the biggest corporations indefinitely. Secondly, the governments need both an

equitable taxing scheme and a revolutionary input in Black families and communities on these richest people in the United States. Furthermore, expanding the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC) can also help to reduce the wealth gap caused by taxation inequality.

5.2. Research Significance

The United States has a serious problem of wealth inequality. In the past few decades, over 50% of the family income in the United States is owned by the richest 10% of the population, and the difference between the rich and the poor has been widening quickly. The wealth gap slows down the growth in the US, and the income inequality causes top earners to have experienced more rapid income growth while bottom earners are left behind. The benefits of narrowing the wealth gap come in many different forms, from economic growth to public safety to community cohesion to educational achievement. For instance, as the racial gap in a region decreases, its GDP will rise, the homicide rate will decline, and the number of bachelor's degree recipients will increase.

5.3. Limitations

This article still has several limitations. Firstly, some of the solutions suggested may not be realistic for the current situation in the US, as the wealth gap has continued to grow for many years. In the future, researchers can take more field trips to learn more about the realistic situations of lower earners, which will result in coming up with much more effective methods for the US government to narrow the wealth gap.

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