

REMEDIES

contribute to differences in education, for wealthier citizens and communities can afford to spend more on the education of their children, and do so. As a result, differences in influence are somewhat self-maintaining.

The Extent of Economic Inequality among Americans

That gross economic inequality has persisted among Americans for many generations is hardly an obscure or even highly contestable fact. In the 1890s the Farmers' Alliance and the Populists publicized data showing great inequality in the distribution of wealth and income. Scholars also published estimates; in 1893 one political economist calculated that 0.33 percent of the population owned 20 percent of the national wealth, while 52 percent owned only 5 percent (Pollack 1962, 76). Since that time, and particularly during the last twenty years or so, the data have become more reliable, more easily accessible, and probably better known. Familiar as they may be, the figures bear repeating.

Despite widespread views to the contrary, the net effect of taxes and transfer payments in altering the distribution of wealth and income has been comparatively modest. This is not to say that transfer payments are of trivial importance, for they are not. As in many European countries, in the United States taxes and transfer payments have become important instruments of public policy. As a proportion of total personal income, transfer payments nearly doubled between 1965 and 1977, increasing from 7.6 percent in 1965 to 13.8 percent in 1977. Most of this increase was in retirement benefits, which constituted 6.4 percent of personal income in 1965 and 11.3 percent in 1977. However, transfers of other kinds—primarily unemployment compensation and income maintenance programs, including food stamps—also increased (U.S. Census Bureau 1980, 446). The main effect of transfer payments on incomes, then, has been to sustain the incomes of the elderly and the bottom fifth of households (Thurow 1980, 157–60).

After half a century of the American welfare state, however, the after-tax distribution of wealth and income remains highly unequal.

REMEDIES

Because the largest share of transfer payments draws on payroll taxes, which are progressive only in the lower range of wage and salary income and regressive beyond that range, the main effect is to redistribute income within the bottom half, principally from employed workers to retired and disabled persons. The bottom one-fifth of households, which received 4.1 percent of per capita household income in 1948, still received only 5.6 percent nearly three decades later in 1977 (Thurow, *ibid.*). These figures do not include income from accrued capital gains, which more than double the income share of the top 1 percent of all households (Pechman and Okner 1974, 46; Thurow, 168). Of course capital gains reflect wealth. Though wealth is even more unequally distributed than income, like income the distribution of wealth has not undergone much change. The top 1 percent of Americans owned 23.3 percent of personal wealth in 1945 and 20.7 percent in 1972. About 4 percent of the adult population own more than a third of all financial assets. The top 1 percent own 57 percent of all corporate stock, 60 percent of all bonds, and 26 percent of all net worth (U.S. Census Bureau 1980, 470). It is sometimes contended that figures like these exaggerate inequality because people acquire wealth as they grow older, and inequality in wealth is therefore mainly a function of age. The fact is, however, the wealth is distributed just as unequally within age groups as for the adult population as a whole (Smith et al. 1973, 7).

Sometimes findings like these are thought to demonstrate the existence of a ruling class. They do not. What they demonstrate is the existence of great inequality in the distribution of economic resources; and insofar as economic resources are convertible to political resources, the figures also demonstrate severe inequality in the distribution of political resources. There is no satisfactory formula for specifying an average rate at which economic resources can be converted into political resources. Probably none can be constructed. But consider the following. In 1969, the latest year for which good data seem to be available, the average net worth of all adults, or 122 million persons, was \$25,000. For 95.6 percent of all adults, comprising 117 million persons, it was \$17,000. At the same