

# *Causes and Effects of the Wealth Gap in the United States*

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**Abstract:** The United States, as the world's largest economy, also stands out as one of the Western nations with the most pronounced wealth gap, long trapped in a vicious cycle where the rich continue to grow richer while the poor become poorer. This predicament profoundly impacts social equity and justice, simultaneously hindering the comprehensive and healthy development of the economy. Since the outbreak of the COVID-19 pandemic, despite the massive fiscal and monetary stimulus measures undertaken by the US government, these initiatives have failed to effectively benefit the underprivileged, instead offering billionaires opportunities to expand their wealth portfolios, thereby widening the chasm of the wealth gap even further. Unlike previous studies that focused solely on individual or specific categories of countries, this paper endeavors to comprehensively and deeply analyze the current state, underlying root causes, and widespread consequences of the wealth gap in the US. In addition, this paper puts forward targeted policy suggestions based on the unique national conditions of the US, including strengthening the implementation of anti-monopoly law, promoting the reform of electoral system, optimizing tax policy and so on. These policy recommendations aim to provide both theoretical foundations and practical guidance for alleviating the wealth gap, thereby promoting social equity and ensuring sustainable economic growth.

**Keywords:** wealth gap, fairness, economic impact, social unrest.

## **1. Introduction**

In the context of globalization, the rapid economic development of various countries is accompanied by the widening wealth gap. This phenomenon not only exists in developing countries, but also has a significant impact on developed countries. With the progress of science and technology and the deepening of globalization, the tendency of concentration in capital and resources is intensified, which leads to the uneven distribution of social wealth, and then causes a series of social and economic problems. The difference between rich and poor is not only an economic problem, but also a profound social problem. It is related to the stability and harmony of the society and affects the quality of life and future development of everyone. The widening wealth gap will lead to the solidification of social classes, hinder social mobility, and reduce overall social efficiency and innovation. In addition, poverty and inequality can increase social tensions, lead to increased crime rates, and affect social stability. Therefore, it is of great significance to pay attention to and strive to narrow the wealth gap to achieve social equity and promote sustainable economic development.

The academic research on the national wealth gap mainly focuses on the influencing factors, economic consequences, countermeasures and other aspects. In terms of influencing factors, many scholars mainly focus on factors such as economic growth, technological progress, economic globalization, and income redistribution policies intervened by governments. Some scholars argue that the current wealth gap in developed countries is mainly due to the decline in the employed population in the national manufacturing sector caused by economic growth and industrial structure upgrading [1]. As a result, the shift of labor from the manufacturing sector to the service sector will create a larger proportion of low-income people, thus aggravating the wealth gap. Other scholars argue that most high-income countries are experiencing an intensification of the wealth gap, and factors related to economic globalization such as international trade and capital flows are important driving forces [2]. For the United States, a sound public policy system has greatly eased the social pressure of the income gap in the United States, and public policy is closely related to the actual income gap [3]. In terms of economic consequences, it is believed that the main impact of the widening wealth gap in a country is social unrest, unemployment, and the decline of residents' quality of life. A study in Egypt found that resident income inequality is a key issue, which can lead to social unrest and instability in the long run [4]. Some studies have also confirmed that income inequality significantly reduces the overall consumption level of residents, and there is significant heterogeneity in this negative impact. That is, the relationship is more significant in developed and rich countries [5]. In terms of countermeasures, many scholars believe that when the income gap of residents in a country widens, it is necessary to adopt policies such as taxation, transfer payment and education to narrow the income gap of residents or control the further expansion of the income gap.

To sum up, the current academic research on the income gap is abundant, but there is still a lack of systematic research on how a specific type of country or a certain country deals with the crisis of the widening gap between the rich and the poor. Little literature has proposed concrete practical measures to solve the problem of the widening gap between the rich and the poor. This paper systematically and comprehensively analyzes the current economic development situation of the United States, and analyzes the main causes, changing trends and economic consequences of the gap between the rich and the poor in combination with the national conditions of the United States. Finally, the paper puts forward some policy suggestions for the widening gap between the rich and the poor in the United States.

## 2. Overview of Economic Development in the United States

The United States, as the world's leading economic giant, has an unshakable economic position, and its GDP has maintained a long-term growth trend.

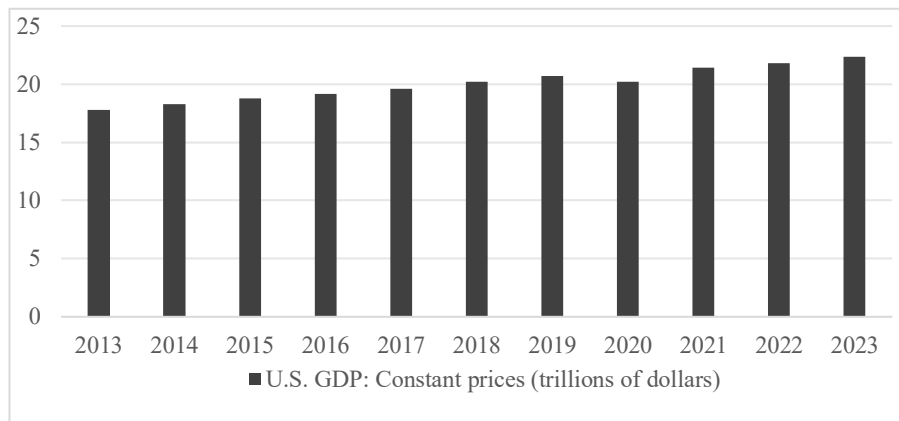


Figure 1: US GDP from 2013 to 2023.

As shown in Figure 1, in constant prices, the Gross Domestic Product (GDP) of the United States in 2013 was \$17.81 trillion. Overall, US's GDP has grown by 26% over the past decade, a net gain of \$4.5 trillion. However, with the economic growth, the problem of the wealth gap has become increasingly prominent. For a long time, American society seemed trapped in an inextricable cycle of concentrated wealth for a few while the majority of the population struggled economically, creating an inequality pattern of "the strong getting stronger and the weak getting weaker," a trend that continues to this day.

The Gini coefficient, an important measure of wealth gap, has continued to rise in the United States in recent years. According to the World Bank, the Gini coefficient in the United States was 0.353 in 1974 and would exceed the international warning level of 0.4 by 2023, indicating a serious wealth gap. Since the COVID-19 pandemic swept the world, the US government has responded quickly with unprecedented fiscal and financial stimulus aimed at mitigating the economic impact of the pandemic and supporting people. However, the actual effects of these measures have not reached all segments of society as expected, especially those already on the economic margins. Instead, these massive infusions of money appear to have given a small number of billionaires a wider arena to take advantage of market volatility and policy dividends to further consolidate and expand their fortunes, leading to an ever more unequal distribution of wealth in society [6].

### 3. Factors Widening the Wealth Gap

The gap between rich and poor in the United States is a complex and multidimensional problem, whose roots can be traced back to the national, political, economic and cultural background of the country. Capital monopoly is the most fundamental cause of the wealth gap in the United States. Since the second half of the 19th century, the United States has experienced a transition from liberal capitalism to monopoly capitalism, with expanding capital, rapid industrial development, and a surge in economic aggregate. In this process, capital monopoly has been deepened, and a large amount of wealth has been concentrated in the hands of a few capitalists and large consortiums. Even today, capital monopoly is still an important factor leading to the wealth gap. Excessive market concentration in some industries enables a small number of enterprises to control market prices and obtain excess profits, which often go to corporate executives and shareholders, further exacerbating the wealth gap.

Electoral politics is an important contributor to the growing wealth gap in the United States. The tendency of the American electoral system to be monetized is increasingly obvious, and the election cost is constantly rising. The wealthy class, through their huge political contributions and campaign funds, are able to influence the political agenda and policy making in order to safeguard their interests. This "money politics" makes government policies tend to favor the rich and ignore the needs of the poor and middle class. At the same time, the polarization of American politics has exacerbated the wealth gap. The growing differences between the two parties on tax policy, social welfare and other issues have led to gridlock in policy making. Under such circumstances, it is difficult for the government to introduce effective policies to reduce the wealth gap.

Unfair government policies are a key driver of the widening wealth gap in the United States. There is unfairness in US tax policy. Some of the rich have reduced their tax payments through various tax incentives and tax shelters, that the poor tend to pay relatively higher taxes because of their lower incomes. This unfair tax policy further aggravates the gap between rich and poor. Although the United States has certain social welfare policies, these policies often fail to effectively cover all groups in need of help. For example, low-income households are under greater pressure to spend on education, medical care, and the assistance provided by the government is often insufficient to meet their needs.

The weakening of labor unions is also an important factor in the widening wealth gap in the United States. Trade unions are an important force in safeguarding workers' rights and interests, promoting

wage growth and improving working conditions. In the United States, however, union power has been eroding in recent years. On the one hand, some enterprises take various means to restrict the development of trade unions. On the other hand, some workers do not have a high level of awareness and participation in trade unions. The weakening of union power has left workers in a weak position in wage bargaining and labor rights protection, which in turn has exacerbated the wealth gap.

Longstanding racial discrimination has led to a further widening gap between the rich and poor in the United States. Racial discrimination has long existed in American society, which is one of the important factors leading to the wealth gap. Minorities such as blacks, Hispanics, or Latinos often face unfair treatment in employment, education, health care, etc., which makes it difficult for them to obtain the same economic opportunities and development space as whites. Although racial discrimination is legally prohibited in the United States, it still exists. Minority households on average earn far less than white households and have far less net wealth than white households. This interracial inequality further contributes to the wealth gap in the United States.

#### **4. Social and Economic Impact of Wealth Gap**

The widening wealth gap is one of the main reasons for the deepening of the social crisis in the United States. Social unrest, rising unemployment, severe violent crime, and declining quality of life of residents are all closely related to the widening wealth gap.

Social unrest has increased. The United States has seen a number of demonstrations in recent years over the widening wealth gap. From the Occupy Wall Street movement in 2011 to the Black Lives Matter marches against police brutality in the US in 2020, some demonstrations have even turned violent [7]. The mass demonstrations reflect the struggle of the bottom of the American people against racial discrimination, class solidification and wealth division. During the epidemic, the US government implemented several rounds of economic stimulus policies and issued large amounts of subsidies, which alleviated social conflicts in the short term, but accumulated a longer-term debt crisis and inflation pressure that is more difficult to handle.

Unemployment remains high. The US labor market has shown a trend of polarization against the backdrop of increasing inequality between rich and poor. On the one hand, the demand for talents in high-paying industries such as high-tech and finance continues to grow, but the threshold is high, making it difficult for many low-skilled labor to enter. On the other hand, low-wage jobs such as traditional manufacturing and service industries have been largely lost due to automation and globalization, leading to the risk of unemployment for a large number of middle and low-income groups. Although the government has adopted a series of economic stimulus measures, these measures often fail to reach the unemployed who need help the most, which keeps the unemployment rate at a high level for a long time and exacerbates social inequality and instability.

Violent crime is up. The widening gap between rich and poor leads not only to economic inequality, but also to psychological discontent and anger. Some poor and marginalized groups have resorted to extreme behavior because they have no hope in life, and violent crime rates have risen as a result [8]. At the same time, the intensification of racial discrimination and class solidification has also intensified social tensions, making conflicts and confrontations between different groups more frequent. These violent incidents not only threaten the personal safety of residents, but also undermine social harmony and stability, further aggravating social unrest and unease.

The quality of life of residents has declined. The widening wealth gap directly affects the quality of life of residents. Low-income families often struggle to afford the high costs of health care, education, housing, etc., leading to a general decline in the quality of life. They may face malnutrition, health problems, lack of educational resources and other difficulties to enjoy the same standard of living as the rich class [9]. In addition, due to the great economic pressure, many families have to cut non-essential expenses and reduce activities such as entertainment and travel, making life more

monotonous and depressing [10]. This decline in quality of life not only affects the individual well-being of residents, but also weakens the overall cohesion and vitality of society.

## 5. Policy Recommendations

To effectively address the wealth gap in the US, concerted efforts and collaboration among the government, society, and businesses are indispensable. This requires strengthening antitrust regulations, reforming the electoral system, optimizing tax policies, restoring the power of labor unions, and eliminating racial discrimination. Through these comprehensive measures, the wealth gap in the country can be gradually narrowed, thereby fostering social equity and harmony.

First of all, it is imperative to strengthen oversight on capital monopolies by leveraging antitrust legislation and implementing industry-specific regulatory measures. This aims to dismantle market monopolies and reduce market concentration, thereby preventing a small number of enterprises from manipulating market prices to gain excessive profits. Furthermore, ensuring the fairness and efficiency of market competition is crucial in decelerating the concentration of wealth among a select few capitalists and large financial conglomerates.

Secondly, in response to issues in electoral politics, it is necessary to advance electoral system reforms, aimed at diminishing the influence of political donations on election outcomes and implementing a more transparent oversight mechanism for campaign finances. Moreover, efforts should be made to encourage greater public participation in political decision-making processes, ensuring that government policies broadly reflect the interests of all social strata, and mitigating policies that disproportionately favor the wealthy. Additionally, endeavors should be undertaken to mitigate political polarization and foster cooperation and compromise between parties. At the same time, efforts should be made to ease political polarization, promote cooperation and compromise between the two parties in tax policy and social welfare, break the deadlock in policy making, and create a favorable environment for narrowing the wealth gap.

Thirdly, tax policies should be optimized to improve the fairness and effectiveness of taxation. By adjusting personal income tax, corporate income tax and other taxes, the tax burden on high-income people should be increased, while the tax burden on low-income people should be reduced, so as to achieve horizontal and vertical fairness in taxation. In addition, the crackdown on tax avoidance by the rich should be strengthened to prevent them from evading tax responsibilities through various means. At the same time, social welfare policies should be improved to ensure that the basic needs of low-income families in education, medical care, housing and other aspects are met, and their living burdens should be reduced.

Fourth, attention should be paid to the recovery and development of trade union power. Legislation will be adopted to protect the legitimate rights and interests of trade unions, to crack down on enterprises restricting the development of trade unions, and to increase workers' awareness of and participation in trade unions. Trade unions should become an important force for workers to strive for reasonable wages and improve working conditions, enhance workers' bargaining power in the market through collective bargaining and other means, thus promoting wage growth and improvement of working conditions, and helping to narrow the wealth gap.

Finally, racial discrimination should be resolutely opposed and eliminated. Strengthening law implementation and enforcement will ensure that ethnic minorities enjoy the same rights and opportunities as whites in employment, education, and medical care. At the same time, multicultural education and the concept of racial equality should be promoted to enhance social inclusiveness and diversity. In view of the low income and insufficient wealth accumulation of ethnic minority families, more precise support policies should be implemented to help them improve their economic and social status, so as to narrow the wealth gap between ethnic groups.

## 6. Conclusion

This paper systematically and comprehensively sorted out the status quo and key causes of the wealth gap in the United States, and deeply analyzed its economic impact. The study found that the gap is growing, mainly because of monopoly capital, electoral politics, unfair government policies, weakened labor unions and persistent racial discrimination. The widening wealth gap leads to social unrest, high unemployment, a surge in violent crime, and a decline in the quality of life of residents. In order to solve these problems, this paper puts forward a series of targeted suggestions, such as strengthening the establishment and improvement of the anti-monopoly law, accelerating the reform of the electoral system, optimizing the tax policy, increasing the punishment of racial discrimination and so on, hoping to help the gap between the rich and the poor in the United States.

However, the research in this paper also has some limitations. Firstly, due to data acquisition and processing limitations, this paper may not be able to fully reflect all aspects and details of wealth disparities in the United States. Secondly, the policy suggestions in this paper are mainly based on theoretical analysis and experience, and their practical effects need to be further verified and evaluated. Future research can further focus on the following aspects. Firstly, it is imperative to intensify in-depth research into the underlying mechanisms that contribute to the formation of the wealth gap. Secondly, the exploration of more efficacious policy instruments aimed at addressing the disparity between the rich and poor should be prioritized. Thirdly, fostering transnational comparative and collaborative research endeavors, while drawing upon the successful experiences and practices of other nations, is essential. Through these endeavors, a deeper comprehension of, and more effective address to, the wealth gap can be achieved, thereby advancing towards the realization of social equity and sustainable development.

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