How does economic inequality constrict growth?

**Obstructs**

Economic inequality **obstructs** the supply of talent, ideas, and capital, slowing productivity growth. Wealthy families monopolize the best educational, social, and economic opportunities, while those with fewer resources are left behind and locked out. And discrimination in housing, hiring, education, and lending, among other areas, blocks too many from contributing to the growth of the economy.

**Subverts**

Concentrated economic power **subverts** the institutions that manage the market. This makes markets dysfunctional because powerful corporations muscle competitors out of business, suppress wages, and hobble innovation. It also makes our political system ineffective, as the wealthy dictate the terms of our political system and we fail to invest in public goods such as schools, transportation infrastructure, and healthcare.

**Distorts**

These subversions and obstructions **distort** the broader economy. Stagnant wages and meager workplace benefits rob families of buying power, undermining one of the key drivers of economic growth—the stable incomes that drive consumer spending. A savings glut among the super-wealthy pushes their capital toward rent-seeking and expanding the credit supply, rather than the productivity-enhancing investments we need.
Unbound exposes deep problems in the U.S. economy, but its conclusions are optimistic. Boushey argues that policymakers can preserve the best of our economic and political traditions, and improve on them, by pursuing policies that reduce inequality and boost growth. The most critical steps are those that limit inequality’s ability to constrict our economy and tackle the ways that the concentration of economic resources translate into political and social power. The solutions start with addressing the subversions, which creates the opportunity to remove obstructions and limit distortions in the broader economy. Unbound explores several tools that policymakers can adopt to rebalance our economy.

**MEASURE WHAT MATTERS.**
Congress should require the U.S. Bureau of Economic Analysis to release disaggregated growth data each quarter alongside Gross Domestic Product (GDP) so that the American public can hold policymakers accountable for delivering economic growth that is strong, stable, and broadly shared. By focusing on more than the aggregate growth of the U.S. economy and instead on how those income gains are distributed, we can ensure that no one is left behind, regardless of their zip code or demographics.

**TAX WEALTH.**
The concentration of economic power undermines our democracy and, with that, our ability to generate the revenues necessary for broad-based economic growth. The wealthiest segments of society benefit in part because their money and influence leads to favorable policy outcomes. In this way, wealth begets wealth, and those who have historically been denied wealth-building opportunities—especially people of color—fall even further behind. Policymakers should rein in top incomes through increased taxation of wealth, which also
would discourage the pursuit of ever-higher incomes and encourage more investments that would improve outcomes for the many, not just the few.

**ADDRESS MONOPOLY POWER.**
The economy is increasingly dominated by a few firms, meaning higher profits for shareholders but higher prices and lower wages for typical U.S. families—especially as workers face so-called monopsony labor markets in which firms have the power to set low wages. Antitrust laws must prevent the improper use and abuse of monopoly power when the victims are consumers.

**INCREASE BARGAINING POWER FOR WORKERS.**
Civic institutions, especially unions, that once served as voices for workers have suffered a long decline. Policymakers must ensure there’s a bulwark against concentrated economic power by improving workers’ ability to bargain with employers over pay and working conditions.

**ENABLE ALL CHILDREN TO THRIVE AT AN EARLY AGE.**
In order to foster both current and future productivity, every child should have access to safe, affordable, and enriching early childcare and education—a policy that starts by ensuring that the jobs in this industry are good jobs, with decent pay, benefits, and schedules that work. Quality early learning and care helps all children and most especially those from disadvantaged backgrounds, improving later earnings and reducing the likelihood that a child will grow up to live in poverty. In addition to buoying the child’s life chances, childcare and other family-friendly policies ensure parents juggling multiple responsibilities can thrive at work.

1. Children from low-income families receive some public assistance and community support but...
2. Children from wealthy families have more resources available to them.
SUPPORT SUSTAINABLE AND PRODUCTIVE INVESTMENT.

Inequality distorts total consumption, the largest component of our nation’s output, while simultaneously increasing the stock of savings because the rich spend less out of every new dollar of income. Combined with inadequate regulation of financial markets, this leads to an oversupply of credit and insufficient investment to boost long-term U.S. productivity and growth. **Policies should discourage credit bubbles that can lead to economically devastating financial crises and instead make investments that will provide a foundation for sustainable growth** by upgrading the nation’s failing transportation infrastructure, addressing climate change, and investing in people and families through reducing the burden of big-ticket items such as childcare, healthcare, and higher education.

**About the author**

**Heather Boushey** is President and CEO of the Washington Center for Equitable Growth and former Chief Economist on Hillary Clinton’s transition team. She is the author of *Finding Time: The Economics of Work-Life Conflict* and coeditor of *After Piketty: The Agenda for Economics and Inequality* (both from Harvard University Press). *The New York Times* has called Boushey one of the “most vibrant voices in the field” and *Politico* twice named her one of the top 50 “thinkers, doers, and visionaries transforming American politics.”