# Inequality in America was huge before the pandemic. The stock market is making it worse

Analysis by Julia Horowitz, CNN Business
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**London (CNN Business) —** The gap between the world's rich and poor is expected to grow due to the pandemic, and a stock market high on government and central bank cash bears much of the blame.

Research shows that stock ownership is highly concentrated among the rich, with the wealthiest 10% of US households owning 84% of all stocks in 2016, the most recent year for which the Federal Reserve has released data.

That means the S&P 500 (INX) index's massive gains over the past 12 weeks are likely to have disproportionately benefited the haves over the have-nots, exacerbating inequality as Main Street reels from a brutal economic shock that's triggered the worst unemployment crisis since World War II. The index dropped sharply last Thursday as investors reevaluated risks to the outlook, but it's still up nearly 40% since its low on March 23.

"A rising stock market, especially at a time of high unemployment and stagnant labor incomes, will disproportionately benefit richer households," said Eswar Prasad, an economist at Cornell University.

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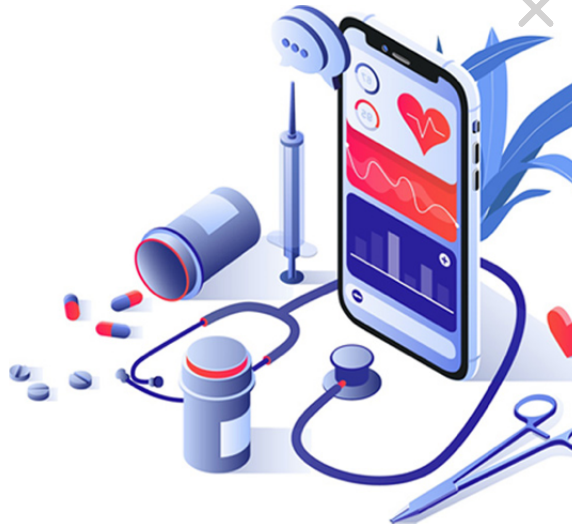
US stock prices have increased thanks to unprecedented support from the Federal Reserve, trillions in government stimulus and optimism over a quick economic recovery, and there's some evidence that smaller investors have driven the rally.



Even so, the Americans that have been hurt the most by the pandemic are unlikely to benefit directly from the recent snap back. That disconnect could feed social unrest, as socioeconomic and racial divides become even more pronounced.

## How stocks feed inequality

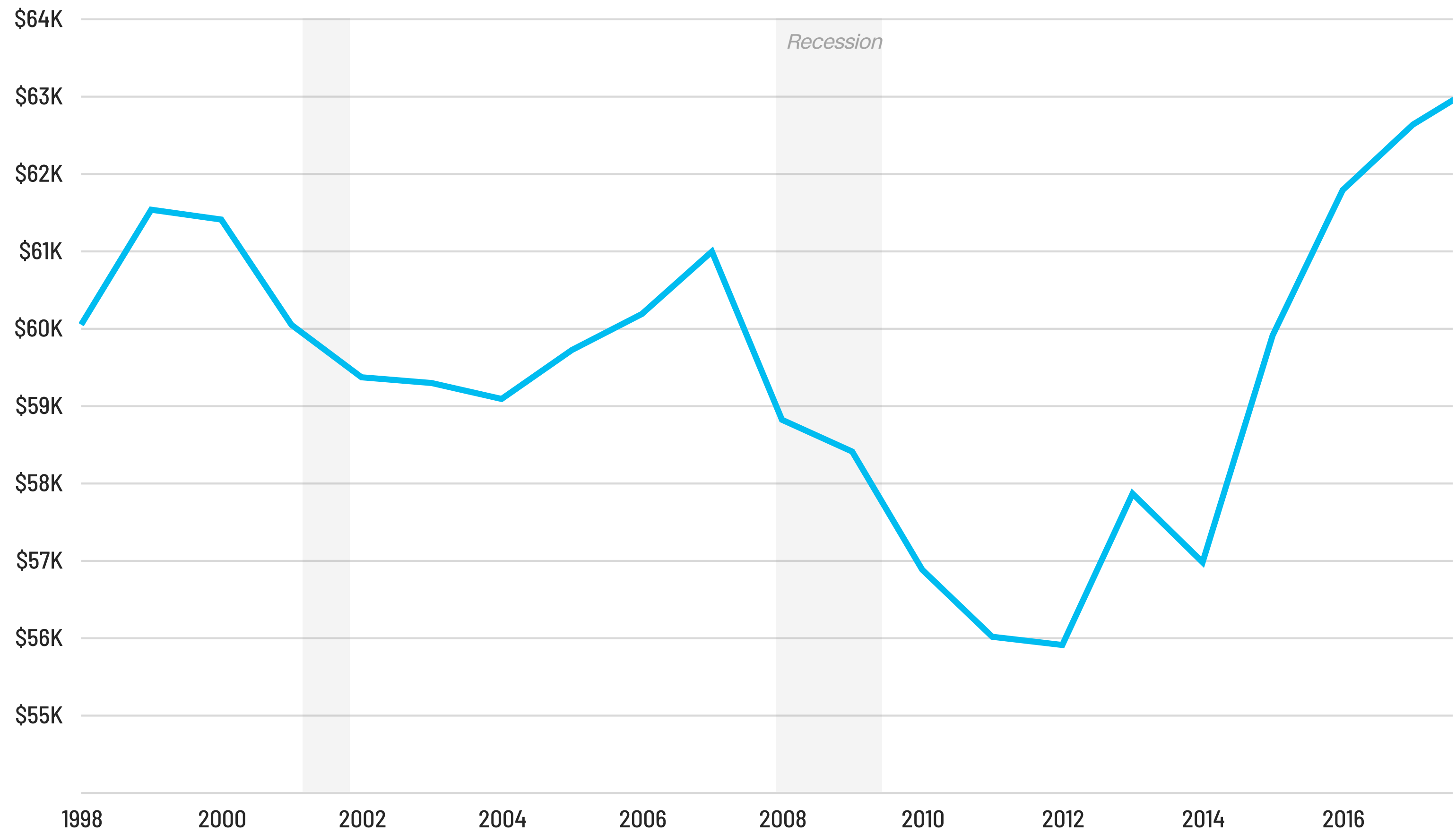
In 2019, the richest 1% owned 45% of the world's wealth, according to a report from Credit Suisse. Stock ownership was an important factor.

After the dot-com crash in the early 2000s, middle class families exited the stock market, according to Edward Wolff, a professor at New York University who focuses on wealth disparity and analyzed the 2016 Fed data. Facing ongoing financial pressure, many never returned, while the wealthy held onto their shares.

"Median family income hasn't really budged for 20 years," Wolff said. "There's a lot of financial stress on the middle class so they haven't really expanded their stock holdings."

## Americans' stagnant incomes

**US median household income, adjusted for inflation, has barely budged in the last two decades.**




Source: Federal Reserve Bank of St. Louis
Graphic: Tal Yellin, CNN

In the United States, the disparity also plays out along demographic lines, according to a 2017 report from the Federal Reserve. More than 60% of white families own stocks, either directly or through a retirement account, compared with around 30% of black and Hispanic families.

Stocks aren't the only way to grow wealth. But higher-income households tend to save more, giving them greater opportunities to invest. These households can then leverage their returns on assets like stocks to keep growing their portfolios, according to the Fed. This creates a "feedback effect" that helps the rich keep expanding their holdings.

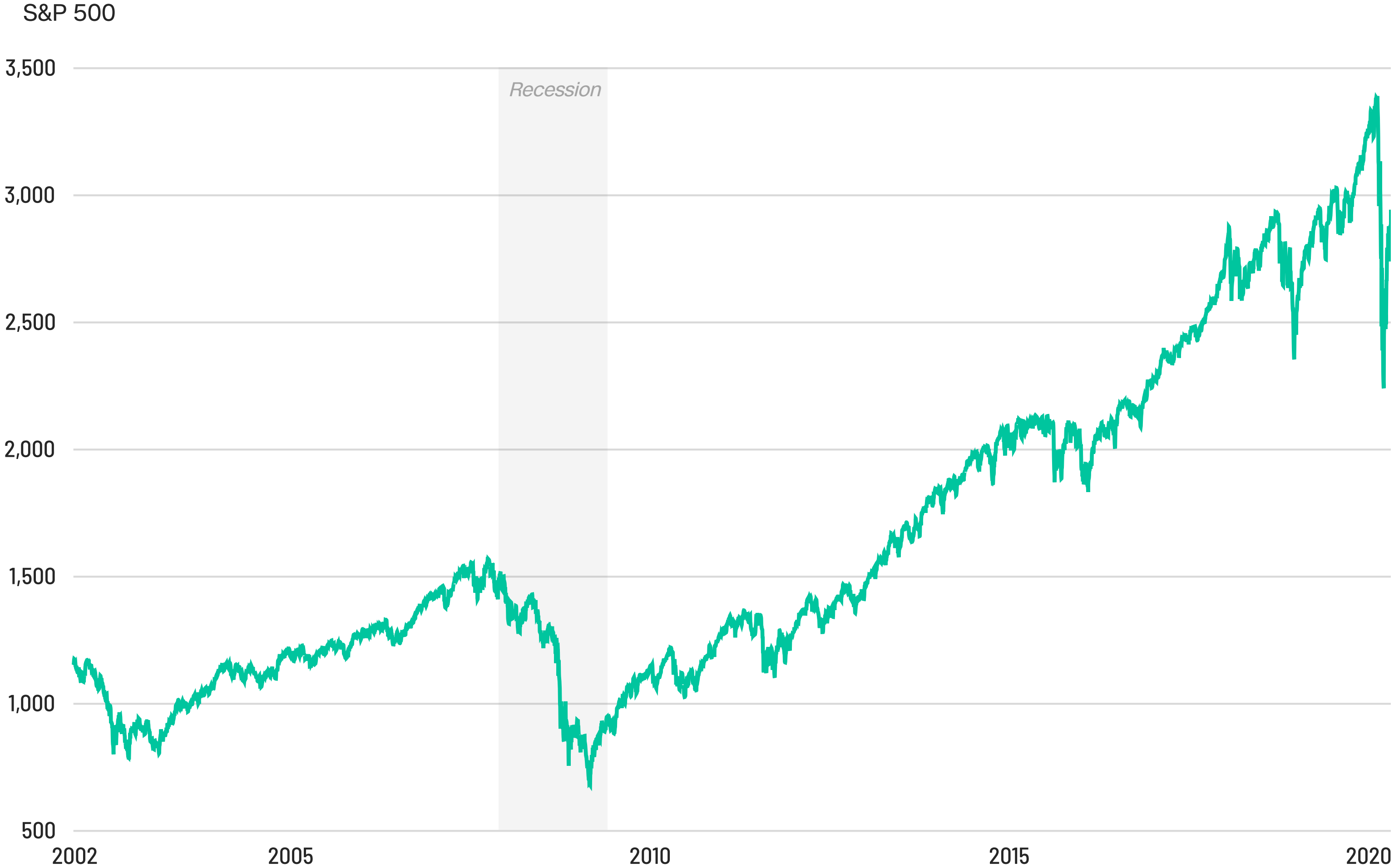
Households with a net worth above $500,000 now have almost 16 times the stock and mutual fund holdings of households worth between $50,000 and $100,000, according to an analysis from the Securities Industry and Financial Markets Association in October. These households on the upper end of the spectrum have nearly 80 times the stock and mutual fund holdings of households worth between $25,000 and $50,000.

Stock market gains have powered the cycle. While middle-class incomes have remained stagnant, the value of stocks has skyrocketed, helped by easy money from central banks like the Fed and a glut of shareholder rewards.

The S&P 500 has increased by 172% since 2002, while the Nasdaq has shot up more than 400%.

## The S&P 500 has gained 172% since 2002

**The index's dramatic increase has disproportionately benefited the wealthy, research shows.**




Source: Refinitiv
Graphic: Tal Yellin, CNN

One reason: Between 2008 and March 2020, companies have spent nearly $7.1 trillion on share buybacks that have boosted stock prices, according to Birinyi Associates. A big corporate tax cut by the Trump administration in 2017 was spent by many companies buying back their own shares.

Proponents argue that buybacks and dividends trickle down to regular workers, since stockholders can reinvest higher earnings in the real economy, while critics think that money should go to longer-term workforce investments, such as higher wages and retraining employees.

# The coronavirus effect

After plunging in March, stocks have gained at a record clip as central banks pledged trillions of dollars in an unprecedented intervention to prop up markets and the economy. That's helped those who are most likely to own stocks.

Between March 18 and last Thursday, US billionaire wealth increased by $637 billion, an increase of more than 21%, according to a report from the Institute for Policy Studies, a progressive think tank.

Meanwhile, the economic outlook appears dim. Tens of millions of workers around the world remain unemployed during the worst downturn since the Great Depression, and the most vulnerable communities — including women and black and Hispanic Americans — have been hit the hardest.

"Those least able to withstand the downturn have been affected most," Federal Reserve Chair Jerome Powell told the Senate Banking Committee on Tuesday. "If not contained and reversed, the downturn could further widen gaps in economic well-being that the long expansion had made some progress in closing."


Federal Reserve Chair Jerome Powell testifies before the Senate Banking Committee on Tuesday.

Many people who have lost their jobs since March are unlikely to have participated in the S&P 500's dramatic rally. Overall, only 55% of Americans own stock, according to the most recent poll by Gallup.

"Households that are getting hardest hit during this recession, particularly those with low-paid and low-skilled workers, tend to have small or nonexistent buffers of savings, which means they receive few benefits from resurgent stock prices," Prasad said.

Plus, some companies have opted to maintain their dividends while laying off workers. BP (BP), for example, is giving investors their payout for the first quarter but announced last week that it would cut 10,000 jobs by the end of this year.

There are signs that the recovery in stocks in recent weeks was propelled by retail investors, while many institutional investors stayed wary, according to JJ Kinahan, chief market strategist at TD Ameritrade.

The rise of no-fee stock trading has encouraged more mom-and-pop investors to get into the market, which Kinahan said could help ease inequality over time.

But Wolff thinks that the current crisis probably just magnified the ownership dynamics already in place. Households dipping into their savings are unlikely to have decided to buy stocks instead of paying their bills.

"The proportion of total stocks owned by the wealthy has probably risen in the past few months," Wolff said.

## Anger grows

As concerns about worsening inequality grow, attention is shifting to the Federal Reserve and other central banks. Their actions have contributed to the run-up in asset prices. Does that mean they're to blame, or need to be a part of the solution?

"Could we please have the intellectual honesty just to admit the system as it exists today functions to give more money to ultra-rich people?" Rabobank strategist Michael Every demanded in a recent note to clients.

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Powell, when pressed about the central bank's role in feeding inequality, indicated that he doesn't believe the central bank has a choice.

"Really it's about getting the labor market back and getting it in shape," he told reporters last Wednesday. "If we were to hold back because — we would never do this — but the idea that ... we would hold back because we think asset prices are too high ... what would happen to those people?"

The European Central Bank said in a 2019 report that its bond-buying program lowered income inequality in the euro area since it helped decrease the unemployment rate for poorer households. Wealth inequality fell a "negligible" extent as house prices rose, according to the central bank.

Economists agree that the Federal Reserve is in a tough position; without taking action, the recession could morph into a depression.

"Unfortunately, monetary policy has its limits and rising inequality might be the price the Fed has to pay while it attempts to support economic activity," Prasad said.

The consequence, though, is that inequality drummed up by the stock market over the past two decades won't improve through this crisis. It's only expected to get worse, which could contribute to the widespread anger and discontent that's helped fuel the Black Lives Matter protests.

"While there is nothing wrong with traders and investors profiting from timely and smart speculative activity, the growing disconnect between the economy and equity markets is going to cause increased social tensions," said Joseph Brusuelas, chief economist at the auditing firm RSM.