KENNESAW STATE UNIVERSITY
COLES COLLEGE OF BUSINESS
*Bagwell Center for the Study of Markets and Economic Opportunity*

**UNDERGRADUATE RESEARCH FELLOWSHIP WORKING PAPER**

# *Income Inequality and the Erosion of Social Mobility*

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## Abstract

Income inequality and its impact on social mobility remain central topics in economic and sociological research. This study focuses on the conditions underlying inequality, including disparities in educational access and systemic barriers perpetuating economic immobility among individuals. Importantly, it distinguishes that these disparities are not due to inherent differences in capability or productivity across groups but rather arises from structural factors that limit equal opportunities. Drawing on recent data and empirical studies, the research demonstrates how income inequality measured by the Gini coefficient—is associated with reduced social mobility, particularly among disadvantaged populations.

Key findings reveal persistent and significant gaps in college enrollment and completion rates based on income, race, and gender. While women now outnumber men in higher education attendance, a gender wage gap remains across all educational levels. Additionally, White and Asian households hold substantially higher median net worth compared to Black and Hispanic households. Beyond racial wealth disparities, structural factors such as unequal access to credit, tax policies that disproportionately benefit higher-income groups through mechanisms like preferential capital gains treatment, and skill-biased technological change (SBTC) contribute to increasing inequality.

The study explores potential solutions, including progressive taxation, minimum wage increases, and expanded equitable access to education. It emphasizes that meaningful social mobility requires comprehensive reforms targeting systemic barriers rooted in race, gender inequities, and socioeconomic stratification. While economic growth alone may be insufficient to reduce inequality, well-designed policies can narrow disparities and foster a more inclusive economy.

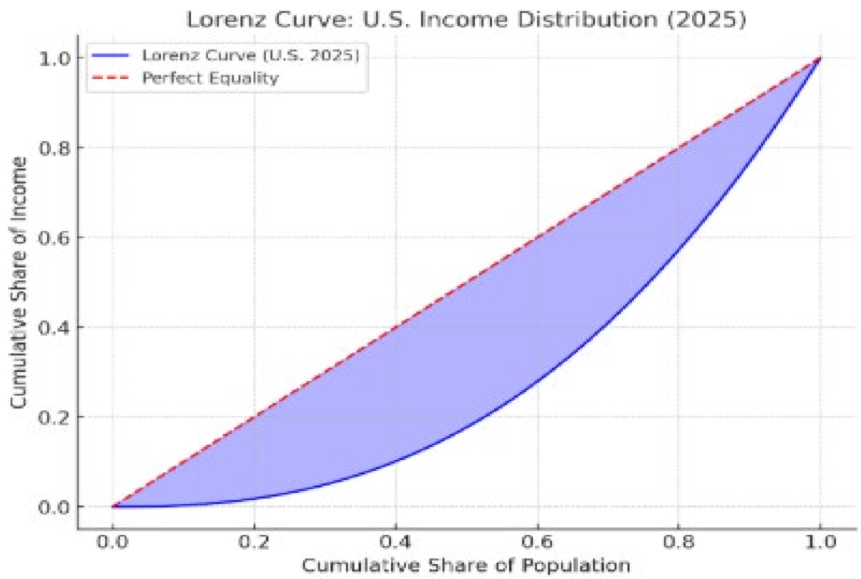
## Introduction

Income inequality—the unequal distribution of income among individuals—is prevalent in many societies, though its extent and impact vary widely. It is distinct from wealth inequality, which refers to disparities in the accumulated assets, savings, and property owned by individuals or households. Both forms of inequality affect social mobility, defined as the ability of individuals or households to improve their socioeconomic status over time. Research indicates that higher income inequality is often associated with reduced social mobility, as structural barriers limit opportunities for disadvantaged populations (Chetty et al., 2014). Contributing factors include persistent regional disparities, limited effectiveness of financial institutions in promoting equitable access, uneven educational attainment, technological skill gaps, and wage inequalities linked to ethnicity and gender.

Philosophical thinking on inequality indicates that besides economic quantifications, the issues of fairness and justice are important in the conception of inequality. Watkins & Brook (2021) hold that a reasonable degree of inequality is essential to growth, but alert that untrammeled inequalities destroy social solidity. Instead, Tomasi (2012) defends the idea that a fairness in the marketplace is possible provided that the institutions ensure that everyone has an equal opportunity.

Economic inequality is often measured using tools such as the Lorenz Curve, which illustrates income distribution within a population. A perfectly equal society would be represented by a straight diagonal line on this curve; deviations indicate the degree of inequality. The Gini coefficient, derived from the Lorenz Curve, quantifies this inequality on a scale from 0 (perfect equality) to 1 (maximum inequality). While the United States had a Gini coefficient of 0.413 in 2025, this single snapshot does not fully capture the dynamics of income inequality. Trends over time are more informative for understanding whether inequality is increasing or decreasing (Fredrich, 2023). Thus, assessing changes in the Gini coefficient over the years provides clearer insight into societal shifts regarding income distribution.

The 2025 Gini coefficient reflects a relatively high level of income disparity in the U.S., consistent with long-term upward trends observed since the 1980s. However, declaring it the “height” of inequality requires further contextual data and comparative analysis over multiple years and other countries to substantiate such a claim.




## Historical Trends in Social Mobility in the United States

Understanding whether social mobility has declined over time is essential to evaluating claims of its "erosion." Social mobility refers to the ability of individuals or families to move between income or social classes across generations. Multiple studies indicate that social mobility in the United States has experienced shifts over the past several decades, with evidence suggesting a relative decline in upward mobility, particularly for lower-income and minority groups.

Raj Chetty and colleagues (2014) conducted seminal research using large administrative tax data to track intergenerational income mobility across U.S. counties. Their findings reveal that children born in the 1980s and 1990s were less likely to surpass their parents' income levels than children born in earlier decades, signaling a decline in social mobility. Moreover, mobility varies significantly by geography, with certain regions exhibiting much stronger or weaker mobility patterns.

Historical comparisons also show growing income inequality coinciding with stagnating or declining mobility. For example, income percentile rankings have become more persistent, meaning children from low-income families are more likely to remain in lower income brackets as adults than in previous generations (Corak, 2013). Factors such as disparities in education quality, neighborhood segregation, and unequal access to financial resources contribute to these trends.

However, some researchers argue that mobility remains relatively stable when considering a broad timeframe and controlling for demographic changes, suggesting the picture is complex and nuanced (Linggaputri, 2018). Despite this, the weight of evidence points toward increased barriers for disadvantaged populations to achieve upward mobility compared to previous generations.

Including this historical perspective provides important context for discussions on income inequality and reinforces the need for policies that address the structural impediments limiting economic advancement.

## The Impact of Skill-Biased Technological Change on Income Distribution

Extensive research demonstrates that technological change has significantly contributed to rising income inequality, particularly through a phenomenon known as skill-biased technological change (SBTC) (Autor, 2014; Kharlamova, 2018). SBTC refers to technological advancements that increase the productivity and demand for skilled workers relative to unskilled workers. Over the past six decades, this process has disproportionately benefited workers with higher education and technical skills, widening wage and income gaps.

Contrary to earlier waves of technology that replaced certain skills, SBTC tends to complement skilled labor, enhancing its value and market demand. For example, the automation and computerization characteristics of the Fourth Industrial Revolution have amplified SBTC effects by requiring workers to possess digital literacy and advanced competencies (Kharlamova, 2018). This shift has exacerbated inequality by advantaging those with access to education and training while disadvantaging lower-skilled workers who face wage stagnation or job displacement.

As much as technological advancements are believed to be the engine of economic growth, they tend to increase income inequality. Otteson (2017) condemns economic systems concentrating on the efficiency disregarding moral and ethical consequences of technological inequality.

SBTC increases inequality through the polarization of labor markets, where middle-skill jobs decline while high-skill and low-skill jobs grow unevenly. Skilled workers command higher wages due to increased productivity and scarcity, whereas lower-skilled workers face downward pressure on wages and reduced employment opportunities (Autor, 2014). These dynamics contribute to growing disparities in income distribution across sectors with varying technological intensity, as confirmed by studies in European Union countries (Grimshaw, 2020).

Understanding these mechanisms is crucial because they highlight how technological progress while driving economic growth, can simultaneously entrench and amplify socioeconomic disparities unless complemented by policies that improve access to skills training and education for disadvantaged groups.

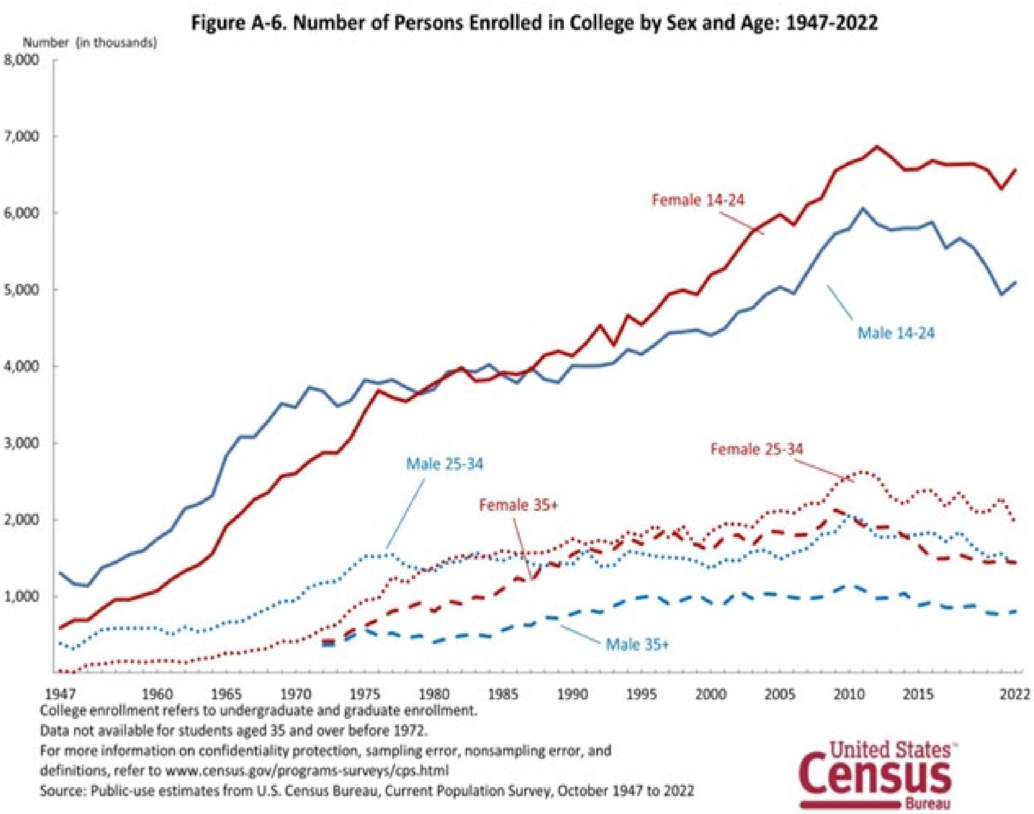
## Income based gaps influence on enrollment

Persistent income-based disparities in college enrollment and completion continue to shape educational outcomes, although some progress has been made. Between 2000 and 2016, the gap in immediate college enrollment between low- and high-income students narrowed significantly—from approximately 30 to 16 percentage points (Carnevale & Strohl, 2013). However, despite this improvement in access, the gap in college completion rates has widened, with low-income students less likely to graduate and more likely to attend less selective institutions (Bailey & Dynarski, 2011). This divergence suggests that while efforts to improve college enrollment have succeeded, challenges remain in supporting low-income students through degree completion. Consequently, policies aimed at reducing educational disparities must address access, retention, and completion to be fully effective.

Socioeconomic status remains a strong determinant of access to higher education in the United States, with immediate college enrollment rates as a reliable indicator of this divide. Research analyzing 2016 data shows persistent disparities across income groups categorized into low-, middle-, and high-income families. However, definitions of these groups vary by study and may not represent equally sized population segments (McFarland et al., 2019). Specifically, in 2016, 83% of high-income students enrolled in college immediately after high school, compared to 67%

of low-income and 64% of middle-income students (McFarland et al., 2019). These disparities highlight the continuing influence of socioeconomic factors on educational opportunities.

The relationship between educational attainment and income inequality is complex and likely bidirectional. Educational disparities contribute to income inequality by limiting access to higher-paying jobs for lower-income individuals. Conversely, income inequality can perpetuate educational gaps by restricting resources available for college preparation and attendance among disadvantaged groups (Karoly, & Gonzalez, 2011). This feedback loop suggests that policy interventions must simultaneously address education and income disparities to be effective.



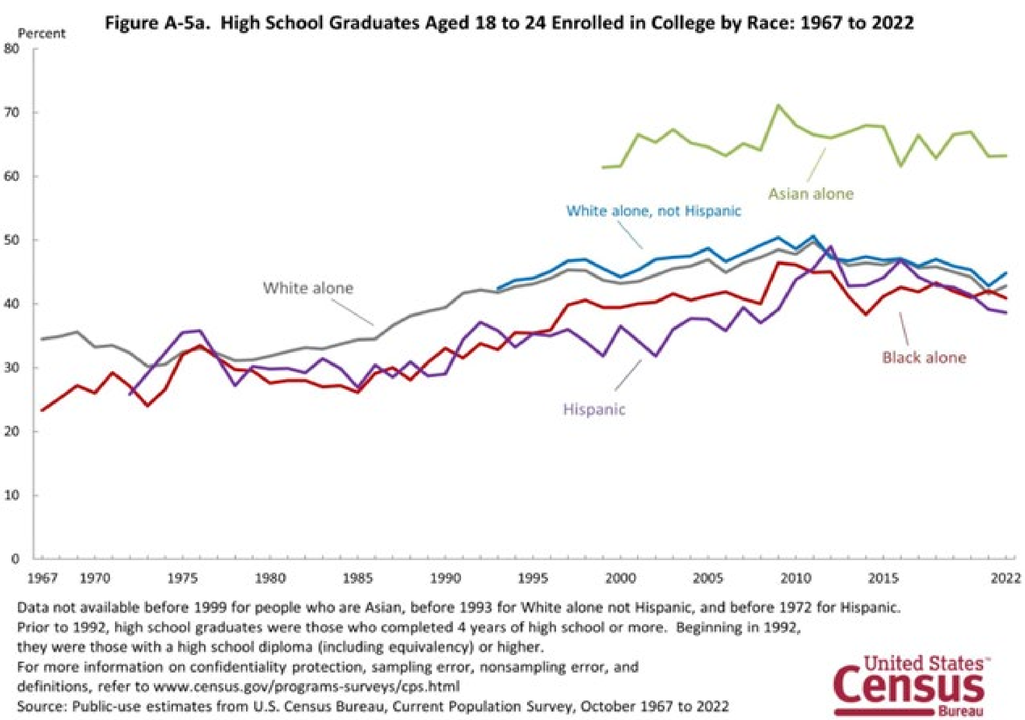

Long-term enrollment trends also reveal gender dynamics in higher education participation. From 1947 to the early 1970s, male enrollment predominated, especially among younger age groups (14–24 years). Since the mid-1970s, female enrollment in this age group has steadily increased, surpassing male rates and continuing to do so through 2022. Enrollment for older age brackets (25–34) has also risen for both genders, though the male-female enrollment ratio is higher in this age group than in the 14–24 age group. This trend underscores expanding opportunities for women in higher education over the last seven decades (Irwin et al., 2023) which, if coupled with targeted policies and support, could ultimately lead to more upward mobility for women across socioeconomic levels.

## Racial and ethnic influence on Income distribution

Across racial and ethnic groups, the U.S. education system has long reflected significant differences in access and academic outcomes by race, affecting income distribution and economic mobility. For instance, college enrollment rates vary markedly depending on a student's racial or ethnic background. While overall enrollment has risen across all groups over time, disparities persist, with Asian and White students generally enrolling at higher rates than Black and Hispanic students. These persistent gaps highlight ongoing challenges in achieving educational equity and underscore the necessity for continued efforts to close racial disparities in access to and success in higher education.

According to comprehensive data reported by the National Center for Education Statistics (NCES, 2023), college enrollment trends over the past 15 years—from 2007 to 2022—continue to display disproportionate patterns by race. Asian students consistently demonstrated the highest enrollment rates among all racial groups, maintaining levels above 60% throughout the period. This reflects a strong cultural emphasis on the importance of higher education within many Asian communities, alongside other socioeconomic factors that support educational attainment. In contrast, White students' enrollment rates remained relatively steady during the early part of this period but have shown a slight downward trend since approximately 2010. Hispanic student enrollment exhibited gradual improvement over these years, with some year-to-year fluctuations but an upward trajectory. Notably, Hispanic enrollment surpassed that of Black students by 2022. This improvement may be attributed to changing immigration patterns, stronger familial and community support for education, and targeted outreach programs aimed at improving college access for Hispanic students. Meanwhile, Black students' enrollment rates have consistently remained below those of White students throughout this period, with fluctuations peaking around 2011–2012 before experiencing a significant decline in the years that followed. This pattern suggests that, despite some progress for Hispanic students, persistent barriers—such as systemic racial inequities, economic hardship, less access to college preparatory resources, and historical challenges—continue to limit higher education access for Black students and potentially other minority groups.

Examining these trends more closely, it becomes evident that Asian students stand out as an outlier with consistently high college enrollment rates. In contrast, the enrollment patterns of other racial groups have converged to some degree, suggesting that opportunities for higher education are becoming more comparable across these groups. This divergence implies that different cultural, social, and systemic factors influence educational opportunities and outcomes across racial groups. For example, the sustained high enrollment of Asian students may be linked to strong familial and community support for education, higher average socioeconomic status, and targeted educational programs. Conversely, systemic inequalities such as resource disparities in K-12 education, economic hardship, and unequal access to college preparatory resources disproportionately affect Black and Hispanic students (Yaskowski, 2020). Understanding these differences is critical for developing policies and interventions tailored to the unique challenges faced by each group, aiming to reduce educational disparities and their downstream effects on income inequality.



Gender also plays a significant role in shaping college enrollment and completion outcomes. Women have consistently surpassed men in enrollment and graduation rates in recent decades. However, this higher educational attainment among women does not always translate evenly into labor market advantages. Disparities in non-college job opportunities partially explain this trend; men are more likely to find well-paying employment without a college degree, particularly in the trades and manual labor sectors. Furthermore, while women enroll at higher rates, they remain underrepresented in certain competitive academic fields, such as STEM (science, technology, engineering, and mathematics) disciplines, where male students continue to dominate. This underrepresentation in high-demand fields contributes to the disparities women experience in career trajectories and earnings. The "advantages" referenced in terms of women's education pertain primarily to their growing participation and achievement in higher education, which confers long-term economic benefits such as increased earning potential, improved job stability, and better health outcomes. Nonetheless, challenges remain regarding gendered patterns in field selection and career outcomes, with women still facing barriers in entering and advancing in traditionally male-dominated sectors.

Over recent decades, data from the U.S. Bureau of Labor Statistics (BLS) consistently demonstrate a strong correlation between educational attainment, income, and career prospects. The Education Pays reports, published annually from 2021 through 2024, document that individuals who earn a college degree generally achieve substantially higher lifetime earnings than those with only a high school diploma. For instance, in 2023, median weekly earnings for individuals with a bachelor's degree were approximately $1,432, compared to $853 for high school graduates. Correspondingly, unemployment rates were significantly lower for college graduates (2.2%) than those without a college degree (4.0%). These data underscore the critical role of higher education in securing better economic outcomes and financial stability.

Moreover, higher earnings enable greater capacity for saving and investment, which is essential for building wealth over time. College graduates tend to have more disposable income to allocate toward financial products such as retirement accounts, stocks, bonds, and real estate. These investments can compound wealth and provide economic security, especially in retirement. It is important to emphasize the link between education and investment capacity, as it illustrates how disparities in educational attainment contribute directly to broader patterns of wealth inequality.

The term "products" here refers to financial and investment vehicles facilitating wealth accumulation.

Gender differences in college enrollment also have implications for future wealth distribution. Women's sustained pursuit of higher education at rates exceeding men's may gradually help reduce traditional salary and wealth gaps. However, historical disparities in income, savings rates, and investment behavior still present challenges to achieving full economic equity. Equity, in this context, refers to the fair distribution of opportunities, resources, and outcomes across genders, ensuring that women’s higher educational attainment translates into equivalent labor market success. Despite women being more educated than men on average, structural barriers, such as discrimination, occupational segregation, and caregiving responsibilities, continue to contribute to the persistence of the gender wage gap. Therefore, continued efforts to support women's educational and financial empowerment remain crucial, including closing the gender wage gap, increasing women’s representation in leadership positions, and improving access to traditionally male-dominated fields such as STEM. Achieving these goals will require ongoing monitoring of these metrics to ensure that gender-based disparities in earnings and career advancement are eliminated. Ultimately, a level playing field can be considered achieved when gender disparities in education, labor market outcomes, and wealth distribution are fully addressed and closed.

## Income disparities due to gender

Although research consistently reveals that education is positively associated with earnings for all groups, however, the gender earnings gap exists at all levels of education. Factors that account for the gap include the different fields of study and work-related factors. Nevertheless, the gap over time has declined largely because of the increase in women’s work experience and education. These reductions are also related to changes in the relative market value of women’s skills compared with men’s skills in particular majors. While these improvements have been made, the gender earnings gap remains a very big issue in the workforce.

According to data from the U.S. Department of Labor’s Women’s Bureau (2022), higher educational attainment is positively associated with increased median weekly earnings for both men and women. For example, individuals with bachelor’s degrees earn significantly more than those with only a high school diploma. However, a persistent gender wage gap remains within each educational level. In 2022, women with a bachelor's degree earned a median weekly income of approximately $1,100, while men with the same degree earned about $1,300. This pattern extends across all degree levels, including advanced degrees such as master's and doctorate, indicating that despite similar educational qualifications, women continue to earn less than their male counterparts.

This enduring wage disparity raises important questions about the effectiveness of education alone as a policy tool to reduce income inequality. While increasing educational attainment among women has undoubtedly improved their earnings potential and economic opportunities, the persistence of the gender wage gap suggests that structural labor market barriers, such as occupational segregation, differences in work experience, and discrimination, may contribute to limiting women's economic parity with men. However, it is important to note that not all of these factors necessarily serve as direct causes; rather, they interact in complex ways that influence wage outcomes.

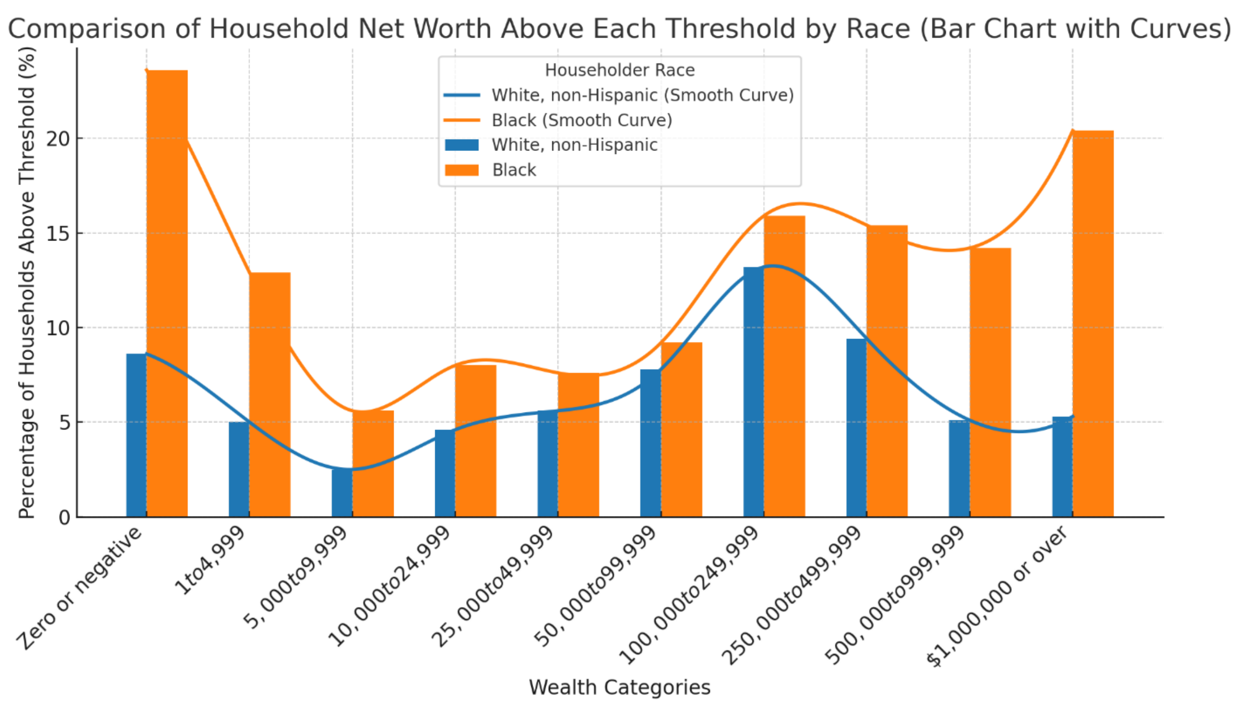
The long-term consequences of this wage gap are significant. Over a typical 30-year working career, the cumulative effect of lower earnings for women translates into substantial disparities in lifetime income, savings, retirement benefits, and overall financial independence. Although critical, this disparity underscores that education is not a panacea for gender-based income inequality.

Therefore, while promoting higher education remains an essential strategy for empowering women economically, addressing the structural and institutional factors perpetuating wage inequality is equally crucial. Policy measures such as pay transparency, family-friendly workplace policies, anti-discrimination enforcement, and support for caregiving responsibilities must accompany educational advancements to achieve meaningful progress toward income equality between genders.

## Role of Race in Income Inequality and Social mobility

According to data from the 2024 U.S. Census Bureau, Black, Hispanic, and other minority groups continue to be left behind in terms of wealth, as White and Asian households typically have considerably higher median wealth (Loyalka, 2024). These gaps are explained by factors such as homeownership, income differences, and intergenerational wealth transfers. Median wealth was the highest reported in Asian households, but wealth inequality remains a significant concern across all racial and ethnic groups. These disparities point to the systemic barriers that limit economic equity, which in this context refers to fair access to wealth-building opportunities and financial security for all racial and ethnic groups. Understanding these barriers is crucial for addressing the root causes of wealth inequality.

The below Figure indicate the distribution of household net worth by amount and race of the householder in 2021. It shows a stark contrast between White, non-Hispanic householders and Black householders. A much greater share of Black families (23.6%) had a net worth of zero or negative compared to White families (8.6%). Also, Black households were more concentrated in the lower net worth categories ($1 to $4,999 and $5,000 to $9,999) than White households. On the other hand, White households were more represented in the net worth categories above $1,000,000 (20.4% for White, vs. 5.3% for Black). This difference shows a continuing gap in the U.S. race wealth gap, as Black households are less wealthy and financially secure than their White contemporaries.



## Credit banks, stock and taxes impact on Inequality

Access to credit and banking services is essential for building wealth and financial stability, but these services are not equally available to all groups. Black and Hispanic families have faced longstanding discriminatory lending practices, such as redlining, and often receive higher interest rates or loan denials even when controlling for creditworthiness (FDIC, 2021). Women also experience difficulties obtaining loans, partly due to income gaps and caregiving responsibilities. These responsibilities, such as caring for children or elderly family members, can lead to periods of reduced income or interrupted work histories, which may lower credit scores. Additionally, caregiving responsibilities can limit the time and financial resources available to manage and pay off debts, further affecting creditworthiness.

Many low-income households, disproportionately from minority groups, remain unbanked or underbanked, lacking access to financial products like mortgages and credit lines. According to the FDIC's 2019 National Survey, about 6% of U.S. households were unbanked, with Black and Hispanic families overrepresented in this group.

This limited access contributes to a feedback loop where income inequality restricts financial opportunities, and lack of financial access further deepens wealth disparities. Wealthier households benefit from easier access to credit and investments, enabling them to build and preserve wealth, while disadvantaged groups face barriers that hinder economic advancement.

There is a substantial disparity in participation across different investment opportunities in the U.S. Approximately half of all households have some involvement in the stock market; however, this figure masks significant income and racial disparities. Black and Hispanic households tend to invest far less in stocks than White households. At the same time, wealthier families have easier access to stock markets and other investment vehicles such as real estate, private equity, and retirement accounts (Federal Reserve, 2020). Gender differences also exist: men typically hold more investments than women, partly due to income disparities and divergent career trajectories. Women, particularly those who take career breaks for caregiving, often accumulate less retirement savings and tend to be less aggressive in retirement planning.

It is important to note that even when a wife's name does not appear on her husband's retirement accounts, these assets are generally considered marital property and contribute to her financial security (Kgole, 2022). These investment gaps contribute to a reinforcing feedback loop, where higher-income households benefit from greater investment opportunities that grow wealth. In contrast, lower-income and minority households rely more heavily on Social Security and have limited exposure to wealth-building markets (FDIC, 2021).

Tax policies have varied effects on different income groups, influencing the distribution of wealth and economic inequality. While the overall U.S. tax system is highly progressive—meaning higher earners pay a larger share of their income in taxes—certain components of the tax code can have regressive effects. For example, sales taxes and tariffs disproportionately impact low-income households because these households spend a greater portion of their income on taxed goods and services (Staff of Congressional Budget Office, 2024). Since Black and Hispanic families are overrepresented in lower-income brackets, these regressive taxes hit them hardest. However, it is important to note that the U.S. tax system as a whole is highly progressive, as demonstrated in the work by Gramm et al (2022), which documents the overall positive impact of the tax system in reducing income inequality. Their analysis shows how progressive income taxes, particularly at higher income levels, contribute significantly to reducing wealth gaps, despite the regressive effects of some tax components.

At the same time, wealthy households benefit from preferential treatment of capital gains and business income, which are often taxed at lower effective rates than ordinary income. This occurs because capital gains, which are the profits from the sale of assets like stocks or real estate, are taxed at lower rates than ordinary income (such as wages or salaries), allowing wealthy individuals to preserve and accumulate wealth more easily (Institute on Taxation and Economic Policy [ITEP], 2021). Despite capital gains tax rates being nominally higher than marginal income tax rates for many earners, loopholes and deductions often reduce effective tax burdens for high-income individuals.

Programs like the Earned Income Tax Credit (EITC) provide crucial support to working families and help reduce poverty; however, the EITC alone cannot fully address the structural inequities in the tax system or close broader income and wealth gaps (Center on Budget and Policy Priorities, 2022). Women, especially single mothers and those in low-wage service jobs, often face compounded challenges due to lower incomes and fewer opportunities for wealth accumulation. While the current tax system offers some relief, it does not sufficiently address the systemic barriers that prevent equitable wealth-building. Therefore, more targeted reforms are needed, such as increasing the size of the EITC or introducing other redistributive measures that more effectively reduce income inequality and provide greater financial opportunities to disadvantaged groups. A fairer distribution of the tax burden, in this context, means designing policies that ensure higher-income individuals contribute proportionally more to support social and economic structures that provide equitable access to wealth-building opportunities. Over time, the persistence of wealth and income gaps highlights systemic inequality deeply embedded within social and economic structures. While economic growth alone has not significantly reduced these disparities, research suggests that existing policies and interventions have had limited impact rather than no possibility for change (Federal Reserve, 2019). For example, the Federal Reserve's 2019 Survey of Consumer Finances reported that the median net worth of White families was roughly eight times greater than that of Black families and five times greater than Hispanic families. Similarly, data from the National Center for Education Statistics (NCES, 2022) shows that White and Asian students have higher college completion rates than Black and Hispanic students, even after controlling for income.

While economic growth has led to higher real incomes across all income groups over time, labor market disparities continue to persist. Black and Hispanic workers face higher unemployment rates and are underrepresented in high-paying industries, according to the U.S. Bureau of Labor Statistics (BLS, 2022). Research by Raj Chetty and colleagues (2018) from Opportunity Insights illustrates a pronounced feedback loop in social mobility—individuals born into low-income Black households are less likely to ascend the income ladder than their White counterparts from similar economic backgrounds. This suggests that while overall real income levels have risen for all groups, inequality in terms of opportunity and access to high-paying jobs remains a key challenge. Therefore, it is important to continue addressing systemic barriers to economic mobility, even if real living standards have improved for all. This disparity in opportunities, not just income, remains a critical issue that needs to be addressed, even in a context of rising real income levels.

This cycle of inequality is reinforced by limited access to financial resources, which hinders the ability of many minority and lower-income households to invest in wealth-building assets such as stocks, real estate, and retirement accounts. These disparities are compounded by discrimination and structural barriers that restrict credit access and opportunities in financial markets, making it more difficult for disadvantaged groups to accumulate wealth. However, targeted policies and reforms aimed at improving access to credit and financial services, as well as creating pathways for wealth-building, hold the potential to disrupt these patterns and promote greater equity.

## Education, Tax and Minimum policy analysis

Economists have proposed several key policy approaches to address income inequality in the United States, including expanded access to education, raising the minimum wage, and reforming tax policies. While the minimum wage remains a contentious issue among economists, with some arguing against it due to concerns about potential job losses or economic disruption, others, such as those from the Economic Policy Institute (EPI), have advocated for increasing the minimum wage to help reduce poverty and raise earnings for low-income workers. Meanwhile, economists broadly agree on the importance of expanding access to education and reforming tax policies to address structural factors contributing to economic disparities. Each strategy targets different aspects of inequality but differs in how effectively it increases opportunity, redistributes resources, and shares economic growth with lower-income populations.

Increasing educational access and quality aims to enhance human capital, providing individuals from disadvantaged backgrounds with the skills needed for higher-paying jobs and greater social mobility. While this policy primarily expands opportunity by equipping people to compete more effectively in the labor market, its effects on immediate income redistribution may be slower and indirect. However, evidence from the experience of women—particularly those in low-wage service jobs or single mothers—suggests that increasing educational access alone has not completely remedied the inequality they face in the job market. Despite higher educational attainment among women, structural barriers such as discrimination**,** gendered wage gaps**, and** occupational segregation continue to limit their full economic participation, making education just one part of the solution to achieving true equality.

Raising the minimum wage directly affects income distribution by increasing earnings for low-wage workers, thereby reducing poverty and boosting purchasing power among the bottom segment of earners. This policy has the potential to reduce income inequality by raising the standard of living for workers at the lower end of the income spectrum. However, it also increases unemployment among unskilled workers, as employers may reduce hiring or cut jobs in response to higher labor costs. While the policy can stimulate economic growth by increasing consumer spending, concerns about the potential employment effects are well-founded and remain a major part of the debate over the efficacy of minimum-wage policies. Additionally, there is little evidence to suggest that raising the minimum wage directly stimulates long-term economic growth, making it a contentious policy for addressing poverty and inequality.

Tax policy reforms, particularly progressive taxation and closing loopholes benefiting the wealthy, are crucial in redistributing resources and financing public investments that support social programs and promote economic inclusion. In this context, economic inclusion refers to the process of ensuring that all individuals, regardless of race, income, or background, have equal access to opportunities and the ability to participate fully in the economy. Existing structures often exclude marginalized groups, limiting their access to education, healthcare, and well-paying jobs, which in turn perpetuates inequality. Well-designed tax policies can broaden the share of economic growth captured by lower-income groups and fund services that enhance opportunities, such as education and healthcare, contributing to a more equitable and inclusive society.

While all these policies mitigate income inequality, evidence suggests that a combined approach, integrating education improvements, wage policies, and tax reforms, is generally more effective than any single policy in creating sustainable and inclusive economic growth.

Education is widely regarded as a cornerstone for bypassing income inequality, as individuals with higher education typically earn significantly more than those with less education. However, access to quality education remains deeply unequal along racial and economic lines. According to the National Center for Education Statistics (NCES), students from low-income families are far less likely to attend and complete college compared to their higher-income peers. Additionally, Black and Hispanic students face significant barriers to accessing higher education, which results in lower college graduation rates for these groups. These disparities contribute to a cycle where minorities and low-income students are often excluded from higher-paying job opportunities, perpetuating poverty and hindering economic advancement.

Another important strategy for addressing inequality is tax policy reform. The U.S. tax system is widely recognized as progressive, meaning higher earners pay a larger share of their income in taxes—this is supported by data from the Congressional Budget Office and other official sources, not just individual economists like Phil Gramm. However, some economists and policy advocates argue that the current system could be improved by increasing taxes on the wealthiest individuals and closing loopholes that allow legal but aggressive tax avoidance. This improvement could be measured by the resulting increase in government revenue, which could be reinvested into public goods and services that disproportionately benefit lower-income populations. By increasing taxes on the wealthiest, the tax burden would be more equitably distributed, ensuring that those with the greatest financial resources contribute a fairer share. Closing loopholes that allow high-income earners to significantly reduce their effective tax rates would also promote a more equitable system, decreasing the ability of the wealthiest to avoid taxes and ensuring that they contribute proportionally more to society. The Institute on Taxation and Economic Policy (ITEP) has documented how many high-income earners use deductions, capital gains rules, and other mechanisms to reduce their effective tax rates significantly.

Progressive taxation plays an important role in redistributing income, but it is not the only factor that funds essential public services such as infrastructure, education, and healthcare. For example, many European countries, despite having less progressive tax systems than the U.S., allocate higher levels of government spending to education and healthcare. Critics of raising taxes on the wealthy argue that it could discourage investment and slow economic growth, while others express concern about rising tax avoidance among high-net-worth individuals. This tension reflects the broader challenge of designing a tax system that supports equity, which, in this context, means ensuring that the tax burden is fairly distributed across income groups and that the system promotes equal access to opportunities. Evaluating tax policies involves balancing economic productivity—encouraging investment and growth—with fairness, ensuring that the wealthiest contribute proportionally more to support social and public services that benefit all citizens.

Another widely discussed policy to reduce income inequality is raising the minimum wage. Studies from organizations like the Economic Policy Institute (EPI) suggest that increasing the federal minimum wage could lift millions of Americans out of poverty and reduce reliance on public assistance programs (Cooper et al., 2021). Higher minimum wages can strengthen low-income workers' purchasing power, leading to increased consumer spending and potentially stimulating economic activity. However, while there is some evidence supporting the potential for poverty reduction, the long-term effects on economic growth remain debated. Some argue that higher minimum wages may lead to job loss, particularly among low-skilled workers, and may not significantly stimulate broader economic growth. This debate underscores the importance of considering a range of policy options that could complement wage increases, such as expanding access to education, improving healthcare, and reforming tax policies.

However, a significant majority of economists—73.4% according to Fuller and Geide, 2014, agree that raising the minimum wage may also have negative consequences, particularly increasing unemployment among young and less-skilled workers. Opponents argue that higher minimum wages could lead to job losses, especially in small businesses, and potentially drive up prices for goods and services. While some research indicates that moderate increases in the minimum wage do not cause significant employment declines and may help reduce income inequality, it is important to acknowledge the complexity of the issue and the valid concerns raised by critics.

## Conclusion

In conclusion, educational disparities based on race and gender, combined with unequal access to and participation in financial markets, play a central role in sustaining the cycle of income inequality and limited social mobility in the United States. While the existence of income inequality was once debated, the current focus is on whether this inequality constitutes a serious societal problem that requires increased intervention. Financial systems can promote economic growth and contribute to widening disparities depending on how accessible and equitable they are.

Addressing these challenges requires a comprehensive and integrated strategy. Key actions include expanding affordable access to financial services for all populations, ensuring fair and transparent credit evaluation processes, increasing public participation in investment opportunities, and implementing progressive tax systems designed to reduce inequality. However, these solutions may come with potential drawbacks, such as the risk of over-regulation in financial markets or unintended consequences like reduced private sector involvement. These measures aim to dismantle systemic barriers that have impoverished many individuals and limit upward mobility, but careful consideration of their impacts is essential to ensure their effectiveness without creating new barriers.

Such efforts also demand careful evaluation of various policy options, considering their potential advantages and drawbacks. Policies should be designed to promote economic equity and inclusion, where inclusion refers to ensuring all groups, particularly marginalized and lower-income populations, have equal access to economic opportunities and the ability to participate fully in the economy. The current system is not inclusive because it often limits access to essential resources like education, credit, and well-paying jobs for these groups, perpetuating disparities. Impact assessments should be conducted across all societal groups to develop effective and enduring reforms that promote broader participation in the economy.

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