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A New Report Argues Inequality Is Causing Slower Growth. Here’s Why It Matters.

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Is income inequality holding back the United States economy? A new report argues that it is, that an unequal distribution in incomes is making it harder for the nation to recover from the recession and achieve the kind of growth that was commonplace in decades past.

The report is interesting not because it offers some novel analytical approach or crunches previously unknown data. Rather, it has to do with who produced it, which says a lot about how the discussion over inequality is evolving.

Economists at Standard & Poor’s Ratings Services are the authors of the straightforwardly titled “How Increasing Inequality is Dampening U.S. Economic Growth, and Possible Ways to Change the Tide.” The fact that S.&P., an apolitical organization that aims to produce reliable research for bond investors and others, is raising alarms about the risks that emerge from income inequality is a small but important sign of how a debate that has been largely confined to the academic world and left-of-center political circles is becoming more mainstream.

"Our review of the data, as well as a wealth of research on this matter, leads us to conclude that the current level of income inequality in the U.S. is dampening G.D.P. growth," the S.&P. researchers write, "at a time when the world's biggest economy is struggling to recover from the Great Recession and the government is in need of funds to support an aging population."

To understand why this matters, you have to know a little bit about the many tribes within the world of economics.

There are the academic economists who study the forces shaping the modern economy. Their work is rigorous but often obscure. Some of them end up in important policy jobs (See: Bernanke, B.) or write books for a mass audience (Piketty, T.), but many labor in the halls of academia for decades writing carefully vetted articles for academic journals that are rigorous as can be but are read by, to a first approximation, no one.

Then there are the economists in what can broadly be called the business forecasting community. They wear nicer suits than the academics, and are better at offering a glib, confident analysis of the latest jobs numbers delivered on CNBC or in front of a room full of executives who are their clients. They work for ratings firms like S.&P., forecasting firms like Macroeconomic Advisers and the economics research departments of all the big banks.

The key difference, though, is that rather than trying to produce cutting-edge theory, they are trying to do the practical work of explaining to clients — companies trying to forecast future demand, investors trying to allocate assets — how the economy is likely to evolve. They're not really driven by ideology, or by models that are rigorous enough in their theoretical underpinnings to pass academic peer review. Rather, their success or failure hinges on whether they're successful at giving those clients an accurate picture of where the economy is heading.

In that sense, the new S.&P. report is a sign of how worries that income inequality is a factor behind subpar economic growth over the last five years (and really the last 15 years) is going from an idiosyncratic argument made mainly by left-of center economists to something that even the tribe of business forecasters needs to wrestle with.

I asked Beth Ann Bovino, the chief U.S. economist at S.&P., why she and her colleagues took on this topic. "We spend a lot of time trying to think about what's the economic outlook and what to expect ahead," she said. "What disturbs me about this recovery — which has been the weakest in 50 years — is how feeble it has been, and we've been asking what are the reasons behind it." She added: "One of the reasons that could explain this pace of very slow growth is higher income inequality. And that also might also explain what happened that led up to the great recession."

"From my research and some of the analysis I saw from others, when you have extreme levels of inequality, it can hurt the economy," she said.

Because the affluent tend to save more of what they earn rather than spend it, as more and more of the nation's income goes to people at the top income brackets, there isn't enough demand for goods and services to maintain strong growth, and attempts to bridge that gap with debt feed a boom-bust cycle of crises, the report argues. High inequality can feed on itself, as the wealthy use their resources to influence the political system toward policies that help maintain that advantage, like low tax rates on high incomes and low estate taxes, and underinvestment in education and infrastructure.

Those ideas go back to John Maynard Keynes, and this year alone major books from academic economists have explored them (Atif Mian and Amir Sufi's "House of Debt," and the aforementioned Thomas Piketty's "Capital in the Twenty-First Century").

The report itself does not break any major new analytical or empirical ground. It spends many pages summarizing the findings of various academic and government economists who have studied inequality and its discontents, and stops short of recommending any radical policy changes favored by the likes of Mr. Piketty (who is among those cited).

And the S.&P. researchers are relatively limited in their policy prescriptions, avoiding much discussion of politically explosive debates over marginal tax rates and the scale of the social welfare system. They instead emphasize the usefulness of investing more heavily in education.

Ms. Bovino and her colleagues find that if the average amount of education of the nation's work force were to increase at the same rate it did during the middle of the 20th century, over the next five years annual G.D.P. would be 2.4 percent higher.

The S.&P. report is one document from one research group, so one shouldn't make too much of it. But it is a sign of where things are shifting: Anyone who wants to explain why the United States economy is evolving the way it is needs to at least wrestle with the implications of a more unequal society for the economy as a whole.

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