There is something out of whack in America. Instead of promoting equality, public policy has left millions locked into lives of restricted opportunity while bestowing the benefits of growth on the very few.

We know this and yet we let it continue. On Sept. 18, the Federal Reserve announced what sounded like good news: in the United States, "the net worth of households and nonprofits rose by $1.4 trillion to $81.5 trillion during the second quarter of 2014. The value of directly and indirectly held corporate equities increased $1.0 trillion and the value of real estate expanded $230 billion."

Taking a somewhat longer view, the Fed reported that since 2000, household wealth in the United States has grown by $37 trillion — from $44.45 trillion to $81.49 trillion at the end of the second quarter of this year, but these spectacular gains in wealth are mostly benefiting upper-income Americans.

The September Federal Reserve Bulletin graphically demonstrates how wealth gains since 1989 have gone to the top 3 percent of the income distribution. The next 7 percent has stayed even, while the bottom 90 percent has experienced a steady decline in its share.

Not only has the wealth of the very rich doubled since 2000, but corporate revenues are at record levels. From 2000 to the present, quarterly corporate after-tax profits have risen from $529 billion to $1.5 trillion. On an annual basis, growth was from $2.1 trillion to $6 trillion in annual after-tax profits.

In 2013, according to Goldman Sachs, corporate profits rose five times faster than wages.

Business Insider reports more bluntly that "America’s companies and company owners — the small group of Americans who own and control America’s corporations — are hogging a record percentage of the country’s
wealth for themselves.”

The September 2014 Fed Bulletin provides data on income as well as wealth. Figure 2 shows that the share of income going to the bottom 90 percent has been on a downward path since 1992, while the share flowing to the top 3 percent has grown.

The question is: Why don’t we have redistributive mechanisms in place to deploy the trillions of dollars in new wealth our economy has created to shore up the standard of living of low- and moderate-income workers, to restore financial stability to Medicare and Social Security, to improve educational resources and to institute broader and more reliable forms of social insurance?

I asked Shawn Fremstad, a senior fellow at the Center for American Progress, a pro-Democratic think tank, to address current income and wealth disparities, and he wrote back by email:

“a big-picture solution involves higher marginal income tax rates for the top 1 percent and some sort of wealth tax on the top of the top, combined with stronger labor market institutions (minimum wage, unions, paid leave/sick days/vacations, etc.).”

But not only are Republicans adamantly opposed to redistributive public policy, there are also strong pro-wealth forces in the upscale wing of the Democratic Party.

Many center-left economists are wary of raising taxes on wealth, as opposed to income. They cite their fear of creating disincentives to innovation, the flight of wealth to low-tax havens, and the establishment of new tax avoidance schemes here in America.

Daron Acemoglu, an economist at M.I.T. who supports more public investment in education, infrastructure and social services, wrote to me that a wealth tax could prove “very distortionary and naturally discouraging of saving, not a good thing in the current U.S. context.”

How bad has it gotten? Most recently, beginning roughly in 2000, a critical mass of adverse economic developments has gained momentum.

The labor force participation rate rose steadily from 58.4 percent in 1963 to 67.3 percent in April 2000, but it has steadily fallen since then, dropping to 62.8 percent in August 2014, back to where it was in January 1978.

Until 1999, median household income (as distinct from wealth) rose in tandem with national economic growth. That year, household income abruptly stopped keeping pace with economic growth and has fallen steadily behind then.

One of the bright spots in the national economy – the growth in high skill,
well-paying jobs – came to an end in 2001.

In 2001, what had been a slow decline in the share of total national income going to labor took a sharp downward turn that became a precipitous fall.

From 1990 to 2000, productivity grew at an annual rate of 2.1 percent, and workers’ compensation rose by 1.5 percent. In the period from 2000 to 2009, workers’ annual productivity rate rose 2.5 percent, but raises got smaller, with compensation rising by only 1.1 percent annually. In practical terms, this means that a worker whose productivity was substantially higher in 2000-2010 than in 1990-2000 – raising his employer’s profit margin – received a smaller raise despite his improved performance.

To explore these developments, I spoke by phone to Paul Beaudry, an economist at the University of British Columbia, whose research showing that high-skill job growth came to a halt around 2000 has successfully forced a major change in the debate over employment.

Beaudry theorizes that it was in 2000 that advances in technology and automation, in trade, especially with China, and in the outsourcing of American jobs abroad came together to produce an inflection point.

The net result, Beaudry said, is that a significantly smaller fraction of the population benefits from growth.

Beaudry places the strongest emphasis on rapidly accelerating technological advances that are displacing workers so fast that new job creation can’t catch up.

The current apportionment of economic rewards in the United States, Beaudry notes, is similar to the pattern in America and England during the Industrial Revolution from 1780 to 1830, when workers struggled while factory owners flourished.

With companies making record profits, one would expect a surge in new firms, Beaudry says. In normal times, new firms would compete for workers and drive up wages. In fact, the rate of new business formation in the United States has been cut in half over the past 35 years, according to a Brookings Institution study that was released in May.

Beaudry also raised the question of whether the putative advantages of free market capitalism are failing in the context of global competition and the information revolution. “Something has been going wrong with the competitive system,” he told me.

Other economists cite findings supportive of Beaudry’s thesis that the United States is undergoing a fundamental transformation.
Loukas Karabarbounis, a professor of economics at the University of Chicago and co-author of “The Global Decline of the Labor Share,” wrote in an email “that it is worthwhile to think about trends in these objects jointly. 2000 seems to be a year where the labor share [of national income] decline started accelerating in the United States.”

Similarly, Ezra Oberfield, a professor of economics at Princeton who has focused on the division of income between capital and labor, wrote that labor’s share of manufacturing income “fell about three times faster in the 2000-2010 period than the 1970-1999 period.”

Further support for the inflection point thesis can be found in a Brookings paper, “The Decline of the U.S. Labor Share,” by three economists, Michael Elsby of the University of Edinburgh, and Bart Hobijn and Aysegul Sahin, both of the Federal Reserve. They write:

“The substantial recent decline in the labor share that emerged at the turn of the 21st century appears wholly due to a slow-down in growth marked by a profound, and unprecedentedly sharp, stagnation of hourly compensation growth.”

The authors argue that import competition is the driving factor:

“Our data yield one robust correlation: that declines in payroll shares are more severe in industries that face larger increases in competitive pressures from imports.” This accounts for “3.3 percentage points of the 3.9 percentage-point decline in the U.S. payroll share over the past quarter century.”

Their predictions of future trends are not optimistic:

“If globalization continues during the next decades, the labor share will continue to decline, especially in sectors that face the largest increases in foreign competition.”

The trends in globalization, wealth concentration, corporate profits, income and employment together raise a crucial question, one I first explored in a column a couple of years ago: Is the “legitimacy of free market capitalism in America facing fundamental challenges?”

This question is even more salient now.

A CNBC/Burson-Marsteller international survey released on Sept. 22 found that in the United States, the world’s free market leader, only 36 percent of the public described corporations as a source of hope, just under the 37 percent who described them as a source of fear. In China, a decisive 84 percent described corporations as a source of hope and only 7 percent said corporations were a source of fear.
In addition, half (51 percent) of the United States sample said “‘strong and influential’ corporations are ‘bad,’ even if they are promoting innovation and growth,” according to a summary of the survey by Don Baer, chairman and C.E.O. of Burson-Marsteller.

Globalization and technological innovation have diminished the power of elected officials to control national economic trends, although politicians retain substantial influence over the allocation of the costs and benefits of those trends.

At the moment, Republicans have the whip hand, empowered to prevent Democratic intervention to alter what is now a decisively upward redistribution of the benefits of economic growth.

It is uncertain, however, whether the Democratic Party, even if it were empowered to set the agenda, would adopt policies to restructure the distribution of wealth. Those advocating such initiatives might well face an internal veto exercised by the party’s financial elite and by the party’s affluent constituencies.

Discontent with central elements of capitalism is not limited to liberal elites, and it extends far beyond this nation’s borders.

One of the most striking findings in the CNBC/Burson-Marsteller survey is that corporations and the free market are viewed far more favorably in developing countries, where capitalism is just emerging, than in advanced countries.

On a basic question, “How favorable are you toward corporations?” the general public in emerging economies was markedly favorable, 72-24, while those in advanced economies were far more ambivalent, 52-40.

Strong majorities, ranging from 58 to 65 percent of those surveyed in emerging nations, agreed that corporations pay their fair share of taxes, help achieve equality and encourage the government to treat citizens fairly. In developed nations, less than half of poll respondents held these positive views.

Asked if corporations were humbled by the financial crisis and now act more responsibly, citizens of emerging nations were split, 44 yes, 41 no. Among those living in advanced economies, a strong majority, 55 percent, said no, while only 23 percent said yes. What this suggests is that free market capitalism arguably remains a vital source of growth and opportunity in nations like China and India, where people emerging from generations of poverty through the advance of global capitalism often see the problem differently.

In developed countries like the United States, however, there are legitimate and growing doubts about the beneficence of the market and the ability of the system to distribute the rewards of growth to those who make growth possible.